

Oil Search Gearing Up For Another Papua LNG Project

Australian company Oil Search believes it has enough reserves in the gulf of Papua to justify another LNG project in Papua New Guinea (PNG).

Oil Search, which also has a 29% interest in the existing ExxonMobil-operated PNG LNG project due to go online 2014, had 2P reserves of 553 MM boe as of 31 December last year, including 505 MM boe relating to the PNG LNG Project (which the PNG Government, Santos and JX Nippon are JV partners in), and contingent 2C resources of 318 MM boe.

PNG Gulf gas may supplement a PNG LNG expansion or alternatively provide the foundation for another LNG hub, Oil Search said.

The new potential in the gulf is still at the exploration stage, but Oil Search said it could potentially support a separate LNG project, called Gulf Area LNG. Oil Search has interests in a range of licence areas in the Gulf of Papua, which it believes is gas prone and could potentially support a separate LNG project.

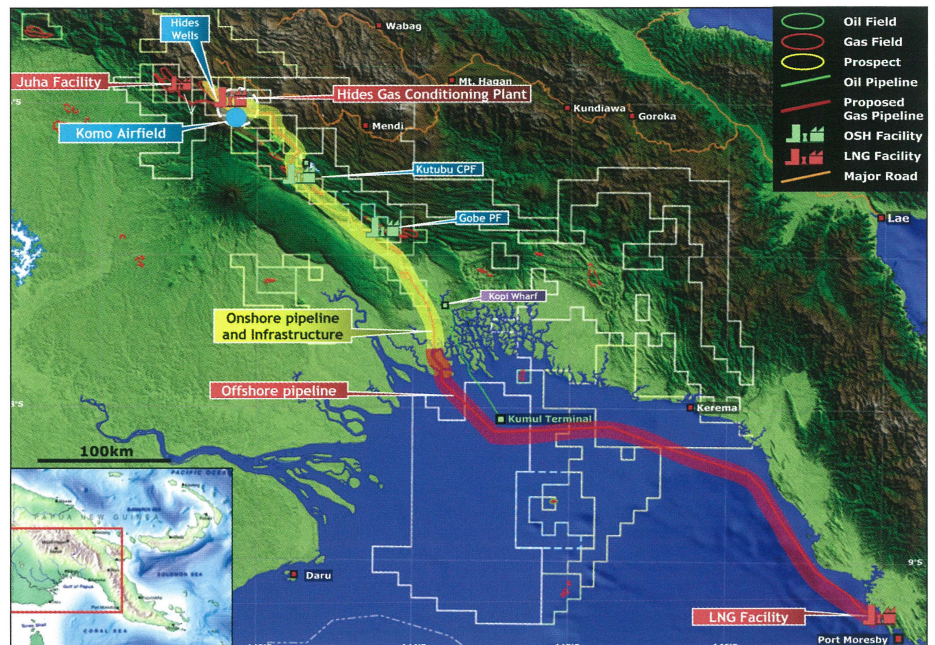
"We acquired a large 3D seismic program in 2011 and are acquiring a little more at present and we are planning to drill two firm wells with potential for two further wells", Oil Search's Investor Relations Manager Ann Diamant told *PESA News Resources*.

Oil Search also hopes to have proved up sufficient gas to underwrite at least one additional LNG train at PNG LNG. While there are a large number of proposed projects and projects under construction competing for LNG markets, including several in the north of Australia, Oil Search believes that a PNG LNG brownfields expansion will be “in a very strong competitive position” to capture markets.

"With favourable economics, relatively small volume requirements are required to underpin a development when compared with greenfields projects", Oil Search said. "In addition, PNG LNG has the advantage of being a liquids rich conventional source of LNG and PNG represents supply diversity from the primarily Australian competition."

Oil Search, which is also exploring in Yemen, Iraq and Tunisia, said at the UK Oil and Gas Investor Forum in April 2012 that the Gulf's potential has been confirmed, with drilling preparations underway and partnering discussions have commenced.

Oil Search Managing director Peter Botten said that both Talisman and Shell have been



PNG LNG project overview. Image courtesy of Oil Search Ltd.

interested and active in the country. Talisman has a large acreage position in the Forelands region while Shell has an agreement with the PNG Government.

Oil Search has an extensive exploration acreage portfolio in PNG, covering some 20,600 km² - acreage that is relatively under-explored and highly prospective, particularly for gas. Oil Search will spend more than \$2.1 B this year on the largest drilling program in its history and includes its share of PNG LNG development costs as well as a significant exploration program in the Gulf of Papua. The PNG LNG project is a \$15.1 B development.

"The first well in this campaign, P'nyang South -1, was drilled on a structure immediately south of the existing P'nyang gas field during the quarter. The well discovered gas, intersecting a 184 metre gas zone over the Toro to the base of the P'nyang sands", Botten said.

A side-track well, P'nyang South-1 ST1, was subsequently drilled, with the objective of defining the gas-water contact. The well reached target depth shortly after the end of the Q1 2012, successfully intersecting the gas-water contact some 200m below the lowest gas in P'nyang South and extending the known gas column to approximately 380 m.

Interpretation of seismic and structural data suggests there is additional potential up-dip, indicating the total gas column could be over 650 m, materially increasing the total estimated

2C gas resources in the P'nyang field and providing a potential key underpinning volume for LNG expansion.

Oil Search drilled both wells under contract with the operator, Esso PNG P'nyang Limited.

Construction of the project would be well advanced by the end of 2012 and offshore drilling is scheduled to begin by December, Botten said.

In the Gulf of Papua, following the results from the 2011 3D seismic survey, Oil Search decided to acquire additional 3D seismic data to high-grade a number of prospects prior to potential drilling.

A seismic vessel was contracted and acquisition has recently commenced. Shortly after the end of Q1 2012, the company entered a contract to drill two firm and two optional wells in the Gulf acreage, with drilling targeted to commence in late 2012.

Discussions with potential partners were ongoing during Q4 2011 and a number of bids to farm-in to these licences were received in Q1 2012, Botten said.

"Review of these bids is underway, with a farm-down of the company's large Gulf area interests likely to take place around mid-year," he said.

During Q1 2012 US\$51.9 MM was spent on exploration and evaluation activities, US\$357.8 MM on the PNG LNG Project and US\$21.5 MM on oil field development work. ■