**ASX ANNOUNCEMENT**
**26 August 2015**

# Drillsearch Energy Reports FY2015 Full-Year Results

**Highlights[1]:**

- **Record work program delivered with improved safety performance**
- **Production of 3.0 million barrels** of oil equivalent (mmboe), down 11%
- **Average realized oil price of $89.50** a barrel before hedging benefits, 29% lower
- **Sales Revenue of $250.6 million,** down 35%
- **Active hedging program** delivers $20.6 million of additional income
- **EBITDAX[2] of $152.8 million,** down 34%
- **Underlying Net Profit After Tax[2] of $57.8 million,** little change from prior year
- **Net Loss After Tax of $8.1 million** after non-cash write-offs and impairments
- **Strong liquidity position;** $171.5 million of cash and undrawn debt at 30 June 2015

**Guidance and Outlook[3]:**

- **External market conditions remain challenging:**
  - Decisive cost reduction measures taken by the company
  - Capex prioritised to production, cash flow, reserves replacement
- **Successful outcomes of work program expected to flow through in FY2016:**
  - FY2016 production guidance of 2.8 to 3.2 mmboe
  - Diversification of production base; Wet Gas contribution to increase
- **Ongoing investment in exploration and development:**
  - FY2016 capital expenditure[4] guidance of $80 million to $110 million[5]
  - Up to 22 wells planned across the Cooper Basin
- **Five-year outlook – continued strong growth in the Cooper Basin business**
  - Investment matched to net operating cash flow
  - Approximately 50% production growth over five years from existing assets
  - Cooper Basin is the platform to look at additional growth options

Drillsearch Energy Limited (DLS: ASX) has released its Full-Year Results, including the Director's Report and the Appendix 4E, for the 12 months to 30 June 2015 (FY2015). This market release is a summary document and should be read in conjunction with the full-year results materials separately released.

Commenting on the result, Acting Chief Executive Officer Walter Simpson said:
*"Drillsearch delivered its biggest ever work program and maintained solid production, while at the same time taking decisive steps to respond to the downturn in commodity markets.*

*"We have emerged from a difficult year for the sector with a leaner organisation and a healthy balance sheet. This means we can continue to invest, while matching our capex to our net operating cash flow."*

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[1] All references to $ are to Australian dollars, unless otherwise indicated.
[2] Underlying Net Profit After Tax and EBITDAX are Non-IFRS accounting financial information. Refer to important information regarding the use of Non-IFRS accounting financial information on page 5.
[3] Refer to important information regarding Forward Looking Statements on page 5 of this release.
[4] Capital expenditure is cited inclusive of G&A, G&G and seismic expenditure.
[5] Excludes benefit of free carries.


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**Summary of FY2015 Operating and Financial Results:**

| | **FY2015** | FY2014 | Change |
|---|---|---|---|
| Safety (TRIFR) | **6.6** | 9.7 | (32%) |
| No. of wells | **41** | 27 | 52% |
| Production (mmboe) | **3.0** | 3.4 | (11%) |
| Average realised oil price ($ per barrel) | **89.5** | 125.5 | (29%) |
| Average realised oil price including hedging gains ($ per barrel) | **97.2** | 125.5 | (23%) |
| Average total operating cost[6] – oil ($ per barrel) | **31.1** | 34.4 | (9%) |
| Revenue ($m) | **250.6** | 387.0 | (35%) |
| Impairments ($m) | **51.9** | 0.2 | N/M |
| Exploration and evaluation expenses | **57.6** | 44.4[7] | 30% |
| Statutory net (loss)/profit after tax ($m) | **(8.1)** | 41.9[7] | N/A |
| Underlying net profit after tax[8] ($m) | **57.8** | 58.5[7] | (1%) |
| EBITDAX[8,9] ($m) | **152.8** | 232.0 | (34%) |
| Basic (loss)/earnings per share (cents per share) | **(1.8)** | 9.8[7] | N/M |
| Diluted (loss)/earnings per share (cents per share) | **(1.8)** | 9.6[7] | N/M |
| Operating cash flow ($m) | **84.4** | 226.6[7] | (63%) |
| Net cash flow[8,10]($m) | **(20.9)** | 116.3 | N/M |
| Capital expenditure ($m)[11] | **142.0** | 95.7 | 48% |
| Cash position ($m) | **131.5** | 152.4 | (14%) |

**Operational and Safety Performance**

Production for the year was 3.0 mmboe, 11% less than the 3.4 mmboe produced in FY2014 due to delays in connecting new wells on the Western Flank. Oil accounted for about 90% of production, with Wet Gas (gas and gas liquids) accounting for the remaining 10%.

Forty-one wells were drilled resulting in 12 new Oil and Wet Gas discoveries and an overall success rate of 74% across conventional exploration, appraisal and development. Significant expansion of the Bauer production facilities on the Western Flank Oil Fairway was also undertaken.

Even with the increase in activity, safety performance improved, with the benchmark Total Recordable Injury Frequency Rate (TRIFR) in FY2015 reduced by almost one third to 6.6 from 9.7 in FY2014.

