

THIRD QUARTER REPORT FOR PERIOD ENDED 30 SEPTEMBER 2021

26 October 2021

ASX: OSH | PNGX: OSH | ADR: OISHY

Operating revenue and production up 12% and 5% respectively

- Third quarter operating revenue of US\$409 million, up 12% from previous quarter
- LNG and gas realised prices increased 16%, from 2Q21, to US\$10.02/mmBtu
- Total production of 6.9 mboe, increased by 5% from 2Q21
- PNG LNG continued to perform >20% above nameplate production, averaging 8.5 MTPA (gross) in 3Q21

Good progress across all major growth projects

- Ramp up of Papua LNG project activities as operator targets FEED entry in 2022
- PNG Government and ExxonMobil execute a Heads of Agreement in respect of the Gas Agreement for the P'nyang project
- Pikka Phase 1 FEED technical work and assurance nearing completion

Maintained the safety of our people and supported PNG COVID-19 vaccine roll-out

- Introduced enhanced measures to minimise spread and limit severity of consequences of the virus in the workforce
- MoU signed with PNG National Control Centre for Oil Search to administer vaccinations in the community

Continued to strengthen the Group's balance sheet

- Reduced net debt by 8%, since 30 June 2021, to US\$1,953 million
- Completed refinancing of corporate non-amortising facility to extend maturity from June 2022 to December 2026

FY 2021 production guidance tightened

- On track to deliver full year 2021 production of 26.0 – 28.0 mboe, within previous guidance
- FY21 investment expenditure guidance lowered, driven by reduced contractor mobility into PNG due to COVID-19 and reduced capital expenditure on the Pikka project

Continued progress on proposed merger with Santos

- Oil Search and Santos signed a Merger Implementation Deed on 10 September 2021 following completion of mutual due diligence
- Next steps include first Court Hearing in PNG and despatch of documents related to the Scheme to Oil Search shareholders

Peter Fredricson, Acting CEO, said “Oil Search delivered another strong quarter of production, which was up 5% on the previous quarter, demonstrating the resilience of our operations and sustained commitment to the safety of our people and maintaining safe and reliable production. Operating revenues were up 12%, supported by strong growth in oil prices.”

“Earlier in the quarter, the PNG LNG project participants approved the full funding of the Angore project which, along with the Associated Gas fields, forms an important part of the gas sequence and underpins maintaining plant capacity beyond 2030.”

“We have made good progress across our growth projects with the ramping up of activity in the Papua LNG project, as it prepares to enter pre-FEED before the end of 2021 ahead of a joint venture decision to enter FEED in 2022.”

“We are also pleased to be another step closer to the development of the P’nyang gas resource with the recent signing of a HOA between ExxonMobil and the PNG Government outlining the framework for negotiating a fully-termed Gas Agreement before the end of 2021. The P’nyang project represents a valuable back-fill opportunity within the PNG LNG gas sequence and another opportunity for Oil Search to be involved in a key project that will support the PNG economy and its people.”

“In Alaska, the Pikka Phase 1 project has progressed technical work towards FID. As previously communicated Oil Search and its co-venture partner are focused on ensuring the appropriate pre-conditions, including funding, are met prior to taking FID targeted in 1H22, with resulting first oil planned for 2025.”

“While the absolute focus of our workforce remains on safely delivering our strategic objectives, important steps were also taken during the quarter to advance the opportunity presented by the proposed merger with Santos. The potential benefits of a combined entity remain clear, with the merged entity expected to sit amongst the world’s 20 largest global oil and gas companies, bringing greater access to capital markets to enable funding for new and existing opportunities. Importantly, the merger is also expected to create greater alignment across the LNG growth projects in PNG which would continue to support jobs, development, and investment in PNG.”

