FIRST QUARTER REPORT FOR THE PERIOD ENDED 31 MARCH 2019

16 APRIL 2019

Oil Search

ASX: OSH | ADR: OISHY | POMSOX: OSH

LANDMARK PAPUA LNG GAS AGREEMENT SIGNED

	1Q 2019	4Q 2018	% CHANGE
Total production (mmboe)	7.25	7.44	*-3%*
Total sales (mmboe)	6.65	7.82	*-15%*
Total revenue (US$m)	398.1	503.1	*-21%*

- **Landmark Papua LNG Gas Agreement signed**

  In early April, a Gas Agreement was signed between the PRL 15 Joint Venture and the PNG Government, finalising the fiscal arrangements for the development of the Papua LNG Project. This has allowed Front-End Engineering and Design (FEED) related activities, including contractor selection and engineering contracting, for the upstream component of Papua LNG to commence.

- **Focus on finalising the P'nyang Gas Agreement and other Joint Venture agreements**

  Following the completion of the Papua LNG Gas Agreement, focus has now turned to finalising the P'nyang Gas Agreement, with a targeted signing in the second quarter of 2019. Substantial progress has also been made on other commercial agreements supporting the proposed three-train, 8 MTPA downstream development at the PNG LNG plant site. A new PRL 15 Joint Operating Agreement has been signed while the three integration agreements governing Papua LNG's access to the PNG LNG site are very close to completion. It is anticipated that FEED for the downstream development at the PNG LNG plant site will commence following the finalisation of the P'nyang Gas Agreement.

- **PNG LNG production remains well above nameplate**

  Total production in the first quarter of 2019 was 7.25 mmboe, reflecting a continued strong performance by the PNG LNG Project, offset by lower oil field production. The PNG LNG Project produced at an annualised rate of 8.8 MTPA during the quarter, 28% above nameplate capacity.

- **Revenues impacted by timing of LNG shipments and lower realised prices**

  Total revenue for the quarter declined 21% to US$398.1 million. Total product sales were 15% lower than in the fourth quarter, primarily due to the timing of LNG shipments, with three LNG cargoes on the water at the end of the period, compared to one at the end of the previous quarter. Revenue was also impacted by weaker global energy prices, with the realised oil and condensate price down 3% and the realised LNG and gas price 7% lower than in the fourth quarter of 2018.

- **Mid-term LNG sales and purchase agreement signed**

  The PNG LNG Project signed a mid-term LNG sale and purchase agreement (SPA) with Unipec, taking total Project volumes under contract to 7.9 MTPA. The SPA involves the supply of approximately 0.45 MTPA of LNG for four years, commencing in April 2019.

- **Significant gas discovery made at Muruk 2**

  In the PNG Highlands, testing of the Toro reservoir in Muruk 2 confirmed the presence of gas with a similar composition and pressure gradient to the gas tested at Muruk 1 ST3, indicating communication between the wells. Following completion of flow testing, an extended shut-in period has commenced to monitor pressure build-up, which will help constrain potential gas resource volumes within the field.

- **Alaskan drilling programme confirms oil, with likely resource upgrade**

  Oil Search's inaugural appraisal drilling campaign in Alaska was successful, with oil encountered in all four well penetrations. Initial data analysis supports the Company's view of a likely material upgrade in contingent resources and indicates deliverability from the Pikka Unit will meet the Company's development plan assumptions.

- **Strong financial position underpins growth project investment**

  Oil Search ended the 2019 first quarter with liquidity of US$1.46 billion, comprising US$789.5 million in cash and US$671 million in credit facilities.

COMMENTING ON THE 2019 FIRST QUARTER RESULT, OIL SEARCH MANAGING DIRECTOR, PETER BOTTEN, SAID:

"During the first quarter of 2019, Oil Search produced 7.25 million barrels of oil equivalent (mmboe), at a daily production rate similar to the fourth quarter of 2018.

The PNG LNG Project recorded another period of strong performance, producing at an average annualised rate of 8.8 MTPA for the quarter. Following the work undertaken at the Hides Gas Conditioning Plant during the Highlands earthquake shut-in, this is the third consecutive quarter of production at or above 8.7 MTPA, with the Project achieving an annualised production rate of 8.8 MTPA for the nine months to 31 March 2019, almost 30% above nameplate capacity and 6% above the annual production rate pre-earthquake.

