

# Q4

DRILLSEARCH ENERGY LIMITED June 2014



**Drillsearch**

# Highlights

**Total production of 3.4 mmboe in FY2014 exceeds guidance, a new company record**

**Total sales revenue for FY2014 of \$387.0 million, more than triple the previous 12-month period**

**New production record achieved with \$98.4 million of capital expenditure, lower than published guidance**

**Cash position increases to \$152.4 million; work programs remain fully funded from internal cash flow through FY2016**

**Quarterly production of 0.8 mmboe and revenue of \$91.5 million, driven by robust production**

**PEL 91 drilling results demonstrate ongoing potential for new discoveries on the Western Flank**

**First two Unconventional wells completed to target depth in ATP 940P – Charal-1 and Anakin-1**

## Managing Director's comments

### Guidance Beaten, New Records Set

FY2014 was another successful year for Drillsearch, one in which we set new records for production and revenue, enabling us to consolidate our position as one of the leading mid-tier oil and gas companies on the Australian Securities Exchange.

Production of 3.4 million barrels of oil equivalent (mmboe) in the year ending 30 June 2014 exceeded guidance of 3.0 to 3.3 mmboe, and, combined with continued strength in commodity prices, drove record annual revenue of \$387.0 million.

Quarterly production of 824,262 boe was 4% higher, driven partly by a recovery in wet gas output from the interruptions during the previous period, and with a significant increase in condensate production from Canunda.

The more than tripling in annual production came on the back of capital expenditure of \$98.4 million for the year, less than the guidance of \$115 million to \$130 million provided in March.

### Oil Provides Robust Platform

Our Oil Business continues to provide a robust platform for growth. Production from PEL 91 on the Western Flank Oil Fairway averaged 12,485 barrels of oil per day (bbls/d) during the June quarter (7,491 bbls/d net to Drillsearch), while on the Eastern Margin, oil production averaged 1,326 bbls/d (531 bbls/d net to Drillsearch) as the operator Santos started up four of the successful wells drilled earlier in 2014, and as the recent water flood benefited daily production rates.

Our active exploration program on the Western Flank continued into the June quarter, with the successful Pennington North well our 13<sup>th</sup> discovery in PEL 91. Overall, 13 wells were drilled in the permit in FY2014 with 8 cased and suspended for completion as oil producing wells. It is anticipated that a similar work program will be undertaken in the new financial year, as well as the completion and a new extension of the fluid handling facilities at Bauer, and connection of new fields such as KCS (Kalladeina, Congony and Sceale), Pennington and Stunsail.

In Wet Gas, production from PEL 106 rose to 97,972 boe net to Drillsearch, from 85,991 boe in the previous three-month period when operations were affected by a number of shut-ins at the Moomba gas plant. Western Wet Gas production during the June quarter averaged 1,077 boe/d net to Drillsearch which, when combined with Drillsearch's daily net oil production of 8,022 bbls/d, meant that the company averaged 9,099 boe/d of overall output during the most recent period. Our Wet Gas Business remains a key driver of near-term growth for Drillsearch and we are anticipating an exciting year of exploration and development activity across our Western and Northern Wet Gas project areas in FY2015.

In Unconventional, we achieved two significant milestones with the first two wells in our ATP 940P permit drilled to target depth, the deepest wells ever completed by Drillsearch. Charal-1 was drilled to 3,866 metres in late April, with Anakin-1 completed to 4,050 metres subsequent to the end of the quarter, on 18 July 2014.

### Offer for Ambassador

FY2014 saw a number of significant developments at the corporate level. Early in the year, we completed a series of transactions with Santos that saw them assume operatorship of PELs 632 and 513 in the Western Wet Gas project area, while in March we completed the renegotiation of the ATP 940P farm-in agreement with QGC/BG Group.

In May, we announced a takeover offer for Ambassador Oil & Gas Limited. Acquiring Ambassador would enable us to consolidate our dominant landholding in Northern Cooper Wet Gas. We have an active work program planned in the Northern Cooper in FY2015, including a drilling campaign in PEL 101 that will de-risk the conventional prospectivity of not only PEL 101 but also the broader area. We believe we have made a compelling offer to Ambassador shareholders and we look forward to progressing that transaction in due course.

