

12 June 2014

BY ELECTRONIC LODGEMENT

Company Announcements
ASX Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Drillsearch (Central) Pty Limited ACN 160 522 056 (a wholly-owned subsidiary of Drillsearch Energy Limited (ASX: DLS)) – Takeover bid for Ambassador Oil and Gas Limited (ASX: AQO)

On behalf of Drillsearch (Central) Pty Limited ACN 160 522 056 (a wholly-owned subsidiary of Drillsearch Energy Limited ABN 73 006 474 844) ("**Drillsearch BidCo**"), we **attach** a copy of the bidder's statement containing an offer by Drillsearch BidCo to shareholders of Ambassador Oil and Gas Limited ABN 28 152 595 429 ("**Ambassador**") for all of their ordinary shares in Ambassador ("**Bidder's Statement**") as required by item 5 of section 633(1) of the *Corporations Act 2001* (Cth).

A copy of the Bidder's Statement has been lodged with the Australian Securities and Investments Commission and sent to Ambassador today.

Yours faithfully



Jean Moore
Company Secretary

About Drillsearch Energy Limited (ASX: DLS), which listed on ASX in 1987, explores and develops conventional and unconventional oil and gas projects. Drillsearch has a strategic spread of petroleum exploration and production acreage in Australia's most prolific onshore oil and gas province, the Cooper-Eromanga Basins in South Australia and Queensland. The company's focus is on 'brownfields' exploration where geological risk is reduced and there is access to existing infrastructure, ensuring that any discoveries can be brought into production.



BIDDER'S STATEMENT

OFF-MARKET OFFER

by

DRILLSEARCH (CENTRAL) PTY LIMITED

ABN 41 160 522 056 a wholly owned subsidiary of
Drillsearch Energy Limited ABN 73 006 474 844

to purchase all of your shares in

AMBASSADOR OIL AND GAS LIMITED

ABN 28 152 595 429

**For 1 Drillsearch Share for every 5.4 of your
Ambassador Shares**

This is an important document and requires your immediate attention. If you are in doubt as to how to deal with this document you should consult your financial, legal or other professional adviser as soon as possible.

Legal Adviser

ashurst

Drillsearch

IMPORTANT INFORMATION

Offer Information Line

For information regarding your Ambassador Shares, the Offer or how to accept the Offer please read this Bidder's Statement. If you still need assistance please contact the Drillsearch Offer Information Line on:

For Australian callers: 1300 365 790

For international callers: +61 1300 365 790

Key Dates

| | |
|-------------------------------------|---------------------------|
| Announcement of Offer | 28 May 2014 |
| Bidder's Statement lodged with ASIC | 12 June 2014 |
| Offer opens (date of Offer) | 12 June 2014 ¹ |
| Offer closes (unless extended) | 14 July 2014 |

This Bidder's Statement is dated 12 June 2014 and is given by Drillsearch (Central) Pty Limited ABN 41 160 522 056 (**Drillsearch Bidco**) to Ambassador Oil and Gas Limited ABN 28 152 595 429 (**Ambassador**) under Part 6.5 of the Corporations Act. This Bidder's Statement includes an Offer dated 12 June 2014 to acquire your Ambassador Shares and also sets out certain disclosures required by the Corporations Act.

A copy of this Bidder's Statement was lodged with the Australian Securities and Investments Commission (**ASIC**) on 12 June 2014. Neither ASIC nor any of its officers takes any responsibility for the content of this Bidder's Statement or for the merits of the investment to which this Bidder's Statement relates.

Investment decisions

This Bidder's Statement does not take into account the investment objectives, financial situation and particular needs of any person. Before making any investment decision you should consider whether it is appropriate in the light of those factors. Accordingly, you may wish to seek independent financial and taxation advice before deciding whether to accept the Offer.

Implied value

As you are being offered Drillsearch Shares as consideration for your Ambassador Shares, the implied value of the Offer will vary with the market price of Drillsearch Shares. In addition, all references to the implied value of the Offer in this Bidder's Statement are subject to the effects of rounding. Further information concerning the implied value of the Offer is contained in section 5.7 of this Bidder's Statement.

Forward looking statements

This Bidder's Statement contains forward looking statements. Forward looking statements are not based on historical facts, but are based on current expectations of future results or events. These forward looking statements are subject to risks, uncertainties and assumptions which could cause actual results or events to differ materially from the expectations described in such forward looking statements. While Drillsearch Bidco believes that the expectations reflected in the forward looking statements in this Bidder's Statement are reasonable, no assurance can be given that such expectations will prove to be correct. The risk factors set out in section 8 of this Bidder's Statement, as well as other matters as yet not known to Drillsearch Bidco or not currently considered material by Drillsearch Bidco, may cause actual results or events to be materially different from those expressed, implied or projected in any forward looking statements.

None of Drillsearch Bidco, Drillsearch, their Directors or officers or any persons named in this Bidder's Statement makes any representation or warranty (either express or implied), as to the accuracy or likelihood of any forward looking statement, or any events or results expressed or implied in any forward looking statement or any statement in the nature of a forward looking statement. Any forward looking statement contained in this Bidder's Statement is qualified by this cautionary statement.

Offers outside Australia

Shareholders should note that the consideration under the Offer is shares in Drillsearch, an Australian public company listed on ASX. The Offer is subject to disclosure requirements in Australia which are different from those applicable in other countries. Shareholders whose address in Ambassador's register of members is not in Australia or New Zealand (**Foreign Shareholders**) may not be entitled to receive Drillsearch Shares on acceptance of the Offer if Drillsearch Bidco considers them to be Ineligible Foreign Shareholders. Ineligible Foreign Shareholders who accept the Offer will receive a cash amount in accordance with section 11.22 of this Bidder's Statement. This Bidder's Statement does not constitute an offer to issue or sell, or the soliciting of an offer to buy, any securities referred to in this Bidder's Statement in any jurisdiction in which the issue of such securities would be unlawful.

Information on Ambassador

The information on Ambassador and Ambassador Shares contained in this Bidder's Statement has been prepared by Drillsearch Bidco using publicly available information and, in respect of section 7, information regarding Ambassador provided by Ambassador pursuant to the terms of the Bid Implementation Agreement. None of the information relating to Ambassador has been verified by Ambassador or Ambassador Board or independently verified by Drillsearch Bidco. Accordingly, subject to the Corporations Act, Drillsearch Bidco makes no representation or warranty (express or implied) as to the accuracy or completeness of this information. The information on Ambassador in this Bidder's Statement should not be considered comprehensive. Further information relating to Ambassador's business is included in Ambassador's Target's Statement which Ambassador must provide to its shareholders in response to this Bidder's Statement.

Privacy collection statement

Personal information relating to your shareholding in Ambassador will be obtained by Drillsearch Bidco or its agents from Ambassador in accordance with its rights under the Corporations Act. Drillsearch Bidco will share this information with its related bodies corporate, advisers, agents and regulators such as ASIC where necessary for the purposes of the Offer, or as otherwise required or permitted by law. If you would like details of your personal information held by Drillsearch Bidco or its agents please contact Jean Moore, Company Secretary of Drillsearch, on +61 2 9249 9600.

Defined terms

A number of defined terms are used in this Bidder's Statement. Unless the contrary intention appears, the context requires otherwise or words are defined in section 12.1 of this Bidder's Statement, words and phrases in this Bidder's Statement have the same meaning and interpretation as in the Corporations Act.

Internet

Both Drillsearch Bidco's holding company Drillsearch and Ambassador maintain internet sites. The Drillsearch internet site is www.drillsearch.com.au and the Ambassador internet site is www.ambassadorexp.com.au.

Information contained in, or otherwise accessible through these internet sites is not part of the Bidder's Statement. All references to this Bidder's Statement on these internet sites are inactive textual references to these sites and are for your information only.

1. The Ambassador Directors have agreed to the despatch of this Bidder's Statement to Ambassador shareholders earlier than 14 days after it was given to Ambassador.



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CONTENTS

| | |
|--|----|
| CHAIRMAN'S LETTER | 2 |
| KEY REASONS WHY YOU SHOULD ACCEPT THE OFFER | 4 |
| REASONS WHY YOU SHOULD ACCEPT THE OFFER | 5 |
| 1. KEY QUESTIONS | 8 |
| 2. SUMMARY OF THE OFFER | 12 |
| 3. INFORMATION ON DRILLSEARCH AND DRILLSEARCH BIDCO | 14 |
| 4. INFORMATION ABOUT DRILLSEARCH'S SHARES | 37 |
| 5. INFORMATION ON AMBASSADOR | 40 |
| 6. DRILLSEARCH BIDCO'S INTENTIONS | 43 |
| 7. PROFILE OF THE MERGED GROUP | 47 |
| 8. RISK FACTORS | 57 |
| 9. TAXATION CONSIDERATIONS | 68 |
| 10. ADDITIONAL INFORMATION | 73 |
| 11. THE OFFER TERMS | 79 |
| 12. DEFINITIONS AND INTERPRETATION | 92 |
| SCHEDULE 1. ASX ANNOUNCEMENT BY DRILLSEARCH SINCE 20 FEBRUARY 2014 | 97 |
| CORPORATE INFORMATION | 98 |

CHAIRMAN'S LETTER

12 June 2014

Dear Ambassador Shareholder

On behalf of the Board of Drillsearch I am pleased to provide you with this offer to acquire all your shares in Ambassador (**Offer**). Under the Offer, Drillsearch Bidco is offering you 1 Drillsearch Share for every 5.4 of your Ambassador Shares. Drillsearch Bidco is a wholly owned subsidiary of Drillsearch. The implied value of the Offer is \$0.279 per Ambassador Share based on the volume weighted average price (**VWAP**) of Drillsearch Shares on 10 and 11 June 2014.

We believe the Offer is full and fair, providing you with an opportunity to become a shareholder in a profitable Cooper Basin-focused oil and gas explorer, developer and producer, with enhanced growth potential.

The Offer represents a significant premium to the recent and historical VWAP of Ambassador Shares. Specifically, the implied value of the Offer of \$0.279 per Ambassador Share represents a substantial premium of:

- 43% to the closing price of Ambassador shares of \$0.195 on 23 May 2014, the trading day prior to Ambassador entering into a trading halt pending announcement of the Offer;
- 44% to the VWAP of Ambassador Shares for the 3 months up to 23 May 2014;
- 48% to the VWAP of Ambassador Shares for the 6 months up to 23 May 2014; and
- 53% to the VWAP of Ambassador Shares for the 9 months up to 23 May 2014.

The Offer provides Ambassador shareholders with an opportunity to receive shares in Drillsearch, an ASX listed domestic company focused on Australia's Cooper Basin.

On 10 June 2014, Magnum Hunter Resources announced its intention to make a competing takeover offer for Ambassador with the consideration being solely stock in a US listed company. Magnum Hunter Resources is a US based oil and gas company listed on the New York Stock Exchange primarily focussed on US shale gas assets. Magnum Hunter Resources has not undertaken to list on the ASX. It has high levels of debt and is subject to a far different regulatory regime. By accepting the Magnum Hunter Offer, Ambassador shareholders will, or may, be exposed to foreign exchange and US sharemarket volatility risks and cross border tax complexities.

The Board of Drillsearch believes that there is a compelling strategic rationale for its Offer, which consolidates Drillsearch's position in the Northern Cooper Wet Gas area by combining Ambassador's 47.5% non-operated interest in PEL 570 with Drillsearch's 80%-owned and operated interest in the adjacent PEL 101.

In 2013, Drillsearch conducted the Coolibah 3D seismic survey that identified significant prospectivity in the area around PELs 101 and 570 for liquids-rich conventional gas in combined structural and stratigraphic traps. The survey also confirmed the presence of potentially prospective Toolachee Formation channels extending across PEL 101 and PEL 570.

In FY2015, Drillsearch plans to commence a two-year appraisal and development drilling campaign in PEL 101 that will further de-risk the conventional prospectivity of the permit, which also has the potential to generate significant value across the combined seismic area.

About Drillsearch

Drillsearch is a profitable mid-tier ASX oil and gas company focused on growing reserves, production and cash flow. In FY2014, Drillsearch is anticipating record oil and gas production at the higher end of a range of 3.0 to 3.3 million barrels of oil equivalent.

Merged Group

The Board of Drillsearch believes that the acquisition of Ambassador will be complementary to Drillsearch's business, and has the potential to accelerate realisation of value for Ambassador shareholders. By accepting the Offer, you will have the ongoing opportunity to participate in the benefits of the Merged Group, which include:

- the Merged Group being a leading Australian oil and gas exploration, development and production company focused in the highly prospective Cooper Basin; and
- the Merged Group having greater scale than if Drillsearch and Ambassador were to remain two separate companies, giving shareholders of the Merged Group the opportunity to capitalise on potential scale efficiencies.

Drillsearch's interest in Ambassador

As announced on 28 May 2014, Drillsearch has acquired a relevant interest of 19.9% of Ambassador making it Ambassador's largest shareholder. The consideration for the acquisition of these Ambassador Shares was 1 Drillsearch Share for every 5.4 Ambassador Shares, the same consideration as the Offer.

Conditions

The Offer is subject to Defeating Conditions, including a 50.1% minimum acceptance condition. The terms of the Offer, including the Defeating Conditions, are set out in section 11.13 of this Bidder's Statement.

I encourage you to thoroughly read this Bidder's Statement and the terms of the Offer, and then accept it as soon as possible. The Offer is open until 7:00pm (Sydney Time) on 14 July 2014, unless extended. To accept the Offer, please follow the instructions set out in section 11.7 of this Bidder's Statement.

If you have any questions in relation to the Offer, please contact the Drillsearch Offer Information Line on 1300 365 790 (toll-free within Australia) or +61 1300 365 790 (from outside of Australia) between 8:30am and 5:30pm Monday to Friday (Sydney time), or consult your financial or other professional adviser.

We look forward to your acceptance of the Offer and welcoming you as a Drillsearch shareholder.

Yours sincerely



Mr Jim McKerlie
Chairman
Drillsearch Energy Limited

KEY REASONS WHY YOU SHOULD ACCEPT THE OFFER

- 1.** The Offer represents a premium to the highest trading price of Ambassador Shares since its listing in December 2011 up to the Announcement Date
- 2.** The Offer provides Ambassador shareholders with an opportunity to receive shares in Drillsearch, an ASX listed domestic company focused on Australia's Cooper Basin. The Magnum Hunter Offer comprises solely stock in a US listed entity primarily focussed on US shale gas assets
- 3.** By accepting the Offer you will own Drillsearch shares allowing you to retain exposure to Ambassador's key asset, and gain exposure to a profitable mid-tier domestic ASX oil and gas business
- 4.** Drillsearch is Ambassador's largest shareholder
- 5.** There may be adverse consequences of not accepting the Offer

REASONS WHY YOU SHOULD ACCEPT THE OFFER

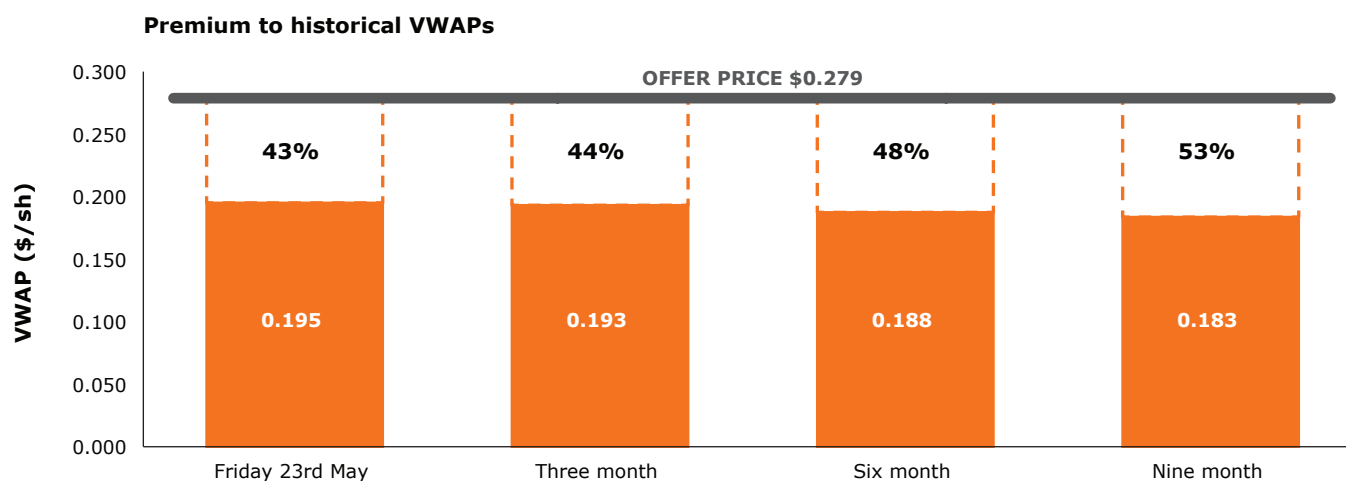
1. The Offer represents a premium to the highest trading price of Ambassador Shares since its listing in December 2011 up to the Announcement Date

The consideration under the Offer is 1 Drillsearch Share for every 5.4 of your Ambassador Shares. The Offer represents a significant premium to the recent and historical volume weighted average price of Ambassador Shares and a premium of 7% on the highest trading price of Ambassador Shares since listing in December 2011 up to the Announcement Date. The Offer implies a value of \$0.279 per Ambassador share based on the volume weighted average price of Drillsearch Shares on 10 and 11 June 2014.

Specifically, the implied value of the Offer of \$0.279 per Ambassador Share represents a substantial premium of:

- 43% to the closing price of Ambassador shares of \$0.195 on 23 May 2014, the trading day prior to Ambassador entering into a trading halt pending announcement of the Offer;
- 44% to the VWAP of Ambassador Shares for the 3 months up to 23 May 2014;
- 48% to the VWAP of Ambassador Shares for the 6 months up to 23 May 2014; and
- 53% to the VWAP of Ambassador Shares for the 9 months up to 23 May 2014.

The implied value of the Offer represents a discount of 11% based on the VWAP of Ambassador Shares on 10 and 11 June 2014, being the last two trading days before the lodgement of this Bidder's Statement. However, the VWAP of Ambassador Shares over this period has been affected by the existence of the Offer and the Magnum Hunter Offer.



2. The Offer provides Ambassador shareholders with an opportunity to receive shares in Drillsearch, an ASX listed domestic company focused on Australia's Cooper Basin. The Magnum Hunter Offer comprises solely stock in a US listed entity primarily focussed on US shale gas assets

The Offer provides Ambassador shareholders with an opportunity to receive shares in Drillsearch, an ASX listed domestic company focused on Australia's Cooper Basin.

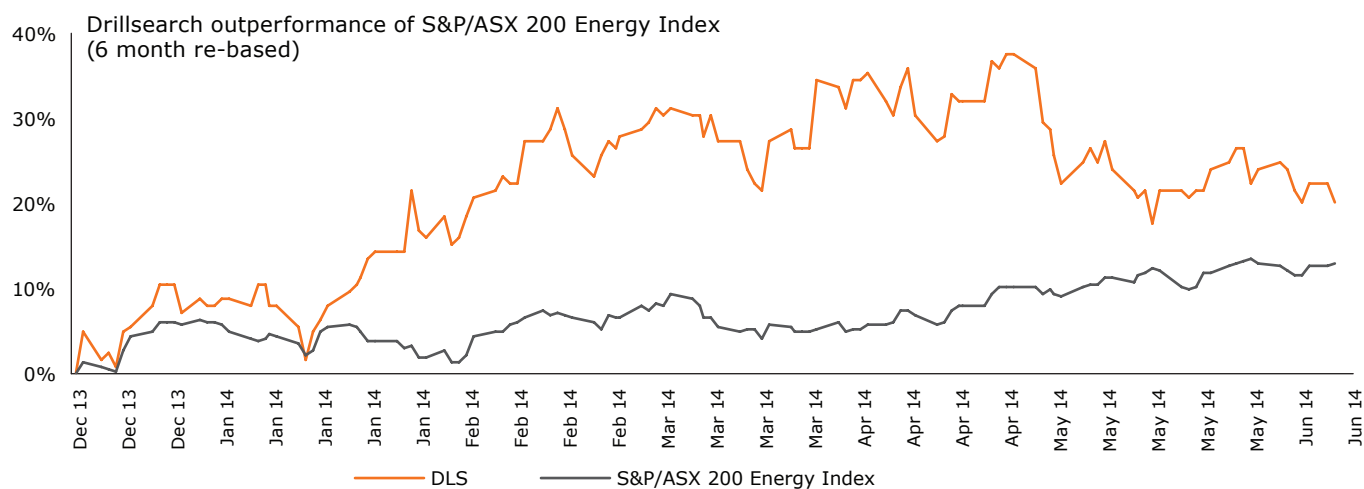
On 10 June 2014, Magnum Hunter Resources announced its intention to make a competing takeover offer for Ambassador with the consideration being solely stock in a US listed company. Magnum Hunter Resources is a US based oil and gas company listed on the New York Stock Exchange primarily focussed on US shale gas assets. Magnum Hunter Resources has not undertaken to list on ASX. It has high levels of debt and is subject to a far different regulatory regime. By accepting the Magnum Hunter Offer, Ambassador shareholders will or may be exposed to foreign exchange and US sharemarket volatility risks and cross border tax complexities.

3. By accepting the Offer you will own Drillsearch Shares allowing you to retain exposure to Ambassador's key asset, and gain exposure to a profitable mid-tier ASX oil and gas business

Ambassador shareholders who receive Drillsearch Shares under the Offer will retain exposure to the fully carried \$42.5m unconventional exploration work program in PEL 570 to be operated by New Standard Energy.

Ambassador shareholders who receive Drillsearch Shares under the Offer will gain exposure to:

- a profitable mid-tier ASX oil and gas company focused on growing reserves, production and cash flow;
- record production anticipated to be at the higher end of a range of 3.0 to 3.3 million barrels in FY2014;
- a balanced portfolio focused solely on the Cooper Basin that includes:
 - exposure to a prolific Oil Business on the Western Flank;
 - a Wet Gas Business pursuing commercialisation of a number of existing discoveries in the Western and Northern Cooper areas;
 - an active Unconventional exploration program focused on ATP 940P in the Nappamerri Trough; and
 - 2P reserves of 28.7 mmboe;
- a company with established relationships with all major Cooper Basin producers, and a proven ability to enter into and effectively manage oil and gas commercialisation arrangements in the Cooper Basin;
- an experienced board and senior management team, which has been able to lead Drillsearch's outperformance of the S&P/ASX 200 Energy Index; and



- shares with greater liquidity, as demonstrated in the following table that compares the volume and value of Drillsearch Shares and Ambassador Shares traded in the 3 month VWAP period up to the close of trading on 23 May 2014, the trading day prior to Ambassador entering into a trading halt pending announcement of the Offer:

| Description | Drillsearch Shares | Ambassador Shares |
|--|--------------------|-------------------|
| Total number of shares traded during the VWAP period | 118,671,076 | 24,362,975 |
| Total value of shares traded during the VWAP period | \$189,937,849 | \$4,712,416 |

4. Drillsearch is now Ambassador's largest shareholder

Drillsearch has acquired a relevant interest in 19.9% of Ambassador, making Drillsearch Ambassador's largest shareholder.

On 28 May 2014, Drillsearch entered into share purchase deeds with a number of Ambassador shareholders (**Selling Ambassador Shareholders**) pursuant to which Drillsearch agreed to purchase a total of 28,259,238 Ambassador Shares (or approximately 19.9% of the issued share capital of Ambassador) from the Selling Ambassador Shareholders. The consideration for the acquisition of those Ambassador Shares was 1 Drillsearch Share for every 5.4 Ambassador Shares, the same consideration as the Offer.

Prior to the announcement of the Magnum Hunter Offer, Mrs Fotoula Hatziladas and Eye Investment Fund Ltd, who collectively hold or represent 17.6% of the total issued share capital of Ambassador, advised Ambassador that they intended to accept the Offer within 14 days from the opening of the Offer, in the absence of a superior proposal.

5. There may be adverse consequences of not accepting the Offer

As a standalone entity, Ambassador is exposed to development and operational risks, including risks associated with its narrow portfolio of assets when compared to the diversified portfolio of the Merged Group. Drillsearch's Offer provides Ambassador shareholders with the opportunity to mitigate these risks by becoming part of a larger, more diversified group with broader funding options and a larger asset base.

Further, if you choose not to accept the Offer, you should be aware that:

- if Drillsearch Bidco becomes entitled to compulsorily acquire your Ambassador Shares as a result of the Offer, it intends to exercise those rights. If your Ambassador Shares are compulsorily acquired, you will still receive consideration for your Ambassador Shares but at a later date than you would have received it had you accepted the Offer;
- if Drillsearch Bidco gains a majority shareholding in Ambassador (but is not entitled to compulsorily acquire Ambassador), those Ambassador shareholders who do not accept the offer will become minority Ambassador shareholders with possibly less influence over the future direction and control of Ambassador; and
- while there are many factors that will influence the market price for Ambassador Shares, in the absence of the Offer or a competing bid such as the Magnum Hunter Offer, it is likely that the Ambassador share price will fall below the value implied by the Offer.

6. Potential access to capital gains tax relief

Capital gains tax rollover relief may be available for Ambassador shareholders in respect of the Drillsearch Shares that they receive under the Offer or the competing bid.

See section 9 for a discussion of the risk of Ambassador shareholders not obtaining CGT rollover relief.

1. KEY QUESTIONS

This section answers some key questions that you may have about the Offer. They are qualified by and should only be read in conjunction with the entire Bidder's Statement. You should read the Bidder's Statement in full before deciding whether or not to accept the Offer.

If you have any further questions about the Offer or how to accept it, please call the Drillsearch Offer Information Line on 1300 365 790 (within Australia) or +61 1300 365 790 (outside Australia) between 8.30am and 5.30pm Monday to Friday (Sydney time).

| # | Question | Answer | Section |
|----|---|---|---|
| 1. | What is the Offer? | Drillsearch Bidco, a wholly owned subsidiary of Drillsearch, is offering to buy all of your Ambassador Shares by way of an off-market takeover offer. The Offer is 1 Drillsearch Share for every 5.4 Ambassador Shares. | Refer to sections 2 and 11 for further details. |
| 2. | Who is Drillsearch? | Drillsearch is an Australian oil and gas exploration and production company focused on the Cooper-Eromanga Basin, which spans South West Queensland and the north-east of South Australia. Drillsearch is one of the largest net exploration acreage holders in this region. Drillsearch listed on the ASX in 1987 (ASX: DLS) and is admitted to the S&P/ASX 200 Index. As at 11 June 2014, Drillsearch had a market capitalisation of \$639 million. | Refer to section 3 for further details. |
| 3. | What choices do I have as an Ambassador shareholder? | As an Ambassador Shareholder, you have the following choices with respect to your Ambassador Shares: <ul style="list-style-type: none"> • accept the Offer for all your Ambassador Shares; • sell your Ambassador Shares on-market (subject to any restrictions in doing so); • accept the Magnum Hunter Offer when it is provided; or • do nothing. | |
| 4. | Why should I accept the Offer? | The Offer offers Ambassador shareholders a number of benefits, including: <ul style="list-style-type: none"> • a significant premium to its historical VWAP and the highest trading price of Ambassador since its listing in December 2011 up to the Announcement Date; • an opportunity to receive shares in an ASX listed domestic company focused on Australia's Cooper Basin; | Refer to the section under the heading "Reasons why you should accept the Offer" for further details. |

| # | Question | Answer | Section |
|----|---|---|---|
| | | <ul style="list-style-type: none"> • exposure to the fully carried \$42.5m unconventional exploration program on Ambassador's key asset PEL 570; and • exposure to further potential upside from a more diversified portfolio through ownership of Drillsearch Shares, which may be traded on the ASX. | |
| 5. | Are there any risks in accepting the Offer? | <p>If you accept the Offer, you will be issued with Drillsearch Shares. There are a number of risks associated with an investment in Drillsearch Shares and the Offer itself, including:</p> <ul style="list-style-type: none"> • merger integration risks; • exploration and development risks; • drilling risks; • production risks; and • oil and gas price fluctuations. <p>You are already exposed to several of these risks, to varying degrees, as a result of holding Ambassador Shares.</p> | Refer to section 8 for further details. |
| 6. | How do I accept the Offer? | See the section "How to accept" in section 2 and the instructions set out in section 11.7. | Refer to sections 2 and 11.7 for further details. |
| 7. | Can I accept the Offer for part of my holding? | No, you can only accept for all of your holding. Your acceptance will be treated as being for all your Ambassador Shares plus any additional Ambassador Shares registered as held by you at the date your acceptance is processed. | Refer to section 11.1(a) for further details. |
| 8. | What happens if I do not accept the Offer? | <p>Subject to what is stated below, you will remain the holder of your Ambassador Shares if you do not accept the Offer.</p> <p>If Drillsearch Bidco becomes entitled to do so, Drillsearch Bidco intends to proceed to compulsorily acquire your Ambassador Shares. You will receive consideration for your Ambassador Shares sooner if you accept the Offer.</p> | Refer to the section under the heading "Reasons why you should accept the Offer" for further details. |
| 9. | What is the Magnum Hunter Offer? | On 10 June 2014, Magnum Hunter Resources, a US corporation whose common stock is traded on the New York Stock Exchange, announced its intention to make an off-market takeover offer for all the ordinary shares in Ambassador | Refer to the section under the heading "Reasons why you should accept the |

| # | Question | Answer | Section |
|-----|--|---|---|
| | | <p>(Magnum Hunter Offer).</p> <p>Hunter Magnum Resources is proposing to offer Ambassador shareholders 1 share of Magnum Hunter Resources common stock that trades on the New York Stock Exchange for every 27.8 Ambassador shares.</p> | Offer" for further details. |
| 10. | When does the Offer close? | The Offer is currently scheduled to close at 7:00 pm (Sydney time) on 14 July 2014, unless extended or withdrawn. | Refer to section 11.6 for further details. |
| 11. | Can Drillsearch Bidco extend the Offer Period? | Yes, the Offer can be extended by Drillsearch Bidco or otherwise in accordance with the Corporations Act. You will receive written notice of any extension, as required by the Corporations Act. | Refer to section 11.6 for further details. |
| 12. | Can I sell on the market the shares I receive from accepting the Offer? | Yes. You will be able to sell on ASX the Drillsearch Shares you receive. | |
| 13. | What if I am a Foreign Shareholder? | <p>Generally speaking, if your address on Ambassador's register is in a jurisdiction other than Australia and New Zealand, you will be considered a Foreign Shareholder.</p> <p>If you are a Foreign Shareholder, you may participate in the Offer but may not be entitled to receive Drillsearch Shares under the Offer if Drillsearch considers you to be an Ineligible Foreign Shareholder.</p> | Refer to sections 11.2 and 11.12 for further details. |
| 14. | If I accept the Offer, when will I receive Drillsearch Shares? | <p>If you accept this Offer Drillsearch will, in the usual course, issue you with Drillsearch Shares on or before the earlier of:</p> <ul style="list-style-type: none"> the day one month after you accept this Offer or, if this Offer is subject to a Defeating Condition when accepted, one month after the contract resulting from your acceptance becomes unconditional; and the day 21 days after the end of the Offer Period, provided that the Offer has become unconditional. | Refer to section 11.19 for further details. |
| 15. | What are the tax consequences if I | Please consult your financial, tax or other professional adviser on the tax | Refer to section 9 for |

| # | Question | Answer | Section |
|-----|--|--|---|
| | accept the Offer? | implications of accepting the Offer. However, a general summary of the likely Australian tax consequences is set out in section 9. | further details. |
| 16. | Will I need to pay brokerage or stamp duty if I accept the Offer? | <p>You will not pay any stamp duty on accepting the Offer.</p> <p>If your Ambassador Shares are registered in an Issuer Sponsored Holding in your name and you deliver them directly to Drillsearch, you will not incur any brokerage connected with you accepting the Offer.</p> <p>If your Ambassador Shares are in a CHESS Holding or you hold your Ambassador Shares through a bank, custodian or other nominee, you should ask your Controlling Participant (usually, your Broker or the bank, custodian or other nominee) whether it will charge any transaction fees or service charges connected with you accepting the Offer.</p> | Refer to section 2 for further details. |
| 17. | What are the conditions to the Offer? | <p>The Offer is subject to the following Defeating Conditions:</p> <ul style="list-style-type: none"> • a 50.1% minimum acceptance condition; • no prescribed occurrences in relation to Ambassador; • no material adverse change in relation to Ambassador; • no regulatory action; and • ordinary conduct of the Ambassador business. <p>The Defeating Conditions are set out in full in section 11.13.</p> | Refer to section 11.13 for further details. |
| 18. | What happens if the Defeating Conditions are not satisfied or waived? | If the Defeating Conditions are not satisfied or waived before the Offer closes the Offer will lapse. Drillsearch Bidco will make an announcement to ASX if the conditions of the Offer are satisfied or waived during the Offer Period. | Refer to section 11.18 for further details. |
| 19. | What relevant interest does Drillsearch Bidco have in Ambassador? | Drillsearch has a relevant interest in 19.9% of Ambassador. | Refer to section 5.5. |

