MARATHON OIL CORP
Form 10-K
February 22, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2012
Commission file number 1-5153
Marathon Oil Corporation
(Exact name of registrant as specified in its charter)

Delaware	25-0996816
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5555 San Felipe Street, Houston, TX 77056-2723
(Address of principal executive offices)
(713) 629-6600
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1.00	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No þ

The aggregate market value of Common Stock held by non-affiliates as of June 29, 2012: $17,991 million. This amount is based on the closing price of the registrant's Common Stock on the New York Stock Exchange on that date. Shares of Common Stock held by executive officers and directors of the registrant are not included in the computation. The registrant, solely for the purpose of this required presentation, has deemed its directors and executive officers to be affiliates.

There were 707,709,281 shares of Marathon Oil Corporation Common Stock outstanding as of January 31, 2013.

Documents Incorporated By Reference:

Portions of the registrant's proxy statement relating to its 2013 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, are incorporated by reference to the extent set forth in Part III, Items 10-14 of this report.

MARATHON OIL CORPORATION

Unless the context otherwise indicates, references to "Marathon Oil," "we," "our" or "us" in this Annual Report on Form 10-K are references to Marathon Oil Corporation, including its wholly-owned and majority-owned subsidiaries, and its ownership interests in equity method investees (corporate entities, partnerships, limited liability companies and other ventures over which Marathon Oil exerts significant influence by virtue of its ownership interest).

Table of Contents

Definitions

Throughout this report, the following company or industry specific terms and abbreviations are used.

AECO – Alberta Energy Company, a Canadian natural gas benchmark price.

AMPCO – Atlantic Methanol Production Company LLC, a company in which we own a 45 percent equity interest.

AOSP – Athabasca Oil Sands Project, an oil sands mining, transportation and upgrading joint venture located in Alberta, Canada, in which we hold a 20 percent interest.

bbl – One stock tank barrel, which is 42 United States gallons liquid volume.

bbld – Barrels per day.

bboe – Billion barrels of oil equivalent. Natural gas is converted to a barrel of oil equivalent based on the energy equivalent, which on a dry gas basis is six thousand cubic feet of gas per one barrel of oil equivalent.

bcf – Billion cubic feet.

boe – Barrels of oil equivalent.

boed – Barrels of oil equivalent per day.

BOEMRE – United States Bureau of Ocean Energy Management, Regulation and Enforcement.

btu – British thermal unit, an energy equivalence measure.

DD&A – Depreciation, depletion and amortization.

Developed acreage – The number of acres which are allocated or assignable to producing wells or wells capable of production.

Development well – A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

Downstream business – The refining, marketing and transportation (RM&T) operations, spun-off June 30, 2011 and now treated as discontinued operations.

Drilling Moratorium – As a result of an explosion and significant spill from a deepwater rig in the Gulf of Mexico, the United States Department of the Interior issued a drilling moratorium on May 30, 2010 to suspend the drilling of deepwater wells, and prohibit drilling any new deepwater wells. The moratorium was lifted on October 12, 2010.

Dry well – A well found to be incapable of producing either oil or natural gas in sufficient quantities to justify completion.

E.G. – Equatorial Guinea.

EGHoldings – Equatorial Guinea LNG Holdings Limited, an liquefied natural gas production company located in E.G. in which we own a 60 percent equity interest.

E&P – Our Exploration and Production segment which explores for, produces and markets liquid hydrocarbons and natural gas on a worldwide basis.

EPA – Environmental Protection Agency.

Exit rate – The average daily rate of production from a well or group of wells in the last month of the period stated.

Exploratory well – A well drilled to find oil or gas in an unproved area or find a new reservoir in a field previously found to be productive in another reservoir.

Farmout – An assignment of an interest in a drilling location and related acreage conditional upon the drilling of a well on that location.

FASB – Financial Accounting Standards Board.

FPSO – Floating production, storage and offloading vessel.

IFRS – International Financial Reporting Standards.

IG – Our Integrated Gas segment which produces and markets products manufactured from natural gas, such as liquefied natural gas and methanol, in E.G.

IRS – United States Internal Revenue Service.

