



OIL SEARCH LIMITED

(Incorporated in Papua New Guinea)

ARBN – 055 079 868

REPORT TO THE AUSTRALIAN SECURITIES EXCHANGE Activities for the Quarter ended 30 September 2012 23 October 2012

HIGHLIGHTS

- **Good progress continues to be made on the PNG LNG Project.**
- **The P'nyang Joint Venture has moved into the pre-FEED concept selection stage, including using P'nyang as a foundation resource for LNG expansion.**
- **Third quarter production of 1.33 mmboe was impacted by a shut-in to allow an inspection of the loading facilities. Production guidance for the 2012 full year remains unchanged.**
- **Operating revenue for the quarter was US\$107.8 million, based on an average realised oil price of US\$114.67 per barrel.**
- **A farm-down agreement of the Company's Gulf of Papua acreage to TOTAL S.A. has been executed.**
- **The refinancing of Oil Search's corporate debt facility has been concluded and is awaiting approval from the Bank of PNG.**
- **The Taza 1 well in Kurdistan, which is targeting a substantial oil and gas prospect, is drilling ahead.**
- **A long term gas sales agreement was signed with Barrick Niugini for the Hides Gas To Electricity Project.**

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

"Progress was made on a number of our key strategic initiatives over the quarter.

Construction activities continued across the various work sites of the PNG LNG Project, with the Project remaining on target for first LNG shipments in 2014. In addition, detailed studies and engineering scoping on the P'nyang gas discovery took place. The PRL 3 Joint Venture has agreed to move forward into the pre-FEED concept selection stage, with the primary option being to utilise P'nyang as a foundation resource for Train 3. Preliminary studies on potential design concepts and costs have now commenced.

An important objective for our Gulf of Papua gas strategy was delivered shortly after the end of the quarter, with the introduction of TOTAL SA as a new partner to work with Oil Search to explore the PNG Gulf area. The transaction with TOTAL, which is subject to Government approvals, satisfies all Oil Search's strategic objectives for the Gulf farm-down. TOTAL has extensive experience in developing major LNG projects and has similar aspirations to Oil Search in assessing and, in the event of success, developing an LNG project in the Gulf of

Papua. Oil Search and TOTAL have also agreed to form a strategic partnership to look at other licences in PNG, excluding the Highlands area.

Material oil potential is presently being tested by the Taza well in Kurdistan. The well, which commenced drilling in July, has encountered oil and gas shows, indicating it is in an active hydrocarbon basin. It is expected to drill into the primary objective and reach its target depth over the next few weeks.

Further balance sheet strength and flexibility has been added with the recent conclusion of a new revolving line of credit for US\$500 million with a number of commercial and investment banks. This highly competitive facility is now subject to Bank of PNG final approval. Together with existing cash balances, of US\$573.2 million at the end of September, and cash flow from the oil operations, Oil Search believes it is in a strong position to fund all foreseeable expenditures up to when the major cash flows from the PNG LNG Project commence in 2014."

Regarding production and revenue performance in the third quarter, Mr Botten said:

"In late July, during a tanker loading, a minor oil sheen (estimated to be between four and eight litres) was observed on the sea surface adjacent to the Kumul Marine Terminal (KMT). The Company took a conservative and responsible approach to this, by immediately suspending loadings and carrying out a comprehensive testing programme of the KMT loading system. The full integrity of the oil export system was confirmed, with no source of any leak found. Loadings resumed in late August with no reappearance of the sheen. With storage facilities close to capacity, the key producing fields were shut-in for much of August and as a result, third quarter production was 26% lower than in the second quarter.

Strong oil production has been recorded since operations resumed and despite the shut-down, production for the 2012 full year is still expected to be within the 6.2 – 6.7 million barrels of oil equivalent (mmboe) guidance range.

Total operating revenue for the third quarter was US\$107.8 million. Oil sales of 0.68 million barrels (mmbbl) were substantially lower than in the second quarter, due to the suspension of liftings during August. This was partly mitigated by higher oil prices, with the average oil price of US\$114.67 per barrel 5.5% above the second quarter price of US\$108.73 per barrel. Crude inventory awaiting sale increased from 0.06 mmbbl at the end of June to 0.42 mmbbl at the end of September 2012, worth some US\$48 million at third quarter oil prices."

