

FOURTH QUARTER REPORT FOR THE PERIOD ENDED 31 DECEMBER 2019

28 JANUARY 2019



ASX: OSH | ADR: OISHY | PNGX: OSH

RECORD YEAR FOR PNG LNG

	4Q 2019	3Q 2019	% CHANGE	FY 2019	FY 2018	% CHANGE
Total production (mmboe)	7.01	6.81	+3%	27.95	25.21	+11%
Total sales (mmboe)	7.92	6.47	+22%	27.79	25.02	+11%
Total revenue (US\$m)	446.7	361.1	+24%	1,584.8	1,535.8	+3%

HIGHLIGHTS

❖ 24% increase in fourth quarter revenue

Total production net to Oil Search for the fourth quarter of 2019 was 7.0 million barrels of oil equivalent (mmboe), 3% higher than in the previous quarter. The PNG LNG Project contributed 6.3 mmboe net to Oil Search for the quarter, based on an annualised gross production rate of 8.5 million tonnes per annum (MTPA).

Fourth quarter revenue of US\$446.7 million was 24% higher than in the third quarter, reflecting the recovery in production, timing of shipments and higher realised oil and condensate prices.

❖ Record PNG LNG production of 8.5 MT (gross) for the 2019 full year

The stronger final quarter took 2019 full year production to 27.9 mmboe, in line with the Company's 2019 revised guidance. PNG LNG achieved a record gross production of 8.5 MT, 2% higher than the previous record reached in 2017. This was despite volumes being impacted by scheduled plant maintenance in the second quarter of 2019 and a short curtailment of production in the third quarter, while repairs were made to the Kumul Marine Terminal offshore liquids loading facility. Total revenue in 2019 was 3% higher than in 2018, with an 11% increase in sales partially offset by lower average realised hydrocarbon prices.

❖ Papua LNG Project legislative changes passed, P'nyang discussions continue

Ten legislative changes required for the Papua LNG Project Gas Agreement were passed during the quarter, while detailed discussions took place between the PRL 3 (P'nyang) Joint Venture and the PNG Government on terms for the P'nyang field development. Agreement on these terms was not reached by the end of 2019, which was the targeted timeframe. However, negotiations recommenced in early January and are ongoing, with all parties working to reach an equitable outcome.

❖ Pikka Unit development FEED receives Oil Search Board approval

In mid-December, the Oil Search Board approved entry into the Front-End Engineering and Design (FEED) phase for the Pikka Unit Development on Alaska's North Slope. FEED entry is subject to joint venture approval, which is expected in early 2020. During FEED, detailed technical requirements and engineered designs will be finalised and long-lead items, including pipeline and production-related equipment and infrastructure, will be ordered. The Company also finalised important agreements with North Slope Borough Assembly and Kuukpik Corporation, the village corporation and business representative for the community of Nuiqsut.

❖ Independent reserve auditor certifies 46% increase in Pikka Unit resource

Independent reserve auditor, Ryder Scott, has certified gross 2C contingent recoverable oil resources of 728 million barrels for the Pikka Unit Development, 46% higher than Oil Search's acquisition case. Together with the Company's higher equity following the exercise of the Armstrong Option in June 2019, Oil Search's net 2C contingent recoverable oil resources in the Pikka Unit have increased by 192%, to 371 million barrels. Plans to sell up to a 15% interest in the project and other Alaskan leases ahead of a Final Investment Decision in the second half of 2020 are progressing well.

❖ Alaskan winter season activities ahead of schedule

The North Slope two well/two rig exploration drilling programme and construction activities to support the proposed Pikka Unit Development are progressing as planned. Mitquq 1 has penetrated the primary Nanushuk objective, with data collected to date indicating a saturated, porous, 60 metre net hydrocarbon column. Testing to determine well deliverability is expected to take place in late March/early April. The Stirrup 1 exploration well spudded on 27 January, while gravel laying to support the construction of roads and well pads for the Pikka project has also commenced.