Oil production was impacted by two minor outages at the Central Processing Facility and several planned well shut-ins at the Moran field.

Total revenue for the quarter was US$398.1 million. This was 21% below the fourth quarter of 2018, primarily due to the timing of LNG shipments, with three LNG cargos, worth more than US$35 million in revenue net to Oil Search, on the water at the end of the period, compared to one at the end of the previous quarter. In addition, average realised oil and condensate prices were 3% lower than in the prior quarter, at US$62.35 per barrel, while average realised LNG and gas prices declined 7% to US$10.15/mmBtu."

Gas Agreement signed for the Papua LNG Project with material progress towards FEED entry

"In early April, a Gas Agreement was signed between the PRL 15 Joint Venture and the PNG Government, marking a significant step forward for the development of the Papua LNG Project.

The Papua LNG Gas Agreement includes several important provisions, which, together with the fiscal arrangements, result in what we believe is a fair split of the Project's expected returns, to the benefit of all stakeholders. These include a 5% Domestic Market Obligation (DMO), ensuring that a significant volume of gas is available for local use, a National Content Plan, which outlines how the local workforce and businesses will participate in the development, and a deferred payment mechanism for the Government's share of past development costs, easing the up-front financial contribution associated with its equity back-in to the Project. Following this landmark agreement, the contractor selection and engineering contracting process for the upstream development will commence shortly.

Our focus has now turned to finalising the P'nyang Gas Agreement between the State and the PRL 3 Joint Venture, which is targeted to be signed during the second quarter.

Good progress has also been made on the commercial agreements which will allow the FEED phase of the integrated downstream three-train development to commence. A new Joint Venture Operating Agreement, which will govern the development and operating phase of the Project, has been executed between the PRL 15 Joint Venture partners, while three integration agreements – the Facilities Access Agreement, Downstream Operations and Cooperation Agreement and the Cost Sharing Agreement, which collectively underpin the Papua LNG Project's access to the PNG LNG Project site and infrastructure - are very close to completion. In addition, negotiations for the proposed farm-in of Santos into PRL 3 have progressed during the quarter and the parties anticipate being in a position to execute a binding agreement in the second quarter. Once executed, this will result in greater alignment of the equities in PRL 3 and the PNG LNG Project, helping to facilitate the development of P'nyang through the PNG LNG infrastructure by minimising any commercial issues between the joint ventures.

The Papua LNG, PNG LNG and P'nyang Joint Ventures are targeting a Final Investment Decision in 2020, which would place the proposed three-train development on track to commence deliveries of LNG in 2024. All stakeholders are committed to meeting this market window, when significant new LNG supply is required to meet demand growth and requirements for replacement of expiring contracts. Oil Search's dedicated LNG equity marketing team continues to report strong buyer appetite for LNG from the proposed new trains, underpinned by the reliability of our operators, the proximity of PNG to North Asian markets and the high heating value and quality of LNG from PNG. Many buyers are seeking both geographic and seller diversification, which are highly favourable drivers in support of new equity LNG sellers such as Oil Search."

Final mid-term tranche of PNG LNG volumes contracted with Unipec, taking total volumes under contract to 7.9 MTPA

"In early April, the PNG LNG Project signed a contract with Unipec Singapore Pte Ltd (Unipec), committing to supply approximately 0.45 MTPA of LNG over a four-year period, commencing from April 2019.

Total contracted volumes for the Project are now 7.9 MTPA, comprising 6.6 MTPA under long-term contracts with JERA, Osaka Gas, Sinopec and CPC and approximately 1.3 MTPA under mid-term contracts with Unipec, PetroChina and BP.

Following the Unipec contract, we believe that the PNG LNG Project has the right combination of contracted and spot market sales to maximise value from this globally competitive project."

Major progress made on PNG LNG benefits distributions

"During the quarter, the Government and the PNG LNG Project partners, led by ExxonMobil, worked collaboratively to complete the Landowner Benefits Identification (LOBID) programme for PDLs 1 and 7. Ministerial Determination for both licences was gazetted in March, paving the way for election of chairpersons to represent the identified landowner groups and subsequently assist in the benefits disbursements process. This is a major milestone for the PNG LNG Project, with the LOBID process for all outstanding licence areas targeted to be resolved in the near future, subject to the removal of landowner injunctions."

