



Oil Search

Oil Search to acquire interest in PRL 15 (Elk/Antelope), providing core strategic position in future LNG developments in PNG

27 February 2014

Key Highlights

- Oil Search is to acquire a 22.835% gross interest in PRL 15, containing the Elk/Antelope gas discoveries, through the acquisition of the Pac LNG Group Companies for US\$900 million.
- The acquisition provides Oil Search with a strategic interest in the largest undeveloped gas resource in PNG with significant exploration upside. The resource has the potential to underpin a major new LNG development or LNG expansion, both of which are commercially attractive.
- As a joint venture participant in PRL 15, Oil Search will gain industry standard rights, including pre-emption and work programme voting rights, and have the ability to influence how the Elk/Antelope resource is commercialised.
- A comprehensive appraisal programme of the Elk/Antelope gas discoveries is planned to commence in 2014, followed by a certification of the resource.
- The acquisition is in line with Oil Search's strategy to aggregate gas resources to underpin LNG expansion opportunities in PNG and to develop those resources in the most capital efficient manner. The purchase also diversifies the Company's portfolio and is highly complementary to Oil Search's existing PNG assets and operating platform in PNG.
- The Company has entered into a separate Heads of Agreement, to potentially acquire an interest in a number of other exploration licences, including the Triceratops gas discovery.
- The acquisition will be funded by the placement of 149.39 million fully paid ordinary shares to the PNG Government at A\$8.20 per share. The placement will facilitate the ongoing strategic relationship between Oil Search and the PNG Government, which is supportive of the development of all PNG hydrocarbon resources, including Elk/Antelope, in the earliest practical timeframe.
- The PNG Government has entered into funding arrangements with UBS to fund the placement. This includes UBS establishing a hedge position in Oil Search of approximately A\$700 million at A\$8.20 per share. Priority in any allocation under the hedge will be given to eligible existing Oil Search shareholders.
- Oil Search looks forward to working with the PNG Government, its joint venture partners and other resource owners for the most effective development of PNG resources.

Overview of Acquisition

Oil Search has entered into an agreement to acquire the Pac LNG Group Companies ("Pac LNG"), which hold a 22.835% interest in Petroleum Retention Licence 15 (PRL 15), located in the eastern margin of the Papuan Basin in PNG. The present PRL 15 Joint Venture comprises InterOil Corporation (75.6114%), Pac LNG (22.8350%) and other interests (1.5536%).

Under the agreement, Oil Search will acquire the shares in Pac LNG for a consideration of:

- US\$900 million, payable at completion; and
- Contingent payments of US\$0.775/mcf for any certified 2C raw gas contingent resource within the Elk/Antelope fields greater than 7 tcf, applied to Oil Search's gross share before Government back-in.

The acquisition of Pac LNG is unconditional and expected to settle within 2 weeks.

Oil Search has separately entered into a binding Heads of Agreement with the Pac LNG shareholders and other parties to undertake exclusive negotiations to acquire up to 100% of their interests in four permits. These interests comprise 13.425% in exploration licences PPL 236 and PPL 238 and 11.0423% in PPL 237 and retention licence PRL 39 (which is expected to be granted soon), subject to the parties agreeing terms and satisfying any required third party approvals. PRL 39 contains the Triceratops gas discovery. The exclusivity period extends for a period of six months. The acquisition price for such licences remains to be negotiated between the parties.

Strategic Rationale for the Acquisition

Oil Search believes this acquisition will deliver significant long term shareholder value and is in line with our core strategy to aggregate gas resources to underpin LNG developments in PNG. The transaction provides the Company with the following:

- **A 22.835% gross interest in PRL 15, containing the Elk/Antelope gas discoveries, the largest undeveloped gas resource in PNG.** Oil Search estimates presently that gross Elk/Antelope 2C contingent resources are 5.3 tcf of raw gas including 75 million barrels (mmbbl) of associated liquids. Oil Search notes that Gaffney Cline & Associates (GCA), a respected global consultancy to the energy industry, has undertaken a resource certification of the Elk-Antelope fields on behalf of the sellers, which was completed in December 2013, which was considered by Oil Search during the due diligence process undertaken for the transaction. GCA reported a P50 recoverable raw gas resource of 7.0 tcf on a 100% basis before shrinkage for condensate, non-hydrocarbon compounds and field and plant fuel and flare.
- **Subject to appraisal drilling, exposure to a potential material and value accretive LNG standalone development or LNG expansion opportunity.** Up to three appraisal wells, including the proposed Antelope 4 well, are planned to be drilled on PRL 15 over the next 18 months, to prove up sufficient gas resources to support a new LNG development. As an equity partner in PRL 15, Oil Search will fund its share of future exploration and appraisal costs within PRL 15, estimated to be approximately US\$30 million during 2014. Based on Oil Search's resource estimates, a potential LNG development underpinned by PRL 15 gas would be commercially attractive on either a standalone or expansion basis. An LNG development would provide the Company with a further engine for growth, in addition to the existing potential expansion of the PNG LNG Project and a possible development of the Taza field in Kurdistan, complementing our strong core oil production in PNG.

- **Exposure to substantial exploration and appraisal upside in the licence.** A range of prospects and leads have been identified in PRL 15, with an exploration well planned to be drilled in the first half of 2015. InterOil has recently commenced a new round of drilling as part of its exploration activities in PNG. As part of this programme, Oil Search has contracted one of its rigs to InterOil for [two initial wells, with the potential for two additional wells].
- **Direct participation in the PRL 15 joint venture, which is governed by an existing joint venture operating agreement (JVOA).** The terms of the existing agreement and Pac LNG's rights are consistent with market standard petroleum JVOA for terms such as minority interest protection, work programme and capital commitments and also pre-emptive rights. This will deliver Oil Search significant influence within the joint venture and enable the Company to provide input into determining the optimal commercialisation route for the Elk/Antelope field as well as Oil Search's other undeveloped PNG gas resources.
- **An asset which is complementary to Oil Search's existing PNG interests.** PRL 15 gives the Company the opportunity to leverage its existing PNG platform and presence in the PNG community as well as its long PNG operating experience.
- **Potential to acquire an interest in a number of other exploration licences.** These licences include PRL 39, including the Triceratops gas discovery.
- **An influential role in driving future gas resource development in PNG.** The Government of PNG has expressed its support for all gas resources, including the Elk / Antelope resource, to be commercialised in the shortest practical timeframe. Oil Search will continue its engagement with all stakeholders associated with PRL 15 and other undeveloped gas resources, to facilitate the future commercialisation in the most value accretive way.
- **With the imminent start of PNG LNG cash flows, sufficient funding to fully support multiple simultaneous LNG developments.** In addition, we anticipate being able to also pay healthy dividends, with the appropriate balance between reinvestment of cash flows to finance high returning growth opportunities such as this and capital returns to shareholders, to be reviewed as part of a major Strategic Review.

Funding: Placement to Government of Papua New Guinea

Oil Search and The Independent State of Papua New Guinea (the "State") have today reached agreement under which Oil Search will undertake a placement of 149.39 million fully paid ordinary shares to the State at A\$8.20 per share. This agreement is subject to the execution of final financing documentation and the receipt of final State approvals which are expected to be received on or before 6 March 2014. Oil Search welcomes the State as a continuing long term shareholder as it maintains alignment with a key stakeholder for the Company.

To fund its acquisition of the shares in Oil Search, the State will enter into funding arrangements with UBS. As a part of this funding facility, UBS will establish a hedge position in Oil Search shares for an amount equal to approximately A\$700 million. Establishment of this hedge will be conducted via an institutional offer at A\$8.20 per share over the course of today. Oil Search has required that priority in allocations under the hedge will be given to eligible existing Oil Search shareholders.

In the unlikely event that the placement to the State does not proceed because the final regulatory and financing approvals are not received, Oil Search has also executed a standby equity subscription agreement with UBS, to raise A\$700 million by the issue of fully paid ordinary shares at a price of A\$8.20 per share.

Shares issued under either placement will rank equally with existing fully paid ordinary Oil Search shares. Oil Search will not seek shareholder approval in relation to the proposed issue of shares to the State or to UBS.

Share Purchase Plan

Investors on Oil Search's share register at 4.00 pm (AEDT) on the Record Date of 26 February 2014 and whose registered address on the share register is in Australia, Papua New Guinea or other jurisdictions to be announced will be entitled to subscribe for up to A\$15,000 worth of Oil Search's shares, subject to the usual regulatory relief and to the terms and conditions that will be set out in the SPP Booklet to be despatched to eligible shareholders in due course. Participation in the SPP is optional and shares issued under the SPP will rank equally with existing Oil Search shares.

