

Drillsearch Energy Limited
ABN: 73 006 474 844

HALF-YEAR REPORT

for the six months ended 31 December 2015
(Including Appendix 4D Disclosures, Directors' Report and Financial Report)

Drill|search

A tall, dark industrial chimney stands on the right side of the frame, emitting a large, bright plume of fire that rises into the sky. The background is a dramatic sunset or sunrise sky with horizontal bands of orange, yellow, and blue, and scattered dark clouds. The foreground is dark and silhouetted, showing the top of a building or structure.

Drillsearch Energy Limited ABN 73 006 474 844
Interim report - 31 December 2015

Contents

	Page
Appendix 4D	1
Directors' report	2
Auditors independence declaration	11
Independent auditor's review report to the members	12
Directors' declaration	14
Interim financial statements	
Consolidated statement of comprehensive income	15
Consolidated balance sheet	16
Consolidated statement of changes in equity	17
Consolidated statement of cash flows	18
Notes to the consolidated financial statements	19
Schedule of tenements	31

This half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 30 June 2015 and any public announcements made by Drillsearch Energy Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Appendix 4D
For the half year ended 31 December 2015
Prior corresponding period: Half year ended 31 December 2014

Results for announcement to the market

	2015	2014		
	\$'000	\$'000		
Key Information				
Revenue from ordinary activities	98,875	146,714	Down	32.6%
Net loss for the period attributable to members	(26,114)	(3,624)	Down	621%

Dividends

No dividend for the half year ended 31 December 2015.

Net Tangible Assets

	2015	2014
Net tangible assets backing per ordinary security (cents)	58.8	65.2
Basic earnings per share (cents)	(11.2)	(0.8)

Details of individual and total dividends or distributions and dividends or distributions payments.

There were no distributions or dividends paid or payable during the period.

Details of any dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for the participation in any dividends or distribution reinvestment plan

There were no dividend or distribution reinvestment plans in operation.

Changes in ownership of controlled entities during the period

During the period, there were no changes in ownership of controlled entities.

Directors' report

The Directors of Drillsearch Energy Limited submit the financial report of Drillsearch Energy Limited and its subsidiaries (the Group) for the half year ended 31 December 2015.

Directors

Mr J. D. McKerlie (Non-executive Director and Chairman)
Mr P. J. Bainbridge (Non-executive Director)
Mr T. S. Cheah (Non-executive Director)
Mrs F. A. Robertson (Non-executive Director)
Mr H. R. B. Wecker (Non-executive Director)

The above directors held office during and since the end of the half year.

Results and review of operations

The Group reported a consolidated net loss of \$26.1 million (2014: restated loss of \$3.6 million) for the half year ending 31 December 2015, after tax benefit.

Further details of the Group's financial and operating performance can be found in the Financial and Operating Performance report on page 4.

Principal activities

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

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

Significant changes in the state of affairs

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

Subsequent events

As announced to the Australian Securities Exchange (ASX) on 23 October 2015, Drillsearch entered into a Merger Implementation Agreement with Beach Energy Limited (Beach Energy), whereby it was proposed that Drillsearch merge with Beach Energy by way of Scheme of Arrangement. Subsequent to the reporting period, Drillsearch shareholders overwhelmingly voted in favour of the proposed merger at the 'Scheme Meeting' on 27 January 2016 and the Scheme was approved by the Court on 18 February 2016.

The Scheme is expected to be implemented on 1 March 2016 (the 'Implementation Date'), at which point Drillsearch will become a wholly-owned subsidiary of Beach Energy. Following the Implementation Date Drillsearch will apply to be removed from the ASX official list.

More information regarding the merger with Beach Energy, including pro forma financial information for the 'Merged Group' as at 30 June 2015, is set out in the Scheme Booklet released to the ASX on 16 December 2015.

Subsequent events (continued)

In connection with the merger with Beach Energy, and as set out in this report, certain accounting adjustments and liabilities have been recognised in the Company's financial statements for the six months to 31 December 2015.

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

Environmental regulation

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

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

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

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

Dividends

The Directors have determined that there will be no dividend paid in respect of the half year ending 31 December 2015 (2014: \$nil). No dividends have been paid during the financial year to-date.

Financial and Operating Performance

Overview

The six months to 31 December 2015 was a period of contrasts for Drillsearch. Weakening external market conditions continued to weigh on the oil and gas sector, with the decline in the oil price impacting on the Company's results for the period. In contrast, Drillsearch enjoyed another successful period in the field, with production ahead of plan and several successful wells drilled across the Oil and Wet Gas businesses.

The first half also saw Drillsearch announce that it had entered into a Merger Implementation Agreement with Beach Energy for a merger by way of scheme of arrangement. This transaction, overwhelmingly supported by Drillsearch shareholders subsequent to the reporting period and approved by the Court on 18 February 2016, is a compelling and logical combination of two companies with similar strategies and values and with a history of successful joint venture partnership in the Cooper Basin. The merger will create the leading mid-cap oil and gas company listed on the ASX which is well positioned for future growth. The merger is expected to be implemented on 1 March 2016, at which point Drillsearch will become a wholly-owned subsidiary of Beach Energy, and following which the Company will apply to be removed from the official list of the ASX.

Production of 1.63 million barrels of oil equivalent (mmboe) during the first half was ahead of plan, resulting in Drillsearch revising its guidance for the full-year to be at or above the top end of the 2.8-3.2 mmboe range. This result included the commencement of production from the Company's Wet Gas joint venture with Santos, with the Cadenza-1 and Yarowinnie South-1 wells coming online during December. The start-up of the joint venture was a significant milestone for Drillsearch, representing delivery on the Company's strategy of commercialising its pipeline of Wet Gas discoveries and increasing the contribution to production from Wet Gas. Subsequently, the Varanus South-1 well was brought online by the joint venture in early February 2016, with further connections planned in the second half, along with connection of discoveries in our Wet Gas joint ventures with Beach and Senex. Production for the half also included strong performance on the Western Flank where our joint venture with Beach Energy produced at an average daily rate of 12,437 barrels (bbl), up 10% from 11,304 bbls in the prior corresponding period. This strong production included better-than-plan performance from the newly connected Pennington, Balgowan and Stunsail fields.

Field activities for the half also included two successful appraisal wells on the Western Flank which are expected to add to reserves, the Washington-1 well in the PEL570 joint venture with Santos, and, subsequent to the reporting period, two new discoveries from our operated exploration campaign in the Northern Cooper.

This first half operating performance was achieved with continuing improvement in safety. As at December 2015, the Drillsearch Group's Total Recordable Injury Frequency Rate (inclusive of employee and contractor manhours) (TRIFR) was zero, with the Company being reportable incident free since January 2015.