Oil field optimisation programme ramping up

"During the quarter, Oil Search made a strong start to its multi-year, in-field work-over and drilling campaign, aimed at maximising near-term output from our maturing oil fields in PNG.

The first work-over of the programme was successfully completed on the IDT 21 well at Kutubu, which is expected to be brought online in April. The rig is being mobilised to the Moran field, in preparation for workovers of the M4 and M9 wells, which are expected to commence shortly. This will be followed by drilling of the Moran X development well in

June, which is targeting oil toward the south-east of the field, and the Usano development well, UDT S, which is expected to spud in late 2019. Preparations are ongoing to mature the drilling sequence for 2020 and 2021.

These low cost, value accretive opportunities have the potential to add significant oil volumes net to Oil Search, as well as slow the production decline rate from our mature oil fields."

PNG exploration and appraisal activity

"In the North West Highlands, initial testing of the Muruk 2 appraisal well has been positive, confirming gas in pressure communication with Muruk 1. This is an encouraging outcome, indicating the likely continuity of the reservoir from the original Muruk 1 gas discovery, which is located only 20 kilometres from the Hides G wellpad, to Muruk 2, nearly 12 kilometres to the north-west. Following the completion of a 10-day flow test, we have commenced an extended shut-in period, using pressure gauges downhole to monitor the well during the pressure build-up phase. This will assist in better assessing the potential resource size. Future drilling prospects along the Hides-P'nyang trend will be derisked with a new phase of seismic acquisition over Karoma and adjacent acreage, scheduled to commence in the fourth quarter of 2019.

During the quarter, the Company continued the second phase of a 2D seismic survey, with approximately 250 kilometres being acquired over licences in the Eastern Foldbelt of the Onshore Papuan Basin. The second phase was initiated following encouraging results from the initial 330 kilometre survey. Data from both surveys will help mature leads and prospects located near to planned Papua LNG infrastructure for future potential drilling."

PNG Power

"Niu Power Ltd, an entity held 50:50 by Oil Search and Kumul Petroleum, completed the construction of a 58 MW gas-fired power station in February. The power station is located adjacent to the PNG LNG plant site, which will contribute 100% of the gas supply.

Commissioning activities were completed in early April, with commercial operations and the sale of electricity to the Port Moresby grid expected to commence shortly. Once operational, the power station will be capable of supplying approximately 75% of the average load of the Port Moresby electricity grid, fueled by a cleaner energy source compared to heavy oil and diesel."

Inaugural drilling campaign in Alaska safely and successfully completed

"The Company's inaugural two rig, two well drilling campaign in Alaska, comprising four well penetrations, was completed safely and efficiently, meeting or exceeding our expectations for planning, safety, environmental management, drilling and subsurface data gathering. This was a major achievement by the new Alaskan team, particularly given the harsh Arctic environment and short winter drilling season.

The objectives of the drilling programme were to prove up additional resource and establish reservoir deliverability. Although the results are still preliminary and further analysis is required, we expect a material upgrade in our contingent resource estimates later this year. In addition, sufficient data has been gathered on reservoir deliverability to support our plans to move into the FEED phase of the planned Pikka Unit development later in 2019.

All four penetrations successfully encountered oil, with the results of the Pikka B well particularly encouraging. As well as encountering the thickest Nanushuk reservoir section seen in the Pikka Unit to date, flow rates from the Pikka B ST1 test were above expectations. This result has upgraded materially the prospectivity in this area of the Pikka Unit and south towards the Horseshoe Block. While the reservoir characteristics at the Pikka C well location were broadly in line with pre-drill expectations, flow rates from the Pikka C ST1 test were impacted by mechanical issues and downhole obstructions. Modelling of the geological properties of the Pikka C well indicate that, without these issues, flow rates would have been much higher.

In early April, demobilisation of the rigs and other equipment from both well sites was safely completed.

Over the next few months, a full analysis of the well and test results will be integrated into the development plans for the part of the field evaluated by the Pikka Unit drilling. Constructive discussions with other operators on the North Slope continue to highlight the value of collaboration and the use of common facilities to optimise the development, with a focus on early production opportunities. We will continue to assess these opportunities as we refine our development plan prior to a FEED decision later this year.

Planning for the 2019/20 drilling season has commenced, with at least two, and possibly three, wells expected to be drilled. The programme is expected to include drilling in the southern part of the Nanushuk field, to further evaluate the material resource upside in this area.

