

Drillsearch Energy Limited
ABN 73 006 474 844
Telephone +61 2 9249 9600
Facsimile +61 2 9249 9630
admin@drillsearch.com.au
www.drillsearch.com.au
Level 16, 55 Clarence Street
Sydney NSW 2000

1 August 2014

BY ELECTRONIC LODGEMENT

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

Drillsearch Bidco's takeover for bid for Ambassador Oil and Gas Limited – Second Supplementary Bidder's Statement

On behalf of Drillsearch (Central) Pty Limited ABN 41 160 522 056 (a wholly-owned subsidiary of Drillsearch Energy Limited ABN 73 006 474 844) ("**Drillsearch Bidco**") pursuant to s 647(3)(b) of the *Corporations Act 2001* (Cth) we **enclose** a copy of the second supplementary bidder's statement dated 1 August 2014 ("**Second Supplement**"), in connection with the off-market takeover bid by Drillsearch Bidco for all of the ordinary shares in Ambassador Oil and Gas Limited ABN 28 152 595 429 ("**Ambassador**") and contained in its bidder's statement dated 12 June 2014 ("**Offer**") as supplemented by the first supplementary bidder's statement dated 16 June 2014 and the notices of variation dated 9 July 2014, 16 July 2014 and 25 July 2014.

The Second Supplement has been sent to Ambassador and lodged with ASIC and will be despatched today, 1 August 2014, to all Ambassador Shareholders to whom Offers were made under the takeover bid.

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.

SECOND SUPPLEMENTARY BIDDER'S STATEMENT

in relation to the takeover 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

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.

For further information, you may also call the Drillsearch Offer Information Line on 1300 365 790 (for calls made within Australia) or +61 1300 365 790 (for international callers) between 8:30am and 5:30pm (Sydney time) Monday to Friday.

CHAIRMAN'S LETTER

1 August 2014

Dear Ambassador Shareholder

We are writing to advise you of certain developments with respect to our Offer for all your Ambassador Shares.

Takeovers Panel proceedings

On 28 July 2014, the Takeovers Panel ("**Panel**") made a declaration of unacceptable circumstances in relation to the Drillsearch Offer in response to an application by Magnum Hunter.

As a result of the declaration of unacceptable circumstances, the Panel has made orders with respect to the following category of Ambassador Shareholders.

| Category of Shareholder | % of Ambassador | Orders | Explanation |
|---|-----------------|--|--|
| <p>Selling Shareholders - those former Ambassador Shareholders who sold shares to Drillsearch under pre-bid share purchase deeds</p> | 19.89% | <p>14 day right from the date of this document to elect to reverse the pre-bid share purchase deeds and have the number of Ambassador Shares sold to Drillsearch returned to them.</p> | <p><i>Ambassador Shareholders who sold shares to Drillsearch before the bid was launched have the right to return the same number of Drillsearch Shares and receive the original number of Ambassador Shares sold.</i></p> <p><i>Ambassador Shareholders who on-sold some or all of the Drillsearch Shares issued to them under the pre-bid share purchase deeds must repurchase such number of Drillsearch Shares so that they own at least the same number of Drillsearch Shares as issued to them under the pre-bid share purchase deeds in order to exercise the reversal right.</i></p> |
| <p>Intention Statement Shareholders - Mrs Hatziladas, Miller Anderson Pty Ltd, Mr Shaw and Eye Investment who each accepted into the Drillsearch Offer</p> | 23.96% | <p>Acceptances are reversed.</p> <p>Cannot accept into the Drillsearch Offer for a period of 14 days from the date of this document.</p> | <p><i>Ambassador Shareholders who were found to be associates of Drillsearch and Eye Investments each of whom accepted the Drillsearch Offer soon after Drillsearch increased its bid, have had their acceptances voided and deemed of no effect and will have the original number of Ambassador Shares accepted into the Drillsearch Offer re-vested with them upon returning any cash</i></p> |

| | | | <i>consideration (if applicable) owing to Drillsearch.</i> |
|---|--------|---|--|
| Other Accepting Shareholders - other Ambassador Shareholders who accepted into the Drillsearch Offer on or before 28 July 2014 | 10.59% | 14 day withdrawal right from the date of this document. | <i>Ambassador Shareholders not referred to above who have accepted the Drillsearch Offer on or before 28 July 2014, being the date of the Panel's orders, have the right to withdraw their acceptance, return any Drillsearch Shares and cash consideration received, and have the original number of Ambassador Shares sold returned.</i> |

Each of the Selling Shareholders, Intention Statement Shareholders and Other Accepting Shareholders have been issued a personalised letter explaining their rights under the orders and all Ambassador Shareholders, including those who have already accepted the Drillsearch Offer, have received this Second Supplementary Bidder's Statement.

