ASX Announcement

Activities for the Quarter ended 30 September 2016

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

18 October 2016

Highlights

	Sep 2016	Jun 2016	% change
Total production (mmboe)	**7.63**	**7.17**	***+6%***
Total sales (mmboe)	**7.49**	**7.20**	***+4%***
Total revenue (US$m)	**309.5**	**267.7**	***+16%***

- **Total production in the third quarter of 2016 was 7.63 million barrels of oil equivalent (mmboe). This was 6% higher than in the second quarter and the second highest quarterly production in Oil Search's history.**
- **Production net to Oil Search from the PNG LNG Project was 5.94 mmboe. The Project produced at an annualised rate of approximately 8.1 MTPA, 10% higher than in the second quarter and the highest quarterly rate achieved since it came onstream in 2014. The Oil Search-operated PNG oil and gas fields contributed 1.69 mmboe net to Oil Search, compared to 1.75 mmboe in the previous quarter.**
- **Total revenue for the quarter was US$309.5 million, 16% higher than in the second quarter of 2016. The average realised oil and condensate price of US$47.24 per barrel was slightly lower than in the second quarter, but the average realised LNG and gas price was 23% higher, at US$6.44 per mmBtu, due to the approximate three month lag between oil and LNG pricing.**
- **Oil Search continued to generate positive operating cash flows during the quarter, reflecting the Company's high quality assets and competitive cost base. The Company's cash balance increased from US$780 million to US$939 million, taking total liquidity, including US$748 million of undrawn corporate credit facilities, to US$1.69 billion. At the end of September 2016, the Company's share of PNG LNG project finance debt was US$4,084 million.**
- **In August, InterOil Corporation (InterOil) received a takeover offer from Exxon Mobil Corporation (ExxonMobil), which was deemed superior to Oil Search's offer made in May. Oil Search decided not to exercise its right to match the ExxonMobil proposal. Consequently, the Arrangement Agreement between InterOil and Oil Search was terminated.**
- **As reported in the second quarter results, an independent gas certification of the Elk-Antelope fields by two world-class experts was completed. The average 1C (low estimate contingent) and 2C (best estimate contingent) of the two certifiers is 5.2 tcf and 6.4 tcf of raw gas respectively. Together with resources in the P'nyang gas field, Oil Search believes there is sufficient undeveloped gas resource to underpin at least two additional PNG LNG-sized LNG trains.**

Oil Search Limited
Incorporated in
Papua New Guinea
ARBN 055 079 868

Head office
Port Moresby
Papua New Guinea

Sydney office
1 Bligh Street
Sydney NSW 2000
Australia

Mailing address
GPO Box 2442
Sydney NSW 2001
Australia

Tel: +61 2 8207 8400
Fax: +61 2 8207 8500
www.oilsearch.com

- **A Strategy Refresh commenced during the quarter. This review is focused on the potential options and the value that can be delivered by cooperation between the P'nyang and Elk-Antelope joint ventures and the PNG LNG Project and determining the key activities required to underpin the next phase of LNG growth in PNG. It is expected that this work will be completed by the end of the year.**
- **During the quarter, mobilisation and rigging-up at the Antelope 7 appraisal well site commenced. The well, which will provide key information on potential resource upside on the western flank of the Elk-Antelope field, is expected to commence drilling in late October/early November. Meanwhile, preparations continued to drill the high potential Muruk 1 exploration well, located north-west of the Hides field in the PNG Highlands, with the well expected to spud in November.**

COMMENTING ON THE THIRD QUARTER OF 2016, OIL SEARCH MANAGING DIRECTOR, PETER BOTTEN, SAID:

"The third quarter of 2016 was another very strong period operationally for Oil Search. Production of 7.63 mmboe was 6% higher than in the second quarter and only 1% lower than the all-time record level achieved in the first quarter of 2016. Total operating revenue rose 16% to US$309.5 million, driven by a 4% lift in hydrocarbon sales and a 23% increase in the average realised LNG and gas price and was achieved despite a 3% fall in the average realised oil and condensate prices to US$47.24 per barrel, reflecting slightly weaker global oil prices.

