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

**REPORT ON FOURTH QUARTER ACTIVITIES – 30 JUNE 2011
AUSTRALIAN STOCK EXCHANGE LISTING RULE 5.1**

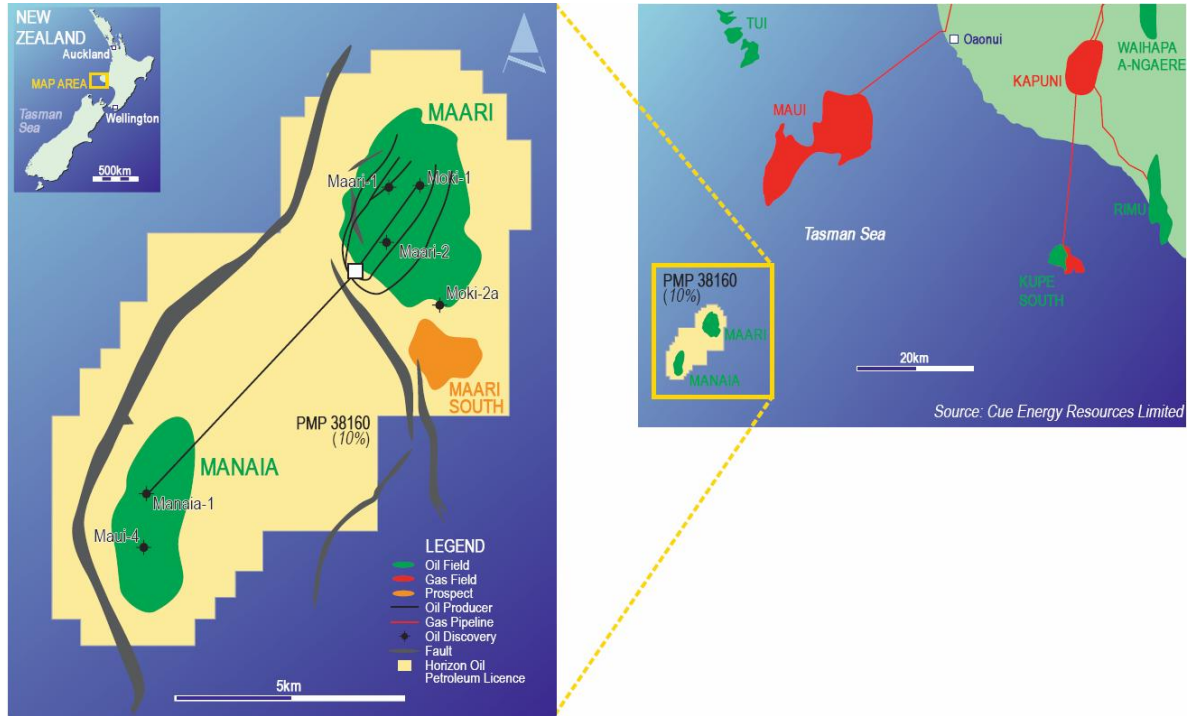
KEY ACTIVITIES

- **Oil sales of 128,807 barrels from Maari / Manaia fields offshore New Zealand, generating revenue of US\$15.7 million; cumulative oil production to date 14.8 million barrels (mmbo).**
- **Good progress made on solving scaling and pump failure issues which have hampered Maari field production.**
- **Additional interest acquired in Block 22/12, offshore China, for US\$40 million, increasing company's interest in development project from 14.7% to 26.95% and net reserves from 6.2 mmbo to 11.3 mmbo; acquisition and associated development expenditure funded with US\$80 million convertible bond issue.**
- **Block 22/12 field development progressing on schedule with over one third of US\$300 million project cost contracted out at fixed price.**
- **Appraisal drilling program in PRL 4, onshore Papua New Guinea, finalised with completion of Stanley-2 and Stanley-4 wells; material reserves upgrade expected.**
- **Additional interest acquired in PRL 21, Papua New Guinea, increasing Horizon Oil interest to 45%; preparation of drilling locations for Elevala-2 and Ketu-2 underway.**
- **Final payment of US\$22 million for partial sale of PRL 4 interest in 2009 received; Maari project loan retired; cash balance of US\$64.5 million at end of quarter.**

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 field was 120,089 barrels of oil. Crude oil sales were 128,807 barrels at an average price of US\$122.27 per barrel. Cumulative oil production from the field through 21 July 2011 was 14.8 million barrels.

