



## Investor Presentation

MARCH 2015

# Continuing to Deliver in a Challenging Market

**Drillsearch**

# Disclaimer and Important Notice

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

The HY2015 reporting period is the 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

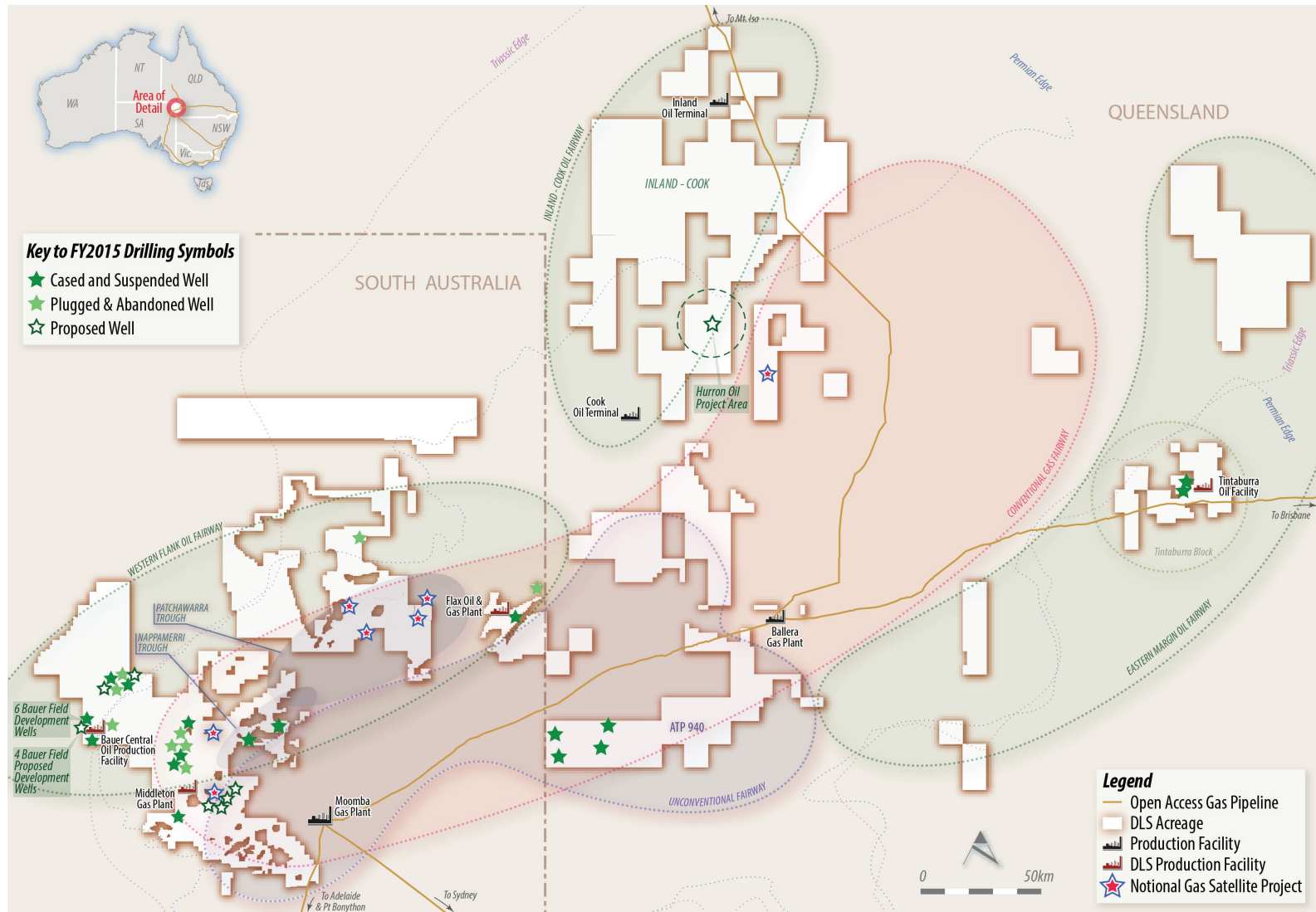
## Non-IFRS accounting financial information

This release refers to Underlying NPAT (underlying net profit after tax), which is a non-IFRS accounting financial measure 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 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.

	<b>HY2015 \$'000</b>	<b>HY2014 \$'000</b>
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>

