



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

31 October 2011

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

REPORT ON FIRST QUARTER ACTIVITIES – 30 SEPTEMBER 2011
AUSTRALIAN STOCK EXCHANGE LISTING RULE 5.1

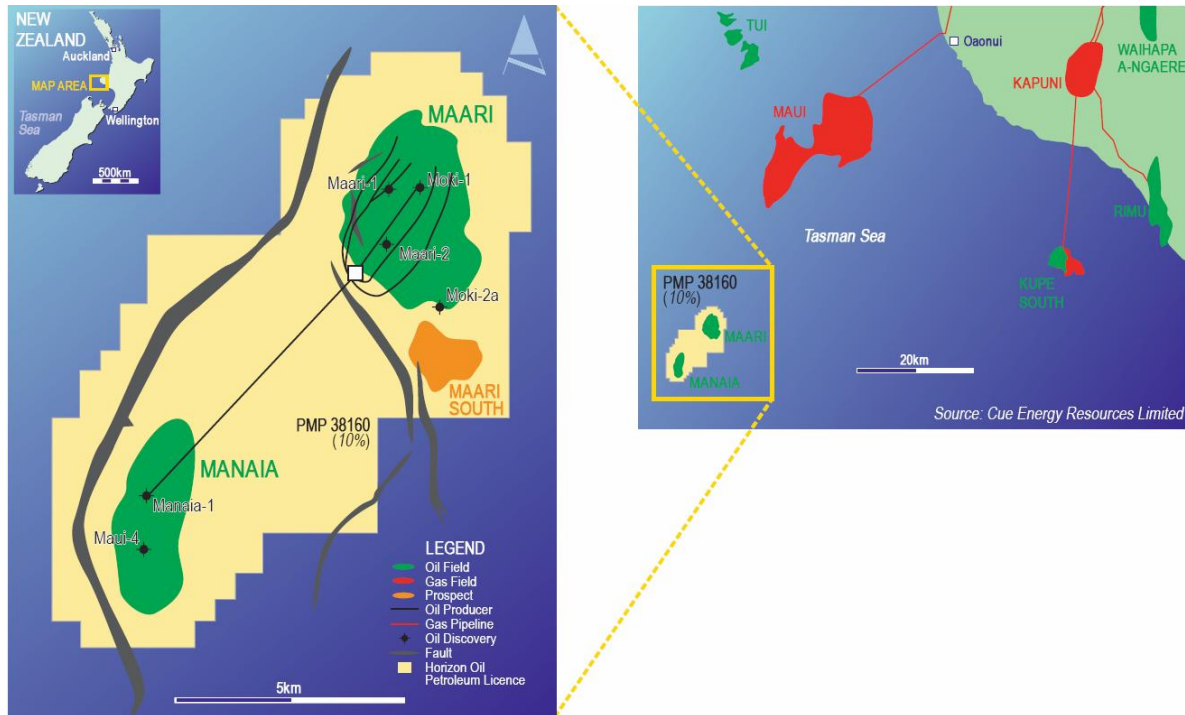
KEY ACTIVITIES

- § Oil sales of 127,418 barrels from Maari/Manaia fields, offshore New Zealand, generating revenue of US\$15.0 million; cumulative oil production to date 16.1 million barrels generating gross revenue of US\$1.4 billion.**
- § Progress on evaluating additional oil potential in and near Maari/Manaia fields.**
- § Progress on Block 22/12 field development, offshore China, with over half of US\$300 million project cost contracted out at fixed price and under estimates.**
- § Front-end engineering and design (FEED) for Stanley field development in PRL 4, onshore Papua New Guinea, complete; anticipated FID presentation before year-end.**
- § Wellsite prepared for Elevala-2 appraisal well in PRL 21, Papua New Guinea and Parker Rig 226 40% rigged up; anticipated spud date second week of November.**
- § Preparation of wellsite for Ketu-2 appraisal well in PRL 21 underway.**
- § Cash balance of US\$51.1 million at end of quarter, with zero bank debt.**

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 and Manaia fields was 129,151 barrels of oil. Crude oil sales were 127,418 barrels at an average realised price of US\$117.71 per barrel. Cumulative oil production from the fields through 30 October 2011 was 16.1 million barrels, generating approximately US\$1.4 billion in gross revenue.

