Horizon Oil Limited ABN 51 009 799 455
Level 7, 134 William Street, Woolloomooloo NSW Australia 2011
Tel +61 2 9332 5000, Fax +61 2 9332 5050 www.horizonoil.com.au

29 October 2010

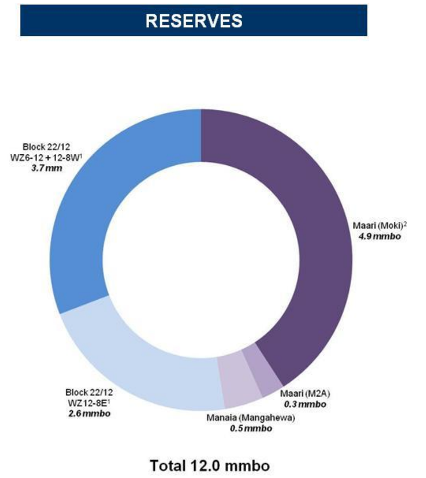
The Manager, Company Announcements
Australian Securities Exchange Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

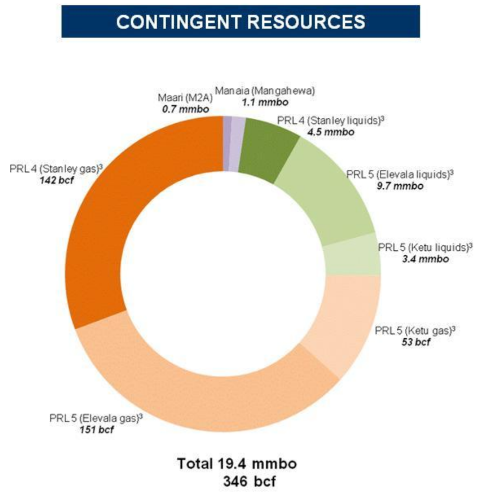
REPORT ON FIRST QUARTER ACTIVITIES – 30 SEPTEMBER 2010
AUSTRALIAN STOCK EXCHANGE LISTING RULE 5.1

KEY ACTIVITIES

- **Oil sales of 162,944 barrels from Maari field, offshore New Zealand, generating revenue of US$13.1 million. Cumulative oil production from field to date 10.7 million barrels.**
- **Maari workover program continuing to restore production levels.**
- **First oil production from Manaia field at over 4,000 bopd**
- **New 3D and 2D seismic over PEP 51313, offshore New Zealand, in for processing.**
- **Key Supplemental Development Agreement signed with CNOOC for combined development of WZ6-12 and WZ12-8W fields in Block 22/12, offshore China.**
- **Good progress on preparations for appraisal / development of Stanley (PRL 4), Elevala and Ketu fields (PRL 5), onshore Papua New Guinea; spud of Stanley-2 well expected late November 2010.**
- **PRL 4 extension granted for one year; renewal application for PRL 5 yet to be approved.**

