

ASX ANNOUNCEMENT

29 October 2014

Drillsearch September 2014 Quarterly Report

Drillsearch is pleased to provide the following Quarterly Report for September 2014. A conference call to discuss these results will be held for investors and analysts at 11.00am (AEST) on Wednesday, 29 October 2014. Drillsearch invites investors and analysts to participate in the conference call, details of which are included in the Quarterly report. A recording of the call will be provided on the Drillsearch website later today.

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Q1

DRILLSEARCH ENERGY LIMITED September 2014



Drillsearch

Highlights

Production of 0.75 mmbbl for the quarter; FY2015 guidance of 3.0 to 3.4 mmbbl unchanged

Revenue of \$79.9 million for the quarter; cash balance increased to \$169.5 million¹ as of 30 September 2014

FY2015 work program well underway; Balgowan-1 and Burners-1 discoveries demonstrate continued prospectivity of the Western Flank Oil Fairway

Acquisition of Ambassador Oil & Gas completed, consolidating landholding in Northern Cooper

Managing Director's comments

We have made a strong start to FY2015, with solid production performance, and significant progress with our work program across the Cooper Basin.

Production of 0.75 million barrels of oil equivalent (mmbbl) in the three months to 30 September 2014 was on plan, though declined 9% from the previous quarter because of lower oil production from the Western Flank. Revenue fell 13% to \$79.9 million as production of oil and wet gas declined, and as global oil prices weakened.

Western Flank oil production of 0.61 mmbbls (net to Drillsearch) was 10% lower than during the June quarter because of increased water cut. Average daily production from PEL 91 was 11,043 bbls (gross) for the quarter, however the connection of the Bauer-12 and -13 wells in September helped to lift output as high as 12,500 bbls/d late in the period.

Additionally, we have a number of new fields to be connected and a number of new development wells to be drilled in the Bauer oilfield that we expect will help production to remain strong. We remain on track to achieve our full-year production guidance of 3.0 to 3.4 mmbbl.

In addition, our financial position remains strong, with the cash balance growing to \$169.5 million¹ at end-September 2014, meaning our work program remains fully funded.

FY2015 Work Program Well Underway – and Delivering Results

Operationally, this is a significant year for Drillsearch with more than 40 wells to be drilled across our acreage, the company's biggest-ever work program. As of mid-October, this program was well underway with eleven wells² completed, including Balgowan-1 and Burners-1, our 14th and 15th oil discoveries on the Western Flank Oil Fairway, representing two out of three successful exploration wells in PEL 91 during the period.

In the Northern Cooper, we achieved a number of significant milestones with the successful drilling of the Juniper-3 appraisal well and the hydraulic stimulation of Flax-1 ahead of a planned restart of production. In the Western Cooper, we are advancing our wet gas

drilling campaign alongside Beach, with the Canunda-2 appraisal well cased and suspended in early October.

Activity continued in our unconventional joint venture with QGC in ATP 940P with Anakin-1 being cased and suspended and the completion of the hydraulic stimulation program at Charal-1 during the September quarter. Subsequent to the end of the quarter, Padme-1 was drilled to total depth and the hydraulic stimulation program commenced at Anakin-1.

Portfolio Optimisation

We continued to optimise our portfolio during the quarter. In July, we announced that Beach had agreed to farm in to the ATP 924P permit, extending our partnership from the Western Flank into the highly prospective Inland-Cook Oil Fairway where we anticipate that a well will be drilled late in the financial year.

We have wrapped up the takeover of Ambassador Oil & Gas Limited with the completion of compulsory acquisition, announced on 27 October 2014. Through this transaction, Drillsearch has acquired a 47.5% stake in PEL 570 consolidating our position in the Northern Cooper Wet Gas area just as we are about to embark on a drilling campaign in neighbouring PEL 101.

Subsequent to the end of the quarter, New Standard Energy, our joint venture partners in PEL 570, announced a transaction whereby Santos will acquire a 35% interest in PEL 570 in return for cash and funding 75% of New Standard's continuing farm in commitments. We look forward to working with our partners in PEL 570 to progress the work program.

