

ASX ANNOUNCEMENT

28 January 2016

Drillsearch December 2015 Quarterly Report

Drillsearch is pleased to provide the attached Quarterly Report for the three months ended 31 December 2015. A conference call to discuss these results will be held at 2.00pm (AEDT) on Thursday 28 January 2016. 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.

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Or visit the website www.drillsearch.com.au

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DRILLSEARCH ENERGY LIMITED
DECEMBER 2015
QUARTERLY REPORT

**FOCUS
EXECUTION
COLLABORATION
INTEGRITY
INNOVATION**

Drillsearch

Highlights

- ◀ **Proposed merger with Beach Energy announced;** shareholder approval received subsequent to quarter-end
- ◀ **Solid production maintained;** 0.81 mmboe for quarter, 1.63 mmboe for Half-Year
- ◀ **Revenue of \$46.1¹ million;** hedging program delivers \$8.1 million of additional income
- ◀ **Continued exploration and development success;** start of production from the Western Wet Gas joint venture with Santos and drilling success in the Northern Cooper and on the Western Flank
- ◀ **Balance sheet remains robust** with \$165.4 million of cash on hand; documentation finalised for new \$100 million loan facility
- ◀ **Guidance² for Full-Year updated;** production expected to be at or above higher end of guidance range and capex expected to be at the lower end of guidance range.

Overview

The December quarter was a momentous period for Drillsearch, with the announcement of the proposed all-scrip merger with Beach Energy (Beach) by scheme of arrangement. The Scheme was approved by shareholders subsequent to the end of the period.

Drillsearch's production for the quarter was little changed at 0.81 million barrels of oil equivalent (mmboe) (Q1 FY2016 0.81 mmboe) as the Western Flank Oil Fairway operations and the Western Wet Gas joint venture with Beach both performed ahead of budget.

Late in the quarter, production commenced at Cadenza-1 and Yarowinnie South-1 in the Western Wet Gas joint venture with Santos.

As announced on 21 January 2016, Drillsearch expects FY2016 production to be at or above the higher end of Full-Year guidance of 2.8 mmboe to 3.2 mmboe.

Given the volatility in oil prices, Drillsearch continues to closely monitor its capital expenditure and to prioritise maintaining a strong balance sheet, with capex focused on activity delivering near-term reserves, production and cash flow.

Capital expenditure³ during the quarter was \$17.3 million with FY2016 operating activity weighted towards the third and fourth quarters of the financial year. As announced on 21 January 2016, capital expenditure for the Full-Year is expected to come in at the lower end of guidance of \$80 million to \$110 million.

Work program highlights included two successful appraisal wells on the Bauer field that are expected to support additional reserves on the Western Flank, and the Willow-1 gas discovery in our operated acreage in the Northern Cooper.

¹ In this report, \$ are Australian dollars unless otherwise stated. Figures in this report are unaudited.

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

³ Capital expenditure is cited inclusive of G&A, G&G and seismic expenditure.

Operational delivery came against a backdrop of ongoing volatility in global energy markets, with oil prices reaching new 12-year lows in January. Revenue for the quarter was \$46.1 million, 13% less than during the previous three-month period as the effect of weaker oil prices was realised.

Drillsearch's hedging program once again delivered significant benefit during the quarter, with an additional \$8.1 million of income from hedging during the period, representing a gain of \$11.20 per barrel against average realised oil prices.

As of 31 December, the company had \$165.4 million of cash. In addition, as announced on 3 December 2015, the company has secured a \$100 million debt facility, replacing the existing undrawn working capital facility. The outstanding Conditions Precedent are expected to be satisfied shortly.

Drillsearch Chief Executive Officer Walter Simpson said:

"It has been another strong quarter for Drillsearch. We continue to reap the benefits of our investment in wellhead capacity and infrastructure over the past year, with new fields coming online that are helping us to maintain production."

"In addition, we have continued to progress our strategy to diversify our production base and build a meaningful Wet Gas Business. With two new gas wells already in production and a number of other tie-ins anticipated in the coming months, we expect to deliver an increase in production in this financial year."



