OIL SEARCH LIMITED

(Incorporated in Papua New Guinea)

ARBN – 055 079 868

# REPORT TO THE AUSTRALIAN SECURITIES EXCHANGE

**Activities for the Quarter ended 31 March 2012**

**24 April 2012**

## HIGHLIGHTS

- **Solid progress was made at all PNG LNG Project construction locations in the first quarter of 2012. Highlights during the period included the delivery of the Train 1 main cryogenic heat exchanger to the plant site and achievement of record productivity at the Komo airfield.**

- **Oil Search's total oil and gas production for the first quarter was 1.46 million barrels of oil equivalent (mmboe), compared to 2011 fourth quarter production of 1.64 mmboe. As foreshadowed in the 2011 final results, production was impacted by a 16 day planned facilities shutdown for work related to the PNG LNG Project.**

- **Total oil sales for the quarter were 1.25 million barrels (mmbbl). This was slightly higher than oil production of 1.24 mmbbl, due to timing of shipments. Crude inventory awaiting sale fell from 0.20 mmbbl at the end of December 2011 to 0.15 mmbbl at the end of March 2012.**

- **The average realised oil price during the quarter was US$124.14 per barrel, 9% higher than in the fourth quarter of 2011, with the Company remaining unhedged throughout the period.**

- **Total operating revenue for the quarter was US$187.2 million, 7% lower than in the fourth quarter of 2011, reflecting 19% lower liftings, partly offset by the higher realised oil price and improved gas revenues.**

- **During the quarter, Oil Search embarked on a major drilling programme designed to evaluate the oil and gas resources in a number of its licences in the PNG Highlands. The first of these wells, P'nyang South 1, located to the south of the P'nyang gas field, discovered a substantial gas accumulation in the primary reservoir objectives. The well was subsequently sidetracked in order to locate the gas:water contact. The sidetrack well has recently reached its target depth, resulting in a significant extension to the size of the known gas column.**

- **At the end of March 2012, Oil Search held US$904.5 million in cash, excluding joint venture balances, while its revolving oil facility, with a commitment limit of US$232.0 million, remained undrawn, providing total liquidity of US$1.14 billion. US$2,014.1 million had been drawn down from the PNG LNG project finance facility at the end of March.**

- **During the quarter, US$51.9 million was spent on exploration and evaluation activities, US$357.8 million on the PNG LNG Project and US$21.5 million on oil field development work.**

**Commenting on the quarter, Managing Director, Peter Botten, said:**

**PNG LNG Project**

"Visible progress was made at the PNG LNG plant site during the first quarter of 2012, with the ongoing erection of steelwork for both Trains 1 and 2, the delivery of the Train 1 main cryogenic heat exchanger to site and the outer shells of the LNG tanks taking shape. Laying of the offshore pipeline also advanced significantly – by the end of the quarter, over 300 kilometres of the 407 kilometre pipeline had been laid.

Route clearance, pipelaying, welding, trenching and pipe burial continued northwards towards Kutubu on the onshore pipeline route, while earthmoving activities at the Komo airfield continued, with record productivity achieved during the quarter.

Mobilisation of the first of two drill rigs from Lae to Hides took place during the period, with drilling on Hides expected to start in mid-2012. The second rig left Houston by ship and arrived in PNG in March.

Construction activities also continued on the Oil Search-operated Associated Gas (AG) and PL 2 Life Extension Projects. Mechanical completion of the first of two new gas dehydration units at the Central Processing Facility (CPF) was achieved in March. Commissioning of the unit is now underway and it is expected to be operational in the second quarter of 2012. The second of the two major planned shutdowns at the CPF for AG related tie-ins was successfully completed, on schedule, in February. Commissioning of the new CALM buoy and subsea pipeline for the PL 2 Life Extension Project also took place and tanker loadings through this new system commenced late in the quarter.

In January, a landslide occurred approximately five kilometres from the Hides Gas Conditioning Plant site in the Highlands. The local community suffered a number of fatalities and considerable damage was sustained to housing, land and a section of the Tari to Komo road, the main thoroughfare for the area. The Government's National Disaster and Emergency Relief Office worked very effectively to support those affected, initially with the provision of food, water and temporary housing and subsequently providing funding for permanent relocation. Road access was restored in February. Both the Project Operator, Esso Highlands Limited, and Oil Search provided support where they could in response to this tragic incident.