2. SUMMARY OF THE OFFER

| | |
|----------------------|---|
| The Bidder | Drillsearch is making the Offer through its wholly owned subsidiary Drillsearch Bidco. For further information about Drillsearch and Drillsearch Bidco, please see section 3 of this Bidder's Statement. |
| The Offer | Drillsearch Bidco offers to acquire all of your Ambassador Shares. |
| Offer price | You are offered 1 Drillsearch Share for every 5.4 of your Ambassador Shares. |
| Closing date | Unless withdrawn or extended the Offer is open until 7:00 pm (Sydney time) on 14 July 2014. |
| Payment date | <p>If you accept this Offer Drillsearch Bidco will, in the usual case, pay you for your Ambassador Shares to which Drillsearch Bidco acquires good title on or before the earlier of:</p> <ul style="list-style-type: none">(a) the day one month after you accept this Offer or, if this Offer is subject to a Defeating Condition when accepted, one month after the contract resulting from your acceptance becomes unconditional; and(b) the day 21 days after the end of the Offer Period, provided that the Offer has become unconditional. <p>Full details on when you will be paid are set out in section 11.19.</p> |
| Conditions | <p>The Offer is subject to the Defeating Conditions set out in section 11.13 of this Bidder's Statement. These conditions include:</p> <ul style="list-style-type: none">• a 50.1% minimum acceptance condition;• no prescribed occurrences in relation to Ambassador;• no material adverse change in relation to Ambassador;• no regulatory action; and• ordinary conduct of the Ambassador business. |
| How to accept | <p>CHESS Holdings</p> <p>You should read section 11.7 for full details on how to accept the Offer.</p> <p>If your Ambassador Shares are in a CHESS Holding (holder identification number beginning with 'X'), to accept you must either:</p> <ul style="list-style-type: none">• instruct your Controlling Participant (usually your Broker) to accept the Offer for you; or• complete, sign and return the enclosed yellow Acceptance Form. <p>Issuer Sponsored Holdings</p> <p>If your Ambassador Shares are in an Issuer Sponsored Holding (securityholder reference number beginning with 'I') or if at the time of your acceptance you are entitled to be (but are not yet) registered as the holder of your Ambassador Shares, to accept you must complete, sign and</p> |

return the enclosed blue Acceptance Form.

Signed Acceptance Forms must be sent to:

Mailing Address

Link Market Services Limited
Ambassador Oil and Gas Takeover
Locked Bag A14
Sydney South NSW 1235

Hand Delivery

Link Market Services Limited
Ambassador Oil and Gas Takeover
1A Homebush Bay Drive
Rhodes NSW 2138

A self-addressed envelope is enclosed.

To be effective your acceptance must be received by Drillsearch before the Offer closes.

No stamp duty

You will not pay any stamp duty on accepting the Offer.

**Further
information**

For questions about your Ambassador Shares, the Offer or how to accept the Offer please refer to the remainder of the Bidder's Statement. If you still need assistance, please call the Drillsearch Offer Information Line on:

For Australian callers: 1300 365 790

For international callers: +61 1300 365 790

3. INFORMATION ON DRILLSEARCH AND DRILLSEARCH BIDCO

3.1 Overview

Drillsearch has established a holding of oil and gas exploration permits covering a large area in the Cooper-Eromanga Basin and it currently holds 26 exploration and production licenses holding a net interest of 16,123km². Drillsearch holds at least a 50% interest in 19 of these 26 licences, operating 16 permits.

QGC Pty Limited (**QGC**) (a wholly owned subsidiary of London Stock Exchange listed BG Group PLC) has an approximately 8.36% shareholding in Drillsearch. Drillsearch has a strategic joint venture with QGC to explore and develop unconventional shale and tight gas resources (in ATP 940P).

Drillsearch had independently audited 2P gas and liquids Reserves of 29.1 mmboe and 2C Contingent Resources of 20 mmboe as at 31 December 2013. Following a review by RISC, Drillsearch's 2C Contingent Resources were increased by 1.7mmboe to a total of 21.7mmboe due to a change in interest in PEL 101.

Drillsearch Bidco is a wholly owned subsidiary of Drillsearch.

(a) **Table of Tenements**

Drillsearch has three focused business units: Oil, Wet Gas and Unconventional. Permits included in each business stream as at 31 May 2014 are tabled below. Note that some permits are included in more than one business stream.

| Name of joint venture | Operator | Principal activity | Ownership interest 2014 % |
|--|---|--------------------|---------------------------|
| Oil | | | |
| ATP 299P & PL's - Tintaburra (Eromanga) ¹ | Santos Limited | Exploration | 40% |
| ATP 539P (Eromanga) | Great Artesian Oil & Gas Ltd ¹ | Exploration | 100% |
| ATP 549P - Cypress Block (Eromanga) | Australian Gasfields Limited | Exploration | 40% |
| ATP 549P - West Block (Eromanga) | Great Artesian Oil & Gas Ltd ¹ | Exploration | 33% |
| ATP 783P - Chandos Block (Eromanga) | Drillsearch Energy Limited | Exploration | 100% |
| ATP 920P (Eromanga) | Drillsearch Energy Limited | Exploration | 100% |
| ATP 924P (Eromanga) | Drillsearch Energy Limited | Exploration | 100% |
| ATP 956P (Eromanga) ² | Canadian Coyote Energy Ltd ³ | Exploration | 100% |
| ATP 959P (Eromanga) ² | Canadian Coyote Energy Ltd ³ | Exploration | 100% |
| PEL 91 (Cooper) | Beach Energy Limited | Exploration | 60% |
| PEL 182 (Cooper) | Senex Energy Limited | Exploration | 43% |
| PEL 212 (Cooper) | Beach Energy Limited | Production | 60% |
| Wet Gas | | | |
| ATP 924P (Eromanga) | Drillsearch Energy Limited | Exploration | 100% |
| PEL 91 (Cooper) | Beach Energy Limited | Exploration | 60% |
| PEL 101 (Cooper) | Acer Energy Pty Limited ¹ | Exploration | 80% |
| PEL 103 (Cooper) | Acer Energy Pty Limited ¹ | Exploration | 100% |
| PEL 103A (Cooper) | Acer Energy Pty Limited ¹ | Exploration | 75% |
| PRL 14 (Cooper) | Acer Energy Pty Limited ¹ | Exploration | 100% |
| PRL 17 (Cooper) | Acer Energy Pty Limited ¹ | Exploration | 100% |
| PRL 18 (Cooper) | Acer Energy Pty Limited ¹ | Exploration | 100% |
| PEL 632 (Cooper) | Santos Limited | Exploration | 40% |
| PEL 106 (Cooper) | Beach Energy Limited | Exploration | 50% |
| PEL 107 (Cooper) | Beach Energy Limited | Exploration | 60% |
| PEL 513 (Cooper) | Santos Limited | Exploration | 40% |
| PPL 239 Middleton & Brownlow (Cooper) | Beach Energy Limited | Production | 50% |
| PRLA 26 Udacha (Cooper) | Beach Energy Limited | Production | 75% |
| Unconventional | | | |
| ATP 932P (Eromanga) | Drillsearch Energy Limited | Exploration | 100% |
| ATP 940P (Eromanga) | Circumpacific Energy (Australia) Pty Limited ² | Exploration | 40% |
| PEL 632 (Cooper) | Santos Limited | Exploration | 40% |
| PEL 106 (Cooper) | Beach Energy Limited | Exploration | 50% |
| PEL 107 (Cooper) | Beach Energy Limited | Exploration | 60% |
| PEL 513 (Cooper) | Santos Limited | Exploration | 100% |
| Divestment | | | |
| PL 315 - Pickanjinie (Surat) | Santos Limited | Production | 75% |
| T/18P (Bass) | Origin Energy | Exploration | 5% |

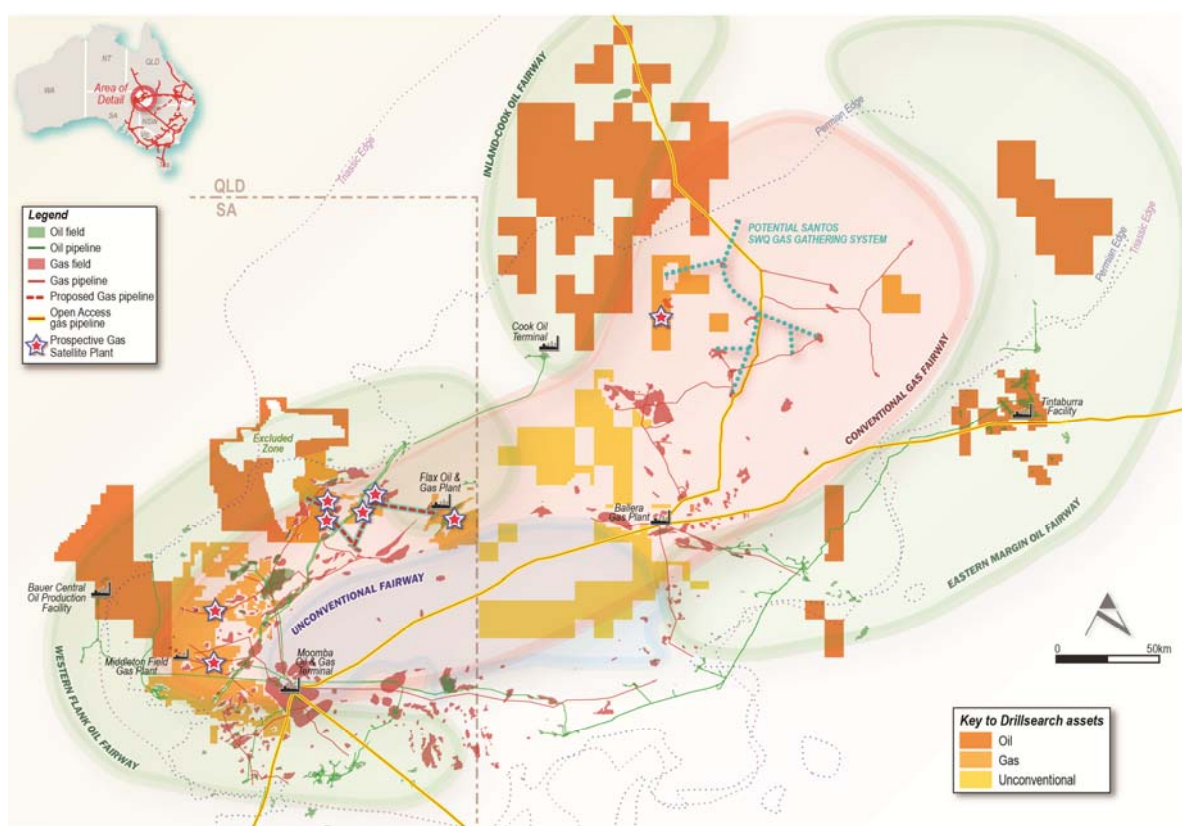
Notes:

1. Subsidiary of Drillsearch.

2. Permits subject to grant.

3. Canadian Coyote Energy Ltd (formally Circumpacific Energy Corporation) has signed agreements to transfer ownership and operatorship of these permits to Drillsearch and its subsidiaries upon grant.

(b) Overview Map



Drillsearch Acreage across the Cooper Basin

The Cooper Basin is located in Central Australia and spans the north-eastern region of South Australia and the south-western region of Queensland. Over the last 50 years since the first gas discovery in 1963, exploration and development activity has focused largely on several core areas leaving much of the Basin very lightly explored. The Cooper Basin is the most prolific onshore oil and gas-producing basin in Australia. By 1969, gas from the Cooper Basin was being piped 790km to Adelaide. Cooper Basin gas now supplies markets in South Australia, New South Wales, Queensland and Victoria via an extensive pipeline network.

The Cooper Basin is a north-easterly orientated intra-cratonic basin underlying north eastern South Australia and South Western Queensland. It is filled with early Permian to Triassic terrestrial sediments having fluvial, lacustrine and coal measure affinities. The oldest sediments have some glacial attributes.

The South Australian portion of the Cooper Basin is divided into a number of troughs by structural ridges. The two main troughs are the Nappamerri and Patchawarra troughs separated by the Gidgealpa-Merrimelia-Innaminka ridge (GMI ridge). In the Cooper Basin major hydrocarbon occurrences have been found in the Nappamerri and Patchawarra Troughs and their adjacent structural ridges. In the Eromanga Basin hydrocarbon fields are distributed mainly around the margins of the troughs and along the GMI ridge.

The Eromanga Basin is composed of sediments of Early Jurassic to Late Cretaceous age which unconformably overlies the older Palaeozoic Cooper Basin. The unconformable relationship between the two basins provides a migration pathway at the Permian sub-crop edge for Permian sourced oils to reach overlying younger reservoirs. The majority of Drillsearch's oil production is attributed to Eromanga Basin sediments which have been sourced from mature organic rich coals and shale source rocks deposited within the Cooper Basin.

Drillsearch-Mark1



(c) Reserves and Resources

Drillsearch's latest independent Reserves Audit Review as at 31 December 2013, had 2P oil and gas Reserves of 29.1 mmboe and 2C Contingent Resources of 21.7 mmboe. An update of Drillsearch Reserves as at 31 March 2014, indicates preliminary 2P oil and gas Reserves of 28.4 mmboe and 2C Contingent Resources of 21.8 mmboe. This update includes production of 0.8 mmboe from 1 January to 31 March 2014 and preliminary Reserves from the Stunsail-1 oil discovery which was announced on 2 April 2014. Drillsearch's next independent Reserves Audit Review will be to 30 June 2014 and will incorporate successful oil appraisal and exploration drilling results at Bauer, Stunsail and Pennington.

Net Reserves and Contingent Resources as at 31 December 2013

| Reserves by Business Segment | 1P mmboe | 2P mmboe | 3P mmboe |
|---|---------------------|---------------------|---------------------|
| Western Flank Oil | 4.4 | 6.9 | 10.6 |
| Western Cooper Wet Gas - Middleton Project | 6.0 | 15.7 | 27.6 |
| Western Cooper Wet Gas - PEL 106A | 1.5 | 4.7 | 13.0 |
| Northern Cooper Wet Gas | 0.0 | 0.0 | 0.1 |
| Eastern Cooper Oil* | 0.2 | 1.8 | 4.5 |
| South West Queensland Wet Gas | 0.0 | 0.0 | 0.0 |
| Total Reserves | 12.2 | 29.1 | 55.7 |
| Contingent Resources by Business Segment | 1C mmboe | 2C mmboe | 3C mmboe |
| Western Flank Oil | 0.2 | 0.5 | 1.0 |
| Western Cooper Wet Gas - Middleton Project | 0.4 | 3.3 | 10.0 |
| Western Cooper Wet Gas - PEL 106A | 0.0 | 0.0 | 0.0 |
| Northern Cooper Wet Gas | 5.5 | 12.2 | 29.2 |
| Eastern Cooper Oil | 0.0 | 2.5 | 6.8 |
| South West Queensland Wet Gas | 0.9 | 3.1 | 7.5 |
| Total Contingent Resources | 7.0 | 21.7 | 54.5 |

Note:

1. Cooper Basin Reserves and Resources only, Bass Basin omitted.
2. Conversion factors: 5.816 PJ/mmboe, 6 mscf/boe, and 11.5 mboe/mmt of LPG.

Net Reserves and Contingent Resources Update as at 31 March 2014

| Reserves | 1P mmboe | 2P mmboe | 3P mmboe |
|--|---------------------|---------------------|---------------------|
| Total Reserves at 31 December 2013 | 12.2 | 29.1 | 55.7 |
| Total Production 1 January to 31 March 2014 | -0.8 | -0.8 | -0.8 |
| Stunsail-1 Oil Discovery Preliminary Reserves | 0.1 | 0.4 | 1.2 |
| Total Reserves | 11.5 | 28.7 | 56.1 |
| Contingent Resources | 1C mmboe | 2C mmboe | 3C mmboe |
| Total Contingent Resources at 31 December 2013 | 7.0 | 21.7 | 54.5 |
| Stunsail-1 Oil Discovery Contingent Resources | 0.0 | 0.1 | 0.8 |
| Total Contingent Resources | 7.0 | 21.8 | 55.3 |

Note:

1. Cooper Basin Reserves and Resources only, Bass Basin omitted.
2. Conversion factors: 5.816 PJ/mmboe, 6 mscf/boe, and 11.5 mboe/mmt of LPG.

(d) Funding

The work programs outlined in this Bidders Statement are fully funded through to the end of FY2016.

3.2 Strategy and objectives

Drillsearch's fundamental strategy is to create shareholder value through successfully exploring for and developing, producing and commercialising oil and wet gas across its extensive Cooper Basin acreage as well as exploring and appraising the unconventional resource potential across these holdings.

Drillsearch has a balanced portfolio of exploration, development and production interests. Drillsearch is pursuing growth through organic exploration, development activities and strategic acquisitions in its core areas that complement its key businesses. In addition Drillsearch has and continues to receive expressions of interest from both financial and industry parties seeking to invest in the company and or its projects.

Drillsearch's objectives for the near term are the development of new oil and wet gas discoveries and the acceleration of 3D seismic-based exploration. 3D seismic has significantly de-risked exploration prospects (with ~50% and above success rates) in the Cooper-Eromanga Basin.

Drillsearch has three focused business units:

- Oil Business;
- Wet Gas Business; and
- Unconventional Business.

A summary of the principal activities and assets of these business units is set out in section 3.3.

3.3 Principal activities and assets

(a) Oil Business

| OIL | | | | |
|----------------------------|-----------------------------|---------------------------|----------|---------------------------------------|
| Western Flank Oil Fairway | | | | |
| Permit | PEL 91 | PEL 182 | | |
| Interest DLS | 60% | 43% | | |
| Operator | BPT (40%) | SXY (57%) | | |
| Discoveries | 13 | 2 | | |
| Fields in production | 3 | - | | |
| 3D seismic coverage | 59% or 1,156km ² | 14% or 240km ² | | |
| Production YTD 30/04/14 | 2,084,996 bbls | | | |
| Inland-Cook Oil Fairway | | | | |
| Permit | ATP 539P | ATP 549P W | ATP 920P | ATP 924P |
| Interest DLS | 100% | 33.3% | 100% | 100% |
| Operator | DLS | STO (33.3%) | DLS | DLS |
| Discoveries | - | - | - | - |
| Fields in production | - | - | - | - |
| 3D seismic coverage | 22% or 275km ² | 37% or 172km ² | - | 9% or 197km ² * Ongoing |
| Eastern Margin Oil Fairway | | | | |
| Permit | ATP 299P | ATP 783 | | |
| Interest DLS | 40% | 100% | | |
| Operator | STO (60%) | DLS | | |
| Discoveries | 19 | - | | |
| Fields in production | 13 | - | | |
| 3D seismic coverage | 76% or 674km ² | - | | |
| Production YTD | 110.603 bbls | | | |

The Oil Business was a major driver behind Drillsearch's increases in production and cash flow in FY2014. This growth was driven by Drillsearch's continued active exploration, appraisal and development program in the Western Flank Oil Fairway. Ongoing exploration and appraisal success in the Western Flank Oil Fairway also delivered additional oil Reserves with two new oil discoveries.

Across PEL 91 in the Western Flank Oil Fairway, 3D seismic data has provided Drillsearch with an extensive portfolio of high-value McKinlay and Namur oil prospects for future exploration. Together with progress in the Inland-Cook Oil Fairway and Eastern Margin Oil Fairway, Drillsearch expects the Oil Business to continue to drive near-term growth and shareholder value.

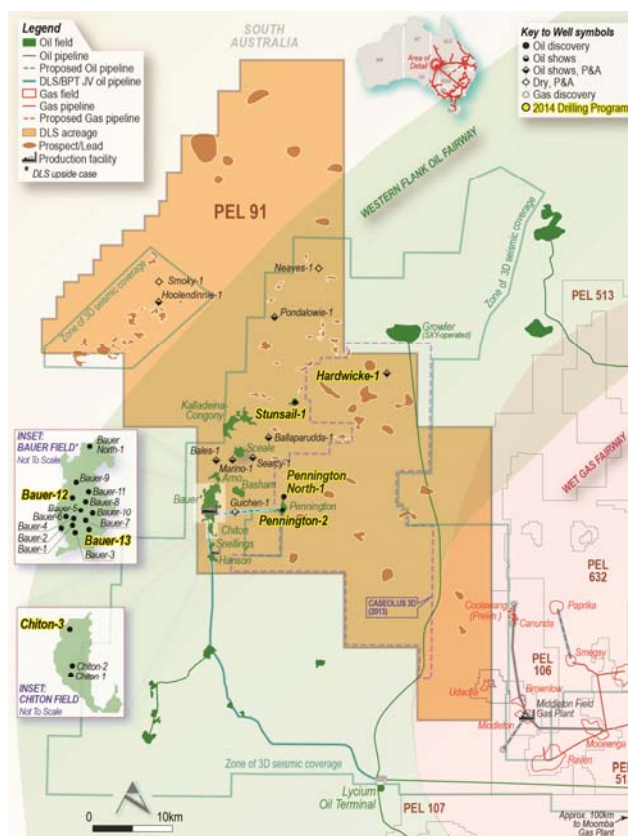
Western Flank Oil Fairway – PEL 91 (Drillsearch 60%)

Drillsearch holds a material position in the Western Flank Oil Fairway, where it has worked successfully with Beach Energy in the PEL 91 Joint Venture since late 2002.

The ongoing outperformance of the Western Flank Oil Fairway has been demonstrated by strong production during the last 12 months with peak rates exceeding 13,500 bbls per day. These rates have been maintained for a number of months as new wells have been brought online. Production has exceeded expectation with total production for the 12 months to 30 June 2014 expected to be approximately 2.7mmbbls (Drillsearch share). Production from PEL 91 is transported to the central Cooper Basin hub at Moomba by a combination of pipeline (approximately 10,000 bbls/d) and trucking. The Bauer-to-Lycium pipeline

has been running at its nameplate capacity of 10,000 bbls/day since completion of commissioning.

The FY2014 to-date drilling program included two development wells and four appraisal wells that were all cased and suspended as future producers. The development and appraisal of the Bauer field suggests that the field is larger than originally modelled and the extent of the potential reserves increase will be evaluated as part of Drillsearch's independently audited 30 June 2014 reserves update.



Western Flank Oil Fairway – PEL 91

In addition to the appraisal and development wells, seven exploration wells were drilled. Two wells – Stunsail and Pennington North - were new discoveries and were cased and suspended as future oil producers. The remaining five wells, Pondalowie, Neaves, Guichen, Bales and Hardwicke were plugged and abandoned.

The PEL 91 Joint Venture continues to evaluate the seismic data over the permit to develop the best prospects and leads. Beach Energy, as Operator of PEL 91, has proposed further seismic for FY2015 which, if acquired, would provide full 3D seismic coverage of the PEL 91 permit area.

There are currently 11 wells producing in the Bauer field with Bauer-12 and Bauer-13 waiting to be connected in the first half of FY2015. The Chiton field has two wells connected with Chiton-3 also scheduled by the Operator to be connected in the first half of FY2015.

The Operator has proposed a FY2015 work program that includes 18 wells (eight development, four appraisal and six exploration wells) as well as a 650Km² 3D seismic survey and a number of new facilities. This program, which is subject to final approval by both partners, allows for development and appraisal of existing

fields as well as further exploration. As part of this proposed program, the Operator has plans for five new fields to be connected:

- CKS (Congony, Kalladeina and Sceale) will be connected to a single production facility and the Operator expects production to be online in the first half of FY2015.
- Pennington currently has three cased and suspended wells and the Operator has proposed a further appraisal well before the facilities are sized. The facilities are expected to be online in the second half of FY2015.
- Stunsail has one cased and suspended well at present and the Operator has proposed a further appraisal well before the facilities are sized. The facilities are expected to be online in the second half of FY2015.

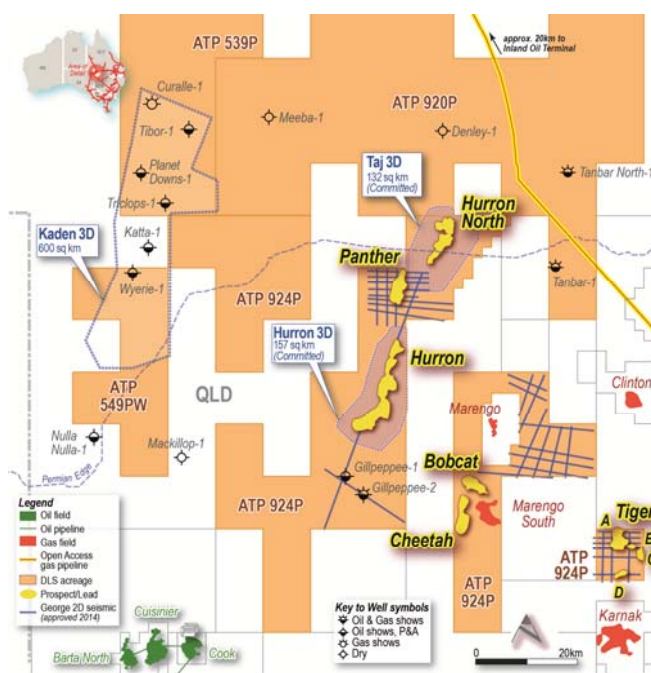
In addition to the above activity, the Bauer facility upgrade, which increases total fluid handling capacity from 33,000bbls to 50,000bbls, is due to be commissioned in the June quarter of FY2014 with the Operator proposing a further upgrade to bring the total fluid capacity to 75,000bbls which is anticipated to be ready in the second half of FY2015.

Western Flank Oil Fairway – PEL 182 (Drillsearch 43%)

Senex is the Operator of this block with a 57% interest. The Dundinna 3D seismic survey was completed in October 2013 and covered a total of 1,037km² with approximately 200km² in PEL182. The initial results from the survey have identified a number of potential leads and the PEL182 Joint Venture is currently reviewing these leads. The Operator has proposed a work program to drill several exploration wells in the first half of FY2015.

Inland-Cook Oil Fairway – ATPs 539P, 549P W, 920P and 924P

The Inland-Cook Oil Fairway refers to a set of contiguous permits located in the South West Queensland region of the Cooper-Eromanga Basin, along the Queensland and South Australian borders. The term Inland-Cook refers to the Inland Oil Field in the north and the Cook Oil Field in the south.