As has been reported previously, production has been hampered by frequent failures of electrical submersible pumps (ESPs) and scaling observed in the pumps and well completion components. Production was also curtailed for a planned maintenance shut-down of the facilities, completed over the period 20 – 25 June 2011.

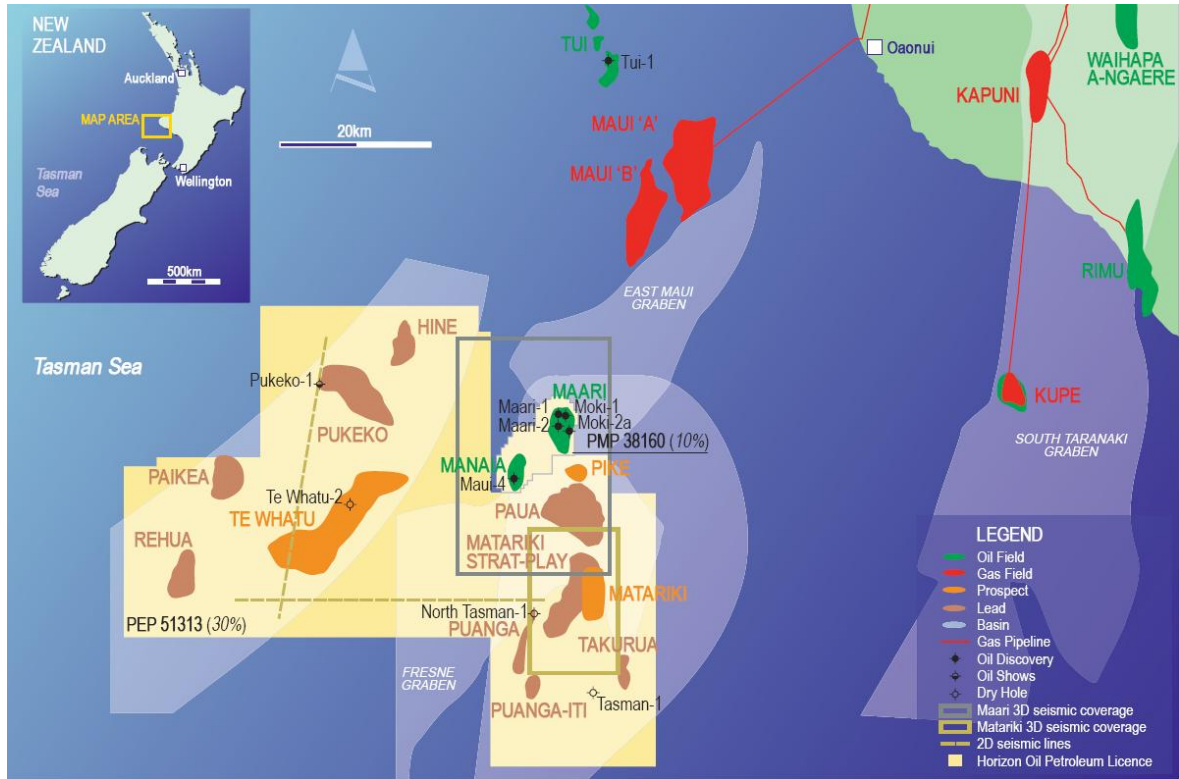
The field operator is working cogently to address the ESP failure and scaling issues and good progress is being made. After thorough core flood studies, an acid treatment has been designed to remove scale without causing formation damage and a procedure instigated to remove existing scale and to prevent further scaling with a regular maintenance program that does not require workover. This should result in less damage to the ESPs. In addition the operator has engaged with the pump supplier to improve ESP performance and maximise run-time.