During the quarter, Oil Search's Arrangement Agreement for the takeover of InterOil was terminated. This followed a notification from InterOil that it intended to change its recommendation in respect of the Oil Search proposal and enter into an arrangement agreement with ExxonMobil. Following deliberations, the Oil Search Board decided it was not in the best interests of shareholders to submit a revised offer for InterOil. As previously highlighted, this decision was based on our belief that cooperation between the Papua LNG and PNG LNG projects, the main objective of our original bid for InterOil, is materially enhanced by ExxonMobil's entry into the PRL 15 Joint Venture. The consideration offered by ExxonMobil underscores the potential value that would be created by cooperation, with Oil Search well positioned to benefit from a cooperative development, given its material interests in all the key gas resources, including PRL 3 (38.5%), PRL 15 (23%) and the PNG LNG Project (29%).

ExxonMobil's bid for InterOil is now nearing completion, following a shareholder vote, at which 80% of InterOil holders supported the acquisition, and clearance from the Supreme Court of Yukon, which determined that the transaction was fair and reasonable. A notice of appeal has since been filed. However InterOil has indicated that it intends to expedite the hearing and the transaction will be closed promptly, following receipt of a favourable resolution.

Once ExxonMobil's entry into the PRL 15 Joint Venture has been confirmed, we anticipate that talks will commence with the operator, Total SA (Total), about possible cooperation and integration of the next phase of LNG development. Oil Search believes that there is sufficient gas resource in the Elk-Antelope and P'nyang gas fields to underpin at least two PNG LNG-sized expansion trains, and possibly three trains if planned appraisal and exploration drilling is successful. Building these trains on the PNG LNG plant site and sharing downstream facilities would result in considerable capital savings and would materially improve operating efficiencies, generating superior returns for Oil Search shareholders, as well as for other stakeholders, including the PNG Government and local landowners. Under all anticipated scenarios involving cooperation, two highly credentialed operators of LNG developments, ExxonMobil and Total, will be maintained in PNG for the next phase of development.

PNG's LNG development opportunities are already in the lowest-cost quartile globally, with integration savings making LNG expansion even more competitive. Various commercial models can be applied to deliver project integration. Studying the various options, their relative values and how the significantly increased overall value is shared equitably between the P'nyang, Elk-Antelope and PNG LNG owners is a core component of Oil Search's Strategy Refresh. Preliminary indications from this work suggest that unitisation in some form is an optimal development solution.

The conclusions of the Strategy Refresh, which is expected to be completed in the fourth quarter of 2016, will form the basis for Oil Search to engage in a constructive dialogue with our partners on the way forward. We look forward to commencing discussions regarding a cooperative development agenda with Total, ExxonMobil and the PNG Government prior to year-end."

PNG LNG Project

"The PNG LNG Project was back to full production in the third quarter, following routine maintenance and a brief unplanned shut-down in the second quarter. Third quarter production net to Oil Search from the PNG LNG Project was 5.94 mmboe, comprising 25.9 bcf of LNG and 0.87 mmbbl of liquids. The Project produced at an annualised rate of approximately 8.1 MTPA, up from 7.4 MTPA in the second quarter and 17% above nameplate capacity. This was achieved despite a small reduction in gas flow and LNG production in August, when there was a peaceful landholder protest at the Hides Gas Conditioning Plant (HGCP), located in the Hela Province, related to landowners seeking a dialogue with Government regarding progressing land title and benefits distribution issues. To ensure the safety of those gathered near one of the producing wellpads, the operator curtailed production from the two Hides wells on that pad. Following constructive discussions between the landowner leaders and government representatives, an agreement was signed which allowed some benefits to be paid and a forward plan was agreed to address remaining benefits and land ownership issues. The wells were subsequently brought back into full production. Oil Search's production guidance for the PNG LNG Project in 2016 remains unchanged, at 22 - 23 mmboe.