❖ Liquidity position

Oil Search ended the fourth quarter with liquidity of US\$1.15 billion, comprising US\$396.2 million in cash and US\$755.7 million in undrawn credit facilities, similar to liquidity at the end of September 2019. Pre-FEED, exploration and development activities in PNG and Alaska, as well as a scheduled PNG LNG project finance principal repayment, were funded predominantly out of cash flows from operations.

❖ COMMENTING ON THE FOURTH QUARTER AND THE 2019 FULL YEAR, OIL SEARCH MANAGING DIRECTOR, PETER BOTTEN, SAID:

"Total oil and gas production for the fourth quarter was 7.0 mmbbl, 3% higher than the previous quarter, which was affected by the curtailment of production following damage to one of the mooring chains at the offshore liquids loading facility in the Gulf of Papua. Volumes from the Kutubu and Moran fields were gradually restored over the quarter, following completion of repairs to the loading facility in October.

Oil Search generated US\$446.7 million of revenue during the quarter, up 24% on the third quarter. This reflected higher production, the timing of shipments, with two LNG cargoes on the water at the end of the quarter compared to three at the end of September, together with improved realised oil and condensate prices.

Total production for the 2019 full year was 27.9 mmbbl, within the revised production guidance of 27 – 29 mmbbl. The PNG LNG Project produced 8.5 MT (gross) during 2019, the highest annual production since the Project commenced operations in 2014. The average realised oil and condensate price for the year of US\$62.86 per barrel was 11% lower than in 2018, while average LNG and gas prices fell 5% to US\$9.58 per mmbtu. Notwithstanding the weaker oil and LNG price environment, 2019 total revenue was 3% higher than in 2018, at US\$1.58 billion.

The Company ended the year with liquidity of US\$1.15 billion, comprising US\$396.2 million in cash and US\$755.7 million in undrawn corporate facilities."

Papua LNG Project legislative changes passed and P'nyang negotiations extended

"In mid-October, ten legislative amendments relating to the PRL 15 (Papua) Gas Agreement were passed by the PNG Parliament. In addition, discussions between the PRL 3 (P'nyang) Joint Venture and the PNG Government on the terms of the P'nyang Gas Agreement continued. The terms were not finalised by the end of 2019, which was the targeted timeframe. However, negotiations recommenced early in 2020 and remain ongoing, with all parties striving to reach an equitable solution.

Key commercial agreements and pre-FEED activities for the three-train integrated development are all largely complete and, subject to the completion of the P'nyang Gas Agreement, the joint venture participants are ready to progress the three-train LNG expansion into the FEED phase.

Discussions with potential LNG customers in Asia continued during the quarter, with continued interest expressed by the market in contracting additional LNG volumes from PNG. However, we do not anticipate making any further tangible progress until the joint ventures enter FEED on the expansion project.”

Oil Search Board approves Pikka Unit FEED entry, gross resources increase 46%

“Following the completion of comprehensive pre-FEED activities, in December the Oil Search Board approved entry into the FEED phase for the Pikka Unit development, subject to joint venture approval. FEED activities will include completing the detailed engineering design and ordering long-lead items such as pipeline and production-related equipment and infrastructure. The early production system will target production of up to 30,000 barrels of oil per day (bopd), beginning in late 2022. The full field development currently includes drilling more than 100 wells from three wells pads, with plateau production of up to 135,000 bopd, processed through a new Nanushuk Central Processing Facility that is targeted to come onstream in late 2024. A Final Investment Decision is expected in the second half of 2020, which allows sufficient time to further optimise the basis of design and overall project economics following the recent material resource upgrade.

As highlighted in our ASX release on 18 December, reserve auditor, Ryder Scott, completed an independent assessment of the resources in the Pikka Unit development during the quarter, taking into account all the new data that has been gathered on the field over 2019. Certified gross 2C contingent recoverable oil resources have increased by 46%, to 728 million barrels. Together with our higher equity interest of 51% following the exercise of the Armstrong Option in June, Oil Search's net 2C contingent recoverable resources for the Pikka Unit have risen from 127 million barrels to 371 million barrels. The certified resources relate only to the current Pikka Unit development plan and do not include other potential resources within the Pikka Unit or extensions into other adjacent Oil Search leases, which are currently being evaluated further.

