



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 2010 27 April 2010

HIGHLIGHTS

- On 12 March 2010, Exxon Mobil Corporation, operator of the PNG LNG Project, announced on behalf of the Project Co-venturers that full execution of the PNG LNG Project was proceeding. This followed the completion of a Sale and Purchase Agreement with CPC Corporation in early March (with the initial PNG LNG Project capacity now fully contracted), signing of the shipping arrangements and the finalisation of financing.
- Other activities on the PNG LNG Project during the quarter included the mobilisation of the major engineering, procurement and construction contractors and continued early construction works.
- Oil Search's total oil and gas production for the first quarter was 2.0 million barrels of oil equivalent (mboe), 10% lower than in the fourth quarter of 2009.
- Total oil sales for the quarter were 1.60 million barrels (mmbbls), compared to oil production of 1.73 mmbbls due to timing of shipments. Crude inventory levels increased marginally, from 0.22 mmbbls at the end of December to 0.33 mmbbls at the end of March. The average realised oil price was US\$73.78 per barrel, 5% lower than in the fourth quarter of 2009. The Company remained unhedged during the period.
- Total operating revenue for the quarter was US\$133.9 million compared to US\$201.6 million in the fourth quarter of 2009, with the decline reflecting lower oil sales and a reduction in realised oil prices.
- On the exploration front, the Al Meashar-1 well in Oil Search-operated Block 7 in Yemen discovered oil and the results are now being analysed to evaluate this discovery. In PNG, the Wasuma exploration well in PNG discovered hydrocarbons in the footwall. Although considered sub-commercial, together with the recent discovery of oil in the footwall in the ADT ST3 well, this discovery has opened up a new play fairway in the PNG Fold Belt.
- At the end of March 2010, Oil Search had a cash position, excluding joint venture balances, of US\$1.39 billion. The Company made its first draw down from the PNG LNG project finance facility on 31 March, of US\$391 million. Oil Search continues to maintain its oil loan facility, which had an undrawn balance of US\$348 million at the end of March.

- During the quarter, US\$36.9 million was spent on exploration and evaluation activities, US\$296.9 million on the PNG LNG Project and US\$11.1 million on other development work.

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

PNG LNG Project

“Following the decision to proceed with the development of the PNG LNG Project in December 2009, the focus for the first quarter of 2010 was on satisfying all outstanding requirements for Financial Close. In early March, a sale and purchase agreement was signed with CPC Corporation of Taiwan, resulting in the initial capacity of the Project being fully contracted. Financial Close took place on 12 March 2010 and the Project has now moved into full execution mode.

Oil Search’s first drawdown from the PNG LNG Project’s US\$14 billion debt funding facility, of US\$391 million, took place at the end of March. This comprised 70% debt funding of upfront financing fees and Project cash calls as well as US\$303.5 million from the lenders as reimbursement of 70% of eligible Project costs incurred by the Company to the end of March.

Other key activities in the quarter included:

- The commencement of mobilisation of both people and equipment to PNG by the major engineering, procurement and construction contractors.
- Continued early construction activities both in the PNG Highlands (including earthworks, resettlement activities, road and bridge upgrades) and at the PNG plant site near Port Moresby (accommodation camp, road bypass).
- The construction of training facilities in Port Moresby and in the Highlands.
- The ordering of long lead equipment and materials.

In March, the PNG LNG shipping arrangements were announced. These comprise the lease of two existing 177,000 m³ LNG tankers from Mitsui O.S.K. Lines (MOL) and a Heads of Agreement with MOL for the future lease of two new LNG tankers to be built in China.”

Production and revenue performance

“Production in the first quarter of 2010 was 2.0 mmbœ, 10% lower than in the fourth quarter of 2009, primarily due to natural field decline, some reservoir management issues and a scheduled shutdown at Gobe for routine inspection and maintenance. However, production for the quarter was up 5% when compared to the first quarter of 2009, highlighting the success of the 2009 drilling programme, with additional production from wells at Kutubu, Agogo and Usano.

