

FOCUSED ON OUR FUTURE

2015 ANNUAL REPORT



Dril|search

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Reserves and Contingent Resources Statement

Unless otherwise stated, references in this report to estimates of petroleum reserves and contingent resources are as at 30 June 2015, as contained in Drillsearch's 2015 Reserves and Contingent Resources Statement (Annual R&CR Statement) released to the ASX on 26 August 2015. Drillsearch confirms that it is not aware of any new information or data that materially affects the information included in the Annual R&CR Statement and that all of the material assumptions and technical parameters underpinning the estimates in the Annual R&CR Statement continue to apply and have not materially changed.

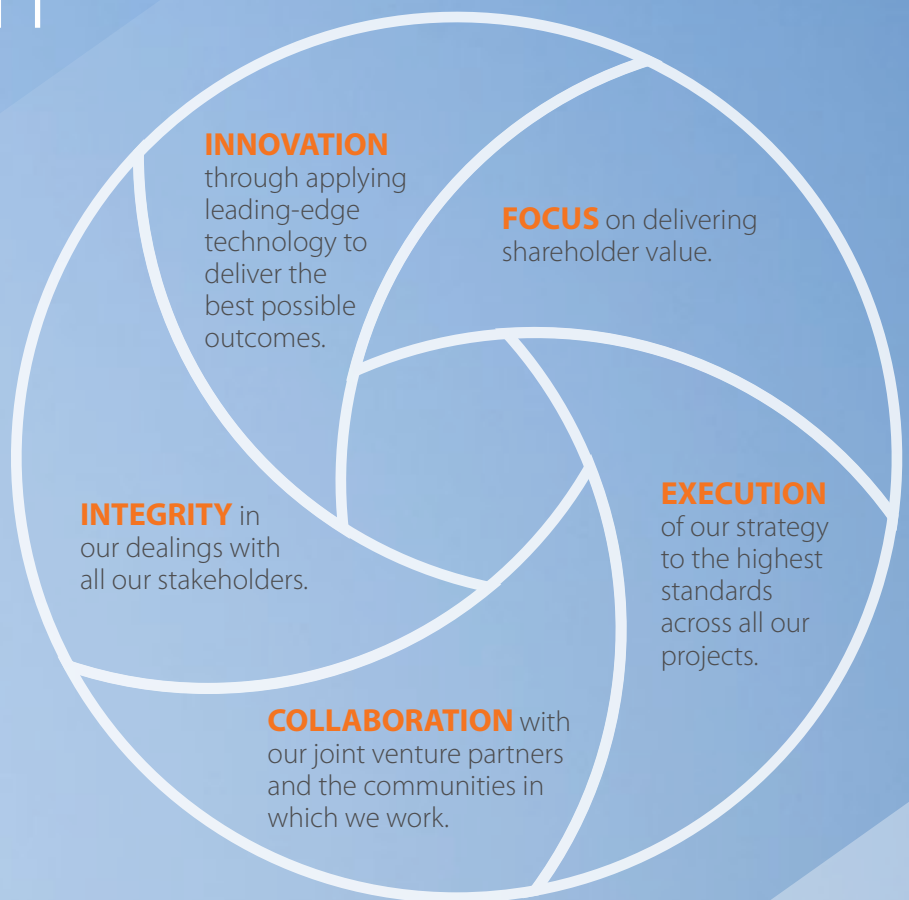
The 2P reserve and 2C contingent resource estimates in the report are based on, and fairly represent, information and supporting documentation prepared by, or under the supervision of, Neil Thompson, who is a member of the American Association of Petroleum Geologists, and Susan Hyde, who is a member of the Society of Petroleum Engineers, both of whom are full time employees of Drillsearch Energy Limited.

Drillsearch prepares its petroleum reserves and contingent resources estimates in accordance with the Petroleum Resources Management System (PRMS) sponsored by the Society of Petroleum Engineers (SPE). Unless otherwise stated, all references to petroleum reserves and contingent resources quantities in this report are Drillsearch's net share.



FOCUSED ON BUILDING AUSTRALIA'S LEADING INDEPENDENT OIL AND GAS COMPANY

Underpinning
our proven
approach are
our five key
disciplines.



ANNUAL GENERAL MEETING

Drillsearch's Annual General Meeting will be held on Wednesday 18 November 2015, commencing at 10:00am at Museum of Sydney, AGL Theatre, Level 2, Corner of Phillip and Bridge Streets, Sydney NSW 2000.

A light lunch will be provided at the conclusion of the meeting.

HIGHLIGHTS AND PERFORMANCE

CONTINUING TO DELIVER IN A CHALLENGING MARKET

RECORD WORK PROGRAM DELIVERED

alongside an improving Total Recordable Injury Frequency Rate, that was in line with our Australian peers.

41 WELLS DRILLED IN FY2015

with 12 new discoveries creating an exciting platform for development and appraisal activity in FY2016.

ROBUST LIQUIDITY POSITION MAINTAINED DURING A CHALLENGING SECTOR ENVIRONMENT

with a hedging program delivering significant benefits and \$171.5 million of cash and undrawn bank debt at 30 June 2015.

PRODUCTION OF 3.0 MMBOE IN FY2015

with the Western Flank development campaign to support oil production during early FY2016.

OIL RESERVES INCREASE AT 30 JUNE 2015

alongside strong production from the Western Flank with a five-year 2P reserves replacement ratio of 305%.



FIVE-YEAR PERFORMANCE

Company Performance Metric	unit	FY2011	FY2012	FY2013	FY2014	FY2015
Safety – Total recordable injury frequency rate (TRIFR)	/mmhrs	N/a	N/a	10.28	9.72	6.64
Production	mmboe ¹	0.1	0.4	1.1	3.4	3.0
Five-year 2P Reserves replacement ratio ²	%	N/a	N/a	1,428%	527%	305%
Statutory profit/(loss)	\$ m	(5.6)	10.0	45.1	41.9	(8.1)
Share price (close of trading, 1 July)	\$/share	0.43	1.04	1.05	1.46	1.05
Annual TSR ranking relative to S&P ASX300 Energy Index ³	percentile	16 th	95 th	47 th	79 th	47 th

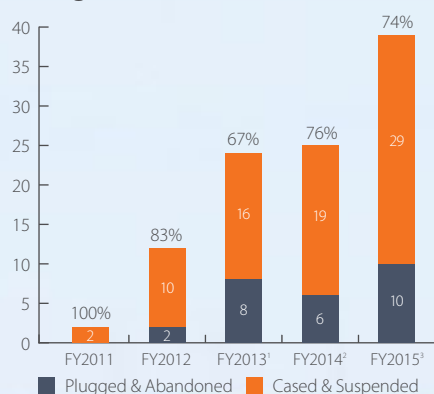
1 mmboe is million barrels of oil equivalent.

2 Five-year 2P Reserves replacement ratio is the rolling rate at which the Company replaces or increases its Oil and Gas Reserves as stated in the Company's annual R&CR Statement. The ratio is calculated as: (Closing 2P Reserves in year 5 – Opening 2P Reserves in year 1)/(Aggregate production years 1 to 5 (inclusive)).

3 Source: Bloomberg and company data.

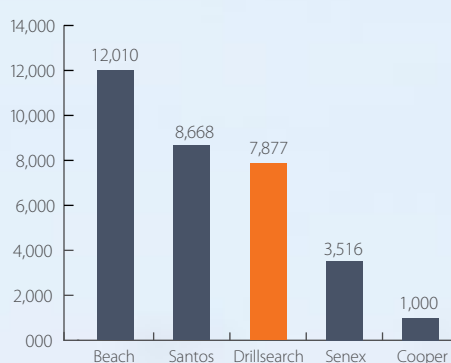
OUR STRATEGY CONTINUES TO YIELD STRONG RESULTS

Drilling Success Rate (wells drilled)



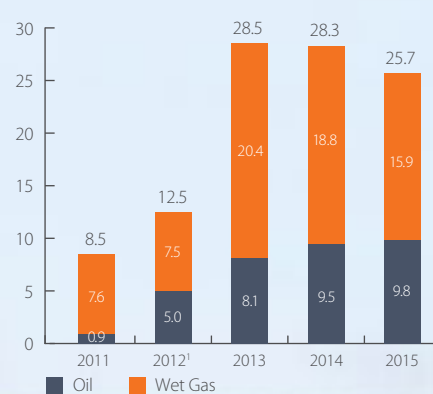
- 1 Cypress-1 excluded from success rate as operation suspended.
 2 Anakin-1 and Padme-1 excluded from success rate as ongoing.
 3 Padme-1 and Amidala-1 excluded from success rate as ongoing.

Australian Onshore Producers* (bopd)



* Source: June 2015 Quarterly Production Reports/ASX Announcements.

2P Reserves (mmboe)



1 FY2012 2P Reserves numbers as at 31 July 2012. Reserves for other years are as at 30 June.

CHAIRMAN'S REPORT

DRILLSEARCH HAS EMERGED FROM FY2015 AS A LEANER AND STRONGER COMPANY AND ONE THAT CONTINUES TO HAVE A BRIGHT FUTURE.



Dear Shareholder,

FY2015 was a challenging year for the global oil and gas industry. Brent crude oil prices that began the year above US\$110 a barrel fell to six-year lows around US\$46 a barrel in mid-January.

Drillsearch responded quickly and decisively. In November, the Company put in place additional oil hedging that provided significant price protection, and delivered income benefits throughout the second half. Around the same time, we also undertook a comprehensive review of all operating expenditure and business priorities.

Drillsearch has emerged from FY2015 as a leaner and stronger company and one that continues to have a bright future. The Company has continued to deliver significant success with the drill bit, and in a year when activity has been curtailed across the sector, this success has helped to set Drillsearch apart and provided us with the platform to grow our business in the Cooper and beyond.

Early in the new financial year, we announced a change in leadership. After six years as Managing Director, Brad Lingo left the Company by mutual agreement, with Walter Simpson appointed as Acting Chief Executive Officer to drive the business while a global search was undertaken for a permanent successor.

Brad was instrumental in transforming Drillsearch from a junior explorer into one of the leading mid-tier oil and gas companies on the ASX, and in creating our robust core in the Cooper Basin. Our Cooper Basin business has

placed Drillsearch in an enviable position, with solid production and cash flow, and a number of exciting opportunities for organic growth. On behalf of the Board, I'd like to thank Brad and wish him all the very best in his new role.

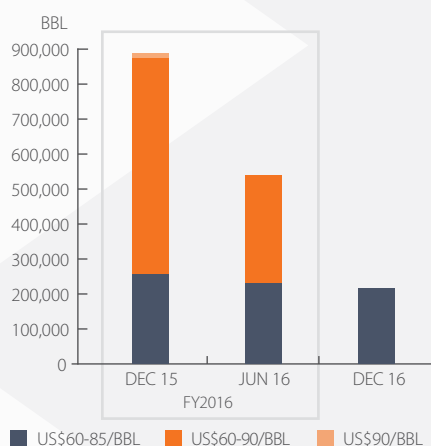
In mid-September, we announced that Walter had been appointed to the CEO role permanently. The Board considered both internal and external candidates for the CEO position, however throughout the process, we were impressed by Walter's leadership qualities which, combined with his considerable experience, convinced us that he is undoubtedly the best choice to take Drillsearch forward.

In considering the appointment of a new CEO the Board felt that Drillsearch would benefit from the introduction of fresh ideas and a different expertise set to guide the Company through its next phase of growth, and to consider the opportunities available to us. Our Cooper Basin business has brought

Revenue

\$251 MILLION

Active Hedging Program





Pad drilling at Bauer (Oil Business)

us considerable success and it will continue to deliver. However, we also believe that our approach in the Cooper can be successfully applied elsewhere.

As we consider the various alternatives, we will also consider other Australian and overseas Basins that we can easily manage from Sydney. Our analysis of those growth options will be conducted with the utmost rigour, and we will only pursue opportunities that are the right fit. We will not be scattergun and it is not something that is an immediate priority. We will continue to be extremely targeted, and we will be driven by the pursuit of shareholder value.

We will also continue to be technically-led and commercially savvy. We have a strong track record of finding or acquiring resources at an early stage, and then finding the right partner to help commercialise those resources and drive value – for example, our hugely successful joint venture with Beach on the

Western Flank, and our Wet Gas partnership with Santos.

Another distinctive element to our approach is our commitment to innovation. During the year, ourselves and Beach undertook the first pad drilling on the Western Flank, with the joint venture delivering eight wells in total for the cost of six wells drilled using more traditional techniques.

In a commodity price environment such as this one, using innovation to drive successful outcomes at a lower cost is vital.

Technically-led, partnering well and innovation – these are all in Drillsearch's DNA and they will stand us in good stead as we drive our Cooper Basin business forward and carefully consider other growth options.

We continue to have a strong team in place to deliver on our strategy. The Company has made a number of selective, senior hires to

augment the talent that we already have. We also have a diverse Board with depth and breadth of experience across areas including geology, engineering, corporate finance, accounting and investment banking.

In summary, it has been a challenging year for the oil and gas industry, but Drillsearch has responded decisively and continued to deliver. On behalf of the Board, I'd like to thank our shareholders for their continued support, and also to thank the Drillsearch team who have continued to work hard throughout the year.

Jim McKerlie
Chairman

CEO'S REPORT

A RECORD WORK PROGRAM OF 41 EXPLORATION, APPRAISAL AND DEVELOPMENT WELLS, ACROSS OUR COOPER BASIN ACREAGE, WAS DELIVERED SAFELY AND UNDER BUDGET.

The past year has been one of exceptional performance by the team at Drillsearch, with a record work program completed under budget, our production guidance met, and all this with an improved safety record. In an extremely difficult commodity price environment, we delivered an underlying profit that was very close to last year's record. Despite the challenges presented by the external market, a very strong last quarter enabled us to meet our production target of 3.0 to 3.2 million barrels of oil equivalent (mmboe), finishing the year with 3.0 mmboe produced.

A record work program of 41 exploration, appraisal and development wells, across our Cooper Basin acreage was delivered during the year. These wells generated 12 new Oil and Wet Gas discoveries, with a drilling success rate of 74%.

On the Western Flank, Drillsearch and Beach completed ten new Bauer production wells, eight of which were drilled from two multi-well pads. At the same time, we expanded the Bauer Central Processing Facilities to 75,000 bbls/d, facilitating new field tie-ins.

In our Wet Gas joint ventures, we enjoyed more exploration success. Our joint venture with Santos made seven discoveries from eight wells, while a further two discoveries were made in our partnership with Beach, and our joint venture with Senex successfully tested the Vanessa-1 discovery in preparation for the start of commercial production in FY2016.

Our capital expenditure for the year was \$142.0 million, lower than the revised guidance provided at the Half-Year. In addition, we maintained a strong balance sheet throughout the year, with \$131.5 million of cash and \$40 million of undrawn working capital facilities (at 30 June 2015).

Our safety performance was a third better than during the previous year, with our Total Recordable Injury Frequency Rate (TRIFR) improving to 6.64, in line with our Australian peers. A number of important safety programs were implemented during the period, with a particular emphasis on road safety around our remote Cooper Basin operations.

The decline in oil price during the first half of the year led us to conduct an Operational Review including re-examining the work program to prioritise activity that delivered production, cash flow and reserves replacement, with the goal of ensuring that Drillsearch continues to live within its means in the challenging external environment.

A number of alterations were made in order to respond to these new priorities, including

postponing exploration drilling in the Northern Cooper in order to drill additional Western Flank development wells that enhance production and maintain cash flow.

Another part of this Operational Review was a comprehensive organisational restructure that included a one-third reduction in headcount and a reorganisation of the senior executive team, targeting annualised savings of \$10 million to \$15 million commencing in FY2016. This was a difficult process, but a necessary one to ensure that we continue to maintain a position of financial strength.

FY2016 promises to be an important year for Drillsearch. We will continue to live within our means, thus activity and capital expenditure will be reduced in line with the lower oil price. This activity and capital expenditure





Separation and storage tanks at Bauer (Oil Business)

will be consistent with the priorities we have outlined. We remain committed to growth in the Cooper Basin and we will continue with our exploration program even though the new oil price environment means we will need to maintain our capital discipline.

We anticipate drilling as many as 22 wells in FY2016, comprising additional appraisal and development activity in the Western Flank and Western Cooper, as well as exploration wells in the Northern Cooper and the Inland-Cook region.

We expect another strong year of production, with the benefits of our FY2015 development program expected to sustain our Oil production, and a bigger contribution expected from Wet Gas as we bring new and existing discoveries online. Production

guidance for the year has been set at 2.8 mmboe to 3.2 mmboe, while guidance for capital expenditure is in a range of \$80 million to \$110 million.

In summary, FY2015 was a year of contrasts, one in which we delivered enviable results with the drill bit, set against an uncertain commodity price environment that forced us to make some tough decisions.

Throughout that period, we have remained true to our five core disciplines of focus, execution, integrity, innovation and collaboration. These constitute the foundation for how we conduct ourselves as a business and as a partner, and it is through remaining true to these values that we believe we can continue to thrive as a company.

I am excited to be taking on the role of Chief Executive Officer. My focus will be to ensure the successful execution of our long-term strategy, our short-term plans, and the continuation of Drillsearch's enviable track record of performance and growth.

Thank you to all of our shareholders, the communities we work in and our suppliers for your support during the past year, and finally, a special thank you to our staff, whose commitment and resilience in a tough year has been at the very heart of our success.

Walter Simpson
Chief Executive Officer

CORPORATE SUSTAINABILITY

DRILLSEARCH HAS GROWN RAPIDLY OVER THE LAST FEW YEARS, FROM A JUNIOR EXPLORER TO AN OIL AND GAS PRODUCER AND EXPLORER IN THE ASX200.

In parallel with that growth, Drillsearch has continued to develop its approach to Corporate Sustainability and to ensure that the approach is embedded throughout the organisation.

The foundation of Drillsearch's approach to Corporate Sustainability is closely aligned to the key disciplines that have been established within the Company.

Drillsearch is committed to delivering long-term, sustainable growth for its shareholders. In order to achieve this, we must ensure that we operate safely and responsibly, engage and motivate our people, and play an active role in our community.

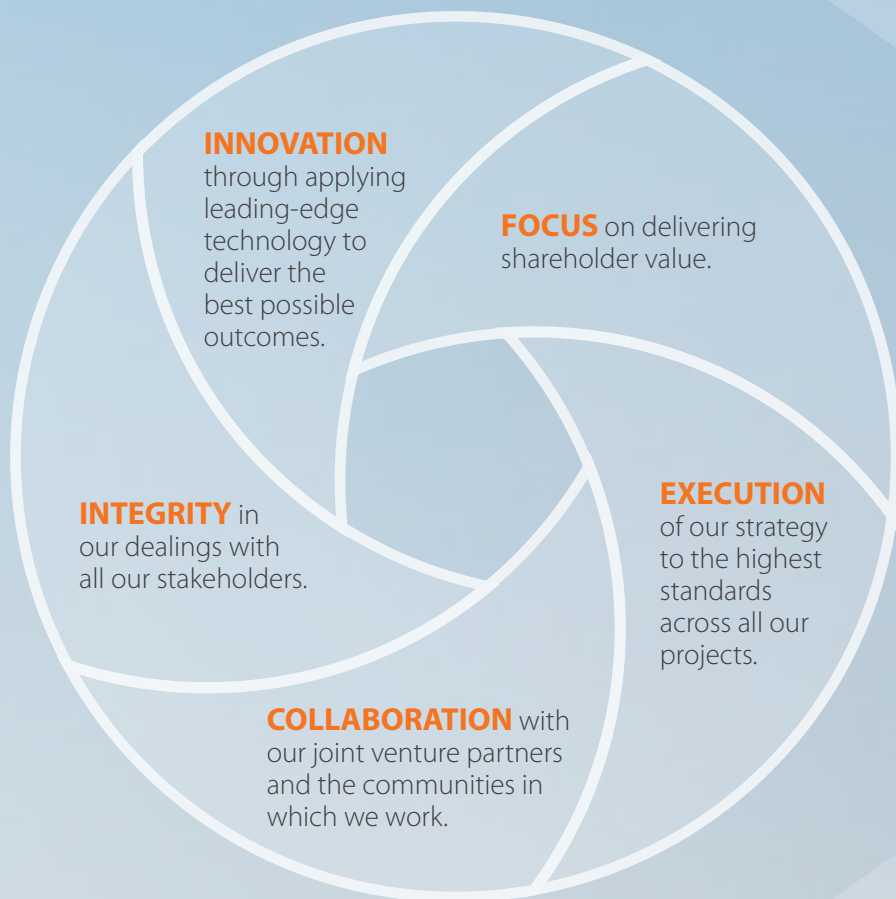
Drillsearch's current production, and several of its major exploration projects, are operated by third parties. As a result, the Health, Safety, Environment and Community (HSEC) frameworks applied in the operation of those assets are determined by Drillsearch's joint venture partners.

Drillsearch takes an active role in its joint venture activities, including ensuring that the operators apply appropriate HSEC policies and procedures.

This report outlines our approach to Corporate Sustainability, including important achievements during FY2015, in the areas of:

1. HEALTH AND SAFETY
2. ENVIRONMENT
3. PEOPLE
4. COMMUNITY





DRILLSEARCH'S
KEY DISCIPLINES
ARE THE
FOUNDATION TO
OUR APPROACH
TO CORPORATE
SUSTAINABILITY.



1. HEALTH AND SAFETY

DRILLSEARCH PUTS HEALTH AND SAFETY FIRST IN EVERYTHING THAT THE COMPANY DOES. THE COMPANY IS COMMITTED TO PROVIDING A SAFE ENVIRONMENT FOR ITS PEOPLE AND COMMUNITIES, AND AIMS TO CONTINUALLY IMPROVE IN ALL AREAS OF HEALTH AND SAFETY.

FY2015 was a year of record activity for Drillsearch, with 41 wells drilled across the Company's acreage. The Company also saw a material increase in its operated activity during the period, with the restart of the Flax oil facility and the completion of a four-well deep drilling program in ATP 940.

Throughout this year of heightened activity, Drillsearch's core HSEC systems were proven to be dynamic and flexible, with the Company achieving an improved Total Recordable Injury Frequency Rate (TRIFR).



Initiatives

A number of key initiatives were undertaken through the year, including:

- **Health and Safety Policy Review** – Drillsearch conducted a review of the Company's Health and Safety Policy. This updated Policy is now available on the Company's website.
- **Cooper Medivac24** – A night-flying helicopter that complements the existing 24/7 capability of the Royal Flying Doctor Service. During the year, Cooper Medivac24 was assimilated into the Company's HSEC framework and Crisis and Emergency Management systems. Day-to-day management of the service will rotate to Drillsearch from co-sponsor Senex in FY2016.

- **HSEC Review** – A thorough review of our HSEC management systems, including HSEC Risk Management, Crisis and Emergency Management, and Contractor Health and Safety.
- **Driving Safety** – New driving programs were implemented in the Cooper Basin, leading to a significant improvement in driving performance and driver accountability. This included the introduction of In-Vehicle Monitoring Systems to monitor and collect data such as braking patterns, fatigue management, seat belt usage and speed, in order to provide driver performance feedback and improve driving standards.

Performance

Drillsearch continued to improve its safety performance in FY2015, with the TRIFR falling by 31.7% to 6.64 from 9.72 in FY2014.

While safety performance improved significantly in FY2015, there remains further opportunity to improve. Drillsearch will continue to seek further improvements in TRIFR through applying the HSEC initiatives undertaken in FY2015. A material focus for our health and safety team in FY2016 will be contractor management and health and safety awareness in our corporate office.

Description	FY2014	FY2015	Reduction Outcome
TRIFR	9.72	6.64	31.7%
Total Recordable Incidents	5	3	2
Recordable Incidents	Employees = 1 Contractors = 4	Employees = 0 Contractors = 3	

2. ENVIRONMENT

MINIMISING THE IMPACT OF OUR ACTIVITIES ON THE ENVIRONMENT IS A PRIORITY AT DRILLSEARCH, AND WE HAVE ROBUST PROCEDURES AND MANAGEMENT SYSTEMS IN PLACE IN ORDER TO ENSURE THAT WE MINIMISE OUR ENVIRONMENTAL IMPACT.

Management System

Drillsearch has developed an Environmental Management System (EMS) which is maintained in alignment with AS/NZS ISO 14001. Under our EMS, Drillsearch seeks to identify environmental risks at the earliest stage, to enable project teams to incorporate strategies to manage potential risks in the project planning phase.

Initiatives

The five key areas of environmental focus for FY2015 were:

- refreshing and implementing Drillsearch's EMS;
- reviewing the Company's Environmental Policy, to ensure that we maintain our commitment to minimising our environmental footprint. The updated Policy is available on the Company's website;
- identifying site-specific environmental management issues to assist in permitting

and in the subsequent mitigation of risk during project execution and development;

- implementing an environmental monitoring strategy for all projects;
- developing an integrated waste management plan consistent with our commitment to reduce the use of natural resources, energy and water.

Performance

Drillsearch is not subject to formal reporting. The Company was not subject to any enforcement action during the year.



3. PEOPLE

DRILLSEARCH'S PEOPLE ARE AT THE HEART OF THE COMPANY'S SUCCESS, AND THE COMPANY STRIVES TO ENSURE THAT ITS PEOPLE ARE ENGAGED, MOTIVATED AND ALIGNED WITH ITS STRATEGY.

Drillsearch aims to be an employer of choice in its sector by maintaining a strong culture and values and providing opportunities for training and development.

Our approach to people is managed across four core areas:

- **Diversity**
- **Building Capability**
- **Health and Wellbeing**
- **Internal Communication**

Diversity

Workplace diversity is about developing strategies that recognise and accommodate differences in background, cultural perspectives and family responsibilities, retaining the principle of equal employment opportunity (EEO).

The principle of workplace diversity underpins all aspects of human resources management, such as workforce planning, recruitment and selection, performance management, learning and development, leadership development and workplace health and safety.

A workforce that truly reflects the diversity of the society in which it is based creates the greatest opportunity for a broad spectrum of ideas, practices and innovations being utilised to enhance the value of that organisation. It creates a workforce that will bring different ways of seeing a problem and, if managed correctly, brings the potential for people from different backgrounds to engage in thoughtful debate leading to ground-breaking solutions with independent points of view and more willingness to voice different types of opinions.

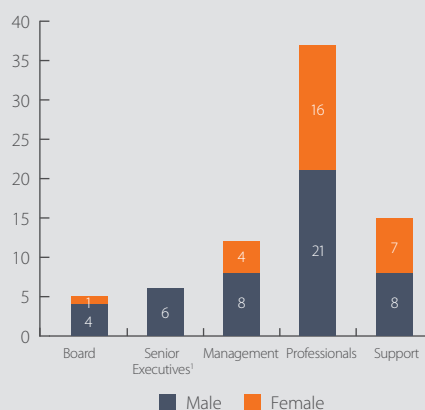
When an authentic, inclusive culture is created, a diverse workforce is capable of producing a range of original and engaging ideas that is impossible among homogenous employee populations.

Job seekers are drawn to companies with diverse workforces, as it is evident that these companies do not practise employment discrimination. Potential employees want to know that employers treat their staff fairly regardless of race, ethnicity or gender. Overall, working for a diverse workplace and having the opportunity to learn from other employees creates an enjoyable working environment where employees want to come to work.

At Drillsearch, we recognise the importance of such a diverse workforce and are committed to maintaining an empowered and inclusive workplace. Differences such as age, gender, ethnicity, sexual orientation, religion, and family status all form part of our growing pool of talent. Such differences encourage a dynamic and supportive environment and influence the way we do business.

Drillsearch is committed to achieving a fully diverse workforce consistent with a strong message to employees and future employment candidates that Drillsearch is accepting of all and, therefore, is an employer of choice.

Gender Diversity as at 30 June 2015



¹ Senior Executives are detailed in Table 1 on page 61 of this Annual Report.

Our focus is on three diversity objectives:

1. **Gender equality** – Drillsearch is committed to achieving an appropriate balance of men and women across all departments. At present, we have a gender mix of 63% men to 37% women, which is well above average in the resources industry; however, we will continue to work to better this to achieve equality in numbers as well as continuing to meet equality in pay.
2. **Cultural diversity** – Drillsearch is committed to achieving a cultural diversity that reflects the industry and societies in which we operate. Our current cultural mix has 25% of the workforce with non-English heritage, reflecting the cultural diversity of Sydney, where the Company is headquartered. As the Drillsearch footprint increases, we will continue to work to further increase the culture diversity mix.
3. **Generational diversity** – To build a sustainable business, it is essential that Drillsearch attracts and retains a balanced generational mix of employees. This balance will enable Drillsearch to attract graduates to the organisation and retain them through developing their skills by working alongside, and being coached by, experienced professionals. This has the added benefit of enhancing the working environment for experienced professionals, who get the satisfaction of developing younger talent.

Underpinning our action plan are these objectives designed to embed the behaviours required within the organisation to sustain a culture of true equality.

Objectives/Targets		Performance Measures
Gender equality	Ensure female representation on the Board	At least one female director at all times. Target of 70/30 gender mix at Board level.
	Increase the gender mix of the Drillsearch Executive Team	Year 1 – Identify internal female talent and provide leadership development. At least maintain a 70/30 gender mix. Year 2 to Year 5 – Increase the gender mix within the grade levels 1 and 2 (General Managers and Managers) with suitably qualified candidates, maintaining at minimum the 70/30 gender mix. Year 3 – Ensure that the succession planning for all Executive positions includes at least one suitably qualified female candidate. Year 3 to Year 5 – Increase the gender mix within the Executive Team such that at least one member is female.
	Deliver equality of pay across all Drillsearch band levels	Demonstrable alignment of pay.
Cultural diversity	Ensure cultural diversity on the Board	Target of 30% of the Board to be persons of non-English speaking heritage.
	Maintain a strong cultural diversity throughout the Company	At least 25% of the organisation with a non-English speaking heritage.
	Increase indigenous employment	Support the education, training and employment of the indigenous population in our areas of operation.
Generational diversity	Enhance the development of early career employees through a structured mentoring program	Year 1 – Identify emerging talent and develop a structured mentoring program and identify suitable mentors.
		Year 2 – All emerging talent to have a mentor under a structured program.

Building Capability

Drillsearch seeks to provide various opportunities for career development and supports its employees in a number of key areas:

- Building on the successful performance management program, in FY2016 Drillsearch is focusing on Individual Development Plans (IDPs) for each staff member in order to identify career development goals and the strategies necessary to achieve those goals.
- Each employee is supported through annual training budgets which can be invested in training courses tailored to the individual employee's needs.
- Drillsearch provides support to employees with a study assistance program. During FY2015, six employees studied for degrees in various fields, with one staff member taking a three-month sabbatical to study a Masters in Business Administration ('MBA').

Health and Wellbeing

Drillsearch recognises that it has a responsibility to ensure that its people are physically and mentally fit for work.

All employees are encouraged to attend personal training, gym classes and other activities to promote health, fitness and general wellbeing.

To promote healthy eating, staff are provided with fresh fruit every day in the Company's central kitchen area. Drillsearch teams also compete in sporting competitions and endurance events, such as the City2Surf, Tough Mudder and the JP Morgan Corporate Challenge.

Other wellbeing initiatives include the provision of voluntary annual influenza vaccinations and an Employee Assistance Program (EAP) to provide staff with counselling and coaching support on a confidential basis.

Internal Communication

In order to create and maintain a strong culture, an organisation must encourage and facilitate two-way dialogue between the Company and its employees.

Drillsearch holds regular 'Town Hall' or Company meetings in order to ensure that employees have clarity about key developments, activities and performance. It also maintains a comprehensive intranet site that is a key repository for Company information.

4. COMMUNITY

GOOD COMMUNITY RELATIONS ARE AN ESSENTIAL PART OF DRILLSEARCH'S BUSINESS AND LICENCE TO OPERATE, EVEN IN A SPARSELY POPULATED AREA SUCH AS THE COOPER BASIN.

Drillsearch aims to build strong relationships with the people in the areas in which the Company operates, including with the local landowners, townspeople and indigenous communities.

Local Events and Services

Every year, Drillsearch participates in a number of key events and community initiatives that are designed to improve quality of life for people living and working in the Cooper Basin. During FY2015, these included:

- **Cooper Medivac24** – During FY2015, its first year of operation, Cooper Medivac24 was called out on ten occasions. Of these, four callouts were in support of the community, with another two callouts being in response to emergency beacons from the Australian

Maritime Safety Authority Search and Rescue. Drillsearch is proud to support this initiative, at no cost to the community, with its partner, Senex Energy.

- **Channel Country Ladies Day** – In October 2014, Drillsearch was a sponsor of this not-for-profit event in Western Queensland that connects and celebrates outback women. More than 150 women from far western Queensland, South Australia and New South Wales travelled to Betoota, Queensland to celebrate Ladies Day and participate in workshops focused on health and well-being as well as arts, crafts, dancing and other pursuits.
- **My Grandmother's Country** – In 2014, Drillsearch contributed to the funding of a documentary on the life of Wongkumara

woman Amy Elwood entitled 'My Grandmother's Country'. This short film examines Amy's life story and her family's removal from Country in 1938 to a government station (The Old Brewarrina Mission), as well as their walk-off in 1941 and the journey home.

- **Windorah State Primary School's annual Sports Camp** – Drillsearch contributed to funding a coaching camp that provides an opportunity for outback children to receive specialised instruction from professional sports coaches. Since its inception in 1992, the Windorah Sports Camp has given hundreds of students in Western Queensland the chance to develop their physical, social and personal skills.



Cultural Heritage and Indigenous Participation

Drillsearch recognises that its relationship with indigenous stakeholders is critical to the Company's licence to operate. As a matter of course, the Company regularly interacts with a number of Native Title claimant groups, including the Wongkumara and Mithaka people in Southwest Queensland and the Yandruwandha Yawarrawarrka people in South Australia. Key projects undertaken during FY2015 included:

- heritage clearance exercises were undertaken as part of the Hurren and Taj seismic surveys in ATP 924 to locate and register items and places of Aboriginal heritage significance and to enact an appropriate avoidance management strategy. These lands are subject to Native Title claims by the Mithaka people and the Wongkumara people. The heritage clearance identified a significant number of sites.

- additional field-based work was also undertaken in South Australia during FY2015 with the Yandruwandha Yawarrawarrka people through a survey over the proposed exploration drilling sites in PRLs 173 and 174.

Drillsearch's ongoing operational footprint provides the Company with opportunities to participate in the development and delivery of training and employment initiatives for indigenous groups. While field clearance and survey work is closely aligned to new exploration activity, longer-term opportunities to enhance pre-employment skills and work readiness will form the basis for more consistent engagement across the year.

Extending work completed in FY2014, additional progress was made with the creation of the Indigenous Diversity Engagement Plan between Drillsearch and the Wongkumara people. The broad objectives of the plan are to:

- identify potential education, training and business opportunities to enhance the capacity of Wongkumara people to participate meaningfully in the energy industry on country;
- commit to the preservation of cultural heritage values through effective land management practices;
- ensure that Drillsearch projects, where relevant, consider the cultural and spiritual needs of the Wongkumara community; and
- develop and implement a cultural awareness program, for delivery to Drillsearch staff and contractors, which raises the awareness of the Wongkumara people and their culture.

Charities and Fundraising

Drillsearch organises and facilitates a number of fundraising and sponsored events that enable employees to participate in the broader community.