During the half, Drillsearch benefitted from the decisive action taken at the half-year of FY2015 in response to the weakening oil price, with additional income derived from hedging of \$15 million, partly offsetting a reduction in average realised prices as oil prices touched 12-year lows. As of 31 December 2015 the company had 644,000 bbls of oil production hedged for the remainder of FY2016 at an average floor price of US\$58.37/bbl (before premiums).

The period also saw a reduction in corporate and operating costs of 17%, partly offset by the costs associated with the merger with Beach Energy. The benefits of hedging and cost discipline, combined with the benefit of continuing free-carries under farm-in arrangements, contributed to the Company increasing its cash balance to \$165.4 million at 31 December 2015, from \$131.5 million at 30 June 2015. As announced on 21 January 2016, Drillsearch expects capital expenditure (inclusive of E&E and G&G, and before applying successful efforts) for the full-year to be at the lower end of the Company's full-year guidance of \$80-110 million. Drillsearch and its joint venture partners are continuing to review capital expenditure in the context of continuing oil price volatility.

In addition to hedging, Drillsearch's financial results continued to benefit from the weaker Australian dollar, with the majority of the company's revenue received in US dollars, while costs are typically paid in Australian dollars.

Financial and Operating Performance (continued)

The following table provides a summary of key financial and operating metrics for the reporting period.

	Half year ended		
	31 Dec 2015	31 Dec 2014	
	\$'000	\$'000	
Revenue	98,875	146,714	
EBITDAX ¹	67,462	114,650	
Exploration and evaluation costs expensed/written off ²	(5,513)	(43,173)	
Impairment of oil and gas assets	-	(44,342)	
Impairment of exploration and evaluation assets	(69,070)	-	
Income tax benefit ²	10,525	3,115	
Net Loss After Tax ²	(26,114)	(3,624)	
Underlying Net Profit After Tax ^{3,4,2}	20,061	20,629	
	31 Dec 2015	30 June 2015	
	\$'000	\$'000	
E&E ⁵ and O&G ⁶ expenditure	22,500	142,317	
Operating cash inflow ²	32,366	82,640	
Investing cash outflow ²	(5,341)	(89,806)	
Financing cash inflow / (outflow)	-	1,275	
Net cash (outflow) / inflow ⁷	27,025	(5,891)	
Production (by product type)			
Oil	kbbbl	1,465.6	1,359.2
Wet Gas	kboe	161.5	182.7
Total oil and gas	kboe	1,627.1	1,541.9
Average realised oil price ⁸	\$/bbl	74.6	105.4
Average realised gas and gas liquids price	\$/boe	28.6	38.3
Average total operating costs - Oil ⁹	\$/boe	27.2	32.8
Average total operating costs - Wet Gas ⁹	\$/boe	12.9	15.5
AUD:USD closing exchange rate	AUD/USD	\$0.73	\$0.82

¹ EBITDAX is Earnings before interest income and finance costs, tax, depreciation and amortisation, exploration and evaluation costs, and impairments

² Comparative information has been restated to show the effect of the change in accounting policy for Exploration and Evaluation Assets to the successful efforts method.

³ Underlying Net Profit/(Loss) After Tax and EBITDAX are Non-IFRS accounting financial information used by the Company to monitor the underlying performance of the business. The Non-IFRS accounting financial information in this report has not been the subject of external audit, however, the information has been taken from information prepared in accordance with IFRS accounting and the subject of external audit. Non-IFRS accounting financial information should be read in conjunction with, not in replacement of, IFRS accounting financial information included in this report. A reconciliation of Underlying Profit/(Loss) to Net Profit/(Loss) is set out on page 6 of this report. A reconciliation to EBITDAX to Net Profit / (Loss) is set out in note 1 to the financial statements.

⁴ Underlying Profit/(Loss) excludes the impacts of asset acquisitions, disposals and impairments, as well as other items that are subject to significant variability between reporting periods, including the effect of fair value adjustments and fluctuation in exchange rates.

⁵ E&E refers to Exploration and Evaluation

⁶ O&G refers to Oil and Gas

⁷ Net cash flow is the net increase/(decrease) in cash and cash equivalents in the consolidated statement of cash flows for the reporting period

⁸ Average realised oil price includes realised oil price hedge gains of \$10.3/bbl for period ended 31 December 2015. Gross proceeds of hedge benefits are recognised with net gain on derivatives in the consolidated statement of profit or loss and other comprehensive income

⁹ Average total operating cost is direct operating expense for the period divided by production for the period

Financial and Operating Performance (continued)

Revenue of \$98.9 million for half year ended 31 December 2015 was 33% lower than the prior corresponding period (1H FY2015: \$146.7 million), with realised Australian dollar oil prices falling from an average \$105.40/bbl in the prior period ending 31 December 2014 to \$74.60/bbl in the six months ended 31 December 2015, as a result of lower US\$ oil prices partially offset by favourable A\$/US\$ exchange movements.

Gross Profit for the period was \$32.3 million, 53% lower than the six months ended 31 December 2014 (\$68.9 million) largely due to lower revenue, offset by a modest decrease in the cost of sales year on year. Cost of goods sold was mostly flat year on year, however, direct operating expense for the half year was down 12% on the prior corresponding period, primarily due to lower royalties as a result of decreased unit prices. Lower amortisation and depletion charges in FY2015 have resulted from the impact of increased reserves and no amortisation being booked in relation to Tintaburra for the period as it is classified as held for sale.

Following the adoption of the successful efforts methodology for E&E expenditure in financial year 2015, the profit and loss for the current six month period includes exploration and evaluation costs written-off of \$5.5 million for the reporting period.

Drillsearch reported a Net Loss After Tax of \$26.1 million. The result includes a non-cash write off of exploration and evaluation expenditure of \$5.5 million (before tax) and a non-cash asset impairment of \$69.1 million (before tax).

Excluding the impact of non-cash impairments, exploration write-offs and fair value adjustments, underlying NPAT was \$20.1 million, 2.8% lower than during the prior corresponding period.

The following table presents a reconciliation of underlying NPAT from NPAT per the financial report:

	Half year ended	
	31-Dec 2015 \$'000	31-Dec 2014 \$'000
Net Loss After Tax	(26,114)	(3,624)
Derivatives fair value gains - unrealised	(15,900)	(16,020)
Change in fair value of convertible notes	9,198	(2,832)
Impairment of oil and gas assets and exploration and evaluation assets	69,070	44,342
Tax impact of above changes	(16,193)	(1,237)
Underlying NPAT (net profit after tax)	20,061	20,629

Financial position

The Company's semi-annual assessment of carrying values was undertaken in the context of the decline of oil price and weakening market sentiment during the six months to 31 December 2015. This has resulted in impairments of \$69.1 million relating principally to the Company's interests in longer-dated E&E assets.

The net assets of Drillsearch decreased to \$271.9 million as at 31 December 2015, from \$297.3 million at 30 June 2015, due primarily to impairments of exploration assets partially offset by increased cash balances.