Inland-Cook Oil Fairway – ATP 924P Focus

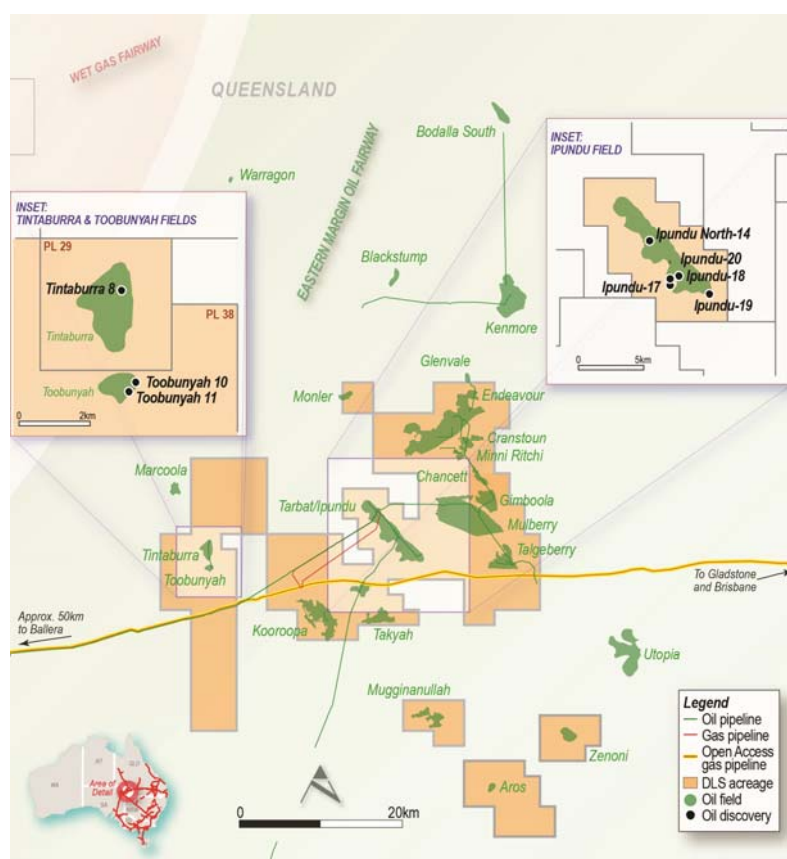
Recent Queensland legislative amendments provide for an extension of two years on all work program periods, from four years to six years. These provisions commence on 1 July 2014. The extension also defers the mandatory relinquishment arrangements for two years to align with the extended exploration work program. The provisions could extend the first work program period from 4 to 6 years in ATPs 920 and 924 (and ATPs 783, 932 and 940 as detailed in this section).

These changes provide Drillsearch with an opportunity to execute work programs in a more reasonable timeframe.

ATP 924P has several exploration prospects and leads including the Hurrion and Hurrion North prospects, the largest undrilled targets within the Drillsearch portfolio. In April, Drillsearch started a 3D seismic survey over Hurrion and Hurrion North and it has the option to continue to acquire 2D seismic to the south and east of the block. Hurrion has dual targets of oil and gas.

Eastern Margin Oil Fairway – ATP 299P and 783P

The Tintaburra block consists of a number of Production Licences (PLs) and the exploration licence ATP 299P in the Eastern Margin Oil Fairway. During FY2014, a total of eight wells were drilled, five appraisal wells and three development wells. All wells were cased and suspended as future oil producers and Santos, as the Operator, has indicated that all wells are due online in the September quarter of CY2014.



Eastern Margin Oil Fairway – ATP 299P

The ATP 783P Chandos Block is located in the Eromanga Basin, Queensland. The exploration permit covers 1,618km² and is located in the Warrabin Trough and was granted to Drillsearch in May 2013 with a term of 4 years.

The recent Queensland Government legislative amendments outlined in section 3.3(a) could extend the first work program period from 4 to 6 years in ATP 783.

Drillsearch has continued to reinterpret seismic data and work up an inventory of leads and prospects. Drillsearch is actively seeking a farm-in partner for ATP 783P with an active data room in operation.

(b) Wet Gas Business

| Wet Gas | | | | |
|--|----------------------------|---|---------------------------|--|
| Western Wet Gas project area | | | | |
| Permit | PEL 106 | PEL 107 | PEL 513 | PEL 632 |
| Interest DLS | 50% | 60% | 40% | 40% |
| Operator | BPT (50%) | BPT (40%) | STO (60%) | STO (60%) |
| Discoveries | 8 | 1 | - | 8 |
| Fields in production | 3 | - | - | 1 shut in |
| 3D seismic coverage | 100% or 157km ² | 57% or 233km ² | 64% or 953km ² | 97% or 317km ² |
| Production YTD | 364,220 boe | | | |
| Northern Wet Gas project area | | | | |
| Permit | PEL 101 | PEL 103 inc PRLs (oil and wet gas perspective) | PEL 103A | PEL 182 (oil and wet gas perspective) |
| Interest DLS | 80% | 100% | 75% | 43% |
| Operator | DLS | DLS | DLS | SXY (57%) |
| Discoveries | 3 | 4 | - | 2 |
| Fields in production | - | - | - | - |
| 3D seismic coverage | 96% or 148km ² | 30% or 97km ² (94km ² PRL) | - | 14% or 240km ² |
| Southwest Queensland Wet Gas project area | | | | |
| Permit | ATP 924P | ATP 549P C | | |
| Interest DLS | 100% | 40% | | |
| Operator | DLS | DLS | | |
| Discoveries | - | - | | |
| Fields in production | - | - | | |
| 3D seismic coverage | 9% or 197km ² * | - | | |
| | Ongoing | | | |

Wet Gas Strategy

The acquisition of Ambassador is aimed at consolidating Drillsearch's Wet Gas acreage in the northern part of the Cooper Basin. Drillsearch's Wet Gas Business is expected to be a key driver of growth over the medium term as Drillsearch pursues the commercialisation of its discoveries to meet rising gas demand in Eastern Australia.

Wet gas is gas that is rich in other liquids products known as condensates and LPG (liquefied petroleum gas). At Drillsearch's joint venture operations, these liquids products are separated from the methane and ethane (sales gas) at the Moomba central processing facility and then sold separately. Historically, the value of the condensate and LPG on a per energy basis is much greater than the value of the sales gas products. With the dramatic increase in gas demand in Eastern Australia and the impact of LNG export gas pricing, Drillsearch expects this pricing differential to narrow as domestic sales gas prices increase due to these factors.

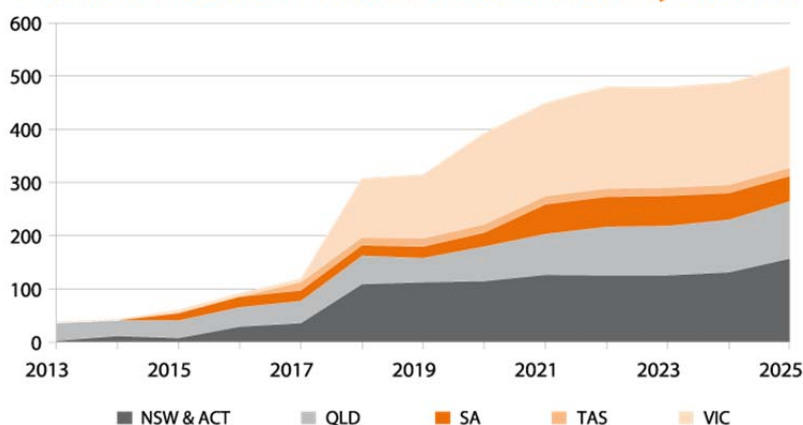
Drillsearch's Wet Gas Business strategy is to generate shareholder returns through delivering production and cash flow from existing discoveries, and through increasing reserves via new conventional and unconventional exploration.

Drillsearch aims to commercialise its discoveries quickly and at low cost by leveraging existing infrastructure. Drillsearch aims to sign long-term sales agreements for the gas, and to use the liquids component as a key means of maximising profitability.

Market Opportunity

The market opportunity for Drillsearch is significant. According to market research undertaken for Drillsearch by Core Energy Group in May 2013, total eastern Australian gas demand is projected to surge from approximately 705 PJ in 2012 (actual) to 2,074 PJ in 2025, a Compound Annual Growth Rate (**CAGR**) of 8.7%, driven largely by the additional supply required to feed liquefied natural gas projects being built at Gladstone in Queensland.

Uncontracted Eastern Australian Gas Demand by State (PJ)



Source: Core Energy Group; 2013

Gas prices on the east coast of Australia have already begun to increase, reflecting the shortage of supply. In May 2014, Westside announced that Santos' GLNG venture had agreed to pay \$9.28 a gigajoule for gas from Westside's Meridian coal seam gas venture, while equity analysts speculate that short-term pricing could rise as high as \$14 a gigajoule.

Drillsearch believes that the Cooper Basin is optimally placed to benefit from rising demand and prices. Since the first commercial gas discovery in the Cooper Basin in 1963, more than 5,600 kilometres of pipelines and trunklines have been built to service the more than 300 oil and gas fields in the area, giving the Cooper Basin a significant infrastructure advantage over other areas of Australia.

Commercialising Existing Discoveries

Drillsearch aims to hold equity stakes of between 40% and 60% in each of its projects and to maintain a balanced portfolio of wet gas assets, with a blend of operated and non-operated production. The extensive pipeline network connecting the various Cooper Basin fields to Moomba means that almost all of Drillsearch's wet gas discoveries are close to existing infrastructure.

Drillsearch aims to joint venture with partners that can help to monetise the reserves within its portfolio. Drillsearch has successfully joint ventured with two of the companies leading the development of LNG terminals on the Queensland coast, Santos and BG Group plc, positioning Drillsearch to capitalise on growing East Coast gas demand.

Drillsearch has a portfolio of wet gas discoveries within its Western, Northern and South West Queensland Wet Gas project areas. Gas reserves (2P) across the three project areas were 20.4 million barrels of oil equivalent as of 31 December 2013. Wet gas production year-to-date has been around 2,600 boe a day (gross) from the Middleton Gas Plant, located in PEL 106 and operated by joint venture partner Beach Energy Limited.

Production Satellites

In order to meet rising demand for gas, Drillsearch is seeking to develop opportunities across its portfolio to establish wet gas production satellites and facilitate the early commercialisation of reserves. Four or five such facilities, based on the successful Middleton Gas Plant in PEL 106, could process combined production of 50-70 million standard cubic feet of raw gas per day, or gross production of around 100-150 million standard cubic feet a day. This level of production would deliver gross revenue of \$265 million to \$400 million a year based on current product prices.

The production satellites that Drillsearch could roll out across its Western and Northern Wet Gas acreage (based on the experience of the Middleton Gas Plant in PEL 106), would involve a gross development cost for a typical plant of around \$12 million. Middleton-Brownlow began producing in January 2012, with post commissioning production up to 24 million standard cubic feet a day of raw gas.

In addition to commercialising existing discoveries, Drillsearch plans to increase its wet gas reserves through balanced exploration across its permits, leveraging Drillsearch's significant investment in 3D seismic. As of 1st June 2014, active exploration and appraisal programs are planned for FY2015 in Northern and Western Wet Gas as Drillsearch seeks new reserves in both areas, and as it looks to commercialise existing discoveries.

Western Wet Gas – Santos Joint Venture

The Western Wet Gas Santos joint venture (**JV**) includes the licences PEL 632 (formerly PEL 106A) and PEL 513. The permits are both located in the South Australian Cooper Basin and cover the southern-central portion of the Patchawarra Trough. PEL 513 also covers the highly prospective Wooloo-Allunga Trough directly south-west of the Moomba Gas field (900 bcf recovered to date) and north-east of Daralingie gas field (195 bcf recovered to date).

In 2013, Drillsearch signed a strategic partnership with Santos to assist in the development of the existing 7 wet gas discoveries and early commercialisation of the resource. A key element of the partnership is the agreement by the parties to a long-term Gas Sales Agreement establishing a pathway to market for gas produced from the assets.

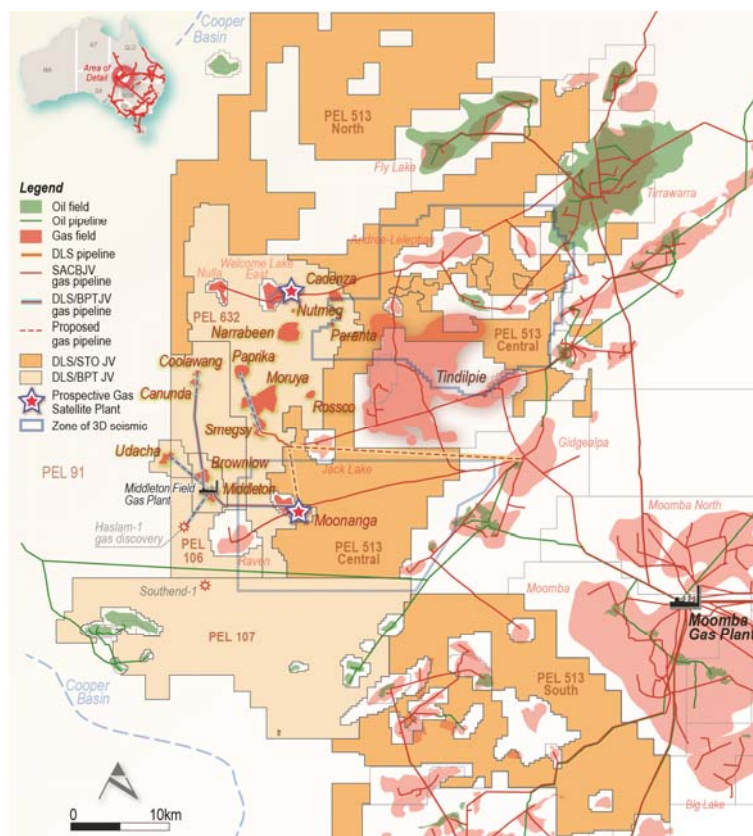
Santos is proposing a comprehensive exploration and development program. Santos has already executed two workovers of existing wet gas discoveries in PEL 632 and is proposing to conduct additional 3D seismic and substantial exploration drilling in both the permits. In all cases, Santos provides the JV with early opportunities to commercialise.

The acreage is significantly covered by 3D seismic, including the PEL 632 Spinel-Raven-Paranta 3D seismic surveys at 625km², Greater Leleptian 3D seismic survey at 398km², Caladan-Daralingie 3D seismic survey 1,200km², and the most recently acquired Munathiri 3D seismic (2013) at 323km². Santos intends to invest in additional 3D seismic in FY2015 focusing on completing the section tying the Greater Tindilpie field to the Spinel-Raven-Paranta 3D survey.

Santos has committed to spending \$120 million on the project with Drillsearch carried 100%. With the extensive 3D seismic basis established, the JV will be afforded the flexibility to immediately use these funds to target reserves through drilling and production through development activities.

Western Wet Gas – Beach Joint Ventures

The Western Wet Gas Beach Joint Ventures consists of PEL 106, PEL 107 and the Udacha unitised block on the border of PEL 106 and PEL 91. Beach and Drillsearch have been in partnership in this acreage since 2006 and Beach is the operator. Drillsearch has a 50% interest in PEL 106, 60% interest in PEL 107 and a 75% interest in the Udacha block.



Western Wet Gas Fairway – PELs 106, 107, 513, 632

PEL 106 contains the highly profitable wet gas fields of Brownlow, Middleton and Canunda. The gas fields in this acreage are exceedingly wet. The project has been in production since early 2012.

During 2013 the Gas Sales Agreement covering PEL 106 was extended by Beach, Drillsearch and the South Australian Cooper Basin JV. It is proposed for FY2015 that the JV undertake a program of up to four appraisal/exploration wells (and connection of successful discoveries to the Brownlow-Middleton facility) and installation of compression at the Middleton Gas Plant (which will increase the capacity to deliver product to market).

PEL 107 extends the wet gas acreage to the south of PEL 106, while also containing oil potential. PEL 107 is directly adjacent to significant oil discoveries in the Jurassic.

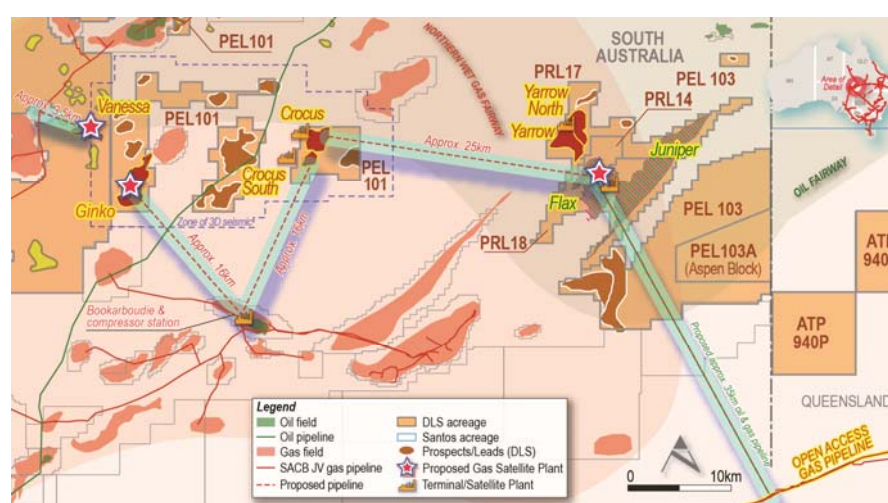
Udacha is a unitised block straddling PEL 106 and PEL 91 that containing the Udacha discovery.

PEL 106 is entirely covered by 3D seismic and in 2013 the associated PEL 91, PEL 106 and Udacha JVs acquired the Irus 3D seismic survey covering the wet gas prospective area that extends west into PEL 91.

Northern Wet Gas

In 2013, Drillsearch successfully completed the acquisition of Acer Energy Ltd. Among other assets, Acer owned equity in PELs 101, 182, 103 and the Yarrow, Flax and Juniper gas and oil fields.

PEL 101 (80% Drillsearch) is located 70km north of the Moomba facilities and covers much of the north central portion of the Patchawarra Trough, extending southward to include part of the GMI Ridge. Previous exploration in this part of the Cooper Basin has been successful resulting in wet gas discoveries at Ginko, Crocus and Crocus South. PEL 101 is surrounded by production leases and producing gas fields and additional exploration acreage in PEL 570.



Northern Wet Gas Fairway – PELs 101, 103 and PRL 14, 17, 18

In 2013, Drillsearch acquired the 413km² Coolibah 3D seismic survey that substantially covered PEL 101 and adjacent areas of PEL 570. PEL 101 has a large number of conventional, structural wet gas leads all with unconventional upside mapped from the Coolibah survey. Drillsearch is developing a program for drilling in PEL 101 from FY2015 onwards, comprising an initial 4-5 exploration wells based on the Coolibah 3D. This drilling campaign also has the potential to demonstrate the conventional and unconventional prospectivity of the adjacent areas of Ambassador's key asset, PEL 570.

PEL 101 contains three existing wet gas discoveries - the Ginko, Crocus and Crocus South discoveries. In the event of success with this drilling program, there would be the opportunity to proceed with a combined appraisal and development project focussed on establishing a pilot production facility similar in nature to the Brownlow Gas Plant with raw gas processed through the Moomba gas processing facility. Gas in PEL 101 has the potential to yield similar condensate and LPG rates to that of PEL 106. Significant unconventional potential has also been identified in PEL 101 and unconventional zones will be efficiently appraised and tested concurrently while also developing the conventional resource.

Discoveries and much of the prospectivity in PRLs 14 and 18 and PEL 103 have very high liquids contents, to the extent that they can be considered as volatile oil , accumulations. PRL 14 covers the Flax discovery. A tight, volatile oil field with production from the Tirrawarra and Patchawarra sections. Prior to acquisition by Drillsearch, Flax had produced oil, but at very low recovery rates. Drillsearch's

focus on re-developing Flax is to provide optimal, long term value of the asset, through enhancing the field's recovery factor.

Whilst existing facilities at Flax allow for the production and trucking of oil, Drillsearch's redevelopment concepts for the field include the harnessing of the associated natural gas for transport by pipeline and sale.

Drillsearch's immediate plans for Flax include the hydraulic stimulation and recompletion of Flax-1. In connection with this work, the Flax field and facility is expected to be back online during FY2015. Information from this campaign will further inform the Flax field development plan (FDP) currently under development. During FY2015, the company intends to undertake a significant geological, geophysical and engineering workflow including seismic inversion, core analysis, and geomechanical, geological and dynamic modelling culminating in the finalisation of the Flax FDP which will set out the optimal means to commercially exploit the Flax resource.

Directly adjacent to Flax is the Juniper volatile oil field, which potentially is an extensive fault-bound field similar in type to Flax. Drillsearch expects to drill the Juniper-3 well in early FY2015, with the objective of appraising the Juniper structure and better delineating the northerly extent of the discovery. Juniper-3 is 5.6 kilometres to the north-east and is updip of Juniper-1. The well will test a three way closure against a fault, with the primary targets being the sands of the Patchawarra and Tirrawarra Formations.

PEL 103 (Drillsearch 100%) contains a drill ready oil prospect, Banyan-1, which Drillsearch expects to drill in early FY2015. The Banyan-1 well proposal is an oil exploration opportunity located in the Candra Dome and is one of three known culminations existing in this area. The objective for this well is to test the same Jurassic formations (Birkhead & Hutton) up-dip of the Sprigg South-1 well.

The PEL 182 (Operator: Senex) Vanessa gas discovery is directly adjacent to PEL 101. Vanessa-1 tested at over 7 mmscf/day and production testing of this well is being considered for FY2015 which would allow for subsequent connection to SACBJV gathering network if volumes underpin the modest investment.

PRL 17 contains the Yarrow wet gas discovery. Development options are being pursued and Yarrow is intended to be commercialised when fully appraised and, to optimise associated gas recovery from Flax and Juniper, development of Yarrow is likely to occur in conjunction with any firm commitments for the full development of the Flax and Juniper fields.

(c) Unconventional Business

| Unconventional | | | | |
|--|----------------------------|-----------------------------|---------------------------|---------------------------|
| Southern and Western Unconventional | | | | |
| Permit | PEL 106 | PEL 107 | PEL 513 | PEL 632 |
| Interest DLS | 50% | 50% | 40% | 40% |
| Operator | BPT (50%) | BPT (50%) | STO (60%) | STO (60%) |
| 3D seismic coverage | 100% or 157km ² | 57% or 233km ² | 64% or 953km ² | 97% or 317km ² |
| Central Unconventional | | | | |
| Permit | ATP 932P | ATP 940P | | |
| Interest DLS | 100% | 40% | | |
| QGC (BG Group) | - | 60% | | |
| Operator | DLS | DLS | | |
| 3D seismic coverage | - | 45% or 1,134km ² | | |

In the Unconventional Business, shale gas and tight sand exploration commenced in ATP 940P in 2013 with Joint Venture partner QGC. In early 2014 Drillsearch and QGC signed a binding term sheet varying the farm-in arrangements to strengthen the commitment to this exploration campaign. This exploration program in the Nappamerri Trough play fairway has completed one of four deep wells and drilling has commenced on the second well.

Northern, Southern and Western Unconventional project areas – PELs 101, 106, 107, 513 and 632

The Southern and Western Cooper Unconventional project areas cover Drillsearch's permit holdings in PELs 106, 107, 513 and 632. Drillsearch holds varying interests in these permits outlined in the table above.

In addition to primarily targeting conventional sands of the Patchawarra Formation, Drillsearch's approach to unconventional in this area has a secondary objective, to identify oil and gas resources in the tight sands of the Patchawarra, Tirrawarra, Epsilon and Toolachee Formations as well as the shale gas potential within the Roseneath and Murteree Shale and Permian Coals.

The PEL 101 JV is comprised by Drillsearch (Operator 80%) and MCEA (20%). This block has been identified by the Department for Manufacturing, Innovation, Trade, Resources and Energy as a Basin Centred Gas Play (**BCG**) in prime unconventional acreage in the Central Patchawarra Trough. The Central Patchawarra Trough is more liquids rich, lower CO₂ content, lower temperature and potentially lower stress than the Nappamerri Trough.

There have been four gas discoveries in the block, three drilled by Innamincka (Crocus, Crocus South and Ginko) and one drilled by Santos Wimmera that recovered gas to surface proving the tight gas play.

In 2013, Drillsearch acquired 3D seismic (through seismic contractor Western Geco) with high specification acquisition covering 413km² allowing Drillsearch to confirm the presence of robust four way dip closures previously identified with 2D seismic.

A drilling campaign is being developed for 2015. This program will provide the opportunity to test the unconventional BCG play and tight gas whilst addressing conventional structures and reservoirs. Additionally a significant stratigraphic upside exists with the potential for conventional reservoir parameters similar to the Vanessa discovery to exist in PEL 101.

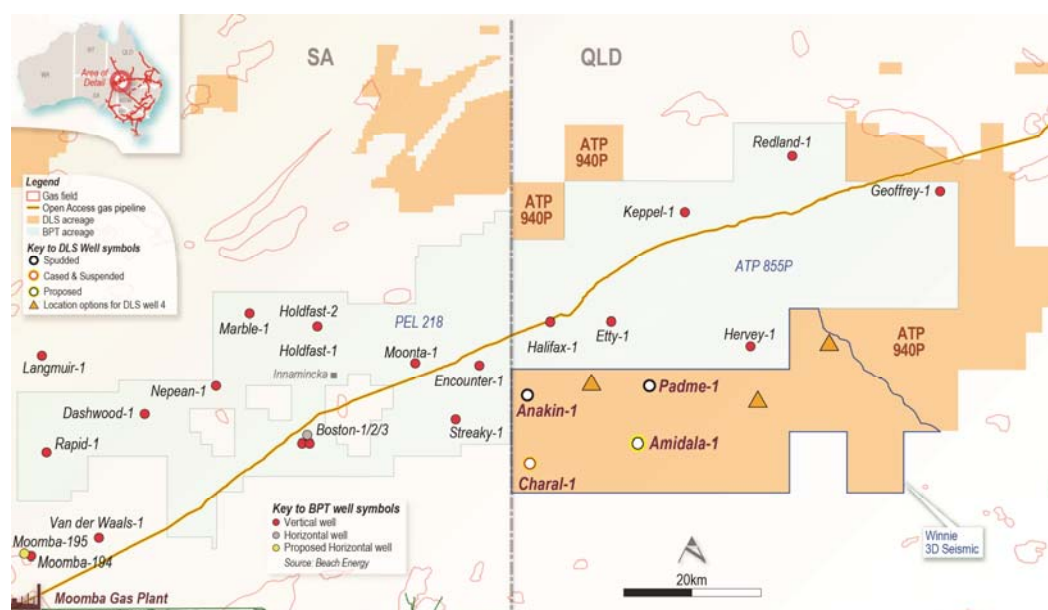
Continuing exploration of tight sands and deep coals in the Western Cooper Unconventional project area will be supported by completion of the Santos Limited farm-in to PELs 513 and 632 through which Santos acquired a 60% interest in the Western Cooper Wet Gas Project and committed to fund a work program valued by Drillsearch at around \$120 million.

In August 2013 Drillsearch updated its Reserves, including a 113% increase in 2P Reserves during the Financial Year ending 30 June 2013 for the combined Wet Gas Business, to 20.3 mmboe (net) (30 June 2012: 7.5 mmboe net). This increase was driven by the conversion of 2C Resources of existing PEL 632 discoveries to 2P Reserves. This was due to the independent Reserve auditors recognising the commerciality of the existing PEL 632 discoveries agreement on a Gas Sales Agreement with Santos in July 2013 to sell gas produced from PEL 632. Drillsearch's current 2P Reserve estimate is included in section 3.1(c).

Central Unconventional project area – ATP 940P

ATP 940P is located in the South Western area of Queensland's Eromanga Basin, 75km west of Jackson. It overlies the southern edge of the Jurassic to Cretaceous Eromanga Basin and the southern margin of Permian to Triassic Cooper Basin. Drillsearch formed a strategic Joint Venture with QGC in July 2011. Drillsearch is Operator of the permit with a 40% interest and QGC with 60%.

The permit is immediately adjacent to Beach Energy's shale gas acreage at PEL 218 and ATP 855P where they have already drilled a number of unconventional wells with 2C resources of 318.9 mmbob announced September 2013.



Prior to commencing the current exploration drilling campaign the 1,050km² Winnie 3D seismic survey was acquired in the ATP 940P permit. The primary objective of the Winnie 3D seismic survey was to delineate the Nappamerri Trough REM Shale and deeper tight gas play fairway. The survey also targeted early identification of shale and tight gas sweet spots and drilling hazards within the Nappamerri Trough play fairway.

The ATP 940P Joint Venture is now undertaking an initial four well exploration drilling campaign program. The wells Charal-1, Anakin-1, Padme-1 and Amidala-1 – are mapped on 3D seismic to target multi-layered tight gas Patchawarra Sandstones and REM shale gas intervals.

Drillsearch started this deep reservoir drilling campaign, beginning with Charal-1 in late February 2014. Around the same time, Drillsearch also achieved another important milestone with the renegotiation of the ATP 940P Joint Venture agreement with QGC that extended and expanded the work program, with Drillsearch to remain as Operator through to at least November 2015. The renegotiation represented a significant commitment from both parties towards pursuit of commercially viable unconventional gas from the Cooper Basin.

In early 2014 Drillsearch signed a binding term sheet with QGC over new terms covering the ATP 940P Cooper Basin Shale and Tight Gas Joint Venture. Under the original agreement announced in July 2011, QGC committed to a three-stage exploration and pilot production appraisal program of six wells to acquire a 60%

interest in ATP 940P. QGC also agreed to fund \$90 million of the first \$100 million of that program.

The parties agreed to amend the terms of the joint venture and farm-in agreements to include: consolidation of the three stages in the initial agreement to a single stage; and removal of QGC's associated withdrawal rights, thereby bringing forward the remainder of QGC's carry of the initial \$100 million expenditure; expansion and extension of the initial agreed farm-in work program from six wells to a commitment to a ten well program with potential for further acceleration; Drillsearch remaining as Operator of ATP 940P until at least the end of the current permit term in November 2015 when QGC will have the option to assume operatorship.

Furthermore, under the terms of the original farm-in agreement QGC held a right to acquire all of Drillsearch's interest in ATP 940P if a change of control transaction occurred involving Drillsearch before completion of the second stage of the exploration program. Under the new terms, this provision is no longer applicable.

The recent Queensland Government legislative amendments outlined in section 3.3(a) could extend the first work program period from 4 to 6 years in ATP 940.

These changes provide Drillsearch with an opportunity to execute work programs in a more reasonable timeframe

Operational Highlights in ATP 940P

The high-pressure, high-temperature (HPHT) upgrade of the Weatherford 826 drilling rig was completed in early 2014, and in late February Drillsearch began deepening the top hole of Charal-1 through the reservoir formations. A conventional core was cut in the Epsilon Formation and intermediate wireline logging was run to the base of the Murteree Shale.

