



OIL SEARCH LIMITED

(Incorporated in Papua New Guinea)

ARBN – 055 079 868

REPORT TO THE AUSTRALIAN SECURITIES EXCHANGE Activities for the Quarter ended 31 December 2009 28 January 2010

HIGHLIGHTS

- On 8 December 2009, Esso Highlands Limited, a subsidiary of Exxon Mobil Corporation and operator of the PNG LNG Project, announced on behalf of the Project Co-venturers that the development of the PNG LNG Project had been approved, pending completion of Sale and Purchase agreements (SPAs) with LNG buyers and finalisation of financing arrangements with lenders. Since this date, a further SPA has been signed. This is an historic decision for both Oil Search and Papua New Guinea, as the PNG LNG Project will have a major transformational impact on the Company and the country.
- The PNG LNG Project remains on track to achieve Financial Close in the first quarter of 2010 and is targeting first LNG sales in 2014.
- Prior to the PNG LNG Project approval announcement, many of the PNG LNG Project targeted milestones were achieved:
 - All landowner licence-based sharing agreements were put in place.
 - Two key SPAs were signed with Sinopec and TEPCO, for the supply of 2.0 and 1.8 million tonnes per annum (MTPA) of LNG from the Project respectively.
 - The Project Environmental Impact Statement was approved by the PNG Government.
- After the Project approval announcement, several further milestones were reached:
 - New production licences, pipeline licences and a licence for the LNG plant were granted by the PNG Government.
 - Key engineering, procurement and construction contracts were awarded.
 - The Project financing documents were signed with lenders in New York, with Financial Close expected in the first quarter of 2010.
 - An SPA was signed with Osaka Gas for the supply of 1.5 MTPA of LNG from the Project.
- In October 2009, Oil Search successfully raised A\$895 million from the issue of 151.7 million shares to institutional investors, to meet its PNG LNG Project equity funding requirements and other capital expenditure opportunities. In addition, approximately A\$40 million was raised from the issue of 6.9 million shares to eligible shareholders via a Share Purchase Plan.

- Total oil and gas production for the fourth quarter of 2009 was 2.2 million barrels of oil equivalent (mmbbl), 6% higher than in the third quarter. Development wells in the Kutubu and Moran fields drilled earlier in the year continued to perform strongly, offsetting natural decline from the Company's mature oil fields. The good fourth quarter performance took production for the 2009 full year to 8.1 mmbbl, within the Company's forecast range.
- Total oil sales for the quarter were 2.41 million barrels (mmbbl), compared to 1.55 mmbbl in the third quarter. Crude inventory levels reduced from 0.68 mmbbl at the end of September to 0.22 mmbbls at the end of December. The average realised oil price was US\$77.62 per barrel, 7% higher than in the third quarter. The Company remained unhedged during the period.
- Sales revenue for the quarter was US\$192.8 million, compared to US\$117.9 million in the third quarter, driven by both higher oil prices and higher oil sales volumes. Sales revenue for the 2009 full year was US\$475.8 million, compared to US\$765.0 million in 2008, reflecting the lower annual sales volume and a 35% drop in the average realised oil price.
- On the exploration front, the Tubb'a well in Yemen discovered gas and condensate during the reporting period. This follows the exploration success in Iraq in October, with the discovery of oil at Shakal-1 in Kurdistan.
- At the end of December 2009, Oil Search had a cash position, excluding joint venture balances, of US\$1,255.1 million, compared to US\$408.3 million at the end of September, and no debt. The increased cash balance reflects the receipt of the equity capital raising proceeds. The Company continues to maintain its undrawn oil loan facility, which had a balance of US\$362.5 million at 31 December 2009, giving Oil Search total liquidity of over \$1.6 billion.
- During the quarter, US\$196.0 million was spent on exploration and evaluation activities, including \$136.0 million on the PNG LNG Project, and US\$19.3 million on development work.

Commenting on the PNG LNG Project go-ahead, Managing Director, Peter Botten, said:

"The fourth quarter of 2009 proved to be one of the most important periods in Oil Search's 80 year corporate history. On 8 December 2009, the PNG LNG Project participants voted to proceed with the development of the PNG LNG Project, subject to completion of sale and purchase agreements with LNG buyers and the finalisation of financing arrangements with lenders.