Drilling at Willow-1 in PRL 173 in the Northern Cooper

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

Description	Units	6 Months Ended December 2015	3 Months Ended December 2015	3 Months Ended September 2015	Quarter Change %
Production (by product type)					
Oil	kbbbl	1,465.6	731.9	733.7	(0%)
Sales gas and ethane	TJ	695.6	339.2	356.4	(5%)
LPGs	ktonne	2.8	1.4	1.4	2%
Condensate	kbbbl	19.5	10.8	8.7	24%
Total oil and gas	kboe	1,627.1	812.2	814.8	(0%)
Sales revenue (by business unit)					
Oil	A\$ mil	94.3	43.7	50.6	(14%)
Wet Gas ¹	A\$ mil	4.6	2.4	2.2	9%
Total revenue	A\$ mil	98.9	46.1	52.8	(13%)
Avg realised oil price	A\$/bbl	64.3	60.0	68.6	(13%)
Avg realised gas and gas liquids price	A\$/boe	28.6	29.4	27.7	6%
Direct operating expense (by business unit)					
Oil	A\$ mil	40.2	19.7	20.4	(3%)
Wet Gas	A\$ mil	2.1	1.3	0.8	63%
Total direct operating expense	A\$ mil	42.3	21.0	21.2	(1%)
Oil & gas asset expenditure (by business unit)					
Oil	A\$ mil	9.5	6.2	3.3	88%
Wet Gas	A\$ mil	4.0	3.8	0.2	n/m
Total oil & gas asset expenditure	A\$ mil	13.5	10.0	3.5	186%
Exploration & evaluation expenditure (by business unit)					
Oil	A\$ mil	3.4	2.8	0.6	n/m
Wet Gas	A\$ mil	6.2	4.5	1.7	n/m
Unconventional	A\$ mil	0.2	0.0	0.2	n/m
Total exploration & evaluation expenditure	A\$ mil	9.8	7.3	2.5	n/m
Exploration & evaluation expensed	A\$ mil	(6.3)	(3.9)	(2.4)	63%
Exploration & evaluation assets	A\$ mil	3.5	3.4	0.1	n/m
Financials					
Cash & cash equivalents ²	A\$ mil	165.4	165.4	162.0	2%
Drawn Working Capital Facility	A\$ mil	0.0	0.0	0.0	0%
Undrawn Working Capital Facility ³	A\$ mil	100.0	100.0	35.0	186%
Unsecured Convertible Note ⁴	A\$ mil	171.3	171.3	171.2	0%
Non-IFRS accounting financial information					
Oil sales revenue	A\$ mil	94.3	43.7	50.6	(14%)
Oil price hedge gains - realised ⁵	A\$ mil	15.0	8.1	6.9	17%
Adjusted oil revenue (including hedging gains)⁶	A\$ mil	109.3	51.8	57.5	(10%)
Avg realised oil price (including hedging gains)	A\$/bbl	74.6	71.2	77.9	(9%)

¹ Wet Gas sales are comprised of gas and gas liquids.

² Cash includes Drillsearch share of joint venture cash.

³ \$100 million facility announced on 3 December 2015. Facility remains subject to conditions precedent.

⁴ Conversion from US\$ to A\$ at period end rate.

⁵ Hedge gains are shown gross (excluding hedge premium).

⁶ The Non-IFRS accounting financial information in this report has been taken from information prepared in accordance with IFRS accounting. Non-IFRS accounting financial information should be read in conjunction with, not in replacement of, IFRS accounting financial information included in this report.

Production and Financial

Production

Production continued to benefit from investment in wellhead capacity undertaken on the Western Flank (ex-PEL 91, Drillsearch 60%, Beach 40% and Operator) in FY2015 and early FY2016, with total output of 0.81 mmboe in the three months ended 31 December, little changed from the September quarter (0.81 mmboe).

Average daily production from the Western Flank was 12,405 bbls (gross, Drillsearch 60%) compared with 12,469 bbls/d during the previous quarter.

The Stunsail, Balgowan and Pennington fields, connected in the September 2015 quarter, all performed ahead of budget, with the most recently connected wells at the Bauer field – 20 to 23 – to be brought online as required to maintain export levels. The Pennington-4 well was brought online in December.

Gas and gas liquids production (“Wet Gas”) was 0.08 mmboe, little changed from 0.08 mmboe during the previous quarter. The Western Wet Gas joint venture with Beach (Drillsearch 50%, Beach 50% and Operator) continued to perform ahead of budget, with production steady despite a 12-day planned maintenance shutdown during the quarter.

