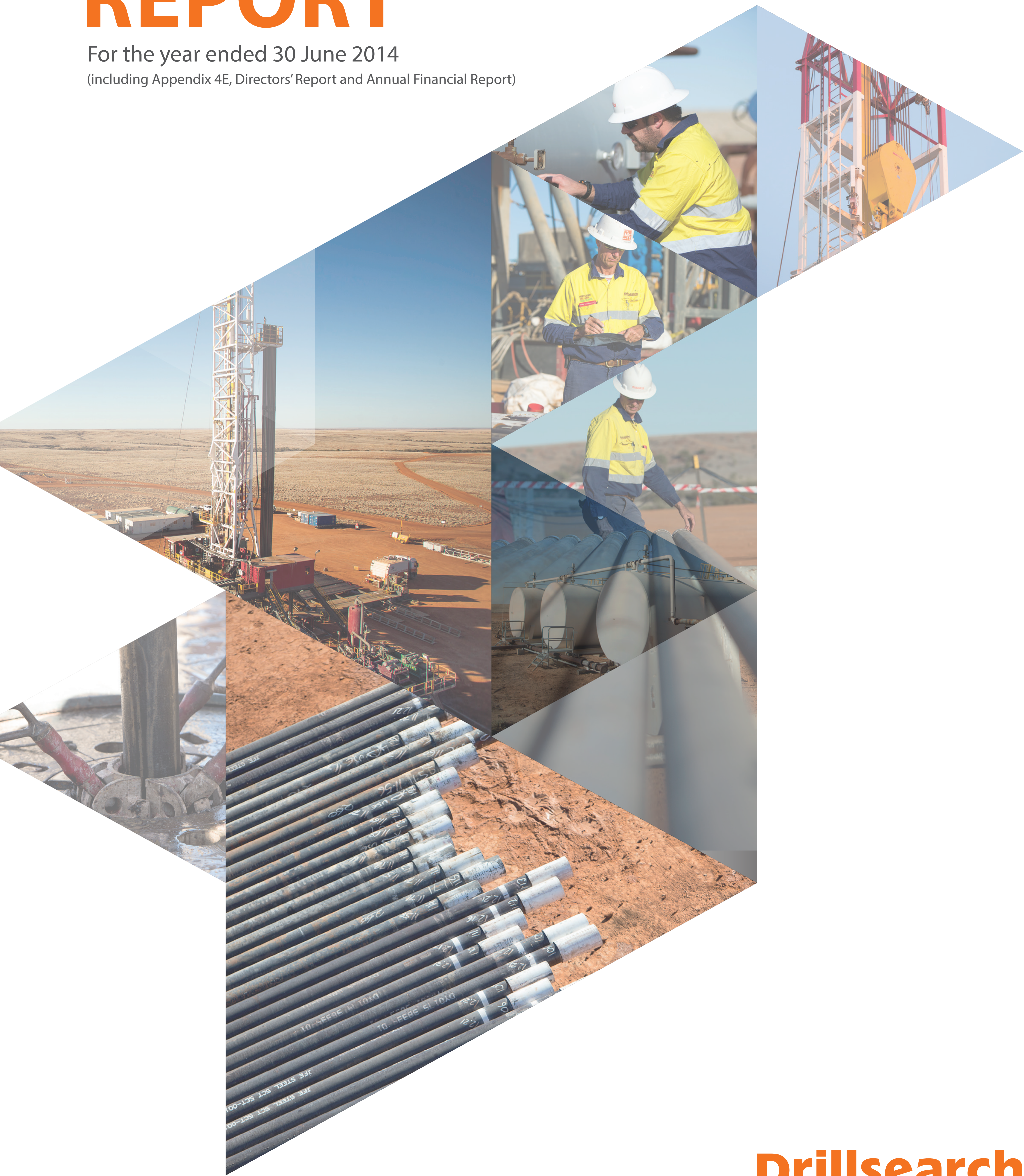
Drillsearch Energy Limited
ABN: 73 006 474 844

FULL YEAR REPORT

For the year ended 30 June 2014

(including Appendix 4E, Directors' Report and Annual Financial Report)



Drillsearch

Drillsearch Energy Limited
Annual report - 30 June 2014

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Drillsearch Energy Limited

Appendix 4E

Year ended 30 June 2014

Results for announcement to the market

				$'000
Key information				
Revenue from ordinary activities	Up	279.0%	to	387,020
Net profit for the period attributable to members	Up	59.0%	to	71,523

Dividends
No dividend for the year ended 30 June 2014.

Net Tangible Assets	**Current period**	**Previous period**
Net tangible assets backing per ordinary security (cents)	83.9	67.0
Basic earnings per share (cents)	16.6	11.1

Details of individual and total dividends or distributions and dividends or distribution payments
There were no distributions or dividends payable or paid during the period.

Details of any dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for the participation in any dividends or distribution reinvestment plan
There were no dividend or distribution reinvestment plans in operation.

Changes in ownership of controlled entities during the period
There were no changes in ownership of controlled entities during the period.

Additional Appendix 4E disclosure requirements can be found in the directors' report and the 30 June 2014 financial statements and accompanying notes. This report is based on the consolidated financial statements which have been audited by Deloitte Touche Tohmatsu.

Competent Person Statement
The information in this report that relates to Reserves and Contingent and Prospective Resources is based on information compiled by Mr Neil Thompson, General Manager Exploration and Development at Drillsearch. Reserves and Contingent Resources are taken from the independent reserve auditor reports by RISC Operations and DeGolyer and MacNaughton.

Mr Thompson is a Qualified Petroleum Reserves and Resources Evaluator and a Member of the American Association of Petroleum Geologists. Mr Thompson is a full-time employee of the Company and has sufficient experience that is relevant to the Company's Reserves and Resources to qualify as a Reserves and Resources Evaluator as defined in the ASX Listing Rules. Mr Thompson consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Reserves and contingent resources have been classified and categorised according to the Society of Petroleum Engineers - Petroleum Resources Management System (SPE-PRMS). Reserves and contingent resources have been assessed using either probabilistic or deterministic methods, as appropriate. Aggregation beyond the field level has been arithmetic. Reserves are categorised as 2P.

Directors' report

The Directors of Drillsearch Energy Limited ('Drillsearch' or the 'Company') submit herewith the annual report of the Company for the financial year ended 30 June 2014. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Information about the directors

The following persons were Directors of Drillsearch Energy Limited during the whole of the financial year and up to the date of this report:

Name	**Particulars**
Mr J.D. McKerlie	Chairman, Chartered Accountant, joined the Board in 2008 in a non-executive capacity. Appointed Chairman 11 June 2009. Bachelor of Economics, Diploma Financial Management, University of New England, Fellow Institute of Chartered Accountants. FAICD. He is the Chairman of the Nomination Committee and a member of the Audit and Risk Committee, the People and Remuneration Committee and the Technical Committee.
Mr B.W. Lingo	Managing Director, joined the Board in May 2009. Appointed Managing Director 15 June 2009. Bachelor of the Arts (Honors) and Phi Beta Kappa, Miami University and Juris Doctorate, Southern Methodist University. Mr Lingo is a member of AAPG, AIPN, PESA and QUPEX. He is a member of the Technical Committee and the Nomination Committee.
Mr P. J. Bainbridge	Non-executive Director. Appointed 22 July 2013. Bachelor of Science (Mechanical Engineering) Manchester University, United Kingdom. Mr Bainbridge is also currently a non-executive Director of the PNG Sustainable Development Program and Sino Gas & Energy Holding Limited. He will become Non-Executive Chairman of Sino Gas & Energy Holding Limited on 1 September 2014. Mr P. J. Bainbridge is Chairman of the People and Remuneration Committee and a member of the Technical Committee.
Mr Tiek Seng (TS) Cheah	Non-executive Director. Appointed 10 September 2013. Bachelor of Science, University of Manchester, Fellow Institute of Chartered Accountants in England and Wales. Mr Cheah is currently also Chief Executive Officer and Director of Aktis Capital Singapore Pte Ltd, a private equity fund manager. In that capacity he holds directorships in various private non-listed operating companies and also holds various non-executive directorships with the Maybank Group. TS is also a non-executive director of publicly-listed MJIC Investments Corporation in the Philippines. He is a member of the Nomination Committee.
Mr B.K. Choo*	Non-executive Director. Appointed 2 March 2009 and resigned 20 November 2013. Dato' Choo is a Malaysian national with extensive business interests in Malaysia through his role as Group Managing Director of Masmeyer Holdings Sdn Bhd.
Mrs F.A. Robertson	Non-executive Director. Appointed 6 October 2009. Master of Arts (Geology), Oxford University UK, FAICD, MAusIMM. Mrs Robertson is also a Non-executive Director of One Asia Resources Limited. Mrs Robertson is the Chairman of the Audit and Risk Committee and a member of the People and Remuneration Committee.

Information about the directors (continued)

Mr H.R.B. Wecker	Non-executive Director. Appointed 6 October 2009. Bachelor of Science (Met and Geol) Queensland University. Mr. Wecker served as the Managing Director of Innamincka Petroleum Limited from 6 November 2003 to 30 March 2009. Mr Wecker is Chairman of the Technical Committee and a member of the Audit and Risk Committee.

*Dato' Choo was a Director from the beginning of the financial year until his resignation on 20 November 2013.

Directorship of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
Mr J.D McKerlie	Acer Energy Limited (i) Onthehouse Holdings Limited	8 November 2012 to 14 January 2013 1 January 2011 to 2 September 2012
Mr P. J. Bainbridge	Sino Gas & Energy Holding Limited	14 April 2014 to present
Mr B. W. Lingo	Acer Energy Limited (i)	8 November 2012 to 14 January 2013
Mr T. S. Cheah	Malayan Banking Berhad Maybank Kim Eng Securities (Thailand) Public Company Limited MSC Investment Corporation	26 August 2009 - present 10 April 2013 - present 3 April 2013 - present
Mr B. K. Choo	Nil	Nil
Mr H.R.B. Wecker	Acer Energy Limited (i)	8 November 2012 to 14 January 2013
Mrs F.A. Robertson	Nil	Nil

(i) Acer Energy Limited ('Acer Energy' or 'Acer') was delisted on 14 January 2013.

Directors' shareholdings

The following table sets out each Director's relevant interest in shares, options in shares and performance rights of the Company or a related body corporate as at the date of this report.

Directors	Fully paid ordinary shares (number)	Share options (number)	Performance rights (number)
Mr J.D McKerlie	2,239,894	1,108,544	-
Mr B. W. Lingo	1,345,390	1,558,554	1,018,574
Mr P. J. Bainbridge	54,600	-	-
Mr T.S Cheah	340,000	-	-
Mrs F.A. Robertson	692,950	554,272	-
Mr H.R.B. Wecker	447,343	554,272	-

Remuneration of key management personnel

Information about the remuneration of key management personnel is set out in the Remuneration Report of this Directors' Report, on pages 16 to 34.

Share options granted to key management personnel

During and since the end of the financial year no share options were issued.

Performance rights granted to key management personnel

During and since the end of the financial year an aggregate of 1,689,551 performance rights were granted to the following key management personnel of the Company as part of their remuneration. A further 1,339,913 performance rights were awarded subsequent to year end but are not yet granted.

Key Management Personnel	Issued during the year (number)	Number at the end of the year	To be issued subsequent year end (number)
Mr J.D McKerlie	-	-	-
Mr B. W. Lingo	824,395	1,247,621	568,275
Mr P. J. Bainbridge	-	-	-
Mr T. S. Cheah	-	-	-
Mrs F.A. Robertson	-	-	-
Mr H.R.B. Wecker	-	-	-
Mr I. W. Bucknell	310,883	493,716	250,974
Mr D. Evans	362,343	585,806	289,300
Mr P. Fox	200,930	200,930	231,364
Mr C. R Tuck*	-	-	-
Total	**1,698,551**	**2,528,073**	**1,339,913**

* Date of appointment: 25 August 2014

Company Secretary

Ms J. Moore held the position of Company Secretary of Drillsearch Energy Limited at the end of the financial year. She joined Drillsearch Energy Limited in November 2009 as Assistant Company Secretary and was appointed Company Secretary on 17 November 2010. She holds a Juris Doctorate from the University of Toronto and has completed the Graduate Diploma in Applied Corporate Governance through the Governance Institute of Australia.

Mr I.W. Bucknell, Certified Practising Accountant, held the position of Company Secretary for the period 1 July 2010 to 17 November 2010 and was re-appointed as a second Company Secretary on 25 July 2011. He joined Drillsearch Energy Limited in August 2008 and previously held the Company Secretary position at Great Artesian Oil and Gas Limited.

Principal activities

The consolidated entity's principal activities in the course of the financial year were oil and gas exploration, development and production. The Company divides these activities into three business streams: Oil; Wet Gas; and Unconventional.

No significant change in the nature of these activities occurred during the financial year.

Financial summary

A summary of key financial highlights is set out below:

	30 June 2014 $'000	30 June 2013 $'000
Financial Performance		
Revenue	**387,020**	102,227
EBITDAX*	**231,981**	35,130
Depletion, depreciation and amortisation	**(40,348)**	(11,513)
Income tax (expense)/benefit	**(107,906)**	27,281
Net Profit After Tax	**71,523**	45,057
Underlying Net Profit After Tax**	**94,558**	60,563

* EBITDAX refers to Earnings before interest, tax, depletion, exploration and evaluation costs and impairment
** Underlying Net Profit After Tax represents Net Profit After Tax excluding transactions costs and changes in fair value movements

Financial Position		
Net assets	**363,405**	286,593
Net debt	**1,042**	104,330
Capital expenditure	**95,654**	138,300
Cashflow		
Operating cashflow	**246,368**	19,239
Investing cashflow	**(123,417)**	(257,290)
Financing cashflow	**(6,998)**	228,101
Effect of exchange rates on cash and cash equivalents	**370**	316
Net cashflow	**116,323**	(9,634)

Financial summary (continued)

Financial Performance

Drillsearch delivered a strong financial performance in FY2014. Net Profit After Tax (NPAT) rose to $71.5 million in the year ended 30 June 2014, beating the previous high of $45.1 million achieved in FY2013. This result was underpinned by FY2014 production of 3.4 million barrels of oil equivalent (mmboe), more than triple the result in the previous year, primarily driven by significantly increased production from the Bauer oil field on the Western Flank Oil Fairway.

Underlying NPAT was $94.6 million before the impact of a change in the fair value of Drillsearch's convertible notes.

FY2014 revenue of $387.0 million (2013: $102.2 million) was underpinned by record oil & wet gas sales volumes coupled with stronger realised prices across all product streams. The realised A$ oil price for the financial year of $125.50/bbl (up 7% on FY2013) was driven by both US$ oil prices and the effects of a weaker Australian dollar.

The Company has a measured oil hedging program in place through to July 2015 over approximately 22% of future 1P oil production via a collar structure. This structure provides price support at the bottom end of US$90/bbl, and to assist in the management of the cost of such an instrument caps the upside over these barrels at US$120/bbl if pricing levels are breached for the hedged volumes.

Operating costs, royalties and Depletion, Depreciation and Amortisation (DDA) were higher than in the previous year due to increased production. Direct operating costs of $110.9 million, have increased 17% on a per barrel of oil equivalent basis year on year. This is due primarily to increased trucked volumes and commodity price driven margin increases leading to increased royalty costs. Amortisation costs of $38.3 million on a per barrel of oil equivalent basis have increased by 25%, due primarily to an increased future capital work program.

The 2014 financial year tax expense of $107.6 million comprises a current period prima facie tax rate of approximately 60%, representing a combined company tax rate and deductible Petroleum Resource Rent Tax (PRRT) rate of 58%, adjusted marginally by a true up of prior period adjustments and current year non-deductible items. The 2013 income tax credit of $27.3 million resulted from the initial booking of tax losses and PRRT cost bases available to the Company in future years.

Financial Position

The net assets of Drillsearch increased to $363.4 million as of 30 June 2014, from $286.6 million at 30 June 2013, due principally to the increase in the cash balance as a result of earnings from the sale of oil and gas.

Capital expenditure of $95.7 million (2013: $138.3 million) was incurred during the financial period. Development expenditure increased to $46.9 million (2013: $25.0 million) in FY2014 following the considerable exploration success reported during the prior year. The Company continues to invest significantly in exploration and development activity across its acreage position.

Financial summary (continued)

Financial Position (continued)

The three-year $50 million working capital facility announced by Drillsearch on 1 July 2013 is undrawn as at 30 June 2014, leaving the Company with a strong total liquidity position of $202.4 million at financial year-end (2013: $76.1 million).

The convertible notes issued in May 2013 continue to carry a fixed coupon of 6% per annum, paid semi-annually, for a term of approximately five years. These are convertible into Drillsearch shares at a conversion price of US$1.66 per share. As a US dollar-denominated convertible instrument, these notes are subject to changes in fair value due to movements in foreign exchange and derivative values. The current period's result includes a $23.0 million (2013: $9.3 million) fair value adjustment.

Cashflow

Operating cashflow has been driven by a step change in sales volumes combined with strong commodity prices. Cashflow continues to be further enhanced due to tax payments being protected by both carried-forward company tax losses and significant Petroleum Resource Rent Tax (PRRT) carried-forward starting bases.

The operating cashflow performance has enabled continued investment in exploration, development and business acquisition activity, with Drillsearch acquiring an additional 29% in the producing Tintaburra/Eastern Margin oil assets during the period for $36.8 million.

Financing cashflows were relatively minor during the FY2014 year, with the repayment of the US$10 million short-term flexible rate loan partially offset by the exercising of employee options.

Cash at hand was $152.4m as of 30 June 2014, up $116.3m from $36.1m at the end of FY2013.

Review of operations

Corporate Strategy

Drillsearch is one of the largest landholders in the Cooper Basin region of Central Australia, and the only ASX200 oil and gas company focused purely on the Cooper.

Drillsearch's strategy is to create shareholder value through successfully exploring for and commercialising oil and gas across the Company's permits.

By successfully developing and managing its assets, Drillsearch aims to increase reserves, production and cashflow in order to deliver sustained growth in shareholder value, and in so doing, to build Australia's leading independent oil and gas company.

Review of operations (continued)

Corporate Strategy (continued)

Drillsearch's activities across the Cooper Basin are organised into three business units:

Business Unit	Status	Objectives
Oil	Australia's third-largest onshore oil producer	Maintain and grow production while replacing reserves
Wet Gas	The first company to commercialise gas reserves in the Cooper Basin outside of the dominant Cooper Basin Joint Venture	Grow reserves and production and commercialise new and existing discoveries
Unconventional	One of the early movers aiming to commercialise unconventional oil and gas reserves in Australia	Optimise spend to reach value creation points in the pursuit of commercialisation

Currently, Drillsearch generates revenue from its Oil and Wet Gas businesses, and more specifically from its oil operations on the Western Flank and Eastern Margin of the Cooper Basin, and from the Brownlow-Middleton and Canunda fields in the Western Cooper Wet Gas project area.

In addition, the Company has an active pipeline of exploration, appraisal and development projects across all three businesses, and across all of its permits. Unconventional activity is currently focused on the ATP 940P permit in the Queensland section of the Cooper Basin.