The Project experienced a number of minor isolated interruptions during the quarter. The Project Operator continues to focus on working closely with local landowners and government to mitigate and manage these incidents."

**Production and revenue performance**

"Production of oil and gas in the first quarter of 2012 was 1.46 mmboe, 11% lower than in the fourth quarter of 2011. Oil production was impacted by a 16 day planned shutdown of the Central and Agogo Processing Facilities (CPF and APF), to undertake essential modifications required for the PNG LNG Project. This is the last of the major shutdowns at the CPF and APF, with two shorter shutdowns of the Gobe Processing Facility planned for the second and fourth quarters of 2012. 2012 full year production guidance remains unchanged at 6.2 - 6.7 mmboe.

Oil sales were 21% lower than in the 2011 fourth quarter, primarily reflecting lower production levels. However, the Company continued to benefit from strong oil prices, with an average realised price of US$124.14 per barrel for the quarter compared to US$113.54 per barrel in the previous period. In addition, revenues from the Hides Gas to Electricity Project increased due to the expiry in late 2011 of the long term gas sales contract and the commencement of an interim sales agreement, which is in place while a longer term contract is being negotiated. As a result, total operating revenue for the quarter was US$187.2 million, only 7% lower than fourth quarter 2011 revenue."

**Gas resources expansion activities**

"The Company has embarked on the largest drilling programme in its history, with a number of appraisal, development and exploration wells to be drilled across its PNG Highlands and Gulf licences over the next 18 months. This programme is designed to evaluate the gas potential and build a resource base to potentially underwrite further gas development opportunities.

The first well in this campaign, P'nyang South 1, was drilled on a structure immediately south of the existing P'nyang gas field during the quarter. The well discovered gas, intersecting a 184 metre gas zone over the Toro to the base of the P'nyang sands. A side-track, P'nyang South 1 ST1, was subsequently drilled, with the objective of defining the gas:water contact. The well reached target depth shortly after the end of the quarter, successfully intersecting the gas:water contact some 200 metres below the lowest gas in P'nyang South and extending the known gas column to approximately 380 metres. Interpretation of seismic and structural data suggests there is additional potential up-dip, indicating the total gas column could be over 650 metres. This is an excellent result, materially increasing the total estimated 2C gas resources in the P'nyang field and providing a potential key underpinning volume for LNG expansion. Oil Search drilled both wells under contract with the Operator, Esso PNG P'nyang Limited.

The construction of the well pad for the second well in the programme, Trapia 1, an exploration well on a large structure to the east of the Hides and Angore fields, was completed during the quarter. The rig is currently being assembled, with drilling scheduled to commence following the completion of P'nyang South activities.

Development and appraisal drilling at the Hides gas field is due to commence mid-year and will continue through 2012 and 2013. Further drilling is also planned in the oil fields, to assess the potential upside in both oil and gas resources that can enhance further gas commercialisation.

In the Gulf of Papua, following the positive results from the 2011 3D seismic survey, Oil Search has decided to acquire additional 3D seismic data in order to high grade a number of prospects prior to potential drilling. A seismic vessel was contracted and acquisition has recently commenced. Shortly after the end of the quarter, the Company entered a contract to drill two firm and two optional wells in the Gulf acreage, with drilling targeted to commence in late 2012. Discussions with potential partners were ongoing during the quarter and a number of bids to farm-in to these licences were received late in the reporting period. Review of these bids is underway, with a farm-down of the Company's large Gulf area interests likely to take place around mid-year."

**Strong production from recent near field PNG wells**

"The Agogo 6 appraisal well, which was drilled in late 2011 and discovered oil in the primary forelimb objective, was completed in the first quarter of 2012. The well is currently flowing oil at a rate of 1,500 bopd from the deepest of five zones, with the other zones to be sequentially tested. The Hedinia 10 discovery well, also drilled in late 2011, continues to flow well, producing at a rate of 1,500 bopd. This is an excellent outcome and these wells will help to mitigate natural field decline."

## Licence portfolio changes

"The Company continues to optimise its acreage, with a number of changes to its portfolio in PNG and the Middle East.