Oil Search’s realised oil price averaged US\$73.78 per barrel, 5% lower than in the fourth quarter of 2009. The oil inventory awaiting lifting at the end of the period increased from 0.22 mmbbls at end December 2009 to 0.33 mmbbls.

Total operating revenue for the quarter was US\$133.9 million, 33% below the fourth quarter of 2009 primarily due to lower liftings.”

Oil discovered in Yemen, encouragement from PNG drilling results

"Oil Search had further exploration success in the Middle East region this quarter, with the Al Meashar well in Block 7 in Yemen discovering oil. This follows discoveries in the Shakal PSC, Kurdistan and in Block 3, Yemen in 2009. A drill-stem test of the basement section at Al Meashar recovered oil and mud at unstabilised flow rates of 600 barrels per day (bopd). These results are being analysed to evaluate the significance of this discovery.

In PNG, the ADT2 ST3 well in PDL 2 was flow tested and produced oil at rates of 1,500 to 2,000 bopd from the Digimu interval within a previously untested footwall forelimb compartment of the Agogo Field. The well is currently on production from this interval while plans are made to test the well further. The Wasuma exploration well in PPL 219 also discovered hydrocarbons within the footwall structure. The reservoir intervals in Wasuma were thinner and of poorer quality than pre-drill expectations and the well was plugged and abandoned as a non-commercial discovery. The outcome of these two wells, both targeting footwall structures, provides encouragement for the hydrocarbon bearing potential of similar footwall structures in the Fold Belt."

Gas expansion activities

"During the quarter, Oil Search continued work on optimising its gas exploration portfolio in the offshore and forelands region. Shortly after the end of the period, the acquisition of an additional 6.36% in offshore licence PRL 1, which contains the Pandora gas field, was agreed with Twinza Oil Limited, taking Oil Search's interest in the licence to 24.09%.

The Korka 1 well in PPL 260 commenced drilling in April. This is the first in a programme of gas exploration and appraisal wells onshore PNG. Also in April, a major offshore 3D seismic survey commenced to delineate drillable prospects in the Gulf of Papua. Together with seismic activity in the Highlands, these programmes are aimed at proving up additional gas reserves to underpin further LNG train development."

PETER BOTTEN, CBE
Managing Director
27 April 2010

2010 FIRST QUARTER PERFORMANCE SUMMARY

Note: 2010 figures are unaudited

	Quarter End			Full Year
	Mar 2010	Dec 2009	Mar 2009	Dec 2009
PRODUCTION DATA				
Crude oil production ('000 bbls)	1,729	1,972	1,633	7,068
Gas production (mmscf)	1,427	1,312	1,404	5,515
Hides condensate ('000 bbls)	35	32	36	135
Barrels of oil equivalent ('000 boe)	2,002	2,223	1,903	8,122
SALES				
Internal oil usage ('000 bbls) ¹	20	19	20	76
Sales volume ('000 bbls)	1,602	2,413	1,144	6,953
Gas equivalent sales (mmscf) ²	1,497	1,290	1,450	5,652
Other Hides condensate ('000 bbls) ³	7	6	9	33
Crude inventory ('000 bbls) ⁴	326	222	656	222
Barrels of oil equivalent sold ('000 boe)	1,859	2,634	1,395	7,928
FINANCIAL DATA				
Oil sales (gross) (US\$m)	118.2	187.3	52.4	454.7
Gas and refined product sales	8.7	8.0	7.1	27.7
Other field revenue	7.0	6.3	9.1	29.8
Total operating revenue	133.9	201.6	68.6	512.2
Average realised oil price (US\$ per bbl)	73.78	77.62	45.83	65.39
Cash (US\$m) ⁵	1,389.7	1,255.1	481.1	1,255.1
Debt (US\$m)				
- PNG LNG financing	390.9	Nil	Nil	Nil
- Other	Nil	Nil	Nil	Nil
Net cash (US\$m)	998.8	1,255.1	481.1	1,255.1

