Material progress made on Pikka Unit Development, Alaska North Slope, with major resource upgrade

18 December 2019

SYDNEY (ASX: OSH | ADR: OISHY | PNGX: OSH)

HIGHLIGHTS

- Following the completion of comprehensive pre-FEED studies, the Oil Search Board has approved entry into the FEED phase of the Pikka Unit Development on the North Slope of Alaska, subject to joint venture approval and finalisation of several third-party agreements, expected in early 2020.

- An independent assessment of the resources in the proposed Pikka Unit Development scope for FEED by resource specialist, Ryder Scott, has been completed. Ryder Scott’s certified gross 1C, 2C and 3C contingent recoverable oil resources are 513, 728 and 907 million barrels, respectively. The gross 2C contingent oil resources of 728 million barrels represent a 46% increase on Oil Search’s gross 2C contingent acquisition case of 500 million barrels. Based on these revised gross resources and Oil Search’s increased equity position, following the exercise of the Armstrong Option in June, the Company’s net 2C contingent resources have risen from 127 million barrels to 371 million barrels. The Ryder Scott estimates only include resources that will be developed by the present Pikka Unit development plan and exclude several reservoirs within the Pikka Unit, field extensions outside the Unit and other discovered resources that may be developed. Potential resources in these areas are currently being independently assessed and the results are expected to be released in 2020.

- The local government North Slope Borough Assembly has approved Oil Search’s Master Plan for the Pikka Development Project and re-zoning, which allows the commencement of gravel road and well pad construction in the current winter season.

- Oil Search signed a landmark Land Use Agreement with Kuukpik Corporation, the representative native corporation and representative landowner for Nuiqsut, the community located nearest the project area. The agreement lays the foundation for a long term relationship with Kuukpik and the community and is focused on ensuring that the Pikka Unit is developed in a balanced and environmentally sensitive manner. The agreement ensures transparency, preservation of the subsistence lifestyle, long-term...
business development creation and other sustainable benefits for Kuukpik and the residents of Nuiqsut.

- The Alaska winter exploration and construction programme is well underway. Activities include two exploration wells, which are being drilled adjacent to the Pikka Unit Development, and the construction of approximately 40 kilometres of gravel roads to the long term development drilling pads and facilities locations. The first exploration well is anticipated to spud in late December and the second in January 2020, while the first gravel mine site is expected to open before year-end, with gravel haul commencing in January 2020.

- The Final Investment Decision (FID) for the Pikka Unit Development is currently expected to occur in the third quarter of 2020. The commencement of early works on road and development well pad construction this season, prior to FID, will help preserve the joint venture’s target for early production in 2022 and for full production from a new central processing facility in 2024.

- Oil Search has commenced a divestment process for up to 15% of its existing 51% in the Pikka Unit and adjacent exploration leases, utilising investment bank, Scotia Waterous. This process is targeted to be completed around mid-2020, ahead of the proposed FID. Oil Search will retain operatorship of all areas following the divestment.

- Oil Search was the successful bidder on 39 lease tracts in the December 2019 State of Alaska’s North Slope lease sale, at a cost of US$5.7 million. The acquired leases are adjacent to existing lease holdings, consolidating the Company’s position in these prospective areas.

Front-End Engineering and Design

Oil Search’s Board has approved entry into the Front-End Engineering and Design (FEED) phase of the Pikka Unit Development, subject to joint venture approval and finalisation of required third-party agreements, which is anticipated in early 2020. During FEED, detailed technical requirements and engineered designs will be finalised and long-lead items, including pipeline and process facility equipment, will be ordered.

The basis of design and assumption for FEED is to commence an early production system (EPS), targeting up to 30,000 bopd, in 2022. The scope for the early production system will involve commencing drilling from one of the well pads in 2021 and construction of a three-phase pipeline tied to adjacent processing facilities with ullage that can support the EPS. The EPS will allow drilling learnings and enhancements to be incorporated into the full field development drilling programme. Most of the facilities utilised in the EPS will be used in the full field development.