“Our outlook for the 2021 full year remains positive as we tighten our production guidance and maintain our operating cost guidance despite the additional costs associated with the management of the impact of COVID-19. Both LNG and oil markets remain strong, with spot LNG markets continuing to exhibit high volatility and record highs which is a supportive environment for market soundings in respect of new medium-and-longer term LNG sales contracts.”

“While our focus remains on mitigating the risk to our people and operations through strict adherence to COVID-19 protocols and the promotion of vaccination uptake in our workforce, Oil Search will also continue to play its part in PNG’s fight against COVID-19 through the provision of community vaccination and logistical support.”

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

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Comparative performance

Production^{1,2}

('000 boe unless noted)	QUARTER END			YTD (9mths)	
	SEP 2021	JUN 2021	SEP 2020	SEP 2021	SEP 2020
PNG LNG project ³	6,272	5,801	6,554	18,183	19,304
PNG oil production ('000 bbls)	551	725	675	1,969	2,055
Other production ⁴	70	63	70	199	598
Total production	6,893	6,589	7,298	20,351	21,957
Total sales	6,837	6,699	7,546	20,226	21,206

Revenue¹

(US\$ million unless noted)	QUARTER END			YTD (9mths)	
	SEP 2021	JUN 2021	SEP 2020	SEP 2021	SEP 2020
LNG and gas sales	330.9	254.8	133.2	800.1	656.4
Oil and condensate sales	72.0	102.9	50.2	252.9	136.2
Other revenue ⁵	5.9	8.5	5.6	23.5	22.1
Total operating revenue	408.8	366.2	189.0	1,076.5	814.6
Average realised oil and condensate price ⁶ (US\$/bbl)	71.91	71.55	36.52	66.57	36.13
Average realised LNG and gas price (US\$/mmBtu)	10.02	8.61	4.23	8.62	6.66

Financial Data¹

(US\$ million unless noted)	QUARTER END		
	30 SEP 2021	30 JUN 2021	30 SEP 2020
Cash	772.4	503.6	752.7
Debt ^{7,8}			
PNG LNG financing	2,425.8	2,425.8	2,803.5
Corporate facilities	300.0	200.0	300.0
Net debt	1,953.4	2,122.2	2,350.8

- Numbers may not add due to rounding.
- 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.
- Production and sales net of fuel, flare, shrinkage and SE Gobe wet gas.
- SE Gobe gas sold to PNG LNG, Hides GTE gas and liquids.
- Other revenue consists of infrastructure tariffs, rig lease income, shipping revenue, marketing fees, and electricity and naphtha sales.
- Average realised price for Kutubu Blend including PNG LNG condensate.
- Excludes lease liabilities recorded as borrowings.
- As at 30 September 2021, the Company's corporate facilities totaled US\$825 million, of which US\$300 million had been drawn down and US\$3.0 million had been utilised for letters of credit.

Revised Guidance for Full Year 2021¹

(US\$ million unless noted)	Previous	Revised
Production²		
Oil Search operated (ex-Hides GTE) (mmboe)	2 – 3	2 – 3
Hides GTE (mmboe)	0 – 1	0 – 0.2
PNG LNG project³		
LNG (bcf)	107 – 110	107 – 110
Power (bcf)	1 – 2	1 – 2
Liquids (mmbbl)	2 – 3	2 – 3
Total PNG LNG project (mmboe)	23 – 25	24 – 25
Total production (mmboe)	25.5 – 28.5	26.0 – 28.0
Operating costs		
Unit production costs (US\$/boe)	10.50 – 11.50	10.50 - 11.50
Other operating costs ⁴	155 – 175	155 - 175
Depreciation and amortisation (US\$/boe)	12.50 – 13.50	12.50 - 13.50
Investment expenditure		
Production expenditure (PNG)	40 – 60	30 - 50
Development expenditure	85 – 115	35 - 60
Exploration and evaluation expenditure ⁵	100 – 135	100 - 135
Biomass	10 – 15	10 – 15
Other plant and equipment	15 – 25	10 - 15
Total investment expenditure	250 – 350	185 - 275

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, put option costs and other expenses. This excludes any one-off transaction costs relating to the merger with Santos.
5. Exploration and Evaluation Expenditure includes FEED costs in relation to Pikka Development Unit, and pre-FEED costs for LNG expansion projects in PNG.

