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QUARTERLY REPORT

PERIOD ENDING 30 SEPTEMBER 2017 (ASX:HZN)

HIGHLIGHTS

FINANCIAL

- **Calendar year to date revenue of US$53.2 million with US$16.2 million recorded for September 2017 quarter** (inclusive of hedge settlements). This results from oil sales of 313,520 bbls at an average realised oil price of US$51.67/bbl.
- **Net operating cash flow**[1] **for the quarter of US$10.5 million. Calendar year to date net operating cash flow of US$39.9 million**, on track to achieve guidance of **US$50 – 60 million for the full calendar year**.
- **Horizon Oil's free cash flow break-even price**, inclusive of all capital expenditure**,** is **expected to average US$33/bbl over the calendar year**.
- **Cash at 30 September 2017: US$28.4 million**.
- **Net debt further reduced to US$104.6 million**. Stable financial position, with steadily decreasing debt and increased liquidity availability.
- Continued **rigorous management of exploration and development costs**, with **total capital costs of US$3.7 million** in quarter incurred to progress the WZ 12-8E development in Block 22/12, the Western LNG project in Papua New Guinea and production enhancements at Block 22/12 and Maari/Manaia.

PRODUCTION AND DEVELOPMENT

- **Sales and production for quarter of 313,520 bbls**[2] (including cost recovery oil entitlement) and **272,506 bbls**, respectively, were temporarily impacted by workover activities on both Block 22/12 and Maari/Manaia.
- **Average cash operating costs** for the quarter of **US$12.23/bbl (sales)** and **US$14.07/bbl (production)**, resulting from constrained production levels due to workover activity.
- **Six well workover program completed on** the WZ 6-12 field in Block 22/12, China, **increasing gross production from the Beibu Gulf fields from 7,800 bopd prior to the workover program to a current rate of approximately 9,300 bopd**, with a further increase expected as the A8 well cleans up.
- Overall Development Plan for the WZ 12-8E field in Beibu Gulf progressing with CNOOC-led joint venture reviewing opportunities for improved commercial terms for the leased production platform.
- **A production improvement program commenced** on the Maari/Manaia fields, beginning with a re-perforation and lowering of the ESP in the Manaia MN-1 well.
- **Good progress made on Horizon Oil's Western LNG pre-FEED (Front End Engineering and Design) - identified as a major objective for the new PNG Government in its 100 Day Economic Stimulus Plan**.

[1] Net operating income after operating expenditure, excluding extraordinary items
[2] Including Block 22/12 cost recovery oil entitlement

CHIEF EXECUTIVE OFFICER'S COMMENTS

In the recently released 2017 Annual Report, we set out the two key elements of Horizon Oil's strategy:-

- the **first element** is to strive to maintain steady production from our producing fields in China and New Zealand, in order to deliver stable cash flows over the next five years
- the **second element** is to advance commercialisation of Horizon Oil's material position in the long-lived, large-scale Western LNG project in Papua New Guinea

We believe this rotation from being an entirely oil producing company to being predominantly gas producing (with a not insignificant volume of associated oil) is the right strategy to take advantage of a forecast burgeoning market for LNG in Asia in the coming decades.

Consistent with the first of these strategic objectives, workover programs designed to lift and extend production from the Beibu Gulf and Maari/Manaia fields began during the quarter.

Workover of six wells in the WZ 6-12 fields in Block 22/12, China was completed during the quarter, lifting gross production by about 1,500 bopd to date. After a short break required to finalise the receipt of an environmental permit, the rig will move to the WZ 12-8W to drill two infill producer wells. Also in China, further progress was made on planning for the WZ 12-8E development.

At the Maari/Manaia fields in New Zealand, a multi-faceted program to enhance production began with perforation of additional reservoir at the MN-1 well in Manaia field and re-positioning of the down hole pump. That work is now complete. Also during the quarter equipment was purchased to reduce well back pressure, for installation next year. At completion of the production improvement program, a gross production increase of approximately 2,500 bopd is expected.

Of course, these workover programs have required some wells, including high producing wells in each field, to be temporarily shut-in to in order to carry out operations and this has resulted in reduced production and cash flow over the quarter. This was magnified by a temporary reduction in the Block 22/12 cost recovery oil entitlement received in the quarter, because workover costs limited the amount available for capital cost recovery. Notwithstanding this, we expect to achieve guidance of averaging US$50 – 60 million in net operating cash flow in calendar 2017 and following years.

These production enhancement programs, with continued focus on cost control, should deliver stable net operating cash flow to reduce debt and to advance our efforts to commercialise the Western LNG project. The cash flow stability is further enhanced by progressive implementation of oil price hedging, with currently over 500,000 barrels of oil hedged to December 2018 securing revenue of US$28.5 million.