Operational Highlights

During the year ended 30 June 2014, Drillsearch's share of production from its projects in the Cooper Basin was 3.4 million barrels of oil equivalent (mmboe). This result was more than three times production of 1.1 mmboe in the prior year, due to the ramp up of oil production from the Western Flank Oil Fairway, and more specifically from the Bauer field. Output from the Western Flank was complemented by oil production from the Eastern Margin joint venture (Tintaburra), and wet gas production from Brownlow-Middleton and Canunda.

Considerable progress was made across all three business units in FY2014. Operational highlights for the year were as follows:

Oil Business

- The Oil Business contributed 2.91 mmboe of overall production in FY2014, and was the major driver behind record output for the year. Peak production rates from PEL 91 exceeded 13,500 barrels of oil per day. This growth was supported by Drillsearch's active exploration, appraisal and development program in the Western Flank Oil Fairway, and was conducted in conjunction with the Operator, Beach Energy.
- Ongoing exploration and appraisal success on the Western Flank also delivered additional oil reserves with 2P reserves increasing to 7.8 million barrels of oil (mmbbl) at 30 June 2014, from 6.9 mmbbl at 31 December 2013.
- The FY2014 drilling program in PEL 91 included six appraisal and development wells, all of which were cased and suspended as future oil producers. Seven exploration wells were drilled with two wells - Stunsail and Pennington North - cased and suspended as future oil producers.

Review of operations (continued)

Operational Highlights (continued)

Oil Business (continued)

- In PEL 182, also on the Western Flank, the acquisition of the Dundinna 3D seismic survey was completed in October 2013, covering 220km2 of the permit. The initial results from the survey have identified several potential leads with oil targets in the Poolowanna, Hutton and Birkhead formations.
- In the Inland Cook, two 3D seismic surveys were acquired, the 126km2 Taj 3D survey covering the Hurron North prospect, and the 150km2 Hurron 3D covering the Hurron prospect. Processing of the data is expected to be completed in the December quarter of calendar 2014.
- At the Eastern Margin (Tintaburra) assets, eight appraisal and development wells were drilled during FY2014. All wells were cased and suspended as future oil producers with Santos indicating that several of the wells were online by the end of FY2014. In addition, the water-flood was reinstated early in the financial year, which contributed to improved daily production rates.
- Drillsearch's focus in the Northern Cooper Gas & Liquids Project during the financial year was on re-developing the shut-in Flax field and on enhancing the field's recovery factor. The Flax South-1 appraisal well was drilled during FY2014 and confirmed a major extension of the Flax field.
- During the fourth quarter of FY2014, Drillsearch progressed a workover of the Flax-1 well with a view to restarting liquids production early in FY2015. Work was also advanced with consultants RISC on the Northern Cooper Tight Oil Commercialisation Study, which includes a conceptual field development plan for Flax.

Wet Gas Business

- Wet Gas production from the Western Cooper project area was 0.47 mmboe, a 62% increase over FY2013 production of 0.29 mmboe, and a record for Drillsearch. Total revenue also benefited from increased condensate production from the liquids-rich Canunda field. Record production was achieved despite the Middleton Gas Plant experiencing a series of interruptions during the year relating to outages at the central Moomba gas hub.
- Early in FY2014, Drillsearch signed a strategic partnership with Santos whereby Santos acquired a 60% interest and operatorship of PELs 513 and 632 within the Western Cooper Wet Gas Project. Field appraisal and development activities continued through FY2014.
- Processing and interpretation of the Irus and Munathiri 3D seismic surveys continued with several leads generated. The Irus 3D survey covers PELs 91 and 106 operated by Beach, while the Munathiri 3D covers PEL 513, which is held in joint venture with Santos.

Unconventional Business

- The drilling component of the Cooper Basin Shale Gas Exploration Program commenced with the spudding of the first well in the program, Anakin-1, in September 2013. The drilling locations for the first four exploration wells were selected based on interpretation of the 1,050km2 Winnie 3D seismic survey.
- The Weatherford 826 rig was upgraded with specialist High Pressure, High Temperature (HPHT) equipment to provide for safe and effective drilling through the deeper high-temperature reservoir formations, making the rig the most fit-for-purpose rig in Australia.

Review of operations (continued)

Operational Highlights (continued)

Unconventional Business (continued)

- Following the rig upgrade, the Company commenced the deep reservoir drilling campaign with spudding of Charal-1 in late February 2014. The vertical exploration well reached a total depth of 3,866 metres in April 2014, with indications of elevated gas in the primary target intervals. As per the pre-drill plan, Charal-1 was cased and suspended for hydraulic stimulation and production testing, which is expected to commence around September 2014.
- In May 2014 deep reservoir drilling at Anakin-1 commenced, reaching a total depth of 4,050 metres in July 2014. Similar to Charal-1, Anakin-1 showed indications of elevated gas in the primary intervals and was cased and suspended for hydraulic stimulation and production testing.

Corporate

- Early in FY2014, Drillsearch signed a strategic partnership with Santos, to accelerate commercialisation of two permits within the Western Cooper Wet Gas area (PELs 632 and 513). The transaction also saw Drillsearch increase its stake in the Eastern Margin/Tintaburra oil production assets to 40%.
- In March, Drillsearch achieved an important milestone with the renegotiation of the ATP 940P joint venture agreement with QGC that extended and expanded the work program, with Drillsearch to remain as Operator through to at least November 2015.
- On 28 May 2014, Drillsearch announced an all-stock takeover offer for Ambassador Oil and Gas Limited that was subsequently amended on 16 June to an offer of 1 Drillsearch share for every 5.4 Ambassador shares, plus 5 cents per Ambassador share in cash. Acquiring Ambassador would consolidate Drillsearch's dominant landholding within the Northern Cooper Wet Gas project area by combining Ambassador's 47.5% non-operated interest in PEL 570 with Drillsearch's 80% operated interest in the neighbouring PEL 101.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the consolidated entity during the year.

Subsequent events

ATP 924P Farm In

On 28 July 2014, the Company announced that it had executed an agreement with Beach Energy Limited for Beach to farm into its ATP 924P oil and gas exploration permit in the south west Queensland section of the Cooper Basin. Under the terms of the agreement, Beach will fund 150km2 of recently acquired 3D seismic, and drill an initial exploration well on the Hurron Prospect. Should Beach elect to continue beyond this initial well, it will drill an additional exploration well and reimburse the Company for past costs in order to earn a 45% interest.

Subsequent events (continued)

Off-market takeover offer for Ambassador Oil and Gas

On 28 July 2014 the Takeover Panel made orders in relation to the company's off-market takeover offer for Ambassador Oil & Gas Limited ('Ambassador'), requiring the company to:

- Lodge and dispatch a Supplementary Bidder's Statement in a form approved by the Takeovers Panel;
- Ensure that the offer remained open for a minimum period of 21 days from the date of dispatch of the Supplementary Bidder's Statement;
- Reverse acceptances of the offer by certain persons; and
- Provide a withdrawal right for other Ambassador shareholders that had accepted the offer.

As at 25 August 2014, as a result of acceptances received following the satisfaction of the Takeovers Panel orders, the company has a relevant interest in 54.63% of Ambassador shares. Due to the timing of the transaction, the Company is yet to perform an assessment of the fair value of the acquisition.

Refer to Note 12 to the Financial Statements regarding the accounting treatment of the company's interest in Ambassador shares as at 30 June 2014.

Environmental regulations

The parent entity is subject to significant environmental regulation in respect of its operated and non-operated joint venture interests in petroleum exploration, development and production. Its oil production interests in the state of Queensland are operated by Santos, who is required to comply with all relevant environmental legislation. The Company's oil and the Western Wet Gas Project production interests in the state of South Australia are operated by Beach Energy, who is required to comply with all relevant environmental legislation. The Northern Wet Gas Project production and exploration interests in South Australia are operated by the Company and the Company's Queensland exploration interests are largely operated by the Company. In connection with these activities, the Company complies with all relevant environmental legislation.

Dividends

No dividends have been paid during the financial year. The Directors do not recommend that a dividend be paid in respect of the financial year (2013: $nil)).

Shares under option

Unissued ordinary shares of Drillsearch Energy Limited under option at the date of this report are as follows:

Issuing Entity	Number under option	Class of shares	Exercise price of option	Expiry date of options
Drillsearch Energy Limited	1,000,000	Ordinary	$0.600	30 September 2014
Drillsearch Energy Limited	1,000,000	Ordinary	$0.853	15 March 2015
Drillsearch Energy Limited	1,144,318	Ordinary	$0.596	20 June 2018
Drillsearch Energy Limited	1,408,275	Ordinary	$0.596	25 July 2018
Drillsearch Energy Limited	3,185,586	Ordinary	$0.596	23 November 2018
	7,738,179			

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of the Company or of any other body corporate or registered scheme.

Shares issued on the exercise of options

The following ordinary shares of Drillsearch Energy Limited were issued during the year ended 30 June 2014 on the exercise of options granted under the Employee Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Issuing Entity	Date options granted	Class of shares	Issue price of shares	Number of shares issued
Drillsearch Energy Limited	15 June 2009	Ordinary	$0.376	1,200,000
Drillsearch Energy Limited	6 October 2009	Ordinary	$0.700	1,200,000
Drillsearch Energy Limited	4 December 2009	Ordinary	$0.700	2,000,000
Drillsearch Energy Limited	9 March 2011	Ordinary	$0.701	500,000
				4,900,000

Shares which may be issued on the exercise of performance rights

Details of shares or interests which may be issued on exercise of performance rights as at the date of this report are:

Issuing Entity	Number of shares under performance rights	Class of shares	Performance period end date
Drillsearch Energy Limited	950,775	Ordinary	30 June 2015
Drillsearch Energy Limited	1,614,204	Ordinary	30 June 2016
	2,564,979		

Shares which may be issued on the exercise of performance rights (continued)

Details of shares or interests issued during and since the end of the financial year as a result of exercise of performance rights are:

Issuing Entity	Number of shares under performance rights	Class of shares	Amount paid for shares	Amount unpaid on shares
Drillsearch Energy Limited	907,034	Ordinary	$nil	$nil

Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the Company Secretary, Ms J. Moore, and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001.

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Meetings of directors

The following table sets out the number of Directors' meetings (including meetings of Committees of directors) held during the financial year and the number of meetings attended by each Director (whilst they were a Director or Committee member). During the financial year, 13 Board meetings, 9 Audit and Risk Committee meetings, 6 Technical Committee meetings, 1 Nomination Committee meeting, 2 Remuneration and Nomination Committee meetings and 2 People and Remuneration Committee meetings were held.

	Full meetings of directors		Meetings of committees									
			Audit		Technical		Nomination		Remuneration and Nomination		People and Remuneration	
	A	B	A	B	A	B	A	B	A	B	A	B
Mr J. D. McKerlie	13	13	9	9	6	6	1	1	2	2	2	2
Mr B. W. Lingo	13	13	-	-	5	6	1	1	-	-	-	-
Mr P. J Bainbridge	11	12	-	-	6	6	-	-	2	2	2	2
Mr T. S. Cheah	10	10	-	-	-	-	1	1	-	-	-	-
Mr B. K. Choo	2	6	-	-	-	-	-	-	-	-	-	-
Mrs F. A. Robertson	13	13	9	9	-	-	-	-	2	2	2	2
Mr H. R. B Wecker	13	13	9	9	6	6	-	-	1	1	-	-

A = Number of meetings attended
B = Number of meetings held during the time the Director held office or was a member of the committee during the year

Meetings of directors (continued)

Legal matters

During the year, the Company was not involved in any legal proceedings of a material nature against Drillsearch or its subsidiaries of which the Directors are aware.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 34 to the financial statements.

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 34 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and Risk Committee, for the following reasons;

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 36.

Remuneration report

The Directors are pleased to present your Company's 2014 remuneration report which sets out remuneration information for Drillsearch Energy Limited's non-executive Directors (NEDs), executive Directors and other key management personnel.

The remuneration report is set out under the following headings:

(a) FY14 remuneration snapshot and key changes for FY15
(b) Directors and key management personnel (KMP) disclosed in this report
(c) Remuneration governance
(d) Remuneration policy and framework
- Fixed pay and benefits
- Short term incentives (STI)
- Long term incentives (LTI)
- Employee share plan (ESP)

(e) Relationship between remuneration and performance
(f) Non-executive director remuneration policy
(g) Voting and comments made at the Company's Annual General Meeting (AGM)
(h) Details of remuneration
(i) Outstanding KMP options and performance rights
(j) Shareholdings
(k) Key terms of employment contracts
(l) Changes to remuneration framework for 2015

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

(a) FY14 remuneration snapshot and key changes for FY15

Fixed remuneration

- Managing Director's (MD's) fixed remuneration for FY14 of $800,000 to increase to $840,000 for FY15.
- Increase for FY15 of 3.9% on average across the Company (excluding promotions to new positions/bands).

Short term incentives

- 85% of Group KPI achieved, driven by strong production and financial results, delivering reserve replacement targets and achieving a strong safety performance.
- MD received 81% of STI for FY14 (reflecting Group and individual performance measures).

Long term incentives

- LTI with a 3 year vesting term granted to MD, senior executives and management.

Remuneration report (continued)

(a) FY14 remuneration snapshot and key changes for FY15 (continued)

Long term incentives (continued)

- Hurdles made up of a Reserves growth hurdle (25%) and total shareholder return measure (75%) - see page 21 for further details.

Key changes for FY15

- In FY15 there will be selected changes to the Remuneration framework consisting of new Drillsearch Energy Limited bands and revised rating for individual performance - see page 34 for further detail.

Non-executive Directors

- A cash only remuneration model was adopted for NEDs in FY14.
- No increase in NED fees for FY15.

(b) Directors and key management personnel disclosed in this report

The following were key management personnel of the consolidated entity during or since the end of the financial year:
- Mr J.D. McKerlie (Chairman)
- Mr B.W. Lingo (Managing Director)
- Mr P. J. Bainbridge (Non- Executive Director) - appointed 22 July 2013
- Mr B.K. Choo (Non- Executive Director) - resigned 20 November 2013
- Mr T.S. Cheah (Non- Executive Director) - appointed 10 September 2013
- Mrs F.A. Robertson (Non- Executive Director)
- Mr H.R.B. Wecker (Non- Executive Director)
- Mr I.W. Bucknell (Chief Financial Officer)
- Mr D. Evans (Chief Technical Officer, Acting Chief Operations Officer)
- Mr P. Fox (Chief Commercial Officer)
- Mr J.S. Whaley (Chief Operating Officer) - resigned 6 January 2014
- Mr C. R. Tuck (General Counsel) - appointed 25 August 2014

Except as noted, the named persons held their position for the whole of the financial year and remain in position at the time of this report.

(c) Remuneration governance

The People and Remuneration Committee has responsibility and oversight for making recommendations to the Board on the Company's human resource (HR) strategy including remuneration for directors and employees. The Committee has been actively involved with management in adopting a comprehensive HR management system that ensures the Company manages effectively and efficiently the people charged with the responsibility to execute our strategy. Our focus is to ensure that our people are paid competitive salaries (linked to the Company's performance) and we provide a rewarding work environment so that we can attract and retain the necessary skills.

Remuneration report (continued)

(c) Remuneration governance (continued)

In the course of the ongoing development and assessment of our HR Remuneration Policy the Committee has worked with Drillsearch's General Manager, People who in December 2013 circulated an employee engagement survey to determine the level of buy-in by Drillsearch employees and the employees' understanding of the remuneration benchmarking approach.

(d) Remuneration policy and framework

The Remuneration Policy comprises four levels of remuneration entitlement:

- fixed pay and benefits, including superannuation
- short-term performance incentives (STI)
- long-term incentives (LTI), and
- employee share plan (ESP)

The Remuneration Policy is to set fixed salary at market median levels i.e. 50th percentile for comparable roles and experience. Drillsearch uses the National Rewards Group Inc (NRG) hydro carbon sector remuneration survey when benchmarking remuneration. STI and LTI payments then provide an opportunity to earn at the 75th percentile. As the hurdles for STI and LTI align with corporate objectives and shareholder interests, the benefit of STI and LTI only occurs when employees have delivered performance that has contributed toward the creation of shareholder value. The ESP is to create a meaningful reward to members of the team who may not be directly involved in activities that drive overall results. For eligible employees this is a $1,000 tax free allocation of shares.

The composition of an employee's remuneration is dependent on their seniority in the organisation. The table below demonstrates that the more senior an employee, the greater the "opportunity to earn" through STI and LTI awards. Furthermore senior employees get a greater proportion of their STI award paid in Performance Rights (PR) as against cash. Only senior grades have the opportunity to earn LTI. All LTIs are paid in Performance Rights.

Performance Rights are calculated by a 60 day Volume Weighted Average Price (VWAP) prior to each 30 June. This structure reinforces the Company's strategic objectives of attracting and rewarding employees who believe in the vision of the Company and are prepared to be remunerated in a manner that is aligned with shareholders. The more senior the employee, the greater the emphasis placed on their alignment with shareholders through the Remuneration Policy.

The following table summarises how the Remuneration Policy worked for financial year 30 June, 2014. KMP includes Board, MD and Executive levels. Management, Professional and Support levels are not required to be disclosed but have been included to help illustrate the inclusive nature of the Remuneration Policy.

Remuneration report (continued)

(d) Remuneration policy and framework (continued)

Band	TFR	STI Cash	STI Performance Rights	LTI	Employee Share Plan
Board	Cash	Nil	Nil	Nil	Nil
MD	Cash	30%	30%	80%	Nil
Executive	Cash	30%	30%	60%	$1,000
Management-2	Cash	20%	20%	15%	$1,000
Management-1	Cash	20%	10%	15%	$1,000
Professional-3	Cash	20%	15%	Nil	$1,000
Professional-2	Cash	20%	10%	Nil	$1,000
Professional-1	Cash	20%	Nil	Nil	$1,000
Support	Cash	10%	Nil	Nil	$1,000

Fixed pay and benefits

Fixed pay consists of a fixed salary (which is calculated on a total cost basis and includes any related fringe benefits tax), as well as employer contributions to superannuation funds.

Fixed remuneration levels are based on appropriate independent industry benchmark information, taking into account an individual's responsibilities, performance, qualifications and experience. The benchmark used in relation to the year ended 30 June 2014 was the National Rewards Group Inc (NRG) hydrocarbon sector remuneration survey. Where there was not an appropriate job match, alternative relevant benchmark data was used.

Short-term incentives

Every employee has the opportunity to increase their earnings through performance based STI payments. STI is awarded at the end of each financial year based on the performance for that year. STI is based on a percentage of Fixed Pay (STI%). The level of STI varies across the various staff levels, with senior levels having higher STI percentage. STI is paid using a combination of cash and Performance Rights for more senior employees. Professional-1 and Support staff are paid their STI in cash only. STI's are based on KPIs set at the beginning of the financial year. KPIs are divided into two categories: i.e. Group KPIs (which relate to the Company's business plan and budget) and Individual KPIs (which reflect specific individual objectives and performance). For the MD and Executives, Group KPIs carry a 60% weighting and Individual KPIs 40% in the overall STI calculation. This weighting switches around for Managerial, Professional and Support staff where Individual KPIs carry 60% and Group KPIs represents 40% of the STI calculation. The philosophy is that the Executives are more able to influence company-wide outcomes, whereas the rest of the team have less influence on this but must be accountable for the individual targets they have been set.