The Drillsearch Offer has been extended to **7:00pm, 27 August 2014** (unless further extended)

The Panel orders included that Drillsearch prepare and dispatch to all Ambassador Shareholders this Second Supplementary Bidder's Statement which is in a form that has been approved by the Panel.

The Drillsearch Offer is open

The Drillsearch Offer is now open for acceptance and shareholders who accept the offer will receive their cash and scrip consideration within 10 Business Days.

All Ambassador Shareholders who are yet to accept the Drillsearch Offer can accept now by completing the personalised acceptance forms enclosed with this Second Supplementary Bidder's Statement.

- Any Selling Shareholder who elects to reverse the pre-bid share purchase deed, can accept into the Drillsearch Offer by completing a personalised acceptance form that will be provided to them after their pre-bid share purchase deed is reversed.
- Any Intention Statement Shareholder can, after a 14 day period, accept into the Drillsearch Offer by completing a personalised acceptance form enclosed with this Second Supplementary Bidder's Statement.
- Other Accepting Shareholders who wish to maintain their acceptance of the Drillsearch Offer can simply do nothing.

Why you should accept Drillsearch's Offer

- The Drillsearch Offer is the highest offer available to Ambassador Shareholders, representing an attractive premium of 81.9%¹ to Ambassador's recent historical share price.
- The Drillsearch Offer is at a 21.0%² premium to the Magnum Hunter Offer.

¹ Based on the Drillsearch share price as at the close of ASX trading on 31 July 2014, relative to the undisturbed Ambassador share price at close of ASX trading on 23 May 2014.

- The Drillsearch Offer represents potentially a greater premium than the 21.0% referred to above if your intention is to cash out the Magnum Hunter shares through its share sale facility as the value you will receive is uncertain and likely to be lower than the value quoted on the NYSE.
- The Directors of Ambassador have recommended that you accept the Drillsearch Offer in certain circumstances.
- The Drillsearch Offer provides Ambassador Shareholders with an opportunity to receive shares in Drillsearch, an ASX listed Australian company focused on Australia's Cooper Basin.
- Under the Magnum Hunter Offer the shares you receive will be foreign stock and you will not receive any cash as part of its offer.
- Magnum Hunter is a US shale gas company and any shares you receive will have negligible exposure to the Cooper Basin.
- Magnum Hunter has a significantly different business, financial and regulatory risk profile compared to Ambassador and Drillsearch.

Drillsearch performance and strategy

We recently released our full year results which include reported production of 3.4 million barrels of oil equivalent for the year ended 30 June 2014, making us the third largest onshore oil producer in Australia, as well as a more than tripling revenue to \$387 million for the 12 month period. Drillsearch has a proven track record of exploration, development and production in the Cooper Basin and our long term performance is testament to this.

This performance is based on a robust strategy, careful execution and responsible capital management. We have strong growth prospects and target substantial increases in production in the coming years.

Next steps

We are focused on moving ahead with our Offer and we look forward to your acceptance. In welcoming you as a Drillsearch Shareholder we invite you to come on our journey of growth and fulfilment of shareholder expectations.

Yours sincerely



Mr Jim McKerlie

Chairman

Drillsearch Energy Limited

² As at the last practicable trading date prior to the date of this Supplementary Bidder's Statement, being the Drillsearch share price as at close of ASX trading on 31 July 2014 and Magnum Hunter's share price as at close of NYSE trading on 31 July 2014.

