Oil Search

Alaska update

28 June 2019

SYDNEY (ASX: OSH | ADR: OISHY | POMSoX: OSH)

HIGHLIGHTS

- **Oil Search has elected to exercise the Armstrong / GMT Option for US$450 million, which doubles the Company's interests in the Pikka Unit, Horseshoe Block and other exploration leases. This follows a comprehensive review of data acquired over the last 18 months since the Company made the original acquisition. Material value has been added to these assets through successful drilling and testing over that time and attractive development options have been matured.**

- **The Option exercise will be funded from existing corporate facilities. To provide additional financial flexibility, US$300 million of additional bank credit lines will be finalised shortly. These credit lines have a term of one year, to cover the maximum period anticipated until the planned sell-down of a portion of the Company's Alaska interests is executed.**

- **The Company intends to undertake a formal divestment process for the sale of part of its Alaskan portfolio, to conclude prior to the Final Investment Decision (FID) for the first phase of the Pikka Unit Nanushuk development, scheduled for mid-2020. The timing of the sell-down will allow the results of the 2019/20 drilling programme and development plans to be incorporated, thereby maximising the value of the divestment.**

- **Oil Search and Repsol have entered into arrangements to align ownership interests across their shared Alaskan assets. This will result in Oil Search retaining 51% in the Pikka Unit and the Horseshoe Block, while purchasing a 51% interest in the leases Repsol acquired in 2017, which are located immediately east of the Horseshoe area within the prospective Nanushuk trend. This alignment will result in a net payment of US$64.3 million from Repsol to Oil Search.**

- **Oil Search has also been working with Repsol to develop a structured suite of agreements, to drive long term commercial alignment between the parties and enable joint or separate divestments. This will result in the implementation of an operating agreement appropriate for a major development and will enable Oil Search to access Repsol's considerable development expertise through direct secondees and technical experts. Oil Search remains operator of all leases with the strong support of Repsol.**

- **A material resource upgrade above the current 500 million barrels (gross) 2C estimate, from the Pikka Nanushuk and adjacent satellite field resources, is expected to be announced prior to the FEED decision on the initial Pikka Unit Nanushuk development, scheduled to take place in the second half of 2019.**

- **Discussions regarding opportunities for cooperation and facilities-sharing with current North Slope operators are progressing well, with negotiations targeted to be completed by the time a FEED decision is made on the initial Pikka Unit Nanushuk development.**

- **Oil Search and Repsol's base development plan for the Pikka Unit Nanushuk development is now targeting first production in 2022 through a 30,000 barrels of oil per day (bopd) early production system, utilising existing capacity in the processing facilities of an adjacent operator, followed by the development of dedicated facilities to manage production of approximately 120,000 bopd (gross), allowing full field production to commence in 2024. The early production system concept will benefit all parties and will assist in integrating early lessons and cost reduction initiatives into the full field development drilling, as well as generating early cashflow.**

Armstrong Option

Oil Search has exercised its Option to acquire Armstrong Energy LLC and GMT Exploration Company LLC's (Armstrong) remaining 25.5% and 37.5% interests, respectively, in the Pikka Unit and Horseshoe area, as well as a further 37.5% interest in the Hue Shale leases and a 25.5% interest in other exploration areas, for US$450 million.

The Option arrangement has provided time for Oil Search to develop a better understanding of the full Pikka Unit Nanushuk oil field potential and regional exploration opportunities, ahead of the 30 June 2019 Option exercise date. It has also enabled Oil Search to take into consideration the drilling results of the Putu wells, drilled by ConocoPhillips in 2018, and the two Oil Search operated wells (Pikka B and C), drilled earlier this year. All these wells, which included six reservoir penetrations, were drilled in, or immediately adjacent to, the Pikka Unit Nanushuk trend.

An integrated analysis of the results of these wells, with detailed reservoir and resource modelling, has increased Oil Search's confidence that there will be a material upgrade to the resource estimates, above the acquisition case, which assumed 400 mmbbl (gross) within the Pikka Unit Nanushuk reservoir and 100 mmbbl (gross) in the adjacent satellite fields. As soon as the analysis is completed, upgraded resource estimates will be validated through an assurance process and formally announced ahead of a FEED decision on the initial development. Material progress has also been made on key approvals, most notably the approval of the EIS Record of Decision (ROD), received in May this year, which was a major project milestone.

In addition to the increase in confidence in the resources within the Pikka Nanushuk field, detailed evaluation and remapping of the Nanushuk trend has high-graded the Horseshoe and east Pikka areas as being highly prospective for tie-ins to the Pikka Development or, in the Horseshoe area, as a potential standalone development. Appraisal and exploration drilling opportunities in both the Horseshoe and East Pikka areas are currently being finalised for the upcoming 2019/20 drilling season and will test significant additional prospective resources. These wells have the potential to add material value to the Pikka Development and to the assets generally, prior to the planned sell down of interests in these assets.

