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31 October 2013

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

REPORT ON FIRST QUARTER ACTIVITIES – 31 OCTOBER 2013
AUSTRALIAN STOCK EXCHANGE LISTING RULE 5.1

KEY ACTIVITIES

- **One for seven entitlement offer at A$0.33 per share successfully executed during quarter to raise $53.5 million to fund exploration and development program, pending receipt of funds from partial sale of PNG assets.**

- **Maari/Manaia fields shut-in for most of quarter for major equipment maintenance and upgrade work.**

- **Drilling of Manaia-2 exploration/appraisal well underway, with hydrocarbon shows encountered in upper objective.**

- **Development drilling program on Beibu Gulf fields completed within budget and ahead of schedule; construction nearing completion; all 15 wells on steam at a combined rate in excess of 15,000 bopd (Horizon Oil share over 4,000 bopd).**

- **Seismic farmin option negotiated for 40% interest in Block 09/05, Bohai Bay, offshore China.**

- **Stanley field development licence application progressing, with licence offer expected before year end.**

- **Significant gas/condensate discovery made with Tingu-1 exploration well in PRL 21, adding potentially 100 million barrels of oil equivalent to resource base; Elevala/Ketu FEED study scope expanded to provide for integration of Tingu accumulation.**

CORPORATE

On 31 July 2013, Horizon Oil announced a fully underwritten 1 for 7 accelerated non-renounceable entitlement offer to raise approximately $53.5 million. The institutional component of the Entitlement Offer was strongly supported by existing institutional shareholders with a 90% take up rate, complemented by a relatively strong take-up by retail shareholders.

The shares issued under the entitlement offer were priced at A$0.33 per share representing a 9.6% discount to the theoretical ex-rights price and a 10.8% discount to the closing price of Horizon Oil's ordinary shares on the Australian Securities Exchange immediately prior to the announcement of the entitlement offer.

Funds raised from the entitlement offer have and will be used to continue Horizon Oil's active exploration and development work program across Papua New Guinea, China and New Zealand pending completion and receipt of funds from the Papua New Guinea farmout transaction with Osaka Gas, announced in May 2013.

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 17,371 barrels of oil. Crude oil sales were 48,509 barrels at an average effective price of US$113.67. Cumulative oil production from the fields through 21 July 2013 was 22 million barrels.

Quarterly production was low because Maari production facilities were shut in on 21 July to effect interim repair works on the FPSO *Raroa* mooring system and have not yet recommenced. A bearing in the vessel's mooring swivel failed, causing the Maari joint venture to bring forward plans for replacement of this equipment. This required disconnection of the vessel and towing to nearby Port Nelson where it arrived on 28 October for installation of a new swivel. While in port, the opportunity is being taken to refurbish and upgrade the *Raroa's* process equipment.

The opportunity is also being taken to effect permanent repairs to the mooring system while the vessel is off station and good progress has been made on this. Construction activities in preparation for tie-ins of new wells to be drilled as part of the Maari growth projects program and upgrade of the wellhead platform are currently being undertaken, further utilising the field shut-in period. Consolidation of this maintenance and construction work into one package ensures the field facilities will be upgraded prior to the first new wells coming on stream early next year.

The *Raroa* is expected to be back on station and the field returned to production in December 2013.

The first well to be drilled in the growth projects program, the Manaia-2 deep exploration/appraisal well located on the crest of the Manaia field (see map above), spudded on 1 September with the semi-submersible drilling rig *Kan Tan IV*. After encountering hydrocarbon indications in the Moki formation, the well was drilled to a depth of 2,005 m and 9-5/8" casing run. The current operation is preparing to drill ahead to evaluate the Mangahewa formation and F-sand reservoirs towards a planned total depth of 2,860 m. The hydrocarbon shows in the Moki formation will be evaluated after the well has reached total depth.

Preparation for the Maari growth projects program is continuing, with the *Ensco 107* jack-up drilling rig expected to arrive in New Zealand waters in Q1 2014.

