



# HY2015 Half-Year Results Presentation

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**Drillsearch**

# Disclaimer and Important Notice

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

HY2015 is the reporting period is six months to 31 December 2014. Unless otherwise shown, comparative period is six months to 31 December 2013.

References to \$ are references to Australian dollars unless otherwise stated.

## Forward Looking Statements

These materials 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 these materials 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.

## Competent Person Statement

Information in this presentation that relates to Reserves and Contingent 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.

# Disclaimer and Important Notice

## Non-IFRS accounting financial information

This release refers to Underlying NPAT (underlying net profit after tax), EBITDA (earnings before interest, tax, depreciation and amortisation), EBITDAX (earnings before interest, tax, depreciation, amortisation, impairment and exploration write-off) and Net Cash flow which are non-IFRS accounting financial measures used by Drillsearch to provide greater understanding of the underlying business performance of the company's operations. When reviewing business performance, this Non-IFRS accounting information should be used in addition to, and not as a replacement of measures prepared in accordance with IFRS. Non-IFRS accounting information has not been the subject of audit or review by Drillsearch's external auditors.

**Underlying NPAT** excludes the impact of asset acquisitions, disposals and impairments, as well as items that are subject to significant variability from one period to the next, such as fair value adjustments and fluctuations in exchange rates. A reconciliation of Underlying NPAT to NPAT is set out below.

**EBITDA** is earnings before interest, tax, depreciation and amortisation.

**EBITDAX** is earnings before interest, tax, depreciation, amortisation, impairment and exploration write-off.

**Net Cash Flow** refers to the net increase in cash and cash equivalents per the consolidated statement of cash flows.

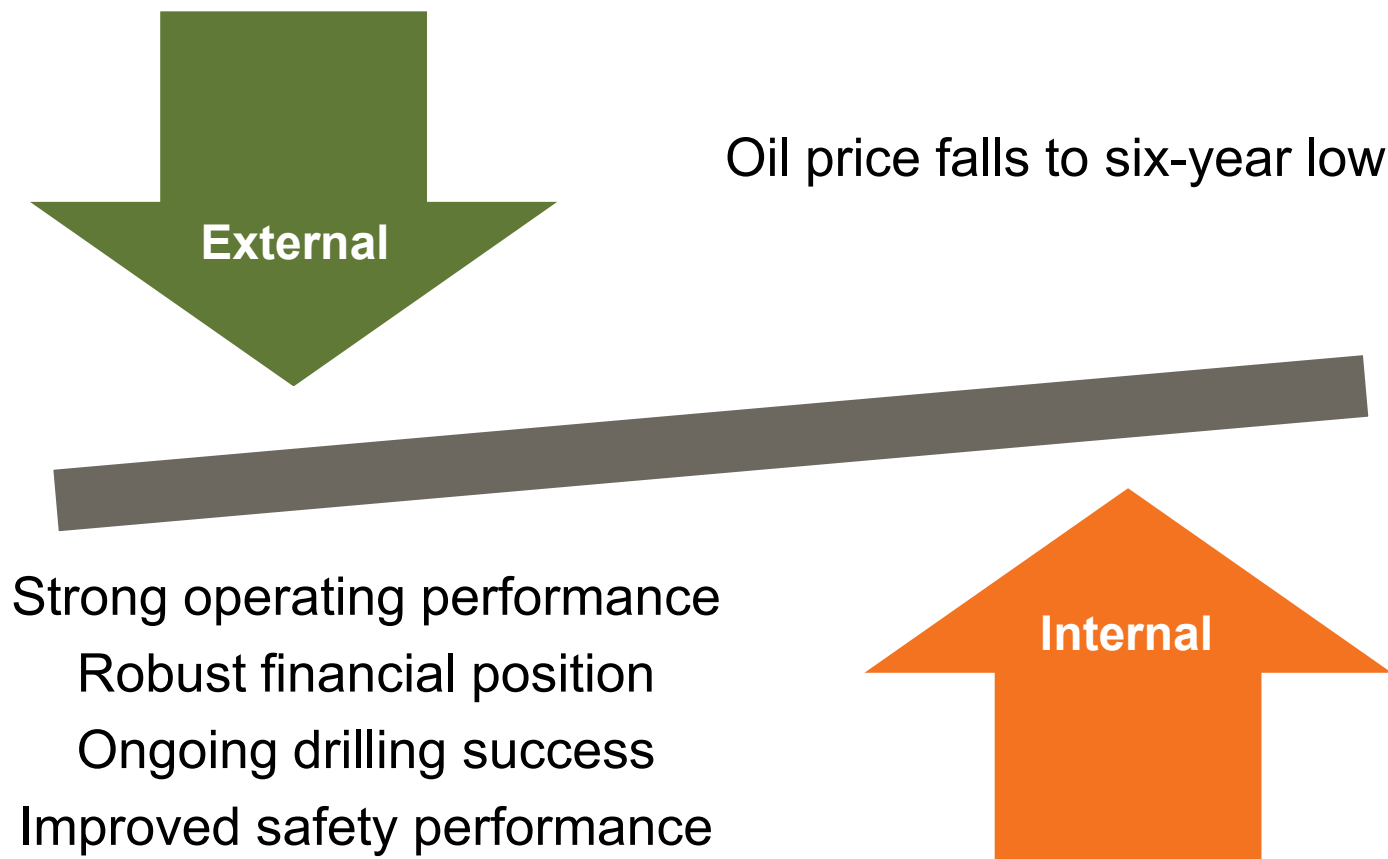
	HY2015 \$'000	HY2014 \$'000
Net profit after tax	14,349	35,534
<b>Adjusted for:</b>		
Change in fair value of derivatives	(16,020)	-
Change in fair value of convertible note	(2,832)	22,824
Exploration write-offs and asset impairments	61,839	351
Tax impact of above changes	(24,961)	(3,060)
<b>Underlying net profit after tax</b>	<b>32,375</b>	<b>55,649</b>

## HY2015 Key Takeaways

- Strong operating performance with solid production and exploration success
- Robust cash position, despite weaker oil price and significantly higher capex in HY2015
- Reprioritisation of activity for remainder of FY2015, with capital and operating expenditure reduced
- Future activity and capital expenditure to be matched to operating cash flow

**Priority on near-term production, cash flow and reserves replacement**

## Strong Business Performance V Commodity Price Weakness



**Continuing delivery, against a backdrop of challenging market conditions**

# HY2015 Business Highlights

## Health Safety & Environment

- ✓ Improved safety performance - TRIFR\* down 6%
- ✓ Cooper Medivac-24 helicopter service launched

## Net Production

- ✓ 1.54 mmboe of production

## Appraisal and Development

- ✓ Successful Bauer development campaign
- ✓ New Western Flank wells brought online
- ✓ Restart of oil sales from Flax
- ✓ Successful production test at Vanessa-1

## Exploration

- ✓ Two new Western Flank oil discoveries
- ✓ Five Wet Gas discoveries\*\*
- ✓ Unconventional drilling completed and testing program underway

## Corporate

- ✓ Ambassador acquisition completed
- ✓ Inland-Cook farm in agreed with Beach Energy
- ✓ Walter Simpson appointed Chief Operating Officer

