

**ASX ANNOUNCEMENT**

18 December 2014

## **Drillsearch Shareholder Newsletter**

Drillsearch Energy Limited is pleased to attach a copy of its Shareholder Newsletter which is being sent to Drillsearch shareholders.

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## Welcome to Drillsearch In Depth

Welcome to the inaugural edition of *"Drillsearch In Depth"*. Given the highly technical nature of the company's business, much of the information released to the market tends to be technical in nature. This newsletter will be sent out twice a year and is intended to provide you, our shareholders, with a 'plain English' update on the company's performance.

The first half of FY2015 has seen Drillsearch consolidate the platform created in the last financial year, with solid production performance and success with the drill bit. In August, we announced plans to drill more than 40 wells in FY2015. Through mid-December, this program has delivered 15 successful wells of the 20 drilled across the Oil and Wet Gas Businesses, while in Unconventional, two wells have been successfully hydraulically stimulated.

Despite the successful progress of the work program, Drillsearch, in common with its peers has been affected by a steep decline in global oil prices in FY2015, with share prices in the main Cooper Basin companies declining substantially. For Drillsearch, weaker oil prices during the first quarter were partially offset by a weakening in the Australian dollar, though still contributed to lower revenue for the period. The result for the September quarter was still the fifth-highest quarterly revenue reported by the company, and indeed, Drillsearch was differentiated from many in our peer group by increasing its cash position during the September quarter.

The decline in oil prices has continued since the September quarter, however the business remains strong, and is delivering robust margins from its operations. Drillsearch's breakeven production cost was around US\$25 a barrel in the September quarter<sup>1</sup>, and the company has continued to generate net operating cash flow. With almost \$170 million of cash on hand at the end of September, Drillsearch is also able to fund its work programs internally.

External market conditions remain outside of the company's control. The Board and management continue to monitor both operating and capital expenditure to ensure that the company

<sup>1</sup> Unaudited weighted average cash operating cost for Drillsearch total oil production during the September 2015 quarter, applying a USD:AUD exchange rate of 0.90. Break even production cost per barrel does not include capital expenditure and corporate costs.

## Highlights Financial Year-To-Date

- ➔ September quarter production of 0.75 mmbbl on plan; cash position increased to almost \$170 million
- ➔ PEL 91 drilling campaign delivered six successful development wells at Bauer and two oil discoveries at Balgowan-1 and Burners-1
- ➔ Western Cooper Wet Gas JVs with Beach and Santos delivered discoveries at Maupertuis-1 (PEL 106) and Varanus South-1 and Yarowinnie South-1 (PEL 513)
- ➔ Acquisition of Ambassador completed, consolidating landholding in Northern Cooper; Santos farms in to PEL 570 JV

can continue with its growth plans, while retaining a strong financial position. The Board recognises both the challenges and opportunities that the recent volatile conditions may present. We believe that Drillsearch is well positioned for both.

In order to manage our growing and diverse company, Drillsearch must continue to build operational and organisation capability. In November Drillsearch announced the appointment of Walter Simpson as Chief Operating Officer. Walter has more than 30 years' experience in oil and gas and will join the company in the New Year from BG Group/QGC, where he has been responsible for the successful delivery of major energy projects in Australia and overseas. Walter brings considerable depth and expertise to the executive team and increases the company's capability to execute on its growth plan.

In addition to very strong operating performance, the company has also delivered a number of important community programs. In August, Drillsearch and Senex announced the launch of Cooper Medivac 24, the first night vision-equipped helicopter service to operate in the Cooper Basin. This is a vital link to deliver critically ill patients to the Royal Flying Doctor Service that is also made available to the people who live and work in the local community.

In summary, the company enjoyed a year of significant achievement in FY2014 and that has continued into this financial year, with a lot more still to come. Despite the deterioration in the oil price, the company's underlying business is robust, and continues to deliver both strong production and exploration success.

I know it has been a very difficult and trying time for shareholders with the fall in our share price. It has been a very extreme response from the market to the oil price. Whilst we have not been treated as harshly as some others, the Board is very conscious of the need to not just trim our sails to suit the circumstances, but to continue to think strategically about the environment and continue on our path to long-term shareholder value creation.

Jim McKerlie, Chairman

## NORTHERN EXPOSURE

Two acquisitions in less than two years have given Drillsearch a dominant land position in the wet gas-prone Patchawarra Trough area of the Northern Cooper, which is set to become a significant area of focus for the company in the second half of FY2015.

The acquisition of Ambassador Oil & Gas completed in October gave Drillsearch a 47.5% stake in the PEL 570 area to add to the projects it acquired under its takeover of Acer Energy in 2013, namely the Flax/Yarrow/Juniper tight oil and gas project, the PEL 101 wet gas permit (of which Drillsearch currently owns 80%), and 43% of the PEL 182 permit held jointly with Senex.

