



31 January 2012

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

**REPORT ON SECOND QUARTER ACTIVITIES – 31 DECEMBER 2011  
AUSTRALIAN STOCK EXCHANGE LISTING RULE 5.1**

**KEY ACTIVITIES**

- **Oil sales of 114,324 barrels from Maari/Manaia fields, offshore New Zealand, generating revenue of US\$13.0 million; cumulative oil production to date 17.3 million barrels.**
- **Progress on evaluating additional oil potential in and near Maari/Manaia fields; 2 appraisal wells planned for 2012/13.**
- **Exploration well planned on PEP 51313, offshore New Zealand, in 2012/13.**
- **Facilities for Block 22/12 field development, offshore China, now 24% built; over 60% of project cost contracted out at fixed price and under overall development plan estimates.**
- **FID for Stanley field development in PRL 4, onshore Papua New Guinea, approved by Horizon Oil board; certified gas and condensate resources upgraded by 30%.**
- **Elevala-2 appraisal well and sidetrack in PRL 21, Papua New Guinea, drilled with resource size confirmation considerably exceeding expectations; block prospectivity enhanced.**
- **Parker Rig 226 currently moving from Elevala-2 wellsite to Ketu-2 location, anticipated spud in March.**
- **25% interest in PPL 259 acquired, providing good coverage with PRLs 4 and 21 of liquids-rich gas “sweet spot” in Papuan basin foreland.**
- **Cash balance of US\$34.0 million at end of quarter, with zero bank debt.**

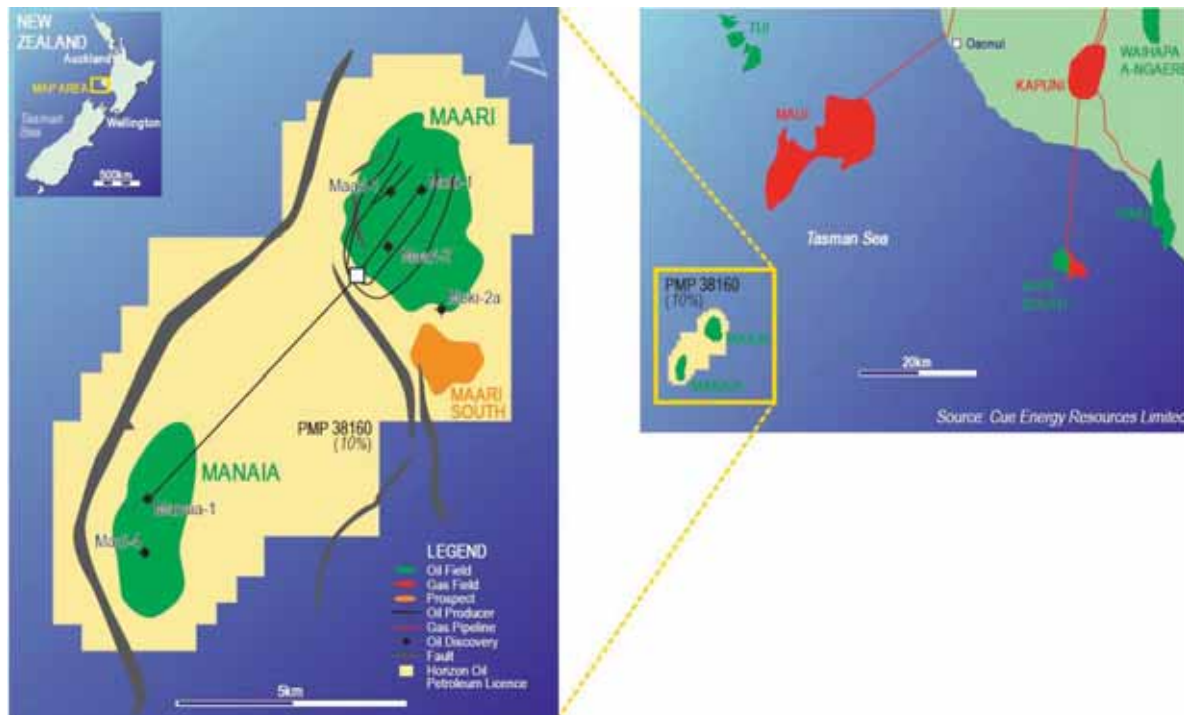
**CORPORATE**

Horizon Oil advised at the 2011 annual general meeting that negotiations in respect of a development financing facility were at an advanced stage. Since that time, the Company has mandated a consortium of four leading reserves based lenders, including two major Australian banks, to provide a reserves based debt facility incorporating the Company’s production and development assets. The proposed facility size of US\$160 million was oversubscribed by the lenders group. Facility documentation and due diligence reviews are advanced, with financial close anticipated in Q1 2012.