Work by Netherland Sewell and Associates on a re-certification of gas reserves in the Hides, Angore and Associated Gas fields, continued during the period. The study is expected to be completed by the end of the year and updated reserves will be reported in our Reserves and Resources Statement in February 2017. In addition, good progress was made by Oil Search and the PNG LNG Project co-venturers on the Associated Gas Acceleration Study.

In the NW Highlands, Oil Search, together with our Joint Venture partners, continued to work closely with the PNG Government to progress the development of the P'nyang field in PRL 3 (Oil Search – 38.51%). Activities included planning for the P'nyang South 2 well, which will be located in the south-east of the P'nyang field and is scheduled to be drilled in 2017 after the Muruk 1 exploration well."

Papua LNG (Elk-Antelope)

"During the quarter, the PRL 15 Joint Venture commenced rig mobilisation and rigging up at the Antelope 7 well site. The Antelope 7 appraisal well is designed to provide further data on the western flank of the field, which is poorly defined by existing seismic. The well, which has been delayed by frequent heavy rain, is now expected to commence drilling in late October/early November, subject to weather conditions.

As previously announced, in July an independent gas certification of the Elk-Antelope fields was completed by Gaffney Cline & Associates (GCA) and Netherland, Sewell & Associates, Inc. (NSAI), in line with the requirements of the sales and purchase agreement between Oil Search and the sellers of the PAC LNG Group of companies. The data used by GCA and NSAI included the results from the very successful

Antelope 5 flow test and the Antelope 6 appraisal well, which provided excellent structural control and reservoir definition on the eastern flank of the Antelope field. The average 1C (low estimate contingent) of the two certifiers is 5.2 tcf of raw gas and the 2C (best estimate contingent) is 6.4 tcf. The evaluation excludes any potential upside from Antelope 7, which Oil Search believes could add 1 - 2 tcf of additional 2C resources, if successful.

Importantly, this certification has confirmed that, together with the undeveloped gas resource in the P'nyang field in PRL 3, there is approximately 6 tcf of 1C and 10 tcf of 2C gas resource between these two fields, sufficient to underpin at least two additional 4 MTPA LNG trains and to support financing and marketing activities."

Muruk exploration well to spud in November

"Site preparation and mobilisation of the rig to the Muruk 1 well pad, in PPL 402 in the NW Highlands, was completed during the quarter. The Muruk exploration well, operated by Oil Search and held in a 50:50 joint venture with ExxonMobil, will test a large gas prospect on trend with Hides, with material prospective volumes. While in a challenging location, at an elevation of more than 3,000 metres, the well is only 21 kilometres north-west of the Hides G1 wellpad and, if successful, could be tied into the existing PNG LNG infrastructure. Subject to weather and rig crew assembly, the well is expected to commence drilling in November."

Entry into FEED on Markham Valley Biomass Project

"Shortly before the end of the quarter, Oil Search announced it had entered into Front End Engineering and Design (FEED) for a biomass project located in the Markham Valley, 55 kilometres north-west of Lae in PNG. The project, which is expected to generate up to 30 megawatts of renewable, biomass-fired, baseload power for the Ramu Power Grid, with deliveries commencing in 2019, is one of several PNG power projects that the Company is currently working on. These projects are aimed at providing reliable and competitively-priced power to domestic, commercial and industrial markets in PNG. Our power activities, which we are pursuing in conjunction with Government-owned and non-Government organisations, are aligned with the PNG Government's policy to materially increase access to power across PNG."

Cash balance building despite continued low oil prices

"Despite continued low oil prices, Oil Search generated positive cash flows during the quarter. The Company's cash balance increased from US$780 million to US$939 million, and with no PNG LNG Project finance facility principal payments due during the period, net debt declined from US$3,304 million to US$3,145 million, highlighting the strong cash flows generated from operations.