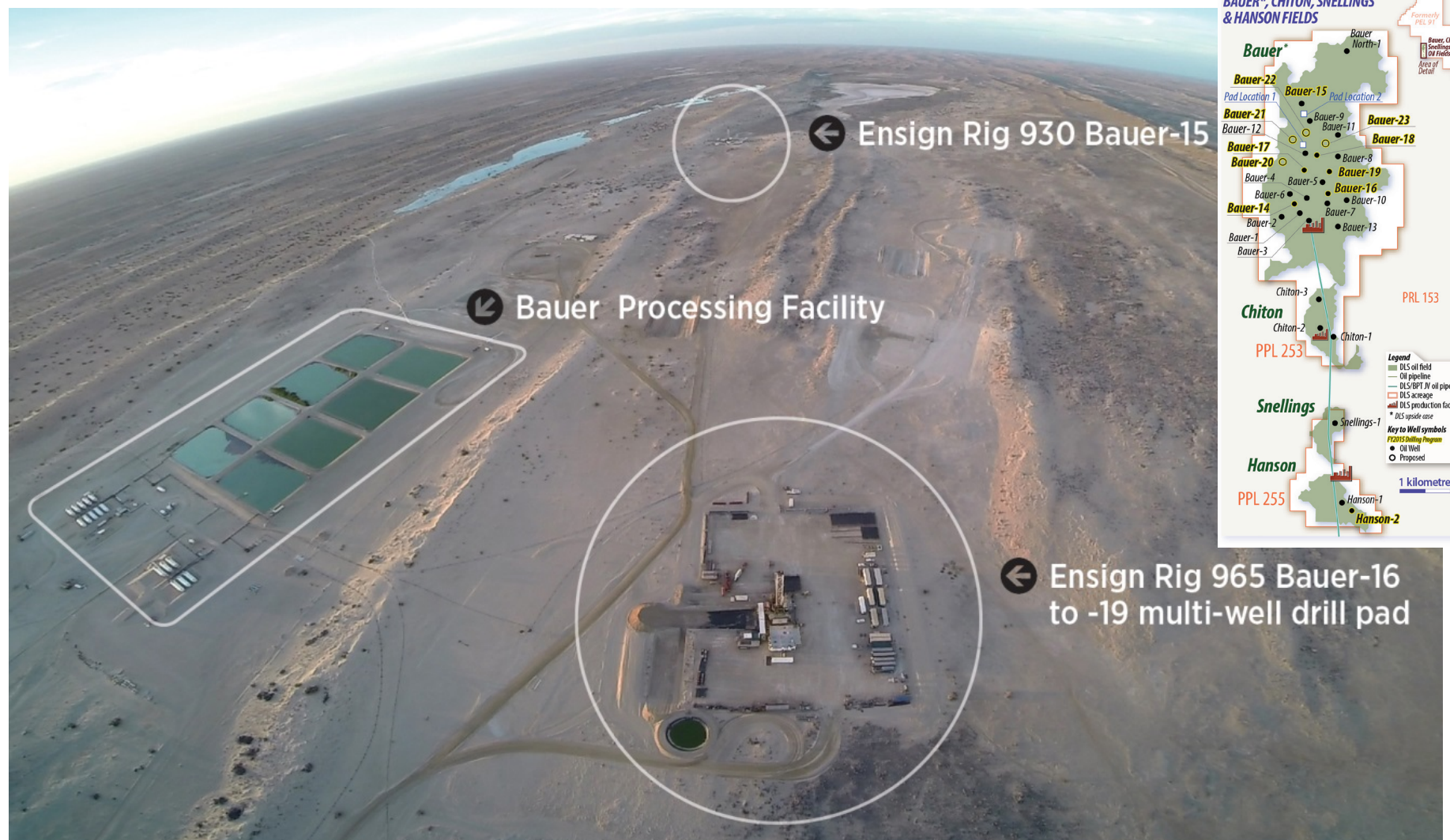
**Strength in performance and execution**

\* TRIFR = Total Recordable Injury Frequency Rate

\*\* Includes Ralignal-1 and Nulla-North-1 discoveries made subsequent to half-end, refer to Drillsearch's December Drilling Report released on 10 February 2015



# HY2015 Successful Bauer Development Campaign



Cost effective program to underpin future production



Bauer facility

## Financial Results



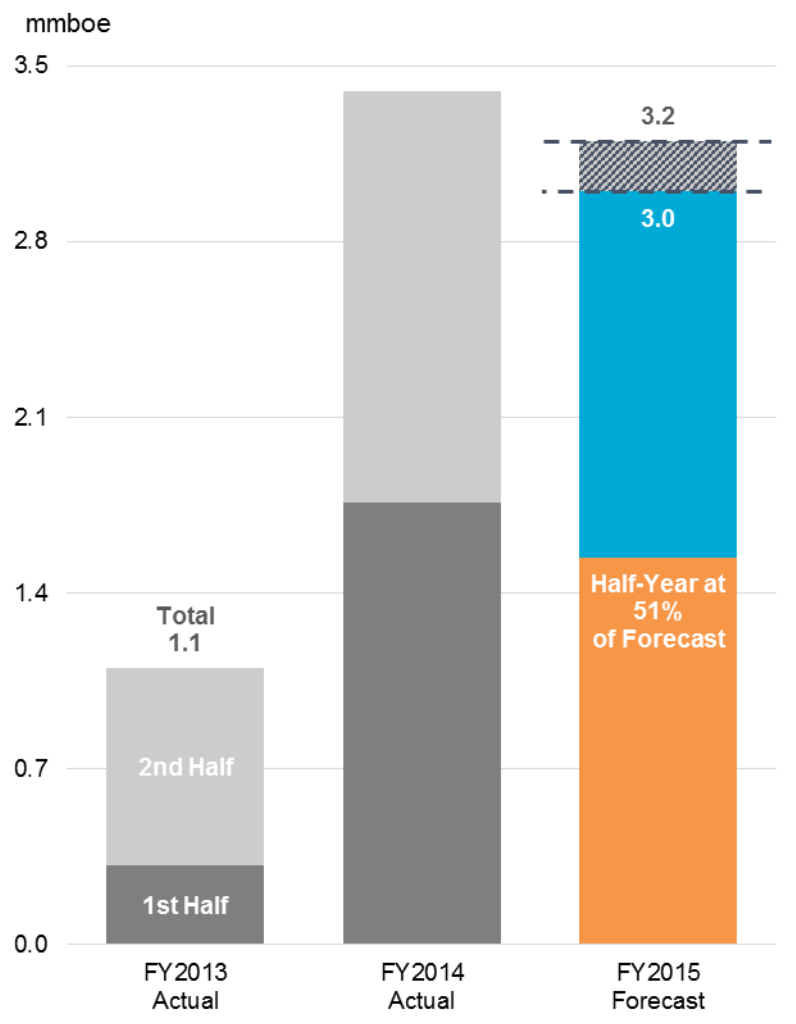
- The company remains profitable – strong operating cash flows
- Hedging placed to provide some pricing and revenue protection
- Non-cash Impairment of \$62 million
- Reduced Effective Tax rate of 24%
- Balance sheet and cash flow remain strong

**Company well positioned to weather continued low oil price environment**

## HY2015 Financial and Operating Headlines

	Unit	HY2015	HY2014	% Change
Production	mmboe	1.5	1.8	(13%)
Revenue	\$m	146.7	200.3	(27%)
Impairments & Write-Offs	\$m	61.8	0.4	n/m
NPAT				
- Reported	\$m	14.3	35.5	(60%)
- Underlying*	\$m	32.4	55.6	(42%)
Basic Earnings per Share	Cents	3.2	8.3	(61%)
Operating Cash Flow	\$m	97.5	93.8	4%
	Unit	HY2015	FY2014	% Change
Closing Cash	\$m	146.5	152.4	(4%)
Net Debt	\$m	4.1	1.0	310%
Capital Expenditure	\$m	95.6	95.7	0%

# HY2015 Production HY Actual and FY Guidance



## HY2015 Actual Production – 1.5 mmboe

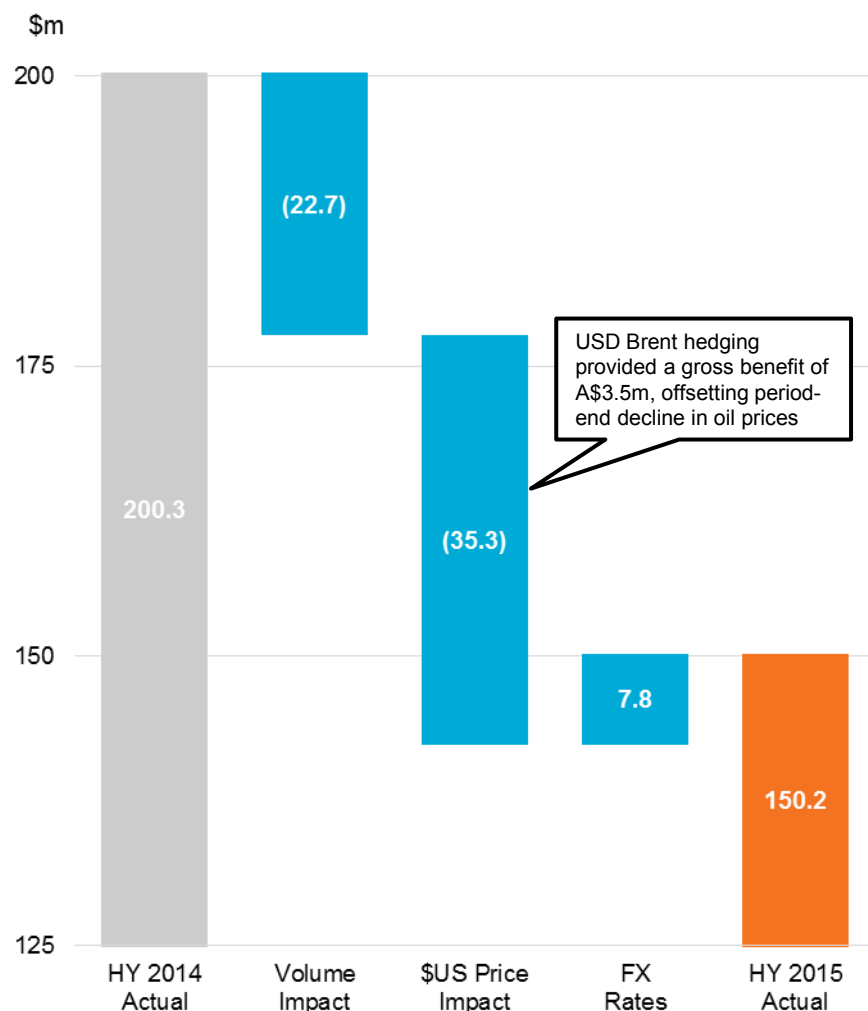
- In line with plan
- Additional wells connected on the Western Flank late in the half
- Flax restarted in December 2014