During the quarter the MR4 and MR5 ESPs were replaced and the wells returned to production. Currently eight of nine available production wells are producing at a rate of 17,000 bopd. The MR1 well is shut-in for workover.

Planning for further development of the shallower M2A reservoir (MR9 well) at Maari and the Mangahewa reservoir (MN1 well) at Manaia is continuing. Reservoir studies indicate additional reserves can be obtained with further producer and water injection wells. Additionally an assessment is being made of the other hydrocarbon accumulations at Maari and Manaia as well as close-in and deeper prospects, with the objective of designing an appraisal/development drilling program to exploit this potential.

An enquiry is underway regarding the availability of drilling rigs for further appraisal and development drilling on PMP 38160 as well as on PEP 51313 in 2012.

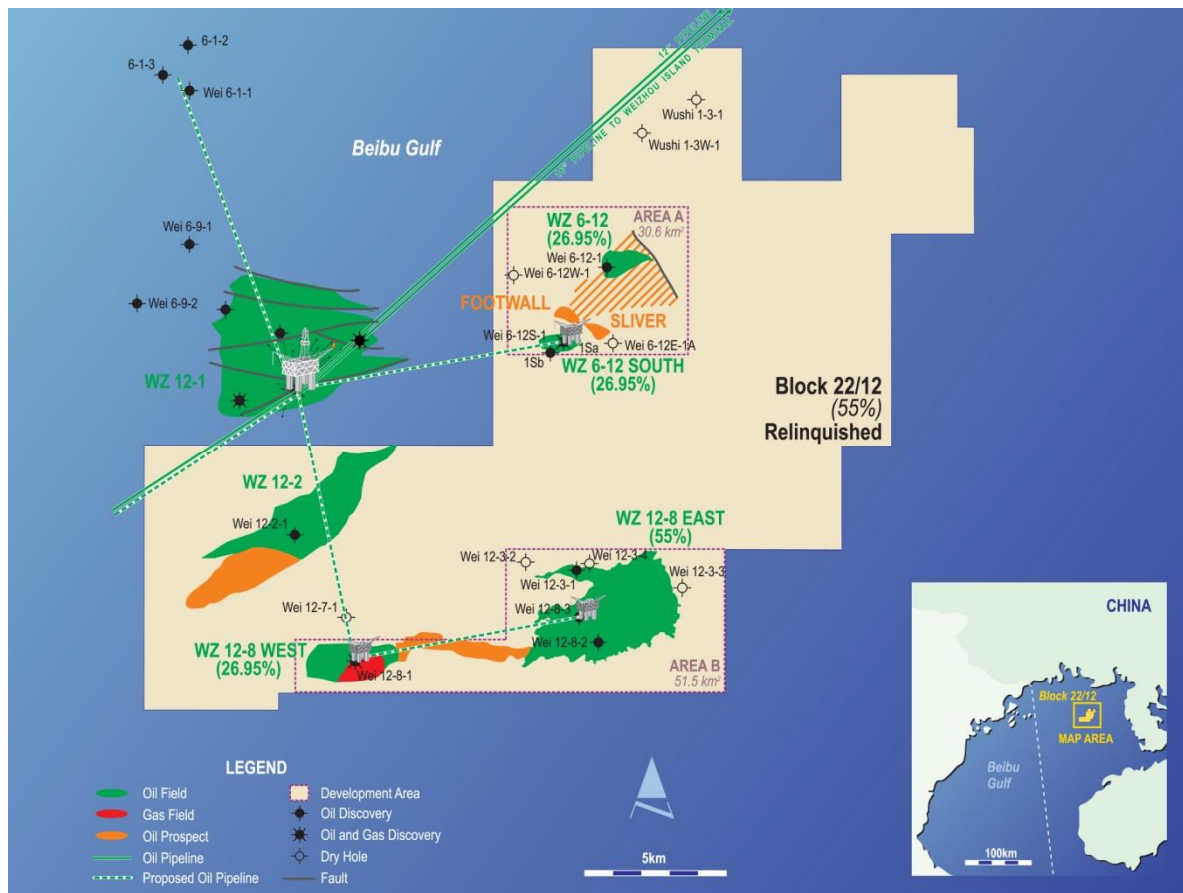
PEP 51313, Offshore Taranaki Basin, (Horizon Oil interest: 30%)