In late December, Drillsearch announced the start of production from the Western Wet Gas joint venture with Santos (Drillsearch 40%, Santos 60% and Operator). The Cadenza-1 well commenced flowing on 18 December at a steady flow rate of 2 million standard cubic feet per day (mmscf/d) on a 20% choke. A second well, Yarowinnie South-1, was brought online on 30 December at 5 mmscf/d on a 44% choke.

Overall gas and gas liquids production during the current quarter is expected to benefit from a full three months of production from the Santos joint venture, with the Varanus South-1 well also expected to come online in late January or early February 2016.

The Vanessa-1 well in the Northern Cooper area (Drillsearch 43%, Senex 57% and Operator) is also expected to commence production in the March quarter, with connection work now largely complete.

Financial

Revenue for the quarter was \$46.1 million, 13% less than the \$52.8 million reported for the September quarter as oil prices weakened.

The company continued to benefit from its successful hedging program, with adjusted oil revenue including hedging gains of \$51.8 million, compared with \$57.5 million during the previous quarter. The average realised oil price including hedging gains was \$71.20/bbl, compared with \$77.90/bbl during the previous quarter. Without the benefit of hedging, the average realised oil price was \$60.00/bbl, down 13%.

As of 31 December, Drillsearch had 644,000 bbls of oil production hedged for the remainder of FY2016 at an average floor price of US\$58.37/bbl (excluding hedge premiums). The table below outlines hedging in place as at 31 December 2015:

Hedge arrangements (US\$)	FY2016 (bbls)	FY2017 (bbls)
\$60 Put- \$90 call options	309,000	-
\$60 Put- \$85 call options	230,000	215,000
\$50 Put- \$70 call options	105,000	-

In addition to the benefits of hedging, Drillsearch also continues to benefit from the weaker Australian dollar, with the majority of the company’s revenue received in US dollars, while costs are mostly paid in local currency.

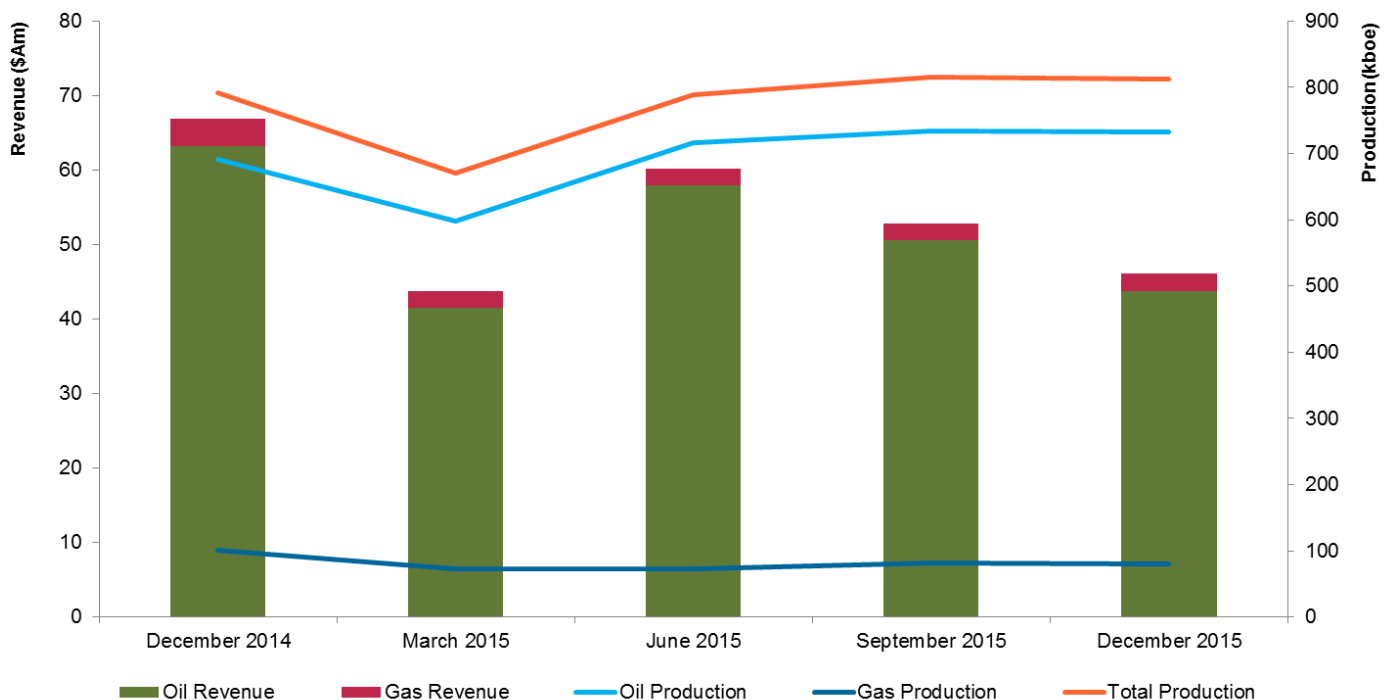
Cash margins in Drillsearch’s Oil Business remained strong at \$44.43/bbl⁴ including hedging gains, with average total operating costs of \$26.78/bbl.