### Growth Plans Fully Funded

We have set ourselves an ambitious – but achievable – target to significantly increase oil and gas production over five years based on our current portfolio of conventional assets, with our Unconventional assets offering us the potential of significant returns in the longer term.

In order to achieve that growth, we will continue to invest significantly in exploration and development activity across our portfolio. As of 30 June 2014, we had \$152.4 million of cash on our balance sheet, and our work programs remain fully funded from internal sources through FY2016. We look forward to providing an update on this five-year plan, and on our planned activity and guidance for FY2015, at our Corporate Briefing to be held in Sydney on 1 August 2014.



**Brad Lingo**  
Managing Director



## Financial Overview

**FY2014 was a transformational year for Drillsearch financially, with annual revenue increasing more than threefold to a record \$387.0 million in the year ended 30 June 2014, from \$102.2 million a year earlier.**

Revenue for the quarter was \$91.5 million, down 4% from the previous three-month period as strong operational performance was offset by weaker realised commodity prices.

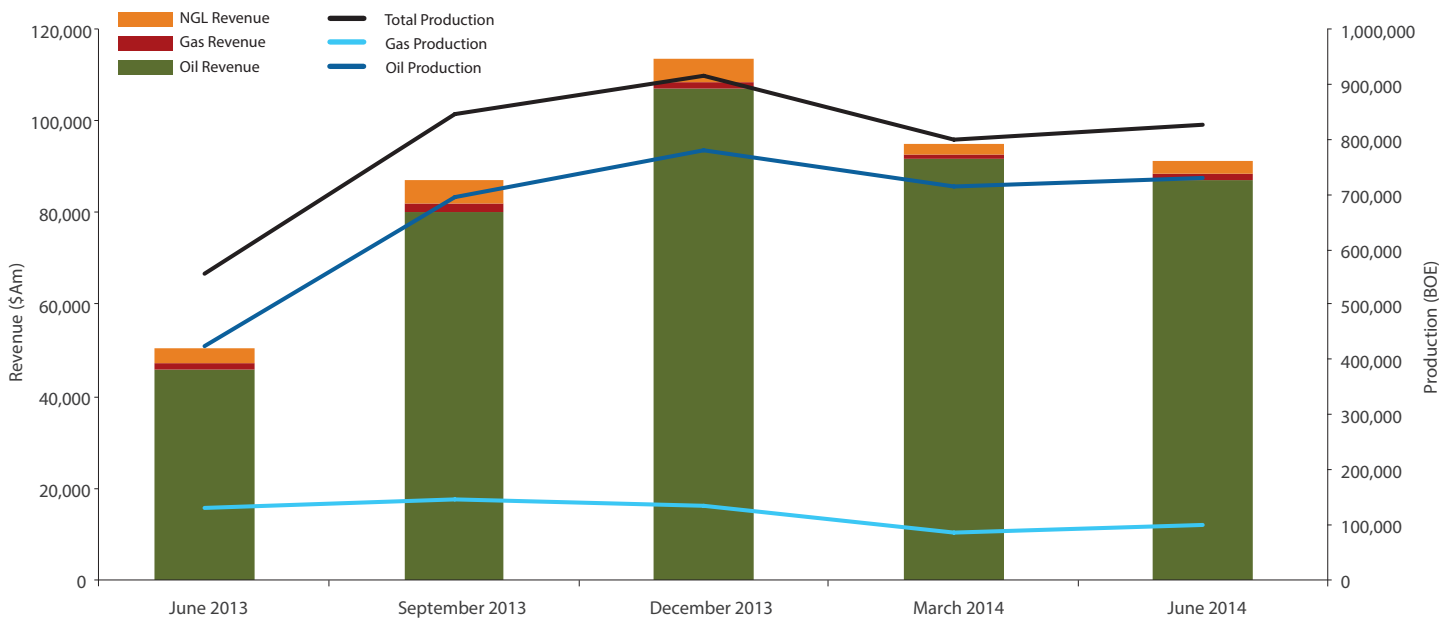
The key driver of financial performance continues to be oil production from the Western Flank, where output was little changed from the previous quarter. As of the end of FY2014, 14 wells were online in PEL 91 with additional wells anticipated to come into production in the current quarter.

