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QUARTERLY REPORT

PERIOD ENDING 30 SEPTEMBER 2016

HIGHLIGHTS

CORPORATE

- The Company redeemed and cancelled the remaining US$58.8 million of convertible bonds in accordance with their terms and conditions, in the quarter. The bonds were issued in 2011 to increase the Company's interest in, and provide the development funding for, the Company's core production asset – Block 22/12, offshore China.
- During the quarter, the Company finalised its previously advised refinancing and debt reduction arrangements, achieving financial close and drawdown of the US$50 million subordinated secured debt facility. The non-amortising facility which can be prepaid without penalty has been provided by IMC Investments Limited, the Company's major shareholder. Shareholders approved the loan, which involved the issue of 300 million options over shares in the Company, at a general meeting on 6 September 2016.
- The refinancing arrangements extend the maturities of the Company's senior and subordinated debt to an average of approximately three years at a volume weighted interest rate of about 6% pa, ensuring greater financial stability as the Company continues to develop its large resource base and reduce debt with revenue generated from its production assets in China and New Zealand.
- Net debt reduced to US$125.4 million, equivalent to 2.3x FY2016 EBITDAX of US$54.0 million.
- The redemption and cancellation of the bonds, together with the most recent favourable redetermination of the Company's senior debt facility, have reduced by over 90% the current liabilities for borrowings noted in the Company's accounts at 30 June 2016 from US$77 million to approximately US$6 million[1].

FINANCIAL

- 20% increase in oil sales over prior quarter to 403,067 bbls.
- Revenue of US$17.6 million for September quarter 2016.
- Average realised price of US$43.78/bbl including the minor effect of hedging for September quarter oil sales.
- Average operating cost US$11.40/bbl[2] for September quarter production volumes.
- Cash at 30 September 2016: US$13.7 million.
- Continued reduction of exploration and development costs, down 29% from prior quarter to US$1.9 million.
- Progressive hedging of 1,054,000 bbls of oil implemented over the period July 2016 to March 2018 (about 40% of forecast net production over that period) at prices of US$50 to US$56 per barrel net of credit charges.

[1] unaudited
[2] normalised for inventory adjustments, freight, demurrage and mooring repair costs

PRODUCTION AND DEVELOPMENT

- Production for quarter 308,077 bbls; calendar year to date production 0.98 million bbls.
- Current net production rate of approximately 4,000 bopd including additional priority cost recovery oil entitlement in Block 22/12, 3,300 bopd excluding cost recovery oil.
- Remaining cost recovery oil entitlement balance as at 30 September 2016 of US$110 million, with the unrecovered balance escalating at 9% pa.
- Progress on preparation of the Overall Development Plan for the WZ 12-8E field in China, with completion scheduled in early 2017.
- Progress by the PRL 21 joint venture in Papua New Guinea on feasibility studies for the prospective mid-scale Western LNG project.

CHIEF EXECUTIVE OFFICER'S COMMENTS

Completion of the refinancing arrangements during the quarter was an important achievement and has provided financial stability to Horizon Oil during a difficult - but recovering - oil price environment. Current liabilities for borrowings through 30 June 2017 have been reduced to just US$6 million and maturity of the total debt package extended to three years. The subordinated loan from IMC does come at the cost of dilution to shareholders of 18.7% - well below that experienced by many of our peers as they have restructured their debt in response to low oil prices – however this will occur only when IMC exercises the options granted to them as part of the loan, which will have the effect of reducing the amount repayable from US$50 million to around US$36 million.

Net debt today stands at a multiple of 2.3x FY2016 EBITDAX, which I expect will fall to an undemanding 2.0x by the end of calendar year 2016.

Oil production from our fields in New Zealand and China is ahead of budget and we are forecasting net operating income from production of US$50 – 60 million pa from these assets for calendar years 2016 to 2022 inclusive, using a conservative oil price assumption. This strong and consistent cash generation is underwritten by several factors:

- The most important contributor is the ongoing benefit of the increased production entitlement in China associated with cost recovery under the Petroleum Contract, which began in April 2016. This presents itself as a preferential financial entitlement, which currently stands at US$110 million. Because the unrecovered balance escalates at 9% pa, the entitlement will continue to pay out over the next 4 years or so, depending on where oil prices are.
- Our field operators continue to achieve reductions in operating costs and I expect that trend to continue through FY2017:

Period	FY14	FY15	FY16	Q1 FY17
Av operating cost (US$/bbl)	16.62	14.10	12.90	11.40

- Our policy of oil price hedging, which protected us from the full force of the downturn in the second half of calendar year 2014, 2015 and the first half of calendar year 2016, is continuing, with currently around US$56 million in future revenue insulated from oil price fluctuations. We will continue to implement the policy of progressively hedging a prudent volume of oil to reduce financial volatility.

