

**ASX Announcement
27 August 2014**

Drillsearch Replaces Reserves in FY2014

Highlights:

- **Company-wide net 2P Oil and Gas Reserves steady at 28.3 million barrels of oil equivalent (mmboe) as at 30 June 2014, compared with 28.5 mmboe a year earlier, even with record group production in FY2014**
- **Western Flank 2P net Oil Reserves increase to 7.8 mmboe at 30 June 2014, from 7.6 mmboe a year earlier (6.9 mmboe at 31 December 2013), despite the strong production performance**
- **2C Contingent Resources more than doubled to 33.7 mmboe in FY2014, following the Northern Cooper Tight Oil Commercialisation Study at Flax**
- **Drillsearch Reserves and Resources have been subjected to independent audit.**

Drillsearch Energy Limited (“Drillsearch” or “DLS”) announces that net 2P Oil and Gas Reserves at its Cooper Basin operations were little changed in FY2014, even as record production was achieved from the Western Flank (2.8 mmboe), Eastern Margin (0.1 mmboe) and Western Cooper Wet Gas (0.5 mmboe).

Overall 2P Reserves across all of the company’s permits were 28.3 million barrels of oil equivalent (mmboe) as of 30 June 2014, compared with 28.5 mmboe a year earlier. The revisions follow the latest Independent Reserves audits by RISC and DeGolyer and MacNaughton. 2P Reserves compare with the 29.1 mmboe of reserves reported as of 31 December 2013.

Western Flank Oil Reserves Increase

Remaining net 2P Oil Reserves at Drillsearch’s Western Flank Oil Fairway assets (PEL 91) were 7.8 mmboe at 30 June 2014, little changed from 7.6 mmboe at 30 June 2013, and a significant increase from 6.9 mmboe at 31 December 2013. Reserves increased as a successful drilling campaign in the second half more than offset full-year production of 2.8 mmboe (Drillsearch share).

The 2P Reserves figure does not include the results of the successful Balgowan-1 exploration well drilled in PEL 91 in August 2014. Drillsearch owns 60% of PEL 91 on the Western Flank, while Beach Energy owns 40% and is the operator.

The increase in Western Flank Oil Reserves offset a decline at Drillsearch’s Western Cooper Wet Gas assets (Middleton project) from a combination of production and also a reduction in the estimated volumes of liquefied petroleum gas (LPG) and condensate at the undeveloped Coolawang Field following recent production testing and analysis of fluid composition.

2P Reserves at the Western Cooper Wet Gas assets (Middleton Project/Beach joint venture) were 14.1 mmboe (DLS share) at 30 June 2014, down from 15.7 mmboe at 31 December 2013 and 15.9 mmboe at 30 June 2013.

Reserves at the Eastern Cooper Oil assets (Drillsearch 40%) are still under review, and therefore the quoted reserve for the project area as at 30 June 2014 is the 31 December 2013 figure minus production during the second half of FY2014.

A review of the recent multi-well drilling program and waterflood at some of the Eastern Cooper/Eastern Margin fields is ongoing, with the review and audit by RISC due to be completed by the end of the calendar year.

2C Contingent Resources More Than Double in FY2014

Drillsearch's net 2C Contingent Resources increased to 33.7 mmboe at 30 June 2014, from 21.7 mmboe¹ at 31 December 2013 and 14.8 mmboe at 30 June 2013.

The increase in 2C Resources mostly came in the Northern Cooper Gas and Liquids area, and more specifically at Flax, where Drillsearch and RISC recently completed the Northern Cooper Tight Oil Commercialisation Study. As a result of the study work to-date, Drillsearch recognises 2C Contingent Resource potential of 23.5 mmboe in the Northern Cooper within the 30 June 2014 report.

Drillsearch Managing Director Brad Lingo said:

"This reserves replacement over FY2014 is a strong result given the record production performance achieved over the financial year.

"In particular, the increase in oil reserves on the Western Flank is an outstanding outcome, helping to increase our confidence in the longevity of what is currently our key producing asset. Our Oil Business is a major focus for capital expenditure in FY2015, and we are confident that with the active drilling campaign we have planned we can continue to deliver further success, starting with the Balgowan-1 discovery announced earlier this month.