E&E and O&G expenditure for the first half of FY2016 was \$22.5 million (first half FY2015: \$96.7 million) which is indicative of a work program weighted to the second half of the financial year and a significant proportion of first half activity covered by the benefit of continuing free carries.

Financial position (continued)

The company continues to place importance on the maintenance of a robust balance sheet with cash as at 31 December 2015 of \$165.4 million. In addition, as announced on 3 December 2015, the company has secured a new \$100 million debt facility to replace the company's existing undrawn working capital facility. The new facility remains subject to conditions precedent.

The Notes carry a fixed coupon of 6% per annum, paid semi-annually, for a term of approximately five years, and are convertible into Drillsearch shares at a conversion price of US\$1.66/share (subject to a conversion price adjustment in certain circumstances). The net movement in the current year was a \$9.2 million loss (prior period \$2.8 million gain), primarily driven by the weakening of the \$A relative to the \$US over the period.

Operating cash flow of \$32.4 million (2014: \$82.6 million) reflecting the oil price decline partially offset by higher production volumes during the period.

The statutory result includes fair value adjustment to the Company's US\$ denominated convertible Notes issued in May 2013.

First Half Operational Overview

The first-half work program focused on development activity, with a number of new wells and fields tied in across our Oil and Wet Gas businesses, helping to support production.

Oil Business

Oil production was 1.47 mmboe during the half (1H FY2015: 1.36 mmboe), with the major contribution coming from the Western Flank Oil Fairway joint venture with Beach (Drillsearch 60%, Beach 40% and Operator).

Western Flank Oil Fairway

Production from the Western Flank was supported by another six months of strong production from Bauer, as well as the tie-in of three new fields. Facilities at Balgowan, Pennington and Stunsail were completed and connected with production transported by pipeline to the Bauer Central Processing facility. Better-than-expected performance from the new fields meant that the joint venture was able to defer production from the new Bauer wells 20-23 drilled during FY2015.

In addition to wellhead capacity, the Operator of the Lycium to Moomba pipeline completed an upgrade that increased the maximum flow rate of the pipeline to in excess of 21,000 bbls/d, reducing reliance on trucking operations. This has delivered significant benefits to the joint venture in terms of safety and costs.

Towards the end of the first half of FY2016 a two-well appraisal campaign over the Bauer field was completed with Bauer-24 and -25 cased and suspended as future oil producers. Bauer-24 and -25 successfully tested the southern-most and northern-most extensions of the field, respectively¹⁰, with the outcome of the wells expected to support additional oil reserves.

During the half, work began on the upgrade of the fluid handling facilities at Bauer, however, in light of recent oil price declines the joint venture has reviewed the work planned for the second half of FY2016 and agreed to place the upgrade to the Bauer facilities on hold, recommencing early in FY2017.

¹⁰ For further information regarding Bauer-24 and -25 please refer to the December Drilling Report released on 13 January 2016.

First Half Operational Overview (continued)

Oil Business (continued)

Inland-Cook Oil Fairway

The Maroochydhore-1 exploration well was drilled in October 2015 in ATP 924 (Drillsearch 100%, Beach option to farm-in to 45% interest) on the Inland-Cook Oil Fairway. The well encountered oil and gas shows, however, wireline logs indicated the sands were water saturated and the well was consequently plugged and abandoned. Data obtained from Maroochydhore-1 has improved Drillsearch's understanding of the broader permit area and will be incorporated into the company's regional prospectivity model¹¹. Drillsearch was free-carried for the well as per the terms of the farm-in agreement with Beach Energy.

Eastern Margin Oil

In December, Drillsearch entered into a sale and purchase agreement in relation to its 40% working interest in the producing Tintaburra Block (ATP 299) operated by Santos. Completion is conditional on joint venture and regulatory approvals. The consideration for the sale is \$2 million upon the sale becoming effective.

Wet Gas Business (conventional gas and gas liquids)

Wet Gas production was 0.16 mmboe in the first half (1HFY15: 0.18 mmboe), with the majority coming from the Western Wet Gas joint venture with Beach (Drillsearch 50%; Beach 50% and Operator) and a contribution from the joint venture with Santos (Drillsearch 40%, Santos 60% and Operator) only late in the half.

Western Wet Gas

Performance from the Western Wet Gas joint venture with Beach exceeded budget during the first half, despite a 12-day maintenance shutdown during the second quarter.

Also during the half, the joint venture conducted an extended production test at Ralgnal-1 with results confirming a commercial gas resource in place¹². In the neighbouring permit, PRL 26, (Drillsearch 75%, Beach 15% and Operator, Rawson 10%) the Udacha-1 well was hydraulically stimulated and tested recording a stabilised flow rate of 1.7 mmscf/d on a 24/64" choke. It is expected that Ralgnal-1, Udacha-1 and Coolawang-1 will be connected to the Middleton Gas Plant before the end of FY2016.

Design optimisation for the planned installation of compression at Middleton is nearing completion with unit selection and contracts expected early in the second half of FY2016. The benefit to production is anticipated in the first half of FY2017.

Activity within the Western Wet Gas joint venture with Santos focused on a testing and connections campaign. In December, the Cadenza-1 and Yarowinnie South-1 wells were connected and commenced production at a steady rate of 2 million standard cubic feet per day (mmscf/d) on a 20% choke and 5 mmscf/d on a 44% choke, respectively. Subsequent to the reporting period, Varanus South-1 was also connected.

Preparation for the FY2016 drilling campaign in PEL 513 began with cultural heritage clearance of the drill sites. The first well in the campaign, Varanus South-2, spudded in early February 2016. Drillsearch is free carried in this joint venture for exploration, appraisal and development activity in FY2016.

¹¹ For further information regarding Maroochydhore-1 please refer to the October Drilling Report released on 6 November 2015.

¹² For further information regarding results for the Ralgnal-1 test please refer to the December 2015 Quarterly Report released on 28 January 2016.

First Half Operational Overview (continued)

Wet Gas Business (continued)

Northern Wet Gas

The two-well exploration campaign in PRLs 173 and 174 (Drillsearch 80% and Operator, MidContinent 20%) commenced late in the first half of FY2016 with the Willow-1 exploration well. The well encountered conventional pay in the Toolachee and Epsilon Formations as well as the Patchawarra Formation¹³. Stacked reservoirs were identified and in addition to the conventional pay, several zones with potential for unconventional pay were also observed.

Following Willow-1 the Ensign 932 Rig spudded the second well, Jute-1. The well was cased and suspended after encountering conventional pay in the Patchawarra and like Willow-1 several zones with potential for unconventional pay were also observed. Both wells will take part in an extended production test in the second half of FY2016.

