

**ASX ANNOUNCEMENT**

19 February 2015

**Drillsearch HY2015 Half-Year Results**

Drillsearch is pleased to provide the following Financial Report for the six months ended 31 December 2014. A conference call to discuss these results will be held for investors and analysts at 11.00am (AEDT) on Thursday, 19 February 2015. Drillsearch invites investors and analysts to participate in the conference call, details of which are included below. A recording of the call will be provided on the Drillsearch website later today.

<b>Time</b>	Thursday, 19 February 2015 at 11:00am (AEDT)	
<b>Dial-in number</b>	1800 041 303 or +61 2 9001 2114	
<b>Overseas</b>	Hong Kong	800 901 436
	Japan	0066 3381 2710
	New Zealand	0800 264 316
	Singapore	800 120 5965
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Drillsearch Energy Limited  
ABN: 73 006 474 844

# HALF-YEAR REPORT

for the six months ended 31 December 2014  
(Including Appendix 4D Disclosures, Directors' Report and Financial Report)

**Drillsearch**

An aerial photograph of an oil drilling rig in a desert landscape. The rig is a tall, white and yellow structure with a red top section. It is surrounded by various pieces of equipment, including storage tanks, pipes, and a large red cylindrical tank. The ground is reddish-brown and sandy. In the background, there are some small buildings and a winding dirt road. The sky is clear and blue.



# **Drillsearch Energy Limited** ABN 73 006 474 844

## **Interim report - 31 December 2014**

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by Drillsearch Energy Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Appendix 4D  
For the half year ended 31 December 2014  
Previous corresponding period: Half year ended 31 December 2013

**Results for announcement to the market**

	<b>2014</b>	<b>2013</b>		
	<b>\$'000</b>	<b>\$'000</b>		
<b>Key Information</b>				
Revenue from ordinary activities	146,714	200,337	Down	26.8%
Net profit for the period attributable to members	14,349	35,534	Down	59.6%
Underlying NPAT*	32,375	55,649	Down	41.8%

\* Underlying NPAT is non-IFRS accounting information used by the company to assess business performance. A reconciliation of underlying NPAT to NPAT is included on page 5 of the Directors' report.

**Dividends**

No dividend for the half year ended 31 December 2014.

**Net Tangible Assets**

	<b>2014</b>	<b>2013</b>
Net tangible assets backing per ordinary security (cents)	90.5	75.4
Basic earnings per share (cents)	3.2	8.3

**Details of individual and total dividends or distributions and dividends or distributions payments.**

There were no distributions or dividends paid or payable 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**

On 28 August 2014, the Group acquired control of the following entities:

- Ambassador Oil and Gas Limited
- Ambassador Exploration Pty Limited
- Ambassador US Oil and Gas Incorporated

The acquired entities form part of the Group and are wholly consolidated for financial statement purposes.

### **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 submit the financial report of Drillsearch Energy Limited and its subsidiaries (the Group) for the half year ended 31 December 2014. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

### **Directors**

Mr J. D. McKerlie (Chairman)  
Mr B. W. Lingo (Managing Director)  
Mr P. J. Bainbridge  
Mr T. S. Cheah  
Mrs F. A. Robertson  
Mr H. R. B. Wecker

The above directors held office during and since the end of the half year.

### **Principal activities**

The consolidated entity's principal activities in the course of the first half of financial year 2015 were oil and gas exploration, development and production. The company divides these activities into three business units: Oil; Wet Gas; and Unconventional.

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

### **Overview**

At the start of the reporting period, the Company outlined plans to invest heavily in its growth strategy through its largest-ever work program, off a platform of record results for the prior corresponding period, continuing strong operating performance, and a robust balance sheet.

During the six months ended 31 December 2014, the Company delivered against its plan, with continued strong production performance, completion of 27 of the more than 40 wells originally planned, and continued exploration success.

The first half also saw a dramatic change in the external environment for oil and gas companies, including Drillsearch, with a rapid decline in the oil price, particularly in the latter part of the half. The significant fall in oil prices has seen a lowering of expectations regarding future oil prices, including the speed of any price recovery.

In the context of the six months ended 31 December 2014, the dramatic fall in the oil price has impacted the Company's financial results, notwithstanding continued strong operating performance. Lowered expectations regarding future oil prices have also resulted in the Company recognising impairments to the carrying value of certain assets, notably its interests in the producing Eastern Margin/Tintaburra assets.

During the Reporting Period, the Company took significant steps to mitigate the impact of the fall in the oil price, putting additional hedging in place to provide some price and revenue protection for financial year 2015 and financial year 2016. That price protection, combined with the production performance in the half, provides the Company with the opportunity to take a considered view of priorities in the changed external conditions beyond the current year. Information regarding the Company's revised priorities after a comprehensive review of capital and operating costs has been separately released by the Company. Those priorities will inform the Company's planning and budget priorities, along with its joint venture partners, for financial year 2016 and beyond.

## Financial and Operating Performance

A summary of key financial and operating results for the reporting period is set out below:

	<b>Half year ended</b>	
	<b>31 Dec 2014 \$'000</b>	<b>31 Dec 2013 \$'000</b>
<b>Financial Performance</b>		
Revenue	<b>146,714</b>	200,337
Cost of Sales	<b>(77,852)</b>	(74,399)
Gross Profit	<b>68,862</b>	125,938
Exploration write-offs and asset impairments	<b>(61,839)</b>	(351)
Income tax expense	<b>(4,588)</b>	(54,053)
Net profit after tax (NPAT)	<b>14,349</b>	35,534
Underlying NPAT*	<b>32,375</b>	55,649
	<b>31 Dec 2014 \$'000</b>	<b>30 June 2014 \$'000</b>
Net assets	<b>417,370</b>	363,405
Net debt	<b>4,101</b>	1,042
Capital expenditure	<b>95,621</b>	95,654

	<b>Half year ended</b>	
	<b>31 Dec 2014 \$'000</b>	<b>31 Dec 2013 \$'000</b>
Operating cash inflow	<b>97,508</b>	93,834
Investing cash outflow	<b>(104,674)</b>	(46,625)
Financing cash inflow / (outflow)	<b>1,275</b>	(7,260)
Net cash (outflow) / inflow	<b>(5,891)</b>	39,949

## Production (by product type)

Oil	kbbbl	1,359.2	1,475.2
Sales gas and ethane	TJ	768.6	1,106.9
LPGs	ktonne	3.3	5.1
Condensate	kbbbl	24.6	52.7
<b>Total oil and gas</b>	<b>kboe</b>	<b>1,541.9</b>	<b>1,763.9</b>
Average realised oil price**	\$/bbl	105.4	126.3
Average realised gas and gas liquids price	\$/boe	38.3	46.1
Average total operating costs - Oil***	\$/boe	32.8	34.7
Average total operating costs - Wet Gas***	\$/boe	15.5	16.2

\*Underlying NPAT represents net profit after tax excluding transaction costs, changes in fair value movements, exploration write-offs and asset impairment. Underlying NPAT is non-IFRS accounting information used by the company to assess business performance. A reconciliation of underlying NPAT to NPAT is included on page 5 of the Directors' report.

