

Scheme Booklet for proposed merger with Beach

Drillsearch Energy Limited (**Drillsearch**) today announced that the Australian Securities and Investments Commission has registered the scheme booklet in relation to the proposed merger of Drillsearch and Beach Energy Limited (**Beach**) by way of a scheme of arrangement (**Scheme**) (**Scheme Booklet**).

If the Scheme is approved at the meeting of Drillsearch convened to consider and vote on the Scheme (**Scheme Meeting**), and all other conditions precedent to the Scheme are satisfied or waived (if applicable), Drillsearch shareholders (other than Beach and its related bodies corporate, and certain ineligible foreign shareholders) will receive 1.25 new Beach shares for each Drillsearch share.

A copy of the Scheme Booklet, which includes an Independent Expert's Report, a Notice of Scheme Meeting and a copy of the proxy form for the Scheme Meeting, is attached to this announcement. Copies of the Scheme Booklet will be sent to Drillsearch shareholders on or about Friday, 18 December 2015 (and those shareholders who have previously nominated an electronic means of notification to Drillsearch's share registry will be able to access the materials electronically).

As announced to the ASX on 15 December 2015, Ernst & Young Transaction Advisory Services Limited has concluded that the Scheme is fair and reasonable and therefore is in the best interests of Drillsearch shareholders. Drillsearch shareholders should read the Independent Expert's Report in full before making their decision on the merits of the Scheme.

The Drillsearch Board unanimously recommends that Drillsearch shareholders vote in favour of the Scheme at the upcoming Scheme Meeting, in the absence of a superior proposal, and each Drillsearch director intends to vote all Drillsearch shares held or controlled by him or her in favour of the Scheme.

--Ends--

For further information please contact:

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If you would like to register for email alerts, please register on the home page.

SCHEME BOOKLET

In relation to the proposed implementation of a scheme of arrangement between Drillsearch Shareholders and Drillsearch Energy Limited (ACN 006 474 844) (**Drillsearch**), which if implemented, will result in the transfer of all of the issued share capital of Drillsearch to Beach Energy Limited (ACN 007 617 969) (**Beach**)

Time: 11:00am (Sydney time)

Date: 27 January 2016

Place: Museum of Sydney,
AGL Theatre, Level 2,
Corner of Phillip and
Bridge Streets,
Sydney, NSW

THE INDEPENDENT EXPERT HAS
CONCLUDED THAT THE MERGER IS
FAIR AND REASONABLE AND
THEREFORE IS IN THE BEST INTERESTS
OF DRILLSEARCH SHAREHOLDERS.

THE DRILLSEARCH BOARD
UNANIMOUSLY RECOMMENDS THAT
DRILLSEARCH SHAREHOLDERS
VOTE IN FAVOUR OF THE
MERGER, IN THE ABSENCE OF
A SUPERIOR PROPOSAL.

This is an important document and requires your immediate attention. You should read the whole document in its entirety before deciding how to vote. If you are in doubt as to what you should do, you should consult an independent and appropriately licensed and authorised professional adviser without delay.

LEGAL
ADVISER

ashurst

FINANCIAL
ADVISERS

Goldman
Sachs

UBS

Drillsearch

DISCLAIMER AND IMPORTANT NOTICES

General

This Scheme Booklet is important and requires your immediate attention. You should read this Scheme Booklet and accompanying annexures in full before making any decision as to how to vote on the Merger.

In particular, it is important that you consider the benefits, disadvantages and potential risks of the Merger set out in *"Reasons to vote for the Merger and benefits of the Merger"* and *"Reasons to vote against the Merger and disadvantages of the Merger"* beginning on page 5, and Section 7 (*Risk factors*). You should also consider the views of the Independent Expert set out in the Independent Expert's Report (as set out in Annexure A (*Independent Expert's Report and Independent Technical Expert's Report*)).

If you are in doubt as to what you should do, you should consult an independent and appropriately licensed and authorised professional adviser without delay.

If you have sold all of your Drillsearch Shares, please ignore this Scheme Booklet.

Purpose of this Scheme Booklet

This Scheme Booklet is the explanatory memorandum issued by Drillsearch in connection with the Merger whereby each Drillsearch Share on issue (other than Drillsearch Shares held by an Excluded Shareholder) will be exchanged for 1.25 New Beach Shares issued as Scheme Consideration.

The purpose of this Scheme Booklet is to:

- explain the terms and effect of the Merger to Drillsearch Shareholders;
- explain the manner in which the Merger will be considered and, if approved, implemented; and
- provide such information as is prescribed by the Corporations Act and the Corporations Regulations or as is otherwise material to the decision of Drillsearch Shareholders whether to approve the Merger.

This Scheme Booklet is not a prospectus lodged under Chapter 6D of the Corporations Act in respect of Beach Shares. Section 708(17) of the Corporations Act provides that an offer of securities does not need disclosure under Chapter 6D if it is made under a compromise or arrangement under Part 5.1 of the Corporations Act, approved at a meeting held as a result of an order made by the Court under section 411(1) or (1A) of the Corporations Act. A copy of this Scheme Booklet was provided to ASIC for examination in accordance with section 411(2) of the Corporations Act and has been lodged with, and registered by, ASIC under section 412(6) of the Corporations Act. Drillsearch has asked ASIC to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court on the Second Court Date.

A copy of this Scheme Booklet has also been lodged with the ASX. None of ASIC, the ASX nor any of their officers takes any responsibility for the contents of this Scheme Booklet.

Important notice associated with the order under section 411(1) of the Corporations Act

The fact that the Court, under subsection 411(1) of the Corporations Act, has ordered that the Scheme Meeting be convened and has approved the Scheme Booklet required to accompany the notice of the Scheme Meeting does not mean that the Court:

- has approved or will approve the terms of the Merger;
- has endorsed the Merger or has formed any view as to the merits of the Merger or as to how Drillsearch Shareholders should vote (on this matter Drillsearch Shareholders must reach their own conclusion); or
- has prepared, or is responsible for the content of, this Scheme Booklet.

Any Drillsearch Shareholder who wishes to oppose approval of the Scheme at the Second Court Hearing may do so by filing with the Court and serving on Drillsearch a notice of appearance in the prescribed form together with any affidavit that the Drillsearch Shareholder proposes to rely on.

Defined terms

Capitalised terms used in this Scheme Booklet are defined in Section 11 (*Glossary, definitions and interpretation*). Section 11 (*Glossary, definitions and interpretation*) also sets out some rules of interpretation which apply to this Scheme Booklet.

Responsibility statement

Drillsearch has provided and is responsible for the Drillsearch Information. Drillsearch takes responsibility and liability for that information. None of Beach nor any of its Subsidiaries, directors, officers, employees or advisers assumes any responsibility or liability for the accuracy or completeness of the Drillsearch Information.

Beach has provided and is responsible for the Beach Information. Beach takes responsibility and liability for that information.

None of Drillsearch, nor any of its Subsidiaries, directors, officers, employees or advisers assumes any responsibility or liability for the accuracy or completeness of the Beach Information.

Both Drillsearch and Beach have provided and, subject to the exception below, are jointly liable for, the Joint Information including the Pro Forma Financial Information and assume responsibility for the accuracy and completeness of the Joint Information. The exception is that:

- Drillsearch has provided, and is responsible for, the financial information concerning Drillsearch included in the Pro Forma Financial Information, or upon which that information is based, but otherwise Drillsearch does not take any responsibility or liability for that information; and

- Beach has provided, and is responsible for, the financial information concerning Beach included in the Pro Forma Financial Information, or upon which that information is based, but otherwise Beach does not take any responsibility or liability for that information.

Ernst & Young Transaction Advisory Services Limited (**EY**) has prepared the Independent Expert's Report and RISC Operations Pty Ltd (**RISC**) has prepared the Independent Technical Expert's Report (as set out in Annexure A (*Independent Expert's Report and Independent Technical Expert's Report*)), and EY and RISC take responsibility for those reports, respectively. None of Drillsearch, Beach nor any of their respective Subsidiaries, directors, officers, employees or advisers (other than EY and RISC) assumes any responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report and Independent Technical Expert's Report, except in the case of Drillsearch and Beach in relation to the information that they have provided to EY and RISC.

KPMG Financial Advisory Services (Australia) Pty Ltd (**KPMG**) has prepared the Investigating Accountant's Report (as set out in Annexure B (*Investigating Accountant's Report*)) and takes responsibility for that report. None of Drillsearch, Beach nor any of their respective Subsidiaries, directors, officers, employees or advisers (other than KPMG) assumes any responsibility for the accuracy or completeness of the information contained in the Investigating Accountant's Report.

No investment advice

This Scheme Booklet has been prepared without reference to the investment objectives, financial and taxation situation or particular needs of any Drillsearch Shareholder or any other person. The information and recommendations contained in this Scheme Booklet or the taxation implications in Section 9 (*Taxation implications*) do not constitute, and should not be taken as, financial product advice. Before making any investment decision you should carefully consider whether that decision is appropriate in light of your particular investment needs, objectives and financial and taxation circumstances. The Drillsearch Board encourages you to consult an independent and appropriately licensed and authorised professional adviser before making any investment decision and any decision as to whether or not to vote in favour of the Merger.

Forward-looking statements

Some of the statements appearing in this Scheme Booklet may be in the nature of forward-looking statements. Forward-looking statements or statements of intent in relation to future events in this Scheme Booklet (including in the Independent Expert's Report) should not be taken to be a forecast or prediction that those events will occur. Forward-looking statements generally may be identified by the use of forward-looking words such as 'aim', 'anticipate', 'believe', 'estimate', 'expect', 'forecast', 'foresee', 'future', 'intend', 'likely', 'may', 'planned', 'target', 'potential', 'should', or other similar words. Similarly, statements that describe the objectives, plans, goals or expectations of Drillsearch or Beach are or may be forward-looking statements.

Statements made in this Scheme Booklet relating to the Merged Group also include forward-looking statements, based on the current expectations of Drillsearch (in relation to the Drillsearch Information) and Beach (in relation to the Beach Information) about future events, including the Pro Forma Financial Information and the Synergy Estimates.

You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties that could cause actual results to differ materially from the expectations described in such prospective information. Those risks and uncertainties include factors and risks specific to the industry in which Drillsearch and/or Beach operate, as well as general economic conditions, prevailing exchange rates and interest rates, and conditions in the financial markets. Factors which may affect future financial performance include those risks identified in Section 7 (*Risk factors*), the relevant assumptions not proving correct and other matters not currently known to, or considered by, Drillsearch or Beach.

Actual events or results concerning Drillsearch or Beach may differ materially from the events or results expressed or implied in any forward-looking statement. You are cautioned not to place undue reliance on those statements. None of Drillsearch, Beach, their directors, officers, employees, or any person named in this Scheme Booklet or involved in the preparation of this Scheme Booklet makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement.

The historical financial performance of Drillsearch or Beach is no assurance or indicator of future financial performance of the Merged Group (or Drillsearch or Beach in the scenario where the Merger does not proceed). Neither Drillsearch nor Beach guarantees any particular rate of return or the performance of the Merged Group, nor do they guarantee the repayment of capital or any particular tax treatment in respect of any investment in the Merged Group.

The forward-looking statements in this Scheme Booklet reflect views held only at the date of this Scheme Booklet.

Subject to any continuing obligations under the Listing Rules or the Corporations Act, Drillsearch and its officers disclaim any obligation or undertaking to distribute after the date of this Scheme Booklet any updates or revisions to any forward-looking statements to reflect any change in expectations in relation to them or any change in events, conditions or circumstances on which any such statement is based.

Reserves and resources

Unless otherwise stated, references in this Scheme Booklet to Reserves and Contingent Resources for Drillsearch are as at 30 June 2015, as contained in the Drillsearch Annual R&CR Statement. Drillsearch confirms it is not aware of any new information or data that materially affects the information included in the Drillsearch Annual R&CR Statement and that all the material assumptions and technical parameters underpinning those estimates in the Drillsearch Annual R&CR Statement continue to apply and have not materially changed.

The 2P Reserves and 2C Contingent Resource information for Drillsearch in Section 3.6 (*Reserves and Resources*) is based on information, and fairly represents, information and supporting documentation compiled 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. This information has been included in this Scheme Booklet with the prior written consent of Neil Thompson and Susan Hyde in the form and context in which it appears.

Unless otherwise stated, references in this Scheme Booklet to Reserves and Contingent Resources for Beach are as at 30 June 2015, as contained in the Beach Annual R&CR Statement. Beach confirms it is not aware of any new information or data that materially affects the information included in the Beach Annual R&CR Statement and that all the material assumptions and technical parameters underpinning those estimates in the Beach Annual R&CR Statement continue to apply and have not materially changed.

The 1P, 2P and 3P Reserves and 2C Contingent Resource information for Beach in Section 4.6 (*Reserves and resources*) and the 2P Reserves for ex-PEL 91 and ex-PEL 106 (including Udacha) for Beach in Section 5.1(d) (*Reserves and Contingent Resources position*) is based on information, and fairly represents, information and supporting documentation compiled by, or under the supervision of, Tony Lake, who is a member of the Society of Petroleum Engineers and who is a full time employee of Beach. This information has been included in this Scheme Booklet with the prior written consent of Tony Lake in the form and context in which it appears.

Foreign jurisdictions

The release, publication or distribution of this Scheme Booklet (electronically or otherwise) in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside Australia who come into possession of this Scheme Booklet should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

This Scheme Booklet has been prepared in accordance with the laws and regulations of Australia and the information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with the laws and regulations outside Australia.

This Scheme Booklet and the Merger do not in any way constitute an offer of securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

Scheme Shareholders that are considered to be Ineligible Foreign Shareholders will not be able to receive Scheme Consideration and will instead receive the Ineligible Foreign Shareholder Amount.

Hong Kong

WARNING - The contents of this Scheme Booklet have not been reviewed or approved by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this Scheme Booklet, you should obtain independent professional advice.

This Scheme Booklet does not constitute an offer or invitation to the public in Hong Kong to acquire or subscribe for or dispose of any securities. This Scheme Booklet also does not constitute a prospectus (as defined in section 2(1) of the *Companies (Winding Up and Miscellaneous Provisions) Ordinance* (Cap. 32 of the *Laws of Hong Kong*)) or notice, circular, brochure or advertisement offering any securities to the public for subscription or purchase or calculated to invite such offers by the public to subscribe for or purchase any securities, nor is it an advertisement, invitation or document containing an advertisement or invitation falling within the meaning of section 103 of the *Securities and Futures Ordinance* (Cap. 571 of the *Laws of Hong Kong*). Accordingly, unless permitted by the securities laws of Hong Kong, no person may issue or cause to be issued this Scheme Booklet in Hong Kong, other than to persons who are "professional investors" as defined in the *Securities and Futures Ordinance* and any rules made thereunder or in other circumstances which do not result in the Scheme Booklet being a "prospectus" as defined in the *Companies (Winding Up and Miscellaneous Provisions) Ordinance* or which do not constitute an offer to the public within the meaning of the *Companies (Winding Up and Miscellaneous Provisions) Ordinance*.

No person may issue or have in its possession for the purposes of issue, this Scheme Booklet or any advertisement, invitation or document relating to these securities, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than any such advertisement, invitation or document relating to securities that are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the *Securities and Futures Ordinance* and any rules made thereunder.

Copies of this Scheme Booklet may be issued to a limited number of persons in Hong Kong in a manner which does not constitute any issue, circulation or distribution of this Scheme Booklet, or any offer or an invitation in respect of these securities, to the public in Hong Kong. The Scheme Booklet is for the exclusive use of Drillsearch Shareholders in connection with the Merger, and no steps have been taken to register or seek authorisation for the issue of this Scheme Booklet in Hong Kong. This Scheme Booklet is confidential to the person to whom it is addressed and no person to whom a copy of this document is issued may issue, circulate, distribute, publish, reproduce or disclose (in whole or in part) this document to any other person in Hong Kong or use for any purpose in Hong Kong other than in connection with the consideration of the Merger by the person to whom this document is addressed.

Malaysia

No approval from, or recognition by, the Securities Commission of Malaysia has been or will be obtained in relation to any offer of the New Beach Shares. The New Beach Shares may not be issued in Malaysia except to persons who are Drillsearch Shareholders in compliance with the Scheme.

Singapore

This Scheme Booklet and any other document or material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of the New Beach Shares have not been and will not be registered as a prospectus with the Monetary Authority of Singapore and this offering is not regulated by any financial supervisory authority pursuant to any legislation in Singapore. Accordingly, statutory liabilities in connection with the contents of prospectuses under the *Securities and Futures Act, Cap. 289 (the SFA)* will not apply.

This Scheme Booklet and any other document or material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of the New Beach Shares may not be offered, sold or distributed, or be made the subject of an invitation for subscription, purchase or receipt, whether directly or indirectly, to persons in Singapore except pursuant to exemptions in Subdivision (4) Division 1, Part XIII of the SFA, including the exemption under section 273(1)(c) of the SFA, or otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Any offer is not made to you with a view to the New Beach Shares being subsequently offered for sale to any other party. You are advised to acquaint yourself with the SFA provisions relating to on-sale restrictions in Singapore and comply accordingly. Neither this Scheme Booklet nor any copy of it may be taken or transmitted into any country where the distribution or dissemination is prohibited. This Scheme Booklet is being furnished to you on a confidential basis and solely for your information and may not be reproduced, disclosed, or distributed to any other person.

The investments contained or referred to in this Scheme Booklet may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this Scheme Booklet constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you. Neither Drillsearch nor Beach is in the business of dealing in securities or hold itself out or purport to hold itself out to be doing so. As such, Drillsearch and Beach are neither licensed nor exempted from dealing in securities or carrying out any other regulated activities under the SFA or any other applicable legislation in Singapore.

New Zealand

This Scheme Booklet is not a New Zealand disclosure document, prospectus or investment statement and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the *Financial Markets Conduct Act 2013* or *Securities Act 1978* (or any other relevant New Zealand law). The offer of New Beach Shares under the Merger is being made to existing Drillsearch Shareholders in reliance upon the *Securities Act (Overseas Companies) Exemption Notice 2013* and accordingly this Scheme Booklet may not contain all the information that a disclosure document, investment statement or prospectus is required to contain under New Zealand law.

Financial amounts

All financial amounts in this Scheme Booklet are expressed in Australian currency unless otherwise stated. Unless stated otherwise, all Drillsearch and Beach financial and asset metrics are as at 30 June 2015 and adjusted for post balance date acquisitions and disposals as stated.

Non-IFRS accounting financial information

This Scheme Booklet contains references to non-IFRS accounting financial information, such as the information in Sections 3.2 (*Recent performance*) and 4.2 (*Recent performance*). Beach and Drillsearch, respectively, use this information to monitor business performance.

Definitions of the non-IFRS accounting financial information are set out below. When reviewing business performance, non-IFRS financial information should be used in addition to, and not as a replacement of measures prepared in accordance with IFRS. Non-IFRS financial information has not been the subject of audit or review by Drillsearch's or Beach's external auditors.

'EBITDAX' means earnings before interest, tax, depreciation, depletion, amortisation, and exploration and evaluation expenses written off and impairments.

'Underlying net profit/(loss) after tax' excludes the impact 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 fluctuations in exchange rates.

Diagrams, charts, maps, graphs and tables

Any diagrams, charts, maps, graphs and tables appearing in this Scheme Booklet are illustrative only and may not be drawn to scale.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effect of rounding. Accordingly, the actual calculation of these figures, amounts, percentages, prices, estimates, calculations of value and fractions may differ from the figures, amounts, percentages, prices, estimates, calculations of value and fractions set out in this Scheme Booklet.

Any discrepancies between totals in tables or financial statements, or in calculations, graphs or charts are due to rounding.

Timetable and dates

All times and dates referred to in this Scheme Booklet are Sydney time, unless otherwise indicated. All times and dates relating to the implementation of the Merger referred to in this Scheme Booklet may change and, among other things, are subject to all necessary approvals from regulatory authorities.

Implied value

As set out in Section 7.2 (*Risks relating to the Merger*), any reference to the implied value of the Scheme Consideration should not be taken as an indication that Drillsearch Shareholders will receive cash. The implied value of the Scheme Consideration is not fixed. Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive New Beach Shares as consideration for their Drillsearch Shares under the Merger. Accordingly, the implied value of the Scheme Consideration will depend on the price at which Merged Group Shares trade on ASX after the Effective Date. This also applies to Ineligible Foreign Shareholders whose Scheme Consideration will be remitted to the Foreign Nominee to sell on the Ineligible Foreign Shareholders' behalf. Any cash remitted to Ineligible Foreign Shareholders under the Merger will depend on the market price of Merged Group Shares at the time of sale by the Foreign Nominee.

Privacy

Drillsearch and Beach may collect personal information in the process of implementing the Merger. The type of information that it may collect about you includes your name, contact details and information on your shareholding in Drillsearch and the names of persons appointed by you to act as a proxy, attorney or duly appointed corporate representative at the Scheme Meeting as relevant to you.

The collection of some of this information is required or authorised by the Corporations Act. The primary purpose of the collection of personal information is to assist Drillsearch to conduct the Scheme Meeting and to assist Drillsearch and Beach to implement the Merger. Without this information, Drillsearch and Beach may be hindered in their ability to issue this Scheme Booklet and implement the Merger.

Personal information of the type described above may be disclosed to Link Market Services Limited, third party service providers (including print and mail service providers and parties otherwise involved in the conduct of the Scheme Meeting), authorised securities brokers, professional advisers, related bodies corporate of Drillsearch or Beach, regulatory authorities, and also where disclosure is otherwise required or allowed by law. Drillsearch Shareholders who are individuals and the other individuals in respect of whom personal information is collected as outlined above have certain rights to access the personal information collected in relation to them. If you would like to obtain details of information about you held by Drillsearch, please contact the Drillsearch Shareholder Information Line on 1300 889 528 (callers in Australia) or +61 2 9098 9203 (callers outside Australia) between 9:00am and 5:00pm (Sydney time) Monday to Friday (excluding public holidays).

Drillsearch Shareholders who appoint an individual as their proxy, duly appointed corporate representative or attorney to vote at the Scheme Meeting should ensure that they inform such an individual of the matters outlined above.

No internet site is part of this Scheme Booklet

Drillsearch and Beach each maintain internet sites at www.drillsearch.com.au and www.beachenergy.com.au. Any references in this Scheme Booklet to those or other internet sites are for information purposes only and do not form part of this Scheme Booklet.

Additional information

If, after reading this Scheme Booklet, you have any questions regarding the Merger, please call the Drillsearch Shareholder Information Line on 1300 889 528 (callers in Australia) or +61 2 9098 9203 (callers outside Australia) between 9:00am and 5:00pm (Sydney time) Monday to Friday (excluding public holidays), or consult an independent and appropriately licensed and authorised professional adviser.

Notice of Scheme Meeting

The Notice of Scheme Meeting is set out in Annexure C (*Notice of Scheme Meeting*). The Proxy Form for the Scheme is enclosed with this Scheme Booklet.

Date

This Scheme Booklet is dated 16 December 2015.

CONTENTS



SECTION	PAGE
DISCLAIMER AND IMPORTANT NOTICES	IFC
LETTER FROM THE CHAIRMAN OF DRILLSEARCH	02
LETTER FROM THE CHAIRMAN OF BEACH	04
REASONS TO VOTE FOR AND AGAINST THE MERGER	05
– REASONS TO VOTE FOR THE MERGER AND BENEFITS OF THE MERGER	05
– REASONS TO VOTE AGAINST THE MERGER AND DISADVANTAGES OF THE MERGER	05
KEY DATES / LOCATION OF SCHEME MEETING / WHAT TO DO NEXT	09
1. ANSWERS TO KEY QUESTIONS	11
2. SUMMARY OF THE MERGER	18
3. PROFILE OF DRILLSEARCH	21
4. PROFILE OF BEACH	41
5. PROFILE OF THE MERGED GROUP	66
6. FINANCIAL INFORMATION FOR THE MERGED GROUP	71
7. RISK FACTORS	74
8. IMPLEMENTATION OF THE MERGER	80
9. TAXATION IMPLICATIONS	82
10. ADDITIONAL INFORMATION	85
11. GLOSSARY, DEFINITIONS AND INTERPRETATION	91
CORPORATE DIRECTORY	IBC
ANNEXURES	
A. INDEPENDENT EXPERT'S REPORT AND INDEPENDENT TECHNICAL EXPERT'S REPORT	100
B. INVESTIGATING ACCOUNTANT'S REPORT	313
C. NOTICE OF SCHEME MEETING	321
D. SCHEME	323
E. BEACH DEED POLL	335

LETTER FROM THE CHAIRMAN OF DRILLSEARCH

16 December 2015

Dear Drillsearch Shareholder

On behalf of the Drillsearch Board, I am pleased to provide you with this Scheme Booklet that contains important information in relation to the proposed merger of Drillsearch and Beach pursuant to a scheme of arrangement (**Merger**).

This is an exciting transaction that will create the leading mid-cap oil and gas company listed on the ASX and allow Drillsearch Shareholders to participate in a company of enhanced scale that is well positioned for future growth.

The Drillsearch Board unanimously recommends the Merger, which we believe represents a unique opportunity for Drillsearch Shareholders to realise significant value, in the absence of a Superior Proposal.

MERGER CONSIDERATION

On 23 October 2015, Drillsearch and Beach announced that we had entered into a binding Merger Implementation Agreement to implement the Merger.

Under the Merger, Beach will acquire all of the Drillsearch Shares in which Beach does not already have a Relevant Interest and Drillsearch Shareholders (who remain Drillsearch Shareholders at the Record Date) will receive 1.25 New Beach Shares for each of their Drillsearch Shares. Based on the closing price of Beach Shares of \$0.665 per share on 22 October 2015, being the last trading day before the Merger was announced, the exchange ratio implies a value of \$0.83 per Drillsearch Share and a market capitalisation of \$384 million.

The implied value of the Scheme Consideration per Drillsearch Share represents a compelling premium¹ of:

- 27%² to the closing price of Drillsearch Shares on the ASX on 22 October 2015 of \$0.655 per share;
- 21%³ to Drillsearch's one-month volume-weighted average price (**VWAP**) of \$0.58 per share up to and including 22 October 2015;
- 30%⁴ to Drillsearch's three-month VWAP of \$0.63 per share up to and including 22 October 2015; and
- 1.4%⁵ to the closing price of Drillsearch Shares of \$0.53 per share on the ASX on 10 December 2015, being the last practicable date prior to finalisation of this Scheme Booklet.

MERGER RATIONALE

Under the Merger, Drillsearch Shareholders will receive a premium for their Drillsearch Shares and, through the all-scrip consideration, gain exposure to the leading mid-cap oil and gas company on the ASX, with combined FY15 production of 12.0 mmbob⁶ and an expanded portfolio of oil, gas and infrastructure assets.

The Merger represents a unique opportunity to realise benefits in terms of scale, positioning for growth and the expected realisation of targeted synergies.

- i. **Scale:** The Merged Group will be Australia's largest onshore oil producer, with more than double the production of the country's second-largest onshore producer⁷, and a substantial gas business that is well positioned to take advantage of the emerging market opportunity on the East Coast of Australia.
- ii. **Positioning for growth:** The Merged Group will have a pro forma market capitalisation of approximately \$1,169 million⁸ which, together with greater liquidity and the potential for a bigger index weighting, is expected to make it more attractive to a wider range of investors. The balance sheet and liquidity of the Merged Group, combined with cash flows from an enlarged suite of producing assets, positions the Merged Group to be able to pursue the growth opportunities that are being created by the low oil price environment.
- iii. **Synergies:** Opportunity for the Merged Group to realise targeted pre-tax cost savings, with approximately \$20 million per year of synergies expected to be realised within two years.⁹

The Merger will also bring together two like-minded organisations with a long history of successful joint venture partnership that are aligned on strategy and corporate values. Each company has a deep technical capability which, when combined, will deliver a vast knowledge base spanning the Cooper and Eromanga Basins and this will be fundamental to the Merged Group unlocking emerging growth opportunities.

1 The exchange ratio of 1.25 New Beach Shares per Drillsearch Share as Scheme Consideration is a fixed ratio and therefore the implied value per Drillsearch Share will vary as the market price of Beach Shares varies.

2 Based on the closing price of Beach Shares of \$0.665 on the ASX on 22 October 2015.

3 Based on the VWAP of Beach Shares of \$0.56 on the ASX over the one-month period up to and including 22 October 2015.

4 Based on the VWAP of Beach Shares of \$0.65 on the ASX over the 3-month period up to and including 22 October 2015.

5 Based on the closing price of Beach Shares of \$0.43 on 10 December 2015.

6 Based on 2015 Full Year Reports, including Appendix 4E, Directors' Report and Financial Statements for Drillsearch and Beach. These figures refer to Australian production and exclude production from Beach's Egypt interests.

7 Based on the ASX company announcements for the 12 months to 30 June 2015 for Drillsearch, Beach and other ASX listed onshore oil producers.

8 Based on the closing share price of Beach Shares (\$0.665) and Drillsearch Shares (\$0.655) as at 22 October 2015, the last trading day before the Announcement Date.

9 Targeted synergies exclude one-off integration costs, and are in addition to Drillsearch's targeted cost base reduction of \$10 - \$15 million per annum, as announced by Drillsearch on 19 February 2015.

The Merger is a common-sense transaction that will combine two successful businesses to create a Merged Group with enhanced scale and attractive prospects.

BOARD RECOMMENDATION

The Drillsearch Board unanimously recommends that Drillsearch Shareholders vote in favour of the Merger, in the absence of a Superior Proposal.

Each Drillsearch Director intends to vote in favour of the Merger, in relation to the Drillsearch Shares in which they have a Relevant Interest, in the absence of a Superior Proposal.

In reaching its recommendation, the Drillsearch Board has considered a range of factors, including the value of the Scheme Consideration and the ability for Drillsearch Shareholders to continue to share in the benefits and risks of the Drillsearch business combined with the Beach business.

These factors, as well as further information about the background to the Merger and the reasons to vote in favour or against the Merger, are set out in "Reasons to vote for the Merger and benefits of the Merger" from page 5 and "Reasons to vote against the Merger and disadvantages of the Merger" from page 5.

GOVERNANCE AND MANAGEMENT

Beach's current Chairman, Glenn Davis, will be Chairman of the Merged Group. Upon implementation of the Merger, Mr Philip Bainbridge (Non-executive director, Drillsearch) and I will be appointed as directors of the Merged Group. Two current directors of Beach will step down.

In addition, Beach is currently conducting a recruitment process for a new CEO who will lead the Merged Group. This process is a priority for the Beach Board and the appointment will be made in consultation with Drillsearch.

MERGER INTEGRATION GROUP

The successful integration of the two companies is a priority of the Drillsearch Board. As such, Drillsearch and Beach have formed a Merger Integration Group led by Mr Walter Simpson, CEO of Drillsearch, and Mr Neil Gibbins, Acting CEO of Beach. The responsibilities of the Merger Integration Group are set out in Section 5.4(f) (*Merger Integration Group*).

INDEPENDENT EXPERT'S OPINION

Annexure A (*Independent Expert's Report and Independent Technical Expert's Report*) contains a copy of an Independent Expert's Report prepared by EY. The Independent Expert has concluded that the Merger is fair and reasonable and therefore is in the best interests of Drillsearch Shareholders. Drillsearch Shareholders should read the Independent Expert's Report in full before making their own decision on the merits of the Merger.

YOUR VOTE IS IMPORTANT

Your vote is important and the Drillsearch Board strongly encourages you to participate.

You should read this Scheme Booklet in full before making a decision as to how to vote (whether in person, by proxy, by attorney or, in the case of a corporation, its duly appointed corporate representative) at the Scheme Meeting to be held at Museum of Sydney, AGL Theatre, Level 2 Corner of Phillip and Bridge Streets, Sydney, New South Wales (Sydney time) on Wednesday, 27 January 2016 at 11:00am.

See "What to do next" on page 9 for details on how to vote on the Merger.

As the Scheme Meeting is after the Christmas break, you may be unable to attend the Scheme Meeting in person. I encourage you to consider lodging a proxy vote. The completed Proxy Form can be returned in person, by reply paid envelope or by fax or you can register your proxy appointment online at www.linkmarketservices.com.au (as detailed on the Proxy Form).

For your proxy vote to be considered, it must be lodged with Link Market Services Limited (as detailed on the Proxy Form) by 11:00am (Sydney time) on Monday, 25 January 2016.

FURTHER INFORMATION

If, after reading this Scheme Booklet, you have any questions regarding the Merger, please call the Drillsearch Shareholder Information Line on 1300 889 528 (callers in Australia) or +61 2 9098 9203 (callers outside Australia) between 9:00am and 5:00pm (Sydney time) Monday to Friday (excluding public holidays), or consult an independent and appropriately licensed and authorised professional adviser.

CONCLUSION

On behalf of the Drillsearch Board, I would like to thank you for your ongoing support of Drillsearch.

We look forward to your participation at the Scheme Meeting and encourage you to vote in favour of the Merger, which we believe is in the best interest of all Drillsearch Shareholders in the absence of a Superior Proposal.

Yours sincerely



Jim McKerlie

Chairman
Drillsearch Energy Limited

LETTER FROM THE CHAIRMAN OF BEACH

Dear Drillsearch Shareholder

The Beach Board and management are pleased to provide Drillsearch Shareholders with the opportunity to participate in the Merger and receive 1.25 New Beach Shares for each of their Drillsearch Shares. This exchange ratio values Drillsearch at a price of \$0.83 per Drillsearch Share based on the closing price of Beach Shares on 22 October 2015, the last trading day before the Merger was announced.

We are excited by the range of new benefits that will become available to you as a shareholder in the Merged Group, if the Merger is successful. For instance, when combined, Beach and Drillsearch will hold positions in all of the major oil producing permits of the highly successful Western Flank and will be positioned as the second largest gas producer in the Cooper Basin. The Merged Group's combined assets will also be enhanced by Beach's existing ownership interests in primary infrastructure used to process hydrocarbons from the region.

The Merger will create the leading mid-cap oil and gas company listed on the ASX. The enhanced scale and balance sheet strength of the Merged Group places it in a prime position to pursue growth opportunities which are currently being created by the low oil price environment.

Importantly, there is the potential to realise targeted synergies and pre-tax costs savings of approximately \$20 million per annum.¹⁰

As a Drillsearch Shareholder you will share in the benefits of the Merged Group. As such, your vote is important to ensure that the Merger is implemented and the benefits of the Merger are realised by all Drillsearch Shareholders.

This Scheme Booklet provides important information in relation to the Merger, and on behalf of the Beach Board, I encourage you to read it carefully and vote in favour of the Merger at the Scheme Meeting to be held on 27 January 2016.

I look forward to welcoming you as a shareholder of the Merged Group following the successful implementation of the Merger.

Yours sincerely



Glenn Davis
Chairman
Beach Energy Limited



¹⁰ Targeted synergies exclude one-off integration costs, and are in addition to Drillsearch's targeted cost base reduction of \$10 – \$15 million per annum, as announced by Drillsearch on 19 February 2015.

REASONS TO VOTE FOR AND AGAINST THE MERGER

Set out below is information about the unanimous recommendation of the Drillsearch Board, along with reasons to vote for the Merger and benefits of the Merger and reasons to vote against the Merger and disadvantages of the Merger.

REASONS TO VOTE FOR THE MERGER AND BENEFITS OF THE MERGER

✓	Creation of Australia's leading mid-cap oil and gas company listed on the ASX
✓	Compelling premium to the Drillsearch Share price before the announcement of the Merger
✓	Full-scrip consideration allows Drillsearch Shareholders to participate in benefits of the Merged Group
✓	Enhanced scale and balance sheet to pursue growth opportunities in a low oil price environment
✓	Expected realisation of pre-tax synergies and cost savings of ~\$20m pa ¹¹
✓	The Independent Expert has concluded that the Merger is fair and reasonable and therefore is in the best interests of Drillsearch Shareholders
✓	The Drillsearch Board unanimously recommends that you vote in favour of the Merger, in the absence of a Superior Proposal

REASONS TO VOTE AGAINST THE MERGER AND DISADVANTAGES OF THE MERGER

✗	The exact value of the Scheme Consideration is not certain and will fluctuate with the market price of Beach Shares
✗	You may not agree with the Drillsearch Board's recommendation and the Independent Expert's conclusions
✗	Drillsearch Shareholders will have a reduced exposure to the Drillsearch portfolio
✗	You may consider that there is potential for a Superior Proposal to emerge
✗	You may wish to maintain your current investment profile in Drillsearch
✗	There are risks associated with an investment in the Merged Group



¹¹ Targeted synergies exclude one-off integration costs, and are in addition to Drillsearch's targeted cost base reduction of \$10 – \$15 million per annum, as announced by Drillsearch on 19 February 2015.

1. RECOMMENDATION OF THE DRILLSEARCH BOARD

The Drillsearch Board unanimously recommends that you vote in favour of the Merger, in the absence of a Superior Proposal. Each Drillsearch Director intends to vote in favour of the Merger, in relation to Drillsearch Shares in which they have a Relevant Interest, in the absence of a Superior Proposal. **As at the date of this Scheme Booklet, no Superior Proposal has emerged.**

The Drillsearch Board has formed their conclusion and made their recommendation based on the matters outlined in this Section. The Drillsearch Board has also had regard to the information set out in this Scheme Booklet, including the risks associated with the Merger outlined in Section 7 (*Risk factors*) and the Independent Expert's Report contained in Annexure A (*Independent Expert's Report and Independent Technical Expert's Report*).

(a) The benefits of the Merger outweigh its disadvantages

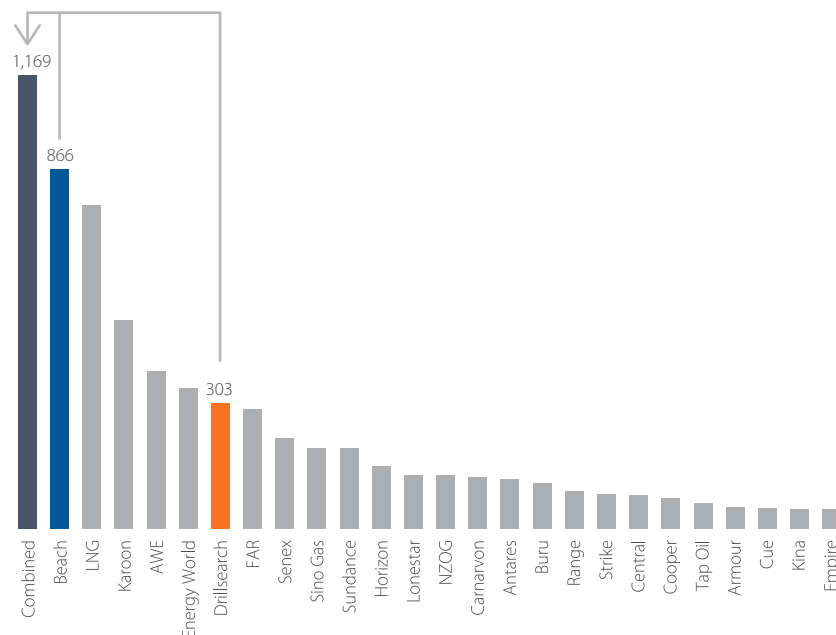
The Drillsearch Board believes that the benefits associated with the Merger for Drillsearch Shareholders outweigh the disadvantages associated with the Merger. The "*Reasons to vote for the Merger and benefits of the Merger*" and "*Reasons to vote against the Merger and disadvantages of the Merger*" set out below outline the key benefits and disadvantages of the Merger which the Drillsearch Board considered in forming this opinion.

(b) The opinion of the Independent Expert

The Drillsearch Board engaged EY as the Independent Expert to provide an opinion on the Merger. The Independent Expert has concluded that the Merger is fair and reasonable and therefore is in the best interests of Drillsearch Shareholders.

A copy of the Independent Expert's Report is included in Annexure A (*Independent Expert's Report and Independent Technical Expert's Report*).

Figure 1: Market Capitalisation of Merged Group relative to peers (A\$ million)¹²



2. REASONS TO VOTE FOR THE MERGER AND BENEFITS OF THE MERGER

Creation of Australia's leading mid-cap oil and gas company listed on the ASX

The Merger will enable Drillsearch Shareholders to participate in the creation of the leading mid-cap oil and gas company listed on the ASX, providing a platform for significant potential growth and value realisation in the Australian oil and gas sector which is unlikely to otherwise be available to Drillsearch as a standalone company. Through the Merged Group, Drillsearch Shareholders will gain exposure to a larger, more diversified footprint in the Cooper and Eromanga Basins and to prospective assets outside the Cooper and Eromanga Basins with an expanded production profile.

The Merged Group will have a pro forma market capitalisation of approximately \$1,169 million¹², which compares to Drillsearch's market capitalisation of approximately \$303 million.¹² As shown in Figure 1, this will make the Merged Group the largest mid-cap oil and gas company listed on the ASX (by market capitalisation).

The increased scale and market relevance of the Merged Group are likely to enhance the level of interest from analysts and investors seeking exposure to the Australian oil and gas sector and will likely facilitate increased liquidity for the Merged Group Shares. Further, Drillsearch Shareholders will receive Scheme Consideration in the form of New Beach Shares.

Compelling premium to the Drillsearch Share price before the announcement of the Merger

The Scheme Consideration represents a premium over the trading prices of Drillsearch Shares before announcement of the Merger, as shown in Figure 2. Based on the closing price of Beach Shares on 22 October 2015, being the last ASX trading day before the Announcement Date, the implied value of the Scheme Consideration is \$0.83 per Drillsearch Share and represents a compelling premium of 27% for Drillsearch Shareholders to the Drillsearch Share price on that date.

The implied value of the Scheme Consideration per Drillsearch Share represents a premium¹³ of 1.4%¹⁴ to the closing price of Drillsearch Shares of \$0.53 per share on the ASX on 10 December 2015, being the last practicable date prior to finalisation of this Scheme Booklet.

Full-scrip consideration allows Drillsearch Shareholders to participate in benefits of the Merged Group

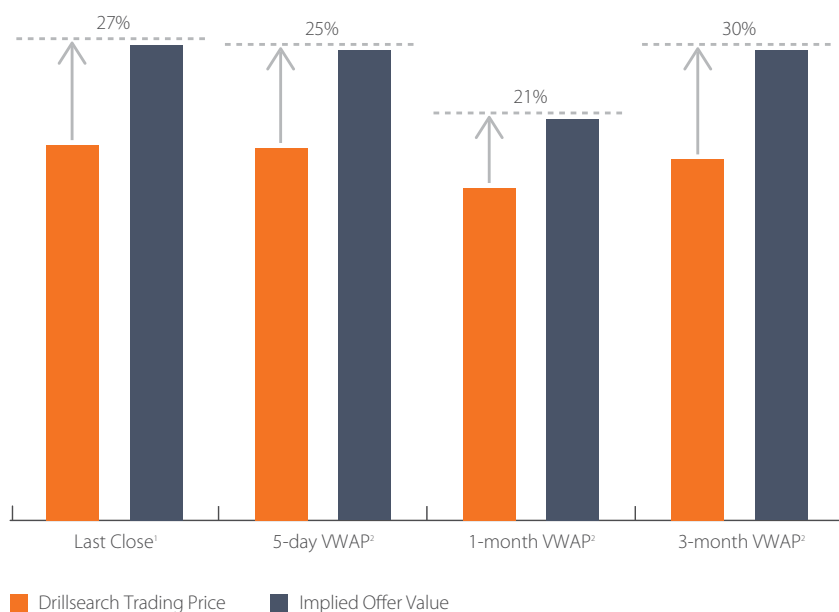
Through the all-scrip consideration, Drillsearch Shareholders will have exposure to the Merged Group's portfolio of assets in the Cooper and Eromanga Basins. This includes ongoing exposure to Western Flank oil and Western Wet Gas exploration and production assets currently in Drillsearch's portfolio, as well as exposure to Beach's other Western Flank interests, and Beach's substantial gas business through the SACB JVs and SWQ JVs, along with Beach's associated interests in gas processing, gathering and transportation infrastructure. This will increase Drillsearch Shareholders' exposure to the growing East Coast gas market opportunity, which is expected to undergo transformational change with higher gas prices driven by offshore LNG demand and increased exploration and development costs.

¹² Source: IRESS (22 October 2015). Market capitalisation based on last closing share prices as at 22 October 2015, the last trading day before the Announcement Date.

¹³ The exchange ratio of 1.25 New Beach Shares per Drillsearch Share as Scheme Consideration is a fixed ratio and therefore the implied value per Drillsearch Share will vary as the market price of Beach Shares varies.

¹⁴ Based on the closing price of Beach Shares of \$0.43 on 10 December 2015.

Figure 2: Scheme Consideration (as at 22 October 2015)



Source: IRESS (22 October 2015).

¹ Last close of Beach Shares and Drillsearch Shares as at 22 October 2015, the trading day before the Announcement Date.

² The implied offer value is based on the VWAP for Beach Shares and Drillsearch Shares over the corresponding periods ending 22 October 2015 (the last trading day before the Announcement Date).

Drillsearch Shareholders will also gain exposure to the potential upside from near-term appraisal and exploration opportunities from the Merged Group's expanded portfolio. This includes Beach's existing assets outside of the Cooper and Eromanga Basins in the Otway, Browse, Carnarvon, Bonaparte, Gippsland, Taranaki and Canterbury Basins, resulting in exposure to a more geographically diverse portfolio as compared to Drillsearch as a standalone company.

Beach delivers to the Merged Group a substantial level of operating experience and a proven track record as a low cost operator in the Cooper and Eromanga Basins. These skills are expected to significantly enhance the delivery of the Merged Group's portfolio of projects and its access to further growth opportunities. Further detail on the profile of the Merged Group can be found in Section 5 (*Profile of the Merged Group*).

Drillsearch and Beach have management with extensive experience in oil and gas production, development and exploration. The leadership team of the Merged Group will be selected on a "best for job" basis drawing on the depth and experience available within the combined management teams.

More information regarding the assets of the Merged Group if the Merger is implemented is set out in Section 5 (*Profile of the Merged Group*).

Enhanced scale and balance sheet to pursue growth opportunities in a low oil price environment

The Merged Group will have enhanced scale and a balance sheet to pursue growth opportunities in a low oil price environment.

On a pro forma basis, the Merged Group had liquidity of approximately \$470 million¹⁵ as at 30 June 2015 comprising cash, and Beach's \$530 million syndicated debt facility (of which \$360 million (\$350 million in debt and \$10 million in letters of credit) remains undrawn as at the date of this Scheme Booklet). The Merged Group would also benefit from pro forma FY15 operating cash flows of \$313 million, more than 3 times the amount that Drillsearch generated on a standalone basis.

The Merged Group's greater scale and scope may facilitate access to additional sources of capital in the equity and debt markets over time. Refer to Section 5.6(a) (*Financing arrangements*) for further details.

In addition, the combined portfolio, greater scale and strengthened financial position of the Merged Group will provide greater access to growth opportunities including:

- an expanded exploration and development portfolio that the Merged Group will be able to sequence to optimise the deployment of capital;
- further external growth opportunities in the Cooper and Eromanga Basins and around Australia; and
- other growth opportunities the Merged Group could be expected to have access to as the leading mid-cap oil and gas company listed on the ASX.

Amidst the low oil price environment, companies with superior financial, technical and human resources will be better positioned to capitalise on consolidation opportunities in the oil and gas sector. The Drillsearch Board and the Beach Board believe that the Merged Group will be in a stronger position to participate in such opportunities as they arise to further enhance shareholder value.

Expected realisation of pre-tax synergies and cost savings of ~\$20m per annum

The Drillsearch and Beach boards believe that the Merger will provide Drillsearch Shareholders with access to synergies. The Merged Group is expected to unlock material value through operational cost savings and a reduction in corporate costs, which would otherwise not be available to Drillsearch on a standalone basis. The Drillsearch and Beach boards believe that the Merged Group will realise pre-tax synergies of approximately \$20 million per annum within two years.¹⁶

The Merger is expected to eliminate various duplicate corporate overheads across the Drillsearch and Beach businesses and remove duplicate operating teams in joint venture projects.

In addition, the Drillsearch and Beach boards expect that the Merged Group will benefit from the sharing and cross-fertilisation of knowledge, technical expertise and geological understanding between the two businesses.

¹⁵ Liquidity figure shown applies pro forma cash balance as at 30 June 2015 after allowing for redemption of the Drillsearch Convertible Notes and on the basis that the Drillsearch loan facility remains undrawn. Refer to Section 6 (*Financial Information for the Merged Group*) and Section 3 (*Profile of Drillsearch*) for information regarding the pro forma financial position of the Merged Group and details regarding the Drillsearch Convertible Notes, respectively.

¹⁶ Targeted synergies exclude one-off integration costs, and are in addition to Drillsearch's targeted cost base reduction of \$10 - \$15 million per annum, as announced by Drillsearch on 19 February 2015.

Other benefits

No brokerage or duty will be payable on the transfer of your Drillsearch Shares to Beach under the Merger.

Drillsearch Shareholders may also be eligible for CGT rollover relief. For more information, refer to Section 9 (*Taxation Implications*).

3. REASONS TO VOTE AGAINST THE MERGER AND DISADVANTAGES OF THE MERGER

The exact value of the Scheme Consideration is not certain and will fluctuate with the market price of Beach Shares

The implied value of the Scheme Consideration will vary with movements in the price of Merged Group Shares and, on the implementation of the Merger, that implied value may be less than the implied value of \$0.83 per Drillsearch Share on 22 October 2015 or the implied value of \$0.54 per Drillsearch Share on 10 December 2015, being the last practicable date prior to finalisation of this Scheme Booklet.

Following the implementation of the Merger, the price of Merged Group Shares may rise or fall based on market conditions, the Merged Group's financial and operational performance and other factors. If the price of Merged Group Shares fall, the value of the New Beach Shares received by Drillsearch Shareholders as Scheme Consideration will decline in value.

You may not agree with the Drillsearch Board's recommendation and the Independent Expert's conclusions

Notwithstanding the unanimous recommendation of the Drillsearch Board and the conclusions of the Independent Expert, you may believe that the Merger is not in your best interest.

The Drillsearch Board and the Independent Expert have made judgements based on future trading conditions and events, which are not predictable with certainty and which may prove to be inaccurate (either positively or negatively).

You may hold a different view from, and are not obliged to follow the recommendations of, the Drillsearch Board, and may not agree with the Independent Expert's opinion.

Drillsearch Shareholders will have a reduced exposure to the Drillsearch portfolio

If the Merger is implemented, Drillsearch Shareholders will collectively hold approximately 30% of the Merged Group immediately after implementation of the Merger. Accordingly, Drillsearch Shareholders will have a reduced proportionate exposure to the Drillsearch portfolio.

You may consider that there is potential for a Superior Proposal to emerge

Drillsearch Shareholders may believe that a more attractive proposal may be forthcoming in the future. The implementation of the Merger may mean that Drillsearch Shareholders will not obtain the benefit of any such proposal.

The Drillsearch Board is not currently aware of any such proposal and note that, as at the date of this Scheme Booklet, no Superior Proposal has emerged since Drillsearch and Beach announced the Merger on 23 October 2015.

If a Superior Proposal emerges, this will be announced to the ASX and the Drillsearch Board will carefully consider the Merger in light of the Superior Proposal and advise you of its recommendation.

You may wish to retain your investment profile in Drillsearch

While Beach is active in commodity markets and has operations and geographic focus similar to Drillsearch as a standalone entity, the operational profile, capital structure, size and geography of the Merged Group will be different to that of Drillsearch on a standalone basis. It is possible that you may wish to maintain an interest in Drillsearch as a standalone company because you are seeking an investment in a publicly listed company with the specific characteristics of Drillsearch.

There are risks associated with an investment in the Merged Group

If the Merger is implemented, there will be a change in the risk profile to which Drillsearch Shareholders are exposed.

Compared to Drillsearch, the Merged Group will be a larger company with a more diversified asset base, including an interest in infrastructure assets and assets located outside the Cooper and Eromanga Basins (including assets in foreign jurisdictions).

Accordingly, the Merged Group will be subject to a number of additional risks to which Drillsearch is not currently exposed, including risks associated with:

- oil and gas operations and exploration activities outside of the Cooper and Eromanga Basins, and outside of Australia;
- the ownership and operatorship of infrastructure assets; and
- interests in a number of new joint ventures, with partners who are currently joint venture partners of Beach but not of Drillsearch.

Further details of some of the risks associated with an investment in the Merged Group are set out in Section 7 (*Risk factors*). Drillsearch Shareholders are encouraged to read this Section carefully and in its entirety.



KEY DATES, LOCATION OF SCHEME MEETING AND WHAT TO DO NEXT

EVENT	TIME AND DATE ¹⁷
Date of this Scheme Booklet	Wednesday, 16 December 2015
Time and date by which the Proxy Form must be received for the Scheme Meeting	11:00am, Monday 25 January 2016
Voting Record Date – time and date for determining eligibility to vote at the Scheme Meeting	7:00pm, Monday 25 January 2016
Time and date of the Scheme Meeting	11:00am, Wednesday 27 January 2016
<i>If the Merger is approved by Drillsearch Shareholders and all other Conditions Precedent in connection with the Merger are fulfilled or waived (if applicable):</i>	
Second Court Date (for approval of the Merger by the Court)	Thursday, 18 February 2016
Effective Date of the Merger (Drillsearch Shares are suspended from trading at the close of trading on the ASX)	Thursday, 18 February 2016
New Beach Shares commence trading on the ASX on a deferred settlement basis	Friday, 19 February 2016
Record Date – the time and date which determines the entitlements of Drillsearch Shareholders (other than Excluded Shareholders) to the Scheme Consideration	7:00pm, Thursday, 25 February 2016
Implementation Date – the date of transfer of all Scheme Shares to Beach and issue of the Scheme Consideration to Scheme Shareholders	Tuesday, 1 March 2016
Commencement of trading of New Beach Shares on the ASX on a normal T+3 settlement basis	Wednesday, 2 March 2016

¹⁷ These dates and times are indicative only and are subject to change. Unless otherwise specified, all times and dates refer to Sydney, Australia time. Any changes to the timetable will be announced to the ASX and notified on Drillsearch's website at www.drillsearch.com.au.

LOCATION OF MEETING

MUSEUM OF SYDNEY, AGL THEATRE,
LEVEL 2 CORNER OF PHILLIP AND BRIDGE STREETS,
SYDNEY, NEW SOUTH WALES

TIME AND DATE

11:00AM ON WEDNESDAY,
27 JANUARY 2016

WHAT TO DO NEXT

STEP 1: CAREFULLY READ THIS SCHEME BOOKLET IN FULL

You should read this Scheme Booklet in full. It contains important information to assist you in deciding how to vote on the Merger.

The information contained in Section 1 (*Answers to key questions*) may help answer some of your questions.

It is important that you consider the information disclosed in light of your own particular investment needs, objectives and financial circumstances.

If after reading this Scheme Booklet, you have any questions regarding the Merger, contact the Drillsearch Shareholder Information Line on 1300 889 528 (callers in Australia) or +61 2 9098 9203 (callers outside Australia) between 9:00am and 5:00pm (Sydney time) Monday to Friday (excluding public holidays), or consult an independent and appropriately licensed and authorised professional adviser without delay.

STEP 2: VOTE ON THE MERGER YOUR VOTE IS IMPORTANT

If you are a Drillsearch Shareholder on the Voting Record Date you are entitled to vote on the Merger at the Scheme Meeting. Any Drillsearch Shares held by or on behalf of Excluded Shareholders, or in which Excluded Shareholders have a Relevant Interest, will not be voted at the Scheme Meeting.

The Independent Expert has concluded that the Merger is fair and reasonable and therefore is in the best interests of Drillsearch Shareholders.

The Drillsearch Board unanimously recommends that Drillsearch Shareholders vote in favour of the Merger, in the absence of a Superior Proposal.

Scheme Meeting

Drillsearch Shareholders (other than Excluded Shareholders) are being asked to approve the Scheme at the Scheme Meeting.

If the resolution approving the Scheme is passed at the Scheme Meeting, Drillsearch will make an application to the Court to approve the Scheme at the Second Court Hearing.

HOW TO VOTE

Each Drillsearch Shareholder on the Register at the Voting Record Date (other than Excluded Shareholders) is entitled to attend and vote at the Scheme Meeting.

Voting is not compulsory.

You may vote at the Scheme Meeting by doing one of the following:

- **Vote in person** – attend the Scheme Meeting in person at Museum of Sydney, AGL Theatre, Level 2 Corner of Phillip and Bridge Streets, Sydney, New South Wales (Sydney time) on Wednesday, 27 January 2016 at 11:00am, and bring a suitable form of personal identification (such as a driver's licence);
- **Vote by proxy** – if you are unable to attend the Scheme Meeting and you want to appoint a proxy to vote your Drillsearch Shares on your behalf:
 - complete, sign and return the original Proxy Form enclosed with this Scheme Booklet in accordance with the instructions set out on the form (see Annexure C (*Notice of Scheme Meeting*) for more details) so that it is received at the address indicated on the form by no later than 11:00am (Sydney time) on Monday, 25 January 2016; and
 - arrange to have your proxy or proxies attend the Scheme Meeting (if you are appointing a person other than the Chairman of the Scheme Meeting as your proxy).

You can lodge the Proxy Form:

- by mail to Drillsearch Energy Limited, C/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235, Australia;
- by hand delivery during business hours (between 9:00am and 5:00pm (Sydney time), Monday to Friday) at Link Market Services Limited's offices at 1A Homebush Bay Drive, Rhodes NSW 2138 or Level 12 680 George Street, Sydney NSW 2000;
- by fax at Link Market Services Limited's fax number +61 2 9287 0309; or
- online via Link Market Services Limited's investor centre at www.linkmarketservices.com.au,

as detailed on the Proxy Form.

- **Vote by attorney** – you may appoint an attorney to attend and vote at the Scheme Meeting on your behalf. Such an appointment must be made by a duly executed power of attorney, which must be received by Drillsearch at its registered office by 11:00am (Sydney time) on Monday, 25 January 2016, unless it has been previously provided to Drillsearch.
- **Vote by body corporate representative** – if you are a body corporate, you can appoint a corporate representative to attend and vote at the Scheme Meeting on your behalf. The appointment must comply with section 250D of the Corporations Act.

Please refer to Annexure C (*Notice of Scheme Meeting*) where these voting options are set out in full.

1. ANSWERS TO KEY QUESTIONS

The following set of questions and answers is intended to assist in your understanding of the Merger. These are qualified by, and should be read together with, all other parts of this Scheme Booklet.

NO.	QUESTION	ANSWER	WHERE TO FIND MORE INFORMATION
Details of the Merger			
1.	Why have I been sent this Scheme Booklet?	This Scheme Booklet has been sent to you because you are a Drillsearch Shareholder as at 11 December 2015 and you are being asked to vote on the Merger. This Scheme Booklet is intended to help you decide how to vote on the Merger at the Scheme Meeting.	N/A
2.	What is the Merger?	The Merger is a proposed transaction whereby Beach will acquire all of the Drillsearch Shares in which Beach does not already have a Relevant Interest. The Merger is to be implemented by way of the Scheme, which is subject to the satisfaction or waiver (if applicable) of certain conditions.	Section 2 (<i>Summary of the Merger</i>)
3.	Who is Beach?	Beach is an ASX-listed oil and gas exploration and production company, based in Adelaide, South Australia, with its core operations in the Cooper and Eromanga Basins. Beach has established a successful operated oil business in the Western Flank of the Cooper and Eromanga Basins, and has grown to become Australia's largest onshore oil producer. Beach is also joint venture partner with Drillsearch, and operator, in the ex-PEL 91 joint venture and the ex-PEL 106 joint venture. Beach also has a substantial gas business through its interests in the SACB JVs and SWQ JVs. In addition to its interests in the Cooper and Eromanga Basins, Beach has permits in other basins around Australia, including the Otway, Gippsland and Bonaparte basins, as well as permits in New Zealand.	Section 4 (<i>Profile of Beach</i>)
4.	Who is entitled to participate in the Merger?	All Drillsearch Shareholders on the Register at the Record Date, other than Excluded Shareholders, will become entitled to Scheme Consideration in respect of the Drillsearch Shares they hold at the time, except that an Ineligible Foreign Shareholder will receive the Ineligible Foreign Shareholder Amount.	Section 8.4 (<i>Determination of persons entitled to the Scheme Consideration</i>)
5.	What if I am an Ineligible Foreign Shareholder at the Record Date?	If the Merger is implemented, Scheme Shareholders who are Ineligible Foreign Shareholders will receive the Ineligible Foreign Shareholder Amount.	Section 8.8 (<i>Ineligible Foreign Shareholders and the Ineligible Foreign Shareholder Amount</i>)
6.	What is the opinion of the Independent Expert?	The Independent Expert has concluded that the Merger is fair and reasonable and therefore is in the best interests of Drillsearch Shareholders.	Annexure A (<i>Independent Expert's Report and Independent Technical Expert's Report</i>)
7.	What does the Drillsearch Board recommend Drillsearch Shareholders do?	The Drillsearch Board unanimously recommends that Drillsearch Shareholders vote in favour of the Merger, in the absence of a Superior Proposal. Each Drillsearch Director intends to vote in favour of the Merger, in relation to the Drillsearch Shares in which they have a Relevant Interest, in the absence of a Superior Proposal.	"Recommendation of the Drillsearch Board" on page 6 and Section 2.8 (<i>Drillsearch Board recommendation and voting intentions</i>)

NO.	QUESTION	ANSWER	WHERE TO FIND MORE INFORMATION
Scheme Consideration			
8.	What will I receive if the Merger is implemented?	<p>If the Merger is implemented, Drillsearch Shareholders (other than Excluded Shareholders and Ineligible Foreign Shareholders) will receive the Scheme Consideration of 1.25 New Beach Shares in respect of each Drillsearch Share they hold on the Record Date.</p> <p>Excluded Shareholders will not participate in the Scheme and Ineligible Foreign Shareholders will be paid the Ineligible Foreign Shareholder Amount.</p>	Sections 2.3 (<i>Scheme Consideration</i>) and 8.8 (<i>Ineligible Foreign Shareholders and the Ineligible Foreign Shareholder Amount</i>)
9.	What is the premium of the Scheme Consideration to the Drillsearch Share price?	<p>Based on the closing price of Beach Shares of \$0.665 per share on 22 October 2015 (being the last trading day before the Announcement Date), the implied value of Scheme Consideration is \$0.83 per Drillsearch Share. The implied value of Scheme Consideration per Drillsearch Share represents a premium of:</p> <ul style="list-style-type: none"> • 27% to the closing price of Drillsearch Shares on the ASX on 22 October 2015 of \$0.655 per share; • 21% to the 1 month VWAP of \$0.58 per Drillsearch Share up to and including 22 October 2015; • 30% to the 3 month VWAP of \$0.63 per Drillsearch Share up to and including 22 October 2015; and • 1.4%¹⁸ to the closing price of Drillsearch Shares on the ASX on 10 December 2015 of \$0.53 per share, being the last practicable date prior to finalisation of this Scheme Booklet. 	"Reasons to vote for the Merger and benefits of the Merger" on page 5.
10.	When will I receive my New Beach Shares?	New Beach Shares will be issued on the Implementation Date, which is expected to be on or about Tuesday, 1 March 2016, in accordance with the indicative timetable on page 9.	"Timetable" on page 9 and Section 8.7 (<i>Implementation Date</i>).
11.	When will I receive the Ineligible Foreign Shareholder Amount if I am an Ineligible Foreign Shareholder?	Scheme Shareholders who are Ineligible Foreign Shareholders will be paid the Ineligible Foreign Shareholder Amount 5 Business Days after the net proceeds from the sale of the New Beach Shares (that otherwise would have been provided to Ineligible Foreign Shareholders under the Merger) are transferred by the Foreign Nominee to Beach.	Section 8.8 (<i>Ineligible Foreign Shareholders and the Ineligible Foreign Shareholder Amount</i>)
12.	Is Beach bound to provide the Scheme Consideration?	Yes. Under the Beach Deed Poll, Beach undertakes in favour of each Scheme Shareholder to, among other things, provide the Scheme Consideration (subject to the Merger becoming Effective).	Annexure E (<i>Beach Deed Poll</i>)
13.	How will fractional entitlements be treated under the Merger?	<p>When the calculation of the number of New Beach Shares issued as Scheme Consideration would result in the issue of a fraction of a share, the fractional entitlement will:</p> <ul style="list-style-type: none"> • where the entitlement is to half of a New Beach Share or more, be rounded up to the nearest whole number of New Beach Shares; and • where the entitlement is to less than half a New Beach Share, be rounded down to the nearest whole number of New Beach Shares. 	Section 8.5 (<i>Fractional entitlements and share splitting</i>)
14.	When will I be able to sell any New Beach Shares I receive?	<p>Beach Shares currently trade on the ASX and the New Beach Shares issued under the Merger are expected to commence trading on the ASX on a deferred settlement basis on Friday, 19 February 2016. Trading in New Beach Shares on a normal settlement basis is expected to commence on Wednesday, 2 March 2016.</p> <p>Section 7 (<i>Risk factors</i>) outlines the possible risks associated with trading during the deferred settlement period.</p>	Section 8 (<i>Implementation of the Merger</i>)

18 Based on the closing price of Beach Shares of \$0.43 on 10 December 2015.

NO.	QUESTION	ANSWER	WHERE TO FIND MORE INFORMATION
15.	Can I choose to receive cash instead of New Beach Shares?	No. There is no option for Scheme Shareholders to elect to receive cash instead of New Beach Shares. However, once you have received the Scheme Consideration, you may sell some or all of your New Beach Shares. Alternatively, you may elect to sell your existing Drillsearch Shares before the Effective Date.	N/A
16.	Can I keep my Drillsearch Shares?	If the Merger is implemented, all of your Drillsearch Shares will be transferred to Beach. This will be the case even if you did not vote or you voted against the Merger.	N/A
17.	Do I have to pay brokerage fees or stamp duty to participate in the Merger?	No brokerage or stamp duty will be payable by Scheme Shareholders on the transfer of their Scheme Shares under the Merger or the receipt by Scheme Shareholders of the Scheme Consideration. Brokerage may apply to the sale of your Drillsearch Shares before the Record Date ¹⁹ or the sale of your New Beach Shares after the Implementation Date.	Section 2.12 (<i>No brokerage or stamp duty</i>)
Meeting, agreement and approval			
18.	When and where will the Scheme Meeting be held?	The Scheme Meeting will be held at: Museum of Sydney, AGL Theatre Level 2, Corner of Phillip and Bridge Streets Sydney New South Wales, on Wednesday, 27 January 2016 at 11:00am.	"Location of meeting" on page 9 and Annexure C (<i>Notice of Scheme Meeting</i>)
19.	Who is entitled to vote at the Scheme Meeting?	All Drillsearch Shareholders on the Register at 7:00pm on Monday 25, January 2016 (the Voting Record Date), other than Excluded Shareholders, are entitled to attend and vote at the Scheme Meeting. For the avoidance of doubt, this includes a Drillsearch Shareholder who holds Drillsearch Shares as a result of the conversion of or exercise of rights attached to other Drillsearch Securities.	Section 2.5 (<i>Drillsearch Shareholders' approvals</i>)
20.	Why should I vote?	Voting is not compulsory. However, your vote will be important in determining whether the Merger proceeds. The Drillsearch Board encourages you to read this Scheme Booklet carefully and in full, and recommends that you vote in favour of the Merger, in the absence of a Superior Proposal.	Sections 2.5 (<i>Drillsearch Shareholders' approvals</i>), 2.8 (<i>Drillsearch Board recommendation and voting intentions</i>) and "Recommendation of the Drillsearch Board" on page 6.
21.	What choices do I have as a Drillsearch Shareholder?	As a Drillsearch Shareholder you may: <ul style="list-style-type: none"> • vote at the Scheme Meeting in person, by proxy, by attorney or, in the case of a corporation, by a duly appointed corporate representative; • elect not to vote at the Scheme Meeting; • sell your Drillsearch Shares prior to the Effective Date; or • do nothing. 	Section 2.5 (<i>Drillsearch Shareholders' approvals</i>) and Annexure C (<i>Notice of Scheme Meeting</i>)
22.	What voting majorities are required to approve the Merger?	For the Merger to proceed, votes in favour of the resolution to approve the Scheme at the Scheme Meeting must be received from a Requisite Majority of Drillsearch Shareholders. A Requisite Majority consists of: <ul style="list-style-type: none"> • more than 50% in number of Drillsearch Shareholders (other than Excluded Shareholders) who are present and voting, either in person or by proxy, attorney or, in the case of a corporation, its duly appointed corporate representative, at the Scheme Meeting; and • at least 75% of the total number of votes cast on the resolution at the Scheme Meeting by Drillsearch Shareholders (other than Excluded Shareholders). 	Section 2.5 (<i>Drillsearch Shareholders' approvals</i>) and Annexure C (<i>Notice of Scheme Meeting</i>)

¹⁹ Under the terms of the Scheme, any attempted transfer of Drillsearch Shares after the Record Date will not be accepted by Drillsearch.

NO.	QUESTION	ANSWER	WHERE TO FIND MORE INFORMATION
23.	Will Beach vote its Drillsearch Shares at the Scheme Meeting?	No. Any Drillsearch Shareholder who is Beach or a Related Body Corporate of Beach is an Excluded Shareholder. Any Drillsearch Shares held by or on behalf of Excluded Shareholders, or in which Excluded Shareholders have a Relevant Interest, will not be voted on at the Scheme Meeting.	Sections 2.5 (<i>Drillsearch Shareholder's approvals</i>) and 4.19 (<i>Beach interest in Drillsearch Securities</i>)
24.	Are there any conditions to the Merger?	The Merger is subject to a number of Conditions Precedent which are described in Section 2.4 (<i>Conditions of the Merger</i>), including but not limited to: <ul style="list-style-type: none"> • ASIC and the ASX having provided such approvals, consents, waivers or authorisations necessary to implement the Merger; • Drillsearch Shareholders approving the Merger; and • Court approval of the Merger. The Merger will not proceed unless all Conditions Precedent are satisfied or waived (if applicable).	Section 2.4 (<i>Conditions of the Merger</i>)
25.	What happens if a Competing Proposal for Drillsearch emerges?	If a Competing Proposal for Drillsearch emerges, the Drillsearch Board, having regard to its obligations under the Merger Implementation Agreement (including the "no shop" and "no talk" restrictions stipulated in that agreement), will consider the merits of that proposal. If the Drillsearch Board considers the Competing Proposal to be a Superior Proposal, then: <ul style="list-style-type: none"> • Drillsearch Shareholders will be informed through an announcement to the ASX; and • the Drillsearch Board will carefully consider the Superior Proposal and will provide you with a detailed recommendation in relation to it. Under the Merger Implementation Agreement, Beach also has a right to match any Competing Proposal which the Drillsearch Board considers to be a Superior Proposal.	Section 10.2 (<i>Summary of the Merger Implementation Agreement</i>)
26.	When is the Break Fee payable?	Under the Merger Implementation Agreement: <ul style="list-style-type: none"> • Drillsearch must pay to Beach the Break Fee if certain specified events occur, including if any Drillsearch Director withdraws or adversely modifies or qualifies their recommendation of the Merger; and • Beach must pay to Drillsearch the Break Fee if Drillsearch terminates the Merger Implementation Agreement due to Beach materially breaching a material obligation under that agreement. The Break Fee under the Merger Implementation Agreement is \$3,842,492.	Section 10.2 (<i>Summary of the Merger Implementation Agreement</i>)
27.	What happens if I vote against the Merger or do not vote?	If you do not vote, or if you vote against the Merger, then the Merger may not be approved. The Merger cannot be implemented unless passed by the Requisite Majority of Drillsearch Shareholders at the Scheme Meeting. However, if the Merger is passed by the Requisite Majority (even if you did not vote, or voted against the Merger) and you are a Scheme Shareholder then you will be bound by the Scheme and Beach will acquire your Drillsearch Shares and you will receive New Beach Shares as the Scheme Consideration (or the Ineligible Foreign Shareholder Amount if you are an Ineligible Foreign Shareholder) if the Merger is implemented.	N/A

NO.	QUESTION	ANSWER	WHERE TO FIND MORE INFORMATION
28.	What happens if the Merger is not approved?	<p>If the Merger is not approved by a Requisite Majority of Drillsearch Shareholders at the Scheme Meeting or is not approved by the Court, or all other Conditions Precedent are not satisfied or waived (if applicable):</p> <ul style="list-style-type: none"> • Drillsearch will remain listed on the ASX and continue to operate as it currently does; • Drillsearch will not merge with Beach, the expected benefits of the Merger will not be realised and the disadvantages and risks associated with the Merger will not arise; • you will retain your Drillsearch Shares; and • Scheme Shareholders will not receive the Scheme Consideration. 	Section 2.13 (<i>Implications if the Scheme is not approved</i>)
29.	What are the transaction costs associated with the Merger?	Drillsearch estimates that it will incur one-off transaction costs of approximately \$17 million ²⁰ in relation to the Merger. Approximately \$4.9 million will be payable by Drillsearch regardless of whether the Merger is implemented or not.	Sections 2.13 (<i>Implications if the Scheme is not approved</i>) and 10.8 (<i>Fees and interests of advisers and others</i>)
New Beach Shares and the Merged Group			
30.	If the Merger is implemented, what will the Merged Group look like?	<p>The Merger brings together two complementary businesses that share a core focus on the Cooper Basin.</p> <p>The Merged Group will have a pro forma market capitalisation of approximately \$1,169 million²¹, making it the leading mid-cap oil and gas company listed on the ASX. The Merger will create a company of enhanced scale and balance sheet strength that is positioned for future growth, with pro forma combined FY15 production of 12.0 mmboe²² and an expanded portfolio of oil, gas and infrastructure assets.</p>	Section 5 (<i>Profile of the Merged Group</i>)
31.	What will be the strategy of the Merged Group?	<p>Following the implementation of the Merger, the Merged Group will continue to apply the Beach “four pillars” strategy. The purpose of this strategy is to deliver sustainable growth in shareholder value, and achieve Beach’s vision to be Australia’s premier multi-basin upstream oil and gas company by:</p> <ul style="list-style-type: none"> • optimising Beach’s core in the Cooper Basin; • building a complementary gas business in east coast basins; • pursuing other compatible growth opportunities in Australia and nearby; and • maintaining financial strength. 	Section 5.2(a) (<i>Strategy</i>)
32.	Who will be on the Merged Group Board following implementation of the Merger?	<p>Following implementation of the Merger, the Merged Group Board will comprise five of the existing Beach Directors and two Drillsearch Directors.</p> <p>The Drillsearch Directors nominated by the Drillsearch Board to join the Merged Group Board as non-executive directors are Mr Jim McKelvie, Drillsearch Chairman and non-executive director, and Mr Philip Bainbridge, Drillsearch non-executive director.</p>	Section 5.3(a) (<i>Board</i>)

²⁰ This estimate excludes transaction costs expected to be incurred by Beach of approximately \$8 million and excludes GST and disbursements.

²¹ Based on the closing share price of Beach Shares (\$0.665) and Drillsearch Shares (\$0.655) as at 22 October 2015, the last trading day before the Announcement Date.

²² Based on 2015 Full Year Reports, including Appendix 4E, Directors’ Report and Financial Statements for Drillsearch and Beach. These figures refer to Australian production and exclude production from Beach’s Egypt interests.

NO.	QUESTION	ANSWER	WHERE TO FIND MORE INFORMATION
33.	Who will be the CEO of the Merged Group and who will comprise senior management following the implementation of the Merger?	Beach currently has a search underway to appoint a CEO who will ultimately become CEO of the Merged Group. This is a priority for the Beach Board. The Beach Board has agreed to consult with Drillsearch regarding the appointment of its new CEO. The senior management team of the Merged Group will be comprised of people from the existing Beach or Drillsearch management team on a 'best for the job' basis. See details of the senior management team of Drillsearch at Section 3.7(b) (<i>Drillsearch senior management</i>) and Beach at Section 4.7(b) (<i>Beach senior management</i>).	Sections 3.7(b) (<i>Drillsearch senior management</i>), 4.7(b) (<i>Beach senior management</i>) and 5.3(b) (<i>Senior management of the Merged Group</i>)
34.	What will happen to Drillsearch's Sydney office?	The Merged Group will be headquartered in Adelaide, and it is currently intended that the Sydney office will be downsized and closed sometime after implementation of the Merger.	Section 5.4(d) (<i>Head Office</i>)
35.	What will the dividend policy of the Merged Group be?	The dividend policy of the Merged Group will be determined by the Merged Group Board having regard to financial results and the financial position of the Merged Group. There is no guarantee that any dividend will be paid in the future or, if paid, that they will be paid at previous levels.	Section 5.6(c) (<i>Dividends</i>)
36.	If the Merger becomes Effective, will I be eligible to receive the Interim Dividend (if any)?	From the date of their issue, the New Beach Shares received as Scheme Consideration will rank equally in all respects with the existing Beach Shares and will be fully paid and free from any encumbrance. If the Beach Board determines to pay any Interim Dividend, and the record date for the purposes of that Interim Dividend (if any) is after the Effective Date, Scheme Shareholders (other than Ineligible Foreign Shareholders) will be entitled to receive that Interim Dividend with respect to their New Beach Shares. If the Beach Board determines to pay an Interim Dividend, Beach has agreed that the record date for the purposes of the Interim Dividend (if any) will not be before 31 March 2016. As a result, if the Effective Date is before 31 March 2016, Drillsearch Shareholders will be eligible to receive any Interim Dividend determined to be paid by the Beach Board in respect of their New Beach Shares, provided they hold such New Beach Shares as at the record date for the Interim Dividend.	Sections 5.6 (<i>Capital management</i>) and 4.17 (<i>Rights attaching to, and ranking of, New Beach Shares</i>)
37.	What interest will Seven Group Holdings hold in the Merged Group?	Seven Group Holdings will have a Relevant Interest of approximately 20.1% in the Merged Group Shares immediately after implementation of the Merger. ²³	N/A

Reasons to vote for, reasons to vote against, and key risks of the Merger

38.	What are the reasons to vote in favour of the Merger?	Reasons why you should vote in favour of the Merger are set out in table on page 5 under the heading " <i>Reasons to vote for the Merger and benefits of the Merger</i> ". The Drillsearch Board unanimously recommends that you vote in favour of the Merger, in the absence of a Superior Proposal.	" <i>Recommendation of the Drillsearch Board</i> " on page 5 and " <i>Reasons to vote for the Merger and benefits of the Merger</i> " on page 5
39.	What are the reasons you may choose to vote against the Merger?	Reasons why you might choose to vote against the Merger are set out in the table on page 5 under the heading " <i>Reasons to vote against the Merger and disadvantages of the Merger</i> " and the accompanying information.	" <i>Reasons to vote for the Merger and benefits of the Merger</i> " on page 5

²³ Assuming all Drillsearch Options on issue as at the date of this Scheme Booklet are cancelled as described in Section 3.13 (*Drillsearch Options*), all Drillsearch Performance Rights vest and participate in the Scheme as set out in Section 3.14 (*Drillsearch Performance Rights*) and none of the Noteholders exercise conversion rights in respect of the Drillsearch Convertible Notes as described in Section 3.15 (*Drillsearch Convertible Notes*).

NO.	QUESTION	ANSWER	WHERE TO FIND MORE INFORMATION
40.	What are the key risks associated with the Merger and the Merged Group?	<p>The key risks associated with the Merger and relating to the Merged Group include:</p> <ul style="list-style-type: none"> • integration risks and the risk that expected synergies will not be achieved due to factors such as unexpected delays, challenges or the loss of key personnel of the Merged Group; • the exact value of Scheme Consideration being uncertain as it will depend on the price at which Merged Group Shares trade on the ASX after the Effective Date; • accounting risks due to the fair value assessment of the Merged Group's assets and liabilities which may have an adverse non-cash impact on the reported financial performance of the Merged Group; and • the Merged Group being subject to a range of risks (including those of a general nature) that may adversely affect its future operating or financial performance, prospects, investment returns or value of its securities. 	Section 7 (<i>Risk factors</i>)
Merger integration			
41.	What is the process for integrating Drillsearch and Beach?	<p>A Merger Integration Group has been established and work on the integration process began after the announcement of the Merger.</p> <p>The focus for the Merger Integration Group is delivery of a plan to integrate the two companies that is intended to take into account:</p> <ul style="list-style-type: none"> • capital management strategy; • human resourcing requirements; • systems, processes and information technology; and • familiarisation, assimilation and culture. <p>The Merger Integration Group will provide information and updates to the Drillsearch Board and Beach Board regarding integration activities. Implementation recommendations from the Merger Integration Group will be presented to the Beach Board for consideration and determination.</p>	Section 5.4(f) (<i>Merger Integration Group</i>)
42.	Will Drillsearch employees be invited to join the Merged Group?	<p>The Merged Group will harness the people with the most appropriate skills from Drillsearch and Beach. Management from Drillsearch and Beach will be considered on a 'best for job' basis.</p>	Section 5.4(e) (<i>Employees</i>)
Other questions			
43.	What are the Australian tax implications of the Merger for Scheme Shareholders?	<p>A summary of the general Australian income tax, stamp duty and GST consequences for Drillsearch Shareholders who participate in the Scheme is set out in Section 9 (<i>Taxation implications</i>).</p> <p>Each individual's tax position is different. Drillsearch Shareholders are urged to consult their own tax advisers as to the specific tax consequences to them of the Merger, including the applicability and effect of income and other tax laws in their particular circumstances.</p>	Section 9 (<i>Taxation implications</i>)
44.	Where can I get further information?	<p>If, after reading this Scheme Booklet, you have any questions about the Merger, you should call the Drillsearch Shareholder Information Line on 1300 889 528 (callers in Australia) or +61 2 9098 9203 (callers outside Australia) between 9:00am and 5:00pm (Sydney time) Monday to Friday (excluding public holidays).</p> <p>If you are in doubt as to what you should do, you should consult an independent and appropriately licensed and authorised professional adviser without delay.</p>	N/A

2. SUMMARY OF THE MERGER

2.1 BACKGROUND

As a long-term player in the Cooper and Eromanga Basins with a history of pursuing growth through strategic acquisitions, Drillsearch assessed a number of strategic options to enhance value for Drillsearch Shareholders prior to entering into the Merger Implementation Agreement with Beach. These options included organic and external growth and consolidation opportunities, both within the Cooper and Eromanga Basins and further afield.

Before entering into the Merger Implementation Agreement, the Drillsearch Board had regard to a range of factors, including the value of the Scheme Consideration and the ability, via the receipt of New Beach Shares, for Drillsearch Shareholders to participate in the Merged Group. The Drillsearch Board concluded that, in the prevailing low oil price environment, the Merger with Beach was in the best interests of Drillsearch Shareholders having regard to the advantages and disadvantages of the Merger relative to Drillsearch on a standalone basis, as well as other potential opportunities.

The Drillsearch Board believes that the Merger will create a company of enhanced scale and balance sheet strength, which is well placed to capitalise on further growth opportunities that may emerge in the low oil price environment. The Drillsearch Board further believes that the compelling premium offered to Drillsearch Shareholders under the Merger and the prospect of the Merged Group achieving synergies and pre-tax cost savings of approximately \$20 million per annum²⁴ to be of sufficient merit and value to make a unanimous recommendation to Drillsearch Shareholders to vote in favour of the Merger, in the absence of a Superior Proposal.

A summary of the Merger Implementation Agreement is set out in Section 10.2 (*Summary of the Merger Implementation Agreement*).

2.2 OVERVIEW OF THE MERGER

If the Merger is approved by Drillsearch Shareholders and the Court, and subject to the satisfaction or waiver (if applicable) of the other Conditions Precedent:

- each Drillsearch Share (other than the Drillsearch Shares that Beach already has a Relevant Interest in) will be transferred to Beach;
- Drillsearch Shareholders (other than Excluded Shareholders and Ineligible Foreign Shareholders) will receive the Scheme Consideration of 1.25 New Beach Shares in respect of each Drillsearch Share they hold on the Record Date; and
- Drillsearch will become a wholly owned subsidiary of Beach and will cease to be listed on the ASX.

From the date of their issue, the New Beach Shares received as Scheme Consideration will rank equally in all respects with the existing Beach Shares and will be fully paid and free from any encumbrance. The rights and liabilities attaching to the New Beach Shares will be governed by the Beach Constitution, subject to the Corporations Act and the Listing Rules. Section 4.17 (*Rights attaching to, and ranking of, New Beach Shares*) includes a summary of the rights and liabilities that will attach to the New Beach Shares.

Ineligible Foreign Shareholders should refer to Section 8.8 (*Ineligible Foreign Shareholders and the Ineligible Foreign Shareholder Amount*) for details about the timing for payment of the consideration they will receive.

A copy of the Scheme is included in Annexure D (*Scheme*).

2.3 SCHEME CONSIDERATION

If the Merger is implemented, Scheme Shareholders will receive the Scheme Consideration.

The Scheme Consideration comprises New Beach Shares. Each Scheme Shareholder (other than Ineligible Foreign Shareholders) will receive 1.25 New Beach Shares for every Drillsearch Share held on the Record Date.

Ineligible Foreign Shareholders will not be entitled to receive New Beach Shares in connection with the Merger. If you fall into this category, any New Beach Shares to which you would otherwise be entitled will be issued to the Foreign Nominee who will sell them on your behalf and provide you with the net proceeds of the sale. Refer to Section 8.8 (*Ineligible Foreign Shareholders and the Ineligible Foreign Shareholder Amount*) for further information.

2.4 CONDITIONS OF THE MERGER

The implementation of the Merger is subject to a number of Conditions Precedent which are summarised in the table below.

The Merger will not proceed unless all of the Conditions Precedent are satisfied or waived (if applicable) in accordance with the Merger Implementation Agreement. It is important to note that some of these Conditions Precedent may not be satisfied even if the Scheme is approved by the Requisite Majority of Drillsearch Shareholders at the Scheme Meeting (for example, the Court may refuse to grant the Second Court Order referred to in condition 5 below). However, as at the date of this Scheme Booklet, neither Drillsearch nor Beach is aware of any circumstances which would cause these Conditions Precedent not to be satisfied.

²⁴ Targeted synergies exclude one-off integration costs, and are in addition to Drillsearch's targeted cost base reduction of \$10-\$15 million per annum, as announced by Drillsearch on 19 February 2015.

NO.	CONDITION PRECEDENT	STATUS
1.	(Regulatory Approvals) prior to 8:00am on the Second Court Date all approvals, consents, waivers or other authorisations from ASIC and the ASX that Drillsearch and Beach agree are necessary to implement the Merger are obtained (and have not been withdrawn, cancelled or revoked).	ASIC has agreed to grant relief from regulation 8302(d) of Part 3, Schedule 8 of the Corporations Regulations. ASX has agreed to grant the waivers and confirmations sought in connection with the Merger, including a waiver of Listing Rule 6.23.2 in respect of the Drillsearch Options. For more information, please refer to Section 10.6 (<i>Regulatory consents</i>).
2.	(ASX Quotation) prior to 8:00am on the Second Court Date, the ASX approves the official quotation of New Beach Shares issued under the Merger.	Beach has applied to the ASX for quotation of the New Beach Shares.
3.	(Shareholder approval) the Scheme is approved by the Requisite Majority of Drillsearch Shareholders at the Scheme Meeting.	The Scheme Meeting to consider the Merger will be held at 11:00am on Wednesday, 27 January 2016 at Museum of Sydney, AGL Theatre, Level 2 Corner of Phillip and Bridge Streets, Sydney, New South Wales. For more information, please refer to Section 2.5 (<i>Drillsearch Shareholders' approvals</i>) below.
4.	(Beach Shareholder approval) the Substantial Shareholder Acquisition is approved by the requisite majority of Beach Shareholders under Listing Rule 10.1 at least 2 Business Days prior to the date of the Scheme Meeting.	This Condition Precedent no longer applies as the ASX granted Beach a waiver from Listing Rule 10.1 on 12 November 2015. For more information, please refer to Section 2.6 (<i>Beach Shareholder approval</i>) below.
5.	(Court approval) the Scheme is approved by the Court in accordance with section 411(4)(b) of the Corporations Act and an office copy of the Court order is lodged with ASIC.	Second Court Order will be sought on or about Thursday, 18 February 2016.
6.	(Independent Expert) the Independent Expert has not publicly withdrawn from or qualified its conclusion that in its opinion the Merger is in the best interests of Drillsearch Shareholders on or before 8:00am on the Second Court Date.	As at the date of this Scheme Booklet, the Independent Expert has not publicly withdrawn from or qualified its conclusion.
7.	(Other prescribed events) the following do not occur on or before 8:00am on the Second Court Date: <ul style="list-style-type: none"> • a court, regulatory authority or government agency issues an order or decree which is in effect as at 8:00am on the Second Court Date that prohibits, materially restricts, makes illegal or restrains the completion of the Merger; • a Drillsearch Material Adverse Change (as defined in the Merger Implementation Agreement); • a Beach Material Adverse Change (as defined in the Merger Implementation Agreement); • a Drillsearch Prescribed Occurrence (as defined in the Merger Implementation Agreement); or • a Beach Prescribed Occurrence (as defined in the Merger Implementation Agreement). 	As at the date of this Scheme Booklet, neither Drillsearch nor Beach is aware of anything that will cause these Conditions Precedent not to be satisfied.
8.	(Representations and Warranties) the representations and warranties given by Drillsearch and Beach under the Merger Implementation Agreement are true and correct in all material respects on the date of the Merger Implementation Agreement and on 8:00am on the Second Court Date.	As at the date of this Scheme Booklet, neither Drillsearch nor Beach is aware of any material inaccuracies in its representations and warranties.
9.	(No material breach) before 8:00am on the Second Court Date, neither Drillsearch nor Beach has breached any material provision of the Merger Implementation Agreement to a material extent and in the context of the Scheme taken as a whole.	As at the date of this Scheme Booklet, neither Drillsearch nor Beach is in breach of any material provision of the Merger Implementation Agreement.

2.5 DRILLSEARCH SHAREHOLDERS' APPROVALS

(a) Voting requirements at the Scheme Meeting

For the Scheme to be approved under paragraph 411(4)(a)(ii) of the Corporations Act, the Scheme must be passed by:

- **(more than 50% of the members, by number)** more than 50% in number of Drillsearch Shareholders (other than Excluded Shareholders) present and voting either in person, by proxy, by attorney or, in the case of a body corporate, its duly appointed corporate representative (the **Headcount Test**); and
- **(75% of the shares voted, in aggregate)** at least 75% of the total votes cast at the Scheme Meeting,
- (together, the **Requisite Majority**).

The Court has discretion to dispense with the Headcount Test for the purposes of paragraph 411(4)(a)(ii) of the Corporations Act. In accordance with the Merger Implementation Agreement, if the Scheme is not approved by Drillsearch Shareholders by reason of non-satisfaction of the Headcount Test, then under certain circumstances Drillsearch will still have an obligation, notwithstanding that the Headcount Test has not been satisfied, to apply for the Second Court Order at the Second Court Hearing (including making submissions and filing evidence to seek to persuade the Court to exercise its discretion to disregard the Headcount Test).

Voting at the Scheme Meeting will be by poll. Instructions on how to attend and vote at the Scheme Meeting are set out in Annexure C (Notice of Scheme Meeting).

(b) Persons entitled to vote at the Scheme Meeting

Each Drillsearch Shareholder who is on the Register as at the Voting Record Date is entitled to attend and vote at the Scheme Meeting either in person, by proxy, by attorney or, in the case of a body corporate, by its duly appointed corporate representative. Each Drillsearch Shareholder (in its capacity as a Drillsearch Shareholder) present in person or by proxy has one vote for each Drillsearch Share held.

Any Drillsearch Shares held by or on behalf of Excluded Shareholders, or in which Excluded Shareholders have a Relevant Interest, will not be voted on at the Scheme Meeting.

2.6 BEACH SHAREHOLDER APPROVAL

On 11 November 2015, Beach and Drillsearch announced that Beach had obtained from ASX an in-principle waiver of Listing Rule 10.1. The ASX confirmed the waiver from Listing Rule 10.1 on 12 November 2015 (**Listing Rule 10.1 Waiver**).

The effect of the Listing Rule 10.1 Waiver is that (among other things):

- the Merger is no longer conditional on Beach Shareholders approving the acquisition by Beach of Drillsearch Shares from Seven Group Holdings under the Scheme; and
- the Break Fee is no longer payable by Drillsearch to Beach if Drillsearch Shareholders (other than Excluded Shareholders) do not approve the Scheme by the Requisite Majority at the Scheme Meeting.

2.7 COURT APPROVAL

Subject to Section 2.4 (*Conditions of the Merger*), if the Scheme is approved by the Requisite Majority of Drillsearch Shareholders at the Scheme Meeting and all Conditions Precedent have been satisfied or waived (if applicable), Drillsearch will apply to the Court at the Second Court Hearing for the Second Court Order approving the Scheme.

2.8 DRILLSEARCH BOARD RECOMMENDATION AND VOTING INTENTIONS

The Drillsearch Board unanimously recommends that you vote in favour of the Merger, in the absence of a Superior Proposal. Refer to "Recommendation of the Drillsearch Board" on page 6 for further information.

Each Drillsearch Director intends to vote in favour of the Merger, in relation to the Drillsearch Shares in which they have a Relevant Interest, in the absence of a Superior Proposal. The Relevant Interests in Drillsearch Shares of the Drillsearch Directors are disclosed in Section 3.17 (*Relevant Interests of Drillsearch Directors*).

2.9 INDEPENDENT EXPERT'S CONCLUSION

The Independent Expert has concluded that the Merger is **fair and reasonable and therefore is in the best interests of Drillsearch Shareholders**. The Independent Expert has provided reasons for its opinion in the Independent Expert's Report.

The Independent Expert's Report is set out in Annexure A (*Independent Expert's Report and Independent Technical Expert's Report*). Drillsearch Shareholders are encouraged to read the report carefully and in its entirety.

2.10 DRILLSEARCH OPTIONS, PERFORMANCE RIGHTS AND CONVERTIBLE NOTES

Under the Merger Implementation Agreement, Drillsearch has agreed to procure that each Drillsearch Optionholder executes a legally binding Option Cancellation Deed, under which the Drillsearch Options will be cancelled. See Section 3.13 (*Drillsearch Options*) for further information.

Under the terms of the grant of the Drillsearch Performance Rights, all Drillsearch Performance Rights will vest on a change of control of Drillsearch. See Section 3.14

(*Drillsearch Performance Rights*) for further information.

For further information regarding the rights of Noteholders and the treatment of Drillsearch Convertible Notes under the Merger, see Section 3.15 (*Drillsearch Convertible Notes*).

2.11 TAX IMPLICATIONS

A summary of the general Australian income tax, stamp duty and GST consequences for Drillsearch Shareholders who participate in the Merger is set out in Section 9 (*Taxation implications*).

Each Drillsearch Shareholder's tax position is different, and Drillsearch Shareholders are urged to consult their own tax advisers as to the specific tax consequences of the Merger to them, including the applicability and effect of local and foreign income and other tax laws in their particular circumstances.

2.12 NO BROKERAGE OR STAMP DUTY

No brokerage or stamp duty will be payable by Scheme Shareholders on the transfer of their Scheme Shares to Beach under the Merger or the receipt by Scheme Shareholders of the Scheme Consideration.

2.13 IMPLICATIONS IF THE SCHEME IS NOT APPROVED

If the Scheme is not approved by the Requisite Majority, or all other Conditions Precedent are not satisfied or waived (if applicable), the Merger will not proceed and:

- Drillsearch will remain listed on the ASX;
- the expected benefits of the Merger will not be realised and the disadvantages and risks associated with the Merger will not arise;
- Drillsearch Shareholders will retain their Drillsearch Shares; and
- Drillsearch Shareholders will not receive the Scheme Consideration.

As at the date of this Scheme Booklet, other than as disclosed in this Scheme Booklet, the Drillsearch Board have not formed any plans to make any significant changes to the business of Drillsearch, redeploy any of its operating assets, or to change or affect the future employment of Drillsearch's present employees, if the Merger does not proceed. In that circumstance, the Drillsearch Board intends to continue to operate Drillsearch as a listed public company carrying on its business of exploring and developing oil and gas projects, under the leadership of the current senior management team.

Drillsearch estimates that it has incurred or will have incurred or committed one-off transaction costs of approximately \$4.9 million in relation to the Merger regardless of whether the Merger is implemented or not.

3. PROFILE OF DRILLSEARCH

3.1 OVERVIEW

Drillsearch is an S&P/ASX200 oil and gas explorer and producer.

Drillsearch's 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 it operates and its peers.

To achieve its vision, Drillsearch seeks 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%.

Drillsearch's business model centres on three business units – Oil, Wet Gas (also referred to in this Scheme Booklet as 'Conventional Gas and Gas Liquids') and Unconventional. The strategic driver of each business unit, its progress as at 30 June 2015, and its objectives are set out in Figure 3 below.

Figure 3 – Drillsearch Strategic Drivers

BUSINESS UNIT	DRIVERS	STATUS	OBJECTIVES
Oil	Near-term cash flow generator	In FY15, Drillsearch maintained its position as Australia's third-largest onshore oil producer	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	Grow reserves and production Commercialise new and existing discoveries
Unconventional	Longer-term opportunity	Extensive unconventional exposure in Drillsearch's Cooper acreage, including unconventional potential associated with its conventional assets	Optimise spend to deliver value drivers in the pursuit of commercialisation

3.2 RECENT PERFORMANCE

Drillsearch has enjoyed a period of significant growth in market capitalisation, production volumes, revenue and reserves over the past five years. Figure 4 sets out Drillsearch's performance in the past five years against a number of corporate and operating metrics.

Figure 4 – Five-year performance metrics

COMPANY PERFORMANCE METRIC	UNIT	FY11	FY12	FY13	FY14	FY15
Safety – Total recordable injury frequency rate (TRIFR) – employees and contractor personnel	mmhrs	N/A	N/A	10.3	9.7	6.6
Production	mmboe	0.1	0.4	1.1	3.4	3.0
2P Reserves	mmboe	8.5	12.5 ¹	28.5	28.3	25.7
Oil	mm bbl	0.9	5.0	8.1	9.5	9.8
Wet Gas	mmboe	7.6	7.5	20.5	18.8	15.9
Revenue	\$m	15.6	22.4	102.2	387.0	251.0
EBITDAX ²	\$m	(1.1)	7.6	32.9	232.0	152.8
Statutory profit/(loss)	\$m	(5.6)	10.0	45.1	41.9 ³	(8.1)
Underlying net profit/(loss) ³	\$m	(7.6)	10.1	60.6	58.5 ³	57.8
Earnings per share	cents	(2.7)	4.5	11.1	9.8	(1.8)
Market capitalisation ⁴	\$m	120.1	337.4	449.1	632.1	477.2
Drilling Success Rate	%	100	83	67	76	74
Number of wells drilled	#	2	12	25	27	41
Headcount	#	23	40	76	82	72

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

2. Underlying Net Profit/(Loss) and EBITDAX are non-IFRS accounting financial information. Refer to the "Disclaimer and Important Notices" on page 1 regarding non-IFRS accounting financial information. A reconciliation of Underlying Net Profit/(Loss) to Statutory Profit/(Loss) and, EBITDAX to Profit/(Loss) Before Tax is included in Section 3.10(b)(iv).

3. Balance restated following the adoption of "successful efforts" methodology. Refer to the ASX Announcement dated 6 August 2015 and Note 3 in Drillsearch's financial statements for the year ended 30 June 2015 a copy of which is included in Drillsearch's FY15 Annual Report.

4. Market capitalisation shown is as at 30 June in the relevant year, based on closing share prices (extracted from Bloomberg).

3.3 OVERVIEW OF ASSETS

For the past six years, Drillsearch's strategy has included a singular focus on the Cooper and Eromanga Basins. That focus, and the substantial oil and gas business that Drillsearch has built, has provided Drillsearch with a platform to consider its next phase of growth.

The Cooper and Eromanga Basins, which are located in north-east South Australia and south-west Queensland, are a prolific Australian onshore petroleum region, with more than 50 years of history as a centre

for oil and gas production. Established infrastructure links the area to the major cities on the east coast of Australia, as well as to the LNG gas export terminals being developed in Gladstone and export facilities near Adelaide in South Australia.

Drillsearch has interests in an extensive portfolio of oil and gas exploration and production permits in the Cooper and Eromanga Basins. Figure 5 shows Drillsearch's existing permit interests in the area.

Drillsearch currently has three producing assets – oil production from Drillsearch's interests in the Western Flank Oil joint venture with Beach and Drillsearch's interests in the Tintaburra Block joint venture with Santos, together with Wet Gas production from Drillsearch's interests in the Brownlow-Middleton joint venture with Beach.

Figure 6 summarises Drillsearch's principal Petroleum interests as at the date of this Scheme Booklet. A full list of Drillsearch's Petroleum interests is included in Drillsearch's FY15 Annual Report.

Figure 5 – Drillsearch Cooper and Eromanga Basins permits



Figure 6 – Drillsearch Tenements Table

ASSET	PERMITS ¹	KEY FIELDS/WELLS	DRILLSEARCH INTEREST
Oil			
Western Flank Oil Fairway South Australia			
Ex-PEL 91 joint venture	Ex-PEL91; PPLs 253-256 and 261/262; PRLs 151-172	Bauer, Chiton, Congony, Kalladeina, Sceale, Hanson, Snellings, Pennington, Balgowan, Burners, Stunsail	60%
PEL 182 joint venture	PEL 182 ²		43%
Inland-Cook Oil Fairway Queensland			
Queensland oil exploration	ATP 924 ATPs 539, 920, 932 ATP 549W ⁴ ATP 549C ⁴	Maroochydore	55% ³ and operator 100% N/A N/A
Eastern Margin Oil Fairway Queensland			
Tintaburra Block joint venture	ATP 299; PLs 29, 38, 39, 52, 57, 95, 169, 170, 293-295, 298		40%
	ATP 783P		100%
Northern Cooper Gas & Liquids South Australia			
YFJ	PEL 103, 103A; PRLs 14, 17 and 18	Flax, Yarrow, Juniper	100%
Wet Gas ('conventional gas and gas liquids')			
Northern Cooper Gas & Liquids South Australia			
PEL 182 joint venture	PEL 182; PRL 135	Vanessa	43%
Ex-PEL 101 joint venture	Ex-PEL 101; PRLs 173 and 174	Crocus, Crocus South, Ginko	80% and operator
Western Wet Gas South Australia			
Ex-PEL 106 joint venture	Ex-PEL 106; PPLs 239 and 257; PRLs 129 and 130; ex-PEL 107; PRLs 175-179; PPL 212	Brownlow/Middleton, Canunda / Coolawang, Ralgnal, Maupertuis ⁵ , Kiana, Udacha	50-75% ⁶
Ex-PEL513/632 joint venture	Ex-PEL 106A/632; PRL 131-134; ex-PEL 513; PRLs 191-206	Cadenza, Yarowinnie-South, Varanus-South, Nulla-North, Kyanite, Spinel, Emery, Moonanga-South	40%
Unconventional			
Central Unconventional Queensland			
ATP 940 joint venture	ATP 940	Amidala, Charal, Anakin, Padme	40% and operator
Northern Patchawarra Trough South Australia			
PEL 570 joint venture	PEL 570	Washington	47.5%

1. Drillsearch and its joint venture partners have been granted a number of production and retention licences over areas covered by former exploration permits PEL 91, PEL 101, PEL 632 and PEL 107 as shown in the table above. For ease of reference, in this Scheme Booklet the various production and retention licences are grouped by the former exploration licence number and given an abbreviated description (eg 'ex-PEL 91'). See definition of "ex-PEL" in Section 11 (*Glossary, Definitions and Interpretation*).
2. Refer to Northern Cooper Gas & Liquids.
3. Beach may farm-in to an interest of 45%. Drillsearch's interest is shown net of the Beach farm-in interest.
4. ATP 549W and ATP 549C are references to parts of the area covered by ATP 549 held by Australian Gasfield Limited. Drillsearch is party to contractual arrangements whereby the area covered by permit ATP 549 has been proposed to be segregated into three separate permits (including permits covering the areas known as ATP 549W and ATP 549C). Drillsearch is not a holder of a registered interest in ATP 549.
5. Drillsearch elected to sole-risk casing and suspension of Maupertuis for future testing.
6. Drillsearch's interest in the ex-PEL 106 joint venture with Beach is 50%, other than Kiana (Drillsearch, 60%) and Udacha (Drillsearch, 75%).

(a) Oil Business

Western Flank Oil Fairway

Ex-PEL 91 joint venture (Drillsearch 60%, Beach 40% and operator)

Drillsearch's key producing asset is a 60% interest in the ex-PEL 91 joint venture with Beach. The joint venture's operations are located in the South Australian section of the Cooper and Eromanga Basins, approximately 90 kilometres north-west of Moomba.

The original joint venture permit, PEL 91, was granted to Great Artesian in 2002. In late 2002, Beach signed an agreement to farm-in to the permit, earning a 40% interest and becoming the permit's operator.

Drillsearch acquired its interests in the joint venture through its merger with Great Artesian in 2008.

The joint venture made its first oil discovery in August 2009 at Chiton. A total of 60 wells have been drilled to-date, and more than 1,500km² of 3D seismic acquired (approximately 78% of the area covered by the original permit). To date, 16 oil discoveries have been made by the joint venture²⁵. Of these, the Bauer oil field, discovered in August 2011, is the most significant. A total of 23 wells have been drilled at Bauer and the field accounts for the majority of the production from the joint venture.

There are six production facilities – at the Hanson, Chiton, Bauer, KCS (Kalladeina, Congony and Sceale), Pennington and Stunsail fields – with pipelines connecting the Balgowan, Stunsail and Pennington fields to a central processing facility at Bauer (as shown in Figure 7).

The majority of the oil produced by the joint venture is transported by pipeline to the Lycium terminal and on to the Moomba processing plant, with remaining production transported to Moomba by road. From Moomba, the oil is transported by pipeline to Port Bonython on the South Australian coast.

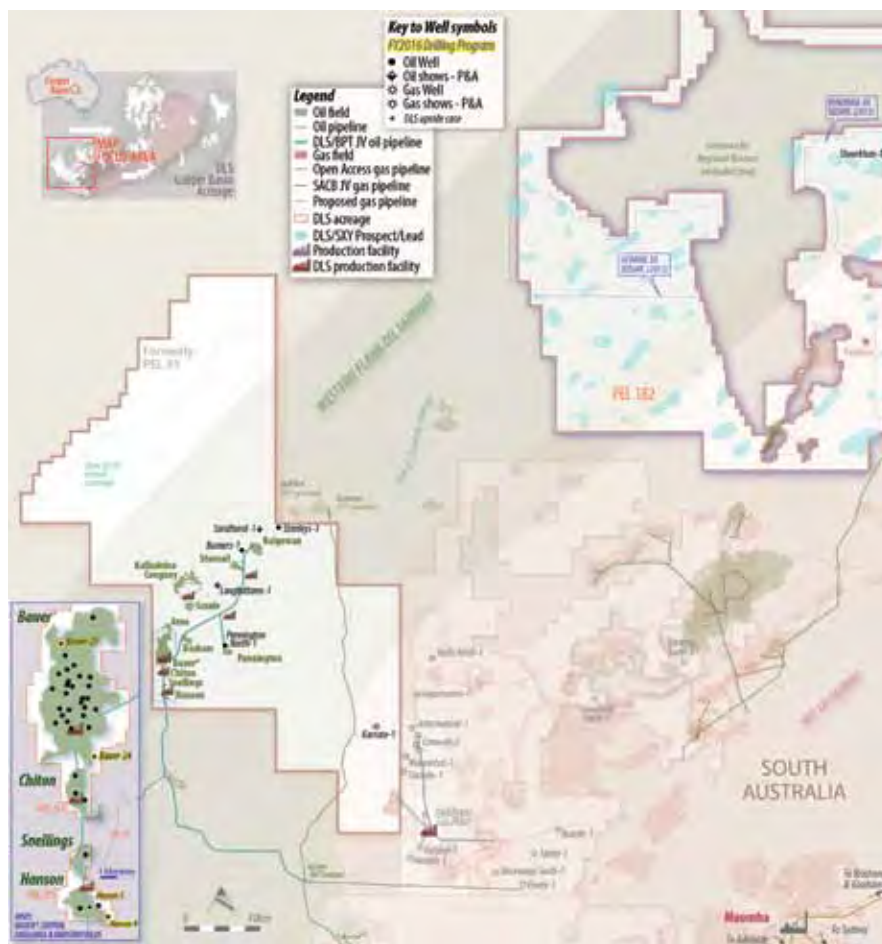
(i) FY15 activities:

- 2.5 mmbbls of oil produced (Drillsearch share) with an average daily production rate of 11,265 bbls per day (on a 100% basis).
- 19 wells were drilled in FY15, with oil discoveries at Balgowan, Burners and Stanleys, and appraisal and development success at Bauer, Hanson and Pennington.
- The Solidus 3D seismic survey was acquired over the north-west portion of the permit area.
- Fluid handling capacity at Bauer was expanded to 75 kbbls per day.

(ii) FY16 planned activities:

- Drilling campaign consisting of six appraisal/development wells and one

Figure 7– Western Flank Oil Fairway



exploration well, beginning with Bauer-24 and -25 in the December quarter.

- Commissioning of the Stunsail and Pennington facilities.
- Further expansion of the fluid handling capacity at Bauer to approximately 133 kbbls per day with the option of an additional expansion, if required.

As reported in Drillsearch's September 2015 quarterly activities report, facilities at Balgowan, Stunsail and Pennington were completed and producing by the end of the September 2015 quarter.

PEL 182 joint venture (Drillsearch 43%, Senex 57% and operator)

Drillsearch has a 43% interest in the PEL 182 joint venture with Senex, acquired through Drillsearch's acquisition of Acer in 2013. Acer first farmed-in to the joint venture in 2010.

PEL 182 is located in the South Australian section of the Cooper and Eromanga Basins, approximately 103 kilometres north-west of Moomba. Senex is operator of the joint venture. The joint venture is seeking to establish an extension of the Western Flank Oil Fairway, with identified conventional gas and gas liquids potential (refer to Northern Cooper Gas and Gas Liquids joint venture with Senex, below).

To-date, a total of five wells have been drilled in PEL 182 and more than 537km² of 3D seismic acquired (covering approximately 31% of the permit area). Historically, two discoveries have been made in the permit area – one oil discovery at Emily-1, along with the wet gas discovery in the east of the permit at Vanessa (refer to Northern Cooper Gas and Liquids in Section 3.3(b), below).

(i) FY15 activities:

- The Sheerkhan-1 exploration well was drilled in late 2014, the well was plugged and abandoned when potential oil pay intervals identified were considered insufficient to warrant further testing.
- The Jasmine 3D seismic survey was acquired in April 2015.

(ii) FY16 planned activities:

- A drilling campaign consisting of up to three exploration wells, towards the end of FY16.
- Processing of the Jasmine 3D seismic to be completed.

Inland-Cook Oil Fairway

The Inland-Cook Oil Fairway refers to a set of contiguous exploration permits located in the Southwest Queensland section of the Cooper and Eromanga Basins approximately

²⁵ Drillsearch elected to sole risk the 'Arno discovery'.

245 kilometres north of Moomba – ATPs 539, 549W, 920, 924. Of these, exploration activities in ATP 924 are the most active.

ATP 924 (Drillsearch 55%²⁶ and operator, Beach farming-in to 45%)

ATP 924 was originally granted in 2013 and acquired by Drillsearch later that year.

In 2014, Drillsearch entered into a farm-out agreement with Beach, whereby Beach may farm-in to a 45% interest in the permit via a two-staged process in consideration for reimbursing Drillsearch for certain past costs and free-carrying Drillsearch for the costs of drilling two exploration wells.

- (i) FY15 activities:
 - Hurrion and Taj 3D seismic surveys processed and interpreted.

- (ii) FY16 planned activities:

- Maroochydhore-1 exploration well.

The Maroochydhore-1 well, targeting oil in the Jurassic Hutton sandstone with secondary targets in other Cretaceous/Jurassic sandstones, was drilled in October 2015. Oil and gas shows were encountered at the Top Hutton sandstone, however, wireline logs indicated the sands were water saturated and the well has been plugged and abandoned. Data acquired from drilling the Maroochydhore-1 well will be used to improve Drillsearch's understanding of the broader ATP 924 permit area.

Following the drilling of Maroochydhore-1, Beach has a period of 40 Business Days to elect whether or not it wishes to proceed to the second stage of the two-staged farm-in which triggers the commitment for the second exploration well and a further reimbursement of past costs.

Eastern Margin Oil Fairway

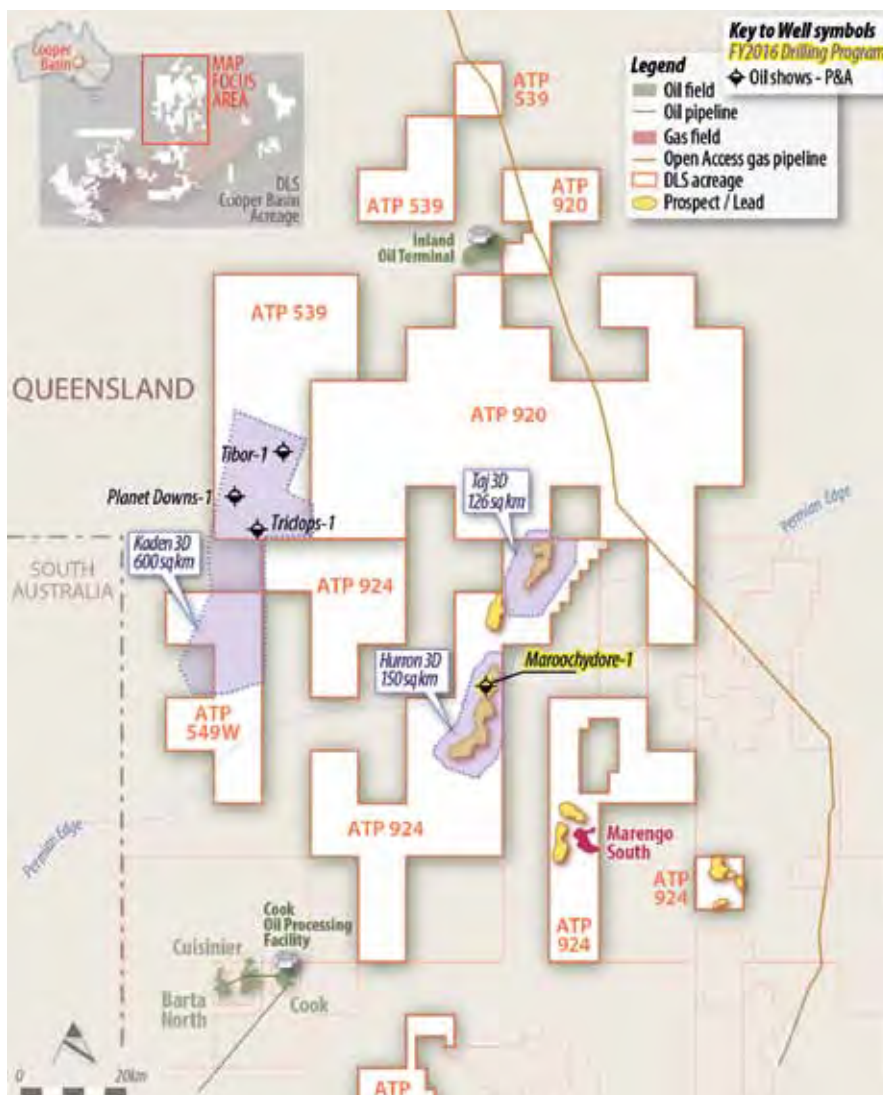
Tintaburra Block joint venture (Drillsearch 40%, Santos 60% and operator)

Drillsearch holds a 40% stake in the mature, producing Tintaburra Block operated by Santos, located in south-west Queensland approximately 330 kilometres east of Moomba.

Production commenced in the Tintaburra Block in the mid-1980's, with a total 145 production wells drilled to-date.

Drillsearch acquired a 10% interest in Tintaburra from Oil Company of Australia Ltd in 2001 and in 2008 acquired CPC Energy Pty Limited's 1% increasing its holding to 11%. Subsequently, Drillsearch acquired a further 29% interest from Santos (taking Drillsearch's interest to 40%) as part of a package of transactions between Drillsearch and Santos announced in July 2013.

Figure 8 – Inland-Cook Oil Fairway



As at 31 October 2015, there were 65 active production wells in the project area.

- (i) FY15 activities

- Oil production of 0.2 mmbbls (Drillsearch share) with an average daily production of 1,387 bbls per day (on a 100% basis).
- Two development wells were deepened before being connected and brought into production during the year.

- (ii) FY16 planned activities:

- Continue production operations
- No material exploration or development activity currently planned for FY16.

Drillsearch is undertaking a process for the potential sale of its interest in the Tintaburra assets. The decision to seek to sell Drillsearch's interests in Tintaburra flows from Drillsearch's stated reprioritisation of capital expenditure and associated activity to focus on near-term production, cash flow and reserves replacement.

Northern Cooper Gas and Liquids

YFJ (Drillsearch 100%)

Through its acquisition of Acer in 2013, Drillsearch holds 100% of the Northern Cooper Gas and liquids oil assets covering the Yarrow, Flax and Juniper (YFJ) fields, located approximately 90 kilometres north of Moomba.

The Flax field was first discovered in 2004 with nine wells drilled to-date. Oil production commenced at Flax in 2008, producing approximately 178,000 bbls prior to suspension of production by Acer in late 2012.

During FY15 Drillsearch undertook works to re-certify the facilities at Flax and restart production. Production re-commenced in December 2014. Following the rapid decline in the oil price, and continuing oil price volatility, Drillsearch elected to suspend production from Flax. Production was suspended in April 2015, with approximately 4,075 bbls produced, and the facilities were placed in care and maintenance..

26 Drillsearch interests shown net of Beach farm-in interest.

Information gathered by Drillsearch during the restart of production is expected to be beneficial in considering various options for the future redevelopment of Flax. Under the Northern Cooper Tight Oil Commercialisation Study in June 2014, a conceptual development plan for Flax was considered involving multi-stage frac horizontal wells. Further work on this proposal was halted following the decline in crude oil prices.

The future development of the YFJ asset is dependent upon a number of factors including, in particular, commodity prices. Consistent with Drillsearch's strategy generally, Drillsearch may look to bring a joint venture partner into the project for future development.

(i) FY15 activities:

- Oil production of 4,075 bbls (December 2014 – April 2015) before production was suspended.
- The Banyan-1 exploration well was drilled in PEL 103 and was plugged and abandoned.
- Juniper-3 was drilled as a step-out appraisal well in PRL 17 and was cased and suspended for future testing and hydraulic stimulation.

(ii) FY16 planned activities:

- Ongoing care and maintenance of the Flax facilities.

(b) Wet Gas Business

Western Wet Gas

Ex-PEL 513/632 joint venture (Drillsearch 40%, Santos 60% and operator)

The Western Wet Gas joint venture with Santos covers the southern-central portion of the Patchawarra Trough, located in the South Australian section of the Cooper and Eromanga Basins. The joint venture interests also include parts of the prospective Woolloo-Allunga Trough approximately 34 kilometres southwest of Moomba (refer to Figure 9).

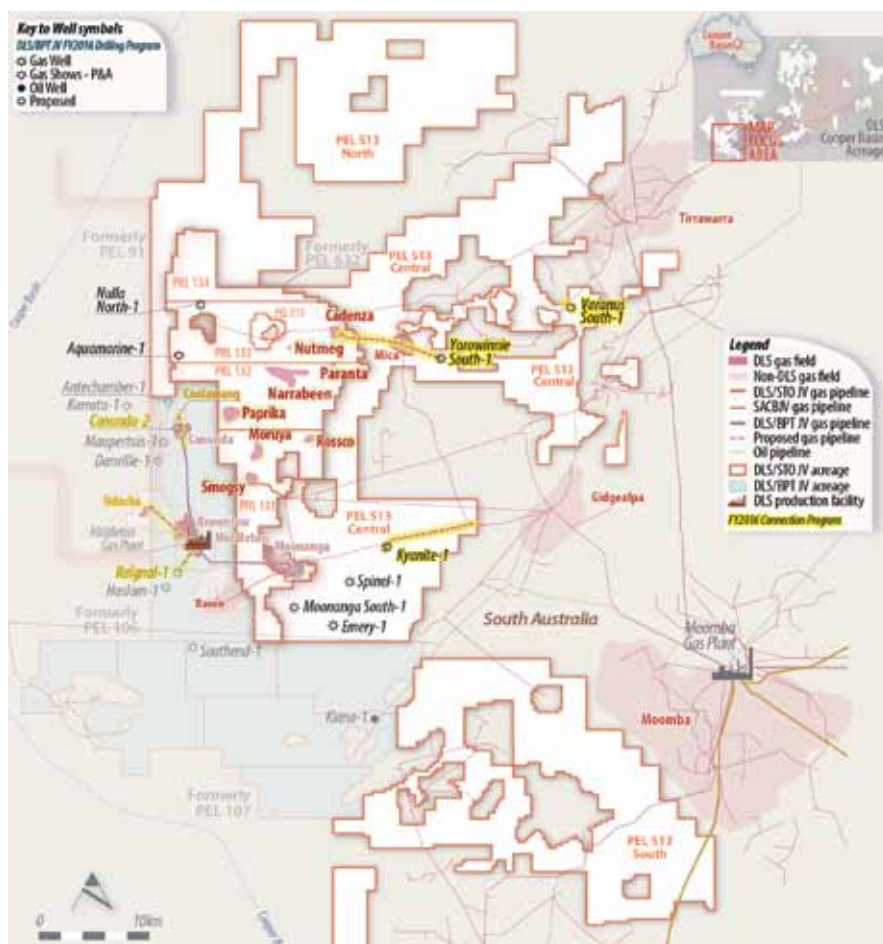
The area covered by the joint venture permits lies close to established gas transportation infrastructure.

The original permits for the joint venture (PEL 632 (previously PEL 106A) and PEL 513) were granted to Great Artesian and Drillsearch in 2003 and 2012 (respectively).

Santos farmed-in to ex-PEL 632 and PEL 513 as part of a package of transactions between Drillsearch and Santos announced in July 2013. Under the farm-in, Santos acquired a 60% interest in the joint venture and assumed operatorship.

To-date, a total of 15 discoveries have been made in the areas covered by the original permits, including seven discoveries by the joint venture from the eight wells drilled during FY15.

Figure 9 – Western Wet Gas Area



The joint venture commenced gas and gas liquids production from the Middleton and Brownlow fields in 2012 following the start-up of the Middleton gas plant. The Canunda field was tied-in to the plant and came into production in mid-2013. Current production from the joint venture is transported by pipeline to the connection point at Moonanga and on to Moomba for processing.

- Gas and gas liquids production of 0.3 mmmboe (Drillsearch share) with average daily production of 1,795 boe per day (on a 100% basis).
- Six wells were drilled in FY15, resulting in two new discoveries at Ralgnal and Maupertuis and casing and suspension of a successful appraisal well at Canunda-2. Drillsearch elected to sole risk casing and suspension of the Maupertuis²⁹ discovery for future testing of the Tirrawarra Formation which has not been tested in the surrounding areas to-date.

- Drilling of two appraisal/exploration wells³⁰ in the second half of FY16.
- Connection of the Coolawang, Udacha and Ragnal fields as well as the Canunda-2 well.
- Preparation for the installation of compression at the Middleton Gas Plant late in FY16.

Ex-PEL 101 joint venture (Drillsearch 80% and operator, Midcontinent 20%)

The original permit covers an area of the northern part of the Patchawarra trough in South Australia, complementing Drillsearch's other interests covering the Patchawarra Trough in PEL 182 and PEL 570 (see Figure 11).

There are three existing Wet Gas discoveries in the permit area – Crocus, Crocus South and Ginko (refer to Figure 11).

[illegible]

Legend

- Non-DLS Oil Field
- Oil pipeline
- DLS Gas field
- Non-DLS Gas Field
- SACB JV gas pipeline
- Proposed gas pipeline
- DLS acreage
- DLS operated Prospect/Lead
- DLS/SKY Prospect/Lead

Key to Well symbols

PY2016 Drilling Program

- Gas Well
- Proposed Well

Map Labels:

- PEL182
- DUNEDINNA 3D SEISMIC (2013)
- PRL 173 Area 1
- PRL 173 Area 2
- PEL 570
- COOLIBAH 3D SEISMIC (2013)
- PRL 135
- Vanessa
- Vanessa-1
- Willow-1
- Ginko
- PRL 174 Area 1
- Crocus
- PRL 174 Area 2
- Crocus-South
- Jute-1
- Washington-1
- DELAWARE 3D SEISMIC (2015)
- PEL 570
- Bookabourdie Field & compressor station
- SOUTH AUSTRALIA
- MAP DLS COOPER BASIN ACREAGE
- DLS Cooper Basin Acreage

Scale: 0 to 10km

30 Based on the well locations selected by the joint venture these two wells will be classified as development wells for Drillsearch as they fall within the area over which Drillsearch carries 2P Reserves (as at 30 June 2015).

Since Drillsearch's acquisition of Acer, activity in the joint venture has focused on acquiring and analysing data from seismic surveys to identify anticlinal leads that are prospective for gas and gas liquids and which may also contain unconventional potential.

In addition to the existing discoveries, Drillsearch has identified a number of prospective targets. Exploration wells on two of those targets – Willow and Jute – are planned to be drilled in FY16 commencing late in the December 2015 quarter.

PEL 101 lies close to existing gas gathering infrastructure to the northwest and southeast of the permit, and close to the Vanessa gas discovery in the neighbouring PEL 182 permit area which is planned to be tied in during FY16 (refer below).

(i) FY15 activities:

- Planned five-well exploration campaign suspended following decline in oil price, consistent with Drillsearch's stated strategic objectives of prioritising production, cash flow generation and reserves replacement.

(ii) FY16 planned activities:

- Two-well exploration drilling and testing campaign, commencing late in December 2015 quarter.
- Coolibah 3D seismic survey to be re-processed in line with Delaware 3D survey being acquired in PEL 570

PEL 182 joint venture with Senex (Drillsearch 43%, Senex 57% and operator)

The PEL 182 joint venture with Senex includes gas and gas liquids potential in the original permit area.

The Vanessa discovery, located in the eastern part of PEL 182 (refer to Figure 11), was made in 2007. During FY15, the joint venture completed a successful production test of Vanessa-1, during which gas flowed to surface at an average rate of 5.0 mmscf per day from the Epsilon and Toolachee Formations with 15 barrels of liquids/mmscf also recorded.

(i) FY15 activities:

- Successful production test of Vanessa discovery.

(ii) FY16 planned activities³¹:

- Vanessa-1 to be tied into existing SACB JVs infrastructure to the northeast, with the well expected to be online in FY16.

(c) Unconventional Business

Northern Patchawarra Troughs

PEL 570 joint venture (Drillsearch 47.5%, Santos 35% and operator, Sundance 17.5%)

Drillsearch holds a 47.5% interest in PEL 570, located approximately 100 kilometres north of Moomba and adjacent to the ex-PEL 101 permit area operated by Drillsearch (as shown in Figure 11).

