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The Manager, Company Announcements
Australian Securities Exchange Limited
Exchange Centre
20 Bridge Street
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HORIZON OIL (HZN) PROGRESS REPORT ON ELEVALA-2 APPRAISAL WELL IN PAPUA NEW GUINEA – SIDETRACK UNDERWAY

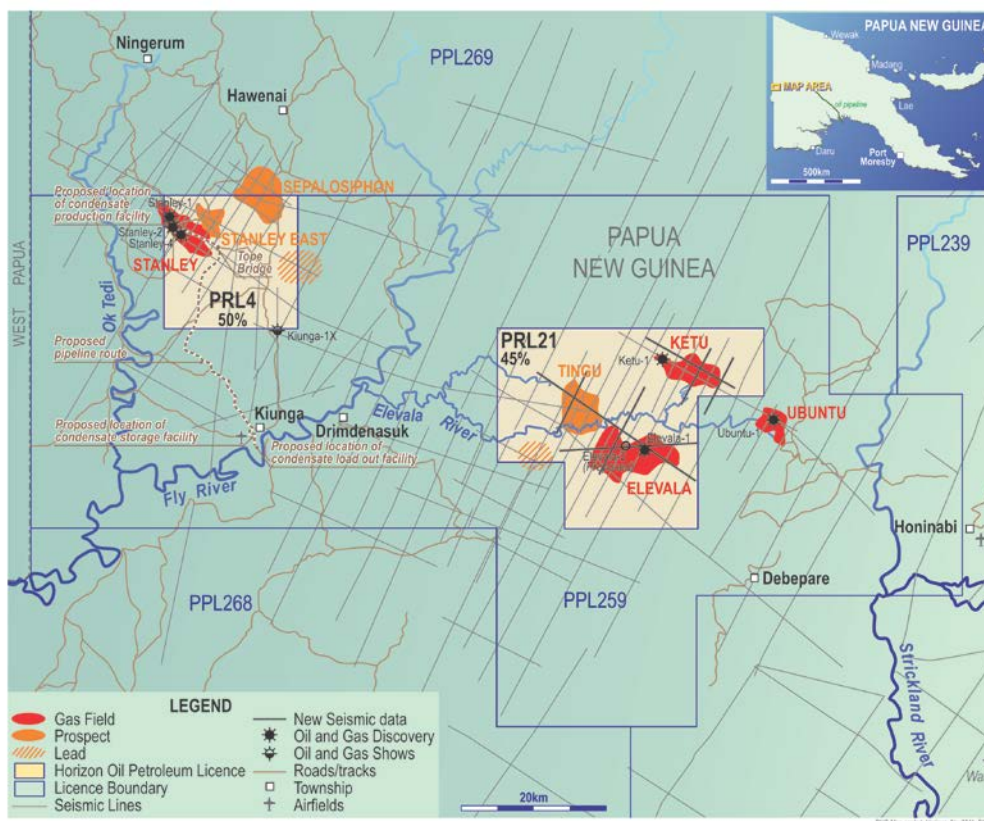
Horizon Oil reported on 19 December 2011 that the Elevala-2 appraisal well had confirmed a gas/condensate zone in the primary Elevala sandstone target. Since the report date, the well was drilled to a total measured depth of 3,293 m in basement on 21 December and a full suite of logs, pressure measurements and samples acquired. These confirmed a gross gas/condensate interval of 18 m in the Elevala sandstone, with no water indicated. The pay zone is slightly thicker and better developed than that encountered in the Elevala-1 discovery well. The secondary Toro sandstone objective was dry.

The Elevala-2 well is located in Petroleum Retention Licence 21 (PRL 21), approximately 50 km east of the port of Kiunga on the Fly River in Western Province, PNG (see map below). The well is designed to appraise the Elevala gas/condensate accumulation, discovered in 1989-1990 by the Elevala-1 well, which flowed on test at a rate of 11.9 million cubic feet of gas and 634 barrels of 54 deg API condensate per day. The well spudded with Parker *Rig 226* on 14 November 2011 and is being operated by the Company's wholly owned subsidiary, Horizon Oil (Papua) Limited.

The initial well program was to drill to penetrate the Elevala sandstone at a location 2.1 km west of the Elevala-1 discovery well. The well was specifically located to test the northern extent of the hydrocarbon accumulation, about 60 m down-dip of Elevala-1. In fact, the gas zone was encountered high to prognosis, approximately 20 m down-dip and no water leg was observed, implying that the field extends further to the north than expected. This has given the joint venture incentive to plan a sidetrack well to penetrate the Elevala sandstone about 600 m northeast of the current bottom hole location, with the objective of defining the northern limit of the accumulation.

The Elevala-2 well bore was subsequently plugged back to just below the 9-5/8" casing shoe and the sidetrack kicked off at a measured depth of 2,446 m. The current operation is drilling ahead in high angle 8-1/2" hole at a measured depth of 2,675 m towards an expected penetration of the Elevala sandstone at a measured depth of approximately 3,500 m (3,060 m subsea).

On completion, the plan is to drill the Ketu-2 appraisal/development well. Preparation of the Ketu-2 drilling site is at an advanced stage and will be ready to receive the rig at the completion of Elevala-2 sidetrack operations.



The participants in PRL 21 are:

Horizon Oil (Papua) Limited (operator) 45%
(a wholly owned subsidiary of Horizon Oil Limited (HZN:AU))

Talisman Energy Niugini Limited 40%
(a wholly owned subsidiary of Talisman Energy Inc (TLM:US))

Kina Petroleum Limited (**KPL:AU**) 15%

Yours faithfully,

Michael Sheridan

Chief Financial Officer & Company Secretary



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