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ACQUIRING WORLD CLASS OIL ASSETS IN THE PROLIFIC ALASKA NORTH SLOPE

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OIL SEARCH LIMITED | ARBN 055 079 868 | ASX: OSH | POMS0X: OSH | US ADR: OISHY
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- ◆ Transaction overview
- ◆ Investment highlights
- ◆ Asset summary
- ◆ Oil Search impact
- ◆ Conclusions







TRANSACTION OVERVIEW

Acquisition and operatorship of a Tier 1 oil field, under appraisal with exploration upside, at attractive point in the oil price cycle

- ◆ Oil Search to acquire a 25.5% interest in the Pikka Unit and adjacent exploration acreage and 37.5% in the Horseshoe Block, located in Alaska's North Slope, from Armstrong Energy LLC and GMT Exploration Company LLC for US\$400m in cash
 - Conditional on Committee for Foreign Investment in the US (CFIUS) approval
 - Acquisition to be funded from OSH's existing cash position
- ◆ OSH may at any time before 30 June 2019, at its sole election, acquire a further 25.5% interest in the Pikka Unit and adjacent exploration acreage and 37.5% interest in the Horseshoe Block (the balance of Armstrong and GMT's interests) for US\$450m
 - OSH will carry the seller's share of the 2018/19 appraisal programme (~US\$25-30m) if option not exercised by 1 June 2018
 - OSH can assign the option (by mutual agreement) or acquire and on-sell the interest
- ◆ OSH will assume operatorship on 1 June 2018
 - Armstrong will operate the 2017/18 drilling programme (one well with side track and test)
- ◆ Repsol will retain its 49% interest in the Pikka Unit and 25% interest in Horseshoe Block and adjacent exploration
- ◆ Halliburton will assist OSH to build local Alaskan operating capability

TRANSACTION OWNERSHIP IMPACT

Phase	Lease Category				
Pre-transaction	Pikka Unit	-	38.25 %	12.75 %	49 %
	Horseshoe	-	56.25 %	18.75 %	25 %
	Exploration	-	56.25 %	18.75 %	25 %
	Hue Shale	-	100 %	-	-
Current transaction	Pikka Unit	25.5 %	19.125 %	6.375 %	49 %
	Horseshoe	37.5 %	28.125 %	9.375 %	25 %
	Exploration	25.5 %	37.125 %	12.375 %	25 %
	Hue Shale	37.5 %	62.5 %	-	-
Post OSH's option to acquire balance	Pikka Unit	51 %	-	-	49 %
	Horseshoe	75 %	-	-	25 %
	Exploration	51 %	18 %	6 %	25 %
	Hue Shale	75 %	25 %	-	-

BACKGROUND AND STRATEGIC RATIONALE

Extensive screening identified this compelling opportunity that met OSH's strict investment criteria & was pursued proactively



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1

Quality of the investment opportunity

2

Focused investment & ability to replicate PNG materiality

3

Balancing portfolio between oil & gas with ability to drive value, consistent with stated 2015 Strategic Review Recommendations

4

Staged investment profile with option to capture further upside value

INVESTMENT HIGHLIGHTS

Unique opportunity for OSH to participate in a large, world class oil discovery with material growth potential



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 World class, Tier 1 oil asset with material growth potential	<ul style="list-style-type: none">▪ One of the largest conventional oil fields discovered in the US in more than 30 years▪ 500 mmbbls⁽¹⁾ – 1.2 bnbbbls⁽²⁾ with development targeting production of 80,000-120,000 bopd (gross)▪ Over 20 high quality exploration leads with five demonstrating over 100 mmbbls mean potential
 Commercially attractive terms providing scope for significant shareholder returns	<ul style="list-style-type: none">▪ Attractive acquisition price of US\$1.3 – US\$3.1 per barrel discovered resource▪ Low break-even cost asset acquired at an attractive point in the oil price cycle▪ Financing flexibility to fund the appraisal and development of the Alaskan projects, as well as LNG expansion projects in PNG, while maintaining existing dividend policy. No requirement to raise equity▪ Transaction expected to be NAV per share accretive
 Builds a position in an established, prolific oil producing province	<ul style="list-style-type: none">▪ Existing infrastructure with open and direct access▪ Well-developed operations and supply bases with skilled workforce▪ Attractive fiscal regime▪ Transparent regulatory administration and stable government
 Low risk operating plan leveraging important strategic partnerships	<ul style="list-style-type: none">▪ Following appraisal, targeting FEED 2019, FID in 2020 and first oil in 2023▪ Agreement with Halliburton to assist in building OSH's Alaskan operating capabilities▪ Armstrong committed to assist OSH with secondees as part of agreed transition plan▪ Three-year alliance with Armstrong to identify and pursue additional growth opportunities in Alaska▪ Continuing the strong relationship with Repsol following successful collaboration in PNG
 Leverages OSH's capabilities and complements OSH's existing top quartile, high returning PNG gas portfolio	<ul style="list-style-type: none">▪ Consistent with OSH's objective of acquiring high quality oil assets without diluting our leading PNG portfolio▪ Provides commodity and geographic diversification▪ Leverages OSH's experience in successfully operating oil fields and working with local communities and governments▪ Adds to, and does not distract from, OSH's existing PNG growth projects