The Lagniappe leases acquired jointly with Armstrong in 2018 adjacent to, and immediately east of, the Hue leases will remain equally held by Oil Search (as operator) and Armstrong and are not included in the Option exercise. In addition, Oil Search and Armstrong will continue to work together in reviewing opportunities on the North Slope of Alaska outside the Pikka and Horseshoe areas, in accordance with the Area of Mutual Interest Agreement (AMI), that was entered as part of the original March 2018 acquisition.

The acquisition of Armstrong / GMT's remaining interests allows Oil Search to maintain operatorship of a world class oil development close to existing infrastructure, with material appraisal and exploration growth potential.

Funding

Closing of the Option exercise is scheduled for late August, at which time Oil Search will fund the US$450m consideration from its existing US$900 million of corporate debt facilities. An additional US$300 million of credit lines is currently being arranged, taking the Company's total amount of undrawn bank facilities to US$1.2 billion, prior to the payment of the Armstrong Option. The new credit facilities will have a term of one year, to cover the maximum period anticipated until the planned sell-down of a portion of the acquired Armstrong interests. The new facility agreements will be executed and available for utilisation, once standard Papua New Guinea regulatory approvals have been obtained, within the next several weeks.

Planned Sell-Down of Alaskan Assets

It was originally the intention to undertake a partial divestment of the Company's Alaskan assets back-to-back with the exercise of the Armstrong option. Despite not running a formal process, in late 2018/early 2019 Oil Search received strong expressions of interest from third parties, including an attractive conditional offer, to acquire an interest from the Joint Venture in the Pikka Unit Development project and adjacent leases. The process was suspended in early 2019 due to a change in partner views regarding the upside resource potential, following the positive results of the 2018/19 appraisal drilling and the increase in resource potential recognised in the Horseshoe area, both within the existing field extension and in newly identified Nanushuk prospects within the Horseshoe block.

Oil Search will be recommencing a formal divestment process for some of its interests in its Alaskan portfolio, with a sale scheduled to conclude in the first half of 2020, ahead of a Final Investment Decision for the initial Pikka Unit Nanushuk development. This timing will allow the Company to incorporate the results of the planned 2019/20 winter drilling programme, which will test both material upside immediately adjacent to, and on trend with, the Pikka Nanushuk oil field, and the resource upgrade anticipated within the Pikka Unit Nanushuk core development area, thereby maximising the sale value of the assets included in any divestment. It is Oil Search's intention to retain approximately a 35% interest in its core assets.

Pikka Unit Development Update

Since acquiring the initial Alaskan interests and taking over operatorship in March 2018, Oil Search has enhanced materially its understanding of the full potential of all these assets and has built a world class team with extensive Alaskan operating experience, based in Anchorage. The Company has, successfully and safely, undertaken a comprehensive two rig, four well penetration drilling programme in 2018/19. It has also improved the Pikka Unit Nanushuk development plan to alleviate community issues and reduce the environmental footprint, resulting in the receipt of the Record of Decision by the US Corps of Engineers on the Environmental Impact Statement for the proposed development.

Following the maturation of the Nanushuk opportunity, Oil Search is now targeting first production of approximately 30,000 bopd (gross) in 2022, through one of several possible processing scenarios, with a key focus on utilising existing infrastructure. This will be followed by the development of dedicated facilities to manage production of approximately 120,000 bopd (gross), commencing in 2024. Further opportunities for cooperation and facilities sharing are under discussion, with negotiations scheduled to be concluded ahead of the FEED decision for the initial development later this year.

Comprehensive reservoir modelling and exploration studies undertaken in cooperation with Repsol have substantially upgraded Oil Search's knowledge and capability to deliver the Pikka development and the full potential of the Company's Alaskan portfolio. A material resource upgrade is likely following the completion of reservoir modelling and integration of the data acquired from the recent Pikka Unit appraisal campaign. This reservoir model will be further enhanced with the results of the processing of the mega 3D seismic dataset that exists over the Pikka Unit area. An announcement of the expected increase in contingent resource estimates will be made ahead of the FEED decision.

Planning is underway for a two-rig, two well exploration/appraisal programme in 2019/20. The programme will evaluate the upside resource potential of the Nanushuk Field, including in the highly prospective Horseshoe area, south of the Pikka Unit, which could be tied into the Pikka development and help build a robust, long-term portfolio in Alaska.

The updated, phased development approach will allow the results from the 2018/19 appraisal programme, updated 3D seismic data, comprehensive reservoir modelling and exploration studies, early results from a 2019/20 exploration and appraisal programme and the early development project learnings to be fully utilised to optimise the overall phased Pikka Unit development. The early production scheme has the added benefit of generating an early income stream to help support development.

Alignment with Repsol of Pikka and Horseshoe Interests

Concurrent with the exercise of the Armstrong Option, Oil Search and Repsol, which has been active on the North Slope since 2010 and has a strong understanding and deep knowledge base of the Pikka and Horseshoe areas, have entered into arrangements to align their ownership interests. Oil Search will transfer a 24% interest in the Horseshoe leases to Repsol and Oil Search will acquire a 51% interest in the leases acquired by Repsol in the 2017 lease round. This will result in Oil Search holding a 51% interest and Repsol a 49% interest across all co-owned leases, for a net payment of US$64.3 million from Repsol to Oil Search, with Oil Search retaining operatorship of all lease areas.