**Financial Performance**

The average realised oil price for FY2015 was $89.50 a barrel, before the benefits of hedging, down from $125.50 a barrel in the prior corresponding period as a result of the decline in global oil prices.

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[6] Calculated as direct operating expense for the Oil segment divided by oil production across both Western Flank and Eastern Margin.

[7] Restated following the change in accounting policy to adopt Successful Efforts. Refer to the ASX Announcement dated 6 August 2015 and Note 3 in the financial statements for the year ended 30 June 2015.

[8] EBITDAX, Underlying (Loss)/Profit and Net Cash Flow are Non-IFRS accounting financial information used by the company to provide an understanding of the underlying performance of the business. Underlying (Loss)/Profit excludes the impacts of asset acquisitions, disposal and impairments, as well as other items that are subject to significant variability between reporting periods, including the effect of fair value adjustments and fluctuation in exchange rates. The Non-IFRS accounting financial information in this release has not been the subject of external audit, however, the information has been taken from information prepared in accordance with IFRS accounting and the subject of external audit. Non-IFRS accounting financial information should be read in conjunction with, not in replacement of, IFRS accounting financial information included in this release. A reconciliation of Underlying (Loss)/Profit to Net (Loss)/Profit is set out on page 6 of this release.

[9] EBITDAX is earnings before interest, tax, depreciation and amortisation, exploration and evaluation expenditure, and impairments. A reconciliation of EBITDAX to operating (loss)/profit before tax is included on page 6 of this release.

[10] Net cash flow refers to the net increase/decrease in cash and cash equivalents per the consolidated statement of cash flows.

[11] Capital expenditure is cited inclusive of G&A, G&G and seismic expenditure.

Including the benefits of Drillsearch's hedging program, average realised oil prices were $97.20 a barrel.

Lower realised oil prices and lower production resulted in revenue of $250.6 million in FY2015, down 35% from $387.0 million in the prior period.

Lower oil prices were also reflected in a decline in operating cash flow, which was $84.4 million in FY2015, compared with $226.6 million in FY2014.

Net cash flow was an outflow of $20.9 million, compared with an inflow of $116.3 million a year earlier, reflecting weaker revenue and higher capital expenditure to support the record work program.

The company reported a Net Loss After Tax of $8.1 million in FY2015, compared with a Net Profit After Tax of $41.9 million in FY2014, as a result of:

- Lower revenue; and
- Non-cash write-offs and asset impairments of $109.5 million (pre-tax):
    - $57.6 million of exploration costs that were expensed in FY2015 following the adoption of Successful Efforts.
    - $51.9 million of impairments relating to a reduction in the carrying value of Drillsearch's 40% stake in the Eastern Margin/Tintaburra assets ($44.3 million, taken at the Half-Year), and an additional $7.6 million taken against the carrying value of the Flax assets in the Northern Cooper.

Underlying Net Profit After Tax was $57.8 million in FY2015, little changed from $58.5 million in FY2014[12].

Drillsearch ended the financial year in a robust financial position. Cash on hand at 30 June 2015 was $131.5 million (FY2014 $152.4 million), with additional liquidity available via the company's $40 million undrawn working capital facility.

**Guidance and Outlook[13]**

Drillsearch has taken decisive action to respond to the decline in the oil price and continuing volatility:

I. Hedging – which contributed $20.6 million of income for FY2015. Drillsearch currently has 1.43 million barrels of FY2016 production hedged at floor prices of at least US$60 a barrel, with a further 215,000 barrels currently hedged in FY2017. Drillsearch will actively assess opportunities to put more hedging in place in order to mitigate its exposure to oil price volatility.

II. Capital discipline - prioritisation of capital expenditure to focus on activity delivering near-term production, cash flow and reserves replacement, with capex to be matched to net operating cash flow.

III. Cost reductions - a comprehensive business restructuring has been completed, targeting annualised cost savings of between $10 million and $15 million a year, and involving a one third reduction in headcount.

IV. Other actions taken include:

    a. Shut-in of production from Flax, though Flax continues to represent an important growth opportunity longer term.
    b. Commencement of a process for the possible sale of the Eastern Margin/Tintaburra assets.
    c. Review of further investment in the ATP 940 Unconventional permit.

[12] Underlying (Loss)/Profit is Non-IFRS accounting financial information. Please refer to important information regarding Non-IFRS accounting financial information, including a reconciliation of Underlying (Loss)/Profit to Net (Loss)/Profit, on page 6 of this release.
[13] Refer to important information regarding Forward Looking Statements on page 5 of this release.

*FY2016 Guidance*
Production guidance for FY2016 is 2.8 to 3.2 mmboe, with oil production expected to be underpinned by continued strong performance from the Western Flank Oil Fairway, with the tie-in of additional wellhead capacity and new and upgraded facilities.

The contribution to production from Wet Gas is expected to increase as new discoveries are connected across our joint ventures with Santos, Beach and Senex starting around mid-year. By the end of FY2016, Drillsearch expects to have Wet Gas production from three joint ventures, capitalising on our previous exploration success and diversifying our production base.