REVIEW OF RESERVES AND CONTINGENT RESOURCES AS AT 30 SEPTEMBER 2010 AND PRODUCTION FORECAST

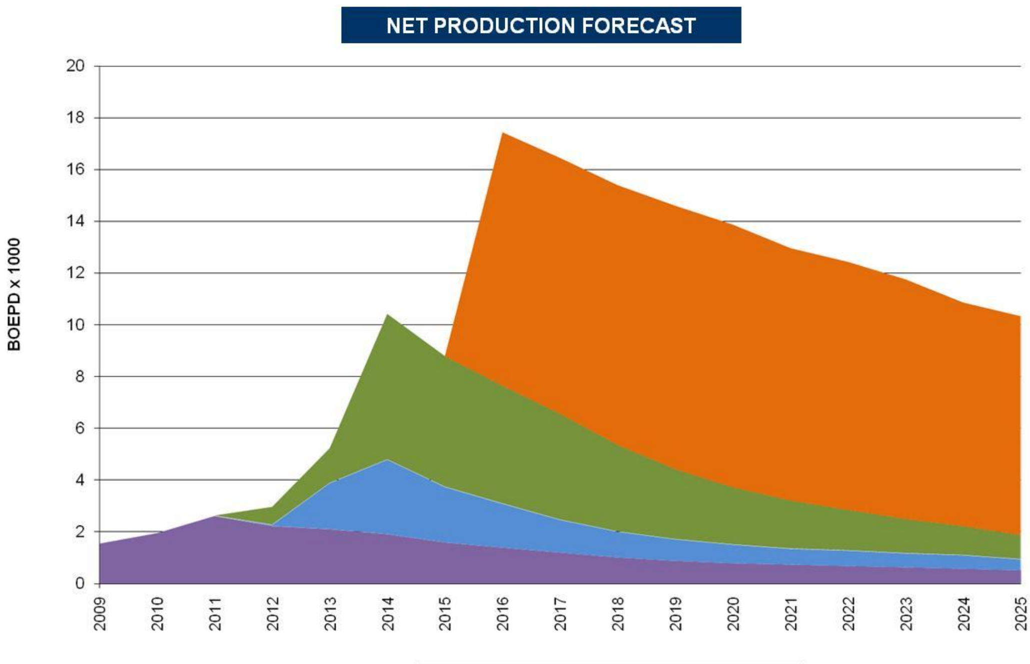




[1] Reduced to allow for CNOOC participation at 51%
[2] Net of production through 30 September 2010

[3] Subject to reduction to allow for PNG State Nominee participation at 22.5%

The reserve and resource information contained in this announcement is based on information compiled by Alan Fernie (Manager – Exploration and Development). Mr Fernie (B.Sc), who is a member of AAPG, has more than 35 years relevant experience within the industry and consents to the information in the form and context in which it appears.

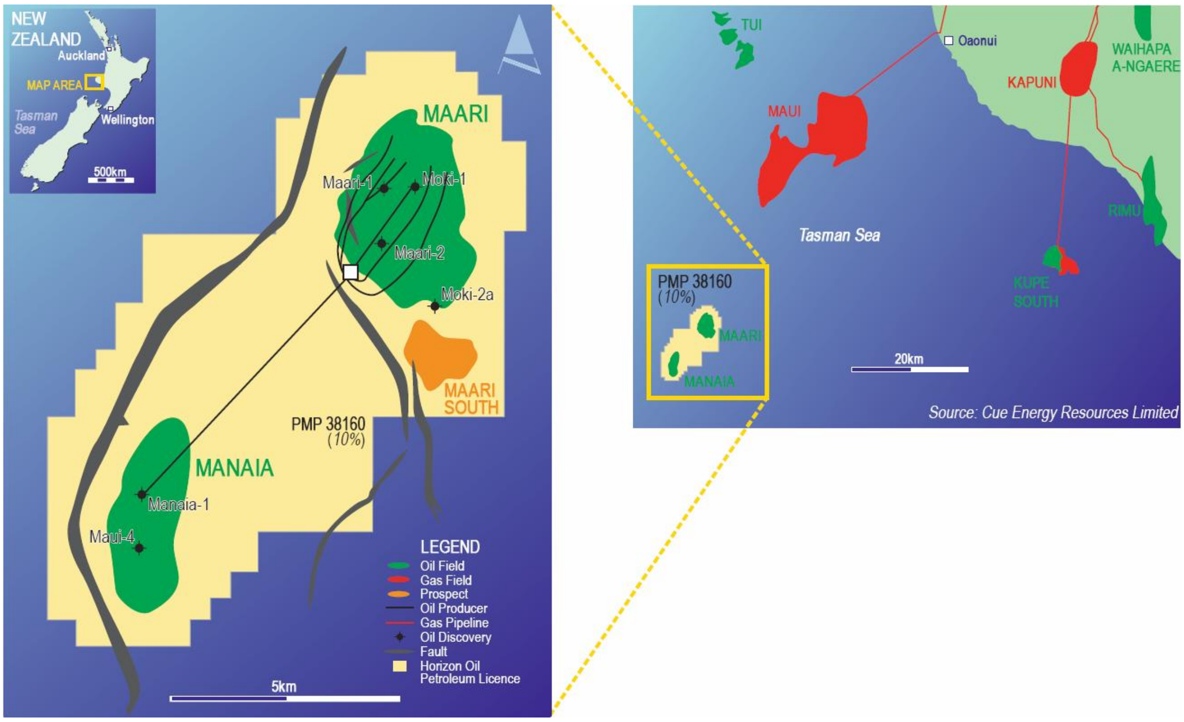


[1] Reduced to allow for CNOOC participation at 51%
[2] Reduced to allow for PNG State Nominee participation

