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31 January 2011

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

REPORT ON SECOND QUARTER ACTIVITIES – 31 DECEMBER 2010
AUSTRALIAN STOCK EXCHANGE LISTING RULE 5.1

KEY ACTIVITIES

- **Oil sales of 139,637 barrels from Maari field, offshore New Zealand, generating revenue of US$11.7 million; cumulative oil production from field to date 12.3 million barrels.**

- **Maari production hampered by shut-in for accidental oil discharge and for producer workovers.**

- **Processing of new 3D and 2D seismic over PEP 51313, offshore New Zealand, complete and interpretation underway.**

- **Project Investment and Overall Development Plan for WZ6-12 and WZ12-8W fields in Block 22/12, offshore China approved by China National Offshore Oil Corporation.**

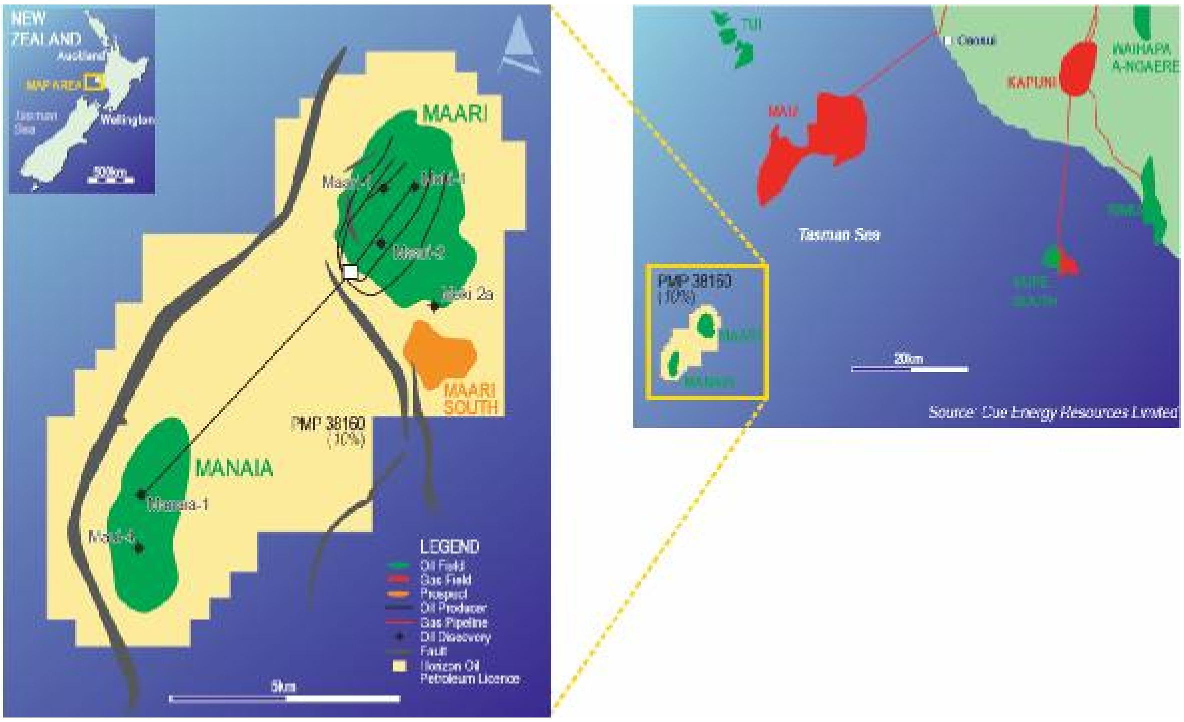
- **Stanley-2 well in PRL 4, onshore Papua New Guinea confirms gas / condensate pay in primary (Toro) and secondary (Imburu) targets; detailed evaluation of results in progress.**

- **Extension application for PRL 5 in PNG refused; legal proceedings commenced by Horizon Oil (Papua) Limited, seeking leave for judicial review of decision and injunction restraining dealings in the subject acreage granted.**

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 139,637 barrels of oil. Cumulative oil production from the field through 31 January 2011 was 12.3 million barrels.