In Wet Gas, production rose 14% from the March period when supplies were interrupted by a number of outages at the Moomba processing plant. Revenue benefited from a 57% increase in condensate production from the Canunda field in PEL 106.

Drillsearch's balance sheet strengthened considerably through the year, with \$152.4 million of cash at hand as of 30 June 2014. Drillsearch continues to manage its balance sheet prudently, and the company's work programs remain fully funded from internal sources through FY2016.

The following chart shows the quarterly production and revenue results since June 2013.

### Revenue and Production History



Source: Drillsearch Energy Limited



The financial information in the following table provides detailed production, revenue, operating and capital expenditure. The data presented is unaudited.

Description	Units	12 Months Ended June 2014	3 Months Ended June 2014	*3 Months Ended March 2014	Quarter Change %
<b>Production (by product type)</b>					
Oil	bbl	2,917,495	727,938	714,313	2%
Gas "Raw"	MMscf	2,239	471	477	(1%)
LPGs	Ktonne	8.53	1.89	1.51	25%
Condensate	bbl	77,528	15,239	9,610	59%
<b>Production (by business unit)</b>					
Oil	bbl	2,917,495	727,896	714,313	2%
Wet Gas	boe	466,586	97,972	85,991	14%
<b>Total Production</b>	<b>boe</b>	<b>3,384,081</b>	<b>824,262</b>	<b>795,910</b>	<b>4%</b>
<b>Sales Revenue (by product type)</b>					
Oil	A\$000	365,916	87,223	91,594	(5%)
Gas "Sales volume"	A\$000	5,319	1,135	1,068	6%
LPGs	A\$000	7,982	1,617	1,522	6%
Condensate	A\$000	7,802	1,521	968	57%
<b>Sales revenue (by business unit)</b>					
Oil	A\$000	365,916	87,223	91,594	(5%)
Wet Gas	A\$000	21,103	4,273	3,558	20%
<b>Total Revenue</b>	<b>A\$000</b>	<b>387,018</b>	<b>91,495</b>	<b>95,152</b>	<b>(4%)</b>
Avg Realised Oil Price	A\$/bbl	125.50	120.13	128.23	(6%)
Avg Realised Condensate Price	A\$/boe	107.57	106.69	107.68	(1%)
Avg Realised Gas	A\$/boe	15.23	15.43	14.35	8%
Avg Realised LPG Price	A\$/boe	110.66	101.42	119.57	(15%)
<b>Direct operating expense (by business unit)</b>					
Oil	A\$000	100,379	28,313	28,130	1%
Wet Gas	A\$000	10,586	2,224	2,229	(0%)
<b>Total direct operating expense</b>	<b>A\$000</b>	<b>110,965</b>	<b>30,537</b>	<b>30,359</b>	<b>1%</b>
<b>Oil &amp; gas asset expenditure (by business unit)</b>					
Oil	A\$000	31,092	8,349	17,591	(53%)
Wet Gas	A\$000	1,854	1,250	209	497%
<b>Total oil &amp; gas asset expenditure<sup>^</sup></b>	<b>A\$000</b>	<b>32,946</b>	<b>9,599</b>	<b>17,800</b>	<b>(46%)</b>
<b>Exploration &amp; evaluation expenditure (by business unit)</b>					
Oil	A\$000	21,574	10,650	7,087	50%
Wet Gas	A\$000	22,268	1,223	2,568	(52%)
Unconventional	A\$000	19,451	13,326	1,568	750%
Corporate	A\$000	2,118	27	1,436	(98%)
<b>Total exploration &amp; evaluation expenditure</b>	<b>A\$000</b>	<b>65,411</b>	<b>25,226</b>	<b>12,660</b>	<b>99%</b>
<b>Net Asset Acquisitions / (Divestments)</b>					
Assets Acquired	A\$ mil	38.3	0.0	0.0	n/m
Assets Divested	A\$ mil	0.0	0.0	0.0	n/m
<b>Net Asset Acquisitions / (Divestments)</b>	<b>A\$ mil</b>	<b>38.3</b>	<b>0.0</b>	<b>0.0</b>	<b>n/m</b>
<b>Financials</b>					
Cash & Cash Equivalents	A\$ mil	152.4	152.4	106.2	44%
Utilised Senior Secured Bank Debt	A\$ mil	0	0	0	0%
Unutilised Senior Secured Bank Debt	A\$ mil	50	50	50	0%
<b>Total Senior Secured Bank Debt</b>	<b>A\$ mil</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>0%</b>
Unsecured Convertible Bond <sup>^^</sup>	A\$ mil	161.6	161.6	153.2	5%