KRG – Kurdistan Regional Government.
Liquid hydrocarbon – Collectively, crude oil, condensate and natural gas liquids.
LNG – Liquefied natural gas.
LPG – Liquefied petroleum gas.
Marathon – The consolidated company prior to the June 30, 2011 spin-off of the downstream business.
Marathon Oil – The company as it exists following the June 30, 2011 spin-off of the downstream business.
Marathon Petroleum Corporation ("MPC") – The separate independent company which now owns and operates the downstream business.
mbbl – Thousand barrels.
mbbld – Thousand barrels per day.
mboe – Thousand barrels of oil equivalent.
mboed – Thousand barrels oil equivalent per day.
mcf – Thousand cubic feet.
mmbbl – Million barrels.
mmboe – Million barrels of oil equivalent.
mmbtu – Million British thermal units.
mmcfd – Million cubic feet per day.
mmt – Million metric tonnes.
mmta – Million metric tonnes per annum.
mtd – Thousand metric tonnes per day.
Net acres or Net wells – The sum of the fractional working interests owned by us in gross acres or gross wells.
NGL or NGLs – Natural gas liquid or natural gas liquids, which are naturally occurring substances found in natural gas, including ethane, butane, isobutane, propane and natural gasoline, that can be collectively removed from produced natural gas, separated into these substances and sold.
OECD – Organization for Economic Cooperation and Development.
Oklahoma Resource Basins – Areas in Oklahoma including the Anadarko Woodford shale, the Mississippi Sooner lime, the Granite wash, the Tonkawa, the Cleveland, and the Marmaton plays.
OPEC – Organization of Petroleum Exporting Countries.
OSM – Our Oil Sands Mining segment which mines, extracts and transports bitumen from oil sands deposits in Alberta, Canada, and upgrades the bitumen to produce and market synthetic crude oil and vacuum gas oil.
Productive well – A well that is not a dry well. Productive wells include producing wells and wells that are mechanically capable of production.
Proved reserves – Proved oil, natural gas and synthetic crude oil reserves are those quantities of oil, natural gas and synthetic crude oil, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible.
Proved developed reserves – Proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well.
Proved undeveloped reserves – Proved reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.
PSC – Production sharing contract.
Quest CCS – Quest Carbon Capture and Storage project at the AOSP in Alberta, Canada.
Reserve replacement ratio – A ratio which measures the amount of proved reserves added to our reserve base during the year relative to the amount of oil and gas produced.

Royalty interest – An interest in an oil or natural gas property entitling the owner to a share of oil or natural gas production free of costs of production.
SAGE – United Kingdom Scottish Area Gas Evacuation system composed of a pipeline and processing terminal.
SAR or SARs – Stock appreciation right or stock appreciation rights.
SEC – United States Securities and Exchange Commission.
Seismic – An exploration method of sending energy waves or sound waves into the earth and recording the wave reflections to indicate the type, size, shape and depth of subsurface rock formation (3-D seismic provides three-dimensional pictures and 4-D factors in changes that occurred over time).
Total depth ("TD") – The bottom of a drilled hole, where drilling is stopped, logs are run and casing is cemented.
Total proved reserves – The summation of proved developed reserves and proved undeveloped reserves.
U.K. – United Kingdom.
Undeveloped acreage – Acreage on which wells have not been drilled or completed to a point that would permit the production of economic quantities of oil and natural gas regardless of whether such acreage contains proved reserves.
U.S. – United States of America.
U.S. GAAP – Accounting principles generally accepted in the U.S.
WCS – Western Canadian Select, an oil index benchmark price.
Working interest ("WI") – The interest in a mineral property which gives the owner that share of production from the property. A working interest owner bears that share of the costs of exploration, development and production in return for a share of production. Working interests are typically burdened by overriding royalty interest or other interests.
WTI – West Texas Intermediate crude oil, an oil index benchmark price.

Disclosures Regarding Forward-Looking Statements

This Annual Report on Form 10-K, particularly Item 1. Business, Item 1A. Risk Factors, Item 3. Legal Proceedings, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations and Item 7A. Quantitative and Qualitative Disclosures about Market Risk, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These statements typically contain words such as "anticipate," "believe," "estimate," "expect," "forecast," "plan," "predict," "target," "project," "could," "may," "should," "would" or similar words, indicating that future outcomes are uncertain. In accordance with "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, these statements are accompanied by cautionary language identifying important factors, though not necessarily all such factors, that could cause future outcomes to differ materially from those set forth in the forward-looking statements.

