



Horizon Oil Limited ABN 51 009 799 455
Level 7, 134 William Street, Woolloomooloo NSW Australia 2011
Tel +61 2 9332 5000, **Fax** +61 2 9332 5050 **www.horizonoil.com.au**

31 July 2014

REPORT ON THIRD QUARTER ACTIVITIES – 30 JUNE 2014

HIGHLIGHTS

- Proposed merger with Roc Oil announced on 29 April 2014; scheme booklet issued on 3 July 2014
- Stanley development licence granted on 30 May 2014
- Completion of transaction with Osaka Gas; receipt of US\$78 million comprising first milestone payment (US\$74 million) of US\$204 million aggregate consideration and remaining completion adjustments of US\$4 million
- Block 22/12, offshore China: 5 million barrels cumulative oil production milestone achieved
- Maari growth projects program proceeding well
- Whio well, offshore New Zealand, spudded
- Production for quarter 350,845 bbls; annual production 1.43 mmbo
- Production revenue for quarter \$32.4 million (sales of 305,452 bbls); annual revenue US\$144.33 million

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

CORPORATE

Proposed merger with Roc Oil

Horizon Oil and Roc Oil announced a proposed merger on 29 April 2014.

The scheme booklet, including the independent expert's report, was reviewed by ASIC and approved by the Federal Court on 3 July 2014. The independent expert, Deloitte Corporate Finance Pty Limited concluded that the merger is in the best interests of Horizon Oil's shareholders. The independent expert commissioned by Roc Oil to prepare a report on the proposed merger, Grant Samuel & Associates Pty Ltd similarly concluded that the proposed merger is in the best interests of Roc Oil shareholders.

The scheme meeting to approve the scheme of arrangement to effect the proposed merger will be held on 7 August 2014. If the requisite majority of shareholders approves the scheme of arrangement, the second court hearing is scheduled for 14 August 2014. Following approval of the scheme of arrangement by the Federal Court, the merger will be implemented on 29 August 2014.

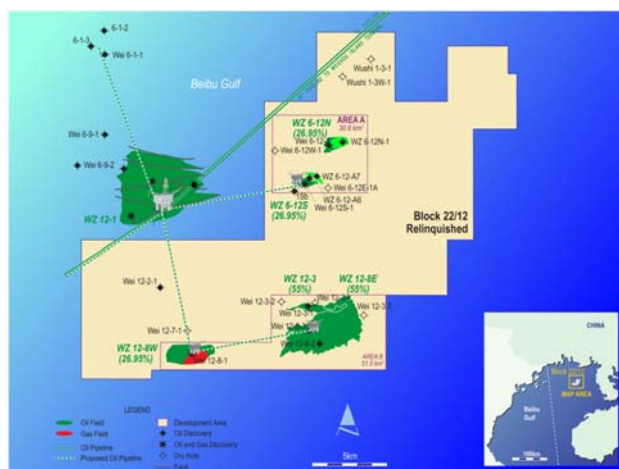
For further details regarding the proposed merger, please refer to the Company's ASX announcements.

Completion of sale of partial interests in PNG licences to Osaka Gas

In May 2013, the Company announced the sale of 40% of its PNG licence interests to Osaka Gas. The transaction was completed in the period, resulting in the receipt by the Company of US\$78 million comprising first milestone payment (US\$74 million) of US\$204 million aggregate consideration and remaining completion adjustments of US\$4 million.

PRODUCTION

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



Gross oil production averaged 11,769 bopd (HZN: 3,172 bopd) with a number of wells offline during the period for planned testing. During the quarter pressure build up tests were conducted on six wells in the WZ 6-12 field. Five of the total 15 production wells continue to flow naturally, whilst 10 wells are being produced with artificial lift by electric submersible pumps. The onset of water production from the wells has been slower than predicted, which bodes well for the ultimate recovery of oil from the fields.

The WZ 12-8E feasibility study continues and development plan submission is scheduled to complete by the end of 2014.

Cumulative gross production from the combined fields was 5.3 mmbo to 31 March 2014.

The current phase of the program, the conversion of the MR6A water injection well to a new production well, addressing the oil reserves in the deeper Maari Mangahewa formation, proceeded during the quarter. The activities involve the plugging back of the MR6A water injection well and associated drilling of a sidetrack well. After successfully plugging back the well, the sidetrack was spudded on 11 June 2014. The production well is currently drilling ahead in the Mangahewa oil reservoir at a measured depth of 3,136 m and is scheduled to be completed for production in August.

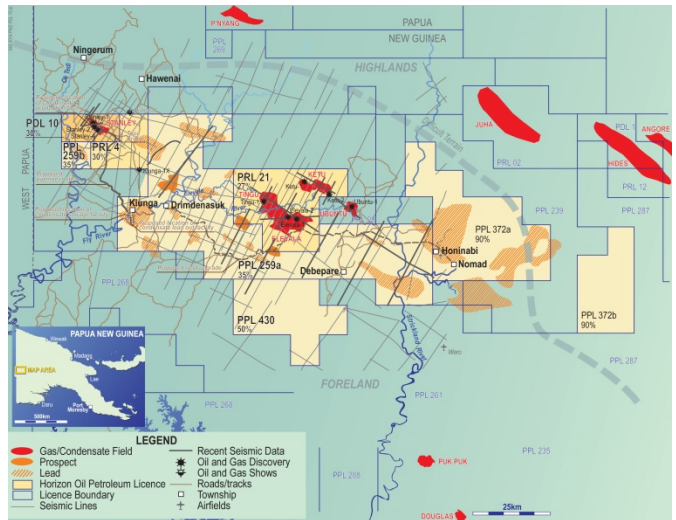
DEVELOPMENT

The map illustrates the proposed gas pipeline routes in Papua New Guinea. Key locations and features include:

- Freixo River Project:** Located in the north-western region.
- Stanley:** A major gas field in the west.
- P'nyang:** A gas field in the north-west.
- Juba:** A gas field in the north-central region.
- Hides:** A gas field in the north-central region.
- ANGOR:** A gas field in the north-central region.
- MORAN:** A gas field in the north-central region.
- KUTUBU:** A gas field in the north-central region.
- PUK PUK:** A gas field in the north-central region.
- DOUGLAS:** A gas field in the north-central region.
- ELK PROJECT:** A gas field in the south-eastern region.
- Port Moresby:** The capital city in the south-east.
- Gulf of Papua:** The body of water to the south.
- PNG 37 and PNG 37A:** Offshore gas fields in the Gulf of Papua.
- Legend:**
 - Green line: Oil Field
 - Red line: Proposed Gas Pipeline
 - Blue line: Road/Track
- Scale:** 100km

The landowner Development Forum was convened by the PNG Government on 16 May 2014. At the successful conclusion of the Development Forum, in a formal ceremony attended by Hon. Boka Kondra, Member for North Fly, Western Province Governor, Hon. Ati Wobiro and other dignitaries, Horizon Oil was presented the development and pipeline licences by Hon. Nixon Duban, Minister for Petroleum and Energy.

On completion of the Stanley-5 well, the Parker *Rig* 226 will be skidded to commence drilling the Stanley-3 production well, with an anticipated spud date of 22 August 2014.



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

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

Substantial progress was made in the period on constructing the rig site for the Nama-1 well, which is expected to spud in late-October. The Nama prospect is located near the Stanley gas-condensate field with a potential resource size similar to that of the Stanley field (certified at 399 bcf of gas and 13 mmbbl condensate).

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



The Whio-1 well was spudded at 21:45 hrs on 23 July with the semi-submersible rig *Kan Tan IV*. The costs of the well will be fully carried by OMV New Zealand Ltd.

The primary reservoir objectives at Whio are the M2A Sandstone and Mangaheua Formation which are oil bearing in the Maari Field. Secondary reservoir objectives are the Moki, Kaimiro and Farewell Formations. The Whio prospect has mean unrisksed prospective resources assessed at 18 mmbo (100% basis). Operations at Whio are anticipated to take 22 days.

FINANCIAL SUMMARY

	Q4 2014	Q3 2014	Change	FY2014 YTD
	bbls	bbls	%	bbls
Production Data				
PMP 38160 (Maari and Manaia), offshore New Zealand				
Crude oil production	62,228	88,340	(29.6%)	186,345
Crude oil sales	35,956	106,188	(66.1%)	190,588
Block 22/12 (Beibu Gulf), offshore China				
Crude oil production	288,617	323,324	(10.7%)	1,248,190
Crude oil sales	269,497	301,904	(10.7%)	1,165,497
Total Production				
Crude oil production	350,845	411,664	(14.8%)	1,434,534
Crude oil sales	305,452	408,091	(25.2%)	1,356,085
	US\$'000	US\$'000	%	US\$'000
Producing Oil and Gas Properties				
PMP 38160 (Maari and Manaia), offshore New Zealand				
Production revenue ¹	4,069	12,091	(66.3%)	21,674
Operating expenditure	1,404	2,892	51.5%	10,258
Repairs and refurbishment expenditure	0	257	100.0%	8,446
Amortisation	2,214	1,017	(117.7%)	3,622
Block 22/12 (Beibu Gulf), offshore China				
Production revenue ¹	28,295	31,962	(11.5%)	122,655
Operating expenditure	3,579	3,155	(13.4%)	13,832
Special Oil Gain Levy	5,046	5,197	2.9%	20,783
Amortisation	9,360	8,555	(9.4%)	35,775
Total Producing Oil and Gas Properties				
Production revenue ¹	32,364	44,053	(26.5%)	144,329
Oil hedging losses	1,479	1,256	(17.8%)	5,879
Operating expenditure ²	10,029	11,501	12.8%	53,319
Amortisation	11,574	9,572	(20.9%)	39,397
Exploration and Development				
PEP 51313, offshore New Zealand	(7)	64		327
PRL 4, Papua New Guinea ³	5,825	6,122		13,834
PRL 21, Papua New Guinea ³	990	3,245		14,588
PPL 259, Papua New Guinea ³	4,065	81		4,200
PMP 38160 (Maari and Manaia), offshore New Zealand	2,307	5,124		15,669
Block 22/12 (Beibu Gulf), offshore China	0	2,385		20,861
	13,180	17,021	(22.6%)	69,479
Cash on hand at 30 June 2014⁴	98,911	23,182		98,911
Reserves-Based Debt Facility⁵	119,165	119,165		119,165
Convertible Bond⁶	80,000	80,000		80,000

¹ Represents gross revenue excluding hedge gains and losses

² Includes Special Oil Gain Levy payable in China and Maari repairs and refurbishment expenditure

³ Includes an adjustment for 40% recoupment of costs incurred on completion of Osaka Gas transaction.

⁴ Includes cash in transit

⁵ Represents principal amounts drawn down as at 30 June 2014

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.