\* Adjusted based on actual results achieved for the year

<sup>^</sup>Does not include acquisition of increased holding in ATP 299P (\$36.8 million including transaction costs)

<sup>^^</sup> Unaudited balance as at 30 June 2014

## Exploration and Development Overview

### Oil Business

#### Western Flank Oil Fairway

Drillsearch and Beach continued to maintain an active exploration and development campaign across PEL 91 through the end of FY2014. During the June quarter drilling continued on the Western Flank with exploration wells Hardwicke-1 and Stunsail-1, appraisal well Pennington-2 and a near-field exploration well, Pennington North-1. As reported in the March quarter Hardwicke-1 was plugged and abandoned with Stunsail-1 cased and suspended after it exceeded expectations by encountering a thicker column at the primary target level.

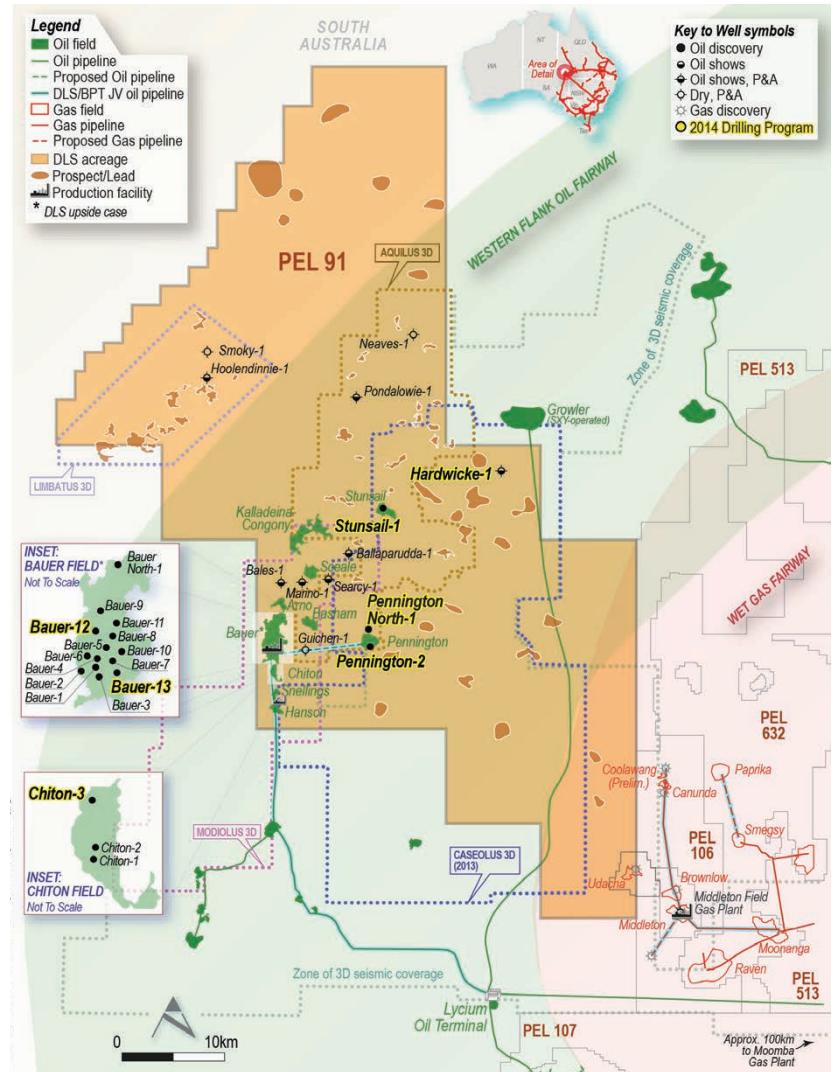
Pennington-2 encountered good oil shows in the McKinlay/Namur interval with gross column heights of 5 metres in the McKinlay and 7 metres in the Namur. As a result, Pennington-2 was cased and suspended as a future oil producer. Pennington North-1 encountered trace shows in the McKinlay/Namur interval however good oil shows were observed in the lower Birkhead Formation over a fairly well developed net-to-gross section. A Drill Stem Test (DST) was conducted over the lower Birkhead Formation, recovering an approximate flow rate of 120 bbls/d, and as a result Pennington North-1 was cased and suspended as a Birkhead oil discovery.