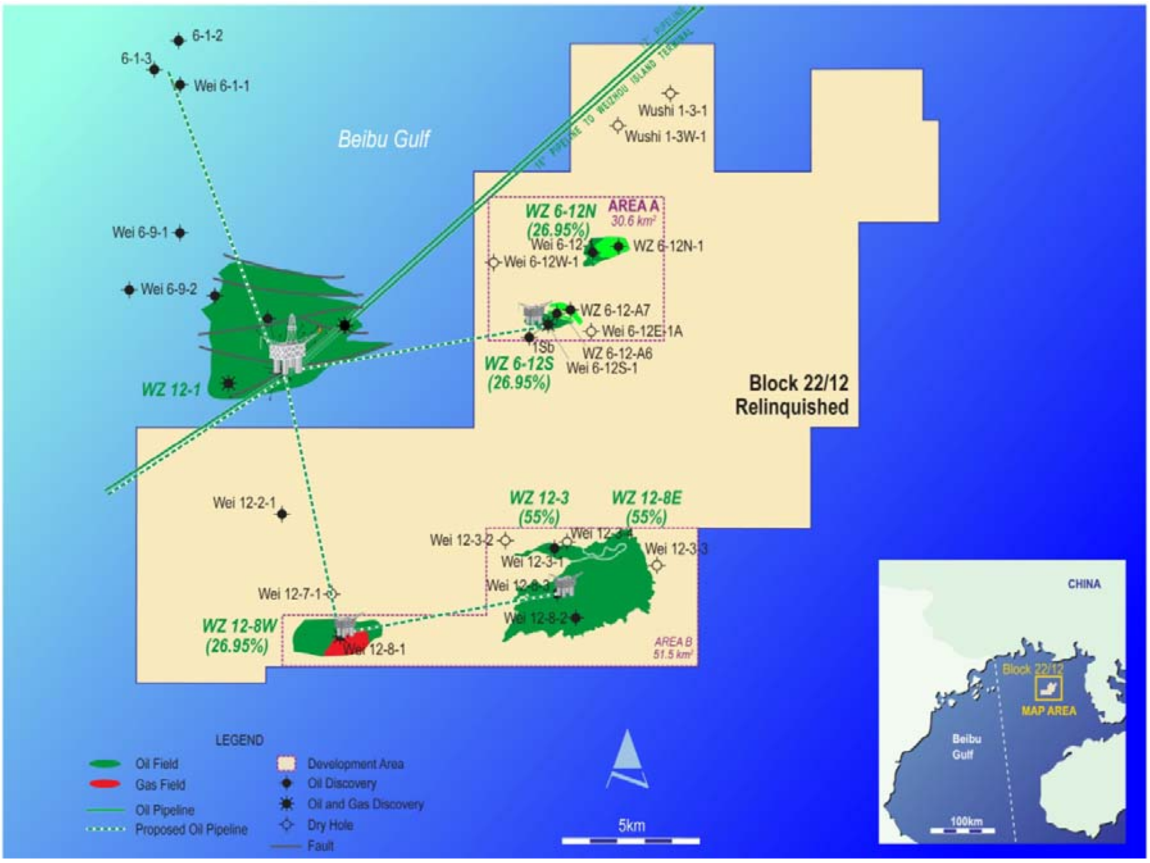
PEP 51313, Offshore Taranaki Basin, (Horizon Oil interest: 21%; 10% in Whio prospect area if a discovery is made)

Planning for drilling of the Whio-1 exploration well with the semi-submersible rig *Kan Tan IV*, expected to be drilled in Q1 2014, progressed throughout the quarter. OMV New Zealand Limited will operate the well and carry Horizon Oil through its share of the cost to earn an interest in the permit. The Whio-1 location will be selected utilising the newly acquired 288 sq km 3D seismic survey across the Maari/Manaia fields and Whio prospect (see map above).

Processing of the 450 km 3D seismic program in the Te Whatu-Pukeko area was completed in early September. The joint venture will make a decision on the drilling of a well in the Te Whatu area during Q4 2013. An option slot is available on the *Kan Tan IV* for the well, with a likely spud in the first half of 2014.