1. INTRODUCTION

This document is the second supplementary bidder's statement ("**Second Supplement**") to the Bidder's Statement dated 12 June 2014 ("**Bidder's Statement**") as supplemented by the first supplementary bidder's statement dated 16 June 2014 ("**First Supplement**") made under section 643 of the *Corporations Act 2001* (Cth) (the "**Act**") and the notices of variation dated 9 July 2014, 16 July 2014 and 25 July 2014 made under section 650D of the Act. The Second Supplement is issued by Drillsearch (Central) Pty Limited ABN 41 160 522 056 ("**Drillsearch Bidco**") a wholly-owned subsidiary of Drillsearch Energy Limited ABN 73 006 474 844 ("**Drillsearch**") in relation to its off-market takeover bid by Drillsearch Bidco for all of the ordinary shares in Ambassador Oil and Gas Limited ABN 28 152 595 429 ("**Ambassador**") that it does not already own ("**Offer**").

This Second Supplement supplements, and must be read together with, the Bidder's Statement and the First Supplement.

Unless the context requires otherwise, terms defined in the Bidder's Statement and First Supplement have the same meaning in this Second Supplement. This Second Supplement prevails to the extent of any inconsistency with the Bidder's Statement and First Supplement.

A copy of this Second Supplement was lodged with the Australian Securities and Investments Commission ("**ASIC**") on 1 August 2014. Neither ASIC nor any of its officers takes any responsibility for the contents of this Second Supplement.

2. TAKEOVERS PANEL PROCEEDINGS

(a) **Magnum Hunter application**

On 28 July 2014, the Takeovers Panel made a declaration of unacceptable circumstances in relation to the Drillsearch Offer in response to an application by Magnum Hunter.

The Panel found that Drillsearch was associated with Kleo Hatziladas, Fotoula Hatziladas, Giustino Guglielmo, David Shaw and Emmanuel Correia. As a result, the Panel considered that Drillsearch had voting power of at least 19.55% of Ambassador prior to acquiring its 19.9% pre-bid stake. The Panel also found that Mrs Hatziladas, Eye Investment Fund Ltd, Mr Guglielmo and Mr Shaw did not give effect to their intention statements issued to ASX on 28 May 2014 by accepting four days after the Drillsearch Offer opened rather than the 14 days referenced in their intention statements.

As a result of the declaration of unacceptable circumstances, the Panel has made orders with respect to the following category of Ambassador Shareholders.

| Category of Shareholder | % of Ambassador | Impact of Orders |
|--|------------------------|---|
| Selling Shareholders - those former Ambassador Shareholders who sold shares to Drillsearch under pre-bid share purchase deeds | 19.89% | 14 day right from the date of this document to elect to reverse the pre-bid share purchase deeds and have the number of Ambassador Shares sold to Drillsearch returned to them. |
| Intention Statement Shareholders - Mrs Hatziladas, Miller | 23.96% | Acceptances reversed and cannot accept into the Drillsearch Offer for a period of 14 days from the date of |

| | | |
|---|--------|---|
| Anderson Pty Ltd, Mr Shaw and Eye Investment | | this document. |
| Other Accepting Shareholders - those Ambassador Shareholders who accepted into the Drillsearch Offer on or before 28 July 2014 | 10.59% | 14 day withdrawal right from the date of this document. |

Each of the Selling Shareholders, Intention Statement Shareholders and Other Accepting Shareholders have been issued a personalised letter explaining their rights under the orders.

On the date of this Second Supplement, Drillsearch will release to ASX a Substantial Holder Notice outlining Drillsearch's relevant interest in Ambassador.

Drillsearch will continue to update the market on its relevant interest in Ambassador through the release of Substantial Holder Notices to ASX in accordance with the requirements of the Corporations Act. Drillsearch's relevant interest in Ambassador may decrease as result of the exercise of withdrawal rights or increase as a result of new acceptances.

The Drillsearch Offer has also been extended to 7:00pm 27 August 2014 (unless further extended) as per the notice of variation dated 25 July 2014.

As part of its orders, the Panel required this Second Supplement to be prepared in a form approved by the Panel and be dispatched to all Ambassador Shareholders including those who have already accepted the Drillsearch Offer.

(b) **Drillsearch application**

On 22 June 2014, Drillsearch made an application to the Panel in regards to disclosure deficiencies in Magnum Hunter's Bidder's Statement dated 20 June 2014.

