

Drillsearch Energy Reports FY2015 Half-Year Results

Drillsearch has released its Financial Report for the six months ended 31 December 2014. This market release includes a summary of the financial results for the period. For detailed information regarding the Half-Year financial results, readers are directed to the company's Financial Report, including Appendix 4D and Directors' Reports, separately released to the ASX and available on the company's website.

Financial and Operating Highlights:

- **Production of 1.5 million barrels of oil equivalent (mmboe)**
- **Sales revenue of \$146.7 million**
- **Operating cash flow of \$97.5 million**
- **Strong margins from oil maintained - \$32.80/barrel operating costs in first half**
- **Net Profit After Tax of \$14.3 million**
- **Non-cash impairments of \$61.8 million (pre-tax)**
- **Balance sheet remains strong with \$146.5 million of cash and \$50 million of undrawn debt**

Guidance

- **H2 FY2015 capex expected to be in the range of \$55 million to \$70 million**
- **FY2015 capital expenditure guidance range revised to \$150 million to \$165 million**
- **Production guidance range for FY2015 tightened to 3.0 to 3.2 mmboe**

Drillsearch Energy Limited (ASX: DLS) announces financial results for the first half of FY2015, a period in which the company delivered another strong operating performance against the backdrop of challenging market conditions that have affected the global oil and gas sector.

Managing Director Brad Lingo said:

"The decline in oil prices during the half impacted both revenue and profit, despite a period in which the business again delivered strong production and drilling success.

"Our balance sheet and cash flow remain strong, and management is taking the steps required to ensure the business is focused to meet the challenges of a lower price environment.

"While this has been a difficult period for the sector, Drillsearch continues to benefit from low-cost, high margin assets, and a healthy financial position that will ensure the company is well placed to benefit once global commodity markets improve."

External Market Conditions Impact Financial Results

First-half revenue of \$146.7 million was the third highest achieved by the company, though declined 27% from \$200.3 million a year earlier, primarily as a result of lower realised oil prices and lower production, following natural field decline that was partly offset by the connection of new wells late in the half.

	HY2015	HY2014	Change
Production (mmboe)	1.5	1.8	-13%
Average Realised Oil Price ¹ (\$ per barrel)	105.4	126.3	-17%
Average Total Operating Cost ² – Oil (\$ per barrel)	32.8	34.7	-5%
Revenue (\$m)	146.7	200.3	-27%
Impairments & Write-Offs (\$m)	61.8	0.4	n/m
Statutory Net Profit After Tax (\$m)	14.3	35.5	-60%
Underlying Net Profit After Tax ⁴ (\$m)	32.4	55.6	-42%
EBITDA ^{4,5} (\$m)	52.8	114.3	-54%
Basic Earnings per Share (cents per share)	3.2	8.3	-61%
Diluted Earnings per Share (cents per share)	2.9	8.1	-64%
Operating Cash Flow (\$m)	97.5	93.8	+4%
Net Cash Flow ³ (\$m)	(5.9)	39.9	-115%
	HY2015	FY2014	Change
Capital Expenditure (\$m)	95.6	95.7	n/a
Cash Position (\$m)	146.5	152.4	-4%

Net Profit After Tax of \$14.3 million was 60% lower than the prior corresponding period. This was primarily a result of lower revenue and the impact of non-cash, pre-tax impairments of \$61.8 million.

The impairments follow the company's semi-annual review of carrying values in the context of the rapid decline in the oil price during the half, and the subsequent lowering of forward curve oil price expectations. They include a \$44.3 million impairment to the carrying value of the company's interests in the producing Eastern Margin/Tintaburra assets, and a \$17.5 million writedown of certain non-core exploration permits, both of which were pre-tax.

In addition, the company incurred a non-cash income tax expense of \$4.6 million. Tax continues to be a non-cash item as the company applies carried forward tax losses and Petroleum Resource Rent Tax (PRRT) starting base.

Underlying Net Profit After Tax⁴ of \$32.4 million was 42% lower than the \$55.6 million in the prior corresponding period, while EBITDA⁵ was \$52.8 million, down 54% from \$114.3 million, as a result of lower revenue.