Group KPIs are assessed against targets where 50% of the KPI is payable if target is met, scaling to 100% if the stretch target is achieved. Group KPIs are set by the Board each year and progress to KPIs is reported to each Board meeting. The scoring of Group KPIs is "sanitised for reasonableness and equity" by the Board at the end of each financial year. The same Group KPI percentage is applied to every employee.

Remuneration report (continued)

(d) Remuneration policy and framework (continued)

Short-term incentives (continued)

The Group KPIs (as part of the STI) for the financial year ended 30 June 2014 were chosen as they encourage outcomes and behaviours that are necessary for the long-term success of the Company and are outlined in the following table:

Category	Description	Rationale	Weighting	Award
HSE Performance	Total Recordable Injury Frequency Rate (TRIFR) per man hour under our prevailing influence*	Safety is paramount at Drillsearch and necessary for the long-term success of the Company	20%	18.5%
Production	Net production	Increased production generates profitability and cashflow	15%	15%
Growth in Production Initiatives	4 successful initiatives	Management should influence operator to ensure growth in production on non-operated permits which will generate profitability and cashflow	10%	5.5%
Reserve Replacement	Current year production from reserves to be replaced	Reserves replacement will help ensure future profitability and a sustainable cashflow	20%	20%
EBITDAX**	Increase cash flow from operating activities	Profitability of Drillsearch's operations is necessary for long-term success	15%	15%
Cost Management	Capital cost	Efficient operations drive shareholder value and long term sustainability	9%	9%
Cost Management	Corporate cost	Efficient operations drive shareholder value and long term sustainability	9%	0%
Cost Management	Interest cost	Efficient operations drive shareholder value and long term sustainability	2%	2%

* Contractors are included in the calculation of TRIFR
**EBITDAX stands for earnings before interest, taxes, depreciation, amortisation and exploration expenses. It is calculated from profit/(loss) before tax, adjusted for finance cost/(income), interest revenue, amortisation expense, depreciation expense, exploration and evaluation cost expense and impairment of oil and gas assets.

Remuneration report (continued)

(d) Remuneration policy and framework (continued)

Short-term incentives (continued)

The Board reviewed performance against Group KPIs this year and determined to make an overall payment of 85%, in line with the actual result achieved. This is a reflection of the Company recording a record production, revenue and EBITDAX result, replacing produced reserves and delivering a strong safety performance.

Individual KPIs are based on each employee's personal role and responsibility. Individual KPIs are set by senior management for their teams and approved by the MD. Individual KPIs for Executives are set by the MD and approved by the Board. The MD's KPIs are set by the Board. All employees are appraised against their Individual KPIs annually. Executive appraisals are reviewed by the Board. The MD's appraisal is conducted by the Chair and reviewed by the Board. Payment for Individual KPIs are awarded as per the following table:

KPI Assessment	**Payment Awarded**
Exceeds expectations	> 80% of individual KPI
Meets expectations	66% to 80% of individual KPI
Meets some expectations	41% to 65% of individual KPI
Expectations not met	< 40% (performance review required)

The average STI Individual KPI awarded this year was 74% which is at the upper end of a "Meets Expectations" performance. The average award for Individual KPIs for Executives was 76% and the MD is awarded the average of his executive team's performance.

Long-term incentives

Senior employees (at Management level and above) participate in a LTI scheme which is based on pre-determined hurdles set by the Board each year. LTIs are granted at the start of the measurement period and vest over a three year period. Our LTI scheme works on the following basis:

- Eligible individuals (i.e. those at the required Drillsearch band level who are employed within the financial year) are granted Performance Rights under the LTI. Employees who commence after 1 July each year will receive performance rights on a pro rata basis.
- The vesting of these Performance Rights is entirely based on performance from the time of grant i.e. LTIs are forward looking and there is no granting of Performance Rights based on historical performance.

Each year performance hurdles are reviewed. For the financial year 30 June 2014 these were:

Reserves growth (25% weighting)

Performance Criteria: Drillsearch Energy Limited Reserves Growth	
Reserves Growth* Hurdle	**Proportion of Performance Rights Exercisable**
< 5%	0%
Between 5% and 20%	Pro rata between 50% and 100%

* Calculated net of production

Remuneration report (continued)

(d) Remuneration policy and framework (continued)

Long-term incentives (continued)

Drillsearch looks to obtain reserves in the most cost-effective way possible whether that is through exploration and development or acquisition. The Board has put controls in place to ensure that reserves are not increased through non-commercial acquisitions.

Relative to peer Total Share Returns over three years (75% weighting)

Performance Criteria: Drillsearch Energy Limited Total Shareholder Return compared to ASX 300 Energy Peer Group	
Percentile	**Proportion of Performance Rights Exercisable**
Below 40th	0%
Between 40th and 90th	Pro rata between 50% and 100%

An assessment of actual performance against the performance hurdles will be made upon the completion of the three year vesting period.

Employee Share Plan (ESP)

Each employee other than the MD receives an award of $1000 in Company shares. For background, this was introduced to replace the LTI which was previously paid to every employee in 2012. For many people the LTI was considered of no value (yet it had a cost to the Company) so it was replaced with the more tangible benefit.

(e) Relationship between remuneration and Drillsearch Energy Limited performance

The Company has experienced substantial growth over the last five years during which time the number of employees has grown from less than ten to 80 at year end, with the expectation to bring on additional heads as required. A substantial effort has gone into the recruitment of this talent, and a commensurate effort has also gone into developing the necessary people management systems to ensure the productivity and development of the Drillsearch team. The Board has also looked at longer term retention strategies by ensuring the Company is an employer of choice.

The Remuneration Policy adopted each year along our growth path was designed to attract the right people and to set the appropriate hurdles for the work that needed to be done.

As the Company matured, the Remuneration Policy has undergone significant changes with new practices being adopted that were pertinent to our stage of growth and supported our strategy.

In the last financial year, our long term strategy has continued to deliver commercial success. The Board has continued to adopt Remuneration Policies that are relevant for the stage of the business. We again have consulted widely with shareholders, fund managers, and proxy advisors during the year and have maintained our robust and appropriate approach to remuneration with a clear nexus to our performance.

Remuneration report (continued)

(e) Relationship between remuneration and Drillsearch Energy Limited performance (continued)

When comparing Total Share Return (TSR) against our ASX Energy Peer Group, over the past 3 years, Drillsearch has ranked second.

To assist in the understanding of how our Remuneration Policy has changed as the Company has grown over the last five years, the table below sets out summary information about financial and non-financial performance metrics for the five years to 30 June 2014 and the Remuneration Policy in place at the time. These include the principal metrics to be used in measuring the performance of KMP for financial year 30 June 2015.

Remuneration Strategy	**2014**	2013	2012	2011	2010
Fixed pay - Cash	Yes	Yes	Yes	Yes	Yes
Salaries Range (percentile)	50th	50th	50th	45th	45th
STI and LTI - Base component only	-	-	Yes	Yes	Yes
STI and LTI - base and stretch components	Yes	Yes	-	-	-
Payment - Options (hurdles)	-	-	Yes	Yes	Yes
Payment - Performance rights	Yes	Yes	-	-	-

Key Performance Metrics	**2014**	2013	2012	2011	2010
Net profit/(loss) after tax ($'000)	**$71,523**	$45,057	$9,979	($5,634)	($24,758)
Revenue ($'000)	**$387,020**	$102,227	$22,409	$15,579	$9,236
Basic earnings per share (cents)	**16.60**	11.10	4.50	2.70	12.70
EBITDAX ($'000s)	**$231,981**	$35,130	$7,623	($1,116)	($6,400)
Increase/(decrease) in share price (%)	**+6.6**	+19.1	+98.3	+13.7	+70.0
Production (boe)	**3,384,430**	1,065,740	389,877	123,034	158,880
2P reserves (mmboe)	**28.30**	28.46	11.09	8.49	1.28
Headcount (#)	**80**	74	38	20	15
Capital expenditure ($m)	**$95.7**	$143.4	$37.7	$17.7	$8.9

Remuneration report (continued)

(f) Non-executive director remuneration policy

Remuneration Policy for Non-executive Directors has changed over the last six years as the Company has transformed from a small, undercapitalised junior explorer to an established exploration and production company that is in the ASX 200 Index. To attract directors in the past, the Company offered a stipend level of fees plus options at a premium to the then share price. The granting of options was later changed to an award of performance rights with service continuity being the performance hurdle for vesting. These Performance Rights were “salary sacrificed” to distance the Board from performance hurdles of management. The use of either options or performance rights has been discontinued and from the 2014 financial year, the Board has adopted a cash only remuneration model going forward. However, the FY13 performance rights vested during FY14 and a legacy of options granted in the past still remain in place today.

The Board believes that Directors need to be remunerated fairly and that the execution of the corporate strategy is dependent upon having the right people in place across all positions, including the Board. The base fee for Non-executive Directors is benchmarked against a pool of comparable companies and reviewed on an annual basis. Directors’ fees are reviewed by the Board with reference to these sources of information and data, and the Board takes into consideration the need to obtain and retain appropriately qualified independent directors given the time commitment, number of board meetings and workload.

Directors' fees

Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at $1.2 million per annum and was approved by shareholders at the Annual General Meeting on 20 November 2013.

The Directors' fees for the 30 June 2015 financial year have not changed from the 30 June 2014 financial year and are:

	30 June 15
Base fees	
Chair	$340,000
Member of the Board	$130,000
Chair of a Committee	$30,000
Member of the Committee	$15,000

(g) Voting and comments made at the company's 2013 Annual General Meeting

Drillsearch Energy Limited received more than 75% of “yes” votes on its remuneration report for the 2013 financial year. The Company did not receive any specific feedback at the AGM on its remuneration practices. However, the Company regularly seeks feedback from shareholders and other stakeholders on its remuneration practices and incorporates this feedback where appropriate.

Remuneration report (continued)

(h) Details of remuneration

The following tables show details of the remuneration received by the Directors and the other Key Management Personnel of the Group for the current and previous financial year. The first set of tables represent a "plain English" view of what was paid in cash, accrued long service leave entitlements and granted by way of a form of security. The second is the statutory disclosure in accordance with AASB 2 'Share Based Payment' which adopts the accounting treatment required. The second table takes into account the timing of the grant and vesting of securities and applies a probability of their worth.

"Remuneration paid - a "plain English" view"

2014	Fixed pay					STI		LTI
Name	Salaries & fees (including Super and termination payments)	Other*	Long service**	Perf. rights	Total fixed	STI cash bonus	STI perf. rights***	LTI perf. rights****
	Cash $	Non-cash $	Non-cash $	Non-cash $	Pay $	Cash $	Non-cash No.	Non-cash No.
Non-executive Directors								
Mr J D McKerlie	394,660	11,137	-	-	405,797	-	-	-
Mr P. Bainbridge	159,090	-	-	-	159,090	-	-	-
Mr T. Cheah	104,192	-	-	-	104,192	-	-	-
Mr B.K Choo	50,827	-	-	-	50,827	-	-	-
Mrs F.A Robertson	175,598	-	-	-	175,598	-	-	-
Mr H.R.B Wecker	179,383	-	-	-	179,383	-	-	-
Sub-total non-executive directors	**1,063,750**	**11,137**	**-**	**-**	**1,074,887**	**-**	**-**	**-**
Executive Officers								
Mr B.W Lingo	800,000	-	65,151	-	865,151	195,360	127,995	595,348
Mr I.W Bucknell	440,000	12,137	46,625	-	498,762	108,504	71,089	245,581
Mr D. Evans	515,000	1,000	-	-	516,000	123,291	80,777	287,441
Mr J.S Whaley	506,065	1,000	-	-	507,065	-	-	-
Mr P. Fox	359,398	1,000	-	-	360,398	88,776	58,004	200,930
Total key management personnel compensation (group)	**3,684,213**	**26,274**	**111,776**	**-**	**3,822,263**	**515,931**	**337,865**	**1,329,300**

* Other comprises of car parking fringe benefit for Mr J.D McKerlie and Mr I. Bucknell (2014) and the $1,000 Grant of Shares for all executive officers excluding Mr B.W Lingo.
** Long service leave is accrued and not taken.
*** The STI performance rights for Mr B.W. Lingo for 30 June 2014 are subject to shareholder approval. The performance rights have a twelve month performance period. The performance hurdle is that the individuals be employed by the Company on 30 June of the following year.
**** The LTI performance rights for Mr B.W Lingo for 2014 were approved at the 20 November 2013 AGM. The vesting of the performance rights are conditional on the executive officers being employed by the Company on 30 June 2016 and the long term performance hurdles being met.

Remuneration report (continued)

(h) Details of remuneration (continued)

"Remuneration paid - a "plain English" view" (continued)

2013

	Fixed pay					STI		LTI
Name	Salaries & fees (including Super)	Other*	Long service**	Perf. rights***	Total fixed	STI cash bonus	STI perf. rights	LTI perf. rights****
	Cash	Non-cash	Non-cash	Non-cash	Pay	Cash	Non-cash	Non-cash
	$	$	$	$	$	$	No.	No.
Non-executive Directors								
Mr J D McKerlie	180,000	10,048	-	60,000	250,048	-	-	-
Mr B.K Choo	60,000	-	-	30,000	90,000	-	-	-
Mrs F.A Robertson	90,000	-	-	30,000	120,000	-	-	-
Mr H.R.B Wecker	100,000	-	-	30,000	130,000	-	-	-
Sub-total non-executive directors	**430,000**	**10,048**	**-**	**150,000**	**590,048**	**-**	**-**	**-**
Executive Officers								
Mr B.W Lingo	725,000	-	-	-	725,000	246,225	229,047	423,226
Mr I.W Bucknell	360,000	1,000	32,073	-	393,073	70,200	65,302	182,833
Mr D. Evans	440,000	1,000	-	-	441,000	85,520	74,902	223,463
Mr J.S Whaley	440,000	1,000	-	-	441,000	-	-	223,463
Total key management personnel compensation (group)	**2,395,000**	**13,048**	**32,073**	**150,000**	**2,590,121**	**401,945**	**369,251**	**1,052,985**

* Other comprises of car parking fringe benefit for Mr J.D McKerlie and the $1,000 Grant of Shares for all executive officers excluding Mr B.W Lingo.
** Long service leave is accrued and not taken.
*** The STI performance rights in the case of Mr B.W Lingo for 2013 were approved at the 20 November 2013 AGM.
**** The LTI performance rights for Mr B.W Lingo was approved at the 21 November 2012 AGM. The vesting of the performance rights are conditional on the executive officers being employed by the Company on 30 June 2015 and the long term performance hurdles being met.

Remuneration report (continued)

(h) Details of remuneration (continued)

Remuneration paid according to Accounting Standards:

2014	Short-term employee benefits					Share based payments***		Long-term benefits		
Name	Cash salary and fees $	Non-monetary benefits* $	STI Cash bonus variable** $	STI Perf. Rights Variable (non cash) $	Super-annuation $	LTI Options Variable $	LTI Perf. rights Variable $	Long service leave**** $	Termi-nation benefits $	Total $
Non-executive Directors										
Mr J D McKerlie	379,660	11,137	-	-	15,000	117,926	-	-	-	523,723
Mr P. Bainbridge	145,620	-	-	-	13,470	-	-	-	-	159,090
Mr T. Cheah	95,371	-	-	-	8,822	-	-	-	-	104,193
Mr B.K Choo	46,072	-	-	-	4,755	58,963	-	-	-	109,790
Mrs F.A Robertson	160,183	-	-	-	15,415	58,963	-	-	-	234,561
Mr H.R.B Wecker	163,616	-	-	-	15,768	58,963	-	-	-	238,347
Sub-total non-executive directors	**990,522**	**11,137**	**-**	**-**	**73,230**	**294,815**	**-**	**-**	**-**	**1,369,704**
Executive Officers										
Mr B.W Lingo	775,000	-	195,360	210,722	25,000	171,453	195,528	65,151	-	1,638,214
Mr I.W Bucknell	418,109	12,137	108,504	60,078	21,891	28,947	81,800	46,625	-	778,091
Mr D. Evans	490,000	1,000	123,291	68,910	25,000	39,927	97,057	-	-	845,185
Mr J.S Whaley	224,193	1,000	-	-	14,583	-	18,025	-	267,290	525,091
Mr P. Fox	341,623	1,000	88,776	-	17,775	-	46,172	-	-	495,346
Total key management personnel compensation (group)	**3,239,447**	**26,274**	**515,931**	**339,710**	**177,479**	**535,142**	**438,582**	**111,776**	**267,290**	**5,651,631**

* Non-monetary benefits comprises of car parking fringe benefit for Mr J.D McKerlie and Mr I. Bucknell and the $1,000 Grant of Shares for all executive officers excluding Mr B.W Lingo.
**The cash component of the STI has been accrued as payable in the financial year. The expense for the Performance right will be accounted for in the following year.
*** The options included here relate to 20 June 2011, 25 July 2011 and 23 November 2011. The options have a three year vesting period and need to satisfy the relevant long term performance hurdles. The options have not yet vested and are valued using the Monte Carlo method of valuation. LTI performance rights for Mr B.W Lingo for 2014 were approved at the 20 November 2013 AGM. The vesting of the performance rights are conditional of the executive officers being employed by the Company on 30 June 2016 and the long term performance hurdles being met.
**** Long service leave is accrued and not taken.

Remuneration report (continued)

(h) Details of remuneration (continued)

Remuneration paid according to Accounting Standards: (continued)

2013		Short-term employee benefits			Share based payments			Long term benefits	
Name	Cash salary and fees $	Non-monetary benefits* $	STI Cash bonus variable** $	Super-annuation $	STI Perf Rights Variable $	LTI Options Variable*** $	LTI Perf rights Variable $	Long service leave**** $	Total $
Non-executive Directors									
Mr J D McKerlie	171,330	10,048	-	8,670	44,960	118,737	-	-	353,745
Mr B.K Choo	55,046		-	4,954	22,345	59,369	-	-	141,714
Mrs F.A Robertson	82,569		-	7,431	22,345	59,369	-	-	171,714
Mr H.R.B Wecker	91,743		-	8,257	22,345	59,369	-	-	181,714
Sub-total non-executive directors	**400,688**	**10,048**	**-**	**29,312**	**111,995**	**296,844**	**-**	**-**	**848,887**
Executive Officers									
Mr B.W Lingo	700,000		246,225	25,000	111,732	172,313	58,726		1,313,996
Mr I.W Bucknell	338,109	1,000	70,200	21,891		28,973	25,368	32,073	517,614
Mr D. Evans	423,530	1,000	85,520	16,470		39,964	31,007		597,491
Mr J.S Whaley	415,000	1,000		25,000		39,964	31,007		511,971
Total key management personnel compensation (group)	**2,277,327**	**13,048**	**401,945**	**117,673**	**223,727**	**578,058**	**146,108**	**32,073**	**3,789,959**

* Non-monetary benefits comprises of car parking fringe benefit for Mr J.D McKerlie and the $1,000 Grant of Shares for all executive officers excluding Mr B.W Lingo.
** The cash component of the STI was accrued as payable in the previous financial year. The expense for the Performance right was accounted for in the current year.
*** The options included here relate to 20 June 2011, 25 July 2011 and 23 November 2011. The options have a three year vesting period and need to satisfy the relevant long term performance hurdles. The options have not yet vested and are valued using the Monte Carlo method of valuation. LTI performance rights for Mr B.W Lingo for 2013 were approved at the 21 November 2012 AGM. The vesting of the performance rights are conditional of the executive officers being employed by the Company on 30 June 2015 and the long term performance hurdles being met.
**** Long service leave is accrued and not taken.