## EXPLORATION AND DEVELOPMENT ACTIVITY

### NEW ZEALAND

#### PMP 38160, Offshore Taranaki Basin, Maari and Manaia Fields (Horizon Oil interest: 10%)



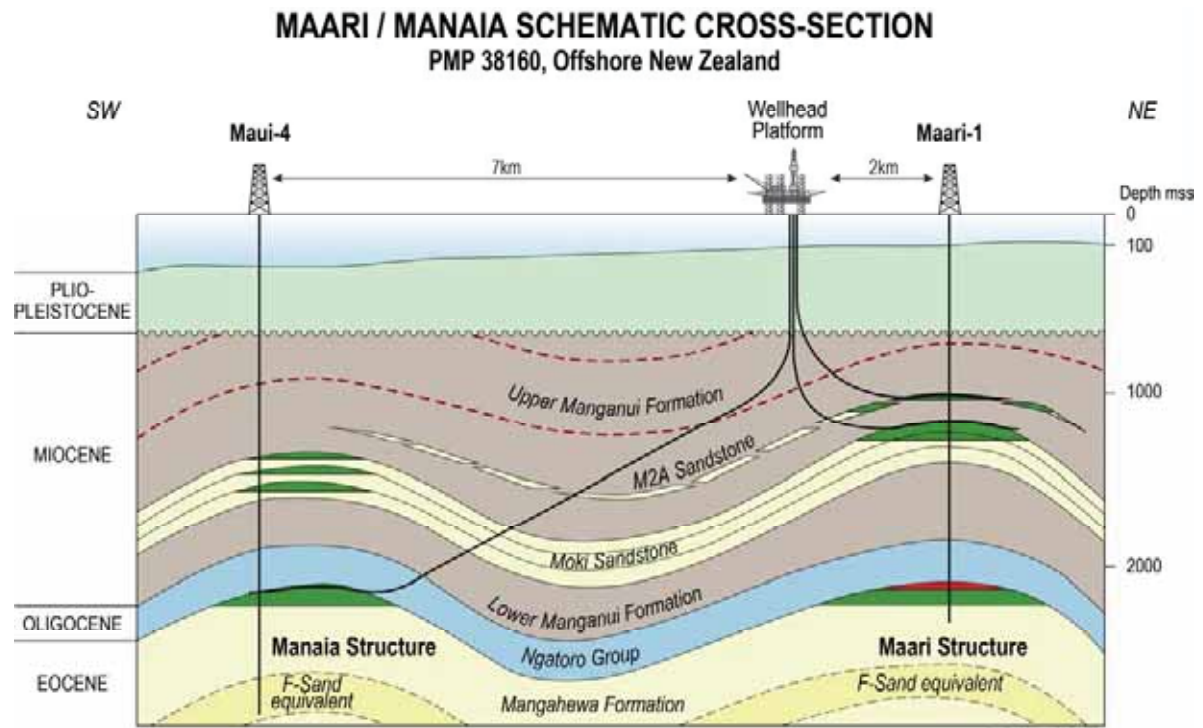
During the quarter Horizon Oil's working interest share of production from Maari and Manaia fields was 116,022 barrels of oil. Crude oil sales were 114,324 barrels at an average realized price of US\$114.01 per barrel. Cumulative oil production from the fields through 30 January 2012 was 17.3 million barrels.

Progress has been made during the quarter on enhancing the water flood in the Moki zone of Maari field. Additional perforations have been added to the MR7 and MR8 injection wells, which have improved injection performance and should provide enhanced support to the producers over the long term.

The field operator, OMV, has a number of initiatives in place for 2012 aiming to improve the ESP performance, including more regular washing of the pumps with acid to remove scale, which has been one of the primary causes of pump failure. The motor design has also been improved to rectify another key source of failure. Currently 6 of the 7 available production wells are on line, with the MR1 awaiting workover.