Plans to sell up to a 15% interest in the project and other Alaskan leases are progressing well. The Company has engaged an investment bank to support the sell-down process and a virtual data room for interested parties will be opened early in 2020, with a sale targeted for the second half of 2020.”

Alaskan stakeholder support and delivery of key agreements

“During the quarter, the Company reached significant milestones with local communities and government authorities of the Alaskan North Slope. A landmark Land Use Agreement was signed in mid-December with the Kuukpik Corporation, the representative native corporation and landowner for Nuiqsut. This agreement ensures that the Pikka Unit development will progress in a balanced and environmentally responsible manner, with consideration for the subsistence lifestyle of local communities. The North Slope Borough Assembly subsequently approved the Master Plan for the development and made amendments to the Borough zoning map. The amendments re-zone the land to a Resource Development District, allowing the construction of the infrastructure needed to support the Pikka Unit Development.”

2019/2020 Alaska winter programme underway

“This winter's two well/two rig exploration programme in the Pikka East and Horseshoe Blocks on the Alaskan North Slope began in late November with the construction of ice roads. Towards the end of December, the road to Pikka East was completed, the Nabors 7ES rig was mobilised to site and Oil Search commenced drilling the Mitquq 1 exploration well. In January, the well, located approximately nine kilometres (six miles) east of the planned Nanushuk Central Processing Facility, penetrated the primary objective, a Nanushuk reservoir interval (separate from the Pikka Development Nanushuk reservoir) and wireline logs and pressure and fluid sample data were acquired. Preliminary analysis of this data has indicated a 60 metre net hydrocarbon column within the Nanushuk interval. The forward plan

is to drill deeper, to evaluate the Alpine C secondary reservoir objective, and then side-track the well to appraise the Nanushuk discovery. A flow test will be conducted to determine deliverability, with results of the test expected to be known in late March/early April. If testing is successful, the resource could provide high value tie-back volumes to the planned Pikka Unit infrastructure.

Following the construction of the Stirrup ice road and well pad and mobilisation of the rig to site, the Stirrup exploration well spudded on 27 January. Stirrup 1 is targeting a Nanushuk formation prospect south-west of the Pikka Unit development area. If successful, this well would also be flow tested, subject to time limitations associated with operating on the ice. The well results could help determine the viability of a standalone processing facility within the Horseshoe Block.

Gravel laying operations have commenced on the road to the Pikka ND-B well pad and other early civil works required for the Pikka project. The planned winter development work includes laying more than 1.1 million cubic metres (1.4 million cubic yards) of gravel and the construction of more than 18 kilometres (11 miles) of gravel roads, 27 hectares (56 acres) of gravel pads and a 59 metre (192-foot) bridge.”

Successful results from PNG oil field optimisation programme

“During the quarter, Oil Search continued the production optimisation programme in the Kutubu and Moran fields, which is designed to cost-effectively mitigate oil production decline rates and extend the life of our mature oil fields in PNG.

The Moran 15 ST2 appraisal/development well was successfully commissioned in December, with initial flow rates of approximately 2,000 bopd. The UDT 15 well in the Kutubu field is currently being commissioned and is expected to commence full production in the first quarter of 2020. The Moran 9 ST4 and the Moran 4 gas injector, both of which were worked over in 2019, have now commenced oil production and gas injection, respectively. Consequently, Moran production is expected to ramp up through the first quarter of 2020.

The IDT D well, targeting the lagifu sands in the Kutubu field, is planned to spud in the second quarter of 2020, following the completion of the Gobe Footwall 1 ST1 exploration well.”

Gobe Footwall exploration well drilling ahead

“The Gobe Footwall exploration well commenced drilling in November 2019. The well, which is being drilled from a Gobe Main well pad, is presently at a depth of 3,500 metres and preparing to drill ahead towards the target lagifu and Toro reservoir objectives. If successful, the well could be tied into the existing Gobe production facilities, extending the life of the Gobe fields and consequently deferring field abandonment.”

Port Moresby power station commences operation

“In October, NiuPower Ltd, an entity held 50:50 between Oil Search and Kumul Petroleum, was granted a production licence to commence operations at its Port Moresby gas-fired power station. At the end of the year, the power station, which is located adjacent to, and uses gas from, the PNG LNG Project, was providing 10 megawatts (MW) of power to the Port Moresby grid.