Capital expenditure for the quarter was \$17.3 million, compared with \$6.0 million for the previous quarter with the FY2016 work program weighted to the second half of the financial year, and a significant proportion of first half activity covered by the benefit of continuing free carries.

Discussions are ongoing between Drillsearch and its joint venture partners on the optimal timing for certain planned activities, given the current volatility in oil prices. A number of development activities that had been planned for FY2016 are now likely to occur at the end of the financial year, or early in the next financial year. As announced on 21 January 2016, Drillsearch expects FY2016 capital expenditure to be at the lower end of guidance of \$80 million to \$110 million.

Drillsearch continues to prioritise maintenance of a strong balance sheet. Cash at 31 December 2015 was \$165.4 million. In addition, as announced on 3 December 2015, the company has secured a new \$100 million debt facility to replace the company’s existing undrawn working capital facility. The new facility remains subject to conditions precedent which are expected to be satisfied shortly.

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



⁴ Cash margins represent a blended barrel across Western Flank and Eastern Margin.

Exploration and Development

Oil Business

Western Flank Oil Fairway

Work began during the quarter on the upgrade of the fluid handling facilities at Bauer, with earthworks commencing at the tank farm. In light of recent oil price declines, Drillsearch and Beach are reviewing the potential for a deferral of the Bauer facility upgrade.

In addition, the Operator of the Lycium to Moomba pipeline completed an upgrade that has increased the maximum flow rate to in excess of 21,000 bbls/d. The increase in capacity has enabled Beach and Drillsearch to cease trucking operations between Bauer and Moomba, with oil production over and above the capacity of the Bauer to Lycium line now trucked only as far as Lycium, where it enters the pipe. This has had significant benefits for the ex-PEL 91 joint venture in terms of safety and costs.

A two-well appraisal campaign over the Bauer field began in December, with both wells ultimately cased and suspended as future oil producers.

Bauer-24 is the southern-most well drilled on the Bauer field, located approximately 950 metres south of Bauer-13 and 850 metres northeast of Chiton-3. The well, which was drilled to appraise a structural high between the Bauer and Chiton fields, intersected a 3-metre net oil column in the Namur Sandstone and a 3.5-metre gross oil-bearing interval in the overlying McKinlay Member.

Bauer-25, the northern-most well on the Bauer field, spudded on 28 December 2015. The well successfully tested the northern extension of the Bauer field intersecting intersected a 2-metre net oil column in the Namur Sandstone and a 3.5-metre gross oil bearing interval in the overlying McKinlay Member.