The full field development currently assumes drilling 106 wells (53 producer / injector well pairs) from three wells pads, with a plateau of up to 135,000 bopd through a new Nanushuk central processing facility (NPF) that is targeted to commence production in 2024. The scope for the full field development includes:

- Three drill sites
- A central processing facility (NPF)
• An operations centre with a 200-bed camp plus office, stand-by generation, warehouse and maintenance facilities
• Approximately 25 miles (40 kilometres) of roads
• Two bridges
• Approximately 35 miles (56 kilometres) of pipelines

Regulatory approval for the Pikka Unit Development included a comprehensive independent Environmental Impact Study (EIS) conducted by the US Corps of Engineers. This review, which commenced in 2015 and comprised an evaluation of the field development design and environmental impacts, incorporated significant community engagement and comment periods. On taking over operatorship in March 2018 and following a review of issues raised by the community, Oil Search, with approval of the Corps of Engineers, slowed the process to incorporate more than 25 design improvements, to further minimise the environmental footprint and local impact. Following these enhancements, the positive Record of Decision was received in May 2019. Combined with the recent North Slope Borough approval of the Master Plan and the rezoning for the facilities and road locations, all major approvals have now been received to commence field activities to support the Pikka Nanushuk oil field development.

The planned development is located approximately 52 miles (84 kilometres) from Deadhorse, the major supply base for the North Slope, and at its closest point is seven miles (11 kilometres) northeast of the community of Nuiqsut.

**Pikka Unit Resource Upgrade**

During 2019, significant new geologic and engineering data was gathered and analysed on the Pikka Unit. This included drilling, completion, petrophysical and well test data from the Pikka B and B ST1 and Pikka C and C ST1 wells and information from wells adjacent to the Pikka Unit obtained through data trades. In addition, several 3D seismic data sets were integrated and reprocessed and then incorporated into new reservoir simulation models, which provided clearer images of the reservoir distribution tied consistently to all wells across, and adjacent to, the Pikka Unit area. Additional rock and fluid sample testing and other engineering analyses were also performed to better understand oil recovery mechanisms.

This data has been incorporated into Oil Search’s reservoir models, to provide an updated estimate of the contingent resources for the Pikka Unit Development. The US-based resource consultant specialist, Ryder Scott, independently reviewed and validated the resources commercialised by the proposed development, incorporating the new reservoir models and regional data acquired by Oil Search.

Ryder Scott has estimated 2C contingent oil resources of 371 million barrels net to Oil Search (based on the Company’s 51% interest in the Pikka Unit) or 728 million barrels on a gross basis. The certified gross 2C contingent resource is 46% higher than Oil Search’s gross 2C contingent resource acquisition case estimate of 500 million barrels. Ryder Scott’s estimates of gross 1C and 3C contingent oil resources are 513 million barrels and 907 million barrels, respectively.

These estimates are based on the current Pikka Unit development plan only, which comprises drilling 106 deviated wells from three well pads (it should be noted that the project is permitted for up to 151 wells). The resource estimates do not include several reservoirs within the Pikka Unit and field extensions outside the Unit, that could be drilled from the existing planned well pads, or other
discovered resources that potentially could be tied into the larger Pikka Development with additional investment. Work has now commenced on the evaluation of these additional resources, which will be the subject of a separate independent resource assessment. These estimates are expected to be released in 2020.

In June 2019, Oil Search exercised its option to acquire additional working interests from Armstrong, increasing the Company’s interest in the Pikka Unit from 25.5% to 51%. Based on the revised gross certified resources and increased equity position, Oil Search’s net 2C contingent resources have risen from 127 million barrels to 371 million barrels. These revised estimates will be included in Oil Search’s 2019 Reserves and Resources Statement, which will be released on 25 February 2020, together with the 2019 Full Year Results.

The resources estimate above is based on, and fairly represents, information and supporting documentation prepared by, or under the supervision of, a Qualified Petroleum Reserves and Resources Estimator (QPRRE) and the resources statement as a whole has been approved by Mark Ireland, QPRRE. Mr Ireland has consented to publish this information in the form and context in which it is presented in this statement.

**Master Plan, Re-zone and Land Use Agreement**

Oil Search and Kuukpik Corporation leadership have signed a comprehensive Land Use Agreement (LUA) intended to ensure the Pikka Unit Development progresses in a balanced and environmentally responsible manner, with respect for the subsistence lifestyle of the people of Nuiqsut and other North Slope communities. The agreement lays a solid foundation on which the Company can build a strong, long-term relationship with the Kuukpik Corporation and the community. The Oil Search/Kuukpik LUA is a model agreement that helps to ensure transparency, consideration of the environment, preservation of subsistence, business development opportunities and other long-term benefits that will provide long term sustainability for the community.

