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

**REPORT ON SECOND QUARTER ACTIVITIES – 31 DECEMBER 2009
AUSTRALIAN STOCK EXCHANGE LISTING RULE 5.1**

KEY ACTIVITIES

- **Cash in hand of US\$26.7 million at end of quarter, with US\$28.5 million carry of Papua New Guinea work program remaining**
- **Maari project debt facility paid down to US\$31.1 million; net debt at end of quarter US\$3.5 million**
- **Horizon Oil working interest share of Maari oil production for quarter 180,703 barrels, despite frequent interruption from simultaneous drilling operations; cumulative oil production from field 5.8 million barrels**
- **Development drilling phase for Maari completed and *Ensco 107* rig off hire**
- **Planning for new 200 sq km 3D seismic survey in PEP 51313, offshore New Zealand underway**
- **Plan for integrated development of Block 22/12, offshore China, completed and commercial discussions with China National Offshore Oil Corporation at advanced stage**
- **Planning for drilling of Stanley-2 and Elevala-2 wells in Papua New Guinea progressing well**

EXPLORATION AND DEVELOPMENT ACTIVITY

NEW ZEALAND

PMP 38160 and PEP 38413, Offshore Taranaki Basin, Maari Field (Horizon Oil interest: 10%)



During the quarter, Horizon Oil's working interest share of production from Maari field was 180,703 barrels. Cumulative oil production from the field through 5 January 2010 was 5.8 million barrels.

Production operations during the period were subject to frequent interruption during heavy lift operations associated with drilling and completion operations and during demobilisation of the *EnSCO 107* jack-up rig. In addition a remedial workover of the MR1 production well was undertaken during the quarter and the well brought back on line and the MR3 and MR5 wells were shut-in for remedial mechanical work. The MR3 repair is now complete and the well is ready to be returned to production. The MR5 requires repair of the downhole pump and this will not be carried out until the workover unit has been installed.

The development drilling phase is now complete and the *EnSCO 107* was released on 22 November 2009 to another operator for a one well program. Subsequently the rig was demobilised to Singapore and went off hire on 13 January 2010. With release of the rig and finalisation of the construction phase, the main focus on the wellhead platform now is installation of the workover unit and tie-in of the successfully-drilled M2A and Manaia appraisal / development wells. Hook-up of the M2A MR9 well is complete and the well is ready to come on line. Running of the upper completion in the Manaia MN1 well (requiring the workover unit), tie-in and hook-up are scheduled to be completed in April / May 2010.

The field was shut-in on 8 January 2010 for a planned inspection and maintenance of the FPSO *Raroa*. During the shut-in period, the opportunity was taken to carry out the heavy lifts over the wellbay of the wellhead platform associated with installation of the workover unit, which will remain permanently on the platform. These lifts have been completed and the base of the workover unit is now in position (see photo below). The inspection has been completed and the field was being brought back on stream on 28 January 2010.



Workover unit being constructed on wellhead platform

Subsurface evaluation and reservoir modeling of the primary producing zone at Maari, the Moki sandstone, as well as the Maari M2A sandstone and the Manaia Mangahewa zone are continuing, incorporating results from the drilling program. Production history and subsequent reservoir simulation will be required to provide meaningful estimates of recoverable reserves for each zone. These are expected to be available about mid 2010.