The operator has progressed plans for additional development of the Maari and Manaia fields. Planning is underway for a new, high definition 3D seismic survey to be acquired shortly over Maari, Manaia and the Maari South prospect, as a basis for selecting locations for vertical Manaia Deep and Maari South appraisal wells. With reference to the schematic cross-section below, the first of these will target the discovered but unappraised and undeveloped accumulation in the Moki sands. The well will also allow assessment of how the current production well is draining the Mangahewa accumulation and confirm whether there is commercial oil recoverable from the deeper F sand equivalent, in which oil shows were encountered in the Maui-4 well and which is a proven oil producer elsewhere in the Taranaki Basin. The second appraisal well will be drilled to confirm the reservoir quality and size of the Maari South structure which can potentially be developed by extended reach drilling from the Maari platform. It is expected that the appraisal wells will be drilled in the 2012/13 summer drilling season.

The new 3D seismic survey will also assist in planning of a second phase of development of the permit. Planning is underway for full field development of all the commercial accumulations associated with Maari and Manaia, with further development drilling to be conducted in 2013/14.



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

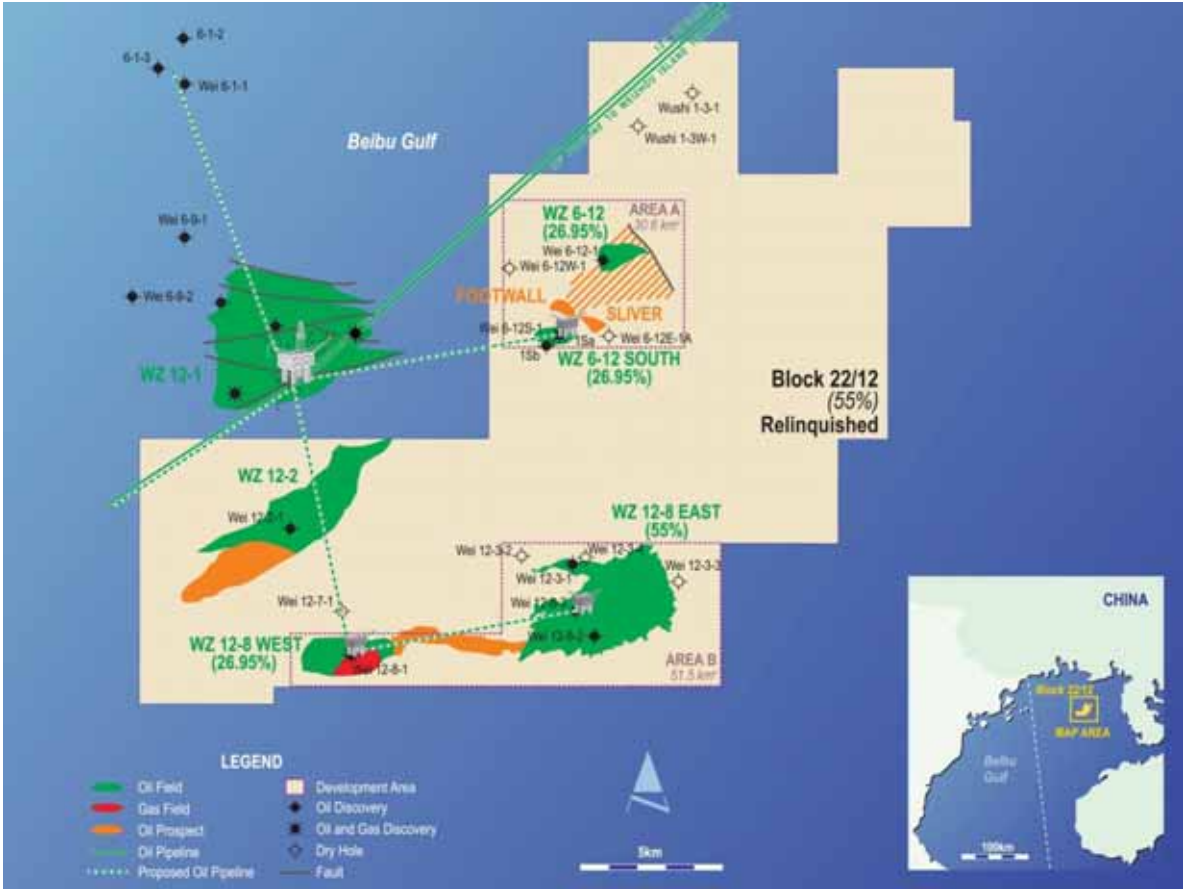


Interpretation of the newly acquired 2D seismic survey in the western part of the permit continued over the quarter.