¹Average realised oil price includes realised oil price hedge gains of \$5 a barrel.

²Calculated as direct operating expense for the Oil segment divided by oil production.

³Net cash flow refers to the net increase in cash and cash equivalents per the consolidated statement of cash flows.

⁴Underlying net profit after tax and EBITDA are non-IFRS accounting financial information. The reported figures were not subject to auditor review, but are calculated using auditor reviewed IFRS accounting information. Please refer to the notes at the end of this release for important information regarding these non-IFRS accounting measures, rationale for use and a reconciliation of this non-IFRS accounting information to Net Profit After Tax.

⁵EBITDA is earnings before interest, tax, depreciation and amortisation.

Margins in the Oil Business remained high, supporting operating cash flow of \$97.5 million for the reporting period, 4% higher than \$93.8 million in the prior corresponding period, with lower revenue offset by a reduction in operating costs.

Hedging implemented during the half partly mitigated the decline in the oil price, delivering a \$3.5 million pre-tax benefit (approximately, \$2.50/bbl gain).

Net Cash Flow³ for the reporting period was an outflow of \$5.9 million, down from a cash inflow of \$39.9 million for the prior period, reflecting the weighting of the company's FY2015 work program toward the first half, as well as lower revenue.

Drillsearch continues to maintain a strong liquidity position despite the increased business activity across the portfolio during the first half. As of 31 December 2014, the company had \$146.5 million of cash, compared with \$152.4 million at 30 June 2014, as well as \$50 million of undrawn committed debt under the working capital facility announced in July 2013.

Operating Performance Remains Strong

Production for the half was 1.5 mmboe, down 13% from 1.8 mmboe in the prior corresponding period, reflecting continued strong performance from the Western Flank Oil Fairway.

In the Oil Business, production of 1.4 mmboe for the half was 8% lower than during the prior corresponding period as a result of natural field decline, partly offset by new wells being brought online late in the half.

Drillsearch maintained strong operating margins, with average operating costs per barrel of \$32.80, down 5% from the prior corresponding period, against an average realised oil price for the period of \$105.40/bbl (including average realised hedge gains of \$2.50/bbl for the half), down 17% from \$126.30/bbl in the prior corresponding period. The reduction in operating costs per barrel primarily reflects lower royalties as a result of the lower realised prices.

In the Wet Gas Business, production of 0.2 mmboe was 36% lower than the prior corresponding period, primarily due to lower production from Canunda.

Work Program Delivers Success

Capital expenditure in the first half was \$95.6 million, compared with \$36.2 million a year earlier, reflecting an increase in activity and a FY2015 work program that was weighted to the first six months of the financial year.

During the first half, Drillsearch's FY2015 work program delivered 27 wells, with a success rate of 67%. Drilling success included five new discoveries⁶ and a successful development campaign in the Bauer field in PEL 91 (Drillsearch 60%, Beach 40% and Operator), including the joint venture's first pad drilling campaign which delivered significant operating efficiencies and lower costs compared to stand alone well development.

In the Unconventional Business, during the half the company completed the second and third of the deep wells in the ATP 940 (Drillsearch, 40% and Operator, QGC 60%) drilling campaign. The company

⁶ First-half discoveries: Balgowan-1 and Burners-1 in Oil and Maupertuis-1, Yarowinnie South-1 and Varanus South-1 in Wet Gas. Ralgnal-1 and Nulla North-1 discoveries made in the second half – see January Drilling Report released to the ASX on 10 February 2015.

also commenced the hydraulic stimulation and testing of two wells in ATP 940 – Charal-1 and Anakin-1 – with the testing of Charal-1 ongoing, and testing of Anakin-1 due to begin in the coming days.

Subsequent to the reporting period, Amidala-1, the fourth and final well planned in the current campaign, was completed and cased and suspended for future testing.

Importantly, notwithstanding the significant step in activity in the first half, Drillsearch's safety performance improved, with the Total Recordable Injury Frequency Rate falling by 6%.

