Horizon Oil Limited ABN 51 009 799 455
Level 6, 134 William Street, Woolloomooloo NSW Australia 2011
Tel +61 2 9332 5000, Fax +61 2 9332 5050 www.horizonoil.com.au

QUARTERLY REPORT

PERIOD ENDING 31 March 2018 (ASX:HZN)

HIGHLIGHTS

FINANCIAL

- **Financial year to date revenue of US$60.5 million (up 22% on previous financial year) with US$24.0 million recorded for March 2018 quarter** (inclusive of hedge settlements). Upon completion of the acquisition of 16% interest in the Maari/Manaia fields, a further US$8.0 million revenue for the quarter will be consolidated into the group results for this financial year.
- **Net operating cash flow[1] for the quarter of US$20.0 million, an increase of over 23% on the previous quarter.** Financial year to date net operating cash flow of US$46.8 million; expected to exceed guidance of US$50 – 60 million for full financial period, excluding the benefit of the additional interest in Maari/Manaia.
- **Horizon Oil's free cash flow break-even price for the financial year to date**, inclusive of all capital expenditure, debt service and corporate costs **remained relatively consistent at US$36/bbl**.
- **Progressive hedging** implemented during the past quarters (covering the period April 2018 to March 2019), with remaining hedge volume at 31 March 2018 of 850,000 barrels (**at weighted average price of approximately US$59 per barrel**, net of credit charges).
- **Cash at 31 March 2018: US$30.7 million**.
- **Net debt reduced to US$85.6 million** (compared with US$94.3 million at end the previous quarter). **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$1.9 million in quarter.**

PRODUCTION AND DEVELOPMENT

- **Acquisition of an additional 16% interest in the Maari/Manaia fields** in PMP 38160 effective 31 December 2017**, forecast to materially increase the Group's production, revenue and cash flow in 2018; all regulatory approvals now received, with completion expected to occur in May**.
- **Sales for quarter increased 11.3% to 388,145 bbls[2]** at an average realised oil price of US$65.70/bbl**,** and production remained consistent at **282,446 bbls,** despite a five day shut-down at Maari for installation and commissioning of surface pumps.
- **Average cash operating costs remained relatively consistent** for the quarter **with a cost of US$10.96/bbl (sales)** and **US$13.96/bbl (production)**.
- **A further three well production optimisation workover program** on the WZ 12-8W field in Block 22/12, China, was successfully completed in April 2018, increasing gross production from Block 22/12 from approximately 9,000 bopd to 10,000 bopd.

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

- **Successful installation and commissioning of surface pumps on Maari/Manaia wellhead platform** reducing back pressure and enhancing production rates.
- **Consolidation and refinement of the technical results and the cost data from the Western LNG pre-FEED studies progressed in the period**.

CHIEF EXECUTIVE OFFICER'S COMMENTS

The previous solid operational and financial performance continued in the March quarter. Sustained improvements in the oil price and increased sales led to a 19% increase in quarterly revenue to US$24.0 million. With production costs remaining relatively flat at US$3.9 million, resultant quarterly net operating cashflow was US$20.0 million, bringing the aggregate for the first three quarters to US$46.8 million.

This positive result will be enhanced on completion of the Company's acquisition of an additional 16% interest in the Maari/Manaia joint venture. With requisite regulatory consents obtained and joint venture documentation nearing finalisation, completion is expected to occur in early May 2018. Horizon Oil will receive the benefit of an additional US$8.0 million in oil sales revenue for the March quarter, together with sales proceeds from further pre-completion liftings which, after setting off production and one-off oil inventory acquisition costs, will lead to a net payment of approximately US$13.0 million for the acquired interest.

The strong operational cashflow enabled the further reduction of the Company's net debt position to US$85.6 million at 31 March, including a debt repayment of US$9.7 million in the quarter. The net debt amount will increase temporarily in the June quarter on payment for the additional interest in the Maari/Manaia project but, as previously noted, the rate of reduction of net debt will increase with the additional production, particularly with the backdrop of a strengthened oil price.