Mapping of the new 3D and 2D seismic over the permit is continuing, with a view to maturing a prospect on the Maari-Pike-Matariki trend for drilling in 2012.

CHINA

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



On 2 June 2011 Horizon Oil announced that it had signed an agreement with Petsec Energy Limited (Petsec) to buy Petsec's 25% interest in Block 22/12, which includes a 12.25% interest in the WZ6-12 and WZ12-8 development project, increasing the company's interest to 55% and 26.95% respectively. The acquisition price was A\$38m (approximately US\$40m) in cash plus the issue of 15m options in Horizon Oil at an exercise price of A\$0.37 and with a term of 3 years.

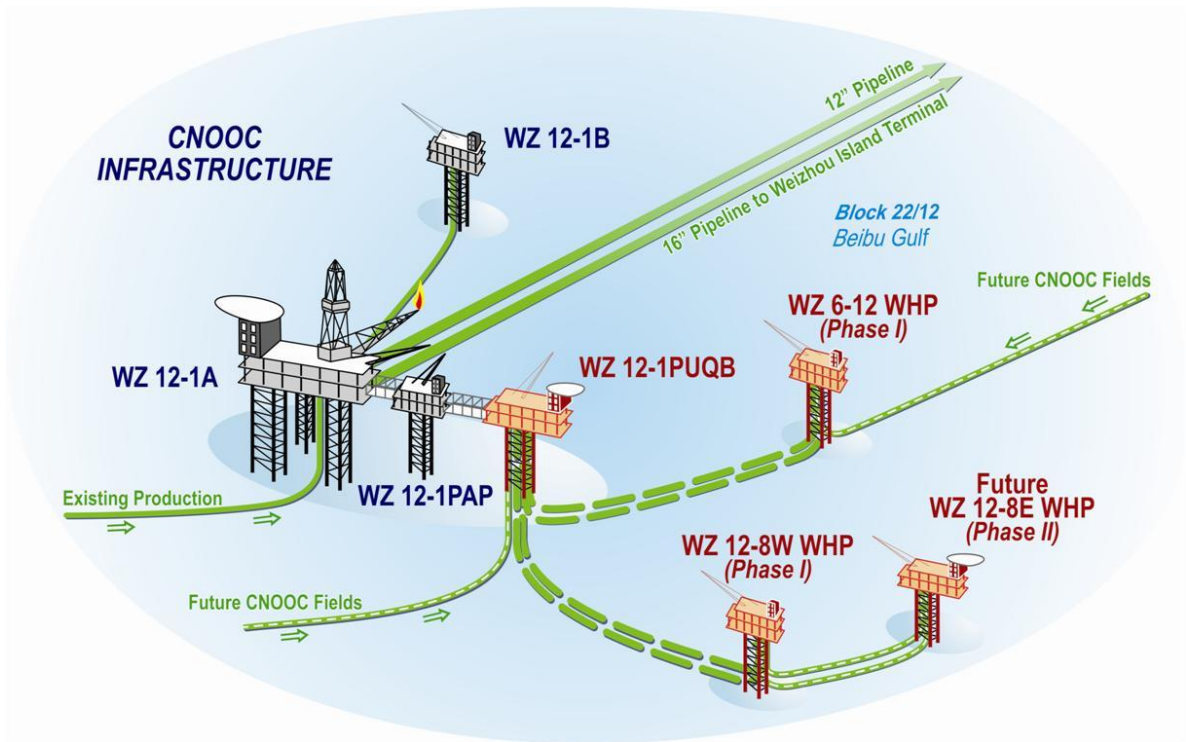
With certified gross proven and probable reserves for the WZ6-12 and WZ12-8W fields to be developed in Phase I of 24 mmbo and Phase II reserves in the WZ12-8E accumulation, which is currently the subject of a feasibility study, estimated by Horizon Oil to be 18 mmbo, the acquisition increases the company's net reserves in Block 22/12 from 6.2 mmbo to 11.3 mmbo.

