

27 July 2011

## **Drillsearch and QGC form \$130 million Cooper Basin Shale Gas JV**

### **Highlights:**

- **Strategic JV to explore and develop unconventional shale and tight gas resources in Drillsearch license in the Cooper Basin**
- **Under the JV, QGC (a 100% BG Group subsidiary) to acquire 60% interest in ATP 940P**
- **QGC commits to a five year \$130 million three stage exploration and pilot production appraisal program (with QGC to fund \$90m of the first \$100m)**
- **Agreement provides access to QGC's gas commercialisation capacity**
- **QGC to be issued 31.6 million Drillsearch share options (approximately 9.9% of company) at a strike price of 62 cents per share**

**Leading Cooper Basin independent exploration company, Drillsearch Energy Ltd (DLS) announces a strategic joint venture with global energy company BG Group to explore and develop shale gas in the Cooper Basin as a future supply to growing LNG exports and demand in East Australia**

Drillsearch Energy Ltd (ASX: DLS) is pleased to announce that it has formed a strategic joint venture with QGC a BG Group company ("QGC"), to explore and develop unconventional shale and tight gas resources in the Cooper Basin.

The joint venture involves QGC farming into, and acquiring, a 60% interest in DLS's strategically located ATP 940P covering over 2,000km<sup>2</sup> (500,000 acres) of the Central Cooper Basin Nappamerri Trough Shale Gas Fairway (see map below).

The agreement places DLS in the unique position in the Cooper Basin of having access to QGC's gas commercialisation capacity to support the full scale exploration, appraisal and development of shale and tight gas resources. The Basin is well situated to supply growing gas demand from LNG exports and domestic users in Australia. QGC is currently developing the QCLNG project in Gladstone.

BG Group is an active player in the exploration, development and production of shale and tight gas in North America with major positions in the Marcellus and Haynesville shale gas plays. The Cooper Basin shale gas exploration joint venture with Drillsearch is BG's first shale gas investment in Australia

Drillsearch Chairman Jim McKerlie said:

"The JV with QGC is a great outcome for Drillsearch. It is a clear indication that Drillsearch is delivering on its three-prong strategy in the Cooper Basin – Oil exploration on the Western Flank,

development of conventional Wet Gas along the Wet Gas Fairway and now delivering a focussed exploration and appraisal plan to the Company's unconventional projects in the Cooper Basin."

"With the farmin by QGC and exercise of the options, Drillsearch's share of this unconventional exploration and appraisal program is fully funded. The company has now secured funding for all three prongs of its strategy. We are encouraged by the three oil exploration successes in the Western Flank of the Cooper Basin and progress of Western Cooper Wet Gas which is looking to start production later this year."

Drillsearch Managing Director Brad Lingo said:

"This joint venture is significant for both the Cooper Basin and Drillsearch. This landmark transaction puts Cooper Basin shale gas resources on the world stage. This transaction is a major achievement for Drillsearch validating not only the quality of the position the Company holds in the Nappamerri Trough Shale Gas Fairway but also the Company's capability as an exploration operator in the Cooper Basin."

"The transaction with QGC (part of the BG Group, a global leader in gas commercialisation), is the most significant milestone in Drillsearch's 24 year history. Importantly, it positions Drillsearch at the forefront of emerging Cooper Basin unconventional resource developments. This provides us with a platform for outstanding long-term growth opportunities and further growth in the Company's already extensive conventional and unconventional gas projects in the Cooper Basin."

Key features of the transaction include:

- Execution of a Joint Operating Agreement ("JOA") establishing the future joint venture operations in ATP 940P. The focus of the joint venture is to explore and develop shale and tight gas resources in the Central Cooper Basin Nappamerri Trough Shale Gas Fairway;
- Execution of a Farm-in agreement whereby QGC are committing to a five year \$130 million three stage exploration and pilot production appraisal program to acquire a 60% joint venture interest in DLS's 100% owned ATP 940P;
- DLS will hold a 40% joint venture interest in ATP 940P and be the operator of the joint venture through the exploration and pilot production appraisal stages with the aim to prove up sufficient shale and tight gas resources to support a full scale development project;
- QGC will fund \$90 million of the first \$100 million of the five year exploration, appraisal and pilot production program and thereafter QGC and DLS will fund the program on a 60/40 basis;
- Following the completion of the exploration and pilot production appraisal program, QGC will have the right to become the operator of the joint venture to take the shale and tight gas resources through to full scale development;
- QGC and DLS have entered into a Gas Marketing Heads of Agreement providing that, as part of a full scale commercial development, QGC offering to buy DLS's 40% share of gas production from ATP 940P and DLS having the right to supply additional gas from its other Cooper Basin permits up to an additional 10% of the ATP 940P joint venture gas production;
- DLS will issue options to QGC to subscribe for up to 31,622,454 DLS shares at 62 cents per share exercisable any time prior to 15 February 2012 for a 9.9% ownership stake providing DLS with a potential \$19.6 million of additional funding;
- QGC will also reimburse DLS for 60% of its historical past costs, capped at \$2.5 million; and
- QGC will have the right to withdraw from the joint venture after the end of either the first or second stage of the five year work program upon which QGC's 60% interest in ATP 940P reverts to DLS.