Drillsearch's technical teams have undertaken a thorough examination of the Acer assets to gain a better understanding of the region, including undertaking the Coolibah 3D seismic survey. More recently, Drillsearch has progressed with a work program targeting the restart of production from Flax, and successfully appraised the Juniper tight oil field through the Juniper-3 well which was cased and suspended for further testing.

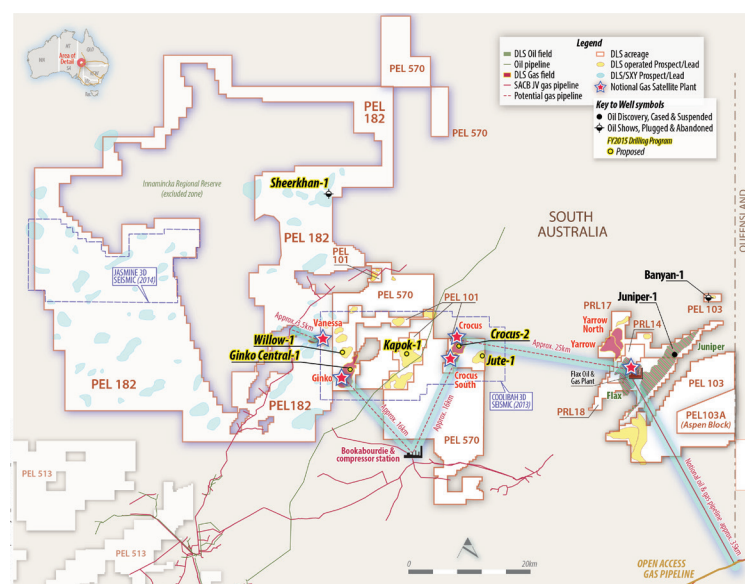
The work program in the area will gain momentum over the next few months, with a five-well drilling campaign planned to begin in PEL 101 in the March quarter as well as the completion of the workover at Flax. With two existing discoveries (Crocus-1 and Ginko-1) to be appraised in PEL 101, this program is likely to be a major focus for the March quarter.

*"The path we've taken with the Northern Cooper assets has been very deliberate, ensuring that we fully understand the region and that we have filled any gaps in the work carried out by Acer,"* Managing Director Brad Lingo said. *"We are now expecting to see some exciting news flow coming from this region, where we believe there is potential for the location of multiple wet gas satellite production facilities that can be easily connected into the pipeline network that runs either across or close to these permits."*

It's not just Drillsearch that is active in the Northern Cooper. Other companies also have their eyes on the area, including two of the companies building LNG plants in Queensland. In February 2014, Origin Energy announced an agreement to farm in to the deep sections of Senex's 904km<sup>2</sup> Area B block, while in late October Santos struck a farm in deal with New Standard Energy through which it will join the same PEL 570 permit that Drillsearch has just bought into through Ambassador.

Mr Lingo said: *"Given Santos' operating capability and long history in the Cooper Basin, their decision to join PEL 570 is a major step forward for the joint venture. We look forward to working with Santos in the Northern Cooper region and to discussing the timeline for progressing the work program in PEL 570."*

## Northern Cooper Oil and Gas project area



## COOPER MEDIVAC 24 IN ACTION

In August 2014, Drillsearch and partner Senex Energy launched Cooper Medivac 24, a night-capable helicopter that complements the existing 24/7 emergency capability of the Royal Flying Doctor Service (RFDS).

The Cooper Medivac 24 helicopter is owned and operated by Heliwest and is based at Moomba, with a range of 200km, outbound and return. It has capacity to carry a single stretcher supported by one paramedic.

Since Cooper Medivac 24 began operating in mid-June 2014, there have been a total of four call outs, two oil and gas industry-related, and two at the request of Australian Search and Rescue (AUSSAR).

The Cooper Medivac 24 helicopter connects those in the remote Cooper Basin who are in need of urgent medical assistance including the local community to the nearest airstrip where RFDS planes are able to land, saving valuable time and reducing other risks associated with driving on outback tracks. The capability of the helicopter to fly at night helps to enhance the safety and well-being of everyone who lives, works and travels in the Cooper Basin, including Drillsearch's employees in the area.

Drillsearch is proud of its involvement with Cooper Medivac 24 and will continue working with its joint venture partners to deliver genuine benefits to its employees, contractors and the community.