Excluding InterOil acquisition-related one-off costs, our cash flow break-even (including cash operating costs and interest payments) in 2016 is expected to be less than US$18 per barrel of oil equivalent (boe) and less than US$28 per boe, including principal repayments."

2016 Full Year Guidance

Production and operating cost guidance for the full year remains unchanged, with production currently trending towards the upper end of the range. However, capital cost guidance is approximately 12% lower than previously indicated, as shown in the table below, reflecting the deferral of production capital and some pre-FEED activities into 2017 and lower than expected PNG LNG Project capital spend.

Year to December 2016[1]	Updated guidance	Previous guidance
Production		
Oil Search operated (PNG oil and gas)[2, 3]	6.3 – 6.7 mmboe	6.3 – 6.7 mmboe
PNG LNG Project:		
LNG	95 – 98 bcf	95 – 98 bcf
Liquids	3.3 – 3.5 mmbbl	3.3 – 3.5 mmbbl
Total PNG LNG	22 – 23 mmboe[3]	22 – 23 mmboe[3]
Total production	**28 – 30 mmboe**	**28 – 30 mmboe**
Operating costs		
Production costs	US$8 – 10/boe	US$8 – 10/boe
Other operating costs [4]	US$135 – 155 million	US$135 – 155 million
Depreciation and amortisation	US$13.50 – 14.50/boe	US$13.50 – 14.50/boe
Capital costs		
Production [5]	US$40 – 50 million	US$50 – 60 million
Development [6]	US$25 – 30 million	US$20 – 30 million
Exploration and evaluation [7]	US$165 – 180 million	US$190 – 210 million
Other plant and equipment	US$10 – 15 million	US$10 – 15 million
Total	**US$240 - 275 million**	**US$270 – 315 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 2.8 – 3.2 bcf (net) of SE Gobe gas sales exported to the PNG LNG Project (OSH – 22.34%).
4. Includes Hides GTE gas purchase costs, royalties and levies, selling and distribution costs, rig operating costs, corporate administration costs (including business development), expenditure related to power activities, inventory movements and other expenses. Other expenses include approximately US$32 million of costs related to Oil Search's terminated offer for InterOil Corporation, which is more than offset by a net break fee of US$48 million under the InterOil Arrangement Agreement.
5. Includes Oil Search-operated fields and PNG LNG Project expenditures.
6. Comprises PNG LNG Project and power development costs.
7. Includes pre-FEED expenditures on P'nyang (PRL 3) and Elk-Antelope (PRL 15).

2016 THIRD QUARTER PERFORMANCE SUMMARY[1,6]

Production

	Quarter End			Year to Date		Full Year
	Sep 2016	**Jun 2016**	**Sep 2015**	**Sep 2016**	**Sep 2015**	**Dec 2015**
Production data						
PNG LNG Project[2]						
LNG (mmscf)	25,864	23,583	24,114	75,266	71,841	96,646
Condensate (‘000 bbls)	805	746	774	2,366	2,267	3,066
Naphtha (‘000 bbls)	66	56	54	187	145	208
PNG crude oil production (‘000 bbls)						
Kutubu	807	839	972	2,497	2,840	3,797
Moran	365	474	369	1,314	1,156	1,560
SE Mananda	-	-	-	-	-	-
Gobe Main	7	6	8	18	23	30
SE Gobe	18	19	34	59	94	117
Total oil production (‘000 bbls)	1,197	1,338	1,383	3,889	4,114	5,505
SE Gobe gas to PNG LNG (mmscf)[3]	921	587	881	2,196	1,187	1,886
Hides GTE Refinery Products[4]						
Sales gas (mmscf)	1,430	1,354	1,409	4,125	4,120	5,312
Liquids (‘000 bbls)	29	27	30	84	87	112
Total barrels of oil equivalent (‘000 boe)[5]	7,628	7,173	7,418	22,523	21,739	29,251

1. Numbers may not add due to rounding.
2. Production net of fuel, flare, shrinkage and SE Gobe wet gas.
3. SE Gobe wet gas reported at inlet to plant, inclusive of fuel, flare and naphtha.
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. 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.
6. Adjustments are taken in the period in which they occur.