Guidance

As separately announced today (see ASX Announcement: *"Operational Review – Outcomes and Outlook"*), Drillsearch has updated its guidance for FY2015, with production now expected to be in the range of 3.0 to 3.2 mmboe.

Capex for the second half is expected to be in the range \$55 million to \$70 million, materially lower than the first half. This reflects the weighting of the FY2015 work program to the first half, the deferral of activities originally planned for the second half, and the decision to bring forward additional development pad drilling in PEL 91 (following the success in the first half). Full-year capex guidance is updated to \$150 million to \$165 million.

--Ends--

Conference call:

Managing Director Brad Lingo and Chief Financial Officer Ian Bucknell will host a conference call to discuss the Half-Year Results and Operational Review Outcome at 11am today. Please find the details below. A replay facility will be also be available on the website: <http://www.drillsearch.com.au/>

Time	Thursday, 19 February 2015 at 11:00am (AEDT)	
Dial-in number	1800 041 303 or +61 2 9001 2114	
Overseas	Hong Kong	800 901 436
	Japan	0066 3381 2710
	New Zealand	0800 264 316
	Singapore	800 120 5965
	United Kingdom	0800 051 8260
	United States	1 855 5624 857
	Other International	+61 2 9001 2114

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If you would like to register for email alerts please go to the Register page on our website: www.drillsearch.com.au

About Drillsearch Energy Limited (ASX: DLS): Drillsearch Energy Limited is the only ASX200 company focused solely on the Cooper Basin, Australia's premier onshore petroleum province. The company generates revenue and cash flow from its producing Oil and Wet Gas assets in the west of the Cooper Basin, and it also has a portfolio of discoveries and prospects across the remainder of its acreage to sustain future growth. Drillsearch has a strong balance sheet and an experienced management team, as well as joint ventures with companies such as QGC (BG Group), Santos 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, anticipated operating or financial performance, including production volumes and costs.

Forward looking statements involve subjective judgements 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.

Notes:

Non-IFRS accounting financial information

This release refers to Underlying NPAT (underlying net profit after tax), EBITDA (earnings before interest, tax, depreciation and amortisation) and Net Cash Flow which are non-IFRS accounting financial measures 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 to, 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.

Underlying NPAT excludes the impact of asset acquisitions, disposals and impairments, as well as items that are subject to significant variability from one period to the next, such as fair value adjustments and fluctuations in exchange rates. Reconciliation of Underlying NPAT to NPAT is set out below.

EBITDA is earnings before interest, tax, depreciation and amortisation.

Net cash flow refers to the net increase in cash and cash equivalents per the consolidated statement of cash flows.

	HY2015 \$'000	HY2014 \$'000
Net profit after tax	14,349	35,534
Adjusted for:		
Change in fair value of derivatives	(16,020)	-
Change in fair value of convertible note	(2,832)	22,824
Exploration write-offs and asset impairments	61,839	351
Tax impact of above changes	(24,961)	(3,060)
Underlying net profit after tax	32,375	55,649

Corporate Information

Board Members

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

Company Secretary

Jean Moore

Registered Office

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Top 10 Shareholders as at 30 January 2015

HSBC Custody Nominees (Australia) Limited	17.29%
JP Morgan Nominees Australia Limited	10.74%
Citicorp Nominees Pty Limited	10.31%
QGC Pty Limited	7.86%
National Nominees Limited	5.93%
Beach Energy Limited	4.57%
Network Investment Holdings	3.79%
UOB Kay Hian Private Limited	2.12%
Zero Nominees Pty Ltd	1.86%
National Nominees Limited	1.07%

Management

Brad Lingo (Managing Director)
Ian Bucknell (Chief Financial Officer)
David Evans (Acting Chief Operations Officer)
Peter Fox (Chief Commercial Officer)
Duncan Lockhart (Acting Chief Technical Officer)
Clifford Tuck (General Counsel)

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

Quarterly Share Price Activity

	High	Low	Close
	A\$	A\$	A\$
Oct – Dec 2014	1.28	0.65	0.81

Issued Share Capital

As at 30 January 2015 - 461,101,450