It is anticipated that we will receive approval from the US Army Corps of Engineers for our Pikka Unit development plan during the second quarter of 2019. The 2019/20 winter programme will include commencement of gravel road construction, which will facilitate full time operations, long duration drilling and testing in the field area.

Interpretation of the results of the recent drilling and testing programme will also inform how we maximise value through the exercise of the Armstrong option and a potential divestment of interests at the opportune time."

PRODUCTION SUMMARY[1]

	QUARTER END			FULL YEAR
	MAR 2019	DEC 2018	MAR 2018	DEC 2018
PNG LNG Project[2]				
LNG (mmscf)	**28,150**	28,479	17,560	96,826
Gas to power (mmscf)	**155**	171	160	674
Condensate ('000 bbls)	**735**	771	474	2,678
Naphtha ('000 bbls)	**79**	80	50	276
Total PNG LNG Project (mmboe)	**6.364**	6.469	3.998	22.071
PNG crude oil production ('000 bbls)				
Kutubu	**412**	469	393	1,633
Moran	**88**	116	137	310
Gobe Main	**3**	4	3	15
SE Gobe	**10**	11	8	35
Total oil production ('000 bbls)	**513**	598	540	1,993
SE Gobe gas to PNG LNG (mmscf)[3]	**412**	375	520	1,400
Hides GTE Refinery Products[4]				
Sales gas (mmscf)	**1,356**	1,369	919	4,000
Liquids ('000 bbls)	**26**	28	20	83
Total oil, condensate and naphtha (mmbbl)	**1.353**	1.477	1.083	5.030
Total LNG and gas (mmscf)	**30,073**	30,395	19,159	102,899
Total barrels of oil equivalent ('000 boe)[5]	**7,249**	7,437	4,840	25,206

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.

SALES SUMMARY[1]

	QUARTER END			FULL YEAR
	MAR 2019	DEC 2018	MAR 2018	DEC 2018
Sales data				
PNG LNG PROJECT				
LNG (Billion Btu)	**29,544**	34,785	22,406	111,008
Condensate ('000 bbls)	**653**	801	455	2,635
Naphtha ('000 bbls)	**91**	93	60	295
PNG oil ('000 bbls)	**479**	575	516	1,923
HIDES GTE				
Gas (Billion Btu)[2]	**1,456**	1,468	983	4,286
Condensate & refined products ('000 bbls)[3]	**25**	31	20	82
Total barrels of oil equivalent sold ('000 boe)[4]	**6,652**	7,818	5,119	25,022
Financial data (US$ million)				
LNG and gas sales	**314.6**	396.9	215.0	1,160.1
Oil and condensate sales	**71.4**	90.1	68.9	326.0
Other revenue[5]	**12.0**	16.1	11.1	49.7
Total operating revenue	**398.1**	503.1	295.0	1,535.8
Average realised oil and condensate price (US$ per bbl)[6]	**62.35**	64.45	70.38	70.65
Average realised LNG and gas price (US$ per mmBtu)	**10.15**	10.96	9.19	10.06
Cash (US$m)	**789.5**	600.6	697.3	600.6
Debt (US$m)[7]				
PNG LNG financing	**3,293.6**	3,293.6	3,625.5	3,293.6
Corporate revolving facilities[8]	**130.0**	-	-	-
Net debt (US$m)	**2,634.1**	2,693.0	2,928.2	2,693.0

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 sales 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 and asset specific heating values. 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. Excludes lease liabilities recorded as borrowings.
8. As at 31 March 2019, the Company's corporate revolving facilities totaled US$900 million, of which US$130 million had been drawn down and US$99.3 million had been utilised for letters of credit.