"We are also delighted to announce a major increase in 2C Contingent Resources, driven by the progress we have made with the Flax commercialisation study. Our business in the Northern Cooper area is beginning to gain real momentum and we believe that Flax has the potential to be a significant contributor to our strategy."

¹ Contingent Resources for the Northern Cooper area in the 31 December 2013 audit were stated based on 60% ownership of PEL 101. This increased to 80% in FY2013 and has been reflected in the 30 June 2014 audit.

Net Reserves and Contingent Resources as at 30 June 2014

Business Segment Reserves	1P mmboe	2P mmboe	3P mmboe
Western Flank Oil	4.7	7.8	12.4
Western Cooper Wet Gas (Middleton)	5.6	14.1	24.8
Western Cooper Wet Gas (632)	1.5	4.7	13
Northern Cooper Gas and Liquids	0	0	0.1
Eastern Cooper Oil	0.1	1.7	4.4
South West Queensland Wet Gas	0	0	0
Total Reserves	11.9	28.3	54.7
Business Segment Contingent Resources	1C mmboe	2C mmboe	3C mmboe
Western Flank Oil	0.9	1.3	1.9
Western Cooper Wet Gas (Middleton)	0.4	3.3	10
Western Cooper Wet Gas (632)	0	0	0
Northern Cooper Gas and Liquids	11.2	23.5	44.8
Eastern Cooper Oil	0	2.5	6.8
South West Queensland Wet Gas	0.9	3.1	7.5
Total Contingent Resources	13.4	33.7	71

Net Reserves and Contingent Resources as at 31 December 2013

Business Segment Reserves	1P mmboe	2P mmboe	3P mmboe
Western Flank Oil	4.4	6.9	10.6
Western Cooper Wet Gas (Middleton)	6.0	15.7	27.6
Western Cooper Wet Gas (632)	1.5	4.7	13
Northern Cooper Gas and Liquids	0	0	0.1
Eastern Cooper Oil	0.2	1.8	4.5
South West Queensland Wet Gas	0	0	0
Total Reserves	12.2	29.1	55.7
Business Segment Contingent Resources	1C mmboe	2C mmboe	3C mmboe
Western Flank Oil	0.2	0.5	1
Western Cooper Wet Gas (Middleton)	0.4	3.3	10
Western Cooper Wet Gas (632)	0	0	0
Northern Cooper Gas and Liquids	5.5	12.2	29.2
Eastern Cooper Oil	0	2.5	6.8
South West Queensland Wet Gas	0.9	3.1	7.5
Total Contingent Resources	7	21.7	54.5

Net Reserves and Contingent Resources as at 30 June 2013

Business Segment Reserves	1P mmboe	2P mmboe	3P mmboe
Western Flank Oil	5.1	7.6	11.3
Western Cooper Wet Gas (Middleton)	6.1	15.9	27.7
Western Cooper Wet Gas (632)	1.5	4.5	12.4
Northern Cooper Gas and Liquids	0	0.1	0.1
Eastern Cooper Oil	0.1	0.5	1.3
South West Queensland Wet Gas	-	-	-
Total Reserves	12.8	28.5	52.7
Business Segment Contingent Resources	1C mmboe	2C mmboe	3C mmboe
Western Flank Oil	0.2	0.4	0.6
Western Cooper Wet Gas (Middleton)	0.4	3.3	10.0
Western Cooper Wet Gas (632)	0	0	0
Northern Cooper Gas and Liquids	4.7	10.4	25.2
Eastern Cooper Oil	0	0.7	1.9
South West Queensland Wet Gas	-	-	-
Total Contingent Resources	5.3	14.8	37.7

As a result of the arithmetic aggregation of the field totals, the aggregate 1P and 1C estimates may be conservative and the aggregate 3P and 3C estimates optimistic, as the arithmetic method does not account for 'portfolio effects'.

Notes:

- Reserves and contingent resources have been classified and categorised according to PRMS.
- Reserves and contingent resources have been assessed using either probabilistic or deterministic methods, as appropriate. Aggregation beyond the field level has been arithmetic.
- Reserves have been stated at the first point of custody transfer and are stated net of fuel and third party royalties.

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www.drillsearch.com.au

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.