- 1 Oil used within Oil Search's operations and not available for sale
- 2 Gas equivalent sales includes some Hides condensate sold under the same commercial arrangement
- 3 Hides other condensate includes various other refined products (Naphtha and diesel)
- 4 Includes minor field quality adjustments
- 5 Excludes share of cash balances of joint venture interests
- 6 Prior period comparatives updated for subsequent changes
- 7 Financial data disclosure adjusted to format in annual report (rig income is now included in other field revenue)

2010 first quarter production was 2.00 mmbbls net to Oil Search, 10% lower than in the fourth quarter of 2009, produced at an average rate of 22,247 barrels of oil equivalent per day (boepd). The reduction was due to natural field decline, testing of certain key wells for reservoir management purposes and a scheduled shutdown for routine inspection and maintenance.

Oil production available for sale (production less internal usage) in the quarter was 1.71 mmbbls. Oil sales for the period were 1.60 mmbbls and the crude inventory at the end of the quarter was 0.33 mmbbls. The average oil price realised for the quarter was US\$73.78 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\$126.9 million. Other revenue of US\$7.0 million consisted largely of rig lease income and infrastructure tariffs.

Exploration and evaluation expenditure during the quarter was US\$36.9 million, spent primarily on the Wasuma well in PNG and the Al Meashar well in Block 7 in Yemen. Oil

Search's share of PNG LNG Project costs were US\$296.9 million. Production expenditure and other capital costs totalled US\$11.1 million.

At 31 March 2010, Oil Search had cash of US\$1.39 billion (excluding joint venture balances), compared to US\$1.255 billion at the end of December. The cash movement reflected the receipt of US\$303.5 million from the PNG LNG Project lenders relating to the claw back of 70% of Project costs incurred to the end of March, plus cash generated from operations, offset by capital outflows. The Company has put aside US\$830 million of its cash balance into an escrow account, to be used to finance its equity component of PNG LNG Project capital costs. This amount represents approximately 60% of Oil Search's remaining equity funding requirements for the PNG LNG Project capital costs until completion of the Project construction and will be progressively drawn down during the construction phase.

On 31 March, Oil Search drew down US\$391 million from the PNG LNG project finance facility, including the US\$303.5 million claw back. As is usual for project financings of this scale and complexity, the Project sponsors, including Oil Search, have guaranteed their individual share of the outstanding Project debt drawn by the Project participants during the construction phase. These guarantees will fall away at completion of the Project, when the Project loans will go non-recourse to the sponsors. Importantly, each sponsor only guarantees the debt incurred by itself and not the Project debt facility as a whole.

At the end of the quarter the Company had an undrawn oil facility of US\$348 million.

Note: 2010 figures are unaudited

(US\$ million)	Quarter End			Full Year
	Mar 2010	Dec 2009	Mar 2009	Dec 2009
SUMMARY OF CAPITAL EXPENDITURE				
Exploration & Evaluation ¹				
PNG – Oil and Gas	29.3	30.3	1.3	40.0
Gas Commercialisation	1.2	135.9	37.9	314.8
MENA	6.4	29.1	4.7	83.8
Total Exploration & Evaluation	36.9	195.3	43.9	438.6
Development	296.9	-	-	-
Production	9.6	19.3	45.6	142.3
Other Property Plant & Equipment	1.5	2.2	1.8	5.1
TOTAL CAPITAL EXPENDITURE	344.9	216.8	91.3	586.0
SUMMARY OF EXPLORATION & EVALUATION EXPENSED				
From current year expenditure				
PNG – Oil and Gas	2.7	6.5	4.4	16.4
Gas Commercialisation	1.2	0.5	0.6	2.4
MENA	2.3	45.7	1.9	53.1
Total	6.2	52.7	6.9	71.9
Prior year expenditures expensed	-	1.8	0.5	4.0
TOTAL EXPLORATION & EVALUATION EXPENSED	6.2	54.5	7.4	75.9

- 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 of new venture activity.
- 2 Prior period comparatives updated for subsequent changes.
- 3 Following Financial Close of the LNG Project, all LNG expenditure for 2010 period is disclosed as Development Expenditure. Prior period expenditure in relation to the LNG project remains in Exploration & Evaluation.