Forward-looking statements in this Annual Report on Form 10-K may include, but are not limited to: levels of revenues, income from operations, net income or earnings per share; levels of capital, exploration, environmental or maintenance expenditures; the success or timing of completion of ongoing or anticipated capital, exploration or maintenance projects; volumes of production or sales of liquid hydrocarbons, natural gas, and synthetic crude oil; levels of worldwide prices of liquid hydrocarbons and natural gas; levels of liquid hydrocarbon, natural gas and synthetic crude oil reserves; the acquisition or divestiture of assets; the effect of restructuring or reorganization of business components; the potential effect of judicial proceedings on our business and financial condition; levels of common share repurchases; the impact of government legislation and budgetary and tax measures; and the anticipated effects of actions of third parties such as competitors, or federal, foreign, state or local governments and regulatory authorities.

PART I

Item 1. Business

General

Marathon Oil Corporation was incorporated in 2001 and is an international energy company engaged in exploration and production, oil sands mining and integrated gas with operations in the U.S., Angola, Canada, E.G., Ethiopia, Gabon, Kenya, the Kurdistan Region of Iraq, Libya, Norway, Poland and the U.K. We are based in Houston, Texas with our corporate headquarters at 5555 San Felipe Street, Houston, Texas 77056-2723 and a telephone number of (713) 629-6600.

On June 30, 2011, the spin-off of Marathon's downstream business was completed, creating two independent energy companies: Marathon Oil and MPC. Marathon stockholders at the close of business on the record date of June 27, 2011 received one share of MPC common stock for every two shares of Marathon common stock held. A private letter ruling received in June 2011 from the IRS affirmed the tax-free nature of the spin-off. Activities related to the downstream business have been treated as discontinued operations in 2011 and 2010, with additional information in Item 8. Financial Statements and Supplementary Data - Note 3 to the consolidated financial statements.

Strategy and Results Summary

Assets within our three segments are at various stages in their lifecycle: base, growth or exploration. We have a stable group of base assets, which include our OSM and IG segments and E&P assets in E.G., Libya, Norway, the U.K. and certain U.S. operations. These assets generate much of the cash that will be available for investment in our growth assets and exploration projects. Growth assets are where we expect to make significant investment in order to realize oil and gas production and reserve increases. We are focused on U.S. liquid hydrocarbon growth by developing unconventional liquids-rich plays, including the Eagle Ford and Bakken shales, and the Oklahoma Resource Basins. In addition to the U.S. shale plays, growth assets include deepwater discoveries and developments offshore Angola, our Canadian in-situ assets, certain Gulf of Mexico blocks and the Kurdistan Region of Iraq. We also invest in exploration prospects that have significant value potential. Our areas of exploration are E.G., Ethiopia, Gabon, the Gulf of Mexico, Kenya, the Kurdistan Region of Iraq, Libya, Norway and Poland. We continually evaluate ways to optimize our portfolio through acquisitions and divestitures, with a previously stated goal of divesting between $1.5 billion and $3.0 billion of non-core assets over the period of 2011 through 2013. For the two-year period ended December 31, 2012, we entered into agreements for approximately $1.3 billion in divestitures, of which $785 million were completed. The remaining $545 million in asset sales were completed by February 22, 2013.

We ended 2012 with proved reserves of 2 bboe, a 12 percent increase over 2011. Average sales volumes were 282 mbbld of liquid hydrocarbon, 902 mmcfd of natural gas and 47 mbbld of synthetic crude oil, with 62 percent of our liquid hydrocarbon sales volumes from international operations, for which average realizations have exceeded WTI crude prices. During 2012, we invested in the development of assets totaling $5.4 billion in capital, investment and exploration spending and made acquisitions of approximately $1 billion. We expect continued spending, primarily funded with cash flow from operations or portfolio optimization, in exploration and development activities in order to realize continued reserve and sales growth. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Outlook, for discussion of our $5.2 billion capital, investment and exploration budget for 2013.