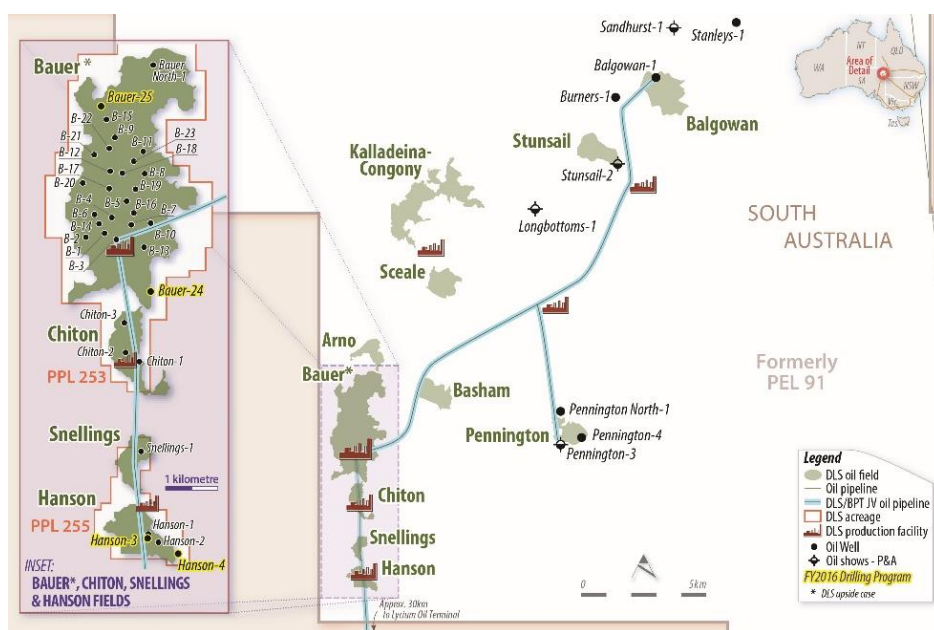
The next two wells in the permit, Hanson-3 and Hanson-4, are expected to spud in the current quarter.

Inland-Cook Oil Fairway

In ATP 924 in the Inland-Cook Oil Fairway, the Maroochydhore-1 exploration well was drilled during the quarter. Under the terms of the ATP 924 farm-out agreement, Beach may earn a 45% interest in the permit. Drillsearch's share of costs for the Maroochydhore-1 well were carried by Beach.

Maroochydhore-1 was drilled to test a four-way closure situated on a large anticline reaching a total depth of 2,874 metres on 23 October 2015. Oil and gas shows were encountered in the Top Hutton Sandstone, however wireline logs indicated the sands were water saturated. The well was consequently plugged and abandoned.

Data acquired from Maroochydhore-1 improves Drillsearch's understanding of the broader ATP 924 permit, and will be incorporated into the company's broader regional prospectivity model.