The Charal-1 vertical exploration well reached a total depth of 3,866 metres on 21 April 2014, with indications of elevated gas in the primary target intervals. As per the pre-drill plan, the well has been cased and suspended for hydraulic stimulation and production testing, targeting the REM shale sequence and the Patchawarra tight gas sandstones, planned to commence in the September 2014 quarter.

The Weatherford 826 rig was released from the Charal-1 well and moved to the Anakin-1 well, which is currently drilling ahead after being re-entered on Monday, 26 May 2014. Like the Charal-1 well, the Anakin-1 well top-hole section was drilled in late 2013 and is to be deepened to intersect the Permian section.

Central Unconventional project area – ATP 932P

ATP 932P is located in the South Western area of Queensland's Eromanga Basin, between the Barrolka and Challum (460 BCF produced) Gas Fields. It overlies the Jurassic to Cretaceous Eromanga Basin and the Permian to Triassic Cooper Basin. Drillsearch is Operator of the permit with a 100% interest. Drillsearch is actively seeking farm-in partners for its ATP 932P permit.

The permit is immediately (20km) north of Beach Energy's shale gas acreage at ATP 855P where they have already drilled a number of unconventional wells with 2C resources of 318.9 mmboe announced September 2013.

ATP 932P was granted to Drillsearch by the Queensland Government effective as of 1 March 2013. The recent Queensland Government legislative amendments outlined in section 3.3(a) could extend the first work program period from 4 to 6 years in ATP 932P.

These changes provide Drillsearch with an opportunity to execute work programs in a more reasonable timeframe.

3.4 **Directors of Drillsearch Bidco**

(a) Bradley (Brad) Lingo – Drillsearch Managing Director

Brad Lingo has more than 25 years of oil and gas experience ranging from frontier deepwater exploration offshore West Africa to commercialisation of major gas projects in Australia. He has been involved in all phases of the oil and gas business and project development, mergers and acquisitions, financing and equity capital raising for both listed and private companies both in Australia and internationally.

Brad was appointed to the Drillsearch Board on 19 May 2009 and became Managing Director on 15 June 2009. He is also a member of the Nominations Committee and the Technical Committee.

(b) Ian Bucknell – Drillsearch Chief Financial Officer and Co-Company Secretary

Ian Bucknell is an experienced CFO with over 15 years international upstream oil and gas financial experience. Originally trained as an accountant, he has been extensively involved in financial reporting, corporate governance, mergers and acquisitions, debt financing and equity capital raisings. Ian's resources sector career began with a number of financial management roles at Oil Search Limited. In October 2007, Ian joined Great Artesian Oil and Gas Limited as Financial Controller. Upon the merger of Drillsearch and Great Artesian in August 2008, Ian was appointed Chief Financial Officer of Drillsearch. He also acts as a second Company Secretary for Drillsearch.

(c) David Evans – Drillsearch Acting Chief Operations Officer

David Evans has 28 years of upstream oil and gas exploration, development and production operations experience including over 15 years' experience in Australia. David joined Drillsearch as Chief Technical Officer in March 2010 and took over as Acting Chief Operating Officer in January 2014. Prior to joining Drillsearch, he held senior technical and managerial roles in several leading international independent E&P and technical service companies including Vegas Oil & Gas, Burren Energy, Petro-Canada International, Cairn Energy/Command Petroleum, Roxar Limited and Baker Hughes Inteq. David also spent several years in the petroleum exploration arm of Geoscience Australia.

(d) Peter Fox – Drillsearch Chief Commercial Officer

Peter Fox has over 20 years' experience in the oil and gas industry, with a particular focus on the upstream and infrastructure sectors of the gas industry. Through a series of senior executive roles in Australian corporates including APA Group, Mosaic Oil and Eastern Star Gas, and as an industry consultant, he has led multiple successful acquisitions, developed, negotiated and maintained major contracts, and been responsible for developing and sustaining key external relationships. Peter's in-house and external advisory experience also encompasses business strategy, investment evaluation and due diligence. Peter has qualifications in chemical and petroleum engineering. Peter was appointed Chief Commercial Officer at Drillsearch in July 2013.

(e) Jean Moore – Drillsearch Co-Company Secretary

Jean has over 13 years' experience in corporate transactions, company law and corporate governance in both Australia and Canada. She joined Drillsearch in

November 2009 as Assistant Company Secretary and was appointed as Company Secretary in November 2010. Prior to joining Drillsearch, Jean held legal positions with major national law firms in both Australia and Canada as well as with Qantas Airways Limited. Jean studied law at the University of Toronto and has completed the Graduate Diploma in Applied Corporate Governance through the Governance Institute of Australia.

3.5 **Drillsearch Board**

(a) James (Jim) McKerlie – Chairman

Jim McKerlie has worked in the energy sector extensively over his global career in executive management, strategic consulting and corporate advisory. He held roles as a managing partner at KPMG and Partner in Charge at Deloitte. Jim has extensive Australian and international experience as a Chairman and Director of public and private companies.

Jim was appointed to the Board of Great Artesian on 14 September 2007 and to the Board of Drillsearch on 12 August 2008. Jim was appointed Chair of Drillsearch on 11 June 2009. He also Chairs the Nominations Committee and is a member of the Audit and Risk Committee, the People and Remuneration Committee and the Technical Committee.

(b) Bradley (Brad) Lingo – Managing Director

Mr Lingo's details are set out in section 3.4(a) of this Bidder's Statement.

(c) Philip Bainbridge – Non-executive Director

Phil Bainbridge is an engineer by training with over 30 years of oil and gas experience. He worked for the BP Group for 23 years in a range of petroleum engineering, development, commercial and senior management roles in the UK, Australia and USA before joining Oil Search in 2006 as Chief Operating Officer responsible for safety, operational and financial performance of all company assets in PNG and overseas. He then moved to Executive General Manager LNG where he was responsible for all aspects of Oil Search's interests in the US\$19 billion PNG LNG project and EGM Growth. Phil is currently a member of the Board of the PNG Sustainable Development Program and a director of Sino Gas & Energy Holdings Limited.

Phil joined the Drillsearch Board on 22 July 2013. He is also the Chair of the People and Remuneration Committee and is a member of the Technical Committee.

(d) Teik Seng (TS) Cheah – Non-Executive Director

TS Cheah is a finance and banking executive based in Singapore and has over 25 years' experience working for leading financial institutions such as Public Bank, Chase Manhattan Bank, Merrill Lynch, Goldman Sachs, UBS and BNP Paribas in Malaysia, Singapore, Hong Kong and London. He is currently Chief Executive Officer and Director of Aktis Capital Singapore Pte Ltd, a private equity fund manager. In that capacity he holds directorships in various private non-listed operating companies and also holds various non-executive directorships with Maybank Group. TS is also a non-executive director of publicly-listed MJIC Investments Corporation in Philippines.

TS was appointed to the Drillsearch Board on 10 September 2013. He is also a member of the Nominations Committee.

(e) Fiona Robertson – Non-Executive Director

Fiona Robertson has a background of more than 35 years in corporate finance and the resources sector. She has extensive experience in international corporate finance, financial reporting and corporate governance as both a CFO and an adviser to emerging resource companies. Her career includes roles with Delta Gold and The Chase Manhattan Bank in New York, London and Sydney. Fiona is also a director of private equity-backed One Asia Resources Limited and is the chair of WIMnet NSW.

Fiona joined the Drillsearch Board on 6 October 2009. She is also the Chair of the Audit and Risk Committee and is a member of the People and Remuneration Committee.

(f) Ross Wecker – Non-Executive Director

Ross Wecker has more than 35 years' experience in the oil and gas industry. He is a highly experienced geologist with extensive exploration knowledge of the Cooper and Eromanga Basins. Prior roles include Managing Director of Innamincka Petroleum Limited, the direction of an exploration team in the Cooper Basin for Delhi Petroleum Pty Ltd and Esso Australia Limited and providing specialist technical advice to several Australian and American companies regarding the acquisition and management of exploration acreage in the Cooper and Eromanga Basins.

Ross was appointed a director of Drillsearch on 6 October 2009. He is also the Chair of the Technical Committee and is a member of the Audit and Risk Committee.

(g) Jean Moore – Co-Company Secretary

Ms Moore's details are set out in section 3.4(e) of this Bidder's Statement.

3.6 Drillsearch's key management

(a) Brad Lingo – Managing Director

Mr Lingo's details are set out above in section 3.4(a) of this Bidder's Statement.

(b) Ian Bucknell – Chief Financial Officer and Co-Company Secretary

Mr Bucknell's details are set out above in section 3.4(b) of this Bidder's Statement.

(c) David Evans – Acting Chief Operations Officer

Mr Evans' details are set out above in section 3.4(c) of this Bidder's Statement.

(d) Peter Fox – Chief Commercial Officer

Mr Fox's details are set out above in section 3.4(d) of this Bidder's Statement.

(e) Duncan Lockhart – Acting Chief Technical Officer

Dr. Duncan Lockhart is a Geologist by training with 24 years experience in the upstream oil and gas business. Duncan has worked for BHP Billiton, Woodside, Origin, OMV, Origin and Galp Energia in roles predominantly in the exploration space in roles ranging from Chief Geologist to Exploration Manager. He has worked in nearly every productive basin in Australia and has also exploration experience in

the Middle East, North Africa, Brazil, Angola, Mozambique, Norway and Portugal. Duncan was appointed Acting Chief Technical Officer of Drillsearch in January 2014

3.7 **Corporate governance**

The Drillsearch Board seeks, where appropriate to provide accountability levels that meet or exceed the ASX Corporate Governance Council's Principles for Good Corporate Governance and Best Practice Recommendations.

Details on Drillsearch's corporate governance procedures, policies and practices can be obtained from www.drillsearch.com.au.

3.8 **Publicly available information**

Drillsearch Bidco's holding company Drillsearch is a company listed on ASX and subject to the periodic and continuous disclosure requirements of ASX and the Corporations Act. The ASX website lists all of the announcements issued by Drillsearch and these are available in electronic form at www.asx.com.au. A list of ASX announcements made by Drillsearch since 20 February 2014 and the date of this Bidder's Statement appears in Schedule 1.

4. INFORMATION ABOUT DRILLSEARCH'S SHARES

4.1 Issued securities in Drillsearch

(a) Drillsearch Shares

Drillsearch officially listed on the ASX on 2 July 1987. As at the date of this Bidder's Statement there are 438,199,072 Drillsearch Shares on issue. None of these shares are restricted securities (within the meaning of the ASX listing Rules) or otherwise subject to escrow. From the date of issue, the Drillsearch Shares to be issued pursuant to the Offer will rank equally with all existing Drillsearch Shares on issue at the Register Date.

(b) Drillsearch Options

As at the date of this Bidder's Statement, the following Drillsearch Options are on issue:

| Number of Drillsearch Options | Expiry date | Exercise price |
|-------------------------------|-------------------|----------------|
| 1,000,000 | 30 September 2014 | \$0.60 |
| 1,000,000 | 15 March 2015 | \$0.853 |
| 1,199,597 | 20 June 2018 | \$0.596 |
| 1,521,156 | 25 July 2018 | \$0.596 |
| 3,185,586 | 23 November 2018 | \$0.596 |

If all the Drillsearch Options are exercised prior to the expiry dates referred to in the table above in section 4.1 a further 7,906,339 Drillsearch Shares will be issued, representing approximately 1.8% of issued Drillsearch Shares as at the date of this Bidder's Statement.

(c) Drillsearch Performance Rights

As at the date of this Bidder's Statement, the following Drillsearch Performance Rights are on issue:

| Number of Performance Rights | Description |
|------------------------------|---|
| 950,775 | Performance rights under the 2012 grant with a performance period ending on 30 June 2015. |
| 653,100 | Performance rights under the 2013 grant with a performance period ending on 30 June 2014. |
| 1,614,204 | Performance rights under the 2013 grant with a performance period ending on 30 June 2016. |

4.2 Substantial shareholders

Based on documents lodged with the ASX up to the Announcement Date, Drillsearch has received notifications from the following entities in accordance with section 671B of the Corporations Act:

| Substantial shareholder | Number of Drillsearch Shares | Percentage of issued Drillsearch Shares (%)² |
|---|-------------------------------------|--|
| National Australia Bank Limited and its associated entities | 44,714,286 | 10.33% |
| QGC Pty Limited and its associates | 36,216,094 | 8.36% |

4.3 **Recent trading of Drillsearch Shares**

The closing market price of Drillsearch Shares on 27 May 2014 being the last trading day before the public announcement of the Offer was \$1.58. The closing market price of Drillsearch Shares on 11 June 2014, being the last trading day before the date of this Bidder's Statement, was \$1.48.

The highest recorded daily closing price of Drillsearch Shares on the ASX in the three months before the date of this Bidder's Statement was \$1.72 on 24 April 2014. The lowest recorded daily closing price of Drillsearch Shares on ASX in the three months before the date of this Bidder's Statement was \$1.47 on 15 May 2014.

4.4 **Rights attaching to Drillsearch Shares**

(a) Ranking of Drillsearch

The Drillsearch Shares to be issued under the Offers will be issued fully paid and will rank equally for dividends and other rights with existing Drillsearch Shares.

(b) The constitution of Drillsearch

Under section 140(1) of the Corporations Act, the constitution of Drillsearch has effect as a contract between Drillsearch and each member and between a member of Drillsearch and each other member. Accordingly, if you accept Drillsearch Shares as consideration you will, as a result, become liable to comply with the constitution of Drillsearch. However, since the Drillsearch Shares issued as consideration under the Offers will be issued credited as fully paid, no monetary liability attaches to them.

The constitution of Drillsearch also sets out the principal rights attaching to Drillsearch Shares. This section provides a summary of these rights and the liabilities attaching to Drillsearch Shares. It does not purport to be exhaustive or to constitute a definitive statement of the rights and liabilities of shareholders of Drillsearch. Such rights and liabilities involve complex questions of law arising from the interaction of the constitution and statutory and common law requirements. Ambassador shareholders should seek their own advice when trying to establish their rights and liabilities in specific circumstances.

² Substantial shareholding percentages based on the issued share capital of Drillsearch excluding Drillsearch Shares issued to the Selling Ambassador Shareholders.

(i) Dividends

Subject to the Corporations Act and the terms of the issue of Drillsearch Shares, Directors may resolve to pay any dividend they consider appropriate and fix the time for payment.

(ii) Attendance at meetings and voting

Subject to the provisions of the Listing Rules, the Drillsearch constitution and any special rights or restrictions attached to a share, a Drillsearch Shareholder is entitled to be present and vote at every meeting of shareholders. Drillsearch Shareholders may vote in person, or by proxy, attorney or representative and are entitled to on a show of hands, one vote or on a poll, one vote for each Drillsearch Share they hold.

(iii) Variation of Rights

Subject to provisions in the Corporations Act, the rights attaching to a class of shares in Drillsearch may be varied with the written consent of shareholders with at least 75% of the votes in that class, or if authorised by a special resolution passed at a meeting of the holders of shares in that class. At present, there is only one class of shares in Drillsearch on issue (i.e. Drillsearch Shares).

(iv) Issue of further Drillsearch Shares

Without limiting Drillsearch's powers under the Corporations Act 2001, Drillsearch (under the control of the Directors) may issue Drillsearch Shares on any terms, with any rights or restrictions attached to the shares, at any time and for any consideration the Drillsearch Directors decide.

(v) Winding up

Subject to any special rights or restrictions attached to Drillsearch Shares, on a winding up of Drillsearch, all assets which may be legally used to repay capital to Drillsearch Shareholders, will be distributed among the Drillsearch Shareholders in proportion to the amounts paid on their respective shares and in accordance with the Corporations Act.

(vi) Notices

Any notice given by Drillsearch to any Drillsearch Shareholder must be in writing and in English. The notice may be served on the person to be notified either personally, by sending it through the post at his or her registered place of address or by sending it to the fax number or electronic address nominated by the Drillsearch Shareholder.

(c) Amendment of Constitution

Pursuant to the Corporations Act, Drillsearch may only modify or repeal a provision of its constitution by special resolution in a general meeting, being a resolution passed by at least 75% of votes cast by members entitled to vote on the resolution.

5. INFORMATION ON AMBASSADOR

5.1 Disclaimer

The information in this section concerning Ambassador has been prepared by Drillsearch Bidco using publicly available information and has not been independently verified. Accordingly Drillsearch Bidco does not make any representation or warranty, express or implied, as to the accuracy or completeness of this information, other than as required by the Corporations Act. The information on Ambassador in this section should not be considered comprehensive.

In addition, the Corporations Act requires the Ambassador Directors to provide a Target's Statement to Ambassador shareholders in response to this Bidder's Statement, setting out certain material information concerning Ambassador.

5.2 Overview of Ambassador

Ambassador was incorporated on 7 August 2011 and was listed on ASX on 22 December 2011. It is a diversified unconventional oil and gas exploration company with assets in Australia and the US.

Ambassador's portfolio of projects contains a mix of exploration targets including:

- low to medium risk conventional oil;
- conventional gas; and
- unconventional coal and shale gas.

This portfolio is targeting near term oil potential and medium term gas opportunity with a strategic footprint in areas highly prospective for tight gas, coal seam gas, and shale gas. Ambassador is targeting early cash flow.

Ambassador was issued a 100% interest in the prospective Petroleum Exploration Licence PEL 570 in the 2010 bidding round. PEL 570, in the Cooper Basin in South Australia, has independently identified potential gas in place of up to 20 trillion cubic feet contained in unconventional rock and coal seams.

PEL 570 is situated in the northern end of the gas prone Patchawarra trough which is characterised by low-CO₂ levels and higher liquids content, particularly in the northern regions of the Cooper Basin. It covers 2400km², is close to infrastructure and remains a key target for unconventional gas exploitation. The Cooper Basin is linked to the east coast gas market by an existing gas pipeline network providing Cooper Basin gas with direct access to Queensland Liquefied Natural Gas projects near Gladstone currently under construction and the wider Australian East coast market.

Ambassador is fully carried in PEL 570 by New Standard for a \$42.5 million exploration program. The program specifically targets the permit's unconventional resource potential in the tight sands and shale in the Permian section of the Patchawarra trough. This program is to be operated by New Standard, with technical support from experienced US unconventional E&P company Magnum Hunter Resources which has also taken a 17% interest in New Standard.

In the US, Ambassador has acquired highly prospective oil and gas exploration leases in emerging, oil prone, resource plays in Colorado. Ambassador holds a parcel of leases in Colorado totalling 3,327 net acres and has recently exercised an option to acquire a further net 9,350 acres in Colorado. The transfer of title and the final price to be paid in relation to the 9,350 acres in Colorado is subject to title verification to the satisfaction of Ambassador. It is expected that this title verification will be completed by 30 June 2014.

5.3 Board and Management

Mr David Shaw – Non-Executive Chairman

Mr Shaw joined the Board as a Non-Executive Chairman on 7 August 2011. He is a Melbourne University law graduate, and is currently a practising solicitor with his own firm Campbell & Shaw Lawyers. Mr Shaw is a director on a number of private company boards and advisory boards. He has a long history with the Australian Football League (AFL), having been the Essendon club President from 1992 to 2002 and is a former Commissioner of the AFL.

Mr Giustino Guglielmo – Managing Director

Mr Guglielmo joined the Board as the Managing Director on 7 August 2011. He holds a degree in Mechanical Engineering. Mr Guglielmo was formerly Managing Director and Chief Executive Officer of Stuart Petroleum Limited and has over 30 years' experience in the field of Petroleum and Production Engineering.

Mr Emmanuel Correia – Non-Executive Director and Company Secretary

Mr Correia joined the Board as a Non-Executive Director and Company Secretary on 7 August 2011. Mr Correia holds a degree in business and is a Chartered Accountant with extensive experience in corporate finance and equity capital markets. Mr Correia is also a non-executive director of Rutila Resources Limited and Company Secretary of Bluglass Limited. Mr Correia is a director of Peloton Capital Pty Ltd but does not control Peloton Capital.

5.4 Issued shares in Ambassador

According to documents lodged by Ambassador with ASX, as at the date this Bidder's Statement there are 142,058,491 Ambassador Shares on issue.

5.5 Drillsearch Bidco's relevant interest in Ambassador Shares

The number of Ambassador Shares that Drillsearch Bidco had a relevant interest in (as at the dates specified) is shown below:

| | At date of this Bidder's Statement | At date first Offer is sent |
|-------------------|------------------------------------|-----------------------------|
| Ambassador Shares | 19.9% | 19.9% |

5.6 Drillsearch Bidco's voting power in Ambassador

Drillsearch Bidco's voting power in Ambassador (as at the dates specified) is shown below:

| | At date of this Bidder's Statement | At date first Offer is sent |
|----------------------------|------------------------------------|-----------------------------|
| Voting power in Ambassador | 19.9% | 19.9% |

5.7 Acquisition by Drillsearch Bidco of Ambassador Shares during previous four months

The value of each Drillsearch Share offered under the Offer is \$1.51, based on the volume weighted average market price of Drillsearch Shares in the ordinary course of trading on

ASX during 10 and 11 June 2014. Accordingly, the implied cash value offered for each Ambassador Share under the Takeover Bid, on that basis, is \$1.51 multiplied by 1/5.4.

During the period beginning four months before the date the first Offer is sent, neither Drillsearch Bidco nor any associate of Drillsearch Bidco has provided, or agreed to provide, consideration for an Ambassador Share except as described below.

Under share purchase deeds dated 28 May 2014 between Drillsearch and the Selling Ambassador shareholders, Drillsearch agreed to purchase a total of 28,259,238 Ambassador Shares from the Selling Ambassador shareholders. The consideration per Ambassador Share under the share purchase deeds was 1 Drillsearch Share for every 5.4 Ambassador Share, with such Drillsearch Shares provided to each Selling Ambassador Shareholder on 11 June 2014. The market price of a Drillsearch Share, based on the volume weighted average market price of Drillsearch Shares in the ordinary course of trading on ASX during 10 and 11 June 2014, is \$1.51.

5.8 Inducing benefits given by Drillsearch Bidco during previous four months

Except as set out in this Bidder's Statement, during the period beginning four months before the date the first Offer is sent, neither Drillsearch Bidco, Drillsearch nor any associate of Drillsearch, gave, or offered to give or agreed to give a benefit to another person that is not available under the Offers and was likely to induce the other person, or an associate of the other person, to:

- (a) accept an Offer; or
- (b) dispose of Ambassador Shares.

5.9 Interests of directors of Drillsearch Bidco and Drillsearch Directors in Ambassador Shares

As at the date of this Bidder's Statement, none of the directors of Drillsearch Bidco or the Drillsearch Directors have a relevant interest in Ambassador Shares.

5.10 No collateral benefits

Neither Drillsearch Bidco nor any of its associates has in the four months before the date of this Bidder's Statement, given, offered to give or agreed to give a benefit which is not offered to all Ambassador shareholders under the Offer to another person which was likely to induce the other person (or an associate) to accept the Offer or dispose of Ambassador Shares.

5.11 No escalation agreements

Neither Drillsearch Bidco nor any of its associates has entered into any escalation agreement that is prohibited by section 622 of the Corporations Act.

5.12 Publicly available information

Ambassador is a company listed on ASX and is subject to the periodic and continuous disclosure requirements of the Corporations Act and ASX Listing Rules. Amongst other things, Ambassador is required to notify the ASX of information about specified events and matters as they arise for the purposes of ASX making that information available to the financial market operated by ASX. Ambassador's financial report for the half-year ended 31 December 2013 was lodged with the ASX on 5 March 2014 and its 2013 Annual Report was lodged with the ASX on 23 September 2013.

6. DRILLSEARCH BIDCO'S INTENTIONS

6.1 Overview

In formulating the Offer, Drillsearch Bidco has considered and evaluated Ambassador's assets, based on the information which was in the public domain and available to it.

Set out in this section 6 of this Bidder's Statement are Drillsearch Bidco's intentions regarding Ambassador. These intentions are based on the information concerning Ambassador known to Drillsearch Bidco and the existing circumstances affecting the business of Ambassador, at the date of this Bidder's Statement. However, Drillsearch Bidco has not conducted formal due diligence on Ambassador in connection with this Offer and does not have knowledge of all of the material information, facts and circumstances that are necessary to assess the operational, commercial, taxation and financial implications of its current intentions.

During the Offer Period and following the close of the Offer, Drillsearch Bidco will, to the extent that information is available to it, conduct a review of the operations, assets, strategy, structure and employees of Ambassador in light of that information. Final decisions will only be reached after that review and in light of all material facts and circumstances.

The statements set out in this section 6 are therefore statements of current intention only and may vary as new information becomes available or circumstances change. The statements set out in this section 6 should be read in this context.

6.2 Intentions upon acquiring 90% or more of Ambassador Shares

If, as a result of the Offer, Drillsearch Bidco becomes entitled to compulsorily acquire outstanding Ambassador Shares under Part 6A.1 of the Corporations Act, Drillsearch Bidco presently intends to proceed with compulsory acquisition of those Ambassador Shares. Drillsearch Bidco then intends to procure that Ambassador is removed from the official list of ASX.

6.3 Intentions for Ambassador as a wholly owned subsidiary

The intentions of Drillsearch Bidco if Ambassador becomes a wholly owned subsidiary of Drillsearch are set out in this section 6.3:

(a) Directors

Subject to the Corporations Act and the constitution of Ambassador, Drillsearch Bidco intends to replace all members of the Board of Ambassador, its subsidiaries and any company in respect of which Ambassador has nominee directors with its own nominees. Replacement directors have not been identified and their identity will depend on the circumstances at the relevant time. However, it is expected that the replacement directors would be drawn from the directors of Drillsearch Bidco listed in section 3.44.

(b) ASX listing

Drillsearch Bidco will procure the removal of Ambassador from the official list of ASX.

(c) Head office

It is expected that all head office functions of Ambassador will be duplicate functions performed by Drillsearch's head office in Sydney, Australia and therefore Ambassador's head office will no longer be necessary. Drillsearch Bidco intends to

make arrangements to close Ambassador's head office and transfer all head office, administrative, accounting and other functions to Drillsearch's head office.

(d) **Operations and assets**

Drillsearch intends to consolidate the management of Ambassador's key asset, a non-operated 47.5% interest in PEL 570, into Drillsearch's Northern Cooper Wet Gas business division. Drillsearch intends to continue to work closely with the farmee to PEL 570, New Standard, and its technical adviser and 17% shareholder Magnum Hunter Energy, to progress the planned unconventional exploration work program in PEL 570.

Drillsearch Bidco will undertake a commercial, operational and technical review of the PEL 570 project to ensure suitable arrangements are made for management of the asset by Drillsearch's Northern Cooper Wet Gas team.

(e) **Employees**

Other than Directors, Ambassador has no direct employees. Administrative services are provided via contract and all accounting and finance functions are managed by the Chairman, Director and Managing Director. The Managing Director will be made redundant in compliance with all relevant laws and contractual rights.

6.4 **Intentions for Ambassador upon acquiring more than 50.1% but less than 90% of Ambassador Shares**

If following the close of the Offer:

- Drillsearch Bidco has a relevant interest in at least 50.1% of Ambassador;
- Drillsearch Bidco does not have a relevant interest in 90% of Ambassador and has therefore not become entitled to compulsorily acquire the remaining Ambassador Shares; and
- Ambassador becomes a controlled entity, but not a wholly-owned subsidiary of Drillsearch Bidco,

Drillsearch Bidco presently intends to apply its management experience in managing the PEL 570 joint venture and carried work program in its position as non-operator to maximise the value of this asset and Drillsearch's existing asset portfolio.

(a) **Directors**

Subject to the Corporations Act and the constitution of Ambassador, Drillsearch Bidco intends to seek to reconstitute the board of Ambassador to reflect Drillsearch Bidco's majority ownership of Ambassador. Under the Bid Implementation Agreement, as soon as practicable after Drillsearch acquires a relevant interest in:

- (i) 50% or more of Ambassador Shares and the Offer becomes or is declared unconditional, Ambassador must procure that the Ambassador Board:
 - (A) causes the appointment of any person nominated by Drillsearch to the Ambassador Board and any relevant retirements (being David Shaw and Emmanuel Correia) from the Ambassador Board necessary to give Drillsearch a majority of directors on the Ambassador Board; and
 - (B) comprises no more than one non-Drillsearch nominee; and

- (ii) 75% or more of Ambassador Shares and the Offer becomes or is declared unconditional, Ambassador must procure that the Ambassador Board comprises no non-Drillsearch nominees.

No decision has been made as to who Drillsearch's nominees would be, and their identity will depend on the circumstances at the relevant time. However, it is expected that the directors would be drawn from the Drillsearch Bidco directors listed in section 3.44.

(b) **ASX listing**

If Drillsearch Bidco obtains control of Ambassador, Drillsearch Bidco intends to cause Ambassador to apply for removal from the official list of ASX.

(c) **Further acquisitions of Ambassador Shares**

It is possible that, even if Drillsearch Bidco is not entitled to proceed to compulsory acquisition of minority holdings after the end of the Offer Period under Part 6A.1 of the Corporations Act, it may subsequently become entitled to exercise rights of general compulsory acquisition under Part 6D.2 of the Corporations Act (for example, as a result of acquisitions of Ambassador Shares in reliance on the "3% creep" exception in item 9 of Section 611 of the Corporations Act). Drillsearch Bidco has not yet decided whether it will acquire Ambassador Shares under the "3% creep" provisions in the future; such a decision will be dependent upon, among other things, the extent of Drillsearch Bidco's voting power in Ambassador and the market conditions at the time.

If Drillsearch Bidco does become entitled to exercise rights of general compulsory acquisition, it presently intends to exercise those rights.

(d) **Operational matters, assets and employees**

Drillsearch Bidco intends to undertake the detailed review of Ambassador's operations, assets, strategy, structure and employees as outlined above in section 6.1. It is the current intention of Drillsearch Bidco to attempt to procure that the Board of Ambassador implements the objectives outlined in section 6.3.

(e) **Dividend policy**

Drillsearch Bidco, through its nominees on the Board of Ambassador, intends to continue Ambassador's current policy of not paying dividends to shareholders.