Production for the quarter continued to be below expectation because of unreliable performance of the downhole pumps (ESPs) and, to a lesser extent, scale build-up in some well completions. At the time of this report, the MN1 ESP was being worked over to replace the ESP and the MR9 well was shut-in awaiting an acid job to remove scale.

As was reported in the last quarterly report, the field operator has engaged with the pump supplier to improve ESP design and performance and to maximise run-time. In addition, an acid treatment procedure has been instigated to remove existing scale and to prevent further scaling with a regular maintenance program that does not require workover. This involves fitting the wells with equipment to provide access for the introduction of acid and is being implemented as and when wells require workover. We expect to see gradual improvement in field performance as these measures take effect.

With the field now in its third year of production, opportunities to improve production rate at relatively low cost by way of enhanced water injection efficiency are being recognized. As a result, re-perforation of the MR6 injector well in the M2A zone and the MR8 injector well in the upper Moki zone (see cross section below) are planned as part of the current workover program. Additionally the injection pump capacity will soon be increased to inject more water into the reservoir zones.

The field operator is working on a comprehensive assessment of an appraisal program to delineate the considerable additional oil resource potential of the Manaia structure (Moki, Mangahewa and

MAARI / MANAIA SCHEMATIC CROSS-SECTION

PMP 38160, Offshore New Zealand

This schematic cross-section illustrates the geological structure of the Maari / Manaia area, oriented from Southwest (SW) to Northeast (NE). The vertical axis represents depth in meters (mss), ranging from 0 to 2000. The horizontal axis shows the locations of Maui-4, the Wellhead Platform, and Maari-1, with distances of 7km and 2km indicated. The geological formations are color-coded and labeled: PLIO-PLEISTOCENE (light green), MIOCENE (brown), OLIGOCENE (blue), and EOCENE (yellow). The formations include the Upper Manganui Formation, M2A Sandstone, Moki Sandstone, Lower Manganui Formation, and Ngatoro Group. The Manaia Structure and Maari Structure are identified, along with the Mangahewa Formation. The Wellhead Platform is shown with a well extending to the M2A Sandstone formation.

SW

Maui-4

7km

Wellhead Platform

2km

Maari-1

Depth mss

0

100

1000

2000

PLIO-
PLEISTOCENE

MIOCENE

OLIGOCENE

EOCENE

Upper Manganui Formation

M2A Sandstone

Moki Sandstone

Lower Manganui Formation

Ngatoro Group

Manaia Structure

Mangahewa Formation

Maari Structure

NEW ZEALAND

Auckland

Wellington

MAP AREA

Tasman Sea

500km

20km

Tasman Sea

HINE

PUKEKO

PAIKEA

REHUA

TE WHATU

Te Whatu-2

PEP 51313 (30%)

Maari-1

Maari-2

Moki-1

Moki-2a

PMP 38160 (10%)

PIKE

PAUA

MATARIKI STRAT-PLAY

MATARIKI

TAKURUA

PUANGA

PUANGA-ITI

North Tasman-1

Tasman-1

FRESNE GRABEN

EAST MAUI GRABEN

MAUI 'A'

MAUI 'B'