With pre-FEED results now in hand, the Company continues to advance its efforts in planning the commercialisation of its Western Province, Papua New Guinea gas resources in an environment of strengthening investor confidence in PNG as a favourable LNG development jurisdiction. This positive sentiment is demonstrated by recent announcements by Oil Search and Santos regarding:

- the progress of the PNG LNG expansion, including the incorporation of the significant P'nyang gas field to the north of Horizon Oil's Elevala/Ketu, Stanley and Ubuntu gas/condensate fields;
- Santos' efforts to acquire a material interest in P'nyang; and
- the substantial exploration activities by the PNG LNG participants as they and the Papua LNG joint venture move towards approval of a further 8 mtpa of LNG capacity in PNG.

Further, based on recent ministerial statements, a key element of the PNG Natural Gas Policy White Paper recently approved by PNG's National Executive Council is a third party access regime for gas pipelines. Based on those Government statements, such provisions will apply to the development of all new gas projects, including the abovementioned P'nyang field. This may lead to the developers of fields such as Elevala/Ketu, Stanley and Ubuntu having access to existing gas and liquids pipelines, potentially providing a lower capital cost development alternative to Horizon Oil's "base case" stand alone Western LNG project.

Brent Emmett
Chief Executive Officer

For more information please contact:

Horizon Oil Limited
Brent Emmett CEO

T: +61 2 9332 5000
F: +61 2 9332 5050
E: info@horizonoil.com.au

Level 6, 134 William St
Woolloomooloo NSW 2011
horizonoil.com.au

Media enquiries
Gavan Collery
ResourceComms Pty Ltd

M: +61 419 372 210
E: gavan@resourcecomms.com

FINANCIAL SUMMARY

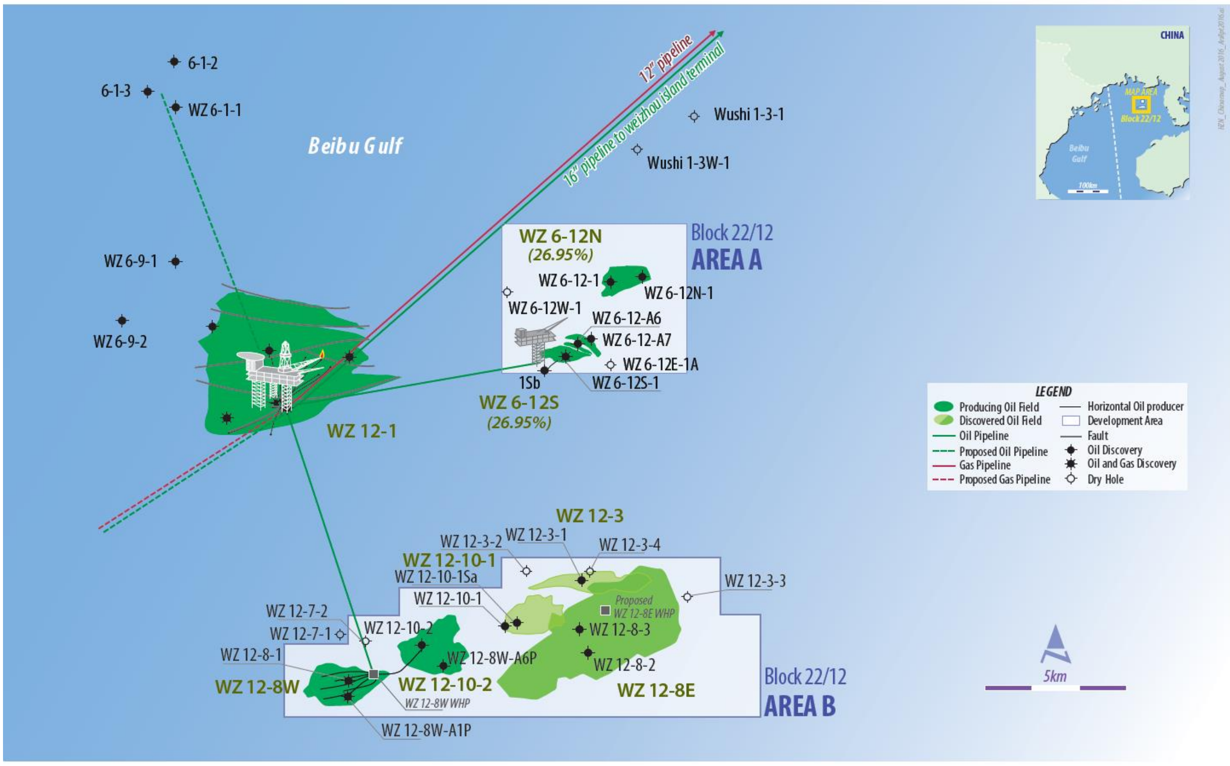
	Q3 FY2018 bbls	Q2 FY2018 bbls	Change %	Financial YTD 2018 bbls
Production				
Block 22/12 (Beibu Gulf), offshore China				
Crude oil production	219,997	213,859	2.9%	636,696
Crude oil sales[1]	319,876	292,437	9.4%	849,691
PMP 38160 (Maari and Manaia), offshore New Zealand				
Crude oil production	62,449	69,696	(10.4%)	201,811
Crude oil inventory on hand	18,942	24,460	(22.6%)	54,636
