

## Market Update

### FY2016 H1 Performance and Guidance Update <sup>1 2</sup>

- First-half production of 1.63 million barrels of oil equivalent (mmboe)
- Full-year production expected to be at or above top end of guidance of 2.8 to 3.2 mmboe
- First-half capital expenditure<sup>3</sup> ~\$24 million
- FY2016 capex expected to be at the lower end of guidance of \$80 million to \$110 million

### Corporate

- Shareholder meeting to seek approval for the merger with Beach Energy to be held on 27 January 2016
- Sale agreement executed for the sale of the company's interests in Tintaburra

### FY2016 Performance and Guidance <sup>2</sup>

#### *Production*

Against a backdrop of uncertainty in global commodity markets and the company's proposed merger with Beach, Drillsearch continues to perform strongly at an operational level.

Production during the first half of FY2016 was 1.63 mmboe, with the Western Flank Oil Fairway operations (Drillsearch 60%; Beach 40% and Operator) and the Western Wet Gas joint venture with Beach (Drillsearch 50%) both performing ahead of budget.

Following the commencement of production at Cadenza-1 in our Wet Gas joint venture with Santos (Drillsearch 40%; Santos 60% and Operator) announced in December 2015, the joint venture commenced production from a second well, Yarowinnie South-1, at the end of December 2015.

Connections and tie-ins will continue in our Wet Gas business in the second half, including a third well in our joint venture with Santos, Varanus South-1, expected to be in production this month, along with connection of the Vanessa-1 well (Drillsearch 43%; Senex 57% and Operator) later this quarter.

Based on performance in the financial year-to-date, Drillsearch expects FY2016 production to be at or above the higher end of FY2016 guidance of 2.8 to 3.2 mmboe (FY2015 3.0 mmboe).

#### *Capital Expenditure*

Subject to final joint venture billings for the second quarter, Drillsearch's capital expenditure for the first half was approximately \$24 million. Drillsearch's FY2016 work program is weighted to the second half of the financial year, with a significant proportion of first half activity covered by free carries in three of our joint ventures with Beach and Santos.

Drillsearch expects full-year capex to be at the lower end of FY2016 guidance of \$80 million to \$110 million.

Additional details relating to performance during the December 2015 quarter will be included in Drillsearch's December 2015 Quarterly Report planned for release on 28 January 2016.

### Corporate

#### *Proposed merger with Beach*

The meeting of Drillsearch shareholders to seek approval for the scheme of arrangement to merge with Beach Energy will be held at 11:00 am on Wednesday, 27 January 2016, at the Museum of Sydney.

<sup>1</sup> In this release, \$ are Australian dollars unless otherwise stated. Figures in this release are unaudited.

<sup>2</sup> Refer to important information regarding forward looking statements at the end of this release.

<sup>3</sup> In this release, Capital expenditure or 'capex' is cited inclusive of G&A, G&G and seismic expenditure.

The Board unanimously recommends that shareholders vote in favour of the scheme, in the absence of a superior proposal, and encourages all eligible shareholders to participate in the meeting in person or by proxy.

The deadline for submitting votes by proxy is 11:00 am on Monday, 25 January 2016.

#### *Sale of Tintaburra*

In December, Drillsearch entered into a sale and purchase agreement in relation to its 40% working interest in the producing Tintaburra Block (ATP 299) operated by Santos. Completion is conditional on joint venture and regulatory approvals.

Drillsearch's production guidance for the full year (see above) is not affected by the proposed sale.

#### **Impact of oil price**

Volatility in global oil markets continues to impact the exploration and production industry, with lower realised prices (before the effects of hedging) increasing the need for cost discipline. Drillsearch continues to closely monitor its capital expenditure in order to ensure that the company maintains a robust financial position. Capital expenditure continues to be focused on activity that delivers reserves, production and cash flow, with a target of matching capex to net operating cash flows.

The decline in the oil price since 30 June 2015, combined with weakening market sentiment and a decline in Drillsearch's share price, is likely to require an assessment of the carrying value of Drillsearch's assets at the Half-Year.

At this stage, and subject to finalisation of our Half-Year results, Drillsearch does not anticipate a material impact on the carrying value of its oil and gas assets as at 31 December 2015, however, the value of Drillsearch's longer-dated exploration and evaluation assets may be affected by the weaker oil price environment.

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#### **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", "planned" 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, unplanned operational events, 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.