Sales[1]

	Quarter End			Year to date		Full Year
	Sep 2016	**Jun 2016**	**Sep 2015**	**Sep 2016**	**Sep 2015**	**Dec 2015**
Sales data						
PNG LNG Project						
LNG (Billion Btu)	29,110	27,290	27,189	87,645	83,016	109,570
Condensate ('000 bbls)	839	804	767	2,461	2,225	3,038
Naphtha ('000 bbls)	59	62	57	209	176	237
PNG oil ('000 bbls)	1,227	1,287	1,383	3,854	3,968	5,298
Hides GTE						
Gas (Billion Btu)[2]	1,534	1,485	1,522	4,457	4,429	5,700
Condensate and refined products ('000 bbls)[3]	28	22	23	79	73	106
Total barrels of oil equivalent ('000 boe)[4]	7,493	7,200	7,220	22,661	21,671	28,758
Financial data (US$ million)						
LNG and gas sales	197.3	150.6	255.7	571.6	854.3	1,088.3
Oil and condensate sales	98.2	102.1	107.7	275.5	337.2	429.5
Other revenue[5]	14.0	14.9	15.7	43.1	51.3	67.9
Total operating revenue	309.5	267.7	379.0	890.3	1,242.8	1,585.7
Average realised oil and condensate price (US$ per bbl)[6]	47.24	48.67	49.89	43.45	54.30	51.36
Average realised LNG and gas price (US$ per mmBtu)	6.44	5.23	8.90	6.21	9.77	9.44
Cash (US$m)	938.9	779.7	866.9	938.9	866.9	910.5
Debt (US$m)						
PNG LNG financing	4,084.1	4,084.1	4,285.9	4,084.1	4,285.9	4,228.6
Corporate revolving facilities[7]	-	-	-	-	-	-
Net debt (US$m)	3,145.2	3,304.4	3,419.1	3,145.2	3,419.1	3,318.2

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 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.
5. Other revenue consists largely of rig lease income, infrastructure tariffs and electricity, refinery and naphtha sales.
6. Average realised price for Kutubu Blend including PNG LNG condensate.
7. At the end of September 2016, the Company's US$500 million corporate revolving facility was undrawn. US$2 million of the US$250 million of bilateral revolving facilities had been utilised.

PRODUCTION PERFORMANCE

Total third quarter production net to Oil Search was 7.628 million barrels of oil equivalent (mmboe), comprising the following:

- LNG produced at the PNG LNG plant, net of fuel, flare and shrinkage, of 25,864 mmscf.
- PNG LNG liquids production of 0.87 mmbbl, comprising condensate produced during gas processing at the Hides Gas Conditioning Plant (HGCP) and naphtha at the LNG plant.
- PNG oil fields production and gas and liquids production from the Hides GTE Project of 1.69 mmboe, produced at an average rate (gross) of 36,381 barrels of oil equivalent per day. This included 921 mmscf of gas exported to the PNG LNG Project from the SE Gobe field.

During the period, 27 LNG cargoes were sold, comprising 23 under long-term contract and four on the spot market, with three cargoes on the water at the end of the quarter. Eight cargoes of Kutubu Blend and two naphtha cargoes were also sold in the quarter.

PNG LNG Project (29.0%)

Third quarter production from the PNG LNG Project, net to Oil Search, was 5.94 mmboe, comprising 25.9 bcf of LNG and 0.87 mmbbl of liquids. LNG production was 9.7% higher than in the previous quarter.