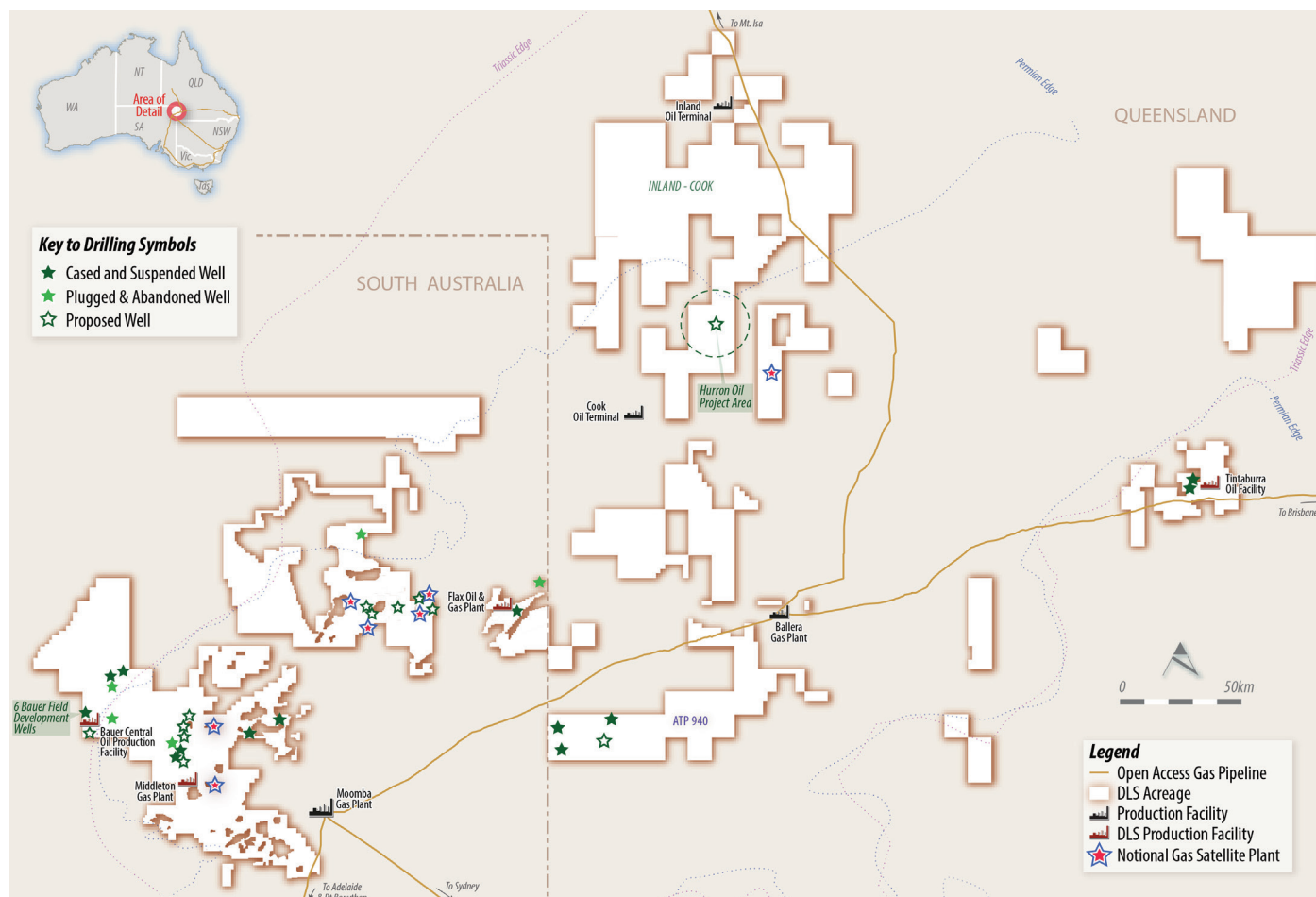
PROUDLY SUPPORTED BY

**Senex** **Drillsearch**

OWNED AND OPERATED BY

**Heliwest**

## Record work program in FY2015



## Drilling Successes Year-To-Date

Area	Well	Category	Tenement	Result	Status
<b>Western Flank Oil</b>	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
	Bauer-15	Development	PEL 91	Future oil producer	Cased & Suspended
	Bauer-16	Development	PEL 91	Future oil producer	Cased & Suspended
	Bauer-17	Development	PEL 91	Future oil producer	Cased & Suspended
	Bauer-18	Development	PEL 91	Future oil producer	Cased & Suspended
	Bauer-19	Development	PEL 91	Future oil producer	Cased & Suspended
<b>Western Wet Gas</b>	Canunda-2	Development	PEL 106	Gas shows	Cased & Suspended
	Varanus South-1	Exploration	PEL 513	Gas shows	Cased & Suspended
	Maupertuis-1	Exploration	PEL 106	Gas shows	Cased & Suspended
	Yarrowinnie South-1	Exploration	PEL 513	Gas shows	Cased & Suspended
<b>Northern Cooper Gas &amp; Liquids</b>	Juniper-3	Oil-Appraisal	PRL 17	Oil shows	Cased & Suspended
<b>Eastern Margin Oil</b>	Ipundu North-5	Development	PL 52	Future oil producer	Cased & Suspended
	Ipundu North-7	Development	PL 52	Future oil producer	Cased & Suspended
<b>Central Unconventional<sup>1</sup></b>	Anakin-1	Exploration	ATP 940	Pending	Awaiting production testing
	Padme-1	Exploration	ATP 940	Pending	Awaiting stimulation
	Amidala-1	Exploration	ATP 940	Pending	Drilling ahead