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

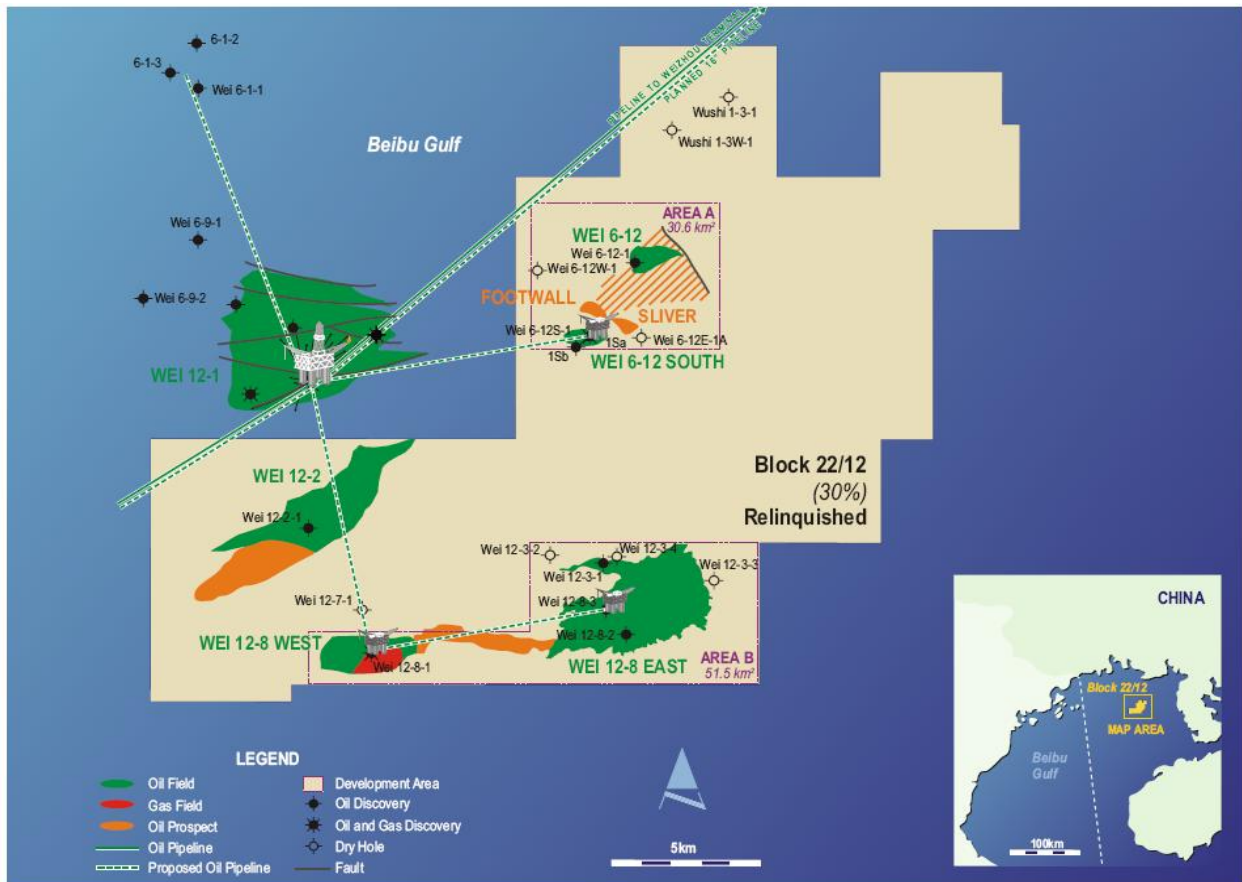
During the quarter, technical work in preparation for future seismic acquisition and drilling began in earnest. The work performed reinforced the Company's previously held views on the high level of prospectivity of the permit, the most mature prospects being Pike, Matariki, Te Whatu and Pukeko (see map above). The technical review benefited from the experiences and knowledge gained at Maari and Manaia, underlining the value of exploring close-in to a productive play.

Reprocessing of existing 2D and 3D seismic is underway – the existing 3D data will provide continuous coverage over Maari, Manaia, Pike and Paua prospects. A new 200 sq km 3D survey, planned for Q2 2010 utilising the Reflect *Bergen Resolution* vessel, will continue the coverage from Paua to south of Matariki prospect. At the completion of the 3D seismic survey, contingent on sea and weather conditions, two further swath lines totalling 80 km in length will be acquired to provide advance coverage on critical elements of the Te Whatu and Pukeko prospects. This will help in the planning of a new seismic survey in the Te Whatu area in H2 2010 / H1 2011.

The first well is scheduled to be drilled in H2 2011 / H1 2012.

CHINA

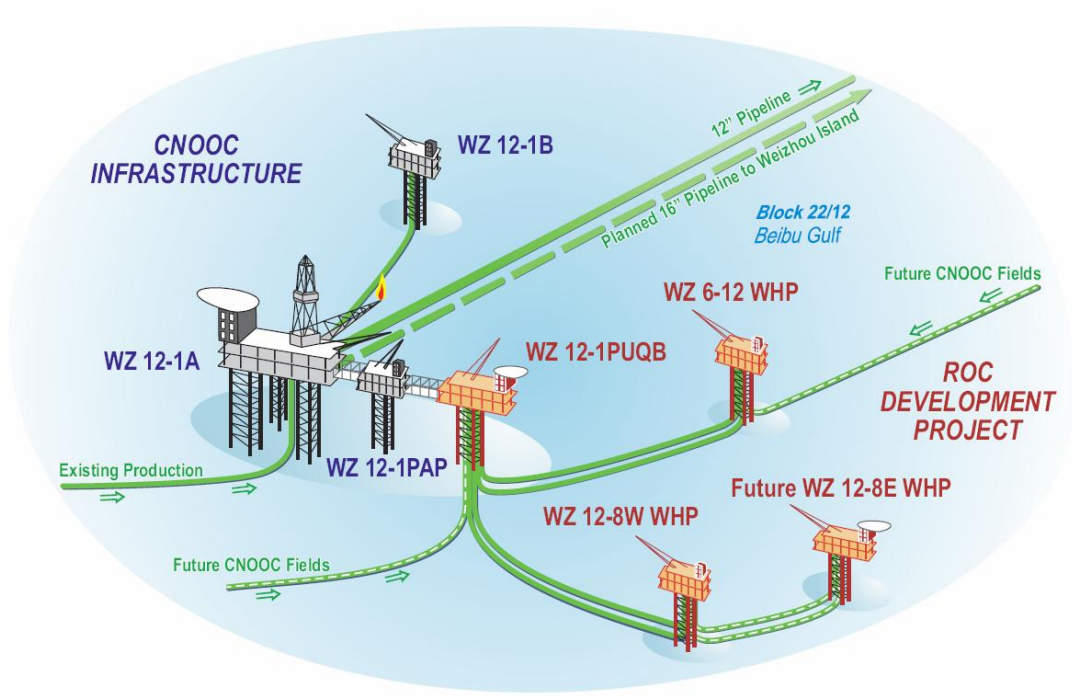
Block 22/12, Beibu Gulf (Horizon Oil interest: 30%, subject to Government participation in developments for up to 51%)