In Papua New Guinea, I am pleased to advise that Horizon Oil's project team made very good progress during the quarter with the commencement of pre-FEED for the three key elements of Western LNG – the upstream processing facilities, the gas and condensate export pipelines to Daru Island and the modular liquefaction facility to be located near Daru. We expect to have the results of this work, including Class IV cost estimates, by the end of this calendar year.

Following the conclusion of the PNG elections in late August, the new PNG Government released its "25 Point 100 Day Economic Stimulus Plan", highlighting its intent to drive major new resource projects to strengthen the economy, with the commencement of pre-FEED for Western LNG specifically identified as a key objective. This demonstrates the strong support we are receiving from the PNG Government for the Western LNG project.

Brent Emmett
Chief Executive Officer

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FINANCIAL SUMMARY

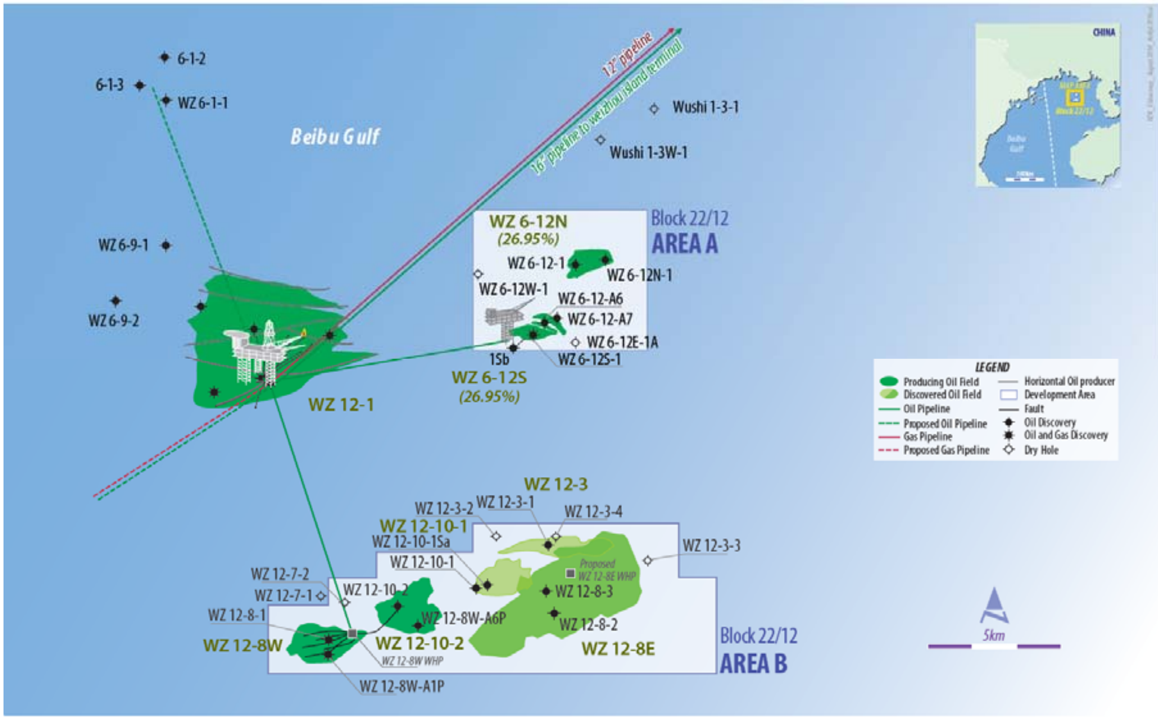
	Q1 FY2018 bbls	Q4 FY2017 bbls	Change %	Calendar YTD 2017 bbls
Production				
Block 22/12 (Beibu Gulf), offshore China				
Crude oil production	202,840	200,312	1.3%	605,089
Crude oil sales[1]	237,379	284,696	(16.6%)	816,212
PMP 38160 (Maari and Manaia), offshore New Zealand				
Crude oil production	69,666	83,130	(16.2%)	224,572
Crude oil inventory on hand	11,235	17,871	(37.1%)	57,273
Crude oil sales	76,141	93,557	(18.6%)	225,163
Total Production				
Crude oil production	**272,506**	**283,442**	**(3.9%)**	**829,661**
Crude oil sales[1]	**313,520**	**378,254**	**(17.1%)**	**1,041,375**
	US$'000	US$'000		
Producing Oil and Gas Properties				
Block 22/12 (Beibu Gulf), offshore China				
Production revenue[2]	11,818	13,564	(12.9%)	40,549
Operating expenditure	1,943	1,898	(2.4%)	5,339
Workover expenditure	1,601	0	(100.0%)	1,601
Amortisation	4,490	4,280	(4.9%)	13,049
PMP 38160 (Maari and Manaia), offshore New Zealand				
Production revenue[2]	4,077	4,913	(17.0%)	12,142
Operating expenditure	1,890	1,712	(10.4%)	5,246
Inventory adjustment[3]	268	426	(37.1%)	9
Repairs and refurbishment expenditure	286	503	43.1%	1,078
Amortisation	2,089	3,076	32.1%	7,175
Total Producing Oil and Gas Properties				
Production revenue[2]	**15,895**	**18,478**	**(14.0%)**	**52,691**
Oil hedging gains/(losses)	**343**	**513**	**(33.1%)**	**478**
Total revenue (incl. hedging gains/(losses))	**16,238**	**18,991**	**(14.5%)**	**53,169**
Direct production operating expenditure	3,833	3,610	(6.2%)	10,586
Net operating cash flow[4]	**10,518**	**14,879**	(29.3%)	**39,904**
Amortisation	6,579	7,356	10.6%	20,224
Exploration and Development				
Papua New Guinea exploration & pre-development	1,681	686		3,806
PMP 38160 (Maari and Manaia), New Zealand	506	439		1,418
Block 22/12 (Beibu Gulf), offshore China	1,464	0		2,420
Total capital expenditure	**3,651**	**1,125**		**7,644**
Cash on hand[5]	**28,443**	**24,529**		**28,443**
Reserves-Base Debt Facility[6]	**87,998**	**87,998**		**87,998**
Subordinated Debt[6]	**45,000**	**45,000**		**45,000**
Net Debt[6]	**104,555**	**108,469**		**104,555**

