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30 April 2012

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

**REPORT ON THIRD QUARTER ACTIVITIES – 31 MARCH 2012
AUSTRALIAN STOCK EXCHANGE LISTING RULE 5.1**

KEY ACTIVITIES

- **US\$160 million reserves based debt facility finalised for funding of Horizon Oil's development projects in China and Papua New Guinea and Maari/Manaia expansion activities.**
- **Production of 91,367 barrels of oil from Maari/Manaia fields, offshore New Zealand and oil sales of 73,289 barrels, generating revenue of US\$8.8 million; cumulative oil production to date of 18.0 million barrels.**
- **288 sq km 3D seismic survey recorded over Maari/Manaia and PEP 51313, offshore New Zealand, to define drilling locations and as a basis for further field exploitation.**
- **Facilities for Beibu Gulf development about 50% complete; in-field pipeline laying completed.**
- **Stanley field Petroleum Development Licence application on target for submission in July.**
- **Ketu-2 appraisal well in PRL 21, Papua New Guinea, confirmed considerable extension of gas/condensate accumulation.**
- **72 km seismic survey underway in PPL 259, onshore Papua New Guinea, to mature prospects for drilling.**
- **Cash balance of US\$21.0 million at end of quarter, with zero bank debt.**

CORPORATE

The Company announced on 26 March 2012 the finalisation and execution of a reserves based debt facility of up to US\$160 million to be provided by ANZ, CBA, BNP Paribas and Standard Chartered Bank. At current LIBOR rates, interest on funds drawn on the facility will be 4-5%.

Under the terms of the facility agreement, Horizon Oil's production and development assets underpin the debt component of the financing of the development of:-

- Block 22/12, offshore China;
- Stanley gas-condensate development project in PRL 4, onshore PNG; and
- Maari/Manaia expansion activities; and

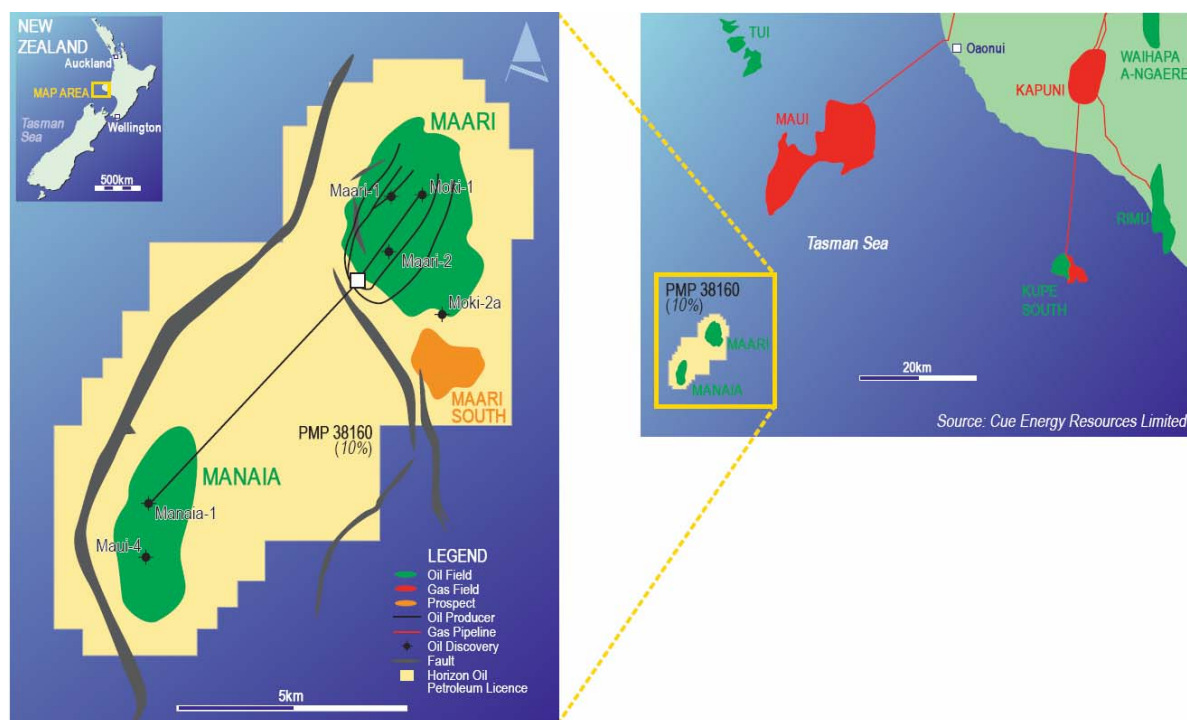
general corporate expenses, including exploration and appraisal activities.

