

29 January 2016

REPORT ON SECOND QUARTER ACTIVITIES – 31 DECEMBER 2015

HIGHLIGHTS

- Revenue of US\$20.4 million for December quarter 2015; calendar year revenue of US\$92.0 million
- Production for quarter 327,837 bbls; calendar year production of 1.37 million bbls
- Sales for quarter 372,521 bbls, calendar year sales 1.34 million bbls
- Average realised price, including hedging gains, of US\$54.84 bbl for oil sold in December quarter
- Operating cost US\$15.90/bbl¹ for December quarter production volumes
- Cash at 31 December 2015: US\$51.1 million
- Current net daily oil production rate of approximately 4,200 bbls, with the increased production resulting largely from the recently drilled WZ 12-8W-A6H well, Block 22/12 China
- Maintenance of robust operating income levels, despite falling oil prices, resulting from continued low operating expenditure and hedging gains
- Purchase and cancellation of US\$21.2 million of 5.5% convertible bonds maturing in mid-2016, reducing outstanding bonds to US\$58.8 million
- Insurance proceeds from 2013 Maari mooring and swivel repair claim: aggregate net recoveries of US\$10.2 million with US\$4.0 million received in Q2/Q3 2015, US\$3.4 million received in December quarter and US\$2.8 million to be received in early 2016 under loss of production claim
- Block 22/12, China: Horizon Oil's cost recovery oil entitlement - US\$110.5 million at 31 December 2015; increasing the Company's production entitlement from the field in 2016 from 26.95% to over 35% when the cost recovery entitlement is preferentially recovered
- PNG: substantial activity and transactions surrounding Horizon Oil's Western Province gas/condensate resources as PNG LNG expansion and Papua LNG progress to FID by end 2017

¹ normalised for inventory adjustments and mooring repair costs; US\$14.48/bbl net of period freight and demurrage costs

CORPORATE

Impact of oil price

The sustained falls in global oil markets continue to impact the exploration and production industry, with lower realised prices requiring even greater capital efficiency, deferral of investment and implementation of deeper cost control measures.

In each of the joint ventures in which Horizon Oil participates, the recently completed annual joint venture budget approval processes have resulted in limiting capital expenditure to that which is necessary in the current period to ensure asset integrity and satisfy licence and other contractual commitments.

CNOOC, the operator of Block 22/12, China, continues to aggressively focus on materially reducing operating costs and OMV New Zealand, the operator of the Maari/Manaia fields, New Zealand, has committed to driving operating cost reductions through 2016.

As a result, capital expenditure for the remainder of the 2016 financial year is expected to be approximately US\$16.0 million, plus the costs of the Maari FPSO mooring repairs announced on 18 December 2015 of approximately US\$4 million, net to Horizon Oil, before insurance recoveries. Importantly, the reduced budgeted capital expenditure ensures planning for important development projects in China and Papua New Guinea continues to advance so that they can benefit from lower development costs anticipated as a result of low oil prices.

The further decline in the oil price since 30 June 2015, combined with weakened market sentiment, will be incorporated in the assessment of the carrying value of Horizon Oil's assets at the half-year. At this stage, and subject to finalisation of our half-year results, Horizon Oil anticipates a modest impact on the overall carrying value of its producing assets as at 31 December 2015, however, the value of Horizon Oil's longer-dated development, exploration and evaluation assets may be affected by the weaker oil price environment.

Insurance proceeds for the 2013 repair of the Maari FPSO swivel and mooring lines

The aggregate insurance proceeds for the 2013 repair of the Maari FPSO swivel and mooring lines were confirmed as US\$74 million (US\$7.4 million net to Horizon Oil). Horizon Oil received interim payments of US\$4.0 million in Q2 and Q3 2015. The remaining US\$3.4 million was received in the December quarter. These insurance recoveries were claimed under the Maari FPSO hull and machinery operational policy.

Horizon Oil has previously advised of its material claim under its loss of production insurance policy. That claim has now been finalised and agreed and claims proceeds of an additional US\$2.8 million is expected to be received in early 2016.

Purchase and cancellation of convertible bonds

As advised on 19 October 2015, the Company purchased and cancelled US\$21.2 million of the Company's US\$80 million, 5.5% convertible bonds which mature in mid-2016.

This repayment, in conjunction with the reduction of the drawn debt levels of the Company's senior debt facility, saw the Company's gross debt levels progressively reduced by over US\$60 million from April 2014.

