ASX Announcement

Activities for the Quarter ended 30 September 2014

(ASX: OSH | ADR: OISHY | POMSoX: OSH)

23 October 2014

Highlights

	3Q 2014	2Q 2014	% change
Total production (mmboe)	**6.67**	**3.69**	+81
Total sales (mmboe)	**6.16**	**3.22**	+91
Total revenue (US$m)	**538.2**	**339.7**	+58

- **Oil Search's total oil and gas production in the third quarter of 2014 was 6.67 million barrels of oil equivalent (mmboe), 81% higher than in the second quarter of 2014 and nearly four times production achieved in the corresponding period of 2013. This quarter's production was an all-time high for the Company and was only marginally lower than production for the whole of 2013. The significant increase reflected the first full quarter of contributions from the PNG LNG Project.**
- **Production net to Oil Search from the PNG LNG Project was 4.84 mmboe, while the base PNG oil and gas business contributed 1.83 mmboe. The Company remains on track to deliver 2014 full year production within the 18 – 20 mmboe guidance range.**
- **Total revenue for the quarter was US$538.2 million, the highest revenue achieved in the Company's history, 58% higher than in the second quarter and more than three times total revenue in the previous corresponding period. Revenue was driven by materially higher product sales, with 21 LNG cargoes and six cargoes of Kutubu Blend delivered during the period. Average realised oil and condensate prices fell 10%, from US$111.95 per barrel in the second quarter to US$100.67 per barrel, while the average realised LNG and gas price declined by 7%, from US$14.41 per mmBtu to US$13.38 per mmBtu, reflecting a weaker LNG spot market.**
- **Oil Search's 2014 Strategic Review was completed shortly after the end of the quarter. The initial outcomes of the Review, which has set a strategic roadmap for the Company designed to deliver top quartile returns for the next five years, will be presented to the market today.**
- **At the Hides gas field in PNG, the PNG LNG Project G2 production well and the produced water disposal well both reached total depth during the quarter. Results from all the Hides wells are now being used to update the Hides structural and reservoir models, which will help further define the Hides field gas reserves and distribution.**

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- **During the quarter, environmental and social fieldwork studies on the P'nyang gas field in PRL 3 were completed, with work on track for the submission of a production development licence application for the field by early 2015.**
- **Antelope 4, the first of at least two appraisal wells on the Elk/Antelope field in PRL 15, was spudded during the quarter. Preparation of the rig site for Antelope 5 was completed and preliminary development concept selection work studies continued.**
- **In Kurdistan, the Taza 2 appraisal well was temporarily suspended due to interruptions to the supply chain. However, seismic operations and preparations to drill the Taza 3 appraisal well continued uninterrupted. An alternate supply chain route has now been established and the Company intends to recommence operations at Taza 2 and spud Taza 3 in the fourth quarter.**
- **At the end of September 2014, Oil Search had cash of US$594.5 million and debt of US$4,190.2 million, comprising US$4,140.2 million drawn down from the PNG LNG Project finance facility and US$50.0 million from the Company's corporate facilities.**

COMMENTING ON KEY ACTIVITIES IN THE THIRD QUARTER OF 2014, OIL SEARCH MANAGING DIRECTOR, PETER BOTTEN, SAID THE FOLLOWING:

2014 Strategic Review

"Oil Search is currently undergoing a major corporate transformation; the successful start-up of the PNG LNG Project has already started to provide a material uplift in production, profit and legacy cash flows. With this is mind, in April we commenced a major Strategic Review to re-evaluate our position and strategy and set the roadmap for the Company's next phase of growth. The Review has now been completed and initial outcomes will be communicated to the market at an investor seminar this morning that will be webcast live over our website.

The Review has been wide ranging, covering all aspects of our business, assets and organisation as well as future capital management. We have re-affirmed our vision for the next five years, which is to generate top quartile returns for shareholders through excellence in socially responsible oil and gas exploration and production.

The PNG LNG Project is now starting to contribute to our bottom line. In light of the forthcoming significant increase in profitability, the Board has agreed that, after debt servicing, sustaining capital expenditure and commitments, the payment of a materially higher dividend will be our highest priority. A new policy has been approved, which will see the payment of 35 – 50% of core net profit after tax (net profit after tax excluding any material one-off adjustments to income) being paid to shareholders by way of dividends, commencing with the 2014 final dividend.