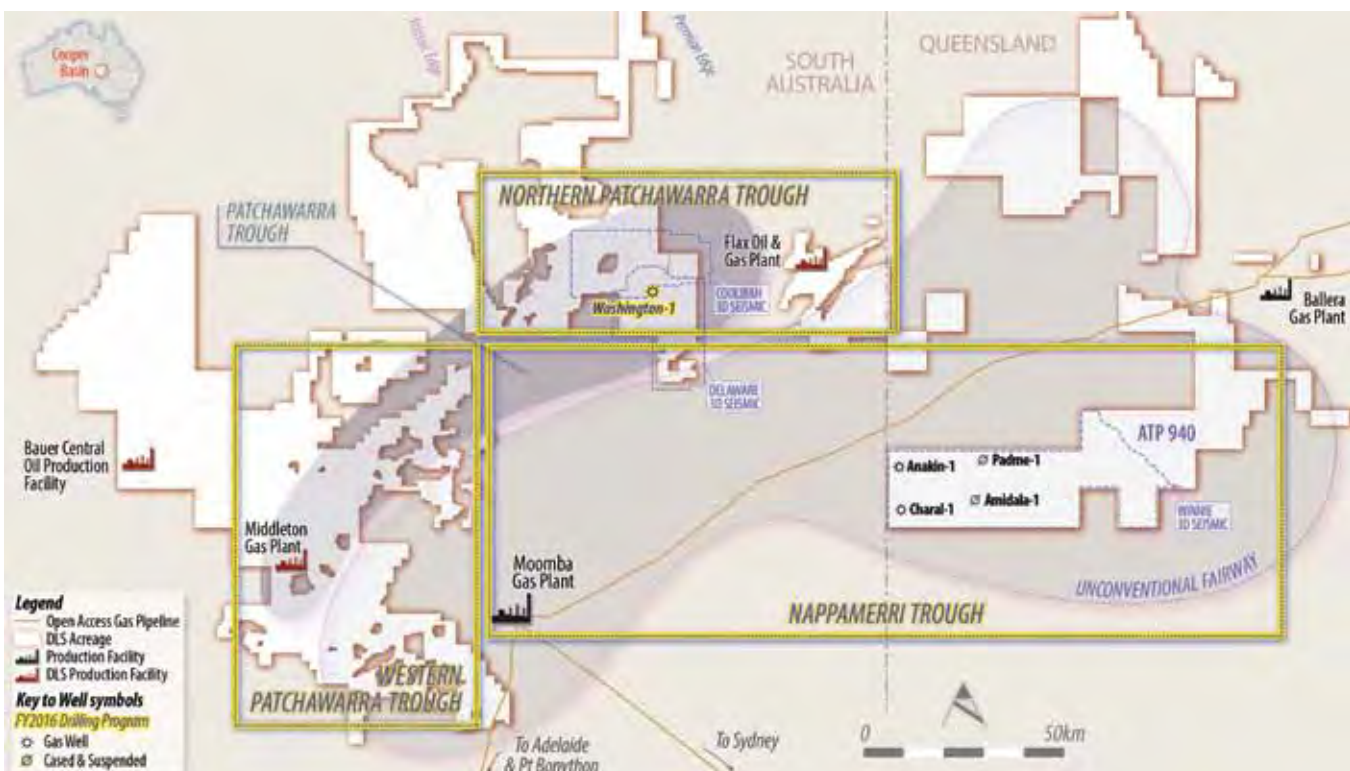
Drillsearch acquired its interests in PEL 570 through the acquisition of Ambassador which completed in late 2014. At the time of the acquisition of Ambassador there was an existing farm-in arrangement whereby New Standard was farming-in to a 52.5% interest in the permit and had assumed operatorship. Subsequently, New Standard announced two transactions, whereby:

- Santos acquired a 35% interest in PEL 570 (from the 52.5% New Standard farm-in interest) and assumed operatorship of the joint venture, and assumed a corresponding proportionate share of the farm-in commitments³²; and
- Sundance acquired New Standard's remaining farm-in interest in PEL 570 (17.5%)³³.

The acquisition of Ambassador, and its interests in PEL 570, provides Drillsearch with substantial interests in the Northern Cooper region covering the Patchawarra Trough, complementary to Drillsearch's interests in PEL 101 and PEL 182 (see Figure 11), with both conventional gas and gas liquids prospects and unconventional potential.

The Coolibah 3D seismic survey was acquired in 2013 covering parts of the PEL 570 permit area. This survey will be re-processed in line with the Delaware 3D seismic survey which is currently being acquired in PEL 570.

Figure 12 – Unconventional plays



31 Subject to joint venture work program and budget approvals.

32 Refer to New Standard Energy ASX announcement on 23 October 2014 regarding the divestment of part of its interest in PEL 570 to Santos.

33 Refer to New Standard Energy ASX announcement on 10 August 2015 regarding the sale of Cooper and Eromanga Basins assets to Sundance.

(i) FY16 planned activities:

- One exploration well – Washington-1 – targeting the Toolachee, Epsilon and Patchawarra Formations.
- Acquisition, processing and interpretation of the Delaware 3D seismic survey.

The Washington-1 exploration well was drilled early in FY16. Elevated gas shows were encountered across the Toolachee, Epsilon and Patchawarra Formations, with the joint venture beginning a flow test of the well in October 2015. Initial gas flow rates were encouraging and the well also produced hydrocarbon-liquids during the test. Following the test the well has been shut-in while the joint venture considers completion options.

Under the terms of the continuing farm-in arrangements, Drillsearch is free-carried for the FY16 work program in PEL 570.

Central Unconventional Project Area**ATP 940 joint venture (Drillsearch 40% and operator, QGC 60%)**

Drillsearch's interests in the Central Unconventional Project Area are comprised of its interests in ATP 940.

ATP 940, located approximately 165 kilometres east of Moomba (refer to Figure 12), covers the south eastern section of the Nappamerri Trough with conventional oil and unconventional potential. The area covered by ATP 940 is adjacent to ex-PEL 218 and ATP 855 operated by Beach (refer to Section 4.3(c) (Cooper and Eromanga Basins unconventional).

Drillsearch holds its interests in ATP 940 through Circumpacific Energy (Australia) Pty Limited. The permit was originally granted in 2007.

In FY12, Drillsearch entered into a farm-in arrangement with QGC whereby QGC farmed-in to a 60% interest in the permit. Drillsearch is operator, however, under the farm-in arrangements QGC has an option to assume operatorship from November 2015.

In FY13, Drillsearch conducted the 1,052km² Winnie 3D seismic survey in ATP 940. Data was used to map the drilling locations for the four wells drilled by the joint venture in the permit area – Charal-1, Anakin-1 Padme-1 and Amidala-1.

The results of the four wells drilled to-date, two of which have been tested, 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.

(i) FY15 activities:

- Completion of the deep drilling program for the Anakin-1, Padme-1 and Amidala-1 wells, completing the initial four-well drilling campaign.
- 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 per day and Anakin-1 recorded a peak flow rate of 1.05 mmscf per day.

(ii) FY16 planned activities:

- There are no material activities currently planned for FY16.

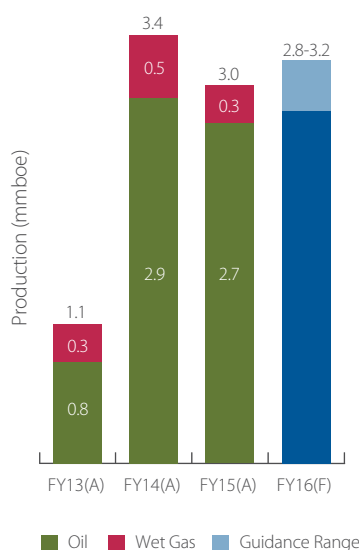
3.4 PRODUCTION AND GUIDANCE³⁴

Total production for FY15 was 3.0 mmboe. Oil production was 2.7 mmboe, with 2.5 mmboe of production from the ex-PEL 91 joint venture with Beach on the Western Flank and the remainder from Tintaburra. Wet Gas production was 0.3 mmboe, all from the ex-PEL 106 joint venture with Beach.

A year of record activity in FY15 provided a solid platform for production in FY16. Drillsearch's guidance for production in FY16 is 2.8-3.2mmboe³⁵, with the Oil Business contributing approximately 85% and the Wet Gas contributing approximately 15%.

Drillsearch's production for the past three financial years and its production guidance for FY16 is set out in Figure 13.

Figure 13 – Drillsearch production and guidance³⁶ (mmboe)



Overall production is again expected to be driven by oil production from the ex-PEL 91 joint venture with Beach.

The contribution to total production from Wet Gas is expected to increase year-on-year, with continuing production from the ex-PEL 106 joint venture with Beach supplemented by new tie-ins within that joint venture, as well as production from the ex-PEL 513/632 joint venture with Santos and the PEL-182 joint venture with Senex that are expected to contribute progressively from the middle of the financial year.

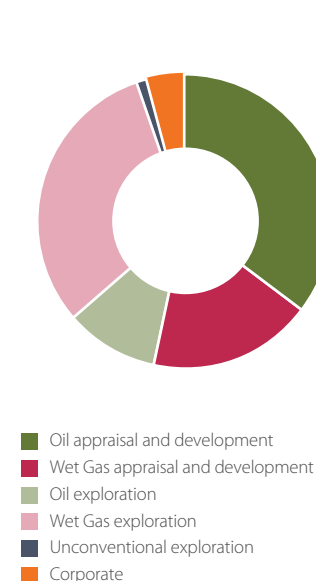
3.5 CAPITAL EXPENDITURE GUIDANCE³⁶

Capital expenditure³⁷ guidance for FY16 is in the range of \$80 million to \$110 million, with up to 22 wells planned to be drilled across Drillsearch's Cooper and Eromanga Basins acreage, including exploration wells in the Inland-Cook Oil Fairway and in the PEL 570 acreage acquired through the takeover of Ambassador Oil and Gas.

In addition, appraisal and development activity is planned in the ex-PEL 91 joint venture with Beach and the ex-PEL 106 and ex-PEL 513/632 joint ventures with Beach and Santos, respectively.

Drillsearch's share of capex in the ex-PEL 513/632 joint venture with Santos is free carried in FY16.

Figure 14 – FY16 Capex Split



³⁴ See the "Disclaimer and Important Notices" on page IFC for more information on forward-looking statements.

³⁵ Drillsearch's production guidance for FY16 allows for the proposed sale of Drillsearch's interests in the Tintaburra block joint venture with Santos. (Refer to Section 3.3(a) (Oil Business)).

³⁶ See the "Disclaimer and Important Notices" on page IFC for more information on forward-looking statements.

³⁷ Capital Expenditure is cited inclusive of G&G, G&A and seismic expenditure.

3.6 RESERVES AND RESOURCES³⁸

Drillsearch published the Drillsearch Annual R&CR Statement on 26 August 2015. The Reserves and Contingent Resources estimates contained in the Drillsearch Annual R&CR Statement were independently reviewed by RISC and DeGoyler & MacNaughton.

Drillsearch's 2P reserves as at 30 June 2015 were 25.7 mmboe, down 2.6 mmboe from the prior year after 3.0 mmboe of production for the year, and included:

- a net increase in 2P Reserves for oil of 0.3 mmbbl, after 2.7 mmbbl of oil production for the year; and
- an increase in 2P Reserves for Wet Gas of 3.2 mmboe in the ex-PEL 513/632 joint venture with Santos (Drillsearch share), offset by a 6 mmboe reduction in 2P reserves in the ex-PEL 106 joint venture with Beach (Drillsearch share), after 0.3 mmboe of wet gas production for the year.

Figure 15, below, sets out Drillsearch's estimate of Reserves and Contingent Resources as at 30 June 2015.

Drillsearch is not aware of any new information or data that materially affects the information included in the Drillsearch Annual R&CR Statement and that all the material assumptions and technical parameters underpinning those estimates in the Drillsearch Annual R&CR Statement continue to apply and have not materially changed.

38 See the "Disclaimer and Important Notices" on page IFC for more information on Drillsearch's Reserves and Contingent Resources.

Figure 15 – Drillsearch Reserves and Contingent Resources as at 30 June 2015

NET RESERVES AND CONTINGENT RESOURCES AS AT 30 JUNE 2015

Reserves	1P mmboe	2P mmboe	3P mmboe
Oil			
Western Flank Oil*	6.0	8.6	12.2
Eastern Margin	0.6	1.2	1.8
Total Oil	6.6	9.8	14.0
Wet Gas			
Western Wet Gas (JV with Santos)	2.5	7.9	20.1
Western Wet Gas (JV with Beach)*	4.0	8.1	11.3
Northern Cooper Gas and Liquids	–	–	–
South West Queensland Wet Gas	–	–	–
Total Wet Gas	6.5	15.9	31.4
Total Reserves	13.1	25.7	45.4
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

Notes:

- This information regarding Reserves and Contingent Resources set out in the table above and the Drillsearch reserves estimates referred to in Section 5.1(d) (*Reserves and Contingent Resources position*):
 - is based on, and fairly represents, information and supporting documentation prepared by, or under the supervision of, the Qualified Persons listed in note 10 (below).
 - as a whole, has been approved by Neil Thompson, who is a qualified petroleum reserves and resources evaluator and whose employment and professional organisation membership details are set out in note 10 (below); and
 - is issued with the prior written consent of Neil Thompson as to the form and context in which the estimated petroleum reserves and contingent resources and the supporting information are presented.
- Reserves and Contingent Resources are stated as at 30 June 2015.
- Drillsearch prepares its petroleum reserves and contingent resources estimates in accordance with the SPE-PRMS.
- Unless otherwise stated, all references to Reserves and Contingent Resources estimates are Drillsearch's net share.
- Reserves and Contingent Resources estimates 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 estimates take the economic impact of third party royalties to account.
- The reference point for reserves calculations is the point of custody transfer; for contingent resources the point of transfer has been assumed.
- Petroleum Reserves and Contingent Resources quoted in this reserves statement are rounded to one decimal place. Some totals in the tables may not add due to rounding. Items that round to zero are represented by the number 0, while items that are actually zero are represented with a dash "-".
- Conversion factors: Sales gas is converted to barrels of oil equivalent (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.
- Qualified Persons:

Name	Title	Employer	Professional Organisation
Neil Thompson	General Manager – Exploration and Development	Drillsearch Energy Limited	American Association of Petroleum Geologists
Susan Hyde	General Manager – Reservoir Engineering	Drillsearch Energy Limited	Society of Petroleum Engineers

* Drillsearch and Beach prepare independent estimates of Reserves and Contingent Resources for their respective interests in the ex-PEL 91 joint venture and the ex-PEL 106 joint venture. Refer to Section 5.1(d) (*Reserves and Contingent Resources position*) for information regarding the Reserves and Contingent Resources position of the Merged Group.

3.7 DRILLSEARCH BOARD AND SENIOR MANAGEMENT

(a) Drillsearch Board

As at the date of this Scheme Booklet, the Drillsearch Board comprises of:

NAME	POSITION AND PROFILE
Jim McKerlie	<p><i>Independent Non-Executive Director, Chairman</i> <i>BEC, Dip Fin Mgt, FCA, FAICD</i></p> <p>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.</p> <p>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).</p> <p>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.</p>
Philip Bainbridge	<p><i>Independent Non-Executive Director</i> <i>BSc (Hons) (Mechanical Engineering), MAICD</i></p> <p>Mr Bainbridge was appointed to the Drillsearch Board in July 2013.</p> <p>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.</p> <p>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.</p> <p>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.</p>
Teik Seng (TS) Cheah	<p><i>Independent Non-Executive Director</i> <i>BSc, FCA</i></p> <p>Mr Cheah was appointed to the Drillsearch Board in September 2013.</p> <p>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 CEO and a director of Aktis Capital Singapore Pte Ltd, a private equity fund manager.</p> <p>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.</p> <p>Mr Cheah is a member of the Board's Nomination Committee.</p>
Fiona Robertson	<p><i>Independent Non-Executive Director</i> <i>MA (Geology), FAICD, MAusIMM</i></p> <p>Ms Robertson was appointed to the Drillsearch Board in October 2009.</p> <p>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.</p> <p>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.</p> <p>Ms Robertson is Chair of the Board's Audit and Risk Committee and a member of the Board's People, Remuneration and HSEC Committee.</p>
Ross Wecker	<p><i>Independent Non-Executive Director</i> <i>BSc (Met and Geol)</i></p> <p>Mr Wecker was appointed to the Drillsearch Board in October 2009.</p> <p>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 and Eromanga Basins, 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.</p> <p>Mr Wecker is the Chair of the Board's Technical Committee and member of the Board's Audit and Risk Committee.</p>

(b) Drillsearch senior management

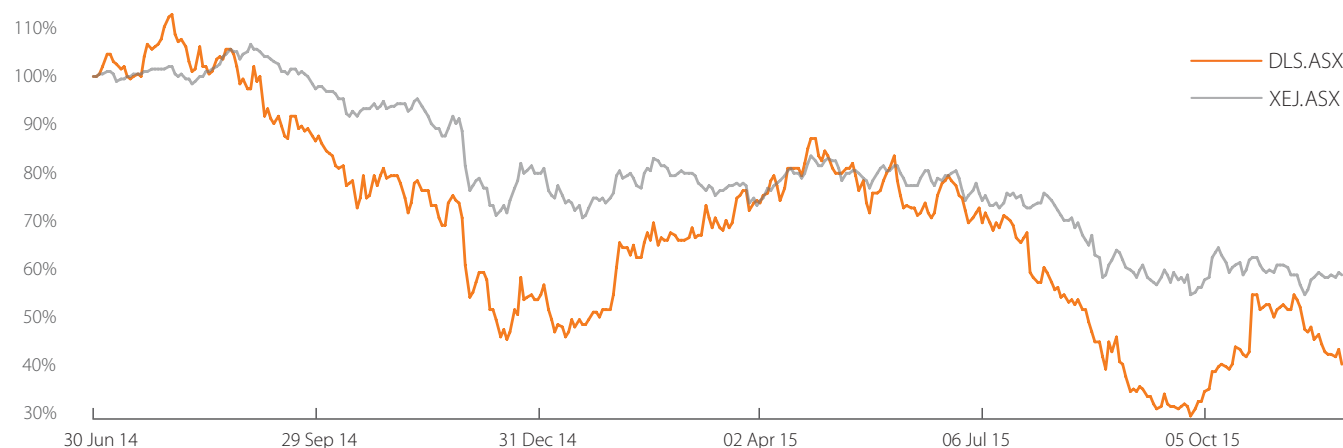
As at the date of this Scheme Booklet, the key members of Drillsearch senior management comprises of:

NAME	POSITION AND PROFILE
Walter Simpson	<p>Chief Executive Officer <i>MA (Engineering), MEng (Petroleum Engineering)</i></p> <p>Mr Simpson joined Drillsearch as Chief Operating Officer in March 2015. Mr Simpson was appointed Acting CEO on 3 July 2015 and then CEO on 18 September 2015.</p> <p>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.</p> <p>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.</p> <p>Mr Simpson is currently the Chair of the Queensland Natural Gas Exploration and Production Safety Leaders Forum.</p> <p>As CEO, Mr Simpson leads the Senior Executive Team. Drillsearch's operations and technical teams (including exploration) also report directly to Mr Simpson.</p>
Ian Bucknell	<p>Chief Financial Officer <i>BBus, CPA</i></p> <p>Mr Bucknell joined Drillsearch as Chief Financial Officer in August 2008.</p> <p>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.</p> <p>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.</p> <p>As Chief Financial Officer, Mr Bucknell has executive responsibility for Drillsearch Finance functions, including Treasury, Financial Accounting and Business Services, as well as Corporate Services, Business Development, Budgeting and Planning, and Investor Relations.</p>
Clifford Tuck	<p>General Counsel and Company Secretary <i>LLB (Hons), BScApp</i></p> <p>Mr Tuck joined Drillsearch as General Counsel in August 2014 and was appointed Company Secretary in February 2015.</p> <p>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.</p> <p>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.</p>

3.8 RECENT SHARE PRICE PERFORMANCE

Outlined in the chart below is Drillsearch's trading price performance since 30 June 2014 relative to the performance of the S&P/ASX 200 Energy Index (ticker: XEJ.ASX):

Figure 16 – Drillsearch share price performance since 30 June 2014³⁹



As at 10 December 2015, being the last practicable date prior to finalisation of this Scheme Booklet:

- the last recorded trading price of Drillsearch Shares was \$0.53; and
- the lowest and highest close prices of Drillsearch Shares during the three months ended 10 December 2015 were \$0.465 and \$0.825 respectively.

As at 22 October 2015, being the last trading day before the Announcement Date, the last recorded trading price of Drillsearch Shares was \$0.655.

3.9 SUBSTANTIAL SHAREHOLDERS

Based on substantial holding notices lodged with the ASX as at 15 December 2015, the following persons have substantial holdings of Drillsearch Shares:

SHAREHOLDER	EFFECTIVE DATE	NUMBER OF SHARES	VOTING INTEREST AT TIME OF NOTICE ⁴⁰
Seven Group Holdings Limited and its Subsidiaries ⁴¹	19/05/2015	91,759,189	19.90%
QGC Pty Ltd	01/07/2014	36,216,094	8.12%
National Australia Bank Limited	13/10/2015	24,877,178	5.38%
RFS Group	25/08/2005	20,788,016	6.27%
Scanlen, David	12/10/2005	20,000,000	6.03%

3.10 FINANCIAL INFORMATION

(a) Basis of presentation of historical financial information

The historical information below relates to Drillsearch on a stand-alone basis and accordingly does not reflect any impact of the Merger. It is a summary only and the full financial accounts for the financial periods described below, which include the notes to the accounts, can be found in Drillsearch's financial reports for those periods.

Drillsearch's 2014 and 2015 Annual Reports were lodged with the ASX on 17 October 2014 and 16 October 2015, respectively.

(b) Historical financial information

The summarised historical financial information set out below is extracted from Drillsearch's FY15 Annual Report,

representing the last two financial periods reported by Drillsearch before the date of this Scheme Booklet.

The FY14 financial information shown includes the restatement of FY14 financial information following the change by Drillsearch in FY15 to its accounting policy for exploration and evaluation expenditure to adopt the successful efforts methodology. In addition, the FY14 financial information includes restatement of certain prior period costs included in Oil & Gas assets that should have been included in Exploration and Evaluation assets.

The financial information has been prepared in accordance with the recognition and measurement requirements of the AAS adopted by the AASB and the Corporations Act.

The financial information presented in the tables below does not represent complete financial statements and should therefore be read in conjunction with the financial statements for the respective periods, including the description of accounting policies contained in those financial statements and the notes to those financial statements.

Drillsearch Shareholders may view complete copies of the audited consolidated financial statements for Drillsearch for the years ending 30 June 2015 and 30 June 2014 on the ASX website at www.asx.com.au or at the "Investor" section of the Drillsearch website at www.drillsearch.com.au.⁴²

⁴⁰ Sourced from substantial holding notices lodged with the ASX as at 15 December 2015.

⁴¹ Drillsearch has also received a substantial holder notice from Australian Capital Equity Pty Ltd. (ACE). As set out in the ACE notice, ACE's interests are a result of Relevant Interests held by ACE and its associates in Seven Group Holdings and/or its associates.

⁴² Refer to the "Disclaimer and Important Notices" Section on page 1 for information regarding references to internet sites in this Scheme Booklet.

(i) Statement of financial position

AS AT 30 JUNE	2014 \$ MILLION	2015 \$ MILLION
Current assets		
Cash and cash equivalents	152.4	131.5
Receivables	85.5	71.5
Inventories	0.7	2.6
Other	2.0	2.3
Derivative financial instruments	–	5.6
Available for sale financial assets	25.2	–
Assets classified as held for sale	0.1	25.0
Total current assets	265.8	238.6
Non-current assets		
Property, plant and equipment	2.6	2.8
Petroleum (oil & gas) assets	174.0 ^{1,2}	95.7
Exploration and evaluation assets	101.8 ^{1,2}	178.5
Deferred tax asset	11.4 ¹	23.2
Other	1.3	1.4
Total non-current assets	291.2	301.6
Total assets	557.0	540.1
Current liabilities		
Trade and other payables	74.6	37.1
Provisions	0.7	0.7
Liabilities relating to assets held for sale	–	24.5
Other financial liabilities	25.2	–
Total current liabilities	100.6	62.3
Non-current liabilities		
Provisions	38.4	18.5
Borrowings	153.4	162.1
Total non-current liabilities	191.8	180.6
Total liabilities	292.4	242.9
Net assets	264.6	297.3
Equity		
Contributed equity	285.5	325.1
Other reserves	7.4	8.6
Accumulated losses	(28.3)	(36.4)
Total equity	264.6	297.3

1. FY14 balance restated following the change in accounting policy for exploration and evaluation expenditure to adopt "successful efforts" methodology. Refer to note 5 to Drillsearch's FY15 financial statements a copy of which is contained in Drillsearch's FY15 Annual Report.

2. FY14 balance restated to correct classification in prior period. Refer to note 5 to Drillsearch's FY15 financial statements a copy of which is contained in Drillsearch's FY15 Annual Report.

(ii) Statement of Profit or Loss and other comprehensive income

FOR THE FINANCIAL YEAR ENDED 30 JUNE	2014 \$ MILLION	2015 \$ MILLION
Revenue	387.0	250.6
Cost of sales of goods	(151.2)	(149.6)
Gross profit	235.8	101.0
Other gains and losses	0	8.3
Exploration and evaluation expensed/written off	(44.4) ¹	(57.6)
Impairment of oil and gas assets	(0.2)	(51.9)
Finance costs	(11.6)	(10.0)
Change in fair value of convertible notes	(23.0)	(8.7)
Other expenses	(17.6)	(18.3)
Net gain/(loss) on derivatives	(1.8)	17.5
(Loss)/profit before income tax expense	137.1	(19.8)
Income tax benefit/(expense)	(95.2) ¹	11.7
Net profit/(loss) after tax	41.9¹	(8.1)
<i>Basic earnings per share (cents per share)</i>	<i>9.8¹</i>	<i>(1.8)</i>
<i>Diluted earnings per share (cents per share)</i>	<i>9.6¹</i>	<i>(1.8)</i>

1. FY14 balance restated following the change in accounting policy for exploration and evaluation expenditure to adopt "successful efforts" methodology. Refer to note 5 to Drillsearch's FY15 financial statements a copy of which is contained in Drillsearch's FY15 Annual Report.

(iii) Statement of cash flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE	2014 \$ MILLION	2015 \$ MILLION
Cash flows from operating activities		
Receipts from customers	391.5	263.8
Payments to suppliers and employees	(134.1)	(146.9)
Cash generated from operations	257.4	116.8
Payments for exploration & evaluation	(19.8) ¹	(22.8)
Interest paid	(11.0)	(9.7)
Net cash provided by operating activities	226.6	84.4
Cash flows from investing activities		
Payments for business acquisitions	(36.8)	–
Payments for oil and gas assets	(48.1)	(47.5)
Payments for exploration and evaluation assets	(29.7) ¹	(74.0)
Payments for property, plant and equipment	(0.9)	(2.3)
Payments for oil derivatives	–	(8.9)
Proceeds from sale of exploration and evaluation assets	12.5	–
Payments to acquire available for sale financial assets	(2.3)	–
Receipts from oil hedging derivatives	–	20.6
Interest received	1.8	3.1
Net cash used in investing activities	(103.6)	(108.9)
Cash flows from financing activities		
Proceeds from issue of equity shares	3.0	0.7
Repayment of borrowings	(10.0)	–
Net cash (outflow) inflow from financing activities	(7.0)	0.7
Net increase (decrease) in cash and cash equivalents	116.0	(23.8)
Cash and cash equivalents at the beginning of the period	36.1	152.4
Effects of exchange rate changes on cash and cash equivalents	0.4	2.9
Cash at end of financial year	152.4	131.5

1. Restated balances, reflecting the effect of the voluntary changes in accounting policy (refer note 5 to the June 2015 financial statements of which is contained in Drillsearch's FY15 Annual Report).

(iv) Reconciliation of Non-IFRS accounting financial information

This Scheme Booklet refers to Drillsearch's *underlying net profit/(loss)* and *EBITDAX* which are non-IFRS accounting financial information. Important information regarding non-IFRS accounting financial information is set out in the "Disclaimer and Important Notices" on page 1.

A reconciliation of underlying net profit/(loss) and EBITDAX to financial information prepared in accordance with IFRS is set out below.

Reconciliation of underlying net profit/(loss) to statutory net profit/(loss):

FOR THE FINANCIAL YEAR ENDED 30 JUNE	2014 \$ MILLION	2015 \$ MILLION
Net profit/(loss) after tax	41.9	(8.1)
Remove mark to market of convertible note derivative	23.0	8.7
Remove net gain/(loss) on derivatives	1.8	3.1
Remove impairment of assets	0.2	51.9
Remove derecognition of prior year tax losses	–	12.0
Tax impact of above changes	(8.5)	(9.8)
Underlying net profit after tax	58.5	57.8

Reconciliation of EBITDAX to profit/(loss) before income tax:

FOR THE FINANCIAL YEAR ENDED 30 JUNE	2014 \$ MILLION	2015 \$ MILLION
EBITDAX	232.0	152.8
Adjusted for:		
Interest Income	1.7	3.1
Finance costs	(11.6)	(10.0)
Amortisation and depletion	(38.4)	(54.4)
Depreciation	(2.0)	(1.8)
Impairment of oil and gas assets	(0.2)	(51.9)
Exploration and evaluation costs expensed/written off	(44.4)	(57.6)
Profit/(loss) before income tax	137.1	(19.8)

(c) Matters arising subsequent to the end of the 2015 financial year

(i) Cash Balance

As at 31 October 2015, Drillsearch's cash balance (including Drillsearch's share of cash balances held by joint ventures) had increased by \$35.9 million from 30 June 2015 to \$167.4 million. The increase in cash balance, financial year-to-date, is a result of lower than expected capital expenditure, unrealised foreign exchange benefits associated with USD denominated cash holdings and oil hedging gains.

(ii) Refinancing

Drillsearch announced in early October 2015 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. Drillsearch announced on 3 December 2015 that this facility was executed. The facility remains subject to customary conditions precedent that will be progressed in order for it to be available for use. For more information regarding the facility, refer to Section 10.3(b) (*Financing arrangements*).

(iii) Tintaburra asset sale and purchase

As set out in Drillsearch's FY15 Annual Report, Drillsearch is undertaking a process for the potential sale of its interests in the mature producing Tintaburra Block joint venture with Santos.

(d) - Risk of Impairment

Accounting Standard - AASB 136 - Impairment of Assets requires that an entity shall assess at the end of each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverability amount of the asset. AASB 136

requires that an entity consider, inter alia, the carrying amount of the net assets being more than its market capitalisation to be an indicator of impairment.

At 30 June 2015 the carrying amount of the net assets of Drillsearch was approximately \$0.3 billion. At the date of the Scheme Booklet, following a decline in the Drillsearch share price shortly prior to the date of the Scheme Booklet, the market capitalisation of Drillsearch is lower than \$0.3 billion. If the carrying amount of Drillsearch's net assets is greater than its market capitalisation at 31 December 2015 (when Drillsearch prepares its half-year financial statements for the six month period ending 31 December 2015), Drillsearch will estimate the recoverable amount of its oil and gas assets and consider whether an impairment loss is required to reduce the carrying amount of its assets to the recoverable amount.

3.11 CAPITAL STRUCTURE

At the date of this Scheme Booklet, Drillsearch has the following securities on issue:

- 462,254,673 Drillsearch Shares quoted on the ASX;
- 3,590,933 Drillsearch Options;
- 5,059,909 Drillsearch Performance Rights; and
- 1,250 Drillsearch Convertible Notes.

Sections 3.13 (*Drillsearch Options*) and 3.14 (*Drillsearch Performance Rights*) provide a summary of the treatment of Drillsearch Options and Drillsearch Performance Rights under the Merger.

Section 3.15 (*Drillsearch Convertible Notes*) provides a summary of the impact of the Merger on Drillsearch Convertible Notes.

3.12 HEDGING

Drillsearch actively assesses opportunities to hedge future oil production to provide a

level of protection against downside oil price volatilities, while seeking to retain upside exposure to upward oil price potential. Drillsearch's policy is to hedge up to 75% of rolling forward 18 month oil production profile. Drillsearch have opted to hedge the future USD denominated oil revenue stream with USD denominated hedge instruments, maintaining a full exposure to AUD/USD exchange rate movements. As at 31 October 2015, Drillsearch had in place the following hedges:

HEDGE ARRANGEMENTS (US\$)	FY2016 (BBLs)	FY2017 (BBLs)
\$60 Put- \$90 call options	515,000	–
\$60 Put- \$85 call options	280,000	215,000
\$50 Put- \$70 call options	105,000	–

3.13 DRILLSEARCH OPTIONS

As set out in Section 3.11 (*Capital Structure*), as at the date of this Scheme Booklet, Drillsearch has 3,590,933 outstanding Drillsearch Options. Each Drillsearch Option, upon exercise, entitles the Drillsearch Optionholder to receive one fully paid Drillsearch Share, subject to payment of the relevant Drillsearch Option exercise price.

Under the Merger Implementation Agreement, Drillsearch has agreed to procure that Drillsearch Optionholders execute legally binding Option Cancellation Deeds. Under the terms of the Option Cancellation Deeds each Drillsearch Optionholder

agrees to the termination and cancellation of their Drillsearch Options if the Merger becomes Effective. The consideration for the cancellation of the Drillsearch Options under the Option Cancellation Deeds has been determined by applying the "Black-Scholes" valuation methodology, as agreed by Drillsearch and Beach, and is payable by Beach to each Drillsearch Optionholder on the Business Day after the Implementation Date (**Option Completion Date**).

Drillsearch Optionholders have the right to exercise all or any of the Drillsearch Options they hold and that are vested at any time prior to their cancellation on the

Option Completion Date, provided that any notice of such exercise must be received by Drillsearch before 5:00pm the Business Day before the Second Court Date. In such an event, Drillsearch will issue the number of Drillsearch Shares which corresponds to the number of Drillsearch Options duly exercised by the Drillsearch Optionholder and such Drillsearch Shares will be eligible to participate in the Merger.

The following table summarises each issue of Drillsearch Options outstanding, together with the corresponding cancellation consideration.

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	NUMBER OF OPTIONS ⁴³	CANCELLATION CONSIDERATION PER OPTION
20 June 2011	20 June 2018	\$0.5960	817,370	\$0.40
25 July 2011	25 July 2018	\$0.5960	1,282,867	\$0.40
23 November 2011	23 November 2018	\$0.5960	1,490,696	\$0.42

Drillsearch Directors, Jim McKerlie, Fiona Robertson and Ross Wecker, hold Drillsearch Options as at the date of this Scheme Booklet (as set out in Section 3.17(a) (*Relevant Interests in Drillsearch Shares*)) and each has entered into an Option Cancellation Deed in respect of all such Drillsearch Options.

3.14 DRILLSEARCH PERFORMANCE RIGHTS

The Drillsearch remuneration framework includes a Short Term Incentive scheme (**STI**) and a Long Term Incentive scheme (**LTI**). Under the STI, all Drillsearch employees are eligible for an annual incentive benefit in the form of cash or a combination of cash and Drillsearch Performance Rights. Under the LTI, eligible Drillsearch employees, in management roles through to the executive team, receive Drillsearch Performance Rights.

Drillsearch Performance Rights granted under the STI vest after one year subject to continuing employment. Drillsearch Performance Rights granted under the LTI vest after three years subject to performance conditions set by the Board and continuity of service.

On vesting, one Drillsearch Share is issued for every Drillsearch Performance Right. No consideration is payable for the grant of Drillsearch Performance Rights or the vesting of those Drillsearch Performance Rights.

As noted above, as at the date of this Scheme Booklet, there are 5,059,909 unvested Drillsearch Performance Rights.

Under the terms of grant of the Drillsearch Performance Rights and consistent with the Merger Implementation Agreement, all Drillsearch Performance Rights granted prior to the Announcement Date will vest automatically on a change of control of

Drillsearch (irrespective of whether the performance conditions have been satisfied).

Further information regarding the STI and LTI and the performance conditions are available in Drillsearch's 2015 Remuneration Report (contained in Drillsearch's 2015 Annual Report) approved by Drillsearch Shareholders at the Drillsearch 2015 Annual General Meeting.

3.15 DRILLSEARCH CONVERTIBLE NOTES

Drillsearch (via its wholly-owned subsidiary, Drillsearch (Finance) Pty Limited) issued US\$125 million in convertible notes in May 2013 under the Drillsearch Convertible Notes Offer Documents (**Drillsearch Convertible Notes**). The Drillsearch Convertible Notes have a final maturity date of 1 September 2018 and carry a fixed coupon of 6% per annum, paid semi-annually.

⁴³ As at 15 December 2015.

(a) Redemption of Drillsearch Convertible Notes

If the Merger is approved by the Requisite Majority of Drillsearch Shareholders at the Scheme Meeting, a "Change of Control" occurs under the terms of the Drillsearch Convertible Notes. Drillsearch must notify the Noteholders of the Change of Control and each Noteholder will then have 60 days in which to elect to require the redemption of its Drillsearch Convertible Notes at their principal amount together with interest accrued to the redemption date.

After the Scheme has been approved by Drillsearch Shareholders at the Scheme Meeting and by the Court at the Second Court Hearing, Drillsearch will have the right to redeem all of the outstanding Drillsearch Convertible Notes at their principal amount together with interest accrued to the redemption date. Drillsearch has agreed with Beach that, following approval of the Scheme at the Second Court Hearing, Drillsearch will exercise this right of redemption in respect of all of the Drillsearch Convertible Notes that have not then been redeemed or converted by Noteholders.

Drillsearch's right to redeem the Drillsearch Convertible Notes following the Second Court Hearing is subject to the Scheme being extended to any Drillsearch Shares that may be issued pursuant to the exercise by Noteholders of their conversion rights in the period of 21 days after the Noteholders are notified of the Change of Control. This requirement will be satisfied, as Drillsearch and Beach have agreed that the Record Date will not occur until after Drillsearch has notified Noteholders of its intention to redeem the Drillsearch Convertible Notes. As the Record Date must occur approximately 5 Business Days after the Second Court Date, the Second Court Hearing is not expected to occur earlier than 22 days after the Scheme Meeting.

(b) Conversion of Drillsearch Convertible Notes

Noteholders have the right to have their Drillsearch Convertible Notes converted into Drillsearch Shares at any time up to 10 days before their final maturity date. The conversion price is US\$1.66 per Drillsearch Share, but it is adjusted in certain circumstances. For a period of approximately 21 days following notification of the Change of Control (refer to paragraph (a) above) the conversion price is adjusted downwards. If a Noteholder does elect to convert, Drillsearch may elect to settle the conversion by making a payment of a cash alternative amount in lieu of issuing new Drillsearch Shares.

As at the date of this Scheme Booklet, none of the Drillsearch Convertible Notes have been converted or redeemed.

3.16 RETENTION ARRANGEMENTS

In connection with the Merger, the Drillsearch Board has introduced an employee retention incentive scheme intended to provide an additional incentive for all Drillsearch employees to:

- remain focussed on delivery of Drillsearch's work program and budget in parallel to the Merger process, notwithstanding uncertainty regarding the implementation of the Merger or prospects for continuing employment with the Merged Group;
- assist with Merger-related activities, including implementation of the Merger and the integration of the Drillsearch assets into the Merged Group; and
- ensure that the Merged Group has the opportunity to select talent from the broadest group of current Drillsearch and Beach employees after the Merger is implemented.

Under the employee retention incentive scheme, Drillsearch employees as at the Announcement Date who remain employed by Drillsearch or the Merged Group at 30 June 2016 will receive a one-off cash payment equal to 15% of their TFR⁴⁴ (pre-tax). In the event that an employee is made redundant prior to 30 June 2016, the employee remains eligible for the retention incentive scheme payment in full.

Employees who leave Drillsearch prior to 30 June 2016 in circumstances other than redundancy will not be eligible for the retention incentive scheme payment.

Payments under the employee retention incentive scheme are in addition to each employee's existing and continuing entitlements, including any redundancy or severance payments on termination of employment by Drillsearch or the Merged Group, under Drillsearch's existing remuneration framework (including performance incentive schemes).

The retention incentive scheme will apply if the Merger is not approved by Drillsearch Shareholders. The maximum aggregate cost to Drillsearch under the retention incentive scheme is expected to be approximately \$2.1 million.

3.17 RELEVANT INTERESTS OF DRILLSEARCH DIRECTORS

(a) Relevant Interests in Drillsearch Shares

The following table lists the Relevant Interests of the Drillsearch Directors as at the date of this Scheme Booklet:

DIRECTOR	EXECUTIVE OR NON-EXECUTIVE	RELEVANT INTEREST IN DRILLSEARCH SHARES	INTEREST IN DRILLSEARCH OPTIONS
James David McKerlie	Non-Executive	2,239,894	Drillsearch Options expiring 20 June 2018: 326,948 Drillsearch Options expiring 23 November 2018: 596,279
Fiona Ann Robertson	Non-Executive	692,950	Drillsearch Options expiring 20 June 2018: 163,474 Drillsearch Options expiring 23 November 2018: 298,139
Philip James Bainbridge	Non-Executive	54,600	N/A
Teik Seng Cheah	Non-Executive	340,000	N/A
Harry Ross Brookfield Wecker	Non-Executive	447,343	Drillsearch Options expiring 20 June 2018: 163,474 Drillsearch Options expiring 23 November 2018: 298,139

(b) Relevant Interests in Beach Shares

Mr Philip Bainbridge has a Relevant Interest in 29,000 Beach Shares as at the date of this Scheme Booklet.

As at the date of this Scheme Booklet, no Drillsearch Director (other than Mr Philip Bainbridge) has any Relevant Interests in any Beach Shares.

⁴⁴ TFR is total fixed remuneration, being salary plus superannuation contributions.

3.18 NO PRE-TRANSACTION BENEFITS

During the period of four months before the date of this Scheme Booklet, neither Drillsearch nor any associate of Drillsearch gave, or offered to give, a benefit to another person which was likely to induce the other person, or an associate of the other person to:

- vote in favour of the Merger; or
- dispose of Drillsearch Shares,

and which will not be provided to all Scheme Shareholders under the Merger.

3.19 BENEFITS IN CONNECTION WITH THE MERGER OR RETIREMENT FROM OFFICE

Except as disclosed in this Scheme Booklet:

- no payment or other benefit is proposed to be made or given to any director, company secretary or executive officer of Drillsearch (or its Related Bodies Corporate) as compensation for the loss of, or as consideration for or in connection with his or her retirement from office in Drillsearch or any of its Related Bodies Corporate in connection with the Merger;
- there are no contracts or arrangements between a Drillsearch Director and any person in connection with or conditional upon the outcome of the Merger; and
- no Drillsearch Director has a material interest in relation to the Merger other than in their capacity as a Drillsearch Shareholder or Drillsearch Optionholder (as applicable).

As at the date of this Scheme Booklet it has not yet been determined whether particular company secretaries or executive officers of Drillsearch (or its Related Bodies Corporate) will continue to hold office in the Merged Group. Termination benefits payable to company secretaries and executive officers of Drillsearch are set out in Drillsearch's 2015 Remuneration Report (contained in Drillsearch's FY15 Annual Report).

Drillsearch pays premiums in respect of a directors and officers (D&O) insurance policy for the benefit of the directors of Drillsearch and executive officers.

Mr Jim McKerie and Mr Philip Bainbridge may receive director's fees, travel allowances and reimbursement of incidental expenses from the Merged Group in connection with the performance of their duties as non-executive directors of the Merged Group following implementation of the Merger.

3.20 MATERIAL CHANGES IN DRILLSEARCH'S FINANCIAL POSITION SINCE LAST ACCOUNTS PUBLISHED

Other than as disclosed in this Scheme Booklet, within the knowledge of the Drillsearch Board, the financial position of Drillsearch has not materially changed since 30 June 2015, being the date of the balance sheet for the full year accounts of Drillsearch for FY15.

3.21 CONTINUOUS DISCLOSURE

Drillsearch is a "disclosing entity" for the purposes of the Corporations Act and is subject to periodic reporting and continuous disclosure obligations. Specifically, as a listed company, Drillsearch is subject to the Listing Rules, which require disclosure of any information which Drillsearch has concerning itself that a reasonable person would expect to have a material effect on the price or value of Drillsearch Shares as soon as Drillsearch becomes aware of information, subject to some exceptions.

Pursuant to the Corporations Act, Drillsearch is required to prepare and lodge with ASIC and the ASX both annual and half-yearly financial statements accompanied by a statement and report from the Drillsearch directors and an audit or review report.

In addition, Drillsearch is required to lodge various documents with ASIC, copies of which may be obtained from, or inspected at, ASIC offices. Information is also available on Drillsearch's website (www.drillsearch.com.au).⁴⁵

Drillsearch's continuous disclosure notices provided to the ASX after the lodgement with the ASX on 16 October 2015 of Drillsearch's FY15 Annual Report, and before the lodgement of this Scheme Booklet for registration by ASIC, are listed in the table below.

DATE	ANNOUNCEMENT
16 October 2015	Appendix 4G
16 October 2015	Change in substantial holding from NAB
21 October 2015	RAW: Workover Activities Udacha-1 well
21 October 2015	September 2015 Quarterly Report Conference Call
22 October 2015	Quarterly Report September 2015
23 October 2015	Recommended Merger of Beach and Drillsearch
23 October 2015	Presentation – Recommended Merger of Beach and Drillsearch
4 November 2015	BPT: Monthly Drilling Report October 2015
6 November 2015	October Drilling Report
9 November 2015	2015 Annual Report – correction of errors
11 November 2015	Update on Proposed Merger – Beach Obtains ASX Waiver
12 November 2015	Drillsearch Shareholder Newsletter
18 November 2015	2015 AGM Chairman's Presentation
18 November 2015	2015 AGM CEO's Presentation
18 November 2015	2015 AGM Voting Results
3 December 2015	November Drilling Report
3 December 2015	Finalisation of \$100 million Loan Facility
4 December 2015	S & P DJ Indices Announces December Quarterly Rebalance
15 December 2015	Court Approval for Proposed Merger

Drillsearch's recent announcements are available from the ASX's website at www.asx.com.au. Further announcements concerning Drillsearch will continue to be made on this website after the date of this Scheme Booklet.

⁴⁵ Refer to the "Disclaimer and Important Notices" on page 1 for information regarding references to internet sites in this Scheme Booklet.

4. PROFILE OF BEACH

4.1 OVERVIEW

Beach is an ASX-listed oil and gas exploration and production company, based in Adelaide, South Australia, with its core operations in one of Australia's most prolific onshore oil and gas provinces, the Cooper and Eromanga Basins.

Beach has established a successful operated oil business in the Western Flank of the

Cooper and Eromanga Basins, and has grown to become Australia's largest onshore oil producer.

Beach also has a substantial gas business through its interest in the SACB JVs and SWQ JVs. This business, which is operated by Santos, includes key strategic infrastructure such as the Moomba processing facility.

In addition to the Cooper and Eromanga Basins, Beach has permits in other basins around Australia, including the Otway, Gippsland, Browse, Carnarvon and Bonaparte basins, as well as permits in New Zealand, Tanzania and Egypt⁴⁶. International operations further abroad are being curtailed, with a re-focus of operations closer to home.

4.2 RECENT PERFORMANCE

Figure 17 sets out Beach's performance in the past five years against a number of corporate and operating metrics.

Figure 17– Five-year performance metrics

KEY RESULTS		FY11	FY12	FY13	FY14	FY15
Safety – Total recordable injury frequency rate (TRIFR) – Beach employees	mmhr	0	10.1	11.8	0	5.9
Production	mmboe	6.6	7.5	8.0	9.6	9.1
2P reserves	mmboe	77	93	93	86	74
Sales revenue	\$ million	496	619	698	1,052	728
Net profit/(loss) after tax	\$ million	(98)	164	154	102	(514)
Underlying net profit/(loss) after tax ¹	\$ million	42	122	141	259	91
Cash flow from operating activities	\$ million	185	218	262	583	229
Earnings per share	cents	(8.81)	14.43	12.17	7.95	(39.64)
Fully franked dividends declared per share	cents	1.75	2.25	2.75	4.00	1.50
Market capitalisation at year end	\$ million	1,009	1,180	1,440	2,171	1,365

1. Underlying net profit/(loss) after tax is a non-IFRS accounting financial information. Refer to "Disclaimers and Important Notices" on page 1 regarding non-IFRS accounting financial information. A reconciliation of underlying net profit/(loss) after tax to IFRS accounting financial information is included in Section 4.10(c) (Reconciliation of Non-IFRS accounting financial information).

4.3 OVERVIEW OF ASSETS

Brief overviews of Beach's principal operations are provided below, under the following headings:

- SACB JVs and SWQ JVs (Delhi);
- Western Flank oil, gas and gas condensate;
- Cooper and Eromanga Basins unconventional;
- Cooper and Eromanga Basins (other);
- Other Australia; and
- International.

46 As described in Section 4.10(d)(iii) (International – Sale of Beach Egypt), Beach has entered into arrangements that may result in the divestment of its interests in Egypt.

Figure 18 summarises Beach's principal Petroleum interests as at the date of this Scheme Booklet. A full list of Beach's Petroleum interests is included in Beach's FY15 Annual Report.

Figure 18 – Beach Tenements Table

ASSET	JOINT VENTURE	PERMITS ¹	KEY FIELDS / WELLS	BEACH INTEREST
Oil – South Australia				
Western Flank oil	Ex-PEL 91 joint venture with Drillsearch	PRLs 151-172 PPLs 253-256 and 260-263 (ex-PEL 91)	Bauer, Chiton, Congony, Kalladeina, Sceale, Hanson, Snellings, Pennington, Balgowan, Burners, Stunsail	40% and Operator
	Joint venture with Cooper Energy	PRLs 85 – 104 PPLs 204, 205, 220, 224 and 245-250 (ex-PEL 92)	Selicks, Christies, Callonwonga, Parsons, Butlers, Germein, Perlubie, Rincon, Elliston, Windmill	75% and Operator
	Joint venture with Senex	PRLs 136 – 150, PRL 15 PPLs 240, 242, 243, 258 PEL 87 and 424 (ex-PEL 104 and 111)	Growler, Snatcher, Mustang, Spitfire	40%
SACB Joint Ventures	Joint ventures with Santos and Origin	Various PPLs	Limestone Creek, Charo, Moomba Oil, Dullingari Oil, Strzelecki, Gidgealpa, Keleary, Telopea	17.1 – 20.2%
Oil – Queensland				
South West Queensland	Joint venture with Santos and others	ATP 1189 (Naccowlah, Aquitaine A, Aquitaine B, Aquitaine C, Innamincka, Total 66, Wareena, 50/40/10 Blocks) and various PLs	Jackson, Naccowlah, Tickalara, Zeus, Minos, Cook, Watson, Irtalie, Munro	20 – 40%
	Queensland oil production	PLs 31, 32, 47, 256, 482-4	Kenmore, Bodalla, Black Stump, Bargie, Marcoola, Coolum, Glenvale, Bargie	93 – 100% and Operator
	Queensland oil exploration	ATP 633, ATP 269		50 – 93% and Operator
Eastern Flank	Farm-in Agreement with Bengal	ATP 732		Farming in to 50%
	Farm-in Agreement with Drillsearch	ATP 924		Farming in to 45%
Gas – South Australia (Cooper Basin)				
Western Flank Gas	Ex-PEL 106 joint venture with Drillsearch	PRLs 129 and 130 (ex-PEL 106) PRLs 175-179 PPLs 239 and 257 (ex-PEL 107)	Brownlow / Middleton, Canunda / Coolawang, Ralgnal, Maupertuis, Kiana,	50% and Operator ^{47,48}
	Ex-PEL 106 joint venture with Drillsearch and Rawson	PRL 26	Udacha	15% and Operator
SACB Joint Ventures	Joint venture with Santos and Origin	Various PPLs	Moomba, Big Lake, Nephrite South, Swan Lake, Andree / Leleptian, Tirrawarra, Gooranie, Correa, Coonatie	17.1 – 20.2%

⁴⁷ Drillsearch elected to sole-risk casing and suspension of Maupertuis for future testing.

⁴⁸ Udacha (Drillsearch, 60%, Beach 40%).

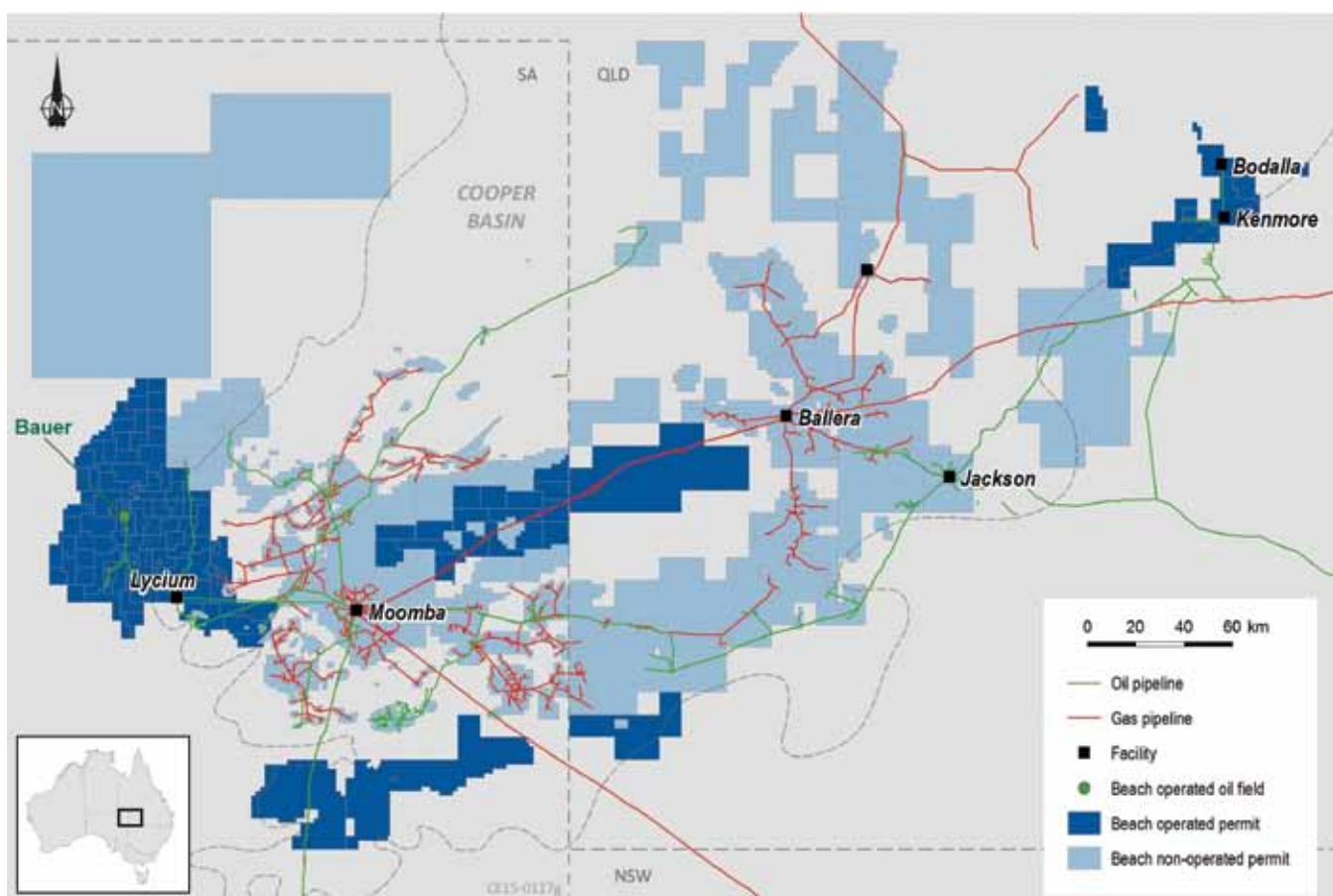
ASSET	JOINT VENTURE	PERMITS ¹	KEY FIELDS / WELLS	BEACH INTEREST
Gas – Queensland (Cooper Basin)				
South West Queensland	Joint venture with Santos and Origin	ATP 1189 and various PLs	Baryulah, Ballera, Challum, Barrolka, Thor, Psyche, Whanto, Mt Howitt, Durham Downs, Hera	23.2%
Eastern Flank	Joint venture with Australian Gasfields	PL 184	Thylungra	80.4% and Operator
Unconventional				
Nappamerri Trough Natural Gas Project		PRLs 33 – 49 (ex-PEL 218)	18 wells drilled; 16 well fracture stimulated	100%
	Joint venture with Icon	ATP 855		64.9% and Operator
Deep Coals	Joint venture with Strike Energy and Senex	PEL 94	Davenport	50%
	Joint Venture with Strike Energy	PEL 95		50%
Bonaparte Basin		EP 126	Cullen	100%
SACB Joint Venture	Joint Venture with Santos and Origin	PPLs	Gaschnitz, Van der Waals, Langmuir, Roswell	20.21%
Other Australian Basins				
Otway – onshore	Katnook Gas (South Australia)	PRLs 1, 2, 13 PPLs 62, 68, 202	Wynn, Limestone Ridge, Killanoola, Katnook, Redman, Haselgrove	100%
	Joint venture with Cooper Energy (South Australia and Victoria)	PEL 494, PRL 32, PEP 168, PEP 171	Sawpit, Jolly, Bungaroo	50 – 75% and Operator
		PEL 186		66.7%
	Joint Venture with Cooper Energy, Bridgeport, Bass, Oil	PEP 150		50% and Operator
	Joint venture with Origin	PPL 6, PPL 9, PRL 1	McIntee, Lavers, Buttress North	10%
	Joint venture with 3D Oil	T/49P		30%
Gippsland	Joint venture with Cooper Energy	VIC L26, 27, 28	Basker, Manta, Gummy	35%
Browse	Joint venture with Santos, Chevron, INPEX	WA-281-P		7.3%
Carnarvon	Joint venture with Santos, Apache, ENI	WA-48-R	Hurricane	10%
International				
Canterbury Basin	Joint venture with NZOG	PEP 52717		50%
Taranaki Basin	Joint venture with NZOG and TAG Oil	PEP 52181		25%
	Joint venture with Todd	PEP 57080		50%

ASSET	JOINT VENTURE	PERMITS ¹	KEY FIELDS / WELLS	BEACH INTEREST
Egypt	Joint venture with BP Exploration, TriOcean	North Shadwan – 1, North Shadwan – 2 and North Shadwan – 3, Development Leases (377, 385 and 394)	DL 377, 385, 394,	20%
	Joint venture with Petroceltic, Dana Petroleum	El Qa'a Plain Concession		25%
	Joint venture with Kuwait Energy Egypt, Dover Investments	Abu Sennan Concession and associated Development Leases	Al Jahraa, El Salmiya, ASA, Al Qasdsiya, ZZ, Al Ahmadi	22%
Tanzania		Production Sharing Agreement with Tanzania Petroleum Development Corporation for Lake Tanganyika South Block		100%

Note: Beach and its joint venture partners have been granted a number of production and retention licences over the former exploration permits PEL 91, PEL 92, PEL 104, PEL 106, PEL 107 and PEL 111 as shown in Figure 20. For ease of reference, the various production and retention licences are grouped by the former exploration licence number and given an abbreviated description (eg "ex-PEL 91"). See definition of "ex-PEL" in Section 11 (*Glossary, Definitions and interpretation*).

In the Cooper and Eromanga Basins, located in north eastern South Australia and south western Queensland, Beach has interests in petroleum licences spanning approximately 50,000km² and strategic hydrocarbon processing and transportation infrastructure.

Figure 19: Beach's interests in the Cooper and Eromanga Basins



Further information on these interests and related activities can be found on Beach's website at www.beachenergy.com.au and Beach's platform on the ASX's website at www.asx.com.au.⁴⁹

⁴⁹ Refer to the "Disclaimer and Important Notices" on page 1 for information regarding references to internet sites in this Scheme Booklet.

(a) SACB JVs and SWQ JVs (Delhi)

Beach acquired Delhi in 2006, which provided Beach with interests in a number of joint ventures with Santos (operator) and Origin. In South Australia, the joint ventures are informally known as the South Australian Cooper Basin Joint Ventures (SACB JVs), and comprise the Fixed Factor Agreement Joint Ventures and the Patchawarra East Joint Venture. Delhi's interests in these joint ventures are 20.21% and 17.14%, respectively. In Queensland, there are a number of joint ventures informally known as the South West Queensland Joint Ventures (SWQ JVs), including the SWQ Unit (gas). Delhi's interests in these joint ventures range between 20% and 40%.

Major infrastructure assets owned by the SACB JVs and SWQ JVs include the Moomba and Ballera gas processing facilities, oil and gas gathering systems, the 180 kilometre Ballera to Moomba gas pipeline, the 659 kilometre Moomba to Port Bonython liquid hydrocarbons pipeline and the Port Bonython and Jackson oil facilities.

The Moomba facility is the key processing facility and trading hub for oil and raw gas in the Cooper and Eromanga Basins, with processing and trading undertaken for Delhi product, as well as for other joint venturers and third parties. Delhi has a 20.21% interest in tolling and trading activities through the Moomba facility. The Moomba processing facility is connected to the New South Wales, Queensland and South Australian energy markets by pipelines, and has a daily capacity of approximately 380 TJ gas, 35 kbbl oil/condensate and 600 tonnes of LPG.

Delhi has initiated separate lifting of a portion of its gas production under an initial eight year agreement (for total volumes of up to 139 PJ) with Origin, with a two year extension available to Origin (for total volumes of up to 173 PJ over the 10 year period).

(i) FY15 activities

- Net production: gas 20.7 PJ, LPG 38.5 kt, condensate 0.3 mmbbls and oil 0.9 mmbbls, with average daily net production of 13,899 boed.

- 78 wells drilled at an overall success rate of 99%. Of these wells, 59 were in South Australia (58 gas wells and one oil well) and 19 were in Queensland (13 gas wells and 6 oil wells).

(ii) FY16 planned activities

- 33-40 wells expected to be drilled, of which 28-30 will be development and 5-10 exploration.

(b) Western Flank oil, gas and gas condensate

Beach is the largest producer of oil in the Western Flank, with FY15 net production of 3.4 mmbbls. Beach operates and part owns 142 kilometres of oil flowlines from the Bauer, Callawonga and Growler oil fields to the Lycium hub, as well as the 67 kilometre Lycium to Moomba pipeline. The Lycium to Moomba pipeline is capable of delivering in excess of approximately 20,000 bopd into Moomba from the Western Flank. Beach and its joint venture partner Senex charge third parties for access to the Lycium to Moomba pipeline.

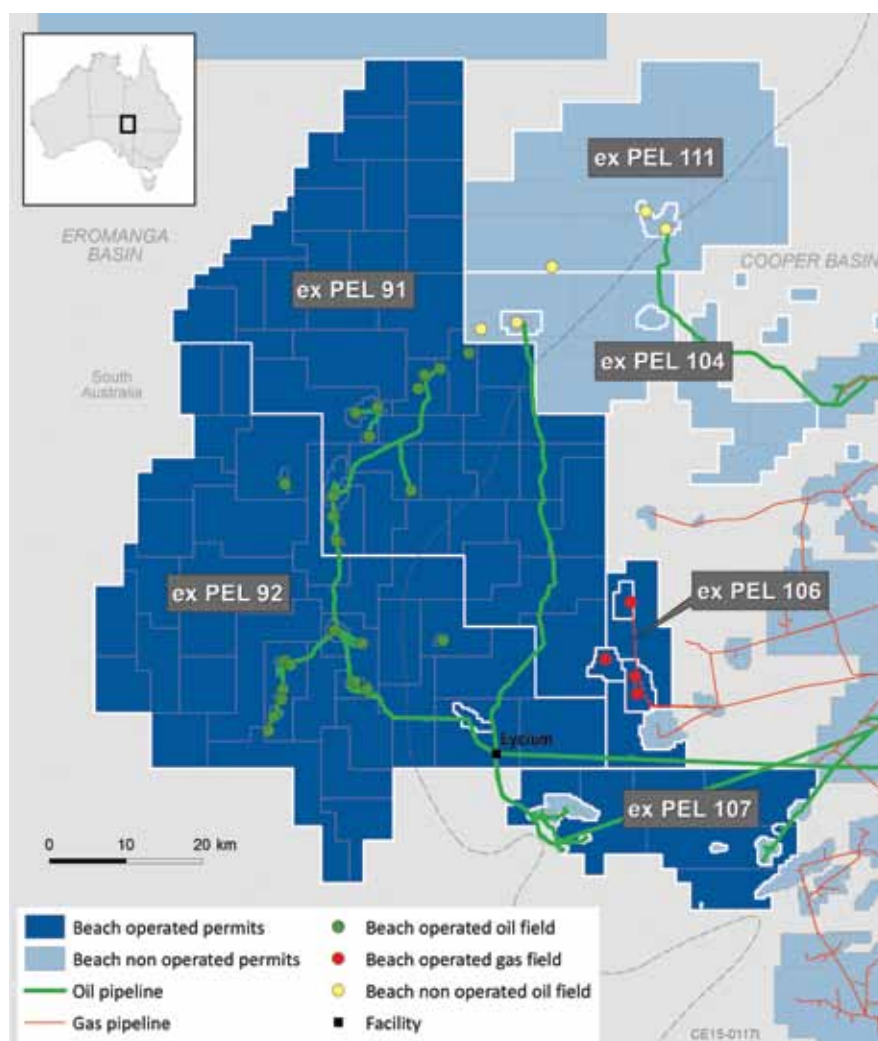
Beach's Western Flank drilling programs are supported by substantial past and ongoing 3D seismic activities, which provide the basis for identifying prospects and leads. In total, Beach has acquired over 3,200km² of 3D seismic in the Western Flank. Recent activity includes:

- acquisition of the Solidus survey in FY15 over an area of 492km² in the northern part of ex-PEL 91;
- inversion processing of approximately 900km² of the newly acquired Solidus survey and previously acquired Limbatus, Modiolus and Aquillus data in ex-PEL 91;
- merging and reprocessing of the Neritus-Modiolus-Calpurnus surveys (completed in FY15), representing approximately 650km² of data acquired over ex-PEL 92 from 2006 to 2010. The aim of the reprocessing is to provide a consistently processed seismic volume to improve interpretation; and
- pre-stack inversion of both the Irus and Caseolus surveys covering approximately 1,680km² in ex-PEL 91, ex-PEL 92 and ex-PEL 106 (undertaken in FY15). The main objective is to better define potential subtle stratigraphic oil plays within the Birkhead Formation. Interpretation is ongoing.

- (i) Ex-PEL 91 (Beach 40% and operator, Drillsearch 60%)

Operated by Beach, 14 oil field discoveries have been made to date. In FY12 Beach discovered the prolific Bauer Field, the largest oil field discovered on the Western Flank. In addition to production licences,

Figure 20: Beach's interests in the Western Flank



PRLs 151 to 172 were granted over ex-PEL 91 in FY15 by the South Australian Government, securing tenure over this permit area.

(A) FY15 activities:

- Oil production was 1.6 mmbbls (net), with average daily net production of 4,505 bopd.
- Three oil field discoveries at Balgowan, Burners and Stanleys.
- Appraisal and development drilling successes at Pennington and Hanson fields, respectively.
- 10-well development campaign completed in the Bauer Field, which added 2.7 mmbbls (net) to the estimated ultimate recovery of the field.

(B) FY16 planned activities:

- Commence Bauer facility upgrade.
- Seven well drilling campaign.

(ii) Ex-PEL 92 (Beach 75% and operator, Cooper Energy 25%)

Ex-PEL 92 is operated by Beach, with 11 oil fields discovered to date. In addition to production licences, PRLs 85 to 104 were granted over ex-PEL 92 in FY14 by the South Australian Government, securing tenure over this permit area.

(A) FY15 activities:

- Oil production was 1.1 mmbbls (net), with average daily net production of 3,083 bopd.
- Two well development and appraisal campaign undertaken in the Callawonga Field, with both wells cased and suspended, and now online.

(B) FY16 planned activities:

- Four well exploration / development drilling campaign.

(iii) Ex-PELs 104 and 111 (Beach 40%, Senex 60% and operator)

Beach acquired its interest through the acquisition of Impress in 2011. Ex-PELs 104 and 111 are operated by Senex, with five oil fields discovered to-date. In addition to production licences, PRLs 136 to 150 were granted over the area by the South Australian Government, securing tenure over this permit area ex-PELs 104 and 111.

Historically the oil production in these permits has been from the deeper Birkhead formation. The first Namur formation oil discoveries in these permits were made in FY15, with the Martlet-1 and Martlet North-1 wells. These discoveries confirmed a further extension to the north-east of the Namur formation oil fairway of ex-PELs 92 and 91.

(A) FY15 activities:

- Oil production was 0.7 mmbbls (net), with average daily net production of 1,801 bopd.
- Exploration successes at Martlet-1 and Martlet North-1.

(B) FY16 planned activities:

- Up to four wells planned.

(iv) Ex-PEL 106 (Beach 50% and operator, Drillsearch 50%)

Ex-PEL 106 is operated by Beach with five fields discovered to date. Production from the permit area yields both natural gas and associated gas liquids (LPG and condensates). The revenue from sales gas production is augmented by the sale of the co-produced gas liquids resulting in a higher value for the production relative to an equivalent dry gas area. In addition to production licences, PRLs 129 to 130 were granted over the ex-PEL 106 area by the South Australian Government, securing tenure over this permit area.

(A) FY15 activities:

- Net production for the year included sales gas of 1.4 PJ, LPG of 5.7 kt and condensate of 41.1 kbbbl with an average total daily net production of 3.8 TJ of sales gas, 15.7 t of LPG and 112.7 bbl of condensate.
- Five well exploration and appraisal campaign, with two wells successfully cased and suspended.

(B) FY16 planned activities:

- Two exploration wells.
- Three existing wells to be brought online.
- Compression project at the Middleton facility.

(c) Cooper and Eromanga Basins unconventional

- (i) Ex-PEL 218 (Beach 100% and operator) in South Australia and ATP 855 (Beach 64.9% and operator, Icon Energy Limited 35.1%) in Queensland

Ex-PEL 218 and ATP 855 are adjacent to ATP 940 operated by Drillsearch (refer to Section 3.3(c) (*Unconventional Business*)).

Beach acquired its interest through the acquisition of Adelaide Energy in late 2011. The Nappamerri Trough, centrally located in the Cooper Basin, has been identified by Beach as containing an extensive gas resource in its Permian sediments. Beach has drilled 18 wells to date, 16 of which have been fracture stimulated. A forward work program for the permits has been prepared as the basis for a potential farm-down process. PRLs 33 to 49 were granted over ex-PEL 218 in FY14 by the South Australian Government, securing tenure over this permit area.

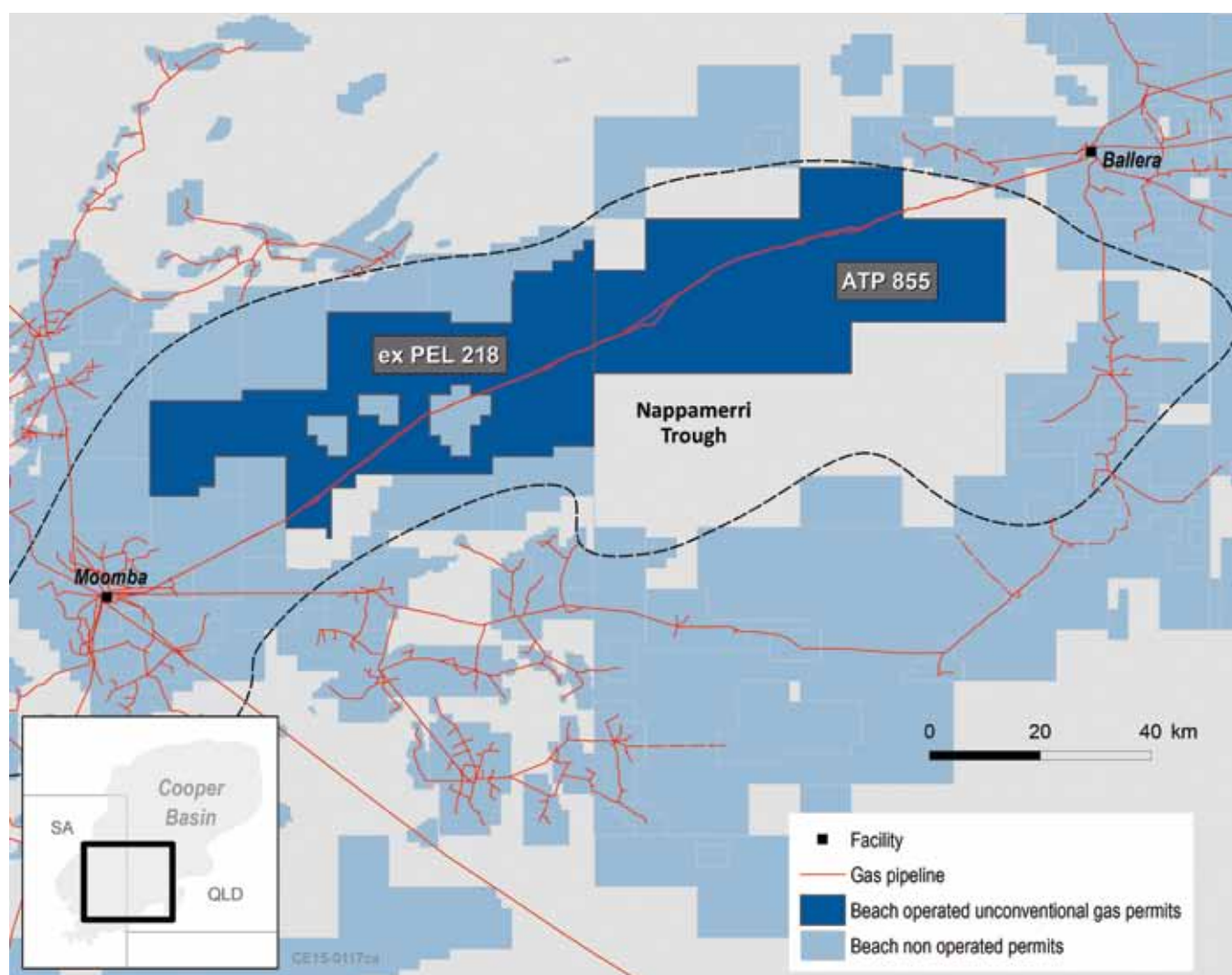
(A) FY15 activities:

- Four wells in ATP 855 and one well in PRL 37 were fracture stimulated, which marked the end of the Stage 1 exploration work programs in both permits.
- Following completion of Stage 1, joint venture partner Chevron advised it would not participate in Stage 2 of the work program, with its equity interests returned to Beach for nil consideration.

(B) FY16 planned activities:

- Farm-down process to commence.

Figure 21: Beach's interests in the Nappamerri Trough



(ii) SACB JVs

A three-well unconventional exploration drilling campaign was undertaken in the Gaschnitz Field, with all wells cased and suspended following the intersection of gas saturated low permeability sandstones.

(iii) PEL 94 (Beach 50% and operator, Strike Energy 35%, Senex 15%) and PEL 95 (Beach 50% and operator, Strike Energy 50%)

A well test program is expected in FY16 to test the potential for gas production from deep coals in the south of the Cooper Basin.

(d) Cooper and Eromanga Basins (other)

(i) ATP 924 (Beach farming-in to 45%, Drillsearch 55%⁵⁰ and operator)

Beach is farming-in to ATP 924 to potentially earn a 45% interest on the Northern Flank of the Cooper Basin. The farm-in will occur over two stages, the first involving Beach funding approximately

150km² of 3D seismic activities and drilling an initial exploration well. Should Beach elect to continue, it will drill a further exploration well and reimburse Drillsearch for past costs to earn its 45% interest. Drillsearch will remain operator of the permit.

(A) FY16 planned activities:

- Maroochydhore-1 exploration well was drilled in October 2015. The well encountered oil shows in the Hutton and Namur sandstones. Interpretation of wireline logs indicate that the Hutton primary target was water saturated and the well was subsequently plugged and abandoned.

(ii) ATP 732 (Beach farming-in to 50%, Bengal Energy (Australia) Pty Ltd 50% and operator)

Beach is farming-in to ATP 732 through the acquisition of the Nassarius 3D seismic and the drilling of two wells. An initial well drilled from pre-existing 50km² Bellalie Creek 3D seismic data was plugged and abandoned in FY14, and a second well is planned to be drilled toward the end of FY16 incorporating interpretation of the Nassarius 3D seismic data.

(iii) PL 184 (Beach 80.4% and operator, Australian Gas Fields Limited 19.6%)

Located on the Eastern Flank of the Cooper Basin, Beach drilled Thylungra-2 in Q2 FY16. The well was cased and suspended as a future gas producer

50 Drillsearch interest net of Beach farm-in interests.

Figure 22: Interests in permits targeting Deep Coals

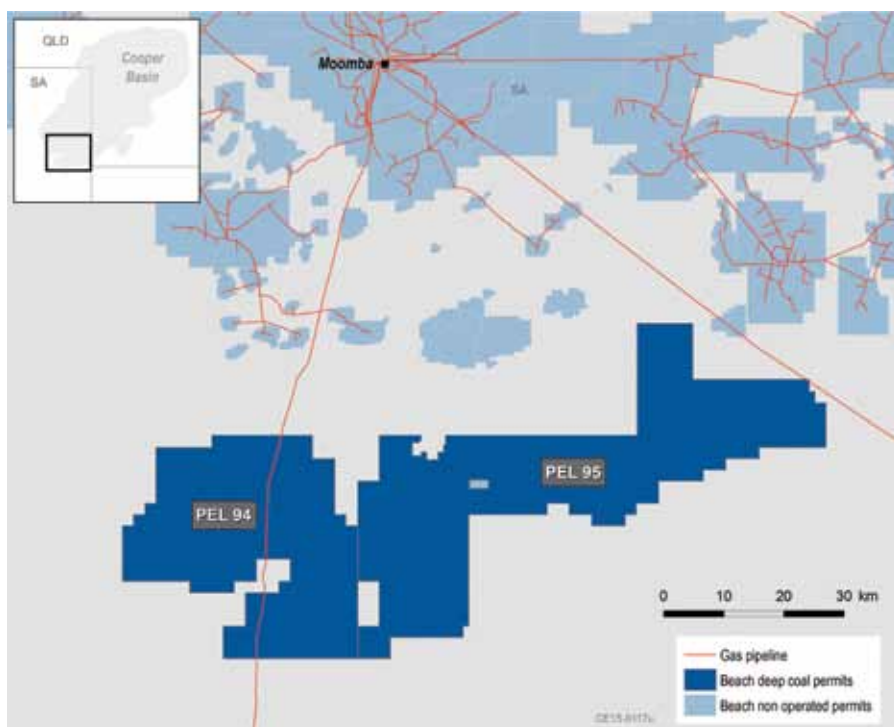
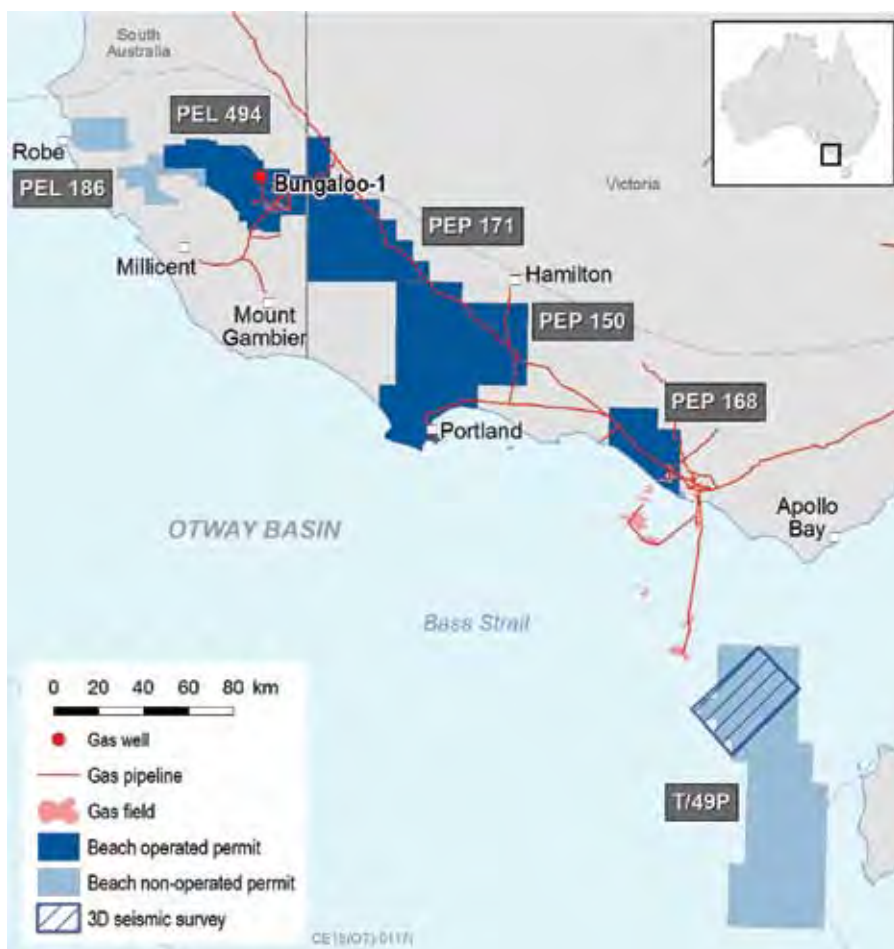


Figure 23: Beach's interests in the Otway Basin



- (iv) Queensland producing assets – PL 31, 32 and 47 (Beach 93% to 100% and operator)

Located on the Eastern Flank of the Cooper Basin, Beach has a 100% interest in the Kenmore, Bodalla and Blackstump oil fields (in PL 31, 32 and 47) and a 93% interest in ATP 269. FY15 oil production was 0.2 mmbbls (net), with average daily net oil production of 482 bopd.

(e) Other Australia

- (i) Otway Basin (Various interests)

The Otway Basin is located in the south east of South Australia and western Victoria, both onshore and offshore.

Beach has various interests in onshore and offshore exploration permits, retention licences and production licences, together with the Katnook gas facility which remains on manned care and maintenance.

(A) FY16 planned activities:

- Interpretation of 2D Ostrea seismic data.
- Seek partner for forward exploration program.

- (ii) Beach has farmed-in to T/49P (Beach 30%, 3D Oil Limited 70% and operator), which is located offshore in a lightly explored area adjacent to the large Geographe and Thylacine gas fields.

(A) FY15 activities:

- Acquisition of 974km² Flanagan 3D seismic survey over several prospects in the northern portion of the permit.
- 3D seismic data processed.

(B) FY16 planned activities:

- Interpretation of 3D seismic data.

- (iii) Gippsland Basin (Beach 35%, Cooper Energy 65% and operator)

The Basker/Manta/Gummy gas and liquids fields are located offshore in water depths of 150 – 350 metres. Previously developed for oil production (which included gas production and re-injection), they have been in a non-productive phase since 2010. In July 2015, the operator completed a business case to appraise and develop the Manta gas resource. Ongoing activities, including the Manta gas field development concept shown in Figure 24 below, are subject to further review and joint venture approval.

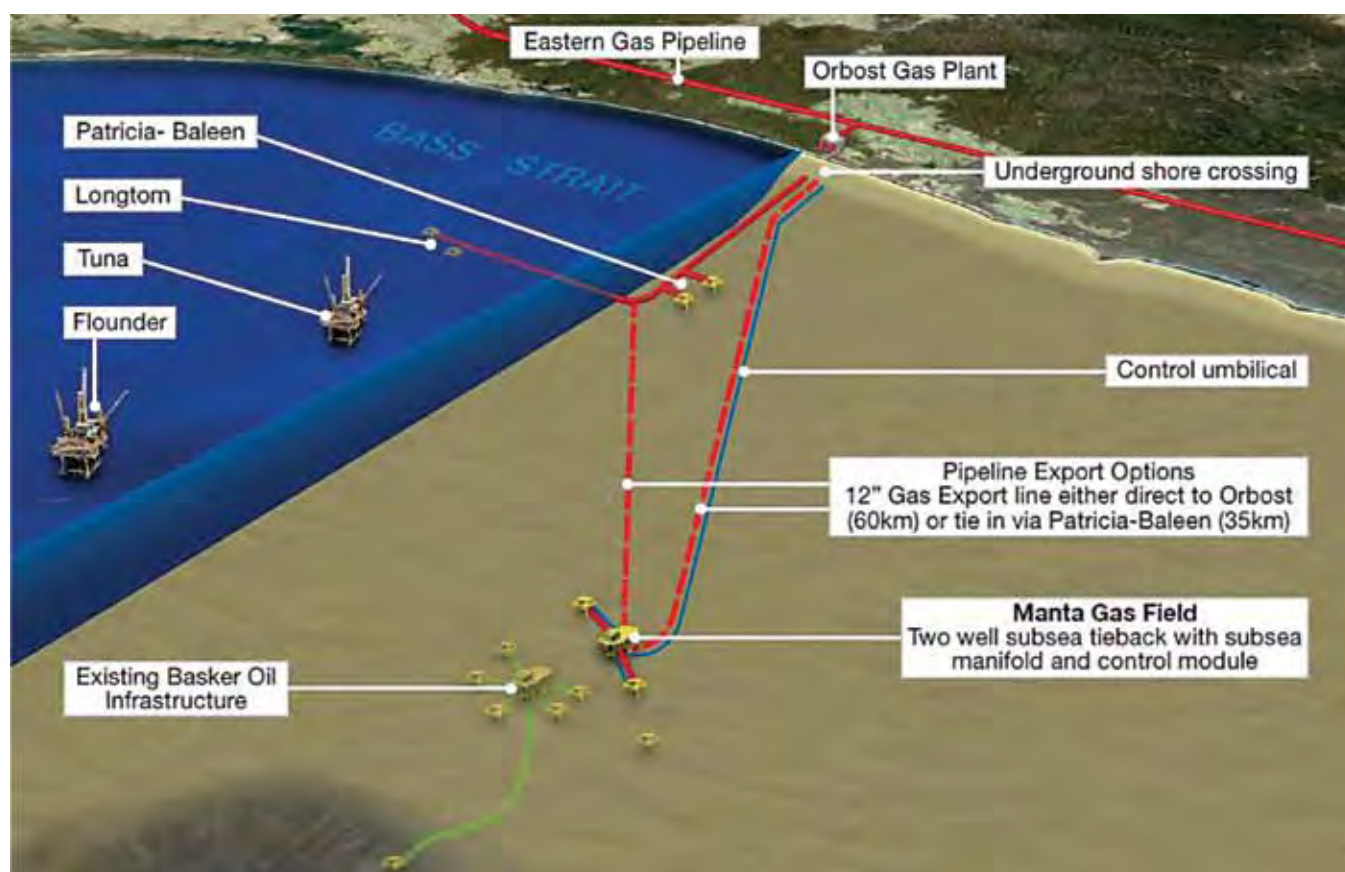
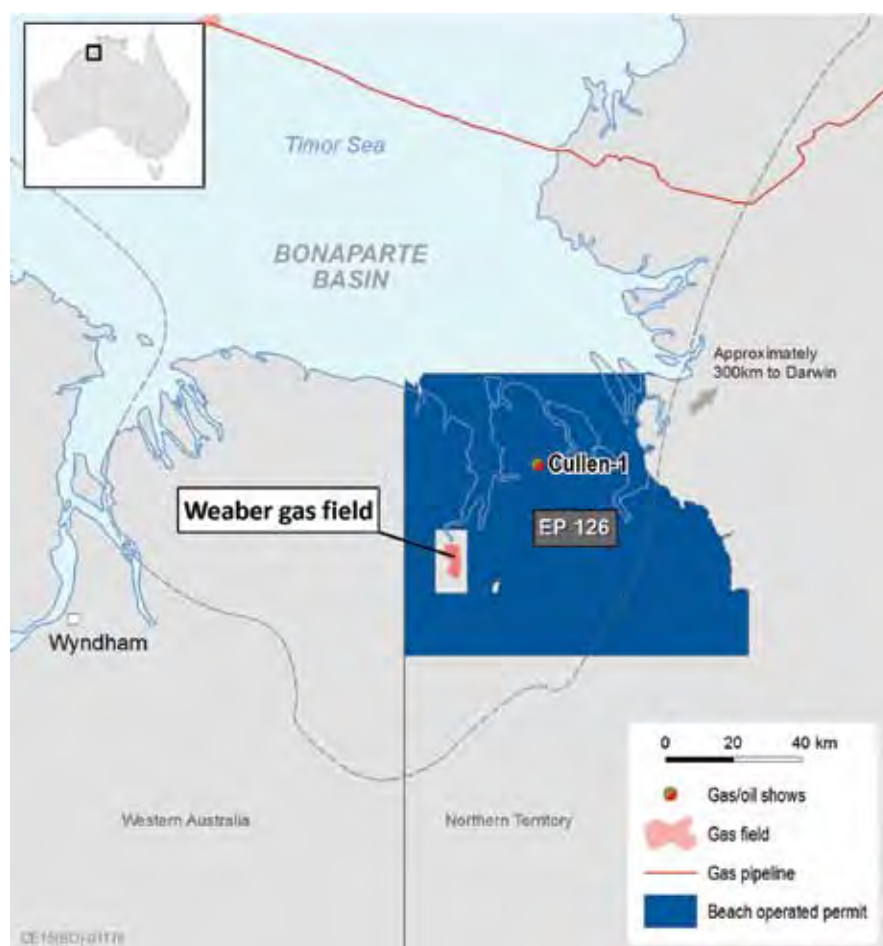
Figure 24: Manta gas field development concept⁵¹

Figure 25: Beach's interests in the Bonaparte Basin



(iv) Bonaparte Basin EP 126 (Beach 100% and operator)

Exploration permit 126 is prospective for conventional and unconventional hydrocarbon targets.

During 2014, Beach drilled the Cullen-1 well and intersected approximately 1,000 metres of limestone and interbedded shale, with evidence of natural fractures and elevated mud gas readings.

A farm-down process commenced in early FY16 to identify a partner for further activities.

(f) International

(i) New Zealand

Beach has interests in three exploration permits in New Zealand:

- PEP 52181 (Beach 25%, NZOG Energy Limited 35% and operator, TAG Oil Limited 40%) is located offshore in the Taranaki basin. The permit has oil, gas and liquids potential in the Kaheru prospect which is covered by 3D seismic.
- PEP 57080 (Beach 50%, Todd Energy Limited 50% and operator) is located offshore in the Taranaki basin.

51 Source: Cooper Energy ASX Release dated 16 July 2015.

- PEP 52717 (Beach 50%, NZOG Devon Limited 50% and operator) is located offshore in New Zealand's Canterbury Basin. The permit contains the Barque prospect which is targeting large wet gas structures in 800 metres of water. 3D seismic survey data was recently acquired and is currently being processed.
- (ii) Tanzania (Beach 100% and operator)
The Lake Tanganyika South block covers the southern portion of the lake on the Tanzanian side of the border. In FY15, Beach completed the acquisition of additional marine 2D seismic data and new onshore to offshore transition zone 2D seismic data. The processing and interpretation of this data is expected to verify targets for both land-based and marine drilling campaigns.
A farm-down process is underway to secure a joint venture partner for Beach's Tanzanian interest.

(iii) Egypt

Beach has interests in three Egyptian concessions:

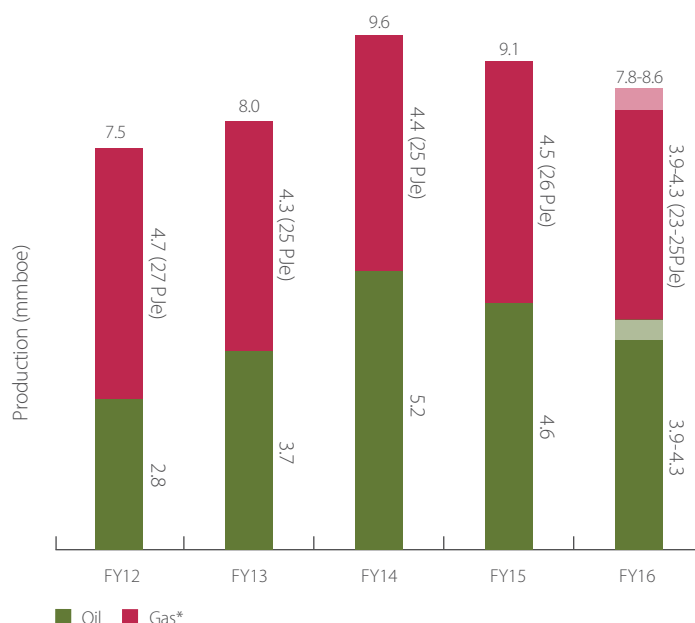
- Abu Sennan Concession (Beach 22%, Kuwait Energy Egypt Limited 50% and operator, Dover Investments Limited 28%).
- North Shadwan Concession (Beach 20%, BP (Exploration) Delta Limited 50% and operator, Tri-Ocean Energy Company 30%).
- El Qa'a Plain Concession (Beach 25%, Petroceltic International plc 37.5%, Dana Petroleum plc 37.5% and operator).

Beach's FY15 Egyptian production (net entitlement) was 152 kboe, with 2P reserves (net entitlement) at 30 June 2015 of 226 kboe (gas) and 2.9 mmbbls (oil). As described in Section 4.10(d)(iii) (*International – Sale of Beach Egypt*), Beach has entered into arrangements that may result in the divestment of these interests.

4.4 PRODUCTION AND GUIDANCE⁵²

Beach produced 9.1 mmboe in FY15, which comprised approximately 4.6 mmbbls of oil and 4.5 mmboe gas and gas liquids. Beach's production guidance range for FY16 is 7.8 to 8.6 mmboe, as illustrated in Figure 26.

Figure 26: Historical oil and gas production and guidance⁵³ for FY16 (mmboe)



Note: Gas volumes in Figure 26 include associated gas liquids

4.5 CAPITAL EXPENDITURE GUIDANCE⁵¹

Beach's capital expenditure guidance range for FY16 is \$240 to \$270 million, with up to 62 wells to be drilled. As outlined below, the majority of this capital expenditure is associated with Beach's assets in the Cooper and Eromanga Basins.

Figure 27: FY16 capital expenditure guidance⁵¹

	CAPITAL EXPENDITURE (\$ MILLION)	EXPECTED WELLS
DEVELOPMENT		
C&E Basins	45 – 50	7 – 8
C&E Basins (SACB JVs and SWQ JVs)	145 – 160	28 – 30
Total Development	190 – 210	Up to 38
EXPLORATION		
C&E Basins	30 – 35	10 – 12
C&E Basins (SACB JVs and SWQ JVs)	5 – 10	5 – 10
Other Australia	5	2 ¹
Unconventional	5	–
International ²	5	–
Total Exploration	50 – 60	Up to 24
TOTAL	240 – 270	Up to 62

1. Otway conventional wells and Bonaparte well test both subject to farm-down

2. No capital expenditure is expected in relation to Beach's Egyptian concession interests

52 See the "Disclaimer and Important Notices" on page IFC for more information on Beach's Reserves and Contingent Resources.

53 See the "Disclaimer and Important Notices" on page IFC for more information on forward-looking statements.

4.6 RESERVES AND RESOURCES

Beach's 2P reserves as at 30 June 2015 were 74.4 mmboe, which represents an 11.1 mmboe reduction from the prior year. The reduction is primarily due to production of 9.1 mmboe and a downward revision to Delhi reserves following internal assessment and external review, partly offset by an increase in Bauer Field reserves from development drilling.

An increase in 2C resources was booked following evaluation of well results from the four-well fracture stimulation and flow testing campaign undertaken in ATP 855. DeGolyer & MacNaughton assigned contingent resources to the areas around Etty-1, Hervey-1, Redland-1 and Geoffrey-1. A further increase in 2C resources was made when joint venture partner Chevron exited the NTNG project. 2C resources associated with Chevron's equity interests were recognised by the company.

Further information in relation to reserves and resources is detailed in the Beach Annual R&CR Statement. Beach is not aware of any new information or data that materially affects the information included in the Beach Annual R&CR Statement and all material assumptions and technical parameters underpinning the estimates continue to apply and have not materially changed. No new information has subsequently come to hand which would materially alter these estimates or underlying assumptions.

Figure 28: Beach net Proved and Probable Reserves reconciliation by area of interest as at 30 June 2015

2P RESERVES (NET)	NOTE	OIL EQUIVALENT (MMBOE)				OIL (MMBBL)	GAS LIQUIDS (MMBOE)	GAS (PJ)
		FY14	PRODUCTION	REVISIONS	FY15			
Ex-PEL 91	1	5.4	(1.6)	2.0	5.8	5.8	–	–
Ex-PEL 92	2	2.9	(1.1)	0.7	2.5	2.5	–	–
Ex-PEL 111	3	0.2	(0.1)	0.1	0.2	0.2	–	–
Ex-PEL 104	4	1.0	(0.5)	0.7	1.2	1.2	–	–
BPT Qld	5	0.5	(0.2)	0.1	0.4	0.4	–	–
Ex-PEL 106	6	2.0	(0.3)	0.5	2.2	–	0.6	9.1
Delhi	7	71.9	(5.1)	(7.9)	58.9	6.3	7.9	260.1
Cooper and Eromanga Basins		83.9	(9.0)	(3.6)	71.3	16.5	8.5	269.2
Egypt	8	1.7	(0.1)	1.6	3.1	2.9	–	1.3
Total		85.6	(9.1)	(2.0)	74.4	19.4	8.5	270.5

1. Beach equity interest: 40%; production retention licences (PRL) 151 to 172 granted; probabilistic methodology applied, except for Chiton Field (deterministic methodology applied)
2. Beach equity interest: 75%; PRL 85 to 104 granted; deterministic methodology applied, except for Rincon Field (probabilistic methodology applied)
3. Beach equity interest: 40%; PRL 142 to 150 granted; deterministic methodology applied
4. Beach equity interest: 40%; PRL 136 to 141 granted; deterministic methodology applied
5. Beach equity interest: 100%; deterministic methodology applied
6. Beach equity interest: 50%; PRL 129 and 130 granted; deterministic methodology applied
7. Beach equity interest: SACB JVs – 20.21% and SWQ JVs – 20-40%; deterministic methodology applied
8. Beach equity interest: 22%; probabilistic methodology applied; as described in Section 4.10(d)(iii), Beach has entered into arrangements that may result in the divestment of its interests in the Abu Sennan Concession, which accounted for over 85% of Beach's total Egyptian production and 2P reserves for FY15
9. Conversion factors: Sales gas (methane) and ethane are converted at 171.94 boe/TJ, LPG is converted at 8.458 boe/tonne and condensate is converted at 0.935 boe/bbl

Figure 29: Beach net Reserves categorisation as at 30 June 2015

RESERVES AS AT 30 JUNE 2015	DEVELOPED (MMBOE)			UNDEVELOPED (MMBOE)			TOTAL (MMBOE)		
	1P	2P	3P	1P	2P	3P	1P	2P	3P
Beach operated¹									
Oil	5.2	10.2	19.0	–	–	–	5.2	10.2	19.0
Gas / gas liquids	0.3	0.7	1.0	1.1	1.5	1.9	1.5	2.2	2.9
Total	5.6	10.9	20.0	1.1	1.5	1.9	6.7	12.4	21.9
SACB JVs and SWQ JVS									
Oil	1.1	3.9	8.9	0.6	2.4	6.7	1.7	6.3	15.6
Gas / gas liquids	13.9	34.4	62.8	8.9	18.3	39.5	22.9	52.6	102.2
Total	15.0	38.3	71.7	9.5	20.6	46.1	24.5	58.9	117.9
Egypt²									
North Shadwan	0.1	0.1	0.2	0.2	0.3	0.6	0.3	0.4	0.8
Abu Sennan	0.1	0.3	0.6	0.8	2.3	3.6	0.9	2.7	4.2
Total	0.2	0.5	0.8	0.9	2.7	4.2	1.2	3.1	5.0
Total reserves	20.8	49.6	92.6	11.6	24.7	52.2	32.4	74.4	144.8

1. Includes fields operated by Senex

2. As described in Section 4.10(d)(iii), Beach has entered into arrangements that may result in the divestment of its interests in the Abu Sennan Concession

Figure 30: Beach net Contingent Resources (2C) as at 30 June 2015

CONTINGENT RESOURCES AS AT 30 JUNE 2015	OIL (MMBBLs)	GAS LIQUIDS (MMBOE)	GAS (PJ)	FY15 (MMBOE)	FY14 (MMBOE)
Beach operated conventional ¹	1.8	0.7	15.5	5.1	4.8
Delhi conventional	7.8	5.3	266.4	58.9	86.4
Total C&E basins conventional	9.6	6.0	282.0	64.1	91.2
Egypt ²	0.5	–	0.3	0.6	1.1
Gippsland / Carnarvon	2.7	0.1	44.6	10.5	10.9
Otway	–	0.1	4.8	0.9	0.9
Browse	–	1.7	60.2	12.0	–
Total conventional	12.9	7.8	391.9	88.0	104.1
Beach unconventional	–	–	2878.6	494.9	276.5
Delhi unconventional	–	6.8	504.7	93.6	85.9
Total C&E basins unconventional	–	6.8	3,383.3	588.6	362.4
Total resources	12.9	14.6	3,775.2	676.6	466.5

1. Includes fields operated by Senex

2. As described in Section 4.10(d)(iii), Beach has entered into arrangements that may result in the divestment of its interests in the Abu Sennan Concession

Drillsearch and Beach prepare independent estimates of Reserves and Contingent Resources for their respective interests in the ex-PEL 91 joint venture and the ex-PEL 106 joint venture. Refer to Section 5.1(d) (Reserves and Contingent Resources position) for information regarding the Reserves and Contingent Resources position of the Merged Group.

4.7 BEACH BOARD AND SENIOR MANAGEMENT

(a) Beach Board

As at the date of this Scheme Booklet, the Beach Board comprises of:

NAME	POSITION AND PROFILE
Glenn Stuart Davis	<p>Independent Non-Executive Chairman <i>LLB, BEC, FAICD</i></p> <p>Mr Davis is a solicitor and principal of DMAW Lawyers, a firm he founded. He joined Beach in July 2007 as a non-executive director and was appointed non-executive deputy chairman in June 2009. Mr Davis brings to the Beach Board his expertise and experience in the execution of large legal and commercial transactions and corporate activity regulated by the Corporations Act and the ASX.</p> <p>Mr Davis was appointed independent non-executive chairman on 23 November 2012.</p> <p>Mr Davis is a director of ASX-listed company Monax Mining Limited (since 2004) and a former director of Marmota Energy Limited (from 2007 to June 2015).</p> <p>Mr Davis's special responsibilities include membership of the Risk Committee and Remuneration and Nomination Committee.</p>
John Charles Butler	<p>Lead Independent Non-Executive Director <i>FCPA, FAICD, FIFS</i></p> <p>Mr Butler joined the Beach Board in June 1999 as a non-executive director, having been previously the alternate director to Reg Nelson from 1994-1998.</p> <p>Mr Butler's special responsibilities include chairmanship of the Audit Committee and membership of the Risk Committee and Corporate Governance Committee.</p> <p>Mr Butler was appointed lead independent non-executive director on 1 July 2014.</p>
Colin David Beckett	<p>Independent Non-Executive Director <i>FIEA, MICE, GAICD</i></p> <p>Mr Beckett joined the Beach Board in 2015 and brings experience in engineering design, project management, commercial negotiations and gas marketing. Mr Beckett previously held senior executive positions at Chevron Australia Pty Ltd, most recently as the General Manager responsible for the development of the Gorgon LNG and domestic gas project. Mr Beckett is currently the Chancellor of Curtin University, Chairman of Perth Airport Pty Ltd, Chairman of Western Power and a past Chairman and board member of APPEA.</p> <p>Mr Beckett's special responsibilities include membership of the Risk Committee and Corporate Governance Committee.</p>
Fiona Rosalyn Vivienne Bennett	<p>Independent Non-Executive Director <i>BA (Hons), FCA, FAICD, FAIM</i></p> <p>Ms Bennett joined the Beach Board in November 2012. Ms Bennett is a chartered accountant with over 30 years' experience in business and financial management, corporate governance, risk management and audit.</p> <p>Ms Bennett is currently a director of Hills Holdings Limited (since 2010) and a former director of Boom Logistics Limited (from 2010 to June 2015).</p> <p>Her special responsibilities include chairmanship of the Risk Committee, membership of the Audit Committee and Remuneration and Nomination Committee.</p>
Robert James Cole	<p>Independent Non-Executive Director <i>BSc, LLB (Hons)</i></p> <p>Mr Cole joined the Beach Board as managing director in March 2015 and resigned from his role effective 14 October 2015. He has continued as a non-executive director of the Beach Board. Prior to joining Beach, he held the position of executive director and executive vice president corporate and commercial at Woodside. In 2012 he was appointed to the board of Woodside becoming one of two executive directors on the board.</p>
Belinda Charlotte Robinson	<p>Independent Non-Executive Director <i>BA, MEnv Law, GAICD</i></p> <p>Ms Robinson joined the Beach Board in May 2011. She is the chief executive and executive director of Universities Australia and was chief executive of the oil and gas industry's peak body, the Australian Petroleum Production & Exploration Association for six and a half years. Ms Robinson's special responsibilities include chairmanship of the Remuneration and Nomination Committee and membership of the Risk Committee.</p>

NAME	POSITION AND PROFILE
Douglas Arthur Schwebel	<p><i>Independent Non-Executive Director</i></p> <p><i>PhD, B. Sc (Hons) – Geology</i></p> <p>Dr Schwebel joined the Beach Board in November 2012. Dr Schwebel has over 30 years' experience in the resources sector, having held various senior executive positions with ExxonMobil, including exploration director for its Australian upstream subsidiaries. He is currently a director of Tap Oil Limited (since 2012).</p> <p>Dr Schwebel's special responsibilities include chairmanship of the Corporate Governance Committee, membership of the Risk Committee, Audit Committee and he is an ex-officio member of the Reserves Committee.</p>

(b) Beach senior management

As at the date of this Scheme Booklet, the key members of Beach's senior management team include:

NAME	POSITION AND PROFILE
Neil Gibbins	<p><i>Acting Chief Executive Officer</i></p> <p><i>BSc (Hons) Geophysics</i></p> <p>Mr Gibbins was appointed Acting CEO on 19 August 2015. Mr Gibbins has been the Chief Operating Officer since 2010, managing Beach's exploration, development and production programs and budgets for Australian and international assets. Mr Gibbins joined Beach in 1997, initially in the role of chief geophysicist.</p>
Michael Dodd	<p><i>Acting Chief Operating Officer</i></p> <p><i>BSc (Hons) Geology</i></p> <p>Mr Dodd was appointed Acting Chief Operating Officer on 16 September 2015. Mr Dodd has been the General Manager Exploration and Development since July 2014, managing Beach's exploration and development programs and budgets for Australia. Mr Dodd joined Beach in 2007, initially in the role of Senior Geologist.</p>
Cathy Oster	<p><i>General Counsel and Joint Company Secretary</i></p> <p><i>BA (Jurisprudence), LLM (Corporate and Commercial), FGIA, FCIS</i></p> <p>Ms Oster was appointed Joint Company Secretary in 2005 and General Counsel in 2012. She has more than 25 years' experience as a lawyer and a partner in private practice, advising on corporate and commercial transactions. Ms Oster is a qualified chartered secretary, a member of the Governance Institute of Australia, the Law Society of South Australia, the Australian Institute of Company Directors and the Australian Corporate Lawyers Association. She also serves on the SA and NT State Council of the Governance Institute of Australia.</p> <p>Ms Oster has responsibility for providing governance and legal advice to Beach, Beach's risk management framework, sustainability, investor relations, government relations, public relations and sponsorships.</p>
Kathryn Presser	<p><i>Chief Financial Officer and Joint Company Secretary</i></p> <p><i>BA (Accounting), Grad Dip CSP, FAICD, FCPA, FGIA, FCIS, AFAIM</i></p> <p>Ms Presser joined Beach in 1997 and was appointed to the role of Joint Company Secretary in 1998. Appointed as the Chief Financial Officer in 2005, Ms Presser has over 25 years' specific expertise in corporate financial and strategic accounting roles and is a qualified chartered secretary. She is a fellow of the Governance Institute of Australia, CPA Australia, AIM – Australia and the Institute of Company Directors. She recently served on the SA and NT State Council of the Governance Institute of Australia, is a member of the Petroleum Society of Australia and also serves on other not-for-profit boards.</p> <p>In her role as Chief Financial Officer, Ms Presser has executive responsibility for all of Beach's Financial Accountability and reporting including Treasury, Budgeting and Planning, Contracts and Procurement, Employee Relations and Training, IT and Corporate Services.</p>

NAME	POSITION AND PROFILE
Rod Rayner	<p><i>Group Executive Commercial</i></p> <p><i>BSc (Hons) Geology, GAICD</i></p> <p>Mr Rayner joined Beach in 2011 and held the role of Group Executive Strategic Business and External Affairs before being appointed to his current role in 2014. Mr Rayner has over 30 years' commercial, business development and management experience in the Australian oil and gas industry with executive roles in Santos and AGL including as General Manager of Santos' Queensland and Northern Territory business unit.</p>
Matthew Squire	<p><i>Group Executive Corporate Development and Strategy</i></p> <p><i>BE (Hons) Mechanical, BA (Economics), Grad Dip App Finance and Investment</i></p> <p>Mr Squire joined Beach in 2012 and was appointed to the role of Group Executive Corporate Development and Strategy in 2014. Mr Squire has over 15 years' experience in the energy industry and previously held a number of commercial and business development positions at BG Group, Santos and Origin.</p> <p>He has been involved in the development of large integrated gas businesses and has led the evaluation and execution of several major investments in the energy sector.</p> <p>As Group Executive Corporate Development and Strategy, Mr Squire has responsibility for corporate transactions, new ventures, other growth opportunities and strategy.</p>

4.8 RECENT SHARE PRICE PERFORMANCE

Outlined in the chart below is Beach's trading price performance since 30 June 2014 relative to the performance of the S&P/ASX 200 Energy Index (ticker: XEJ.ASX):

As at 10 December 2015, being the last practicable date prior to finalisation of this Scheme Booklet:

- the last recorded trading price of Beach Shares was \$0.43; and
- the lowest and highest close prices of Beach Shares during the three months ending 10 December 2015 were \$0.43 and \$0.685 respectively.

As at 22 October 2015, being the trading day before the Merger was announced, the last recorded trading price of Beach Shares was \$0.665.

Figure 31: Beach share price performance since 30 June 2014⁵⁴



4.9 SUBSTANTIAL SHAREHOLDERS

Based on substantial holding notices lodged with the ASX as at 15 December 2015, the following persons have substantial holdings of Beach Shares:

SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED SHARES
Seven Group Holdings Limited	258,729,753	19.90 ⁵⁵
Ellerston Capital Limited	137,964,525	10.61 ⁵⁶
Norges Bank (The Central Bank of Norway)	69,461,416	5.33 ^{56A}

4.10 FINANCIAL INFORMATION

(a) Basis of presentation of historical financial information

The historical information below relates to Beach on a stand-alone basis and accordingly does not reflect any impact of the Merger. It is a summary only and the full financial accounts for the financial periods described below, which include the notes to the accounts, can be found in Beach's financial reports for those periods.

Beach's 2014 and 2015 Annual Reports were lodged with the ASX on 24 October 2014 and 23 October 2015 respectively.

(b) Historical financial information

The summarised historical financial information of Beach set out below has been extracted from Beach's FY15 Annual Report, being the last financial statements issued by Beach before the date of this Scheme Booklet.

The financial information has been prepared in accordance with the recognition and measurement requirements of the AAS adopted by the AASB and the Corporations Act.

The financial information presented in the tables below does not represent complete financial statements and should therefore be read in conjunction with the financial

statements for the respective periods, including the description of accounting policies contained in those financial statements and the notes to those financial statements.

Drillsearch Shareholders may view complete copies of the audited consolidated financial statements for Beach for the years ending 30 June 2015 and 30 June 2014 on the ASX website at www.asx.com.au or at the "Investor Centre" section of the Beach website at www.beachenergy.com.au.⁵⁷

⁵⁵ As disclosed to ASX by Seven Group Holdings Limited in its most recent substantial shareholding notice dated 19 May 2015.

⁵⁶ As disclosed to ASX by Ellerston Capital Limited in its most recent substantial shareholding notice dated 10 July 2015.

^{56A} As disclosed to ASX by Norges Bank in its most recent substantial shareholding notice dated 14 December 2015.

⁵⁷ Refer to the "Disclaimer and Important Notices" section on page 1 for information regarding references to internet sites in this Scheme Booklet.

(i) Statement of financial position

AS AT 30 JUNE	2014 \$ MILLION	2015 \$ MILLION
Current assets		
Cash and cash equivalents	411.3	170.2
Receivables	126.9	125.4
Inventories	91.8	114.6
Derivative financial instruments	–	1.1
Other	7.9	8.1
Assets held for sale	–	22.2
Total current assets	637.9	441.6
Non-current assets		
Available-for-sale financial assets	70.3	46.1
Property, plant and equipment	440.7	448.1
Petroleum assets	872.1	588.2
Exploration and evaluation assets	541.7	305.3
Derivative financial instruments	–	0.2
Other financial assets	28.0	6.9
Total non-current assets	1,952.8	1,394.8
Total assets	2,590.7	1,836.4
Current liabilities		
Payables	160.0	128.5
Employee entitlements	7.7	8.5
Provisions	11.6	5.3
Current tax liabilities	65.4	6.6
Borrowings	143.0	–
Derivative financial instruments	13.3	–
Liabilities held for sale	–	2.2
Total current liabilities	401.0	151.1
Non-current liabilities		
Payables	–	4.0
Employee entitlements	0.8	0.9
Provisions	131.0	150.2
Deferred tax liabilities	187.1	26.9
Borrowings	–	148.5
Total non-current liabilities	318.9	330.5
Total liabilities	719.9	481.6
Net assets	1,870.8	1,354.8
Equity		
Contributed equity	1,239.9	1,250.1
Reserves	58.3	273.4
Retained earnings / (accumulated losses)	572.6	(168.7)
Total equity	1,870.8	1,354.8

(ii) Statement of Profit or Loss and other comprehensive income

FOR THE FINANCIAL YEAR ENDED 30 JUNE	2014 \$ MILLION	2015 \$ MILLION
Sales revenue	1,052.1	727.7
Cost of sales	(639.9)	(562.5)
Gross profit	412.2	165.2
Other revenue	5.6	7.8
Other income	19.5	6.7
Other expenses	(207.8)	(828.1)
Operating profit/(loss) before financing costs	229.5	(648.4)
Interest income	13.8	8.5
Finance expenses	(40.9)	(15.1)
Profit/(loss) before income tax expense	202.4	(655.0)
Income tax (expense)/benefit	(100.6)	140.9
Net profit/(loss) after tax	101.8	(514.1)
<i>Basic earnings per share (cents per share)</i>	<i>7.95¢</i>	<i>(39.64¢)</i>
<i>Diluted earnings per share (cents per share)</i>	<i>7.79¢</i>	<i>(39.64¢)</i>
Other comprehensive income/(loss):		
<i>Items that may be reclassified to profit or loss</i>		
Net change in fair value of available-for-sale financial assets	17.7	(24.2)
Net (loss)/gain on translation of foreign operations	(5.9)	45.2
Tax effect relating to components of other comprehensive income	(4.8)	3.7
Other comprehensive income, net of tax	7.0	24.7
Total comprehensive income/(loss) after tax	108.8	(489.4)

(iii) Statement of cash flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE	2014 \$ MILLION	2015 \$ MILLION
Cash flows from operating activities		
Receipts from oil and gas operations	1,080.4	720.2
Operating and personnel costs paid	(494.6)	(428.4)
Interest received	15.1	11.2
Other receipts	6.1	7.8
Financing costs	(8.7)	(7.8)
Derivative payments	(0.6)	–
Income tax refund	8.7	–
Income tax paid	(23.8)	(74.5)
Net cash provided by operating activities	582.6	228.5
Cash flows from investing activities		
Payments for property, plant and equipment	(98.3)	(90.2)
Payments for petroleum assets	(213.7)	(216.7)
Payments for exploration	(188.4)	(141.0)
Payments for restoration	(3.7)	(5.2)
Acquisition of exploration interests	(1.5)	(2.5)
Payments for investments	(10.6)	–
Proceeds from sale of joint venture interests	20.9	–
Proceeds from sale of non-current assets	3.7	0.4
Reimbursement of exploration expenditure	–	12.9
Net cash used in investing activities	(491.6)	(442.3)
Cash flows from financing activities		
Proceeds from exercise of options	3.8	–
Proceeds from drawdown of debt	–	150.0
Repayment of convertible notes	–	(150.0)
Repayment of Employee Incentive Loans	1.7	0.8
Dividends paid	(30.7)	(29.5)
Net cash used in financing activities	(25.2)	(28.7)
Net increase/(decrease) in cash held	65.8	(242.5)
Cash at beginning of financial year	347.6	411.3
Effects of exchange rate changes on the balances of cash held in foreign currencies	(2.1)	1.4
Cash at end of financial year	411.3	170.2

(c) Reconciliation of Non-IFRS accounting financial information

This Scheme Booklet refers to Beach underlying net profit/(loss) after tax which is non-IFRS accounting financial information.

Important information regarding non-IFRS accounting financial information is set out in the "Disclaimer and Important Notices" on page 1.

A reconciliation of underlying net profit/(loss) after tax to financial information prepared in accordance with IFRS is set out below.

Reconciliation of underlying net profit/(loss) after tax to statutory profit/(loss) after tax:

FOR THE FINANCIAL YEAR ENDED 30 JUNE	2014 \$ MILLION	2015 \$ MILLION
Net profit/(loss) after tax	101.8	(514.1)
Remove mark to market of convertible note derivative	14.3	(13.3)
Remove asset sales	(15.7)	–
Remove impairment of assets	162.2	789.1
Tax impact of above changes	(3.4)	(171.0)
Underlying net profit/(loss) after tax	259.2	90.7

(d) Matters arising subsequent to the end of the 2015 financial year

- (i) Cooper and Eromanga Basins – Commencement of gas delivery under long term sales agreement with Origin

On 1 July 2015, Beach announced that its long term gas sales agreement with Origin had been initiated for delivery of up to 139 PJ of sales gas over an initial eight year term. Key benefits to Beach from the agreement include oil-linked pricing with other parameters, and expected delivery of significant sales gas volumes, with a potential two year extension available to Origin (for total volumes of up to 173 PJ over a ten year period). It is expected that daily sales gas volumes supplied to Origin under this contract will increase over the course of FY16, while legacy contracts continue to be serviced. Initiation of this contract continues Beach's transition to separate lifting and marketing of its equity share of sales gas from the SACB JVs and SWQ JVs, and is consistent with its strategy to benefit from increasing gas demand from east coast markets.

- (ii) Bonaparte Basin

On 22 July 2015, Beach completed the acquisition of TOAG, which delivered to Beach TOAG's 45% interest in exploration permit 126 in the Northern Territory. Beach has a resulting 100% interest in the permit and is reviewing options for future activities. A farm-down process commenced in early FY16 to identify a suitable partner to fund further activities.

- (iii) International – Sale of Beach Egypt

On 10 August 2015, Beach announced it had entered into a binding agreement with Rockhopper in relation to the sale of its wholly owned subsidiary, Beach Egypt, whose core asset is a 22% interest in the Abu Sennan Concession in Egypt.

Completion was subject to satisfaction of certain conditions precedent, including waiver or non-exercise of pre-emptive rights held by existing joint venture parties in relation to the Abu Sennan Concession. Subsequent to announcement, Beach has received notice of the exercise of pre-emptive rights by one of the existing Abu Sennan Concession joint venture parties. As a result, the conditions precedent for the sale of Beach Egypt cannot be satisfied and the sale of Beach Egypt to Rockhopper will not proceed. The Abu Sennan Concession pre-emption period expires on 16 October 2015. At that time, the ultimate pre-empting party/parties will be confirmed. Completion of the sale of the interest in the Abu Sennan Concession under the pre-emption arrangements is subject to Egyptian government approvals. The acquiring party/parties will pay to Beach US\$20.4 million in cash for the interest in the Abu Sennan Concession (subject to adjustments).

- (iv) Cooper and Eromanga Basins – acquisition of 40% interest in ATP 1056

On 11 August 2015, Beach entered into an agreement to acquire a 40% participating interest in the ATP 1056 joint venture from AGL Cooper Basin Pty Ltd, a subsidiary of AGL. The agreement included a condition that Beach be appointed as operator of the joint venture. Completion was subject to satisfaction of certain other conditions precedent, including waiver or non-exercise of pre-emptive rights held by existing joint venture parties. Beach has been advised by AGL that pre-emptive rights have been exercised by certain of the existing joint venture parties. Completion of the assignment of AGL's participating interest to these existing joint venture parties is subject to certain conditions precedent. Should these conditions be satisfied, the agreement

with AGL for Beach to acquire the 40% participating interest in the ATP 1056 joint venture will be terminated.

- (v) Refinancing

Beach announced on 7 December 2015 that it had entered into a \$530 million senior secured syndicated corporate debt facility to replace its existing \$330 million facility. The availability of the new facility remains subject to customary conditions precedent, which are being progressed. Subject to satisfaction of these conditions, it is intended that the new facility be initially drawn to \$170 million to refinance current borrowings and letters of credit, with the undrawn amount being available for capital expenditure programs, working capital requirements and potential growth opportunities. Australia & New Zealand Banking Group Limited, Commonwealth Bank of Australia, National Australia Bank Limited and The Hong Kong and Shanghai Banking Corporation Limited are mandated lead arrangers and lenders under the facility and Australia & New Zealand Banking Group Limited and Commonwealth Bank of Australia are also bookrunners.

(e) Risk of Impairment

Accounting Standard – AASB 136 – Impairment of Assets requires that an entity shall assess at the end of each reporting period whether there is an indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. AASB 136 requires that an entity consider, inter alia, the carrying amount of the net assets being more than its market capitalisation to be an indicator of impairment.

In considering the recoverable amount of its oil and gas assets, Beach measures the value in use, using cash flow projections that are based on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful lives of the assets.

Beach's recoverable amount assessment performed for its annual financial statements

for the year ended 30 June 2015, incorporated the following oil price and exchange rate estimates, using Brent oil price assumptions which were determined by reference to consensus estimates:

- US\$62.50/bbl in FY16, US\$75/bbl in FY17, US\$85/bbl in FY18 and US\$90/bbl beyond FY18; and
- AUD/USD exchange rate of 0.80 assumed constant in all years.

Similar assumptions were used as part of the 31 December 2014 half-year recoverable amount assessment.

This resulted in the following impairment losses recognised in Beach's financial statements for the full year ending 30 June 2015:

NON-CASH IMPAIRMENT CHARGES (\$ MILLION)	BEFORE TAX			AFTER TAX		
	H1 FY15	H2 FY15	FY15	H1 FY15	H2 FY15	FY15
Cooper Basin interests	193	152	345	135	106	241
NTNG	–	238	238	–	167	167
Egyptian interests	–	174	174	–	174	174
Romanian interests	30	2	32	30	2	32
Total	223	566	789	165	449	614

Factors that Beach management consider in determining whether revisions to key assumptions underlying its cash flow projections are required, including:

- an extended or substantial decline in oil and/or gas prices or demand, or an expectation of such a decline;
- significant movements in A\$/US\$ exchange rates, specifically in relation to the relationship between the exchange rates and the oil and/or gas prices; and
- the consequential impact on the quantity of reserves and resources recognised in relation to its oil and gas assets.

Subsequent to 30 June 2015, there has been a significant reduction in the USD Brent oil price

to a six year low of approximately US \$42.49 per barrel as at 2 December 2015 with volatility continuing since that date⁵⁸.

At 30 June 2015, the carrying amount of the net assets of Beach was \$1.3 billion. At the date of the Scheme Booklet, the market capitalisation of Beach is materially lower than \$1.3 billion.

If the market capitalisation of Beach continues to be materially lower than the carrying amount of the net assets of Beach (when Beach prepares its half-year financial statements for the six month period ending 31 December 2015), Beach will estimate the recoverable amount of its oil and gas assets and consider whether an impairment loss is

required to reduce the carrying amount of its assets to the recoverable amount.

4.11 CAPITAL STRUCTURE

(a) Beach Shares

At the date of this Scheme Booklet, Beach has the following securities on issue:

- 1,302,877,977 Beach Shares quoted on the ASX; and
- 5,019,025 Beach Performance Rights;

(b) Beach Performance Rights

As at the date of this Scheme Booklet, the following Beach Performance Rights are on issue:

NUMBER OF BEACH PERFORMANCE RIGHTS	PERFORMANCE PERIOD	EXPIRY DATE	YEAR OF GRANT	EXECUTIVE INCENTIVE PLAN
731,462	01/12/13 – 30/11/16	30/11/18	2013	Beach LTI
77,580	01/07/14 – 30/06/16	01/07/16	2014 ⁵⁹	Beach STI
1,422,220	01/12/14 – 30/11/17	30/11/19	2014	Beach LTI
2,787,763	01/12/15 – 30/11/18	30/11/20	2015	Beach LTI
5,019,025				

⁵⁸ Brent Oil Price cited. Source: Bloomberg.

⁵⁹ This tranche of Beach Performance Rights was issued in 2014 for the 2013 Beach STI offer.

(c) Dividend History

The following dividends have been paid by Beach in the 2010 – 2015 financial years:

YEAR	PERIOD	FRANKING %	DIVIDEND PER BEACH SHARE (CENTS)
2015	Final	100%	0.50
2015	Interim	100%	1.00
2014	Final	100%	2.00
2014	Interim	100%	1.00
2014	Special	100%	1.00
2013	Final	100%	2.00
2013	Interim	100%	0.75
2012	Final	100%	1.50
2012	Interim	100%	0.75
2011	Final	100%	1.00
2011	Interim	100%	0.75
2010	Final	50%	1.00
2010	Interim	13.33%	0.75

4.12 HEDGING

Beach's policy is to hedge up to 80% of estimated future oil production costs and corporate costs by securing floors to protect against downside oil price scenarios, while retaining upside potential. This approach is ongoing, with the following hedges in place as at 30 September 2015.

PERIOD	FLOOR \$45 PER BBL (BRENT)	FLOOR \$65 PER BBL (BRENT)	FLOOR \$70 PER BBL (BRENT)	TOTAL HEDGED VOLUMES (BBL)
FY16 (remaining)	1,275,000	225,000	112,500	1,612,500
FY17	787,500	–	–	787,500
Total	2,062,500	225,000	112,500	2,400,000

* In the table above dollars are in Australian dollars.

4.13 DIVIDEND REINVESTMENT PLAN

Beach has established a dividend reinvestment plan (**Beach DRP**). The Beach DRP is intended to provide Beach Shareholders with a choice of reinvesting dividends in additional shares rather than receiving those dividends in cash.

A copy of the Beach DRP is available on request to the company secretary or on Beach's website at www.beachenergy.com.au.

Some of the key features of the Beach DRP are listed below.

(a) Eligibility

Any Beach Shareholder is eligible to participate in the Beach DRP if the Beach Shareholder's (or any person on whose behalf the Beach Shareholder holds Beach Shares) registered address or place of residence is in Australia or New Zealand, or if the Beach Shareholder is approved by the Beach Board (with or without conditions), noting that such approval can be withheld in the Beach Board's absolute discretion.

(b) Participation

Participation in the Beach DRP is optional. Beach Shareholders who are eligible to participate in the Beach DRP may elect to reinvest a dividend in respect of some or all of their Beach Shares by subscribing for fully paid Beach Shares except where, under the constitution or otherwise by law, the Beach Board is entitled to decline to issue Beach Shares for all or part of that dividend. A Beach Shareholder may terminate his, her or its participation in the Beach DRP or increase or decrease the percentage of Beach Shares that are to participate in the Beach DRP at any time by giving written notice to Beach using the form prescribed under the Beach DRP.

(c) Price

The price at which each Beach Share is issued under the Beach DRP in respect of a dividend will be the market price for that dividend discounted by an amount to be determined by the Board in its absolute discretion. The discount rate for the Beach DRP for the final dividend for 2015 was 2.5%.

(d) Shares issued under the Beach DRP

The number of Beach Shares to be issued to each participant in the Beach DRP will be determined as the nearest whole number of shares, rounded up, which would be acquired at the issue price for the amount of the dividend.

(e) Modification and termination by Directors

The Beach DRP may be varied, suspended, recommenced or terminated at any time by the Beach Board.

(f) Costs

No brokerage, commission or other transaction costs and no stamp duty or other duties are payable by participants on Beach Shares issued under the Beach DRP.

4.14 EXECUTIVE SHORT TERM INCENTIVE PLAN (BEACH STI)

The Beach STI was introduced in 2006 and is offered annually to senior executives at the discretion of the Beach Board. The Beach STI is offered in equal parts of cash and Beach Performance Rights and measures individual senior executives and Beach performance over a 12 month period.

Details of the Beach STI can be found in the remuneration report set out in Beach's FY15 Annual Report.

Some key features of the Beach STI are listed below:

- The key performance indicators are set by the Beach Board for each 12 month period. For the FY16 reporting period, the performance measures for senior executives comprise Beach key performance indicators (60% weighting) are operating costs, production, safety and strategic objectives and individual key performance indicators (40% weighting).
- Non-executive directors assess the extent to which key performance indicators have been met for the period.

The Beach STI award is based on a percentage of that senior executive's fixed remuneration.

- If the key performance indicators are met then half of the Beach STI award is awarded in cash and the other half is met by issue of Beach Performance Rights that have further employment retention arrangements for up to two years.

4.15 EXECUTIVE LONG TERM INCENTIVE PLAN (BEACH LTI)

The Beach LTI was introduced in 2006 and is offered to senior executives at the discretion of the Beach Board to promote long term growth in shareholder value or total shareholder return.

Details of the Beach LTI can be found in the remuneration report set out in Beach's FY15 Annual Report.

Some key features of the Beach LTI are listed below:

- Beach Performance Rights are granted to senior executives. If performance conditions measured over three years are met, some or all of the Beach Performance Rights will vest entitling the senior executive to one Beach Share for each Beach Performance Right.
- The performance condition is based on Beach's total shareholder return performance relative to the ASX 200 Energy Total Return Index such that initial out-performance level is set at the ASX 200 Energy Total Return Index return plus an additional 5.5% compound annual growth rate over the three year performance period.