In the neighbouring PEL 182, (Drillsearch 43%, Senex 57% and Operator) a flow line has been constructed from the Vanessa-1 Wet Gas discovery to the South Australian Cooper Basin joint venture's gathering infrastructure. It is expected Vanessa-1 will begin production early in the second half once the tie-in has been completed and the sales arrangements finalised.

Unconventional Business

Northern Patchawarra Trough

The PEL 570 joint venture (Drillsearch 47.5%, Santos 35% and Operator and Sundance 17.5%) drilled the Washington-1 exploration well in October 2015 encountering elevated gas shows in the Permian Source Rocks across the Toolachee, Epsilon and Patchawarra Formations¹⁴. The well was tested with encouraging initial gas flow rates. The well will be completed and shut-in for further testing.

The joint venture also completed the acquisition of the 415km² Delaware 3D seismic survey covering the southern section of the permit.

Drillsearch's proportionate share of the drilling, testing and completion costs of Washington-1, and costs associated with the Delaware 3D seismic survey, are included in the continuing free-carry in PEL 570.

Health and Safety

Drillsearch continued to improve its safety performance during the first half of FY2016 with a TRIFR of zero as at 31 December 2015. Drillsearch has now no recordable incidents since December 2014. The company is committed to providing a safe environment for its people and communities and aims to continually improve in all areas of health and safety.

¹³ For further information regarding Willow-1 please refer to the December 2015 Quarterly Report released on 28 January 2016.

¹⁴ For further information regarding Washington-1 please refer to the November Drilling Report released on 3 December 2015.

First Half Operational Overview (continued)

Auditor's independence declaration

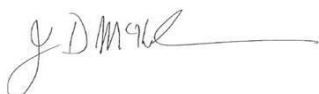
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 11.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of Directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'J. D. McKerlie', followed by a horizontal line extending to the right.

J. D. McKerlie
Chairman
Sydney, 24 February 2016



Auditor's Independence Declaration

As lead auditor for the review of Drillsearch Energy Limited for the half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'Richardson', written in a cursive style.

Justine Richardson
Partner
PricewaterhouseCoopers

Sydney
24 February 2016

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Drillsearch Energy Limited (the company), which comprises the consolidated balance sheet as at 31 December 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Drillsearch Energy Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Drillsearch Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Drillsearch Energy Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read 'Justine Richardson', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Justine Richardson', written in a cursive style.

Justine Richardson
Partner

Sydney
24 February 2016

**Drillsearch Energy Limited
Directors' declaration
31 December 2015**

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 15 to 30 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half year on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.

On behalf of the Directors,

A handwritten signature in black ink, appearing to read 'J. D. McKerlie', followed by a long horizontal line extending to the right.

J. D. McKerlie
Chairman

Sydney, 24 February 2016

Drillsearch Energy Limited
Consolidated statement of comprehensive income
For the half year 31 December 2015

	Notes	Half year ended	
		31-Dec 2015 \$'000	Restated* 31-Dec 2014 \$'000
Revenue	2	98,875	146,714
Cost of sales of goods	3	(66,592)	(77,852)
Gross Profit		32,283	68,862
Other gains and losses	6	3,584	3,683
Finance costs	4	(6,706)	(4,593)
Net gain on derivatives	5	30,887	19,504
Other expenses	7	(12,906)	(9,512)
Change in fair value of convertible notes	8	(9,198)	2,832
Exploration and evaluation costs written off/expensed		(5,513)	(43,173)
Impairment of oil and gas assets	12	-	(44,342)
Impairment of exploration and evaluation assets	11	(69,070)	-
Loss before income tax		(36,639)	(6,739)
Income tax benefit	9	10,525	3,115
Loss for the period		(26,114)	(3,624)
Other comprehensive income, net of income tax which will be recycled to the profit and loss			
Foreign currency translation		266	(235)
Total comprehensive loss for the period		(25,848)	(3,859)
		Cents	Restated* Cents
Earnings per share			
Basic earnings per share		(11.2)	(0.8)
Diluted earnings per share		(11.2)	(0.8)

Notes to the financial statements are included on pages 19 to 30.

*The comparative statement for the period ended 31 December 2014 has been restated to show the effect of the change in accounting policy adopted for the financial year ended 30 June 2015 and applied retrospectively. Refer to additional commentary in 'Basis of Preparation' commencing on page 19 of this report.

Drillsearch Energy Limited
Consolidated balance sheet
As at 31 December 2015

	Notes	31-Dec-2015 \$'000	30-Jun-2015 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		165,384	131,486
Trade and other receivables		71,882	71,496
Inventories		1,640	2,617
Derivative financial instruments	17(b)	21,954	5,605
Other current assets		1,676	2,338
Assets classified as held for sale	10	26,045	25,045
Total current assets		<u>288,581</u>	<u>238,587</u>
Non-current assets			
Exploration and evaluation assets	11	109,419	178,496
Oil and gas assets	12	88,912	95,652
Deferred tax assets		33,742	23,185
Property, plant and equipment	13	2,662	2,849
Other non-current assets		1,394	1,380
Total non-current assets		<u>236,129</u>	<u>301,562</u>
Total assets		<u>524,710</u>	<u>540,149</u>
LIABILITIES			
Current liabilities			
Trade and other payables		35,088	37,051
Borrowings	8	171,306	-
Provisions	15	3,138	684
Liabilities directly associated with assets classified as held for sale		24,545	24,545
Total current liabilities		<u>234,077</u>	<u>62,280</u>
Non-current liabilities			
Borrowings	8	-	162,108
Provisions	15	18,764	18,471
Total non-current liabilities		<u>18,764</u>	<u>180,579</u>
Total liabilities		<u>252,841</u>	<u>242,859</u>
Net assets		<u>271,869</u>	<u>297,290</u>
EQUITY			
Contributed equity	16	326,368	325,149
Other reserves		8,040	8,562
Retained earnings		(62,539)	(36,421)
Equity attributable to owners of the parent		<u>271,869</u>	<u>297,290</u>
Total equity		<u>271,869</u>	<u>297,290</u>

Notes to the financial statements are included on pages 19 to 30.