In summary, it has been a busy start to the financial year, with that momentum expected to continue through the December quarter and we are well positioned to execute our work program.

Brad Lingo
Managing Director

1. Inclusive of \$4.8 million of cash held by Ambassador Oil & Gas at the effective date of Drillsearch taking control.
2. Anakin-1, Balgowan-1, Burners-1, Banyan-1, Padme-1, Stunsail-2, Karrata-1, Pennington-3, Juniper-3, Canunda-2 and Bauer-14 (see table on page 7)

Financial and Production Overview

Another solid operational performance delivered \$79.9 million of revenue during the September quarter. Total revenue fell by 13% from the June quarter (\$91.5 million) due to lower quarter-on-quarter production and weaker global crude oil prices, although these were partially offset by the weaker Australian dollar. The average realised Australian dollar oil price was \$114.50 a barrel during the quarter, 5% lower than the prior period.

The continuing solid revenue performance in the quarter enabled Drillsearch to add to its cash position, closing with \$169.5 million¹ of cash and cash equivalents as at 30 September 2014, up 11% from 30 June 2014 (\$152.4 million). The company's \$50.0 million senior secured bank debt facility remains undrawn. Drillsearch continues to manage its balance sheet prudently, and the company's work programs remain fully funded from internal sources through FY2016.

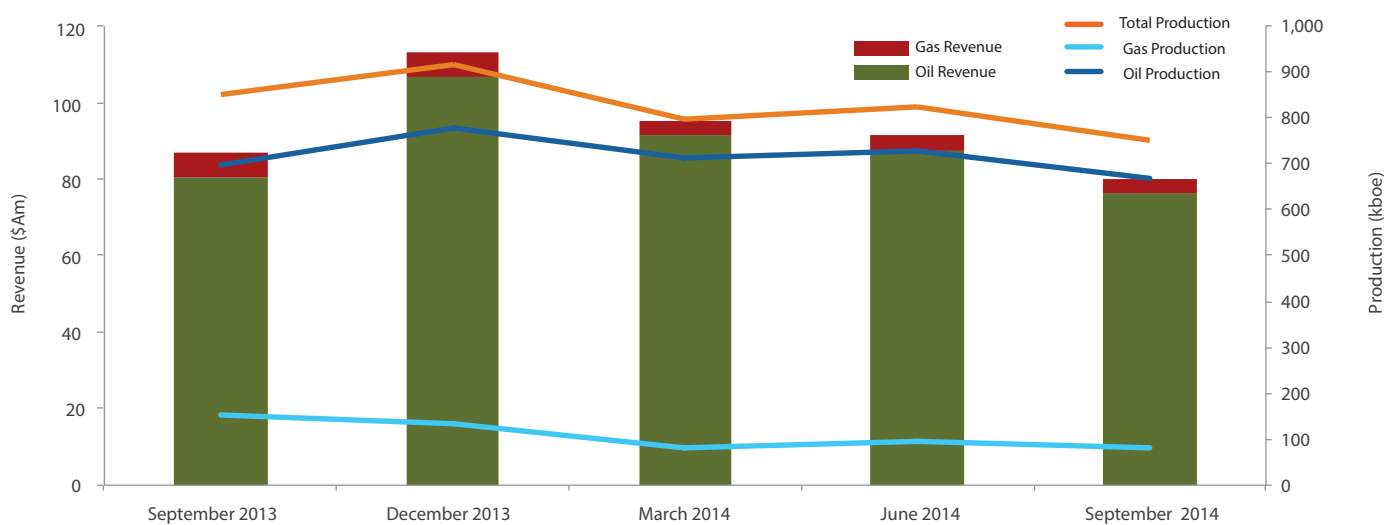
The Western Flank assets continued to be a strong driver of performance, with production of 0.61 mmbbls of oil net to Drillsearch, 10% less than the June quarter (0.68 mmbbls). Production rates later in the quarter were boosted with the progressive connection of Bauer-12 and -13 in September, while the Bauer facility expansion to 50,000 barrels of fluid per day was also completed during the period. The Kalladeina, Congony and Sceale (KCS) production hub is coming online in the current quarter.