In line with company policy, all reserve and resources estimates are subject to independent third party verification. Drillsearch's 30 June 2014 Reserve Audit is currently underway and this will include results from Pennington North-1 and Pennington-2, as well as the Stunsail-1, Bauer-12, Bauer-13 and Chiton-3 wells drilled earlier in the year. The results of the 30 June 2014 Reserves Audit will be released along with the Full-Year Report on 27 August 2014.

In addition to exploration, work continued on the upgrade of the fluid-handling facilities at Bauer which will increase total capacity from 33,000 to 50,000 bbls/d of oil and water. Subsequent to the quarter this work has now been completed. A further expansion of the Bauer Central Production Facilities to 75,000 bbls/d has been agreed by the PEL 91 Joint Venture as part of the annual work program and this is scheduled to take place later in FY2015.

In PEL 182, (Drillsearch 43% and Senex Energy 57% and Operator) processing of the 209km<sup>2</sup> Dundinna 3D seismic was completed during the June quarter. Discussions were held with Senex in order to finalise the work program for FY2015 and a number of exploration wells are expected to be drilled and additional seismic acquired in the permit in the current financial year.

WESTERN FLANK OIL FAIRWAY, COOPER-EROMANGA BASIN



Source: Drillsearch Energy Limited



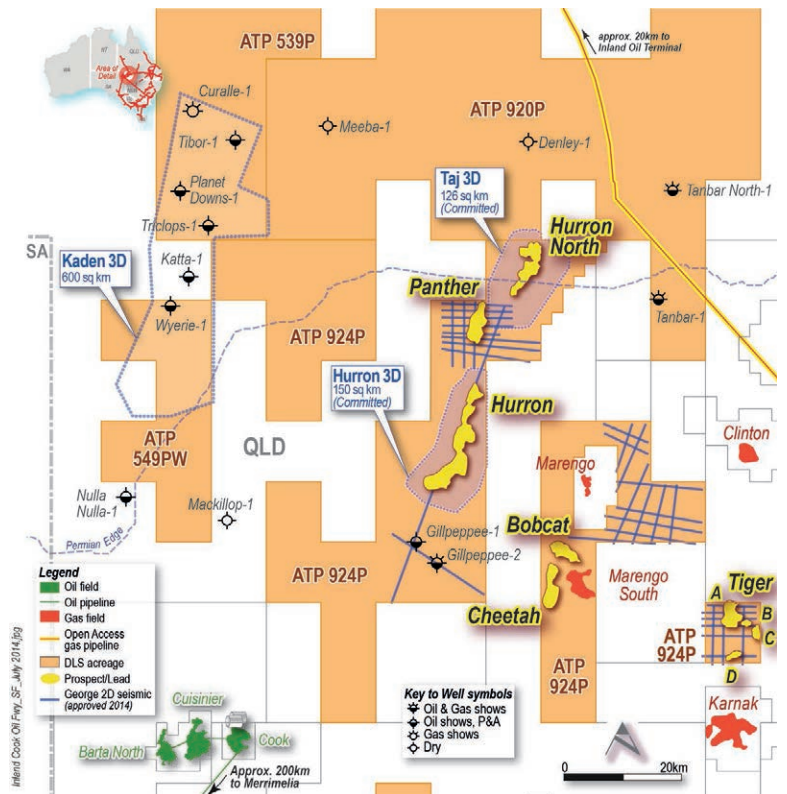