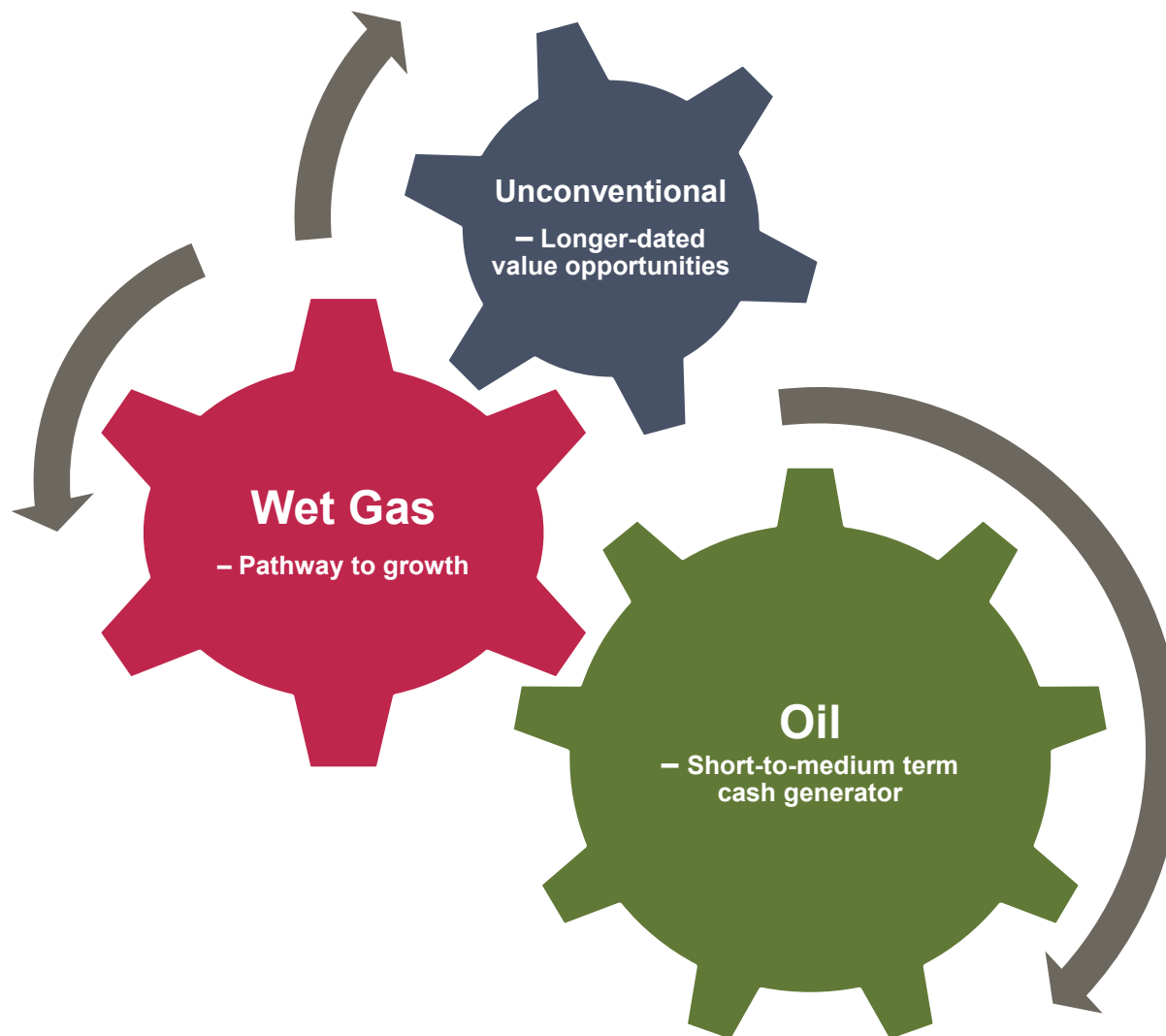
# Introduction to Drillsearch



The only ASX200 company focused solely on the Cooper Basin



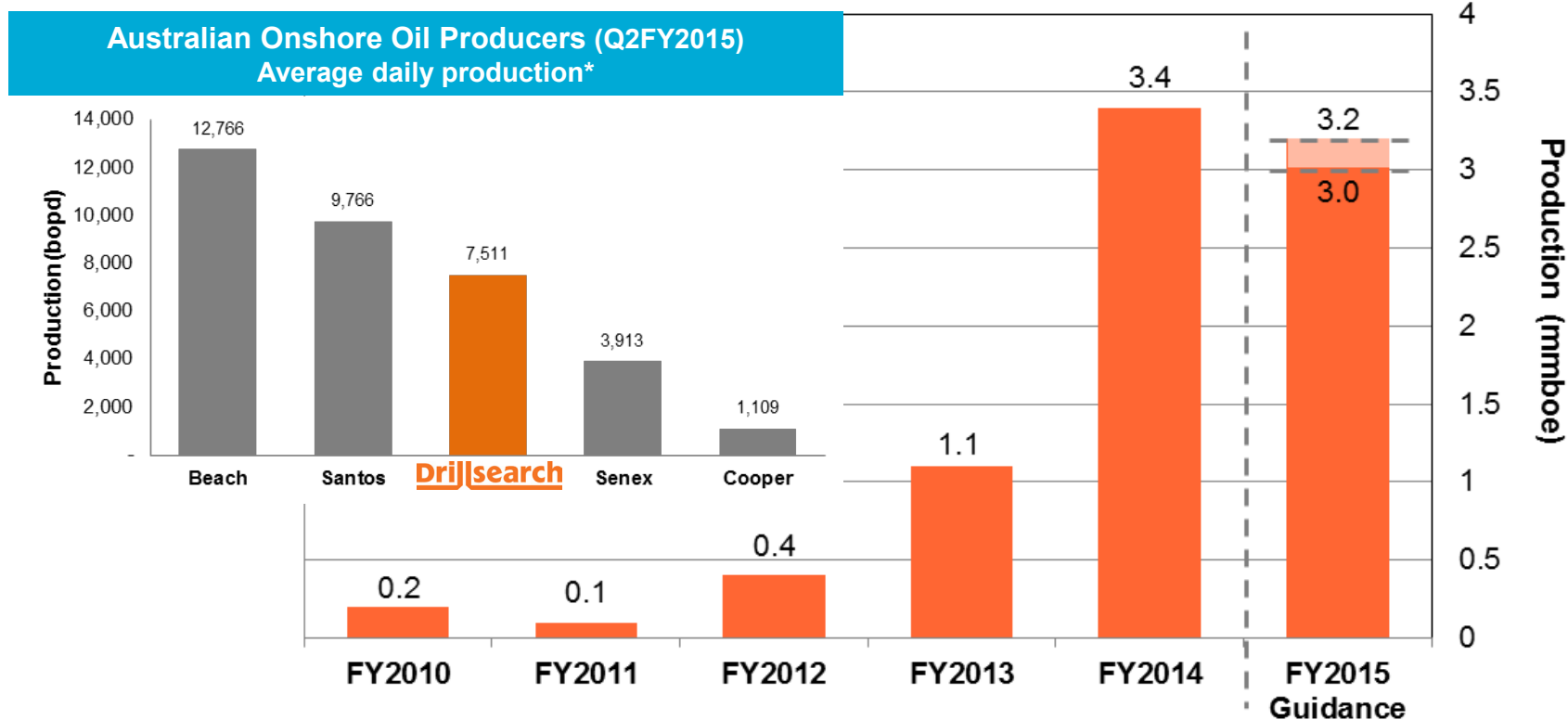
## Clear Strategy



### Three growth platforms

# History of Production Growth

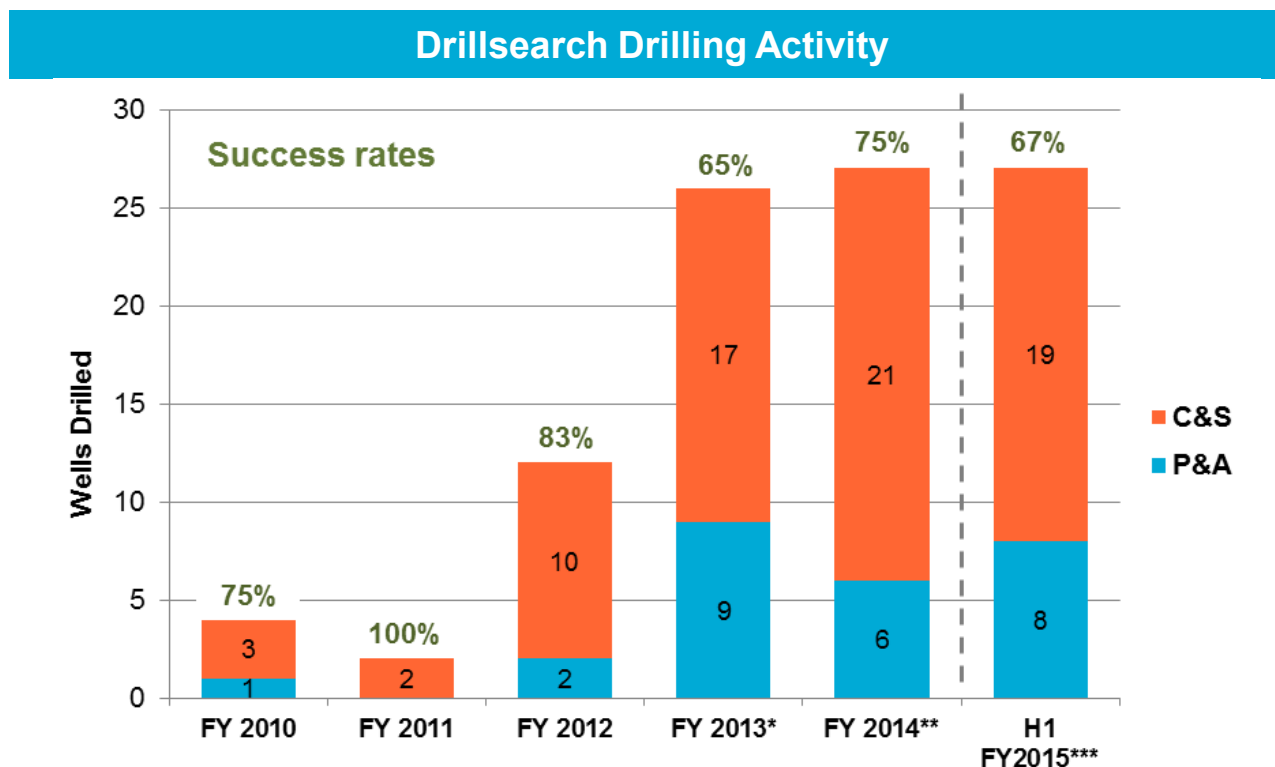
## Production Growth and FY2015 Guidance



- 1.54 mmboe of oil and wet gas production in HY2015

**Australia's third-largest onshore oil producer**

# Active Explorers



	FY2010	FY2011	FY2012	FY2013	FY2014	H1 FY2015	FY2015 Guidance
Capital Expenditure A\$m	8.9	17.7	37.7	143.4	95.7	95.6	150 to 165

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

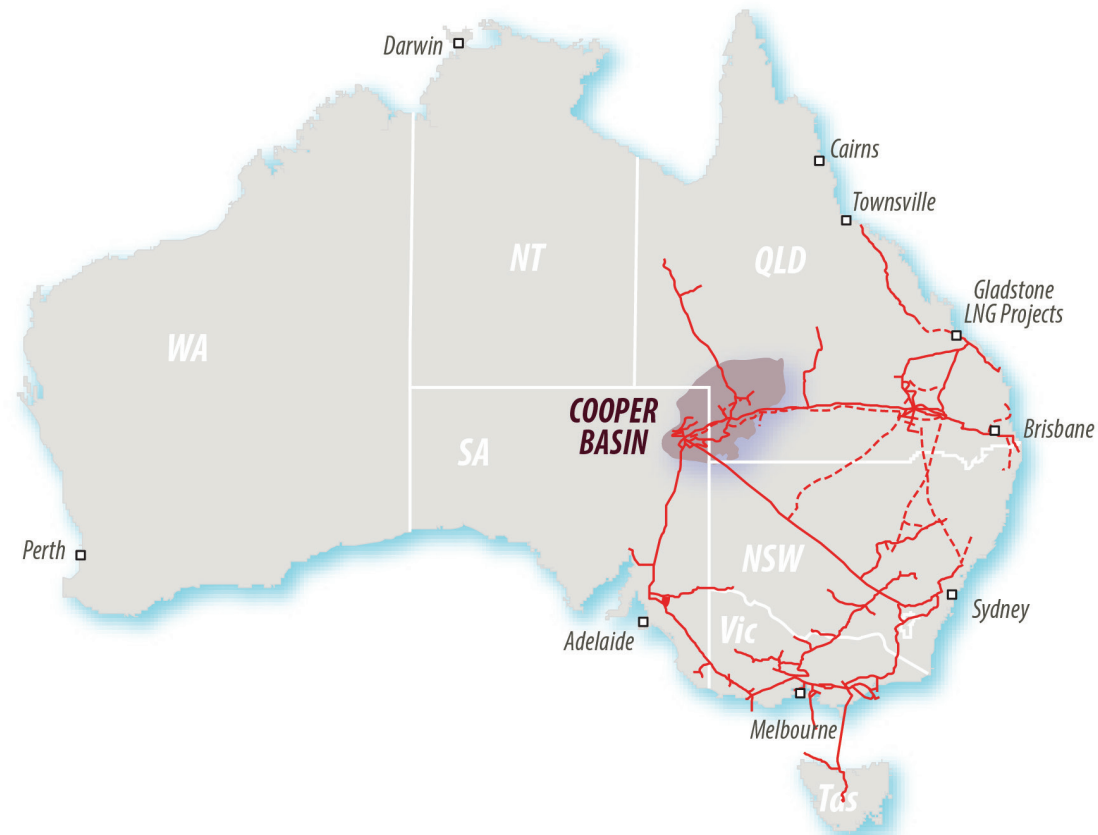
\*\* Charal-1, Anakin-1 and Padme-1 excluded from success rate as ongoing

\*\*\* Anakin-1, Padme-1 and Amidala-1 included in C&S total though excluded from success rate as ongoing

**Track record of exploration success**

## Why the Cooper Basin?

- Australia's largest onshore oil and gas basin
- Extensive oil and gas infrastructure
- Connected to major domestic markets and LNG export terminals
- Historically under-explored and under-exploited
- Significant remaining conventional resources
- Emerging new unconventional opportunity



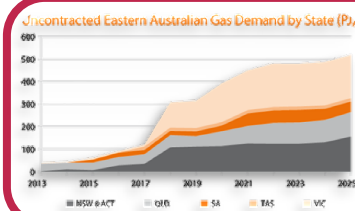
**Established oil and gas province - first discovery in 1963**

