

## **ASX ANNOUNCEMENT**

12 November 2015

# **Drillsearch Shareholder Newsletter**

Drillsearch Energy Limited is pleased to attach a copy of its Shareholder Newsletter which is being sent to Drillsearch shareholders.

Since this newsletter went to print, Drillsearch has been advised by Beach Energy Limited that it has obtained an 'in principle' waiver<sup>1</sup> from the ASX in relation to ASX Listing Rule 10.1. Consequently, Beach is not required to get approval from its shareholders to acquire Seven Group Holdings' shares in Drillsearch under the Scheme, and therefore a meeting of Beach shareholders will not be required.

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Or visit the website [www.drillsearch.com.au](http://www.drillsearch.com.au)

If you would like to register for email alerts, please do so at the bottom of our Home page.

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<sup>1</sup> See ASX Announcement, Update on Proposed Merger – Beach Obtains ASX Waiver, released on 11 November 2015.

# Drillsearch IN DEPTH

SHAREHOLDER NEWSLETTER NOVEMBER 2015



## WELCOME TO THE LATEST EDITION OF 'DRILLSEARCH IN DEPTH'

### FROM THE DESK OF CHAIRMAN JIM MCKERLIE

On 23 October 2015, we announced we had entered into a binding agreement with Beach Energy with the intention of creating the leading mid-cap oil and gas company in Australia.

As a valued investor in Drillsearch, I wanted to write to you personally to explain what exactly has happened, why your Directors have proposed this merger and to outline the next steps, including the steps you may need to take. I have received many questions from shareholders since the merger was announced so hopefully this newsletter is helpful to you.

### WHAT ARE THE DETAILS OF THE MERGER?

Under the terms of the Merger Implementation Agreement (MIA), Beach will acquire all of the shares in Drillsearch via a 'Scheme of Arrangement'. Drillsearch shareholders will receive 1.25 Beach shares for every Drillsearch share held. If however you are a shareholder in an overseas country where Beach cannot reasonably issue shares under the merger, you will receive cash proceeds from the sale of Beach Shares you would have been issued with had you been eligible (net of selling costs).

This deal represents a premium for Drillsearch shareholders of 30% based on the 3-month VWAP of Beach and Drillsearch as of 22 October 2015.

Both myself and Phil Bainbridge will be joining the Beach board and two Beach directors will be standing down.

A Merger Integration Group has also been formed and has responsibility for internal and external communications, assessing strategic opportunities for the Merged Group and for delivering an integration plan. This integration plan takes into account:

- capital management strategy;
- human resourcing requirements;

## PROPOSED MERGER WITH BEACH

- ▶ Drillsearch shareholders to receive 1.25 Beach shares for every Drillsearch share held
- ▶ Premium for Drillsearch shareholders of 30% based on the 3-month VWAP of Beach and Drillsearch as of 22 October 2015
- ▶ All-scrip merger recommended by the Drillsearch Board, subject to the Independent Expert opining that the merger is in the best interest of Drillsearch Shareholders and in the absence of a superior proposal
- ▶ Scheme Booklet aimed to be mailed before Christmas

- systems, processes and information technology; and
- familiarisation, assimilation and culture.

Clearly the objective is to combine two strong businesses and create an even stronger one.

The Drillsearch Board unanimously recommends that Drillsearch shareholders vote in favour of the merger and each Director intends to vote all Drillsearch shares held or controlled in favour of the merger, subject to the Independent Expert opining that the merger is in the best interest of Drillsearch shareholders and in the absence of a superior proposal.

The rationale for the merger in summary includes the benefits of being a bigger company, positioning for growth and synergies. These are explained in detail in the announcements we released to the ASX on 23 October 2015. This is available on the ASX website or at [www.drillsearch.com.au/investor/asx-announcements](http://www.drillsearch.com.au/investor/asx-announcements)

### WHAT IS A SCHEME OF ARRANGEMENT?

Schemes of Arrangement are commonly used mechanisms to acquire listed companies. Under a Scheme of Arrangement, approval is required from both the Court and from a vote by the Scheme company's shareholders. The alternative arrangement that is used in these situations is a takeover under the Corporations Act.

Drillsearch as the Scheme company must call a general meeting and for the vote to succeed there are two requirements. Firstly more than 50% of the number of shareholders present and voting at the meeting must vote in favour of the scheme, and secondly at least 75% of the total number of shares voted must also be in favour.

You may be aware that it is possible that Beach Energy will also be required by the ASX to have a shareholder vote. Whilst this is not yet certain, if required Beach will hold its general meeting before ours. At their meeting

a simple majority (i.e. greater than 50%) of eligible votes is required to carry the resolution.

The potential need for the Beach vote comes about as Seven Group Holdings holds 19.9% of both companies.

## WHAT ARE THE NEXT STEPS FOR ME?

At this stage, **you do not need to take any action** in relation to your Drillsearch shares.

The next communication you will receive from Drillsearch will be a Scheme Booklet, which is expected to be mailed in mid-December 2015.

