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31 July 2003

The Manager
Company Announcements Office
Australian Stock Exchange Limited
20 Bridge Street
Sydney NSW 2000

Dear Sir,

REPORT FOR QUARTER ENDED 30 JUNE 2003
AUSTRALIAN STOCK EXCHANGE REQUIREMENT 3(B)5

The highlights of the quarter were completion of an independent study of Horizon Oil's key development projects offshore China and offshore New Zealand and the disposal of all of the Company's onshore New Zealand exploration acreage. This has resulted in considerable focussing of shareholder funds and management effort on assets that have real value and significant upside potential.

Progress was also made on evaluating new business opportunities that meet the criteria of the Company's stated Game Plan. That is, to build a portfolio of:-

- high impact exploration opportunities; and
- lower risk ventures with near term production potential

that can be managed to a value peak over a 3 to 5 year period.

REPORT ON OIL FIELD DEVELOPMENT PROJECTS

During the quarter, a reserves and economics evaluation of Block 22/12, China and Maari Field, offshore New Zealand, was carried out by RISC Pty Ltd. The report was commissioned to provide Directors, management and shareholders with an independent technical and economic view of the Company's two key development projects.

The report confirms the quality of the two projects and their significant value – value that is clearly material in relation to Horizon Oil's current market capitalization. A summary of the conclusions was released on 8 July 2003.

Evaluation Highlights

The report analyses the *low*, *medium* and *high* reserves cases for each project at an 11% discount rate and oil price of US$22 per barrel, held constant in real terms. Sensitivities to the discount rate, oil price and other parameters have also been examined. All the assumptions used in the study are documented.

In summary, the *medium* case indicates recoverable reserves net to Horizon Oil of 11.3 million barrels of oil (mmbo) and net present value discounted at 11% (NPV_{11}) of $71 million. Initial production from both projects, net to the Company, is forecast in early 2006 at 8,000 barrels of oil per day, with after tax cash flow beginning at $53 million per annum. ($NPV_{11}$ increases to $102 million, using RISC's high oil price of US$27 per barrel, flat real).

The *low* case has a positive NPV_{11} with an oil price as low as US$17.10 per barrel for Maari and US$16.40 per barrel for Block 22/12. What this means is that oil prices would have to fall below these levels before the Company did not recover an 11% return on capital. Clearly the economics of both projects are robust, in addition to which it should be noted that the proposed development schemes for both projects will use proven oil field technology. The RISC report necessarily qualifies the evaluation of Block 22/12 because of the lack of consistent oil property data and because of the need for appraisal drilling. The success of the appraisal drilling as well as partner and Chinese Government approvals will be important milestones leading to development. To the extent possible these areas of risk, and others such as estimation of capital costs, have been analysed in the economic modelling. Further work is required but there would have to be a compounding of negative factors to cause the proposed developments to be uneconomic.

The *high* case yields net reserves of 22.0 mmbo and an NPV_{11} of $157 million. The full report has recommended various actions and strategies to deliver, at least in part, this upside.

CHINA

Block 22/12, Beibu Gulf (HZN interest: 30.00%)

Rig pre-qualification and preparation for the drilling program of 2 firm wells plus 2 contingent wells scheduled for the end of 2003 is underway. This program will, as a minimum, appraise the 12-8-2 discovery and evaluate the 12-7-1 prospect which lies to the north of the 12-8-2 and 12-8-1 discoveries.

Review of the development concept and preliminary design of facilities, artificial lift and development wells for inclusion in a development plan is continuing.

NEW ZEALAND

PEP 38413, Offshore Taranaki Basin, Maari Field (HZN interest 10.00%)

Subsurface and surface studies in preparation for the development of Maari Field are progressing and a review of the development concept is at an advanced stage. Horizon Oil expects front end engineering and design (FEED) will commence in the last quarter of 2003.

PEP 38716 (HZN interest 28.34%)
PEP 38718 (HZN interest 10.00%)
PEP 38728 (HZN interest 48.00%)
PEP 38738 (HZN net profit interest 23.75%)

The Company announced that it had entered into agreements with Indo-Pacific Energy (NZ) Limited to sell the above interests, which constitute the Company's entire onshore New Zealand acreage position, for a consideration of NZ$1,000,000 (about A$900,000), to be paid in cash. The sale, which has an effective date of 30 June 2003, is subject to normal Government and joint venture partner consents and, in the case of some of the assets, preferential rights to purchase.

The sale also included all the shares in Horizon Oil's wholly-owned subsidiary Bligh Oil & Minerals (NZ) Limited. This now brings to a total of five companies that have been either disposed of or wound up, reducing corporate costs considerably.

The decision to sell the onshore New Zealand assets was considered carefully. The plain facts are that the Company drilled its best three prospects at Huinga, Tuihu and Makino and they were found to be inadequately defined by seismic data, costly to drill and they did not come up with hydrocarbon accumulations that could be developed. That said, the Tariki thrust trend, which traverses through these permits, is undoubtedly oily and was worth exploring. Quite possibly some fields will be discovered along it in the future by those with a longer time horizon.

The sale of these assets will result in the relinquishment of Horizon Oil's role as an operator in New Zealand and creates a number of administrative and corporate efficiencies. This allows management time and shareholder funds to be focussed on the primary activity in New Zealand – development of the offshore Maari oilfield.

PAPUA NEW GUINEA

PPL 227, Foreland, Kapul prospect (HZN interest: 20.00%)

Planning for the drilling of the Kapul-1 well is underway. Oil Search Limited, as operator, has called for tenders for well site preparation and drilling services. The current schedule for commencement of drilling is 1 December 2003.

Mean potential (gross, unrisked) of Kapul prospect is 129 mmbo.

UNITED STATES
Bayou Choctaw Field, Iberville Parish, Louisiana. HZN interest: 42.50% (Victory Financial) – 78.00%, (Wilberts) – 100%, (Bayou Choctaw Northwest)

Horizon Oil derives oil production from Bayou Choctaw at approximately 20 barrels of oil per day. Efforts to farm out part of the Company's interest in the prospect are continuing.

Horizon Oil N.L.

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Chief Executive Officer

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