Drillsearch's share of oil production from the Eastern Margin Oil Fairway increased by 22% to 58,701 barrels as the Tintaburra-8, Toobunyah-10 and Toobunyah-11 wells came online, bringing average daily production to 638 bbls net to Drillsearch (1,595 bbls gross), from 531 bbls/d (1,327 bbls/d) in the June quarter.

In the Wet Gas Business, production fell, with total gas and gas liquids revenue 20% lower. The PEL 106 joint venture with Beach continues to regulate production in order to prioritise higher margin condensate production, and this impacted volumes during the quarter. The joint venture has an active drilling program underway, and is also investigating the installation of compression that will help to improve production rates. Brownlow-Middleton remains the template for future Drillsearch gas satellites across its Cooper Basin permits.

The following chart shows the quarterly production and revenue results since September 2013.

Quarterly Production and Revenue results since September 2013



Source: Drillsearch Energy Limited

¹ Inclusive of \$4.8 million of cash held by Ambassador Oil & Gas at the effective date of Drillsearch taking control.

The financial information in the following table provides detailed production, revenue, operating and capital expenditure. The data presented is unaudited.*

Description	Units	3 Months Ended September 2014	3 Months Ended June 2014	Quarter Change %
Production (by product type)				
Oil	kbbbl	668.3	727.9	(8%)
Sales gas and ethane	TJ	331.8	394.2	(16%)
LPGs	ktonne	1.5	1.9	(21%)
Condensate	kbbbl	12.5	15.2	(18%)
Total oil and gas	kboe	749.6	824.3	(9%)
Sales revenue (by product type)				
Oil	A\$ mil	76.5	87.2	(12%)
Gas and gas liquids	A\$ mil	3.4	4.3	(20%)
Total revenue	A\$ mil	79.9	91.5	(13%)
Avg realised oil price	A\$/bbl	114.5	120.1	(5%)
Avg realised gas and gas liquids price	A\$/boe	41.1	44.4	(7%)
Direct operating expense (by business unit)				
Oil	A\$ mil	25.7	28.3	(9%)
Wet Gas	A\$ mil	1.5	2.2	(35%)
Total direct operating expense	A\$ mil	27.2	30.5	(11%)
Oil & gas asset capital expenditure (by business unit)				
Oil	A\$ mil	4.8	8.3	(42%)
Wet Gas	A\$ mil	0.1	1.2	(92%)
Total oil & gas asset expenditure	A\$ mil	4.9	9.6	(49%)
Exploration & evaluation capital expenditure (by business unit)				
Oil	A\$ mil	15.3	10.7	44%
Wet Gas	A\$ mil	2.8	1.2	128%
Unconventional	A\$ mil	15.9	13.3	19%
Corporate	A\$ mil	0.4	0.0	n/m
Total exploration & evaluation expenditure	A\$ mil	34.4	25.2	36%
Net asset acquisitions / (divestments)				
Assets Acquired [^]	A\$ mil	41.2	0.0	n/m
Assets Divested	A\$ mil	0.0	0.0	n/m
Net asset acquisitions / (divestments)	A\$ mil	41.2	0.0	n/m
Financials				
Cash & cash equivalents	A\$ mil	169.5	152.4	11%
Utilised Senior Secured Bank Debt	A\$ mil	0.0	0.0	0%
Unutilised Senior Secured Bank Debt	A\$ mil	50.0	50.0	0%
Total Senior Secured Bank Debt	A\$ mil	50.0	50.0	0%
Unsecured convertible bond ^{^^}	A\$ mil	153.4	153.4	0%

[^] Relates to the acquisition of Ambassador interests

^{^^} Unaudited balance as at 30 September 2014

* Drillsearch has brought its Wet Gas reporting in line with its peers and joint venture partners Santos and Beach by replacing "Gas Raw" with "Sales Gas and Ethane", inserting "Total oil and gas production" and changing some units of measure.