FIRST QUARTER PRODUCTION PERFORMANCE[1]

	QUARTER END		QUARTER END			
	MAR 2019		DEC 2018		% CHANGE	
	Gross daily production	Production net to OSH	Gross daily production	Production net to OSH	Gross daily production	Total q-on-q production net to OSH
Gas production	**mmscf/d**	**mmscf**	**mmscf/d**	**mmscf**		
PNG LNG Project						
LNG[2]	1,078	28,150	1,067	28,479	+1%	-1%
Gas to power	6	155	6	171	-7%	-9%
SE Gobe gas to PNG LNG[3,]	21	412	18	375	+12%	+10%
Hides GTE gas[4]	15	1,356	15	1,369	+1%	-1%
Total gas	**1,120**	**30,073**	**1,107**	**30,395**	+1%	-1%
Oil and liquids production	**bopd**	**mmbbl**	**bopd**	**mmbbl**		
Kutubu	7,620	0.412	8,482	0.469	-10%	-12%
Moran	1,969	0.088	2,538	0.116	-22%	-24%
Gobe Main	387	0.003	409	0.004	-5%	-7%
SE Gobe[3]	482	0.010	514	0.011	-6%	-8%
Total PNG oil	**10,458**	**0.513**	**11,943**	**0.598**	-12%	-14%
Hides GTE liquids[3]	287	0.026	305	0.028	-6%	-8%
PNG LNG liquids	31,185	0.814	31,890	0.851	-2%	-4%
Total liquids	**41,930**	**1.353**	**44,138**	**1.477**	-5%	-8%
	boepd	**mmboe**	**boepd**	**mmboe**		
Total production[5]	**261,524**	**7.249**	**261,168**	**7.437**	**0%**	**-3%**

1. Numbers may not add due to rounding. Where required, adjustments are taken in the affected production period.
2. Production net of fuel, flare and 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.

2019 first quarter production net to Oil Search was 7.249 million barrels of oil equivalent (mmboe), comprising the following:

- LNG produced at the PNG LNG plant, net of SE Gobe sales, fuel, flare and shrinkage, of 28,150 mmscf.
- Gas produced for domestic market power generation of 155 mmscf.
- PNG LNG liquids production of 0.81 mmbbl, comprising condensate produced during gas processing at the Hides Gas Conditioning Plant (HGCP) and naphtha at the PNG LNG plant.
- Oil Search-operated production of 0.89 mmboe, comprising 0.51 mmbbl of PNG oil field production, 0.29 mmboe of gas and liquids production from the Hides GTE Project and 0.08 mmboe of gas exported to the PNG LNG Project from the SE Gobe field. The operated fields produced at an average rate of 17,723 barrels of oil equivalent per day (gross), including 1,846 mmscf (gross) of SE Gobe gas exports.

Total production from the PNG LNG Project, net to Oil Search, was 6.4 mmboe. An average of 139 mmscf/day of gas was supplied to the Project by Oil Search from the Associated Gas (Kutubu and Gobe Main) and SE Gobe fields, representing approximately 12% of the total gas delivered to the LNG plant.

Production rates from the Kutubu complex declined 10% over the period, impacted by two minor outages at the Central Processing Facility, including scheduled downtime to replace a compressor engine. Second quarter production volumes will benefit from the resumption of production from the Agogo Forelimb wells in late April, which have been offline since the earthquake due to damage to the compression and CO_2 processing systems.

Production from the Moran field was 22% lower than the previous quarter. Due to the extended outage of the high-pressure compression system at the Agogo Production Facility in the wake of the Highlands earthquake, reservoir pressure in the Moran field has continued to decline. Consequently, several wells were taken offline during the quarter to preserve reservoir pressures and protect long-term oil recovery rates. The compressors providing pressure support to the Moran reservoir were brought online during the quarter and the production wells will be brought back online sequentially during the second and third quarters.

The northern Moran wells remained offline during the quarter due to earthquake-related damage to the flow lines.

❖ EXPLORATION AND APPRAISAL ACTIVITY

Gas

Highlands

During the quarter, the Muruk 2 appraisal well in PDL 9 was drilled to a total depth of 3,820 metres. Extensive logging, sampling and pressure testing confirmed the presence of hydrocarbons. A Drill Stem Test (DST) then took place over a 20 metre interval of the Toro A reservoir, confirming gas with a similar composition and pressure gradient to the gas in Muruk 1 ST3, indicating that Muruk 2 is likely an extension of the Muruk field. The well flowed at a maximum rate of 16.5 mmscf/d on a 52/64" choke, similar to the 16 mmscf/d equipment-constrained rate recorded from the Muruk 1 DST. Analysis of the pressure data indicated that there had been significant drilling-induced formation damage, which reduced materially the potential flow rate.

The well will be shut-in for an extended period to enable the build-up of pressure, which will assist in delineating the gas resource volumes in the Muruk field.