The PEP 51313 joint venture has agreed to extend to the south the new 3D seismic survey being acquired over Maari and Manaia fields, to dovetail with the recent 3D coverage over PEP 51313 (see map). This is designed to provide definition over the leads and prospects to the south of Maari and Manaia, in particular Pike prospect. It is likely that Pike will be drilled using the rig to be mobilised for drilling of two appraisal wells in PMP 38160 in 2012/2013. This is seen as a progressive, risk-reducing approach to evaluating the prospectivity of the Tasman ridge to the south, including Matariki prospect.

**CHINA**

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

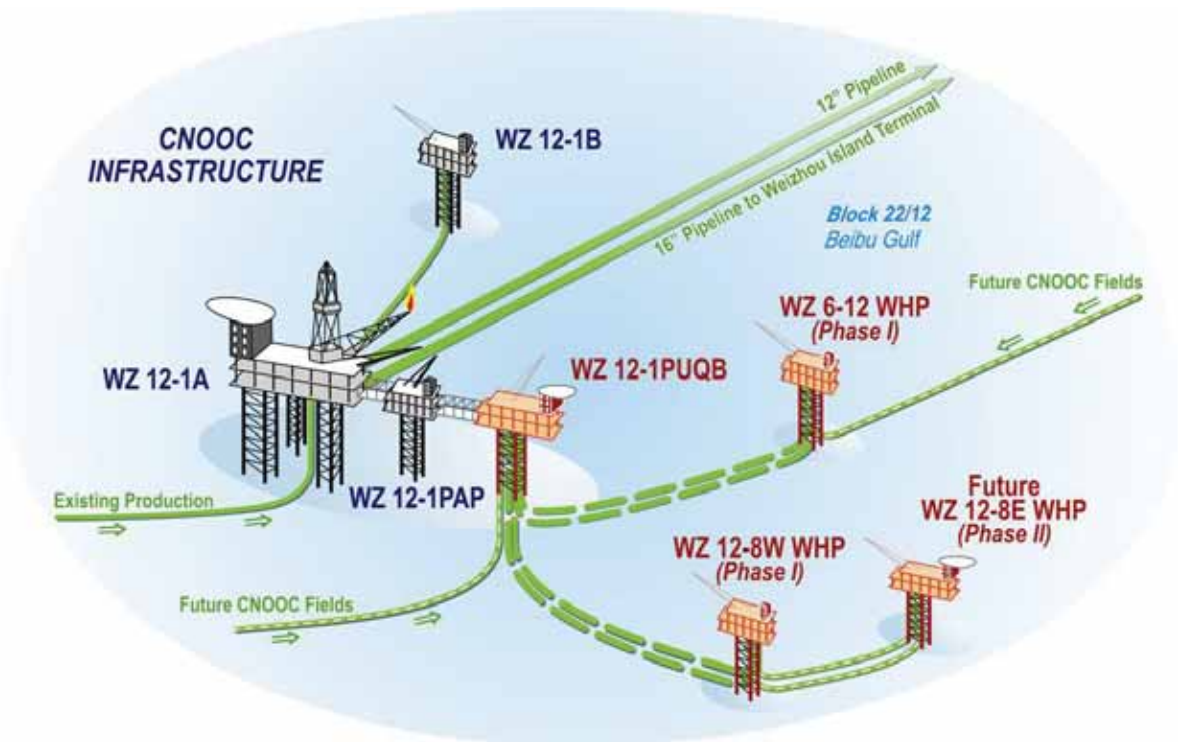


The operator of the WZ6-12 and WZ12-8W development, China National Offshore Oil Corporation (CNOOC), continued to make good progress and the facilities were 24% built at the end of the quarter. Over 60% of the total development cost has now been committed by contract and the forecast cost to completion is within the US\$300 million estimate contained in the overall development plan (ODP).