4.16 EMPLOYEE INCENTIVE PLAN (BEACH EIP)

Under the Beach EIP, at the discretion of the Beach Board, employees may be offered fully paid ordinary shares or options to acquire fully paid ordinary Beach Shares by way of non-recourse loans for a term of 10 years. The Beach EIP loans are repayable on cessation of the senior executive's employment with Beach or expiry of the loan.

The Beach EIP was replaced by the introduction of the formal Beach STI and Beach LTI schemes in 2006 and no offers have been made under the EIP since 2007, however certain senior executives continue to participate in the Beach EIP with respect to existing Beach Shares issued to them under the Beach EIP.

As at 30 June 2015, a total of \$1,374,583 in Beach EIP loans remain outstanding from Beach Shares issued to senior executives.

4.17 RIGHTS ATTACHING TO, AND RANKING OF, NEW BEACH SHARES

The following is a broad summary of the rights and liabilities which attach to all Beach Shares, as set out in the Beach constitution and the Corporations Act. It is a summary only and is not intended to be an exhaustive or definitive summary of the rights and obligations of Beach Shareholders.

(a) General meetings and notices

Beach Shareholders' rights to attend and vote at shareholder meetings are mostly prescribed by the Corporations Act. Each Beach Shareholder is entitled to receive notice of, attend and (except in certain circumstances) vote at general meetings of Beach and to receive all notices, accounts and other documents required to be sent to Beach Shareholders under the Beach constitution, the Corporations Act and Listing Rules.

Beach may serve notice on a Beach Shareholder by, among other methods:

- serving it on the Beach Shareholder personally;
- sending it by post to the Beach Shareholder at the Beach Shareholder's address shown in the Beach Register or the alternative address (if any) nominated by the Beach Shareholder to Beach for sending notices to the Beach Shareholder; and
- sending it by facsimile, electronic address or other electronic means to the facsimile, electronic address or other electronic means (if any) nominated by the Beach Shareholder.

(b) Dividend entitlement

Dividends are declared or determined to be paid by the Beach Board at their discretion and are payable on all Beach Shares in proportion to the amount of capital for the time being paid up or credited as paid up on those shares.

The New Beach Shares issued as consideration under the Merger will participate in all dividends declared or determined to be paid after the Effective Date and rank equally with existing Beach Shares.

(c) Voting rights

Subject to any rights or restrictions attaching to any class of Beach Shares, each Beach Shareholder:

- may vote at a meeting of Beach Shareholders;
- who is entitled to attend and vote at a general meeting of Beach Shareholders may do so in person or by proxy, by attorney or, where the Beach Shareholder is a body corporate, by an individual acting as the body corporate's representative; and
- has one vote per person on a show of hands, one vote per Beach Share they hold on a poll.

(d) Winding-up

If Beach is wound up:

- then on a distribution of assets to Beach Shareholders by way of capital, Beach Shares classified by the ASX as restricted securities (as defined in the Listing Rules) at the time of commencement of the winding up shall rank in priority after all other Beach Shares (without prejudice to the rights of Beach Shareholders (if any) issued with special rights on winding up); and
- surplus assets in kind may, with approval by special resolution at a general meeting of Beach Shareholders, be divided among Beach Shareholders in such proportion as the liquidator may determine.

(e) Transfer of Beach Shares

Beach Shares may be transferred by written instrument in any usual or common form as well as in any manner required or permitted by any one or more of the Corporations Act, Listing Rules and the ASX Settlement Operating Rules. The Beach Board may refuse to register a transfer of Beach Shares in circumstances permitted by the Listing Rules or the ASX Settlement Operating Rules, or if stamp duty is payable but unpaid. The Beach Board must refuse to register a transfer of Beach Shares where required to do so by the Listing Rules or the ASX Settlement Operating Rules.

(f) Issue of further Beach Shares

Subject to the Corporations Act, Listing Rules and the ASX Settlement Operating Rules, the Beach Board may issue Beach Shares and options over unissued Beach Shares to any person on terms, including the issue price, determined by the Beach Board. The Beach Board's power to issue Beach Shares extends to issuing Beach Shares with preferred, deferred or special rights, privileges or

conditions, including in relation to dividends, voting, return of share capital or otherwise, as the Beach Board may determine.

(g) Variation of rights

Under the Corporations Act, rights, privileges and restrictions attaching to Beach Shares or to any other class of shares which may be issued in the future, can only be varied by a special resolution passed at a general meeting

of Beach and the holders of each relevant class of shares or with the written consent of Beach Shareholders with at least 75% of votes in the relevant class.

(h) Amending the constitution

The Corporations Act provides that the constitution of Beach may be modified or repealed by a special resolution passed at a general meeting of Beach Shareholders.

4.18 INTERESTS OF BEACH DIRECTORS

The following table lists the Relevant Interests of the Beach Directors as at the date of this Scheme Booklet:

NAME	NUMBER OF BEACH SHARES HELD	NUMBER OF BEACH PERFORMANCE RIGHTS HELD
Glenn Davis	123,238	Nil
John Butler	167,393	Nil
Colin Beckett	31,929	Nil
Fiona Bennett	30,075	Nil
Robert Cole	Nil	Nil
Belinda Robinson	15,804	Nil
Douglas Schwebel	74,860	Nil

4.19 BEACH INTEREST IN DRILLSEARCH SECURITIES

(a) Drillsearch Shares

As at the date of this Scheme Booklet, Beach and its Related Bodies Corporate hold a Relevant Interest in an aggregate of 21,053,615 Drillsearch Shares (representing approximately 4.55% of the issued and outstanding Drillsearch Shares) and do not otherwise have a Relevant Interest in any Drillsearch Shares.

As at the date of this Scheme Booklet, no Beach Director has any Relevant Interests in Drillsearch Shares.

(b) Drillsearch Convertible Notes

As at the date of this Scheme Booklet, Beach holds 74 Drillsearch Convertible Notes with an aggregate face value of US\$7,400,000. If the Scheme is approved by the Court at the Second Court Hearing, the Drillsearch Convertible Notes held by Beach and all other Drillsearch Convertible Notes that are outstanding will be redeemed in the manner described in Section 3.15 (*Drillsearch Convertible Notes*).

4.20 NO PRE-TRANSACTION BENEFITS

Except as referred to in this Scheme Booklet, during the period beginning four months before the date of lodgement of this Scheme Booklet with ASIC for registration and ending the day before that date, neither Beach nor any Associate of Beach gave, or offered to give

or agreed to give a benefit to another person that is not available to Scheme Shareholders under the Scheme and was likely to induce the other person, or an Associate of the other person, to:

- vote in favour of the Merger, or
- dispose of Drillsearch Shares.

4.21 MATERIAL CHANGES IN BEACH'S FINANCIAL POSITION SINCE LAST ACCOUNTS PUBLISHED

Other than as disclosed in this Scheme Booklet, within the knowledge of the Beach Board, the financial position of Beach has not materially changed since 30 June 2015, being the date of the balance sheet for the full year accounts of Beach for FY15. It is specifically noted, as discussed in section 4.10(e), if the market capitalisation of Beach continues to be materially lower than the carrying amount of the net assets of Beach (when Beach prepares its half-year financial statements for the six month period ending 31 December 2015), Beach will estimate the recoverable amount of its oil and gas assets and consider whether an impairment loss is required to reduce the carrying amount of its assets to the recoverable amount.

4.22 CONTINUOUS DISCLOSURE

Beach is a "disclosing entity" for the purposes of the Corporations Act and as such is subject to periodic reporting and continuous disclosure obligations. Specifically, as a listed

company, Beach is subject to the Listing Rules, which require disclosure of any information which Beach has concerning itself that a reasonable person would expect to have a material effect on the price or value of Beach Shares as soon as Beach becomes aware of information, subject to some exceptions.

Pursuant to the Corporations Act, Beach is required to prepare and lodge with ASIC and the ASX both annual and half-yearly financial statements accompanied by a statement and report from the Beach Board and an audit or review report.

Drillsearch Shareholders may obtain copies (free of charge) of each of these documents by contacting Beach on (08) 8338 2833 or by email at info@beachenergy.com.au or by accessing Beach's website www.beachenergy.com.au.⁶⁰

In addition, Beach is required to lodge various documents with ASIC, copies of which may be obtained from, or inspected at, ASIC offices. Information is also available on Beach's website (www.beachenergy.com.au).

Beach's continuous disclosure notices provided to the ASX after the lodgement with the ASX on 23 October 2015 of Beach's FY15 Annual Report, and before the lodgement of this Scheme Booklet for registration by ASIC, are listed in the table below.

⁶⁰ Refer to the "Disclaimer and Important Notices" Section on page 1 for information regarding references to internet sites in this Scheme Booklet.

DATE	ANNOUNCEMENT
23 October 2015	Appendix 4G
23 October 2015	2015 Beach Energy Ltd Corporate Governance Statement
23 October 2015	Notice of 2015 Annual General Meeting and Proxy Form
23 October 2015	2015 Beach Energy Ltd Annual Report
27 October 2015	Quarterly Report for period ended 30 September 2015
4 November 2015	SXY: Monthly Drilling Report - October 2015
4 November 2015	Monthly Drilling Report October 2015
5 November 2015	Investor Presentation
6 November 2015	DLS: October Drilling Report
11 November 2015	In Principle Waiver of ASX Listing Rule 10.1
11 November 2015	DLS: Update on Proposed Merger - Beach Obtains ASX Waiver
12 November 2015	DLS: Drillsearch Shareholder Newsletter
16 November 2015	Becoming a substantial holder
17 November 2015	Ceasing to be a substantial holder
25 November 2015	Annual General Meeting Presentation
25 November 2015	Annual General Meeting Results
2 December 2015	SXY: Monthly Drilling Report - November 2015
2 December 2015	Monthly Drilling Report November 2015
2 December 2015	Lapse of Incentive Rights & Issue of 2015 LTI Rights
2 December 2015	Ceasing to be a substantial holder
4 December 2015	Becoming a substantial holder
7 December 2015	Ceasing to be a substantial holder
7 December 2015	Beach secures \$530 million financing facility
14 December 2015	Becoming a substantial holder
15 December 2015	DLS: Court Approval for Proposed merger

Beach's recent announcements are available from ASX's website at www.asx.com.au. Further announcements concerning Beach will continue to be made on this website after the date of this Scheme Booklet.

5. PROFILE OF THE MERGED GROUP

5.1 OVERVIEW OF THE MERGED GROUP

The Merger combines two complementary businesses with similar strategies and values, and a successful history as joint venture partners in the Cooper and Eromanga Basins. The Merger also creates the leading mid-cap oil and gas company listed on the ASX, with:

- an extensive acreage position in the Cooper and Eromanga Basins;

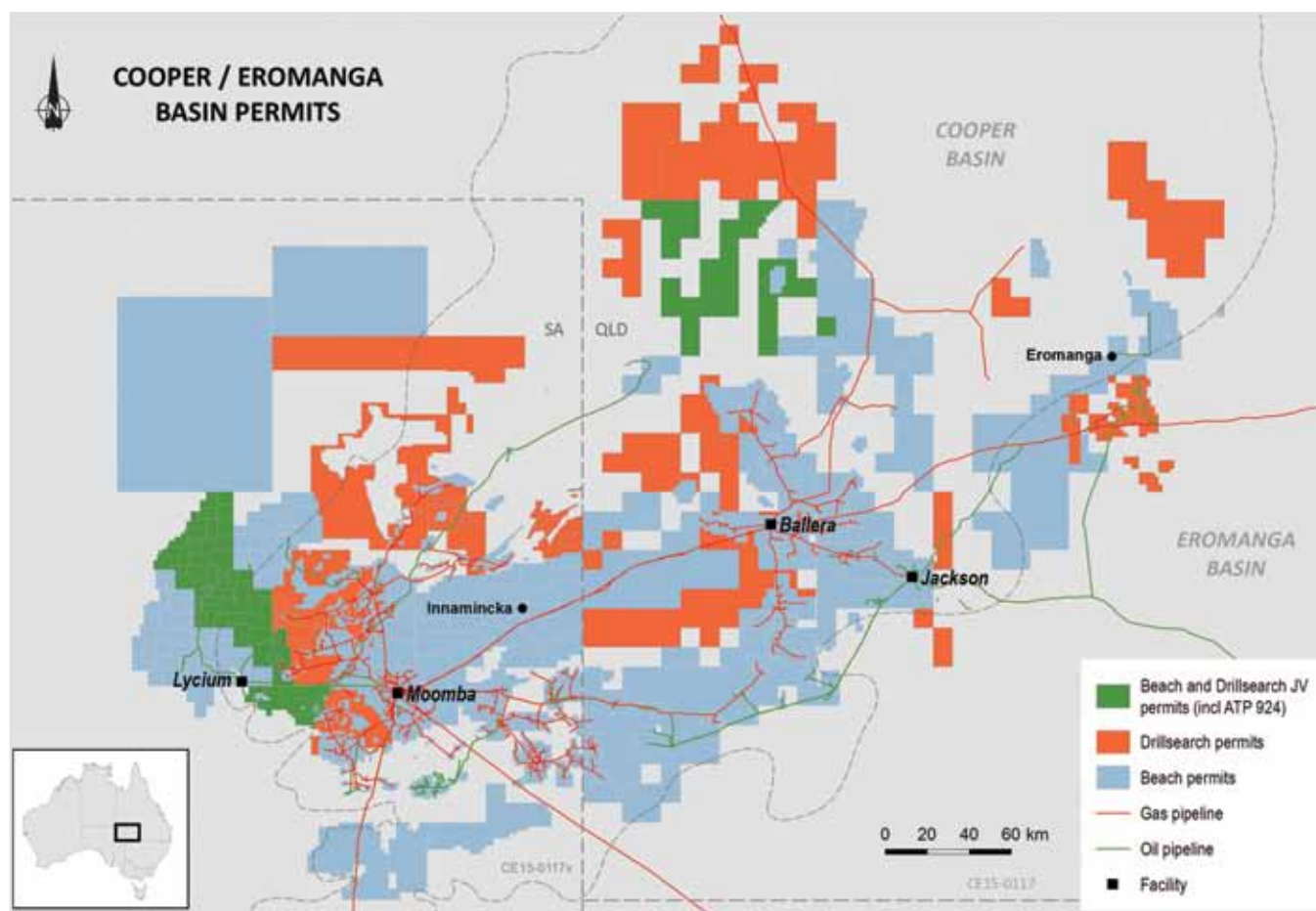
- an enhanced production base; and
- interests in established oil and gas transportation, gathering and processing infrastructure.

(a) Cooper and Eromanga Basins portfolio

The Merged Group will hold interests in permits covering approximately 69,000km², including interests in all material oil producing areas in the Western Flank.

In addition, the Merged Group will continue to hold the interests of Beach in exploration and production assets in the Otway, Gippsland, Browse, Carnarvon and Bonaparte Basins in Australia, as well as interests in New Zealand, Tanzania and Egypt⁶¹. As noted in Section 4 (*Profile of Beach*), Beach's international activities are being curtailed, with a re-focus on operations closer to home.

Figure 32: Merged Group permit interests in the Cooper and Eromanga Basins



Further information regarding the assets of the Merged Group is set out in Section 3 (*Profile of Drillsearch*) and Section 4 (*Profile of Beach*).

(b) Australia's largest onshore oil producer and second largest gas and gas liquids producer in the Cooper and Eromanga Basins

The Merged Group will have an enlarged production base, with aggregate Australian production in FY15 of 12.0 mmbob, comprising aggregate oil production of 7.2 mmbbls and aggregate conventional gas and gas liquids production of 4.8 mmbob.⁶²

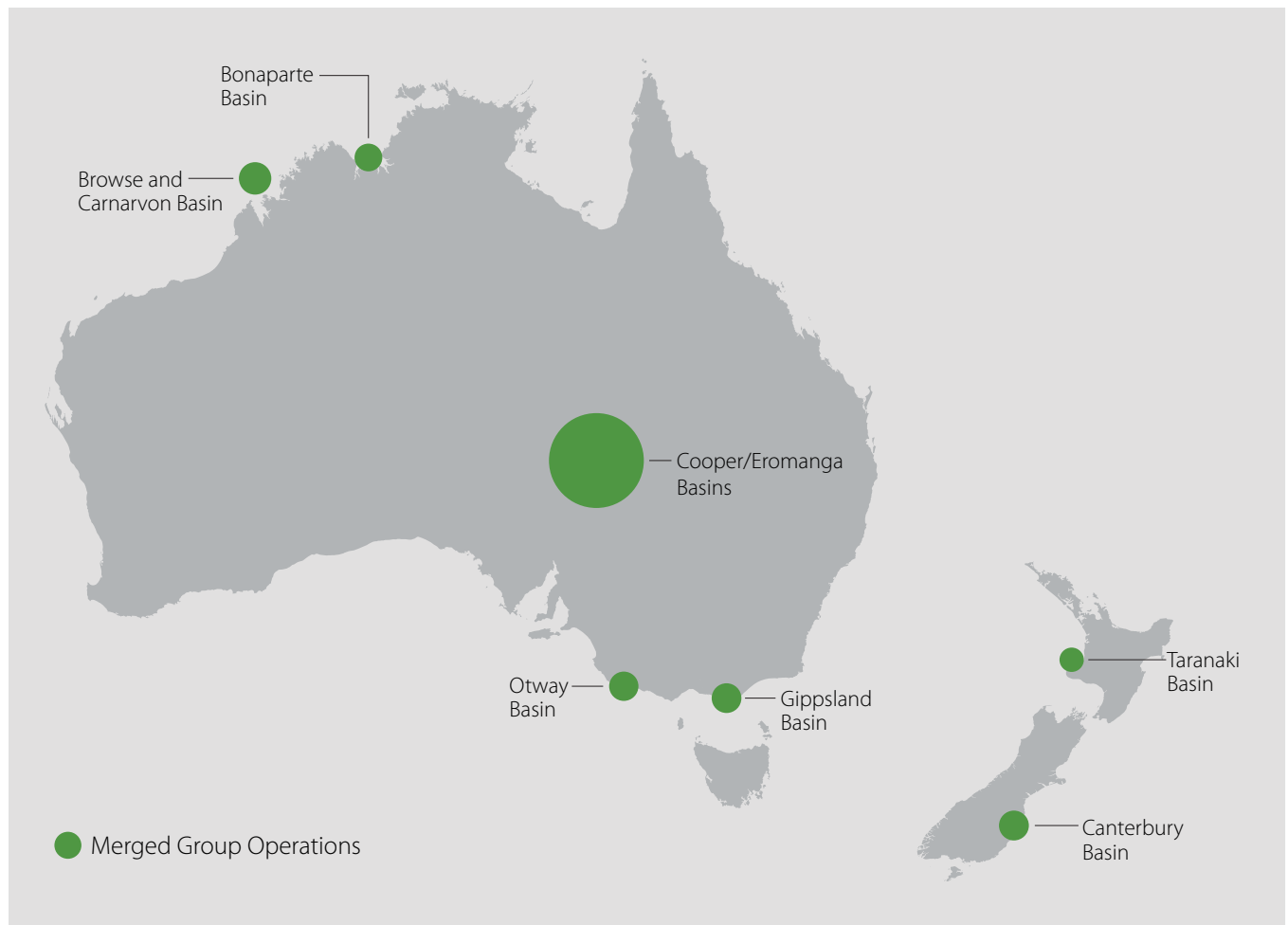
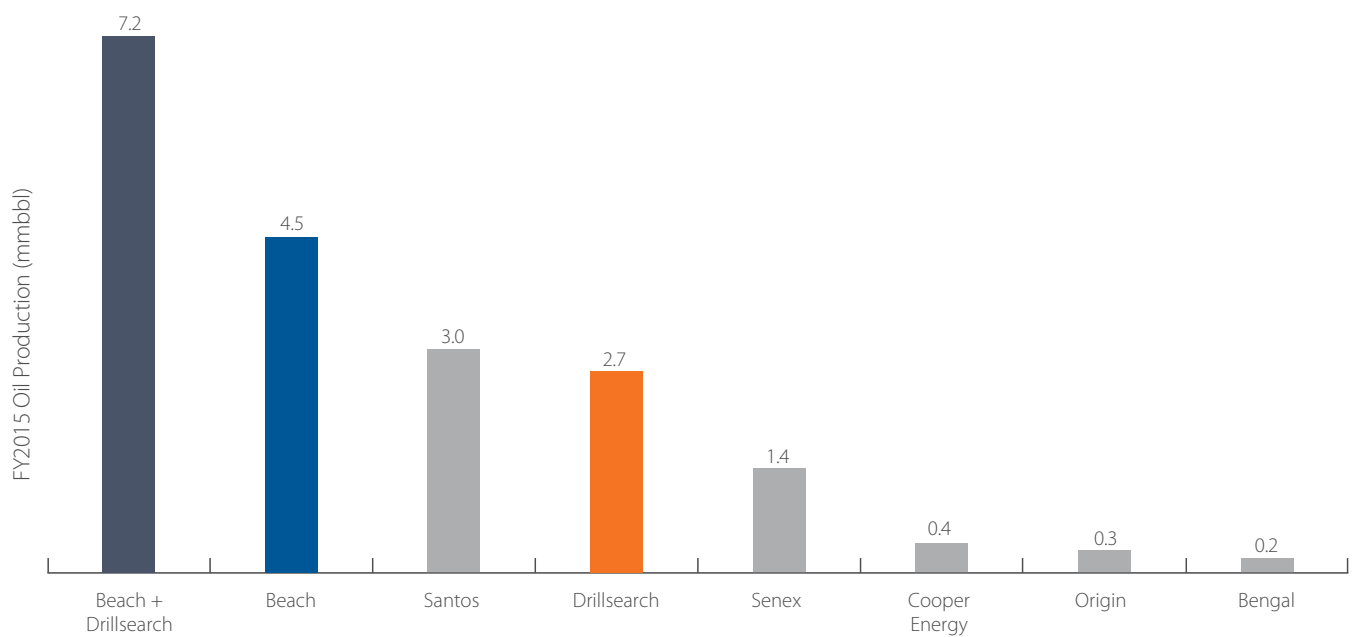
On a pro forma basis, the Merged Group was the largest Australian onshore oil producer in FY15 as shown in Figure 34.

On a FY15 pro forma basis, the gas and gas liquids production of the Merged Group of 4.8 mmbob, positions it as the Cooper and Eromanga Basins' second largest gas and gas liquids producer.

⁶¹ Refer to Section 4.10(d)(iii) (*International – Sale of Beach Egypt*) for further information regarding the sale of Beach's interest in Beach Egypt.

⁶² These figures refer to Australian production and exclude production from Beach's Egypt interests.

Figure 33: Location of assets of the Merged Group (Australia and New Zealand)

Figure 34: Onshore oil production⁶³

⁶³ Based on the ASX company announcements for the 12 months to 30 June 2015.

In addition, the Merged Group will benefit from Beach's established operating systems and processes, enhancing the delivery of the Merged Group's portfolio of projects (including Drillsearch-operated permits in the Northern Cooper gas and gas liquids area (ex-PEL 101) and ATP940 unconventional) and its access to further growth opportunities. The combination of Drillsearch and Beach should also assist with the optimisation of future decision-making by the Merged Group concerning exploration and other activities in the Nappamerri Trough, including in relation to ATP 940 (operated by Drillsearch) and the adjacent ex-PEL 218 and ATP 855 (both of which are operated by Beach).

Beach is an established low cost operator in the Cooper and Eromanga Basins. Beach currently operates a number of joint ventures, including:

- the ex-PEL 91 and ex-PEL 92 joint ventures on the Western Flank Oil Fairway; and
- the ex-PEL 106 conventional gas and gas liquids joint venture in the Western Cooper.

(c) Interests in strategic oil and gas processing and transportation infrastructure

The Merged Group will also have interests in strategic oil and gas processing and transportation infrastructure, through the interests currently held by Beach, including interests in the oil and gas processing, gathering and transportation infrastructure operated by the SACB JVs and the SWQ JVs, and pipelines connecting the Western Flank Oil Fairway to Moomba.

For more information regarding Beach interests in oil and gas processing, gathering and transportation infrastructure refer to Section 4 (*Profile of Beach*).

(d) Reserves and Contingent Resources position

Drillsearch's estimated Reserves and Contingent Resources as at 30 June 2015 are set out in Section 3.6 (*Reserves and Resources*) and Beach's estimated Reserves and Contingent Resources as at 30 June 2015 are set out in Section 4.6 (*Reserves and Resources*) (together, the **2015 Reserves Estimates**). The 2015 Reserves Estimates represent previously reported figures in the Drillsearch Annual R&CR Statement and the Beach Annual R&CR Statement, respectively (together, the **2015 Reserves Reports**). Drillsearch and Beach have prepared their respective 2015 Reserve Estimates independently of the other, based on information and supporting documentation prepared by or under the supervision of the Qualified Persons named in their respective 2015 Reserves Reports. The methodologies applied in producing the respective 2015 Reserves Estimates for Drillsearch and Beach are identified in their respective 2015 Reserves Reports.

There are differences between Drillsearch's and Beach's respective estimates of 2P Reserves for the ex-PEL 91 joint venture and the ex-PEL 106 joint venture. In particular:

- in the ex-PEL 91 joint venture – the Drillsearch estimates of 2P Reserves (14.3 mmboe, on a gross basis) are less than the Beach estimates of 2P Reserves (14.5 mmboe, on a gross basis); and

- in the ex-PEL 106 joint venture (including Udacha) – the Drillsearch estimates of 2P Reserves (15.6 mmboe, on a gross basis) are greater than the Beach estimates of 2P Reserves (4.7 mmboe, on a gross basis).

As a result of the differences in the methodologies and assumptions underlying the 2015 Reserves Estimates, the Drillsearch Board and the Beach Board consider that the aggregation of the 2015 Reserves Estimates may not produce a reliable approximation of combined estimated Reserves and Contingent Resources for the Merged Group as at 30 June 2015.

If the Merger is implemented, the Merged Group will provide estimates of Reserves and Contingent Resources for the Merged Group as at 30 June 2016 in due course.

5.2 STRATEGY AND VALUES OF THE MERGED GROUP

(a) Strategy

Drillsearch and Beach have similar strategies, centred around a commitment to sustainable growth in shareholder value, a core focus on the Cooper and Eromanga Basins, and a desire to pursue further growth opportunities.

Following the implementation of the Merger, the Merged Group will continue to apply Beach's "four pillars" strategy:

(b) Values

Drillsearch and Beach also share similar values comprising:

- a strong focus on shareholder value;
- creativity and innovation;



**Optimise our core
in the Cooper
Basin**



**Build a
complementary
gas business in
east coast basins**



**Pursue other
compatible growth
opportunities in
Australia and
nearby**



**Maintain
financial strength**

- integrity;
- performance; and
- teamwork and collaboration,

all underpinned by a common focus that "Safety takes precedence in everything we do".

Following the implementation of the Merger, the values of Beach will apply to the Merged Group.

5.3 BOARD AND MANAGEMENT OF THE MERGED GROUP

(a) Board

Under the terms of the Merger Implementation Agreement, upon implementation of the Merger, the Beach Board will be re-constituted to form the Merged Group Board, comprising:

- five of the existing Beach Directors; and
- two Drillsearch Directors nominated by the Drillsearch Board.

The Chairman of the Merged Group Board will be the existing Beach Chairman, Mr Glenn Davis.

The Drillsearch Directors nominated by the Drillsearch Board to join the Merged Group Board as non-executive directors are Mr Jim McKerlie, the current Chairman and non-executive director of Drillsearch, and Mr Philip Bainbridge, current non-executive director of Drillsearch.

Please refer to Sections 3 (*Profile of Drillsearch*) and 4 (*Profile of Beach*) for details regarding the experience and qualifications of the Merged Group Board.

(b) Senior management of the Merged Group

The CEO of Beach will be the CEO of the Merged Group. Mr Neil Gibbins is currently Acting CEO of Beach. Beach is currently undertaking a search to appoint a CEO. The appointment of a CEO is a priority for the Beach Board.

Under the terms of the Merger Implementation Agreement, the Beach Board has agreed to consult with the Drillsearch Board regarding the appointment of a CEO.

Upon implementation of the Merger, the senior management team for the Merged Group will be comprised of the current senior management team of Beach.

Drillsearch and Beach each have experienced management teams. As described in Section 5.4(f) (*Merger Integration Group*), one of the tasks of the Merger Integration Group is to review the human resource requirements of the Merged Group. In relation to management

positions (including senior management), the Drillsearch and Beach boards are committed to a review process during integration of the Merged Group on a 'best for job' basis according to the ongoing needs of the Merged Group.

Please refer to Section 3 (*Profile of Drillsearch*) and Section 4 (*Profile of Beach*) for details regarding the experience and qualifications of the senior management of Drillsearch and Beach, respectively.

5.4 INTENTIONS OF THE MERGED GROUP

(a) Overview

This Section sets out the current intentions of the Beach Board and the Drillsearch Board for the business, corporate matters, head office and employees of the Merged Group. Following implementation of the Merger, the Merged Group Board will be responsible for oversight of the Merged Group's business.

The statements of intention contained in this Section are based on information concerning Beach and Drillsearch and their businesses at the time of preparation of this Scheme Booklet. Final decisions on these matters will only be made in light of all material information, facts and circumstances at the relevant time if the Scheme is implemented. Accordingly, the statements set out in this Section 5.4 (*Intentions of the Merged Group*) are statements of current intention only, which may change as new information becomes available or circumstances change.

(b) Business

It is the current intention of Drillsearch and Beach that the Merged Group will continue to operate the businesses of Drillsearch and Beach in substantially the same manner as they are currently being conducted.

The Merged Group will review all aspects of the assets and operations to identify ways to maximise value for shareholders.

The Drillsearch Board and the Beach Board intend to explore opportunities to optimise the Merged Group's existing operations and development projects and maximise value for the Merged Group's shareholders. The Merged Group will continue to look at value enhancing opportunities both within Australia and nearby.

(c) Corporate matters

If the Merger is implemented, it is intended that:

- Drillsearch will be removed from the official list of the ASX; and
- as Drillsearch will be a Subsidiary of Beach, the Drillsearch Board will be reconstituted so that it comprises persons nominated by the Beach Board.

(d) Head office

The head office of the Merged Group will be the current head office of Beach, located in Adelaide, with head office functions currently undertaken in Drillsearch's Sydney office to be relocated and consolidated in Adelaide.

It is the intention that the Sydney head office of Drillsearch will be downsized and closed sometime after implementation. Part of the scope of the Merger Integration Group (refer to Section 5.4(f) (*Merger Integration Group*)) will be to consider and make recommendations to the Beach Board regarding timing of the closure of the Sydney office.

(e) Employees

Management from Drillsearch and Beach will be considered on a 'best for job' basis.

There will be an overlap in job functions between Beach and Drillsearch, particularly in certain corporate, technical and shared services functions. As part of the integration of the Merged Group, it is expected that a number of current positions in the Merged Group will be made redundant, resulting in a reduction of headcount and associated costs.

The extent and timing of redundancies cannot be specifically defined at this stage, however, it is intended that the core operational requirements of the Merged Group will ultimately be serviced from the Adelaide head office of the Merged Group and existing operational locations in the field.

Where employees are made redundant the relevant employees will receive benefits in accordance with their contractual and other legal entitlements.

(f) *Merger Integration Group*

The Drillsearch Board and the Beach Board are committed to a considered and comprehensive process following implementation of the Merger, so as to position the Merged Group to realise targeted synergies and cost reductions as soon as reasonably practicable. To support that commitment, and in accordance with the terms of the Merger Implementation Agreement, a Merger Integration Group, led by Drillsearch CEO,

Mr Walter Simpson, and Beach Acting CEO, Mr Neil Gibbins, has been formed.

The Merger Integration Group has a broad mandate to consider integration matters, including:

- the human resource requirements;
- capital management;
- systems, processes and information technology; and
- familiarisation, assimilation and culture.

The Merger Integration Group has no executive responsibility, but will provide information and updates to the Drillsearch Board and the Beach Board regarding integration activities. Implementation recommendations from the Merger Integration Group will be presented to the Beach Board for consideration and determination.

5.5 CAPITAL STRUCTURE OF THE MERGED GROUP

(a) *Shares on issue*

If the Merger is implemented, Beach will issue approximately 558 million New Beach Shares to Scheme Shareholders.

As a result of the Merger, the number of Beach Shares on issue will increase from approximately 1,303 million (being the number currently on issue) to approximately 1,861 million as set out below.⁶⁴

Number of Beach Shares on issue (pre-Implementation)	1,302,877,977
Number of New Beach Shares issued under the Merger ⁶⁵	557,826,209
Total number of Beach Shares after the Merger is implemented	1,860,704,186

(b) *Performance rights*

On the Implementation Date, the Merged Group will have performance rights on issue. See Section 4.11 (b) (*Beach Performance Rights*) for details of Beach performance rights on issue as at the date of this Scheme Booklet.

5.6 CAPITAL MANAGEMENT

(a) *Financing arrangements*

Drillsearch and Beach each have loan facilities in place. As described in Section 10.3, if the Merger is implemented it will trigger certain consequences under the terms of Drillsearch's loan facilities. It is intended that following the implementation of the Merger the Merged Group will cancel the Drillsearch loan facilities.

Following cancellation of the Drillsearch loan facility, Beach's new \$530 million senior syndicated corporate debt facility will remain in place.

(b) *Hedging*

Drillsearch and Beach each have active hedging programs as standalone entities.

Following implementation of the Merger, the Merged Group will continue to implement an active hedging program. For more information regarding the Drillsearch and Beach hedging programs, refer to Section 3 (*Drillsearch Profile*) and Section 4 (*Beach Profile*).

(c) *Dividends*

Future dividends by the Merged Group will be determined by the Merged Group Board having regard to financial result and the financial position of Merged Group. There is no guarantee that any dividend will be paid in future or, if paid, that they will be paid at the levels previously paid by Beach.

If the Beach Board determines to pay any Interim Dividend, and the record date for the purposes of that Interim Dividend (if any) is after the Effective Date, Scheme Shareholders (other than Ineligible Foreign Shareholders) will be entitled to receive that Interim Dividend with respect to their New Beach Shares.

If the Beach Board determines to pay an Interim Dividend, Beach has agreed that the record date for the purposes of the Interim Dividend (if any) will not be before 31 March 2016. As a result, if the Effective Date is before 31 March 2016, Drillsearch Shareholders will be eligible to receive any Interim Dividend determined to be paid by the Beach Board in respect of their New Beach Shares, provided they hold such New Beach Shares as at the record date for the Interim Dividend.

⁶⁴ Note, the exact number of New Beach Shares to be issued pursuant to the Scheme (and therefore the number of Beach Shares to be on issue after the Implementation Date) cannot be precisely calculated or anticipated due to the effects of rounding.

⁶⁵ Based on 462,254,673 basic Drillsearch Shares outstanding, plus 5,059,909 Drillsearch Performance Rights converted to Drillsearch Shares, less 21,053,615 Drillsearch Shares held by Beach.

6. FINANCIAL INFORMATION FOR THE MERGED GROUP

6.1 OVERVIEW

This Section of the document contains the pro forma historical statement of financial position for the Merged Group, reflecting the combined businesses of Beach and Drillsearch. The pro forma historical financial information is presented to provide Drillsearch Shareholders with an indication of the Merged Group assets and liabilities as if the Merger

had occurred at 30 June 2015. So as to reflect the market conditions on the day before the Announcement Date, pro forma adjustments made with respect to Beach's investment in Drillsearch, New Beach Shares to be issued by Beach as Scheme Consideration, and the AUD/USD exchange rate for the revaluation and repayment of Drillsearch Convertible Notes and the revaluation of USD

denominated cash and cash equivalents are based on market prices at 22 October 2015.

The pro forma historical financial information is presented assuming that Beach acquires 100% of Drillsearch Shares under the Merger (including any Drillsearch Shares that may be issued as a result of the vesting of Drillsearch Performance Rights).

6.2 PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Pro Forma Consolidated Statement of Financial Position

\$ MILLION	BEACH 30 JUNE 15	DRILLSEARCH 30 JUNE 15	NOTES	PRO FORMA ADJUSTMENT	PRO FORMA STATEMENT OF FINANCIAL POSITION
Current assets					
Cash and cash equivalents	170.2	131.5	2, 3, 6	(178.3)	123.4
Receivables	125.4	71.5		–	197.0
Inventories	114.6	2.6		–	117.2
Derivative financial instruments	1.1	5.6		–	6.7
Other	8.1	2.3		–	10.4
Assets held for sale	22.2	25.0		–	47.2
Total current assets	441.6	238.6		(178.3)	501.9
Non-current assets					
Available for sale financial assets	46.1	–	1, 3, 8	(31.2)	14.9
Property, plant and equipment	448.1	2.8		–	450.9
Petroleum assets	588.2	95.7	8	107.6	791.5
Exploration and evaluation assets	305.3	178.5		–	483.8
Derivative financial instruments	0.2	–		–	0.2
Deferred tax assets	–	23.2	7	(15.0)	8.2
Other financial assets	6.9	1.4		–	8.3
Total non-current assets	1,394.8	301.6		61.4	1,757.8
Total assets	1,836.4	540.2		(116.9)	2,259.7
Current liabilities					
Payables	128.5	37.1		–	165.6
Employee entitlements	8.5	0.7		–	9.2
Provisions	5.3	–		–	5.3
Tax liabilities	6.6	–		–	6.6
Liabilities held for sale	2.2	24.5		–	26.7
Total current liabilities	151.1	62.3		–	213.4

\$ MILLION	BEACH 30 JUNE 15	DRILLSEARCH 30 JUNE 15	NOTES	PRO FORMA ADJUSTMENT	PRO FORMA STATEMENT OF FINANCIAL POSITION
Non-current liabilities					
Payables	4.0	–		–	4.0
Employee entitlements	0.9	0.2		–	1.1
Provisions	150.2	18.3		–	168.5
Deferred tax liabilities	26.9	–	1	(0.6)	26.3
Borrowings	148.5	162.1	3	(162.1)	148.5
Total non-current liabilities	330.5	180.6		(162.7)	348.4
Total liabilities	481.6	242.9		(162.7)	561.8
Net assets	1,354.8	297.3		45.8	1,697.9
Equity					
Contributed equity	1,250.1	325.1	4, 5, 8	45.8	1,621.0
Reserves	273.4	8.6	1, 2, 4, 8	(7.7)	274.3
Retained earnings	(168.7)	(36.4)	1, 4, 6, 7, 8	7.7	(197.4)
Total Equity	1,354.8	297.3		45.8	1,697.9

(b) Basis of preparation of Pro Forma Statement of Financial Position

The pro forma consolidated statement of financial position (the **Pro Forma Statement of Financial Position**) set out in Section 6.2(a) (*Pro forma consolidated statement of financial position*) is based on:

- the statement of financial position for Beach extracted from Beach's FY15 Annual Report;
- the statement of financial position for Drillsearch extracted from Drillsearch's FY15 Annual Report; and
- adjustments for the pro forma transactions described below.

The financial statements in Beach's FY15 Annual Report were prepared in accordance with the recognition and measurement principles prescribed in the AAS adopted by the AASB and the significant accounting policies set out in the basis of preparation and individual notes to the financial statements. The Pro Forma Statement of Financial Position has been prepared in accordance with Beach's accounting policies.

Beach's accounting policy on exploration and evaluation expenditure is to accumulate expenditure in respect of each identifiable area of interest with costs only carried forward to the extent that they are expected to be recouped through the successful development or sale of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of proved and probable hydrocarbon reserves. A bi-annual impairment review is undertaken in respect of each area of interest to determine the appropriateness of continuing to carry forward costs. For the FY15

full year, Drillsearch changed its accounting policy from one which was similar to Beach to a "Successful Efforts" methodology whereby exploration and evaluation expenditure in relation to unsuccessful exploration wells and associated costs are expensed as incurred. As part of the Merger, all of Drillsearch's exploration assets will be fair valued and then, from the Implementation Date, accounted for in accordance with Beach's accounting policy, which may result in higher capitalised exploration expenditure balances for the Merged Group in the future than would be the case under Drillsearch's accounting policy. As a result, no adjustment is reflected in the Pro Forma Consolidated Statement of Financial Position for this difference in accounting policy.

The Pro Forma Statement of Financial Position and accompanying notes are presented in an abbreviated form and do not include all of the disclosures, statements or comparatives required by AAS applicable to annual financial reports prepared in accordance with the Corporations Act.

There are a number of Conditions Precedent that need to be satisfied or waived (if applicable) before the Merger is Effective and Beach successfully merges with Drillsearch. The Pro Forma Statement of Financial Position adjustments assume the Merger is completed with all Conditions Precedent having been satisfied or waived (if applicable) and the Merger occurs at the values stated.

(c) Basis of measurement

The Pro Forma Statement of Financial Position has been prepared on the historical cost basis, except for derivative financial instruments and available for sale financial assets which

are measured at fair value at 30 June 2015. Pro Forma adjustments made with respect to:

- Beach's investment in Drillsearch;
- New Beach Shares to be issued by Beach as Scheme Consideration; and
- the AUD/USD exchange rate for the revaluation and repayment of Drillsearch Convertible Notes and revaluation of USD denominated cash and cash equivalents,

are based on market prices at 22 October 2015 so as to reflect the market conditions on the day before the Announcement Date.

(d) Pro Forma Statement of Financial Position adjustments

The Pro Forma Statement of Financial Position is indicative only and based on information as at the date of this Scheme Booklet. The preparation of the Pro Forma Statement of Financial Position requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Merger has been accounted for as a business combination under AASB 3 Business Combinations, with the assets and liabilities acquired based on the statement of financial position of Drillsearch as at 30 June 2015 and based on a provisional purchase price allocation performed by Beach. The actual fair values will differ from those reflected in the Pro Forma Statement of Financial Position as they can only be determined on the actual date the Merger becomes Effective and following a full assessment of the assets and liabilities acquired.

The Pro Forma Statement of Financial Position is based on the statements of financial position of Beach and Drillsearch as at 30 June 2015, adjusted to reflect the following transactions assumed to have occurred at 30 June 2015 but using current market pricing where indicated:

1. revaluation of Beach's initial investment in Drillsearch using current market pricing (both equity holding and Drillsearch Convertible Note) to the offer price (\$3.5 million) with a \$0.6 million reduction in deferred tax liability resulting in a loss of \$3.7 million to retained earnings and an \$0.8 million increase in reserves;
2. cash settlement by Beach of all the outstanding Drillsearch Options as at the date of this Scheme Booklet at the time the Merger becomes Effective applying the option cancellation consideration, resulting in an outflow of \$1.5 million;
3. revaluation of Drillsearch USD denominated cash and Drillsearch Convertible Notes using market pricing (offsetting impact) and required repayment following a change in control (\$163.3 million) which excludes those Drillsearch Convertible Notes currently owned by Beach (\$10.3 million);
4. early vesting of all outstanding Drillsearch Performance Rights at the time the Merger becomes Effective (including a \$1.5 million accelerated expenditure impact);
5. issue of 557.8 million New Beach Shares as Scheme Consideration under the Merger at an assumed value of \$0.665 per Beach Share (\$371.0 million). The actual consideration value will be dependent on the Beach Share price on the date the Merger becomes Effective;
6. estimated transaction costs of \$8 million for Beach and \$17 million for Drillsearch in respect of the Merger have been expensed and for the purpose of the pro forma have not been tax effected;
7. partial de-recognition of Drillsearch deferred tax asset (\$15 million) on the basis that tax losses will be utilised over a longer period in the Merged Group compared to Drillsearch as a standalone entity; and
8. consolidation adjustment to eliminate the share capital and pre-acquisition reserves of Drillsearch against Beach's investment in Drillsearch giving rise to a provisional fair value uplift of \$107.6 million which has been allocated to Petroleum assets (subject to revision following a full assessment of the assets and liabilities acquired).

The Pro Forma Statement of Financial Position excludes the following:

- the impact of general trading of Beach and Drillsearch, including capital expenditure which has occurred since 30 June 2015;
- the effect of changing commodity prices and foreign exchange rates (unless specifically stated above) and potential future impairment impacts (refer to risks in Section 7.4 (*General risks relating to the Merged Group*) and Section 4.10 (*Risk of impairment*)); and
- payment of the final FY15 Beach dividend of 0.5 cents per share on 25 September 2015.

6.3 FORECAST FINANCIAL INFORMATION FOR THE MERGED GROUP

Drillsearch and Beach have given careful consideration as to whether a reasonable basis exists to produce reliable and meaningful forecast financial information for the Merged Group. The Drillsearch Board and the Beach Board have concluded that with the exception of the Synergy Estimates discussed in "Reasons to vote for the Merger and benefits of the Merger" on page 5, it would be misleading to provide forecast financial information, as a reasonable basis does not exist for providing forecasts that would be sufficiently meaningful and reliable as required by applicable law, policy and market practice.

In arriving at this conclusion, the Drillsearch Board and the Beach Board considered various factors that would have a material effect on the financial performance of the Merged Group and that are outside the control of the Drillsearch Board and the Beach Board, and thus cannot, at this time, be predicted with a high level of confidence. In particular, the financial performance of the Merged Group will be materially affected by:

- prevailing contract prices that will be settled for oil and gas;
- prevailing exchange rates, especially the AUD/USD exchange rate, which are subject to material change from time to time; and
- costs related to exploration, development and operating activities.

6.4 FINANCING ARRANGEMENTS

For the purposes of the pro forma statements above, it is assumed that:

- the Drillsearch Convertible Notes are redeemed via the cash reserves of the Merged Group as at 30 June 2015; and
- the Drillsearch loan facility remains undrawn.

6.5 KEY ACCOUNTING POLICIES

Following implementation of the Merger, the Merged Group will adopt the key accounting policies of Beach, as set out in the relevant notes to the financial statements in Beach's FY15 Annual Report. A complete copy of Beach's FY15 Annual Report can be found on the ASX website at www.asx.com.au or the 'Investor Centre' of the Beach website at www.beachenergy.com.au.⁶⁶

Any significant differences in accounting policy between Drillsearch and Beach have been identified and considered in the preparation of the consolidated Pro Forma Statement of Financial Position above.

⁶⁶ Refer to the "Disclaimer and Important Notices" Section on page 1 for information regarding references to internet sites in this Scheme Booklet.

7. RISK FACTORS

7.1 INTRODUCTION

There are a range of factors, both specific to the Merged Group and which apply more generally to the oil and gas industry and equity market participants, which may, individually or in combination, affect the business, future operating and financial performance, reputation or prospects of the Merged Group and/or the value at which Merged Group Shares may trade in the future. Many of the circumstances giving rise to these risks are beyond the control of the Merged Group, its directors and management.

In a number of instances, risk factors for the Merged Group are also risk factors which apply or may apply, to varying degrees, to Drillsearch as a standalone entity.

This Section 7 (*Risk factors*) sets out the risk factors considered by Drillsearch to be the material risks relating to:

- the Merger – see Section 7.2 (*Risks relating to the Merger*);
- implementation of the Merger – see Section 7.3 (*Specific risks relating to the Merged Group*); and
- the Merged Group – see Section 7.4 (*General risks relating to the Merged Group*).

The risk factors described in this Section 7 (*Risk factors*) are not an exhaustive list of the risk factors relating to the Merger, the implementation of the Merger or the Merged Group, and should be read in conjunction with the other information described in this Scheme Booklet. There may be additional risks and uncertainties not currently known that may also have an adverse effect on the Merged Group's business and the value of Merged Group Shares. The risk factors described are not necessarily set out in order of significance or likelihood.

The risk factors described in this Section 7 (*Risk factors*) do not take into account the investment objectives or financial circumstances of individual Drillsearch Shareholders. Drillsearch Shareholders should have regard to their own investment objectives and financial circumstances and seek professional advice from their legal, financial and other independent advisers before determining whether or not to vote in favour of the Merger.

7.2 RISKS RELATING TO THE MERGER

Implications for Drillsearch if the Merger is not implemented

If the Merger is not implemented, Drillsearch will continue to operate its current business as a standalone entity, and each Drillsearch Shareholder will retain their Drillsearch Shares and will not receive the Scheme Consideration. If the Merger is not implemented, Drillsearch management will continue to execute Drillsearch's FY16 work program and budget and advance Drillsearch's strategy.

Drillsearch will incur transaction costs associated with the proposal and preparation of the Merger if the Merger is not implemented (refer to the "Costs of implementing the Merger" risk factor below).

If the Merger is not implemented, Drillsearch Shares may trade below their current or recent market price (or the value attributed to Drillsearch Shares by the Independent Expert). This may occur, for example, if Drillsearch Shareholders consider that the growth prospects of Drillsearch as a standalone entity are lower than those of the Merged Group.

Risk profile of the Merged Group

If the Merger is implemented, there will be a change in the risk profile to which Drillsearch Shareholders are exposed. In the absence of the Merger, Drillsearch Shareholders are exposed to the risks associated with Drillsearch's business and an investment in Drillsearch. If the Merger is implemented, Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive New Beach Shares in consideration for their Drillsearch Shares. As a result, those Scheme Shareholders will be exposed to the risk factors which apply to Beach, as well as risk factors which apply to the Merged Group and the integration of the two companies. Such risks may include risks associated with a broader suite of assets, including assets in foreign jurisdictions, to which Drillsearch Shareholders are not currently exposed. A number of these risks are described in Section 7.4 (*General risks relating to the Merged Group*).

Information regarding the profiles of Drillsearch, Beach and the Merged Group is set out in Sections 3 (*Profile of Drillsearch*), 4 (*Profile of Beach*) and 5 (*Profile of the Merged Group*), respectively.

Change in investment risk profile

Drillsearch and Beach are both upstream oil and gas explorers and producers and share a number of significant similarities, including interests in common assets. However, if the Merger is implemented, the operational profile, capital structure, size and geographic focus of the Merged Group will be different to that of Drillsearch on a standalone basis. Some Drillsearch Shareholders may wish to maintain an interest in Drillsearch as a standalone entity to maintain their exposure to the specific profile of the Drillsearch business.

Information regarding the profiles of Drillsearch, Beach and the Merged Group is set out in Sections 3 (*Profile of Drillsearch*), 4 (*Profile of Beach*) and 5 (*Profile of the Merged Group*), respectively.

Value of Scheme Consideration

If the Merger is implemented, Scheme Shareholders (other than Ineligible Foreign Shareholders) will receive Scheme Consideration of 1.25 New Beach Shares for each Drillsearch Share they hold on the Record Date. The implied value of the Scheme Consideration will depend on the price at which Merged Group Shares trade on the ASX after the Effective Date and is not fixed.

The price of Merged Group Shares, following implementation of the Merger, will vary and may be volatile as a result of a number of factors, including the financial and operating performance of the Merged Group and general market conditions.

In addition, the Foreign Nominee will be issued with New Beach Shares attributable to Ineligible Foreign Shareholders on the Implementation Date, upon which the Foreign Nominee will sell those shares on the ASX as soon as practicable. It is possible that the sale of those New Beach Shares on-market may apply downward pressure to the price of Merged Group Shares. Similar downward pressure to the price of Merged Group Shares may arise if Drillsearch Shareholders that prefer not to maintain an investment in the Merged Group elect to trade the New Beach Shares received as Scheme Consideration following implementation of the Merger.

Trading during deferred settlement period

If the Merger is implemented, Scheme Shareholders (other than Ineligible Foreign Shareholders) may not know the exact

number of New Beach Shares they will receive as Scheme Consideration (due to rounding) until a number of days after those shares can be traded on the ASX on a deferred settlement basis. Scheme Shareholders who seek to trade in New Beach Shares on a deferred settlement basis, and prior to knowing the exact number of New Beach Shares they will be issued as Scheme Consideration, may be exposed to adverse financial consequences if they purport to trade more New Beach Shares than they finally receive.

Costs of implementing the Merger

There are a number of costs which Drillsearch will incur in connection with the Merger, including legal and financial adviser costs, the costs associated with preparing the Scheme Booklet (including the Independent Expert's Report, the Independent Technical Expert's Report and Investigating Accountant's Report) and the costs associated with convening and holding the Scheme Meeting. Drillsearch estimates these costs to be approximately \$17 million.⁶⁷

Tax consequences for Scheme Shareholders

If the Merger is successfully implemented, there may be tax consequences for Scheme Shareholders. The tax consequences for Scheme Shareholders will vary depending on a number of factors, including their place of residence for tax purposes and their individual financial and tax circumstances.

A summary of the general Australian income tax, stamp duty and GST consequences for Drillsearch Shareholders participating in the Merger is set out in Section 9 (*Taxation implications*).

Drillsearch Shareholders are encouraged to seek independent professional advice regarding the individual tax consequences applicable to them.

7.3 SPECIFIC RISKS RELATING TO THE MERGED GROUP

Integration of Drillsearch into the Merged Group

The performance of the Merged Group will be influenced by, among other things, the success of integrating the businesses of Drillsearch and Beach and the strength of management of the Merged Group. As outlined in Sections 3 (*Profile of Drillsearch*), 4 (*Profile of Beach*) and 5 (*Profile of the Merged Group*), there is a significant degree of overlap between the businesses of Drillsearch and Beach. However, there can be no guarantee as to the extent to which the businesses of the Merged Group will be successfully integrated or the time period over which integration will be undertaken.

There are risks that the integration of the Drillsearch and Beach businesses will take longer than currently expected and that the anticipated benefits of that integration may be less than estimated. Potential risks include differences in organisational culture, inability to achieve anticipated cost savings and the potential loss of key personnel. Any failure by the Merged Group to ensure the integration process proceeds as anticipated or to realise estimated integration cost savings may have a material adverse effect on the financial performance and future prospects of the Merged Group.

Contractual events on change of control or a material transaction

The implementation of the Merger may give rise to contractual consequences under material contracts to which Drillsearch or Beach are a party, including rights for the contractual counterparty to review the contractual arrangements or exercise other rights such as termination rights, rights of pre-emption or a deemed transfer. If a contractual counterparty elects to exercise such rights upon the implementation of the Merger, this may have a material adverse effect on the financial performance of the Merged Group.

Section 10.3 (*Change of control*) describes identified contractual consequences which may arise as a result of the implementation of the Merger.

Accounting treatment of Drillsearch assets in the Merged Group

Following implementation of the Merger, the Merged Group will be required to perform a fair value assessment of all of the assets and liabilities of the Merged Group, including tangible and intangible assets. As a result of that fair value assessment, the Merged Group's charges (for example, depreciation expense and amortisation expense) and asset carrying values may be substantially different to the corresponding charges and asset carrying values applied by Drillsearch and Beach as standalone entities and, to that extent, may impact upon the future financial performance and financial results of the Merged Group.

The Merged Group will also be subject to risks arising as a result of any future changes in accounting policies applied by the Merged Group which may have an adverse impact on the Merged Group.

Changes to accounting standards may also adversely affect the Merged Group's reported earnings performance in any given reporting period and its consolidated statement of financial position from time to time.

7.4 GENERAL RISKS RELATING TO THE MERGED GROUP

RISKS RELATING TO THE INDUSTRY AND MARKET ENVIRONMENT IN WHICH MERGED GROUP WILL UNDERTAKE ITS BUSINESS

Economic conditions and capital markets

New Beach Shares issued as Scheme Consideration if the Merger is implemented carry no guarantee in respect of the profitability of the Merged Group, future dividends or returns of capital by the Merged Group, or the price at which Merged Group Shares will trade in the future. The value of Merged Group Shares will be determined by securities trading and the market, and subject to a range of factors beyond the control of Drillsearch and Beach (and their respective directors and management).

Factors which may affect the value of Merged Group Shares include general economic conditions, investor sentiment in relation to the oil and gas sector and equity markets generally, movements in domestic and international interest rates, movements in commodity prices (including the market price for oil) and changes in government policies. Returns from an investment in Merged Group Shares will also be influenced by the future financial and operating performance, and future prospects of the Merged Group.

General economic conditions

Domestic and global economic conditions may affect the performance of the Merged Group. Adverse changes in macroeconomic conditions, including global, regional and local economic growth, the costs and general availability of credit, the level of inflation, interest rates, exchange rates, government policy (including fiscal, monetary and regulatory policies), general consumption and consumer spending and sentiment, and levels of unemployment, amongst others, are outside of the control of the Merged Group and may result in material adverse impacts on the Merged Group's financial performance and operating results.

Commodity prices

The financial performance and results of the Merged Group will be heavily influenced by the price realised for oil, gas and gas liquids produced by the Merged Group, in particular, the realised price for oil sales.

In the 12 months ended 30 June 2015, approximately 79.5% of the revenue for Drillsearch and Beach (in aggregate) was derived from the production and sale of oil (which compares to more than 95% of Drillsearch's revenue⁶⁸ in FY15 on a standalone basis).

⁶⁷ This amount excludes transaction costs incurred by Beach in connection with the Merger.

⁶⁸ Revenue excludes the value of gains through oil hedging during the period.

The price of oil, as a publicly traded commodity, is variable and can be volatile, as a result of a number of factors outside of the control of the Merged Group, including general economic and geopolitical conditions, and supply and demand dynamics. For example, the volatility of the oil price was demonstrated by a significant fall in market prices for oil since the beginning of FY15 – with a high of approximately US\$112.29 per barrel on 1 July 2014 and a more than six year low of approximately US\$42.49 per barrel on 2 December 2015 with volatility continuing since that date.⁶⁹

A material decline in the realised price for oil produced by the Merged Group may have a material adverse impact on the financial results and future prospects of the Merged Group.

Declines in the price of oil and continuing price volatility may also lead to revisions of the medium and longer price assumptions for oil from future production, which, in turn, may lead to a revision of the carrying value of some of the Merged Group's assets and/or a reduction of Reserves estimates.

Possible write downs in Reserves and Resources due to the oil and gas price

The calculation and estimation of quantities of oil and gas anticipated to be commercially recoverable from known accumulations is affected by the prices at which the oil and gas is expected to be able to be sold for in the future. An extended or substantial decline in oil and gas prices or demand for oil and gas or expectation of such decline may mean that previously booked reserves and resources may no longer be regarded as commercially recoverable, leading to a reduction in previous bookings.

Currency exchange rates

The functional currency for the Merged Group for accounting purposes will be Australian dollars. However, the Merged Group will incur expenditures principally denominated in the currency in the location in which activities are undertaken, and, as noted above, the majority of the Merged Group's revenue will be realised in US dollars. As a result, the financial performance and results of the Merged Group will be impacted by the relative performance of the relevant currencies and conversion of costs and revenue to Australian dollars.

Interest rate volatility

From time to time, the Merged Group may borrow money domestically and internationally. Accordingly, the Merged Group will be subject to interest rates which may be fixed or floating. Adverse changes in interest rates may result in a change to the interest cost of the Merged Group and therefore may adversely affect its profit.

Access to funding

The future prospects of the Merged Group, including the successful development of the Merged Group's assets and/or the acquisition of new assets, will be influenced by the ability of the Merged Group to obtain funding, via operating cash flows or access to debt and equity capital markets on commercially acceptable terms. Operating cash flows and access to debt and equity capital markets on commercially acceptable terms is affected by a number of factors beyond the control of the Merged Group, including commodity prices and general economic conditions. There can be no assurance that the Merged Group will be able to obtain funding as and when required. Volatile market conditions for commodities may prevent or make it difficult for the Merged Group to obtain debt financing or equity financing on commercially acceptable terms.

If access to adequate funding is not maintained by the Merged Group, the Merged Group may not be able to take advantage of opportunities or otherwise respond to market conditions. Failure to obtain funding on a timely basis and on reasonably acceptable terms may also cause the Merged Group to postpone or abandon development plans, or to relinquish or forfeit rights in relation to the Merged Group's assets.

Fiscal Regulation

The Merged Group will be subject to the fiscal regulatory regime applicable in Australia, as well as the fiscal regulatory regime that applies to activities in foreign countries where the Merged Group has assets. Increasingly, national, state and provincial governments in a number of countries, particularly in developing economies, are announcing or taking steps to introduce changes to the fiscal regimes as they apply to resources projects. While there is relative stability in the fiscal regimes that apply to the Merged Group, there can be no guarantee that the Merged Group will not be subject to material changes to the fiscal regulatory environment in which it conducts its business in the future, which, in turn, may adversely impact upon the financial performance and results of the Merged Group and its future prospects.

Companies in the oil and gas industries are subject to requirements to pay other direct and indirect taxes, royalties and other imposts in addition to normal company taxes. The Merged Group will have assets in Australia, New Zealand, Egypt (subject to proposed divestment⁷⁰) and Tanzania. Accordingly, its profitability may be affected by changes in government taxation and royalty policies or the interpretation or application of such policies.

Changes in the interpretation or application of existing taxation laws by the courts or taxation authorities in Australia, or changes to the laws themselves may affect the taxation treatment of Merged Group Shares or securities or the holding or disposal of those shares or securities.

BUSINESS AND OPERATING RISKS OF THE MERGED GROUP

The business of exploration and project development involves a degree of risk. To prosper, the Merged Group will depend on (among other factors):

- successful exploration and the establishment of commercial oil and gas reserves;
- design;
- construction and operation of efficient oil and gas gathering and processing facilities; and
- managerial performance and efficient marketing of oil and gas.

Production performance

Production performance of the Merged Group is subject to a number of risks, including production and expansion activities being executed as planned, changes in operating and capital costs, unanticipated mechanical failure of plant and equipment, and technical risks such as reservoir performance. Relevant risks, if they arise (alone, or in combination), may interrupt or delay production, increase production costs or result in damage to and/or destruction of property, or plant and equipment, or personal injury, environmental harm or legal liability.

Development activities

The Merged Group's development activities may be delayed or may be unsuccessful for many reasons, including extreme weather conditions and weather events, unanticipated financial, operational or political events, a failure to obtain necessary government and stakeholder approvals, or a failure to obtain relevant approvals on reasonable acceptable terms or in a timely manner, cost overruns, decline in commodity prices or demand, equipment and labour shortages, technical concerns, increases in operating costs, community or industrial action and general project delays.

Material delays or failures to successfully complete the Merged Group's development activities may have a material adverse effect on the operating performance of the Merged Group or its future prospects.

69 Brent Oil Price cited. Source: Bloomberg.

70 Refer to Section 4.10(d)(iii) (*International – Sale of Beach Egypt*) for further information regarding the sale of Beach's interest in Beach Egypt.

Reserves and resources

The estimation of hydrocarbon reserves and resources is not precise and is subject to significant uncertainties associated with hydrocarbon reservoir geology, and the interpretation of seismic and well data, as well as assumptions regarding recovery factors, future commodity prices, and development and operating costs. There can be no guarantee that the Merged Group will successfully produce the volume of hydrocarbons estimated to be included in the Merged Group's Reserves, or that hydrocarbon resources will be successfully converted to reserves. Estimates which were valid when originally calculated may alter significantly or become uncertain when new information becomes available on the oil and gas reservoirs through additional drilling or reservoir engineering tests over the life of a field. As estimates change, development and production plans may be altered in a way that may adversely affect the Merged Group's results of operations or future prospects.

Without limiting the foregoing, one of the factors that may materially influence Reserves and Contingent Resources estimates is the assumptions regarding the future price of oil and other hydrocarbon products. Declines in the price of oil and changes to assumptions regarding the medium and longer term price for oil may result in Reserves in the Merged Group's Reserves estimates ceasing to be commercially viable which may result in a revision to the Merged Group's oil Reserves estimates. Refer to description of *Commodity prices* risk factor set out in this Section 7.4.

As noted in Section 5.1(d) (*Reserves and Contingent Resources position*), Drillsearch and Beach's independent estimates of Reserves for the ex-PEL 91 joint venture and the ex-PEL 106 joint venture are different. If the Merger is implemented, the estimates of the Reserves and Contingent Resources of the Merged Group as at 30 June 2016 will be undertaken in due course. It is possible that when the Reserves and Contingent Resources estimates are undertaken by the Merged Group, applying common methodologies and assumptions, there may be material changes to the estimates as against the corresponding standalone estimates of Drillsearch and Beach as at 30 June 2015.

Exploration activities

The future operating and financial performance of the Merged Group will be heavily influenced by the ability of the Merged Group to successfully explore for and identify hydrocarbon reserves and resources that are commercially viable, so as to increase hydrocarbon reserves and/or replace oil and gas reserves depleted by production.

Exploration activity is a high risk endeavour which is subject to geological and technical risks and uncertainties.

There can be no guarantee that the Merged Group will, through its exploration activities, successfully identify and secure hydrocarbon reserves and resources to support future production.

Drilling activities

Oil and gas exploration, development and production activities typically involve drilling operations. Drilling operations are high-risk and subject to hazards including unexpected geological conditions, infrastructure failure and other incidents, or conditions which could result in damage to plant or equipment or the environment. Although it is intended to take adequate precautions to minimise risks associated with drilling activities, there can be no guarantee that the Merged Group will not experience one or more material incidents in the context of drilling activities which may have an adverse impact on the operating and financial performance of the Merged Group, including costs associated with control of well operations, recovery of plant and equipment, and environmental rectification and compensation, along with delays or other impacts on anticipated results.

Joint venture activities

As is common in the oil and gas industry, many of the Merged Group's assets are held, or may in the future be held, in unincorporated joint ventures which enable the participants to share the technical, operational and commercial risk associated with oil and gas activities. With some exceptions, decisions regarding the exploration, development and production activities of joint ventures require approval of a specific majority of participants in the joint venture. Whether or not the Merged Group holds majority interests or acts as the operator of relevant joint ventures, joint venture participants may:

- have commercial or other interests or objectives for the relevant joint venture which may not be aligned with those of the Merged Group;
- exercise voting rights for joint venture decisions to prevent or delay activity which the Merged Group considers to be in the best interests of the joint venture and the commercial objectives of the Merged Group; or
- be unable or unwilling to fulfil their respective obligations, including their proportionate share of joint venture capital and operating costs.

Where joint venture activities are not operated by the Merged Group, the Merged Group will monitor the performance of the operator and

may seek to influence joint venture activities by providing technical advice, but has limited ability to control the day-to-day conduct of the activities of the joint venture.

Improper management of joint venture activities, including a failure to have effective policies and systems in place, may adversely affect the value of the Merged Group's interests in a relevant joint venture and, by association, may result in damage to reputation of the Merged Group which may, in turn, impact on the Merged Group's other operations and access to new opportunities.

Participants in the joint ventures to which the Merged Group is or becomes a party are liable for cash calls for the costs of exploration and development programs. If a participant fails to pay its cash calls, penalty provisions will apply under the joint venture or joint operating agreements. Such penalties could have a material adverse impact on the Merged Group through actions such as loss of rights to production, dilution or loss of interest in the projects.

Access to infrastructure

In order to access markets for the sale of the Merged Group's production, the Merged Group will rely on access to infrastructure on commercially acceptable terms. While the Merged Group's assets include interests in oil and gas processing and transportation infrastructure, those interests are in many instances held in joint ventures and not under the control of the Merged Group. There can be no guarantee that the Merged Group will be able to maintain or obtain access to relevant infrastructure on commercially acceptable terms. A failure to obtain or maintain access to relevant infrastructure, or an event which results in a significant interruption to access to such infrastructure due to unforeseen circumstances, will have an adverse effect on the operating and financial performance of the Merged Group.

Ability to exploit successful discoveries

The Merged Group may not always be in a position to exploit the successful discoveries made in areas in which it has an interest. Such exploitation requires the necessary licences or clearances from the relevant authorities, which may in turn require conditions to be satisfied and will be subject to the exercise of discretions by such authorities. It may not be possible for such conditions to be satisfied. Further, the decision to proceed to further exploitation may require the participation of other companies whose interest and objectives may not be the same as the Merged Group.

Unitisation

In the event of a cross-border discovery or a cross-permit discovery involving another permit holder, the Merged Group may be required to share production in accordance with the requirements of the relevant regulatory authorities or of any relevant unitisation agreement agreed between the parties (as the case may be). Among other things, such a requirement may delay the development of projects while negotiations with authorities or on unitisation arrangements progress and there can be no assurance that such negotiations will be resolved satisfactorily. Any delay to the development of projects may adversely affect the performance of the Merged Group.

Security of tenure

The operating and financial performance of the Merged Group, along with its future prospects, are subject to the Merged Group maintaining secure tenure over its exploration, development and production interests, and securing tenure for new properties.

Permits in which the Merged Group has an interest are subject to compulsory work or expenditure obligations for each permit year which must be met in order to keep the permit in good standing. It may be possible for these commitments to be varied by deferment and combination with later year requirements on application of the holders but any such variation is at the discretion of the relevant Minister administering the relevant legislation. If no variation is approved by the relevant Minister then a failure to meet compulsory obligations could lead to forfeiture of the permit. A failure to meet tenure conditions may result in a loss of tenure and may impact on the Merged Group's reputation which, in turn, may hinder or prevent the Merged Group from successfully obtaining extensions to its existing tenure or new tenure associated with future opportunities.

Foreign operations

The Merged Group's foreign operations are exposed to various levels of political, economic and other risks and uncertainties associated with operating in foreign jurisdictions such as Egypt (subject to proposed divestment⁷¹), New Zealand and Tanzania. International operations may expose the Merged Group to risk which may not exist for Australian operations. These risks and uncertainties vary from country to country and include, but are not limited to, labour unrest, renegotiation or nullification of existing concessions, licences, permits

and contracts, changes in taxation policies, restrictions on foreign investment, changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction or otherwise benefit residents of that country or region. In the event of a dispute arising in connection with its operations, the Merged Group may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of the courts of the Merged Group's home jurisdiction or enforcing judgements obtained in its home jurisdiction in such other jurisdictions.

Changes, if any, in petroleum exploration and production or investment policies or shifts in political attitude in any of the countries in which it operates may adversely affect the Merged Group's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use, employment contractor selection and safety. Failure to comply strictly with applicable laws, regulations and local practices relating to petroleum applications and tenure, could result in loss, reduction or expropriation of entitlements.

Contracts with host country governments can contain provisions that may give governments contractual rights to assume ownership of property and/or become the operator of the field and which limit crude oil or gas entitlements or profit which in turn can impact on the Merged Group's revenue. If any foreign government or jurisdiction revises existing partnership agreements or laws or fails to meet its obligations under contracts including production sharing contracts, joint venture agreements and/or applicable laws, this may delay or otherwise impact on the progress of a project or restrict production from a project. In some circumstances the Merged Group may not be able to influence or determine the outcome of this decision which may have an adverse impact on its profitability and cash flow.

The occurrence of these factors adds uncertainties which could have an adverse effect on the Merged Group's operations or profitability.

Contractors and specialist suppliers

The exploration, development and production activities of the Merged Group rely upon the Merged Group (or relevant third party operators of the Merged Group's non-operated joint venture interests) engaging experienced and qualified contractors and suppliers on commercially reasonable terms.

The Merged Group operates within a complex supply chain, and relies upon suppliers of raw materials, services, equipment and infrastructure to ensure its exploration, development and production activities can be undertaken, and on providers of logistics to ensure products and materials are delivered. The market for goods and services for oil and gas activities is variable and may be volatile as an extension of broader economic influences, reduction in the levels of activities in the oil and gas industry, on a local or broader basis, and competition for goods and services with other sectors. A failure of significant components of this supply chain (including the availability of drilling rigs) may have an adverse effect on the Merged Group's business and results of operations.

In addition, the Merged Group's business, operations and financial performance may be materially and adversely affected if any of its current and proposed contractors and sub-contractors are not available as and when required or do not perform their contractual obligations as expected by the Merged Group. Where the Merged Group relies on third parties to deliver or perform goods and services, there can be no guarantee that relevant third parties will deliver or perform those goods and services in the manner that delivers upon the Merged Group's plans and expected outcomes which, in turn, will adversely affect the operating results and financial performance of the Merged Group.

PEOPLE AND SUSTAINABILITY RISKS

Attracting and retaining skilled personnel

The Merged Group's future prospects will be influenced by its ability to identify, attract, accommodate, motivate and retain qualified and experienced personnel across its business.

In addition, the ability of the Merged Group to maintain strong relations with its workforce, and to develop and/or maintain a strong organisational culture is a critical enabler for the performance of the workforce and, in turn, the operating and financial performance of the Merged Group.

71 Refer to Section 4.10(d)(iii) (*International – Sale of Beach Egypt*) for further information regarding the sale of Beach's interest in Beach Egypt.

Regulatory risk

The Merged Group's business activities are subject to the extensive laws and regulations which govern the undertaking of oil and gas exploration, development and production (and associated activities) in the jurisdictions in which the Merged Group has assets. Relevant laws and regulations include tenure, environmental regulation, and laws relating to access to land and the interests of landholders and traditional owners.

Oil and gas operators are required to obtain and maintain various permits to provide a regulatory 'licence to operate'. A failure to comply with relevant laws and regulations, including conditions imposed on the Merged Group's activities under relevant permits, may result in operations being suspended, a forfeiture of critical permits, the imposition of a financial guarantee or surety, or financial penalty of compensation order, along with the potential for associated damage to the reputation of the Merged Group.

The possible nature and extent of changes to legislation, regulations or guidelines or their interpretation or administration by relevant courts and authorities (including changes relating to taxation, industrial relations, field developments, restrictions on operations such as noise, dust or water, or specific techniques such as fracture stimulation) that may affect the Merged Group's business activities cannot be predicted with any certainty. Such changes may result in the imposition of more onerous obligations on the Merged Group and, in turn, impact on the planned activities of the Merged Group and its operating and financial performance.

Health and safety

The business of exploration, development, production and transportation of oil and gas involves a variety of risks to the health and safety of personnel and to the environment. A failure to maintain adequate systems and processes to avoid or mitigate the risks of health and safety incidents may result in events effecting the health and safety of Merged Group personnel which, in turn, may result in regulatory or other legal action against the Merged Group.

Land access and Native Title risk

Land access is critical to the Merged Group's operations. Immediate and continuing access to land within the Merged Group's licence areas cannot in all cases be guaranteed as the Merged Group may be required to obtain the consent of owners and occupiers of the relevant land or surrounding land. Compensation may be required to be paid by the Merged Group to the owners and occupiers of land in order for the Merged Group to carry out exploration activities.

In addition, the Merged Group operates in a number of areas within Australia that are or may become subject to claims or applications for native title determinations. These have the potential to introduce delays in the granting of petroleum licences and other permits and consequently to have an effect on the timing and cost of exploration, development and production licences, as well as in respect of operating costs associated with such licences.

Various aspects of the Merged Group's future performance and profitability are dependent on the outcome of future negotiations with third parties. In addition to the outcome of negotiations on land access arrangements and native title issues, future negotiation with government is expected in relation to:

- licence renewals and work obligations; and
- security for rehabilitation of areas of operation within the Merged Group's tenements.

Environmental risk

Oil and gas exploration, development and production activities may cause harm to the environment. If the Merged Group is responsible for environmental harm it will be required to remediate the harm which may involve substantial expenditure. In addition, a material environmental incident may result in operations being suspended, a forfeiture of critical permit, the imposition of a financial guarantee or surety, or financial penalty of compensation order, as well damage to the Merged Group's reputation.

Insurance

The Merged Group will maintain insurance, either through its corporate entity or through a joint venture, for certain activities within ranges of coverage that it believes to be consistent with industry practice. However, in certain circumstances insurance proceeds may not be adequate to cover all potential liabilities and losses including replacement cost, lost revenues, increased expenses, fines and penalties, financial loss or third party liability. In addition, recovery under insurances is subject to the terms and conditions of the relevant insurance policies which may include material exclusions and uninsured excess amounts (or deductibles). Where the Merged Group does not have insurances in place in respect of a relevant loss or hazard, or a relevant insurance policy does not respond as anticipated, the Merged Group may be exposed to material uninsured losses which, in turn, may impact upon the financial performance of the Merged Group. In addition, insurance of risks associated with oil and gas exploration and production is not always available and, where available, the costs can be prohibitive. There is a risk that insurance premiums may increase to a level where the Merged Group considers it is unreasonable or not in its interests to maintain insurance cover or not to a level of coverage which is in accordance with industry practice. No assurance can be given that the Merged Group will be able to obtain such insurance coverage in the future at reasonable rates or that any coverage it arranges will be adequate and available to cover claims.

Claims, liability and litigation

The risk of litigation is a general risk of the Merged Group's business. The Merged Group may incur costs in making payments to settle any such claims or complying with any court order which may not be adequately covered by insurance, or at all. Such payment may have an adverse impact on the Merged Group's profitability and financial position, and may impact the Merged Group's ability to execute its development plans in part or in full.

8. IMPLEMENTATION OF THE MERGER

8.1 MERGER IMPLEMENTATION AGREEMENT

On 23 October 2015, Drillsearch and Beach entered into a Merger Implementation Agreement in relation to the Merger under which Drillsearch agreed to propose the Scheme.

The implementation of the Merger is subject to a number of Conditions Precedent which are summarised in Section 2.4 (*Conditions of the Merger*). The Merger will not proceed unless all of these Conditions Precedent are satisfied or waived (if applicable) in accordance with the Merger Implementation Agreement. Drillsearch and Beach have agreed to use their respective best endeavours to procure the satisfaction of the Conditions Precedent.

A summary of the Merger Implementation Agreement is set out in Section 10.2 (*Summary of the Merger Implementation Agreement*).

8.2 BEACH DEED POLL

On 11 December 2015, Beach executed the Deed Poll, pursuant to which Beach has agreed to perform its obligations under the Scheme, including the obligation to provide Scheme Consideration to Scheme Shareholders, subject to the Scheme becoming Effective.

The Deed Poll may be relied upon by a Scheme Shareholder, despite the fact that they are not a party to it.

A copy of the Beach Deed Poll is attached as Annexure E (*Beach Deed Poll*) to this Scheme Booklet.

8.3 EFFECTIVE DATE

The Merger will, subject to the Conditions Precedent being satisfied or waived (if applicable) as referred to above, become Effective on the Effective Date (being the date an office copy of the Second Court Order from the Second Court Hearing is lodged with ASIC). Drillsearch will, on the Merger becoming Effective, give notice of that event to the ASX.

8.4 DETERMINATION OF PERSONS ENTITLED TO THE SCHEME CONSIDERATION

(a) Record Date

Those Drillsearch Shareholders on the Register on the Record Date (i.e. at 7:00pm on Thursday, 25 February 2016) who are not

Excluded Shareholders will become entitled to the Scheme Consideration in respect of the Drillsearch Shares they hold at that time, except for Ineligible Foreign Shareholders who will receive the Ineligible Foreign Shareholder Amount.

(b) Dealings on or prior to the Record Date

For the purposes of calculating entitlements under the Scheme, any dealing in Drillsearch Shares will only be recognised if:

- (i) in the case of dealings of the type to be effected by CHESS, the transferee is registered in the Register as the holder of the relevant Drillsearch Shares by the Record Date; and
- (ii) in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before the Record Date at the Drillsearch Registry.

Subject to the Corporations Act, Listing Rules and the Drillsearch constitution, Drillsearch must register registrable transmission applications or transfers of the kind recognised above by the Record Date (provided that Drillsearch is not required to register a transfer that would result in a Drillsearch Shareholder holding a parcel of Drillsearch Shares that is less than a marketable parcel (as defined in the market rules of the ASX).

Drillsearch will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Drillsearch Shares received after the Record Date.

(c) Dealings after the Record Date

For the purposes of determining the entitlement to the Scheme Consideration, Drillsearch must maintain the Register until the Scheme Consideration has been paid to Scheme Shareholders. The Register in this form will solely determine entitlements to the Scheme Consideration.

From the Record Date, except as evidence of entitlement to the Scheme Consideration in respect of the Drillsearch Shares relating to that entry:

- (i) all statements of holding in respect of Drillsearch Shares cease to have effect as documents of title in respect of such Drillsearch Shares; and
- (ii) each entry current at that date on the Register will cease to have effect.

8.5 FRACTIONAL ENTITLEMENTS AND SHARE SPLITTING

(a) Fractional entitlements

Where the calculation of the aggregate number of New Beach Shares to be issued to a particular Scheme Shareholder would result in the issue of a fraction of a Beach Share, the number will be rounded:

- (i) if the fractional entitlement is less than 0.5 – down to the nearest whole number of New Beach Shares; and
- (ii) otherwise – up to the nearest whole number of New Beach Shares.

(b) Share splitting

If Drillsearch or Beach are of the opinion, formed reasonably, that several Scheme Shareholders (each of whom holds a number of Drillsearch Shares that results in rounding under Section 8.5(a) (Fractional Entitlements)) have, before the Record Date, been party to a shareholding splitting or division in an attempt to obtain an advantage by reference to such rounding, Beach and Drillsearch may give notice to those Scheme Shareholders:

- (i) setting out the names and registered addresses of all of them;
- (ii) stating that opinion; and
- (iii) attributing to one of them specifically identified in the notice the Drillsearch Shares held by all of them.

After such notice has been given, the Scheme Shareholder specifically identified in the notice shall, for the purposes of the Scheme, be taken to hold all of those Drillsearch Shares and each of the other Scheme Shareholders whose names and registered addresses are set out in the notice shall, for the purposes of the Scheme, be taken to hold no Drillsearch Shares.

8.6 PAYMENT OF THE SCHEME CONSIDERATION

On the Implementation Date, Scheme Shareholders who are not Ineligible Foreign Shareholders will be issued 1.25 New Beach Shares for every Scheme Share they hold.

Scheme Shareholders who are Ineligible Foreign Shareholders, will be paid the Ineligible Foreign Shareholder Amount within the 5 Business Days after the Foreign Nominee has transferred to Beach all the proceeds of the sale of those New Beach Shares issued to it under the Scheme (after deducting any

applicable brokerage, stamp duty and other selling costs and taxes).

The Ineligible Foreign Shareholder Amount may be paid by Beach doing any of the following:

- sending by pre-paid post (or pre-paid airmail if the address is outside Australia) to the registered address of the Ineligible Foreign Shareholder a pre-printed cheque for the Ineligible Foreign Shareholder Amount in the name of that Ineligible Foreign Shareholder; or
- depositing or procuring the Beach Registry to deposit the Ineligible Foreign Shareholder Amount into the Australian bank account nominated by the Ineligible Foreign Shareholder to Drillsearch or the Drillsearch Registry.

8.7 IMPLEMENTATION DATE

The Implementation Date is the date that is three Business days after the Record Date. The Implementation Date is expected to be Tuesday, 1 March 2016.

On the Implementation Date, Beach must issue New Beach Shares to each Scheme Shareholder (other than Ineligible Foreign Shareholders) as the Scheme Consideration, and cause their names and addresses to be entered in the Beach Register in respect of the New Beach Shares to which they are entitled. As soon as practicable after the Implementation Date, Beach must send a certificate or holding statement (or equivalent document) to each Scheme Shareholder representing the number of New Beach Shares issued to the Scheme Shareholder pursuant to the Scheme.

Once the Scheme Consideration has been issued, the Scheme Shares will be transferred to Beach without any need for further actions by any Scheme Shareholder.

8.8 INELIGIBLE FOREIGN SHAREHOLDERS AND THE INELIGIBLE FOREIGN SHAREHOLDER AMOUNT

(a) Permitted Scheme Shareholders

Based on the information available to Beach as at the date of this Scheme Booklet, Scheme Shareholders whose addresses are shown in the Register on the Record Date as being in the following jurisdictions will be entitled to have New Beach Shares issued to them pursuant to the Scheme subject to any qualifications set out below in respect of that jurisdiction:

- Australia and its external territories;
- New Zealand;
- Hong Kong;
- Singapore;
- Malaysia; and

- any other person or jurisdiction in respect of which Beach is satisfied that it is permitted to allot and issue New Beach Shares to that Scheme Shareholder pursuant to the Scheme by the laws of that place.

Nominees and custodians must not forward or distribute this Scheme Booklet to any person in any country outside Australia, New Zealand, Hong Kong, Singapore and Malaysia without the consent of Drillsearch and Beach.

(b) Ineligible Foreign Shareholders

Restrictions in certain foreign countries may make it impractical or unlawful to offer or receive securities in those countries. For this reason the entitlement of Scheme Shareholders who are Ineligible Foreign Shareholders to New Beach Shares will be dealt with under the Scheme by the Foreign Nominee.

A Scheme Shareholder will be considered an Ineligible Foreign Shareholder if the Scheme Shareholder's registered address on the Register in any jurisdiction other than those jurisdictions listed in Section 8.8(a) (Permitted Scheme Shareholders).

(c) Ineligible Foreign Shareholder Amount

Scheme Shareholders who are Ineligible Foreign Shareholders will receive an amount calculated in accordance with the following formula, rounded up or down to the nearest cent:

$$A = (B/C) \times D$$

where

A is the Ineligible Foreign Shareholder Amount;

B is the number of New Beach Shares attributable to, and that would otherwise have been issued to, that Ineligible Foreign Shareholder had it not been an Ineligible Foreign Shareholder and which are instead issued to the Foreign Nominee;

C is the total number of New Beach Shares attributable to, and which would otherwise have been issued to, all Ineligible Foreign Shareholders collectively and which are instead issued to the Foreign Nominee; and

D is the net proceeds of sale received by Beach pursuant to paragraph (iii) below.

Under the terms of the Scheme:

- Beach must issue the New Beach Shares attributable to, and which would otherwise be required to be provided to the Ineligible Foreign Shareholder under the Scheme to the Foreign Nominee;
- Beach will procure the Foreign Nominee to sell those New Beach Shares, as soon as reasonably practicable and in any event

no more than 15 Business Days after the Implementation Date, on market in such a manner, at such price and on such other terms as the Foreign Nominee determines in good faith (and at the risk of the Ineligible Foreign Shareholders) to Beach;

- promptly after the last sale of those New Beach Shares, Beach will procure that the Foreign Nominee pays the net proceeds of sale (after deducting applicable brokerage, stamp duty and other selling costs and taxes); and

- as soon as reasonably practicable and in any event no more than 5 Business Days after remittance in paragraph (iii) occurs, Beach will pay each Ineligible Foreign Shareholder the Ineligible Foreign Shareholder Amount.

Under the Scheme each Ineligible Foreign Shareholder appoints Drillsearch, and each director and officer of Drillsearch as its agent to receive any financial services guide or other notice which may be given the Foreign Nominee to the Ineligible Foreign Shareholder for or in connection with its appointment or sales.

8.9 COMMENCEMENT OF TRADING OF NEW BEACH SHARES

The New Beach Shares issued as the Scheme Consideration are expected to commence trading on the ASX on a deferred settlement basis on Friday, 19 February 2016.

The exact number of New Beach Shares to be issued to Scheme Shareholders will not be known until after the Record Date and will not be confirmed to them until they receive their holding statements/confirmations following the Implementation Date. It is the responsibility of each Scheme Shareholder to confirm their holdings of New Beach Shares before they trade them to avoid the risk of committing to sell more than will be issued to them. Scheme Shareholders who trade their New Beach Shares on a deferred settlement basis do so at their own risk.

8.10 DELISTING OF DRILLSEARCH

Drillsearch will apply:

- for termination of the official quotation of Drillsearch Shares on the ASX, and
- to have itself removed from the official list of the ASX,

on a date after the Implementation Date.

9. TAXATION IMPLICATIONS

The following is a summary of certain of the Australian income tax, GST and stamp duty consequences for Scheme Shareholders of disposing of their Drillsearch Shares in exchange for New Beach Shares under the Merger.

This summary is based upon Australian taxation law and administrative practice in effect as at the date of this Scheme Booklet. It is not intended to be an authoritative or comprehensive analysis of the taxation laws of Australia. Further, it does not deal with the taxation consequences of disposing of Drillsearch Shares issued under an employee share scheme, Drillsearch Shares that are held on revenue account or as trading stock, Drillsearch Shares that may be subject to specific tax provisions or the implications of disposing of Drillsearch Shares under the taxation laws of countries other than Australia.

This summary also does not address Scheme Shareholders that are partnerships, persons that are partners of such partnerships or persons that are beneficiaries of a trust that is a Scheme Shareholder. If a partnership or a trust is a Scheme Shareholder, the partners of such partnership or the beneficiaries of such trust should consult their own tax advisers with respect to the Australian taxation consequences to them of the partnership or the trust (as applicable) participating in the Merger. This summary also does not address Scheme Shareholders whose shares are subject to the Taxation of Financial Arrangements (TOFA) regime.

This summary does not constitute tax advice and is intended only as a general guide to the Australian tax implications of participating in the Merger. It does not consider any specific facts or circumstances that may apply to particular Scheme Shareholders. As the tax consequences to Scheme Shareholders of participating in the Merger will depend on each Scheme Shareholder's own individual circumstances, all Scheme Shareholders are advised to seek independent professional advice regarding the Australian and foreign tax consequences of disposing of their Drillsearch Shares according to their own particular circumstances.

9.1 AUSTRALIAN RESIDENTS

This Section applies to Scheme Shareholders who are residents of Australia for Australian income tax purposes and hold their Shares on capital account.

(a) CGT event

The disposal of Drillsearch Shares by a Scheme Shareholder pursuant to the Merger will constitute a CGT event. The CGT event will happen at the time that the Scheme Shareholder disposes of their Drillsearch Shares under the Merger, which will be the Implementation Date. However, as discussed further below, CGT roll-over relief should be available for a Scheme Shareholder to disregard a capital gain which arises from this CGT event if the Scheme Shareholder satisfies the conditions in paragraph (b) below.

In the absence of CGT roll-over relief, a capital gain or capital loss will arise as a consequence of this CGT event equal to the difference between the value of the capital proceeds that the Scheme Shareholder receives or is entitled to receive in respect of the disposal of their Drillsearch Shares and the Scheme Shareholder's cost base (or reduced cost base, in the case of a capital loss) in the Drillsearch Shares. A Scheme Shareholder will make a capital gain if the capital proceeds exceed the Scheme Shareholder's cost base for the Drillsearch Shares and a capital loss if the capital proceeds is less than the Scheme Shareholder's reduced cost base for the Drillsearch Shares.

A Scheme Shareholder's capital proceeds should generally be equal to the market value of the New Beach Shares received by the Scheme Shareholder in respect of the disposal of their Drillsearch Shares, determined as at the Implementation Date. A Scheme Shareholder's cost base (and reduced cost base) in the Drillsearch Shares should generally include the amount paid by the Scheme Shareholder to acquire the Drillsearch Shares plus any non-deductible incidental costs of acquisition and disposal of the Drillsearch Shares (eg, brokerage fees and stamp duty).

(b) CGT scrip-for-scrip roll-over relief

A Scheme Shareholder who makes a capital gain from the disposal of their Drillsearch Shares which they acquired, or are taken to have acquired, on or after 20 September 1985 for CGT purposes should be able to choose to obtain CGT scrip-for-scrip roll-over relief in respect of the disposal of those shares.

Broadly, CGT scrip-for-scrip roll-over relief enables a Scheme Shareholder to choose to disregard the capital gain they make

from disposing of their Drillsearch Shares in exchange for New Beach Shares (as discussed further below).

If a capital loss arises or if the Scheme Shareholder acquired, or is taken to have acquired, their Drillsearch Shares before 20 September 1985 for CGT purposes, no CGT scrip-for-scrip roll-over relief is available. The consequences to a Scheme Shareholder of choosing to obtain CGT scrip-for-scrip roll-over relief and also the consequences if CGT scrip-for-scrip roll-over relief is not chosen or is not available are outlined generally below.

A Scheme Shareholder does not need to inform the ATO or document their choice to claim CGT scrip for scrip roll-over relief other than to complete their income tax return in a manner consistent with their choice.

(c) Consequences if CGT scrip-for-scrip roll-over relief is chosen

If a Scheme Shareholder chooses to obtain CGT scrip for scrip roll-over relief, the following general treatment will apply.

Capital gain is disregarded

If a Scheme Shareholder chooses to obtain CGT scrip for scrip roll-over relief, the capital gain arising on the disposal of their Drillsearch Shares in exchange for New Beach Shares should be disregarded.

Cost base and reduced cost base of New Beach Shares

If a Scheme Shareholder chooses to obtain CGT scrip for scrip roll-over relief, the first element of the cost base for the New Beach Shares is worked out by attributing to them, on a reasonable basis, the existing cost base of the Drillsearch Shares that they exchanged for the New Beach Shares. The first element of the reduced cost base is worked out similarly.

Acquisition date of New Beach Shares

If a Scheme Shareholder chooses to obtain CGT scrip for scrip roll-over relief, the acquisition date of the New Beach Shares for CGT discount purposes is taken to be the date when the Scheme Shareholder acquired the Drillsearch Shares that were exchanged for the relevant New Beach Shares.

This acquisition date will be relevant for the purposes of determining whether any entitlement to the CGT discount is available in respect of any future disposal of the New Beach Shares.

(d) Consequences if CGT scrip for scrip roll-over relief is not chosen or is not available

If a Scheme Shareholder acquired, or is taken to have acquired, their Drillsearch Shares on or after 20 September 1985 and either does not qualify for CGT scrip for scrip roll-over relief, or the Scheme Shareholder chooses not to obtain the roll-over relief the following general treatment will apply.

Indexation

If the Scheme Shareholder's Drillsearch Shares were acquired at or before 11.45 am (by legal time in the Australian Capital Territory) on 21 September 1999, for the purpose of calculating a capital gain (but not a capital loss), their cost base for those Drillsearch Shares may be indexed for inflation to 30 September 1999 (which would only be of any practical effect if the Drillsearch Shares were acquired prior to 1 July 1999).

If the Scheme Shareholder is an individual, trustee or trustee of a complying superannuation entity (**Concessional Taxpayer**), and wants indexation to apply, they must choose for indexation to apply. The choice must be made on or before the day the Scheme Shareholder lodges their income tax return for the income year in which they dispose of their Drillsearch Shares. The Scheme Shareholder does not need to inform the ATO or document the choice to apply indexation other than to complete their income tax return in a manner consistent with that choice. If the Scheme Shareholder chooses for indexation to apply, they will not be eligible for discount CGT treatment (described below).

If the Scheme Shareholder is a type of entity that is not eligible for discount CGT treatment (eg, a company), indexation will apply by default.

Discount CGT treatment

If the Scheme Shareholder is a Concessional Taxpayer and has held, or is taken to have held, their Drillsearch Shares for at least 12 months (for CGT discount purposes) at the time of the disposal of their Drillsearch Shares, and the Scheme Shareholder does not choose (or is not eligible to choose) to apply indexation, the discount CGT provisions may apply. This means that:

- if the Scheme Shareholder is an individual or trustee, only one-half of the capital gain (without any allowance for indexation of the cost base of the shares) will be taxable; and
- if the Scheme Shareholder is a trustee of a complying superannuation entity, only two-thirds of the capital gain (without any allowance for indexation of the cost base of the shares) will be taxable.

The discount CGT provisions do not apply to Scheme Shareholders that are companies.

If the Scheme Shareholder makes a discount capital gain, any of their available capital losses will be applied to reduce the undiscounted capital gain before either the one-half or one-third (as applicable) discount is applied. The resulting amount is then included in the Scheme Shareholder's net capital gain for the income year. If the Scheme Shareholder chooses for indexation (described above) to apply, they will not be eligible for discount CGT treatment.

Capital loss

If a Scheme Shareholder makes a capital loss from the disposal of their Drillsearch Shares this may be used to offset capital gains they derive in the same or subsequent years of income (subject to satisfying certain conditions) but cannot be offset against ordinary income nor carried back to offset net capital gains arising in earlier income years.

Cost base and reduced cost base of New Beach Shares

The first element of the cost base (and reduced cost base) of the New Beach Shares received by a Scheme Shareholder should be equal to the market value of the Drillsearch Shares they exchange for the New Beach Shares, determined as at the Implementation Date.

Acquisition date of New Beach Shares

The acquisition date of the New Beach Shares for Scheme Shareholders for CGT discount purposes should be the Implementation Date.

This means that if the Scheme Shareholder is a Concessional Taxpayer they will need to hold their New Beach Shares for at least 12 months after that date before the CGT discount (described above) will apply on a subsequent disposal of the New Beach Shares.

(e) Shares acquired, or taken to be acquired, before 20 September 1985

If a Scheme Shareholder acquired, or is taken to have acquired, their Drillsearch Shares before 20 September 1985, the following general treatment will apply.

Capital gain or loss disregarded

A capital gain or capital loss arising on the disposal of their Drillsearch Shares will be disregarded.

Cost base and reduced cost base of New Beach Shares

The first element of the cost base (and reduced cost base) of the New Beach Shares received by a Scheme Shareholder should be equal to the market value of the New Beach Shares received.

Acquisition date of New Beach Shares

The acquisition date of the New Beach Shares for CGT discount purposes should be the Implementation Date.

This means that if the Scheme Shareholder is a Concessional Taxpayer it will need to hold its New Beach Shares for at least 12 months after that date before the CGT discount (described above) will apply on a subsequent disposal of the New Beach Shares.

9.2 NON-AUSTRALIAN RESIDENTS

This Section applies to Scheme Shareholders who are not residents of Australia for Australian income tax purposes and hold their Drillsearch Shares on capital account. It does not apply to Scheme Shareholders who have held their Drillsearch Shares at any time in carrying on a business at or through a permanent establishment in Australia.

A Scheme Shareholder who is not a resident of Australia for Australian income tax purposes and satisfies the criteria in the preceding paragraph (ie, they hold their Drillsearch Shares on capital account and have not held their Drillsearch Shares at any time in carrying on a business at or through a permanent establishment in Australia) should generally not be subject to CGT on the disposal of their Drillsearch Shares unless the Drillsearch Shares are an "indirect Australian real property interest" as the time of the disposal of their Drillsearch Shares.

Broadly, a Scheme Shareholder's Drillsearch Shares will not be an indirect Australian real property interest as at that time unless the following conditions are satisfied:

- the Scheme Shareholder and their associates (as defined for tax purposes) together have held at least 10% or more (by value) of the issued shares in Drillsearch at the time the Scheme Shareholder disposed of their Drillsearch Shares or for at least 12 months during the 24 months before they disposed of their Drillsearch Shares; and
- the aggregate market value of Drillsearch's assets which are taxable Australian property (being direct and indirect interests in real property, including leases of land, situated in Australia and mining, quarrying or prospecting rights in respect of materials situated in Australia) exceeds the aggregate market value of Drillsearch's assets which are not taxable Australian property.

(a) Consequences if a Scheme Shareholder's Drillsearch Shares are an indirect Australian real property interest

If a Scheme Shareholder's Drillsearch Shares constitute an indirect Australian real property interest, the disposal of their Drillsearch Shares may give rise to a capital gain or capital loss to the Scheme Shareholder, equal to the difference between the value of the capital proceeds that the Scheme Shareholder receives or is entitled to receive in respect of the disposal of their Drillsearch Shares and the Scheme Shareholder's cost base (or reduced cost base, in the case of a capital loss) in the Drillsearch Shares. A Scheme Shareholder will make a capital gain if the capital proceeds exceed the Scheme Shareholder's cost base for the Drillsearch Shares and a capital loss if the capital proceeds is less than the Scheme Shareholder's reduced cost base for the Drillsearch Shares.

A Scheme Shareholder's capital proceeds should generally be equal to the market value of the New Beach Shares received by the Scheme Shareholder in respect of the disposal of their Drillsearch Shares, determined as at the Implementation Date. A Scheme Shareholder's cost base (and reduced cost base) in the Drillsearch Shares should generally include the amount paid by the Scheme Shareholder to acquire the Drillsearch Shares plus any non-deductible incidental costs of acquisition and disposal of the Drillsearch Shares (eg, brokerage fees and stamp duty).

(b) Consequences if disposal of Drillsearch Shares gives rise to a capital gain to Scheme Shareholder

If the disposal of a Scheme Shareholder's Drillsearch Shares gives rise to a capital gain to the Scheme Shareholder, the Scheme Shareholder may be able to obtain CGT scrip-for-scrip roll-over relief in respect of the capital gain. Broadly, CGT scrip-for-scrip roll-over relief is available to the Scheme Shareholder only where the New Beach Shares constitute an indirect Australian real property interest of the Scheme Shareholder just after the New Beach Shares are issued to the Scheme Shareholder.

A Scheme Shareholder whose Drillsearch Shares are an indirect Australian real property interest should seek independent professional advice regarding the tax consequences of disposing of their Drillsearch Shares according to their own particular circumstances.

9.3 STAMP DUTY

No stamp duty should be payable by the Scheme Shareholders on the acquisition by Beach of their Scheme Shares under the Scheme or the receipt by Scheme Shareholders of New Beach Shares as Scheme Consideration.

9.4 GST

No GST will be payable by Scheme Shareholders on the acquisition by Beach of their Scheme Shares under the Scheme, or the receipt by Scheme Shareholders of New Beach Shares as Scheme Consideration.

Scheme Shareholders who are registered for GST may not be entitled to input tax credits (or only entitled to reduced input tax credits) for any GST incurred on costs associated with the disposal of their Scheme Shares.

10. ADDITIONAL INFORMATION

10.1 INTRODUCTION

This Section sets out additional information relating to the Merger, including a summary of the Merger Implementation Agreement and other material information.

10.2 SUMMARY OF THE MERGER IMPLEMENTATION AGREEMENT

ITEM	SUMMARY
Parties	Drillsearch Energy Limited and Beach Energy Limited
Interpretation	All capitalised terms used in this summary not otherwise defined in Section 11 have the same meaning as in the Merger Implementation Agreement.
Purpose	<p>The purpose of the Merger Implementation Agreement is to document the principal terms on which the parties will give effect to a merger by way of the Scheme.</p> <p>Under the Merger Implementation Agreement:</p> <ul style="list-style-type: none"> • Drillsearch agrees to propose and implement the Scheme on the terms and conditions set out in the Merger Implementation Agreement; and • the parties agree to carry out certain steps prior to implementing the Scheme (which for Drillsearch includes, but is not limited to, preparing and registering the Scheme Booklet, providing assistance in connection with preparing the Merged Group information, appointing an Independent Expert and Investigating Accountant and liaising with ASIC) and obtaining the Listing Rule 10.1 Waiver (see below).
Conditions Precedent	<p>The implementation of the Scheme is subject to a number of Conditions Precedent as summarised in Section 2.4 of this Scheme Booklet (<i>Conditions of the Merger</i>).</p> <p>The Scheme will not proceed unless all of these Conditions Precedent are satisfied or waived (if applicable) in accordance with the Merger Implementation Agreement.</p> <p>Each of Drillsearch and Beach must use its best endeavours to procure the satisfaction of the Conditions Precedent.</p>

ITEM

SUMMARY

Drillsearch exclusivity obligations: no shop, no talk and notification

From the date of the Merger Implementation Agreement and ending on the earlier of 11:50pm on 30 April 2016 (the **End Date**), the Implementation Date and the date of termination of the Merger Implementation Agreement, Drillsearch:

- **(no shop)** must not, and must ensure that its Authorised Persons do not, except with the prior written consent of Beach, directly or indirectly solicit, invite or encourage any Competing Proposal or initiate discussions with any third party with a view to obtaining any expressions of interest, offer or proposal from any person in relation to a Competing Proposal;
- **(no talk/no due diligence)** must not, and must ensure that its Authorised Persons do not, except with the prior written consent of Beach, directly or indirectly:
 - enter into or participate in any discussions or negotiations in relation to a Competing Proposal or which may be expected to lead to a Competing Proposal;
 - provide any information to a third party for the purposes of enabling that party to make a Competing Proposal; or
 - enter into any relevant agreement in connection with a Competing Proposal.

This is subject to a fiduciary carve-out where the Drillsearch Board determines, acting in good faith, that a (written) Competing Proposal is a Superior Proposal;

- **(notification obligations and Beach's matching right)** Drillsearch must:
 - within 2 Business Days of receipt by it or any of its Authorised Persons of any Competing Proposal or written proposal which may reasonably be expected to lead to a Competing Proposal, provide written notice to Beach of the material terms of the proposal;
 - provide Beach with regular updates on the status of any such written proposal; and
 - use reasonable endeavours to ask the person who has made the applicable Competing Proposal for their consent to their name being disclosed to Beach on a confidential basis,

and if such notice is provided and Drillsearch determines the Competing Proposal is a Superior Proposal and proposes to enter into a legally binding agreement with respect to the Competing Proposal or publicly recommend or support the Competing Proposal, it must give Beach three Business Days' prior notice in writing, of such proposed course of action and must procure that no Drillsearch Director recommends or supports that Competing Proposal or withdraws or adversely modifies their recommendation to vote in favour of the Merger during that time.

Beach will then have the right, but not the obligation, at any time until the expiry of the three Business Day period to offer to amend the terms of the Scheme or propose any other transaction which must be submitted to Drillsearch in writing, and if so, the Drillsearch Board must review such counterproposal in good faith in order to satisfy what the Drillsearch Board considers is required to comply with fiduciary and statutory duties, to determine if the counterproposal is a Superior Proposal.

If the Drillsearch Board determines, in good faith, and in order to satisfy what the Drillsearch Board considers to be its fiduciary and statutory duties, that the counterproposal is more favourable to Drillsearch Shareholders than the Competing Proposal:

- and the counterproposal contemplates an amendment to the Scheme, the parties must enter into a deed to amend the Merger Implementation Agreement to reflect the counterproposal; or
- if the counterproposal contemplates any other transaction, Drillsearch must make an announcement as soon as reasonably practicable recommending the counterproposal in the absence of a more favourable proposal and the parties must pursue implementation of the counterproposal.

Beach exclusivity obligations: no shop, no talk and notification

The "no shop", "no talk", "no due diligence" and notification obligations of Beach under the Merger Implementation Agreement ceased to apply on and from 12 November 2015, being the date on which Beach obtained the Listing Rule 10.1 Waiver (refer to Section 2.6 (*Beach Shareholder approval*)).

ITEM

SUMMARY

Termination rights

Either Drillsearch or Beach may terminate the Merger Implementation Agreement at any time prior to the Effective Date in the following circumstances:

- **(non-satisfaction of Effective Date)** if, subject to certain conditions, the Scheme has not become Effective by 11:50pm on the End Date; or
- **(non-satisfaction of a Condition Precedent)** if a Condition Precedent becomes incapable of being satisfied before the End Date and each of Drillsearch and Beach are unable to reach an agreement to;
 - proceed with the Scheme by way of alternate means or methods,
 - extend the relevant time or date for satisfaction of the Condition Precedent,
 - change the date of the application to be made for the Second Court Order; or
 - to extend the End Date,

unless that Condition Precedent is waived (if applicable) Drillsearch or Beach may terminate the Merger Implementation Agreement so long as that Condition is for the terminating party's benefit.

Either Drillsearch or Beach may by notice in writing terminate the Merger Implementation Agreement at any time prior to 8:00am on the Second Court Date:

- **(mutually agreed)** if such termination is mutually agreed by the parties in writing;
- **(material breach)** if the other party is in material breach of any of its material obligations under the Merger Implementation Agreement (including a material breach of a representation or warranty) and that breach is likely to result in material loss or damage to the terminating party and remains unremedied for 5 Business Days from receipt by the breaching party of a breach notice or, if earlier, by 3:00pm two Business Days before the Second Court Date; or
- **(Court refuses order)** if the Court refuses to make any order directing Drillsearch to convene the Scheme Meeting, provided that both Drillsearch and Beach have met and consulted in good faith and agreed that they do not wish to proceed with the Scheme.

Drillsearch may terminate the Merger Implementation Agreement at any time prior to 8:00am on the Second Court Date if all or a majority of the Drillsearch Board change, withdraw or modify their recommendation as a result of:

- **(Independent Expert concludes Scheme not in best interests)** the Independent Expert opining prior to the despatch of the Scheme Booklet or prior to the Scheme Meeting that the Scheme is not in the best interests of Drillsearch Shareholders;
- **(Beach Recommended Proposal)** a Beach Recommended Proposal, provided that Drillsearch Directors change, withdraw or modify their recommendation within 10 Business Days of Beach announcing the Beach Recommended Proposal; or
- **(Competing Proposal constitutes Superior Proposal)** the Drillsearch Directors determine, after Drillsearch provides Beach with a notice of a Competing Proposal in respect of which Beach has exercised its matching rights, that the Competing Proposal constitutes a Superior Proposal.

Beach may terminate this agreement at any time prior to 8:00am on the Second Court Date if:

- **(Drillsearch Director withdraws their recommendation)** any Drillsearch Director withdraws or adversely modifies their recommendation of the Scheme, does not recommend in the Scheme Booklet that Drillsearch Shareholders approve the Scheme in the absence of a Superior Proposal or makes any public statement to the effect that the Scheme is not, or no longer, recommended; or
- **(material breach)** notwithstanding the material breach provision contained above, Drillsearch has committed a material breach of its exclusivity obligations in the Merger Implementation Agreement (as set out above).

ITEM	SUMMARY
Break fees	<p>Drillsearch must pay Beach the Break Fee if:</p> <ul style="list-style-type: none"> • (Competing Proposal) there is a Competing Proposal publicly announced or made in respect of Drillsearch prior to the Effective Date (or the termination of the Merger Implementation Agreement, whichever occurs first) and within 12 months from the date of that agreement under which the third party bidder: <ul style="list-style-type: none"> • acquires a Relevant Interest in more than 50% of all Drillsearch Shares and the acquisition is free from any defeating conditions; • acquires or becomes the holder of, or acquires an economic interest in, all or a substantial part of the assets of Drillsearch; • acquires Control of Drillsearch; or • otherwise acquires or merges with Drillsearch (including by way of reverse takeover or reverse scheme of arrangement, or dual listed company structure). • (entry into a Competing Proposal) prior to the earlier of the End Date and termination of the Merger Implementation Agreement, Drillsearch accepts, or enters into, or offers to accept or enter into, any agreement, arrangement or understanding regarding a Competing Proposal; • (change of recommendation) at any time prior to the Second Court Date, any Drillsearch Director: <ul style="list-style-type: none"> • withdraws or adversely modifies or qualifies their recommendation of the Scheme or recommends, or supports a Competing Proposal; • does not recommend in the Scheme Booklet that the Drillsearch Shareholders approve the Scheme in the absence of a Superior Proposal; or • makes any public statement that the Scheme is not, or is no longer, recommended, other than as a result of: <ul style="list-style-type: none"> • the Independent Expert concluding that the Scheme is not in the best interests of the Drillsearch Shareholders; • a Beach Recommended Proposal, provided that Drillsearch Director does so within 10 Business Days of Beach announcing the Beach Recommended Proposal; • any matter that gives Drillsearch the right to terminate the Merger Implementation Agreement due to a Beach material breach of the Merger Implementation Agreement which is likely to result in material loss or damage to Drillsearch; • the condition that no Beach Material Adverse Change or no Beach Prescribed Occurrence (as those terms are defined in the Merger Implementation Agreement) is breached or not satisfied and Drillsearch terminates the Merger Implementation Agreement on that basis; or • the Scheme does not become effective by 11:50pm on 30 April 2016 solely as a result of condition relating to regulatory approvals not being satisfied (other than as a result of a breach by Drillsearch of its obligation to use best endeavours to procure the satisfaction of such condition); or • (material breach) Beach terminates the Merger Implementation Agreement due to a material breach by Drillsearch of any of its material obligations under the Merger Implementation Agreement or a material breach by Drillsearch of its exclusivity obligations. <p>Beach must pay Drillsearch the Break Fee if:</p> <ul style="list-style-type: none"> • (material breach) Drillsearch terminates the Merger Implementation Agreement due to a material breach by Beach of any of its material obligations under the Merger Implementation Agreement; or • (entry into a Beach Competing Proposal) prior to the earlier of 30 April 2016 and termination of the Merger Implementation Agreement, Beach accepts, or enters into, or offers to accept or enter into, any agreement, arrangement or understanding regarding a Beach Competing Proposal. <p>The Break Fee for either of Beach and Drillsearch is only payable once.</p> <p>Notwithstanding the above provisions, neither Drillsearch nor Beach (as applicable) will be liable to pay the Break Fee if the Scheme becomes Effective.</p>
Representations and warranties	<p>Each of Drillsearch and Beach give representations and warranties to the other, including that (other than as "fairly disclosed" in writing):</p> <ul style="list-style-type: none"> • each party is a validly existing corporation; • the respective party's FY15 Full Year Report as disclosed to the ASX has been prepared in accordance with Accounting Standards; and • between 1 July 2015 and the date of the Merger Implementation Agreement both parties have carried on business in the ordinary course.

The Merger Implementation Agreement was released to the ASX in full on 23 October 2015.

10.3 CHANGE OF CONTROL

(a) Material contracts, licences and permits

Drillsearch has reviewed the contracts, licenses and permits containing a change of control or assignment provisions which may be triggered by implementation of the Merger and have a material adverse effect on its operations.

ATP 940 joint venture

As disclosed to the ASX on 27 July 2011, Drillsearch and QGC are in a joint venture (Drillsearch operator and 40%, QGC 60%) in respect of ATP 940. The various agreements the subject of the joint venture (**ATP 940P JOA**) provide for change of control triggers.

As a result of implementation of the Merger under the terms of the ATP 940 JOA, QGC may require:

- Drillsearch to sell to QGC at an agreed price Drillsearch's 40% interest in ATP 940 if a change of control occurs before the completion of the second stage of the exploration program;
- Drillsearch to sell to QGC at an agreed price a further 5% interest in ATP 940 if that change of control occurs after the completion of the second stage of the exploration program; and
- that QGC is appointed the operator of the ATP 940 joint venture.

There is a further gas marketing agreement in respect of the joint venture which provides that if Drillsearch is subject to a change of control, QGC may terminate the gas marketing agreements.

(b) Financing arrangements

Drillsearch lending facility

As disclosed to the ASX on 3 December 2015, Drillsearch has executed the formal facility documentation for a new three year \$100 million reserve-based lending facility with Commonwealth Bank of Australia Limited and Australia and New Zealand Banking Group Limited, who are the joint lead arrangers (**New Facility**). The New Facility will replace the existing undrawn capital working facility due to mature in March 2016.

The New Facility remains subject to customary conditions precedent that will be progressed in order for the New Facility to be available for use.

Under the terms of the New Facility, if the Merger is implemented, the resulting change of control of Drillsearch and Drillsearch's delisting from the ASX will both be deemed a "Review Event" under the New Facility.

Upon the occurrence of a "Review Event" and the facility agent notifying Drillsearch of the "Review Event", Drillsearch and the finance parties will enter into discussions for 30 days for the purpose of coming to an agreement on how to address the "Review Event",

including restructuring the New Facility. If:

- (i) after 30 days of discussions, Drillsearch and the finance parties are unable to come to an agreement on how to address the "Review Event"; or
- (ii) after agreeing on the arrangements to address the "Review Event", Drillsearch fails to implement any of the agreed arrangements,

then the finance parties may by 60 days' notice cancel the New Facility and require all drawn amounts to be repaid immediately. Refer to Section 5.6(a) (*Financing arrangements*) relating to intentions regarding the New Facility if the Merger is implemented.

Drillsearch Convertible Notes

Refer to Section 3.15 (*Drillsearch Convertible Notes*) for the change of control implications under the Drillsearch Convertible Notes.

10.4 DEEMED WARRANTY ON TRANSFER OF SCHEME SHARES TO BEACH

Under clause 8.2(b) of the Scheme, Scheme Shareholders are deemed to warrant to Drillsearch and Beach, and appoint and authorise Drillsearch as its attorney to warrant to Beach that:

(a) all of their Drillsearch Shares (including any rights and entitlements attaching to those Drillsearch Shares) which are transferred under the Scheme will, at the date of transfer:

- (i) be fully paid and free from all mortgages, charges, liens, encumbrances, pledges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)) liens, encumbrances and interests of third parties of any kind, whether legal or otherwise; and
- (ii) be free from any restrictions on transfer of any kind; and

(b) they have full power and capacity to sell and to transfer their Drillsearch Shares together with any rights attaching to those shares.

10.5 DEEMED CONSENT FOR OTHER INCIDENTAL ACTIONS

Under clause 8.5 of the Scheme, each Scheme Shareholder will be deemed to have:

(a) authorised Drillsearch, and all its directors, officers and secretaries, to do and execute all acts, matters, things and documents on behalf of the Scheme Shareholder to implement the Scheme; and

(b) irrevocably appointed and consented to Drillsearch, and all of its directors, officers and secretaries as its attorney and agent for the purpose of executing any document necessary to give effect to the Scheme.

10.6 REGULATORY CONSENTS

(a) ASX relief

Drillsearch has applied for, and the ASX has granted, in-principle decisions to grant confirmations of the following Listing Rules as they apply to Drillsearch:

- (i) confirmation under Listing Rule 15.1.3 that the ASX does not object to the draft Scheme Booklet;
- (ii) confirmation that the timetable for the implementation of the Scheme is acceptable to the ASX; and
- (iii) a waiver from Listing Rule 6.23.2 to permit the cancellation of Drillsearch Options in the manner described in Section 3.13 (*Drillsearch Options*);

Beach has applied for, and ASX has granted, a waiver from Listing Rule 10.1 to permit the acquisition by Beach of those Drillsearch Shares held by Seven Group Holdings under the Scheme without the need for Beach Shareholder approval as described in Section 2.6 (*Beach Shareholder approval*).

(b) ASIC relief

ASIC has granted relief to Drillsearch from the operation of regulation 8302(d) of Part 3 of Schedule 8 of the Corporations Regulations, which requires the Scheme Booklet to disclose particulars of payments or benefits made or given to a director, secretary or executive officer in relation to their resignation or retirement from office, except where those payments or benefits are made in connection with the implementation of the Merger.

10.7 CONSENTS

(a) The following persons have given and have not before the date of this Scheme Booklet withdrawn their consent to:

- (i) be named in this Scheme Booklet in the form and context in which they are named;
- (ii) the inclusion of their respective reports or statements noted next to their names and the references to those reports or statements in the form and context in which they are included in this Scheme Booklet; and
- (iii) the inclusion of other statements in this Scheme Booklet which are based on or referable to statements made in those reports or statements, or which are based on or referable to other statements made by those persons in the form and context in which they are included;

NAME OF PERSON	NAMED AS	REPORTS OR STATEMENTS
EY	Independent Expert	Independent Expert's Report set out in Annexure A (Independent Expert's Report and Independent Technical Expert's Report)
RISC	Independent Technical Expert	Independent Technical Expert's Report in Annexure A (Independent Expert's Report and Independent Technical Expert's Report)
KPMG	Investigating Accountant	Investigating Accountant's Report set out in Annexure B (Investigating Accountant's Report)
Neil Thompson	Drillsearch Qualified Persons statement	–
Sue Hyde	Drillsearch Qualified Persons statement	–
RISC	Drillsearch Qualified Persons statement	–
DeGolyer & MacNaughton	Drillsearch Qualified Persons statement	–
Link Market Services Limited	Drillsearch Registry manager	–
Ashurst Australia	Legal adviser to Drillsearch	–
Goldman Sachs Australia Pty Ltd	Financial adviser to Drillsearch	–
UBS AG, Australia Branch	Financial adviser to Drillsearch	–
Tony Lake	Beach Qualified Persons statement	–

Each of the above persons:

- (iv) does not make, or purport to make, any statement in this Scheme Booklet other than those statements referred to above and as consented to by that person; and
- (v) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Scheme Booklet other than with respect to the statements and references included in this Scheme Booklet with the consent of that party (as set out above).

(b) Beach has given, and has not withdrawn before the date of this Scheme Booklet, its consent to be named in this Scheme Booklet in the form and context in which it is named, on the basis set out in the "Responsibility statement" paragraph contained in the Important Notices Section at the start of this Scheme Booklet.

10.8 FEES OF ADVISERS AND OTHERS

Drillsearch estimates that it will incur one-off transaction costs of approximately \$17 million⁷² in relation to the Merger. This includes financial advisory, legal, accounting, independent expert and administrative fees, Scheme Booklet design and printing, marketing, Registry and other expenses (including the cost of employee retentions).

A breakdown of the estimated transaction costs (excluding GST and disbursements) is as follows:

(a) Independent Expert – approximately \$300,000;

(b) Independent Technical Expert – approximately \$380,000;

(c) Investigating Accountant – approximately \$100,000 (Drillsearch's share for the joint appointment of the Investigating Accountant with Beach);

(d) Ashurst Australia (including Senior Counsel) – approximately \$1.2 million;

(e) Goldman Sachs Australia Pty Ltd – a base fee of approximately \$4.5 million and a variable incentive fee determined by reference to the price of Drillsearch Shares on the ASX immediately prior to the Implementation Date⁷³;

(f) UBS AG, Australia Branch – a base fee of approximately \$4.5 million and a variable incentive fee determined by reference to the price of Drillsearch Shares on the ASX immediately prior to the Implementation Date⁷⁴;

(g) other advisors – approximately \$30,000;

(h) employee retention incentive payments costs – approximately \$2.1 million; and

(i) other (including Drillsearch Registry) – approximately \$815,000.

10.9 SUPPLEMENTARY INFORMATION

To the extent required by the Listing Rules, the Corporations Act or any other applicable law, Drillsearch will issue a supplementary document to this Scheme Booklet if it becomes aware of any of the following between the date of this Scheme Booklet and the date of the Scheme Meeting:

(a) a material statement in this Scheme Booklet is false or misleading;

(b) a material omission from this Scheme Booklet;

(c) a significant change affecting a matter included in this Scheme Booklet; or

(d) a significant new matter has arisen and it would have been required to be included in this Scheme Booklet if it had arisen before the date of this Scheme Booklet.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, Drillsearch may circulate and publish the supplementary document by any or all of:

(e) placing an advertisement in a prominently published newspaper that is circulated in Australia;

(f) posting the supplementary document on Drillsearch's website;

(g) making an announcement to the ASX; or

(h) issuing a supplementary document.

10.10 DIRECTORS' STATEMENTS

(a) The issue of this Scheme Booklet has been authorised by the Drillsearch Board.

(b) The Drillsearch Board has given (and not withdrawn) its consent to lodgement of this Scheme Booklet with ASIC.

10.11 NO OTHER INFORMATION

Other than as contained in this Scheme Booklet, there is no information within the knowledge of any member of the Drillsearch Board material to the making of a decision in relation to the Merger to be voted on by Drillsearch Shareholders, and that has not been previously disclosed to Drillsearch Shareholders.

⁷² This estimate excludes transaction costs expected to be incurred by Beach of approximately \$8 million and excludes GST and disbursements.

⁷³ Drillsearch has included \$1.5 million in variable incentives fees for the purposes of arriving at the total cost estimate for the Merger.

⁷⁴ Drillsearch has included \$1.5 million in variable incentives fees for the purposes of arriving at the total cost estimate for the Merger.

11. GLOSSARY, DEFINITIONS AND INTERPRETATION

11.1 DEFINITIONS

The meanings of the terms used in this Scheme Booklet are set out below.

DEFINED TERM	MEANING
1P	is equivalent to Proved Reserves. It denotes a low estimate scenario of Reserves.
2C	denotes the best estimate scenario of Contingent Resources.
2P or 2P Reserves	is equivalent to the sum of Proved Reserves plus Probable Reserves. It denotes the best estimate scenario of Reserves.
3P	is equivalent to the sum of Proved Reserves plus Probable Reserves plus Possible Reserves. It denotes the high estimate scenario of Reserves.
AAS	Australian Accounting Standards.
AASB	Australian Accounting Standards Board.
Abu Sennan Concession	the concession agreement for Petroleum Exploration and Exploitation in the Abu Sennan Area, Western Desert, Egypt entered into on 5 June 2007 between The Arab Republic of Egypt, the Egyptian General Petroleum Corporation, Dover, Tradewinds Oil and Gas International Limited and Gondwana International Petroleum Company.
Acer	Acer Energy Pty Limited (ACN 101 313 777).
Adelaide Energy	Adelaide Energy Pty Ltd (ACN 116 256 823).
AGL	AGL Energy Limited (ACN 115 061 375), or its relevant Subsidiary, as applicable.
Ambassador	Ambassador Oil and Gas Pty Ltd (ACN 152 595 429).
Announcement Date	23 October 2015.
ASIC	Australian Securities and Investments Commission, or any replacement or successor authority.
Associate or Associated	has the meaning given in sections 12 and 16 of the Corporations Act.
ASX	ASX Limited (ABN 98 008 624 691) and, where the context requires, the financial market that it operates (that is, the Australian Securities Exchange).
ATO	the Australian Taxation Office.
ATP	an authority to prospect granted under the Petroleum Act (Q'land).
ATP 940P JOA	has the meaning given to it in Section 10.3 (<i>Change of control</i>).
Bauer Field	Bauer oil field located in the Western Flank Oil Fairway in ex-PEL 91, South Australia.
Beach	Beach Energy Limited ACN 007 617 969, or its relevant Subsidiary, as applicable.
Beach Annual R&CR Statement	statement of Beach's 1P, 2P and 3P Reserves and 2C Contingent Resources as at 30 June 2015 released to the ASX on 21 August 2015.
Beach Board	the board of directors of Beach Energy Limited as constituted from time to time.
Beach Deed Poll	the deed poll executed by Beach as set out in Annexure E (<i>Beach Deed Poll</i>).
Beach Director	a director of Beach Energy Limited.
Beach DRP	Beach dividend reinvestment plan as described in Section 4.13 (<i>Dividend reinvestment plan</i>).
Beach EIP	Beach employee incentive plan as described in Section 4.16 (<i>Employee incentive plan (Beach EIP)</i>).
Beach Egypt	Beach Petroleum (Egypt) Pty Ltd (ACN 130 573 796).
Beach's FY15 Annual Report	Beach's Annual Report for the year ended 30 June 2015, including Appendix 4E, Director's Report and Financial Statements, lodged with the ASX on 23 October 2015.
Beach Information	such information in this Scheme Booklet regarding Beach, the Merged Group (except for matters addressed in the Investigating Accountant's Report and Drillsearch Information), the Scheme Consideration and Beach's intentions in relation to Drillsearch's business, assets and employees provided by or on behalf of Beach for inclusion in this Scheme Booklet, other than the Drillsearch Information, Independent Expert's Report and Investigating Accountant's Report.

DEFINED TERM	MEANING
Beach LTI	Beach executive long term incentive plan as described in Section 4.15 (<i>Executive long term incentive plan (Beach LTI)</i>).
Beach Performance Right	an unlisted performance right issued under the Beach STI and the Beach LTI, each of which, upon vesting, entitles the holder to be issued one Beach Share.
Beach Recommended Proposal	<p>any offer, proposal or expression of interest, transaction or arrangement (including, by way of takeover bid or scheme of arrangement), other than as contemplated pursuant to the Merger Implementation Agreement, which:</p> <p>(a) is recommended by a majority of the Beach Board; and</p> <p>(b) if ultimately completed substantially in accordance with its terms, would result in a person or two or more persons who are Associates directly or indirectly:</p> <p>(i) acquiring a Relevant Interest in or becoming the holder of 50% or more of Beach Shares; or</p> <p>(ii) otherwise acquiring Control of Beach; or</p> <p>(iii) acquiring all or a substantially all of the total assets or business of Beach, whether by way of takeover bid, scheme of arrangement, shareholder approved acquisition, capital reduction, share buy-back or repurchase, sale or purchase of assets, joint venture, reverse takeover, dual-listed company structure, recapitalisation, establishment of a new holding entity for Beach or other synthetic merger or any other transaction or arrangement.</p>
Beach Register	the register of members of Beach from time to time.
Beach Registry	Computershare Investor Services Pty Limited ACN 078 279 277.
Beach Share	an ordinary share in Beach Energy Limited.
Beach Shareholder	a registered holder of a Beach Share.
Beach STI	Beach executive short term incentive plan as described in Section 4.14 (<i>Executive short term incentive plan (Beach STI)</i>).
Bengal	Bengal Energy (Australia) Pty Ltd (ACN 115 193 729).
Best Estimate	the best estimate of the quantity that will actually be recovered from accumulation of an oil and gas project. It is the most realistic assessment of recoverable quantities if only a single result were reported.
Break Fee	the amount of \$3,842,492 (which is equal to 1% of the market capitalisation of Drillsearch on the basis of the exchange ratio of 1.25 New Beach Shares for every Drillsearch Share on the last trading day prior to the Announcement Date).
Business Day	a day that is not a Saturday, Sunday or public holiday or bank holiday in Sydney, Australia.
CEO	chief executive officer.
Chevron	Chevron Corporation or its relevant Subsidiary, as applicable.
CGT	Australian capital gains tax.
Circumpacific	Circumpacific Energy (Australia) Pty Limited (ACN 142 287 125).
Competing Proposal	<p>any offer, proposal or expression of interest, transaction or arrangement (including, by way of takeover bid or scheme of arrangement), other than as contemplated pursuant to the Merger Implementation Agreement, which, if ultimately completed substantially in accordance with its terms:</p> <p>(a) would result in a person or two or more persons who are Associates directly or indirectly:</p> <p>(i) acquiring a Relevant Interest in or becoming the holder of 15% or more of the Drillsearch Shares; or</p> <p>(ii) acquiring, obtaining a right to acquire, or otherwise obtaining an interest (including an economic interest) in, 15% or more by value of the business or property of Drillsearch; or</p> <p>(iii) otherwise acquiring Control of Drillsearch; or</p> <p>(iv) otherwise acquiring, merging or amalgamating with Drillsearch or amalgamating with, or acquiring a significant shareholding or economic interest in Drillsearch of 15% or more by value of the total assets or business of Drillsearch, whether by way of takeover bid, scheme of arrangement, shareholder approved acquisition, capital reduction, share buy-back or repurchase, sale or purchase of assets, joint venture, reverse takeover, dual-listed company structure, recapitalisation, establishment of a new holding entity for Drillsearch or other synthetic merger or any other transaction or arrangement; or</p> <p>(b) contemplates that Drillsearch will cease to be admitted to the official list of the ASX or the Scheme Shares will cease to be officially quoted on the market operated by the ASX, or which otherwise directly competes with, or is directly inconsistent in any material respect with the consummation of, the Merger.</p>
Conditions Precedent	the conditions to implementation of the Scheme set out in clause 3.1 of the Merger Implementation Agreement and summarised in Section 2.4 (<i>Conditions of the Merger</i>).