TUI

Tui-1

Oaonui

KAPUNI

WAIHAPA

A-NGAERE

RIMU

KUPE

SOUTH TARANAKI GRABEN

LEGEND

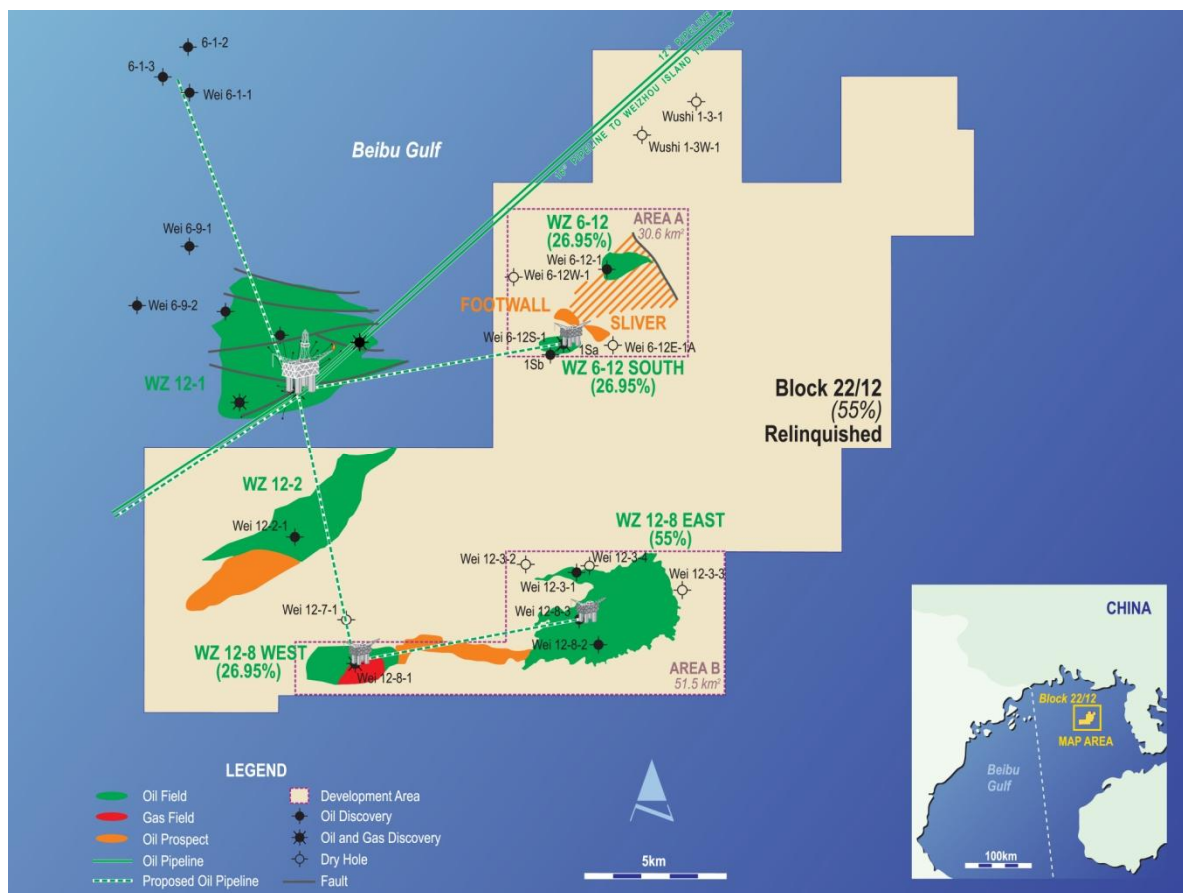
- Oil Field
- Gas Field
- Prospect
- Lead
- Basin
- Gas Pipeline
- Oil Discovery
- Oil Shows
- Dry Hole
- Maari 3D seismic coverage
- Matariki 3D seismic coverage
- 2D seismic lines
- Horizon Oil Petroleum Licence

Processing of the newly acquired 636 km 2D seismic survey over the Te Whatu and Pukeko prospects (see map above) was completed and interpretation is underway.

Interpretation of the merged 3D seismic coverage over the Maari-Pike-Matariki trend has highlighted the Pike prospect as the most likely candidate for drilling of the first well. It is likely that Pike will be drilled using the rig mobilised for drilling of two appraisal wells on Manaia and Maari South in 2012/2013.

CHINA

Block 22/12, Beibu Gulf (Horizon Oil interest: 55%/26.95 %)