Crude oil sales	68,269	56,154	21.6%	200,564
Total Production				
Crude oil production	**282,446**	283,555	**(0.4%)**	**838,508**
Crude oil sales[1]	**388,145**	348,591	**11.3%**	**1,050,256**
	US$'000	**US$'000**		
Producing Oil and Gas Properties				
Block 22/12 (Beibu Gulf), offshore China				
Production revenue[2]	20,730	17,832	16.3%	58,380
Operating expenditure	2,048	2,201	(7%)	7,794
Special oil gain levy	72	-	100%	72
Amortisation	4,870	4,734	2.9%	14,093
PMP 38160 (Maari and Manaia), offshore New Zealand				
Production revenue[2]	4,770	3,632	31.3%	12,479
Operating expenditure	1,900	1,760	7.9%	5,836
Inventory adjustment[3]	239	(569)	(142.0%)	(62)
Amortisation	1,871	2,088	(10.4%)	6,048
Total Producing Oil and Gas Properties				
Production revenue[2]	**25,500**	**21,464**	**18.8%**	**62,859**
Oil hedging settlements	**(1,477)**	**(1,274)**	**16.0%**	**(2,408)**
Total revenue (incl. hedging gains/(losses))	**24,023**	**20,190**	**19.0%**	**60,451**
Direct production operating expenditure	3,948	3,961	(0.3%)	13,630
Net operating cash flow[4]	**20,003**	**16,229**	**23.3%**	**46,750**
Amortisation	6,741	6,821	(1.2%)	20,141
Exploration and Development				
Papua New Guinea exploration & pre-development	1,038	3,812		6,530
PMP 38160 (Maari and Manaia), New Zealand	769	937		2,212
Block 22/12 (Beibu Gulf), offshore China	134	1,844		3,443
Total capital expenditure	**1,941**	**6,593**		**12,185**
Cash on hand[5]	**30,661**	**31,672**		**30,661**
Reserves-Base Debt Facility[6]	**76,233**	**85,953**		**76,233**
Subordinated Debt[6]	**40,000**	**40,000**		**40,000**
Net Debt[6]	**85,572**	**94,281**		**85,572**

[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 inclusive of the cost of workovers, and repairs and refurbishment expenditure
[5] Includes cash in transit
[6] Represents principal amounts drawn down as at 31 March 2018

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 9,070 bopd. Horizon Oil's sales entitlement for the quarter averaged 3,554 bopd, taking into account the cost recovery oil entitlement received in the quarter.

Average cash operating costs in the quarter were US$9.64/bbl (produced); US$6.63/bbl (Horizon Oil sales).

