ASX ANNOUNCEMENT
22 October 2015

Drillsearch September 2015 Quarterly Report

Drillsearch is pleased to provide the attached Quarterly Report for the three months ended 30 September 2015. A conference call to discuss these results will be held at 11.00am (AEDT) on Thursday 22 October 2015. Drillsearch invites investors and analysts to participate in the conference call, details of which are included in the Quarterly Report. A recording of the call will be available on the Drillsearch website later today.

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DRILLSEARCH ENERGY LIMITED

SEPTEMBER 2015

QUARTERLY REPORT

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Drillsearch

Highlights

- Quarterly production of 0.81mmboe, the highest in more than a year
- Revenue of $52.8 million[1]; hedging program delivers $6.9 million of additional income
- Strong balance sheet maintained with $162.0 million in cash
- New $100 million loan facility secured

Overview

Drillsearch enjoyed a positive start to FY2016, with quarterly production at its highest level in more than a year as new oil fields were connected on the Western Flank.

Overall production rose 3% to 0.81 million barrels of oil equivalent (mmboe) in the three months ended 30 September 2015, the highest level since the June quarter FY2014, as the Western Flank joint venture with Beach Energy (DLS 60%; Beach 40% and Operator) successfully started production from the Balgowan, Stunsail and Pennington oil fields.

Despite higher production, revenue for the quarter was 12% lower at $52.8 million as oil prices touched new six-year lows in mid-August around US$42 a barrel.

Drillsearch continues to benefit from its active hedging program. Hedging delivered an additional $6.9 million of income during the September quarter, representing a gain of $9.30 a barrel in realised oil prices. As at the end of the September quarter, Drillsearch had 1.03 million barrels of oil production hedged through the remainder of FY2016 at an average floor price of US$58.98[2] a barrel.

Capital expenditure[3] of $6.0 million was significantly lower than the previous quarter. Planned capital expenditure in FY2016 remains at $80 million to $110 million, with the majority weighted to the second half of the financial year. Two new wells have been spudded so far in FY2016, Washington-1 and Maroochydore-1, with Drillsearch's share of costs for both wells covered by continuing free carries under farm-in arrangements.

Drillsearch will continue to closely monitor spending with the company prioritising activity that delivers production, cash flow and reserves replacement, and with a target of keeping capex within net operating cash flow.

Drillsearch's cash position increased to $162.0 million as of 30 September 2015 and the company's existing working capital facility ($35 million) remains undrawn. In addition, the company announced earlier this month that it had entered into a binding terms sheet with CBA and ANZ for a new loan facility of $100 million which, subject to final documentation and customary conditions, will replace the existing undrawn working capital facility and further enhance liquidity.

Chief Executive Officer Walter Simpson said:
"We have begun the new financial year strongly, with our oil production benefiting from development activity undertaken over the past 12 months.

"In addition, we have continued to take steps to strengthen our financial position given the ongoing volatility in the oil price. Our hedging program continues to deliver significant benefit, while our strong balance sheet means we are well positioned to meet our operational and financial commitments over the next 12 months."

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[1] In this report, $ are Australian dollars unless otherwise stated. Figures in this report are unaudited.
[2] Refer to Hedge Arrangements table on page 4 which outlines hedging in place as at 22 October 2015.
[3] Capital expenditure is cited inclusive of G&A, G&G and seismic expenditure.

Production and Financial data for the September quarter is set out in the table below. Financial data presented in this report is unaudited.