Remuneration report (continued)

(h) Details of remuneration (continued)

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2014 %	2013 %	**2014 %**	2013 %	**2014 %**	2013 %
Non-executive Directors						
Mr J D McKerlie	**77**	54	**-**	13	**23**	34
Mr B.K Choo (resigned 20 November 2013)	**46**	42	**-**	16	**54**	42
Mrs F.A Robertson	**75**	52	**-**	13	**25**	35
Mr H.R.B Wecker	**75**	55	**-**	12	**25**	33
Mr T.S Cheah (appointed 10 September 2013)	**100**	-	**-**	-	**-**	-
Mr P.J Bainbridge (appointed 22 July 2013)	**100**	-	**-**	-	**-**	-
Executive officers						
Mr B.W Lingo	**53**	55	**25**	27	**22**	18
Mr I.W Bucknell	**64**	70	**22**	14	**14**	17
Mr D. Evans	**61**	74	**23**	14	**16**	12
Mr J.S Whaley (resigned 6 January 2014)	**97**	86	**-**	-	**3**	14
Mr P. Fox (appointed 1 July 2013)	**73**	-	**18**	-	**9**	-

(i) Outstanding KMP options and performance rights

At the date of this report, the KMPs held the following options and performance rights. The table indicates which have not yet vested:

Outstanding KMP options and performance rights	Share options vested Number	Share options not vested Number	% of total options vested	Performance rights not vested Number
Non-executive Directors				
Mr J.D McKerlie	326,948	781,596	29	nil
Mr P. Bainbridge	nil	nil	nil	nil
Mr T. S. Cheah	nil	nil	nil	nil
Mr B.K. Choo	163,474	390,798	29	nil
Mrs F.A. Robertson	163,474	390,798	29	nil
Mr H.R.B. Wecker	163,474	390,798	29	nil
Executive officers				
Mr B.W. Lingo	326,948	1,231,596	21	1,018,574
Mr I.W. Bucknell	362,335	nil	100	428,414
Mr D. Evans	1,499,636	nil	100	510,904
Mr P. Fox	nil	nil	nil	200,930
Mr. C. R. Tuck	nil	nil	nil	nil
Mr J.S. Whaley	1,000,000	nil	100	nil
	4,006,289	**3,185,586**		**2,158,822**

Remuneration report (continued)

(i) Outstanding KMP options and performance rights (continued)

KMPs of the Company during the financial year held the following options at the end of the reporting period:

	At the start of the year Number	Exercised during the year Number	Forfeited during the year Number	At the end of the year Number
Non-executive Directors				
Mr J.D McKerlie	2,324,338	(1,200,000)	-	1,124,338
Mr P. Bainbridge	-	-	-	-
Mr T. S. Cheah	-	-	-	-
Mr B.K. Choo	1,362,169	(800,000)	-	562,169
Mrs F.A. Robertson	962,169	(400,000)	-	562,169
Mr H.R.B. Wecker	1,362,169	(800,000)	-	562,169
Executive officers	-			
Mr B.W. Lingo	2,774,338	(1,200,000)	-	1,574,338
Mr I.W. Bucknell	391,270	-	-	391,270
Mr D. Evans	1,539,683	-	-	1,539,683
Mr P. Fox	-	-	-	-
Mr J.S. Whaley	1,539,683	-	(539,683)	1,000,000
	12,255,819	**(4,400,000)**	**(539,683)**	**7,316,136**

There were no options issued during the financial year and no amounts remain unpaid on the options exercised since the financial year. Further details of the share options are contained in note 31 to the financial statements.

The following table indicates performance rights issued to KMP during the financial year:

	Issue date	Vesting and exercise date	No. granted	Fair value per right	Fair value of grant	% of grant vested	% of grant forfeited
Executive officers							
Mr B.W. Lingo	20/11/2013	30/06/2014	229,047	$0.92	$210,723	100%	nil
Mr B.W. Lingo	20/11/2013	30/06/2016	595,348	$0.69	$410,790	33%	nil
Mr I.W. Bucknell	02/09/2013	30/06/2014	65,302	$0.92	$60,078	100%	nil
Mr I.W. Bucknell	02/09/2013	30/06/2016	245,581	$0.69	$169,451	33%	nil
Mr D. Evans	02/09/2013	30/06/2014	74,902	$0.92	$68,910	100%	nil
Mr D. Evans	02/09/2013	30/06/2016	287,441	$0.69	$198,334	33%	nil
Mr P. Fox	02/09/2013	30/06/2016	200,930	$0.69	$138,642	33%	nil
Mr J.S. Whaley	02/09/2013	30/06/2014	256,744	$0.92	$236,204	nil	100%
			1,955,295		**$1,493,132**		

There were no performance rights granted to non executive directors during the period.

Remuneration report (continued)

(i) Outstanding KMP options and performance rights (continued)

The following reconciles the performance rights held by KMP at the beginning and end of the year:

	At the start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	At the end of the year Number
Non-executive Directors					
Mr J.D McKerlie	50,787	-	(50,787)	-	-
Mr P. Bainbridge	-	-	-	-	
Mr T. S Cheah	-	-	-	-	
Mr B.K. Choo	25,393	-	(25,393)	-	-
Mrs F.A. Robertson	25,393	-	(25,393)	-	-
Mr H.R.B. Wecker	25,393	-	(25,393)	-	-
Executive officers					
Mr B.W. Lingo	550,194	824,395	(126,968)	-	1,247,621
Mr I.W. Bucknell	182,833	310,883	-	-	493,716
Mr D. Evans	223,463	362,343	-	-	585,606
Mr P. Fox	-	200,930	-	-	200,930
Mr J.S. Whaley	223,463	256,744	-	(480,207)	-
	1,306,919	**1,955,295**	**253,934**	**480,207**	**2,528,073**

Shares provided on exercise of remuneration options

Details of ordinary shares in the Company provided as a result of the exercise of remuneration options to each Director of Drillsearch Energy Limited and other key management personnel of the Group as at the date of this report are set out below.

Name	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year	Amount paid per share	Value at exercise date*
Non-executive Directors				
Mr J. D. McKerlie	21/11/2013	1,200,000	$0.70	$660,000
Mr B. K. Choo	21/11/2013	800,000	$0.70	$440,000
Mrs F. A. Robertson	4/09/2013	400,000	$0.70	$276,000
Mr H.R.B. Wecker	4/11/2013	800,000	$0.70	$472,000
Executive Officers				
Mr B.W. Lingo	4/11/2013	1,200,000	$0.38	$1,144,800

* The value at the exercise date of options has been determined as the intrinsic value of the options at that date.

Remuneration report (continued)

(i) Outstanding KMP options and performance rights (continued)

Employee shares scheme

None of the Directors of Drillsearch Energy Limited, including the MD, are eligible to participate in the Company's employee share scheme.

(j) Shareholdings

The following table shows shares in the Company that were held by KMPs of the Company at the end of the financial year, including their close family members and entities related to them:

Name	Balance at the start of the year	Received during the year on exercise of options	Received during the year on exercise of performance rights	Other changes during the year*	Balance at the end of the year
Non-executive Directors					
Mr J. D. McKerlie	1,308,265	1,200,000	50,787	(319,158)	2,239,894
Mr P. Bainbridge	-	-	-	54,600	54,600
Mr T. S. Cheah	340,000	-	-	-	340,000
Mrs F. A. Robertson	492,950	400,000	25,393	(225,393)	692,950
Mr H. R. B. Wecker	37,950	800,000	25,393	(416,000)	447,343
Executive officers					
Mr B. W. Lingo	121,375	1,200,000	126,968	(332,000)	1,116,343
Mr I. W. Bucknell	300,846	-	-	(299,070)	1,776
Mr D. Evans	846	-	-	930	1,776
Mr P. Fox	-	-	-	930	930

* Other changes during the year relate to shares granted via the Company's employee share scheme and on market acquisitions and disposals of shares in the Company.

(k) Key terms of employment contracts

Mr B.W Lingo - Managing Director

Mr Lingo provides services as a permanent employee of Drillsearch. The fixed remuneration inclusive of superannuation for the year ended 30 June 2015 is $840,000. Mr Lingo’s remuneration level is subject to annual review with reference to remuneration levels from a pool of comparable companies. Remuneration is determined by the Board with reference to these benchmarks. Mr Lingo is eligible to receive up to 60% (or more at the discretion of the Board) of his fixed remuneration by way of short term incentive and up to 80% of his fixed remuneration as Performance Rights by way of long term incentives.

Remuneration report (continued)

(k) Key terms of employment contracts (continued)

The Company can terminate the contract on the grounds of serious misconduct and non-performance. The Managing Director can resign by giving six months' notice. The Company can terminate the contract by giving six months' notice. In the event of a redundancy following a change of control then a twelve months' notice period applies.

Mr D. Evans - Chief Technical Officer (currently Acting Chief Operations Officer)

Mr Evans provides services as a permanent employee of Drillsearch. The fixed remuneration inclusive of superannuation for the year ended 30 June 2015 is $530,450. Mr Evans's remuneration level is subject to annual review with reference to remuneration levels from a pool of comparable companies. Remuneration is determined by the Board with reference to these benchmarks. Mr Evans is eligible to receive up to 60% of his fixed remuneration by way of short term incentive and up to 60% of his fixed remuneration as Performance Rights by way of long term incentives.

The Company can terminate the contract on the grounds of serious misconduct and non-performance. The Chief Technical Officer (currently Acting Chief Operations Officer) can resign by giving three months' notice. The Company can terminate the contract by giving six months' notice. In the event of a redundancy following a change of control then a twelve months' notice period applies.

Mr I. W. Bucknell - Chief Financial Officer

Mr Bucknell provides services as a permanent employee of Drillsearch. The fixed remuneration inclusive of superannuation for the year ended 30 June 2015 is $457,600. Mr Bucknell's remuneration level is subject to annual review with reference to remuneration levels from a pool of comparable companies. Remuneration is determined by the Board with reference to these benchmarks. Mr Bucknell is eligible to receive up to 60% of his fixed remuneration by way of short term incentive and up to 60% of his fixed remuneration as Performance Rights by way of long term incentives.

The Company can terminate the contract on the grounds of serious misconduct and non-performance. The Chief Financial Officer can resign by giving three months' notice. The Company can terminate the contract by giving six months' notice. In the event of a redundancy following a change of control then a twelve months' notice period applies.

Mr P. Fox - Chief Commercial Officer

Mr Fox provides services as a permanent employee of Drillsearch. The fixed remuneration inclusive of superannuation for the year ended 30 June 2015 is $441,000. Mr Fox's remuneration level is subject to annual review with reference to remuneration levels from a pool of comparable companies. Remuneration is determined by the Board with reference to these benchmarks. Mr Fox is eligible to receive up to 60% of his fixed remuneration by way of short term incentive and up to 60% of his fixed remuneration as Performance Rights by way of long term incentives.

Remuneration report (continued)

(k) Key terms of employment contracts (continued)

The Company can terminate the contract on the grounds of serious misconduct and non-performance. The Chief Commercial Officer can resign by giving three months' notice. The Company can terminate the contract by giving three months' notice. In the event of a redundancy following a change of control then a twelve months' notice period applies.

Mr C.R. Tuck - General Counsel

Mr Tuck provides services as a permanent employee of Drillsearch. The fixed remuneration inclusive of superannuation for the year ended 30 June 2015 is $437,000. Mr Tuck's remuneration level is subject to annual review with reference to remuneration levels from a pool of comparable companies. Remuneration is determined by the Board with reference to these benchmarks. Mr Tuck is eligible to receive up to 60% of his fixed remuneration by way of short term incentive and up to 60% of his fixed remuneration as Performance Rights by way of long term incentives. In addition to his fixed remuneration and Drillsearch incentives, under the terms of Mr Tuck's employment the company will make a one-off payment in FY2015 an amount of forgone incentives.

The Company can terminate the contract on the grounds of serious misconduct and non-performance. The General Counsel can resign by giving three months' notice. The Company can terminate the contract by giving six months' notice. In the event of a redundancy following a change of control then a twelve months' notice period applies.

(l) Changes to remuneration framework for 2015

Drawing on feedback received from the Employee Engagement survey, a market assessment and a critical review of the STI performance hurdles, the following amendments to the remuneration framework will be made in 2015:

(1) Drillsearch's new remuneration banding will consist of four levels in addition to the MD and Executive. It will provided a clearer description of the skills, experience and responsibilities of employees required for STI and LTI awards. It will also allow senior technical experts who make a significant contribution to the Company to participate in the Performance Rights scheme.
(2) The individual performance rankings will be extended to five bands to allow greater variation in the assessment of an individual's contribution to the Company.
(3) The Group STI will continue to comprise safety, production, reserves replacement, EBITDAX and cost management. Changes comprise the addition:
    (a) of a 2C reserves measure from the unconventional wells.
    (b) a measure designed to assess capital efficiency.

This Directors' report is signed in accordance with a resolution of Directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

J.D McKerlie
Chairman

Sydney, 27 August 2014

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Drillsearch Energy Limited
Level 16, 55 Clarence Street
SYDNEY NSW 2000

27 August 2014

Dear Board Members,

Drillsearch Energy Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Drillsearch Energy Limited.

As lead audit partner for the audit of the financial statements of Drillsearch Energy Limited for the financial year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited

Deloitte.

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Independent Auditor's Report to the members of Drillsearch Energy Limited

We have audited the accompanying financial report of Drillsearch Energy Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 39 to 99.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Drillsearch Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Drillsearch Energy Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 34 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Drillsearch Energy Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants
Sydney, 27 August 2014

In the Directors' opinion:

(a) the financial statements and notes set out on pages 40 to 99 are in accordance with the Corporations Act 2001, including:
  (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of Directors.

On behalf of the Directors

J.D McKerlie
Chairman

Sydney, 27 August 2014

Drillsearch Energy Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2014

	Notes	**Year ended 30 June 2014 $'000**	30 June 2013 $'000
Revenue	6	**387,020**	102,227
Cost of sales of goods	9	**(151,226)**	(43,334)
Gross profit		**235,794**	58,893
Other gains and losses	7	**2,555**	2,474
Exploration and evaluation costs expensed		**(2,120)**	(2,203)
Write off of oil and gas assets		**(218)**	-
Finance costs	8	**(11,637)**	(6,112)
Corporate activity costs in relation to acquisitions		**-**	(6,200)
Change in fair value of convertible notes		**(23,035)**	(9,306)
Other expenses	10	**(20,150)**	(19,770)
Change in fair value of derivatives		**(1,760)**	-
Profit before income tax		**179,429**	17,776
Income tax (expense)/benefit	11	**(107,906)**	27,281
Profit for the year		**71,523**	45,057
Other comprehensive income, net of income tax which will be recycled to the profit and loss			
Exchange differences on translation of foreign operations	24(a)	**370**	(481)
Total comprehensive income for the year		**71,893**	44,576
		Cents	Cents
Earnings per share			
Basic earnings per share	14	**16.6**	11.1
Diluted earnings per share	14	**16.3**	11.0

Notes to the financial statements are included on pages 44 to 99.

	Notes	**30 June 2014 $'000**	30 June 2013 $'000
Current assets			
Cash and cash equivalents	29	**152,384**	36,061
Trade and other receivables	15	**85,522**	51,302
Inventories		**662**	1,744
Available for sale financial assets	12	**25,194**	-
Other current assets		**1,963**	1,083
Assets classified as held for sale	13	**100**	199
Total current assets		**265,825**	90,389
Non-current assets			
Exploration and evaluation assets	16	**229,041**	217,890
Oil and gas assets	17	**184,053**	108,586
Property, plant and equipment	18	**2,571**	3,719
Deferred tax assets	11(c)	**-**	63,223
Other non-current assets		**1,349**	1,370
Total non-current assets		**417,014**	394,788
Total assets		**682,839**	485,177
Current liabilities			
Trade and other payables	19	**74,638**	42,510
Borrowings	21	**-**	10,000
Provisions	20	**724**	1,581
Other financial liabilities	12	**25,194**	-
Total current liabilities		**100,556**	54,091
Non-current liabilities			
Borrowings	21	**153,426**	130,391
Deferred tax liabilities	11(c)	**27,052**	-
Provisions	20	**38,400**	14,102
Total non-current liabilities		**218,878**	144,493
Total liabilities		**319,434**	198,584
NET ASSETS		**363,405**	286,593
Equity			
Contributed equity	23	**285,528**	280,411
Other reserves	24	**7,437**	7,267
Retained earnings		**70,440**	(1,085)
Equity attributable to owners of the parent		**363,405**	286,593
TOTAL EQUITY		**363,405**	286,593

Notes to the financial statements are included on pages 44 to 99.

	Attributable to owners of Drillsearch Energy Limited					
	Contributed equity $'000	Equity-settled benefits reserve $'000	Foreign currency translation $'000	General reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2012	180,838	4,670	(816)	3,440	(46,140)	141,992
Profit for the year as reported in the 2013 financial statements	-	-	-	-	45,057	45,057
Other comprehensive income	-	-	(481)	-	-	(481)
Total comprehensive income for the year	**-**	**-**	**(481)**	**-**	**45,057**	**44,576**
Shares issued during the year	102,543	(617)	-	-	-	101,926
Transaction costs of share issue	(3,695)	-	-	-	-	(3,695)
Income tax relating to transactions with owners	725	-	-	-	-	725
Employee share options - value of employee services	-	1,071	-	-	-	1,071
Balance at 30 June 2013	**280,411**	**5,124**	**(1,297)**	**3,440**	**(1,083)**	**286,595**
Balance at 1 July 2013	280,411	5,124	(1,297)	3,440	(1,083)	286,595
Profit for the year as reported in the 2013 financial statements	-	-	-	-	71,523	71,523
Other comprehensive income	-	-	370	-	-	370
Total comprehensive income for the year	**-**	**-**	**370**	**-**	**71,523**	**71,893**
Shares issued during the year	5,156	(2,114)	-	-	-	3,042
Transaction costs of share issue	(39)	-	-	-	-	(39)
Employee share options - value of employee services	-	1,914	-	-	-	1,914
Balance at 30 June 2014	**285,528**	**4,924**	**(927)**	**3,440**	**70,440**	**363,405**

Notes to the financial statements are included on pages 44 to 99.