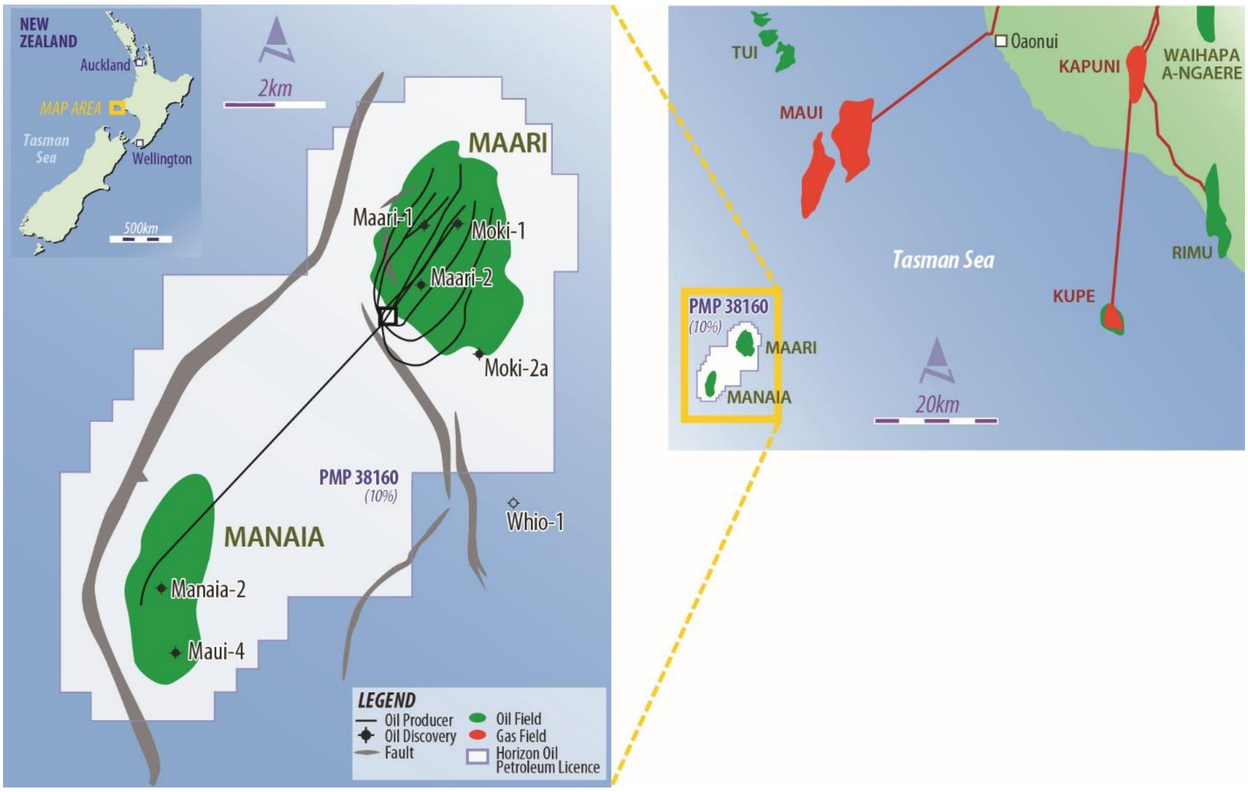
As at 31 March 2018, Horizon Oil's remaining cost recovery oil entitlement under the Petroleum Contract was US$63.5 million.

Production increased 2.9%, and sales volumes increased 9.4% from the previous quarter following the completion of the workover program involving six wells in the WZ 6-12 producing fields. The workover program utilised the *Haiyang 943* drilling rig, enhancing 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. A workover program involving three wells in the WZ 12-8W producing fields was completed in April 2018, increasing production to about 10,000 bopd.

Two infill wells planned to be drilled on the WZ 12-8W field to further enhance production are expected to spud in mid-2018 on receipt of necessary environmental permits by operator CNOOC.

The Overall Development Plan for the WZ 12-8E field in Beibu Gulf progressed with the CNOOC-led joint venture nearing finalization of the core commercial terms for leasing of the mobile production platform. CNOOC targets final investment decision during Q3 of calendar year 2018. 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 6,939 bopd (Horizon Oil net 10%: 694 bopd; 1,804 bopd economic interest on completion of acquisition of additional 16% interest). Average cash operating costs in the quarter were US$30.42/bbl (produced); US$27.83/bbl (Horizon Oil sales

Production and operating costs were impacted by scheduled shut-ins for the installation and commissioning of surface pumps as part of the ongoing production improvement program. The pumps were successfully commissioned during a five day shut down in late February, commencing operation in early April 2018, reducing back pressure, as designed.

The ongoing elements of the production improvement program, which will continue throughout 2018, include further workovers, re-perforations and water injection enhancement.