After dividend payments, we will still have substantial funds available to pursue growth opportunities. One of the key findings of the Review is that Oil Search has significant upside potential within its existing asset base in our PNG heartland, where we have unrivalled operating experience and a major competitive advantage. Oil Search's best estimate is that there is more than 20 tcf of discovered gas in PNG of which only 9 tcf is under development (committed to the PNG LNG Project). More than 9 tcf lies in licences in which Oil Search has an interest, with recent evaluation indicating material upside in P'nyang and other fields. This is sufficient to underpin at least two and, with modest exploration and appraisal success, potentially three, additional LNG trains in PNG, one based on Highlands gas and the other one/two trains from Gulf basin gas. These trains offer excellent economic returns, even if a weaker LNG pricing environment emerges. Significant exploration upside has also been identified in PNG, with the potential for a doubling in the gas resource base over time. We see ongoing robust LNG demand from the Asia-Pacific region, with PNG in a highly competitive position to capture these emerging and growing LNG markets.

Having a range of high potential growth projects within PNG mitigates the immediate need to expand internationally. However, given that PNG is primarily a gas province, we will continue to actively seek material, high-returning oil assets (which are generally quicker to market and cheaper to develop than LNG), in areas where we have strong capabilities, such as in developing countries or specific geological environments.

Based on a comprehensive cash flow analysis that has been stress tested for lower oil prices, Oil Search is in a unique position to be able to pursue our high returning growth initiatives as well as pay a material dividend stream, providing both growth and yield to shareholders.

As part of the Review, the organisational capabilities required to deliver our strategic commitments have been assessed. As a result, a number of organisational changes will take place. One of the most important initiatives is that, in future, considerably more of our senior managers will be based in PNG. This will assist in the development of deeper relationships with key PNG stakeholders at a number of different levels within Oil Search, as well as ensure significantly more management depth in addressing in-country challenges. This structural change will augment succession planning and senior management development."

PNG LNG Project

"The PNG LNG Project reached full operating capacity in late July, ahead of expectations following a largely trouble-free ramp-up. It contributed 4.84 mmboe net to Oil Search during the quarter, resulting in a near fourfold increase in our total production compared to the same period of last year and a tripling of sales revenue. All components of the LNG production facilities are now operating in line with, or better than, expectations, which is a very pleasing outcome.

During the quarter, 23 LNG cargoes were lifted and 21 delivered to Asian buyers, taking the total to 30 LNG cargoes lifted and 26 sold in the year to date. In September, the first LNG cargo sold under long-term contract was delivered, with all long-term contracts expected to commence by the end of the fourth quarter of 2014. Six cargoes of Kutubu Blend, comprising production from the PNG oil fields and condensate from the PNG LNG Project, were also sold during the quarter.

A number of production and facility tests, including a 120-day operability test at the LNG plant site, to support the lenders' operational completion testing requirements, commenced during the quarter and remain on schedule to conclude in the first quarter of 2015.

Development drilling at Hides is almost complete, with the eighth production well, located at Wellpad G, and the produced water disposal well reaching total depth in September. Work is now being undertaken to better delineate the Hides gas reserves and distribution, using the data obtained from all the wells drilled to date. These studies are expected to continue into 2015.

Demobilisation of development personnel at the LNG plant site and Hides Gas Conditioning Plant is expected to be completed in the fourth quarter of 2014."

Gas development

"Work continued during the quarter on aggregating gas to support at least two, and possibly three, LNG expansion trains in PNG. Gas for further developments is expected to come from two key areas – the north-western Highlands Hub, which includes the P'nyang gas field, and the Gulf Hub, including the Elk/Antelope gas fields. Environmental and social fieldwork on the P'nyang gas field in PRL 3 was completed during the quarter. These are essential components of the work required for the production development licence application on the field, which is planned to be submitted in early 2015, with P'nyang to be used as an underwriting gas resource for the possible expansion of the PNG LNG Project. Shortly after the end of the quarter, the Hides F1 Deep well, which will be completed both as a Hides development well and will explore a possible deeper, high potential reservoir, the Koi-Iange, commenced drilling.