DEFINED TERM	MEANING
Contingent Resources	those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development oil and gas projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.
Control	has the meaning given in section 50AA of the Corporations Act, except that for the purposes of this definition Beach is to be regarded as a legal entity, unless the context requires otherwise.
Cooper and Eromanga Basins or C&E Basins	the Cooper Basin and the Eromanga Basin.
Cooper Basin	a geological basin located in south west Queensland and north eastern South Australia, overlain in part by the Eromanga Basin.
Cooper Energy	Cooper Energy Limited (ACN 096 170 295), or its relevant subsidiary, as applicable.
Corporations Act	the <i>Corporations Act 2001</i> (Cth).
Corporations Regulations	the <i>Corporations Regulations 2001</i> (Cth).
Court	the Federal Court of Australia or any other court of competent jurisdiction under the Corporations Act as the parties may agree in writing.
DeGolyer MacNaughton	an independent resource estimating firm based in Dallas, Texas.
Delhi	Delhi Petroleum Pty Limited (ACN 007 854 686).
Dover	Dover Investments Limited.
Developed Reserves	reserves expected to be recovered from existing wells and facilities. Improved recovery reserves are considered “developed” only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well.
Dollars and \$	unless specified otherwise, the currency of Australian dollars.
Drillsearch	Drillsearch Energy Limited (ACN 006 474 844), or its relevant Subsidiary, as applicable.
Drillsearch Annual R&CR Statement	Drillsearch’s 2015 Reserves and Contingent Resources Statement, released to the ASX on 26 August 2015.
Drillsearch Board	board of directors of Drillsearch as constituted from time to time.
Drillsearch Convertible Notes	has the meaning given to it in Section 3.15 (<i>Drillsearch Convertible Notes</i>).
Drillsearch’s Convertible Notes Offer Documents	the Drillsearch “Original Offering Circular” dated 30 April 2013 and “Supplemental Offering Circular” dated 13 May 2013 each issued by Drillsearch (Finance) Pty Limited (ACN 163 170 536) and Drillsearch in relation to the Drillsearch Convertible Notes.
Drillsearch Director	a director of Drillsearch Energy Limited.
Drillsearch’s FY15 Annual Report	Drillsearch’s Annual Report for the year ended 30 June 2015, including Appendix 4E, Director’s Report and Financial Statements, lodged with the ASX on 16 October 2015.
Drillsearch Information	the information contained in this Scheme Booklet, other than the Beach Information, the Independent Expert’s Report, the Independent Technical Expert’s Report and the Investigating Accountant’s Report.
Drillsearch Option	an option granted by Drillsearch to acquire by way of issue or transfer one or more Drillsearch Shares.
Drillsearch Optionholder	the person who is recorded in the register maintained by Drillsearch under section 168(1) of the Corporations Act as the holder of Drillsearch Options.
Drillsearch Performance Right	a performance right issued to Drillsearch personnel under the Drillsearch STI or LTI schemes, which upon vesting entitles the holder to be issued with one Drillsearch Share for each performance right held.
Drillsearch Performance Rights Plan Rules	the rules governing the Drillsearch Performance Rights.
Drillsearch Registry	Link Market Services Limited.
Drillsearch Securities	Drillsearch Shares, Drillsearch Options and Drillsearch Convertible Notes.
Drillsearch Share	an ordinary share in Drillsearch.
Drillsearch Shareholder	each person who is registered in the register maintained by Drillsearch under section 168(1) of the Corporations Act as a holder of Drillsearch Shares.
Eastern Flank	the Eastern Flank Oil Fairway in the Cooper Basin, South Australia
EBITDAX	the meaning given on page 1.
Effective	when used in relation to the Merger, the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to the Scheme.
Effective Date	the date on which the Merger become Effective.

DEFINED TERM	MEANING
El Qa'a Plain Concession	the concession agreement for petroleum exploration and exploitation in the El Qa'a Plain area in the Sinai, Egypt entered into on 30 January 2014 between The Arab Republic of Egypt, the Egyptian General Petroleum Corporation, Dana Petroleum (E&P) Limited, Petroceltic International Plc and Beach Petroleum (Egypt) Pty Ltd.
End Date	either: (a) 30 April 2016; or (b) such other date as Beach and Drillsearch may agree in writing is the 'End Date' for the purposes of the Merger Implementation Agreement.
Eromanga Basin	the geological basin covering parts of New South Wales, the Northern Territory, Queensland and South Australia.
Excluded Shareholders	any Drillsearch Shareholder who is Beach or a Related Body Corporate of Beach.
ex-PEL	the PPLs and/or PRLs derived from the former ('ex') PEL identified by the number appearing after prefix 'ex-PEL' as identified in the Drillsearch Tenement Table in Figure 6 (Section 3.3 (<i>Overview of Assets</i>)) and/or the Beach Tenement Table in Figure 18 (Section 4.3 (<i>Overview of Assets</i>)); for example, ex-PEL 91 means PRLs 151-172 and PPLs 253-256 and 260-263, all of which are derived from the former PEL 91.
EY	Ernst & Young Transaction Advisory Services Limited (ACN 003 599 844).
Foreign Nominee	the foreign nominee appointed by Beach in accordance with the Merger Implementation Agreement to sell the New Beach Shares on behalf of Ineligible Foreign Shareholders.
FY13	the financial year ending 30 June 2013.
FY14	the financial year ending 30 June 2014.
FY15	the financial year ending 30 June 2015.
FY16	the financial year ending 30 June 2016.
Government Agency	any foreign or Australian government or governmental, semi governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity.
Great Artesian	Great Artesian Oil and Gas Pty Ltd (ACN 078 607 682).
GST	has the same meaning as in the GST Act.
GST Act	the <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth).
Headcount Test	has the meaning given to it in Section 2.5 (<i>Drillsearch Shareholders' approvals</i>).
IFRS	collectively: (a) AAS, being Australian equivalents to International Financial Reporting Standards and interpretations as issued by the AASB (b) International Financial Reporting Standards and interpretations as issued by the International Accounting Standards Board.
Implementation Date	the date on which the Merger is to be implemented, being three Business Days after the Record Date as set out in the "Timetable" on page 9.
Impress	Impress Energy Pty Ltd (ACN 009 212 319).
Independent Expert	EY.
Independent Expert's Report	the report prepared by the Independent Expert dated 9 December 2015 set out in Annexure A (<i>Independent Expert's Report and Independent Technical Expert's Report</i>).
Independent Technical Expert	RISC.
Independent Technical Expert's Report	the report of the Independent Technical Expert as set out in Annexure A (<i>Independent Expert's Report and Independent Technical Expert's Report</i>).
Ineligible Foreign Shareholder	a Drillsearch Shareholder whose address as shown in Drillsearch's members' register is located outside of: (a) Australia and its external territories; (b) New Zealand; (c) Hong Kong; (d) Singapore; and (e) Malaysia, unless Beach is otherwise satisfied that it is permitted to allot and issue New Beach Shares to that Drillsearch Shareholder pursuant to the Scheme by the laws of that place.
Ineligible Foreign Shareholder Amount	the amount to be paid to each Ineligible Foreign Shareholder under the Merger calculated in accordance with Section 8.8(c) (<i>Ineligible Foreign Shareholder Amount</i>).

DEFINED TERM	MEANING
Interim Dividend	the interim dividend (if any) for the FY16 half year determined by the Beach Board.
Investigating Accountant	KPMG.
Investigating Accountant's Report	the report prepared by the Investigating Accountant dated 10 December 2015 set out in Annexure B (<i>Investigating Accountant's Report</i>).
Joint Information	the: (a) Pro Forma Financial Information; and (b) the Synergy Estimates.
KPMG	KPMG Financial Advisory Services (Australia) Pty Ltd (ABN 43 007 363 215).
Link Market Services Limited	Link Market Services Limited ABN 54 083 214 537.
Listing Rule 10.1 Waiver	has the meaning given to it in Section 2.6 (<i>Beach Shareholder approval</i>).
Listing Rules	the official listing rules of the ASX, as amended or replaced from time to time except to the extent of any express written waiver by the ASX.
LNG	liquefied natural gas.
LPG	liquefied petroleum gas.
LTI	the Drillsearch long term incentives scheme.
Merged Group	Beach Energy Limited and its Subsidiaries, immediately after implementation of the Merger (which, for the avoidance of doubt, will include Drillsearch and each of its Subsidiaries) as described in Section 5.4(f) (<i>Merger Integration Group</i>).
Merged Group Board	the re-constituted Beach Board following implementation of the Merger.
Merged Group Shares	all Beach Shares on issue immediately following implementation of the Merger (including the New Beach Shares).
Merger	the proposed merger of Beach and Drillsearch pursuant to the Scheme.
Merger Implementation Agreement	the merger implementation agreement dated 23 October 2015 between Beach and Drillsearch relating to the implementation of the Merger as summarised in Section 10.2 (<i>Summary of the Merger Implementation Agreement</i>) and a copy of which was released to the ASX on 23 October 2015.
Merger Integration Group	the group consisting of a senior management representative from each of Drillsearch and Beach for the purposes of implementing the Merger.
New Beach Share	the new Beach Shares to be issued under the terms of the Merger as Scheme Consideration.
New Standard	New Standard Energy Limited (ACN 119 323 385) or its relevant Subsidiary, as applicable.
North Shadwan Concession	the concession agreement for Petroleum Exploration and Exploitation in the North Shadwan area, Gulf of Suez, Egypt entered into on 30 March 2004, originally between The Arab Republic of Egypt, the Egyptian General Petroleum Corporation and BP (Exploration) Delta Limited.
Noteholder	a person who holds one or more Drillsearch Convertible Notes.
Notice of Scheme Meeting	the notice set out in Annexure C (<i>Notice of Scheme Meeting</i>) to convene the Scheme Meeting.
NTNG	Nappamerri Trough natural gas program.
Origin	Origin Energy Limited (ACN 000 051 696) or its relevant Subsidiary, as applicable.
PEL	an exploration licence granted under the Petroleum Act (South Australia).
Petroleum	any hydrocarbon or mixture of hydrocarbons, whether in a gaseous, liquid or solid state.
Petroleum Act (Q'land)	the <i>Petroleum and Gas (Production and Safety) Act 2004</i> (Q'land) or the <i>Petroleum Act 1923</i> (Q'land) (as applicable).
Petroleum Act (South Australia)	the <i>Petroleum and Geothermal Energy Act 2000</i> (South Australia).
PL	a production lease granted under the Petroleum Act (Q'land).
Possible Reserves	those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved Reserves plus Probable Reserves plus Possible Reserves (3P). When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
PPL	a petroleum production licence granted under the Petroleum Act (South Australia).
PRL	a petroleum retention licence granted under the Petroleum Act (South Australia).

DEFINED TERM	MEANING
Probable Reserves	those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved Reserves plus Probable Reserves (2P). When probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
Pro Forma Financial Information	the information set out in Section 6 (<i>Financial information for the Merged Group</i>) including the Pro Forma Statement of Financial Position.
Pro Forma Statement of Financial Position	has the meaning given to that term in Section 6.2(b) (<i>Basis of preparation of pro forma statement of financial position</i>).
Proved Reserves	those quantities of petroleum which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. When probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered equal or exceed the estimate.
Proxy Form	the proxy form which accompanies this Scheme Booklet and provides for Drillsearch Shareholders to give voting instructions and appoint proxies for the Scheme Meeting.
QGC	QGC (B7) Pty Limited (ABN 21 152 188 335).
Qualified Person	has the same meaning as the term 'qualified petroleum reserves and resources evaluator' in Chapter 19 of the Listing Rules.
Record Date	7:00pm (Sydney time) on the date which is 5 Business Days after the Effective Date.
Register	the register of Drillsearch Shareholders.
Related Body Corporate	of a person means a related body corporate of that person under section 50 of the Corporations Act.
Relevant Interest	has the same meaning given by sections 608 and 609 of the Corporations Act.
Requisite Majority	has the meaning given to it in Section 2.5 (<i>Drillsearch Shareholders' approvals</i>).
Reserves	those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Petroleum reserves must satisfy four criteria: they must be discovered, recoverable, commercial and remaining based on the development project(s) applied.
RISC	RISC Operations Pty Ltd (ACN 150 789 030), trading as RISC ITS.
SACB JVs	has the meaning given to it in Section 4.3(a) (<i>SACB JVs and SWQ JVs (Delhi)</i>).
Santos	Santos Limited (ACN 007 550 923) or its relevant Subsidiary, as applicable.
Scheme	the proposed scheme of arrangement pursuant to Part 5.1 of the Corporations Act between Drillsearch and Drillsearch Shareholders (other than Excluded Shareholders) in respect of all of their Drillsearch Shares held at the Record Date, as set out in Annexure D (<i>Scheme</i>), subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by each party.
Scheme Booklet	this document, including all of the Annexures and the Proxy Forms which accompany this Scheme Booklet.
Scheme Consideration	the consideration to be provided to Scheme Shareholders (other than Ineligible Foreign Shareholders) under the terms of the Scheme, being 1.25 New Beach Shares for every Scheme Share.
Scheme Meeting	the meeting of Drillsearch Shareholders to be convened pursuant to an order of the Court in relation to the Scheme pursuant to section 411(1) of the Corporations Act, and includes any adjournment of such meeting.
Scheme Resolution	the resolution to be put to Drillsearch Shareholders to approve the Scheme.
Scheme Share	a Drillsearch Share on issue as at the Record Date other than any Drillsearch Share then held by an Excluded Shareholder (but including any such Drillsearch Share held on behalf of one or more third parties or otherwise in a fiduciary capacity).
Scheme Shareholder	a person who holds one or more Scheme Shares.
Second Court Date	the first day on which an application made to the Court for the Second Court Order is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.
Second Court Hearing	the hearing of an application made to the Court by Drillsearch for the Second Court Order.

DEFINED TERM	MEANING
Second Court Order	the order, pursuant to section 411(4)(b) of the Corporations Act, approving the Scheme.
Section	is a reference to a Section in this Scheme Booklet.
Senex	Senex Energy Limited (ACN 008 942 827) or its relevant Subsidiary, as applicable.
Seven Group Holdings	Seven Group Holdings Limited (ACN 052 816 789) and its Subsidiaries.
SPE-PRMS	the Petroleum Resources Management System sponsored by the Society of Petroleum Engineers, the American Association of Petroleum Geologists, the World Petroleum Council, the Society of Petroleum Evaluation Engineers and the Society of Exploration Geophysicists.
STI	the Drillsearch short term incentives scheme.
Strike Energy	Strike Energy Limited (ACN 078 012 745) or its relevant Subsidiary, as applicable.
Subsidiary	has the meaning given to that term in section 46 of the Corporations Act.
Substantial Shareholder Acquisition	the acquisition by Beach of Drillsearch Shares from Seven Group Holdings in connection with the Merger.
Sundance	Sundance Energy Australia Limited (ACN 112 202 883) or its relevant Subsidiary, as applicable.
Superior Proposal	<p>a bona fide Competing Proposal which in the determination of the Drillsearch Board acting in good faith in order to satisfy what the Drillsearch Board considers to be its fiduciary or statutory duties (after having taken written legal advice from their external legal advisers and consultation with its financial advisers):</p> <p>(a) is reasonably likely to be completed in accordance with its terms, taking into account all financial, regulatory and other aspects of such proposal, including the ability of the proposing party to consummate the transactions contemplated by the Competing Proposal; and</p> <p>(b) would, if completed substantially in accordance with its terms, be reasonably likely to result in a transaction more favourable to Drillsearch Shareholders as a whole than the Merger, taking into account all of the terms and conditions of the Competing Proposal, including consideration, conditionality, funding, certainty and timing.</p>
SWQ JVs	has the meaning given to it in Section 4.3(a) (<i>SACB JVs and SWQ JVs (Delhi)</i>).
Synergy Estimates	the estimates of likely synergies to be achieved as a result of the Merger as stated in the Announcement including the underlying material that verifies the estimates or any assumptions upon which the estimates are made, unless otherwise amended by the agreement of the parties (such agreement not to be unreasonably withheld or delayed).
Tanzania	the United Republic of Tanzania.
TOAG	Territory Oil and Gas Pty Limited (ACN 107 740 965).
Trading Day	has the meaning given to that term in the Listing Rules.
Undeveloped Reserves	<p>are quantities expected to be recovered through future investments:</p> <p>(a) from new wells on undrilled acreage in known accumulations;</p> <p>(b) from deepening existing wells to a different (but known) reservoir;</p> <p>(c) from infill wells that will increase recovery; or</p> <p>(d) where a relatively large expenditure (eg, when compared to the cost of drilling a new well) is required to (i) recomplete an existing well or (ii) install production or transportation facilities for primary or improved recovery projects.</p>
US\$ or USD	the currency of the United States of America, United States dollars.
Western Flank	Western Flank Oil Fairway in the Cooper Basin, South Australia.
Woodside	Woodside Petroleum Limited (ACN 004 898 962), or its relevant Subsidiary, as applicable.
Voting Record Date	7:00pm (Sydney time) on 25 January 2016, the time and date when the holdings of Drillsearch Shareholders are ascertained for the purposes of attendance and voting at the Scheme Meeting.
VWAP	volume-weighted average price.

11.2 UNITS OF MEASUREMENT

The units of measurement used in this Scheme Booklet are set out below.

UNITS	MEANING
bbl(s)	barrel(s).
bcf	billion standard cubic feet.
boe	barrels of oil equivalent.
boed	barrels of oil equivalent per day.
bopd	barrels of oil per day.
mmbbl(s)	million barrels.
mmboe	million barrels of oil equivalent.
mmscf	million standard cubic feet.
mmt	million metric tonnes.
kbbl	thousand barrels.
km	kilometre.
km²	square kilometres.
kt	thousands of tonnes.
PJ	petajoule.
t	tonnes.

11.3 INTERPRETATION

Headings and words in bold are inserted for convenience and do not affect the interpretation of this Scheme Booklet and unless the contrary intention appears:

- (a) a reference to an instrument includes any variation or replacement of it;
- (b) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (c) the singular includes the plural and vice versa;
- (d) a word which suggests one gender includes other genders;
- (e) the word person includes an individual, a firm, a body corporate, an unincorporated association or an authority;
- (f) mentioning anything after includes, including, for example, or similar expressions, does not limit what else might be included;
- (g) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (h) a reference to time is a reference to Sydney time;
- (i) a reference to anything (including any amount) is a reference to the whole and each part of it and a reference to a group of persons is a reference to any one or more of them;
- (j) a reference to a Section or Annexure is a reference to a Section of, or an Annexure to, this Scheme Booklet;
- (k) a reference to a section, part, clause, annexure, exhibit or schedule is a reference to a section, part or clause of or an annexure, exhibit or schedule to, the relevant document;
- (l) a reference to \$, AUD, \$A, A\$ or cents is to Australian currency unless denominated otherwise; and
- (m) words and phrases defined in the Corporations Act have the same meaning in this Scheme Booklet.

ANNEXURE A. INDEPENDENT EXPERT'S REPORT AND INDEPENDENT TECHNICAL EXPERT'S REPORT



Independent Expert's Report and Financial Services Guide

In relation to the proposed Scheme of Arrangement between
Drillsearch Energy Limited and Beach Energy Limited

9 December 2015

EY
Building a better
working world



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Part 1 – Independent Expert’s Report

The Directors
Drillsearch Energy Limited
L18, 321 Kent Street
SYDNEY NSW 2000

9 December 2015

Dear Directors

Proposed merger with Beach Energy Limited

Background

On 23 October 2015, Drillsearch Energy Limited (“Drillsearch” or the “Company”) and Beach Energy Limited (“Beach”) announced that they had entered into a Merger Implementation Agreement under which Beach intends to acquire all of the issued shares in Drillsearch it does not already hold a relevant interest in via a scheme of arrangement (the “Proposed Scheme”).

Under the Proposed Scheme, holders of ordinary shares¹ in Drillsearch, other than Beach, (“Drillsearch Shareholders”) will receive 1.25 Beach Shares for every Drillsearch Share held (the “Scheme Consideration”). Based on the number of shares the respective companies have on issue, should the Proposed Scheme be implemented, Drillsearch Shareholders will own approximately 30% of the issued shares in Beach. At the date of this report, Beach’s interest in Drillsearch ordinary shares is approximately 4.57%.

Drillsearch Shareholders are to consider a resolution seeking approval of the Proposed Scheme at a general meeting of the Company that is to be held on or about 27 January 2016 (the “Scheme Meeting”). If the Proposed Scheme is approved and all the other conditions precedent are satisfied or waived (if applicable), the acquisition of Drillsearch by Beach will occur, and Drillsearch will no longer be listed on the Australian Securities Exchange (“ASX”). We recommend that Drillsearch Shareholders read the Scheme Booklet to obtain a full understanding of the Proposed Scheme.

Requirement for an independent expert’s report

We understand that there is no regulatory requirement for an independent expert’s report to be undertaken in relation to the Proposed Scheme. Notwithstanding this, for the purposes of good corporate governance, the Directors of Drillsearch have engaged Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services”) to prepare an independent expert’s report in relation to the Proposed Scheme as if such a report was required under the *Corporations Regulations 2001* (the “Regulations”).

Accordingly, we have prepared this independent expert’s report to consider whether or not, in our opinion, the Proposed Scheme is in the best interests of Drillsearch Shareholders and setting out the reasons for that opinion. Our report is to be included in the Scheme Booklet being sent to Drillsearch Shareholders in respect of the Scheme Meeting.

¹ Certain foreign Drillsearch Shareholders are unable to participate in the Proposed Scheme and, if the Scheme is implemented, will receive a cash amount calculated in accordance with section 8.8 of the Scheme Booklet.



Approach

Neither the *Corporations Act 2001* (the “Act”) nor the Regulations define the term “in the best interests of”. Australian Securities and Investments Commission (“ASIC”) has issued Regulatory Guide 111: *Content of expert reports* (“RG 111”) which provides guidance as to what matters an independent expert should consider when determining whether or not a particular transaction is in the best interests of shareholders.

A key matter under RG 111 that an expert needs to consider when determining the appropriate form of analysis is whether or not the effect of the transaction is comparable to a takeover offer and is therefore representative of a “control transaction”.

If the Proposed Scheme is implemented, Drillsearch Shareholders will own approximately 30% of the issued shares in the combined Beach and Drillsearch entity (the “Merged Group”), and Beach Shareholders will own 70% of the shares in the Merged Group. As such, the Proposed Scheme represents a control transaction.

In the circumstance of a scheme that achieves the same outcome as a takeover offer, RG 111 suggests that the form of the analysis undertaken by the independent expert should be substantially the same as for a takeover offer. Independent expert’s reports required under the Act in the circumstance of a takeover are required to provide an opinion as to whether or not the takeover offer is “fair and reasonable”. While there is no definition of “fair and reasonable”, RG 111 provides some guidance as to how the term should be interpreted in a range of circumstances. With respect to a takeover offer:

- ▶ an offer is “fair” if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer; and
- ▶ an offer is “reasonable” if it is fair. It might also be “reasonable” if, despite being “not fair”, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 states that, in the case of a scheme, if an expert can conclude that an offer is “fair and reasonable” then he or she will be able to conclude that the scheme is in the “best interests” of shareholders.

RG 111 states that the comparison of the value of the consideration and the value of the securities subject to a takeover offer is to be made assuming 100% ownership of the target and it is “inappropriate to apply a discount on the basis that the shares being acquired represent a minority or portfolio parcel of shares”.

Summary of opinion

Fairness and reasonableness of the Proposed Scheme

We have considered whether the Proposed Scheme is fair by comparing the assessed value of a Drillsearch Share, on a controlling basis, to the assessed value of the Scheme Consideration that will be received by Drillsearch Shareholders in the event that the Proposed Scheme is approved and implemented. The value of the Scheme Consideration therefore reflects the combined value of Beach and Drillsearch (the “Merged Group”) on a minority interest basis.

We adopted a sum-of-the-parts approach to value Drillsearch and our assessed range of values is set out in section 8.

In regards to our assessment of the value of a share in the Merged Group and the Scheme Consideration, we considered both the market approach and the sum-of-the-parts approach. We have given more weighting to the market approach as Drillsearch Shareholders will ultimately receive shares in Beach (“Beach Shares”) as consideration under the Proposed Scheme. As such, the “fair value” of the consideration Drillsearch Shareholders will receive will be dependent on the prices at which Beach Shares trade on the ASX after the implementation of the Proposed Scheme. Refer to section 9 for further information.



The table below presents a summary of the assessed value of a Drillsearch Share and the Scheme Consideration. It should be noted that the following analysis was performed based on information that was current as at 30 November 2015. Subsequently below we discuss the current volatility in oil prices and Drillsearch and Beach share prices and the impact on this report.

Evaluation of the fairness of the Proposed Scheme			
	Ref	Low	High
Value of Drillsearch Shares on a controlling interest basis (\$/share)	Section 8	0.61	0.73
Value of the Merged Group, on a minority basis (\$/share)	Section 9	0.52	0.62
Merger exchange ratio	Scheme Booklet	1.25	1.25
Value of Scheme Consideration (\$/share)		0.65	0.78

Source: Ernst & Young Transaction Advisory Services analysis

As the Scheme Consideration exceeds the range of assessed values of a Drillsearch Share, we consider the terms of the Proposed Scheme to be fair. Under the guidance provided by RG 111, as we consider the terms of the Proposed Scheme to be fair, we also consider the terms to be reasonable, and accordingly, in the best interests of Drillsearch Shareholders.

An important consideration for Drillsearch Shareholders is the comparative contribution to the Merged Group of both Drillsearch and Beach. Included in the table below is an analysis of the Proposed Scheme based on consideration of reserves and contingent resources, production, the market capitalisation before the announcement of the Proposed Scheme, valuation and the shareholder base.

Relative contribution of Drillsearch and Beach				
Comparative contribution ¹	Beach	Drillsearch	Beach's contribution	Drillsearch's contribution
Market capitalisation the day before Announcement Date (\$millions) ¹	866	303	74.1%	25.9%
Enterprise value ² (\$millions)	842	311	73.0%	27.0%
Average of broker estimates of total enterprise value (\$millions)	1,300	501	72.2%	27.8%
2P Reserves as at 30 June 2015 (mmboe) ³	74.4	25.7	74.3%	25.7%
Production for the year ended 30 June 2015 (mmboe)	9.1	3.0	75.2%	24.8%
Number of shares in the Merged Group	1,302.9	557.8	70.0%	30.0%

Source: Ernst & Young Transaction Advisory Services analysis, S&P CapitalIQ, broker reports, Scheme Booklet

Notes:

- ¹ We have not adjusted the table to reflect the shares held in Drillsearch by Beach which will not participate in the Proposed Scheme. If we were to make any such adjustment, for example, if we were to reduce the market capitalisation of Drillsearch in this table by 4.57%, then Drillsearch's contribution presented in the table would decrease. That is, the contribution ratios would appear more favourable to Drillsearch Shareholders
- ² Enterprise value based on market capitalisation as at 22 October 2015, plus net cash as reported in Beach's 30 September 2015 quarterly report and Drillsearch's net debt balance as at 31 October 2015
- ³ Drillsearch and Beach prepare independent estimates of their reserves, including their respective interests in joint venture assets. For the purposes of this cross check, the 2P reserves set out above are based on a simple aggregation of 2P reserves published by Drillsearch and Beach. We have had regard to the note in section 5 of the Scheme Booklet that an aggregation of the reserves estimates independently prepared by Drillsearch and Beach may not produce a reliable approximation of the combined estimated reserves of the Merged Group. We nonetheless consider that this aggregation is useful for the high level cross checks for which it is used in this report.

As set out in the table, Drillsearch Shareholders will have an initial collective interest in the issued shares of the Merged Group of approximately 30% while contributing approximately 25.7% of 2P reserves, 24.8% of historical production and approximately 25.9% of market capitalisation before the Announcement Date. In addition, we note that the average of brokers' sum-of-the-parts valuations of Drillsearch and Beach reviewed by Ernst & Young Transaction Advisory Services, and released prior to the Announcement Date, indicate that brokers consider Drillsearch's assets to contribute approximately 27.8% to the sum of the assets of the Merged Group (without taking into account synergies).

We consider that the relative contribution by Drillsearch appears reasonable in the context of the shareholding in the Merged Group that will be held by Drillsearch Shareholders.



Other factors

Notwithstanding the above conclusion that the terms of the Proposed Scheme are fair and reasonable, we have also considered other factors that Drillsearch Shareholders should consider in forming their views as to whether or not to vote in favour of the Proposed Scheme.

Individual Drillsearch Shareholders may interpret these factors differently depending on their own circumstances. Certain of the factors outlined below may only be an advantage or disadvantage to the extent that a Drillsearch Shareholder decides to retain their shares in Beach, post-scheme implementation.

Listed below is a summary of these other factors. Drillsearch Shareholders should refer to section 10 for further explanation.

Advantages

Drillsearch Shareholders are receiving a premium to the price of Drillsearch Shares prior to the announcement of the Proposed Scheme

The Proposed Scheme provides Drillsearch Shareholders with the opportunity to realise value for their shares in excess of the price at which they traded prior to the Announcement Date on 23 October 2015.

In the absence of a transaction involving the acquisition of 100% of Drillsearch Shares, or a similar form of control transaction, Drillsearch Shareholders may be unable to realise a control premium above the minority interest value.

The table below sets out a comparison of our assessed value of the Scheme Consideration to the last traded price of Drillsearch Shares of \$0.66 per share on 22 October 2015, being the day prior to the Announcement Date, and the 30 day volume weighted average price ("VWAP") of \$0.58 per share prior to the Announcement Date.

Comparison of our assessed value of the Scheme Consideration with the traded share price of Drillsearch		
\$ per share	Low	High
Value of Scheme Consideration	0.65	0.78
Share price on 22 October 2015	0.66	0.66
30 day VWAP	0.58	0.58
Premium/(discount) to the Drillsearch share price immediately prior to the announcement	(0.8)%	18.3%
Premium/(discount) to the Drillsearch 30 day VWAP prior to the announcement	12.4%	34.0%

Source: Ernst & Young Transaction Advisory Services analysis

We have presented above an assessment of the premium implicit in the Scheme Consideration based on the relationship between the value of the Scheme Consideration at the date of this report to the trading prices of a Drillsearch Share prior to the announcement of the Proposed Scheme. This is a common way of assessing implied control premiums.

We note that share prices of companies in the oil and gas sector, including both Drillsearch and Beach, have been volatile in recent times due principally to the variability and general decline in oil prices. As a result, the above analysis has limitations in that the value of the Scheme Consideration reflects an environment of lower oil prices than that which prevailed prior to the Announcement Date. A comparison of the value of the Scheme Consideration with Drillsearch share prices at the date prior to the Announcement Date fails to recognise that just as Beach's share price has decreased with the lower oil prices, it is likely that the Drillsearch share price would have also declined in the absence of the Proposed Scheme.



As a result of the above and also that (as noted in section 10.3) Drillsearch and Beach share prices have traded at a consistent trend across an extended period, we have also considered the relative premium that would have existed over various historical periods. This is set out in the table below:

Implied premium of Beach shares (adjusted for the terms of the Proposed Scheme) and Drillsearch Shares			
	Drillsearch	1.25x Beach	Premium
22 October 2015 (day prior to the Announcement Date)	0.66	0.83	26.9%
1 week VWAP	0.66	0.82	23.8%
1 month VWAP	0.58	0.70	20.8%
3 month VWAP	0.62	0.81	29.4%
6 month VWAP	0.84	1.01	20.4%

Source: S&P Capital IQ and Ernst & Young Transaction Advisory Services analysis

It is also important to note that given this volatility, it is possible that the share price of Beach could further decline subsequent to the date of this report but before the Scheme Meeting. To the extent that any decrease in the trading price of a Beach share was due principally to further declines in oil prices, it would be expected that Drillsearch Shares would be impacted in the same way and the analysis would remain materially consistent with the above.

Drillsearch Shareholders will continue to have exposure to the Drillsearch assets

Under the Proposed Scheme, Drillsearch Shareholders will become shareholders in the Merged Group and will continue to have an exposure to Drillsearch's key oil and gas assets, albeit reduced on a proportionate basis (rather than an absolute basis). This means that, should the value of these assets increase over time and should the Proposed Scheme be approved and implemented, Drillsearch Shareholders (to the extent they remain shareholders) will benefit from that increase in value.

Drillsearch Shareholders will receive exposure to Beach assets

Should the Proposed Scheme be implemented, Drillsearch Shareholders will receive exposure to the assets of Beach. There are various benefits to Drillsearch Shareholders of receiving exposure to the assets currently owned by Beach, and there are also various benefits of consolidating two significant portfolios of assets in the Cooper-Eromanga Basin. These benefits are outlined in detail in section 10.7.3 of this report.

Potential greater liquidity of Drillsearch shares

As a result of the Proposed Scheme, the market capitalisation of the Merged Group will be significantly higher than Drillsearch's current market capitalisation. Notwithstanding that shares in Drillsearch have historically been relatively liquid, the increased market capitalisation may mean greater analyst and investor awareness, which could lead to higher levels of liquidity. This may be considered an advantage to those Drillsearch Shareholders who are wishing to dispose of their Beach Shares following the implementation of the Proposed Scheme.

Beach and Drillsearch are both currently in the S&P/ASX 200 index although on 4 December 2015 it was announced that Drillsearch will be removed from the S&P/ASX 200 index after market close on 18 December 2015. It is likely that the Merged Group will be of a similar size to companies currently in the S&P/ASX 100 index. Should the Merged Group be included in the S&P/ASX 100 index, there may be an increase in demand for its shares, particularly from index-linked investment or tracker funds.

Greater financial resources

Should the Proposed Scheme be approved and implemented, the Merged Group will have a pro forma net debt balance at 30 June 2015 of \$25.1 million, which is lower than Drillsearch's net debt balance as at 30 June 2015 of \$30.6 million. As noted in section 4.10 of the Scheme Booklet, Beach has recently entered into and executed a new syndicated debt facility of \$530 million to replace the existing syndicated facility of \$330 million. It is intended that the new facility be initially drawn to \$170 million to refinance current



borrowings and letter of credit, with the undrawn amount of \$360 million being available for capital expenditure programs, working capital requirements and potential growth opportunities. The Merged Group will have access to this facility, and the greater liquidity it provides. Further, the larger scale of the Merged Group will likely mean that the Merged Group will have access to debt funding at lower rates than Drillsearch. The additional funding will enable the Merged Group to continue with the various exploration and development programs required to realise the value of assets in its portfolio.

Dividends

We note that Drillsearch has not paid dividends within the past five years. Conversely, Beach has paid a dividend in each of the last five years. Whilst past payment history is no guarantee that Beach will continue to pay dividends in the future, should Beach pay dividends in the future, if the Proposed Scheme is approved and implemented, Drillsearch Shareholders will receive access to any such future dividends should they continue to hold their Beach Shares.

Drillsearch Shareholders will share in synergies

As discussed in section 9.2.2, while the exact value cannot be quantified we expect that the market is already factoring into the Beach share price some value attributable to expected synergies to be derived from the merger of Beach and Drillsearch. Any such value would therefore be reflected in our assessment of value of the Scheme Consideration based on the Beach share price subsequent to the Announcement Date. Our cross check to the value of the Merged Group on a sum-of-the-parts basis also includes some value attributable to synergies. As such, a certain level of value attributable to synergies has already been reflected in the premium of the value of the Scheme Consideration over the value of Drillsearch Shares.

Given the nature of the Scheme Consideration, being shares in Beach rather than cash, Drillsearch Shareholders will be able to share in any additional potential synergistic value not already captured in our assessed fair value of the Scheme Consideration.

Disadvantages

Drillsearch Shareholders' interest in the assets will be diluted

Should the Proposed Scheme be implemented, Drillsearch Shareholders will only hold approximately 30% of shares in the Merged Group. As such, whilst Drillsearch Shareholders will continue to have exposure to the assets previously owned by Drillsearch, their interest will be proportionately lower than it is currently.

Exposure to additional risks

While the Proposed Scheme will increase the diversification of the assets that Drillsearch Shareholders will have exposure to, Drillsearch Shareholders will also be subject to the risks associated with Beach's oil and gas assets, to which Drillsearch Shareholders are not currently exposed.

Consideration not paid in cash

The Scheme Consideration is in the form of shares in Beach. This means that should Drillsearch Shareholders wish to realise the value of the consideration immediately on implementation of the Proposed Scheme, they will need to sell the shares on market. Any sale of shares will be subject to market conditions at the time of sale.

Potential that synergies will not be realised

As noted above, part of the value of the Merged Group is the potential realisation of synergies in combining the Beach and Drillsearch businesses. This is represented by the control premium reflected in the terms of the Proposed Scheme and in our valuation of the Merged Group on a sum-of-the-parts basis. In contrast there is the risk that less synergies could be realised, and therefore that the synergistic value which has contributed to the assessed value of the Scheme Consideration is not realised.



Other factors

The value of the Scheme Consideration may change up until the date of the Scheme Meeting

The implied fair value of the Scheme Consideration may change if the market price of Beach Shares changes up until the day immediately preceding the Scheme Meeting. General market conditions, including oil and gas prices, may impact the Beach Share price and this will impact the fair value of the Scheme Consideration.

Potential for an alternative superior proposal to emerge

While it is possible that an alternative proposal involving Drillsearch may emerge, we note that since the announcement of the Proposed Scheme, no superior proposals have been received and the Directors of Drillsearch are not aware of any potential superior alternative proposals, that are likely to be received.

In addition, the terms of the Merger Implementation Agreement prevent Drillsearch from actively seeking alternative proposals. Further, given the similarities between the Drillsearch and Beach businesses, and the extent of the overlapping assets, there are few other potential acquirers of Drillsearch which would be able to realise the same level of synergistic value as Beach. These factors may reduce the likelihood of any superior proposals emerging.

Costs associated with the Proposed Scheme

In addition to a break fee of \$3.8 million which may be paid in certain circumstances, Drillsearch estimates that it will have incurred or committed to incurring one-off transaction costs totalling \$5 million. These transaction costs will be payable by Drillsearch regardless of whether the Proposed Scheme is implemented.

We note that should the Proposed Scheme be implemented, Drillsearch's total transaction costs are estimated to be approximately \$17 million, as set out in section 7 of the Scheme Booklet.

If the Proposed Scheme is not approved the Drillsearch share price may fall below current trading levels

If the Proposed Scheme is not approved, and in the absence of an alternative transaction, Drillsearch will continue to operate in its current form and be listed on the ASX. As a consequence:

- ▶ Drillsearch Shareholders will continue to own shares in Drillsearch but will not receive any Beach Shares.
- ▶ The advantages, disadvantages and risks of the proposal will not occur other than with respect to the estimated one-off transaction costs totaling approximately \$5 million which will be payable by Drillsearch regardless of whether the Proposed Scheme is implemented.
- ▶ The price of Drillsearch Shares may fall. We note that Drillsearch Shares rose 26% on 23 October 2015 following the announcement of the Proposed Scheme. Since that date, up to 30 November 2015, Drillsearch Shares have traded at a volume weighted average price of 13.0% above the closing price one day preceding the announcement of the Proposed Scheme.

Tax consequences

There may be certain tax implications for individual Drillsearch Shareholders in connection with the Proposed Scheme if it is approved and implemented. The exact nature and impact is uncertain and will depend upon the profile of each Drillsearch Shareholder. These specific consequences need to be borne in mind by each Drillsearch Shareholder in weighing up the merits of the Proposed Scheme. As such, Drillsearch Shareholders should refer to section 9 of the Scheme Booklet. We understand that, for Australian-resident Drillsearch Shareholders, roll-over relief may be available on any capital gains tax in certain circumstances.



Current volatility in oil prices and share prices

The majority of the valuation analysis in this report was prepared as at 30 November 2015. Since 30 November 2015 recent volatility in oil prices and share prices has continued, including significant declines. As at the date of this report the last closing price of Beach Shares was \$0.44 per share and Drillsearch Shares was \$0.54 per share. Both of these are below the prices prevailing at 30 November 2015 of \$0.52 per share and \$0.62 per share respectively and are also below our valuations of both Drillsearch and the Merged Group set out above and in subsequent sections of this report.

We do not consider that this position affects the key analyses and conclusions reached in this report. This is for the following key reasons:

- ▶ The key reason for the declines in the Drillsearch and Beach share prices has been declining oil prices which affect each entity in a similar manner;
- ▶ Historically the shares prices of Drillsearch and Beach have been closely correlated with a variation of no more than 4% (on a volume weighted average basis) over the six months prior to the Announcement Date; and
- ▶ If the Proposed Scheme is not implemented the price of a Drillsearch Share may decline in the absence of an alternative transaction that enables shareholders to realise a control premium. We also note the announcement on 4 December 2015 that Drillsearch Shares will be removed from the S&P/ASX 200 index after market close on 18 December 2015. This may also adversely affect the value of a Drillsearch Share whereas there is no indication to suggest that the Merged Group will not remain in the S&P/ASX 200 index.

Conclusion

Taking into consideration the matters detailed in this independent expert's report, in the opinion of Ernst & Young Transaction Advisory Services, the Proposed Scheme is fair and reasonable and therefore is in the best interests of Drillsearch Shareholders.

Other matters

This independent expert's report has been prepared specifically for Drillsearch Shareholders. Neither Ernst & Young Transaction Advisory Services, Ernst & Young nor any employee thereof undertakes responsibility to any person, other than Drillsearch Shareholders, in respect of this report, including any errors or omissions howsoever caused.

This independent expert's report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of Drillsearch Shareholders. The decision as to whether to approve or not approve the Proposed Scheme is a matter for individual Drillsearch Shareholders. Drillsearch Shareholders should have regard to the Scheme Booklet prepared by the Directors and management of Drillsearch. Drillsearch Shareholders who are in doubt as to the action they should take in relation to the Proposed Scheme should consult their own professional adviser.



Our opinion is made as at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full independent expert's report as attached. All amounts are in Australian dollars ("A\$") unless otherwise stated.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

A handwritten signature in black ink, appearing to read 'Stuart Bright'.

Stuart Bright
Director and Representative

A handwritten signature in black ink, appearing to read 'Ken Pendergast'.

Ken Pendergast
Director and Representative



Contents

Part 1 – Independent Expert's Report

1.	Introduction	13
1.1	Overview of the Proposed Scheme	13
1.2	Summary of Drillsearch and Beach.....	13
1.3	Impact of the implementation of the Proposed Scheme	13
1.4	Merged Group Board of Directors and future intentions	15
1.5	Conditions precedent	16
2.	Scope of the independent expert's report	17
2.1	Purpose of the report	17
2.2	Basis of evaluation	17
2.3	Fair value	18
2.4	Independence	19
2.5	Limitations and reliance on information and technical experts.....	19
2.6	Shareholders' decisions	20
3.	Industry overview.....	21
3.1	Oil industry	21
3.2	Gas industry	23
4.	Overview of Drillsearch	28
4.1	Company background	28
4.2	Drillsearch's oil and gas assets	29
4.3	Production, reserves and resources	33
4.4	Financial information	36
4.5	Capital structure	40
4.6	Major shareholders	42
4.7	Share price performance.....	42
5.	Overview of Beach	46
5.1	Company background	46
5.2	Beach's oil and gas assets.....	48
5.3	Production, reserves and resources	53
5.4	Financial information	56
5.5	Capital structure	60
5.6	Major shareholders	61
5.7	Share price performance.....	61
6.	Profile of the Merged Group.....	65
6.1	Strategy and Board of Directors.....	65
6.2	Production, reserves and resources	66
6.3	Pro forma financial position.....	67
6.4	Capital structure and shareholders	68
7.	Valuation methodology and approach.....	69
7.1	Valuation methodology and approach	69
7.2	Valuation methodologies adopted	69
7.3	Control premium / minority discount.....	72
7.4	Valuation cross checks	72
8.	Valuation of Drillsearch Shares	73
8.1	Summary of values	73
8.2	DCF analysis.....	74
8.3	Exploration assets.....	82



8.4	Other assets and liabilities	83
8.5	Sensitivity analysis	83
8.6	Number of shares on issue	84
8.7	Valuation cross check	85
9.	Valuation of the Scheme Consideration	88
9.1	Introduction	88
9.2	Valuation based on the traded share price of Beach	88
9.3	Valuation of the Merged Group based on underlying net assets	93
9.4	Sensitivity analysis	97
9.5	Conclusion on the valuation of the Merged Group	97
9.6	Conclusion on the valuation of the Scheme Consideration	97
10.	Evaluation of the Proposed Scheme	98
10.1	Overview	98
10.2	Fairness	98
10.3	Implied premium based on market prices	99
10.4	Relative contribution	100
10.5	Reasonableness and best interests	101
10.6	Other considerations	101
10.7	Advantages	101
10.8	Disadvantages	104
10.9	Other relevant factors	104
10.10	Conclusion	106
Appendices		
Appendix A	Statement of qualifications and declarations	107
Appendix B	Valuation methodologies	108
Appendix C	Determination of discount rate	109
Appendix D	Comparable trading multiples	114
Appendix E	Transaction multiples	116
Appendix F	Sources of information	118
Appendix G	Glossary	119
Appendix H	The RISC Report	122

Part 2 – Financial Services Guide



1. Introduction

1.1 Overview of the Proposed Scheme

On 23 October 2015 (the “Announcement Date”), Drillsearch and Beach announced that they had entered a Merger Implementation Agreement under which Beach intends to acquire all of the issued shares in Drillsearch that it does not already have a relevant interest in via the Proposed Scheme.

Under the Proposed Scheme, Drillsearch Shareholders will receive 1.25 shares in Beach for every Drillsearch Share held.

Based on Beach’s closing share price on 22 October 2015 (being the last trading day before the Announcement Date) of \$0.665 per share, and an exchange ratio of 1.25, the Proposed Scheme implies a market value of Drillsearch of approximately \$384 million (or \$0.83 per Drillsearch Share).

Drillsearch Shareholders are to consider a resolution seeking approval of the Proposed Scheme at the Scheme Meeting of the Company that is to be held on or about 27 January 2016.

1.2 Summary of Drillsearch and Beach

Drillsearch is an Australian incorporated oil and gas production and exploration company with its head office in Sydney. Drillsearch’s production and exploration assets are located solely within the Cooper-Eromanga Basin. Drillsearch is listed on the ASX, and has a market capitalisation of around \$287 million².

Beach is an Australian incorporated oil and gas exploration and production company, with its head office in Adelaide. Beach is also listed on the ASX and has a market capitalisation of approximately \$671 million³. Beach’s major producing assets are located in the Cooper-Eromanga Basin, where it holds interests in around 50,000 km² of acreage and strategic infrastructure. Beach also holds exploration assets in other Australian basins, including the Gippsland, Otway, Bonaparte and Browse/Carnarvon basins, and internationally in New Zealand, Egypt and Tanzania.

Beach and Drillsearch have a number of common assets in the Cooper-Eromanga Basin.

Seven Group Holdings Limited (“Seven Group”) is a major shareholder in both Drillsearch and Beach, holding a 19.9% interest in both companies.

1.3 Impact of the implementation of the Proposed Scheme

If the Proposed Scheme is implemented, Drillsearch Shareholders will collectively hold around 30% of the Merged Group. Drillsearch will become a wholly owned subsidiary of Beach and will be de-listed from the ASX. The Merged Group will retain the Beach name, and will have around \$123 million in cash and cash equivalents (on a pro forma basis, as at 30 June 2015). As noted in section 4.10 of the Scheme Booklet, the Merged Group will have access to the new \$530 million syndicated debt facility recently entered into and executed by Beach.

As at the Announcement Date, Drillsearch had 462.3 million ordinary shares on issue, 3.6 million unlisted options outstanding (the “Options”) and 5.1 million unvested performance rights (the “Performance Rights”). The Options and Performance Rights are unlisted and are held by directors, executives and senior employees of Drillsearch. Beach currently holds 21.1 million Drillsearch Shares, representing a 4.57% interest.

Under the Merger Implementation Agreement, Drillsearch has agreed to procure that optionholders execute an option cancellation deed, whereby, if the Proposed Scheme is implemented, all outstanding Options will be cancelled in return for an agreed cash payment of between \$0.40 and \$0.42 per option (total payment of \$1.5 million).

² As at 30 November 2015

³ As at 30 November 2015



Should the Proposed Scheme be approved by the Federal Court, in accordance with the Merger Implementation Agreement, the Performance Rights will automatically vest (as if all performance conditions have been satisfied) and the resulting issued shares will participate in the Proposed Scheme, if it is implemented.

Drillsearch also has on issue US\$125 million of convertible notes ("Convertible Notes"), which are due to mature in September 2018 and carry a fixed coupon of 6% per annum, paid semi-annually. The convertible notes are convertible into Drillsearch Shares at a conversion price of US\$1.66 per Drillsearch Share, which is adjusted in certain circumstances (including where there is a change of control in Drillsearch). None of the Convertible Notes have been converted or redeemed to date. Beach holds Convertible Notes with an aggregate face value of US\$7.4 million.

If Drillsearch Shareholders approve the Proposed Scheme, this will result in a change of control in Drillsearch, and the conversion price will be adjusted. Noteholders will then be entitled to convert their notes at the adjusted conversion price (and can therefore participate in the Proposed Scheme upon implementation), or can elect to redeem their notes. If noteholders do not elect to either convert or redeem their notes, then Drillsearch and Beach have agreed that Drillsearch will exercise its rights to redeem the notes at their principal amount, together with accrued interest, after approval of the Proposed Scheme. For the purpose of the Proposed Scheme, and considering that the most recent information available to Drillsearch indicates that the conversion price will be out of the money, it is assumed that all Convertible Notes will be redeemed if the Proposed Scheme is approved by Drillsearch Shareholders.

The following table summarises the number of shares, options and performance rights the respective companies have on issue as per the scheme booklet that was prepared by Drillsearch in relation to the Proposed Scheme ("Scheme Booklet").

Capital structure of Drillsearch and Beach pre-Proposed Scheme	
	Million
Drillsearch	
Number of Drillsearch Shares on issue	462.3
Number of Options on issue	3.6
Number of Performance Rights on issue	5.1
Beach	
Number of Beach Shares on issue	1,302.9
Number of Beach options on issue	nil
Number of Beach executive performance rights on issue	5.0

Source: Scheme Booklet



The following table summarises the position of the Merged Group on implementation of the Proposed Scheme, assuming the Options are cancelled prior to the implementation of the Proposed Scheme, and the Performance Rights vest and participate in the Proposed Scheme. This table also assumes no conversion of the Convertible Notes prior to implementation of the Proposed Scheme:

Merged Group ordinary shares post-Proposed Scheme	
<i>Million</i>	
Number of Drillsearch Shares eligible to participate in the Proposed Scheme, reflecting:	
Drillsearch Shares on issue	462.3
Less: Drillsearch Shares held by Beach	(21.1)
Add: Drillsearch Shares to be issued on vesting of Performance Rights	5.1
Total Drillsearch Shares eligible to participate in the Proposed Scheme	446.3
Merger ratio	1.25
Total Beach Shares to be issued to Drillsearch security holders on implementation of the Proposed Scheme	557.8
Number of shares on completion of the Proposed Scheme	
Beach Shares on issue before the Proposed Scheme	1,302.9
Total Beach Shares to be issued to Drillsearch security holders on implementation of the Proposed Scheme	557.8
Shares on issue post implementation of Proposed Scheme	1,860.7
Drillsearch security holders proportion of Merged Group (excluding shares held by Beach) (%) ¹	30.0%
Beach Shareholders proportion of the Merged Group (%)	70.0%

Source: Ernst & Young Transaction Advisory Services analysis

Note: ¹ Excluding the impact of 5.0 million Beach Performance Rights on issue.

The analysis shows that on the implementation of the Proposed Scheme, Drillsearch security holders (excluding Beach) will have a collective 30.0% interest in the Merged Group.

1.4 Merged Group Board of Directors and future intentions

The Drillsearch Board of Directors have unanimously recommended that Drillsearch Shareholders, in the absence of a superior proposal, vote in favour of the Proposed Scheme and have stated that they intend to do so in regards to their own holdings in Drillsearch.

As set out in the Merger Implementation Agreement, the Board of the Merged Group will comprise seven Directors, including five drawn from the current Beach Directors and two current Drillsearch Directors (being Jim McKerlie and Phil Bainbridge). The current chairman of Beach, Glenn Davis, will be chairman of the Merged Group. The Beach Board is currently conducting a search for a permanent Chief Executive Officer ("CEO"). The Beach Board has agreed to consult with the Drillsearch board as to the appointment of a new CEO.

The senior management team of the Merged Group will be comprised of people from the existing Beach and Drillsearch management teams on a "best for the job" basis.

The head office of the Merged Group will be located in Adelaide, with Drillsearch's corporate function to be relocated and consolidated in Adelaide. It is intended that Drillsearch's Sydney office will be downsized and closed some time after implementation of the Proposed Scheme.



1.5 Conditions precedent

Completion of the Proposed Scheme is subject to a number of conditions (some of which, pursuant to the Merger Implementation Agreement, may be waived by agreement between Beach and Drillsearch) including, amongst other matters:

- ▶ The independent expert concluding that the Proposed Scheme is in the best interests of Drillsearch Shareholders
- ▶ Drillsearch Shareholders' approval of the Proposed Scheme
- ▶ Federal Court of Australia approval of the Proposed Scheme
- ▶ Any regulatory authority approvals from ASIC and the ASX necessary to implement the Proposed Scheme being obtained
- ▶ No material adverse change to Drillsearch or Beach as defined in the Merger Implementation Agreement (this excludes any impacts arising from general changes in economic, political or business conditions such as oil prices)
- ▶ No prescribed occurrences as defined in the Merger Implementation Agreement.

We note that a break fee of \$3.8 million may be payable by Drillsearch to Beach, or by Beach to Drillsearch, in certain circumstances. Drillsearch will be required to pay the break fee to Beach in circumstances including Drillsearch entering into a competing proposal or any director changing their recommendation or withdrawing an earlier recommendation. Beach will be required to pay the break fee to Drillsearch if Drillsearch terminates the Merger Implementation Agreement due to Beach materially breaching a material obligation under the agreement. The circumstances in which a break fee is payable is set out in clauses 11 and 12 of the Merger Implementation Agreement, as varied by clause 3.9 of that agreement which applies because the ASX granted Beach a waiver from Listing Rule 10.1 on 12 November 2015.

A description of the conditions precedent to the Proposed Scheme is included in section 2.4 the Scheme Booklet.



2. Scope of the independent expert's report

2.1 Purpose of the report

The proposed merger of Drillsearch and Beach is to be implemented by way of the Proposed Scheme being conducted under the provisions of Section 411 of the Act. If approved by Drillsearch Shareholders, the Proposed Scheme will then be subject to approval by the Federal Court of Australia.

Part 3 of Schedule 8 to the Regulations prescribes the information to be sent to security holders in relation to schemes of arrangement pursuant to Section 411. Part 3 of Schedule 8 requires an independent expert's report in relation to a scheme of arrangement to be prepared when a party to a scheme of arrangement holds at least 30% of the company subject to the scheme, or if the parties have a common director. In those circumstances, the documents to be sent to shareholders must be accompanied by a report prepared by an independent expert in which that entity provides an opinion as to whether or not the Proposed Scheme is in the best interests of shareholders subject to the scheme and set out the reasons for that opinion.

Beach holds a relevant interest in approximately 4.57% Drillsearch issued ordinary shares (i.e. less than 30%), and there are no common directors. As such, an independent expert's report is not specifically required in relation to the Proposed Scheme. Notwithstanding, the Directors of Drillsearch have engaged us to prepare an independent expert's report setting out whether or not, in our opinion, the Proposed Scheme is in the best interests of Drillsearch Shareholders and the reasons for that opinion. Our report will accompany the Scheme Booklet to be sent to Drillsearch Shareholders.

2.2 Basis of evaluation

There is no legal definition of the term "in the best interests of" in the Act or the Regulations. However ASIC has issued RG 111 which provides guidance as to what matters an independent expert should consider when determining whether or not a particular transaction is in the best interests of shareholders.

Importantly, RG 111 differentiates between the analysis required for control transactions and other transactions. In the context of a control transaction, where the transaction has a similar effect on the company's shareholding as a takeover bid then the transaction should be analysed as if it were a takeover bid. In these instances, the independent expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" is defined in RG 111 to be in the best interests of shareholders.

As the Proposed Scheme achieves the same outcome as a takeover bid, given Beach proposes to acquire all of the outstanding shares in Drillsearch, we have evaluated the Proposed Scheme as a control transaction. In reaching this conclusion, we considered the following factors:

- ▶ the respective shareholder base of the Merged Group post the Proposed Scheme and the collective interests of the Drillsearch Shareholders and existing Beach Shareholders
- ▶ the composition of the Board of the Merged Group following implementation of the Proposed Scheme
- ▶ whether any shareholder from either company will be in a position to control or significantly influence the Merged Group post the Proposed Scheme
- ▶ intentions of the Board and management of Beach and Drillsearch on entering into the Proposed Scheme.

RG 111 provides guidance as to how the term "fair and reasonable" should be interpreted in a range of circumstances. With respect to a takeover bid:

- ▶ an offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison is to be made assuming 100% ownership of the target and it is "inappropriate to apply a discount on the basis that the shares being acquired represent a minority or portfolio parcel of shares"; and



- ▶ an offer is “reasonable” if it is fair. It might also be “reasonable” if, despite being “not fair”, the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 also provides that an independent expert should usually give a range of values for the securities that are the subject of the offer. If the value of the consideration offered falls within the range of values of the securities, the offer is considered to be fair.

We have therefore considered whether the Proposed Scheme is fair by comparing the estimated value of the Drillsearch Shares being given up, on a controlling interest basis, with the fair value of the Scheme Consideration. In assessing the value of a Drillsearch Share, we have assumed 100% ownership, which implicitly includes a control premium. In assessing the value of a Beach Share, we have not included a control premium as Drillsearch Shareholders will receive shares representing a minority or portfolio interest in Beach. The Proposed Scheme is considered fair if the value of the Scheme Consideration is equal to or greater than the range of values assessed for a Drillsearch Share. In considering whether the Proposed Scheme is reasonable, we also considered the following matters:

- ▶ the strategic rationale for the transaction and the intentions of the Merged Group
- ▶ the prices at which, Drillsearch Shares and Beach Shares have recently traded on the ASX, and their liquidity, and the premium that Beach is paying over pre-announcement trading levels
- ▶ the existence of alternatives to the Proposed Scheme and the consequences for Drillsearch Shareholders
- ▶ the likelihood of a superior proposal being received
- ▶ the likely impact on Drillsearch’s share price in the event that the Proposed Scheme is not approved
- ▶ other advantages and disadvantages that Drillsearch Shareholders should consider in assessing whether to approve the Proposed Scheme.

In undertaking our assessment of the Proposed Scheme we have had regard to a number of references including ASIC Regulatory Guidelines, in particular, RG 111 and Regulatory Guide 112 *Independence of experts* (“RG 112”), and relevant market valuation guidelines and generally accepted practices in the preparation of expert reports. We have also had regard to the *Code for the technical assessment and valuation of mineral and petroleum assets and securities for independent expert reports* (the “VALMIN code”). This report has also been prepared in accordance with APES 225 *Valuation Services* (“APES 225”) issued by the Accounting Professional & Ethical Standards Board Limited in July 2008 (revised May 2012). Our analysis of Drillsearch and the Merged Group is on a going concern basis.

A glossary summarising the abbreviations we have used in this report is contained in Appendix G - *Glossary*.

2.3 Fair value

We have assessed the value of Drillsearch and the Scheme Consideration on a fair value basis. Fair value in this context is considered to be:

“the price at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer both acting at arm’s length”.

Fair value does not incorporate any special value. Special value is the additional value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.



2.4 Independence

Prior to accepting this engagement, we considered our independence with respect to Drillsearch and Beach with reference to RG 112. In our opinion, we are independent of Drillsearch and Beach.

Ernst & Young Transaction Advisory Services, Ernst & Young, and global affiliations, have not provided any services to Drillsearch or Beach in relation to the Proposed Scheme.

Ernst & Young has previously provided professional services to both Drillsearch and Beach, and subsidiaries thereof. These services included the provision of tax and valuation advice in respect of matters not related to the Proposed Scheme. In particular, Ernst & Young provided valuation advice for tax purposes to Drillsearch, in respect of its acquisitions of Acer and Ambassador. We do not consider these services to compromise our independence.

2.5 Limitations and reliance on information and technical experts

We have considered a number of sources of information in preparing our report and arriving at our opinion. These sources of information are detailed in Appendix F – *Sources of information*.

In particular, in considering the fair value of Drillsearch and the Merged Group we have relied on the independent technical report prepared by RISC Operations Pty Limited (“RISC”) (the “RISC Report”), who was appointed by Drillsearch as the independent technical expert to undertake a technical assessment of the production and exploration assets of both companies. A copy of the RISC Report is attached in full at Appendix H and should be read in conjunction with our report.

In placing reliance on the RISC Report we have satisfied ourselves as to RISC’s competence, expertise and independence. We are also satisfied that the assumptions, methodologies and source data used by RISC are reasonable and appropriate and that the report contains sufficient information to support the conclusions drawn.

The information provided to us for the preparation of our report has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the Proposed Scheme is in the best interests of Drillsearch Shareholders. We also held discussions with management of both Drillsearch and Beach in relation to the Proposed Scheme, as well as the operations, financial position and operating results of Drillsearch and Beach. However, we do not warrant that our enquiries have identified all of the matters that an audit, an extensive examination or tax investigation might disclose.

Preparation of this report does not imply that we have, in any way, audited the accounts or records of Drillsearch or Beach. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles including the Australian equivalents to International Financial Reporting Standards and International Financial Reporting Standards, as applicable.

In forming our opinion we have also assumed that:

- ▶ matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed
- ▶ the assessments by Drillsearch and its advisers with regard to legal, regulatory, tax and accounting matters relating to the transaction are complete and accurate
- ▶ the information set out in the Scheme Booklet and accompanying documents to Drillsearch Shareholders is complete, accurate and fairly presented in all material respects
- ▶ the publicly available information relied upon by us in our analysis was accurate and not misleading
- ▶ the Proposed Scheme will be implemented in accordance with its terms



- to the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue.

The statements and opinions given in this independent expert's report are given in good faith and in the belief that such statements and opinions are not false or misleading. This report should be read in the context of the full qualifications, limitations and consents set out in Appendix A – *Statement of qualifications and declarations* of this report.

Our assessment of the Proposed Scheme is based on economic, market and other conditions prevailing as at the date of this independent expert's report. As evidenced in recent years these conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, our opinion could be different.

We provided draft copies of this independent expert's report to the directors and management of Drillsearch (and to management of Beach in relation to the sections of the report pertaining to Beach) for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Amendments made to this independent expert's report as a result of this review by the directors and management of Drillsearch and the management of Beach have not changed the conclusions reached by us.

2.6 Shareholders' decisions

This independent expert's report constitutes general financial product advice only. In forming our opinion we have considered the interests of Drillsearch Shareholders as a whole, and we have not considered, nor is it practical or possible to consider, the individual circumstances of each Drillsearch Shareholder. The decision to vote for or against the Proposed Scheme is a matter for individual shareholders. Drillsearch Shareholders should consider the advice in the context of their own circumstances, including investment objectives, liquidity preferences, risk profiles, tax position and expectations of future market conditions. Shareholders should also have regard to the Scheme Booklet prepared by the directors and management of Drillsearch. Shareholders who are in doubt as to the action they should take in relation to the Proposed Scheme should consult their own professional adviser.

Similarly it is a matter for individual shareholders as to whether to buy, hold or sell shares in Drillsearch, Beach or the Merged Group. This is an investment decision upon which we do not offer an opinion and is independent of a decision to vote for or against the Proposed Scheme. Shareholders should consult their own professional adviser in this regard.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.



3. Industry overview

Drillsearch and Beach primarily operate in the oil and gas industry in Australia, specifically in the Cooper Basin and overlying Eromanga Basin ("Cooper-Eromanga Basin"), which spreads across the northern part of South Australia and the south-west part of Queensland. The section below sets out a summary of oil and gas markets, including global supply and demand factors, as well as current trends impacting the Australian market.

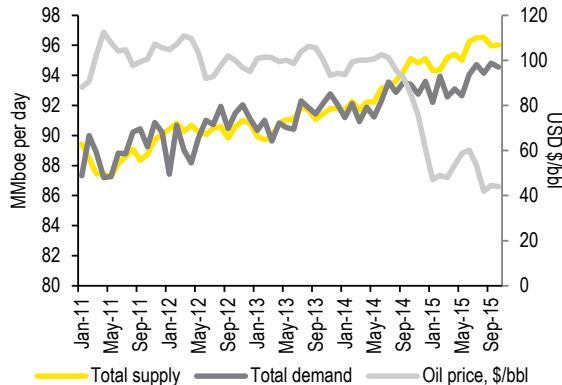
3.1 Oil industry

The term "oil" encompasses a range of liquid hydrocarbons including crude oil and condensate. These hydrocarbons are formed within sedimentary basins as organic matter is decomposed and pressurised over very long periods of time. Crude oil is unrefined petroleum liquid, mainly comprised of hydrocarbons, which occurs naturally. Condensate is a low density mixture of hydrocarbon liquids which exist as gas in the subsurface reservoir, and are condensed when brought to the surface. Once processed or refined, oils provide more energy globally than any other fuel source⁴.

3.1.1 Global supply and demand

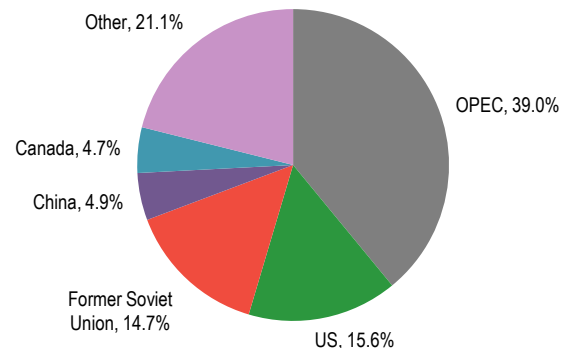
Global oil demand and supply are impacted by a number of factors, including production capacities, drilling and exploration activities, balance of political powers and economic growth of the world regions.

Liquid petroleum supply and demand dynamics



Source: EIA Short-Term Energy Outlook, October 2015

Petroleum liquids production by region (2015)



Source: EIA Short-Term Energy Outlook, October 2015

In 2014, the United States of America ("US") overtook Saudi Arabia and Russia as the world's largest crude oil producer, contributing around 16% of global oil production. US production growth in 2014 was driven by various factors, in particular by the strong performance of shale producers in Texas and North Dakota. After a sharp drop in oil prices in late 2014, production has slowed or contracted in areas with relatively high-cost operations, including the North Sea, Norway, and some unconventional oil provinces in the US and Canada.

During 2015, OPEC, led by Saudi Arabia, stood by its decision to maintain production levels, thereby contributing to oversupply and downward pressure on oil prices. Due to the significant role of oil in the global energy mix, movements in oil prices can have major impacts on the broader global economy, and producers' supply decisions can be politically, rather than economically, motivated. We note that a number of the world's leading oil producing entities are government owned and controlled (including Saudi Aramco, Gazprom and National Iranian Oil Company, which together control more than 25% of the global crude oil market).

The US, Europe and China collectively consumed more than 52% of the world's oil in 2014. A factor limiting global oil consumption is softening growth in key economies, especially China.

⁴ BP Statistical Review of World Energy, June 2015



3.1.2 Australian market

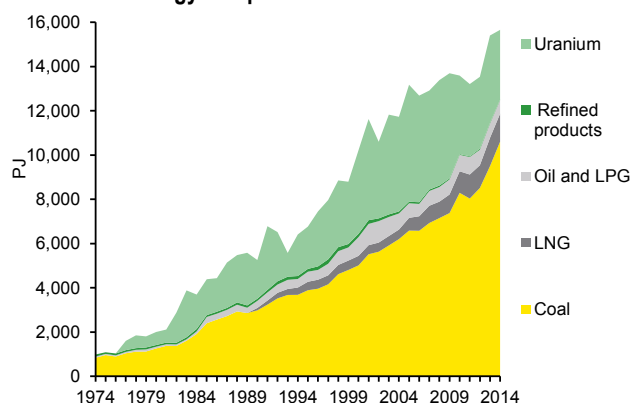
The map below shows the key onshore and offshore petroleum basins in Australia. The chart shows the production of different types of energy fuels in Australia over time.

Australian onshore petroleum basins



Source: Geoscience Australia

Evolution of energy fuel production in Australia



Source: Department of Industry and Science

According to the BP Statistical Review of World Energy 2015, Australia contributes circa 0.7% to 1.0% of global crude oil production and has an estimated 0.2% of global proved oil reserves as at December 2014, with over 4,000 mmbbl. Australia's oil production has been declining for the past several years, as the production from new, smaller offshore fields has not been able to offset declines from mature basins. Most of Australia's oil production is controlled by Woodside, Exxon-Mobil, BHP Billiton and Quadrant Energy.

The Australian oil market is formed by two effectively independent submarkets: West Coast (offshore Perth and Canning Basins) and East Coast (offshore Gippsland Basin in Victoria and inland Cooper-Eromanga Basin). Almost all crude oil producing assets are located far from Australian refineries and have the ability to transport to either Asian oil processing markets or domestic customers.

3.1.3 Cooper-Eromanga Basin

The fastest growing oil production area in Australia is the Cooper-Eromanga Basin. The share of total Australian crude oil production from this area has increased from 6% in 2010/11 to 16% in 2014/15 (compound annual growth rate, or "CAGR", of 19%). The high growth in supply from this area is driven by factors including:

- ▶ Low production costs compared to other basins (i.e. as it is onshore, rather than offshore)
- ▶ Relatively well understood geology and exploration (oil and gas production commenced in the 1960s)
- ▶ Availability of infrastructure and access to key markets.

Most petroleum liquids produced in the Cooper-Eromanga Basin, including crude oil and condensate, pass through the processing facility at Moomba. The Moomba and Port Bonython facilities are the key processing facilities and trading hub for oil and raw gas in the Cooper-Eromanga Basin. Crude oil is stabilised at Moomba, and condensates are separated from the gas before being sent via a liquids pipeline to Port Bonython near Whyalla, South Australia. The processing facility at Port Bonython receives liquids from the Cooper-Eromanga Basin for further processing and distribution by sea freight.

The essential oil (and gas) infrastructure, including the Moomba processing facility, Port Bonython, gathering systems and the Moomba to Port Bonython liquids pipeline, are owned by Santos, Beach and Origin Energy ("Origin") through a series of joint ventures informally known as the South Australian Cooper Basin Joint Ventures ("SACB JVs") and South West Queensland Joint Ventures ("SWQ JVs"). Santos is the majority owner and operator of the SACB and SWQ JVs.



Sales revenue for oil passing through Moomba and Port Bonython is generally based on global oil price benchmarks, such as Brent. Oil producers that do not have ownership interests in the processing facilities (such as Drillsearch) receive the market price of their product, less certain tolling and transport charges levied by infrastructure owners.

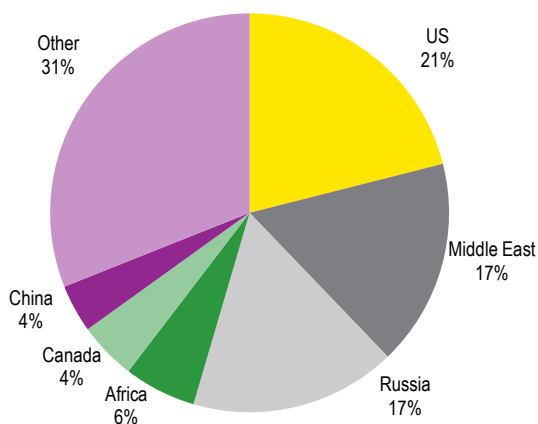
3.2 Gas industry

Hydrocarbon gas primarily consists of methane and can be used in a variety of ways to generate energy. “Conventional” gas refers to natural gas which primarily consists of methane but may also include liquids or condensate (leading to the terms “dry” and “wet” gas). “Unconventional” gas has similar properties to conventional dry gas. The key difference between conventional and unconventional gas is the location of the gas in subterranean reservoirs. Broadly speaking, unconventional gas is captured within deep, less permeable source rock (such as shale) or absorbed to coal in shallow coal seams, whereas conventional gas has escaped the permeable source rock and is found in reservoirs closer to the surface.

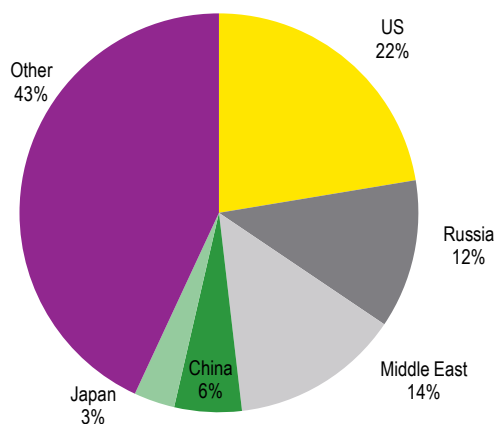
3.2.1 Global supply and demand

The US is the largest global gas producer, with more than 21% of global natural gas production in 2014.⁵ However, the US is also a major user of natural gas, and is currently a net importer, supplying its deficit from the Middle East. The US Energy Information Administration (“EIA”) projects⁶ that the US will be a net exporter of gas by 2018, due to the further development of shale gas production and export infrastructure.

Global gas production by country in 2014



Global gas consumption by country in 2014



Source: EIA Short Term outlook, Ernst & Young Transaction Advisory Services analysis

The key supply forces impacting the natural gas market include the development of sub surface extraction technologies, which have effectively increased the volume of potential gas reserves, as well as the development of significant global liquefaction capacity, which has allowed for the commencement of seaborne trade in liquefied natural gas (“LNG”). Global gas consumption is mainly driven by activity in the power generation and chemical industries (which are the key users of gas), as well as the relative price of gas compared to more traditional fuel sources such as oil and coal.

Over the last several years the global energy mix has been shifting toward cleaner fuels, which includes natural gas. The development of natural gas liquefaction technologies is causing global gas markets, which were historically isolated and subject to significant price differences, to be increasingly linked.

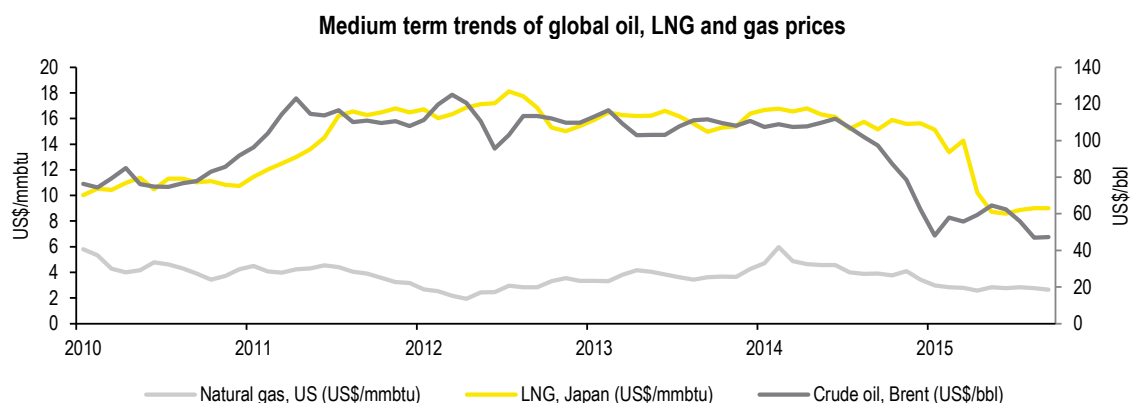
⁵ Production statistics are sourced from the BP Statistical Review of World Energy, June 2015

⁶ EIA Short-Term Energy Outlook, October 2015



As per data published by the International Gas Union⁷, global LNG trade reached 241 MT in 2014 (or 30% of international gas trade), which was a 1.8% increase over 2013 levels. Higher supply was underpinned by the start-up of the PNG LNG project in Papua New Guinea, which is operated by ExxonMobil.

The chart below shows the historical trend in US gas, Japanese LNG and Brent crude oil prices since 2010:

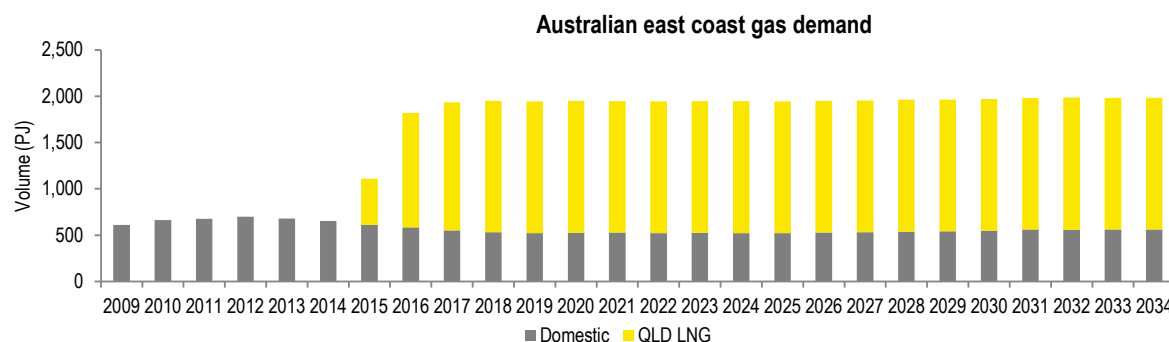


Source: World Bank, Ernst & Young Transaction Advisory Services analysis

Asia-Pacific LNG purchase contracts are typically 15 to 20 year agreements with the link between LNG and oil prices negotiated confidentially between producers and customers. These negotiations often take place during the financing phase for the construction of the LNG project. LNG contract prices, particularly in the Asia Pacific region, are typically linked to the price of Japanese custom-cleared crude oil, which typically lags Brent oil prices. Asian spot and import LNG prices have historically traded at a premium to Henry Hub US gas prices, though, due to the impact of LNG project start-ups in Australia, the price differential is expected to decrease.

While the Gulf countries were the largest exporters into the global LNG market in 2014, Australia was the third largest LNG exporter with circa 23.3 MT. Circa 19.3 MT, or 83% of Australian production, is exported to Japan, the world's largest end market for LNG. Japanese LNG demand has grown rapidly since the Fukushima nuclear disaster in March 2011, leading to progressive closure of all Japan's nuclear power plants and increasing Japanese demand for LNG as an alternative to coal and nuclear power. Japan's forecast LNG demand is expected to be driven by nuclear power plant restarts and pricing for alternative energy resources.

Demand for gas in the Australian east coast market is expected to increase significantly in 2015 and 2016, primarily as a result of LNG exports. This is illustrated in the chart below.



Source: AEMO, historical data from AEMO Gas Bulletin Board, forecast from Gas Statement of Opportunities, medium case

⁷ IGU World LNG Report – 2015 Edition



3.2.2 Cooper-Eromanga Basin

The Cooper-Eromanga Basin is estimated to contain 27% of Australian 2P conventional gas reserves and 12% of total Australian 2C contingent gas resources.

Australian conventional, coal seam gas and tight gas reserves and resources by Basin (as at 31 December 2012)			
Basin	Location	2P reserves, PJ	2C resources, PJ
Conventional gas			
Gippsland	Offshore Victoria	3,890	1,094
Otway	Offshore Victoria	720	116
Bass	Offshore Victoria	245	360
Cooper-Eromanga / Warburton	South Australia / Queensland	1,835	4,968
Surat/ Bowen/ Adavale	Queensland	161	-
Total conventional gas		6,851	6,538
Unconventional gas			
Surat / Bowen (coal seam gas)	Queensland	41,620	25,024
Galilee (coal seam gas)	Queensland	-	316
Gunnedah (coal seam gas)	New South Wales	1,426	3,460
Clarence-Morton (coal seam gas)	New South Wales	445	2,511
Gloucester (coal seam gas)	New South Wales	669	-
Sydney (coal seam gas)	New South Wales	282	542
Cooper-Eromanga (shale / tight gas)	South Australia / Queensland	-	4,240
Total unconventional gas		44,442	36,093
Total gas		51,293	42,631

Source: Eastern Australian Domestic Gas Market Study, Australian Government; Australian Bureau of Statistics

Eastern Australian 2P conventional gas reserves are sourced from offshore Victoria Gippsland and Otway Basins and the Cooper-Eromanga Basin. The Cooper-Eromanga Basin has been developed for over 45 years and has declining conventional gas reserves.

3.2.3 Infrastructure

The map below shows the key oil and gas infrastructure on the east coast of Australia:

Australia east coast oil and gas infrastructure



The Cooper-Eromanga Basin is connected to key markets via a network of pipelines, including:

- ▶ Moomba to Adelaide Pipeline System (owned by Epic Energy), a 1,185km system which connects Moomba and Adelaide
- ▶ Liquids pipeline connecting Moomba to Port Bonython (owned by the SACB JVs), which initially follows a similar route to the gas pipeline above, but is connected to the Port Bonython liquids processing facilities
- ▶ Moomba to Sydney Pipeline System (owned by APA Group), a 1,300km system which connects Moomba to Wilton, near Sydney
- ▶ South West Queensland Pipeline (owned by APA Group), twin 937km pipeline which connects the processing facilities at Moomba and Ballera with the gas supply hub at Wallumbilla.

Source: Ernst & Young Transaction Advisory Services analysis, AEMO



The Cooper-Eromanga Basin gas resources are currently controlled by various joint ventures, with the key players including Santos, Beach, Origin, Drillsearch and Senex. As with oil, most of the gas produced in the Cooper-Eromanga Basin passes through Moomba, or a smaller plant at Ballera located in Queensland. Producers such as Drillsearch may sell gas to the owners of the facilities at Moomba, which then process the gas and on-sell from ex-Moomba.

The Moomba processing facilities extract condensate, ethane and liquefied petroleum gas ("LPG", which may consist of propane, butane or a mix of both) from the raw gas. Gas is piped to Sydney, Adelaide or Queensland. Based on data sourced from AEMO, since 2010, approximately 11% of all Australian gas flows passed through Moomba. Total east Australian gas demand (including domestic and export gas) was approximately 650 PJ in 2014, of which 69 PJ passed through the Moomba plant⁸.

The owners of the Moomba processing facility also operate the Moomba Underground Gas Storage facility. This is the largest gas storage facility in the south east Australia gas market, with a capacity of up to 85 PJ. The facility consists of a range of depleted fields in the Cooper-Eromanga Basin. A similar storage facility is operated near Ballera, with a capacity of 13.7 PJ. As demand for gas in eastern Australia increases, the strategic importance of gas storage is likely to increase. The market appears to have recognised this importance, with QIC acquiring the Iona Gas Storage Facility (in Victoria) for \$1.7 billion in mid-2015. The Iona facility has a storage capacity of 23.5 PJ, and primarily services the east coast domestic market.

3.2.4 Pricing

Aside from certain limited life legacy supply contracts, the owners of the SACB and SWQ JVs separately market and sell their equity share of gas. Each of these owners has signed gas supply agreements ("GSAs") with various parties for the sale of their equity share of gas. Santos has signed a 15 year agreement (commencing 2015) to supply a total of 750 PJ of gas to the Gladstone LNG project, of which it is the operator. In July 2015, Beach commenced supply to Origin Energy under an eight year agreement (with a two-year extension), to supply up to 173 PJ over a full ten year period. The terms under which gas is sold under these agreements are commercial in confidence.

Moomba and the Cooper-Eromanga Basin have traditionally played a major role in supplying gas to the Australian eastern domestic gas market. However, going forward the gas processed at Moomba will also be used to supply the major LNG facilities now operating, or under construction, at Curtis Island in Queensland. In December 2014, British Gas commenced production from its Queensland Curtis LNG ("QCLNG") project, the world's first commercial producer of LNG from coal seam gas. In September 2015, Santos commenced the operation of the first train of its Gladstone LNG project, with a second train currently in commissioning. A third project of a similar scale, the Australia Pacific LNG project operated by Origin Energy, is currently in the final phase of commissioning on Curtis Island.

The impact of these projects on Australian domestic gas prices is expected to be significant, with the *Eastern Australian Domestic Gas Market Study*, released by the Bureau of Resources and Energy Economics in 2014, reporting that demand for gas will increase more than threefold between the start of 2015 and 2016. Whilst much of this demand is expected to be met from increased supply of gas from the Bowen and Surat Basins, there is likely to be imbalance in the Australian domestic gas market, at least in the short term, as domestic users will effectively need to compete with overseas customers for gas.

These dynamics have increased contracted domestic Australian gas prices, however the timing and quantum of further increase is uncertain. During 2015, spot wholesale prices in the east Australian gas market have been very volatile, with weekly average prices ranging from less than \$1 per GJ to almost \$8 per GJ⁹. This volatility is likely due to the impact of increased supply, pre-empting the significant increases in demand from the LNG projects.

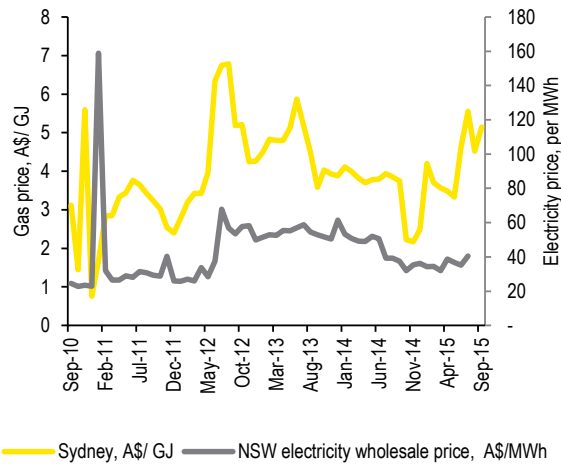
⁸ Source: AEMO, historical data from AEMO Gas Bulletin Board

⁹ AEMO data for the Adelaide, Brisbane and Sydney hubs, ex ante pricing



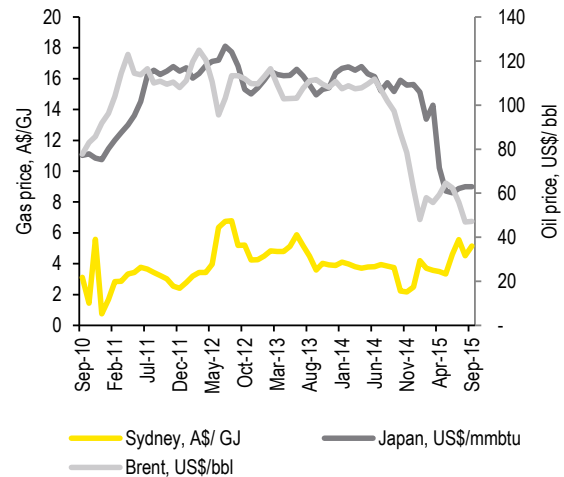
The start-up of the QCLNG project in the late 2014, early 2015, has impacted pricing on the Australian east coast market. This impact is expected to increase the correlation between Asia Pacific (Japan) import LNG prices and Australian gas prices, weakening the link between spot gas prices and domestic electricity market. These links are illustrated in the charts below.

Australian gas and electricity prices



Source: AEMO, World Bank, Australian Energy Regulator

Japanese LNG and Australian gas prices



Source: AEMO, World Bank, Australian Energy Regulator

In the short to medium term, domestic users of gas continue to negotiate pricing contracts with suppliers through direct contractual arrangements, at prices which are typically lower than the LNG netback price (that is, the implied upstream price based on the expected sale price for LNG, less costs including liquefaction, processing and transport). Based on forecasts released by the Climate Change Authority¹⁰, domestic gas prices could increase to levels which are significantly higher than current spot market prices (compared to an average monthly price in the Sydney spot market of circa \$4/GJ in September 2015). It is difficult to determine specifically what the impact on the price of Cooper-Eromanga Basin gas will be, but the prevailing market view is that prices will continue to increase.

¹⁰ Climate Change Authority, Consultation Paper: Modelling illustrative electricity sector emissions reduction policies, May 2015



4. Overview of Drillsearch

4.1 Company background

Drillsearch was incorporated in 1985 and listed on the ASX in 1987. At the date of this report, Drillsearch was included in the S&P/ASX 200 Index although on 4 December 2015 it was announced that Drillsearch will be removed from the S&P/ASX 200 index after market close on 18 December 2015.

In 2008, Drillsearch merged with Great Artesian Oil and Gas Limited ("Great Artesian") through which Drillsearch acquired its interest in PEL 91 in the Western Flank Oil Fairway and interests in various assets in the Western Wet Gas area. In January 2013 and October 2014, Drillsearch completed the acquisitions of Acer Energy Limited ("Acer") and Ambassador Oil and Gas Limited ("Ambassador"), respectively. The acquisition of Acer resulted in Drillsearch holding one of the largest discovered, uncommitted conventional gas resources in the Cooper-Eromanga Basin, whilst the acquisition of Ambassador consolidated Drillsearch's position in the Northern Cooper area and provided further diversification of its unconventional business segment outside of the Nappamerri Trough and into the more liquids-rich Patchawarra Trough.

Drillsearch has an active exploration, appraisal and development program and continues to explore across the Cooper-Eromanga Basin in each of its three operating segments, being: Oil, Wet Gas and Unconventional.

In the second half of the financial year ended 30 June 2015 ("FY15") and in response to the decline in crude oil prices, Drillsearch undertook a comprehensive review of its operations. This resulted in a prioritisation of activity and expenditure to focus on near-term production, cash flow and reserve replacement. Following the departure of its then Managing Director in July 2015, Drillsearch flagged a further strategy review, suggesting that it may look to expand operations beyond the Cooper-Eromanga Basin. Walter Simpson, who joined Drillsearch as Chief Operating Officer ("COO") in March 2015, was appointed as CEO on 18 September 2015, having been acting CEO since July 2015. In line with its portfolio prioritisation strategy, Drillsearch closed in the Flax oil facility during FY15, and is in the process of selling its 40% interest in the Tintaburra joint venture.

In a number of cases Drillsearch holds its interest through joint venture arrangements with parties including Beach, Santos, QGC and Senex. The Oil business is focused on the Western Flank Oil Fairway in the South Australian section of the Cooper-Eromanga Basin, and is currently Drillsearch's key cash flow generator. The Wet Gas business is expected to be the medium term growth driver for the business, currently producing gas from the Western Cooper but with significant undeveloped gas reserves. The Unconventional resource potential lies across a large part of Drillsearch's acreage, and forms the basis for the longer-term opportunity for the business, subject to the long term oil price environment.

The map below provides an overview of Drillsearch's acreage in the Cooper-Eromanga Basin:

Drillsearch: Cooper-Eromanga Basin interests



Source: Drillsearch



4.2 Drillsearch's oil and gas assets

4.2.1 Overview of assets

The table below provides an overview of Drillsearch's assets, split geographically and by business segment. The assets are further described in the following sections.

Drillsearch – Overview of assets				
Asset	Status	Operator	% Ownership	Other stakeholders
Oil				
Western Flank Oil Fairway				
PRL 151-172 & PPLs (formerly PEL 91)	Exploration/Production	Beach	60%	Beach (40%)
PEL 182 (oil)	Exploration	Senex	43%	Senex (57%)
Eastern Margin Oil Fairway				
ATP 299 & PLs	Exploration/Production	Santos	40%	Santos (60%)
ATP 783	Exploration	Drillsearch	100%	
Inland-Cook Oil Fairway				
ATP 549 Cypress Block	Exploration	Australian Gasfields	n/a ¹	Australian Gasfields (55%)
ATP 549 West Block	Exploration	Great Artesian ²	n/a ¹	Icon Energy (33%)
ATP 539	Exploration	Great Artesian ²	100.0%	-
ATP 920	Exploration	Drillsearch	100.0%	-
ATP 924	Exploration	Drillsearch	55% ³	Beach (45%) ³
Northern Cooper Gas and Liquids				
PEL 103 ⁴ , 103A ⁴ , PRLs 14, 17, 18	Exploration	Acer ²	100.0%	-
Wet Gas				
Western Wet Gas - JV with Beach				
PRL 129-130 & PPLs (formerly PEL 106)	Exploration/Production	Beach	50%	Beach (50%)
PRL 26 in PEL 106	Exploration/Production	Beach	75%	Beach (15%), Rawson (10%)
PRL 175-179 & PL (formerly PEL 107)	Exploration	Beach	60%	Beach (40%)
Western Wet Gas - JV with Santos				
PRL 131-134 (formerly PEL 632 ⁴)	Exploration	Santos	40.0%	Santos (60%)
PEL 513 ⁴	Exploration	Santos	40.0%	Santos (60%)
Northern Cooper Gas and Liquids				
PRL 173-174 (formerly PEL 101)	Exploration	Acer ²	80.0%	Midcontinent Equip. (20%)
PEL 103 ⁴	Exploration	Acer ²	100.0%	-
PEL 103 A ⁴ (Aspen block)	Exploration	Acer ²	100.0%	-
ATP 932	Exploration	Drillsearch	100.0%	-
PEL 182 (gas), PRL 135	Exploration	Senex	43.0%	Senex (57%)
Unconventional				
Central Unconventional Fairway				
ATP 940	Exploration	Circumpacific Energy ²	40.0%	QGC (B7) (60%)
Northern Patchawarra Trough				
PEL 570	Exploration	Santos	47.5%	Santos (35%) Sundance Energy (17.5%)
Western Patchawarra				
PEL 513 ⁴	Exploration	Santos	40.0%	Santos (60%)
PEL 632 ⁴	Exploration	Santos	40.0%	Santos (60%)

Source: Drillsearch

Notes:

¹ ATP 549W and ATP 549C are references to parts of the area covered by ATP 549 held by Australian Gasfield Limited. Drillsearch is party to contractual arrangements whereby it is proposed that the area covered by permit ATP 549 would be segregated into three separate permits (including permits covering the areas known as ATP 549W and ATP 549C). Drillsearch is not a holder of a registered interest in ATP 549.

² Subsidiary of Drillsearch

³ Beach may earn-in to 45% (earn option and farmout arrangement)

⁴ These assets are referred to in different segments in line with the reserves and resources that can be found in these acreages



4.2.2 Oil

During FY15, Drillsearch produced oil from fields in the Western Flank Oil Fairway, from the Flax field in the Northern Cooper and from the mature operations on the Eastern Margin of the Cooper-Eromanga Basin. Drillsearch's operations also include exploration in the Inland-Cook Oil Fairway.

4.2.2.1 Western Flank Oil Fairway

Drillsearch produced its first oil from the Western Flank Oil Fairway in late 2009 with the key producing asset being its 60% interest in a joint venture with Beach in the area that was formerly known as PEL 91 and which is now made up of PRLs 151 to 172, PPLs 253 to 256 and PPLs 261 to 262. Beach owns the remaining 40% and is the operator of this joint venture. The area includes the successful Bauer oil field, with the joint venture recently producing its 10-millionth barrel of oil.

The Bauer oil field has 23 development wells of which 19 (Bauer-1 to -19) were producing as at 30 June 2015 and the remaining four (Bauer-20 to -23) completed and awaiting connection. The joint venture with Beach continues to invest in facility expansion to maximise benefits from the wellhead capacity and to handle production of additional volumes of oil. Fluid handling capacity at Bauer was expanded during FY15 to its current rate of 75 kbbls/d with a further expansion planned to 133 kbbls/d in FY16. Production at Bauer was in excess of 11 kbbls/d during FY15 with a gross cumulative production to end of June 2015 of 3.8 mmbbl.

In addition to Bauer, facilities at Balgowan, Stunsail and Pennington were completed and producing by the end of the first quarter of FY16. Production from all three fields is transported to the Bauer central processing facility via newly constructed pipelines, then on to Moomba for further processing. Oil is transported via the Lycium Hub to Moomba through a pipeline which has a nominal capacity of 11.5 kbbls/d, with oil produced in excess of that being trucked to Moomba.

To the northeast of Bauer, Drillsearch first acquired its interest in the PEL 182 permit through its takeover of Acer in 2013, with Senex Energy Limited ("Senex") being the operator and holding the remaining 57%. This area is expected to be a focus of exploration activity over the coming years. Drillsearch has not booked reserves or resources for this area to-date. We have further discussed PEL 182 as part of the Wet Gas business segment in section 4.2.3.3 below.

4.2.2.2 Eastern Margin Oil Fairway

Drillsearch's key asset on the Eastern Margin is its 40% interest in ATP 299, also known as the Tintaburra Block. Tintaburra is operated by joint venture partner Santos. The area has been in production since 1985. Drillsearch acquired a 10% stake in 2001, further adding to its interest over the years.

The Tintaburra Block consists of a number of production licences and the exploration licence ATP 299. As at 30 June 2015, production was reported to be on average 1.3 kbbls/d from 81 online wells in 13 producing fields. Oil is processed at Santos' facilities at Jackson, then transported by pipeline via Moomba to Port Bonython for sale.

In its results for the year ended 30 June 2015, Drillsearch classified the asset as being held for sale. We have been advised that Drillsearch is currently conducting a formal sale process for the sale of its interest in ATP 299. Further, we understand that Drillsearch aims to complete the sale process by 31 December 2015.

4.2.2.3 Inland-Cook Oil Fairway

The Inland-Cook Oil Fairway is located between the Inland oil field to the north and the Cook oil field to the south in the south-west Queensland region of the Cooper-Eromanga Basin. Drillsearch holds varying interests in ATPs 539, 549C, 549W, 920 and 924, a set of contiguous permits all currently in the exploration stage. We note that ATP 549W and ATP 549C are references to parts of the area covered by ATP 549 held by Australian Gasfield Limited. Drillsearch is party to contractual arrangements whereby it is proposed that the area covered by permit ATP 549 would be segregated into three separate permits (including permits covering the areas known as ATP 549W and ATP 549C). Drillsearch is not a holder of a registered interest in ATP 549.



In late July 2014, Drillsearch announced it had entered into a farm-in agreement with Beach through which Beach may acquire a 45% interest in ATP 924 if it reimburses Drillsearch for certain past costs and funds 100% of the cost of two wells over two phases, which are currently in progress. The first well at ATP 924, Maroochydoore-1, was drilled under the terms of the farm-in arrangement in October 2015.

4.2.2.4 Northern Cooper Gas and Liquids

Through its acquisition of Acer, Drillsearch has built up significant acreage in the Northern Cooper Basin with its oil assets including PELs 103 and 103A, PRLs 14 (Flax), 17 (Yarrow) and 18 (Juniper).

During FY15, Drillsearch restarted production from the Flax oil facility that had been suspended in late 2012 by Acer. A workover of the Flax-1 well was completed in October 2014, and recertification of the Flax surface facilities was completed in December 2014, allowing Flax-3 to be brought back into production with an initial flow rate of approximately 190 bbls/d. Oil produced from Flax was transported to Moomba by truck for processing. Following a comprehensive review by Drillsearch in early 2015, operations at Flax were again suspended due to the decline in oil prices. All wells at Flax are currently shut-in and the facilities and camp have been placed into care and maintenance. The information gathered during the restart process undertaken in late 2014, is expected to benefit Drillsearch in the longer term as it considers future redevelopment of Flax should market conditions improve.

4.2.3 Wet Gas

Drillsearch has existing gas discoveries across its acreage, many of which can be produced with associated liquid hydrocarbons and which lie close to existing processing and transportation infrastructure. Drillsearch has a producing partnership in the Western Wet Gas Fairway with Beach, numerous discoveries in the Western Wet Gas Fairway with Santos and in the Northern area with Senex. The revenue derived from condensate-rich gas areas is higher than those derived from dry gas areas, due to the realisation of value of the co-produced gas liquids such as LPG and condensates.

4.2.3.1 Western Wet Gas joint venture with Beach

Drillsearch's Western Wet Gas joint venture with Beach consists of PRLs 129 and 130 which also includes PPL 239 (Brownlow-Middleton), PPL 257 (Canunda/Coolawang) and PRL 26 (Udacha) all of which were formerly known as PEL 106, as well as PRLs 175-179 and PPL 212 formerly known as PEL 107. Drillsearch's interest in the joint venture is 50%, with higher interests of 75% and 60% in PRL 26 and PEL 107 respectively. Within the joint venture, currently two wells are producing: Middleton and Brownlow. Beach is the operator.

The joint venture operates a central production facility at Middleton, which is used as a hub for gas from the Brownlow, Middleton and Canunda fields. In the medium term, several surrounding discoveries are expected to be tied into the plant. Current production from the Western Wet Gas joint venture with Beach is transported by pipeline to Moonanga and then to Moomba. In FY15, Drillsearch's share of gas and liquids produced was 0.3 mmbœ. During the September 2015 quarter, the joint venture approved the installation of compression at the facility, which is expected to be commissioned in FY17.

Drillsearch's share of the gas produced by the joint venture is subject to a short term Gas Supply Agreement ("GSA") with the SACB JV that was agreed and announced in March 2013. The GSA has a three year term, meaning that it is due to expire in March 2016. Negotiations to extend the sales arrangements are underway, however this extension has not yet been finalised.

Under the GSA agreed in March 2013, condensate and LPG was agreed to be sold on a basis linked to international product pricing, less specific transport and processing charges.

4.2.3.2 Western Wet Gas joint venture with Santos

The Western Wet Gas joint venture with Santos includes PEL 513 and PRLs 131 to 134, formerly known as PEL 632, in the southern-central portion of the Patchawarra Trough, located in the South Australian Cooper Basin with PEL 513 also covering the Wooloo-Allunga Trough directly southwest of the Moomba gas field and northeast of the Daralingie gas field. To date, no wells have been producing in this joint venture.



In FY16, the joint venture is focused on commercialising existing and new discoveries with planning for facilities and pipelines underway and the Cadenza flowline expected to be completed by the middle of FY16.

Drillsearch signed the farm-in arrangement with Santos in 2013, to assist in the development of the existing Wet Gas discoveries and to pursue commercialisation of the gas resources in the area with a key element being an agreement between the parties to a long-term GSA, establishing a way to market for the gas produced from the area.

The GSA governs the sale of gas from the joint venture to Santos. The GSA covers a total committed contract volume, with a provision for additional quantities if necessary. When production commences, gas will be sold directly to Santos, with a pricing structure which is contracted through to 2025. Gas sales prices under the contract are confidential and have not been announced to the market. Drillsearch has previously announced to the market that the agreed pricing structure allows for both fixed-price consumer price index ("CPI") linked pricing and oil-linked pricing. The GSA has separate pricing structures for sales gas, LPG and condensates. Condensate and LPG pricing will be linked to international product pricing, less specific transport and processing charges.

4.2.3.3 Northern Cooper Gas and Liquids Project Area

The Northern Cooper Gas and Liquids Project Area covers a significant area of the Northern Patchawarra Trough and comprises PRLs 173 and 174 (formerly PEL 101), PRLs 14, 17 and 18 (formerly PELs 103, 103A, ATP 932 and PEL 182). Currently, there is no producing asset in the Northern Cooper gas and liquids project area.

PRLs 173 and 174 are located 70 kilometres north of the Moomba processing facility and cover much of the northern central portion of the Patchawarra Trough. An exploration program is planned for an area in which there are three existing discoveries lying close to gas gathering infrastructure. Drilling continued during the first quarter of FY16, with the aim of spudding the first well in the second quarter of FY16.

The eastern section of PEL 182 (the Vanessa field) is held in joint venture with Senex who is the operator and owns 57%. Production at Vanessa was successfully tested for gas and condensate during FY15 with work underway to tie the discovery into the nearby Santos pipeline network, located 3.5 kilometres to the northeast. Vanessa is expected to be online in FY16.

4.2.4 Unconventional

While undertaking the Wet Gas exploration program, Drillsearch identified unconventional resources in the deeper coal seams, shales and tight gas sands throughout the Cooper-Eromanga Basin. Currently, Drillsearch focuses its exploration on the Central Cooper Basin (Nappamerri Trough Shale Gas Fairway), Western Patchawarra and Northern Patchawarra areas and in the Nappamerri Trough.

The Unconventional business segment has been deprioritised by Drillsearch as a result of the review of strategy announced in March 2015 due to the decline in oil price.

4.2.4.1 Western Patchawarra

Drillsearch's unconventional assets in the Western Patchawarra include its 40% interests in PEL 513 and PEL 632 in joint venture with Santos with a number of prospective deep coal intervals having been identified in existing and new discoveries. During FY2016, the joint venture intends to test the most prospective discoveries.

4.2.4.2 Northern Patchawarra Trough

Through its takeover of Ambassador, Drillsearch acquired a 47.5% interest in PEL 570, which surrounds PRLs 173 and 174. Drillsearch and its joint venture partners have been advancing the drilling of an unconventional well with encouraging preliminary results and further testing in the second quarter of FY16.



4.2.4.3 Central Unconventional Fairway

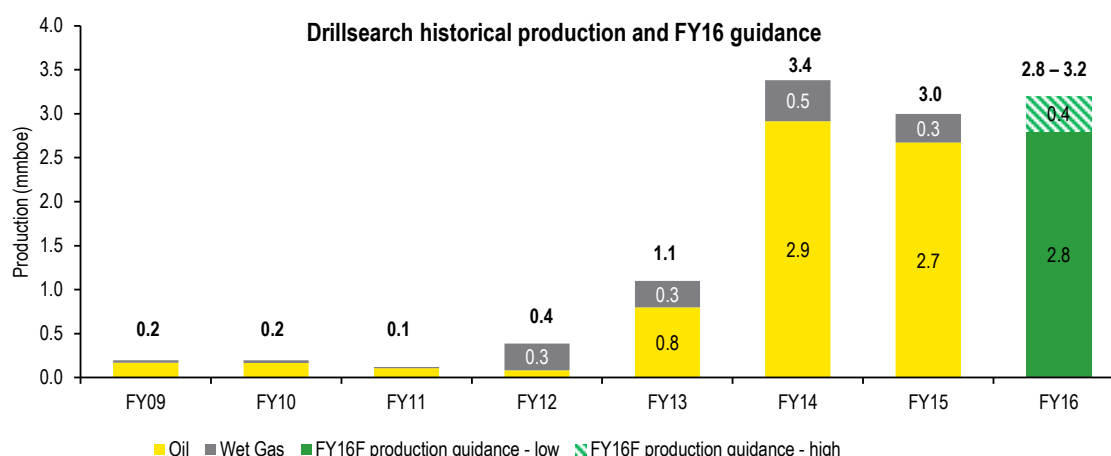
The Central Unconventional Fairway is focused on ATP 940, a joint venture with QGC. The exploration program in recent years focused on proving an extension of the unconventional gas play in the Nappamerri Tough, defining a contingent resource and deciding on the approach for gas extraction.

4.3 Production, reserves and resources

4.3.1 Production

Drillsearch currently produces oil and wet gas from three different areas: Western Flank Oil Fairway (PEL 91), Western Wet Gas joint venture with Beach (PEL 106 and PEL 107) and Eastern Margin Oil Fairway (ATP 299), currently in the final stages of a sales process as referred to above).

The following chart summarises Drillsearch's production between FY09 and FY15 and its production guidance for FY16F. Drillsearch's total production in FY15 was 3.0 mmboe (11% lower than FY14); with a production mix of 89% oil and 11% Wet Gas.



Source: Drillsearch annual reports and company announcements

In August 2015, Drillsearch confirmed FY16 production guidance of 2.8 to 3.2 mmboe with the oil business assumed to contribute approximately 85% and Wet Gas 15%. The proportion of Wet Gas production is expected to increase year-on-year. This guidance was underpinned by an expectation of continued strong Western Flank oil production and improved Wet Gas production. Production for the first quarter of FY16 was 0.8 mmboe, up 3% from the previous quarter with oil production being in line with guidance and gas production continuing to be ahead.



4.3.2 Reserves and resources

The tables below summarises Drillsearch's Reserves and Contingent Resources Statement as at 30 June 2015 that was released on 26 August 2015, after an independent review conducted by RISC and DeGolyer and MacNaughton:

Drillsearch – Reserves			
	1P mmboe	2P mmboe	3P mmboe
Western Flank Oil	6.0	8.6	12.2
Eastern Margin Oil	0.6	1.2	1.8
Total Oil	6.6	9.8	14.0
Western Wet Gas (JV with Beach)	4.0	8.1	11.3
Western Wet Gas (JV with Santos)	2.5	7.9	20.1
Total Wet Gas	6.5	15.9	31.4
Total Reserves	13.1	25.7	45.4

Source: Drillsearch FY15 annual report

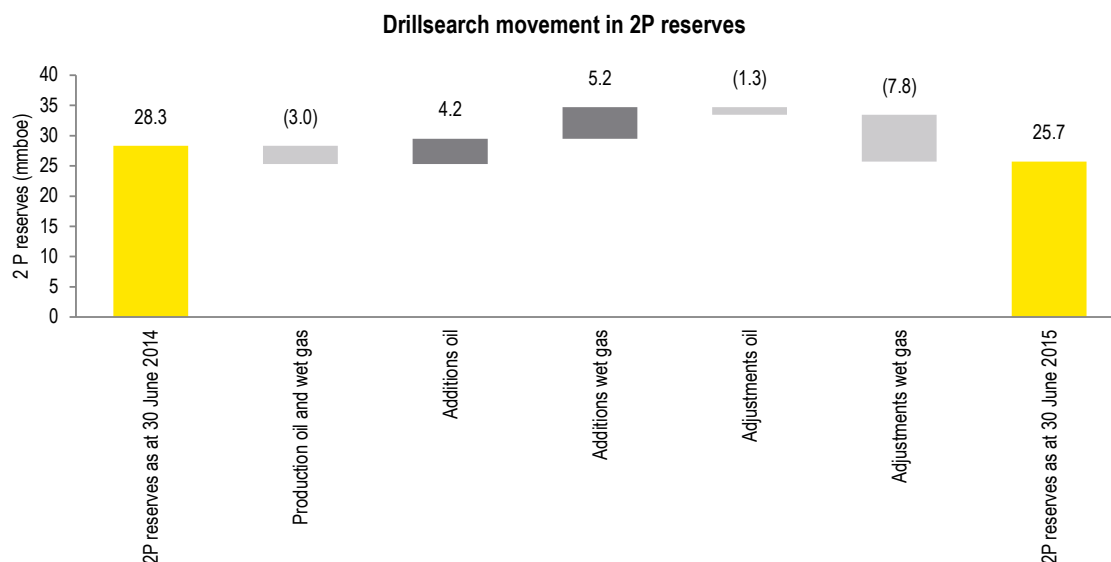
Drillsearch – Contingent resources			
	1C mmboe	2C mmboe	3C mmboe
Western Flank Oil	0.3	0.5	0.9
Northern Cooper Oil	4.8	10.8	18.8
Eastern Margin Oil	0.2	4.6	7.5
Total Oil	5.3	15.9	27.2
Western Wet Gas (JV with Beach)	0.3	0.8	1.7
Western Wet Gas (JV with Santos)	0.7	2.4	5.7
Northern Cooper Gas and Liquids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

Source: Drillsearch FY15 annual report

Note: As noted in the FY15 annual report, the following conversion factors have been applied in the presentation of the reserves and contingent resources statements: 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 11,500 boe per MMT of LPG. Condensate is converted at 1 mmbbl = 1 mmboe



The graph below illustrates Drillsearch's movement in 2P reserves between 30 June 2014 and 30 June 2015.



Source: Drillsearch FY15 annual report

Drillsearch's estimate of total 2P oil and gas reserves in its Cooper-Eromanga Basin assets as of 30 June 2015, was 9% lower than a year before with the decline driven by production and a downward revision to its wet gas reserves in the Western Wet Gas joint venture with Beach.

Total 2C contingent resources in Drillsearch's oil, wet gas and unconventional assets were 158% higher compared to 30 June 2014.



4.4 Financial information

4.4.1 Financial performance

A summary of Drillsearch's financial performance for the last two years ended 30 June i.e. FY14 (restated), and FY15, as extracted from the audited financial statements for FY15 are presented below.

During FY15, Drillsearch made a voluntary change in accounting policy regarding exploration and evaluation expenditure. The new policy applies the "successful efforts" method of accounting whereby costs in relation to unsuccessful exploration wells are expensed as incurred, rather than being capitalised. As a result of this change, Drillsearch restated its balance sheet and income statement, to ensure that prior year disclosures were presented on a consistent basis with the new policy. The table below reflects the restated exploration and evaluation expenses.

Drillsearch – Consolidated income statement summary		
Currency: \$million	FY14 ¹	FY15
Revenue	387.0	250.6
Cost of sales of goods	(151.2)	(149.6)
Gross profit	235.8	101.0
Other gains and losses	-	8.3
Exploration and evaluation expenses/written off	(44.4)	(57.6)
Impairment of oil and gas assets	(0.2)	(51.9)
Finance costs	(11.6)	(10.0)
Change in fair value of convertible notes	(23.0)	(8.7)
Other expenses	(17.6)	(18.3)
Net gain/(loss) on derivatives	(1.8)	17.5
(Loss)/profit before income tax	137.1	(19.8)
Income tax benefit/(expense)	(95.2)	11.7
(Loss)/profit for the year	41.9	(8.1)
Gross profit margin	60.9%	40.3%
Production (by type)		
Oil (kbbbls)	2,918	2,674
Wet Gas (kboe)	467	327
Total oil and gas (kboe)	3,384	3,001
Average realised oil price (A\$/bbl) ²	125.5	97.2
Average realised gas and gas liquids price (A\$/boe)	45.2	34.6
Average total operating costs ³ – Oil (A\$/boe)	34.4	31.1
Average total operating costs ³ – Wet Gas (A\$/boe)	16.0	15.3

Source: Drillsearch FY15 annual report

Notes:

¹ FY14 results have been restated based on the "successful efforts" method of accounting.

² Average realised oil price includes realised oil price hedge gains of \$7.7/bbl for FY2015.

³ Calculated as direct operating expense for the year divided by production for the year.

In relation to the financial performance we note:

- Revenue in FY15 decreased by \$136.4 million relative to FY14 to \$250.6 million mainly as a result of a decline in oil prices. In this respect, we note that in November 2014, Drillsearch implemented an active oil hedging strategy to protect against downside oil price volatility. As at 30 September 2015, Drillsearch had 1.04 mmboe production hedged for delivery through the remainder of FY16.



- ▶ Cost of sales have remained broadly the same between FY14 and FY15, as a result of a decrease in direct operating expense, offset by an increase in amortisation depletion due to a revision of future development capital expenditure over the remaining life of field.
- ▶ Other gains and losses mainly comprise net foreign exchange gains/(losses) and interest income with both having increased between FY14 and FY15 resulting in a total increase of \$8.3 million.
- ▶ Impairment of oil and gas assets is related to a write down in respect of the Tintaburra and Flax (PRL 14) oil assets of \$51.9 million due mainly to a decline in oil prices.
- ▶ Other expenses have remained broadly the same and primarily comprise employee benefit expenses, recharge and recoveries and other expenses.
- ▶ Net gain/(loss) on derivatives has increased significantly between FY14 and FY15, primarily as a result of realised oil price hedging gains of \$20.6 million during FY15.
- ▶ Drillsearch reported a loss after tax of \$8.1 million. This result included a \$51.9 million impairment write down in respect of the Tintaburra and Flax oil assets. As discussed above, following the decline in the oil price and the results of Drillsearch's comprehensive review, Drillsearch is seeking to divest its interests in Tintaburra, and has suspended operations at Flax.



4.4.2 Financial position

Provided below is a summary of Drillsearch's financial position as at 30 June 2014 (restated) and 30 June 2015 as extracted from Drillsearch's audited financial statements for FY15.

Drillsearch – Consolidated financial position summary		
Currency: \$million	FY14 ¹	FY15
Current assets		
Cash and cash equivalents	152.4	131.5
Trade and other receivables	85.5	71.5
Inventories	0.7	2.6
Available for sale financial assets	25.2	-
Derivative financial instruments	-	5.6
Other current assets	2.0	2.3
Assets classified as held for sale	0.1	25.0
Total current assets	265.8	238.6
Non-current assets		
Exploration and evaluation assets	101.8	178.5
Oil and gas assets	174.0	95.7
Property, plant and equipment	2.6	2.8
Deferred tax assets	11.4	23.2
Other non-current assets	1.3	1.4
Total non-current assets	291.2	301.6
Total assets	557.0	540.1
Current liabilities		
Trade and other payables	74.6	37.1
Provisions	0.7	0.7
Liabilities associated with assets held for sale	-	24.5
Other financial liabilities	25.2	-
Total current liabilities	100.6	62.3
Non-current liabilities		
Borrowings	153.4	162.1
Provisions	38.4	18.5
Total non-current liabilities	191.8	180.6
Total liabilities	292.4	242.9
Net assets	264.6	297.3
Equity		
Contributed equity	285.5	325.1
Other reserves	7.4	8.6
Accumulated losses	(28.3)	(36.4)
Equity attributable to owners of the parent	264.6	297.3
Total Equity	264.6	297.3

Source: Drillsearch FY15 annual report

Notes:

¹ Balances as at 30 June 2014 have been restated based on the "successful efforts" method of accounting.

In relation to the financial position we note:

- Cash balances decreased by \$20.9 million to \$131.5 million in FY15 mainly due to lower cash flow from operating activities and increased capital expenditure.



- ▶ Assets classified as held for sale have increased by \$24.9 million, primarily due to Drillsearch's interest in Tintaburra being included in this category with a corresponding liability of \$24.9 million representing expected decommissioning costs associated with the asset.
- ▶ Exploration and evaluation assets increased by \$76.7 million primarily as a result of the acquisition of Ambassador and exploration expenditure incurred during the period.
- ▶ Oil and gas assets decreased by \$78.4 million as a result of the reclassification of assets held for sale as referred to above, an increase in amortisation and depletion expense and the impairment in relation to Tintaburra and Flax.
- ▶ Trade and other receivables have decreased by \$14.0 million to \$71.5 million, mainly due the fall in oil and gas revenues as referred to above with the balance outstanding primarily relating to oil sales and liftings made in the final months of FY15.
- ▶ The decrease in trade and other payables from \$74.6 million to \$37.1 million is primarily a result of a decrease in overall capital activities with the balance remaining relating to Drillsearch's drilling activities that were ongoing at the end of FY15. We note that the majority of the balance was paid subsequent to year end.
- ▶ Non-current provisions primarily relate to decommissioning costs and have decreased by \$19.9 million to \$18.5 million mainly due to the reclassification of assets held for sale referred to above.
- ▶ Borrowings represent convertible notes of US\$125 million that were issued by Drillsearch in 2013, and that are measured at fair value through profit and loss with the increase relating to the fair value adjustment and currency translation.
- ▶ Equity increased by \$32.7 million primarily due to the issue of shares as consideration for the acquisition of Ambassador.

Capital expenditure for FY15 was \$142.0 million with an expectation for FY16 in the range of \$80 million to \$110 million (inclusive of general and administration costs, geological and geophysical costs and seismic expenditure) as at 30 June 2015. Drillsearch will continue to benefit from free-carries in the Western Wet Gas joint venture with Santos, in ATP 924 where Beach has an option to farm-in, and in PEL 570. In the first quarter of FY16, \$6.0 million has been spent, which was significantly lower than the previous quarter. We understand that the majority of FY16 capital expenditure is assumed to occur in the second half of FY16.



4.4.3 Cash flow

Provided below is a summary of Drillsearch's cash flow statement for FY14 (restated) and FY15 as extracted from Drillsearch's audited financial statements for FY15.

Drillsearch – Consolidated cash flow summary		
Currency: \$million	FY14 ¹	FY15
Receipts from customers	391.5	263.8
Payments to suppliers and employees	(134.1)	(146.9)
Payments for exploration and evaluation	(19.8)	(22.8)
Interest paid	(11.0)	(9.7)
Income tax refund	-	-
Net cash provided by operating activities	226.6	84.4
Payments for business acquisitions	(36.8)	-
Payments for oil and gas assets	(48.1)	(47.5)
Payments for exploration and evaluation assets	(29.7)	(74.0)
Payments for property plant and equipment	(0.9)	(2.3)
Payments for oil derivatives	-	(8.9)
Proceeds from sale of exploration and evaluation assets	12.5	-
Proceeds from sale of property, plant and equipment	-	-
Payments to acquire available-for-sale-financial assets	(2.3)	-
Receipts from oil hedging derivatives	-	20.6
Interest received	1.8	3.1
Net cash used in investing activities	(103.6)	(108.9)
Proceeds from issue of equity shares	3.0	0.7
Share issue transaction costs	(0.0)	-
Repayment of borrowings	(10.0)	-
Net cash used in financing activities	(7.0)	0.7
Net increase/(decrease) in cash held	116.0	(23.8)
Cash at beginning of financial year	36.1	152.4
Effects of exchange rate changes on the balances of cash held in foreign currencies	0.4	2.9
Cash at end of the period	152.4	131.5

Source: Drillsearch FY15 annual report

Notes:

¹ FY14 cash flows have been restated based on the "successful efforts" method of accounting.

Net cash provided by operating activities decreased between FY14 and FY15 primarily as a result of lower cash receipts received from customers as a result of declining oil prices.

4.5 Capital structure

As at 22 October 2015¹¹, Drillsearch had the following securities on issue:

- ▶ 462,254,673 fully paid ordinary shares including 26,307,267 new shares issued in FY15 in relation to the acquisition of Ambassador and 1,828,288 shares issued in FY15 as a result of the exercise of Drillsearch unlisted options, the issue of shares under Drillsearch's employee \$1,000 share plan and upon vesting of performance rights awarded in prior periods.
- ▶ 3,590,933 Options in respect of Drillsearch ordinary Shares, held by current and former directors, executives and employees. All of the Options are due to expire before 23 November 2018 with an exercise price of \$0.596.

¹¹ The number of securities on issue is consistent with the Appendix 3B announcement dated 23 September 2015



- ▶ 5,059,909 Performance Rights, held by directors, executives and employees.
- ▶ 1,250 Convertible Notes which are due to mature in September 2018, have a face value of US\$100,000 per note and carry a fixed coupon of 6% per annum, paid semi-annually. The Convertible Notes are convertible into Drillsearch Shares at a conversion price of US\$1.66 per Drillsearch Share. If the Proposed Scheme is approved at the Scheme Meeting, this will trigger an adjustment event which results in a reduced conversion price and a redemption right becoming available to the noteholders (i.e. noteholders may elect to exercise conversion at the adjusted conversion price or seek redemption of the Convertible Notes). Should the noteholders exercise their conversion rights, these noteholders will be entitled to participate in the Proposed Scheme, should they elect to convert, Drillsearch may elect to settle the conversion by making a cash payment. Noteholders will be issued with a notice setting out the details of the Proposed Scheme.

The Convertible Notes are traded on the Singapore Stock Exchange. The market for trading in these notes is not deep, however we note the close price on 30 November 2015 was 96.5% of face value.

In accordance with the Merger Implementation Agreement any outstanding Options, Performance Rights and Drillsearch Convertible Notes will be treated as follows:

- ▶ All outstanding Options will be cancelled for consideration prior to the Second Court Date. We understand that the consideration to be received by the optionholders will be as follows:

Drillsearch – Cancellation considerations per Option outstanding				
Grant Date	Expiry Date	Exercise price (\$)	Number of options	Cancellation consideration per option (\$)
20 June 2011	20 June 2018	0.5960	817,370	0.40
25 July 2011	25 July 2018	0.5960	1,282,867	0.40
23 November 2011	23 November 2018	0.5960	1,490,696	0.42

Source: Drillsearch

- ▶ Optionholders have the right to exercise the Options they hold (and which have vested) at any time prior to their cancellation on the option completion date. Any notice of such an exercise must be received by Drillsearch the day before the Second Court Hearing. Should such a notice be received, Drillsearch would issue the number of Drillsearch Shares which correspond to the number of Options exercised by the optionholders with these shares being eligible to participate in the Proposed Scheme. Since the cancellation consideration is greater than the difference between the exercise price and the current Drillsearch Share price, we have assumed that all Options outstanding will be cancelled for consideration as per the table above.
- ▶ If the Federal Court directs Drillsearch to convene the Scheme Meeting, Drillsearch's board is required to resolve that at the Scheme Meeting all of the Performance Rights will vest and all Drillsearch Shares to be issued by virtue of the vesting of the Performance Rights are issued to the relevant performance right holder prior to the Second Court Hearing. For the purpose of the Proposed Scheme, it is assumed that all Performance Rights outstanding will vest.
- ▶ If Drillsearch Shareholders approve the Proposed Scheme, Drillsearch must inform the noteholders of their entitlement to convert the Drillsearch Convertible Notes at the adjusted conversion price. Noteholders will have 60 days from the delivery of this notice to elect to redeem the Convertible Notes at their face value (principal), together with interest accrued up to the redemption date. Should noteholders not elect to convert or redeem, Drillsearch and Beach have stated that Drillsearch will exercise its right to redeem the notes at face value plus accrued interest following the court approving the Proposed Scheme at the Second Court Hearing. For the purpose of the Proposed Scheme, and considering that the most recent information available to Drillsearch indicates that the conversion price will be out of the money, it is assumed that all Convertible Notes will be redeemed if the Proposed Scheme is approved by Drillsearch Shareholders.



4.6 Major shareholders

Based on substantial holding notices lodged with the ASX up to 30 November 2015, the following entities hold 5% or more of the voting power in Drillsearch's shares.

Drillsearch – Substantial shareholders		
Shareholder	Number of shares	Voting interest at time of notice
Seven Group ¹	91,759,189	19.9%
QGC Pty Ltd	36,216,094	8.1%
National Australia Bank Limited	24,877,080	5.4%
RFS Group	20,788,016	6.3%
Mr David Scanlen	20,000,000	6.0%

Source: Drillsearch

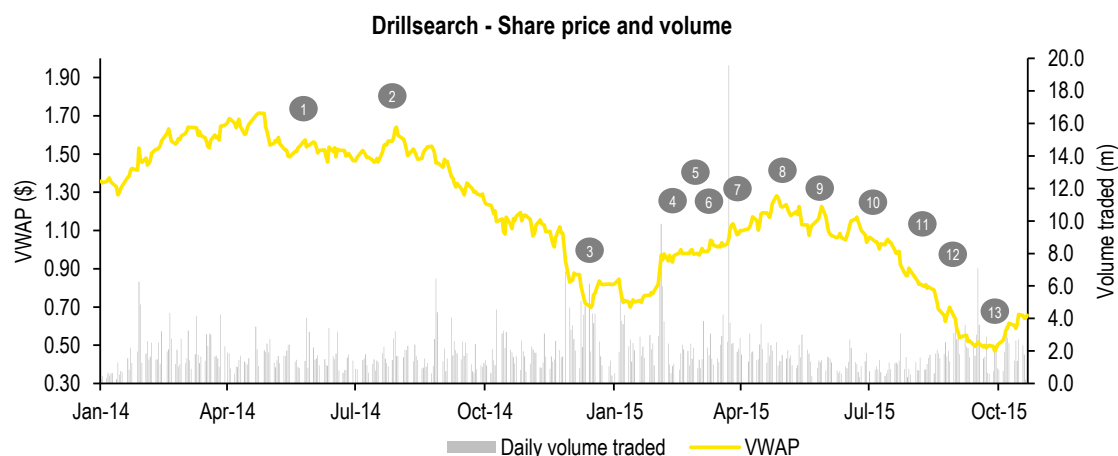
Notes:

¹ Drillsearch has also received a substantial holder notice from Australian Capital Equity Pty Ltd ("ACE") with its interests being a result of interests held by ACE and its associates in Seven Group and/or its associates.

Drillsearch's largest single shareholder is Seven Group which holds a relevant interest in approximately 19.9% of Drillsearch's issued capital. In addition to the substantial shareholders listed above, we also note that Beach holds approximately 4.56% of the total Drillsearch Shares on issue.

4.7 Share price performance

The chart below shows the daily VWAP and trading volumes of Drillsearch Shares on the ASX between 1 January 2014 and 22 October 2015. Over that period, Drillsearch's share price traded from a high of \$1.72 on 28 April 2014 to a low of \$0.47 on 29 September 2015. Drillsearch's closing share price on 22 October 2015, being the last trading day prior to the Announcement Date, was \$0.65.