In March, Oil Search entered into an agreement to acquire a 50% interest in PPL 277 in PNG from New Guinea Energy. PPL 277 is located adjacent to PDL 8, which contains the Angore gas field, and PRL 11, which contains the Trapia prospect. It is considered by Oil Search to be prospective for gas and in an optimal location for potential future development. Esso PNG Exploration Limited, an ExxonMobil affiliate, has entered into an agreement to acquire the remaining 50% interest in the licence, ensuring continued alignment.

Also in March, Oil Search announced the sale of its 40% interest in Block 3 in Yemen to Total S.A. of France for US$44 million. The sale is subject to Yemeni Ministerial approval. A transition process is underway, with completion of the sale and formal handover of operatorship targeted for the third quarter of 2012."

## Launch of the Oil Search Health Foundation

"As part of Oil Search's programme to enhance our operating environment in PNG and build on our reputation as a socially responsible operator in the country, the Company officially launched the Oil Search Health Foundation during the quarter. The official launch took place in Port Moresby, attended by PNG's Prime Minister, the Honourable Peter O'Neill. The Foundation is a not-for-profit entity which will oversee a major expansion of the Company's health programmes in PNG, providing basic health care in areas outside the immediate oil and gas operating areas. The Health Foundation is a Principal Recipient for The Global Fund to Fight AIDS, Tuberculosis and Malaria and will manage a number of programmes for the prevention and alleviation of HIV/AIDS and malaria and the improvement of child and maternal health within PNG. Working closely with the PNG National Department of Health, the Foundation's activities will be progressively expanded across PNG, with programmes planned for nine provinces in 2012. This represents a major long-term commitment by Oil Search to make a positive difference to people across the whole of PNG, leveraging on highly successful programmes already being undertaken in our traditional operating areas."

**PETER BOTTEN, CBE**
**Managing Director**
**24 April 2012**

# 2012 FIRST QUARTER PERFORMANCE SUMMARY[1,2]

**Note: 2012 figures are unaudited**

| | Quarter End | | | Full Year |
|---|---|---|---|---|
| | Mar 2012 | Dec 2011 | Mar 2011 | Dec 2011 |
| **PRODUCTION DATA** | | | | |
| Crude oil production ('000 bbls) | 1,235 | 1,402 | 1,523 | 5,631 |
| Gas production (mmscf) | 1,177 | 1,273 | 1,395 | 5,562 |
| Hides condensate ('000 bbls) | 25 | 27 | 34 | 130 |
| Barrels of oil equivalent ('000 boe) | 1,457 | 1,641 | 1,790 | 6,688 |
| **SALES** | | | | |
| Internal oil usage ('000 bbls)[3] | 17 | 20 | 23 | 78 |
| Oil Sales volume ('000 bbls) | 1,254 | 1,587 | 1,233 | 5,636 |
| Gas equivalent sales (mmscf)[4] | 1,222 | 1,323 | 1,441 | 5,742 |
| Hides other condensate ('000 bbls)[5] | 7 | 8 | 7 | 34 |
| Crude inventory ('000 bbls)[6] | 152 | 198 | 568 | 198 |
| Barrels of oil equivalent sold ('000 boe) | 1,465 | 1,816 | 1,480 | 6,627 |
| **FINANCIAL DATA** | | | | |
| Oil sales (US$m) | 155.6 | 180.2 | 133.9 | 654.3 |
| Gas and refined product sales (US$m) | 23.2 | 13.4 | 11.5 | 49.0 |
| Other field revenue (US$m)[7] | 8.4 | 7.9 | 7.9 | 29.6 |
| Total operating revenue (US$m) | 187.2 | 201.5 | 153.3 | 732.9 |
| Average realised oil price (US$ per bbl) | 124.14 | 113.54 | 108.58 | 116.09 |
| Cash (US$m)[8] | 904.5 | 1,037.7 | 1,232.2 | 1,037.7 |
| Debt (US$m) | | | | |
| - PNG LNG financing | 2,014.1 | 1,747.6 | 1,074.2 | 1,747.6 |
| - Revolving oil facility[9] | Nil | Nil | Nil | Nil |
| Net cash/(debt) (US$m) | (1,109.6) | (709.9) | 158.0 | (709.9) |

1 Prior period comparatives updated for subsequent changes.
2 Numbers may not add due to rounding.
3 Oil used within Oil Search's operations and not available for sale.
4 Gas equivalent sales includes some Hides condensate sold under the same commercial arrangement.
5 Hides other condensate includes various other refined products (naphtha and diesel).
6 Includes minor field quality adjustments.
7 Other field revenue consists largely of rig lease income and infrastructure tariffs.
8 Excludes share of cash balances of joint venture interests.
9 At the end of March 2012, the Company had an undrawn revolving oil facility of US$232.0 million.

