

ASX ANNOUNCEMENT

23 July 2015

Drillsearch June 2015 Quarterly Report

Drillsearch is pleased to provide the attached Quarterly Report for the three months ended 30 June 2015. A conference call to discuss these results will be held at 11.00am (AEST) on Thursday 23 July 2015. Drillsearch invites investors and analysts to participate in the conference call, details of which are included in the Quarterly Report. A recording of the call will be available on the Drillsearch website later today.

For further information please contact:

Dudley White
General Manager – Corporate Communications
+61 2 9249 9669
E: dudley.white@drillsearch.com.au

Or visit the website www.drillsearch.com.au

If you would like to register for email alerts, please register on the Home page of our website

Q4

DRILLSEARCH ENERGY LIMITED

JUNE 2015






QUARTERLY REPORT

FOCUS
EXECUTION
COLLABORATION
INTEGRITY
INNOVATION



Drillsearch

Highlights

- 
Strong quarterly production of 0.8 mmboe; following connection of new Western Flank oil wells.
- 
Strong liquidity maintained; with \$171.1 million¹ of cash and undrawn bank facilities as at 30 June 2015.
- 
Full-Year production of 3.0 mmboe; in line with guidance.
- 
Wet Gas exploration success continues; providing a platform for appraisal and development activity in FY2016.
- 
Capex for the full year below the lower end of guidance; consistent with the company's stated priorities.

Overview

Drillsearch ended FY2015 strongly, with another three new Wet Gas discoveries during the fourth quarter and production of 0.8 million barrels of oil equivalent (mmboe).

Production benefited from the development program undertaken on the Western Flank, with production of 3.0 mmboe for the full year meeting the updated guidance range of 3.0 to 3.2 mmboe.

The FY2015 work program was the biggest undertaken by Drillsearch. Forty-one wells were drilled, resulting in 12 new discoveries and a drilling success rate of 74% across conventional exploration, appraisal and development. The additional Wet Gas discoveries announced during the quarter bring the total for the joint venture with Santos to seven from eight wells in FY2015. This success provides a platform for an active appraisal and development program in FY2016, with the expectation that gas production will come online progressively from the middle of this financial year.

This FY2015 program was delivered with total capital expenditure of \$142.4 million, below the lower end of the company's updated guidance, as Drillsearch continued to maintain capital discipline in the lower oil price environment.

Preliminary FY2016 Guidance²

Western Flank oil production is expected to remain strong in FY2016 as the joint venture continues to invest in the new facilities required to bring new wellhead capacity online. With a number of new and existing Wet Gas discoveries also being

tied in, Drillsearch has provided preliminary FY2016 production guidance of 2.8 to 3.2 mmboe.

Drillsearch will continue to take a disciplined approach to investment in FY2016, with a reduced work program anticipated of up to 22 wells and preliminary FY2016 capex guidance of \$80 million to \$110 million. In addition to Oil and Wet Gas appraisal and development activity, a number of exploration wells are planned including a two-well campaign in the Northern Cooper (formerly PEL 101), the Washington-1 unconventional well in the PEL 570 joint venture and the Maroochydore-1 well in the Inland-Cook Oil Fairway.

Additional information regarding Drillsearch's FY2016 work program and guidance is set out in the presentation released to the ASX today. Further guidance detail will be provided in conjunction with the release of the company's full-year results in August.

Acting Chief Executive Officer Walter Simpson said:

"During the June quarter Drillsearch continued to prioritise activity that delivers production, cash flow and reserves replacement. We have seen another strong quarter of production and exploration success which, despite the uncertainty in global oil markets, has contributed to FY2015 being an extremely successful year for Drillsearch. The exploration, appraisal and development activity we have undertaken is expected to support production in FY2016 and beyond. We continue to manage our financial position responsibly, with the strategic priorities that are being applied ensuring that we maintain a robust balance sheet."

¹ In this report, \$ are Australian dollars unless otherwise stated. Figures in this report are unaudited.
² Please refer to information regarding Forward Looking Statements included at the end of this report.