Subsequent to the signing of the LUA, the North Slope Borough Assembly has approved both Oil Search’s Master Plan for the Pikka development and the amendments requested to the Borough zoning map to accommodate implementation of the plan. The re-zoning modifies the land on which infrastructure associated with the Pikka development will be constructed from a Conservation District to a Resource Development District.

**2019/2020 Winter Programme**

Oil Search’s 2019/2020 winter exploration and construction activities on the North Slope are progressing well. The winter development work is expected to result in the laying of more than 1.4 million cubic yards (1.1 million cubic metres) of gravel and the construction of more than 11 miles (18 kilometres) of gravel roads, 56 acres of gravel pads and a 192-foot (59 metre) bridge. At the same time, the Company will be conducting a two-well/two rig exploration drilling programme and has commenced mobilising to location with the first well, on the Mitquq East prospect, expected to spud before year-end and the second well, Stirrup-1, anticipated to commence drilling in January.

Exploration and construction activities outside of existing North Slope infrastructure can only be conducted during the 90-120 day window when winter temperatures allow construction and maintenance of temporary ice roads and ice pads that protect the delicate tundra.
Successful Bids in December 2019 Alaskan North Slope Lease Sale

Oil Search was the successful bidder for 39 State of Alaska lease tracts, covering 80,000 acres on Alaska’s North Slope, in the December 2019 Lease Sale, with a total bid cost of US$5.7 million. The awarded tracts, which are all located adjacent to the Company’s existing lease holdings in the Lagniappe area, add to the Company’s high-quality portfolio on the North Slope in areas with exploration potential and opportunities for future expansion and/or new development, given the proximity to existing infrastructure. It is anticipated that the leases will be formally issued in the next six – nine months.

Peter Botten, Oil Search’s Managing Director, said:

“Major progress has been made on the proposed Pikka development over the past few months, with a formal FEED entry decision expected to be made early next year. Work has already commenced on the first phase of gravel installation for roads and pads which are required for the development. In addition, our two well, two rig exploration programme on two highly prospective structures close to planned infrastructure is on track, with the first well expected to spud in the next few weeks.

We remain excited about the opportunities for Oil Search in Alaska and are steadily increasing our lease position in the core areas around the Pikka development. We are looking forward to making material contributions to the State and the local communities, while also creating value for Oil Search shareholders.”
Keiran Wulff, President Oil Search Alaska and CEO-Designate, said:

“Since acquiring the assets and taking over operatorship in March 2018, Oil Search has systematically progressed all aspects of the Pikka Unit Development in Alaska. We have built a world class and highly experienced team with proven North Slope development and operating experience, undertaken detailed reservoir modeling incorporating all data in a fully integrated manner and have executed active field and drilling programmes. In addition, we have conducted extensive community engagement and advanced the permits and approvals for the Pikka development in this highly regulated environment. We have also undertaken extensive value engineering and risk reduction studies on the development, to ensure that it progresses in a balanced and environmentally sensitive manner and fully considers the subsistence lifestyle of the local community and the environmental sensitivity of the Colville Delta region.

We feel a deep responsibility to the community, the State and to the environment and want to ensure our presence contributes to the long term wellbeing and sustainability of the residents at Nuiqsut and to the State of Alaska more broadly. This remains core to our corporate DNA. The material upgrade to resources in the current proposed Pikka Unit Development and the additional upside we see both within the Pikka Unit and adjacent to the development attest to the world class assets that we acquired from Armstrong in 2018 and the significant value we are creating for our shareholders”.

For more information, please contact:

Investors:
Ann Diamant - Senior Vice President, Investor Relations
Tel: +612 8207 8440
Mob: +61 407 483 128

Chris Morbey - Investor Relations Manager
Tel: +612 8207 8542
Mob: +61 481 038 179

US Media
Amy Burnett - Manager, U.S. Media & Communications
Tel: +1 907 646 7001
Mob: +1 907 529 1594

This ASX announcement was authorised for release by Oil Search Managing Director, Peter Botten.