

Rule 2.7, 3.10.3, 3.10.4, 3.10.5

Appendix 3B

New issue announcement, application for quotation of additional securities and agreement

Information or documents not available now must be given to ASX as soon as available. Information and documents given to ASX become ASX's property and may be made public.

Introduced 1/7/96. Origin: Appendix 5. Amended 1/7/98, 1/9/99, 1/7/2000, 30/9/2001, 11/3/2002, 1/1/2003.

Name of entity

Horizon Oil Limited

ABN

51 009 799 455

We (the entity) give ASX the following information.

Part 1 - All issues

You must complete the relevant sections (attach sheets if there is not enough space).

- | | | |
|---|---|--|
| 1 | +Class of +securities issued or to be issued | Share appreciation rights ("SAR") |
| 2 | Number of +securities issued or to be issued (if known) or maximum number which may be issued | <p>6,693,828 SARs.</p> <p>The number of Horizon Oil Limited shares which may be issued on the exercise of the SARs is dependent on a number of factors including the number of SARs which vest, the Horizon Oil share price at the time of exercise and whether the board, exercising its discretion, issues shares, rather than paying the cash value of the exercised SARs.</p> <p>The maximum number of Horizon Oil Limited shares which may be issued on the exercise of the SARs is 6,693,828 shares.</p> |

- 3 Principal terms of the +securities (eg, if options, exercise price and expiry date; if partly paid +securities, the amount outstanding and due dates for payment; if +convertible securities, the conversion price and dates for conversion)

A SAR is a right to receive either or both a cash payment or shares in the Company, as determined by the board, subject to the Company satisfying certain conditions, including performance conditions.

The SARs are exercisable at A\$0.3106. The Effective Grant Date for the SARs is 1 October 2010.

The number of SARs that vest is determined by reference to the Company's total shareholder return ("TSR") over the relevant period relative to that of the S&P/ASX200 Energy Index ("Index"). The number of SARs that vest is:

- if the Company's TSR is equal to that of the Index ("**Minimum Benchmark**"), 50%;
- if the Company's TSR is 14% or more above that of the Index, 100% ("**Maximum Benchmark**"); and
- if the Company's TSR is more than the Minimum Benchmark but less than the Maximum Benchmark, a percentage between 50% and 100% based on the Company's TSR performance between the Minimum Benchmark and Maximum Benchmark.

The SARs will not vest unless the Company achieves a TSR of at least 10% over the relevant period.

The performance conditions are tested on the date that is three years after the Effective Grant Date of the SARs, and are then re-tested every six months after that until the date that is five years after the Effective Grant Date of the SARs (the final retesting date). The performance conditions are also tested where certain circumstances occur, such as a takeover bid for the Company.

SARs will lapse where:

- the SARs have not vested by the final retesting date which is five years after the date of grant;
- if the SARs have vested by the final retesting date that is five years after the date of grant, the SARs have not been exercised within three months of the date that the SARs would have first been able to be exercised if they vested at the final retesting date that is five years after the date of grant.

This may be more than five years and three months from the date of grant depending on whether the holder of the SAR is able to deal with shares in the Company under the Company's securities trading policy at the date five years after the date of grant.

The amount of the cash payment or the number of shares in the Company that the SAR holder receives on exercise of the SAR is based on the value of the SAR at the time it is exercised ("SAR Value"), being the excess, if any, of the volume weighted average price ("VWAP") of shares in the Company for the ten business day period up to the date before the date the SAR is exercised over the VWAP of shares in the Company for the ten business day period up to the day before the "Effective Allocation Date" for the SARs. The Effective Allocation Date for the SARs is the grant date of the SARs or any other day determined by the board, at the time of the grant.

If the board determines that the SARs are to be satisfied in cash, the amount of cash that the participant receives on the exercise of the SARs is the SAR Value multiplied by the number of SARs exercised (less any deduction for taxes that the Company is required to make from the payment).

If the board determines that the SARs are to be satisfied in shares, the number of shares that the participant receives on the exercise of the SARs is the SAR Value, multiplied by the number of SARs exercised and divided by the volume weighted average price of shares in the Company for the ten business day period up to the day before the day the SARs are exercised. Where the number of shares calculated is not a whole number, it will be rounded down to the nearest whole number.

+ See chapter 19 for defined terms.

4	Do the +securities rank equally in all respects from the date of allotment with an existing +class of quoted +securities? If the additional securities do not rank equally, please state: - the date from which they do - the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment - the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment	No. Any shares issued on exercise of the above mentioned SARs will rank equally with existing fully paid ordinary shares.	
5	Issue price or consideration	Nil.	
6	Purpose of the issue (If issued as consideration for the acquisition of assets, clearly identify those assets)	Issue of SARs in accordance with the Company's remuneration policy and Long Term Incentive plan.	
7	Dates of entering +securities into uncertificated holdings or despatch of certificates	11 October 2010	
8	Number and +class of all +securities quoted on ASX (<i>including</i> the securities in clause 2 if applicable)	Number	+Class
		1,130,311,515	Ordinary shares
9	Number and +class of all +securities not quoted on ASX (<i>including</i> the securities in clause 2 if applicable)	1,000,000	Partly paid shares
		39,356,000	Options issued under Company's employee incentive schemes
		1,000,000	General options
		6,693,828 (2,713,714 which are subject to of shareholders' approval)	Share appreciation rights
10	Dividend policy (in the case of a trust, distribution policy) on the increased capital (interests)		