## Inland-Cook Oil Fairway

Geological and geophysical work continued in the Inland-Cook area during the June quarter. In ATP 924P, the acquisition of the 126km<sup>2</sup> Taj 3D seismic survey covering the Hurrion North prospect, and also the 150km<sup>2</sup> Hurrion 3D seismic survey covering the Hurrion prospect, were both completed. It is intended that these 3D seismic surveys will de-risk and high-grade the multiple prospects Drillsearch has already identified on vintage 2D seismic within ATP 924P. Processing of the data is underway and is expected to complete in the December quarter.

## Eastern Margin Oil Fairway

In the Eastern Margin, four new wells were connected during the June quarter, with Ipundu-18 and -19 coming online in May, and Ipundu-20 and Ipundu North-14 connected in June. Tintaburra-8, Toobunya-10 and Toobunya-11 are expected to be ready for connection in the September quarter.

## INLAND-COOK OIL FAIRWAY, COOPER-EROMANGA BASIN



Source: Drillsearch Energy Limited

## Wet Gas Business

### Western Cooper Wet Gas Project Area

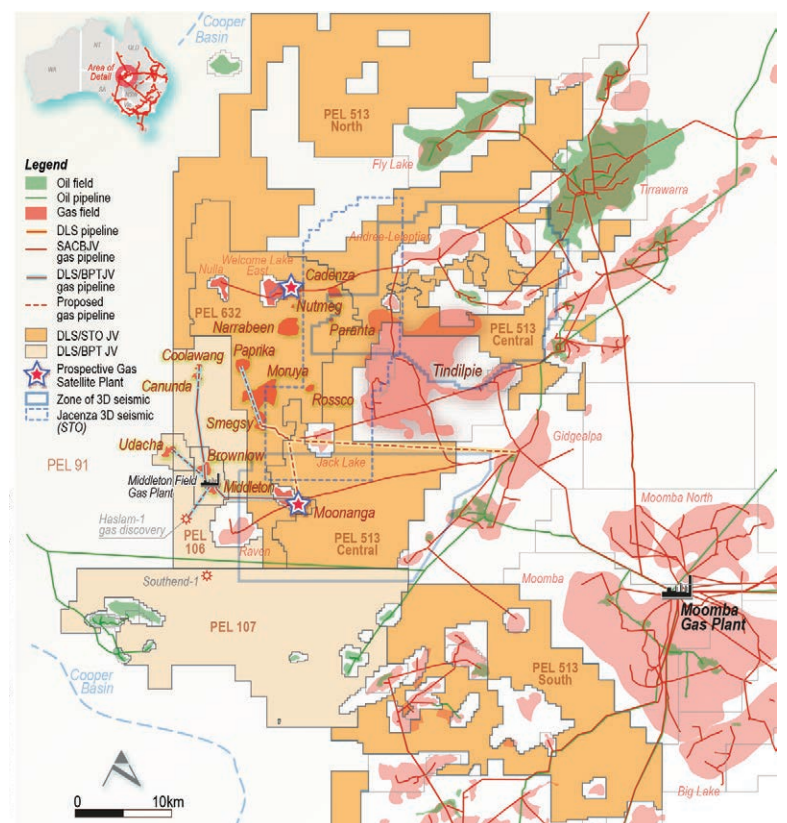
In the Beach-operated PEL 106, an application was submitted to DMITRE during the June quarter for a Petroleum Production Licence (PPL) over the Canunda and Coolawang fields. This will enable Drillsearch and Beach to secure the acreage for the lifetime of the wells.

In the Santos-operated permits of PELs 513 and 632, the 329km<sup>2</sup> Jacenza 3D seismic survey began in early July following substantial preparatory work undertaken during the June quarter. The existing seismic coverage of the area is a mix of 2D and 3D data of varying vintages and so the acquisition of the Jacenza 3D will provide almost continuous coverage of 3D data from the Patchawarra Trough up to the edge of the wet gas fairway. Acquisition is expected to be completed by the end of August and processing finished by the end of January 2015.