Production and Financial data for the June quarter is set out in the table below. Financial data presented in this report is unaudited.

Description	Units	12 Months Ended June 2015	3 Months Ended June 2015	3 Months Ended March 2015	Quarter Change %
Production (by product type)					
Oil	kbbbl	2,673.5	716.8	597.5	20%
Sales gas and ethane	TJ	1,398.7	315.5	314.6	0%
LPGs	ktonne	5.7	1.2	1.3	(6%)
Condensate	kbbbl	41.1	8.2	8.3	(0%)
Total oil and gas	kboe	3,000.9	789.0	670.1	18%
Sales revenue (by business unit)					
Oil	A\$ mil	239.2	58.0	41.6	39%
Gas and gas liquids	A\$ mil	11.3	2.2	2.1	2%
Total revenue	A\$ mil	250.5	60.2	43.7	38%
Avg realised oil price	A\$/bbl	89.5	80.9	69.9	16%
Avg realised gas and gas liquids price	A\$/boe	34.6	30.0	29.3	2%
Direct operating expense (by business unit)					
Oil	A\$ mil	88.1	23.4	19.1	23%
Wet Gas	A\$ mil	5.1	1.1	1.1	(0%)
Total direct operating expense	A\$ mil	93.2	24.5	20.2	n/m
Oil & gas asset expenditure (by business unit)					
Oil	A\$ mil	46.8	13.8	7.7	79%
Wet Gas	A\$ mil	0.8	0.1	0.0	n/m
Total oil & gas asset expenditure	A\$ mil	47.6	13.9	7.7	81%
Exploration & evaluation expenditure (by business unit)					
Oil	A\$ mil	33.8	5.4	3.3	64%
Wet Gas	A\$ mil	18.8	3.6	3.8	(5%)
Unconventional	A\$ mil	39.9	0.8	7.1	(89%)
Corporate	A\$ mil	2.3	0.0	0.1	n/m
Total exploration & evaluation expenditure	A\$ mil	94.8	9.8	14.3	(31%)
Net asset acquisitions / (divestments)					
Assets acquired [^]	A\$ mil	42.5	0.0	0.0	n/m
Assets divested	A\$ mil	(0.1)	0.0	(0.1)	n/m
Net asset acquisitions / (divestments)	A\$ mil	42.4	0.0	(0.1)	n/m
Financials					
Cash & cash equivalents	A\$ mil	131.1	131.1	135.7	(3%)
Drawn senior secured bank debt	A\$ mil	0.0	0.0	0.0	0%
Undrawn senior secured bank debt	A\$ mil	40.0	40.0	45.0	(11%)
Total senior secured bank debt	A\$ mil	40.0	40.0	45.0	(11%)
Unsecured convertible bond	A\$ mil	162.1	162.1	161.7	0%
Non-IFRS accounting financial information^{^^}					
Oil sales revenue	A\$ mil	239.2	58.0	41.6	39%
Oil price hedge gains – realised	A\$ mil	20.6	5.5	11.6	(53%)
Adjusted oil revenue (including hedging gains)	A\$ mil	259.8	63.5	53.2	19%
Avg realised oil price (including hedging gains)	A\$/bbl	97.2	88.5	89.4	(1%)

[^] Relates to the acquisition of Ambassador interests.

^{^^} Non-IFRS financial accounting measures are used by Drillsearch to provide greater understanding of the underlying business performance of the company's operations. When reviewing business performance, this Non-IFRS accounting information should be used in addition and not as a replacement of measures prepared in accordance with IFRS. Non-IFRS accounting information has not been the subject of audit or review by Drillsearch's external auditors.

Production and Financial

Production

Production in the June quarter benefited from development drilling and facilities expansion on the Western Flank, rising 18% to 0.8 mmboe, from 0.7 mmboe in the previous quarter.

Average daily production from the Western Flank joint venture (Drillsearch 60%; Beach 40% and Operator) during the June quarter was 12,356 bbls/d (gross), compared with 10,081 bbls/d (gross) during the March quarter, as Bauer wells -16 to -19, drilled during the first half of FY2015, were brought online. During the period, the joint venture achieved the milestone of 10 million barrels produced from the permit area (formerly PEL 91).