# Why the Cooper Basin?

Four main Cooper Basin investment themes:



**Resurgence in oil production**



**Rising East Coast gas demand**



**Emerging Unconventional potential**



**Consolidation**

**A focused Cooper Basin company, leveraged to the key thematic**



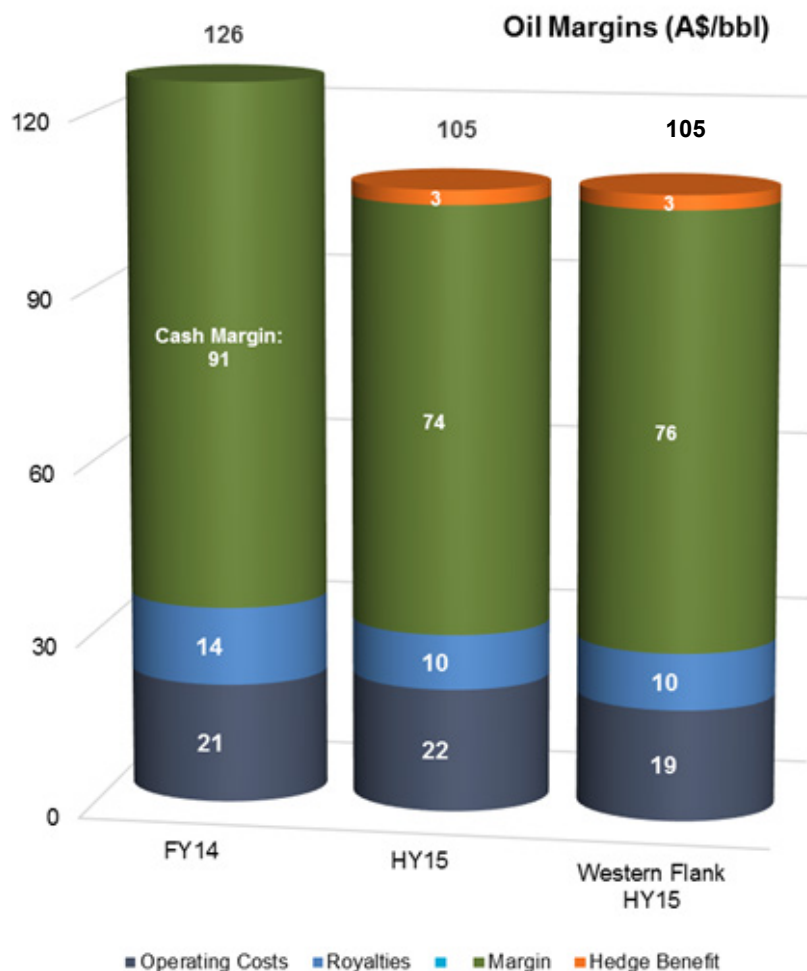
## Robust Financial Position

- EPS positive in HY2015
  - Profitable at Statutory and Underlying NPAT levels
- Strong cash margins for Oil production
- Operating Cash Flow up 4% at \$97.5 million
- Robust balance sheet
  - \$146.5 million of cash and \$50 million of undrawn committed debt\*

**Solid performance despite the challenging oil price environment**

# Strong Cash Margins on Oil Production

Oil Margins (A\$/bbls)



## Oil Margin

- Average realised oil price down 17%
  - USD Brent hedges implemented in response to market conditions
- Oil cash margin of \$77 a barrel down in line with the oil price

## Costs per barrel

- Fall in \$A and reduction in royalties paid partly offset impact of oil price
- Controllable operating costs remain level

**Strong cash margins continue**

# Decisive Measures to Respond to Market Conditions

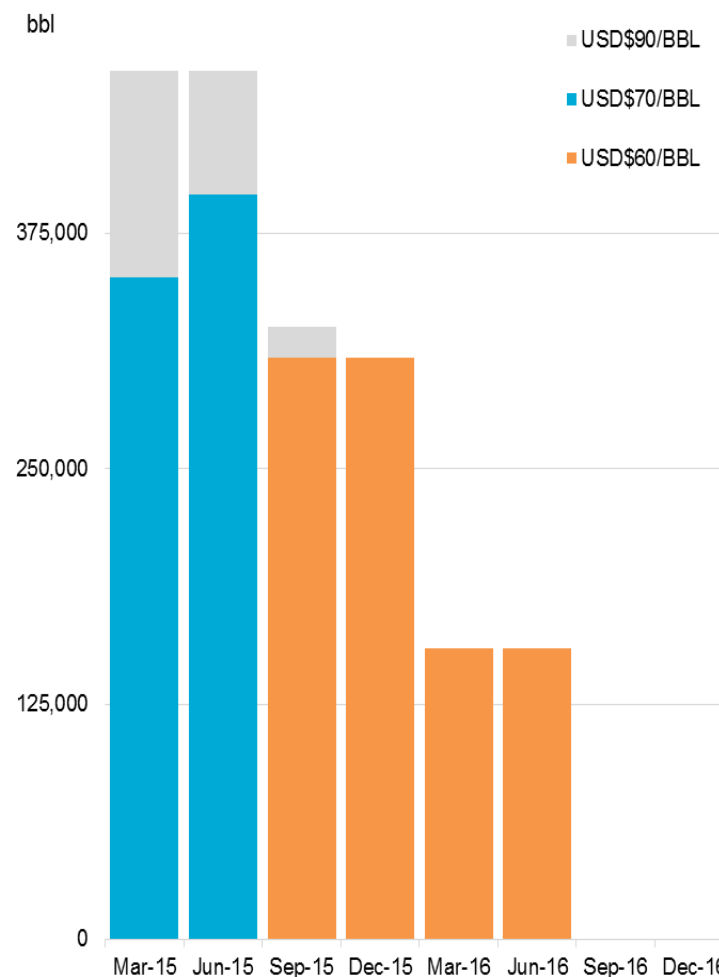
## Additional Hedging

- US\$70/bbl and US\$90/bbl Puts implemented for remainder of FY2015
- Hedge protection extends into FY2016
- Gross hedge benefit of \$3.5m realised in HY2015
- Continuing to assess opportunities for additional hedging

## Operational Review

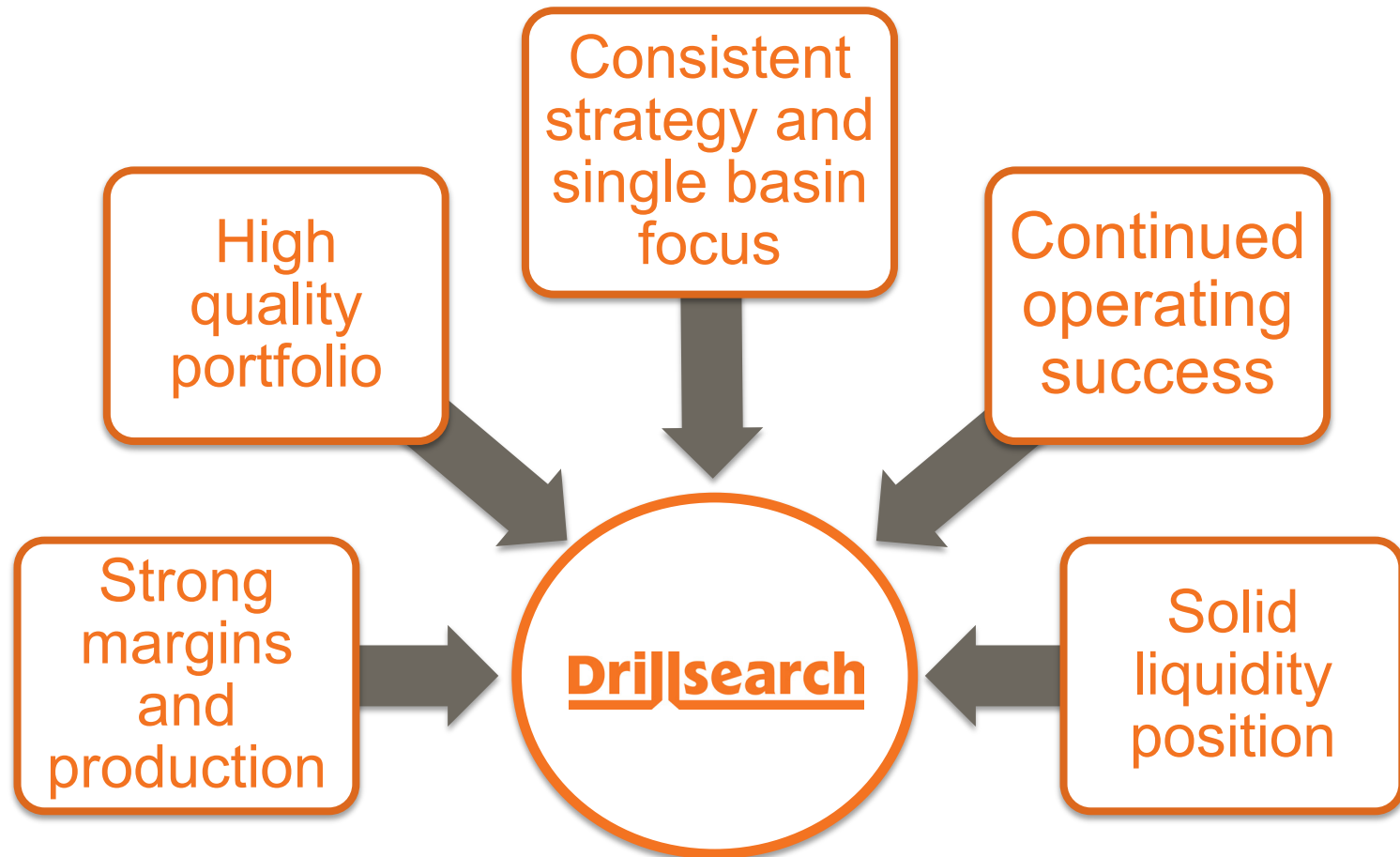
- Review of priorities, and of capital and operating expenditure

