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The Manager, Company Announcements
Australian Securities Exchange Limited
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**HORIZON OIL (HZN) ADVISES FINAL INVESTMENT DECISION ON
STANLEY FIELD DEVELOPMENT, PAPUA NEW GUINEA**

Horizon Oil Limited is pleased to advise that its board has approved the Final Investment Decision (FID) on the Stanley field gas condensate recovery project in Western Province, PNG. The Company holds a 50% interest in Petroleum Retention Licence (PRL) 4 which contains Stanley field, with equal partner Talisman Niugini Pty Ltd. The State nominee, Petromin PNG Holdings Limited, is entitled to acquire up to a 22.5% interest in the project at the time of award of a Production Development Licence (PDL) by reimbursement of Horizon Oil and Talisman's allowable past costs associated with that interest and funding ongoing project costs. At that time, anticipated to be during Q3 in 2012, Horizon Oil and Talisman's interests will reduce to 38.75% each.

In November last year the Company advised shareholders that it had received independent certification of mean contingent resources for the field of 361 bcf of gas and 11.4 million barrels of condensate. As a result of the FID approval, the condensate resources will move to the reserves category. The certified gas resource is of a scale that has the capacity to supply domestic and large industrial consumers located in the region. Negotiations with potential customers are in train and, as sales contracts are confirmed, the associated gas resources will also be classified as reserves.

The Stanley resource will be developed initially as a condensate recovery project, with subsequent and increasing sales of gas as customers are contracted. It is envisaged that these will primarily be domestic and industrial consumers located in the region who require gas for power generation. PNG's Minister for State Enterprises, Sir Mekere Morauta, announced last month that cabinet had approved a gas power plant at Stanley, proposed by PNG Energy Development Limited, to supply Ok Tedi mine, the Frieda River mine if development proceeds and potential consumers across the border in West Papua. In addition, a key social objective of the project is to supply power through rural electrification schemes to about 50,000 people in Western Province.