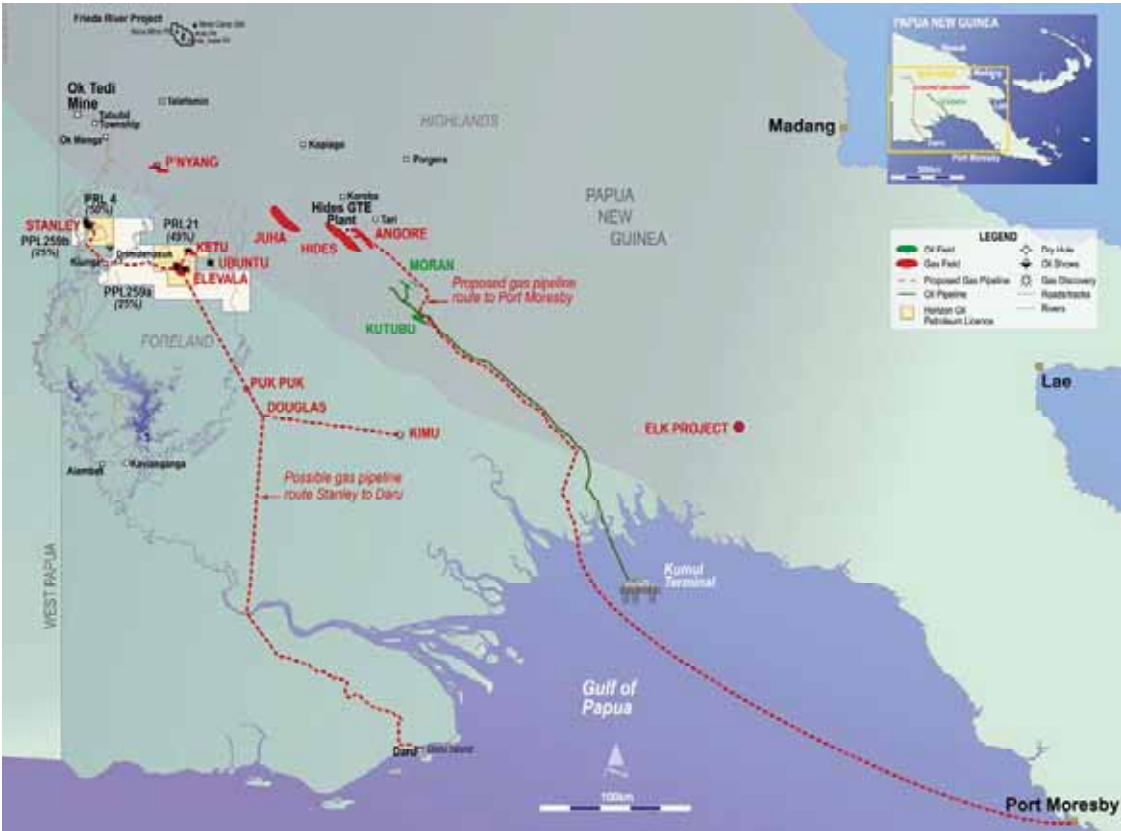
Development activity included procurement, platform fabrication and preparation for pipeline laying in March. The current schedule calls for loadout of the two wellhead platforms (WHP) and utility platform (PUQB) in April (see schematic below), to allow development drilling over the WZ6-12 WHP to begin in September. CNOOC continues to anticipate first oil production from the Beibu Gulf project by the end of 2012. The ramp-up to peak production is anticipated during 2013.

Prior to commencement of the development drilling program, the joint venture has agreed to drill four in-field and near-field appraisal wells. These will appraise a deeper zone in the WZ6-12 (north)

structure, the Sliver prospect, the Liushagang formation underlying the currently identified producing zones and the main producing zone in the WZ6-12 South structure itself (see map). Three of these wells are planned to be drilled from the WZ6-12 WHP and, if successful and commercial, will be completed and included as additional production wells for the Beibu Gulf project.



**PAPUA NEW GUINEA**



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

Subsequent to the end of the quarter, Horizon Oil advised that its board had approved the Final Investment Decision (FID) on the Stanley field gas condensate recovery project, subject to the finalisation of the aforementioned reserves based lending facility on satisfactory terms. The Company holds a 50% interest in PRL 4 with equal partner Talisman Niugini Pty Ltd. The State nominee, Petromin PNG Holdings Limited, is entitled to acquire up to a 22.5% interest in the project at the time of award of a Production Development Licence (PDL) by reimbursement of Horizon Oil and Talisman's allowable past costs associated with that interest and funding ongoing project costs. At that time, anticipated to be during Q3 in 2012, Horizon Oil and Talisman's interests will reduce to 38.75% each.