The above discussion of strategy and results includes forward-looking statements with respect to the goal of divesting between $1.5 billion and $3.0 billion of non-core assets between 2011 and 2013 and expected investment in exploration and development activities. Some factors that could potentially affect the divestiture of non-core assets and expected investment in exploration and development activities include changes in prices of and demand for liquid hydrocarbons, natural gas and synthetic crude oil, actions of competitors, occurrence of acquisitions or dispositions of oil and natural gas properties, future financial condition, operating results, economic and/or regulatory factors affecting our businesses, the identification of buyers for non-core assets and the negotiation of acceptable prices and other terms, as well as other customary closing conditions. The foregoing factors (among others) could cause actual results to differ materially from those set forth in the forward-looking statements.

4

The map below illustrates the locations of our worldwide operations.

Segment and Geographic Information

For operating segment and geographic financial information, see Item 8. Financial Statements and Supplementary Data – Note 8 to the consolidated financial statements.

Exploration and Production Segment

In the discussion that follows regarding our E&P operations, references to net wells, sales or investment indicate our ownership interest or share, as the context requires.

We are engaged in oil and gas exploration, development and/or production activities in the U.S., Angola, Canada, Ethiopia, E.G., Gabon, Kenya, the Kurdistan Region of Iraq, Libya, Norway, Poland, and the U.K.

Liquids-Rich Shale Plays

Eagle Ford - As of December 31, 2012 we have 230,000 net acres in the core of the Eagle Ford shale, with an additional 100,000 non-core acres. In the fourth quarter of 2011, we made our most significant investment in the Eagle Ford shale play of south Texas when we closed several acquisitions for a total cash consideration of $4.5 billion. Throughout 2012, we rationalized our position with several acquisitions totaling $1 billion and select divestitures of acreage located outside the core of the Eagle Ford shale. See Item 8. Financial Statements and Supplementary Data - Note 5 to the consolidated financial statements for additional information about these acquisitions.

As of December 31, 2012, we had 379 gross (262 net) producing wells in the Eagle Ford shale. We realized significant efficiencies in drilling during 2012, reducing the average drilling time per well to 23 days, reaching TD on 248 gross (178 net)operated wells and brought 215 gross (154 net) operated wells to sales. Approximately one-third of our 2013 capital budget is dedicated to the Eagle Ford shale. Our plans include drilling and completing 275 - 320 gross (215 - 250 net) operated wells in 2013. We have undertaken a number of pilot tests across the acreage to assist in identifying appropriate spacing, landing zones and completion techniques for the Eagle Ford. Results from vertical landing zone pilots and completions pilots are ongoing and incorporated into operations continuously. Initial analysis of spacing pilot results are expected by the end of 2013 and may result in improvements to our overall development plans for the field.

Eagle Ford average net sales for 2012 were 34 mboed, composed of 23 mbbld of crude oil, 5 mbbld of NGLs and 37 mmcfd of natural gas. Our 2012 exit rate of production was over 65 mboed, which is fourfold increase over December 2011. We are able to transport approximately 60 percent of our Eagle Ford production by pipeline and additional contract negotiations and facility designs are underway.

We continue to build infrastructure to support our liquid hydrocarbon and natural gas production growth across the operating area. Approximately 370 miles of gathering lines were installed in 2012, and 12 new central gathering and treating facilities were commissioned, with 7 additional facilities in various stages of planning or construction. We also own and operate the Sugarloaf gathering system, a 42-mile natural gas pipeline through the heart of our acreage in Karnes, Atascosa, and Bee Counties of south Texas.

Bakken – We hold approximately 410,000 net acres in the Bakken shale oil play in North Dakota and eastern Montana. Throughout 2012, we continued selective acreage acquisitions and leasing, further expanding a new prospect area. We moved from 20-stage to 30-stage hydraulic fracturing in 2011 to increase both production rates and estimated ultimate recovery from our Bakken shale wells. We also continued to alter completion techniques seeking continuous improvement in well performance. We reached TD on 88 gross (76 net) operated wells and brought to sales 98 gross (84 net) operated wells in 2012. Our Bakken shale program includes plans to drill 190 - 220 gross (65 - 70 net) wells in 2013, of which 60 - 70 net wells will be operated by us.

