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20 February 2014

Drillsearch Reports Record First-Half Gross Profit

Financial Highlights:

- **Gross profit of $125.9 million driven by record first-half production**
- **First-half revenue $200.3 million, helped by strong operational performance and continued strength in oil prices**
- **Net profit after tax (NPAT) of $35.5 million, compared with a loss a year earlier**
- **NPAT impacted by items including non-cash tax adjustments**
- **Robust cash position of $76.0 million as of 31 December; work programs fully funded through FY2016**

Outlook:

- **On track to meet increased production guidance of 3.0 to 3.3 million barrels of oil equivalent (mmboe) for FY2014**
- **Active work program underway across the company's Oil, Wet Gas and Unconventional Businesses**

Drillsearch Energy Limited ("Drillsearch" or "DLS") is pleased to report profit for the first-half of FY2014, driven by a strong performance from its operations in the Cooper Basin.

Gross profit rose to a record $125.9 million for the first half, from $12.1 million amid record production and ongoing strength in oil prices. Underlying net profit before tax also rose to a record $112.4 million in the six months ended 31 December 2013, from $5.1 million a year earlier.

First-half revenue rose to $200.3 million, from $25.4 million a year earlier. Net cash flow from operations increased to $100.7 million, from $11.2 million.

Net profit after tax for the period was $35.5 million, or 8.27 cents per share, compared with a net loss of $3.4 million a year earlier. First-half net profit after tax was impacted by $54.0 million of non-cash tax adjustments related to both income tax and the treatment of Petroleum Resource Rent Tax (PRRT), as well as a change in the fair value of Drillsearch's convertible notes which reduced the underlying result by a further $22.8 million. Depletion, depreciation and amortisation impacted the NPAT result by $18.2 million.

The company's balance sheet improved during the period with the increase in revenue enabling the company to increase its cash position to $76.0 million as of 31 December 2013. The company believes it is well positioned to fund its exploration and development activities with the work program fully funded through FY2016.

Managing Director Brad Lingo said:
"We have a clear strategy to deliver rising reserves, production and cash flow and I am delighted to report progress in each of those three areas during the first half. After moving into profitability at the

end of FY2013, with this result we have announced a step change in gross profit, reflecting the strong operational performance of our Oil Business.

"Our robust production performance has continued into the second half of FY2014, and we are well on track to achieve the increased production guidance announced to the market in January. In addition, we have an active work program underway that we are able to fund organically from our existing cash flow."

	1H FY2014	1H FY2013
Production (mmboe)	1.76	0.32
Revenue ($000)	200,337	25,427
Gross Profit ($000)	125,938	12,098
Underlying Net Profit Before Tax ($000)	112,400	5,100
Net Profit After Tax ($000)	35,534	(3,370)
Underlying Earnings per Share (cents per share)[1]	26.16	2.03
Basic Earnings per Share (cents per share)	8.27	(1.37)
Diluted Earnings per Share (cents per share)	8.10	(1.38)

Guidance and Capital Expenditure

Continuing outperformance from the Western Flank Oil Fairway, and more specifically from the Bauer Field, is expected to drive another strong operational and financial performance in the second half of FY2014, with full-year production guidance increased in January to 3.0 to 3.3 mmboe, from previous guidance of 2.3 to 2.5 mmboe.

At the announcement of the FY2013 results, Drillsearch provided guidance for capital expenditure in FY2014 of $90 million to $110 million. Based on the current work program, the company is confident that capital expenditure across the Oil and Wet Gas businesses remains in line with expectations. In Unconventional, Drillsearch remains in discussion with partner QGC around potential changes to the farm-in agreement over ATP 940P that may lead to an acceleration of the work program. These talks with QGC remain incomplete, however once these discussions have been completed Drillsearch intends to release an update on capital expenditure guidance for FY2014.

Outlook

1. Oil Business

In the Western Flank Oil Fairway, Drillsearch and operator Beach Energy are continuing a five-well drilling campaign in PEL 91. The Bauer-12 well was successfully completed in mid-February and Bauer-13 will be drilled imminently, with the Stunsail-1 exploration well also due to be drilled in the north east of the licence area. Following this successful campaign an additional four exploration/appraisal wells have been planned.

In ATP 924P, a 3D seismic survey is due to begin in the June quarter that will de-risk and high grade the multiple prospects that have been identified on vintage seismic within the Hurron region.

1 *Underlying Net Profit before Tax represents ordinary Net Profit before Tax adjusted for the impact of the change in valuation to the convertible note. For additional detail please see the full 31 December 2013 half-year financial statements.*

2. Wet Gas Business

Drillsearch is currently pursuing growth in Wet Gas across its main two project areas with the aim of commercialising the significant reserves in place through developing a series of production satellites similar in scale to the Middleton/Brownlow project in PPL 239.

In Western Wet Gas, the benefits from the transaction with Santos are already beginning to flow through, with the Cadenza well expected to be tied in to the SACBJV gathering system during the second half of FY2014, the first well in PEL 632 to be tied in under the new Joint Venture.

In Northern Wet Gas, Drillsearch, in conjunction with RISC, has developed the YFJ (Yarrow, Flax and Juniper) preliminary Field Development Plan which outlines a number of development options open to Drillsearch. These various options are being reviewed while the Company considers the best economic case, with a view to commencing execution of the plan in FY2015.

Drillsearch has made substantial progress in maturing a significant number of prospects on the recently acquired and processed high resolution Coolibah 3D seismic survey. Work has begun in readiness for an appraisal well in PRL 17 at Juniper, which is planned for the September quarter.

3. *Unconventional Business*

Within the Unconventional Business the first three wells in the program, Anakin-1, Padme-1 and Charal-1, have been completed as top-hole sections. Following completion of the upgrades to the Weatherford drilling rig 826, the three top-hole sections will be deepened with drilling through multiple reservoir formations through the remainder of FY2014 and into FY2015, beginning with Charal-1 in late February. This will be followed by the stimulation and testing of the wells which will start with Charal-1 around mid-year.

Drillsearch has an active work program underway and this pipeline of projects, including an accelerated work program in the Unconventional business, can be funded using cash flow from the company's operations.

For further information please contact:

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If you would like to register for email alerts please go to the Register Page on our website**:** www.drillsearch.com.au

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.

Drillsearch Energy Limited
ACN: 006 474 844

HALF-YEAR REPORT

Half-Year report for the six months ended 31 December 2013
(including Appendix 4D Disclosures, Directors' Report and Financial Report)

Drillsearch

Contents

Appendix 4D

For the half-year ended 31 December 2013
Previous corresponding period: Half-year ended 31 December 2012

Results for announcement to the market

Key information				**$000**
Revenues from ordinary activities	Increased	688%	to	200,337
Profit after tax from ordinary activities	Increased	100%*	to	35,534
Net asset per security (cents)	Increased	36%	to	0.75

**Prior period in a loss position*

This information is to be read in conjunction with the 2013 Annual Report, the 31 December 2013 Half-Year Financial Report and Directors' Report.

Net asset backing	**Current period**	**Previous corresponding period**
Net asset backing per ordinary security (cents)	0.75	0.55

Dividends
It is not proposed to pay any dividends.

Details of entities over which control has been gained during the period
There were no entities over which control has been gained during the period.