## FY 2015 Forecast Production

- FY2015 guidance tightened to 3.0 to 3.2 mmboe
- New Bauer wells (-16 to -19) to be connected in the second half, supporting production and adding flexibility
- Bauer fluid handling expansion to 75,000 bopd to come online in March quarter
- Stunsail, Pennington, Balgowan fields awaiting connection

**Production anticipated to remain strong for remainder of FY2015**

# HY2015 Adjusted Revenue



## HY2015 Adjusted Revenue\* - \$150.2m

- Impacted by lower production and steep decline in crude oil prices, offset by hedging and weaker AUD:USD exchange rate
- Average realised price of \$105/bbl in the first half (down from \$126/bbl HY2014)
- Hedging provided \$3.5 million benefit, with additional hedging implemented in November/December

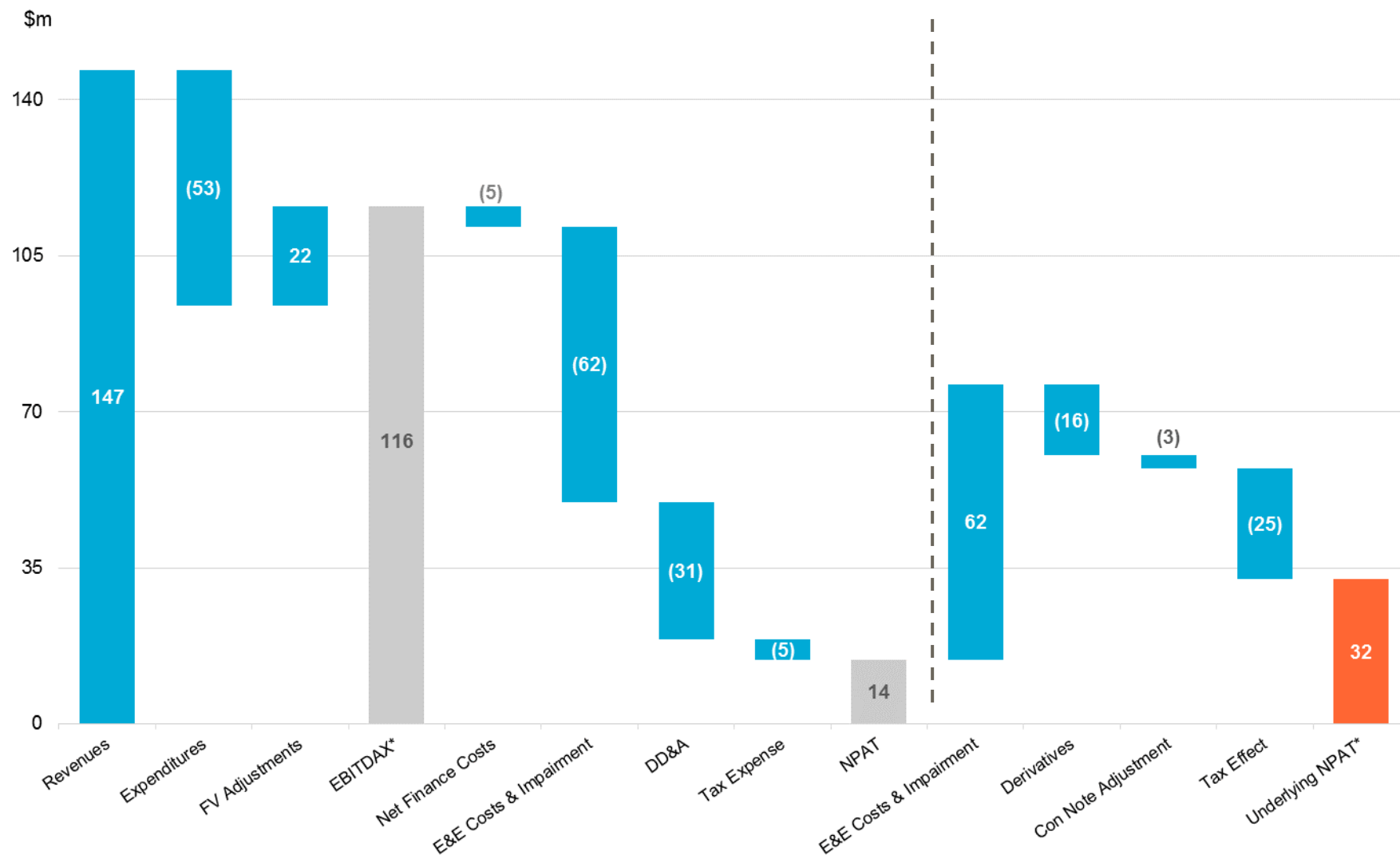
### Adjusted Revenue

Revenue from the sale of oil and gas	146.7
Gross Realised oil price hedge gains	3.5
<b>Total</b>	<b>150.2</b>

**Weaker production and steep decline in oil prices reduce revenue**

\* Adjusted revenue is Non-IFRS accounting information, calculated as set out in the slide above.  
See also slide 3 regarding Non-IFRS accounting financial information

