

30 April 2015

REPORT ON THIRD QUARTER ACTIVITIES – 31 MARCH 2015

HIGHLIGHTS

- **Production revenue, including hedge gains for quarter, of US\$25.7 million, an increase of 8% on Dec 2014 quarter; 2014/15 financial YTD revenue US\$79 million**
- **Production for quarter 324,478 bbls, an increase of 6% on Dec 2014 quarter; financial YTD production of 943,143 mmbo**
- **Maintenance of strong operating income levels, despite falling oil prices, resulting from continued lower operating expenditure, decreasing 23% from Dec 2014 quarter, and hedging gains**
- **Capital expenditure reduced by 76% from Dec 2014 quarter from US\$38.2 million to US\$8.9 million with completion of exploration and development drilling in China and PNG**
- **Maari growth projects program proceeding with MR6A development well completed and brought on production in the quarter with initial production rate of 7,800 bopd and MR7A development well drilling ahead in reservoir**

CORPORATE

Refinancing arrangements of reserve based lending facility

As advised in the Company's half year results announcement of 23 February 2015, Horizon Oil commenced negotiations in late 2014 with its lenders to revise the terms of its reserve based lending facility, presently drawn to US\$110 million.

The key objective of the negotiations was to minimise the extent of amortisation of the facility in the period to 30 June 2016, currently US\$60 million.

During the quarter, Horizon Oil and ANZ agreed the terms for a revised facility. The terms achieve the objective of eliminating the scheduled debt repayments¹ currently required over at least the next 15 months and, subject to debt capacity criteria, providing for an additional US\$50 million accordion feature to accommodate working capital requirements and redemption of the US\$80 million, 5.5% convertible bonds in June 2016. The terms of the new revolving cash advance facility provide greater flexibility to the Group with improved commercial terms and additional tenor, extended to March 2019.

ANZ was appointed mandated lead arranger, bookrunner and structuring bank during the quarter. At the date of this report, credit approved commitments for Horizon Oil's requested US\$120 million base facility

¹ Subject to customary borrowing base debt sizing criteria

amount have been received by the structuring bank from the lender syndicate.

The new revolving cash advance facility agreement is expected to be finalised in the first half of May 2015, with financial close shortly thereafter.

The Company's ability to obtain the revised terms in this low oil price environment was enhanced by the Group's commodity hedging program which, at the beginning of the quarter, included 842,500 barrels of oil hedged to mid-2016 at a weighted average hedge price of US\$95/barrel.

Summary of results for quarter

Revenue for the quarter was US\$25.73 million from sales of 327,636 bbls of oil. The average realised price of oil sold over the quarter, including hedging gains, was US\$78.52/bbl.

The average cash operating costs were US\$15.02/barrel produced during the quarter. We expect operating costs to be sustained at similar levels through calendar year 2015 based on operators' budget estimates, with the potential for further reductions resulting from cost deflation in this low oil price environment.

Quarterly net operating income² was US\$20.85 million.

² after operating expenses (including the Special Oil Gain Levy payable in China) and excluding extraordinary financing costs taxes and G&A

As previously advised, exploration and development capital expenditure for calendar year 2015 has been substantively reduced from the levels of previous years and discretionary expenditure minimised across all of the joint ventures in which Horizon Oil participates. The material reduction in capital expenditure compared with recent quarters reflects both:

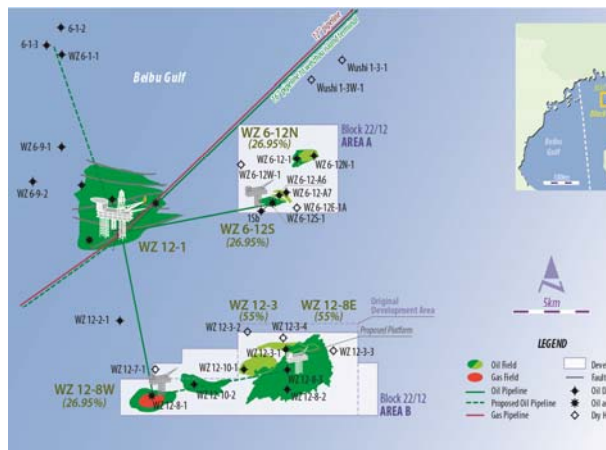
- the completion of programmed exploration and development drilling in China and PNG with the remaining drilling in respect of the Maari Growth Program scheduled to be completed in mid-2015; and
- the recognition by Horizon Oil and its joint venture partners of the need to conserve capital in the current oil price environment. Importantly, budgeted capital expenditure ensures continuation of planning for important development projects, particularly in China and Papua New Guinea, to advance so that they can benefit from lower development costs anticipated as a result of low oil prices.