This is an historic decision, as the PNG LNG Project is transformational for both Oil Search and PNG. When LNG sales commence, the Project will add some 19 million barrels each year to Oil Search's production and provide a steady cashflow stream for over 30 years. The go-ahead will also result in a nine-fold increase in our booked oil and gas reserves. For PNG, the PNG LNG Project will fundamentally change the outlook of the PNG economy and its people, more than doubling PNG's GDP and tripling export revenues.

The PNG LNG Project also establishes a platform for potential further growth. The construction of PNG LNG Project infrastructure will facilitate the commercialisation of

discovered gas resources not currently committed to the Project, of which Oil Search has approximately 300 mmmboe, as well as assisting in commercialising future gas discoveries.

The PNG LNG Project approval in December was the culmination of a series of milestones reached by the Project during the quarter. One of the most important achievements was the signing of all the landowner licence-based benefits sharing agreements, with Oil Search performing an important role in ensuring the success of the licence-based forums and the timely completion of the agreements.

Other key events in the quarter included the signing of binding Sale and Purchase Agreements (SPAs) with Sinopec of China and TEPCO of Japan. Subsequent to the Project approval, a further binding SPA was signed with Osaka Gas from Japan and ExxonMobil, the PNG LNG Project operator, awarded five major contracts for engineering, procurement and construction activities for the Project. In addition, Oil Search awarded an engineering, procurement, construction and management contract to Aker Solutions for the construction of the facilities to deliver gas from the existing oil fields to the PNG LNG Project.

In December, the lenders to the PNG LNG Project and the Project participants signed the various financing documents that make up the PNG LNG Project Financing. Up to US\$14 billion of commitments from lenders were secured, more than sufficient to meet the estimated US\$13 billion of debt required for the Project, on an agreed 70%:30% gearing basis.

The focus for the Project participants for the first quarter of 2010 is to finalise the remaining SPA with CPC of Taiwan and achieve Financial Close."

Successful capital raising completed

"In October, Oil Search completed a very successful capital raising to ensure it could meet its equity funding requirements for the PNG LNG Project and continue an active programme to further define and develop its gas resources. The institutional share placement, which was materially oversubscribed, resulted in proceeds of A\$895 million, (US\$830 million). It was very pleasing to see such strong support for the placement, with a very high participation from our existing institutional shareholder base.

Following the share placement, Oil Search offered eligible shareholders the opportunity to participate in a Share Purchase Plan (SPP). The SPP raised an additional A\$40 million.

Oil Search decided to undertake the placement and SPP due to delays in completing the proposed sale of an effective interest in PDL 2, including approximately 3.5% in the PNG LNG Project, to International Petroleum Investment Company (IPIC) of Abu Dhabi. In light of the timing uncertainty of a final closure with IPIC and the need to conclude Project debt financing arrangements, the parties agreed to terminate discussions and Oil Search elected to pursue a capital raising instead. Despite the proposed transaction not proceeding, IPIC remains strongly supportive of Oil Search.

The funds raised have enabled Oil Search to retain its full interest in the PNG LNG Project, a world class long term legacy asset, and have provided sufficient firepower for Oil Search to pursue an active gas exploration and appraisal programme, designed to prove up sufficient contractible gas resources for a third, and possibly fourth, LNG train."

Production and revenue performance

"Production in the fourth quarter was 6% higher than in the third quarter, despite the maturity of the producing fields, with additional production from wells drilled during the year in Kutubu and Moran offsetting the natural decline. Production of 2.2 mmmboe during

the quarter took total production for the year to 8.1 mmbbl, which is within the 8.0 – 8.3 mmbbl full year forecast range.

Oil Search's realised oil price averaged US\$77.62 per barrel, 7% higher than in the third quarter and 33% above the fourth quarter of 2008. The average realised oil price for the year was 35% lower than in 2008, at US\$65.39 per barrel. Oil sales for the fourth quarter of 2.41 mmbbl reduced the oil inventory awaiting lifting at the end of the period from 0.68 mmbbl at end September to 0.22 mmbbl.