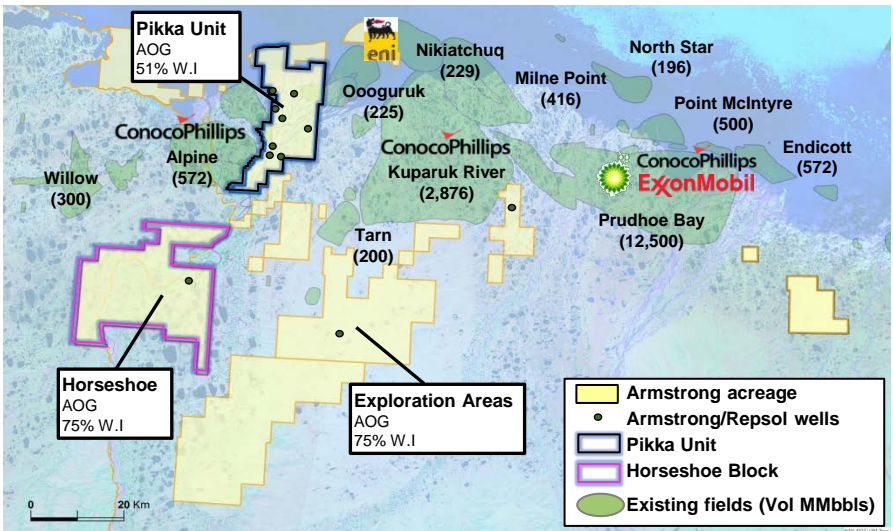
(1) OSH estimate of gross resource for purposes of the acquisition; (2) Repsol press release of 9 March 2017

WORLD CLASS OIL PORTFOLIO



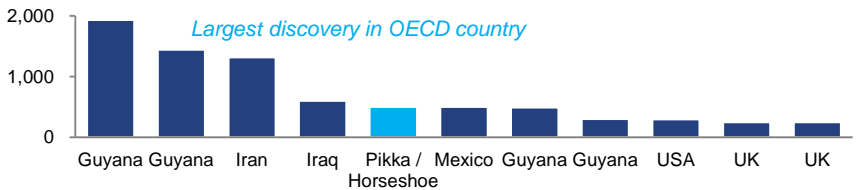
Proven basin, adjacent to giant fields and a long operating history

- ◆ OSH is acquiring 351 leases (2,889 km²) including:
 - Pikka Unit Nanushuk oil field and Horseshoe Block
 - Quality exploration areas
 - 3D seismic coverage & well data
- ◆ 500 mmbbls – 1.2 bnbbbls discovery is one of the largest US onshore conventional oil discoveries in 30 years:
 - Independent US experts assisted OSH develop its own reservoir simulation and valuation models
 - Proven basin that is adjacent to giant existing fields owned by majors
- ◆ 19 exploration and appraisal wells and extensive 3D and 2D seismic in the existing leases:
 - Repsol farmed into the acreage in 2010
 - Nanushuk oil discovered in 2013 and Pikka Unit formed
 - Horseshoe 1 well drilled in 2017, located 30km south of the nearest Nanushuk well, confirmed world class scale oil field



GLOBALLY SIGNIFICANT OIL DISCOVERY

One of the largest conventional oil discoveries over the last 3 years (mmbbls)⁽¹⁾



(1) Source: Wood Mackenzie

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STRONG FUNDING AND LIQUIDITY POSITION

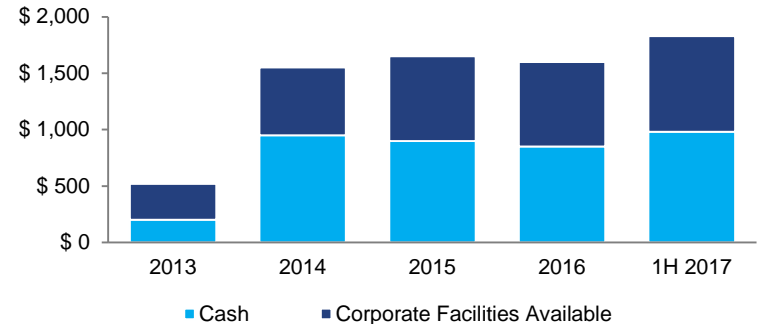
Balance sheet strength supports both PNG LNG & Alaskan assets



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- ◆ Strong existing free cash flow generation from producing assets
- ◆ Current total liquidity is ~US\$2 billion, comprising US\$1.2 billion of cash and US\$850 million of undrawn corporate facilities
- ◆ Sufficient financing flexibility to fund both the development of LNG expansion and Alaskan projects:
 - Both Alaska and LNG expansion developments to be funded with project financing (same as PNG LNG Project)
 - PNG LNG Project debt is being paid down over the same period
 - Gearing forecast to remain well below lenders' covenant in the 40 – 45% range during the development phases including PNG & Alaskan projects
 - Flexibility exists to wind back exploration spending if needed to prioritise the development of these world class assets
 - Discretion to exercise option and on-sell enlarged interests post appraisal, to reduce development expenditure if in the best interest of shareholders
- ◆ Based on current oil price and project development cost forecasts, there is adequate capacity to fund these developments without raising additional equity or impacting our dividend policy

TOTAL LIQUIDITY (US\$M)



FUNDING

- ◆ The initial acquisition cost of US\$400m is funded from surplus cash
- ◆ 2018 capital expenditure for Alaska of ~US\$50m
- ◆ Development cost are estimated to be ~US\$4bn with OSH net equity funding requirements of ~US\$300 – 400 million payable over three year construction period
- ◆ Project financing for Alaskan projects readily available due to country stability and maturity of industry
- ◆ Additional debt funding capacity at corporate level, if required

KEY ACQUISITION METRICS

Highly attractive and competitive entry price



POTENTIAL DISCOVERED RESOURCES

- ◆ Gross OSH acquisition estimate of discovered Nanushuk & satellites fields resources of 500 mmbbls (discovered resource)
- ◆ Repsol believes there could be up to 1.2 bnbbls resource⁽¹⁾
- ◆ Acquisition cost to OSH of ~US\$3.1/bbl based on OSH's estimate of discovered resource or ~US\$1.3/bbl based on Repsol's estimate⁽¹⁾

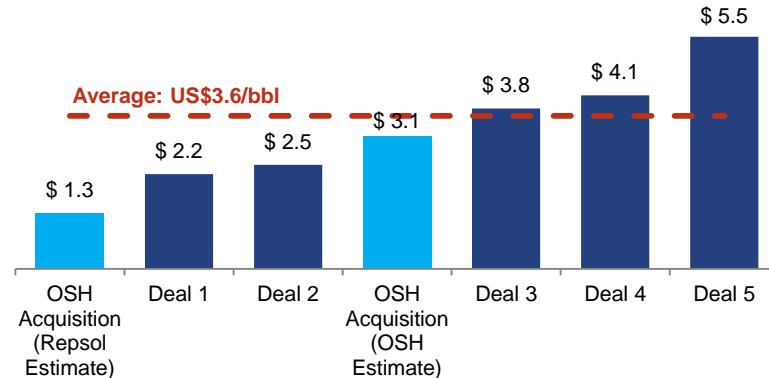
POTENTIAL RESOURCES

- ◆ Estimated 1.5 bnbbls unrisks resource potential outside Pikka Unit but within existing acreage

