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31 October 2012

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

**REPORT ON FIRST QUARTER ACTIVITIES – 31 OCTOBER 2012**
**AUSTRALIAN STOCK EXCHANGE LISTING RULE 5.1**

## KEY ACTIVITIES

- **Production of 100,605 barrels of oil from Maari/Manaia fields and oil sales of 92,445 barrels, generating revenue of US$10.5 million.**
- **Remaining reserves at Maari/Manaia significantly upgraded.**
- **Facilities for Beibu Gulf development 85% complete.**
- **First exploration/appraisal well in Beibu Gulf drilling campaign discovered a new oil accumulation on the WZ6-12N structure.**
- **Petroleum Development Licence application for Stanley field development in PRL 4 lodged and early works for the project commenced.**
- **Substantial upgrade in PRL 21 gas and liquids resources as a result of successful Elevala-2 and Ketu-2 appraisal wells; pre-development work on condensate recovery scheme and gas commercialisation underway.**
- **Cash on hand of US$11.1 million at end of quarter, with US$37.4 million drawn down on bank facility.**

## RESERVES UPDATE

Information on Horizon Oil's share of reserves, resources and prospective resources, based on a recent review, is presented in graphical and tabular format below. This reserves and resources report conforms with the proposed ASX Disclosure Rules for Mining and Oil & Gas Companies and is based on a high level of independent review. All the reserves and contingent resources, apart from the recovery factor assumed for the Beibu Gulf WZ 12-8E contingent resource (phase II), have been verified by an independent engineering firm on behalf of the banking consortium that provided the Company's reserves based lending facility.

The key changes from last year are:-

- Maari/Manaia contingent resources moved to reserves and remaining Maari/Manaia reserves increased significantly.

- Block 22/12 WZ 12-8E reserves reclassified as contingent resources, to conform with Petroleum Resource Management System guidelines. (It should be noted that the reserves and resources report pre-dates the recently announced discovery in Block 22/12 and does not include the additional reserves that will result from that discovery.)

- PRL 4 Stanley condensate contingent resource increased and moved to reserves as a result of project FID.

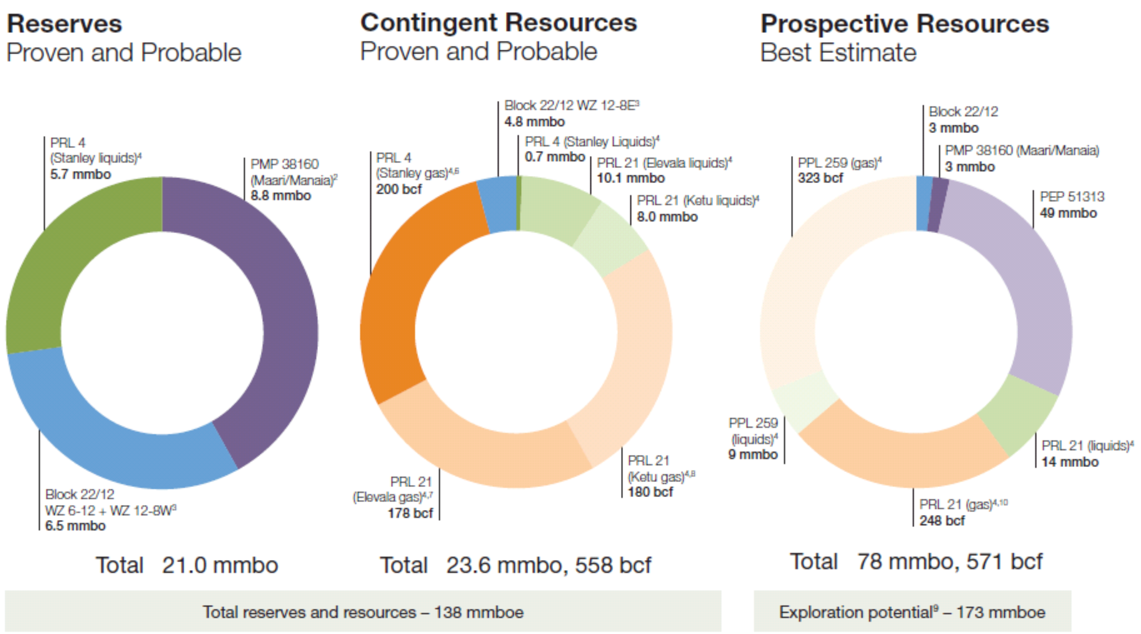
- PRL 4 Stanley gas contingent resource increased.

- PRL 21 Elevala and Ketu gas and condensate contingent resources significantly upgraded as a result of Elevala-2 and Ketu-2 appraisal drilling results.