Exploration and Development Overview

Oil Business

Western Flank Oil Fairway

Four oil wells were drilled in PEL 91 (Drillsearch 60%, Beach 40% and Operator) during the September quarter - Balgowan-1, Burners-1, Stunsail-2 and Pennington-3. The Balgowan-1 and Burners-1 exploration wells were both cased and suspended as future oil producers, the 14th and 15th oil discoveries in the permit. Both wells are located close to the Stunsail discovery (see map) and intersected pay in the Namur Sandstone and McKinlay Member. These discoveries confirm the extension of the oil fairway to the northeast of the Bauer field increasing and de-risking the joint venture's focus on a number of other prospects in this part of the permit.

The Stunsail-2 and Pennington-3 wells were drilled as aggressive step-out appraisal wells to determine field and facility sizes for future development. Both wells were plugged and abandoned after insufficient pay was identified for the wells to be economic.

Subsequent to the end of the September quarter, the first of six Bauer development wells, Bauer-14, was drilled in the southwest part of the field. The well was cased and suspended as a future producer.

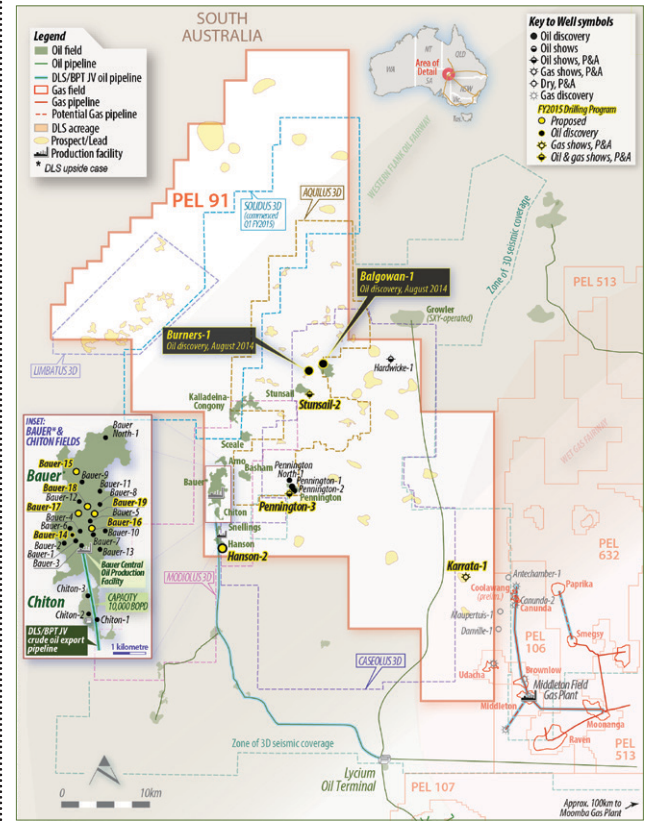
Line clearing for the ~500km² Solidus 3D seismic survey began in mid-September with acquisition starting in mid-October. The Solidus 3D seismic survey merges the boundaries of three older 3D seismic surveys and covers an area to the northwest of the permit previously only covered by sparse 2D seismic. Acquisition is expected to be completed during the December quarter.

Inland-Cook Oil Fairway

Drillsearch announced on 28 July 2014 that it had signed an agreement with Beach Energy whereby Beach agreed to farm in to the ATP 924P permit in the Inland-Cook Oil Fairway. Under the terms of the agreement, Beach will fund 150km² of recently acquired 3D seismic and drill an initial exploration well on the Hurrion Prospect to earn an option. Under the second phase, and subject to Beach electing to exercise the option, Beach will drill an additional exploration well and reimburse Drillsearch for past costs in order to earn the 45% interest.