The field was shut-in from 20 – 27 November 2010 as a precautionary measure, when an oil sheen was observed in the vicinity of the FPSO *Raroa*. Detailed cargo tank and under hull inspections confirmed its source to be a small amount of residual oil trapped beneath the FPSO's hull from an accidental discharge of oil on 18 October 2010 during de-ballasting operations. The cause of the spill has been identified and measures put in place to ensure that this type of accidental discharge does not happen again.

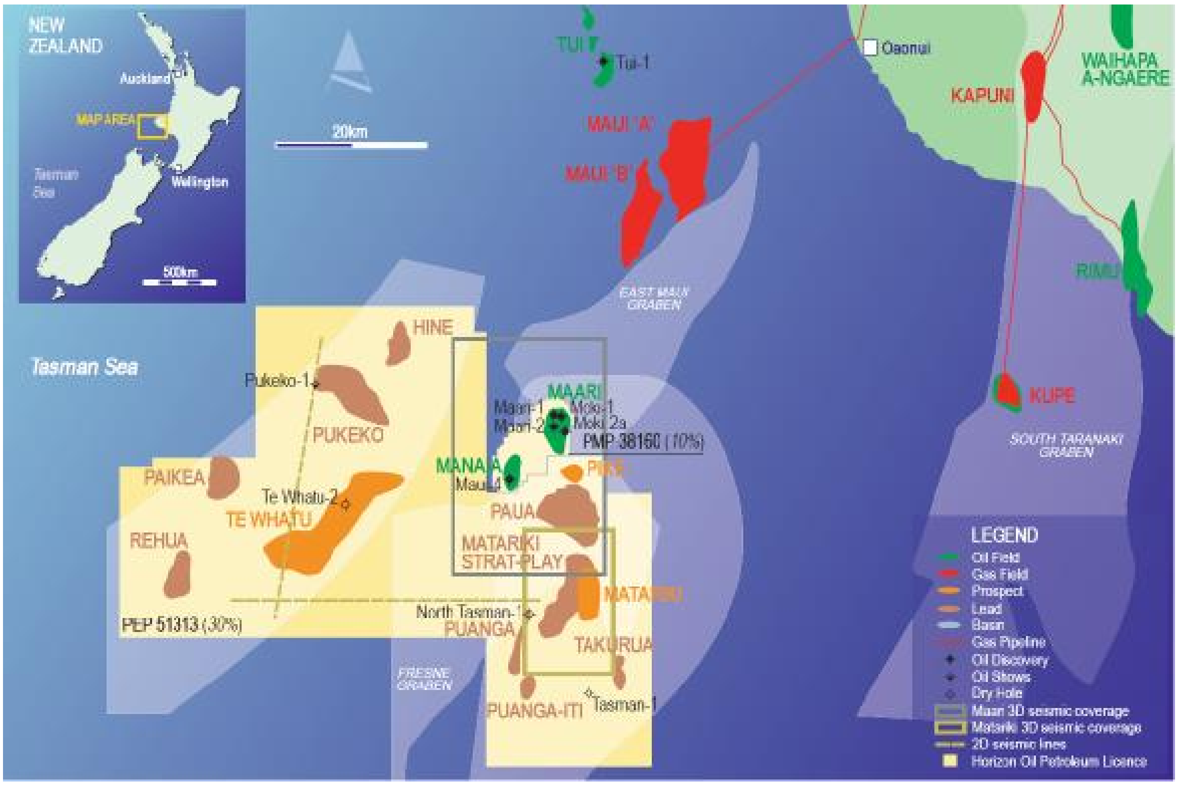
The MR2 and MR4 wells were worked over to successfully repair down-hole pump faults. All five Maari Moki producers and the Manaia MN1 well are now on production. The Maari M2A well, the MR9, remains shut-in awaiting installation of a variable speed drive for its pump, which is expected to take place in April / May 2011. Well up-times are now at satisfactory levels.

Changes have been made to the water injection configuration, now averaging 30,000 barrels per day, compared to 25,000 barrels per day previously.

There appears to be some reduction in near well-bore permeability, related possibly to fines migration, scaling and / or wax dropout. This is being investigated in order to design a remediation program.