On 11 April 2012, the Company advised that that financial close of the facility had been achieved with all conditions precedent to first drawdown satisfied or waived.

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 91,367 barrels of oil. Crude oil sales were 73,289 barrels at an average realized price of US\$120.25 per barrel. Cumulative oil production from the fields through 29 April 2012 was 18.1 million barrels.

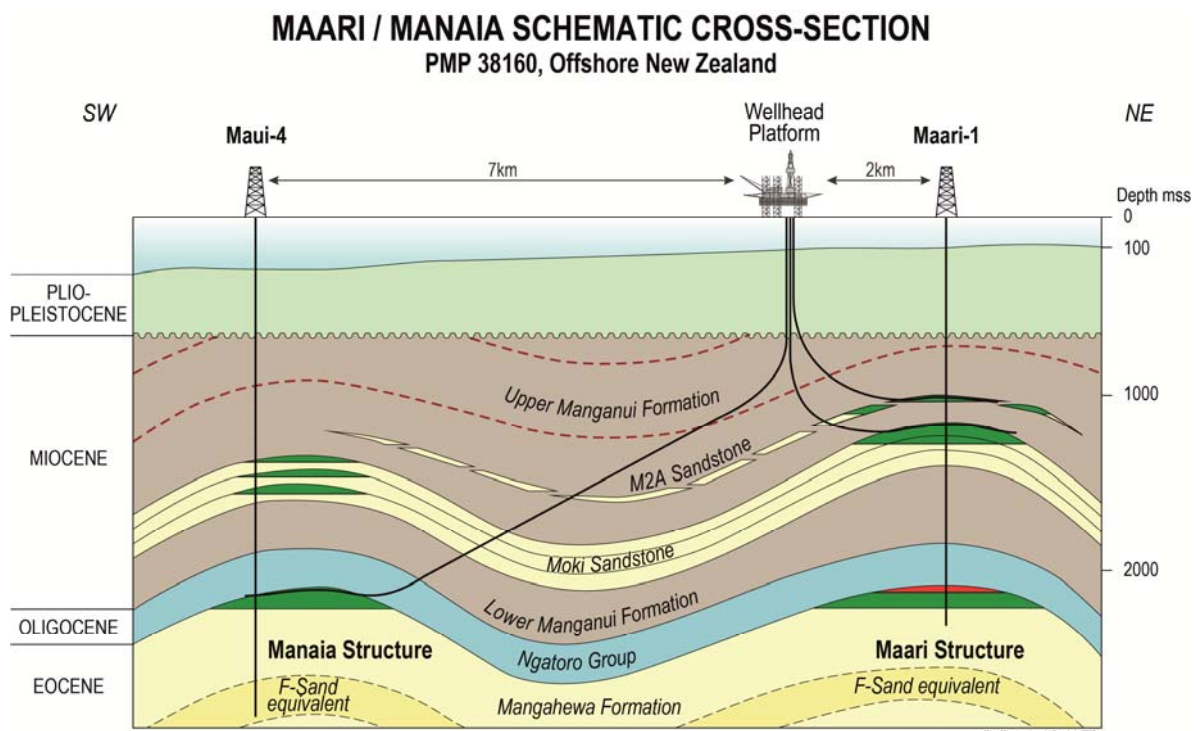
Production was below forecast due to outages on the MR1, MR3 and MR4 wells and waterflood under performance. Also a complete production shutdown occurred for a week in early March due to card failures within the Honeywell distributed control system.

Repairs to the control system were successfully completed and production recommenced. The Schlumberger electrical submersible pumps in the MR1, MR3 and MR4 wells have been replaced and MR3 and MR4 are back on production. Planning of further remediation of MR1 is underway to achieve a reasonable rate of production from the well.