EXPLORATION AND DEVELOPMENT ACTIVITY

NEW ZEALAND

PMP 38160, Offshore Taranaki Basin, Maari and Manaia Fields (Horizon Oil interest: 10%)



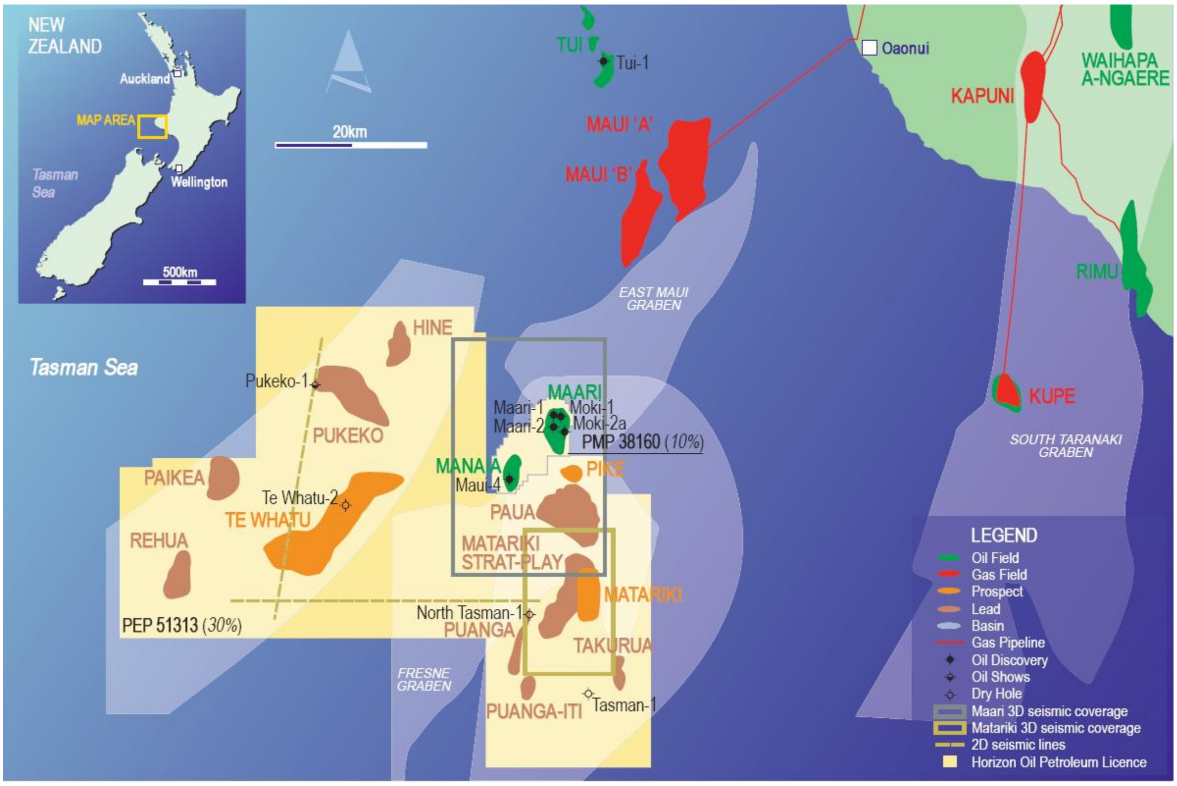
During the quarter, Horizon Oil's working interest share of production from Maari field was 163,685 barrels of oil. Cumulative oil production from the field through 28 October 2010 was 10.7 million barrels, having generated total revenue from crude oil sales since first production in February 2009 of over US$700 million.

Production from the field continues to be constrained by the shut-in of 3 wells, the MR2, MR4 and MR9, with down-hole electrical problems. These are in the process of being repaired, utilising the workover unit (WOU) that is permanently installed on the wellhead platform and part of the joint venture's equipment inventory. The WOU has performed effectively to date and is currently finalising workover of the MR2 well, before moving to MR4.