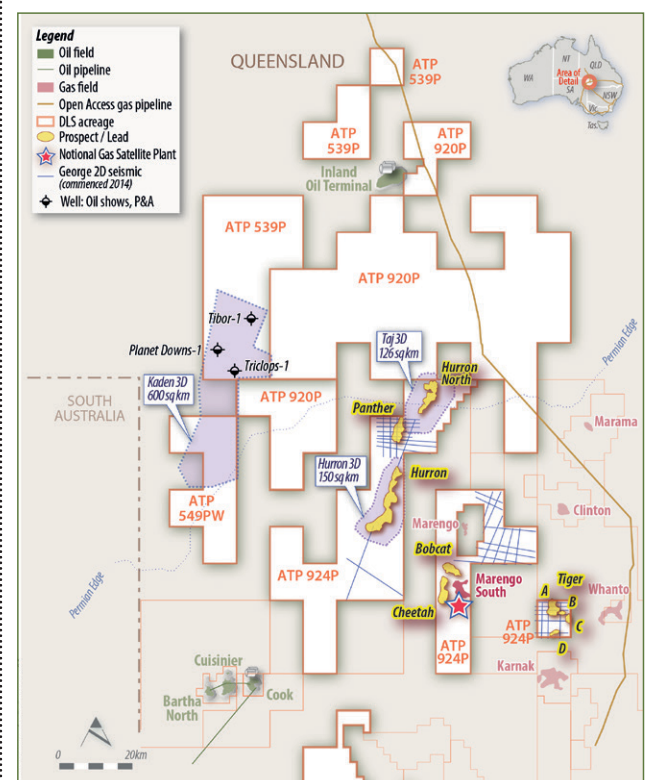
Geological and geophysical work continued during the September quarter. Processing of the Taj and Hurrion 3D seismic surveys progressed with completion expected in the December quarter. It is intended that these 3D seismic surveys will enable the joint venture to de-risk and high-grade the multiple prospects Drillsearch has already identified on vintage 2D seismic within ATP 924P. In addition, the acquisition of the George 2D seismic survey began during the quarter and is expected to be completed in the December quarter.

WESTERN FLANK OIL FAIRWAY, COOPER-EROMANGA BASIN



Source: Drillsearch Energy Limited

INLAND-COOK OIL FAIRWAY, COOPER-EROMANGA BASIN



Source: Drillsearch Energy Limited

Northern Cooper Project Area

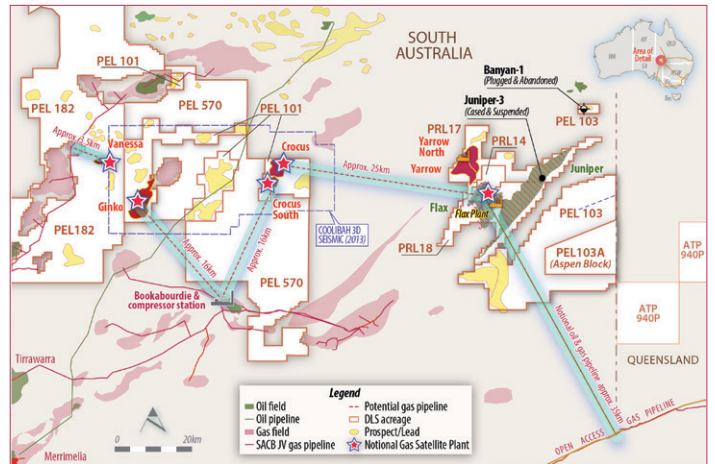
In PRL 14, the workover of the Flax-1 well continued with hydraulic stimulation of the Mid-Patchawarra Formation that demonstrated the existence of a new pay interval. The well was recompleted as a dual-zone producer using a sliding sleeve completion. The sliding sleeve will enable production from the new zone identified in the Mid-Patchawarra, as well as from the Tirrawarra Formation which previously accounted for 54% of overall production from the Flax field.

Technical and commercial work has continued on the reinstatement campaign and the order in which the existing Flax wells could be brought into production. This campaign also includes the recertification of the Flax surface facilities.

In PEL 103, the Banyan-1 vertical exploration well was drilled during the quarter, encountering multiple oil shows. Petrophysical evaluation determined the well to be non-commercial, and therefore Banyan-1 was plugged and abandoned.