FLEXIBILITY TO ACQUIRE REMAINING INTEREST

- ◆ OSH has the option to acquire all of Armstrong and GMT's remaining interests and on-sell if there is the potential to add further value
- ◆ Able to make the decision based on updated views of the resources and the development plan
- ◆ Disciplined approach to maximise shareholder value

PRECEDENT TRANSACTION MULTIPLES (US\$/BBL)⁽²⁾



- ✓ Low breakeven cost asset acquired at an attractive point in the oil price cycle
- ✓ Compares favourably to other pre-development global transactions averaging US\$3.6/bbl of resource
- ✓ Potential to be lowest cost, based on Repsol's resource estimate

(1) Repsol press release of 9 March 2017

(2) Comparable list of recent global oil transactions involving pre-development assets since 2015

INDICATIVE TIMETABLE TO FIRST OIL

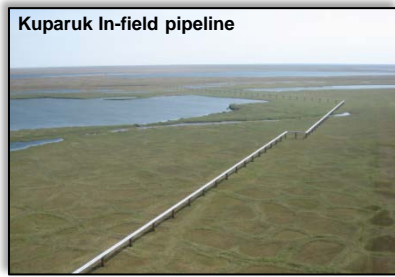
Appraisal programme will define final configuration & timing of the Nanushuk development



- ◆ 2017/18: 1 appraisal well
- ◆ 2018/19: 3-6 appraisal wells
- ◆ EIS submitted 2016. Approval expected 2018
- ◆ FEED contractors selected
- ◆ Contracting
- ◆ Approvals
- ◆ Option to acquire sellers' remaining interests by mid-2019
- ◆ Ongoing exploration
- ◆ Drilling ~60+ producers & ~60+ injectors from 3 drill centres
- ◆ Construction of ~60 km pipelines
- ◆ Construction of ~42 km roads
- ◆ 1 central processing facility
- ◆ Ongoing exploration
- ◆ Target ~80,000-120,000 bbl/d plateau (gross)
- ◆ Target 500 mmbbls oil recoverable from Phase 1
- ◆ Ongoing exploration



Appraisal well pad



Kuparuk In-field pipeline



Development well pad



Alpine Central Processing Facility (ConocoPhillips)

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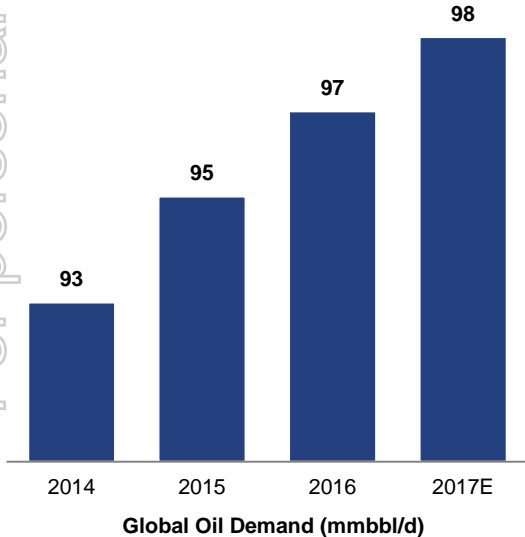
MEDIUM-TERM OIL MARKET FUNDAMENTALS IMPROVING



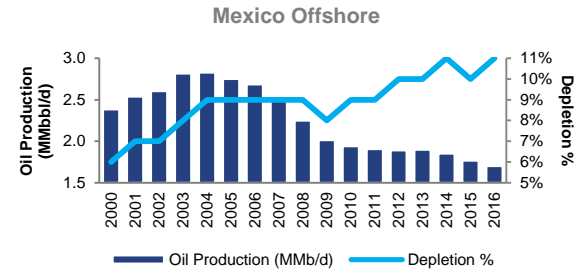
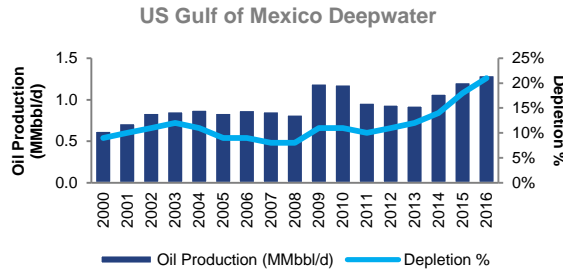
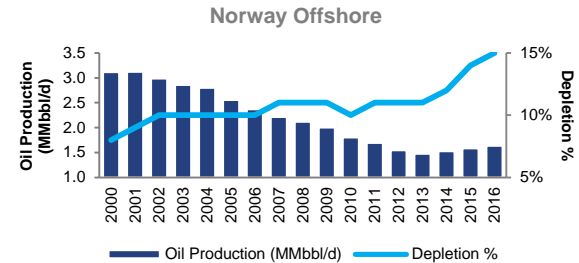
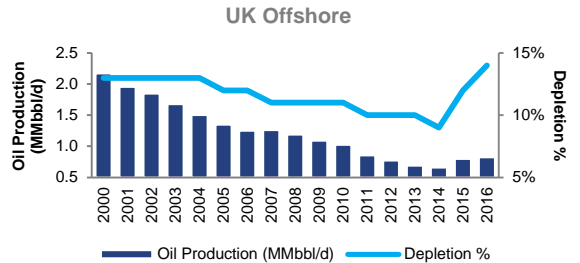
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Non-OPEC capex for producing fields has fallen from a peak of ~US\$280bn in 2014 to current levels of ~US\$125bn. This underinvestment will lead to increases in depletion rates from traditional oil basins against a backdrop of robust and increasing oil demand. This further enhances the appeal of OSH's acquisition