Qualified Petroleum Reserves and Resource Evaluator Requirements - The information in this report that relates to Reserves and Contingent and Resources is based on information compiled by Mr Neil Thompson, General Manager Exploration and Development at Drillsearch. Reserves and Contingent Resources are taken from the independent reserve auditor reports by RISC Operations and DeGolyer and MacNaughton. Mr Thompson is a Qualified Petroleum Reserves and Resources Evaluator and a Member of the American Association of Petroleum Geologists. Mr Thompson is a full-time employee of the company. Mr Thompson has sufficient experience that

is relevant to the company's Reserves and Resources to qualify as a Reserves and Resources Evaluator as defined in the ASX Listing Rules. Mr Thompson consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

RISC Consents

Information on the Reserves and Resources in this release relating to the PEL91, PRL14, 17, 18 and PEL101 assets is based on an independent review and audit conducted by RISC Operations Pty Ltd (RISC) and fairly represents the information and supporting documentation reviewed. The information is contained in our report entitled "June 2014 Reserve Audit (Western Flank Oil, Eastern Cooper Oil, Northern Cooper Wet Gas and Bass Basin for Drillsearch Energy Limited, August 2014".

The review and audit was carried out in accordance with the SPE Reserves Auditing Standards and the SPE-PRMS guidelines under the supervision of Mr. Geoffrey J Barker, a Partner of RISC, a leading independent petroleum advisory firm. Mr. Barker is a member of the SPE and his qualifications include a Master of Engineering Science (Petroleum Engineering) from Sydney University and more than 30 years of relevant experience. Mr. Barker meets the requirements of qualified petroleum reserve and resource evaluator as defined in Chapter 19 of the ASX Listing Rules and consents to the inclusion of this information in this report.

About RISC

RISC is an independent advisory firm who works in partnership with companies to support their interests in the oil and gas industry. RISC offers the highest level of technical, commercial and strategic advice to clients around the world. RISC services include the preparation of independent reports for listed companies in accordance with regulatory requirements. RISC is independent with respect to Drillsearch in accordance with the Valmin Code, ASX listing rules and ASIC requirements.

DeGolyer and MacNaughton

The information contained in our report entitled "Report as of June 30, 2014 on Reserves and Contingent Resources of Certain Fields in Licenses 106A, 106B, 107, and ATP 924P 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.

Glossary

"2P" means the Sum of Proved Reserves plus Probable Reserves

"Aggregation method" Reserves and Contingent Resources in this ASX Announcement have been estimated probabilistically at field level but combined arithmetically to provide the portfolio number. The aggregate 1P and 1C figures may be a very conservative estimate and the aggregate 3P and 3C figures may be a very optimistic estimate due to the portfolio effects of arithmetic summation.

"Commercial" is defined as a project is commercial if the degree of commitment is such that the accumulation is expected to be developed and placed on production within a reasonable time frame. A reasonable time frame for the initiation of development depends on the specific circumstances but, in general, should be limited to around 5 years.

"Contingent Resources" means those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable resources.

"Conversion factors" 5.816 PJ/mmmboe, 6 mscf/boe and 11.5 boe/metric tonne of LPG

"EUR" Estimated ultimate recovery. Those quantities of petroleum that are estimated, on a given date, to be potentially recoverable from an accumulation, plus those quantities already produced therefrom.

"Proved Reserves" means those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations. Proved Reserves can be categorized as development or undeveloped. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

"Probable Reserves" means unproved Reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable Reserves.

"Possible Reserves" means unproved Reserves which analysis of geological and engineering data suggests are less likely to be recoverable than probable Reserves. In this context, when probabilistic methods are used, there should be at least a 10% probability that the quantities actually recovered will equal or exceed the sum of estimated proved, plus probable, plus possible Reserves. In general, possible Reserves may include (1) Reserves which, based on geological interpretations, could possibly exist beyond areas classified as probable, (2) Reserves in formations that appear to be petroleum bearing, based on log and core analysis but may not be productive at commercial rates, (3) incremental Reserves attributed to infill drilling that are subject to technical uncertainty, (4) Reserves attributed to improved recovery methods when (a) a project or pilot is planned, but not in operation and (b) rock, fluid, and reservoir characteristics are such that a reasonable doubt exists that the project will be commercial, and (5) Reserves in an area of the formation that appears to be separated from the proved area by faulting and geological interpretation indicates the subject area is structurally lower than the proved area.

“Reserves” means those quantities of hydrocarbons which are anticipated to be commercially recovered from known accumulations from a given date forward.