PRODUCTION

	Quarter End			Full Year
	Mar 2010	Dec 2009	Mar 2009	Dec 2009
Oil Production ('000 bbls)				
- Kutubu	929	1,103	780	3,877
- Moran	690	738	653	2,537
- SE Mananda	30	29	70	199
- Gobe Main	16	16	15	61
- SE Gobe	64	86	115	394
Total PNG Oil ('000 bbls)	1,729	1,972	1,633	7,068
- Hides gas production (mmscf)	1,427	1,312	1,404	5,515
- Hides condensate ('000 bbls)	35	32	36	135
Total Production ('000 boe)	2,002	2,223	1,903	8,122

1 Prior period comparatives updated for subsequent changes

Kutubu (PDL 2 – 60.0%, Operator)

Net Oil Search production from the Kutubu field during the first quarter of 2010 was 0.93 mmbbls. Gross production rates averaged 17,184 barrels of oil per day (bopd) compared to 19,963 bopd in the previous quarter.

While 2010 first quarter production was 16% lower than in the fourth quarter of 2009, production rates were approximately 20% higher than in the corresponding quarter of 2009, reflecting the significant continuing contribution from new development wells drilled at Kutubu, Agogo and Usano in 2009. The production decline from the previous quarter was due to natural field decline and a zonal testing programme in some of the key wells for reservoir management purposes. The results of the individual zone testing programme will enable production to be optimised over the balance of 2010.

During the quarter, testing of the recently completed Agogo ADT2 ST3 well continued. The uppermost Digimu interval flow tested at rates of 1,500 to 2,000 bopd. Three of the deeper intervals were also tested and flowed water with traces of oil. The well is currently on production from the Digimu while plans are made to test the remaining three sands in the two untested zones.

Several well intervention opportunities have been identified across the Kutubu fields which will be implemented over the coming months and are expected to improve production rates. Additionally, a number of workover opportunities are being planned with a workover programme expected to commence in the second half of 2010.

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 production from Moran during the 2010 first quarter was 0.69 mmbbls, which was 6% lower than in the fourth quarter of 2009. The field produced at a gross average rate of 15,514 bopd compared to 16,207 bopd in the previous quarter.

The provision of permanent gas lift at Moran 9, Moran 14A ST1 and NW Moran 1X ST5 has improved production rates in those wells. In addition, facility uptime during the quarter was excellent.

A number of well work opportunities are currently being planned, including the testing of the Toro reservoir in Moran 14A ST1 and the perforation of a new interval in the Digimu reservoir of the NW Moran 1X ST5 well. The stimulation of the Moran 5 ST1 gas injector, which will allow increased injection rates, is planned to take place in the second quarter.

Detailed well engineering for the Moran C Block appraisal well continued during the quarter and the well is expected to spud in the third quarter of 2010.

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

Oil Search's share of production from the Gobe fields during the first quarter of 2010 was 0.08 mmbbls, down 20% compared to the previous quarter.

The gross average production rate of 1,733 bopd for Gobe Main was 4% lower than the fourth quarter of 2009 due to natural field decline. Gross average rates at SE Gobe declined by 25% to 2,784 bopd largely as a result of a five day scheduled shutdown for routine inspection and maintenance, including compressor servicing. In addition, the SEG 3 compressor was offline during January for engine repairs and this impacted production from some of the high gas-oil-ratio wells. All compressors have now been returned to service.

A number of well work and workover opportunities are currently being assessed at SE Gobe which, if implemented, are expected to lead to improved production rates.

SE Mananda (PDL 2 – 72.3%, Operator)

Oil Search's share of 2010 first quarter production from the SE Mananda field was 0.03 mmbbls, slightly higher than fourth quarter 2009 production levels. Gross average daily production rates from the field were 455 bopd, compared to 436 bopd in the fourth quarter.

Hydrate issues seen in the last quarter have been successfully resolved.

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

2010 first quarter production of sales gas for the Hides Gas to Electricity Project was 1.43 billion cubic feet, produced at an average daily production rate of 15.9 million cubic feet per day. This compares to 14.3 million cubic feet per day in the fourth quarter of 2009. 35,000 barrels of condensate were produced for use within the Hides facility and for local sales.