Calcium carbonate scale has been observed in several well completions, inhibiting production, and this is being treated with acid wash and scale inhibitor.

The extended reach well drilled to appraise the Mangahewa formation of the Manaia structure (see map), the MN1 well, started clean-up flow production on 9 October and by 10 October was flowing at a rate in excess of 4,000 bopd. This was a good result. Production performance over the next several months will be analysed for the purposes of designing a development plan and determining recoverable reserves for the Manaia Mangahewa zone. This is part of the broader objective of exploiting all the commercially viable oil and gas zones within the Greater Maari Area.

PEP 51313, Offshore Taranaki Basin, (Horizon Oil interest: 30%)



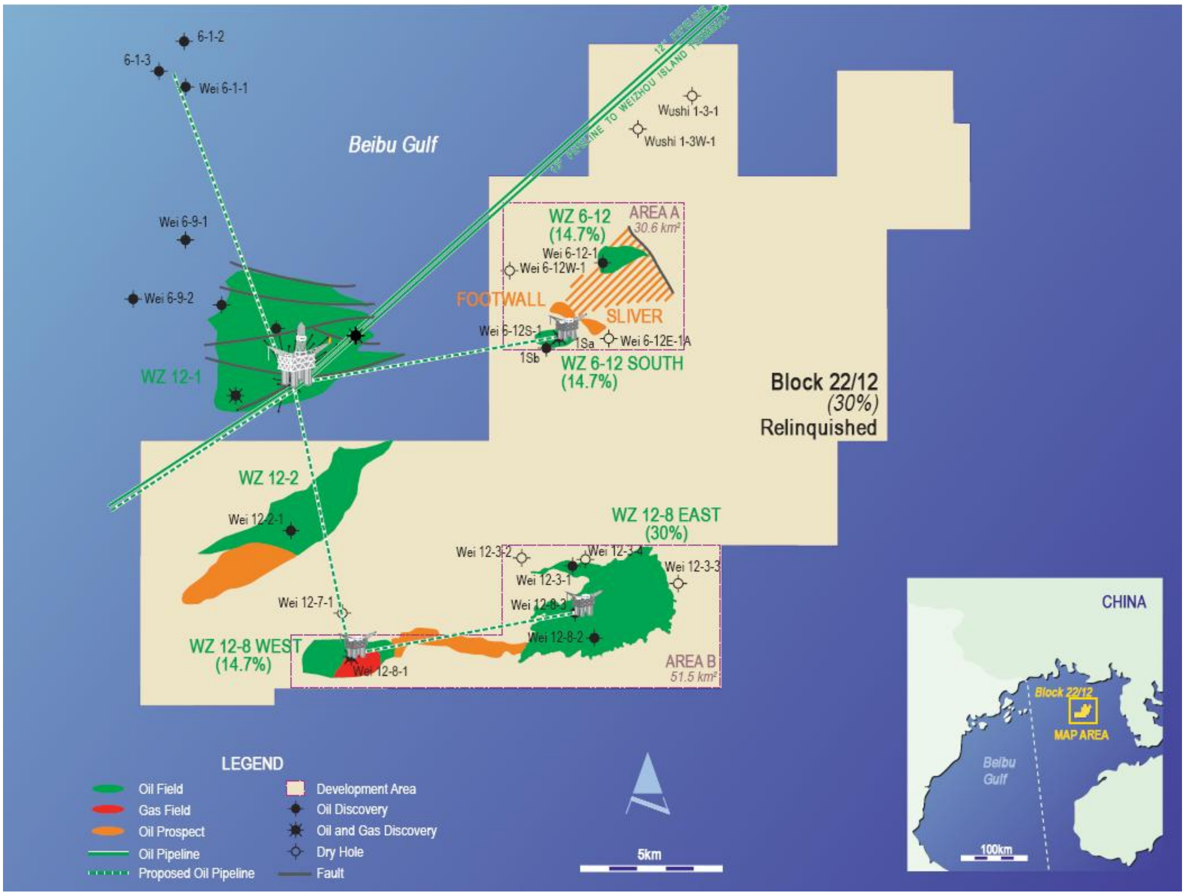
Processing of the 204 sq km 3D seismic grid and 85 km 2D seismic lines acquired in April and May 2010 (see map) continued during the quarter and is expected to be completed in December.