	Notes	Year ended 30 June 2014 $'000	30 June 2013 $'000
Cash flows from operating activities			
Receipts from customers		**391,503**	54,283
Payments to suppliers and employees		**(134,104)**	(32,883)
Cash generated from operations		**257,399**	21,400
Interest paid		**(11,047)**	(3,419)
Income tax refund / (paid)		**16**	1,258
Net cash inflow from operating activities	29(b)	**246,368**	**19,239**
Cash flows from investing activities			
Payments for business acquisition	37	**(36,800)**	(119,063)
Payments for oil and gas assets		**(48,140)**	(36,901)
Payments for exploration and evaluation assets		**(49,548)**	(101,666)
Payments for property, plant and equipment	18	**(880)**	(2,133)
Proceeds from sale of exploration and evaluation assets		**12,507**	-
Payments to acquire available-for-sale financial assets		**(2,327)**	-
Interest received		**1,771**	2,473
Net cash (outflow) from investing activities		**(123,417)**	**(257,290)**
Cash flows from financing activities			
Proceeds from issues of equity shares		**3,041**	102,742
Share issue transaction costs		**(39)**	(3,695)
Proceeds from borrowings		**-**	130,885
Repayment of borrowings		**(10,000)**	(1,831)
Net cash (outflow) inflow from financing activities		**(6,998)**	**228,101**
Net increase (decrease) in cash and cash equivalents		**115,953**	**(9,950)**
Cash and cash equivalents at the beginning of the financial year		36,061	45,695
Effects of exchange rate changes on cash and cash equivalents		**370**	316
Cash and cash equivalents at end of year	29(a)	**152,384**	**36,061**

Notes to the financial statements are included on pages 44 to 99.

1 General information

Drillsearch Energy Limited (the Company) is a public company listed on the Australian Securities Exchange (trading under the symbol 'DLS'), incorporated and operating in Australia.

Drillsearch Energy Limited's registered office and its principal place of business are as follows:

Registered office	**Principal place of business**
Level 16	Level 16
55 Clarence Street	55 Clarence Street
Sydney NSW 2000	Sydney NSW 2000
Tel: (02) 9249 9600	Tel: (02) 9249 9600

The Company's principal activities are the exploration, development and production of oil and gas interests.

2 Application of new and revised Accounting Standards

(a) New and amended standards adopted by the group

The following standards and amendments have been applied for first time for the annual reporting period commencing 1 July 2013:

• AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investments in Associates and Joint Ventures, AASB 127 Separate Financial Statements and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards
• AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and other Amendments which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period
• AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13
• AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)
• AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'
• AASB 2012-2 'Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities'
• AASB 2012-9 ‘Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039’
• AASB 2011-4 ‘Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements’
• AASB CF 2013-1 ‘Amendments to the Australian Conceptual Framework’ and AASB 2013-9 ‘Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments’ (Part A Conceptual Framework)

2 Application of new and revised Accounting Standards (continued)

(a) New and amended standards adopted by the group (continued)

Other than AASB 11 'Joint Arrangements', the adoption of the new and amended Standards and Interpretations have not resulted in any changes to the Group's accounting policies and have no effect on the amounts reported for the current or prior periods. The new and revised Standards and Interpretations have not had a material impact and not resulted in changes to the Group's presentation of, or disclosure in, its financial statements.

Under AASB 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

The Group's investments in its jointly controlled assets under AASB 131 will be classified as joint operations under AASB 11. As the Group already recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly), AASB 11 will not have any impact on the amounts recognised in its financial statements. Please see notes 3(d) and 27 for accounting policy and note disclosures.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods and have not been early adopted. An assessment of the impact of these new standards and interpretations is set out below.

Standard/Interpretation	**Nature of change and impact**	**Mandatory application date/ Date of adoption by Group**
IFRS 9 'Financial Instruments'	The final version of IFRS 9 brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. This version adds a new expected loss impairment model and limited amendments to classification and measurement for financial assets. The final version of IFRS 9 supersedes all previous versions of the Standard. However, for annual periods beginning before 1 January 2018, an entity may elect to apply those earlier versions of IFRS 9 if the entity's relevant date of initial application is before 1 February 2015	Must be applied for financial years commencing on or after 1 January 2018*. The group has not yet assessed how its own hedging arrangements would be affected by the new rules, and it has not yet decided whether to adopt any parts of AASB 9 early. In order to apply the new hedging rules, the group would have to adopt AASB 9 and the consequential amendments to AASB 7 and AASB 139 in their entirety.

2 Application of new and revised Accounting Standards (continued)

(b) New standards and interpretations not yet adopted (continued)

IFRS 15 'Revenue from Contracts with Customers'	IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; and replaces IAS11 Construction Contracts, IAS18 Revenue, IFRIC13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC18 Transfers of Assets from Customers, and SIC31 Revenue-Barter Transactions Involving Advertising Services. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	30 June 2018
AASB 1031 'Materiality' (2013)	The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality.	30 June 2015
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. This will not result in any changes to the Group's accounting policies and will have no effect on amounts reported.	30 June 2015

2 Application of new and revised Accounting Standards (continued)

(b) New standards and interpretations not yet adopted (continued)

AASB 2013-3 'Amendments to AASB 135 – Recoverable Amount Disclosures for Non-Financial Assets'	AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. This will not result in any changes to the Group's accounting policies and will have no effect on amounts reported.	30 June 2015
AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'	AASB 2013-4 amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. will not result in any changes to the Group's accounting policies and will have no effect on amounts reported.	30 June 2015
AASB 2013-5 'Amendments to Australian Accounting Standards – Investment Entities'	These amendments define an investment entity and require that, with limited exceptions, an investment entity does not consolidate its subsidiaries or apply AASB 3 Business Combinations when it obtains control of another entity. These amendments require an investment entity to measure unconsolidated subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.	30 June 2015
AASB 2013-9 'Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments	The Standard contains three main parts and makes amendments to a number Standards and Interpretations.	30 June 2015

2 Application of new and revised Accounting Standards (continued)

(b) New standards and interpretations not yet adopted (continued)

INT 21 'Levies'	This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.	30 June 2015

* The mandatory application of this standard may be further deferred once the IASB has agreed on a mandatory date for the equivalent international standard.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 Summary of significant accounting policies

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group (being Drillsearch Energy Limited and all its subsidiaries). For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the Directors on 27 August 2014.

3 Summary of significant accounting policies (continued)

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments, as explained in the accounting policies below. Cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Going concern basis

The Group has prepared the financial report on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

For the year ended 30 June 2014, the Group made a gross profit of $235.8 million (2013: $58.9 million) and a net profit after tax of $71.5 million (2013: $45.1 million). This increase in net profit was largely driven by the rise in oil and gas revenue. The gross profit result is offset by the income tax expense recognised and change in fair value of the convertible bond.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3 Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

(ii) Joint arrangements

Under AASB 11 'Joint Arrangements' investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. Drillsearch Energy Limited has assessed the nature of its joint arrangements and determined them to be joint operations.

Drillsearch Energy Limited has recognised its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operations are set out in note 27.

(c) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

• deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 ‘Income Taxes’ and AASB 119 ‘Employee Benefits’ respectively; and

• liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 ‘Share-based Payment’ at the acquisition date.

(d) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

3 Summary of significant accounting policies (continued)

(d) Interests in joint operations (continued)

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:
• its assets, including its share of any assets held jointly;
• its liabilities, including its share of any liabilities incurred jointly;
• its share of the revenue from the sale of the output by the joint operation; and
• its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the AASBs applicable to the particular assets, liabilities, revenues and expenses. When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

(e) Foreign currency

The individual financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Drillsearch Energy Limited's functional and presentation currency.

In preparing the financial statements of each individual entity, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group’s foreign operations are expressed in Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:
• where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
• for receivables and payables which are recognised inclusive of GST.

3 Summary of significant accounting policies (continued)

(f) Goods and services tax (continued)

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

(g) Revenue recognition

Revenue is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenue is recognised and measured at the fair value of the consideration received or receivable, net of goods and services tax, to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

(i) Sales revenue

Sales revenue is recognised on the basis of the Group's interest in a producing field ("entitlements" method), when the physical product and associated risks and rewards of ownership pass to the purchaser, which is generally at the time of the product entering the pipeline.

(ii) Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(h) Share based payments transactions of the Company

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of the binomial or Monte Carlo model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note Share-based payments.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to the equity settled employee benefits reserve.

3 Summary of significant accounting policies (continued)

(i) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3 Summary of significant accounting policies (continued)

(i) Income tax (continued)

Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.
Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Drillsearch Energy Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

Further information about the tax funding arrangement is detailed in note 11. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

3 Summary of significant accounting policies (continued)

(i) Income tax (continued)

Petroleum Resource Rent Tax (PRRT)

PRRT is recognised as an income tax under AASB 112 'Income Taxes'. From 1 July 2012, the existing PRRT regime was extended to all Australian petroleum production sourced from projects located onshore and in territorial waters.

(j) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

(k) Financial instruments

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Subsequent measurement of financial instruments is based on their initial classification. Fair value through profit or loss financial instruments are measured at fair value and changes in fair value are recognised in the statement of comprehensive income. Available for sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognised or impaired. The remaining categories of financial instruments are recognised at amortised cost using the effective interest rate method.

Accounts receivable are classified as loans and receivables which are measured at amortised cost. Accounts payable, accrued liabilities and borrowings are classified as financial liabilities at amortised cost. Convertible notes are classified as FVTPL. Borrowings and convertible notes are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3 Summary of significant accounting policies (continued)

(k) Financial instruments (continued)

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration payable is recognised in profit or loss.

Transaction costs that are directly attributable to a financial asset or liability measured at fair value through profit or loss are taken directly to the income statement. All other financial assets and liabilities are shown net of transaction costs.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to each particular class of inventory, with all categories being valued on a first in first out basis. The net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(m) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(n) Property, plant and equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Leasehold improvements are amortised over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The straight line method is used. Assets are depreciated or amortised from the date of acquisition.

3 Summary of significant accounting policies (continued)

(n) Property, plant and equipment (continued)

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Property, Plant and Equipment	5-33%

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

Provision for decommissioning

A provision for decommissioning is recognised when there is a present obligation as a result of exploration, development and production activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas.

The provision for future decommissioning costs is the best estimate of the present value of the expenditure required to settle the decommissioning obligation at the reporting date. Future decommissioning costs are reviewed annually and any changes in the estimate are reflected in the present value of the decommissioning provision at each reporting date.

The initial estimate of the decommissioning and rehabilitation provision relating to exploration, development and production facilities is capitalised into the cost of the related asset and amortised on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for decommissioning are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

(p) Exploration and evaluation

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:
• the rights to tenure of the area of interest are current; and
• at least one of the following conditions is also met:

3 Summary of significant accounting policies (continued)

(p) Exploration and evaluation (continued)

(i) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
(ii) exploration and evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

(q) Oil and gas assets

The Group follows the full cost method of accounting for oil and gas assets whereby all costs, less any incentives related to the acquisition, exploration and development of oil and gas reserves are capitalised. These costs include land acquisition costs, geological and geophysical expenses, the costs of drilling, lease rentals and directly related general and administrative expenses.

With respect to oil and gas assets, depletion of oil and gas assets and amortisation of production facilities and equipment are calculated using the unit-of-production method based on estimated proven oil and gas reserves. For the purposes of the depletion calculation, proven and probable oil and gas reserves before royalties are converted to a common unit of measure.

The estimated costs for developing proved undeveloped reserves, future decommissioning and abandonments, net of estimated salvage values, are provided for on the unit of production method included in the provision for depletion and amortisation.

Development expenditure is recognised at cost less accumulated amortisation and any impairment losses. Where commercial production in an area of interest has commenced, the associated costs together with any forecast future capital expenditure necessary to develop proved and probable reserves are amortised over the estimated economic life of the field on a units-of-production basis.

Changes in factors such as estimates of proved and probable reserves that affect unit-of-production calculations are dealt with on a prospective basis.

(r) Impairment

The carrying amounts of the Group’s assets are reviewed at the end of each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset’s recoverable amount is estimated.

3 Summary of significant accounting policies (continued)

(r) Impairment (continued)

The recoverable amount of the Group's investments in held to maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss, unless an asset has previously been re-valued through equity, in which case the impairment loss is recognised as a reversal to the extent of the previous revaluation with any excess recognised through profit or loss.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(s) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(t) Borrowing costs

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group recognises other borrowing costs as an expense in the period in which it incurs them.

4 Critical accounting estimates and judgements

(a) Key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(i) Exploration and evaluation assets

The Group's policy for exploration and evaluation is discussed in note 3(p). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future sale or exploitation, then the relevant capitalised amount will be written off through profit or loss.

(ii) Estimate of reserve quantities

The estimated quantities of proven and probable hydrocarbon reserves reported by the Group are integral to the calculation of amortisation (depletion) and depreciation expense and to assessments of possible impairment of assets. Estimated reserve quantities are based upon interpretations of geological and geophysical models and assessment of the technical feasibility and commercial viability of producing the reserves. Management prepare reserve estimates which conform to guidelines prepared by the Society of Petroleum Engineers Australia. These estimates are then verified by independent technical experts.

These assessments require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The estimate of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations.

(iii) Provision for decommissioning

The Group estimates the future removal and decommissioning costs of oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets. In most instances the removal of these assets will occur many years in the future. The estimate of future removal costs therefore requires management to make adjustments regarding the removal date, future environmental legislation, the extent of decommissioning activities and future removal technologies.

4 Critical accounting estimates and judgements (continued)

(a) Key sources of estimation uncertainty (continued)

(iv) Impairment of oil and gas assets

The Group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash generating unit to which each asset belongs. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and or subsequent disposal. The expected net cash flows are discounted to their present values in determining the recoverable amount.

(v) Current and Deferred Tax

The Group's policy for income tax is discussed in note 3(i). The application of this policy requires management to make estimates and judgements as to the quantum of the temporary differences arising between accounting and tax treatment. Deferred tax assets are only recognised to the extent that it is probable that there will sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. These assessments require assumptions to be made regarding the Group's future taxable position and are performed on an annual basis.

(vi) Petroleum Resource Rent Tax (PRRT)

The Group's policy for income tax is discussed in note 3(i). The application of this policy requires management to complete a valuation of the projects the Group holds an interest in which fall within the remit of the PRRT regime, to determine the applicable treatment and any resultant tax liability or deferred tax asset estimate (discussed above). Under PRRT, the Group has the option to elect differing methodologies when determining the project valuation and this has the potential to materially affect the outcome of the estimate. The assessments also require assumptions to be made regarding an asset's future development costs, production forecasts and costs, commodity prices, exchange rates and fiscal regimes. These assumptions are applied consistently with those in other areas of critical judgements and key estimates.

(b) Critical judgements in applying accounting policies

The following are the critical judgements that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

(i) Financial instruments

The Group's policy for financial instruments is discussed in note 3(k). The application of this policy requires management to make a number of critical judgements regarding the valuation of the financial instruments held by the Company.

4 Critical accounting estimates and judgements (continued)

(b) Critical judgements in applying accounting policies (continued)

(ii) Convertible note valuation

The Group's policy for convertible note valuation is discussed in note 3(k). The application of this policy requires management to make a number of critical judgements regarding the valuation of the convertible notes held by the Company including the financial liability classification of the instrument.

5 Segment information

(a) Description of segments

Information reported to the Chief Operating Decision Maker (CODM), being the Managing Director, for the purposes of resource allocation and assessment of performance is more specifically focused on the category of business units. The Group's reportable segments under AASB 8 'Operating Segments' are therefore as follows:

Oil Projects

Drillsearch is exploring and developing oil projects in the Cooper Basin, targeting numerous, high-return oil exploration projects to drive short-term growth. Drillsearch has existing oil production which provides ongoing cash flow. This cash flow helps fund the Company's growth projects.

Wet Gas Projects

Wet gas is natural gas that contains significant amounts of liquid hydrocarbons - condensate (a very light oil) and LPG. Drillsearch has existing wet gas discoveries and currently has three wet gas fields in production. The Company also holds significant wet gas exploration upside with the potential development of these discoveries significantly contributing to revenue generation over the medium to long-term.

Unconventional Projects

Drillsearch has identified significant unconventional resources while undertaking the Wet Gas Project exploration program. The unconventional resource lies in the deeper coal seams, shales and tight gas sands throughout the Cooper-Eromanga Basin. The Company is focusing its unconventional exploration activities on two key project areas; the Central Cooper Basin - Nappamerri Trough Shale Gas Fairway, and in the Southern and Western Cooper Basin Unconventional Gas Fairway. The prospective unconventional resource zones in each of these project areas have the potential to contribute significantly to Drillsearch's long-term growth potential.

Divestment and New Venture assets

Divestment assets comprises assets held for sale. New Ventures comprise business development projects.

5 Segment information (continued)

(b) Segment results

The following is an analysis of the Group's revenue and results from continuing operations by reporting business:

2014	Oil Projects $'000	Wet Gas Projects $'000	Unconventional Projects $'000	Divestment assets $'000	New Ventures $'000	All other segments $'000	Total $'000
Total segment revenue	365,917	21,103	-	-	-	-	387,020
Adjusted EBITDA (5(c)(iv))	**265,249**	**10,647**	**43**	**(2,671)**	**-**	**491**	**273,759**
Depletion, depreciation and amortisation	35,403	2,862		55	-	2,028	40,348
Write off of oil and gas assets	218	-	-	-	-	-	218
Exploration write off	-	-	-	2,120	-	-	2,120
Total segment assets	**270,613**	**174,038**	**51,665**	**100**	**-**	**524**	**496,940**
Total assets includes:							
Additions to non-current assets (other than financial assets and deferred tax)	74,477	24,349	15,917	-	-	1,596	116,339
Total segment liabilities	**54,358**	**21,056**	**28,698**	**-**	**-**	**-**	**104,112**

2013	Oil Projects $'000	Wet Gas Projects $'000	Unconventional Projects $'000	Divestment assets $'000	New Ventures $'000	All other segments $'000	Total $'000
Total segment revenue	91,279	10,948	-	-	-	-	102,227
Adjusted EBITDA (5(c)(iv))	**60,039**	**7,086**	**-**	**754**	**191**	**1,423**	**69,493**
Depletion, depreciation and amortisation	7,973	1,632	-	485	-	1,423	11,513
Exploration write off	-	-	-	2,203	-	-	2,203
Total segment assets	**209,712**	**187,648**	**6,622**	**199**	**-**	**-**	**404,181**
Total assets includes:							
Additions to non-current assets (other than financial assets and deferred tax)	92,561	124,589	-	5,709	-	80,442	303,301
Total segment liabilities	**12,366**	**2,638**	**-**	**-**	**-**	**-**	**15,004**

5 Segment information (continued)

(c) Other segment information

(i) Segment revenue

Segment revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period (2013:nil).

(ii) Accounting policies of reportable segments

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Adjusted EBITDA represents the profit earned by each segment without allocation of depreciation, depletion and amortisation costs, central administration costs and Directors' salaries, investment revenue and finance costs, income tax expense, and gains or losses on discontinued operations. This is the measure reported to the Chief Operating Decision Maker for the purpose of resource allocation and assessment of segment performance.

(iii) Information about major customers

Included in revenues arising from direct sales of oil and gas of $387.0 million (2013: $102.2 million) are revenues of approximately $380.1 million (2013: $73.6 million) which arose from sales to the Group's largest customer. The revenue from the Group's second largest customer was approximately $4.3 million (2013: $20.5 million). No other single customer contributed 10% or more to the Group's revenue for both 2014 and 2013.