Our net sales from the Bakken shale averaged 29 mboed, composed of 27 mbbld of crude oil, 1 mbbld NGLs and 8 mmcfd natural gas in 2012, a 70 percent increase on a barrel of oil equivalent basis over 2011. Our production exit rate for 2012 was approximately 35 mboed. We sell our Bakken production into various markets via truck, railcar and other marketing options. We have, and continue to secure, long-term agreements to transport portions of our current and forecasted liquid hydrocarbon production to market via third-party gathering systems.

Oklahoma Resource Basins – In the Anadarko Woodford shale play in Oklahoma, we hold 163,000 net acres of which approximately 100,000 net acres are held by production. In 2012, we executed an operated drilling program focused on the liquids-rich areas of the play, reached TD on 25 gross (20 net) operated wells and brought to sales 29 gross (25 net) operated wells. In 2013, we plan to drill 42 - 50 gross (15 - 19 net) wells, of which 12 - 14 net wells will be operated. The Anadarko Woodford shale averaged net sales of 8 mboed, composed of 1 mbbld of crude oil, 2 mbbld of NGLs and 29 mmcfd of natural gas, during 2012, a more than threefold increase over 2011 on a barrel of oil equivalent basis. Our 2012 exit rate of production was 10 mboed.

Other areas of potential growth exist in Oklahoma and we are currently evaluating opportunities on legacy assets where the acreage is held by production. Future activity in the Oklahoma Resource Basins will be dependent upon the recovery of natural gas and natural gas liquids prices. See below for additional discussion of our conventional, primarily natural gas, production operations in Oklahoma.

United States

Alaska – In April 2012, we entered into an agreement to sell all of our assets in Alaska in a transaction valued at $375 million before closing adjustments. Those assets include operated and non-operated interests in 10 natural gas fields in the Cook Inlet and adjacent Kenai Peninsula of Alaska and majority ownership in four operated natural gas pipelines totaling 140 miles. The transaction closed in January 2013 for proceeds of $195 million subject to a six-month escrow of $50 million for various indemnities. Net sales from Alaska averaged 92 mmcfd in 2012.

Colorado – We hold leases with natural gas production in the Piceance Basin of Colorado, located in the Greater Grand Valley field complex and 154,000 net acres in the liquids-rich Niobrara shale located in the DJ Basin of northern Colorado, southeastern Wyoming and Nebraska. We drilled 17 gross (12 net) operated wells in the DJ Basin during

2012. Net sales from these two areas averaged 3 mboed in 2012. We have no plans for operated drilling in Colorado in 2013.

Oklahoma – We have long-established operated and non-operated conventional production in several Oklahoma fields from which 2012 sales averaged 2 mbbld of liquid hydrocarbons and 51 mmcfd of natural gas. In 2012, we participated in 11 gross (1 net), non-operated wells in the state. We also drilled 1 operated well. Plans for 2013 include drilling 11 gross (2 net) wells, targeting liquids.

Texas/North Louisiana/New Mexico – In east Texas and north Louisiana, we hold 184,000 net acres. Approximately 20,000 of the acres are in the Haynesville and Bossier natural gas shale plays. Most of the acreage in these shale plays is held by production. We participated in 5 gross (1 net) non-operated wells in the area during 2012. Conventional production was primarily from the Mimms Creek, Pearwood and Oletha fields in 2012, with net sales averaging 6 mboed.

We also participate in several non-operated Permian Basin fields in west Texas and New Mexico. Net sales from this area averaged 7 mboed in 2012. We plan continued carbon dioxide flood programs in the Seminole and Vacuum fields during 2013.

Wyoming – We have ongoing enhanced oil recovery waterflood projects at the mature Bighorn Basin and Wind River Basin fields and initiated an additional enhanced oil recovery project at our 100 percent owned and operated Pitchfork field in 2012. We have conventional natural gas operations in the Greater Green River Basin and unconventional coal bed natural gas operations in the Powder River Basin. In 2012, we drilled 2 gross (2 net) operated development wells in Wyoming, which included 1 wellbore re-entry. We plan to drill 1 gross (1 net) operated well in 2013.