Some preliminary re-mapping of the seismic over the permit has been carried out.

The intention is to utilise the new seismic to plan a larger 2D seismic survey to be recorded in the Te Whatu and Pukeko area in 2011 and to evaluate the Pike, Paua, and Matariki prospects for drilling in the 2011 / 2012 summer weather window.

CHINA

Block 22/12, Beibu Gulf (Horizon Oil interest: 14.7% / 30%)



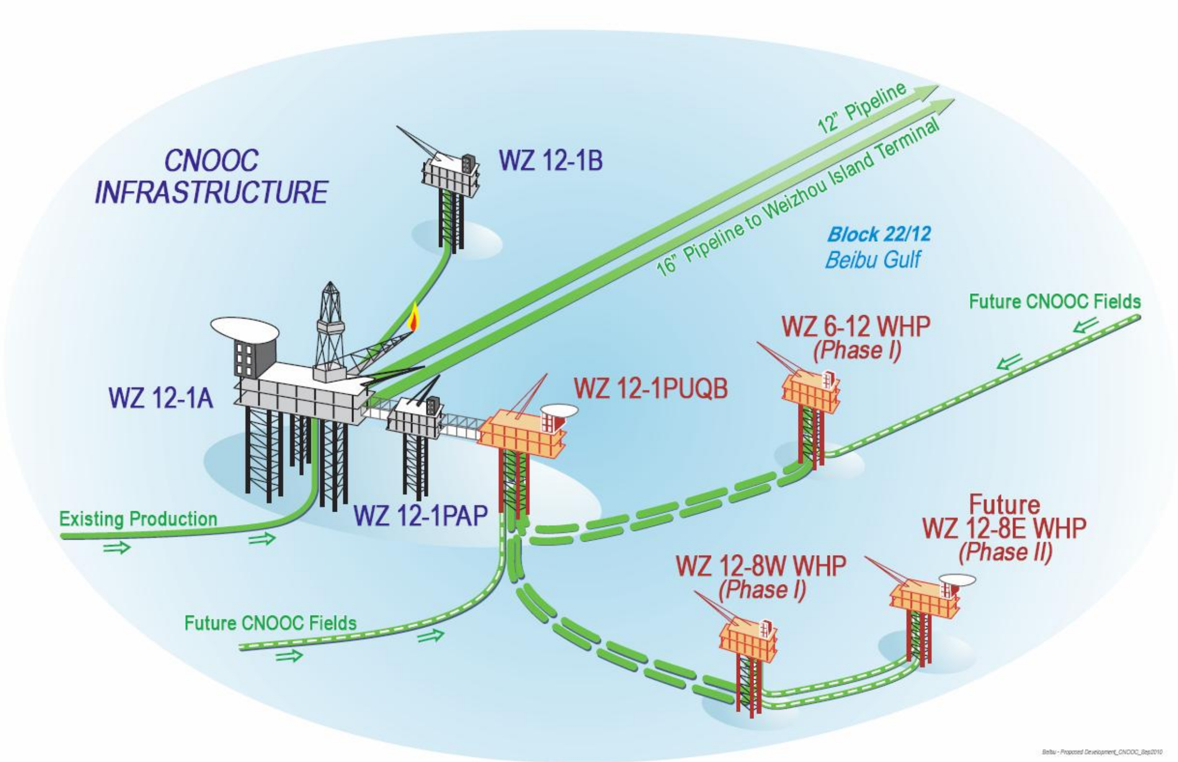
On 24 August 2010 the Block 22/12 joint venture entered into a Supplemental Development Agreement (SDA) with China National Offshore Oil Corporation (CNOOC) for development of the WZ6-12 and WZ12-8W oil fields in the Beibu Gulf, offshore China. This is a key milestone for development of the fields, in which Horizon Oil will hold a 14.7% interest. The SDA confirms that CNOOC will take a 51% participating interest in the project. The existing Petroleum Contract provides for recovery of Horizon Oil's past exploration and appraisal costs out of a cost recovery pool.