Source: S&P Capital IQ

In addition to the regular quarterly, half year and annual reporting announcements, the material announcements made by Drillsearch and other market information between 1 January 2014 and 22 October 2015 annotated in the chart above that may have had an impact on Drillsearch's share price are summarised below:

1. 28 May 2014 – Drillsearch announced that it had entered into a bid implementation agreement under which Drillsearch would make an off-market takeover bid for Ambassador.
2. 28 July 2014 – Drillsearch announced that it had reached an agreement with Beach for Beach to farm-in to ATP 924.



3. 17 December 2014 – Drillsearch announced that it had restarted oil production from the Flax facility in PRL 14, which at the time was reported to be the first stage in a long-term Flax redevelopment.
4. 12 February 2015 – Drillsearch informed the market about an expected impairment loss of non-cash impairments of up to \$64 million due to the rapid decline of the oil price during the six months ended 31 December 2014.
5. 19 February 2015 – Drillsearch released an update on the comprehensive business review and future investment priorities. Drillsearch announced that its future investment would focus on near-term production and cash flow, and on reserves replacement, as well as on conventional oil and Wet Gas as a result of the decline in the oil price and the subsequent lowering of forward oil price expectations.
6. 16 March 2015 – Drillsearch announced a new wet gas discovery at Kyanite-1 in PEL 513 in its Western Wet Gas joint venture with Santos.
7. 26 March 2015, 17 April and 30 April 2015 – Seven Group announced that it had increased its stake in Drillsearch from circa 3% in January 2015, to 8.0%.
8. 4 May 2015 – Drillsearch announced a new wet gas discovery at Emery-lin PEL 513 on the Western Wet Gas joint venture with Santos.
9. 19 May 2015 - Seven Group announced that it had increased its stake in Drillsearch to 19.9%.
10. 3 July 2015 – Drillsearch announced that Brad Lingo, who had been managing director of Drillsearch for six years, had left the company and Walter Simpson was appointed acting CEO.
11. 26 August 2015 – Seven Group Chief Executive, Ryan Stokes, stated that there was a “compelling case” for a merger between Beach and Drillsearch.
12. 18 September 2015 – Drillsearch announced the appointment of Walter Simpson as CEO. Mr Simpson joined the Company as COO in March 2015.
13. 16 October 2015 – Drillsearch announced that it has entered into a binding terms sheet for a new three-year \$100 million secured bank loan facility.

The following table summarises the monthly trading prices and volumes of trades of Drillsearch's shares on the ASX over the period 1 October 2014 to 22 October 2015.

Drillsearch – Monthly share trading and liquidity						
Month	High (\$)	Low (\$)	Close (\$)	VWAP (\$)	Monthly volume (m)	Liquidity %
Oct-14	1.27	1.08	1.18	1.16	41.74	9.1%
Nov-14	1.16	0.91	0.91	1.06	37.59	8.2%
Dec-14	0.89	0.69	0.81	0.78	62.27	13.5%
Jan-15	0.85	0.70	0.78	0.75	47.77	10.4%
Feb-15	1.03	0.83	0.98	0.96	51.63	11.2%
Mar-15	1.13	0.98	1.09	1.06	65.60	14.2%
Apr-15	1.28	1.09	1.22	1.17	40.22	8.7%
May-15	1.25	1.06	1.23	1.17	32.06	7.0%
Jun-15	1.17	1.04	1.04	1.10	27.15	5.9%
Jul-15	1.08	0.86	0.89	1.00	29.63	6.4%
Aug-15	0.86	0.61	0.63	0.72	32.14	7.0%
Sep-15	0.62	0.47	0.49	0.52	52.34	11.3%
Oct-15	0.67	0.51	0.66	0.61	28.63	6.2%

Source: S&P Capital IQ

The table shows that throughout 2015, Drillsearch's shares have traded within the range of \$0.47 to \$1.28.



The monthly liquidity of Drillsearch Shares over the period October 2014 and October 2015, ranged between 5.9% and 14.2%. Seven Group acquired 36.95 million of Drillsearch's shares during this period, bringing its shareholding in Drillsearch to 19.9%.

The table below summarises the Drillsearch Shares VWAP prior to the Announcement Date:

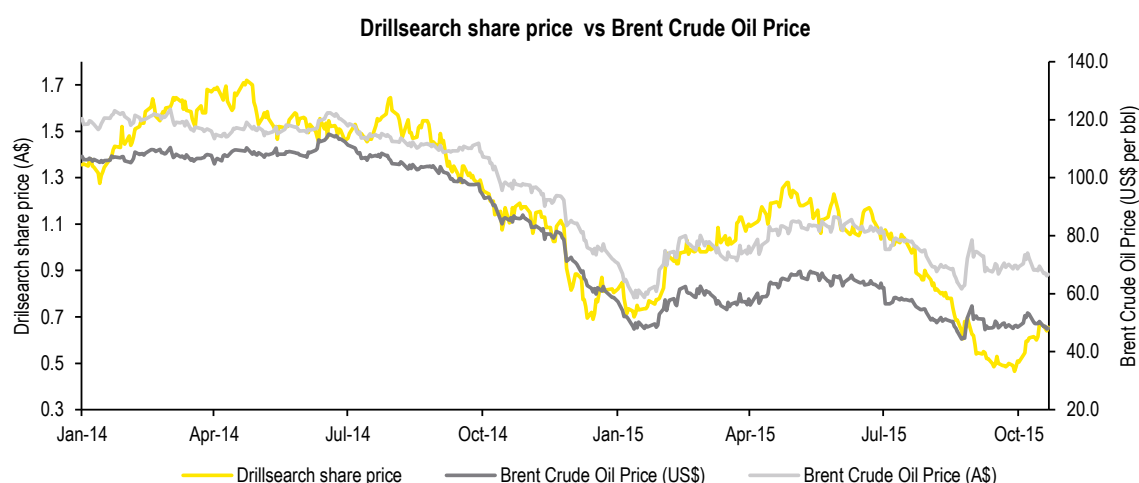
Drillsearch – VWAP of Drillsearch shares prior to the Announcement Date	
Period	VWAP (\$)
1 day prior to the announcement	0.66
1 week prior to the announcement	0.66
1 month prior to the announcement	0.58
3 months prior to the announcement	0.62

Source: S&P Capital IQ

Our analysis of the movements in Drillsearch's share price and trading volumes indicate that its shares are relatively liquid:

- ▶ Over the period from October 2014 to October 2015, the average monthly liquidity¹² in Drillsearch Shares was approximately 9.2%.
- ▶ Drillsearch's shares that are likely to trade (i.e. all shares excluding those held by substantial shareholders being those with a 5% or more interest and Directors) is approximately 71.3%. As such, we consider Drillsearch to have a relatively high free float.
- ▶ Over the latest 12 months the average bid/ask spread as a percentage of daily closing asking prices was 1.3%, which is relatively low.

While historically volatile over the period analysed, Drillsearch's share price has moved in line with the movement in oil prices. The correlation between Drillsearch's share price and the Brent crude oil price (stated in A\$ and US\$) is illustrated in the chart below.

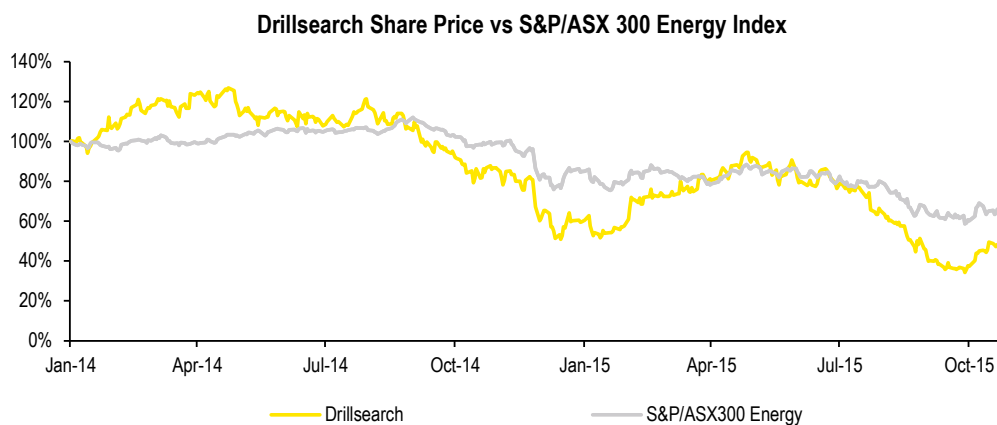


Source: S&P Capital IQ

¹² Liquidity is calculated as volume traded each month divided by number of shares outstanding.



The following chart illustrates the correlation between movements in Drillsearch's share price with the S&P/ASX 300 Energy index over the period 1 January 2014 and 22 October 2015.



Source: S&P Capital IQ

The graph shows that over the period from January 2014 to September 2014 Drillsearch's share price has outperformed when compared to the S&P/ASX 300 Energy Index, meaning that Drillsearch has performed better than the average of other listed Australian energy companies. However, since approximately September 2014, Drillsearch's share price has generally been in line with, or underperformed, relative to the index.



5. Overview of Beach

5.1 Company background

Formed in 1961 and listed on the ASX in 1962, Beach is an oil and gas production and exploration company holding more than 300 production and exploration tenements in Australia, Egypt, Tanzania and New Zealand with its core focus on the Cooper-Eromanga Basin. Beach is currently a member of the S&P/ASX 200 index.

Beach is active in the Western Flank Oil Fairway in the Cooper-Eromanga Basin, where joint ventures in which it participates have made a series of oil discoveries (including the Bauer field) and has grown to become Australia's largest onshore oil producer. Beach has an active drilling program and continues to explore across the Cooper-Eromanga Basin, including exploration drilling on the Eastern Flank in south-west Queensland. Beach is also evaluating potential for gas production from deep coals in the centre and south of the Cooper-Eromanga Basin. In addition, Beach is also pursuing unconventional gas opportunities in the Cooper-Eromanga Basin.

Beach, through its wholly owned subsidiary Delhi Petroleum Pty Limited, owns an interest in the SACB and SWQ JVs. Beach's interest in the SACB and SWQ JVs are collectively referred to as "Delhi" in this report. Through Delhi, Beach holds an interest in significant Cooper Basin acreage and essential processing and transport infrastructure, including the Moomba gas and liquids processing plant.

In addition to its core Cooper-Eromanga Basin assets, Beach has exploration assets in other basins around Australia, including the Otway, Gippsland, Browse, Carnarvon and Bonaparte Basins.

Further afield, Beach's international operations include interests in assets in Tanzania, New Zealand and Egypt (although the Egyptian assets are currently in a sales process).

In April 2015, Beach commenced an organisation-wide strategic review, the results of which were released in August 2015. Beach stated its priorities were:

- ▶ Leveraging its competitive advantage in the Cooper-Eromanga Basin, through organic and inorganic opportunities
- ▶ Establishing a major gas business in east coast basins to extract value from the increasing east coast gas demand profile
- ▶ Executing growth opportunities beyond the Cooper-Eromanga Basin to become a multi-basin producer
- ▶ Maintain financial strength

Beach also stated it had re-defined its geographic boundaries by focusing its operations in Australia and nearby. Beach has commenced a divestment process for its Egyptian assets and is also currently assessing its position in Tanzania.

Beach broadly groups its operations into three segments: Cooper-Eromanga Basin, Other Australia and International.

- ▶ The Cooper-Eromanga Basin segment includes Beach's oil, gas and gas condensate (or wet gas) businesses. Beach's operated licences are located primarily along the flanks of the Cooper Basin, where Eromanga Basin sandstone reservoirs are well positioned to receive oil charge from the deeper Cooper Basin source rocks. These permits are therefore primarily prospective for oil discoveries in the Eromanga Basin section, although Cooper Basin oil and gas/condensate prospectivity is also recognised in some areas. Drillsearch is a joint venture partner in certain of these assets.
- ▶ The Cooper-Eromanga Basin segment also includes Delhi's non-operated interest in the SACB and SWQ JVs. The SACB JVs comprise the Fixed Factor Agreement Joint Ventures and the Patchawarra



East Joint Venture. The SWQ JVs comprise a number of joint ventures, including the SWQ Unit joint venture.

- ▶ Also within the Cooper-Eromanga Basin segment is Beach's interest in the Nappamerri Trough Natural Gas ("NTNG") project, which is targeting exploration and appraisal of shale and tight gas within the Permian sediments of the Cooper-Eromanga Basin.
- ▶ The Other Australia segment includes Beach's interests in other basins within Australia.
- ▶ The International segment includes all of Beach's international assets.

In FY15, Beach produced 9.1 mmboe, 51% of which was oil (4.6 mmbbl) and 49% gas and gas liquids (4.5 mmboe), which was predominantly derived from its Cooper-Eromanga Basin assets. Minor production was also derived from its Egyptian operations.



5.2 Beach's oil and gas assets

5.2.1 Overview of Cooper-Eromanga Basin assets

A summary of Beach's key oil and gas assets in the Cooper-Eromanga Basin is set out below.

Beach – Overview of assets				
Assets	Status	Operator	Ownership	Other stakeholders
Delhi				
SACB JVs – Fixed Factor Area JVs	Production	Santos	21.21%	Santos, Origin Energy
SACB JVs – Patchawarra East JV	Production	Santos	17.14%	Santos, Origin Energy
SWQ JVs	Production	Santos	20% - 40%	Santos, Origin Energy
Western Flank – oil				
PRLs 151-172 & PPL's (formerly PEL 91)	Exploration/Production	Beach	40%	Drillsearch (60%)
PRLs 85-104 (formerly PEL 92)	Exploration/Production	Beach	75%	Cooper Energy (25%)
PRLs 136-150 (formerly PEL 111 and PEL 104) and PEL 87/424	Exploration/Production	Senex	40%	Senex (60%)
Western Flank – wet gas				
PRLs 129-130 & PPL's (formerly PEL 106)	Exploration/Production	Beach	50%	Drillsearch (50%)
PRL 26 in PEL 106	Exploration/Production	Beach	15%	Drillsearch (75%), Rawson (10%)
PRL 175-179 (formerly PEL 107)	Exploration	Beach	40%	Drillsearch (60%)
Queensland Oil KB2 (PL31, PL32, PL 47, ATP 269)	Production	Beach	100%	None
Eastern Flank				
ATP 924	Exploration	Drillsearch	45% ¹	Drillsearch (55%)
ATP 732	Exploration	Bengal	50% ²	Bengal Energy (50%)
ATP 633	Exploration	Beach	50%	Santos Limited (50%)
PL 184 (Thylungra)	Exploration	Beach	80.4%	Australian Gas Fields (19.6%)
Southern deep coals				
PEL 94	Exploration	Beach	50%	Strike (35%) and Senex (15%)
PEL 95	Exploration	Beach	50%	Strike (50%)
Unconventional gas				
NTNG (PRLs 33 to 49, ex PEL 218)	Exploration	Beach	100%	None
NTNG (ATP 855)	Exploration	Beach	64.9%	Icon (35.1%)

Source: Beach FY15 Annual report

Notes:

¹ In July 2014, Beach announced it had entered into a farm-in agreement with Drillsearch, the details of which are described in section 5.2.1.5 below.

² Beach is farming-in to ATP 732, the details of which are set out in section 5.2.1.5 below.

5.2.1.1 Delhi (SACB and SWQ JVs)

The SACB and SWQ JVs hold significant Cooper-Eromanga Basin acreage with strategically important infrastructure. The gross joint venture areas total around 6.6 million acres and around 6,000 km of flowlines.

The SACB JVs own the Moomba gas and condensate processing plant, together with the Port Bonython processing plant. The Moomba plant processes both oil and gas sourced from both the joint venture owners and third parties. In addition to Moomba, Delhi also holds an interest in the smaller Ballera gas processing plant.

In FY15, Beach's share of production from these ventures was 4.2 mmbbl of gas and gas liquids while net oil production was 0.9 mmbbl.



In 2013, Beach signed a gas sales agreement with Origin in relation to its equity interests in gas produced by the SACB and SWQ JVs. Commencing on 1 July 2015, Beach agreed to supply significant sales gas volumes over an initial eight year period (total volumes of up to 139 PJ), with a two year extension available to Origin (for total volumes of up to 173 PJ over full ten year period). Key benefits to Beach from the agreement include oil-linked pricing with other parameters, and it is expected that sales gas delivery under the agreement will ramp up during FY16, while legacy contracts continue to be serviced.

During FY15, the gas development program on the South Australian side of the Cooper-Eromanga Basin was conducted, focused on closely spaced infill drilling in the Cowralli, Moomba North and Big Lake fields. A three-well unconventional gas program in the Gaschnitz field was also completed.

A significant portion (around \$150 million to \$170 million) of Beach's total expected FY16 capital expenditure of between \$240 million and \$270 million will be directed towards the SACB and SWQ JVs with up to 40 wells expected to be drilled. Drilling will focus on liquids-rich fields in South Australia and lower carbon dioxide content fields in Queensland.

5.2.1.2 Western Flank oil

Beach is the largest producer of oil in the Western Flank. The Western Flank oil business includes Beach's interests in four key joint ventures (two with Senex, one each with Drillsearch and Cooper Energy Limited ("Cooper Energy")), together with Beach's part ownership of oil flowlines from various oil fields to the Lycium hub, as well as the pipeline between Lycium and Moomba. Producers are charged fees for use of the Lycium pipeline, which has a daily capacity in excess of 20,000 bopd.

The Western Flank Oil Fairway joint venture with Drillsearch (formerly PEL 91) includes the significant Bauer oil field discovered in FY12. The joint venture with Drillsearch is described further in section 4.2.2.1 of this report.

In addition to the joint venture with Drillsearch, Beach is the operator of PRLs 85-104 (formerly PEL 92) with Cooper Energy (25%). The licenses produced 1.1 mmbbl (net) in FY15 and during the year a two-well development and appraisal campaign was undertaken in the Callawonga Field, with both wells cased and suspended. Four wells are planned in FY16 by the joint venture.

Beach also holds a 40% interest in PRLs 136-150 (formerly PEL 111 and PEL 104) with Senex (60%, and operator). These permits produced 0.6 mmbbl in FY15, with natural field decline offset by stronger than expected production from the Spitfire Field and the Martlett-1 exploration well coming online. In its September 2015 quarterly update, Beach reported that the Fulcrum-1 exploration well (located in PRL 136 between the producing Spitfire Field and the Stanleys-1 oil discovery) encountered good oil shows within the target Birkhead Formation, however the reservoir was poorly developed and the well was subsequently plugged and abandoned. Up to four wells are planned in FY16.

5.2.1.3 Western Flank wet gas

PRLs 129-130 (formerly PEL 106) and PRLs 175-179 (formerly PEL 107) are operated in joint venture with Drillsearch, with Beach as operator (Western Wet Gas – JV with Beach). These permits yield both gas and associated gas liquids. Further details of these permits and operations are described in section 4.2.3.1 of this report.

5.2.1.4 Queensland Oil

Queensland Oil includes Beach's 100% owned and operated oil assets in the mature Bodalla block fields, comprising the Bodalla South (PL 31), Kenmore (PL 32) and the Black Stump (PL 47) fields. In addition to these 100% owned assets, Beach also holds a 93% interest in two joint ventures in relation to ATP 269. These assets are located in south-west Queensland, approximately 900 km west of Brisbane and, in FY15, produced 0.2 mmbbl of oil.

5.2.1.5 Eastern Flank

Beach currently has an interest in four assets in the eastern flank of the Cooper-Eromanga Basin: ATP 732, ATP 924, PL184 and ATP 633. These assets are prospective for oil.



Beach has executed a farm-in agreement with Drillsearch to earn a 45% interest in ATP 924. The farm-in will occur over two stages, the first involving Beach funding approximately 150 km² of 3D seismic activities and drilling of an initial exploration well, which was drilled in Q2 FY16. Should Beach elect to continue, it will drill a further exploration well and reimburse Drillsearch for past costs to earn its 45% interest. Drillsearch will remain operator of the permit.

Beach is farming-in to a 50% stake and is the operator of ATP 732 with the other 50% held by Bengal Energy Limited. Beach is farming-in to ATP 732 through the acquisition of 3D seismic and drilling of two wells. An initial well in FY14 was plugged and abandoned, while a second well is planned to be drilled during FY16 incorporating results from the interpretation of the seismic data.

Beach is the operator of PL 184 and is currently drilling the Thylungra-2 well. This well will be a follow up to the Thylungra-1 gas discovery made in 1995. Thylungra-2 will test the oil potential in the Hutton Sandstone.

ATP 633 was entered into by Beach to test the Queensland exploration strategy on the southern flank of the Cooper-Eromanga Basin. A number of wells have been drilled but results have been disappointing with failure mechanisms generally being lack of charge and/or poor reservoir.

5.2.1.6 Southern deep coals

Along with Strike Energy Limited, Beach is developing a new play type in the south of the Cooper-Eromanga Basin, targeting gas saturated coals at relatively shallow depths of up to 2,000 metres. As a result of the reduced depth, well costs are relatively low. PEL 94 and PEL 95 are operated by Beach. In FY15, the Davenport-1 exploration well in PEL 94 was fracture stimulated and flow-back results indicated good permeability. There are currently no reserves or 2C resources identified for PEL 94 and PEL 95.

5.2.1.7 Unconventional gas

The NTNG project is targeting shale and tight gas deep within the Permian sediments of the Cooper Basin. During FY15, four wells in ATP 855 were fracture-stimulated, marking the end of the stage 1 exploration work. In March 2015, Beach announced that its partner in the project, Chevron Exploration Australia 1 Pty Ltd ("Chevron") would not participate in Stage 2 of the project, and that Chevron's equity interests in all joint ventures would be returned to Beach for nil consideration. Chevron informed Beach that extensive technical evaluation confirmed a large gas resource and potential for further appraisal but the opportunity did not align strategically with Chevron's global exploration and development portfolio.

5.2.2 Other Australian assets

In addition to Cooper-Eromanga Basin assets, Beach also holds interests in a number of other Australian basins, which are prospective for oil, gas and gas liquids.

5.2.2.1 Otway Basin

Beach's Otway Basin exploration and development assets include interests in both onshore and offshore permits. Current onshore exploration, development and production assets are located in both the South Australian and Victorian sections of the Otway Basin. Included in these assets is the Katnook gas facility (currently on care and maintenance) and associated production licences. The Otway Basin is prospective for conventional gas and oil as well as unconventional gas and liquids.

Beach holds an interest in offshore permit T/49P (located in Bass Strait), in which Beach holds a 30% interest, with 3D Oil Limited holding the balance and acting as operator. Interpretation and mapping of the 974 km² Flanagan 3D seismic survey in the north of the block confirmed the presence of two large structures (Flanagan and Whalebone). On 22 October 2015, 3D Oil announced that it has completed a preliminary estimate of the Prospective Resources for the Flanagan Prospect as well as for other leads within T/49P. The Flanagan Prospect is now drill-ready based on new 3D seismic data.

5.2.2.2 Bonaparte Basin

Beach holds an interest in Bonaparte Basin permit EP 126. This asset was previously held by Beach in a joint venture with Territory Oil & Gas Pty Limited ("TOAG"), however subsequent to 30 June 2015, Beach acquired



TOAG and this permit is now owned and operated 100% by Beach. During FY15, the Cullen-1 exploration well was cased and suspended for further testing after intersecting 1,000 metres of limestone and inter-bedded shale, with evidence of natural fractures and elevated mud gas readings. Beach has commenced a farm-down process to identify a partner for further activities. There are currently no reserves or 2C resources identified for Beach's interest in the Bonaparte Basin.

5.2.2.3 Browse/Carnarvon Basins

The Browse Basin (located approximately 200 kilometres off the northern coastline of Western Australia), is an emerging gas province with the Ichthys field under development and several nearby discoveries (including the significant Lasseter-1 gas/condensate discovery announced by Santos in August 2014) being actively appraised for LNG potential. Beach holds an interest of approximately 7% in WA-281-P with Santos (approximately 48% and operator), Chevron (approximately 25%) and Inpex (20%). This permit holds the Burnside gas discovery, a gas column evident over a 65 metre thick sand. Pressure data acquired in the reservoir section supports the potential for the gas column to be stratigraphically trapped over a large area. Ongoing studies are directed toward assessing the significance of this gas discovery.

Beach holds an interest in the Carnarvon Basin (WA-48-R) located offshore north of Karratha. Beach holds a 10% share, with Santos (37.31% and operator), Quadrant Energy (34.03%) and Eni (18.66%).

5.2.2.4 Gippsland Basin

In the Gippsland Basin, Beach holds an interest in offshore permits in the Basker, Manta and Gummy ("BMG") oil and gas fields (VIC/L 27, VIC/L 26 and VIC/L 28). The project is located 65 km offshore Victoria in water depths ranging from 150 metres to 350 metres. Beach's interest in BMG is 35%, with Cooper Energy (operator) holding 65%.

The BMG fields were previously developed for oil production (which included gas production and reinjection) and have been in a non-productive phase since 2010. The infrastructure not required for a subsequent gas and liquids development and production phase has been removed. The infrastructure relevant to produce gas and the remaining oil, including sub-sea facilities, has been retained and maintained. In July 2015, Cooper Energy announced the completion of a business case which has identified that the development of the Manta gas resource is technically feasible.

5.2.3 International assets

5.2.3.1 New Zealand

In New Zealand, Beach holds interests in the Canterbury Basin (PEP 52717) in a 50/50 joint venture with New Zealand Oil & Gas Limited ("NZOG"). The lightly explored PEP 52717 is located approximately 40 kilometres off the east coast of the south island. A well was drilled nearby in the 1980's, encountering gas with high liquids content. Reprocessing of 1,250 km of vintage 2D seismic data was completed, and a 700 km² 3D seismic survey was acquired in late FY13 over the Barque and Tartan Wedge prospects. The 3D seismic data confirmed that the Barque prospect was over 100km² in size and a farm-out process is underway for the drilling of the well. NZOG is the operator of this asset.

Beach also holds a 25% interest in PEP 52181 through a joint venture with NZOG (35%) and TAG Oil Limited (40%). PEP 52181 is located in the Taranaki Basin, west of the north island and is in close proximity to the Kupe offshore gas field and the Kauri and Rimu onshore oil fields. PEP 52181 has oil, gas and liquids potential in the Kaheru prospect. The Kaheru prospect is currently committed to be drilled in 2016 with a jack-up rig.

Beach holds a further interest in New Zealand, PEP 57080, which is also located offshore west of the north island. Beach holds a 50% interest, with Todd Energy (50% and operator). The permit was granted in April 2015, and initial work will concentrate on evaluating several identified prospects and leads.

Beach's assets in New Zealand are all in the exploration phase and as at 30 June 2015, no 2C resources have been identified.



5.2.3.2 Tanzania

In 2008, Beach bid for, and won, the gazettal round for the Lake Tanganyika South block. The production sharing agreement ("PSA") with the Tanzanian Petroleum Development Corporation ("TPDC") was signed in June 2010. Beach is the operator and was farming-down 70% of its interest to Woodside Energy Limited ("Woodside"). However, Beach announced on 27 May 2015, that Woodside had decided not to enter into the next period of the exploration program relating to the Lake Tanganyika South PSA in Tanzania.

Beach is currently conducting a farmout process to introduce another partner to the PSA and is discussing future exploration options with the Tanzanian regulator. There are no 2C resources identified for the Tanzania asset as at 30 June 2015.

5.2.3.3 Egypt

Beach holds interests in several assets within Egypt, the most significant being its 22% interest in the Abu Sennan concession, which lies within the prolific Abu Gharadig Basin of the Western Desert.

On 10 August 2015, Beach announced it had entered into a binding agreement with Rockhopper Exploration plc in relation to the sale of its Egyptian assets, in line with its strategy to focus on its core Australian assets. Completion of the transaction was subject to satisfaction of certain conditions precedent, including waiver or nonexercise of pre-emptive rights held by existing joint venture parties in relation to the Abu Sennan Concession.

Subsequent to announcement, Beach received notice of the exercise of pre-emptive rights by one of the existing Abu Sennan Concession joint venture parties. As a result, the sale to Rockhopper has not proceeded and the interest will be sold instead to one of the existing joint venture parties for an amount of US\$20.4 million in cash (subject to adjustments).

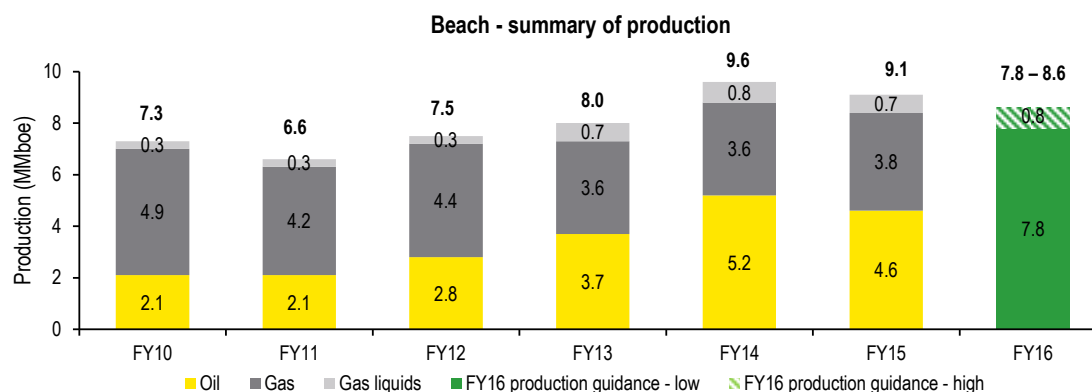


5.3 Production, reserves and resources

5.3.1 Production

In 2015, Beach produced 9.1 mmboe, around half of which was oil and the other half was gas and gas liquids. This was 4.7% lower than prior year production due primarily to natural field decline, partially offset by drilling successes and increased infrastructure capacity. Total oil production was 4.6 mmbbl, down 11% from record levels in the prior year mainly due to natural field decline. Gas and gas liquids production was 4.5 mmboe, up 3% from the prior year, mainly due to increased well head capacity.

Beach has announced its preliminary FY16 production guidance range of 7.8 to 8.6 mmboe. This guidance was underpinned by lower expectations for near term production profile given the reduced drilling activity across Cooper-Eromanga Basin in order to focus on preserving cash reserves and liquidity as a result of current oil and gas prices. The expected reduction in FY16 production reflects the impact of natural field decline and reduced drilling activity.



Source: Beach annual report and Beach announcements

Over half of Beach's 9.1 mmboe production in FY15 was sourced from its interests in the SACB and SWQ JVs, with significant contribution made by Beach's Western Flank oil and wet gas assets.

Beach: Production comparison					
Assets	FY 15				FY14
	Oil (mmbbl)	Gas liquids (mmboe)	Gas (PJ)	Oil Equivalent (mmboe)	Oil Equivalent (mmboe)
Delhi (SACB and SWQ JVs)	0.9	0.6	20.7	5.1	4.9
Western Flank - oil					
Ex PEL 91	1.6	-	-	1.6	1.8
Ex PEL 92	1.1	-	-	1.1	1.5
Ex PEL 111	0.1	-	-	0.1	0.2
Ex PEL 104	0.5	-	-	0.5	0.4
Western Flank - wet gas					
Ex PEL 106	-	0.1	1.4	0.3	0.5
Beach Queensland	0.2	-	-	0.2	0.2
Total Cooper-Eromanga Basin	4.5	0.7	22.1	9.0	9.5
Egypt	0.1	-	0.1	0.1	0.1
Total	4.6	0.7	22.2	9.1	9.6

Source: Beach FY15 Annual report



5.3.2 Reserves and Resources

The tables below show Beach's reserves as at 30 June 2015, which was released on 21 August 2015:

Beach - Reserves			
As at 30 June 2015	1P mmboe	2P mmboe	3P mmboe
Beach operated			
Oil	5.2	10.2	19.0
Gas/gas liquids	1.5	2.2	2.9
Total	6.7	12.4	21.9
SACB/SWQ JVs			
Oil	1.7	6.3	15.6
Gas/gas liquids	22.9	52.6	102.3
Total	24.5	58.9	117.9
Egypt	1.2	3/1	5.0
Total reserves	32.4	74.4	144.8

Source: Beach FY15 annual report

At 30 June 2015, Beach's 2P reserves were 74.4 mmboe, which represents an 11.1 mmboe reduction from the prior year. The reduction was primarily due to production of 9.1 mmboe and a downward revision to Delhi reserves following internal assessment and external review. A split of 2P reserves by key area is set out below:

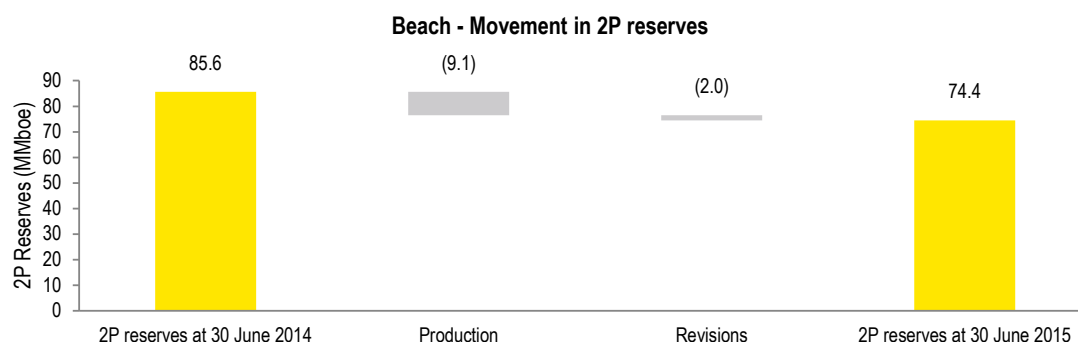
Beach: 2P reserves					
Assets	Oil (mmbbl)	FY 15			FY14
		Gas liquids (mmboe)	Gas (PJ)	Oil Equivalent (mmboe)	Oil Equivalent (mmboe)
Delhi - SACB and SWQ JVs	6.3	7.9	260.1	58.9	71.9
Western Flank - oil					
Ex PEL 91	5.8	-	-	5.8	5.4
Ex PEL 92	2.5	-	-	2.5	2.9
Ex PEL 111	0.2	-	-	0.2	0.2
Ex PEL 104	1.2	-	-	1.2	1.0
Western Flank – wet gas					
Ex PEL 106	-	0.6	9.1	2.2	2.0
Queensland Oil	0.4	-	-	0.4	0.5
Total Cooper and Eromanga	16.5	8.5	269.2	71.3	83.9
Egypt	2.9	-	1.3	3.1	1.7
Total	19.4	8.5	270.5	74.4	85.6

Source: Beach announcement dated 21 August 2015

The majority of Beach's 2P reserves reflect gas reserves within the SACB and SWQ JVs.



The graph below illustrates Beach's movement in 2P reserves between 30 June 2014 and 30 June 2015.



Source: Beach FY15 annual report.

Note: Totals do not add due to rounding

At 30 June 2015, Beach recorded a significant increase in 2C resources, from 466.5 mmboe to 676.5 mmboe. The increase primarily related to the NTNG project, following evaluation of well results from the four-well fracture stimulation and flow testing campaign undertaken in ATP 855. A further increase in 2C resources was made following the exit of Chevron from the NTNG project in March 2015, and the return of Chevron's equity interest in the NTNG project to Beach.

Beach – 2C contingent resources					
As at 30 June 2015	Oil (mmbbl)	Gas liquids (mmboe)	FY 15		FY14
			Gas (PJ)	Oil Equivalent (mmboe)	Oil Equivalent (mmboe)
Beach conventional	1.8	0.7	16	5.1	4.8
Delhi conventional	7.8	5.3	266	58.9	86.4
Total Cooper-Eromanga Basin conventional	9.6	6.0	282.0	64.0	91.2
Egypt	0.5	-	0	0.6	1.1
Gippsland / Camarvon	2.7	0.1	45	10.5	10.9
Otway	-	0.1	5	0.9	0.9
Browse	-	1.7	60	12.0	-
Total conventional	12.9	7.8	391.9	88.0	104.1
Beach unconventional	-	-	2,878.6	495	277
Delhi unconventional	-	6.8	504.7	94	86
Total unconventional	-	6.8	3,383.3	588.5	362.4
Total resources	12.9	14.6	3,775.2	676.5	466.5

Source: Beach FY15 annual report



5.4 Financial information

5.4.1 Financial performance

A summary of Beach's financial performance for the last two years ended 30 June 2014 and 30 June 2015, as extracted from the FY15 audited financial statements, is set out below.

Beach - Consolidated income statement summary		
Currency: \$million	FY14	FY15
Sales revenue	1,052.1	727.7
Cost of sales	(639.9)	(562.5)
Gross profit	412.2	165.2
Other revenue	5.6	7.8
Other income	19.5	6.7
Impairment loss	(162.2)	(789.1)
Other expenses	(45.6)	(39.0)
Earnings before interest and tax	229.5	(648.4)
Interest income	13.8	8.5
Finance expense	(40.9)	(15.1)
Profit/ (loss) before tax	202.4	(655.0)
Income tax (expense)/benefit	(100.6)	140.9
Profit/(loss) after tax	101.8	(514.1)
Gross profit margin	39%	23%
EBIT margin	22%	(89%)
Production (mmboe)	9.6	9.1
Average realised oil price (A\$/bbl)	127	90

Source: Beach FY15 annual report. Note – totals may not add due to rounding

In relation to Beach's historical financial performance we note:

- ▶ Beach produced 9.1 mmboe in FY15, 5% below FY14 production volumes of 9.6 mmboe. Sales volumes of 10.5 mmboe in FY15 were marginally lower than FY14 due to lower oil production and third party volumes, offset by higher gas sales volumes.
- ▶ While production and sales volumes were marginally lower than FY14, the declining oil price resulted in a 31% decline in revenues, from \$1,052 million in FY14 to \$728 million in FY15. This reduction in USD sales revenue was partly offset by a lower average AUD/USD exchange rate.
- ▶ The average realised oil price decreased to A\$90/bbl in FY15, down A\$37/bbl from FY14.
- ▶ Gross profit declined by 60% to \$165.2 million (from \$412.2 million in FY14) primarily as a result of lower sales revenue, partially offset by lower total cost of sales which reduced by 12% to \$563 million compared to FY14. The reduction in cost of sales was primarily due to lower third party purchases, lower royalties from the fall in the oil price, repeal of the carbon tax and an increase in inventory, partly offset by higher depreciation and amortisation and operating costs.
- ▶ Other income of \$7 million was down \$13 million from FY14. Other income in FY14 included gains on the sale of joint venture interests, including the sale of Beach's interest in the Williston Basin, USA.



- Impairment expenses recorded in FY15, were as follows:

Beach - FY15 non-cash impairment expenses (pre-tax)		
Currency: \$million	Amount	Reasons
Delhi (SACB and SWQ JVs)	345	Revisions to reserves and the impact of the operator's development plan
NTNG project	238	Completion of stage 1 of the project and exit of Chevron
Egyptian interests	174	Write down of assets to the expected sales proceeds
Romanian interests	32	Write down of assets following exit from Romania
Total	789	

Source: Beach announcement dated 21 August 2015

On 27 October 2015, Beach announced its results for the three months ended 30 September 2015.

Key points were:

- Sales volumes of 2.6 mmboe, up 1% on prior quarter, and quarterly production of 2.3 mmboe, which was in line with prior quarter
- Total sales revenue of \$145 million, down 15% on prior quarter, due to lower realised oil prices, partly offset by higher realised gas prices. Beach's reported realised oil price was A\$67.6/bbl, however, realised gas and ethane prices increased slightly to \$6/GJ, up from \$5.9/GJ in the prior quarter
- A final FY15 dividend of 0.5 cents per share, which was paid on 25 September 2015
- Cash reserves of \$174.1 million.



5.4.2 Financial position

Provided below is a summary of Beach's financial position as at 30 June 2014 and 30 June 2015, as extracted from Beach's audited financial statements for FY15:

Beach - Consolidated financial position summary		
<i>Currency: \$million</i>	FY14	FY15
Cash and cash equivalents	411.3	170.2
Receivables	126.9	125.4
Inventories	91.8	114.6
Derivatives financial instruments	-	1.1
Other	7.9	8.1
Assets held for sale	-	22.2
Total current assets	637.9	441.6
Available for sale financial assets	70.3	46.1
Property, plant & equipment and petroleum assets	1,312.8	1,036.3
Exploration and evaluation assets	541.7	305.3
Derivatives financial instruments	-	0.2
Other financial assets	28.0	6.9
Total non current assets	1,952.8	1,394.8
Total assets	2,590.7	1,836.4
Payables	160.0	128.5
Employee entitlements	7.7	8.5
Provisions	11.6	5.3
Current tax liabilities	65.4	6.6
Borrowings	143.0	-
Derivatives financial instruments	13.3	-
Liabilities held for sale	-	2.2
Total current liabilities	401.0	151.1
Payables	-	4.0
Employee entitlements	0.8	0.9
Provisions	131.0	150.2
Deferred tax liabilities	187.1	26.9
Borrowings	-	148.5
Total non current liabilities	318.9	330.5
Total liabilities	719.9	481.6
Net assets	1,870.8	1,354.8
Contributed equity	1,239.9	1,250.1
Reserves	58.3	273.4
Retained earnings	572.6	(168.7)
Total equity	1,870.8	1,354.8

Source: Beach FY15 annual report. Note – totals may not add due to rounding

In relation to the financial position we note:

- ▶ Total assets decreased from \$2,591 million in FY14 to \$1,836 million in FY15, primarily as a result of asset impairment write-downs as discussed above.
- ▶ Cash balances decreased by \$241 million to \$170 million in FY15, primarily due to capital expenditure of \$448 million and dividends paid of \$30 million, partly offset by cash flow from operations of \$229 million and reimbursement of exploration expenditure of \$13 million.
- ▶ Inventories increased \$23 million due to higher gas volumes held in storage.



- ▶ Available for Sale (“AFS”) financial assets decreased by \$24 million due to downward revaluation adjustments booked through the AFS reserve. These assets include 60.6 million shares in Cooper Energy, an ASX-listed oil and gas production and exploration company. In addition to holding shares in Drillsearch, Beach also holds an investment in Drillsearch Convertible Notes.
- ▶ Assets held for sale of \$22 million relate to the pending sale of Beach’s Egyptian interests.
- ▶ Property, plant and equipment and petroleum assets and exploration and evaluation assets decreased by \$513 million, primarily due to impairment losses discussed above.
- ▶ Total liabilities decreased by \$238 million to \$482 million, mainly due to tax paid of \$75 million and a reduction in deferred tax liability of \$160 million due to the impairment of non-current assets reversing timing differences previously booked.
- ▶ Borrowings at 30 June 2014, reflected convertible notes which were repaid in April 2015 from the proceeds of a \$150 million five year loan facility. Beach also has a \$150 million three year revolving loan facility with a maturity date of 31 July 2016, which remains undrawn.
- ▶ Equity decreased by \$516 million, mainly due to the net loss after tax of \$514 million and dividends paid during the year of \$39 million partly offset by shares issued during the year (primarily from the dividend reinvestment plan) of \$10 million and an increase in reserves of \$27 million, excluding the transfer from retained earnings to the profit distribution reserve.



5.4.3 Cash flow

Provided below is a summary of Beach's cash flow statement for the two years ended 30 June 2014 and 30 June 2015, as extracted from Beach's audited financial statements for FY15:

Beach – Consolidated cash flow summary		
Currency: \$million	FY14	FY15
Receipts from oil and gas operations	1,080.4	720.2
Operating and personnel costs paid	(494.6)	(428.4)
Interest received	15.1	11.2
Other receipts	6.1	7.8
Financing costs	(8.7)	(7.8)
Derivative payments	(0.6)	-
Income tax refund	8.7	-
Income tax paid	(23.8)	(74.5)
Net cash provided by operating activities	582.6	228.5
Payments for property, plant and equipment	(98.3)	(90.2)
Payments for petroleum assets	(213.6)	(216.7)
Payments for exploration	(188.5)	(141.0)
Payments for restoration	(3.7)	(5.2)
Acquisition of exploration interests	(1.5)	(2.5)
Payments for investments	(10.6)	-
Proceeds from sale of joint venture interests	20.9	-
Proceeds from sale of non-current assets	3.7	0.4
Reimbursement of exploration expenditure	-	12.9
Net cash used in investing activities	(491.6)	(442.3)
Proceeds from the exercise of options	3.8	-
Proceeds from drawdown of debt	-	150.0
Repayment of convertible notes	-	(150.0)
Repayment of Employee Incentive Loans	1.7	0.8
Dividends paid	(30.7)	(29.5)
Net cash used in financing activities	(25.2)	(28.7)
Net increase/(decrease) in cash held	65.8	(242.5)
Cash at beginning of financial year	347.6	411.3
Effects of exchange rate changes on the balances of cash held in foreign currencies	(2.1)	1.4
Cash at end of financial year	411.3	170.2

Source: Beach FY15 annual report

Beach expects FY16 capital expenditure to be approximately \$240 million to \$270 million (with up to 62 wells planned), significantly less than the \$416 million spent in FY15. Capital expenditure plans have been prepared under the assumption of continuing lower oil price environment, with a focus on preserving cash reserves and maintaining liquidity.

5.5 Capital structure

As at 30 November 2015, Beach had the following securities on issue:

- ▶ 1,302,877,977 fully paid Beach Ordinary Shares
- ▶ 5,019,025 unlisted Beach Performance Rights.

The unlisted Beach Performance Rights are issued under the Executive Incentive Plan and are subject to various vesting conditions. Beach does not have any options outstanding.



5.6 Major shareholders

Based on substantial holding notices lodged with the ASX as at 30 November 2015, the following entities hold 10% or more of the voting power in Beach Shares.

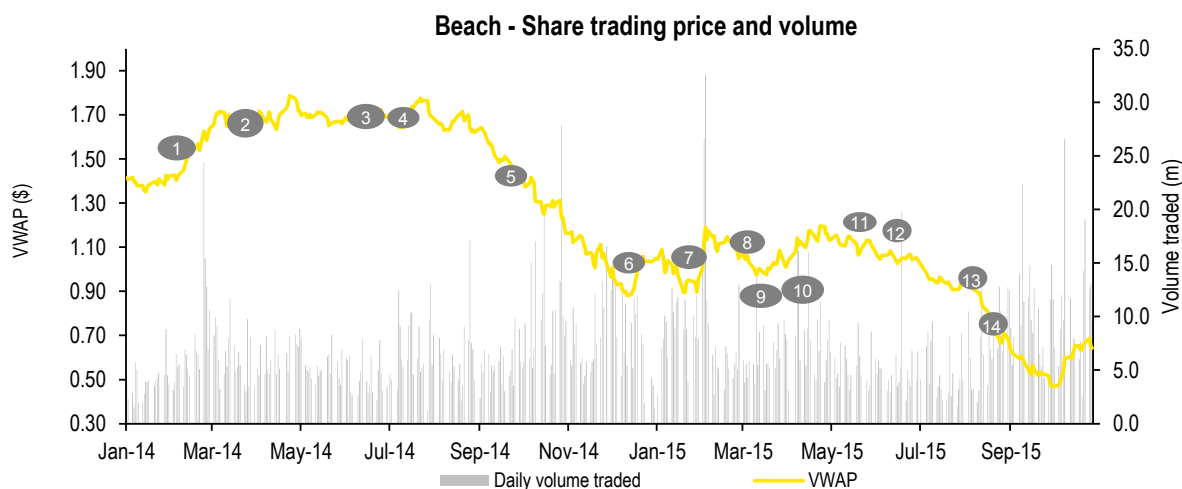
Beach - Substantial shareholders		
Shareholder	Number of shares	Voting interest at time of notice
Seven Group	258,729,753	19.9%
Ellerston Capital Limited	137,964,525	10.6%

Source: Scheme Booklet

Beach's largest single shareholder is Seven Group which currently controls around 19.9% of Beach's ordinary shares.

5.7 Share price performance

The chart below shows the daily VWAP and trading volumes of Beach Shares on the ASX between 1 January 2014 and 22 October 2015 (being the day immediately prior to the Announcement Date). During the period, Beach's share price traded between a high of \$1.79 on 24 April 2014, to a low of \$0.46 on 30 September 2015. Beach's closing share price on 22 October 2015, being the last trading day prior to the Announcement Date, was \$0.665 per share.



Source: S&P Capital IQ

In addition to the regular quarterly, interim and annual reporting announcements, other announcements made by Beach between 1 January 2014 and 23 October 2015, that may have had an impact on Beach's share price, are annotated in the chart above and summarised below:

- 14 February 2014 – Beach announced that the Bauer oil field in PEL 91 increased in size following the drilling of the Bauer-12 appraisal well and an increase in 2P reserves of 2.5 million barrels.
- 28 March 2014 – Beach stated that the Stunsail-1 exploration well in PEL 91 successfully discovered oil in the McKinlay/Top Namur, Mid-Namur and Birkhead reservoirs.
- 16 June 2014 – Beach announced that it had executed a binding sale and purchase agreement for the purchase of a 20% interest in the T/49P offshore exploration permit in the Otway Basin.
- 14 July 2014 – Beach announced that it had signed an agreement for the transfer of 70% of its interest in the Lake Tanganyika South Block, Tanzania, to a wholly owned subsidiary of Woodside Petroleum Limited.



5. 12 September 2014 – Beach announced that oil was discovered in the Namur Sandstone at Martlet-1, an exploration well in PEL 104. This is the first Namur Sandstone oil discovery in the PEL104/111 joint venture area.
6. 10 December 2014 - Beach announced it had signed a new transitional gas sales agreement with Origin Energy to commence separate lifting and marketing of SACB and SWQ JVs gas.
7. 2 February 2015 – Seven Group confirmed it has secured a relevant interest of 13.79% in Beach, increasing market speculation of a takeover.
8. 23 February 2015 – Beach announced stage 1 of the NTNG project had been completed, meeting all technical objectives
9. 10 March 2015 – Beach announced a new Birkhead Formation oil discovery at Stanleys-1 in PRL 171 (ex PEL 91).
10. 27 March 2015 – Beach announced that Chevron would not participate in stage 2 of the NTNG project.
11. 19 May 2015 – Seven Group Holdings increased its voting power in Beach to 19.9%.
12. 27 May 2015 – Beach announced Woodside would exit the PSA in Tanzania.
13. 10 August 2015 – Sale of Egyptian assets announced.
14. 26 August 2015 – Seven Group Chief Executive, Ryan Stokes, stated that there was a “compelling case” for a merger between Beach and Drillsearch.



The following table summarises the monthly trading prices of Beach's shares on the ASX over the period 1 January 2014 and 22 October 2015.

Beach - Monthly share trading and liquidity						
Month	High (\$)	Low (\$)	Close (\$)	VWAP (\$)	Monthly volume (m)	Liquidity %
Oct-14	1.43	1.17	1.17	1.30	224.38	17.3%
Nov-14	1.17	1.02	1.03	1.09	149.47	11.5%
Dec-14	1.07	0.88	1.05	0.95	178.26	13.7%
Jan-15	1.11	0.89	0.96	0.97	169.64	13.1%
Feb-15	1.18	1.01	1.06	1.13	178.83	13.8%
Mar-15	1.08	0.98	1.02	1.02	144.69	11.1%
Apr-15	1.20	1.02	1.11	1.13	168.79	13.0%
May-15	1.16	1.07	1.10	1.12	111.88	8.6%
Jun-15	1.09	1.03	1.05	1.05	112.46	8.6%
Jul-15	1.03	0.91	0.98	0.96	108.61	8.4%
Aug-15	0.94	0.66	0.67	0.78	159.54	12.3%
Sep-15	0.64	0.46	0.46	0.56	222.21	17.1%
Oct-15	0.67	0.46	0.67	0.58	155.75	12.0%

Source: S&P Capital IQ

The table shows that over the last 12 month period from October 2014, in line with declining oil prices, Beach's share price generally trended downwards from \$1.43 in October 2014, to its lowest level of \$0.46 in September 2015.

Since early October 2015, however, Beach's share price has improved. We note that between the period mid-September to the mid October 2015, several analysts following Beach upgraded their recommendations and this may have contributed to the increase in share price, together with increasing speculation that Beach would enter into a transaction.

A summary of the VWAP of Beach Shares prior to the Announcement Date is set out below:

Beach - VWAP of shares prior to the Announcement Date	
Period	VWAP (\$)
1 day prior to the announcement	0.67
1 week prior to the announcement	0.65
1 month prior to the announcement	0.56
3 months prior to the announcement	0.65

Source: S&P Capital IQ

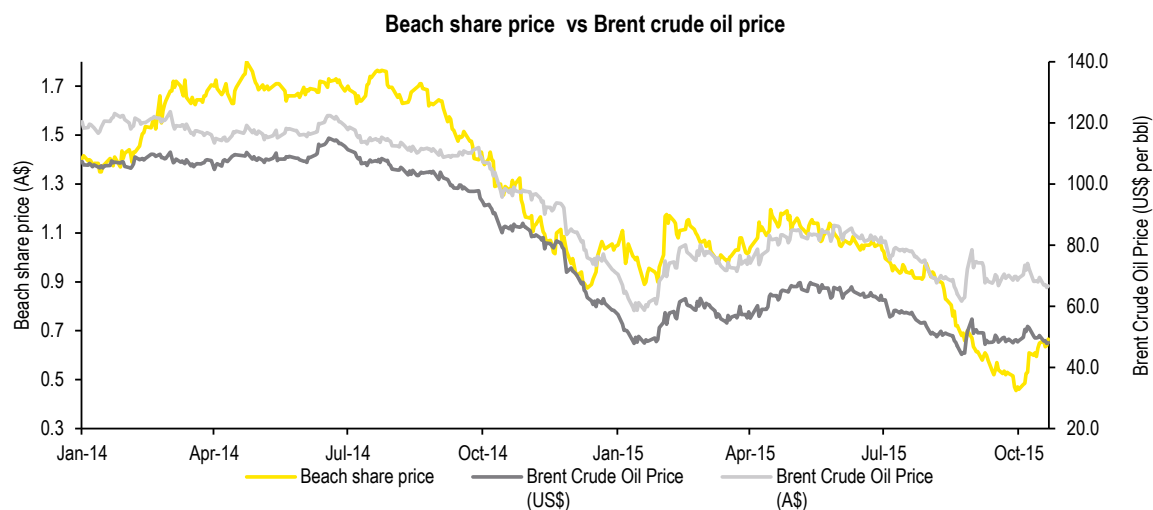
Our analysis of the movements in Beach's share price and trading volumes indicates that its shares are relatively liquid:

- ▶ Over the last 12 months i.e. from October 2014 to October 2015, the average monthly liquidity¹³ of Beach Shares was approximately 12.3%.
- ▶ Over the latest 12 months the average bid/ask spread as a percentage of daily closing asking prices was 0.7%, which is relatively low.
- ▶ Beach's shares that are likely to trade (i.e. all shares excluding those held by substantial shareholders (being those with a 5% or more interest) and Directors) is approximately 64%. As such, we consider Beach to have a relatively high free float.

¹³ Liquidity is calculated as volume traded each month divided by number of shares outstanding.

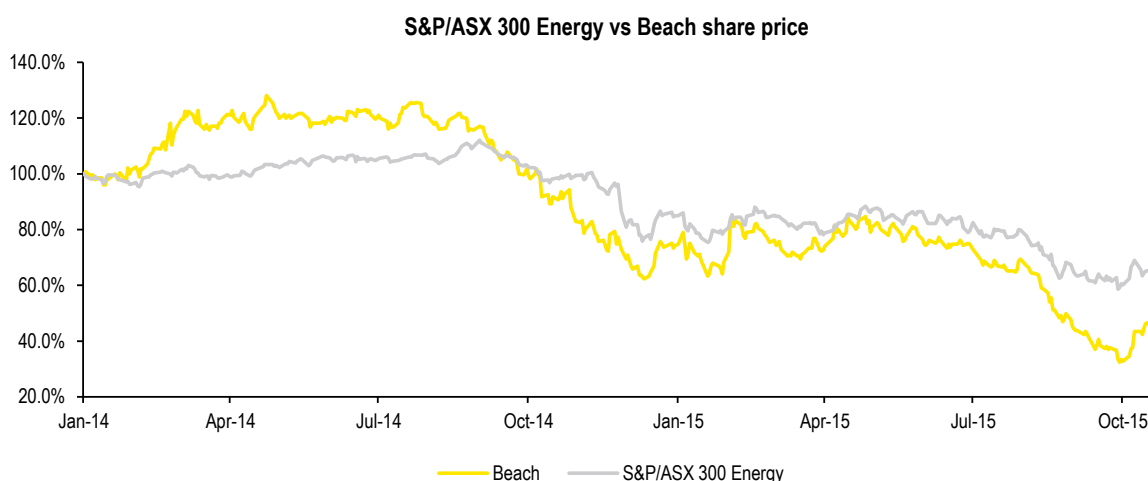


While historically volatile over the period analysed, Beach's share price has moved in line with the movement in oil prices. The correlation between Beach's share price and the Brent crude oil price is illustrated below in the chart:



Source: S&P Capital IQ

The following chart illustrates the correlation between movements in Beach's share price with the S&P/ASX 300 Energy Index between 1 January 2014 and 22 October 2015.



Source: S&P Capital IQ

The graph shows that from January 2014 to approximately October 2014, Beach's share price outperformed the S&P/ASX 300 Energy Index. However, since October 2014 Beach's share price has underperformed compared to the index.



6. Profile of the Merged Group

Should the Proposed Scheme be implemented, Drillsearch will become a wholly owned subsidiary of Beach. The Merged Group will be headquartered in Adelaide and continue to be focussed on the Cooper-Eromanga Basin, while holding exploration assets across a number of prospective Australian basins. The Merged Group will also hold exploration assets in New Zealand and Tanzania.

The Merged Group will be the largest onshore oil producer in Australia, with interests in permits covering approximately 69,000 km², including interests in all of the oil producing areas of the Western Flank Oil Fairway. The Merged Group will hold 100% of the Western Flank oil producing ex-PEL 91 licenses and 100% of the wet gas producing licenses. The Merged Group will also be the second largest gas and gas liquids producer in the Cooper-Eromanga Basin, behind Santos.

The Merged Group will also continue to hold an interest in essential Cooper-Eromanga Basin infrastructure currently held by Beach through its interest in the SACB and SWQ JVs, including the Moomba and Ballera plants, the Port Bonython facilities and the Moomba to Port Bonython liquids pipeline. In addition, the Merged Group will hold an equity interest in the Lycium to Moomba oil pipeline.

Based on the respective market capitalisations of Beach and Drillsearch as at 22 October 2015, the Merged Group will have a combined pro forma market capitalisation in excess of \$1.1 billion. The Merged Group will continue to use the Beach name.

6.1 Strategy and Board of Directors

The Scheme Booklet states that the Merged Group will remain focused on the Cooper-Eromanga Basin, while seeking further growth opportunities. Beach has announced its intention to remain focussed on Australia (in particular the Cooper-Eromanga Basin) and nearby, implying that growth opportunities will be domestically focussed.

The Scheme Booklet states that it is expected that the Merged Group will continue to operate the Beach and Drillsearch businesses in substantially the same manner as they are currently being conducted. It is likely that, as part of the integration of the two businesses, that a number of current positions will be made redundant, resulting in cost savings. As set out in section 1 of the Scheme Booklet, these cost savings are estimated to be around \$20 million (pre-tax), and are expected to be achieved within two years of the implementation of the Proposed Scheme.

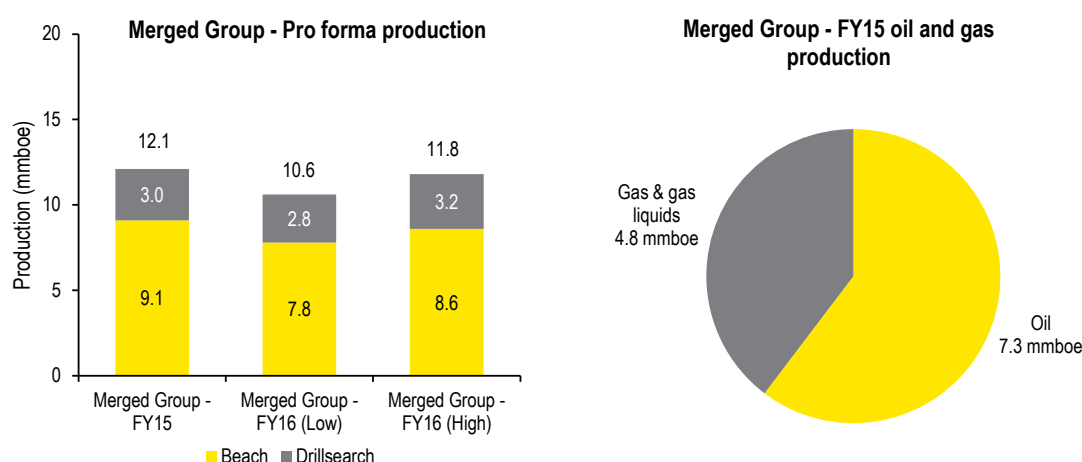
The Board of the Merged Group will comprise seven people and be chaired by the existing chairman of Beach, Glenn Davis. Two current directors of Drillsearch, Jim McKerlie and Philip Bainbridge, will join the Board of the Merged Group, as non-executive directors, while two existing Beach directors will step down.

The Beach Board is currently undertaking a search for the appointment of a permanent CEO. Neil Gibbins, the acting CEO of Beach, will remain as acting CEO of the Merged Group, until the appointment of a permanent CEO is made. The senior management team of the Merged Group will be comprised of people from the existing Beach and Drillsearch management teams on a "best for the job" basis.



6.2 Production, reserves and resources

Based on aggregate FY15 production, the Merged Group, on a pro forma basis, produced 12.1 mmboe. Based on preliminary production guidance issued by Drillsearch and Beach, on a pro forma annualised basis, the Merged Group is expected to have total production in the range of 10.6 to 11.8 mmboe (mid point of 11.2 mmboe) in FY16.



Source: Aggregation based on Drillsearch and Beach annual reports and company announcements

Drillsearch and Beach prepare independent estimates of reserves and resources for their respective interests in common assets. Should the Proposed Scheme be implemented, the Merged Group will undertake estimates of reserves and resources as at 30 June 2016, in due course.

Details of Drillsearch's reserves and resources as at 30 June 2015, is set out in section 4.3.2 and details of Beach's reserves and resources as at 30 June 2015, is set out in section 5.3.2.



6.3 Pro forma financial position

The pro forma statement of financial position for the Merged Group, based on the financial positions of both companies as at 30 June 2015, is set out in section 6 of the Scheme Booklet. A summary of the pro forma financial position as at 30 June 2015, is provided below:

Merged Group – Pro forma financial position (30 June 2015)				
Currency: \$million	Beach	Drillsearch	Pro forma adjustments	Merged Group
Cash and cash equivalents	170.2	131.5	(178.3)	123.4
Receivables	125.4	71.5	-	197.0
Inventories	114.6	2.6	-	117.2
Derivative financial instruments	1.1	5.6	-	6.7
Other	8.1	2.3	-	10.4
Assets held for sale	22.2	25.0	-	47.2
Total current assets	441.6	238.6	(178.3)	501.9
Available for sale financial assets	46.1	-	(31.2)	14.9
Property, plant and equipment	448.1	2.8	-	450.9
Petroleum assets	588.2	95.7	107.6	791.5
Exploration and evaluation assets	305.3	178.5	-	483.8
Derivative financial instruments	0.2	-	-	0.2
Deferred tax assets	-	23.2	(15.0)	8.2
Other financial assets	6.9	1.4	-	8.3
Total non-current assets	1,394.8	301.6	61.4	1,757.8
Total assets	1,836.4	540.2	(116.9)	2,259.7
Payables	128.5	37.1	-	165.6
Employee entitlements	8.5	0.7	-	9.2
Provisions	5.3	-	-	5.3
Tax liabilities	6.6	-	-	6.6
Liabilities held for sale	2.2	24.5	-	26.7
Total current liabilities	151.1	62.3	-	213.4
Payables	4.0	-	-	4.0
Employee entitlements	0.9	0.2	-	1.1
Provisions	150.2	18.3	-	168.5
Deferred tax liabilities	26.9	-	(0.6)	26.3
Borrowings	148.5	162.1	(162.1)	148.5
Total non-current liabilities	330.5	180.6	(162.7)	348.4
Total liabilities	481.6	242.9	(162.7)	561.8
Net assets	1,354.8	297.3	45.8	1,697.9
Contributed equity	1,250.1	325.1	45.8	1,621.0
Reserves	273.4	8.6	(7.7)	274.3
Retained earnings	(168.7)	(36.4)	7.7	(197.4)
Total Equity	1,354.8	297.3	45.8	1,697.9

Source: Scheme Booklet

The pro forma balance sheet adjustments outlined above are discussed in further detail in section 6 of the Scheme Booklet. In summary, the key pro forma adjustments impacting cash and borrowings include repayment of the Drillsearch Convertible Notes, payment of transaction costs, and cancellation of options for consideration. Other pro forma adjustments include accounting entries required to reflect the impact of the acquisition of Drillsearch by Beach in accordance with Australian accounting standards.



6.4 Capital structure and shareholders

Should the Proposed Scheme be implemented, Beach will issue a total of 557.8 million¹⁴ Beach Shares to Drillsearch Shareholders (excluding Beach itself) and Performance Rights holders.

Based on the current number of shares on issue for Beach as well as the shares to be issued as a result of the implementation of the Proposed Scheme, the total number of shares and securities assumed to be on issue for the Merged Group is set out in the table below:

Merged Group – issued capital	
	Million
Existing Beach Ordinary Shares	1,302.9
New Beach Ordinary Shares issued to Drillsearch Shareholders (excluding Beach itself)	551.5
New Beach Ordinary Shares issued to Drillsearch Performance Rights holders	6.3
Total Merged Group Ordinary Shares	1,860.7
Merged Group Performance Rights	5.0

Source: Ernst & Young Transaction Advisory Services analysis and Scheme Booklet

The largest shareholder in the Merged Group will be Seven Group, which will hold around 20.1% of the Merged Group's Ordinary Shares.

¹⁴ This calculation ignores the impact of any ineligible foreign Drillsearch Shareholders and assumes the following: no conversion of the Drillsearch Convertible Notes; all Options are cancelled prior to the implementation of the Proposed Scheme; and that all Performance Rights vest and participate in the Proposed Scheme.



7. Valuation methodology and approach

7.1 Valuation methodology and approach

As noted in section 2.2, we have considered whether the Proposed Scheme is fair by comparing our assessed fair value of the Drillsearch Shares being given up, on a controlling interest basis, with the fair value of the Scheme Consideration. In assessing the value of a Drillsearch Share, we have assumed 100% ownership, which is implicitly on a control basis. In assessing the value of the Scheme Consideration (based on the value of a share in the Merged Group following the implementation of the Proposed Scheme multiplied by 1.25), we have not included a control premium as Drillsearch Shareholders will receive shares representing a minority or portfolio interest in the Merged Group. The Proposed Scheme is considered fair if the value of the Scheme Consideration is equal to or greater than the range of values assessed for a Drillsearch Share.

7.2 Valuation methodologies adopted

7.2.1 Value of Drillsearch Shares

The most commonly adopted valuation approach for oil and gas production and exploration companies, such as Drillsearch, is to assess the value of the company based on the value of its underlying net assets, on a going concern basis using a discounted cash flow ("DCF") methodology where possible. This is the primary approach we have taken when valuing the equity in Drillsearch. We have calculated a value per share based on the number of shares in Drillsearch on a fully diluted basis subject to our considerations outlined in section 4.5. That is, assuming all Performance Rights vest, but that Options are cancelled for consideration.

We have cross checked our findings with reference to other methodologies, including the quoted share price of Drillsearch, adjusted for a premium for control, and implied reserves and resource multiples.

7.2.2 Value of Scheme Consideration

In assessing the value of the Scheme Consideration, which is underpinned by the value of shares in the Merged Group, we have considered a combination of approaches.

Our primary approach is to assess the value of the Scheme Consideration based on the recent market price of Beach Shares as traded on the ASX. As a cross check, we have also considered the fair value of the underlying net assets of the Merged Group (based on a sum-of-the-parts approach), including synergies. We have cross checked these methodologies with reference to reserves multiples.

Key factors influencing our selection of a methodology included the following:

- ▶ Under the Proposed Scheme, Drillsearch Shareholders will receive shares in Beach. These shares will be traded on the ASX following the implementation of the Proposed Scheme. Given the trading in Beach Shares are sufficiently liquid, the value of the Scheme Consideration at the time of the implementation of the Proposed Scheme will be the market price of Beach Shares. The actual price at which shares trade in the market is generally considered to be a better reflection of value than a theoretical estimate of the potential future value of those shares.

We consider that the traded price of Beach Shares since the Announcement Date reflects the market's view of the value of shares in the Merged Group, including the combined assets of Drillsearch and Beach, any expected synergies and dilution, but subject to the market's expectation of the Proposed Scheme being implemented. As such, we consider the actual traded price of Beach Shares following the announcement to be the best indicator of the fair value of the Scheme Consideration.

- ▶ Although Beach Shares are relatively well traded, implying that the market for these shares is liquid, we note that for most of 2015, Beach's share price has been impacted by factors other than the intrinsic value of the Beach assets. These factors included speculation of a major acquisition, Seven Group's acquisition of large stakes in both Beach and Drillsearch, as well as changes in key executives and a



refocussing of Beach's strategy. These factors can create "noise" in the share price, meaning that it is prudent to consider the value of Beach using other methodologies in addition to the traded share price.

- Oil and gas asset valuations are very sensitive to forecast macroeconomic assumptions (such as forecast oil prices). Further, two of Drillsearch's major assets are held in joint ventures with Beach. As such, conducting valuations of Drillsearch and the Merged Group using different approaches creates the risk of inconsistencies between the bases of the valuations. We have sought to reduce this risk by conducting an analysis of the net asset values of both Drillsearch and the Merged Group on the same basis (i.e. based on a sum-of-the-parts approach, using DCF where possible and relying on RISC to review the operating forecast assumptions and provide exploration asset values).

Based on the above, and having regard to the information provided to us in relation to Beach, we have ultimately relied on the Beach Share price since the Announcement Date to underpin our valuation of the Scheme Consideration.

7.2.3 Petroleum assets

By their nature, petroleum assets, particularly early stage or development assets, are difficult to value. Key considerations in valuing petroleum assets include long term views on commodity prices, development, operational and financial risks, quality of the underlying reserves and resource base and expectations on the timing of the development of the asset. As such, while the valuation approaches and assumptions represent Ernst & Young Transaction Advisory Services and RISC's views at the time of preparing this report, changes to market views on these key considerations could materially impact the values of the assets.

7.2.3.1 Production and appraisal assets

Petroleum projects in the later stages of development or in production are typically valued using a DCF methodology as projects of this type are generally well defined technically and supported by reliable cash flow forecasts.

Given Drillsearch and Beach's producing oil and gas projects have production history and detailed forecast models are available, we have valued the projects using a DCF analysis, with the exception of Drillsearch's interest in the Tintaburra asset and Beach's Egyptian interests. These assets are currently in the advanced stages of divestment processes. For these assets, we have considered fair value with reference to the agreed sale price.

To assist in our DCF analysis and to be consistent with the requirements of the VALMIN Code, the technical, production and cost assumptions adopted in the DCF models have been reviewed by RISC. Based on their review, RISC formulated production cases for each of the operating projects. All other inputs, including commodity prices, foreign exchange rates, discount rates and taxation analysis were determined by Ernst & Young Transaction Advisory Services. RISC's comments and findings are detailed in the RISC Report, which is included as Appendix H – *The RISC Report*.

Consistent with the basis of the cash flows in the models provided by Drillsearch and Beach, the forecast cash flows for the Drillsearch producing assets were estimated in Australian dollars on a post-tax, nominal, ungeared basis. The forecast cash flows for the Beach producing assets were estimated in Australian dollars on a post-tax, real, ungeared basis.

7.2.3.2 Exploration assets

The value of the exploration prospects for both companies, other than the prospective resources near existing production assets that are captured in the DCF, was considered by RISC. In summary, RISC determined the fair market value (which is synonymous with 'fair value') of these assets with reference to recent transactions or historical exploration costs. In particular, RISC referred to the commitments or cash payments in recent farmin transactions. Details of these approaches are contained in section 4 of the RISC Report.



7.2.3.3 Summary of methodologies applied

A summary of the methods used to value each of the key oil and gas assets is summarised in the table below.

Oil and gas asset	Valuation methodology
Drillsearch	
Western Flank Oil – ex PEL 91 (JV with Beach)	DCF
Western Wet Gas (JV with Beach)	DCF
Western Wet Gas (JV with Santos)	DCF
Northern Cooper Gas and Liquids – PEL 182 oil and gas (JV with Senex)	DCF
Northern Cooper Gas and Liquids - PEL 103, PEL 103A, PRL 14, 17 and 18	RISC
Tintaburra – ATP 299	Expected sale price
Inland-Cook Oil – ATP 924, ATP 539 and ATP 549	RISC
Northern Patchawarra trough – PEL 570	RISC
Northern Cooper Gas and Liquids – PEL 101, ATP 932	RISC
Central Unconventional Fairway – ATP 940	RISC
Eastern Margin Oil Fairway – ATP 783	RISC
Beach (for supplementary net assets valuation)	
SACB and SWQ JVs	DCF
Western Flank Oil – ex PEL 91 (JV with Drillsearch)	DCF
Western Flank Oil – ex PEL 92 (JV with Cooper Energy)	DCF
Western Flank Oil – ex PEL 111 and PEL 104 (JVs with Senex)	DCF
Western Cooper Wet Gas – ex PEL 106 and Udacha (JV with Drillsearch)	DCF
Western Cooper Wet Gas – ex PEL 107 (JV with Drillsearch)	RISC
Queensland Oil	DCF
Eastern Flank (ATP 924, ATP 732, ATP 633, PL 184)	RISC
Southern Deep Coals (PEL 94 and PEL 95)	RISC
NTNG project (ex-PEL 218, ATP 855)	RISC
Other Australian exploration assets (including PEL 87/424 and other Australian basins)	RISC
Tanzania	RISC
New Zealand	RISC
Egypt	Expected sale price

Source: Ernst & Young Transaction Advisory Services analysis, RISC Report

For further details, the RISC Report is attached in full in Appendix H – *RISC Report* and should be read in conjunction with our report.

7.2.4 Other assets and liabilities

We have assessed the value of Drillsearch and Beach's other assets and liabilities as follows:

- ▶ listed securities were valued using a market assessment based on quoted prices
- ▶ negative value attributable to corporate costs was assessed based on a DCF approach
- ▶ tax losses and tax asset benefits (relevant to Drillsearch only) were valued on a DCF basis and reflected in the value of the oil and gas assets
- ▶ inventories not otherwise reflected in the DCF value of production assets were valued with reference to the amount in storage and current realised sales prices
- ▶ the fair value of cash and net debt were considered to be commensurate with their book value



- ▶ commodity hedge assets or liabilities have been incorporated into our DCF valuations through the assumed oil price assumptions, or as provided by Beach management.

7.3 Control premium / minority discount

As noted previously, our valuation of a Drillsearch Share incorporates a premium for control. This is consistent with the requirements of RG 111. Notwithstanding that Drillsearch holds non-controlling interests in its key assets, the shareholders of Drillsearch, as a group, currently hold a controlling interest in Drillsearch itself.

In assessing the fair market value of the Merged Group shares which form the Scheme Consideration, we have considered the fair market value of those shares on a minority basis.

The above approaches reflect the facts that:

- ▶ Beach is obtaining control of Drillsearch
- ▶ Drillsearch Shareholders are receiving a minority interest in the Merged Group in exchange for their current collective controlling interest in Drillsearch.

Drillsearch Shareholders will be unable to realise a control premium above this minority interest value for Merged Group shares unless the Merged Group is itself the subject of a takeover or is subject to a similar form of transaction at some time in the future.

7.4 Valuation cross checks

For both Drillsearch and the Merged Group, we considered the reasonableness of our assessed valuation ranges by comparison with trading multiples of companies with similar, but not necessarily the same, operations to the Drillsearch and the Merged Group. We also considered transaction multiples as a cross check to our value of Drillsearch. In addition, for Drillsearch, we compared our valuation of the Drillsearch Shares with the prices at which Drillsearch Shares have recently traded on the ASX.



8. Valuation of Drillsearch Shares

8.1 Summary of values

We have valued Drillsearch based on the sum of the fair values of its underlying net assets and liabilities, on a going concern basis. Our sum-of-the-parts valuation is summarised in the following table.

Drillsearch – Valuation summary			
\$ million	Ref	Low	High
DCF analysis	8.2.7	247.0	282.9
Exploration assets	8.3	50.0	70.0
Total oil and gas assets		297.0	352.9
Plus: Assets classified as held for sale	8.4.1	4.0	4.0
Less: Net debt	8.4.2	(8.1)	(8.1)
Less: Cash to be paid out to option holders	8.4.2	(1.5)	(1.5)
Less: Transaction costs	8.4.2	(5.0)	(5.0)
Fair value of equity		286.5	342.3
Number of shares on issue (million)	8.6	467.3	467.3
Fair value of a Drillsearch Share on a control basis (\$)		0.61	0.73

Source: Ernst & Young Transaction Advisory Services analysis

We have considered the fair value of 100% of the ordinary equity in Drillsearch to be in the range of \$286.5 million to \$342.3 million on a control basis. We note the following in respect of the specific items noted in the table above:

- ▶ The fair values of the major assets of Drillsearch, which are either already producing or assumed to commence production in the short to medium term, are based on a DCF analysis. Assumptions underpinning the production, operating costs and capex forecasts reflected in the DCF analysis have been reviewed by RISC whose report is included in Appendix H. The DCF values presented above include the benefit of hedging arrangements in place in respect of oil produced for the duration of those arrangements.
- ▶ In addition to assets referred to above that have been valued on a DCF basis, Drillsearch has a number of exploration assets that have been valued by RISC. Refer to Appendix H – *The RISC Report* for further detail on RISC's approach in respect of these assets.
- ▶ Drillsearch is in the final stages of a divestment process in respect of Tintaburra (ATP 299). We note that this divestment process has not yet completed, however based on discussions with management we have allowed for net sales proceeds of approximately \$4 million.
- ▶ Drillsearch's net debt has been calculated as interest bearing debt less cash as at 31 October 2015.
- ▶ We have deducted the cash that is expected to be used to pay option holders for the cancellation of their Options, which is expected to occur prior to implementation of the Proposed Scheme. We have also deducted transaction costs which are expected to be incurred regardless of whether or not the Proposed Scheme is implemented, of approximately \$5 million.

In determining the value of a Drillsearch Share, we divided our assessed fair value of the equity in Drillsearch by the expected number of shares on issue immediately prior to completion of the Proposed Scheme, after all Performance Rights have vested and any outstanding Options are cancelled for consideration.

Our assessed valuation range of a Drillsearch Share has been considered in conjunction with various cross checks, including the company's trading prices leading up to the Announcement Date and implied multiples. Refer to section 8.7 for our analysis of the cross checks considered.



8.2 DCF analysis

8.2.1 Financial Model

We have been provided with a consolidated corporate model (“Drillsearch Financial Model”) prepared by Drillsearch management. The Drillsearch Financial Model includes projections of ungeared post-tax cash flows to FY33 in Australian dollars for PEL 91, the Beach JV (comprising PEL 107 and PEL 106 inclusive of PRL 26), the Santos JV (comprising PEL 632 and PEL 513), ATP 299, PEL 103A, PEL 103, PRL 17 and 18, PEL 182 oil, PEL 182 gas PEL 101, PEL 570, ATP 924, Flax (PRL 14) and ATP 940. These asset cash flows have been extracted from asset models (“Asset Models”) that were prepared for each asset referred to above. The Drillsearch Financial Model and the Asset Models were prepared based on the following:

- ▶ Drillsearch’s five year plan up to FY20, including group-wide corporate costs and consolidated tax calculations, with less detailed assumptions between FY20 and FY33.
- ▶ The latest reserves and contingent resources statement, which was reviewed by RISC and DeGolyer & MacNaughton as at 30 June 2015. Assumptions underpinning the forecasts at the Asset Model level that are based on contingent resources, and any potential further exploration upside, have been probability weighted.
- ▶ Cash flow projections per asset extracted from the Asset Models into the Drillsearch Financial Model are on a net basis i.e. only considering Drillsearch’s percentage ownership in each asset. As a result, all cash flow items discussed below are shown on a net basis.

We have assessed a range of values for the assets in the Drillsearch Financial Model using a DCF approach based on the cash flow forecasts in the Drillsearch Financial Model and adjusted for various aspects including:

- ▶ Technical input from the independent technical specialist, RISC, on certain assumptions following their review of the Drillsearch Financial Model, the underlying Asset Models and assumption books underpinning these models. RISC reviewed various aspects including resource and reserve estimation, production volumes, operating expenses, capital costs and other environmental and infrastructure related considerations. Full details of the work undertaken by RISC and are set out the RISC Report in Appendix H – *The RISC Report*.
- ▶ Updates to the FY16 cash flows for capital and operating costs and production which occurred during the first four months of FY16, based on the actual year to date results to 31 October 2015.
- ▶ Our view of economic assumptions including future expected oil and gas prices, exchange rates, and tax and royalty payment assumptions.
- ▶ Assumptions for cash flow items post the five year forecast period based on the five year business plan in relation to corporate costs, tax assumptions and changes in working capital.
- ▶ Rehabilitation and decommissioning costs expected to be incurred at the end of the economic life of each asset, assessed by RISC.
- ▶ Our view of a discount rate reflective of the underlying risks associated with the cash flows.
- ▶ Exclusion of certain assets from the DCF analysis either due to an advanced sale process i.e. Tintaburra, due to no economic value contribution based on their DCF value (i.e. PEL 103A, PEL 103, PRL 17 and 18, PEL 101, Flax and ATP 940) or as a result of it being more appropriate for a value to be determined by RISC due to the nature of the relevant asset.

We note that we have not undertaken a detailed review or audit of the Drillsearch Financial Model provided by Drillsearch management. We have, however, performed limited analytical procedures regarding the mathematical accuracy of the model and held discussions with Drillsearch management regarding the preparation of the Drillsearch Financial Model and the assumptions contained therein.



8.2.2 Revenue

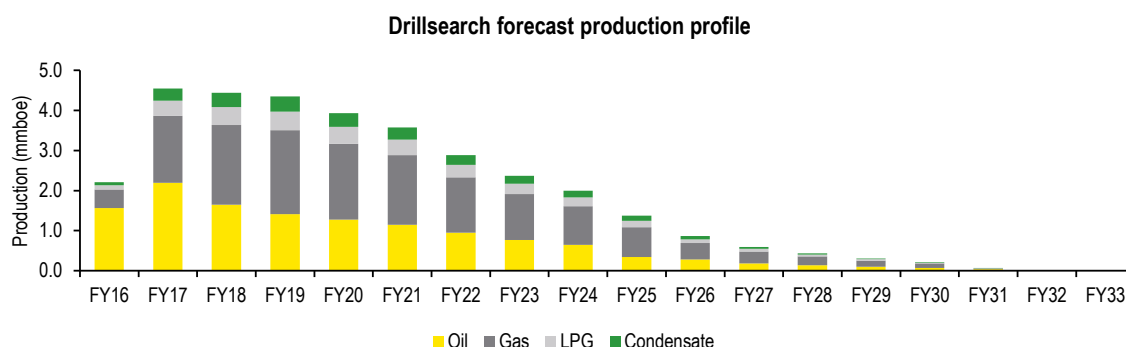
Revenue from Drillsearch's oil and gas projects is a function of the volume of oil, gas, LPG or condensate production and the corresponding forecast prices.

8.2.2.1 Production

Production volumes are forecast at an asset level, underpinned by more detailed assumptions regarding specific fields and wells, based on the following:

- ▶ Extraction of 2P developed and undeveloped reserves, a risk-adjusted portion of 2C undeveloped resources and a risk-adjusted portion of potential prospective resources as a result of exploration as at 30 June 2015.
- ▶ Production forecast per prospect i.e. forecast production for each well assumed to be drilled with an estimated success rate applied to the production per prospect.

The graph below summarises the production profile for Drillsearch's assets incorporated in the Drillsearch Financial Model, after adjustment by EY and RISC, over the forecast period to FY33 for oil, gas, LPG and condensate.



Source: Drillsearch Financial Model, reviewed by RISC

We note the following in relation to the graph above:

- ▶ The majority of the oil production forecast relates to PEL 91 with the gas and liquids production forecasts mainly relating to Drillsearch's interest in the Beach and Santos Wet Gas JVs.
- ▶ Total production over the forecast period comprises the following:
 - Total oil production of 12.8 mmboe
 - Total gas production of 15.3 mmboe
 - Total LPG production of 3.4 mmboe
 - Total condensate production of 2.7 mmboe
- ▶ We note that, at a high level, these total forecast production summaries reflect extraction of all of Drillsearch's 2P reserves, and approximately 10% of the total 2C contingent resource.

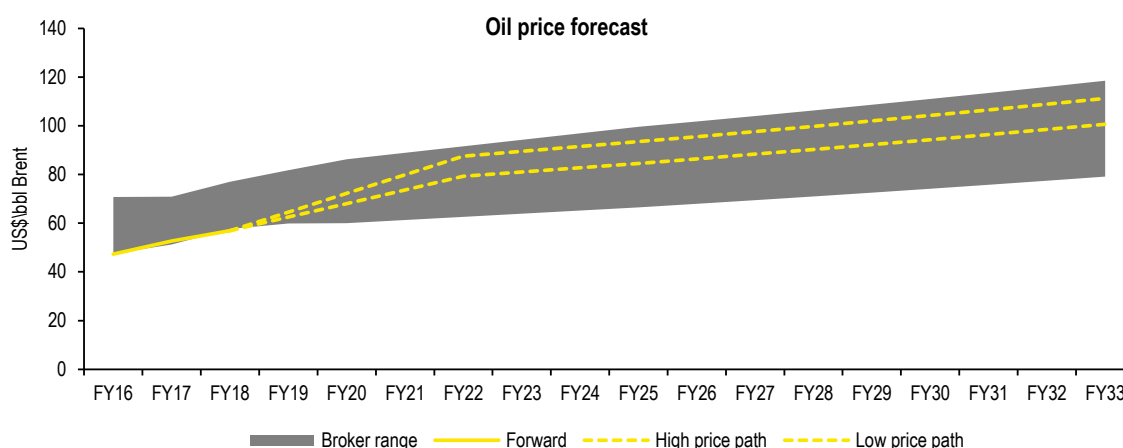


8.2.2.2 Forecast oil prices

Our adopted forecast commodity prices and foreign exchange rates are based on broker consensus estimates, forward prices and recent spot prices and rates. Due to the recent high volatility in commodities markets, we have limited the broker reports considered to those published since late September 2015, with most data being sourced from reports dated late October 2015. We note that these prices represent our view of the forecast prices and exchange rates that a market participant would apply when considering a transaction. It is important to note that the value of the oil and gas assets will be materially impacted by any significant change in commodity prices and exchange rates. Due to this volatility, and the high sensitivity of the values to changes in these prices, we have selected a range of forecast oil and gas price paths across the forecast period.

We note that, while the selection of future oil and gas price forecasts is subjective, the impact of this subjectivity on this report is in part reduced by the fact that where applicable we have applied the same assumptions in the valuation of both the Drillsearch Shares and the Merged Group. Changes to those assumptions would be expected to impact the value of shares in both companies.

A summary of the data observed and our adopted oil prices used in the valuation of Drillsearch's oil and gas assets are outlined below, presented on a nominal basis:



Source: Ernst & Young Transaction Advisory Services analysis, Bloomberg forward curve, Broker notes

Drillsearch – Brent oil price forecast						
Currency: US\$/bbl	FY16	FY17	FY18	FY19	FY20	LT (real)
Low oil price path adopted	47	53	57	62	68	70
High oil price path adopted	47	53	57	65	72	78

Source: Ernst & Young Transaction Advisory Services analysis

We have adopted a range of price paths that provides a range of values which we consider appropriate for the purposes of this independent expert's report without being excessively wide. As shown in the chart above, the range of oil prices that are considered to be potential outcomes by market participants (represented by the range of broker estimates) is wider than the range of price paths that we have applied for this report.

The price estimates up to FY20 shown above are in nominal dollars, whereas the long term estimates are in real terms, applied from FY22. The real long term price has been inflated at an assumed long term consumer price index ("CPI"), reflecting an increase of 2.2% per annum. This CPI assumption is consistent with long term US inflation estimates of between 2.1% and 2.4%, sourced from broker analyst reports. Price forecasts have been adjusted to reflect an average price over the financial year ended 30 June.

Forecast revenue from sales of oil are based on an assumed export price, referenced from the Brent crude price, less an assumption of processing and transport costs required to transport the oil to market. These charges have been based on the actual charges currently incurred by Drillsearch, escalated at CPI. The real, long term Brent crude oil price assumption adopted is between US\$70/bbl and US\$78/bbl, which is based on a 5% range around the broker median price forecast.



We note that, during FY16 and FY17, Drillsearch's oil price exposure is partly hedged, as a result of a price hedging contract that Drillsearch has negotiated with various counterparties. We have incorporated the impact of this hedging by adjusting the FY16 and FY17 oil revenue in our DCF analysis.

8.2.2.3 Forecast gas prices

As discussed in section 4.2.3, Drillsearch expects to sell gas from its two key wet gas projects under two separate arrangements, as follows:

- ▶ Santos JV – under the terms of the farm-in arrangement entered into in 2013, The joint venture has agreed a contracted price for gas to be sold to Santos. For the Santos JV, we have assumed that the realised gas price reflects the contracted terms, for the remainder of the contract. After the term of the contract, we have assumed that sales prices revert to a market-based price.
- ▶ Beach JV – The joint venture currently sells raw gas from PEL 106 into Moomba under a contract which is due to expire in March 2016. The sales arrangements for gas produced from PEL 106 are in the process of being extended. The extended terms may be contractually different to the current arrangements. For the Beach JV, we have assumed a range of price paths, as discussed below.

Details of the pricing arrangements for sales of gas outlined above are sensitive and commercial in confidence. Further, any information we have obtained as part of our analysis which relates to the potential price to be received for gas sales under future contracts is also commercially sensitive and therefore cannot be disclosed. Ultimately, in the medium to long term, the price received for gas by Drillsearch should, directly or indirectly, be linked to the price at which sales gas can be sold after being processed at Moomba, less an allowance for processing charges at Moomba (whether these charges are levied as tolling fees, or through the sale of raw gas into Moomba). For forecast revenue generated from sales of gas produced by the Beach JV, we have assumed a range of potential price paths for the sale of gas by Drillsearch, as follows:

- ▶ Low price path based on the farm-in contract with Santos. This is Drillsearch's most recent actual gas supply contract, and relates to very similar product as is produced from the Beach JV. As such, we do not consider it unreasonable that future contracts could be struck on similar terms.
- ▶ High price path based on an oil-linked price for sales gas ex-Moomba, less an allowance for processing charges levied by the Moomba infrastructure owners. In coming to our view, we considered:
 - Analyst estimates for Australian east coast sales gas prices, as presented in analyst reports for Beach, Santos and Senex. Analysts covering Drillsearch estimate a range of gas prices to be received by Drillsearch, after allowance for any tolling (direct or indirect) by the owners of the Moomba processing facilities. Analyst estimates are typically at or near the lower end of our range.
 - Forecast Australian gas prices published by AEMO, in order to inform its planning for future electricity prices. We note these forecasts do not present a price ex-Moomba, meaning we have had to make assumptions regarding transport tariffs. The forecasts published by AEMO indicate potential ex-Moomba pricing at or above the high end of our range.
 - The potential for the Australian east coast market to be influenced by an 'LNG netback' price. The commencement of operations at the LNG projects in Queensland is expected to increase demand in the east Australian gas market and, in the medium to long term, the export price of LNG from Queensland is expected to influence prices throughout the east Australian gas market. In order to derive a netback price, one must make a series of assumptions including: the potential sales price of LNG (linked in part to the oil price), liquefaction and processing costs, transport and upstream processing charges. As a result of the number of assumptions to be made, the calculation of any such netback price, and its direct impact on the market for gas at Moomba, is uncertain. The netback pricing analysis undertaken by Ernst & Young Transaction Advisory Services indicates ex-Moomba pricing above the high end of our range.
 - Our understanding of actual gas supply contracts struck ex-Moomba.



8.2.2.4 Forecast LPG and condensate prices

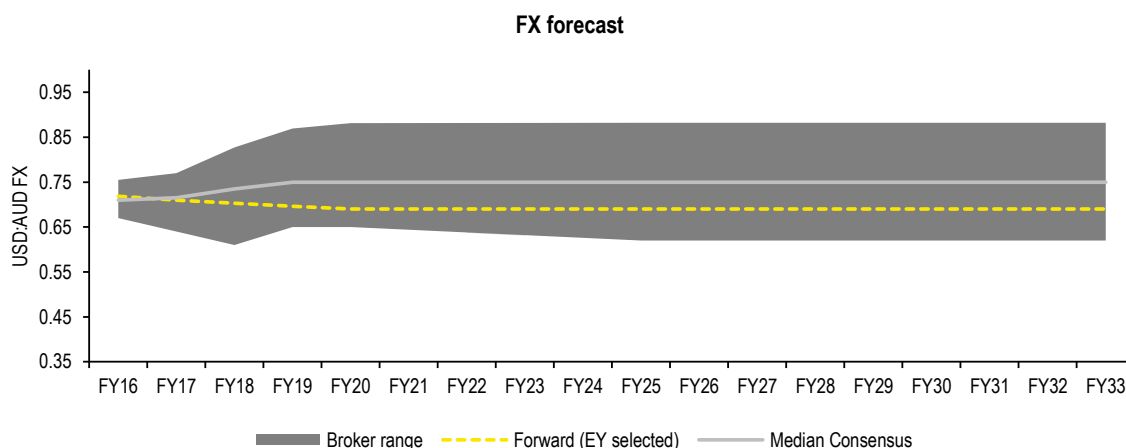
The forecast prices of LPG and condensate have been based on a percentage of Brent oil price, reflecting the current arrangements in place between Drillsearch and the purchasers of its product.

8.2.2.5 Foreign exchange rate

Forecast oil price estimates are in US dollars. Revenues are converted to Australian dollars based on forward foreign exchange rates. In determining the forecast AUD:USD exchange rate, we have considered the following:

- ▶ Consensus estimates from recent analysts' reports
- ▶ Foreign exchange forward rates sourced from Bloomberg and Reuters
- ▶ Other publicly available exchange rate estimates including Oxford Economics

Based on our analysis, we have adopted forward foreign exchange rates (to be applied to nominal US dollar price forecasts) as follows:



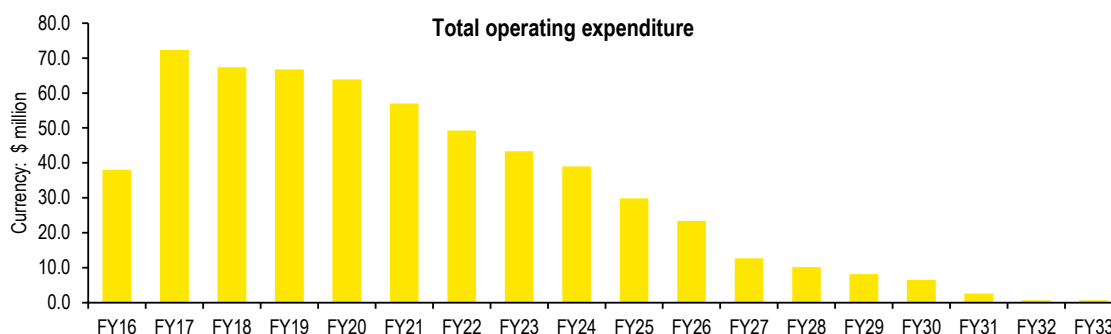
Source: Ernst & Young Transaction Advisory Services analysis, Bloomberg forward curve, Broker notes

The selected exchange rate assumptions shown above are based on forward foreign exchange rates up to FY20, with a stable long term rate assumed from FY20.



8.2.3 Operating expenditure

The Drillsearch Financial Model includes forecast operating costs per asset. The chart below shows operating costs summarised for all assets over the forecast period.



Source: Drillsearch Financial Model, reviewed by RISC

We note the following in relation to the chart above:

- ▶ Operating costs include costs associated with the processing, handling, transportation and marketing of oil and gas as well as field costs, pipeline costs and other costs.
- ▶ Operating expenditure increases between FY16 and FY17 before decreasing over the forecast period in line with Drillsearch's production profile referred to above.
- ▶ Operating cost forecasts are based on Drillsearch's detailed five year business plan up to FY20, followed by broader assumptions for the remaining forecast period, based on the first five years escalated at the rate of inflation and adjusted based on the expected production profile of the assets. The table below shows the average operating costs per boe for the first five years of the forecast period.

Drillsearch – Average operating costs per boe					
Currency: \$/boe	FY16	FY17	FY18	FY19	FY20
Average operating costs	17.2	15.9	15.2	15.3	16.2

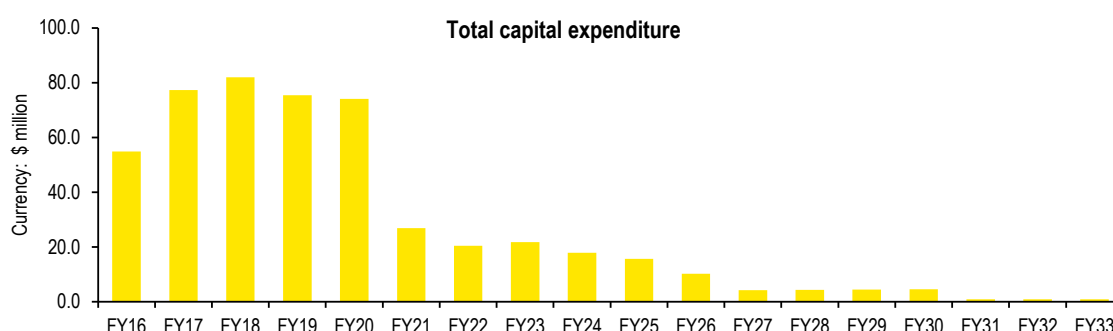
- ▶ Operating costs for each asset also include allocated corporate costs which are further referred to section 8.2.5.



8.2.4 Capital expenditure

Capital expenditure is included in the Drillsearch Financial Model on an individual asset level with any remaining expenditure at the consolidated level captured in the corporate cost forecasts referred to below.

The chart below shows total capital expenditure over the forecast period to FY33.



Source: Drillsearch Financial Model, reviewed by RISC

We note the following in relation to the chart above:

- ▶ Capital expenditure forecasts comprise costs in relation to exploration, appraisal and development of the assets. As the majority of the assets are still in development, capital expenditure is higher in the first years of the forecast period.
- ▶ The forecasts are based on Drillsearch's detailed five year business plan up to FY20, followed by broader assumptions for the remaining forecasts period. These assumptions are linked to the production profiles (i.e. there is an expectation that the production profiles are driven by capex spend).
- ▶ Capital expenditure decreases over the forecast period in line with the production profile referred to in section 8.2.2.

8.2.5 Other cash flow items

8.2.5.1 Royalties

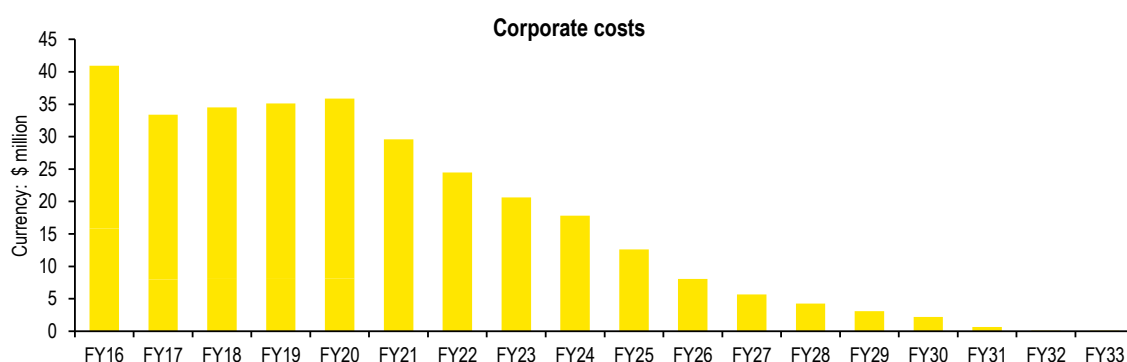
Royalties have been calculated in the Drillsearch Financial Model. Government royalties are approximately 10% of revenue less operating costs. Overriding royalties are approximately between 1% and 7% of revenue less operating costs and government royalties (including native title and private royalties).



8.2.5.2 Corporate costs

Corporate expenses are allocated to the assets in the Asset Models based on expected activities, with the remaining corporate costs being accounted for at the consolidated level. All corporate costs are incorporated within our DCF analysis and have not been separately presented.

The chart below shows corporate costs over the forecast period:



Source: Drillsearch Financial Model

We note the following in relation to the graph above:

- ▶ Corporate costs relate to head office costs including capital costs for information technology and corporate administration costs.
- ▶ Corporate costs on the consolidated level are based on the detailed FY16 budget, increased by CPI of 2.5% per annum up to FY20. We note that the Drillsearch corporate costs shown above reflect the benefit of the ongoing cost reduction program which was announced by Drillsearch in the first half of 2015, and was referred to in the announcements of the Proposed Scheme.
- ▶ As a result of the Asset Models being based on a five year business plan, corporate costs were not allocated to individual assets post FY20. We understand that FY16 asset level corporate costs are higher compared to subsequent periods as a result of drilling activity assumed in PEL 101 in FY16 as well as increased focus on certain permits for which FY16 is the first year of a work program.
- ▶ Corporate cost forecasts post FY20 are based on a cost per barrel and inflated by CPI of 2.5% per annum until the end of the forecast period with the cost per barrel calculated based on the average cost per barrel produced between FY16 and FY20. As a result, corporate cost forecasts decline in line with declining production as referred to above.

8.2.5.3 Changes in working capital

Working capital is calculated as the net of trade receivables and payables. These balances are forecast for the duration of the Drillsearch Financial Model based on Drillsearch's expected average payment terms for debtors and creditors. The change in working capital from year to year is reflected in the cash flow forecast. We have applied the actual working capital balances recognised on the Drillsearch balance sheet as the opening balances for our changes in working capital calculation.

8.2.5.4 Income tax

We have considered a post-tax cash flow at a Drillsearch group level. The group-level tax is driven by consolidated earnings forecasts, and tax depreciation profiles for each of the assets. In addition, Drillsearch has various specific income tax deductions including:



- ▶ Deductions relating to rehabilitation and decommissioning costs
- ▶ Corporate overhead/head office cost deductions
- ▶ Capitalised exploration costs and related tax depreciation

Further, we have incorporated the benefit of tax losses which exist at the Drillsearch group level, which may be used to reduce the amount of tax payable in the future. These losses primarily relate to losses transferred to Drillsearch as a result of historical acquisitions (including the acquisitions of Acer and Ambassador). These losses may be utilised over time, in accordance with Australian income tax law. Our valuation reflects the expected recoupment of these losses, in accordance with the tax rules.

The impact of corporate tax (including tax losses) has been incorporated in our DCF valuation.

8.2.5.5 Petroleum Rent Resource Tax

In addition to income tax, Drillsearch's assets are also subject to petroleum rent resource tax ("PRRT"), which is also assessed at the group level. We have incorporated PRRT into our valuation analysis, based on the expected future earnings of the assets and the various specific adjustments required by the PRRT legislation.

8.2.6 Discount rate

To value Drillsearch using a DCF approach, we applied a nominal, post-tax discount rate of 10.5%. A detailed description of the discount rate determination is set out in Appendix C – *Determination of Discount Rate*.

8.2.7 Valuation range

We have assessed the value of Drillsearch's producing assets in a range of \$257.6 million to \$295.7 million. We note that the implied reserve multiples are broadly consistent with the implied multiples of comparable companies as referred to in the valuation cross check section further below.

8.3 Exploration assets

The value of Drillsearch's exploration assets has been assessed by RISC. Further details of Drillsearch's exploration assets are detailed in section 6 of the RISC Report, with valuation methodologies discussed in sections 4, 6 and 8.

RISC has derived low, mid and high values for each permit. However, RISC considers that the low and high values represent possible extremes and it is unlikely that potential buyers of the portfolio would value all of the assets at either extreme. Therefore, RISC has determined a low and high value of the portfolio at an estimated standard deviation of the mid value of the portfolio. The values determined by RISC are summarised below:

Drillsearch – Fair value of exploration assets			
Asset	Low	Mid	High
South Australian Permits	30.7	58.0	70.4
Queensland Permits	1.9	3.9	17.9
Total Drillsearch Permit Value	33	62	88
Drillsearch exploration portfolio range	50	60	70

Source: RISC Report

RISC has provided a recommended value range for Drillsearch's exploration asset portfolio of \$50 million to \$70 million, as shown in the table above.



8.4 Other assets and liabilities

8.4.1 Assets classified as held for sale and associated liabilities

As at October 2015, Drillsearch had a balance of \$24.5 million classified as assets held for sale in relation to ATP 299 (Tintaburra). An offsetting liability of \$24.5 million for expected decommissioning costs meant that the net book value recognised for Tintaburra as at 30 June 2015 was nil. As noted previously, Tintaburra is in the advanced stages of being divested by Drillsearch. For the purposes of this report we have assumed the sale of Tintaburra. Based on discussions with management we have allowed for net sales proceeds of approximately \$4 million.

8.4.2 Net debt

As at 31 October 2015, Drillsearch's net debt consisted of \$175.5 million in interest bearing debt (including Convertible Notes) and \$167.4 million of cash. Convertible Notes are recognised at market value in US dollars, converted to Australian dollars at current exchange rates.

The Proposed Scheme may result in the ability for holders of the Drillsearch Convertible Notes to convert their notes for shares, or redeem the notes at face value plus accrued interest. Any conversion will take place prior to implementation of the Proposed Scheme such that any shares issued will participate in the Proposed Scheme (if approved). For the purpose of determining the fair value of equity in Drillsearch on a standalone basis, we have assumed that the Convertible Notes are not converted or redeemed, and remain as debt at market value. Given that the Convertible Notes are listed on the Singapore stock exchange, we have confirmed that the recent trading prices support the value recognised by Drillsearch on its balance sheet as at 30 June 2015.

We have deducted transaction costs which are expected to be incurred regardless of whether or not the Proposed Scheme is implemented, of approximately \$5 million. We note that should the Proposed Scheme be implemented, Drillsearch's transaction costs are estimated to be approximately \$17 million, as set out in section 7 of the Scheme Booklet.

8.4.3 Provisions

As at 30 June 2015, Drillsearch had recognised decommissioning provisions for financial reporting purposes of \$18.5 million. This provision represents the Drillsearch's obligation to restore operating locations, including dismantling and removing structures, rehabilitating production sites, dismantling operating facilities, closure of facilities and waste sites and restoration, reclamation, revegetation and monitoring of affected areas.

RISC has provided Ernst & Young Transaction Advisory Services with an assumption regarding an appropriate level of rehabilitation costs where necessary. All decommissioning, restoration and rehabilitation costs have been included in the asset values determined using our DCF analysis, and therefore no further deduction for these provisions is required.

8.4.4 Other non-operating assets and liabilities

The other key non-operating asset on the Drillsearch balance sheet is the oil hedging contracts. The impact of these hedging contracts is incorporated into our DCF analysis, and therefore no further adjustment to value is required.

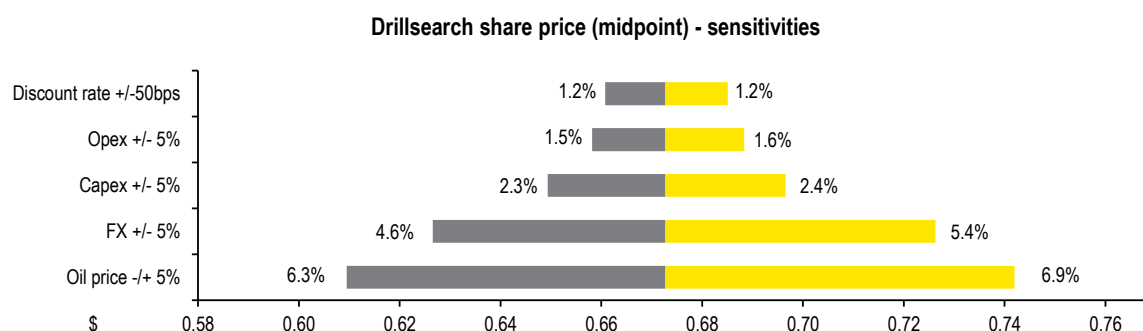
8.5 Sensitivity analysis

The following chart outlines the value of a Drillsearch share (midpoint) and its sensitivity to the following valuation parameters (assuming all other assumptions are held constant):

- ▶ Change in the discount rate by +/-50bps (0.5%)
- ▶ Change in operating expenditure forecasts +/-5%
- ▶ Change in capital expenditure forecasts +/-5%



- Change in exchange rate forecast +/-5%
- Change in Brent crude oil price forecast +/- 5%



Source: Ernst & Young Transaction Advisory Services analysis

Due to the expected profile of cash flows arising from Drillsearch's oil and gas assets, with most cash flows being earned in the medium term, and a smaller tail of cash flows in the longer term, the value of Drillsearch's producing assets is sensitive to movements in the oil price and exchange rate with discount rate movements having relatively low impact. RISC has also provided us with a high case and low case scenarios for key producing assets. The scenarios RISC has provided have confirmed our range of assessed values.

8.6 Number of shares on issue

In order to determine a value per Drillsearch Share on a control basis, we have divided the total equity value (based on the sum of the net assets outlined above) by the total number of Drillsearch Shares on issue immediately prior to the implementation of the Proposed Scheme.

The table below summarises the expected number of shares on issue immediately prior to the implementation of the Proposed Scheme, on a fully diluted basis:

Capital structure of Drillsearch immediately prior to the Proposed Scheme (fully diluted)	
Million shares	
Number of Drillsearch Shares on issue at 23 October 2015	462.3
Add: Number of Performance Rights expected to vest	5.1
Add: Number of Options expected to be exercised	-
Add: Number of Convertible Notes expected to convert	-
Total expected Drillsearch Shares (fully diluted)	467.3

Source: Ernst & Young Transaction Advisory Services analysis

As set out in the table, and explained in section 4.5, the number of Drillsearch Shares on issue is expected to be increased by the number of Drillsearch Performance Rights expected to vest prior to the implementation of the Proposed Scheme. No Options are expected to be exercised, and no Convertible Notes are expected to convert prior to the approval of the Proposed Scheme.



8.7 Valuation cross check

We have considered the reasonableness of our valuation using a number of cross checks. These include consideration of Drillsearch's share price prior to the announcement, as well as a comparison of the reserves multiples implied by our valuation with the reserves multiples of broadly comparable oil and gas exploration and production companies and recent industry transactions. The implied multiples based on our valuation of Drillsearch are shown in the table below:

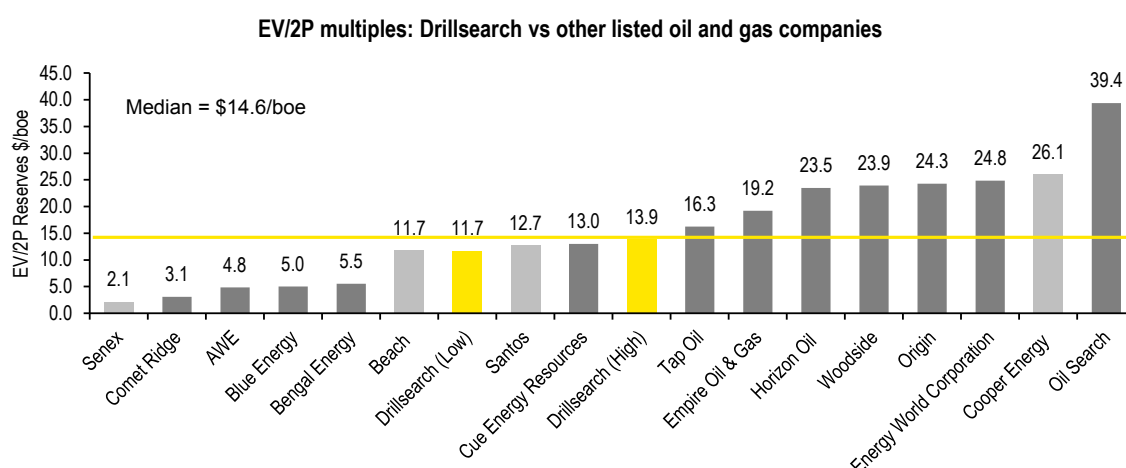
Drillsearch – Implied multiples		
	Low	High
Enterprise value (\$m)	301.0	356.9
2P reserve (mmbbl)	25.7	25.7
2P reserve multiple (\$/bbl)	11.7	13.9

Source: Ernst & Young Transaction Advisory Services analysis

On the basis that our assessment of the fair value of Drillsearch is on a 100% basis, which implicitly includes a control premium, we have considered the trading multiples inclusive of a premium for control. Refer to section 7.3 for our discussion on control premiums.

8.7.1 Trading multiples of comparable companies

The implied enterprise value ("EV")/reserves multiples of comparable companies (on a controlling basis) compared to our implied Drillsearch multiples is shown in the graph below. Refer to Appendix D – *Comparable trading multiples* for further information on trading multiples and comparable companies.



Source: Ernst & Young Transaction Advisory Services analysis, S&P Capital IQ

Note: The multiples above have been adjusted to include a notional control premium of 30%

We note the following in relation to the graph above:

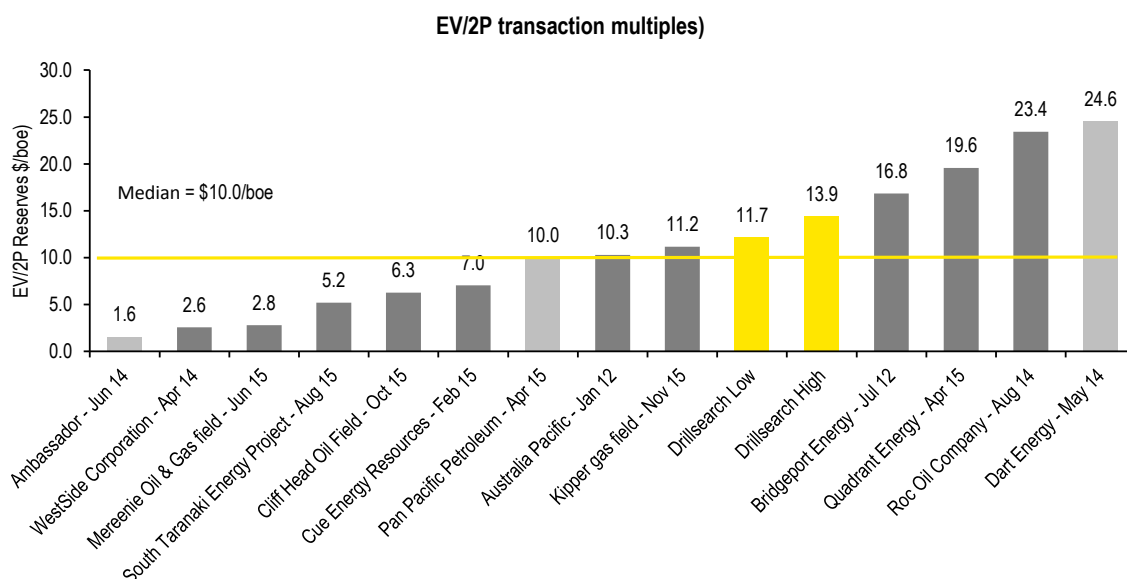
- ▶ There is a wide range of multiples, reflecting the range of different types of assets owned by each of the comparable companies. In general, we would expect more diversified energy companies, such as Origin and Oil Search, to have higher multiples than Drillsearch due to the contribution of downstream asset value to those companies' values. In addition, those companies with a larger contingent or prospective resource, relative to 2P reserves, would have a lower multiple.
- ▶ The implied multiples for our assessed valuation range for Drillsearch are broadly consistent with the median of the multiples of the comparable companies.



- Highlighted in light grey are oil and gas exploration and production companies in the Cooper-Eromanga Basin. In particular we note that the trading multiple of Santos falls within the multiples implied by our assessed valuation range.
- The multiples of other listed oil and gas exploration and production companies are based on the enterprise value of these companies as at 30 November 2015.

8.7.2 Industry transaction multiples

We have also considered prices achieved from transactions between 2012 and 2015 involving the sale of oil and gas producing companies or assets. Please refer to Appendix E – *Transaction Multiples* for further information on transaction multiples considered. The implied EV/reserves multiples of comparable transactions compared to our implied Drillsearch multiples is illustrated in the graph below.



Source: Ernst & Young Transaction Advisory Services analysis

Note: Some of the transactions above have been announced, but have not yet been completed. (in particular, Cue Energy Resources)

We note that following in relation to the graph above:

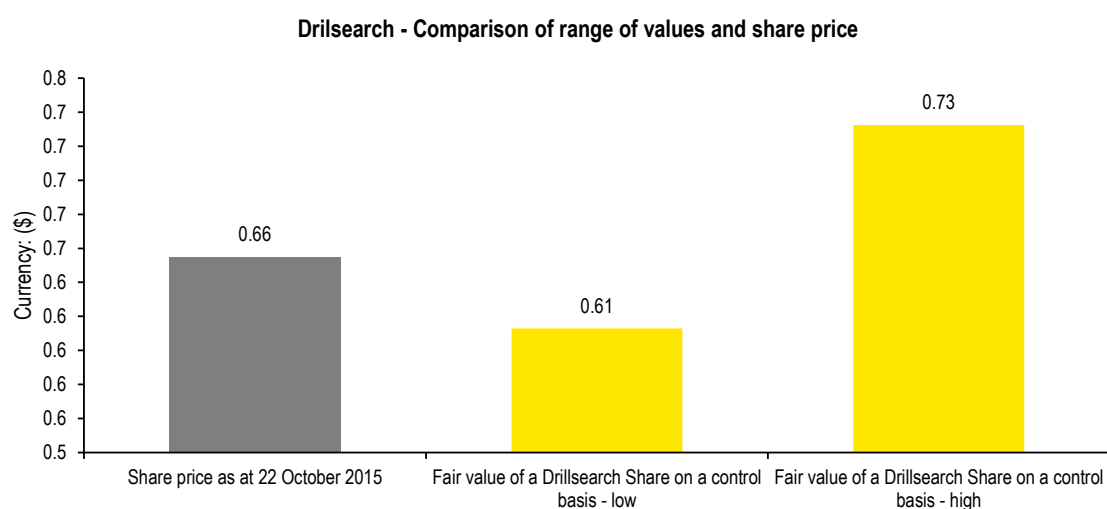
- The chart above shows multiples for transactions which have been announced as well as for those that have completed.
- We note that some of the transactions listed above involve acquisitions of non-controlling interests, and therefore the implied multiple may not reflect a control value.
- Highlighted in light grey are oil and gas exploration companies (i.e. companies with no current production). The implied multiples from our assessed value range are generally higher than these transaction multiples. We note that the Dart Energy multiple can be considered an outlier, given the significant contingent and prospective resources of Dart Energy relative to its 2P reserves, as well as the fact that this transaction took place in a significantly higher oil price environment.
- The most recent multiple is the offer from Mitsui to acquire a 35% non-operating interest in the Kipper field from Santos (announced in November 2015). Whilst this is an Australian gas project, supplying gas in the domestic market, we note that Kipper is an offshore field, meaning that the economics of the project will be different to Drillsearch. Nevertheless, the 2P reserve multiple from this offer is broadly in line with the implied multiples from our assessed range.



- Our assessed valuation range for Drillsearch is broadly in line with the average and median of the selected transaction multiples. As such, we consider our assessed range is further supported by multiples from precedent transactions.

8.7.3 Share price

In addition to trading and transaction multiples of comparable companies, we have compared our valuation range of a Drillsearch Share to its traded share price as at 22 October 2015, prior to the Announcement Date.



Source: Ernst & Young Transaction Advisory Services analysis

In relation to the chart above, we note:

- Drillsearch's actual share price the day before the announcement (which is assumed to be on a non-controlling basis) is within our assessed value range (on a controlling interest basis). Given the speculation in the market regarding a potential acquisition, we consider that the Drillsearch share price likely reflected some expected bid premium, even prior to the Announcement Date.
- Since the Announcement Date, the price of Brent crude oil has declined approximately 4.6%¹⁵ and the S&P/ASX 300 Energy index also declined approximately 5.4%. We expect that these market declines may have impacted the Drillsearch share price, but for the announcement of the Proposed Scheme.
- The low end of our range is in higher than the three month VWAP prior to the Announcement Date (of \$0.62 per share), and the one month VWAP (of \$0.58 per share).
- The midpoint and high end of our assessed range reflect a premium to the recent VWAP and closing prices prior to the Announcement Date. We expect this premium reflects a premium for control and consider that the share price supports our assessed range.

¹⁵ Brent crude price of US\$45.77/bbl as at 30 November 2015 and US\$47.99/bbl as at 23 October 2015 sourced from S&P CapitalIQ



9. Valuation of the Scheme Consideration

9.1 Introduction

In this section we have set out our analysis of the fair value of the Scheme Consideration. As set out in section 7.2.2, we have based our analysis on a consideration of the traded share price of Beach following the announcement of the Proposed Scheme. We have also had regard to a supplementary valuation analysis based on the pro forma combined value of the net assets of the Merged Group.

9.2 Valuation based on the traded share price of Beach

If the Proposed Scheme is implemented, Drillsearch Shareholders will receive as consideration shares in Beach. In our view, the fair value of the Scheme Consideration may be assessed with reference to recent market prices, provided the market is fully informed and shares are relatively liquid. Ultimately, the fair value of the Scheme Consideration will be the value of Beach Shares immediately following the implementation of the Proposed Scheme.

As noted previously, the value of the Scheme Consideration must be considered on the basis that Drillsearch Shareholders will hold a non-controlling minority interest in the Merged Group. The market price of Beach Shares following the Announcement Date represents trades in relatively small parcels of shares and therefore reflect a minority interest value.

In forming our view that the traded share price of Beach is a reasonable basis upon which to value the Scheme Consideration, we have considered the following:

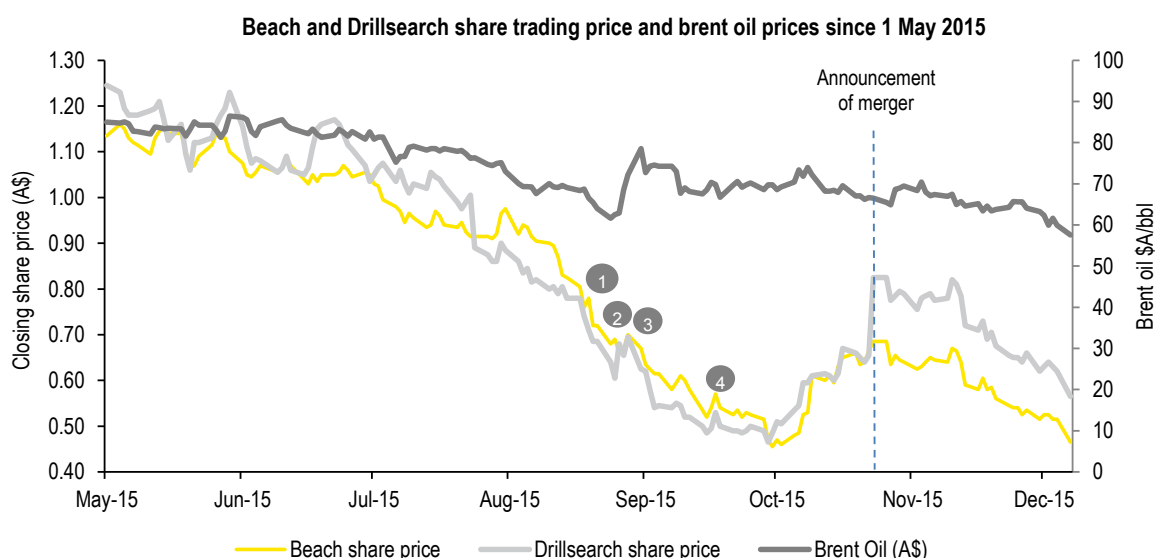
- ▶ As set out in section 5.7, Beach is a relatively liquid stock. Over the last 12 months up to the announcement date the average monthly liquidity of Beach Shares was approximately 12.3% while the average bid/ask spread as a percentage of daily closing asking prices was less than 1%
- ▶ Beach is a member of the S&P/ASX 200 Index – in order to be included in any S&P/ASX indices, stocks must meet certain liquidity criteria. Further, inclusion on this index means that Beach is likely to receive attention from sophisticated institutional investors which smaller stocks may not receive
- ▶ Beach is covered by a number of brokers and analysts, who regularly issue research reports which arguably increases the ability of shareholders to make informed decisions regarding the price at which shares in Beach should trade. We note that the broker reports in relation to Beach which have been published since the Announcement Date generally propose target prices for Beach which are in line with, or higher than, the current share price
- ▶ ASX Listing Rules impose continuous disclosure obligations on Beach to keep the market fully informed
- ▶ Beach is the largest contributor of assets to the Merged Group with Drillsearch Shareholders (other than Beach) holding around 30% of the Merged Group. Further, excluding the shares held by Seven Group in Drillsearch, the remaining shareholders in Drillsearch will collectively hold only approximately 24% in the Merged Group.



9.2.1 Beach's share price prior to the announcement of the Proposed Scheme

As shown in section 5.7, while Beach's share price has been volatile over the past 18 months it has generally trended in line with the Brent oil price.

However, some divergence occurred from mid-August 2015, when the Beach share price fell while Brent prices (in A\$ terms) increased. Drillsearch's share price also diverged from the oil price trend over the same period. The chart below shows Beach and Drillsearch's share price, and Brent oil prices (in A\$) between 1 May 2015 and 30 November 2015:



Source: S&P CapitalIQ

During August and September 2015, Beach made several announcements that may have contributed to the observed divergence from the oil price trend:

1. On 19 August, Beach announced the appointment of an acting CEO
2. On 21 August, Beach announced non-cash impairment charges totalling \$789 million (pre-tax) would be recognised in the FY15 results
3. On 24 August, Beach announced its full year FY15 results
4. On 16 September, Beach announced the resignation of its CEO

We note that during 2015, the trend in prices of a Drillsearch Share and a Beach share price have been similar (on a simple average and volume weighted average basis). The fact that the share prices are closely correlated may reflect that the two companies have some common assets, are exposed to similar market forces and continued market speculation of a potential transaction.

Since early October 2015, the Beach and Drillsearch share prices has outperformed relative to Brent oil prices expressed in Australian dollar terms. The observed VWAP's of Beach over the three months and one week prior to the Announcement Date have been consistent at \$0.65:



Beach - VWAP of shares prior to the Announcement Date

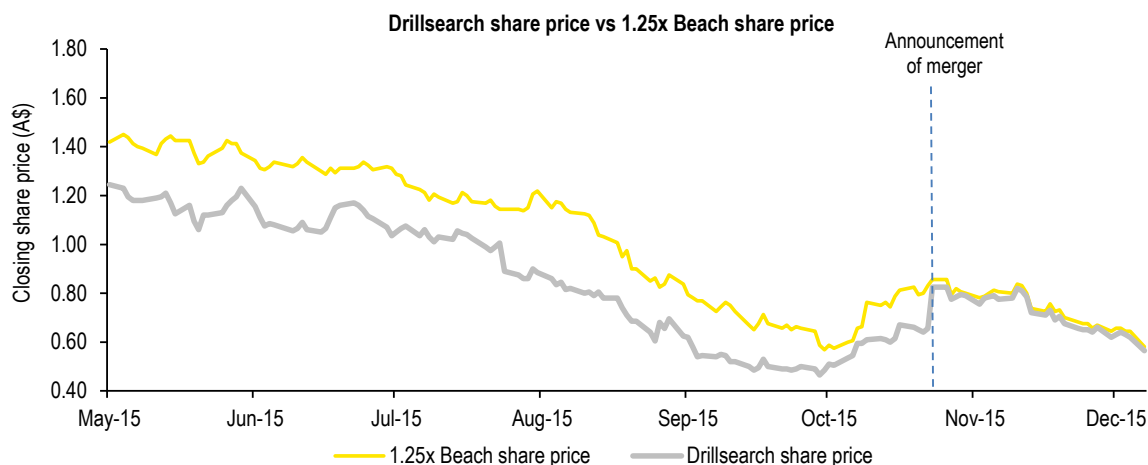
Period	VWAP (\$)
1 day prior to the announcement	0.67
1 week prior to the announcement	0.65
1 month prior to the announcement	0.56
3 months prior to the announcement	0.65

Source: S&P Capital IQ

We have also reviewed available broker reports issued by six brokers in relation to Beach between 1 August 2015, and noted that a range of target prices for Beach of between \$0.70 and \$1.06, with a median of \$0.90. All but one of these reports were issued on 24 August 2015, and are accordingly relatively dated. The most recent broker report released prior to the announcement of the Proposed Scheme was of a price target of \$0.70 per share and was released on 23 September 2015.