On 23 June 2014 in response to the Drillsearch application, the Panel made interim orders preventing Magnum Hunter processing any acceptances of their bid until the earliest of a further order from the Panel, the determination of the proceedings and two months from the date of the interim order. As at the date of this Second Supplement, the proceedings are ongoing and Magnum Hunter cannot process any acceptances received.

3. **WHY THE REVISED DRILLSEARCH OFFER IS SUPERIOR TO THE REVISED MAGNUM HUNTER OFFER**

The Drillsearch Offer is superior to the Magnum Hunter Offer for the following reasons:

3.1 **THE DRILLSEARCH OFFER IS THE HIGHEST OFFER AVAILABLE TO AMBASSADOR SHAREHOLDERS, REPRESENTING AN ATTRACTIVE PREMIUM TO AMBASSADOR'S RECENT HISTORICAL SHARE PRICE AND THE MAGNUM HUNTER OFFER**

Drillsearch's Offer for Ambassador is \$0.3546 per Ambassador Share, based on a Drillsearch share price of \$1.65 on 31 July 2014.

The implied value of Drillsearch's Offer of \$0.3546 per share represents a premium of:

- 21.0% to the headline implied value of the Magnum Hunter Offer as at 31 July 2014;
- 81.9% premium to Ambassador's closing share price of \$0.1950 per share on 23 May 2014, the trading day prior to Ambassador entering into a trading halt pending the announcement of the Drillsearch Offer;
- 83.3% premium to the VWAP of Ambassador Shares for the 3 months to 23 May 2014;
- 88.6% premium to the VWAP of Ambassador Shares for the 6 months to 23 May 2014; and
- 94.1% premium to the VWAP of Ambassador Shares for the 9 months to 23 May 2014.

Premium to Magnum Hunter offer and Historical Ambassador share prices



3.2 THE DIRECTORS OF AMBASSADOR HAVE RECOMMENDED THAT YOU ACCEPT THE DRILLSEARCH OFFER, IF ONE OR MORE OF THE FOLLOWING APPLIES

You wish to retain and increase your exposure to the Cooper Basin with an investment in Drillsearch, consistent with your initial investment in Ambassador and the risk profile of holding Drillsearch Shares is acceptable to you.

You prefer to receive a combination of cash and shares in an Australian ASX listed entity, instead of common stock in an entity which is listed on the NYSE.

You intend to liquidate your investment in the short term and wish to have a greater degree of control and certainty in relation to the subsequent sale of the consideration received for your Ambassador Shares.

The risk profile of holding Magnum Hunter common stock or participating in the Magnum Hunter Sale Facility ("**MH Sale Facility**") in order to liquidate your investment may be unacceptable for your investment circumstances.

3.3 THE OFFER PROVIDES AMBASSADOR SHAREHOLDERS WITH AN OPPORTUNITY TO RECEIVE SHARES IN DRILLSEARCH, AN ASX LISTED AUSTRALIAN COMPANY FOCUSED ON AUSTRALIA'S COOPER BASIN

Drillsearch management believes Drillsearch is in a very strong position, given its deep experience in the Cooper Basin and neighbouring acreage to contribute significantly to the exploration and development of PEL 570

Drillsearch therefore believes it is in a better position to explore and develop PEL 570 than Magnum Hunter and other companies.

PEL 570 will represent a much larger proportion of Drillsearch's assets if the Drillsearch Offer is successful than it would represent in the Magnum Hunter portfolio.

3.4 **UNDER THE MAGNUM HUNTER OFFER THE SHARES YOU RECEIVE WILL BE FOREIGN STOCK AND YOU WILL NOT RECEIVE ANY CASH. YOU MAY NOT WANT TO HOLD FOREIGN STOCK**

Under the Magnum Hunter Offer, you will receive only foreign stock and no cash. If you would prefer cash, and you choose to sell Magnum Hunter stock, you may not receive the price as quoted on the NYSE. It may be impacted by withholding tax, foreign exchange movements, and the costs involved in setting up a new brokerage account.