CONTINUED GROWTH IN DEMAND⁽¹⁾



DEPLETION RATES INDICATE DECLINES FROM KEY BASINS⁽¹⁾



(1) Schlumberger; note that depletion calculated as annual production divided by proved-developed reserves at end of same year

ACCESS TO EXISTING INFRASTRUCTURE

Extensive existing infrastructure with ullage and very supportive and stable State government



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- ◆ Nanushuk discovery lies between Alpine & Kuparuk River fields
- ◆ Established infrastructure:
 - Deadhorse is major supply base for Alaska North Slope
 - Dalton Highway allows year round road support
 - Trans Alaska Pipeline System (TAPS) has capacity of 2.1mbopd of capacity and open access regime due to declining production of existing North Slope fields
- ◆ Opportunity to work with existing infrastructure owners in the region to access ullage for an optimised development and to minimise development costs
- ◆ Crude exported from Valdez terminal by tanker



TAPS open access pipeline



ALASKA BUILDS ON OSH'S CAPABILITY

Complementary lower cost evaluation and appraisal, creates world class quality and balanced portfolio mix



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Papua New Guinea (Papuan Basin)		Alaska (North Slope)	
<ul style="list-style-type: none"> 5 bnboe discovered⁽¹⁾ 7 bnboe⁽²⁾ 	Proven reserves	<ul style="list-style-type: none"> 37 bnboe discovered⁽¹⁾ 60 bnboe⁽²⁾ 	
<ul style="list-style-type: none"> Hides Gas Field 1987 (1 bnboe⁽¹⁾) 89% discovered volume is gas 	Yet-to-find	<ul style="list-style-type: none"> Prudhoe Bay Field 1968 (19 bnboe⁽¹⁾) 78% discovered volume is oil 	
<ul style="list-style-type: none"> Fold Belt & Foreland Basin Seasonal activities onshore Remote with seasonal influences Working collaboratively with local stakeholders 	Largest field	<ul style="list-style-type: none"> Fold Belt & Foreland Basin Exploration restricted to the winter season Development all year round Working collaboratively with local stakeholders 	
<ul style="list-style-type: none"> Higher cost due to remote logistics Highlands well costs >US\$100m/well 2D seismic > US\$200k/km 	Phase	<ul style="list-style-type: none"> Close proximity to infrastructure Onshore drilling <US\$30m/well 2D & 3D seismic 	
<ul style="list-style-type: none"> Moderate development lead time for gas New discoveries require new infrastructure 	Geological setting	<ul style="list-style-type: none"> Ullage available via open access pipeline Only in-field infrastructure required for export 	
	Operating environment		
	Cost environment		
	Development options		

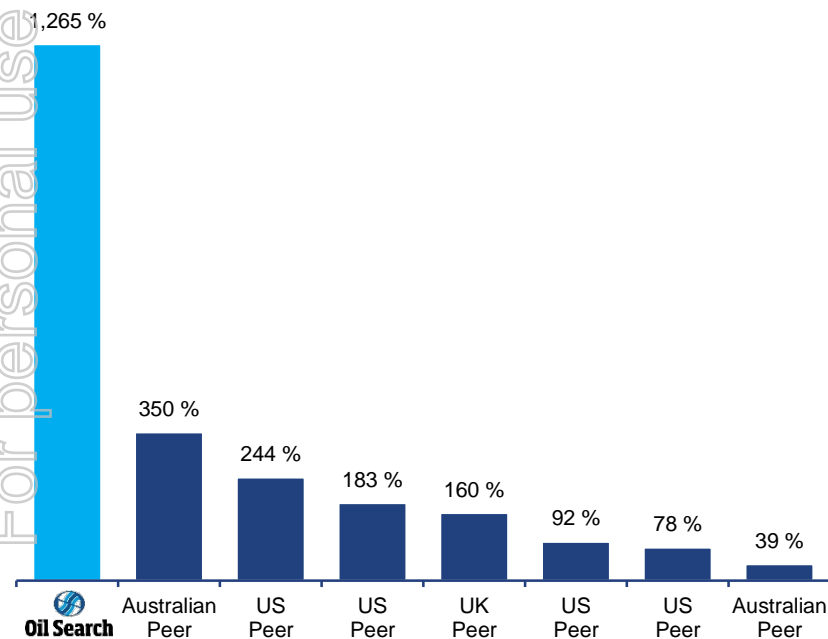
- ◆ Replicate success of Halliburton agreement post acquisition of Chevron's PNG assets
- ◆ Ability to leverage OSH's oil operatorship experience
- ◆ Apply key learnings from PNG exploration and project development experience, given Alaska's analogous geology to PNG
- ◆ Execute cost-effective appraisal programme
- ◆ Build on strong existing relationship with Repsol
- ◆ Work collaboratively with community and other stakeholders
- ◆ Leverage experience working with Majors to commercialise resource

(1) Source IHSMarkit 2017
 (2) Source USGS 2010/11

OPPORTUNITY TO REPLICATE PNG'S SUCCESS

Tier 1 assets, acquired at an attractive point of the cycle, with development and exploration growth & controllable expenditure

15 YEAR TOTAL SHAREHOLDER RETURNS (%)⁽¹⁾



- ◇ All of OSH's acquisitions have been strategic and successfully led to material value creation:
 - BP (1998) – enhance oil & gas position and align gas commercialisation strategy
 - Orogen (2002) – align PNG entities, enhance oil and gas equities and liquidity to support growth
 - Chevron (2003) – secure operatorship of oil fields, enhance production, align gas commercialisation strategy
 - PAC LNG (2013) – create opportunity to optimise PNG's LNG industry and secure interest in all projects
 - IOC (2016, did not complete) – successfully catalysed integration discussions between Papua LNG and PNG LNG owners
 - Armstrong/GMT (2017, proposed) – an operated Tier 1, world class oil asset acquired at an attractive point in the oil price cycle, with potential to be OSH's next PNG, underpinned by a staged investment profile