\*\* Average realised oil price includes realised oil price hedge gains of \$2.5/bbl.

\*\*\* Calculated as direct operating expense for the period divided by production for the period.

### Financial and Operating Performance (continued)

Drillsearch's financial results for the half year were impacted by the challenging conditions that affected the oil and gas sector globally. Revenue of \$146.7 million in the six months ended 31 December 2014 fell 27% from the year-earlier period, affected by reduced production volumes and weaker crude oil pricing that was partially offset by the weaker AUD:USD exchange rate. The average realised oil price (including hedge gains) for the period was \$105.40/bbl, down from \$126.30/bbl for first half of financial year 2014. Total production of 1.54mmbbl fell 13% from the prior corresponding period primarily due to natural field decline, partially offset by new production being brought online in the Western Flank Oil Fairway towards the end of the reporting period.

Gross Profit for the half year of \$68.9 million was 45% lower from the previous reporting period due to the aforementioned revenue impacts, together with a modest increase to cost of sales. The increase in cost of sales resulted from higher amortisation and depletion charges which reflected increased costs of development across the full life of the assets, partially offset by a reduction in direct operating costs as a result of decreased royalty costs.

Net Profit After Tax (NPAT) of \$14.3 million fell 60% due to \$61.8 million of non-cash exploration write-offs and asset impairment, partially offset by favourable changes in the fair value of the oil hedge positions placed by the company during the half year and the Convertible Notes.

Excluding the impacts of the non-cash impairment, exploration write-off and fair value adjustments, the underlying NPAT of \$32.4 million was 42% lower than during the comparative period, reflecting lower revenue.

The following table presents a reconciliation of underlying NPAT from NPAT per the financial report:

	<b>Half year ended</b>	
	<b>31-Dec 2014 \$'000</b>	<b>31-Dec 2013 \$'000</b>
Net Profit After Tax (NPAT)	<b>14,349</b>	35,534
Derivatives fair value gains - unrealised	<b>(16,020)</b>	-
Change in fair value of convertible notes	<b>(2,832)</b>	22,824
Exploration write-offs and asset impairments	<b>61,839</b>	351
Tax impact of above changes	<b>(24,961)</b>	(3,060)
Underlying NPAT	<b>32,375</b>	55,649

### Financial position

The Company's semi-annual assessment of carrying values was undertaken in the context of the rapid decline of oil price during the six months to 31 December 2014, the subsequent lowering of forward curve oil price expectations, and the company's ongoing capital expenditure review. This has resulted in impairments relating principally to the Company's interests in the producing Eastern Margin/Tintaburra oil assets (ATP 299) and the write-off of certain non-producing, non-core exploration permits.

The net assets of Drillsearch increased to \$417.4 million as at 31 December 2014, from \$363.4 million at 30 June 2014, due primarily to the acquisition of Ambassador Oil & Gas Limited, which was funded primarily through the issue of new equity.

Capital expenditure for the half year of \$95.6 million was on-par with the prior year's full year period to 30 June 2014, marking a significant step-up in activity in financial year 2015. This reflected a work program that was weighted to the first half of the current financial year. The additional activity has been focused on exploration, with drilling activity across the Oil, Wet Gas and Unconventional businesses.



### **Financial position (continued)**

The company retains a strong liquidity position of \$196.5 million as at 31 December 2014, including the fully undrawn \$50 million working capital facility.

As reported to the ASX on 28 January 2015, the company has placed significant hedge protection against the falling oil price over the next 18 months. Given further declines in the oil price since the hedges were executed, through to year-end, the increase in fair value of these hedges has been recognised in the period.

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 market price. Any movements are reflected in the profit and loss statement.

### **Cash flow**

Operating cash flow of \$97.5 million, whilst impacted by oil price decline during the half, continues to demonstrate strong operating margins. Cash flow continues to be further enhanced due to tax payments being protected by both carried forward company tax losses and significant Petroleum Resources Rent Tax (PRRT) carried forward starting bases.

The strong operating cash flow has enabled continued investment in exploration, development and business acquisition activity.

Financing cash flows were relatively minor, and primarily represent continued payment of the financing costs of the Convertible Bond.

Cash Balance was \$146.5 million as of 31 December 2014, down slightly from 30 June balance of \$152.4 million.

### **First Half Operational Overview**

Considerable progress was made across all three business units in the first half of financial year 2015 in terms of the work program announced in August. Operational highlights included:

- Production of 1.54 million barrels of oil equivalent (mmboe) in the first half was to plan, though 13% lower than a year earlier (1H FY2014 1.76 mmboe) due to natural field decline.
- Western Flank oil production (1H FY2015 11,294 bopd gross vs 1H FY2014 12,748 bopd) benefited from the connection of new wells and fields later in the half, with additional wells to be connected through the remainder of FY2015.
- 16 successfully cased and suspended Oil and Gas wells during the first half, including two new Western Flank oil discoveries and three new Wet Gas discoveries.
- The Unconventional drilling program completed in ATP940 with production testing now underway.
- The acquisition of Ambassador Oil & Gas Limited. Through this transaction, Drillsearch acquired a 47.5% stake in PEL570.
- Improved safety performance even as activity increased: Total Recordable Injury Frequency Rate (TRIFR) fell 6% during the half year, and reached a record low of 7.87 in November.

## **First Half Operational Overview (continued)**

### ***Oil Business***

#### *Western Flank Oil Fairway*

The Oil Business contributed 1.36 mmbbl of overall production during the first half of financial year 2015, with a solid performance from the Western Flank Oil Fairway joint venture with Beach (Drillsearch 60%, Beach 40% and Operator) as new wells and fields were tied in.

The first half of the financial year 2015 drilling program delivered the 14th and 15th oil discoveries made on the Western Flank Oil Fairway (formerly PEL 91) at Balgowan-1 (PRL 171) and Burners-1 (PRL 172). An additional six Bauer development wells, along with the Hanson-2 appraisal well (PPL 255), were also cased and suspended as future oil producers during the reporting period.