- Significant volume of LPG included in Stanley, Elevala and Ketu gas (15.9 mmbbl) specified.

- Prospective resources better defined and substantial prospective resources included for PPL 259 in PNG.

As a result of these changes, total reserves and resources are about 50% higher than in last year's report and prospective resources about 80% higher.




Forecast production from revised reserves and contingent resources is shown by field in the graph that follows the table. Because of the substantial increase in audited reserves and resources, the production forecast is significantly higher than the 2011 forecast.

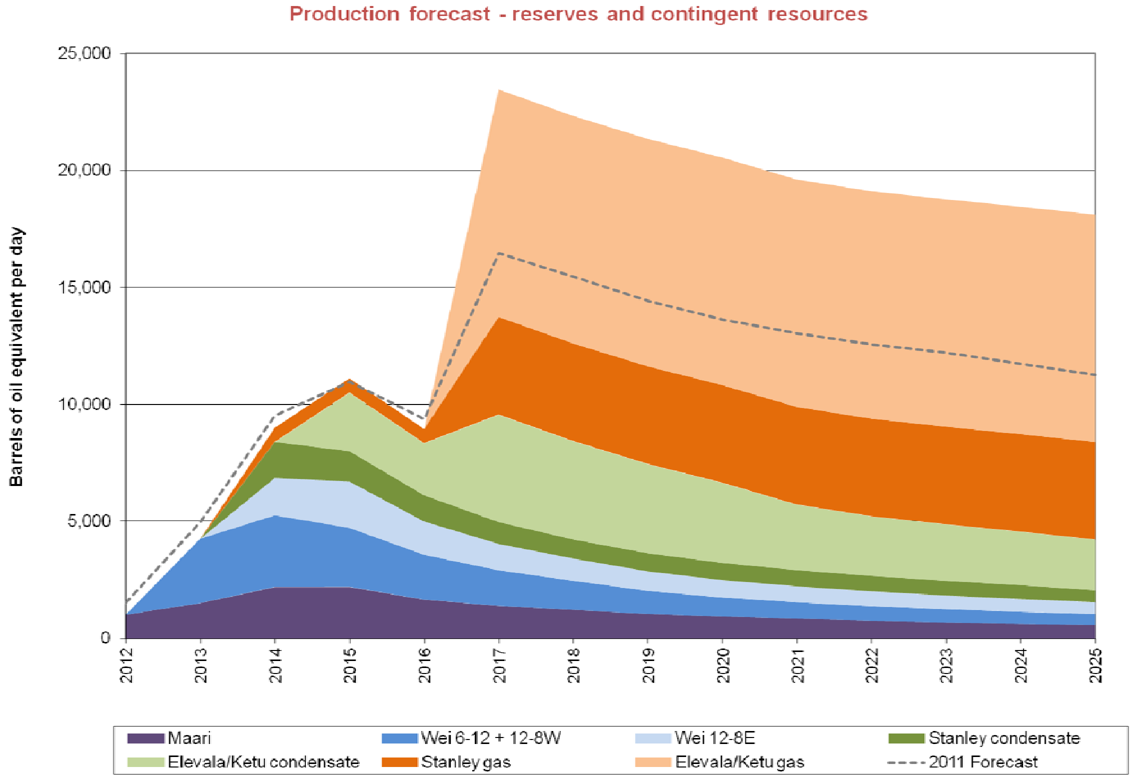
**Net Proven Plus Probable Reserves (2P), as at 1 August 2012**

| Country/Field | Oil (mmbbl) | Gas (bcf) | Condensate (mmbbl) | Total (mmboe[1]) |
|---|---|---|---|---|
| ***New Zealand*** | | | | |
| PMP 38160 Maari/Manaia[2] | 8.8 | | | **8.8** |
| ***China*** | | | | |
| Block 22/12 WZ 6-12 + WZ 12-8W[3] | 6.5 | | | **6.5** |
| ***Papua New Guinea*** | | | | |
| PRL 4 Stanley[4] | | | 5.7 | **5.7** |
| **Total Net Resources** | **15.3** | **-** | **5.7** | **21.0** |

**Net Proven Plus Probable Contingent Resources (2C), as at 1 August 2012**

| Country/Field | Oil (mmbbl) | Gas (bcf) | Condensate (mmbbl) | Total (mmboe1) |
|---|---|---|---|---|
| ***China*** | | | | |
| Block 22/12 WZ 12-8E[3] | 4.8[5] | | | **4.8** |
| ***Papua New Guinea*** | | | | |
| PRL 4 Stanley[4] | | 200[6] | 0.7 | **34.0** |
| PRL 21 Elevala[4] | | 178[7] | 10.1 | **39.8** |
| PRL 21 Ketu[4] | | 180[8] | 8.0 | **38.0** |
| **Total Net Resources** | **4.8** | **558** | **18.8** | **116.6** |
| | | | | |
| **Total Net Reserves Plus Resources** | **20.1** | **558** | **24.5** | **137.6** |

