

ASX Announcement
10 March 2014

Drillsearch and QGC agree new terms over Cooper Basin acreage

Highlights:

- **ATP 940P work program extended and expanded to include at least 10 wells**
- **Drillsearch to continue as Operator for the revised program**
- **Drillsearch FY2014 capex guidance increased to a range of \$115 million to \$130 million**
- **Drillsearch's Conventional and Unconventional capital expenditure fully funded through FY2016**

Drillsearch Energy Limited ("Drillsearch" or "DLS") announces that it has signed a binding term sheet with QGC Pty Limited ("QGC") over new terms covering their ATP 940P Cooper Basin Shale and Tight Gas Joint Venture in central Australia. Drillsearch owns 40% of ATP 940P and is the Operator. QGC owns the remaining 60%.

Under the original agreement announced in July 2011, QGC committed to a three-stage exploration and pilot production appraisal program of six wells to acquire a 60% interest in ATP 940P. QGC also agreed to fund \$90 million of the first \$100 million of that program.

The parties have agreed to amend the terms of the joint venture and farm-in agreements to include:

- Consolidation of the three stages in the initial agreement to a single stage, and removal of QGC's associated withdrawal rights, thereby bringing forward the remainder of QGC's carry of the initial \$100 million expenditure.
- Expansion and extension of the initial agreed farm-in work program from six wells to a commitment to a 10-well program with potential for further acceleration.
- Drillsearch to remain as Operator of ATP 940P until the end of the current permit term in November 2015. QGC will then have the option to assume operatorship.

Furthermore, under the terms of the original farm-in agreement, and as outlined in the ASX announcement of 27 July 2011, QGC held a right to acquire all of Drillsearch's interest in ATP 940P if a change of control transaction occurred involving Drillsearch before completion of the second stage of the exploration program. Under the new terms, this provision is no longer applicable.

ATP 940P Joint Venture

The ATP 940P Joint Venture covers more than 2,000km² (500,000 acres) of the Central Cooper Basin Nappamerri Trough Shale and Tight Gas Fairway in Southwest Queensland.

This restatement and extension of the work program to explore and appraise ATP 940P reaffirms Drillsearch's vision for the project combining its operating expertise in the Cooper Basin with commercialisation options for the gas, including through its arrangements with QGC for gas sales, as outlined in the ASX announcement of 27 July 2011. QGC is one of three companies operating or building LNG plants on the east coast of Australia, which, in combination with surging domestic demand, provides a ready market for gas from ATP 940P.

The ATP 940P drilling program, which began in September 2013, is underpinned by Australia's largest onshore 3D seismic survey. The Weatherford 826 rig being used for the program has also recently been upgraded with high-pressure, high-temperature equipment.

DeGolyer and MacNaughton, Drillsearch's independent reserves expert, has estimated a best estimate (not adjusted for the probability of geologic success) prospective resource* of 11.1 TCF of gas (potentially recoverable) within the area covered by 3D seismic. Through the work program in ATP 940P, Drillsearch is aiming to deliver 1.5 to 2 TCF gross of gas in Contingent Resources (2C) by the end of calendar 2014, rising to a potential 3 to 4 TCF gross by mid-2015.

**Prospective resources are undiscovered accumulations. There is no certainty that any portion of estimates of prospective resources will be discovered and/or commercially developed. Application of any geologic and/or economic chance factor does not equate prospective resources to contingent resources or reserves.*

Disciplined Approach

Managing Director Brad Lingo said:

"This agreement is a major step forward, representing a significant commitment towards commercialising unconventional gas in the Cooper Basin. We are excited to drive the project forward as operator and we believe that the agreement to allow operatorship to remain with Drillsearch reflects our capability and our disciplined approach to this project, which is differentiated by our 3D seismic program.

"The joint venture has the potential to deliver material returns for Drillsearch shareholders through proving up commercially viable gas from two distinct, recognised plays, namely the REM shale sequence and the Patchawarra tight gas sandstones. We look forward to delivering the results of the production testing program later this year."

