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The Manager
Company Announcements Office
Australian Stock Exchange Limited
10th Floor, 20 Bond Street
Sydney NSW 2000

Dear Sir,

HORIZON OIL NL (HZN) FARMS OUT BOSAVI INTEREST AND BROADENS EXPOSURE IN PAPUA NEW GUINEA

Summary

Horizon Oil announces that it has farmed out a 28% interest in Petroleum Prospecting Licence ("PPL") 206 to Oil Search Limited (23%) and Gedd (PNG) Limited (5%) in exchange for a 20% interest in Oil Search operated PPL 227 and a carry of US\$300,000 in the next well to be drilled in that permit.

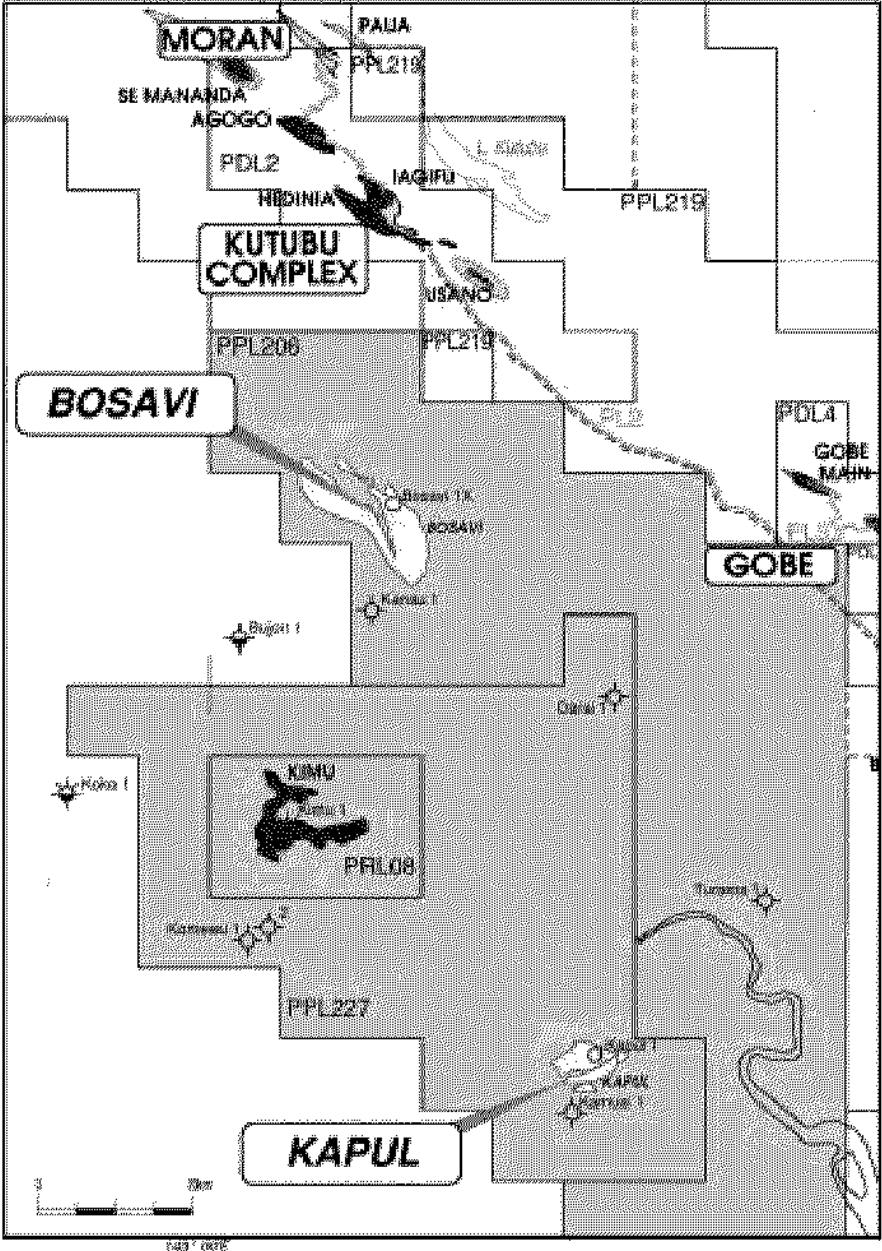
PPL 206 contains the high potential Bosavi prospect, due to spud this week utilizing the *Century 21* drilling rig, with Santos Limited as operator. Under the transaction, which is subject to Government consent, Horizon Oil retains a 20% interest in the Bosavi-1 well, which Horizon Oil estimates has mean potential of 150 million barrels of oil with upside of 1 billion barrels. Horizon Oil will be assigned a 20% interest in the PPL 227 permit, containing the high potential Kapul prospect which is programmed for drilling later in 2003. The Kapul prospect has potential in excess of 100 million barrels of oil.