Production guidance for full year 2021 has been tightened within the previous guidance range. Other operating cost guidance remains unchanged and excludes any one-off transaction costs relating to the merger with Santos.

Investment expenditure guidance for 2021 has been revised downwards driven by:

- Production expenditure (PNG): reduced contractor mobility into PNG due to COVID-19 restrictions, and deferral of various capital projects including the construction phase of the Kutubu Refinery which was damaged in the earthquake in 2018.
- Development expenditure: reduced for the impact of Alaska Pikka Phase 1 FID, with FID subject to the project satisfying the appropriate pre-conditions.
- Other plant and equipment: revised timelines of various corporate enterprise solutions.

Papua New Guinea

Production^{1,2}

	QUARTER END			YTD (9mths)	
	SEP 2021	JUN 2021	SEP 2020	SEP 2021	SEP 2020
PNG LNG project production³					
LNG (mmscf)	28,070	25,964	29,143	81,327	85,852
Gas to power (mmscf)	133	126	134	381	356
Domestic gas (mmscf)	179	173	166	523	461
Condensate ('000 bbls)	620	583	698	1,826	2,077
Naphtha ('000 bbls)	87	68	83	234	233
Total PNG LNG project ('000 boe)	6,272	5,801	6,554	18,183	19,304
Oil Search operated production					
Oil production ('000 bbls)					
Kutubu	278	332	383	937	1,254
Moran	266	387	286	1,014	774
Gobe Main	3	2	2	7	8
SE Gobe	5	3	4	11	20
Total oil production ('000 bbls)	551	725	675	1,969	2,055
Hides GTE⁴					
Sales gas (mmscf)	-	-	-	-	1,804
Liquids ('000 bbls)	-	-	-	-	31
SE Gobe gas to PNG LNG (mmscf) ⁵	359	320	355	1,015	1,086
Total operated production ('000 boe)	622	788	745	2,168	2,653
Total production ('000 boe)	6,893	6,589	7,298	20,351	21,957

1. Numbers may not add due to rounding.
2. 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.
3. Production net of fuel, flare, shrinkage and SE Gobe wet gas.
4. 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.
5. SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare and naphtha.

Total third quarter production from the PNG LNG project was 6.3 mmboe (excluding third party purchases), representing an annualised LNG production rate of 8.5 MTPA (gross), increased from 8.0 MTPA (gross) in the second quarter which was impacted by planned maintenance work.

The PNG LNG project supplied 616 mmscf of gas (excluding third party purchases), corresponding to a net contribution from Oil Search of 179 mmscf, to the NiuPower-operated Port Moresby power station, 3.5% higher than the second quarter 2021.

Net production from our operated PNG assets was 0.62 mmboe, 21% lower than the second quarter of 2021 largely affected by a power outage at the Kutubu Central Processing Facility.

Hides GTE continues to be offline due to the ongoing shut-in of the Porgera gold mine.

Sales^{1,2}

	QUARTER END			YTD (9mths)	
	SEP 2021	JUN 2021	SEP 2020	SEP 2021	SEP 2020
PNG LNG project sales					
LNG (billion btu)	32,832	29,377	34,735	92,209	96,000
Domestic gas (billion btu)	205	198	148	599	551
Condensate ('000 bbls)	499	638	663	1,805	1,866
Naphtha ('000 bbls)	59	94	80	216	237
Total PNG LNG project sales ('000 boe)	6,335	5,898	6,834	18,231	18,950
Oil sales ('000 bbls)	502	801	713	1,994	1,880
Hides GTE					
Gas (billion btu)	-	-	-	-	1,941
Liquids ('000 bbls) ³	-	-	-	-	32
Total oil and GTE sales ('000 boe)	502	801	713	1,994	2,256
Total sales ('000 boe)	6,837	6,699	7,546	20,226	21,206

1. Numbers may not add due to rounding.
2. 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.
3. Relates to refined products delivered under the Hides GTE Gas Sales Agreement or sold in the domestic market and condensate.