(1) As at 26 October 2017

SUMMARY

Alaska, when combined with PNG, provides a unique portfolio of Tier 1 assets with clear commercialisation paths

◆ **Combined with our world class PNG assets, the Alaskan acquisition provides OSH with an unprecedented platform for growth:**

- Acquisition is highly complementary to OSH's low-cost, Tier 1 PNG portfolio
- Low operating cost project acquired at a highly competitive price – US\$3.1/bbl under OSH's resource estimate and US\$1.3/bbl under Repsol's resource estimate⁽¹⁾
- Potential to add >125 mmbbls net to OSH booked resources

◆ **Able to control the commercialisation pathway and to leverage OSH's exploration and development capabilities:**

- OSH will operate the appraisal and development, which will be of similar scale to OSH's operations in PNG
- Armstrong will continue to provide support, with Halliburton, the largest service provider on the North Slope, providing assistance to build long term operating capability (analogous to relationship when OSH acquired Chevron's PNG assets in 2003)

◆ **OSH has a history of value-accretive M&A with long term strategic benefits:**

- Very considered, focused and potentially material assets acquired at an attractive point in the oil price cycle
- Fits with OSH's strategy of increasing oil exposure and building a best-in-class and focused portfolio
- Acquisition, exploration, appraisal and development, as well as PNG expansion and exploration, can be funded from existing cash, cash flows and dedicated corporate facilities

◆ **No change to our ability or focus on delivering full value from our PNG portfolio and to our shareholders:**

- Consistent with OSH's focus on delivering top quartile total shareholder returns over next 5 – 7 years
- No near term requirement for any further new business. Focus on delivering full value from the Company's world class portfolio
- No change in dividend policy planned

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APPENDIX

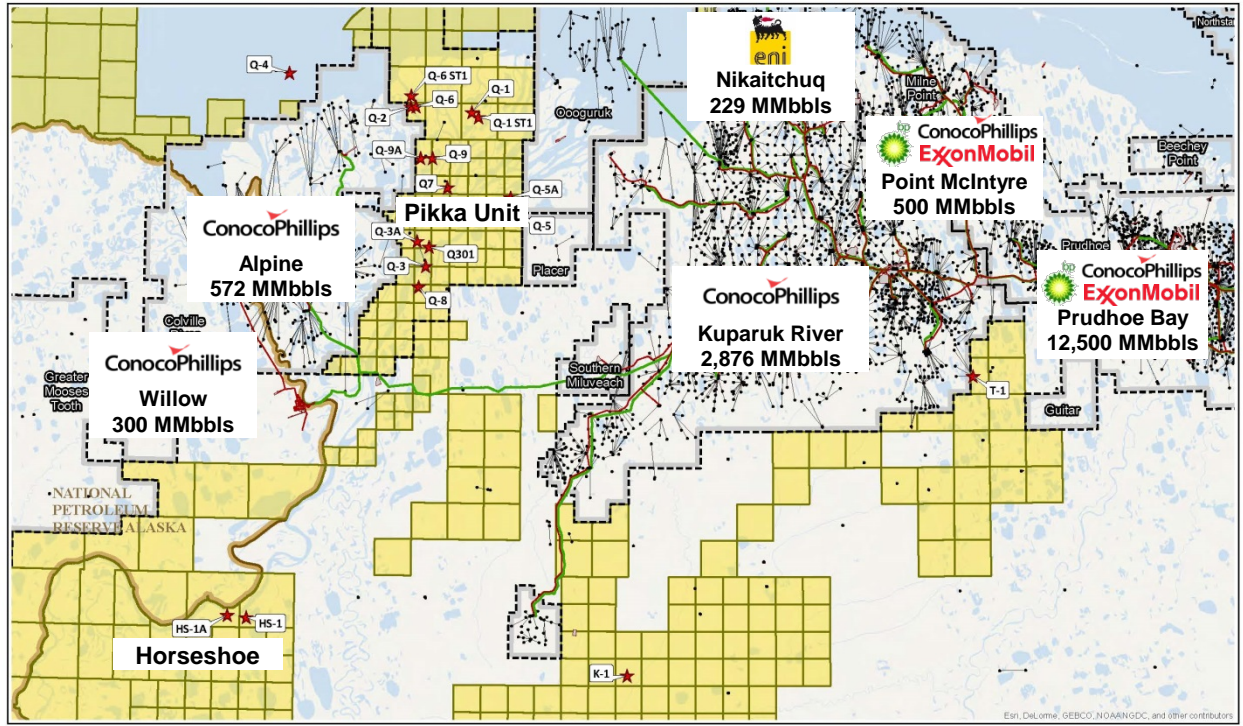


ACREAGE POSITION

World class position in a proven basin adjacent to existing infrastructure with ullage⁽¹⁾