Muruk 2 is a 12 kilometre step-out north-west of the Muruk 1 gas discovery well, designed to constrain gas resource volumes within the Muruk field.

Forelands / Gulf

In the Eastern Foldbelt of the Onshore Papuan Basin, Oil Search continued the second phase of a 2D seismic acquisition programme, spanning approximately 250 kilometres over PPLs 475 and 476. The second phase aims to mature prospects identified by a 330 kilometre survey acquired in 2018, for future drilling. The programme is being conducted by Oil Search on behalf of ExxonMobil and is expected to be completed by mid-2019.

Oil

Alaska

During the quarter, the Pikka B well, located towards the south of the Pikka Unit, was drilled to a total depth of 1,476 metres. 146 metres of oil saturated cores were collected and six open-hole wireline logging runs were completed before plugging and abandoning the well. Pikka B ST1, a 71-degree angle side-track, was then drilled to a total depth of 2,621 metres. 91 metres of cores were cut, revealing high quality rock with similar qualities to that observed at Pikka B. The Pikka B ST1 Nanushuk flow test achieved a stabilised rate of 2,410 barrels of oil per day (bopd), restricted by the capacity of the testing equipment. Productivity index calculations indicated a potential flow rate of approximately 3,800 bopd.

The Pikka C appraisal well, located at the northern limit of the planned development, was drilled through the Nanushuk formation to a depth of 1,601 metres. Casing was set and a horizontal side-track well, Pikka C ST1, was kicked off from a depth of 978 metres and drilled to a total depth of 2,772 metres. Comprehensive sidewall coring, wireline logging and pressure data acquisition were completed. Flow testing of the side-track commenced in mid-March, including the testing of six stimulation stages within the lateral section. Mechanical problems with the test equipment delayed commencement of the test and down-hole blockages restricted flow rates and the ability to fully clean out the well. Despite the down-hole restrictions, stabilised rates of over 860 bopd were established, with higher peak rates recorded when unloading the well. Modelling of the geological properties recorded in the well indicates the potential for much higher flow rates than observed. The limited winter drilling season was a key factor in the decision not to mobilise equipment to clean up the well and undertake further flow testing. The well was successfully plugged and abandoned, as planned.

Demobilisation of the drilling rigs, support equipment and personnel from both well sites was completed in April. The forward plan includes a detailed evaluation of the comprehensive data suite acquired from both wells, which will be integrated into the Pikka Unit development plan ahead of the FEED decision, expected in mid-2019.

In January 2019, Oil Search exercised its right to acquire a 50% interest in, and operatorship of, 120 leases covering approximately 195,200 gross acres in the eastern area of the Alaska North Slope. These leases were successfully bid on by Lagniappe Alaska LLC, which is 100% controlled by Armstrong Oil and Gas Inc, in the November 2018 State lease sales. Oil Search will pay approximately US$8 million for the leases, equivalent to 50% of the acquisition costs incurred by Lagniappe at an average acquisition cost of approximately US$82 per acre. It is anticipated that the leases will be formally awarded by the State in mid-2019.

The lease area was identified in a regional study, conducted jointly by Armstrong and Oil Search in 2018, as being highly prospective for oil. This latest lease acquisition builds on a measured growth strategy in the region, targeting high quality, highly prospective, material value opportunities in Alaska.

DRILLING CALENDAR[1]

Subject to joint venture and government approvals, the 2019 drilling programme is as follows:

WELL	WELL TYPE	LICENCE	OSH INTEREST	TIMING
PNG				
Moran X	Development	Moran Unit	49.5%	2Q19
Gobe Footwall[2]	Exploration	PDL 4	TBA	4Q19
UDT S / H	Development	PDL 2	60.0%	4Q19/1Q20

1. Well locations and timing subject to change.
2. Subject to technical and commercial confirmation.

FINANCIAL PERFORMANCE

Sales revenues

During the quarter, 29,544 billion Btu of LNG from the PNG LNG Project was sold, 15% lower than sales volumes in the fourth quarter of 2018. A total of 27 LNG cargoes were delivered, comprising 23 cargoes sold under contract (including four to PetroChina and BP under mid-term sale and purchase agreements signed in the third quarter of 2018) and four on the spot market, compared to 31 cargoes sold in the previous quarter. Three cargoes were on the water at the end of the period, compared to one at the end of the fourth quarter of 2018. Oil, condensate and naphtha sales volumes for the period totaled 1.25 mmbbl, 17% lower than liquid sales in the previous quarter. Three cargoes of Kutubu Blend and three naphtha cargoes were sold during the period.