Production in the first quarter of 2012 was 1.46 mmboe net to Oil Search, produced at an average rate of 16,007 barrels of oil equivalent per day (boepd).

Oil production available for sale (production less internal usage) in the quarter was 1.22 mmbbl. Oil sales for the period were 1.25 mmbbl and the crude inventory at the end of the quarter was 0.15 mmbbl. The average oil price realised for the quarter was US$124.14 per barrel. The Company did not undertake any hedging transactions during the period and remains unhedged.

Sales revenue from oil, gas and refined products was US$178.8 million. Gas sales revenue increased, reflecting an interim gas sales agreement containing revised terms. From a profit perspective, the increase in revenue is expected to be largely offset by higher gas purchase costs, based on an interim revised gas acquisition agreement. Other field revenue was US$8.4 million, largely comprising rig lease income and infrastructure tariffs.

At 31 March 2012, Oil Search had cash of US$904.5 million (excluding joint venture balances), compared to US$1,037.7 million at the end of December 2011. US$2,014.1 million had been drawn down under the PNG LNG project finance facility (US$1,747.6 million at the end of December). The Company had an available oil facility balance of US$232.0 million, with the facility remaining undrawn.

Exploration and evaluation expenditure during the quarter was US$51.9 million, spent primarily on the P'nyang well, Trapia well site preparations, the Mananda 5 seismic programme and on preparations for drilling on the Taza PSC in Kurdistan.

Oil Search's share of PNG LNG Project costs were US$357.8 million during the quarter, funded 70% by drawdowns of funds from the PNG LNG project finance facility and the remaining 30% by cash reserves. Expenditure on producing assets and other capital costs totalled US$22.1 million, mainly spent on the Agogo 6 appraisal well, the PL 2 Life Extension Project and the CPF.

During the quarter, US$33.5 million of exploration and evaluation costs was expensed. US$19.1 million of this related to current and past costs for the exploration component of the IDT 25 well, following the unsuccessful Koi Iange test. The cost of the development component of this well was capitalised. The balance of the expense related to the Mananda 5 seismic programme and other expenses.

**Note: 2012 figures are unaudited**

| | Quarter End | | | Full Year |
|---|---|---|---|---|
| **(US$ million)** | **Mar 2012** | **Dec 2011** | **Mar 2011** | **Dec 2011** |
| **SUMMARY OF INVESTMENT EXPENDITURE** | | | | |
| Exploration & Evaluation | | | | |
| PNG – Oil and Gas | 44.4 | 32.6 | 36.8 | 89.4 |
| Gas Commercialisation | - | - | 0.5 | - |
| MENA | 7.5 | 2.7 | 3.3 | 55.1 |
| Total Exploration & Evaluation | 51.9 | 35.3 | 40.6 | 144.6 |
| Development | 357.8 | 382.2 | 246.5 | 1,286.5 |
| Production | 21.5 | 30.5 | 21.9 | 129.4 |
| Other Property Plant & Equipment | 0.6 | 3.4 | 1.0 | 7.2 |
| **Total investment expenditure** | **431.8** | **451.4** | **310.0** | **1,567.7** |
| **SUMMARY OF EXPLORATION & EVALUATION EXPENSED[1]** | | | | |
| From current year expenditure: | | | | |
| PNG – Oil and Gas | 16.9 | 10.1 | 12.9 | 47.5 |
| Gas Commercialisation | - | - | 0.5 | - |
| MENA | 4.5 | 2.5 | 2.4 | 9.0 |
| Total | 21.4 | 12.6 | 15.8 | 56.5 |
| Prior year expenditures expensed: | 12.1 | - | - | 4.1 |
| **Total exploration & evaluation expensed** | 33.5 | 12.6 | 15.8 | 60.6 |

1 Exploration expensed includes costs of unsuccessful wells except where costs continue to be capitalised, general administration costs, and geological and geophysical costs of new venture activity. Costs relating to permit acquisition costs, 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.
2 Prior period comparatives updated for subsequent changes.
3 Numbers may not add up due to rounding.