Drillsearch Energy Limited
Consolidated statement of changes in equity
For the half year 31 December 2015

	Attributable to owners of Drillsearch Energy Limited					
	Contributed equity \$'000	Equity-settled benefits reserve \$'000	Foreign currency translation \$'000	General reserve \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2014	285,528	4,924	(927)	3,440	(28,345)	264,620
Profit for the period as reported in the 2014 interim financial statements	-	-	-	-	14,349	14,349
Effect of accounting policy change	-	-	-	-	(17,973)	(17,973)
Restated total comprehensive loss for the period	-	-	-	-	(3,624)	(3,624)
Transactions with owners in their capacity as owners:						
Employee share scheme	-	1,317	-	-	-	1,317
Shares issued during the period	39,621	(1,087)	-	-	-	38,534
Exchange differences arising on translation of foreign operations	-	-	(235)	-	-	(235)
	39,621	230	(235)	-	-	39,616
Balance at 31 December 2014	325,149	5,154	(1,162)	3,440	(31,969)	300,612

	Notes	Attributable to owners of Drillsearch Energy Limited					
		Contributed equity \$'000	Equity-settled benefits reserve \$'000	Foreign currency translation \$'000	General reserve \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2015		325,149	6,283	(1,161)	3,440	(36,421)	297,290
Loss for the period		-	-	-	-	(26,114)	(26,114)
Total comprehensive loss for the period		-	-	-	-	(26,114)	(26,114)
Transactions with owners in their capacity as owners:							
Shares issued during the period	16	1,219	(1,190)	-	-	-	29
Cancellation of share options		-	(539)	-	-	-	(539)
Employee share scheme		-	941	-	-	-	941
Exchange differences arising on translation of foreign operations		-	-	266	-	(4)	262
Balance at 31 December 2015		326,368	5,495	(895)	3,440	(62,539)	271,869

Notes to the financial statements are included on pages 19 to 30.

Drillsearch Energy Limited
Consolidated statement of cash flows
For the half year 31 December 2015

	31-Dec	Restated*
	2015	31-Dec
Notes	\$'000	2014
		\$'000
Cash flows from operating activities		
Receipts from customers	121,440	189,131
Payments to suppliers and employees	(77,020)	(87,351)
Cash generated from operations	44,420	101,780
Payments for exploration and evaluation - Seismic, G&A (i), G&G (ii)	(5,513)	(14,868)
Interest paid	(6,541)	(4,272)
Net cash inflow from operating activities	32,366	82,640
Cash flows from investing activities		
Payments for oil and gas assets	(13,630)	(25,274)
Payments for exploration and evaluation assets	(4,064)	(58,439)
Payments for property, plant and equipment	(781)	(2,191)
Payments for oil derivatives	(449)	(6,400)
Receipts from oil hedging derivatives	13,041	874
Interest received	542	1,624
Net cash outflow from investing activities	(5,341)	(89,806)
Cash flows from financing activities		
Proceeds from issues of equity shares	-	1,275
Net cash inflow from financing activities	-	1,275
Net increase (decrease) in cash and cash equivalents	27,025	(5,891)
Cash and cash equivalents at the beginning of the period	131,486	152,384
Effects of exchange rate changes on cash and cash equivalents	6,873	-
Cash and cash equivalents at end of period	165,384	146,493

Notes to the financial statements are included on pages 19 to 30.

*The comparative statement for the period ended 31 December 2014 has been restated to show the effect of the change in accounting policy adopted for the financial year ended 30 June 2015 and applied retrospectively. Refer to additional commentary in 'Basis of Preparation' commencing on page 19 of this report.

Statement of compliance

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

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

The financial statements have been authorised for issue by the Directors on 24 February 2016.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of available for sale financial assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the half year Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2015 annual financial report for the financial year ended 30 June 2015, except for the impact of the Standards and Interpretations described below.

In this regard, for the financial year ending 30 June 2015, the Company changed its accounting policy relating to exploration and evaluation expenditure to adopt the "successful efforts" method of accounting. In this report, results for the prior corresponding period (six months to 31 December 2014) have been restated to apply the change in accounting policy.

Drillsearch's Annual Financial Report for the twelve months ending 30 June 2015 sets out further information regarding the change in accounting policy.

The effect of the restatement of the half year ending 31 December 2014 was to reduce profit for the period by \$18.0 million to a loss of \$3.6 million and EPS by 4.0 cents to an EPS of -0.8 cents respectively.

The accounting policies applied are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

- Limited amendment of impairment disclosures (AASB 2013-3)
- Annual improvements project - 2010-2012 cycle (AASB 2014-1 Part A) AASB 8 Operating segments

Basis of preparation (continued)

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior periods. The new and revised Standards and Interpretations have not had a material impact and not resulted in changes to the Group's presentation of its half year financial statements. There are no upcoming new or revised Standards and Interpretations which are expected to have a material impact on the Group.

1 Segment information

Information reported to the Chief Operating Decision Maker (CODM), being the Chief Executive Officer, for the purposes of the resource allocation and assessment of performance is focussed on the category of business units and is consistent with the most recent annual report. The Group's reportable segments under AASB 8 *Operating Segments* are therefore as follows

Oil Projects	Divestment assets
Wet Gas Projects	Unconventional Projects

(a) Segment revenue and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable business unit:

	Oil Projects	Wet Gas Projects	Unconventional Projects	Divestment assets	All other segments	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
31 December 2015						
Total segment revenue	94,265	4,610	-	-	-	98,875
EBITDAX	78,455	1,989	(500)	(674)	(11,808)	67,462
Total segment assets	117,003	99,670	51,369	26,045	230,623	524,710
Total segment liabilities	34,270	12,552	473	24,545	181,001	252,841
31 December 2014						
Total segment revenue	139,718	6,996	-	-	-	146,714
EBITDAX	115,112	4,159	-	-	(4,621)	114,650
30 June 2015						
Total segment assets	139,127	146,886	60,363	25,045	168,728	540,149
Total segment liabilities	24,438	24,688	(394)	24,545	169,582	242,859

1 Segment information (continued)

(a) Segment revenue and results (continued)

A reconciliation of EBITDAX to operating profit before income tax is provided as follows:

	31-Dec 2015 \$'000	31-Dec 2014 \$'000
EBITDAX	67,462	114,650
Interest income	542	1,624
Finance costs	(6,706)	(4,593)
Amortisation and depletion	(22,486)	(29,921)
Depreciation	(868)	(984)
Impairment of exploration and evaluation assets	(69,070)	-
Impairment of oil and gas assets	-	(44,342)
Exploration and evaluation costs expensed	(5,513)	(43,173)
Loss before income tax from continuing operations	(36,639)	(6,739)

2 Revenue

Revenue from the sale of oil and gas	98,875	146,714
	98,875	146,714

3 Cost of sales

Change in inventories	977	(833)
Direct operating expense	42,261	47,780
Depreciation	868	984
Amortisation and depletion	22,486	29,921
	66,592	77,852

4 Finance costs

Interest costs and finance fees	6,667	4,472
Unwinding of discount on provisions	39	121
	6,706	4,593

5 Net gain on derivatives

Derivatives fair value gains - unrealised	15,900	16,020
Oil price hedge gains - realised	14,987	3,484
	30,887	19,504

Drillsearch Energy Limited
Notes to the consolidated financial statements
31 December 2015
(continued)

6 Other gains and losses

	31-Dec 2015	31-Dec 2014
Notes	\$'000	\$'000
Net foreign exchange gains	3,084	2,229
Interest on bank deposits	542	1,624
	3,626	3,853
Other losses	(42)	(170)
	3,584	3,683

7 Other expenses

Share based payments expense	969	1,317
Assets held for sale written off	500	-
General legal and professional costs	247	402
Corporate activity - merger with Beach (i)	4,013	-
Employee benefits expense	11,446	13,277
Recharges and recoveries (ii)	(8,031)	(10,311)
Other expenses	3,762	4,827
	12,906	9,512

(i) Includes legal advisory fees, consultants and financial advisors (excluding UBS and Goldman Sachs), scheme booklet costs, employee retention costs and other corporate admin costs.