The Bauer-16 to -19 development wells were drilled as deviated wells from a single pad location in the central part of the Bauer oil field. Given the close proximity of these wells, pad drilling techniques were adopted, eliminating the need for rig moves that resulted in the wells being drilled at significantly lower cost than if they had been drilled as standalone wells.

The 500 square kilometre Solidus 3D seismic survey was acquired during the period and merged the boundaries of three older 3D seismic surveys covering an area to the north-west of the permit formerly known as PEL 91 and previously only covered by sparse 2D seismic.

The PEL 182 joint venture (Drillsearch 43%, Senex 57% and Operator) drilled the Sheerkhan-1 exploration well, however potential oil pay intervals identified were considered insufficient to warrant further testing and the well was plugged and abandoned.

#### *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 924 permit. Beach will fund 150 square kilometres of 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.

Also within ATP 924, processing of the Taj and Hurrion 3D seismic surveys was completed during the first half of financial year 2015. In addition, the acquisition of the George 2D seismic survey was also completed.

#### *Northern Cooper Oil Fairway*

In PEL 103 (Drillsearch 100% and Operator), the Banyan-1 vertical exploration well was drilled. The well encountered multiple oil shows although petrophysical evaluation determined the well to be non-commercial and it was plugged and abandoned. The rig then moved to drill the Juniper-3 vertical appraisal well in PRL 17. Juniper-3 encountered pay intervals in the lower Patchawarra Formation and was cased and suspended for future testing and hydraulic stimulation.

The recertification of the Flax production facility in PRL 14 was completed in mid-December, allowing Flax-3 to be brought back into production with an initial production rate of approximately 190 bopd. Flax-3 contributed 1,109 bbls of production during the reporting period.

**First Half Operational Overview (continued)**  
**Wet Gas Business**

*Western Wet Gas*

Wet Gas production for the first half of financial year 2015 from the Western Cooper project area was 0.18 mmmboe.

The Western Cooper Wet Gas joint venture with Santos (Drillsearch 40%, Santos 60% and Operator) drilled three wells during the reporting period. The Varanus South-1 and Yarowinnie South-1 (PEL 513) wells were drilled as near-field exploration wells and were both cased and suspended as future producers. The third well in the campaign, Aquamarine-1, was drilled in the neighbouring PRL 133 block and was plugged and abandoned.

In the Wet Gas joint venture with Beach Energy, (Drillsearch 50%, Beach 50% and Operator), four wells were drilled in the area formerly known as PEL 106. The Canunda-2 appraisal well (PPL 257) was cased and suspended in October as a future producer after it intersected the same Patchawarra Sand interval that is producing in Canunda-1. The Maupertuis-1 wet gas well (PPL 257) indicated the presence of good hydrocarbons in the Tirrawarra Formation, and as a result, Drillsearch elected to sole risk the casing and suspending of the well for future testing and evaluation. The next two wells, Antechamber-1 (PRL 129) and Danville-1 (PRL 129), were plugged and abandoned.

*Northern Wet Gas*

In PEL 182, the joint venture completed the production testing of the Vanessa-1 exploration well. During the test, gas flowed to surface at an average rate of 5.0 million standard cubic feet per day (mmscf/d) from the Epsilon and Toolachee Formations on a 65% choke (42/64"). Condensate was also produced at a rate of 15 barrels per mmscf/d.

**Unconventional Business**

*Central Unconventional Fairway*

In ATP 940P (Drillsearch 40% and Operator, QGC 60%) the Anakin-1 and Padme-1 wells were drilled to total depth and cased and suspended for hydraulic stimulation and production testing during the reporting period. Subsequent to the reporting period, the fourth and final well in the ATP 940P drilling campaign, Amidala-1, reached target depth and was cased and suspended for future testing. Drillsearch commenced the hydraulic stimulation and production testing of the first two wells, Charal-1 and Anakin-1, in September. At Charal-1, 13 stages of hydraulic stimulation were completed across the Roseneath, Epsilon and Murteree Formations and the Patchawarra Formation intervals. At Anakin-1, eight stages were hydraulically stimulated.

Production testing of Charal-1 began on 24 December 2014, with first measurable gas flow to surface recorded on Thursday, 1 January 2015. A peak flow rate of 0.95 mmscf/d was achieved, at a wellhead pressure of 629 psi through a 30/64" choke.

Late in the December quarter, the ATP 940 joint venture received confirmation of a two-year extension of the permit from the Queensland Department of Natural Resources and Mines, from November 2015 to November 2017.

**First Half Operational Overview (continued)**  
**Corporate**

Drillsearch announced on 27 October 2014 that it had completed the acquisition of Ambassador Oil and Gas Limited following compulsory acquisition of the remaining shares. The Ambassador acquisition consolidates Drillsearch's position in the Northern Cooper Gas and Liquids project area, providing a 47.5% stake in the PEL 570 permit, 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).

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 assumed Operatorship of PEL 570 gaining a 35% interest in the permit. New Standard will retain a 17.5% interest, and its major shareholder, Magnum Hunter Resources Corp., will provide technical and operational input as the work program in PEL 570 progresses.

**Reserves**

Drillsearch employs appropriate internal expertise to determine its oil and gas reserves and resources. An independent third party is then engaged to assess internal reserve estimates. The Company has recently moved from providing this six monthly to an annual basis, in line with the practice of several of our peers.

**Significant changes in the state of affairs**

There have been no significant changes in the state of affairs of the consolidated entity during the first half of financial year 2015.

**Subsequent events**

The sale of T/18P to AWE Petroleum Pty Ltd was completed in January 2015.

**Environmental regulation**

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 wet gas 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 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.

**Diversity**

During the half year, a Diversity Steering Committee, which is responsible for making recommendations to the Board on ways to attract, retain and develop the 'best talent', was established. The Steering Committee is led by the Managing Director, is split equally between male and female members and includes representation from each of the various departments at Drillsearch.

The Steering Committee is currently drafting recommendations for measurable objectives and strategies for promoting and enhancing workplace diversity at Drillsearch and will be reporting to the Board at its next meeting.

**Dividends**

No dividends have been paid. No dividend is proposed for the current period (2014: \$nil).

**Auditor's independence declaration**

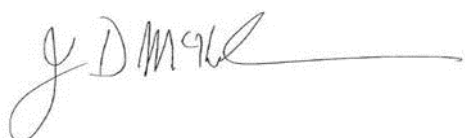
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 11.