The power plant is expected to ramp up to the full dispatch capacity of 58 megawatts in 2020, following the planned construction of a new 80MW transmission line from the power station to Gerehu Stage 6. The 58 MW gas-fired power plant aims to produce the cheapest power on offer in Port Moresby and will result in both substantial cost savings for the electricity supplier, PNG Power, and environmental benefits.”

Managing Director transition

“Plans for the transition of the Managing Director role to Keiran Wulff are progressing well, with the transfer of responsibilities on track for the formal handover on 25 February.”

❖ GUIDANCE FOR THE 2019 FULL YEAR

“The Company’s financial results for the year to 31 December 2019 will be released to the market on Tuesday 25 February 2020.

Guidance for the full year results is as follows:

- **Unit production costs:** Within the US\$12.00– 13.00/boe guidance range
- **Depreciation and amortisation charges:** At the upper end of the US\$12.00 – 13.00/boe guidance range
- **Other operating cost:** Slightly above the prior guidance range of US\$140 - 150 million, mainly due to inventory movements and higher AGX pre-FEED costs (Note: other operating costs include Hides GTE gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, inventory movements, corporate and business development and power)
- **Net financing charges:** US\$225 – 235 million (primarily PNG LNG Project borrowing costs)

The guidance is subject to the finalisation of the financial statements, Board review and the year-end audit currently underway.”

❖ GUIDANCE FOR 2020

Year to December	2020 GUIDANCE
Production	
Oil Search operated (PNG oil and gas) ^{2,3} (mmboe)	3 - 5
PNG LNG Project	
<i>LNG (bcf)</i>	108 – 110
<i>Power (bcf)</i>	1 – 2
<i>Liquids (mmbbl)</i>	2.9 – 3.2
Total PNG LNG Project ² (mmboe)	24 - 25
Total production (mmboe)	27.5 – 29.5
Operating costs	
Production costs (US\$ per boe)	11.0 - 12.0
Other operating costs ⁴ (US\$m)	130 – 150
Depreciation and amortisation (US\$ per boe)	12.0 -13.0

1. Numbers may not add due to rounding.
2. Gas volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search’s reserves portfolio, using the actual calorific value of each gas volume at its point of sale.
3. Includes SE Gobe gas sales exported to the PNG LNG Project (OSH – 22.34%).
4. Includes gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, power expense, corporate administration costs (including business development), expenditure related to inventory movements and other expenses.

“Production in 2020 is forecast to be between 27.5 and 29.5 mmboe. The PNG LNG Project continues to perform strongly and despite planned major turbine maintenance work to one train in the second quarter (as noted in the PNG field trip presentation released to the ASX on 25 November 2019), volumes are expected to be similar to 2019 levels. Maintenance work on the turbine on the second train is scheduled for 2021.

Oil Search-operated production is forecast to increase following the return to service of the Kutubu and Moran wells shut-in by the loading facility issue, completion of work to reinstate residual production impacted by the 2018 earthquake and a successful in-field workover and drilling programme in 2019, with one further development well planned to be

drilled in 2020. Unit production costs are expected to be lower than in 2019, which were impacted by repair costs to the offshore liquids loading facility, ongoing earthquake recovery costs and lower production.

Capital cost guidance for 2020 will be provided to the market on Tuesday 25 February 2020 in the 2019 full year results release.”