Horizon Oil funded the acquisition and the associated development expenditure with a US\$80m convertible bond issue. The 5 year convertible bonds were issued with an initial conversion price to Horizon Oil ordinary shares of US\$0.52, equivalent to A\$0.49 based on exchange rates at the time of pricing, and representing a conversion premium of 29% to Horizon Oil's closing price on 2 June 2011 of A\$0.38. The initial conversion price is subject to reset in certain circumstances. The bonds, which are unsecured and will be subordinated to any future bank debt, will carry a coupon of 5.5% per annum.

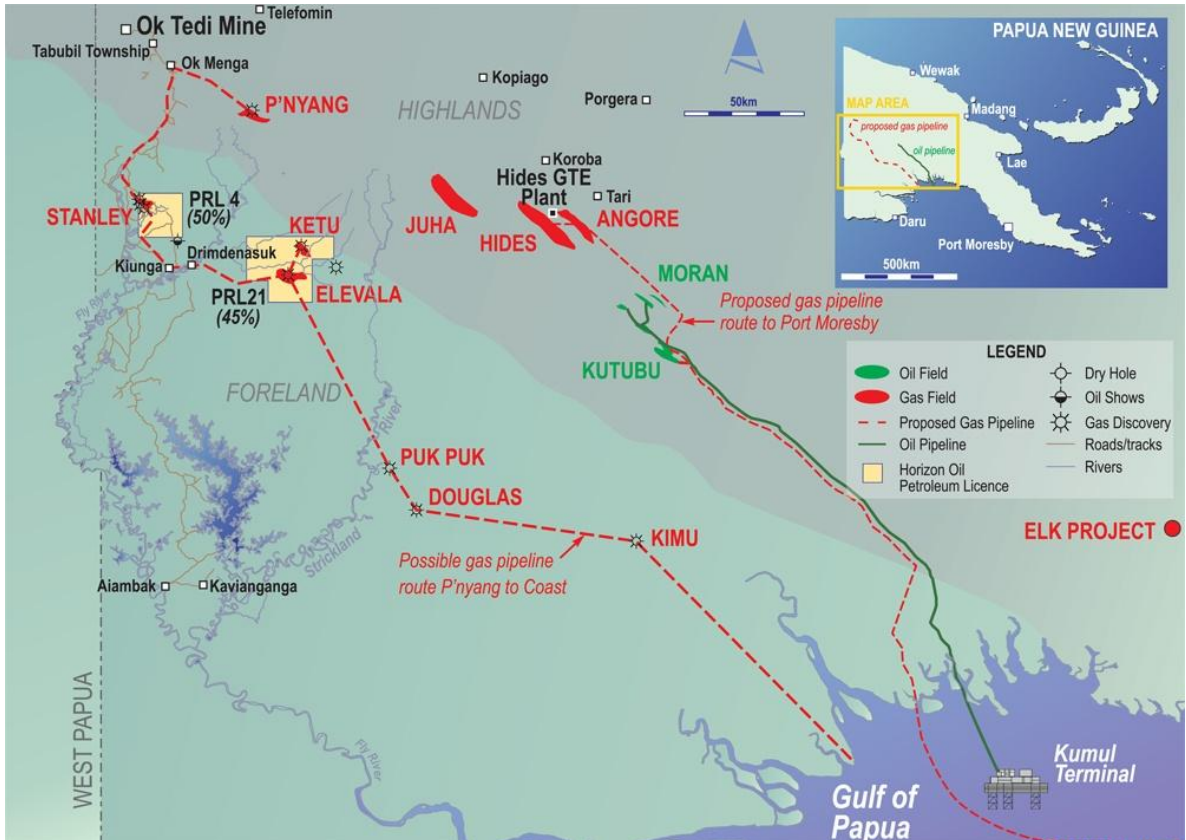
China National Offshore Oil Corporation (CNOOC) continues to make good progress as operator of the project. Design of and procurement for the facilities are on schedule. Preparation for production and planning for the drilling and completion phase are also progressing well. Contracts have been let for design, procurement and construction of the 3 platforms required for Phase I (see