The issue price of shares issued under the SPP will be the lower of (i) the Placement Price of A\$8.20 per share and (ii) the volume weighted average price ("VWAP") of Oil Search's shares during the pricing period which will be announced in due course. Oil Search reserves the right to scale back applications under the SPP.

The SPP is not underwritten. Further details of the SPP will be provided to eligible shareholders in due course.

Commenting on the transaction, Peter Botten, Oil Search's Managing Director said:

"We are extremely pleased to announce the acquisition of an interest in PRL 15. The purchase of a material interest in this substantial uncommitted gas resource with significant exploration upside is in line with Oil Search's strategy to pursue LNG expansion opportunities in PNG, where we can leverage our longstanding business experience in the country.

Oil Search brings a wealth of local experience to the PRL 15 Joint Venture, operated by InterOil Corporation. This includes PNG logistics, upstream operating expertise, landowner and Government relations and, as a participant in the PNG LNG Project, recent exposure to the development of a major LNG project. These skills can be used to help the operator to determine the optimal way to develop this world class resource. In addition, we have contracted one of our drilling rigs to the Joint Venture for the PRL 15 appraisal programme, which will strengthen the partnership between Oil Search and InterOil.

While Oil Search remains fully focused on the potential expansion of the PNG LNG Project underpinned by Highlands and Western Province gas, the acquisition of an interest in the Elk/Antelope gas discoveries provides Oil Search with a further material and value creating LNG growth opportunity, with multiple development options. It also provides a potential commercialisation route for other nearby undeveloped gas resources in PNG.

With extensive interests both in the Highlands and Western Province and now in the Gulf basin, the acquisition reinforces Oil Search's position as PNG's pre-eminent independent oil and gas exploration and production company."

Commenting on the strategic investment by the PNG Government, Peter Botten said:

“The Government of Papua New Guinea has been an investor in Oil Search since the merger between Oil Search and Orogen Minerals in 2002 and is an important and longstanding strategic partner. We are delighted to have reached an agreement with the Government to facilitate their continued investment in the Company, as in March, when the exchangeable bond issued by the PNG Government to International Petroleum Investment Company (IPIC) reaches maturity, the Government’s present shareholding in Oil Search will transfer to IPIC.

There remains strong alignment between Oil Search and the PNG Government, with Oil Search regarded as a key player in driving the future development of the country’s abundant gas resources. This alignment is in addition to the direct ownership interests held by the Government and local landowners in the PNG LNG Project and their rights to take direct interests in all petroleum projects in PNG. This investment in Oil Search demonstrates the PNG Government’s confidence in the Company’s future prospects and its range of growth projects, including its newly acquired interest in PRL 15.

The Government subscription price of A\$8.20 per share is less than 1% under the one month volume weighted average price (VWAP) of Oil Search shares traded on the ASX.

We also welcome IPIC onto our register and look forward to continuing to develop our relationship over time. IPIC has a reputation for being a long-term investor in overseas energy and energy-related assets and is widely regarded for the support it provides to all the companies in its portfolio.”

Further Information

A webcast discussion regarding Oil Search's 2013 full year results and this announcement, hosted by Managing Director Peter Botten, will take place at 4.00pm (AEDT) today, 27 February 2014. To access this webcast, please refer to the following information:

The webcast can be accessed through Oil Search's website: <http://www.oilsearch.com>

Teleconference details are as follows:

Teleconference Details

Conference ID	45833726
Participant Dial-in	<i>Toll Free: 1800 123 296 +61 2 8038 5221 (can be used if dialing from International location)</i>

International Dial-in

Canada	1855 5616 766
China	4001 203 085
Hong Kong	800 908 865
India	1800 3010 6141
Japan	0120 985 190
New Zealand	0800 452 782
Singapore	800 616 2288
United Kingdom	0808 234 0757
United States	1855 293 1544

Goldman Sachs is acting as financial advisor to Oil Search.

PETER BOTTEN, CBE

Managing Director

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Annexure: Oil Search Resource Estimate

In accordance with ASX Listing Rule 5, Oil Search has outlined below its estimate of the Contingent Resources acquired in the transaction[s] based on information available to the Company on the evaluation date of 27 February 2014.