Production guidance includes allowing for the potential sale of Drillsearch's 40% stake in the producing Eastern Margin/Tintaburra oil assets.

Capital expenditure[14] guidance for FY2016 is in the range of $80 million to $110 million, with up to 22 wells planned to be drilled across our Cooper Basin acreage, including exploration wells in the Inland-Cook Oil Fairway and in the PEL 570 acreage acquired through the takeover of Ambassador Oil and Gas.

In addition, appraisal and development activity is planned across our Western Flank Oil Fairway joint venture with Beach and our Western Wet Gas joint ventures with Beach and Santos. Drillsearch expects the majority of its share of capex in the Western Wet Gas joint venture with Santos to be free carried in FY2016.

*Five-Year Outlook*
Drillsearch continues to expect strong growth from the company's Cooper Basin business despite the continued weakness in crude oil prices.

In response to the ongoing volatility in global markets, Drillsearch has adjusted its planned activities over the next five years targeting activity and associated capital expenditure at, or below, projected net operating cash flow. Subject to the results of ongoing exploration activity, Drillsearch expects to grow its Cooper Basin Business by 50% (in boe production terms) over the coming five years, with scope for additional growth if market conditions improve, or with upside exploration outcomes. A number of exciting growth options remain which may deliver additional growth, but which have been de-prioritised in the near-to-medium term as a result of market conditions.

The Cooper Basin will continue to remain a core focus for Drillsearch, however the company also plans to use the platform provided by the Cooper business, together with the successful business model deployed and honed in the Cooper, to carefully consider targeted opportunities in other basins.

Mr Simpson said:
*"The successful outcomes of the FY2015 work program have added to our growth options and created a solid platform for Drillsearch in the new financial year and over the longer term.*

*"We are tying in the additional wellhead capacity that will support Western Flank oil production and FY2016 will be a landmark year in Wet Gas, with the start-up of production from the Santos and Senex joint ventures, the culmination of our past technical and commercial success.*

*"The Cooper Basin remains our core area of focus, with scope for substantial growth even in the current capital-constrained environment, however our successful, technically-driven business model is transferable and we will assess opportunities to apply it to other areas close to our home."*

*--Ends--*

[14] Capital expenditure is cited inclusive of G&A, G&G and seismic expenditure.

**For further information please contact:**

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**Conference call:**

Chairman Jim McKerlie, Acting Chief Executive Officer Walter Simpson and Chief Financial Officer Ian Bucknell will host a conference call at 11am today. Please find the details below. A replay facility will be also be available on the Web site: http://www.drillsearch.com.au/

| | | |
|---|---|---|
| **Date and time**: | 11.00 am (AEST) on Wednesday 26 August 2015 | |
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**Forward Looking Statements**
This release contains forward looking statements. Often, but not always, forward looking statements may be identified by the use of words such as "may", "will", "expect", "intend", "target", "anticipate", "continue", "planned", "guidance" and "outlook", or similar expressions and may include (without limitation) statements regarding plans, strategies, objectives, anticipated operating or financial performance, including production volumes and costs.

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

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

Forward looking statements in this ASX announcement speaks 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.

**Notes:**

**Non-IFRS Accounting Financial Information**
This release refers to EBITDAX (earnings before interest, tax, depreciation and amortisation, exploration and evaluation expenditure, and impairments), Underlying (Loss)/Profit and Net Cash Flow.

EBITDAX, Underlying (Loss)/Profit and Net Cash Flow are Non-IFRS accounting financial information used by the company to measure the underlying performance of the business. Underlying (Loss)/Profit excludes the impacts of asset acquisitions, disposal and impairments, as well as other items that are subject to significant variability between reporting periods, including the effect of fair value adjustments and fluctuation in exchange rates.

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A reconciliation of Underlying (Loss)/Profit to Net (Loss)/Profit is set out below.

| | **2015** | **2014** |
|---|---|---|
| Net (Loss)/Profit after Tax | (8.1) | 41.9 |
| **Addback:** | | |
| Change in fair value of convertible notes & derivatives | 11.8 | 24.8 |
| Impairment of Oil & Gas Assets | 51.9 | 0.2 |
| De-recognition of prior year tax losses | 12.0 | 0.0 |
| Tax impact of above changes | (9.8) | (8.4) |
| **Underlying net profit after tax** | **57.8** | **58.5** |

A reconciliation of EBITDAX to Operating (Loss)/Profit Before Income Tax is set out below.

| | **2015 $000** | **2014 Restated $000** |
|---|---|---|
| EBITDAX | 152.8 | 232.0 |
| **Adjusted for:** | | |
| **Interest income** | 3.1 | 1.7 |
| Finance Costs | (10.0) | (11.6) |
| Amortisation and depletion | (54.4) | (38.4) |
| Depreciation | (1.8) | (2.0) |
| Impairment of oil and gas assets | (51.9) | (0.2) |
| Exploration and evaluation costs expensed/written off | (57.6) | (44.4) |
| **(Loss)/profit before income tax** | **(19.8)** | **137.1** |