The SDA details commercial terms and arrangements for:-

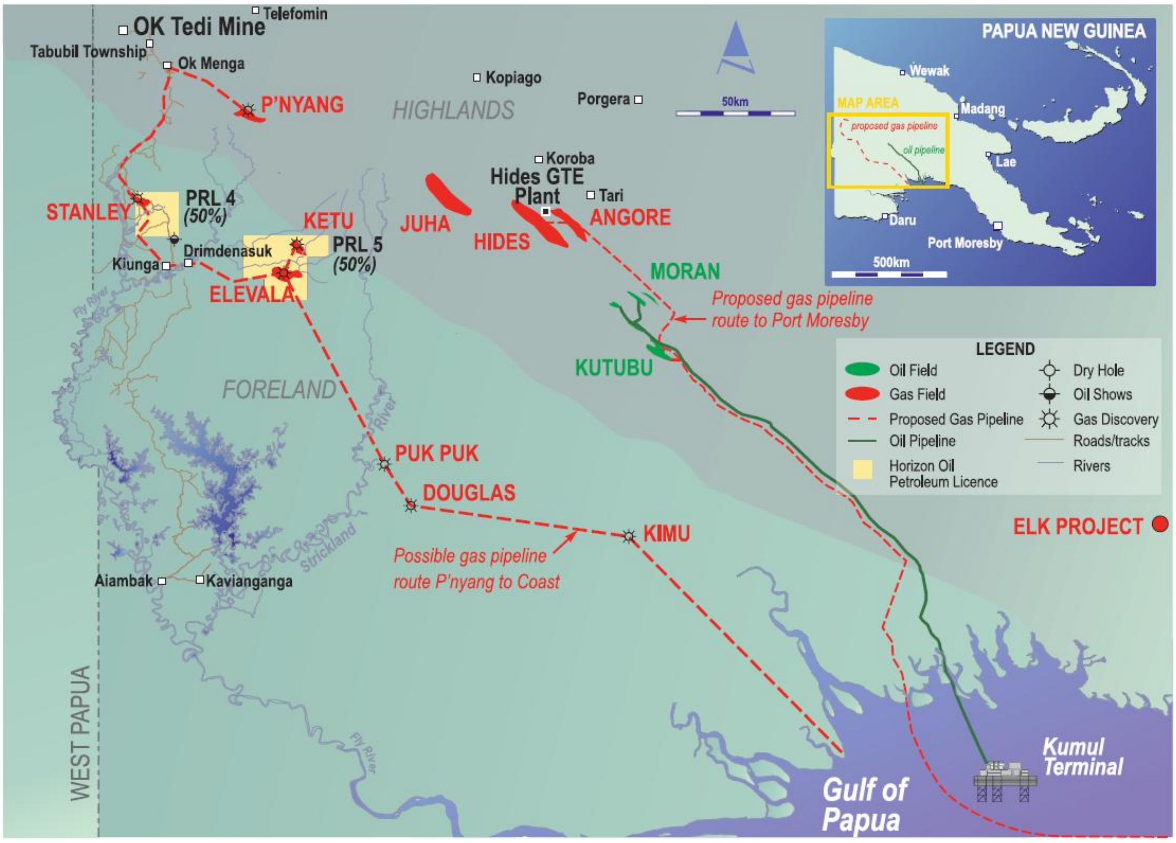
- Use of existing pipeline and terminal facilities owned by CNOOC, in exchange for a tariff.
- CNOOC to be responsible for construction and installation of the new project facilities and for production operations.
- The cost of the processing utility platform (PUQB), which amounts to about one third of the total development cost of approximately US$300 million, will be fixed price.
- The development concept provides for exploitation of additional oil accumulations such as the WZ12-8E field (for which a feasibility study has already been initiated) and other prospective exploration targets.
- Roc Oil to maintain involvement in the development project team and in ongoing evaluation of the exploration prospects on behalf of the joint venture.

The Environmental Impact Assessment and Overall Development Plan (ODP) have been submitted to CNOOC for final expert review and approval. Following final CNOOC approval the joint venture will proceed to its Financial Investment Decision and detailed engineering will commence, anticipated prior to year-end. First oil production is scheduled in late 2012.