The Ensign 932 rig then moved to drill the Juniper-3 vertical appraisal well in PRL 17 situated 5.7km to the northeast of Juniper-1 which was drilled in 2005 by Innamincka Petroleum which later became Acer Energy Limited. Juniper-3 encountered pay intervals in the lower Patchawarra Formation with the well being cased and suspended for future testing and hydraulic stimulation.

NORTHERN COOPER PROJECT AREA



Source: Drillsearch Energy Limited

Wet Gas Business

Western Cooper Wet Gas Project Area

The application for a Petroleum Production Licence (PPL) over the Canunda and Coolawang fields in PEL 106 was granted in August. This enables the PEL 106 joint venture (Drillsearch 50%, Beach 50% and Operator) to secure the acreage for the lifetime of the fields.

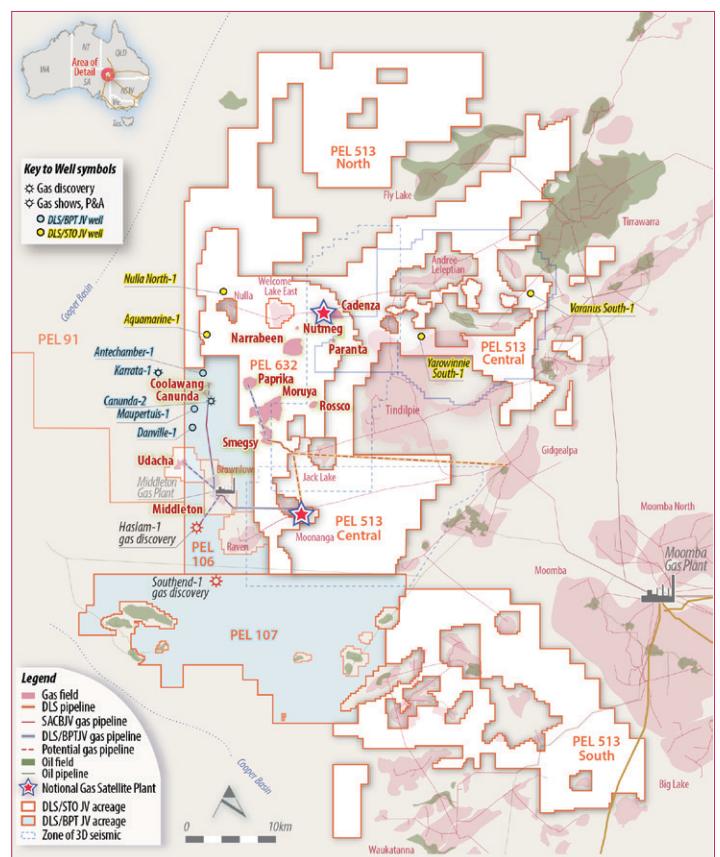
As part of the Western Cooper Wet Gas drilling campaign, the Karrata-1 wet gas exploration well was drilled in PEL 91 (Drillsearch 60%, Beach 40% and Operator), up dip from the Canunda-1 wet gas discovery currently producing in neighbouring PEL 106. Karrata-1 was drilled to test the presence of gas/condensate in a Patchawarra structural stratigraphic trap on the flank of the Patchawarra Trough. Insufficient pay was identified in the primary interval of the Patchawarra Formation for the well to be economic, resulting in Karrata-1 being plugged and abandoned.

Subsequent to the end of the September quarter the Canunda-2 well in PEL 106, located 873m northwest of Canunda-1, was drilled to appraise the field. Canunda-2 was cased and suspended as a future producer after it intersected the same Patchawarra Sand interval that is currently producing in Canunda-1.

In PELs 513 and 632 (Drillsearch 40%, Santos 60% and Operator) the 329km² Jacenza 3D seismic survey was completed during the September quarter. The Jacenza 3D survey will provide almost continuous coverage of 3D data from the Patchawarra Trough up to the edge of the wet gas fairway. In addition, interpretation of the Munathiri 3D seismic survey in PEL 513 has been completed with six robust leads identified so far.

Drilling in the Santos acreage is expected to commence during the current quarter and continue into the March quarter, with four wells in the initial campaign.