During the quarter, an average of 146 mmscf/day of gas was supplied to the PNG LNG Project by Oil Search from the Associated Gas (Kutubu and Gobe Main) and SE Gobe fields, representing approximately 14% of the total gas delivered to the LNG plant.

Kutubu (PDL 2 – 60.0%, operator)

Third quarter oil production, net to Oil Search, from the Kutubu complex was 0.81 million barrels (mmbbl), 3.9% lower than in the second quarter of 2016. Gross production rates averaged 14,601 bopd during the period, compared to 15,353 bopd in the second quarter.

The decline in production was primarily due to a three-day partial shut-in in August, when bad weather at the Kumul terminal prevented oil being offloaded for six days. This resulted in storage tanks at the Kutubu and Gobe facilities approaching their maximum safe operating levels so consequently, production was partially curtailed.

During the quarter, a number of zone changes at Usano resulted in improved rates and lower Gas:Oil Ratios (GOR), helping to boost production from both the Usano Main and Usano East fields. In addition, production rates from Agogo remain strong, supported by sustained, low GOR production from the forelimb wells.

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 third quarter oil production was 0.37 mmbbl, 23% lower than the production in the second quarter. The field produced at a gross average rate of 8,013 bopd.

Moran production was also curtailed in August, due to the storage issue outlined above. In addition, cold weather conditions during the quarter contributed to flow restrictions in the field gathering lines, which resulted in reduced production rates.

Production in the J Block wells is currently being impacted by the absence of gas injection at the Moran 4X well, which has been shut-in since the first quarter of 2016 for integrity reasons. Planning is underway to complete a well workover in the first half of 2017, in order to reinstate injection.

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 2016 was 0.03 mmbbl, similar to production in the previous quarter. The gross average production rate for Gobe Main was 6% higher than in the second quarter, at 719 bopd, while the gross average production rate at SE Gobe was 2% lower than in the previous quarter, at 900 bopd.

Gobe Main and SE Gobe delivered 3.2 bcf and 4.1 bcf of gas, respectively, to the PNG LNG Project during the quarter.

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

Gas produced for the Hides Gas-to-Electricity (GTE) Project in the third quarter of 2016 was 1.4 bcf, produced at an average daily rate of 15.5 mmscf/d compared to the previous quarter's production of 14.9 mmscf/d. 28,529 barrels of condensate were also produced, for use within the Hides GTE facility, or transported by truck to the Hides Gas Conditioning Plant or the Central Processing Facility for export.

EXPLORATION AND APPRAISAL ACTIVITY

Gas

North-West Highlands

Site preparation at the Muruk 1 well pad, located in PPL 402 (Oil Search – 50% and Operator), and mobilisation of the rig and materials was completed during the quarter. Due to delays on the Strickland well, a second rig crew is presently being assembled, which will enable the well to commence drilling in early November. Muruk is a gas prospect on trend with Hides with material prospective volumes, which could be tied into the existing PNG LNG infrastructure, if successful.

The Strickland 2 well in PPL 269 (OSH 10%), which is located close to the Juha gas field, spudded in June to test the Early Cretaceous Toro Sandstone reservoir as a gas target. During the third quarter, the well was sidetracked three times due to encountering an unstable section of strata in a fault zone, which caused several stuck pipe incidents. The current sidetrack, Strickland 2 ST3, has drilled through this section and is drilling ahead to the target reservoir.

Seismic data acquired earlier in the year in the PRL 3, PPL 395 and PPL 464 licences was processed and interpreted during the quarter, with encouraging results. Further data acquisition is being considered for 2017.

Planning for the P'nyang South 2 well, which is now expected to be drilled in 2017, was ongoing. The well, located in the south-east of the P'nyang field in PRL 3 (Oil Search – 38.51%), is aimed at the reclassification of 2C resource to 1C resource, to support potential LNG expansion.