Details of individual and total dividends or distributions and dividends or distribution payments
There were no distributions or dividends payable or paid 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.

Material interest in entities which are not controlled entities
There are no material interests in entities which are not controlled entities.

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.

Competent Person Statement
The information in this report that relates to Reserves and Resources is based on information compiled by Mr. David Evans, Acting Chief Operations Officer of Drillsearch. Mr. Evans is a Competent Person and a Fellow of the Geological Society London. Mr. Evans is a full-time employee of the company. This information has been reviewed by independent and certified reservoir auditors RISC Operations and DeGolyer and MacNaughton. Mr. Evans has sufficient experience that is relevant to the Company's Reserves and Resources to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration results, Mineral Resources and Ore Reserves. Mr. Evans consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

RISC Consents
Information on the Reserves and Resources in this release relating to the PEL91, PRL14, 17, 18 and PEL101 assets is based on an independent review and audit conducted by RISC Operations Pty Ltd (RISC) and fairly represents the information and supporting documentation reviewed. The review and audit was carried out in accordance with the SPE Reserves Auditing Standards and the SPE-PRMS guidelines under the supervision of Mr. Geoffrey J Barker, a Partner of RISC, a leading independent petroleum advisory firm. Mr. Barker is a member of the SPE and his qualifications include a Master of Engineering Science (Petroleum Engineering) from Sydney University and more than 30 years of relevant experience. Mr. Barker meets the requirements of qualified petroleum reserve and resource evaluator as defined in Chapter 19 of the ASX Listing Rules and consents to the inclusion of this information in this report.

About RISC
RISC is an independent advisory firm who works in partnership with companies to support their interests in the oil and gas industry. RISC offers the highest level of technical, commercial and strategic advice to clients around the world. RISC services include the preparation of independent reports for listed companies in accordance with regulatory requirements. RISC is independent with respect to Drillsearch in accordance with the Valmin Code, ASX listing rules and ASIC requirements.

DeGolyer and MacNaughton
The information contained in our report entitled "Report as of December 31, 2013 on Reserves and Contingent Resources of Certain Fields in the PEL 106A, 106B, and 107 Permits of the Cooper Basin with interests owned by Drillsearch Energy Limited" has been prepared under the supervision of R. Michael Shuck, Senior Vice President of DeGolyer and MacNaughton. Mr. Shuck holds a Bachelor of Science degree in Chemical Engineering from the University of Houston, has in excess of 35 years of relevant experience in the estimation of reserves and contingent resources, is a member of the Society of Petroleum Engineers, and is a Registered Professional Engineer in the State of Texas. Mr. Shuck is a qualified person as defined in the ASX Listing Rule 5.41.

Directors' Report

The Directors of Drillsearch Energy Limited ("Drillsearch" or "the Company") submit herewith the financial report of Drillsearch and its subsidiaries ("the Group") for the half-year ended 31 December 2013. In order to comply with the provisions of the *Corporations Act 2001*, the Directors Report as follows: The names of the Directors of the Company during or since the end of the half-year are:

Name
Mr. J. McKerlie (Chairman)
Mr. B. Lingo (Managing Director)
Mr. P. Bainbridge (Appointed 22 July 2013)
Mr. T.S. Cheah (Appointed 10 September 2013)
Mr. B.K Choo (Retired 20 November 2013)
Ms. F. Robertson
Mr. R. Wecker

First-Half Overview

The first half of FY2014 was a period in which Drillsearch once again delivered on its strategy of achieving growth in reserves, production and cash flow, with the continuing outperformance of the Bauer oil field on the Western Flank Oil Fairway driving an increase in first-half production to 1.76 million barrels of oil equivalent (mmboe).

Combined with ongoing strength in energy prices, this record production performance drove a significant increase in first-half revenue to $200.3 million, meaning that year-to-date production and revenue have already substantially exceeded results for the whole of FY2013.

Subsequent to the end of the half, Drillsearch announced increased guidance for production in the year ending 30 June 2014 of 3.0 to 3.3 mmboe, up from previous guidance of 2.3 to 2.5 mmboe. Production at the higher end of this range would be triple the 1.1 million barrels produced in the previous financial year.

As a result of this strong operating performance, Drillsearch's financial position continued to improve during the half, with $76.0 million of cash on the balance sheet as of 31 December 2013. The cash flow being produced means that Drillsearch remains fully funded through FY2016 across the three key areas of the company's strategy, namely:

- Leveraging a robust portfolio of discoveries and opportunities within the Oil Business in order to maintain and increase production;
- Commercialising the existing discoveries within our Wet Gas Business in order to meet rising demand on the East Coast of Australia; and
- Proving up the considerable potential of our Unconventional acreage in conjunction with our partner QGC (BG Group).

Early in the first half, Drillsearch announced that it had entered into a series of binding agreements with Santos Limited that have already begun to benefit two of the three key areas of focus. Within the Oil Business, an increased share of production from the Tintaburra oil field contributed to the higher guidance announced in January, while within Wet Gas, Santos has already commenced field appraisal and development activities in the newly renamed PEL 632 (previously PEL 106A).

Within the Unconventional business the company's shale and tight gas exploration program advanced significantly during the half in ATP 940P. The first three wells in the program, Anakin-1, Padme-1 and Charal-1 were completed as top-hole sections. The four well program in the area will continue with deep section drilling through multiple reservoir formations through the remainder of FY2014 and into FY2015, generating significant strategic outcomes and technical results over the coming months.