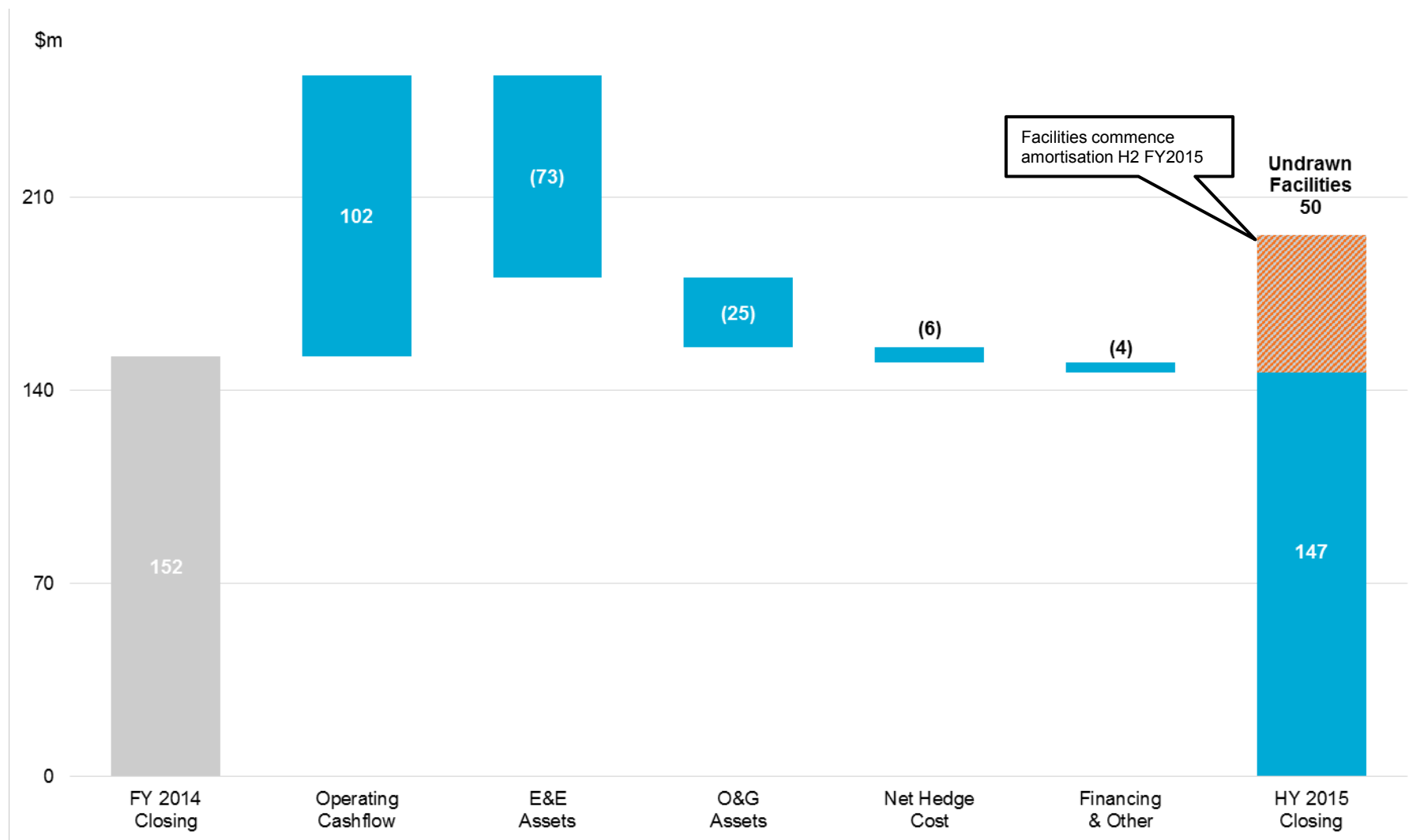
# HY2015 Net Profit After Tax



**Underlying NPAT\* of \$32 million - decrease of 42% versus HY2014**

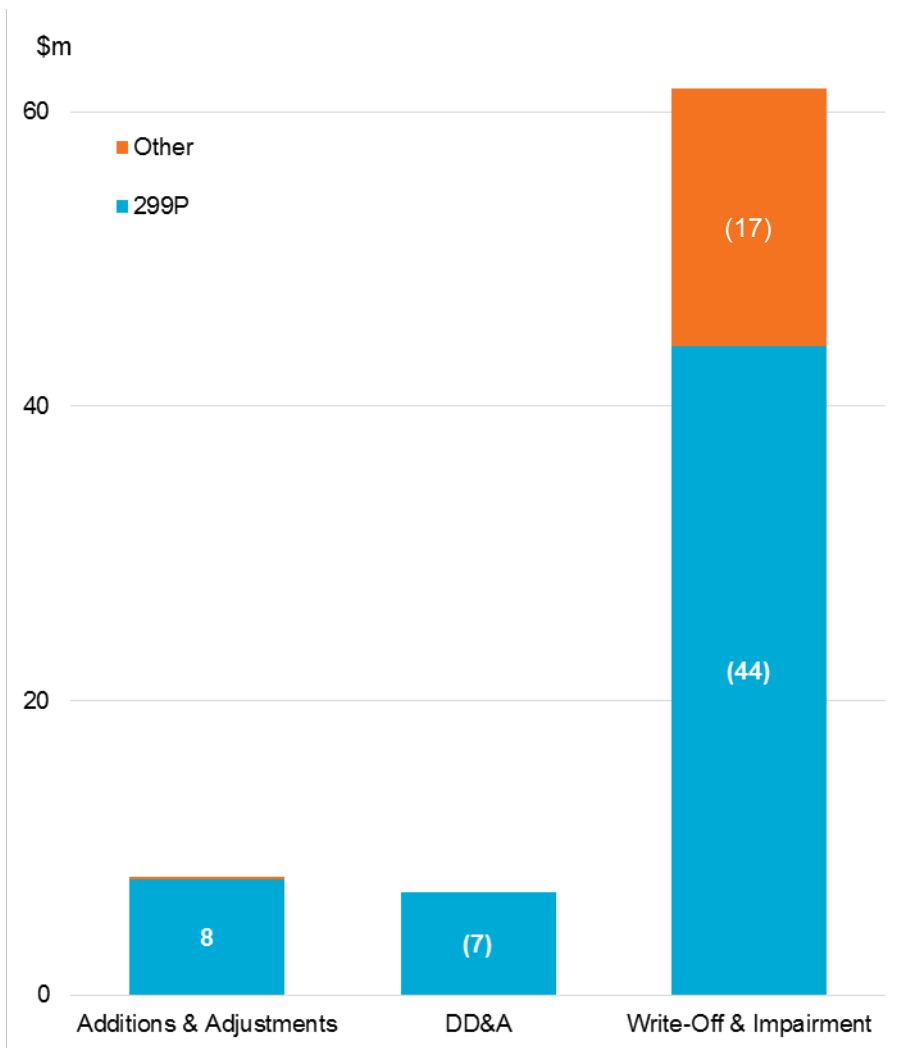


## HY2015 Cash Flow, Cash Balance and Liquidity



**Strong liquidity remains after heavy investment in HY2015**

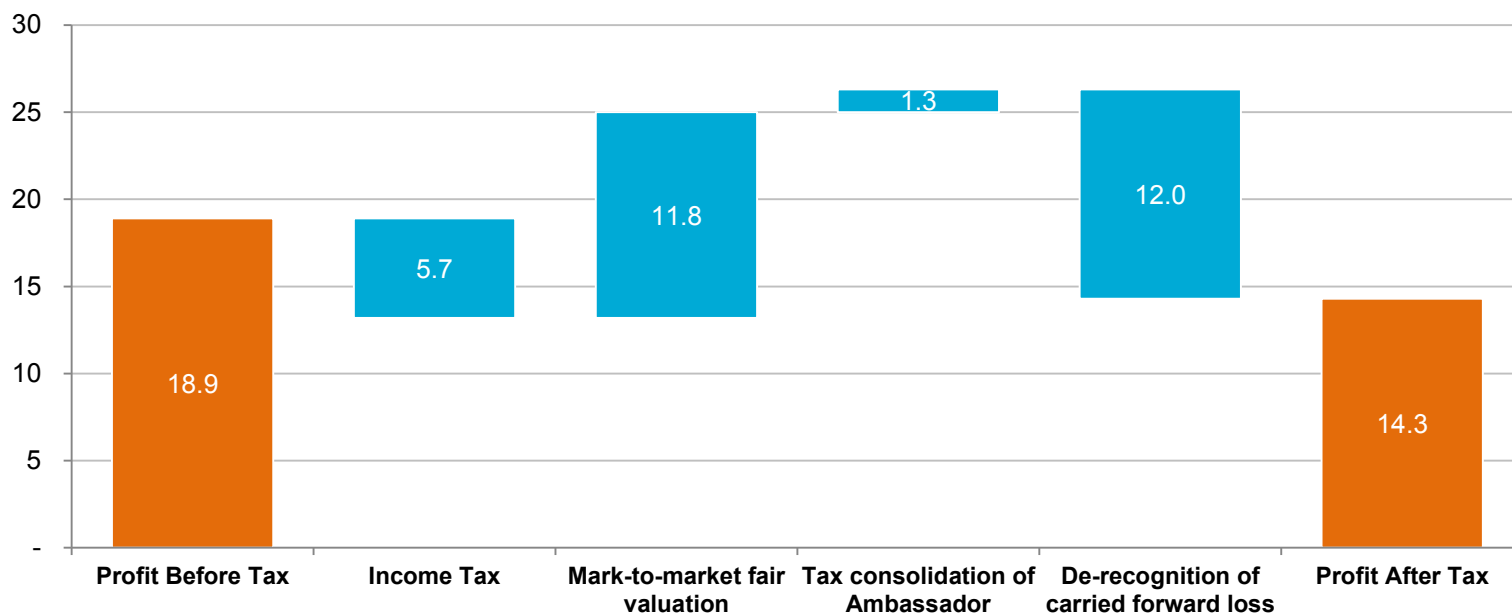
## HY2015 Impairments and E&E Write-offs



- Total impairments and write-offs of \$61.8m (pre-tax)
  - Oil & Gas Assets impaired by \$44m
  - Exploration write Offs of \$17m
- Oil & Gas Impairments relate to Tintaburra asset
  - result of downward revision to oil price forecasts and asset carrying values
- E&E write-offs a result of potential relinquishment and cessation of forecast activity
- No cash flow impact from impairments, which are accounting adjustments only
- Go forward DD&A rates reduced for impaired assets