Acquisition of additional 16% interest in PMP 38160, Maari/Manaia fields

The Company advised on 6 November 2017 it had entered into an agreement with Todd Maari Limited (Todd) to acquire Todd's 16% interest in PMP 38160, which contains the producing Maari and Manaia fields. On completion of the transaction, Horizon Oil will hold a 26% interest in the PMP 38160 joint venture.

The transaction has received requisite regulatory consents and joint venture transfer documentation is in the process of being finalised.

On completion (expected in May 2018) the consideration of US$17.6mm will be paid to Todd. After accounting for customary working capital and purchase price adjustments based on the effective date of 31 December 2017, the net payment will reduce to approximately US$15.9 million.

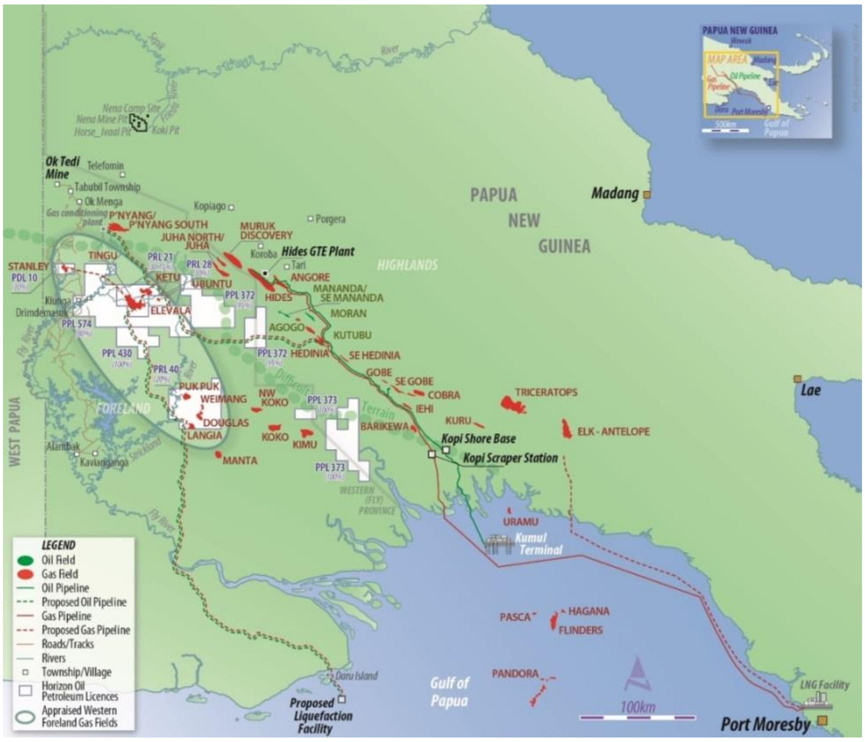
At Completion, Horizon Oil will consolidate in the Group's results the incremental oil sales from 31 December 2017 of 117,866 bbls, composed of production over the period and oil inventory acquired as part of the transaction, which has generated additional revenue of US$8.0 million. Additional sales revenue in respect of the acquired interest from pre-completion liftings of approximately US$2.9 million (net of royalties) will be received by the Company in late May.

DEVELOPMENT

WESTERN LNG PROJECT, Western Province, Papua New Guinea

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%[1] and operator)
PRL 40, Puk-Puk/Douglas gas fields
(Horizon Oil: 20%)[1]



Horizon Oil, as operator of two of the four licences that will comprise the Western Province gas aggregation scheme, progressed consolidation and refinement of the technical results and the cost data from the pre-FEED studies of the key elements of the project – upstream gas processing, export pipelines and the liquefaction facility – completed in the prior quarter.

Following the 7.5 magnitude earthquake which struck Papua New Guinea on 26 February 2018, Horizon Oil conducted a thorough inspection of our infrastructure in the field with no damage identified. Pursuant to the Company's focus on supporting the local community in the Western Province of Papua New Guinea, Horizon Oil provided financial support through the OK Tedi Development Foundation to provide medical aid and reconstruction support to those affected by the earthquake.

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.

[1] Calculated after the acquisition of a 20% interest in PRL 40 and divestment of 20% interest in PRL 28, subject to customary PNG Government approval. See Horizon Oil's market announcement of the transaction dated 18 July 2017.