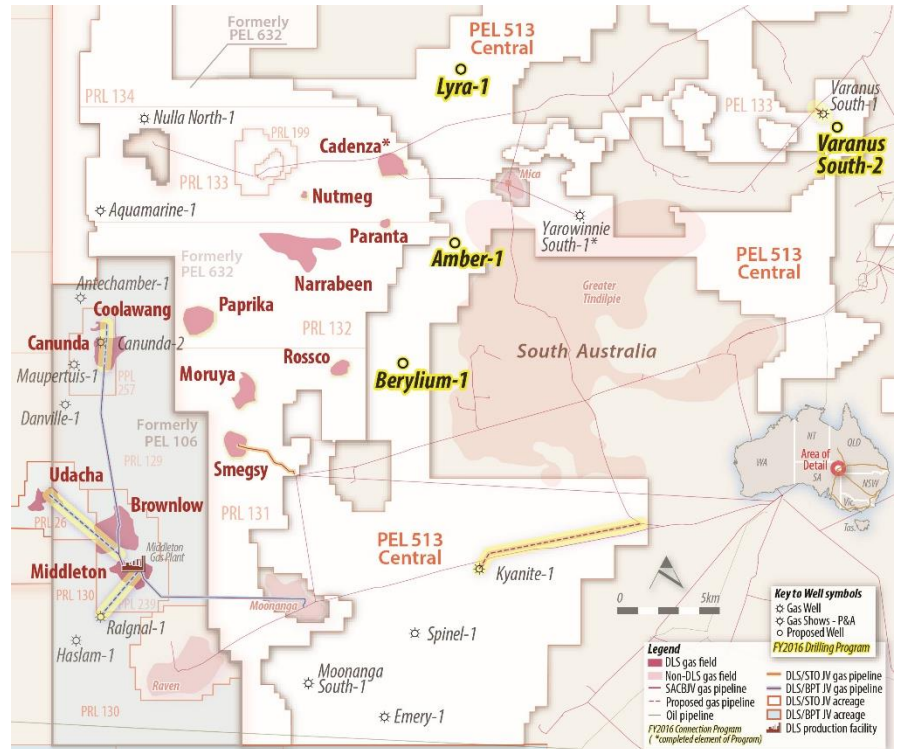


Wet Gas Business

Western Wet Gas Project Areas

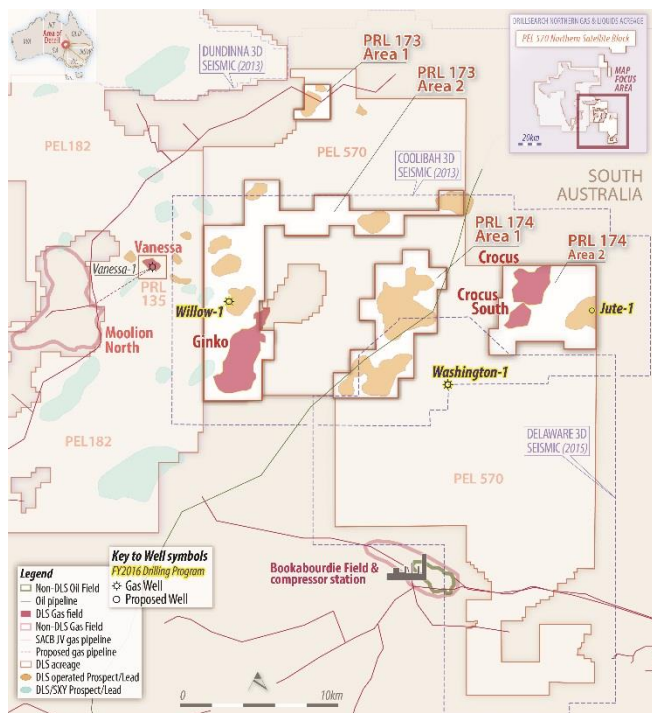
The Western Wet Gas joint venture with Santos (Drillsearch 40%, Santos 60% and Operator) continued with its testing and connections program during the December quarter, with the Cadenza-1 and Yarowinnie South-1 wells tied in during December.

In November the joint venture hydraulically stimulated sands and a coal from the Patchawarra Formation and one zone from the Tirrawarra Sandstone in the Varanus South-1 discovery. Initial flow during the well clean-up was recorded at approximately 0.6 mmscf/d with samples collected for analysis. Varanus South-1 is expected to be connected early in the March quarter with testing work ongoing on the Kyanite-1, Spinel-1 and Emery-1 discoveries.



Preparation for the FY2016 drilling campaign in PEL 513 (see map) began during the December quarter with cultural heritage clearance of the drill sites. The first well in the campaign is expected to spud late in the March quarter.

The Western Wet Gas joint venture with Beach (Drillsearch 50%, Beach 50% and Operator) conducted an extended production test over two zones at Ragnal-1 during the quarter. The test provided encouraging results and confirmed a commercial gas resource in place. The well will be connected to the Middleton Gas Plant and is expected to be online before the end of FY2016 along with Udacha-1 and Coolawang-1. The connection of Canunda-2 has been postponed pending further review of results.



Installation of compression at the Middleton Gas Plant is progressing. Design optimisation is nearing completion, with unit selection and contracts expected in the current quarter. Benefits from the installation of compression are now expected late in the first half of FY2017 not early FY2017 as previously reported.

Northern Cooper Gas and Liquids

The two-well exploration campaign in PRLs 173 and 174 (see map) began on 17 December 2015 with the spudding of the first well, Willow-1 (Drillsearch 80% and Operator; MidContinent 20%).

Willow-1 was drilled to a total depth of 3,402 metres with good gas shows observed across the sandstones and coals of the Toolachee, Epsilon and Patchawarra Formations from 3,007 to 3,333 metres.

Drillsearch's preliminary interpretation of wireline logs calculated a total of approximately 8 metres of net conventional pay consisting of 1.5 metres and 4.0 metres in the Toolachee and Epsilon Formations, respectively, and 2.5 metres in the Patchawarra Formation within a gross interval of 326 metres. Stacked reservoirs were identified, and in addition to the conventional pay, several zones with potential for unconventional pay were also observed.

Willow-1 has been cased and suspended and an extended production test to establish a stabilised flow rate is planned for the June 2016 quarter.

The Ensign 932 Rig has moved to the second well site, Jute-1, which spudded in late January.

In the neighbouring PEL 182 (Drillsearch 43%, Senex Energy 57% and Operator), preparation is continuing for the tie-in of the Vanessa-1 Wet Gas discovery. The flowline from Vanessa-1 to the South Australian Cooper Basin joint venture's gathering infrastructure has largely been constructed, however the tie-in is yet to be completed.