GAS COMMERCIALISATION

PNG LNG Project

On 12 March 2010, the PNG LNG Project Operator, ExxonMobil, announced that all sales and purchase agreements with liquefied natural gas (LNG) buyers and financing arrangements with lenders had been completed and that full execution of the PNG LNG Project was proceeding.

Leading up to this major milestone, a number of conditions precedent were satisfied during the first quarter of 2010, to allow Project co-venturers to achieve Financial Close. These included:

- The completion and execution of the final Sales and Purchase Agreement with CPC Corporation of Taiwan for 1.2 million tonnes per annum.
- The adoption by the PNG Parliament of some minor legislative amendments.
- The resolution of all legal requirements associated with the loan facilities.

Funding for the PNG LNG Project will come from the co-venturers and through project finance market-rate loans arranged with export credit agencies and commercial sources. At first drawdown, Oil Search received US\$391 million, including US\$303.5 million from the lenders as reimbursement of 70% of eligible Project costs incurred by the Company up to this time.

In addition to Financial Close, the following activities took place during the quarter:

- Mobilisation of the major engineering, procurement and construction contractors.
- Ongoing procurement of major long lead items.
- Ongoing early works focused on the construction of camps, logistics and training.
- The award to Mitsui O.S.K. Lines (MOL) by the PNG LNG Project of two long-term charters for two existing LNG carriers and the signing of a Heads of Agreement with MOL for the construction and long term charter of two new LNG vessels, to be built in China.

The PNG LNG Project will develop the gas and condensate resources in the Hides, Angore and Juha fields and the associated gas resources in the currently operating oil fields of Kutubu, Agogo, Gobe and Moran in the Southern Highlands and Western Provinces of PNG. The gas will be transported by pipeline to an LNG facility with a capacity of 6.6 million tonnes per annum, 20 kilometres northwest of Port Moresby on the coast of the Gulf of Papua.

The investment for the initial phase of the Project is estimated at US\$15 billion, excluding shipping and financing costs. Over the 30-year life of the PNG LNG Project, more than 9 trillion cubic feet of gas and 200 million barrels of condensate are expected to be produced. Initial LNG deliveries are scheduled to begin in 2014.

Other Gas Initiatives

Strategic work on gas expansion continued during the quarter, as well as efforts to further consolidate Oil Search's interests in various discovered and potential gas resources in the offshore and forelands regions.

Shortly after the end of the quarter, Oil Search agreed to purchase a 6.36% interest in offshore licence PRL 1, containing the discovered Pandora gas field, from Twinza Oil Limited, bringing the Company's interest in the licence to 24.09%. The transaction is subject to standard industry conditions precedent.

EXPLORATION ACTIVITY

PNG

The Wasuma well in PPL 219 (Oil Search 71.25%, Operator) spudded in January 2010 and was drilled to a total depth of 3,900 metres. The interpretation of electric log data indicates a three metre zone of hydrocarbons is present within the Lower Iagifu sandstone in the Wasuma Deep footwall structure. The Iagifu and Toro reservoir intervals were thinner and of poorer quality than pre-drill expectations. Consequently, the well was plugged and abandoned as a non-commercial discovery.

As highlighted previously in this report, the ADT2 ST3 well in PDL 2 (Oil Search 60.05%, Operator) was flow tested during the quarter and produced oil from the Digimu interval, within a previously untested footwall forelimb compartment of the Agogo Field. Importantly, the recovery of oil from the footwall forelimb of Agogo, together with the confirmation of a hydrocarbon charge in the footwall at Wasuma, has opened up a new play fairway in the Fold Belt and has upgraded the potential of similar footwall structures that are mapped on trend and in adjacent acreage.

Also during the period, Rig 104 was mobilised to the Korka-1 well site in PPL 260 (Oil Search 50.00%, subject to Government approvals, Operator). Drilling commenced in April following the completion of the Wasuma well. In PPL 219, site construction commenced at the Mananda Attic well site in the north western quadrant of the licence, in preparation for a well scheduled to be drilled in late 2010.