In the Gulf area, the Antelope 4 appraisal well was spudded by the PRL 15 operator, InterOil Corporation, in September. This well will appraise the southerly extent of the field and is expected to undergo production testing to assess reservoir quality and productivity. Preparations to spud a second appraisal well, Antelope 5, located on the western flank of the field, continued with the rig site completed during the quarter. These wells will help determine whether the Elk/Antelope resource can underpin one or two LNG trains, while a possible additional well may be drilled to assess the upside potential. Further studies also took place during the quarter on preliminary Concept Select studies, work that will be broadened once the resource is better defined.

Antelope Deep, an exploration prospect to the south of the licence, continued to be matured for potential drilling during 2015.

Submissions related to the arbitration proceedings that Oil Search has instigated (regarding its claim for pre-emptive rights over the transfer of an interest in PRL 15 from an InterOil subsidiary to a subsidiary of the Total SA Group) were made to the arbitration panel during the quarter. The arbitration is proceeding to a hearing in London in late November 2014 and a decision from this arbitration is expected during the first quarter of 2015."

Taza oil field, Kurdistan

"Operations on the Taza 2 well in Kurdistan were suspended during the quarter following an increase in regional tensions which caused supply chain disruptions. An alternate supply route has been established and most of the materials and equipment required for testing have now been delivered to the site. Taza 2 operations are expected to resume in the fourth quarter of 2014. Meanwhile, acquisition of more than 600 square kilometres of 3D seismic and rigging up of a second rig to spud Taza 3, a second appraisal well located six kilometres south east of Taza 1, continued during the quarter, with Taza 3 anticipated to spud shortly."

2014 third quarter production and revenue performance

"As already highlighted, third quarter production of 6.67 mmboe was 81% higher than in the second quarter of 2014. This was driven primarily by the first full quarter of contributions from the PNG LNG Project, together with steady production from our mature PNG oil fields, reflecting continued strong reservoir performance. Total production for the nine months to 30 September 2014 was 12.0 mmboe and the Company remains on track to meet our 2014 full year production guidance of 18-20 mmboe.

Total operating revenue for the quarter was US$538.2 million, compared to US$339.7 million in the second quarter of 2014. The 58% increase reflected a 228% increase in LNG revenues, partially offset by an 8% fall in oil and condensate revenues due to a weaker average realised oil and condensate price.

During the period, we spent US$230.5 million on exploration, development and production activities, of which US$120.3 million was related to the PNG LNG Project. This capital expenditure was funded by cash, operating cash flows and drawdowns from the PNG LNG Project finance facility. Total liquidity rose from

US$1,067.8 million at the end of June 2014 to US$1,294.5 million at the end of September 2014, comprising US$594.5 million in cash and US$700 million in undrawn committed funding lines."

Outlook for 2014 full year results

Guidance for the 2014 full year key metrics is as follows:

2014 Full Year Guidance[1]

Production	
Oil Search operated (PNG oil and gas)	6.5 – 6.9 mmboe[2]
PNG LNG Project	
LNG	49 – 57 bcf
Liquids	1.8 – 2.0 mmbbl
Total PNG LNG Project	11.5 – 13.1 mmboe[2]
Total production	**18 – 20 mmboe**
Operating costs:	
Production costs	US$12 – 15 per boe
Other operating costs[3]	US$130 – 150 million
Depreciation and amortisation	US$13 – 15 per boe
Capital costs:	
PNG producing fields	US$105 – 125 million
PNG LNG Project	US$525 – 600 million
Exploration and evaluation	US$1,250 – 1,330 million[4]
Property, plant and equipment	US$10 – 20 million
Total	**US$1,890 – 2,075 million**

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 Hides GTE gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, corporate administration costs (including business development) and inventory movements.
4. Includes PRL 15 and associated acquisition costs of US$918.3 million.

2014 THIRD QUARTER PERFORMANCE SUMMARY[1]

Production

	Quarter End			Year to Date		Full Year
	Sep 2014	**Jun 2014**	**Sep 2013**	**Sep 2014**	**Sep 2013**	**Dec 2013**
Production data						
PNG LNG Project[2]						
LNG (mmscf)	20,901	7,496	-	28,397	-	-
Liquids ('000 bbls)[3]	737	400	-	1,138	-	-
PNG crude oil production ('000 bbls)						
Kutubu	955	966	938	2,769	2,511	3,473
Moran	515	504	550	1,512	1,538	2,041
SE Mananda	0	1	3	5	13	18
Gobe Main	9	7	10	24	30	36
SE Gobe	35	27	27	97	107	132
Total oil production ('000 bbls)	1,514	1,506	1,528	4,407	4,200	5,700
Hides GTE						
Gas (mmscf)	1,473	1,436	1,352	4,258	4,094	5,514
Liquids ('000 bbls)	32	30	29	91	88	119
Total barrels of oil equivalent ('000 boe)[4]	6,670	3,687	1,782	12,038	4,970	6,737