**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.

This report is made in accordance with a resolution of Directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors

A handwritten signature in dark ink, appearing to read 'J D McKerlie', followed by a long horizontal line extending to the right.

J. D. McKerlie  
Chairman  
Sydney, 19 February 2015





## Auditor's Independence Declaration

As lead auditor for the review of Drillsearch Energy Limited for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Drillsearch Energy Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Justine Richardson'.

Justine Richardson  
Partner  
PricewaterhouseCoopers

Sydney  
19 February 2015



## **Independent auditor's review report to the members of Drillsearch Energy Limited**

### ***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of Drillsearch Energy Limited (the Company), which comprises the balance sheet as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Drillsearch Energy Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during the half-year.

### ***Directors' responsibility for the half-year financial report***

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Drillsearch Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Independence***

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Drillsearch Energy Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### *Matters relating to the electronic presentation of the reviewed financial report*

This review report relates to the financial report of the company for the half-year ended 31 December 2014 included on Drillsearch Energy Limited's web site. The company's directors are responsible for the integrity of the Drillsearch Energy Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'JRichardson', with a long horizontal flourish extending to the right.

Justine Richardson  
Partner

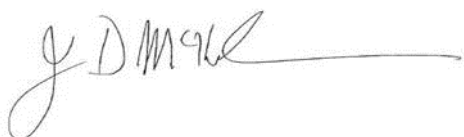
Sydney  
19 February 2015

In the Directors' opinion:

- (a) the interim financial statements and notes set out on pages 15 to 30 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 31 December 2014 and of its performance for the half year 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.

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

On behalf of the Directors,

A handwritten signature in dark ink, appearing to read 'J D McKerlie', followed by a long horizontal line extending to the right.

**J. D. McKerlie**  
Chairman

Sydney, 19 February 2015

**Drillsearch Energy Limited**  
**Consolidated statement of comprehensive income**  
**For the half year 31 December 2014**

		<b>Half year ended</b>	
		<b>31-Dec</b>	<b>31-Dec</b>
		<b>2014</b>	<b>2013</b>
	<b>Notes</b>	<b>\$'000</b>	<b>\$'000</b>
Revenue	3	<b>146,714</b>	200,337
Cost of sales of goods	4	<b>(77,852)</b>	(74,399)
<b>Gross Profit</b>		<b>68,862</b>	125,938
Other gains and losses	5	<b>1,454</b>	434
Finance costs	6	<b>(4,593)</b>	(7,039)
Net gain on derivatives	7	<b>19,504</b>	-
Other expenses	8	<b>(7,283)</b>	(6,581)
Change in fair value of convertible notes	9	<b>2,832</b>	(22,824)
Exploration and evaluation costs written off	13	<b>(17,497)</b>	(351)
Impairment of oil and gas assets	14	<b>(44,342)</b>	-
<b>Profit before income tax</b>		<b>18,937</b>	89,577
Income tax expense	10	<b>(4,588)</b>	(54,043)
<b>Profit for the period</b>		<b>14,349</b>	35,534
<b>Other comprehensive income, net of income tax which will be recycled to the profit and loss</b>			
Foreign currency translation		<b>(235)</b>	198
<b>Total comprehensive income for the period</b>		<b>14,114</b>	35,732
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share</b>			
Basic earnings per share		<b>3.2</b>	8.3
Diluted earnings per share		<b>2.9</b>	8.1

*Notes to the financial statements are included on pages 19 to 30.*



**Drillsearch Energy Limited**  
**Consolidated balance sheet**  
**As at 31 December 2014**

	Notes	31-Dec-2014 \$000s	Restated* 30-Jun-2014 \$000s
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		146,493	152,384
Trade and other receivables		57,870	85,522
Inventories		1,542	662
Available for sale financial assets	11	-	25,194
Derivative financial instruments	19(a)	22,335	-
Other current assets		1,023	1,963
Assets classified as held for sale	12	600	100
<b>Total current assets</b>		<b>229,863</b>	<b>265,825</b>
<b>Non-current assets</b>			
Exploration and evaluation assets	13	326,666	229,041
Oil and gas assets	14	137,195	187,899
Property, plant and equipment	15	3,778	2,571
Other non-current assets		1,366	1,349
<b>Total non-current assets</b>		<b>469,005</b>	<b>420,860</b>
<b>Total assets</b>		<b>698,868</b>	<b>686,685</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		52,942	74,638
Provisions	17	1,047	724
Other financial liabilities	11	-	25,194
<b>Total current liabilities</b>		<b>53,989</b>	<b>100,556</b>
<b>Non-current liabilities</b>			
Borrowings	9	150,594	153,426
Deferred tax liabilities		35,486	30,898
Provisions	17	41,429	38,400
<b>Total non-current liabilities</b>		<b>227,509</b>	<b>222,724</b>
<b>Total liabilities</b>		<b>281,498</b>	<b>323,280</b>
<b>Net assets</b>		<b>417,370</b>	<b>363,405</b>
<b>EQUITY</b>			
Contributed equity	18	325,149	285,528
Other reserves		7,432	7,437
Retained earnings		84,789	70,440
Equity attributable to owners of the parent		<b>417,370</b>	<b>363,405</b>
<b>Total equity</b>		<b>417,370</b>	<b>363,405</b>

\* See note 21(a) for details.

*Notes to the financial statements are included on pages 19 to 30.*

**Drillsearch Energy Limited**  
**Consolidated statement of changes in equity**  
**For the half year 31 December 2014**

		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
<b>Consolidated entity</b>							
<b>Balance at 1 July 2013</b>		280,411	5,124	(1,297)	3,440	(1,083)	286,595
Profit for the period as reported in the 2013 interim financial statements		-	-	-	-	35,534	35,534
<b>Total comprehensive income for the period</b>		-	-	-	-	<b>35,534</b>	<b>35,534</b>
<b>Transactions with owners in their capacity as owners:</b>							
Shares issued during the period		4,588	(1,834)	-	-	-	2,754
Recognition of share based payments		-	988	-	-	-	988
Transaction costs of share issue		(14)	-	-	-	-	(14)
Exchange differences arising on translation of foreign operations		-	-	198	-	-	198
		4,574	(846)	198	-	-	3,926
<b>Balance at 31 December 2013</b>		<b>284,985</b>	<b>4,278</b>	<b>(1,099)</b>	<b>3,440</b>	<b>34,451</b>	<b>326,055</b>
		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
<b>Consolidated entity</b>	Notes						
<b>Balance at 1 July 2014</b>		285,528	4,924	(927)	3,440	70,440	363,405
Profit for the period		-	-	-	-	14,349	14,349
<b>Total comprehensive income for the period</b>		-	-	-	-	<b>14,349</b>	<b>14,349</b>
<b>Transactions with owners in their capacity as owners:</b>							
Shares issued during the period	18	39,621	(1,087)	-	-	-	38,534
Recognition of share based payments		-	1,317	-	-	-	1,317
Exchange differences arising on translation of foreign operations		-	-	(235)	-	-	(235)
		39,621	230	(235)	-	-	39,616
<b>Balance at 31 December 2014</b>		<b>325,149</b>	<b>5,154</b>	<b>(1,162)</b>	<b>3,440</b>	<b>84,789</b>	<b>417,370</b>

Notes to the financial statements are included on pages 19 to 30.