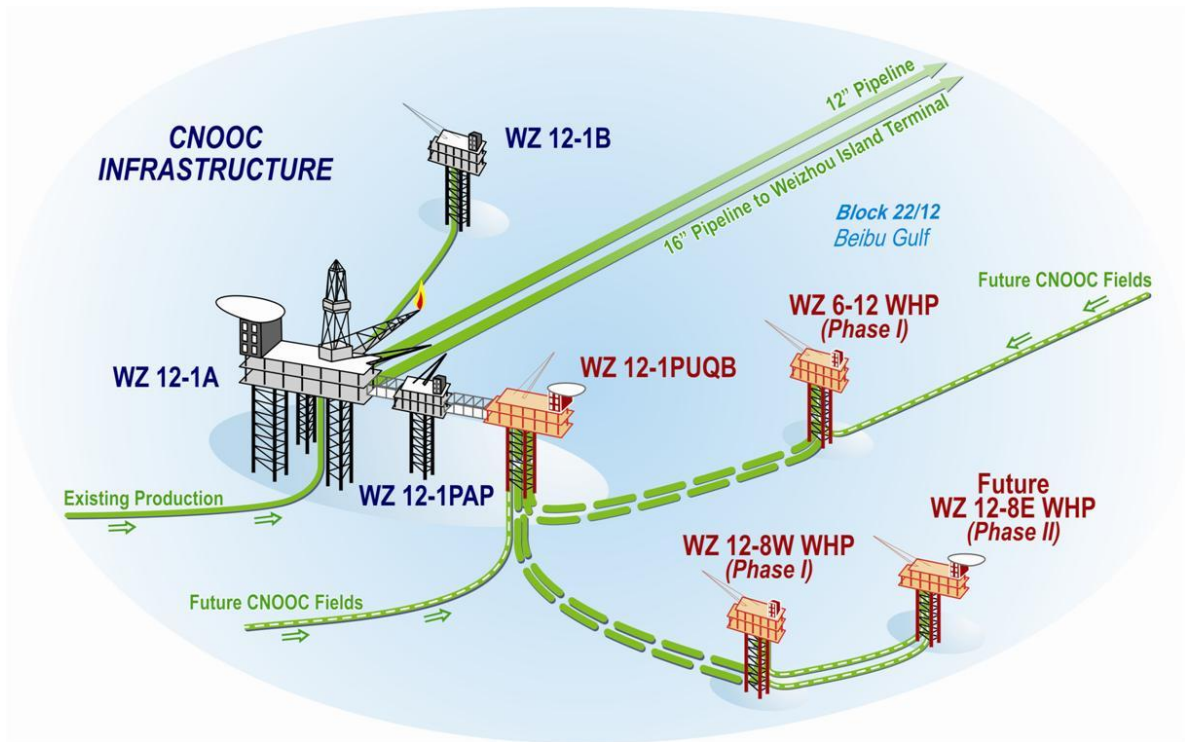
The operator of the WZ6-12 and WZ12-8W development, China National Offshore Oil Corporation (CNOOC), continues to make good progress. Basic engineering design for platform and pipeline facilities is complete and award of the detailed design contract is imminent. The overall project was approximately 8% complete at the end of the quarter.

Procurement of equipment and service packages is advancing well, as is contracting for fabrication and offshore installation of the major components of the project (see schematic below). The auxiliary platform PUQB and wellhead platform construction contract was awarded to COOEC, a CNOOC subsidiary, on 15 September 2011. COOEC has also been contracted to install the facilities. Pleasingly, over half of the estimated total project cost of about US\$300m is now subject to fixed price contracts and at prices lower than those estimates contained in the overall development plan (ODP).

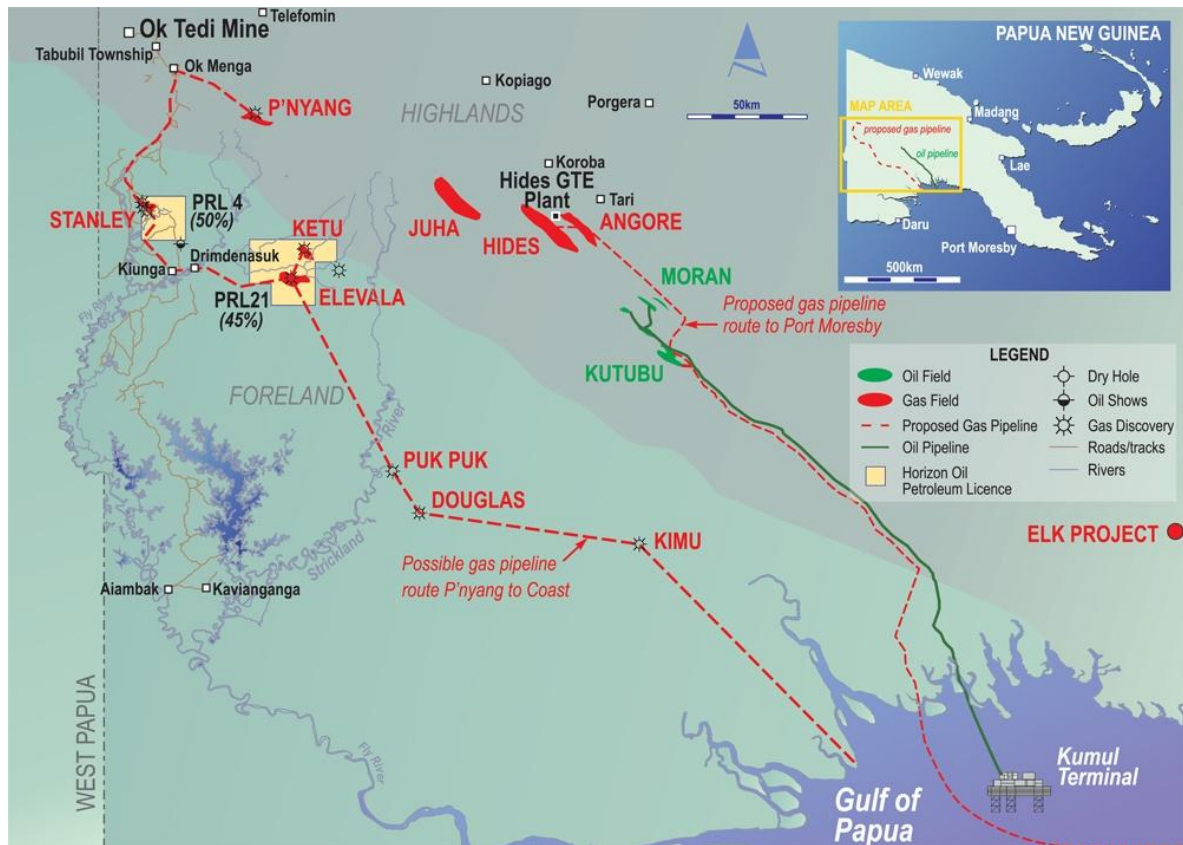
Planning for the development drilling and completion program continues. It is intended that four in- and near-field exploration/appraisal wells will be drilled in the development drilling phase in