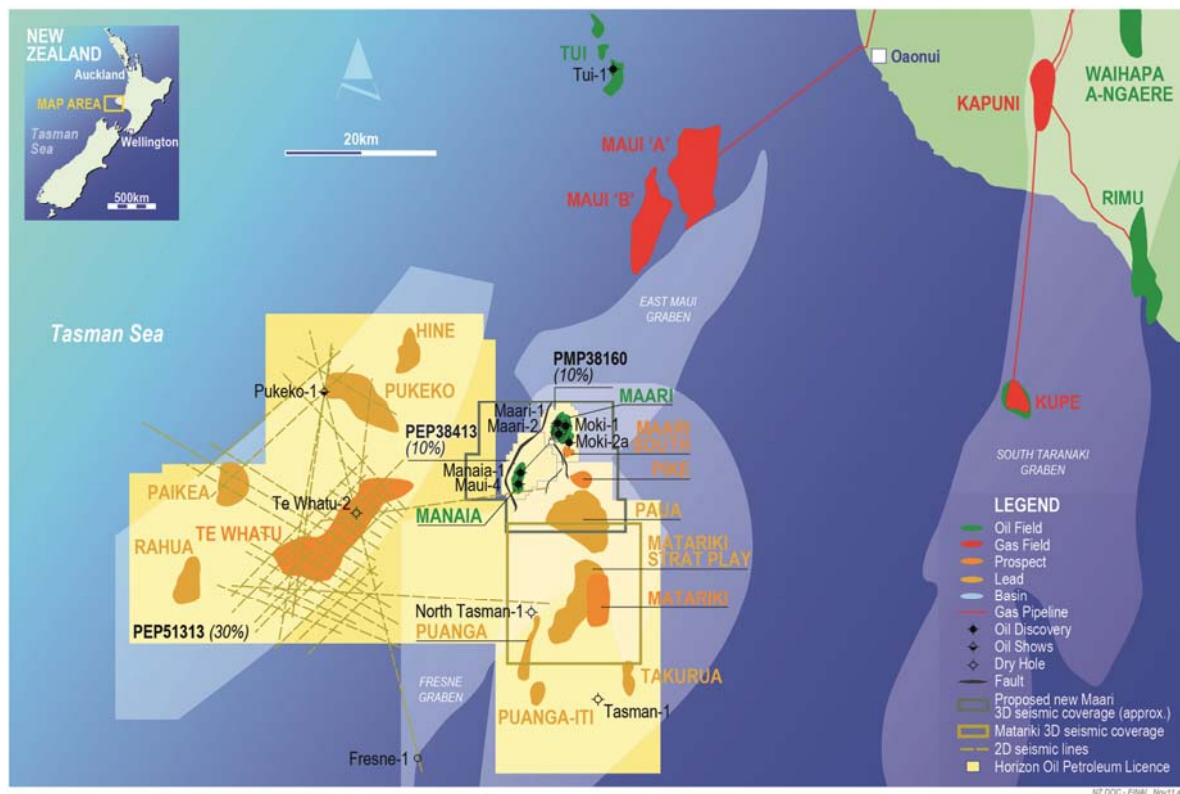
Horizon Oil has carried out its own detailed study of the main Moki reservoir in Maari field, which was recently audited by the technical experts appointed by the banks participating in the reserves based lending facility. The study results indicate that improved production can be obtained from the upper cycle of the Moki by recompleting the existing MR7 and MR8 water injection wells in that zone and the field operator, OMV, is currently implementing this work. Horizon Oil also believes that significant additional oil can be recovered from the lower cycle of the Moki with an additional production well in that zone.

Plans for additional development of the Maari and Manaia fields are in progress. A new 3D seismic survey commenced on 23 March 2012 using the vessel *MV Polarcus Alima*. The survey was completed on 17 April 2012, having acquired 288 sq km of 3D coverage. The survey experienced some weather downtime but was completed in good time with good quality data and within budget.

The survey will provide a basis for selecting locations for vertical Manaia Deep and Maari South appraisal wells and a third possible deep appraisal well on the Maari structure itself. With reference to the schematic cross-section below, the first of these will target the discovered but unappraised and undeveloped accumulation in the Manaia Moki sands. The well will also allow assessment of how the current production well is draining the Mangahewa accumulation and confirm whether there is commercial oil recoverable from the deeper F sand equivalent, in which oil shows were encountered in the Maui-4 well and which is a proven oil producer elsewhere in the Taranaki Basin. The second appraisal well will be drilled to confirm the reservoir quality and size of the Maari South structure which can potentially be developed by extended reach drilling from the Maari platform. It is expected that the appraisal wells will be drilled in the 2012/13 summer drilling season.



