

ASX ANNOUNCEMENT

19 February 2015

Operational Review - Outcomes and Outlook

Drillsearch Energy Limited (ASX: DLS) updates the market regarding the comprehensive review referred to in the company's December 2014 Quarterly Activities Report on 28 January 2015, and updates guidance for FY2015. The outcomes of the review will inform Drillsearch's planning and budgeting process, and also its discussions with joint venture partners regarding work programs in FY2016.

Outcomes of Review

- **Confirmation of strategy**
 - **Company remains committed to growth, though current market conditions emphasise the need to focus on sustainable growth**
 - **Oil Business remains positive cash flow generator**
 - **Wet Gas Business remains pathway to growth**
 - **Unconventional Business provides longer-dated value opportunities**
- **Prioritisation of capital and activity to focus on:**
 - **Near-term production, cash flow and reserves replacement**
 - **Conventional assets (Oil and Wet Gas)**
- **Longer-dated opportunities, including unconventional, de-prioritised**
- **Maintain a platform to realise opportunities and respond to change in conditions**

Outlook

- **FY2016 and FY2017 capex likely to be materially lower than FY2015**
- **Activity and capex to be matched to operating free cash flow**
- **Maintain robust balance sheet**
- **Annualised savings of \$10 million to \$15 million a year targeted across the corporate and operating cost base**

Guidance Update

- **Capex in H2 FY2015 \$55-70 million, down from \$95.6 million in the first half**
- **FY2015 full-year capex guidance revised to \$150-165 million**
- **FY2015 production guidance tightened to 3.0 to 3.2 mmboe**

Drillsearch Managing Director Brad Lingo said:

"Drillsearch ended the first half in a solid financial position, however the decline in the oil price and the subsequent lowering of forward oil curve expectations have given us cause to review our priorities, and how we allocate our cash."

"Since the market turned, we have been proactive in seeking opportunities to protect the financial strength of the business, including implementing additional hedging. This review has confirmed our strategy and emphasised the importance of focusing our investment to ensure that we live within our means and right size the business to meet the market environment."

Drillsearch

Review

As a result of the review, Drillsearch will reprioritise investment to focus on near-term production and cash flow, and on reserves replacement, as well as on conventional Oil and Wet Gas. This is expected to result in a significant reduction in capital expenditure in FY2016 and FY2017, in line with the change in external market conditions.

Exploration will be reduced to focus on high impact, low cost opportunities that offer a clear path to near-term cash flow. Drillsearch will also continue to seek to maximise the benefit it receives from free carries in three key joint ventures: Western Wet Gas and Northern Wet Gas (PEL 570) with Santos, and ATP 924 in the Inland-Cook Oil Fairway with Beach Energy.

Following the start of the testing program in ATP 940, Drillsearch, as Operator, plans to use the technical data acquired to plan for the next stage of activity. As such, no additional material spending is anticipated in ATP 940 in the near term. Elsewhere in the portfolio, certain other activity previously planned for the second half has also now been deferred.

As part of this reprioritisation, Drillsearch will seek opportunities to rationalise its portfolio to focus on lower risk, higher returning assets, as well as seeking to ensure that ownership of individual permits and fields is maintained at between 40% and 60%. This will include the divestiture of certain non-core permits to allow resources to be allocated elsewhere.

In parallel with initiatives to manage capital expenditure, Drillsearch will target annualised cost savings of between \$10 million and \$15 million per year across the corporate and operating cost base.

Mr Lingo said:

"The priorities we have set will inform our planning and budgeting processes in the coming months and our engagement with our joint venture partners."

"We have gone through a deliberate and measured process, and one in which we have been conscious not to over-react and sacrifice opportunities for the future. The business remains profitable, continues to deliver operational success, and our vision remains the same. The actions we are taking now will ensure that we continue to maintain a strong financial position in the near-term and that we will be well positioned for future success once external market conditions improve."