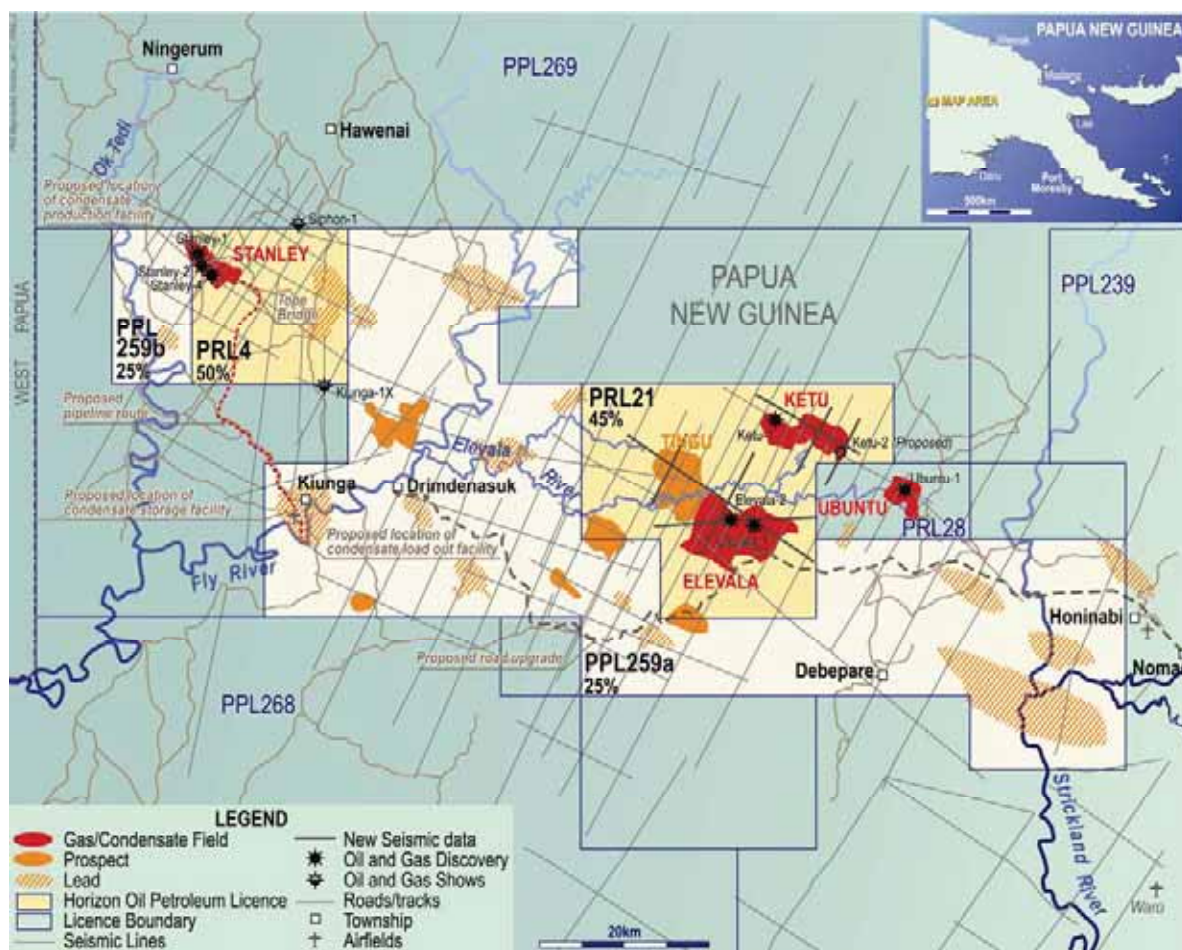
In November 2011, the Company advised shareholders that it had received independent certification of mean contingent resources for Stanley field of 361 bcf of gas and 11.4 million barrels of condensate. This represents an upgrade of about 30% to the resources that were certified prior to the drilling of the successful Stanley-2 and -4 appraisal/development wells. As a result of the FID approval, the condensate resources will move to the reserves category. The certified gas resource is of a scale that has the capacity to supply domestic and large industrial consumers located in the region. Negotiations with potential customers are in train and, as sales contracts are confirmed, the associated gas resources will also be classified as reserves.