(iv) Adjusted EBITDA

A reconciliation of adjusted EBITDA to operating profit before income tax is provided as follows:

	30 June 2014 $'000	30 June 2013 $'000
Adjusted EBITDA	**273,759**	69,493
Adjusted EBITDA	**273,759**	69,493
Central administration costs and Directors' salaries	**(17,550)**	(14,973)
Finance costs	**(11,637)**	(6,112)
Corporate activity costs - Acer (i)	**-**	(6,200)
Corporate activity costs - other	**-**	(3,613)
Change in fair value of convertible notes	**(23,035)**	(9,306)
Change in fair value of derivatives	**(1,760)**	-
Amortisation and depletion	**(38,320)**	(10,090)
Depreciation	**(2,028)**	(1,423)
Profit before income tax from continuing operations	**179,429**	17,776

5 Segment information (continued)

(c) Other segment information (continued)

(v) Segment assets

Segment assets are measured in the same way as in the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Investment in shares (classified as available-for-sale financial assets, held-to-maturity investments or financial assets at fair value through profit or loss) held by the Group are not considered to be segment assets but rather managed by the treasury function.

Reportable segments' assets are reconciled to total assets as follows:

	30 June 2014 $'000	30 June 2013 $'000
Segment assets	**496,941**	404,181
Unallocated:		
Cash	**152,384**	36,061
Other receivables	**2,331**	22
Inventories	**105**	1,210
Deferred tax assets	**-**	37,531
Other assets and property, plant and equipment	**31,078**	6,172
Total assets as per the consolidated statement of financial position	**682,839**	485,177

(vi) Segment liabilities

Reportable segments' liabilities are reconciled to total liabilities as follows:

	30 June 2014 $'000	30 June 2013 $'000
Segment liabilities	**104,112**	15,004
Unallocated:		
Trade and other payables	**8,784**	42,510
Current employee benefits	**724**	616
Current borrowings	**-**	10,000
Non-current borrowings	**153,426**	130,391
Non-current employee benefits	**142**	63
Liabilities directly associated with financial assets at fair value through profit or loss	**25,194**	-
Deferred tax liabilities	**27,052**	-
Total liabilities as per the consolidated statement of financial position	**319,434**	198,584

6 Revenue

	Notes	30 June 2014 $'000	30 June 2013 $'000
Revenue from the sale of oil and gas		**387,020**	102,227

See note 5 for an analysis of segment revenue.

7 Other gains and losses

	Notes	30 June 2014 $'000	30 June 2013 $'000
Gains arising on available for sale financial assets designated as at FVTPL	12	**(3,641)**	-
Losses arising on other financial liabilities designated as at FVTPL		**3,641**	-
Other gains		**784**	-
Interest income		**1,771**	2,474
		2,555	2,474

The gains on available for sale financial assets designated at fair value through profit or loss (FVTPL) and losses on other financial liabilities designated as at FVTPL relate to a mark to market adjustment in relation to the Ambassador transaction. See notes 12 and 35.

8 Finance costs

	30 June 2014 $'000	30 June 2013 $'000
Finance fees and interest	**(11,206)**	(5,591)
Unwinding of discount on provisions	**(431)**	(521)
	(11,637)	(6,112)

9 Cost of sales

	30 June 2014 $'000	30 June 2013 $'000
Change in inventories	**(29)**	779
Direct operating expense	**110,907**	31,042
Depreciation	**2,028**	1,423
Amortisation and depletion	**38,320**	10,090
	151,226	43,334

10 Other expenses

	30 June 2014 $'000	30 June 2013 $'000
Share based payments expense	**873**	581
Corporate activity costs	**979**	3,613
General legal and professional costs	**818**	449
Foreign exchange losses/(gains)	**2,520**	(435)
Employee benefits expense (a)	**26,025**	17,413
Recharges and recoveries (b)	**(20,592)**	(10,959)
Other expenses	**9,527**	9,108
	20,150	19,770

(a) Employee benefits expense

Superannuation contributions plans	**1,112**	793
Equity settled share-based payments	**1,042**	522
Other employee benefits	**23,871**	16,098
	26,025	17,413

(b) Recharge and recoveries

The Group has a policy to allocate a portion of employee benefit expense together with an uplift component to cover other office expenses to oil, gas, exploration and evaluation assets based on employee time committed to various projects.

11 Income taxes

(a) Income tax recognised in profit or loss

	30 June 2014 $'000	30 June 2013 $'000
Current tax		
In respect of research and development refund	**-**	(1,406)
In respect of prior years	**-**	148
	-	(1,258)
Deferred tax		
In respect of the current year	**62,970**	4,750
In respect of prior years	**(11,086)**	(160)
Deferred tax on PRRT in respect of the current year	**56,022**	(30,613)
	107,906	(26,023)
Total income tax expense/(benefit) recognised in the current year	**107,906**	(27,281)

The income tax (expense)/benefit for the year can be reconciled to the accounting profit as follows:

Profit from continuing operations before income tax expense	**179,429**	17,776
Prima facie income tax expense at 30.0% (2013 - 30.0%)	**(53,829)**	(5,333)
Adjusted by:		
Expenses that are not deductible in determining taxable profit	**(9,141)**	(378)
PRRT (net of income tax deduction for PRRT)	**(56,022)**	30,613
Prior years research and development refund received during the year	**-**	1,406
Previously unrecognised tax losses and deductible temporary differences now recognised as deferred tax assets	**-**	1,121
	(118,992)	27,429
Adjustments recognised in the current year in relation to the current and deferred tax of prior periods	**11,086**	(148)
Income tax (expense)/benefit recognised in profit or loss	**(107,906)**	27,281

The tax rate used for the 2014 and 2013 reconciliations above is the corporate tax rate of 30% payable by Australian entities on taxable profits under Australian tax law.

11 Income taxes (continued)

(a) Income tax recognised in profit or loss (continued)

The Group applies tax effect accounting to PRRT for its operations. Applying tax effect accounting principles to PRRT causes the tax effect of the difference between the PRRT tax base and the accounting base of these assets to be recognised as a deferred tax balance on the balance sheet and an income tax benefit in the income statement. The PRRT tax base represents the remaining deductible project costs of the relevant projects. The accounting base represents the written down net balance sheet value of the project which is amortised over the life of reserves. The application of tax effect accounting to PRRT may impact the reported income tax benefit / expense whether or not a liability to pay PRRT has accrued through the deferred tax balances.

(b) Income tax recognised directly in equity

	30 June 2014 $'000	30 June 2013 $'000
Deferred tax		
Arising on transactions with owners:		
Share issue costs deductible over 5 years	**-**	725
Total income tax benefit recognised directly in equity	**-**	725

The income tax effect above includes current and initial recognition of prior year share issue cost and capital raising expenses.

(c) Deferred tax balances

The balance comprises temporary differences attributable to:

	30 June 2014 $'000	30 June 2013 $'000
Deferred tax assets		
Tax losses	**41,271**	98,437
Provisions	**12,735**	2,111
Unrealised foreign exchange gains and losses	**3,259**	4,205
Unclaimed share issue costs	**2,097**	2,931
Other	**372**	616
	59,734	108,300
Deferred tax liabilities		
Oil and gas assets	**(18,525)**	19,632
Exploration and evaluation assets	**(68,261)**	(58,733)
Doubtful debts	**-**	238
Deferred revenue	**-**	(6,214)
	(86,786)	(45,077)
Net deferred tax (liability)/asset	**(27,052)**	63,223

11 Income taxes (continued)

(c) Deferred tax balances (continued)

Movements	Tax Losses $'000	Oil and gas assets $'000	Exploration and evaluation assets $'000	Provisions $'000	Deferred revenue $'000	Other $'000	Total $'000
At 30 June 2013	**98,437**	**19,632**	**(58,733)**	**2,111**	**(6,214)**	**7,990**	**63,223**
(Charged)/credited							
- to profit or loss	(57,166)	(55,785)	(9,528)	10,624	6,214	(2,265)	(107,906)
- acquisition	-	17,631	-	-	-	-	17,631
At 30 June 2014	**41,271**	**(18,522)**	**(68,261)**	**12,735**	**-**	**5,725**	**(27,052)**

Movements	Tax Losses $'000	Oil and gas assets $'000	Exploration and evaluation assets $'000	Provisions $'000	Deferred revenue $'000	Other $'000	Total $'000
At 1 July 2012	**28,236**	**(13,440)**	**(7,851)**	**-**	**(850)**	**1,504**	**7,599**
(Charged)/credited							
- to profit or loss	43,630	33,072	(52,586)	2,111	(5,364)	5,160	26,023
- directly to equity	-	-	-	-	-	725	725
- acquisition	26,571	-	1,704	-	-	601	28,876
At 30 June 2013	**98,437**	**19,632**	**(58,733)**	**2,111**	**(6,214)**	**7,990**	**63,223**

The Group recognised deferred tax assets on current and prior year losses as increasing production is forecast to render it profitable for future taxation purposes in future years. It also recognised temporary differences arising from the extension of the PRRT regime to onshore operations.

(d) Unrecognised temporary differences

	30 June 2014 $'000	30 June 2013 $'000
The following deferred tax assets have not been brought to account as assets:		
Tax losses - Capital	**1,280**	1,280
	1,280	1,280

11 Income taxes (continued)

(d) Unrecognised temporary differences (continued)

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Drillsearch Energy Limited. The members of the tax-consolidated group are identified in note 28. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

12 Current financial instruments at fair value through profit or loss

	30 June 2014 $'000	30 June 2013 $'000
Available for sale financial assets designated as at FVTPL	**25,194**	-
Other financial liabilities designated as at FVTPL	**(25,194)**	-
Net financial assets at FVTPL	**-**	-

During the period, the Group has acquired ordinary shares in Ambassador Oil and Gas Limited (Ambassador), an ASX listed company focused on oil and gas exploration in the Cooper and Eromanga Basin via a conditional off-market takeover offer. On 20 June 2014, the Takeover Panel ordered the Company not to undertake any further steps to process acceptances received or to appoint Directors to the Board of Ambassador. As such, Ambassador is not a controlled entity of the Group as at 30 June 2014 because the Company is not exposed, and has no right, to variable returns from this entity and is not able to use its power over the entity to affect those returns. Also, the Directors of the Company do not consider the Group is able to exercise significant influence over Ambassador. The investment has a fair value of $25.2m.

12 Current financial instruments at fair value through profit or loss (continued)

Other financial liabilities of $25.2m represent the estimated fair value of the liability arising from the Takeover Panel order on 28 July 2014 requiring the Company to reverse certain shares and give Ambassador shareholders the right to withdraw from the takeover of Ambassador.

See note 35 for subsequent events disclosure.

13 Assets classified as held for sale

	30 June 2014 $'000	30 June 2013 $'000
Disposal group held for sale		
Exploration and evaluation assets	**100**	199
Total assets	**100**	199

In June 2014, the Company executed a sale and purchase agreement to sell its 5% interest of T/18P, located in the Bass Basin, to AWE Petroleum Pty Ltd. The sale is conditional upon Government approval and registration of the permit interest transfer.

14 Earnings per share

(a) Basic earnings per share

	30 June 2014 Cents	30 June 2013 Cents
Basic earnings per share from continuing operations	**16.6**	11.1

(b) Diluted earnings per share

Diluted earnings per share from continuing operations	**16.3**	11.0

(c) Reconciliation of earnings used in calculating earnings per share

	30 June 2014 $'000	30 June 2013 $'000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**71,523**	45,057
Diluted earnings per share		

14 Earnings per share (continued)

(c) Reconciliation of earnings used in calculating earnings per share (continued)

	30 June 2014 $'000	30 June 2013 $'000
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**71,523**	45,057
Add: interest savings on convertible notes (anti-dilutive)	**-**	-
Add: tax effect of adjusting items (anti-dilutive)	**-**	-
Add: fair value change on convertible notes (anti-dilutive)	**-**	-
Earnings used in the calculation of total basic and diluted earnings per share (EPS)	**71,523**	45,057

(d) Weighted average number of shares used as denominator

	2014 no. of shares	2013 no. of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	**431,242,877**	404,873,238
Adjustments for calculation of diluted earnings per share:		
Weighted average number of ordinary shares to be issued for no consideration in respect of employee options and performance rights	**7,596,094**	5,974,661
Weighted average number of ordinary shares to be issued in respect of convertible notes (anti-dilutive) (i)	**-**	-
Weighted average number of ordinary shares in respect of contingently issuable shares (ii)	**801,302**	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**439,640,273**	410,847,899

(i) Potential ordinary shares relating to convertible notes are anti-dilutive due to the favourable impact on profit that would arise on conversion (via reduced finance costs and fair value losses). The potential ordinary shares are therefore excluded from the weighted average number of shares for the purposes of diluted earnings per share.
(ii) Contingently issuable shares relate to the acquisition of shares in Ambassador Oil and Gas Limited to be completed subsequent to year end.

15 Trade and other receivables

	30 June 2014 $'000	30 June 2013 $'000
Trade receivables	**58,294**	52,075
Provision for impairment of receivables	**-**	(795)
	58,294	51,280
Amounts receivable from joint venture partners	**24,897**	-
Other receivables	**2,331**	22
	85,522	51,302

The average credit period on sales of goods is 45 days. The Group will generally recognise an allowance for doubtful debts for receivables over 120 days because historical experience has been that receivables that are past due beyond 120 days are not recoverable.

The increase in trade receivables is a result of the rise in oil and gas revenues. The balance outstanding at 30 June 2014 is primarily in relation to oil sales and liftings made in the final month of the period, the majority of which was received subsequent to year end. The trade receivables were outstanding for an average period of less than 7 days as at 30 June 2014.

There are no receivables aged longer than 120 days that are not impaired.

Movements in allowance for doubtful debts

At 1 July	**(795)**	(795)
Provision for impairment recognised during the year	**-**	-
Amounts used during the year	**795**	-
Impairment losses reversed	**-**	-
At 30 June	**-**	(795)

Age of impaired trade receivables

60-90 days	**-**	-
90-120 days	**-**	-
120+ days	**-**	795
	-	795

15 Trade and other receivables (continued)

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is unrelated and includes large corporations.

The impairment recognised represents the difference between the carrying amount of these trade receivables and the value of the expected liquidation proceeds.

16 Exploration and evaluation assets

	Notes	**30 June 2014 $'000**	30 June 2013 $'000
Opening balance		**217,890**	23,131
Acquisitions (i)		**1,500**	95,596
Divestments (ii)		**(12,057)**	-
Expenditure incurred during the period		**47,897**	111,278
Exploration costs expensed		**(2,120)**	-
Reclassified to oil and gas assets	17	**(23,969)**	(12,115)
Reclassified to held for sale assets (iii)		**(100)**	-
Balance carried forward		**229,041**	217,890

(i) During the period Drillsearch paid $1.5 million to acquire an additional 3.0% interest in the PEL 182 joint operation. This is in addition to the $2.4 million to acquire a 2.4% interest by Acer Energy Limited (Acer Energy) in December 2012.
(ii) During the period Drillsearch divested its 25.8% interest in the PEL 100 joint venture to Santos Limited (Santos) for an amount of $15.0m. This balance does not include the transaction and other related costs in order to complete the sale and transfer of the interest.
(iii) In June 2014, the Company executed a sale and purchase agreement to sell its 5% interest of T/18P, located in the Bass Basin, to AWE Petroleum Pty Ltd. The sale is conditional upon Government approval and registration of the permit interest transfer.

17 Oil and gas assets

	Notes	**30 June 2014 $'000**	30 June 2013 $'000
Opening balance		**108,586**	54,773
Acquisitions (i)		**19,172**	-
Reclassified from asset held for sale	13	**199**	17,924
Expenditure incurred during the period		**46,877**	24,999
Depletion and amortisation expense	9	**(38,320)**	(10,090)
Write off of oil and gas assets during the period		**(218)**	-
Changes in decommissioning obligations	20	**23,788**	8,865
Reclassified from exploration and evaluation assets	16	**23,969**	12,115
Balance carried forward		**184,053**	108,586

(i) On 4 July 2013 Drillsearch entered into an agreement with Santos to increase its interest in the Tintaburra Block Oil joint operation from 11% to 40% for consideration of $36.8 million. Drillsearch has recognised its increased interest in the joint venture from 1 October 2013 being the effective completion date of the transaction, recording $19.2m in oil and gas assets and $17.6m in deferred tax benefits relating to PRRT. The increased working interest has also resulted in a revision of the Company's decommissioning obligations. Santos continue to carry the remaining working interest, which is now reduced to 60%.

(a) Accumulated amortisation

Opening balance	**28,244**	18,876
Current period amortisation expense	**35,030**	9,368
	63,274	28,244

18 Non-current assets - Property, plant and equipment

Opening balance		**3,719**	963
Acquisitions		**-**	2,046
Expenditure incurred during the year		**880**	2,133
Depreciation expense	9	**(2,028)**	(1,423)
		2,571	3,719

19 Current liabilities - Trade and other payables

	30 June 2014 $'000	30 June 2013 $'000
Trade payables (i)	**53,282**	38,480
Goods and services tax payable	**3,204**	373
Other dues and taxes	**-**	1,445
Amounts owing to Joint Operations	**18,152**	2,212
	74,638	42,510

(i) The average credit period on purchases of goods and services is 30 days. The Group seeks to ensure that all payables are paid within the credit timeframe.

The balance outstanding at 30 June 2014 is primarily in relation to the Company's exploration and drilling activities which were ongoing over the period end. The increase in trade payables is reflective of the overall increase in capital activities. The majority of the balance was paid subsequent to year end.

20 Provisions

Current		
Employee benefits (a)	**724**	616
Decommissioning costs (b)	**-**	965
	724	1,581

Non-current		
Employee benefits (a)	**142**	63
Decommissioning costs (c)	**38,258**	14,039
	38,400	14,102

(a) Employee benefits

The provision represents annual leave and long service leave accrued for employees.

20 Provisions (continued)

(b) Decommissioning costs-current

		30 June 2014 $'000	30 June 2013 $'000
Opening balance		**965**	450
Payments made		**(965)**	-
Additional provisions recognised		**-**	515
Balance carried forward		**-**	965

(c) Decommissioning costs- non-current

Opening balance		**14,039**	2,519
Additional provisions recognised relating to acquisitions and discoveries		**20,830**	8,225
Payments made		**-**	(9)
Unwinding of discount	8	**431**	521
Reclassified from / (to) asset held for sale	13	**-**	2,143
Revision of decommissioning obligations		**2,958**	640
Balance carried forward		**38,258**	14,039

The provision for decommissioning costs represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to remove the facilities and restore the affected areas at the Group's operation sites. The decommissioning of the oil and gas properties is expected to be undertaken between 1 to 20 years from the date of this report.

21 Borrowings

Current secured		
Loans from other entities (i)	**-**	10,000
	-	10,000

(i) Variable rate working capital facility available to the Company with the Commonwealth Bank of Australia ('CBA'). This is undrawn at 30 June 2014 (30 June 2013 balance: $10.0 million).