The PNG LNG project delivered 30 LNG cargoes (one partially loaded) during the third quarter (compared to 26 in the prior quarter) comprising 29 cargoes sold under contract (including five under mid-term sale and purchase agreements) and one on the spot market. There were two DES cargoes on the water at the end of the period, compared to three at the end of the prior quarter. Two naphtha cargoes were delivered during the quarter, one less than the prior quarter. Three Kutubu blend cargoes were sold during the quarter, one less than the prior quarter.

Pricing

The average realised LNG and gas price increased 16% to US\$10.02 per mmBtu in the third quarter, driven by continued recovery in oil prices as a result of supply disruptions associated with US hurricanes, global demand recovery, and OPEC+ affirming its gradual unwind of production cuts.

The average oil and condensate price realised during the third quarter was US\$71.91 per barrel, up 0.5% on the prior quarter.

LNG Expansion

During the third quarter, the Papua LNG project experienced a ramp up in project activity as it prepares to enter pre-FEED before the end of 2021. Pre-FEED work is expected to continue into 2022 and will focus on preparation to award FEED contracts and progression of technical, regulatory, social and environmental aspects of the project prior to a joint venture decision in 2022 to enter FEED.

The P'nyang project also made good progress in the third quarter, with the execution of a Heads of Agreement for negotiating a fully-termed Gas Agreement. ExxonMobil and the PNG Government are progressing negotiations in 4Q21, with a target of executing the Gas Agreement before the end of the calendar year.

Redetermination

During the quarter the joint venture participants of the PNG LNG project reached a commercial agreement regarding the redetermination of participating interests.

As part of that agreement, Oil Search will be entitled to a carried interest of US\$176 million from certain non-PNG State joint venture partners, targeted over the years ending 31 December 2022 to 31 December 2024 in respect of certain agreed PNG LNG capital expenditures. Post 2024, this carry may be reduced or increased once the results of future drilling activities are assessed.

North America

Pikka project

The engineering scope on major components, is nearing completion and the project team has successfully completed initial internal assurance reviews. The procurement strategy for the project has been developed to minimise project cost overrun risk while maximising local content and strengthening community involvement. Initial tenders for fabrication, materials, pipeline and construction contracts are underway. The project remains very competitive against international benchmarks for both cost and emissions intensity.

Oil Search continues to pursue a number of funding options for the Pikka project. Subject to securing appropriate project funding, and the receipt of partner approvals and remaining regulatory authorisations the project is targeting FID in 1H22 with first oil in 2025.

COVID-19 update

As a result of strict adherence to protocols, including early quarantine detection and isolation, our safe and reliable operations have been maintained despite the impacts of COVID-19. The highly virulent Delta strain taking hold in PNG has necessitated the introduction of enhanced measures to minimise the spread of COVID-19 infection and limit the severity of consequences in the workforce.

Additionally, Oil Search has signed a Memorandum of Understanding with the PNG Government to administer the vaccine to employees, contractors and the broader community.

In PNG, Oil Search has conducted approximately 60,000 COVID-19 tests at its medical clinics and quarantine facilities, distributed some 450,000 items of personal protective equipment to health workers, and administered more than 1,300 doses of the AstraZeneca and J&J vaccines.

Corporate activity

The Santos merger proposal was progressed with the signing of a Merger Implementation Deed on 10 September 2021, following the successful completion of due diligence by both parties.

A scheme booklet containing information in relation to the merger will be distributed to Oil Search shareholders ahead of the scheme meeting to obtain shareholder approval. Several other key conditions must also be met in order for the merger to proceed, including PNG National Court approvals and other regulatory approvals, and these activities are underway.