During the year, employees took part in a number of events to support various charities, with Drillsearch matching a number of the collective donations.

In August 2014, members of the team took part in Sydney's annual City2Surf race, raising a collective \$7,000 for the Royal Flying Doctors and The Leukaemia Foundation.

Other events that staff took part in included Movember, which is aimed at raising awareness of men's health issues, Australia's Biggest Morning Tea and Operation Christmas Child, for which employees donated and packed gift boxes for underprivileged children.



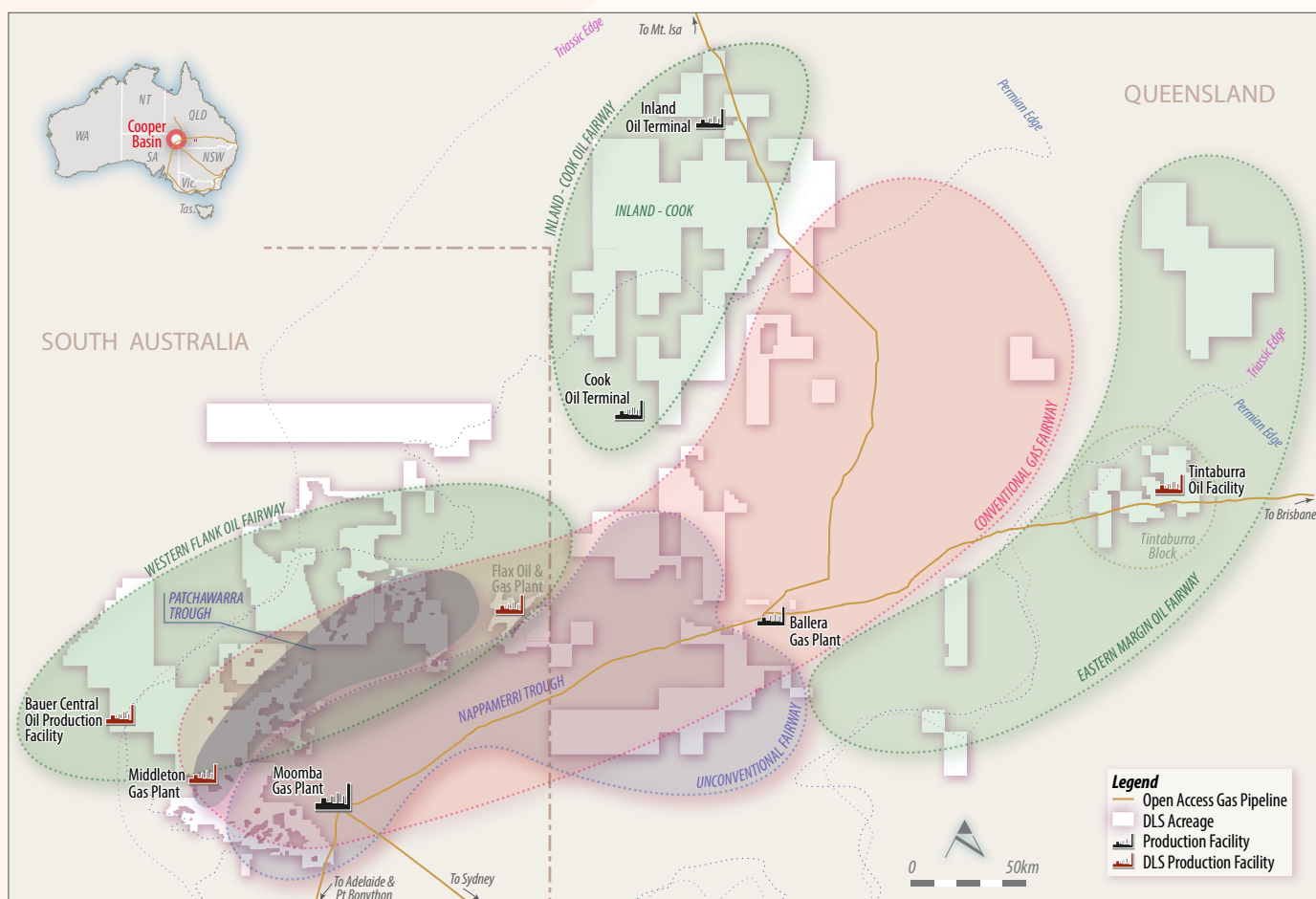
BUSINESS REVIEW

DRILLSEARCH'S OPERATIONS ARE ORGANISED INTO THREE BUSINESS UNITS: OIL, WET GAS AND UNCONVENTIONAL.

Business Model

Within these business units, each permit is held within a different project area. This structure is detailed in the table below and map on the following page:

Oil – Short-to-medium-term cash generator			Wet Gas – Pathway to growth			Unconventional – Longer-dated value opportunities		



Drillsearch Cooper Basin acreage

Drilling Activity

Forty-one wells were drilled during FY2015, representing Drillsearch's biggest ever drilling program. A success rate of 74% was achieved across the conventional Oil and Wet Gas businesses, including exploration, appraisal and development drilling. The table on the following page shows all of the wells drilled during the financial year.

Since July 2010, Drillsearch has achieved an overall success rate of 75% for conventional exploration, appraisal and development drilling.

Five-year Drilling Success Rate

Year	Number of Wells			Drilling Success Rate		
	Exploration	Appraisal & Development	Total	Exploration	Appraisal & Development	Total
FY2011	2	0	2	100%	0%	100%
FY2012	9	3	12	78%	100%	83%
FY2013 ¹	14	11	25	46%	91%	67%
FY2014 ²	13	14	27	45%	100%	76%
FY2015 ³	23	18	41	62%	89%	74%
Total	59	46	105	59%	93%	75%

¹ Cypress-1 excluded from success rate as operation suspended.

² Anakin-1 and Padme-1 excluded from success rate as ongoing.

³ Padme-1 and Amidala-1 excluded from success rate as ongoing.

Drilling Program for FY2015

Category	Project Area	Well	Tenement	Result	Status
Oil – Exploration	Western Flank Oil Fairway	Balgowan-1	PRL 171	Future oil producer	Cased & Suspended
		Burners-1	PRL 172	Future oil producer	Cased & Suspended
		Sheerkhan-1	PEL 182	Oil shows	Plugged & Abandoned
		Sandhurst-1	PRL 156	Oil shows	Plugged & Abandoned
		Stanleys-1	PRL 171	Future oil producer	Cased & Suspended
		Longbottoms-1	PRL 156	Oil shows	Plugged & Abandoned
	Northern Cooper Gas and Liquids	Banyan-1	PEL 103	Oil shows	Plugged & Abandoned
Oil – Appraisal/Development	Western Flank Oil Fairway	Stunsail-2	PRL 172	Oil shows	Plugged & Abandoned
		Pennington-3	PRL 163	Oil shows	Plugged & Abandoned
		Bauer-14	PPL 253	Future oil producer	Cased & Suspended
		Bauer-15	PPL 253	Future oil producer	Cased & Suspended
		Bauer-16	PPL 253	Future oil producer	Cased & Suspended
		Bauer-17	PPL 253	Future oil producer	Cased & Suspended
		Bauer-18	PPL 253	Future oil producer	Cased & Suspended
		Bauer-19	PPL 253	Future oil producer	Cased & Suspended
		Hanson-2	PPL 255	Future oil producer	Cased & Suspended
		Bauer-20	PPL 253	Future oil producer	Cased & Suspended
		Bauer-21	PPL 253	Future oil producer	Cased & Suspended
		Bauer-22	PPL 253	Future oil producer	Cased & Suspended
		Bauer-23	PPL 253	Future oil producer	Cased & Suspended
		Pennington-4	PRL 163	Future oil producer	Cased & Suspended
	Eastern Margin Oil Fairway	Ipundu North-5	PL 52	Future oil producer	Cased & Suspended
		Ipundu North-7	PL 52	Future oil producer	Cased & Suspended
	Northern Cooper Gas and Liquids	Juniper-3	PRL 17	Oil well	Cased & Suspended
Wet Gas – Exploration	Western Wet Gas	Karrata-1	PRL 152	Gas shows	Plugged & Abandoned
		Varanus South-1	PEL 513	Gas well	Cased & Suspended
		Maupertuis-1 ¹	PPL 257	Gas well	Cased & Suspended
		Yarowinnie South-1	PEL 513	Gas well	Cased & Suspended
		Antechamber-1	PEL 513	Gas shows	Plugged & Abandoned
		Danville-1	PRL 129	Gas shows	Plugged & Abandoned
		Aquamarine-1	PRL 133	Gas shows	Plugged & Abandoned
		Ralignal-1	PRL 130	Gas well	Cased & Suspended
		Nulla North-1	PRL 133	Gas well	Cased & Suspended
		Kyanite-1	PEL 513	Gas well	Cased & Suspended
		Spinel-1	PEL 513	Gas well	Cased & Suspended
		Emery-1	PEL 513	Gas well	Cased & Suspended
		Moonanga South-1	PEL 513	Gas well	Cased & Suspended
	Western Wet Gas	Canunda-2	PPL 257	Future gas producer	Cased & Suspended
Unconventional Gas – Exploration	Central Unconventional	Anakin-1	ATP 940	Gas well	Cased & Suspended
		Padme-1	ATP 940	Future testing	Cased & Suspended
		Amidala-1	ATP 940	Future testing	Cased & Suspended

¹ Drillsearch elected to sole risk the casing and suspension of Maupertuis-1 for future testing and evaluation.

Reserves and Contingent Resources

Drillsearch's 2015 Reserves and Contingent Resources Statement was released on 26 August 2015. Drillsearch's reserves and contingent resources estimates as at 30 June 2015 were subject to independent review conducted by RISC and DeGolyer MacNaughton.

Net Reserves and Contingent Resources as at 30 June 2015¹

Reserves	1P mmboe	2P mmboe	3P mmboe
Oil			
Western Flank Oil	6.0	8.6	12.2
Developed	5.0	6.2	7.9
Undeveloped	1.0	2.4	4.3
Eastern Margin	0.6	1.2	1.8
Developed	0.6	0.7	1.0
Undeveloped	0.0	0.5	0.9
Total Oil	6.6	9.8	14.0
Developed	5.6	6.9	8.9
Undeveloped	1.0	2.9	5.2
Wet Gas			
Western Wet Gas (JV with Beach)	4.0	8.1	11.3
Developed	3.3	6.9	9.2
Undeveloped	0.8	1.2	2.1
Western Wet Gas (JV with Santos)	2.5	7.9	20.1
Developed	1.1	3.3	5.6
Undeveloped	1.4	4.6	14.5
Northern Cooper Gas and Liquids	–	–	–²
South West Queensland Wet Gas	–	–	–
Total Wet Gas	6.5	15.9	31.4
Developed	4.4	10.2	14.8
Undeveloped	2.2	5.8	16.6
Total Reserves	13.1	25.7	45.4
Developed	10.0	17.1	23.7
Undeveloped	3.1	8.6	21.7

¹ Reserves and contingent resources for the Western Flank Oil Fairway have been estimated probabilistically and aggregated probabilistically to the field level; for all other project areas, reserves and contingent resources have been estimated deterministically and aggregated arithmetically to the field level. For all regions, aggregation beyond the field level is arithmetic. As a result, the aggregate 1P and 1C figures may be conservative and the aggregate 3P and 3C figures may be optimistic due to the portfolio effects of arithmetic summation. Reserves replacement ratio (RRR) is calculated as the change in petroleum reserves divided by production in the same period. Conversion factors: Sales Gas is converted to equivalent barrels of oil (boe) using a factor of 6,000 cubic feet per barrel of oil equivalent (boe). LPG is converted to equivalent barrels of oil using a factor of 11.5 thousand boe (Mboe) per MMT of LPG. Condensate is converted at 1 MMbbl = 1 MMboe.

² Reserves declared at Flax in the Northern Cooper area at 30 June 2014 have been reclassified as Contingent Resource as at 30 June 2015.

Contingent Resources	1C mmboe	2C mmboe	3C mmboe
Oil			
Western Flank Oil	0.3	0.5	0.9
Northern Cooper	4.8	10.8	18.8
Eastern Margin	0.2	4.6	7.5
Total Oil	5.3	15.9	27.2
Wet Gas			
Western Wet Gas (JV with Beach)	0.3	0.8	1.7
Western Wet Gas (JV with Santos)	0.7	2.4	5.7
Northern Cooper Gas and Liquids	6.5	13.3	26.8
South West Queensland Wet Gas	0.9	3.1	7.5
Total Wet Gas	8.4	19.6	41.7
Unconventional			
Central Cooper Unconventional (ATP 940)	14.8	51.4	123.1
Total Unconventional	14.8	51.4	123.1
Total Contingent Resources	28.5	86.9	192.0

Reserves	1P mmboe	2P mmboe	3P mmboe
Reserves as at 30 June 2014	11.9	28.3	54.7
Production (Oil and Wet Gas)	-3.0	-3.0	-3.0
Reserve Additions			
Oil	5.0	4.2	4.2
Wet Gas	2.2	5.2	11.1
Reserve Adjustments			
Oil	-0.5	-1.3	-4.4
Wet Gas	-2.6	-7.8	-16.8
Reserves as at 30 June 2015	13.1	25.7	45.4

Contingent Resources	1C mmboe	2C mmboe	3C mmboe
Contingent Resources as at 30 June 2014	13.4	33.7	71.0
Contingent Resource Additions			
Oil	0.6	3.1	2.0
Wet Gas	0.8	2.8	6.6
Unconventional	14.8	51.4	123.1
Contingent Resource Adjustments			
Oil	-0.8	-1.2	-1.7
Wet Gas	-0.3	-2.9	-9.0
Unconventional	0.0	0.0	0.0
Total Contingent Resources as at 30 June 2015	28.5	86.9	192

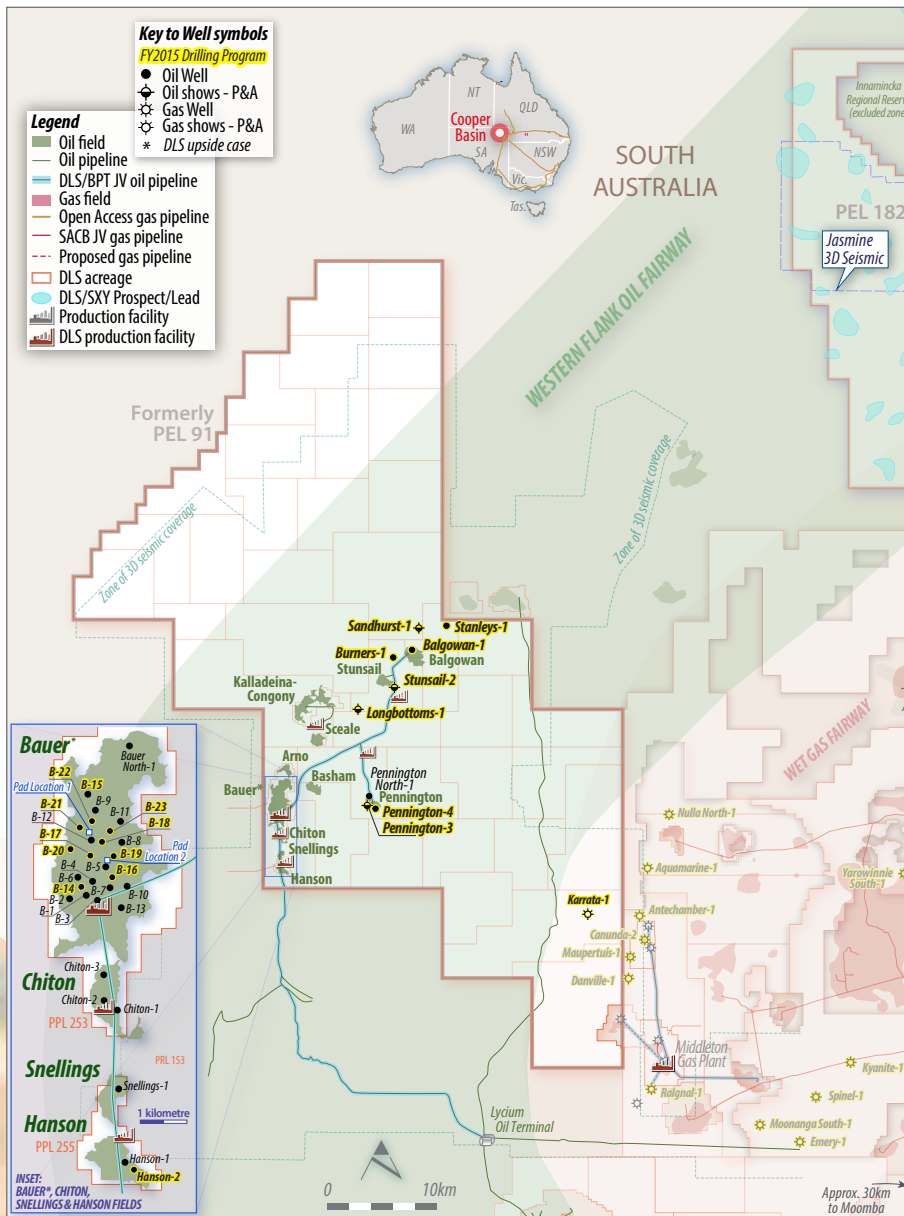
OIL BUSINESS

DRILLSEARCH IS AUSTRALIA'S THIRD LARGEST ONSHORE OIL PRODUCER. THE OIL BUSINESS CONTINUES TO BE DRILLSEARCH'S NEAR-TERM ENGINE AND CASH FLOW GENERATOR, FOCUSED ON MAINTAINING AND GROWING PRODUCTION WHILE REPLACING RESERVES.

Oil Business Projects

Project	2P Reserves as at 30 June 2015 mmboe	Production FY15 boe	Wells Drilled FY2015		Seismic	
			C & S	P & A	FY15 3D km ²	To-Date 3D km ²
Western Flank	8.6	2,467,000	15	5	757.64	1,662.46
Inland-Cook	-	-	-	-	24.43	738.55
Eastern Margin	1.2	202,000	2	-	-	578.31
Northern Cooper Gas and Liquids	-	4,075	1	1	-	972.24
Total	9.8	2,673,075	18	6	782.06	3,951.55





Western Flank Oil Fairway

Drillsearch's key producing asset is a 60% interest in the Western Flank Oil Fairway joint venture with Beach Energy (PRLs 151 to 172 and PPLs 253 to 256; Beach 40% and Operator). The joint venture includes the prolific Bauer oil field. To the northeast of Bauer, Drillsearch also holds a 43% interest in another permit sitting on the Western Flank Oil Fairway, PEL 182, with Senex Energy holding the remaining 57% as Operator.

During FY2015, our joint venture with Beach drilled 19 wells, consisting of five exploration, four appraisal and ten development wells. Three of the exploration wells, Balgowan-1, Burners-1 and Stanleys-1, were cased and suspended as future production wells. Four appraisal wells were drilled at the Hanson, Pennington and Stunsail fields, with the Hanson-2 and Pennington-4 wells cased and suspended as future producers.

Ten Bauer development wells were also cased and suspended. Eight of the ten, Bauer-16 to -23, were drilled over two programs as deviated wells from single pad locations in the central part of the field.

Given the close proximity of these wells, pad drilling techniques were adopted, a first on the Western Flank, which resulted in significant cost savings, allowing the joint venture to drill four wells for the cost of three, and resulting in each four-well campaign being completed within 36 days.

Of the ten Bauer development wells, six (Bauer-14 to -19) were producing as at 30 June 2015, with the remaining four (Bauer-20 to -23) completed and awaiting connection along with Chiton-3 and Hanson-2.

The Balgowan and Pennington wells have been completed and are awaiting facilities and a pipeline that will connect these fields to Bauer. It is expected that production from these fields will begin during the first half of FY2016. To the north of Bauer, the Kalladeina, Congony and Sceale (KCS) fields started producing in FY2015 and early in July 2015 the Stunsail field started producing with production being trucked to Bauer until the pipeline is commissioned.

Western Flank Oil Fairway – joint venture with Beach

In order to maximise benefits from the increase in wellhead capacity, our joint venture with Beach continues to invest in facilities expansion to handle the additional volumes of oil capable of being produced. Fluid handling capacity at Bauer was expanded during FY2015 to its current rate of 75 kbbbls/d with planning for a further increase underway.

The ~500 square-kilometre Solidus 3D seismic survey was acquired over the north of the permit between September and December 2014, merging the boundaries of three older 3D seismic surveys (see map) and providing coverage over an area to the northwest of the permit that was previously only covered by sparse 2D seismic. The joint venture expects to receive the final processed data late in the first half of FY2016. More than 78% of the joint venture area is now covered by 3D seismic, which is expected to support exploration programs well into the future.

The PEL 182 joint venture with Senex drilled the Sheerkhan-1 exploration well in the east of

the permit. Logs indicated hydrocarbon shows in the Birkhead Formation; however, potential oil pay intervals identified were considered insufficient to warrant further testing and the well was plugged and abandoned.

In the same permit, the ~300 square-kilometre Jasmine 3D seismic survey was acquired during March and April 2015 over the western area of the block. The data is being processed with delivery expected in the first half of FY2016.

Inland-Cook Oil Fairway

The Inland-Cook Oil Fairway refers to a set of contiguous permits located in the Southwest Queensland region of the Cooper Basin (see map). Drillsearch holds varying interests in ATPs 539, 549W, 920 and 924 that combine to make up our interest in the Inland-Cook Oil Fairway.

The key permit for Drillsearch in this area is ATP 924. In late July 2014, Drillsearch

announced it had entered into a farm-in agreement whereby Beach may acquire a 45% interest in the permit. To acquire the interest, Beach must reimburse Drillsearch for certain past costs and free carry Drillsearch for two wells over two phases.

In ATP 924 the ~275 square-kilometre Taj and Hurron 3D seismic survey were completed with the final ~24 square-kilometres acquired in the beginning of FY2015. An additional 353 line kilometres of 2D acquired through the George survey. These surveys have been processed and interpretation has enabled the joint venture to de-risk and high-grade multiple prospects originally identified on vintage 2D. One of these prospects, Maroochydhore-1, is an exploration well to be drilled on the Hurron structure in the first half of FY2016.



On the Eastern Margin, Drillsearch owns a 40% stake in the mature, producing Tintaburra Block operated by Santos. The area consists of a number of Production Licences (PLs) and the exploration licence ATP 299 with 81 producing wells across the broader area. Drilling activity in FY2015 included the deepening of two development wells, Ipundu North-5 and Ipundu North-7. Both wells were cased and suspended before being connected and brought into production during the financial year.

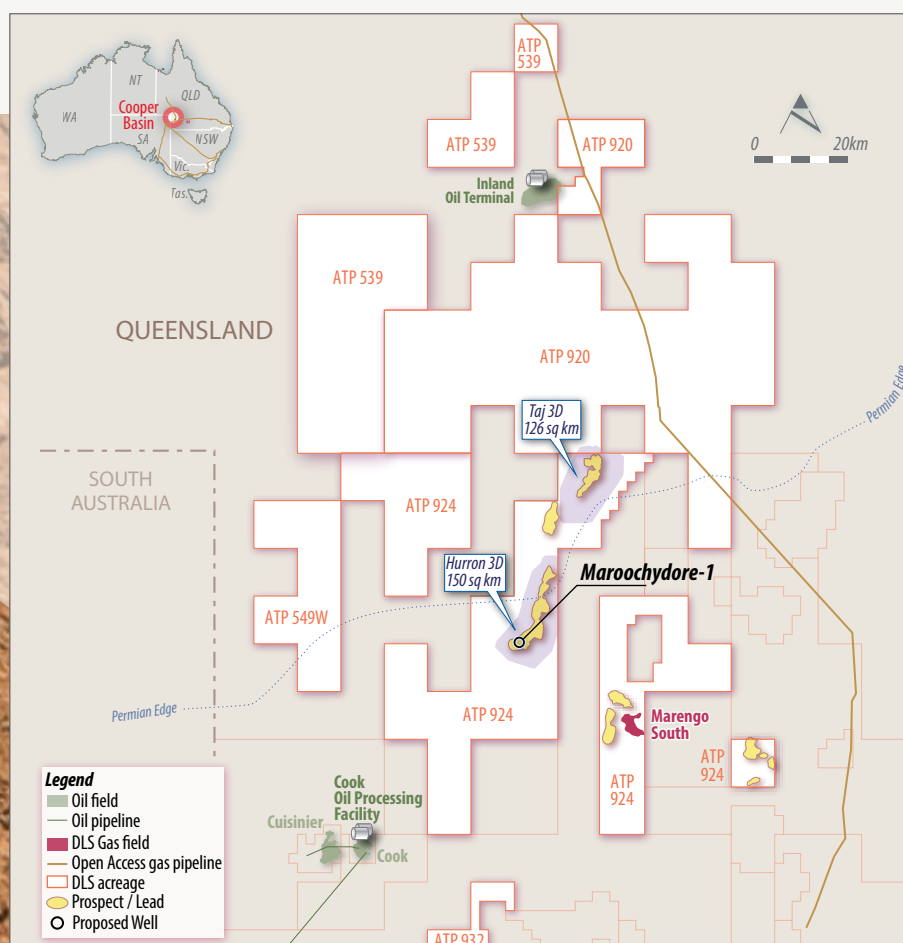
Northern Cooper Gas and Liquids Project Area

Drillsearch has built up a significant acreage position in the Northern Cooper through its acquisitions of Acer Energy Limited (Acer) and Ambassador Oil and Gas Limited (Ambassador). Key assets in the area include the PRLs 173 and 174, PELs 103 and 103A, PRLs 14, 17 and 18 and PEL 570.

As part of the review conducted early in calendar 2015, the decision was taken to suspend operations at Flax following the decline in oil prices. All wells at Flax have been shut-in, and the facilities and camp have been placed into care and maintenance. The information gathered during the restart process is expected to benefit Drillsearch in the longer term as it considers the future redevelopment of Flax when market conditions improve.

Two wells were drilled in the area by Drillsearch during FY2015. The Banyan-1 exploration well in PEL 103 was plugged and abandoned after oil shows in the well were deemed non-commercial. In PRL 17, Juniper-3 was drilled as a step-out appraisal well and the first well in the block to be drilled on 3D seismic. Juniper-3 encountered pay intervals in the lower Patchawarra Formation and was cased and suspended for future testing and hydraulic stimulation.

Inland-Cook Oil Fairway



WET GAS BUSINESS

THE WET GAS BUSINESS IS DRILLSEARCH'S MEDIUM-TERM GROWTH ENGINE. DRILLSEARCH OWNS INTERESTS IN A NUMBER OF GAS DISCOVERIES ACROSS THE COOPER BASIN.

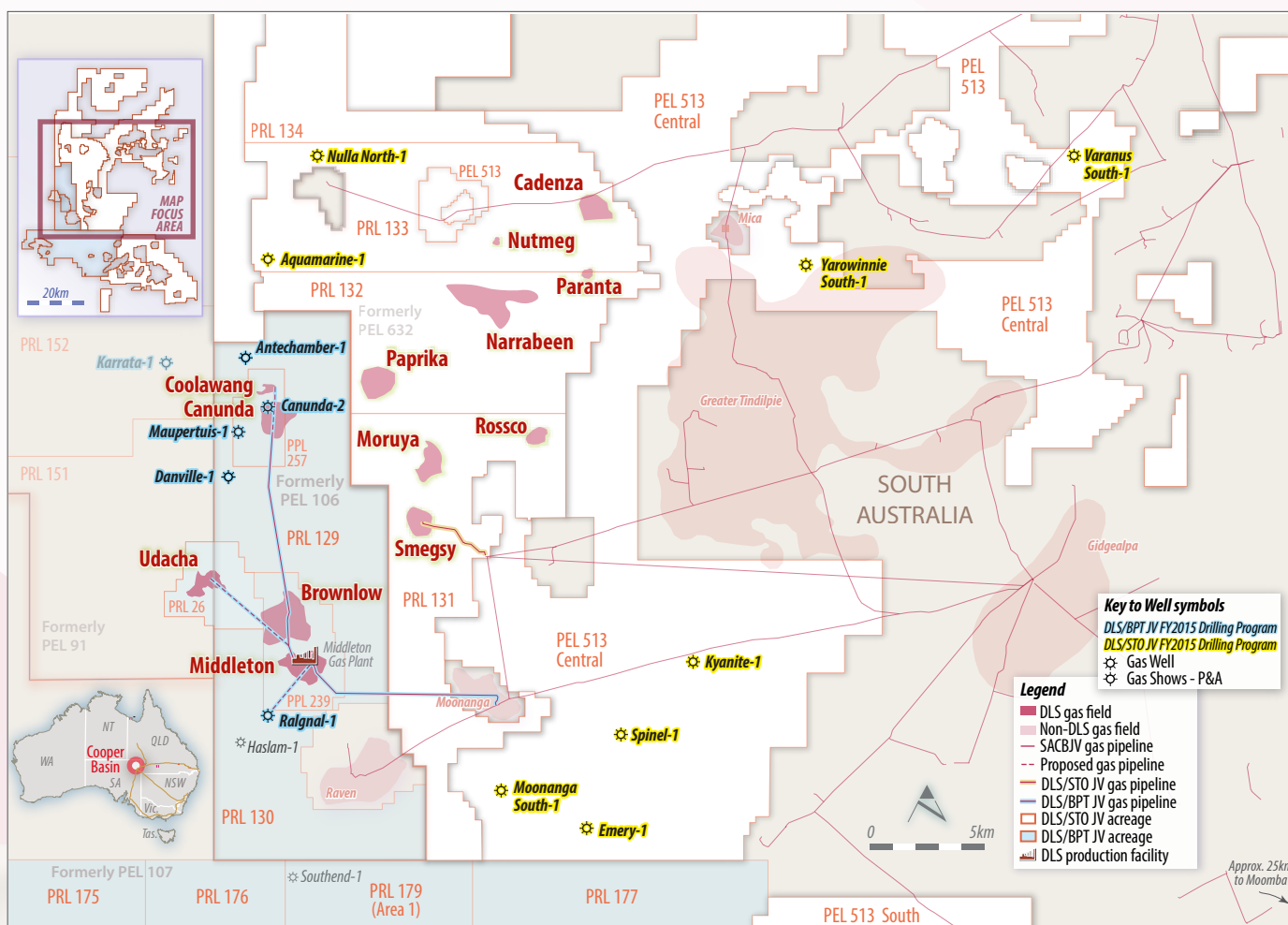
Wet Gas Business Projects

Project	2P Reserves as at 30 June 2015 mmboe	Production FY15 boe	Wells Drilled FY2015		Seismic	
			C & S	P & A	FY15 3D km ²	To-Date 3D km ²
Western Wet Gas (JV with Beach)	8.1	327,000	3	3	-	603.19
Western Wet Gas (JV with Santos)	7.9	-	7	1	257.29	1,357.58
South West Queensland Gas	-	-	-	-	-	87.98
Northern Cooper Gas and Liquids Project Area	-	-	-	-	-	972.24
Total	15.9	327,000	10	4	257.29	3,020.99

Drillsearch owns interests in a number of new and existing gas discoveries that lie close to existing processing and transportation infrastructure.

In some areas of the Cooper Basin, gas is discovered in conjunction with natural gas liquids (NGLs). These liquid hydrocarbons improve the economics of the discoveries and are the origin of the term 'wet' gas.





Western Wet Gas – joint ventures with Beach and Santos

Western Wet Gas – Joint Venture with Santos

The Western Wet Gas joint venture with Santos (Drillsearch 40%, Santos 60% and Operator) includes PEL 513 and PRLs 131 to 134 in the southern-central portion of the Patchawarra Trough. PEL 513 also covers the highly prospective Wooloo-Allunga Trough directly southwest of the Moomba gas field and northeast of the Daralingie gas field.

FY2015 saw the first wells drilled by the joint venture following its inception in 2013, with an eight-well exploration campaign beginning in the December quarter. Drillsearch was fully carried throughout the campaign, under the terms of Santos' farm-in agreement.

The joint venture had a very successful year, with seven discoveries from eight wells, beginning with Varanus South-1 in November 2014, and also including Yarowinnie South-1, Nulla North-1, Kyanite-1, Spinel-1, Emery-1 and Moonanga South-1. The only well to be plugged and abandoned was Aquamarine-1.

The joint venture has made significant investment in 3D seismic to support future exploration. The acquisition of the 329 square-kilometre Jacenza 3D seismic survey was completed during the September quarter. This survey has provided almost continuous coverage of 3D data from the Patchawarra Trough up to the edge of the Wet Gas Fairway. In addition, interpretation of the Munathiri 3D seismic survey in PEL 513 was completed and used to identify well locations for Kyanite-1, Spinel-1, Emery-1 and Moonanga South-1. The joint venture is now progressing interpretation of the Jacenza 3D survey to deliver drilling locations in FY2016.

Drillsearch has a gas sales agreement in place with Santos which establishes a pathway to market for gas produced from the joint venture. The FY2016 work program is focused on commercialising existing and new discoveries with planning for facilities and pipelines underway with progressive connections expected from the middle of FY2016.

Western Wet Gas – Joint Venture with Beach

The Western Wet Gas joint venture with Beach consists of PRLs 129 and 130 covering the majority of the area formerly known as PEL 106, as well as PRLs 26 (Udacha, Drillsearch 75%), 239 (Middleton/Brownlow) and 257 (Canunda/Coolawang) (Drillsearch 50%, Beach 50% and Operator) and PRLs 175 to 179 and PPL 212 (Drillsearch 60%, Beach 40% and Operator).

The joint venture drilled a total of six wells during FY2015, including the Karrata-1 well located over the permit boundary in PRL 152, as well as an additional well, Ragnal-1, sanctioned early in the second half of FY2015.

Karrata-1, Antechamber-1 and Danville-1 were plugged and abandoned after pay intervals were deemed to be insufficient for commercial development. While neither Antechamber-1 or Danville-1 led to the discovery of commercial reserves, the technical data collected will be used to further assess the prospectivity of the region.

In early October, the Canunda-2 well was drilled to further appraise the Canunda wet gas field, 870 metres northwest of the producing Canunda-1 well. Canunda-2 was cased and suspended as a future producer after it intersected the same Patchawarra Sand interval producing in Canunda-1.

The Maupertuis-1 wet gas well spudded in November with Drillsearch's preliminary evaluation of the logs indicating the presence of good hydrocarbons in the Tirrawarra Formation, a formation that to-date has not been tested in the surrounding area. Drillsearch elected to sole risk the casing and suspension of Maupertuis-1 for future testing and evaluation.

Ralgnal-1 intersected pay in the Patchawarra Formation and the Tirrawarra Sandstone. A drill stem test was performed over the Patchawarra Formation and flowed gas to surface at a rate of 5.88 mmscf/d. The well was cased and suspended as a future producer.

Northern Cooper Gas and Liquids Project Area

PRLs 173 and 174 (80% Drillsearch and Operator) are located 70 kilometres north of the Moomba facility and cover much of the northern central portion of the Patchawarra Trough, extending southward to include part of the GMI Ridge (see map on page 27). Previous exploration in this part of the Cooper Basin has been successful, including wet gas discoveries at Ginko, Crocus and Crocus South. These PRLs are surrounded by production leases, producing gas fields and additional exploration acreage in PEL 570.

During FY2014 and FY2015, Drillsearch identified a large number of anticlinal leads, prospective for wet gas and offering unconventional upside potential mapped from the Coolibah 3D seismic survey.