The Company's cash balance at 31 December 2015 increased approximately 16% over the prior quarter balance to US\$51.1 million.

The Company's cashflow from its low cost production is enhanced by the Group's commodity hedging program which includes 180,000 barrels of oil hedged in the six months from January 2016 to June 2016 at a weighted average hedge price of US\$95/barrel (~A\$135/bbl). The Company's forecast net operating cashflow and other income to 30 June 2016 is estimated to be approximately US\$22.0 million, offset by the abovementioned capital expenditure and repair costs.

The continued deep falls in oil prices and the consequential reductions of lender price decks impact the debt capacity of all reserve based lending facilities such as Horizon Oil's US\$120 million revolving cash advance facility with ANZ and Westpac. These reductions of lender price decks will lead to amortisation of the debt balance under the facility and will restrict the extent of potential additional debt capacity under the accordion tranche of the facility.

In consideration of the scheduled redemption of the residual convertible bonds and the factors noted above, the Company is progressing various opportunities to ensure satisfaction of the terms of the convertible bonds, or any modifications thereto.

Summary of results for quarter

Revenue for the quarter was US\$20.4 million from sales of 372,521 bbls of oil. The average realised price of oil sold over the quarter, including hedging gains, was US\$54.84/bbl.

The average cash operating costs for oil produced in the quarter, adjusted for inventory balances and long lead items incurred on the Maari mooring lines upgrade, were US\$15.90/bbl (US\$14.48/bbl net of period freight and demurrage costs).

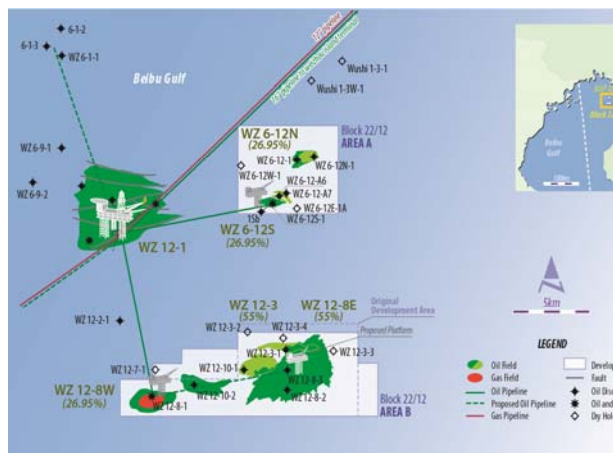
Calendar year production was 1.4 million bbls with Horizon Oil's net crude oil inventory at 31 December 2015 14,570 bbls.

Quarterly net operating income was US\$12.1 million².

² Excludes amortisation

PRODUCTION

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



Gross oil production averaged 8,051 bopd (HZN: 2,170) bopd). All of the 16 production wells are now being produced with artificial lift by electrical submersible pumps. Current production is approximately 10,700 bopd (HZN: 2,884 bopd), with the increased production resulting largely from the recently drilled WZ 12-8W-A6H well.

Horizon Oil's entitlement to cost recovery oil at 31 December 2015 was US\$110.5 million. Based on forecast field production rates and current oil prices, Horizon Oil's Block 22/12 production entitlement is forecast to increase from 26.95% to over 35% of production in 2016, while the cost recovery entitlement is preferentially recovered.

On 18 December 2015, the Company advised that the WZ 12-10-2 field, located in the Weizhou 12-8 Fields Area of Block 22/12, Beibu Gulf, People's Republic of China, had commenced production. The WZ 12-8W-A6P1 well was drilled in the quarter to appraise the accumulation discovered by the WZ 12-10-2 well in 2014 and, following this appraisal, a horizontal production sidetrack (WZ 12-8W-A6H) was completed and brought on to production. The production well is located 500 m north west of the WZ 12-10-2 discovery well, which discovered oil in the Miocene T42 sandstone.

