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31 January 2013

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

**REPORT ON SECOND QUARTER ACTIVITIES – 31 DECEMBER 2012
AUSTRALIAN STOCK EXCHANGE LISTING RULE 5.1**

KEY ACTIVITIES

- **Production of 62,808 barrels of oil from Maari/Manaia fields and oil sales of 79,272 barrels, generating revenue of US\$8.3 million.**
- **Jack-up rig contracted for multi-well Maari growth projects campaign to begin in Q4 2013.**
- **Kan Tan IV semi-submersible rig contracted to drill Manaia deep appraisal well and Whio exploration well in summer of 2013/14.**
- **PEP 51313 farmed out for full carry through drilling of Whio-1.**
- **Three well exploration/appraisal drilling campaign completed on Beibu Gulf project, with reserves upgrade indicated.**
- **Beibu Gulf project construction and installation phase substantially complete and development drilling advanced.**
- **Approval of Petroleum Development Licence application for Stanley field development in PRL 4 moving slowly; early works continuing.**
- **Pre-FEED for Elevala/Ketu development in PRL 21 underway.**
- **Cash on hand US\$48.4 million at end of quarter, with US\$120.0 million drawn down on bank facility.**

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 62,808 barrels of oil. Crude oil sales were 79,272 barrels at an average effective price of US\$104.19 per barrel. Cumulative oil production from the fields through 30 January 2013 was 20.8 million barrels.

The average effective price per barrel takes into account the hedged price of a proportion of crude sales. The hedging arrangement was put in place in Q1 2012 to mitigate oil price risk, in view of the anticipated drawdown of the Company's reserves-based debt facility to meet development expenditure commitments. It should be noted that the proportion of Maari crude that has been hedged tapers off in 2013. (Production from Horizon Oil's Beibu Gulf fields in China, anticipated to commence within 60 days, is unhedged.)

Several factors affected production during the quarter. The field was shut in for scheduled annual maintenance from 10 - 17 December 2012. The MR5 well was shutdown to replace the downhole pump. A workover was carried out on the MR2 well and this well has taken some time to clean up after initially producing at a high water cut. The MR1 well, located on the western flank of the field, remains shut in pending conversion to a water injector. Current field production is about 10,000 barrels of oil per day. Despite these interruptions, Horizon Oil believes that the field operator is continuing to increase its understanding of the mechanical and reservoir factors that affect production reliability. This has led to progress on extending pump runtimes and in carrying out preventative maintenance on the wells, reconfiguring the downhole completions where necessary to do so.

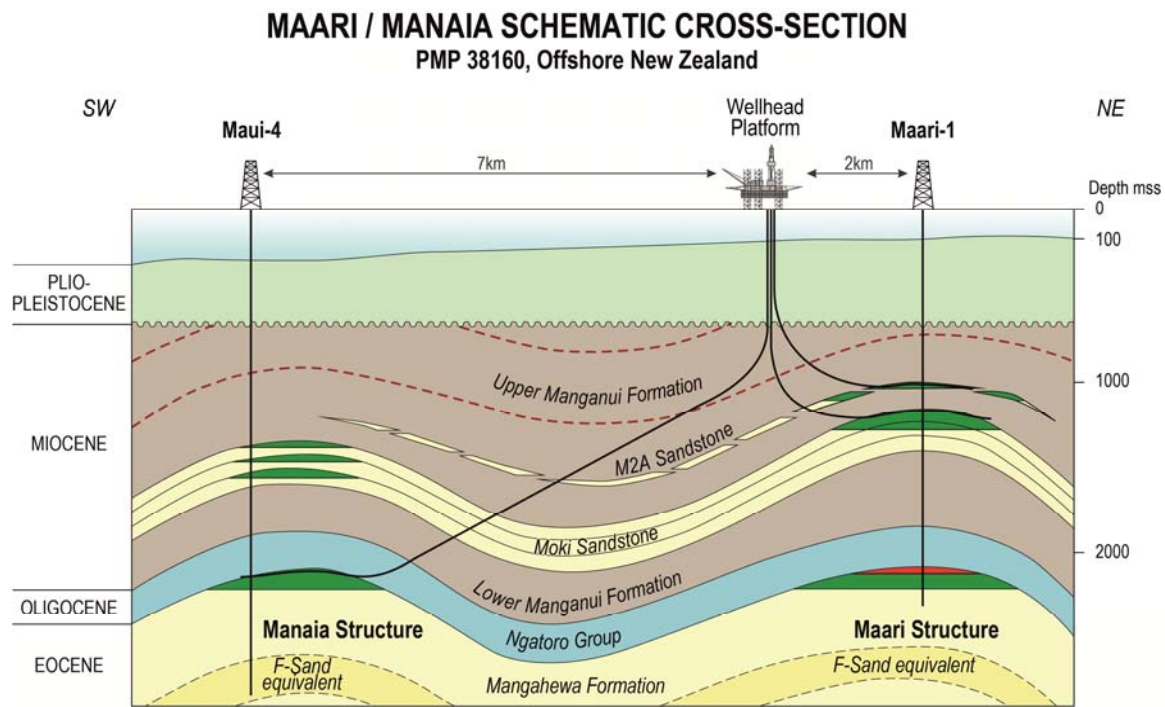
As advised in the previous quarterly report, significant reserves remain at Maari and Manaia and additional drilling and enhancement of the water injection system will be required to extract these reserves. The field operator is in the final stages of concluding a contract for a jack-up rig to carry out the planned multi-well Maari growth projects campaign. The rig is expected to arrive in Q4 2013 and the program is anticipated to last nine months.