Under Drillsearch's Offer you can receive your consideration within 10 Business Days of acceptance. Under the Magnum Hunter Offer you may need to wait until the earlier of one month after the date of acceptance, or 21 days after the completion of that offer, during which time the Magnum Hunter share price and AUD:USD rate may have changed.

The risks of holding foreign shares include foreign exchange rate risk, increased cost and difficulty of monitoring (eg, financial information presented on a US GAAP basis), difficulty of trading, and legal and regulatory risks.

For these reasons, there are very few examples of foreign shares being used as consideration in Australian takeovers.

The Magnum Hunter Offer does not include a cash component. In contrast, the Drillsearch Offer includes a cash component. If you do not want to receive shares and choose to participate in the MH Sale Facility there are significant risks to value in that facility (refer below).

3.5 **UNDER THE MAGNUM HUNTER OFFER, IF YOU WANT TO RECEIVE CASH, THE VALUE YOU RECEIVE UNDER THE SHARE SALE FACILITY IS UNCERTAIN AND LIKELY TO BE LOWER THAN THE VALUE QUOTED ON THE NYSE. THEREFORE, IF YOU SELL UNDER THE SHARE SALE FACILITY, THE MAGNUM HUNTER OFFER IS LIKELY TO BE MORE THAN A 21.0% DISCOUNT TO THE DRILLSEARCH OFFER**

Under the MH Sale Facility, the sale facility agent can only sell the Magnum Hunter common stock outside of the United States and only to non-United States persons.

The Magnum Hunter common stock sold by the sale facility agent will be "restricted securities" under US securities law and any purchaser of those securities will be subject to restrictions on transfer, including a restriction on any sales in the United States or for the benefit of US persons for a period of 6 months. These restrictions, coupled with the sale of stock only to non-US shareholders, mean the sale price of shares within the sale facility is likely to occur at a discount to the current prevailing NYSE price.

The timing for sale of the Magnum Hunter shares under the MH Sale Facility is unknown.

3.6 **MAGNUM HUNTER ALSO HAS A SIGNIFICANTLY DIFFERENT BUSINESS, FINANCIAL AND REGULATORY RISK PROFILE COMPARED TO AMBASSADOR AND DRILLSEARCH**

The majority of Magnum Hunter's assets are located in North America, not Australia. Magnum Hunter's unconventional experience has been predominantly in the Eagle Ford, Marcellus, Baaken and Utica shale plays, none of which are geologically, operationally or commercially analogous to the Cooper Basin's Patchawarra Trough within which PEL 570 lies, and provide Ambassador Shareholders with exposure to a very different set of assets than Ambassador or Drillsearch.

Magnum Hunter has a very different capital structure to Ambassador and Drillsearch, including significantly higher financial leverage. Additionally, Magnum Hunter is currently subject to investigation by the Securities and Exchange Commission and, separately, has dismissed both Hein and Associates and PricewaterhouseCoopers as auditors.

4. **HOW DO I ACCEPT THE DRILLSEARCH OFFER?**

For Issuer Sponsored Holdings of Ambassador Shares (security holder reference number beginning with 'I')

To accept the Offer, sign and return the **blue** Acceptance Form enclosed with this document.

For CHESSE Holdings of Ambassador Shares (holder identification number beginning with 'X')

To accept the Offer, sign and return the **yellow** Acceptance Form enclosed with this document or instruct your Controlling Participant (usually your broker) to accept the Offer for you.

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 with this document.

Acceptances received after 7:00pm Tuesday, 28 July 2014 are not subject to any withdrawal rights or reversal rights. Your acceptance into the Drillsearch Offer will be final.

5. **FURTHER INFORMATION**

For further information, you may call the Drillsearch Offer Information Line on 1300 365 790 (for calls made within Australia) or +61 1300 365 790 (for international callers) between 8:30am and 5:30pm (Sydney time) Monday to Friday.

6. **APPROVAL OF SECOND SUPPLEMENTARY BIDDER'S STATEMENT**

The copy of this Second Supplementary Bidder's Statement that has been lodged with ASIC has been approved by a unanimous resolution of Drillsearch Bidco on 31 July 2014.

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

DATED 1 August 2014

A handwritten signature in black ink, appearing to read "Bradley W. Lingo". The signature is written in a cursive style with a horizontal line extending from the end of the name.

Director