We have been able to achieve substantial efficiencies in the re-investment of this production income in our exploration and development capital expenditure program, partly through industry cost deflation and partly through better focus in our joint venture work programs:

Period	FY14	FY15	FY16	Q1 FY17
E&D expenditure (US$m)	95.6	78.0	24.5	1.9

A large part of that expenditure has been directed towards Horizon Oil's PNG assets – appropriately so, given their great potential. Pleasingly very good progress has been made over the last 12 months in planning for a mid-scale LNG project – "Western LNG" – that will be supplied by gas aggregated from several discovered fields in Western Province, with PDL 10 (Stanley) and PRL 21 (Elevala/Ketu) being the cornerstones. The gas project will enable Horizon Oil to realise considerable further value from a substantial volume of associated condensate, which assays like a good quality crude, which will be produced with the gas.

The joint ventures are working together well on the development planning. This collaboration saves money by avoiding duplication of work streams and also sets the scene for future discussions on gas aggregation.

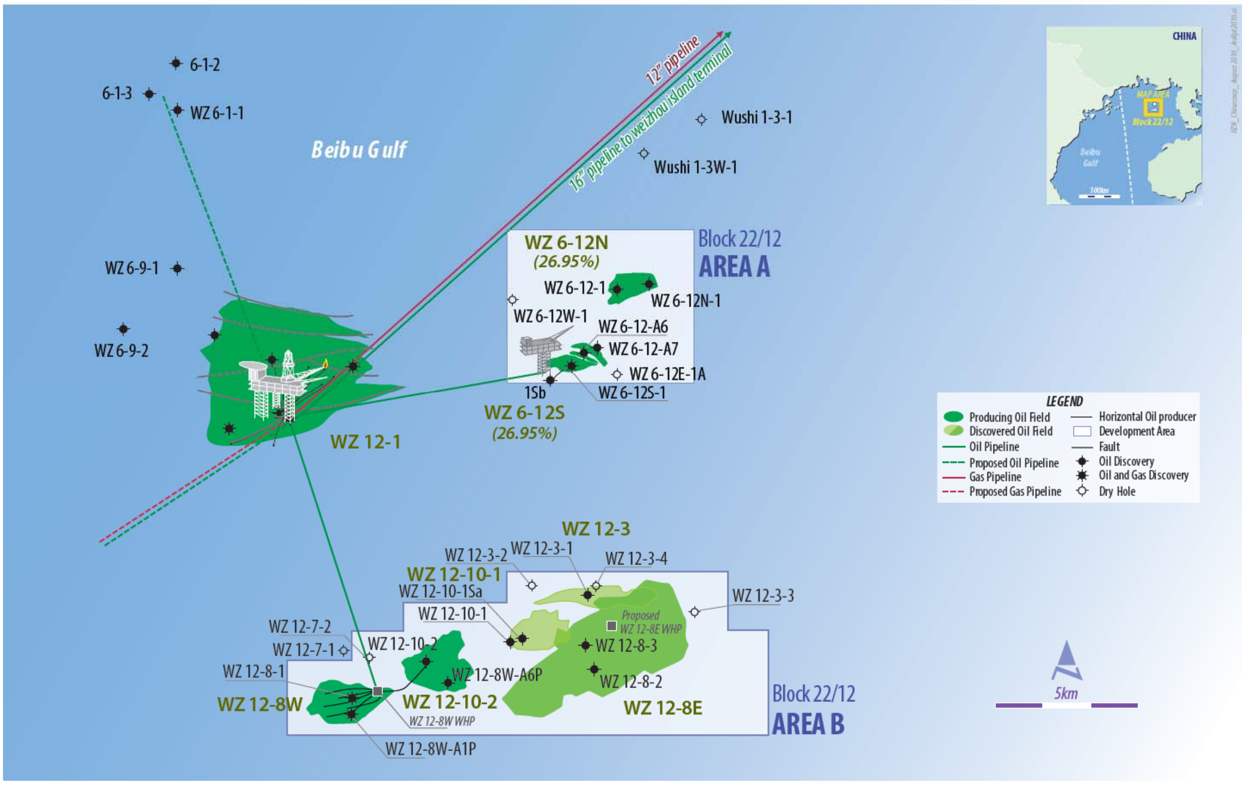
Brent Emmett
Chief Executive Officer

FINANCIAL SUMMARY

	Q1 2017 bbls	Q4 2016 bbls	Change %	Calendar YTD bbls
Production				
PMP 38160 (Maari and Manaia), offshore New Zealand				
Crude oil production	96,514	81,528	18.4%	284,216
Crude oil inventory on hand	4,727	32,994	(85.7%)	4,727
Crude oil sales	124,776	53,877	131.6%	293,912
Block 22/12 (Beibu Gulf), offshore China				
Crude oil production	211,563	237,836	(11.0%)	696,943
Crude oil sales[1]	278,291	281,543	(1.2%)	790,978
Total Production				
Crude oil production	**308,077**	**319,364**	**(3.5%)**	**981,159**
Crude oil sales[1]	**403,067**	**335,420**	**20.2%**	**1,084,890**
	US$'000	US$'000	%	US$'000
Producing Oil and Gas Properties				
PMP 38160 (Maari and Manaia), offshore New Zealand				
Production revenue[2]	5,776	2,452	135.6%	12,320
Operating expenditure[3]	1,275	1,543	(17.4%)	5,266
Inventory adjustment[4]	1,173	(1,158)	(201.3%)	346
Repairs and refurbishment expenditure	0	1,905	(100.0%)	3,790
Amortisation	2,703	2,854	(5.3%)	9,388
Block 22/12 (Beibu Gulf), offshore China				
