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 2013
23 April 2013

HIGHLIGHTS

- **At the end of the first quarter of 2013, the PNG LNG Project was over 80% complete and on track for first LNG sales in 2014.**
- **The PRL 3 Joint Venture made progress in its studies to determine the preferred development concept for the potential development of the P'nyang gas field.**
- **Production in the first quarter of 2013 was 1.56 million barrels of oil equivalent (mmboe), compared to 1.46 mmboe in the previous corresponding period and 1.79 mmboe in the fourth quarter of 2012.**
- **Total operating revenue for the quarter was US$176.0 million, based on an average realised oil price of US$113.92 per barrel.**
- **The Company's major drilling programme stepped-up, with the spudding of the Flinders 1 exploration well, in PPL 244, offshore Gulf of Papua on 31 March.**
- **Drilling continued at the Taza 1 well in Kurdistan. Subsequent to the reporting period, the well has flowed oil from the second primary objective, the Euphrates Formation.**
- **Oil Search remains well funded, with cash of US$438.6 million at the end of March 2013. The new US$500 million corporate facility remains undrawn.**

Commenting on the 2013 first quarter activities, Managing Director, Peter Botten, said:

"A solid production performance was achieved in the first quarter by our core PNG oil fields. Meanwhile good progress continued to be made on all fronts of the PNG LNG Project and on our major drilling programme, designed to evaluate the upside of our assets for both gas, to underpin LNG expansion, and for material oil.

At the PNG LNG plant, engineering and procurement are substantially complete and preparations for commissioning various components of the process trains and utilities have commenced. The construction of the LNG storage tanks, the jetty and the offshore pipeline has been completed. 258 kilometres of the onshore pipeline has been welded and progress has also been made with construction activities at the Hides Gas Conditioning Plant (HGCP), with most of the structural steel for the pipeline compressors erected. First cargo flights into the Komo Airfield, bringing in key items of equipment for the HGCP, are expected to commence in May and the operator, Esso Highlands Limited, has confirmed the target for first

LNG sales in 2014 remains unchanged. Oil Search will soon be able to supply commissioning gas to the LNG Plant.

During the quarter, the PRL 3 Joint Venture continued to progress studies for the potential development of the P'nyang gas field, narrowing the range of options under review. Subject to the outcome of these studies, a preferred development plan is expected to be selected and a decision made on whether to progress into FEED. Use of the gas as a foundation resource for a potential third PNG LNG train remains the primary focus. Our Gulf of Papua gas strategy also advanced, with the transactions associated with the Total SA farm-in receiving Government approval and the commencement of the offshore drilling programme, with the Flinders 1 well in PPL 244 spudded in March. This well will be followed by Hagana 1, also in PPL 244.

Drilling continued at the Taza well in Kurdistan, with the well reaching its total depth shortly after the end of the quarter. Hydrocarbon shows were observed throughout the second primary objective, the Euphrates Formation. The well is now being tested and has flowed oil. The well test will continue to gain information on the fluid properties and reservoir potential. Following the completion of testing, we expect to suspend the well. Contracting for a rig for a follow-up drilling programme is well advanced, with drilling planned to commence in late 2013, to appraise the hydrocarbons seen in Taza 1 and penetrate a number of deeper objectives that have been identified on seismic.

Other activities during the quarter included development drilling at Kutubu and Moran and well site preparations and rig mobilisation for the Mananda 6 appraisal well, which has recently commenced drilling. Drilling also took place at Semda in Tunisia and on Hides, as part of the PNG LNG Project activities."

Commenting on production and revenue performance in the first quarter:

"Total oil and gas production in the first quarter of 2013 was 1.56 mmboe, 7% higher than the first quarter of 2012 but 13% lower than the fourth quarter of 2012. While reservoir performance remained strong, oil production was impacted by two unplanned shutdown events at Kutubu and brief downtime at Moran to undertake various repair activities to the facilities. 2013 full year production guidance remains unchanged at 6.2 – 6.7 mmboe.