[1] Excess of sales volume over production volume due largely to preferential cost recovery in China
[2] Represents gross revenue excluding hedge gains and losses
[3] Includes accounting adjustment for cost of crude oil inventory sold or produced during the period (includes amortisation of $0.1 million in the quarter)
[4] Represents net operating cash flow net of workover, repairs and refurbishment expenditure
[5] Includes cash in transit
[6] Represents principal amounts drawn down as at 30 September 2017

Note: Financial results contained in this quarterly are unaudited

PRODUCTION

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



Gross oil production for the quarter averaged 8,181 bopd. Horizon Oil's sales entitlement for the quarter averaged 2,580 bopd, taking into account the cost recovery oil entitlement received in the quarter. There was a temporary reduction in the cost recovery oil entitlement received in the quarter due to the affect of workover costs which limited the amount available for capital cost recovery.

Average cash operating costs (normalised for workovers) in the quarter were US$9.58/bbl (produced); US$8.19/bbl (Horizon Oil sales).

As at 30 September 2017, Horizon Oil's remaining cost recovery oil entitlement was US$86.6 million.

Production and operating costs were impacted by a production enhancing workover program conducted during the quarter involving six wells in the WZ 6-12 producing fields. The workover program utilised the *Haiyang 943* drilling rig, and was designed to enhance production through the replacement of downhole electrical submersible pumps and re-perforation of non-producing zones in one well. Following the workovers, gross production from the fields has increased from 7,800 bopd to approximately 9,300 bopd, with a further increase expected as the WZ 6-12 A8 well cleans up.

Two infill wells are planned to be drilled prior to the end of the calendar year on the WZ 12-8W field to further enhance production.

The Overall Development Plan for the WZ 12-8E field in Beibu Gulf progressed with CNOOC-led joint venture reviewing opportunities for improved commercial terms for the leasing of the production platform. The development has been planned as a phased development, with an initial three wells being drilled from the leased platform to be tied back to the existing Block 22/12 infrastructure with a flexible flow line. Further production wells will be added later, with well design and location to be determined by the performance of the initial wells.