**Weaker crude oil prices impact asset carrying values**

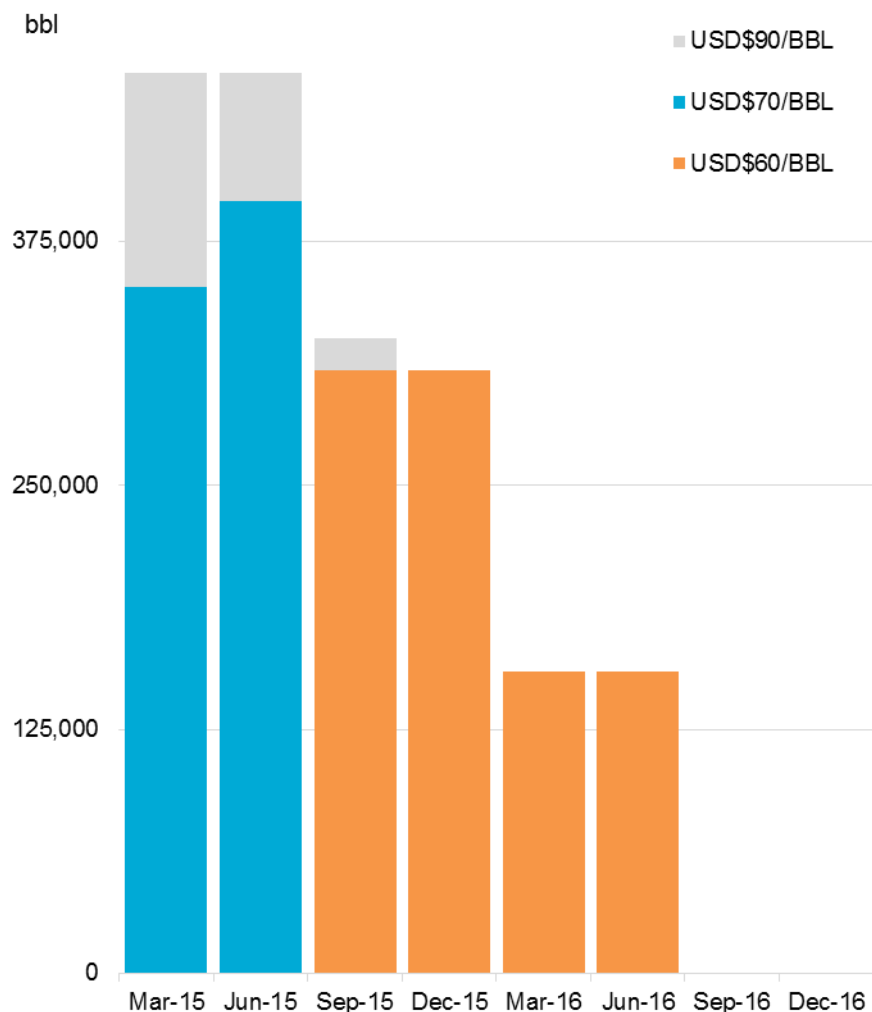
## HY2015 Tax



- Tax expense\* of \$4.6m for HY2015 (effective tax rate of ~24% on profit before tax):
  - Non-cash item
  - Part of carried forward revenue loss, recognised as deferred tax asset in prior years' Balance Sheet, was de-recognised against P&L during the period
- Australian taxable income was absorbed by carried forward revenue losses therefore no liability incurred
- PRRT was offset by carried forward PRRT Starting Base therefore no liability incurred. The producing licenses generated a deferred tax liability which was sheltered by eligible exploration from non-producing licenses. Therefore \$nil impact to P&L

**Tax Expense was non-cash item**

## HY2015 Hedge Position

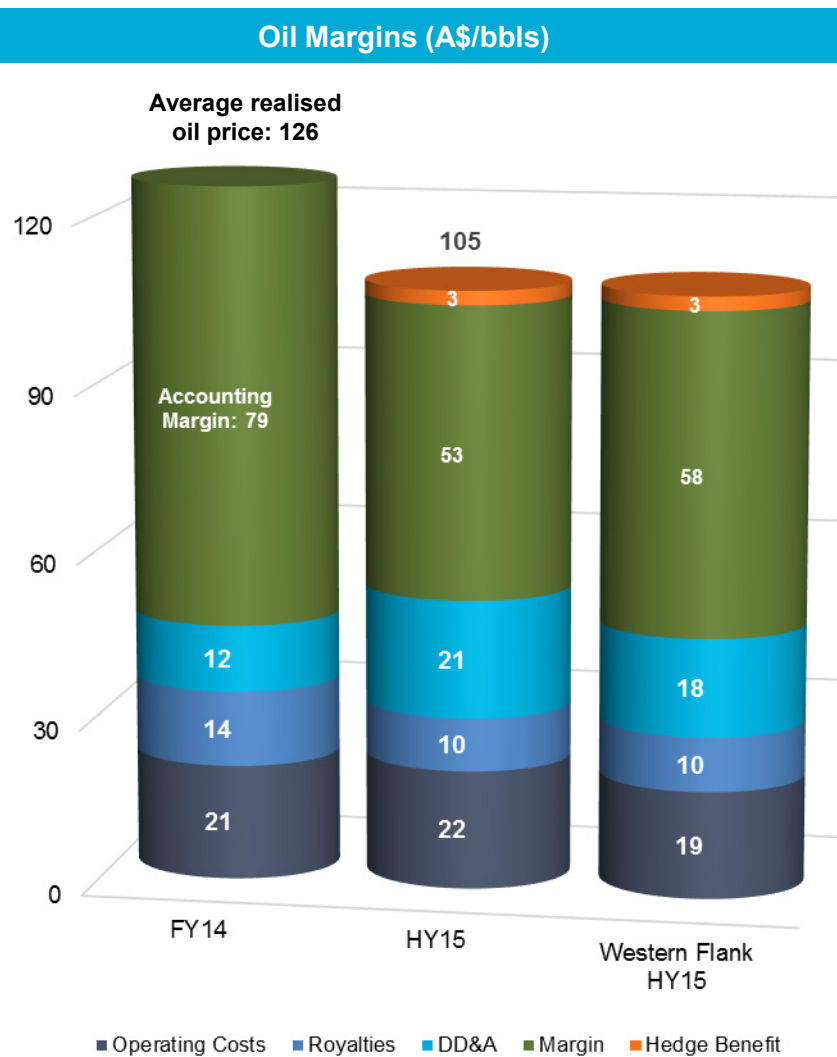


## FY2015 Hedge Position

- Gross hedge benefit of \$3.5m realised in HY2015
- \$USD70/bbl and \$USD90/bbl Put protection for remainder FY2015
- Hedge protection extends into FY2016
- \$USD60/bbl Put options paired with \$USD90/bbl Calls in FY2016
- Declining hedge profile weighted towards front-end
- Drillsearch will continue to actively assess opportunities for additional hedging in current conditions

**Active hedge program implemented in response to commodity price movements**

# HY2015 Oil Operating Margins



## Oil Margin

- Average realised oil price down 17%
  - USD Brent hedges implemented in response to market conditions
- Oil cash margin of \$77/bbl fallen 15% (from \$91/bbl in FY2014), inline with oil price

## Costs per barrel

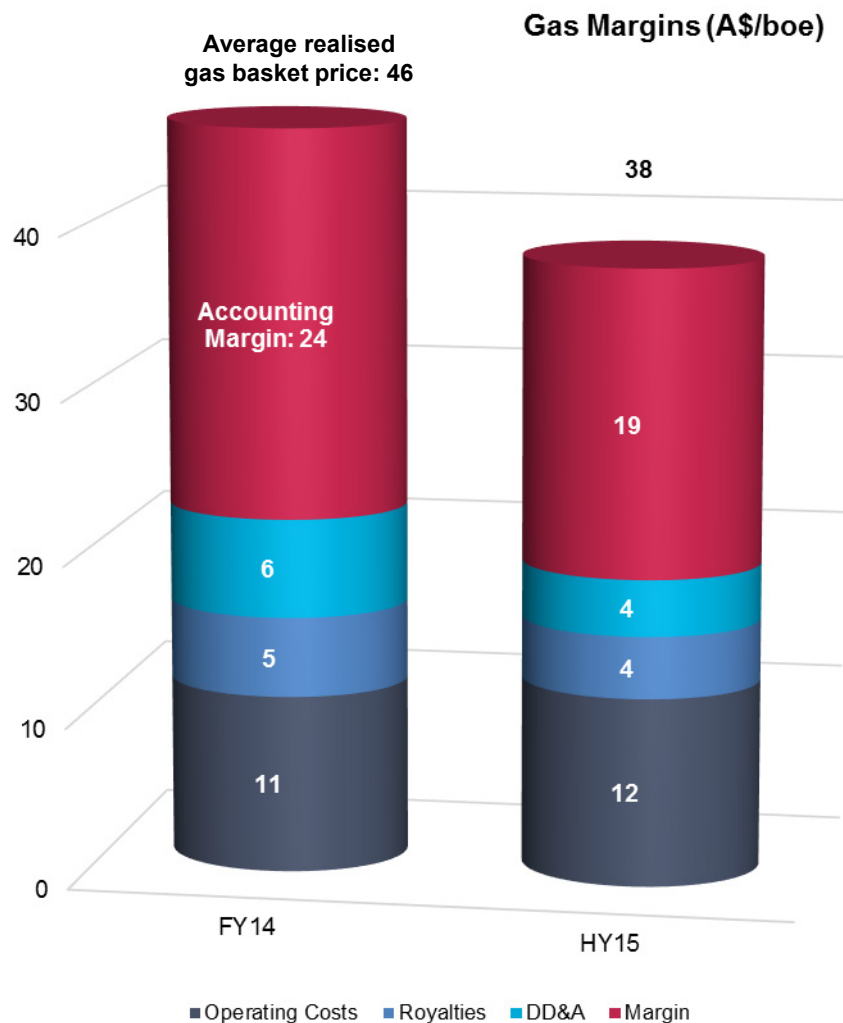
- Fall in \$A and reduction in royalties paid partly offset impact of oil price
- Controllable operating costs remain level
- DD&A reflects updated life of field development costs

