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27 January 2015

REPORT ON SECOND QUARTER ACTIVITIES – 31 DECEMBER 2014

HIGHLIGHTS

- **Production for quarter 306,349 bbls; calendar YTD production 1,381,093 mmbo**
- **Production revenue including hedge gains for quarter US$23.8 million (sales of 266,647 bbls); 2014 calendar year revenue US$127.0 million**
- **Maintenance of strong operating income levels, despite falling oil prices, resulting from hedging gains and lower operating expenditure**
- **Block 22/12, offshore China: 7 million barrels cumulative oil production milestone achieved; preliminary estimate of recoverable reserve potential of WZ 12 -10-1 and WZ 12-10-2 discovery wells in the order of 10 mmbo with early integration into field development under evaluation**
- **Maari growth projects program proceeding with MR8A development well completed and brought on production in the quarter and MR7A development well drilling ahead**
- **Stanley development project, PNG: Value Engineering review process initiated by joint venture to ensure optimisation of project design, execution and timing in light of market conditions for oil prices and anticipated cost deflation**
- **Elevala/Tingu and Ketu development planning progressed with project selection process incorporating current market conditions (oil prices and project costs); continued productive engagement with government and landowners stakeholders**
- **Development licence to be offered in early 2015 to certain PNG LNG project participants in respect of P'nyang gas field, approximately 70 km north of Stanley, Elevala/Tingu and Ketu gas fields, presenting a potential additional commercialisation pathway for Horizon Oil's substantial Western Province gas resources**
- **Nama prospect, PPL 259, PNG: The Nama-1 well was spudded on 4 December. While gas shows were detected, analysis indicated poor quality sands in the prospective zones. The well was plugged and abandoned.**

CORPORATE

Commentary on effect of current disruption in oil market and Horizon Oil response

During the quarter the price of Brent crude fell sharply from US$94.16/barrel on 1 October 2014 to US$57.33/barrel on 31 December 2014. In accordance with the policy of its board, after the end of the period, the Company had oil price hedges in place over 842,500 barrels of oil, a significant proportion of forecast production, until mid-2016 at an average price of US$95/barrel, net of fees.

As a result of the hedging program, the average effective price received over the quarter, including hedging gain, was US$89.28/barrel of oil sold.

During the period cash operating cost was an average of US$20.78/barrel produced. We expect this cost to reduce in calendar year 2015 based on current operator budget estimates and further again depending on cost deflation that may result from the low oil price environment.

Quarterly operating income after operating expenses (including the Special Oil Gain Levy payable in China) and excluding extraordinaries contributed to a total for calendar year 2014 of US$91 million, a significant increase over actual operating income for calendar year 2013 of US$62 million. Because of the oil price hedging program in place, we expect strong operating income to continue over calendar year 2015 in line with the following table, which is based primarily on operator forecasts and incorporates Horizon Oil's oil price deck and sensitivities, as indicated. The selected sensitivities compare with a Brent price of about US$49/barrel at the date of this report.

Calendar Year	2013 Actual[1]	2014 Actual[1]	2015E
Operating income after opex (including the Special Oil Gain Levy payable in China) and excl extraordinaries[2] at oil price of US$55/bbl (US$m)	62	91	86
Sensitivity to oil price US$50/bbl			*83*
Sensitivity to oil price US$45/bbl			*79*