The average oil and condensate price realised during the quarter was US$62.35 per barrel, 3% lower than the previous quarter, reflecting weaker global oil prices. The average price realised for LNG and gas sales decreased 7% to US$10.15/mmBtu, reflecting the approximate three-month lag between the spot oil price 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 declined 21% to US$386.1 million, primarily driven by the timing of LNG shipments. Other revenue, comprising rig lease income, infrastructure tariffs, electricity, refinery and naphtha sales, decreased from US$16.1 million to US$12.0 million.

Capital management

As at 31 March 2019, Oil Search held liquidity of US$1.46 billion, comprising US$789.5 million in cash (US$600.6 million at the end of the fourth quarter of 2018) and US$670.7 million in undrawn corporate credit facilities (US$900 million at the end of the fourth quarter of 2018).

The higher cash balance reflected the generation of strong operating cash flows and the draw-down of US$130 million from the Company's corporate credit facility, which more than offset the payment of the Company's final dividend (US$129.5 million) and the investment of US$85.1 million in exploration and appraisal activities in PNG and Alaska.

Oil Search ended the period with US$3.42 billion of debt outstanding, including US$3.29 billion under the PNG LNG project finance facility (unchanged) and US$130 million drawn from the Company's corporate facilities. In addition, Oil Search utilised letters of credit totaling US$99.3 million (nil at the end of December 2018), to provide early access to some of the cash escrowed in PNG LNG accounts, which otherwise would be distributed in June 2019.

The debt drawn down under the corporate credit facility is expected to be repaid in the second quarter.

Capital expenditure

During the quarter, Oil Search spent US$85.1 million on exploration and evaluation activities. This included the Muruk 2 appraisal well (US$13.4 million), the second phase of seismic acquisition in the Onshore Papuan Gulf (US$5.4 million), pre-FEED activities for LNG expansion (US$14.9 million) and the Company's Alaskan North Slope appraisal drilling programme (US$40.4 million).

US$12.4 million of exploration costs were expensed, mainly comprising seismic acquisition costs and geological, geophysical and general and administration expenses.

Development expenditure for the first quarter totaled US$6.0 million, which included US$4.1 million spent on the PNG LNG Project. Expenditure on producing assets was US$13.4 million, while expenditure on property, plant and equipment was US$6.2 million.

SUMMARY OF INVESTMENT EXPENDITURE AND EXPLORATION AND EVALUATION EXPENSED[1]

	QUARTER END			FULL YEAR
	MAR 2019	**DEC 2018**	**MAR 2018**	**DEC 2018**
Investment Expenditure				
Exploration & Evaluation				
PNG	**37.1**	45.9	39.2	231.0
USA	**47.9**	47.4	417.2[4]	483.5[4]
MENA	**-**	(0.7)	0.8	0.3
Total Exploration & Evaluation	**85.1**	92.6	457.2	714.8
Development				
PNG LNG	**4.1**	10.6	5.2	36.8
Biomass	**1.9**	2.3	2.3	10.7
Total Development	**6.0**	12.9	7.5	47.5
Production	**13.4**	10.5	5.0	21.7
PP&E	**6.3**	22.0	8.2	51.4
Total	**110.8**	138.0	477.9	835.4
Exploration & Evaluation Expenditure Expensed[2,3]				
PNG	**4.4**	20.1	4.8	51.8
USA	**8.0**	10.7	0.1	14.3
MENA	**-**	(0.8)	1.0	0.3
Total current year expenditures expensed	**12.4**	30.0	5.9	66.4
Prior year expenditures expensed	**-**	-	-	-
Total	**12.4**	30.0	5.9	66.4

1. Numbers may not add up due to rounding.
2. 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.
3. Numbers do not include expensed business development costs of US$1.1 million in the first quarter of 2019 (US$0.9 million in the fourth quarter of 2018).
4. Includes Alaska acquisition costs of US$415 million.

Gas/LNG Glossary and Conversion Factors Used[1,2]

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 1.10 - 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.

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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 oil and gas prices, changes in market demand for oil and gas, currency fluctuations, drilling results, field performance, the timing of well workovers and field development, reserves depletion and fiscal and other government issues and approvals.