FY2015 Work Program

Drillsearch's capital expenditure during the first half of FY2015 was \$95.6 million, reflecting a work program that was weighted towards the first six months. As of 19 February 2015, this program had delivered 30 wells, with a success rate of 67%¹, and seven² new discoveries.

For the remainder of FY2015, the work program includes up to 11 wells in Oil and Wet Gas. None of these wells are operated, and five will be paid for in full by joint venture partners. Of the six to be part-funded by Drillsearch, four are new development wells in the Bauer oil field that are expected to be brought online either in late FY2015 or early FY2016, consistent with our strategy of prioritising near-term production.

¹ Success rate of 67% calculated on conventional wells only, and not including the Unconventional wells which are pending stimulation and testing.

² Balgowan-1 and Burners-1 on the Western Flank Oil Fairway; Varanus South-1, Yarowinnie South-1, Maupertuis-1, Nulla North-1 and Ralgnal-1 in the Western Cooper Wet Gas area. Ralgnal-1 and Nulla-North-1 discoveries were made subsequent to half-end, refer to Drillsearch's January Drilling Report released to the ASX on 10 February 2015.

Guidance Update

Consistent with the outcome of the review, Drillsearch has revised its guidance for capital expenditure in FY2015 to between \$150 million and \$165 million. Second half capital expenditure will be between \$55 million and \$70 million, substantially lower than expenditure in the first half and weighted to development activity. Capital expenditure in FY2016 and subsequent years will be substantially reduced.

Concurrently, production guidance for FY2015 has been amended to 3.0 to 3.2 mmboe of oil equivalent to reflect possible changes in project timings.

Mr Lingo said:

"The Board and management of Drillsearch continue to remain committed to sustainable growth over the longer term and to the projections previously outlined, however given the anticipated reduction in investment, management is reviewing the impact of this review on the timing of its future growth targets."

--Ends--

Conference call:

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

Time	Thursday, 19 February 2015 at 11:00am (AEDT)	
Dial-in number	1800 041 303 or +61 2 9001 2114	
Overseas	Hong Kong	800 901 436
	Japan	0066 3381 2710
	New Zealand	0800 264 316
	Singapore	800 120 5965
	United Kingdom	0800 051 8260
	United States	1 855 5624 857
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If you would like to register for email alerts please go to the Register page on our website: www.drillsearch.com.au

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

Forward Looking Statements

This Release contains forward looking statements. Often, but not always, forward looking statements may be identified by the use of words such as “may”, “will”, “expect”, “intend”, “target”, “anticipate”, “continue”, “guidance” and “outlook”, or similar expressions and may include (without limitation) statements regarding plans, strategies, objectives, anticipated operating or financial performance, including production volumes and costs.

Forward looking statements involve subjective judgments regarding future matters which are subject to known and unknown risks, uncertainties and other factors. Relevant factors may include, but are not limited to, changes in commodity prices, foreign exchange fluctuations, general economic conditions, increased costs and demand for production inputs, the speculative nature of exploration and development activities, political and social risks, both general and those specific to the oil and gas industry, changes to the regulatory framework in which the company conducts its business, environmental conditions, including extreme weather conditions, recruitment and retention of personnel, industrial relation issues and litigation.

While Drillsearch considers that there is a reasonable basis for all forward looking statements made, readers are cautioned not to place undue reliance on forward looking statements as actual results may vary materially from projected future results expressed or implied by forward looking statements. The company gives no assurance that assumptions upon which forward looking statements may be based will prove to be correct, or that the company's business, performance or results will not be affected in any material manner by these or other factors not foreseen or foreseeable by the company or beyond the company's control.

Forward looking statements in this release speak only as to the date of issue. Subject to any continuing obligations under applicable law, including the rules of relevant securities exchanges, the company does not undertake any obligation to publicly update or revise any of the forward looking statements or to advise of any change in events, conditions or circumstances on which any such statement is based.

References to “Drillsearch” may be references to Drillsearch Energy Limited or its applicable subsidiaries.