CHINA

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

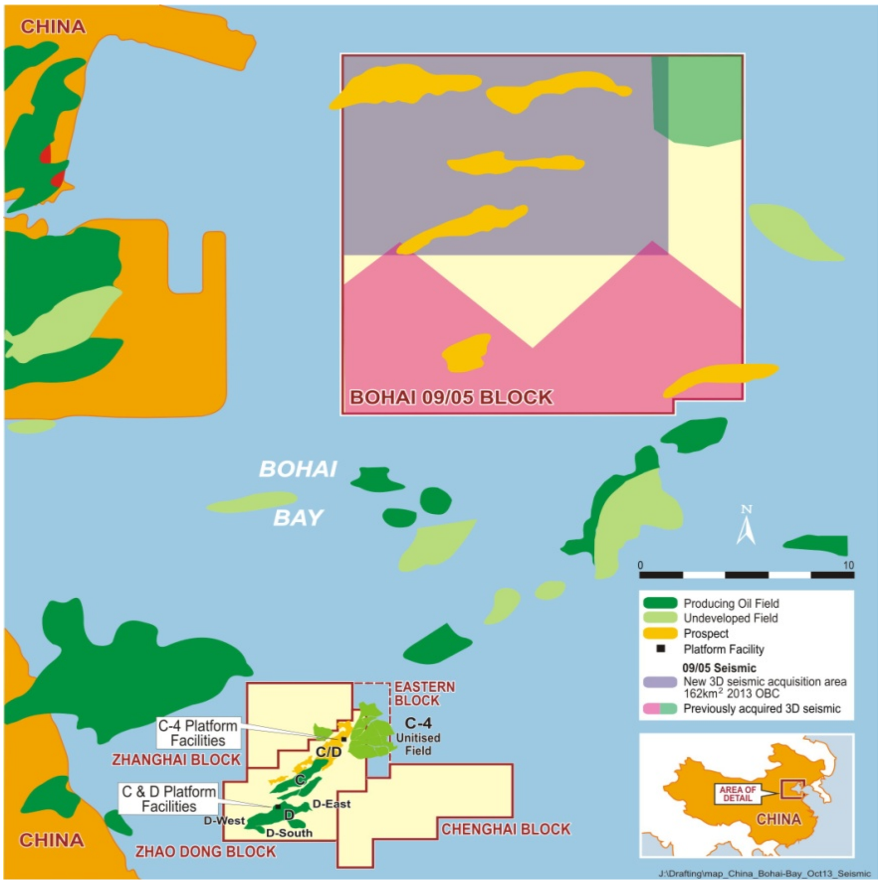


During the quarter Horizon Oil's working interest share of production from the Beibu Gulf fields was 268,865 barrels of oil. Crude oil sales were 251,052 barrels at an average price of US$105.75. Cumulative oil production from the fields through 29 October 2013 was 2.1 million barrels.

Average production over the quarter was about 11,000 bopd, which has now increased to over 15,000 bopd, of which Horizon Oil's share is in excess of 4,000 bopd. All 15 wells are now on production, with 6 wells still on natural flow and waiting to be put on pump.

Following the successful hook-up and commissioning of the 10 well development drilling program on the WZ 6-12 wellhead platform, the five well development drilling program on the WZ 12-8W field was completed safely and within budget and the *HYS1 931* jack-up drilling rig released on 17 August 2013. Installation of the PUQB utilities platform heli-deck was completed during the quarter, with remaining construction work being finalisation of the permanent tie-in of three of the WZ 6-12 wells.

Block 09/05, Bohai Bay, offshore China (Horizon Oil interest: 40%)