Sales revenue for the 2009 full year was US\$475.8 million, which was 38% lower than in 2008 reflecting 6% lower production and the 35% decrease in the average realised oil price. Total operating revenue was US\$515.1 million compared to US\$811.6 million in the previous year."

Further exploration success in the Middle East, exploration recommences in PNG

"Following the discovery of oil at the Shakal-1 well in Kurdistan, Iraq, the Tubb'a well in Block 3 in Yemen also discovered hydrocarbons during the quarter, with the well flowing gas and condensate. The results of the testing continue to be analysed and a number of other studies are underway to assist in the evaluation of this discovery.

In PNG, during the fourth quarter a production well in the Agogo field, ADT 2, was re-entered and drilled into a deeper exploration objective. The well has penetrated a structurally complex forelimb which includes a number of prospective intervals including one proven oil-bearing interval in the Digimu reservoir. The well is currently being completed and a number of zones which are interpreted to have hydrocarbon potential will be flow tested.

In January 2010, the Wasuma 1 exploration well in PPL 219 commenced drilling and preparations are continuing to drill the Korka prospect, the first in a series of exploration and appraisal wells planned for 2010 and 2011 in a programme designed to accelerate further LNG development in PNG. A large 3D seismic programme is also being planned in several offshore licences, for acquisition in the first half of 2010.

Gas expansion

"One of Oil Search's primary objectives is to prove up more gas, through exploration and appraisal activities and acquisitions, to underwrite the construction of additional LNG trains beyond the initial PNG LNG Project.

During the fourth quarter, two acquisitions were finalised, increasing the Company's interests in established, non-committed gas resources and key gas prospects. The Company acquired a 12.73% interest in PRL 1, which is located offshore in the Gulf of Papua and contains the Pandora gas field, bringing its total interest in PRL 1 to 17.73%. In addition, Oil Search acquired a 15% interest in PPL 244, also located offshore in the Gulf of Papua, which contains the Flinders and other potential gas prospects, bringing Oil Search's total interest to 45%.

As already highlighted, a comprehensive gas exploration and appraisal programme is set to commence in the second quarter of 2010 with the Korka well."

2009 full year results and outlook for 2010

"The Company's financial results for the year to December 2009 will be released to the market on 23 February 2010. Second half operating costs per barrel equivalent lifted are expected to be approximately 20% higher than in the first half, primarily due to a larger field work programme and the impact of the stronger Australian dollar, which has

increased operating and corporate costs in US dollar terms. The full year amortisation rate (including depreciation and site restoration) is expected to average around US\$13 per barrel of oil equivalent lifted, while total exploration expensed for 2009 will be approximately US\$76 million, as outlined on page 7. As a large proportion of this is related to exploration activities in the Middle East, the costs of which are non-deductible for tax purposes, the effective tax rate for the year would be expected to be materially higher than the statutory rate in PNG. However, the accounting impact of the PNG State back-in to the PNG LNG Project gas licences and other one-off tax adjustments are likely to return the effective tax rate to a range of 50 to 55%. All the above guidance is subject to board review/approval and the audit process currently underway.

The Oil Search Board is expected to approve the 2010 work programmes in February, at which time our outlook for the year, including production and expenditure forecasts, will be released to the market. At this stage, the Company expects that production in 2010 will be approximately 10% lower than in 2009. This reflects the fields' natural decline combined with a revised approach to oil field management, following the decision to proceed with the PNG LNG Project, with increasing focus on gas conservation. The constraints on oil production relating to more limited gas flaring are expected to be partly offset by targeted maintenance programmes to reduce downtime.

In addition to production and the realised oil price, the financial results in 2010 are likely to be impacted by a number of other factors. Oil field amortisation rates are anticipated to reduce by approximately 50% compared to 2009 levels, due to the recognition of reserves associated with the PNG LNG Project and the consequent spreading of oil field capital costs over a much larger reserves base. However, operating costs are expected to rise, reflecting increased in-country cost pressures as PNG LNG activity ramps up and sustained higher Australian dollar and kina exchange rates. During 2010, Oil Search also plans to increase its investment in the oil field infrastructure, to ensure the facilities can support over 30 more years of liquids production from the LNG Project.