The joint venture has also secured a semi-submersible rig, the *Kan Tan IV*, to drill the Manaia appraisal well and the Whio well in PEP 51313. This rig, which has been extensively refurbished since it was last in New Zealand waters, is due to arrive in August 2013, with the Manaia-2 well scheduled as the second well on the program, following the drilling of an exploration well by another joint venture.

An important element of the Maari growth projects drilling program and the drilling on Manaia and Whio will be interpretation of the new 288 sq km 3D seismic survey acquired over Maari, Manaia and adjacent prospects. Processing of this data continued throughout the quarter, with completion scheduled in April.

In November 2012, the Maari joint venture announced its decision to exercise its option to purchase the FPSO *Raroa*. The vessel has been operating at the offshore Maari oil field since 2009 and is currently leased from Tablelands Development Ltd to the Maari joint venture. The lease includes an option to purchase the *Raroa* after the fourth contract year at a pre-agreed buy-out price, of which Horizon Oil's share is US\$3.3 million. Besides leading to an approximate halving of field operating expense, purchase of the *Raroa* is seen as an integral part of the investment strategy for Maari field and will facilitate the tie-in of new reservoirs through drilling of additional wells. Ownership of the *Raroa* will provide both flexibility and control, which is particularly important in terms of upgrades and refurbishment that may be required to meet anticipated field life and production. The transfer of ownership will be effective as of March 8, 2013.

MODEC Management Services Pte Ltd has been awarded a contract to provide operations and maintenance services for Maari field. The initial contract period is until the end of 2017 with options to extend in two year increments. MODEC currently operates 15 FPSO vessels worldwide, including three offshore Western Australia. It is considered one of the world's leading providers of operations and maintenance services for floating production units. The award was based on an extensive pre-qualification and tendering process carried out by OMV, on behalf of the Maari joint venture, over the past year.



PEP 51313, Offshore Taranaki Basin, (Horizon Oil interest: 21%; 10% in Whio prospect area if a discovery is made)



In November 2012, Horizon Oil and its joint venture partners farmed out a 30% interest in PEP 51313 to OMV New Zealand Limited. Given that the first target to be drilled in the permit is the Whio prospect, which is located approximately 7 km from the Maari installation (about the same distance as Manaia from Maari) and which in the event of a discovery could be developed through the Maari facilities, it made sense to harmonise the participants in PEP 51313 and PMP 38160, the Maari production permit. Prior to the farm-out PEP 51313 joint venture interests were:-

Horizon Oil (New Zealand) Ltd	30%
Todd Exploration	50%
Cue Taranaki Pty Ltd	20%

Following the farm-out the new PEP 51313 joint venture interests will be:-

Horizon Oil (New Zealand) Ltd	21%
OMV New Zealand Limited	30%
Todd Exploration Ltd	35%
Cue Taranaki Pty Ltd	14%

The farm-in agreement is subject to regulatory approval. OMV will assume operatorship post completion of a 450 sq km 3D seismic program to be acquired over the Pukeko and Te Whatu prospects in Q1 2013. The original PEP 51313 participants will fund this program.