Operations Report

Principal activities

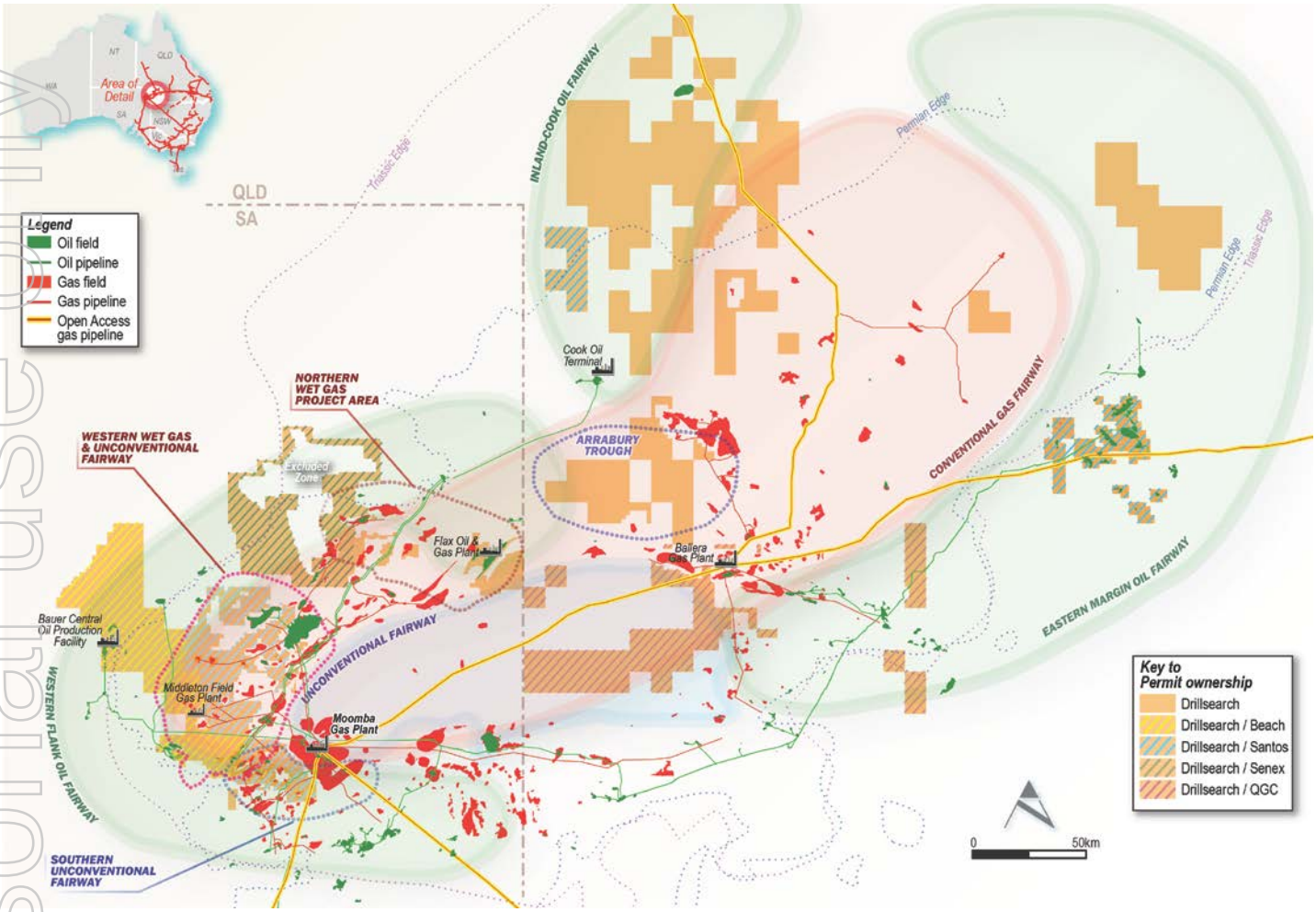
The principal activity of the Company during the half-year ended 31 December 2013 was conventional and unconventional oil and gas exploration, development and production. The Company divides these activities into three business units; Oil, Wet Gas and Unconventional. No significant change in the nature of this activity occurred during the financial half-year.

During the half year to 31 December 2013, Drillsearch undertook the below operational activity across its project areas in the Cooper-Eromanga Basin.

Drilling Program during the First Half of FY2014

Category	Area	Well	Tenement	Status
Oil - Exploration				
	Western Flank Oil	Guichen-1	PEL 91	Plugged & Abandoned
		Pondalowie-1	PEL 91	Plugged & Abandoned
		Neaves-1	PEL 91	Plugged & Abandoned
	Inland-Cook Oil	---	---	---
	Eastern Margin Oil	---	---	---
Oil - Appraisal / Development				
	Western Flank Oil	Bauer-11	PEL 91	Cased & Suspended
		Chiton-2	PEL 91	Cased & Suspended
	Inland-Cook Oil	---	---	---
	Eastern Margin Oil	Ipundu-17	PL 52	Cased & Suspended
		Ipundu-18	PL 52	Cased & Suspended
		Ipundu North-14	PL 52	Cased & Suspended
		Ipundu-19	PL 52	Suspended
Wet Gas - Exploration				
	Western Wet Gas	Euler-1	PEL 106 B	Plugged & Abandoned
		Narrabeen-1	PEL 106 A	Cased & Suspended
	Northern Wet Gas	Flax South-1	PEL 103	Cased & Suspended
Wet Gas - Appraisal / Development				
	Western Wet Gas	---	---	---
	Northern Wet Gas	---	---	---
Unconventional Gas - Exploration				
	Cental Unconventional	Anakin-1	ATP 940	Suspended
		Padme-1	ATP 940	Suspended
		Charal-1	ATP 940	Suspended
	Western Unconventional	---	---	---
Unconventional Gas - Appraisal / Development				
	Cental Unconventional	---	---	---
	Western Unconventional	---	---	---

Drillsearch's Cooper Basin Permit Area



Oil Business

Western Flank Oil Fairway – PELs 91 and 182

Development Activities

Appraisal and development activities continued in PEL 91 during the half year with drilling at both the Bauer and the Chiton oil fields. Bauer-11 and Chiton-2 both intersected hydrocarbons in the Namur Sandstone reservoir and were cased and suspended as future oil producers. Subsequent to the half year Drillsearch announced a five-well drilling campaign in PEL 91 where the first well, Chiton-3, was drilled as an appraisal well targeting the northern extent of the Chiton field. The well encountered good shows in the McKinlay/Namur interval and was cased and suspended as a future oil producer. The second well, Bauer-12 was cased and suspended as a future oil producer with the operator, Beach Energy announcing that it believed the overall size of the Bauer oil field had increased after the drilling of Bauer-12. Any amendments to reserves from Bauer-12 will be included in Drillsearch's independent audit for 30 June 2014.

Work continued on the upgrade and expansion of the Bauer Central Production Facility. These works will expand the Bauer processing and handling capacity to 50,000 bbls per day of total fluid production and are expected to be completed in the June quarter 2014.

Drillsearch's focus on 3D seismic remains strong with processing of both the Irus and Caseolus 3D seismic surveys completed and the final volumes currently undergoing interpretation.

Exploration Activities
The PEL 91 Joint Venture (Drillsearch 60% and Beach Energy Limited 40% and Operator) embarked on a three-well exploration drilling program which began with the spudding of Guichen-1 in mid-August 2013 and included Pondalowie-1 and Neaves-1. The program intersected reservoir within the wells, which confirmed the prediction of sandstone intervals within the Birkhead Formation using the latest 3D seismic analysis techniques. Unfortunately none of the shows were deemed commercial and all three wells were plugged and abandoned.

Subsequent to the half year, the second well to be drilled in the five-well drilling campaign, Bales-1, was an exploration well targeting the McKinlay/Namur interval with a secondary target in the Birkhead Formation. The McKinlay/Namur was found to be water wet and although shows were encountered in the Birkhead Formation they were not encouraging enough to warrant testing hence the well was plugged and abandoned.

Drillsearch expanded its interests in the Western Flank Oil Fairway during the December quarter by acquiring an additional 3% working interest in PEL 182 from Australian Oil Company Limited. Drillsearch's ownership of PEL 182 now stands at 43% with Senex Energy Limited owning the remaining 57% as Operator.

Inland-Cook Oil Fairway – ATPs 539P, 549P W, 920P, 924P and 932P

Exploration Activities
During the half year, geological and geophysical studies continued in the Inland-Cook Oil Fairway, in addition to regional seismic reprocessing which is expected to be completed early in the March quarter of 2014. In ATP 924P, Drillsearch conducted a tender process for a proposed 3D seismic survey program. The tender has been awarded to the Terrex Group with the program expected to start early in the June quarter of 2014. It is intended that this 3D seismic survey will de-risk and high-grade the multiple prospects Drillsearch had already identified on vintage 2D seismic within the Hurron prospect region.