Meanwhile, work on the WZ12-8E feasibility study progressed throughout the quarter. Subject to satisfactory results, this will lead to an ODP for the field's development as a second phase to the WZ6-12 and WZ12-8W combined development (see schematic below).



PAPUA NEW GUINEA



Preparation for the appraisal / development drilling campaign, to begin with the Stanley-2 well, is substantively complete. A 30,000 sq m supply base has been built adjacent to the Kiunga airstrip and an office and camp has been established in Kiunga. The public wharf on the Fly River has been upgraded to expedite the unloading of drilling supplies and equipment and a fuel farm is being constructed near the wharf. The intention is to utilise this infrastructure in future production operations, in particular the export of condensate by river tanker.

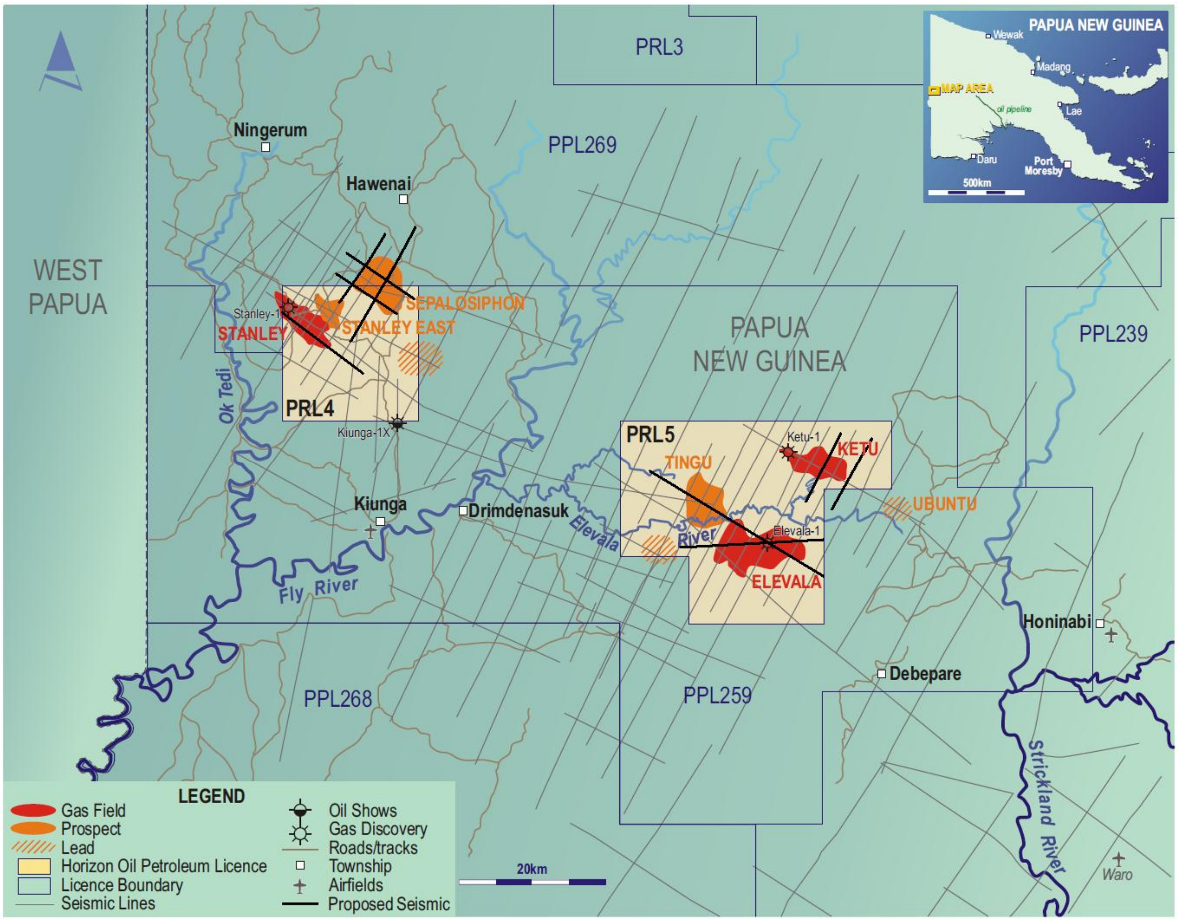
PRL 4, Stanley Field, (Horizon Oil interest: 50%)

As can be seen in the photo below, preparations for spud of the Stanley-2 well are at an advanced stage.