Taking into account:

- the Company's cash balance of approximately US\$40 million at 1 April 2015 and additional undrawn debt capacity of US\$10 million under the revised facility,
 - forecast net operating income³ to June 2016, inclusive of hedging gains, in excess of US\$110 million (assuming current oil prices),
 - materially reduced budgeted/forecast capital expenditure profile over the coming 15 months of approximately US\$50 million,
 - elimination of scheduled amortisation under the renegotiated debt facility, and, to the extent required,
 - the potential for additional debt capacity under the "accordion" feature of the revolving cash advance facility (maximum additional debt of US\$50 million)
- the Company anticipates the generation of substantial cash reserves to meet redemption obligations under the Company's US\$80 million, 5.5% convertible bonds maturing in mid-2016.

PRODUCTION

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



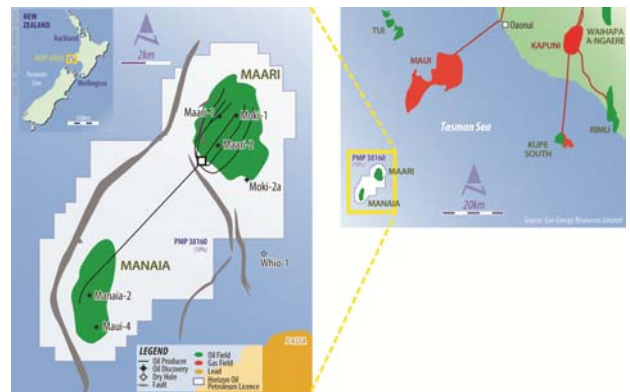
³ after operating expenses (including the Special Oil Gain Levy payable in China) and excluding extraordinary financing costs taxes and G&A

Gross oil production averaged 10,533 bopd (HZN: 2,839 bopd). All of the 15 production wells are now being produced with artificial lift by electrical submersible pumps.

Cumulative oil production from the combined fields at 31 March 2015 exceeded 8.0 mmbbl.

Evaluation of two successful exploration wells, the WZ 12-10-1 and WZ 12-10-2 (see map above), continued during the quarter. Planning for a potential appraisal well on WZ 12-10-2 to evaluate the south eastern part of the structure is underway. If successful, the well will be completed for production and processed through existing facilities on the WZ 12-8W platform.

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



Gross oil production averaged 7,669 bopd (HZN: 767 bopd). At the end of the quarter, gross production exceeded 13,000 bopd.

The Maari Growth Program progressed during the quarter. The Maari MR6A development well commenced production on 21 March 2015, with initial production of 7,800 bopd. The well is currently producing at rates in excess of 7,000 bopd.

The current well in the Maari Growth Program, the Maari MR7A development well, is drilling ahead with the *Enso 107* jack-up rig currently drilling the 8-½" production hole, having drilled over 800 m of the planned 1,200 m of reservoir section.

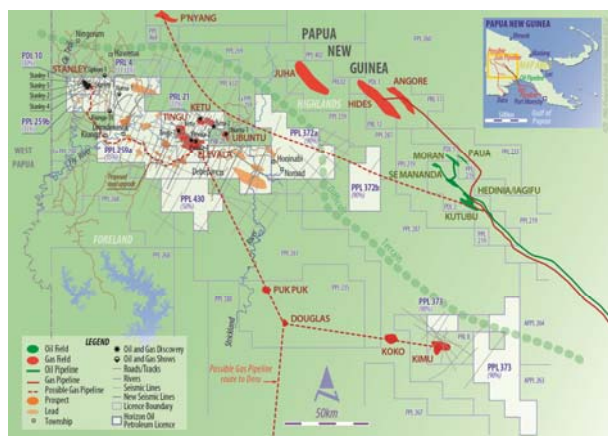
On completion of the MR7A well, the plan is to drill and complete the MR 10 well, a combined production/water injection well.

DEVELOPMENT

PDL 10, Stanley gas-condensate field, Western Province, Papua New Guinea (Horizon Oil: 30%)



In light of the material recent changes in market conditions in respect of oil price and costs, the Stanley joint venture initiated a value engineering review process to optimise project design, execution and timing prior to entering into material contracts for fabrication and construction of the project facilities. Project cost estimates are being revised, taking advantage of the cost deflation prevailing in the current industry climate.



PRL 21, Elevation/Tingu and Ketu gas-condensate fields, Western Province, PNG (Horizon Oil: 27% and operator)

Work continued through the quarter on pre-development planning, incorporating internal value engineering reviews to optimise project configuration and take into account revised market conditions and cost deflation.

