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31 January 2014

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

**REPORT ON SECOND QUARTER ACTIVITIES – 31 DECEMBER 2013  
AUSTRALIAN STOCK EXCHANGE LISTING RULE 5.1**

Please find attached the abovementioned quarterly report.

Yours faithfully

A handwritten signature in black ink, appearing to read "Michael Sheridan". The signature is fluid and cursive, with a large, sweeping flourish at the end.

**Michael Sheridan**

Chief Financial Officer and Company Secretary

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31 January 2014

**REPORT ON SECOND QUARTER ACTIVITIES – 31 DECEMBER 2013**

**HIGHLIGHTS**

- Production for quarter 385,908 bbls – an increase of 35% over prior quarter
- Production revenue for quarter \$35.9 million - derived from sales of 343,045 bbls
- Beibu Gulf Gross oil production averaged 14,816 bopd (HZN: 3,993 bopd)
- Maari/Manaia production recommenced on 12 December 2013, producing from all wells at a rate of approximately 11,600 bopd (HZN: 1,160 bopd)
- Tingu-1 discovery well and flow test confirm substantial increase in gas/condensate resources in Horizon Oil operated PRL 21
- Ketu-2 production test confirms deliverability of the Elevala sandstone reservoir and condensate gas ratio (CGR) consistent with nearby Elevala and Tingu accumulations
- Government negotiations relating to the Stanley gas project Development Licence (PDL) application finalised

Note: All references in this report to \$ are to US\$

**CORPORATE**

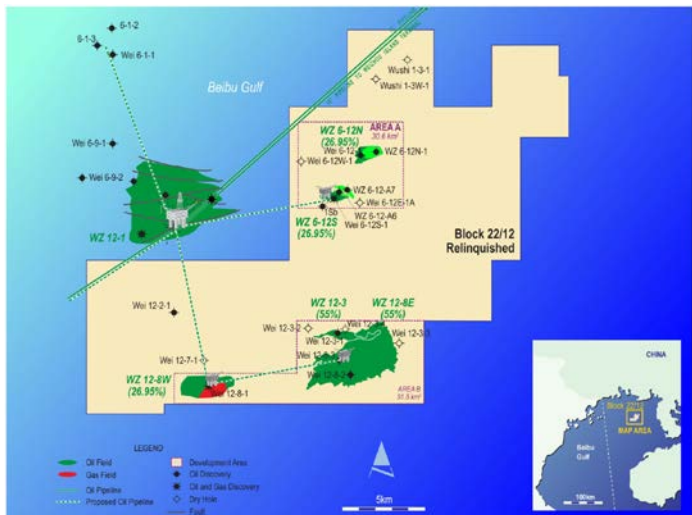
**Sale of partial interest in PNG licences to Osaka Gas**

In May 2013, the Company announced the sale of 40% of its PNG licence interests to Osaka Gas for a total consideration of \$204 million, composed of milestone payments.

The initial payment of \$74 million<sup>1</sup> plus completion adjustments (currently approximately \$20 million) will be made on grant of the Stanley gas project development licence. Subject to PNG Cabinet approval, the Company anticipates the development licence will be offered in the immediate term, as discussed below.

**PRODUCTION**

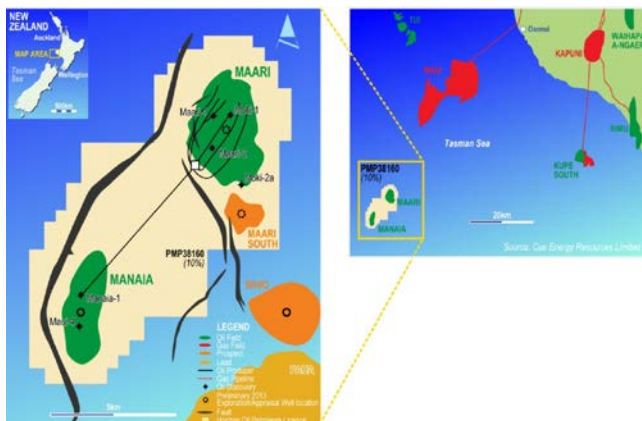
**Block 22/12, Beibu Gulf, offshore China (Horizon Oil: 26.95%)**



Gross oil production averaged 14,816 bopd (HZN: 3,993 bopd) up 37% from the previous quarter with all 15 wells on line for the full period. Five of the 15 wells continue to flow naturally whilst 10 of the wells are being produced with artificial lift by electric submersible pumps. During the quarter, Beibu Gulf development was finalised with the permanent tie-in of the three WZ 6-12 field wells being completed.