Reservoir engineering work is continuing with the objective of designing development plans for all the commercially viable oil and gas zones within the Greater Maari Area.

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

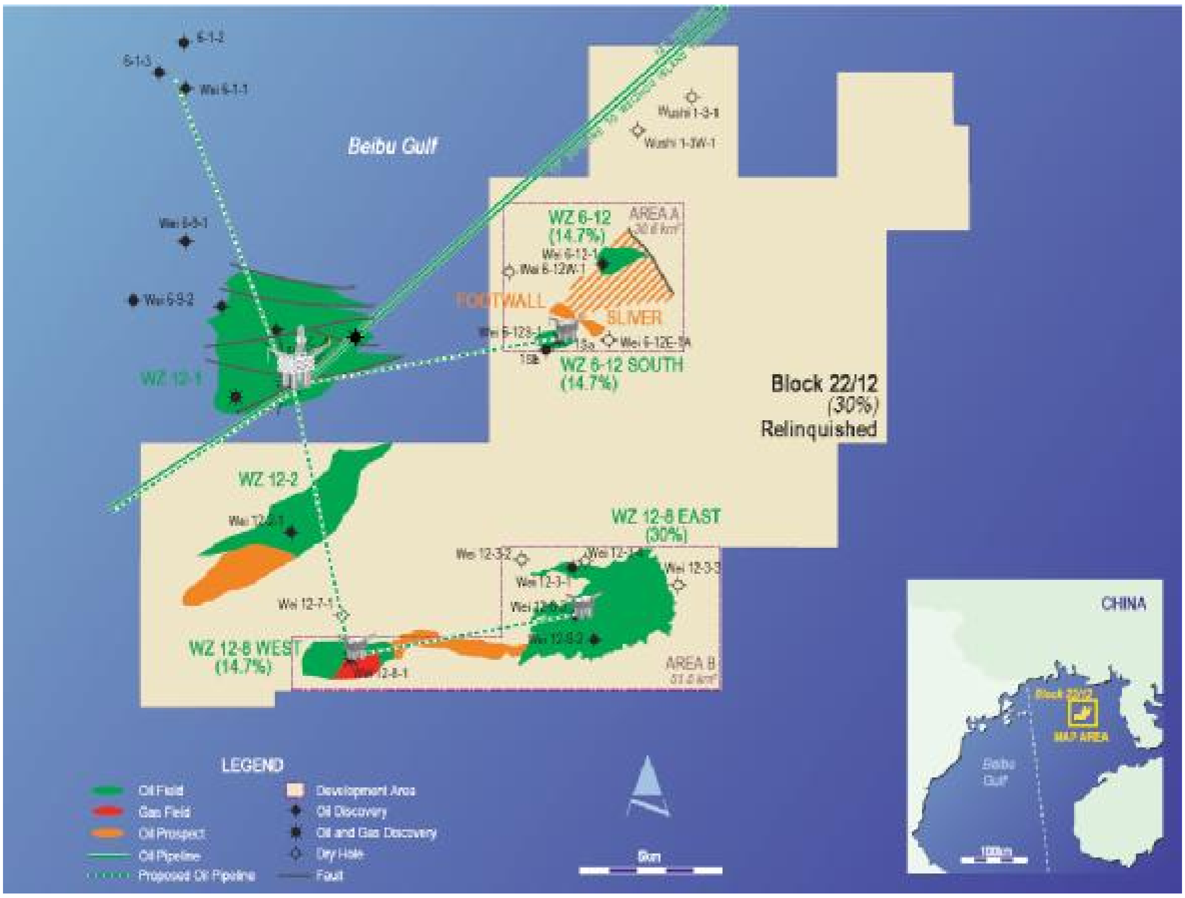


Processing of the 204 sq km 3D seismic grid and 85 km 2D lines acquired in April and May 2010 (see map above) has been completed and interpretation is underway. The objective is to develop a prospect for drilling on the Matariki trend, south of Maari field, for drilling in the summer of 2011 / 2012.