Drillsearch Hedge Profile as of 19 February 2015



Protecting financial strength, ensuring we live within our means

## Operational Review Protecting a Robust Core



Deliberate approach to ensure strong core remains

### Strategy confirmed

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graph TD; A[Strategy confirmed] --> B[Prioritisation of capital and activity]; A --> C[Reduce corporate and operating cost base]; A --> D[Future activity and capex matched to operating cash flow];
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#### Prioritisation of capital and activity

- Conventional over Unconventional
- Near-term production, cash flow and reserves replacement

#### Reduce corporate and operating cost base

- Target annualised savings of \$10 million to \$15 million a year

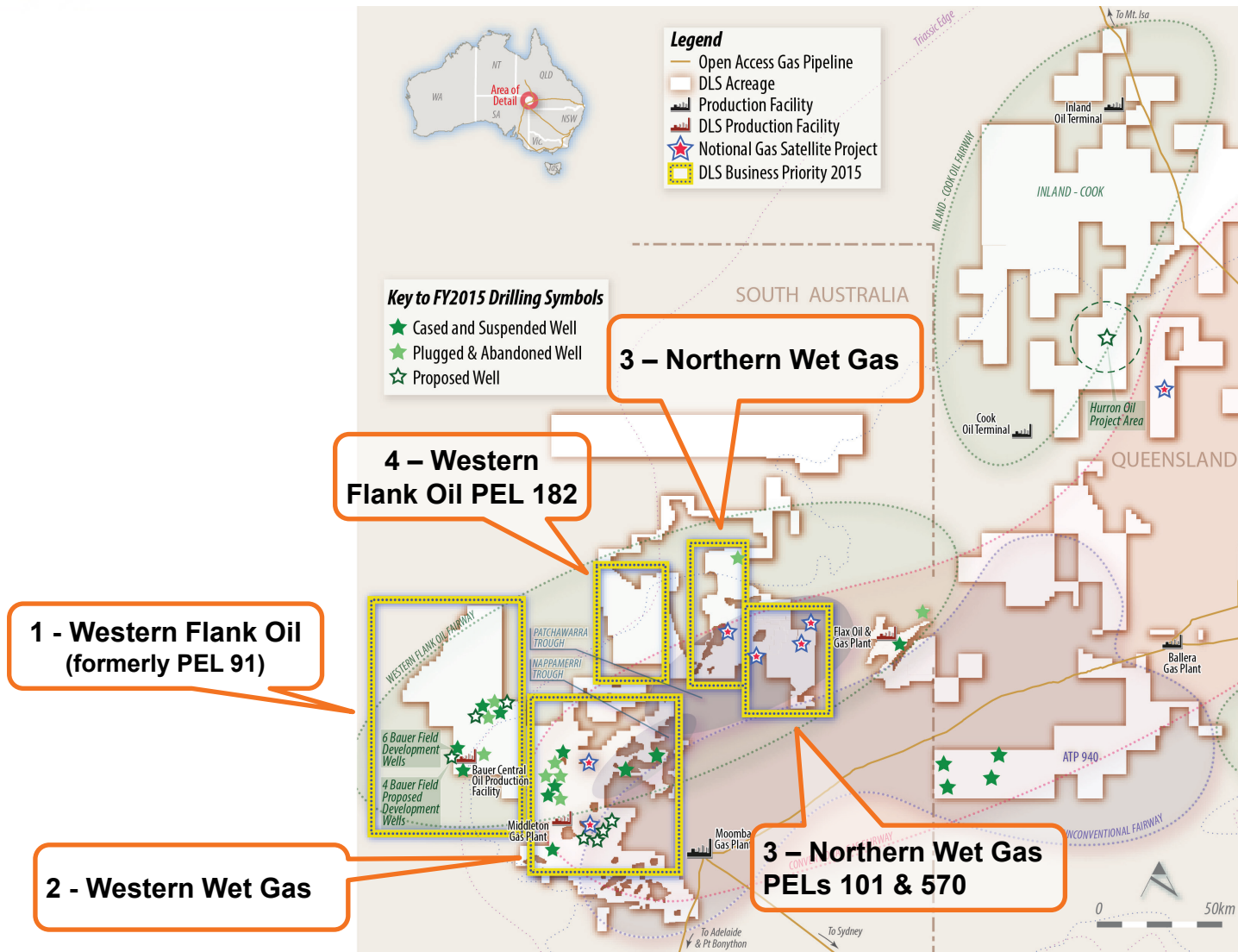
#### Future activity and capex matched to operating cash flow

- Capex in FY2016 and FY2017 expected to be significantly lower than FY2015

**Maintaining a strong platform to capture benefits as market conditions improve**

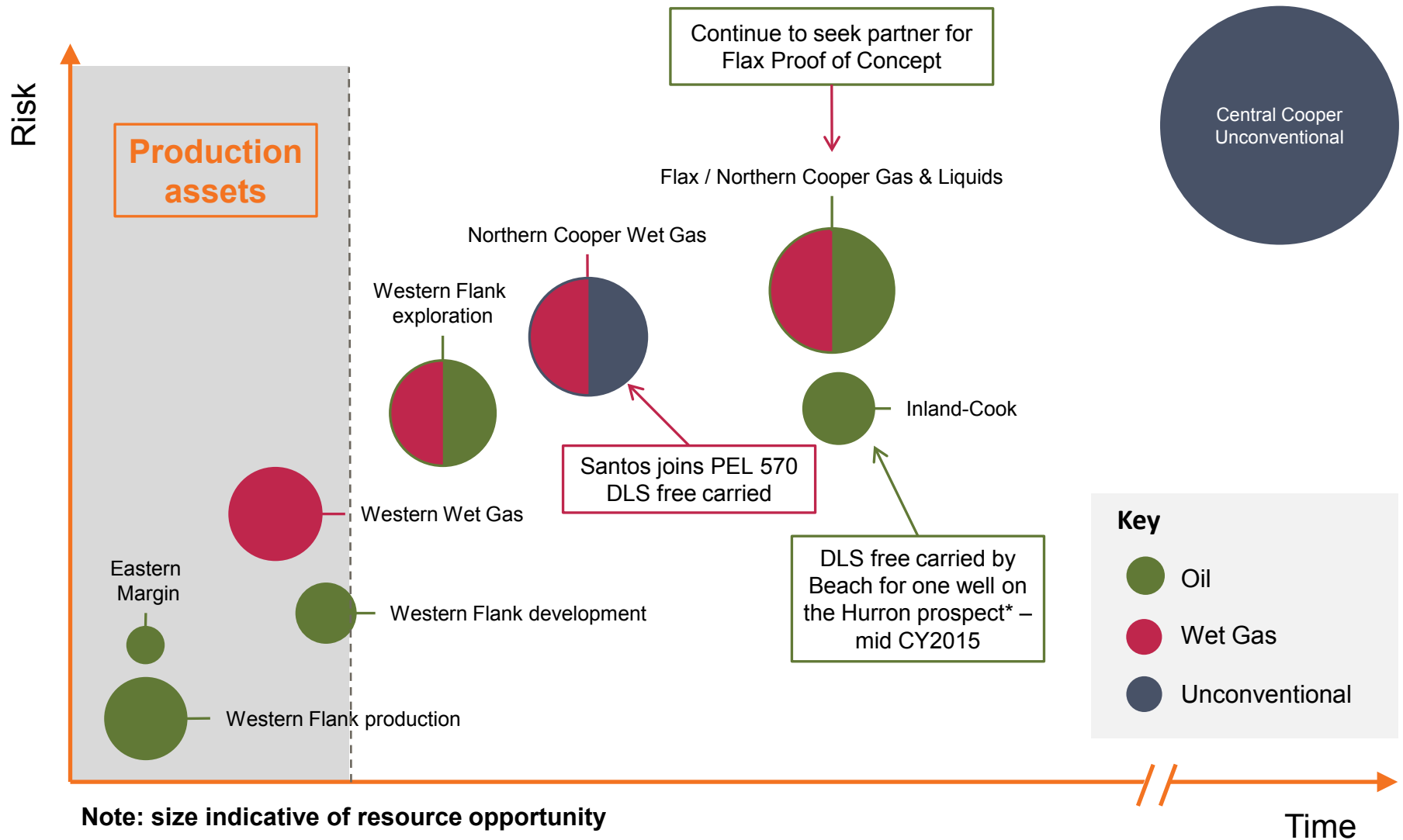


# Prioritising the Asset Base



Focusing our spend in a capital constrained environment

# Quality Growth Assets Across the Portfolio



**Longer-dated opportunities underpin growth when conditions improve**

# Western Flank Oil Key Cash Flow Engine

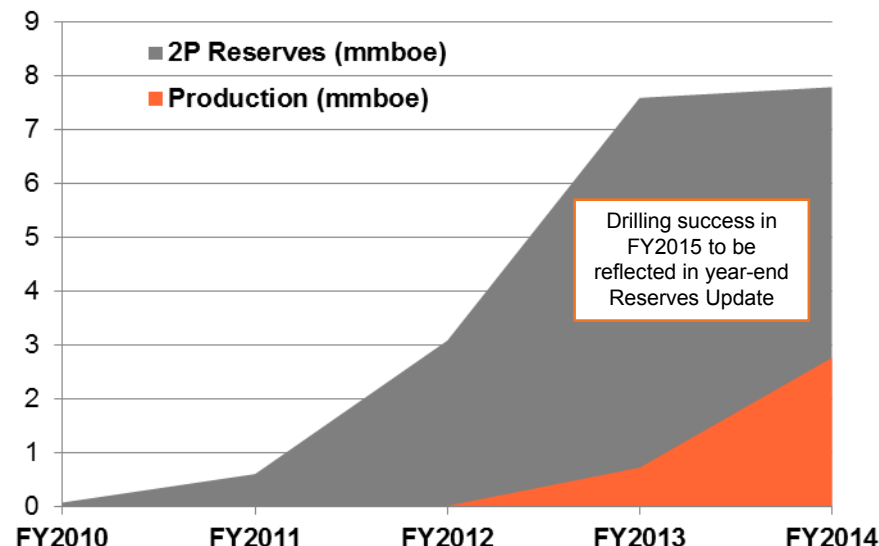
## Current production:

- Production of 11,565 barrels of oil a day (gross) in Q2 FY2015
- 15 oil discoveries – currently producing from six

## Active exploration, appraisal and development program :

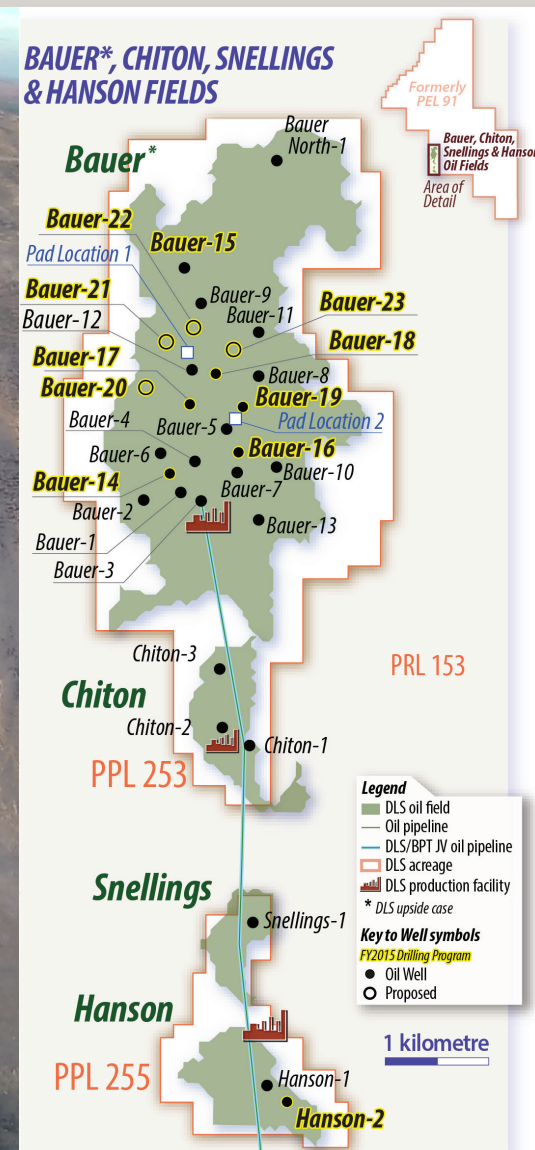
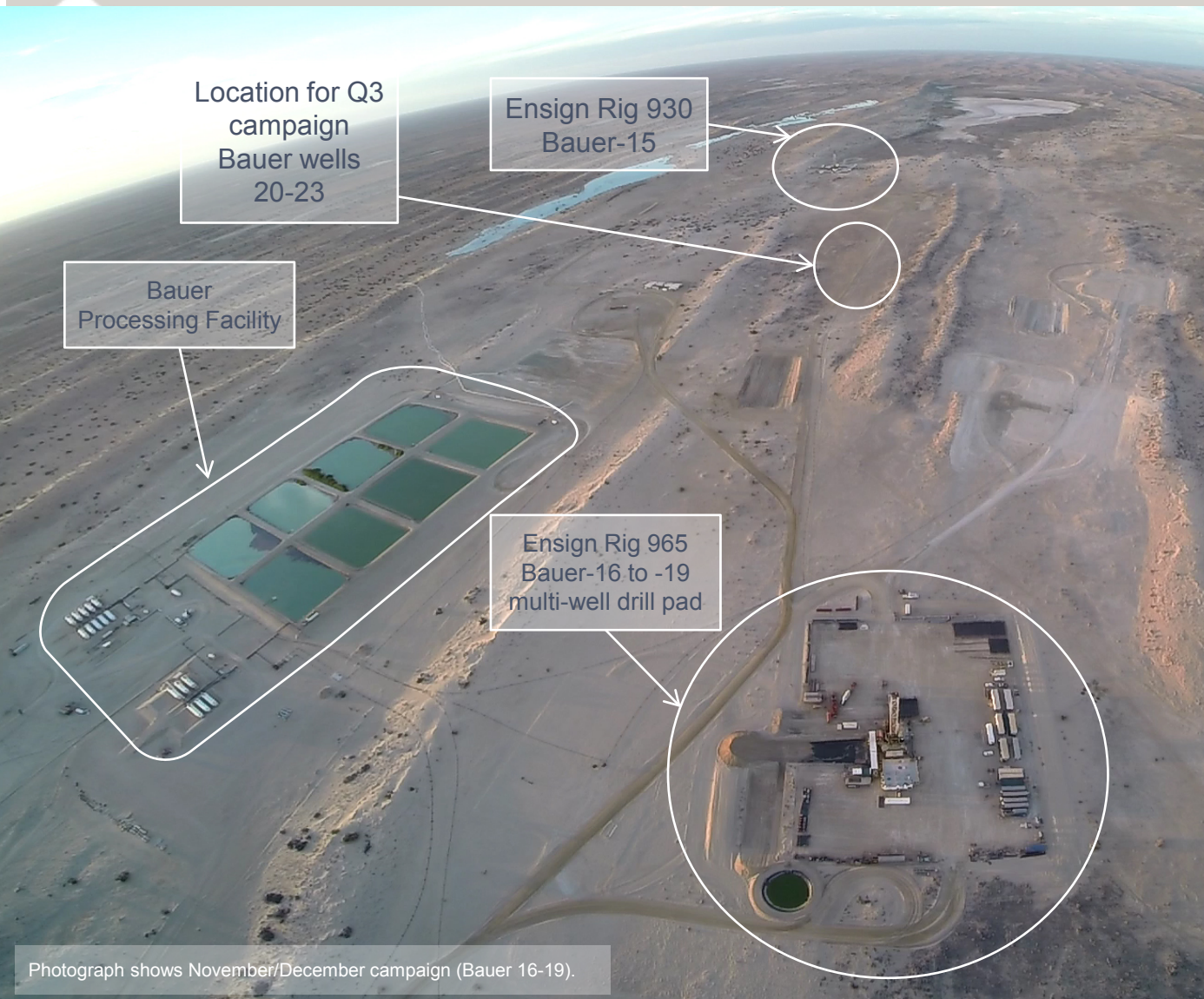
- New Bauer wells (16-19) coming online in Q3 FY2015
- Additional pad drilling campaign at Bauer (Wells 20-23) currently underway
- Stunsail, Pennington, Balgowan fields awaiting facilities, pipelines and connection
- 3D seismic surveys continue to replenish prospect seriatim

2P Reserves\* and Production (net) on the Western Flank Oil Fairway (former PEL 91) (DLS 60%)