[1] 6 bcf gas equals 1 boe; 1 bbl condensate equals 1 boe
[2] Net of production of 19.2 mmbo gross through 31 July 2012
[3] Reduced to allow for CNOOC participation at 51%
[4] Subject to reduction to allow for PNG State Nominee participation at 22.5%
[5] Assumes recovery factor of 20% of oil-in-place
[6] Includes 4.3 mmbbl LPG (1 tonne LPG equals 11 bbl)
[7] Includes 5.8 mmbbl LPG
[8] Includes 5.8 mmbbl LPG




## EXPLORATION AND DEVELOPMENT ACTIVITY

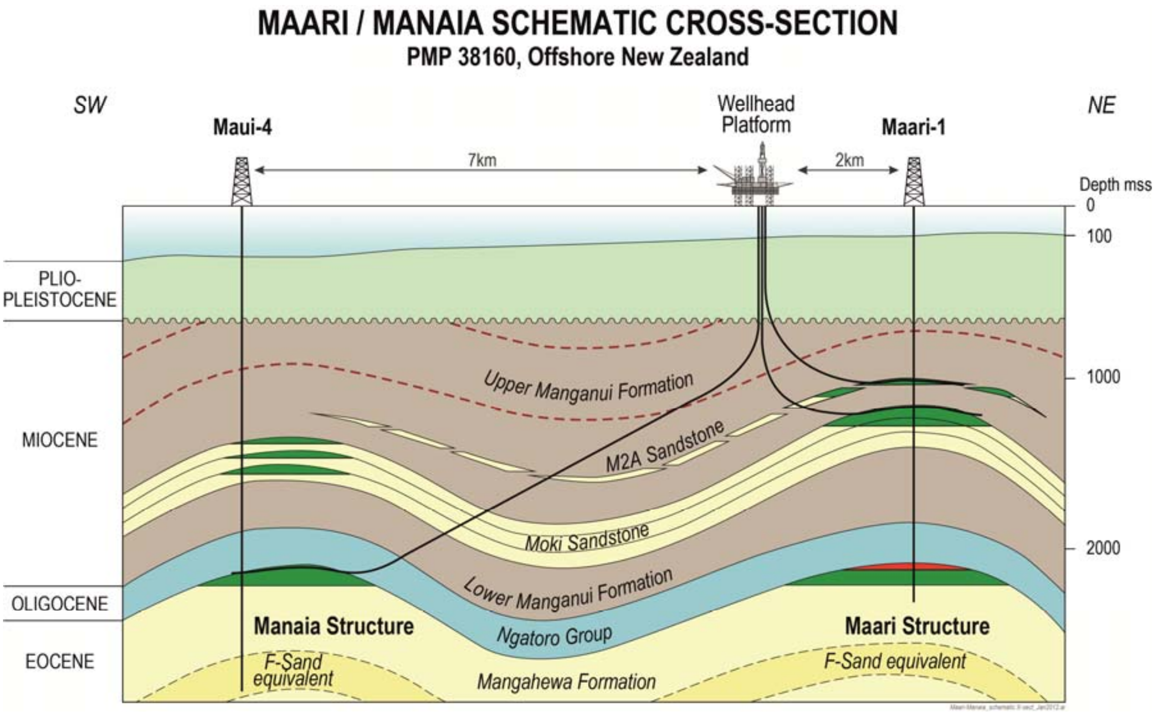
## NEW ZEALAND

### 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 100,605 barrels of oil. Crude oil sales were 92,445 barrels at an average realised price of

US$113.73 per barrel.  Cumulative oil production from the fields through 29 October 2012 was 20.0 million barrels.

Production for the quarter was down about 2% on the previous quarter because of failure of the downhole electrical submersible pumps in the MR2 well, which could not be restarted after a chemical treatment and the MR5 well, due to a suspected blockage or broken pump shaft.  Both wells are being worked over, with the MR2 well scheduled to be back on line shortly and the MR5 well to follow. The MR1 well, located on the western flank of the field, which had been producing at a high water cut, remained shut-in throughout the whole quarter, awaiting testing in order to determine what can be done to restore production or otherwise utilise the well as a water injector.