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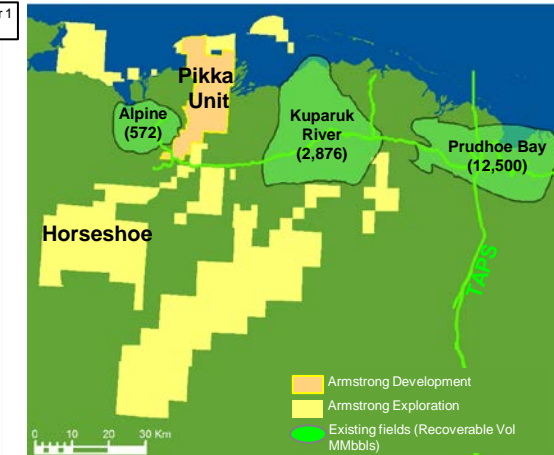
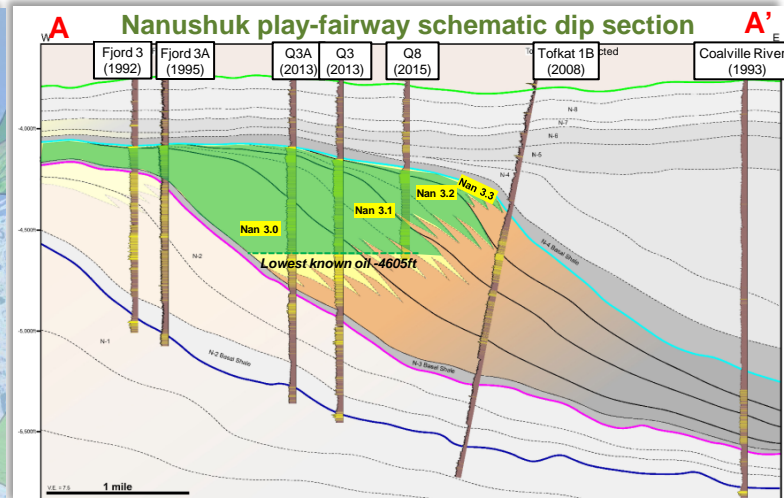
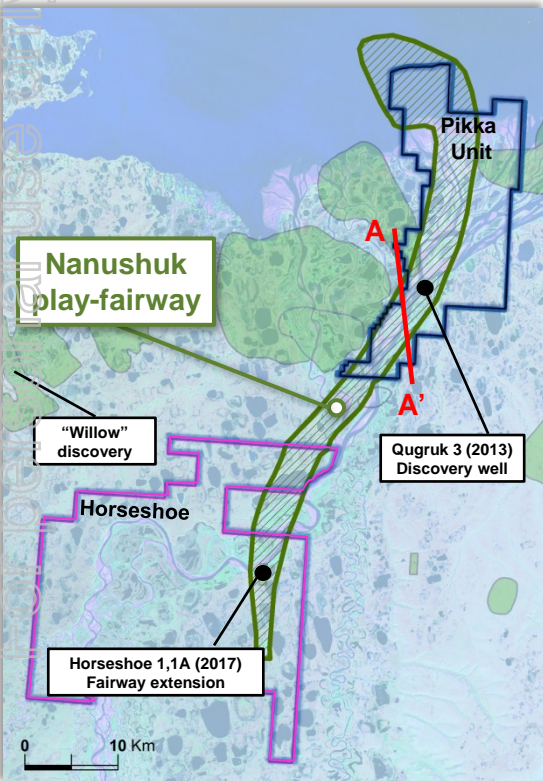
	ARMSTRONG ENERGY LLC					
	WELLS DRILLED 2011-2017					
Rev: 01	DATE: 10/25/2017	REV: 1.1	Sheet 1 of 5			

(1) Source: Wood Mackenzie 2015/16



NANUSHUK FIELD SUMMARY

Extensive 50+km long by 4 – 6km wide reservoir fairway covering approximately 200km²



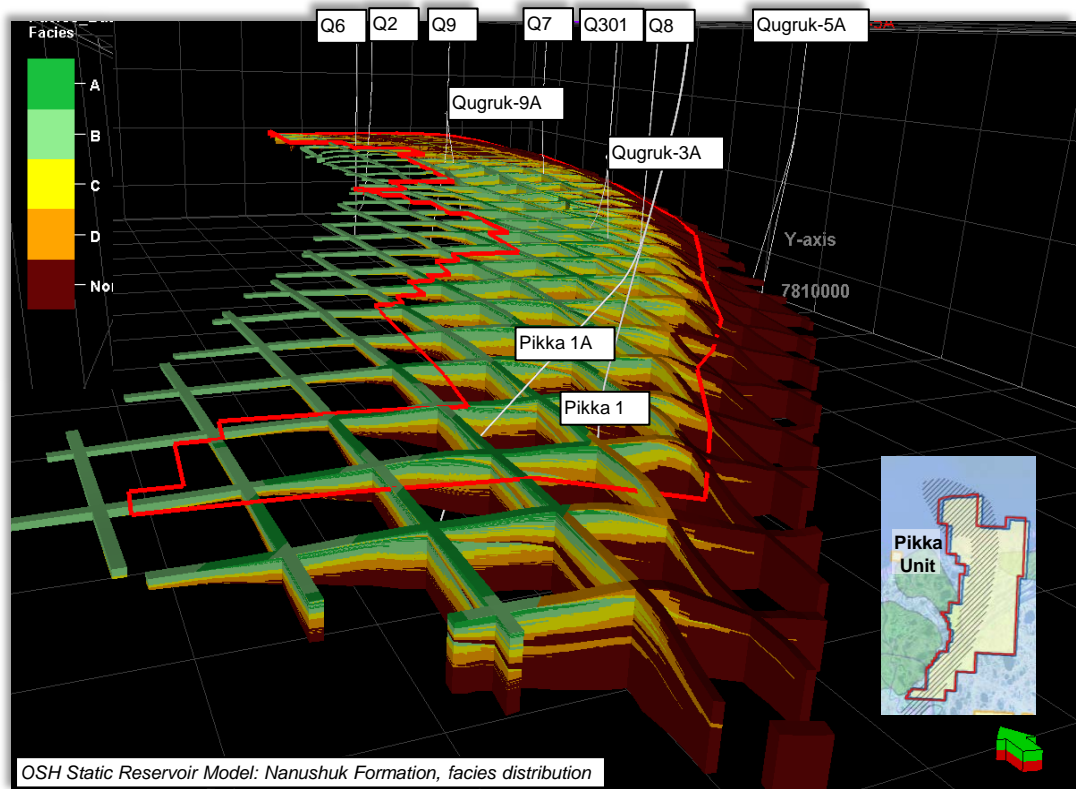
- ◆ Intersected by wells in 1995 but significance not recognised due to a lack of 3D seismic data
- ◆ Majors focused on nearby developments – not exploration
- ◆ Nanushuk fairway now defined by 3D seismic and drilling
- ◆ Fairway covers ~200km², through adjacent Conoco acreage (additional wells scheduled for 2018)
- ◆ 2017 Horseshoe 1, 1A wells intersected extension on same pressure gradient as Pikka Unit
- ◆ 200m oil column across Nanushuk fairway – sweet crude oil (~30-35 deg API)

