



# Oil Search

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## Oil Search acquires world class oil assets in the prolific Alaska North Slope

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1 November 2017

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### HIGHLIGHTS

- ❖ Oil Search has acquired interests in world class, Tier 1 oil assets with material growth potential in the Alaska North Slope, a well-established, prolific oil province with an attractive fiscal regime.
- ❖ These assets complement the Company's existing high quality gas assets in Papua New Guinea and balance Oil Search's gas dominated portfolio.
- ❖ The acquisition represents a measured entry into an area that has the potential to grow materially through the development of discovered resources.
- ❖ The acquisition payment of US\$400 million represents a compelling, low cost entry, made at an attractive time in the commodity cycle. The purchase price equates to US\$3.1 per barrel, with potential resource upside reducing the cost to US\$1.3 per barrel. This compares very favourably with global acquisition benchmarks.
- ❖ The acquisition, exploration, appraisal and development costs will be fully covered by existing cash, cash flows and dedicated additional financing facilities, with no impact to our commitment or ability to support LNG expansion in PNG or our present dividend policy.
- ❖ Interests include the Nanushuk oil field, one of the United States' largest conventional oil discoveries in 30 years and one of the largest globally in the last three years. The acquisition has been made on the basis of a discovered resource of approximately 500 million barrels. However, Joint Venture partner estimates are more than one billion barrels, representing material upside.
- ❖ Further appraisal drilling will take place on the Nanushuk field in early 2018, after which an independent resource audit will be obtained, with potential to add more than 125 million barrels net to Oil Search's booked resources.
- ❖ There is a clear route to rapid commercialisation of this field, with an ability to optimise development costs by utilising existing infrastructure. Development plans target gross production rates of 80,000 - 120,000 bopd at plateau for the first phase of development (7 - 11 million barrels pa net to Oil Search), with first production in 2023.
- ❖ Significant development upside has been identified in the exploration area around the Nanushuk discovery, which can build further materiality to the portfolio.
- ❖ Oil Search has negotiated an option to double its equity in these assets for US\$450 million, providing the flexibility to increase ownership, subject to appraisal results, as well as the ability to sell down to a strategic partner to create further value.

- ❖ **Oil Search will assume operatorship in June 2018. The Company will build Alaska North Slope operating capabilities by partnering with Armstrong Energy LLC, a local Alaskan specialist, and through a cooperation agreement with Halliburton, the largest oil field service provider on the Alaska North Slope.**
- ❖ **Oil Search has also agreed with Armstrong Energy LLC to jointly explore and develop other opportunities in the area.**

Oil Search has signed an agreement to acquire a number of oil assets in the Alaska North Slope from privately-owned companies Armstrong Energy LLC and GMT Exploration Company LLC. The assets include a 25.5% interest in the Pikka Unit and adjacent exploration acreage and a 37.5% interest in the Horseshoe Block. These leases contain approximately 500 million barrel (gross) in the Nanushuk and satellite oil fields, with Nanushuk being one of the largest conventional oil fields discovered in the US in more than 30 years.

The acquisition will provide Oil Search with world class oil assets immediately adjacent to existing infrastructure. The Alaska North Slope is an established, prolific oil producing province, in the world's largest developed economy, with an attractive fiscal regime. The assets complement the Company's existing top quartile, high returning PNG gas portfolio and, with significant growth opportunities, have the potential to become, over time, a material business for Oil Search, of a scale equivalent to its PNG assets.

The terms of the acquisition are as follows:

- ❖ The purchase of a 25.5% interest in the Pikka Unit and adjacent exploration acreage, 37.5% interest in the Horseshoe Block and 37.5% in the Hue Shale, for US\$400 million.
- ❖ An option, exercisable at Oil Search's discretion until 30 June 2019, to purchase all of Armstrong and GMT's remaining interest in the Pikka Unit and the Horseshoe Block (25.5 % and 37.5% interest respectively) as well as an additional 25.5% interest in the adjacent exploration acreage and 37.5% in the Hue Shale, for US\$450 million.
- ❖ Oil Search will carry Armstrong and GMT's share of the 2018/19 appraisal programme (approximately US\$25-30 million) if the option is not exercised by 1 June 2018.
- ❖ Oil Search will assume operatorship on 1 June 2018.
- ❖ Oil Search will form a long term partnership with Armstrong, leveraging its technical capabilities and experience in the identification of additional potential growth opportunities in Alaska.

Oil Search has also entered into a cooperation agreement with Halliburton, whereby Halliburton will provide resources and capability to supplement Oil Search's technical and operating skills on the ground in Alaska. Halliburton is a global leader in oil and gas services with a strong presence and expertise in Alaska and will assist Oil Search in the areas of drilling, field appraisal, development and the application of latest technologies. This cooperative approach mirrors the successful collaboration that was formed between Oil Search and Halliburton in PNG in 2003, shortly after Oil Search took over operatorship of PNG's oil fields.