A further 2D seismic program of 636 km has been planned over the Te Whatu and Pukeko prospects. The program is likely to be carried out in April / May 2011.

CHINA

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



China National Offshore Oil Corporation (CNOOC), as the delegated authority, advised the Block 22/12 joint venture that it has internally approved Project Investment and the Overall Development Plan (ODP) for the WZ6-12 and WZ12-8 West oil fields. Project Investment and ODP will be submitted to Chinese Government Authorities for formal approvals.

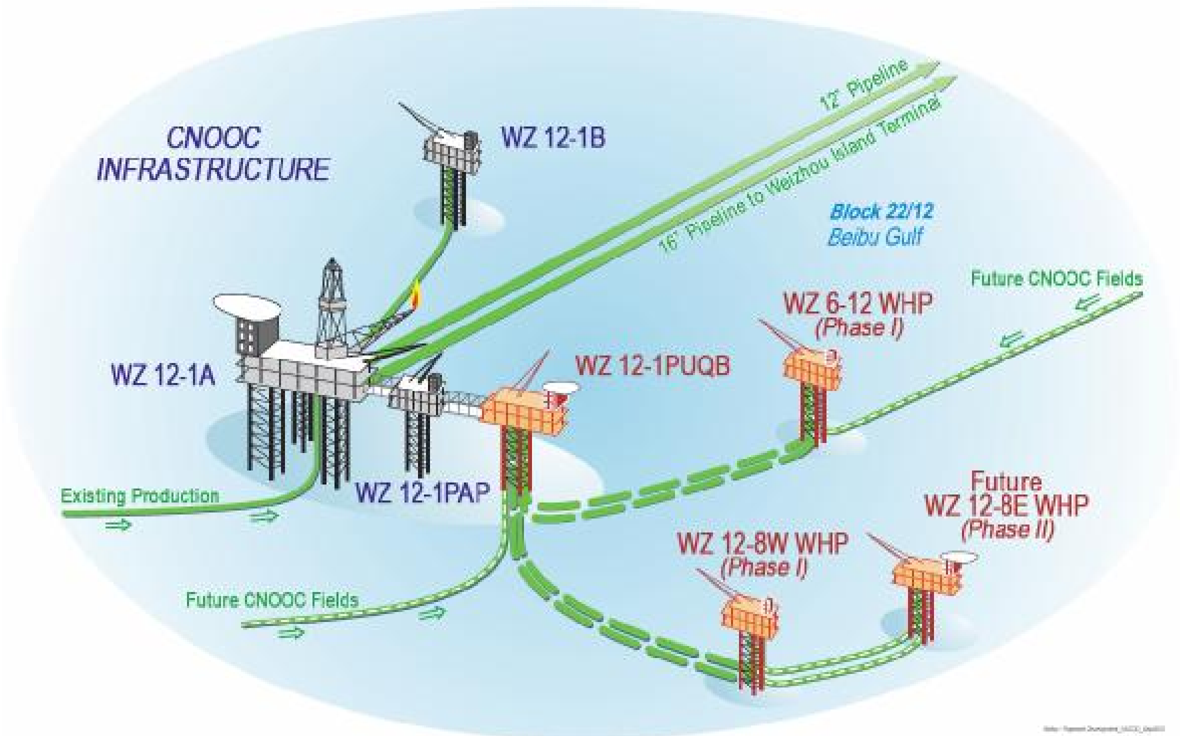
The joint venturers are now progressing to a Financial Investment Decision (FID), which is expected by the end of February.

Horizon Oil will have a 14.7% interest in the development, which currently has certified recoverable reserves of 24 million barrels of oil gross, 3.5 million barrels of oil net.

Early development preparation activities such as preliminary engineering design work and bidding for long lead equipment are already under way. To take advantage of the existing synergies and lower cost structure, CNOOC will operate the project facilities on behalf of the joint venture and will be responsible for engineering and construction.