Description	Units	3 Months Ended September 2015	3 Months Ended June 2015	Quarter Change %
Production (by product type)				
Oil	kbbl	733.7	716.8	2%
Sales gas and ethane	TJ	356.4	315.5	13%
LPGs	ktonne	1.4	1.2	15%
Condensate	kbbl	8.7	8.2	6%
Total oil and gas	**kboe**	**814.8**	**789.0**	**3%**
Sales revenue (by business unit)				
Oil	A$ mil	50.6	58.0	(13%)
Wet Gas^	A$ mil	2.2	2.2	0%
Total revenue	**A$ mil**	**52.8**	**60.2**	**(12%)**
Avg realised oil price	A$/bbl	68.6	80.9	(15%)
Avg realised gas and gas liquids price	A$/boe	27.7	30.0	(8%)
Direct operating expense (by business unit)				
Oil	A$ mil	20.4	23.4	(13%)
Wet Gas	A$ mil	0.8	1.1	(27%)
Total direct operating expense	**A$ mil**	**21.2**	**24.5**	**(13%)**
Oil & gas asset expenditure (by business unit)				
Oil	A$ mil	3.3	13.8	(76%)
Wet Gas	A$ mil	0.2	0.1	63%
Total oil & gas asset expenditure	**A$ mil**	**3.5**	**13.9**	**(75%)**
Exploration & evaluation expenditure (by business unit)				
Oil	A$ mil	0.6	5.4	(89%)
Wet Gas	A$ mil	1.7	3.6	(53%)
Unconventional	A$ mil	0.2	0.8	(75%)
Corporate	A$ mil	0.0	0.0	n/m
Total exploration & evaluation expenditure	**A$ mil**	**2.5**	**9.8**	**(74%)**
Exploration & evaluation expensed	A$ mil	(2.4)	(8.4)	(71%)
Exploration & evaluation assets	**A$ mil**	**0.1**	**1.4**	**(92%)**
Financials				
Cash & cash equivalents	A$ mil	162.0	131.5	23%
Drawn Working Capital Facility	A$ mil	0.0	0.0	0%
Undrawn Working Capital Facility	A$ mil	35.0	40.0	(13%)
Total Working Capital Facility^^	A$ mil	35.0	40.0	(13%)
Unsecured Convertible Note	A$ mil	171.2	162.1	6%
Non-IFRS accounting financial information				
Oil sales revenue	A$ mil	50.6	58.0	(13%)
Oil price hedge gains - realised	A$ mil	6.9	5.5	25%
Adjusted oil revenue (including hedging gains)^^^	**A$ mil**	**57.5**	**63.5**	**(9%)**
Avg realised oil price (including hedging gains)	A$/bbl	77.9	88.5	(12%)

^ Wet Gas sales are comprised of gas and gas liquids.

^^ Undrawn working capital facility continues to amortise in equal quarterly installments of $5 million.

^^^ The Non-IFRS accounting financial information in this report has been taken from information prepared in accordance with IFRS accounting. Non-IFRS accounting financial information should be read in conjunction with, not in replacement of, IFRS accounting financial information included in this report.

Production and Financial

Production

September quarter production benefited from development activity undertaken on the Western Flank in late FY2015 and early FY2016, with overall production increasing to 0.81 mmboe, from 0.79 mmboe during the previous quarter.

Average daily production from the Western Flank was 12,469 barrels (gross, DLS 60%), compared with 12,356 barrels a day during the June period. The Balgowan and Stunsail oil fields started production in July with the Pennington oil field coming online at the end of September.

Production from the Western Flank joint venture is currently operating at full pipeline capacity, with excess production trucked following the connection and commencement of production from Balgowan, Stunsail and Pennington during the September quarter, and the connection of Bauer wells 16-to-19 during the June quarter. The joint venture maintains significant flexibility to manage production with Bauer wells 20-to-23 yet to be brought online.

Gas and gas liquids production ("Wet Gas") from the Western Wet Gas joint venture with Beach (DLS 50%, Beach 50% and Operator) was 0.08 mmboe, up from 0.07 mmboe during the previous period.

A number of maintenance shutdowns that had been planned for the September quarter have now been moved to the December period.

Financial

Revenue for the quarter was $52.8 million, down 12% from the June quarter, as further weakening in global oil prices led to lower realised oil prices for the period.

The company's average realised oil price fell to $77.90/bbl during the quarter, including a $9.30/bbl gain from hedging, compared with $88.50/bbl during the June quarter, including hedging benefits. Excluding benefits from hedging, the average realised oil price was $68.60/bbl during the September quarter.

In addition to the successful hedging program, Drillsearch continues to benefit from the weaker Australian dollar, with the majority of the company's revenue received in US dollars, while costs are paid primarily in local currency.

Cash margins in Drillsearch's Oil Business remained strong at $50.35/bbl[4] (including hedging gains) with average total operating costs of $27.55/bbl on oil production.

Given the ongoing volatility in global oil prices, Drillsearch is continuing to actively assess opportunities to put in place additional hedging. Since the start of the financial year, Drillsearch has placed an additional 105,000 barrels of hedging for FY2016 oil production, in the form of new US$50 to US$70 collars.

The table below outlines hedging in place as at 22 October 2015:

Hedge arrangements (US$)	FY2016 (bbls)	FY2017 (bbls)
$60 Put- $90 call options	618,000	-
$60 Put- $85 call options	305,000	215,000
$50 Put- $70 call options	105,000	-

[4] Cash margins represent a blended barrel across Western Flank and Eastern Margin.

Capital expenditure was $6.0 million for the quarter, compared with $23.7 million during the previous period. Capex was substantially lower with FY2016 activity weighted to the second half of the financial year, and the majority of activity currently underway covered by continuing free carries.