**Drillsearch Energy Limited**  
**Consolidated statement of cash flows**  
**For the half year 31 December 2014**

	Half year ended	
	31-Dec 2014	31-Dec 2013
Notes	\$000s	\$000
<b>Cash flows from operating activities</b>		
Receipts from customers	189,131	197,327
Payments to suppliers and employees	(87,351)	(96,596)
<b>Cash generated from operations</b>	<b>101,780</b>	<b>100,731</b>
Interest paid	(4,272)	(6,913)
Income tax refund / (paid)	-	16
<b>Net cash inflow from operating activities</b>	<b>97,508</b>	<b>93,834</b>
<b>Cash flows from investing activities</b>		
Payments for business acquisition	21(a) -	(36,800)
Payments for oil and gas assets	(25,274)	(4,681)
Payments for exploration and evaluation assets	(73,307)	(17,802)
Payments for property, plant and equipment	(2,191)	(405)
Payments for oil hedging derivatives	(6,400)	-
Proceeds from sale of exploration and evaluation assets	-	12,507
Receipts from oil hedging derivatives	874	-
Interest received	1,624	556
<b>Net cash outflow from investing activities</b>	<b>(104,674)</b>	<b>(46,625)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issues of equity shares	1,275	2,740
Repayment of borrowings	-	(10,000)
<b>Net cash inflow / (outflow) from financing activities</b>	<b>1,275</b>	<b>(7,260)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(5,891)</b>	<b>39,949</b>
Cash and cash equivalents at the beginning of the period	152,384	36,061
<b>Cash and cash equivalents at end of period</b>	<b>146,493</b>	<b>76,010</b>

Notes to the financial statements are included on pages 19 to 30.

## **1 Summary of significant accounting policies**

### **Statement of compliance**

The half year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 Interim Financial Reporting.

Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS34 Interim Financial Reporting.

The half year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

### **Basis of preparation of half year report**

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of available for sale financial assets and financial instruments. Cost is 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 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the half year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2014 annual financial report for the financial year ended 30 June 2014, except for the impact of the Standards and Interpretations described below.

These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

- Limited amendment of impairment disclosures (AASB 2013-3)
- Annual improvements project - 2010-2012 cycle (AASB 2014-1 Part A) AASB 8 Operating segments

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and have no affect 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 its half year financial statements. There are no upcoming new or revised Standards and Interpretations which are expected to have a material impact on the Group.

## 2 Segment information

Information reported to the Chief Operating Decision Maker (CODM), being the Managing Director, for the purposes of the resource allocation and assessment of performance is focussed on the category of business units and is consistent with the most recent annual report. The Group's reportable segments under AASB 8 *Operating Segments* are therefore as follows

Oil Projects	Divestment assets
Wet Gas Projects	Unconventional Projects

### (a) Segment revenue and results

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

<b>31 December 2014</b>	<b>Oil Projects</b>	<b>Wet Gas Projects</b>	<b>Unconventional Projects</b>	<b>Divestment assets</b>	<b>All other segments</b>	<b>Total</b>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total segment revenue	139,718	6,996	-	-	-	146,714
<b>Adjusted EBITDA</b>	<b>39,055</b>	<b>1,855</b>	<b>-</b>	<b>-</b>	<b>11,901</b>	<b>52,811</b>
Total segment assets	224,442	195,218	98,099	600	180,509	698,868
Total segment liabilities	53,733	23,526	12,223	-	192,016	281,498
<b>31 December 2013</b>	<b>Oil Projects</b>	<b>Wet Gas Projects</b>	<b>Unconventional Projects</b>	<b>Divestment assets</b>	<b>All other segments</b>	<b>Total</b>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total segment revenue	187,099	13,238	-	-	-	200,337
<b>Adjusted EBITDA</b>	<b>135,107</b>	<b>7,668</b>	<b>-</b>	<b>-</b>	<b>(28,496)</b>	<b>114,279</b>
<b>30 June 2014</b>						
Total segment assets	274,459	174,038	51,665	100	186,423	686,685
Total segment liabilities	54,358	21,056	28,698	-	219,168	323,280



## 2 Segment information (continued)

### (a) Segment revenue and results (continued)

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

	31-Dec 2014 \$'000	31-Dec 2013 \$'000
<b>Adjusted EBITDA</b>	<b>52,811</b>	114,279
Finance costs	<b>(4,593)</b>	(7,039)
Interest on bank deposits	<b>1,624</b>	556
Amortisation and depletion	<b>(29,921)</b>	(17,189)
Depreciation	<b>(984)</b>	(1,030)
<b>Profit before income tax from continuing operations</b>	<b>18,937</b>	89,577

## 3 Revenue

Revenue from the sale of oil and gas	<b>146,714</b>	200,337
	<b>146,714</b>	200,337

## 4 Cost of sales

Change in inventories	<b>(833)</b>	(216)
Direct operating expense	<b>47,780</b>	56,396
Depreciation	<b>984</b>	1,030
Amortisation and depletion	<b>29,921</b>	17,189
	<b>77,852</b>	74,399

## 5 Other gains and losses

Interest on bank deposits	<b>1,624</b>	556
Other items	<b>(170)</b>	(122)
	<b>1,454</b>	434

## 6 Finance costs

	31-Dec 2014 \$'000	31-Dec 2013 \$'000
Finance fees and interest costs	4,472	6,719
Unwinding of discount on provisions	121	320
	<u>4,593</u>	<u>7,039</u>

## 7 Net gain on derivatives

Derivatives fair value gains - unrealised	16,020	-
Oil price hedge gains - realised	3,484	-
	<u>19,504</u>	<u>-</u>

## 8 Other expenses

Share based payments expense	1,317	1,051
General legal and professional costs	402	520
Foreign exchange gains/(losses)	(2,229)	971
Employee benefits expense	13,277	10,748
Recharges and recoveries (i)	(10,311)	(11,348)
Other expenses	4,827	4,639
	<u>7,283</u>	<u>6,581</u>

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

## 9 Borrowings

### (a) Convertible notes

US\$125 million convertible notes (the "Notes") were issued by the Company on 3 May 2013 and 13 May 2013 for which the net proceeds received have been recognised as a financial liability.