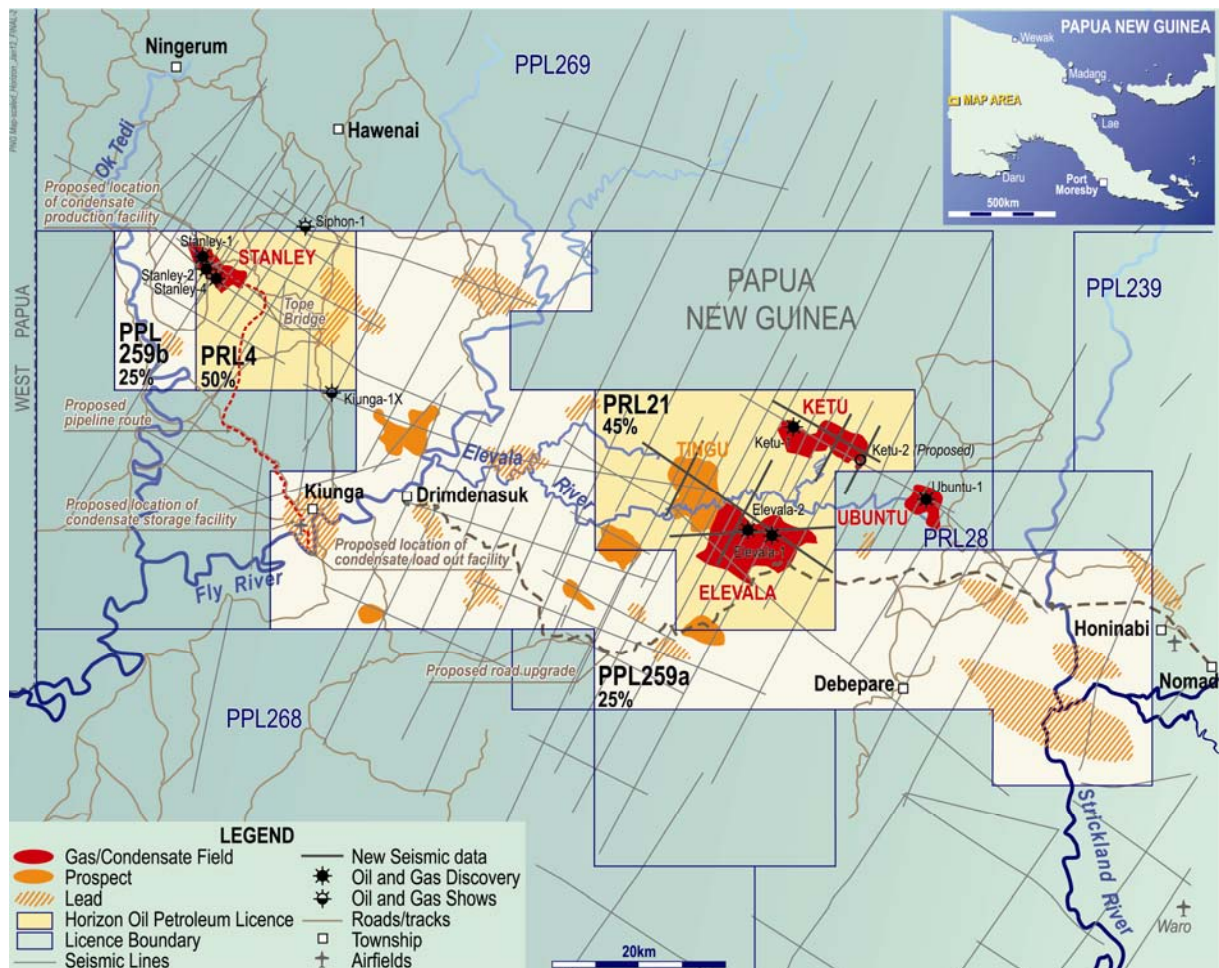
The development concept involves producing 140 million cubic feet of wet gas per day, from which initially 4,000 barrels of condensate per day will be recovered utilising a two train refrigeration plant located in the field. Any dry gas not sold will be re-injected into the reservoir and "banked" until required for sale. The condensate will be transported via a 6 inch 40 km pipeline to a 60,000 barrel storage tank at Kiunga base and then loaded onto a tanker at a loading facility about 1 km downstream of the existing Kiunga wharf, which is the export point for Ok Tedi mine's copper concentrate. A special purpose 33,000 barrel river tanker with ocean going capability has been designed to transport the condensate to market.

Front End Engineering and Design (FEED) for the project is complete, with an all in capital cost

estimate of approximately US\$300 million, including contingency. This is the cost to develop the entire resource, about 70 million barrels of oil equivalent. Horizon Oil is the operator of the project and believes a target for first production of end 2013, although aggressive, is achievable provided there are no delays in the regulatory approval process.

Horizon Oil has decided to make its decision now for several reasons. Firstly, it sends a clear signal to the PNG Government authorities, Stanley landowners, potential gas customers and our financiers that this is a project the Company believes is worth investing in. Secondly, it serves to retain the interest of suppliers and contractors to the project, increasing the chances of holding to the current project cost estimate. And thirdly, an early decision gives us confidence to order long lead equipment, including the tanker and to fund other “early works” prior to formal award of the PDL, in order to maintain project schedule.

The PDL application process involves submission of key constituent documents, including a field development plan, social mapping and landowner interest report, environmental assessment and gas agreement, all of which are at an advanced stage of preparation. It is intended that the formal PDL application be made in Q2 2012 with the grant of the PDL anticipated in Q3 after Government review and assessment and the convening of a Development Forum.



The FID approval advised in this report is conditional upon Horizon Oil receiving debt financing on satisfactory terms. The Company advised at the 2011 annual general meeting that negotiations in respect of the facility were at an advanced stage. Since that time, the Company has mandated a consortium of four leading reserves based lenders, including two major Australian banks, to provide a reserves based debt facility incorporating the Company's production and development assets. The Company has scaled back the commitment levels of the banks to a facility size of up to \$160 million. Facility documentation and due diligence reviews are advanced, with financial close anticipated in Q1 2012.

Yours faithfully,



Michael Sheridan

Chief Financial Officer & Company Secretary



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