In addition, Santos is preparing to test the integrity of the Nulla spurline that leads to the Cadenza discovery. A successful integrity test of the Nulla spurline will allow the Cadenza wet gas discovery to commence production following the completion and extended production test which occurred in the March quarter 2014.

During the quarter, discussions were held with both Beach and Santos to finalise work programs for FY2015. A number of exploration and appraisal wells are expected to be drilled across all of our Western Wet Gas permit areas during the current financial year.

## WESTERN WET GAS PROJECT AREA, COOPER-EROMANGA BASIN



Source: Drillsearch Energy Limited

## Northern Cooper Wet Gas Project Area

During the quarter, Drillsearch made significant progress with three of the programs taking place in the Northern Cooper area, namely the restart of Flax, the Banyan and Juniper drill programs, and the exploration program in PEL 101.

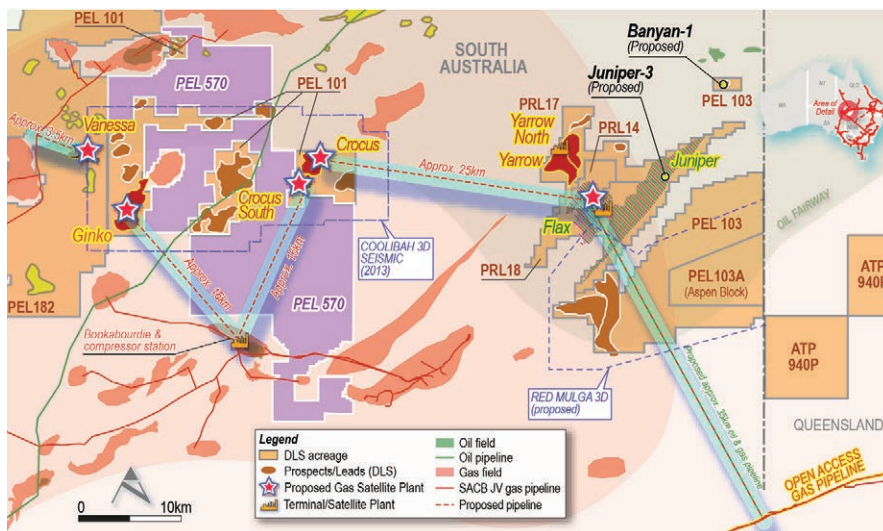
Additional planning and preparation took place for the Flax-1 workover and hydraulic stimulation program due to take place during the September quarter. The mid-Patchawarra will be stimulated and the well recompleted with a dual completion. Liquids production from Flax is now expected to recommence during the current quarter.

Elsewhere, the company has secured the Ensign 932 rig to drill the Banyan-1 exploration well in PEL 103 during the current quarter, with the Juniper-3 appraisal well to follow immediately in PRL 17. Banyan-1 is a conventional oil prospect that will test a four-way dip closure. The primary target is the Birkhead Formation, with the secondary target the sandstones of the Poolowanna Formations, which are producing reservoirs at the Acrasia Field, 5 kilometres to the north-east of Banyan. Juniper-3 will appraise the Juniper structure and further delineate the Juniper discovery. Juniper-3 is 5.6 kilometres to the north-east of Juniper-1, with the primary target in the sandstones of the Patchawarra and Tirrawarra Formations which are producing reservoirs at the Flax field. The well will test a three-way closure against a fault.

In PEL 101, the interpretation of the Coolibah 3D seismic survey is ongoing in tandem with a process to secure a rig to execute the planned drilling program.

In PEL 182, Drillsearch and Senex have progressed discussions regarding the commercialisation of the Vanessa wet gas discovery. Pre-planning work is underway for a workover of Vanessa, leading to an extended production test before the end of calendar year 2014.