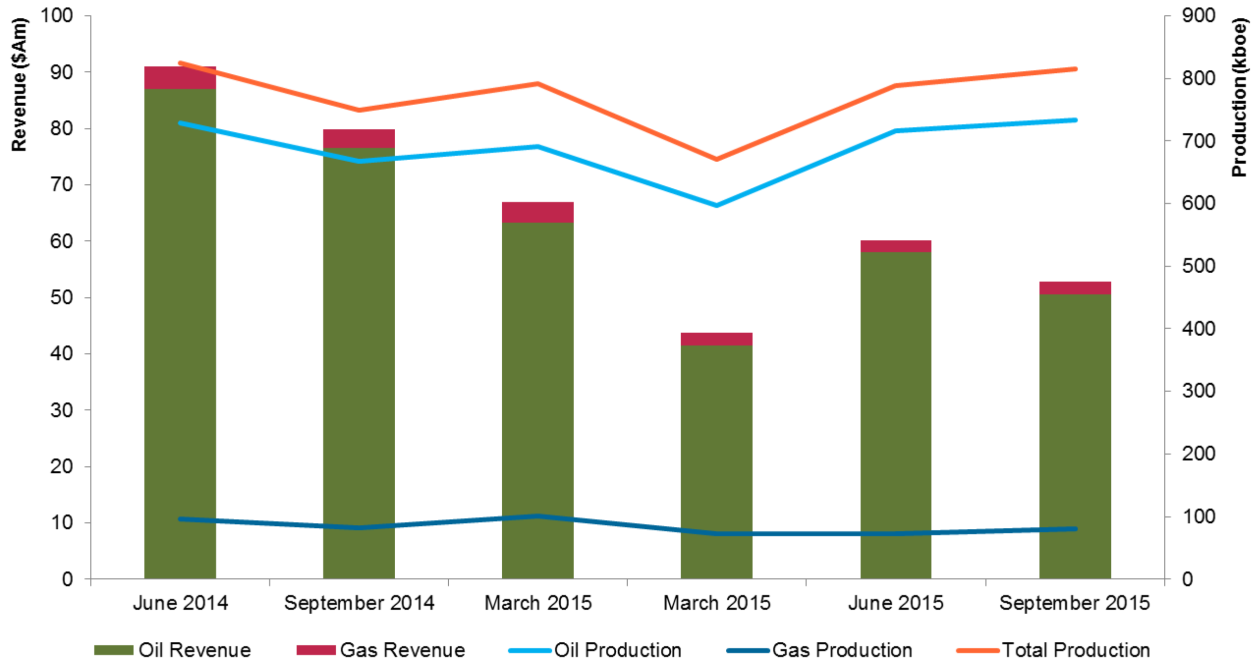
In line with the newly adopted successful efforts methodology for Exploration and Evaluation (E&E) expenditure, the company has expensed the majority of the E&E spend incurred during the September quarter as it related to either general & administration, geological & geophysical or seismic expenditure. The remaining E&E expenditure, which has been capitalised in the balance sheet as an asset, relates to drilling expenditure on wells still under appraisal.

In line with lower capex, cash and cash equivalents increased to $162.0 million at 30 September 2015, from $131.5 million at 30 June 2015. Of that balance, approximately US$90 million is held in US dollars as an offset to the company's US dollar-denominated convertible bond notes.

The company's existing working capital facility amortised during the quarter and stood at $35 million at 30 September 2015. The facility remains fully undrawn.

Subsequent to the end of the September quarter, Drillsearch announced it had secured a new $100 million, reserve-based loan facility with its existing lenders, CBA and ANZ. The new facility is subject to finalising and executing detailed facility documentation and customary conditions to drawdown. Once in place, the facility will replace the Company's existing $35 million working capital facility and, combined with strong margins from oil production and the company's cash balance, means Drillsearch is well-positioned to support continuing growth and to meet commitments relating to its US$125 million Convertible Note, which has a redemption window in September 2016.

The following chart shows the quarterly production and revenue results since June 2014.