Elsewhere in the Fold Belt, a 130 kilometre 2D seismic programme, targeting prospects and leads adjacent to, and on trend with, the Hides and Angore gas fields commenced in PRL 11/PPL 233.

In the Foreland, 60 kilometres of 2D seismic over the Barikewa gas field in PRL 9 (Oil Search 42.55%) was processed and interpretation is scheduled to commence shortly to enable well site construction during late 2010 and drilling in 2011.

During the quarter, preparations were made for a 4,720 square kilometre 3D seismic survey over the offshore licences PPL 234 (Oil Search 80.00%, Operator) and PPL 244 (Oil Search 45.00%), which commenced in April. The objective of this 3D seismic survey is to mature gas prospects in the Gulf of Papua, a proven gas province, prior to drilling.

Preparations for a 3-6 well Coal Bed Methane drilling programme within Oil Search's Mining Exploration Licences in the Forelands region took place during the quarter. Drilling is expected to commence in the third quarter of 2010 and will test the coal quality, its extent and thickness.

Yemen

The Al Meashar-1 well in Block 7 (Oil Search 34.00%, Operator), which spudded in late 2009, reached a total depth of 3,660 metres in early March, having drilled 513 metres of the basement, the primary target. Drill-stem testing commenced towards the end of the quarter. The first test, which was carried out over the entire basement section and 23 metres of the overlying clastic and carbonate section, flowed oil at unstabilised rates of 200 - 400 barrels per day. A subsequent test over just the basement flowed oil and mud at unstabilised rates of 600 barrels per day. Major losses were observed during drilling and a large volume of lost-circulation material was used to cure the losses. This has resulted in a long clean up period and unstable flow rates. The results of the testing are being analysed and a number of other studies are underway to assist in the evaluation of this discovery. The well is the first of a four well commitment for the first exploration period of Block 7.

Analysis of results from the testing of the Tubb'a-1 discovery well in Block 3 (Oil Search 60.00%, Operator) continued during the quarter. The well has met the drilling commitment for the first exploration period.

Iraq

Following the discovery of oil in the Shakal-1 exploration well in the Shakal PSA (Oil Search 15%) in late 2009, during the first quarter of 2010 the Joint Venture proposed the acquisition of additional seismic data to assist in defining the scale of the resource and its relationship to the adjacent Pulkhana structure. An application for a one year

licence extension was submitted to the Kurdistan Regional Government (KRG). Planning for seismic acquisition is underway and is due to commence in May 2010, subject to receipt of KRG approval.

During the quarter, preparations by the K42 Joint Venture (Oil Search 75% paying interest, Operator) for the acquisition of 200 kilometres of 2D seismic continued. Seismic acquisition is due to commence in April 2010 and continue until August 2010. The seismic will be the first to be acquired in the K42 permit and, subject to its evaluation and certain conditions precedent being fulfilled by the KRG, the permit may be converted into a full PSC prior to the end of the seismic option period which expires in May 2011.

Tunisia

Planning for the acquisition of 400 kilometres of 2D seismic data in the Tajerouine permit (Oil Search 100%, Operator) continued during the quarter. The results will be used to define potential drilling locations for the single well commitment on the block. The programme on Tajerouine will be acquired as part of a larger seismic programme including 165 kilometres of data over the Le Kef permit (Oil Search 25%). Oil Search will operate the acquisition in both blocks. Drilling is currently scheduled to occur during 2011.

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				
Korka 1	Exploration	PPL 260	50.0%*	Drilling ahead
Moran C	Development	Moran Unit	49.5%	3Q 10
Flinders	Exploration	PPL 244	45%	3Q 10
Mananda Attic/FW	Exploration	PPL 219	71.3%	4Q 10

Yemen				
Prospect Jebel Al Milh	Exploration	Block 7	34.0%	2Q 10
Prospect M	Exploration	Block 3	60.0%	3Q 10

* Subject to Government approval

Note: Wells and timing subject to change

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