WESTERN COOPER WET GAS PROJECT AREA



Source: Drillsearch Energy Limited

Unconventional Business

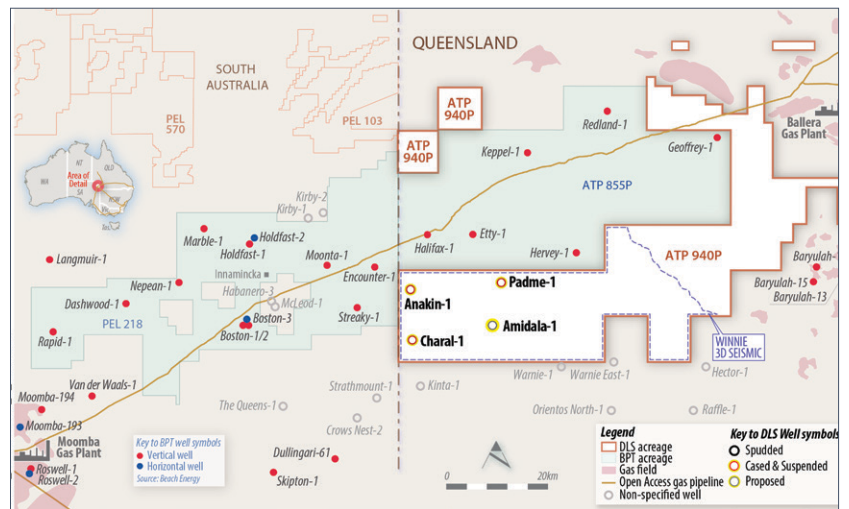
Central Unconventional Fairway

In July, Drillsearch completed drilling the second unconventional well in ATP 940P (Drillsearch 40% and Operator, QGC 60%), Anakin-1, with the well reaching a total depth of 4,050m. The Weatherford 826 rig was released from Anakin-1 and moved to Padme-1 where it re-entered the well on 7 September 2014. Subsequent to the end of the September quarter, drilling at Padme-1 reached a total depth of 3,913m and will be cased and suspended for hydraulic stimulation once logging operations are completed.

Commencement of the hydraulic stimulation program in the Nappamerri Trough began on schedule in September with the stimulation of the Charal-1 well. All 13 planned stages of the Charal-1 stimulation were successfully executed over a period of two weeks across the Patchawarra Formation and Roseneath Epsilon and Murteree (REM) Shale intervals before the crew moved on to Anakin-1. At Anakin-1, three stages of the planned hydraulic stimulation were successfully executed during the first week of October, while production testing of Charal-1 is expected to begin in November.

Once the Weatherford 826 rig has been released from Padme-1 it will be moved to the fourth well location at Amidala-1 where it is expected to spud late in the December quarter.

CENTRAL UNCONVENTIONAL FAIRWAY – ATP 940P



Source: Drillsearch Energy Limited

Drilling Program Financial Year-To-Date

Area	Well	Category	Tenement	Result	Status
Western Flank Oil	Balgowan-1	Exploration	PEL 91	Future oil producer	Cased & Suspended
	Burners-1	Exploration	PEL 91	Future oil producer	Cased & Suspended
	Bauer-14	Development	PEL 91	Future oil producer	Cased & Suspended
	Stunsail-2	Appraisal	PEL 91	Oil shows	Plugged & Abandoned
	Pennington-3	Appraisal	PEL 91	Oil shows	Plugged & Abandoned
Western Wet Gas	Karrata-1	Exploration	PEL 91	Gas shows	Plugged & Abandoned
	Canunda-2	Appraisal	PEL 106	Future gas producer	Cased & Suspended
Northern Cooper Gas & Liquids	Banyan-1	Oil - Exploration	PEL 103	Oil shows	Plugged & Abandoned
	Juniper-3	Oil- Development	PRL 17	Oil well	Cased & Suspended
Central Unconventional	Anakin-1	Exploration	ATP 940P	Pending	Awaiting stimulation
	Padme-1	Exploration	ATP 940P	Pending	Logging

Corporate

Ambassador Oil & Gas Limited

Drillsearch announced on 27 October 2014 that it had completed the acquisition of Ambassador Oil & Gas Limited following compulsory acquisition of the remaining shares.