(f) **Limitations on intentions**

The extent to which Drillsearch Bidco will be able to implement the intentions in this 6.4 of the Bidder's Statement will be subject to:

- (i) the Corporations Act and the ASX Listing Rules, in particular in relation to related party transactions and conflicts of interests;
- (ii) the legal obligation of the directors of Ambassador to act for proper purposes and in the best interests of Ambassador shareholders as a whole; and
- (iii) the level of control that Drillsearch Bidco will eventually be able to exert over the operations and strategy of Ambassador.

6.5 **Intentions for Drillsearch Bidco upon acquiring less than 50.1% of Ambassador Shares**

If Drillsearch Bidco acquires less than 50.1% of the Ambassador Shares and the Offer is declared unconditional, Drillsearch Bidco intends to seek the appointment of a number of its representatives to the Ambassador board (and to requisition a meeting of Ambassador for that purpose if necessary). Under the Bid Implementation Agreement, as soon as practicable after Drillsearch acquires a relevant interest in 35% or more of Ambassador Shares and the Offer becomes or is declared unconditional, Ambassador must procure that the Ambassador Board:

- causes the appointment of two persons nominated by Drillsearch to the Ambassador Board; and
- comprises no more than three non-Drillsearch nominees.

No decision has been made as to who Drillsearch's nominees would be, and their identity will depend on the circumstances at the relevant time. However, it is expected that the directors would be drawn from the Drillsearch Bidco directors listed in section 3.44.

Drillsearch Bidco will endeavour to implement its intentions outlined in section 6.3 of this Bidder's Statement to the extent it is able to do so and may acquire further Ambassador Shares in accordance with the requirements of the Corporations Act.

6.6 **Other intentions**

Subject to the above, it is the present intention of Drillsearch Bidco, on the basis of the information concerning Ambassador which is known to it and the existing circumstances affecting the business of Ambassador, that:

- (a) the business of Ambassador will otherwise be continued in substantially the same manner as it is presently being conducted;
- (b) no other major changes will be made to the business of Ambassador; and
- (c) there will not be any other redeployment of the fixed assets of Ambassador.

7. PROFILE OF THE MERGED GROUP

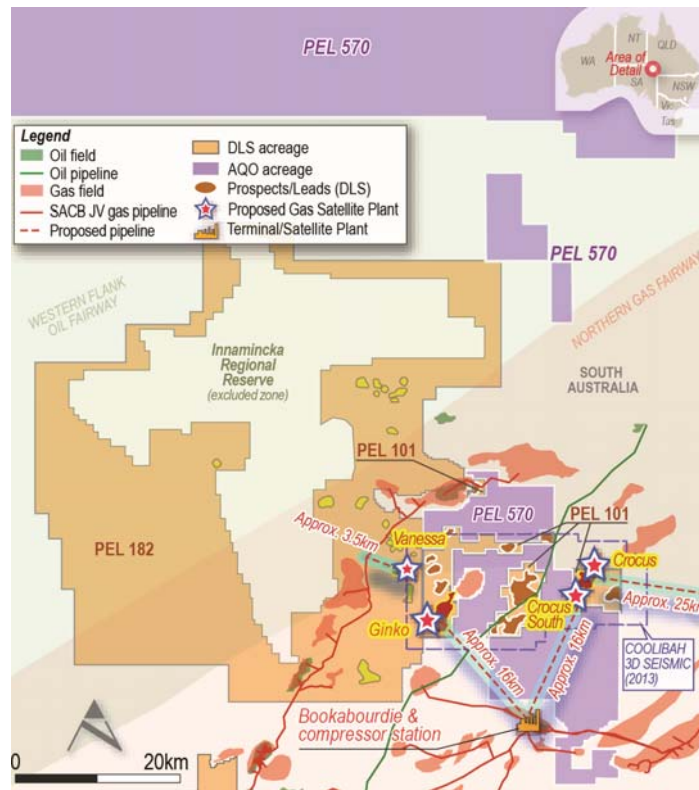
7.1 Introduction

The profile of the Merged Group will vary depending on the outcome of the Offer. Unless otherwise indicated, the description of the Merged Group in this section 7 assumes that Ambassador is a wholly-owned subsidiary of Drillsearch Bidco. If Drillsearch Bidco is not entitled to compulsorily acquire Ambassador Shares during the Offer Period, some of the benefits that would otherwise accrue to Drillsearch Bidco if Ambassador were to become a wholly owned subsidiary of Drillsearch Bidco may not be fully realised.

7.2 Overview of the Merged Group

The Merged Group will be an oil and gas company with:

- an estimated market capitalisation of approximately \$677 million, based on the closing price of Drillsearch Shares on 11 June 2014; and
- a significant acreage position covering oil production and exploration permits in the Cooper Basin.



Northern Wet Gas Fairway – PELs 101 and 570

7.3 Drillsearch summarised financial information

(a) Sources

The selected historical financial information in this section 7 has been extracted from Drillsearch's consolidated reviewed financial statements for the half year ended December 2013 and audited financial statements for FY2013. The information in this section 7 is a summary only and has been prepared solely for inclusion in this Bidder's Statement. The full financial accounts for Drillsearch for FY2013 (inclusive of all notes), can be obtained either through the ASX website (www.asx.com.au) (ASX: DLS), or through Drillsearch's website (www.drillsearch.com.au).

Table 7.3.1: Drillsearch – Summary of historical statement of comprehensive income

| | Half - year ended 31 Dec 13 (Reviewed) | Full - year ended 30 Jun 13 (Audited) | Full - year ended 30 Jun 12 (Audited) |
|---|--|---|---|
| | \$000 | \$000 | \$000 |
| Continuing operations | | | |
| Revenue | 200,337 | 102,227 | 22,409 |
| Cost of sales | (74,399) | (43,334) | (14,330) |
| Gross profit | 125,938 | 58,893 | 8,079 |
| Other gains and losses | 434 | 2,474 | 2,843 |
| Exploration and evaluation costs expensed | (351) | (2,203) | (221) |
| Impairment of oil and gas assets | - | - | (148) |
| Finance costs | (7,039) | (6,112) | (349) |
| Corporate activity costs in relation to acquisition of Acer | - | (6,200) | - |
| Other expenses | (6,581) | (19,770) | (6,722) |
| Change in fair value of convertible notes | (22,824) | (9,306) | - |
| Profit / (Loss) before Tax | 89,577 | 17,776 | 3,482 |
| Income tax (expense) / benefit | (54,043) | 27,281 | 6,497 |
| Profit / (Loss) for the period | 35,534 | 45,057 | 9,979 |
| PROFIT / (LOSS) FOR THE PERIOD | 35,534 | 45,057 | 9,979 |
| OTHER COMPREHENSIVE INCOME | | | |
| Other comprehensive income, net of income tax which will be recycled to the profit or loss | | | |
| Exchange differences arising on translation of foreign operations | 198 | (481) | (171) |
| Other comprehensive income for the period, net of income tax | 198 | (481) | (171) |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 35,732 | 44,576 | 9,808 |
| Earnings per share | | | |
| Basic (cents per share) | 8.271 | 11.100 | 4.500 |
| Diluted (cents per share) | 8.103 | 11.000 | 4.300 |

Table 7.3.2 - Drillsearch – Summary of historical statement of financial position

| | Half - year ended 31 Dec 13 (Reviewed) | Full - year ended 30 Jun 13 (Audited) | Full - year ended 30 Jun 12 (Audited) |
|---|--|---|---|
| | \$000 | \$000 | \$000 |
| Assets | | | |
| Current assets | | | |
| Cash and bank balances | 76,010 | 36,061 | 45,611 |
| Trade and other receivables | 74,045 | 51,302 | 3,695 |
| Inventories | 5,826 | 1,744 | 751 |
| Other assets | 1,947 | 1,083 | 335 |
| | 157,828 | 90,190 | 50,392 |
| Assets classified as held for sale | 1,955 | 199 | 21,638 |
| Total current assets | 159,783 | 90,389 | 72,030 |
| Non-current assets | | | |
| Exploration and evaluation assets | 233,085 | 217,890 | 23,131 |
| Oil and gas assets | 137,319 | 108,586 | 54,773 |
| Property, plant and equipment | 3,094 | 3,719 | 963 |
| Deferred tax assets | 26,784 | 63,223 | 11,334 |
| Other assets | 1,450 | 1,370 | 1,286 |
| | 401,732 | 394,788 | 91,487 |
| Total non-current assets | 401,732 | 394,788 | 91,487 |
| Total assets | 561,515 | 485,177 | 163,517 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 50,029 | 42,509 | 12,047 |
| Borrowings | - | 10,000 | - |
| Provisions | 1,087 | 1,581 | 867 |
| | 51,116 | 54,090 | 12,914 |
| Liabilities directly associated with assets classified as held for sale | | | 6,092 |
| Total current liabilities | 51,116 | 54,090 | 19,006 |
| Non-current liabilities | | | |
| Convertible Notes | 153,215 | 130,391 | - |
| Provisions | 31,129 | 14,101 | 2,519 |
| | 184,344 | 144,492 | 2,519 |
| Total non-current liabilities | 184,344 | 144,492 | 2,519 |
| Total liabilities | 235,460 | 198,582 | 21,525 |
| Net assets | 326,055 | 286,595 | 141,992 |
| Equity | | | |
| Issued capital | 284,985 | 280,411 | 180,838 |
| Reserves | 6,619 | 7,267 | 7,294 |
| Retained earnings / (losses) | 34,451 | (1,083) | (46,140) |
| Equity attributable to owners of the parent | 326,055 | 286,595 | 141,992 |
| | 326,055 | 286,595 | 141,992 |
| Total equity | 326,055 | 286,595 | 141,992 |

Table 7.3.3 - Drillsearch – Summary of historical statement of cash flows

| | Half - year ended 31 Dec 13 (Reviewed) | Full - year ended 30 Jun 13 (Audited) | Full - year ended 30 Jun 12 (Audited) |
|--|--|---|---|
| | \$000 | \$000 | \$000 |
| Cash flows from operating activities | | | |
| Receipts from customers | 197,327 | 54,283 | 21,693 |
| Payments to suppliers and employees | (96,596) | (32,883) | (11,518) |
| Cash generated from operations | 100,731 | 21,400 | 10,175 |
| Interest paid | (6,913) | (3,419) | (134) |
| Income tax refund / (paid) | 16 | 1,258 | - |
| Net cash generated by operating activities | 93,834 | 19,239 | 10,041 |
| Cash flows from investing activities | | | |
| Interest received | 556 | 2,473 | 2,276 |
| Payments for exploration & evaluation assets | (17,802) | (101,666) | (30,179) |
| Payments for oil and gas assets | (4,681) | (36,901) | (6,678) |
| Payments for property, plant and equipment | (405) | (2,133) | (613) |
| Proceeds from sale of exploration and evaluation assets | 12,507 | - | 148 |
| Proceeds on sale of oil and gas leases | - | - | - |
| Payment for business acquisition | (36,800) | (119,063) | - |
| Net cash generated used in investing activities | (46,625) | (257,290) | (35,046) |
| Cash flows from financing activities | | | |
| Net proceeds from issues of equity shares | 2,740 | 99,047 | 20,441 |
| Net proceeds / (repayments) from borrowings | (10,000) | 129,054 | - |
| Net proceeds / payments pertaining to Loyalty Options | - | - | - |
| Net cash generated by financing activities | (7,260) | 228,101 | 20,441 |
| Net increase / (decrease) in cash and cash equivalents | 39,949 | (9,950) | (4,564) |
| Cash and cash equivalents at the beginning of the period | 36,061 | 45,695 | 50,259 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | - | 316 | - |
| Cash and cash equivalents at the end of the period | 76,010 | 36,061 | 45,695 |

(b) **Material changes in financial position since 31 December 2013**

Drillsearch and QGC agreed on 10 March 2014 to amend the terms of the ATP940P joint venture and farm-in agreements to include:

- consolidation of the three stages in the initial agreement to a single stage, and removal of QGC's associated withdrawal rights, thereby bringing forward the remainder of QGC's carry of the initial \$100 million expenditure;
- expansion and extension of the initial agreed farm-in work program from six wells to a commitment to a 10-well program with potential for further acceleration; and

- Drillsearch to remain as Operator of ATP 940P until the end of the current permit term in November 2015. QGC will then have the option to assume operatorship.

Drillsearch owns 40% of ATP 940P and is the Operator. QGC owns the remaining 60%.

7.4 Ambassador summarised financial information

(a) Sources

The selected historical financial information in this section 7 has been extracted from Ambassador consolidated reviewed financial statements for the half year ended December 2013 and audited financial statements for FY2013. The information in this section is a summary only and has been prepared solely for inclusion in this bid statement. The full financial accounts for Ambassador for FY2013 (inclusive of all notes), can be obtained through the ASX website (www.asx.com.au) (ASX: AQO)

Table 7.4.1: Ambassador – Summary of historical statement of comprehensive income

| | Half - year ended 31 Dec 13 (Reviewed) | Full - year ended 30 Jun 13 (Audited) | Full - year ended 30 Jun 12 (Audited) |
|---|--|---|---|
| | \$000 | \$000 | \$000 |
| Continuing operations | | | |
| Revenue | - | - | - |
| Cost of sales | - | - | - |
| Gross profit | - | - | - |
| Other gains and losses | 144 | 280 | 402 |
| Exploration and evaluation costs expensed | 288 | (4,489) | (1,467) |
| Impairment of oil and gas assets | - | - | - |
| Finance costs | - | - | - |
| Corporate activity costs in relation to acquisition of Acer | - | - | - |
| Other expenses | (665) | (1,162) | (957) |
| Change in fair value of convertible notes | - | - | - |
| Profit / (Loss) before Tax | (233) | (5,371) | (2,022) |
| Income tax expense | | | (72) |
| Profit / (Loss) for the period | (233) | (5,371) | (2,094) |
| PROFIT / (LOSS) FOR THE PERIOD | (233) | (5,371) | (2,094) |
| OTHER COMPREHENSIVE INCOME | | | |
| Other comprehensive income, net of income tax which will be recycled to the profit or loss | | | |
| Exchange differences arising on translation of foreign operations | - | - | - |
| Other comprehensive income for the period, net of income tax | - | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | (233) | (5,371) | (2,094) |
| Earnings per share | | | |
| Basic (cents per share) | 0.160 | (3.780) | (2.200) |
| Diluted (cents per share) | 0.160 | (3.780) | (2.200) |

Table 7.4.2: Ambassador – Summary of historical statement of financial position

| | Half - year ended 31 Dec 13 (Reviewed) | Full - year ended 30 Jun 13 (Audited) | Full - year ended 30 Jun 12 (Audited) |
|---|--|---|---|
| | \$000 | \$000 | \$000 |
| Assets | | | |
| Current assets | | | |
| Cash and bank balances | 6,432 | 6,606 | 14,729 |
| Trade and other receivables | 185 | 2 | - |
| Inventories | - | - | - |
| Other assets | - | 358 | - |
| | 6,617 | 6,966 | 14,729 |
| Assets classified as held for sale | - | - | - |
| Total current assets | 6,617 | 6,966 | 14,729 |
| Non-current assets | | | |
| Exploration and evaluation assets | 691 | 443 | 492 |
| Oil and gas assets | - | - | - |
| Property, plant and equipment | - | - | - |
| Deferred tax assets | - | - | - |
| Other assets | 1,100 | 1,451 | - |
| | 1,791 | 1,894 | 492 |
| Total non-current assets | 1,791 | 1,894 | 492 |
| Total assets | 8,408 | 8,860 | 15,221 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 116 | 180 | 1,339 |
| Borrowings | - | - | - |
| Provisions | 26 | 180 | 12 |
| | 142 | 360 | 1,351 |
| Liabilities directly associated with assets classified as held for sale | | | |
| Total current liabilities | 142 | 360 | 1,351 |
| Non-current liabilities | | | |
| Convertible Notes | - | - | - |
| Provisions | - | - | - |
| | - | - | - |
| Total non-current liabilities | - | - | - |
| Total liabilities | 142 | 360 | 1,351 |
| Net assets | 8,266 | 8,500 | 13,870 |
| Equity | | | |
| Issued capital | 15,972 | 15,972 | 15,972 |
| Reserves | 76 | 76 | 76 |
| Retained earnings / (losses) | (7,782) | (7,548) | (2,178) |
| Equity attributable to owners of the parent | 8,266 | 8,500 | 13,870 |
| Total equity | 8,266 | 8,500 | 13,870 |

Table 7.4.3: Ambassador – Summary of historical statement of cash flows

| | Half - year ended 31 Dec 13 (Reviewed) | Full - year ended 30 Jun 13 (Audited) | Full - year ended 30 Jun 12 (Audited) |
|--|--|---|---|
| | \$000 | \$000 | \$000 |
| Cash flows from operating activities | | | |
| Receipts from customers | - | - | - |
| Payments to suppliers and employees | (592) | (1,137) | (958) |
| Cash generated from operations | (592) | (1,137) | (958) |
| Interest paid | - | - | - |
| Income tax refund / (paid) | - | - | - |
| Net cash generated by operating activities | (592) | (1,137) | (958) |
| Cash flows from investing activities | | | |
| Interest received | 117 | 280 | 402 |
| Payments for exploration & evaluation assets | (699) | (7,266) | (497) |
| Payments for oil and gas assets | - | - | - |
| Payments for property, plant and equipment | - | - | - |
| Proceeds from sale of exploration and evaluation assets | - | - | - |
| Proceeds on sale of oil and gas leases | 1,000 | - | - |
| Payment for business acquisition | - | - | - |
| Net cash generated used in investing activities | 418 | (6,986) | (95) |
| Cash flows from financing activities | | | |
| Net proceeds from issues of equity shares | - | - | 15,442 |
| Net proceeds / (repayments) from borrowings | - | - | 268 |
| Net proceeds / payments pertaining to Loyalty Options | - | - | 72 |
| Net cash generated by financing activities | - | - | 15,782 |
| Net increase / (decrease) in cash and cash equivalents | (174) | (8,123) | 14,729 |
| Cash and cash equivalents at the beginning of the period | 6,606 | 14,729 | - |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | | |
| Cash and cash equivalents at the end of the period | 6,432 | 6,606 | 14,729 |

(b) **Material changes in financial position since 31 December 2013**

On 10 December 2013, Ambassador announced the farm out of a 52.5% working interest in PEL570 to a subsidiary of New Standard for \$42.5m. During the quarter ended 31 March 2014, the shareholders approved the farm-in and the South Australian Government approved the transaction.

7.5 **Pro forma balance sheet for the Merged Group**

(a) **Basis for preparation**

The information included in this section 7 is pro forma financial information for the Merged Group comprising of the respective groups of Drillsearch and Ambassador as at 31 December 2013.

The pro forma balance sheets of the Merged Group have been produced by aggregating the individual balance sheets from the reviewed financial statements of Drillsearch and Ambassador as at 31 December 2013 (which were released to the ASX on 20 February 2014 and 5 March 2014 respectively).

Pro forma statements of comprehensive income and statements of cash flows of the Merged Group have not been prepared and are not relevant as Ambassador is an exploration and evaluation company.

The financial information for Drillsearch and Ambassador relates to the latest publicly available information for each entity that is capable of being compared.

The pro forma information does not represent what the Merged Group would look like on a consolidated basis, since it is not possible to produce this information from publicly available information. No adjustments for potential synergy benefits have been included as the exact timing and amount of such benefits cannot be reliably estimated. However, the pro forma balance sheets do reflect the issue of new Drillsearch Shares to Ambassador shareholders.

The pro forma balance sheets are unaudited and are for illustrative purposes only and are based on numerous assumptions that may or may not reflect the actual financial position of the Merged Group after completion of the Offer. In addition, these pro forma balance sheets are presented in a summary format and do not contain all the disclosures required under the Corporations Act.

Financial information relating to Ambassador has been sourced from the reviewed half yearly report for the half year ended 31 December 2013. Drillsearch Bidco has relied on this information to prepare the pro forma financial information in this section.

Drillsearch Bidco does not, except as required by law, make any representations or warranty, express or implied, as to the accuracy or completeness of this information.

Drillsearch Bidco has had limited access to the directors, management or staff of Ambassador and has had limited access to working papers, accounting records or other documentation for the purposes of preparing this financial information. Therefore, it has not been possible to independently verify any of the financial information relating to Ambassador used in this Bidder's Statement for providing pro forma financial information.

The pro forma financial information presented in this section should also be read in conjunction with the risk factors set out in section 8, other information contained in this Bidder's Statement and the accounting policies of Drillsearch and Ambassador as disclosed in their most recent financial reports.

(b) **Assumptions and adjustments**

The pro forma balance sheet set out in section 7.5(c) below reflects the following assumptions:

- The pro forma information has been prepared using Australian Accounting Standards and reflects the accounting policies of Drillsearch. Amounts presented in the report have been rounded.
- The pro forma balance sheet of the Merged Group as at 31 December 2013 assumes the acquisition of Ambassador by Drillsearch Bidco had been completed at that date. The actual dates of the acquisition will be at a later date. The pro forma financial information has been prepared on the basis that the conditions required to apply AASB3 "business combinations" are not satisfied. Accordingly, the acquisition is deemed to be an asset acquisition for accounting purposes.
- The pro forma balance sheet of the Merged Group is based on the assumption that the fair value of Ambassador's exploration and evaluation assets amounts to \$30.7m, being \$30.0m above the pre-acquisition carrying value.
- Drillsearch Bidco acquires 100% of Ambassador.
- For fair value accounting purposes, each Drillsearch Share issued under the Offer is assumed to have an issue price of \$1.58 (the closing price of Drillsearch Shares on the ASX on 27 May 2014). The actual fair value of Drillsearch Shares to be issued under the Offer will be determined by the market price of Ambassador Shares at the actual date of acquisition of Ambassador.
- The accounting policies of Drillsearch and Ambassador are similar and consistent in all material aspects.

The pro forma balance sheet set out in section 7.5(c) below reflects the following adjustments:

- The assumed acquisition consideration for Ambassador has been calculated as follows based on the terms of the Offer by Drillsearch Bidco:

| | |
|---|--------------|
| Ambassador Shares on issue | 142,058,491 |
| Drillsearch Shares for every Ambassador Share | 1/5.4 |
| Drillsearch Shares issued under the Offer | 26,307,128 |
| Fair value based on share price of \$1.58 | \$41,565,262 |

- An estimate of transaction costs of \$1m relating to advisor fees and other associated costs arising from the Offer to be incurred by Drillsearch Bidco will be capitalised, thus reducing cash balances and increasing exploration and evaluation assets in the pro forma balance sheet.

(c) **Pro forma balance sheet for the Merged Group**

| | Drillsearch Group as at 31 Dec 13 | Ambassador Group as at 31 Dec 13 | Pro-forma adjustments | Note | Consolidation adjustments | Note | Merged Group as at 31 Dec 13 |
|--|---|--|--------------------------|-------|------------------------------|------|---------------------------------|
| | \$000 | \$000 | \$000 | | \$000 | | \$000 |
| Assets | | | | | | | |
| Current assets | | | | | | | |
| Cash and bank balances | 76,010 | 6,432 | (2,222) | 2 | - | | 80,220 |
| Trade and other receivables | 74,045 | 185 | - | | - | | 74,230 |
| Inventories | 5,826 | - | - | | - | | 5,826 |
| Other assets | 1,947 | - | - | | - | | 1,947 |
| | 157,828 | 6,617 | (2,222) | | - | | 162,223 |
| Assets classified as held for sale | 1,955 | - | - | | - | | 1,955 |
| Total current assets | 159,783 | 6,617 | (2,222) | | - | | 164,178 |
| Non-current assets | | | | | | | |
| Exploration and evaluation assets | 233,085 | 691 | 999 | 2 | 30,748 | 3;5 | 265,523 |
| Oil and gas assets | 137,319 | - | - | | - | | 137,319 |
| Property, plant and equipment | 3,094 | - | - | | - | | 3,094 |
| Investment in subsidiaries | - | - | 41,565 | 1 | (41,565) | 5 | - |
| Deferred tax assets | 26,784 | - | 2,551 | 3 | - | | 29,335 |
| Other assets | 1,450 | 1,100 | (1,040) | 4 | - | | 1,510 |
| Total non-current assets | 401,732 | 1,791 | 44,075 | | (10,817) | | 436,781 |
| Total assets | 561,515 | 8,408 | 41,853 | | (10,817) | | 600,959 |
| Liabilities | | | | | | | |
| Current liabilities | | | | | | | |
| Trade and other payables | 50,029 | 116 | - | | - | | 50,145 |
| Borrowings | - | - | - | | - | | - |
| Provisions | 1,087 | 26 | (26) | 2 | - | | 1,087 |
| | 51,116 | 142 | (26) | | - | | 51,232 |
| Liabilities directly associated with assets classified | | | | | | | |
| Total current liabilities | 51,116 | 142 | (26) | | - | | 51,232 |
| Non-current liabilities | | | | | | | |
| Convertible Notes | 153,215 | - | - | | - | | 153,215 |
| Provisions | 31,129 | - | - | | - | | 31,129 |
| Total non-current liabilities | 184,344 | - | - | | - | | 184,344 |
| Total liabilities | 235,460 | 142 | (26) | | - | | 235,576 |
| Net assets | 326,055 | 8,266 | 41,879 | | (10,817) | | 365,383 |
| Equity | | | | | | | |
| Issued capital | 284,985 | 15,972 | 41,565 | 1 | (15,972) | 5 | 326,550 |
| Reserves | 6,619 | 76 | - | | (76) | 5 | 6,619 |
| Retained earnings / (losses) | 34,451 | (7,782) | 314 | 2;3;4 | 5,231 | 3;5 | 32,214 |
| Equity attributable to owners of the parent | 326,055 | 8,266 | 41,879 | | (10,817) | | 365,383 |
| Total equity | 326,055 | 8,266 | 41,879 | | (10,817) | | 365,383 |

Notes

- 1 The acquisition of Ambassador by Drillsearch Bidco per the Bid Implementation Agreement dated 28 May 2014. Investment totals \$41.6m based on 142m Ambassador Shares on issue at \$0.293 per Ambassador Share.
- 2 Capitalised payments relate to corporate advisory fees incurred by Drillsearch of \$0.8m and landholder fees of \$0.2m. Ambassador corporate advisory fees of \$0.2m and payment for redundancies and administration costs of \$1.0m have been expensed.
- 3 Recognition of deferred tax assets of \$2.6m as these shall form part of the tax consolidated group.
- 4 Represents the write off of Colorado assets amounting to \$1m; title has not passed to the company and the assets do not form part of the core business of the group.
- 5 Consolidation adjustment to eliminate the share capital and pre acquisition reserves of Ambassador.

8. RISK FACTORS

8.1 Overview

Ambassador shareholders who accept the Offer will become shareholders in Drillsearch. The financial performance and operations of Drillsearch's business, the price of Drillsearch Shares and will be influenced by a range of factors. Some of these factors can be mitigated by the use of safeguards and appropriate commercial action. However, many of these factors are beyond the control of Drillsearch and the Drillsearch Board. Many of these factors also affect the businesses of other companies operating in the same industry. For example, as a shareholder in Ambassador, you are, to varying degrees, already exposed to a number of these risks.

The key risks that may have an adverse impact on the future performance of Drillsearch and the value of the Drillsearch Shares which you will receive as consideration under the Offer are contained in this Bidder's Statement and include the risks set out in this section.

The following is a description of:

- (a) risk factors that arise from the Offer;
- (b) risks factors that may affect Drillsearch and the Merged Group; and
- (c) risk factors affecting the general economy and the stock market.

Additional risks not presently known to Drillsearch Bidco or, if known, not considered material, may also have an adverse impact.

In deciding whether to accept the Offer, Ambassador shareholders should read this Bidder's Statement in its entirety and carefully consider the risks outlined in this section 8 and the other information contained in this Bidder's Statement.

8.2 Risk factors that arise from the Offer

(a) Less than 90% ownership in Ambassador

The Offer is conditional on Drillsearch Bidco obtaining a relevant interest in more than 50.1% of Ambassador Shares. The condition may be waived by Drillsearch Bidco. Therefore there is a risk that the final level of ownership acquired by Drillsearch Bidco may be less than 90% which could have an impact on Drillsearch Bidco's intentions regarding Ambassador (refer to section 6 for more information) as well as the realisation of the benefits and potential synergies expected from merging the two companies.

(b) Fluctuations in the market value of Drillsearch Shares

Ambassador shareholders are being offered consideration under the Offer that consists of a specified number of Drillsearch Shares rather than a number of Drillsearch Shares with a specified market value.

The market value of Drillsearch at the time at which they are received by Ambassador shareholders may vary from their market value on the date that Ambassador shareholders accept the Offer. This variation may be due to various factors including general movements in the Australian and international equity markets, investor sentiment, worldwide and regional economic conditions, movements in interest rates and factors which affect Drillsearch's financial position and earnings.

(c) Merger integration risks

Integrating two companies such as Drillsearch and Ambassador may produce some risks including integrating information systems and work practices. Greater than expected integration costs could have an adverse effect on the business of Drillsearch.

(d) Ambassador information

In preparing the information relating to Ambassador contained in this Bidder's Statement, Drillsearch Bidco has relied on publicly available information relating to Ambassador and information regarding Ambassador provided by Ambassador pursuant to the terms of the Bid Implementation Agreement. Risks may exist in relation to Ambassador (which may affect the Merged Group) of which Drillsearch Bidco may be unaware. However, as Ambassador is an ASX listed entity, any substantial threats to Ambassador's business should have been disclosed pursuant to Ambassador's periodic and continuous disclosure obligations.

If any material risks are known to Ambassador directors, they must be disclosed in the target's statement to be issued by Ambassador.

(e) Trigger of change of control provisions

Ambassador may be a party to agreements that contain change of control or pre-emptive rights provisions that may be triggered if, following completion of the Offer, Drillsearch Bidco acquires control of Ambassador. The operation of these provisions could have negative consequences for Ambassador (such as the loss of major contracts or assets, increased costs or the need to renegotiate financings).

(f) Accounting

Drillsearch will be required to perform a fair value assessment of all of Ambassador's assets and liabilities if the Offer is successful. This assessment may result increased depreciation charges. There is a risk that these charges may be substantially greater than those that would exist in Drillsearch and Ambassador as separate businesses. This may reduce the future earnings of the Merged Group.