Drillsearch plans to drill two wells in PRLs 173 and 174 in FY2016, representing a scaled back program from the five wells planned in FY2015 which were deferred as a result of the Operational Review.

Also in the Northern Cooper is the eastern portion of PEL 182, which Drillsearch holds in joint venture with Senex. During the December quarter, the joint venture conducted a successful production test on the Vanessa-1 well. During the test, gas flowed at an average rate of 5.0 mmscf/d from the Epsilon and Toolachee Formations. Condensate was also produced at a rate of 15 barrels per mmscf/d.

The joint venture plans to tie Vanessa-1 into existing South Australian Cooper Basin joint venture (SACBJV) infrastructure located 3.5 kilometres to the northeast at the Patchawarra East Trunkline (see map), with Vanessa-1 expected to be online in FY2016.





UNCONVENTIONAL BUSINESS

UNCONVENTIONAL OIL AND GAS EXPLORATION IN AUSTRALIA IS IN ITS INFANCY, AND DRILLSEARCH'S UNCONVENTIONAL BUSINESS REPRESENTS A LONGER TERM VALUE OPPORTUNITY WITHIN THE PORTFOLIO.

Unconventional Business Projects

Project	2C Contingent Resources as at 30 June 2015 mmboe	Production FY15 boe	Wells Drilled FY2015		Seismic	
			C & S	P & A	FY15 3D km ²	To-Date 3D km ²
Central Unconventional	51.4	-	3	-	-	1,052.61
Northern Patchawarra	-	-	-	-	-	-
Western Patchawarra	-	-	-	-	-	-
Total	51.4	-	3	-	-	1,052.61

The potential for unconventional oil and gas resources has been noted across Drillsearch's acreage including in the Western Patchawarra and Northern Patchawarra areas and in the Nappamerri Trough, which has been the focus of Drillsearch's unconventional activity over the past two years (see map over page).

Central Unconventional Project Area

The Central Unconventional project area is focused on the ATP 940 joint venture with QGC Limited (Drillsearch Operator and 40%, QGC 60%). The joint venture has pursued an active work program in recent years aimed at proving up an extension of the unconventional gas play in the Nappamerri Trough, defining a contingent resource, and ultimately, deciding on the most cost effective approach for gas extraction.

Four deep wells have been drilled to total depth – Charal-1, Anakin-1, Padme-1 and Amidala-1 – with two of those wells, Charal-1 and Anakin-1, hydraulically stimulated and tested across the Roseneath, Epsilon and Murteree Formations, and the Patchawarra Formation. Charal-1 recorded a peak flow rate of 0.95 mmscf/d and Anakin-1 recorded a peak flow rate of 1.05 mmscf/d.

The results of the work undertaken on Charal-1 and Anakin-1 have proven the flow of hydrocarbon gases to surface and demonstrated the extension of the unconventional gas system identified in

neighbouring permits. This work will enable the ATP 940 joint venture to employ learnings on subsequent wells in the permit.

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, and approval for an amendment to the minimum work program. The joint venture is now required to drill a total of six deep wells to an average depth of 3,700 metres, four of which have already been drilled. The permit extension and amended minimum work program will provide the opportunity for the joint venture to improve its understanding of ATP 940 based on the four initial deep wells, allowing for additional in-depth analysis of test results to inform decisions regarding future activity.

Patchawarra and Arrabury Troughs Project Areas

The Northern Patchawarra Trough not only offers conventional wet gas potential but also the potential for unconventional exploration.

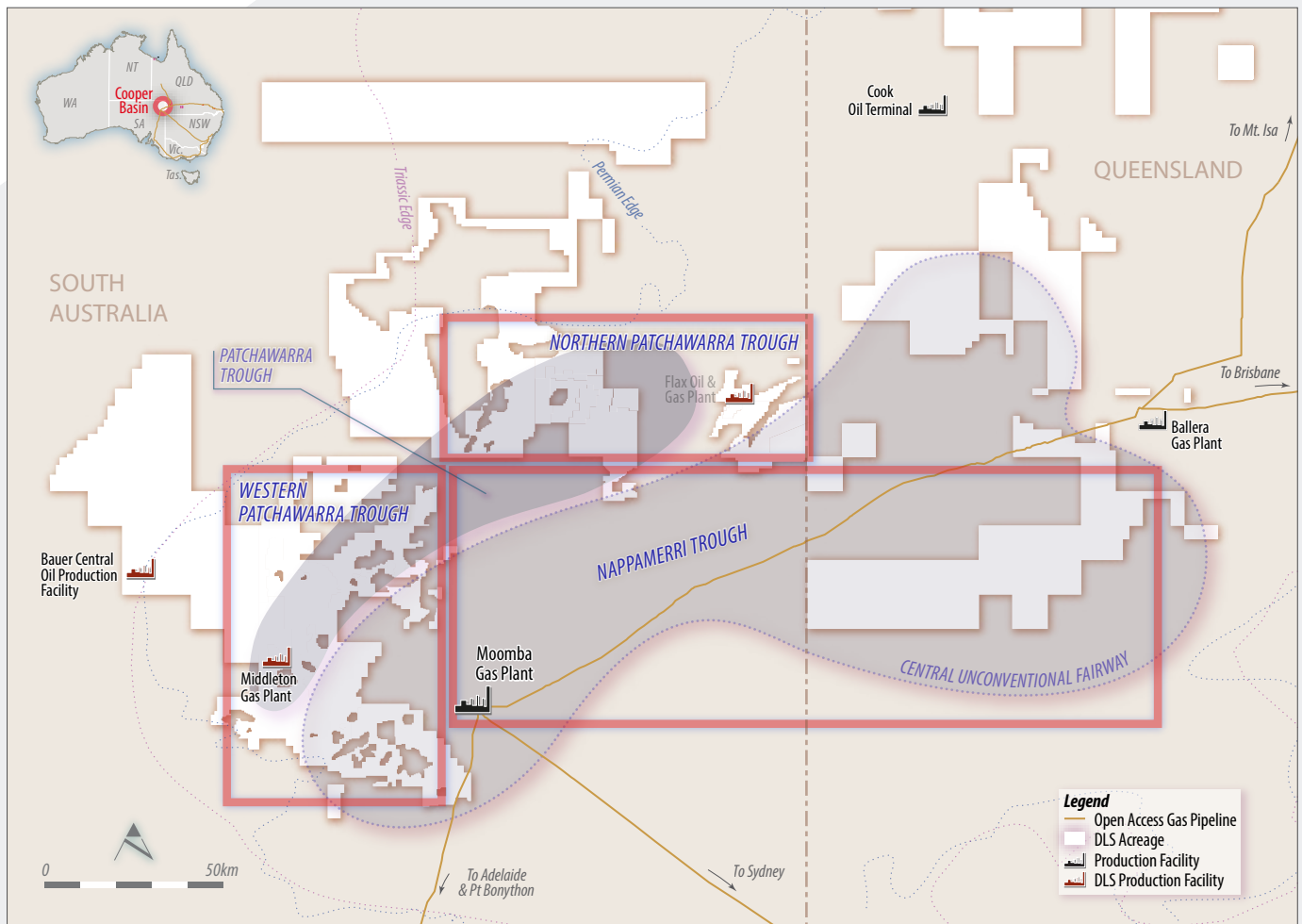
The Ambassador acquisition, completed in early FY2015, delivered to Drillsearch a 47.5% non-operated interest in PEL 570, which surrounds PRLs 173 and 174.

In October 2014, New Standard Energy Limited (NSE) announced an agreement to divest part of its interest in PEL 570 to Santos Limited. Under the Santos farm-in, Santos has assumed Operatorship and may earn a 35% interest in the permit by meeting the proportionate share of the outstanding NSE farm-in commitments. NSE retained a 17.5% interest in the permit. Subsequently, NSE announced that Sundance Energy Limited has acquired its 17.5% interest.

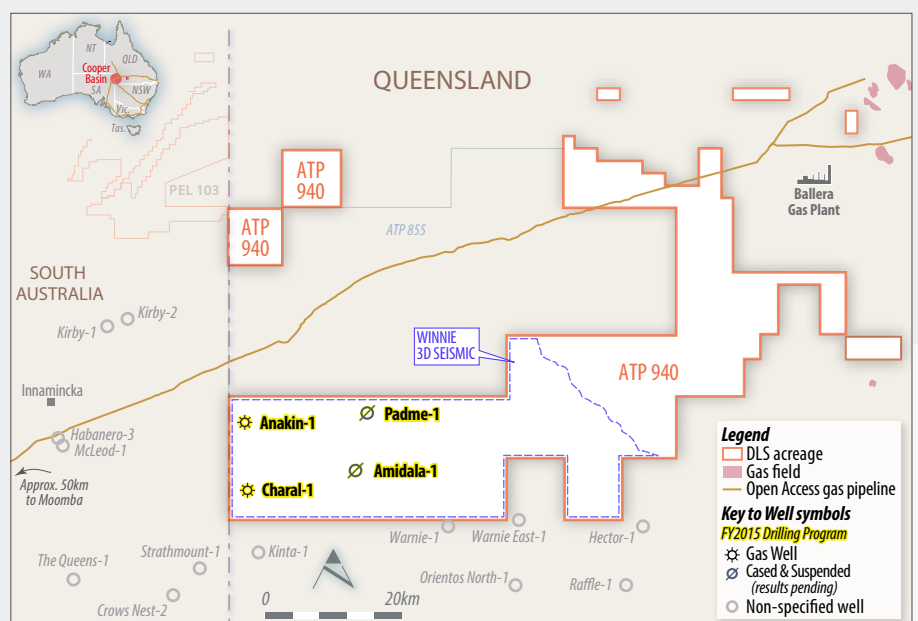
Drillsearch and its joint venture partners have been advancing a work program in PEL 570 that will include drilling of an unconventional well, Washington-1, in early FY2016. Washington-1 will test the Permian Source Rocks southwest of the Crocus South-1 discovery made in Drillsearch's PRL 174 permit.

Drillsearch is free carried for the drilling of Washington-1 in line with our goal of prioritising conventional spend over unconventional.

In the Western Wet Gas Santos joint venture, a number of prospective deep coal intervals have been identified in existing and new discoveries. During FY2016, the joint venture intends to test the most prospective of these concurrently with conventional targets.



Cooper Basin Unconventional Fairways



Central Unconventional Fairway

BOARD OF DIRECTORS



Jim McKerlie

BEC, Dip Fin Mgt, FCA, FAICD
Age: 62

Independent Non-executive Director, Chairman

Mr McKerlie was appointed to the Drillsearch Board in August 2008 and became Chairman in June 2009, having previously been a non-executive director of Great Artesian Oil & Gas Limited prior to its merger with Drillsearch in 2008.

Mr McKerlie has extensive Australian and international experience as a chairman and director of public and private companies. Mr McKerlie is a Chartered Accountant and business consultant. He has worked in the energy sector extensively over his global career in executive management, strategic consulting and corporate advisory roles, including as managing partner at KPMG (Australia) and Partner in Charge at Deloitte (New South Wales).

Mr McKerlie is the Chair of the Board's Nomination Committee, and a member of the Board's Audit and Risk, People, Remuneration and HSEC, and Technical Committees.



Philip Bainbridge

BSc (hons) (Mechanical Engineering), MAICD
Age: 56

Independent Non-executive Director

Mr Bainbridge was appointed to the Drillsearch Board in July 2013.

Mr Bainbridge is an engineer with more than 30 years of experience in the oil and gas sector, having worked for the BP Group for 23 years in a range of petroleum engineering, development, commercial and senior management roles in the UK, Australia and the USA, before joining Oil Search in 2006.

Mr Bainbridge was at Oil Search for six years, where he held a series of senior executive roles, including Chief Operating Officer responsible for the safety, operational and financial performance of all company assets in Papua New Guinea (PNG) and overseas, Executive General Manager Liquefied Natural Gas (LNG), with responsibility for all aspects of Oil Search's interests in the US\$19 billion PNG LNG project, and Executive General Manager Growth.

Mr Bainbridge is Chair of the Board's People, Remuneration and HSEC Committee, and is a member of the Board's Technical and Nomination Committees.



Teik Seng (TS) Cheah

BSc, FCA
Age: 61

Independent Non-executive Director

Mr Cheah was appointed to the Drillsearch Board in September 2013.

Mr Cheah is an experienced finance and banking professional with more than 25 years' experience in the financial services industry in Asia and the UK. He is currently the Chief Executive Officer and a director of Aktis Capital Singapore Pte Ltd, a private equity fund manager.

Mr Cheah also previously held senior management positions at a number of leading investment banks including Chase Manhattan Bank, Merrill Lynch, Goldman Sachs, UBS and BNP Paribas in Malaysia, Singapore, Hong Kong and London.

Mr Cheah is a member of the Board's Nomination Committee.



Fiona Robertson

MA (Geology), FAICD, MAusIMM
Age: 60

Independent Non-executive Director

Ms Robertson was appointed to the Drillsearch Board in October 2009.

Ms Robertson is an experienced finance professional and non-executive director with a background of nearly 20 years as a chief financial officer in the emerging and mid-tier resources sector and 14 years as a corporate banker working in Sydney, New York and London.

Her past executive roles have included CFO for Petsec Energy Ltd, Climax Mining Ltd and Delta Gold Ltd, and roles in corporate banking with Chase Manhattan Bank.

Ms Robertson is Chair of the Board's Audit and Risk Committee and a member of the Board's People, Remuneration and HSEC Committee.

SENIOR EXECUTIVE TEAM



Ross Wecker
BSc (Met and Geol)
Age: 68

Independent Non-executive Director

Mr Wecker was appointed to the Drillsearch Board in October 2009.

Mr Wecker is an experienced geologist with more than 35 years' experience in the oil and gas industry. He has extensive experience in oil and gas exploration and development in the Cooper and Eromanga Basins, gained in past roles as Managing Director of Innamincka Petroleum Limited, directing an exploration team for Delhi Petroleum Pty Ltd and Esso Australia Limited in both the South Australian and Queensland areas of the Cooper Eromanga basin, and providing specialist technical advice to a number of Australian and American companies regarding the acquisition and management of exploration acreage in the Cooper and Eromanga Basins.

Mr Wecker is the Chair of the Board's Technical Committee and member of the Board's Audit and Risk Committee.



Walter Simpson
MA (Engineering), MEng
(Petroleum Engineering)
Age: 52

Chief Executive Officer

Mr Simpson joined Drillsearch as Chief Operating Officer in March 2015. Mr Simpson was appointed Acting Chief Executive Officer on 3 July 2015 and then Chief Executive Officer on 18 September 2015.

Mr Simpson is a Petroleum Engineer with over 30 years of experience in the oil and gas industry globally, having worked in Europe, North Africa, the Middle East, India, South East Asia and Australia.

Prior to joining Drillsearch, Mr Simpson spent 16 years with BG Group in a variety of senior management and executive roles, including President and Managing Director of BG India and Technical and Commercial Director of QGC in Brisbane.

Mr Simpson is currently the Chair of the Queensland Natural Gas Exploration and Production Safety Leaders Forum.

As Chief Executive Officer, Mr Simpson leads the Senior Executive Team. The Company's operations and technical teams (including exploration) also report directly to Mr Simpson.



Ian Bucknell
BBus, CPA
Age: 45

Chief Financial Officer

Mr Bucknell joined Drillsearch as Chief Financial Officer in August 2008.

Mr Bucknell is an experienced oil and gas finance professional and executive with over 15 years of experience in the sector. Prior to joining Drillsearch, Mr Bucknell held a series of finance management roles with Oil Search Limited before joining Great Artesian Oil & Gas Limited as Financial Controller.

During his time with Drillsearch, Mr Bucknell has also twice served as Company Secretary, during the period July 2008 to November 2010 and between July 2011 and February 2015.

As Chief Financial Officer, Mr Bucknell has executive responsibility for Drillsearch Finance, including Treasury, Financial Accounting and Business Services, Corporate Services, Business Development, Budgeting and Planning, and Investor Relations.



Clifford Tuck
LLB (hons), BScApp
Age: 39

Company Secretary

Mr Tuck joined Drillsearch as General Counsel in August 2014 and was appointed Company Secretary in February 2015.

Mr Tuck is an experienced corporate, transactional and resources lawyer. Prior to joining Drillsearch, Mr Tuck was with Newcrest Mining Limited, where he held a number of in-house legal roles, including Deputy General Counsel and a period as Acting General Counsel. Prior to joining Newcrest, Mr Tuck was with leading Australian law firm Allens Arthur Robinson (later, Allens) practising in the areas of corporate and resources law, with a focus on corporate transactions and joint ventures in the resources sector.

In his role as General Counsel and Company Secretary, Mr Tuck has executive responsibility for Legal, Governance, Risk and Insurance, Health, Safety, Environment and Community (HSEC), and Tenure Management.

CORPORATE GOVERNANCE

Drillsearch's Board and Management recognise that high standards of corporate governance are an integral part of their commitment to maximising shareholder value, by promoting strategic thought, risk management, corporate and social responsibility, and transparency.

This is the Corporate Governance Statement for Drillsearch for 2015, as at 30 September 2015, outlining the Company's principal corporate governance practices, including the Company's performance against the ASX Corporate Governance Council's '*Corporate Governance Principles and Recommendations*' (3rd Edition) (the '*ASX Corporate Governance Principles*').

The Board considers that the Company's corporate governance practices follow the ASX Corporate Governance Principles unless otherwise stated in this Corporate Governance Statement.

This Corporate Governance Statement has been approved by the Board of Directors.

Contents:

1. Key Governance Activities in 2015
2. About the Board
3. Board Committees
4. Approach to Risk
5. Financial Reporting and Regulatory Compliance
6. People and Remuneration
7. Engagement with Shareholders and Market Participants
8. Securities Trading
9. Corporate and Social Responsibility

1. Key Governance Activities in 2015

- Expanded the focus of the People and Remuneration Committee to include oversight of the Company's approach to health, safety, environment and the community.
- Established measurable diversity objectives.
- Reviewed the Company's risk management framework – more formally linking risk management to the Company's planning and budgeting processes and implementing an annual assurance cycle.
- Established a Board Skills Matrix.
- Reviewed and updated the Charters for each of the standing Board Committees.

Further information regarding each of these key governance activities in 2015 is set out in this report.

2. About the Board

Composition of the Board

During the financial year ended 30 June 2015, the Company had six Directors – five Non-executive Directors and the Managing Director. Subsequent to financial year end, Mr Brad Lingo left the Company and ceased as Managing Director. As announced to the ASX on 3 July 2015, Mr Walter Simpson was appointed as the Acting Chief Executive Officer. Subsequently, on 18 September 2015 the Board appointed Mr Simpson as Chief Executive Officer on a permanent basis.

A profile for each current Director, including details of their skills, expertise, experience, term of office and Board Committee memberships can be found on pages 30 and 31 of the 2015 Annual Report. Information regarding Mr Simpson's experience and background is set out on page 31 of the Annual Report.

The Board has determined that all of the Non-executive Directors are independent, and were independent for the duration of the reporting period.

There are written terms of appointment in place with each of the Directors.

Responsibilities of the Board

The Board has a formal charter (the 'Board Charter') documenting its membership, procedures and the allocation of responsibility between the Board and Management. A copy of the Board Charter is available on the Company's website at www.drillsearch.com.au/corporate-governance.

Consistent with the Board Charter, the Board has delegated the day-to-day management of the Company, and the implementation of approved business plans and strategies, to the Chief Executive Officer. In turn, the Chief Executive Officer may further delegate to senior management. In addition, a detailed authorisation policy sets out the decision-making powers that may be exercised at various levels of management.

The Board is responsible for oversight of the management of the Company, providing strategic direction, monitoring business and financial performance, and monitoring human resources and remuneration practices and policies. The Board also approves the Company's annual business plan and budget and is responsible for overseeing the Company's risk management, financial reporting and compliance frameworks.

Under the Board Charter, the Directors have access to Management and the Company's external advisors. The Directors are also entitled to access independent professional advice at the Company's expense to assist them in fulfilling their responsibilities.

Independence

The Board Charter provides that a majority of the Directors should be independent. The Board considers that all of the current Non-executive Directors are independent.

No Director acts as a nominee or representative of any particular shareholder.

The Chairman of the Board, Jim McKerlie, is an independent, Non-executive Director. He is responsible for leadership of the Board, ensuring that the Board functions effectively and communicating the views of the Board to the public. The Chairman sets the agenda for Board meetings and manages the conduct of Board meetings so as to facilitate open and constructive communication between the Directors, and between the Board and Management.

All Drillsearch Directors are aware of, and adhere to, their obligation under the *Corporations Act 2001* (Corporations Act) to disclose to the Board any interest or relationships that they, or any associate of theirs, may have in a matter that relates to the affairs of the Company, and any other matter that may affect their independence.

If a potential conflict of interest exists on a matter before the Board then (unless the remaining Directors determine otherwise), the Director concerned does not receive the relevant papers, and takes no part in the Board's consideration of the matter nor exercises any influence over other members of the Board.

In addition to considering issues that may arise from disclosure by Directors from time to time under these obligations, the Board makes an annual assessment of each Non-executive Director to determine whether it considers the Director to be independent. The Board considers that an independent director is a Director who is independent of Management and free of any business or other relationship which could, or could reasonably be perceived to, materially interfere with the exercise of the Director's unfettered and independent judgement.

To assist the Board and each Director in assessing matters affecting independence, the Board has a formal Independence Policy. A copy of the Board's Independence Policy is available via the Company's website at www.drillsearch.com.au/corporate-governance.

Historically, some concerns have been raised by market participants and proxy advisors regarding the independence of certain Directors on the basis of options and performance rights granted to such Directors in the past under the Company's performance incentive arrangements. The past practice of the Directors participating in the Company's performance incentive arrangements was discontinued from FY2014 and the Board has specifically considered whether or not the interests in relevant options and performance rights materially impacts upon the ability of the relevant Directors to exercise unfettered and independent judgement. The Board, including those Directors who do not hold relevant interests, is satisfied that these interests do not relevantly impact on the independence of those Directors.

Details of the interests in Company securities held by each Director, including options and rights awarded to certain Directors under the Company's performance incentive arrangements in the past, are set out in the Company's FY2015 Remuneration Report on page 61 of the Annual Report.

CORPORATE GOVERNANCE

Board Skills Matrix

During 2015, the Board developed and adopted a 'Board Skills Matrix' outlining the range of skills and experience that they consider necessary or desirable to enable the Board to discharge its responsibilities and support the Company's strategic and governance objectives. In addition to developing the Board Skills Matrix, the Board has also included Board diversity objectives in the Company's measurable diversity targets referred to in section 9 (below) and pages 12 and 13 of the Annual Report.

The Board Skills Matrix identifies the following areas of capability:

- financial and commercial comprehension;
- strategic thinking and understanding of risk management;
- stakeholder identification and management;
- leadership and organisational behaviour;
- industry and subject matter expertise; and
- governance and compliance.

The Board Skills Matrix is expected to evolve over time, in parallel with the Company's continuing growth and evolution, and will be used by the Board as a tool for identifying where additional experience or skills are required to enable the Board to continue to meet its responsibilities, and for succession planning.

As noted further below (see 'Reviewing Performance'), in 2015, the Board has used the Board Skills Matrix as a tool for undertaking the annual review of Board, Committee and Director performance.

Details of Board and Committee meetings held during the year, and the attendance of each Director at the meetings, is set out in the Directors' Report on page 50 of this annual financial report.

Director Appointment, Induction and Training

Before a person is appointed as a Director, or put forward to shareholders as a candidate for election as a Director, the Company undertakes appropriate checks in respect of that person, which include checks as to the person's character, experience and qualifications.

There are written terms of appointment in place with each Director.

The Company provides an induction program to assist new Directors to gain an understanding of:

- the Company's financial, strategic, operational and risk management position;
- the culture and values of the Company;
- the role of the Board's Committees; and
- Director interaction with each other, Management and other stakeholders.

In addition to the briefing papers, agenda and related information regularly supplied to Directors, the Board receives ongoing briefings designed to give Directors further insight into the operation of the Company's business, and the Directors are encouraged to take advantage of opportunities to develop and maintain the skills and knowledge needed to perform their role as a Director effectively. The objective of these activities is to provide education on key developments in respect of the Company and the industry and environment within which it operates.

Prior to the expiry of a Director's current term of office, the Board reviews that Director's performance. In the event that such performance is considered less than effective, the Board may decide that it will not support the re-election of that Director.

The Board Charter does not currently specify a desired duration of service for Directors, or desired duration of service in specific positions such as the Chairman or member or chair of the Board's standing Committees. Duration of service is, however, a factor which the Directors consider on a regular basis as part of the Board's assessment of the independence of the Directors.

Reviewing Performance

The Board undertakes an annual review of its effectiveness, and the effectiveness of each of its Committees, against the roles and responsibilities set out in their respective Charters.

The Chairman also holds discussions with individual Directors to facilitate peer review.

The Board reviews the performance of the Chief Executive Officer annually, and contributes to the performance reviews for each of the Company's Senior Executives.

In 2015, the Board has used the Board Skills Matrix, developed and adopted this year (as described above) as a tool to conduct the annual review process. In this way, in 2015 the Board and each Director have reviewed performance against the skills identified by the Board as being required to discharge its responsibilities.

As part of this review, each of the Directors had the opportunity to identify areas where they felt development or training may assist in enhancing or maintaining a requisite skill area. The identified development areas have been collated and will form the basis of a Board training and development program in FY2016.

Reviews of the performance of the Chief Executive Officer and each of the Chief Executive Officer's direct reports were also undertaken during the year.

The Company Secretary

The Company Secretary is responsible for assisting the Board to ensure that Board and Committee procedures are complied with, and advising the Board and its Committees on governance matters. The Company Secretary is accountable directly to the Board, through the Chairman, on all matters to do with the proper functioning of the Board. All Directors have access to the Company Secretary for advice and services.

The Board approves any appointment or removal of the Company Secretary.

3. Board Committees

The Board has established four standing committees to assist the Board to discharge its responsibilities by examining various issues and making recommendations to the Board. In addition, the Board may, from time to time, establish ad hoc committees or sub-committees to assist the Board in relation to specific matters.

The standing committees of the Board are:

- the Nomination Committee;
- the Audit and Risk Committee;
- the People, Remuneration and Health, Safety, the Environment and Community (HSEC) Committee*; and
- the Technical Committee.

* The People, Remuneration and HSEC Committee, previously the People and Remuneration Committee, has a broadened remit following a decision by the Board to include health, safety, the environment and community ('HSEC'), thus ensuring that there is a specific Committee of the Board charged with assisting the Board with discharging its responsibilities in relation to HSEC matters.

The table below outlines the role of each of the Board's standing Committees in assisting the Board to discharge its responsibilities and the composition of the Committees as at the date of this Corporate Governance Statement.

COMMITTEE	COMPOSITION	ROLE OF THE COMMITTEE
Nomination Committee	Three Independent Directors. The Chairman of the Board is the Chair of the Committee.	Assist the Board with its responsibilities in relation to ensuring that: <ul style="list-style-type: none"> • the Board and its Committees have and maintain an appropriate balance of skills, knowledge, experience, independence and diversity to enable them to discharge their duties and responsibilities effectively and to add value to the Company; and • the Company gives due regard to recommended corporate governance practices and the expectations of the Company's stakeholders; and complies with the Company's obligations under the ASX Listing Rules and the Corporations Act, in respect of the matters coming within the Committee's responsibilities.
Audit and Risk Committee	Three Independent Directors. The Committee Chair is not the Chairman of the Board. Any other Director may attend any meeting of the Audit and Risk Management Committee as an invitee.	Assists the Board in discharging its responsibilities in relation to: <ul style="list-style-type: none"> • verifying and safeguarding the integrity and quality of the Company's corporate reporting; • ensuring that the Company has an appropriate and effective framework for identifying and managing risk on an ongoing basis which both protects established value and assists in identifying and capitalising on appropriate opportunities to create value; and • ensuring that the Company gives due regard to recommended corporate governance practices and the expectations of the Company's stakeholders; and • ensuring that the Company complies with its obligations under the ASX Listing Rules and the Corporations Act in relation to corporate reporting and recognising and managing risk.

CORPORATE GOVERNANCE

COMMITTEE	COMPOSITION	ROLE OF THE COMMITTEE
People, Remuneration and HSEC Committee	Three Independent Directors. The Committee Chair is not the Chairman of the Board.	Assists the Board with its responsibilities in relation to people and remuneration matters, and matters relating to health, safety, the environment and the community to: <ul style="list-style-type: none"> • enable the Company to attract, foster and retain talented staff and independent Directors; • enable the Company to support and motivate all employees to strive for excellence and create value for shareholders; • encourage the Chief Executive Officer and the Chief Executive Officer's direct reports to pursue the growth and success of the Company, both in the short term and over the longer term, taking into account a wide spectrum of human and social sustainability considerations; • reward employees fairly and responsibly and link rewards to the Company's performance and individual performance; • create a working environment that values diverse skills, values, experiences, backgrounds and attributes; • reinforce desired behaviours and organisational values; • ensure that remuneration for Non-executive Directors does not conflict with their obligation to bring an independent judgement to matters before the Board; and • support the Company's vision of a 'zero harm' workplace; • minimise the environmental footprint of the Company's activities; • take appropriate consideration of the impact of the Company's activities on the community and the environment; and • take appropriate account of recommended corporate governance practices and the expectations of the Company's stakeholders, and the Company's obligations under the ASX Listing Rules and the Corporations Act.
Technical Committee	Three Independent Directors. The Chair of the Committee is not the Chairman of the Board.	The Board has established a standing Technical Committee to assist the Board in discharging its responsibilities in relation to: <ul style="list-style-type: none"> • material disclosures regarding oil and gas Reserves and Resources; • ensuring that the Company identifies and manages technical risks and opportunities; and • ensuring that the Company observes ASX Listing Rules and other regulatory requirements, and gives appropriate consideration to recommended corporate governance practices, relating to the preparation and disclosure of technical information.

Each Committee is governed by a Charter setting out its composition and responsibilities.

During the year, the Charters for each of the Committees were reviewed, with updates approved by the Board subsequent to year-end. A material change to the Committee charters implemented through the review and update was expanding the remit of the People and Remuneration Committee to include HSEC matters, as noted above.

More information regarding how each of the standing Committees assists the Board in discharging its responsibilities is set out in the Committee Charters. Copies of the Committee Charters are available on the Company's website at www.drillsearch.com.au/corporate-governance.

The papers for each Committee meeting are available to all Directors, other than in the case of a conflict, and the Chair of each Committee reports back to the Board regarding Committee activities and recommendations.

Details regarding the current members of each of the Board's standing Committees, including their qualifications and experience, are set out in the Director's profiles on pages 30 and 31 of the Annual Report.

Details of meetings of each Committee held during the year, and attendance by Committee members and other Directors, is set out in the Directors' Report on page 50 of this annual financial report.

4. Approach to Risk

Risk Management

The Board recognises that the effective identification, evaluation, monitoring and management of risk is a critical component of the Company's continuing business and financial performance, and future prospects. The Board also recognises that effective risk management provides a level of assurance that:

- the Company's strategy and business activities are properly advanced, and objectives are achieved;
- material exposure to risk is identified and adequately monitored and managed;
- significant financial, managerial and operating information is accurate, relevant, timely and reliable; and
- there is an adequate level of compliance with policies, standards, procedures and applicable laws and regulations.

The Company has adopted and follows a risk management framework, comprising:

- the Company's risk policy;
- risk management processes and internal compliance and control systems;
- defined roles and responsibilities across the organisation in relation to risk management;
- a standardised risk evaluation matrix; and
- risk management reporting to the Board, as well as risk reporting to the Board's Committees.

As noted in the 2014 Corporate Governance Statement, during FY2015 the Company commenced a comprehensive review of its risk management framework, under the supervision of the Board and the Audit and Risk Committee. The rationale for this comprehensive review has been to evaluate the adequacy of the Company's risk management approach following the rapid growth in the Company over the past five years. As a result of that review, a number of important changes and updates to the Company's risk management framework have been identified and approved by the Board. Material changes include:

- a review and update of the Company's risk evaluation matrix, reflecting the change in the Company's business profile over the past five years;
- changes to the way the Company characterises risks, providing greater alignment with the ASX Corporate Governance Principles;
- establishing a more formal link between the Company's risk management framework and the Company's annual planning and budgeting processes;
- extending the Company's formal assurance activities to include an annual cycle of assurance activities focused on the Company's material business risks; and
- allocating single-point accountability for the day-to-day management of the Company's risk management framework to a member of the Senior Executive team.

The review of the Company's risk management framework will remain an ongoing focus, consistent with the Company's commitment to continuous improvement.

Exposure to Economic, Environmental and Social Sustainability Risks

As an ASX-listed oil and gas explorer and producer, the Company is exposed to a variety of economic, environmental and social sustainability risks.

Details regarding the material business risks applicable to Drillsearch and its business, including mitigating factors and the actions being taken by the Company to seek to manage its exposure to those risks, are set out in the Directors' Report and the notes to the financial statements for the financial year ended 30 June 2015 (pages 82-120).

CORPORATE GOVERNANCE

Internal Audit

The Company does not currently have a formal internal audit program in place. The Board has actively considered whether or not it is appropriate or desirable for the Company to have an internal audit function, having regard to the particular circumstances of the Company and its business.

At this stage, the Board is satisfied that the establishment of a formal internal audit function is not warranted on the basis of the Company's current scale and because:

- a number of the Company's material business risks relate to business activities and operations undertaken on the Company's behalf by third parties – for example, oil and gas operations undertaken by the Company's joint venture partners – and, as such, the Company applies a degree of independence by reviewing the operators' approach to managing relevant risks; and
- the Company has adopted practices associated with its business that provide an independent external view relevant to many of the Company's material business risks – for example, the Company's oil and gas Reserves and Resources estimates are the subject of independent expert review (refer to page 19 of the Annual Report for information regarding the independent review of the Company's 2015 Oil and Gas Reserves and Resources estimates).

In addition, as noted further above, as part of the Company's review of its risk management framework in FY2015, the Company has formalised an assurance activities cycle. Under the assurance activities cycle, on an annual basis the Company will undertake a detailed review of the efficacy of, and compliance with, risk controls, systems and processes associated with the Company's material business risks. It is intended that the assurance activities cycle will cover all of the Company's identified material business risks over a rolling three-year period.

The assurance activities plan will be prepared by Management and approved by the Board on an annual basis.

5. Financial Reporting and Regulatory Compliance

The Board is committed to ensuring the integrity and quality of its financial reporting, risk management, and compliance and control systems.

Prior to giving their Directors' declaration in respect of the half-year and full-year financial statements, the Board requires the Chief Executive Officer and the Chief Financial Officer to sign written declarations to the Board that, in their opinion:

- the financial statements and associated notes comply with the Corporations Act, the Corporations Regulations and relevant accounting standards;
- the financial statements and associated notes give a true and fair view of the financial position as at the relevant balance date and of the performance of the Company for the full year then ended as required by the Corporations Act; and
- Management has established and maintained an adequate risk management and internal control system, which is operating effectively.

These declarations were received by the Board prior to approval of the financial statements for the financial year ended 30 June 2015.