Unconventional Business

Northern Patchawarra Trough

The Washington-1 unconventional exploration well in PEL 570 reached a total depth of 3,660 metres in October and encountered elevated gas shows in the Permian Source Rocks across the Toolachee, Epsilon and Patchawarra Formations.

In November, the joint venture (Drillsearch 47.5%; Santos 35% and Operator; Sundance Energy 17.5%) tested all three formations with a five-stage hydraulic stimulation campaign. Measurable gas flows to surface were recorded after only seven days with the test lasting for 38 days.

Initial gas flow rates were encouraging with the well also producing hydrocarbon-liquids towards the end of the test. The well will be completed and shut-in for further testing.

During the December quarter the joint venture completed the 415km² Delaware 3D seismic survey covering the southern section of the permit (see map on page 8).

Drillsearch's proportionate share of the costs of drilling, testing and completing the Washington-1 well, and the costs associated with the Delaware 3D seismic survey, are included in the continuing free-carry in PEL 570.

Drilling Program Financial Year-To-Date

Drillsearch has so far delivered a drilling success rate of 80% for FY2016.

Area	Well	Category	Tenement	Result	Status
Western Flank Oil	Bauer-24	Appraisal	PPL 253	Future oil producer	Cased & Suspended
	Bauer-25	Appraisal	PPL 253	Future oil producer	Cased & Suspended
Inland-Cook Oil	Maroochydore-1	Exploration	ATP 924	Oil shows	Plugged & Abandoned
Northern Cooper Gas & Liquids	Washington-1	Exploration	PEL 570	Future testing	Cased & Suspended
	Willow-1	Exploration	PRL 173	Oil & gas shows	Cased & Suspended

Corporate

Proposed Merger with Beach Energy

On 23 October 2015, Drillsearch and Beach Energy announced that they had entered into a binding Merger Implementation Agreement for the proposed all-scrip merger of the two companies by scheme of arrangement.

Under the terms of the agreement, Beach agreed to acquire all of the shares in Drillsearch that it does not already own, with Drillsearch shareholders receiving 1.25 Beach shares for each Drillsearch share held.

The Directors of Drillsearch unanimously recommended that Drillsearch shareholders vote in favour of the Scheme, in the absence of a superior proposal.

The meeting of Drillsearch shareholders to approve the Scheme was held on 27 January 2016. As announced on 27 January, Drillsearch shareholders voted overwhelmingly in support of the transaction with 99% of votes cast at the meeting and 94% of shareholders voting in favour of the merger.

The next step in the implementation of the proposed merger is the second court hearing to approve the Scheme which is listed to be held on 18 February 2016. Subject to the approval of the Court, and satisfaction or waiver of the other conditions of the proposed merger, it is anticipated that the implementation date for the proposed merger will be 1 March 2016.

Tintaburra Sale

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. The consideration for the sale is \$2 million upon the sale becoming effective.

December Quarterly Results Conference Call

A conference call for the December 2015 Quarterly Results will be held for investors and analysts at 2.00pm (AEDT) on Thursday, 28 January 2016. 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. A recording of the call will be available on the Drillsearch website later today.

Date and time:	2.00pm (AEDT) on Thursday, 28 January 2016
Conference ID:	342111#
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

Corporate Information

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 strategic joint ventures with leading players in the Australian and international exploration and production industry, including Beach Energy, Santos Limited and QGC.

Top 10 Shareholders as at 31 December 2015	%
Network Investment Holdings	19.9
HSBC Custody Nominees (Australia) Limited	13.7
Citicorp Nominees Pty Limited	12.1
QGC Pty Limited	7.8
JP Morgan Nominees Australia Limited	7.4
Beach Energy Ltd	4.6
National Nominees Limited	2.6
HSBC Custody Nominees (Australia) Limited – A/C2	2.0
BNP PARIBAS Nominees Pty Ltd	1.9
HSBC Custody Nominees (Australia) Limited – A/C3	1.7

Quarterly Share Price Activity	High A\$	Low A\$	Close A\$
Oct – Dec 2015	0.70	0.41	0.49

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)

Senior Executive Team

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

Security Listing

Australian Stock Exchange (Ticker DLS)

Issued Share Capital

462,254,673

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Forward Looking Statements

This Report 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 operating 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 report 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.