Total operating revenue for the quarter was US$176.0 million. The Company continued to benefit from strong oil prices, with an average realised price of US$113.92 per barrel for the quarter compared to US$111.09 per barrel in the previous period. Due to timing of liftings, oil sales were 40,000 barrels less than production available for sale, resulting in an increase in crude oil inventories to 319,000 barrels at the end of March, worth approximately US$36 million in revenue at first quarter prices.

Funding

"Oil Search remains well positioned to fund both its equity share of PNG LNG Project development costs as well as our various growth activities. At the end of March 2013, the Company had US$438.6 million in cash and the US$500 million five year non-amortising corporate debt facility, arranged in late 2012, remains undrawn.

The process to raise US$1.5 billion of supplemental project financing for the PNG LNG Project, to fund the debt component of the Project cost increase announced in November 2012, is on schedule, with strong interest expressed by prospective lenders. The additional commitments are expected to be in place well before the funding is needed, towards the end of 2013."

2013 FIRST QUARTER PERFORMANCE SUMMARY

See notes 1, 2, 3	Quarter End			Full Year
	Mar 2013	Dec 2012	Mar 2012	Dec 2012
PRODUCTION DATA				
Crude oil production ('000 bbls)				
- Kutubu	780	957	740	3,267
- Moran	465	541	417	1,865
- SE Mananda	1	-	11	22
- Gobe Main	10	9	9	39
- SE Gobe	42	37	58	198
- Total	1,299	1,545	1,235	5,390
Gas production (mmscf)	1,392	1,311	1,177	5,267
Hides condensate ('000 bbls)	30	28	25	112
Barrels of oil equivalent ('000 boe)	1,561	1,791	1,457	6,380
SALES				
Internal oil usage ('000 bbls)[4]	22	25	17	73
Oil sales volume ('000 bbls)	1,231	1,657	1,254	5,205
Gas sales (mmscf)[5]	1,349	1,271	1,222	5,372
Hides liquids ('000 bbls)[6]	27	28	24	111
Crude inventory ('000 bbls)[7]	319	279	152	279
Barrels of oil equivalent sold ('000 boe)	1,483	1,897	1,482	6,211
FINANCIAL DATA				
Oil sales (US$m)	140.2	184.1	155.6	593.2
Gas and refined product sales (US$m)	25.7	24.7	23.2	95.6
Other field revenue (US$m)[8]	10.1	9.4	8.4	35.8
Total operating revenue (US$m)	176.0	218.2	187.2	724.6
Average realised oil price (US$ per bbl)	113.92	111.09	124.14	113.97
Cash (US$m)[9]	438.6	480.2	904.5	480.2
Debt (US$m)				
- PNG LNG financing	3,056.5	2,866.0	2,014.1	2,866.0
- Revolving corporate facility[10]	Nil	Nil	Nil	Nil
Net cash/(debt) (US$m)	(2,617.9)	(2,385.9)	(1,109.6)	(2,385.9)

1 2013 figures are unaudited.
2 Prior period comparatives updated for subsequent changes.
3 Numbers may not add due to rounding.
4 Oil either used within Oil Search's operations or sold domestically.
5 Gas sales relate to gas sold under the Hides Gas Sales Agreement.
6 Hides refined products used within Oil Search's operations, sold under the Hides Gas Sales Agreement or sold domestically.
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 March 2013, the Company had an undrawn revolving corporate facility of US$500 million.

PNG LNG PROJECT ACTIVITIES

At the end of the first quarter, the PNG LNG Project was over 80% complete. The operator, Esso Highlands Limited, achieved the following during the quarter:

- By the end of March 2013, the Project labour force had completed over 123 million cumulative work hours.
- At the LNG Plant site, engineering and procurement are substantially complete and preparations are underway to ready the plant for the receipt of commissioning gas.
- The onshore feed gas pipeline tie-in has been completed and preparations are being made to purge the pipeline, in preparation for the start of commissioning later this year using gas from the oil fields.
- Pneumatic testing of all large bore piping at the jetty and marine terminal has been completed.
- Hydro-testing and soil stability testing of the North and South LNG tanks has been completed, while hydro-testing for all miscellaneous tanks has also taken place.
- 258 kilometres of the onshore pipeline have been welded and 197 kilometres have been hydro-tested.
- At the Hides Gas Conditioning Plant, the erection of structural steel for pipeline compressors 1 and 2 is substantially complete.
- Drilling is continuing at well pad B with Rig 702, on the Hides B1 and B2 wells. Drilling operations at well pad C, where two wells, Hides C1 and C2 will be drilled, have recently commenced using Rig 703. Installation of well pad facilities at well pad D has also commenced.
- At the Komo airfield, the aircraft parking apron (non-cargo), north turning node and installation of high intensity approach lights have all been completed. The laying of the remaining asphalt on the runway has commenced and is almost complete. The operator has advised that air operations are expected to commence in May.
- The construction activities for the Associated Gas and PL 2 Life Extension Projects by Oil Search are close to completion and preparations are underway to commence supplying commissioning gas to the LNG Project.

LNG plant site,
March 2013

Export jetty,
March 2013

Hides Gas Conditioning Plant,
March 2013

Komo Airfield,
March 2013

Hides drilling, Rig 703
March 2013

GAS GROWTH AND EXPLORATION ACTIVITY

Gas Growth

During the quarter, concept studies for the P'nyang resource, including utilisation of the gas as a potential foundation resource for PNG LNG Project expansion, were progressed. In addition to scoping and planning, work on commercial aspects, environmental studies and engagement with various stakeholders were undertaken. The acquisition of a 2D seismic programme over the P'nyang field commenced in the first quarter. Data acquired will provide information to assist with development planning and resource assessment.

In the Gulf of Papua, the transactions associated with the Total SA farm-in (offshore PPLs 234 and 244 and PRL 10, and onshore PPLs 338 and 339) received approval from the Minister of Petroleum and Energy. The farm-in deal for PPL 244 is now unconditional, with Total funding its partial carry of the initial offshore drilling programme. Towards the end of the quarter, the drilling programme, comprising two firm wells and the option to drill two further wells, commenced, with the Flinders 1 well spudded on 31 March using the Stena Clyde semi-submersible rig. The well will test the Flinders prospect in PPL 244, which has mean, unrisked, prospective resources of 1 – 1.5 tcf. This is expected to be followed by the Hagana 1 well, also located in PPL 244, with mean, unrisked, prospective resources of 1 – 1.3 tcf.

The farm-out process for offshore licence PPL 385, which lies adjacent to PPL 244, will be revisited once the PPL 244 drilling programme has been completed.

In the onshore licences (PPLs 338 and 339), planning took place for a small 2D seismic programme in PPL 338, which is scheduled for the second quarter of 2013, and for gravity gradiometry surveys to be undertaken in PPLs 338 and 339.

PNG Oil Exploration

During the quarter, construction of the Mananda 6 well pad in PPL 219 (Oil Search – 71.25%, operator) was completed and Rig 104 mobilised to site. Drilling of the Mananda 6 well, to appraise the 2010 Mananda 5 discovery, has recently commenced.

MENA Exploration

During the quarter, drilling continued at the Taza 1 well in the Taza Production Sharing Contract (PSC) located in the Kurdistan Region of Iraq (Oil Search – 60%, operator). Drilling in the deeper section has proved challenging, with a second side-track well drilled and remedial work undertaken in the first quarter. The well reached its total depth in mid-April, having drilled through the deeper second primary objective, the Euphrates Formation, and is currently being tested over a 150 metre interval, covering the Dhiban and Euphrates Formations. The well, which is in its clean-up phase, has flowed approximately 38 degree API oil.

Open hole test of lower zone of Taza 1 well, Kurdistan.

In late January, the Semda 1 well located in the Tajerouine PSC (Oil Search – 100%) in Tunisia was spudded, reaching a total depth of 3,702 metres in late March. Given no indications of significant hydrocarbons while drilling, the well was logged and is presently being plugged and abandoned.