The key earning provision of the farm-out agreement is that OMV will fund 100% of the cost (without limitation) of an exploration well in the licence targeting the Whio prospect. The well will be drilled in conjunction with appraisal drilling at Manaia with the semi-submersible rig *Kan Tan IV*, which is expected to arrive in New Zealand waters in Q3 2013.

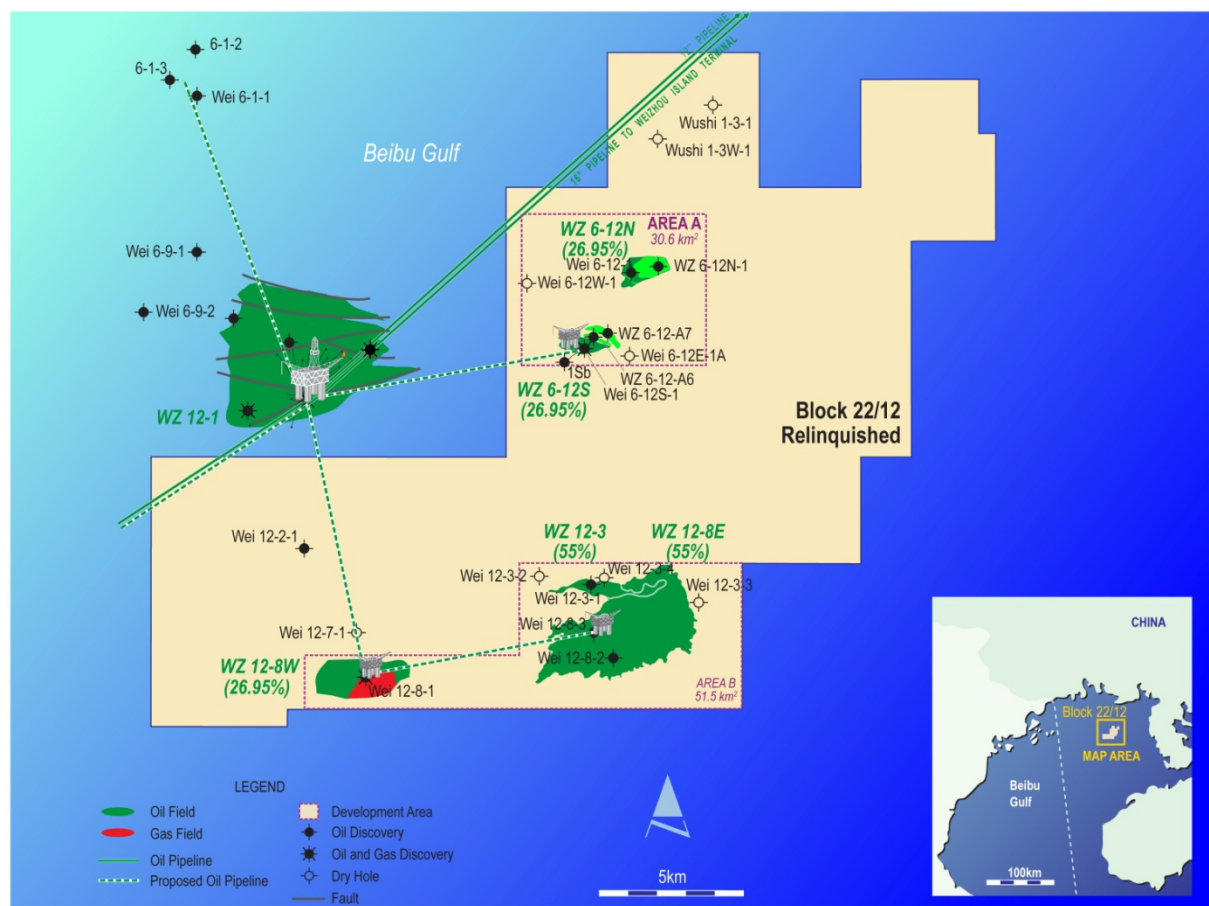
Processing of the newly acquired 288 sq km 3D seismic survey across the Maari/Manaia fields and Whio prospect is scheduled for completion in April and this will be utilised to select a location for the Whio-1 exploration well.