(g) Taxation risks

The Australian taxation consequences and risks of the Offer depend upon the specific circumstances of each Ambassador shareholder. Ambassador shareholders should obtain their own professional taxation advice in relation to the Offer. A general summary of the main Australian taxation consequences for particular Ambassador shareholders who accept the Offer are set out in section 9 of this Bidder's Statement.

(h) Scrip for scrip capital gains tax roll-over relief

Scrip for scrip capital gains tax roll-over relief will not be available to Ambassador shareholders if, following the acquisition of Ambassador Shares as a result of the Offer, Drillsearch Bidco ends up owning, together with Drillsearch and its other wholly-owned subsidiaries, less than 80% of the Ambassador Shares. Note that Drillsearch and Drillsearch Bidco are unable to give tax advice and you should consult your tax adviser as to the availability of capital gains tax rollover relief.

8.3 Risk factors that may affect Drillsearch and the Merged Group

(a) Exploration and development risks

Oil and gas exploration is a speculative endeavour and involves significant risk associated with failure to find hydrocarbons in commercial quantities or at all. No assurances can be given that any of the prospects in Drillsearch's exploration pipeline or any other projects that may be undertaken by Drillsearch in the future will result in the discovery of or development of a commercially viable oil and gas deposit. Future exploration activities including drilling and seismic acquisition may result in changes in current prospectivity perceptions of individual prospects, leads and permits. It may even lead to a relinquishment of the permit or a portion of the permit.

Exploration and development operations can be hampered by force majeure circumstances and cost overruns for unforeseen events, including, unexpected variations in location, reserves estimates, quality of oil and gas, and facility malfunction. Exploration and development projects may be delayed or unsuccessful for many reasons including cost overruns, lack of qualified and available personnel and contractors, lack of drill rigs, equipment shortages, power shortages and mechanical difficulties.

Drillsearch is engaged in exploration and development of unconventional resources in the Cooper-Eromanga Basin in Australia. The area is a well-established oil and gas production region with existing infrastructure, however Drillsearch may be amongst the first to produce from unconventional reservoirs. Development challenges associated with unconventional resource projects in Australia include the ability to: correctly determine the size of resource and scale of development; access existing facilities (through other joint ventures) or build new ones; access rigs which can drill to the depth required; secure off-take customers; obtain experienced and qualified personnel including those with relevant well and unconventional reservoir management experience; gain access to appropriate technology; and gain the required landholder and regulatory approvals.

(b) Drilling risks

The cost of drilling, completing and operating wells is often uncertain and subject to numerous risks, many of which are beyond Drillsearch's control. These activities as a result, may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of a variety of factors, including unexpected drilling conditions, dry holes, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements, including those relating to environmental protection, and shortages or delays in the availability of drilling rigs and appropriately skilled and experienced technicians and the delivery of equipment. Furthermore, drilling may result in wells that, whilst encountering oil and gas, may not achieve commercially viable results.

Drillsearch may in the future use hydraulic fracturing technology in its exploration and development activities. The use of this technology although tried and tested has been the subject of increased government and public interest and the introduction of any new laws, regulations or requirements in respect of hydraulic fracturing could result in production restrictions, operational delays, increased operational costs and potential claims from a third party or governmental authority.

(c) Production risks

Any oil and gas projects may be exposed to production decrease or stoppage, which may be the result of facility shut-downs (including third party infrastructure), mechanical or technical failure and other unforeseeable events. A significant failure to maintain production could result in Drillsearch lowering production forecasts, loss of revenue and additional operational costs to bring production online. There may be occasions where loss of production may incur significant capital expenditure, resulting in the requirement for Drillsearch to seek additional funding, through equity or debt issuance.

(d) Other operating risks

Industry operating risks include but are not limited to fire, explosions, blow outs, mechanical pipe failures, abnormally pressured formations and environmental hazards such as accidental spills or leakage of petroleum liquids, gas leaks, ruptures or discharge of hazardous gases. The occurrence of any of these risks could result in substantial losses to Drillsearch due to injury or loss of life; damage to or destruction of property, natural resources, or equipment; pollution or other environmental damage; cleanup responsibilities; regulatory investigation and penalties or suspension of operations. Damages occurring to third parties as a result of such risks may give rise to claims against Drillsearch.

(e) Oil and gas price fluctuations

A severe decline in the price of oil and gas may have a material adverse effect on Drillsearch's financial performance. Historically, international crude oil prices have been very volatile. A sustained period of low or declining crude oil prices could adversely affect Drillsearch's operations, financial position and ability to finance developments.

The factors which impact volatility are beyond the control of Drillsearch. Lower price expectations may reduce future margins or the economic viability of projects planned or in development (thereby reducing the size of recoverable reserves). The risk factors which may impact Drillsearch include: global and regional supply and demand and expectations regarding future supply and demand for crude products; the status of the Australian domestic gas market supply and demand and international Liquefied Natural Gas demand; the associated impacts of major development projects within the region; the cost of exploring for, developing, producing, processing and marketing crude oil, natural gas and associated products; the ability and willingness of the Organisation of Petroleum Exporting Countries and other producing nations to influence global production levels and prices; the international political environment and any potential hostilities and acts of terrorism in resource-producing regions; prices and availability of alternative and competing fuels; global and regional economic conditions; unexpected failure in infrastructure; prices and availability of new technology; and weather and climate conditions and natural disasters.

(f) Ability to exploit successful discoveries

It may not always be possible for Drillsearch to participate in the exploitation of successful discoveries made in any areas in which Drillsearch has an interest. Such exploitation will involve the need to obtain the necessary licences or clearances from the relevant authorities, which may require conditions to be satisfied and the exercise of discretions by such authorities. It may or 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 interests and objectives may not be the same as Drillsearch.

Further, even if Drillsearch recovers commercial quantities of oil or gas, there is no guarantee that Drillsearch will be able to successfully transport the oil or gas to commercially viable markets or sell the oil or gas to customers to achieve a commercial return.

(g) Competition

Drillsearch is exposed to competition in the upstream gas market in eastern Australia. The potential construction of pipelines to transport gas or the discovery of significant new gas resources in eastern Australia could have a significant impact on the supply and demand dynamics of the eastern Australian gas markets which could impact wholesale gas prices and Drillsearch's profitability.

Some of Drillsearch's competitors, including major oil companies, will have greater financial and other resources than Drillsearch and, as a result, may be in a better position to compete for future business opportunities. Many of the competitors not only explore for, and produce oil and gas, but also carry out refining operations and market petroleum and other products on a worldwide basis. There can be no assurance that Drillsearch can compete effectively with these companies.

(h) Ability to access and develop infrastructure

Drillsearch will require the ability to access infrastructure to economically exploit any reserves discovered. Specifically, the ability to access or build gas pipeline infrastructure within the Cooper-Eromanga Basin would drive the commerciality and value of existing conventional and unconventional resources. In addition, Drillsearch may undertake exploration in other locations where access to infrastructure to exploit discovered reserves may not currently exist and, as a result, may be challenging to develop and require significant capital investment which may impact the economic viability of the discovered reserves.

Primary risks include future capacity availability, tariff charges, regulation changes and the ability to obtain approvals for pipeline expansions/constructions from governments (across a number of different sovereign states).

The ability to develop, manage and transport products successfully relies on accessible and efficient supply chains and logistics. Failure to manage said requirements could result in project delays and additional capital expenditure outlays.

(i) Reliance on third party infrastructure

It is common in the oil and gas sector for industry participants to share transportation and operating infrastructure (such as gas processing facilities and gas pipelines). As such, Drillsearch relies on access to properly maintained operating infrastructure and shared facilities that, in some circumstances, may not be directly controlled by Drillsearch in order to deliver its production to the market. Any delay or failure to access or properly maintain operating infrastructure or shared facilities may have a material adverse effect on Drillsearch.

(j) Material change to reserves and resources

Underground oil and gas reserve and resource estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates which are valid at a certain point in time may alter significantly or become uncertain when new oil and gas reservoir information become available through additional drilling or reservoir engineering over the life of the field. As reserve and resource estimates change, development and production plans may be altered in a way that may adversely affect Drillsearch's operations and/or financial results.

Drillsearch's reported reserves are hydrocarbons which can be economically recovered, hence certain assumptions are made, including those relating to future oil and gas prices, rates of production, future net revenues, royalty and tax payments, cost of recovery and the timing of development based on existing economic and operating conditions. In addition, estimates necessarily depend upon a number of variable factors and assumptions, including the following: historical production from the area; interpretation of geological and geophysical data; and the assumed effects of regulations by governmental agencies. Therefore, if these assumptions change, or are no longer relevant, the estimates may need to be revised.

Ongoing results from continued drilling, testing and production may cause upward or downward revisions in reported reserves and resources. Additionally, oil and gas reserves and resources assume that Drillsearch continues to be entitled to production licences over the fields and that the fields would be produced until the economic limit of production is reached. If any production licences for fields are not renewed or cancelled, estimated oil and gas reserves and resources may materially decrease.

(k) Negotiation with third parties

Various aspects of Drillsearch's future performance and profitability may depend on the outcome of future negotiations with third parties. In addition to sales negotiations, these include the outcome of negotiations on land access arrangements, terms of access to third-party facilities, native title issues and discussions with government regulatory bodies in relation to: licence renewals and work obligations; and security for rehabilitation of areas of operation within Drillsearch's tenements. If the outcomes of these negotiations are not favourable to Drillsearch, then its financial performance may be adversely impacted.

(l) Project delay

To the extent that construction and development activities are delayed (including as a result of weather conditions, unexpected drilling conditions, pressures or irregularities in formations, equipment failures, accidents or unavailability, mechanical difficulties, shortages or delays in delivery of rigs and/or other equipment) and production cannot meet the required estimates, this may have a material adverse effect on Drillsearch.

(m) Delivery failure

If Ambassador or Drillsearch fails to meet its delivery obligations under contracts, then liquidated damages may become payable. Delivery failure and any damages liability which flows from this failure may have a material adverse effect on Drillsearch.

(n) Insurance

Drillsearch maintains 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.

Also 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 Drillsearch 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. Drillsearch will use reasonable endeavours to insure against the risks it considers appropriate for Drillsearch's needs and circumstances. However no assurance can be given that Drillsearch 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.

(o) Management and technical personnel

In part, Ambassador's and Drillsearch's operations rely on the continued performance, efforts, abilities and expertise of its key personnel and contractors. There are no guarantees that the Merged Group will be able to retain these employees or continue to engage the services of contractors on acceptable terms. Ambassador currently employs limited technical staff and it is not expected that any loss of Ambassador personnel or contractors following the completion of the merger will have a material impact on the ability of the Merged Group to continue to conduct operations across the combined entity. In addition, Drillsearch does not anticipate the loss of any key personnel or contractors as a result of the completion of the merger.

(p) Financing

Drillsearch in order to meet future expenditures including ongoing work programmes and new business expenditures, may be required to raise additional capital. There can be no assurance that sufficient equity or debt funding will be available to Drillsearch on favourable terms or at all including repayment or refinancing of any outstanding debt. In the event Drillsearch is unable to raise necessary finance, there may be a reduction in planned capital expenditure which could have a material adverse effect on the Drillsearch's ability to expand its business and/or maintain operations at current levels; this could, in turn, have a material adverse effect on the Drillsearch's business, financial condition and operations. Any additional equity financing may dilute existing shareholdings.

(q) Contractual arrangements

Ambassador and Drillsearch are parties to a number of material contracts and may be advanced in the finalisation of other contracts. Failure by any other party to a contract with Ambassador or Drillsearch to comply with their obligations could have a material adverse effect on Drillsearch. Additionally, the failure by the Merged Group to finalise and execute contracts presently under negotiation or to finalise conditions arising under existing conditional material contracts could have a material adverse effect on Drillsearch.

(r) Land access and native title

Immediate and continuing access to tenements cannot in any case be guaranteed. Drillsearch is required to obtain the consent of owners and occupiers of land within its licence areas. Compensation may be required to be paid to the owners and occupiers of land in order to carry out exploration activities.

Drillsearch operates in a number of areas, within Australia, that are or may become subject to claims or applications for native title determinations. Although, Drillsearch has experience in dealing with a number of native title claims in Australia in relation to some of its existing Cooper-Eromanga Basin licences, native title claims have the potential to introduce delays in the granting of petroleum and other licences and, consequently, may have an effect on the timing and cost of exploration, development and production.

Drillsearch may also incur considerable expense in negotiating and resolving land access and native title issues. Native or indigenous title and land rights may also apply or be implemented in other jurisdictions in which Drillsearch operates outside of Australia.

(s) Environmental risk

Oil and gas exploration, development and production can be potentially environmentally hazardous giving rise to substantial costs for environmental rehabilitation, damage control, and losses. Drillsearch's operations will be subject to environmental controls relating to hazardous operations and for those projects offshore, the discharge of waste into the sea. Drillsearch's policy will be to ensure operations are carried out in accordance with all applicable environmental laws and regulations.

(t) Occupational health and safety risk

Exploration and production of oil and gas may expose the Merged Group's staff to potentially dangerous working environments. Occupational health and safety legislation and regulations differ in each jurisdiction. If any of the Merged Group's employees suffered injury or death, compensation payments or fines may be payable and such circumstances could result in the loss of a licence or permit required to carry on the business.

(u) Joint ventures

Drillsearch and its subsidiaries participate in joint ventures for certain exploration, development and production activities. Under certain joint venture operating agreements, Drillsearch or a subsidiary may not control the approval of work programmes and budgets and a joint venture partner may vote to participate in certain activities without the approval of Drillsearch. As a result, Drillsearch may experience a dilution of its interest or may not gain the benefit of the activity, except at a significant cost penalty later in time. Participating in a joint venture, as a non-operator, may cause difficulty in setting forecast budgets.

Drillsearch may be voted into programs and budgets which it does not necessarily agree with or have the cash resources to fund. It may also be required to contribute to any increases in capital expenditure requirements and/or operating costs. Furthermore, the situation could arise where any or all of the joint venture parties are unable to fund their pro rata contributions to expenditure, in which case Drillsearch may have to make increased contributions to ensure that the program proceeds.

Work programme delays may arise due to joint venture partners not reaching agreement on exploration, development and production activities. Neither Drillsearch nor its subsidiaries have any assurance of the financial viability of other joint venture partners and may incur unforeseen costs and losses in the event of default of joint venture participants.

Other companies may from time to time be operators under joint venture operating agreements and, to the extent that Drillsearch is a minority joint venture partner, Drillsearch will be dependent to a degree on the efficient and effective management of those operating companies as managers.

Drillsearch's joint venture partners may have economic or other business interests or goals that are inconsistent with the business interest or goals of Drillsearch and may be in a position to take actions contrary to Drillsearch's objectives or interests.

(v) Compulsory work obligations

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 is 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 obligation could lead to forfeiture of the permit.

(w) Cash calls

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.

(x) Legislation and regulation

The introduction of new legislation, amendments to existing legislation, the application of developments in existing common law or policies or the interpretation of those laws or policies, particularly in relation to land access arrangements, royalties and production and exploration licensing may adversely affect Drillsearch's future operations and financial performance.

Further, Ambassador and Drillsearch will, from time to time, require various government regulatory approvals for its operations and must comply with those approvals, applicable laws, regulations and policies. In particular, Ambassador and Drillsearch may require licences and approvals in relation to its exploration and development activities, environmental matters and the manufacture and supply of gas and electricity. There is a risk that Ambassador and Drillsearch may not obtain, or there may be a delay in obtaining, the necessary licences and approvals. This may affect the timing and scope of work that can be undertaken and that can be done. The loss of granted tenements may have a material adverse effect on the Merged Group.

(y) Government taxes and charges

There is a risk that Commonwealth, state or territory governments may alter tax regimes which may have the effect of reducing cash available for distributions to shareholders, or altering the tax treatment of distributions in the hands of shareholders.

Companies in the oil and gas industry may be subject to pay direct and indirect taxes, royalties and other imposts in addition to normal company taxes. Drillsearch operates in Australia and accordingly its profitability may be affected by changes in government taxation and royalty policies or in the interpretation or application of such policies in Australia. 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 Drillsearch Shares or the holding or disposal of those shares.

(z) Litigation

Drillsearch may be exposed to potential legal and other claims or disputes. Litigation risks include, but are not limited to, customer claims, native title claims,

tenure disputes, environmental claims, occupational health and safety claims, legal action from special interest groups, as well as third party losses resulting from infrastructure or other asset disruption.

(aa) Production licence

In the production of any successful oil or gas well it is typically necessary for a production licence to be granted. Subject to remedying any default or non-compliance then existing, the Merged Group should generally be entitled to the grant of a production licence in respect of an area over which it holds an exploration or prospecting permit but there is no guarantee.

(bb) Unitisation

In the event of a cross-border discovery or a cross-permit discovery involving another permit holder, the Merged Group will 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).

8.4 Risks that affect the general economy and the stock market

There are a number of general risks that apply. The performance of the Merged Group and the price at which Drillsearch Shares may trade on ASX may be determined by a range of factors.

(a) Economic factors

Drillsearch's operational results may be adversely impacted by factors including significant changes in general economic conditions such as interest rates, inflation, deflation, currency fluctuations and general market levels. A number of factors affect the performance of stock markets, which could affect the price at which the Drillsearch Shares trade on the ASX. Among other things, movements on international and domestic stock markets, interest rates, inflation and inflationary expectations, deflation and deflationary expectations, currency fluctuations, general economic outlook and overall economic conditions and investor sentiment, as well as government taxation and other policy changes may affect the demand for, and price of, Drillsearch Shares. Volatility in the Australian or international financial markets may influence the market price of Drillsearch Shares on the ASX.

The economic situation in global markets has in various ways been adversely affected by weakening economic conditions and recent turmoil in the global financial markets. Some countries have experienced declining Gross Domestic Product, reduced industrial production, increasing rates of unemployment and decreasing asset values. A continued downturn in economic conditions may result in lower demand for Drillsearch's products and, in turn, impact negatively on its financial position.

Furthermore, recent volatility in the credit markets and the potential impact on the liquidity of major financial institutions may have an adverse effect on Drillsearch's cost of funding.

(b) Foreign exchange risk

A portion of the operating and other business revenue and expenditures of Drillsearch is determined denominated in foreign currencies, predominately US dollars. The future value of Drillsearch Shares may fluctuate in accordance with movements in foreign currency exchange rates. Fluctuations in the exchange rate between the US dollar and the Australian dollar and operating currencies of

Drillsearch will result in foreign exchange gains and losses which may impact on Drillsearch's financial performance.

(c) Interest rate risk

Drillsearch is exposed to interest rate movements where funds are borrowed at a floating interest rate and which are not effectively hedged. There is a risk that such interest rate movements may affect the earnings of each business.

(d) Share market conditions

A number of factors affecting the performance of the stock market could also affect the price at which Drillsearch Shares trade on ASX. Among other things, the stock market may be affected by movements on international stock markets, local interest rates and exchange rates, oil prices, domestic and international economic conditions, as well as government taxation and other policy changes. In particular, stock market sectors such as resources, can at times exhibit greater volatility than other sectors. Any overall stock market correction may be exacerbated in the resources sector.

9. TAXATION CONSIDERATIONS

The following is a general description of the Australian income, capital gains tax (**CGT**), goods and services tax (**GST**) and stamp duty consequences of disposing of your Ambassador Shares as a result of accepting the Offer. It does not apply to disposals of Ambassador Shares that have already occurred.

If any of the Defeating Conditions are not satisfied, Drillsearch Bidco will be entitled to rescind its acquisition of Ambassador Shares. In these circumstances, there will be no tax consequences for holders of Ambassador Shares.

9.1 **Australian income tax and CGT implications for Ambassador shareholders: introductory comments**

The information below is based upon the Australian income tax and CGT law and practice in effect at the date of this Bidder's Statement. It is general in nature and is not intended to be an authoritative or comprehensive description of the application of the income tax and CGT law in all circumstances that may apply to particular holders of Ambassador Shares. In particular, it does not apply to disposals of Ambassador Shares:

- held by partnerships; or
- to which the "taxation of financial arrangements" rules apply; or
- acquired under an employee share scheme.

The Australian income tax and CGT consequences of disposing of your Ambassador Shares will depend on a number of factors including:

- (a) whether you are an Australian resident or non-resident for tax purposes;
- (b) whether you hold your Ambassador Shares on capital or revenue account or as trading stock;
- (c) when you acquired your Ambassador Shares for tax purposes;
- (d) whether you are an individual, a company or a trustee of a complying superannuation entity; and
- (e) whether scrip for scrip roll-over relief is available – see section 9.4.

The various possible outcomes are summarised in general terms below. You are advised to seek independent professional advice regarding the Australian income tax and CGT consequences of disposing of your Ambassador Shares, according to your own particular circumstances.

9.2 **Shareholders who are Australian residents**

(a) Disposal of shares held as trading stock

If you hold your Ambassador Shares as trading stock, you will be required to include in your assessable income the value of the Drillsearch Shares received on the disposal of your Ambassador Shares. The CGT provisions (see (c) below) do not apply to disposals of trading stock.

(b) Disposal of shares held on revenue account

If you acquired your Ambassador Shares in the course of a business of generating returns on investments, or you acquired your Ambassador Shares for the purpose

of profit-making on disposal, then you may be considered to hold your Ambassador Shares on revenue account for tax purposes. In those circumstances, a gain or loss arising on the disposal of your Ambassador Shares should be assessable income or an allowable deduction.

The assessable income or allowable deduction will be calculated as the difference between:

- (i) the value of the consideration received on the disposal of your Ambassador Shares (that is, the value of the Drillsearch Shares received, as at the time of receipt); and
- (ii) the cost of acquiring your Ambassador Shares.

The CGT rules (see (c) below) will also apply on the disposal of your Ambassador Shares but any capital gain or loss should be reduced to nil by an anti-overlap rule.

(c) Disposal of shares held on capital account

If you hold your Ambassador Shares as a passive investment with a view to generating dividend income and long term capital growth, it is likely that you will be considered to hold your Ambassador Shares on capital account. In those circumstances, the consequences summarised at 9.2(a) and 9.2(b) above should not apply.

The disposal of Ambassador Shares will be a "CGT event" and will have CGT implications. The time at which the CGT event occurs should be when you accept the Offer. CGT consequences of the CGT event will depend upon a number of factors, including:

- the date your Ambassador Shares were acquired for CGT purposes;
- your taxpayer status;
- the length of time you have held your Ambassador Shares; and
- whether or not you are entitled to scrip for scrip rollover relief.

Note that if you are an Australian resident and you hold your shares on capital account, and if you would otherwise make a capital gain on the disposal of your Ambassador Shares pursuant to the Offer, scrip for scrip rollover relief may be available: see section 9.4. If rollover relief is available and is chosen, no CGT liability should arise on the disposal of your Ambassador Shares.

General position

If scrip for scrip rollover relief is not available or is not chosen, the CGT consequences of disposing of your Ambassador Shares should be as set out below.

The capital gain or loss that you make on the disposal of your Ambassador Shares will be equal to the difference between:

- the capital proceeds received for your Ambassador Shares (i.e. the value of the Drillsearch Shares that you are to receive, valued at the time of your acceptance of the Offer); and
- the cost base (or, in the case of a capital loss, reduced cost base) of your Ambassador Shares. In general, the cost base and reduced cost base of your Ambassador Shares should be the same. Both will include the

amount paid to acquire the shares plus any incidental costs of acquisition, e.g. brokerage fees and stamp duty.

All of your capital gains and capital losses in an income year will be aggregated to determine whether you have a net capital gain or a net capital loss for that income year. Broadly, a net capital gain for an income year is the total of all capital gains made in the income year less capital losses made in the income year and available capital losses made in previous years, subject to the potential effect of the CGT discount rules discussed below.

CGT discount

If you are an individual, trust or complying superannuation fund and you have held your Ambassador Shares for 12 months or longer at the time the Offer is accepted, the discount capital gain rules will apply in calculating any capital gain on disposal of your Ambassador Shares. This means that:

- if you are an individual or trust, only one-half of the capital gain (after offsetting available capital losses) will be included in your assessable income or the net income of the trust; or
- if you are a complying superannuation fund, only two-thirds of the capital gain (after offsetting available capital losses) will be included in the fund's assessable income; or
- if you are an individual beneficiary of a trust, a discount capital gain on the disposal of the Ambassador Shares which is allocated to you by the trust will be grossed-up and any capital losses available to you will be offset against the gain. The net amount is then reduced by 50% under the discount capital gain rules, if applicable in your circumstances.

The discount capital gain rules do not apply to shareholders and trust beneficiaries that are companies.

The net gain will be included in your assessable income and will be subject to income tax at the applicable income tax rate unless, as noted above, scrip for scrip rollover relief is available and is chosen: see section 9.4.

Capital loss

If you make a capital loss from the disposal of your Ambassador Shares, the capital loss will be offset against capital gains made in the same or subsequent income years (subject to satisfying any applicable carry forward loss conditions) but cannot be offset against ordinary income and cannot be carried back to reduce net capital gains arising in earlier income years.

9.3 Shareholders who are not Australian residents

(a) Disposal of shares held as trading stock or on revenue account

If you are not a resident of Australia for Australian tax purposes and your Ambassador Shares were acquired as trading stock or otherwise on revenue account, you should seek your own professional advice. The Australian tax treatment will depend on the source of any gain and, if the gain has an Australian source, whether a tax treaty between your country of residence and Australia exempts the gain from Australian tax.

(b) Disposal of shares held on capital account

If you are not a resident of Australia for Australian tax purposes and hold your Ambassador Shares on capital account, you will generally not be subject to CGT on the disposal of your Ambassador Shares unless:

- (i) the shares are "indirect Australian real property interests" (**TARP**), which will be the case if both of these conditions apply to you:
 - you (together with your associates) owned at least 10% of Ambassador either at the time you sold your Ambassador Shares or for at least 12 months during the 24 months before you sold your Ambassador Shares; and
 - in broad terms, more than 50% of the value of Ambassador's assets is represented by direct and indirect interests in real property in Australia (which includes mining leases and, if changes that are proposed to apply to disposals after 14 May 2013 are enacted, will also include mining information and other intangible assets connected to mining or prospecting rights); or
- (ii) you used your Ambassador Shares at any time in carrying on a business through a permanent establishment in Australia.

If the disposal of your Ambassador Shares is subject to CGT:

- scrip for scrip rollover relief (see section 9.4) will not be available if you receive a cash amount pursuant to clause 11.22; but
- scrip for scrip rollover may be available if:
 - you receive Drillsearch Shares, and not cash, in exchange for your Ambassador Shares (because your address is shown in the register of members of Ambassador as being in New Zealand); and
 - the Drillsearch Shares are indirect Australian real property interests immediately after you acquire them. The conditions summarised in (i) above regarding whether your Ambassador Shares are indirect Australian real property interests apply correspondingly to the Drillsearch Shares that you acquire; and
 - the conditions for rollover mentioned in section 9.4 are satisfied (including the making of a choice that rollover should apply).

If a gain on disposal of your Ambassador Shares is subject to CGT and scrip for scrip rollover relief is not available or you do not choose to claim the rollover relief, the taxable capital gain may be reduced under the discount capital gain rules described in 9.2(c) but no discount will be available in respect of the portion of any gain made by a non-resident after 8 May 2012.

9.4 Scrip for scrip rollover relief

Scrip for scrip rollover relief enables a shareholder to elect to disregard a capital gain made on the disposal of a share as part of a corporate takeover or merger, if the shareholder receives a replacement share in exchange.

You may be entitled to scrip for scrip rollover relief if:

- (a) you accept the Offer and receive Drillsearch Shares as consideration for the disposal of your Ambassador Shares;
- (b) you would otherwise make a capital gain; and
- (c) as a result of the Offer, Drillsearch Bidco, together with Drillsearch and its other wholly-owned subsidiaries, end up owning at least 80% of the voting shares in Ambassador.

The availability of rollover relief will also depend on your individual circumstances. For example:

- an additional condition applies if you are not a resident of Australia (see section 9.3); and
- an additional condition applies if you (together with associates) hold a "significant stake" in Ambassador immediately before the Takeover Bid and you also hold a "significant stake" in Drillsearch or you are an associate of Drillsearch immediately after completion of the takeover process. A "significant stake" is, broadly, an ownership interest of 30% or more of the shares in Ambassador or Drillsearch respectively.

You should consult your own tax adviser to clarify whether or not the relief will be available to you.

If rollover relief is available to you and you choose to claim rollover relief:

- the capital gain that would otherwise arise from the disposal of your Ambassador Shares will be disregarded, and
- the cost base of the Ambassador Shares for which rollover is chosen will become the cost base of the Drillsearch Shares that you receive in exchange for those shares. Any incidental costs of acquiring your Drillsearch Shares will also form part of the cost base of those shares.

The effect of the rollover, therefore, will be to defer the gain on the disposal of your Ambassador Shares until you dispose of the Drillsearch Shares that you receive in exchange.

In addition, you will be taken to have acquired your Drillsearch Shares when you acquired your Ambassador Shares. If you subsequently dispose of your Drillsearch Shares, the deemed time of acquisition of those shares will be relevant in determining whether the discount capital gain rules apply to any gain on the disposal of the shares.

9.5 **GST**

No Australian GST should be payable on the transfer of Ambassador Shares or on the issue of Drillsearch Shares to you. GST may be payable on any brokerage charged by your Controlling Participant for carrying out your instructions.

9.6 **Stamp duty**

Holders of Ambassador Shares will not be liable to pay any stamp duty on the transfer of their Ambassador Shares to Drillsearch Bidco pursuant to the Offer or as a result of a compulsory acquisition of Ambassador Shares. The issue of Drillsearch Shares as consideration for the disposal of Ambassador Shares in accordance with the Offer will not attract stamp duty.

10. ADDITIONAL INFORMATION

10.1 Summary of the Bid Implementation Agreement

Drillsearch and Ambassador entered into a Bid Implementation Agreement on 28 May 2014 whereby Drillsearch and Ambassador have agreed to co-operate with each other in relation to the Offer (**Bid Implementation Agreement**). The full terms of the Bid Implementation Agreement can be viewed in the announcement of the Offer by Drillsearch on the Announcement Date.