As previously advised, the development project plans to utilise existing CNOOC-operated facilities, including water disposal wells, oil and gas export facilities and the Weizhou Island oil terminal. A new CNOOC-operated integrated processing platform (PUQB) will host production from two unmanned platforms on the WZ6-12 and WZ12-8 West fields and support production from other new CNOOC fields (see schematic below). Eleven development wells are scheduled to be drilled during 2012 and 2013, with first oil production anticipated before year-end 2012. Operating costs are expected to be consistent with other CNOOC-operated fields in the area.

Provision has been made to drill several exploration prospects from the two new well platforms to further test reservoir limits and identified near-field prospects. The prospects are currently being matured and success will potentially increase the Development Area's commercial reserves and also potentially the peak production rate. The WZ12-8 East field, also located within the approved Development Area, is currently undergoing feasibility studies. If commercially attractive, development of the WZ12-8 East field will constitute the second phase of an integrated development following completion of the current WZ6-12 and WZ12-8 West project.



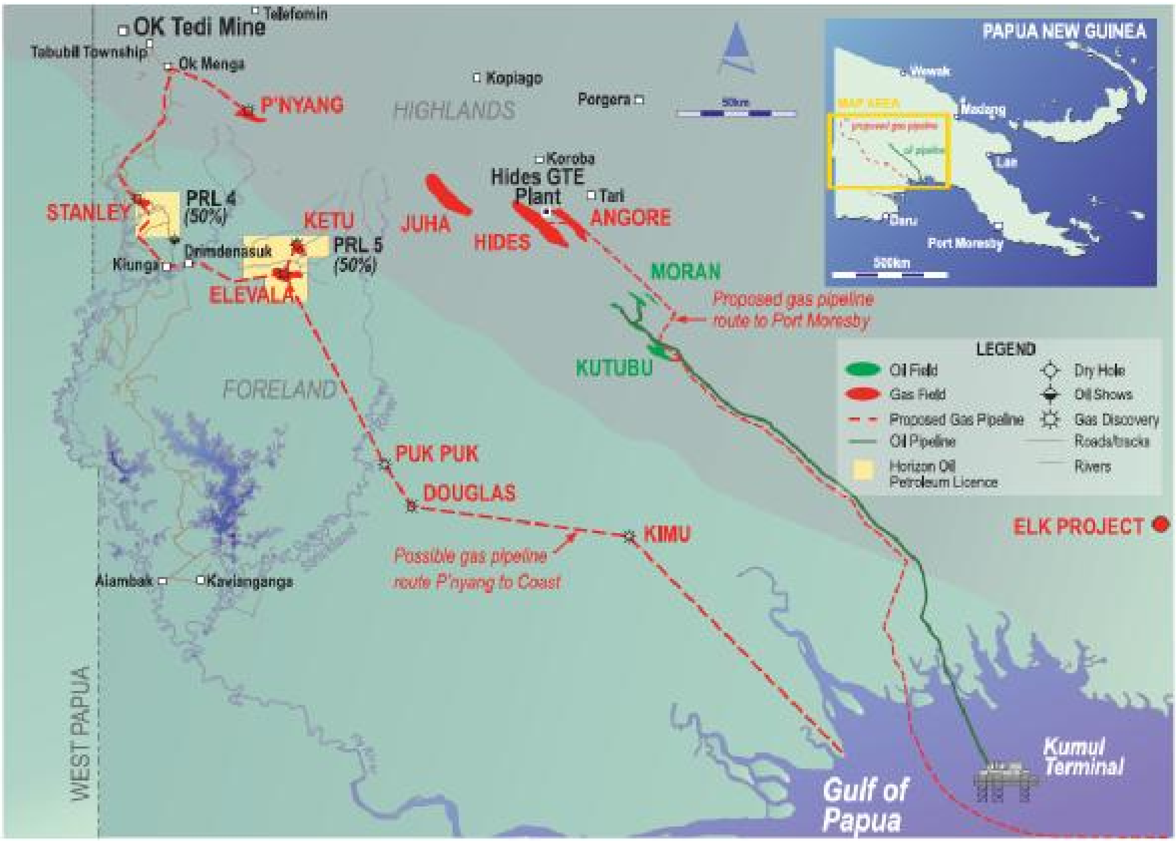
The positive features of the above arrangements are:-

§ The cooperative arrangements that have been agreed with CNOOC to use existing crude oil processing and export infrastructure serve to reduce capital cost and project risk. This is further enhanced by the local experience and economies of scale that CNOOC will bring as operator of the development and production phases of the project.