1. Numbers may not add due to rounding.
2. Production net of fuel, flare and shrinkage.
3. PNG LNG liquids comprise condensate and naphtha.
4. Gas and LNG volumes for 2014 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. The change to a specific boe conversion factor more closely reflects the energy content of the Company's gas reserve portfolio compared to the previous conversion factor of 6,000 scf per boe. Note that prior year figures have not been restated. Minor variations to the conversion factors may occur over time.

Sales[1]

	Quarter End			Year to Date		Full Year
	Sep 2014	Jun 2014	Sep 2013	Sep 2014	Sep 2013	Dec 2013
Sales data						
PNG LNG Project						
LNG (Billion Btu)	21,456	4,974	-	26,430	-	-
Condensate ('000 bbls)	656	389	-	1,045	-	-
Naphtha ('000 bbls)	25	-	-	25	-	-
PNG oil ('000 bbls)	1,447	1,672	1,286	4,352	4,156	5,726
Hides GTE						
Gas (Billion Btu)[2]	1,580	1,540	1,449	4,569	4,388	5,910
Condensate and refined products ('000 bbls)[3]	28	27	27	80	81	110
Total barrels of oil equivalent ('000 boe)[4]	6,157	3,223	1,531	10,893	4,897	6,726
Financial data (US$ million)						
LNG and gas sales	308.3	93.9	18.3	421.4	57.7	76.9
Oil and condensate sales	212.0	231.2	144.6	580.0	456.5	634.5
Other revenue[5]	17.9	14.7	12.4	46.9	42.1	54.8
Total operating revenue	538.2	339.7	175.3	1,048.2	556.3	766.3
Average realised oil and condensate price (US$ per bbl)[6]	100.67	111.95	112.24	107.32	109.53	110.57
Average realised LNG and gas price (US$ per mmBtu)	13.38	14.41	12.63	13.59	13.14	13.01
Cash (US$m)	594.5	367.8	317.6	594.5	317.6	209.7
Debt (US$m)						
PNG LNG financing	4,140.2	4,084.0	3,557.3	4,140.2	3,557.3	3,824.4
Corporate revolving facilities[7]	50.0	50.0	150.0	50.0	150.0	200.0
Net debt (US$m)	3,595.7	3,766.2	3,389.7	3,595.7	3,389.7	3,814.8

1. Numbers may not add due to rounding.
2. Relates to gas delivered under the Hides GTE Gas Sales Agreement.
3. Relates to refined products delivered under the Hides GTE Gas Sales Agreement or sold in the domestic market and condensate.
4. Gas and LNG volumes for 2014 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. The change to a specific boe conversion factor more closely reflects the energy content of the Company's gas reserve portfolio compared to the previous conversion factor of 6,000 scf per boe. Note that prior year figures have not been restated. Minor variations to the conversion factors may occur over time.
5. Other revenue consists largely of rig lease income, infrastructure tariffs and refinery and naphtha sales.
6. Average realised price for Kutubu Blend including PNG LNG condensate.
7. At the end of September 2014, the Company had drawn down US$50 million under the US$250 million bilateral revolving facilities and nil under the US$500 million revolving corporate facility.

PRODUCTION PERFORMANCE

Total third quarter production net to Oil Search was 6.67 million barrels of oil equivalent (mmboe), comprising the following:

- PNG oil field and gas production from the Hides GTE Project of 1.83 mmboe, produced at an average rate of 19,939 barrels of oil equivalent per day (boepd). This was 1% higher than in the previous quarter, due to a strong performance from all the key producing fields.
- PNG LNG liquids production of 0.74 mmbbl, comprising condensate produced during gas processing at the HGCP and naphtha at the LNG plant.
- LNG produced at the PNG LNG plant, net of fuel, flare and shrinkage, of 20,901 mmscf.