The Nanushuk field, which is located adjacent to several giant producing oil fields, was discovered in 2013. To date, 19 exploration and appraisal wells have been drilled on the field, which, combined with full coverage of 3D seismic data, have delineated a giant oil resource. The acquisition has been made on the basis of a discovered resource of approximately 500 million barrels, with material prospective resource upside. Repsol S.A., which holds the balance of the interests in the Pikka Unit, exploration acreage and Horseshoe leases, currently estimates the discovered resource to be up to 1.2 billion barrels. Oil Search expects that the initial

development will target 500 million barrels of oil in the Pikka Unit, with first production anticipated in 2023 and plateau production rates of 80,000 – 120,000 barrels per day (gross).

There is also significant exploration and appraisal upside within the 2,889km<sup>2</sup> portfolio, with unrisks resource potential estimated at 1.5 billion barrels. Most of this acreage is currently unexplored.

The acquisition, which is expected to be NAV per share accretive, will be funded from Oil Search's existing cash. The Company's current liquidity is approximately US\$2 billion, comprising US\$1.2 billion of cash and US\$850 million of undrawn corporate facilities. Together with strong free cash flow from Oil Search's producing assets, the Company has the financial flexibility to fund both the LNG expansion project in PNG and the development of the Nanushuk field, while maintaining the existing dividend policy.

The acquisition is subject to standard US regulatory approvals, including approval by the Committee on Foreign Investment in the US (CFIUS). There are no pre-emptive rights associated with the purchase.

Oil Search anticipates the transaction will close by no later than early in the first quarter of 2018.

## ❖ COMMENTING ON THE TRANSACTION, OIL SEARCH MANAGING DIRECTOR, PETER BOTTEN SAID:

*“For some time, Oil Search has been seeking to acquire oil interests to complement our PNG gas assets, to create a more balanced portfolio that is less exposed to one single commodity and one country. The key challenge has been to achieve this without diluting the Company’s world class, high returning PNG assets. Utilising our existing relationships, this Alaska North Slope opportunity has been proactively pursued and an agreement structured to the benefit of all parties. The interests acquired provide a unique opportunity for Oil Search to participate in a world class, high returning, proven oil province that can add material value to the Company. The option to acquire additional equity allows us to increase our interest once appraisal drilling has taken place, as well as the potential to sell-down to a strategic third party to create further value.*”

*The Nanushuk field in the Alaska North Slope is a giant oil discovery and has been acquired at an attractive point in the commodity cycle, at a very competitive price of approximately US\$3.1 per barrel of discovered resource. This purchase price reduces to US\$1.3 per barrel if Repsol’s gross resource estimates are used. In addition, the transaction delivers significant exploration upside, providing the Company with the potential to develop, over time, a business of a similar scale to our PNG operations.*

*Our joint venture partners in these assets comprise Repsol, with whom we have a strong working relationship in PNG, and Armstrong, which has a proven 15 year track record of finding major oil accumulations in Alaska. As highlighted, Oil Search will assume the operator role in June 2018. We are in the process of establishing a separate US-based entity to manage these assets. We will be partnering with Armstrong, which has significant operating expertise in Alaska, and with Halliburton, in a cooperative arrangement similar to that which worked so successfully when Oil Search took over operatorship of the oil fields in PNG in 2003, to help us build North Slope operating capabilities and ensure a smooth transition. Oil Search looks forward to being able to apply its extensive experience of operating safely and cost effectively in challenging environments, as well as leverage its skills working with indigenous people, to these assets.*

*Based on our current oil price and development cost forecasts, the Company has more than sufficient capacity to fund the acquisition and development of Nanushuk as well as LNG expansion in PNG without the need to raise additional equity or impact our dividend policy.*

*Most importantly, this acquisition does not impact our focus or ability to deliver our exciting growth projects in PNG and is consistent with our vision to deliver top quartile returns to shareholders.”*