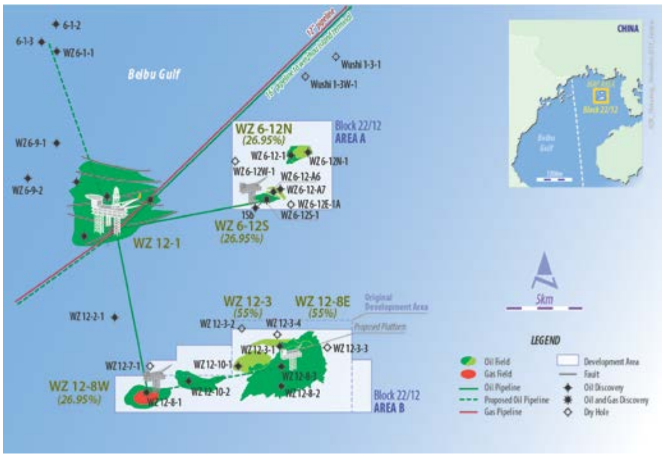
[1] Actual operating income based on audited accounts through 30 June 2014 and quarterly reports thereafter
[2] Operating income after opex (including the Special Oil Gain Levy payable in China) and excl extraordinaries is a financial measure which is not prescribed by the Australian Accounting Standards and represents the revenue from crude oil sales including realised gains and losses on oil hedging derivatives after deducting cost of sales which has been adjusted for amortisation expense and non-recurring income and expenditure. The directors consider this to be a useful measure of performance of the Group's underlying operations.

The outcome of the budget planning process carried out during the quarter is that exploration and development capital expenditure for calendar year 2015 has been substantively reduced from the levels of previous years and discretionary expenditure minimized. This action reflects the recognition by Horizon Oil and its joint venture partners of the need to conserve capital in the current oil price environment. Importantly, the budgeted capital expenditure will allow 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.

PRODUCTION

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

Gross oil production averaged 9,887 bopd (HZN: 2,664 bopd). There were no shut downs in the period and overall uptime for the 2014 calendar year was 98%.



There are 15 wells in production of which 14 are being produced with artificial lift by electrical submersible pumps while 1 well continues to flow naturally. The rate of water production continues to increase incrementally but at a significantly slower rate relative to oil production than initially predicted by reservoir models. This production behaviour is positive in terms of the implied ultimate oil recovery from the fields.

Cumulative oil production from the combined fields at 31 December was 7.10 mmbo. Production in 2014 was 4.08 mmbo, about 5% ahead of the budget.

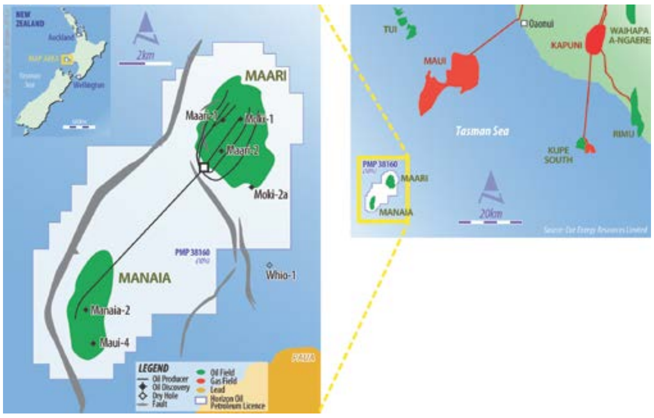
The WZ 12-8E feasibility study was completed and prepared for an early 2015 submission to CNOOC Ltd for approval. The next step will be to prepare and submit the Overall Development Plan (ODP) before mid-year.

Evaluation of two successful exploration wells, the WZ 12-10-1 and WZ 12-10-2 (see map above), continued during the quarter. A preliminary estimate of the recoverable reserve potential of these discoveries is of the order of 10 mmbo.

The development concept contemplated for the larger of the two accumulations, the WZ 12-10-2, involves a minimal jacket attached to the existing WZ 12-8W wellhead platform. Development wells would be drilled through a guide on the jacket into the oil accumulation and the produced oil processed through existing facilities on the WZ 12-8W platform.

It is likely that the WZ 12-10-1 accumulation would be developed as part of the WZ 12-8E development project.

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



Gross oil production averaged 6,649 bopd (HZN: 665 bopd). At the end of the period gross production was approximately 8,500 bopd.

The Maari Growth Program, incorporating 4 new production wells, 1 new injection well and a work-over of the existing MR2 production well, designed to enhance production rate and oil recovery from the Maari and Manaia fields, progressed during the quarter.