In circumstances where Ambassador recommends the Magnum Hunter Offer, Ambassador may terminate the Bid Implementation Agreement. Where Ambassador recommends the Magnum Hunter Offer, Drillsearch will be entitled to a break fee of \$200,000 (plus GST) unless Drillsearch accepts Magnum Hunter's Offer in respect of Ambassador Shares it owns or Drillsearch acquires a relevant interest in more than 50% of Ambassador and the Offer becomes or is declared unconditional.

10.2 Date for determining holders of Ambassador Shares

For the purposes of section 633 of the Corporations Act, the date for determining the people to whom information is to be sent under items 6 and 12 of section 633(1) is the Register Date.

10.3 ASIC modifications and exemptions

Drillsearch Bidco has not obtained from ASIC any modifications of, or exemptions from, the Corporations Act in relation to the Takeover Bid. However, ASIC has published various "Class Order" instruments providing for modifications and exemptions that apply generally to all persons, including Drillsearch Bidco, in relation to the operation of Chapter 6 of the Corporations Act. Drillsearch Bidco may rely on this "Class Order" relief.

10.4 Drillsearch Shares as consideration under the Offer

The price for the acquisition of Ambassador Shares under the Offer is to be satisfied by the issue of Drillsearch Shares. The Offer Consideration is 1 Drillsearch Share for every 5.4 Ambassador Shares.

The number of Drillsearch Shares to be issued will depend on the number of Ambassador Shares that Drillsearch acquires under the Offer.

The maximum number of Drillsearch Shares which would be required to be issued under the Offer if acceptances are received in respect of all the Ambassador Shares on issue at the date of this Bidder's Statement is approximately 21,073,936 Drillsearch Shares (excluding rounding adjustments). Including Drillsearch Shares issued to the Selling Ambassador shareholders, Drillsearch will issue a total of approximately 26.3 million shares in order for Drillsearch Bidco to acquire 100% of Ambassador, equivalent to approximately 6.1% of Drillsearch's total issued share capital. Ambassador shareholders will own approximately 5.7% of Drillsearch if Drillsearch acquires 100% of Ambassador.

10.5 Disclosure of interests and benefits

(a) Interests of the Drillsearch Directors

As at the date of this Bidder's Statement, the Drillsearch Directors have the following interests in Drillsearch Shares.

| Director | Drillsearch Shares | Drillsearch Options | Performance Rights |
|-------------------|---------------------------|----------------------------|---------------------------|
| Jim McKerlie | 2,239,894 | 1,124,338 | Nil |
| Brad Lingo | 1,116,343 | 1,574,338 | 1,247,621 |
| Fiona Robertson | 692,950 | 562,169 | Nil |
| Ross Wecker | 447,343 | 562,169 | Nil |
| Philip Bainbridge | 54,600 | Nil | Nil |
| TS Cheah | 340,000 | Nil | Nil |

(b) Interested Person

For the purposes of this section 10.5 an **Interested Person** is:

- (i) a director or proposed director of Drillsearch;
- (ii) a person named in this Bidder's Statement as performing a function in a professional, advisory or other capacity in connection with preparing or distributing this Bidder's Statement; or
- (iii) a promoter of Drillsearch.

(c) Interests

Except as disclosed in this Bidder's Statement no Interested Person holds or held at any time during the two years before the date of this Bidder's Statement any interest in:

- (i) forming or promoting Drillsearch;
- (ii) property acquired or proposed to be acquired by Drillsearch in connection with:
 - (A) forming or promoting Drillsearch; or
 - (B) the offer of Drillsearch Shares; or
- (iii) the offer of Drillsearch Shares.

Ashurst Australia has acted as legal adviser to Drillsearch in connection with the Offer and is entitled to professional fees in accordance with their normal time charged basis.

(d) Benefits

Except as disclosed in this Bidder's Statement no one has paid or agreed to pay fees or given or agreed to give any benefit to:

- (i) a director or proposed director of Drillsearch to induce that person to become or qualify as a director of Drillsearch; or

- (ii) any Interested Person for services provided by that person in connection with:
 - (A) forming or promoting Drillsearch; or
 - (B) the offer of Drillsearch Shares under the Offer.

10.6 Consents

Each of the parties named in the table below as consenting parties:

- (a) has given and has not, before the date of this Bidder's Statement, withdrawn its written consent to be named in this Bidder's Statement in the form and context in which it is named;
- (b) has given and has not, before the date of this Bidder's Statement, withdrawn its written consent to the inclusion of the respective statements or reports noted next to its name below, and the references to those statements or reports in the form and context in which they are included in this Bidder's Statement;
- (c) does not make, or purport to make, any statement in this Bidder's Statement other than those statements referred to below in respect of that party's name (and consented to by that party); and
- (d) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Bidder's Statement.

| Consenting party | Named as | Report or statements |
|-------------------------------|----------------|----------------------|
| Ashurst Australia | Legal adviser | N/A |
| Core Energy Group Pty Limited | N/A | Section 3.3(b) |
| DeGolyer and MacNaughton | N/A | Section 3.1(c) |
| Link Market Services Limited | Share registry | N/A |
| RISC | N/A | Section 3.1(c) |

ASIC has published various Class Orders that modify, or exempt parties from compliance with the operation of various provisions of Chapter 6 of the Corporations Act. Drillsearch Bidco has relied on that ASIC Class Order relief.

As permitted by ASIC Class Order 01/1543 this Bidder's Statement contains statements which are made, or based on statements made, in documents lodged with ASIC or given to ASX. Pursuant to this ASIC Class Order, the consent of persons to whom such statements are attributed is not required for the inclusion of these statements in this Bidder's Statement.

Any Ambassador Shareholder who would like to receive a copy of any of those documents may obtain a copy free of charge during the Offer Period by contacting the Drillsearch Offer Information Line on 1300 365 790 (within Australia) or +61 1300 365 790 (outside Australia) between 8.30am and 5.30pm Monday to Friday (Sydney time).

As permitted by ASIC Class Order 03/635, this Bidder's Statement may include or be accompanied by certain statements:

- fairly representing a statement by an official person; or
- from a public official document or a published book, journal or comparable publication.

Pursuant to this ASIC Class Order, the consent of such persons to whom statements or documents are attributed is not required for the inclusion of those statements in this Bidder's Statement.

In addition, as permitted by ASIC Class Order 07/429, this Bidder's Statement contains share price trading data sourced from IRESS without its consent.

10.7 **Competent persons statement**

Unless stated otherwise, any statements in this Bidder's Statement regarding reserves and resource is based on information compiled by Mr Neil Thompson, General Manager Exploration and Development at Drillsearch. Mr Thompson is a Qualified Petroleum Reserves and Resources Evaluator and a Member of the American Association of Petroleum Geologists. Mr Thompson is a full-time employee of Drillsearch. Mr Thompson has sufficient experience that is relevant to Drillsearch's reserves and resources to qualify as a Reserves and Resources Evaluator as defined in the ASX Listing Rules. Mr Thompson consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Mr Thompson:

- does not make, or purport to make, any statement in this Bidder's Statement or any statement on which a statement in this Bidder's Statement is based; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Bidder's Statement, other than a reference to his name.

10.8 **Foreign Shareholders**

If an Ambassador Shareholder is (or is acting on behalf of) a resident of a jurisdiction other than Australia, its external territories or New Zealand, or the address shown in Ambassador's register of members is a place outside Australia, its external territories or New Zealand, or an Ambassador Shareholder is acting on behalf of such a person, then they are considered a **Foreign Shareholder**.

In respect of a Foreign Shareholder, unless Drillsearch Bidco otherwise determines that:

- it is lawful and not unduly onerous and not unduly impracticable to make the Offer to them and to issue them with Drillsearch Shares on acceptance of the Offer; and
- it is not unlawful for them to accept the Offer by the law of the relevant place outside Australia and its external territories or New Zealand,

then they are an **Ineligible Foreign Shareholder**, and they will not be entitled to receive Drillsearch Shares as consideration for their Ambassador Shares.

If you are an Ineligible Foreign Shareholder and you accept the Offer, Drillsearch Bidco will:

- arrange for the issue to the Nominee of the number of Drillsearch Shares to which you and all other Ineligible Foreign Shareholders would have been entitled but for section 11.2;

- (d) cause the Nominee to offer for sale those Drillsearch Shares as soon as practicable after the end of the Offer Period in such manner, at such price and on such other terms and conditions as are determined by the Nominee; and
- (e) pay to them the amount ascertained in accordance with the formula in section 11.22.

Notwithstanding anything else contained in this Bidder's Statement, Drillsearch Bidco is not under any obligation to spend any money or undertake any action, in order to satisfy itself of the eligibility of Foreign Shareholders to receive Drillsearch Shares.

10.9 **Appointment of Nominee**

If required, Drillsearch Bidco will seek, pursuant to section 619(3)(a) of the Corporations Act, approval from ASIC for the Nominee to be appointed in relation to the Offer on the conditions that the Nominee remains the holder of an appropriate financial services licence during the period of time necessary to complete the relevant procedure under section 619(3) and the Nominee only acts in its capacity as nominee under section 619(3) of the Corporations Act on behalf of the Ineligible Foreign Shareholders. If required, Drillsearch Bidco will appoint the Nominee to act as nominee for the sale of Ambassador Shares to which Ineligible Foreign Shareholders would have been entitled as detailed in section 11.22.

10.10 **Drillsearch is a disclosing entity**

As Drillsearch Bidco is offering Drillsearch Shares as consideration for the acquisition of Ambassador Shares, the Corporations Act requires that this Bidder's Statement include all information that would be required for a prospectus for an offer of Drillsearch Shares under sections 710 to 713 of the Corporations Act. Drillsearch Bidco does not need to issue a prospectus for the Offer of the Drillsearch Shares as the Offer is occurring under a takeover bid.

Drillsearch is a disclosing entity (as defined in section 111AC of the Corporations Act) for the purposes of section 713 of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. Specifically, like all listed companies, Drillsearch is required to continuously disclose to the market any information it has which a reasonable person would expect to have a material effect on the price or the value of Drillsearch Shares.

As Drillsearch Shares have been quoted on the ASX in the three months prior to the date of this Bidder's Statement, Drillsearch is only required to disclose information that would usually be required where its shares have been continuously quoted securities. In general terms, where Drillsearch Shares are continuously quoted securities, the Bidder's Statement is only required to contain information in relation to the effect of the Offer on Drillsearch and the rights and liabilities attaching to the Drillsearch Shares. It is not necessary to include general information in relation to all of the assets and liabilities, financial position and performance, profits and losses or prospects of Drillsearch unless such information has been excluded from a continuous disclosure notice in accordance with the ASX Listing Rules and it is information:

- (a) that investors and their professional advisers would reasonably require for the purposes of making an informed assessment of Drillsearch's assets and liabilities, financial position, performance, profits and losses or prospects; and
- (b) the information relates to the rights and liabilities attaching to the Drillsearch Shares. Information that is already in the public domain has not been reported in this Bidder's Statement other than that information which is considered necessary to make this Bidder's Statement complete.

Drillsearch, as a disclosing entity under the Corporations Act, states that it is subject to regular reporting and disclosure obligations copies of documents lodged with ASIC in relation to Drillsearch (not being documents referred to in section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, an ASIC office and it will provide a copy of each of the following documents, free of charge, to any person on request during the Offer Period:

- (c) the most recent annual financial report lodged by Drillsearch with ASIC for the year ending 30 June 2013;
- (d) the half-year financial report lodged by Drillsearch with ASIC for the half year ending 31 December 2013; and
- (e) all continuous disclosure notices given by Drillsearch after the lodgement of the most recent annual financial report with ASIC and before the lodgement of this Bidder's Statement with ASIC.

Requests for free copies of these documents may be made by contacting the Drillsearch Offer Information Line on 1300 365 790 (within Australia) or +61 1300 365 790 (outside of Australia) between 8.30am and 5.30pm Monday to Friday (Sydney time).

Copies of all documents lodged with ASIC in relation to Drillsearch can be inspected at the registered office of Drillsearch during normal office hours. Drillsearch also has a website, www.drillsearch.com.au which includes a wide range of information on Drillsearch. The ASX website lists all of the announcements issued by Drillsearch and these are available in electronic form at www.asx.com.au. A list of ASX announcements made by Drillsearch since 20 February 2014 and the date of this Bidder's Statement appears in Schedule 1.

10.11 **Expiry Date**

No Drillsearch Shares will be issued on the basis of this Bidder's Statement after the date which is 13 months after the date of this Bidder's Statement.

10.12 **Consent to despatch**

The Ambassador Directors have agreed to the despatch of this Bidder's Statement to Ambassador shareholders earlier than 14 days after it was given to Ambassador.

10.13 **No other material information**

Except as set out in this Bidder's Statement, there is no other information that is:

- material to the making of a decision by an Ambassador Shareholder whether or not to accept the Offer; and
- known to Drillsearch Bidco,

which has not previously been disclosed to the holders of Ambassador Shares.

11. THE OFFER TERMS

11.1 The Offer

(a) Offer for Ambassador Shares

Drillsearch Bidco offers to acquire all Ambassador Shares which it does not already own on the terms set out in this Offer.

You may only accept this Offer for all of your Ambassador Shares.

(b) Offer includes Rights

If Drillsearch Bidco acquires your Ambassador Shares under this Offer, Drillsearch Bidco is also entitled to any Rights attached to those Ambassador Shares.

(c) Consideration

Drillsearch Bidco offers 1 Drillsearch Share for every 5.4 of your Ambassador Shares.

11.2 Ineligible Foreign Shareholders

If you are an Ineligible Foreign Shareholder at the time this Offer is made to you, you will not be entitled to receive Drillsearch Shares as consideration for your Ambassador Shares. Instead, if you are an Ineligible Foreign Shareholder and you accept the Offer, you will receive a cash amount determined in accordance with section 11.22.

11.3 Rounding of Drillsearch Shares

If you become entitled to a fraction of a Drillsearch Share under this Offer, the number of Drillsearch Shares you are entitled to will be rounded up to the nearest whole number.

If Drillsearch Bidco reasonably believes that your holding has been created or manipulated to take advantage of round up then any fractional element will be aggregated or rounded down to the lowest whole number of Drillsearch Shares.

11.4 Ranking of Drillsearch Shares

The Drillsearch Shares issued under the Offer will be issued fully paid and will rank equally for dividends and other rights with existing Drillsearch Shares.

11.5 ASX listing of Drillsearch Shares

Drillsearch Bidco will apply for official quotation of the Drillsearch Shares offered as consideration under the Offer on ASX. Quotation will not be automatic but will depend on ASX exercising its discretion. Drillsearch has already been admitted to the official list of ASX and shares in Drillsearch of the same class as those to be issued under this Offer are already quoted. But Drillsearch Bidco cannot guarantee, and does not represent or imply, that the Drillsearch Shares offered as consideration under the Offer will be listed.

11.6 Offer Period

Unless withdrawn, this Offer is open for acceptance during the period that begins on the date of this Offer, being 12 June 2014, and ends at 7:00 p.m. (Sydney time) on the later of:

- (a) 14 July 2014; or

- (b) any date to which the Offer Period is extended under this section 11.6.

Drillsearch Bidco reserves the right, exercisable in its sole discretion, to extend the Offer Period in accordance with the Corporations Act.

If, within the last seven days of the Offer Period any of the following occurs section 624(2) of the Corporations Act will apply to extend the Offer Period so that it ends 14 days after that event:

- (c) Drillsearch Bidco varies the Offers to improve the consideration offered;
- (d) the consideration is taken to be increased under section 651A(2) of the Corporations Act because Drillsearch Bidco purchases Ambassador Shares outside the Takeover Bid for a cash price; or
- (e) Drillsearch Bidco's voting power in Ambassador increases to more than 50%.

11.7 How to accept this Offer

Sections 11.7(b) and 11.7(c) refer, among other things, to the different Acceptance Forms for use to accept this Offer depending on the nature of your Ambassador shareholding. You will only be sent one type of Acceptance Form with this Bidder's Statement, which will be the Acceptance Form to be used in relation to your Ambassador Shares.

(a) **Accept for all your Ambassador Shares**

You can only accept this Offer during the Offer Period for all your Ambassador Shares. You will be taken to have accepted the Offer for all your Ambassador Shares plus any additional Ambassador Shares held by you at the date your acceptance is processed (despite any difference between that number and the number of Ambassador Shares specified when you accept this Offer).

(b) **CHESS Holdings**

If your Ambassador Shares are in a CHESS Holding (in which case your holder identification number will commence with 'X'), to accept this Offer you must either:

- (i) **complete and sign** the yellow Acceptance Form in accordance with the instructions on it. Once completed and signed, you need to **return** the Acceptance Form together with all other documents required by the instructions on it to one of the addresses specified on the form. This will authorise Drillsearch Bidco to instruct your Controlling Participant (usually your Broker) to initiate acceptance of this Offer on your behalf. For return of the Acceptance Form to be an effective acceptance of the Offer, you must ensure it is received by Drillsearch Bidco in time to give instructions to your Controlling Participant, and for your Controlling Participant to carry out those instructions, before the end of the Offer Period; or
- (ii) **instruct** your Controlling Participant (usually your Broker) to initiate acceptance of this Offer under rule 14.14 of the ASX Settlement Operating Rules, so as to be effective before the end of the Offer Period.

If you are a Participant, you must yourself initiate acceptance under rule 14.14 of the ASX Settlement Operating Rules so as to be effective before the end of the Offer Period.

(c) **Issuer Sponsored Holdings and other holdings**

If your Ambassador Shares are held on Ambassador's issuer sponsored subregister (in which case your securityholder reference number will commence with 'I'), or if at the time of your acceptance you are entitled to be (but are not yet) registered as the holder of, or are otherwise able to give good title to, your Ambassador Shares, to accept this Offer you must:

- (i) **complete and sign** the blue Acceptance Form in accordance with the instructions on it; and
- (ii) **return** the Acceptance Form together with all other documents required by the instructions on it to one of the addresses specified on the form in the addressed envelope provided so that they are received before the end of the Offer Period.

11.8 **Foreign Law**

This Offer is not registered in any jurisdiction outside Australia (unless an applicable Foreign Law treats it as registered as a result of the Bidder's Statement being lodged with ASIC). It is your sole responsibility to satisfy yourself that you are permitted by any Foreign Law applicable to you to accept this Offer and to receive Drillsearch Shares as Offer Consideration.

11.9 **Effect of Acceptance Form**

By completing, signing and returning the Acceptance Form in accordance with section 11.7(b) or section 11.7(c) as applicable, you:

- (a) authorise Drillsearch Bidco and each of its officers and agents to correct any errors in, or omissions from, the Acceptance Form necessary to:
 - (i) make it an effective acceptance of this Offer for your Ambassador Shares which are not in a CHESS Holding; and
 - (ii) enable the transfer of your Ambassador Shares to Drillsearch Bidco; and
- (b) if any of your Ambassador Shares are in a CHESS Holding, authorise Drillsearch Bidco and each of its officers and agents to:
 - (i) instruct your Controlling Participant to effect your acceptance of this Offer for those Ambassador Shares under rule 14.14 of the ASX Settlement Operating Rules; and
 - (ii) give to your Controlling Participant on your behalf any other instructions in relation to those Ambassador Shares which are contemplated by the sponsorship agreement between you and your Controlling Participant and are necessary or appropriate to facilitate your acceptance of this Offer.

11.10 **Your agreement**

By carrying out the instructions in section 11.7 on how to accept this Offer:

- (a) you accept this Offer for your in respect of all your Ambassador Shares registered as held by you at the date your acceptance is processed despite any difference between that number and the number of Ambassador Shares specified in the Acceptance Form;

- (b) you represent and warrant to Drillsearch Bidco that all your Ambassador Shares will at the time of your acceptance of this Offer and of transfer to Drillsearch Bidco be fully paid up and that Drillsearch Bidco will acquire good title to and beneficial ownership of them free from Encumbrances;
- (c) you transfer, or consent to the transfer in accordance with the ASX Settlement Operating Rules of, your Ambassador Shares to Drillsearch Bidco subject to the conditions of the constitution of Ambassador on which they were held immediately before your acceptance of this Offer (and Drillsearch Bidco agrees to take those Ambassador Shares subject to those conditions);
- (d) if and when the contract resulting from your acceptance of this Offer becomes unconditional (even though Drillsearch Bidco has not yet paid or provided the consideration due to you), you irrevocably appoint Drillsearch Bidco and each director of, and any nominee of, Drillsearch Bidco as your attorney to:
 - (i) attend and vote in respect of your Ambassador Shares at all general meetings of Ambassador; and
 - (ii) execute all forms, notices, documents (including a document appointing a Drillsearch Director as a proxy for any of your Ambassador Shares and resolutions relating to your Ambassador Shares) and generally to exercise all powers and rights which you have as the registered holder of your Ambassador Shares;
- (e) you agree that in exercising the powers conferred by the power of attorney in section 11.10(d), Drillsearch Bidco and each of its directors and its nominee is entitled to act in the interest of Drillsearch Bidco;
- (f) if and when the contract resulting from your acceptance of this Offer becomes unconditional (even though Drillsearch Bidco has not yet paid or provided the consideration due to you), you agree not to attend or vote in person at any general meeting of Ambassador or to exercise, or to purport to exercise, (in person, by proxy or otherwise) any of the powers conferred on the Directors of Drillsearch Bidco by section 11.10(d);
- (g) if and when the contract resulting from your acceptance of this Offer becomes unconditional, you authorise Drillsearch Bidco to transmit a message to ASX Settlement in accordance with rule 14.17.1 of the ASX Settlement Operating Rules so as to enter those of your Ambassador Shares which are in a CHESS Holding into Drillsearch Bidco's Takeover Transferee Holding; and
- (h) (unless section 11.22 or section 11.23 applies to you), you:
 - (i) agree to accept the Drillsearch Shares to which you become entitled by accepting this Offer subject to the constitution of Drillsearch and authorise Drillsearch Bidco to place your name on Drillsearch's register of members for those Drillsearch Shares; and
 - (ii) instruct Drillsearch Bidco to issue the Drillsearch Shares to which you became entitled by accepting this Offer, if your Ambassador Shares are in a CHESS Holding, with the same holder identification number as affects your Ambassador Shares; and if your Ambassador Shares are held on Ambassador's issuer sponsored sub-register, on Drillsearch's issuer sponsored sub-register.
- (i) agree to indemnify Drillsearch Bidco and each of its agents in respect of any claim or action against it or any loss, damage or liability incurred by it as a result of you not producing your holder identification number or securityholder reference number

or in consequence of the transfer of your Ambassador Shares being registered by Ambassador without production of your holder identification number or securityholder reference number; and

- (j) irrevocably authorise and direct Ambassador (on receipt of a written request from Drillsearch) to pay to Drillsearch Bidco or to account to Drillsearch Bidco for all Rights. This is subject to any such Rights received by Drillsearch Bidco being accounted for by Drillsearch Bidco to you, in the event that this Offer is withdrawn or avoided.

11.11 Powers of attorney

If the Acceptance Form is signed under power of attorney, the attorney declares that the attorney has no notice of revocation of the power and is empowered to delegate powers under the power of attorney under section 11.9 and paragraphs (d) and (g) of section 11.10.

11.12 Validation of otherwise ineffective acceptances

Except for Ambassador Shares in a CHESS Holding, Drillsearch Bidco may treat the receipt by it of a signed Acceptance Form as a valid acceptance of this Offer even though it does not receive the other documents required by the instructions on the Acceptance Form or there is not compliance with any one or more of the other requirements for acceptance. If Drillsearch Bidco does treat such an Acceptance Form as valid, subject to section 11.19, Drillsearch Bidco will not be obliged to give the consideration to you until Drillsearch Bidco receives all those documents and all of the requirements for acceptance referred to in section 11.7 and in the Acceptance Form have been met.

11.13 Defeating Conditions

This Offer and the contract resulting from acceptance of this Offer are subject to the fulfilment of the following Defeating Conditions:

(a) 50.1% minimum acceptance condition

Before the end of the Offer Period, Drillsearch Bidco has a relevant interest in more than 50.1% (by number) of the Ambassador Shares on issue at that time.

(b) No prescribed occurrences

None of the following events happens during the period beginning on the Announcement Date and ending at the end of the Offer Period:

- (i) Ambassador converts all or any of its shares into a larger or smaller number of shares;
- (ii) Ambassador or a subsidiary of Ambassador resolves to reduce its share capital in any way;
- (iii) Ambassador or a subsidiary of Ambassador:
 - (A) enters into a buy-back agreement; or
 - (B) resolves to approve the terms of a buy-back agreement under section 257C(1) or 257D(1) of the Corporations Act;
- (iv) Ambassador or a subsidiary of Ambassador issues shares or grants an option over its shares, or agrees to make such an issue or grant such an option;

- (v) Ambassador or a subsidiary of Ambassador issues, or agrees to issue, convertible notes;
- (vi) Ambassador or a subsidiary of Ambassador disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property;
- (vii) Ambassador or a subsidiary of Ambassador grants, or agrees to grant, a security interest in the whole, or a substantial part, of its business or property;
- (viii) Ambassador or a subsidiary of Ambassador resolves to be wound up;
- (ix) a liquidator or provisional liquidator of Ambassador or of a subsidiary of Ambassador is appointed;
- (x) a court makes an order for the winding up of Ambassador or of a subsidiary of Ambassador;
- (xi) an administrator of Ambassador, or of a subsidiary of Ambassador, is appointed under section 436A, 436B or 436C of the Corporations Act;
- (xii) Ambassador or a subsidiary of Ambassador executes a deed of company arrangement; or
- (xiii) a receiver, or a receiver and manager, is appointed in relation to the whole, or a substantial part, of the property of Ambassador or of a subsidiary of Ambassador.

(c) **No material adverse change to Ambassador**

During the period beginning on the Announcement Date and ending at the end of the Offer Period, no event or series of related event occurs which has or is likely to have a material adverse effect on the assets and liabilities, financial position and performance, profitability or prospects of the Ambassador Group taken as a whole including:

- (i) any event or series of related events which has or is likely to have the effect of diminishing the consolidated net assets of the Ambassador Group as set out in its consolidated balance sheet at 31 December 2013 by at least \$500,000; or
- (ii) termination or frustration of the Farm-out Agreement,

but does not include:

- (iii) any matter, event, circumstance or change disclosed in writing by Ambassador or its advisers to Drillsearch Bidco or its advisers prior to the Announcement Date;
- (iv) any matter, event, circumstance or change directly resulting from any actions taken (or omitted to be taken) following a written request from Drillsearch Bidco or with Drillsearch Bidco's consent;
- (v) any matter, event or circumstance arising from changes in economic or business conditions which impact on Ambassador and its competitors in a similar manner; or

- (vi) any change occurring directly or indirectly as a result of any matter, event or circumstance required by the Bid Implementation Agreement or the transactions contemplated by that agreement.

(d) No regulatory action

During the period beginning on the Announcement Date and ending at the end of the Offer Period:

- (i) there is not in effect any preliminary or final decision, order or decree issued by a Public Authority;
- (ii) no action or investigation is instituted, or threatened by any Public Authority with respect to Ambassador or any subsidiary of Ambassador; or
- (iii) no application is made to any Public Authority (other than an application by any company within the Drillsearch Group, an application under section 657G of the Corporations Act or an application commenced by a person specified in section 659B(1) of the Corporations Act in relation to the Takeover Bid),

in consequence of, or in conjunction with, the Takeover Bid, which restrains, prohibits or impedes or threatens to restrain, prohibit or impede, or may otherwise materially adversely impact upon, the making of the Takeover Bid or the completion of any transaction contemplated by this Bidder's Statement or seeks to require the divestiture by Drillsearch Bidco of any Ambassador Shares, or the divestiture of any assets by Ambassador or by any subsidiary of Ambassador or by any company within the Drillsearch Group.

(e) Conduct of Ambassador's business

None of the following events happens (each, a **Prohibited Transaction**) during the period beginning on the Announcement Date and ending at the end of the Offer Period:

- (i) a company within the Ambassador Group:
 - (A) acquires or disposes of;
 - (B) agrees to acquire or dispose of; or
 - (C) offers, proposes, announces a bid or tenders for,
any business, asset, interest in a joint venture, entity or undertaking, the value of which exceeds \$500,000;
- (ii) a company within the Ambassador Group creates any Encumbrance over the whole or a substantial part of its business or property (other than a lien which arises by operation of law or legislation securing an obligation not yet due and consistent with past practice);
- (iii) any person is appointed to the Ambassador Board, other than those nominated by Drillsearch Bidco in accordance with the terms of the Bid Implementation Agreement;
- (iv) a company within the Ambassador Group:
 - (A) increases the remuneration of, or otherwise varies the employment arrangements with, any of its directors or employees; or

- (B) accelerates the rights of any of its directors or employees to compensation or benefits of any kind,

other than as a result of contracted arrangements that are consistent with past practice and in effect as at 1 May 2014;

- (v) a company within the Ambassador Group pays any of its directors or employees a termination or retention payment (otherwise than as required by an existing contract which, as at 1 May 2014, is in place and has been disclosed to Drillsearch Bidco);
- (vi) a company within the Ambassador Group:
 - (A) enters into any contract or commitment involving revenue or expenditure by the Ambassador Group of more than \$500,000 over the term of the contract or commitment;
 - (B) terminates or amends in a material manner any contract material to the conduct of the Ambassador Group's business or which involves revenue or expenditure of more than \$500,000 over the term of the contract;
 - (C) waives any material third party default; or
 - (D) accepts as a settlement or compromise of a material matter (relating to an amount in excess of \$500,000) less than the full compensation due to the Ambassador Group;
- (vii) a company within the Ambassador Group undertakes or agrees to undertake capital expenditure in excess of \$500,000 in aggregate;
- (viii) a company within the Ambassador Group enters into or resolves to enter into a transaction with any related party of Ambassador as defined in section 228 of the Corporations Act; or
- (ix) a company within the Ambassador Group borrows or agrees to borrow any money,

but a Prohibited Transaction does not include:

- (x) any occurrence disclosed in writing by Ambassador or its advisers to Drillsearch or its advisers prior to the Announcement Date;
- (xi) any matter required to be done or brought about by Ambassador under the Bid Implementation Agreement or which is contemplated by that agreement; or
- (xii) any other matter, the undertaking of which Drillsearch has approved in writing.