Eastern Margin Oil Fairway – ATPs 299P and 783P

Development Activities
Following the acquisition of an additional 29% interest in the Tintaburra block by Drillsearch in mid-2013, the ATP 299P Joint Venture (Drillsearch 40% and Santos 60% and Operator) embarked on an expanded work program aimed at increasing oil production and improving overall oil recovery rates with a view to converting a significant portion of the contingent oil resources to reserves.

The five-well Ipundu Oil Appraisal Campaign, which began in late December 2013, gathered data to optimise the Field Development Plan for the Ipundu and Ipundu North fields. Results from the campaign were positive, with all five wells being cased and suspended as future producers.

Wet Gas Business

Western Wet Gas Project Area – PELs 632 (106A), 106 (B), 107, 513

Development Activities
Drillsearch announced on 4 July 2013 that it had entered into a series of binding transactions with Santos Limited whereby Santos acquired a 60% interest and Operatorship in both PEL 106A and PEL 513. These transactions were completed during the September quarter. As part of the newly created Wet Gas Joint Venture with Santos, Drillsearch established a formal split of the PEL 106A and 106B permit areas into two new licences issued by the South Australian Government. PEL 106A has become PEL 632 and PEL 106B remains as PEL 106. Since completion of that transaction, Drillsearch has

been focused on internal planning in anticipation of the Santos-operated development and exploration activities for PEL 632 and PEL 513.

Within PEL 632, Santos, as the new Operator of the permit, has already commenced field appraisal and development activities. A multiple work-over program of existing discovery wells commenced in December 2013 with Smegsy now completed and in-wellbore work currently being conducted at Cadenza. Future projects are currently being assessed as part of a wider in-wellbore program over the next year.

Processing of the Irus 3D seismic survey, which overlaps PELs 91 and 106 has been finalised with processing continuing of the Munathiri 3D seismic survey in PEL 513.

Exploration Activities
The Euler-1 wet gas exploration well was drilled as the final well in a four-well drilling campaign in PEL 106. The well was designed to target and test the Patchawarra Formation sands and also the stratigraphic traps within the permit. No hydrocarbons were encountered during drilling and the well was plugged and abandoned.

The last well to be drilled in the three-well exploration program in PEL 632, Narrabeen-1, was cased and suspended on 20 July 2013. Drill Stem Testing (DST) of a Basal Patchawarra sand flowed gas to surface at low rates and confirmed a tight wet gas sand discovery.

Northern Wet Gas Project Area – PELs 101, 103 and 103A

Development Activities
The Flax South-1 exploration well was drilled in August 2013 as an appraisal well in the Flax field. Wireline logs confirmed 10 metres of net pay distributed throughout the Tirrawarra and Patchawarra Sandstone Formations confirming a major extension of the Flax wet gas/tight oil field and indicating well developed, liquids rich, wet gas play intervals in the upper Patchawarra. The well was cased and suspended with production testing to be undertaken in the near future.

Appraisal and development work continued during the quarter with planning and preparation for a static gradient survey of the Flax field undertaken along with well integrity checks within the Flax, Juniper and Yarrow Fields. During the December quarter, Drillsearch received the YFJ (Yarrow, Flax and Juniper) preliminary Field Development Plan from RISC. The preliminary plan outlined a number of development options open to Drillsearch, all of which will be reviewed while the company considers the best economic case.

Drillsearch has made substantial progress in maturing a significant number of prospects from the recently acquired and processed high resolution Coolibah 3D seismic survey. Work has begun in readiness for an appraisal well in PRL 17 at the Juniper field, which is planned for the September quarter of 2014.

Unconventional Business

Central Unconventional Fairway – ATP 940P

Exploration Activities
The Cooper Basin Shale Gas and Tight Gas Exploration Program commenced with the spudding of the first well in the program, Anakin-1, on 19 September 2013. The four-well exploration program will test the potential for gas production from unconventional shale and tight gas zones in the Nappamerri Trough in the Central Cooper Basin.

During the December quarter, the Weatherford drilling rig 826 cased and suspended the top-hole section of the first three wells; Anakin-1 to 2,530m, Padme-1 to 2,402m and Charal-1 to 2,451m. Currently the rig is being upgraded with specialist high-pressure, high-temperature (HPHT) equipment.

Once the upgrade is completed the three top-hole sections will be deepened through the reservoir formations beginning with Charal-1 in February. This work will be followed by the stimulation and testing of the wells which will again start with the Charal-1 well around mid-year.

Reserves

Drillsearch has seen an increase in 2P Reserves over the half-year to 31 December 2013. Total 2P Reserves for Drillsearch's Cooper Basin operations increased to 29.1 mmboe over the company's total 2P Reserves of 28.5 mmboe as at 30 June 2013. This increase has been driven by Drillsearch's appraisal drilling and testing in the Western Flank Oil Fairway and Western Wet Gas Project Area. The uplift in Reserves follows the completion of the Company's latest independent audit review by RISC and DeGolyer and MacNaughton.

Net Reserves and Contingent Resources as at 31 December 2013

Business Segment Reserves	**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**
Business Segment Contingent Resources	**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	4.8	10.6	25.6
Eastern Cooper Oil	0.0	2.5	6.8
South West Queensland Wet Gas	0.9	3.1	7.5
Total Contingent Resources	**6.4**	**20.0**	**50.8**

Production

Total production for the half year increased to 1.76 mmboe, which represents an increase of 67% over the 2013 full financial year production of 1.1 mmboe across the Oil and Wet Gas Business. Drillsearch participates in oil production through its interests in the Tintaburra Block (40%) and the PEL 91 Bauer, Chiton and Hanson fields (60%).

HY2014 Net Production	(boe)
Oil Business	
Western Flank Oil	1,415,655
Eastern Margin Oil	65,631
Inland-Cook Oil	0
Wet Gas	
Western Wet Gas	282,623
Northern Wet Gas	0
Total	**1,763,909**

Corporate

Drillsearch and Santos Joint Venture

On 4 July 2013, Drillsearch announced that it had entered into a series of agreements with Santos Limited to accelerate Western Cooper Wet Gas commercialisation and expand Drillsearch's Cooper Basin oil reserves and production. The transaction was finalised in October 2013 and the details are as follows:

Wet Gas - Santos earned a 60% interest and Operatorship of the Western Cooper Wet Gas Project (PEL 632 and PEL 513) through the following:

- PEL 632 (formerly PEL 106A) – Funding a $75 million firm work program of exploration, appraisal and field development works; and
- PEL 513 – funding a firm work program valued by Drillsearch at $45 million covering all of the outstanding firm permit work commitments including acquiring 100km^2 3D seismic, drilling six firm commitment exploration wells plus one additional contingent exploration well.

Santos has also agreed to provide further field development assistance for construction of surface production facilities to export production from PEL 632 and PEL 513.

Long-term Gas Sale Agreement - Drillsearch entered into a firm Gas Sales Agreement ("GSA") covering expected production from PEL 632 and PEL 513 through 2025. The GSA is the sale of raw gas with separate pricing for the condensate, LPG and sales gas components.

Oil Transactions - Drillsearch increased its interest in the Tintaburra Block joint venture from 11% to 40%, with Santos continuing as Operator and holding the remaining 60% interest. Drillsearch acquired the further 29% interest for $36.8 million.