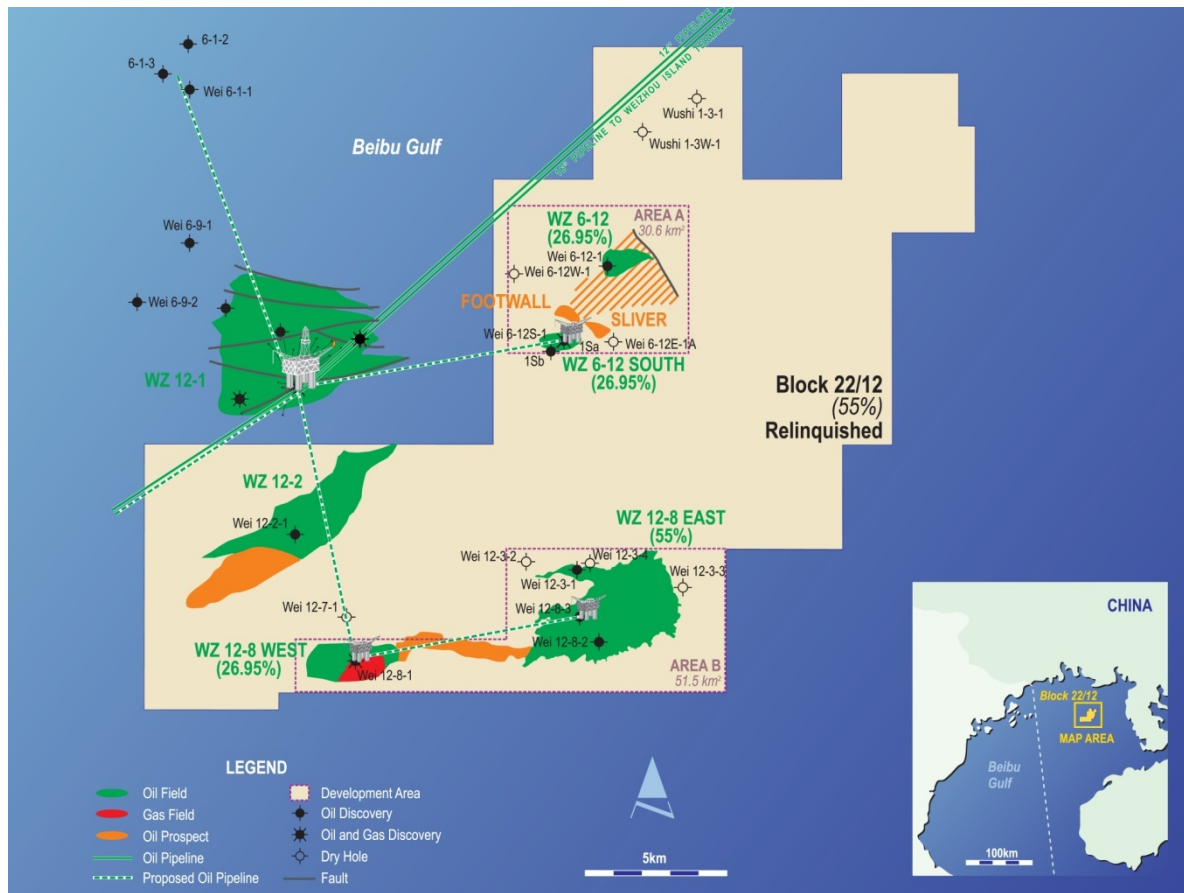
PEP 51313, Offshore Taranaki Basin, (Horizon Oil interest: 30%)



Approximately 30% of the recently acquired 3D seismic survey is within PEP 51313 and is designed to merge with the Matariki 3D seismic survey acquired in 2010 (see map above). This will provide definition over the leads and prospects to the south of Maari and Manaia, in particular Pike prospect. It is likely that Pike will be drilled using the rig to be mobilised for drilling of two appraisal wells in PMP 38160 in 2012/2013. This is seen as a progressive, risk-reducing approach to evaluating the prospectivity of the Tasman ridge to the south, including Matariki prospect.