Our Wyoming net sales averaged 17 mbbld of liquid hydrocarbons and 68 mmcfd of natural gas during 2012. In addition, we own and operate the 420-mile Red Butte Pipeline. This crude oil pipeline connects Silvertip Station on the Montana/Wyoming state line to Casper, Wyoming.

Over the next two years, we plan to plug and abandon over 600 wells in the Powder River Basin as we wind down those operations due to poor economics. See Item 8. Financial Statements and Supplementary Data – Note 15 to the consolidated financial statements for impairments of our Powder River Basin asset taken in recent years due to declining natural gas prices and reduced development plans.

Gulf of Mexico – Production

On December 31, 2012, we held material interests in 7 producing fields, 4 of which are company-operated. Average net sales for 2012 from the Gulf of Mexico were 22 mbbld of liquid hydrocarbons and 19 mmcfd of natural gas.

We operate and have a 65 percent working interest in the Ewing Bank Block 873 platform which is located 130 miles south of New Orleans, Louisiana. The platform serves as a production hub for the Lobster, Oyster and Arnold fields on Ewing Bank blocks 873, 917 and 963. The facility also processes third-party production via subsea tie-backs. In 2012, seismic data that was acquired in 2011 on Blocks 873 and 917 was processed in order to refine existing opportunities and to identify others for a development drilling campaign that is planned to start in 2015.

We own a 50 percent working interest in the non-operated Petronius field on Viosca Knoll Blocks 786 and 830 located 130 miles southeast of New Orleans, which includes 14 producing wells. The Petronius platform is capable of providing processing and transportation services to nearby third-party fields. During 2012, we acquired 4-D seismic data in order to identify potential future drilling opportunities.

We hold a 30 percent working interest in the non-operated Neptune field located on Atwater Valley Block 575, 120 miles off the coast of Louisiana. The development includes seven subsea wells tied back to a stand-alone platform. A well that had been producing from a deeper horizon was recompleted to the main producing zone in 2012.

The Droshky and Ozona developments off the coast of Louisiana are both expected to reach abandonment pressures in the first half of 2013. We have a 100 percent operated working interest in the Droshky development located on Green Canyon Block 244 and a 68 percent operated working interest in Ozona which is located on Garden Banks Block 515.

In February 2013, we sold our 34 percent non-operated interest in the Neptune gas plant that is located onshore Louisiana. The transaction value, before closing adjustments, was $170 million.

Gulf of Mexico – Exploration

We have a portfolio of over 18 prospects with multiple drilling opportunities in the Gulf of Mexico. As we evaluate these opportunities for drilling, we plan to seek partners to reduce our exploration risk on individual projects.

A successful deepwater oil discovery well was drilled on the Gunflint prospect, located on Mississippi Canyon Block 948, in 2008. We own a 15 percent non-operated working interest in this prospect. One appraisal well was drilled in 2012 confirming expected reservoir properties and establishing the commercial viability of the field. An additional appraisal well began drilling in February 2013. Development planning is ongoing.

In the first quarter of 2009, we participated in a deepwater oil discovery on the Shenandoah prospect located on Walker Ridge Block 52. We own a 10 percent interest in this non-operated prospect. The first appraisal well began drilling in June 2012, has reached TD and is currently being evaluated.

7

In the third quarter of 2012, we resumed drilling an exploratory well on the Innsbruck prospect located on Mississippi Canyon Block 993 which had been temporarily suspended under the federal government's Drilling Moratorium. Upon reaching TD in November 2012, the well was determined to be dry. The well costs and related unproved property costs were charged to exploration expense in 2012. We have a 45 percent operated working interest in Innsbruck.
We hold a 30 percent non-operated working interest in Green Canyon Blocks 403 and 404 in the Kilchurn prospect. The operator commenced drilling in the Kilchurn prospect in December 2011. In the second quarter of 2012, the well was determined to be dry. The well costs and related unproved property costs were charged to exploration expense in 2012.
In October 2011, we received approval of an exploration plan from the BOEMRE for the Key Lar