The Audit and Risk Committee plays a critical role in assisting the Board to discharge its responsibilities in relation to financial reporting (as noted above), as well as reviewing and monitoring the performance of the external auditor. Senior Executives and the Company's external auditor frequently attend Audit and Risk Committee meetings on invitation by the Committee. The Audit and Risk Committee also holds private discussions with the external auditor without Management or Executive Directors present.

External Auditor

The Company's external auditor for the financial year was PricewaterhouseCoopers, which was appointed in 2014. As noted in the Company's Notice of Annual General Meeting for 2014, the Board conducted a rigorous tender process prior to recommending the appointment of PricewaterhouseCoopers as the Company's external auditor to shareholders.

The auditor is required to make an independence declaration annually.

Information about the total remuneration of the external auditor is set out in Note 35 of the annual financial report. The external auditor did not provide any non-audit services in FY2015.

The Board requires the external auditor to attend the Company's Annual General Meeting and be available to answer questions from shareholders relevant to the audit.

6. People and Remuneration

The Company is committed to ensuring that it has competitive remuneration and human resources policies and practices that:

- enable the Company to attract and retain high quality staff;
- offer appropriate and fair rewards and incentives to employees;
- seek to align the interests of senior management with the interests of the Company's shareholders; and
- promote a culture of high performance.

Remuneration Report

Detail on the Company's remuneration policies and practices are set out in the Remuneration Report on pages 61 to 72 of the Directors' Report in this annual financial report.

The Remuneration Report also includes details of the remuneration for key management personnel, comprising the Directors and Senior Executives, during the year, and information regarding the Company's short-term and long-term incentive plans and the link between the Company's performance and remuneration outcomes.

7. Engagement with Shareholders and Market Participants

The Board is committed to ensuring that the Company engages appropriately with its shareholders and other market participants. This commitment is reflected in the Company's approach to:

- disclosure and market communications; and
- shareholder communications,

as outlined below.

Disclosure and Market Communications

The Company's approach to disclosure and market communications is based on two core principles:

- all investors, regardless of the size of their investment, must be afforded equal and timely access to material information concerning Drillsearch; and
- information provided by the Company to the market must have a reasonable basis, be complete, balanced and expressed in a clear and objective manner that allows market participants to assess the impact or potential impact of that information when making investment decisions.

The Company has policies and processes in place intended to ensure that these principles are adhered to, including a formal Disclosure Policy.

The Company's Disclosure Policy outlines:

- the Company's disclosure obligations;
- what type of information requires disclosure;
- who is responsible for disclosure; and
- the roles and responsibilities of individuals within the Company in relation to disclosure.

A copy of the Company's Disclosure Policy is available on the Company's website at www.drillsearch.com.au/corporate-governance.

In addition, the Company has an investor relations program and a dedicated Corporate Communications team. The Board receives regular reports from Management regarding the Company's investor relations activities, and the annual review and setting of the Company's investor relations program and objectives.

Shareholder Communication

In addition to its formal disclosure obligations under the ASX Listing Rules and the Corporations Act, the Board uses a number of additional means of communicating with shareholders. These include:

- the Company's half-year and full-year reports, and annual report, together with other periodic reports required under the ASX Listing Rules and the Corporations Act;
- posting media releases, public announcements, notices of general meetings and voting results, and other investor-related information on the Company's website at www.drillsearch.com.au/corporate-governance;
- the shareholder letter, introduced in FY2015 and intended to be provided to shareholders on a bi-annual basis; and
- annual general meetings.

CORPORATE GOVERNANCE

The Company also has a dedicated Corporate Governance page on its website at www.drillsearch.com.au/corporate-governance, which supplements the communication to shareholders in the annual report regarding the Company's corporate governance policies and practices. That web page also contains copies of many of the Company's governance-related documents, policies and information.

The Company encourages shareholders to receive shareholder materials via electronic means. The Company's Corporate Communications team and share registry receive and send electronic communications to shareholders and, through the Company's contact details on the website at www.drillsearch.com.au/corporate-governance, shareholders have the opportunity to make enquiries of the Company via electronic means.

In relation to the Annual General Meeting, the Company encourages the participation of shareholders by making a facility available for shareholders to provide questions to the Company, or the external auditor, in advance of the Annual General Meeting.

The Company hosts conference calls following the Company's major periodic releases as a forum for investors and other market participants to ask questions.

The Company does not currently webcast its investor relations activities or the Annual General Meeting, however, recordings are posted to the Company's website at www.drillsearch.com.au/corporate-governance.

The Board is committed to monitoring ongoing developments that may enhance communication with shareholders, including technological developments, regulatory changes and the continuing development of 'best practice' in the market, and to implementing changes to the Company's communications strategies whenever reasonably practicable to reflect any such developments.

8. Securities Trading

The Board encourages Directors and employees to be long-term holders of shares in the Company. In so doing, the Board seeks to align the interests of all Directors and employees with those of the Company and its shareholders.

The Board recognises that it is important that the Company adopt practices that ensure that Directors and employees (including persons or companies closely related to such persons) do not deal in the Company's securities in circumstances where the Director, employee or relevant closely-related person may be in possession of material price-sensitive information, or may be perceived to be in possession of such information.

The Company has a comprehensive securities trading policy that applies to all Directors and employees. The Policy aims to inform Directors and employees of the law relating to insider trading, and provide them with practical guidance for avoiding unlawful transactions in Company securities.

The Policy prohibits Directors and employees from buying or selling Drillsearch securities when they are in possession of price-sensitive information that is not generally available to the market. In addition, the Policy identifies 'closed periods' during which no Directors or employees are allowed to trade in Company securities (unless exceptional circumstances apply, the person has no inside information, and special approval is obtained to sell (but not buy) Company securities).

The Policy also identifies certain 'designated personnel' who are prohibited from dealing in the Company's securities outside of closed periods unless prior written approval is obtained. Designated personnel for the purposes of the Policy include:

- the Directors;
- the Chief Executive Officer;
- the Company Secretary;
- the Chief Executive Officer's direct reports; and
- certain other persons who are deemed by the Board, from time to time, as likely to have access to material price-sensitive information.

The Policy also reminds Directors and employees that procuring others to trade in Company securities when in possession of price-sensitive information is a breach of the law and the Securities Trading Policy. Acquisitions of securities under the employee share and option plans are exempt from the prohibition under the Corporations Act.

A copy of the Company's Securities Trading Policy is available on the Company's website at www.drillsearch.com.au/corporate-governance.

Directors also have specific disclosure obligations under the Corporations Act and the corresponding ASX Listing Rules. All Directors have agreed to give the Company notice of changes to their relevant interests in Company shares within five days to enable both them and the Company to comply with the ASX Listing Rules.

Recommendation 8.3

Recommendation 8.3 of the ASX Corporate Governance Principles provides that a listed entity which has an equity-based remuneration scheme should:

- have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and
- disclose that policy or a summary of it.

As disclosed in the Company's Remuneration Report (referred to above), the Company has equity-based remuneration arrangements in place. The Company does not currently have a policy that specifically meets the requirements of recommendation 8.3. However, the Board is satisfied that the Company meets the requirements of recommendation 8.3 through a combination of:

- the terms of the Plan Rules which govern the Company's equity-based remuneration schemes; and
- the Company's Securities Trading Policy (described above) which prohibits Directors and employees from engaging in margin lending and derivative arrangements in respect of the Company's securities.

9. Corporate and Social Responsibility

The Company's approach to Corporate and Social Responsibility is guided by:

- our Vision and Key Disciplines;
- our Code of Conduct; and
- a suite of Company policies,

the details of which, and how they reflect and influence the Company's approach to, and expectations regarding, Corporate and Social Responsibility, are described further below.

Our Vision and Key Disciplines

Our Vision is to build a leading independent oil and gas company, through:

- delivering sustained growth in shareholder value;
- being a partner and employer of choice, well regarded by the communities in which we operate; and
- providing a safe environment, focused on sustainability and continuous improvement.

The Company has established what we refer to as our 'Key Disciplines':

Focus | Execution | Collaboration | Integrity | Innovation

This Vision and these Key Disciplines are the foundation of our approach to all of our business activities.

Our Code of Conduct

Drillsearch has a Code of Conduct, approved by the Board, which sets out the Company's expectations regarding the manner in which the Company conducts its business, including:

- expectations regarding workplace behaviour generally;
- compliance with applicable laws and standards;
- ethical and transparent business practices;
- maintaining a safe, fair and rewarding workplace;
- maintaining a workplace environment which encourages and promotes high performance;
- our commitments to working with the community;
- our commitments to environmental stewardship and performance; and
- compliance with the Code.

CORPORATE GOVERNANCE

The Code of Conduct is made available to all employees and is included in the new starter pack when new employees commence employment with the Company. During FY2016, the Company plans to review and update its approach to ongoing training of all employees regarding the Code of Conduct.

The Company is committed to ensuring that employees, contractors, suppliers and partners are able to raise concerns regarding any conduct which is inconsistent with the Code, including illegal conduct and unethical behaviour, and ensuring that such concerns are properly investigated. In support of this commitment, the Company has a Whistle-blower Policy, which sets out the mechanism by which employees, contractors, suppliers and partners can confidently, and anonymously if they wish, voice such concerns in a responsible manner without being subject to victimisation, harassment or discriminatory treatment.

A copy of our Code of Conduct is available from our website at www.drillsearch.com.au/corporate-governance.

Diversity

The Board recognises that diversity in the Company's workforce, including diversity at the Board level, brings the diversity of experience and thought that benefits the Company and its stakeholders.

The Board and Management are proud of the diversity in our workforce. However, we recognise that vigilance and action is required to ensure that we maintain a workplace environment that encourages and embraces diversity. We also recognise that there are opportunities to further build upon our current diversity, particularly in the areas of gender diversity at the more senior levels of management and remuneration equality.

The Company has a Diversity Policy, a copy of which is available on our website at www.drillsearch.com.au/corporate-governance.

As part of our commitment to diversity, as noted in our 2014 Corporate Governance Statement, in FY2015 the Company established a 'Diversity Steering Committee' involving a cross-section of Drillsearch staff across all levels of seniority. The Steering Committee was charged with assisting the Company to:

- define what diversity means in the context of our workforce – i.e. the dimensions of diversity; and
- the formulation of measurable diversity targets.

More information regarding the role of the Diversity Steering Committee, and the results of its activities are set out in Annual Report on pages 12 and 13.

Gender Diversity at Drillsearch

Information regarding the Company's gender diversity, across all levels of the Company (including the Board), and including gender remuneration equality are included in the Annual Report on pages 12 and 13.

Gender diversity and gender remuneration equality are areas of ongoing focus for the Board. While, as noted above, the Board is proud of the strong diversity currently reflected in our workforce, the Board recognises that there is room for improvement in the areas of gender diversity, particularly in senior management positions, and gender remuneration equality. Our commitment to diversity is reflected in the measurable diversity objectives adopted by the Board, as described below and in the annual report on pages 12 and 13.

The Board receives regular reports from Management regarding the Company's gender diversity performance.

The Company is not a 'relevant employer' for the purposes of Workplace Gender Equality Act reporting requirements. However, consistent with the Company's commitment to Corporate and Social Responsibility and the ASX Corporate Governance Principles and Recommendations, the Company includes diversity disclosures in its Annual Report (refer to pages 12 and 13).

Measurable Diversity Targets:

In FY2015, Drillsearch developed and adopted measurable diversity targets that have been approved by the Board. Drillsearch's measurable diversity targets are set out on page 13 of the Annual Report. Progress against these targets will be reported by the Company in its 2016 Annual Report.

Supporting Policies

Drillsearch has specific policies that further detail the Company's expectations in relation to various elements of Corporate and Social Responsibility. These policies work in conjunction with the minimum expectations set out in our Code of Conduct.

Examples of relevant policies include our:

- Health and Safety Policy;
- Environment Policy;
- Delegations of Authority Policy; and
- Securities Trading Policy.

In FY2015, the Company reviewed and updated its Health and Safety Policy and Environment Policy. The updated policies, approved by the Board subsequent to year-end, are available on the Company's website at www.drillsearch.com.au/corporate-governance. The roll-out of these updated policies is underway.

As noted in the context of our Code of Conduct, above, a focus for the Company in FY2016 is reviewing and updating our approach to communicating the Company's expectations of our workforce regarding the Company's policies.

In addition to policies, the Company has a number of internal Standards and Procedures which inform how the Company's policies and expectations are implemented on a day-to-day basis.

Ongoing Policy Review and New Policy Development

Our policies are the subject of ongoing review with a view to continuous improvement. We are committed to ensuring that our governance practices, including associated policies, are regularly reviewed to reflect changes in market conditions, investor expectations and the implementation of the ASX Corporate Governance Principles.

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DIRECTORS' REPORT¹

The Directors of Drillsearch Energy Limited ('Drillsearch' or the 'Company') submit herewith the annual financial report, inclusive of Directors' Report, Remuneration Report and financial statements for the Company and its controlled entities (the 'Group') for the financial year ended 30 June 2015. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

Directors

The Directors of the Company during the reporting period and up to the date of this report are listed below. Each Director was a Director for the full period unless otherwise shown.

Jim McKerlie, Non-executive Director and Chairman

Philip Bainbridge, Non-executive Director

TS Cheah, Non-executive Director

Fiona Robertson, Non-executive Director

Ross Wecker, Non-executive Director

Brad Lingo, Managing Director²

Results and review of operations

The Group reported a consolidated net loss of \$8.1 million (2014: restated profit of \$41.9 million) for the year, after tax benefit.

Further details of the group's financial and operating performance can be found in the Financial and Operating Performance report on page 51.

As announced on 6 August 2015, the Company changed its accounting policy for Exploration and Evaluation expenditure to apply the Successful Efforts methodology. A change in accounting policy has been applied for the purposes of FY2015 full year results (including financial statements). For comparative purposes, the change in accounting policy has been applied retrospectively, with the result that FY2014 results have been restated in this report.

Principal activities

The Group's principal activities in the course of the financial year were oil and gas exploration, development and production. The Company divides these activities into three business units: Oil; Wet Gas (gas and liquids); and Unconventional.

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

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Group during the year.

Subsequent events

Other than as disclosed in the financial statements, the Directors are not aware of any matter of material circumstance which has arisen since the end of the financial year which would be expected to have a material effect on the financial or operating performance or results of the Group.

Environmental regulations

The Group's operations are subject to environmental regulation under the laws of Queensland, South Australia and the Commonwealth of Australia.

For activities operated by the Group, the Company has developed and maintains an environmental management system ('EMS'). The EMS has been developed so as to align with the industry standard AS/NZS ISO14001. Compliance with the EMS is subject to periodic review by the Company.

The majority of the Group's operations are held through interests in unincorporated joint ventures. Where Drillsearch's joint venture activities are not operated by Drillsearch, the operator is required by the joint venture parties to comply with applicable laws, including the environmental regulations and the terms of applicable environmental permits. For non-operated activities, Drillsearch seeks to ensure that joint venture operators are established and experienced operators of oil and gas activities, it holds a participating interest at a level that ensures material decisions require Drillsearch consideration (including in relation to environmental risks and management) and seeks to engage closely with, and monitor the performance of, the operators.

The Group has not been subject to enforcement action in relation to environmental matters during the reporting period and up to the date of this report.

¹ Directors Report dated 26 August 2015.

² As announced to the ASX on 3 July 2015, Mr Lingo ceased as Managing Director and left the Company with effect on and from 3 July 2015.

DIRECTORS' REPORT

Dividends – Drillsearch Energy Limited

No dividends have been paid during the financial year. The Directors have determined that there will be no dividend paid in respect of the financial year (2014: \$nil).

Shares under option

(a) Unissued ordinary shares

Unissued ordinary shares of Drillsearch Energy Limited under option at the date of this report are as follows:

Issuing Entity	Number under option	Class of shares	Exercise price of option	Expiry date of options
Drillsearch Energy Limited	817,370	Ordinary	\$0.596	20 June 2018
Drillsearch Energy Limited	1,282,867	Ordinary	\$0.596	25 July 2018
Drillsearch Energy Limited	1,490,696	Ordinary	\$0.596	23 November 2018
	3,590,933			

The holders of these options do not have the right, by virtue of the option, to participate in any share issue or interest issue of the Company or of any other body corporate or registered scheme.

Shares issued on the exercise of options

The following ordinary shares of Drillsearch Energy Limited were issued during the year ended 30 June 2015 on the exercise of unlisted options granted to employees. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Issuing Entity	Date options granted	Class of shares	Exercise price	Number of shares issued
Drillsearch Energy Limited	1 October 2009	Ordinary	\$0.60	1,000,000
Drillsearch Energy Limited	25 July 2011	Ordinary	\$0.60	125,408
				1,125,408

Shares which may be issued on the vesting of performance rights

Details of shares or interests which may be issued on vesting of performance rights as at the date of this report are:

Issuing Entity	Number of shares under performance rights	Class of shares	Performance period end date
Drillsearch Energy Limited	1,978,734	Ordinary	30 June 2015
Drillsearch Energy Limited	1,484,528	Ordinary	30 June 2016
Drillsearch Energy Limited	1,206,093	Ordinary	30 June 2017
	4,669,355		

Details of shares or interests issued during and since the end of the financial year as a result of the vesting of performance rights are:

Issuing Entity	Number of shares under performance rights	Class of shares	Amount paid for shares	Amount unpaid on shares
Drillsearch Energy Limited	653,100	Ordinary	\$nil	\$nil

Indemnification of officers and auditors

Rule 68 of the Company's Constitution provides that the Company must indemnify each person who is or has been an officer of the Company (including any one or more of the Company's subsidiaries) against any liability incurred as an officer, to the extent permitted by the Corporations Act, and that the Company may pay a premium for a contract insuring such officers against such liability. Rule 68 of the Company's Constitution also permits the Company to enter into an agreement with relevant officers in relation to access to Company records, indemnity and the maintenance of insurance.

Drillsearch maintains a Directors' and Officers' insurance policy that, subject to the policy terms and conditions and to the extent permitted by law, indemnifies the Company's current, past and future directors and officers (including directors and officers of the Company's subsidiaries). The Company pays the insurance premium for the Directors' and Officers' insurance policy.

The Company is party to deeds of access and indemnity with each of the persons identified as Directors in this report and certain current and former members of Senior Management. The deeds comply with the terms of Rule 68 of the Company's Constitution. The Company is not aware of claims, or circumstances which may give rise to a claim, against the Company or any of its current or former officers which may trigger liability under a relevant indemnity.

The Company has not provided an indemnity in favour of its external auditors.

Information about the directors

Set out below is information regarding each of the Company's Directors during the reporting period and up to the date of this report.

Jim McKerlie BEc, Dip Fin Mgt, FCA, FAICD, Age: 62
Independent Non-executive Director, Chairman

Mr McKerlie was appointed to the Drillsearch Board in August 2008 and became Chairman in June 2009, having previously been a non-executive director of Great Artesian Oil & Gas Limited prior to its merger with Drillsearch in 2008.

Mr McKerlie has extensive Australian and international experience as a chairman and director of public and private companies. Mr McKerlie is a Chartered Accountant and business consultant. He has worked in the energy sector extensively over his global career in executive management, strategic consulting and corporate advisory roles, including as managing partner at KPMG (Australia) and Partner in Charge at Deloitte (New South Wales).

Mr McKerlie is the Chair of the Board's Nomination Committee, and a member of the Board's Audit and Risk, People and Remuneration and Technical Committees.

During the past three years, Mr McKerlie also held directorships of ASX-listed Acer Energy Ltd and Ambassador Oil & Gas Limited. Mr McKerlie was appointed as a director of these companies during the acquisition of those companies by Drillsearch with each being delisted following acquisition. Mr McKerlie was also previously a director of ASX-listed Onthehouse Holdings Limited from January 2011 to September 2012.

Philip Bainbridge BSc (hons) (Mechanical Engineering), MAICD, Age: 56
Independent Non-executive Director

Mr Bainbridge was appointed to the Drillsearch Board in July 2013.

Mr Bainbridge is an engineer with over 30 years of experience in the oil and gas sector, having worked for the BP Group for 23 years in a range of petroleum engineering, development, commercial and senior management roles in the UK, Australia and USA, before joining Oil Search in 2006. Mr Bainbridge was at Oil Search for 6 years where he held a series of senior executive roles, including Chief Operating Officer responsible for the safety, operational and financial performance of all company assets in PNG and overseas, Executive General Manager LNG, with responsibility for all aspects of Oil Search's interests in the US\$19 billion PNG LNG project, and Executive General Manager Growth.

Mr Bainbridge is Chair of the Board's People and Remuneration Committee and is a member of the Board's Technical and Nomination Committees.

Mr Bainbridge is also a member of the Board of the PNG Sustainable Development Programme and Chairman and non-executive director of ASX-listed Sino Gas & Energy Holdings Ltd.

DIRECTORS' REPORT

Teik Seng "TS" Cheah BSc, FCA, Age: 61
Independent Non-executive Director

Mr Cheah was appointed to the Drillsearch Board in September 2013.

Mr Cheah is an experienced finance and banking professional with more than 25 years' experience in the financial services industry in Asia and the UK. He is currently the Chief Executive Officer and a Director of Aktis Capital Singapore Pte Ltd, a private equity fund manager. Mr Cheah also previously held senior management positions at a number of leading investment banks including Chase Manhattan Bank, Merrill Lynch, Goldman Sachs, UBS and BNP Paribas in Malaysia, Singapore, Hong Kong and London.

Mr Cheah is a member of the Board's Nomination Committee.

Mr Cheah is also a Non-executive director of MJC Investments Corp, Malayan Banking Berhad and Maybank Kim Eng Securities (Thailand) Plc, listed in the Philippines, Bursa Malaysia and Thailand, respectively.

Fiona Robertson MA (Geology), FAICD, MAusIMM, Age: 59
Independent Non-executive Director

Ms Robertson was appointed to the Drillsearch Board in October 2009.

Ms Robertson is an experienced finance professional and Non-executive director with a background of nearly 20 years as a chief financial officer in the emerging and mid-tier resources sector and 14 years as a corporate banker working in Sydney, New York and London. Her past executive roles have included CFO for Petsec Energy Ltd, Climax Mining Ltd and Delta Gold Ltd, and roles in corporate banking with Chase Manhattan Bank.

Ms Robertson is Chair of the Board's Audit and Risk Committee and member of the Board's People and Remuneration Committee.

Ms Robertson is also the Chair of One Asia Resources Limited and a Non-executive Director of ASX-listed Heron Resources Limited, and a National Committee Member and Chair for NSW of AusIMM-Supported Women in Mining Network (WIMnet).

Ross Wecker BSc (Met and Geol), Age: 68
Independent Non-executive Director

Mr Wecker was appointed to the Drillsearch Board in October 2009.

Mr Wecker is an experienced geologist with more than 35 years' experience in the oil and gas industry. He has extensive experience in oil and gas exploration and development in the Cooper and Eromanga Basins, gained in past roles as Managing Director of Innamincka Petroleum Limited, directing an exploration team for Delhi Petroleum Pty Ltd and Esso Australia Limited in both the South Australian and Queensland areas of the Cooper Eromanga basin, and providing specialist technical advice to a number of Australian and American companies regarding the acquisition and management of exploration acreage in the Cooper and Eromanga Basins.

Mr Wecker is the Chair of the Board's Technical Committee and member of the Board's Audit and Risk Committee.

Brad Lingo BA (hons), Juris Doctorate, Age: 54
Former Managing Director

Mr Lingo joined the Board as a Non-executive Director in May 2009 and was appointed Managing Director in June 2009.

Mr Lingo has more than 25 years of experience in the oil and gas industry gained in senior management and consulting roles in listed and private companies located in Australia and overseas. Mr Lingo's experience includes oil and gas project development, mergers and acquisitions, financing and equity capital markets.

During the reporting period, Mr Lingo was a member of the Board's Nomination and Technical Committees.

Mr Lingo ceased as Managing Director on 3 July 2015.

During the past three years, Mr Lingo also held directorships of ASX-listed Acer Energy Ltd and Ambassador Oil & Gas Limited. Mr Lingo was appointed as a director of these companies during the acquisition of those companies by Drillsearch with each being delisted following acquisition.

Company Secretary

Clifford Tuck LLB (hons), BScApp, Age: 39

Mr Tuck joined Drillsearch as General Counsel in August 2014 and was appointed Company Secretary in February 2015.

Mr Tuck is an experienced corporate, transactional and resources lawyer. Prior to joining Drillsearch, Mr Tuck was with Newcrest Mining Limited where he held a number of in-house legal roles, including Deputy General Counsel and a period as Acting General Counsel. Prior to joining Newcrest, Mr Tuck was with leading Australian law firm Allens Arthur Robinson (later, Allens) practising in the areas of corporate and resources law, with a focus on corporate transactions and joint ventures in the resources sector.

During the reporting period, the following persons also held the position of Company Secretary of Drillsearch:

Ian Bucknell BBus, CPA, Age: 45

Mr Bucknell joined Drillsearch as Chief Financial Officer and Company Secretary in August 2008, following Drillsearch's merger with Great Artesian Oil & Gas Limited.

Mr Bucknell has more than 15 years of experience in finance and accounting in the oil and gas industry, including a series of finance management and reporting roles at Oil Search Limited. Mr Bucknell joined Great Artesian Oil & Gas Limited in 2007.

Mr Bucknell was Company Secretary of Drillsearch between August 2008 and November 2010 and again from July 2011. Mr Bucknell ceased as Company Secretary in February 2015.

Jean Moore Juris Doctorate, Grad Dip ACG, Age: 40

Ms Moore joined Drillsearch as Assistant Company Secretary in November 2009 and was appointed Company Secretary in November 2010.

Ms Moore has more than 13 years of experience in corporate law, governance and secretariat matters, including as a private practice lawyer at firms in Canada and Australia and a number of years with Qantas Limited.

Ms Moore ceased as Company Secretary in March 2015.

Directors' shareholdings

The following table sets out each Director's relevant interest in shares, options in shares and performance rights of the Company or a related body corporate as at the date of this report.

Directors	Fully paid ordinary shares (number)	Share options (number)	Performance rights (number)
Mr J.D. McKerlie	2,239,894	923,227	–
Mr B. W. Lingo	–	–	1,815,895
Mr P. J. Bainbridge	54,600	–	–
Mr T.S. Cheah	340,000	–	–
Mrs F.A. Robertson	692,950	461,613	–
Mr H.R.B. Wecker	447,343	461,613	–

Remuneration of key management personnel

Information about the remuneration of key management personnel, including details regarding performance rights held, is set out in the Remuneration Report of this Directors' Report, on pages 61 to 72.

Share options granted to key management personnel

During and since the end of the financial year no share options were issued.

DIRECTORS' REPORT

Meetings of Directors

The following table sets out the number of meetings of the Board of Directors and each of the established Board Committees held during the reporting period, as well as the attendance at those meetings of each of the Directors.

Director	Board of Directors Meetings	BOARD COMMITTEE MEETINGS			
		Audit and Risk	People and Remuneration	Nomination	Technical
Jim McKerlie	13/13	7/7	3/3	2/2	4/4
Philip Bainbridge	13/13	7/7 ¹	3/3	1/2 ¹	4/4
Teik Seng Cheah	13/13	1/7 ¹	1/3 ¹	2/2	2/4 ¹
Fiona Robertson	13/13	7/7	3/3	1/2 ¹	3/4 ¹
Ross Wecker	13/13	7/7	2/3 ¹	1/2 ¹	4/4
Bradley Lingo	13/13	7/7 ¹	3/3 ¹	1/2	3/4

¹ Attendance at Board Committee meeting as non-committee member and invitee.

Legal matters

During the reporting period, the members of the Group were not party to legal proceedings of a material nature. The Company is aware of actual or threatened claims involving Group Companies. In respect of such matters, the Company considers that the claims are either not material, or are not adequately substantiated or are at such a point that it is not reasonably practicable to assess the merits of a relevant claim and/or the Company's potential liability.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

There has been no provisions of non-audit services during the year by the auditor (or by another person or firm on the auditor's behalf).

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. Consistent with Class Order 98/100, amounts in the Directors' report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Financial and Operating Performance

Overview

Following a landmark year in FY2014, in which the Company delivered record results for production, revenue and earnings per share, Drillsearch embarked on its largest ever work program in FY2015, planned to include up to 42 wells across our Cooper Basin assets.

FY2015 proved to be a challenging year for the oil and gas industry globally with oil prices declining from approximately US\$112 per barrel at 30 June 2014 to a six-year low of approximately US\$46 per barrel in January 2015 and, after some recovery in prices in the second half, ending the year at approximately US\$63 per barrel. Like others in the sector, Drillsearch was impacted by the external market conditions, with lower oil prices leading to lower revenue, operating cash flow and profit for the year.

Despite the challenges presented by external conditions, FY2015 was a strong year for the Company, with a number of important achievements:

- Total production of 3 mmbbl, down 11% from FY2014, with continuing strong performance from the prolific Bauer oilfield offset by slower than planned progress with well connections;
- A total of 41 wells drilled, with a drilling success rate of 74% across exploration, development and appraisal in our Oil and Wet Gas Businesses;
- 12 new discoveries across our oil and gas assets;
- Average daily oil production of 7,325 barrels per day, maintaining our position as the third largest producer of Australian onshore oil;
- Completion of the takeover of Ambassador Oil & Gas Limited, adding its 47.5% interest in the PEL570 unconventional oil and gas permit to our portfolio; and
- Entering into a farm-in arrangement with Beach Energy whereby Beach has the option to earn a 45% interest in the Company's ATP924 permit in the Inland Cook Oil Fairway.

As outlined at the half-year, in the context of the decline in global oil prices and continuing volatility, the Company undertook a comprehensive review of the business and priorities. As a result of that review, the Company took decisive action to respond to the challenges of the external environment, including:

- Reducing the size of our workforce by approximately 33%, involving reductions at every level of the Company including the executive;
- Placing the Flax producing asset, brought back on-line late in the first half, into care and maintenance; and
- Substituting the planned five-well exploration campaign in the Northern Cooper Wet Gas joint venture with Midcontinent for four additional oil development wells and a gas exploration well in the Western Flank, all of which were successful.

These actions, though difficult, were necessary to respond to external conditions and maintain our platform for growth.

As set out later in this report, the comprehensive review also resulted in the setting of strategic priorities for the near-to-medium term and informed our approach to budgeting and planning for FY2016 and beyond.

In the context of the falling oil price during the year, the Company took an active approach to oil hedging. The oil hedge program contributed \$20.6 million in hedge gains (gross) during the year ended 30 June 2015, in addition to providing significant downside price protection in relation to future periods, as detailed at Note 32 to the financial statements.

DIRECTORS' REPORT

The following table provides a summary of key financial and operating metrics for FY2015.

Financial performance	30 June 2015 \$'000	30 June 2014 \$'000	
Revenue	250,580	387,020	
EBITDAX ^{2,3}	152,803	231,981	
Exploration and evaluation costs expensed/written off ¹	(57,639)	(44,407)	
Impairment of oil and gas assets	(51,893)	(218)	
	11,745	(95,220)	
Income tax benefit/(expense) ¹			
Net (Loss)/Profit After Tax ¹	(8,076)	41,922	
Underlying Net Profit After Tax ^{1,3}	57,829	58,476	
E&E ⁴ and O&G ⁵ expenditure	142,011	95,654	
Operating cash inflow ¹	84,407	226,552	
Net cash flow ⁶	(20,898)	116,323	
Production (by product type)	Unit		
Oil	kbbbl	2,673.5	2,917.5
Wet Gas	kboe	327.4	466.6
Total oil and gas	kboe	3,000.9	3,384.1
Average realised oil price ⁷	\$/bbl	97.2	125.5
Average realised gas and gas liquids price	\$/boe	34.6	45.2
Average total operating costs ⁸ – Oil	\$/boe	31.1	34.4
Average total operating costs ⁸ –Wet Gas	\$/boe	15.3	16.0
AUD:USD closing exchange rate	AUD/USD	0.77	0.94

1 Comparative information has been restated to show the effect of the change in accounting policy and correction to prior period classification.

2 EBITDAX refers to Earnings before interest income and finance costs, tax, depreciation and amortisation, exploration and evaluation costs, and impairments.

3 Underlying Net Profit/(Loss) After Tax and EBITDAX are Non-IFRS accounting financial information used by the Company to provide an understanding of the underlying performance of the business. Underlying Profit/(Loss) excludes the impacts of asset acquisitions, disposals 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 report 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 report. A reconciliation of Underlying Profit/(Loss) to Net Profit/(Loss) is set out on page 14 of this report. A reconciliation to EBITDAX to Net Profit / (Loss) is set out in note 6(c)(iv) to the financial statements.

4 E&E refers to Exploration and Evaluation.

5 O&G refers to Oil and Gas.

6 Net cash flow refers to net increase / decrease in cash and cash equivalents in the consolidated statement of cash flows.

7 Average realised oil price includes realised oil price hedge gains of \$7.7/bbl for FY2015. Gross proceeds of hedge benefits are recognised with net gain on derivatives in the consolidated statement of profit or loss and other comprehensive income.

8 Calculated as direct operating expense for the year divided by production for the year.

Revenue of \$250.6 million for FY2015 was 35% down on the prior year, with realised Australian dollar oil prices falling from an average \$125.50 per barrel in FY2014 to \$89.50 per barrel in FY2015 (excluding hedge gains), and lower production of 3.0 mmbbl, down 11% from FY2014.

Gross Profit of \$101.0 million was 58% lower than financial year 2014 primarily due to lower revenue, offset by a modest decrease in the cost of sales year on year. Cost of goods sold was largely flat year on year, however direct operating expense for the year ended 30 June 2015 was down 16% on the prior year, primarily due to lower royalties as a result of decreased unit prices. Higher amortisation and depletion charges in FY2015 have resulted from increased costs of development across the full life of the assets.

The Company changed its accounting policy for E&E expenditure in financial year 2015. The new policy adopts the “successful efforts” method of accounting whereby exploration and evaluation expenditure in relation to unsuccessful wells and directly attributable costs such as general administration costs, geological and geophysical costs, seismic and pre-licence expenditure, is immediately expensed. An exploration well is considered to be unsuccessful if no recoverable hydrocarbons are identified, or the company considers that the hydrocarbons are not commercially viable.

The impact of the change in accounting policy was twofold: a \$57.6 million write off to the consolidated statement of profit and loss, together with a reduction in prior period E&E assets of \$141.1 million. As noted earlier in this report, prior period balances have been restated in the comprehensive statement of financial position.

The Company reported a Net Loss After Tax of \$8.1 million. The result includes a non-cash write off of exploration and evaluation expenditure of \$57.6 million and a non-cash asset impairment of \$51.9 million of which \$44.3 million was taken at the half year.

Underlying NPAT for the period was \$57.8 million down 1% from an Underlying NPAT of \$58.5m in the prior period. The following table provides a reconciliation of underlying NPAT from NPAT:

	30 June 2015 \$'000	30 June 2014 \$'000
Net (Loss)/Profit After Tax (NPAT)	(8,076)	41,922
Net gain / (loss) on derivatives	3,097	1,760
Change in fair value of convertible notes	8,681	23,035
Impairment of oil and gas assets	51,893	218
Derecognition of prior year tax losses	12,000	–
Tax impact of above changes	(9,766)	(8,459)
Underlying NPAT	57,829	58,476

Financial Position

The Company undertook a semi-annual assessment of O&G and E&E assets at 31 December 2014 in the context of the rapid decline of oil price during the preceding six months and ongoing oil price volatility. This resulted in impairments relating principally to the Company's interests in the producing Eastern Margin/Tintaburra oil assets (ATP 299). A similar review has been taken at the full year with an additional impairment taken in relation to the Flax facility which was suspended during the second half of the year. At 30 June 2015 the 2P reserves for Flax were classified 2C resources resulting in the impairment of \$7.5 million.