(ii) The Group has a policy to allocate a portion of employee benefits expense and other office expenses to oil, gas, exploration and evaluation assets based on employee time committed to various projects. A portion of the amount is recovered from the joint venture partners.

8 Borrowings

(a) Convertible notes

US\$125 million convertible notes (the "Notes") were issued by the Company on 3 May 2013 and 13 May 2013 for which the net proceeds received have been recognised as a financial liability.

The liability is measured at Fair Value through Profit and Loss (FVTPL). The difference between the carrying amount of the liability at 30 June 2015 and the amount reported in the statement of financial position at 31 December 2015 (A\$9.2 million) represents the change in valuation of convertible notes attributable to market conditions and changes in respect of foreign currency translation.

	31-Dec 2015 \$'000	30-Jun 2015 \$'000
Change in valuation of convertible note attributable to market	(807)	24,198
Change in respect of foreign exchange differences	(8,391)	(21,366)
Change in fair value of convertible note	(9,198)	2,832
Current unsecured		
Convertible notes	171,306	-
Non-current unsecured		
Convertible notes	-	162,108

Additional information on the Notes is available within the 30 June 2015 Annual Report and the Offering Circular associated with the issue.

The merger with Beach Energy (refer to Note 19) constitutes a 'change of control' for the purposes of the "Notes", which, in turn, triggers a 'Redemption Event' for early redemption of the Notes. Under the terms of the merger, Beach Energy and Drillsearch agreed that following approval by the government of the Scheme of Arrangement to implement the merger, Drillsearch would exercise the right to redeem the Notes. Drillsearch (through its wholly-owned subsidiary, Drillsearch (Finance) Pty Limited) issued the relevant redemption notice on 27 January 2016. Accordingly, as at 31 December 2015, the Notes have been classified as a currently liability.

9 Income tax expense

The income tax rate used for the 2015 and 2014 period is the corporate tax rate of 30% payable by Australian entities on taxable profits under Australian tax law.

	31-Dec 2015 \$'000	31-Dec 2014 \$'000
Income tax benefit recognised in profit or loss		
In respect of corporate tax	10,525	3,115

During the period the Company de-recognised carried forward tax losses (tax effected: \$7.5 million) previously reported in the prior years' Balance Sheet as a Deferred Tax Asset. This is due to slower forecast recoverability / utilisation of losses, following a decline in Brent crude oil prices and the lowering of consensus forward curve prices.

10 Assets and liabilities classified as held for sale

Assets directly associated with assets classified as held for sale

Other assets (i)	-	500
Oil and gas assets (ii)	26,045	24,545
Total assets	26,045	25,045

Liabilities directly associated with assets classified as held for sale

Decommissioning costs provision (ii)	24,545	24,545
Net assets	1,500	500

(i) The proposed sale of the Group's interests in Ambassador US Oil and Gas Inc classified as an asset held for sale as at 31 December 2014 has been terminated. The book value of the asset has been written off in the current period.

(ii) In December 2015, the Group entered into a sale and purchase agreement in relation to its 40% working interest in the producing Tintaburra Block (ATP 299) operated by Santos. Completion is conditional on joint venture and regulatory approvals. The consideration for the sale is \$2 million upon the sale becoming effective. Subject to satisfying the transaction conditions, the sale is expected to have an Effective Date of 1 April 2016.

11 Exploration and evaluation assets

	31-Dec 2015 \$'000	30-Jun 2015 \$'000
Opening balance	178,496	101,813
Acquisitions (i)	-	42,537
Expenditure incurred during the period	3,759	69,673
Exploration and evaluation costs expensed (ii)	-	(34,866)
Reclassified to oil and gas assets	(3,919)	(4,015)
Changes in decommissioning obligations	153	3,354
Impairment of exploration and evaluation assets (iii)	(69,070)	-
	109,419	178,496

(i) During the prior period, the Group acquired all the ordinary shares in Ambassador, an ASX-listed company focused on oil and gas exploration in the Cooper and Eromanga basin via a conditional off-market takeover offer. The transaction has been treated as an asset acquisition for accounting purposes.

(ii) Exploration and evaluation costs written off comprise of the write off of unsuccessful wells.

(iii) Consistent with the decline in global oil prices and the weakening market sentiment, the Company has assessed the recoverable value of its exploration and evaluation assets. This analysis concluded that sufficient data exists to indicate the carrying amount of certain exploration and evaluation assets are unlikely to be recovered in full from successful development or sale.

Following that assessment, the Company has recognised an impairment loss of \$51.7 million for the Oil business, \$7.7 million for the Wet Gas business and \$9.7 million for the Unconventional business attributable to exploration and evaluation assets. The total estimated recoverable amount for the assets impaired is \$84.3 million. These amounts have been determined using the fair value less costs of disposal approach. The fair value is based on third party valuations as undertaken as part of the scheme of arrangement with Beach Energy Limited. As one or more of the significant inputs are not based on observable market data, the assets are deemed to be Level 3 with the fair value hierarchy.

12 Oil and gas assets

	31-Dec 2015 \$'000	30-Jun 2015 \$'000
Opening balance	95,651	174,006
Reclassified (to)/from asset held for sale	-	(24,545)
Expenditure incurred during the period	11,525	47,526
Depletion and amortisation expense	(22,486)	(54,439)
Impairment of oil and gas assets (i)	-	(51,893)
Changes in decommissioning obligations	303	982
Reclassified from exploration and evaluation assets	3,919	4,015
	88,912	95,652

(i) During the previous financial period, Drillsearch recognised an impairment loss of \$51.9 million in relation to Tintaburra (ATP299P) and Flax (PRL14). Both Tintaburra and Flax are included in the Company's Oil reportable segment. See note 17(b)(ii) for further explanation.

The fair value less costs of disposal calculation is based on the following key assumptions:

- Discount rate of 11%
- Company 2P reserve announcement as at 30 June 2014;
- Brent crude oil prices and exchange rates are within market analysts' estimated ranges; and
- Reduction in operating and capital expenditure due to restructuring operations.