Additionally, Santos acquired Drillsearch's 25.8% interest in PEL 100 for $15.0 million. PEL 100 was a non-core asset obtained by Drillsearch through the recently concluded takeover of Acer Energy Limited.

Working Capital Facility

On 1 July 2013, Drillsearch announced that it signed binding agreements with the Commonwealth Bank of Australia for a A$50 million Senior Secured Revolving Borrowing Base Facility (the "credit facility"). The facility was subsequently made available to the Company following the satisfaction of usual conditions precedent. The credit facility was implemented to provide additional corporate liquidity and to underpin future work programs. There were no amounts outstanding under the facility at the date of this report.

Convertible Note

On 3 May 2013 and 13 May 2013 Drillsearch issued a total of US$125.0 million senior unsecured, guaranteed convertible bonds ("Convertible Notes"). The Convertible Notes carry a fixed coupon of 6.00% per annum, paid semi-annually, for a term of approximately five years and are convertible into Drillsearch shares at an initial conversion price of US$1.66 per share, representing a conversion premium of approximately 35% above A$1.19, being the closing price of the Shares on the ASX on 26 April 2013.

Drillsearch has the option to purchase the Convertible Notes on-market at any time and discretion.

Drillsearch has the ability to Call the Convertible Notes from May 2014 up to the maturity date upon meeting certain conditions. The noteholders have the ability to Put the Convertible Notes to Drillsearch for a limited window in May 2016. These may be settled in cash or a combination of both ordinary shares and cash at the option of Drillsearch. Where the notes are not previously converted, they will be redeemed in cash at maturity, on 1 September 2018, at their principal amount together with any accrued but unpaid interest.

Financial Report

The half year delivered revenue growth with overall sales revenue increasing 688% to $200.3 million (31 December 2012: $25.4 million). Total net production increased by 454% to 1,763,909 boe (31 December 2012: 318,563 boe). As a result of these increases, gross profit increased 941% to $125.9 million for the period (31 December 2012: $12.1 million).

The increase in production, sales revenue and gross profit was driven by two key factors:

- Oil production in the Western Flank Oil Fairway, which incorporates the development of the Bauer Oil Field and continues the strong growth of the second half financial year 2013; and
- Wet Gas production from Middleton and Brownlow following completion of expansion works in the gas gathering system capacity and finalisation of commercial negotiations.

It is expected that the Company will maintain its strong sales revenue and gross profit performance over the next six-month period as a result of:

- Continued strength in oil production and sales revenues from the Western Flank Oil Fairway; and
- Increased working interest and growth in oil production and sales from the Eastern Margin (Tintaburra Block producing joint venture).

Net profit before tax for the period was $89.6 million (31 December 2012: $1.1 million loss). Net profit after tax during the period of $35.5 million (31 December 2012: $3.4 million loss).

Total income tax expense for the period was $54.0 million (31 December 2012: $2.2 million), in respect to both corporate tax of $32.5 million and the Petroleum Resources Rent Tax (PRRT)(net of income tax for PRRT) of $21.5 million. The current period tax expense does not result in a tax payable or cash out flow for Drillsearch. The Group has utilised a portion of its prior period unused tax losses and deferred PRRT benefits but continues to carry forward deferred tax assets in relation to these two components.

Net operating cash flow was bolstered by the strong production growth with $93.8 million recorded in the six months to 31 December 2013 (31 December 2012: $10.2 million).

As a result of the increasing operating cash flows, Drillsearch continues to strengthen its financial position with $76.0 million cash and cash equivalents at 31 December 2013, up 111% from 30 June 2013 ($36.1 million). The predominant cash outflows during the half-year were the net payment to Santos of $24.3 million being the acquisition of an increased working interest in the Tintaburra Block producing joint venture which involved an offsetting receipt for the divestment of PEL 100; and funding of the ongoing exploration, appraisal and development programmes within PEL 91, PEL 106B and ATP 940P.

Further to the cash and cash equivalents, Drillsearch has available to it a $50.0 million credit facility established with the Commonwealth Bank. The credit facility was undrawn at the date of this report and is available to the Company to meet its ongoing expenditures.

It is the philosophy of the Company to maintain an appropriate level of exposure to potential upside in oil price. Under the credit facility held with the Commonwealth Bank of Australia, Drillsearch has purchased Put Options to secure a Brent oil price of $USD90 paid for in part by the grant of matching Call Options at $USD120. This covers a total of 603,120 barrels of oil production through to end of January 2015. Securing these arrangements provides downside price protection on a portion of the next 12 months' production in exchange for a limited cap on the Company's ability to realise higher prices for this quantity of production. This is in line with the philosophy of the Company and its financial risk management strategy and objectives.

Drillsearch has on issue convertible notes of US$125.0 million ($A153.1 million at 31 December 2013). The movement of A$32.0 million to the value on the date of issue of $A121.1 million represents the impact of fair value adjustments and foreign currency translation.

Auditor's independence declaration

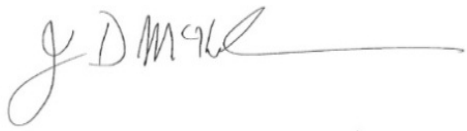
The auditor's independence declaration is included on page 12 of the half-year report.

Rounding off of amounts

The Company is a company of the kind referred to in ASIC Class Order 98/100, 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.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the *Corporations Act 2001*.

On behalf of the Directors,



Jim McKerlie
Chairman
Sydney, 20 February 2014

Deloitte.

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The Board of Directors
Drillsearch Energy Limited
Level 16, 55 Clarence Street
Sydney
NSW 2000

20 February 2014

Dear Board Members

Drillsearch Energy Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Drillsearch Energy Limited.

As lead audit partner for the review of the financial statements of Drillsearch Energy Limited for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants

Deloitte.

Deloitte Touche Tohmatsu Ltd
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Independent Auditor's Review Report to the members of Drillsearch Energy Limited

We have reviewed the accompanying half-year financial report of Drillsearch Energy Limited, which comprises the condensed statement of financial position as at 31 December 2013, the condensed statement of profit and loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 15 to 27.

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 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 2013 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.

Deloitte.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Drillsearch Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

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 2013 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants
Sydney, 20 February 2014

Directors' declaration

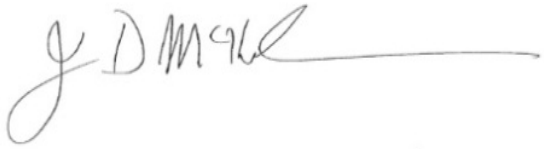
The directors declare that:

a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors,



Jim McKerlie
Chairman
Sydney, 20 February 2014

DRILLSEARCH ENERGY LIMITED

Condensed consolidated statement of profit and loss and other comprehensive income for the half-year ended 31 December 2013

	Note	Half-year ended 31-Dec-13 $000	Half-year ended 31-Dec-12 $000
Continuing operations			
Revenue		200,337	25,427
Cost of sales	4	(74,399)	(13,329)
Gross profit		125,938	12,098
Other gains and losses	5	434	1,474
Exploration and evaluation costs expensed	7	(351)	-
Finance costs		(7,039)	(2,104)
Corporate activity costs in relation to acquisition of Acer		-	(6,199)
Other expenses	6	(6,581)	(6,417)
Change in fair value of convertible notes	13	(22,824)	-
Profit / (Loss) before Tax		89,577	(1,148)
Income tax expense	3	(54,043)	(2,222)
Profit / (Loss) for the period		35,534	(3,370)
PROFIT / (LOSS) FOR THE PERIOD		**35,534**	**(3,370)**
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	5
Other comprehensive income for the period, net of income tax		**198**	**5**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**35,732**	**(3,365)**
Earnings per share			
Basic (cents per share)		8.271	(1.366)
Diluted (cents per share)		8.103	(1.366)

Notes to the financial statements are included on pages 20 to 27.