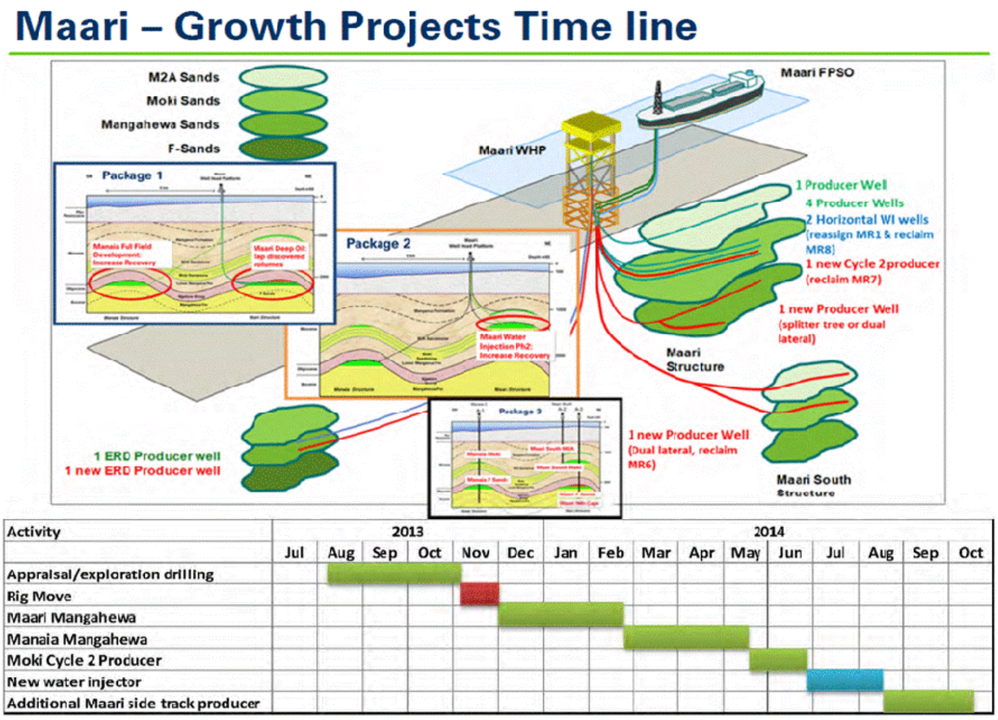

During the quarter RISC, a leading independent petroleum advisory firm, was commissioned by Horizon Oil to update its previous review of developed and undeveloped reserves contained within the existing producing zones, being the Maari Moki, Maari M2A and Maari Mangahewa reservoirs.  The audit confirmed Horizon Oil's share of remaining proven and probable reserves in the currently producing zones at Maari and Manaia of 8.8 mmbo.  Given that around 20 mmbo has been produced to date, the reserves audit supports Horizon Oil's long-held opinion that these zones will ultimately produce in excess of 100 mmbo.

Additional development drilling and also enhancement of the water injection system will be required to extract these reserves.  The joint venture is aligned on the need for this and a program to implement this work in 2013 and 2014 has been designed.

In addition to the existing producing zones (and with reference to the schematic cross-section above), further potential resides in deeper zones at Maari, shallower and deeper zones at Manaia and in the undrilled Maari South structure.  At least part of this additional potential, which Horizon Oil estimates to be 35 mmbo gross unrisked, will be evaluated in the drilling program planned for 2013/2014, which is set out in the slide published in August 2012 by OMV, the field operator, and reproduced below.

Planning for an appraisal well to evaluate the Moki and F-sands reservoirs as well as the Mangahewa oil accumulation at Manaia and to drill an additional oil producer in the lower cycle of the Moki reservoir at Maari is progressing well.  The joint venture has tendered for a drilling rig to carry out these projects, as well as other as yet unspecified wells in 2013.

An important element of the growth projects drilling program will be interpretation of the 288 sq km 3D seismic recently acquired over Maari, Manaia and adjacent prospects.  Processing of this data is underway.