13 Property, plant and equipment

	31-Dec 2015 \$'000	30-Jun 2015 \$'000
Opening balance	2,849	2,571
Expenditure incurred during the year	781	2,253
Disposals	(100)	(214)
Depreciation expense	(868)	(1,761)
	2,662	2,849

14 Commitments

	31-Dec 2015 \$'000	30-Jun 2015 \$'000
<u>Oil and gas properties</u>		
Not longer than 1 year	35,818	41,059
Later than one year but not later than five years	116,400	150,426
	152,218	191,485

<u>Operating lease commitments (office rental)</u>		
Within one year	1,097	1,226
Later than one year but not later than five years	1,207	1,777
	2,304	3,003

15 Provisions

Current

Employee benefits (i)	1,006	684
Other (iii)	2,132	-
	3,138	684

Non-current

Employee benefits (i)	-	203
Decommissioning costs (ii)	18,764	18,268
	18,764	18,471

(i) The provision represents annual leave and long service leave accrued for employees.

(ii) Decommissioning costs

Opening balance	18,268	38,258
Additional provisions recognised relating to acquisitions and discoveries	457	4,841
Unwinding of discount	39	218
Reclassified from / (to) asset held for sale	-	(24,545)
Revision of decommissioning obligations	-	(504)
	18,764	18,268

The provision for decommissioning costs represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required to remove the facilities and restore the affected areas at the Group's operation sites. The decommissioning of the oil and gas properties is expected to be undertaken between 1 to 20 years from the date of this report.

(iii) This provision represents the cost of the 'Employee Retention Incentive Scheme' ('Retention Incentive') implemented by the Company in the context of the merger with Beach Energy. Further information regarding the Retention Incentive is set out in the Scheme Booklet released to the ASX on 16 December 2015.

16 Equity securities issued

	31-Dec 2015		31-Dec 2014	
	Number of shares	Value \$'000	Number of shares	Value \$'000
Fully paid ordinary shares				
Balance at beginning of financial year	461,101,450	325,149	432,965,895	285,528
Share issues in relation to the acquisition of Ambassador Oil and Gas Limited	-	-	26,307,267	37,859
Share issues in relation to options, performance rights and share based payments	1,153,223	1,219	1,828,288	1,762
Balance at the end of the period	462,254,673	326,368	461,101,450	325,149

17 Financial risk management

(a) Liquidity risk management

Financing arrangements

	31-Dec 2015 \$'000	30-Jun 2015 \$'000
Floating rate		
Working capital facility (i)	100,000	40,000

The Company announced on the 3 December 2015 that it had secured a \$100 million variable rate debt facility with the Commonwealth Bank of Australia Limited and Australia and New Zealand Banking Group Limited. Subject to satisfaction of the facility conditions precedent the facility replaces the Company's existing undrawn facility.

(b) Fair value measurements

This note provides an update on the judgements and estimates made by Drillsearch in determining the fair values of the financial instruments since the last annual financial report.

(i) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, Drillsearch classifies its financial instruments into the three levels as prescribed under the accounting standards.

The following table presents the Drillsearch's financial assets and financial liabilities measured and recognised at fair value through profit and loss (FVTPL) at 31 December and 30 June 2015:

17 Financial risk management (continued)

(b) Fair value measurements (continued)

31 December 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivative financial instruments	-	21,954	-	21,954
Total assets	-	21,954	-	21,954
Liabilities				
Convertible notes	171,306	-	-	171,306
Total liabilities	171,306	-	-	171,306
30 June 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Derivative financial instruments	-	5,605	-	5,605
Total assets	-	5,605	-	5,605
Liabilities				
Convertible notes	162,108	-	-	162,108
Total liabilities	162,108	-	-	162,108

(i) The fair value of derivative financial instruments are determined using valuation techniques that maximise the use of observable market data where it is available. The Group's derivatives are not traded in active markets, however, all significant inputs required to fair value an instrument are observable (Level 2).

Drillsearch did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2015 (30 June 2015: Nil). There were no transfers recognised into or out of the fair value hierarchy levels (30 June 2015: Nil).

(ii) Valuation techniques used to determine fair values

Drillsearch determines fair value using the following valuation techniques:

Level 1: The fair value of financial instruments traded in active markets is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted market price used is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Where all significant inputs required to fair value an instrument are based on observable market data these instruments are included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

There were no changes made to the valuation techniques applied as of 30 June 2015.

17 Financial risk management (continued)

(b) Fair value measurements (continued)

(iii) Valuation processes

The finance department of Drillsearch includes a team that performs the valuations of assets required for financial reporting purposes. This team reports directly to the Chief Financial Officer (CFO) and the Board's Audit and Risk Committee (ARC).

Discussions of valuation processes and results are held between the CFO, ARC and the valuation team at least once every six months, in line with the Drillsearch's half yearly reporting periods.

Changes in fair values are monitored throughout the period and further analysed at the end of each reporting period during the half yearly valuation discussion.

(iv) Fair values of other financial instruments

Drillsearch has other financial instruments which are not measured at fair value in the balance sheet. For these instruments the fair value will not be materially different to the carrying amount as any interest receivable/payable is either close to current market rates or the instrument is short-term in nature. No significant differences were identified between the fair value and carrying amount of these assets as at 31 December 2015 (30 June 2015: Nil).

18 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities at 31 December 2015 in respect of advisory fees to Goldman Sachs Australia Pty Ltd and UBS AG, Australia Branch, in connection with the merger with Beach Energy. These fees are payable on the successful implementation of the merger with Beach Energy Limited for \$9 million.

19 Subsequent events

On the 27 January 2016, Drillsearch Energy Limited's shareholders approved the scheme of arrangement to implement the proposed merger with Beach Energy Limited. The second court hearing held on the 18 February 2016 approved the Scheme. Implementation of the merger is expected to occur on 1 March 2016, following which Drillsearch will apply to be removed from the ASX official list. Refer to page 2 of the Directors Report for more information.

