



Horizon Oil Limited ABN 51 009 799 455

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

Dear Sir,

**HORIZON OIL (HZN) ANNOUNCES EXECUTION OF US\$160 MILLION RESERVES
BASED LENDING FACILITY**

Further to the information provided by Horizon Oil on 28 February 2012 regarding the development financing of Horizon Oil's interests in Block 22/12, China and PRL 4, Papua New Guinea, the Company advises it has finalised and executed the facility documentation for the provision of a reserves based debt facility ("Facility") of up to US\$160 million with a term of six years. The Joint Mandated Lead Arranging banks are ANZ, CBA, BNP Paribas and Standard Chartered Bank.

Under the terms of the facility, Horizon Oil's production and development assets underpin the debt component of the financing of the development of:

- Block 22/12, offshore China;
- Stanley gas-condensate development project in PRL 4, onshore PNG; and
- Maari/Manaia expansion activities

and general corporate expenses, including exploration and appraisal activities.

There is no obligation under the terms of the facility for oil price hedging by Horizon Oil. However, consistent with Horizon Oil's risk management policy, given the significant capital expenditure program and the objective of ensuring adequate revenues to meet the Company's capital and debt servicing commitments, the Company intends to hedge a proportion of its Maari P90 (proven) oil production, leaving forecast Block 22/12 production unhedged. Such a course of action will provide substantial certainty of revenue to be generated by hedged Maari production and will leave the Company's significant future production from Block 22/12 and Stanley unhedged. As an additional prudential measure, the Company has in place loss of production insurance in respect of Maari production, which is activated in the event of unforeseen loss or damage to the Maari infrastructure.

Horizon Oil's Chief Executive Officer, Brent Emmett, commented:-

"We are pleased to have secured this reserves based lending facility with a high quality and credible banking consortium. The facility, in combination with existing cash reserves and production income from Maari field, means that development of the Company's substantial reserves and resources in Block 22/12 in China and Stanley field in PNG is now fully financed based on Board-approved financial forecasts. The Board has preferred this debt funding approach to the alternative of raising new equity with resulting dilution, because it takes full advantage of the considerable existing value in the asset portfolio, particularly Maari. At current LIBOR rates, interest on funds drawn on the facility will be 4-5%, an attractive cost of development capital."

The Company's Board has considered the risks associated with taking on debt and believes that these are adequately mitigated by the intended oil price hedging program and loss of production insurance, described earlier in this release. The hedging will serve to fix the oil price on a modest volume of

production from Maari field over the next two years, yet still provide shareholders with significant exposure to upside in oil price associated with the balance of Maari production, the considerable production anticipated from Block 22/12 beginning in early 2013 and, of course, the remainder of Horizon Oil's substantive undeveloped reserves and resources inventory.

The sizing of the US\$160 million loan facility is designed to provide capacity above the currently planned maximum drawdown of US\$120 million that was flagged at the Annual General Meeting in November 2011, to allow for capital expenditure increases should they occur and also for any new business activities. The maximum drawdown, which is expected to be fairly short-lived because of cash generation from Maari and Block 22/12, will occur in mid-2013 at a time when production from Block 22/12 is expected to be at its peak. Total indebtedness at that point, inclusive of US\$80 million in outstanding convertible bonds, is forecast to be around US\$200 million. An important factor is that the bonds, which carry an interest rate of 5.5% per annum, are not redeemable until June 2016¹, by which time Stanley field, in addition to Maari and Block 22/12, should also be on production.

The banking consortium is composed of banks with considerable experience in reserves based lending and in the jurisdictions in which Horizon Oil operates. The process has resulted in independent expert due diligence of the Company's assets and corporate affairs, including the assessment of our reserves and resource. The rigorous and detailed assessment by experienced third parties of the Company's financial position, the reserves and resources inventory and its upside potential provides the Board a reassuring level of confidence."

Yours faithfully



Michael Sheridan

Chief Financial Officer / Company Secretary



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¹ Other than in the event of a change in control or delisting of the Company