## PRODUCTION[1,2]

| | Quarter End | | | Full Year |
|---|---|---|---|---|
| | **Mar 2012** | **Dec 2011** | **Mar 2011** | **Dec 2011** |
| **Oil Production ('000 bbls)** | | | | |
| - Kutubu - PDL 2 | 740 | 791 | 796 | 3,028 |
| - Moran | 417 | 548 | 632 | 2,296 |
| - SE Mananda | 11 | 13 | 23 | 57 |
| - Gobe Main | 9 | 9 | 13 | 41 |
| - SE Gobe | 58 | 41 | 59 | 208 |
| **Total oil ('000 bbls)** | **1,235** | **1,402** | **1,523** | **5,631** |
| Hides gas production (mmscf) | 1,177 | 1,273 | 1,395 | 5,562 |
| - Hides condensate ('000 bbls) | 25 | 27 | 34 | 130 |
| **Total Production ('000 boe)** | **1,457** | **1,641** | **1,790** | **6,688** |

1 Prior period comparatives updated for subsequent changes.
2 Numbers may not add due to rounding.

**Kutubu (PDL 2 – 60.0%, operator)**

2012 first quarter production, net to Oil Search, was 0.74 million barrels, 6.5% lower than in the fourth quarter of 2011. Gross production rates averaged 13,545 bopd during the period, down from 14,324 bopd in the previous quarter.

The decrease reflected a 16 day shutdown of production in February at the CPF and APF, to allow essential modifications to be made to the facilities in preparation for the PNG LNG Project. The shutdown was completed on schedule and Kutubu subsequently returned to full production. Strong production from recent new wells and other existing key producers helped mitigate some of the impact of the shutdown over the quarter.

At Kutubu, the successful Hedinia 10 exploration well continued to produce at rates of around 1,500 bopd. However, production rates were affected by the shut-in of the IDT 14 well, which is expected to come back on line in the second quarter.

At the IDT 25 well in Kutubu, a Drill Stem Test (DST) on the Koi Iange reservoir was not successful with the reservoir failing to flow hydrocarbons. The DST equipment is currently being demobilised from the well prior to installing a completion across the Toro reservoir for subsequent production.

At Agogo, the successful Agogo 6 ST1 well, drilled on the Agogo forelimb in late 2011, was completed and tied-in to existing facilities. The well is currently producing oil at rates of approximately 1,500 bopd from the deepest of five intervals. The remaining intervals will be sequentially tested over the coming months. Also at Agogo, the AHT 2 ST1 well was converted from gas injection to production, resulting in an additional 500 bopd of production during the quarter. Following the completion of the Agogo 6 ST1 well, Rig 104 commenced mobilisation to the Trapia exploration well.

Following completion of the IDT 25 well, the Hydraulic Workover Unit will move to Usano where a workover will be undertaken at the UDT 3A gas injection well to increase injection capacity and support production from the Usano Main field. The unit will then move to Agogo.

**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 2012 first quarter production was 0.42 million barrels, 23.8% lower than production in the fourth quarter of 2011. The field produced at a gross average rate of 9,264 bopd compared to 12,023 bopd in the fourth quarter of 2011. The decrease in production was primarily due to the facilities shutdown.

During the quarter, a number of zone changes were made in the north-west part of the field to optimise production rates from the Toro reservoir. This has helped to maintain overall field rates and further zone changes are scheduled for the second quarter in other segments of the field. Testing of the Toro intervals in Moran 15 ST1 is now scheduled for the second quarter.

An updated reservoir model is currently being used to assess a number of in-field locations for potential drilling in 2012 and beyond.

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

Oil Search's share of production from the Gobe fields in the first quarter of 2012 was 0.07 million barrels, 34% above 2011 fourth quarter production.

Gross average production rates for Gobe Main were 7% lower than in the fourth quarter, at 947 bopd. The decrease reflected downtime early in the quarter due to the failure of a water injection pump, which has since been rectified. Towards the end of the quarter, production commenced from the Upper Iagifu zone in GM 2 ST1 and production was successfully reinstated at G 6X ST2, resulting in an improvement in overall field rates.

Gross average rates at SE Gobe were 44% higher than the previous quarter, at 2,513 bopd, reflecting a good performance from the SEG 8 well following a workover in 2011 and the reinstatement of production from the G 7X ST3 well following a well-head change-out.