The Stanley resource will be developed initially as a condensate recovery project, with subsequent and increasing sales of gas as customers are contracted. It is envisaged that these will primarily be domestic and industrial consumers located in the region who require gas for power generation. PNG's Minister for State Enterprises, Sir Mekere Morauta, announced last month that cabinet had approved a gas power plant at Stanley, proposed by PNG Energy Developments Limited, a 50:50 joint venture between Origin Energy Limited and PNG Sustainable Development Program Limited, to supply Ok Tedi mine, the Frieda River mine if development proceeds and potential consumers across the border in West Papua. In addition, a key social objective of the project is to supply power through rural electrification schemes to about 50,000 people in Western Province.

The development concept involves producing 140 million cubic feet of wet gas per day, from which initially 4,000 barrels of condensate per day will be recovered utilising a two train refrigeration plant located in the field. Any dry gas not sold will be re-injected into the reservoir and "banked" until required for sale. The condensate will be transported via a 6" 40 km pipeline to a 60,000 barrel storage tank at Kiunga base and then loaded onto a tanker at a loading facility about 1 km downstream of the existing Kiunga wharf, which is the export point for Ok Tedi mine's copper concentrate. A special purpose 33,000 barrel river tanker with ocean going capability has been designed to transport the condensate to market.

Front End Engineering and Design (FEED) for the project is complete, with an all in capital cost estimate of approximately US\$300 million, including contingency. This is the cost to develop the entire resource, about 70 million barrels of oil equivalent. Horizon Oil is the operator of the project and believes a target for first production of end 2013, although aggressive, is achievable provided there are no delays in the regulatory approval process.

The PDL application process involves submission of key constituent documents, including a field development plan, social mapping and landowner interest report, environmental assessment and gas agreement, all of which are at an advanced stage of preparation. It is intended that the formal PDL application be made in Q2 2012 with the grant of the PDL anticipated in Q3 after Government review and assessment and the convening of a Development Forum. The Company intends to carry out some early works and procurement of long lead items in advance of PDL grant in order to maintain schedule.



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

During the quarter the Elevala-2 appraisal/development well was drilled with successful results. The well was designed to appraise the Elevala gas/condensate accumulation, discovered in 1989-1990 by the Elevala-1 well, which flowed on test at a rate of 11.9 million cubic feet of gas and 634 barrels of 54 deg API condensate per day from the Elevala sandstone. The objective was to drill to penetrate the Elevala sandstone and the deeper Toro sandstone down-dip from the Elevala-1 discovery at a location 2.1 km west of that well, to determine the gas water contact, the composition of the hydrocarbon column and the quality of the reservoirs.

The well was spudded with Parker *Rig 226* at 1600 hrs on 14 November 2011. A core was cut over the interval 3,114 m to 3,142 m in the primary Elevala sandstone target, with 100% recovery. Good gas shows were encountered during the coring operation, confirming extension of the gas/condensate zone found in Elevala-1. The well was then drilled to a total measured depth of 3,293 m in basement on 21 December and a full suite of logs, pressure measurements and samples acquired. These confirmed a gross gas/condensate interval of 18 m in the Elevala sandstone, with no water indicated. The pay zone is slightly thicker and better developed than that encountered in the Elevala-1 discovery well. The secondary Toro sandstone objective was dry.

The well was specifically located to test the northern extent of the hydrocarbon accumulation, about 60 m down-dip of Elevala-1. In fact, the gas zone was encountered high to prognosis, approximately 20 m down-dip and no water leg was observed, implying that the field extends further to the north than expected. This gave the joint venture incentive to plan a sidetrack well to penetrate the Elevala sandstone about 650 m northeast of the current bottom hole location, with the objective of defining the northern limit of the accumulation.

The Elevala-2 well bore was subsequently plugged back to just below the 9-5/8” casing shoe and the sidetrack was kicked off at a measured depth of 2,446 m on 1 January and reached a measured total depth of 3,630 m in the Toro sandstone (below the Elevala sandstone) on 9 January. Logging while drilling, sampling and pressure measurements have defined a gas-water-contact to the hydrocarbon accumulation, successfully fulfilling the primary objective of the sidetrack well. This establishes a field gas column height of greater than 50 m and further implies that the Elevala structure is full to spill point. Horizon Oil has previously advised (pre-drill) certified mean recoverable contingent resources of 302 bcf of gas and 19.3 million barrels of condensate. Based on the drilling results and the existing seismic data, the well outcome is to the high side of expectations.

Plugs were set in the sidetrack well bore and the well suspended for possible use in the future. The surface location for drilling of the Elevala-2 well was specifically selected for this purpose. The rig was released at 1200 hrs on 29 January 2012.