Moving into 2010, the operational objectives for Oil Search are threefold:

- Supporting ExxonMobil to ensure that the PNG LNG Project is delivered on time and on budget.
- Maximising the value of our oil operations.
- Accelerating further LNG development in PNG by active exploration and appraisal activities.

The decision to proceed with the development of the PNG LNG Project marks an important point in the delivery of the very significant value existing within Oil Search's asset base to the Company's shareholders. With the funds raised from the recent equity issue, Oil Search is extremely well placed for this transformational expansion."

PETER BOTTEN, CBE
Managing Director
28 January 2010

2009 FOURTH QUARTER PERFORMANCE SUMMARY

Note: 2009 figures are unaudited

	Quarter End			Full Year	
	Dec 2009	Sept 2009	Dec 2008	Dec 2009	Dec 2008
PRODUCTION DATA					
Crude oil production ('000 bbls)	1,972	1,834	1,893	7,068	7,576
Gas production (mmscf) ¹	1,312	1,348	1,359	5,515	5,349
Hides condensate ('000 bbls)	32	32	34	135	130
Barrels of oil equivalent produced ('000 boe)	2,223	2,090	2,153	8,122	8,596
SALES					
Internal oil usage ('000 bbls) ²	19	17	23	76	88
Sales volume ('000 bbls)	2,413	1,554	2,171	6,953	7,460
Gas equivalent sales (mmscf)	1,290	1,409	1,404	5,652	5,415
Crude inventory ('000 bbls) ³	222	679	193	222	193
Barrels of oil equivalent sold ('000 boe)	2,628	1,789	2,405	7,895	8,362
FINANCIAL DATA					
Sales revenue from operations(US\$m)	192.8	117.9	130.6	475.8	765.0
Other field revenue	4.9	3.7	2.7	17.8	24.6
Rig income	3.9	4.0	4.6	21.5	22.0
Total operating revenue	201.6	125.6	137.9	515.1	811.6
Realised oil price – PNG (US\$ per bbl)	77.62	72.44	58.15	65.39	100.21
Realised oil price – MENA (US\$ per bbl)	-	-	-	-	96.26
Average realised oil price (US\$ per bbl)	77.62	72.44	58.15	65.39	100.10
Cash (US\$m) ⁴	1,255.1	408.3	517.2	1,255.1	517.2
Debt (US\$m)	Nil	Nil	Nil	Nil	Nil
Net cash (US\$m)	1,255.1	408.3	517.2	1,255.1	517.2

1 Hides gas production restated in prior year to include sales gas and vent gas.

2 Oil used within the Company's operations and not available for sale.

3 Includes minor field quality adjustments.

4 Excludes share of cash balances held in joint ventures.

5 Prior period comparatives updated for subsequent changes.

2009 fourth quarter production was 2.223 mmmboe net to Oil Search, produced at an average rate of 24,158 barrels of oil equivalent per day (boepd), with continued strong production from the Moran and Kutubu fields.

Oil production available for sale (production less internal usage) in the quarter was 1.953 mmmboe. Oil sales for the period were 2.413 mmmboe, leaving a crude inventory of 0.222 mmmboe of oil at the end of the period. The average oil price realised for the quarter was US\$77.62 per barrel. The Company did not undertake any hedging transactions during the period and remains unhedged.

Sales revenue from operations was US\$192.8 million. Other revenue of US\$8.8 million consisted largely of rig lease income and infrastructure tariffs.

Exploration and evaluation expenditure during the quarter was US\$196.0 million, which included Oil Search's share of PNG LNG Project costs of US\$136.0 million, with the balance largely comprising costs associated with the acquisition of an interest in PRL 1 in PNG and activities in Block K42 in Kurdistan, the Wasuma well site construction in PNG, drilling of the Caliph well in Libya and the Tubb'a and Al Meashar wells in Yemen.

Development and production expenditure totalled US\$19.3 million, spent mainly on drilling activities in Kutubu.

At the end of December 2009, Oil Search had cash of US\$1.255 billion (excluding joint venture balances), up significantly from US\$408.3 million at the end of September, reflecting the receipt of the proceeds from the successful capital raising. Oil Search remained debt free during the quarter and had an undrawn oil facility of \$362.5 million at 31 December 2009, providing total liquidity of \$1,617.5 million at year end.

