

ASX Announcement
12 December 2014

Company Update

Drillsearch Energy Limited (ASX:DLS) ("Drillsearch") provides the following business update.

Wet Gas Business

Drillsearch is pleased to announce the second wet gas discovery made by its PEL 513 joint venture with Santos Limited (Drillsearch 40%, Santos 60% and Operator).

The Yarowinnie South-1 well was drilled to a total depth of 3,142 metres as an exploration well, southwest of the Varanus South-1 discovery announced last month. Drillsearch's preliminary interpretation of wireline logs has confirmed an aggregate best estimate of almost 15 metres of net gas pay over several intervals in the Patchawarra Formation totalling a gross Patchawarra interval of 410 metres. The well has been cased and suspended as a future producer.

Year-to-date, Drillsearch has drilled 20 exploration, appraisal and development wells¹ as part of its FY2015 work program, with Yarowinnie South-1 the 15th successful well in the campaign and the fifth new oil or wet gas discovery for the year.

In addition, the company notes the announcement made by Senex Energy Limited on 11 December 2014 regarding the successful production test of the Vanessa-1 wet gas discovery in PEL 182 (Senex 57% and Operator, Drillsearch 43%).

During the test, gas flowed to surface at an average rate of 5.0 million standard cubic feet per day (mmscf/d) from the Epsilon and Toolachee formations on a 65% choke (42/64ths inch). Condensate was also produced at a rate of 15 barrels per mmscf/d.

The joint venture plans to bring the well online and then consider further appraisal and development opportunities.

Unconventional Business

In ATP 940 (Drillsearch 40% and Operator, QGC 60%), Drillsearch announces that eight of nine stages of the hydraulic stimulation of Anakin-1 have been successfully completed. The ATP 940 joint venture will now begin production testing, commencing with Charal-1 in late December, with Anakin-1 to follow.

The fourth well of the current program, Amidala-1, was spudded on 20 November 2014 and had reached 2,407 metres as of 11 December 2014. The well is expected to reach total depth in late January 2015.

The company also advises that the ATP 940 joint venture has recently received confirmation of the two-year extension of the permit from the Queensland Department of Natural Resources and Mines, to November 2017 from November 2015. This extension provides

¹ Excludes the three Unconventional wells drilled in FY2015: Anakin-1, Padme-1 and Amidala-1.

additional time to enable the joint venture to continue with its measured approach to the work program.

Market Conditions

Oil prices in the financial year to-date have experienced material decline, with considerable ongoing volatility. While this decline has been partly offset by the relative weakening of the Australian dollar against the US dollar, the decline in oil prices naturally impacts on Drillsearch's revenue.

Drillsearch remains in a strong financial position at current prices, with cash of approximately \$170 million², high margin oil production³ and a \$50 million working capital facility which remains undrawn.

Despite the company's strong financial position, during the December quarter Drillsearch took steps to mitigate the impact on the company of further oil price decline, which we have recently seen, in the form of put options at US\$70/bbl. These put options, combined with hedging in place under Drillsearch's undrawn working capital facility⁴, result in the company setting a realised floor price of US\$70/bbl (approximately 850,000 barrels) and US\$90/bbl (approximately 450,000 barrels) for the financial year.

Drillsearch Managing Director Brad Lingo said: *"The company's strong cash position and robust margins provide Drillsearch with a platform to continue investing in growth, notwithstanding the volatile conditions. However, Drillsearch will scrutinise all capital expenditure, both in company-operated assets and in conjunction with its joint venture partners in non-company-operated assets, to ensure that its investment is prudent and scaled to the rate of success."*

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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.

² As at 30 September 2014. See Quarterly Activities Report released to the ASX on 29 October 2014.

³ Unaudited weighted average cash operating cost of US\$25 a barrel for Drillsearch's total oil production during the September FY2015 quarter, applying a USD:AUD exchange rate of 0.90, and excluding capital expenditure and corporate costs.

⁴ Details of the hedging facility associated with the undrawn working capital facility are included in the company's Full-Year financial statements released to the ASX on 27 August 2014.