CHINA

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



The operator of the WZ 6-12 and WZ 12-8W development, China National Offshore Oil Corporation (CNOOC), continued to make good progress and the facilities were almost 50% complete at the time of this report. Forecast cost to completion remains within the US\$300 million estimate contained in the overall development plan.

The Environmental Impact Assessment was approved by the State Oceanic Administration on 22 February 2012. The final government approval required is sanction of the project by the National Development and Reform Commission.

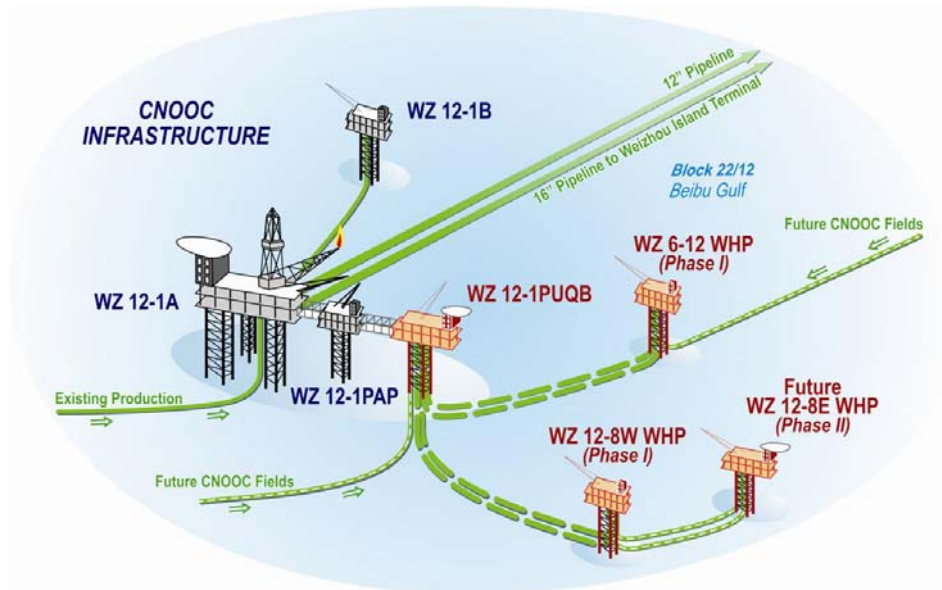
Development activity included platform fabrication in the construction yard in Tanggu, with the photographs below indicating a good level of progress. Pipelaying between the planned utilities platform (PUQB) and WZ 6-12 and WZ 12-8W wellhead platforms (WHP) began on 6 March with the pipe-lay vessel *Lanjiang* (see photographs below) and is now complete, with 19.4 km of pipeline installed.

The current schedule calls for loadout of the 2 WHPs and the PUQB in April-May and installation of platform topsides in mid-August. Drilling of 4 in-field and near-field exploration/appraisal wells will take place between July and September.

These exploration/appraisal well will appraise a deeper zone in the WZ 6-12 (north) structure, the Sliver prospect, the Liushagang formation underlying the currently identified producing zones and the main producing zone in the WZ 6-12 South structure itself (see map above). The last 3 of these wells are planned to be drilled from the WZ 6-12 WHP, and if successful and commercial, will be completed and included as additional production wells for the Beibu Gulf project.

Drilling of 11 development wells will follow between September 2012 and May 2013.

CNOOC continues to anticipate first oil production from the Beibu Gulf project by the end of 2012, ramping up to full-field peak production in 2013.