Note: 2009 figures are unaudited

(US\$ million)	Quarter End			Full Year	
	Dec 2009	Sept 2009	Dec 2008	Dec 2009	Dec 2008
SUMMARY OF CAPITAL EXPENDITURE					
Exploration & Evaluation ¹					
PNG – Oil and Gas	30.2	2.6	17.4	38.8	109.8
Gas Commercialisation	136.7	88.6	33.4	315.6	81.0
MENA	29.1	36.9	7.0	83.8	66.5
Total Exploration & Evaluation	196.0	128.1	57.8	438.2	257.3
Development & Production	19.3	25.2	60.2	142.3	161.8
Other Property Plant & Equipment	3.0	4.1	12.9	13.9	32.0
TOTAL CAPITAL EXPENDITURE	218.3	157.4	130.9	594.4	451.1
SUMMARY OF EXPLORATION & EVALUATION EXPENSED					
From current year expenditure					
PNG – Oil and Gas	6.5	(0.8)	5.9	16.4	48.1
Gas Commercialisation	0.5	0.7	0.5	2.4	2.0
MENA	45.7	3.1	2.9	53.1	26.5
Total	52.7	3.0	9.3	71.9	76.6
Prior year expenditures expensed	1.8	0.0	0.0	4.0	14.6
TOTAL EXPLORATION & EVALUATION EXPENSED	54.5	3.0	9.3	75.9	91.2

1 Exploration expensed includes costs of unsuccessful wells except where costs continue to be capitalised (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), general administration costs, geological and geophysical costs and new venture activity.

2 Prior period comparatives updated for subsequent changes.

PERFORMANCE FOR THE FULL YEAR 2009

Oil Search generated sales revenue in 2009 of US\$475.8 million, which was 38% lower than in 2008, primarily due to a drop in the average realised oil price from US\$100.10 per barrel in 2008 to US\$65.39 in 2009, combined with lower production. 2009 total operating revenue was US\$515.1 million compared to US\$811.6 million in the previous year.

Total production in 2009 was 8.1 mmboc. This was 6% below 2008 levels due to natural decline in the PNG oil fields.

Exploration and evaluation expenditure for the 2009 full year was US\$438.2 million (US\$257.3 million in 2008), of which US\$315.6 million was spent on gas commercialisation activities, primarily PNG LNG Project costs. US\$75.9 million of exploration and evaluations costs are expected to be expensed (subject to audit review), including US\$43.8 million relating to the unsuccessful Caliph well in Libya.

During the year, US\$156.2 million (US\$193.8 million in 2008) was spent on development, production and other capital items.

Full year results are currently undergoing finalisation and audit review and are subject to change. The annual asset impairment review process is also underway and will be completed in February.

PRODUCTION

	Quarter End			Full Year	
	Dec 2009	Sept 2009	Dec 2008	Dec 2009	Dec 2008
Oil Production ('000 bbls)					
- Kutubu	1,103	1,018	971	3,877	3,258
- Moran	738	665	728	2,536	3,184
- SE Mananda	29	45	74	199	378
- Gobe Main	16	15	16	61	72
- SE Gobe	86	91	104	394	489
Total PNG ('000 bbls)	1,972	1,834	1,893	7,068	7,381
- Nabrajah, Yemen	-	-	-	-	148
- Area A, Egypt	-	-	-	-	15
- East Ras Qattara, Egypt	-	-	-	-	32
Total oil ('000 bbls)	1,972	1,834	1,893	7,068	7,576
Hides gas production (mmscf)	1,312	1,348	1,359	5,515	5,349
- Hides condensate ('000 bbls)	32	32	34	135	130
Total Production ('000 boe)	2,223	2,090	2,153	8,122	8,596

1 Prior period comparatives updated for subsequent changes

2 Hides gas production restated in prior year to include sales gas and vent gas. Vent gas was not previously reported in 2008.