9.2.2 Beach's share price post announcement of the Proposed Scheme

Recognising that the merger of Drillsearch and Beach has been recommended by the Boards of both companies, we would expect the traded price of Beach Shares post the Announcement Date would be influenced by the market's view on both how likely the Proposed Scheme is to proceed and the value of the Merged Group. In this regard, we note that the Drillsearch share price has traded at levels approximately equivalent to the traded Beach share price, multiplied by the exchange ratio of 1.25, indicating that the market considers the Proposed Scheme has a high probability of being implemented:



Source: S&P Capital IQ

Beach's share price rose 3.0%, to \$0.685, on the Announcement Date, indicating a favourable market reaction to the announcement of the Proposed Scheme. Between the Announcement Date and 30 November 2015, Beach's share price has generally traded in the range of \$0.52 to \$0.69. The VWAP between 23 October 2015 and 30 November 2015 was \$0.62. A summary of share prices from the period between the announcement of the Proposed Scheme on 23 October 2015 and 30 November 2015 is set out below.

Beach - VWAP of shares subsequent to the Announcement Date

Period	(\$)
Share price trading range	0.52 – 0.69
VWAP (up to 30 November 2015)	0.62
Last price as at 30 November 2015	0.52

Source: S&P Capital IQ



We have reviewed five broker reports issued after the Announcement Date, and note that they range between \$0.65 and \$1.03 per Beach Share, with a median broker target price of around \$0.80 per share. We note that the low estimate of \$0.65 per share was based on a valuation that ascribed value only to Beach's producing assets, with the next lowest estimate being \$0.72 per share. Broker's target prices generally reflect broker views of 12-month target prices, and therefore may not reflect current valuations of the brokers.

In general, the brokers view the Proposed Scheme favourably for both Beach Shareholders and Drillsearch Shareholders. Those brokers who have assessed the Proposed Scheme in some detail, have not significantly altered their target price for Beach, and consider that the merger will be broadly earnings neutral or slightly dilutive but that benefits will arise from increased scale and potential re-rating of the Merged Group. Brokers generally consider the estimate of synergies of \$20 million per annum, pre-tax, to be conservative.

We consider the traded price of a Beach Share post announcement to be a better proxy for the fair value of the Scheme Consideration than the traded price of a Beach Share pre announcement, because it reflects the market's expectation regarding potential synergies and dilution (if any) from the issue of new shares to Drillsearch Shareholders.

9.2.3 Conclusion

We have no reason to believe that the recent trading in Beach Shares do not reflect an objective market based assessment of the value of Beach, and therefore the value of a share in the Merged Group.

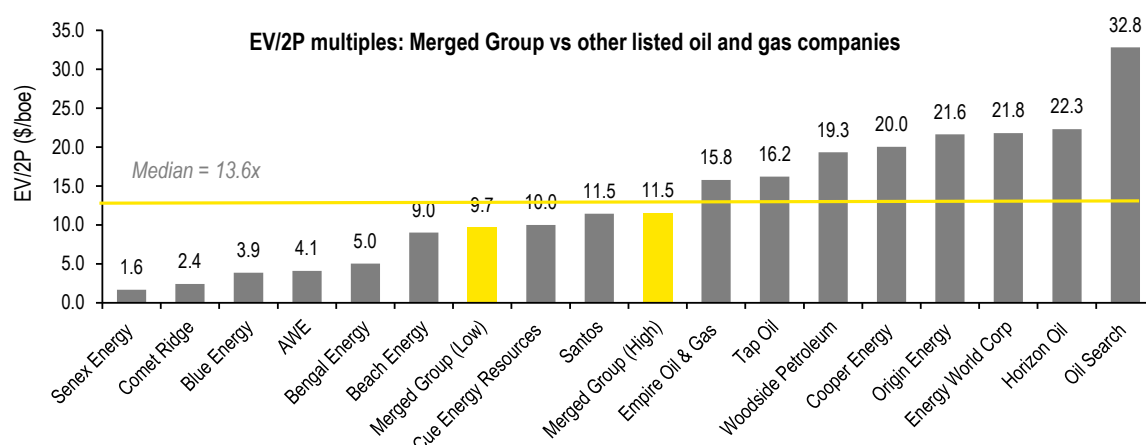
On the basis of the above analysis, we have assessed a range of values of the Merged Group, on a minority interest basis, to be between \$0.52 and \$0.62 cents per share. This range has been assessed with reference to the range of prices and VWAP at which Beach Shares have traded since the Announcement Date, and after recognising that the traded share price may be slightly discounted to reflect the possibility that the Proposed Scheme may not be implemented.

It should be noted that the analysis above was performed based on information that was current as at 30 November 2015. Subsequently below we discuss the current volatility in oil prices and Drillsearch and Beach share prices and the impact on this report.



9.2.4 Implied reserve multiples

Based on the above share price range, the implied EV/2P multiple of the Merged Group is in the range of \$9.7/boe to \$11.5/boe. A comparison of the EV/2P multiples implied for our range of values of the Merged Group and other listed oil and gas companies (on a minority basis) is set out in the following chart:



Source: Ernst & Young Transaction Advisory Services analysis, S&P Capital IQ, company annual reports and announcements

In relation to the above chart, we note:

- ▶ In order to be consistent with the multiples implied by our calculation of the range of values of the Merged Group on a minority interest basis, the enterprise values of the comparable companies do not include a control premium and are therefore shown on a minority interest basis. These multiples are therefore not directly comparable to the multiples presented in section 8.7.1, which are presented on a controlling interest basis.
- ▶ Drillsearch and Beach prepare independent estimates of their reserves and resources, including their respective interests in joint venture assets. For the purposes of this cross check, the implied multiples set out above are based on a simple aggregation of 2P reserves published by Drillsearch and Beach as at 30 June 2015. If the Proposed Scheme is implemented, the Merged Group will assess reserves and resources as at 30 June 2016, in due course.
- ▶ The enterprise value of the Merged Group is based on the concluded per share price range set out in section 9.2.3, number of shares on issue in the Merged Group as set out in section 6.4 and the net debt of the Merged Group is calculated with reference to the most recent monthly management balance sheets for Drillsearch and Beach, adjusted for the relevant pro forma adjustments, as set out in section 6.3.
- ▶ The multiples of other listed oil and gas exploration and production companies are based on the enterprise value of these companies as at 30 November 2015.

The multiples implied by the range of values of the Merged Group are within the range of trading multiples observed for other listed companies and slightly below the median of the trading multiples of other listed companies (\$13.6/boe) which provides support to our assessed range of values of the Merged Group.



9.3 Valuation of the Merged Group based on underlying net assets

9.3.1 Approach

In addition to our valuation of the Scheme Consideration based on the Beach share price, we have undertaken a supplementary high level analysis to cross check our values, based on the net assets of the Merged Group. We have assessed a range of values of shares in the Merged Group as follows:

- ▶ Assessed a range of values of Beach's underlying net assets to arrive at a range of enterprise values of Beach on controlling interest basis. This includes Beach's producing and exploration assets, and other net assets, but excludes Beach's investments in Drillsearch Shares and Drillsearch Convertible Notes.
- ▶ Added the assessed range of values, on a controlling interest basis, of the net assets of Drillsearch, as set out in section 8.1.
- ▶ Included the net present value of the impact of expected synergies which will arise from the implementation of the Proposed Scheme (net of realisation costs).
- ▶ Adjusted the aggregate value for net debt of the Merged Group.
- ▶ Divided the resulting figure by the number of ordinary shares in the Merged Group on a fully diluted basis assuming the Proposed Scheme is implemented, as set out in section 6.4.

The resulting range of values represents a controlling interest value. We have compared this range of values with the range of values we have assessed with reference to the price at which Beach prices have traded since the announcement of the Proposed Scheme, which is a minority interest value. We have then considered the implied minority discount (and, inversely, the control premium) implied by these two range of values and the reasonableness of that discount / premium.



9.3.2 Summary of cross check conclusion

A summary of our range of values of the Merged Group based on a sum-of-the-parts analysis is set out below:

Merged Group – Value per share (controlling interest basis)				
	Section	Low	Mid	High
Beach				
Producing assets (\$ million)	9.3.3	604.0	665.1	726.2
Exploration assets (\$ million)	9.3.4	80.0	100.0	120.0
Other assets and liabilities (\$ million)	9.3.5	63.8	63.8	63.8
Total of Beach net assets (excluding net debt) (\$ million)		747.8	828.9	910.0
Drillsearch				
Producing assets (\$ million)	8.1	247.0	265.0	282.9
Exploration assets (\$ million)	8.1	50.0	60.0	70.0
Assets held for sale (\$ million)	8.1	4.0	4.0	4.0
Total of Drillsearch net assets (excluding net debt) (\$ million)		301.0	329.0	356.9
Synergies (\$ million)	9.3.6	108.0	118.9	129.8
Net debt of Merged Group (\$ million)	9.3.7	2.0	2.0	2.0
Value of Merged Group (controlling interest basis) (\$ million)		1,158.8	1,278.7	1,398.7
Number of shares on issue in Merged Group, including performance rights (million)	6.4	1,865.7	1,865.7	1,865.7
Value per share (controlling interest basis) (\$/share)		0.62	0.69	0.75

Source: Ernst & Young Transaction Advisory Services analysis

The table above shows the value of a share in the Merged Group on a controlling interest basis, based on the fair values of the underlying net assets of the Merged Group. Each of the key items above is discussed further in the following pages.

The table below shows the implied control premium:

Merged Group – Implied control premium				
	Section	Low	Mid	High
Value per share (controlling interest basis) (\$/share)		0.62	0.69	0.75
Value per share assessed with reference to Beach's traded share price (minority interest basis)	9.2.3	0.52	0.57	0.62
Implied minority discount ¹⁶		16.3%	16.8%	17.3%
Implied control premium		19.4%	20.2%	20.9%

Source: Ernst & Young Transaction Advisory Services analysis

As set out in the table above, our sum-of-the-parts valuation of the Merged Group on a controlling interest basis implies a premium for control of approximately between 19.4% and 20.9%. We have considered this range of control premiums in light of the following:

- ▶ The median bid premium (excluding negative premiums) paid on global transactions across all industries in the 12 months to June 2015 was 27% based on 103 transactions¹⁷
- ▶ The median bid premium paid on global oil and gas extraction transactions in the 12 months to June 2015 was 31% based on 23 transactions¹⁸
- ▶ Recent transactions involving listed Australian oil & gas companies in the current market, specifically the transactions noted in Appendix E – *Transaction Multiples* in which the target was a listed company. We have observed implied bid premia (based on the share price one day prior to announcement

¹⁶ Implied minority discount has been calculated as the discount of the minority interest value relative to the controlling interest value. The implied control premium is the inverse of this calculation

¹⁷ Mergerstat, *Control Premium Study*, 2nd Quarter, June 2015

¹⁸ Mergerstat, *Control Premium Study*, 2nd Quarter, June 2015



compared to the offer price) in these transactions of between 3% and 41%, with a median of approximately 11% and average of 14%. We note that these include transactions which were announced but have not yet been completed.

Bid premiums typically reflect the combination of a premium paid to obtain control of the target cash flows together with a premium relating to synergy benefits that may be realised by the acquirer. The split of the control premium between these elements varies from transaction to transaction. It is generally not possible to isolate that element of a bid premium that relates to obtaining control and that which relates to synergy benefits. There are a limited number of potential acquirers with sufficiently complementary businesses to be able to extract significant synergies from an acquisition of the Merged Group. As such, we would not consider it unreasonable for a bid premium for the Merged Group to be toward the lower end of the range of observed bid premiums.

We consider this cross check supports our primary analysis based on the traded share price of Beach.

9.3.3 Producing assets

Our approach to assessing a high level value of Beach's producing assets was as follows:

- ▶ We were provided with a consolidated corporate model ("Beach Financial Model") prepared by Beach management. The Beach Financial Model includes projections of ungeared real post-tax cash flows for Beach's producing assets, including the Delhi assets where Santos is the operator.
- ▶ Consistent with the Drillsearch asset financial model, the cash flows reflect the production of 2P developed and undeveloped reserves plus a value for risked exploration.
- ▶ The underlying production, capital expenditure and operating cost assumptions, including rehabilitation costs, contained within the Beach Financial Model were reviewed, and where considered appropriate, amended by RISC. Consistent assumptions were adopted for those assets which are held in joint venture with Drillsearch. For other key Beach assets, RISC provided a range of capital expenditure and production profiles, and these were used to inform the range of values set out above.
- ▶ Using the Beach Financial Model, Ernst & Young Transaction Advisory Services applied forecast oil and gas price and exchange rate assumptions consistent with the valuation of the Drillsearch assets, where appropriate. As set out in section 8.2.2, we have adopted range of forecast oil and gas price paths across the forecast period, resulting in our low and high end valuation range.
- ▶ Deducting Beach's corporate overhead costs (and corresponding tax benefit), which have been assumed to reduce over time in line with production profiles.
- ▶ Recognising that the Beach Financial Model presents cash flows in real terms, we applied a real post-tax discount rate of 7.5%. This discount rate is based on the nominal post-tax discount rate applied to the valuation of the Drillsearch assets, adjusted for assumed inflation of 2.5% per annum.

9.3.4 Exploration assets

RISC has provided a recommended value range for Beach's exploration asset portfolio in the range of \$80 to \$120 million. Further details of Beach's exploration assets are detailed in section 7 of the RISC Report with valuation methodologies discussed in sections 4, 7 and 8.

As with Drillsearch, RISC has derived low, mid and high values for each Beach exploration permit. However, RISC considers that the low and high values represent possible extremes and it is unlikely that potential buyers of the portfolio would value all of the assets at either extreme. Therefore, RISC has considered a low and high value of the portfolio at an estimated standard deviation of the mid value of the portfolio.

9.3.5 Other assets and liabilities

We also adjusted for the value of other assets and liabilities held by Beach not otherwise reflected in the value of the producing or exploration assets, including the following:



- ▶ The value of Beach's Egyptian assets, based on the likely sales price of US\$20.4 million, translated at the appropriate forward AUD:USD exchange rate reflecting the likely timing for receipt of the funds.
- ▶ The value of gas held in storage, which has been estimated with reference to current realised gas sales prices achieved by Beach.
- ▶ The value of Beach's interest in Cooper Energy, based on the market traded price in Cooper Energy as at 30 November 2015.
- ▶ The value of commodity hedge contracts held by Beach, as provided by Beach management.

9.3.6 Value of synergies

Our assessment of the fair value of the Merged Group on a net assets basis included consideration of the synergies expected to be realised through the implementation of the Proposed Scheme. Synergies refer to value in the hands of shareholders in the Merged Group, which would otherwise not be realised by either Drillsearch or Beach, but for the implementation of the Proposed Scheme.

In our assessment of the fair value of the Merged Group, we have included cost synergies of \$20 million per annum, as disclosed by Beach and Drillsearch as part of the announcement of the Proposed Scheme. These mainly relate to the corporate head office cost savings expected to be achieved, as well as savings in respect of duplication of effort as a result of owning interests in common assets.

We have assumed that these costs savings will reduce over time, broadly in line with the profile of the Drillsearch assets. We have calculated the value attributable to these cost savings through a simple reduction of the corporate costs in the Drillsearch valuation model. That is, we have ensured that the cost savings in each year appear reasonable relative to the actual level of costs assumed in the valuation of Drillsearch. We have assumed that implementation costs will be equal to one year's worth of cost savings, and will be incurred over the second half of FY16 and FY17.

We have assessed PRRT at a Merged Group level, considering that Drillsearch may enjoy benefits of scale by being part of the Beach group for income tax and PRRT purposes. We note that realising any synergistic value in relation to PRRT or corporate tax is contingent on satisfaction of the requirements of the various tax rules.

In addition to the above, we note that there may be additional synergistic value created through the implementation of the Proposed Scheme. We have not included the value of these synergies in our valuation, as they have not been quantified in announcements to the market, but they are likely to include the following:

- ▶ Greater control over infrastructure afforded by owning a larger portfolio of complimentary assets. The larger Merged Group should be able to optimise the use of Beach's infrastructure in order to achieve the best economic outcomes for the Merged Group
- ▶ Complimentary exploration programs, and ability to share information and target plays as a group
- ▶ Potential benefits of a larger production portfolio when negotiating commercial terms with customers
- ▶ Potential lower funding costs available to the larger Merged Group.

To the extent that these additional synergies are achieved, they would increase the value of the Scheme Consideration.

We note that many of the potential synergies listed above are unique between Beach and Drillsearch due to their complementary assets. These potential synergies would likely not be available to any other acquirer of Drillsearch, and have therefore not been included in the valuation of Drillsearch on a standalone basis.



9.3.7 Net debt

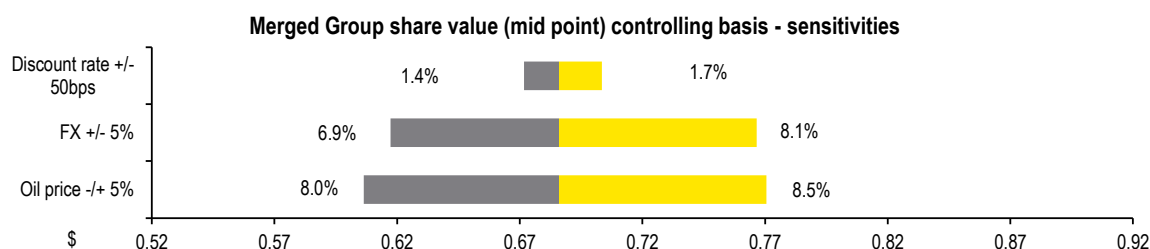
Net debt has been assumed with reference to the aggregate of the most recent available net debt as per the unaudited management accounts of Drillsearch as at 31 October 2015 as discussed in section 8.4.2 and net debt reported by Beach in its September 2015 quarterly update of \$24 million. We have then made several pro forma adjustments (consistent with those set out in section 6.2 of the Scheme Booklet), including the estimated transaction costs expected to be payable in the event the Proposed Scheme is implemented, cash paid for the cancellation of Drillsearch Options and the redemption of the Drillsearch Convertible Notes (except for those Drillsearch Convertible Notes held by Beach).

The net debt we have calculated and explained above will not agree to the pro forma net debt of the Merged Group as at 30 June 2015, as set out in the Scheme Booklet.

9.4 Sensitivity analysis

The following chart outlines the value of a Merged Group share, on controlling basis (mid point) and its sensitivity to the following valuation parameters (assuming all other assumptions are held constant):

- ▶ Change in the discount rate by +/-50bps (0.5%)
- ▶ Change in exchange rate forecast +/-5%
- ▶ Change in Brent crude oil price forecast of +/-5%



Source: Ernst & Young Transaction Advisory Services analysis

The value of Merged Group's producing assets is most sensitive to movements in the oil price and exchange rate with discount rate movements having relatively low impact. RISC has also provided us with a high case and low case scenarios for key producing assets. The scenarios RISC has provided have confirmed our range of assessed values.

9.5 Conclusion on the valuation of the Merged Group

The range of values per share in the Merged Group set out in section 9.3.2 above is consistent with the value of the Merged Group we have assessed with reference to traded share prices in section 9.2.3. We have therefore concluded that the range of values of shares in the Merged Group, on a minority interest basis, is between \$0.52 and \$0.62 per share.

9.6 Conclusion on the valuation of the Scheme Consideration

Our assessed range of the values of the Scheme Consideration is set out below:

Scheme Consideration – Value per share				
	Section	Low	Mid	High
Value of Merged Group (minority interest basis) (\$/share)	9.4	0.52	0.57	0.62
Merger ratio	Scheme Booklet	1.25	1.25	1.25
Value of the Scheme Consideration (\$/share)		0.65	0.71	0.78

Source: Ernst & Young Transaction Advisory Services analysis



10. Evaluation of the Proposed Scheme

10.1 Overview

In forming our opinion as to whether the Proposed Scheme is in the best interests of Drillsearch Shareholders, we have considered a number of factors including:

- ▶ whether the estimated value of a Drillsearch Share, on a controlling interest basis, is higher or lower than the fair value of the Scheme Consideration that will be received by Drillsearch Shareholders in the event that the Proposed Scheme is approved and implemented
- ▶ the price at which the Drillsearch Shares are proposed to be acquired relative to the listed market price of Drillsearch Shares prior to the Announcement Date, and whether a premium for control is being paid and is appropriate in the circumstances
- ▶ the strategic rationale for the transaction and the intentions of Beach in respect of the Merged Group
- ▶ the existence of alternatives to the Proposed Scheme and the consequences for Drillsearch Shareholders
- ▶ the likelihood of an alternative superior proposal being received
- ▶ the likely market price of Drillsearch Shares in the event that the Proposed Scheme is not approved
- ▶ the advantages and disadvantages relevant to Drillsearch Shareholders if the Proposed Scheme proceeds compared to if it doesn't proceed

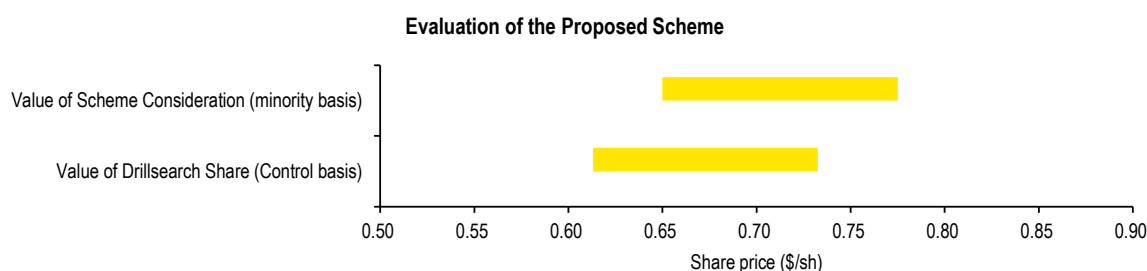
10.2 Fairness

In determining whether the Proposed Scheme is fair, we have compared the assessed fair value of a Drillsearch Share on a controlling interest basis, with the fair value of the Beach Shares to be received by Drillsearch Shareholders under the terms of the Proposed Scheme, in the event that it is approved and implemented. The following table summarises this comparison:

Evaluation of the fairness of the Proposed Scheme			
\$/share	Ref	Low	High
Value of Scheme Consideration	9.6	0.65	0.78
Value of Drillsearch Share on a controlling basis	8.1	0.61	0.73

Source: Ernst & Young Transaction Advisory Services analysis

The assessed value of a Drillsearch Share on a controlling basis is between \$0.61 and \$0.73 per share. The value of the Scheme Consideration is between \$0.65 and \$0.78 per share, on a fully diluted basis. As the range of Scheme Consideration overlaps and generally exceeds the range of a Drillsearch Share on a controlling basis we consider the Proposed Scheme to be fair.





It should be noted that the analysis above was performed based on information that was current as at 30 November 2015. Subsequently below we discuss the current volatility in oil prices and Drillsearch and Beach share prices and the impact on this report.

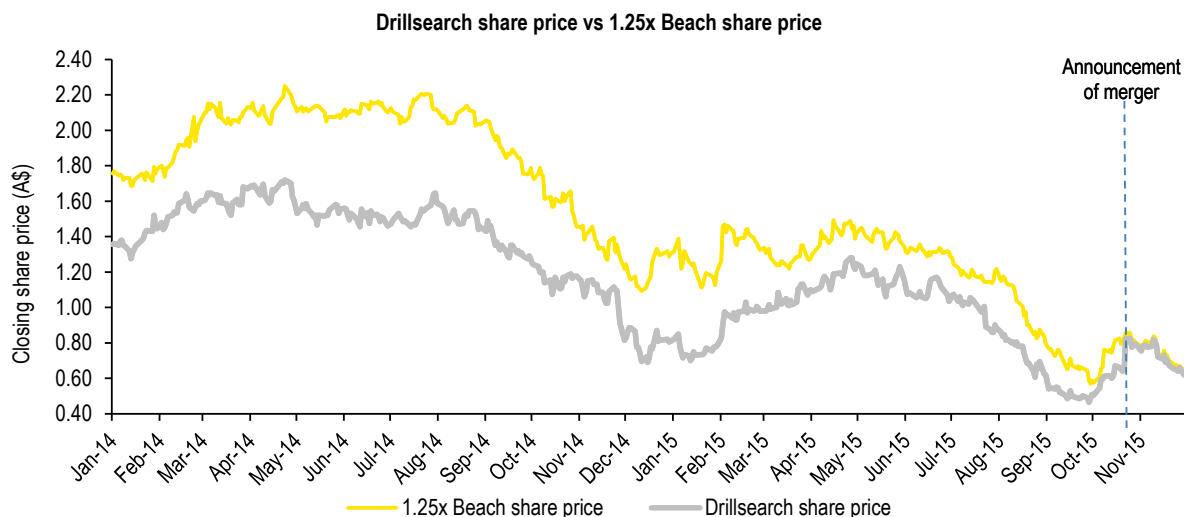
The analysis above provides a range of values of a Merged Group share at the current point in time. Should the Proposed Scheme proceed, Drillsearch Shareholders will receive Beach Shares that are traded on the ASX. As such, the fair value of the consideration Drillsearch Shareholders will receive will be dependent on the prices at which Beach Shares trade on the ASX after the implementation of the Proposed Scheme. Since the Announcement Date, the share price of Beach up until 30 November 2015 traded within a range of between \$0.52 and \$0.69 per share, at a VWAP of \$0.62 per share, closing at \$0.52 per share on 30 November 2015.

It is worth noting that the purpose of our analysis is to determine the fair value of the consideration received by Drillsearch Shareholders, relative to the value of the Drillsearch Shares given up. That is, our analysis focuses on the relative fair values at a point in time. Share prices of oil and gas companies, including the Merged Group, tend to be volatile, in particular reflecting volatility in the market's expectations of future oil and gas prices. Following the implementation of the Proposed Scheme, it is likely that shares in the Merged Group will trade at levels which may be greater than or lower than the value range for the Merged Group presented above. Notwithstanding these comments, we also note that we have observed that the traded prices of shares in Drillsearch and Beach during 2015 have tended to exhibit similar trends, likely reflecting the two companies' exposure to similar assets and market forces.

As explained in section 9, our assessed fair value of the Scheme Consideration has been based on a combination of approaches. We have primarily used the traded share price of Beach following Announcement Date, and have conducted a detailed cross check based on our assessed fair value of the net assets of Beach. We consider that both approaches include some potential impact of synergies that may be realised if the Proposed Scheme is approved and implemented. In particular, the traded share price of Beach Shares (both before and after the implementation of the Proposed Scheme) is likely to reflect the market's view of expected synergies. Based on our discussions with Drillsearch, and based on our analysis, as set out in section 9.3.6 we consider there to be potential additional synergies which could be realised. With the exception of consideration of the Merged Group as a single PRRT taxpayer, these additional synergies have not been quantified and any such synergies would have a positive impact on the value of the Scheme Consideration relative to the value of Drillsearch Shares on a standalone basis.

10.3 Implied premium based on market prices

As part of our analysis we considered the historical relative share prices of Drillsearch and Beach between January 2014 and the Announcement Date. In performing this analysis, we have adjusted Beach's share price for the terms of the Proposed Scheme being 1.25 Beach Shares to be issued for each Drillsearch Share.



Source: S&P Capital IQ



For the year preceding the announcement of the Proposed Scheme, the share prices of Drillsearch and Beach (adjusted for the terms of the Proposed Scheme) have largely corresponded. The table below summarises the relative trading prices and the determination of an implied premium between the value of Beach shares under the terms of the Proposed Scheme and a Drillsearch Share.

Implied premium of Beach Shares (adjusted for the terms of the Proposed Scheme) and Drillsearch Shares			
	Drillsearch	1.25x Beach	Premium
22 October 2015 (day prior to the Announcement Date)	0.66	0.83	26.9%
1 week VWAP	0.66	0.82	23.8%
1 month VWAP	0.58	0.70	20.8%
3 month VWAP	0.62	0.81	29.4%
6 month VWAP	0.84	1.01	20.4%

Source: S&P Capital IQ and Ernst & Young Transaction Advisory Services analysis

The implied premium, depending on the period considered, ranges from 20.4% to 29.4%. The level of the premium over Drillsearch's share price in all of the periods shown above is within the range of the premiums typically paid in a takeover, albeit on the low end of the range. We note that any premium is to the benefit of the Drillsearch Shareholders.

10.4 Relative contribution

An important consideration for Drillsearch Shareholders is the comparative contribution to the Merged Group of both Drillsearch and Beach. Included in the table below is an analysis of the Proposed Scheme based on consideration of reserves and contingent resources, production, the market capitalisation before the announcement of the Proposed Scheme, valuation and the shareholder base.

Relative contribution of Drillsearch and Beach				
Comparative contribution ¹	Beach	Drillsearch	Beach's contribution	Drillsearch's contribution
Market capitalisation the day before Announcement Date (\$millions) ¹	866	303	74.1%	25.9%
Enterprise value ² (\$millions)	842	311	73.0%	27.0%
Average of broker estimates of total enterprise value (\$millions)	1,300	501	72.2%	27.8%
2P Reserves as at 30 June 2015 (mmboe) ³	74.4	25.7	74.3%	25.7%
Production for the year ended 30 June 2015 (mmboe)	9.1	3.0	75.2%	24.8%
Number of shares in the Merged Group	1,302.9	557.8	70.0%	30.0%

Source: Ernst & Young Transaction Advisory Services analysis, S&P CapitalIQ, broker reports, Scheme Booklet

Notes:

- ¹ We have not adjusted the table to reflect the shares held in Drillsearch by Beach which will not participate in the Proposed Scheme. If we were to make any such adjustment, for example, if we were to reduce the market capitalisation of Drillsearch in this table by 4.57%, then Drillsearch's contribution presented in the table would decrease. That is, the contribution ratios would appear more favourable to Drillsearch Shareholders
- ² Enterprise value based on market capitalisation as at 22 October 2015, plus net cash as reported in Beach's 30 September 2015 quarterly report and Drillsearch's net debt balance as at 31 October 2015
- ³ Drillsearch and Beach prepare independent estimates of their reserves, including their respective interests in joint venture assets. For the purposes of this cross check, the 2P reserves set out above are based on a simple aggregation of 2P reserves published by Drillsearch and Beach. We have had regard to the note in section 5 of the Scheme Booklet that an aggregation of the reserves estimates independently prepared by Drillsearch and Beach may not produce a reliable approximation of the combined estimated reserves of the Merged Group. We nonetheless consider that this aggregation is useful for the high level cross checks for which it is used in this report.

As set out in the table, Drillsearch Shareholders will have an initial collective interest in the issued shares of the Merged Group of approximately 30% while contributing approximately 25.7% of 2P reserves, 24.8% of historical production and approximately 25.9% of market capitalisation before the Announcement Date. In addition, we note that the average of brokers' sum-of-the-parts valuations of Drillsearch and Beach reviewed by Ernst & Young Transaction Advisory Services, and released prior to the Announcement Date, indicate that brokers consider Drillsearch's assets to contribute approximately 27.8% to the sum of the assets of the Merged Group (without taking into account synergies).

We consider that the relative contribution by Drillsearch appears reasonable in the context of the shareholding in the Merged Group that will be held by Drillsearch Shareholders.



10.5 Reasonableness and best interests

As the Scheme Consideration generally exceeds the range of assessed values of a Drillsearch Share, we consider the terms of the Proposed Scheme to be fair. Under the guidance provided by RG 111, as we consider the terms to be fair, we also consider the terms to be reasonable. As we are able to conclude that the terms of the Proposed Scheme are fair and reasonable, we also consider them to be in the best interests of Drillsearch Shareholders.

10.6 Other considerations

Notwithstanding the above conclusion that the Proposed Scheme is fair and reasonable, we have also considered other commercial and qualitative factors that Drillsearch Shareholders should consider in forming their views as to whether or not to vote in favour of the Proposed Scheme.

The factors considered are summarised below. We note that individual Drillsearch Shareholders may interpret these factors differently depending on their specific circumstances. Certain of the factors may only be an advantage or disadvantage to the extent that a Drillsearch Shareholder continues to hold the Beach Shares received as consideration. Those shareholders who decide to sell their Beach Shares will not consider various of these factors to be advantages or disadvantages.

10.7 Advantages

10.7.1 Drillsearch Shareholders are receiving a premium to the price of Drillsearch Shares prior to the Announcement Date

The Proposed Scheme provides Drillsearch Shareholders with the opportunity to realise value for their shares in excess of the price at which they traded prior to the Announcement Date on 23 October 2015.

In the absence of a transaction involving the acquisition of 100% of Drillsearch Shares, or a similar form of control transaction, Drillsearch Shareholders may be unable to realise a control premium above the minority interest value.

The table below sets out a comparison of our assessed value of the Scheme Consideration to the last traded price of Drillsearch Shares of \$0.66 per share on 22 October 2015, being the day prior to the Announcement Date, and the 30 day VWAP of \$0.58 per share prior to the Announcement Date.

Comparison of our assessed value of the Scheme Consideration with traded share price of Drillsearch		
\$ per share	Low	High
Value of Scheme Consideration	0.65	0.78
Share price on 22 October 2015	0.66	0.66
30 day VWAP	0.58	0.58
Premium/(discount) to the Drillsearch share price immediately prior to the announcement	(0.8)%	18.3%
Premium/(discount) to the Drillsearch 30 day VWAP prior to the announcement	12.4%	34.0%

Source: Ernst & Young Transaction Advisory Services analysis

We have presented above an assessment of the premium implicit in the Scheme Consideration based on the relationship between the value of the Scheme Consideration at the date of this report to the trading prices of a Drillsearch Share prior to the announcement of the Proposed Scheme. This is a common way of assessing implied control premiums.

We note that share prices of companies in the oil and gas sector, including both Drillsearch and Beach, have been volatile in recent times due principally to the variability and general decline in oil prices. As a result, the above analysis has limitations in that the value of the Scheme Consideration reflects an environment of lower oil prices than that which prevailed prior to the Announcement Date. A comparison of the value of the Scheme Consideration with Drillsearch share prices at the date prior to the Announcement Date fails to recognise that just as Beach's share price has decreased with the lower oil prices, it is likely that the Drillsearch share price would have also declined in the absence of the Proposed Scheme.



As a result of the above and also that (as noted in section 10.3) Drillsearch and Beach share prices have traded at a consistent trend across an extended period, we have also considered the relative premium that would have existed over various historical periods. This is set out in the table in section 10.3 above.

This is also important to note as it is possible given this volatility that the share price of Beach could further decline subsequent to the date of this report but before the Scheme Meeting. To the extent that any decrease in the trading price of a Beach share was due principally to a further decline in oil prices, it would be expected that Drillsearch Shares would be impacted in the same way and the analysis would remain materially consistent with the above.

10.7.2 Drillsearch Shareholders will continue to have exposure to the Drillsearch assets

Under the Proposed Scheme, Drillsearch Shareholders will become shareholders in the Merged Group and will continue to have a reduced proportionate exposure to Drillsearch's key oil and gas assets. This means that, should the value of these assets increase over time, and assuming the Proposed Scheme is approved and implemented, Drillsearch Shareholders (to the extent they remain shareholders) will benefit from part of that potential increase in value.

10.7.3 Drillsearch Shareholders will receive exposure to Beach assets

Should the Proposed Scheme be implemented, Drillsearch Shareholders will receive exposure to the assets of Beach. There are various benefits to Drillsearch Shareholders of receiving exposure to the assets currently owned by Beach, and there are also various benefits of consolidating two significant portfolios of assets in the Cooper-Eromanga Basin. These benefits include:

- ▶ Drillsearch is currently not the operator of its key assets. Should the Proposed Scheme be implemented, Drillsearch Shareholders will receive exposure to the operating interests in assets currently held by both Drillsearch and Beach (such as in PEL 91 and PEL 106). An operating interest provides more control, and therefore is arguably strategically advantageous, relative to a non-operating interest. Beach has a strong track record of operating oil and gas assets.
- ▶ Drillsearch Shareholders will also receive access to those assets of Beach which Drillsearch does not currently own, comprising some of the most prolific acreage in the Cooper-Eromanga Basin. This acreage is complimentary to the Drillsearch assets, with a large number of adjacent permits. This means that the Merged Group will control a significant portion of the oil and gas production and exploration potential in the Cooper-Eromanga Basin. Control of adjacent permits has various advantages, such as cost efficiencies of running a combined exploration program, benefits arising from having access to technical information across a broader area which allows better understanding of the geology of the plays being targeted and better ability to negotiate with third parties such as regulators or infrastructure owners.
- ▶ In addition to the strategic benefits of owning an operating interest in its key assets, Drillsearch Shareholders will receive access to Beach's experienced management team and track record. The Beach team is well known to management of Drillsearch, having worked together for a number of years as joint venture partners on various assets.
- ▶ Drillsearch currently has no control over, or exposure to, the key processing, transport and storage infrastructure in the Cooper-Eromanga Basin. Most oil and gas produced in the Cooper-Eromanga Basin passes through infrastructure assets part-owned by Beach. Companies operating in the Cooper-Eromanga Basin who do not have ownership interests in these assets (including Drillsearch) currently have to negotiate with owners in order to access this infrastructure. These negotiations are subject to commercial terms, meaning that the infrastructure owners are likely to make some commercial return on production from Drillsearch assets. This commercial return may be direct, through negotiation of tolling arrangements, or indirect, through sales of raw product from Drillsearch to the infrastructure owners. Should the Proposed Scheme be implemented, Drillsearch Shareholders will receive exposure to this infrastructure ownership.



Should the Proposed Scheme be approved and implemented, Drillsearch Shareholders will have exposure to economic benefits (for example, tolling revenues) relating to production from assets previously owned by Drillsearch across more of the value chain than is currently afforded. These economic benefits have not been included in our evaluation as a synergy, because Beach already has access to these benefits. However, this does represent incremental value which Drillsearch Shareholders did not previously have access to.

- In addition to the economic benefits of owning key infrastructure in the Cooper-Eromanga Basin, there are also arguably significant strategic benefits and potential further upside opportunities. For example, as the Curtis Island LNG projects come online, there will be an increased need for gas storage throughout the network, in order to manage the firm supply required by the LNG facilities. The Merged Group will have a significant stake in the Moomba storage facility, meaning that it will be well placed to take advantage of any increase in demand for gas storage.

10.7.4 Potential greater liquidity of Drillsearch Shares

As a result of the Proposed Scheme, the market capitalisation of the Merged Group will be significantly higher than Drillsearch's current market capitalisation. Notwithstanding that shares in Drillsearch have historically been relatively liquid, the increased market capitalisation may mean greater analyst and investor awareness, which could lead to higher levels of liquidity. This may be considered an advantage to those Drillsearch Shareholders who are wishing to dispose of their Beach Shares at any time following the implementation of the Proposed Scheme.

Beach and Drillsearch are both currently in the S&P/ASX 200 index although on 4 December 2015 it was announced that Drillsearch will be removed from the S&P/ASX 200 index after market close on 18 December 2015. Based on the combined market capitalisation of the two companies, it is likely that the Merged Group will be of a similar, and perhaps larger, size as certain companies currently in the ASX 100 index. Should the Merged Group be included in this index, there may be an increase in demand for its shares, particularly from index-linked investment or tracker funds.

10.7.5 Greater financial resources

Should the Proposed Scheme be approved and implemented, the Merged Group will have a pro forma net debt balance at 30 June 2015 of \$25.1 million, which is lower than Drillsearch's net debt balance as at 30 June 2015, of \$30.6 million. As noted in section 4.10 of the Scheme Booklet, Beach has recently entered into and executed a new syndicated debt facility of \$530 million to replace the existing syndicated facility of \$330 million. It is intended that the new facility be initially drawn to \$170 million to refinance current borrowings and letter of credit, with the undrawn amount of \$360 million being available for capital expenditure programs, working capital requirements and potential growth opportunities. The Merged Group will have access to this facility, and the greater liquidity that it provides. Further, the larger scale of the Merged Group will likely mean that the Merged Group will have access to debt funding at lower rates than Drillsearch. The additional funding will enable the Merged Group to continue with the various exploration and development programs required to realise the value of assets in its portfolio.

10.7.6 Dividends

We note that Drillsearch has not paid dividends within the past five years. Conversely, Beach has paid a dividend in each of the last five years. Whilst past payment history is no guarantee that Beach will continue to pay dividends in the future, should Beach pay dividends in the future, if the Proposed Scheme is approved and implemented the Drillsearch Shareholders will receive access to any such future dividends should they continue to hold their Beach Shares.

10.7.7 Drillsearch Shareholders will share in synergies

As discussed in section 9.2.2, while the exact value cannot be quantified we expect that the market is already factoring into the Beach share price some value attributable to expected synergies to be derived from the merger of Beach and Drillsearch. Any such value would therefore be reflected in our assessment of value of the Scheme Consideration based on the Beach share price subsequent to the Announcement Date. Our cross check of the value to the Merged Group on a sum-of-the-parts basis also includes some value attributable to



synergies. As such, a certain level of value attributable to synergies has already been reflected in the premium of the value of the Scheme Consideration over the value of Drillsearch Shares.

Given the nature of the Scheme Consideration, being shares in Beach rather than cash, Drillsearch Shareholders will be able to share in any additional potential synergistic value not already captured in our assessed fair value of the Scheme Consideration.

10.8 Disadvantages

10.8.1 Drillsearch Shareholders' interest in the assets will be diluted

Should the Proposed Scheme be approved and implemented, Drillsearch Shareholders will only hold approximately 30% of shares in the Merged Group. As such, whilst Drillsearch Shareholders will continue to have exposure to the assets previously owned by Drillsearch, their interest will be proportionately lower than it is currently. We consider the impact of this dilution to be mitigated given the high proportion of Drillsearch assets which are in common with Beach.

10.8.2 Exposure to additional risks

While the Proposed Scheme will increase the diversification of the assets that Drillsearch Shareholders will have exposure to, Drillsearch Shareholders will also be subject to the risks associated with Beach's oil and gas assets, to which Drillsearch Shareholders are not currently exposed.

10.8.3 Consideration not paid in cash

The Scheme Consideration is in the form of shares in Beach. This means that should Drillsearch Shareholders wish to realise the value of the consideration immediately on implementation of the Proposed Scheme, they will need to sell the shares on market. Any sale of shares will be subject to market conditions at the time of sale.

10.8.4 Potential that synergies will not be realised

As noted above, part of the value of the Merged Group is the potential realisation of synergies in combining the Beach and Drillsearch businesses. This is represented by the control premium reflected in the terms of the Proposed Scheme and in our valuation of the Merged Group on a sum-of-the-parts basis. In contrast there is the risk that less synergies could be realised, and therefore that the synergistic value which has contributed to the assessed value of the Scheme Consideration is not realised.

10.9 Other relevant factors

10.9.1 The value of the Scheme Consideration may change up until the date of the Scheme Meeting

The fair value of the Scheme Consideration may change if the market price of Beach Shares changes up until the day immediately preceding the Scheme Meeting. Beach's share price has remained relatively stable since the Announcement Date. However, market conditions may impact Beach's share price leading up to the Scheme Meeting, and this will impact the market value of the Scheme Consideration.

10.9.2 Potential for alternative superior proposals to emerge

While it is possible that an alternative proposal involving Drillsearch may emerge, we note that:

- ▶ given the similarities between the Drillsearch and Beach businesses, and the extent of the overlapping assets, there are few other potential acquirers of Drillsearch which would be able to realise the same level of synergistic value as Beach
- ▶ since the announcement of the Proposed Scheme, no superior proposals have been received and the directors of Drillsearch are not aware of any potential superior alternative proposal likely to emerge



- ▶ the terms of the Merger Implementation Agreement prevent Drillsearch and its representatives from actively seeking alternative proposals. Furthermore, a break fee of \$3.8 million may be payable by Drillsearch in certain circumstances, such as Drillsearch entering into an alternative proposal

These factors may reduce the likelihood of any superior proposals emerging.

10.9.3 If the Proposed Scheme is not approved the Drillsearch share price may fall below current trading levels

If the Proposed Scheme is not approved, and in the absence of an alternative transaction, Drillsearch will continue to operate in its current form and be listed on the ASX. As a consequence:

- ▶ Drillsearch Shareholders would continue to own shares in Drillsearch but will not receive any Beach Shares.
- ▶ The advantages, disadvantages and risks of the proposal will not occur other than with respect to the estimated one-off transaction costs of approximately \$5 million incurred or committed prior to the Scheme Meeting. These costs would be incurred irrespective of whether or not the Proposed Scheme was approved and implemented.
- ▶ The price of Drillsearch Shares may fall. We note that Drillsearch Shares rose 26% on 23 October 2015 following announcement of the Proposed Scheme. Since that date, up to 30 November 2015, Drillsearch Shares have traded at an average of 13.0% above the closing price one day preceding the announcement of the Proposed Scheme.

10.9.4 Tax consequences

There may be certain tax implications for individual Drillsearch Shareholders in connection with the Proposed Scheme if it is approved and implemented. The exact nature and impact is uncertain and will depend on the profile of each Drillsearch Shareholder. These specific consequences need to be borne in mind by each Drillsearch Shareholder in weighing up the merits of the Proposed Scheme.

As such, Drillsearch Shareholders should refer to section 9 of the Scheme Booklet for a detailed explanation of the potential tax consequences. We understand however that for Australian resident Drillsearch Shareholders, roll-over relief may be available on any capital gains tax in certain circumstances.

10.9.5 Costs associated with the Proposed Scheme

Drillsearch estimates that it will have incurred or committed to incur total transaction costs of approximately \$5 million in relation to the Proposed Scheme prior to the Scheme Meeting. These costs would be incurred irrespective of whether or not the Proposed Scheme was approved and implemented.

In addition to the above, if the Proposed Scheme is not approved and implemented, in certain circumstances, Drillsearch may be obligated to pay a \$3.8 million break fee to Beach as set out in section 11 of the Merger Implementation Agreement.

We note that should the Proposed Scheme be implemented, Drillsearch's total transaction costs are estimated to be approximately \$17 million, as set out in section 7 of the Scheme Booklet.



10.9.6 Current volatility in oil prices and share prices

The majority of the valuation analysis in this report was prepared as at 30 November 2015. Since 30 November 2015 recent volatility in oil prices and share prices has continued, including significant declines. As at the date of this report the last closing price of Beach Shares was \$0.44 per share and Drillsearch Shares was \$0.54 per share. Both of these are below the prices prevailing at 30 November 2015 of \$0.52 per share and \$0.62 per share respectively and are also below our valuations of both Drillsearch and the Merged Group set out previously in this report.

We do not consider that this position affects the key analyses and conclusions reached in this report. This is for the following key reasons:

- ▶ The key reason for the declines in the Drillsearch and Beach share prices has been declining oil prices which affect each entity in a similar manner;
- ▶ Historically the shares prices of Drillsearch and Beach have been closely correlated with a variation of no more than 4% (on a volume weighted average basis) over the six months prior to the Announcement Date; and
- ▶ If the Proposed Scheme is not implemented the price of a Drillsearch Share may decline in the absence of an alternative transaction that enables shareholders to realise a control premium. We also note the announcement on 4 December 2015 that Drillsearch Shares will be removed from the S&P/ASX 200 index after market close on 18 December 2015. This may also adversely affect the value of a Drillsearch Share whereas there is no indication to suggest that the Merged Group will not remain in the S&P/ASX 200 index.

10.10 Conclusion

In the absence of a superior proposal, based on the matters outlined above, in our opinion, the Proposed Scheme is in the best interests of Drillsearch Shareholders.

This independent expert's report has been prepared to assist Drillsearch Shareholders in assessing the merits of the Proposed Scheme. In doing so, the report provides general information only and does not consider the individual situation, objectives and needs of each Drillsearch Shareholder. On this basis, Drillsearch Shareholders should consider whether this report is appropriate for their circumstances, having regard to their own situation, objectives and needs before relying on or taking action based on this report. If there is any doubt, Drillsearch Shareholders should seek their own professional advice.



Appendix A Statement of qualifications and declarations

Ernst & Young Transaction Advisory Services, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Act and its representatives are qualified to provide this report. The directors of Ernst & Young Transaction Advisory Services responsible for this report have not provided financial advice to Drillsearch.

Prior to accepting this engagement, Ernst & Young Transaction Advisory Services considered its independence with respect to Drillsearch with reference to RG 112.

This report has been prepared specifically for Drillsearch Shareholders in relation to the Proposed Scheme. Neither Ernst & Young Transaction Advisory Services, Ernst & Young and any employee thereof undertakes responsibility to any person, other than Drillsearch Shareholders, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report Ernst & Young Transaction Advisory Services has relied upon and considered information believed after due inquiry to be reliable and accurate. Ernst & Young Transaction Advisory Services has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. Ernst & Young Transaction Advisory Services has evaluated the information provided to it by Drillsearch, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base its report. Ernst & Young Transaction Advisory Services does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose.

The information relied upon in the preparation of this report is set out in Appendix F to this report.

Drillsearch has provided an indemnity to Ernst & Young Transaction Advisory Services for any claims arising out of any mis-statement or omission in any material or information provided to it in the preparation of this report.

Ernst & Young Transaction Advisory Services provided draft copies of this report to Drillsearch and Beach for comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Changes made to this report as a result of this review by the Directors and management of Drillsearch have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

Ernst & Young Transaction Advisory Services will receive a professional fee based on time spent in the preparation of this report estimated at approximately \$280,000 (exclusive of GST). Ernst & Young Transaction Advisory Services will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

Mr Stuart Bright, a director and representative of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young and Mr Ken Pendergast, a director and representative of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young have assumed overall responsibility for this report. Both have the necessary experience and professional qualifications appropriate to the advice being offered. Other staff have been consulted in the preparation of this report where appropriate.

It is not intended that the report should be used for any other purpose other than to be included in the Scheme Booklet to be sent to Drillsearch Shareholders with respect to the Proposed Scheme. In particular, it is not intended that this report should be used for any other purpose other than as an expression of its opinion as to whether or not the issue of the Scheme Consideration offered by Beach under the Proposed Scheme is fair and reasonable to Drillsearch Shareholders.

Ernst & Young Transaction Advisory Services consents to the issue of this report in the form and context in which it is included in the Scheme Booklet.



Appendix B Valuation methodologies

RG 111 provides guidance on the valuation methods that an independent expert should consider when valuing a company. These methods include the:

- ▶ DCF method and the estimated realisable value of any surplus assets.
- ▶ Application of earnings multiples (appropriate to the business or industry in which the entity operates) to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets.
- ▶ Amount that would be available for distribution to security holders on an orderly realisation of assets.
- ▶ Quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale.
- ▶ Recent genuine offers, if any, received by the target for any business units or assets as a basis for valuation of those business units or assets, and
- ▶ Amount that any alternative acquirer might be willing to offer if all the securities in the target were available for purchase.

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the asset being valued, the methodology most commonly adopted in valuing such an asset and the availability of appropriate information.

The discounted cash flow methodology involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a discount rate that reflects the time value of money and the risk inherent in the cash flows. This methodology is particularly appropriate in valuing projects, businesses and companies that are in a start-up phase and are expecting considerable volatility and/or growth in earnings during the growth phase, as well as businesses with a finite life (such as oil and gas projects). The utilisation of this methodology generally requires that the asset be sufficiently advanced to enable management to provide long term cash flows with some degree of robustness.

The capitalisation of earnings methodology involves capitalising the earnings of a project, a business or a company at an appropriate multiple, which reflects the risks underlying the earnings together with growth prospects. This methodology is theoretically most appropriate where a company or business is expected to generate a relatively stable level of earnings but in practice, is also frequently used in a range of other circumstances.

The net asset backing methodology involves consideration of the net realisable value of the assets of a business or company on a going concern basis, assuming an orderly realisation of those assets. This value includes a discount to allow for the time value of money and for reasonable costs of undertaking the realisation. It is not a valuation on the basis of a forced sale, where assets may be sold at values materially different to their fair value.

Market based assessments relate to the valuation of companies, the shares of which are traded on a stock exchange. While the relevant share price would, prima facie, constitute the market value of the shares, such market prices usually reflect the prices paid for small parcels of shares and as such do not include a control premium relevant to a significant parcel of shares.



Appendix C Determination of discount rate

Our DCF valuations of Drillsearch and Beach's assets have been performed on the basis that cash flows were prepared as follows:

- ▶ *Drillsearch* – the cash flows have been prepared on a nominal, un-gearred and post-tax basis in Australian dollars.
- ▶ *Beach* – the cash flows have been prepared on a real, un-gearred and post-tax basis in Australian dollars.

To calculate the net present value of the cash flows for each of Drillsearch and Beach's operating and exploration projects, we have assessed the appropriate weighted average cost of capital ("WACC").

The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided.

Under a classical tax system the post-tax WACC is commonly calculated as follows:

$$WACC = R_e \times \frac{E}{D+E} + R_d (1-t_c) \times \frac{D}{D+E}$$

Where:

WACC - post tax weighted average cost of capital

R_e - required rate of return on equity capital

E - market value of equity capital

D - market value of debt

R_d - required rate of return on debt capital

t_c - statutory corporate tax rate

In the following paragraphs we comment on each of the assumptions we make in respect of each of the main variables in this formula.

Required rate of return on equity

The capital asset pricing model ("CAPM") is a model for estimating the rate of return required by an equity investor on an investment.

Under CAPM the required rate of return on equity (R_e) is calculated as follows:

$$R_e = R_f + \beta_e \times (R_m - R_f) + R_s$$

Where:

R_e - rate of return on equity

R_f - risk free rate of return

β_e - expected equity beta of the investment

R_m - expected rate of return on the market portfolio of risky investments

$(R_m - R_f)$ - excess return of the market over the risk free rate, or the market risk premium

R_s - specific risk premium



Risk free rate

The 10 year government bond market is a widely adopted proxy for the risk free rate in Australia. The 10 year Australian Commonwealth Government bond yield as at 30 November 2015, was approximately 2.9%.

We have adjusted the calculated cost of equity for a specific risk premium of 1.9%. We believe this additional risk premium is justified taking into account the current risk free rate (referenced above as the 10 year Australian Commonwealth Government bond rate) being at historically low levels. Most market observers regard this low rate to be inconsistent with current share prices, the observed volatility in the markets and general economic uncertainty. In response, many valuers have either used a normalised risk free rate, increased their estimates of the market risk premium or have included an additional risk factor in their calculations of the cost of equity.

The most common approach we have observed in Australia has been for valuers to include or increase an additional risk premium (often referred to a specific risk premium or alpha) to ensure that the overall discount rate calculated by the CAPM is considered to be appropriate for the asset subject to valuation.

Based on a historical analysis of the risk free rate (five year and 10 year Australian Commonwealth Government bond rate), and a recognition of the lives of the assets included in the values set out in this report we have applied a premium of 1.6% to the risk free rate. The addition of the risk premium results in an effective risk free rate of 4.5%.

Market risk premium

The market risk premium ($R_m - R_f$) represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned. Generally, most estimates fall within a range of approximately 4.0% to 8.0%. However, investor's expectations of the premium can change as the market fluctuates and perceptions of the riskiness of equities change.

We adopted a market risk premium of 6.0% in calculating discount rates for this analysis.

Beta

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation. In order to determine an appropriate beta to use for the valuation of Drillsearch's and Beach's oil and gas operations, we have considered the observed betas of comparable companies.

Beta can be expressed as an equity beta, which includes the effect of gearing on equity returns, and as an asset beta, which removes the impact of gearing. The asset beta will be lower than the equity beta for any given investment, with the extent of the difference dependent on the level of debt in the capital structure. The greater the level of gearing, the greater is the risk faced by equity holders (as debt holders have a contractual right of return and so first claim on the operating income). Accordingly, for a given asset beta, the equity beta will increase as the level of gearing increases.

We used the following formula to undertake the de-gearing and re-gearing exercise:

$$\beta_e = \beta_a \left(1 + \frac{D}{E} (1 - t_c) \right)$$

Where:

β_e – the equity or geared beta

β_a – the ungeared beta

t_c – the statutory corporate tax rate

D/E – equals the market value of debt divided by the market value of equity capital



In assessing a range of betas, we selected a group of companies deemed comparable to Drillsearch and Beach. We selected those companies with producing and exploration oil and gas projects, either within Australia or internationally. Our data set included both companies with small scale operations limited to a single country and those with more diversified operations.

We note that for many of the comparable companies, the data sourced for calculating the betas resulted in non-meaningful data. We have excluded any betas where the correlation was less than 0.04 as these betas are not meaningful.

The table below summarises the beta information of companies where the betas produced were considered statistically meaningful.

Beta analysis as at 30 November 2015									
Comparable company	Market Cap (\$m)	2-yr weekly (Local) ¹				5-yr monthly (Local) ¹			
		Equity Beta ²	Net Debt/Equity ³	Asset beta ⁴	R ²	Equity Beta ²	Net Debt/Equity ³	Asset beta ⁴	R ²
Cooper Basin players									
Beach	671	1.66	0%	1.66	0.25	1.48 ⁵	0%	1.48 ⁵	0.23
Drillsearch	287	2.04	3%	1.99	0.30	1.65 ⁵	6%	1.59 ⁵	0.16
Cooper Energy	62	nmf	0%	nmf	0.02	0.89	0%	0.89	0.07
Icon Energy Limited	19	nmf	0%	nmf	0.03	nmf	0%	nmf	0.04
Real Energy Corporation Limited	19	nmf	0%	nmf	0.01	nmf	0%	nmf	0.17
Santos	5,666	2.21	64%	1.53	0.30	1.36 ⁶	29%	1.17 ⁶	0.28
Senex	156	2.29	0%	2.29	0.20	1.78	0%	1.78	0.17
Strike Energy Limited	117	nmf	0%	nmf	0.01	nmf	1%	nmf	0.05
High		2.29	64%	2.29		1.78	29%	1.78	
Mean		2.05	8%	1.87		1.43	4%	1.38	
Median		2.12	0%	1.82		1.48	0%	1.48	
Low		1.66	0%	1.53		0.89	0%	0.89	
Other listed oil and gas companies									
Armour Energy Limited	42	nmf	0%	nmf	0.00	nmf	0%	nmf	0.02
AWE Limited	342	1.69	10%	1.58	0.24	1.42	5%	1.37	0.22
Blue Energy Limited	34	nmf	0%	nmf	0.01	nmf	0%	nmf	0.01
Camarvon Petroleum Limited	115	nmf	0%	nmf	0.04	nmf	0%	nmf	0.03
Comet Ridge Ltd.	53	nmf	0%	nmf	0.01	nmf	0%	nmf	-
Cue Energy Resources Limited	46	nmf	0%	nmf	0.01	0.72	0%	0.72	0.07
Empire Oil & Gas NL	53	nmf	5%	nmf	-	nmf	2%	nmf	-
Energy World Corporation Ltd.	503	1.11	81%	0.76	0.08	nmf	51%	nmf	0.05
Galilee Energy Limited	17	nmf	0%	nmf	0.00	nmf	0%	nmf	0.00
Horizon Oil Limited	133	1.31	86%	0.81	0.10	1.89	50%	1.44	0.24
Karoon Gas Australia Ltd.	420	1.92	0%	1.92	0.21	1.93	0%	1.93	0.18
Metgasco Limited	25	nmf	0%	nmf	-	nmf	0%	nmf	0.01
Oil Search Limited	12,486	1.01	37%	0.83	0.24	0.87	21%	0.78	0.29
Origin Energy Limited	9,797	1.66	66%	1.14	0.41	0.79	48%	0.57	0.14
Tap Oil Ltd.	47	nmf	30%	nmf	0.03	1.66	12%	1.53	0.20
Woodside Petroleum Ltd.	24,808	1.13	3%	1.11	0.48	1.16	9%	1.09	0.52
High		1.92	86%	1.92		1.93	51%	1.93	
Mean		1.40	20%	1.16		1.31	12%	1.18	
Median		1.31	1%	1.11		1.29	1%	1.23	
Low		1.01	0%	0.76		0.72	0%	0.57	

Source: S&P Capital IQ, Ernst & Young Transaction Advisory Services analysis

Notes:

¹ We have excluded any betas where the correlation was less than 0.04 and have classified these as not meaningful or "nmf"

² Equity beta calculated over a two year weekly or five year monthly observation period, regressed against the company's local index.

³ Net debt is calculated as total debt less cash and cash equivalents averaged over a historical period (where available)

⁴ Where the net debt/equity ratio is negative, it is taken to equal nil and the asset beta has been taken to equal the equity beta

⁵ Betas as at 22 October 2015 due to large movements in share prices post announcement

⁶ Beta as at 30 October 2015 due to large movements in share prices post rights issue announcement



For the purposes of our analysis, we have adopted an asset beta of 1.0. In selecting this beta, we have considered the following:

- ▶ We note that those companies whose activities include significant established producing assets (e.g. Origin, Woodside, Oil Search) generally have lower asset betas than those companies whose business activities involve significant exploration activities. In broad terms, asset betas tend to be higher for companies more focused on exploration activities. Given that we are assessing a discount rate for producing or near-production assets, we consider an asset beta at the low end of the range observed for the comparable companies to be appropriate.
- ▶ We consider the two year weekly beta to be less relevant than the five year monthly beta because of the significant fall in oil prices which impacted the share price returns of oil and gas companies during the two year observation period.
- ▶ We have considered companies with producing and/or exploration assets located in the Cooper-Eromanga Basin region to be similarly comparable to the activities of Drillsearch and Beach. The average and median asset betas of comparable companies with producing and/or exploration assets in the Cooper-Eromanga Basin are 1.38 and 1.48 based on five year monthly data.
- ▶ We have also considered other listed oil and gas companies which have assets with less of a focus in the Cooper-Eromanga Basin region. The average and median asset betas of these companies are 1.16 and 1.11 based on two year weekly data and 1.18 and 1.23 based on five year monthly data.
- ▶ Observed betas for individual companies fall within a wide range and also vary depending on the data source considered. Many of the companies have betas that are not statistically significant because oil and companies tend to follow the oil price, rather than broader market movements.

Capital structure

In calculating the WACC, we need to make an assumption regarding an optimal capital structure at which to gear the asset beta, and with which to weight the cost of equity and cost of debt. Generally, the gearing level adopted should reflect the level of debt that can reasonably be sustained by any company operating in an industry, rather than actual gearing maintained by the current business owners.

In order to determine an appropriate capital structure, we have had regard to both the capital structures of Drillsearch and Beach, and the capital structure of other companies in the industry. In relation to the capital structure, we note:

- ▶ Drillsearch's average debt to equity ratio over the last two and five years was 3% and 6%, respectively.
- ▶ Beach's average debt to equity ratio over the last two and five years was 0%.
- ▶ Considering companies with producing and/or exploration assets located in the Cooper Basin region, the average and median debt to equity ratio of comparable companies are 8% and 0% over the last two years and 4% and 0% over the last five years.
- ▶ The average and median debt to equity ratio of other listed comparable companies was 20% and 1% over the last two years and 13% and 5% over the last five years.
- ▶ The average and mean debt to equity ratios may be lower due the number of exploration companies which will generally be equity funded up to the decision to develop their assets.

Accordingly, we have assumed a debt to equity ratio of 10% to be the appropriate as a proxy for the optimal gearing ratio for oil and gas producing assets albeit with continuing exploration programs.



Cost of debt

The estimated cost of debt for the Australian denominated WACC is based on the margin over the yield on 10 year Australian Commonwealth Government bonds.

The debt premium over the risk free rate reflects debt related risks specific to the business being valued (i.e. the risk that the business will default on payments). The cost of debt represents the cost of funding over the life of the cash flow models. In arriving at an appropriate debt premium we have had regard to a number of factors including:

- ▶ The margin implicit in corporate bond yields over Australian Commonwealth Government bond yields. Implied yields reflect the market's view of risk as at a point in time and care should be exercised before incorporating these into any assessment of an entity's cost of debt.
- ▶ The debt ratings of comparable companies, in particular, Standard & Poor's BBB credit ratings.
- ▶ Drillsearch's and Beach's actual borrowing rates.
- ▶ Yields implied by the traded price of issued debt from comparable companies.

After considering the above factors, with particular emphasis on the borrowing rate of Drillsearch and Beach, we adopted a nominal, pre-tax cost of debt of 6.0%.

Inflation

We have adopted an inflation estimate of 2.5% based on the Reserve Bank of Australia's inflation target range of 2.0% to 3.0%.

WACC

On the basis of the above, we have adopted the following inputs in our calculation of the nominal and real post-tax WACCs as shown in the table below.

Weighted Average Cost of Capital	
Parameters	Selected parameters
Risk Free Rate	2.9%
Market Risk Premium	6.0%
Additional risk premium	1.6%
Asset beta	1.00
Equity beta	1.07
Nominal pre-tax cost of debt	6.0%
Tax Rate	30.0%
Debt: equity	10%
Debt proportion	9.1%
Equity proportion	90.9%
Inflation	2.5%
Calculated nominal post-tax WACC	10.3%
Calculated real post-tax WACC	7.6%
Adopted:	
WACC (post-tax, nominal)	10.5%
WACC (post-tax, real)	7.5%

Source: Ernst & Young Transaction Advisory Services analysis

We note that our selected nominal, post-tax WACC is broadly consistent with the discount rates applied by analysts covering Drillsearch and Beach, which are broadly in the range of 9.6% to 10.6%.



Appendix D Comparable trading multiples

Comparable company 2P reserve multiples					
Company ¹	2P Reserves (mmboe)	Minority basis		Controlling basis ²	
		Enterprise value(\$ million)	2P Multiple (\$/boe)	Enterprise value (\$ million)	2P Multiple (\$/boe)
Cooper-Eromanga Basin					
Beach	74	671	9.02	872	11.72
Drillsearch	26	317	12.34	373	14.50
Cooper Energy	3	62	20.04	80	26.05
Santos	1,245	14,265	11.46	15,845	12.73
Senex	95	156	1.64	202	2.14
Strike Energy Limited ³	0.2	117	nmf	152	nmf
Low			1.64		2.14
Median			11.46		12.73
Mean			10.90		13.43
High			20.04		26.05
Other listed oil and gas companies					
AWE Limited	114	466	4.07	554	4.85
Bengal Energy Ltd	6	29	5.03	31	5.51
Blue Energy	9	34	3.86	44	5.02
Bounty Oil & Gas NL ⁴	0.1	10	nmf	14	nmf
Comet Ridge Ltd.	22	53	2.39	68	3.11
Cue Energy Resources Limited	5	46	10.01	60	13.01
Empire Oil & Gas NL	4	57	15.77	69	19.24
Energy World Corporation Ltd.	49	1,068	21.81	1,216	24.84
Horizon Oil Limited	14	306	22.32	322	23.49
Oil Search Limited	520	17,057	32.82	20,474	39.40
Origin Energy Limited	1,068	23,116	21.64	25,932	24.28
Tap Oil Ltd.	6	91	16.20	92	16.26
Woodside Petroleum Ltd.	1,599	30,897	19.32	38,279	23.93
Low			2.39		3.11
Median			15.98		17.75
Mean			14.60		16.91
High			32.82		39.40

Source: S&P Capital IQ, comparable company announcements, Ernst & Young Transaction Advisory Services analysis

Notes:

¹ Only comparable companies with 2P reserves have been included in this analysis

² Includes an assumed notional control premium of 30%

³ We note that Strike Energy Limited has a 2P multiple of 437 and 568 on a minority and controlling basis, respectively. We have excluded the 2P multiples of Strike Energy Limited as outliers from the analysis above.

⁴ We note that Bounty Oil & Gas NL has a 2P multiple of 89 and 116 on a minority and controlling basis, respectively. We have excluded the 2P multiples of Bounty Oil & Gas NL as outliers from the analysis above.



Comparable company descriptions

Company	Description	Market cap (\$m) ¹
Cooper –Eromanga Basin players		
Cooper Energy	Australian based production company with activities in the Cooper, Otway and Gippsland Basins in Australia, including exploration and production assets in Indonesia and Tunisia.	62
Icon Energy Limited	Australian based explorer with activities in the Cooper, Eromanga, Surat and Gippsland Basins.	19
Real Energy Corporation Limited	Australian based explorer with activities in the Cooper and Eromanga Basins.	19
Santos	Australian based producer with activities located in the Cooper, Browse, Bonaparte, Gunnedah, Gippsland, Otway, Carnarvon and Amadeus Basins in Australia, including assets in Asia, as well as the GLNG project.	5,666
Senex	Australian producer with activities in the Cooper, Surat and Eromanga Basins in Australia.	156
Strike Energy Limited	Australian based explorer and producer with activities in the Cooper Basin in Australia and the US.	117
Other listed oil and gas companies		
Armour Energy Limited	Australian based explorer with activities in the McArthur, South Nicholson, Georgina and Gippsland Basins.	54
AWE Limited	Australian based explorer and producer with activities in the Bass, Otway and Perth Basins in Australia, Taranaki Basin in New Zealand, including assets in Indonesia and the US.	445
Bengal Energy Ltd	Canadian based producer and explorer with activities in the Cooper, Eromanga, Bonaparte Basins in Australia, the Cauvery Basin in India, and also assets in Canada.	15
Blue Energy Limited	Australian based explorer with activities in the Bowen, Surat, Cooper, Eromanga, Galilee, Greater McArthur and Maryborough Basins.	44
Bounty Oil & Gas NL	Australian based with activities in Surat, Cooper, Eromanga, Carnarvon, Naccowlah, Utopia Basins in Australia, including assets in Tanzania.	14
Carnarvon Petroleum Limited	Australian based explorer with activities primarily based in the Carnarvon Basin, including Indonesia.	149
Comet Ridge Ltd.	Australian based explorer with activities in the Galilee, Gunnedah, Bowen Basins in Australia, and West Coast in New Zealand. It also has interests in Indonesia.	68
Cue Energy Resources Limited	Australian based producer with activities in the Carnarvon Basin in Australia, Taranaki in New Zealand, and Kutei and Central Sumatra Basins in Indonesia.	60
Empire Oil & Gas NL	Australian based producer with activities in the Perth and Carnarvon Basins in Australia.	69
Energy World Corporation Ltd.	Australian based producer which sells power and natural gas primarily in Indonesia and Australia.	654
Galilee Energy Limited	Australian based explorer with activities in the Galilee Basin in Australia, Chile and the US.	22
Greenvale Energy NL	UK based explorer with activities in the Nagoorin, Lowmead and Alpha Basins in Australia.	3
Horizon Oil Limited	Australian based producer with activities in the Maari/Mania, Taranaki, Elevala and Ketu fields in New Zealand, and assets located in the Beibu Gulf in China, and Papua New Guinea.	173
Karoon Gas Australia Ltd.	Australian based explorer with activities in Browse, Bowen and Carnarvon Basins in Australia, Santos Basin in Brazil, and the Tumbes and Mara��n Basins in Peru.	546
Metgasco Limited	Australian based explorer with activities in the Clarence-Moreton Basin.	32
Norwest Energy NL	Australian based explorer with activities in the Perth Basin in Australia and Wessex Basin in the UK.	7
Oil Search Limited	Papua New Guinean based explorer and producer with interests primarily located in Papua New Guinea, as well as in Yemen, Iraq, Tunisia and Australia, as well as the PNG LNG project with ExxonMobil.	16,232
Origin Energy Limited	Australian based explorer and producer with activities in the Surat, Bowen, Bass and Otway Basins in Australia, Kupe, Canterbury and Taranaki Basins in New Zealand, and Song Hong Basin in Vietnam. Origin is also the operator of the APLNG project and has significant electricity generation assets.	12,736
Tap Oil Ltd.	Australian based producer with activities in Carnarvon Basin in Australia and Manora in Thailand.	62
Woodside Petroleum Ltd	Australian based explorer and producer with activities in Australia located in the North West Shelf, Pluto, Australia Oil, Carnarvon, Broome, Karratha, Exmouth, Darwin Basins.	32,250

Source: S&P Capital IQ, Ernst & Young Transaction Advisory Services analysis

Notes:

¹ Market capitalisation as at 30 November 2015

Appendix E Transaction multiples

Transaction 2P reserve multiples

Asset (Target) ¹	Type	Location of resources	Bidder	Date ²	Stake	Status	2P Reserves (mmboe)	Implied EV at 100% (\$million)	2P Multiple (\$/boe)
Producing									
Kipper gas field from Santos Limited	Asset	AUS	Mitsui E&P Australia Pty Ltd	Nov-15	35%	Announced	133	1,486	11.17
Cliff Head Oil Field	Asset	AUS	Elixer Petroleum Limited	Oct-15	58%	Announced	3	17	6.25
Oil Search Limited	Company	PNG, Middle East, AUS	Woodside Petroleum Limited	Sep-15	100%	Rejected	520	15,861	30.52
South Taranaki Energy Project	Assets	NZ	High Peak Royalties Ltd; Mosman Oil and Gas Ltd	Aug-15	100%	Announced	2	9	5.18
Mereenie Oil & Gas field	Asset	AUS	Central Petroleum Ltd	Jun-15	50%	Completed	36	100	2.78
Apache Energy Limited (nka: Quadrant Energy)	Company	AUS	Brookfield Asset Management; Macquarie Capital	Apr-15	100%	Completed	323	6,324	19.56
Cue Energy Resources Limited	Company	AUS, Indonesia, NZ	New Zealand Oil & Gas Ltd	Feb-15	80%	Announced	5	33	7.03
Roc Oil Company Limited	Company	AUS, China, Malaysia, UK	Transcendent Resources Ltd	Aug-14	100%	Completed	17.4	408	23.43
WestSide Corporation Limited	Company	AUS	Shandong Landbridge Group	Apr-14	100%	Completed	59.2	152	2.58
Bridgeport Energy Limited	Company	AUS	New Hope Corporation	Jul-12	64%	Completed	4	70	16.83
Australia Pacific LNG; supply contract	Asset	AUS	China Petrochemical Corporation; Sinopec	Jan-12	10%	Completed	1,004	10,333	10.29
Low								9	2.58
Median								152	10.29
Mean								3,163	12.33
High								15,861	30.52



Transaction 2P reserve multiples

Asset (Target) ¹	Type	Location of resources	Bidder	Date ²	Stake	Status	2P Reserves (mmboe)	Implied EV at 100% (\$million)	2P Multiple (\$/boe)
Exploration									
Pan Pacific Petroleum NL	Company	AUS, NZ, Vietnam	Zeta Energy Pte. Ltd.	Apr-15	30%	Completed	0.8	8	9.96
Dart Energy limited	Company	AUS	IGas Energy Plc	May-14	100%	Completed	7.2	178	24.56
Ambassador Oil & Gas Limited	Company	AUS	Drillsearch (Central) Pty Ltd	Jun-14	100%	Completed	28	44	1.55
Bowen Basin Coal Bed Methane Assets	Asset	AUS	Petrochina International Investment (Australia) Pty Ltd	Aug-12	100%	Completed	58	41	0.70
Low								8	0.70
Median								42	5.76
Mean								68	9.19
High								178	24.56
Overall								8	0.70
Low								100	9.96
Median								2,338	11.49
Mean								15,861	30.52
High									

Source: S&P Capital IQ, mergermarket, comparable company announcements, Ernst & Young Transaction Advisory Services analysis

Notes:

¹ Only comparable transactions with 2P reserves have been included in this analysis

² Announced date of transaction



Appendix F Sources of information

In arriving at our views, we have had regard to the following sources of information:

- ▶ audited financial statements of Drillsearch for the financial years ended 30 June 2014 and 2015
- ▶ audited financial statements of Beach for the financial year ended 30 June 2015
- ▶ recent unaudited management accounts of Drillsearch
- ▶ the RISC Report, included in Appendix H of this report
- ▶ the draft Scheme Booklet
- ▶ Drillsearch Financial Model and Asset Models prepared by Drillsearch management, with operational and technical assumptions updated by RISC
- ▶ details of company shareholders as provided by Drillsearch management
- ▶ ASX announcements for Drillsearch and Beach including quarterly reports
- ▶ analyst reports for Drillsearch, Beach and comparable companies
- ▶ company websites for Drillsearch, Beach and comparable companies
- ▶ Market data obtained from sources including ThomsonOne, S&P Capital IQ, mergermarket, DatAnalysis and Factiva

In addition we held discussions with various members of senior management of Drillsearch and Beach.



Appendix G Glossary

Glossary	
Abbreviation	Full Title / Description
\$	Australian dollar
ACE	Australian Capital Equity Pty Ltd
Acer	Acer Energy Limited
Act	Corporations Act 2001
AFS	Available for sale
AGL	AGL Energy Ltd
Ambassador	Ambassador Oil and Gas Limited
Announcement Date	Date on which Drillsearch and Beach announced that they had entered a Merger Implementation Agreement, on 23 October 2015
APES 225	Accounting Professional & Ethical Standards Board 225: Valuation Services
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATP	Authority to prospect
Beach	Beach Energy Limited
Beach Shares	Ordinary Shares in Beach Energy Limited
BMG	Basker, Manta and Gummy
CAGR	Compound annual growth rate
CAPM	Capital Asset Pricing Model
CEO	Chief Executive Officer
Chevron	Chevron Exploration Australia 1 Pty Ltd and associated entities
Convertible Notes	US\$125 million of convertible notes Drillsearch has on issue
Cooper Energy	Cooper Energy Limited
Cooper-Eromanga Basin	Cooper Basin and overlying Eromanga Basin
CPI	Consumer price index
CYXX	Calendar year ending 31 December XX
DCF	Discounted cash flow
Delhi	Delhi Petroleum Pty Ltd
Drillsearch / Company	Drillsearch Energy Limited
Drillsearch Shares	Ordinary shares in Drillsearch Energy Limited
Drillsearch Shareholders	Holders of ordinary shares in Drillsearch
EBIT	Earnings before interest and tax
EIA	US Energy Information Administration
Ernst & Young Transaction Advisory Services / Ernst & Young / we / us	Ernst & Young Transaction Advisory Services Limited
EV	Enterprise Value
FIRB	Foreign Investment Review Board
FSG	Financial Services Guide
FYXX	Financial year ending 30 June XX
GFC	Global Financial Crisis
Great Artesian	Great Artesian Oil and Gas Limited
GSA	Gas supply agreement
JunXX	As at 30 June XX
k	Thousand



Glossary	
Abbreviation	Full Title / Description
km	Kilometre
km ²	Square Kilometres
LNG	Liquefied natural gas
LPG	Liquefied petroleum gas, which typically consists of propane or a mix of propane and butane
Merged Group	Beach and Drillsearch combined
Merger Implementation Deed	Agreement between Drillsearch and Beach, where Beach intends to acquire all of the issued shares in Drillsearch that it does not already hold a relevant interest in via the Proposed Scheme.
mmbbl	Millions of barrels
mmboe	Millions of barrels of oil equivalent
mmbtu	Millions British thermal units
MT	Million tonnes
NTNG	Nappamerri Trough Natural Gas
NZOG	New Zealand Oil & Gas Limited
Options	Drillsearch's 3.6 million unlisted options outstanding
Origin/ Origin Energy	Origin Energy Limited
PEL	Petroleum exploration license
PEP	Petroleum exploration permit
Performance Rights	Drillsearch's 5.1 million performance rights outstanding
PJ	Petajoules
PPL	Petroleum production license
PRL	Petroleum retention license
Proposed Scheme	The proposed merger of Drillsearch and Beach by way of a scheme arrangement
PRRT	Petroleum resource rent tax
PSA	Production Sharing Agreement
QCLNG	Queensland Curtis LNG
Regulations	Corporations Regulations 2001
RG 111	Regulatory Guide 111: Content of expert reports
RG 112	Regulatory Guide 112: Independence of experts
RISC	RISC Operations Pty Limited
RISC Report	Independent technical report prepared by RISC
SACB JV	South Australian Cooper Basin Joint Ventures
Scheme Booklet	The scheme booklet in respect of the Proposed Scheme
Scheme Consideration	Drillsearch Shareholders will receive 1.25 Beach Shares for every Drillsearch Share held
Scheme Meeting	General meeting of Drillsearch Shareholders to be held on or about 27 January 2016
Senex	Senex Energy Limited
Seven Group	Seven Group Holdings Limited
SWQ JVs	South West Queensland Joint Ventures
TOAG	Territory Oil & Gas Pty Limited
TPDC	Tanzanian Petroleum Development Corporation
US	United States of America
US\$	United States dollar
VALMIN Code	Code for the technical assessment and valuation of mineral and petroleum assets and securities for independent expert reports.
VWAP	Volume weighted average price
WACC	Weighted Average Cost of Capital
Woodside	Woodside Energy Limited



Independent Technical Specialist Report on the petroleum assets of Drillsearch and Beach

7 December 2015



decisions with confidence



Table of contents

1.	Introduction.....	1
2.	Summary.....	2
2.1.	Overview.....	2
2.2.	Evaluation scenarios.....	3
2.3.	Exploration valuation	4
3.	Terms of reference	6
4.	Basis of assessment	7
4.1.	Data and site inspection	7
4.2.	Status and reference dates.....	7
4.3.	Exploration permit valuation.....	7
4.3.1.	Comparable transaction metrics	7
4.3.2.	Farm-in promotion factors	7
4.3.3.	Work programme	8
4.3.4.	Expected Monetary Value (EMV)	8
5.	Regional geology	9
5.1.	Cooper-Eromanga Basin	9
5.1.1.	Cooper Basin geology	9
5.1.2.	Eromanga Basin geology.....	13
5.2.	Otway Basin	15
5.3.	Gippsland Basin	18
5.4.	Bonaparte Basin	20
5.4.1.	Petrel Sub-basin.....	22
5.5.	Browse Basin	24
5.6.	New Zealand	26
5.6.1.	Taranaki Basin.....	26
5.6.2.	Canterbury Basin	29
5.7.	Lake Tanganyika Basin, Tanzania.....	31
6.	Drillsearch assets	33
6.1.	Description	33
6.1.1.	Permits and status	33
6.1.2.	Reserve and resource summary	34
6.2.	Western flank oil	36
6.3.	Eastern margin oil.....	37
6.4.	Western wet gas.....	37
6.4.1.	Western wet gas – Beach-Drillsearch JV	37
6.4.2.	Western wet gas – Santos-Drillsearch JV	39
6.5.	Northern Cooper gas and liquids.....	40



6.5.1.	PEL101 (now PRL173 and PRL174)	40
6.5.2.	PEL182	41
6.5.3.	PEL103, PEL103A and PRL14, 17, 18.....	42
6.6.	Inland-Cook oil fairway.....	43
6.6.1.	ATP924P.....	44
6.6.2.	Other permits in the Inland-Cook fairway.....	45
6.7.	Unconventional gas	46
6.7.1.	Nappamerri Trough	46
6.7.2.	PEL570	47
7.	Beach assets	48
7.1.	Description	48
7.1.1.	Permits.....	48
7.1.2.	Reserve and resource summary	49
7.2.	Cooper Basin conventional gas	51
7.2.1.	Beach-Drillsearch wet gas JV	53
7.3.	Cooper-Eromanga Basin oil	53
7.3.1.	SA FFA “Unit” oil	53
7.3.2.	South Australia Jurassic oil	53
7.3.3.	Queensland Jurassic oil.....	58
7.4.	Unconventional	61
7.4.1.	Nappamerri Trough – ATP855P and PEL218	61
7.4.2.	PEL94 and PEL95 deep coal gas play	62
7.4.3.	SA Unit	63
7.5.	Moomba plant throughput.....	64
7.5.1.	Gas throughput.....	64
7.5.2.	Oil throughput	64
7.6.	Other Australian Permits	65
7.6.1.	Browse Basin – WA-281-P	65
7.6.2.	Carnarvon Basin – WA-48-R	65
7.6.3.	Bonaparte Basin – EP126.....	66
7.6.4.	Gippsland Basin	67
7.6.5.	Otway Basin.....	68
7.7.	New Zealand.....	71
7.8.	Tanzania.....	75
8.	Early-stage exploration permit valuations	77
8.1.	Drillsearch’s early-stage exploration assets	78
8.2.	Beach’s early-stage exploration assets.....	78
9.	Declarations.....	79
9.1.	Qualifications.....	79
9.2.	VALMIN Code.....	80
9.3.	Petroleum Resources Management System	80



9.4.	Report to be presented in its entirety.....	80
9.5.	Independence.....	80
9.6.	Limitations	81
9.7.	Consent.....	81
10.	List of terms.....	82
10.1.	Abbreviations.....	82
10.2.	Definitions	83



List of figures

Figure 2-1 Drillsearch and Beach Cooper Basin petroleum permits	2
Figure 2-2 Beach's petroleum permits	3
Figure 5-1 Outline of the Cooper Basin	9
Figure 5-2 Major structural elements of the Cooper Basin ⁶	10
Figure 5-3 Cooper-Eromanga generalised stratigraphic column.....	11
Figure 5-4 Schematic section showing typical petroleum traps in the Warburton, Cooper and Eromanga basins.....	12
Figure 5-5 Schematic cross-section through the western Eromanga Basin ⁸	13
Figure 5-6 Schematic representation of the Patchawarra Trough showing the migration of oil towards the Patchawarra sub-crop margin	14
Figure 5-7 Cooper-Eromanga Petroleum Provinces superimposed on a map showing location of Beach and Drillsearch Permits	15
Figure 5-8 Tectonic element map for Otway Basin ¹⁰	16
Figure 5-9 Stratigraphic column and geological summary of the Otway Basin.....	17
Figure 5-10 Location and structural element map of the Gippsland Basin ¹²	18
Figure 5-11 Generalised stratigraphy of the Gippsland Basin ¹²	19
Figure 5-12 Location map for the Bonaparte Basin.....	20
Figure 5-13 Generalised stratigraphy of the Bonaparte Basin ¹³	21
Figure 5-14 Stratigraphic column for the lower Petrel Sub-basin ¹⁴	23
Figure 5-15 Location and structural element map for the Browse Basin (Geoscience Australia)	24
Figure 5-16 Stratigraphy of the Browse Basin ¹⁵	25
Figure 5-17 Location map for the Taranaki Basin ¹⁶	27
Figure 5-18 Generalised stratigraphy of the Taranaki Basin ¹⁶	28
Figure 5-19 Location map for the Canterbury Basin ¹⁷	29
Figure 5-20 Generalised stratigraphy of the Canterbury Basin ¹⁷	30
Figure 5-21 Canterbury Basin Petroleum Systems ¹⁷	31
Figure 5-22 Location map for Lake Tanganyika	32
Figure 5-23 Cross section through the Lake Tanganyika Rift	32
Figure 6-1 Location map for Drillsearch's permits	34
Figure 6-2 Drillsearch's Western Flank oil permits.....	36
Figure 6-3 Western wet gas permits - Beach-Drillsearch JV.....	38
Figure 6-4 Western wet gas permits - Santos-Drillsearch JV.....	39
Figure 6-5 Drillsearch's Northern Cooper wet gas permits	40
Figure 6-6 Jasmine 3D seismic location on trend with Ex PEL91 and Senex' oil fields.....	41
Figure 6-7 Juniper Field structure map.....	42
Figure 6-8 Drillsearch's Inland-Cook oil fairway permits.....	44



Figure 6-9 Proximity of ATP924P with the SWQ gas JV's current development in the Windorah Trough ...	45
Figure 6-10 Location of Drillsearch's and Beach's Nappamerri Trough permits and wells.....	47
Figure 6-11 Encouraging results from Washington 1 exploration well	47
Figure 7-1 Beach's Cooper Basin permits	52
Figure 7-2 Location of Beach's "Block" oil permits	54
Figure 7-3 Location of Beach's PEL92, PEL91 and PEL107 permits	55
Figure 7-4 Location of Beach's Ex PEL104 and Ex PEL107 permits	56
Figure 7-5 Location map for PEL424 and PEL87	57
Figure 7-6 SWQ "Block" oil historical production.....	58
Figure 7-7 Beach's Queensland oil assets.....	59
Figure 7-8 Beach's NTNG contingent resources at 31 December 2014	61
Figure 7-9 Beach's NTNG assets and contingent resource areas	62
Figure 7-10 Location of the Beach deep coal gas project in PEL94 and PEL95	63
Figure 7-11 Location of Beach's Browse Basin permits and fields	65
Figure 7-12 Location of Beach's Carnarvon Basin permits.....	66
Figure 7-13 Location of Beach's Bonaparte Basin permits and well	67
Figure 7-14 Location of Beach's Gippsland Basin permits and fields	68
Figure 7-15 Location of Beach's Otway Basin permits	69
Figure 7-16 Location of Beach's New Zealand permits	72
Figure 7-17 Location of the Barque prospect in PEP52717	73
Figure 7-18 Location of PEP52181.....	74
Figure 7-19 Location of PEP 57080	75
Figure 7-20 Location of Lake Tanganyika South	76



List of tables

Table 2-1 Drillsearch asset valuation scenario input summary as at 30 June 2015	4
Table 2-2 Beach asset valuation scenario input summary as at 30 June 2015	4
Table 2-3 Drillsearch and Beach early stage exploration permit valuation, A\$ million	5
Table 6-1 Drillsearch assets and their categorisation.....	33
Table 6-2 Drillsearch net reserves as at 30 June 2015	35
Table 6-3 Drillsearch net contingent resources as at 30 June 2015 ²²	35
Table 6-4 Gross contingent resources in ATP940P as at 30 June 2015	46
Table 7-1 Beach assets and their categorisation	48
Table 7-2 Beach net reserves as at 30 June 2015.....	49
Table 7-3 Beach net 2C contingent resources as at 30 June 2015	50
Table 7-4 Queensland "Block" oil permits.....	58
Table 7-5 Other Onshore Otway Basin licences	71
Table 8-1 Value of Drillsearch's early-stage exploration assets	78
Table 8-2 Value of Beach Energy's early-stage exploration assets.....	78



The Directors
Drillsearch Energy Limited
Level 18, 321 Kent Street
Sydney NSW 2000

Mr Ken Pendergast
Ernst and Young
680 George Street
Sydney NSW 2000

7 December 2015

Dear Sirs,

Independent Specialist's Report on the assets of Drillsearch Energy Limited and Beach Energy Limited

1. Introduction

Ernst and Young Transaction Advisory Services ("EYTAS") has been appointed by Drillsearch Energy Limited ("Drillsearch") to prepare an independent expert's report for Drillsearch in respect of the proposed Scheme of Arrangement between Drillsearch and Beach Energy Limited ("Beach") ("Proposed Scheme").

To assist EYTAS in preparing its report covering the Proposed Scheme, EYTAS engaged RISC Operations Pty Ltd ("RISC") to act as a Specialist, as defined in the Code for Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports, as amended (the VALMIN Code), and to prepare an Independent Technical Specialist Report (ITSR).

RISC's role in this engagement was to prepare or, if already available, review production forecasts and associated capital and operating costs for the production and development operations of Drillsearch and Beach, advise EYTAS as to whether these assumptions are reasonable for valuation purposes, prepare sensitivities that may need to be carried out and prepare a report. RISC was also asked to estimate the value of petroleum exploration permits.

Drillsearch and Beach have made available to RISC a data set of technical information including geological, geophysical, petrophysical, development, production and operational data and reports. RISC has also had meetings and discussions with technical and management personnel from Drillsearch and Beach. In carrying out this review, RISC has relied on the information received from Drillsearch and Beach and information in the public domain. RISC has not made a site inspection to assess the condition of any facilities as this was not considered necessary.

This report has been prepared in accordance with the requirements of the VALMIN code, 2005. To assess reserves and contingent or prospective resources, RISC has used the Petroleum Resources Management System published by the Society of Petroleum Engineers / World Petroleum Council / American Association of Petroleum Geologists / Society of Petroleum Evaluation Engineers (SPE/WPC/AAPG/APEE) in March 2007 (SPE PRMS).

This document comprises the ITSR on Drillsearch's and Beach's petroleum assets. It documents our review of the assets being exchanged under the Proposed Scheme and associated development schedules, production and cost forecasts. We have reviewed the estimates provided by Drillsearch and Beach and made such adjustments that in our judgment were necessary to provide a reasonable assessment and reflect current information.

2. Summary

2.1. Overview

Drillsearch's petroleum assets are located in the South Australia and Queensland Cooper Basin. Beach also has petroleum assets in the South Australian and Queensland Cooper Basin and it shares a number of these permits with Drillsearch. Beach also has interests in the Otway, Gippsland, Browse and Bonaparte Basins as well as interests in New Zealand, Tanzania and Egypt. Drillsearch's net production for the quarter ending 30 September 2015 was 0.8 MMboe, of which approximately 90% was oil. Beach produced 2.3 MMboe net over the same period of which approximately 50% was gas and gas liquids.

Beach and Drillsearch's Cooper Basin interests are shown in Figure 2-1 which shows the common acreage held by both companies. Beach's portfolio is shown in Figure 2-2.

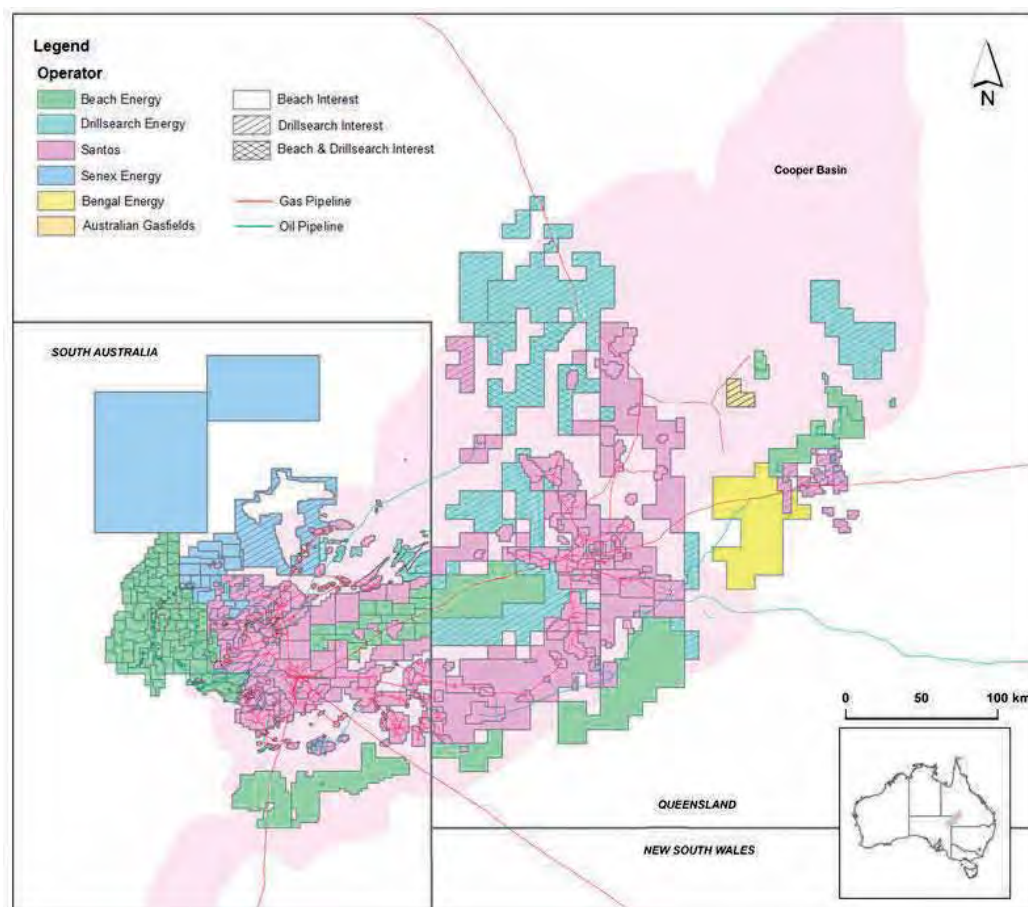


Figure 2-1 Drillsearch and Beach Cooper Basin petroleum permits¹

¹ Source: Drillsearch, Beach and RISC analysis



Figure 2-2 Beach's petroleum permits²

RISC has reviewed the technical inputs to the integrated cost and production forecast models provided by Beach and Drillsearch. In aggregate, we have found the technical inputs to be reasonable, however we made adjustments that in our judgement were necessary and, in consultation with EYTAS, developed sensitivities on the technical inputs for the major assets to assist the EYTAS in evaluating the uncertainty in value. The primary adjustments made were to ensure that there was a common set of inputs for the jointly held assets in PEL91 and PEL106B and to ensure abandonment costs were captured consistently.

2.2. Evaluation scenarios

Scenario 1 for both companies was based on 2P reserves plus a view of the risked contingent and prospective resources that in our judgement were sufficiently mature to enable a risk adjusted discounted cash flow (DCF) evaluation by EYTAS.

PEL91, in which Beach and Drillsearch hold a 40% and 60% interest respectively, contains the Bauer oil field which represents a major driver of value for both companies. We prepared a low and high case resource sensitivity for this permit to enable EYTAS to assess the impact of resource uncertainty on value. These are shown as scenario 2 and 3 in Table 2-1.

In the Santos operated Cooper Basin fixed factor area (FFA), Patchawarra East (PE) and South West Queensland assets we updated the Beach models to incorporate recent guidance on capex and production. We note that the operator has achieved some cost reduction to date and is also forecasting further cost

² Source: Beach Annual Report 2015, Romanian assets have been divested



improvements³. However in our opinion there is some uncertainty about the magnitude of the cost improvements that will eventuate in time and we have prepared a high and low cost scenario to enable EYTAS to evaluate the impact on value. This is shown as scenario 1 and 2 in Table 2-2, the valuation case is the mid point of these scenarios.

Table 2-1 Drillsearch asset valuation scenario input summary as at 30 June 2015

Scenario	Description	Production Net MMboe	Net Costs A\$ million	
			Capex	Opex
1	2P reserves + risked contingent and prospective resources	35.3	504	665
2	As in 1. except low PEL91 resource outcome	32.0	504	662
3	As in 1. except high PEL91 resource outcome	39.7	504	746

Table 2-2 Beach asset valuation scenario input summary as at 30 June 2015

Scenario	Description	Production Net MMboe	Net Costs A\$ million	
			Capex	Opex
1	2P reserves + risked contingent and prospective resources with high FFA/PE/SWQ capital costs	98.1	2,125	3,016
2	As in 1. except low FFA/PE/SWQ capital costs	98.1	1,916	3,016

2.3. Exploration valuation

The risked prospective resources of Drillsearch and Beach that are within permits near existing production assets of the respective parties have been valued on a risked DCF basis by EYTAS based on best estimates of production and costs associated with the risked prospective resources validated by RISC.

Under the current oil price environment, which has resulted from the halving of the oil price from June 2014, many companies in the upstream oil and gas industry have been reducing their capital expenditure budgets, including for exploration. The value of the remaining exploration assets within the Drillsearch and Beach portfolios have been assessed in this context using transactional metrics of comparable transactions adjusted for market factors.

³ Santos Strategic Review 09 November 2015



The fair market value estimated by RISC to the respective Drillsearch and Beach early stage exploration portfolios are shown in Table 2-3. These values are net of the companies' working interest share of costs of the notional farm-in activities, and therefore represent the estimated premium value that would be realised by the companies under farm-in terms in the current market.

Table 2-3 Drillsearch and Beach early stage exploration permit valuation, A\$ million

Company	Low	Preferred	High
Drillsearch	50	60	70
Beach	80	100	120



3. Terms of reference

EYTAS has requested that RISC carry out the following scope of work with respect to the Drillsearch and Beach petroleum assets:

- Review of the relevant data and reports available with respect to both Drillsearch's underlying production and development assets (including Flax/Juniper tight oil, Western Flank oil and Wet Gas assets) and Beach's underlying production and development assets (including those in the SA Cooper Basin JV, South West Queensland JVs, Western Flank oil, 100% owned Queensland assets and Wet Gas assets);
- Provide a description of the assets;
- Consideration of the technical geophysical, geological and engineering data, reserves and contingent resources, development and drilling plans, production profile (including production volumes and economic cut off, operating costs, capital costs and exploration potential);
- Consideration of the financial models (the "Models") prepared for the assets. RISC's role will be to determine the reasonableness of the technical and operational assumptions upon which the Models are based, including the reserves and contingent resources, production life, operating costs, capital costs and any other technical input viewed as necessary to conclude on the reasonableness of the operating assumptions. EYTAS will provide the economic and financial assumptions around commodity prices, exchange rates, inflation rates and discount rates;
- Consideration of the technical and operational assumptions (including any technical risk factors) for the reserves and contingent resources that are not included in the Models and consideration of the reasonableness of value derived from an extension of the Models;
- The value of development and exploration properties to the extent that they are not covered by the Models (including unconventional properties held by both Drillsearch and Beach and international assets held by Beach); and
- Beach's Egyptian assets, and Drillsearch's Tintaburra asset, are currently subject to a sales process and therefore are excluded from RISC's scope.



4. Basis of assessment

4.1. Data and site inspection

The data and information used in the preparation of this report were provided by Drillsearch and Beach, supplemented by public domain information. RISC has relied upon the information provided and has undertaken the evaluation on the basis of a review of existing interpretations and assessments as supplied, making adjustments that in our judgment were necessary.

RISC has not undertaken a site inspection for any of the assets as this was considered unnecessary.

RISC has estimated the reserves/resources in accordance with the Society of Petroleum Engineers' internationally recognised Petroleum Resources Management System (SPE-PRMS)⁴.

4.2. Status and reference dates

This review incorporates data available to 30 October 2015. Reserves, resources and production estimates have been prepared on a financial year basis commencing 1 July 2015. Unless otherwise stated, all costs are in gross A\$ real terms as at 1 July 2015. The reserves have not been adjusted for production from 1 July 2015 to 30 September 2015. For Drillsearch, this is 0.8 MMboe net and 2.3 MMboe net for Beach.

Unless otherwise stated, production and resource quantities are reported in gross (100% JV) terms.

4.3. Exploration permit valuation

The valuation is based on the concept of "fair market value" (Value) as defined by the VALMIN Code.

The VALMIN Code defines Value as the amount of money (or the cash equivalent of some other consideration) determined by the Expert in accordance with the provisions of the VALMIN Code for which the Mineral or Petroleum Asset or Security should change hands on the Valuation Date in an open and unrestricted market between a willing buyer and a willing seller in an "arm's length" transaction, with each party acting knowledgeably, prudently and without compulsion.

A range of oil and gas industry accepted practices in relation to petroleum properties has been considered to determine value, which are described below.

4.3.1. Comparable transaction metrics

The Value of exploration properties can be estimated using recent comparable transactions. Such transactions may provide relevant metrics such as Value per unit of reserves, contingent or prospective resources, price paid per unit area of the permit or % interest. The VALMIN Code advises Value must also take into account risk and premium or discount relating to market, strategic or other considerations.

4.3.2. Farm-in promotion factors

An estimate of Value can be based on an estimation of the share of future costs likely to be borne by a reasonable farminee under prevailing market conditions. A premium or promotion factor may be paid by

⁴ SPE/WPC/AAPG/SPEE 2007 Petroleum Resources Management System



the farminee. The promotion factor is defined as the ratio of the proportion of the activity being paid for and the amount of equity being earned.

The nominal permit value is defined as the amount spent by the farminee divided by the interest earned. The premium value for the permit is the difference between the nominal value and the equity share of the cost of the activity divided by the equity interest being earned.

The premium or promotion factor will be dependent upon the perceived prospectivity of the property, competition and general market conditions. The premium value is equivalent to the farminee paying the farmenor a cash amount in return for the acquisition of the interest in the permit and is the fair market value.

Farm-in transactions may have several stages. For example, a farminee may acquire an initial interest by committing to a future cost in the first stage of the transaction, but has an option to acquire an additional interest or interests in return to committing to funding a further work program or programs.

Farm-in agreements can also include re-imbursement of past costs and bonus payments once certain milestones are achieved, for example declaration of commerciality, or achieving threshold reserves volumes. Depending on their conditionality, such future payments may contribute to Value. However, they may need to be adjusted for the time value of money and probability of occurring.

4.3.3. Work programme

The costs of a future work programme may also be used to estimate Value. The work programme valuation relies on the assumption that unless there is evidence to the contrary the permit is worth what a company will spend on it. This method is relevant for permits in the early stages of exploration and for expenditure which is firmly committed as part of a venture budget or as agreed with the government as a condition of holding the permit. There may need to be an adjustment for risk and the time value of money.

4.3.4. Expected Monetary Value (EMV)

EMV is the risk NPV of a prospect. EMV is calculated as the success case NPV times the probability of success less the NPV of failure multiplied by the probability of failure. The NPV may be estimated using DCF methods. The EMV method provides a more representative estimate of Value in areas with a statistically significant number of mature prospects within proven commercial hydrocarbon provinces where the chance of success and volumes can be assessed with a reasonable degree of predictability.

The EMV valuation can also be used as a relative measure for ranking exploration prospects within a portfolio to make drilling decisions, assessing commercial potential and to demonstrate the commercial attractiveness of a permit, which may influence a buyer or seller.

In this report, the risk prospective resources of Drillsearch and Beach that are within permits near existing production assets of these respective parties have been valued on a risk DCF basis by the Independent Expert based on best estimates of production and costs associated with the risk prospective resources validated by RISC.



5. Regional geology

5.1. Cooper-Eromanga Basin

The Cooper/Eromanga Basin is the largest onshore oil and gas province in Australia with a long production history commencing in the 1960s. The Cooper Basin straddles the SA/QLD boundary as shown in Figure 5-1 and is overlain by the younger Eromanga Basin.

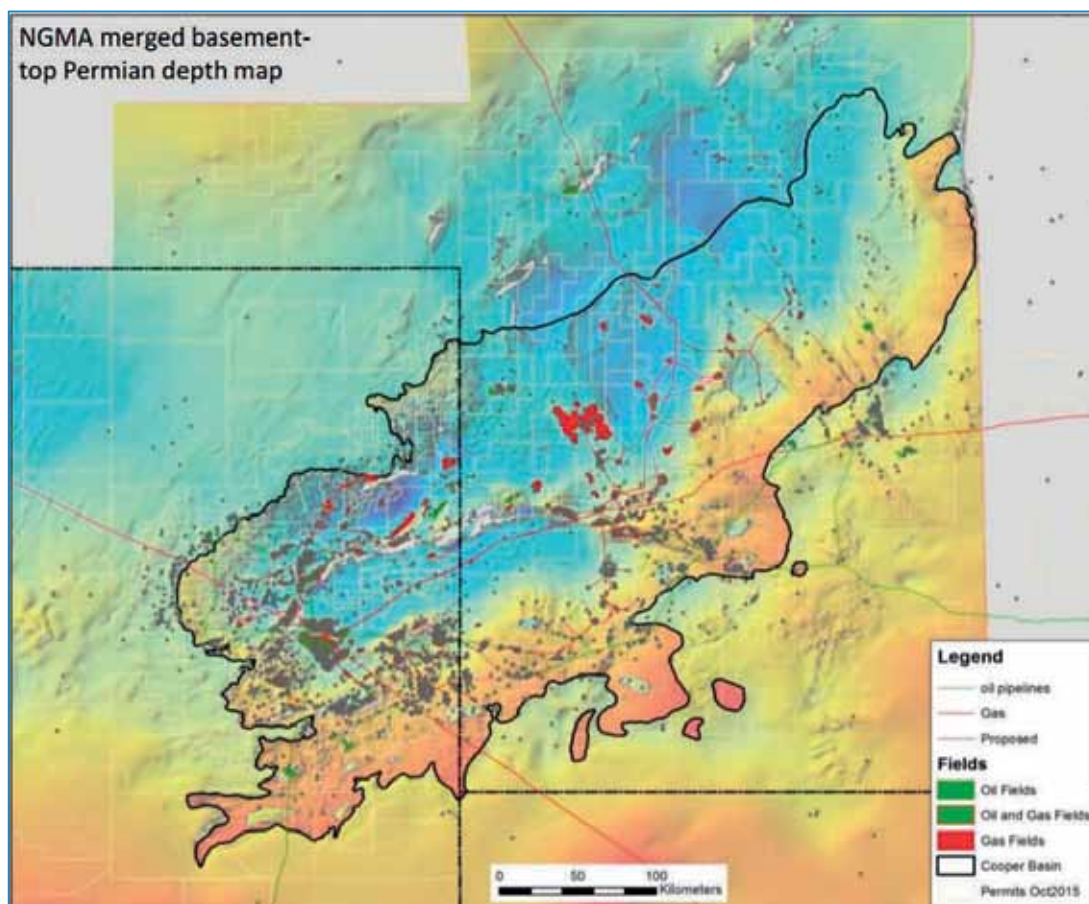


Figure 5-1 Outline of the Cooper Basin

5.1.1. Cooper Basin geology

The intracratonic Cooper Basin represents a Late Carboniferous to Triassic depositional episode terminated at the end of the Middle Triassic with widespread compressional folding, regional uplift and erosion⁵. It lies unconformably over early Palaeozoic sediments of the Warburton Basin and is overlain disconformably by the central Eromanga Basin.

⁵ http://www.pir.sa.gov.au/__data/assets/pdf_file/0003/33663/prospectivity_cooper.pdf

Three major troughs (Patchawarra, Nappamerri and Tenappera) are separated by structural ridges (Gidgealpa–Merrimelia–Innamincka (GMI) and Murteree) associated with the reactivation of NW-directed thrust faults in the underlying Warburton Basin⁶, Figure 5-2.

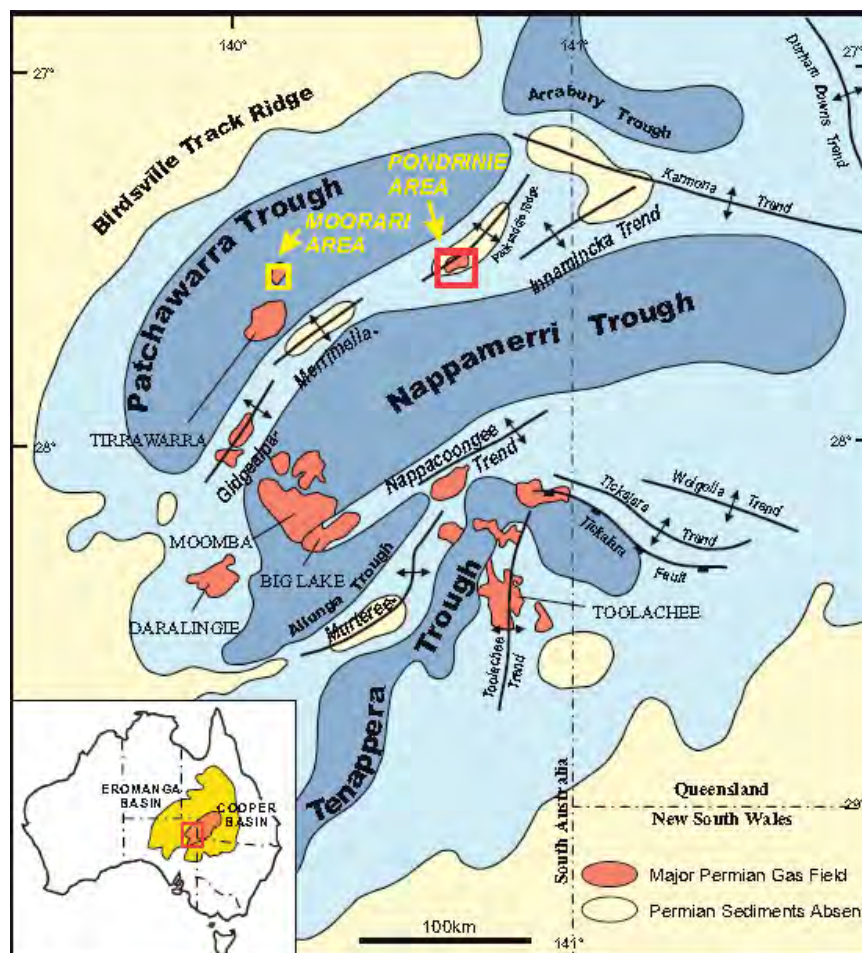


Figure 5-2 Major structural elements of the Cooper Basin⁶

Figure 5-3 shows a generalised stratigraphic column for the area. The oldest stratigraphic units are the Late Carboniferous to Early Permian Merrimelia Formation and Tirrawarra Sandstone which are comprised of termino-glacial and glacio-fluvial systems deposited unconformably on a glacially scoured landscape. The Tirrawarra Sandstone represents braided fluvial to fan-delta deposits overlain by peat swamp and floodplain facies of the Patchawarra Formation. Locally (e.g. Ponderine Field), Merrimelia aeolian facies forms a major gas reservoir. Two lacustrine shale units (Murteree and Roseneath shales) with intervening fluviodeltaic sediments (Epsilon and Daralingie formations) were deposited during a phase of continued subsidence. Early Permian uplift led to erosion of the Daralingie Formation and underlying units from basement highs.

⁶ Nakanishi T., Lang S.C. Towards an efficient exploration frontier: constructing a portfolio of stratigraphic traps in fluvial-lacustrine successions, Cooper-Eromanga Basin, APPEA Journal 2002 p 132



The Late Permian Toolachee Formation was deposited on the Daralingie unconformity surface and is overlain conformably by Late Permian to Middle Triassic Arrabury Formation (comprising the Callamurra, Paning and Wimma Sandstone members) and the Middle to early Late Triassic Tinchoo Formation.

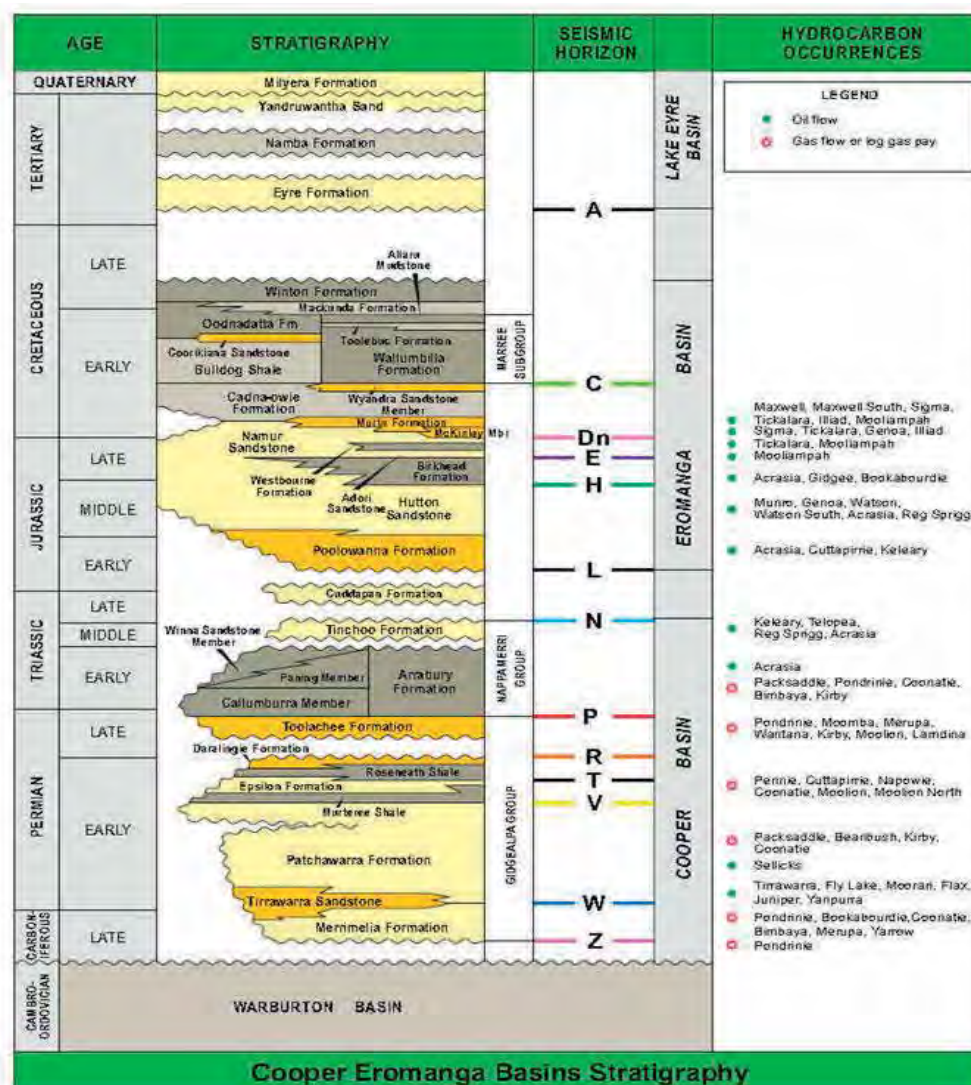


Figure 5-3 Cooper-Eromanga generalised stratigraphic column

Permian coal measures and shales are the principal hydrocarbon source rocks in the region and are dominated by Type III kerogens derived from higher plant assemblages. Oils and condensates are typically medium to light (30–60° API) and paraffinic, with low to high wax contents. Most Permian oils in Permian reservoirs contain significant dissolved gas and show no evidence of water washing. Gas composition is closely related to maturity/depth with drier gas occurring towards basin depocentres although there is strong geological control on hydrocarbon composition.

The Patchawarra Trough (see Figure 5-2) contains the bulk of the oil and wet gas reserves consistent with local source rocks being in the 'oil window', while the hot Nappamerri Trough (40–50 °C/km), underlain in part by granite, is over mature and contains mainly dry gas.



Multi-zone high-sinuosity fluvial sandstones form poor to good quality reservoirs. The main gas reservoirs occur primarily within the Patchawarra Formation (porosities up to 23.8%, average 10.5%; permeability up to 2500 mD) and Toolachee Formation (porosities up to 25.3%, average 12.4%; permeability up to 1995 mD). Shoreface and delta distributary sands of the Epsilon and Daralingie formations are also important reservoirs. Oil is produced principally from low-sinuosity fluvial sands within the Tirrawarra Sandstone (porosities up to 18.8%, average 11.1%; permeability up to 329 mD). Towards the margin of the Cooper Basin, oil is also produced from the Patchawarra Formation and from fluvial channel sands in the Merrimelia Formation.

The Callamurra Member of the Arrabury Formation is conventionally regarded as a regional seal, but nevertheless contains economic oil and gas reservoirs in some areas and is a leaky seal in others. Low sinuosity fluvial sandstones of the Paning and Wimmera Sandstone members form economic oil and gas reservoirs, and high-sinuosity fluvial sandstone of the Tinchoo Formation reservoirs oil.

Intraformational shale and coal form local seals in the major reservoir units. Beneath the Daralingie unconformity are two important early Permian regional seals — the Roseneath and Murteree shales. The Roseneath Shale is the top seal of the Epsilon Formation, and the Murteree Shale seals the Patchawarra Formation. These Permian shales have been the target for shale gas exploration primarily in the Nappamerri and Patchawarra troughs. A younger regional seal is provided by the Triassic Arrabury Formation.

Where the regional seal is thin or absent, multiple oil and gas pools are stacked in coaxial Permian–Mesozoic structures and may occur from as low as the Patchawarra Formation to as high as the Murta Formation. This is shown schematically in Figure 5-4.

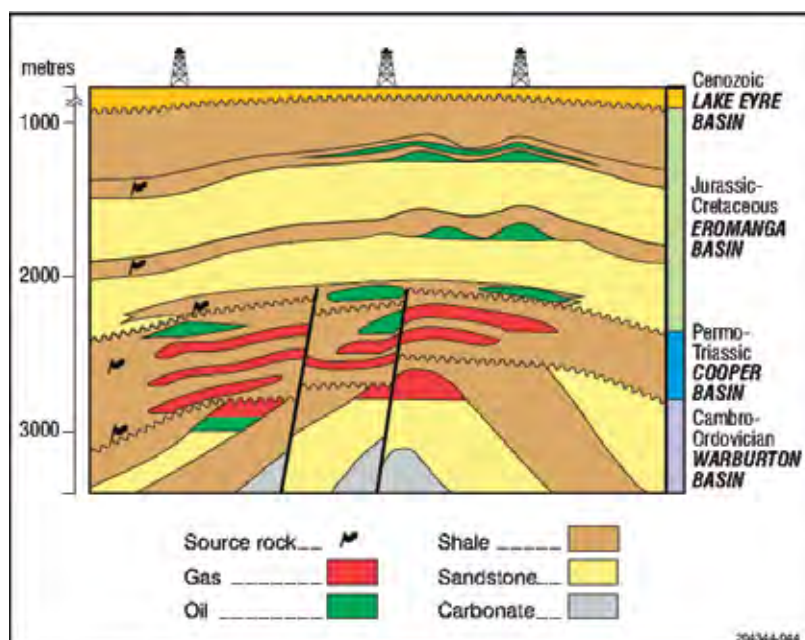


Figure 5-4 Schematic section showing typical petroleum traps in the Warburton, Cooper and Eromanga basins⁷

⁷ SA Government, DMITRE website



5.1.2. Eromanga Basin geology

The Eromanga Basin covers 1,000,000 km² of central-eastern Australia, 360,000 km² of which lie in South Australia⁸. The Eromanga Basin encloses the multi-aquifer system of the Great Artesian Basin.

Figure 5-5 is a schematic cross section through the western Eromanga Basin illustrating the structural relationship between depositional basins.

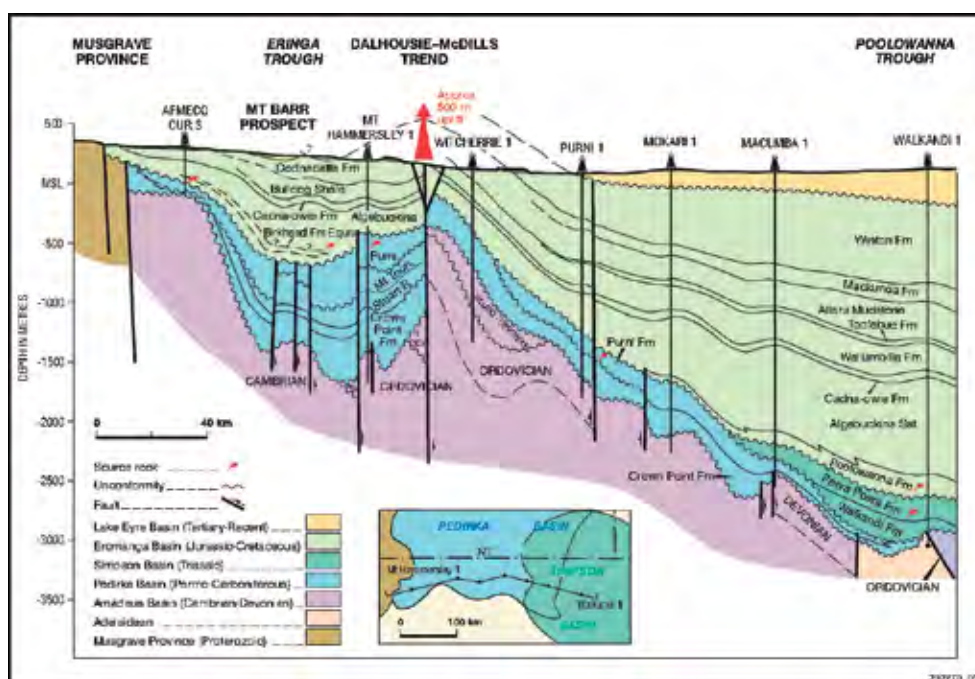


Figure 5-5 Schematic cross-section through the western Eromanga Basin⁸

A generalised stratigraphic column for the Eromanga Basin is shown in the upper part of Figure 5-3. Eromanga Basin stratigraphy can be divided into three sequences — lower non-marine, marine and upper non-marine. Exploration effort is concentrated on the productive lower non-marine sequence.

The lower non-marine sequence consists of inter-tonguing braided fluvial sandstones (Hutton and Namur sandstones), lacustrine shoreface sandstones (McKinlay Member) and meandering fluvial, overbank and lacustrine sandstone, siltstone, shale and minor coal (Poolowanna, Birkhead and Murta formations).

The non-marine sequence is succeeded conformably by a sequence reflecting transition from non-marine to marginal marine to open marine shale and sandstone. The basal unit, Cadna-owie Formation, is of significance for petroleum exploration as the top of the unit approximates a distinctive seismic reflector — the C horizon mappable over the entire basin.

The upper non-marine sequence (Winton Formation) was rapidly deposited — up to 1100 m over ~8 million years. A period of erosion in the Late Cretaceous, caused by a switch in drainage from the Cooper

⁸ http://www.petroleum.dmitre.sa.gov.au/__data/assets/pdf_file/0005/26915/prospectivity_eromanga.pdf

region to the Ceduna Depocentre on the rifted southern margin, was followed by deposition of the non-marine Cainozoic Lake Eyre Basin.

Vertical migration of oil from Permian (Cooper Basin) source rocks has been widely accepted as the principal source of most Eromanga-reservoired oil. Both Cooper and Eromanga mature source rocks have contributed to oil accumulations in the region, however each oil accumulation needs to be considered on its merits with respect to the extent of mixing from Permian and Mesozoic sources. The Poolowanna and Birkhead formations contain organic-rich shales that are oil-prone and in places at peak maturity for oil generation. Lateral migration from these source areas has also been postulated.

The principal reservoirs are the braided fluvial Hutton and Namur sandstones (porosities up to 25%, permeability up to 2500 mD). Oil is also reservoired in meandering fluvial (Poolowanna and Birkhead formations), lacustrine shoreface (McKinlay Member and Murta Formation) sandstones.

A schematic section showing typical petroleum traps of the Eromanga Basin is shown in Figure 5-6 and is the model used to explain the occurrence of oil and wet gas in the western flank fairway that has been successfully exploited by Beach and Drillsearch.

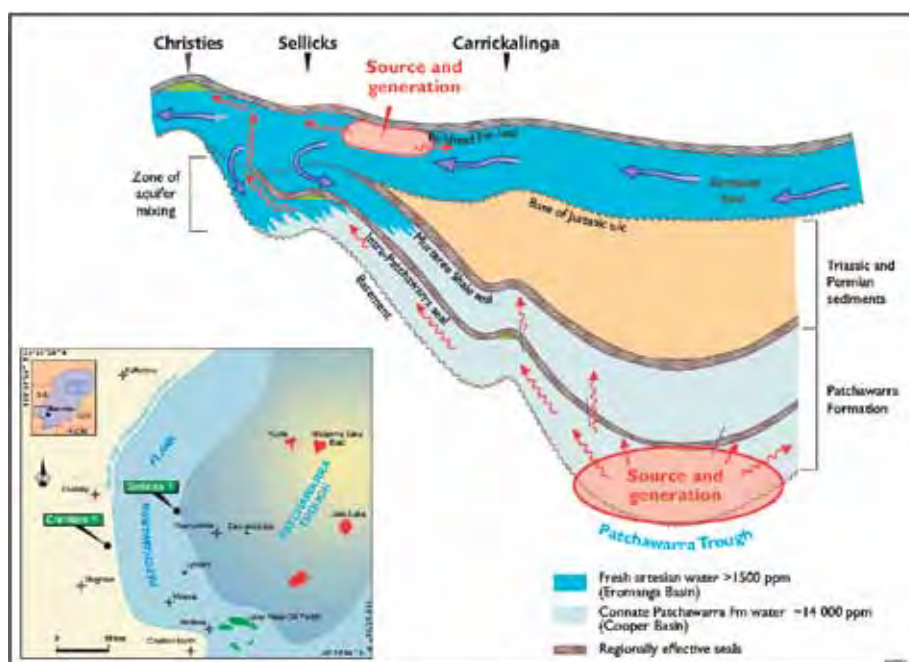


Figure 5-6 Schematic representation of the Patchawarra Trough showing the migration of oil towards the Patchawarra sub-crop margin⁹

Trapping mechanisms within the Eromanga Basin are dominantly structural (anticlines with four-way dip closure or drapes over pre-existing highs) with a stratigraphic component (e.g. Hutton–Birkhead transition, Poolowanna, McKinlay Member and Murta Formation). Eromanga structures in South Australia are rarely filled to spill with oil — net oil columns are relatively thin compared to the height under closure (due to poor sealing characteristics).

⁹Cotton, T.B., Mckirdy D.M, Petroleum Geology of South Australia, Vol 2 Eromanga Basin, Chapter 10, Hydrocarbon generation and migration



Seals consist of intraformational diagenetic sandstones, siltstones and shales of the Poolowanna, Birkhead and Murta formations in the Cooper region. In the Poolowanna Trough, they consist of intraformational siltstone and shale in the Poolowanna Formation and siltstone of the Cadna-owie Formation. Elsewhere in the basin, potential seals include the Cadna-owie Formation and Bulldog Shale – Wallumbilla Formation).

In general the Cooper Basin is a gas prone province and the overlying Eromanga Basin is oil prone. Several petroleum play fairways have been identified and their location is controlled by geothermal gradients and migration pathways. Figure 5-7 shows the location of these petroleum provinces superimposed on a map of the Permits currently held by Beach and Drillsearch. It can be seen that the two companies have a broad geographical acreage position covering the full range of hydrocarbon fairways.