PIKKA UNIT DEVELOPMENT

Nanushuk main development but oil also discovered in three other reservoirs



- ◆ Play-fairway delineated by 12 wells, 6 production tests and full modern 3D seismic data coverage
- ◆ Main accumulation within Nanushuk A & B facies
- ◆ Multiple additional pools and development options subject to further appraisal (Alpine, Kuparuk C reservoirs all recovered oil)
- ◆ Phase I development targeting 500 mmbbls⁽¹⁾ with a plateau of 80,000⁽¹⁾ – 120,000⁽²⁾ bopd production gross
- ◆ Production from the Nanushuk will add potentially between 7.4 – 11.2 mmbbls per annum net to OSH, based on the initial development
- ◆ First production targeted 2023
- ◆ Development drilling from three well pads using long offset laterals to minimise surface impact and optimise production characteristics
- ◆ In-field pipelines to central processing facility (CPF) before export to TAPS and 1,300 km on to Valdez for export

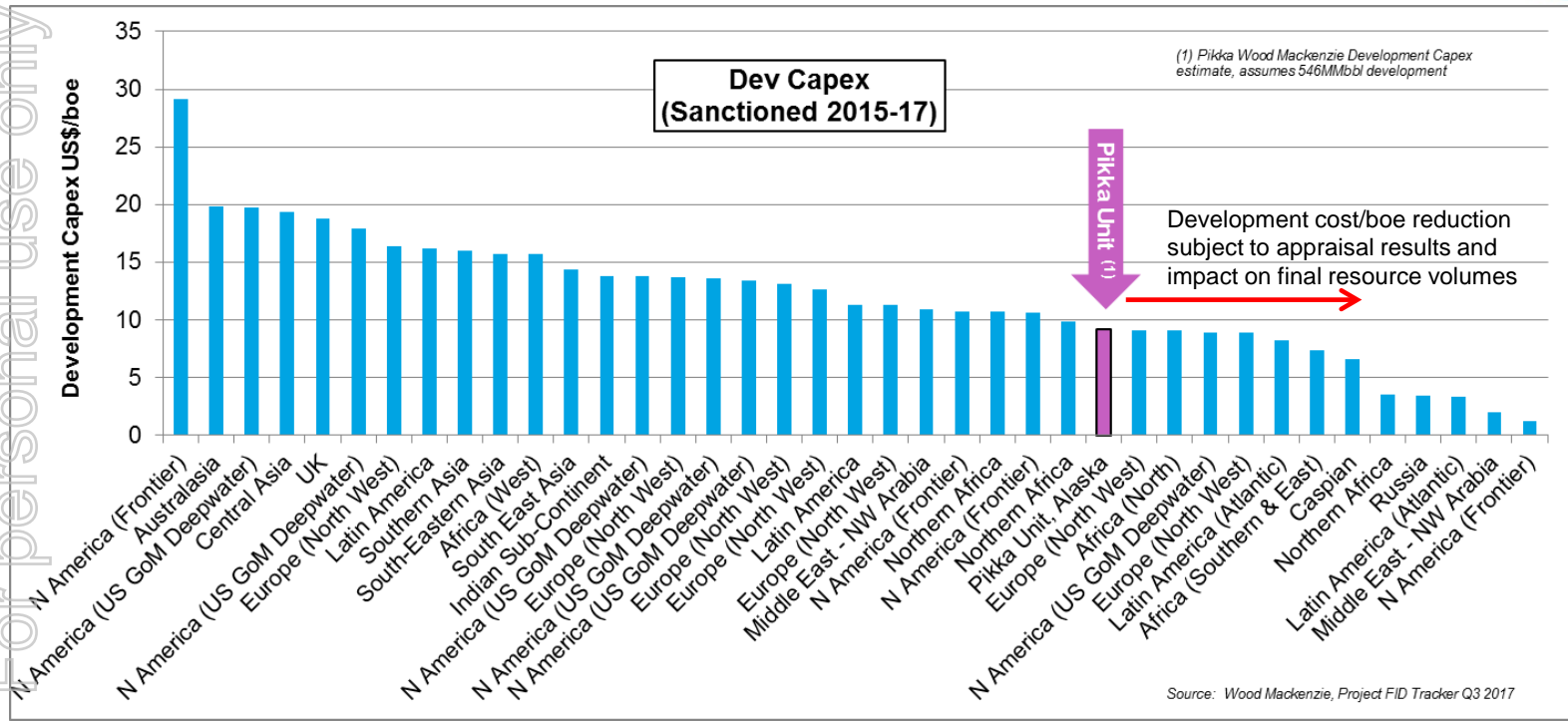


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(1) OSH estimate of gross resource for purposes of the acquisition; (2) Repsol press release of 9 March 2017

2015 – 2017 SANCTIONED DEVELOPMENT CAPEX

Wood Mackenzie 2017 estimates



- ❖ Pikka Unit Nanushuk and satellite fields capex per bbl dependent on resources
- ❖ Current estimates US\$6 – 9/bbl including drilling, pipelines, roads and CPF infrastructure, dependent on ultimate resource and development plan

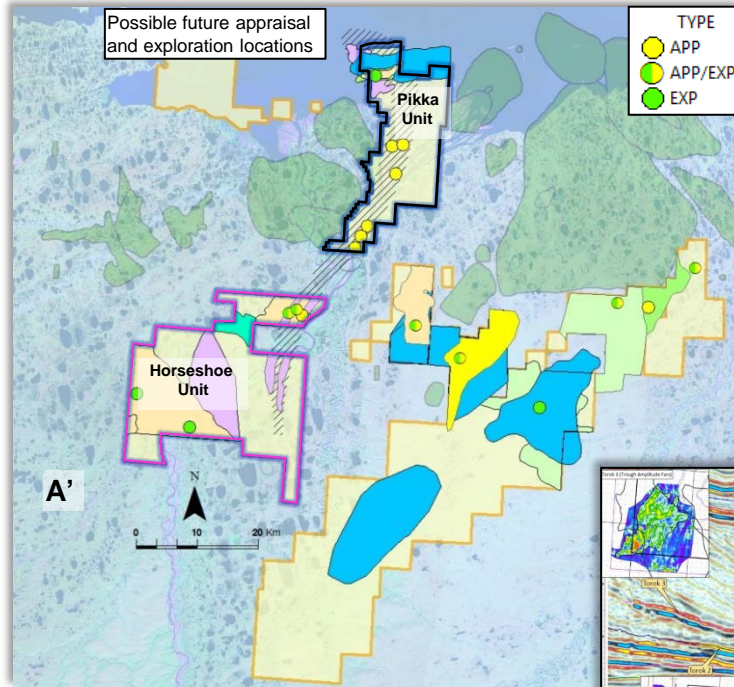
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EXPLORATION