Financial Performance

Revenue

Total third quarter revenue from LNG, gas, oil and condensate sales was US\$403 million, up 13% on the prior quarter. The increase in revenue was primarily driven by an increase in average realised LNG and gas prices.

Liquidity

At 30 September 2021, Oil Search held total liquidity of ~US\$1.3 billion, comprising US\$772.4 million in cash and US\$522.0 million in undrawn credit facilities out of a total of US\$825 million committed facilities. During the quarter, no PNG LNG debt repayments were due and there were net drawdowns of US\$100.0 million made on Oil Search bi-lateral/syndicated facilities. In September 2021, a new US\$565 million non-amortising revolving credit facility with expiry 31 December 2026 was secured, replacing the previous US\$600 million facility that was due to expire in June 2022.

Capital expenditure

Exploration and evaluation expenditure for the third quarter was US\$22.8 million. This primarily related to activities for the Pikka project (US\$19.9 million), and pre-FEED activities for LNG expansion in PNG (US\$2.9 million). Of the total exploration expenditure, US\$4.1 million related to seismic, administration, and geological and geophysical costs, which were expensed during the quarter.

Development expenditure for the third quarter totalled US\$7.8 million, consisting of US\$5.9 million of spend on the PNG LNG Angore project and US\$1.9 million spend on Pikka project development costs.

Production expenditure for the third quarter of US\$11.4 million was primarily related to expenditure associated with the Central Processing Facility overhead compressor replacement, and continued remediation activities on the Ridge Water Treatment Plant, which was damaged during the 2018 earthquake.

Expenditure on property, plant and equipment was US\$2.0 million for the quarter, mainly related to ongoing implementation and optimisation of the Company's enterprise resource planning system.

Expenditure to progress the Biomass project was US\$2.4 million for the quarter, relating to management of the plantation.

Summary of Investment Expenditure¹

(US\$ million unless noted)	QUARTER END			YEAR TO DATE	
	SEP 2021	JUN 2021	SEP 2020	SEP 2021	SEP 2020
Investment expenditure					
Exploration and evaluation					
PNG	2.9	5.2	1.7	12.3	48.2
USA	19.9	21.7	10.3	61.6	121.1
Total exploration and evaluation expenditure	22.8	26.9	12.0	73.9	169.3
Development					
PNG LNG	5.9	2.8	5.2	13.4	32.6
Pikka	1.9	0.8	9.4	(1.9) ²	99.2
Total development expenditure	7.8	3.6	14.7	11.5	131.9
Production	11.4	5.7	6.1	23.5	32.5
Property plant and equipment	2.0	2.0	4.7	5.5	18.8
Biomass	2.4	3.3	2.0	7.1	5.7
Total investment expenditure	46.4	41.5	39.5	121.5	358.2
Exploration and evaluation expensed^{3,4}					
PNG	1.0	1.8	(1.0)	3.5	32.4
USA	3.1	3.3	2.1	10.4	35.9
Total current year expenditures expensed	4.1	5.1	1.1	14.0	68.3
Prior year expenditures expensed/reversed	(2.2) ²	-	-	(2.2) ²	27.2 ⁵
Total exploration and evaluation expensed	2.0	5.1	1.1	11.8	95.4

1. Numbers may not add due to rounding.
2. Represents prior period capital accrual reversals
3. 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.
4. Numbers do not include expensed business development costs of US\$0.3 million in the third quarter of 2021 (US\$0.7 million in the second quarter of 2021).
5. Prior year expenditures expensed relate to Gobe Footwall drilling costs.

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

mmscf	Million (10 ⁶) standard cubic feet
mmBtu	Million (10 ⁶) British thermal units
bcf	Billion (10 ⁹) standard cubic feet
Billion Btu	Billion (10 ⁹) British thermal units
bopd	Barrels of oil per day
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.