2012 THIRD QUARTER SUMMARY

See notes 1, 2, 3	Quarter End			Year to Date		Full Year
	Sept 2012	June 2012	Sept 2011	Sept 2012	Sept 2011	Dec 2011
PRODUCTION DATA						
Crude oil production ('000 bbls)						
- Kutubu	650	919	647	2,310	2,237	3,028
- Moran	360	546	493	1,324	1,749	2,296
- SE Mananda	3	8	8	22	44	57
- Gobe Main	11	11	7	30	32	41
- SE Gobe	49	54	54	161	167	208
- Total	1,072	1,538	1,209	3,846	4,229	5,631
Gas production (mmscf)	1,375	1,403	1,478	3,955	4,289	5,562
Hides condensate ('000 bbls)	30	30	33	85	102	130
Barrels of oil equivalent ('000 boe)	1,331	1,802	1,489	4,589	5,047	6,688
SALES						
Internal oil usage ('000 bbls) ⁴	13	19	17	49	59	78
Oil sales volume ('000 bbls)	685	1,609	1,211	3,548	4,049	5,636
Gas-equivalent sales (mmscf) ⁵	1,400	1,479	1,544	4,101	4,419	5,742
Hides other condensate ('000 bbls) ⁶	8	8	9	24	26	34
Crude inventory ('000 bbls) ⁷	424	56	408	424	408	198
Barrels of oil equivalent sold ('000 boe)	926	1,864	1,477	4,256	4,812	6,627
FINANCIAL DATA						
Oil sales (US\$m)	78.6	174.9	142.4	409.2	474.1	654.3
Gas and refined product sales (US\$m)	22.9	24.8	11.9	70.9	35.6	49.0
Other field revenue (US\$m) ⁸	6.3	11.6	5.9	26.3	21.6	29.6
Total operating revenue (US\$m)	107.8	211.3	160.2	506.4	531.3	732.9
Average realised oil price (US\$ per bbl)	114.67	108.73	117.54	115.32	117.09	116.09
Cash (US\$m) ⁹	573.2	852.2	1,102.2	573.2	1,102.2	1,037.7
Debt (US\$m)						
- PNG LNG financing	2,629.0	2,349.2	1,518.2	2,629.0	1,518.2	1,747.6
- Revolving oil facility ¹⁰	Nil	Nil	Nil	Nil	Nil	Nil
Net cash/(debt) (US\$m)	(2,055.7)	(1,497.0)	(416.0)	(2,055.7)	(416.0)	(709.9)

1 2012 figures are unaudited.

2 Prior period comparatives updated for subsequent changes.

3 Numbers may not add due to rounding.

4 Oil used within Oil Search's operations and not available for sale.

5 Gas-equivalent sales include some Hides condensate sold under the same commercial arrangement.

6 Hides other condensate includes various other refined products (naphtha and diesel).

7 Includes minor field quality adjustments.

8 Other field revenue consists largely of rig lease income and infrastructure tariffs.

9 Excludes share of cash balances of joint venture interests.

10 At the end of September 2012, the Company had an undrawn revolving oil facility of US\$203.0 million.

PNG LNG PROJECT ACTIVITIES

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

- Significant progress was achieved at the LNG Plant site near Port Moresby. On Train 2, installation of the primary piperack, the air fin coolers and the heavy lift of the Cryogenic Heat Exchanger were completed. Cable pulling was ongoing on both trains, while the inner rings on both LNG tanks were nearing completion at the end of the quarter. On the marine jetty, the 2.4 kilometre jetty trestle was completed and the piperack modules were installed. The Project is currently focusing on completing all underground cables and piping before the commencement of the rainy season.
- Above water tie-in and hydro-testing of the 407 kilometre offshore pipeline took place during the period, together with completion of shallow water trenching and installation of fibre optic cable.
- Right of way clearing, pipe laying, welding and trenching along the onshore pipeline route progressed well, with work fronts moving beyond Kutubu towards the Moran area during the quarter. Pad preparation and piling commenced on the meter skid near the Central Processing Facility at Kutubu.
- Earthmoving activities at the Komo airfield were ongoing through the quarter, albeit progress was impacted by extremely wet weather. More than 800 metres of the runway had been laid by the end of the period and work has commenced on the terminal buildings. Upgrading of the road from the airfield to the Hides Gas Conditioning Plant continued.
- At the Hides Gas Conditioning Plant, the main concrete foundations for the pipeline compressors and generators were completed and the installation of the main piperack steel structure advanced. Erection of the firewater and potable water tanks also commenced.
- Drilling commenced during the quarter at Well Pad B, with Rig 702 drilling the top hole sections of the B1 and B2 production wells. Mobilisation and assembly of Rig 703 also took place during the quarter and the rig is expected to commence drilling at Well Pad C in the fourth quarter.
- Oil Search-operated Associated Gas Project activities progressed, with earthworks and construction of foundations commencing at Gobe and ongoing activity on multiple workfronts at Kutubu. At Kutubu, key achievements included the new TEG C unit commencing operations and the decommissioning and demolition of the old unit. Excavation of the new TEG D foundations commenced. Performance testing of the Commissioning Gas Unit, which represents a key piece of equipment required for the commissioning of the Project, is close to completion.
- The PL 2 Life Extension Project completed work scoping for the final stage of work, which will commence during the fourth quarter weather window.