PNG LNG Project (29.0%)

Third quarter production from the PNG LNG Project was 4.84 mmboe net to Oil Search, comprising 20.9 bcf of gas for LNG and 0.74 mmbbl of liquids. This was 158.8% higher than production in the second quarter of 1.87 mmboe (7.5 bscf gas and 0.4 mmbbl liquids), with both LNG trains operating at full capacity from late July. In August, the Oil Search-operated Gobe Main field commenced producing gas for the Project.

During the quarter, 23 LNG cargoes were lifted and 21 delivered to Asian buyers, taking the total to 30 LNG cargoes lifted and 26 delivered in the year to date. Six cargoes of Kutubu Blend were sold, resulting in a total of 15 cargoes sold in the year to date.

The eighth production well, G2 at Wellpad G, and the produced water disposal (PWD 1) both reached total depth in September. The G wells encountered the gas-bearing Toro/Digimu reservoirs and are expected to be tied into the HGCP in the fourth quarter of 2014. The PWD 1 well is being completed as a water injection well.

Rig 702 has been mobilised to the Angore field, where the first of two additional PNG LNG Project production wells has recently been spudded, while Rig 703 recently commenced drilling the Hides F1 Deep development/exploration well from Wellpad F.

Kutubu (PDL 2 – 60.0%, operator)

Third quarter oil production net to Oil Search was 0.96 million barrels (mmbbl), 1% lower than in the second quarter. Gross production rates averaged 17,291 bopd during the period, down slightly from 17,681 bopd in the previous quarter.

Production at Kutubu remained strong during the quarter, with good contributions from the Usano, Main Block Toro and Hedinia Digimu reservoirs.

At Agogo, the Agogo 7 development well, drilled in the forelimb of the Agogo field, was completed during the quarter. This has been a very successful well, with sustained production rates of approximately 1,500 bopd expected once in full production. The encouraging results from this well will be used to assess the potential for additional development well locations in the Agogo forelimb structure.

Moran Unit (49.5%, based on PDL 2 – 60.0%, PDL 5 – 40.7% and PDL 6 – 71.1%, operator)

Oil Search's share of Moran 2014 third quarter oil production was 0.52 mmbbl, 2% higher than in the second quarter of 2014. The field produced at a gross average rate of 11,308 bopd, up slightly from the last quarter of 11,194 bopd.

Gobe (PDL 3 - 36.4% and PDL 4 - 10%, operator)

Oil Search's share of oil production from the Gobe fields in the third quarter of 2014 was 0.04 mmbbl, up 29% from second quarter production levels. This was largely due to a scheduled shutdown at the Gobe Production Facility (GPF) for routine maintenance and servicing during the second quarter. A further scheduled shutdown of the GPF is planned for November.

The gross average production rate for Gobe Main was 26% higher than in the second quarter, at 945 bopd while the gross average production rate at SE Gobe was 28% higher than in the previous quarter, at 1,488 bopd.

SE Mananda (PDL 2 – 72.3%, operator)

The SE Mananda field was shut-in for most of the third quarter due to operational issues at this remote location.

Hides Gas to Electricity Project (PDL 1 - 100%)

2014 third quarter production of gas for the Hides Gas to Electricity Project was 1.47 bcf, produced at an average daily rate of 16 mmcf per day. This was slightly higher than second quarter production of 15.7 mmcf per day. 31,598 barrels of condensate were produced for use within the Hides facility or transported by truck to the CPF.

EXPLORATION AND APPRAISAL ACTIVITY

Gas Development

During the quarter, the PRL 3 Joint Venture completed environmental and social fieldwork studies on the P'nyang gas field in PRL 3 (Oil Search – 38.51%). This work is one of the key components required for the production development licence application (PDLA) for the field. Plans are on track for submission of the PDLA in early 2015, with P'nyang to be used as a source of gas for a possible expansion of the PNG LNG Project.

Interpretation of 71 kilometres of 2D seismic acquired over the Juha field in PDL 9 (Oil Search – 24.42%) and over PPL 402 (Oil Search – 100% subject to Government approvals) was completed during the quarter and preparations for a follow-on 2D seismic programme commenced in September.

At Hides, planned development drilling activity concluded with the completion of drilling of the second G pad well, G2, and the PWD 1 well. The G2 well intersected the gas-bearing Toro reservoir while the PWD 1 well intersected the Toro in the water leg, as planned. The results of all the wells drilled on the Hides field are now being integrated into an updated assessment of the resource base. This work is expected to conclude in 2015.