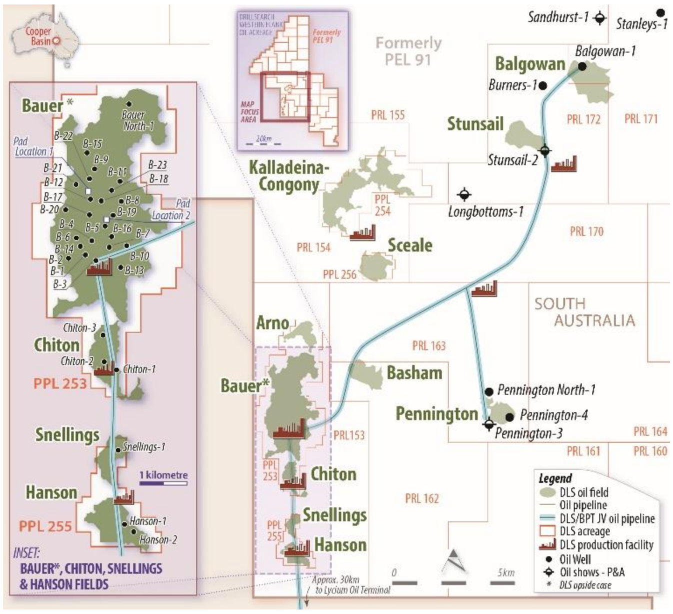
Exploration and Development

Oil Business

Western Flank Oil Fairway

Development work continued during the September quarter with facilities at Balgowan, Stunsail and Pennington completed and producing by the end of the period. Production from all three fields is being transported to the Bauer Central Processing facility via the newly constructed pipeline (see map).

The joint venture also approved the first phase of a further expansion of the fluid handling capacity at Bauer. When completed around the end of the financial year, the current 75kbbls/d fluid handling capacity will be expanded to 133kbbls/d. The joint venture is also considering various means of increasing export capacity from the area.



Inland-Cook Oil Fairway

During the September quarter, preparation work was undertaken for the drilling of the Maroochydore-1 oil exploration well in ATP 924 on the Inland-Cook Oil Fairway.

Maroochydore-1 was spudded subsequent to quarter-end on 5 October 2015. The well is being drilled by Beach under the terms of the farm-in arrangements where Beach may earn a 45% interest. Drillsearch's share of costs is carried by Beach.

Wet Gas Business

Western Wet Gas Project Areas

The Western Wet Gas joint venture with Santos (DLS 40%, Santos 60% and Operator) has begun the FY2016 connections program with construction beginning on the Cadenza to Mica flowline. The flowline is expected to be completed during the December 2015 quarter.

In addition, the joint venture has commenced testing of some of the seven discoveries made during FY2015. An extended production test of the Yarowinnie South-1 discovery (see photo) began on 8 October 2015, and as of 16 October 2015, a stabilised flow rate of approximately 11 mmscf/d had been observed from the main pay zone. The test is ongoing with samples collected for compositional analysis.

The Western Wet Gas joint venture with Beach (DLS 50%, Beach 50% and Operator) has approved the installation of compression at the Middleton Gas Plant with contracts expected to be awarded in the December 2015 quarter and work to commence shortly thereafter. Benefits from the installation of compression are not expected to be realised until early in FY2017.

Northern Cooper Gas and Liquids

Preparation work for the two-well drilling campaign in PRLs 173 and 174 continued during the period with the aim of spudding the first well late in the December 2015 quarter.

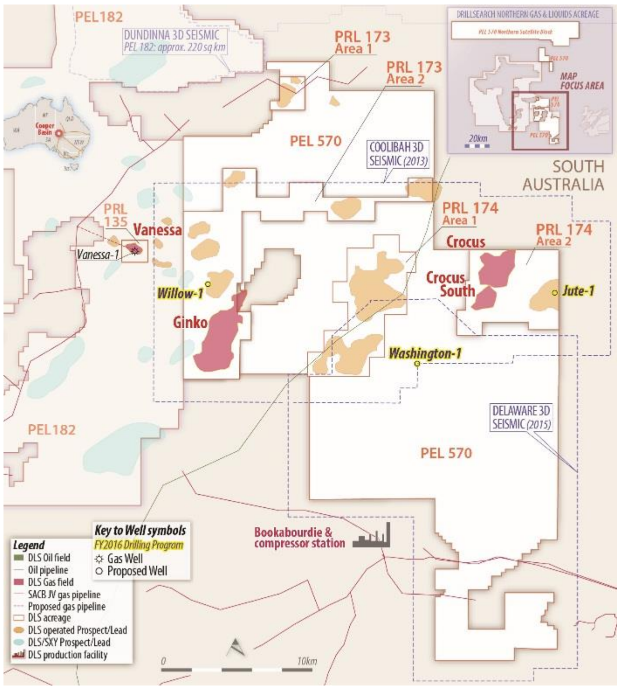
Unconventional Business

Northern Patchawarra Trough

The PEL 570 joint venture (DLS 47.5%, Santos 35% and Operator and Sundance 17.5%) spudded the Washington-1 unconventional exploration well in late August, reaching target depth in early October.