The Elevala-2 result is good one on a number of fronts. Firstly, subject to the new seismic confirming the current map of the Elevala structure, the Company has a new, potentially commercial, project to evaluate, containing material gas and condensate volumes. Secondly, the likelihood that Elevala is full to spill increases the chances of Ketu also being full, given that it lies between Elevala and the probable hydrocarbon “kitchen” area to the north. And thirdly, the well result has significantly upgraded the prospectivity of Tingu and the lead to the west of Elevala (see map above).

The current operation is rigging down in preparation for the move to the Ketu-2 appraisal/development well location. Ketu-2 is planned as a vertical test to define the eastern down-dip limit of the gas/condensate accumulation drilled with the Ketu-1 well in 1991. The well is expected to spud in the first half of March, is programmed to drill to a total measured depth of 3,800 m and should take about 45 days to drill.

Meanwhile a seismic program of 105 km over the Elevala, Tingu and Ketu structures (see map) is nearing completion. The objective of this is to fine tune the bottom hole location for Ketu-2 and to improve structural definition for reserves revision and development planning purposes.



*Aerial view of Ketu-2 site, awaiting rig*

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

Horizon Oil advised on 24 January 2012 that it had executed a farm-in agreement with Eaglewood Energy Inc. to earn a 25% interest in PPL 259 in Western Province, Papua New Guinea (see map above). Under the terms of the farm-out agreement, after receipt of requisite government approvals transferring a 25% participating interest share in PPL 259, Horizon Oil will reimburse a proportionate share of Eaglewood's PPL 259 sunk costs (approximately US\$2.5 m) and will carry Eaglewood for future seismic and drilling costs to a capped amount of US\$6.375 m. The drilling program will be operated by Horizon Oil.

The farm-in is part of the strategy of increasing the Company's acreage position around what is seen as the "sweet spot" for liquids-rich gas in the Papuan Basin foreland, centred on planned production hubs at Stanley and Elevala/Ketu and is timely.

The acquisition will deliver a number of benefits:-

- The inventory of prospects and leads increases significantly and this will spread geological risk and provide the potential for increasing reserves;
- the return on the likely investment in infrastructure at Stanley (PRL 4) and Elevala/Ketu (PRL 21) stands to increase by way of potential add-ons from PPL 259 (and also Ubuntu in PRL 28);
- a larger gas reserves base has the potential to provide the scale needed for monetisation by way of, for example, a small scale liquefied natural gas plant at Kiunga or Drimdenasuk, exporting LNG, LPG and condensate via the Fly River. The proposed road upgrade between Drimdenasuk and the Strickland River (see map) presents as a likely pipeline route for transport of gas from the Elevala, Ketu and Ubuntu discoveries and other add-ons from PPL 259 along its route; and
- exploitation of PPL 259 offers synergies with Horizon Oil's existing acreage in PNG in operations, as well as engineering design, implementation, product marketing and shipping.

## EXPENDITURE SUMMARY

The following table summarises the expenditure incurred in the quarter in respect of the activities set out in this report-:

<b>Exploration and Development</b>	<b>US\$'000</b>
PEP 51313, offshore New Zealand	98
Block 22/12 (Beibu Gulf), offshore China	7,521
PRL 4, Papua New Guinea	1,435
PRL 21, Papua New Guinea	6,263
<b>Producing Oil and Gas Properties</b>	
<i><b>PMP 38160 (Maari and Manaia), offshore New Zealand</b></i>	
Capital expenditure	127
Production revenue	13,034
Operating expenditure	2,469
Amortisation	2,005
<b>Production Data (barrels)</b>	
Crude oil production	116,022
Crude oil sales	114,324
<b>Cash on hand at 31 December 2011</b>	<b>34,005</b>
<b>Convertible bond<sup>1</sup></b>	<b>80,000</b>
<b>Net Debt</b>	<b>45,995</b>

<sup>1</sup> Represents principal amount repayable unless converted prior to 17 June 2016

Yours faithfully



**Michael Sheridan**

Chief Financial Officer & Company Secretary

For further information please contact:

Michael Sheridan



Telephone: (+612) 9332 5000

Facsimile: (+612) 9332 5050

Email: [exploration@horizonoil.com.au](mailto:exploration@horizonoil.com.au)

Or visit [www.horizonoil.com.au](http://www.horizonoil.com.au)