Kutubu (PDL 2 – 60.0%, operator)

The Kutubu field performed strongly in the fourth quarter of 2009, with contributions from new development wells providing incremental production growth. Net Oil Search production from the Kutubu field was 1.10 mmbbl in the fourth quarter, 8% higher than

in the third quarter. Gross production rates averaged 19,963 bopd during the period, up from 18,421 bopd in the previous quarter.

Usano wells continue to contribute over 8,000 bopd to Kutubu production. In addition, the recent Agogo development well, ADD 5, was brought on line in early October at rates of over 1,500 bopd from the Digimu reservoir. This well was also deepened to the Iagifu reservoir and this zone has been flow tested at rates of up to 300 bopd, the first time hydrocarbons have been produced from this interval at Agogo.

Following the completion of ADD 5, Rig 104 was moved to the ADD 4 well where a workover was undertaken to reinstate production from the Digimu reservoir following shut-in of the well earlier in the year. During the workover, the well was also deepened to the Hedinia and Iagifu reservoirs. The Hedinia A reservoir has been successfully flow tested at rates up to 1,000 bopd, and production is currently being maintained from this interval.

On completion of the ADD 4 well, Rig 104 was then moved to the Agogo ADT 2 well to assess the development potential of the Iagifu and Hedinia reservoirs in this location and to drill into a deeper exploration objective. Shortly after the end of the quarter, the well reached target depth. The well penetrated a structurally complex forelimb which includes a number of prospective intervals including one proven oil-bearing interval in the Digimu reservoir. The well is currently being completed and a number of zones which are interpreted to have hydrocarbon potential will be flow tested in order to determine hydrocarbon content, reservoir productivity and the potential for further development opportunities.

Moran Unit (49.5%, based on PDL 2 – 60.0%, PDL 5 – 40.7% and PDL 6 – 72.5%, operator)

Oil Search's share of 2009 fourth quarter production from Moran was 0.74 mmbbl, which was 11% higher than in the third quarter of 2009. The field produced at a gross average rate of 16,207 bopd up from 14,587 bopd in the third quarter of 2009.

Moran production rates have continued to improve through the second half of 2009, with strong contributions from the new Moran 14A ST1 and Moran 6 ST3 wells. In addition, production from existing producers continues to be optimised through sequential zone changes and zonal gas injection strategies. During the quarter, a production log programme was completed in three wells to help determine production and injection strategies for the different reservoirs.

During the quarter, the high pressure compressor at the Agogo Production Facility was shut down for a short time while waiting for spare parts on the electrical system. This impacted the provision of gas lift to some wells. Full compression and gas lift capability was quickly restored and all well rates have returned to normal.

Further production optimisation activities are planned in 2010, including stimulation of the Moran 5 ST1 gas injector to allow increased injection rates, and additional development drilling including appraisal of the Moran C Block.

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

Oil Search's share of production from the Gobe fields in the fourth quarter of 2009 was 0.10 mmbbl, down 4% on third quarter levels.

The gross average production rate for Gobe Main was 7% higher than the third quarter at 1,772 bopd due to the successful swing well management programme and sustained production from the Upper Iagifu reservoir in GM 2 ST1.

SE Gobe gross average rates were 6% lower than in the third quarter at 3,650 bopd due to natural decline and minor downtime.

SE Mananda (PDL 2 – 72.3%, operator)

Oil Search's share of fourth quarter production from the SE Mananda field was 0.03 million barrels, 36% below third quarter production levels. Gross average daily production rates from the field were 436 bopd, compared to 675 bopd in the third quarter.

SE Mananda production volumes were impacted during the quarter due to reduced production from SEM 3 due to hydrates and the shut-in of the SEM 5 well due to sand production issues. Both these issues are currently being investigated.

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

2009 fourth quarter production of sales gas for the Hides Gas to Electricity Project was 1.31 billion cubic feet, produced at an average daily production rate of 14.3 million cubic feet per day. This compares to 14.6 million cubic feet per day in the third quarter of 2009. 32,000 barrels of condensate were produced for use within the Hides facility and for local sales.

GAS COMMERCIALISATION

PNG LNG Project

On 8 December 2009, Esso Highlands Limited, a subsidiary of Exxon Mobil Corporation and operator of the PNG LNG Project announced on behalf of the Project participants that the PNG LNG Project had been approved, pending completion of sale and purchase agreements (SPAs) with LNG buyers and finalisation of financing arrangements with lenders.