Production revenue[2]	11,474	11,906	(3.6%)	29,999
Operating expenditure	2,334	2,527	(7.6%)	7,113
Amortisation	4,483	4,959	(9.6%)	14,903
Total Producing Oil and Gas Properties				
Production revenue[2]	**17,250**	**14,358**	**20.1%**	**42,319**
Oil hedging gains/(losses)	**397**	**4,255**	**(90.7%)**	**10,032**
Total revenue (incl hedging gains/(losses))	**17,647**	**18,613**	**(5.2%)**	**52,351**
Direct production operating expenditure[3]	**3,609**	**4,070**	**(11.3%)**	**12,378**
Inventory adjustments and repairs and refurbishment expenditure[4]	**1,173**	**747**	**57.0%**	**4,136**
Amortisation	**7,186**	**7,813**	**(8.0%)**	**24,292**
Exploration and Development				
PEP 51313, offshore New Zealand	36	38		91
PDL 10, Papua New Guinea	1,474	1,416		3,778
PRL 21, Papua New Guinea	244	446		1,248
PPL 259, Papua New Guinea	0	256		256
PPL 430, Papua New Guinea	54	0		83
PMP 38160 (Maari and Manaia), offshore New Zealand	58	118		314
Block 22/12 (Beibu Gulf), offshore China	0	343		5,018
	1,866	**2,617**	**(28.7%)**	**10,788**
Cash on hand[5]	**13,717**	**16,079**		**13,717**
Reserves-Base Debt Facility[6]	**89,141**	**89,141**		**89,141**
Subordinated Debt[6]	**50,000**	**58,800**		**50,000**

[1] Sales volume exceeds production volume due largely to preferential cost recovery in China
[2] Represents gross revenue excluding hedge gains and losses
[3] Represents direct production costs (during Q1 2017 included some demurrage of $0.1 million on sales)
[4] Includes accounting adjustment for cost of crude oil inventory sold or produced during the period (includes amortisation of $0.6 million in the quarter)
[5] Includes cash in transit
[6] Represents principal amounts drawn down as at 30 September 2016

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



Gross oil production for the quarter averaged 8,533 bopd (HZN: 2,300 bopd prior to additional cost recovery oil entitlement).

Production was affected in the quarter by seasonal tropical storms Mirinae and Diamu which, for safety reasons, required temporary evacuation of personnel from the offshore production facilities and suspension of production for approximately 7 days in July and August.

Preparation of the Overall Development Plan for the WZ 12-8E field continues, with completion scheduled in early 2017.