❖ PRODUCTION SUMMARY¹

	QUARTER END			FULL YEAR	
	DEC 2019	SEP 2019	DEC 2018	DEC 2019	DEC 2018
PNG LNG Project²					
LNG (mmscf)	27,970	27,336	28,479	110,768	96,826
Gas to power (mmscf) ³	137	166	171	598	674
Condensate ('000 bbls)	710	703	771	2,852	2,678
Naphtha ('000 bbls)	74	75	80	305	276
Total PNG LNG Project (mmboe)	6.295	6.170	6.469	24.994	22.071
PNG crude oil production ('000 bbls)					
Kutubu	317	289	469	1,392	1,633
Moran	9	2	116	132	310
Gobe Main	3	3	4	13	15
SE Gobe	7	7	11	33	35
Total oil production ('000 bbls)	337	302	598	1,571	1,993
SE Gobe gas to PNG LNG (mmscf) ⁴	403	258	375	1,470	1,400
Hides GTE Refinery Products⁵					
Sales gas (mmscf)	1,376	1,336	1,369	5,088	4,000
Liquids ('000 bbls)	25	25	28	96	83
Total oil, condensate and naphtha (mmbbl)	1.146	1.105	1.477	4.825	5.030
Total LNG and gas (mmscf)	29,886	29,096	30,395	117,923	102,899
Total barrels of oil equivalent (mmboe)⁶	7.006	6.810	7.437	27.947	25.206

- Numbers may not add due to rounding.
- Production net of fuel, flare, shrinkage and SE Gobe wet gas.
- Gas to power had previously been accounted for as losses within the PNG LNG Plant.
- SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare and naphtha.
- Hides GTE production is reported on a 100% basis for gas and associated liquids purchased by the Hides (GTE) Project Participant (Oil Search 100%) for processing and sale to the Porgera power station. Sales gas volumes are inclusive of approximately 2% unrecovered process gas.
- Gas and LNG volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. Minor variations to the conversion factors may occur over time.

SALES SUMMARY¹

	QUARTER END			FULL YEAR	
	DEC 2019	SEP 2019	DEC 2018	DEC 2019	DEC 2018
Sales data					
PNG LNG PROJECT					
LNG (Billion Btu)	34,043	29,595	34,785	124,589	111,008
Condensate ('000 bbls)	1,086	602	801	2,913	2,635
Naphtha ('000 bbls)	93	64	93	343	295
PNG oil ('000 bbls)	494	358	575	1,723	1,923
HIDES GTE					
Gas (Billion Btu) ²	1,478	1,434	1,468	5,460	4,286
Condensate & refined products ('000 bbls) ³	38	22	31	103	82
Total barrels of oil equivalent sold ('000 boe)⁴	7,920	6,471	7,818	27,785	25,022
Financial data (US\$ million)					
LNG and gas sales	336.5	293.1	396.9	1,246.3	1,160.1
Oil and condensate sales	99.2	58.0	90.1	295.5	326.0
Other revenue ⁵	11.1	10.1	16.1	42.9	49.7
Total operating revenue	446.7	361.1	503.1	1,584.8	1,535.8
Average realised oil and condensate price (US\$ per bbl) ⁶	61.71	59.54	64.45	62.86	70.65
Average realised LNG and gas price (US\$ per mmBtu)	9.47	9.44	10.96	9.58	10.06
Cash (US\$m)	396.2	547.3	600.6	396.2	600.6
Debt (US\$m) ⁷					
PNG LNG financing	2,939.4	3,119.3	3,293.6	2,939.4	3,293.6
Corporate revolving facilities ⁸	440.0	470.0	-	440.0	-
Net debt (US\$m)	2,983.2	3,042.0	2,693.0	2,983.2	2,693.0

- Numbers may not add due to rounding.
- Relates to gas delivered under the Hides GTE Gas Sales Agreement.
- Relates to refined products delivered under the Hides GTE Gas Sales Agreement or sold in the domestic market and condensate.
- Gas and LNG sales volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale and asset specific heating values. Minor variations to the conversion factors may occur over time.
- Other revenue consists largely of rig lease income, infrastructure tariffs and electricity, refinery and naphtha sales.
- Average realised price for Kutubu Blend including PNG LNG condensate.
- Excludes lease liabilities recorded as borrowings.
- As at 31 December 2019, the Company's corporate revolving facilities totaled US\$1.2 billion, of which US\$440 million was drawn as borrowings and US\$4.3 million utilised as bank guarantees.