The technical section of the Overall Development Plan (ODP) for the Wei 6-12 and 12-8W combined development was completed as scheduled on 20 December 2009. Importantly, this embodies the agreement reached between the China National Offshore Oil Corporation (CNOOC) and the Block 22/12 joint venturers to adopt the integrated development concept utilising an auxiliary platform (PUQB) to the existing CNOOC platforms (see schematic below). This should provide advantages in reduced risk, cost and accelerated timing to first production. First oil is anticipated in H1 2012.

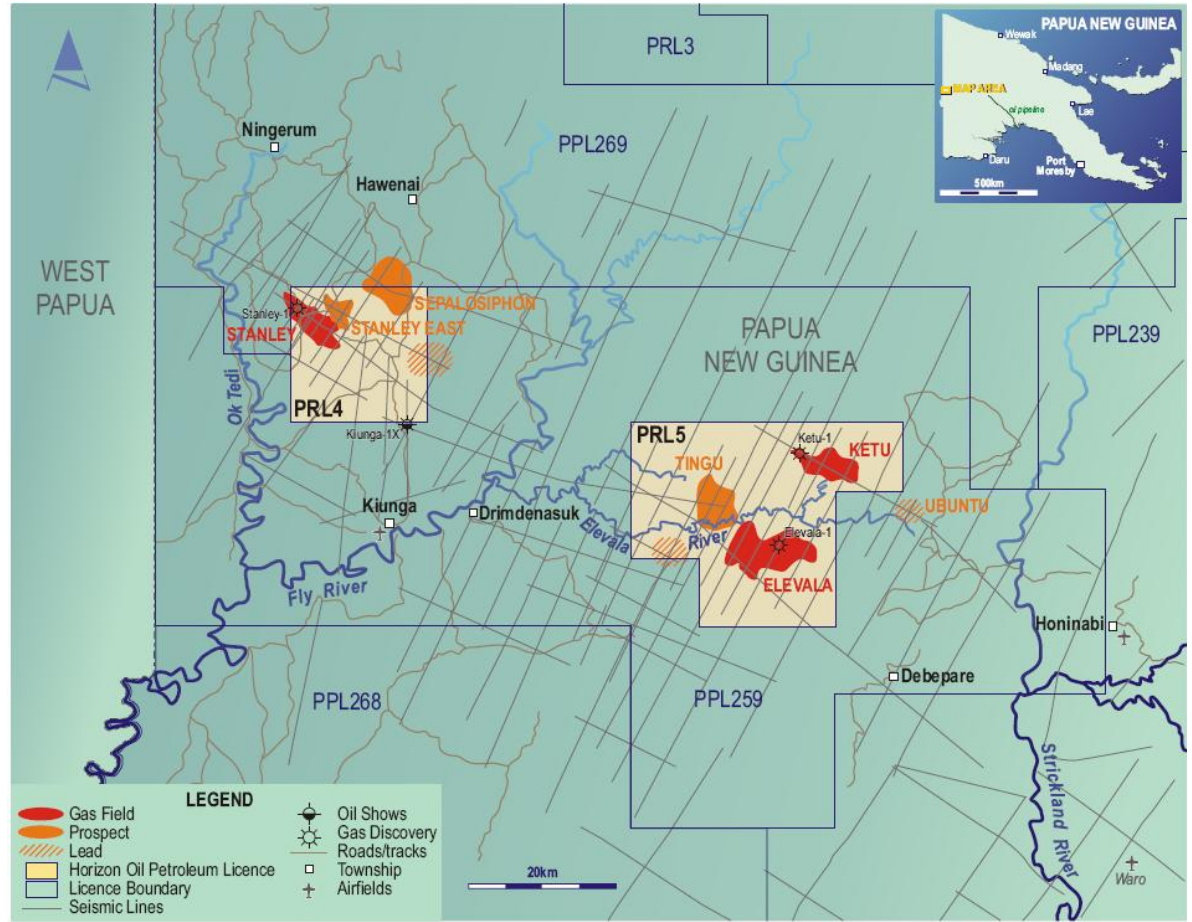
A number of development studies were undertaken during the quarter. These included pipeline route surveys, autumn environmental survey, major hazard evaluation, navigation safety, marine pollutants forecast and occupational hazards evaluation.