PUQB jacket



WZ 6-12W jacket



WZ 12-8W topsides

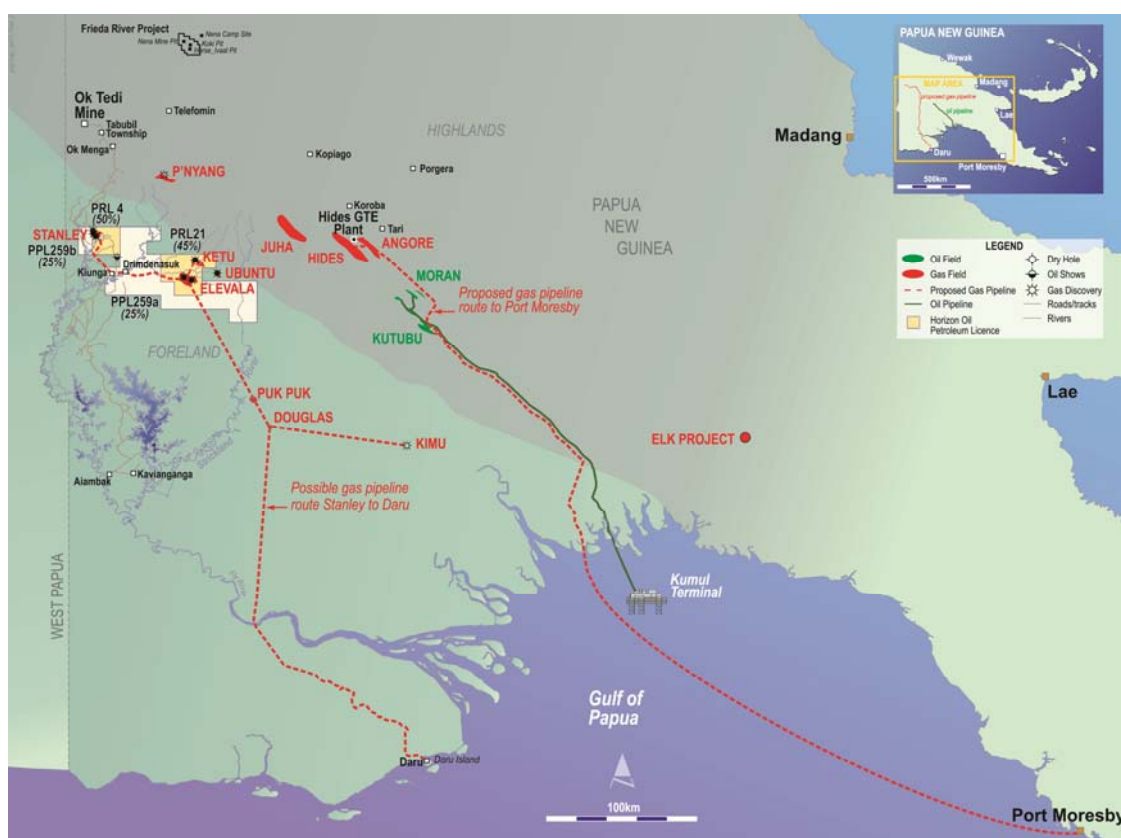


WZ 6-12 topsides



Pipe laying from PUQB to WZ 6-12 WHP with the pipe-lay vessel Lanjiang

PAPUA NEW GUINEA



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

The Company advised in the previous quarterly report that its board had approved the Final Investment Decision on the Stanley field gas condensate recovery project, subject to finalisation of reserves based debt financing. That financing is now in place and the Company is proceeding towards submission of the Petroleum Development Licence (PDL) application.

Good progress has been made on engineering of the gas plant at Stanley field, tank storage in the field and at Kiunga, the pipeline that will connect the gas plant to the Kiunga terminal and the loadout facility on the Fly River near Kiunga. This has involved the collection of a substantial volume of geotechnical, geochemical, topographical and bathymetric data.

Negotiations with a shipping company to provide a tanker for condensate transportation are at an advanced stage.

Negotiations with a buyer for Stanley condensate/light crude are also advanced.