As already highlighted, the first of two PNG LNG Project production wells on the Angore field and the Hides F1 Deep development/exploration well commenced drilling shortly after the end of the quarter. As well as being a Toro producer, the Hides F1 Deep will test the deeper Jurassic, Koi-Iange reservoir, a potentially material gas-bearing reservoir that has been identified on seismic to lie some 700 metres beneath the existing producing Toro reservoir.

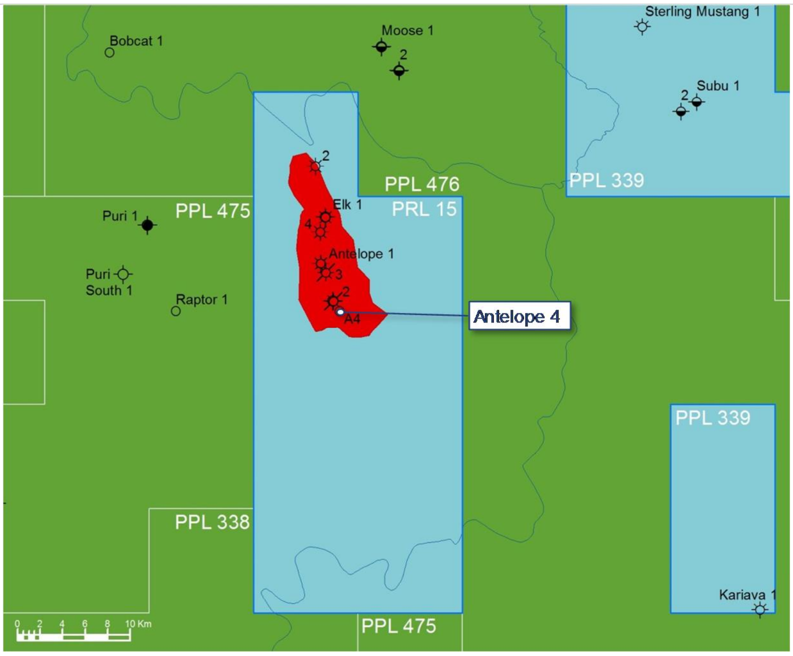
In the onshore Gulf area, acquisition of additional airborne field data over PPL 339 commenced during the quarter. A seismic programme is planned for the fourth quarter, based on existing models and the results of the airborne gravity survey.

In PRL 15, the Antelope 4 well (Oil Search – 22.835%) spudded in September. Antelope 4 is located one kilometre south of Antelope 2 and is appraising the southern extent of the field (see map below). In addition, preparation of the rig site for a second appraisal well, Antelope 5, was completed during the quarter. The operator, InterOil Corporation, expects Antelope 5, designed to test the western flank of the field, to spud in late 2014. Planning work also took place on a possible third appraisal well and an exploration prospect, Antelope Deep, located south of Antelope which is being matured for potential drilling in 2015.

Additional work was also undertaken on conceptual development studies ahead of a Concept Select process. The development of PRL 15 is a key part of Oil Search's portfolio of value-adding growth opportunities in PNG. Oil Search's objective remains to develop Elk/Antelope in the most timely and capital efficient manner, to realise the full value of this material gas resource and other potential gas within PRL 15, for the benefit of all stakeholders

As noted in the first half results announcement, Oil Search considers that the transfer of an interest in PRL 15 from an InterOil subsidiary to a subsidiary in the Total SA Group, first announced in December 2013, is subject to various consent and pre-emptive rights under the Joint Venture Operating Agreement (JVOA). Arbitration was instigated by Oil Search to seek the enforcement of JVOA rights and is proceeding to a hearing in London in late November 2014. A decision from this arbitration is expected during the first quarter of 2015.

![Oil Search]



Antelope 4 , PRL 15

Oil Exploration and Appraisal

In the Kurdistan Region of Iraq, the Taza 2 appraisal well, located in the Taza PSC (Oil Search – 60%, operator), 10 kilometres north-west of the Taza 1 discovery well, reached a total depth of 4,200 metres in July. Logs confirmed the presence of hydrocarbons in the intervals (Dhiban/Jeribe and Euphrates/Kirkuk Formations) that were hydrocarbon bearing in the Taza 1 discovery well as well as in the deeper Paleogene, Jaddala/Aalije and Cretaceous Shiranish Formations. Cores of 18 metres and 9 metres were cut from the Jeribe and Euphrates Formations, respectively, and are currently being analysed.