The liability is measured at Fair Value through Profit and Loss (FVTPL). The difference between the carrying amount of the liability at 30 June 2014 and the amount reported in the statement of financial position at 31 December 2014 (A\$2.8 million) represents the change in valuation of convertible notes attributable to market conditions and changes in respect of foreign currency translation.

Change in valuation of convertible note attributable to market conditions	24,198	(17,899)
Change in respect of foreign exchange differences	(21,366)	(4,925)
Change in fair value of convertible note	<u>2,832</u>	<u>(22,824)</u>

## 9 Borrowings (continued)

### (a) Convertible notes

	31-Dec 2014 \$'000	30-Jun 2014 \$'000
<b>Non-current unsecured</b>		
Convertible notes	<u>150,594</u>	<u>153,426</u>

Additional information on the Notes is available within the 30 June 2014 Annual Report and the Offering Circular associated with the issue.

### (b) Facilities

In the 31 December 2014 half year period Drillsearch introduced Australia and New Zealand Banking Group Limited ("ANZ") to the working capital facility which had previously been held solely with Commonwealth Bank of Australia ("CBA"). The amount available to Drillsearch, tenor and all other significant terms and conditions to the working capital facility have remained consistent with the prior financial period. Amortisation of the amount available to Drillsearch under the working capital facility will commence in the 30 June 2015 financial period. The facility was undrawn at 31 December 2014.

## 10 Income tax expense

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

The Group is also subject to the Petroleum Resources Rent Tax (PRRT) at a rate of 40% on the operating profit of its operations, which is applied on a tax effect accounting basis. Applying tax effect accounting principles on PRRT causes the tax effect of the difference between the PRRT base and the accounting base to be recognised as a deferred tax balance on the balance sheet and an income tax item in the income statement. 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.

The producing licenses generated a PRRT deferred tax liability which was sheltered by a corresponding deferred tax benefit from eligible exploration expenditures incurred by non producing licenses. As a result, the net impact was neutral during the period.

	31-Dec 2014 \$'000	31-Dec 2013 \$'000
Income tax expense recognised in profit or loss		
In respect of corporate tax	(4,588)	(32,510)
In respect of PRRT (net of income tax for PRRT)	-	(21,533)
	<u>(4,588)</u>	<u>(54,043)</u>

During the period the Company de-recognised carried forward tax losses (tax effected: \$12 million) previously reported in prior years' Balance Sheet as Deferred Tax Asset. This is as a result of slower forecast recoverability / utilisation of losses in the next few years, following sharp decline in Brent crude oil prices.

## 11 Current financial instruments at fair value through profit or loss

	<b>31-Dec 2014 \$'000</b>	30-Jun 2014 \$'000
Available for sale financial assets designated as at FVTPL	-	25,194
Other financial liabilities designated as at FVTPL	-	(25,194)
	<u>-</u>	<u>-</u>

During financial year 2014, the Group 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 was not a controlled entity of the Group as at 30 June 2014 because the Company was not exposed, and had no right, to variable returns from this entity and was not able to use its power over the entity to affect those returns. Also, the Directors of the Company did not consider the Group was able to exercise significant influence over Ambassador. The investment had a fair value of \$25.2 million.

Other financial liabilities of \$25.2 million represented 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.

On 28 August 2014, the Group gained control of Ambassador and the financial asset and financial liability were derecognised at this date. The Group obtained 100% ownership of Ambassador on 27 October 2014. See note 21(b)

## 12 Assets and liabilities classified as held for sale

Disposal group held for sale		
Exploration and evaluation assets	<b>100</b>	100
Other assets	<b>500</b>	-
Total assets of disposal group held for sale	<u><b>600</b></u>	<u>100</u>

In June 2014, the Group 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 transaction was completed in January 2015. The book value of T/18P interests was \$100,000.

In December 2014, the Group executed a sale and purchase agreement to sell its interests in Ambassador US Oil and Gas Inc located in Colorado, to Colorado Land Management LLC. The book value of the Colorado interests is \$500,000.

### 13 Exploration and evaluation assets

	<b>31-Dec 2014 \$'000</b>	30-Jun 2014 \$'000
Opening balance	<b>229,041</b>	217,890
Acquisitions (i)	<b>42,410</b>	1,500
Divestments	-	(12,057)
Expenditure incurred during the period	<b>68,156</b>	47,897
Exploration and evaluation costs written off (ii)	<b>(17,497)</b>	(2,120)
Reclassified from/(to) oil and gas assets	<b>4,305</b>	(23,969)
Reclassified to held for sale assets	-	(100)
Changes in decommissioning obligations	<b>251</b>	-
	<b>326,666</b>	229,041

(i) See note 21(b).

(ii) Write off of exploration and evaluation assets in relation to licences the Company intends to relinquish.

### 14 Oil and gas assets

	<b>31-Dec 2014 \$'000</b>	Restated 30-Jun 2014 \$'000
Opening balance	<b>187,899</b>	108,586
Acquisitions (i)	-	23,018
Reclassified from asset held for sale	-	199
Expenditure incurred during the period	<b>25,274</b>	46,877
Depletion and amortisation expense	<b>(29,921)</b>	(38,320)
Impairment of oil and gas assets (ii)	<b>(44,342)</b>	(218)
Changes in decommissioning obligations	<b>2,590</b>	23,788
Reclassified (to)/from exploration and evaluation assets	<b>(4,305)</b>	23,969
	<b>137,195</b>	187,899

(i) See note 21(a).

(ii) During the period, as a result of the sharp decline in Brent crude oil prices, Drillsearch carried out a review of all its Oil and Gas assets. The review led to the recognition of an impairment loss of \$44.3 million in relation to Tintaburra (ATP299P), which has been recognised in profit or loss. Tintaburra is included in the Company's Oil reportable segment. The recoverable amount has been determined on the fair value less costs of disposal approach. The fair value is calculated by discounting Tintaburra's estimated future cash flows. As one or more of the significant inputs is not based on observable market data, the asset is deemed to be Level 3 within the fair value hierarchy. See note 19(a)(ii) for further explanation.