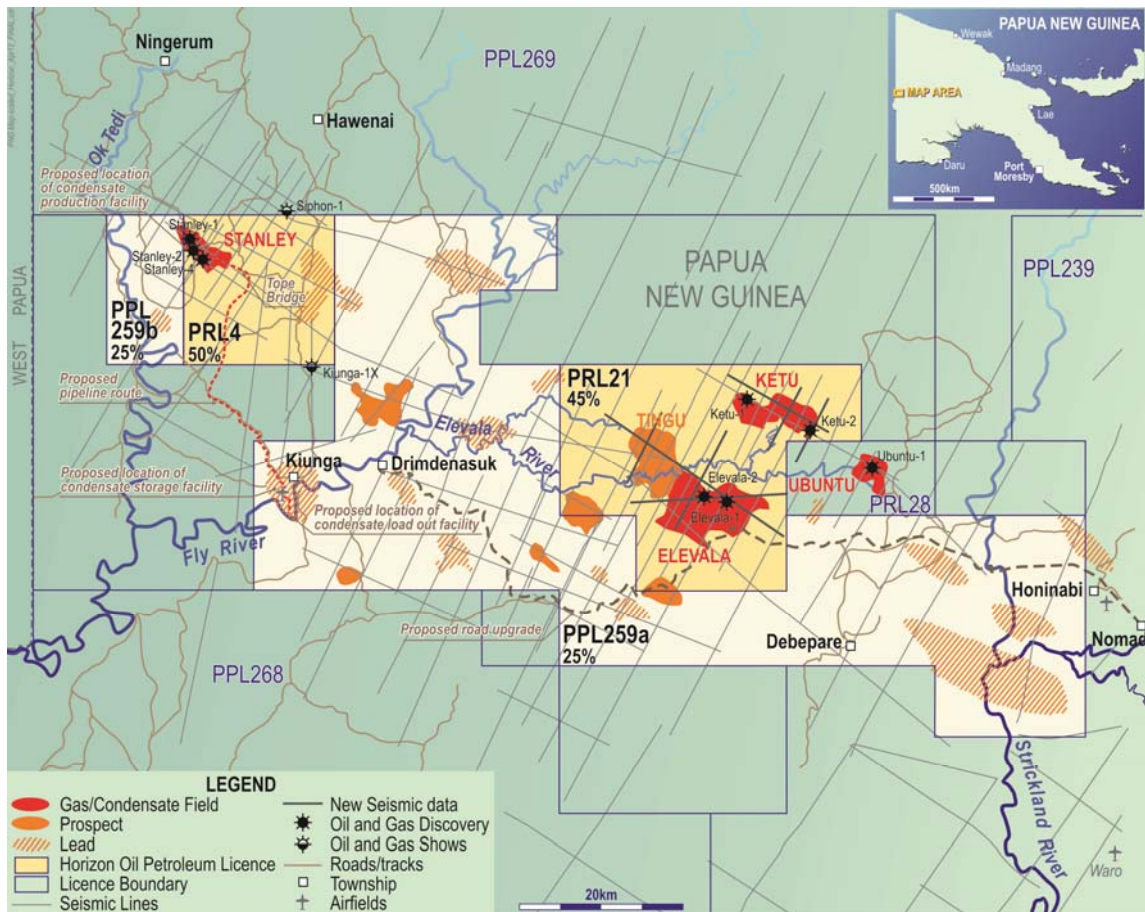
Discussions with PNG Energy Development Limited (EDL), a 50:50 joint venture between Origin Energy Limited and PNG Sustainable Development Program Limited, to supply gas for power for the Ok Tedi mine and surrounding industrial and domestic consumers are progressing well. EDL has been mandated by the PNG Government to build a gas power plant at Stanley to supply Ok Tedi, the Frieda River mine if development proceeds and potential customers across the border in the 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 PDL application, to be submitted in July 2012, consists of a number of constituent documents, which include:-

- licence conditions
- pipeline licence application
- field development plan
- environmental impact statement, including the social impact assessment
- social mapping and landowner identification study
- local content plan

All of the above documents have been initiated and are in various stages of completion, with some already submitted to the relevant PNG Government departments for preliminary consent and feedback. Grant of the PDL is anticipated in Q3 after Government review and assessment and the convening of a Development Forum.

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. The Company intends to carry out some early works and procurement of long lead items in advance of PDL grant in order to maintain schedule.



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

A 105 km seismic survey to provide further definition of the Elevala, Tingu and Ketu structures for reserves revision and development planning purposes (see line locations on map) was completed in early February. Data quality appears to be very good. The seismic has supported the prospectivity of Tingu as a future drilling target and also was used to fine-tune the bottom-hole location of Ketu-2.

Parker Rig 226 was released on 29 January 2012 after the successful drilling of the Elevala-2 appraisal well and moved to the Ketu-2 location, approximately 65 km east of the port of Kiunga on the Fly River (see map above). The well was designed to appraise the Ketu gas/condensate accumulation in the Elevala sandstone (the same productive zone as in Elevala field), discovered in 1990-1991 by the Ketu-1 well. The well program was to drill to penetrate the target zone at a location 8.9 km southeast of the Ketu-1 discovery well to determine the extent of the accumulation in that direction, the level of trap fill, composition of the hydrocarbon column and reservoir deliverability.