In late August, the Taza 2 well was suspended following an increase in regional tensions which interrupted the deployment of key skilled technicians, equipment and materials to the wellsite. Alternative supply chain routes have now been established and Taza 2 operations, including carrying out a comprehensive testing programme, are expected to re-commence in the fourth quarter.

Taza 3 (Oil Search – 60%, operator), an appraisal well located approximately six kilometres south-east of Taza 1, is expected to spud in the fourth quarter of 2014, using a second rig contracted from the Sakson Group. During the quarter, site construction, civil works and rig assembly were largely completed. Taza 3 will better define the field structural configuration, fluid contacts, reservoir quality and the distribution and nature of fracturing of the carbonate reservoirs in the southern part of the Taza field. Meanwhile, the acquisition of more than 600 square kilometres of 3D seismic over the Taza block commenced in early May and was 70% complete at the end of the quarter. This data will assist in defining the detail of the field structure and location of potential future wells.

During the quarter, positive discussions were held with the Kurdistan Regional Government regarding a 12 month extension to the current Exploration Period of the Taza PSC until October 2015.

In PNG, the Usano 4 well (previously known as UFLA) commenced drilling in July, with the objective of testing the presence of a forelimb in the Usano structure, as seen beneath the Agogo and Hedinia fields, and a deeper, footwall structure. The well reached TD shortly after the end of the quarter, having encountered the targeted Toro reservoir. Data has confirmed the interval to be water bearing and consequently the well is being plugged and abandoned.

In Tunisia, a 300 kilometre 2D seismic survey over the Tajerouine PSC (Oil Search – 100%, operator) commenced in mid-September. In early October, a tragic incident occurred on a shot-hole drilling crew which resulted in the death of an employee of our seismic contractor. The seismic contractor is undertaking a full investigation.

Block 7 in Yemen (Oil Search – 34%, operator), remains in a state of force majeure.

DRILLING CALENDAR

Subject to Joint Venture approvals, the 2014 exploration, appraisal and development programme is as follows:

Well	Well type	Licence	OSH interest	Latitude / Longtitude	Rig name	Timing
PNG						
Hides F1 Deep	Development/Exploration	PDL 1	16.7%	N/A	Rig 703	Ongoing
Antelope 4	Appraisal	PRL 15	22.835%	N/A	Western Drilling Rig 1	Ongoing
Antelope 5	Appraisal	PRL 15	22.835%	N/A	Rig 103	4Q 2014
Usano 5 (UDT N)	Near field exploration	PDL 2	60.05% (93.25% paying interest)	143° 16' 48.10" E 6° 29' 17.79" S	Rig 104	4Q 2014
Kurdistan Region of Iraq						
Taza 2	Appraisal	Taza PSC	60.0% (75% paying interest)	35° 4' 36.547" N 44° 45' 9.646" E	Sakson Rig PR 3	Ongoing
Taza 3	Appraisal	Taza PSC	60.0% (75% paying interest)	35° 0' 27.174" N 44° 49' 51.183" E	Sakson Rig SK605	4Q 2014

Note: Wells, location and timing subject to change. PNG locations reported in AGD66 datum, Kurdistan locations reported in WGS84 datum.

FINANCIAL PERFORMANCE

Sales revenue

23,035 billion Btu of LNG and gas were sold during the quarter, more than three times higher than in the second quarter. LNG and gas sales volumes were lower than production, primarily due to the timing of LNG cargo deliveries, with 23 LNG cargoes lifted and 21 delivered to Asian buyers during the quarter. Oil, condensate and naphtha sales volumes for the period totalled 2.16 mmbbl, 6% lower than the 2.29 mmbbl produced, also due to the timing of shipments, with six cargoes of Kutubu Blend sold.

The average oil and condensate price realised during the quarter was US$100.67 per barrel, 10% lower than in the previous quarter due to global oil price weakness and a change in Kutubu Blend crude specifications, reflecting the co-mingling of PNG LNG Project condensate with crude from the PNG oil fields. The average price realised for LNG and gas sales declined 7% during the quarter to US$13.38 per mmBtu, reflecting lower LNG spot prices in a weaker global oil price environment. 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 was US$520.3 million, while other revenue, comprising rig lease income, infrastructure tariffs and refinery and naphtha sales, was US$17.9 million.