Under the farm-in agreement, in the event of a commercial discovery at the Whio prospect, OMV's share in the Whio prospect area alone will increase to 69%. The equity interests over the Whio area in this instance will match those of the Maari licence (PMP 38160) and this will facilitate the development of Whio through the Maari facilities:-

Horizon Oil (New Zealand) Ltd	10%
OMV New Zealand Limited	69%
Todd Exploration Ltd	16%
Cue Taranaki Pty Ltd	5%

CHINA

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

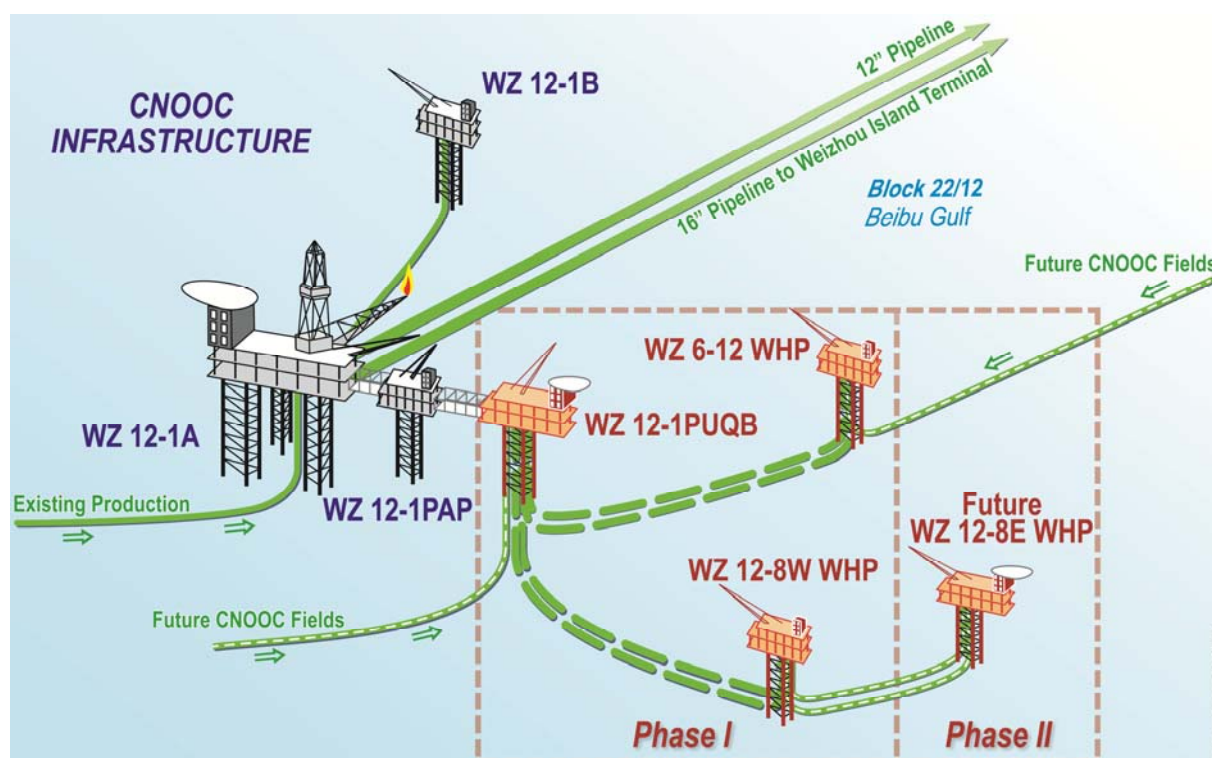


During the quarter a three well exploration/appraisal program was completed with the *Haiyang 931* jack-up rig with good results. Five exploration/appraisal targets were evaluated, of which four were found to be productive. As a result, a meaningful increase in reserves and field production potential is anticipated. These reserves will be produced through two of the exploration wells, A6 and A7, which were cased for production and three additional development wells to be drilled on the WZ 6-12N structure. The facilities have been designed to provide capacity for increased oil volume from these new discoveries.