DRILLSEARCH ENERGY LIMITED
Condensed consolidated statement of financial position
as at 31 December 2013

	Note	31-Dec-13 $000	30-Jun-13 $000
Assets			
Current assets			
Cash and bank balances		76,010	36,061
Trade and other receivables		74,045	51,302
Inventories		5,826	1,744
Other assets		1,947	1,083
		157,828	90,190
Assets classified as held for sale	10	1,955	199
Total current assets		**159,783**	**90,389**
Non-current assets			
Exploration and evaluation assets	7	233,085	217,890
Oil and gas assets	8	137,319	108,586
Property, plant and equipment	9	3,094	3,719
Deferred tax assets		26,784	63,223
Other assets		1,450	1,370
Total non-current assets		**401,732**	**394,788**
Total assets		**561,515**	**485,177**
Liabilities			
Current liabilities			
Trade and other payables		50,029	42,509
Borrowings		-	10,000
Provisions	12	1,087	1,581
		51,116	54,090
Total current liabilities		**51,116**	**54,090**
Non-current liabilities			
Convertible Notes	13	153,215	130,391
Provisions	12	31,129	14,101
Total non-current liabilities		**184,344**	**144,492**
Total liabilities		**235,460**	**198,582**
Net assets		**326,055**	**286,595**
Equity			
Issued capital	15	284,985	280,411
Reserves		6,619	7,267
Retained earnings		34,451	(1,083)
Equity attributable to owners of the parent		326,055	286,595
Total equity		**326,055**	**286,595**

Notes to the financial statements are included on pages 20 to 27.

DRILLSEARCH ENERGY LIMITED
Condensed consolidated statement of changes in equity
for the half-year ended 31 December 2013

	Share capital $000	Equity-settled benefits reserve $000	Foreign currency translation reserve $000	General reserve $000	Retained earnings $000	Total $000
Balance at 01 July 2012	180,838	4,670	(816)	3,440	(46,140)	141,992
Loss for the period (i)	-	-	-	-	(3,370)	(3,370)
Exchange differences arising on translation of foreign operations (i)	-	-	5	-	-	5
Recognition of share-based payments	-	537	-	-	-	537
Shares issued during the period	102,121	(485)	-	-	-	101,636
Transaction costs of share issue	(3,680)	-	-	-	-	(3,680)
Income tax relating to transactions with owners	-	-	-	-	-	-
Balance at 31 December 2012	**279,279**	**4,722**	**(811)**	**3,440**	**(49,510)**	**237,120**
Balance at 01 July 2013	280,411	5,124	(1,297)	3,440	(1,083)	286,595
Profit for the period (i)	-	-	-	-	35,534	35,534
Exchange differences arising on translation of foreign operations (i)	-	-	198	-	-	198
Recognition of share-based payments	-	988	-	-	-	988
Shares issued during the period	4,588	(1,834)	-	-	-	2,754
Transaction costs of share issue	(14)	-	-	-	-	(14)
Balance at 31 December 2013	**284,985**	**4,278**	**(1,099)**	**3,440**	**34,451**	**326,055**

(i) These items comprise total comprehensive income for the respective periods.

Notes to the financial statements are included on pages 20 to 27.

DRILLSEARCH ENERGY LIMITED
Condensed consolidated statement of cash flows
for the half-year ended 31 December 2013

	Note	Half-year ended 31-Dec-13 $000	Half-year ended 31-Dec-12 $000
Cash flows from operating activities			
Receipts from customers		197,327	18,640
Payments to suppliers and employees		(96,596)	(7,424)
Cash generated from operations		100,731	11,216
Interest paid		(6,913)	(910)
Income tax refund / (paid)		16	(125)
Net cash generated by operating activities		**93,834**	**10,181**
Cash flows from investing activities			
Interest received		556	1,386
Payments for exploration & evaluation assets		(17,802)	(36,133)
Payments for oil and gas assets		(4,681)	(22,187)
Payments for property, plant and equipment		(405)	(1,173)
Payments for acquisition of exploration and evaluation assets		-	-
Proceeds from sale of exploration and evaluation assets	8	12,507	-
Payment for business acquisition	8	(36,800)	(112,045)
Net cash generated used in investing activities		**(46,625)**	**(170,152)**
Cash flows from financing activities			
Net proceeds from issues of equity shares		2,740	97,538
Net proceeds / (repayments) from borrowings		(10,000)	100,000
Net cash generated by financing activities		**(7,260)**	**197,538**
Net increase in cash and cash equivalents		**39,949**	**37,567**
Cash and cash equivalents at the beginning of the period		36,061	45,695
Effects of exchange rate changes on the balance of cash held in foreign currencies		-	8
		76,010	**83,270**
Less: Debt service cash reserve		-	20,000
Cash and cash equivalents at the end of the period		**76,010**	**63,270**

Notes to the financial statements are included on pages 20 to 27.

1. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting.

Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting.

The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current 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 2013 annual financial report for the financial year ended 30 June 2013, except for the impact of the Standards and Interpretations described below.

These accounting policies 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:

• AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
• AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
• AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
• AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
• AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'

• AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'

• AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'

• AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and have no affect 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, or disclosure in, 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.

2. Segment Information

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

Oil projects
Wet Gas projects
Unconventional projects
Divestment assets
New Ventures

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

	Segment revenue		Segment profit (loss)	
	31-Dec-13 $000	31-Dec-12 $000	31-Dec-13 $000	31-Dec-12 $000
Oil projects	187,099	19,970	119,189	10,426
Wet Gas projects	13,238	5,457	6,398	2,528
Unconventional projects	-	-	-	(265)
Divestment assets	-	-	-	(97)
New Ventures	-	-	-	(2,033)
Total from continuing operations	**200,337**	**25,427**	**125,587**	**10,559**
Other income			434	1,474
Central administration costs and directors salaries			(6,581)	(4,878)
Corporate activity costs - Acer (i)			-	(6,199)
Finance costs			(7,039)	(2,104)
Change in fair value of convertible notes			(22,824)	-
Profit / (loss) before tax			**89,577**	**(1,148)**

(i) Included in the 31 December 2012 corporate activity costs is the cost relating to acquisition of Acer Energy Limited of $3.7 million incurred by Drillsearch and $2.5 million relating to costs incurred by Acer Energy in its takeover response.

Segment revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period (2012: nil).

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, investment revenue and finance costs, income tax expense, and gains or losses on discontinued operations. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Information about major customers
Included in revenues arising from direct sales of oil and gas of $200.3 million (2012: $25.4 million) are revenues of approximately $196.0 million (2012: $21.8 million) which arose from sales to the Group's largest customer. The revenue from the Group's second largest customer was approximately $2.6 million (2012: $2.2 million). No other single customer contributed 10% or more to the Group's revenue for both 2013 and 2012.