The Scheme Booklet will contain necessary information relating to the Scheme, including details of the Drillsearch Board's recommendation, voting instructions and a report prepared by an Independent Expert. This is a critical document for you to read.

## HOW DO I VOTE? – WHAT IF I AM AWAY?

The Scheme Meeting, at which you will be asked to vote, is scheduled to take place in late January. Instructions on how to vote will be included within the Scheme Booklet.

Your vote is very important and as this is happening over the Christmas

holiday season we will make extra effort to explain how to lodge a proxy vote. You will be able to do this once you have received the Scheme Booklet so if you are fortunate to be heading off for a good holiday break you can vote before you leave or online whilst you are away.

## WHAT IS THE BEST WAY FOR ME TO STAY UP TO DATE?

The best way to stay informed on developments in this process is to regularly visit our website: [www.drillsearch.com.au](http://www.drillsearch.com.au)

In due course, we will also be setting up a Shareholder Information Line, details of which will be included on the website.

We will also be providing an update on the transaction at the Annual General Meeting in Sydney on 18 November 2015. As is our normal tradition there will be refreshments provided and it would be great to see you there.

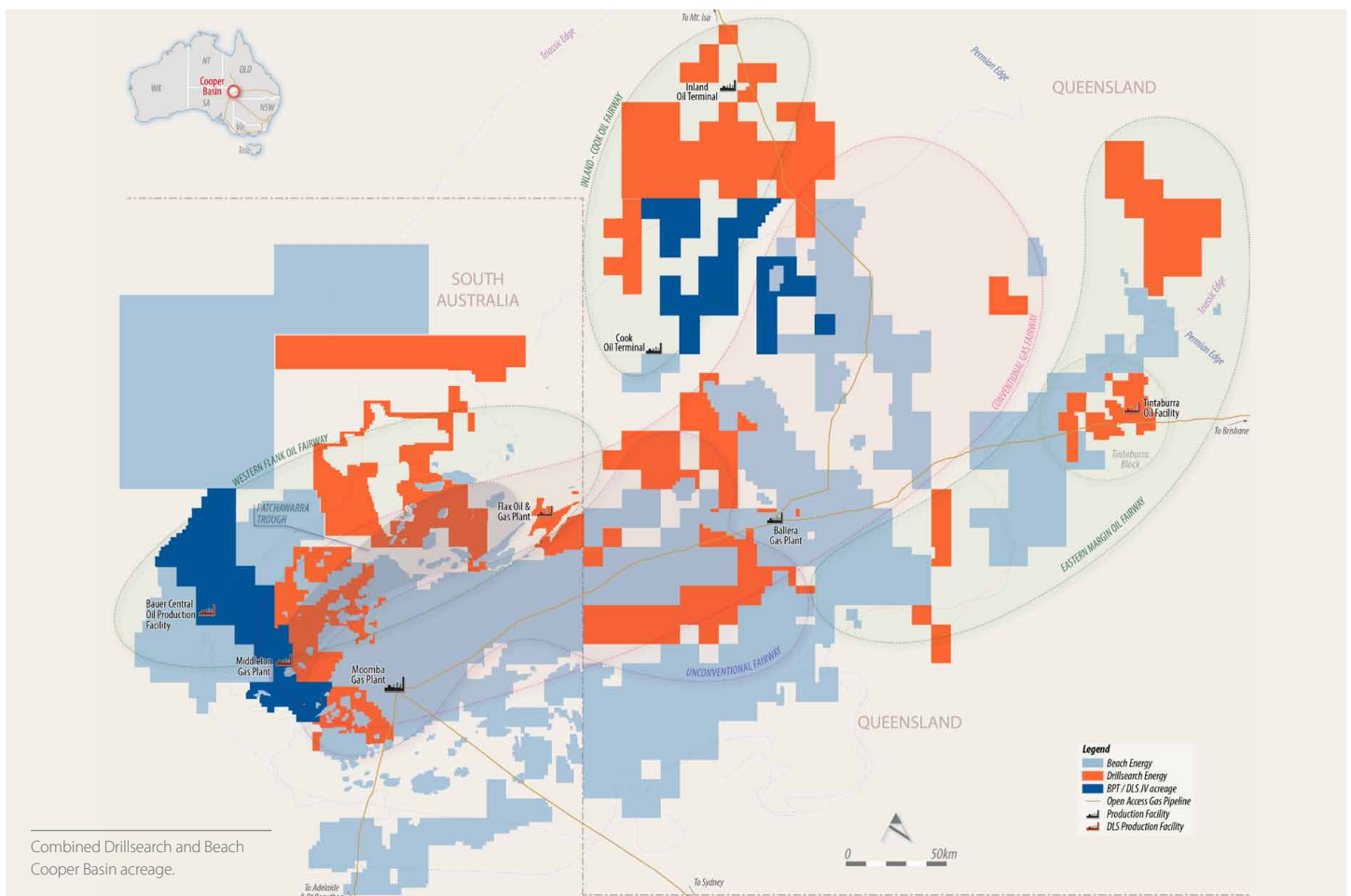


**Jim McKerlie**  
Chairman, Drillsearch Energy

## JOINT OPERATIONS MAP – TOTAL COOPER BASIN FOOTPRINT OF ~69,000 KM<sup>2</sup>

The Cooper Basin is at the core for both companies with Drillsearch shareholders gaining exposure to new oil assets on the Western Flank

and Beach shareholders gaining exposure to wet gas assets held jointly with Santos.