Gulf and Forelands

During the quarter, Oil Search, together with Exxon, entered into agreements with Gini Energy Limited, ultimately owned by CNOOC Limited, to farm-in to two offshore deep-water, frontier blocks, PPL 374 and PPL 375, in the eastern Gulf of Papua. Subject to the completion of conditions precedent, Oil Search and ExxonMobil will each hold 40% in each block and Gini will retain a 20% interest. The blocks cover a combined area of almost 25,000 square kilometres in water depths ranging from 1,000 metres to 2,500 metres. The licence farm-in is in line with the Company's strategy to increase its exploration exposure in areas that have the potential to support the Company's expanding LNG portfolio.

Onshore in PRL 15 in the Gulf Province (Oil Search – 22.835%), mobilisation of Rig HA115 from Herd Base to the Antelope 7 drill site and rigging up commenced during the quarter. The Antelope 7 appraisal well, located west-south-west of Antelope 5, will test for reservoir presence and definition on the western flank of the field. Contingent on the Antelope 7 results, the well may be deepened to test the Antelope Deep carbonate exploration target.

Rig-up operations are presently approximately 80% complete, with the well expected to spud in late October/early November, subject to weather.

In PRL 8 (Oil Search – 60.7%, operator), the seismic programme acquired over Kimu in the second quarter of 2016 has been interpreted to assess the extent of the Kimu discovery. Further work is underway to reprocess all historical seismic and assess the presence of an additional prospect north of the discovery, with a view to defining a 2017/18 drilling programme in the licence.

In PPL 339 (Oil Search – 70%), preparations continued for drilling the Kalangar 1 well during the dry weather window in early 2017. Extensive scouting and logistical planning was undertaken, with plans for a road-supported well further developed. The Kalangar prospect, which is on-trend with the Antelope field, has the potential to open up an important and new prospective trend in the Gulf Province.

Oil

Middle East/North Africa

In the Kurdistan Region of Iraq (KRI), final analysis of the 3D seismic and well data was completed. While areas of potential enhanced productivity have been identified, the likely recoverable volumes are sub-economic at the present time. The KRI government has been informed that the Joint Venture intends to relinquish the licence and Oil Search is working with the Ministry of Natural Resources to finalise this process.

In Yemen, Block 7 (Oil Search – 34%, operator) remains in a state of force majeure due to the security situation in-country. Completion of the sale of the local Oil Search entity to a subsidiary of Petsec Energy Limited, as previously announced, is targeted for the end of the year.

Drilling calendar

Subject to joint venture and government approvals, the 2016-2017 exploration and appraisal programme is as follows:

Well	Well type	Licence	OSH interest	Timing
FIRM				
Strickland 2	Exploration	PPL 269	10.0%	Drilling ahead
Antelope 7	Appraisal	PRL 15	22.8%	4Q 2016
Muruk 1	Exploration	PPL 402	50.0%	4Q 2016
P'nyang South 2	Appraisal	PRL 3	38.5%	1H 2017
Kalangar 1	Exploration	PPL 339	70.0%	1H 2017
CONTINGENT				
Barikewa 3	Appraisal	PRL 9	45.1%	1H 2017
Kimu West	Appraisal	PRL 8	60.7%	2H 2017
Uramu 2	Appraisal	PRL 10	100%	1H 2018

Note: Wells, location and timing subject to change.

FINANCIAL PERFORMANCE

Sales revenue

During the quarter, 29,110 billion Btu of LNG was sold, 7% higher than sales volumes in the second quarter of 2016. 27 LNG cargoes were sold during the period, compared to 25 cargoes in the second quarter, of which 23 were sold under long-term contract and four on the spot market, with three cargoes on the water at the end of the quarter. Oil, condensate and naphtha sales volumes for the period totalled 2.15 mmbbl, a 1% decrease compared to liquid sales in the previous quarter. Eight cargoes of Kutubu Blend, comprising oil field production and PNG LNG Project condensate, and two naphtha cargoes were also sold in the quarter.

