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The Manager, Company Announcements
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HORIZON OIL (HZN) ANNUAL GENERAL MEETING
CHAIRMAN'S ADDRESS 22 NOVEMBER 2012

Please find attached Chairman's address to be made today at Horizon Oil's Annual General Meeting by Mr Fraser Ainsworth AM.

Yours faithfully,

Michael Sheridan
Chief Financial Officer / Company Secretary

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CHAIRMAN'S ADDRESS

2012 HZN AGM

Ladies and Gentlemen,

1. HIGHLIGHTS

Very good progress has been made on the priorities we set ourselves 12 months ago. The board is positive about the performance and achievements of Horizon Oil on the basis of:-

Operational highlights

- A substantial increase in reserves and resources has been achieved, with total reserves and resources about 50% higher than those reported last year and prospective resources about 80% higher.

  Assuming the Beibu Gulf development comes on stream and the PNG developments proceed and are completed as planned, forecast net production shows growth to 23,000 barrels of oil equivalent per day within 5 years, an increase of 44% over the previous forecast.

  I shall comment on the board's increasing level of confidence in this production forecast and its capacity to generate substantial cashflows later in this address.

- In New Zealand:-
  - An audit by an independent petroleum engineering firm has confirmed a significant upgrade of ultimate recoverable reserves in the existing producing zones at Maari and Manaia, from the 60 million barrels of oil on which the original development approval was based to in excess of

100 million barrels. With over 20 million barrels of oil already produced, Horizon Oil's share of remaining reserves is over 8 million barrels.

- The Maari joint venture will embark on a development drilling program in 2013/14 to enhance the recovery of the remaining reserves and also to evaluate additional potential in other zones at Maari and Manaia, as well as in as yet undrilled structures surrounding the fields. This will include a well on the Whio prospect (formerly Pike) in PEP 51313.

▪ In China:-

- the Beibu Gulf development facilities are now 90% complete and the forecast cost to completion remains within the US$300 million development budget. To date the China National Offshore Oil Corporation ("CNOOC") has performed very well as operator of the construction and installation phase of the project. Latest indications are that first oil will be in first quarter 2013, with the ramp up to full peak production (of which Horizon Oil's share will be at least 3,500 – 4,000 bopd) anticipated in first half 2013.
- Final, formal Chinese Government approval of the project has been granted by the National Development and Reform Commission ("NDRC").
- The three well exploration/appraisal drilling program that began in October, in advance of the development drilling phase, has been very successful, with oil pay confirmed in 4 of the 5 targets evaluated by the

wells. As a result there will be a meaningful addition to the reserves being developed in Phase I of the project, at a modest incremental development cost.

- In Papua New Guinea:
  - The Petroleum Retention Licence ("PRL") 4 partners approved the final investment decision for development of the Stanley gas/condensate field during the year and lodged a development licence application in August. While that application is being reviewed by the PNG Government, early works, including initiating of the contract to build the condensate tanker, have begun.
  - In PRL 21 successful appraisal wells on the Elevala and Ketu discoveries lead to a doubling of pre-drill estimates of resources. It is clear to us that we now have a condensate recovery project of considerable size to follow Stanley.

    Perhaps the most significant technical achievement of the past year is that we have now established a gas resource in PNG, independently audited, of 1.3 trillion cubic feet and this presents a good foundation for a mid-scale LNG project.
  - Besides the work on existing discoveries, as you will see in Brent Emmett's presentation, we have successfully increased the Company's acreage position around those discoveries, resulting in material working interests in nearly 6,000 sq km of prospective acreage.

Financial highlights

- Revenue from operating activities was US$50 million (2011: US$59 million). Higher realized oil prices were more than off-set by lower production from Maari.
- Profit before income tax expense was US$24 million (2011: US$48 million or US$26 million excluding US$22 million profit from asset sales).
- Net cash inflow from operating activities (excluding general and administrative costs) was US$21 million (2011: US$49 million). The reduction was mainly due to the lower revenue referred to above, plus increased New Zealand cash tax payments.
- In March this year the Company advised that it had finalised and executed the facility documentation for the provision of a reserves based debt facility of up to US$160 million with a term of six years. The participating banks are ANZ, CBA, BNP Paribas and Standard Chartered Bank.
- A substantial exploration, appraisal and development program was carried out during the year. Capital expenditure of US$79 million (net) was financed by operating cash flows (US$13 million), drawdowns on the reserves based debt facility (US$28 million net of transaction costs) and US$38 million of the US$65 million cash on hand at 30 June 2011.
- At financial year-end, the Company had cash on hand of US$19 million and bank debt of US$33 million. In addition, convertible bonds in the amount of US$80 million were outstanding.

2. THE ASSET PORTFOLIO

Detailed information on Horizon Oil's share of reserves, resources and prospective resources was presented in the annual report and latest quarterly report, and Brent Emmett will present this information later.

Importantly, 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 independently audited and, as noted earlier in this address, are substantially higher than in last year's annual report.

The composition of, and our assessment of the relative risk of the asset portfolio is:-

- low risk reserves, which are on production at Maari/Manaia and in development in Block 22/12 in China and Stanley field in PNG;
- medium risk contingent resources in China and PNG, which are expected to convert to reserves, contingent on positive investment decisions; and
- relatively high risk/high reward prospective resources (exploration potential) contained in prospects in and around the existing production and development assets.