## ABOUT BEACH ENERGY<sup>1</sup>

Formed in 1961 and listed on the ASX in 1962, Beach is an oil and gas exploration and production company headquartered in Adelaide, South Australia. Beach has a core focus on the resource-rich Cooper Basin with gross acreage of ~50,000 km<sup>2</sup>. Key facts about Beach include:

- Australia's largest onshore oil producer with an active exploration and development drilling program in the Cooper Basin;
- Exposure to diverse and strategically located resource basins with established infrastructure supplying key markets;
- Access to prime tight gas acreage in the Nappamerri Trough with transformational prospects for Australia's East Coast gas market;
- FY2015 production of 9.15 million barrels of oil equivalent (mmboe) and revenue of \$727 million;

- Oil and gas reserves (2P) of 74 mmboe at 30 June 2015; and
- Contingent oil and gas resources (2C) of 677 mmboe at 30 June 2015.

Drillsearch and Beach already work together successfully in two key joint ventures in the Cooper Basin:

- The Western Flank Oil Fairway joint venture (formerly known as PEL 91), which includes the prolific Bauer oil field; and
- The Western Wet Gas joint venture (formerly known as PELs 106 and 107) which includes the Middleton Gas Plant.

The two companies are also exploring for oil together in the Inland-Cook Oil Fairway, where Beach is farming in to Drillsearch's ATP 924 permit.



## NEW \$100 MILLION LOAN FACILITY SECURED

Drillsearch announced in October it had entered into a binding terms sheet with CBA and ANZ for a new three-year \$100 million<sup>2</sup> secured bank loan facility which will replace Drillsearch's existing undrawn working capital facility. The new facility will be a multi-currency, Reserve-Based Lending facility and is subject to final documentation and customary conditions.

The new facility, combined with strong margins<sup>3</sup> from the company's oil production and a cash balance of \$162 million at 30 September 2015, enhances Drillsearch's ability to support continuing growth and meet

commitments relating to its US\$125<sup>4</sup> million Convertible Note, which has a redemption window in September 2016.

Drillsearch Chief Financial Officer Ian Bucknell said:

"We are delighted by the support and increase in commitment we have received from our existing financiers during this process, particularly given the uncertain oil price environment. Our ability to generate additional liquidity reflects the quality of our asset base and the strength of our cash flow, even during a time of low oil prices."

<sup>1</sup> The information on Beach contained in this newsletter has been prepared based on public information about Beach which has not been independently verified. Further information about Beach can be found at [www.beachenergy.com.au](http://www.beachenergy.com.au)

<sup>2</sup> All figures are in Australian dollars, unless otherwise marked.

<sup>3</sup> As reported in the company's September 2015 Quarterly Report released to the ASX on 22 October 2015.

<sup>4</sup> A\$172 million at AUD:USD of 0.73.

## STRONG START TO FY2016

Drillsearch enjoyed a positive start to FY2016 with quarterly production at its highest level in more than a year.

Overall production rose 3% to 0.81 mmmboe in the three months ended 30 September 2015, the highest since the June quarter of FY2014, as the Western Flank joint venture with Beach Energy (DLS 60%) successfully started production from the Balgowan, Stunsail and Pennington fields.

Despite the higher production, revenue for the quarter was 12% lower at \$52.8 million as oil prices touched new six-year lows in mid-August.

The company's FY2016 work program also got underway during the period.



Western Wet Gas Joint Venture with Santos – Yarowinnie South-1 Extended Production Test, October 2015.

In the Patchawarra and Arrabury Troughs project area, Santos drilled the Washington-1 unconventional exploration well in the PEL 570 acquired as part of the Ambassador Oil and Gas takeover in late 2014. Testing of the well is expected to be completed in the current quarter.

In the Inland-Cook Oil Fairway, Beach and Drillsearch started drilling the Maroochydhore-1 oil exploration well, while in the Western Wet Gas joint venture with Santos, the partners began testing the Yarowinnie South-1 gas discovery, with initial stabilised flow rates of 11 mmscf/d.

This year is expected to be another busy year for Drillsearch with up to 22 wells planned across the company's acreage, as well as the tie-in of a number of the company's existing Wet Gas discoveries.



Inland-Cook Oil Fairway – Maroochydhore-1 drill site October 2015.

## CONTACT DETAILS

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## ANNUAL GENERAL MEETING:

Drillsearch's 2015 Annual General Meeting will be held on Wednesday 18 November 2015. A light lunch will be provided to attending shareholders at the conclusion of the meeting.

**Date:** 18 November 2015  
**Time:** 10:00am  
**Venue:** Museum of Sydney, AGL Theatre, Level 2  
Corner of Bridge and Phillip Streets, Sydney NSW 2000