Production of gas and gas liquids from the Western Cooper joint venture with Beach (Drillsearch 50%; Beach 50% and Operator) during the June quarter was 0.07 mmboe (net), little changed from the previous quarter.

For the year, production of 3.0 mmboe was 11% lower than the record 3.4 mmboe produced in FY2014, with continuing strong production from the Western Flank, supported by new Bauer wells coming on progressively in the June quarter, partly offsetting delays in facility and well connections earlier in the year.

Financial

June quarter revenue was \$60.2 million, 38% higher than the previous three-month period as production increased and oil prices recovered moderately from six-year lows reached in the March quarter. Revenue for the year was impacted by the decline in crude oil prices and lower annual production, falling 35% to \$250.5 million.

The company continued to benefit from an active hedging program, with hedging adding \$5.5 million to income during the fourth quarter and \$20.6 million for the full year.

The average realised oil price for the June quarter was \$80.90/bbl (before hedging benefits), 16% higher than the average \$69.90/bbl realised during the March quarter. Including hedge benefits, average realised prices were \$88.50/bbl during the quarter and \$97.20/bbl for the year.

Margins on oil production remained strong for the year at \$64.25/bbl³ (including hedging gains), after average total operating costs of \$32.95/bbl in the Oil Business.

Drillsearch continues to actively assess opportunities to put additional hedging in place. During the June quarter, Drillsearch placed an additional 280,000 bbls in hedge protection across FY2016/17 in the form of additional US\$60-US\$85 collars.

The table below outlines hedging in place as at 30 June 2015:

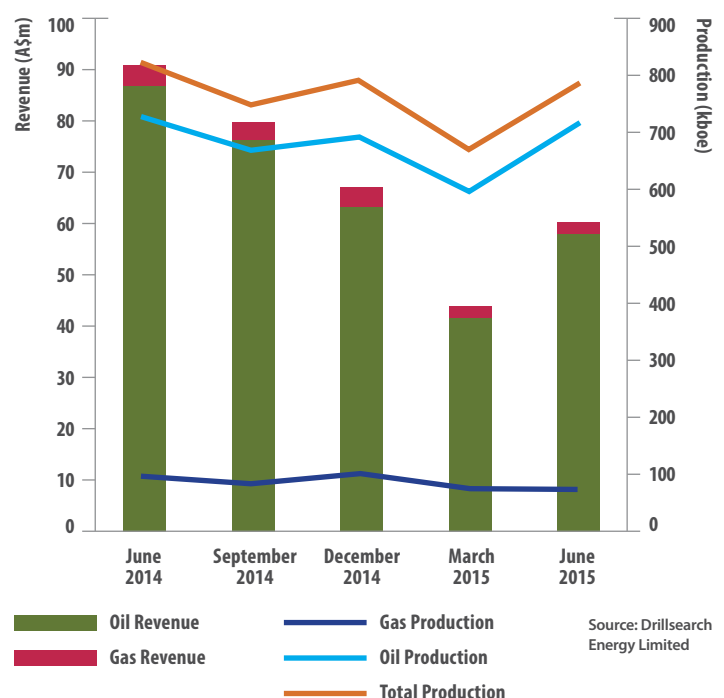
Hedge arrangements (US\$)	FY2016 (bbls)	FY2017 (bbls)
\$90 Put - \$120 call options	16,000	-
\$60 Put- \$90 call options	927,000	-
\$60 Put- \$85 call options	485,000	215,000

Capex during the June quarter was \$23.7 million, with a focus on continued investment in production facilities on the Western Flank. Full-year capex of \$142.4 million was lower than the updated guidance provided in February.

Cash at 30 June 2015 was \$131.1 million which was slightly down on the \$135.7 million cash balance at 31 March 2015. The company retains a strong liquidity position, with \$171.1 million of cash and undrawn working capital facilities at the end of June.