The combined acreage provides Horizon Oil with balanced exposure to two key wells and multiple follow-up prospects in the relatively under-explored PNG foreland area. Both wells will test objectives in large dip-closed anticlines in the foreland basin, that reservoir several billions of barrels of oil equivalent in the nearby PNG foldbelt. The foreland setting has been the habitat of giant hydrocarbon reserves elsewhere in the world.

Background

Foreland and frontal thrust (foothill) terrains around the world have hosted billions of barrels of oil, exceeding the volumes found in adjacent foldbelts. Examples include: Alaskan North Slope, Colombian Llanos, Venezuela, Canada, and Iran/Iraq. The PNG foothill belt is geologically analogous to these basins but has not yet delivered a commercial discovery despite the existence of a proven hydrocarbon system. Historically, seismic and field mapping have been ineffective in the area but new techniques, recently applied, have yielded good results and a new phase of exploration is about to commence.

PPL 206 and PPL 227 permits: together covering an area of 7,750 km² are located in the foothills of the Southern Highlands, just to the south of the oil and gas producing fields of the PNG foldbelt where some 500 million barrels of oil and 10 trillion cubic feet (“tcf”) of gas resources with associated liquids have been discovered. PPL 206 is operated by Santos, a major Australian oil and gas producer, with significant experience in the area. PPL 227 is operated by Oil Search, a major producer and equity holder in PNG.



The permits are highly prospective, with PPL 206 situated on likely hydrocarbon migration routes from the north, while PPL 227 accesses a separate proven hydrocarbon kitchen to the south. Several wells in and around the permits have contained good oil and gas shows, including the Kimu-1 discovery, which contains an estimated one tcf of gas. However, many of the wells were drilled off-structure and the

hydrocarbon potential of the area is relatively untested. Horizon Oil's proposed well programme will be drilling valid structures based on new, improved seismic. There is one very large structural closure in PPL 206 (Bosavi) and several other structural leads to provide follow-up potential. Bosavi is a large anticlinal closure located in a favourable position to capture hydrocarbons. The productive Toro, Hedinia and Iagifu reservoirs of the foldbelt fields extend over the Bosavi feature and sands within the Koi lunge are secondary targets. The Bosavi prospect has a mean potential of 150 million barrels and upside to over 1000 million barrels. PPL 227 contains the Kapul structure and other leads, which also have significant follow-up potential. The Bosavi structure will be drilled in January 2003 and Kapul in late 2003.

Chief Executive Officer's Comments

"This transaction is a good result for Horizon Oil. Because the Kapul well will cost significantly less than Bosavi and because of the carry, the net cost for us is within our targeted level of cost exposure. At the same time, Horizon will become a participant at a material level in two wells, rather than one, which together constitute definitive evaluation of the potentially prolific PNG foreland. The overall chance of success is improved by drilling two seismically defined structures in areas with access to different proven hydrocarbon source systems.

Both drilling operations will be strong, underwritten by the expertise of Santos and Oil Search, two of the most experienced operators in PNG.

In terms of Horizon Oil's stated game plan, Bosavi and Kapul qualify as high potential, "company maker" prospects. Because of the proximity of the Kutubu oil pipeline, a discovery at either project could be developed within a 3 - 5 year timeframe."

Yours faithfully,



B D Emmett
Chief Executive Officer