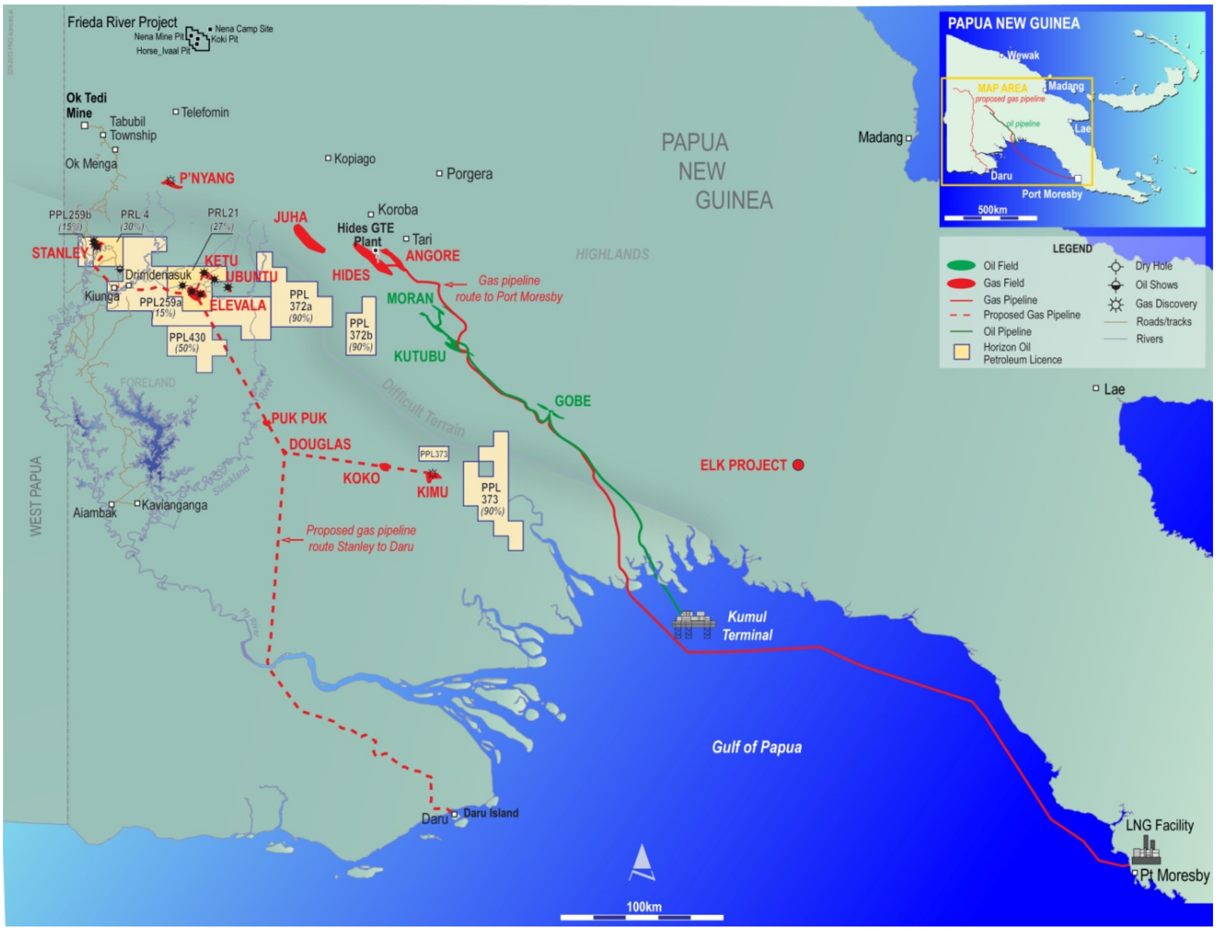
During the reporting period, the Company entered into a seismic farmin option agreement with Roc Oil (Bohai) Company to earn a 40% interest in Block 09/05, Bohai Bay, offshore China. Under the terms of the agreement, Horizon Oil will pay 40% of all exploration costs incurred until the exercise or lapse of the option, which entitles Horizon Oil to farmin to a 40% working interest in the block.

The exploration costs are essentially those associated with a 162 sq km ocean bottom cable 3D seismic survey (see map above), which was recently completed ahead of schedule, within budget and without incident. Processing of the 3D seismic data volume has commenced and, on completion, will help de-risk exploration prospects ahead of exploration drilling scheduled for 2014.

Prior to spudding the first well, Horizon Oil may exercise the option to earn the 40% interest by paying a two-for-one promote on the first two exploration wells on the block. The transfer of interest to Horizon Oil will be subject to the approval of China National Offshore Oil Corporation (CNOOC). CNOOC has the right to participate at a level of up to 51% in any field development on the block, which would cause Horizon Oil's interest to reduce to 19.6%.

Horizon Oil has enjoyed a successful relationship with CNOOC and Roc Oil in its Beibu Gulf joint venture and expects to continue this in Bohai Bay. Roc Oil operates the Zhao Dong field, which is located about 15 km south of Block 09/05 and is well placed to utilise this experience as operator of Block 09/05.