Our undrawn working capital facility continues to amortise in equal quarterly instalments. The June quarter represented the second reduction, with the facility now at \$40 million. The company is actively considering a number of potential options to refinance the facility.

The following chart shows the quarterly production and revenue results since June 2014.



³ Margins represent a blended barrel across Western Flank, Eastern Margin and Flax.

Exploration and Development

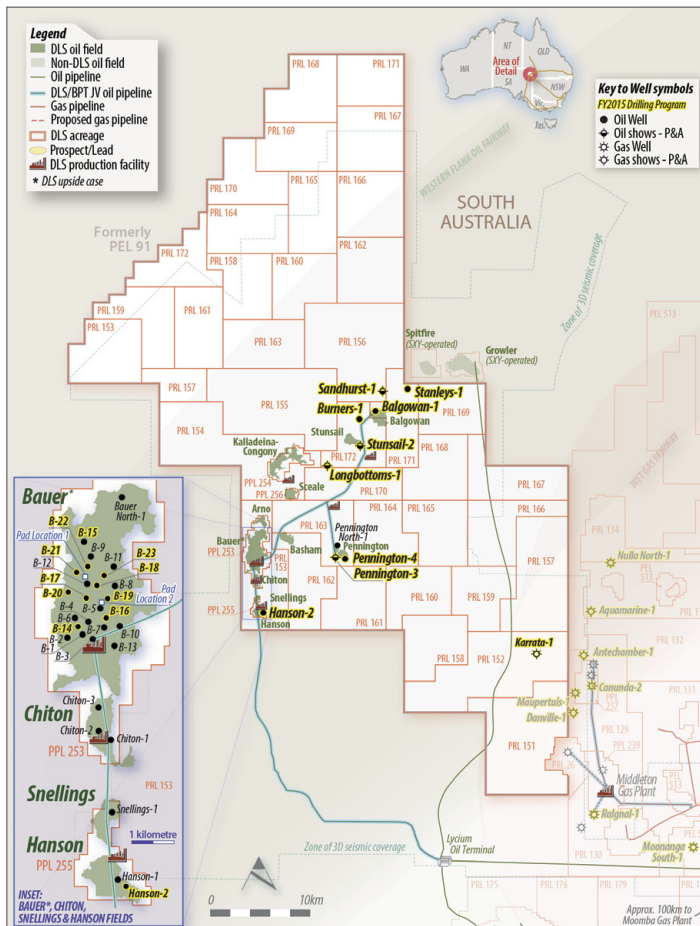
Oil Business

Western Flank Oil Fairway

The final well in the FY2015 Western Flank drilling campaign, Pennington-4, was drilled as a standalone appraisal well to test the upside potential of the Namur reservoirs in the Pennington field. Drillsearch's initial interpretation of Pennington-4 showed that it intersected net pay of 6.1 metres over a gross column of 7.9 metres in the McKinlay/Namur and was cased and suspended for future gas production.

Development work continued in the area with new facilities at Stunsail complete and Pennington nearing completion. The pipeline connecting Balgowan, Stunsail and Pennington to Bauer has been constructed and tested, with production from all three fields expected to begin during the first half of FY2016. In mid-July, subsequent to the quarter end, the joint venture began trucking production from Stunsail to the Bauer Central Processing Facility ahead of the pipeline being commissioned.