**Continuing to deliver in terms of production and drilling success**

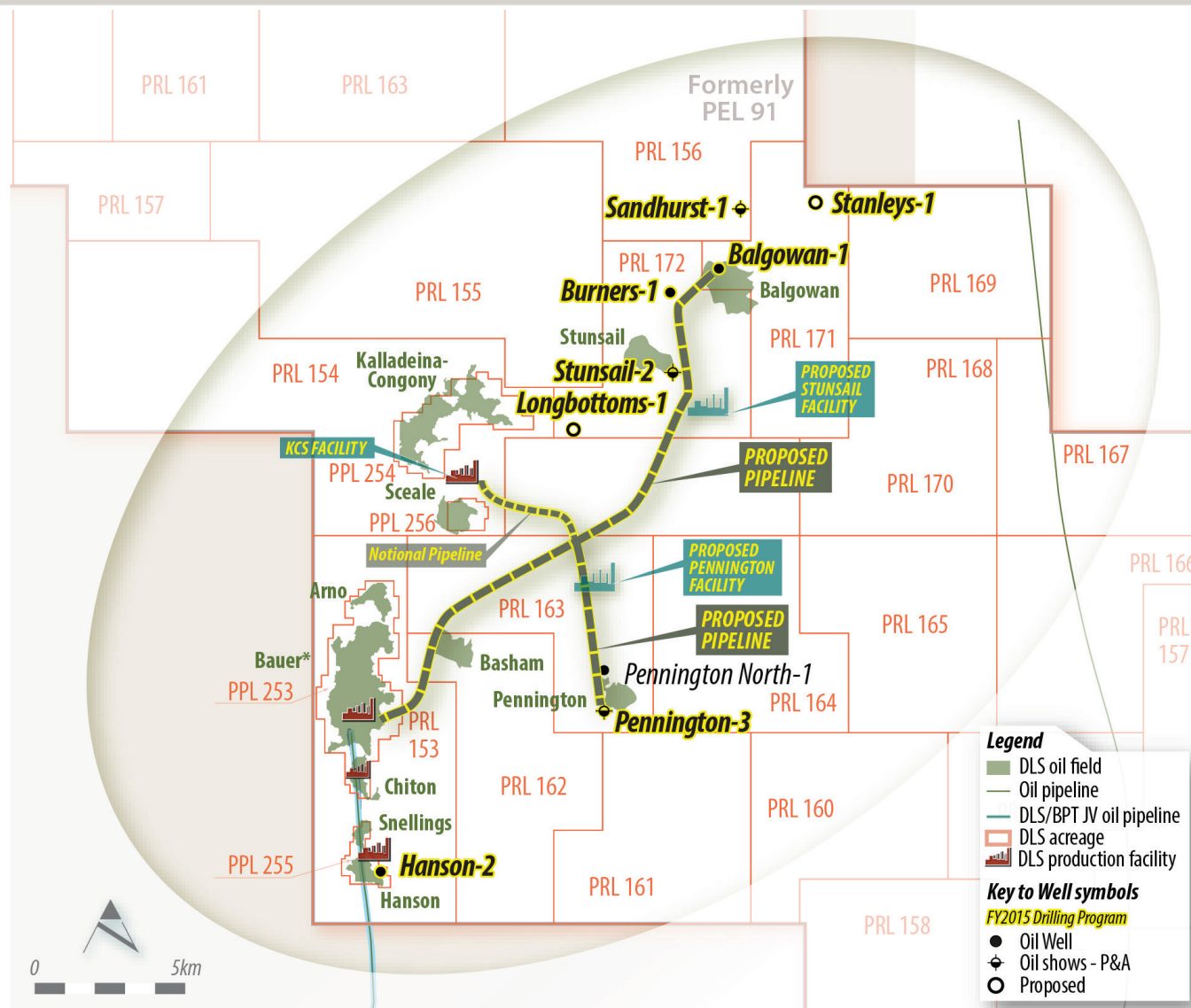
# Western Flank Oil FY2015 Pad Drilling at Bauer



Cost effective means of improving flexibility and underpinning production



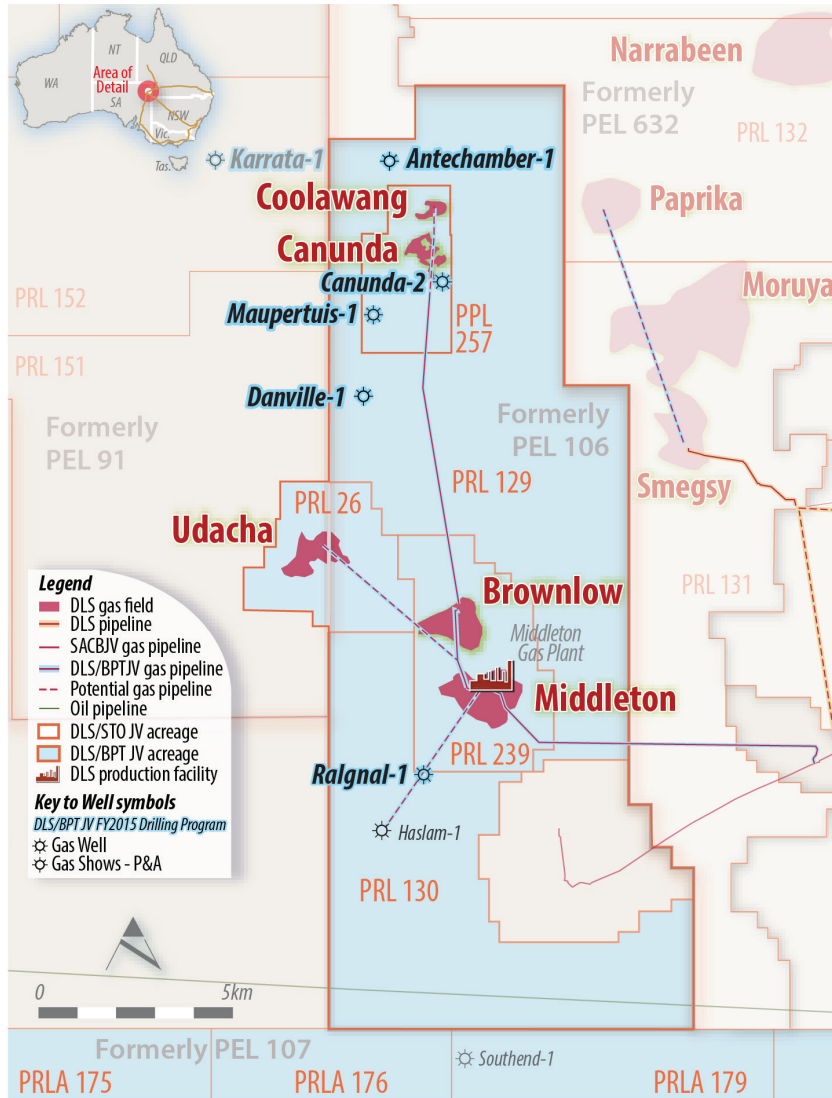
# Western Flank Oil Ongoing Connections Program



Investment in infrastructure improves economics of future discoveries



# Western Cooper Wet Gas Joint Venture with Beach

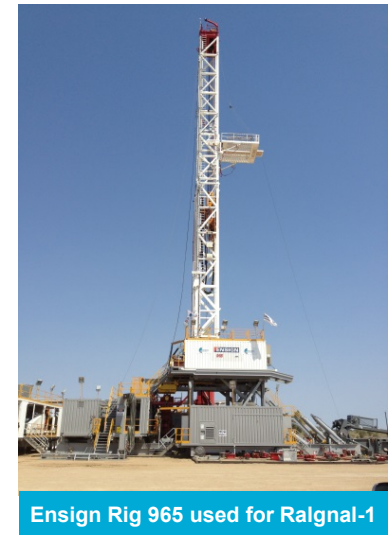


## Current production:

- Production of 0.18 mmboe in the first half (net to DLS, 50% stake) from Brownlow, Middleton and Canunda

## Development program to support future production:

- Compression in FY2016
- Additional wells in line for commercialisation:
  - Coolawang-1
  - Canunda-2
  - Ralignal-1
- Testing of Maupertuis-1
- Hydraulic stimulation of Udacha

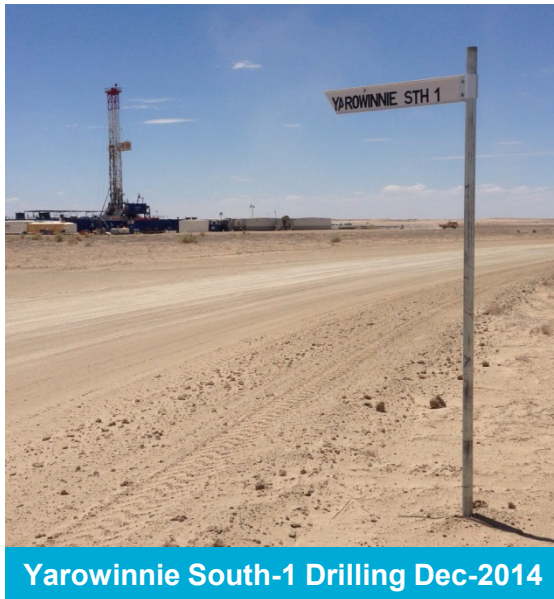


Cornerstone asset for Wet Gas strategy

# Western Cooper Wet Gas Joint Venture with Santos

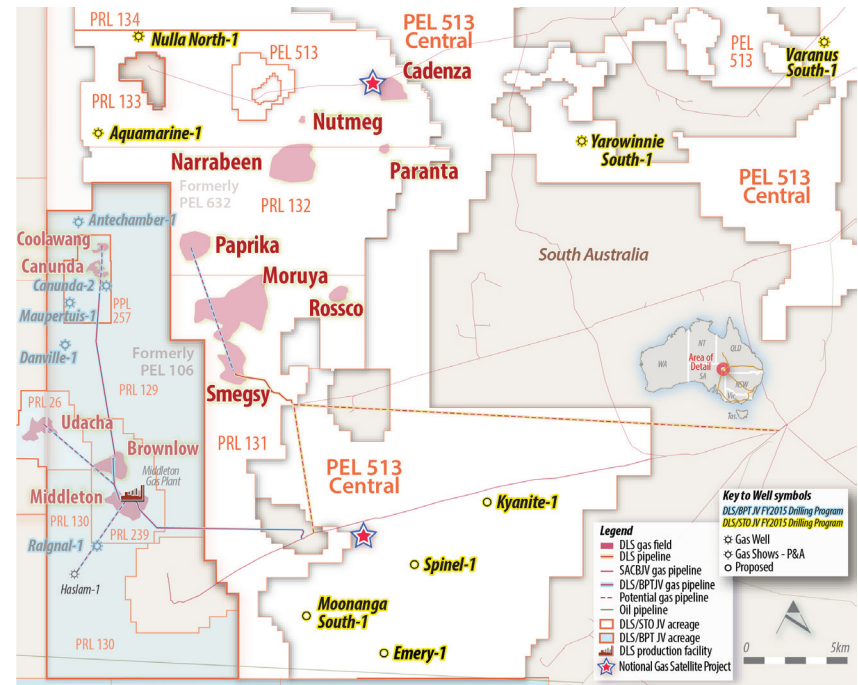
## Exploration

- Three discoveries from first four wells:
  - Varanus South-1
  - Yarowinnie South-1
  - Nulla North-1
- DLS (40%) fully carried through eight well campaign in FY2015