**Strong cash operating margins continue**



# HY2015 Gas Operating Margins

## Gas Margins (A\$/boe)



## Gas Margin

- Average realised Gas basket price down 17% to \$38.3/boe from \$46.1/boe in the comparable period;
  - Decrease in realised liquids prices
  - Reduced liquids production

## Costs per barrel

- Controllable operating costs remain level

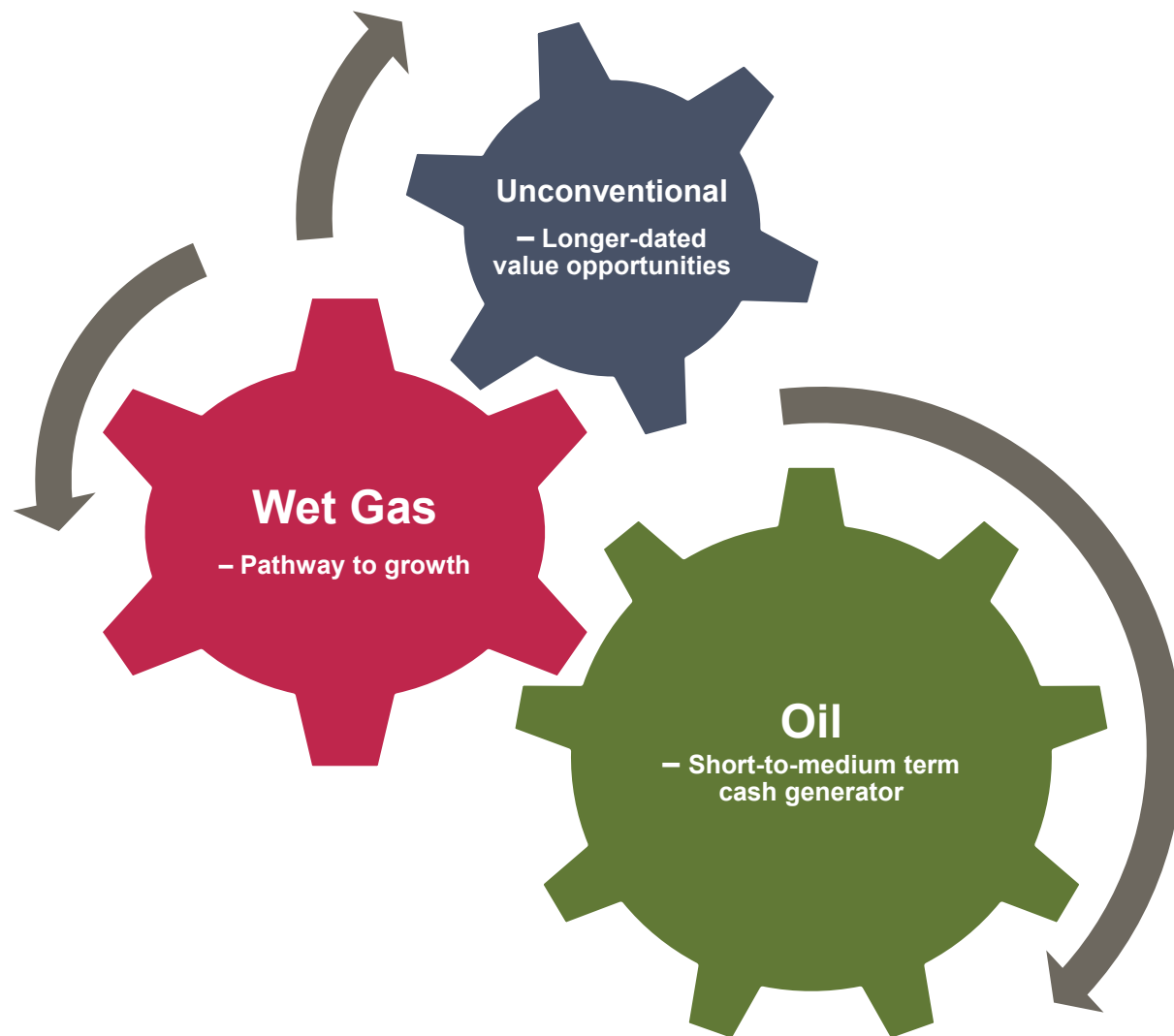
**Strong cash operating margins continue**



Western Flank Drilling Activity

# Operational Review

# Operational Review



Drilling Activity – Oil



Coolawang-1 Flare – Wet Gas

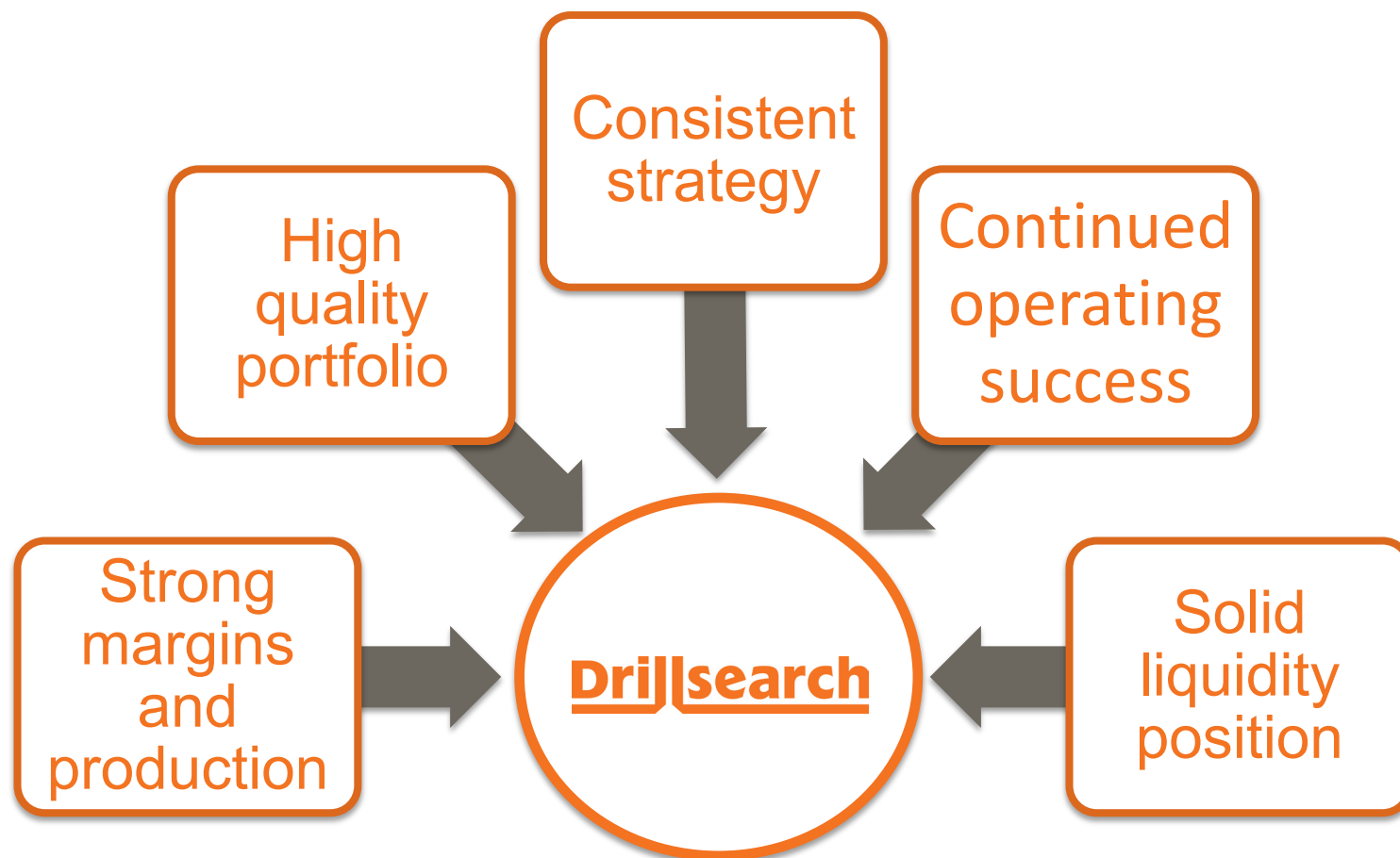


Charal-1 Flare – Unconventional

Strategy remains the same

## Operational Review Maintaining a Robust Core

Deliberate approach to review – “measure twice, cut once”