Of significance to liquids prospectivity is the western flank oil and wet gas fairway, the Inland-Cook oil fairway and the eastern margin oil fairway. Unconventional plays (shale gas, basin centered gas and deep Permian coals) are located within the deeper sub-basins of the Nappamerri, Patchawarra Troughs, refer also to Figure 5-2.

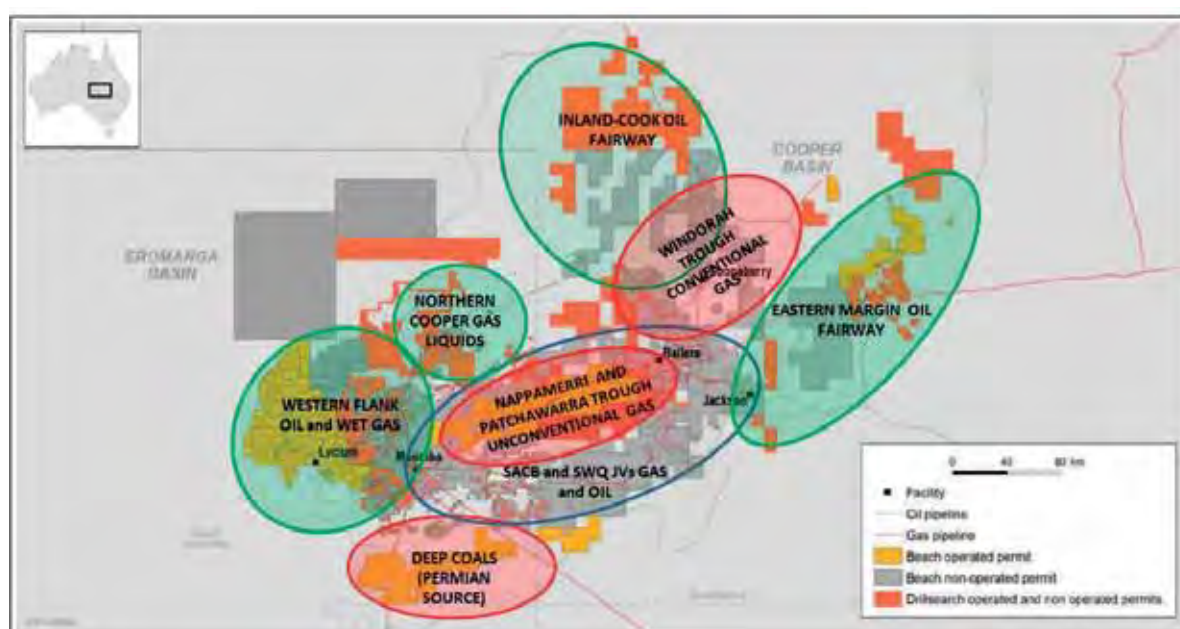


Figure 5-7 Cooper-Eromanga Petroleum Provinces superimposed on a map of Beach and Drillsearch Permits

5.2. Otway Basin

The Otway Basin is part of the Southern Rift System, the passive margin rift basin that formed as a product of the rifting of Australia from Antarctica during the breakup of the supercontinent Gondwana. It is situated in SW Victoria and SE South Australia, covering 150 000 km², 80% of which is offshore (Figure 5-8). There are two major depocentres (the onshore and shallow Inner Otway Basin, and the deeper water Morum, Nelson and Torquay Sub-basins). These were filled principally by siliciclastic and carbonate sediment during the Cretaceous Period (Figure 5-9)¹⁰.

¹⁰ Geoscience Australia, Regional Geology of the Otway Basin. Offshore Petroleum Exploration Release, 2015.

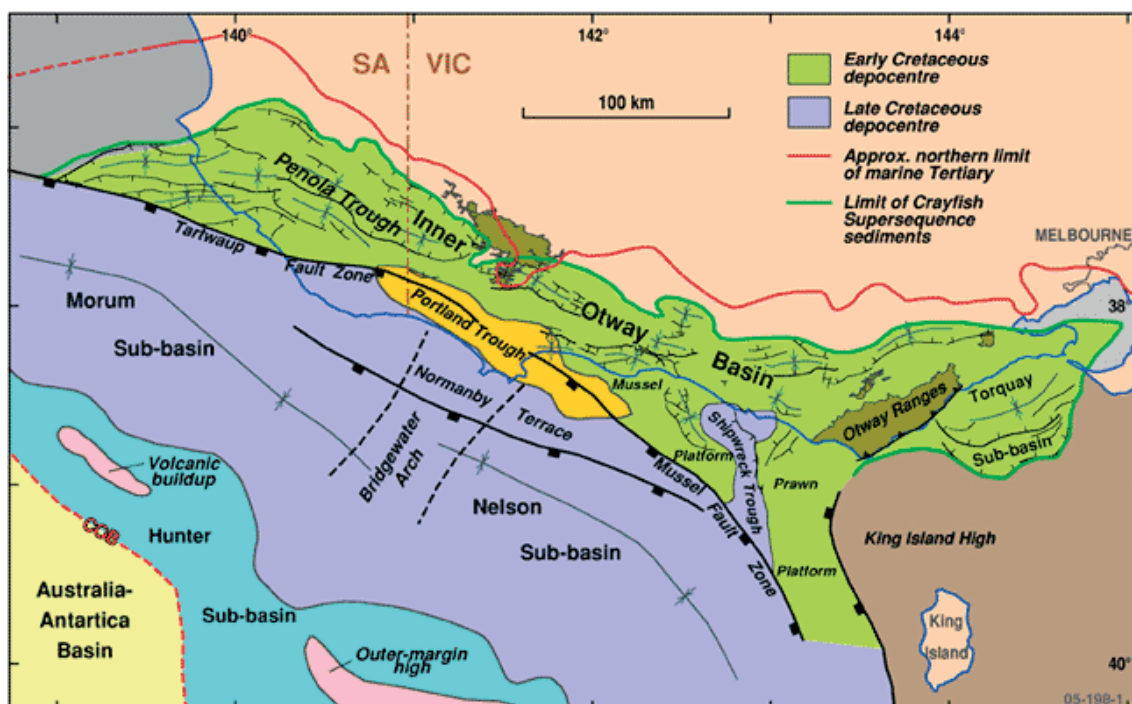
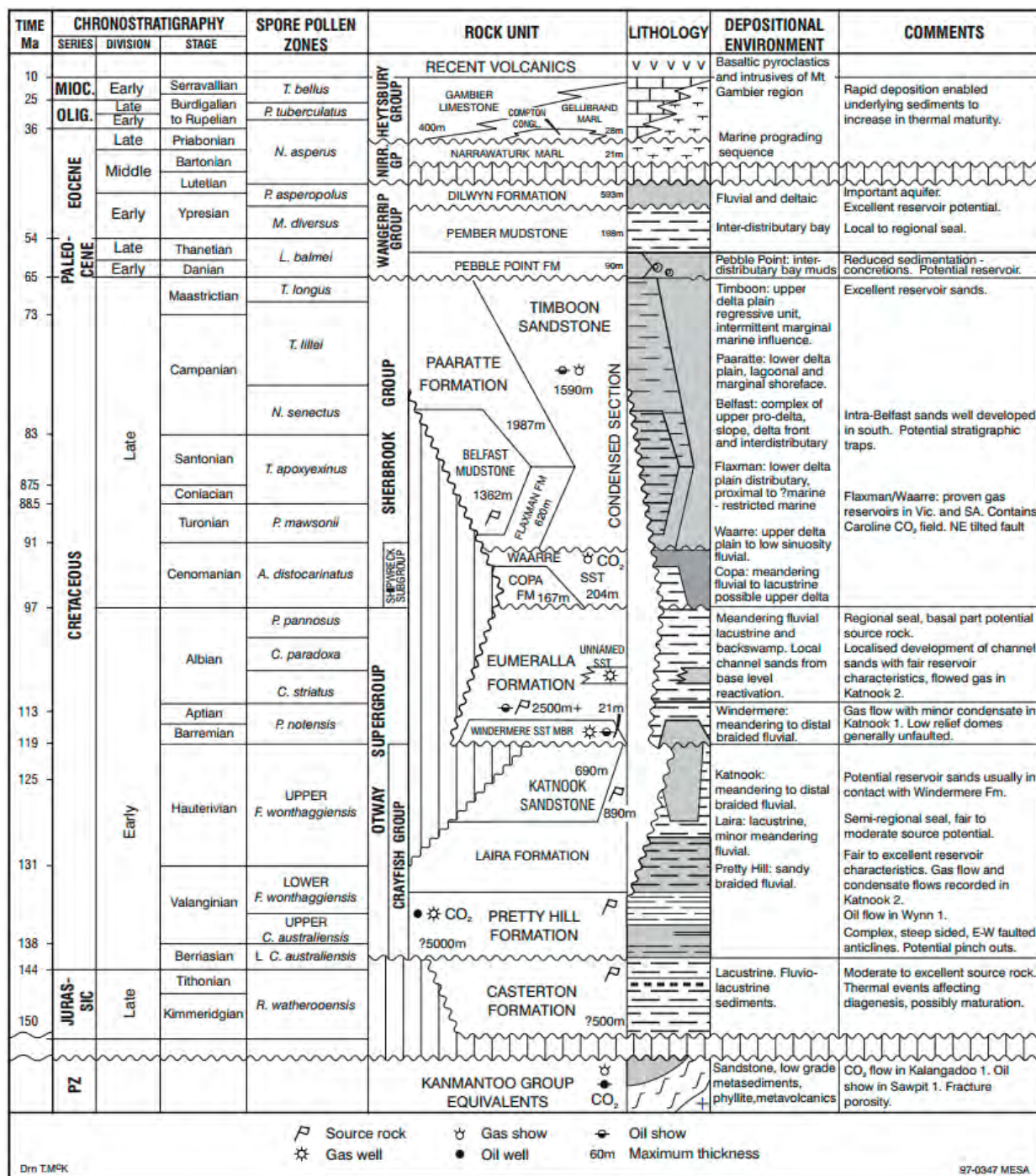


Figure 5-8 Tectonic element map for Otway Basin¹⁰

Petroleum occurrences are attributed to the Austral Petroleum Supersystem. The best reservoir is the Pretty Hill Formation, which exhibits 25% porosity and over 1000 mD permeability in the Katnook field. The Pretty Hill Formation is a braided fluvial sandstone, which is overlain by the sealing fluviolacustrine shales of the Laira Formation. Structures are steep sided, east-west trending, faulted anticlines, where Pretty Hill Formation has been juxtaposed against Laira Formation. Other good reservoir rocks are the Windemere, Waare, Flaxman and intra-Belfast units. In the Windemere unit, traps are unfaulted, low relief domes, sealed by overlying silts and shales of the Eumeralla Formation. Source rocks for the systems are the Casterton and Laira Formations.

The basin has been explored since the 1890s, with the first commercial gas discovery in 1987. This was the Katnook Field, which was followed by the Ladbroke field in 1989. More recently there has been exploration success in the Shipwreck Trough. In the early nineties, BHP drilled the Minerva and La Bella fields. Between 1999 and 2005, Woodside discovered the Geographe, Thylacine, Halladale and Blackwatch gas fields. In addition, Strike discovered Casino, and Origin Energy recorded a discovery in their Speculant 1 well in 2014.

Figure 5-9 Stratigraphic column and geological summary of the Otway Basin¹¹¹¹ www.pir.sa.gov.au

5.3. Gippsland Basin

Like the Otway Basin, the Gippsland basin formed during the breakup of the Gondwanan supercontinent, as Australia broke away from Antarctica. Located in south Victoria, it is a passive rift basin occupying 46,000 km², two thirds of which is offshore. The basin extends c. 500 km eastwards from Melbourne, and offshore across continental shelf into the Bass Canyon (Figure 5-10)¹². It is a prolific producer of hydrocarbons, host to the 'giant' Barracouta, Snapper and Marlin-Turrum gas fields and Kingfish, Halibut and Mackerel oil fields.

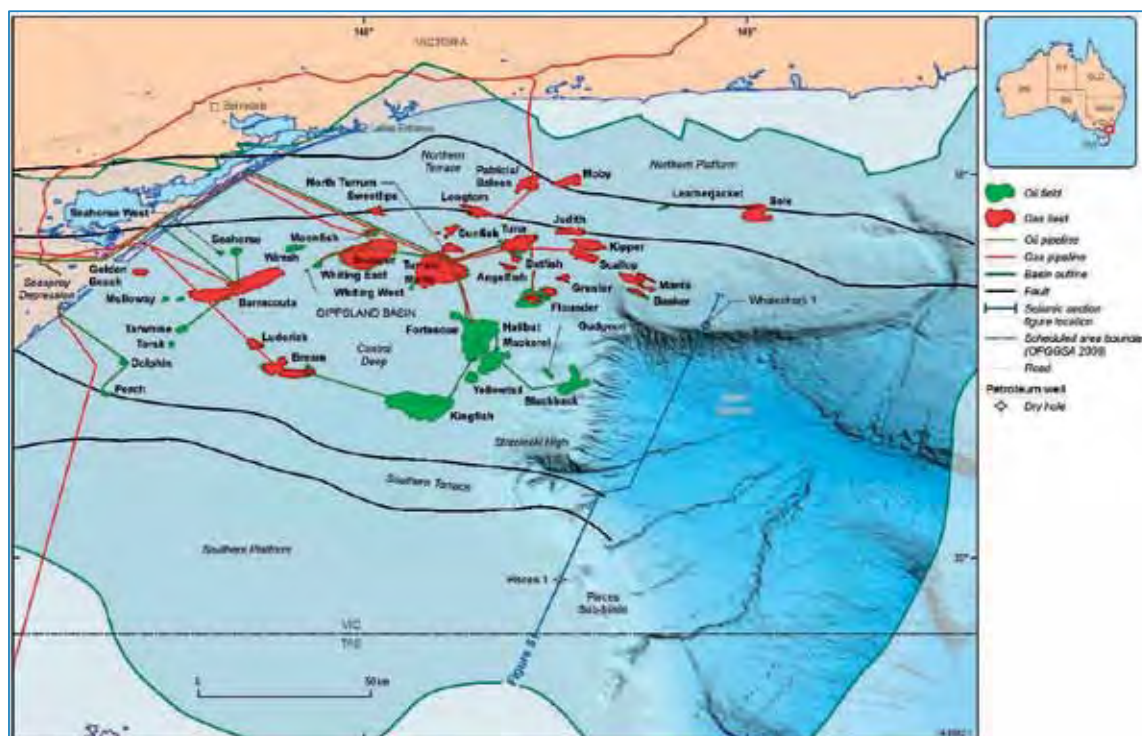


Figure 5-10 Location and structural element map of the Gippsland Basin¹²

Hydrocarbons are derived from the Austral Petroleum Supersystem. During the Late Cretaceous until the Eocene, siliciclastic sedimentation dominated (Figure 5-11). This changed to mostly carbonate deposition in the lower Oligocene, which has continued to the present day. Source rocks are primarily organic rich terrestrial coastal plain mudstones and coals, well distributed within the Latrobe Group, with source potential also existing in marine Anenome Formation shales. Barrier and shore face sandstones of the Cobia and Halibut subgroups make excellent reservoir rocks, and host the largest petroleum occurrences in the basin. The Latrobe sandstone reservoirs are regionally sealed by calcareous shales and marls at the base of the Seaspray Group (the Early Oligocene Wedge, or EOW in the east of the basin). There are a variety of plays and trap types: The biggest fields are in large anticlinal closures at the top of the Latrobe Group. Where water is slightly deeper, erosional channel plays in the top-Latrobe host the Blackback, Marlin and Turrum Fields. Structural plays such as inverted normal fault-closures on basin terraces contain the Leatherjacket oil and gas discovery.

¹² Geoscience Australia, Regional Geology of the Gippsland Basin. Offshore Petroleum Exploration Release, 2015.

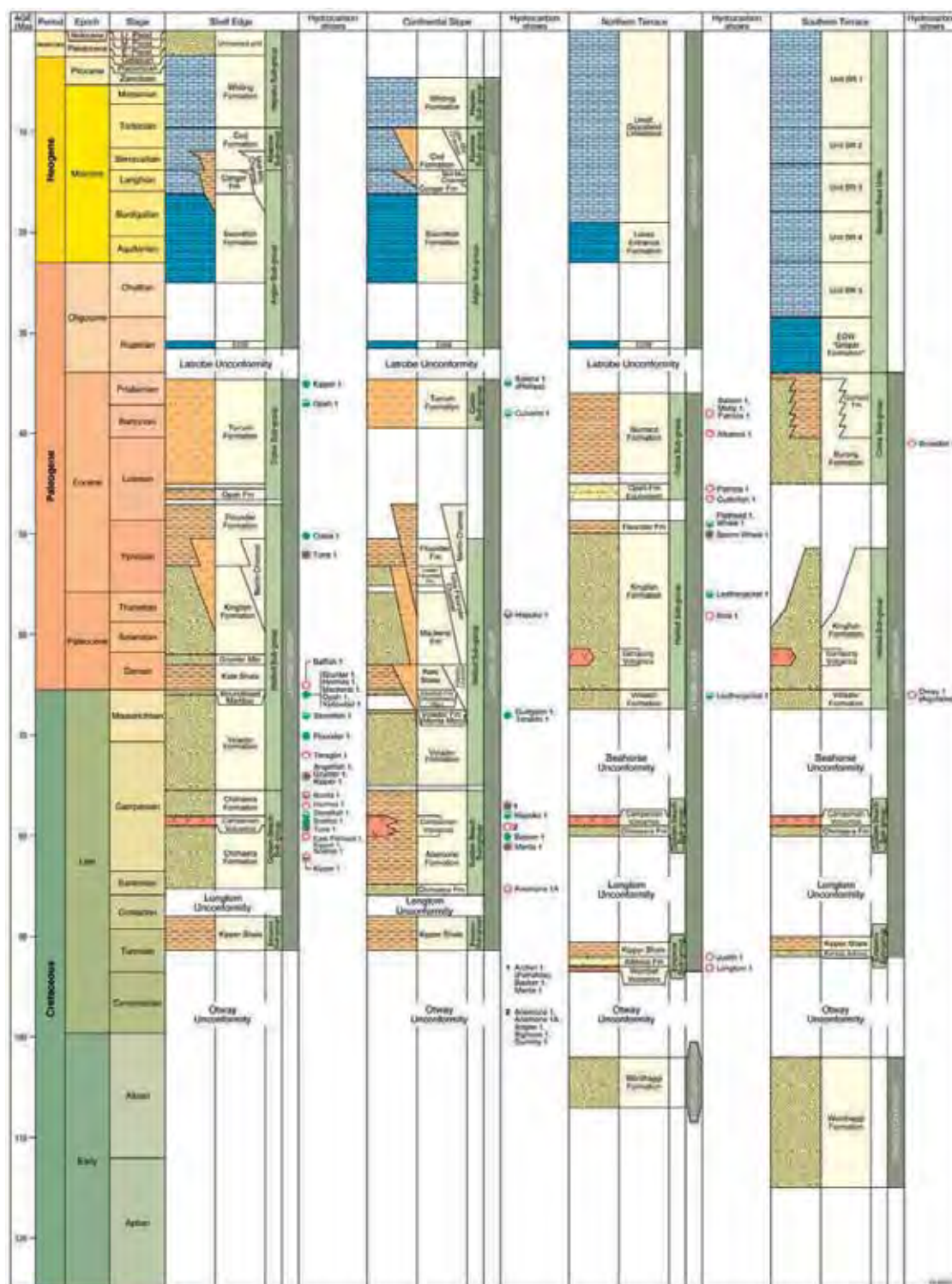


Figure 5-11 Generalised stratigraphy of the Gippsland Basin¹²

5.4. Bonaparte Basin

The Bonaparte Basin covers 270,000 km², straddling offshore north east Western Australia and Northern Territory. It is bound by the Browse Basin to the south west and the Money Shoal Basin to the north east (Figure 5-12)¹³. Oil is currently produced from the Kitan, Laminaria and Montara fields, whilst gas is piped to Darwin from the Bayu-Undan and Blacktip fields.

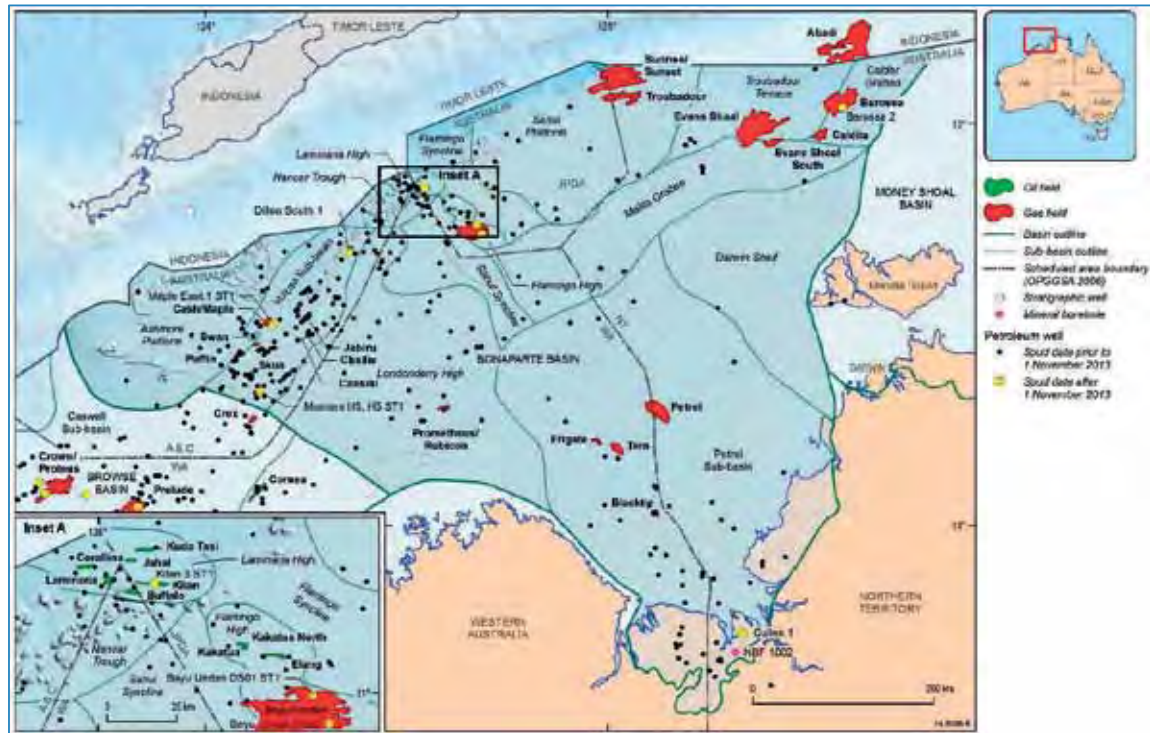


Figure 5-12 Location map for the Bonaparte Basin

The basin has a complex structural history, with sediments ranging in age from Carboniferous to Tertiary (Figure 5-13). Deposition began in the Petrel sub-basin and on the Londonderry High during two periods of extension in the Palaeozoic. Transgressive sandstones of the Kulshill Group were deposited, followed by deeper marine shales of the Kinmore Group. Compression in the Middle to Late Triassic uplifted sediment on the Londonderry High and the Sahul and Ashmore platforms. This resulted in erosion and carbonate deposition in high areas. Subsequently, fluvial systems deposited the Malita and Plover formations across much of the Bonaparte Basin between the Upper Triassic and the Middle Jurassic. The Plover Formation is a major source and reservoir rock in the Northern Bonaparte basin. Reversion to extension in the Middle to Late Jurassic led to a marine transgression and deposition of the excellent delta facies reservoir sandstones of the Swan Group. The Vulcan Sub-basin, Sahul Platform, Malita and Calder Graben became major depocentres, and were filled by the Vulcan Formation and Frigate Shale of the Flamingo Group: good quality, oil and gas prone source rocks. In the Middle Jurassic, extension eventually led to seafloor spreading, and the breakup of Gondwana. Thermal subsidence flooded much of the west Australian coast. The thick, carbonate and siliciclastic Bathurst Island Group was deposited across the basin. The claystones of the Echuca Shoals Formation at its base make good regional seals. Compression

¹³ Geoscience Australia, Regional Geology of the Bonaparte Basin. Offshore Petroleum Exploration Release, 2015.



associated with convergence of Australian and Southeast Asian microplates caused thickening and uplift in the Northern Bonaparte basin. This resulted in carbonate deposition through the Tertiary. This tectonism also re-activated Mesozoic faults leading to a loss of hydrocarbons from many fault dependent structures in the Vulcan Sub-basin.

There has been intense exploration activity in the Bonaparte Basin since 1965. This has focussed on the inner sub-basins, with exploration in the North Bonaparte only getting underway in 2005. Significant gas discoveries include the Sunset and Troubadour fields (1974), Evans Shoal (1988), Bayu-Undan (1995) and Caldita Barossa (2005).

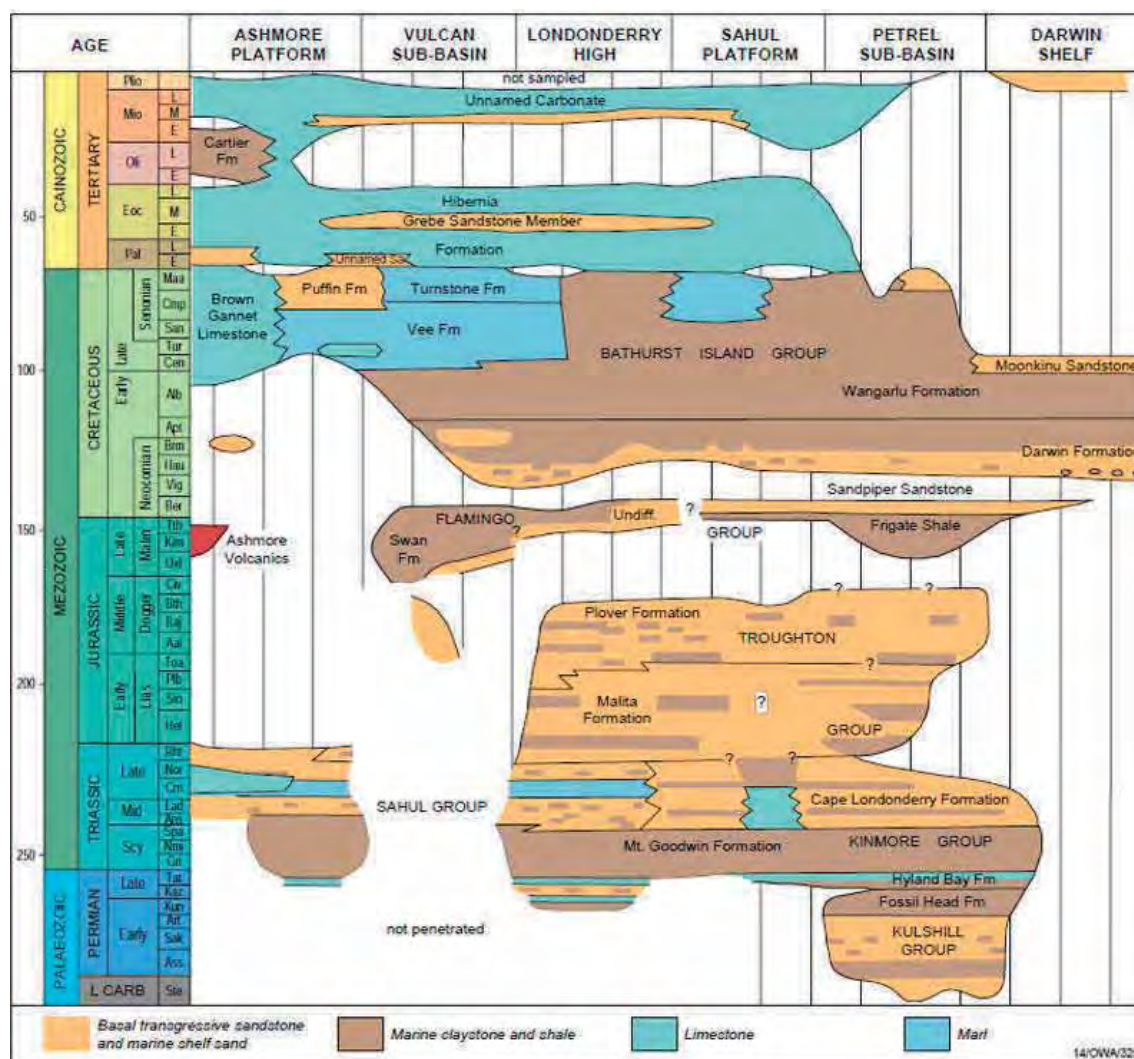


Figure 5-13 Generalised stratigraphy of the Bonaparte Basin¹³



5.4.1. Petrel Sub-basin

The Petrel Sub-basin is located in the south east of the Bonaparte Basin, bound to the northeast by the Darwin Shelf and to the northwest by the Londonderry High (Figure 5-12)¹⁴. It is host to the Petrel, Frigate, Tern and Blacktip gas fields. Close to 50 exploration wells have been drilled in the sub basin. Five 3D surveys have been completed, and 2D seismic coverage is excellent.

Structurally, the Petrel Sub-basin is a large syncline plunging offshore to the northwest. This exposes older, lower Paleozoic rocks onshore, with younger rocks to Cenozoic age progressively subcropping further offshore. This structure is the product of northwest trending, asymmetric rifting, which occurred in the Palaeozoic period. Basin fill is a thick sequence of Palaeozoic sediment, overlain by a thinner Mesozoic series.

Petroleum systems are predominantly low in the sedimentary sequence (Figure 5-14). Source rocks include Devonian and Lower Carboniferous shales of the Bonaparte and Tanmurra formations, and Permian pro-delta and open marine shales of the Kinmore Group. Reservoirs are carbonates of the Hyland Bay Formation, and sands and glacial deposits of the Kulshill Group.

Regional seals are provided by Jurassic-Cretaceous marine shales of the Flamingo and Bathurst Island groups, Triassic marine shales of the Kinmore Group, and Permian marine shales of the Fossil Head formation. More locally, intraformational seals are carbonates of the Permian Hyland Bay Formation, Carboniferous shales of the Weaber and Langfield Group, Devonian Bonaparte Formation shales and Ordovician-Silurian salt diapirs.

Potential traps are salt diapirs and associated anticlines, rollover anticlines, tilted fault blocks, stratigraphic pinch outs, and carbonate reefs.

¹⁴ Geoscience Australia, Release Areas NT15-1, NT15-2 and W15-1, Petrel Sub-basin, Bonaparte Basin, Northern Territory and Western Australia. Offshore Petroleum Exploration Release, 2015

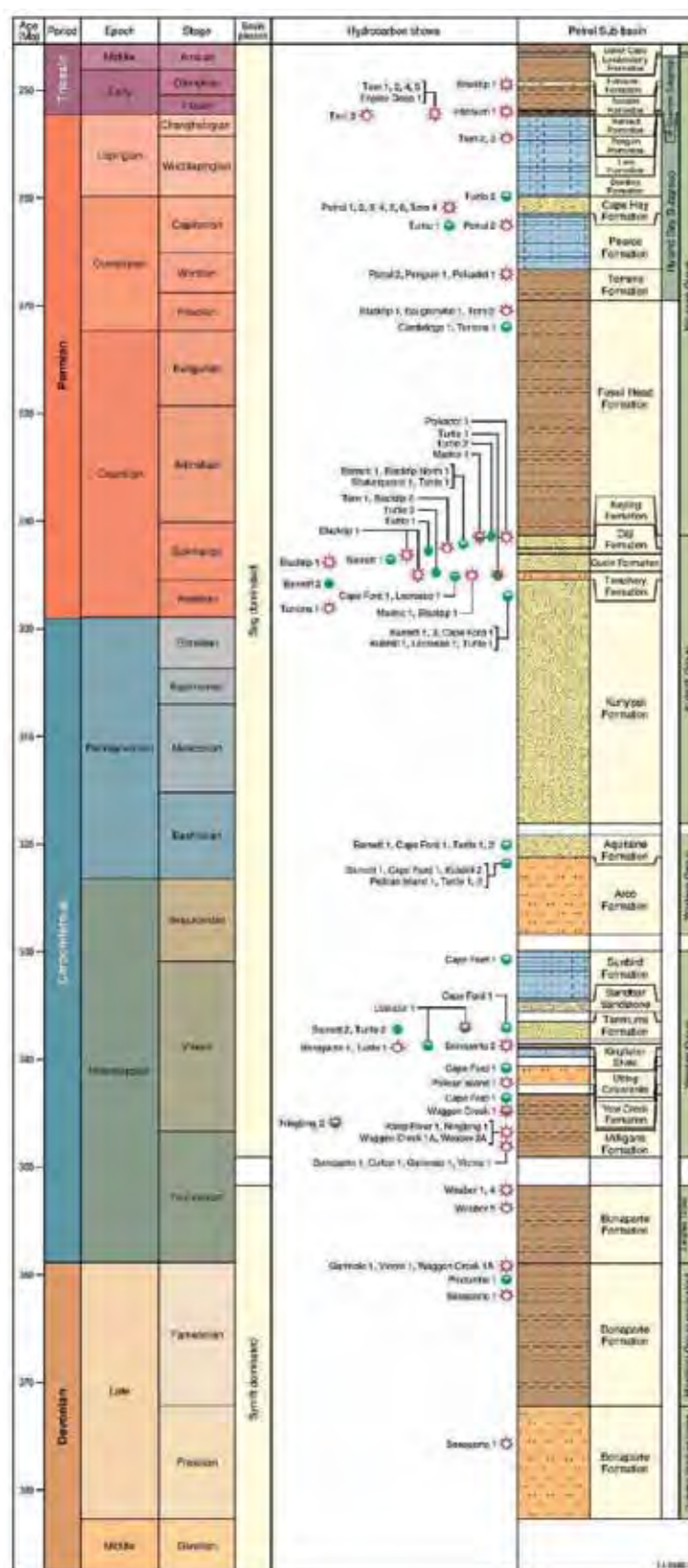


Figure 5-14 Stratigraphic column for the lower Petrel Sub-basin¹⁴

5.5. Browse Basin

The Browse Basin is located offshore north Western Australia, and covers 140,000 km² (Figure 5-15)¹⁵. It is fairly mature in terms of exploration and is now host to several significant development projects: INPEX's Ichthys LNG, Shell's Crux and Prelude FLNG and Woodside's Browse FLNG. The Browse's development history is contemporaneous with that of the Bonaparte, the basin having undergone two cycles of extension, thermal subsidence and later compression between the Carboniferous and Miocene.

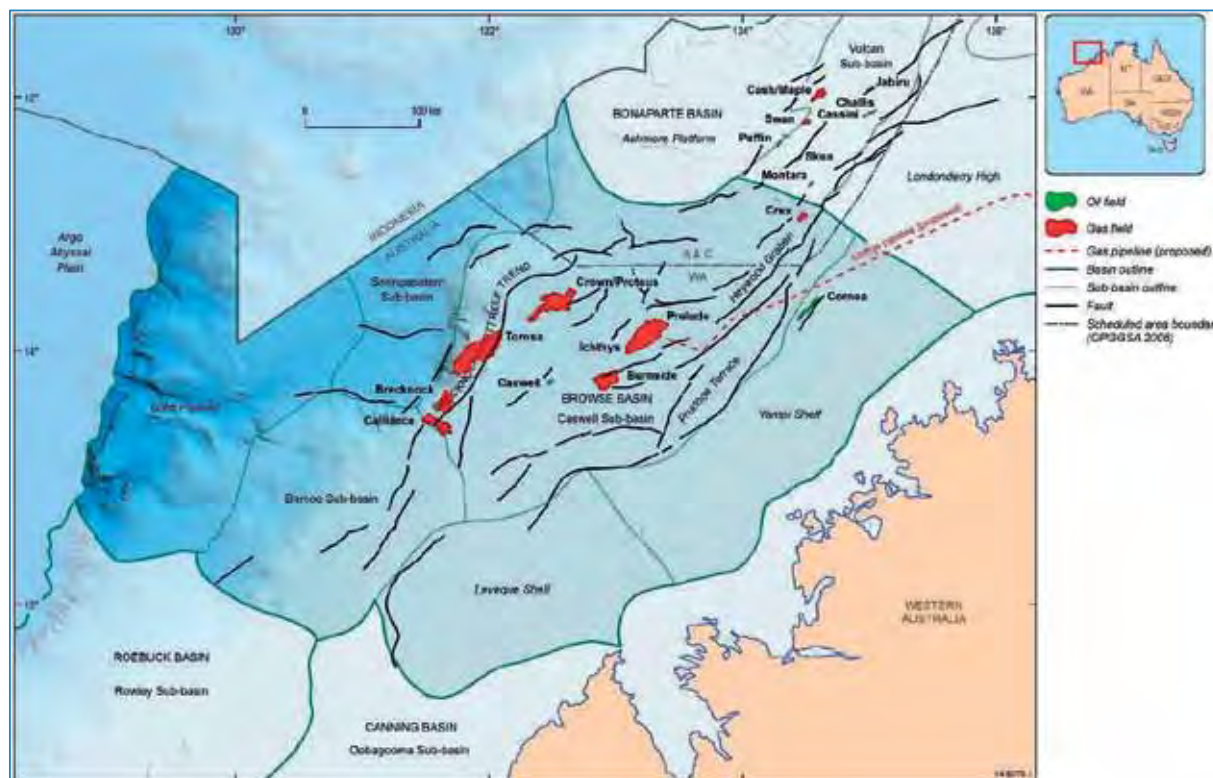


Figure 5-15 Location and structural element map for the Browse Basin (Geoscience Australia)

The flat lying basement in the south east of the basin defines the Yampi and Leveque shelves. Where basement dip changes from flat lying to dipping gently basinwards, the Prudhoe Terrace, a fault bounded terrace at intermediate depth, extends into the Caswell and Barcoo sub-basins. These are the major depocentres of the Browse Basin and are host to the major petroleum discoveries. In deeper water (up to of 3000 m) is the Brecknock-Scott Reef Trend. The stratigraphy of the sub-basins is summarised in Figure 5-16.

Sandstones, mudstones and coals of the Plover Formation act as both source and reservoir rocks. They were subject to Early Jurassic rifting and extensional faulting, which was concentrated in the northeast Caswell Sub-basin. These structures are overlain by shales and sandstones of the Upper Jurassic Vulcan Formation, Echuca Shoals Formation and Jamieson Formations, forming a thick regional seal, and potential source rocks. Within the Upper Vulcan Formation is the Brewster Member, a regionally extensive

¹⁵ Geoscience Australia, Regional Geology of the Browse Basin. Offshore Petroleum Exploration Release, 2015.



sandstone, and reservoir rock. The Ichthys, Prelude, Concerto and Mimia gas fields are reservoirised in this succession. On the Yampi Shelf, the Cretaceous Upper Heywood formation contains the Cornea oil and gas field. Here, the reservoir is within fine grained shoreface sandstones which are sealed by an Albian marine claystone.

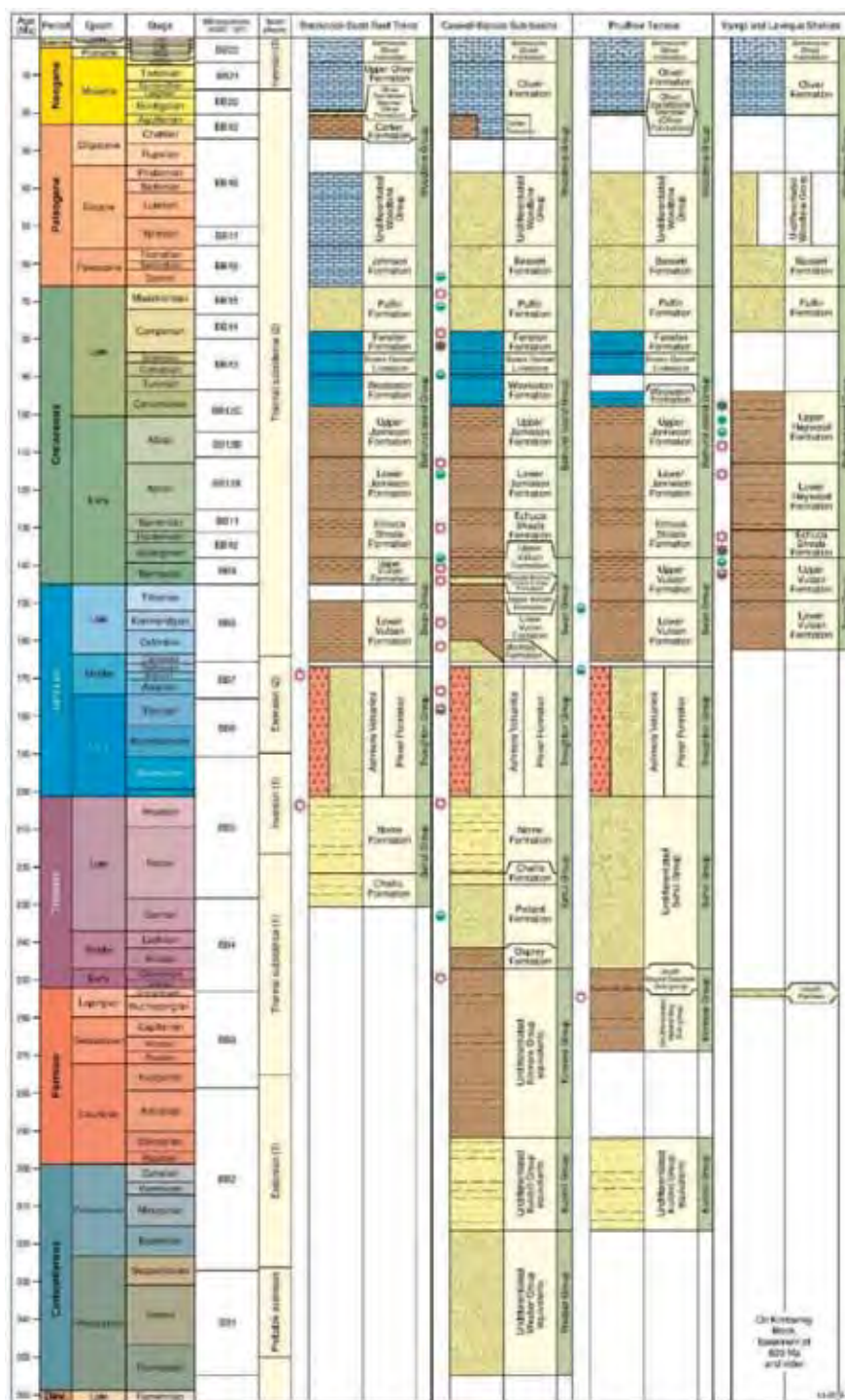


Figure 5-16 Stratigraphy of the Browse Basin¹⁵



Work to date has predominantly been focused on the Caswell Sub-basin and the Yampi and Leveque shelves, which are now in the mature stages of exploration with 128 exploratory wells drilled. However, the Barcoo Sub-Basin is still very much unexplored with only 15 wells drilled since exploration began in 1971.

5.6. New Zealand

5.6.1. Taranaki Basin

The Taranaki Basin which covers 330,000 km², mostly offshore, to the west of New Zealand's North Island (Figure 5-17)¹⁶, was initiated by rifting at the onset of the breakup of Gondwana in the late Jurassic period. Terrestrial conglomerates and delta facies rocks of the Taranaki Delta and Rakopi formations were deposited, along with shallow marine sands of the North Cape formation (Figure 5-18). To the south east of the basin, the North Cape Formation is overlain by sandstones of the Farewell, Kaimiro and Mangahewa formations, all successfully tested reservoirs. After seafloor spreading began in the Late Cretaceous, a thick sequence of mudstone and shales were deposited as the Turi formation – a good seal for the North Cape reservoirs below. By the Oligocene, sedimentation was carbonate dominated, resulting in the deposition of marl as the Tikorangi Formation. Subduction in northern New Zealand, which initiated in the Neogene, resulted in uplift and erosion associated with volcanic activity. Terrestrial clastics were deposited as sandstone in turbidites close to shore in the southeast coastal area and some volcanicalastics. Reservoir rocks are sealed by the shales and muds of the Manganui Formation. Plays are dominantly structural, with companies mostly targeting anticlinal or four-way dip closures. Structures were produced by the Late Cretaceous rifting, followed by Miocene compression, trapping hydrocarbons at all stratigraphic levels. Half graben fill, submarine fans, buried volcanic complexes and diagenetic trap plays have also been tested.

All of New Zealand's oil and gas is produced from the Taranaki Basin. In 2013, the basin was producing 460 MMscf/day of natural gas, and 55,000 bbl/day of oil¹⁶. Significant producing fields are Pohokura (gas-condensate), Maui (gas-condensate and oil) and Maari-Manaia (oil). Over 400 wells have been drilled, which have predominantly targeted structures on the continental shelf; deeper water areas remain unexplored.

¹⁶ New Zealand Petroleum and Minerals, 2013, New Zealand Petroleum Basins, Part 1.

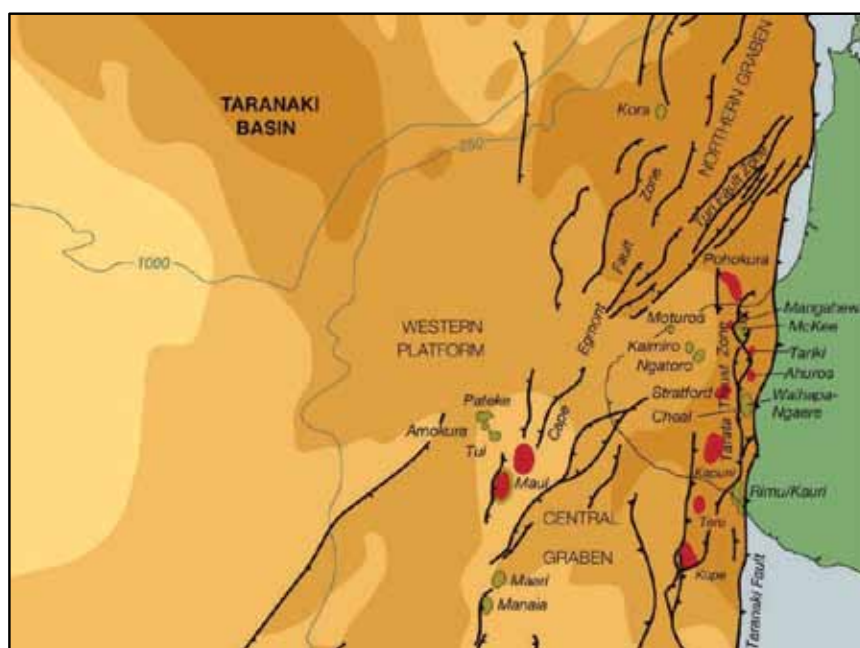


Figure 5-17 Location map for the Taranaki Basin¹⁶

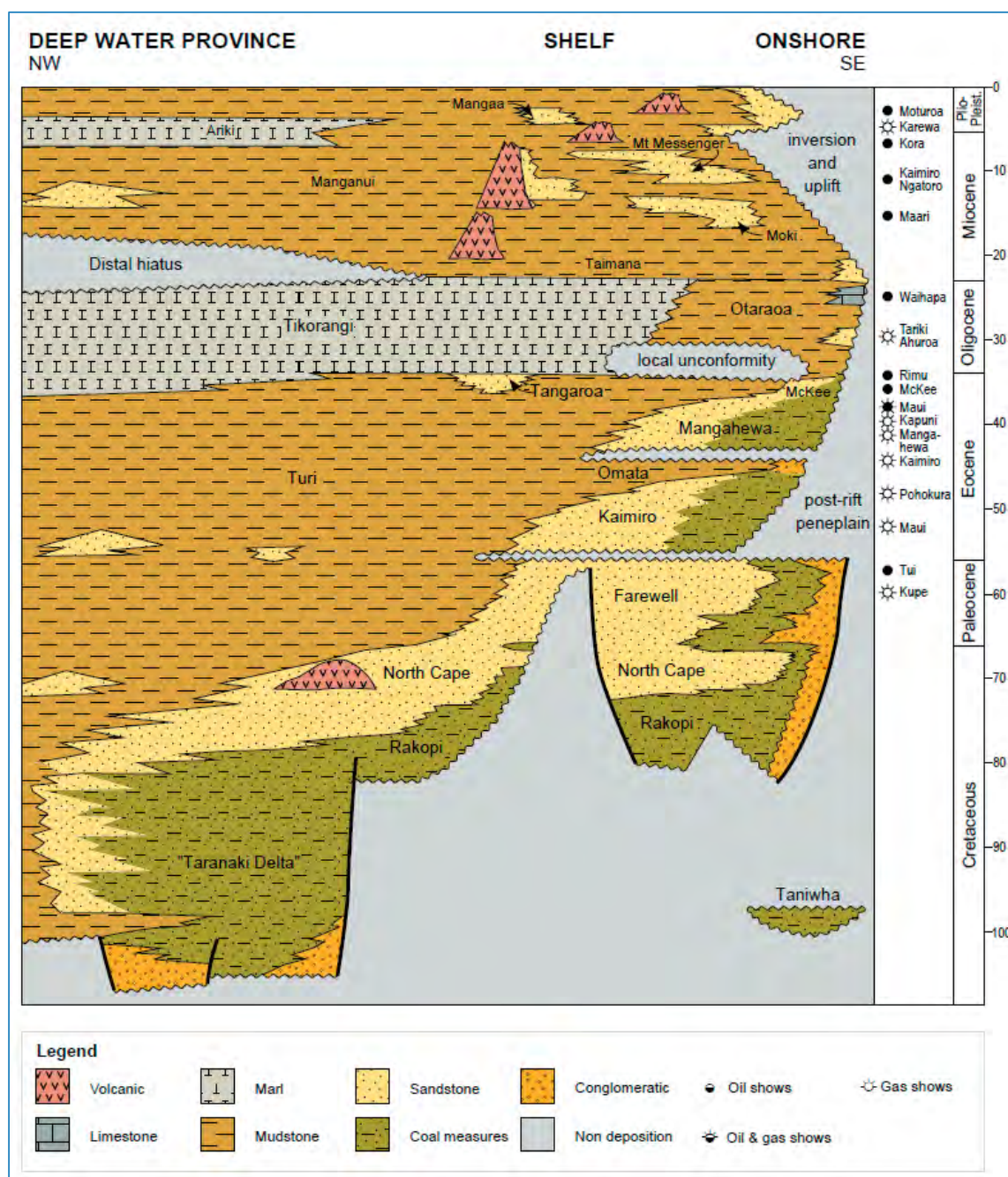


Figure 5-18 Generalised stratigraphy of the Taranaki Basin¹⁶



5.6.2. Canterbury Basin

The Canterbury Basin covers 40,000 km² and is located mostly offshore south east of the South Island of New Zealand (Figure 5-19)¹⁷. The Basin extends eastwards across continental shelf, and is bound by the deep water Bounty Trough. Despite a lack of production, several non-commercial gas fields have been discovered, proving the basin's hydrocarbon potential.

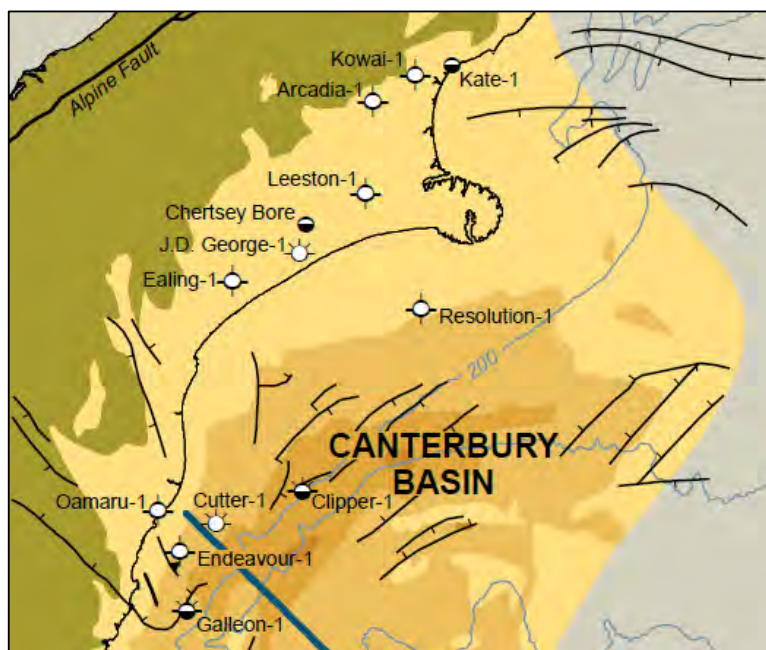


Figure 5-19 Location map for the Canterbury Basin¹⁷

Rifting associated with the breakup of Gondwana in the Early Cretaceous initiated sedimentation in the Canterbury Basin. Conglomerates such as the Horse Range Formation and coaly delta facies rocks such as the Clipper formation were deposited (Figure 5-20). Shallow marine sandstones, potential reservoirs, overlie these units. Gas shows were encountered when Clipper 1 tested this system. The basin was inundated during passive subsidence from the Late Cretaceous until the Miocene, with the deposition of muds and shales of the Katiki Formation in the deeper areas, which seal reservoirs of the Clipper, Horse Range and Broken Hill formations. Sandstones were coevally deposited in the shallower parts of the basin, and are potential reservoirs. In the Oligocene, clastic sediment input was much reduced, resulting in carbonate deposition in shelf and upper slope settings. The Amuri and Otekaike limestones make potential reservoir rocks. From the Miocene to present, subduction and compression to the west of New Zealand has resulted in rapid uplift and erosion of the Southern Alps. As a result the basin has been subject to a large influx of terrestrially sourced sediment, which in some areas is up to 2200m thick. This is expressed as mudstone of the Rifle Butts Formation and Tokama Siltstone, and shallower shelf sequences such as the Bradley Sandstone. Most wells have been drilled into closures formed by differential compaction of sediment draped across basement horsts, which were formed during initial rifting in the Cretaceous. Discoveries in Clipper 1 and Galleon 1 have targeted these structures. Other play types include faulted anticlines, as drilled by Kowai 1, and turbidites, providing reservoirs for both structural and stratigraphic traps. A table summarising potential petroleum systems is presented in Figure 5-21.

¹⁷ New Zealand Petroleum and Minerals, 2013, New Zealand Petroleum Basins, Part 2.

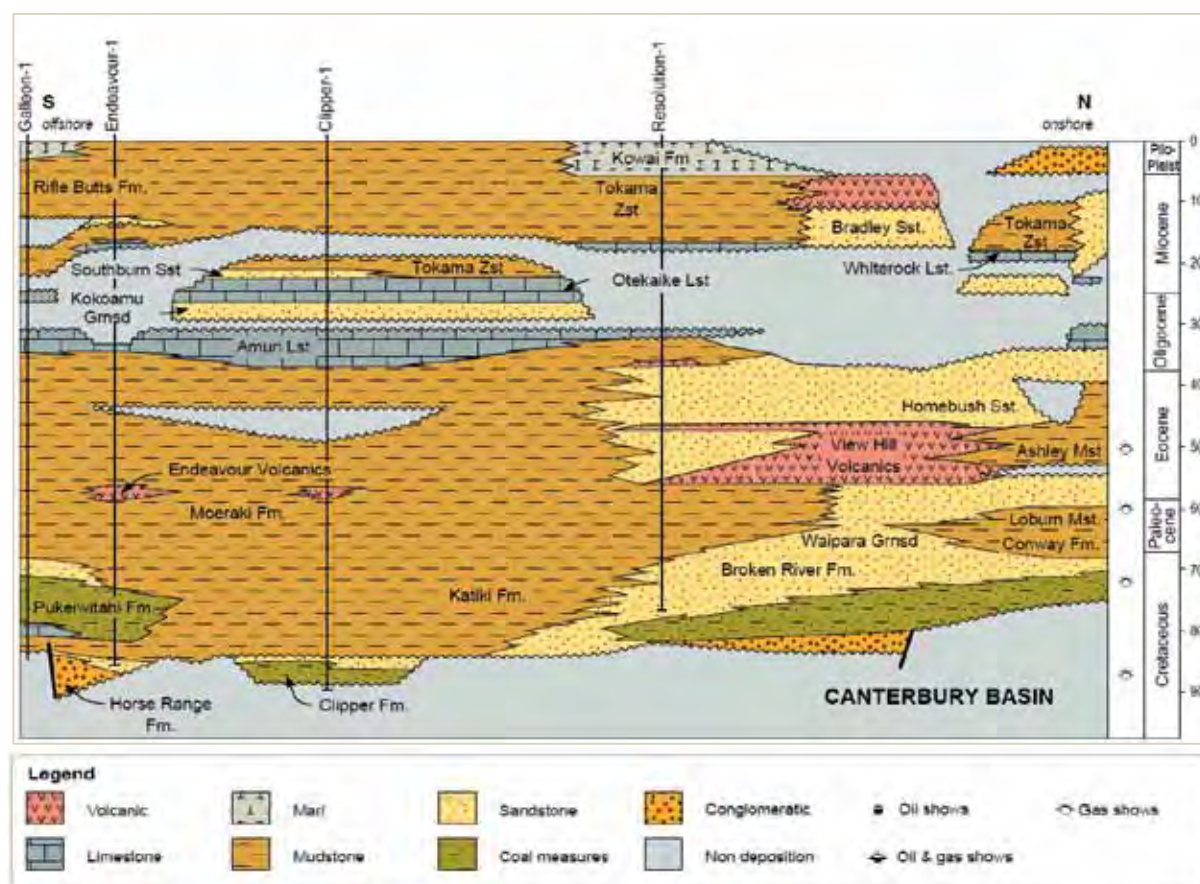


Figure 5-20 Generalised stratigraphy of the Canterbury Basin¹⁷

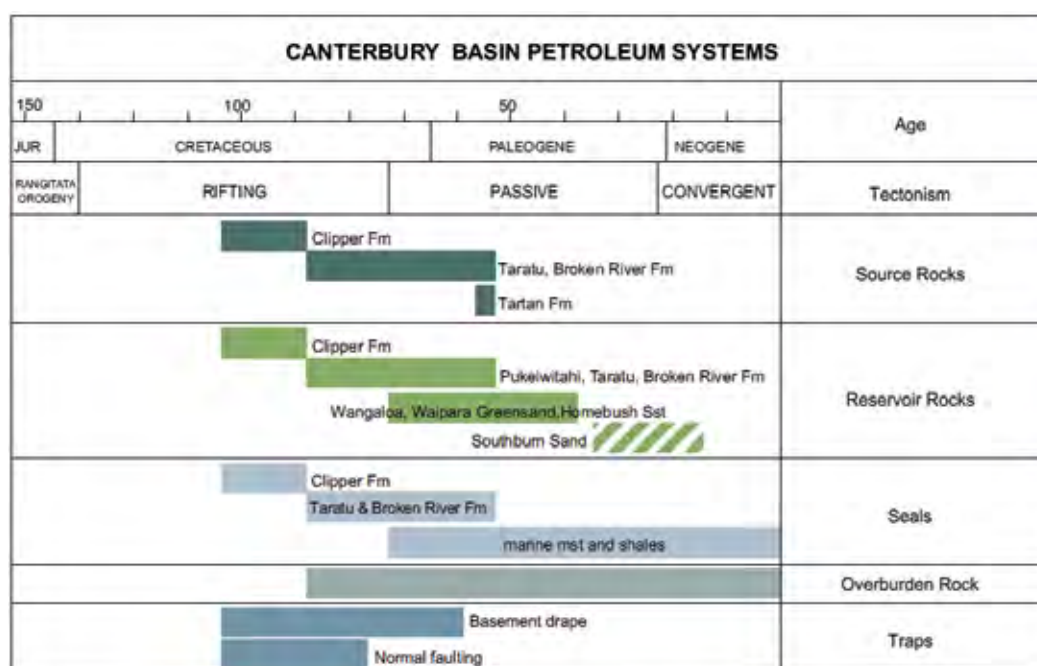


Figure 5-21 Canterbury Basin Petroleum Systems¹⁷

5.7. Lake Tanganyika Basin, Tanzania

Lake Tanganyika Basin is a Tertiary rift basin associated with the East African Rift System (EARS). It forms the borders of Tanzania and Burundi on its eastern flank and the Democratic Republic of the Congo to the west (Figure 5-22)¹⁸. The lake is ca.650 km long and, in places, over 70 km wide and has water depths of up to 1470 m. Although no discoveries have occurred to date, the petroleum potential of Lake Tanganyika remains high due to the analogy with the Albert Graben in Uganda and the Lokichar Graben in Kenya where large oil and gas discoveries have been made.

As no drilling has occurred on the lake, the ages of the sediments are only interpreted from analogy to the Lake Albert sediments. It is likely that the basin contains organic rich hemi-pelagic sediment, forming an excellent source rock preserved in anoxic conditions. These sediments are interbedded with clastic sediments from fluvial input to the lake and on the margins some carbonate build ups. The fluvial input can take the form of coarse clastic apron fans coming from the steep sides of the lakes or larger river mouth deltas usually associated with the ends of these lakes. Frequent tectonic activity along the lake will have caused turbidity currents carrying coarser sediments onto the distal lake floor.

The Lake Albert basin was a deep lake basin in the Early Miocene through to Pliocene time but through the Pleistocene to Recent has become a shallow lake to fluvial dominated system. Lake Tanganyika is currently still a deep lake but its history is as yet unknown. However due to the asymmetry of the grabens that form these basins, inter-fingering of the shallower fluvial deltaic sediments with pelagic sediments gives a guarantee of reservoir rocks being interbedded with seal and source rocks.

¹⁸ Davison, I., Steel, I., Taylor, M., O Beirne, E. & Faull, T., 2014, Exploration in the East African Rift System. GeoExpro Vol. 11, No. 5.

The low volume of sediment supply and rapid subsidence in Lake Tanganyika make it highly prospective, and one of the most favourable environments in the EARS for the presence of hydrocarbons.



Figure 5-22 Location map for Lake Tanganyika¹⁹

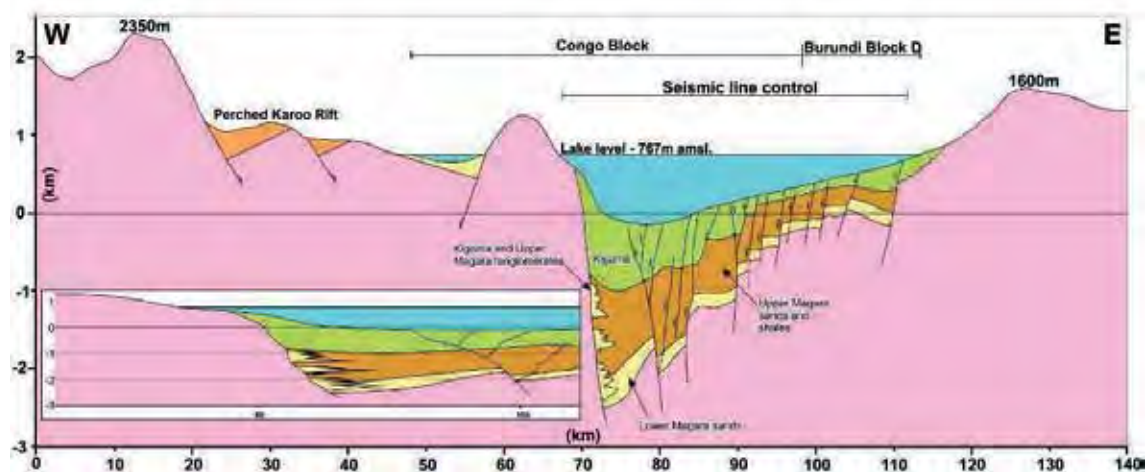


Figure 5-23 Cross section through the Lake Tanganyika Rift²⁰

¹⁹ eurekaalert.org

²⁰ GeoExpro Vol.11, No 5 - 2014



6. Drillsearch assets

6.1. Description

6.1.1. Permits and status

Drillsearch assets in the Cooper-Eromanga Basin are listed in Table 6-1. The table identifies the primary target hydrocarbon, status, working interest and state. For convenience the assets have been sorted into groups as described by Drillsearch and this is the order for the discussion that follows.

Table 6-1 Drillsearch assets and their categorisation

State	Asset	Name	Permit	Target h/c	DLS WI %	Status
SA	Western Flank Oil	Bauer etc.	Ex PEL91	Oil	60	Prod/Expl
Qld	Eastern Margin Oil	Tintaburra	ATP299P and PLs	Oil	40	Producing
SA	Western wet gas	Santos-Drillsearch JV	PEL513 and PRLs	Gas/ unconventional	40	Prod/Expl
			PEL632 and PRLs	Gas/ unconventional	40	Prod/Expl
SA	Western wet gas	Beach-Drillsearch JV	Ex PEL106	Gas	50	Prod/Expl
			Ex PEL107	Gas	60	Prod/Expl
			Udacha	Gas	75	Prod/Expl
SA	Northern Cooper gas liquids	Jute, Willow, etc.	PEL101	Gas	80	Exploration
		Vanessa, Jasmine	PEL182 oil and gas	Gas and oi	43	Exploration
		Yarrow, Juniper	PRL17, 18	Gas and oil	100	Exploration
		East of Juniper	PEL103, 103A	Gas	100, 75	Exploration
Qld	Inland-Cook Oil Fairway		ATP924P	Oil and gas	100	Exploration
			ATP549P West	Oil and gas	Note 1	Exploration
			ATP549P Cypress	Oil	Note 1	Exploration
			ATP539P	Oil	100	Exploration
			ATP920P	Oil	100	Exploration
			ATP783P, 932P	Oil	100	Exploration
SA	Flax area	Flax	PRL14	Oil	100	Appraisal
SA		Santos f/in	PEL570	Unconventional	47.5	Exploration
Qld	Nappamerri Trough		ATP940P	Unconventional	40	Exploration

Note 1: ATP549W and ATP549C are references to parts of the area covered by ATP549P held by Australian Gasfield Limited. Drillsearch is party to contractual arrangements whereby the area covered by permit ATP549P has been proposed to be segregated into three separate permits (including permits covering the areas known as ATP549W and ATP549C). Drillsearch is not a holder of a registered interest in ATP549P.

Beach and Drillsearch jointly participate in a number of South Australian Cooper Basin permits. Where this is the case, Beach is Operator. The location of Drillsearch's permits is shown in Figure 6-1.

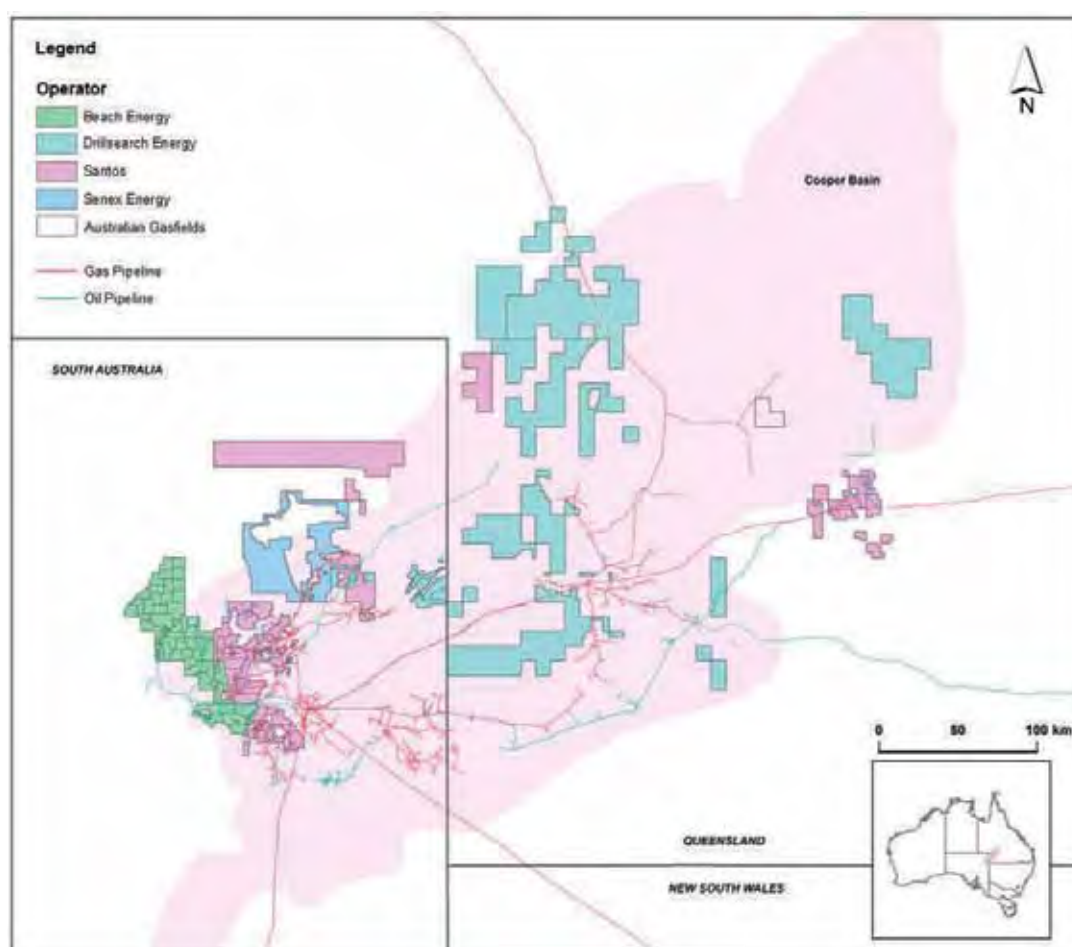


Figure 6-1 Location map for Drillsearch's permits

6.1.2. Reserve and resource summary

Drillsearch's net reserves and contingent resources as at 30 June 2015 are tabulated in Table 6-2 and Table 6-3. Reserves at 30 June 2015 were independently reviewed by either RISC or DeGolyer and MacNaughton²¹ (D&M). RISC's terms of reference did not include validation or updating these estimates.

Since the publication of these figures Drillsearch has not announced any reserve updates and other than production of 0.81 MMboe net Drillsearch in the quarter ending 30 September 2015, RISC is not aware of any events that would materially affect these estimates.

²¹ Drillsearch's ASX announcement of 26 August 2015: 2015 Reserves and Contingent Resources Statement details the permits reviewed by RISC and by DeGolyer and MacNaughton.

Table 6-2 Drillsearch net reserves as at 30 June 2015²²

Product/Region	1P MMboe	2P MMboe	3P MMboe
Oil			
Western flank oil	6.0	8.6	12.2
Eastern margin oil	0.6	1.2	1.8
Total oil	6.6	9.8	14
Gas			
Western wet gas (Beach-Drillsearch JV)	4.0	8.1	11.3
Western wet gas (Santos-Drillsearch JV)	2.5	7.9	20.1
Total gas	6.5	15.9	31.4
Total oil and gas	13.1	25.7	45.4

Table 6-3 Drillsearch net contingent resources as at 30 June 2015²²

Product/Region	1C MMboe	2C MMboe	3C MMboe
Oil			
Western flank oil	0.3	0.5	0.9
Northern Cooper gas and liquids	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 (Beach-Drillsearch JV)	0.3	0.8	1.7
Western wet gas (Santos-Drillsearch JV)	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			
ATP940P	14.8	51.4	123.1
Total unconventional	14.8	51.4	123.1
Total contingent resources	28.5	86.9	192.0

As noted in the Drillsearch annual report²², the following conversion factors have been applied in the presentation of the reserves and contingent resources statements:

- Sales gas is converted to barrels of oil equivalent (boe) using a factor of 6,000 standard cubic feet per barrel of oil equivalent (boe).
- LPG is converted to equivalent barrels of oil using a factor of 11.5 boe per tonne of LPG.
- Condensate is converted at 1 bbl = 1 boe.

²² Drillsearch 2015 Annual Report



6.2. Western flank oil

Drillsearch's Western flank oil permit comprises a 60% interest in what was Petroleum Exploration Lease 91 (PEL91) which has now been converted to the Petroleum Production Licences (PPLs) and Petroleum Retention Leases (PRLs), Figure 6-2. Beach has a 40% interest and is Operator. The permits contain a number of oil discoveries, many of which are on production, with further prospects for additional discoveries. Production in FY2015 was 4 MMbbl (gross) and RISC expects similar production in FY2016, due to ongoing development activities, before production enters decline. 2P reserves at 30 June 2015 were 14 MMbbl (gross, Drillsearch estimate).

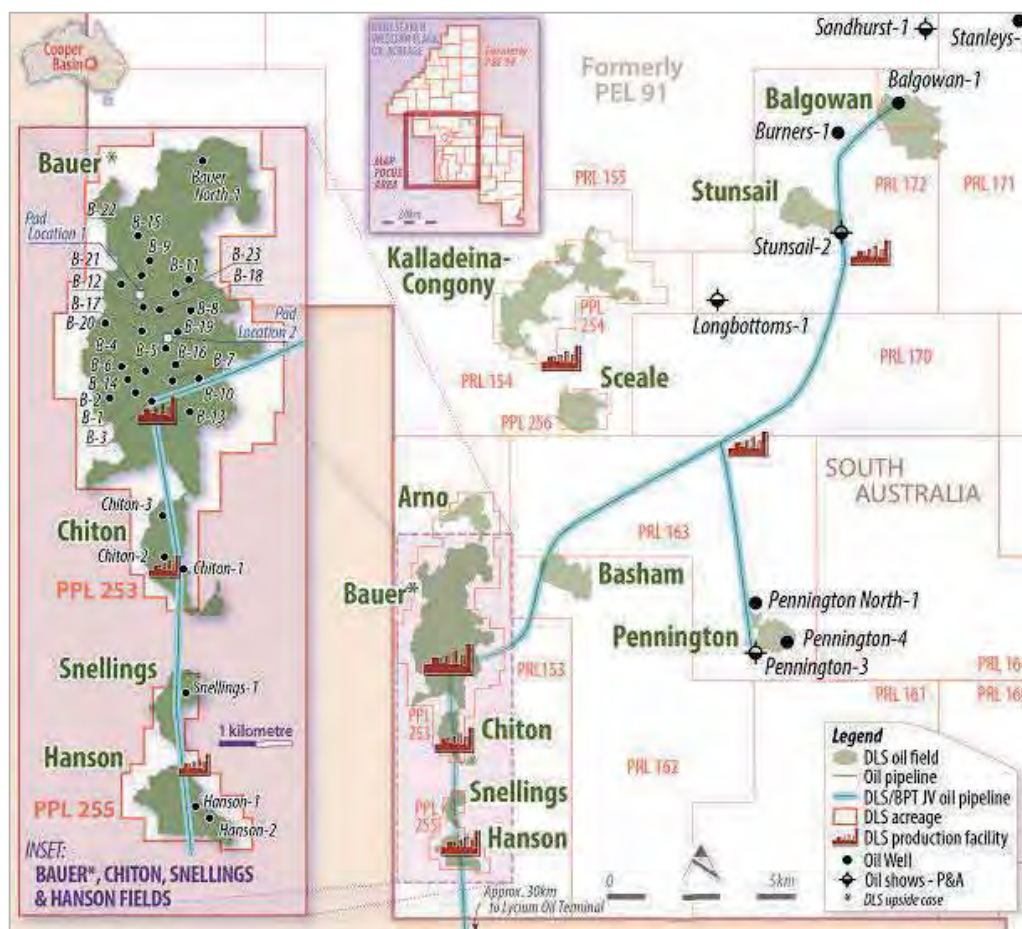


Figure 6-2 Drillsearch's Western Flank oil permits

The Bauer Field is the largest discovered oil field in the permit and dominates production from the permit. Other producing fields in the permit are Chiton, Hanson, Stunsail, Pennington, Balgowan. There has been a small quantity of production from the KCS complex (Kalladeina, Congony and Sceale) however wells on these fields are awaiting the installation of pumps to enhance production.

Bauer currently has 23 wells, RISC has assumed that a further 6 wells will be required to complete development, two appraisal wells are scheduled for FY2016. The other fields, being much smaller, will generally be fully developed with two to four wells; future discoveries are assumed to be developed with 2 wells (the exploration well plus one development well).



Three large 3D seismic surveys have been shot over the permit and a number of prospects and leads have been identified from these. Drillsearch has modelled a 29 well exploration programme over the coming 5 years to test the best of these. Success rates, reserves and the number and cost of development wells have been estimated based on historical performance. RISC has reviewed these estimates and considers that the planned appraisal and development is reasonable, and given good success in this period, could be extended further.

The fields have been developed with simple facilities comprising oil-water separation and water disposal, oil is evacuated either by pipeline or truck. Figure 6-2 shows the pipeline infrastructure and the location of facilities within the permit. Oil from the Bauer facility may be exported by the Bauer-Lycium pipeline and then on to Moomba by the Lycium-Moomba pipeline. The Bauer-Lycium has a nominal capacity of 11,000 bbl/d, production above pipeline capacity is trucked to either Lycium or Moomba. The Bauer facility has a capacity of 75,000 bfpd with a FY2016 expansion planned to increase capacity to 133,000 bfpd²³.

Capital and operating costs have been modelled based on historical costs. RISC has compared Drillsearch's modelled costs with the Operator's 2016 Budget and past costs and believes the forecasts are appropriate. Modelled operating costs include both fixed costs and variable costs, a large component of which is the handling charge through Moomba and Port Bonython. Full field abandonment costs for the modelled case (including exploration and future development scope) is estimated to be approximately \$27 million gross.

6.3. Eastern margin oil

Drillsearch has a 40% interest in the Tintaburra Block (former ATP299P and PLs). Santos has a 60% interest and is Operator.

RISC has been advised that an offer has been received for Drillsearch's interest in the permit, consequently RISC has not reviewed this asset for this ITSr.

6.4. Western wet gas

Drillsearch's Western wet gas assets have been divided according to the Operator:

- Beach-Drillsearch JV - former PEL106 and PEL107, eastern PEL91 and Udacha field; and
- Santos-Drillsearch JV – PEL632 and PEL513.

PEL106, PEL107 and PEL632 have now been replaced by a number of PPLs and PRLs.

6.4.1. Western wet gas – Beach-Drillsearch JV

The Beach-Drillsearch JV contains 6 discovered fields with combined 2P gross reserve of 13.4 MMboe (Drillsearch estimate). Drillsearch has a 50% working interest in the ex PEL106 permits, a 60% working interest in the ex PEL107 and ex PEL91 permits, a 75% working interest in Udacha and sole risked the Maupertuis well. The Operator of the permits is Beach.

²³ Drillsearch Investor Roadshow Presentation, September 2015

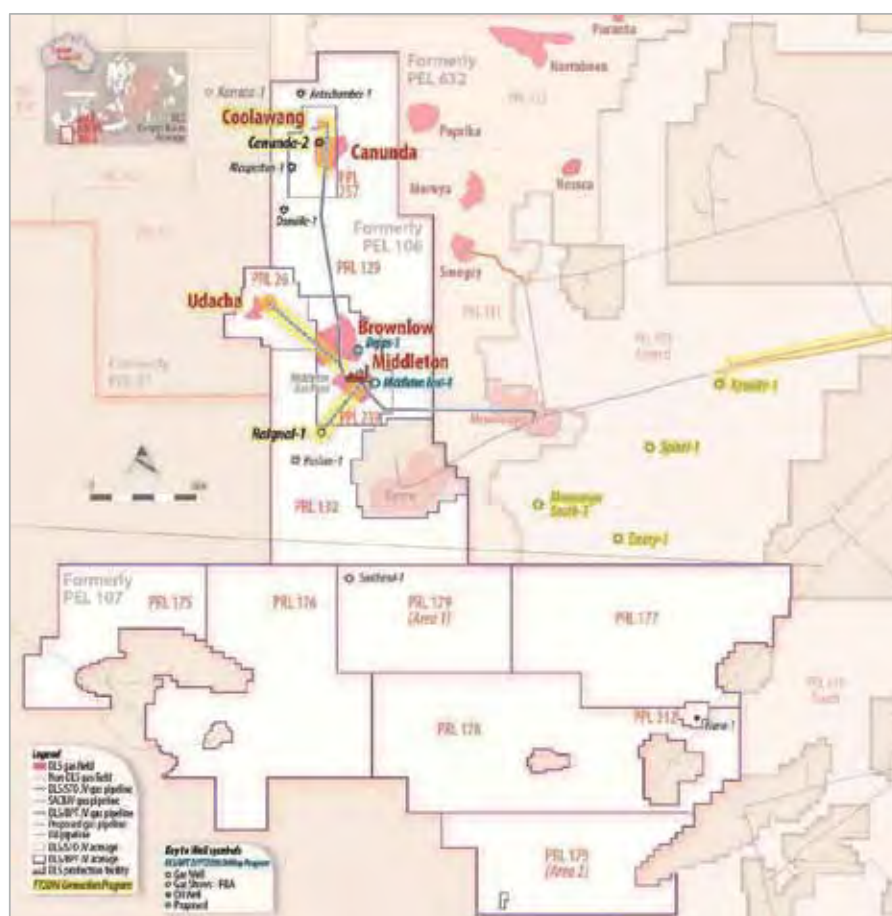


Figure 6-3 Western wet gas permits - Beach-Drillsearch JV

Production is in the early days with gas production having commenced in FY2012 from Brownlow and Middleton fields. Production in FY2015 was 650 Mboe gross. Production is gathered at the Middleton facility for treatment before joining the SA FFA gathering system at Moonanga and being piped to Moomba.

Across the permits seven exploration wells are modelled between FY2017 and FY2020. Success rates and field sizes are based on historical performance and prospect inventories. RISC considers that the exploration additions are reasonable. Modelled development activity for FY2016 comprises connection of Ralgnal 1, Canunda 2, Udacha 1, recompletion and stimulation of Canunda 1 and compression at the Middleton Gas Plant. Drillsearch's capital and operating costs are based on the Operator's Budget and recent activities, RISC has reviewed these estimates and considers them to be appropriate. A large component of the operating costs is the processing, transport and handling fees, RISC has not reviewed these agreements. Fuel gas is estimated to be 7%. Full field abandonment costs for the modelled case (including exploration and future development scope) are estimated by RISC to be approximately \$7 million.



6.4.2. Western wet gas – Santos-Drillsearch JV

The Santos-Drillsearch JV contains 9 discovered fields with combined 2P gross reserve of 20 MMboe. Drillsearch has a 40% working interest in the permit. Santos has a 60% working interest and is Operator, having farmed into the permit in FY2014. Although there has been a recent farm-in RISC considers that the risked DCF is the most suitable basis for valuation.

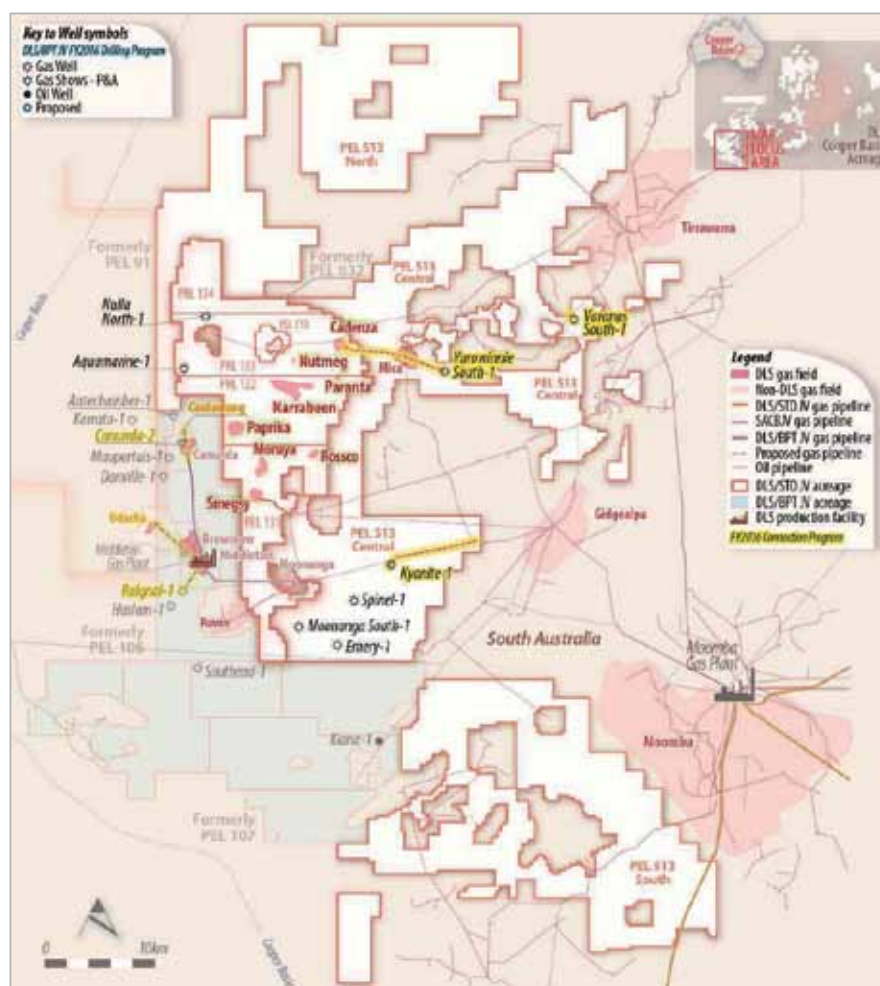


Figure 6-4 Western wet gas permits - Santos-Drillsearch JV

There has been no production to date from these permits. Currently wells are being tested and assessed for tie-in and production, detailed plans and costs prepared by the Operator have been reviewed by RISC and considered appropriate. A large component of the variable operating costs is processing, transport and handling fees which are consistent with the Beach-Drillsearch JV. Full field abandonment costs for the modelled case (including exploration and future development scope) is estimated to be approximately \$12 million gross.

6.5. Northern Cooper gas and liquids

The Northern Cooper gas and liquids assets comprise PEL570, PEL182 (including PRL135), PEL101 (now PRL173 and PRL174), PEL103, PEL103A and the Flax, Juniper and Yarrow discoveries in PRLs 14, 17 and 18, Figure 6-5.

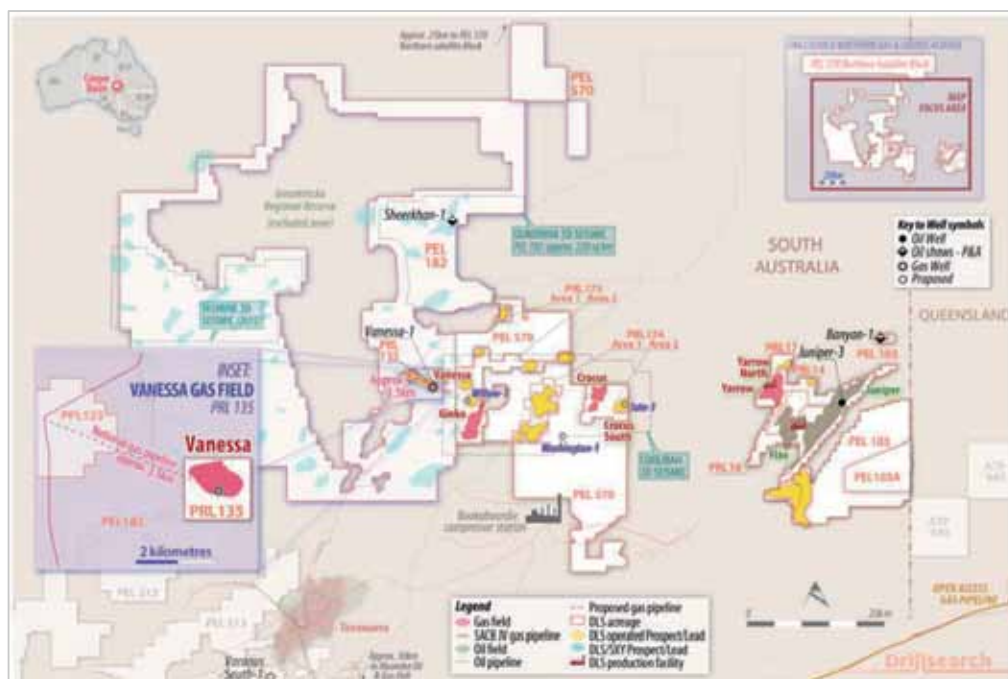


Figure 6-5 Drillsearch's Northern Cooper wet gas permits

The permits contain a number of gas discoveries (Vanessa, Yarrow, Crocus) and oil discoveries (Flax and Juniper). The gas discoveries are located close to the SA FFA gathering network providing a path to treatment facilities and commercialization.

6.5.1. PEL101 (now PRL173 and PRL174)

Drillsearch has an 80% working interest in this permit and is Operator. PEL101 contains a number of gas discoveries however none have been developed and brought on stream. There are a number of conventional and tight gas prospects in the permit but, importantly, the deep Permian source rock play being evaluated in the adjacent PEL570 is believed to extend into the permit.

Drillsearch has proposed an exploration programme for FY2016 (Willow, Jute) and FY2017 (Kapok, Crocus North, Crocus appraisal) targeting the conventional and tight prospects followed by appraisal and development of the discoveries in subsequent years. Gas evacuation is forecast to be via a pipeline to the nearby SA FFA infrastructure.

In the near term no appraisal of the Permian source rock play has been proposed for PEL101, rather the activity in PEL570 will be monitored.

RISC has reviewed Drillsearch's risked appraisal and development programme and assumptions and has concluded that the forecasts are reasonable.



RISC notes that the forecasts modelled by Drillsearch only target the conventional and tight gas plays. Given its proximity to PEL570 and the similarity of the prospectivity of the deep Permian source play in both permits RISC considers that the recent transactional metrics from PEL570 will provide more suitable indication of the value of PEL101.

6.5.2. PEL182

Drillsearch has a 43% working interest in PEL182 and the associated PRL135 with the Vanessa gas discovery. Senex has a 57% interest and is the Operator.

Vanessa 1 ST was drilled in 2007 and tested in December 2014. The well was completed on the Epsilon and Toolachee formations and tested over a 48 hour period. The peak production rate recorded was 5.3 MMscf/d at a FTHP of 1,200 psia. As a result of this successful test Senex is preparing to tie the well in to the SA PE block network and commence production.

Aside from well tie-ins and production facilities carryover in 2016, no future gas exploration or development carried. The majority of operating costs are associated with processing, transport and handling fees similar to other permits.

The Jasmine 3D seismic survey was shot over PEL182 in FY2015 and is currently being interpreted. The survey covers the area to the northwest of the permit, on trend with the Drillsearch/Beach Ex PEL91 oil fields and the Senex' oil fields (Snatcher, Growler, etc.) to the south west, Figure 6-6. The survey is expected to identify a number of structures that are prospective for oil in the Namur and Birkhead formations.

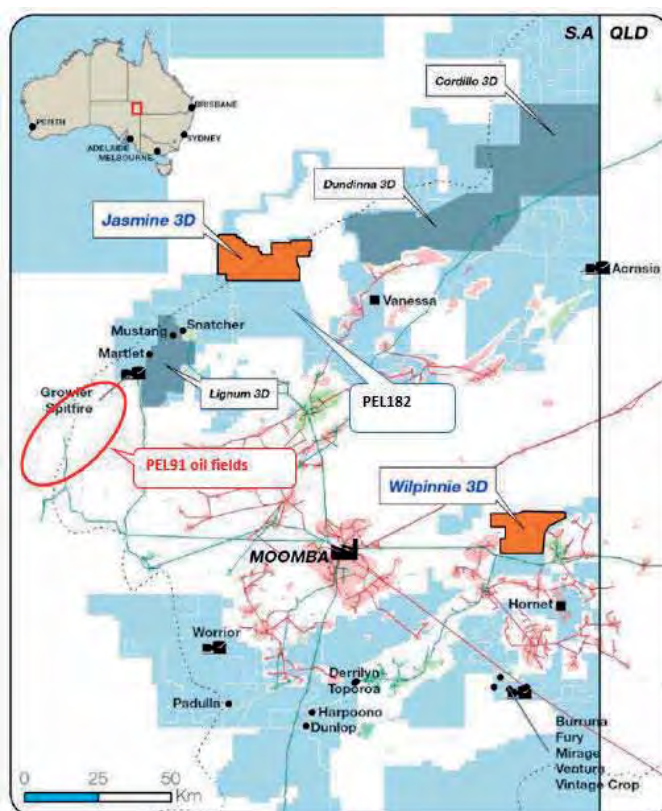


Figure 6-6 Jasmine 3D seismic location on trend with Ex PEL91 and Senex' oil fields



Senex' work programme for FY2016 calls for the drilling of 3 (commitment) wells and Drillsearch has modelled a further 14 exploration and 3 appraisal wells to 2020 at an average success rate of 33%, consistent with the target formations in this region.

RISC has reviewed cost and production assumptions considered them appropriate. Trucking is assumed to be the method of oil transport. The majority of operating costs are associated with processing, transport and handling fees.

6.5.3. PEL103, PEL103A and PRL14, 17, 18

PRL14 contains the Flax oil field, PRLs 17 and 18 contain the Yarrow gas discovery and Juniper oil discovery. PEL103 contains the Cypress and Tallow prospects.

The Flax Field is considered a tight oil field, it was discovered in 2004 and has produced about 180,000 bbls (gross) from six wells in the Tirrawarra sandstone and Patchawarra Formation. Over half the production from the Flax 1 well, other wells have been less productive. In FY2015 Drillsearch re-commenced test the field however this was terminated early due to poor production rates and the fall in oil price.

Juniper oil field is also a tight oil field. Juniper 3 was drilled in September 2014 approximately 5.6 km NNE of Juniper 1 as an appraisal well of the Juniper Field.

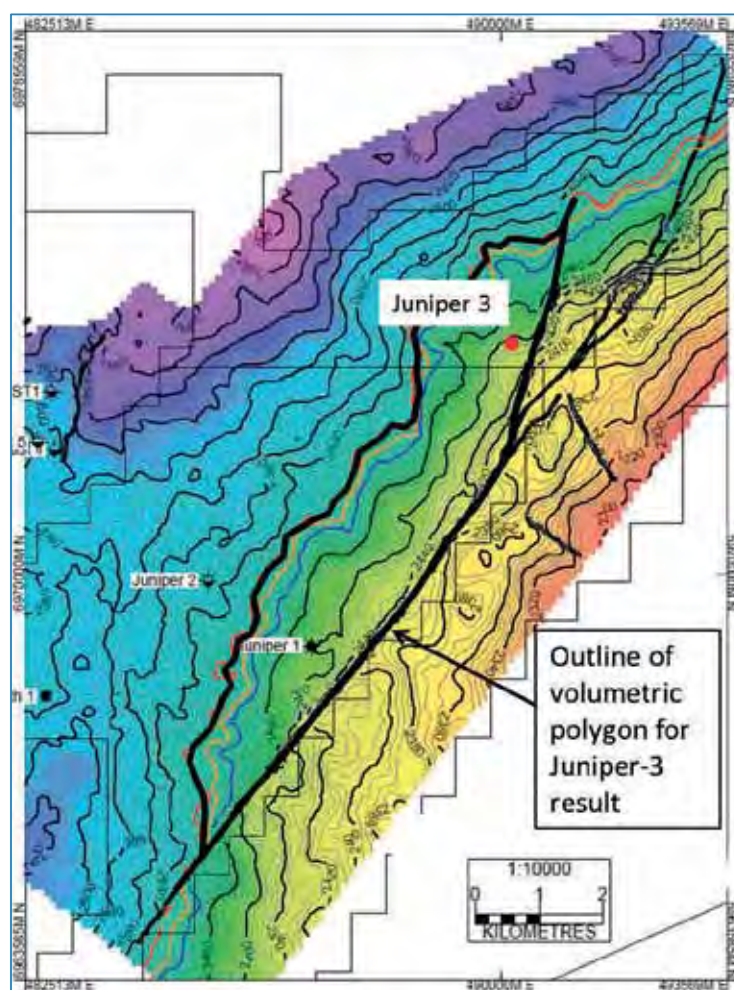


Figure 6-7 Juniper Field structure map



The well intersected 5.6 m of net pay in sandstones of the Lower Patchawarra Formation correlative to the pay bearing sands intersected in Juniper 1. The success of the well validated the structural trap model for Juniper. Follow-up work including fracture stimulating and testing is required to further delineate the extent of the structure and demonstrate commercial production rates.

The Yarrow gas field was discovered in 2003 when Yarrow 1 intersected 46 m of Permian gas saturated sediments on basement. A short duration test produced gas at up to 3.9 MMscf/d. Yarrow 2 was drilled in 2004 to appraise the eastern side of the Yarrow gas field. The well successfully intersected the gas bearing Tirrawarra Sandstone 20 m structurally lower than at the Yarrow 1 location but did not flow gas at a commercial rate and the well was plugged and abandoned.

Flax, Juniper and Yarrow all represent a known accumulations with significant hydrocarbons in place, however, the fields are tight and will require considerable additional work to appraise and demonstrate their commercial viability. Drillsearch has a 100% working interest in the field and, in the current oil price regime, is reluctant to dedicate resources to this; a farm-in remains unlikely in the current environment.

Drillsearch has not generated models for the appraisal and development of these fields in the base case, these permits have been valued using exploration metrics.

6.6. Inland-Cook oil fairway

Drillsearch has a 100% working interest in ATP539P, ATP920P and ATP932P, and, subject to completion of the farm-in by Beach, Drillsearch will retain a 55% working interest in ATP924P²⁴.

²⁴ For details of the Drillsearch interest in ATP54pC and ATP549W refer to the footnote of Table 6-1.

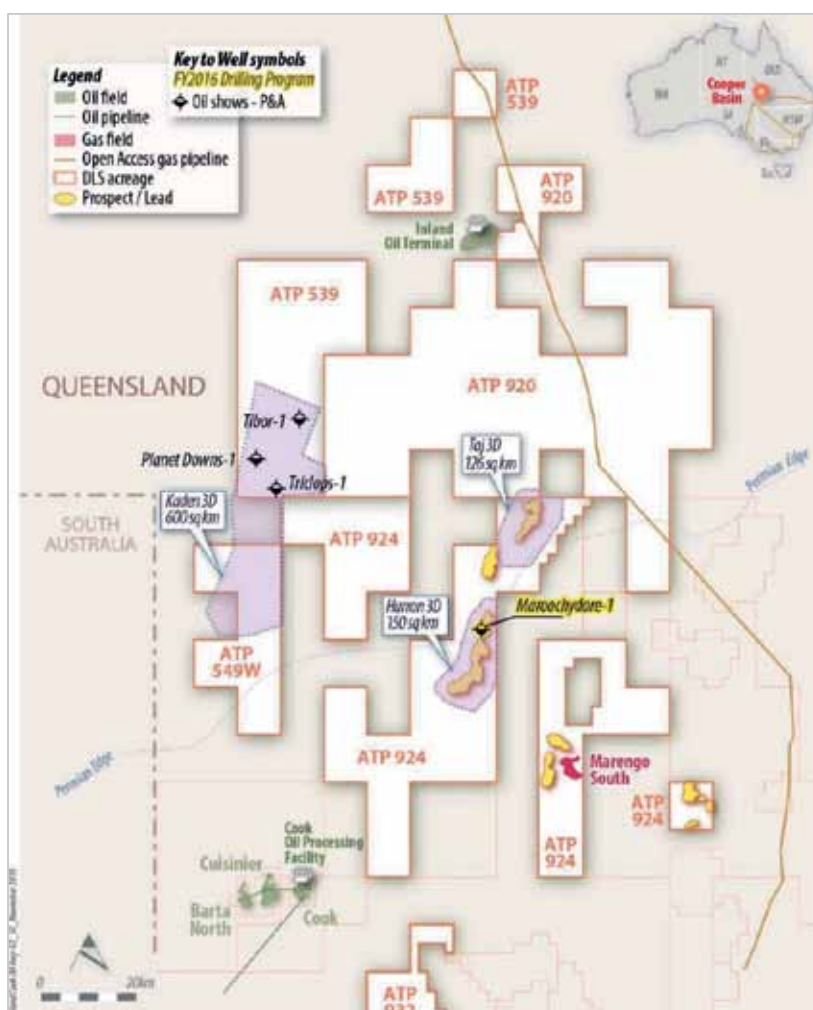


Figure 6-8 Drillsearch's Inland-Cook oil fairway permits

6.6.1. ATP924P

ATP924P is the stand out permit of the region, containing a number of prospects and leads with prospectivity for both oil and gas. Beach is currently in the processing of farming into the permit in a two stage agreement. Stage 1 was payment of back costs and drilling of Maroochydore 1. Should Beach elect to proceed to stage two it will complete the farm in and earn 45% by drilling one further well and paying additional back costs²⁵.

The exploration well Maroochydore 1, was recently drilled to test the Hurrion oil prospect. Although oil and gas shows were encountered at the Top Hurrion Sandstone wireline logs indicated the sands were water saturated and the well was consequently plugged and abandoned. The implications of this result on

²⁵ Drillsearch ASX release 28 July 2014: Drillsearch, Beach to expand Cooper Basin oil partnership with ATP924P joint venture.



the prospectivity of the Hurren trend is still being reviewed. Notwithstanding this, there are oil prospects on other trends and gas prospects that will not be impacted by the Maroochydhore 1 result.

The permit contains one gas discovery, Marengo South, and has further prospects adjacent to the Windorah Trough development currently being undertaken by the SWQ gas JV, Figure 6-9. The extension of the gas gathering system towards ATP924P will reduce the cost of any development and increase the chance of commercial gas development from the permit.

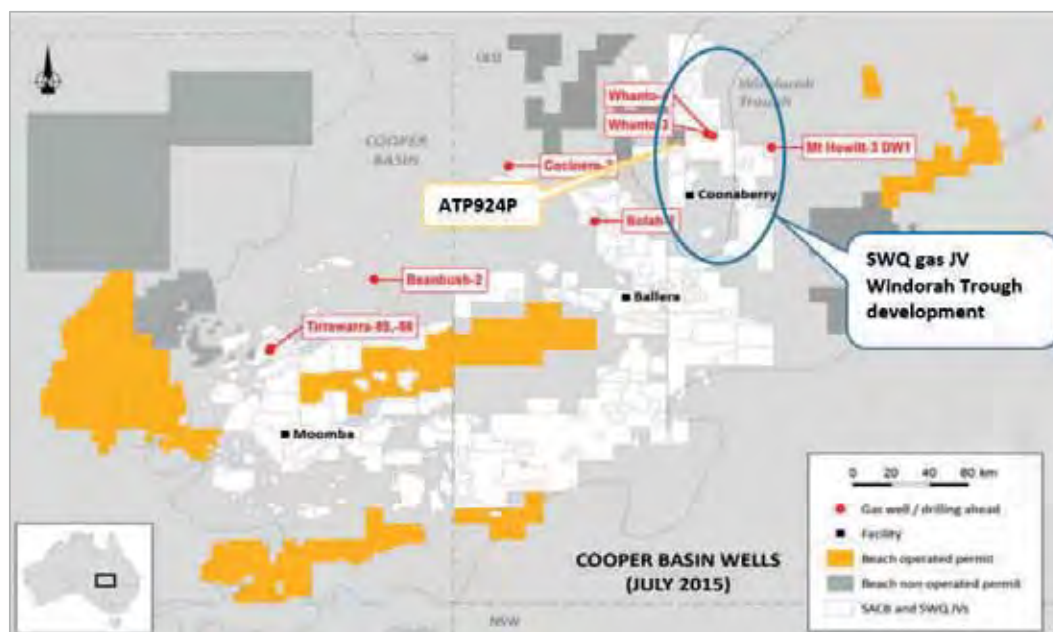


Figure 6-9 Proximity of ATP924P with the SWQ gas JV's current development in the Windorah Trough²⁶

Despite the failure of Maroochydhore 1 in testing an oil prospect, RISC considers that, with a number of other untested oil trends and the considerable gas prospectivity of the permit, exploration valuation methods are more appropriate than a DCF at this time.

6.6.2. Other permits in the Inland-Cook fairway

For the remaining permits in the Inland-Cook fairway Drillsearch has proposed little activity and will consider farming down or relinquishing. Although there are outstanding commitments in these permits RISC understands that Drillsearch may be able to negotiate lower commitments through early relinquishment of some acreage.

²⁶ Source graphic: Beach Energy monthly drilling report for July 2015



6.7. Unconventional gas

6.7.1. Nappamerri Trough

The ATP940P Joint Venture covers more than 2,000 km² (500,000 acres) of the Central Cooper Basin Nappamerri Trough Shale and Tight Gas Fairway in Southwest Queensland. Drillsearch has a 40% working interest and is Operator of the ATP940P tenement that it shares with QGC.

QGC farmed in to the permit and, under the revised terms disclosed in 2014²⁷, will drill 10 wells and carry Drillsearch through \$90 million of the initial \$100 million of expenditure. Drillsearch will remain as Operator of ATP940P until the end of the current permit term in November 2015. QGC will then have the option to assume operatorship.

To date four wells have been drilled and production testing of both Charal 1 and Anakin 1 has produced production at a peak flow rate of 1 MMscf/d. Both wells have now been shut-in to monitor. DeGolyer and MacNaughton²⁸ has assessed 2C gross contingent resources of ATP940P as at 30 June 2015 at 771 bcf (wet gas, arithmetic aggregate).

Table 6-4 Gross contingent resources in ATP940P as at 30 June 2015

Permit	1C bcf	2C bcf	3C bcf
ATP940P	222	771	1846

Late in the December 2014 quarter the ATP940P 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. Subsequently it also received approval for an amendment to the minimum work programme from a total of 10 shallow wells (to a depth of 2,600 metres), to a total of six deep wells (to an average depth of 3,700 metres). The permit extension and amended minimum work programme will provide the opportunity for the joint venture to improve its understanding of ATP940P based on the four initial deep wells, allowing for additional in-depth analysis of test results to inform decisions regarding future activity. No further drilling is currently planned in the permit.

²⁷ Drillsearch ASX release, 10 March 2014: Drillsearch and QGC agree new terms over Cooper Basin acreage

²⁸ DeGolyer and MacNaughton: Report as of June 30, 2015 on contingent resources in ATP940) of the Cooper Basin, Queensland with interests licenced by Drillsearch Energy Limited

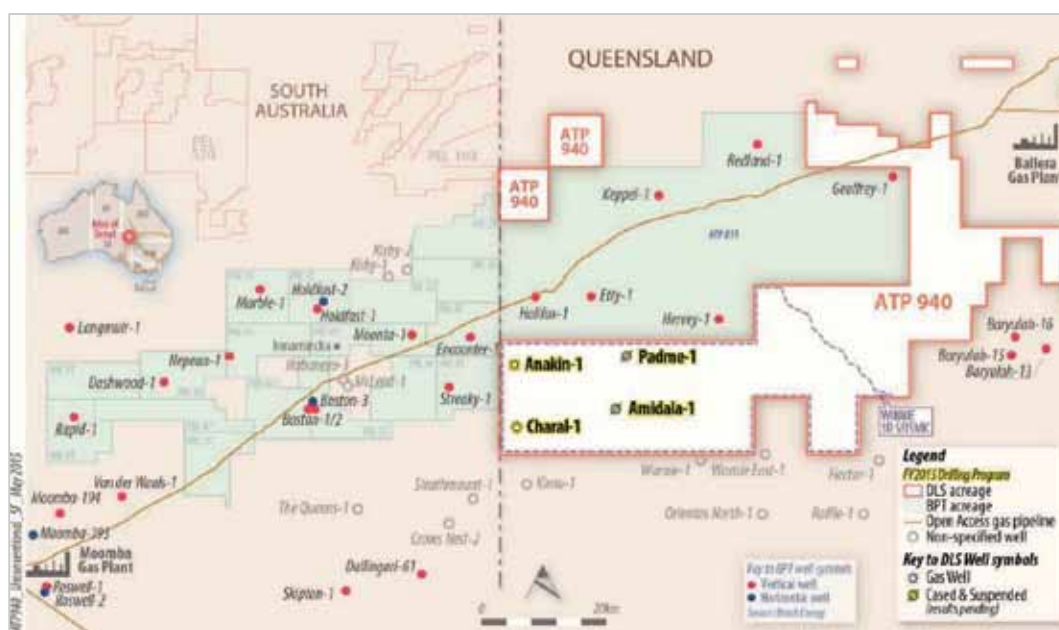


Figure 6-10 Location of Drillsearch's and Beach's Nappamerri Trough permits and wells

Drillsearch has not prepared a model for further appraisal and development of the permit.

It should be noted that ATP940P abuts Beach's unconventional gas permits ATP855P (to the north) and PEL218 (to the west), Figure 6-10. These permits are discussed later.

6.7.2. PEL570

Drillsearch's interest in PEL570 was obtained through the acquisition of Ambassador Oil and Gas Limited (Ambassador). As a result of prior farm out activity by Ambassador to New Standard Energy (NSE) and NSE and Santos, Drillsearch obtained a 47.5% working interest in the permit and free carry over A\$42.5 million of activity. Santos is Operator of the permit.

PEL570 is prospective for wet gas in conventional traps and the deeper (Permian) source rock play which has been the target of the recent Washington 1 exploration well. Santos has reported encouraging results from the well which is currently awaiting stimulation prior to testing, Figure 6-11.

The PEL 570 Permian Source Rock (Deep Coal) play opener well, Washington-1, was cased and suspended awaiting fracture stimulation at the end of the quarter. Early well results validate the predicted model for this area, with the full comprehensive wireline logging data acquired successfully. The geological and engineering information collected on this project has significantly increased confidence in further appraisal drilling in the area.

Figure 6-11 Encouraging results from Washington 1 exploration well²⁹

Drillsearch has modelled a modest exploration programme, however RISC considers that the recent transactions provide the most suitable basis for valuation of this permit.

²⁹ Santos ASX release: Third Quarter Activities Report for period ending 30 September 2015



7. Beach assets

7.1. Description

7.1.1. Permits

Table 7-1 Beach assets and their categorisation

State/ Country	Asset	Name	Subset	Permit	Target h/c	Beach WI %	Status
SA	CB conv gas	Unit gas	FFA	Various PLs	Gas	20.21	Producing
			PE	Various PLs	Gas	17.14	Producing
		Beach-DLS JV		Ex PEL106	Gas	50	Producing
				Ex PEL107	Gas	40	Exploration
			Udacha Unit	PRL26	Gas	15	Development
			SWQ unit	Various PLs	Gas	23.2	Producing
Qld			Thylungra Gas	PL184	Gas	80.4	Exploration
SA	CB conv oil	Unit oil	FFA	Various PLs	Oil	20.21	Producing
		Block oil	FFA	Various PLs	Oil	20.21	Producing
			Ex PEL104/111		Oil	40	Producing
		Bauer, etc.	Ex PEL91	Various PLs	Oil	40	Prod/Expl
			Ex PEL92	Various PLs	Oil	75	Prod/Expl
		Block oil		ATP1189P (ex ATP259P)	Oil	20-40	Producing
Qld		Bodalla		PL31	Oil	100	Producing
		Kenmore, Black Stump		PL32, 40	Oil	100	Producing
SA	Unconventional gas	NTNG		Ex PEL218	Unconventional gas	100	Exploration
				PEL94, PEL95	Unconventional gas	50	CSG exploration
Qld		NTNG		ATP855P	Unconventional gas	64.9	Exploration
				ATP924P	Gas and Oil	45	Exploration
SA			Northwest non-op	PEL424, PEL87	Oil	40	Exploration
Qld				ATP732P	Oil	50	Exploration
				ATP633P	Oil	50	Exploration
WA	Browse Basin		Burnside (offshore)	WA-281-P	Gas/condensate	7.34	Exploration
	Carnarvon Basin		Hurricane	WA-48-R	Oil	10	Discovery
NT	Bonaparte Basin		Cullen (onshore)	EP126	Unconventional gas	100	Exploration
Vic	Gippsland Basin	BMG		Vic/L26,27,28	Gas/oil	35	Development
NZ	Canterbury Basin			PEP52717		50	Exploration
	Taranaki Basin (south)			PEP52181		25	Exploration
	Taranaki Basin (north)			PEP57080		50	Exploration
Tas	Otway Basin			T/49P		30	Exploration
Vic	Otway Basin			PEP150, 168	Unconventional/Gas	50	Exploration
				PEP171	Unconventional	75	Exploration
			Buttress North	PRL1	Gas	10	Exploration



State/ Country	Asset	Name	Subset	Permit	Target h/c	Beach WI %	Status
SA			McIntee	PPL6	Gas	10	Shut in
			Lavers	PPL9	Gas	10	Not produced
			Wynn	PRL1	Gas	100	Exploration
			Limestone Ridge	PRL2	Gas	100	Exploration
			Killanoola	PRL13	Oil	100	Exploration
			Jacaranda Ridge	PRL32	Oil/gas	70	Exploration
			Katnook, etc.	PPL62, 168, 202	Gas	100	Shut-in
				PEL186	Unconventional	66.7	Exploration
				PEL494, 495	Unconventional	70	Exploration
SA	Otway Basin			GSRL27	Gas storage	100	Gas storage retention
	C/E Basin			GSEL648, 634, 646, 653, 633, 645	Gas storage exploration	Various	Gas storage exploration
	Arrowie Basin			GEL156	Geothermal	21	Geothermal
Egypt	Abu Sennan			Abu Sennan	Oil/gas	22	Producing/exploration
	El Qa'a Plain			El Qa'a Plain	Oil	25	Exploration
	North Shadwan			North Shadwan	Oil	20	Producing
Tanzania				Lake Tanganyika South	Oil	100	Exploration

Note: Valuation of the gas storage or geothermal permits was not within RISC's scope for this project.

7.1.2. Reserve and resource summary

Beach's net reserves and contingent resources as at 30 June 2015 are tabulated in Table 7-2 and Table 7-3. Reserves and contingent resources at 30 June 2015 comprise Beach estimates. Beach's Permian oil and gas reserve estimates were reviewed RISC; D&M made an independent estimate of the contingent resource in ATP855P. RISC's terms of reference did not include validation or updating these estimates.

Table 7-2 Beach net reserves as at 30 June 2015³⁰

Area/Product	Total MMboe		
	1P	2P	3P
Beach Operated^a			
Oil	5.2	10.2	19.0
Gas/Gas liquid	1.5	2.2	2.9
Total Beach	6.7	12.4	21.9
Delhi			
Oil	1.7	6.3	15.6
Gas/Gas liquid	22.9	52.6	102.2
Total Delhi	24.5	58.9	117.9

³⁰ Beach 2015 Annual Report



Area/Product	Total MMboe		
	1P	2P	3P
Egypt^b			
North Shadwan	0.3	0.4	0.8
Abu Sennan (Oil)	0.8	2.4	3.9
Abu Sennan (Gas)	0.1	0.2	0.3
Egypt total	1.1	3.1	5.0
Total oil	8.0	19.4	39.3
Total Gas / Gas liquids	24.4	55.0	105.5
Beach Total reserves^c	32.4	74.4	144.8
a. Includes fields operated by Senex b. Egyptian properties were not included in RISC's terms of reference c. Excludes storage gas held in inventory			

Table 7-3 Beach net 2C contingent resources as at 30 June 2015

Area	Oil MMbbl	Gas Liquids MMboe	Gas PJ	Oil Equivalent MMboe
Beach Operated conventional ^a	1.8	0.7	15.5	5.1
Delhi conventional	7.8	5.3	266.4	58.9
Total Cooper conventional	9.6	6.0	282.0	64.1
Egypt ^b	0.5	0.0	0.3	0.6
Gippsland/Carnarvon	2.7	0.1	44.6	10.5
Otway	0.0	0.1	4.8	0.9
Browse	0.0	1.7	60.2	12.0
Total conventional	12.9	7.8	391.9	88.0
Beach unconventional	0.0	0.0	2878.6	494.9
Delhi unconventional	0.0	6.8	504.7	93.6
Total Cooper unconventional	0.0	6.8	3383.3	588.6
Total resources	12.9	14.6	3775.2	676.6
a. Includes fields operated by Senex b. Egyptian properties were not included in RISC's terms of reference				



Since the publication of these figures Beach has not announced any reserve updates and other than quarterly production of 2.3 MMboe net to 30 September 2015, RISC is not aware of any events that would materially affect these estimates.

The following conversion factors have been applied by Beach in the presentation of its reserves and contingent resources statements:

- Sales gas to barrels of oil equivalent (boe) using a factor of 5,816 standard cubic feet per barrel of oil equivalent (boe);
- LPG is converted to equivalent barrels of oil using a factor of 8.458 boe per tonne of LPG; and
- Condensate is converted at 1 bbl = 0.935 boe.

7.2. Cooper Basin conventional gas

The main Beach interests in the Santos operated permits of the Cooper Basin are held in a subsidiary company called Delhi Petroleum (Delhi). The key joint ventures are the Fixed Factor Area (FFA, Beach 20.21%) and South West Queensland Unit (SWQ, Beach 23.2%). Beach also has a 17.14% interest in the small Patchawarra East (PE) Joint Venture. Collectively FFA and PE are referred to as the South Australian Cooper Basin (SACB).

The area of these permits is approximately 50,000 km² in northeast South Australia and southwest Queensland (SWQ). There are 650 - 750 gas wells and 400 - 500 oil wells. There are approximately 200 fields in FFA, approximately 100 fields in SWQ and about 20 in PE. The main pieces of infrastructure are the Moomba and Ballera gas processing plants, about 15 major oil and gas field satellites, 100 nodal compression stations, 50 well head compressors and approximately 6,000 km of gathering pipelines connecting the fields. In addition there are gas storage facilities at Moomba and Chookoo. Liquids are exported from the Port Bonython plant and terminal at the head of Spencer Gulf.

The area of production operations is shown in the Figure 7-2 below.

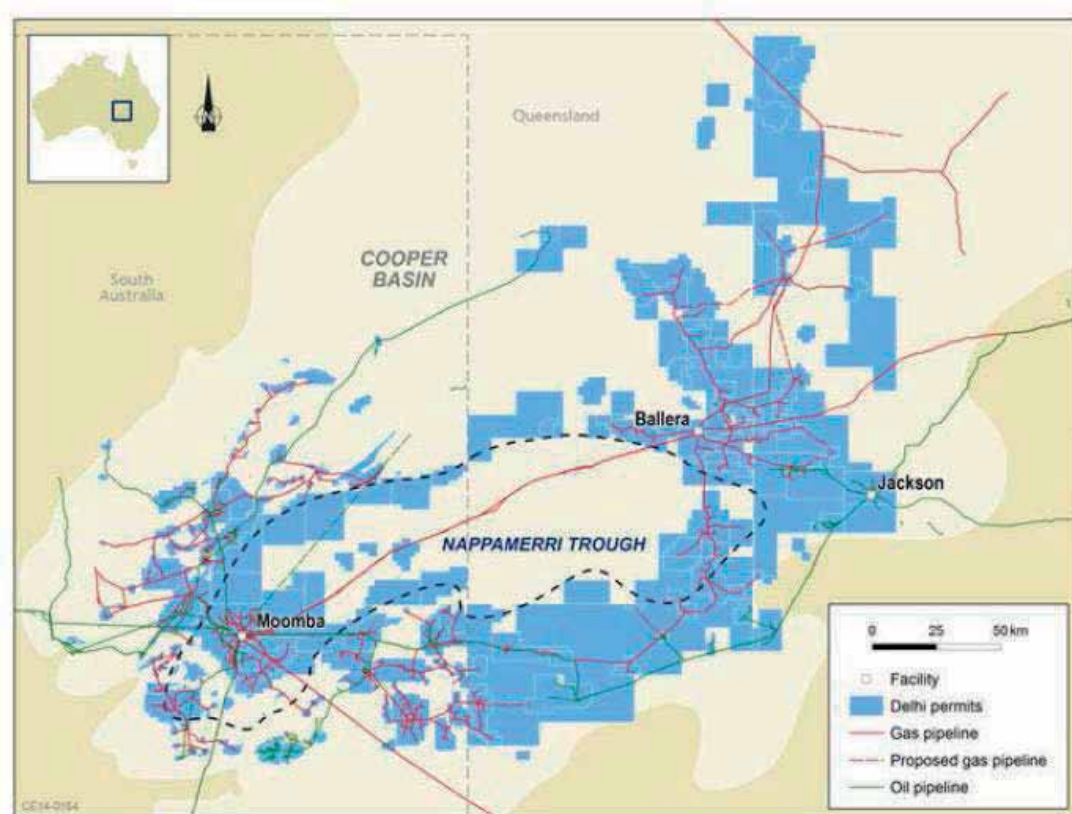


Figure 7-1 Beach's Cooper Basin permits

Beach estimates reserves at 30th June 2015 at 58.8 MMboe as shown in Table 7-2. These estimates have been reviewed by RISC and are considered reasonable. The permits also contain significant contingent and some prospective resources, RISC has not reviewed these estimates. The Operator, Santos, has been undergoing a major cost reduction initiative in 2015. This has resulted in deferral of development activity resulting in lower production³¹. Condensate and LPG production has also decreased as a result of lower raw gas production and lower condensate yields due to recent development in drier gas fields.

Beach's forecast for capital expenditure is at a lower level than past years, consistent with the Operator's stated target. Notwithstanding the short term spending restriction we consider that lifecycle capital costs are likely to be higher than the Operator/Beach estimate and have adjusted the forecasts accordingly. The main reason for this is that we consider unit development costs (\$/boe) are likely to continue to increase as the basin matures and drilling targets become smaller, less liquids rich and possibly with higher carbon dioxide levels.

We note that the operator has achieved some operating cost reduction to date and is also forecasting further cost improvements. We consider it will require a completely different operating philosophy and cost base to reduce operating costs while maintaining production, as wells and field facilities are constantly being added while relatively few wells and facilities are likely to go offline. It is possible this will occur, but we are unaware of any plans to implement material changes to the way the fields are operated.

³¹ Santos Third Quarter Activities Report for period ending 30 September 2015



To reflect the uncertainty about the magnitude of the cost improvements that will eventuate in time and we have prepared high and low cost scenarios to enable EYTAS to evaluate the impact on value.

It should be noted that some costs are related to oil/gas price. Many of the cost savings that have been achieved to date are as a result of contractors and suppliers reducing their rates in a weak market. If energy prices increase it is likely that demand for these services will increase and costs adjust accordingly.

RISC has developed a production scenario that, in the period 2016-18 is similar to the operator's latest guidance and in the longer term is aimed at delivering the current gas sales contract commitments. The total volumes in this forecast exceed the 2P reserves and therefore some contingent resources are assumed to be matured and developed to deliver this forecast.

Capital costs from FY2016 are estimated at A\$1916-2125 million (net risked, scenario 1-scenario 2 to 2039) with operating costs of A\$3016 million. Production of 98 MMboe (net risked) is forecast for the period.

7.2.1. Beach-Drillsearch wet gas JV

Beach has a 50% working interest in PEL106, a 40% working interest in PEL107 and a 15% working interest in the unitized Udacha field. Beach's estimate of reserves in PEL106 at 30 June 2015 was 2.2 MMboe (2P net). The Beach-Drillsearch wet gas JV is described in section 6.4.1.

7.3. Cooper-Eromanga Basin oil

7.3.1. SA FFA "Unit" oil

Within the Cooper-Eromanga Basin oil is primarily located in the Jurassic strata and gas within the deeper Permian strata (e.g. Patchawarra and Tirrawarra formations). Jurassic oil is generally "dead" oil, i.e. it contains very little gas, so little that the gas is not gathered for sale. Permian oil generally contains significant gas and both the gas and oil from such fields is gathered and sold.

Although the Permian strata primarily contain gas, there are some fields in which there is Permian oil, these are largely located in the SA FFA region. The oil contained in the Permian reservoirs in the FFA was unitized, together with the gas, hence the term "Unit" oil. For developments in such a reservoir it is not possible to separate gas and oil development costs, as such FFA "Unit" oil costs are combined with the gas, the "Unit" oil production has therefore been included with the FFA gas in section 7.2, above.

7.3.2. South Australia Jurassic oil

7.3.2.1. South Australia "Block" oil

The term "Block" derives from the subdivision of the initial Santos-operated SA and SWQ exploration permits into various Blocks by farm-out of interests to various parties. After the unitization of the SA and SWQ gas ventures the term "Block" has been used to identify the permits that have not been unitized, and in the SA FFA, to the Jurassic oil.

Beach has a 20.21% working interest in the SA FFA and a 17.14% interest in the Patchawarra East (PE) JV.

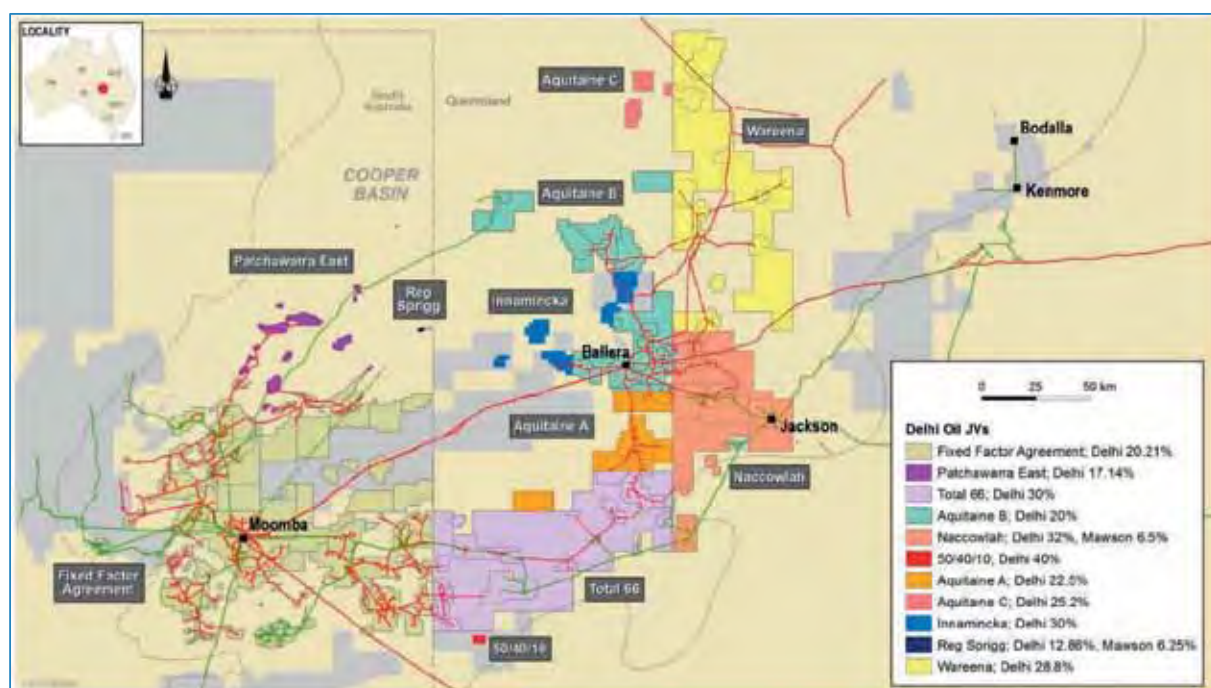


Figure 7-2 Location of Beach's "Block" oil permits

Production from the SA "Block" oil commenced in 1982 and the asset is now mature with well-established producing and declining fields. No exploration is planned in the SA Blocks. In the current environment the short term development strategy for this asset is to increase operational efficiency through cost reductions and extend the asset economic life.

RISC has reviewed production and cost inputs for FFA Block Oil and PE Block Oil and found them to be appropriate. While minor differences have been observed between documentation and model inputs, we deem them not to be material in the context of this valuation.

Capital costs for the 10 years from FY2016 are estimated at A\$218 million (gross) with operating costs of A\$360 million. Production of 7 MMbbl (gross) is forecast for the period.

7.3.2.2. South Australia ex PEL91

This is a shared permit with Drillsearch in which Beach has a 40% working interest and is Operator. Beach's estimate of reserves in Ex PEL91 at 30 June 2015 was 5.8 MMbbl (2P, net). For discussion on this permit see section 6.2.

7.3.2.3. South Australia ex PEL92

Ex PEL92 is located in the Western oil fairway, to the southwest of Ex PEL91 and northwest of PEL107, Figure 7-3. Beach has a 75% working interest in the permit and is Operator, Cooper Energy has the balancing 25% working interest. Beach's estimate of reserves in Ex PEL92 at 30 June 2015 was 2.5 MMbbl (2P, net).