Following the exercise of the option and the alignment of interests with Repsol, interests in the various leases are as follows:

Phase	Before OSH option exercise				After OSH option execution				After alignment with Repsol			
Lease Category	Pikka Unit	Horse shoe	Other exploration	Hue Shale	Pikka Unit	Horse shoe	Other exploration	Hue Shale	Pikka Unit	Horse shoe[1]	Other exploration[2]	Hue Shale
Oil Search	25.50%	37.50%	25.50%	37.50%	51.00%	75.00%	51.00%	75.00%	51.00%	51.00%	38.76%	75.00%
Armstrong / GMT Exploration	25.50%	37.50%	49.50%	62.50%	-	-	24.00%	25.00%	-	-	24.00%	25.00%
Repsol	49.00%	25.00%	25.00%	-	49.00%	25.00%	25.00%	-	49.00%	49.00%	37.24%	-

1) Sale of 24% interest at US$2.87 million per % point (US$68 million).
2) Sale of 12.24% interest at cost (US$2 million).

The alignment with Repsol enables Oil Search to access Repsol's considerable development expertise through secondees and subject-matter experts. In addition, a Standard AIPN model Joint Operating Agreement has been implemented that is better suited for a major development and the introduction of a new partner.
Oil Search and Repsol are now commercially aligned to a world class development focused on maximising value and cooperation opportunities for all stakeholders, while minimising the environmental footprint and impact on the subsistence culture of the local community.

Commenting on the Option exercise and alignment of interests with Repsol, Oil Search's Managing Director, Peter Botten said:

"The Option, negotiated as part of the original sales agreement with Armstrong, has allowed Oil Search to collect valuable further data from the 2018/19 exploration and appraisal programme in advance of making an additional US$450 million investment in Alaska, on top of our original US$400 million entry price.

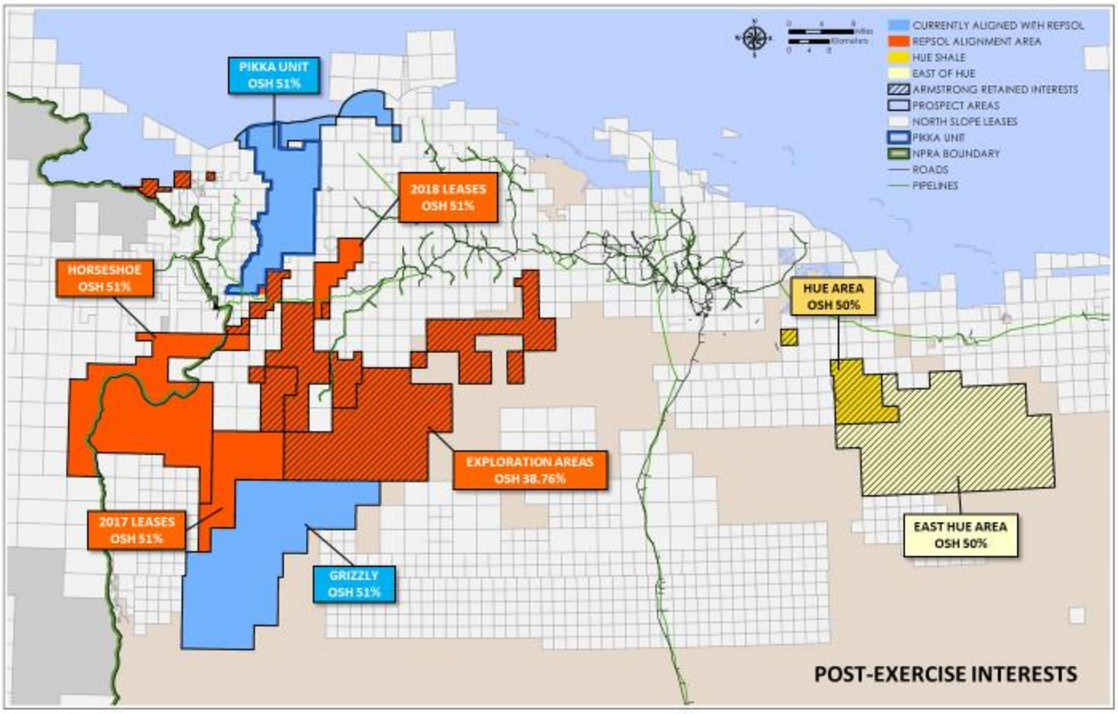
Following the success of the Pikka Unit drilling, combined with the progress on the development plan, exercising the Option to acquire the remaining Armstrong interests is a logical and value-accretive step. I am confident this decision will deliver major benefits to the Company.

The additional exposure to high value interests in Alaska, combined with the strengthened relationship with Repsol, positions Oil Search well for long-term success in Alaska."

PETER BOTTEN, AC, CBE

Managing Director

Alaska Lease Map



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