Western Flank Oil Fairway, Cooper-Eromanga Basin



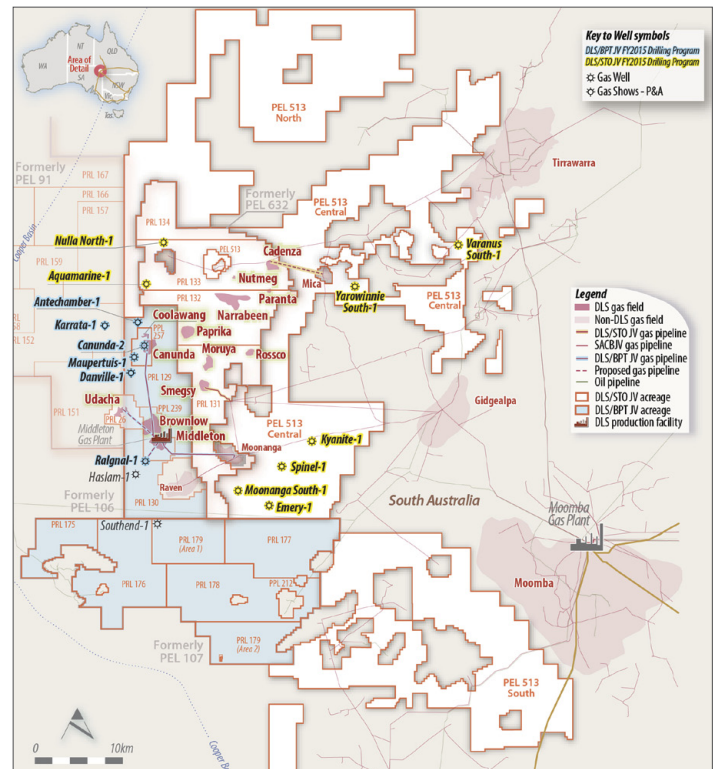
Wet Gas Business

Western Wet Gas Project Areas

The Western Wet Gas joint venture with Santos (Drillsearch 40%, Santos 60% and Operator) had a further three new wet gas discoveries during the quarter, a successful completion to the FY2015 campaign.

The sixth and seventh wells, Spinel-1 and Emery-1, were both near-field exploration wells located close to the South Australian Cooper Basin Joint Venture's (SACBJV's) Raven and Moonanga gas fields (see map). Spinel-1 and Emery-1 intersected pay in several zones in the Patchawarra Formation and the Tirrawarra Sandstone. In addition to conventional pay, several zones with potential for unconventional pay were also observed.

Western Wet Gas Project Area, Cooper-Eromanga Basin



Source: Drillsearch Energy Limited

Wet Gas Business continued...

The eighth and final well for the joint venture in FY2015, Moonanga South-1, was the joint venture's seventh new wet gas discovery of the campaign. Located south of Moonanga and east of Raven, Moonanga South-1 encountered excellent gas shows across the Patchawarra Formation with elevated gas readings observed across both sandstones and coals. Similar to Spinel-1 and Emery-1, Moonanga South-1 also had several zones showing potential for unconventional pay.

The FY2016 work program is focused on testing and commercialising existing and new discoveries with planning for facilities and pipelines underway.

Unconventional Business

Central Unconventional Fairway

In ATP 940 (Drillsearch 40% and Operator, QGC 60%) activity during the quarter focused on the review of technical data acquired during the FY2015 program. This will be used to plan for the next stage of activity.

Northern Patchawarra Trough

During the June quarter, the PEL 570 joint venture (Drillsearch 47.5%, Santos 35% and Operator and New Standard Energy 17.5%⁴) advanced preparations for drilling of the Washington-1 unconventional well. Washington-1 will test the deep coals to the southwest of the Crocus South-1 discovery in the neighbouring PRL 174 permit (formerly PEL 101, Drillsearch 80% and Operator). Drillsearch is free carried for the drilling of Washington-1 in line with the terms of Santos' farm-in agreement.

Corporate

CEO Succession

Subsequent to the end of the quarter, Walter Simpson was appointed Acting Chief Executive Officer whilst a global search is underway to find a permanent successor to Managing Director and Chief Executive Officer Brad Lingo, who left the company by mutual agreement on 3 July 2015 after six successful years in the role.

Chairman Jim McKerlie said:

"The search commenced some time ago and is on schedule. Walter and the executive team are very focused on delivering the business plan for this year and it is business as usual for Drillsearch."

"The company is considering its strategic direction and new growth opportunities. While the Cooper Basin will continue to remain the company's core focus, we will also consider other opportunities if they deliver superior growth to shareholders."

June Quarterly Results Conference Call

A conference call to discuss the June 2015 Quarterly Results will be held for investors and analysts at 11.00am (AEST) on Thursday 23 July 2015. 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 facility.