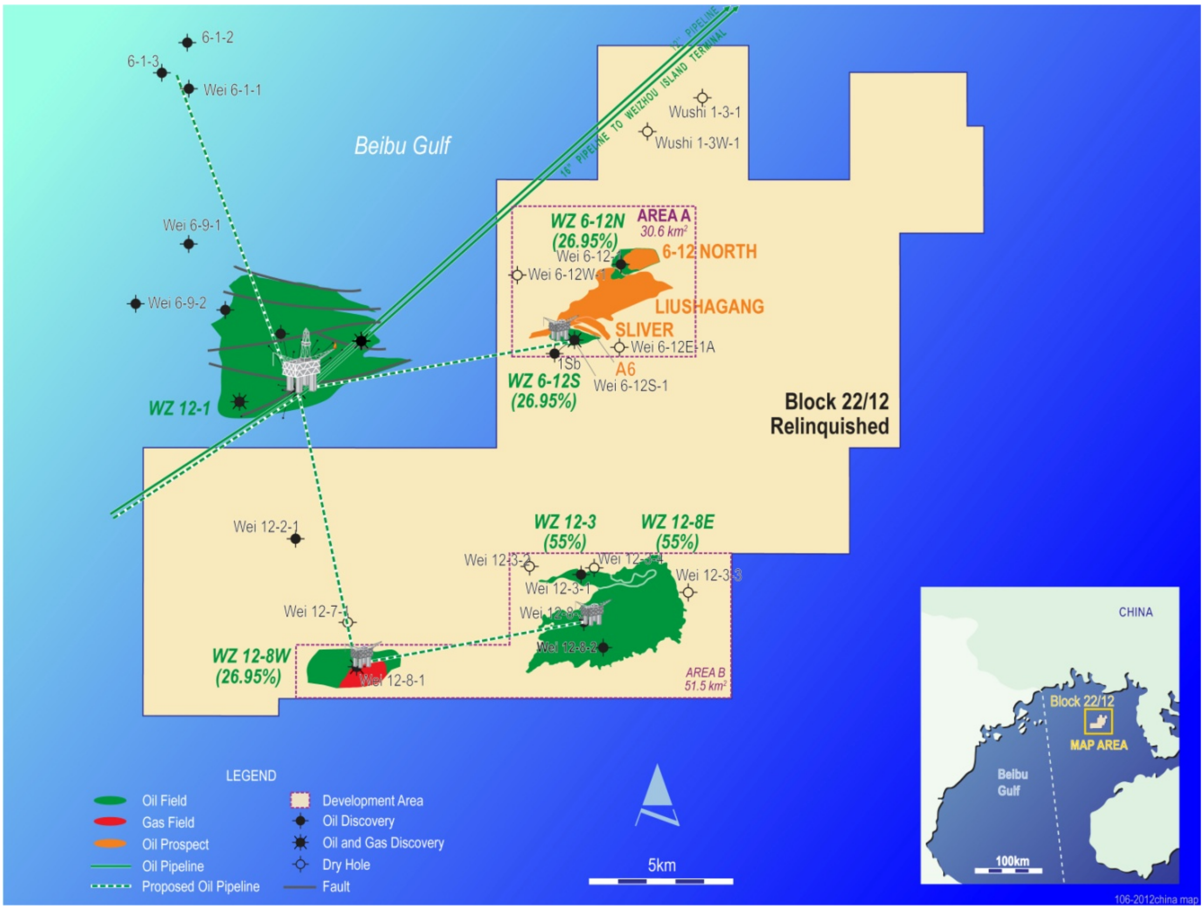



**PEP 51313, Offshore Taranaki Basin, (Horizon Oil interest: 30%)**

Processing of the recently acquired 3D seismic survey covering Maari, Manaia and the Whio (formerly Pike) prospect in PEP 51313 is continuing. Discussions with the Maari joint venture with a view to gaining access to the Maari production facilities, in the event of a discovery, are ongoing. The PEP 51313 joint venture is liaising with other permit holders regarding the importation of a rig to drill a number of wells in the offshore Taranaki basin, including Whio, in 2013.

## CHINA

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




Development activity progressed well throughout the quarter, with the platform jacket and topsides onshore fabrication phase now complete. Facilities were 85% complete at the end of October, with the forecast cost to completion still within the planned US$300 million development budget. First oil production from the Beibu Gulf project is expected to be in early 2013. The ramp-up to full-field peak production, of which Horizon Oil's share is expected to be 3,500 - 4,000 bopd, is anticipated during 2013.

