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

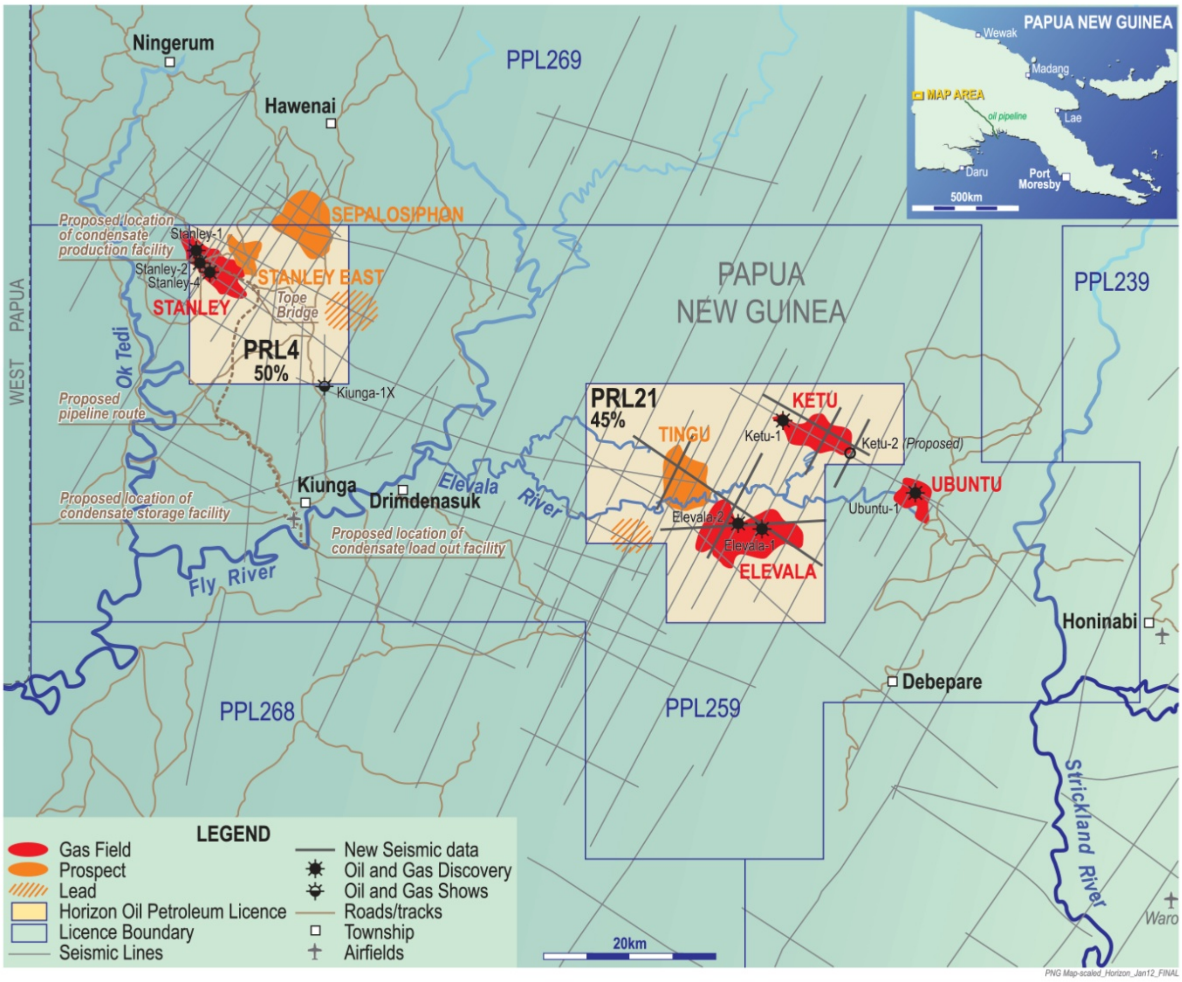
HORIZON OIL (HZN) REPORT ON ELEVALA-2 SIDETRACK APPRAISAL WELL IN PAPUA NEW GUINEA

Horizon Oil reported on 4 January 2012 that the Elevala-2 appraisal well had confirmed a gas/condensate zone in the primary Elevala sandstone target at a depth significantly high to prognosis. This implied that the hydrocarbon accumulation extends further to the north than expected and the joint venture decided to plug the well back to below the 9-⅝" casing shoe and drill a sidetrack to penetrate the Elevala sandstone about 650 m northeast of original well bottom hole location, with the objective of defining the northern limit of the accumulation.

The sidetrack was kicked off at a measured depth of 2,446 m on 1 January and reached a measured total depth of 3,630 m in the Toro sandstone (below the Elevala sandstone) on 9 January. Logging while drilling, sampling and pressure measurements have defined a gas-water-contact to the hydrocarbon accumulation, successfully fulfilling the primary objective of the sidetrack well. This establishes a field gas column height of greater than 50 m and further implies that the Elevala structure is full to spill point. Horizon Oil has previously advised (pre-drill) certified mean recoverable contingent resources of 302 bcf of gas and 19.3 million barrels of condensate. Based on the drilling results and the existing seismic data, the well outcome is to the high side of expectations. New seismic is currently being recorded over the Elevala, Tingu and Ketu structures and this will be integrated into the existing mapping before the resource volumes are revised.

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 was 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 plan now is to set plugs in the sidetrack well bore and suspend the well for possible use in the future. The surface location for drilling of the Elevala-2 well was specifically selected for this purpose. The rig will then be moved to drill the Ketu-2 appraisal/development well. Preparation of the Ketu-2 drilling site is complete and ready to receive the rig at the completion of Elevala-2 suspension operations.



Horizon Oil's Chief Executive Officer, Brent Emmett, commented-:

*"This is good result on a number of fronts. **Firstly**, subject to the new seismic confirming the current map of the Elevala structure, we have a new, potentially commercial, project to evaluate, containing material gas and condensate volumes. **Secondly**, the likelihood that Elevala is full to spill increases the chances of Ketu also being full, given that it lies between Elevala and the probable hydrocarbon "kitchen" area to the north. And **thirdly**, the well result has significantly upgraded the prospectivity of Tingu and the lead to the west of Elevala (see map above)."*

The participants in PRL 21 are:

Horizon Oil (Papua) Limited (operator) ***(a wholly owned subsidiary of Horizon Oil Limited (HZN:AU))***	45%
Talisman Energy Niugini Limited ***(a wholly owned subsidiary of Talisman Energy Inc (TLM:US))***	40%
Kina Petroleum Limited ***(KPL:AU)***	15%

Yours faithfully,

Michael Sheridan
Chief Financial Officer & Company Secretary

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