A shutdown is planned at the Gobe Production Facility late in the second quarter, for scheduled compressor servicing and to allow essential modifications to be made to the facilities in preparation for the PNG LNG Project.

**SE Mananda (PDL 2 – 72.3%, operator)**

Oil Search's share of first quarter production from the SE Mananda field was 0.011 million barrels, down 16% from fourth quarter 2011 levels due to the shutdown of the CPF and APF during the quarter. Gross average daily production rates from the field were 119 bopd compared to 139 bopd in the fourth quarter of 2011.

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

2012 first quarter production of gas for the Hides Gas to Electricity Project was 1.18 billion cubic feet, produced at an average daily production rate of 12.9 million cubic feet per day. This was lower than fourth quarter production of 13.8 million cubic feet per day, reflecting 15 days of downtime of the power line to Porgera during the quarter. 25,000 barrels of condensate were produced for use within the Hides facility and for local sales.

# PNG LNG PROJECT

2012 first quarter activities on the PNG LNG Project included the following:

- At the LNG plant site near Port Moresby, the erection of steelwork for Trains 1 and 2 and the installation of piping and vessels continued. A highlight for the quarter was the placement on site of the main gas turbine cryogenic heat exchanger for Train 1. The construction teams on the two LNG tanks and the loading jetty continued to make good progress.

- Laying of the offshore pipeline progressed well. By the end of the quarter, over 300 kilometres of the 407 kilometre pipeline had been laid.

- Line clearing, laying, welding and trenching along the onshore pipeline route continued during the quarter, with operations moving beyond Gobe into the Kutubu area.

- In the Highlands, excellent progress was made on earthworks at the Komo airfield, with the Project achieving record productivity. The Well Pad B cellar installation was completed and backfill initiated, while the well pad access road on the Hides mountain advanced well.

- Pile driving in the process area and installation of the construction camp continued at the Hides Gas Conditioning Plant (HGCP) site.

- Mobilisation of Rig 702 to Hides neared completion during the quarter and reassembly of the rig commenced. Rig 703 arrived in PNG in March.

- On the Oil Search-operated Associated Gas project, construction of process equipment and associated facilities continued at the CPF. A milestone was achieved late in the quarter with mechanical completion of the first gas drying unit.

- Commissioning of the new CALM buoy and subsea pipeline for the PL 2 Life Extension Project was successfully completed and tanker loadings through the new system commenced late in the quarter.

# GAS GROWTH AND EXPLORATION ACTIVITY

### Gas Growth

The P'nyang South 1 well (PRL 3 - Oil Search 38.5%), targeting a seismically defined structure adjacent to the P'nyang 1x gas discovery, commenced drilling in January 2012 and reached a total depth of 2,508 metres in mid-March. The well intersected a 184 metre gross gas zone extending over the primary Toro to P'nyang reservoir objectives. A deeper, secondary objective, the Koi Iange sandstone, was water wet.

A side track, P'nyang South 1 ST1, stepping out approximately one kilometre to the south of the original well, was subsequently initiated to evaluate the down dip extent of the gas column and assess the gas:water contact. The well successfully intersected the gas:water contact shortly after the end of the quarter. The preliminary interpretation of data indicates the gas zone extends some 200 metres below the lowest known gas in P'nyang South 1 and increases the known height of the gas column to approximately 380 metres. Seismic interpretation and structural mapping suggests additional up-dip potential exists above P'nyang South 1 and indicates the total gas column in the P'nyang South field could extend to over 650 metres.

Construction of the Trapia exploration well site (PRL 11 - Oil Search 52.5%) was completed during the quarter and rigging up of Rig 104 commenced. This well, targeting a large structure to the east of the Hides and Angore fields, is scheduled to commence drilling in the second quarter of 2012, following the completion of P'nyang South activities.

The detailed evaluation programme to establish the available gas upside in the Associated Gas fields also continued over the quarter, based on production performance to date and recent development drilling successes.

Evaluation of the Gulf of Papua resource potential and the farm-out process was ongoing during the period. Based on the positive indications from the evaluation of the 2011 3D seismic data, a decision was made to acquire an additional 1,050 square kilometres of 3D seismic data. A contract was awarded for this survey and acquisition commenced in the second quarter of 2012. Contract negotiations were concluded shortly after the quarter to secure an offshore drilling rig for a multi-well offshore programme, with a target commencement date of late 2012.