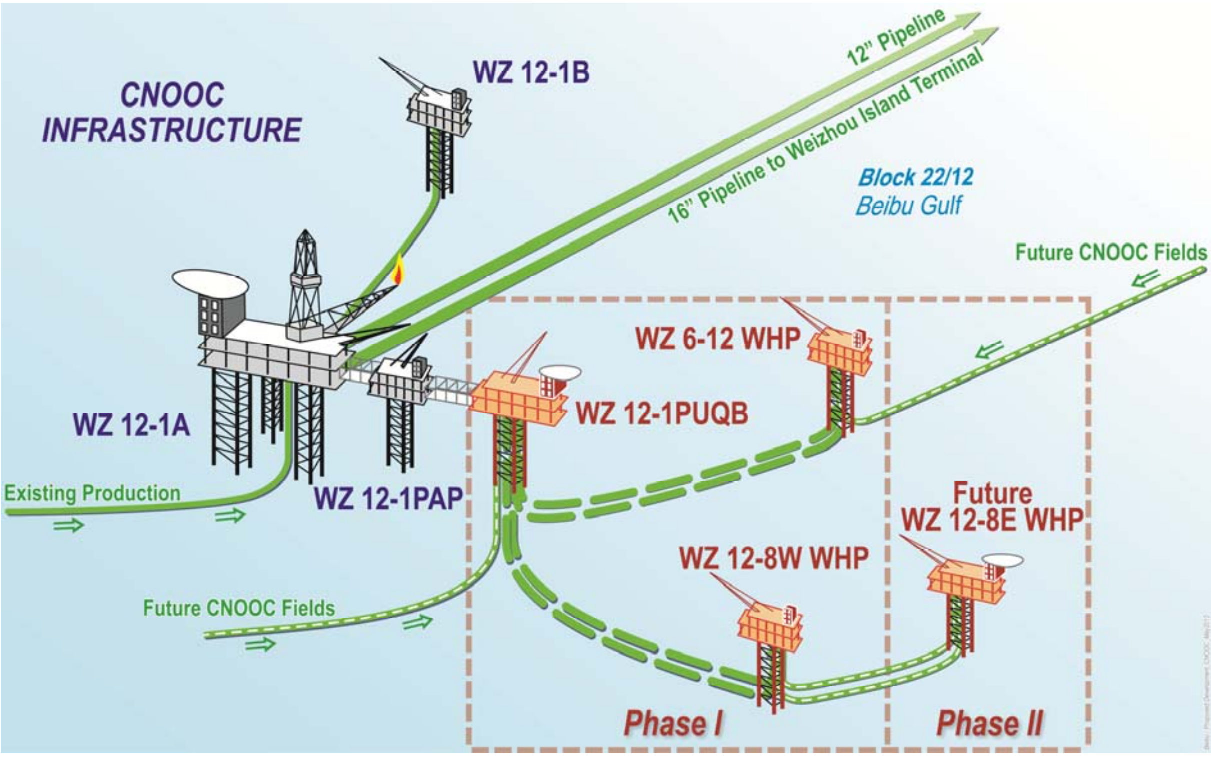
Final Government approval of the project has been granted by the National Development and Reform Commission (NDRC).

Drilling activity commenced on 1 October 2012, with the *Haiyang 931* jack-up rig, to evaluate five exploration/appraisal targets with three wells. This will be followed by the development drilling program later in Q4 2012.

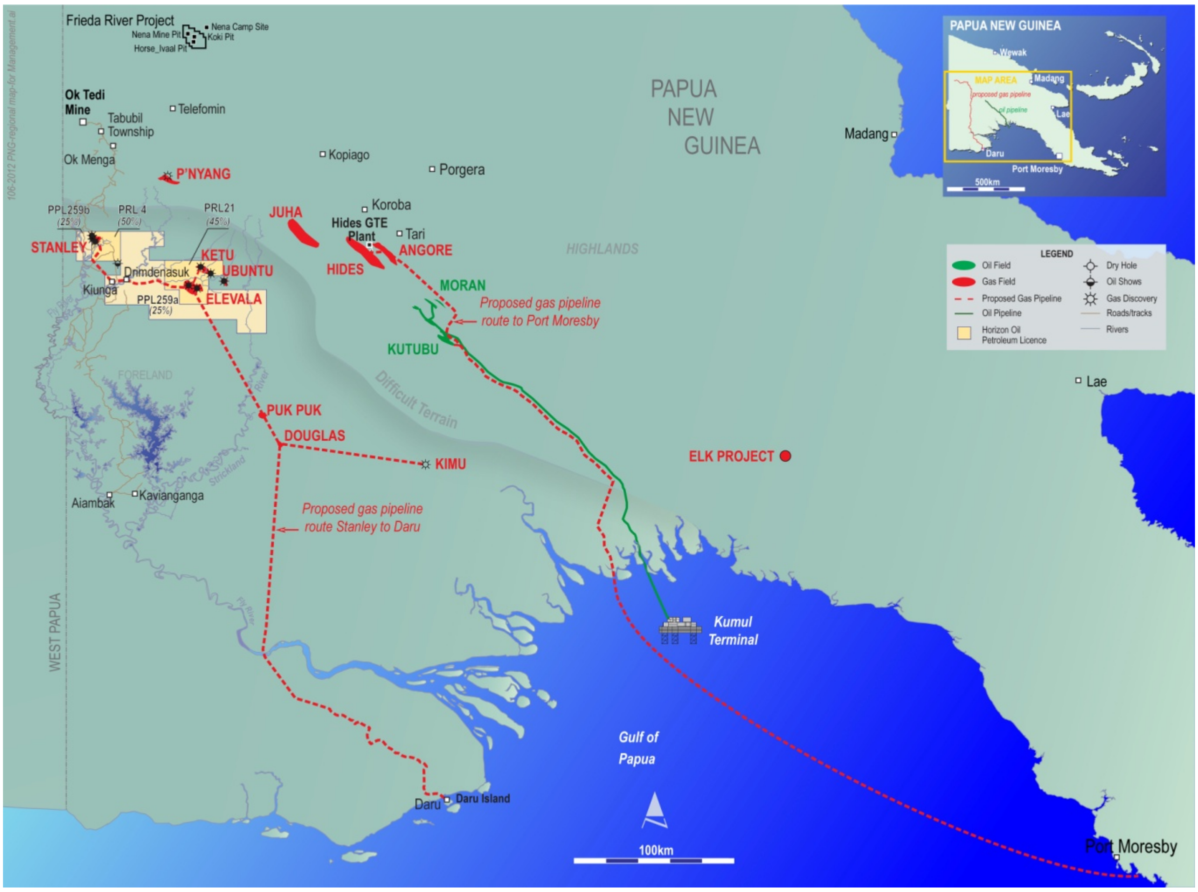
Horizon Oil advised on 10 October that the WZ 6-12N-1 exploration/appraisal well, the first of the exploration/appraisal drilling sequence, was an oil discovery. Horizon Oil holds a 55% interest in the exploration well through its wholly-owned subsidiaries Horizon Oil (Beibu) Limited and Petsec