Drillsearch's preliminary interpretation confirmed elevated gas shows across the Toolachee, Epsilon and Patchawarra Formations within both sandstones and Permian Source Rocks. Based on these encouraging results, Washington-1 was cased and suspended with hydraulic stimulation and testing occurring subsequent to the quarter-end. Drillsearch is free carried during this campaign, under the terms of the farm-in arrangements.

During the quarter the joint venture also began the acquisition of the 415km^2 Delaware 3D seismic survey (see map). Acquisition is expected to be completed towards the end of October 2015.



Corporate

CEO Appointment

As announced on 18 September 2015, Walter Simpson was appointed Chief Executive Officer (CEO) by the Board of Drillsearch on a permanent basis. Mr Simpson joined Drillsearch as Chief Operating Officer in March 2015 from BG Group subsidiary QGC and was appointed Acting CEO on 3 July 2015.

Mr Simpson said:
"I am excited to be given the opportunity to lead Drillsearch. Drillsearch is an outstanding business, with an exceptional team, a robust financial position and a pipeline of organic growth opportunities across our core Cooper Basin operations, even during these challenging times."

Tintaburra Sale

On the Eastern Margin, Drillsearch owns a 40% interest in the mature, producing Tintaburra Block (ATP 299) operated by Santos. As disclosed at the full year, Drillsearch is undertaking a process for the potential sale and purchase of its 40% interest in line with the company's reprioritisation of its investments to focus on near-term production, cash flow and reserves replacement.

September Quarterly Results Conference Call

A conference call to discuss the September 2015 Quarterly Results will be held for investors and analysts at 11.00am (AEDT) on Thursday, 22 October 2015. Drillsearch invites investors and analysts to participate in the conference call. Participants will be asked for their full name and for the Conference ID when joining the facility. A recording of the call will be available on the Drillsearch website later today.

Date and time:	11.00 am (AEDT) on Thursday 22 October 2015
Conference ID:	125849#
Dial in number:	Toll free Australia: 1800 041 303
International:	+61 2 9001 2114
Hong Kong:	800 901 436
Singapore:	800 120 5965
UK:	0800 051 8260
USA:	1 855 5624 857

Corporate Information

About Drillsearch

Drillsearch Energy Limited (ASX: DLS) is one of the leading mid-tier oil and gas companies listed on the ASX. The company has undergone rapid growth over the past five years to become Australia's third largest onshore oil producer, and one of the largest acreage holders in the prolific Cooper-Eromanga Basin. Drillsearch has assets that span the exploration, development and production continuum within Oil, Wet Gas and Unconventional. Drillsearch has successfully formed a number of strategic joint ventures with leading players in the Australian and international exploration and production industry, including Beach Energy, Santos Limited and QGC.

Top 10 Shareholders as at 30 September 2015	%
Network Investment Holdings	19.9
HSBC Custody Nominees (Australia) Limited	14.6
JP Morgan Nominees Australia Limited	8.5
QGC Pty Limited	7.8
Citicorp Nominees Pty Limited	7.5
Beach Energy Ltd	4.6
National Nominees Limited	3.7
UOB Kay Hian Private Limited	1.9
HSBC Custody Nominees (Australia) Limited – A/C2	1.9
National Nominees Limited DB A/C	0.8

Quarterly Share Price Activity	High A$	Low A$	Close A$
Jul – Sept 2015	1.085	0.462	0.485

Board Members
Jim McKerlie (Chairman)
Philip Bainbridge (Non-executive Director)
Teik Seng (TS) Cheah (Non-executive Director)
Fiona Robertson (Non-executive Director)
Ross Wecker (Non-executive Director)

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Senior Executive Team
Walter Simpson (Chief Executive Officer)
Ian Bucknell (Chief Financial Officer)
Clifford Tuck (General Counsel & Company Secretary)

Security Listing
Australian Stock Exchange (Ticker DLS)

Issued Share Capital
462,254,673

Share Registry
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Forward Looking Statements
This Release contains forward looking statements. Often, but not always, forward looking statements may be identified by the use of words such as “may”, “will”, “expect”, “intend”, “target”, “anticipate”, “continue”, “guidance” and “outlook”, or similar expressions and may include (without limitation) statements regarding plans, strategies, objectives and anticipated operating or financial performance, including production volumes and costs.

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

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

Forward looking statements in this release 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. References to “Drillsearch” may be references to Drillsearch Energy Limited or its applicable subsidiaries.