11.14 Separate Defeating Conditions for benefit of Drillsearch Bidco

Each condition in section 11.13 is a separate, several and distinct condition. No condition will be taken to limit the meaning or effect of any other condition.

Subject to the Corporations Act and section 11.15, each condition in section 11.13 operates only for the benefit of Drillsearch Bidco and any breach or non-fulfilment of such condition may be relied upon only by Drillsearch Bidco, which may waive (generally or in respect of a particular event) the breach or non-fulfilment of that condition.

11.15 **Nature of Defeating Conditions**

The conditions in section 11.13 are conditions subsequent. The non-fulfilment of any of the Defeating Conditions does not, until the end of the Offer Period, prevent a contract to sell your Ambassador Shares resulting from acceptance of the Offer from arising, but entitles Drillsearch Bidco by written notice to you, to rescind the contract resulting from your acceptance of the Offer.

11.16 **Notice declaring Offers free of Defeating Conditions**

Subject to the Corporations Act, Drillsearch Bidco may declare this Offer and any contract resulting from acceptance of this Offer free from any of the Defeating Conditions by giving written notice to Ambassador not less than seven days before the last day of the Offer Period.

11.17 **Notice of status of Defeating Conditions**

The date for giving the notice on the status of the Defeating Conditions as required by section 630(1) of the Corporations Act is 4 July 2014 (subject to extension in accordance with the Corporations Act if the Offer Period is extended).

11.18 **Contract void if Defeating Conditions not fulfilled**

Your acceptance or the contract resulting from your acceptance of this Offer is void if:

- (a) at the end of the Offer Period any of the Defeating Conditions in section 11.13 is not fulfilled; and
- (b) Drillsearch Bidco has not declared this Offer and any contract resulting from the acceptance of it free of that Defeating Condition in accordance with section 11.16.

11.19 **Payment of consideration**

(a) **When will Drillsearch Bidco pay you?**

Subject to this section 11.19 and the Corporations Act, if you accept this Offer Drillsearch Bidco will pay you the consideration for your Ambassador Shares to which Drillsearch Bidco acquires good title on or before the earlier of:

- (i) the day one month after you accept this Offer or, if this Offer is subject to a Defeating Condition when accepted, one month after the contract resulting from your acceptance becomes unconditional; and
- (ii) the day 21 days after the end of the Offer Period.

(b) **Acceptance Form requires additional documents**

Where documents are required to be given to Drillsearch Bidco with your acceptance to enable Drillsearch Bidco to become the holder of your Ambassador Shares (such as a power of attorney):

- (i) if the documents are given with your acceptance, Drillsearch Bidco will pay you in accordance with section 11.19(a);
- (ii) if the documents are given after your acceptance and before the end of the Offer Period while the Offer is subject to a Defeating Condition, Drillsearch Bidco will pay you the Offer Consideration by the end of whichever of the following periods ends first:

- (A) one month after the contract resulting from your acceptance becomes unconditional; and
- (B) 21 days after the end of the Offer Period;
- (iii) if the documents are given after your acceptance and before the end of the Offer Period while the Offer is no longer subject to a Defeating Condition, Drillsearch Bidco will pay you the Offer Consideration by the end of whichever of the following periods ends first:
 - (A) one month after Drillsearch Bidco is given the documents; and
 - (B) 21 days after the end of the Offer Period; or
- (iv) if the documents are given after the end of the Offer Period, Drillsearch Bidco will pay you the Offer Consideration within 21 days after the documents are given. However, if at the time Drillsearch Bidco is given the documents the contract resulting from acceptance of the Offer is still subject to a Defeating Condition in section 11.13, Drillsearch Bidco will pay you the Offer Consideration within 21 days after the contract becomes unconditional.

(c) **Delivery of consideration**

Subject to the Corporations Act, Drillsearch Bidco will send a confirmation of issue (for CHESS Holdings) or an uncertified holding statement in your name (for Issuer Sponsored Holdings) for the Drillsearch Shares due to you by pre-paid ordinary mail, or in the case of an address outside Australia by airmail, to the address shown in Ambassador's register of members on the Register Date.

11.20 Return of documents

If this Offer does not become unconditional or any contract arising from this Offer is rescinded by Drillsearch Bidco on the grounds of a breach of a condition of that contract, Drillsearch Bidco will, at its election, either return by post to you at the address shown on the Acceptance Form any Acceptance Form and any other documents sent with it by you, or destroy those documents and notify the ASX of this.

11.21 Rights

If Drillsearch Bidco becomes entitled to any Rights as a result of your acceptance of this Offer, it may require you to give to Drillsearch Bidco all documents necessary to vest title to those Rights in Drillsearch Bidco. If you do not give those documents to Drillsearch Bidco, or if you have received or are entitled to receive (or any previous holder of your Ambassador Shares has received or is entitled to receive) the benefit of those Rights, you must pay the amount (or value as reasonably assessed by Drillsearch Bidco) of such Rights to Drillsearch Bidco.

11.22 Acceptance by Ineligible Foreign Shareholders

If you are an Ineligible Foreign Shareholder and you accept this Offer, you will not be entitled to receive Drillsearch Shares as consideration for your Ambassador Shares. Instead Drillsearch Bidco will:

- (a) arrange for the issue to a nominee approved by ASIC of the number of Drillsearch Shares to which you and all other Ineligible Foreign Shareholders would have been entitled but for this section and the equivalent section in each of the Offers;

- (b) cause those Drillsearch Shares to be offered for sale on ASX as soon as practicable after the end of the Offer Period and otherwise in such manner, at such price and on such terms as are determined by the Nominee; and
- (c) cause the amount ascertained in accordance with the formula below to be paid to you:

$$\text{net proceeds of sale} \times \frac{\text{YD}}{\text{TD}}$$

'net proceeds of sale' is the amount remaining after deducting the expenses of sale and of appointing the Nominee from the total proceeds of sale of the Drillsearch Shares issued to the nominee under this section and the equivalent section in each of the Offers;

'YD' is the number of Drillsearch Shares which would, but for this section, have been issued to you; and

'TD' is the total number of Drillsearch Shares issued to the Nominee under this section and the equivalent section in each of the Offers.

You will be paid by cheque in Australian currency. The cheque will be sent at your risk by pre-paid airmail to the address shown on your Acceptance Form.

11.23 **Unmarketable Parcels of Drillsearch Shares**

If the total number of Drillsearch Shares you are entitled to receive as consideration under this Offer is an Unmarketable Parcel and you do not sign and return the Acceptance Form and state clearly on it you wish to be the holder of an Unmarketable Parcel, you are offered and will receive a cash amount for your Ambassador Shares calculated under section 11.22 as if you were an Ineligible Foreign Shareholder.

11.24 **Clearances for non Australian residents and others**

If at the time you accept this Offer or at the time the consideration is provided under it:

- (a) any authority or clearance of the Reserve Bank of Australia or the Australian Tax Office is required for you to receive any consideration under this Offer; or
- (b) you are resident in or a resident of a place to which, or you are a person to whom any of the following applies:
 - (i) the Banking (Foreign Exchange) Regulations 1959 (Cth);
 - (ii) Part 4 of the Charter of the United Nations Act 1945 (Cth);
 - (iii) a regulation made under the Charter of the United Nations Act 1945 (Cth); or
 - (iv) any other law of Australia or elsewhere that would make it unlawful for Drillsearch Bidco to provide consideration for your Ambassador Shares,

then your acceptance of this Offer does not create or transfer to you any right (contractual or contingent) to receive the consideration specified in this Offer unless and until you obtain all requisite authorities or clearances.

11.25 **Costs and stamp duty**

- (a) Drillsearch Bidco will pay all costs and expenses of the preparation and circulation of the Offers and any stamp duty payable on the transfer of any Ambassador Shares to Drillsearch Bidco.
- (b) If your Ambassador Shares are registered in an Issuer Sponsored Holding in your name and you deliver them directly to Drillsearch Bidco you will not incur any brokerage in connection with your acceptance of this Offer.

11.26 **Offerees**

(a) **Registered holders**

Drillsearch Bidco is making an offer in the form of this Offer to each holder of Ambassador Shares registered in the register of members of Ambassador at the Register Date.

(b) **Transferees**

This Offer extends to any person who is able during the Offer Period to give good title to a parcel of your Ambassador Shares. That person may accept as if an Offer on terms identical to this Offer had been made to them for those Ambassador Shares.

(c) **Trustees and nominees**

If during the Offer Period and before you accept this Offer your Ambassador Shares consist of two or more separate parcels within the meaning of section 653B of the Corporations Act (for example, because you are a trustee or nominee for several distinct beneficial owners), section 653B of the Corporations Act will apply so that:

- (i) Drillsearch Bidco is taken to have made a separate Offer to you for each separate parcel of Ambassador Shares; and
- (ii) acceptance by you of the Offer for any distinct parcel of Ambassador Shares is ineffective unless:
 - (A) you give Drillsearch Bidco notice in accordance with section 11.26(d) stating that your Ambassador Shares consist of separate parcels; and
 - (B) your acceptance specifies the number of Ambassador Shares in each separate parcel to which the acceptance relates.

(d) **Notices by Trustees and Nominees**

The notice required under section 11.26(c)(ii)(A):

- (i) if it relates to Ambassador Shares not in a CHESS Holding, must be in writing; or
- (ii) if it relates to Ambassador Shares in a CHESS Holding, must be in an electronic form approved under the ASX Settlement Operating Rules for the purposes of Part 6.8 of the Corporations Act.

11.27 **Variation and withdrawal of Offer**

(a) **Variation**

Drillsearch Bidco may vary this Offer in accordance with the Corporations Act.

(b) **Withdrawal**

In accordance with section 652B of the Corporations Act, Drillsearch Bidco may withdraw this Offer with the written consent of ASIC and subject to the conditions (if any) which apply to that consent.

11.28 **Governing law**

This Offer and any contract resulting from acceptance of it are governed by the law in force in New South Wales, Australia.

12. DEFINITIONS AND INTERPRETATION

12.1 Definitions

The following definitions apply in interpreting this Bidder's Statement and the Acceptance Form, except where the context makes it clear that a definition is not intended to apply:

Ambassador means Ambassador Oil and Gas Limited ABN 28 152 595 429.

Ambassador Board means the board of directors of Ambassador.

Ambassador Directors means the directors of Ambassador as set out in section 5.3.

Ambassador Group means Ambassador and each of its subsidiaries (as defined in the Corporations Act).

Ambassador Share means a fully paid ordinary share in Ambassador.

Announcement Date means 28 May 2014.

Acceptance Form means the form with that title that accompanies this Bidder's Statement.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ABN 98 008 624 691 or, as the context requires, the financial market operated by it.

ASX Listing Rules means the listing rules of ASX.

ASX Settlement means the ASX Settlement Pty Limited ABN 49 008 504 532.

ASX Settlement Operating Rules means the operating rules of ASX Settlement.

Beach Energy means Beach Energy Limited ABN 20 007 617 969 (ASX: BPT).

Bidder's Statement means this document, being the statement made by Drillsearch under Part 6.5 Division 2 of the Corporations Act relating to the Takeover Bid.

Bid Implementation Agreement means the agreement between Drillsearch and Ambassador dated 28 May 2014 whereby Drillsearch and Ambassador have agreed to co-operate with each other in relation to the Offer.

Broker means a person who is a share broker and participant in CHES.

CHES means the Clearing House Electronic Subregister System operated by ASX Settlement, which provides for the electronic transfer, settlement and registration of securities.

CHES Holding means a holding of shares on the CHES Subregister of Ambassador.

CHES Subregister has the meaning set out in the ASX Settlement Operating Rules.

Controlling Participant means has the meaning set out in the ASX Settlement Operating Rules.

Corporations Act means the *Corporations Act 2001* (Cth) as modified by any relevant exemption or declaration by ASIC.

Drillsearch means Drillsearch Energy Limited ABN 73 006 474 844 (ASX: DLS).

Drillsearch Bidco means Drillsearch (Central) Pty Limited ABN 41 160 522 056.

Drillsearch Board means the board of directors of Drillsearch.

Drillsearch Directors means the directors of Drillsearch as set out in section 3.5.

Drillsearch Group means Drillsearch and its subsidiaries (as defined in the Corporations Act).

Drillsearch Share means a fully paid ordinary shares in Drillsearch.

Drillsearch Option means an unquoted option to acquire, upon exercise at the exercise price, one new Drillsearch Share.

Defeating Condition means each condition set out in section 11.13.

Encumbrance means:

- (a) a security interest;
- (b) an easement, restrictive covenant, caveat or similar restriction over property;
- (c) any other interest or arrangement of any kind that in substance secures the payment of money or the performance of an obligation, or that gives a creditor priority over unsecured creditors in relation to any property (including a right to set off or withhold payment of a deposit or other money);
- (d) a right of any person to purchase, occupy or use an asset (including under an option, agreement to purchase, licence, lease or hire purchase);
- (e) any other thing that prevents, restricts or delays the exercise of a right over property, the use of property or the registration of an interest in or dealing with property; or
- (f) an agreement to create anything referred to above or to allow any of them to exist.

Farm-out Agreement means the farm-out agreement between Ambassador and New Standard in relation to PEL 570, announced on the ASX by Ambassador on 10 December 2013.

Foreign Law means a law of a jurisdiction other than an Australian jurisdiction.

Foreign Shareholder has the meaning given in section 10.8.

FY means financial year.

GST has the same meaning as in *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

Ineligible Foreign Shareholder has the meaning given in section 10.8.

Issuer Sponsored Holding means a holding of Ambassador Shares on Ambassador's issuer sponsored subregister.

Magnum Hunter Offer means the proposed off-market takeover offer by Magnum Hunter Resources for all the ordinary shares in Ambassador, as announced by Magnum Hunter Resources to ASX on 10 June 2014.

Magnum Hunter Resources means Magnum Hunter Resources Corporation (NYSE: MHR).

Merged Group means the merged entity following Drillsearch acquiring all of the issued share capital in Ambassador under the Offer.

mmboe means million barrels of oil equivalent.

New Standard means New Standard Energy Limited ABN 20 119 323 385.

Nominee means the entity appointed by Drillsearch as described in section 10.9 to perform the function as stated in section 10.8.

Offer means the offer as set out in section 11 of this Bidder's Statement (or, if the context so requires, section 11 of this Bidder's Statement itself) and includes a reference to that offer as varied in accordance with the Corporations Act.

Offer Period means the period referred to in section 11.6 of this Bidder's Statement.

Offers means the Offer and each of the other offers made in the same terms for Ambassador Shares and includes a reference to those offers as varied in accordance with the Corporations Act.

PEL means Petroleum Exploration Licence.

Performance Right means performance rights issued to key management personnel of Drillsearch as part of STI and LTI schemes, which upon vesting entitles the holder to be issued with new Drillsearch Shares.

Public Authority means any government or any governmental, semi-governmental, administrative, statutory or judicial entity, authority or agency, whether in Australia or elsewhere, including the ACCC (but excluding the Takeovers Panel, ASIC and any court that hears or determines proceedings under section 657G or proceedings commenced by a person specified in section 659B(1) of the Corporations Act in relation to the Takeover Bid). It also includes any self-regulatory organisation established under statute or any stock exchange.

Register Date means 8:00 am (Sydney time) on 12 June 2014, being the date set by Drillsearch Bidco under section 633(2) of the Corporations Act.

Rights means all accretions and rights attaching to Ambassador Shares after the date of this Bidder's Statement (including all rights to receive dividends and other distributions declared or paid and to receive or subscribe for shares, notes or options issued by Ambassador).

RISC means Resource Investment Strategy Consultants.

Santos means Santos Limited ABN 80 007 550 923 (ASX: STO).

S&P/ASX200 Index means the index of that name published by Standard & Poor's (or any successor of or replacement for that index).

Selling Ambassador Shareholders means those Ambassador shareholders who entered into share sale deeds with Drillsearch on 28 May 2014, as disclosed in the Form 603 Notice of Initial Substantial Holder lodged with ASX on Friday, 30 May 2014.

Takeover Bid means the takeover bid constituted by the Offers.

Takeover Transferee Holding means the CHESS Holding to which Ambassador Shares are to be transferred after acceptance of the Offer.

Unmarketable Parcel means a number of Drillsearch Shares which is less than a marketable parcel under the market rules of ASX.

VWAP means the volume weighted average price of a security.

Westside means Westside Corporation Limited ABN 74 117 145 516 (ASX: WCL).

YTD means year to date.

12.2 Interpretation

- (a) Words and phrases which are defined by the Corporations Act have the same meaning in this Bidder's Statement and the Acceptance Form and, if a special meaning is given for the purposes of Chapter 6 or 6A or a provision of Chapter 6 or 6A of the Corporations Act, have that special meaning.
- (b) Headings are for convenience only, and do not affect interpretation.
- (c) The following rules also apply in interpreting this Bidder's Statement and the Acceptance Form, except where the context makes it clear that a rule is not intended to apply:
 - (i) a singular word includes the plural, and vice versa;
 - (ii) a word which suggests one gender includes the other genders;
 - (iii) if a word is defined, another part of speech has a corresponding meaning;
 - (iv) unless otherwise stated references in this Bidder's Statement to sections, paragraphs and sub-paragraphs are to sections, paragraphs and sub-paragraphs of this Bidder's Statement;
 - (v) a reference to a person includes a body corporate; and
 - (vi) a reference to \$ is to the lawful currency in Australia unless otherwise stated; and
 - (vii) appendices to this Bidder's Statement form part of it.

The copy of this Bidder's Statement that is to be lodged with ASIC has been approved by a unanimous resolution passed by all of the directors of Drillsearch Bidco on 12 June 2014.

Signed by Brad Lingo in accordance with section 351 of the Corporations Act.

Dated 12 June 2014

A handwritten signature in black ink, appearing to read "Bradley W. Lingo". The signature is written in a cursive, flowing style.

Director

SCHEDULE 1. ASX ANNOUNCEMENT BY DRILLSEARCH SINCE 20 FEBRUARY 2014

| Announcement | Date released to ASX |
|--|-----------------------------|
| AQO: Intention to make a takeover bid by Magnum Hunter | 10/06/2014 |
| PEL 91 Update | 2/06/2014 |
| BPT: Pennington Field Reserves Estimation | 2/06/2014 |
| BPT: Stunsail-1 Reserves Estimation | 2/06/2014 |
| Form 603 Notice of Initial Substantial Holder for AQO | 30/05/2014 |
| Proposed Ambassador Acquisition Presentation | 30/05/2014 |
| May Drilling Report | 30/05/2014 |
| AQO: Directors Intention Statement | 28/05/2014 |
| Drillsearch Agrees to Acquire Ambassador Oil and Gas | 28/05/2014 |
| Recommended Takeover of Ambassador by Drillsearch | 28/05/2014 |
| Macquarie Securities Conference | 8/05/2014 |
| April Drilling Report | 7/05/2014 |
| BPT: Monthly Drilling Report - April 2014 | 7/05/2014 |
| Unlisted Options Expire and Performance Rights Lapse | 2/05/2014 |
| Quarterly Report March 2014 | 30/04/2014 |
| Unlisted Performance Rights Lapse | 10/04/2014 |
| Investor Presentation | 7/04/2014 |
| March Drilling Report | 3/04/2014 |
| BPT: Monthly Drilling Report - March | 2/04/2014 |
| Update on Stunsail-1 Oil Discovery | 2/04/2014 |
| New Oil Discovery on the Western Flank | 28/03/2014 |
| BPT: Western flank oil exploration success with Stunsail-1 | 28/03/2014 |
| Change in substantial holding from NAB | 11/03/2014 |
| Investor Presentation | 11/03/2014 |
| Drillsearch and QGC agree new terms over Cooper Basin JV | 10/03/2014 |
| Appendix 3Y - Fiona Robertson | 7/03/2014 |
| Appendix 3Y - Jim McKerlie | 7/03/2014 |
| February Drilling Report | 6/03/2014 |
| BPT: Monthly Drilling Report - February 2014 | 5/03/2014 |
| Unlisted Options Expire and Performance Rights Lapse | 28/02/2014 |
| Appendix 3Y - Fiona Robertson | 28/02/2014 |
| Appendix 3Y - Jim McKerlie | 28/02/2014 |
| Half-Year Earnings Presentation | 20/02/2014 |
| Drillsearch 2P Reserves Increase to 29.1 mmboe | 20/02/2014 |
| Half-Year Report 31 December 2013 | 20/02/2014 |

CORPORATE INFORMATION

DRILLSEARCH ENERGY LIMITED ABN 73 006 474 844

Directors

Jim McKerlie
Brad Lingo
Fiona Robertson
Ross Wecker
Philip Bainbridge
Teik Seng (TS) Cheah

Share Register

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

Company Secretaries

Ian Bucknell
Jean Moore

Auditors

Deloitte
Level 9, Grosvenor Place
225 George Street
Sydney NSW 2000

Registered Office

Level 16
55 Clarence Street
Sydney NSW 2000

Lawyers

Ashurst Australia
Level 36, Grosvenor Place
225 George Street
Sydney NSW 2000

ASX Code

ASX: DLS

Website Address

www.drillsearch.com.au

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Further Important Instructions

Your Ambassador Shares are in an Issuer Sponsored Holding. To accept Drillsearch's Offer, you must complete and return this Acceptance Form in accordance with the instructions below.

Please refer to the Bidder's Statement dated 12 June 2014 which accompanies this Acceptance Form. Terms are defined in the Bidder's Statement and have the same meaning in this Acceptance Form.

Completion instructions

- A** • **Please check the front page** to ensure that your name and address are correct. If incorrect, please write your correct details and initial the amendments. Amendments to your name can only be processed by your Ambassador Oil and Gas Registry.
- **Please note** your consideration will be issued in the names as they appear on the Ambassador Oil and Gas register.
- D** • **Please sign this Acceptance Form** in the places for signature(s) out on the front page and in accordance with the following instructions:
 - **Joint Shareholders:** If your Ambassador Shares are held in the names of more than one person, all of those persons must sign this Acceptance Form.
 - **Corporations:** This Acceptance Form must be signed by either two directors or a director and a company secretary. Alternatively, where the company has a sole director and, pursuant to the Corporations Act, there is no company secretary, or where the sole director is also the sole company secretary, that director may sign alone. Alternatively, a duly appointed attorney may sign.
 - **Powers of attorney:** If this Acceptance Form is signed under a power of attorney, please attach a certified copy of the power of attorney to this Acceptance Form when you return it. If this Acceptance Form is signed under Power of Attorney, the attorney declares that he/she has no notice of revocation of the Power of Attorney.
 - **Deceased Estates:** All the executors and administrators must sign this Acceptance Form. When you return this Acceptance Form, please attach it to a certified copy of probate, letters of administration or certificate of grant accompanied (where required by law for the purpose of transfer) by a certificate of payment of death or succession duties and (if necessary) a statement in terms of Section 1071B(9)(b)(iii) of the Corporations Act.

Personal Information Collection Notification Statement: Personal information about you is held on the public register in accordance with Chapter 2C of the *Corporations Act 2001*. For details about Link Group's personal information handling practices including collection, use and disclosure, how you may access and correct your personal information and raise privacy concerns, visit our website at www.linkmarketservices.com.au for a copy of the Link Group condensed privacy statement, or contact us by phone on +61 1800 502 355 (free call within Australia) 9am–5pm (Sydney time) Monday to Friday (excluding public holidays) to request a copy of our complete privacy policy.

Lodgement instructions

- Mail or deliver completed Acceptance Form(s) and any other documents required by the above instructions to:

| Mailing Address | or | Hand Delivery |
|---------------------------------|-----------|---------------------------------|
| Link Market Services Limited | | Link Market Services Limited |
| Ambassador Oil and Gas Takeover | | Ambassador Oil and Gas Takeover |
| Locked Bag A14 | | 1A Homebush Bay Drive |
| SYDNEY SOUTH NSW 1235 | | RHODES NSW 2138 |

- A reply paid envelope is enclosed for use within Australia.

Your acceptance must be received by no later than the end of the Offer Period, which is 7:00pm (Sydney time) on the last day of the Offer Period.

If you have any questions about the terms of the Offer or how to accept, please call the Drillsearch Energy Limited Offer Information Line on the following numbers:

within Australia: 1300 365 790
outside Australia: +61 1300 365 790

A Your name

SAMPLE NAME 1
SAMPLE NAME 2
<SAMPLE A/C>
SAMPLE ADDRESS 1
SAMPLE ADDRESS 2

Your holding

Holder Identification Number: X12345678910

Ambassador Shares held as at
12 June 2014 99,999,999

If your holding has changed between record date and time
of acceptance, then write your current holding here.

**This is an important document. If you are in doubt
as to how to complete this form, please consult your
financial or other professional adviser immediately.**

Controlling Participant's Name *Broker's Name and telephone printed here*

| | |
|---------------|-----------------|
| Advisor Name: | Contact Number: |
|---------------|-----------------|

Transfer and Acceptance Form – CHES Subregister

This is a personalised form for the sole use of the holder and holding recorded above. It is an important document and requires your immediate attention. If you are in doubt about how to deal with it, please consult your financial or other professional adviser.

This Acceptance Form relates to an offer (Drillsearch's Offer) by Drillsearch (Central) Pty Limited (a wholly owned subsidiary of Drillsearch Energy Limited) (Drillsearch Bidco) to acquire all of your Ambassador Shares in Ambassador Oil and Gas Limited (Ambassador) pursuant to the bidder's statement dated 12 June 2014 and any replacement or supplementary bidder's statement (Bidder's Statement).

B You must give your instructions to your controlling participant to accept the Offer

If you correctly sign and return this Acceptance Form you will be deemed to have accepted Drillsearch's Offer in respect of **ALL** of your Ambassador Shares.

Offer Consideration – 1 Drillsearch Share for every 5.4 Ambassador Shares

To accept Drillsearch's Offer you may either:

- directly instruct your Controlling Participant (normally your Stockbroker) to accept Drillsearch's Offer on your behalf; or
- sign and return this Acceptance Form to the address shown overleaf so Drillsearch Bidco can contact your Controlling Participant on your behalf and relay your acceptance instructions. By signing and returning this Acceptance Form you will be deemed to have authorised Drillsearch Bidco to contact your Controlling Participant directly via the CHES system.

If your Controlling Participant acts on your instruction CHES will send you a confirmation notice.

C Contact details

Please provide your contact name and telephone number in case we need to speak to you about this Acceptance Form.

Telephone Number where you can be contacted during business hours

Contact Name (PRINT)

D You must sign this form for your instructions in this Acceptance Form to be executed

I/We, the person(s) named above, accept Drillsearch's Offer in respect of all my/our Ambassador Shares I/we hold and hereby agree to transfer to Drillsearch Bidco all my/our Ambassador Shares for the Offer Consideration, and on the terms and conditions of Drillsearch's Offer as set out in the Bidder's Statement.

Shareholder 1 (Individual)

Sole Director & Sole Company Secretary

Shareholder 2 (Individual)

Secretary/Director (delete one)

Shareholder 3 (Individual)

Director

Please refer overleaf for further important instructions

REGISTRY USE ONLY



HIN



Broker PID



Holding

AQOT TKO002



Further Important Instructions

Your Ambassador Shares are in a CHESS Holding, you do not need to complete and return this Acceptance Form to the registry to accept Drillsearch's Offer. You can instead contact your Controlling Participant and instruct them to accept Drillsearch's Offer on your behalf in sufficient time before the end of the Offer Period to enable your Controlling Participant to give effect to your acceptance of Drillsearch's Offer on CHESS during business hours. If you decide to use this Acceptance Form to authorise us to contact your Controlling Participant on your behalf, follow the instructions below. You should allow Link Market Services Limited ("Link") sufficient time for the delivery of the Acceptance Form to your Controlling Participant on your behalf. Neither Drillsearch Bidco, nor Link will be responsible for any delays incurred by this process.

Please refer to the Bidder's Statement dated 12 June 2014 which accompanies this Acceptance Form. Terms are defined in the Bidder's Statement and have the same meaning in this Acceptance Form.

Completion instructions

- A** • **Please check the front page** to ensure that your name and address are correct. If incorrect, please write your correct details and initial the amendments. Amendments to your name or address can only be processed by your Controlling Participant.
- **Please note** your consideration will be issued in the names as they appear on the Ambassador Oil and Gas register.
- D** • **Please sign this Acceptance Form** in the places for signature(s) out on the front page and in accordance with the following instructions:
- **Joint Shareholders:** If your Ambassador Shares are held in the names of more than one person, all of those persons must sign this Acceptance Form.
 - **Corporations:** This Acceptance Form must be signed by either two directors or a director and a company secretary. Alternatively, where the company has a sole director and, pursuant to the Corporations Act, there is no company secretary, or where the sole director is also the sole company secretary, that director may sign alone. Alternatively, a duly appointed attorney may sign.
 - **Powers of attorney:** If this Acceptance Form is signed under a power of attorney, please attach a certified copy of the power of attorney to this Acceptance Form when you return it. If this Acceptance Form is signed under Power of Attorney, the attorney declares that he/she has no notice of revocation of the Power of Attorney.
 - **Deceased Estates:** All the executors and administrators must sign this Acceptance Form. When you return this Acceptance Form, please attach it to a certified copy of probate, letters of administration or certificate of grant accompanied (where required by law for the purpose of transfer) by a certificate of payment of death or succession duties and (if necessary) a statement in terms of Section 1071B(9)(b)(iii) of the Corporations Act.

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Lodgement instructions

- Mail or deliver completed Acceptance Form(s) and any other documents required by the above instructions to:

Mailing Address

Link Market Services Limited
Ambassador Oil and Gas Takeover
Locked Bag A14
SYDNEY SOUTH NSW 1235

or

Hand Delivery

Link Market Services Limited
Ambassador Oil and Gas Takeover
1A Homebush Bay Drive
RHODES NSW 2138

- A reply paid envelope is enclosed for use within Australia.

Your acceptance must be received by no later than the end of the Offer Period, which is 7:00pm (Sydney time) on the last day of the Offer Period.

If you have any questions about the terms of the Offer or how to accept, please call the Drillsearch Energy Limited Offer Information Line on the following numbers:

within Australia: 1300 365 790
outside Australia: +61 1300 365 790