❖ FOURTH QUARTER PRODUCTION PERFORMANCE¹

	QUARTER END		QUARTER END		% CHANGE	
	DEC 2019		SEP 2019			
	Gross daily production	Net to OSH	Gross daily production	Net to OSH	Gross daily production	Net to OSH
	<i>mmscf/d</i>	<i>mmscf</i>	<i>mmscf/d</i>	<i>mmscf</i>		
Gas production						
PNG LNG Project						
LNG ²	1,048	27,970	1,024	27,336	2%	2%
Gas to power	5	137	6	166	-18%	-18%
SE Gobe gas to PNG LNG ³	20	403	13	258	56%	56%
Hides GTE gas ⁴	15	1,376	15	1,336	3%	3%
Total gas	1,088	29,886	1,058	29,096	3%	3%
Oil and liquids production			<i>bopd</i>	<i>mmbbl</i>		
Kutubu	5,743	0.317	5,240	0.289	10%	10%
Moran	201	0.009	48	0.002	322%	322%
Gobe Main	342	0.003	370	0.003	-7%	-7%
SE Gobe ³	357	0.007	357	0.007	0%	0%
Total PNG oil	6,643	0.337	6,014	0.302	10%	11%
Hides GTE liquids ³	271	0.025	276	0.025	-2%	-2%
PNG LNG liquids	29,380	0.784	29,142	0.778	1%	1%
Total liquids	36,294	1.146	35,432	1.105	2%	4%
			<i>boepd</i>	<i>mmboe</i>		
Total production⁵	249,614	7.006	242,835	6.810	3%	3%

- Numbers may not add due to rounding. Where required, adjustments are taken in the affected production period.
- Production net of fuel, flare and shrinkage and SE Gobe wet gas.
- SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare and naphtha.
- Hides GTE production is reported on a 100% basis for gas and associated liquids purchased by the Hides (GTE) Project Participant (Oil Search 100%) for processing and sale to the Porgera power station. Sales gas volumes are inclusive of approximately 2% unrecovered process gas.
- Gas and LNG volumes have been converted to barrels of oil equivalent using an Oil Search specific conversion factor of 5,100 scf = 1 boe, which represents a weighted average, based on Oil Search's reserves portfolio, using the actual calorific value of each gas volume at its point of sale. Minor variations to the conversion factors may occur over time.

Fourth quarter operated oil production was 11% higher than in the previous quarter.

During the period, repairs were successfully completed to the damaged chain on the mooring buoy at the Oil Search-operated offshore liquids loading facility. In conjunction with the repair work, Oil Search undertook repairs to the other five chains, to mitigate the risk of potential future chain failures.

With preferential access to ullage given to PNG LNG condensate while the repairs took place, liquids export restrictions on oil production were lifted in late October and production from Kutubu and Moran was then brought back online progressively. Late in the quarter, the Moran 15 ST2 development well was successfully commissioned and tied-in to the Agogo Processing Facility. Initial production rates of approximately 2,000 barrels of oil per day (bopd) from Moran 15 ST2 and the pending tie-in of UDT 15 and Moran 9 ST4 are expected to result in a lift in oil volumes during the first quarter of 2020.

In late December, Oil Search and the NW Moran community reached a landowner agreement, allowing the Company to recommence return to service activities. The agreement marks a significant milestone, with a ceremony held in Moro to signify the return to work. Access and return to service activities were previously halted due to tribal conflicts within the area, unrelated to the Company's activities. Production from the NW Moran area is expected to be brought back on-stream towards the end of 2020, following the completion of extensive earthquake-related repairs.

EXPLORATION AND APPRAISAL ACTIVITY

Gas

Highlands

During the quarter, Oil Search commenced the acquisition of a 2D seismic programme covering approximately 100 kilometres across PDL 1, PDL 9, PPL 402 and PPL 545 in the PNG Highlands. Seismic acquisition will continue through the first half of 2020 and the data acquired will help to constrain the Muruk resource and define material prospects adjacent to Muruk.

Forelands / Gulf

Oil Search spudded the Gobe Footwall 1 / ST1 exploration well in PDL 4 on 12 November 2019. The well is targeting a footwall structure west of the producing Gobe Main field, identified on seismic acquisition acquired in late 2018. The well reached a depth of 2,914 metres in December and, in order to reach the footwall objective, was plugged back and a sidetrack kicked off from 1,230 metres. The well is currently at a depth of 3,500 metres. Data obtained to date indicates the Gobe Footwall structure is similar to the Agogo and Hedinia footwall structures.