Non-current unsecured		
Convertible notes	**153,426**	130,391
	153,426	130,391

22 Convertible notes

US$125 million convertible notes (the "Notes") were issued by Drillsearch (Finance) Pty Limited, guaranteed by the Company, on 3 May 2013 and 13 May 2013. These are due to expire September 2018. The Notes carry a fixed coupon of 6.00% per annum, paid semi-annually, for a term of approximately five years and are convertible into Drillsearch shares at an initial conversion price of US$1.66 per share, representing a conversion premium of approximately 35% above A$1.19, being the closing price of the shares on the ASX on 26 April 2013. The Notes were listed on the Singapore Securities Exchange on 3 May 2013.

The net proceeds received from the issue of the convertible notes have been recognised as a financial liability.

The liability component is measured at Fair Value Through Profit and Loss (FVTPL). The interest expense for the year is calculated by accruing the fixed coupon rate of 6%. The difference between the carrying amount of the liability component at 30 June 2013 A$121,084,902 and the amount reported in the statement of financial position at 30 June 2014 represents the impact of the fair value adjustment and foreign currency translation (see below and note 29).

	30 June 2014 $'000s	30 June 2013 $'000
Change in valuation of convertible note attributable to market conditions	**(26,217)**	4,380
Change in respect of foreign exchange differences	**3,182**	(13,686)
Change in fair value of convertible note	**(23,035)**	(9,306)

Drillsearch has the right to redeem all Notes on or after 17 May 2014 if Drillsearch's share price exceeds 175% of the conversion price for a certain period of time. This threshold is reduced to 130% on or after 17 May 2016. Drillsearch may also redeem the Notes if 10% or less of the principal amount remains outstanding. Holders have the right to have the Notes redeemed on or after 1 September 2016 for a certain period of time and / or where certain prescribed conditions are met. No convertible notes were eligible for conversion during the financial year 30 June 2014 (2013: None). On conversion, Drillsearch may elect to settle the Notes in cash or ordinary shares in the parent entity. Based on the current conversion price , the maximum number of shares that could be issued on conversion is 75,301,205 (2013: 75,301,205).

23 Contributed equity

(a) Issued capital

	30 June 2014 $'000	30 June 2013 $'000
432,965,895 fully paid ordinary shares (2013: 427,753,371)	**285,528**	280,411

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(b) Movements in ordinary share capital

Fully paid ordinary shares	30 June 2014 No.	30 June 2013 No.
Balance at beginning of financial year	**427,753,371**	337,449,196
Issue of shares during the financial year	**5,212,524**	90,304,175
Balance at the end of the financial year	**432,965,895**	427,753,371

During the year ended 30 June 2014, Drillsearch Energy Limited issued 5,212,524 ordinary shares under the Company's employee share option plan. This does not include shares issued in relation to the Ambassador transaction. As a result, there is a difference between what has been disclosed in our Appendix 3B announcement on 19 June 2014 being 445,245,370 shares on issue and the above. See note 35 for subsequent events disclosure.

Share options granted under the employee share option plan

As at 30 June 2014, Directors, Executives and employees have options over 7,906,339 ordinary shares, in aggregate, with all of those options expiring between 30 September 2014 and 23 November 2018. As at 30 June 2013, directors, executives and senior employees had options over 13,971,331 ordinary shares.

24 Reserves

(a) Reserves (net of income tax)

		30 June 2014 $'000	30 June 2013 $'000
General reserve		**3,440**	3,440
Equity settled employee benefits reserve		**4,924**	5,124
Foreign currency translation reserve		**(927)**	(1,297)
		7,437	7,267

General reserve

Opening balance		**3,440**	3,440
Balance at the end of the year		**3,440**	3,440

The general reserve is used from time to time to transfer profits from retained earnings for appropriate purposes. There is no policy of regular transfer. As the general reserve is created by a transfer from one component of equity to another and is not an item of other comprehensive income, items included in the general reserve will not be reclassified subsequently to profit or loss.

Equity settled employee benefits reserve:

Opening balance		**5,124**	4,670
Share based payments expense	31	**1,914**	1,071
Issue of shares held by entity to employees		**(2,114)**	(617)
Balance at the end of the year		**4,924**	5,124

The above equity settled employee benefits reserve relates to share options and performance rights granted by the Company to its employees under its employee share option plan. Items included in the equity-settled employee benefits reserve will not be reclassified subsequently to profit or loss. Further information about share based payments to employees is set out in note 31.

Foreign currency translation reserve:

Opening balance		**(1,297)**	(816)
Exchange differences arising on translating the foreign operations		**370**	(481)
Balance at the end of the year		**(927)**	(1,297)

The exchange differences arising on translation of foreign operations may ultimately be recycled to the profit or loss.

25 Commitments

	30 June 2014 $'000	30 June 2013 $'000
Oil and gas properties		
Not longer than 1 year	**69,850**	106,200
Longer than 1 year and not longer than 5 year	**121,200**	82,200
	191,050	188,400

	30 June 2014 $'000	30 June 2013 $'000
Operating lease commitments (office rental)		
Not longer than one year	**1,322**	823
Longer than 1 year and not longer than 5 years	**3,098**	971
	4,420	1,794

Commitments comprise of approved expenditures, permit commitments and operator approved budgets.

26 Contingent liabilities

The are no contingent liabilities at 30 June 2014 (2013: nil) of which the Directors are aware.

27 Joint Operations

Details of the Group's joint operations at the end of the reporting period are as follows:

Name of joint operation	Principal place of business	Principal activity	Ownership interest 2014 (%)
ATP 940P (Eromanga)	Australia	Exploration	Circumpacific Energy (Australia) Pty Ltd 40% QGC (B7) Pty Ltd 60%
PEL 91 (Cooper)	Australia	Exploration	Great Artesian Oil and Gas Limited 60% Beach Petroleum Limited 40%
PEL 101 (Cooper)	Australia	Exploration	Acer Energy Pty Ltd 80% Mid Continent Equipment (Australia) Pty Ltd 20%
PEL 103A (Cooper)	Australia	Exploration	Acer Energy Pty Ltd 75%

27 Joint Operations (continued)

			Avery Resources (Australia) Pty Ltd 25%
ATP 299P & PL's - Tintaburra (Eromanga)	Australia	Exploration	Drillsearch Energy NL 40% Santos QNT Pty Ltd 48% Vamgas Pty Ltd 12%
PEL 106 (Cooper) (formerly 106B)	Australia	Exploration	Great Artesian Oil & Gas Limited 50% Beach Energy Limited 50%
PEL 632 (Cooper) (formerly 106A)	Australia	Exploration	Great Artesian Oil & Gas Limited 50% Beach Energy Limited 50%
PRLA26 Udacha (Cooper)	Australia	Production	Great Artesian Oil & Gas Limited 75% Beach Energy Limited 15% Rawson Resources 10%
PEL182 (Cooper)	Australia	Exploration	Victoria Oil Exploration (1977) Pty Ltd 57% Acer Energy Limited 43%
PEL 107 (Cooper)	Australia	Exploration	Great Artesian Oil & Gas Limited 40% Drillsearch (Gas) Pty Ltd 20% Beach Energy Limited 40%
PPL 212 (Cooper)	Australia	Production	Great Artesian Oil & Gas Limited 40% Drillsearch (Gas) Pty Ltd 20% Beach Energy Limited 40%
PPL 239 Middleton & Brownlow (Cooper)	Australia	Production	Great Artesian Oil & Gas Limited 50% Beach Energy Limited 50%
PL 315 PK - Pickanjinnie (Surat)	Australia	Production	Drillsearch Energy Limited 75% Santos Limited 25%
PEL 513 (Cooper)	Australia	Exploration	Great Artesian Oil & Gas Ltd 40% Santos Ltd 60%
ATP549 - Cypress Block (Eromanga)	Australia	Exploration	Great Artesian Oil & Gas Ltd 40% Santos Ltd 60%
ATP549 - West Block (Eromanga)	Australia	Exploration	Great Artesian Oil & Gas Ltd 67% Santos Ltd 33%

Note that all of the Company's other permits are owned and operated 100% by the consolidated Company and therefore fall outside the scope of AASB 11 and 12 in respect to the Group financial statements.

27 Joint Operations (continued)

Significant judgement: classification of joint arrangements

The Group's joint venture agreements require unanimous consent from all parties for all relevant activities. The joint operators own the assets of the partnership as tenants in common and are jointly and severally liable for the liabilities incurred by the partnership. These entities are therefore classified as joint operations and the group recognises its direct right to the jointly held assets, liabilities, revenues and expenses as described in note 3(b)(ii).

28 Subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are as follows:

Name of entity	Country of incorporation	Ownership interest	
		2014	2013
		%	%
Great Artesian Oil and Gas Limited (i)	Australia	**100**	100
Clean Gas Pty Limited (i)	Australia	**100**	100
Drillsearch Gas Pty Limited (i)	Australia	**100**	100
Circumpacific Energy (Australia) Pty Limited (i)	Australia	**100**	100
Drillsearch (539) Pty Limited (i)	Australia	**100**	100
Drillsearch (513) Pty Limited (i)	Australia	**100**	100
Drillsearch (549) Pty Limited (i)	Australia	**100**	100
Drillsearch (657) Pty Limited (i)	Australia	**100**	100
Drillsearch (783) Pty Limited (i)	Australia	**100**	100
Drillsearch (920) Pty Limited (i)	Australia	**100**	100
Drillsearch (924) Pty Limited (i)	Australia	**100**	100
Drillsearch SWQ Gas Pty Limited (i)	Australia	**100**	100
Drillsearch (Field Ops) Pty Limited (i)	Australia	**100**	100
Drillsearch (Central) Pty Limited (i)	Australia	**100**	100
Acer Energy Limited (i)	Australia	**100**	100
Drillsearch Finance Pty Limited (i)	Australia	**100**	100
Drillsearch (299) Pty Limited (i)	Australia	**100**	-
Drillsearch Energy (Canada) Incorporated	Canada	**100**	100
Kun Yick International Limited	Hong Kong	**100**	100
Drillsearch Energy (PNG) Limited	PNG	**100**	100

Drillsearch Energy Limited is the head entity within the tax consolidated group.

(i) These companies are members of the tax consolidated group.

29 Current assets - Cash and cash equivalents

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	30 June 2014 $'000	30 June 2013 $'000
Cash and bank balances	**152,384**	36,061

Surplus cash balances are invested with AA and above rated Australian domiciled banks as per the Company's treasury policy.

(b) Reconciliation of profit for the year to net cash flows from operating activities:

	30 June 2014 $'000	30 June 2013 $'000
Profit for the year	**71,523**	45,057
Depreciation	**2,028**	1,423
Amortisation and depletion	**38,320**	10,090
Exploration and evaluation costs	**2,120**	2,203
Write off of oil and gas assets	**218**	-
Changes in decommissioning obligations	**510**	(4,525)
Investment revenue recognised in profit and loss	**-**	(2,474)
Finance cost recognised in profit and loss	**173**	2,172
Fair value gain on convertible notes	**23,035**	9,306
Share based payments	**1,914**	1,071
Increase in receivables	**(35,990)**	(46,682)
Increase in creditors	**34,391**	29,422
Decrease/(increase) in inventories	**1,082**	(181)
(Increase) decrease in other operating assets	**(859)**	(748)
(Decrease) increase in taxation balances	**107,903**	(26,895)
Net cash inflow (outflow) from operating activities	**246,368**	19,239

(c) Working capital facility

Drillsearch has available to it a $50.0 million variable rate working capital facility with the Commonwealth Bank of Australia ('CBA'). The facility is undrawn as at 30 June 2014 (30 June 2013: $10.0 million drawn). The amount available to the Company under the current facility terms are set to reduce in the financial year 2015 and 2016.

30 Financial instruments

(a) Capital management

The capital structure of the Group consists of net debt (borrowings as detailed in note 21 offset by cash and bank balances) and equity of the Group (comprising issued capital, reserves and retained earnings as detailed in notes 23 and 24).

The Board reviews the capital structure of the Group on an on-going basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

(i) Gearing ratio

The gearing ratio at the end of the reporting period was as follows:

	Notes	**30 June 2014 $'000**	30 June 2013 $'000
Debt (i)	21	**153,426**	140,391
Less: cash and bank balances (ii)	29	**(152,384)**	(36,061)
Net debt		**1,042**	104,330
Equity (ii)		**363,405**	286,595
Net debt to equity ratio (%)		**0.29**	36.40

(i) Debt is defined as long-term and short-term borrowings (excluding derivatives and financial guarantee contracts), as described in note 21.

(ii) Equity includes all capital and reserves of the Group that as described in notes 23 and 24.

30 Financial instruments (continued)

(b) Categories of financial instruments

	30 June 2014 $'000	30 June 2013 $'000
Financial assets		
Cash and bank balances	**152,384**	36,061
Loans and receivables	**85,522**	51,302
Available for sale financial assets designated as at FVTPL	**25,194**	-
	263,100	87,363
Financial liabilities		
Convertible notes (FVTPL)	**153,426**	130,391
Commodity price options (FVTPL)	**155**	-
Other amortised cost	**74,638**	48,480
Other financial liabilities designated as at FVTPL	**25,194**	-
	253,413	178,871

(c) Financial risk management objectives

The Group's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk, liquidity risk and credit risk.

The Group's Treasury function is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Treasury function regularly updates the Group's Audit and Risk Committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

(d) Market risk

The Group's activities expose it to financial risks of changes in commodity prices (below), foreign currency exchange rates (note 30(f)) and interest rates (note 30(g)).

There are no material changes noted in the current financial year which has increased the Company's exposure to market risks. The Company continues to focus on:

30 Financial instruments (continued)

(d) Market risk (continued)

- The significant rise in oil production and weighting towards US dollar based revenues, which creates an exposure to both commodity price and foreign exchange risk; and
- The issuance of a US dollar convertible note debt instrument, which has created an increased exposure to foreign exchange risk.

(e) Commodity risk management

The Group has managed its exposure to commodity price by entering into the following options during the financial year:

Tenor		Commodity	Price	Option type	Volume
Jul-14	Jul-14	ICE Brent	$USD90/bbl	Put (Bought) - Uncommitted obligation	42 kbbl
Aug-14	Oct-14	ICE Brent	$USD90/bbl	Put (Bought) - Uncommitted obligation	114 kbbl
Nov-14	Jan-15	ICE Brent	$USD90/bbl	Put (Bought) - Uncommitted obligation	176 kbbl
Feb-15	Apr-15	ICE Brent	$USD90/bbl	Put (Bought) - Uncommitted obligation	80 kbbl
				Put (Bought) - Uncommitted obligation	412 kbbl
Jul-14	Jul-14	ICE Brent	$US120/bbl	Call (Sold) - Committed obligation	42 kbbl
Aug-14	Oct-14	ICE Brent	$US120/bbl	Call (Sold) - Committed obligation	114 kbbl
Nov-14	Jan-15	ICE Brent	$US120/bbl	Call (Sold) - Committed obligation	176 kbbl
Feb-15	Apr-15	ICE Brent	$US120/bbl	Call (Sold) - Committed obligation	80 kbbl
				Call (Sold) - Committed obligation	412 kbbl

The Options above provide a collar underpinning 412 kbbls of 2014/2015 financial year production (2013/2014: 770 kbbls).

The Group's current oil price hedging strategy is to maintain downside price protection on up to 50% of the next 12 months' forecast production from 1P oil reserves. Volumes are based on the latest available 1P production profiles provided by independent reserve auditors RISC Operations Pty Limited.

The position is reviewed on an ongoing basis (at minimum quarterly) and the Group continues to assess its exposure to commodity price risk. See note 30(f) for foreign currency risk management.

Changes in fair value of the Options are recognised immediately in the statement of profit or loss. The total expense recognised for the financial year ending 30 June 2014 was $1.7 million (2013: $0.8m).

(f) Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising short term forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

30 Financial instruments (continued)

(f) Foreign currency risk management (continued)

	30 June 2014 $'000	30 June 2013 $'000
Cash and cash equivalents (USD currency)	**78,425**	506
Trade Receivables (USD currency)	**49,653**	7,481
Trade Payables (USD currency)	**(4,027)**	(2,205)
Convertible notes (USD currency)	**(144,527)**	(120,938)

(i) Foreign currency sensitivity analysis

The Group is mainly exposed to US dollar currency. This exposure is created through the denomination of the Group's US dollar revenues, USD cash held and the US dollar convertible note issued in the prior financial period.

Issuance of the convertible note in a currency to match the predominant revenue stream from the Group's reserve base forms part of the overall strategy on managing foreign currency exchange risk. The Group continues to review its strategy and management of foreign exchange risk.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit after tax where the Australian dollar strengthens 10% against the relevant currency. For a 10% weakening of the Australian dollar against the relevant currency, there would be a comparable impact on the profit after tax as a result of unrealised foreign exchange differences, and the balances below would be negative.

	30 June 2014 $'000	30 June 2013 $'000
10% increase in AUD/USD	**(1,383)**	(7,936)
10% decrease in AUD/USD	**1,691**	8,691

The above is based upon the Company's net US dollar balances carried on the balance sheet as at 30 June 2014 and 2013 only. This is mainly attributable to the exposure on the USD currency cash held and convertible notes outstanding at the end of the reporting period. The Group's sensitivity to foreign currency has changed as a result of the net exposure to the USD currency from these two balances.

30 Financial instruments (continued)

(g) Interest rate risk management

Sensitivity analysis is determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

As the Group was not exposed to any variable interest rate liabilities at 30 June 2014, the Group's exposure to interest rate risk arises from interest bearing cash balances only. If all other variables were held constant, a 1% decrease/increase in interest rates would decrease/increase current period profit after tax by $1.0 million (2013: $0.2 million), based on net interest bearing assets at the end of the reporting period.

(h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

(i) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	30 June 2014 $'000	30 June 2013 $'000
Working capital facility (i)	**50,000**	-

(i) Variable rate working capital facility available to the Company with the Commonwealth Bank of Australia ('CBA').

(ii) Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

30 Financial instruments (continued)

(h) Liquidity risk management (continued)

Contractual maturities of financial liabilities **At 30 June 2014**	**Less than 6 months $'000**	**6 - 12 months $'000**	**Between 1 and 2 years $'000**	**Between 2 and 5 years $'000**	**Over 5 years $'000**	**Total contrac-tual cash flows $'000**	**Carrying amount (assets)/ liabilities $'000**
Trade payables	**74,638**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial liabilities designated as at FVTPL	**25,194**	**-**	**-**	**-**	**-**	**-**	**-**
Convertible notes	**-**	**-**	**-**	**153,426**	**-**	**-**	**-**
Commodity price options	**72**	**83**	**-**	**-**	**-**	**-**	**-**
Total financial liabilities	**99,904**	**83**	**-**	**153,426**	**-**	**-**	**-**
At 30 June 2013							
Trade payables	38,480	-	-	-	-	-	-
Convertible notes	-	-	-	130,391	-	-	-
Borrowings	10,000	-	-	-	-	-	-
Total financial liabilities	48,480	-	-	130,391	-	-	-

(i) Credit Risk

The Group has adopted a policy of only dealing with credit worthy counterparties and only transacts with financial institutions that are rated the equivalent of AA and above. The Group's exposure and the credit ratings of its counterparties are continuously monitored and transactions concluded are spread amongst approved counterparties. Trade receivables consist of a limited number of customers, all of which are large creditworthy organisations.