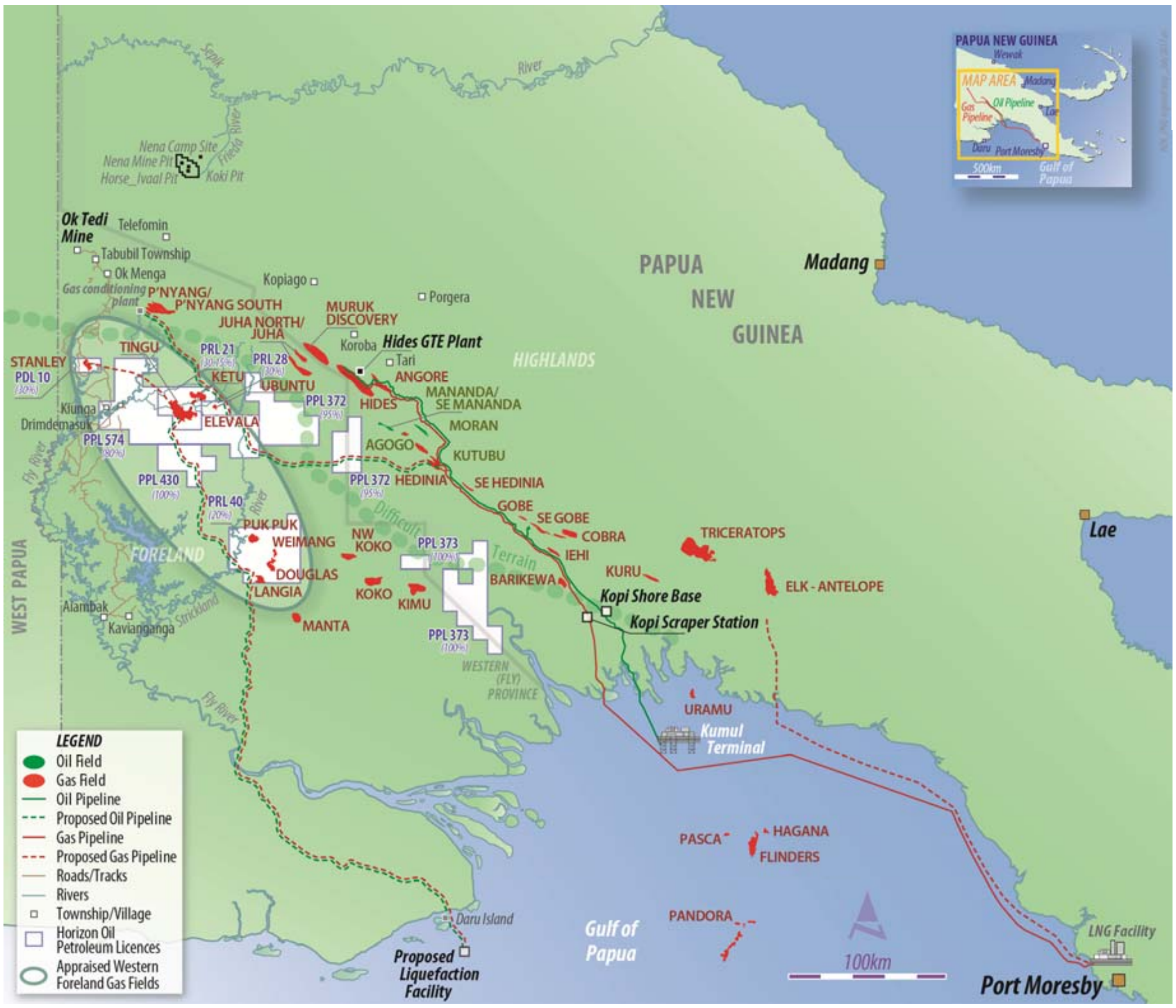
PMP 38160, Maari/Manaia fields, Taranaki Basin, offshore New Zealand (Horizon Oil: 10%)

Gross oil production for the quarter averaged 7,572 bopd (Horizon Oil net: 757 bopd). Average cash operating costs in the quarter were US$27.13/bbl (produced); US$24.82/bbl (Horizon Oil sales).

Production and operating costs were impacted by a production improvement program which commenced during the quarter with the perforation of a new reservoir section in the Manaia-1 well which was completed on 29 October 2017.

The future production improvement program involves workovers, re-perforations, water injection enhancement and installation of surface pumps to reduce well back pressure. Gross production improvements of approximately 2,500 bopd are expected from the program.

DEVELOPMENT



WESTERN LNG PROJECT, Western Province, PNG

PRL 21, Elevala/Ketu gas-condensate fields
(Horizon Oil: 30.15% and operator)
PDL 10, Stanley gas-condensate field
(Horizon Oil: 30.0%)

PRL 28, Ubuntu gas-condensate field
(Horizon Oil: 30.0% and operator)
PRL 40, Puk-Puk/Douglas gas fields
(Horizon Oil: 20%)

Horizon Oil, as operator of two of the four licences that will comprise the Western Province gas aggregation scheme, progressed planning for the proposed Western LNG project. The development concept has now been defined, with the emphasis being on selection of a simple scheme with lowest technical and execution risk, maximum use of standard, proven technology and high system reliability. Pre-FEED studies of the key elements of the project – upstream gas processing, export pipelines and the liquefaction facility – are now underway with selected contractors who are well qualified and possess a good level of PNG experience. The results of these studies, which importantly will include Class IV (-15%/+25%) cost estimates, are expected by the end of calendar year 2017. The next step will be to progress to FEED.

Following the successful execution of a series of transactions undertaken over the past year, the Company is now represented in all four fields that will supply the Western LNG project and has a material 28% interest in the total resource. Importantly, the Company has operatorship of the core, liquids-rich Elevala/Ketu and adjacent Ubuntu fields.

Horizon Oil, as operator of PRL 21, continues discussions with the PNG National Oil Company, Kumul Petroleum Holdings, to investigate an alternative option, which is an open access pipeline to Port Moresby that will aggregate and facilitate commercialisation of several undeveloped gas accumulations in Western Province.

WESTERN
LNG

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.