2012. Three of the wells are planned to be drilled from the WZ6-12 platform following its scheduled installation in Q2 2012. If successful, these wells will be completed and equipped as production wells as part of the Phase I development. The fourth well will be a vertical test of the deeper zones of the WZ6-12 (north) structure.

While CNOOC, as operator, continues to anticipate first oil from the project before the end of 2012, ongoing nationwide reviews by the State Oceanic Administration (SOA) into offshore operations following an incident in June at the Conoco Phillips operated Penglai oil field in the Bohai Bay could potentially delay this schedule. This is seen as essentially an administrative approval matter, rather than practical, because the Block 22/12 fields are in a different basin and not subject to the difficulties faced in the Penglai field. Contingency plans are being prepared to ensure that delays, if experienced, are minimised.



PAPUA NEW GUINEA



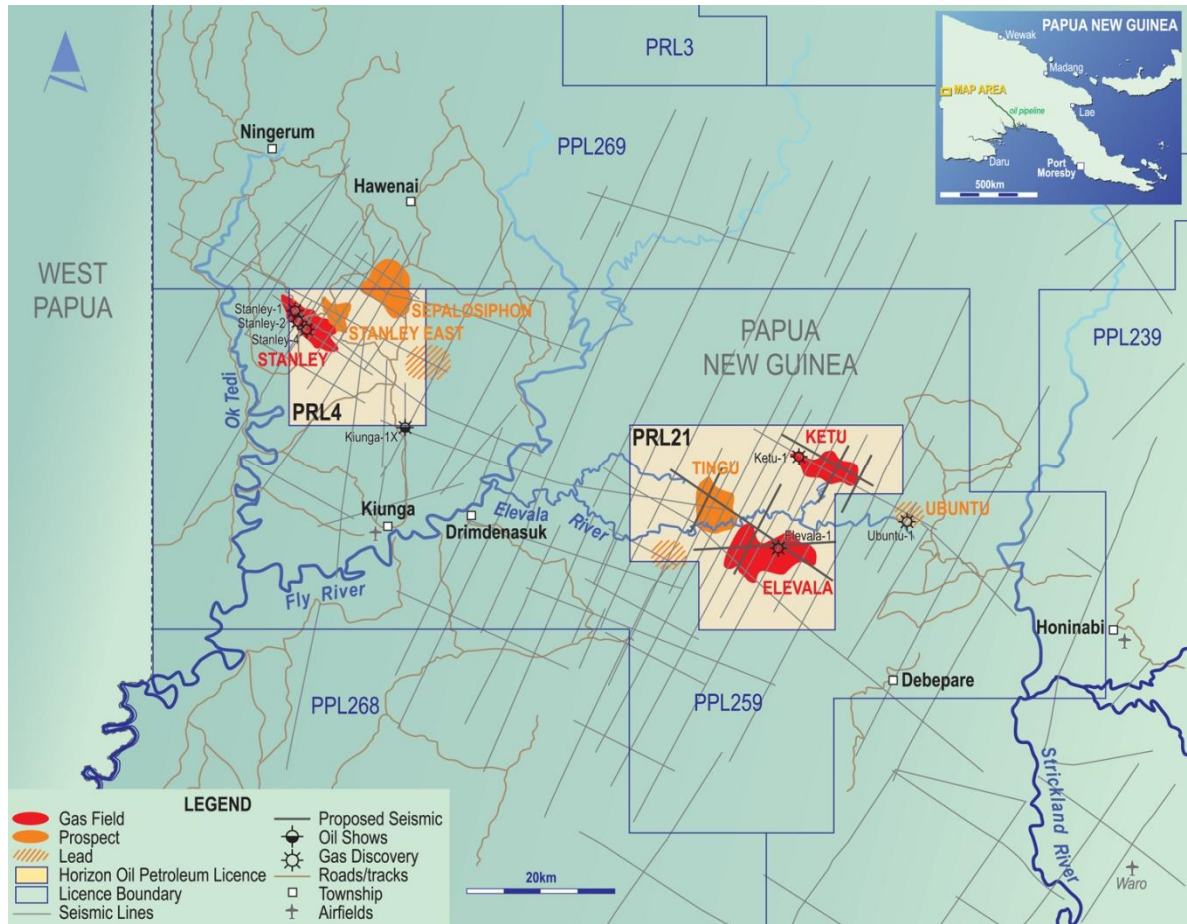
PRL 4, Stanley Field, (Horizon Oil interest: 50%)