Part 2 - Bonus issue or pro rata issue

- | | | |
|----|---|----------------------|
| 11 | Is security holder approval required? | <input type="text"/> |
| 12 | Is the issue renounceable or non-renounceable? | <input type="text"/> |
| 13 | Ratio in which the +securities will be offered | <input type="text"/> |
| 14 | +Class of +securities to which the offer relates | <input type="text"/> |
| 15 | +Record date to determine entitlements | <input type="text"/> |
| 16 | Will holdings on different registers (or subregisters) be aggregated for calculating entitlements? | <input type="text"/> |
| 17 | Policy for deciding entitlements in relation to fractions | <input type="text"/> |
| 18 | Names of countries in which the entity has +security holders who will not be sent new issue documents

<small>Note: Security holders must be told how their entitlements are to be dealt with.
Cross reference: rule 7.7.</small> | <input type="text"/> |
| 19 | Closing date for receipt of acceptances or renunciations | <input type="text"/> |
| 20 | Names of any underwriters | <input type="text"/> |
| 21 | Amount of any underwriting fee or commission | <input type="text"/> |
| 22 | Names of any brokers to the issue | <input type="text"/> |
| 23 | Fee or commission payable to the broker to the issue | <input type="text"/> |
| 24 | Amount of any handling fee payable to brokers who lodge acceptances or renunciations on behalf of +security holders | <input type="text"/> |
| 25 | If the issue is contingent on +security holders' approval, the date of the meeting | <input type="text"/> |

26	Date entitlement and acceptance form and prospectus or Product Disclosure Statement will be sent to persons entitled	
27	If the entity has issued options, and the terms entitle option holders to participate on exercise, the date on which notices will be sent to option holders	
28	Date rights trading will begin (if applicable)	
29	Date rights trading will end (if applicable)	
30	How do ⁺ security holders sell their entitlements <i>in full</i> through a broker?	
31	How do ⁺ security holders sell <i>part</i> of their entitlements through a broker and accept for the balance?	
32	How do ⁺ security holders dispose of their entitlements (except by sale through a broker)?	
33	⁺ Despatch date	

Part 3 - Quotation of securities

You need only complete this section if you are applying for quotation of securities

34 Type of securities
(tick one)

(a) ☐ Securities described in Part 1

(b) ☐ All other securities

Example: restricted securities at the end of the escrowed period, partly paid securities that become fully paid, employee incentive share securities when restriction ends, securities issued on expiry or conversion of convertible securities

Entities that have ticked box 34(a)

Additional securities forming a new class of securities

Tick to indicate you are providing the information or documents

35 ☐ If the ⁺securities are ⁺equity securities, the names of the 20 largest holders of the additional ⁺securities, and the number and percentage of additional ⁺securities held by

Appendix 3B
New issue announcement

those holders

- 36 ☐ If the ⁺securities are ⁺equity securities, a distribution schedule of the additional ⁺securities setting out the number of holders in the categories
- 1 - 1,000
1,001 - 5,000
5,001 - 10,000
10,001 - 100,000
100,001 and over
- 37 ☐ A copy of any trust deed for the additional ⁺securities

Entities that have ticked box 34(b)

- 38 Number of securities for which ⁺quotation is sought
- 39 Class of ⁺securities for which quotation is sought
- 40 Do the ⁺securities rank equally in all respects from the date of allotment with an existing ⁺class of quoted ⁺securities?
- If the additional securities do not rank equally, please state:
- the date from which they do
 - the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment
 - the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment
- 41 Reason for request for quotation now
- Example: In the case of restricted securities, end of restriction period
- (if issued upon conversion of another security, clearly identify that other security)
- 42 Number and ⁺class of all ⁺securities quoted on ASX (*including* the securities in clause 38)
- | Number | ⁺ Class |
|----------------------|----------------------|
| <input type="text"/> | <input type="text"/> |

Quotation agreement

1 +Quotation of our additional +securities is in ASX's absolute discretion. ASX may quote the +securities on any conditions it decides.

2 We warrant the following to ASX.

- The issue of the +securities to be quoted complies with the law and is not for an illegal purpose.
- There is no reason why those +securities should not be granted +quotation.
- An offer of the +securities for sale within 12 months after their issue will not require disclosure under section 707(3) or section 1012C(6) of the Corporations Act.

Note: An entity may need to obtain appropriate warranties from subscribers for the securities in order to be able to give this warranty

- Section 724 or section 1016E of the Corporations Act does not apply to any applications received by us in relation to any +securities to be quoted and that no-one has any right to return any +securities to be quoted under sections 737, 738 or 1016F of the Corporations Act at the time that we request that the +securities be quoted.
- We warrant that if confirmation is required under section 1017F of the Corporations Act in relation to the +securities to be quoted, it has been provided at the time that we request that the +securities be quoted.
- If we are a trust, we warrant that no person has the right to return the +securities to be quoted under section 1019B of the Corporations Act at the time that we request that the +securities be quoted.

3 We will indemnify ASX to the fullest extent permitted by law in respect of any claim, action or expense arising from or connected with any breach of the warranties in this agreement.

4 We give ASX the information and documents required by this form. If any information or document not available now, will give it to ASX before +quotation of the +securities begins. We acknowledge that ASX is relying on the information and documents. We warrant that they are (will be) true and complete.



Sign here:

Assistant Company Secretary

Date: 12 October 2010

Print name:

Kelvin Bramley

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+ See chapter 19 for defined terms.