The Maari MR8A development well was completed during the quarter and production commenced from this well on 28 November. At the end of December the well was producing in excess of 1,200 bopd and was still cleaning up.

A work-over of the MR5 well was also carried out during the quarter to replace an ESP and to clean out and acidise the horizontal production interval. The well resumed production on 14 December and at the end of the quarter was producing in excess of 800 bopd.

The next well in the Maari Growth Program, the Maari MR7A development well, is drilling ahead towards intermediate casing setting depth above the objective Moki reservoir where 9-5/8" casing will be run and cemented before the horizontal production hole is drilled to planned total depth of 4,650 m.

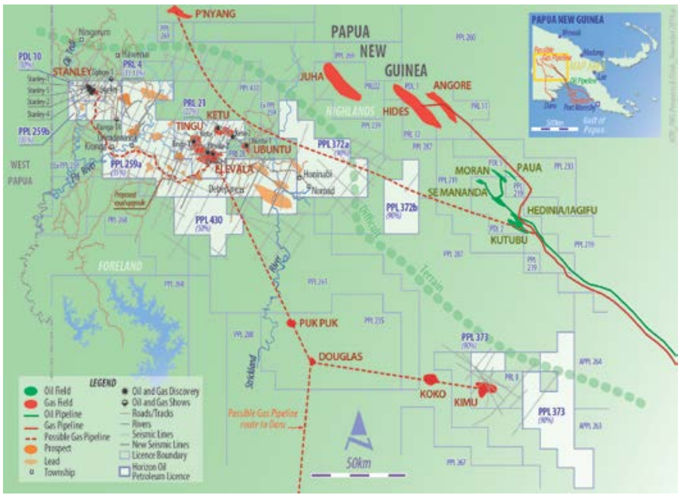
DEVELOPMENT

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

The Stanley Gas Plant pre-construction survey report was submitted to the PNG Department of Environment and Conservation (DEC) in December.

Due to the recent change in market conditions in respect of oil price and costs, a Value Engineering review process has been initiated. The purpose of this is to ensure that project design, execution and timing are optimised. Also project cost estimates are being reviewed and updated to ensure that they accurately reflect the cost deflation anticipated in the current industry climate.

The Stanley project tanker *Western Queen* passed an inspection, which qualifies the vessel for bunkering operations in Port Moresby under a sub-charter arrangement. This will offset holding costs until the vessel is required to transport Stanley condensate.



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

Good progress was made during the quarter on the various elements of the Elevala/Ketu development plan.

Review of the development and pipeline applications by the PNG Department of Petroleum and Energy (DPE), DEC assessment of the Environmental Impact Statement and review of the Social Mapping and Landowner Identification Study are all well underway. Meetings with the Provincial Government and landowner representatives are ongoing. The DPE has engaged the National Petroleum Company of PNG to assist with the review of surface and subsurface elements of the development plan. The DEC has planned a series of community engagement and feedback forums in PRL 21 during February.

In light of the current low oil price environment, the project selection duration has been extended by two months in order to ensure that project cost estimates are in line with current market conditions, with the ultimate aim of enhancing the project economics. Internal Value Engineering reviews are currently under way.

Horizon Oil, in partnership with Osaka Gas, is conducting a pre-feasibility study for a Western Province-based greenfield mid-scale LNG project. The study evaluated several development options and the shortlisted options shall be further evaluated through the course of a feasibility study due to commence in February 2015. A scheme with a near shore plant at Daru Island (refer to map on page 3) is the leading concept.

Subsequent to the end of the quarter, participants in the PNG LNG project advised that they had signed an agreement with the PNG Government that provided for the award of development and pipeline licences for the P'nyang field, located roughly 70 km to the north of Stanley, Elevala/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, in Horizon Oil's view offers the potential for a gas aggregation project involving Stanley, Elevala/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

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

Acquisition of the 102 km 2D seismic program reported last quarter was completed on schedule and on budget in November. The data is being processed and integrated with reprocessing of the earlier data sets to provide better definition of the Elevala and Ketu structures and to facilitate stratigraphic modelling.