**PETER BOTTEN, CBE**

Managing Director

1 November 2017

**For more information regarding this report, please contact:**

**Investors and Media:**

**Ann Diamant**

**General Manager, Investor Relations and Communications**

Tel: +612 8207 8440

Mob: +61 407 483 128

**Investors:**

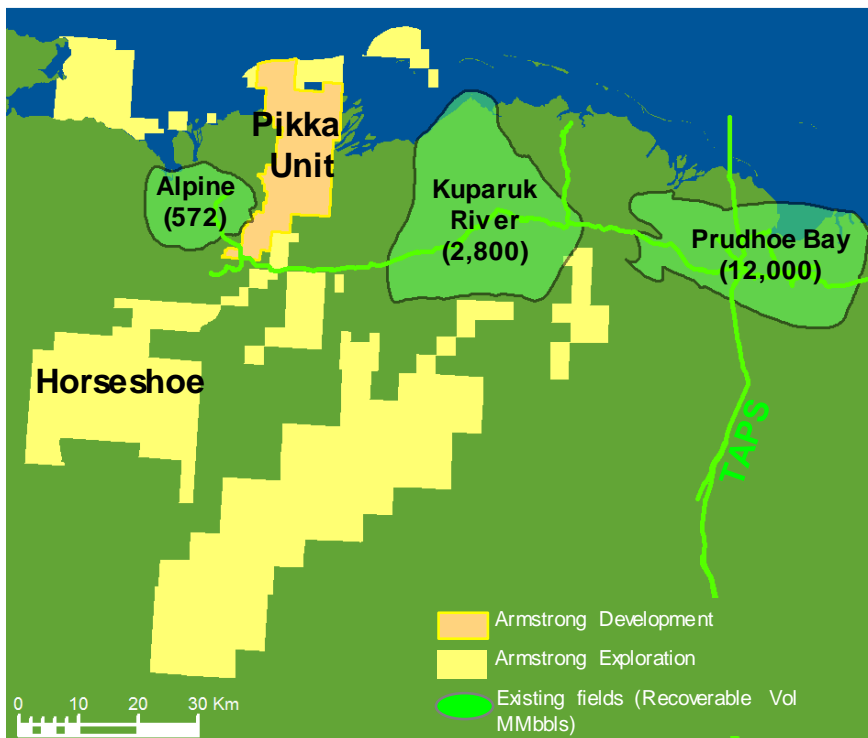
**Stephanie Chu**

**Senior Investor Relations Advisor**

Tel: +612 8207 8542

Mob: +61 481 038 179

## Location Map



- ❖ Further details on the transaction and the Alaskan assets are contained in a presentation accompanying this release.
- ❖ Oil Search engaged Goldman Sachs and Macquarie Capital as financial advisers and Baker Botts LLP as legal adviser on this transaction. Armstrong and GMT engaged Tudor, Pickering, Holt and Co. as financial advisors on this transaction.

## Resource estimate for the purpose of the transaction

The resource figures provided in this statement have been used for the purpose of completing this transaction. There is currently insufficient information available to issue a resource estimate with the appropriate categorisation and quantification of contingent resources for the acquired assets. Ongoing technical evaluation will be completed and could result in resource estimates which are more than or less than the figures provided in this statement

## Presentation & Teleconference

Oil Search will be holding a teleconference for analysts and fund managers at 10.15am AEDT today, 1 November 2017. This will be live streamed over Oil Search's website. To listen in, please log on to [www.oilsearch.com](http://www.oilsearch.com). If you experience any technical difficulties, please call: +61 2 8280 6000.

This will be available in archive form on the Oil Search website 2 – 3 hours after the completion of the presentation.

## **About Oil Search**

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Oil Search is an oil and gas exploration and development company which was established in Papua New Guinea (PNG) in 1929. Oil Search's main asset is its 29% interest in the PNG LNG Project, a world-scale liquefied natural gas (LNG) development operated by ExxonMobil PNG Limited. In addition to the PNG LNG Project, Oil Search has a 22.8% interest in the Papua LNG Project and has interests in, and operates all of, PNG's producing oil fields. Approximately 20% of PNG LNG Project gas is sourced from the Oil Search-operated oil fields.

## **About Armstrong Energy LLC**

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Armstrong Energy LLC is a privately-held Denver petroleum producer founded by Bill Armstrong and established in 1985. Armstrong has a proven track record of commercial oil and gas discoveries in California and Alaska's North Slope. Armstrong first entered the Alaska North Slope in 2002 and is currently the second largest conventional lease holder. In 2003, Armstrong successfully discovered the Ooguruk Field and later discovered the Nikaitchuq Field in 2004, selling both to ENI in 2005.

## **About GMT Exploration Company LLC**

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GMT Exploration LLC is a privately held independent oil and natural gas company, engaged in the generation, operation and development of oil and natural gas properties primarily located in Alaska, East Texas, Montana, New Mexico and Wyoming.

## **Disclaimer**

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This release also contains forward-looking statements which are subject to particular risks associated with the oil and gas industry. Oil Search Limited believes there are reasonable grounds for the expectations on which the statements are based. However, actual outcomes could differ materially due to a range of factors including oil and gas prices, demand for oil, currency fluctuations, drilling results, field performance, the timing of well work-overs and field development, reserves depletion, progress on gas commercialisation and fiscal and other government issues and approvals.