The net assets of Drillsearch increased to \$297.3 million as at 30 June 2015, from \$264.6 million (restated) at 30 June 2014, due primarily to the acquisition of Ambassador Oil & Gas Limited, which was funded through a combination of the issue of new Drillsearch shares and cash.

Changes to assets also includes a reclassification of certain E&E expenditure from O&G assets to E&E assets. See note 5 of the financial statements for further information.

E&E and O&G expenditure for the full year of \$142.3 million represented a record level of activity and expenditure for the company and was a substantial increase over expenditures in financial year 2014. The additional activity was focused on exploration, appraisal and development, with drilling activity across the Oil, Wet Gas and Unconventional businesses.

The Company's cash balance as at 30 June 2015 remains strong at \$131.5 million (2014: \$152.4 million), with a robust liquidity position of \$171.5 million as at 30 June 2015, including the fully undrawn \$40 million working capital facility.

The convertible bond 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. The net movement in the current year was a loss of \$8.7 million loss as detailed in note 23 to the financial statements.

Cashflow

Operating cash flow of \$84.4 million (2014: \$226.6 million) reflected the oil price decline and lower production volumes during the year.

DIRECTORS' REPORT

Review of operations

The table below details Drillsearch's key assets, by Business Unit:

Business Unit	Joint Venture Partner(s)	Operator	Drillsearch Interest
Oil Business			
– Western Flank (formerly PEL 91)	Beach	Beach	60%
– Eastern Margin/Tintaburra	Santos	Santos	40%
– Western Flank (PEL 182)	Senex	Senex	43%
– Inland-Cook (ATP 924)	Beach	Drillsearch	100% ¹
– Northern Cooper – Flax	–	Drillsearch	100%
Wet Gas Business			
– Western Wet Gas (Brownlow-Middleton)	Beach	Beach	50%
– Western Wet Gas	Santos	Santos	40%
– Northern Cooper (Vanessa-1 discovery)	Senex	Senex	43%
– Northern Cooper (formerly PEL 101)	Mid-Continent	Drillsearch	80%
Unconventional Business			
– Central Unconventional Project (ATP 940)	QGC	Drillsearch	40%
– Northern Cooper – PEL 570	Santos, Sundance	Santos	47.5%

¹ Beach Energy farming in to earn 45%.

During the year ended 30 June 2015, Drillsearch's share of production from its projects in the Cooper Basin was 3.0 mmbœ, down 11% from the prior period (3.4 mmbœ) as a result of delays in facilities and well connections.

FY2015 production was driven by another strong performance from the Western Flank oil joint venture with Beach, with a number of new Bauer wells coming online during the year. Western Flank output was complemented by oil production from the Eastern Margin/Tintaburra joint venture, wet gas production from the Western Wet Gas joint venture with Beach, and oil production from the Flax facility in the Northern Cooper.

In FY2015 the Company executed its largest ever work program comprising 41 wells in total, as well as an expansion of facilities in the Western Flank oil assets. For the year, the Company's drilling program delivered 12 new oil and gas discoveries, for an overall drilling success rate of 74% in our conventional oil and gas drilling program.

Oil Business

Production

The Oil Business contributed 2.7 mmbœ of production, the majority of which came from the Western Flank.

Average daily production from the Western Flank during the June quarter was 12,356 bbls/d (gross) following the connection of Bauer wells 16 to 19 drilled earlier in the year. As of 30 June 2015, of 43 successful wells on the Western Flank, 25 were either in production or able to produce by the end of the financial year, with an additional ten wells completed and awaiting facilities or connection.

In the Northern Cooper Gas and Liquids project area, the recertification of the Flax surface facilities was completed in mid-December allowing Flax to be brought back into production. Following the Operational Review conducted early in the second half of FY2015, the decision was taken to suspend operations at Flax following the decline in oil prices. Subsequently, Flax has been put into care and maintenance.

Exploration, Appraisal and Development

The FY2015 work program on the Western Flank saw 19 wells drilled in total – five exploration, four appraisal and ten development. The program delivered three new oil discoveries at Balgowan, Burners and Stanleys, two successful appraisal wells at Hanson and Pennington, and ten successful development wells at Bauer.

An additional ~500 square-kilometres of 3D seismic was acquired over the Western Flank joint venture area, merging the boundaries of three older surveys. More than 78% of the area is now covered by 3D seismic.

Also on the Western Flank, the PEL 182 joint venture with Senex acquired the ~300 square-kilometre Jasmine 3D seismic survey during March and April 2015, covering the western area of the block. The data is being processed with delivery expected in the first half of FY2016.

In ATP 924 on the Inland-Cook Oil Fairway, ~275 square-kilometres of 3D seismic was acquired through the Taj and Hurron surveys, with an additional 353 line kilometres of 2D acquired through the George survey. These surveys have been processed and interpretation has enabled Drillsearch to de-risk and high-grade multiple prospects originally identified on vintage 2D seismic.

In neighbouring PRL 17 in the Northern Cooper, the Juniper-3 well was drilled as an aggressive step-out appraisal well and the first well in the block to be drilled on 3D seismic. Juniper-3 encountered pay intervals in the lower Patchawarra Formation and was cased and suspended for future testing and hydraulic stimulation.

Facilities

The Bauer Central Processing Facility on the Western Flank was expanded to capacity of a 75,000 bbls of total fluids per day, with plans for a further increase under consideration.

Facilities were installed and commissioned at the Kalladeina, Congony and Sceale (KCS) fields as well as Stunsail, with the facility at Pennington expected to be completed early in FY2016. A pipeline connecting the Balgowan and Stunsail fields to the Bauer Central Processing Facility was built in FY2015 with testing and commissioning expected early in FY2016.

Transaction

In July 2014, Drillsearch signed a farm-in agreement with Beach Energy whereby Beach agreed to farm-in to ATP 924. Under the first phase of the agreement, Beach have reimbursed Drillsearch for the cost of 150 square kilometres of recently acquired 3D seismic, and free carry Drillsearch for an initial exploration well on the Hurron Prospect. Under the second phase, if Beach elects to proceed, Beach will free carry Drillsearch for a second exploration well and reimburse Drillsearch for past costs in order to earn a 45% interest.

Wet Gas Business

Production

FY2015 production from the Western Wet Gas joint venture with Beach (Drillsearch 50%; Beach 50% and Operator) was 0.33 mmboe, 30% lower than FY2014 production of 0.47 mmboe. Production fell following the shut-in of the Canunda well as the joint venture progresses the installation of compression at Brownlow-Middleton.

Exploration, Appraisal and Development

The Western Wet Gas joint venture with Beach drilled a total of six wells during FY2015 with two new wet gas discoveries at Maupertuis-1 (Drillsearch elected to sole risk casing and suspension of the well) and Ralgnal-1, and a successful appraisal well at the Canunda field.

In the Northern Cooper Gas and Liquids project area, the PEL 182 joint venture with Senex conducted a successful production test on the Vanessa-1 well. During the test, gas flowed to surface and condensate was also produced.

The Western Wet Gas joint venture with Santos drilled eight wells during the year with seven new wet gas discoveries. Drillsearch was fully carried throughout the campaign under the terms of Santos' farm-in agreement.

The joint venture completed the acquisition of the 329 square-kilometre Jacenza 3D seismic survey in PEL 513 with interpretation to be used to identify drilling candidates for FY2016.

Unconventional Business

Exploration and Appraisal

The Central Unconventional project area is focused on the ATP 940 joint venture with QGC (Drillsearch 40% and Operator; QGC 60%).

During FY2015, three deep wells were drilled to total depth – Anakin-1, Padme-1 and Amidala-1, with Charal-1 drilled to total depth during the previous financial year.

Two wells, Charal-1 and Anakin-1, were hydraulically stimulated and tested across the Roseneath, Epsilon and Murteree Formations and the Patchawarra Formation. Charal-1 recorded a peak flow rate of 0.95 mmscf/d, while Anakin-1 recorded a peak flow rate of 1.05 mmscf/d. Both wells are shut in to monitor pressure build-up.

Acquisition of Ambassador Oil & Gas

Drillsearch successfully completed the acquisition of Ambassador Oil & Gas Limited (Ambassador) in October 2014, giving the company a 47.5% interest in the PEL 570 joint venture in the Northern Cooper. Ambassador is now a wholly-owned subsidiary of Drillsearch.

DIRECTORS' REPORT

Business Strategy, Outlook and Risk

Vision and Strategy

Our vision is to build Australia's leading independent oil and gas company through:

- Providing a safe environment, focused on sustainability and continuous improvement;
- Delivering sustained growth in shareholder value; and
- Being a partner and employer of choice, well regarded by the communities in which we operate and our peers.

To achieve our vision, we seek balanced exposure to all parts of the upstream E&P value chain – from prospect identification, through exploration, development and appraisal, production and sales – with a target joint venture participating interest of 40-60%.

Our business model centres on three business units – Oil; Wet Gas (gas and liquids); and Unconventional. The strategic drivers of each business unit, our progress and our objectives are set out in the table below.

Business Unit	Drivers	Status	Objectives
Oil	Near-term cash flow generator	In FY2015, we maintained our position as Australia's third-largest onshore oil producer	<ul style="list-style-type: none">• Maintain and grow production while replacing reserves
Wet Gas	Medium-term growth engine	Producing from the Western Wet Gas area with a pipeline of undeveloped gas discoveries	<ul style="list-style-type: none">• Grow reserves and production• Commercialise new and existing discoveries
Unconventional	Longer-term growth platform	Extensive unconventional exposure in our Cooper acreage, including unconventional potential associated with our existing conventional assets	<ul style="list-style-type: none">• Optimise spend to deliver value drivers in the pursuit of commercialisation

For the past six years, our strategy has included a singular focus on the Cooper and Eromanga Basins. That focus, and the substantial oil and gas business that we have built through it, has provided Drillsearch with the platform to consider our next phase of growth. Focus remains a critical part of our strategy.

The Cooper Business is an integral part of our next growth phase, with our existing assets expected to generate considerable growth over the next five years as outlined further below.

In assessing new growth opportunities, the Company will take a considered and disciplined approach. When considering new growth opportunities, whether in the Cooper or elsewhere, the Company will apply the approach which we successfully deployed and forged through our business in the Cooper:

- Technically driven – apply our proven technical skills to identify opportunities, employing innovation and science
- Focused portfolio approach – look to establish high-quality acreage position with balanced exposure across conventional plays
- Leveraging partnerships – partner where appropriate with experienced low cost operators and access to infrastructure
- Capital discipline – focus on shareholder value and return on investment, prioritising production, cash flow and reserves
- Commercial acumen – target fast monetisation opportunities in locations with a supportive fiscal regime

The outlook for the oil and gas industry remains challenging in the near-to-medium term with volatile market conditions expected to continue and moderate recovery in oil prices over the coming two-to-three years.

As stated earlier in this report, following the rapid decline in oil prices in the first half of FY2015 the Company undertook a comprehensive review of our business and priorities with the objective of reducing the Company's operating and corporate cost base to preserve liquidity while maintaining a platform for growth.

Through the review, we confirmed our strategy as a growth-focused oil and gas company and set priorities for the near-to-medium term:

- Investment to be prioritised to production, cash-flow generation and reserves replacement;
- Conventional oil and gas activity prioritised over unconventional; and
- Capital expenditure to be matched to anticipated net operating cash flow.

These priorities have informed our planning and budgeting processes. These priorities have also seen the Company take the prudent decision to commence a process for the potential sale of our interests in the Eastern Margin joint venture with Santos and to review our forward commitments in our ATP 940 Unconventional joint venture.

Outlook

Five-year targets

The Company continues to expect material growth from its existing assets in the Cooper. Following the decline in the oil price in FY2015, and in the light of continuing volatility and the Company's stated priorities, 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, the Company expects to grow its Cooper Business by approximately 50% (in barrels of oil equivalent ('boe') production terms) over the coming five-year period, with scope for additional growth with upside exploration outcomes, or if market conditions improve more quickly. A number of exciting growth options remain which may deliver additional growth, but which have been de-prioritised in the near-to-medium term and are not included in the five-year growth target.

Where the Company has excess capital, as a result of improved market conditions or performance above plan, we will critically assess the best way to deploy that capital to deliver shareholder value; whether that be through reinvestment, new investment or returning capital to shareholders.

FY2016

Production

Record activity in FY2015 has provided a significant platform for production in FY2016 and beyond.

In FY2016, the Company expects to produce 2.8-3.2 mmboe¹, with the Oil Business contributing approximately 85% and Wet Gas contributing approximately 15% (gas and liquids).

Production is expected to continue to be underpinned by the Bauer field in our Western Flank Oil joint venture with Beach, supported by increasing contribution from other fields in that joint venture.

Production from our Wet Gas assets is expected to increase year-on-year, with continuing production from the Western Wet Gas joint venture with Beach supplemented by new tie-ins within that joint venture, as well as new production from our joint ventures with Santos (Western Wet Gas) and Senex (Northern Cooper) contributing progressively from the middle of the financial year.

The commencement of production from new areas in our Wet Gas Business in FY2016 is an important milestone for Drillsearch, demonstrating the commercialisation of our past exploration success and advancing our Wet Gas Business strategic objectives.

Activity

The work program for FY2016 is expected to include up to 22 wells, along with testing and tie-in of new oil and gas discoveries in our joint ventures with Beach (Western Flank Oil Fairway; Western Wet Gas), Santos (Western Wet Gas) and Senex (Northern Cooper) and continuing investment in facilities.

Capital expenditure in FY2016 is expected to be in the range \$80 million-\$110 million. In addition, the Company continues to enjoy the benefit of free-carries in the Western Wet Gas joint venture with Santos, in ATP 924 where Beach has an option to farm-in, and in the PEL 570 Unconventional joint venture.

Exploration

In exploration, the Company plans to drill up to 15 wells across its acreage, including the first well in the PEL570 joint venture (Drillsearch, 47.5%) and the first well at ATP924.

Exploration activity for FY2016 is also planned to include:

- One exploration well in the Western Flank Oil joint venture with Beach, as well as up to three exploration wells on the Western Flank Oil Fairway with Senex;
- Two exploration wells in the Northern Cooper Gas and Liquids joint venture with Mid-Continent, focused on gas targets located in reasonable proximity to existing transportation infrastructure;
- Two exploration wells in the Western Wet Gas joint venture with Beach; and
- Up to five exploration/appraisal wells in our Western Wet Gas joint venture with Santos.

¹ The Company's production guidance for FY2016 is not affected by the potential sale of the Company's interests in the Eastern Margin joint venture with Santos.

DIRECTORS' REPORT

Development

The Company has an active development and appraisal campaign in FY2016 with a particular focus on the testing and tie-in of a number of the new oil and gas discoveries made in FY2015.

Development and appraisal activity planned for FY2016 includes:

- In the Western Flank Oil Fairway joint venture with Beach, six appraisal and development wells, as well as completion and tie-in of cased and suspended wells and facilities development;
- In the Western Wet Gas joint venture with Beach, progress towards the installation of compression at Brownlow-Middleton, as well as testing and connecting additional wells to the Brownlow-Middleton facility; and
- Testing and tie-in of a number of new and existing discoveries by the Western Wet Gas joint venture with Santos.

Material Business Risks

The Company operates a risk management framework to identify material business risks and opportunities. Details of material business risks identified by the Company, along with details of mitigating factors and management action undertaken to manage the potential impact of identified risks, is set out below. The risks outlined below are not exhaustive and are not necessarily listed in order of significance. Rather, the table sets out those risks which the Company has identified as most significant on an enterprise or 'whole of Group' basis.

Material Business Risk

Mitigating Factors and Management Action

Commodity prices: The Company's financial performance and results are heavily influenced by the market price for oil with more than 85% of the Company's revenue in FY16 expected to be derived from oil production. The price of oil is variable and can be volatile, and may be impacted by global economic conditions and other factors which are beyond the Company's control.

Oil is priced in US dollar terms, whereas the Company's costs and Bank facilities are in Australian dollars. As a result, deterioration in the AUD:USD exchange rate may partly mitigate the impact of US dollar oil price volatility.

During FY2015, the Company implemented an active oil hedging strategy to provide the Company with a measure of protection against downside oil price volatility. As at the date of this report, the Company has 1.6 million barrels of oil hedged at a floor price of at least \$US60 per barrel of oil for delivery in FY2016/2017. The Company's wet gas production also provides partial mitigation against oil price volatility with gas sales prices not directly linked to global oil prices and denominated in Australian dollars. (Note, gas liquids pricing has an indirect link to global oil prices.)

Reliance on third party infrastructure: Drillsearch relies on access to third party infrastructure, principally in the form of oil and gas pipelines and processing infrastructure, to transport the majority of the Company's share of production volumes for sales purposes. A failure to maintain access to such infrastructure, or to maintain access on commercially acceptable terms, will impact upon the Company's ability to realise revenue from its production. Drillsearch has established arrangements for the transportation of its production to buyers. There can be no guarantee that the Company will be able to maintain access to relevant infrastructure, or to maintain access on commercial terms which are acceptable to the Company.

Drillsearch manages risks associated with transportation of production through a combination of:

- (1) seeking to have long term transportation arrangements in place;
- (2) electing to have the point of sale for production as close as practicable to the producing well;
- (3) established joint venture relationships with parties directly interested in critical infrastructure.

Non-operated joint ventures: The vast majority of Drillsearch's production volumes are derived from joint venture activities which are operated by the Company's joint venture partners. As the non-operator joint venture party for relevant production and associated field activities, Drillsearch does not control, and has limited capacity to directly influence, day-to-day activities.

Drillsearch seeks to actively engage with its joint venture partners in relation to activities not operated by Drillsearch. This engagement commences with the consideration of proposed work programs and budgets and continues through monitoring of joint venture activity and reporting and regular engagement with joint venture representatives. In FY2016, Drillsearch will continue its focus on maintaining strong relationships with its joint venture partners.

Material Business Risk

Joint venture relations: The majority of Drillsearch's oil and gas interests are held through unincorporated joint ventures. With some exceptions, material activity and expenditure for joint venture activities requires the approval of the joint venture participants (subject to, and in accordance with, the relevant terms of the joint venture arrangements), including in circumstances where joint venture parties may have incompatible commercial, financial and other objectives. Similarly, undertaking business through unincorporated joint ventures, which is common in the oil and gas industry, exposes the Company to risks where its joint venture partners fail to contribute their share of capital and operating expenditure.

Exploration and Reserves: Drillsearch's future operating performance and financial results will be heavily influenced by Drillsearch's ability to replace oil and gas reserves depleted through production, and to identify, evaluate and access new reserves of oil and gas. Exploration activity is a high risk endeavour which is subject to geological and technical uncertainties and the failure to replace reserves produced is a risk inherent in the upstream oil and gas industry.

The estimation of oil and gas reserves and resources contains significant uncertainties associated with hydrocarbon reservoir geology, seismic and well data and other factors including commodity prices, recovery factor assumptions and development and operating costs assumptions. There can be no guarantee that Drillsearch will successfully produce the volume of hydrocarbons estimated to be contained in the Company's hydrocarbon reserves, or that hydrocarbon resources will be successfully converted to reserves.

Performance of material assets: In the nearer term, the Company's operating performance and financial results are heavily influenced by the performance of a small number of producing assets, principally the performance of the Bauer oil field held in the Western Flank Oil Fairway joint venture with Beach Energy Limited. Underperformance of these assets will impact the Group's revenue and the net operating cash flow generated by the Group and planned to be applied to exploration and development activities to support the future operating and financial prospects of the Group.

Regulatory framework: Drillsearch's business is subject to extensive regulation at the State and Commonwealth level, including laws and regulation relating to health, safety and the environment, and laws governing Drillsearch as an Australian listed company and taxation. The regulatory framework as it applies to our business activities may be subject to change which, in turn, may impact upon our business, the results from our operations or our financial performance.

Mitigating Factors and Management Action

Drillsearch seeks to actively engage with its joint venture partners on an ongoing basis to seek alignment regarding joint venture objectives. Joint venture arrangements also typically include mechanisms by which a failure to reach agreement regarding joint venture activities and expenditure may be resolved, including 'sole risk' activities, along with terms which deal with default in payment of joint venture costs.

Drillsearch seeks to manage exploration risk via a combination of strategies embedded in our technical processes, including the use of 3D seismic data to identify exploration prospects and leads, and to identify future well locations, conservative internal gating criteria for exploration investment decisions and internal peer review of exploration assumptions. For budgeting and planning purposes, conservative assumptions regarding the probability of exploration success are applied to seek to bias exploration risk to the upside.

The Company also engages independent experts in the field of reserve and resource estimation to independently review the Company's annual reserves and resources estimates.

The continuing performance of the Bauer field is significant to both joint venture partners. In FY2015, the joint venture completed a significant development campaign, including 10 development wells and an increase in fluid handling capacity to provide the joint venture with greater optionality to manage and maintain production performance. In addition, the development of other fields within the joint venture permit area is expected to provide additional production sources to at least partly offset performance decline in the Bauer field. In FY2016 Drillsearch plans to complete and connect a number of new production sources, principally in our Wet Gas assets, which will provide additional partial mitigation against reliance. Beyond FY2016, the planned growth in our Cooper assets over the next years is expected to progressively reduce the Group's sensitivity to the performance of any one production site.

Drillsearch actively monitors government policy and proposed reforms and/or changes to the regulatory framework within which we conduct our business. Drillsearch also engages appropriately with governments and industry bodies regarding regulatory changes.

Unreasonable prejudice

This financial and operating review for the Group for the 12 months ended 30 June 2015 omits certain information in relation to our business strategy, internal budgets and plans, future prospects and likely developments in our business, insurance arrangements, and the expected results in future financial years. This information has been omitted pursuant to sections 299(3) and 299A(3) of the Corporations Act 2001 (Cth), on the basis that such information, if disclosed, would be likely to result in unreasonable prejudice to the Group – for example, because relevant information is commercially sensitive, is premature and/or relates to incomplete matters, is confidential or could give rise to a commercial advantage to one or more third parties.

DIRECTORS' REPORT

Forward looking statements

This report 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 judgements 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 in this report, 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 report 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.

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 73.

REMUNERATION REPORT

This Remuneration Report describes the Group's remuneration framework and remuneration information for Drillsearch's Key Management Personnel for the 12 months ended 30 June 2015. This report has been prepared in accordance with the requirements of the *Corporations Act 2001* and the *Corporations Regulations 2001*. This report has been audited pursuant to section 308(3C) of the *Corporations Act 2001*.

Contents:

1. Key Management Personnel disclosed in Report
2. Remuneration governance
3. Material changes to remuneration framework in FY2016
4. Remuneration strategy and framework
5. Company performance metrics
6. Performance-based remuneration outcomes for FY2015
7. Material terms of employment for Senior Executives
8. Remuneration for Non-executive Directors
9. Remuneration tables

1. Key Management Personnel disclosed in Report

The specific remuneration details included in this report relate to Key Management Personnel, comprising Drillsearch Non-executive Directors and Senior Executives during the reporting period, as set out in Table 1.

As outlined in the Directors' Report, during FY2015 the Company undertook a comprehensive review of the business and priorities. Actions taken as a result of that review included changes to our Senior Executive team involving a reallocation of executive responsibilities and a reduction in the Senior Executive team. Subsequent to that review, and in the context of ongoing market volatility, the Board determined that there would be no increases in salaries across the Company, including for Senior Executives, in the annual performance and salary review process other than in the case of promotions or material changes in role.

Table 1 – FY2015 Key Management Personnel

Name	Position	Term as KMP
Non-executive Directors		
Mr J D McKelvie	Non-executive Director, Chairman	Full period
Mr P J Bainbridge	Non-executive Director	Full period
Mr T S Cheah	Non-executive Director	Full period
Mrs F A Robertson	Non-executive Director	Full period
Mr H R B Wecker	Non-executive Director	Full period
Senior Executive KMPs as at 30 June 2015		
Mr B W Lingo	Managing Director ¹	Full period
Mr W A F Simpson	Chief Operating Officer ² Commenced as COO on 13 March 2015.	Part period
Mr I W Bucknell	Chief Financial Officer Also Joint Company Secretary until 19 February 2015.	Full period
Mr C R Tuck	General Counsel & Company Secretary Commenced as General Counsel on 25 August 2014; appointed Company Secretary 19 February 2015.	Part period
Other Senior Executive KMPs during the reporting period		
Mr D Evans	EGM Operations Acting Chief Operating Officer until Mr Simpson commenced as COO. Ceased as Senior Executive from 13 March 2015*.	Part period
Dr D Lockhart	EGM Exploration Acting Chief Technical Officer until Mr Simpson commenced as COO. Ceased as Senior Executive from 13 March 2015.	Part period
Mr P Fox	Chief Commercial Officer Ceased as Senior Executive from 13 March 2015	Part period

Notes:

- 1 Subsequent to the reporting period, Mr Lingo ceased as Managing Director with effect on and from 3 July 2015.
- 2 Subsequent to the reporting period, Mr Simpson was appointed acting Chief Executive Officer commencing 3 July 2015.
- * Updated from 13 March 2013.

Note:

Items marked with '**' in this Remuneration Report have been updated to correct minor errors identified in the Remuneration Report released on 26 August 2015.

REMUNERATION REPORT

2. Remuneration governance

The People & Remuneration Committee oversees the Company's remuneration strategy and framework. The Committee's role includes overseeing and advising management regarding the formulation of annual performance targets for the purposes of the Company's performance-based remuneration (outlined below) and annual performance and salary reviews, and making recommendations to the Board regarding remuneration matters.

As outlined further in this Report, the Board maintains an ultimate discretion as to award under each of the Company's performance-based remuneration incentive programs.

3. Material changes to remuneration framework in FY2016

There are no material changes to the Company's remuneration strategy or framework currently proposed for FY2016.

4. Remuneration Strategy and Framework

The Board's approach to remuneration is based on the following underlying principles:

- remuneration should be set at a level suitable to attract, retain and motivate high quality individuals who bring the skills and experience needed to execute the Company's strategic objectives;
- remuneration should include a blend of fixed and variable components;
- variable components of remuneration should reflect each individual's contribution to Company performance and the Company's performance overall; and
- remuneration outcomes should be linked to Company performance and shareholder outcomes.

Consistent with these principles, the Company's remuneration framework comprises:

- fixed remuneration;
- performance-based remuneration in the form of short term and long term incentives; and
- an employee share plan.

The Drillsearch remuneration framework as it applied to Key Management Personnel in the reporting period is set out in Table 2.

Table 2 – Overview of Drillsearch remuneration framework for Key Management Personnel in FY2015

KEY MANAGEMENT PERSONNEL	FIXED REMUNERATION	VARIABLE/PERFORMANCE-BASED REMUNERATION		EMPLOYEE SHARE PLAN
		Short-term incentive	Long-term incentive	
Non-executive Directors	Directors fees	Not applicable	Not applicable	Not applicable
Senior Executives	Total Fixed Remuneration	Maximum STI opportunity up to 60% of TFR. STI outcomes a combination of cash (50%) and performance rights (50%)	LTI performance rights granted at 80% of TFR for Managing Director; 60% of TFR for other Senior Executives	Not applicable ¹

Notes:

1 Commencing from the reporting period, Senior Executives do not participate in the Company's employee share plan.

Details of the remuneration framework as it applied to Senior Executives in the reporting period are set out in this section 4. Details of the remuneration framework as it applied to Non-executive Directors in the reporting period are set out in section 8.

Total Fixed Remuneration (TFR)

The Company subscribes to the National Rewards Group Inc (NRG) hydrocarbon remuneration survey to benchmark TFR remuneration levels. The Board's policy is to set TFR at a 50th percentile level target, with a total remuneration opportunity targeting the 75th percentile when performance-based incentives are included.

For Senior Executives, the Board determines remuneration having regard to the functional accountabilities applicable to the role and the expected impact of the role on the Company's performance and execution of the Company's strategic objectives.

TFR is reviewed annually as part of the Company's performance and remuneration review process. For Senior Executives, other than the Managing Director/Chief Executive Officer, performance and TFR is reviewed annually by the Managing Director/Chief Executive Officer. Proposed changes to TFR for Senior Executives are presented to the Board for review and endorsement. The Managing Director/Chief Executive Officer's performance and TFR is reviewed annually by the Board.

As stated earlier in this report, the Board has determined that there will be no increases in TFR in the annual performance and salary review process, other than in the case of promotions or a material change in role.

Short term performance incentives (STI)

All Drillsearch employees are eligible to participate in the STI. The maximum STI opportunity for each employee is set as a percentage of TFR set on a sliding scale relative to seniority, ranging from 10% for support staff through to 60% for Senior Executives.

STI outcomes are determined by performance assessed against a combination of personal key performance indicators (KPIs) and Company KPIs during the performance period (12 month period, 1 July to 30 June). For Senior Executives, performance against the Company KPIs accounts for 60% of the maximum STI outcome, and performance against personal KPIs accounts for the remaining 40%.

Personal KPIs for Senior Executives, other than the Managing Director/Chief Executive Officer, are set by the Managing Director/Chief Executive Officer as part of the Company's annual salary and performance review process, and presented to the Board for review and endorsement. For the Managing Director/Chief Executive Officer, personal KPIs are set by the Board.

Company KPIs are set by the Board annually as the performance metrics which the Board considers reflect fundamental performance and, in turn, shareholder value. Maximum targets for each Company KPI are intentionally set as stretch targets intended to ensure maximum outcomes reflect a degree of outperformance.

In order to achieve the maximum STI outcome overall, eligible employees, including Senior Executives, must achieve a personal KPI performance rating of "exceeds expectations" and the maximum target set for each Company KPI must be met or exceeded.

Final STI outcomes are determined by the Board annually following completion of the Company's performance and salary review process and preparation of the Company's full year results.

Under the terms of Drillsearch employment contracts, including for Senior Executives, the Board retains a final discretion regarding the STI award.

Table 3 sets out the Company KPIs set by the Board for the reporting period, including a description of the link between each Company KPI and Company performance, and the assessed outcome ('Award') determined by the Board.

Table 3 – Company STI KPIs for FY2015

Company KPI	Weighting	Link to Company Performance	Award ¹
Safety	20%	Drillsearch is committed to the safety of all persons associated with the performance of its business activities as a critical enabler for a sustainable business.	20%
Production	15%	Production outcomes are fundamental to the generation of revenue to support current activities and future growth.	8%
Reserve replacement		2P reserves underpin future production. Reserves replacement is an enabler of continuing business sustainability.	0%
– conventional 2P reserves replacement	20%		
– unconventional net 2C resources	10%	The specific KPI element relating to unconventional net 2C resources linked STI outcomes to specific activities planned in FY2015 in the Company's unconventional business.	0%
EBITDAX ²	15%	EBITDAX is used as a proxy for the underlying operating profitability of the Company's business.	3%
Cost Management:		Costs management is a critical enabler for an oil and gas company.	
– Capital cost efficiency	10%	In FY2015, a year of record activity for the Company, discipline regarding capital expenditure warranted particular focus	7%
– Corporate Costs	10%		10%
TOTAL			48%

Notes:

1 Performance result shown is subject to rounding.

2 EBITDAX is earnings before interest income and finance costs, tax, depreciation and amortisation, and exploration and evaluation costs, and impairments. EBITDAX is non-IFRS financial information used by the Company to assess business performance.

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Annual STI outcomes are provided to employees as cash or a combination of cash and performance rights (granted under the Company's Performance Rights Plan, as approved by shareholders), depending on seniority. For Senior Executives, STI outcomes are provided on an equal cash and performance rights basis.

The grant of STI performance rights to the Managing Director (as a Director) is subject to shareholder approval at the AGM, in accordance with the ASX Listing Rules.

The number of STI performance rights granted to a Senior Executive each year is determined as:

$$\text{Number of STI performance rights} = \frac{\text{TFR} * \text{STI performance rights \%} * 50\% * \text{KPI score}}{\text{Volume weighted average price of Drillsearch shares for the sixty days ending 30 June}}$$

There is no consideration payable by eligible employees for the award of performance rights.

STI Performance rights vest on the basis of one Drillsearch ordinary share for each vesting performance right. Vesting occurs within three-months after the end of the performance period (30 June). The Performance Rights Plan Rules prescribe certain circumstances where STI performance rights may vest early (for example, in the event of a change in control of Drillsearch). There is no exercise price payable by the holder of performance rights for vesting purposes.

STI outcomes for Senior Executives for the reporting period are set out in section 6 of this report.

Long-term performance incentive (LTI)

Senior Drillsearch employees – in management positions through to Senior Executives – are eligible to participate in the LTI scheme. Under the LTI scheme, eligible employees receive performance rights under the Company's Performance Rights Plan Rules as a percentage of TFR. As with the STI, the percentage of TFR for LTI purposes is set on a sliding scale relative to seniority, ranging from 15% for managers through to 80% for the Managing Director (60% for other Senior Executives).

LTI performance rights are granted each year following 30 June and vest after three years, subject to:

- continued employment as at the vesting date; and
- the testing of performance conditions over the three-year period.

Through the three-year vesting period and future performance testing of LTI performance rights, the Board considers that the LTI provides an incentive which promotes retention of management personnel with outcomes reflecting Company performance over the three-year pre-vesting period.

The number of LTI performance rights granted to a Senior Executive each year is determined as:

$$\text{Number of LTI performance rights} = \frac{\text{TFR} * \text{LTI \%}}{\text{Volume weighted average price of Drillsearch shares for the sixty days ending 30 June}}$$

There is no consideration payable by eligible employees for the award of performance rights.

In accordance with the Performance Rights Plan Rules, previously approved by shareholders, LTI performance rights may vest early in certain prescribed circumstances (for example, in the event of a change in control of Drillsearch). Vesting LTI performance rights convert to Drillsearch ordinary shares (one-for-one). There is no exercise price payable by the holder of performance rights for vesting purposes.

Under the terms of Drillsearch employment contracts, including for Senior Executives, the Board retains a final discretion as to LTI awards.

The grant of performance rights to the Managing Director (as a Director) is subject to shareholder approval at the AGM, in accordance with the ASX Listing Rules.

The performance conditions for each award of LTI performance rights are set by the Board annually. The performance conditions set by the Board for LTI performance rights granted in 2012 (performance period ending 30 June 2015) and 2015 are set out in Table 4, including an explanation as to why each of the performance measures was chosen by the Board.

Table 4 – LTI performance rights – performance conditions

LTI PR grant	Performance conditions ¹	Weighting	Link between company performance and performance hurdles	Percentage of LTI performance rights vesting after performance conditions applied
2012	Share price growth	75%	Absolute share price growth correlates business performance outcomes over the three-year performance period with share price.	0%
	Relative total shareholder return (TSR)	25%	Relative TSR against ASX-listed energy peers over the three-year performance period provides a well understood proxy for company performance overall on the basis that earnings performance and share price growth may be expected to be reflected in relative performance against the index.	23.45%
2015	Reserves Growth	25%	The ability of the Company to replace and grow its reserves, net of production, is a critical enabler to future business performance.	Not applicable. Will be assessed as at 30 June 2018
	Relative TSR	75%	Relative TSR against ASX-listed energy peers over the three-year performance period provides a well understood proxy for company performance overall on the basis that earnings performance and share price growth may be expected to be reflected in relative performance against the index.	Not applicable. Will be assessed as at 30 June 2018

Notes:

1 As described earlier in this report, LTI performance rights awarded are also subject to continuing employment for the three-year LTI performance period.