Cumulative gross production from the combined fields was 3.02 mmbbl to 31 December 2013.

**PMP 38160, Maari/Manaia fields, Taranaki Basin, offshore New Zealand (Horizon Oil: 10%)**



Production at Maari/Manaia fields, offshore New Zealand, re-started on 12 December 2013. The producer wells were progressively brought on line and on 17 December all 6 wells had been successfully returned to production and were producing at a rate of approximately 11,600 barrels of oil per day.

<sup>1</sup> Including initial deposit

The FPSO *Raroa* had been disconnected from its

mooring and towed to nearby Port Nelson to refurbish and upgrade its process equipment and install a new swivel. At the same time the opportunity was taken to repair several of the buoy mooring lines at the field.

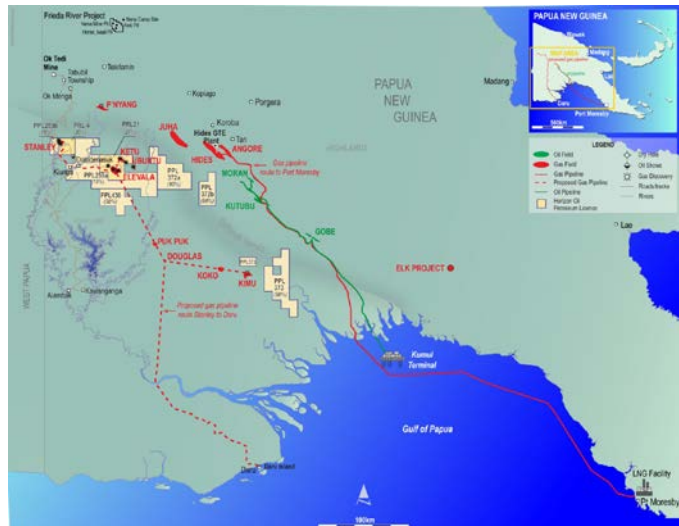
The upgrade, maintenance and repair works were carried out safely, within budget and the field returned to production on schedule. Horizon Oil's share of the work package was \$8 million with deferred cashflow during field downtime of approximately \$5 million. The company expects to recover a proportion of these amounts through insurance.

A workover utilising the wellhead platform workover unit to convert the MR1 well into a water injector was commenced in the period and concluded in early January 2014. The well conversion is part of the Maari growth projects program, designed to enhance production rate and oil recovery from the Maari and Manaia fields.

Preparations for the substantive phase of the Maari/Manaia growth projects program continues, with the Ensco 107 jack-up drilling rig expected to arrive in March 2014.

**DEVELOPMENT**

**PRL 4, Stanley gas-condensate field, Western Province, PNG (Horizon Oil: 30%)**



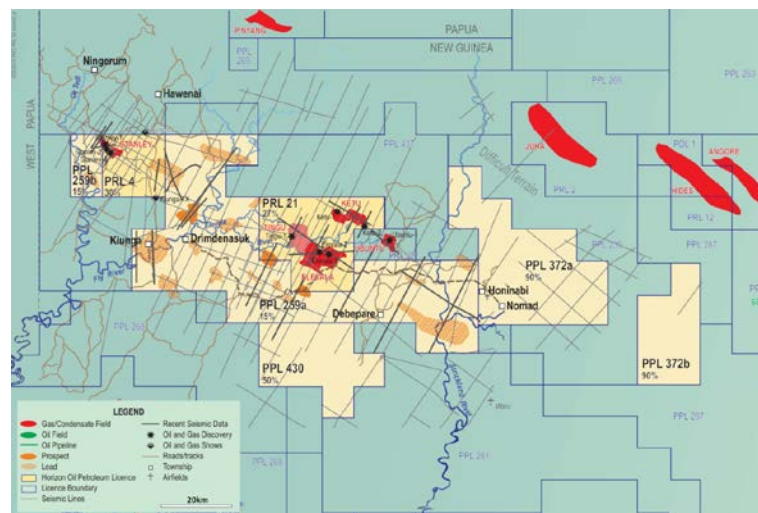
Government negotiations relating to the Petroleum Development Licence (PDL) application were finalised in the period and the Gas Agreement (project agreement) issued to the PNG State Solicitor for formal legal clearance prior to submission to the PNG Cabinet, for approval.

Preparatory activities for the landowner Development Forum, to be convened by the PNG Government, are complete. The Development Forum will commence after PNG Cabinet approval of the Gas Agreement which is expected to coincide with the offer of the PDL.