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

The Nama-1 well spudded on 4 December 2014 and reached total depth of 3,533 m on 6 January 2015. The well encountered a total of 77 m of the target Early Cretaceous Elevala and Toro sandstones and Late Jurassic Kimu sandstones, which are productive in the nearby Stanley Field located 20 km west of the Nama prospect. Gas shows were detected and the reservoirs calculated as gas saturated on logs, however wireline pressure measurements and samples taken in the prospective zones indicated that the sands were poor quality at this location. Sidewall cores were acquired to determine the causes of reservoir deterioration and the implications for reservoir quality across the remainder of the prospect, which covers a large area (about 60 sq km). Interpretation of the log and core data is under way to evaluate the remaining potential of the broader prospect. The Nama-1 well was plugged and abandoned and the rig released on 19 January 2015.

FINANCIAL SUMMARY

	Q2 2015	Q1 2015	Change	YTD
	bbls	**bbls**	**%**	**bbls**
Production				
PMP 38160 (Maari and Manaia), offshore New Zealand				
Crude oil production	61,258	69,524	(11.9%)	130,782
Crude oil sales	37,793	72,042	(47.5%)	109,835
Block 22/12 (Beibu Gulf), offshore China				
Crude oil production	245,091	242,792	0.9%	487,883
Crude oil sales	228,854	226,707	0.9%	455,561
Total Production				
Crude oil production	**306,349**	**312,316**	**(1.9%)**	**618,665**
Crude oil sales	**266,647**	**298,749**	**(10.7%)**	**565,396**
	US$'000	**US$'000**	**%**	**US$'000**
Producing Oil and Gas Properties				
PMP 38160 (Maari and Manaia), offshore New Zealand				
Production revenue[1]	3,063	7,712	(60.3%)	10,775
Operating expenditure	1,868	1,693	(10.3%)	3,561
Amortisation[2]	1,317	1,391	5.3%	2,708
Block 22/12 (Beibu Gulf), offshore China				
Production revenue[1]	15,963	21,915	(27.2%)	37,878
Operating expenditure	3,508	2,860	(22.7%)	6,368
Special Oil Gain Levy	991	3,288	69.9%	4,279
Amortisation[2]	7,024	6,854	(2.5%)	13,878
Total Producing Oil and Gas Properties				
Production revenue	**19,026**	**29,627**	**(35.8%)**	**48,653**
Oil hedging gains/(losses)	**4,779**	**(282)**	**1,794.7%**	**4,497**
Operating expenditure[3]	**6,367**	**7,841**	**18.8%**	**14,208**
Amortisation	**8,341**	**8,245**	**(1.2%)**	**16,586**
Exploration and Development				
PEP 51313, offshore New Zealand	46	12		58
PDL 10 (formerly PRL 4), Papua New Guinea	10,410	8,849		19,259
PRL 21, Papua New Guinea	1,065	1,875		2,940
PPL 259, Papua New Guinea	14,101	4,473		18,574
PMP 38160 (Maari and Manaia), offshore New Zealand	8,666	6,118		14,784
Block 22/12 (Beibu Gulf), offshore China	3,915	4,418		8,333
	38,203	**25,745**	**48.4%**	**63,948**
Cash on hand at 31 December 2014[4]	**43,506**	**76,105**		**43,506**
Reserves-Based Debt Facility[5]	**110,000**	**119,165**		**110,000**
Convertible Bond[6]	**80,000**	**80,000**		**80,000**

1 Represents gross revenue excluding hedge gains and losses
2 Amortisation based on reserves as at 30 June 2014
3 Includes Special Oil Gain Levy payable in China
4 Includes cash in transit
5 Represents principal amounts drawn down as at 31 December 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.