GAS GROWTH AND EXPLORATION ACTIVITY

Gas Growth

During the quarter, the PRL 3 (P'nyang) Joint Venture continued studies on resource estimates and commercialisation and development options for the P'nyang field. Towards the end of the quarter, the Joint Venture agreed to move into the pre-FEED concept selection stage, with use of the gas for LNG expansion the primary option. Work on conceptual designs and costs is expected to continue through to the end of 2012.

The Trapia 1 ST1 exploration well (PRL 11: Oil Search - 52.5%) was plugged and abandoned during the period, having drilled through a fault zone and encountered a repeat section of Darai limestone. Petrophysical evaluation indicates the Trapia 1 ST1 well did not intersect any prospective reservoir intervals. While disappointing, the result at Trapia 1 ST1 has not impacted the prospectivity of other structures in the area. Seismic acquisition and assessment work continued across a number of licences located east of Hides and on trend with Angore, to evaluate several seismically defined structures which could provide additional gas resources in close proximity to the PNG LNG Project facilities.

The evaluation programme to establish the available gas upside in the Associated Gas fields was ongoing during the quarter.

Shortly after the end of the quarter, a farm-in transaction relating to the Company's Gulf of Papua acreage was executed with TOTAL SA of France. Subject to Government approvals and option exercises, TOTAL will acquire interests in three offshore licences (PPLs 234 and 244 and PRL 10) and two onshore licences (PPLs 338 and 339). Oil Search and TOTAL will hold equal interests in each of the five licences, if all options are exercised, and will work in partnership to explore and appraise the Gulf area, with Oil Search continuing as Operator (refer to media release dated 9 October 2012).

The two firm plus two well options offshore drilling programme using the Stena Clyde semi-submersible rig is now planned to commence in the first quarter of 2013. Delivery of the rig has been delayed as a consequence of rough weather in the Otway Basin and a dual fatality on the rig in August while working for Origin Energy.

Design and planning is well advanced for the firm wells and long lead items have been sourced for both the firm and option wells, while the majority of service contracts have been finalised. A seabed and shallow hazard survey will be carried out in the fourth quarter to finalise well locations.

A preliminary version of the processed data from the 1,050 km of 3D seismic acquired in the first half of 2012 was received in August and the fully processed material was received in October. The initial assessment of the data is encouraging, with a number of large turbidite fan features being identified. These features will be assessed over the fourth quarter and may be included in the upcoming offshore programme.

Further to its application, Oil Search was offered a new offshore licence (PPL 385 – Oil Search 100%, formerly APPL 385) in October, which it has accepted. The licence is contiguous to the western boundary of PPL 244 (Oil Search – 80%, to reduce to 40% following approval of the TOTAL transaction) and was part of the recent 2012 3D seismic programme.

In the onshore Gulf of Papua licences (PPLs 338 and 339), planning progressed for a small seismic programme in PPL 338, which is expected to take place in early 2013. In addition, preparations were made for an airborne gravity programme to be undertaken in PPLs 338 and 339 in early 2013, to be followed by further seismic. By funding these activities, Oil Search has the option to acquire up to a 70% participating interest in PPL 338 and 339, which are currently held 100% by Kina Petroleum. Following the recent transaction with TOTAL, this option will be shared equally with TOTAL.

PNG Oil Exploration

During the quarter, work commenced on the construction of a new well pad for the Mananda 6 well in PPL 219 (Oil Search - 72.5%, operator). The well is planned to be drilled in the first quarter of 2013 to appraise the 2010 Mananda 5 discovery.

Elsewhere in the Highlands, Phase II of the Kokomo seismic survey, targeting a number of leads adjacent to, and on trend with, the Angore gas field, commenced.

Middle East / North Africa Exploration

The Taza 1 well in the Taza PSC in the Kurdistan Region of Iraq (Oil Search - equity interest 60%, paying interest 75%, operator) commenced drilling in July. At the end of the quarter, the well was drilling ahead towards the primary objective.