2. Segment Information (continued)

Segment assets	**31-Dec-13 $000**	**30-Jun-13 $000**
Oil projects	205,891	209,712
Wet Gas projects	191,688	187,648
Unconventional projects	15,670	6,622
Divestment assets	1,955	199
New Ventures	-	-
	415,204	**404,181**
Unallocated	146,311	80,996
Consolidated total assets	**561,515**	**485,177**

Segment liabilities		
Oil projects	9,165	12,366
Wet Gas projects	1,376	2,638
Unconventional projects	357	-
Divestment assets	-	-
New Ventures	-	-
	10,898	**15,004**
Unallocated	224,562	183,578
Consolidated total liabilities	**235,460**	**198,582**

Other segment information	**Depletion, depreciation and amortisation**		**Additions to non-current assets**	
	31-Dec-13 $000	**31-Dec-12 $000**	**31-Dec-13 $000**	**31-Dec-12 $000**
Oil projects	15,919	2,133	31,313	32,248
Wet gas projects	1,270	764	19,604	12,762
Unconventional projects	-	-	3,825	5,321
Divestment assets	-	-	25	-
New ventures	-	-	-	331
Other	1,030	499	2,100	1,162
	18,219	**3,396**	**56,867**	**51,824**

	Impairment losses		**Exploration write off**	
	31-Dec-13 $000	**31-Dec-12 $000**	**31-Dec-13 $000**	**31-Dec-12 $000**
Oil projects	-	-	-	-
Wet gas projects	-	-	-	-
Unconventional projects	-	-	-	-
Divestment assets	-	-	351	-
New ventures	-	-	-	-
	-	**-**	**351**	**-**

The Group operates in only one geographic segment being Australia.

3. Income Taxes

The income tax rate used for the 2013 and 2012 period is the corporate tax rate of 30% payable by Australian entities on taxable profits under Australian tax law.
The Group is also subject to the Petroleum Resources Rent Tax (PRRT) of 40% for its operations, which is applied on a tax effect accounting basis. Applying tax effect accounting principles on PRTT causes the tax effect of the difference between the PRRT base and the accounting base to be recognised as a deferred tax balance on the balance sheet and an income tax item in the income statement. The application of tax effect accounting to PRRT may impact the reported income tax benefit / expense whether or not a liability to pay PRRT has accrued through the deferred tax balances.

Income tax expense recognised in profit or loss	**31-Dec-13 $000**	**31-Dec-12 $000**
In respect of corporate tax	(32,510)	19
In respect of PRRT (net of income tax for PRRT)	(21,533)	(2,241)
Income tax expense	**(54,043)**	**(2,222)**

4. Cost of Sales

	31-Dec-13 $000	31-Dec-12 $000
Changes in oil inventories	(216)	246
Direct operating expense	56,396	9,687
Depletion and amortisation expense	17,189	2,897
Depreciation expense	1,030	499
	74,399	**13,329**

5. Other Gains and Losses

Interest Revenue		
Bank Deposits	556	1,385
Other gains / (losses)		
Other gains / (losses)	(122)	89
	434	**1,474**

6. Other expenses

Share based payments expense	1,051	569
Corporate activity costs	-	373
General legal and professional costs	520	216
Foreign exchange gains / (losses)	971	(94)
Employee benefits expense	10,748	6,581
Recharges and recoveries (i)	(11,348)	(3,931)
Other expenses	4,639	2,703
	6,581	**6,417**

(i) Recharge and recoveries
The Group has a policy to allocate a portion of employee benefit expense together with an uplift component to cover other office expenses to oil, gas, exploration and evaluation assets based on employee time committed to various projects. The allocation is correlated to the level of expenses and capital activities undertaken.

7. Exploration and evaluation assets

		31-Dec-13 $000	30-Jun-13 $000
Opening balance		217,890	23,131
Acquisitions (i)		1,500	95,596
Divestments (ii)		(12,057)	
Expenditure incurred during the period		32,585	111,278
Expenditure expensed during the period		(351)	-
Transfers relating to assets held for sale		(1,756)	-
Reclassified to oil and gas assets	8	(4,726)	(12,115)
Balance carried forward		**233,085**	**217,890**

(i) During the period Drillsearch paid $1.5 million to acquire an additional 3.0% interest in the PEL 182 joint venture. This is in addition to the $2.4 million to acquire a 2.4% interest by Acer Energy Limited (Acer Energy) in December 2012. Also in the 30 June 2013 financial period Drillsearch acquired Acer Energy, the fair value of its exploration assets were assessed at $94.1 million.

(ii) During the period Drillsearch divested its 25.8% interest in the PEL 100 joint venture to Santos Limited (Santos) for an amount of $15.0m. This balance does not include the transaction and other related costs in order to complete the sale and transfer of the interest.

8. Oil and gas assets

	31-Dec-13 $000	30-Jun-13 $000
Opening balance	108,586	54,773
Acquisitions (i)	19,171	-
Reclass from asset held for sale	-	17,924
Expenditure incurred during the period	3,207	24,999
Depletion and amortisation expense	(17,189)	(10,090)
Changes in decommissioning obligations	18,819	8,865
Reclass from exploration and evaluation assets	4,725	12,115
Balance carried forward	**137,319**	**108,586**

(i) On 04 July 2013 Drillsearch entered into an agreement with Santos to increase its interest in the Tintaburra Block Oil joint venture from 11% to 40% for consideration of $36.8 million. Drillsearch has recognised its increased interest in the joint venture from 01 October 2013 being the effective completion date of the transaction, recording $19.2m in oil and gas assets and $17.6m in deferred tax benefits relating to PRRT. The increased working interest has also resulted in a revision of the Company's decommissioning obligations. Santos continue to carry the remaining working interest, which is now reduced to 60%.

9. Plant property and equipment

Opening balance	3,719	963
Acquisitions	-	2,046
Expenditure incurred during the period	405	2,133
Depreciation expense	(1,030)	(1,423)
Balance carried forward	**3,094**	**3,719**

10. Asset held for sale

Assets		
Exploration and evaluation assets	1,955	199
Total and net assets	**1,955**	**199**

During the half year, Drillsearch continued to review its permit holdings. Drillsearch is actively pursuing the divestment of its non-core assets, including those held in the Bass Basin which comprises the majority of the balance at 31 December 2013.

11. Commitments for expenditure

Oil and gas properties		
Not longer than 1 year	140,195	106,200
Longer than 1 year and not longer than 5 years	151,704	82,200
	291,899	**188,400**

Commitments comprise of approved expenditures, permit commitments and operator approved budgets.

Operating lease commitments (office rental)		
Not longer than 1 year	839	823
Longer than 1 year and not longer than 5 years	551	971
	1,390	**1,794**

12. Provisions

Current	Note	31-Dec-13 $000	30-Jun-13 $000
Employee benefits (i)		638	616
Decommissioning costs (ii)		449	965
		1,087	**1,581**
Non-Current			
Employee benefits (i)		80	62
Decommissioning costs (iii)		31,049	14,039
		31,129	**14,101**

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

(ii) Decommissioning costs- current		
Opening balance	965	450
Additional provisions recognised	-	515
Payments made	(516)	-
Balance carried forward	**449**	**965**

(iii) Decommissioning costs- non-current			
Opening balance		14,039	2,519
Additional provisions recognised relating to acquisitions and discoveries	8	18,819	8,225
Payments made		(2,129)	(9)
Unwinding of discount		320	521
Reclassified from / (to) asset held for sale		-	2,143
Revision of decommissioning obligations		-	640
Balance carried forward		**31,049**	**14,039**

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 25 years from the date of this report.