Date and time:	11.00 am (AEST) on <u>Thursday 23 July 2015</u>
Conference ID:	332203
Dial in number:	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 857

A recording of the call will be available on the Drillsearch website later today.

⁴ See New Standard Energy Limited (NSE) ASX Announcement released on 29 June 2015 which outlines the sale of NSE's Cooper Basin assets to Sundance Energy Ltd.

Corporate Information

Board Members

Jim McKerlie (*Chairman*)
 Philip Bainbridge (*Non-executive Director*)
 Teik Seng (TS) Cheah (*Non-executive Director*)
 Fiona Robertson (*Non-executive Director*)
 Ross Wecker (*Non-executive Director*)

Executive Leadership Team

Walter Simpson (*Acting Chief Executive Officer*)
 Ian Bucknell (*Chief Financial Officer*)
 Clifford Tuck (*General Counsel & Company Secretary*)

Registered Office

Drillsearch Energy Limited
 Level 18, 321 Kent Street, Sydney NSW 2000 Australia
 Phone: +61 2 9249 9600 Fax: +61 2 9249 9630
 Email: admin@drillsearch.com.au
 Website: www.drillsearch.com.au

Security Listing

Australian Stock Exchange (Ticker DLS)

Share Registry

Link Market Services
 Level 12, 680 George Street, Sydney NSW 2000 Australia
 Phone: +61 2 8280 7100 Fax: +61 2 9287 0303
 Email: registrars@linkmarketservices.com.au
 Website: www.linkmarketservices.com.au

Top 10 Shareholders as at 30 June 2015	%
Network Investment Holdings	19.90%
HSBC Custody Nominees	13.00%
Citicorp Nominees Pty Limited	8.79%
JP Morgan Nominees Australia Limited	8.77%
QGC Pty Limited	7.86%
National Nominees Limited	5.23%
Beach Energy Limited	4.57%
UOB Kay Hian Private Limited	1.82%
BNP Paribas Nominees Pty Ltd	1.16%
AMP Life Limited	1.16%

Quarterly Share Price Activity	High A\$	Low A\$	Close A\$
Apr – Jun 2015	1.300	1.030	1.035

Issue Share Capital
As at 30 June 2015 – 461,101,450

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-Eromanga Basin. Drillsearch has assets that span the exploration, development and production continuum within Oil, Wet Gas and Unconventional. 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.

Forward Looking Statements

This Release contains forward looking statements. Often, but not always, forward looking statements may be identified by the use of words such as "may", "will", "expect", "intend", "target", "anticipate", "continue", "guidance" and "outlook", or similar expressions and may include (without limitation) statements regarding plans, strategies, objectives and anticipated operating or financial performance, including production volumes and costs.

Forward looking statements involve subjective judgments regarding future matters which are subject to known and unknown risks, uncertainties and other factors. Relevant factors may include, but are not limited to, changes in commodity prices, foreign exchange fluctuations, general economic conditions, increased costs and demand for production inputs, the speculative nature of exploration and development activities, political and social risks, both general and those specific to the oil and gas industry, changes to the regulatory framework in which the company conducts its business, environmental conditions, including extreme weather conditions, recruitment and retention of personnel, industrial relation issues and litigation.

While Drillsearch considers that there is a reasonable basis for all forward looking statements made, readers are cautioned not to place undue reliance on forward looking statements as actual results may vary materially from projected future results expressed or implied by forward looking statements. The company gives no assurance that assumptions upon which forward looking statements may be based will prove to be correct, or that the company's business, performance or results will not be affected in any material manner by these or other factors not foreseen or foreseeable by the company or beyond the company's control.

Forward looking statements in this release speak only as to the date of issue. Subject to any continuing obligations under applicable law, including the rules of relevant securities exchanges, the company does not undertake any obligation to publicly update or revise any of the forward looking statements or to advise of any change in events, conditions or circumstances on which any such statement is based. References to "Drillsearch" may be references to Drillsearch Energy Limited or its applicable subsidiaries.