In Tunisia, preparations continued for drilling a commitment well on the Semda prospect in the Tajerouine PSC (Oil Search - 100%). Tendering for services continued and well site construction commenced. The well is expected to spud late in the fourth quarter of 2012.

Finalisation of the sale process of Oil Search's 40% interest in Block 3, Yemen, to Total S.A. continued, with Joint Venture and Government approvals underway.

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

CORPORATE ACTIVITY

New Hides GTE contract signed

In September, Oil Search signed a new Gas Sales Agreement with Barrick (Niugini) Ltd, for the supply of up to 56 billion cubic feet of natural gas to generate electricity for the Porgera Gold Mine. This represents an extension of the previous long term gas sales agreement. A back-to-back agreement was signed with the PDL 1 Joint Venture for the purchase of this gas from PDL 1. Under the new Gas Sales Agreement, pricing terms have been amended to reflect the prevailing market price for gas in PNG and the increased cost to Oil Search of acquiring this gas from the PDL 1 Joint Venture.

Refinancing of corporate facility

Shortly after the end of the quarter, the Company concluded the refinancing of its corporate revolving facility, which was to expire in September 2013. The facility agreement, for a US\$500 million five year, non-amortising revolving credit facility with a 15 member banking group, which includes all four major Australian domestic banks as well as international banks, is expected to be signed shortly, once Bank of PNG approval is obtained. The facility has been well oversubscribed, highlighting the confidence by the banks in the Company's project suite and financial outlook, as well as the investment climate in PNG.

PRODUCTION PERFORMANCE

Total production in the third quarter of 2012 was 1.33 mmbbl net to Oil Search, produced at an average rate of 14,466 barrels of oil equivalent per day (bopd). This was 26% lower than in the second quarter, due to an initial curtailment and then a full shut down of production for nearly four weeks while comprehensive investigations were undertaken to identify the source of a minor oil sheen on the sea surface close to the Kumul Marine Terminal (KMT). No source of any leak in the oil export system was found and loadings resumed in late August with no reappearance of the sheen.

Once production resumed, there were some delays in establishing optimal plant operations. In addition, major flooding in PNG during the quarter had an impact on logistical and operational activities.

Kutubu (PDL 2 – 60.0 %, operator)

Third quarter production net to Oil Search was 0.65 mmbbl, 29% lower than the second quarter. Gross production rates averaged 11,767 bopd during the period, down from 16,825 bopd in the previous quarter, due to the KMT shutdown in August.

Kutubu production from all reservoirs was at or above expectation. A workover at UDT 3A, to increase gas injection capacity at the Usano Main field, was completed during the quarter. The well is expected to be commissioned early in the fourth quarter once perforation equipment has been mobilised to site. A workover at the IDT 4ST1 well was also completed, with encouraging initial production rates during commissioning.

The Agogo field continued to perform well, with strong production from existing wells combined with sustained production from the Agogo 6 well in the forelimb. In addition, workovers were completed at ADT 1 and ADT 3B, with commissioning underway at the end of the quarter.

Planning continued on the ADT A (ADT 4) well. ADT A will target the Toro reservoir in the NW segment of the field and is expected to spud in the fourth quarter of 2012.

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 production was 0.36 mmbbl, 34% lower than in the second quarter. The field produced at a gross average rate of 7,901 bopd, compared to 12,125 bopd in the second quarter, reflecting the KMT shut-down.

During the period, the Toro C interval at the Moran 15 ST1 well was commissioned. Initial results have been very encouraging, with rates of 1,500-2,000 bopd achieved. It is likely that the well will remain producing from this zone for the remainder of the year.

Planning took place for the Moran MA well, a sidetrack from the Moran 13 well which is no longer on production. The well is targeting the Toro and Digimu reservoirs in the north-west part of the field and is expected to spud in the fourth quarter of 2012.

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

Oil Search's share of production from the Gobe fields in the third quarter was 0.059 mmbbl, down 8% from second quarter production levels.

The gross average production rate for Gobe Main was 4% lower than in the second quarter, at 1,145 bopd, due to the KMT shutdown. The gross average rate at SE Gobe was 9% lower than the previous quarter at 2,075 bopd, again largely due to the shutdown.

A planned shutdown will occur at the Gobe Production Facility in October for routine compressor servicing. This will also provide the opportunity to complete further modifications to the facilities, in preparation for gas export to the PNG LNG Project in 2014.

SE Mananda (PDL 2 – 72.3 %, operator)

Oil Search's share of third quarter production from the SE Mananda field was 0.003 mmbbl, down 66% from second quarter production levels. The fall in production rates reflected the KMT shutdown. In addition, the SEM 4 well remains shut in for slickline work which will commence in the fourth quarter of 2012, once weather conditions have improved. The gross average daily production rate from the field was 41 bopd compared to 122 bopd in the second quarter.