## 14 Oil and gas assets (continued)

The fair value less costs of disposal calculation is based on the following key assumptions:

- Discount rate of 11%
- Company's latest 2P reserve announcement;
- Brent crude oil prices and exchange rates are within market analysts' estimated ranges; and
- Reduction in operating and capital expenditure due to restructuring operations.

## 15 Property, plant and equipment

	31-Dec 2014 \$'000	30-Jun 2014 \$'000
Opening balance	2,571	3,719
Expenditure incurred during the year	2,191	880
Depreciation expense	(984)	(2,028)
	3,778	2,571

## 16 Commitments

Oil and gas properties		
Not longer than 1 year	91,425	69,850
Later than one year but not later than five years	143,020	121,200
	234,445	191,050

Operating lease commitments (office rental)		
Within one year	762	1,322
Later than one year but not later than five years	2,343	3,098
	3,105	4,420

## 17 Provisions

### Current

Employee benefits (i)	1,047	724
	1,047	724

### Non-current

Employee benefits (i)	206	142
Decommissioning costs (ii)	41,223	38,258
	41,429	38,400

## 17 Provisions (continued)

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

31-Dec 2014 \$'000	30-Jun 2014 \$'000
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(ii) Decommissioning costs

Opening balance	38,258	14,039
Additional provisions recognised relating to acquisitions and discoveries	2,906	20,830
Unwinding of discount	124	431
Revision of decommissioning obligations	(65)	2,958
	41,223	38,258

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.

## 18 Equity securities issued

	31-Dec 2014		31-Dec 2013	
	Number of shares	Value \$'000	Number of shares	Value \$'000
<b>Fully paid ordinary shares</b>				
Balance at beginning of financial year	432,965,895	285,528	427,753,371	280,411
Share issues in relation to the acquisition of Ambassador Oil and Gas Limited	26,307,267	37,859	-	-
Share issues in relation to options, performance rights and share based payments	1,828,288	1,762	4,712,524	4,574
Balance at the end of the period	461,101,450	325,149	432,465,895	284,985

## 19 Financial risk management

### (a) Fair value measurements

This note provides an update on the judgements and estimates made by Drillsearch in determining the fair values of the financial instruments since the last annual financial report.

#### (i) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, Drillsearch classifies its financial instruments into the three levels as prescribed under the accounting standards.

The following table presents the Drillsearch's financial assets and financial liabilities measured and recognised at fair value through profit and loss (FVTPL) at 31 December and 30 June 2014 on a recurring basis:

## 19 Financial risk management (continued)

### (a) Fair value measurements (continued)

31 December 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Derivative financial instruments (i)	-	22,335	-	22,335
<b>Total assets</b>	-	<b>22,335</b>	-	<b>22,335</b>
<b>Liabilities</b>				
Convertible notes	150,594	-	-	150,594
<b>Total liabilities</b>	<b>150,594</b>	-	-	<b>150,594</b>
30 June 2014	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Available for sale financial assets designated as at FVTPL	25,194	-	-	25,194
<b>Total assets</b>	<b>25,194</b>	-	-	<b>25,194</b>
<b>Liabilities</b>				
Convertible notes	153,426	-	-	153,426
Commodity price options	-	155	-	155
Other financial liabilities designated as at FVTPL	25,194	-	-	25,194
<b>Total liabilities</b>	<b>178,620</b>	<b>155</b>	-	<b>178,775</b>

(i) The fair value of derivative financial instruments are determined using valuation techniques that maximise the use of observable market data where it is available. The Group's derivatives are not traded in active markets, however, all significant inputs required to fair value an instrument are observable (Level 2).

Drillsearch did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2014 (30 June 2014: Nil). There were no transfers recognised into or out of the fair value hierarchy levels (30 June 2014: Nil).

#### (ii) Valuation techniques used to determine fair values

Drillsearch determines fair value using the following valuation techniques:

Level 1: The fair value of financial instruments traded in active markets is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted market price used is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Where all significant inputs required to fair value an instrument are based on observable market data these instruments are included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There were no changes made to the valuation techniques applied as of 30 June 2014.

## 19 Financial risk management (continued)

### (a) Fair value measurements (continued)

#### (iii) Valuation processes

The finance department of Drillsearch includes a team that performs the valuations of assets required for financial reporting purposes. This team reports directly to the Chief Financial Officer (CFO) and the Audit and Risk Committee (ARC).

Discussions of valuation processes and results are held between the CFO, ARC and the valuation team at least once every six months, in line with the Drillsearch's half yearly reporting periods.

Changes in fair values are monitored throughout the period and further analysed at the end of each reporting period during the half yearly valuation discussion.

#### (iv) Fair values of other financial instruments

Drillsearch has other financial instruments which are not measured at fair value in the balance sheet. For these instruments the fair value will not be materially different to the carrying amount as any interest receivable/payable is either close to current market rates or the instrument is short-term in nature. No significant differences were identified between the fair value and carrying amount of these assets as at 31 December 2014 (30 June 2014: Nil).

## 20 Contingencies

There are no material contingent liabilities at 31 December 2014 (2013: nil) that are not otherwise disclosed of which the Directors are aware.

## 21 Business combination and Acquisitions

### (a) Tintaburra

On 4 July 2013 Drillsearch entered into an agreement with Santos to increase its interest in the Tintaburra (ATP 299) joint venture 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 provisional fair value of assets and liabilities acquired were finalised during the 6 months ended 31 December 2014 resulting in the revision of financial year 2014 acquired oil and gas assets and deferred tax benefits to \$23.0 million and \$13.8 million respectively.

Details of the purchase consideration and the net assets acquired are as follows:

	30-Jun 2014 \$'000
Purchase consideration	
Cash paid	<u>36,800</u>

## 21 Business combination and Acquisitions (continued)

### (a) Tintaburra (continued)

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value \$'000
Oil and gas assets	23,018
Deferred tax asset	13,782
Net identifiable assets acquired *	<u>36,800</u>

\* No goodwill has been recognised on the transaction.

### (b) Ambassador Oil and Gas Limited

During the period, the Group acquired all the ordinary shares in Ambassador, an ASX listed company focused on oil and gas exploration in the Cooper and Eromanga Basin via a conditional off-market takeover offer. The transaction is deemed to be an asset acquisition. The fair value of its exploration and evaluation assets were assessed at \$42.4m. See note 11 and note 13 for accounting treatment of Ambassador at 30 June 2014.

## 22 Subsequent events

The sale of T/18P to AWE Petroleum Pty Ltd was completed in January 2015.