Total operating revenue for the nine months to 30 September 2014 was US$1,048.2 million, 88% higher than revenue in the nine months to 30 September 2013 of US$556.3 million.

Capital management

As at 30 September 2014, Oil Search had cash of US$594.5 million, compared to US$367.8 million at the end of June 2014. The Company had drawn down US$4,140.2 million under the PNG LNG Project finance facility (US$4,084.0 million at the end of June 2014). During the quarter, Oil Search repaid US$50 million of the US$500 million revolving corporate facility, which was undrawn as at 30 September 2014, and drew down US$50 million of the Company's US$250 million bilateral revolving credit facility. At the end of September 2014, the Company had total liquidity of US$1,294.5 million (US$1,067.8 million at the end of June 2014).

Capital expenditure

During the quarter, exploration and evaluation expenditure totalled US$86.6 million, which included US$23.1 million spent on the Taza 2 and Taza 3 wells in Kurdistan, US$21.8 million on the Usano 4 (UFL A) near field exploration well and US$6.0 million of appraisal costs on PRL 15 in PNG. US$9.5 million of exploration costs were expensed, primarily related to seismic, geological, geophysical and general and administration expenses.

Oil Search's share of PNG LNG Project development and financing costs in the third quarter was US$120.3 million, funded 70% by drawdowns from the PNG LNG Project finance facility and with the remaining 30% funded from cash and operating cash flows. Expenditure on producing assets totalled US$18.5 million, mainly spent on well workovers and the Kutubu AFL A well in PNG.

Summary of investment expenditure and exploration and evaluation expensed[1]

(US$ million)	Quarter End			Year to Date		Full Year
	Sep 2014	Jun 2014	Sep 2013	Sep 2014	Sep 2013	Dec 2013
Investment expenditure						
Exploration & Evaluation						
PNG	40.9	23.7	66.7	1,015.5[2]	175.7	206.8
MENA	45.8	36.3	12.6	109.4	70.7	87.1
Total exploration & evaluation	86.6	60.0	79.3	1,124.9	246.4	293.8
Development[3]	120.3	133.4	279.0	443.3	906.7	1,214.0
Production	18.5	41.3	37.7	78.8	117.0	152.6
PP&E	5.1	1.9	4.0	8.0	7.4	11.9
Total	**230.5**	**236.7**	**400.0**	**1,655.0**	**1,277.5**	**1,672.4**
Exploration & evaluation expenditure expensed[4,5]						
PNG	4.2	3.1	51.4	14.2	54.5	67.4
MENA	5.3	1.5	5.8	10.7	32.8	36.3
Total current year expenditures expensed	9.5	4.5	57.2	24.9	87.3	103.7
Prior year expenditures expensed	-	-	-	-	3.7	3.7
Total	**9.5**	**4.5**	**57.2**	**24.9**	**91.0**	**107.4**

1. Numbers may not add up due to rounding.
2. Restated to reflect the 13 March 2014 acquisition of an interest in PRL 15 and associated acquisition costs of US$918.3 million.
3. Includes capitalised interest and finance fees.
4. Exploration expensed includes costs of unsuccessful wells except where costs continue to be capitalised, certain administration costs and geological and geophysical costs. Costs relating to permit acquisitions, expenditure associated with the drilling of wells that result in a successful discovery of potentially economically recoverable hydrocarbons and expenditures on exploration and appraisal wells pending economic evaluation of recoverable reserves are capitalised.
5. Numbers do not include expensed business development costs of US$2.7 million in the third quarter of 2014 (US$2.7 million in the second quarter of 2014).

Gas/LNG Glossary and Conversion Factors Used

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 1.13 billion Btu
1 boe	Approximately 5,100 standard cubic feet
1 tonne LNG	Approximately 52 mmBtu

Note: Minor variations in conversion factors may occur over time, due to changes in gas composition.

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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 the timing of commissioning, completion of construction and commencement of production from the PNG LNG Project, oil and gas prices, changes in market demand for oil and gas, currency fluctuations, drilling results, field performance, the timing of well work-overs and field development, reserves depletion and fiscal and other government issues and approvals.