## Connection and Sales

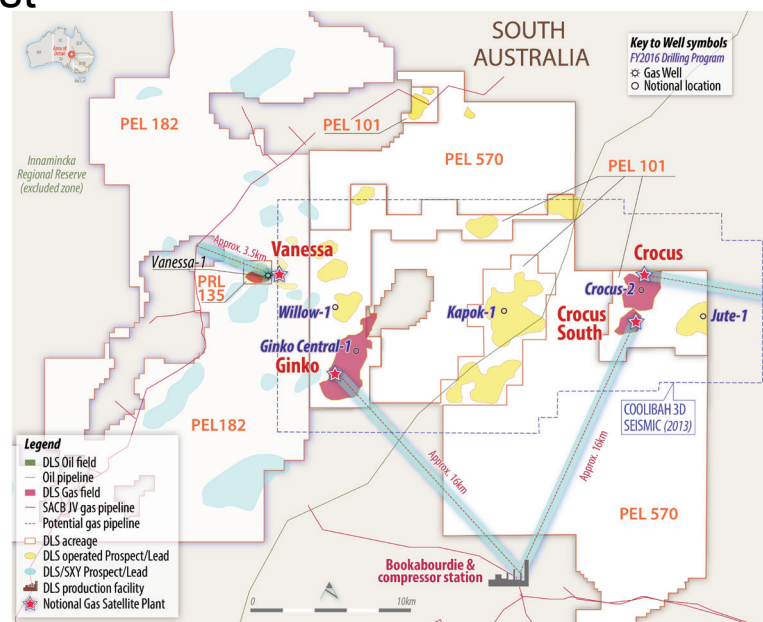
- Connection strategy to be decided on completion of drilling campaign
- Nulla spurline remediation may allow start-up of Cadenza
- Santos to buy DLS share of gas<sup>1</sup>



**Drillsearch free carried - Potential for first revenue in FY2016**

# Northern Cooper Wet Gas Vanessa and PEL 101

- Vanessa-1 discovery successfully tested in Q2 FY2015
  - Gas flowed at average rate of 5.0 mmscf/d with 15 barrels per mmscf/d of condensate
  - Operator progressing plans for tie-in, expected in CY2015
- PEL 101 drilling campaign to kick off in FY2016
  - Three existing discoveries
  - Potential to farm down our 80% interest



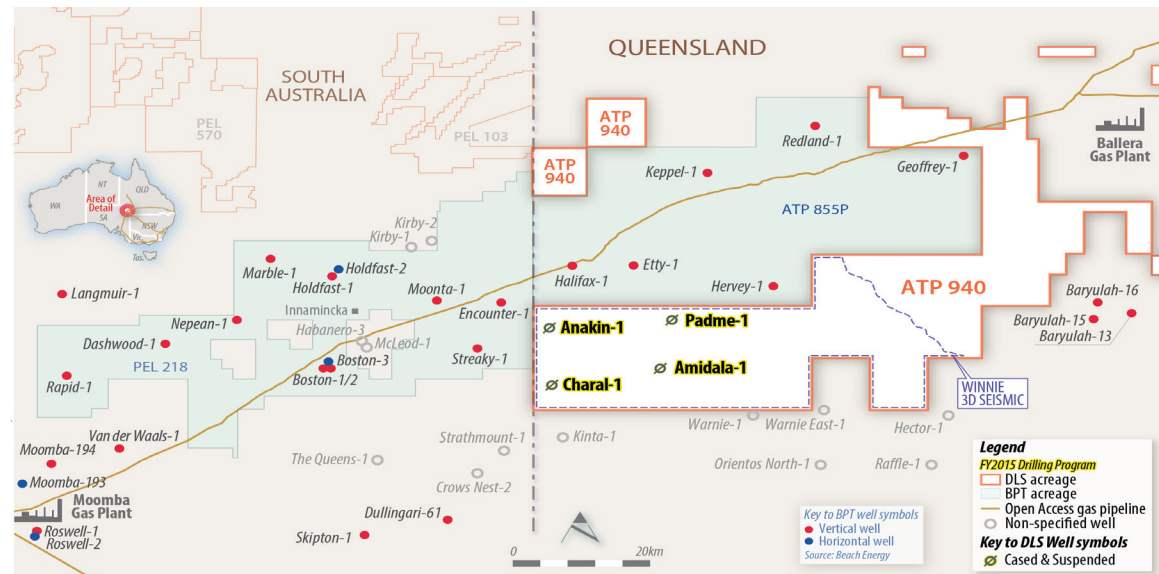
Recent acquisitions provide springboard for future activity

# Unconventional Joint Venture with QGC

- Current drilling program completed in ATP 940 (DLS 40%) – four wells to target depth
- Charal-1 test ongoing – peak flow rate of 0.95 mmscf/d recorded
- Anakin-1 testing underway
- Two-year permit extension to November 2017 allows time to review test results and plan future activity
- No additional drilling planned in the near term














Weatherford 826 drilling rig



Unconventional exploration presents longer term opportunity

# FY2015 Activity

Permit	Operator	FY2015				FY2016	Total		
		Sept Q	Dec Q	Mar Q	Jun Q	Sept Q			
OIL									
Western Flank - PELs 91 & 182	BPT/SXY						19	24	
Seismic acquisition and processing		500km² Solidus 3D acquisition		300km² Jasmine 3D acquisition			800km²		
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		329km² Jacenza 3D acquisition and processing					329km²		
UNCONVENTIONAL									
Central Cooper - ATP 940	DLS							3	3
Stimulation and testing		Hydraulic stimulation and production testing program							

 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
- Reprioritisation of activity for remainder of FY2015; reductions in capex and opex
- Future activity and capex to be matched to cash flow
- Committed to sustainable growth, though the timing of growth targets likely to push out in current conditions

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



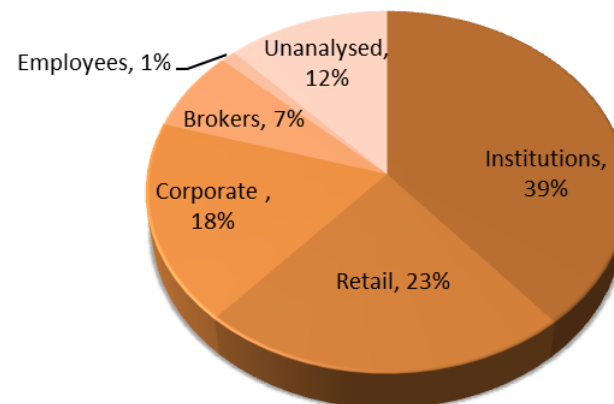
# Appendix

# Corporate Information

## Financial

ASX Ticker	DLS
S&P/ASX Index	ASX 200
Market Cap (A\$m)	452
Shares on Issue (m)	461
Share Price (2 Mar 2015) (A\$/sh)	0.98
Cash (31 Dec 2014) (A\$m)	146.5

## Drillsearch Shareholder Type as at 30 Jan 2015



Top 10 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

**Strength in performance and execution**

# Reserves and Resources as at 30 June 2014

As a result of the arithmetic aggregation of the field totals, the aggregate 1P estimate may be conservative and the aggregate 3P estimate optimistic, as the arithmetic method does not account for 'portfolio effects'

## Net Reserves and Contingent Resources as at 30 June 2014

Reserves by Business Segment	1P mmboe	2P mmboe	3P mmboe
Western Flank Oil	4.7	7.8	12.4
Western Cooper Wet Gas – Middleton Project	5.6	14.1	24.8
Western Cooper Wet Gas – PEL 106A	1.5	4.7	13.0
Northern Cooper Wet Gas	0.0	0.0	0.1
Eastern Cooper Oil	0.1	1.7	4.4
South West Queensland Wet Gas	0.0	0.0	0.0
<b>Total Reserves</b>	<b>11.9</b>	<b>28.3</b>	<b>54.7</b>
Contingent Resources by Business Segment	1C mmboe	2C mmboe	3C mmboe
Western Flank Oil	0.9	1.3	1.9
Western Cooper Wet Gas – Middleton Gas Project	0.4	3.3	10.0
Western Cooper Wet Gas – PEL 106A Gas Project	0.0	0.0	0.0
Northern Cooper Wet Gas	11.2	23.5	44.8
Eastern Cooper Oil	0.0	2.5	6.8
South West Queensland Wet Gas	0.9	3.1	7.5
<b>Total Contingent Resources</b>	<b>13.4</b>	<b>33.7</b>	<b>71.0</b>

Reserves and resources have not been updated to reflect drilling success or production in FY2015. Reserves and Resources will be updated and released with full-year FY2015 results. Refer to slide 2 for Competent Person Statement.