Oil	Wet Gas	Unconventional	Tenement	Formerly	Operator	Ownership interest		
						FY2015	FY2014	
🌱			ATP299		Santos Limited	40	40	
🌱			ATP539		Great Artesian Oil and Gas Pty Limited ¹	100	100	
🌱			ATP549	Cypress Block ⁵	Australian Gasfields Limited	40	40	
	🔴		ATP549	West Block ⁵	Great Artesian Oil and Gas Pty Limited ¹	66.67	66.67	
🌱			ATP920		Drillsearch Energy Limited	100	100	
🌱			ATP924 ²		Drillsearch Energy Limited	100	100	
		🔵	ATP932		Drillsearch Energy Limited	100	100	
		🔵	ATP940		Circumpacific Energy (Australia) Pty Limited ¹	40	40	
🌱			PEL182		Senex Energy Limited	43	43	
		🔵	PEL570		Outback Energy Hunter Pty Limited ³	47.5	0	
🌱			PL169	Gimboola	ATP299	Santos Limited	40	40
🌱			PL170	Takyah / Kooroopa	ATP299	Santos Limited	40	40
🌱			PL29	Tintaburra	ATP299	Santos Limited	40	40
🌱			PL293		ATP299	Santos Limited	40	40
🌱			PL294		ATP299	Santos Limited	40	40
🌱			PL295	Mulberry / Endeavour	ATP299	Santos Limited	40	40
🌱			PL298		ATP299	Santos Limited	40	40
🌱			PL38	Toobunyah	ATP299	Santos Limited	40	40
🌱			PL39	Talgeberry	ATP299	Santos Limited	40	40
🌱			PL52	Tarbat / Ipundu North	ATP299	Santos Limited	40	40
🌱			PL57	Endeavour / Cranstoun	ATP299	Santos Limited	40	40
🌱			PL95	Monler	ATP299	Santos Limited	40	40
	🔴		PPL212	Kiana	PEL107	Beach Energy Limited	60	60
	🔴		PPL239	Middleton / Brownlow	PEL106	Beach Energy Limited	50	50
🌱			PPL253	Bauer	PEL91	Beach Energy Limited	60	60
🌱			PPL254	Congony / Kalladeina	PEL91	Beach Energy Limited	60	60
🌱			PPL255	Hanson / Snellings	PEL91	Beach Energy Limited	60	60
🌱			PPL256	Sceale	PEL91	Beach Energy Limited	60	60
🌱			PPL260		PEL91	Beach Energy Limited	60	60
🌱			PPL261	Pennington	PEL91	Beach Energy Limited	60	60
🌱			PPL262	Balgowan	PEL91	Beach Energy Limited	60	60
	🔴		PPL257	Canunda / Coolawang	PEL106	Beach Energy Limited	50	50
	🔴		PRL129		PEL106	Beach Energy Limited	50	50
	🔴		PRL130	Ralgna	PEL106	Beach Energy Limited	50	50
	🔴		PRL131		PEL632	Santos Limited	40	40
	🔴		PRL132		PEL632	Santos Limited	40	40
	🔴		PRL133		PEL632	Santos Limited	40	40
	🔴		PRL134		PEL632	Santos Limited	40	40
🌱			PRL135	Vanessa	PEL182	Senex Energy Limited	43	43
	🔴		PRL14	Flax	PEL103	Acer Energy Pty Limited ¹	100	100
🌱			PRL151		PEL91	Beach Energy Limited	60	60
🌱			PRL152		PEL91	Beach Energy Limited	60	60
🌱			PRL153		PEL91	Beach Energy Limited	60	60
🌱			PRL154		PEL91	Beach Energy Limited	60	60
🌱			PRL155		PEL91	Beach Energy Limited	60	60
🌱			PRL156		PEL91	Beach Energy Limited	60	60
🌱			PRL157		PEL91	Beach Energy Limited	60	60
🌱			PRL158		PEL91	Beach Energy Limited	60	60
🌱			PRL159		PEL91	Beach Energy Limited	60	60
🌱			PRL160		PEL91	Beach Energy Limited	60	60
🌱			PRL161		PEL91	Beach Energy Limited	60	60
🌱			PRL162	Basham	PEL91	Beach Energy Limited	60	60
🌱			PRL163	Pennington	PEL91	Beach Energy Limited	60	60
🌱			PRL164		PEL91	Beach Energy Limited	60	60
🌱			PRL165		PEL91	Beach Energy Limited	60	60

Oil	Wet Gas	Unconventional	Tenement	Formerly	Operator	Ownership interest	
						FY2015	FY2014
🟢			PRL166	PEL91	Beach Energy Limited	60	60
🟢			PRL167	PEL91	Beach Energy Limited	60	60
🟢			PRL168	PEL91	Beach Energy Limited	60	60
🟢			PRL169	PEL91	Beach Energy Limited	60	60
🟢	🔴		PRL17	PEL103	Acer Energy Pty Limited ¹	100	100
🟢			PRL170	PEL91	Beach Energy Limited	60	60
🟢			PRL171	PEL91	Balgowan	60	60
🟢			PRL172	PEL91	Burners / Stunsail	60	60
	🔴		PRL173	PEL101	Acer Energy Pty Limited ¹	80	80
	🔴		PRL174	PEL101	Acer Energy Pty Limited ¹	80	80
	🔴		PRL175	PEL107	Beach Energy Limited	60	60
	🔴		PRL176	PEL107	Beach Energy Limited	60	60
	🔴		PRL177	PEL107	Beach Energy Limited	60	60
	🔴		PRL178	PEL107	Beach Energy Limited	60	60
	🔴		PRL179	PEL107	Beach Energy Limited	60	60
	🔴		PRL180	PEL103	Acer Energy Pty Limited ¹	100	100
	🔴		PRL181	PEL103	Acer Energy Pty Limited ¹	100	100
	🔴		PRL182	PEL103A	Acer Energy Pty Limited ¹	100	100
	🔴		PRL18	PEL103	Juniper Acer Energy Pty Limited ¹	100	100
	🔴		PRL191	PEL513	Santos Limited	40	40
	🔴		PRL192	PEL513	Santos Limited	40	40
	🔴		PRL193	PEL513	Santos Limited	40	40
	🔴		PRL194	PEL513	Santos Limited	40	40
	🔴		PRL195	PEL513	Santos Limited	40	40
	🔴		PRL196	PEL513	Santos Limited	40	40
	🔴		PRL197	PEL513	Santos Limited	40	40
	🔴		PRL198	PEL513	Santos Limited	40	40
	🔴		PRL199	PEL513	Santos Limited	40	40
	🔴		PRL200	PEL513	Santos Limited	40	40
	🔴		PRL201	PEL513	Santos Limited	40	40
	🔴		PRL202	PEL513	Santos Limited	40	40
	🔴		PRL203	PEL513	Santos Limited	40	40
	🔴		PRL204	PEL513	Santos Limited	40	40
	🔴		PRL205	PEL513	Santos Limited	40	40
	🔴		PRL206	PEL513	Santos Limited	40	40
	🔴		PRL26	PEL106	Udacha Beach Energy Limited	75	75
Divestment							
🟢			ATP783		Chandos Block Drillsearch Energy Limited	100	100
	🔴		PL18	ATP145	FO (Surat) Chelsea Oil Australia Pty Limited	10	10
	🔴		PL315	ATP55	PK Pickanjinie (Surat) Santos Limited	75	75

Notes

- 1 Subsidiary of Drillsearch Energy Limited
- 2 Subject to Farmin by Beach to earn 45%
- 3 Subsidiary of Santos Limited
- 4 Subject to Farmin by Santos to earn 33% plus Operatorship
- 5 ATP 549W and ATP 549C are references to parts of the area covered by ATP 549 held by Australian Gasfield Limited. Drillsearch is party to contractual arrangements whereby the area covered by permit ATP 549 is proposed to be segregated into three separate permits (including permits covering the areas known as ATP 549W and ATP 549C). Drillsearch is not a holder of a registered interest in ATP 549.