schematic below). This means that over one third of the estimated project cost of US\$300m is now subject to fixed price contract.

The operator anticipates first production from the project by the end of 2012.



PAPUA NEW GUINEA



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

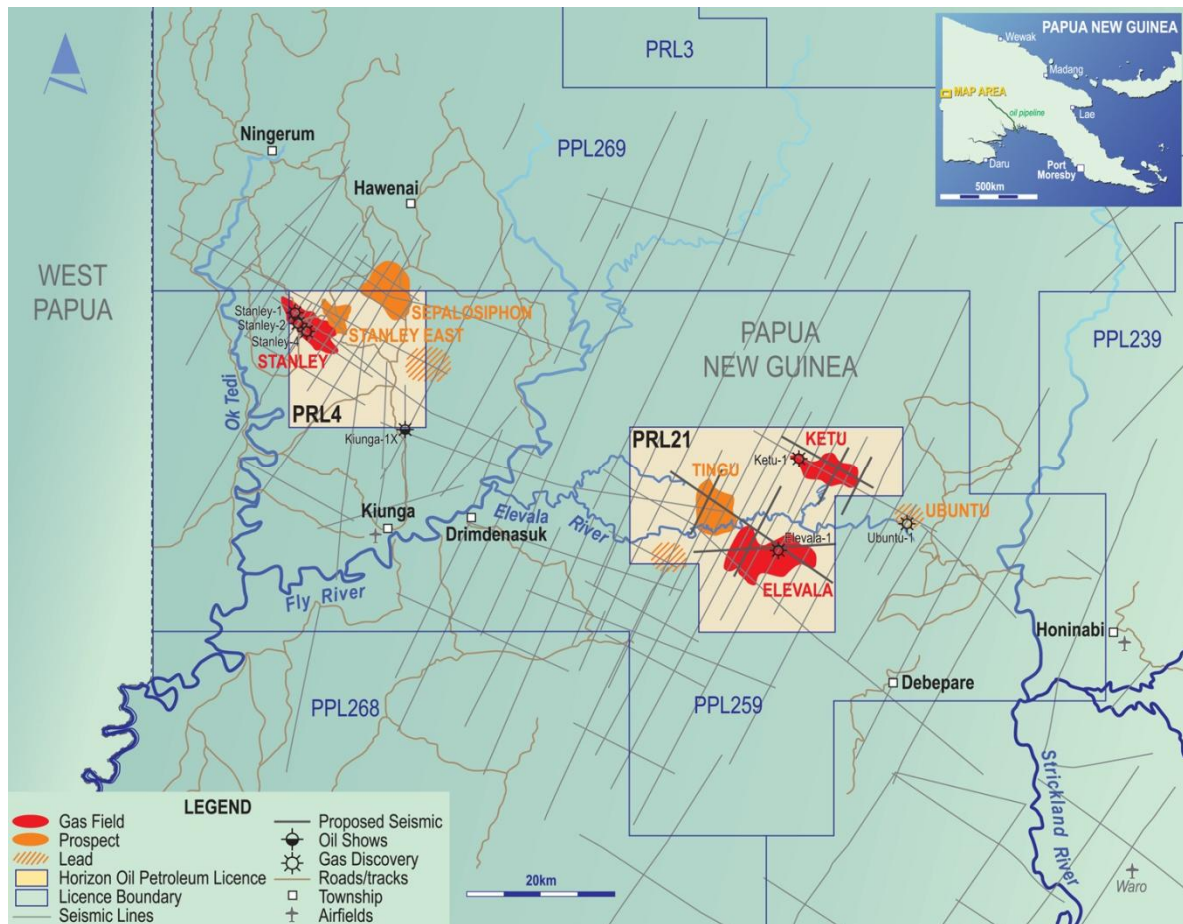
During the quarter, drilling of the second appraisal well on Stanley field, the Stanley-4 well, was completed with Parker *Rig 226*. The well, which spudded on 29 March 2011, reached total depth of 3,340 m in economic basement at midnight on 2 May. The Stanley-4 well was drilled from the same surface location as the successful Stanley-2 well, with a bottomhole location about 1 km southeast of the Stanley-2 bottomhole location. Stanley-2 was completed as a production well for the planned Stanley condensate stripping project, which is being operated by Horizon Oil.