The Board believes that, subject to comments I will shortly make about our PNG interests, this asset portfolio has the right risk/reward spread for a company at Horizon Oil's state of development and financial capacity. There is abundant growth potential in the undeveloped reserves and resources and in the exploration portfolio, which in our view is at the lower end of the exploration risk spectrum.

Over the last 3 years we have realised a total of US$55 million in pre-tax profits from the sale of part of the Company's PNG assets, in the process of managing our current interests in PRLs 4 and 21 down to 50% and 45% respectively. This is an example of success arising from continual review and tailoring of Horizon Oil's asset portfolio to achieve the appropriate risk/reward profile, in harmony with the Company's financial position and funding capacity. Such adjustments are not "once-offs" - rather, they are an important ongoing means of adding shareholder value and responding in a responsible way to our company's particular circumstances.

With this in mind and against the background of...

- the Company's substantial future growth and development funding requirements, particularly as a result of our recent appreciation of the potential for a large integrated petroleum liquids and LNG project in PNG;
- the relatively high interests we have in the PNG licence areas referred to above and our objective of achieving a sensible weighting of interests within the overall asset portfolio; and
- our intention to return part of future cash flow to our shareholders, rather than invest it entirely in the capital program

...the board has initiated a sale process of a partial interest in our PNG assets with the intent of introducing a new participant who will add strategic value to our already strong joint ventures. We believe Horizon Oil has a commanding and material position in the liquids-rich "sweet spot" of the Papuan foreland basin and we have had strong interest in the sale from substantive LNG industry players.

A successful sale, reflecting the board's firm view of the material future value of the PNG interests, will not only achieve the strategic requirements of portfolio balance and certainty of funding of the future development program, as mentioned earlier, but will serve to crystallize value from the investment made to date in PNG and the success obtained.

3. THE SHARE PRICE

Brief observations from the board on the Company's share price are:-

- Notwithstanding the significant increase in the Company's share price over calendar 2012 (over 95% since 1 January), the current price still represents a significant discount to realistic, risked, medium term value.
- It is clear that this discounting is not confined to Horizon Oil – as a class, the mid-cap energy stocks listed on the ASX (including Horizon Oil) are trading at a deep discount to their risked net asset value.
- Finally, the board is determined not to let the short term share price distract us from the main game, which is crystallising value from what we believe to be an outstanding asset portfolio. However, in this context, we do think that

a successful partial sale of our high value PNG assets referred to above should be positively received by the stock market and will provide a "look-through" valuation of the Company's remaining, substantial holding in PNG.

4. HEDGING AND INSURANCE

At the time of concluding the reserves based lending facility (and consistent with the terms of that facility), the Company advised its intention to hedge a proportion of Maari oil production. This was seen as a prudential measure, given the significant capital expenditure program and the objective of ensuring adequate revenues to meet the Company's commitments.

The oil price hedging arrangements were implemented in the quarter following financial close of the facility and coordination of the hedging arrangements with financiers. The company hedged 442,000 barrels of Maari production over a 24 month period to March 2014, securing production revenue in excess of US$45 million which is not subject to fluctuations in oil price. The 2012 production volumes hedged equate to approximately 50% of 2012 annual forecast production and currently 15% of calendar 2013 forecast production is hedged (bearing in mind that the 2013 forecast includes a significant contribution from the Beibu Gulf development, which is not yet on stream).

The board intends to continue to closely manage the level of hedging, primarily with a view to providing certainty of production revenue for reinvestment in the capital program and to meet other obligations and commitments.

As an additional prudential measure, the Company has in place loss of production insurance in respect of Maari production, which is activated in the event of unforeseen loss or damage to the Maari infrastructure. We intend to maintain this cover at least until the China project is fully on stream, providing a second source of production revenue.

5. ACKNOWLEDGEMENTS

Managing a growth and development program of the size and complexity we have described clearly is a big challenge.

In the board’s view (based on the significant progress and achievements noted herein), Brent Emmett and the compact but cohesive and committed Horizon Oil team have done a great job in executing this program.

6. STRATEGY

Our strategy is straightforward - it is to get on with the immediate priorities of adding value to our assets in New Zealand, China and PNG whilst also:-

- adjusting our asset portfolio to keep it in line with the Company’s financial position and funding capacity; and

- reviewing and - if necessary - building our people skills and resources to enable us to efficiently execute our growth and development program with confidence.

Shortly Brent Emmett will outline management's priorities for the coming year to realise this strategy.

7. OUTLOOK FOR SHAREHOLDERS

Finally, for the reasons set out in this address and which Brent Emmett will more fully specify in his CEO's presentation, the board is positive about the outlook for shareholders in our company, including the scope for significant increases in the share price (depending of course on a range of factors, including general sharemarket conditions).

However, the board is also well aware of the importance of both components of shareholder returns i.e. both (a) capital growth by way of increases in the share price and (b) income in the form of distributions to shareholders, most likely by way of dividends.

It would be premature to make specific undertakings today as to when the Company can prudently begin to pay dividends. However, should we successfully complete the partial sell-down of our PNG assets, meeting the board’s expectations of value, then we will be in a position to advise shareholders of our specific plans for payment of dividends.

Notwithstanding the risks, the board is increasingly optimistic that:-

- execution of our growth and development plans will be achieved and that, if so,
- combined with our plans to realise significant value from our PNG asset portfolio

...the outlook for shareholders in the Company is very positive.

Thank you.

Fraser Ainsworth
22 November 2012