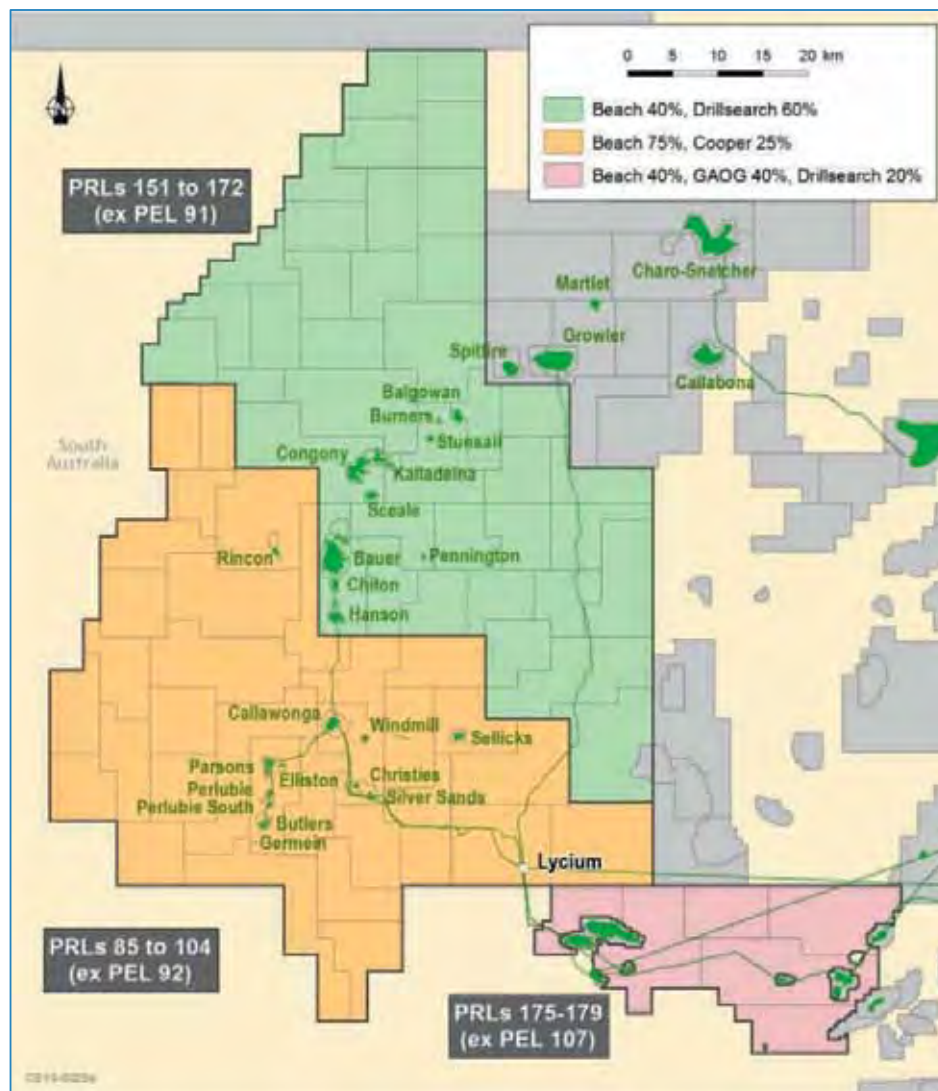


Figure 7-3 Location of Beach's PEL92, PEL91 and PEL107 permits

Principal producing fields and hub facilities are located at Callawonga, Butlers and Parsons with production from a number of smaller fields either trucked or tied back to these hubs. Export to market is via the Callawonga–Lycium pipeline and then Lycium-Moomba Flowline System (LMFS).

In common with Ex PEL91, the Namur Sandstone play and the mid-Birkhead stratigraphic play are the primary target reservoirs in Ex PEL92. The use of 3D seismic has improved the definition of both plays and increased exploration success and optimised field appraisal and development drilling. Seismic attribute mapping is being refined in the more difficult mid-Birkhead stratigraphic traps, with recent exploration discoveries indicating improved success.

Reservoir properties in the Namur are excellent, with multi-Darcy permeability, strong aquifers and low residual oil saturation. This combination leads to high oil recovery factors. Initial free-flow production rates commonly exceed 6,000 barrels/day gross. The mid-Birkhead reservoir is also of high quality, but the lack of a strong aquifer drive reduces primary recovery.



Despite the exploration that has been undertaken for a number of years there remain a number of undrilled prospects that have been identified on 3D seismic. Although the prospect size is diminishing, low drilling costs and the proximity to infrastructure makes any discovery easy to commercialise.

Consistent with Ex PEL91 an ongoing exploration programme has been assumed for the next few years. Capital and development costs have been incorporated and a risked production profile.

7.3.2.4. South Australia Ex PEL104 and Ex PEL111

Ex PEL104 and Ex PEL111 are in the Western flank oil fairway, to the northeast of Ex PEL91, Figure 7-4. The permits are now retained under PRLs and PPLs. Beach has a 40% working interest in the permits, Senex has a 60% working interest and is the Operator.

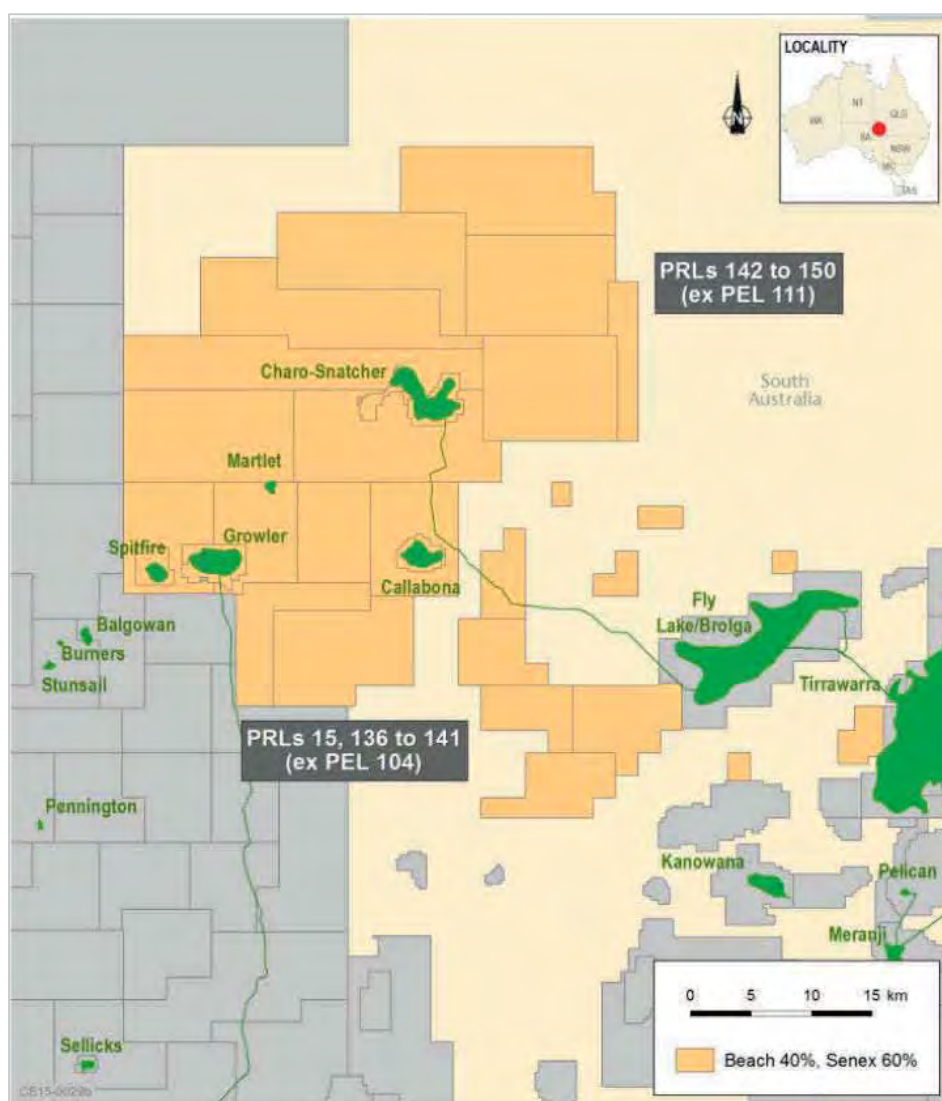


Figure 7-4 Location of Beach's Ex PEL104 and Ex PEL111 permits



The assets contain a number of mature oil fields but has a number of opportunities near-field exploration and appraisal. The principal producing fields and hub facilities are Growler and Snatcher. Export to market is mostly via the Growler–Lycium (GLFS) and Lycium-Moomba Flowline System (LMFS). Alternate export for Snatcher is via the Charo to Merrimelia pipeline. In the event of capacity constraints through the pipeline network, excess production is trucked to Moomba. The oil produced is light, sweet crude with virtually no associated gas. Beach’s strategy for the asset is to work with the Operator to find, develop and produce this relatively high margin oil.

A low-cost shut in test commenced at the Growler field as part of proving the concept for a future water flood project. The test is showing encouraging early results reflecting the current project concept and modelling. The test is continuing into the second quarter of FY16.

2P gross reserves in the permit at 30 June 2015 were 3.5 MMbbl. RISC reviewed the forecasts provided by Beach and considered that, in aggregate, that they were reasonable.

7.3.2.5. South Australia PEL424 and PEL87

Permits PEL424 and PEL87 are located to the north of ex PEL91 in the Eromanga Basin, Figure 7-5. Beach has a 40% interest in both PEL424 and PEL87.

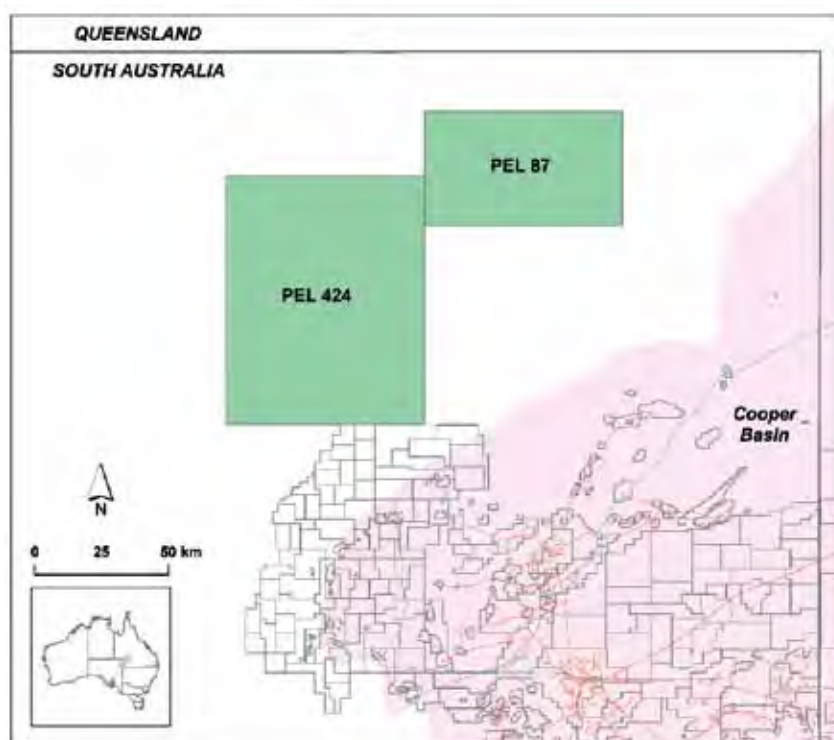


Figure 7-5 Location map for PEL424 and PEL87

No forecast has been generated for these permits and their valuation has been made using exploration metrics.



7.3.3. Queensland Jurassic oil

7.3.3.1. Queensland "Block" oil

Queensland "Block" oil comprises eight blocks as shown in Table 7-4, of which, only Naccowlah, Total 66, Aquitaine B and 50/40/10 have ongoing production. Permit locations are illustrated in Figure 7-2.

Table 7-4 Queensland "Block" oil permits

Block	Beach equity
50/40/10	40%
Aquitaine A	22.5%
Aquitaine B	20%
Aquitaine C	25.2%
Innamincka	30%
Naccowlah	38.5%
Total 66	30%
Wareena	28.8%

Gross 2P oil reserves in the permits at 31 December 2014 were 12 MMbbl³².

Production from the Queensland "Block" oil fields commenced in 1983 and peaked at 10.8 MMbbl p.a. in 1986/87 before declining to 1.2 MMbbl p.a. between 2003 and 2006, largely in response to reduced investment following the fall in oil price in the late 1980s. More recently, with the higher oil prices in the early 2010s, investment was higher and oil production has increased as a result, Figure 7-6.

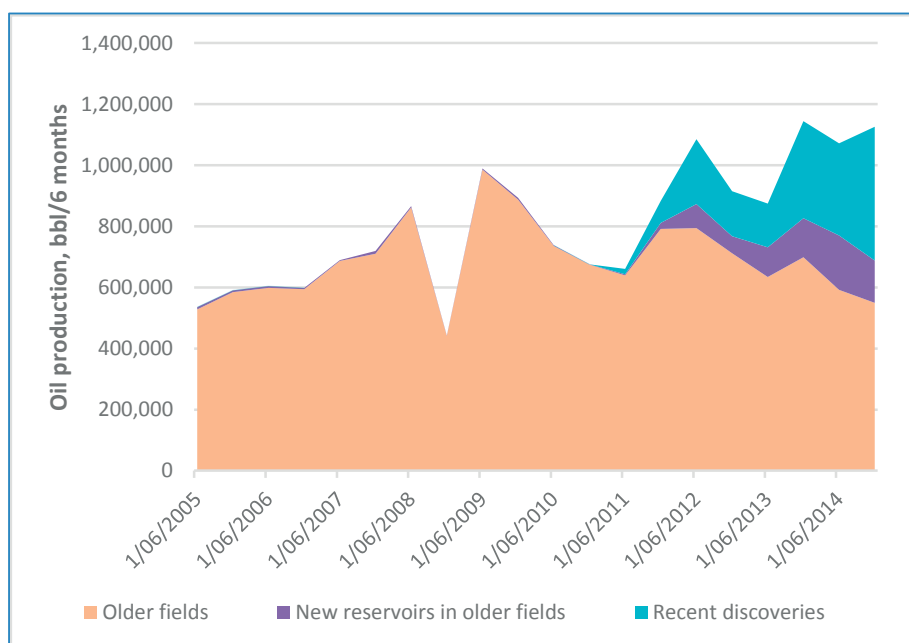


Figure 7-6 SWQ "Block" oil historical production

³² Queensland Government website



As with the SA “Block” oil the fields are generally considered mature. Santos, the Operator of the permits has announced that, as a result of the lower oil prices currently being experienced, capital investment will be curtailed, RISC therefore expects that production will decline and forecasts for this evaluation are consistent with this premise.

RISC has reviewed capital and operating cost inputs for Total 66, Aquitane B, FFT (50/40/10) and Naccowalah blocks and found them to be appropriate. While minor differences have been observed between documentation and model inputs, we deemed them not to be material in the context of this valuation.

7.3.3.2. Other Queensland oil permits

Other oil permits in Queensland in which Beach has an interest are the established producing assets KBB (Kenmore, Bodalla, Blackstump), ATP269P (Coolum/Byrock JV) and PL256 (Glenvale/Bargie JV) and the exploration licences PL184, ATP633P, ATP732P and ATP924P, Figure 7-7.

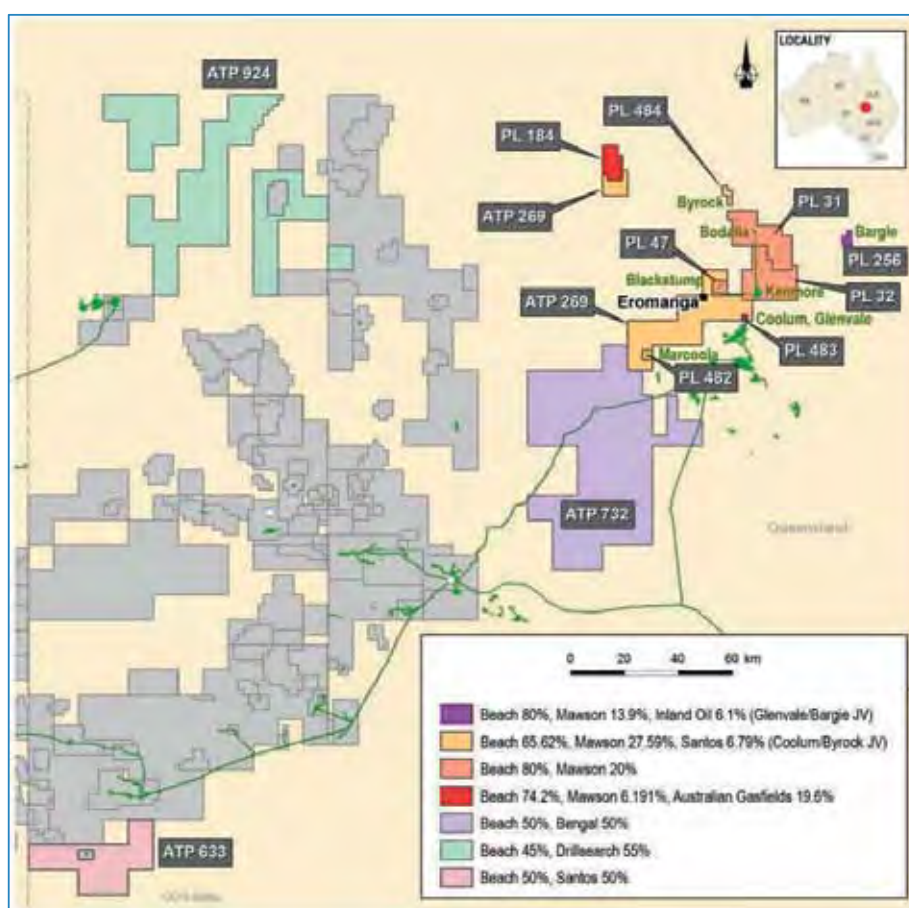


Figure 7-7 Beach's Queensland oil assets



KBB (Kenmore, Bodalla, Blackstump), ATP269P (Coolum/Byrock JV) and PL256 (Glenvale/Bargie JV)

These permits are located in the north east of the Cooper Basin in Queensland, and are in the late stage of production. Beach holds a 93.21% interest in ATP269P and a 93.9% interest in PL256.

No further activity is forecast for these assets and only minor production. RISC supports this forecast.

PL184

PL184 is immediately north of the northern section of ATP269P, and, like ATP269P and PL256. The permit holds the Thylungra gas discovery. Beach holds an 80.4% interest in PL184. The permit has been valued using exploration metrics

ATP633P

ATP633P was entered by Beach to test the Queensland exploration strategy on the southern flank of the Cooper Basin. A number of wells have been drilled but results have been disappointing with failure mechanisms generally being lack of charge and/or poor reservoir. A decision is required as to whether a small 3D seismic survey is acquired to delineate the best remaining prospects in FY16 to allow drilling with time for potential follow up before permit term expires, or whether the permit is divested.

The permit appears to be on trend with the PEL94 and 95 permits in SA which suggests that the deep coal play may be present. RISC has reviewed PD well data for the permit which indicates that coals are absent or significantly thinner than in PEL94 and 95.

The permit has been valued using exploration metrics.

ATP732P

Beach is currently in the process of farming in to ATP732P to earn a 50% interest and become Operator by drilling two wells and acquiring 300 km² of seismic. This permit is on the eastern flank and has had very little activity in terms of drilling or seismic. However the permit Operator, Bengal Energy, had a non-commercial discovery at Caracal 1 in the Wyandra Member. The Tookoonooka astrobleme, an ancient meteorite strike, in the central part of the permit and has caused significant disruption to the Eromanga section. The initial focus for Beach entering the permit was the Hutton Sandstone in the north eastern portion of the permit distal to the impact disruption and proximal to charge. The first farm in well was drilled at Tangalooma 1 in 2013 on the Belallie 3D, but only encountered minor shows and was plugged and abandoned. Beach acquired the required seismic with the Nassarius 3D survey in late 2013. The Nassarius 3D survey data shows that the impact disruption is more complex than anticipated, potentially interrupting migration pathways and further work will be required to understand the consequences of this. There is no commitment to drill the second well, however the second well is required to be drilled, or the financial spend commitment reached, to complete the farm-in.

The permit has been valued using exploration metrics.

ATP924P

Beach is currently in the process of farming in to ATP924P to earn a 45% interest from Drillsearch. This permit has been discussed in section 6.6.1, above.



7.4. Unconventional

7.4.1. Nappamerri Trough – ATP855P and PEL218

Following the withdrawal of Chevron³³ from the permits, Beach has a 100% working interest in the SA Ex PEL218 permits (now PRLs) and a 64.9% working interest in ATP855P in Queensland, Figure 7-9.

In March 2015³⁴ Beach released a revised assessment of the contingent resources in ATP855P made by DeGolyer and MacNaughton (D&M) of 1,572 bcf (2C gross). The intervals assessed by D&M were Permian-age lacustrine and fluvial sediments of the Murteree and Roseneath shales, and the Epsilon, Toolachee, Daralingie and Patchawarra formations.

Together with the Ex PEL218 Beach's NTNG contingent resource (2C net) is 2,766 bcf³³, 2,879 PJ³⁰.

NTNG 2C Contingent Resources ¹			
(Bcf)	PRLs 33 to 49	ATP 855	Total
Current	1,247	712	1,959
Revised	1,781	985	2,766
Increase	534	273	807

¹ Contingent resources as at 31 December 2014, as submitted to the Australian Securities Exchange on 27 March 2015 (reference #020/15)

Figure 7-8 Beach's NTNG contingent resources at 31 December 2014

Contingent resources have been assigned to limited areas surrounding tested wells as indicated in Figure 7-9.

³³ Beach ASX release #021/15: Nappamerri Trough natural gas project update

³⁴ Beach ASX release #020/15: Upgrade of Nappamerri Trough natural gas contingent resources

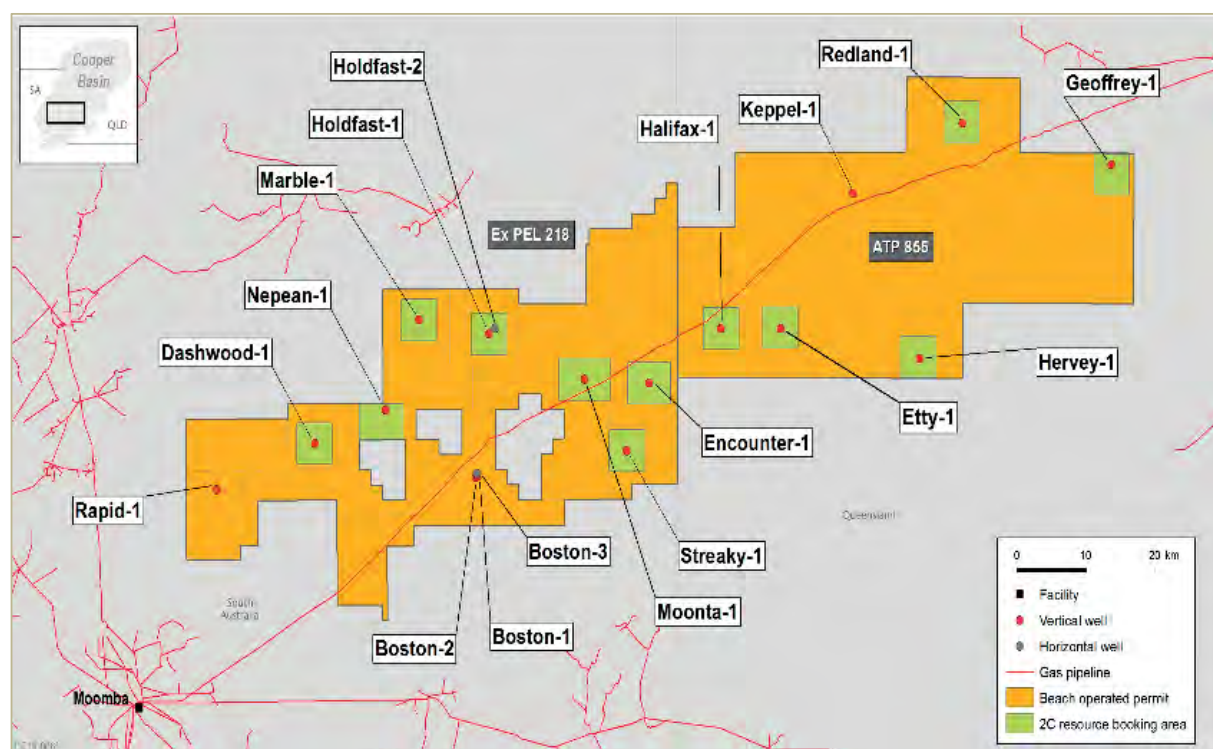


Figure 7-9 Beach's NTNG assets and contingent resource areas

Key contingencies for commercialising the estimated resource include establishing longer-term deliverability, reducing well costs with scale of activity, gas sales agreements and connection to adjacent facilities. Subject to improved macro-economic conditions, Beach's internal capital allocation policies and joint venture approval, geological studies such as 3D seismic or other imaging techniques may be undertaken to refine areas of higher potential. Appraisal wells may then be drilled over the longer-term to assess deliverability and move the project towards commercialisation. Beach has completed its Stage 1 programme and is currently assessing the results, after which a scope for stage 2 will be confirmed.

RISC has valued the permits using exploration metrics on the basis of a notional appraisal programme for each permit.

7.4.2. PEL94 and PEL95 deep coal gas play

These permits are located in the southern Cooper Basin in SA, Figure 7-10. Beach has a 50% working interest in both permits.

The key play in these permits is the deep coal in the Permian Patchawarra, Epsilon and Toolachee formations. In PEL95, the Murteree Shale is a secondary unconventional target. Strike Oil's PEL96 containing the Klebb production pilot which is testing the same play lies immediately south of the permits.

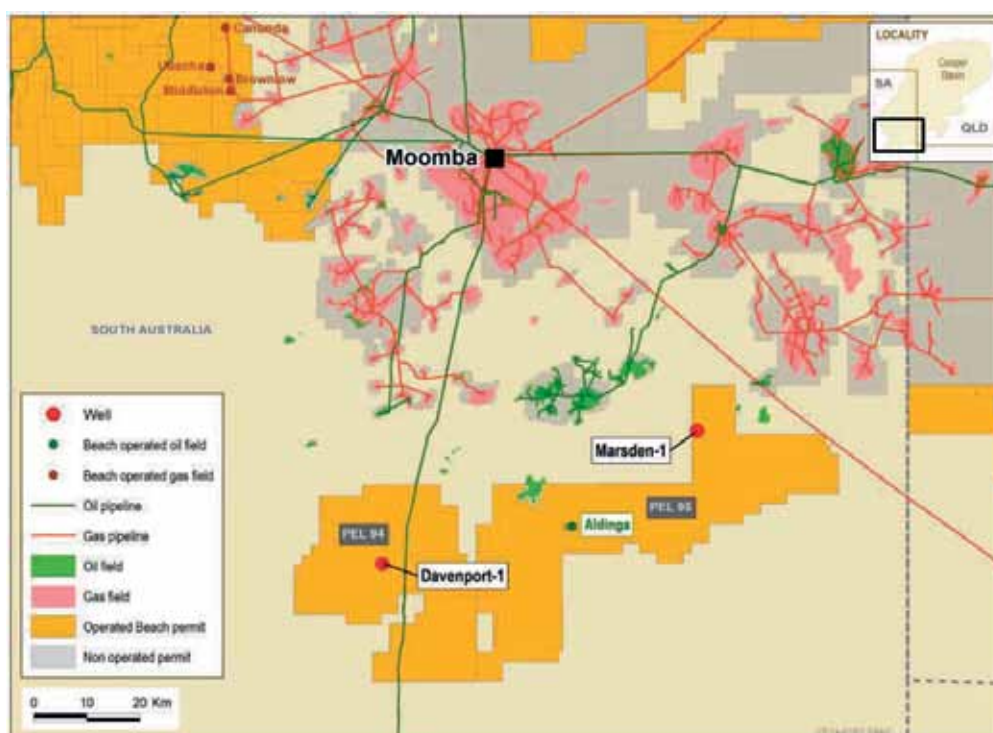


Figure 7-10 Location of the Beach deep coal gas project in PEL94 and PEL95

The asset is immature with only two wells drilled to date (one in each permit). Full-hole core was obtained from both wells and subjected to analysis including gas desorption. One well, Davenport 1ST1 in PEL94, has been fracture stimulated and completed with artificial lift in preparation for extended production testing.

If the gas content and permeability are at the higher end of the estimated range and, if commerciality is demonstrated, the value of this asset could be significant, however, at present, a large degree of uncertainty remains around key reservoir parameters that will determine commercial viability of the project. For this project to be successful there are two essential ingredients: permeability and gas content, these are the subject of further testing.

A greater understanding of adsorbed gas content, porosity, permeability and mechanical properties of the coals is required. This information will be obtained through:

- production testing of Davenport 1ST1;
- drilling and pressure coring of Davenport 2; and
- drilling and completing a further 4 wells at Davenport to establish a 5-spot production pilot.

RISC has valued these permits using exploration metrics.

7.4.3. SA Unit

Within the SA FFA Santos has reported successful flows from the REM (Roseneath, Epsilon, Murteree) shale in Moomba 191 and lesser flows from other wells. RISC has assumed that production from further appraisal and development from these unconventional wells is captured in the SA FFA forecasts. No further explicit value has been attributed to this resource.



7.5. Moomba plant throughput

7.5.1. Gas throughput

Beach has provided a forecast of 3rd party gas production based on information provided by Santos, the operator of the Moomba plant. The estimates cover gas which will be processed and/or tolled through the plant infrastructure between 2015 and 2040.

In the absence of detailed supporting information, RISC has carried out a sense check on this estimate using public domain information. The April 2015 Gas Statement of Opportunities (GSOO) published by the Australian Energy Market Operator (AEMO) identified Cooper/Eromanga Basin 2P conventional reserves as at 31 December 2012 of 1943 PJ with a further 2006 PJ of 3P and 2C conventional resources. After allowing for production from the basin of approximately 100-120 PJ/a, RISC estimates that the reserves adjusted for this production as at 31 December 2014 to be approximately 1700 PJ. (This does not account for any additions or revisions in the intervening period which are expected in aggregate to be relatively small).

The operator projects a total production of approximately 2500 PJ inclusive of 3rd party gas from 2015 to 2040 which means that an additional 800 PJ of gas resources will need to be developed from sources other than 2P reserves.

The April 2015 GSOO report estimates that 1077 PJ of conventional Cooper/Eromanga gas in the 3P/2C classification to be produced between 2015 and 2035 or approximately 50% of the 3P/2C inventory. Since these estimates were made, the full effect of oil price decreases has manifested itself in significant reduction on capital and operating budgets for Cooper Basin producers which will delay exploration and development of a portion of the tranche of 3P/2C gas. Therefore we expect that the 1077 PJ estimate will now be somewhat optimistic.

However we are satisfied that the estimate of 3rd party gas to be tolled through the Santos operated infrastructure is reasonable.

7.5.2. Oil throughput

Beach provided a forecast of the 3rd party oil throughput for Moomba detailed by permit. In response to queries from RISC Beach explained that the various sources paid different tolls dependent on the facilities used and that the tolls in the model represented a weighted average. RISC has not reviewed the specific tolls and tolling agreements but considers that the use of a weighted average toll is a reasonable approximation.

RISC has not checked Beach's 3rd party oil forecast by permit, however, after comparing Beach's total with a forecast of long term Cooper Basin oil production that RISC had made previously, we concluded that Beach's oil total throughput estimate was reasonable. For permits with shared Beach and Drillsearch interests we made small modifications to ensure that consistent forecasts were used for valuation of both parties.



In 1998 Beach was awarded a 10% interest (currently 7.34%) in WA-281-P in the Browse Basin, offshore WA operated by Santos. The Burnside 1 well in 2009 discovered a 55 m gas column in poor quality Brewster Sandstone (Ichthys Field Reservoir). In 2014 Lasseter 1 was drilled in the adjacent WA-274-P (which Beach does not have an interest in) and discovered 78m of net gas pay over 405m interval in the Lower Vulcan and Plover.

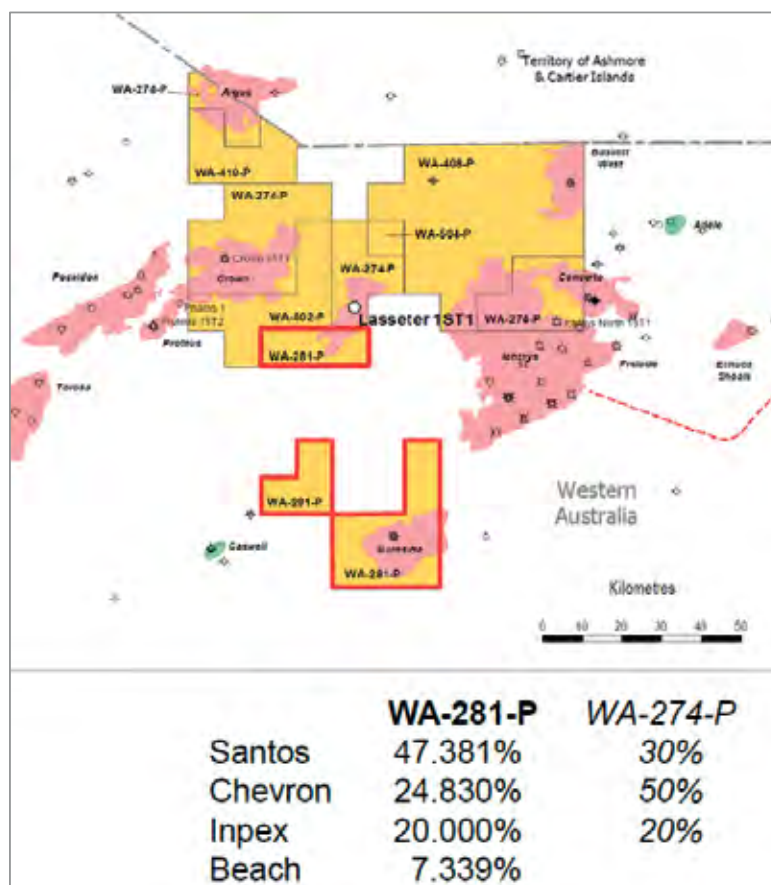


Figure 7-11 Location of Beach's Browse Basin permits and fields

Beach has a 10% working interest in WA-48-R, a retention lease over the Hurricane Oil and Gas Field in the Dampier sub-basin. RISC considers the Hurricane Field is likely to be uneconomic based on the current proven hydrocarbon accumulation.



Figure 7-12 Location of Beach's Carnarvon Basin permits

7.6.3. Bonaparte Basin – EP126

Beach operates EP126 in the onshore Bonaparte Basin in the Northern Territory after farming in for 55% to Territory Oil and Gas Pty Ltd's equity. Beach has advised that it has relinquished EP138 as it is outside the Bonaparte play area. In July 2015 Beach acquired their partner, Territory Oil and Gas Pty Ltd so they are now a 100% participant in EP126 which covers 6,728 km².



Figure 7-13 Location of Beach's Bonaparte Basin permits and well

EP126 surrounds the Weaber conventional gas discovery however Beach is exploring for unconventional shale gas in Late Devonian – Early Carboniferous marine black shales. Cullen 1, drilled in 2014, confirmed the presence of this hydrocarbon system and identified a possible fractured carbonate gas play.

A farm down process commenced in early F2016 to identify a partner for further activities.

7.6.4. Gippsland Basin

Beach has a 35% equity in the Basker, Manta, Gummy (BMG) production licences in the Gippsland Basin offshore Victoria (VIC/L26, VIC/L27 and VIC/L28). There has been no production now for 5 years (August 2010) so the operator, Cooper Energy has applied for retention licences (PRLs).

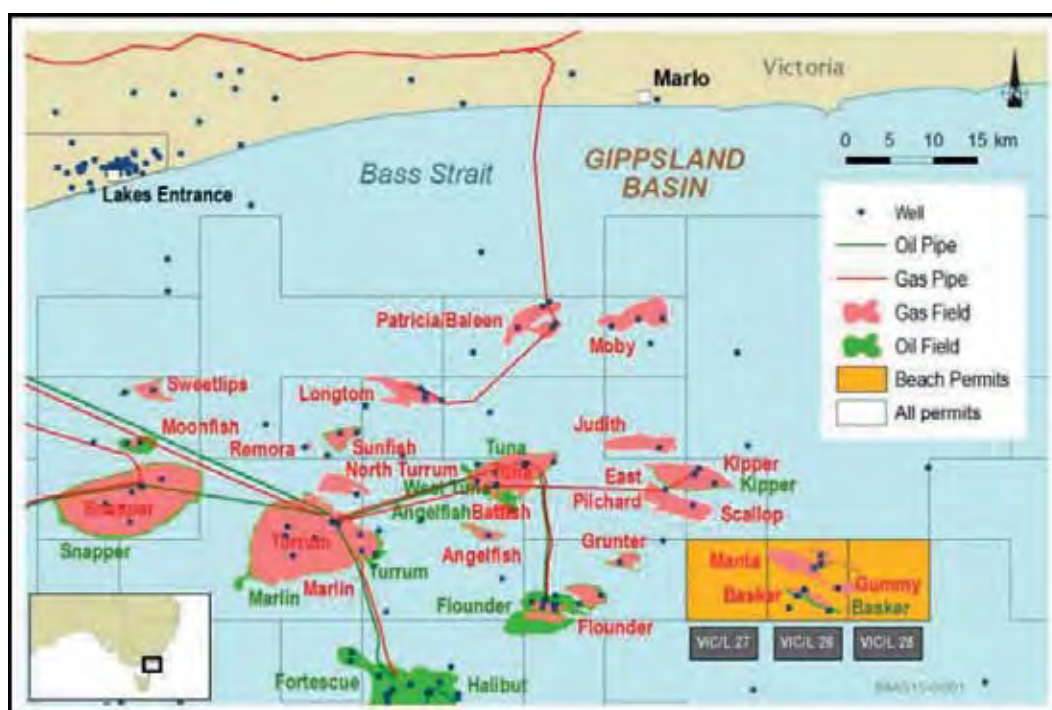


Figure 7-14 Location of Beach's Gippsland Basin permits and fields

Production from BMG occurred between 2006 and 2010 with 8.6 MMbbl produced and 26.9 bcf of gas, most of the gas was reinjected. The main productive interval is the Intra-Latrobe Group with a small contribution from the underlying Golden Beach Group. The work programme consists of studies into options for economically producing the gas and recovering the remaining oil which Cooper Energy is actively working on. There are a number of small additional appraisal opportunities that could form part of the Phase 2 development.

7.6.5. Otway Basin

7.6.5.1. Offshore Tasmania - T/49P

Beach has a 30% holding in T/49P in the Otway Basin, offshore Tasmania. The Operator with 70% is 3D Oil who initially farmed out 20% of the permit to Beach for \$3 million. Subsequently Beach increased its equity to 30% by funding 35% of the 974 km² Flanagan 3D seismic survey.



Figure 7-15 Location of Beach's Otway Basin permits

Exploration is focused on the Late Cretaceous aged Waarre Sandstone, Flaxman Formation and Thylacine Member in fault bounded closures analogous to the Thylacine and Geographe discoveries in the adjacent permit.

There is one large gas prospect and one large lead identified on the Flanagan 3D - Flanagan and Whalebone and four less well defined leads on 2D data.

The current firm commitment is for G&G studies prior to entering the second term of the permit on 22 May 2016 where two wells are committed over the following three years.

There are technical and commercial risks in T/49P. The identification of gas filled structures from amplitude anomalies is not as obvious as those of Thylacine. The presence of carbon dioxide is always an unknown risk as is compartmentalisation of the reservoirs. There is also the commercialisation risk because of the need for third party access to infrastructure.

7.6.5.2. Onshore SA - PEL186

PEL186 is located at the western end of the onshore Otway Basin in South Australia and overlies the Robe Trough. Beach has a 66.67% interest in the permit. The permit contains conventional targets in the Early Cretaceous sandstones which have been proven reservoirs in the Penola Trough I. The unconventional play targeting the known source rocks of the Lower Sawpit Shale and the Casterton Formation has been identified in the permit.



The value of holding onto the permit is in the unconventional play being tested in the adjacent PEL494. Calculated unconventional resources for this permit will however be limited by the limited extent of the St Clair and Robe deep troughs.

7.6.5.3. Onshore SA - PEL494

PEL494 is an amalgamation of PEL494 and PEL495 in which Beach has a 70% interest. It surrounds old production licences for fields such as Katnook, Wynn, Limestone Ridge, Redman, Ladbroke Grove and Haselgrove where gas production ceased in 2011 after producing 71 PJ of gas and 414 Mbbls of liquids³⁵.

PEL494 lies over the Penola Trough in South Australia where recent activity has been targeting the unconventional plays mentioned above. The permit is currently in Year 1 of the renewal period and has commitments this year of G&G studies and has a contingent well in next year's programme.

The key value driver for this area is the existing infrastructure, including a pipeline licence, and access to Eastern States gas markets. Drilling new wells to re-start gas production from deeper reservoirs is likely to be a viable strategy.

The key risks are the delay or withdrawal of government support and activist activity reducing the economic benefits of the project.

7.6.5.4. PEP171

PEP171 also lies within the Penola Trough on the Victorian side of the basin and has similar prospectivity to PEL494. Beach has a 75% equity in the permit which is currently in suspension in the first year of its renewal period due to the moratorium and parliamentary enquiry in Victoria into drilling and fracture stimulation.

There are a number of conventional leads targeting the Pretty Hill/Sawpit sandstones however the upside in the permit is if the unconventional plays can be proven up in PEL494 as they will extend into PEP171.

The key risk is being allowed by the Victorian government to pursue unconventional plays requiring fracture stimulation. The technical risks for the unconventional plays are that despite targeting source rocks they prove to be difficult to stimulate, expensive to drill and decline in production too fast.

7.6.5.5. PEP150

PEP150 straddles both the Ardonachie Trough and the Portland Trough. The former has similar prospectivity to the Penola Trough including potential for oil in the Pretty Hill/Sawpit reservoirs, whilst the deeper Portland Trough has prospectivity for gas reservoirs in the younger, Late Cretaceous aged Waarre Sandstone in fault bounded closures similar to PEP168 in the Port Campbell Embayment.

Beach has a 50% equity in PEP150 (through Mawson Petroleum Limited) and the permit is also in suspension during the government moratorium. Future commitments in the next four years of the renewal include 2 wells and 50km of 2D seismic. Beach is planning to carry out 164 km of 2D seismic acquisition to firm up a number of the leads.

The key risks are the same as for PEL494 and the value can also be estimated from the work programme commitments.

³⁵ SA DSD, Onshore Otway Basin fact sheet



7.6.5.6. PEP168

PEP168 is in the Port Campbell Trough which is mature for exploration with the previously productive gas fields, McIntee, Croft, Naylor and Naylor South having produced approximately 18 bcf of gas between 2002 and 2004 from the Waarre Sandstone. Small flows of gas and some oil have been recorded from a number of wells in the area that penetrated the deeper Early Cretaceous Eumeralla Formation which Beach is investigating as an unconventional play. Only one conventional oil lead has the size to be of interest but is high risk.

Beach has a 50% equity in PEP168 and is operator. The permit was in its final year before renewal when the government moratorium stopped further work and suspension was granted.

The key risks in the permit are the same as for PEL494.

7.6.5.7. PPL62, PPL202, PPL168

These production licenses are all owned outright by Beach. As mentioned above they have not produced since 2011. Beach has no work commitments but is considering restarting gas production from deeper reservoirs.

Other production, gas storage and pipeline licences are tabulated below.

Table 7-5 Other Onshore Otway Basin licences

Permit	Field	Adelaide Energy/Beach
PRL1	Wynn	100%
PRL2	Limestone Ridge	100%
PPL62	Katnook	100%
GSRL27		100%
PPL168	Redman	100%
PPL202	Ladbroke Grove	100%
PRL1, PPL 6, PPL 9	Port Campbell	10%
PL19	Pipeline Licence	100%

7.7. New Zealand

Beach has non-operated interests in three permits in offshore New Zealand as shown on the location map below. They are:

- PEP52717 in the Canterbury Basin
- PEP52181 in the Taranaki Basin
- PEP57080 in the Northland Basin.

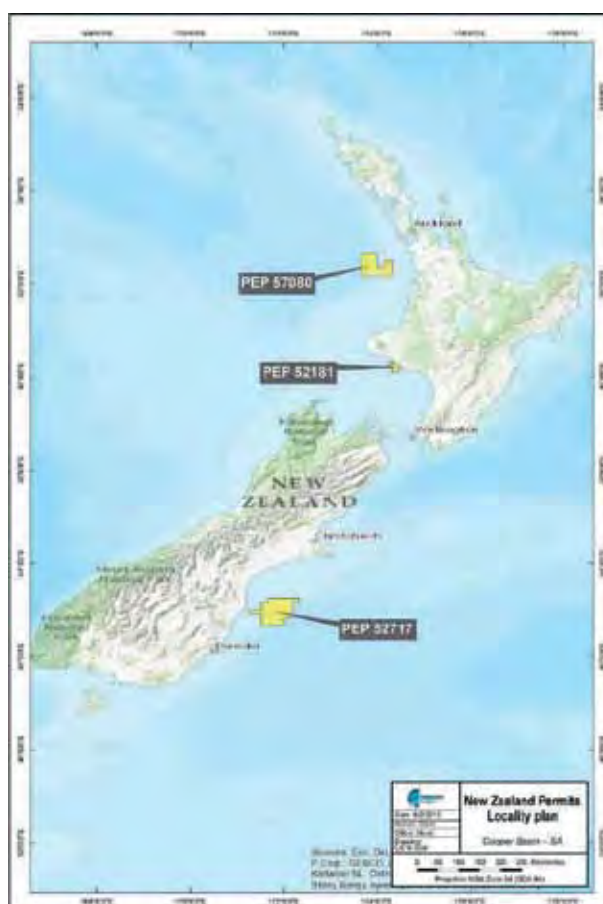


Figure 7-16 Location of Beach's New Zealand permits

7.7.1.1. PEP52717

Beach has a 50% non-operated interest in PEP52717 in the Canterbury Basin, offshore New Zealand's South Island's east coast. The permit is sparsely explored, covers 3,417 km² and contains one large gas/liquids prospect, the Barque Prospect. The prospect is covered by 3D and the permit has a sub-economic gas/liquids discovery nearby. A PSDM processing of the 3D seismic survey was completed in February 2015.

Barque is a large Cretaceous structural trap of approximately 150 km² in 800 m of water with the target formations 2,500-3,000 m below sea level. The nearby Galleon structure was drilled by BP in 1985 and demonstrated the presence of condensate rich gas through multiple well tests. Subject to securing a suitable farminee and a suitable rig the Barque prospect is expected to be drilled in 2017/18.

The prospect has moderate technical risk and is covered by 3D seismic. Liquids stripping is an option for rapid commercialisation of Barque.

There is a chance that Beach and NZOG will have to relinquish the permit rather than enter the commitment year.

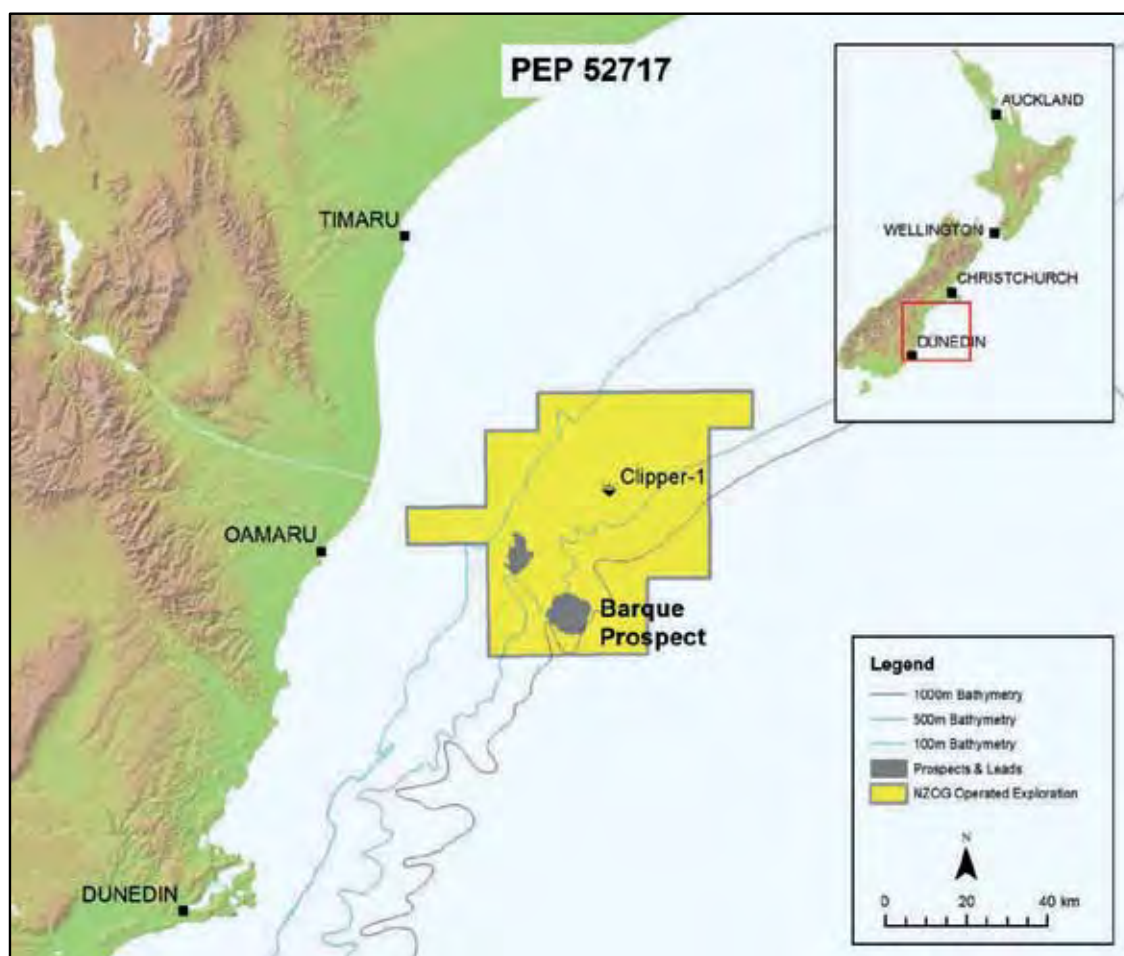


Figure 7-17 Location of the Barque prospect in PEP52717

7.7.1.2. PEP52181

Beach is farming in to earn a 25% interest in PEP52181 in the Taranaki Basin which has one remaining prospect, Kaheru, delineated by 3D seismic data, NZOG is the operator. The proposed well was to have been drilled before May 2016 however the Joint Venture is investigating options to defer or amend the work obligations.

The primary reservoir target is the Oligocene Tariki Sandstone deposited as a turbidite fan. The prospect is 12 km from the south coast of New Zealand's North Island in 25m of water. The prospect is on trend with the Rimu and Kauri fields, just to the north of the permit, have an unrisked ultimate recovery of 12 MMboe³⁶ the Kupe gas/liquids field lies to the southwest.

³⁶ NZ Government reserve spreadsheet 1 January 2015

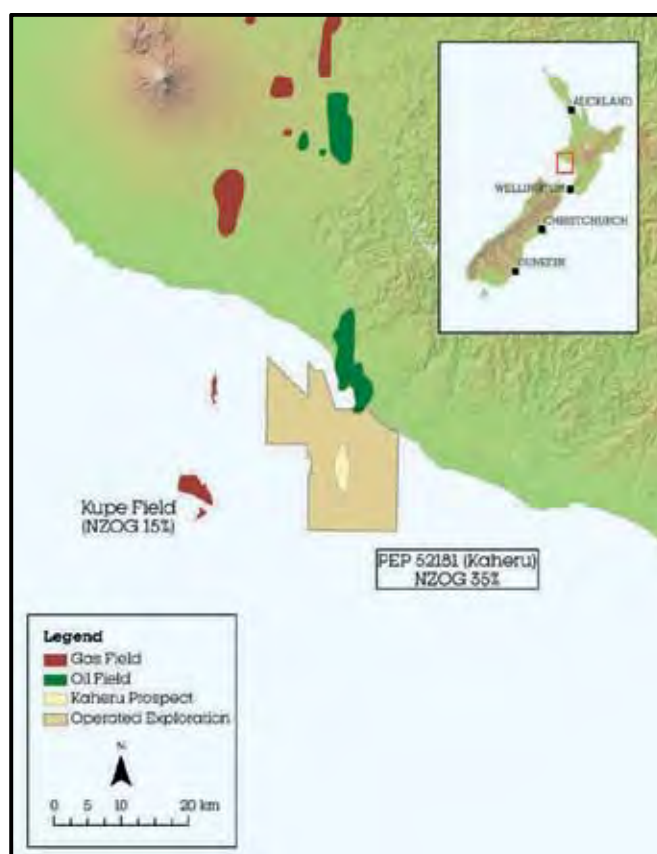


Figure 7-18 Location of PEP52181

The drill or drop date is May 2016 but the JV has decided that, rather than drill the well now with the Ensco 107 rig, to request an extension of time to drill the well. There is a low risk that the JV may lose the permit.

7.7.1.3. PEP57080

Beach has a 50% interest in PEP 57080 off the west coast of the North Island, in the Northland Basin. Todd Exploration is the operator of the 2,446 km² permit in 200 – 1400 m of water. The basin is a frontier play but has similar geology to the Taranaki Basin. The only hydrocarbon accumulation defined to date is the Karewa gas discovery, which is biogenic.

The permit is in the first year of Stage 1 with a “renew or drop” decision in the 12 year permit terms due 31 March 2017. The commitment in this first term is for seismic reprocessing and G&G studies.

Beach’s strategy is for a holding brief while waiting on offset drilling results to the southeast and northwest, meanwhile reprocessing the existing 2D. If drilling and seismic reprocessing results are promising then the joint venture will undertake a 3D seismic programme and then farmout the drilling of a well.

The key risks for this area are technical. The lack of a proven thermogenic petroleum system is one of them. RISC believes that, in the current market, farming out a well commitment in such a frontier basin will be very difficult but the well commitment is not until 2020.

There is very little value that can be attributable to PEP57080. RISC can only use multiples of the minimal commitment work programme currently underway.

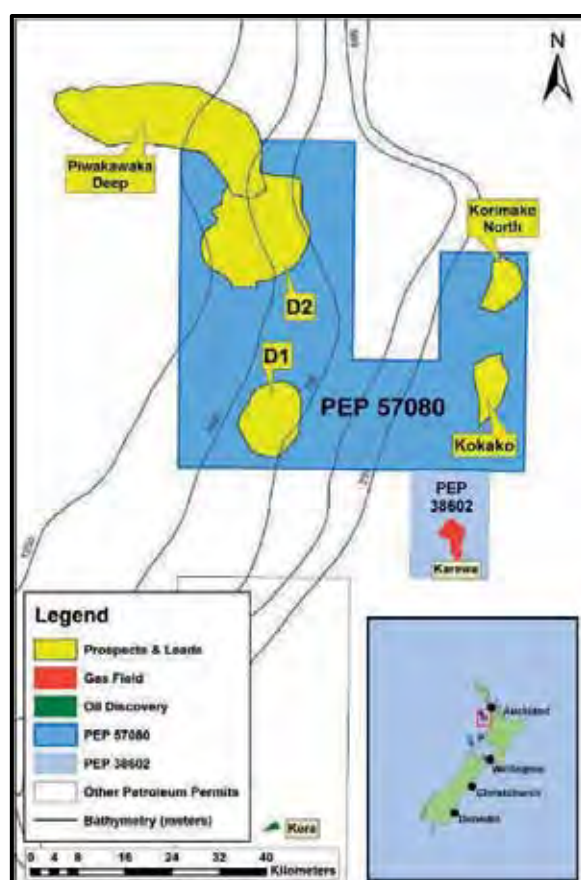


Figure 7-19 Location of PEP 57080

7.8. Tanzania

Subsequent to Woodside withdrawing from Lake Tanganyika South Block, Beach holds a 100% interest in this frontier permit. The PSA covers 3,620 km² of the deep water lake (up to 1470 m water depth) and its shoreline. The lake is a Tertiary rift basin with similar geology to Lake Albert in Uganda where over 1 billion barrels of recoverable oil has been discovered.

So far Beach has reprocessed the existing 2D data and acquired gravity and magnetic surveys and completed 3,484 km of 2D data in three surveys in Phase 1. Phase 2, which has now been entered, includes the drilling of a one well commitment. Beach is in discussion with the regulator regarding the timing of the commitment well.

Beach is aiming to drill an onshore prospect in the Karema area as the next step in exploring the permit. The well will assist in de-risking to some extent the petroleum system and reduce the uncertainty on velocity profiles and petrophysical parameters. With encouragement from this well a round of offshore 3D seismic may be required prior to prioritizing the large offshore prospects for drilling. Beach is seeking to farmout the permit for a carry on the onshore well. Discussions are continuing with interested companies.

Beach has identified over 18 leads and two prospects. The Karema prospect is planned to be its first test of the basin which is a 3 way closure against basement, not unlike the early successful tests in the Albertine Graben in Uganda. One of the key risks is that the basin is as yet undrilled and the petroleum systems are unproven even if the Albert and other Tertiary rift basins are analogous. However Beach has sampled a



natural oil seep in the northwest part of the lake and confirmed that the oil is similar to the Lake Albert oil. Lake Tanganyika is unique in being very deep (up to 1470 m) and there is currently no rig available to drill the offshore prospects. Beach has been investigating several drilling options. The Block is over 1000 km from the coast posing logistical difficulties. If the oil is similar to Lake Albert it will be waxy crude which adds considerable costs to its export to the coast. RISC also sees commercialisation risks associated with the stability of the fiscal and legal systems in Tanzania.

There is undoubted value in Lake Tanganyika South PSA, which given a more positive oil price environment, would attract larger oil companies to farm in, particularly given the success of the Albertine Graben in Uganda and the Lokichar Basin in Kenya.

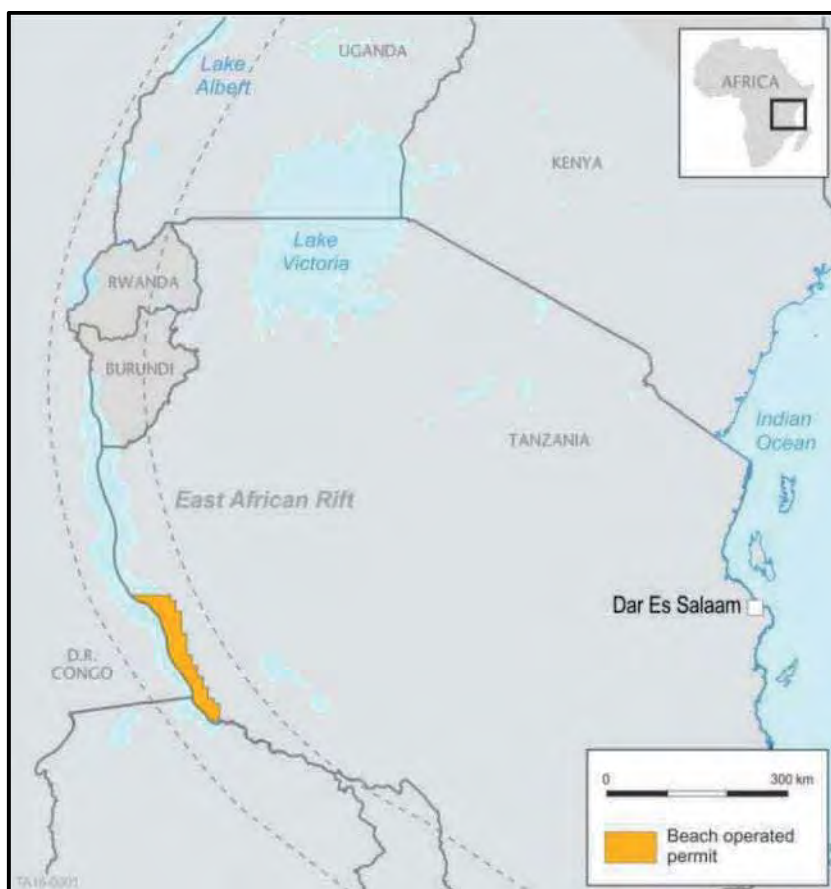


Figure 7-20 Location of Lake Tanganyika South



8. Early-stage exploration permit valuations

The risked prospective resources of Drillsearch and Beach that are within permits near existing production assets of these respective parties have been valued on a risked DCF basis by the Independent Expert based on best estimates of production and costs associated with the risked prospective resources validated by RISC.

Under the current oil price environment, which has resulted from the halving of the oil price from June 2014, many companies in the upstream oil and gas industry have been reducing their capital expenditure budgets, including for exploration. The value of the remaining exploration assets within the Drillsearch and Beach portfolios have been assessed in this context using transactional metrics of comparable transactions.

Permits or retention leases with contingent resources have been valued based on the unit value of resources from comparable transactions. For other permits, values have been based on applying typical promote levels for the petroleum basin in which the permit is located to notional farm-in activity levels that could be supported in the current price environment for the prospectivity level of the permit.

The values of the permits have been determined at low, mid and high values. As the low and high values of the exploration assets portfolio are derived by the arithmetic addition of the individual asset low and high values, respectively, they represent the possible extremes of the exploration value envelop. While farminees into the individual permits could value the assets at either end of the value range assessed, it is unlikely that potential buyers of the exploration asset portfolio would value all of the assets at either all of the low or all of the high estimated extremes. Their own assessments of individual permits will span the low, mid or high outcomes based on factors including: their strategic objectives and region or geological basin focus; assessment of an asset's prospectivity and associated geological risks; the fiscal and regulatory framework applicable to the asset; accessibility of commercialisation routes, including markets and infrastructure, for each asset; equity interests, operator capability and joint venture partners in each asset. RISC has determined the low and high values of the portfolio of exploration assets of these companies at an estimated standard deviation of the mid value of each portfolio.

The values of the companies' individual early-stage permits and exploration portfolios that have been determined on transactional metrics are summarised in the tables below. These values are net of the companies' working interest share of costs of the notional farm-in activities, and therefore represent the estimated premium value that would be realised by the companies under farm-in terms.



8.1. Drillsearch's early-stage exploration assets

Table 8-1 Value of Drillsearch's early-stage exploration assets

	Net share of notional farm-in entry programme A\$M	Low Value A\$M	Mid Value A\$M	High Value A\$M
<i>Cooper - Eromanga Basin</i>				
South Australian Permits	30.9	30.7	58.0	70.4
Queensland Permits	28.1	1.9	3.9	17.9
Total Drillsearch Permit Value	59	33	62	88
Drillsearch Early-Stage Exploration Portfolio Value Range		50	60	70

8.2. Beach's early-stage exploration assets

Table 8-2 Value of Beach Energy's early-stage exploration assets

	Net share of notional farm-in entry programme A\$M	Low Value A\$M	Mid Value A\$M	High Value A\$M
<i>Cooper - Eromanga Basin</i>				
South Australian Permits	75.5	22.7	53.0	83.2
Queensland Permits	28.1	4.5	12.3	20.1
<i>Other Australian Basins</i>	39.6	3.4	26.6	51.6
<i>International</i>	13.9	0.8	6.0	12.1
Total Beach Energy Permit Value	157	31	98	167
Beach Energy Early-Stage Exploration Portfolio Value Range		80	100	120



9. Declarations

9.1. Qualifications

RISC is an independent oil and gas advisory firm. The RISC staff engaged in this assignment include qualified petroleum reserves and resources evaluators as specified in ASX listing rules, professionally qualified engineers, geoscientists and commercial analysts, each with many years of relevant experience and most have in excess of 20 years.

The preparation of this report has been supervised by RISC Partners Mr. Geoffrey Barker and Mr Peter Stephenson.

Mr Barker has over thirty years of global experience in the upstream hydrocarbon industry, with extensive expertise in the areas of asset valuation, business strategies, evaluation of conventional and non-conventional petroleum (coal seam gas and tight gas), due diligence assessment for mergers, acquisitions and project finance requirements and reserves assessment/certification and preparation of Independent Technical Specialist reports. Mr. Barker is a Past Chairman of the SPE WA Section, a past member of the SPE International's Oil and Gas Reserves Committee 2007-2009, and is a co-author of the Guidelines for Application of the Petroleum Resources Management System published by the SPE in November 2011 (Chapter 8.5 Coal Bed Methane). Mr Barker is a Member of the Society of Petroleum Engineers (SPE), and holds a BSc (Chemistry), Melbourne University, 1980 and an M.Eng.Sc. (Pet Eng), Sydney University, 1989 and is a qualified petroleum reserves and resources evaluator (QPRRE) as defined by ASX listing rules.

Mr. Peter Stephenson is a Reservoir Engineer with 30 years' experience in the upstream hydrocarbon industry with BP, Shell and RISC. He has extensive experience with mature and greenfield oil, gas, gas-condensate and CSG developments in the North Sea, Africa, Middle East and Australasia and specialises in reservoir evaluation, field development planning, integrated project reviews and multidisciplinary team coordination and leadership.

Mr Stephenson holds an M.Eng Petroleum Engineering from Heriot Watt University and a B.Sc. Chemical Engineering (Ili Hons) from University of Nottingham and is a qualified petroleum reserves and resources evaluator (QPRRE) as defined by ASX listing rules. He is a Member of SPE and a Member of Institute of Chemical Engineers.

RISC was founded in 1994 to provide independent advice to companies associated with the oil and gas industry. Today the company has approximately 40 highly experienced professional staff at offices in Perth and Brisbane, Australia and London, UK. We have completed over 1500 assignments in 68 countries for nearly 500 clients. Our services cover the entire range of the oil and gas business lifecycle and include:

- Oil and gas asset valuations, expert advice to banks for debt or equity finance;
- Exploration/Portfolio management;
- Field development studies and operations planning;
- Reserves assessment and certification, peer reviews;
- Gas market advice;
- Independent Expert/Expert Witness;
- Strategy and corporate planning.



9.2. VALMIN Code

This Report has been prepared by RISC. This Report has been prepared in accordance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2005 Edition ("The VALMIN Code") as well as the Australian Securities and Investment Commission (ASIC) Regulatory Guides 111 and 112.

9.3. Petroleum Resources Management System

In the preparation of this Report, RISC has complied with the guidelines and definitions of the Petroleum Resources Management System approved by the Board of the Society of Petroleum Engineers in 2007 (PRMS).

9.4. Report to be presented in its entirety

RISC has been advised by EY that this report will be presented in its entirety without summarisation.

9.5. Independence

This report does not give and must not be interpreted as giving, an opinion, recommendation or advice on a financial product within the meaning of section 766B of the Corporations Act 2001 or section 12BAB of the Australian Securities and Investments Commission Act 2001.

RISC is not operating under an Australian financial services licence in providing this report.

In accordance with regulation 7.6.01(1)(u) of the Corporations Regulation 2001. RISC makes the following disclosures:

- RISC is independent with respect to Drillsearch, Beach and EYTAS and confirms that there is no conflict of interest with any party involved in the assignment;
- Under the terms of engagement between RISC and EYTAS for the provision of this report, RISC will receive a time-based fee, with no part of the fee contingent on the conclusions reached, or the content or future use of this report. Except for these fees, RISC has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report;
- Neither RISC nor any of its personnel involved in the preparation of this report have any interest in Drillsearch or Beach;
- RISC has not provided advice to Drillsearch or Beach specifically in relation to the Proposed Scheme;
- RISC has carried out the following assignments for Drillsearch over the last 2 years:
 - Year end 2015 audit of reserves and contingent resources for Western Flank oil, Northern Cooper Wet Gas and Tintaburra;
 - Public domain review of selected Cooper Basin tight gas and Surat Basin CBM fields;
 - Advice on compliance of third party public disclosures with ASX oil and gas listing rules;
 - Year end 2014 audit of reserves and contingent resources for Western Flank oil, Northern Cooper Wet Gas;
 - Advice on technical inputs for the starting value of PEL182;
 - Preparation of well type curves for Cooper Basin oil plays;
 - Mid year 2014 audit of reserves and contingent resources for Western Flank oil, Northern Cooper Wet Gas.



- RISC has carried out the following assignments for Beach over the last 2 years:
 - Reserves assessment in four producing fields in the Abu Sennan Block, Egypt;
 - Audit of non-operated Cooper Basin gas reserves;
 - Technical review of El Salmiya Field, Egypt;
 - Reserves and resource reporting training for management and technical staff.

The abovementioned assignments were undertaken as part of our normal independent consulting services, did not involve contingent payments and do not affect our ability to take an independent view of the assets

9.6. Limitations

The assessment of petroleum assets is subject to uncertainty because it involves judgments on many variables that cannot be precisely assessed, including reserves, future oil and gas production rates, the costs associated with producing these volumes, access to product markets, product prices and the potential impact of fiscal/regulatory changes.

The statements and opinions attributable to RISC are given in good faith and in the belief that such statements are neither false nor misleading. In carrying out its tasks, RISC has considered and relied upon information obtained from Drillsearch as well as information in the public domain.

The information provided to RISC has included both hard copy and electronic information supplemented with discussions between RISC and key Drillsearch and Beach staff.

Whilst every effort has been made to verify data and resolve apparent inconsistencies, we believe our review and conclusions are sound, but neither RISC nor its servants accept any liability, except any liability which cannot be excluded by law, for its accuracy, nor do we warrant that our enquiries have revealed all of the matters, which an extensive examination may disclose.

In particular, we have not independently verified property title, encumbrances or regulations that apply to this asset(s). We have not independently confirmed the status of the permit titles. RISC has also not audited the opening balances at the economic evaluation date of past recovered and unrecovered development and exploration costs, undepreciated past development costs and tax losses.

We believe our review and conclusions are sound but no warranty of accuracy or reliability is given to our conclusions.

Our review was carried out only for the purpose referred to above and may not have relevance in other contexts.

9.7. Consent

RISC has consented to this report, in the form and context in which it appears, being included in the Independent Expert's Report prepared by EYTAS for Drillsearch. Neither the whole nor any part of this report nor any reference to it may be included in or attached to any other document, circular, resolution, letter or statement without the prior consent of RISC.

This Report is authorised for release by Mr. Peter Stephenson, RISC Partner dated 7 December 2015.

Peter Stephenson
Partner



10. List of terms

10.1. Abbreviations

Abbreviation	Full Term
1P	Proved
2P	Proved plus Probable
3P	Proved plus Probable plus Possible
A\$	Australian dollars
AEMO	Australian Energy Market Operator
ATP	Authority to Prospect
bbl(/d)	US barrels (per day)
bcf	Billion (10 ⁹) cubic feet
boe	Barrel of oil equivalent
bwpd	Barrels of water per day
CO ₂	Carbon dioxide
CVR	Commercial Viability Report
DCF	Discounted Cash Flow
DST	Drill Stem Test
EMV	Expected Monetary Value
EP	Exploration Permit
FBHP	Flowing Bottom Hole Pressure
FDP	Field Development Plan
FFA	Fixed Factor Area (JV)
FTHP	Flowing Tubing Head Pressure
FY	Financial Year
G&G	Geology and Geophysics
GIIP	Gas Initially In Place
GJ	Gigajoules (10 ⁹ J)
GSOO	Gas Statement of Opportunities
ITSR	Independent Technical Specialist Report
JV(P)	Joint Venture (Parties)
km ²	Square kilometres
kPa	Kilopascal
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
m	Metres
mD	Millidarcies
mKB	Metres below Kelly Bushing
mGL	Metres below Ground Level
MJ	Megajoules (10 ⁶ J)
MI (/d)	Megalitres (per day)
MMbbl	Million barrels
Mboe	Thousand barrels of oil equivalent
MMboe	Million barrels of oil equivalent



MMscf(/d)	Million standard cubic feet (per day)
MPa	Megapascal
Mscf(/d)	Thousand standard cubic feet (per day)
mSS	Metres subsea
OIIP	Oil initially In Place
OWC	Oil-water contact
PCA	Potential Commercial Area
PE	Patchawarra East (JV)
PEL	Petroleum Exploration Licence
PJ	Petajoules (10^{15} J)
PL	Production Licence
PPL	Petroleum Production Licence
PRL	Petroleum Retention Lease
PSDM	Pre-stack Depth Migration
psi (a or g)	Pounds per square inch pressure (absolute or gauge)
RISC	Resource Operations Pty Ltd
RT	Rotary Table or Real Terms, depending on context
SACB	South Australia Cooper Basin
scf	Standard cubic feet (measured at 60 F and 14.696 psia)
scm	Standard cubic metres (measured at 15 C and 101.325 kPa)
SPE	Society of Petroleum Engineers
SPE-PRMS	Society of Petroleum Engineers Petroleum Resources Management System
ST	Side Track
SUG	System Use Gas (fuel and flare)
Tcf	Trillion (10^{12}) cubic feet
TJ	Terajoules (10^{12} J)
UR	Ultimate Recovery
US\$	United States dollars
WI	Working Interest

The following table lists abbreviations commonly used in the oil and gas industry and which may be used in this report.

10.2. Definitions

The following table lists some definitions for terms commonly used in the oil and gas industry and which may be used in this report.

Term	Definition
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable resources as defined in the SPE-PRMS.
Expectation	The mean of a probability distribution.



Term	Definition
P90, P50, P10	90%, 50% & 10% probabilities respectively that the stated quantities will be equalled or exceeded. The P90, P50 and P10 quantities correspond to the Proved (1P), Proved + Probable (2P) and Proved + Probable + Possible (3P) confidence levels respectively if probabilistic techniques are used.
Possible Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
Probable Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Probable Reserves are those additional Reserves that are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations as defined in the SPE-PRMS.



Ernst & Young
Transaction Advisory Services Limited
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

PART 2 - FINANCIAL SERVICES GUIDE

THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT EXPERT'S REPORT

9 December 2015

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. Based on the time spent to prepare this Report, the estimated fee for this Report is \$280,000 (exclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.



Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

<p>Contacting Ernst & Young Transaction Advisory Services</p> <p>AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000</p> <p>Telephone: (02) 9248 5555</p>	<p>Contacting the Independent Dispute Resolution Scheme:</p> <p>Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08</p>
---	---

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

ANNEXURE B. INVESTIGATING ACCOUNTANT'S REPORT



KPMG Transaction Services

A division of KPMG Financial Advisory Services
(Australia) Pty Ltd
Australian Financial Services Licence No. 246901
10 Shelley Street
Sydney NSW 2000

PO Box H67
Australia Square 1213
Australia

ABN: 43 007 363 215
Telephone: +61 2 9335 7000
Facsimile: +61 2 9335 7001
DX: 1056 Sydney
www.kpmg.com.au

The Directors
Beach Energy Limited
25 Conyngham Street
Glenside SA 5065

The Directors
Drillsearch Energy Limited
Level 18, 321 Kent Street
Sydney NSW 2000

10 December 2015

Dear Directors

Limited Assurance Investigating Accountant's Report and Financial Services Guide on Pro Forma Statement of Financial Position

Investigating Accountant's Report

Introduction

KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Transaction Services is a division) ("KPMG Transaction Services") has been engaged by Drillsearch Energy Limited ("Drillsearch") and Beach Energy Limited ("Beach") to prepare this report for inclusion in the Drillsearch Energy Limited Scheme Booklet dated on or about 16 December 2015 ("Scheme Booklet"), issued in connection with the transfer of all of the issued share capital of Drillsearch to Beach (together the "Merged Group").

Expressions defined in the Scheme Booklet have the same meaning in this report.

Scope

You have requested KPMG Transaction Services to perform a limited assurance engagement in relation to the Pro Forma Statement of Financial Position described below and disclosed in the Scheme Booklet.

The Pro Forma Statement of Financial Position is presented in the Scheme Booklet in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

***Drillsearch Energy Limited and Beach Energy Limited**
Limited Assurance Investigating Accountant's Report and
Financial Services Guide
10 December 2015*

Our limited assurance engagement has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions other than Australia (including the United States of America) and accordingly should not be relied upon as if it had been carried out in accordance with standards and practices other than those prevailing in Australia.

Pro Forma Statement of Financial Position

You have requested KPMG Transaction Services to perform limited assurance procedures in relation to the Pro Forma Statement of Financial Position of the Merged Group included in the Scheme Booklet.

The Pro Forma Statement of Financial Position has been derived from the historical financial information of Drillsearch and Beach, after adjusting for the effects of pro forma adjustments described in section 6 of the Scheme Booklet. The pro forma financial information consists of the pro forma consolidated statement of financial position as at 30 June 2015 and related notes as set out in section 6 of the Scheme Booklet issued by Drillsearch (collectively the "Pro Forma Statement of Financial Position"). The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in section 6 of the Scheme Booklet. Due to its nature, the Pro Forma Statement of Financial Position does not represent the company's actual or prospective financial position.

The Pro Forma Statement of Financial Position has been jointly compiled by Drillsearch and Beach to illustrate the impact of the event(s) or transaction(s) on the pro forma consolidated statement of financial position as at 30 June 2015. As part of this process, information about Drillsearch's and Beach's financial position has been extracted from Drillsearch's financial statements for the period ended 30 June 2015 and from Beach's financial statements for the period ended 30 June 2015.

The financial statements of Drillsearch for the year ended 30 June 2015 were audited by Drillsearch's external auditor in accordance with Australian Auditing Standards. The audit opinion issued to the members of Drillsearch relating to those financial statements was unqualified.

The financial statements of Beach for the year ended 30 June 2015 were audited by KPMG in accordance with Australian Auditing Standards. The audit opinion issued to the members of Beach relating to those financial statements was unqualified.

For the purposes of preparing this report we have performed limited assurance procedures in relation to the Pro Forma Statement of Financial Position in order to state whether, on the basis of the procedures described, anything comes to our attention that would cause us to believe that the Pro Forma Statement of Financial Position is not prepared, in all material respects, by the directors in accordance with the stated basis of preparation. As described in section 6 of the Scheme Booklet, the basis of preparation is:

Drillsearch Energy Limited and Beach Energy Limited
Limited Assurance Investigating Accountant's Report and
Financial Services Guide
 10 December 2015

- the extraction of the historical Statement of Financial Position of Drillsearch as at 30 June 2015 from the audited financial statements of Drillsearch for the year ended 30 June 2015;
- the extraction of the historical Statement of Financial Position of Beach as at 30 June 2015 from the audited financial statements of Beach for the year ended 30 June 2015; and
- the application of pro forma adjustments, determined in accordance with Australian Accounting Standards and Beach's accounting policies, to the historical Statements of Financial Position as at 30 June 2015 of Beach and Drillsearch to illustrate the effects of merger on the Merged Group, as described in section 6 of the Scheme Booklet.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

The procedures we performed were based on our professional judgement and included:

Historical financial information:

- consideration of work papers, accounting records and other documents, including those dealing with the extraction of the historical financial information of Drillsearch and Beach from their audited financial statements for the year ended 30 June 2015;

Pro forma adjustments:

- consideration of the pro forma adjustments described in the Scheme Booklet;
- enquiry of directors, management, personnel and advisors;
- the performance of analytical procedures applied to the Pro Forma Statement of Financial Position; and
- a review of accounting policies for consistency of application.

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, an audit. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed an audit. Accordingly, we do not express an audit opinion about whether the Pro Forma Statement of Financial Position is prepared, in all material respects, by the directors in accordance with the stated basis of preparation.

Directors' responsibilities

The directors of Drillsearch and Beach are jointly responsible for the preparation of:

- the Pro Forma Statement of Financial Position, including the selection and determination of the pro forma transactions and/or adjustments, and for properly compiling the Pro Forma Statement of Financial Position on the basis stated in section 6 of the Scheme Booklet;

*Drillsearch Energy Limited and Beach Energy Limited
Limited Assurance Investigating Accountant's Report and
Financial Services Guide
10 December 2015*

The directors' responsibilities include establishing and maintaining such internal controls as the directors determine are necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Conclusions

Review statement on the Pro Forma Statement of Financial Position

Based on our procedures, which are not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Statement of Financial Position, as set out in section 6 of the Scheme Booklet, comprising the pro forma consolidated statement of financial position as at 30 June 2015 is not prepared or presented fairly, in all material respects, on the basis of the pro forma transactions and/or adjustments described in section 6 of the Scheme Booklet, and in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards, and Beach's accounting policies.

Independence

KPMG Transaction Services does not have any interest in the outcome of the proposed transfer of all of the issued share capital of Drillsearch to Beach, other than in connection with the preparation of this report and participation in due diligence procedures for which normal professional fees will be received. KPMG is the auditor of Beach and from time to time, KPMG also provides Beach with certain other professional services for which normal professional fees are received.

General advice warning

This report has been prepared, and included in the Scheme Booklet, to provide investors with general information only and does not take into account the objectives, financial situation or needs of any specific investor. It is not intended to take the place of professional advice and investors should not make specific investment decisions in reliance on the information contained in this report. Before acting or relying on any information, an investor should consider whether it is appropriate for their circumstances having regard to their objectives, financial situation or needs.

Restriction on use

Without modifying our conclusions, we draw attention to section 6 of the Scheme Booklet, which describes the purpose of the financial information, being for inclusion in the Scheme Booklet. As a result, the financial information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the financial information to which it relates, for any purpose other than that for which it was prepared.

*Drillsearch Energy Limited and Beach Energy Limited
Limited Assurance Investigating Accountant's Report and
Financial Services Guide
10 December 2015*

KPMG Transaction Services has consented to the inclusion of this Investigating Accountant's Report in the Scheme Booklet in the form and context in which it is so included, but has not authorised the issue of the Scheme Booklet. Accordingly, KPMG Transaction Services makes no representation regarding, and takes no responsibility for, any other statements, or material in, or omissions from, the Scheme Booklet.

Yours faithfully



Jonathan Dunlop

Authorised Representative



*Drillsearch Energy Limited and Beach Energy Limited
Limited Assurance Investigating Accountant's Report and
Financial Services Guide
10 December 2015*

Financial Services Guide Dated 10 December 2015

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by **KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215**, Australian Financial Services Licence Number 246901 (of which KPMG Transaction Services is a division) ('**KPMG Transaction Services**'), and Jonathan Dunlop as an authorised representative of KPMG Transaction Services, authorised representative number 404258 (**Authorised Representative**).

This FSG includes information about:

- KPMG Transaction Services and its Authorised Representative and how they can be contacted
- the services KPMG Transaction Services and its Authorised Representative are authorised to provide
- how KPMG Transaction Services and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Transaction Services and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and
- the compensation arrangements that KPMG Transaction Services has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Transaction Services. This FSG forms part of an Investigating Accountant's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Transaction Services and the Authorised Representative are authorised to provide

KPMG Transaction Services holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investments schemes including investor directed portfolio services;

- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Transaction Services to provide financial product advice on KPMG Transaction Services' behalf.

*Drillsearch Energy Limited and Beach Energy Limited
Limited Assurance Investigating Accountant's Report and Financial
Services Guide
10 December 2015*

KPMG Transaction Services and the Authorised Representative's responsibility to you

KPMG Transaction Services has been engaged by Drillsearch and Beach (Client) to provide general financial product advice in the form of a Report to be included in the Scheme Booklet prepared by Drillsearch in relation to the proposed transfer of all of the issued share capital of Drillsearch to Beach (Transaction).

You have not engaged KPMG Transaction Services or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Transaction Services nor the Authorised Representative are acting for any person other than the Clients.

KPMG Transaction Services and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Transaction Services has been engaged by the Clients, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Transaction.

Fees KPMG Transaction Services may receive and remuneration or other benefits received by our representatives

KPMG Transaction Services charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Clients. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Transaction Services \$200,000 for preparing the Report. KPMG Transaction Services and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Transaction Services officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Transaction Services' representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Transaction Services nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.

Associations and relationships

Through a variety of corporate and trust structures KPMG Transaction Services is controlled by and operates as part of the KPMG Partnership. KPMG Transaction Services' directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Transaction Services and the Authorised Representative and not by the KPMG Partnership.

From time to time KPMG Transaction Services, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of audit, tax and advisory services to Beach for which professional fees are received. Over the past two years professional fees of \$837,000 have been received from Beach. No fees have been received from Drillsearch over the past two years. None of those services have related to the transaction or alternatives to the transaction.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Drillsearch Energy Limited and Beach Energy Limited
Limited Assurance Investigating Accountant's Report and Financial
Services Guide
 10 December 2015

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Transaction Services or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint.

Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Transaction Services or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001

Telephone: 1300 78 08 08

Facsimile: (03) 9613 6399

Email: info@fos.org.au.

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Transaction Services has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Transaction Services or the Authorised Representative using the contact details:

KPMG Transaction Services

A division of KPMG Financial Advisory
 Services (Australia) Pty Ltd
 10 Shelley St
 Sydney NSW 2000
 PO Box H67
 Australia Square
 NSW 1213
 Telephone: (02) 9335 7000
 Facsimile: (02) 9335 7200

Jonathan Dunlop
 C/O KPMG
 PO Box H67
 Australia Square
 NSW 1213
 Telephone: (02) 9335 7000
 Facsimile: (02) 9335 7200

ANNEXURE C.

NOTICE OF SCHEME MEETING

NOTICE OF SCHEME MEETING

Drillsearch Energy Limited (ACN 006 474 844)

Notice is hereby given that, by an order of the Federal Court of Australia made on 15 December 2015 pursuant to section 411(1) of the *Corporations Act 2001* (Cth), a meeting of the members of Drillsearch Energy Limited will be held at:

Time: 11:00am

Meeting Date: 27 January 2016

Place: Museum of Sydney, AGL Theatre, Level 2 Corner of Phillip and Bridge Streets, Sydney, New South Wales

Business of the Scheme Meeting

The purpose of the meeting to be held pursuant to this notice is to consider, and if thought fit, to agree (with or without modification) to a scheme of arrangement proposed to be made between Drillsearch and the holders of its fully paid ordinary shares.

Scheme Resolution

To consider and, if thought fit, to pass the following resolution in accordance with section 411(4)(a)(ii) of the *Corporations Act 2001* (Cth):

That, pursuant to and in accordance with section 411 of the Corporations Act 2001 (Cth) the proposed scheme of arrangement between Drillsearch Energy Limited and the holders of its fully paid ordinary shares (other than certain excluded shareholders), the terms of which are contained and more particularly described in the Scheme Booklet, is approved (with or without modification as approved by the Federal Court of Australia).

By order of the Court and the Drillsearch Board



16 December 2015

Clifford Tuck

Company Secretary

NOTES TO THE NOTICE OF SCHEME MEETING

Explanatory notes

These notes should be read in conjunction with the Notice of Scheme Meeting and the information in the Scheme Booklet of which that notice forms part (**Scheme Booklet**). Unless the context requires otherwise, terms used in the Notice of Scheme Meeting and in these notes have the same meaning as set out in the Section 11 (*Glossary, Definitions and Interpretation*) of the Scheme Booklet.

Quorum

The Drillsearch constitution provides that a quorum for a meeting of Drillsearch Shareholders (where there are 20 or more Drillsearch Shareholders on the Register) is three Drillsearch Shareholders entitled to vote. The quorum must be present at all times during the meeting. In determining whether a quorum is present the Chairman must count those Drillsearch Shareholders attending via their proxies, attorneys or corporate representatives and any other persons entitled to vote. If a Drillsearch Shareholder has more than one proxy, attorney or corporate representative, only one of them may be counted toward a quorum.

Required majorities

In accordance with section 411(4)(a)(ii) of the *Corporations Act 2001* (Cth), the resolution to approve the Scheme must be approved by:

- unless the Court orders otherwise, more than 50% in number of Drillsearch Shareholders (other than Excluded Shareholders) present and voting at the Scheme Meeting (whether in person or by proxy, attorney or, in the case of a body corporate, a duly appointed corporate representative), and
- at least 75% of the votes cast at the Scheme Meeting.

Entitlement to vote

Pursuant to Corporations Regulation 7.11.37, the Drillsearch Board have determined that, subject to the voting exclusions described in Section 2.5 (*Drillsearch Shareholders' approvals*) of the Scheme Booklet, for the purposes of determining voting entitlement at the Scheme Meeting, Drillsearch Shares will be taken to be held by persons who are registered as Drillsearch Shareholders on the Register at 7:00pm (Sydney time) on Monday, 25 January 2016.

Accordingly, share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Scheme Meeting.

Voting will be conducted by poll.

Voting at the Meeting

You may vote in person at the Scheme Meeting or appoint a proxy, attorney or, if you are a body corporate, a duly appointed

corporate representative to attend and vote on your behalf.

(a) Voting in person

To vote in person, attend the Scheme Meeting on the date and at the place set out in the Notice of Scheme Meeting.

(b) Voting by proxy

A Drillsearch Shareholder entitled to attend and vote at the Scheme Meeting can vote by proxy. The Proxy Form is enclosed with the Scheme Booklet.

You may appoint not more than two proxies to attend and act for you at the Scheme Meeting. A proxy need not be a Drillsearch Shareholder. If two proxies are appointed, each proxy may be appointed to represent a specified number or proportion of your votes. If no such number or proportion is specified, each proxy may exercise half of your votes.

If you do not instruct your proxy on how to vote, you will be taken (for all relevant purposes) to have given your proxy discretion as to how to vote and your proxy may vote as he or she sees fit at the Scheme Meeting. Drillsearch Shareholders who return their Proxy Form with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the Chair of the Scheme Meeting as their proxy to vote on their behalf. If a Proxy Form is returned but the nominated proxy does not attend the Scheme Meeting, the Chair of the Scheme Meeting will act in place of the nominated proxy and vote in accordance with any instructions.

Instructions on how to complete and lodge the Proxy Form are included on the form. Please note that the Proxy Form must be received by the Drillsearch Registry, whose details are listed below, by no later than 11:00am on Monday, 25 January 2016. If you have an attorney sign a Proxy Form on your behalf, the original or a certified copy of the power of attorney or other evidence of your attorney's authority must be received by the Drillsearch Registry at the same time as the Proxy Form (unless previously provided to the Drillsearch Registry). A proxy will be admitted to the Scheme Meeting upon providing evidence of their name and address at the point of entry to the meeting.

Drillsearch Shareholders who have returned the Proxy Form may revoke the proxy from voting at the Scheme Meeting by attending and voting at the Scheme Meeting.

(c) Voting by attorney

Powers of attorney must be received by the Drillsearch Registry by no later than 11:00am on Monday, 25 January 2016.

Persons attending the Scheme Meeting as an attorney should bring to the Scheme Meeting the original or certified copy of the power of attorney under which they have been authorised to attend and vote at the Scheme Meeting.

(d) Voting by corporate representative

If you are a body corporate, you can appoint a corporate representative to attend and vote at the Scheme Meeting on your behalf. The appointment must comply with section 250D of the Corporations Act.

A corporate representative should bring to the Scheme Meeting evidence of their appointment including any authority under which the document appointing them as corporate representative was signed.

(e) Jointly held shares

If Drillsearch Shares are jointly held, either one of the joint shareholders is entitled to vote at the Scheme Meeting. If more than one joint shareholder votes in respect of jointly held Drillsearch Shares, only the vote of the Drillsearch Shareholder whose name appears first in the Register will be counted.

Lodgement of proxies

There are a number of ways that the Proxy Form may be lodged:

Mail – Sent to the Drillsearch Registry (using the reply paid envelope included with the Scheme Booklet), addressed to Drillsearch Energy Limited C/- Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235, Australia.

Hand delivery – Delivered during business hours (between 9:00am and 5:00pm (Sydney time) Monday to Friday) to the Drillsearch Registry at Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138 or Level 12 680 George Street, Sydney NSW 2000.

Fax – Sent to +61 2 9287 0309.

Online – via Link Market Services Limited's investor centre at www.linkmarketservices.com.au (as detailed on the Proxy Forms) or www.drillsearch.com.au.

An instrument appointing a proxy shall not be valid unless the original instrument and the power of attorney or other authority (if any) under which the instrument is signed, or a copy or facsimile which appears on its face to be an authentic copy of that proxy, power or authority, is or are deposited or sent by fax to the Drillsearch Registry by no later than 11:00am on Monday, 25 January 2016 (unless previously provided to the Drillsearch Registry).

Drillsearch Shareholders should contact the Drillsearch Registry on 1300 889 528 (callers in Australia) or +61 2 9098 9203 (callers outside Australia) between 9:00am and 5:00pm (Sydney time) Monday to Friday (excluding public holidays) with any queries regarding the number of Drillsearch Shares they hold, how to vote at the Scheme Meeting or how to lodge the Proxy Form.

ANNEXURE D. SCHEME

Scheme of arrangement

This scheme of arrangement is made under section 411 of the Corporations Act 2001 (Cth).

Parties

Name	Drillsearch Energy Limited
ABN/ACN	006 474 844
Short form name	Drillsearch
Notice details	Level 18, 321 Kent Street, Sydney NSW 2000 Facsimile: +61 2 9249 9630 Attention: Company Secretary

Name	The holders of fully paid ordinary shares in Drillsearch recorded in the Drillsearch Share Register as at the Record Date
Short form name	Scheme Shareholders

1. Definitions and interpretation

1.1 Definitions

The meanings of the terms used in this Scheme are set out below.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691) and, where the context requires, the financial market that it operates.

ASX Settlement means ASX Settlement Pty Ltd (ABN 49 008 504 532).

Beach means Beach Energy Limited (ACN 007 617 969).

Beach Group means Beach and its Subsidiaries.

Beach Register means the register of holders of Beach Shares maintained by Beach under section 168(1) of the Corporations Act.

Beach Registry means Computershare Investor Services Pty Limited (ACN 078 279 277).

Beach Share means a fully paid ordinary share in the capital of Beach.

Business Day means a day that is not a Saturday, Sunday or a public holiday or bank holiday in Sydney, Australia and on which the ASX and is open for trading.

CHESS means the clearing house electronic sub register system of share transfers operated by ASX Settlement.

Corporations Act means the *Corporations Act 2001* (Cth).

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

Court means the Federal Court of Australia or any other court of competent jurisdiction under the Corporations Act agreed to in writing by Beach and Drillsearch.

Drillsearch Convertible Note means an interest bearing note granted under Drillsearch's offering circular and supplemental offering circular plan which has a right to be converted to a Drillsearch Share subject to the terms of the offering circular and supplemental offering circular.

Drillsearch Option means an option granted by Drillsearch to acquire by way of issue or transfer one or more Drillsearch Shares.

Drillsearch Performance Right means a right granted under Drillsearch's executive performance rights plan to acquire by way of issue or transfer a Drillsearch Share subject to the terms of such plan.

Drillsearch Register means the register of holders of Drillsearch Shares maintained by Drillsearch under section 168(1) of the Corporations Act.

Drillsearch Registry means Link Market Services Limited (ACN 083 214 537).

Drillsearch Share means a fully paid ordinary share in Drillsearch.

Drillsearch Shareholder means a person who is recorded in the Drillsearch Register as the holder of one or more Drillsearch Shares.

Deed Poll means the deed poll dated on or about 11 December 2015 under which Beach covenants in favour of the Scheme Shareholders to perform their obligations under the Scheme.

Effective means when used in relation to the Scheme, the coming into effect, under section 411(10) of the Corporations Act, of the Court order made under section 411(4)(b) of the Corporations Act in relation to the Scheme.

Effective Date means the date on which the Scheme becomes Effective.

End Date has the meaning given in the Merger Implementation Agreement.

Excluded Shareholder means any Drillsearch Shareholder who is Beach or a Related Body Corporate of Beach.

Explanatory Booklet has the meaning given in the Merger Implementation Agreement.

Foreign Nominee means the foreign nominee to be appointed in accordance with the Merger Implementation Agreement, appointed to sell the New Beach Shares that are to be issued under clause 4.5(a) of this Scheme.

Government Agency means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity.

Implementation Date means the fifth Business Day, or such other Business Day as the parties agree, following the Record Date for the Scheme.

Ineligible Foreign Shareholder means a Drillsearch Shareholder whose address as shown in Drillsearch's members' register is located outside of:

- (a) Australia and its external territories;
- (b) New Zealand;
- (c) Hong Kong;
- (d) Singapore; or
- (e) Malaysia,

unless Beach is otherwise satisfied that it is permitted to allot and issue New Beach Shares to that Drillsearch Shareholder pursuant to the Scheme by the laws of that place.

Merger Implementation Agreement means the Merger Implementation Agreement dated 23 October 2015 between Beach and Drillsearch relating to the implementation of the Scheme.

New Beach Share means a new Beach Share to be issued under the Scheme.

Record Date means 7.00pm on the fifth Business Day (or such other Business Day as Beach and Drillsearch agree in writing or as may be required by ASX and, if necessary, approved by the Court) following the Effective Date.

Registered Address means the address of the Scheme Shareholder as it appears in the Drillsearch Register as at the Record Date.

Related Body Corporate of a person means a related body corporate of that person under section 50 of the Corporations Act.

Scheme means this scheme of arrangement pursuant to Part 5.1 of the Corporations Act subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and agreed to in writing by Beach and Drillsearch.

Scheme Consideration means such number of New Beach Shares issued in consideration for the transfer to Beach of each Scheme Share, as determined in accordance with clause 4.3.

Scheme Meeting means the meeting of Drillsearch Shareholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on the Scheme and includes any meeting convened following any adjournment or postponement of that meeting.

Scheme Share means a Drillsearch Share on issue as at the Record Date other than any Drillsearch Share then held by an Excluded Shareholder (but including any such Drillsearch Share held on behalf of one or more third parties or otherwise in a fiduciary capacity).

Scheme Shareholder means a person who holds one or more Scheme Shares.

Second Court Date means the first day on which an application made to the Court for an order under section 411(4)(b) of the Corporations Act approving the Scheme is heard or scheduled to be heard or, if the application is adjourned for any reason, means the date on which the adjourned application is heard or scheduled to be heard.

Subsidiary has the meaning given to that term in section 46 of the Corporations Act.

1.2 Interpretation

In this Scheme, except where the context requires otherwise:

- (a) the singular includes the plural and vice versa, and a gender includes other genders;
- (b) another grammatical form of a defined word or expression has a corresponding meaning;
- (c) a reference to a clause, paragraph, schedule or annexure is to a clause or paragraph of, or schedule or annexure to, this agreement, and a reference to this agreement includes any schedule or annexure;
- (d) a reference to a document or instrument includes the document or instrument as novated, altered, supplemented or replaced from time to time;
- (e) a reference to **A\$, \$A, dollar** or **\$** is to Australian currency;
- (f) a reference to time is to Sydney, Australia time;
- (g) a reference to a party is to a party to this agreement, and a reference to a party to a document includes the party's executors, administrators, successors and permitted assigns and substitutes;
- (h) a reference to a person includes a natural person, partnership, body corporate, association, governmental or local authority or agency or other entity;
- (i) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (j) a word or expression defined in the Corporations Act has the meaning given to it in the Corporations Act;

- (k) the meaning of general words is not limited by specific examples introduced by **including** or similar expressions; and
- (l) a rule of construction does not apply to the disadvantage of a party because the party was responsible for the preparation of this agreement or any part of it.

2. Preliminary matters

2.1 Drillsearch

Drillsearch is a public company registered in Victoria, Australia.

2.2 Drillsearch securities on issue

As at 11 December 2015:

- (a) 462,254,673 Drillsearch Shares were on issue;
- (b) 3,590,933 Drillsearch Options;
- (c) 5,059,909 Drillsearch Performance Rights were on issue (which, under the terms of their issue, would vest upon Drillsearch Shareholders approving the Scheme at the Scheme Meeting and a Drillsearch giving the holders of those rights notice as contemplated in clause 15.2(b) of the Merger Implementation Agreement); and
- (d) 1,250 Drillsearch Convertible Notes.

2.3 Beach

Beach is a public company registered in South Australia, Australia.

2.4 Scheme

- (a) If the Scheme becomes Effective:
 - (i) Beach will provide the Scheme Consideration to Scheme Shareholders in accordance with the Scheme, and the Deed Poll; and
 - (ii) all the Scheme Shares, and all the rights and entitlements attaching to them as at the Implementation Date, will be transferred to Beach and Drillsearch will enter the name of Beach in the Drillsearch Register in respect of the Scheme Shares.
- (b) Beach and Drillsearch have agreed, by executing the Merger Implementation Agreement, to implement the Scheme.
- (c) Beach has agreed, by executing the Deed Poll, to perform their obligations under this Scheme and the Merger Implementation Agreement, including the obligation to provide or procure the provision of the Scheme Consideration to the Scheme Shareholders.

3. Conditions to the Scheme

- (a) This Scheme is conditional on:
 - (i) all the conditions in clause 3.1 of the Merger Implementation Agreement (other than the conditions in clause 3.1(e) and 3.1(f) of the Merger Implementation Agreement relating to Court approval of this Scheme) having been satisfied or waived in accordance with the terms of the Merger Implementation Agreement by 8.00am on the Second Court Date;
 - (ii) subject to clause 8.1, such other conditions made or required by the Court under section 411(6) of the Corporations Act in relation to the Scheme have been satisfied or waived;

- (iii) approval of this Scheme by the Court pursuant to section 411(4)(b) of the Corporations Act either unconditionally or on conditions consented to by Beach and Drillsearch in accordance with clause 8.1;
 - (iv) the Merger Implementation Agreement not having been terminated by either party to that agreement before 8.00am on the Second Court Date; and
 - (v) the orders of the Court under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) approving the Scheme coming into effect, pursuant to section 411(10) of the Corporations Act.
- (b) The satisfaction or waiver of the conditions precedent in clause 3(a) is a condition precedent to the operation of clause 4.
 - (c) The Scheme will lapse and be of no further force or effect if the Effective Date does not occur on or before the End Date or any later date Beach and Drillsearch agree in writing.
 - (d) Drillsearch and Beach will each provide to the Court at the Second Court Date:
 - (i) such certificates confirming (in respect of matters within their knowledge) whether or not the conditions precedent in clause 3.1 of the Merger Implementation Agreement have been satisfied or waived as at 8.00am on the Second Court Date in accordance with clause 3.5 of the Merger Implementation Agreement; and
 - (ii) a certificate confirming (in respect of matters within their knowledge) whether or not the conditions precedent in this Scheme (other than the conditions in clause 3.1(e) and 3.1(f) of the Merger Implementation Agreement relating to Court approval of this Scheme) have been satisfied or waived as at 8.00am on the Second Court Date.

Such certificates constitute conclusive evidence that such conditions precedent are satisfied, waived or taken to be waived.

4. Implementation of the Scheme

4.1 Lodgement of Court orders

Drillsearch will lodge with ASIC office copies of the Court orders under section 411(10) of the Corporations Act approving the Scheme by 5.00pm on the first Business Day after the day on which the Court approves the Scheme, or such later date as Beach and Drillsearch agree.

4.2 Transfer of Scheme Shares

On the Implementation Date:

- (a) subject to the provision of the Scheme Consideration in the manner contemplated by this clause 4, all of the Scheme Shares, together with all rights and entitlements attaching to them as at the Implementation Date, will be transferred to Beach, without the need for any further act by any Scheme Shareholder, by:
 - (i) Drillsearch effecting a valid transfer or transfer of the Scheme Shares to Beach under section 1074D of the Corporations Act; or
 - (ii) if the procedure in clause 4.2(a)(i) is not available for any reason:
 - (A) Drillsearch delivering to Beach duly completed and executed share transfer forms (or a master share transfer form), duly executed on behalf of the Scheme Shareholders by Drillsearch or any of its directors and officers as attorney for each Scheme Shareholder as authorised under clause 8.5, to transfer all the Scheme Shares to Beach; and

- (B) Beach duly executing the share transfer forms (or master share transfer form), attending to the stamping of the share transfer forms (or master share transfer form) (if required) and delivering the share transfer forms (or master share transfer form) to Drillsearch for registration; and
- (b) immediately after receipt of the share transfer forms (or master share transfer form) in accordance with clause 4.2(a)(ii) or the transfer being effected under section 1074D of the Corporations Act (as the case may be), Drillsearch must enter, or procure the entry of, the name of Beach in the Drillsearch Register in respect of all the Scheme Shares.

4.3 Scheme Consideration

Beach will on the Implementation Date:

- (a) issue to each Scheme Shareholder (other than Ineligible Foreign Shareholders) 1.25 New Beach Shares for each of the Scheme Shares held by the Scheme Shareholder, in accordance with and subject to the terms of this Scheme; and
- (b) issue to the Foreign Nominee 1.25 New Beach Shares for each of the Scheme Shares held by the Ineligible Foreign Shareholders, and that would have otherwise been issued to the Ineligible Foreign Shareholder, in accordance with clause 4.5 below.

4.4 Fractional entitlements

- (a) Where the calculation of the aggregate number of New Beach Shares to be issued to a particular Scheme Shareholder would result in the issue of a fraction of a Beach Share, the number will be rounded:
 - (i) if the fractional entitlement is less than 0.5 - down to the nearest whole number of New Beach Shares; and
 - (ii) otherwise – up to the nearest whole number of New Beach Shares.
- (b) If Beach or Drillsearch are of the opinion, formed reasonably, that several Scheme Shareholders, each of which holds a holding of Drillsearch Shares which results in a rounding under this clause 4.4, have, before the Record Date, been party to a shareholding splitting or division in an attempt to obtain an advantage by reference to such rounding, Beach and Drillsearch may give notice before the Implementation Date to those Scheme Shareholders:
 - (i) setting out the names and registered addresses of all of them;
 - (ii) stating that opinion; and
 - (iii) attributing to one of them specifically identified in the notice the Drillsearch Shares held by all of them,

and, after the notice has been so given, the Scheme Shareholder specifically identified in the notice shall, for the purposes of the Scheme, be taken to hold all those Drillsearch Shares and each of the other Scheme Shareholders whose names are set out in the notice shall, for the purposes of the Scheme, be taken to hold no Drillsearch Shares.

4.5 Ineligible Foreign Shareholders

- (a) Beach has no obligation under this Scheme to issue New Beach Shares to an Ineligible Foreign Shareholder under the Scheme, and instead:
 - (i) Beach must issue the New Beach Shares attributable to, and which would otherwise be required to be provided to the Ineligible Foreign Shareholder under the Scheme to the Foreign Nominee;
 - (ii) Beach will procure that as soon as reasonably practicable and in any event no more than 15 Business Days after the Implementation Date (unless an extension is

agreed to in writing by Drillsearch prior to the Effective Date), the Foreign Nominee to sell those New Beach Shares on-market in such a manner, at such price and on such other terms as the Foreign Nominee determines in good faith (and at the risk of the Ineligible Foreign Shareholders) (**Proceeds**);

- (iii) promptly after the last sale of those New Beach Shares, Beach will procure that the Foreign Nominee pays the net proceeds of sale (after deducting any applicable brokerage, stamp duty and other selling costs and taxes) to Beach; and
- (iv) as soon as reasonably practicable and in any event no more than 5 Business Days after the remittance to Beach in accordance with clause 4.5(a)(iii), Beach will pay each Ineligible Foreign Shareholder the amount calculated in accordance with the following formula and rounded up or down to the nearest whole cent:

$$A=(B/C) \times D$$

where

A is the amount to be paid to the Ineligible Foreign Shareholder (**Ineligible Foreign Shareholder Amount**);

B is the number of New Beach Shares attributable to, and that would otherwise have been issued to, that Ineligible Foreign Shareholder had it not been a Ineligible Foreign Shareholder and which are instead issued to the Foreign Nominee;

C is the total number of New Beach Shares attributable to, and which would otherwise have been issued to, all Ineligible Foreign Shareholders collectively and which are instead issued to the Foreign Nominee; and

D is the net proceeds of sale received by Beach pursuant to clause 4.5(a)(iii).

- (b) The Ineligible Foreign Shareholder Amount may be paid by Beach doing any of the following:
 - (i) sending by pre-paid post (or pre-paid airmail if the address is outside Australia) to the Ineligible Foreign Shareholder's Registered Address a pre-printed cheque for the Ineligible Foreign Shareholder Amount (denominated in Australian dollars) in the name of that Ineligible Foreign Shareholder; or
 - (ii) depositing or procuring the Beach Registry deposit the Ineligible Foreign Shareholder Amount (denominated in Australian dollars) into the account with any Australia bank notified by that Ineligible Foreign Shareholder to Drillsearch (or Drillsearch's agent who manages the Drillsearch Register) by an appropriate authority from the Ineligible Foreign Shareholder.
- (c) In the event that the Foreign Nominee believes, after consultation with the Drillsearch Registry, that an Ineligible Foreign Shareholder is not known at its Registered Address (including as a result of any pre-printed cheque sent to an Ineligible Foreign Shareholder in accordance with clause 4.5(b)(i) being returned to sender) and no account has been notified in accordance with clause 4.5(b)(ii) or a deposit into such account in accordance with clause 4.5(b)(ii) is rejected or refunded, Beach may credit the amount payable to that Ineligible Foreign Shareholder to a separate bank account of Beach to be held until the Ineligible Foreign Shareholder claims the amount or the amount is dealt with in accordance with unclaimed money legislation, and Beach must hold the amount in trust but any amount accruing from the amount will be to the benefit of Beach. An amount credited to the account is to be treated as having been paid to the Ineligible Foreign

Shareholder. Beach must maintain records of the amounts paid, the people who are entitled to the amounts and any transfers of the amounts.

- (d) Payment by the Foreign Nominee to an Ineligible Foreign Shareholder in accordance with this clause 4.5 satisfies in full the Ineligible Foreign Shareholder's right to Scheme Consideration.
- (e) None of Beach, Drillsearch or the Foreign Nominee gives any assurance as to the price that will be achieved for the sale of New Beach Shares described in this clause 4.5, and the sale of the New Beach Shares under this clause 4.5 will be at the risk of the Ineligible Foreign Shareholder.
- (f) Each Ineligible Foreign Shareholder appoints Drillsearch, and each director and officer of Drillsearch, as its agent to receive on its behalf any financial services guide or other notice which may be given by the Foreign Nominee to Ineligible Foreign Shareholder for or in connection with its appointment or sales.

4.6 Shares to rank equally

Beach covenants in favour of Drillsearch (in its own right and on behalf of the Scheme Shareholders) that:

- (a) the New Beach Shares to be issued under the Scheme will rank equally in all respects with all existing Beach Shares; and
- (b) on issue each such New Beach Share will be fully paid and free from any mortgage, charge, lien, encumbrance or other security interest.

4.7 Provision of Scheme Consideration

Subject to the other provisions of this clause 4, the obligation of Beach to provide or procure the provision of the Scheme Consideration to Scheme Shareholders will be satisfied by Beach procuring that:

- (a) the name and address of each such Scheme Shareholder is entered into the Beach Register on the Implementation Date in respect of the New Beach Shares to which it is entitled under this clause 4; and
- (b) a share certificate or holding statement (or equivalent document) is sent to the Registered Address of each such Scheme Shareholder representing the number of New Beach Shares issued to the Scheme Shareholder pursuant to this Scheme as soon as practicable after the Implementation Date.

4.8 Orders of a court or Government Agency

- (a) Beach may deduct and withhold from any consideration which would otherwise be payable to a Scheme Shareholder by Beach in accordance with this clause 4, any amount which Beach reasonably determines in good faith and after having received appropriate advice is required to be deducted and withheld from that consideration under any applicable law, including any order, direction or notice made or given by a court of competent jurisdiction or by another Government Agency.
- (b) To the extent that amounts are so deducted or withheld, such deducted or withheld amounts will be treated for all purposes under this Scheme as having been paid to the person in respect of which such deduction and withholding was made, provided that such deducted or withheld amounts are actually remitted to the appropriate taxing agency.
- (c) If written notice is given to Beach of an order, direction or notice made or given by a court of competent jurisdiction or by another Government Agency that:
 - (i) requires that any consideration which would otherwise be payable or required to be issued to a Scheme Shareholder by Beach in accordance with this clause 4 must

instead be paid or provided to a Government Agency or other third party, then Beach will be entitled to pay or provide that consideration in accordance with that order, direction or notice (and payment or provision of that consideration in accordance with that order, direction or notice will be treated for all purposes under this Scheme as having been paid or provided to that Scheme Shareholder); or

- (ii) prevents Beach from providing consideration to any particular Scheme Shareholder in accordance with this clause 4, or the payment or issuance of such consideration is otherwise prohibited by applicable law, Beach shall be entitled to retain that consideration until such time as provision of the consideration in accordance with this clause 4 is permitted by that order or direction or otherwise by law.

4.9 Joint holders

In the case of joint holders of Scheme Shares:

- (a) the New Beach Shares to be issued under this Scheme will be issued to and registered in the names of the joint holders;
- (b) any cheque required to be sent under this Scheme will be made payable to the joint holders and sent to the holder whose name appears first in the Drillsearch Register as at the Record Date; and
- (c) any other document required to be sent under this Scheme, will be forwarded to the holder whose name appears first in the Drillsearch Register as at the Record Date.

5. Issue and trading

- (a) The Scheme Shareholders to be issued New Beach Shares each agree for all purposes to become a member of Beach (without the need for any further act on its part) and to be bound by Beach's constitution.
- (b) Each Scheme Shareholder to be issued New Beach Shares shall be deemed to have irrevocably appointed Beach and each of its directors and officers (jointly and severally) as its attorneys for the purpose of executing any form of application, letter of transmittal or other instruments or documents required for the New Beach Shares.

6. Dealings in Drillsearch Shares

- (a) Each Scheme Shareholder will be entitled to participate in this Scheme on the terms and conditions of the Scheme.
- (b) To establish the identity of the Scheme Shareholders, dealings in Drillsearch Shares will only be recognised if:
 - (i) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Drillsearch Register as the holder of the relevant Drillsearch Shares by the Record Date; and
 - (ii) in all other cases, registrable transmission applications or transfers in respect of those dealings are received on or before the Record Date at the place where the Drillsearch Register is kept.
- (c) Drillsearch must register registrable transmission applications or transfers of the kind referred to in clause 6(b)(ii) by the Record Date (provided that, for the avoidance of doubt, nothing in this clause 6(c) requires Drillsearch to register a transfer that would result in a

Drillsearch Shareholder holding a parcel of Drillsearch Shares that is less than a 'marketable parcel' (as defined in the Market Rules of the ASX)).

- (d) If the Scheme becomes Effective, a holder of Scheme Shares (and any person claiming through that holder) must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after the Record Date.
- (e) Drillsearch will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Drillsearch Shares received after the Record Date.
- (f) For the purpose of determining entitlements to the Scheme Consideration, Drillsearch must maintain the Drillsearch Register in accordance with the provisions of this clause 6 until the Scheme Consideration has been paid to the Scheme Shareholders. The Drillsearch Register in this form will solely determine entitlements to the Scheme Consideration.
- (g) All statements of holding for Drillsearch Shares will cease to have effect from the Record Date as documents of title in respect of those shares and, as from that date, each entry current at that date on the Drillsearch Register will cease to have effect except as evidence of entitlement to the Scheme Consideration in respect of the Drillsearch Shares relating to that entry.
- (h) As soon as possible on or after the Record Date, and in any event within one Business Day after the Record Date, Drillsearch will ensure that details of:
 - (i) the names, registered addresses and holdings of Drillsearch Shares for each Scheme Shareholder as shown in the Drillsearch Register on the Record Date; and
 - (ii) the names, registered addresses and holdings of each Ineligible Foreign Shareholder as shown in the Drillsearch Register on the Record Date,

are made available to Beach in the form that Beach reasonably requires.

7. Quotation of Drillsearch Shares

- (a) Drillsearch will apply to the ASX to suspend trading on the ASX in Drillsearch Shares from the close of trading on the Effective Date.
- (b) On a date after the Implementation Date to be determined by Beach, Drillsearch will apply:
 - (i) for termination of the official quotation of Drillsearch Shares on the ASX; and
 - (ii) to have itself removed from the official list of the ASX.

8. General provisions

8.1 Consent to amendments to the Scheme

If the Court proposes to approve the Scheme subject to any alterations or conditions, Drillsearch may by its counsel consent on behalf of all persons concerned to those alterations or conditions to which Beach has consented. For the avoidance of doubt, Drillsearch must not consent to any modification of, or amendment to, or the making or imposition by the Court of any condition in respect of, the Scheme without the prior written consent of Beach.

8.2 Scheme Shareholders' agreements and warranties

- (a) On this Scheme becoming Effective, each Scheme Shareholder:
 - (i) agrees to the transfer of their Drillsearch Shares in accordance with the Scheme and agrees to the variation, cancellation or modification of the rights attached to their Drillsearch Shares constituted by or resulting from the Scheme; and
 - (ii) acknowledges that the Scheme binds all Scheme Shareholders.
- (b) Each Scheme Shareholder is taken to have warranted to Drillsearch and Beach, and appointed and authorised Drillsearch as its attorney and agent to warrant to Beach, that all of their Drillsearch Shares (including any rights and entitlements attaching to those shares) which are transferred under the Scheme will, at the date of transfer, be fully paid and free from all mortgages, charges, security interests (including any 'security interests' within the meaning of section 12 of the *Personal Property Securities Act 2009* (Cth)), liens, encumbrances and interests of third parties of any kind, whether legal or otherwise, and restrictions on transfer of any kind, and that they have full power and capacity to transfer their Drillsearch Shares to Beach together with any rights attaching to those shares.

8.3 Title to and rights in Scheme Shares

- (a) To the extent permitted by law, the Drillsearch Shares transferred under the Scheme will be transferred free from all mortgages, charges, liens, encumbrances and interests of third parties of any kind, whether legal or otherwise.
- (b) On this Scheme becoming Effective, Beach will be beneficially entitled to the Drillsearch Shares transferred to it under the Scheme pending registration by Drillsearch of Beach in the Drillsearch Share Register as the holder of the Drillsearch Shares.

8.4 Appointment of sole proxy

Immediately upon provision of the Scheme Consideration, and until Drillsearch registers Beach as the holder of all Scheme Shares in the Drillsearch Register, each Scheme Shareholder:

- (a) is deemed to have appointed Beach as attorney and agent (and directed Beach in each such capacity) to appoint any director, officer, secretary or agent nominated by Beach as its sole proxy and, where applicable or appropriate, corporate representative to attend shareholders' meetings of Drillsearch, exercise the votes attaching to the Scheme Shares registered in their name and sign any shareholders' resolution of Drillsearch, and no Scheme Shareholder may itself attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to this clause 8.4(a));
- (b) must take all other actions in the capacity of a registered holder of Scheme Shares as Beach reasonably directs; and
- (c) acknowledges and agrees that in exercising the powers referred in clause 8.4(a), Beach and any director, officer, secretary or agent nominated by Beach under clause 8.4(a) may act in the best interest of Beach as the intended registered holder of the Scheme Shares.

8.5 Authority given to Drillsearch

- (a) Scheme Shareholders will be deemed to have authorised Drillsearch, and all its directors, officers and secretaries, to do and execute all acts, matters, things and documents on the part of each Scheme Shareholder necessary to implement the Scheme, including (without limitation) executing, as agent and attorney of each Scheme Shareholder, a share transfer form (or a master share transfer form) in relation to Scheme Shares as contemplated by clause 8.5(b).

- (b) Each Scheme Shareholder, without the need for any further act, irrevocably appoints Drillsearch and all of its directors, officers and secretaries (jointly and severally) as its attorney and agent for the purpose of executing any document necessary to give effect to the Scheme including without limitation, a proper instrument of transfer of its Scheme Shares for the purposes of section 1071B of the Corporations Act which may be a master transfer of all the Scheme Shares.

9. General

9.1 Stamp duty

Beach will pay all stamp duty payable in connection with the transfer of Drillsearch Shares to Beach.

9.2 Consent

The Scheme Shareholders consent to Drillsearch and Beach doing all things necessary or incidental to the implementation of the Scheme.

9.3 Notices

If a notice, transfer, transmission application, direction or other communication referred to in the Scheme is sent by post to Drillsearch, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Drillsearch registered office or at the office of the Drillsearch Registrar.

9.4 Inconsistencies

This Scheme binds Drillsearch and all Drillsearch Shareholders, and to the extent of any inconsistency, overrides the Drillsearch constitution.

9.5 No liability when acting in good faith

None of Beach, Drillsearch nor any director, officer, secretary or employee of them will be liable to any person for anything done or omitted to be done in good faith in the performance of this Scheme or the Deed Poll.

9.6 Governing law

- (a) The Scheme is governed by the laws in force in New South Wales.
- (b) Each party irrevocably submits to the non-exclusive jurisdiction of courts exercising jurisdiction in New South Wales and courts of appeal from them in respect of any proceedings arising out of or in connection with this Scheme. Each party irrevocably waives any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

9.7 Further action

Drillsearch and each Scheme Shareholder must do all things and execute all documents necessary to give full effect to this Scheme and the transactions contemplated by it.

ANNEXURE E. BEACH DEED POLL

Deed poll

Date 11 DECEMBER 2015

Parties

Name	Beach Energy Limited
ABN/ACN	20 007 617 969
Short form name	Beach
Notice details	25 Conyngham Street, Glenside SA 5065

in favour of each holder of fully paid ordinary shares in Drillsearch Energy Limited (ABN 73 006 474 844) (**Drillsearch**) as at the Record Date.

Background

- A Beach and Drillsearch have entered into the Merger Implementation Agreement.
- B In the Merger Implementation Agreement, Beach agreed to enter into this deed poll.
- C Beach is entering into this deed poll for the purpose of covenanting in favour of the Scheme Shareholders to perform their obligations under the Scheme and ensure that the Scheme Consideration is paid to Scheme Shareholders.

Agreed terms

1. Defined terms & interpretation

1.1 Defined terms

In this deed poll:

Merger Implementation Agreement means the Merger Implementation Agreement entered into between Beach and Drillsearch dated 23 October 2015.

Unless the context otherwise requires, terms defined in the Merger Implementation Agreement or the Scheme have the same meaning when used in this deed poll.

1.2 Interpretation

Clause 1.2 of the Merger Implementation Agreement applies to the interpretation of this deed poll, except that references to 'Merger Implementation Agreement' or 'Deed' are to be read as references to 'deed poll'.

1.3 Nature of deed poll

Beach acknowledges that this deed poll may be relied on and enforced by any Scheme Shareholder in accordance with its terms even though the Scheme Shareholders are not party to it.

2. Conditions to obligations

- (a) The obligations of Beach under this deed poll are subject to the Scheme becoming Effective.
- (b) The obligations of Beach under this deed poll to Scheme Shareholders will automatically terminate and the terms of this deed poll will be of no further force or effect if:
 - (i) the Merger Implementation Agreement is terminated in accordance with its terms; or
 - (ii) the Scheme is not Effective by the End Date.
- (c) If this deed poll is terminated under clause 2(b), in addition and without prejudice to any other rights, powers or remedies available to it:
 - (i) Beach is released from its obligations to further perform this deed poll except those obligations under clause 6.2; and
 - (ii) each Scheme Shareholder retain any rights they have against Beach in respect of any breach of this deed poll which occurred before it was terminated.

3. Consideration under the Scheme

3.1 Undertaking to issue and pay the Scheme Consideration

Subject to clause 2, in consideration of the transfer of each Scheme Share to Beach in accordance with the Scheme, Beach covenants in favour of each Scheme Shareholder to:

- (a) provide the Scheme Consideration to each Scheme Shareholder in accordance with the terms of the Scheme; and
- (b) undertake all other actions attributed to it under the Scheme, subject to and in accordance with the Scheme.

3.2 Official quotation

Subject to clause 2, Beach will use its best endeavours to procure that the New Beach Shares issued pursuant to the Scheme are approved for official quotation on ASX and that trading in the New Beach Shares commences by the first Business Day after the Implementation Date, initially on a deferred basis and thereafter on a normal T + 3 settlement basis.

4. Warranties

Beach represents and warrants to each Scheme Shareholder in respect of itself, that:

- (a) it is a public company validly existing under the laws of Australia;
- (b) it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll;
- (d) each New Beach Share will:
 - (i) rank equally with all existing Beach Shares; and
 - (ii) be issued fully paid and free from any mortgage, charge, lien, encumbrance or other security interest; and
- (e) this deed poll has been duly and validly executed and delivered by it and is valid and binding on it; and
- (f) the execution and performance by it of this deed poll and each transaction contemplated by this deed poll did not and will not violate in any respect a provision of:
 - (i) a law, judgment, ruling, order or decree binding on it; or
 - (ii) its constitution or other constituent documents.

5. Continuing obligations

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) Beach has fully performed its obligations under this deed poll; or
- (b) the earlier termination of this deed poll under clause 2(b).

6. General

6.1 Notices

Any notice under this deed poll to Beach:

- (a) must be in legible writing;
- (b) must be in English; and
- (c) must be addressed as shown below:
 - (i) Beach Energy Limited
25 Conyngham Street,
Glenside SA 5065
Attention: Catherine Oster
email: cathy.oster@beachenergy.com.au

Copy to: Minter Ellison
 Governor Macquarie Tower, 1 Farrer Place
 Sydney NSW 2000
 Australia
 Attention: Ron Forster
 email: ron.forster@minterellison.com

- (d) must be delivered or sent by email to the email address, of the addressee, in accordance with clause 6.1(c); and
- (e) is regarded as received by the addressee:
 - (i) if emailed, when a delivery confirmation report is received by the sender which records the time that the email was delivered to the addressee's email address (unless the sender receives a delivery failure notification indicating that the email has not been delivered to the addressee), unless it is not a Business Day in the place of receipt, or is after 5.00pm on a Business Day in the place of receipt, when that communication will be regarded as received at 9.00am on the next Business Day in the place of receipt; and
 - (ii) if delivered by hand, on delivery at the address of the addressee as provided in this clause, unless delivery is not made on a Business Day, or after 5.00pm on a Business Day, when that communication will be regarded as received at 9.00am on the next Business Day.

6.2 Stamp duty

Beach will:

- (a) be responsible for its own costs arising out of negotiation, preparation and execution of this deed poll; and
- (b) pay all duty (including stamp duty) and any related fines, penalties and interest in respect of the Scheme and this deed poll (including without limitation the acquisition or transfer of the Scheme Shares pursuant to the Scheme), the performance of this deed poll and each transaction effected by or made under the Scheme and this deed poll and indemnify each Scheme Shareholder against any liability arising from failure to comply with this clause 6.2(b).

6.3 Governing law and jurisdiction

- (a) This deed poll is governed by the laws of New South Wales.
- (b) Beach irrevocably submits to the non-exclusive jurisdiction of the courts of New South Wales and courts competent to hear appeals from those courts. Beach irrevocably waives any objection to the venue of any legal process in these courts on the basis that the process has been brought in an inconvenient forum.

6.4 Waiver

Beach may not rely on the words or conduct of any Scheme Shareholder as a waiver of any right unless the waiver is in writing and signed by the Scheme Shareholder granting the waiver.

6.5 Variation

A provision of this deed poll may not be varied or amended unless:

- (a) the variation or amendment is agreed to by Drillsearch in writing (which such agreement may be given or withheld without reference to or approval by any Drillsearch Shareholder);

- (b) Beach enters into a further deed poll in favour of the Scheme Shareholders giving effect to the variation or amendment; and
- (c) if the variation or amendment is to be made on or after the First Court Date, with the approval of the Court and the Court indicates that the variation or amendment would not of itself preclude the Court approving the Scheme.

6.6 Cumulative rights

The rights, powers and remedies of Beach and the Scheme Shareholders under this deed poll are cumulative and do not exclude any other rights, powers or remedies provided by law independently of this deed poll.

6.7 Assignment

- (a) The rights and obligations of Beach and each Scheme Shareholder under this deed poll are personal to Beach and each Scheme Shareholder and must not be dealt with at law or in equity without the prior written consent of Beach and Drillsearch.
- (b) Any purported dealing in contravention of clause 6.7(a) is invalid.

6.8 Further action

Beach must, at its own expense, do all things and execute all documents necessary to give effect to this deed poll and the transactions contemplated by it.

Signing page

EXECUTED as a deed poll.

Executed by **Beach Energy Limited** ACN
007 617 969 in accordance with Section 127
of the *Corporations Act 2001*

Signature of director

Glenn Davis
Director

Name of director (print)

Signature of director/company secretary
(Please delete as applicable)

Cathy Oster
Company Secretary

Name of director/company secretary (print)

CORPORATE DIRECTORY

ASX trading code

DLS

Drillsearch Energy Limited

ACN 006 474 844

Registered office of Drillsearch

Level 18, 321 Kent St
Sydney, NSW 2000

Directors of Drillsearch

James David McKerlie
Fiona Ann Robertson
Philip James Bainbridge
Teik Seng Cheah
Ross Brookfield Wecker

Company Secretary

Clifford Tuck

Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Telephone +61 8280 7111
Facsimile +61 2 9287 0303

Drillsearch Shareholder Information Line

If you have any questions in relation to this Scheme Booklet, please contact the Drillsearch Shareholder Information Line:

Telephone 1300 889 528 (callers in Australia)
or +61 2 9098 9203 (callers outside Australia)
between 9:00am and 5:00pm (Sydney time)
Monday to Friday (excluding public holidays)

Financial advisers

Goldman Sachs Australia Pty Ltd
Level 46, Governor Phillip Tower
1 Farrer Place
Sydney NSW 2000

UBS AG, Australia Branch
Level 16, Chifley Tower
2 Chifley Square
Sydney NSW 2000

Legal adviser

Ashurst Australia
Level 11, 5 Martin Place
Sydney NSW 2000