## Schedule of tenements

Oil	Wet Gas	UNC	Tenement	Formerly	Operator	Ownership interest	
						HY2015 %	FY2014 %
▲			ATP 299		Santos Limited	40.00%	40.00%
▲			ATP 539		Great Artesian Oil & Gas Ltd <sup>1</sup>	100.00%	100.00%
▲			ATP 549 - Cypress Block		Australian Gasfields Limited	40.00%	40.00%
▲			ATP 549 <sup>4</sup> - West Block		Great Artesian Oil & Gas Ltd	66.66%	66.66%
▲			ATP 783		Drillsearch Energy Limited	100.00%	100.00%
▲			ATP 920		Drillsearch Energy Limited	100.00%	100.00%
▲			ATP 924 <sup>2</sup>		Drillsearch Energy Limited	100.00%	100.00%
		▲	ATP 932		Drillsearch Energy Limited	100.00%	100.00%
		▲	ATP 940		Circumpacific Energy (Australia) Pty Limited <sup>1</sup>	40.00%	40.00%
	▲	▲	PEL 101		Acer Energy Pty Limited <sup>1</sup>	80.00%	80.00%
▲			PEL 103		Acer Energy Pty Limited <sup>1</sup>	100.00%	100.00%
▲			PEL 103A		Acer Energy Pty Limited <sup>1</sup>	75.00%	75.00%
	▲	▲	PEL 107		Beach Energy Limited	60.00%	60.00%
▲			PEL 182		Senex Energy Limited	43.00%	43.00%
	▲	▲	PEL 513		Santos Limited	40.00%	40.00%
		▲	PEL 570		Outback Energy Hunter Pty Ltd <sup>3</sup>	47.50%	0.00%
▲			PL 29 (Tintaburra)	ATP 299	Santos Limited	40.00%	40.00%
▲			PL 38 (Toobunyah)	ATP 299	Santos Limited	40.00%	40.00%
▲			PL 39 (Talgeberry)	ATP 299	Santos Limited	40.00%	40.00%
▲			PL 52 (Tartat/Ipundu North))	ATP 299	Santos Limited	40.00%	40.00%
▲			PL 57 (Endeavour/Cranstoun)	ATP 299	Santos Limited	40.00%	40.00%
▲			PL 95 (Monler)	ATP 299	Santos Limited	40.00%	40.00%
▲			PL 169 (Gimboola)	ATP 299	Santos Limited	40.00%	40.00%
▲			PL 170 Takyah/Koorroopa)	ATP 299	Santos Limited	40.00%	40.00%
▲			PL 295 (Mulberry/Endeavour)	ATP 299	Santos Limited	40.00%	40.00%
	▲		PPL 212 (Kiana)	PEL 107	Beach Energy Limited	60.00%	60.00%
	▲		PPL 239 (Middleton/Brownlow)	PEL 106	Beach Energy Limited	50.00%	50.00%
▲			PPL 253 (Bauer)	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PPL 254 (Congony/Kalladeina)	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PPL 255 (Hanson/Snellings)	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PPL 256 (Sceale)	PEL 91	Beach Energy Limited	60.00%	60.00%
	▲		PPL 257 (Canunda/Coolawang)	PEL 106	Beach Energy Limited	50.00%	50.00%
	▲		PRL 14 (Flax)	PEL 103	Acer Energy Pty Limited <sup>1</sup>	100.00%	100.00%
	▲		PRL 17 (Yarrow)	PEL 103	Acer Energy Pty Limited <sup>1</sup>	100.00%	100.00%
	▲		PRL 18 (Juniper)	PEL 103	Acer Energy Pty Limited <sup>1</sup>	100.00%	100.00%
	▲		PRL 26 (Udacha)	PEL 106	Beach Energy Limited	75.00%	75.00%
	▲		PRL 129	PEL 106	Beach Energy Limited	50.00%	50.00%
	▲		PRL 130 (Raignal)	PEL 106	Beach Energy Limited	50.00%	50.00%
	▲		PRL 131	PEL 632	Santos QNT Pty Ltd	40.00%	40.00%
	▲		PRL 132	PEL 632	Santos QNT Pty Ltd	40.00%	40.00%
	▲		PRL 133	PEL 632	Santos QNT Pty Ltd	40.00%	40.00%
	▲		PRL 134	PEL 632	Santos QNT Pty Ltd	40.00%	40.00%

## Schedule of tenements

Oil	Wet Gas	UNC	Tenement	Formerly	Operator	Ownership interest	
						HY2015 %	FY2014 %
▲			PRL 135 (Vanessa)	PEL 182	Senex Energy Limited	43.00%	43.00%
▲			PRL 151	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 152	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 153	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 154	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 155	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 156	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 157	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 158	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 159	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 160	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 161	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 162 (Basham)	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 163 (Pennington)	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 164	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 165	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 166	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 167	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 168	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 169	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 170	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 171 (Balgowan)	PEL 91	Beach Energy Limited	60.00%	60.00%
▲			PRL 172 (Burners/Stunsail)	PEL 91	Beach Energy Limited	60.00%	60.00%
	▲		PRLA 173	PEL 101	Acer Energy Pty Limited <sup>1</sup>	80.00%	80.00%
	▲		PRLA 174	PEL 101	Acer Energy Pty Limited <sup>1</sup>	80.00%	80.00%
	▲		PRLA 175	PEL 107	Beach Energy Limited	60.00%	60.00%
	▲		PRLA 176	PEL 107	Beach Energy Limited	60.00%	60.00%
	▲		PRLA 177	PEL 107	Beach Energy Limited	60.00%	60.00%
	▲		PRLA 178	PEL 107	Beach Energy Limited	60.00%	60.00%
	▲		PRLA 179	PEL 107	Beach Energy Limited	60.00%	60.00%
<b>Divestment</b>							
▲			ATP 783P - Chandos Block		Drillsearch Energy Limited	100.00%	100.00%
	▲		PL 315 - Pickanjinie (Surat)		Santos Limited	75.00%	75.00%
	▲		PL 18 FO (Surat)		Chelsea Oil Australia P/L (Parent - Australian-Canadian Oil Royalties Ltd)	10.00%	10.00%
	▲		T/18 P (Bass) <sup>5</sup>		Origin Energy	5.00%	5.00%
<b>Notes:</b>							
1. Subsidiary of Drillsearch Energy Limited.							
2. Subject to farmin by Beach to earn 45%.							
3. Subsidiary of Santos Limited							
4. Subject to farm-in by Santos to earn 33% plus Operatorship							
5. Divested 28 January 2015							