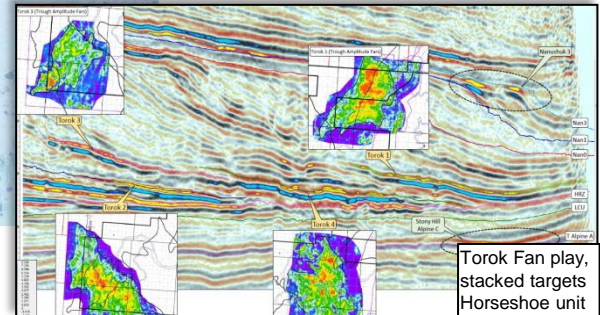
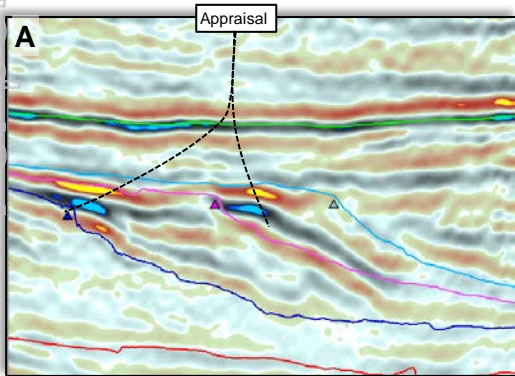
Material appraisal and exploration upside



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- ◆ Estimated 1.5 bnbbbls prospect portfolio outside Pikka Unit within existing leases
- ◆ Multiple play-types and proven fairways
- ◆ Includes both appraisal and exploration targets



ENVIRONMENT

Overview



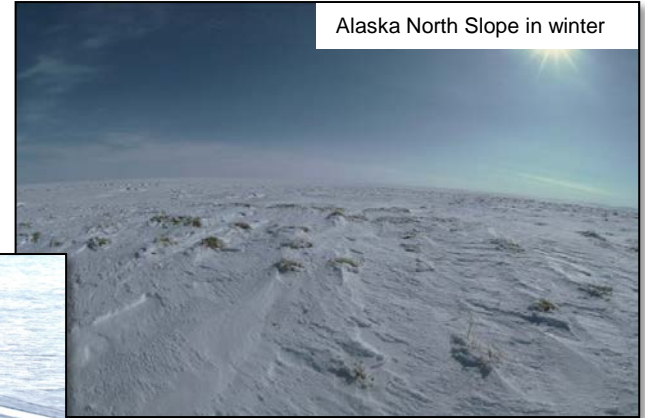
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Alaska North Slope in summer



- ◆ Most exploration and appraisal operations are undertaken during the winter to mitigate damage to the Tundra

Alaska North Slope in winter



- ◆ The average temperature on the North Slope +15° Celsius during the summer to -40° Celsius in winter
- ◆ Permafrost extends down to a depth of ~600m
- ◆ Year round road access via Dalton Highway and ice / gravel road network



- ◆ Once development pads are installed, drilling can take place all year round
- ◆ In the event of a development, all weather gravel roads and drilling pads are constructed allowing operations to occur 12 months of the year

ARMSTRONG ENERGY LLC

A proven Alaskan oil finder with a world class position



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2003 Oooguruk Field 91 mmbbls



2004 Nikaitchuq Field 229 mmbbls



2013 "Pikka Unit" Nanushuk



2017 Horseshoe Nanushuk



- ◆ Armstrong is a private company established in Denver, Colorado, in 1985
- ◆ Armstrong entered the Alaska North Slope in 2002 and is currently second largest conventional lease holder
- ◆ Oooguruk Field discovered in 2003. farmed in Pioneer Natural Resources then sold remaining interest to ENI in 2005
- ◆ Nikaitchuq Field discovered in 2004. Sold to ENI 2005 and subsequently developed by ENI
- ◆ Nanushuk discovery made in the Pikka area in 2013 by Repsol on acreage assembled by Armstrong, largely from the 2008 & 2009 state-wide lease sales. Pikka area Nanushuk discovery extended 30km to SE to Horseshoe area in 2017

ALASKA FISCAL REGIME

Overview



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- ◆ Alaska maintains a competitive fiscal regime with incentives for exploration, development and commercialisation of oil and gas projects
- ◆ Royalties, production tax, property tax and conservation surcharges apply based on relevant licence areas and production volumes
- ◆ Alaska's statutory income tax rate is 9.4% with relief for royalties, production tax, property tax and conservation surcharges
- ◆ The statutory US federal income tax rate is 35% with deductions available for state tax, production tax and other charges
- ◆ OSH estimates the government take of Pikka Unit (Phase 1) to be ~40% effective tax rate⁽¹⁾ including royalties, state and federal taxes and credits

(1) ETR is on an NPV cash flow basis

“Repsol makes the largest U.S. onshore discovery in 30 years.”

“The contingent resources currently identified in the Nanushuk play in Alaska amount to approximately 1.2 billion barrels of recoverable light oil.”

Repsol press release, 9 Mar ‘17

“This [reservoir characteristics] is old school, real porosity, real permeability.”

The Nanushuk prospect “has the potential to be significantly more, possibly double” the 1.2bnbbls of established recoverable reserves.”

Bill Armstrong, founder and CEO of Armstrong Energy LLC, interview with Alaska Journal of Commerce, 13 Mar ‘17

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