The forward plan is to run a 7" liner before drilling ahead in a 6" hole into the target lagifu and Toro reservoirs.

Oil

Alaska

The Mitquq 1 exploration well commenced drilling on 25 December 2019 AKST, approximately 10 kilometres (6 miles) east of the future Pikka ND-A pad. The well penetrated the primary Nanushuk objective, as predicted, and based on preliminary evaluation of wireline logs, pressure and fluid sample data, intersected 60 metres (197 feet) of net hydrocarbon pay, comprising five metres (17 feet) of net gas pay and 55 metres (180 feet) of net oil pay. The forward plan is to drill ahead to the Alpine C secondary objective, prior to drilling a sidetrack, to penetrate the Nanushuk in an offset location to the current wellbore. The well will then be flow tested, to determine deliverability. In the event of a successful flow test, the prospect has the potential to be a high value tie-back to the future Pikka Unit infrastructure.

The second well of the Winter 2019/20 exploration programme, the Stirrup 1 exploration well, spudded on 27 January 2020 and will test the potential for additional fairways within the Horseshoe Block, south-west of the Pikka Unit. If successful, the resource could underpin a standalone processing facility within the Horseshoe acreage.

DRILLING CALENDAR¹

Subject to joint venture and government approvals, the 2020 exploration and appraisal programme is as follows:

WELL	WELL TYPE	LICENCE	OSH INTEREST	TIMING
PNG				
Gobe Footwall 1 ST1	Exploration	PDL 4	65.5%	Drilling
IDT D	Development	PDL 2	60.0%	2Q20
ALASKA				
Mitquq 1	Exploration	Pikka East	51.0%	Drilling
Stirrup 1	Exploration	Horseshoe	51.0%	Drilling

1. Well locations and timing subject to change.

FINANCIAL PERFORMANCE

Sales revenues

During the quarter, 34,043 billion Btu (net) of LNG from the PNG LNG Project was sold, 15% higher than in the third quarter of 2019. A total of 30 LNG cargoes were delivered, comprising 28 cargoes sold under contract (including five under mid-term Sale and Purchase agreements) and two on the spot market, compared to 26 total cargoes sold in the previous quarter. Two cargoes were on the water at the end of the period, compared to three at the end of the third quarter. Oil, condensate and naphtha sales volumes for the period totaled 1.67 mmbbl, 64% higher than liquid sales in the previous quarter, when shipping was impacted by damage to the offshore liquids loading facility. Five cargoes of Kutubu Blend and three naphtha cargoes were sold during the period.

The average oil and condensate price realised during the quarter was US\$61.71 per barrel, 4% higher than in the third quarter, reflecting a stronger quarter for global oil prices. The average price realised for LNG and gas sales was US\$9.47/mmBtu, in line with the previous quarter. The Company did not undertake any hedging transactions during the period and remains unhedged.

Total sales revenue from LNG, gas, oil and condensate for the quarter rose 24% to US\$435.7 million, while other revenue, comprising rig lease income, infrastructure tariffs, electricity, refinery and naphtha sales, increased from US\$10.1 million to US\$11.1 million, predominantly due to higher naphtha sales volumes, partially offset by lower rig income.

Capital management

At 31 December 2019, Oil Search had liquidity of US\$1.15 billion, comprising US\$396.2 million in cash (US\$547.3 million at the end of the third quarter) and US\$755.7 million in undrawn corporate credit facilities. During the quarter, the Company made net repayments of US\$30.0 million under its revolving credit facilities and made a scheduled PNG Project finance principal repayment of US\$179.9 million. Oil Search ended the period with US\$3.38 billion of debt outstanding, of which US\$2.94 billion related to the PNG LNG project finance facility and US\$440 million to corporate credit facilities, compared to a total of US\$3.59 billion at the end of September 2019.

Capital expenditure

During the quarter, Oil Search spent US\$116.3 million on exploration and evaluation expenditure activities. This primarily related to pre-FEED activities for the Pikka Unit Development, winter drilling programme, seismic acquisition and lease purchases in Alaska (US\$61.4 million), as well as the Gobe Footwall exploration well (US\$24.0 million) and pre-FEED activities for LNG expansion (US\$17.5 million) in PNG.