The Ambassador acquisition consolidates Drillsearch's position in the Northern Cooper Wet Gas area and diversifies the Unconventional Business outside of the Nappamerri Trough and into the more liquids-rich Patchawarra Trough adjacent to our existing PEL 101 acreage (Drillsearch 80% and Operator).

The estimated total acquisition cost of Ambassador Oil & Gas Limited was \$44.7 million, comprising \$7.1 million of cash and \$37.6 million of new Drillsearch shares. The exploration asset acquired will be booked at net total acquisition cost (allowing for \$4.8 million in cash held by Ambassador at the effective date) less working capital and other costs at date of acquisition.

Santos Takes Operating Interest in PEL 570

On 23 October 2014, New Standard Energy Limited announced an agreement to divest part of its interest in PEL 570 to Santos Limited. Upon completion of the transaction, Santos will assume Operatorship, and providing all of the earn-in obligations are met, Santos will gain a 35% interest in the permit. New Standard will retain 17.5%, and its major shareholder, Magnum Hunter Resources Corp., will provide technical and operational input as the work program in PEL 570 progresses.

Given Santos' expertise and long history in the Cooper Basin, Drillsearch welcomes the company's involvement in the PEL 570 joint venture. Drillsearch and Santos already have a successful working relationship elsewhere in the Cooper, and we look forward to working with them in PEL 570 and to discussing with Santos and New Standard the timeline for moving ahead with the program.

Cooper Medivac 24 Helicopter Service Launched

During the quarter, Drillsearch and Senex Energy launched the *Cooper Medivac 24* night vision-equipped helicopter service. Based in Moomba,

Cooper Medivac 24 is able to fly at day and night and is designed to complement the existing 24/7 emergency response capabilities of the Royal Flying Doctor Service in the Cooper Basin.

Drillsearch Office Move

Drillsearch has consolidated its two Sydney offices into one new location at Level 18, 321 Kent Street, Sydney NSW 2000. The company also increased the size of its Brisbane office during the quarter.

AGM Details

Drillsearch's Annual General Meeting will be held on Wednesday, 19 November 2014 commencing at 10am in the AGL Theatre on Level 2 of the Museum of Sydney, corner of Bridge and Phillip Streets, Sydney NSW 2000. A light lunch will be provided at the conclusion of the meeting.

September Quarterly Results Conference Call

A conference call to discuss these quarterly results will be held for investors and analysts at 11.00am (AEST) on Wednesday, 29 October 2014. The call will be hosted by Drillsearch Managing Director, Brad Lingo, and Chief Financial Officer, Ian Bucknell. Drillsearch invites investors and analysts to participate in the conference call. Participants will be asked for their full name and for the Conference ID when joining the facility.

Date and time:	11.00am (AEST) on Wednesday, 29 October 2014
Conference ID:	484424
Dial in number:	Toll free Australia: 1800 041 303
	International: +61 2 9001 2114
	Hong Kong: 800 901 436
	Singapore: 800 120 5965
	UK: 0800 051 8260
	USA: 1 855 5624 857

A recording of the call will be provided on the Drillsearch website later today.

Further Information

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If you would like to register for email alerts, please register on the Home page of our website.

About Drillsearch:

Drillsearch Energy Limited (ASX: DLS) is one of the leading mid-tier oil and gas companies listed on the ASX. The company has undergone rapid growth over the past five years to become Australia's third-largest onshore oil producer, and one of the largest acreage holders in the prolific Cooper Basin. Drillsearch has assets that span the exploration, development and production continuum within Oil, Wet Gas and Unconventional. Its operations are highly profitable, and its work programs are fully funded from internal cash flow through FY2016. Drillsearch has successfully formed a number of key strategic alliances with leading players in the Australian and international exploration and production industry, including QGC, Santos Limited and Beach Energy Limited.



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