Petroleum LLC, which reduces to 26.95% upon the election of CNOOC Limited to participate in any discoveries made. The well successfully appraised the T31C oil zone that was discovered in 2002 at the WZ 6-12-1 exploration well, located 1 km to the southwest and discovered new oil pay in the T30 and T30D sands above the T31C, zone and also in the primary exploration objective, the T32L sand below the T31C zone. In summary, the well confirmed 59 m of net oil pay in a gross sand thickness of 79 m.

Drilling of the second exploration/appraisal well, the WZ 6-12-A6 well which is being drilled from the WZ 6-12 wellhead platform, commenced on 15 October and is currently running 9-5/8" casing at a measured depth of 2,208 m prior to drilling ahead to the objective in 8-1/2" hole. Additional optimisation study work revealed an option to test the Sliver and Liushagang prospects (see map above) with a single deviated well drilled from the WZ 6-12 platform, which will be the third exploration well, the WZ 6-12-A7. Subject to CNOOC concurrence and participation, successful wells will be completed and included as additional production wells for the Beibu Gulf project. Provision has been made in the facility design to provide capacity for this.



## PAPUA NEW GUINEA

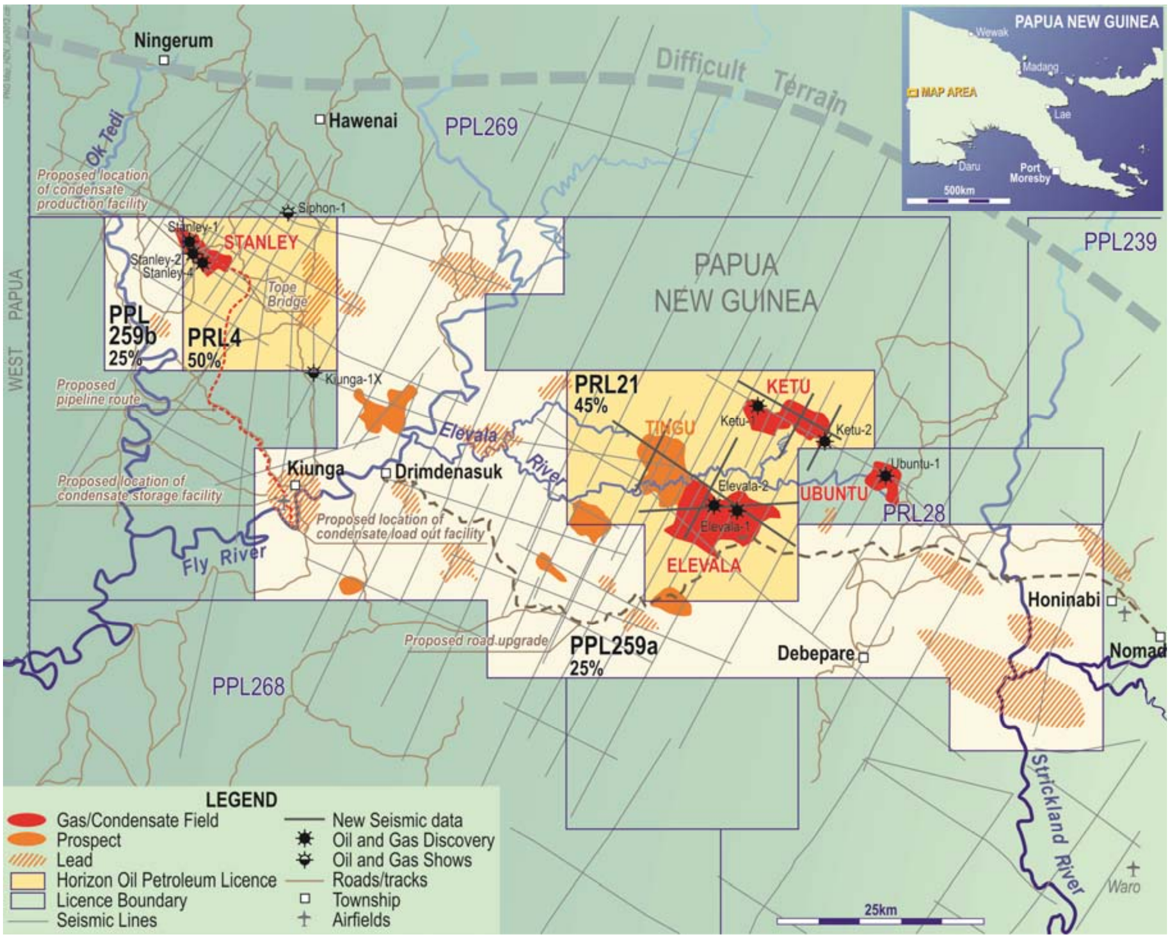



### PRL 4, Stanley Field, (Horizon Oil interest: 50%)

Horizon Oil, as operator of the PRL 4 joint venture, lodged applications for a petroleum development licence (PDL) and associated pipeline licence (PL) with the PNG Department of Petroleum and Energy on 28 August 2012. The substantive remaining matters to be resolved are negotiation of the Gas Agreement (fiscal terms) and the holding of the Development Forum with the landowners in the vicinity of the Stanley gas field. Approval of the PDL and PL is envisaged prior to the end of 2012.

Early works in advance of PDL grant have been initiated. These include execution of a charter contract with P&O Maritime Services for the condensate tanker on 18 September 2012, ordering of the construction camp and preparation to begin site grading at the gas plant location.

Negotiations for sale of the produced condensate and discussions with potential gas consumers continued throughout the quarter.




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