Details of the LTI performance rights granted to Senior Executives during the reporting period are set out in section 6 of this Report. Details of the movements in LTI performance rights held by Key Management Personnel during the reporting period are set out in section 9.

Clawback

The terms of employment for Drillsearch Senior Executives include a *clawback* provision which enables the Company to recoup, STI and LTI outcomes if it is determined that a relevant award was made in error resulting from material misstatement or fraud.

Securities dealing

Performance rights awarded to employees, including Senior Executives, may only be held by the relevant employee or specified closely-related nominees of the employee. Dealing in Drillsearch shares issued upon vesting of awarded performance rights is subject to the Drillsearch Securities Trading Policy. A copy of the Drillsearch Securities Trading Policy is available on the Drillsearch website at www.drillsearch.com.au/corporate-governance.

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5. Company performance metrics

Drillsearch's total shareholder return (TSR) against the S&P ASX300 Energy index and Brent crude oil price over the five years ended 30 June 2015 is shown in figure 1.

Five Year Performance Comparison (Re-based 30 June 10)

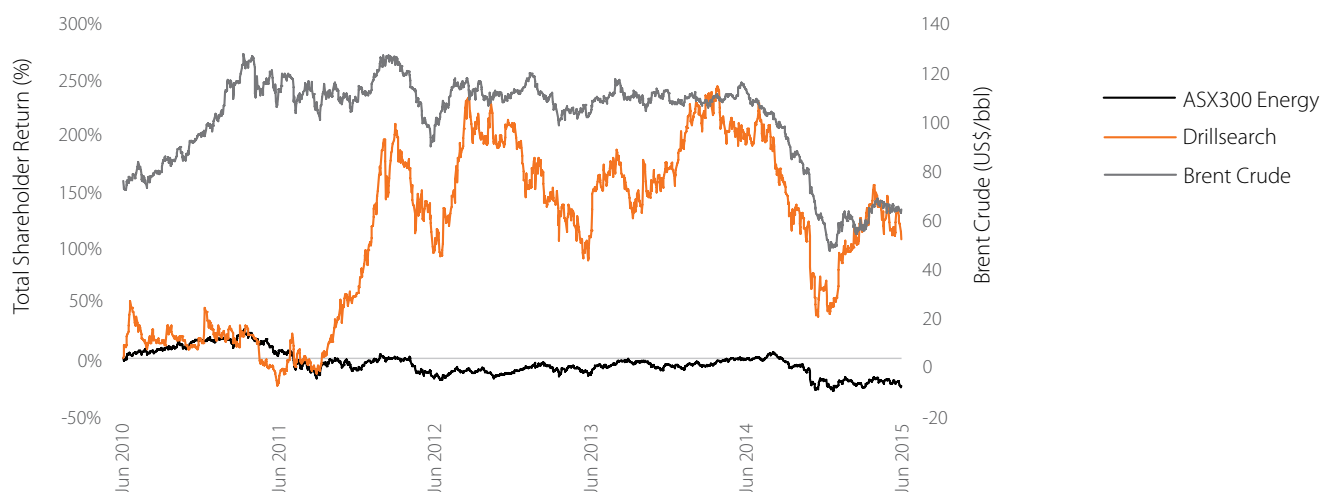


Figure 1 – Drillsearch relative TSR performance FY2011-FY2015 (Source: Bloomberg)

Table 5 sets out the Company's performance over the five years ended 30 June 2015 in respect of several key financial and other business performance indicators, along with the STI awards to Senior Executives for each year in the corresponding period.

Table 5 – Performance against Company Performance Metrics

Company performance metric	unit	FY2011	FY2012	FY2013	FY2014	FY2015
Safety – Total recordable injury frequency rate (TRIFR)	/mmhrs	N/a	N/a	10.28	9.72	6.64
Production	mmboe ¹	0.1	0.4	1.1	3.4	3.0
Five-year 2P Reserves replacement ratio ²	%	N/a	N/a	1,428%	527%	305%
Statutory profit/(loss)	\$ M	(5.6)	10.0	45.1	41.9 ³	(8.1)*
Earnings per share	cents	(2.7)	4.5	11.1	9.38 ³	(1.8)
Share price (close of trading, 1 July)	\$/share	0.43	1.04	1.05	1.46	1.05
Annual TSR ranking relative to S&P ASX300 Energy Index ⁴	percentile	16th	95th	47th	79th	47th
STI outcome for Senior Executives as a percentage of maximum	%	N/a	N/a	69%	80%	65%

Notes:

1 'mmboe' is million barrels of oil equivalent.

2 Five-year 2P Reserves replacement ratio is the rolling rate at which the Company replaces or increases its Oil and Gas Reserves as stated in the Company's annual Oil and Gas Reserves and Resources Statement. The ratio is calculated as:

$$\frac{(\text{Closing 2P Reserves in year 5} - \text{Opening 2P Reserves in year 1})}{\text{Aggregate production years 1 to 5 (inclusive)}}$$

3 Statutory profit/(loss) and earnings per share for FY2014 shown are as restated in the Company's financial statements for the 12 months to 30 June 2015 ('Financial Statements') following the change to the Company's accounting policy for exploration and evaluation expenditure to adopt the 'Successful Efforts' methodology. Please refer to Note 5 to the Financial Statements for more information regarding the change in accounting policy.

4 Source: Bloomberg and company data.

* Item amended to correct typographical error in Remuneration Report released to the ASX on 26 August 2015. Statutory Profit/(Loss) was otherwise correctly stated in the Directors' Report released on 26 August 2015.

6. Performance-based remuneration outcomes for FY2015

The STI outcomes for Senior Executives for FY2015 are set out in Table 6.

Table 6 – FY2015 STI outcomes for Senior Executives

	Maximum opportunity (as a % of TFR)	Percentage award – cash	Percentage award Performance Rights	Total award as a percentage of maximum opportunity
Senior Executives as at 30 June 2015				
Mr B W Lingo ¹	60%	36%	Nil	36% (60% of max)
Mr W A F Simpson	60%	30%	30%	60% (100% of max)
Mr I W Bucknell	60%	18.9%	18.9%	37.8% (63% of max)
Mr C R Tuck	60%	17.7%	17.7%	35.4% (59% of max)
Other Senior Executive KMPs during the reporting period				
Mr D Evans	60%	15.9%	15.9%	31.8% (53% of max)
Dr D Lockhart	60%	17.7%	17.7%	35.4% (59% of max)
Mr P Fox ²	60%	36.6%	Nil	36.6% (61% of max)

Notes:

1 Mr Lingo's STI outcome for FY2015 will be remitted wholly in cash.

2 Mr Fox's STI outcome for FY2015 will be remitted wholly in cash.

Details of the LTI performance rights awarded to Senior Executives in respect of the reporting period are set out in section 8.

7. Material terms of employment for Senior Executives

During the reporting period, the Company standardised the material terms of employment for Senior Executives.

Remuneration terms for Senior Executives are described in the preceding sections of this report, and remuneration outcomes for FY2015 are set out in detail in section 9.

A summary of other material terms of employment for Senior Executives is set out in Table 7.

Table 7 – Material employment terms for Senior Executives

	Managing Director/ Chief Executive Officer ¹	Other Senior Executive
Term	Non-fixed	Non-fixed
Maximum STI opportunity	60% of TFR	60% of TFR
Annual LTI award	80% of TFR	60% of TFR
Notice of termination by employee	3 months	3 months
Notice of termination by Company or payment in lieu of notice ²	6 months	6 months
Notice for redundancy on change of control or payment in lieu of notice	12 months	12 months

Notes:

1 Refer to ASX Release dated 3 July 2015 for details of employment terms applicable to Mr Simpson's appointment as Acting Chief Executive Officer.

2 The Company may terminate the employment of a Senior Executive without notice or payment in lieu of notice in circumstances of material misconduct.

REMUNERATION REPORT

8. Remuneration for Non-executive Directors

Since FY2014, the remuneration of Non-executive Directors has been limited to the payment of fixed director fees. The total pool for director fees, as approved by shareholders at the 2013 Annual General Meeting, is \$1.2 million, and applies the following fee schedule:

Base non-executive director fees

Chairman	\$340,000 per annum (inclusive of superannuation contributions)
Other non-executive director	\$130,000 per annum (inclusive of superannuation contributions)

Committee fees

Committee Chair	\$30,000 per annum (inclusive of superannuation contributions) ¹
Committee member	\$15,000 per annum (inclusive of superannuation contributions) – per Committee

Notes:

1 Mr McKerlie does not receive Committee Chair fees in connection with his role as Chair of the Nominations Committee.

Prior to FY2014, Non-executive Directors received options and performance rights under Company incentive plans. Following the growth of the Company – moving from a small exploration-focused company to a production and exploration company – in 2013 the Board determined to move to a fixed remuneration structure for the Non-executive Directors consistent with accepted corporate governance principles.

The Directors have determined that director and committee fees will not be increased in FY2016.

While the participation of Non-executive Directors in the Company's incentive plans has been discontinued for some time, a number of Drillsearch's Non-executive Directors continue to hold performance rights and/or options as a consequence of grants prior to FY2014. Details of options and performance rights held by Non-executive Directors as a result of past grants are set out in section 9 of this Report.

It is a policy of the Board to encourage Non-executive Directors to hold shares in the Company, subject at all times to the Drillsearch Securities Trading Policy. A copy of the Drillsearch Securities Trading Policy is available on the Drillsearch website at www.drillsearch.com.au/corporate-governance.

9. Remuneration tables

Table 8 details the nature and amount of each element of remuneration paid or awarded to Key Management Personnel during the reporting period. Cash STI payment amounts shown are payments under the STI for services performed during the reporting period but paid subsequent to the reporting period.

Comparative remuneration details for the 12 months ended 30 June 2014 are also shown.

Table 8 – Statutory Remuneration Disclosure – Key Management Personnel

	YEAR ¹	SHORT-TERM BENEFITS			POST-EMPLOYMENT			OTHER LONG TERM	SHARE-BASED BENEFITS ⁴			TOTAL
		Cash salary and fees	STI cash-component	Non-monetary benefits ²	Superannuation	Retirement benefits	Termination benefits ³	Long service leave	STI performance rights ⁵	LTI Options	LTI performance rights	
Non-executive Directors												
Mr J D McKerlie	2015	367,913	N/a	11,700	32,087	–	–	N/a	N/a	37,188 ⁶	N/a	448,888
	2014	379,660	N/a	11,137	15,000	–	–	N/a	N/a	117,926 ⁶	N/a	523,723
Mr P J Bainbridge	2015	142,295	N/a	–	32,705	–	–	N/a	N/a	–	N/a	175,000
	2014	145,620	N/a	–	13,470	–	–	N/a	N/a	–	N/a	159,090
Mr T S Cheah	2015	132,420	N/a	–	12,580	–	–	N/a	N/a	–	N/a	145,000
	2014	95,371	N/a	–	8,822	–	–	N/a	N/a	–	N/a	104,193
Mrs F A Robertson	2015	159,817	N/a	–	15,183	–	–	N/a	N/a	18,594 ⁶	N/a	193,594
	2014	160,183	N/a	–	15,415	–	–	N/a	N/a	58,963 ⁶	N/a	234,561
Mr H R B Wecker	2015	159,817	N/a	–	15,183	–	–	N/a	N/a	18,594 ⁶	N/a	193,594
	2014	163,616	N/a	–	15,768	–	–	N/a	N/a	58,963 ⁶	N/a	238,347

	YEAR ¹	SHORT-TERM BENEFITS			POST-EMPLOYMENT			OTHER LONG TERM	SHARE-BASED BENEFITS ⁴			TOTAL
		Cash salary and fees	STI cash-component	Non-monetary benefits ²	Superannuation	Retirement benefits	Termination benefits ³	Long service leave	STI performance rights ⁵	LTI Options	LTI performance rights	
Senior Executives as at 30 June 2015												
Mr B W Lingo ⁷	2015	807,083	225,022 ⁸	11,700	32,917	–	–	16,146	163,834	58,599	324,559	1,639,860
	2014	775,000	195,360	–	25,000	–	–	65,151	210,722	171,453	195,528	1,638,214
Mr W A F Simpson ^{9, 10}	2015	207,866 ¹¹	216,000 ¹²	22,187 ¹³	8,750	–	–	–	–	–	–	454,803
	2014	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
Mr I W Bucknell	2015	429,532	86,212	12,700 [*]	28,069	–	–	9,093	90,994	1,983	134,518	793,101 [*]
	2014	418,109	108,504	12,137	21,891	–	–	46,625	60,078	28,947	81,800	778,091
Mr C R Tuck ¹⁴	2015	461,018 ¹⁵	65,471	76,551 ¹⁶	23,553	–	–	–	–	–	–	626,593
	2014	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a	N/a
Other Senior Executive during the reporting period												
Mr D Evans	2015	497,533	84,023	1,000 [*]	32,917	–	–	43,829	103,395	2,735	158,168	923,600 [*]
	2014	490,000	123,291	1,000	25,000	–	–	–	68,910	39,927	97,057	845,185
Dr D Lockhart	2015	401,906	62,482	1,000 [*]	17,302	–	–	–	47,255	–	39,322	569,267 [*]
	2014	304,725	70,175	1,000	17,775	–	–	–	–	–	9,138	402,813
Mr P Fox ¹⁷	2015	412,481	160,877 ¹⁸	1,000 [*]	28,519	266,559	54,280	–	74,245	–	52,053	1,050,014 [*]
	2014	341,623	88,776	1,000	17,775	–	–	–	–	–	46,172	495,346

Notes:

- Twelve months ended 30 June in the year specified.
- Non-monetary benefits for Mr McKerlie, Mr Lingo, Mr Simpson, Mr Bucknell and Mr Tuck during the reporting period relates to permanent parking at the Company's head office in Sydney, unless otherwise stated.
- Termination benefits shown are exclusive of retirement benefits (separately shown).
- Amounts shown for STI performance rights, LTI performance rights and LTI Options are the fair value of performance rights and options (as applicable) granted or awarded during the reporting period, or granted in prior periods and vesting during the reporting period. Fair value is calculated using the *market approach*. This determination involves a number of statistical and probability based calculations, including the estimated probability of performance hurdles for vesting purposes being satisfied.
- STI performance rights awarded to eligible KMPs during the reporting period, as shown in the table, were awarded on 16th October 2014 other than the Managing Director. STI performance rights shown for the Managing Director were awarded on 19 November 2014 following shareholder approval.
- Amounts shown for LTIP Options for Non-executive Directors relate to options granted under the Company's LTIP Option plan in 2011, as approved by shareholders, which vested during the reporting period.
- Subsequent to the reporting period, Mr Lingo ceased as Managing Director and left the Company with effect on and from 3 July 2015. Termination and retirement benefits for Mr Lingo, post 30 June 2015 comprised: annual leave accrued but unused as at the termination date (\$64,225); accrued long service leave as at the termination date (\$84,725); and payment in lieu of six month notice period pursuant to employment contract (\$420,000, inclusive of superannuation contributions).
- The Board elected to award Mr Lingo's STI outcome for FY2015 wholly in cash.
- Mr Simpson was appointed Chief Operating Officer and commenced on 13 March 2015.
- Subsequent to the reporting period, as announced to the ASX on 3 July 2015, Mr Simpson was appointed acting Chief Executive Officer with effect from 3 July 2015. Material terms of Mr Simpson's appointment, including remuneration, were set out in the 3 July 2015 ASX release.
- Total salary and fees for Mr Simpson for FY2015 includes a non-recurring lump sum \$5,000 relocation payment pursuant to the Company's relocation policy.
- Under the terms of Mr Simpson's employment contract, in consideration of incentives foregone upon joining Drillsearch, Mr Simpson will receive a fixed STI outcome for FY2015 and FY2016 equal to 60% of his TFR.
- Non-monetary benefits for Mr Simpson for the reporting period comprise: permanent parking at the Company's head office in Sydney for the period March through June 2015 (\$3,150); and relocation costs (19,037).
- Mr Tuck was appointed General Counsel commencing 25 August 2014, and was subsequently appointed Company Secretary on 19 February 2015.
- Total salary and fees for Mr Tuck for FY2015 includes: a non-recurring lump sum payment of \$107,000 in consideration of incentives foregone upon joining Drillsearch under the terms of Mr Tuck's employment with the Company; and a non-recurring lump sum \$5,000 relocation payment pursuant to the Company's relocation policy.
- Non-monetary benefits for Mr Tuck for the period comprise: permanent parking at the Company's head office in Sydney from January through June 2015 (\$5,400); and relocation costs (\$71,151).
- Mr Fox ceased to be a Senior Executive from March 2015. Subsequently, Mr Fox's role as Chief Commercial Officer was made redundant with effect from 30 June 2015. Remuneration details disclosed in the table for Mr Fox include: Termination benefits in the form of payments for accrued but unused annual leave (\$54,279); and Retirement benefits in the form of payments for the statutory notice for redundancy (\$50,886) and payment in lieu of Mr Fox's contractual six month notice period (\$220,500, inclusive of superannuation contributions).
- On the basis that Mr Fox's position was made redundant with effect from 30 June 2015, the Board elected to award Mr Fox's STI outcome for FY2015 wholly in cash.
- Updated to reflect the non-monetary benefit of \$1,000 in respect of shares granted to Mr Bucknell, Mr Evans, Dr Lockhart and Mr Fox under the company's Employee Share Plan as part of their respective FY2014 performance and remuneration review outcomes.

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Table 9 shows the proportion of fixed and variable remuneration, and cash and performance rights or options, for Senior Executives for FY2015.

Table 9 – Senior Executive Remuneration components in FY2015.

	FIXED		VARIABLE				TOTAL REMUNERATION
	TFR	Other ¹	STI – cash ²	STI	LTI Options ⁴	LTI	
				performance rights ³		performance rights ⁵	
Senior Executives as at 30 June 2015							
Mr B W Lingo	51%	2%	14%	10%	3%	20%	100%
Mr W AF Simpson	47%	6%	47%	Nil	Nil	Nil	100%
Mr I W Bucknell	58%	3%	11%	11%	0%	17%	100%
Mr C R Tuck	77%	13%	10%	Nil	Nil	Nil	100%
Other Senior Executives during the reporting period							
Mr D Evans	58%	5%	9%	11%	0%	17%	100%
Dr D Lockhart	74%	Nil	11%	8%	Nil	7%	100%
Mr P Fox	42%	31%	15%	7%	Nil	5%	100%

Notes:

- 1 Other includes fixed cash benefits, excluding TFR, and the cash value or non-monetary benefits such as parking (refer to Table 8).
- 2 STI cash shown is the cash component for the STI for FY2015, which payment is made subsequent to the reporting period.
- 3 STI Performance rights shown reflects the value of performance rights awarded in 2014 under the STI scheme.
- 4 LTI Options shown reflects the value of LTIP options granted in prior periods which vested during the reporting period.
- 5 LTI performance rights reflects the value of performance rights granted in 2012 under the LTI scheme.

Table 10 shows the performance rights and unlisted options held by Key Management Personnel and movements during the reporting period.

Table 10 – Movements in Performance Rights and Unlisted Options held by Key Management Personnel

							BALANCE 30 JUNE 2015		Value of lapsed/ expired Options and rights ¹ \$
KMP	Rights Options	1 July 2014 Balance	Number granted	Number exercised	Number lapsed/ expired	Number vested during period	Vested	Unvested	
Non-executive Directors									
Mr J D McKerlie	Rights	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	Options	1,124,338	–	–	(201,111)	(923,227)	923,227	–	69,804
Mr P J Bainbridge	Rights	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	Options	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Mr T S Cheah	Rights	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	Options	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Mrs F A Robertson	Rights	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	Options	562,169	–	–	(100,556)	(461,613)	461,613	–	34,902
Mr H R B Wecker	Rights	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	Options	562,169	–	–	(100,556)	(461,613)	461,613	–	34,902
Senior Executives as at 30 June 2015									
Mr B W Lingo	Rights	1,247,621	568,275	–	–	(229,046)	229,046	1,586,850 ²	Nil
	Options	1,574,338	–	–	(307,806)	(1,266,532)	1,266,532	–	107,948
Mr W A F Simpson	Rights	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	Options	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Mr I W Bucknell	Rights	493,716	250,974	–	–	(65,302)	65,302	679,388	Nil
	Options	391,270	–	–	(29,035)	(362,235)	362,235	–	6,456
Mr C R Tuck	Rights	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	Options	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Other Senior Executives during the reporting period									
Mr D Evans	Rights	585,606	289,300	–	–	(74,902)	74,902	800,004	Nil
	Options	1,539,683	–	–	(1,040,047)	(499,636)	499,636	–	384,700
Dr D Lockhart	Rights	39,767	139,913	–	–	–	–	179,680	Nil
	Options	–	–	–	–	–	–	–	Nil
Mr P Fox	Rights	200,930	364,833	–	(374,290)	(191,473)	191,473	– ³	336,272
	Options	–	–	–	–	–	–	–	Nil

Notes:

- 1 The value of the lapsed / expired Option or right is based on the fair value of the option/grant multiplied by the number of options/ rights lapsed or expired.
- 2 Unvested performance rights with a performance period ending after 30 June 2015 held by Mr Lingo at 30 June 2015 lapsed with effect on and from 4 July 2015 as a result of Mr Lingo leaving the Company with effect on and from 3 July 2015.
- 3 Unvested performance rights with a performance period ending after 30 June 2015 held by Mr Fox at 30 June 2015 lapsed with effect on and from 1 July 2015 as a result of Mr Fox's employment being terminated for redundancy on and from 30 June 2015.

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Table 11 sets out shares in the Company held by Key Management Personnel and movements during the reporting period.

Table 11 – Movements in Company shares held by Key Management Personnel

KMP	Balance as at 1 July 2014	Shares acquired through exercise of options	Shares acquired through vesting of performance rights	Shares Purchased/ (Sold)	Balance as at 30 June 2015
Non-executive Directors					
Mr J D McKerlie	2,239,894	-	-	-	2,239,894
Mr P J Bainbridge	54,600	-	-	-	54,600
Mr T S Cheah	340,000	-	-	-	340,000
Mrs F A Robertson	692,950	-	-	-	692,950
Mr H R B Wecker	447,343	-	-	-	447,343
Senior Executives as at 30 June 2015					
Mr B W Lingo	1,116,343	-	229,046	(1,345,389)	-
Mr W A F Simpson	-	-	-	-	-
Mr I W Bucknell	1,776	-	65,302	655*	67,733
Mr C R Tuck	-	-	-	-	-
Other Senior Executives during the reporting period					
Mr D Evans	1,776	-	74,902	655*	77,333
Dr D Lockhart	930	-	-	655*	1,585
Mr P Fox	930	-	-	655*	1,585

* Shares granted to Mr Bucknell, Mr Evans, Dr Lockhart and Mr Fox under the company's Employee Share Plan as part of their respective FY2014 performance and remuneration review outcomes.

DIRECTORS' REPORT

The Directors' Report is made in accordance with a resolution of the Directors.



J.D. McKerlie
Chairman

Sydney, 26 August 2015

AUDITOR'S INDEPENDENCE DECLARATION



Auditor's Independence Declaration

As lead auditor for the audit of Drillsearch Energy Limited for the year ended 30 June 2015, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

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

Justine Richardson
Partner
PricewaterhouseCoopers

Sydney
26 August 2015

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INDEPENDENT AUDITOR'S REPORT



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

Report on the financial report

We have audited the accompanying financial report of Drillsearch Energy Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Drillsearch Energy Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

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Auditor's opinion

In our opinion:

- (a) the financial report of Drillsearch Energy Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 3.

Report on the Remuneration Report

We have audited the remuneration report included in pages 26 to 41 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Drillsearch Energy Limited for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Justine Richardson
Partner

Sydney
26 August 2015

DIRECTOR'S DECLARATION

In accordance with the resolution of the Directors, the Directors of Drillsearch Energy Limited declare that:

1. In the opinion of the Directors:

- (a) The financial statements, inclusive of the notes and additional disclosures included in the Directors' Report, of the Drillsearch Group are in accordance with the *Corporations Act 2001* (Cth), including:
 - (i) Giving a true and fair view of the Group's financial position as at 30 June 2015 and of the performance of the Group for the year ended on that date; and
 - (ii) Complying with Australian Accounting Standards and the *Corporation Regulations 2001* (Cth);
- (b) There are reasonable grounds to believe that the Group will be able to pay its debts as and when they become payable; and
- (c) The financial statements and the notes to those financial statements are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* (Cth) for the financial year ended 30 June 2015.

On behalf of the Directors



J.D. McKerlie
Chairman

Sydney, 26 August 2015

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2015

		YEAR ENDED	
		30 June 2015 \$'000	Restated* 30 June 2014 \$'000
	Notes		
Revenue	7	250,580	387,020
Cost of sales of goods	9	(149,625)	(151,226)
Gross profit		100,955	235,794
Other gains and losses	8	8,300	35
Exploration and evaluation expensed/written off	19	(57,639)	(44,407)
Impairment of oil and gas assets	20	(51,893)	(218)
Finance costs	10	(10,018)	(11,637)
Change in fair value of convertible notes	24	(8,681)	(23,035)
Other expenses	12	(18,340)	(17,630)
Net gain/(loss) on derivatives	11	17,495	(1,760)
(Loss)/profit before income tax		(19,821)	137,142
Income tax benefit/(expense)	13	11,745	(95,220)
(Loss)/profit for the year		(8,076)	41,922
Other comprehensive income, net of income tax which will be recycled to the profit and loss			
Exchange differences on translation of foreign operations	26	(234)	370
Total comprehensive (loss)/income for the year		(8,310)	42,292
		Cents	Cents
Earnings per share			
Basic earnings per share	16	(1.8)	9.8
Diluted earnings per share	16	(1.8)	9.6

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

*The comparative statement for the year ended 30 June 2014 has been restated to show the effect of the voluntary change in accounting policy. Refer note 5 for details regarding this change.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Notes	30 June 2015 \$'000	Restated* 30 June 2014 \$'000	Restated* 1 July 2013 \$'000
Current assets				
Cash and cash equivalents	17	131,486	152,384	36,061
Trade and other receivables	18	71,496	85,522	51,302
Inventories		2,617	662	1,744
Available for sale financial assets	14	–	25,194	–
Derivative financial instruments	31	5,605	–	–
Other current assets		2,338	1,963	1,083
Assets classified as held for sale	15	25,045	100	199
Total current assets		238,587	265,825	90,389
Non-current assets				
Exploration and evaluation assets	19	178,496	101,813	124,113
Oil and gas assets	20	95,652	174,006	103,529
Property, plant and equipment	21	2,849	2,571	3,719
Deferred tax assets	13(c)	23,185	11,438	92,873
Other non-current assets		1,380	1,349	1,370
Total non-current assets		301,562	291,177	325,604
Total assets		540,149	557,002	415,993
Current liabilities				
Trade and other payables	22	37,051	74,638	42,508
Borrowings		–	–	10,000
Provisions	23	684	724	1,581
Liabilities directly associated with assets classified as held for sale		24,545	–	–
Other financial liabilities	14	–	25,194	–
Total current liabilities		62,280	100,556	54,089
Non-current liabilities				
Borrowings	24	162,108	153,426	130,391
Provisions	23	18,471	38,400	14,102
Total non-current liabilities		180,579	191,826	144,493
Total liabilities		242,859	292,382	198,582
NET ASSETS		297,290	264,620	217,411
Equity				
Contributed equity	25	325,149	285,528	280,411
Other reserves	26	8,562	7,437	7,267
Accumulated losses		(36,421)	(28,345)	(70,267)
Equity attributable to owners of the parent		297,290	264,620	217,411
TOTAL EQUITY		297,290	264,620	217,411

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

*The comparative statements for the year ended 30 June 2014 and opening balance 1 July 2013 have been restated to show the effect of the voluntary change in accounting policy and correction to prior year classification. Refer to note 5 for details.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

ATTRIBUTABLE TO OWNERS OF DRILLSEARCH ENERGY LIMITED

	Notes	Contributed equity \$'000	Equity-settled benefits reserve \$'000	Foreign currency translation \$'000	General reserve \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2013		280,411	5,124	(1,297)	3,440	(1,083)	286,595
Effect of accounting policy change	5	–	–	–	–	(69,184)	(69,184)
Restated balance at 1 July 2013		280,411	5,124	(1,297)	3,440	(70,267)	217,411
Profit for the year as reported in the 2014 financial statements		–	–	–	–	71,523	71,523
Effect of accounting policy change	5	–	–	–	–	(29,601)	(29,601)
Restated profit for the year		–	–	–	–	41,922	41,922
Other comprehensive income		–	–	370	–	–	370
Restated total comprehensive income for the year		–	–	370	–	41,922	42,292
Shares issued during the year		5,156	(2,114)	–	–	–	3,042
Transaction costs of share issue		(39)	–	–	–	–	(39)
Employee share scheme		–	1,914	–	–	–	1,914
Restated balance at 30 June 2014		285,528	4,924	(927)	3,440	(28,345)	264,620
Balance at 1 July 2014		285,528	4,924	(927)	3,440	70,440	363,405
Effect of accounting policy change	5	–	–	–	–	(98,785)	(98,785)
Restated balance at 1 July 2014		285,528	4,924	(927)	3,440	(28,345)	264,620
Loss for the year		–	–	–	–	(8,076)	(8,076)
Other comprehensive loss		–	–	(234)	–	–	(234)
Total comprehensive income for the year		–	–	(234)	–	(8,076)	(8,310)
Shares issued during the year	25	39,621	(1,087)	–	–	–	38,534
Employee share scheme		–	2,446	–	–	–	2,446
Balance at 30 June 2015		325,149	6,283	(1,161)	3,440	(36,421)	297,290

The above consolidated statement changes of equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2015

		YEAR ENDED	
	Notes	30 June 2015 \$'000	Restated* 30 June 2014 \$'000
Cash flows from operating activities			
Receipts from customers		263,767	391,503
Payments to suppliers and employees		(146,919)	(134,104)
Cash generated from operations		116,848	257,399
Payments for exploration and evaluation – Seismic, G&A ⁽ⁱ⁾ , G&G ⁽ⁱⁱ⁾		(22,773)	(19,816)
Interest paid		(9,668)	(11,047)
Income tax refund		–	16
Net cash inflow from operating activities	17(b)	84,407	226,552
Cash flows from investing activities			
Payments for business acquisition		–	(36,800)
Payments for oil and gas assets		(47,526)	(48,140)
Payments for exploration and evaluation assets		(74,036)	(29,732)
Payments for property, plant and equipment		(2,261)	(880)
Payments for oil derivatives		(8,857)	–
Proceeds from sale of exploration and evaluation assets		–	12,507
Proceeds from sale of property, plant and equipment		41	–
Payments to acquire available-for-sale financial assets		–	(2,327)
Receipts from oil hedging derivatives		20,592	–
Interest received		3,126	1,771
Net cash outflow from investing activities		(108,921)	(103,601)
Cash flows from financing activities			
Proceeds from issues of equity shares ⁽ⁱⁱⁱ⁾		675	3,041
Share issue transaction costs		–	(39)
Repayment of borrowings		–	(10,000)
Net cash inflow (outflow) from financing activities		675	(6,998)
Net (decrease) increase in cash and cash equivalents		(23,839)	115,953
Cash and cash equivalents at the beginning of the period		152,384	36,061
Effects of exchange rate changes on cash and cash equivalents		2,941	370
Cash and cash equivalents at end of year	17(a)	131,486	152,384

(i) G&A refers to general and administrative expenses.

(ii) G&G refers to geological and geophysical expenses.

(iii) During the year there has been a non-cash transaction in relation to the issue of shares of \$37.9 million. Refer to note 25.

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

*The comparative statements for the year ended 30 June 2014 have been restated to show the effect of the voluntary change in accounting policy and correction to prior year reclassification. Refer to Note 5 for details

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Drillsearch Energy Limited (the Company) is a public company listed on the Australian Securities Exchange (trading under the symbol 'DLS'), incorporated and operating in Australia.

Drillsearch Energy Limited's registered office and its principal place of business are as follows:

Registered office

Level 18
321 Kent Street
Sydney NSW 2000
Tel: (02) 9249 9600

Principal place of business

Level 18
321 Kent Street
Sydney NSW 2000
Tel: (02) 9249 9600

The Company's principal activities are the exploration, development and production of oil and gas interests.

2 Application of new and revised Accounting Standards

(a) New and amended standards adopted by the group

During the year, the Group adopted a voluntary change in accounting policy (refer to Note 5).

The following standards and amendments have been applied for first time for the annual reporting period commencing 1 July 2014:

- 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 effect 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, or disclosure in, its financial statements.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting periods and have not been early adopted. An assessment of the impact of these new standards and interpretations is set out below.

Standard/Interpretation	Nature of change and impact	Mandatory application date/ Date of adoption by Group
AASB 9 'Financial Instruments'	The final version of AASB 9 brings together the classification and measurement, impairment and hedge accounting phases of the AASB's project to replace AASB 139 'Financial Instruments: Recognition and Measurement'. This version adds a new expected loss impairment model and limited amendments to classification and measurement for financial assets. The final version of AASB 9 supersedes all previous versions of the Standard. However, for annual periods beginning before 1 January 2018, an entity may elect to apply those earlier versions of AASB 9 if the entity's relevant date of initial application is before 1 February 2015	Must be applied for financial years commencing on or after 1 January 2018*. The group has not yet assessed how its own hedging arrangements would be affected by the new rules, and it has not yet decided whether to adopt any parts of AASB 9 early. In order to apply the new hedging rules, the group would have to adopt AASB 9 and the consequential amendments to AASB 7 and AASB 139 in their entirety.
AASB 15 'Revenue from Contracts with Customers'	AASB 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; and replaces AASB 111 Construction Contracts and AASB 118 Revenue. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	1 January 2017 or 1 January 2018 depending on when AASB announces the one year deferral. The group has not yet assessed how its own revenue recognition might be affected by these new rules, however it is expected that these accounting changes may have flow on effects on the group's business practices regarding systems, processes and controls, contracts and investor relations.

* The mandatory application of this standard may be further deferred once the IASB has agreed on a mandatory date for the equivalent international standard.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 Summary of significant accounting policies

Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group (being Drillsearch Energy Limited and all its subsidiaries). For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

The financial statements have been authorised for issue by the Directors on 26 August 2015.

Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001.

(i) Compliance with IFRS

The consolidated financial statements of Drillsearch Energy Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Change in accounting policy

The Company has made a voluntary change to its accounting policy relating to exploration and evaluation expenditure. The change in accounting policy was adopted for the financial year ended 30 June 2015 and has been applied retrospectively.

The new exploration and evaluation accounting policy uses the "successful efforts" method of accounting whereby exploration and evaluation expenditure in relation to unsuccessful exploration wells and directly attributable costs such as general administration costs, geological and geophysical costs, seismic and pre-license expenditure, is expensed. An exploration well is considered to be unsuccessful if no recoverable hydrocarbons are identified, or the company considers that the hydrocarbons are not commercially viable.

The previous accounting policy was to capitalise and carry forward costs associated with the exploration, evaluation and development activities on an area of interest basis.