Following the decision to proceed with the Project, the PNG Government and landowner nominees backed in to the Project as equity partners. Post back-in, Oil Search has a 29.0% interest in the PNG LNG Project, in line with initial equity participation estimates of between 28 – 31%. The Project interests will be subject to a re-determination after production commences.

Prior to the approval announcement, a range of major Project-related milestones were achieved. These included the following:

- All landowner licence-based benefits sharing agreements were put in place.
- The Project's Environmental Impact Statement was approved by the Government of Papua New Guinea, Department of Environment and Conservation.
- Unipecc Asia Co. Ltd., a subsidiary of China Petroleum & Chemical Corporation (Sinopec), signed an SPA for the supply of 2 million tonnes per annum of LNG from the Project.
- Tokyo Electric Power Company Limited (TEPCO) signed an SPA Agreement for the supply of 1.8 million tonnes per annum of LNG from the Project.

Following the approval decision, several further significant milestones were attained:

- The PNG Government awarded new 25 year petroleum development licences for fields previously included in petroleum retention licences and granted pipeline licences and petroleum processing facility licence for the LNG Plant and extended existing petroleum development licences for 20 years.

- Key PNG LNG Project engineering, procurement and construction contracts were awarded by the Project operator, ExxonMobil.
- Oil Search, as operator of the Associated Gas Project, awarded an engineering, procurement, construction and management contract to Aker Solutions for construction of the facilities required to deliver gas from the existing oil fields to the LNG Project.
- The lenders to the PNG LNG Project and the Project participants signed the various financing documents that make up the PNG LNG Project Financing. Up to US\$14 billion of commitments from lenders were secured, more than sufficient to meet the estimated US\$13 billion of debt required for the Project, on an agreed 70%:30% gearing basis.
- Osaka Gas Co. Ltd. signed an SPA for the supply of 1.5 million tonnes per annum of LNG from the Project.

Various Project construction activities have now commenced. The PNG LNG Project remains on track to achieve Financial Close in the first quarter of 2010 and is targeting first LNG sales in 2014.

Other Gas Initiatives

During the quarter, work continued on providing gas for LNG growth and other gas commercialisation, with two acquisitions finalised during the period. Oil Search acquired a 12.73% interest in PRL 1, located offshore in the Gulf of Papua, from a Cairn Petroleum subsidiary (Command), bringing its total interest in PRL 1 to 17.73%. (The farmin is subject to applicable Government approvals). Oil Search is now the second largest interest holder in PRL 1, which contains the Pandora gas field (Talisman 48.18% Operator, ExxonMobil 16.36%).

The Company also purchased a 15% interest in PPL 244, located offshore in the Gulf of Papua, which contains the Flinders and other potential gas prospects, from InterOil, bringing Oil Search's total interest to 45% (Talisman 35% Operator, Nippon Oil 10%). (The farmin is subject to applicable Government approvals).

EXPLORATION ACTIVITY

PNG

The Wasuma well site construction in PPL 219 (Oil Search 71.25%, Operator) was completed during the quarter and Rig 103 moved onto location. Drilling commenced in January. The Wasuma well is located close to the SE Gobe oil field and is targeting one of the last undrilled simple hanging wall anticlines within the frontal portion of the Fold Belt. Dependent upon results of the primary hanging wall target, the Wasuma well will be deepened to test a sub-thrust footwall anticline.

Bulk earthworks were completed at the Korka 1 well site in PPL 260 (Oil Search 50% Operator) and Rig 104 will be mobilised to this location during the first quarter of 2010. Korka 1 will be drilled after Wasuma and is currently scheduled to spud in the second quarter of 2010. (Oil Search has farmed down 20% of its 70% interest in PPL 260 to Nippon Oil, taking its interest to 50%, subject to applicable Government approvals).

During the fourth quarter, 60 kilometres of 2D seismic was acquired over the Barikewa gas field in PRL 9 (Oil Search 42.55%). The new data will be processed and interpreted during the first half of 2010 and will be followed by well site construction.