PAPUA NEW GUINEA



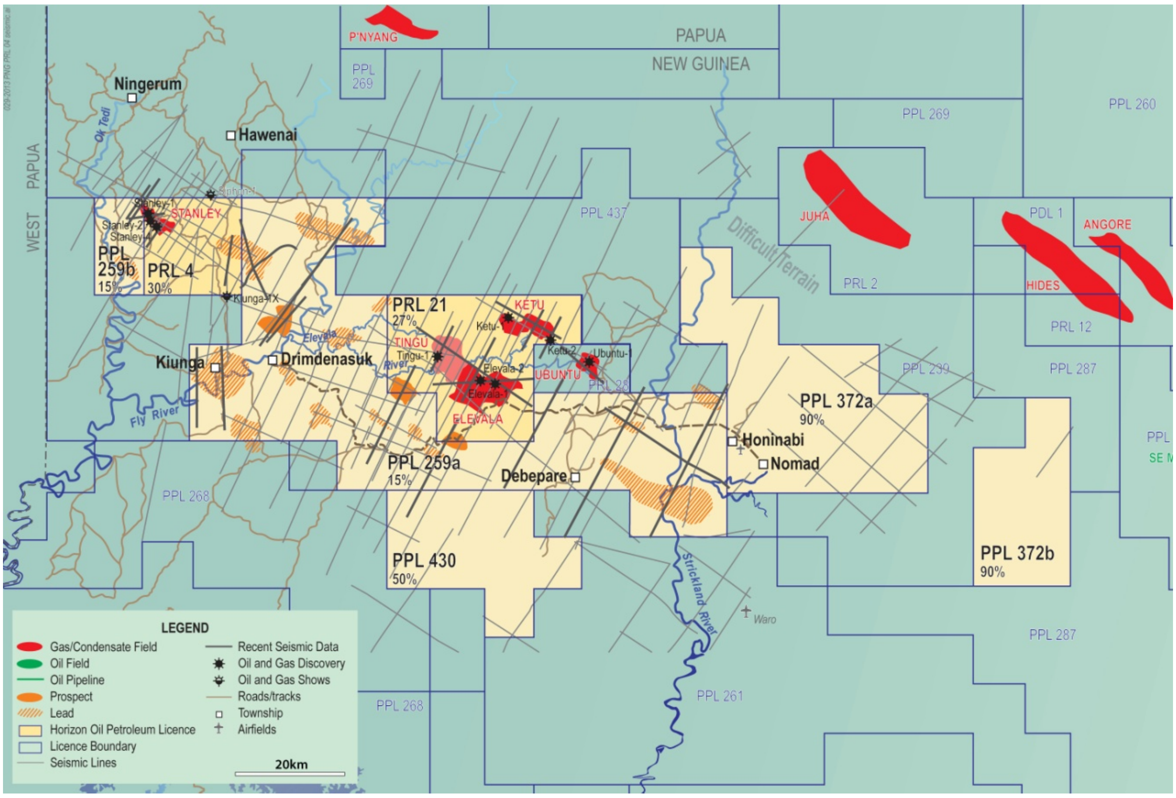
PRL 4, Stanley Field, (Horizon Oil interest: 30%)

Government negotiations relating to the Petroleum Development Licence (PDL) application continued throughout the quarter and Horizon Oil believes that there are no issues outstanding that will prevent the grant of the PDL.

The remaining tasks to be finalised are execution of the Gas Agreement (project agreement) with the Government and convening of the Development Forum with landowners and affected parties at Stanley field. Horizon Oil, as operator, is working actively to conclude these issues and expects the PDL to be offered prior to the end of the year.

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 are progressing productively. The effect on Horizon Oil's interest in Stanley field will be minimal, because the Company is a participant in both licences.

Work on the 90 m condensate tanker at a yard in Jiangsu, China under the supervision of P&O Maritime is progressing on schedule to achieve a yard delivery date of Q1 2014.



PRL 21, Elevala/Ketu discoveries (Horizon Oil interest: 27%)

Work continued on the Elevala/Ketu condensate recovery project development planning. The objective is to substantially finalise FEED (front end engineering and design) studies and submit a development licence application to the Government at the end of Q1 2014. The scope of the FEED study has been expanded to provide for the integration of the recently announced Tingu-1 discovery in the development.

Tingu-1 spudded on 26 August 2013 with Parker *Rig 226*. The well is located 9.2 km northwest of the Elevala-2 appraisal well (see map above), itself a stepout from the Elevala-1 discovery well, which both found condensate-rich gas in the Early Cretaceous Elevala Sandstone.

Horizon Oil advised on 2 October 2013 that data from logs and pressure measurements had confirmed a significant gas/condensate discovery in the primary target Elevala Sandstone in the Tingu-1 exploration well. The well encountered a gas water contact in that reservoir consistent with that in the Elevala accumulation to the southeast, implying a connected field of considerable size.

Data from the Toro Formation underlying the Elevala Sandstone indicate that a possible gas column also exists in that reservoir up-dip from the Tingu-1 location.