# 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 Liabilities</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

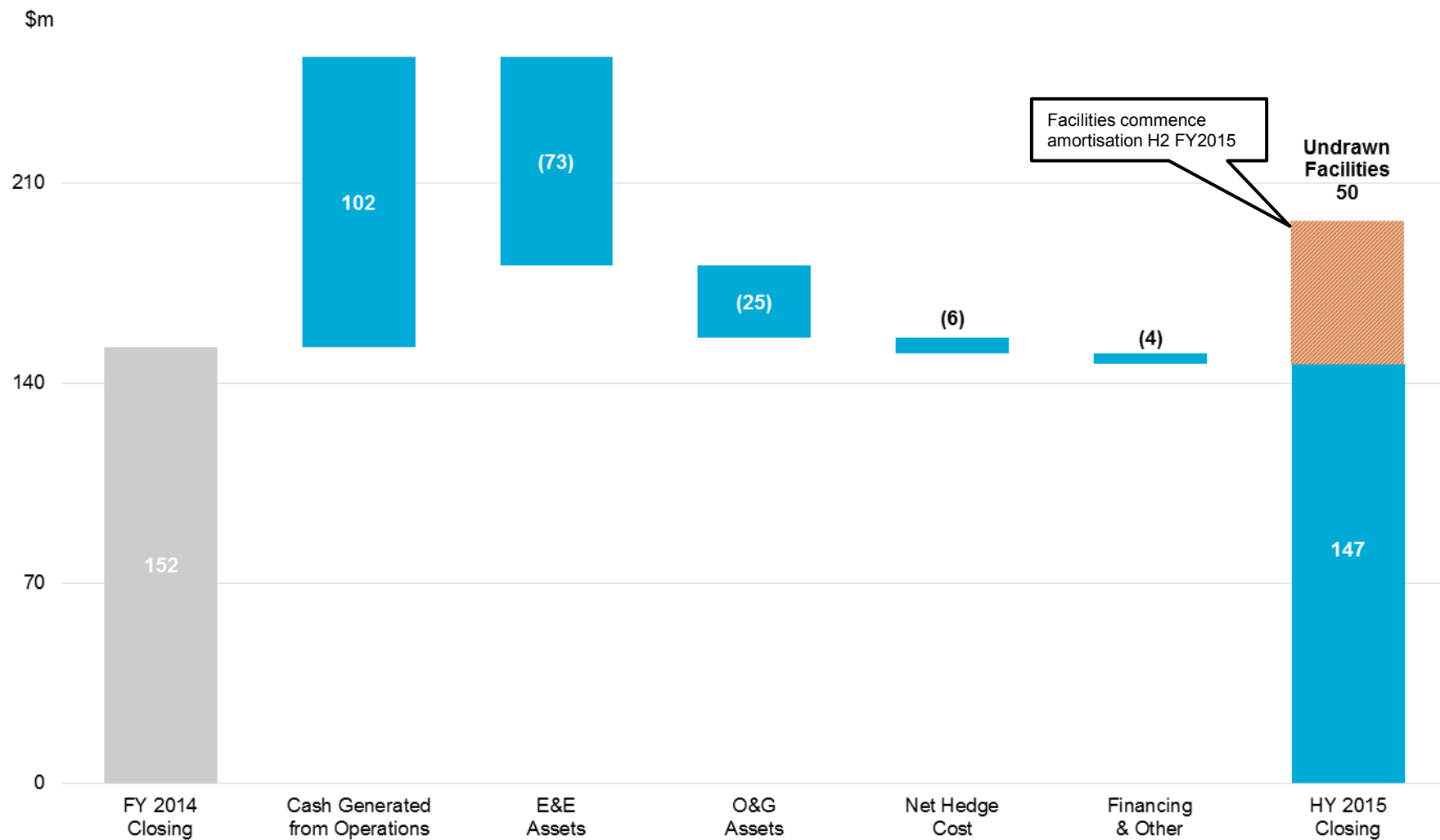
- Drillsearch remains highly liquid with significant net current assets
  - Trade Debtors fully received; reflect period end oil and gas sales accrued and owing
  - Trade Creditors fully settled; reflect period end capital spend accrued and owing
- HY2015 impairment has offset period capital spend
-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

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

## HY2015 Results 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%)
Cash Flow from Operating Activities	\$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%

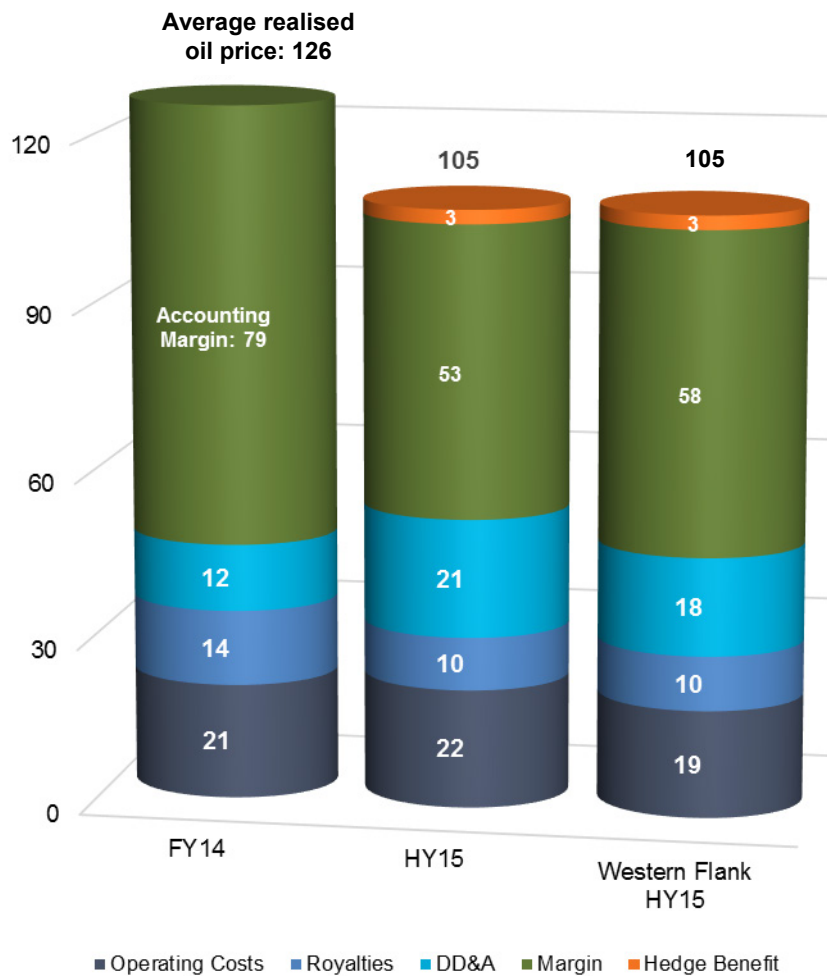
## HY2015 Cash Flow, Cash Balance and Liquidity



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

# HY2015 Oil Operating Margins

## Oil Margins (A\$/bbls)



## Margins including approach to DD&A:

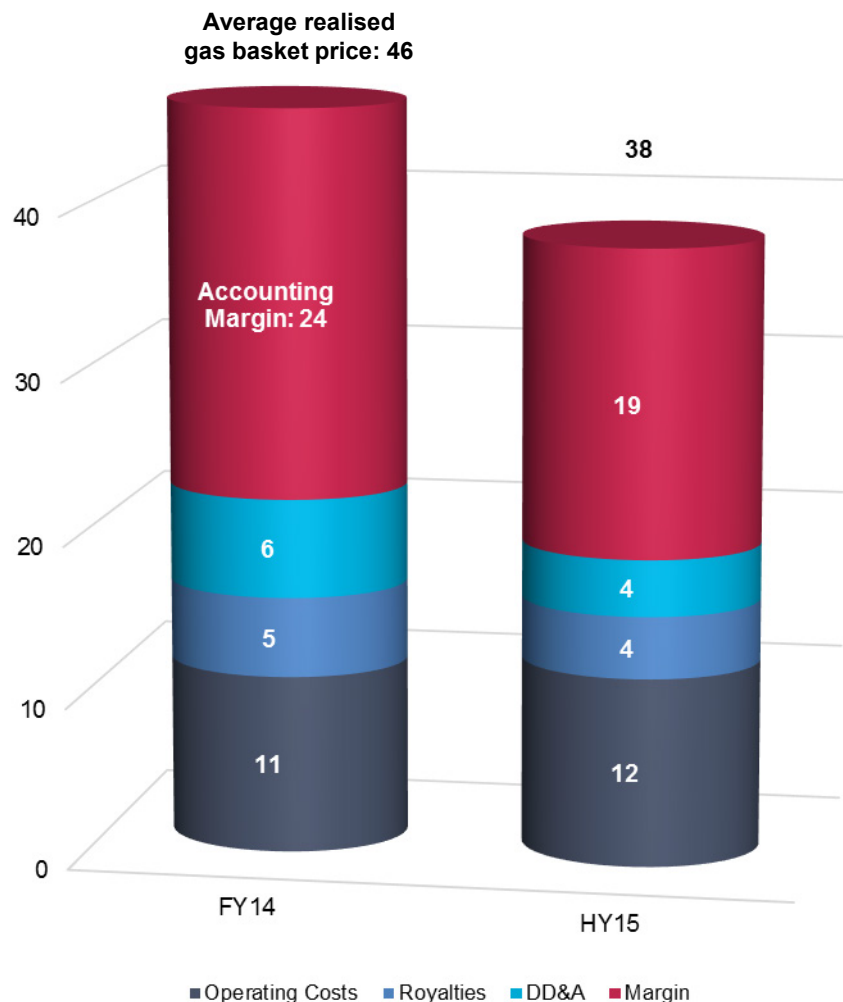
- Western Flank DD&A comprises \$5/bbl of costs incurred as at end FY2014, with the remaining \$13/bbl representative of future development capex
- Approx. 60% of future capex is expected to be incurred in the near-term as we bring undeveloped reserves on-line
- Remainder relates mainly to longer term 'stay-in-business' capital
- DLS approach is conservative with facility and pipeline infrastructure being amortised over existing 2P reserves
- Future reserves growth will likely see this rate reduce, as the above excess capacity is utilised.

**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**



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**DUDLEY WHITE**

GM – CORPORATE COMMUNICATIONS

# **Drillsearch**