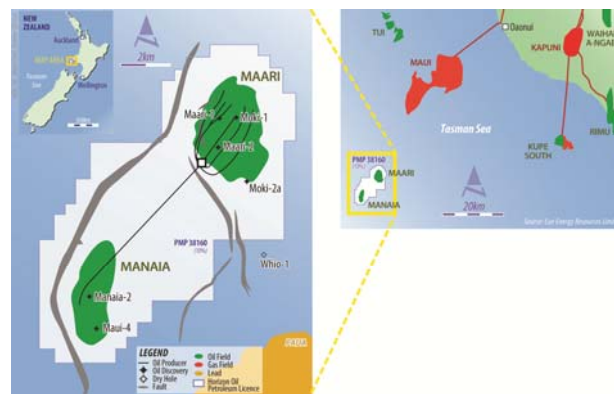
The WZ 12-8W-A6P1 pilot well spudded on 14 November 2015 with the HYSY931 jack-up rig to evaluate the structural configuration, reservoir quality and oil column thickness in the south eastern part of the WZ 12-10-2 oil accumulation. The well intersected good quality T42 sand close to the oil water contact, defining the south eastern extent of the field. The horizontal sidetrack was directed updip towards the original discovery location, intersected 512 m of oil bearing T42 sand from a total horizontal section of 550 m and was completed for production. The well was then brought online and after an initial clean up period, produced at over 1,400 bopd with a GOR of 40 scf/bbl.

This well will deliver near term incremental production to the existing WZ 12-8W/WZ6-12 production facility, and provide data to determine production and reservoir performance in the WZ 12-10-2 oil pool to assist in evaluation of a combined

full-scale field development plan for an integrated development of the WZ 12-10-1, WZ 12-10-2, WZ 12-8E and WZ 12-3 oil accumulations during 2016.

Preparation of the Overall Development Plan for the WZ 12-8E field continues, with completion scheduled in 2016. The audited gross 2C resources for the field (including WZ 12-10-1 and WZ 12-3-1) are 11.1 mmb.

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



Gross oil production for the quarter averaged 13,938 bopd (HZN: 1,394 bopd).

As announced on 18 December 2015, the Maari joint venture will carry out an upgrade of the FPSO Raroa's mooring system. The work, designed to "future-proof" the mooring system for the next decade, is to be carried out in late Q1/early Q2 2016 coinciding with the annual 10 day maintenance shutdown. The mooring system will remain fully certified and operational throughout the works.

The estimated cost of the works is approximately US\$4 million, net to Horizon Oil, before insurance recoveries. As previously advised, the Company recovered US\$7.4 million in insurance proceeds in respect of the swivel repairs and interim mooring line repairs in late 2013.

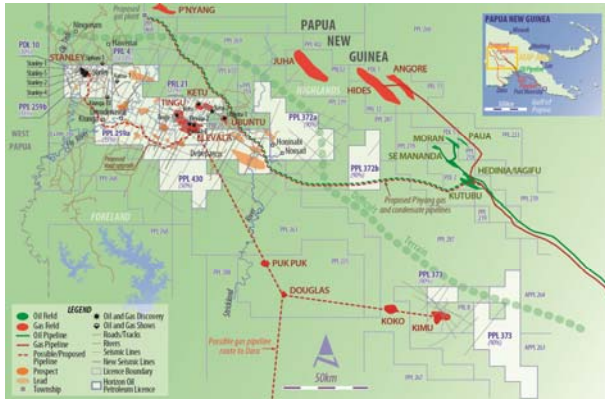
DEVELOPMENT

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



Repsol, operator of the Stanley joint venture, continues to progress commercial and technical discussions with Ok Tedi Mining Limited and regional mining operators with respect to gas sales for power generation.

As previously advised, Horizon Oil anticipates the revised project configuration will entail a phasing of the ultimate development and associated capital costs, enabling a reduced initial capital investment and matching the gas demand for power generation with the requirements of regional mining, industrial and domestic consumers.



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

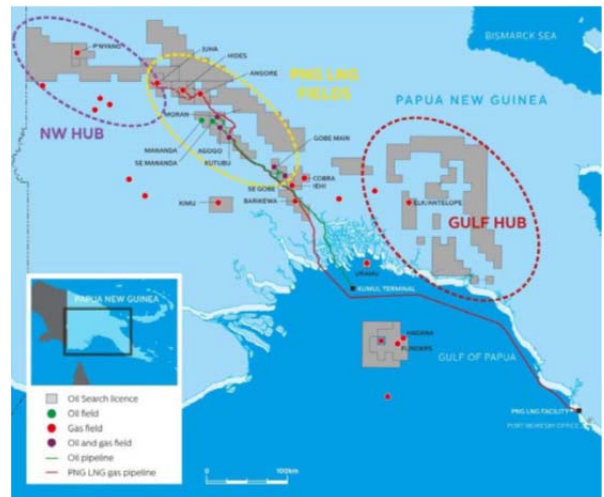
Further good progress was made in the quarter on pre-development planning and regulatory aspects of the project, including landowner, environmental and technical matters.