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

Third quarter production of gas for the Hides Gas to Electricity Project was 1.4 billion cubic feet, produced at an average daily rate of 15 million cubic feet per day. This was similar to second quarter production of 15.4 million cubic feet per day. 30,000 barrels of condensate were produced for use within the Hides facility and for local sales.

FINANCIAL PERFORMANCE

Third quarter oil production available for sale (production less internal usage) was 1.06 mmbbl, while oil sales for the period were considerably lower, at 0.68 mmbbl, reflecting the suspension of liftings during August. The crude inventory at the end of the quarter was 0.42 mmbbl.

The average oil price realised for the quarter was US\$114.67 per barrel, with no oil hedging undertaken during the period. Sales revenue from oil, gas and refined products for the period was US\$101.5 million, while other field revenue, largely comprising rig lease income and infrastructure tariffs, was US\$6.3 million.

At 30 September 2012, Oil Search held cash of US\$573.2 million (excluding joint venture balances) compared to US\$852.2 million at the end of June 2012. US\$2,629.0 million had been drawn down under the PNG LNG Project finance facility (US\$2,349.2 million at the end of June). The Company's existing corporate revolving facility had a committed limit of US\$203.0 million, with the facility remaining undrawn.

Exploration and evaluation expenditure during the quarter was US\$69.4 million, spent primarily on drilling the Trapia well in PNG (US\$29.7 million), the Taza 1 well in Kurdistan (US\$8.1 million) and acquiring 40% of PRL 10, which contains the Uramu gas field (US\$12.0 million).

Oil Search's share of PNG LNG Project development and financing costs was US\$362.2 million, 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\$22.8 million, mainly spent on Kutubu well workovers and on the Central Processing Facility.

During the quarter, US\$69.1 million of exploration and evaluation costs were expensed, of which US\$61.1 million related to the Trapia well. Other expensed costs included geological and geophysical, general and administration and community development expenses.

SUMMARY OF EXPENDITURE AND EXPLORATION AND EVALUATION EXPENSED

See notes 1, 2, 3	Quarter End			Year to Date		Full Year
(US\$ million)	Sept 2012	June 2012	Sept 2011	Sept 2012	Sept 2011	Dec 2011
INVESTMENT EXPENDITURE						
Exploration & Evaluation						
PNG – Oil and Gas	55.2	65.8	8.0	165.1	56.8	89.4
MENA	14.2	8.0	47.7	29.7	52.4	55.1
Total Exploration & Evaluation	69.4	73.8	55.7	194.7	109.2	144.6
Development	362.2	421.2	309.5	1,141.2	904.4	1,286.5
Production	22.8	17.9	41.7	62.1	98.9	129.4
Other Property, Plant & Equipment	4.4	1.0	0.9	6.0	3.7	7.2
TOTAL	458.8	513.9	407.8	1,404.0	1,116.2	1,567.7
EXPLORATION & EVALUATION AND BUSINESS DEVELOPMENT EXPENDITURE EXPENSED⁴						
Exploration & Evaluation						
From current year expenditure:						
PNG – Oil and Gas	64.3	20.7	6.6	101.9	37.2	47.5
MENA	4.8	2.3	2.3	11.5	6.5	9.0
Total	69.1	23.0	8.9	113.4	43.7	56.5
Prior year expenditures expensed	-	-	-	12.1	4.1	4.1
TOTAL	69.1	23.0	8.9	125.5	47.8	60.6

1 2012 figures are unaudited.

2 Prior period comparatives updated for subsequent changes.

3 Numbers may not add up due to rounding.

4 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.

DRILLING CALENDAR

Subject to Joint Venture approvals, the forward 2012/2013 exploration, appraisal and development programme is as follows:

Well	Well type	Licence	OSH interest	Timing
PNG				
Hides drilling programme	Development/ Appraisal	PNG LNG Project	29.0%	Ongoing
Agogo ADT A	Appraisal	PDL 2	60.0%	4Q 2012
Moran MA	Development	Moran Unit	49.5%	4Q 2012
Gulf of Papua programme	Exploration	various	various	1Q 2013
Mananda 6	Appraisal	PPL 219	71.25%	1Q 2013
Kurdistan Region of Iraq				
Taza 1	Exploration	Taza PSC	60.0%	Drilling ahead
Tunisia				
Tajerouine 1	Exploration	Tajerouine	100.0%	4Q 2012

Note: Wells and timing subject to change

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