Negotiations with the participants in PPL 259 (adjacent to PRL 4) regarding the formation of a unit to include the small portion of the Stanley gas field that possibly encroaches into PPL 259 were concluded in the quarter. The effect on Horizon Oil's interest in the Stanley gas field will be immaterial, given the Company's near equivalent participation in each licence.

Work on the 90 m tanker progressed in the quarter with the vessel launched on 18 December 2013 and now in the process of fit-out and completion.

Negotiations with Ok Tedi Mining Limited for the supply of gas from the Stanley gas field progressed in the quarter. Technical matters and commercial issues in the detailed term sheet have been resolved, subject to final agreement on price.



**EXPLORATION/APPRaisal**

**PRL 21, Elevala/Tingu and Ketu gas fields, Western Province, PNG (Horizon Oil: 18%)**

*Tingu-1 discovery well and flow test*

Tingu-1, located 9.2 km northwest of the Elevala-2 appraisal well, spudded on 26 August 2013.

Data from logs and pressure measurements confirmed a significant gas/condensate discovery in the primary target Elevala Sandstone in the Tingu-1 exploration well. The well encountered a gas water contact in that reservoir consistent with that in the Elevala accumulation to the southeast, implying a connected field of considerable size.

Data from the Toro Formation underlying the Elevala Sandstone indicated a possible gas column also exists in that reservoir up-dip from the Tingu-1 location.

The well was perforated across a 7 m interval in the Elevala Sandstone and production testing operations

commenced. Following the clean-up flow period, the average flow rate was 48 million cubic feet of gas per day (mmcf) on a 72/64" choke, with no water, indicating high deliverability from the reservoir which is encouraging for future production operations. For the main flow period, the gas was flowed to a test separator and an average condensate gas ratio (CGR) of 65 barrels of condensate per million cubic feet of gas was measured over a three hour period, after which hydrocarbon samples were taken for compositional and pressure analysis. This analysis will be required to confirm the flow test results and CGR, but it is certainly an encouraging result so far.

The Tingu accumulation is potentially similar in size to the Elevala gas-condensate field (2C contingent resource of approximately 400 billion cubic feet of gas and 22 million barrels of condensate).

#### *Ketu-2 production test*

Strong gas/condensate flows were recorded during production testing of Ketu-2 appraisal well. The flow test confirmed the high deliverability of the Elevala sandstone reservoir and also that the condensate gas ratio (CGR) is consistent with that of the nearby Elevala and Tingu accumulations.

During the comprehensive multi-rate test sequence, the well flowed gas consistently at rates of 35 - 40 mmcf through a 56/64" choke, with no produced water and minimal CO<sub>2</sub> and H<sub>2</sub>S. The CGR stabilized at a rate of 50-60 barrels of condensate per million cubic feet of gas, in line with the Elevala and Tingu accumulations and about double that of the Stanley field CGR.

#### **PMP 38160, Manaia-2/2A exploration/appraisal well, Taranaki Basin, Offshore New Zealand (Horizon Oil: 10%)**

The Manaia-2/2A well reached total depth of 2891 m MDRT on 4 November 2013. The well is located 1.25 km north of Maui-4 (which discovered the Manaia Field) and 6 km to the southwest of the Maari Field well head platform.

The well achieved its objectives of drilling through the Moki Formation, the Mangahewa Formation, the underlying Farewell Formation and terminating in the North Cape Formation.

Elevated gas readings and oil fluorescence were observed in the Moki and Mangahewa Formations. Fluid samples with indications of oil were recovered by the modular formation dynamics tester logging program in the Moki Formation, and several oil stained cores were recovered by the coring tool. Analysis of these samples and the wireline logging data is ongoing.

The upper part of the Mangahewa Formation is being produced by an extended reach well drilled from the Maari Field well head platform and the data from Manaia-2 will contribute to optimisation of a planned additional development well into this zone.

#### **PEP 51313, offshore Taranaki basin, New Zealand (Horizon Oil: 21%; 10% in Whio prospect area if a discovery is made)**

Planning for drilling of the Whio-1 well with the semi-submersible rig *Kan Tan IV* progresses towards an expected spud in March 2014. The budget estimate remains at US\$56 million. The costs of the well are fully carried by OMV.

#### **PPL 259, Western Province, PNG (Horizon Oil: 35%)**

Horizon Oil entered into a farm-in agreement with Eaglewood Energy to acquire a further 20% participating interest in PPL 259. The farm-in on industry terms, incorporating reimbursement of proportionate past costs and a carry, is subject to customary government approvals. Under the terms of the farm-in, Horizon Oil will operate the exploration well to be drilled in the licence, anticipated later this year.