Front-end engineering and design (FEED) work for the Stanley field development has been completed and cost estimates determined with suitable accuracy for final investment decision (FID). As part of the FEED process:

- The subsurface basis of design has been modified to take into account the results of the Stanley-2 and -4 wells, which have demonstrated the need for an additional well to accommodate production for the deeper Kimu reservoir.
- A solution to treat mercury in the gas and condensate stream has been engineered.
- The pipeline route from the field to Kiunga base and thence to the loadout site on the Fly River has been refined and finalised.
- The joint venture's shipping consultant, P&O Maritime, has qualified a number of shipyards for building of the tanker.
- Vendors for the major equipment packages have been shortlisted and final clarifications sought. Equipment bids are generally within a few percent of expectations.
- Discussions for marketing both condensate and gas continued throughout the quarter.

Horizon Oil has engaged an independent engineering firm to audit the Stanley field condensate and gas reserves and this is essentially the only outstanding item required for the FID package. The intention is to make the FID presentation to the Horizon Oil board prior to calendar year-end.

The Minister for Petroleum and Energy has approved the requested extension of PRL 4 through 31 August 2012. It is intended to submit the Petroleum Development Licence (PDL) application for Stanley field prior to that date, which will serve to maintain tenure. Preparation of the PDL submission is at an advanced stage.



PRL 21, Elevala/Ketu discoveries (Horizon Oil interest: 45%)

The site for the Elevala-2 appraisal well has been built and the current operation is rigging up with Parker *Rig 226* (see picture below). At the date of this report, the rig and camp is about 80% moved on location and over 40% rigged up. Estimated spud date is the second week of November. Details of the Elevala-2 drilling program and well objectives will be advised closer to the spud date.

After Elevala-2, the intention is to drill the Ketu-2 appraisal well. Preparation of the surface location is progressing well and all long lead items have been purchased.

A seismic program of 105km is underway to fine tune bottom hole locations for the two appraisal wells. The seismic contractor for the survey is BGP PNG Exploration Limited.



Aerial view of Elevala-2 well location

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	18
Block 22/12 (Beibu Gulf), offshore China	2,722
PRL 4, Papua New Guinea	2,784
PRL 21, Papua New Guinea	6,917
Producing Oil and Gas Properties	
<i>PMP 38160 (Maari and Manaia), offshore New Zealand</i>	
Capital expenditure	59
Production revenue	14,998
Operating expenditure	2,481
Amortisation	2,232
Production Data (barrels)	
Crude oil production	129,151
Crude oil sales	127,423
Cash on hand at 30 September 2011	51,062
Convertible bond¹	80,000
Net Debt	28,938

¹ Represents principal amount repayable unless converted prior to 17 June 2016

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