A key milestone was achieved in the quarter with the formal approval by the PNG Conservation and Environment Protection Authority of the Elevala Development environmental impact statement.

Exploration and appraisal activity has increased in the areas immediately to the north of Horizon Oil's Western Province gas fields, with the PPL 269 participants,

including Repsol, Santos and Oil Search, mobilising a rig to drill up to two exploration wells and the P'nyang participants to drill up to two appraisal wells in 2016, with total drilling costs likely to be in the order of US\$400-500 million.

The outcome of the P'nyang appraisal drilling by the Exxon led joint venture, anticipated in mid-2016, will determine the extent of that joint venture's demand for the Elevala/Tingu and Ketu gas volumes (1 tcf gas/50 mmb condensate audited 2C resources) to satisfy a threshold 4 tcf volume for the PNG LNG Train 3 expansion. The Company understands that such proposals have considerable PNG governmental support.



Source: Oil Search investor presentation 18 June 2015

The PRL 21 joint venture will progress planning for a greenfield LNG project at Daru Island as its base case and the Company will continue its feasibility analysis for gas sales to West Papuan agribusiness and industrial users. 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 represents a potentially attractive proposition.

FINANCIAL SUMMARY

	Q2 2016	Q1 2016	Change	YTD
	bbls	bbls	%	bbls
Production				
PMP 38160 (Maari and Manaia), offshore New Zealand				
Crude oil production	128,232	135,450	(5.3%)	263,682
Crude oil inventory on hand	14,570	72,475	(79.9%)	87,045
Crude oil sales	186,140	117,594	58.3%	303,734
Block 22/12 (Beibu Gulf), offshore China				
Crude oil production	199,605	218,613	(8.7%)	418,218
Crude oil sales	186,381	204,130	(8.7%)	390,511
Total Production				
Crude oil production	327,837	354,063	(7.4%)	681,900
Crude oil sales	372,521	321,724	15.8%	694,245
	US\$'000	US\$'000	%	US\$'000
Producing Oil and Gas Properties				
PMP 38160 (Maari and Manaia), offshore New Zealand				
Production revenue ¹	8,949	6,723	33.1%	15,672
Operating expenditure ²	2,370	2,035	16.5%	4,405
Inventory adjustment ³	2,386	(743)	421.2%	1,643
Repairs and refurbishment expenditure	720	0	100.0%	720
Amortisation	3,223	3,860	(16.5%)	7,083
Block 22/12 (Beibu Gulf), offshore China				
Production revenue ¹	6,897	8,816	(21.8%)	15,713
Operating expenditure	2,842	2,436	16.6%	5,278
Special Oil Gain Levy	0	0	0	0
Amortisation	5,991	6,220	(3.7%)	12,211
Total Producing Oil and Gas Properties				
Production revenue	15,846	15,539	2.0%	31,385
Oil hedging gains/(losses)	4,584	5,278	(13.1%)	9,862
Total revenue (incl hedging gains/(losses))	20,430	20,817	(1.9%)	41,247
Direct production operating expenditure ²	5,212	4,471	16.6%	9,683
Inventory adjustments and repairs and refurbishment expenditure ³	3,105	(743)	(518.0%)	2,363
Amortisation	9,214	10,080	(8.6%)	19,294
Exploration and Development				
PEP 51313, offshore New Zealand	6	48		54
PDL 10 (formerly PRL 4), Papua New Guinea	696	797		1,493
PRL 21, Papua New Guinea	591	0		591
PPL 259, Papua New Guinea	608	0		608
PPL 430, Papua New Guinea	25	0		25
PMP 38160 (Maari and Manaia), offshore New Zealand	383	5,814		6,197
Block 22/12 (Beibu Gulf), offshore China	4,400	1,397		5,797
	6,709	8,056	(16.7%)	14,765
Cash on hand at 31 December 2015⁴	51,066	44,001		51,066
Reserves-Based Debt Facility⁵	120,000	120,000		120,000
Convertible Bond⁶	58,800	58,800		58,800

¹ Represents gross revenue excluding hedge gains and losses

² Represents direct production costs (during Q2 2016 included some demurrage and freight of \$0.5 million on CIF sales)

³ Includes accounting adjustment for cost of crude oil inventory sold or produced during the period (includes amortisation of \$1.1 million in the quarter)

⁴ Includes cash in transit

⁵ Represents principal amounts drawn down as at 31 December 2015

⁶ 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.