As previously advised, several large prospects have been delineated as drilling targets following interpretation of the 67 km of new 2D seismic data acquired in 2013.

#### **Block 09/05, Bohai Bay, offshore China (option to acquire 40% interest)**

The Company entered into a seismic farm-in option agreement in 2013 with a subsidiary of Roc Oil Limited to earn a 40% interest in Block 09/05, Bohai Bay, offshore China. Under the terms of the agreement, Horizon Oil will pay 40% of all exploration costs incurred until the exercise or lapse of the option.

The previously advised 162 sq km ocean bottom cable 3D seismic survey was completed on 12 September 2013, ahead of schedule, within budget and without incident; and the processed data is under review.

## FINANCIAL SUMMARY

	Q2 2014	Q1 2014	Change
	US\$'000	US\$'000	%
<b>Production Data (barrels)</b>			
<b><i>PMP 38160 (Maari and Manaia), offshore New Zealand</i></b>			
Crude oil production	18,524	17,371	6.6%
Crude oil sales	0	48,509	(100.0%)
<b><i>Block 22/12 (Beibu Gulf), offshore China</i></b>			
Crude oil production	367,384	268,865	36.6%
Crude oil sales	343,045	251,052	36.6%
<b>Total Production</b>			
<b>Crude oil production</b>	<b>385,908</b>	<b>286,236</b>	<b>34.8%</b>
<b>Crude oil sales</b>	<b>343,045</b>	<b>299,561</b>	<b>14.5%</b>
<b>Producing Oil and Gas Properties</b>			
<b><i>PMP 38160 (Maari and Manaia), offshore New Zealand</i></b>			
Production revenue <sup>1</sup>	0	5,514	(100.0%)
Operating expenditure	2,018	3,943	(48.8%)
Repairs and refurbishment expenditure	8,189	0	100.0%
Amortisation	213	200	6.5%
<b><i>Block 22/12 (Beibu Gulf), offshore China</i></b>			
Production revenue <sup>1</sup>	35,851	26,548	35.0%
Operating expenditure	4,320	2,542	69.9%
Special Oil Gain Levy	6,272	4,504	39.3%
Amortisation	9,525	7,310	30.3%
<b>Total Producing Oil and Gas Properties</b>			
<b>Production revenue<sup>1</sup></b>	<b>35,851</b>	<b>32,062</b>	<b>11.8%</b>
<b>Oil hedging losses</b>	<b>1,669</b>	<b>1,474</b>	<b>13.2%</b>
<b>Operating expenditure<sup>2</sup></b>	<b>20,799</b>	<b>10,989</b>	<b>89.3%</b>
<b>Amortisation</b>	<b>9,738</b>	<b>7,510</b>	<b>29.7%</b>
<b>Exploration and Development</b>			
PEP 51313, offshore New Zealand	156	114	
PRL 4, Papua New Guinea <sup>3</sup>	4,630	2,595	
PRL 21, Papua New Guinea <sup>3</sup>	14,176	5,242	
PPL 259, Papua New Guinea <sup>3</sup>	109	35	
PMP 38160 (Maari and Manaia), offshore New Zealand	5,870	2,369	
Block 22/12 (Beibu Gulf), offshore China	6,820	11,656	
	<b>31,761</b>	<b>22,011</b>	<b>44.3%</b>
<b>Cash on hand at 31 December 2013</b>	<b>37,099</b>	<b>65,367</b>	
<b>Reserves-Based Debt Facility<sup>4</sup></b>	<b>134,335</b>	<b>134,335</b>	
<b>Convertible Bond<sup>5</sup></b>	<b>80,000</b>	<b>80,000</b>	

<sup>1</sup> Represents gross revenue excluding hedge gains and losses

<sup>2</sup> Includes Special Oil Gain Levy payable in China and Maari repairs and refurbishment expenditure

<sup>3</sup> Subject to 40% recoupment of costs incurred on completion of Osaka Gas transaction.

<sup>4</sup> Represents principal amounts drawn down as at 31 December 2013

<sup>5</sup> Represents principal amount repayable unless converted prior to 17 June 2016

In accordance with ASX Listing Rules, the reserve and resource information in this report has been reviewed and approved by Mr Alan Fernie, Manager – Exploration and Development, Horizon Oil Limited. Mr Fernie (B.Sc), who is a member of AAPG, has more than 35 years relevant experience within the industry and consents to the information in the form and context in which it appears.