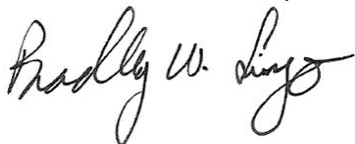
The various agreements contain change of control provisions. The agreement under which QGC gains its interest in ATP 940P provides that, should a change of control occur (e.g., another entity gaining more than 50% of DLS shares), QGC can require (1) DLS to sell to QGC at an agreed price DLS's 40% in ATP 940P if that change of control occurs before the completion of the second stage of the exploration program at an agreed price, (2) DLS to sell to QGC at an agreed price a further 5% interest in ATP 940P if that change of control occurs after the completion of the second stage of the exploration program and (3) QGC may become the operator of ATP 940P. The Gas Marketing Heads of Agreement further provides that if DLS is subject to a change of control, QGC may terminate the gas marketing arrangements.

All of the Native Title and Environmental Approval process necessary for the award the ATP 940P to Drillsearch has been completed and the formal award of the permit is currently pending Queensland Government Ministerial approval. The commencement of the ATP 940 JV is subject to completion of this process and approval of the transfer of the interest in the permit once issued to QGC.

Further details of the transaction and the exploration program are contained in the Investor Update lodged by the Company with the ASX in conjunction with this release.

DLS will host a conference call on Wednesday, 27 July 2011 at 11:30am (Sydney time) to discuss this announcement and respond to questions. Dial in numbers are 1800 554 798 within Australia or +61 2 8113 1400 outside Australia. The access code for the conference call is 6365111

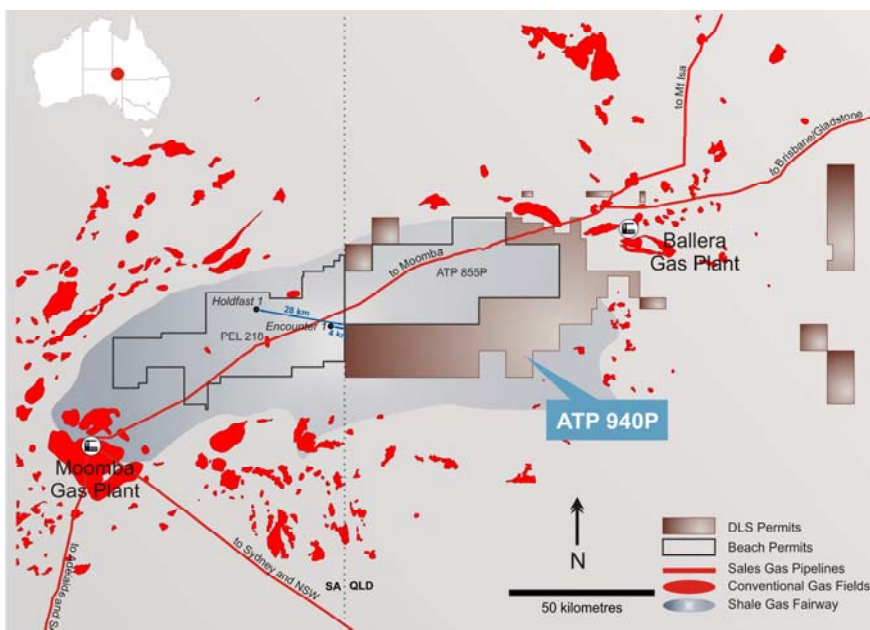
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If you would like to register for email alerts please go to the Register Page on our website.



Drillsearch 40% as operator, QGC 60%

About Drillsearch Energy Limited (ASX: DLS), which listed on ASX in 1987, explores and develops conventional 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. The company also has offshore exploration interests in the Gippsland Basin.