§ The development plan provides for further exploratory and appraisal drilling, with the potential to considerably expand the currently certified recoverable reserves. Specifically the upside potential includes the discovered WZ12-8 East oil accumulation which, subject to successful conclusion of current feasibility studies, will constitute the second phase of an integrated development and also several 'close-in' and 'drill deeper' prospects in the WZ6-12 area, which may be accessed from the new wellhead platform planned in that area.

§ The above factors will make the Block 22/12 attractive for potential bank financing. Horizon Oil does not specifically require debt finance to fund its approximate US$45 million share of the capital cost, being able on current planning to fund the project out of cash reserves and cash flow from its producing operations in New Zealand. However in view of the other development opportunities available to the Company the decision has been taken to obtain a debt facility to fund the combined development program.

PAPUA NEW GUINEA



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

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) was completed during the quarter. The line over Stanley was integrated with the existing seismic grid and the planned trajectory of the Stanley-2 well adjusted in accordance with the revised interpretation.

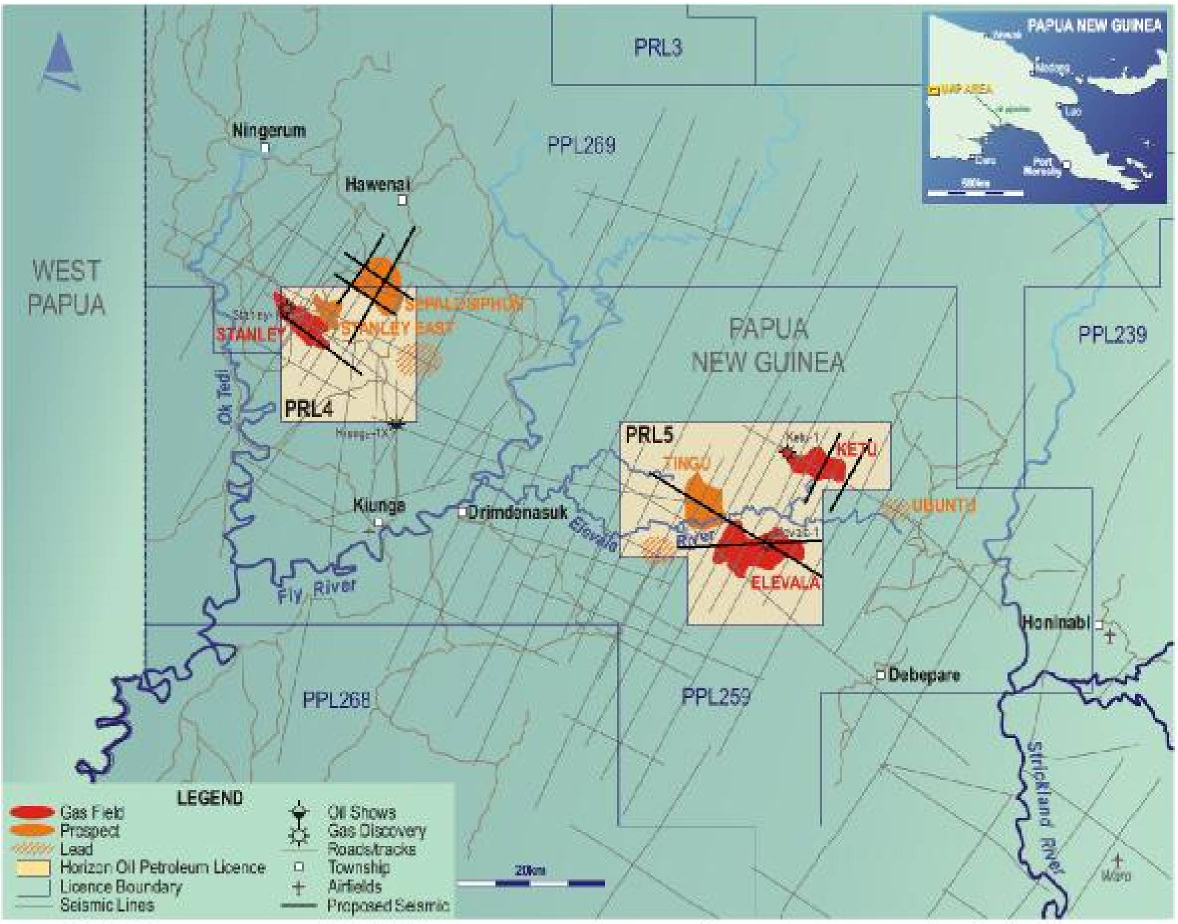
Stanley-2 spudded on 5 December 2010, utilising Parker *Rig 226*. The well is designed to appraise the Stanley gas / condensate accumulation, discovered by the Stanley-1 well in 1999. The pre-drill estimate of most likely resources in the primary Toro reservoir is approximately 300 billion cubic feet of recoverable gas and 9 million barrels of condensate. The well will be completed as one of the two planned gas production wells in the Stanley condensate stripping project, which is being operated by Horizon Oil.