Drilling of the originally planned 5 development wells in the WZ 6-12 area is progressing ahead of schedule. All wells have been batch-drilled to the 9-5/8" casing point and two of the five, the A1 and A3 wells, have been drilled and cased through the reservoir section. In summary, drilling is complete on four development wells and drilling of the reservoir sections on the remaining three wells is in progress. The three additional development wells on WZ 6-12N will be drilled either at the end of the drilling on the WZ 6-12 fields or after the rig has completed development drilling on the WZ 12-8W field.

Development activity continued with all utility platform (PUQB) topside modules successfully lifted into place by the end of November. Hook-up and commissioning work commenced in early December and work on the facilities is now substantially complete. Forecast cost to completion remains within the original US\$300 million (gross) development budget, prior to accounting for the cost of additional development wells to produce the newly discovered zones.

First oil production from the Beibu Gulf project is targeted during Q1 2013, with the ramp-up to plateau production anticipated in mid 2013. Horizon Oil's share of plateau production is expected to be higher than the previously advised 3,500 - 4,000 bopd in view of the additional development wells.



PAPUA NEW GUINEA

The Company advised on 22 November 2012 that it had initiated a sale process of a partial interest in Horizon Oil's PNG assets with the intent of introducing a new participant to add strategic value to existing strong joint ventures.

The process, conducted on behalf of the Company by Lazard and RISC is proceeding and, subject to potential arrangements reflecting the board's firm view of the material future value of the PNG interests, is anticipated to conclude in March 2013.



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

Planning for the development of Stanley field and government negotiations relating to the petroleum development licence (PDL) application continued throughout the quarter. Progress was made on negotiation of the Gas Agreement (project fiscal terms) however the Development Forum, which was expected to be convened before the end of 2012, is now likely to occur in March 2013.

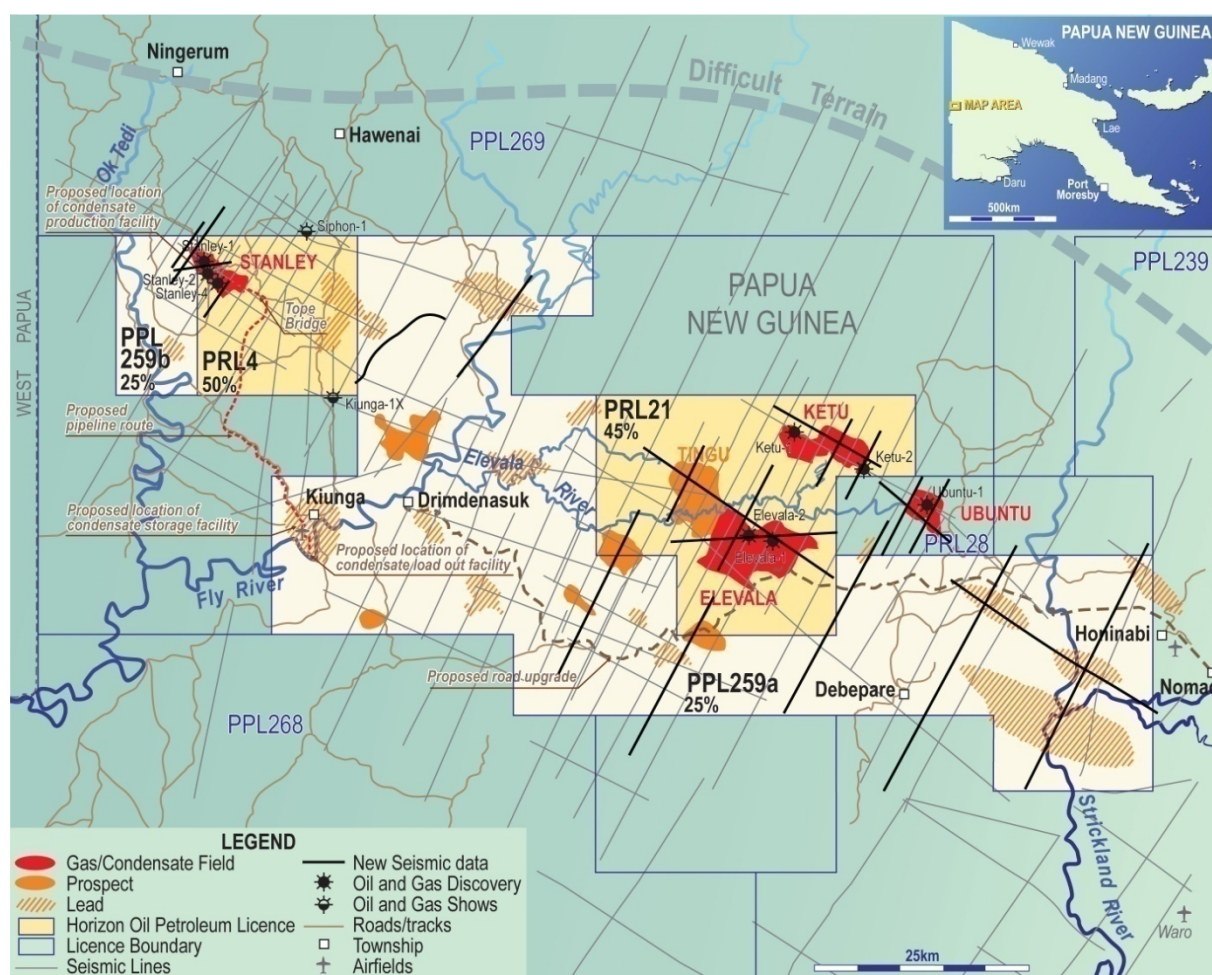
Negotiations with the participants in PPL 259 adjacent to PRL 4 regarding the formation of a unit to include the small portion of Stanley field that possibly encroaches into PPL 259 were initiated. The effect on Horizon Oil's interest in Stanley field will be minimal, because the Company is a participant in both licences.