The Company's remaining asset in Yemen, Block 7 (Al Barqa) (Oil Search – 34%, operator), remains in a state of force majeure. Subject to a return to a stable and safe operating environment, the Company plans to acquire a 2D seismic programme over prospective parts of Block 7 in 2013.

DRILLING CALENDAR

Subject to Joint Venture approvals, the 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
UDT 14	Development	PDL 2	60.0%	Drilling ahead
Flinders 1 (offshore)	Exploration	PPL 244	40.0%	Drilling ahead
Mananda 6	Appraisal/ Exploration	PPL 219	71.25%	2Q 2013
Hagana 1 (offshore)	Exploration	PPL 244	40.0%	2Q 2013
UDT N	Exploration	PDL 2	60.0%	3Q 2013
Moran L (Moran 10 ST2)	Development	Moran Unit	49.5%	3Q 2013
Kurdistan Region of Iraq				
Taza 1	Exploration	Taza PSC	60.0% (75% paying interest)	Testing
Taza 2	Exploration	Taza PSC	60.0% (75% paying interest)	2H 2013

Note: Wells and timing subject to change

PRODUCTION PERFORMANCE

Production in the first quarter was 1.56 mmboe net to Oil Search, produced at an average rate of 17,339 bopd. This represented a 12.9% decrease on production in the fourth quarter of 2012, with operations disrupted by two unplanned shutdowns at Kutubu and a brief downtime event at Moran to undertake repair activities.

Kutubu (PDL 2 – 60.0%, operator)

First quarter production net to Oil Search was 0.78 million barrels, 19% lower than the previous quarter. Gross production rates averaged 14,441 barrels of oil per day (bopd) during the period, down from 17,328 bopd in the fourth quarter of 2012.

Two unplanned downtime events, both of which have been safely resolved, took place during the quarter. At the Central Processing Facility (CPF) in Kutubu, an emergency shut-down of the plant was undertaken after there was a power failure, while a number of wells were shut-in following the identification of a pinhole leak in the Hedinia Digimu gas lift line to allow repairs to be undertaken. These wells have been successfully and safely brought back on-line.

During the quarter, workovers at IHT 3 and IHT 1A were completed, with IHT 3 brought on-line in March. At Usano, the UDT 14 well was spudded, targeting the Toro reservoir in the Usano East field. Following encouraging results from the pilot well, a horizontal side-track is now being drilled to optimise production and reserves recovery from the reservoir.

The ADT 4 well, targeting the Toro reservoir in the north-west part of the Agogo field, was brought on-stream from the Toro A reservoir.

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 first quarter production at Moran was 0.47 million barrels, 14% lower than in the fourth quarter. The field produced at a gross average rate of 10,440 bopd compared to 11,879 bopd in the previous quarter, reflecting downtime at the CPF as well as a short period of downtime to allow repairs to an oil line.

During the quarter, drilling continued at the Moran 13 ST1 well, which reached its planned target depth and confirmed hydrocarbons in both the Toro and Digimu reservoirs in the north-west segment. A four zone completion has been successfully installed in the well and initial production rates have been encouraging, with 2,000 bopd achieved during commissioning.

A second well is planned to be drilled at Moran in the second half of 2013.

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

Oil Search's share of production from the Gobe fields in the first quarter was 0.051 million barrels, up 11% from fourth quarter 2012 production levels.

The gross average production rate for Gobe Main was 10% higher than in the fourth quarter, at 1,084 bopd. This result reflects strong reservoir performance, particularly from the Upper Iagifu reservoir in GM 2ST1, and was achieved despite a 10 day shutdown in March for routine maintenance.

The gross average production rate at SE Gobe was 12% higher than the previous quarter, at 1,815 bopd. The Gobe 7X well was brought on-line during the quarter and production from key wells remained strong.

SE Mananda (PDL 2 – 72.3%, operator)

At SE Mananda, production recommenced during the first quarter following repairs to the main production flowline at the end of 2012. While initial attempts to bring the field back on-line were impacted by power supply and surface instrumentation difficulties, the SEM 4 well was successfully brought on-line in March. The SEM 3 well remains shut-in due to a tubing restriction.