US\$10.6 million of exploration costs were expensed, mainly comprising seismic acquisition costs and geological, geophysical and general and administration expenses in PNG and Alaska.

Development expenditure for the fourth quarter totaled US\$22.9 million, which included US\$20.9 million spent on the PNG LNG Project. Expenditure on property, plant and equipment was US\$14.8 million, mainly related to the ongoing implementation of the Company's new Enterprise Resource Planning system.



SUMMARY OF INVESTMENT EXPENDITURE AND EXPLORATION AND EVALUATION EXPENSED¹

	QUARTER END			FULL YEAR	
	DEC 2019	SEP 2019	DEC 2018	DEC 2019	DEC 2018
Investment Expenditure					
Exploration & Evaluation					
PNG	54.9	26.0	45.9	159.9	231.0
USA	61.4	27.3	47.4	539.8 ⁵	483.5 ⁴
MENA	-	0.1	(0.7)	0.3	0.3
Total Exploration & Evaluation	116.3	53.4	92.6	700.0	714.8
Development					
PNG LNG	20.9	13.2	10.6	45.0	36.8
Biomass	2.0	2.6	2.3	8.8	10.7
Total Development	22.9	15.8	12.9	53.8	47.5
Production	21.1	32.2	10.5	81.0	21.7
PP&E	14.8	8.5	22.0	35.8	51.4
Total	175.2	109.9	138.0	870.7	835.4
Exploration & Evaluation Expenditure Expensed^{2,3}					
PNG	2.1	6.6	20.1	24.4	51.8
USA	8.4	5.4	10.7	22.5	14.3
MENA	-	0.1	(0.8)	0.3	0.3
Total current year expenditures expensed	10.6	12.0	30.0	47.2	66.4
Prior year expenditures expensed	-	-	-	-	-
Total	10.6	12.0	30.0	47.2	66.4

1. Numbers may not add up due to rounding.

2. Exploration costs expensed includes unsuccessful wells, exploration seismic and certain costs related to administration costs and geological and geophysical activities. Costs related to permit acquisitions, the drilling of wells that have resulted in a successful discovery of potentially economically recoverable hydrocarbons and appraisal and evaluation of discovered resources are capitalised.

3. Numbers do not include expensed business development costs of US\$1.2 million in the fourth quarter of 2019 (US\$1.4 million in the third quarter and US\$5.5 million in 2019).

4. Includes Alaska acquisition costs of US\$415 million.

5. Includes US\$450 million Alaska acquisition costs on exercising the Armstrong / GMT Option, net of US\$70.5 million farm-down proceeds.

Gas/LNG Glossary and Conversion Factors Used^{1,2}

Mmscf	Million (10 ⁶) standard cubic feet
mmBtu	Million (10 ⁶) British thermal units
Billion Btu	Billion (10 ⁹) British thermal units
MTPA (LNG)	Million tonnes per annum
Boe	Barrel of oil equivalent
1 mmscf LNG	Approximately 1.10 - 1.14 billion Btu
1 boe	Approximately 5,100 standard cubic feet
1 tonne LNG	Approximately 52 mmBtu

1. Minor variations in conversion factors may occur over time, due to changes in gas composition.
2. Conversion factors used for forecasting purposes only.

For more information regarding this report, please contact:

Ann Diamant

Senior Vice President, Investor Relations

Tel: +612 8207 8440

Mob: +61 407 483 128

Chris Morbey

Investor Relations Manager

Tel: +612 8238 8468

Mob: +61 448 151 450

This ASX announcement was authorised for release by the Oil Search Board of Directors

DISCLAIMER

This report contains some forward-looking statements which are subject to particular risks associated with the oil and gas industry. Actual outcomes could differ materially due to a range of operational, cost and revenue factors and uncertainties including oil and gas prices, changes in market demand for oil and gas, currency fluctuations, drilling results, field performance, the timing of well workovers and field development, reserves depletion and fiscal and other government issues and approvals.