Evaluation of the results of the successful Elevala-2 and Ketu-2 appraisal wells was finalised during the quarter and RISC was commissioned to carry out an independent audit of the revised resource estimates for the Elevala and Ketu fields and Tingu prospect (see map above).

The audit confirmed a substantial resource in PRL 21 - gross proven and probable contingent resources of 795 bcf gas, 40 million barrels of condensate and the equivalent of 26 million barrels of LPG contained in the gas. In addition, significant upside has been identified in the Tingu prospect which may be joined to Elevala field.

This outcome, which represents a doubling of the certified resource size estimate before the drilling of the Elevala-2 and Ketu-2 appraisal wells, provided the incentive for detailed development planning, which has commenced. As operator of both the PRL 4 and PRL 21 joint ventures, Horizon Oil will be using the experience gained in the design of the Stanley field development in PRL 4 to fast track development plans and early production of the liquids in PRL 21 by way of gas stripping. Importantly, the increased gas volume - around 1.2 tcf in PRLs 4 and 21 combined - is approaching the scale required for a mid-scale LNG project and the Company is advancing its pre-development studies of this opportunity.

**PPL 259, (Horizon Oil interest: 25%)**

There was no activity during the quarter.

## 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 | 124 |
| Block 22/12 (Beibu Gulf), offshore China | 21,822 |
| PRL 4, Papua New Guinea | 7,209 |
| PRL 21, Papua New Guinea | 215 |
| PPL 259, Papua New Guinea | 81 |
| | |
| **Producing Oil and Gas Properties** | |
| ***PMP 38160 (Maari and Manaia), offshore New Zealand*** | |
| Capital expenditure | 931 |
| Production revenue | 10,514 |
| Operating expenditure | 2,144 |
| Amortisation | 1,762 |
| | |
| **Production Data (barrels)** | |
| Crude oil production | 100,605 |
| Crude oil sales | 92,445 |
| | |
| **Cash on hand at 30 September 2012** | **11,069** |
| **Reserves-Based Debt Facility**[1] | **37,420** |
| **Convertible Bond**[2] | **80,000** |

[1] Represents principal amounts drawn down as at 30 September 2012
[2] Represents principal amount repayable unless converted prior to 17 June 2016

Yours faithfully

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