Early works in advance of PDL grant are progressing. Significant progress was made on the civil site construction engineering and tender process. The 3D piping model has progressed and various technical reports required for the project completed. Fabrication of the construction and permanent camp has been completed in China ahead of schedule. Design work on the loadout facility to be located on the Fly River is continuing and pipeline construction bid documents are nearly complete.

Building of the river tanker at a yard in Jiangsu, China under the supervision of P&O Maritime is on schedule to achieve a yard delivery date of January 2014.



Stanley Gas Plant 3D Model



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

Pre-FEED (front end engineering and design) development planning has commenced for the Elevala/Ketu condensate recovery project. A LiDAR (topography) survey is proposed for Q1 2013 to cover the greater Elevala area including potential pipeline routes and road access. Information from the survey will underpin investigation of the preferred development concept, especially the civil

engineering aspects. Equinox Engineering, the firm undertaking the design of the Stanley plant, is actively engaged in reviewing facility and pipeline options. The pre-FEED phase is scheduled for completion in May 2013.

The PRL 21 joint venture intends to drill the Tingu prospect, adjacent to and northwest of Elevala field (see map above) in the middle of this year and site work on the drilling program is underway with the target for completion in June.

PPL 259, (Horizon Oil interest: 25%)

A 52 km 2D seismic program has commenced over three of the most prospective leads in the western part of the licence, with a view to maturing at least one of the leads for drilling in Q3 2013. Seismic acquisition is due to be completed in early March with processing results to be delivered in April.

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	22
Block 22/12 (Beibu Gulf), offshore China	39,621
PRL 4, Papua New Guinea	9,500
PRL 21, Papua New Guinea	244
PPL 259, Papua New Guinea	156
Producing Oil and Gas Properties	
<i>PMP 38160 (Maari and Manaia), offshore New Zealand</i>	
Capital expenditure	573
Production revenue ¹	7,746
Operating expenditure	2,633
Amortisation ²	125
Production Data (barrels)	
Crude oil production	62,808
Crude oil sales	79,272
Cash on hand at 31 December 2012	48,422
Reserves-Based Debt Facility³	120,000
Convertible Bond⁴	80,000

¹ Includes US\$513,000 of hedge losses settled during the quarter which related to first quarter sales

² Includes adjustment following reserves upgrade as announced on 18 October 2012. Year-to-date amortisation to 31 December 2012 is US\$1,887,000

³ Represents principal amounts drawn down as at 31 December 2012

⁴ Represents principal amount repayable unless converted prior to 17 June 2016

Yours faithfully



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