It is the view of the Directors that the change in policy will provide market participants with more reliable and relevant information as to the carrying values of exploration and evaluation assets and to afford greater transparency regarding the Company's current financial performance and position. Adopting Successful Efforts will also bring the Company into line with the majority of its peers.

The comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and consolidated statement of changes in equity have been restated in connection with the change in accounting policy. Details in relation to the impact of this change in accounting policy on comparative financial information are disclosed in Note 5.

(iii) Correction to prior period classification

During the year, the Company identified certain prior period costs included in Oil and Gas assets that should have been included in Exploration and Evaluation assets. As a result of this, the costs have been reclassified to Exploration and Evaluation assets as a prior period adjustment.

(iv) Historical cost

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments, as explained in the accounting policies below. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Going concern basis

The Group has prepared the financial report on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Joint arrangements

Under AASB 11 'Joint Arrangements' investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. Drillsearch Energy Limited has assessed the nature of its joint arrangements and determined them to be joint operations.

The Group's joint venture agreements require unanimous consent from all parties for all relevant activities. The joint operators own the assets of the partnership as tenants in common and are jointly and severally liable for the liabilities incurred by the partnership. These entities are therefore classified as joint operations and the group recognises its direct right to the jointly held assets, liabilities, revenues and expenses.

Details of the joint operations are set out in note 29. Refer note 3(c) for accounting policies.

(c) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the AASBs applicable to the particular assets, liabilities, revenues and expenses. When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets),

the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

(d) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are, with limited exceptions, recognised at their fair value at the acquisition date.

(e) Foreign currency

The individual financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Drillsearch Energy Limited's functional and presentation currency.

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

(f) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

(g) Revenue recognition

Revenue is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenue is recognised and measured at the fair value of the consideration received or receivable, net of goods and services tax, to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

(i) Sales revenue

Sales revenue is recognised on the basis of the Group's interest in a producing field ("entitlements" method), when the physical product and associated risks and rewards of ownership pass to the purchaser, which is in the case of oil at the time the product reaches Moomba (other than production from Flax where title passes at the well head) and in the case of Wet Gas at Moonanga.

(ii) Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

(h) Share-based payments transactions of the Company

Share based compensation benefits are provided to employees via the employee share plan, details of which are set out in note 32.

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of the binomial or Monte Carlo model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 32.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting date, the Group revises its estimate of the number of equity instruments expected to vest in respect to employees that have left the Company. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to the equity settled employee benefits reserve.

(i) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Drillsearch Energy Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

Petroleum Resource Rent Tax (PRRT)

PRRT is recognised as an income tax under AASB 112 'Income Taxes'. From 1 July 2012, the existing PRRT regime was extended to all Australian petroleum production sourced from projects located onshore and in territorial waters.

The Group applies tax effect accounting to PRRT for its operations. Applying tax effect accounting principles to PRRT results in the tax effect of the difference between the PRRT tax base and the accounting base of these assets to be recognised as a deferred tax balance on the balance sheet and an income tax benefit in the income statements. The PRRT tax base represents the remaining deductible project costs of the relevant projects. The accounting base represents the written down net balance sheet value of the project which is amortised over the life of reserves. 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 a non producing licenses. As a result, the net impact was neutral during the financial year ended 30 June 2015.

(j) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

(k) Financial instruments

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Subsequent measurement of financial instruments is based on their initial classification. Fair value through profit or loss financial instruments are measured at fair value and changes in fair value are recognised in the statement of comprehensive income. Available for sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognised or impaired. The remaining categories of financial instruments are recognised at amortised cost using the effective interest rate method.

Accounts receivable are classified as loans and receivables which are measured at amortised cost. Accounts payable, accrued liabilities and borrowings are classified as financial liabilities at amortised cost. Convertible notes are classified as FVTPL. Borrowings and convertible notes are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration payable is recognised in profit or loss.

Transaction costs that are directly attributable to a financial asset or liability measured at fair value through profit or loss are taken directly to the income statement. All other financial assets and liabilities are shown net of transaction costs.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to each particular class of inventory, with all categories being valued on a first in first out basis. The net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(m) Assets classified held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(n) Property, plant and equipment

Each class of plant and equipment is carried at historical cost less, where applicable, any accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Leasehold improvements are amortised over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The straight line method is used. Assets are depreciated or amortised from the date of acquisition.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Property, Plant and Equipment	5-33%

Gains or losses or disposals are determined by comparing proceeds with carrying amount. These are included in profit and loss.

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

The discount rate used to determine the present value is a pre-tax discount rate that reflects the current market assessment of the time value of money and risks specific to the liability.

Provision for decommissioning

A provision for decommissioning is recognised when there is a present obligation as a result of exploration, development and production activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas.

The provision for future decommissioning costs is the best estimate of the present value of the expenditure required to settle the decommissioning obligation at the reporting date. Future decommissioning costs are reviewed annually and any changes in the estimate are reflected in the present value of the decommissioning provision at each reporting date.

The initial estimate of the decommissioning and rehabilitation provision relating to exploration, development and production facilities is capitalised into the cost of the related asset and amortised on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for decommissioning are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

(p) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the consolidated statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(q) Exploration and evaluation

During the year, the Company has made a change in accounting policy for exploration and evaluation expenditure. Refer to Note 5 for disclosure regarding the change.

Exploration and evaluation expenditure is accounted for using the successful efforts method of accounting.

All exploration expenditure in relation to directly attributable general administration costs, geological and geophysical costs, seismic and pre-licence costs is expensed in the statement of comprehensive income as incurred.

Exploration and evaluation assets are recognised in the year in which they are incurred where the following conditions are satisfied:

- the rights to tenure of the area of interest are current; and
- at least one of the following conditions is also met:
 - (i) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
 - (ii) exploration and evaluation activities in the area of interest have not, at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

For exploration wells, costs directly associated with drilling the wells are initially capitalised pending the evaluation of whether potentially economic reserves of hydrocarbons have been discovered. If no recoverable hydrocarbons are identified, or hydrocarbons are deemed not commercial, then the capitalised costs are to be expensed.

When an oil or gas field has been approved for development, the accumulated exploration and evaluation costs are transferred to oil and gas assets.

(r) Oil and gas assets

Assets in development

The costs of oil and gas producing assets and capitalised expenditure on oil and gas assets under development are accounted for separately and are stated at cost less amortisation and impairment losses. Costs include past exploration and evaluation costs, past development costs and the ongoing costs of continuing to develop reserves for production and to expand, replace or improve plant and equipment and any associated land and buildings.

Producing assets

When an oil and gas asset commences production, costs carried forward are subjected to amortisation.

Amortisation is calculated using the units of production method for an asset or group of assets from the date of commencement of production. Depletion charges are calculated using the units of production method over the life of the estimated Proven plus Probable ("2P") reserves for an asset or group of assets. The calculation is based on historic costs and future development costs.

Changes in factors such as estimates of 2P reserves that affect the amortisation and depletion calculation do not give rise to prior period adjustments and are dealt with on a prospective basis.

Site restoration costs are capitalised within the cost of the associated assets and the provision is stated in the consolidated balance sheet at total estimated present value.

(s) Impairment

The carrying amounts of the Group's assets are reviewed at the end of each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of the Group's investments in held to maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss, unless an asset has previously been re-valued through equity, in which case the impairment loss is recognised as a reversal to the extent of the previous revaluation with any excess recognised through profit or loss.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(t) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(u) Borrowing costs

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group recognises other borrowing costs as an expense in the period in which it incurs them.

4 Critical accounting estimates and judgements

(a) Key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(i) Exploration and evaluation assets

The Group's policy for exploration and evaluation is discussed in note 3(q). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future sale or exploitation, then the relevant capitalised amount will be written off through profit or loss.

(ii) Estimate of reserve quantities

The estimated quantities of proven and probable hydrocarbon reserves reported by the Group are integral to the calculation of amortisation (depletion) and depreciation expense and to assessments of possible impairment of assets. Estimated reserve quantities are based upon interpretations of geological and geophysical models and assessment of the technical feasibility and commercial viability of producing the reserves. Management prepare reserve estimates which conform to guidelines prepared by the Society of Petroleum Engineers Australia. The Company's annual reserves and resource estimates are independently reviewed by technical experts.

Estimation of reserves and resources require assumptions to be made regarding future development and production costs, commodity prices, exchange rates and fiscal regimes. The estimate of reserves may change from period to period as the economic assumptions used to estimate the reserves can change from period to period, and as additional geological data is generated during the course of operations.

(iii) Units of production method of depreciation and amortisation

The Group applies the units of production method for amortisation of its oil and gas properties and assets based on hydrocarbons produced. These calculations require the use of estimates and assumptions. Significant judgement is required in assessing the available reserves and associated future development costs and future production associated with the assets to be amortised under this method. Factors that must be considered in determining reserves and resources and future production are the Group's history of converting resources to reserves in the relevant time frames, markets and future developments. When these factors change or become known in the future, such differences will impact pre-tax profit and carrying value of assets. It is impracticable to quantify the effect of these changes in these estimates and assumptions in future periods.

(iv) Provision for decommissioning

The Group estimates the future removal and decommissioning costs of oil and gas production facilities, wells, pipelines and related assets at the time of installation of the assets. In most instances the removal of these assets will occur many years in the future. The estimate of future removal costs therefore requires management to make adjustments regarding the removal date, future environmental legislation, the extent of decommissioning activities and future removal technologies.

(v) Impairment of oil and gas assets

The Group assesses whether oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash generating unit to which each asset belongs. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and or subsequent disposal. The expected net cash flows are discounted to their present values in determining the recoverable amount.

(vi) Recovery of deferred tax assets

The Group recognises deferred tax assets when it becomes probable that sufficient taxable income will be derived in future periods against which to offset these assets. At each reporting date, the Group assesses the level of expected future cash flows from the business and the probability associated with realising these cash flows, and makes an assessment of whether the deferred tax assets of the Group should be recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(vii) Petroleum Resource Rent Tax (PRRT)

The Group's policy for income tax is discussed in note 3(i). The application of this policy requires management to complete a valuation of the projects the Group holds an interest in which fall within the remit of the PRRT regime, to determine the applicable treatment and any resultant tax liability or deferred tax asset estimate (discussed above). Under PRRT, the Group has the option to elect differing methodologies when determining the project valuation and this has the potential to materially affect the outcome of the estimate. The assessments also require assumptions to be made regarding an asset's future development costs, production forecasts and costs, commodity prices, exchange rates and fiscal regimes. These assumptions are applied consistently with those in other areas of critical judgements and key estimates.

(b) Critical judgements in applying accounting policies

The following are the critical judgements that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

(i) Financial instruments

The Group's policy for financial instruments is discussed in note 3(k). The application of this policy requires management to make a number of critical judgements regarding the valuation of the financial instruments held by the Company.

(ii) Convertible note valuation

The Group's policy for convertible note valuation is discussed in note 3(k). The application of this policy requires management to make a number of critical judgements regarding the valuation of the convertible notes held by the Company including the financial liability classification of the instrument.

5 Voluntary change in accounting policy and correction to prior period classification

Voluntary change in accounting policy

During the financial year, the Group has elected to make a voluntary change to its accounting policy in relation to exploration and evaluation expenditure. As a result of this change, the financial report has been prepared on the basis of a retrospective application of this change in accounting policy. The comparative consolidated statement of comprehensive income and balance sheet have been restated as if the change in the accounting policy had been adopted at the start of the comparative period.

The new exploration and evaluation accounting policy uses the "successful efforts" method of accounting whereby exploration and evaluation expenditure in relation to unsuccessful exploration wells and directly attributable costs such as general administration costs, geological and geophysical costs, seismic and pre-license expenditure, is expensed as incurred. An exploration well is considered to be unsuccessful if no recoverable hydrocarbons are identified, or the company considers that the hydrocarbons are not commercially viable.

The previous accounting policy was to capitalise all costs associated with its exploration, evaluation and development activities on an area of interest basis.

It is the view of the Directors that the change in policy will provide market participants with more reliable and relevant information as to the carrying values of exploration and evaluation assets and to afford greater transparency regarding the Company's current financial performance and position. Adopting Successful Efforts will also bring the Company into line with the majority of its peers.

In relation to the current year, the voluntary change in accounting policy has resulted in the recognition of an exploration and evaluation expense of \$57.6 million. Had the change in accounting policy not been adopted for the current year, the result would have been capitalisation of the \$57.6 million to the Exploration and Evaluation asset.

The change in accounting policy has resulted in a reclassification in the consolidated statement of cash flows with the unsuccessful costs associated with exploration and evaluation moved from investing activities to operating activities.

Correction to prior period classification

During the year the Company identified certain prior period costs included in Oil and Gas assets that should have been included in Exploration and Evaluation assets. As a result of this, the costs have been reclassified to Exploration and Evaluation assets as a prior period adjustment.

The impact of the change in accounting policy and correction to prior period classification on the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position is set out below. There is no impact on the consolidated statement of cash flows for the aforementioned prior period classification.

(i) Consolidated statement of financial position (abridged)

	30 JUNE 2013			
	As previously reported \$'000	Correction to prior period classification \$'000	Impact of successful efforts \$'000	Restated \$'000
Non-current assets				
Exploration and evaluation assets	217,890	5,057	(98,834)	124,113
Oil & gas assets	108,586	(5,057)	–	103,529
Deferred tax (liabilities) / assets	63,223	–	29,650	92,873
Net Assets	286,595	–	(69,184)	217,411
Total assets	485,177	–	(69,184)	415,993
Retained earnings	(1,083)	–	(69,184)	(70,267)
Total Equity	286,595	–	(69,184)	217,411

	30 JUNE 2014			
	As previously reported \$'000	Correction to prior period classifications \$'000	Impact of successful efforts \$'000	Restated \$'000
Non-current assets				
Exploration and evaluation assets	229,041	13,893	(141,121)	101,813
Oil & gas assets	187,899	(13,893)	–	174,006
Deferred tax (liabilities) / assets	(30,898)	–	42,336	11,438
Net assets	363,405	–	(98,785)	264,620
Total assets	682,839	(13,893)	(98,785)	557,002
Retained earnings	70,440	–	(98,785)	(28,345)
Total Equity	363,405	–	(98,785)	264,620

(ii) Consolidated statement of other comprehensive income (abridged)

	30 JUNE 2014			
	As previously reported \$'000	Correction to prior period classifications \$'000	Impact of successful efforts \$'000	Restated \$'000
Exploration and evaluation costs expensed	(2,120)	–	(42,287)	(44,407)
Income tax expense	(107,906)	–	12,686	(95,220)
Total comprehensive income for the year	71,893	–	(29,601)	42,292
	Cents	Cents	Cents	Cents
Earnings per share				
Basic earnings per share	16.6	–	(6.8)	9.8
Diluted earnings per share	16.3	–	(6.7)	9.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Segment information

Information reported to the Chief Operating Decision Maker (CODM), being the Managing Director, for the purposes of resource allocation and assessment of performance is more specifically focused on the category of business units. The Group's reportable segments under AASB 8 'Operating Segments' are therefore as follows:

(a) Description of segments

Oil Projects

Drillsearch is exploring and developing oil projects in the Cooper Basin, targeting numerous, high-return oil exploration projects to drive short-term growth. Drillsearch has existing oil production which provides ongoing cash flow. This cash flow helps fund the Company's growth projects.

Wet Gas Projects

Wet gas is natural gas that contains significant amounts of liquid hydrocarbons – condensate (a very light oil) and LPG. Drillsearch has existing wet gas discoveries and currently has three wet gas fields in production. The Company also holds significant wet gas exploration upside with the potential development of these discoveries significantly contributing to revenue generation over the medium to long-term.

Unconventional Projects

Drillsearch has identified significant unconventional resources while undertaking the Wet Gas Project exploration program. The unconventional resource lies in the deeper coal seams, shales and tight gas sands throughout the Cooper-Eromanga Basin. The Company is focusing its unconventional exploration activities on two key project areas; the Central Cooper Basin – Nappamerri Trough Shale Gas Fairway, and in the Southern and Western Cooper Basin Unconventional Gas Fairway. The prospective unconventional resource zones in each of these project areas have the potential to contribute significantly to Drillsearch's long-term growth potential.

Divestment assets

Divestment assets comprises assets held for sale.

(b) Segment results

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

	Oil Projects \$'000	Wet Gas Projects \$'000	Unconven- tional Projects \$'000	Divestment assets \$'000	All other segments \$'000	Total \$'000
2015						
Total segment revenue	220,769	11,344	–	18,467	–	250,580
EBITDAX (6(c)(iv))	176,798	(6,158)	154	7,358	(25,349)	152,803
Depletion, depreciation and amortisation	44,489	2,055	–	7,895	1,761	56,200
Impairment of oil and gas assets	7,551	–	–	44,342	–	51,893
Exploration and evaluation expensed/written off	12,791	21,407	23,441	–	–	57,639
Total segment assets	139,127	146,886	60,363	25,045	31	371,452
Total segment liabilities	24,438	24,688	(394)	24,545	–	73,277
<i>Total assets includes:</i>						
Additions to non-current assets (other than financial assets and deferred tax)	51,346	25,789	78,479	4,957	1,418	161,989
2014						
Total segment revenue	365,917	21,103	–	–	–	387,020
EBITDAX (6(c)(iv))	259,790	16,682	45	(2,671)	(41,865)	231,981
Depletion, depreciation and amortisation	35,403	2,862	–	55	2,028	40,348
Impairment of oil and gas assets	218	–	–	–	–	218
Exploration and evaluation expensed/written off	18,324	7,331	18,752	–	–	44,407
Total segment assets	210,783	121,968	26,291	100	524	359,666
Total segment liabilities	54,358	21,056	28,698	–	–	104,112
<i>Total assets includes:</i>						
Additions to non-current assets (other than financial assets and deferred tax)	62,910	21,696	14,154	–	1,596	100,356

(c) Other segment information

(i) Segment revenue

Segment revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period (2014:nil).

(ii) Accounting policies of reportable segments

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Adjusted EBITDA represents the profit earned by each segment without allocation of interest income and finance costs, tax, depreciation and amortisation, exploration and evaluation costs and impairment. This is the measure reported to the Chief Operating Decision Maker for the purpose of resource allocation and assessment of segment performance.

(iii) Information about major customers

Included in revenues arising from direct sales of oil and gas of \$250.6 million (2014: \$387.0 million) are revenues of approximately \$166.9 million (2014: \$380.1 million) which arose from sales to the Group's largest customer. The revenue from the Group's second largest customer was approximately \$50.6 million (2014: \$4.3 million). No other single customer contributed 15% or more to the Group's revenue for both 2015 and 2014.

(iv) EBITDAX

EBITDAX reconciles to operating (loss)/profit before income tax as follows:

	30 June 2015 \$'000	Restated 30 June 2014 \$'000
EBITDAX	152,803	231,981
Interest income	3,126	1,771
Finance costs	(10,018)	(11,637)
Amortisation and depletion	(54,439)	(38,320)
Depreciation	(1,761)	(2,028)
Impairment of oil and gas assets	(51,893)	(218)
Exploration and evaluation costs expensed/written off	(57,639)	(44,407)
(Loss)/profit before income tax	(19,821)	137,142

EBITDAX is Non-IFRS accounting financial information used by the Company to measure underlying performance. The Non-IFRS accounting financial information in this report 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 report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(d) Segment assets

Segment assets are measured in the same way as in the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

	30 June 2015 \$'000	30 June 2014 \$'000
Segment assets	371,452	359,666
Unallocated:		
Cash	131,486	152,384
Other receivables	1,749	2,331
Inventories	105	105
Deferred tax assets	23,185	11,438
Other assets and property, plant and equipment	12,172	31,078
Total assets as per the consolidated statement of financial position	540,149	557,002

Investment in shares (classified as available-for-sale financial assets, held-to-maturity investments or financial assets at fair value through profit or loss) held by the Group are not considered to be segment assets but are managed by the treasury function.

(e) Segment liabilities

Reportable segments' liabilities are reconciled to total liabilities as follows:

Segment Liabilities	73,277	104,112
Unallocated:		
Trade and other payables	6,587	8,784
Current employee benefits	684	724
Non-current borrowings	162,108	153,426
Non-current employee benefits	203	142
Liabilities directly associated with financial assets at fair value through profit or loss	–	25,194
Total liabilities as per the consolidated statement of financial position	242,859	292,382

7 Revenue

	Notes	30 June 2015 \$'000	30 June 2014 \$'000
Revenue from the sale of oil and gas		250,580	387,020

See note 6 for an analysis of segment revenue.

8 Other gains and losses

Gains arising on available for sale financial assets designated as at FVTPL		–	3,641
Losses arising on other financial liabilities designated as at FVTPL	14	–	(3,641)
Net foreign exchange gains / (losses)		5,355	(2,520)
Other (losses) / gains		(181)	784
Interest income		3,126	1,771
		8,300	35

The gains in the prior period on available for sale financial assets designated at fair value through profit or loss (FVTPL) and losses on other financial liabilities designated as at FVTPL relate to a mark to market adjustment in relation to the Ambassador transaction. See notes 14 and 38.

9 Cost of sales

Change in inventories	235	(29)
Direct operating expense	93,190	110,907
Depreciation	1,761	2,028
Amortisation and depletion	54,439	38,320
	149,625	151,226

Amortisation and depletion has increased during the period as a result of a revision to future development capital expenditure over the remaining life of field.

10 Finance costs

Finance fees and interest costs	(9,800)	(11,206)
Unwinding of discount on provisions	(218)	(431)
	(10,018)	(11,637)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 Net gain on derivatives

	30 June 2015 \$'000	30 June 2014 \$'000
Derivatives fair value losses – unrealised	(3,097)	(1,760)
Oil price hedge gains – realised	20,592	–
	17,495	(1,760)

12 Other expenses

Share based payments expense	702	873
Corporate activity costs	279	979
General legal and professional costs	752	818
Employee benefits expense (a)	32,081	26,025
Recharges and recoveries (b)	(24,004)	(20,592)
Other expenses	8,530	9,527
	18,340	17,630

(a) Employee benefits expense

Superannuation contributions plans	1,417	1,112
Equity settled share-based payments	1,744	1,042
Other employee benefits	28,920	23,871
	32,081	26,025

(b) Recharge and recoveries

The Group has a policy to allocate a portion of employee benefit expense and other office expenses to oil, gas, exploration and evaluation assets based on employee time committed to various projects. A portion of the amount is recovered from the joint venture partners.

13 Income taxes

(a) Income tax recognised in profit or loss

	30 June 2015 \$'000	30 June 2014 \$'000
Deferred tax		
In respect of current year	872	(50,284)
In respect of prior years	10,873	11,086
Deferred tax on PRRT in respect of the current year	–	(56,022)
	11,745	(95,220)
Total income tax benefit/(expense) recognised in the current year	11,745	(95,220)

The income tax benefit/(expense) for the year can be reconciled to the accounting profit as follows:

(Loss)/profit from continuing operations before income tax expense	(19,821)	137,142
Prima facie income tax benefit/(expense) at 30.0% (2014 – 30.0%)	5,946	(41,143)
Adjusted by:		
Gains/(expenses) that are not assessable/(deductible) in determining taxable profit	6,926	(9,141)
PRRT (net of income tax deduction for PRRT)	–	(56,022)
De-recognition of prior years' tax losses	(12,000)	–
	872	(106,306)
Adjustments recognised in the current year in relation to the current and deferred tax of prior periods	10,873	11,086
Income tax benefit/(expense) recognised in profit or loss	11,745	(95,220)

The tax rate used for the 2015 and 2014 reconciliations above is the corporate tax rate of 30% payable by Australian entities on taxable profits under Australian tax law.

The producing permits generated a PRRT deferred tax liability which was sheltered by a corresponding deferred tax benefit from eligible exploration expenditures incurred by non producing permits. As a result, the net impact was neutral during the financial year ended 30 June 2015.

(b) Current and Deferred Tax

The Group's policy for income tax is discussed in note 3(i). The application of this policy requires management to make estimates and judgements as to the quantum of the temporary differences arising between accounting and tax treatment. Deferred tax assets are only recognised to the extent that it is probable that there will sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. These assessments require assumptions to be made regarding the Group's future taxable position and are performed on an annual basis.

(c) Deferred tax balances

The balance comprises temporary differences attributable to:

	30 June 2015 \$'000	30 June 2014 \$'000
<i>Deferred tax assets</i>		
Tax losses	21,465	41,271
Accruals and provisions	6,495	12,735
Unrealised foreign exchange gains and losses	12,974	3,259
Unclaimed share issue costs	1,273	2,097
Other	6,122	372
	48,329	59,734
<i>Deferred tax liabilities</i>		
Oil and gas assets	17,409	(18,203)
Exploration and evaluation assets	(42,553)	(30,093)
	(25,144)	(48,296)
Net deferred tax asset	23,185	11,438

The Group recognised the tax-effected \$21.5 million as deferred tax asset on the basis that these were forecast to be recoverable using the estimated future taxable income based on the Group's business plans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Movements	Tax Losses \$'000	Oil and gas assets \$'000	Exploration and evaluation assets \$'000	Provisions \$'000	Other \$'000	Total \$'000
At 30 June 2014	41,271	(18,203)	(30,093)	12,735	5,728	11,438
(Charged)/credited						
– to profit or loss	(19,806)	35,611	(12,460)	(6,240)	14,641	11,746
At 30 June 2015	21,465	17,408	(42,553)	6,495	20,369	23,184

Movements	Tax Losses \$'000	Oil and gas assets \$'000	Exploration and evaluation assets \$'000	Provisions \$'000	Deferred revenue \$'000	Other \$'000	Total \$'000
At 1 July 2013	98,437	23,800	(33,251)	2,111	(6,214)	7,990	92,873
(Charged)/credited							
– to profit or loss	(57,166)	(55,788)	3,158	10,624	6,214	(2,262)	(95,220)
– acquisition	–	13,786	–	–	–	–	13,786
At 30 June 2014	41,271	(18,203)	(30,093)	12,735	–	5,728	11,438

(d) Unrecognised temporary differences

	30 June 2015 \$'000	30 June 2014 \$'000
The following deferred tax assets have not been brought to account as assets:		
Tax losses – Revenue	12,000	–
Tax losses – Capital	1,587	1,280
	13,587	1,280

14 Current financial instruments at fair value through profit or loss

30 June 2015 **30 June 2014**
\$'000 **\$'000**

Current assets

Available for sale financial assets designated as at FVTPL	–	25,194
Other financial liabilities designated as at FVTPL	–	(25,194)
Net financial assets at FVTPL	–	–

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 or 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 .

15 Assets classified as held for sale

Assets

Assets directly associated with assets classified as held for sale		
Exploration and evaluation assets ⁽ⁱ⁾	–	100
Other assets ⁽ⁱⁱ⁾	500	–
Oil and Gas assets ⁽ⁱⁱⁱ⁾	24,545	–
Total assets	25,045	100

Liabilities

Decommissioning costs provision ⁽ⁱⁱⁱ⁾	24,545	–
Net Assets	500	100

- (i) 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.
- (ii) 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.
- (iii) The Company has started a divestment process for its interests in the Tintaburra asset and as at 30 June 2015, the asset is available for immediate sale in its present condition. As a result, the assets and liabilities directly associated with the Tintaburra operation have been disclosed as an asset held for sale for the financial year ended 30 June 2015. The Tintaburra operation forms part of the 'Oil' segment in 2014, but has been reclassified as a 'Divestment' asset under Note 6 as at 30 June 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16 Earnings per share

(a) Basic earnings per share

	30 June 2015 Cents	Restated 30 June 2014 Cents
Basic earnings per share	(1.8)	9.8

(b) Diluted earnings per share

Diluted earnings per share	(1.8)	9.6
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(c) Reconciliation of earnings used in calculating earnings per share

	30 June 2015 \$'000	30 June 2014 \$'000
<i>Basic earnings per share</i>		
(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(8,076)	41,922
<i>Diluted earnings per share</i>		
(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating basic (loss)/earnings per share	(8,076)	41,922
Add: interest savings on convertible notes (anti-dilutive)	–	–
Add: tax effect of adjusting items (anti-dilutive)	–	–
Add: fair value change on convertible notes (anti-dilutive)	–	–
(Loss)/earnings used in the calculation of total basic and diluted (loss)/earnings per share (EPS)	(8,076)	41,922

(d) Weighted average number of shares used as denominator

	2015 no. of shares	2014 no. of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	458,398,128	431,242,877
Adjustments for calculation of diluted earnings per share:		
Weighted average number of ordinary shares to be issued for no consideration in respect of employee options and performance rights	–	7,596,094
Weighted average number of ordinary shares to be issued in respect of convertible notes (anti-dilutive) ⁽ⁱ⁾	–	–
Weighted average number of ordinary shares in respect of contingently issuable shares ⁽ⁱⁱ⁾	–	801,302
Weighted average number of ordinary shares for the purposes of diluted earnings per share	458,398,128	439,640,273

(i) Potential ordinary shares relating to convertible notes are anti-dilutive due to the favourable impact on profit that would arise on conversion (via reduced finance costs and fair value losses). The potential ordinary shares are therefore excluded from the weighted average number of shares for the purposes of diluted earnings per share.

(ii) Contingently issuable shares relate to the acquisition of shares in Ambassador Oil and Gas Limited to be completed subsequent to year end.

17 Cash and cash equivalents

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	30 June 2015 \$'000	30 June 2014 \$'000
Cash and bank balances	131,486	152,384

Surplus cash balances are invested with AA and above rated Australian domiciled banks as per the Company's treasury policy.

The Group has provided financial guarantees in respect of operations of subsidiaries amounting to \$3.0 million, secured by bank deposits which represent restricted cash.

(b) Reconciliation of profit for the year to net cash flows from operating activities:

(Loss)/profit for the year	(8,076)	41,922
Depreciation	1,761	2,028
Amortisation and depletion	54,439	38,320
Exploration and evaluation costs written off ⁽ⁱ⁾	34,651	24,591
Impairment of oil and gas assets	51,893	218
Changes in decommissioning obligations	281	510
Loss on sale of fixed assets	182	–
Finance cost recognised in profit and loss	132	173
Fair value gain on convertible notes	8,681	23,035
Net gain on derivatives	(17,495)	–
Share-based payments	2,446	1,914
Decrease/(increase) in receivables	7,724	(35,990)
Decrease/(increase) in creditors	(37,604)	34,391
Decrease/(increase) in inventories	(1,955)	1,082
(Increase) decrease in other operating assets	(906)	(859)
(Decrease) increase in taxation balances	(11,747)	95,217
Net cash inflow from operating activities	84,407	226,552

(i) Exploration and evaluation costs expensed/written off in the year totalled \$57.6 million (2014: \$44.4 million), of which \$34.7 million (2014: \$24.6 million) represents the write off of costs for unsuccessful wells which are not included in operating cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18 Trade and other receivables

	30 June 2015 \$'000	30 June 2014 \$'000
Trade receivables	67,625	58,294
Amounts receivable from joint venture partners	2,122	24,897
Other receivables	1,749	2,331
	71,496	85,522

The average credit period on sales of goods is 60 days. The Group will generally recognise an allowance for doubtful debts for receivables over 120 days because historical experience has been that receivables that are past due beyond 120 days are not recoverable.

The decrease in trade receivables is a result of the fall in oil and gas revenues. The balance outstanding at 30 June 2015 is primarily in relation to oil sales and liftings made in the final months of the period. The trade receivables were outstanding for an average period of less than 7 days as at 30 June 2015.

There are no receivables past due that are not impaired.

Movements in allowance for doubtful debts

At 1 July	–	(795)
Provision for impairment recognised during the year	–	–
Amounts used during the year	–	795
Impairment losses reversed	–	–
At 30 June	–	–

Age of impaired trade receivables

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is unrelated and includes large corporations.

The impairment recognised represents the difference between the carrying amount of these trade receivables and the value of the expected liquidation proceeds.

19 Exploration and evaluation assets

	Notes	30 June 2015 \$'000	Restated 30 June 2014 \$'000
Opening balance (restated)		101,813	124,113
Acquisitions ⁽ⁱ⁾		42,537	1,500
Divestments		–	(12,057)
Expenditure incurred during the period		69,673	28,081
Exploration and evaluation costs written off		(34,866)	(24,591)
Reclassified to oil and gas assets	20	(4,015)	(15,133)
Reclassified to held for sale assets	15	–	(100)
Changes in decommissioning obligations		3,354	–
Balance carried forward		178,496	101,813

(i) 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 has been treated as an asset acquisition for accounting purposes. The fair value of its exploration and evaluation assets were assessed at \$42.5m. See note 14 and note 19 for accounting treatment of Ambassador at 30 June 2014.

20 Oil and gas assets

Opening balance		174,006	103,529
Acquisitions		–	23,018
Reclassified (to)/from asset held for sale	15	(24,545)	199
Expenditure incurred during the period		47,526	46,877
Depletion and amortisation expense	9	(54,439)	(38,320)
Impairment of oil and gas assets ⁽ⁱ⁾		(51,893)	(218)
Changes in decommissioning obligations		982	23,788
Reclassified from exploration and evaluation assets	19	4,015	15,133
Balance carried forward		95,652	174,006

(i) 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 \$51.9 million in relation to Tintaburra (ATP299P) and Flax (PRL14), which has been recognised in profit or loss. Both Tintaburra and Flax are included in the Company's Oil reportable segment. Both Tintaburra's and Flax's recoverable amount have been determined on the fair value less costs of disposal approach. The fair value is calculated by discounting 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 31(j)(i) for further explanation.

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

- Discount rate of 11%;
- Company's 2P reserve announcement as at 30 June 2014;
- Brent crude oil prices and exchange rates are within market analysts' estimated ranges; and
- Reduction in operating and capital expenditure due to restructuring operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 Property, plant and equipment

	Notes	30 June 2015 \$'000	30 June 2014 \$'000
Opening balance		2,571	3,719
Disposals		(214)	–
Expenditure incurred during the year		2,253	880
Depreciation expense	9	(1,761)	(2,028)
		2,849	2,571

22 Trade and other payables

Current liabilities

Trade payables ⁽ⁱ⁾		32,335	53,282
Goods and services tax payable		3,220	3,204
Amounts owing to Joint Operations		1,496	18,152
		37,051	74,638

(i) The average credit period on purchases of goods and services is 30 days. The Group seeks to ensure that all payables are paid within the credit timeframe.

The balance outstanding at 30 June 2015 is primarily in relation to the Company's exploration and drilling activities which were ongoing over the period end. The decrease in trade payables is reflective of the overall decrease in capital activities. The majority of the balance was paid subsequent to year end.

23 Provisions

30 June 2015 **30 June 2014**
\$'000 **\$'000**

Current

Employee benefits (a)	684	724
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Non-current

Employee benefits (a)	203	142
Decommissioning costs (c)	18,268	38,258
	18,471	38,400

(a) Employee benefits

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

(b) Decommissioning costs – current

Opening balance	–	965
Payments made	–	(965)
Balance carried forward	–	–

(c) Decommissioning costs – non-current

Opening balance	38,258	14,039
Additional provisions recognised relating to acquisitions and discoveries	4,841	20,830
Unwinding of discount	218	431
Reclassified from / (to) asset held for sale	(24,545)	–
Revision of decommissioning obligations	(504)	2,958
Balance carried forward	18,268	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 operating 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 Borrowings

	30 June 2015 \$'000	30 June 2014 \$'000
Non-current unsecured		
Convertible notes	162,108	153,426
	162,108	153,426

(a) Convertible notes

US\$125 million convertible notes (the "Notes") were issued by Drillsearch (Finance) Pty Limited, guaranteed by the Company, on 3 May 2013 and 13 May 2013. These are due to expire September 2018. The Notes carry a fixed coupon of 6.00% per annum, paid semi-annually, for a term of approximately five years and are convertible into Drillsearch shares at an initial conversion price of US\$1.66 per share, representing a conversion premium of approximately 35% above A\$1.19, being the closing price of the shares on the ASX on 26 April 2013. The Notes were listed on the Singapore Securities Exchange on 3 May 2013.