The seismic data acquired under the 102 km 2D seismic program previously reported has been processed and integrated with reprocessed earlier data sets. The data is being interpreted to provide better definition of the Elevation/Tingu and Ketu structures and to facilitate stratigraphic modelling.

Horizon Oil, in partnership with Osaka Gas, completed the pre-feasibility study for a Western Province-based greenfield mid-scale LNG project. Shortlisted options will be evaluated through the course of a feasibility study scheduled to be completed in late 2015. A scheme with a near shore plant at Daru Island (refer to map) is the leading concept.

During the quarter, participants in the PNG LNG project advised that they had signed an agreement with the PNG Government providing for the award of development and pipeline licences for the P'nyang field, located roughly 70 km to the north of Stanley, Elevation/Tingu and Ketu fields to enable expansion of the PNG LNG project. Under the agreement a final investment decision for an additional LNG train is to be taken by the end of 2017, at the latest.

Horizon Oil regards this development as a promising alternative commercialisation pathway for its substantial gas resources in the Western province foreland. The possible export pipeline route connecting P'nyang gas field to the existing PNG LNG system at Kutubu, as shown on the above map, offers, in Horizon Oil's view, the potential for a gas aggregation project involving Stanley, Elevation/Tingu, Ketu, Ubuntu and P'nyang fields.

The Company intends to progress planning for a greenfield LNG project at Daru Island as its base case. However, the opportunity to participate in a brownfield LNG development by way of aggregation of Horizon Oil's gas fields with those of other operators will remain an attractive proposition.

EXPLORATION/APPRAISAL

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

The Nama-1 well was plugged and abandoned and the Parker 226 rig released on 19 January 2015.

Demobilisation of the rig and associated services commenced after the Nama-1 well. The Parker 226 rig was used to carry out the multi-well and multi-licence exploration and development drilling programs of various joint ventures in Western Province, PNG. At the date of this report, the demobilisation activities are substantially complete and within the gross demobilisation budget for the rig and services.

FINANCIAL SUMMARY

	Q3 2015	Q2 2015	Change	YTD
	bbls	bbls	%	bbls
Production				
<i>PMP 38160 (Maari and Manaia), offshore New Zealand</i>				
Crude oil production	69,010	61,258	12.7%	199,792
Crude oil sales	89,092	37,793	135.7%	198,929
<i>Block 22/12 (Beibu Gulf), offshore China</i>				
Crude oil production	255,468	245,091	4.2%	743,351
Crude oil sales	238,543	228,854	4.2%	694,104
Total Production				
Crude oil production	324,478	306,349	5.9%	943,143
Crude oil sales	327,636	266,647	22.9%	893,033
	US\$'000	US\$'000	%	US\$'000
Producing Oil and Gas Properties				
<i>PMP 38160 (Maari and Manaia), offshore New Zealand</i>				
Production revenue ¹	4,608	3,063	50.4%	15,383
Operating expenditure	2,538	1,868	35.9%	6,099
Amortisation	2,354	1,317	78.7%	5,062
<i>Block 22/12 (Beibu Gulf), offshore China</i>				
Production revenue ¹	11,262	15,963	(29.4%)	49,140
Operating expenditure	2,337	3,508	(33.4%)	8,705
Special Oil Gain Levy	0	991	(100.0%)	4,279
Amortisation	7,252	7,024	3.2%	21,130
Total Producing Oil and Gas Properties				
Production revenue	15,870	19,026	(16.6%)	64,523
Oil hedging gains/(losses)	9,855	4,779	106.2%	14,352
Total revenue (incl hedging gains/(losses))	25,725	23,805	8.1%	78,875
Operating expenditure ²	4,875	6,367	(23.4%)	19,083
Amortisation	9,606	8,341	15.2%	26,192
Exploration and Development				
PEP 51313, offshore New Zealand	72	46		130
PDL 10 (formerly PRL 4), Papua New Guinea	0	10,410		19,259
PRL 21, Papua New Guinea	3,295	1,065		6,235
PPL 259, Papua New Guinea	0	14,101		18,574
PMP 38160 (Maari and Manaia), offshore New Zealand	5,557	8,666		20,341
Block 22/12 (Beibu Gulf), offshore China	0	3,915		8,333
	8,924	38,203	(76.6%)	72,872
Cash on hand at 31 March 2015³	39,442	43,506		39,442
Reserves-Based Debt Facility⁴	110,000	110,000		110,000
Convertible Bond⁵	80,000	80,000		80,000

¹ Represents gross revenue excluding hedge gains and losses

² Includes Special Oil Gain Levy payable in China

³ Includes cash in transit

⁴ Represents principal amounts drawn down as at 31 March 2015

⁵ 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.