The primary Toro sandstone in Stanley-4 was found to be gas-filled with 35 m of net gas pay, thicker than the equivalent zone encountered in the Stanley-2 well. The secondary objective, the Kimu sandstone, was about the same thickness as in Stanley-2 and contained 10 m of net gas pay. The gas water contact (GWC) observed in the Kimu sandstone is 24 m lower than the GWC calculated for the Toro sandstone from the pressure data recorded in Stanley-2. A third possible zone, the Alene sandstone, which was only thin in Stanley-2, was encountered overlying the Toro. This exhibited gas shows during drilling but is of poor reservoir quality and currently no gas pay is being attributed to the zone. The target zones were penetrated lower than prognosis, in part as a result of structural variation, and also due to thickening of the Alene and Toro units.

After running electric logs and taking samples and pressure measurements of the prospective zones, the well was cased and completed as a future production well and the rig released on 15 May 2011. The rig is currently drilling the Sepalosiphon prospect (Siphon-1 well) at a location within PPL 269 (see map below). Horizon Oil has arranged to trade the Stanley-2 well results for Siphon-1 data to enable evaluation of the significant portion of the Sepalosiphon prospect that lies within PRL 4.

Engineering and design work for the Stanley field development is nearing completion. This includes the condensate stripping plant, pipeline from the field to the base in Kiunga and a loading facility on the Fly River. Design of a condensate transportation barge is also near completion.

The various reports and documents required for the Petroleum Development Licence application are at an advanced stage. These include the Social Mapping and Landowner Identification report, Environmental Impact Statement and Gas Agreement.



PRL 21 (formerly PRL 5 acreage), Elevation/Ketu discoveries (Horizon Oil interest: 45%)

On 1 June 2011, Horizon Oil advised that it had acquired an additional 10% interest in PRL 21 from joint venture participant Elevation Energy Limited. This increases the interest held by Horizon Oil (Papua) Limited in PRL 21 to 45%.

Surface locations for drilling of the Elevation-2 and Ketu-2 appraisal/development wells have been selected and site preparation work on both locations has begun. The site for the first well to be drilled, Elevation-2, is 20% complete. The well will be drilled with Parker Rig 226, which is currently drilling the Sepalosphon prospect in PPL 269 and is expected to be released to the PRL 21 joint venture in September. Ketu-2 will follow the drilling of Elevation-2.

A seismic program of 105 km has been planned to fine tune bottomhole locations for the appraisal wells and this should get underway in August.

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	510
Block 22/12 (Beibu Gulf), offshore China	220
PRL 4, Papua New Guinea	6,311
PRL 21, Papua New Guinea	84
Producing Oil and Gas Properties	
<i>PMP 38160 (Maari and Manaia), offshore New Zealand</i>	
Capital expenditure	128
Production revenue	15,749
Operating expenditure	2,709
Amortisation	2,395
Production Data (barrels)	
Crude oil production	120,089
Crude oil sales	128,807
Cash on hand at 30 June 2011	64,478
Debt (Convertible bond)	80,000
Net Debt	24,478

Yours faithfully



Michael Sheridan
Chief Financial Officer & Company Secretary



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