<sup>1</sup> Unconventional wells Anakin-1, Padme-1 and Amidala-1 are excluded from the financial year-to-date well count and success rate as they are ongoing.



## Q&amp;A WITH BRAD LINGO, MANAGING DIRECTOR

**Brad – what have been the highlights of FY2015 so far?**

Back in August, we announced plans for a work program of more than 40 wells across our acreage in the Cooper Basin. Through the middle of December, this program had delivered 15 successful wells out of a total of 20 drilled<sup>1</sup> with five discoveries in the current financial year that included two oil finds on the Western Flank and three wet gas discoveries in the Western Cooper Wet Gas project area resulting in a 75% drilling success rate<sup>1</sup>. On the Western Flank, ourselves and Beach have successfully brought the KCS (Kalladeina, Congony and Sceale) fields online as well as completing six new Bauer development wells that will all be tied into the production facility over the coming months. In Unconventional, we are nearing completion of the fourth well in our current campaign with QGC, with the stimulation and testing program now well underway.

All of this activity is aimed at supporting our strategy of maintaining and growing oil production and increasing production from wet gas, with a five-year target of doubling output from our conventional business overall.

**What impact has the declining oil price had on Drillsearch over the past few months?**

Our September quarter revenue was impacted by the decline in prices, and we have also seen an impact on our share price. That said, the barrels we produce on the Western Flank represent some of the most profitable oil production in the world, and we continue to make strong margins even with prices trading in the US\$60s per barrel. One of our key differentiators in the September quarter was that we continued to generate free cash flow over and above operating costs and new capital investment, despite being involved in an active drilling program.

Despite the weaker oil price, our operations are still very profitable. From a financial impact perspective Drillsearch continues to be paid for its crude oil production in US dollars while most of the company's costs are in Australian dollars. As a result, the decline in the US dollar oil price has been partly offset by a significant decline in the Australian/US dollar exchange rate to as low as A\$0.82 per US dollar – a more than 10% decline versus FY2014. As a result, our Oil Business has continued to generate strong Australian dollar cash flows and operating profits in spite of the oil price decline.

We continue to manage the business prudently, and to take a disciplined approach to use of funds. We continue to scrutinise capital expenditure and to ensure that investment is prudent, scaled to the rate of success, and that any capital expenditure realises value.”

**Has Drillsearch taken any steps to manage the decline in prices?**

Despite the company's strong financial position, during the December quarter Drillsearch took steps to mitigate the impact on the company of further oil price decline, which we have recently seen, in the form of a number of new hedges, or put options, at US\$70/bbl. These put options, combined with hedging in place under Drillsearch's undrawn working capital facility<sup>2</sup>, result in the company setting a realised floor price of US\$70/bbl (approximately 850,000 barrels) and US\$90/bbl (approximately 450,000 barrels) for the financial year.

**Will the weaker oil price have any impact on your longer-term growth plans?**

We will continue to scale our capex to success and to exercise considerable rigour in all of our investment decisions. We had nearly \$170 million of cash on our balance sheet at the end of September, and our work programs remain fully funded.

**What are some of the key operational milestones that investors should look out for in the second half of FY2015?**

We have reported a series of important discoveries in the December quarter and we are confident that news flow will continue into the second half of FY2015. Early in the New Year, we expect to have the results from the first flow test from our Unconventional program with QGC in ATP 940. We will also be kicking off our five-well drilling campaign in the Northern Cooper Wet Gas project area (PEL 101) which is a major focus for Drillsearch as an operator in the current financial year.

There is a lot to be excited about and I look forward to reporting on our progress through the rest of FY2015.



Activity at the Bauer Oil Field in PEL 91 during November 2014.

<sup>1</sup> Unconventional wells Anakin-1, Padme-1 and Amidala-1 are excluded from the financial year-to-date well count and success rate as they are ongoing.

<sup>2</sup> Details of the hedging facility under the undrawn working capital facility are included in the company's Full-Year financial statements released to the ASX on 27 August 2014.

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