Site preparation is complete and the surface and access road have been covered with either gravel or re-usable mats in preparation for drilling. A large site has been prepared, to provide for the Stanley-2 and Stanley-4 well locations, camp and future gas processing facilities. Construction of the camp is complete. By next week, mobilisation of Parker Drilling Company *Rig 226* onto the location will be complete and a 14 day rig commissioning process will take place, given that the rig had been stacked for some time. All drilling tubulars, supplies and equipment are either on location or at the Kiunga supply base. Spud is expected in late November 2010.

Front end engineering and design (FEED) work for the Stanley field development is complete and under review. Horizon Oil, as operator of the condensate stripping project, has engaged with a maritime operator currently managing bulk shipping operations in the region to develop a shipping solution for export of condensate. Investigation of marketing opportunities for the product is underway.

Recording of a 44 km seismic survey over the Sepalosiphon prospect (to be shared 50/50 between the PRL 4 and PPL 269 joint ventures) as well as a 14 km infill line along the axis of the Stanley structure (see map below) is underway. This line is designed to provide control for the Stanley development drilling program, specifically orientation of the horizontal legs of the proposed wells.



The joint venture has been granted a one year extension of PRL 4 until August 2011. Documents and reports required for the application for the Stanley field Production Development Licence (PDL) have been submitted and are progressing through the various government departments.

PRL 5, Elevala / Ketu discoveries (Horizon Oil interest: 50%)

Field work on PRL 5 has been suspended pending resolution of licence renewal issues. A location for the Elevala-2 appraisal / development well has been identified and the seismic program required to support future appraisal activity defined (see map above). As soon as clarity on permit tenure is obtained implementation of these programs will recommence. In the meantime, work on land access and environmental approvals is being progressed.

Because of the uncertainty of the timing of renewal, the plan is to assign ***Rig 226*** to other operators for the drilling of one or two wells after Stanley-2 is completed and before moving to Elevala-2 and Ketu-2.

MANAGEMENT PRIORITIES 2011

Management's priorities for the coming year are:-

- Optimisation of water injection and oil production at Maari field; design of development program to produce Greater Maari Area accumulations.

- Processing of new seismic data over PEP 51313, offshore New Zealand, and integration with existing coverage; acquisition of further new seismic over western area of permit; selection of target for drilling in 2011 / 2012.

- Financial Investment Decision on WZ6-12 and WZ12-8W oil fields, Beibu Gulf, and begin detailed design, materials procurement and construction; complete feasibility study for development of WZ12-8E oil field; evaluation of exploration prospects for drilling during field development drilling campaign.

- Acquire, interpret and integrate additional seismic data over Stanley field and Sepalosiphon prospect in PRL 4, Papua New Guinea and Elevala / Ketu fields in PRL 5; begin appraisal / development drilling campaign; finalise Stanley detailed engineering and begin development work.

EXPENDITURE SUMMARY

The following table summarises the expenditure incurred in the quarter in respect of the activities set out in this report-:

Exploration and Development	**US$'000**
PEP 38413 (Manaia) offshore New Zealand	282
PEP 51313, offshore New Zealand	60
Block 22/12 (Beibu Gulf), offshore China	414
PRL 4, Papua New Guinea	8,039
PRL 5, Papua New Guinea	41
Producing Oil and Gas Properties	
PMP 38160 (Maari), offshore New Zealand	
Capital expenditure	71
Production revenue	13,122
Operating expenditure	2,199
Amortisation	2,848
Production Data (barrels)	
Crude oil production	163,685
Crude oil sales	162,944
Cash on hand at 30 September 2010	**26,389**
Debt	**18,297**
Net Cash	**8,092**

Yours faithfully

Michael Sheridan
Chief Financial Officer & Company Secretary

For further information please contact:
Michael Sheridan
Telephone: (+612) 9332 5000
Facsimile: (+612) 9332 5050
Email: exploration@horizonoil.com.au Or visit www.horizonoil.com.au