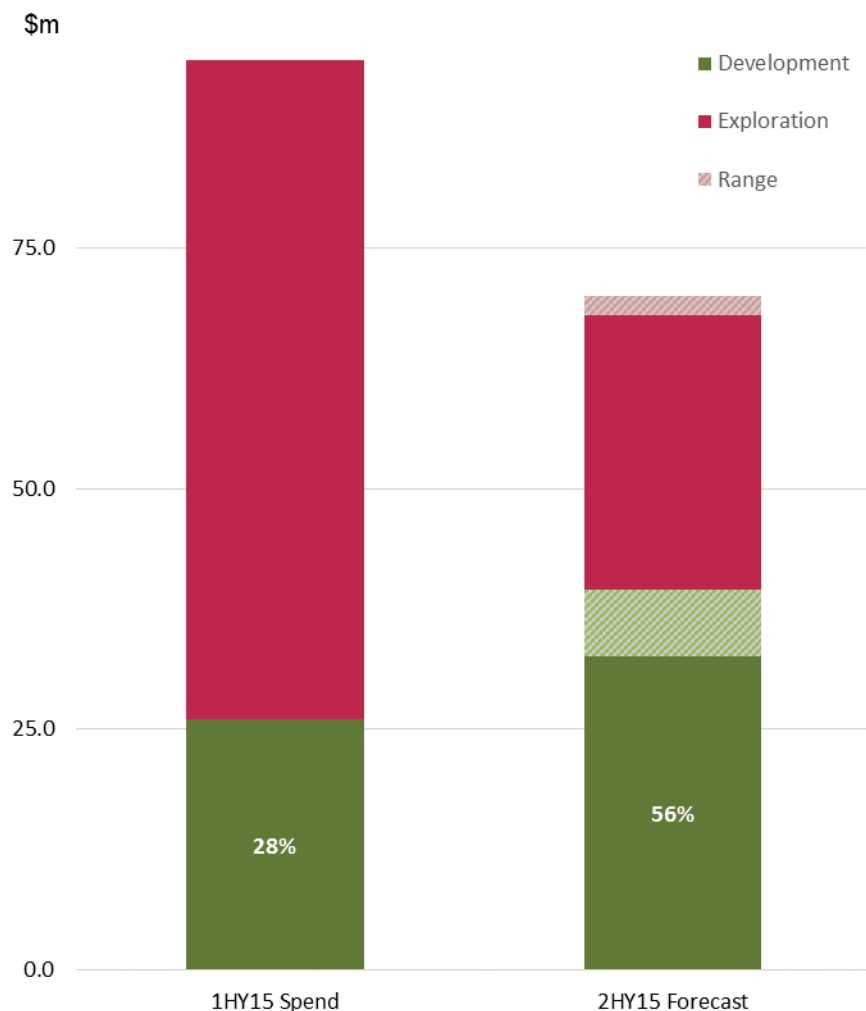
Ensuring we are well positioned to benefit when conditions improve

## Operational Review Outcomes





# Operational Review Capex Guidance



## HY2015 Capital Expenditure

- FY2015 work program weighted to first half;
  - Considerable ROI – 67% success rate<sup>1</sup>
  - Development to support future production

## Impact on 2H FY2015

- Remaining capex focused on development
- Beach farm-in (ATP 924) payment – Cash received of \$5 million

## FY2015 Capex Guidance

- 2H FY2015 capex between \$55 million and \$70 million (HY2015 - \$95.6 million)
- FY2015 capex guidance revised to \$150 to \$165 million
- Conventional spend to increase as a proportion of capex as unconventional is deprioritised

**Capex to be materially lower in second half of FY2015**

<sup>1</sup> – Based on 16 cased and suspended wells from 24 conventional wells in HY 2015. Three unconventional wells not included in success rate as ongoing.

## Strategy confirmed

- Oil Business remains cash flow generator, while Wet Gas remains pathway to growth

## Prioritisation of capital and activity

- Conventional over Unconventional; target near-term production, cash flow and reserves replacement

## Annualised savings of \$10m to \$15m a year targeted across the company

- Reduction in corporate and operating cost base

## Future activity and capex to be matched to operating cash flow

- Capex in FY2016 and FY2017 to be significantly reduced

## Maintain a platform to benefit when conditions improve

- Retain growth opportunities within the portfolio and continue to deliver exploration success



Wellhead

## Second-Half Activity

### Oil Business:



- Connection of additional Western Flank wells
  - Bauer wells 16-19
  - Other facilities
- Four additional Bauer wells to be drilled
- Western Flank exploration wells
- Exploration well in Inland-Cook
  - **DLS free carried**
- PEL 182 seismic – Jasmine 3D survey underway

### Wet Gas Business:



- Two new Wet Gas discoveries announced
  - Ralgnal-1 and Nulla North-1
- Santos JV:
  - Four exploration wells planned
  - **DLS free carried**
- Operator progressing tie-in of Vanessa discovery















































### Unconventional Business:



- Current drilling program complete
- Production testing at Charal-1 continues
- Anakin-1 production testing commences
- Geological and Geophysical work ongoing

**Activity focused on Oil and Wet Gas, and on Development**

# FY2015 Activity

Permit	Operator	FY2015				Total	
		Sept Q	Dec Q	Mar Q	Jun Q		
OIL							
Western Flank - PELs 91 & 182	BPT/SXY	                     				19	24
Seismic acquisition and processing		500km <sup>2</sup> Solidus 3D acquisition		300km <sup>2</sup> Jasmine 3D acquisition		800km <sup>2</sup>	
Facilities upgrades and pipeline installation		Additional connections ongoing					
Northern Oil - PEL 103	DLS	 				2	
Hydraulic stimulation and production testing				Flax			
Inland-Cook - ATP 924	DLS	Huron and Taj 3D along with George 2D acquisition				1	
Eastern Margin – ATP 299	STO	 				2	
WET GAS							
Western - PELs 106 & 107	BPT			    		6	14
Western - PEL 513 & 632	STO			         		8	
Seismic acquisition and processing		329km <sup>2</sup> Jacenza 3D acquisition and processing				329km <sup>2</sup>	
UNCONVENTIONAL							
Central Cooper - ATP 940	DLS			 		3	3
Stimulation and testing				Charal-1, Anakin-1 hydraulically stimulated and tested			

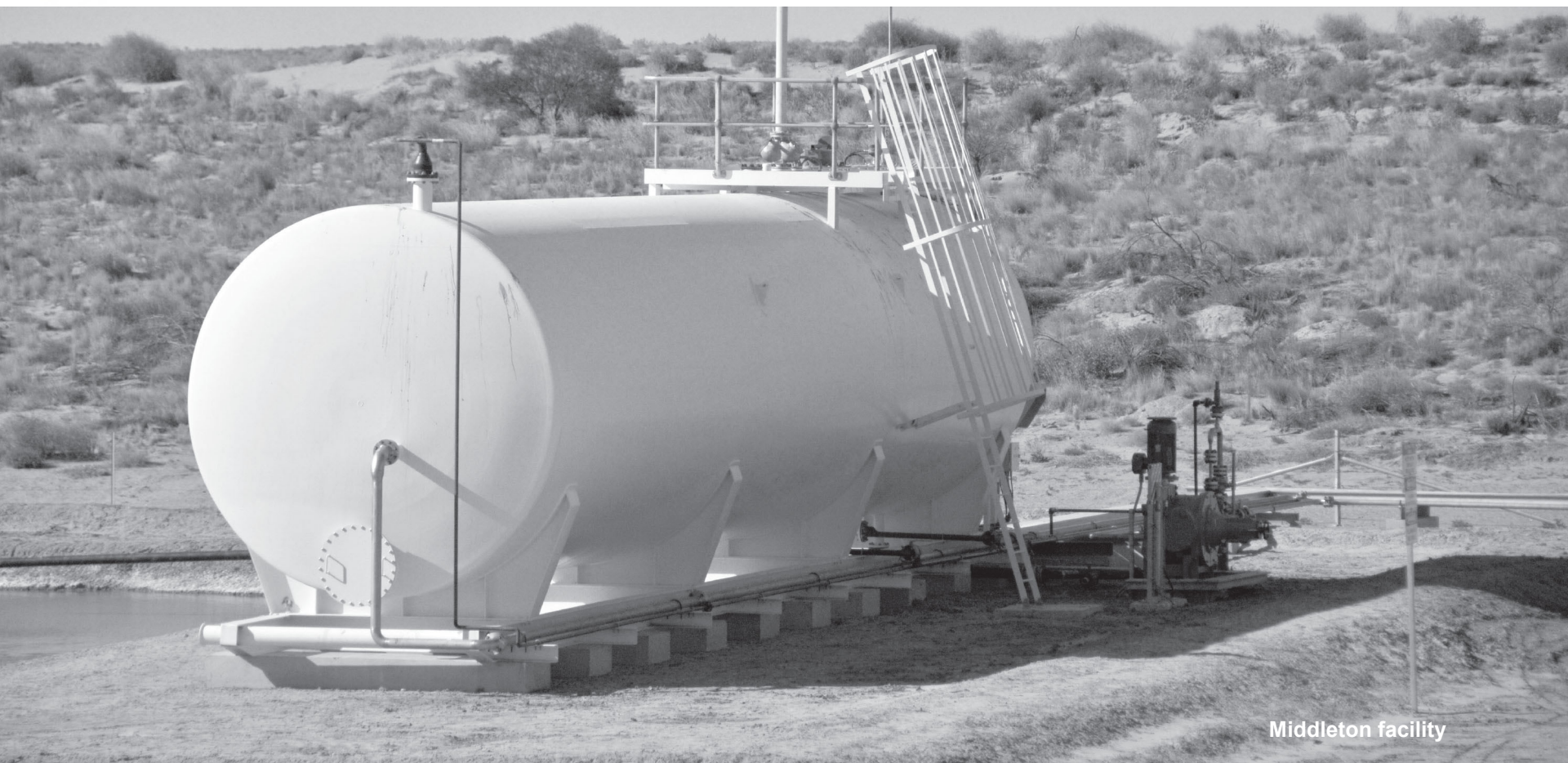
 OIL
  WET GAS
  UNCONVENTIONAL
  Yet to be Drilled
  Yet to be Drilled / Free Carry