Commercial negotiations with CNOOC regarding the shared use of existing processing facilities, pipeline, storage and shiploading facilities are in the final stages, with the majority of commercial terms agreed. Completion of the economic section of the ODP, incorporating these commercial arrangements, is expected in Q1 2010, to be followed by formal Chinese Government approvals and Financial Investment Decision.



PAPUA NEW GUINEA

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



Significant progress has been made in preparing for the drilling of the Stanley-2 well. Well planning has been completed and tenders have been issued for the majority of services. The well site has been identified and cleared of bush and small trees and civil works will commence in February 2010. The site will accommodate two production wells (Stanley-2 and -4) and will later be able to be adapted to site production facilities, being located close to the main road and easily accessible. Long lead items such as casing and wellheads have been ordered and other key services are under evaluation for award. Negotiations are underway for a drilling rig, with drilling on Stanley expected to commence in August 2010. It is expected that there will be greater than one year's program when combining wells to be operated by Horizon Oil with those to be drilled by other operators and this should lead to economies of scale and logistics synergies.

Work on the application for a Production Development Licence (PDL) for Stanley field is progressing well, with the Social Mapping and Landowner Identification Report and Environmental Impact Statement both now lodged with relevant PNG Government authorities. Negotiations on the Gas Agreement, which is required as part of the PDL application, with the Department of Petroleum and Energy (DPE) are also continuing.

PRL 5, Elevala / Ketu discoveries (Horizon Oil interest: 50%)

Planning and preparation for the Elevala-2 appraisal well are progressing in parallel with the Stanley-2 well. Preliminary site investigations have been conducted but, as a result of new mapping, it has been decided to acquire some 60 km of new seismic before a final decision is made. The seismic will be located in the area between Elevala and Tingu (see map above) to define the structure in more detail so that an appraisal location can be optimized. It is anticipated that the seismic will be acquired in March 2010 and a location defined in April for construction.

EXPENDITURE SUMMARY

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

<i>Exploration and Development</i>	<i>US\$'000</i>
PEP 38413 (Manaia) offshore New Zealand	2,298
Block 22/12 (Beibu Gulf), offshore China	1,040
PRL 4, Papua New Guinea	173
PRL 5, Papua New Guinea	121
PEP 51313, offshore New Zealand	951
<i>Producing Oil and Gas Properties</i>	
Bayou Choctaw	
PMP 38160 (Maari), offshore New Zealand	
Development expenditure	2,724
Operating expenditure (incl. amortisation of \$3.2 million)	4,246
<i>Cash on hand at 31 December 2009</i>	<i>27,618</i>
<i>Debt</i>	<i>31,109</i>
<i>Net Debt</i>	<i>3,491</i>
<i>Production Data</i>	
Crude oil production (barrels)	180,703

CHIEF EXECUTIVE OFFICER'S COMMENTS

“Horizon Oil begins 2010 in a strong financial position, with nearly US\$60 million in cash and work carry and Maari field on stream and generating cash. On current forecasts, this funding should be adequate to fund the Company’s share of future development expenditure in China and PNG, other exploration, development and administrative costs and to repay the Maari project debt facility as required by end of 2011.

Horizon Oil’s business partnerships in its various joint ventures with OMV and Todd in New Zealand, Talisman in PNG and Roc Oil in China are all working well. There is a pleasing alignment of interests in each joint venture and common will to meet milestones.

Management’s priorities are clear – with less than 10% of the Company’s reserves and resources inventory on production, the emphasis will be on field development. The exploration program will be highly selective – the focus being on those areas in and around our existing discoveries.

The priorities for 2010 are:-

- *Maari field*
 - *Optimise production from the primary Moki zone*
 - *Get M2A zone on production*
 - *Complete the Manaia Mangahewa well and bring on stream*

- *PEP 51313*
 - *Acquire 3D seismic over Matariki prospect*
 - *Prepare for drilling in 2011*

- *Block 22/12*
 - *Make FID for Wei 6-12 and 12-8W combined development*
 - *Engineering, procurement, construction*

- *PRLs 4 and 5*
 - *Drill Stanley-2 and Elevala-2 wells*
 - *Engineering, procurement, construction for Stanley field*
 - *Expand acreage footprint”*

Yours faithfully,



Michael Sheridan

Chief Financial Officer & Company Secretary



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