Work Program

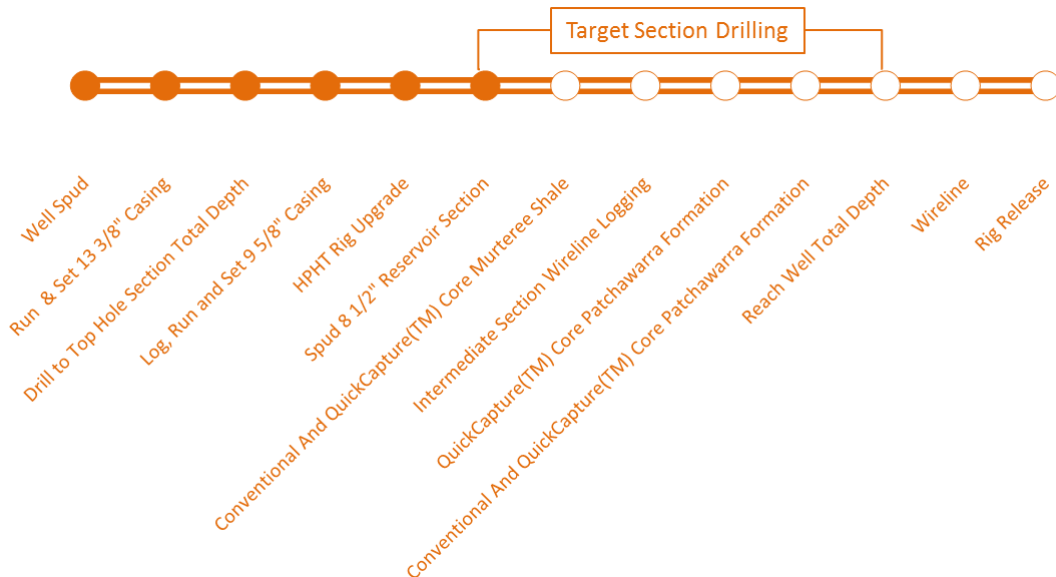
The Weatherford 826 rig cased and suspended the top-hole sections of the first three wells in the second half of calendar 2013; Anakin-1 to 2,530m, Padme-1 to 2,402m and Charal-1 to 2,451m.

On Monday 24 February 2014, Drillsearch began deepening the top-hole of Charal-1 through the reservoir formations. This will be followed by similar deepening of Anakin-1 and Padme-1 with hydraulic stimulation and production testing to start in mid-2014 targeting the REM shale sequence and Patchawarra tight gas sandstones. Drilling of the balance of the 10-well program, which will focus on targeting unconventional gas prospectivity, will continue into 2015.

Further, Drillsearch is implementing high-specification well design, consistent with the approach in acquiring the Cooper Basin's highest resolution 3D seismic survey. Data from these deep wells,

including multi-stage hydraulic stimulations for zonal production testing, are early investments on the path to possible commercialisation.

The deeper wells are expected to take between 75 and 90 days each to drill and are expected to reach a target depth of around 4,200 metres. Due to the heightened interest around the unconventional drilling program and the potential materiality of the individual wells, Drillsearch plans to provide regular updates to shareholders around significant developments in the program including the completion of key activities and the interpretation of drilling results. Please find below a timeline that captures the key milestones in the drilling of each well.



Capital Expenditure Guidance

Due to the extension and expansion of the committed ATP 940P program, anticipated capital expenditure in FY2014 by Drillsearch’s Unconventional Business has increased. As a result, Drillsearch has revised its guidance for capital expenditure in FY2014 across its three business units to a range of \$115 million to \$130 million, from the previously advised range of \$90 million to \$110 million.

The company’s share of spending in ATP 940P, as well as its work programs elsewhere in the Cooper Basin, remain fully funded from internal cash flow through FY2016.

Mr Lingo said:

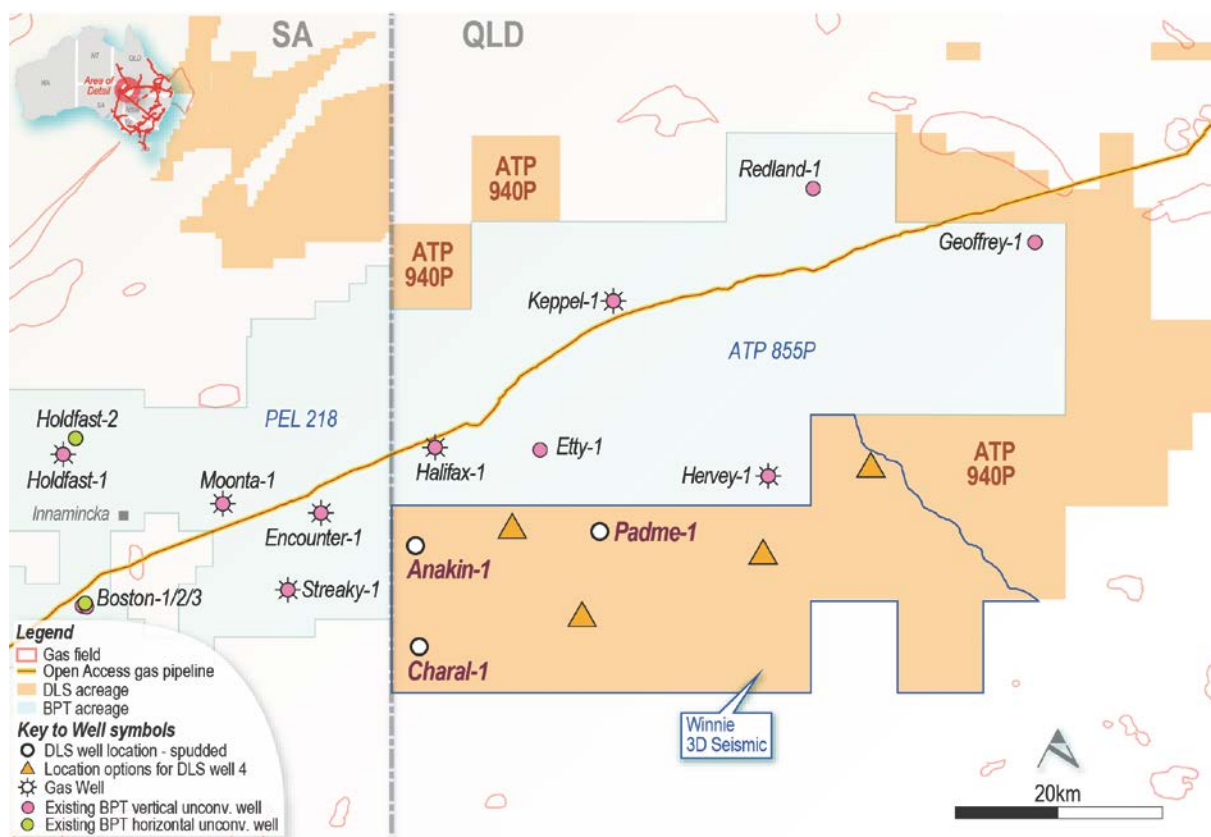
“The expanded and extended commitment to the work program represents an outstanding opportunity for Drillsearch to realise additional shareholder value from ATP 940P. The increasing cash flow being generated from our Oil and Wet Gas businesses means that we are comfortably able to fund our commitments in ATP 940P while at the same time strengthening our balance sheet.”

For further information please contact:

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If you would like to register for email alerts please go to our website: www.drillsearch.com.au

ATP 940P – Central Unconventional Fairway



About Drillsearch:

Drillsearch Energy Limited (ASX: DLS) is one of the leading mid-tier oil and gas companies listed on the ASX. The company has undergone rapid growth over the past five years to become Australia's third-largest onshore oil producer, and one of the largest acreage holders in the prolific Cooper Basin. Drillsearch has assets that span the exploration, development and production continuum within Oil, Wet Gas and Unconventional. Its operations are highly profitable, and its work programs are fully funded from internal cash flow through FY2016. Drillsearch has successfully formed a number of key strategic alliances with leading players in the Australian and international exploration and production industry, including QGC, Santos Limited and Beach Energy Limited.

DeGolyer and MacNaughton

The information contained in our report entitled "Report as of December 31, 2013 on Reserves and Contingent Resources of Certain Fields in Licenses 106A, 106B, 107, and ATP 940P of the Cooper Basin with interests licensed to Drillsearch Energy Limited" has been prepared under the supervision of R. Michael Shuck, Senior Vice President of DeGolyer and MacNaughton. Mr. Shuck holds a Bachelor of Science degree in Chemical Engineering from the University of Houston, has in excess of 36 years of relevant experience in the estimation of reserves and contingent resources, is a member of the Society of Petroleum Engineers, and is a Registered Professional Engineer in the State of Texas. Mr. Shuck is a qualified person as defined in the ASX Listing Rule 5.41.

Competent Person Statement

The information in this report that relates to Reserves and Resources is based on information compiled by Mr. David Evans, Acting Chief Operations Officer of Drillsearch. Mr. Evans is a Competent Person and a Fellow of the Geological Society London. Mr. Evans is a full-time employee of the company. Mr. Evans has sufficient experience that is relevant to the company's Reserves and Resources to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration results, Mineral Resources and Ore Reserves. Mr. Evans consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.