The next onshore seismic acquisition programme will target prospects and leads adjacent to, and on trend with, the Hides and Angore gas fields. Planning is well advanced and

130 kilometres of 2D seismic acquisition is scheduled to commence in PRL 11/PPL 233 (Oil Search 52.50%) during the first quarter of 2010.

Yemen

The Tubb'a-1 well in Block 3 (Oil Search 60%, Operator) reached a total depth of 2,808 metres in late October having drilled 646 metres of the basement, which was the primary target. Drill-stem testing was carried out over the entire basement section and 20 metres of the overlying clastic and carbonate section. The well flowed gas and condensate without stimulation at a stabilised rate of 14 million standard cubic feet per day and 500 barrels of condensate per day. The results of the testing continue to be analysed and a number of other studies are underway to assist in the evaluation of this discovery. The well has met the drilling commitment for the first exploration period of Block 3.

The Al Meashar-1 well (Oil Search 34%, Operator) spudded in November 2009. It is located in Block 7, to the north-east of the Tubb'a-1 location in the adjacent Block 3 and is targeting the same fractured-basement play. At the end of the quarter the well was drilling ahead.

Iraq

Testing of the Shakal-1 exploration well in the Shakal PSA (Oil Search 15%) was completed and the rig released in October. The well flowed at rates of up to 950 barrels of oil per day from the Paleogene-age Jaddala carbonate and is currently suspended. The Joint Venture has agreed to acquire additional seismic data during 2010 to assist in defining the scale of the resource and its relationship to the adjacent Pulkhana structure. The Shakal well met the drilling commitment in the Shakal PSA and a one year extension to the licence has been applied for from the Kurdistan Regional Government.

During the quarter, preparations were made for the 200 kilometre seismic programme over the newly-awarded K42 exploration block (Oil Search 75% paying interest). The seismic programme is scheduled to commence early in 2010. The Shakal seismic will be carried out at the same time as the K42 programme with data being available mid-year.

Libya

The Caliph A1-18/01 (Oil Search 30%) exploration well in Area 18, offshore Libya was plugged and abandoned after reaching a total depth of 4,663 metres in November. There were no indications of producible hydrocarbons in the well and the abnormally high temperatures that were experienced downgraded remaining prospectivity. The well was plugged and abandoned and total costs of \$43.8 million related to the well will be expensed during the quarter. Subsequent to drilling the well, Oil Search gave notice of withdrawal from the area.

Tunisia

The two test seismic lines acquired in the third quarter in the Tajerouine permit (Oil Search 100%, Operator) were processed in the fourth quarter and are in the process of being interpreted. The results will be used to refine the location of the main seismic programme which will take place in mid-2010. The programme on Tajerouine will be acquired as part of a larger seismic programme including data over the Le Kef permit (Oil Search 25%). Oil Search will operate the programme in both blocks.

CORPORATE

In October, Oil Search completed a two-staged capital raising to meet its equity funding requirements for the PNG LNG Project. An initial institutional share placement raised A\$895 million (US\$830 million) through the placement of 151.686 million shares at a share price of A\$5.90 per share.

Following the share placement, Oil Search offered eligible shareholders the opportunity to participate in a Share Purchase Plan (SPP). The SPP raised approximately A\$40 million through the issue of 6.875 million shares at a price of A\$5.79 per share.

DRILLING CALENDAR FOR 2010

Subject to Joint Venture approvals, the indicative 2010 exploration and development programme is as follows:

Well	Well type	Licence	OSH interest	Timing
PNG				
Wasuma 1	Exploration	PPL 219	71.3%	Drilling ahead
Korka 1	Exploration	PPL 260	50.0%*	2Q 10
Moran C	Development	Moran Unit	49.5%	3Q 10
Flinders	Exploration	PPL 244	45.0%	3Q 10
Mananda Attic/FW	Exploration	PPL 219	71.3%	4Q 10

Yemen				
Al Meashar 1	Exploration	Block 7	34.0%	Drilling ahead
Prospect M	Exploration	Block 3	60.0%	2Q 10
Prospect Alpha	Exploration	Block 7	34.0%	3Q 10

* Subject to Government approval

Note: Wells and timing subject to change

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