In March, Oil Search agreed to acquire a 50% interest in PPL 277 from New Guinea Energy (NGE). PPL 277 is located adjacent to the PDL 8 licence, which contains the Angore PNG LNG Project gas field, and PRL 11, which contains the Trapia prospect. The consideration for the purchase comprised a cash payment of US$7.5 million. In addition, subject to further conditions, NGE may be entitled to an additional US$10 million from Oil Search if a Petroleum Development Licence (PDL) is granted and a royalty if commercial production occurs. Esso PNG Exploration Limited, an ExxonMobil affiliate, agreed to acquire the remaining 50% interest in the licence. Both the Oil Search and ExxonMobil transactions are subject to a number of conditions precedent, including Ministerial approval and licence specific conditions.

## PNG Oil Exploration

During the quarter, the Koi Iange interval of the IDT 25 well (PDL 2 - Oil Search 60.05%, Operator) was tested. While the well encountered hydrocarbon shows in the Koi Iange sandstone when drilled in 2011, on test it did not contain productive hydrocarbons. The well is now being completed as a producer from the primary Toro reservoir development objective.

A 90 kilometre 2D seismic programme over the Mananda 5 discovery in PPL 219 (Oil Search 72.5%, operator) and a number of near field exploration targets in PDL 2 continued during the quarter. The objectives of the seismic programme are to assess the extent of the Mananda discovery, allow for planning of a potential follow-up appraisal well and to mature and de-risk a number of near field exploration targets.

Planning activities took place for a new 150 kilometre 2D seismic survey, the Kokomo survey, which is scheduled to commence in the second quarter of 2012 following completion of the Mananda survey. The Kokomo survey is targeting a number of leads adjacent to, and on trend with, the Angore gas field and will extend over PDL 1 (Oil Search 16.6%), PDL 7 (Oil Search 40.6%), PDL 8 (Oil Search 40.6%), PRL 11 (Oil Search 52.5%) and PPL 233 (Oil Search 52.5%).

## Middle East / North Africa Exploration

In the Kurdistan Region of Iraq, preparations for drilling in the Taza PSC continued, with long lead items ordered and drilling rig, peripheral equipment and services tender processes underway. Civil works commenced and drilling is targeted to commence in mid-2012 and be completed in the fourth quarter of 2012.

In Tunisia, a licence extension to May 2014 was granted, to allow the drilling of the preferred Tajerouine permit drilling candidate. Well planning is currently underway with the well anticipated to spud in the second half of 2012.

In March 2012, Oil Search announced the sale of its Yemen Block 3 (Gardan) interest (Oil Search 40%) to Total S.A. of France for US$44 million. The sale is subject to Yemeni ministerial approval. A transition process is being planned between Total and Oil Search. Completion of the sale and formal handover of Operatorship is targeted for the third quarter of 2012.

Oil Search has retained its interest in Block 7 (Oil Search 34%) which remains in a state of force majeure. Oil Search continues to closely monitor the political and security situation in Yemen. Ensuring the safety of Oil Search staff remains the Company's top priority.

## 2012 DRILLING CALENDAR

Subject to Joint Venture approvals, the preliminary indicative 2012 exploration, appraisal and development programme is as follows:

| **Well** | **Well type** | **Licence** | **OSH interest** | **Timing** |
|---|---|---|---|---|
| **PNG** | | | | |
| P'nyang South 1 ST1 | Appraisal | PRL 3 | 38.51% | Completing |
| Trapia 1 | Exploration | PRL 11 | 52.5% | 2Q 2012 |
| Hides drilling programme | Development/ Appraisal | PNG LNG Project | 29.0% | Commences mid-2012 |
| ADT A | Appraisal | PDL 2 | 60.0% | 3/4Q 2012 |
| Moran MA | Development | Moran Unit | 49.5% | 4Q 2012 |
| Gulf of Papua programme | Exploration | various | various | 4Q 2012 |

| | | | | |
|---|---|---|---|---|
| **Kurdistan Region of Iraq** | | | | |
| Exploration well | Exploration | Taza PSC | 60.0% | July 2012 |

| | | | | |
|---|---|---|---|---|
| **Tunisia** | | | | |
| Tajerouine 1 | Exploration | Tajerouine | 100.0% | 4Q 2012 |

**Note: Wells and timing subject to change**

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