The average oil and condensate price realised during the quarter was US$47.24 per barrel, 3% lower than in the second quarter. The average price realised for LNG and gas sales increased 23%, to US$6.44 per mmBtu. This reflected stronger spot oil prices in the second quarter, with an approximately three month lag between oil and LNG contract prices. 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$295.5 million, 17% higher than in the second quarter of 2016, predominantly reflecting higher LNG sales volumes combined with higher realised LNG prices. Other revenue, comprising rig lease income, infrastructure tariffs, electricity, refinery and naphtha sales, was US$14.0 million.

Capital management

As at 30 September 2016, Oil Search had cash of US$938.9 million compared to US$779.7 million at the end of June 2016. The Company's share of debt drawn down under the PNG LNG project finance facility was US$4,084.1 million, the same as at the end of June, with no payments scheduled during the period.

The Company had total corporate facilities of US$750 million, comprising two US$125 million bilateral revolving credit facilities (expiring in December 2018) and a US$500 million non-amortising revolving credit facility (expiring in October 2017), with only US$2 million utilised at the end of the period. At the end of September 2016, the Company held total liquidity of US$1.69 billion.

Capital expenditure

During the quarter, US$56.2 million was spent on investment activities. Exploration and evaluation expenditure totalled US$34.5 million, with US$33.7 million spent on activities in PNG, including the Antelope 7 well in PRL 15 (US$16.6 million), preparations to drill P'nyang South 2 well in PRL 3 (US$2.8 million), costs related to the Muruk well in PPL 402 (US$7.6 million) and costs related to the Strickland 1 well in PPL 269 (US$4.3 million). US$1.4 million of exploration costs were expensed, related to seismic, geological, geophysical and general and administration expenses in PNG and MENA. Expenditure on producing assets was US$9.1 million.

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

(US$ million)	Quarter End			Year to date		Full Year
	Sep 2016	Jun 2016	Sep 2015	Sep 2016	Sep 2015	Dec 2015
Investment Expenditure						
Exploration & Evaluation						
PNG	33.7	34.3	23.5	123.2	101.9	156.7
MENA	0.8	1.3	19.3	4.8	106.0	118.9
Total exploration & evaluation	34.5	35.6	42.8	128.0	207.8	275.6
Development						
PNG LNG	1.4	(5.2)	22.4	7.4	98.4	135.2
Biomass	10.8	-	-	10.8	-	-
Total development	12.2	(5.2)	22.4	18.1	98.4	135.2
Production	9.1	7.8	21.7	24.5	77.6	111.8
Other plant and equipment	0.3	1.0	6.5	2.2	11.1	16.5
Total	**56.2**	**39.1**	**93.4**	**172.9**	**394.9**	**539.2**
Exploration & evaluation expenditure expensed[2,3]						
PNG	1.5	(1.5)	3.8	13.4	28.0	35.2
MENA	0.8	1.3	1.7	4.8	5.2	13.8
Total current year expenditures expensed	2.3	(0.2)	5.5	18.2	33.2	48.9
Prior year expenditures expensed	(0.8)	3.0	(4.2)	2.1	2.6	2.0
Total	**1.4**	**2.8**	**1.3**	**20.4**	**35.8**	**50.9**

1. Numbers may not add due to rounding.
2. 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.
3. Numbers do not include expensed business development costs of US$1.9 million in the third quarter of 2016 (US$1.6 million in the second quarter of 2016).

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	Approximately 1.10 – 1.14 billion Btu*
1 tonne LNG	Approximately 52 mmBtu*
1 boe	Approximately 5,100 standard cubic feet

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

*** Conversion factors used for forecasting purposes only.**

PETER BOTTEN, CBE
Managing Director
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For more information regarding this report, please contact:

Investors and Media:
Ann Diamant
General Manager, Investor Relations and Communications
Tel: +612 8207 8440
Mob: +61 407 483 128

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