### NORTHERN WET GAS PROJECT AREA, COOPER-EROMANGA BASIN



Source: Drillsearch Energy Limited

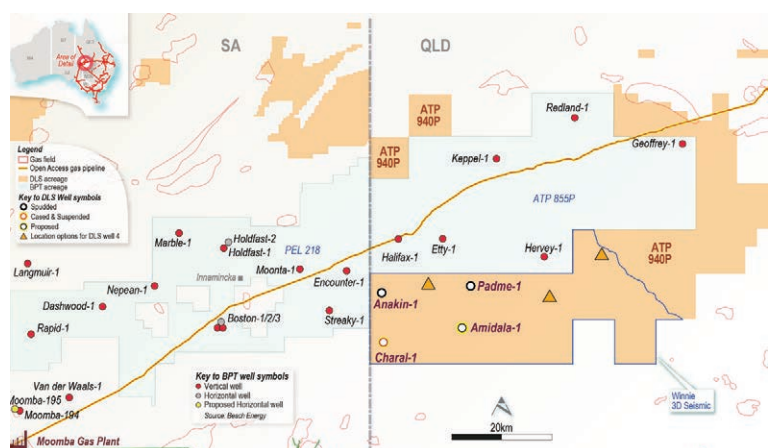
## Unconventional Business

### Central Unconventional Fairway

During the June quarter, Drillsearch finished drilling the first unconventional well in ATP 940P, Charal-1. The well reached total depth of 3,866 metres on 21 April 2014, with indications of elevated gas in the primary intervals. As per the pre-drill plan, Charal-1 was cased and suspended for hydraulic stimulation and production testing which is planned to commence around September 2014 and will target the REM shale sequence and Patchawarra tight gas sandstones.

Following completion, the Weatherford 826 rig was released from Charal-1 and moved to Anakin-1, where it re-entered the well on 26 May 2014. Subsequent to the June quarter, Anakin-1 reached a total depth of 4,050 metres on 18 July 2014. Like Charal-1, Anakin-1 showed indications of elevated gas in the primary intervals. Anakin-1 will be cased and suspended for hydraulic stimulation and production testing. The order in which the completed wells will be tested is yet to be finalised. Once the rig has completed Anakin-1 it will be moved to the third location, Padme-1, where it will re-enter the well and drill to total depth.

### CENTRAL UNCONVENTIONAL FAIRWAY – ATP 940P



Source: Drillsearch Energy Limited



## Corporate

### Ambassador Oil and Gas Limited

On 28 May 2014, Drillsearch announced an all-stock takeover offer for Ambassador Oil and Gas Limited that was subsequently increased on 16 June to an offer of 1 Drillsearch share for every 5.4 Ambassador shares, plus 5 cents per Ambassador share in cash. Acquiring Ambassador would consolidate Drillsearch's dominate landholding within the Northern Cooper Wet Gas project area by combining Ambassador's 47.5% non-operated interest in PEL 570 with Drillsearch's 80% operated interest in the neighbouring PEL 101. Drillsearch believes it has made a compelling offer to Ambassador shareholders, offering them the opportunity to hold shares in a profitable, ASX-listed, Cooper Basin-focused Australian company.

Drillsearch's offer for Ambassador and a rival proposal from US-focused shale company Magnum Hunter Resources Corp. have been subject to a detailed review by the Takeovers Panel. The results of the Takeovers Panel proceedings are expected to be released to the market shortly. Drillsearch looks forward to progressing this offer in due course.

### June Quarterly Results Conference Call

A conference call will be held for investors and analysts, hosted by Drillsearch Managing Director Brad Lingo and Chief Financial Officer Ian Bucknell, on Thursday, 24 July 2014 at 11.30am (AEST). Drillsearch invites investors and analysts to participate in the conference call. Participants will be asked for their full name and for the Conference ID when joining the call.

<b>Date and time:</b>	11.30am (AEST) on Thursday, 24 July 2014
<b>Conference ID:</b>	158509
<b>Dial in number:</b>	Toll free Australia: 1800 041 303
	International: +61 2 9001 2114
	Hong Kong: 800 901 436
	Singapore: 800 120 5965
	UK: 0800 051 8260
	USA: 1 855 5624 8574

## Further information

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### 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.