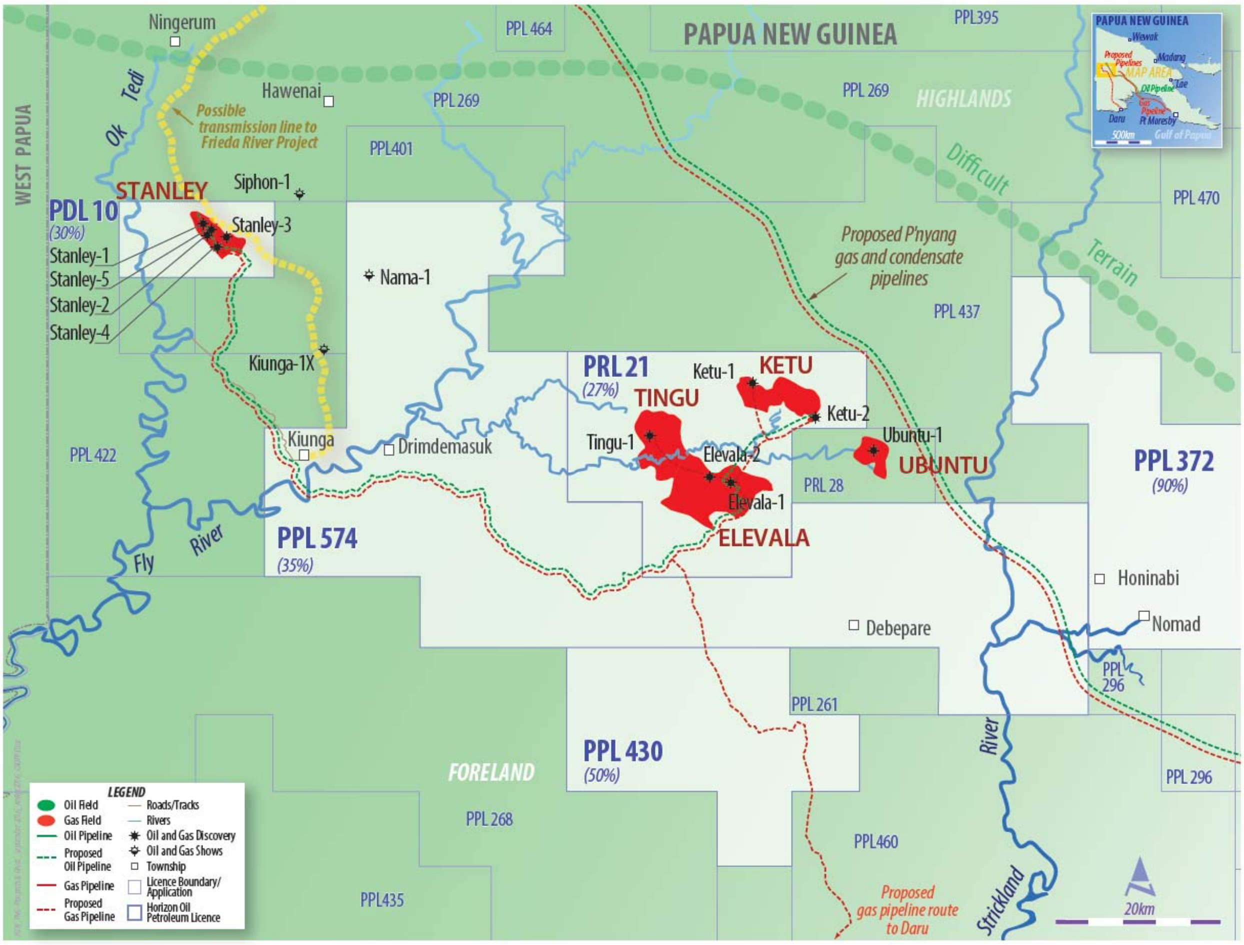
The audited gross 2C resources for the WZ 12-8E field (including WZ 12-10-1 and WZ 12-3-1) are 11.1 mmbo.

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

Gross oil production increased by 18% over the prior quarter with the field achieving an average production rate of 10,491 bopd (HZN: 1,049 bopd).

The Maari joint venture's multi-well work-over campaign continued with the main objective of proactively replacing electric submersible pumps (ESP) and perforating additional reservoir intervals to add production. Workovers and remediation were completed on the MR9, MR10 and MR2 wells in the quarter, leading to the abovementioned production increases.

Repair of the water injection flowline is scheduled to recommence in December 2016. Following completion of the repairs, field production decline is expected to be substantially reduced. The Company anticipates that a significant portion of these works will be recovered from insurance.



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

The PRL 21 joint venture continued to carry out pre-development planning and regulatory aspects of the project, including landowner, environmental and technical matters.

The joint venture progressed feasibility studies for the prospective Western LNG project, a mid-scale LNG development concept, potentially involving aggregation of the approximate 2.4 tcf of discovered gas resources in Western Province, the cornerstone volumes of which are the condensate-rich Elevala/Tingu and Ketu fields operated by Horizon Oil, supplemented by the nearby Repsol operated Stanley condensate-gas field, in which Horizon Oil holds a 30% interest.

During the quarter, joint venture partner, Mitsubishi, provided notice of its intention to withdraw from the licence. The joint venture partners are in the process of negotiating the terms of the withdrawal. After the withdrawal is effected, Horizon Oil's interest in PRL 21 will be 30.15%.

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

The Stanley joint venture, continued to progress commercial and technical discussions with Ok Tedi Mining Limited and regional mining operators with respect to gas sales from the Stanley field for power generation. This effort includes the engagement of an outside consultant to advise on the supply of electricity generated from Stanley gas to potential customers in and near Western Province.

At best, domestic consumers will account for a relatively small proportion of the Stanley field gas resource. Consequently the joint venture continues to plan for the aggregation of the remaining volume of gas with the PRL 21 gas resources as the cornerstone suppliers to a proposed Western Province mid-scale LNG project. The gas commercialisation and development work on the LNG project is being led by the PRL 21 joint venture.

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.