(j) Fair value of financial instruments

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value and gives information about how this is determined (in particular, the valuation technique(s)and inputs used).

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed convertible notes). The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

There were no significant differences between the carrying value of financial instruments and their estimated fair values as at 30 June 2014.

30 Financial instruments (continued)

(j) Fair value of financial instruments (continued)

30 June 2014	**Note**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets at fair value through profit or loss	12	**25,194**	**-**	**-**	**25,194**
Financial liabilities at FVTPL					
Convertible notes	21	**153,426**	**-**	**-**	**153,426**
Commodity price options		**155**	**-**	**-**	**155**
Other financial liabilities designated as at FVTPL	12	**25,194**	**-**	**-**	**25,194**
Total liabilities		**178,775**	**-**	**-**	**178,775**

30 June 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial liabilities at FVTPL				
Convertible notes	130,391	-	-	130,391

31 Share-based payments

(a) Employee Share Option Plan

The Company had 13,971,331 options on issue at the start of the financial year. These represent the options issued to Directors, Executives and senior employees of the Company. There were no options issued during the year, whilst 4,900,000 options were exercised, and 1,164,992 options expired. Each exercised share option was converted into one ordinary share of Drillsearch Energy Limited. No amounts were paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The options granted have various expiry periods between three and seven years of their issue, or 90 days of the resignation in case of the Director or Executive vested options.

The total share- based payment expense for the year was $1.9 million (2013: $1.1 million).

The Company had 1,541,172 performance rights on issue at the start of the financial year. These represent performance rights issued to Directors, Executives and senior employees of the Company. During the year, a further 2,750,936 performance rights were issued, with a total of 3,218,077 remaining at the end of the financial year. The performance rights may be exercised at any time from the date of vesting to the date of their expiry. 653,100 performance rights vested in July 2014, 950,775 in July 2015, and the remainder in July 2016, subject to certain performance hurdles being met.

31 Share-based payments (continued)

(a) Employee Share Option Plan (continued)

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Set out below is a summary of outstanding options at the end of the reporting period:

Option series	Number of options at the end of the period	Exercise price	Grant date	Expiry date	Fair value at grant date
(13) Issued 1 December 2009	1,000,000	0.600	1/10/2009	30/09/2014	0.402
(15) Issued 16 March 2010	1,000,000	0.853	16/03/2010	15/03/2015	0.385
(21) Issued 20 June 2011	1,199,597	0.596	20/06/2011	20/06/2018	0.225
(22) Issued 25 July 2011	1,521,156	0.596	25/07/2011	25/07/2018	0.222
(25) Issued 23 November 2011	3,185,586	0.596	23/11/2011	23/11/2018	0.222
	7,906,339				

Series 13 and 15 vested at date of grant.
Series 21 vested at 20 June 2014.
Series 22 vested 25 July 2014.
Series 25 vests 23 November 2014 if performance hurdles are met.

The following reconciles the outstanding share options on issue at the beginning and end of the year:

	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at end of the year Number	Vested and exercisable at end of the year Number
2014						
	13,971,331	-	(4,900,000)	(1,164,992)	7,906,339	2,000,000
Weighted average exercise price	$0.60	-	$0.61	$0.60	$0.63	$0.68
2013						
	16,545,987	-	(2,500,000)	(74,656)	13,971,331	7,242,742
Weighted average exercise price	$0.63	-	$0.61	$0.60	$0.60	$0.62

The share options outstanding at the end of the financial year had a weighted average exercise price of $0.629 (2013: $0.601), and an average remaining contractual life of 1,198 days (2013: 744 days).

31 Share-based payments (continued)

(a) Employee Share Option Plan (continued)

The following performance rights were outstanding at the end of the reporting period:

Performance rights series	Number of performance rights	Class of shares	Grant date	Perf. period end date	Grant date fair value
Issued 18 December 2012	950,775	Ordinary	18/12/2012	30/06/2015	$0.416
Issued 2 September 2013 (i)	424,053	Ordinary	02/09/2013	30/06/2014	$0.920
Issued 2 September 2013	1,018,856	Ordinary	02/09/2013	30/06/2016	$0.69
Issued 21 November 2013 (i)	229,047	Ordinary	21/11/2013	30/06/2014	$0.920
Issued 21 November 2013	595,348	Ordinary	21/11/2013	30/06/2016	$0.69
	3,218,079				

(i) 653,100 performance rights with the performance period end date of 30 June 2014 were vested and issued on 1 July 2014.

32 Key management personnel disclosures

The directors and other members of key management personnel of the Group during the financial year were:

- Mr J.D. McKerlie (Chairman)
- Mr B.W. Lingo (Managing Director)
- Mr T. S Cheah (Non-Executive Director)
- Mr P. Bainbridge (Non-Executive Director)
- Mr B.K. Choo (Non- Executive Director) - resigned 20 November 2013
- Mrs F.A. Robertson (Non- Executive Director)
- Mr H.R.B. Wecker (Non- Executive Director)
- Mr I.W. Bucknell (Chief Financial Officer)
- Mr D. Evans (Chief Technical Officer)
- Mr P. Fox (Chief Commercial Officer)
- Mr J.S. Whaley (Chief Operating Officer) - resigned 6 January 2014

The aggregate compensation made to key management personnel of the Group is set out below:

	30 June 2014 $	30 June 2013 $
Short-term employee benefits	**4,120,362**	2,691,858
Post-employment benefits	**177,479**	117,673
Other term benefits	**111,776**	32,073
Termination benefits	**267,290**	-
Options and performance rights	**973,724**	947,623
	5,650,631	3,789,227

33 Related party transactions

The immediate parent and ultimate controlling party respectively of the Group is Drillsearch Energy Limited.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 28 to the financial statements.

(b) Transactions with key management personnel

Disclosures relating to key management personnel compensation are set out in the Remuneration Report. No other transactions have occurred during the period with key management personnel.

(c) Transactions with other related parties

During the financial year, the following transactions occurred between the Company and its other related parties:
• Drillsearch Energy Limited recognised tax payable in respect of the tax liabilities of its wholly owned Australian subsidiaries. Payments to/from the Company are made in accordance with the terms of the tax funding arrangement.

There were no related party balances outstanding at 30 June 2014.

Transactions and balances between the Company and its subsidiaries were eliminated in the preparation of consolidated financial statements of the Group.

34 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2014 $	2013 $
Auditor of parent entity		
Audit and review of financial statements	**156,300**	169,650
Due diligence and accounting advice separate to audit services	**-**	114,112
	156,300	283,762
Network firm of the parent entity auditor		
Tax advisory services	**8,123**	143,885
Total remuneration for taxation services	**8,123**	143,885
	164,423	427,647

The auditor of Drillsearch Energy Limited is Deloitte Touche Tohmatsu.

35 Subsequent events

ATP 924P Farm In

On 28 July 2014, the Company announced that it had executed an agreement with Beach Energy Limited for Beach to farm into its ATP 924P oil and gas exploration permit in the south west Queensland section of the Cooper Basin. Under the terms of the agreement, Beach will fund 150km2 of recently acquired 3D seismic, and drill an initial exploration well on the Hurron Prospect to earn a 45% farmin option. Under the second phase, and should Beach elect to exercise the option, it will drill an additional exploration well and reimburse the Company for past costs in order to earn the 45% interest.

Off-market takeover offer for Ambassador Oil and Gas

On 28 July 2014 the Takeover Panel made orders in relation to the company's off-market takeover offer for Ambassador Oil & Gas Limited ('Ambassador'), requiring the company to:

- Lodge and dispatch a Supplementary Bidder's Statement in a form approved by the Takeovers Panel;
- Ensure that the offer remained open for a minimum period of 21 days from the date of dispatch of the Supplementary Bidder's Statement;
- Reverse acceptances of the offer by certain persons; and
- Provide a withdrawal right for other Ambassador shareholders that had accepted the offer.

35 Subsequent events (continued)

As at 25 August 2014, as a result of acceptances received following the satisfaction of the Takeovers Panel orders, the company has a relevant interest in 54.63% of Ambassador shares. Due to the timing of the transaction, the Company is yet to perform an assessment of the fair value of the acquisition.

Refer to Note 12 to the Financial Statements regarding the accounting treatment of the company's interest in Ambassador shares as at 30 June 2014.

36 Parent entity disclosures

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 3 for a summary of the significant accounting policies relating to the Group.

(a) Summary financial information

	30 June 2014 $'000	30 June 2013 $'000
Assets		
Current assets	**322,056**	173,195
Non-current assets	**163,884**	62,068
Total assets	**485,940**	235,263
Liabilities		
Current liabilities	**215,454**	3,889
Non-current liabilities	**133,159**	2,845
Total liabilities	**(348,613)**	(6,734)
Equity		
Issued capital	**286,880**	280,411
Reserves	**4,987**	4,803
Retained earnings	**(154,540)**	(56,685)
Total equity	**137,327**	228,529

36 Parent entity disclosures (continued)

(a) Summary financial information (continued)

Loss for the year	**(126,445)**	(16,159)
Other comprehensive income	**-**	-
Loss for the year	**(126,445)**	(16,159)
Total comprehensive income	**(126,445)**	(16,159)

(b) Guarantees entered into by the parent entity

	2014 $'000	2013 $'000
Carrying amount included in current liabilities	**3,292**	100

The parent entity has provided financial guarantees in respect of operations of subsidiaries amounting to $3,292,000, secured by bank security deposits.

A liability has been recognised in relation to these financial guarantees in accordance with the policy set out in note 3(s).

(c) Commitments for capital and operating expenditure

	30 June 2014 $'000	30 June 2013 $'000
Oil and gas properties		
Longer than 1 year and not longer than 5 years	**-**	-
Not longer than 1 year	**4,300**	2,300
	4,300	**2,300**
Operating lease commitments		
Not longer than 1 year	**1,332**	568
Later than one year but not later than five years	**3,098**	289
	4,430	**857**

37 Business combination

On 4 July 2013 Drillsearch entered into an agreement with Santos to increase its interest in the Tintaburra Block Oil joint operation from 11% to 40% for consideration of $36.8 million. Drillsearch has recognised its increased interest in the joint operation from 1 October 2013 being the effective completion date of the transaction, recording $19.2m in oil and gas assets and $17.6m in deferred tax benefits relating to PRRT. The increased working interest has also resulted in a revision of the Company's decommissioning obligations. Santos continue to carry the remaining working interest, which is now reduced to 60%.

The acquisition had the following effect on the consolidated entity:

	Fair value $'000
Assets and liabilities held at acquisition date:	
Oil and gas assets	**36,800**
Net assets	**36,800**

The acquired business contributed revenues of $17,342,800 and net profit of $711,079 to the group for the period from 1 October 2013 to 30 June 2014.

If the acquisition had occurred on 1 July 2013, consolidated revenue and profit for the year ended 30 June 2014 would have been $23,123,733 and $948,105 respectively. These amounts have been calculated using the subsidiary's results and adjusting them for the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to oil and gas assets had applied from 1 July 2013.

	30 June 2014 $'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	**36,800**

Additional stock exchange information as at 25 August 2014

(a) Number of holders of equity securities

Ordinary share capital

442,552,020 fully paid ordinary shares are held by 5,485 individual shareholders

All issued ordinary shares carry one vote per share; however, partly paid shares do not carry the rights to dividends.

(b) Distribution of holders of equity securities

Distribution of holders of equity securities	Total holders	Fully paid ordinary	% of Issued Capital
1-1,000	1,096	580,396	0%
1,001-5,000	1,820	5,059,895	1%
5,001-10,000	988	7,559,985	2%
10,001-100,000	1,396	40,819,109	9%
100,001 and over	185	388,532,635	88%
	5,485	**442,552,020**	**100%**
Holding less than a marketable parcel	326	8,596	0%

Convertible notes

1,250 6% fully paid convertible notes are held by individual noteholders. Convertible notes do not carry a right to vote.

Options

7,851,066 options are held by 14 individual option holders. Options do not carry a right to vote.

Performance rights

2,564,979 performance rights are held by 12 individual performance right holders. Performance rights do not carry a right to vote.

(c) Twenty largest holders of quoted equity securities

	Fully paid ordinary shares	
Ordinary Shareholders	**Number**	**Percentage**
HSBC Custody Nominees (Australia) Limited	80,593,117	18.21
J P Morgan Nominees Australia Limited	55,144,414	12.46
Citigroup Nominees Pty Limited	47,982,430	10.84
National Nominees Limited	36,269,445	8.20

Additional stock exchange information as at 25 August 2014 (continued)

(c) Twenty largest holders of quoted equity securities (continued)

QGC Pty Limited	36,216,094	8.18
Beach Energy Limited	21,053,615	4.76
UOB Kay Hian Private Limited	9,184,270	2.08
HSBC Custody Nominees (Australia) Limited	5,955,563	1.35
BNP Paribas Nominees Pty Limited	5,206,422	1.18
National Nominees Limited	4,647,891	1.05
Zero Nominees Pty Limited	4,568,789	1.03
RBC Investor Services Australia Nominees Pty Limited	3,465,753	0.78
National Nominees Limited	3,374,503	0.76
Citicorp Nominees Pty Limited	3,296,614	0.74
Mrs Foutoula Hatziladas	3,064,815	0.69
Zonex Capital Pty Limited	2,673,071	0.60
NEFCO Nominees Pty Limited	2,342,834	0.53
Cablex Industries Pty Limited	2,300,000	0.52
Glenluce Properties Pty Limited	2,239,894	0.51
Alpha Gem Pty Limited	2,127,500	0.48
	331,707,034	**74.95**

(d) Company Secretary

Jean Moore
Ian Bucknell

(e) Registered office

Level 16
55 Clarence Street
Sydney NSW 2000
PH: 02 9249 9600

(f) Principal administration office

Level 16
55 Clarence Street
Sydney NSW 2000
PH: 02 9249 9600

(g) Share registry

Level 16
55 Clarence Street
Sydney NSW 2000
PH: 02 9249 9600

Schedule of tenements

Permit number (location)	Operator	Ownership interest 2014 %	Ownership interest 2013 %
Oil			
ATP 299P & PL's - Tintaburra (Eromanga)[1]	Santos Limited	40%	11%
ATP 539P (Eromanga)	Great Artesian Oil & Gas Ltd[2]	100%	100%
ATP 549P - Cypress Block (Eromanga)	Australian Gasfields Limited	40%	40%
ATP 549P - West Block (Eromanga)[3]	Great Artesian Oil & Gas Ltd[2]	33%	67%
ATP 783P - Chandos Block (Eromanga)	Drillsearch Energy Limited	100%	100%
ATP 920P (Eromanga)	Drillsearch Energy Limited	100%	100%
ATP 924P (Eromanga)	Drillsearch Energy Limited	100%	100%
ATP 956P (Eromanga)	Canadian Coyote Energy Ltd	100%	100%
ATP 959P (Eromanga)	Canadian Coyote Energy Ltd	100%	100%
PEL 91 (Cooper)	Beach Energy Limited	60%	60%
PEL 182 (Cooper)	Senex Energy Limited	43%	40%
Wet Gas			
PEL 91 (Cooper)	Beach Energy Limited	60%	60%
PEL 101 (Cooper	Acer Energy Pty Limited[2]	80%	80%
PEL 103 (Cooper	Acer Energy Pty Limited[2]	100%	100%
PEL 103A (Cooper)	Acer Energy Pty Limited[2]	75%	75%
PRL 14 (Cooper)	Acer Energy Pty Limited[2]	100%	100%
PRL 17 (Cooper)	Acer Energy Pty Limited[2]	100%	100%
PRL 18 (Cooper)	Acer Energy Pty Limited[2]	100%	100%
PEL 632 (Cooper)[6]	Santos QNT Pty Ltd	40%	100%
PEL 106 (Cooper)	Beach Energy Limited	50%	50%
PEL 107 (Cooper)	Beach Energy Limited	60%	60%
PPL 212 (Cooper)	Beach Energy Limited	60%	60%
PEL 513 (Cooper)[6]	Santos Limited	40%	100%
PPL 239 Middleton & Brownlow (Cooper)	Beach Energy Limited	50%	50%
PRLA 26 Udacha (Cooper)	Beach Energy Limited	75%	75%
Unconventional			
ATP 932P (Eromanga)	Drillsearch Energy Limited	100%	100%
ATP 940P (Eromanga)	Circumpacific Energy (Australia) Pty Limited[2]	40%	40%
PEL 632 (Cooper)[6]	Santos Limited	40%	100%
PEL 106 (Cooper)	Beach Energy Limited	50%	50%
PEL 107 (Cooper)	Beach Energy Limited	60%	60%
PEL 513 (Cooper)[6]	Santos Limited	40%	100%

Permit number (location)	Operator	Ownership interest 2014 %	Ownership interest 2013 %
Divestment			
ATP 917P (Eromanga)	Circumpacific Energy (Australia) Pty Limited	0%	100%
ATP 927P (Eromanga)	Drillsearch Energy Limited	0%	100%
ATP 657P (Eromanga)	Great Artesian Oil & Gas Ltd[2]	0%	100%
PEL 100 (Cooper)	Santos Limited	0%	26%
PL 315 - Pickanjinnie (Surat)	Santos Limited	75%	75%
PL 18 FO (Surat)	Chelsea Oil Australia P/L (Parent - Australian-Canadian Oil Royalties Ltd)	10%	10%
T/18P (Bass)	Origin Energy	5%	5%
PEL 422 (Darling)[7]	Acer Energy Pty Limited	0%	100%
PEL 424 (Darling)[7]	Acer Energy Pty Limited	0%	100%
PEL 471 (Darling)[7]	Acer Energy Pty Limited	0%	100%
PELA 139 (Barka)[7]	Acer Energy Pty Limited	0%	0%
PELA 140 (Barka)[7]	Acer Energy Pty Limited	0%	0%
PELA 141 (Murray)[7]	Acer Energy Pty Limited	0%	0%
PELA 142 (Murray)[7]	Acer Energy Pty Limited	0%	0%
PELA 143 (Barka)[7]	Acer Energy Pty Limited	0%	0%
Talbot Lake (Canada)	Drillsearch Energy (Canada) Inc.[2]	0%	100%
Talbot Lake (Canada)	Energy Venture Inc.	0%	25%

Notes:

1. Drillsearch announced on 4 July 2013 that it had acquired an additional 29% interest in the Tintaburra Block takings its interest to 40%.
2. Subsidiary of Drillsearch Energy Limited.
3. Drillsearch announced on 4 July 2013 that it had farmed out a 33.3% interest in ATP 549P-W to Santos Limited reducing its interest in the permit to 33.3%.
4. Permits subject to grant.
5. Canadian Coyote Energy Ltd (formally Circumpacific Energy Corporation) has signed agreements to transfer ownership and operatorship of these permits to Drillsearch and its subsidiaries upon grant.
6. Drillsearch announced on 4 July 2013 that it had farmed out a 60% interest in this permit along with operatorship to Santos Limited reducing its interest in the permit to 40%.
7. Withdrawal of title renewals for PEL422, 424 and 471 and all PELA's was approved effective 14 August 2013. Drillsearch has no outstanding interest in these permits.
8. Drillsearch reached agreement with Larus in July 2013 to terminate all outstanding obligations in relation to the Gippsland permits.