A 7" liner was run in the well and cemented at a measured depth of 3,234 m. After running a completion tubing string and installing the Christmas Tree, the well was perforated across a 7 m interval in the Elevala Sandstone on 24 October and production testing operations commenced. At the end of the clean-up flow period, the average flow rate was 48 million cubic feet of gas per day (mmcfd) on a 72/64" choke, with no water, indicating high deliverability from the reservoir which is encouraging for future production operations. For the main flow period, the gas was flowed to a test separator and an average condensate gas ratio (CGR) of 65 barrels of condensate per million cubic feet of gas was measured over a three hour period, after which hydrocarbon samples were taken for compositional and pressure analysis. This analysis will be required to confirm the flow test results and CGR, but it is certainly an encouraging result so far.

The Tingu accumulation is potentially similar in size to the Elevala gas-condensate field (2C contingent resource of approximately 400 billion cubic feet of gas and 22 million barrels of condensate).

The rig was released on 29 October and is currently being demobilised to the Stanley field, in preparation for drilling the remaining two development wells, once the development licence is granted. The test unit will shortly be moved to the location of the successful Ketu-2 appraisal well, drilled in 2012, to carry out production testing of that well.

Tingu-1 flow test with Parker Rig 226

PPL 259 (Horizon Oil interest: 15%)

Interpretation of a 67 km 2D seismic program acquired over leads and prospects in the western part of the licence earlier this year is continuing. Several large prospects have been delineated as potential drilling targets and additional seismic acquisition is being planned to finalise at least one location for drilling.

PPLs 430 (Horizon Oil interest: 50%), 372 and 373 (Horizon Oil interest: 90%)

Data on the new acreage is currently being collated, with the intent of reprocessing existing seismic ahead of acquiring new seismic data. The acreage will be explored with the objective of confirming sufficient gas reserves, when added to the existing reserves base, to underwrite a mid-scale LNG plant on the coast.

FINANCIAL SUMMARY

	Q1 2014	Q4 2013	Change
	US$'000	**US$'000**	**%**
Exploration and Development			
PEP 51313, offshore New Zealand	114	1,969	
PRL 4, Papua New Guinea[1]	2,595	3,895	
PRL 21, Papua New Guinea[1]	5,242	6,564	
PPL 259, Papua New Guinea[1]	35	107	
PMP 38160 (Maari and Manaia), offshore New Zealand	2,369	649	
Block 22/12 (Beibu Gulf), offshore China	11,656	9,357	
	22,01122,011	**22,541**	**(2.4%)**
Production Data (barrels)			
PMP 38160 (Maari and Manaia), offshore NZ			
Crude oil production	17,371	79,369	(78.1%)
Crude oil sales	48,509	46,350	4.7%
Block 22/12 (Beibu Gulf), offshore China			
Crude oil production	268,865	177,276	51.7%
Crude oil sales	251,052	165,532	51.7%
Total Production			
Crude oil production	**286,236**	**256,645**	**11.5%**
Crude oil sales	**299,561**	**211,882**	**41.4%**
Producing Oil and Gas Properties			
PMP 38160 (Maari and Manaia), offshore NZ			
Production revenue[5]	5,514	5,061	9.0%
Operating expenditure	3,943	1,392	
Amortisation	200	870	
Block 22/12 (Beibu Gulf), offshore China			
Production revenue[5]	26,548	16,219	63.7%
Operating expenditure	2,542	2,429	
Special Oil Gain Levy	4,504	2,434	
Amortisation	7,310	4,793	
Total Producing Oil and Gas Properties			
Production revenue[5]	**32,062**	**21,279**	**50.7%**
Oil hedging losses	**1,474**	**383**	
Operating expenditure[2]	**10,989**	**6,021**	
Amortisation	**7,510**	**5,663**	
Cash on hand at 30 September 2013	**65,367**	**19,028**	
Reserves-Based Debt Facility[3]	**134,335**	**134,335**	
Convertible Bond[4]	**80,000**	**80,000**	

[1] Subject to 40% recoupment of costs incurred on completion of Osaka Gas transaction.
[2] Includes Special Oil Gain Levy payable in China
[3] Represents principal amounts drawn down as at 30 September 2013
[4] Represents principal amount repayable unless converted prior to 17 June 2016
[5] Represents gross revenue excluding hedge gains and losses

Yours faithfully

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