The net proceeds received from the issue of the convertible notes have been recognised as a financial liability.

The convertible bond is measured at Fair Value Through Profit and Loss (FVTPL). The interest expense for the year is calculated by accruing the fixed coupon rate of 6%. The difference between the carrying amount of the convertible notes at 30 June 2014 A\$153.4 million and the amount reported in the statement of financial position at 30 June 2015 represents the impact of the fair value adjustment and foreign currency translation (see below and note 31).

Change in valuation of convertible note attributable to market	22,844	(26,217)
Change in respect of foreign exchange differences	(31,525)	3,182
Change in fair value of convertible note	(8,681)	(23,035)

Drillsearch has the right to redeem all Notes on or after 17 May 2016 if Drillsearch's share price exceeds 130% of the conversion price for a certain period of time. Drillsearch may also redeem the Notes if 10% or less of the principal amount remains outstanding. Holders have the right to have the Notes redeemed on or after 1 September 2016 for a certain period of time and / or where certain prescribed conditions are met. No convertible notes were eligible for conversion during the financial year ended 30 June 2015 (2014: None). On conversion, Drillsearch may elect to settle the Notes in cash or ordinary shares in the parent entity. Based on the current conversion price, the maximum number of shares that could be issued on conversion is 75,301,205 (2014: 75,301,205).

25 Contributed equity

(a) Issued capital

	30 JUNE 2015		30 JUNE 2014	
	Number of shares	Value \$'000	Number of shares	Value \$'000
Fully paid ordinary shares				
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	5,212,524	5,117
Balance at the end of the period	461,101,450	325,149	432,965,895	285,528

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share options granted under the employee share option plan

As at 30 June 2015, Directors, Executives and employees have options over 4,857,465 ordinary shares, in aggregate, with all of those options expiring until 23 November 2018. As at 30 June 2014, directors, executives and senior employees had options over 7,906,339 ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26 Reserves (net of income tax)

	Notes	30 June 2015 \$'000	30 June 2014 \$'000
General reserve		3,440	3,440
Equity settled employee benefits reserve		6,283	4,924
Foreign currency translation reserve		(1,161)	(927)
		8,562	7,437

(a) General reserve

Opening balance		3,440	3,440
Balance at the end of the year		3,440	3,440

The general reserve is used from time to time to transfer profits from retained earnings for appropriate purposes. There is no policy of regular transfer. As the general reserve is created by a transfer from one component of equity to another and is not an item of other comprehensive income, items included in the general reserve will not be reclassified subsequently to profit or loss unless an employee has left the Company.

(b) Equity settled employee benefits reserve

Opening balance		4,924	5,124
Share based payments expense in relation to shares issued	32	2,446	1,914
Issue of shares held by entity to employees		(1,087)	(2,114)
Balance at the end of the year		6,283	4,924

The above equity settled employee benefits reserve relates to share options and performance rights granted by the Company to its employees under its employee share option plan. Items included in the equity-settled employee benefits reserve will not be reclassified subsequently to profit or loss. Further information about share based payments to employees is set out in note 32.

(c) Foreign currency translation reserve

Opening balance		(927)	(1,297)
Exchange differences arising on translating the foreign operations		(234)	370
Balance at the end of the year		(1,161)	(927)

The exchange differences arising on translation of foreign operations may ultimately be recycled to the profit or loss.

27 Commitments

	30 June 2015 \$'000	30 June 2014 \$'000
Oil and gas properties		
Not longer than 1 year	41,059	69,850
Longer than 1 year and not longer than 5 year	150,426	121,200
	191,485	191,050
Operating lease commitments (office rental)		
Not longer than one year	1,226	1,322
Longer than 1 year and not longer than 5 years	1,777	3,098
	3,003	4,420

Commitments comprise of approved expenditures and permit commitments.

28 Contingent liabilities

There are no material contingent liabilities at 30 June 2015 (2014: nil) that are not otherwise disclosed of which the Directors are aware.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29 Joint Operations

The Group's operations are all located in the Cooper Basin within Australia. Details of the Group's joint operations at the end of the reporting period are as follows:

Name of joint operation	Principal activity	Ownership interest 2015 (%)
Oil Business		
PEL 91 (Cooper) (including PRL's and PPL's)	Exploration and production	Great Artesian Oil and Gas Limited 60% Beach Petroleum Limited 40%
ATP 299P including PRL's Tintaburra (Eromanga)	Exploration and production	Drillsearch Energy Limited 40% Santos QNT Pty Ltd 48% Vamgas Pty Ltd 12%
PEL182 (Cooper) (including PRL's)	Exploration	Acer Energy Limited 43% Victoria Oil Exploration (1977) Pty Ltd 57%
PEL 513 (Cooper)	Exploration	Great Artesian Oil & Gas Ltd 40% Santos Ltd 60%
ATP549 – Cypress Block (Eromanga)	Exploration	Great Artesian Oil & Gas Ltd 40% Australian Gasfields Limited 55% Strike Energy Limited 5%
Wet Gas Business		
PEL 101 (Cooper) (including PRL's)	Exploration	Acer Energy Pty Ltd 80% Mid Continent Equipment (Australia) Pty Ltd 20%
PEL 103A (Cooper)	Exploration	Acer Energy Pty Ltd 75% Bengal Energy (Australia) Pty Ltd 25%
PEL 106 (Cooper) (including PRL's and PPL's)	Exploration and production	Great Artesian Oil & Gas Limited 50% Beach Energy Limited 50%
PEL 632 (Cooper) (including PRL's)	Exploration	Great Artesian Oil & Gas Limited 40% Santos Limited 60%
PRLA26 Udacha (Cooper)	Production	Great Artesian Oil & Gas Limited 75% Beach Energy Limited 15% Rawson Resources 10%
PEL 107 (Cooper) (including PRL's and PPL's)	Exploration and production	Great Artesian Oil & Gas Limited 40% Drillsearch (Gas) Pty Ltd 20% Beach Energy Limited 40%
PL 315 PK – Pickanjinie (Surat)	Production	Drillsearch Energy Limited 75% Santos Limited 25%
ATP549 – West Block (Eromanga)	Exploration	Great Artesian Oil & Gas Ltd 67% Icon Energy Limited 33%
Unconventional Business		
ATP 940P (Eromanga)	Exploration	Circumpacific Energy (Australia) Pty Ltd 40% QGC (B7) Pty Ltd 60%
PEL 570	Exploration	Ambassador Exploration Pty Ltd (47.5%) Outback Energy Hunter Pty Ltd (35%) Sundance Energy Ltd (17.5%)

Significant judgement: classification of joint arrangements

The Group's joint venture agreements require unanimous consent from all parties for all relevant activities. The joint operators own the assets of the partnership as tenants in common and are jointly and severally liable for the liabilities incurred by the partnership. These entities are therefore classified as joint operations and the group recognises its direct right to the jointly held assets, liabilities, revenues and expenses as described in note 3(b)(ii).

30 Subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are as follows:

Name of entity	Country of incorporation	OWNERSHIP INTEREST	
		2015 %	2014 %
Great Artesian Oil and Gas Limited ⁽ⁱ⁾	Australia	100	100
Clean Gas Pty Limited ⁽ⁱ⁾	Australia	100	100
Drillsearch Gas Pty Limited ⁽ⁱ⁾	Australia	100	100
Circumpacific Energy (Australia) Pty Limited ⁽ⁱ⁾	Australia	100	100
Drillsearch (539) Pty Limited ⁽ⁱ⁾	Australia	100	100
Drillsearch (513) Pty Limited ⁽ⁱ⁾	Australia	100	100
Drillsearch (549) Pty Limited ⁽ⁱ⁾	Australia	100	100
Drillsearch (657) Pty Limited ⁽ⁱ⁾	Australia	100	100
Drillsearch (783) Pty Limited ⁽ⁱ⁾	Australia	100	100
Drillsearch (920) Pty Limited ⁽ⁱ⁾	Australia	100	100
Drillsearch (924) Pty Limited ⁽ⁱ⁾	Australia	100	100
Drillsearch SWQ Gas Pty Limited ⁽ⁱ⁾	Australia	100	100
Drillsearch (Field Ops) Pty Limited ⁽ⁱ⁾	Australia	100	100
Drillsearch (Central) Pty Limited ⁽ⁱ⁾	Australia	100	100
Acer Energy Limited ⁽ⁱ⁾	Australia	100	100
Drillsearch Finance Pty Limited ⁽ⁱ⁾	Australia	100	100
Drillsearch (299) Pty Limited ⁽ⁱ⁾	Australia	100	100
Drillsearch Energy (Canada) Incorporated	Canada	100	100
Kun Yick International Limited	Hong Kong	100	100
Drillsearch Energy (PNG) Limited	PNG	100	100
Ambassador Oil & Gas Limited ⁽ⁱ⁾	Australia	100	–
Ambassador Exploration Pty Ltd ⁽ⁱ⁾	Australia	100	–
Ambassador Oil & Gas Inc.	USA	100	–

Drillsearch Energy Limited is the head entity within the tax consolidated group.

(i) These companies are members of the tax consolidated group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Financial instruments

(a) Capital management

The capital structure of the Group consists of debt (borrowings as detailed in note 24 offset by cash and bank balances) and equity of the Group (comprising issued capital, reserves and retained earnings as detailed in notes 25 and 26).

The Board reviews the capital structure of the Group on an on-going basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

(i) Gearing ratio

	30 June 2015 \$'000	30 June 2014 \$'000
Debt ⁽ⁱ⁾	162,108	153,426
Equity ⁽ⁱⁱ⁾	297,287	264,618
Debt to equity ratio (%)	54.53	57.98

The gearing ratio at the end of the reporting period was as follows:

- (i) Debt is defined as long-term and short-term borrowings (excluding derivatives and financial guarantee contracts), as described in note 24.
- (ii) Equity includes all capital and reserves of the Group that as described in notes 25 and 26.

(b) Categories of financial instruments

	30 June 2015 \$'000	30 June 2014 \$'000
Financial assets		
Cash and bank balances	131,486	152,384
Loans and receivables	71,496	85,522
Available for sale financial assets designated as at FVTPL	–	25,194
Derivative financial instruments	5,605	–
	208,587	263,100
Financial liabilities		
Convertible notes (FVTPL)	162,108	153,426
Derivative financial instruments	–	155
Trade and other payables	37,051	74,638
Other financial liabilities designated as at FVTPL	–	25,194
	199,159	253,413

(c) Financial risk management objectives

The Group's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk, liquidity risk and credit risk.

The Group's Treasury function is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Treasury function regularly updates the Group's Audit and Risk Committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

(d) Market risk

The Group's activities expose it to financial risks of changes in commodity prices (below), foreign currency exchange rates (note 31(f)) and interest rates (note 31(g)).

There are no material changes noted in the current financial year which has increased the Company's exposure to market risks. The Company continues to focus on:

- The significant rise in oil production and weighting towards US dollar based revenues, which creates an exposure to both commodity price and foreign exchange risk; and
- The issuance of a US dollar convertible note debt instrument, which has created an increased exposure to foreign exchange risk.

(e) Commodity risk management

The Group has managed its exposure to future commodity prices by entering into the following options during the financial year:

Commodity	Price	Option type	30 June 2016	30 June 2017
ICE Brent	\$USD90/bbl	Put (Bought) – Uncommitted obligation	16,000	–
ICE Brent	\$USD60/bbl	Put (Bought) – Uncommitted obligation	1,412,000	215,000
Put (Bought) – Uncommitted obligation			1,428,000	215,000
ICE Brent	\$US120/bbl	Call (Sold) – Committed obligation	16,000	–
ICE Brent	\$US90/bbl	Call (Sold) – Committed obligation	927,000	–
ICE Brent	\$US85/bbl	Call (Sold) – Committed obligation	485,000	215,000
Call (Sold) – Committed obligation			1,428,000	215,000

The Options above provide a collar underpinning 1,643,000 bbls across financial years 2016 and 2017 (2015: 412,000 bbls).

The Group's current oil price hedging strategy is to maintain downside price protection on up to 75% of the next 18 months' forecast production with a weighting to the earlier periods.

The position is reviewed on an ongoing basis (at minimum quarterly) and the Group continues to assess its exposure to commodity price risk looking for opportunities to put additional hedging in place. See note 30(f) for foreign currency risk management.

Changes in fair value of the Options are recognised immediately in the statement of profit or loss. The total net gain on oil derivatives recognised for the financial year ending 30 June 2015 was \$17.5 million (2014: \$1.7m net loss).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(f) Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising short term forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	30 June 2015 \$'000	30 June 2014 \$'000
Cash and cash equivalents (USD currency)	43,963	78,425
Trade Receivables (USD currency)	6,678	49,653
Trade Payables (USD currency)	(1,250)	(4,027)
Convertible notes (USD currency)	(124,499)	(144,527)

(i) Foreign currency sensitivity analysis

The Group is exposed to US dollar currency. This exposure is created through the denomination of the Group's US dollar revenues, USD cash held and the US dollar convertible note issued in the prior financial period.

Issuance of the convertible notes in a currency to match the predominant revenue stream from the Group's reserve base forms part of the overall strategy on managing foreign currency exchange risk. The Group continues to review its strategy and management of foreign exchange risk.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in profit after tax where the Australian dollar strengthens 10% against the relevant currency. For a 10% weakening of the Australian dollar against the relevant currency, there would be a comparable impact on the profit after tax as a result of unrealised foreign exchange differences, and the balances below would be negative.

	30 June 2015 \$'000	30 June 2014 \$'000
10% increase in AUD/USD	(6,306)	(1,383)
10% decrease in AUD/USD	7,708	1,691

The above is based upon the Company's net US dollar balances carried on the balance sheet as at 30 June 2015 and 2014 only. This is mainly attributable to the exposure on the USD currency cash held and convertible notes outstanding at the end of the reporting period. The Group's sensitivity to foreign currency has changed as a result of the net exposure to the USD currency from these two balances.

(g) Interest rate risk management

Sensitivity analysis is determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. A 1% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

As the Group was not exposed to any variable interest rate liabilities at 30 June 2015, the Group's exposure to interest rate risk arises from interest bearing cash balances only. If all other variables were held constant, a 1% decrease/increase in interest rates would decrease/increase current period profit after tax by \$0.9 million (2014: \$1.0 million), based on net interest bearing assets at the end of the reporting period.

(h) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

(i) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	30 June 2015 \$'000	30 June 2014 \$'000
Working capital facility ⁽ⁱ⁾	40,000	50,000

(i) Variable rate working capital facility available to the Company with the Commonwealth Bank of Australia ('CBA') and the Australia and New Zealand Banking Group ('ANZ'). (2014: Commonwealth Bank of Australia only).

(ii) Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Contractual maturities of financial liabilities At 30 June 2015	Less than 6 months \$'000	6–12 months \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Total contractual cash flows \$'000	Carrying amount (assets)/ liabilities \$'000
Trade payables	37,051	–	–	–	–	37,051	37,051
Convertible notes	–	–	–	193,685	–	193,685	162,108
Total financial liabilities	37,051	–	–	193,685	–	230,736	199,159
At 30 June 2014							
Trade payables	74,638	–	–	–	–	74,638	74,638
Other financial liabilities designated as at FVTPL	–	–	–	–	–	–	25,194
Convertible notes	–	–	–	159,236	–	159,236	153,426
Commodity price options	72	83	–	–	–	155	155
Total financial liabilities	74,710	83	–	159,236	–	234,029	253,413

(i) Credit Risk

The Group has adopted a policy of only dealing with creditworthy counterparties and only transacts with financial institutions that are rated the equivalent of AA and above. The Group's exposure and the credit ratings of its counterparties are continuously monitored and transactions concluded are spread amongst approved counterparties. Trade receivables consist of a limited number of customers, all of which are large creditworthy organisations.

(j) Fair value of financial instruments

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value and gives information about how this is determined (in particular, the valuation technique(s) and inputs used).

The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed convertible notes). The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

There were no significant differences between the carrying value of financial instruments and their estimated fair values as at 30 June 2015.

30 June 2015	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial liabilities at FVTPL					
Convertible notes	24	162,108	–	–	162,108
30 June 2014					
Financial assets at FVTPL					
Trading derivatives		25,194	–	–	25,194
Financial liabilities at FVTPL					
Convertible notes		153,426	–	–	153,426
Commodity price options		–	155	–	155
Other financial liabilities designated as at FVTPL		25,194	–	–	25,194

(i) 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.

32 Share-based payments

(a) Employee Share Option Plan

The Company had 7,906,339 options on issue at the start of the financial year. These represent the options issued to Directors, Executives and senior employees of the Company. There were no options issued during the year, whilst 1,125,408 options were exercised, and 1,923,466 options expired. Each exercised share option was converted into one ordinary share of Drillsearch Energy Limited. No amounts were paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry. The options granted have various expiry periods between three and seven years of their issue, or 90 days of the resignation in case of the Director or Executive vested options.

The total share-based payment expense for the year was \$2.6 million (2014: \$1.9 million).

The Company had 3,218,079 performance rights on issue at the start of the financial year. These represent performance rights issued to Directors, Executives and senior employees of the Company. During the year, a further 2,658,709 performance rights were issued and 653,100 performance rights vested. The performance rights may be exercised at any time from the date of vesting to the date of their expiry. 1,989,618 performance rights vested in July 2015, 1,779,720 in July 2016, and the remainder in July 2017, subject to certain performance hurdles being met.

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Set out below is a summary of outstanding options at the end of the reporting period:

Option series	Number of options at the end of the period	Exercise price	Grant date	Expiry date	Fair value at grant date
(21) Issued 20 June 2011	1,144,318	0.596	20/06/2011	20/06/2018	0.225
(22) Issued 25 July 2011	1,282,867	0.596	25/07/2011	25/07/2018	0.222
(25) Issued 23 November 2011	2,430,280	0.596	23/11/2011	23/11/2018	0.222
	4,857,465				

Series 21 vested at 20 June 2014.

Series 22 vested 25 July 2014.

Series 25 vested 23 November 2014.

The following reconciles the outstanding share options on issue at the beginning and end of the year:

	2015		2014	
	Average exercise price per share option	Number of options	Average exercise price per share option	Number of options
As at 1 July	0.63	7,906,339	0.61	13,971,331
Exercised during the year	0.60	(1,125,408)	0.61	(4,900,000)
Forfeited during the year	0.60	(1,923,466)	0.60	(1,164,992)
As at 30 June	0.60	4,857,465	0.63	7,906,339
Vested and exercisable at closing balance 30 June	0.60	4,857,465	0.68	2,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2015 was \$0.596 (2014: \$0.629) and an average remaining contractual life of 1,144 days (2014: 1,198 days).

The following performance rights were outstanding at the end of the reporting period:

Performance rights series	Number of performance rights	Class of shares	Grant date	Perf. period end date	Grant date fair value
Issued 18 December 2012	950,775	Ordinary	18/12/2012	30/06/2015	\$0.42
Issued 2 September 2013	754,348	Ordinary	2/09/2013	30/06/2016	\$0.69
Issued 21 November 2013	595,348	Ordinary	21/11/2013	30/06/2016	\$0.69
Issued 16 October 2014	181,560	Ordinary	16/10/2014	30/06/2015	\$0.44
Issued 16 October 2014	134,832	Ordinary	16/10/2014	30/06/2016	\$1.13
Issued 16 October 2014	718,404	Ordinary	16/10/2014	30/06/2015	\$1.46
Issued 16 October 2014	765,813	Ordinary	16/10/2014	30/06/2017	\$1.14
Issued 19 November 2014	127,995	Ordinary	19/11/2014	30/06/2015	\$1.46
Issued 19 November 2014	440,280	Ordinary	19/11/2014	30/06/2017	\$1.14
	4,669,355				

33 Key Management Personnel disclosures

The aggregate compensation made to Key Management Personnel of the Group is set out below:

	30 June 2015 \$	30 June 2014 \$
Short-term employee benefits	5,213,606	4,120,362
Post-employment benefits	546,324	177,479
Other term benefits	69,068	111,776
Termination benefits	54,280	267,290
Options and performance rights	1,326,036	973,724
	7,209,314	5,650,631

34 Related party transactions

The immediate parent and ultimate controlling party respectively of the Group is Drillsearch Energy Limited.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 30 to the financial statements.

(b) Transactions with Key Management Personnel

Disclosures relating to Key Management Personnel compensation are set out in the Remuneration Report. No other transactions have occurred during the period with Key Management Personnel.

(c) Transactions with other related parties

During the financial year, the following transactions occurred between the Company and its other related parties:

- Drillsearch Energy Limited recognised tax payable in respect of the tax liabilities of its wholly owned Australian subsidiaries. Payments to/from the Company are made in accordance with the terms of the tax funding arrangement.

There were no related party balances outstanding at 30 June 2015.

Transactions and balances between the Company and its subsidiaries were eliminated in the preparation of consolidated financial statements of the Group.

35 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

The auditor of Drillsearch Energy Limited is Pricewaterhouse Coopers (2014: Deloitte Touche Tohmatsu).

Auditor of the parent entity

(i) Audit and other assurance services

	2015 \$	2014 \$
Auditor of parent entity		
Audit and review of financial statements (Pricewaterhouse Coopers)	145,000	–
Audit and review of financial statements (Deloitte Touche Tohmatsu)	35,112	156,300
	180,112	156,300
Network firm of the parent entity auditor		
Tax advisory services (Deloitte Touche Tohmatsu)	–	8,123
Total remuneration for taxation services	–	8,123
	180,112	164,423

36 Subsequent events

The Directors are not aware of any matter of material circumstance which has arisen since the end of the financial year which would be expected to have a material effect on the financial or operating performance or results of the Group.

37 Parent entity disclosures

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to note 3 for a summary of the significant accounting policies relating to the Group.

(a) Summary financial information

	30 June 2015 \$'000	30 June 2014 \$'000
Assets		
Current assets	151,874	322,056
Non-current assets	33,551	163,884
Total assets	185,425	485,940
Liabilities		
Current liabilities	19,390	215,454
Non-current liabilities	47,218	133,159
Total liabilities	(66,608)	(348,613)
Equity		
Issued capital	325,149	286,880
Reserves	6,347	4,987
Retained earnings	(210,485)	(154,540)
Total equity	121,011	137,327
Loss for the year	(48,897)	(126,445)
Other comprehensive income	–	–
Loss for the year	(48,897)	(126,445)
Total comprehensive loss	(48,897)	(126,445)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(b) Guarantees entered into by the parent entity

	2015 \$'000	2014 \$'000
Carrying amount included in current liabilities	3,002	3,292

The parent entity has provided financial guarantees in respect of operations of subsidiaries amounting to \$3.0 million, secured by bank security deposits.

A liability has been recognised in relation to these financial guarantees in accordance with the policy set out in note 3(t).

(c) Commitments for capital and operating expenditure

	30 June 2015 \$'000	30 June 2014 \$'000
Oil and gas properties		
Longer than 1 year and not longer than 5 years	–	–
Not longer than 1 year	530	4,300
	530	4,300
Operating lease commitments		
Not longer than 1 year	1,226	1,332
Later than one year but not later than five years	1,777	3,098
	3,003	4,430

ADDITIONAL STOCK EXCHANGE INFORMATION

(a) Number of holders of equity securities

Ordinary share capital

461,101,450 fully paid ordinary shares are held by 5,631 individual shareholders

All issued ordinary shares carry one vote per share; however, partly paid shares do not carry the rights to dividends.

(b) Distribution of holders of equity securities

Distribution of holders of equity securities	Total holders	Fully paid ordinary	% of Issued Capital
1–1,000	1,123	582,688	0.13%
1,001–5,000	1,896	5,284,407	1.15%
5,001–10,000	951	7,388,282	1.6%
10,001–100,000	1,485	44,954,476	9.75%
100,001 and over	176	402,891,597	87.38%
	5,631	461,101,450	100%
Holding less than a marketable parcel	715	209,773	0%

Convertible notes

1,250 6% fully paid convertible notes are held by individual noteholders. Convertible notes do not carry a right to vote.

Options

3,590,933 options are held by 10 individual option holders. Options do not carry a right to vote.

Performance rights

4,669,355 performance rights are held by 39 individual performance right holders. Performance rights do not carry a right to vote.

(c) Twenty largest holders of quoted equity securities

Ordinary Shareholders	FULLY PAID ORDINARY SHARES	
	Number	Percentage
Network Investment Holdings Pty Limited	91,759,189	19.90%
HSBC Custody Nominees (Australia) Limited	65,379,154	14.18%
Citigroup Nominees Pty Limited	40,976,174	8.89%
J P Morgan Nominees Australia Limited	38,834,067	8.42%
QGC Pty Limited	36,216,094	7.85%
Beach Energy Limited	21,053,615	4.57%
National Nominees Limited	20,285,316	4.40%
UOB Kay Hian Private Limited	8,389,763	1.82%
HSBC Custody Nominees (Australia) Limited	6,264,321	1.36%
AMP Life Limited	5,354,193	1.16%
BNP Paribas Nominees Pty Limited	5,348,206	1.16%
Mr Robert Lee Petersen	4,475,245	0.97%
HSBC Custody Nominees (Australia) Limited	4,227,556	0.92%
National Nominees Limited	3,677,848	0.8%
Citicorp Nominees Pty Limited	2,359,945	0.51%
Glenluce Properties Pty Limited	2,239,894	0.49%
National Nominees Limited	1,998,585	0.43%
RHB Securities Singapore PTE Ltd	1,806,321	0.39%
UBS Wealth Management Australia Nominees Pty Ltd	1,479,981	0.32%
RBC Investor Services Australia Nominees Pty Limited	1,461,592	0.32%
	363,587,059	78.86

(d) Company Secretary

Clifford Tuck

(e) Registered office

Level 18
321 Kent Street
Sydney NSW 2000
PH: 02 9249 9600

(f) Principal administration office

Level 18
321 Kent Street
Sydney NSW 2000
PH: 02 9249 9600

(g) Share registry

Link Market Services
Locked Bag A14
Sydney South NSW 1235
PH: 1300 554 474

SCHEDULE OF TENEMENTS

						OWNERSHIP INTEREST		
Oil	Wet Gas	Unconventional	Tenement	Formerly	Operator	FY2015	FY2014	
●			ATP299		Santos Limited	40	40	
●			ATP539		Great Artesian Oil and Gas Pty Limited ¹	100	100	
●			ATP549	Cypress Block	Australian Gasfields Limited	40	40	
	●		ATP549	West Block	Great Artesian Oil and Gas Pty Limited ¹	66.67	66.67	
●			ATP920		Drillsearch Energy Limited	100	100	
●			ATP9242		Drillsearch Energy Limited	100	100	
		●	ATP932		Drillsearch Energy Limited	100	100	
		●	ATP940		Circumpacific Energy (Australia) Pty Limited ¹	40	40	
●			PEL103		Acer Energy Pty Limited ¹	100	100	
●			PEL103A		Acer Energy Pty Limited ¹	75	75	
●			PEL182		Senex Energy Limited	43	43	
	●	●	PEL513		Santos Limited	40	40	
		●	PEL570		Outback Energy Hunter Pty Limited ³	47.5	0	
●			PL169	Gimboola	ATP299	Santos Limited	40	40
●			PL170	Takyah/ Koorroopa	ATP299	Santos Limited	40	40
●			PL29	Tintaburra	ATP299	Santos Limited	40	40
●			PL293		ATP299	Santos Limited	40	40
●			PL294		ATP299	Santos Limited	40	40
●			PL295	Mulberry/ Endeavour	ATP299	Santos Limited	40	40
●			PL298		ATP299	Santos Limited	40	40
●			PL38	Toobunyah	ATP299	Santos Limited	40	40
●			PL39	Talgeberry	ATP299	Santos Limited	40	40
●			PL52	Tarbat/Ipundu North	ATP299	Santos Limited	40	40
●			PL57	Endeavour/ Cranstoun	ATP299	Santos Limited	40	40
●			PL95	Monler	ATP299	Santos Limited	40	40
	●		PPL212	Kiana	PEL107	Beach Energy Limited	60	60
	●		PPL239	Middleton/ Brownlow	PEL106	Beach Energy Limited	50	50
●			PPL253	Bauer	PEL91	Beach Energy Limited	60	60
●			PPL254	Congony/ Kalladeina	PEL91	Beach Energy Limited	60	60
●			PPL255	Hanson/ Snellings	PEL91	Beach Energy Limited	60	60
●			PPL256	Sceale	PEL91	Beach Energy Limited	60	60
	●		PPL257	Canunda/ Coolawang	PEL106	Beach Energy Limited	50	50
	●		PRL129		PEL106	Beach Energy Limited	50	50
	●		PRL130	Raigal	PEL106	Beach Energy Limited	50	50
	●		PRL131		PEL632	Santos Limited	40	40
	●		PRL132		PEL632	Santos Limited	40	40
	●		PRL133		PEL632	Santos Limited	40	40
	●		PRL134		PEL632	Santos Limited	40	40
●			PRL135	Vanessa	PEL182	Senex Energy Limited	43	43

OWNERSHIP INTEREST

Oil	Wet Gas	Unconventional	Tenement	Formerly	Operator	FY2015	FY2014	
	●		PRL14	Flax	PEL103	Acer Energy Pty Limited ¹	100	100
●			PRL151		PEL91	Beach Energy Limited	60	60
●			PRL152		PEL91	Beach Energy Limited	60	60
●			PRL153		PEL91	Beach Energy Limited	60	60
●			PRL154		PEL91	Beach Energy Limited	60	60
●			PRL155		PEL91	Beach Energy Limited	60	60
●			PRL156		PEL91	Beach Energy Limited	60	60
●			PRL157		PEL91	Beach Energy Limited	60	60
●			PRL158		PEL91	Beach Energy Limited	60	60
●			PRL159		PEL91	Beach Energy Limited	60	60
●			PRL160		PEL91	Beach Energy Limited	60	60
●			PRL161		PEL91	Beach Energy Limited	60	60
●			PRL162	Basham	PEL91	Beach Energy Limited	60	60
●			PRL163	Pennington	PEL91	Beach Energy Limited	60	60
●			PRL164		PEL91	Beach Energy Limited	60	60
●			PRL165		PEL91	Beach Energy Limited	60	60
●			PRL166		PEL91	Beach Energy Limited	60	60
●			PRL167		PEL91	Beach Energy Limited	60	60
●			PRL168		PEL91	Beach Energy Limited	60	60
●			PRL169		PEL91	Beach Energy Limited	60	60
	●		PRL17	Yarrow	PEL103	Acer Energy Pty Limited ¹	100	100
●			PRL170		PEL91	Beach Energy Limited	60	60
●			PRL171	Balgowan	PEL91	Beach Energy Limited	60	60
●			PRL172	Burners/Stunsail	PEL91	Beach Energy Limited	60	60
	●		PRL173		PEL101	Acer Energy Pty Limited ¹	80	80
	●		PRL174		PEL101	Acer Energy Pty Limited ¹	80	80
	●		PRL175		PEL107	Beach Energy Limited	60	60
	●		PRL176		PEL107	Beach Energy Limited	60	60
	●		PRL177		PEL107	Beach Energy Limited	60	60
	●		PRL178		PEL107	Beach Energy Limited	60	60
	●		PRL179		PEL107	Beach Energy Limited	60	60
	●		PRL18	Juniper	PEL103	Acer Energy Pty Limited ¹	100	100
	●		PRL26	Udacha	PEL106	Beach Energy Limited	75	75

Divestment

●		ATP783	Chandos Block		Drillsearch Energy Limited	100	100
●		PL18	FO (Surat)	ATP145	Chelsea Oil Australia Pty Limited	10	10
●		PL315	Pickanjinnie (Surat)	ATP55	Santos Limited	75	75
●		T18P	Bass ⁵		Origin Energy	0	5

Notes

- 1 Subsidiary of Drillsearch Energy Limited
- 2 Subject to Farmin by Beach to earn 45%
- 3 Subsidiary of Santos Limited
- 4 Subject to Farmin by Santos to earn 33% plus Operatorship
- 5 Divested 28 January 2015

GLOSSARY

Units

bbls	barrels
bcf	billion cubic feet
boe	barrel of oil equivalent
mcf	thousand cubic feet
mmbbls	million barrels
mmboe	million barrels of oil equivalent
tcf	trillion cubic feet
TJ	terajoules

Conversion factors

Sales gas is converted to equivalent barrels of oil (boe) using a factor of 6,000 cubic feet per barrel of oil equivalent (boe).

LPG is converted to equivalent barrels of oil using a factor of 11.5 thousand boe (Mboe) per MMT of LPG.

Condensate is converted at 1 MMbbl = 1 MMboe.

Glossary

1C	contingent resource low estimate
2C	contingent resource best estimate
3C	contingent resource high estimate
1P	proved reserves
2P	sum of proved plus probable reserves
3P	sum of proved plus probable plus possible reserves
ASIC	Australia Securities and Investments Commission
ASX	Australian Securities Exchange
AUD	Australian dollar
BPT	Beach Energy Limited
Brent	Intercontinental Exchange (ICE) Brent Crude deliberate futures contract (oil price)
Condensates	are a portion of natural gas of such composition that are in the gaseous phase at temperature and pressure of the reservoirs, but that, when produced, are in the liquid phase at surface pressure and temperature
COE	Cooper Energy Limited
Crude oil	is the portion of petroleum that exists in the liquid phase in natural underground reservoirs and remains liquid at atmospheric conditions of pressure and temperature. Crude Oil may include small amounts of non-hydrocarbons produced with the liquids. Crude Oil has a viscosity of less than or equal to 10,000 centipoises at original reservoir temperature and atmospheric pressure, on a gas free basis
DLS	Drillsearch Energy Limited
EBITDAX	earnings before interest, tax, depreciation, depletion, exploration and impairment
FY	Financial Year
JV	Joint Venture
KPI	Key performance indicator
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
Net debt	Total debt less cash and cash equivalents
NPAT	Net profit after tax
PRRT	Petroleum Resources Rent Tax
STO	Santos Limited
SXY	Senex Energy Limited
USD	US dollar
VWAP	Volume weighted average price

CORPORATE DIRECTORY

Drillsearch Energy Limited ASX: DLS

BOARD OF DIRECTORS

Jim McKerlie (Independent Non-executive Director, Chairman)
Philip Bainbridge (Independent Non-executive Director)
Teik Seng (TS) Cheah (Independent Non-executive Director)
Fiona Robertson (Independent Non-executive Director)
Ross Wecker (Independent Non-executive Director)

EXECUTIVES

Walter Simpson (Chief Executive Officer)
Ian Bucknell (Chief Financial Officer)
Clifford Tuck (General Counsel and Company Secretary)

COMPANY SECRETARY

Clifford Tuck

AUDITORS

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BANKERS

ANZ
Commonwealth Bank of Australia

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