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

**HORIZON OIL (HZN) PROGRESS REPORT ON KETU-2 APPRAISAL/DEVELOPMENT WELL IN PAPUA NEW GUINEA – FLOWING GAS/CONDENSATE ON TEST**

Horizon Oil previously advised that the Ketu-2 well was being completed for future service as a producer or gas re-injection well, after sampling of the target Elevala sandstone had recovered liquids-rich gas with no water. Since the last report, 7" liner was run and set at a measured depth of 1,804 m. A 5½" chrome completion string was run and a Christmas Tree installed on the wellhead.

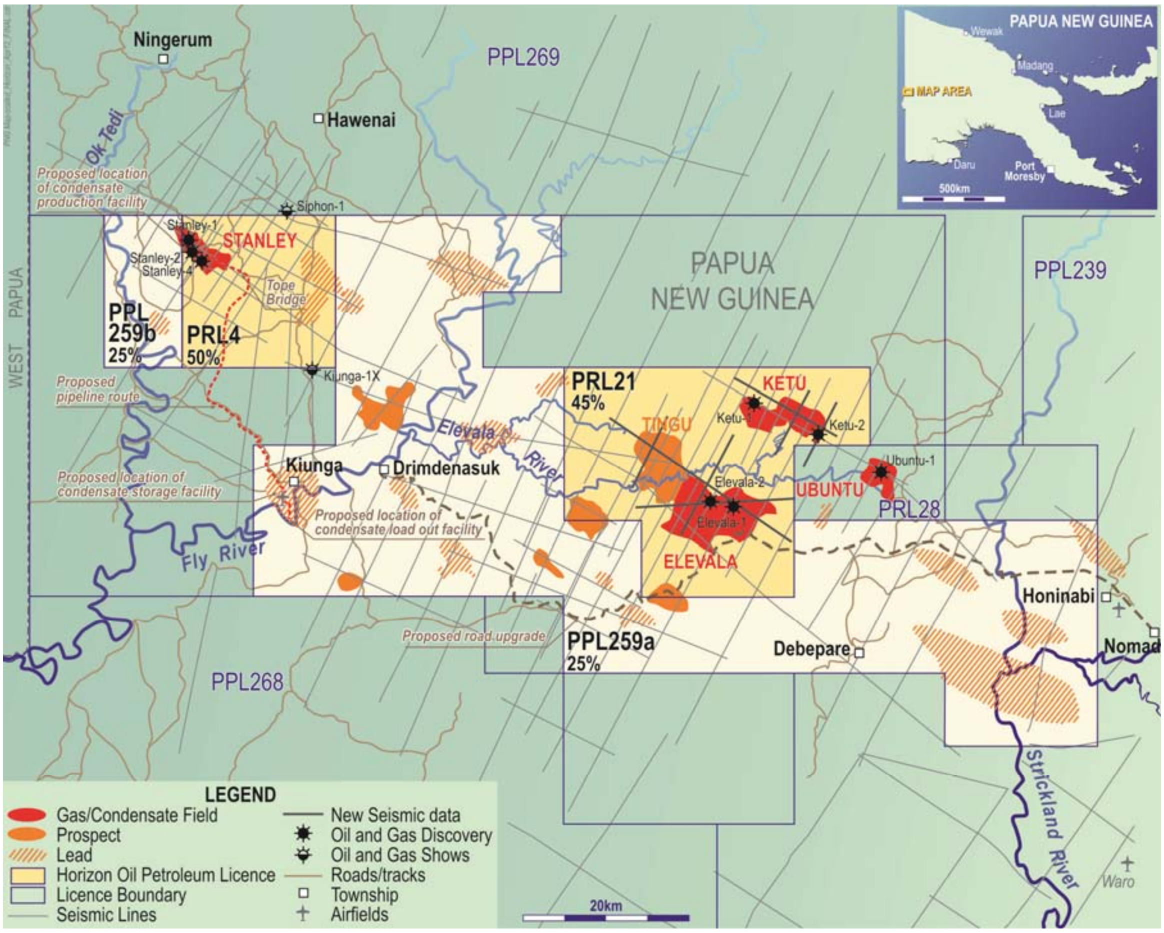
Last night the lower 9 m of the Elevala sandstone was perforated and opened directly to flare at 8 am today (see photographs below). The well flowed gas to surface within 15 minutes of opening and is currently cleaning up at a rate of over 20 million standard cubic feet per day through a 48/64" choke. The flowing wellhead pressure is 2,600 psi and continuing to increase as the well cleans up. The gas does contain condensate, which cannot be measured accurately at this stage, but is expected to be in line with the gas condensate ratio observed at Elevala-1 of about 60 barrels per million cubic feet of gas. No formation water has been observed in the test.

This is a very encouraging result and supports a good level of well productivity for future commercialisation of the field.

The forward program is to establish a stable maximum gas rate and then perform a multi-rate test to establish the well capacity profile. Then a retrievable plug will be set and the well suspended until required for further testing and service.

The Ketu-2 well spudded with Parker *Rig 226* on 6 March 2012 and is being operated by the Company's wholly owned subsidiary, Horizon Oil (Papua) Limited. It is located in Petroleum Retention Licence 21 (PRL 21), approximately 65 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 Ketu gas/condensate accumulation in the Elevala sandstone, discovered in 1990-1991 by the Ketu-1 well, at a location 8.9 km southeast of the Ketu-1 discovery well to determine the extent of the accumulation in that direction and the level of trap fill.

*Ketu-2 on clean up flow 2 hours into test*




The participants in PRL 21 are:

| | |
|---|---|
| Horizon Oil (Papua) Limited (operator)<br>***(a wholly owned subsidiary of Horizon Oil Limited (HZN:AU))*** | 45% |
| Talisman Energy Niugini Limited<br>***(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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