Ketu-2 was spudded on 6 March by Horizon Oil's wholly owned subsidiary, Horizon Oil (Papua) Limited, as operator. 18- $\frac{5}{8}$ " surface conductor was set at a measured depth of 57 m, 13- $\frac{3}{8}$ " casing at 1,181m and 9- $\frac{5}{8}$ " casing at 2,545 m.

The well was then deepened from the 9- $\frac{5}{8}$ " casing shoe in 8- $\frac{1}{2}$ " hole and a 27 m core of the Elevala sandstone successfully cut and recovered, before drilling the well to total measured depth of 3,787 m in granitic basement on 17 April. The Elevala sandstone was penetrated at a depth in line with the pre-drill prognosis, with mudlogs and logging-while-drilling indicating a gas/condensate zone. Subsequent testing and sampling of the Elevala sandstone recovered liquids-rich gas with no water and the decision was taken to complete the well for future service as a producer or gas re-injection well. A 7" liner was run in the well and the current operation is running the 5- $\frac{1}{2}$ " chrome completion string.

The forward plan is to install a Christmas Tree on the wellhead and perforate the pay zone. The well will be opened for clean-up flow until stabilised and then shut-in with a retrievable plug until required for service.

This was a highly pleasing result in that it has confirmed a significant extension of the Ketu hydrocarbon accumulation. The result confirms that the field has a lateral extent of at least 9 km and gas column height of over 50 m, which should lead to a material upgrade in resource volume over that previously certified.

PPL 259, (Horizon Oil interest: 25%)

Horizon Oil advised in January this year that it had executed a farmin agreement with Eaglewood Energy Inc. to earn a 25% interest in PPL 259 in Western Province, PNG. The farmin is part of the strategy of increasing the Company's acreage position around what is seen as the "sweet spot" for liquids-rich gas in the Papuan Basin foreland, centred on planned production hubs at Stanley and Elevala/Ketu (see map above). This was a timely transaction, given the good progress on the development of Stanley field and the excellent appraisal drilling results at Elevala and Ketu.

PPL 259 contains a substantial inventory of prospects and leads and a 72 km seismic survey has commenced to mature leads and prospects for drilling. It is anticipated that an exploration well will be drilled within the next 12 months.

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	13
Block 22/12 (Beibu Gulf), offshore China	6,622
PRL 4, Papua New Guinea	(645)
PRL 21, Papua New Guinea	18,120
Producing Oil and Gas Properties	
<i>PMP 38160 (Maari and Manaia), offshore New Zealand</i>	
Capital expenditure	76
Production revenue	8,813
Operating expenditure	1,971
Amortisation	1,579
Production Data (barrels)	
Crude oil production	91,367
Crude oil sales	73,289
Cash on hand at 31 March 2011	21,032
Convertible bond¹	80,000
Net Debt	58,968

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

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

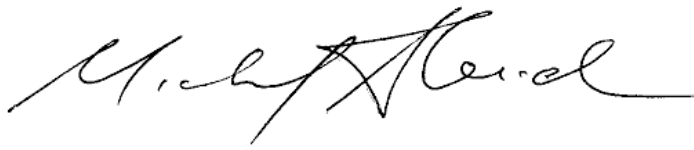
"This quarter was marked by a number of significant events:-

Firstly, the securing of the US\$160 million reserves based lending facility, in combination with existing cash reserves and production income from Maari field, means that development of Horizon Oil's substantial reserves and resources in Block 22/12 in China and Stanley field in PNG is now fully financed based on Board-approved financial forecasts;

Secondly, the results of the successful Elevela and Ketu appraisal drilling in PNG are indicating that we have a significant gas resource, rich in condensate and natural gas liquids, to commercialise in PRL 21, with further sizeable upside in Tingu prospect and other surrounding leads. The potential gas volume provides incentive for consideration of an early commercialisation scheme, such as mid-scale LNG; and

Thirdly, the announcement during the reporting period by Talisman Energy Inc. of the sale of part of its PNG acreage position to Mitsubishi Corporation allows shareholders to calculate an implied value of Horizon Oil's interests in PRL 4 and PRL 21. The implied arm's length valuation of US\$330 million was established prior to the successful Elevela and Ketu appraisal drilling results and, of course, assigns no value to the Company's surrounding acreage in PPL 259."

Yours faithfully



Michael Sheridan

Chief Financial Officer & Company Secretary

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