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

2013 first quarter production of gas for the Hides Gas to Electricity Project was 1.4 billion cubic feet, produced at an average daily rate of 15.5 million cubic feet per day. 30,000 barrels of condensate were produced for use within the Hides facility and for local sale.

FINANCIAL PERFORMANCE

Sales Revenue

Oil production available for sale (production less internal usage) during the quarter was 1.28 mmbbl. Oil sales for the period were 1.23 mmbbl resulting in an increase in the crude inventory position, to 0.32 mmbbl at the end of the quarter. The average oil price realised during the quarter was US$113.92 per barrel, 2.5% higher than the previous quarter price of US$111.09 per barrel. The Company did not undertake any hedging transactions during the period and remained unhedged.

Sales revenue from oil, gas and refined products for the quarter was US$165.9 million, while other field revenue, comprising rig lease income and infrastructure tariffs, was US$10.1 million.

Capital Management

As at 31 March 2013, Oil Search had cash of US$438.6 million (excluding joint venture balances), compared to US$480.2 million at the end of 2012. US$3,056.5 million of the PNG LNG Project finance facility had been drawn down (US$2,866.0 million at the end of December).

Capital Expenditure

During the quarter, exploration and evaluation expenditure was US$65.4 million. Key items of expenditure included drilling the Taza 1 well in Kurdistan (US$14.8 million) and the Semda 1 well in Tunisia (US$11.9 million), site preparation for the offshore drilling programme in the Gulf of Papua (US$10.3 million), construction of the Mananda 6 well pad in PPL 219 (US$8.4 million) and Train 3 pre-FEED costs (US$4.9 million).

Oil Search's share of PNG LNG Project development and financing costs in the first quarter was US$285.9 million, funded 70% by drawdowns of funds from the PNG LNG Project finance facility and the remaining 30% funded by cash reserves. Expenditure on producing assets and other capital costs totalled US$55.3 million, mainly spent on well workovers and development wells in PNG.

During the quarter, US$23.8 million of exploration and evaluation costs was expensed, of which US$15.7 million related to the Semda 1 well in Tunisia (including US$3.7 million related to prior year expenditures). Other expensed costs included seismic, geological, geophysical and general and administration expenses.

SUMMARY OF EXPENDITURE AND EXPLORATION AND EVALUATION EXPENSED

See notes 1, 2, 3	Quarter End			Full Year
(US$ million)	Mar 2013	Dec 2012	Mar 2012	Dec 2012
INVESTMENT EXPENDITURE				
Exploration & Evaluation				
PNG – Oil and Gas	27.7	20.1	44.4	185.5
MENA	37.6	25.4	7.5	55.0
Total Exploration & Evaluation	65.4	45.4	51.9	240.6
Development[4]	285.9	351.4	357.8	1,492.5
Production	53.7	49.4	21.5	111.5
Other Property Plant & Equipment	1.6	9.9	0.6	16.5
TOTAL	**406.5**	**456.1**	**431.8**	**1,861.2**
EXPLORATION & EVALUATION EXPENDITURE EXPENSED[5,6]				
Exploration and Evaluation				
From current year expenditure:				
PNG – Oil and Gas	2.3	15.5	16.9	117.4
MENA	17.8	2.9	4.5	14.5
Total	20.1	18.5	21.4	131.9
Prior year expenditures expensed	3.7	-	12.1	12.1
TOTAL	**23.8**	**18.5**	**33.5**	**144.0**

1 2013 figures are unaudited.
2 Prior period comparatives updated for subsequent changes.
3 Numbers may not add up due to rounding.
4 Includes capitalised interest and finance fees.
5 Exploration expensed includes costs of unsuccessful wells except where costs continue to be capitalised, certain administration costs and geological and geophysical costs. Costs relating to permit 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.
6 Numbers do not include expensed business development costs of US$2.5 million in the first quarter 2013.

For further information or questions regarding this report, please contact:

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