13. Convertible notes

US$125 million convertible notes were issued by the Group on 3 May 2013 and 13 May 2013. These are due to expire September 2018. The convertible notes carry a fixed coupon of 6.00% per annum, paid semi-annually, for a term of approximately five years and are convertible into Drillsearch shares at an initial conversion price of US$1.66 per share, representing a conversion premium of approximately 35% above A$1.19, being the closing price of the Shares on the ASX on 26 April 2013.

The net proceeds received from the issue of the convertible notes have been recognised as a financial liability.
The liability component is measured at Fair Value Through Profit and Loss (FVTPL). The difference between the carrying amount of the liability component at the date of issue $A121,084,902 and the amount reported in the statement of financial position at 31 December 2013 A$153,214,816 represents the impact of the fair value adjustment and foreign currency translation (see below).

	31-Dec-13 $000	30-Jun-13 $000
Change in valuation of convertible note	(17,899)	4,380
Change in respect of foreign exchange differences	(4,925)	(13,686)
	(22,824)	**(9,306)**

The interest expense for the period is calculated with reference to the fixed coupon rate of 6%. A total of A$4.1 million has been paid and accrued for in the period.

14. Financial risk management

The Group's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and interest rate risk.

The Group currently uses derivative financial instruments to hedge certain risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Treasury function regularly updates the Group's Audit and Risk Committee, a body that monitors risks and policies implemented to mitigate risk exposures.

The Group's activities expose it to financial risks of changes in markets, including commodity prices (note 14.1), foreign currency exchange (note 14.2) and interest rates (note 14.3) as well as liquidity (14.4) and credit (14.5) risks.

The Group assesses its exposure to market risk on an ongoing basis, actively managing this as appropriate. Key areas noted in the current and prior financial period are:

- With the continuing rise in oil production and weighting towards US dollar based revenues, the Group faces increased exposure to both commodity price and foreign exchange risk; and
- With the issuance of a US dollar convertible note debt instrument, the Group has an increased exposure to foreign exchange risk.

The Group's exposure to foreign exchange risk arising from its US dollar based revenues and convertible note debt instrument is assessed and managed on a combined basis to the degree applicable. The foreign exchange risk exposure arising from these elements function as a natural hedge.

14.1 Commodity price risk management

The Group has managed its exposure to commodity price by entering into $USD Brent oil price options. Commencing July 2013, this covers a total of 347,760 barrels of oil production to 30 June 2014 and an additional 255,360 barrels to end of January 2015. The Group secured a fixed Brent oil price of $USD90 by purchasing Put Options. This was paid for in part by the grant of matching fixed Call Options at $USD120. The options have not been designated as hedging instruments under AASB 139 'Financial Instruments: Recognition and Measurement'. The position is reviewed on an ongoing basis (at minimum quarterly) and the Group currently expects to maintain a similar level in future to continue managing its exposure to commodity price risk.

The Company's oil price hedging strategy is designed to provide an appropriate level of downside price protection to ensure adequate cashflow to meet operating and other costs while seeking to maximise exposure to oil price upside to the extent possible.

14.2 Foreign currency risk management

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising short term forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	31-Dec-13 $000	30-Jun-13 $000	31-Dec-13 $000	30-Jun-13 $000
Convertible notes (USD currency)	138,242	120,938	-	-
Trade Payables (USD currency)	846	2,205	-	-
Trade Receivables (USD currency)	-	-	14,254	7,481
Total	**139,088**	**123,143**	**14,254**	**7,481**

The Group is mainly exposed to US dollar currency. This exposure is created through the denomination of the Group's US dollar revenues and the US dollar convertible note issued in the 2013 financial period. Issuance of the convertible note in a currency to match the predominant revenue stream from the Group's reserve base forms part of the overall strategy on managing foreign currency exchange risk. The Group continues to review its strategy and management of foreign exchange risk.

14. Financial risk management (continued)

14.3 Interest rate risk management
The Group is exposed to interest rate risk because it borrows funds at floating interest rates.

14.4 Liquidity risk management
Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

14.5 Credit risk management
The Group has adopted a policy of only dealing with creditworthy counterparties and only transacts with financial institutions that are rated the equivalent of AA and above. The Group's exposure and the credit ratings of its counterparties are continuously monitored and transactions concluded are spread amongst approved counterparties. Trade receivables consist of a limited number of customers, all of which are large creditworthy organisations.

15. Issuances, repurchases and repayments of equity securities

During the half-year reporting period, Drillsearch Energy Limited issued: 4,400,000 ordinary shares for $2.7 million on exercise of options, 253,934 ordinary shares on the vesting of certain performance rights, and 58,590 ordinary shares were issued under the $1000 employee share scheme. There were no other movements in the ordinary share capital or other issued share capital of the Company in the current period.

16. Contingencies

There is no litigation of a material nature against Drillsearch or its subsidiaries of which the Directors are aware.

17. Key management personnel

Below are the shares and performance rights that were issued during the half-year under the $1,000 Employee Share Plan and the Performance Rights Plan to Key Management Personnel. These plans were approved by the shareholders at the 2012 Annual General Meeting, held in November 2012. Subsequently, the Board approved the award of Performance Rights under the Performance Rights Plan and the issue of shares under the $1,000 Employee Share Plan to Key Management Personnel, with the exception of the Managing Director whose award of performance Rights during the period was approved by shareholders at the 2013 Annual General Meeting, held in November 2013.The Managing Director was not awarded shares under the $1,000 Employee Share Plan during the period.

$1,000 Employee Share Plan
4,650 fully paid ordinary shares under the $1,000 Employee Share Plan were issued.

Short Term Incentives – Performance Rights Plan
369,251 Performance Rights were priced using the Market Value approach by independent consultants with a performance period of one year ending 30 June 2014 were issued. Performance rights with one year vesting period do not have any additional vesting conditions other than continuing employment with the Company.

Long Term Incentives – Performance Rights Plan
1,369,067 Performance Rights priced using the Market Value approach by independent consultants with a performance period of three years ending 30 June 2016 were issued. Key management personnel receiving performance rights with a three years vesting period are entitled to the beneficial interest under the rights when prescribed conditions are met. 75% of the rights will vest according to a percentile rating of the Group's total shareholder return in comparison to comparable companies and 25% of the grant of rights will vest according to a percentage of reserves growth.

Vesting of Directors Performance Rights from 2013
253,934 fully paid ordinary shares were issued to directors following the vesting certain performance rights. The performance rights were issued in November 2012 following the approval of shareholders at the 2012 Annual General Meeting.

18. Subsequent events

Subsequent to balance date the following material events have occurred:

- On 21 January 2014 the Company announced progress from its two new drilling campaigns in the Oil business (PEL 91 and the Tintaburra block).