Oil Search Estimate of 2C Contingent Resources (Expected Ultimate Recoveries), Elk-Antelope field

	2C
100% basis	
Recoverable raw gas ⁽¹⁾	5.28 tcf
Net to Oil Search (22.835%⁽²⁾)	
Recoverable raw gas ⁽¹⁾	1.21 tcf

1 Raw gas is natural gas recovered at the wellhead consisting of wet gas volumes (unprocessed) before reductions for shrinkage due to recovery of 75 million barrels of condensate, removal of non-hydrocarbon compounds, and losses from fuel and flare. The reference point is taken at the wellhead because the detailed development plan has not yet been agreed.

2 Net interest assumed is 22.835%, before the Papua New Guinea Government and landholders exercise their rights under the PNG Oil & Gas Act to take up to 20.5% and 2.0% interest respectively in the licence when a petroleum development licence is issued.

Contingent Resource volumes are based on Oil Search's proposed economic interest in Petroleum Retention Licence 15 (PRL 15) which contains the Elk/Antelope gas field in the Gulf Province of Papua New Guinea. The licence was granted on 30 November 2010 for a five year term.

The presence of significant quantities of moveable hydrocarbons in the Elk/Antelope field has been confirmed from:

- Data acquired from six Elk/Antelope exploration and appraisal wells commencing in 2006 with the Elk-1 discovery well.
- The interpretation of data acquired during the drill stem testing of multiple intervals, including the analysis of reservoir hydrocarbon samples recovered to surface.

Oil Search Limited has conducted a detailed due diligence assessment of all available data to reach a position on the contingent resource potential of the field. Contingent resource volumes have been estimated by combining in-place volume estimates from geological modelling with recovery factor estimates from both simulation modelling and a consideration of analogue fields. A deterministic approach was used to estimate the reported volumes for the Elk and Antelope fields and they have been aggregated arithmetically by the addition of individual field volumes.

These resources are considered to be contingent on the confirmation of a commercially viable development project and the negotiation of and commitment to future LNG contracts. Additional appraisal drilling and evaluation will be required to further assess the potential for commercial recovery, and this may also include the reprocessing of existing seismic lines, the acquisition of additional seismic lines and further well testing.

The final level of certified resources will be determined by two separate independent experts following the planned appraisal drilling programme, which is expected to commence in 2014.

The information in this reserves and resources statement above has been prepared by Dr Jon Rowse, Oil Search's General Manager - Subsurface, who is a full-time employee of the Company and a member of the Society of Petroleum Engineers. Dr Rowse is qualified in accordance with ASX Listing Rules 5.41-5.44, and confirms that the statement is based on and fairly represents information and supporting documentation which has been prepared by him. He has consented to publish this information in the form and context in which it is presented in this statement.

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This press release does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or any other jurisdiction. Any securities described in this press release have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended ("US Securities Act"). The securities to be offered and sold in the Placement may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and applicable US state securities laws. The securities to be offered and sold in the SPP will only be offered and sold to eligible shareholders in Australia, New Zealand and Papua New Guinea (in each case subject to receipt of any required local regulatory waivers) in offshore transactions in reliance on Regulation S under the US Securities Act

Forward Looking Statements

This announcement may contain forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial condition of Oil Search to differ materially from the information presented in this announcement. The words "expects", "believes", "anticipates" and similar expressions are intended to identify such forward-looking statements. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond Oil Search's control, which may cause the results to differ materially from those contained in this announcement. Actual outcomes could differ materially due to a range of factors including but not limited to 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. Forward-looking statements that reference past trends or activities should not be taken as a representation that such trends or activities will necessarily continue in the future. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this announcement. Subject to any continuing obligations under applicable law or applicable stock exchange listing rules, Oil Search does not undertake any obligation to update these forward-looking statements to reflect events or circumstances after the date of this announcement.

Reserves and resources data

This announcement contains reserves and resources data relating to oil and gas reserves and resources held by Oil Search. Readers should note, however, that different reserves and resources reporting systems employ different assumptions, and that Oil Search's methodologies for classifying reserves and resources and Oil Search's reserves and resources classifications vary in certain respects from the methodologies and classifications used by oil and gas companies subject to the reporting obligations of the U.S. Securities and Exchange Commission ("SEC"), including the reporting requirements set out in Regulations S-K and S-X under the Securities Act and related SEC disclosure requirements.

Not financial product advice

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