The well has been drilled to a measured depth of 3,173 m in quartzite basement and wireline logs, fluid sampling and pressure measurements are currently being acquired. The primary Toro formation was present with the expected thickness of 35 m, similar to that of the equivalent discovery zone in the Stanley-1 well and appears to contain gas and condensate of similar composition.

The secondary objective in the Imburu zone, below the Toro, contained a 50 m thick reservoir section which was also gas-bearing.

The Company intends to provide a more detailed review of the results to shareholders, once the current evaluation process is complete.

The forward program is to plug back to above the Toro formation and cut cores of the Toro and Imburu pay reservoirs in a sidetrack 2 – 3 m from the existing well bore. This well will be cased and equipped for production. The intention then is to drill a second wellbore in a south easterly direction while the rig is still on location and equip it as the second producer well in the field.



PRL 5, Elevala / Ketu discoveries

During the quarter the PRL 5 joint venture, composed of subsidiaries of Horizon Oil, Santos Limited and Talisman Energy Inc., was advised by the Minister of Petroleum and Energy that he had refused to approve the application for an extension of the licence. The Company had previously advised shareholders that the Minister had advised his intent not to renew PRL 5 on the basis that the joint venture had failed to fulfil the licence conditions. The joint venture has made submissions to the Minister, demonstrating that the joint venture has, in fact, satisfied the licence conditions and that the permit is in good standing.

Several options remain open to the joint venture to gain the requested extension of PRL 5, including taking action under the laws of Papua New Guinea and / or the Agreement between the Government of Australia and the Government of the Independent State of Papua New Guinea for the Promotion and Protection of Investments. A subsidiary of the Company, Horizon Oil (Papua) Limited, commenced legal proceedings in the PNG courts, seeking leave for a judicial review of the Minister's decision not to renew PRL 5. Horizon Oil (Papua) Limited was successful in obtaining an injunction to restrain dealings in respect of the PRL 5 acreage, while the legal proceedings remain afoot.

Horizon Oil and Talisman, as the continuing partners in PRL 4 and PRL 5, had already re-scheduled the drilling program for Parker *Rig 226* to account for uncertainty of the timing of renewal of PRL

5. The drilling of the Stanley-2 well on PRL 4 (and any subsequent development of the field) will be unaffected by the issues with respect to the renewal of PRL 5.

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 51313, offshore New Zealand	54
Block 22/12 (Beibu Gulf), offshore China	476
PRL 4, Papua New Guinea	3,705
PRL 5, Papua New Guinea	-
Producing Oil and Gas Properties	
PMP 38160 (Maari and Manaia), offshore New Zealand	
Capital expenditure	258
Production revenue	11,658
Operating expenditure	1,810
Amortisation	2,426
Production Data (barrels)	
Crude oil production	139,637
Crude oil sales	132,006
Cash on hand at 31 December 2010	**23,091**
Debt	**14,636**
Net Cash	**8,455**

Yours faithfully

Chief Financial Officer & Company Secretary

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