## Key Takeaways

- Strong operating performance with solid production and exploration success
- Robust cash position, despite weaker oil price and significantly higher capex in HY2015
- Reprioritisation of activity for remainder of FY2015, with capital and operating expenditure reduced
- Future activity and capital expenditure to be matched to operating cash flow

**Priority on near-term production, cash flow and reserves replacement**



# Questions

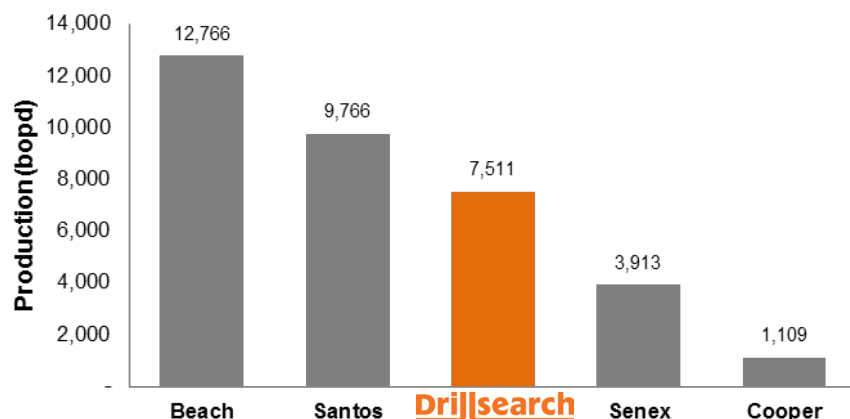


# Corporate Information

## Financial

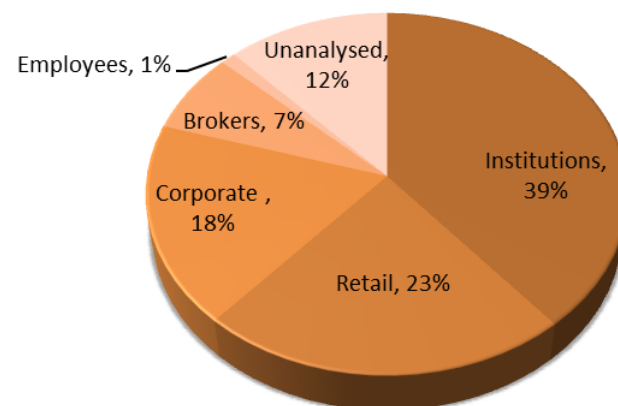
ASX Ticker	DLS
S&P/ASX Index	ASX 200
Market Cap (A\$m)	475
Shares on Issue (m)	461
Share Price (18 Feb 2015) (A\$/sh)	1.03
Cash (31 Dec 2014) (A\$m)	146.5

## Australian Onshore Oil Producers (Q2FY2015) Average daily production\*

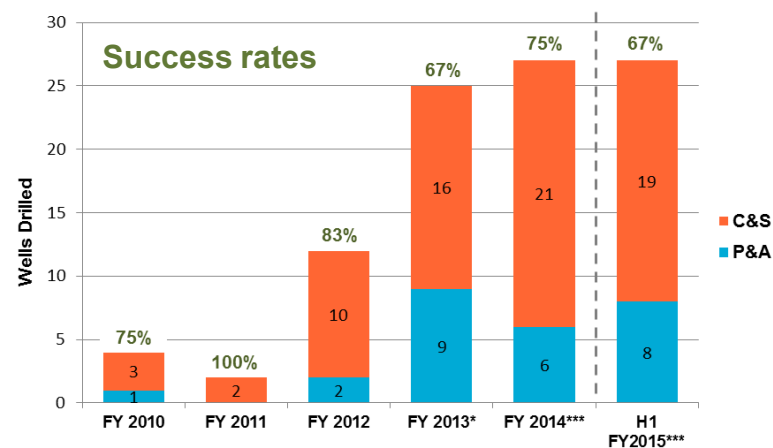


\* Source: December Quarterly Production Reports/ASX Announcements

## Drillsearch Shareholder Type



## Drillsearch Drilling Activity



\* Cypress-1 operation suspended thus not included in success rate

\*\* Anakin-1, Charal-1 and Padme-1 excluded from success rate as ongoing

\*\*\* Charal-1, Padme-1 and Amidala-1 excluded from success rate as ongoing

## Strength in performance and execution

## Drillsearch Register as at 30 January 2015

Top 20 DLS Shareholders	30 January 2015	
	# of shares	%
HSBC Custody Nominees (Australia) Limited	79,683,544	17.3
JP Morgan Nominees Australia Limited	49,516,007	10.7
Citicorp Nominees Pty Limited	47,542,365	10.3
QGC Pty Limited	36,216,094	7.9
National Nominees Limited	27,344,411	5.9
Beach Energy Ltd	21,053,615	4.6
Network Investment Holdings Pty Ltd	17,471,513	3.8
UOB Kay Hian Private Limited	9,776,482	2.1
Zero Nominees Pty Ltd	8,592,350	1.9
National Nominees Limited	4,934,936	1.1
HSBC Custody Nominees (Australia) Limited – A/C 2	3,810,474	0.8
BNP Paribas Nominees Pty Ltd	3,758,823	0.8
UBS Wealth Management Australia Nominees Pty Ltd	3,380,011	0.7
RBC Investor Services Australia Nominees Pty Limited	2,868,360	0.6
Citicorp Nominees Pty Limited	2,843,298	0.6
Zonex Capital Pty Ltd	2,673,071	0.6
HSBC Custody Nominees (Australia) Limited	2,431,895	0.5
HSBC Custody Nominees (Australia) Limited – A/C 3	2,303,313	0.5
Cablex Industries Pty Ltd	2,300,000	0.5
VBS Exchange Pty Limited	2,274,113	0.5

# HY2015 Balance Sheet

	HY2015	FY2014	Mov't
	\$m	\$m	%
Cash & Trade Debtors	204.4	237.6	(14%)
E&E Assets & O&G Assets	463.9	413.1	12%
Derivatives	22.3	0.0	100%
Other Assets	8.3	6.9	20%
<b>Total Assets</b>	<b>698.9</b>	<b>657.6</b>	<b>6%</b>
Trade Creditors	(52.9)	(74.6)	(29%)
Debt & Provisions	(193.1)	(192.5)	0%
Deferred Tax Liability	(35.5)	(27.1)	31%
<b>Total Assets</b>	<b>(281.5)</b>	<b>(294.2)</b>	<b>(4%)</b>
Working Capital	151.5	163.0	(7%)
Net Assets	417.4	363.4	15%
Net Debt	(4.1)	(1.0)	310%
Current Ratio	3.9	3.2	21%
Debt to Equity Ratio	36%	42%	(15%)

## HY2015 Balance Sheet

- Drillsearch remains highly liquid with significant net current assets
  - Trade Debtors fully received; reflect period end oil and gas sales accrued and owing
  - Trade Creditors fully settled; reflect period end capital spend accrued and owing
- HY2015 impairment has offset period capital spend
- Net Debt has remained comparable

**Drillsearch continues to maintain a robust balance sheet position**





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**Please contact for further information**

**DUDLEY WHITE**

GM – CORPORATE COMMUNICATIONS

# **Drillsearch**