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QUARTERLY REPORT

PERIOD ENDING 31 DECEMBER 2016

HIGHLIGHTS

FINANCIAL

- Revenue of US$14.0 million for December quarter 2016, resulting from oil sales of 291,018 bbls at an average realised oil price of US$47.96/bbl. Production revenue impacted by typhoon *Sarika* in China and facility repairs in New Zealand.
- 2016 calendar year revenue of US$66.3 million from sales (including China cost recovery) of 1.376 mmbo and oil hedge gains.
- Continued reduction of exploration and development costs, down 11% from prior quarter to US$1.7 million.
- Cash at 31 December 2016: US$18.3 million.
- Net debt further reduced to US$120.8 million, equivalent to 2.2x FY2016 EBITDAX of US$54.0 million.
- Continued implementation of oil price hedging in quarter with remaining hedged volume of over 0.75 million barrels to March 2018 at prices of US$52.50 to US$56 per barrel, net of credit charges.

PRODUCTION AND DEVELOPMENT

- Production for quarter 241,122 bbls; 2016 calendar year production of 1.22 mmbo.
- Current net production rate of approximately 3,800 bopd, including additional priority cost recovery oil entitlement in Block 22/12.
- Production from the Beibu Gulf fields, offshore China, reached the production milestone of 13.9 mmbo in early January 2017. Future field operating costs reduced by US$4.25/bbl, resulting in average field operating costs below US$10/bbl.
- Successful completion of water injection repairs at Maari/Manaia field and concurrent repair of isolated fatigue crack on wellhead platform. Field production recommenced on 12 January 2017 and the water reinjection system was restarted on 29 January 2017.
- Acquisition of additional licence interests in Western Province, Papua New Guinea, including 50% working interest and operatorship of Ubuntu gas condensate field, adjacent to PRL 21.

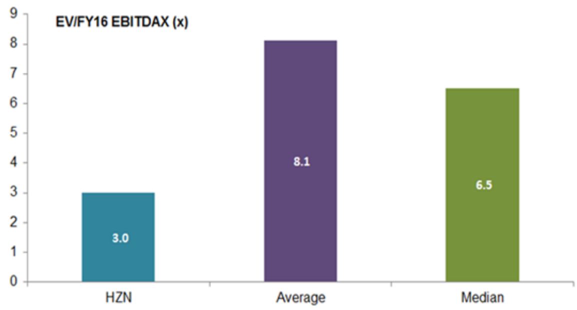
CHIEF EXECUTIVE OFFICER'S COMMENTS TO SHAREHOLDERS

A number of shareholders have requested further explanation of the comments made on Horizon Oil's share price and valuation at the Annual General Meeting on 29 November 2016. Specifically these relate to slides 18 and 19 of the presentation.

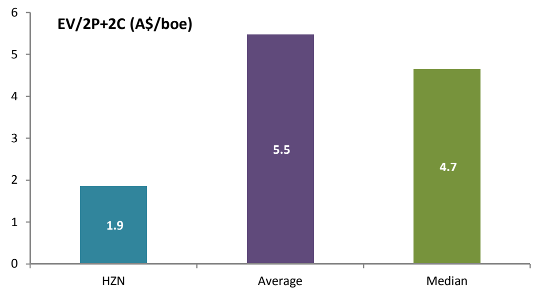
The relevant table and charts from the AGM presentation are as follows.

Grant Samuel Valuation Summary 29 July 2016

	Value Range Risked (US$m)	Value Range Unrisked (US$m)
Beibu Gulf	180 – 210	179 – 214
New Zealand	30 – 40	27 – 42
PNG	30 – 60	274 – 552
Other assets and liabilities	4 – 4	
Head office costs	(35) – (30)	
Enterprise value	**209 – 284**	
Adjusted net borrowings	(119) – (119)	
Equity value	**90 – 165**	
Value per share	***A$0.093 – 0.171***	



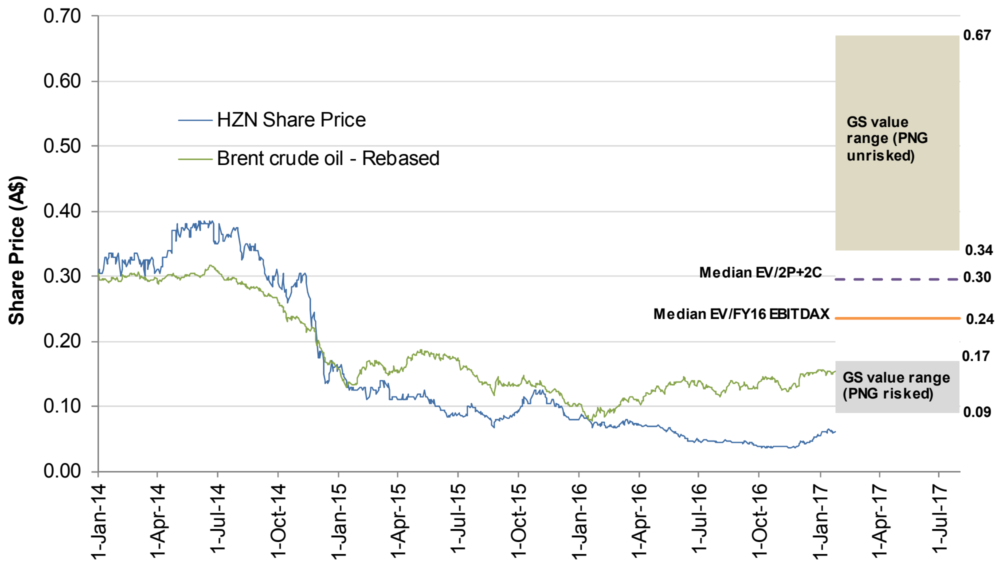
Peer group of 12 ASX E&P companies, excl HZN
Source: Company filings, broker reports as at 15 Nov 2016



Peer group of 12 ASX E&P companies, excl HZN
Source: Company filings, broker reports as at 15 Nov 2016

The chart below is an updated plot of the Horizon Oil share price and Brent oil price from January 2014 until present. The Grant Samuel risked valuation range of A$0.09 – 0.17 is indicated on the graph. This independent valuation was carried out in July 2016 and is generally consistent with the Company's internal valuation, but for the risk factor that Grant Samuel has applied to the valuation of the Papua New Guinea assets. Grant Samuel has chosen to reduce the unrisked value range of US$274 – 552 million to a risked range of US$30 – 60 million. The unrisked valuation range of A$0.34 – 0.67 is plotted on the chart.

Also shown in the chart are the implied share prices that would be required to bring Horizon Oil's EV/FY16 EBITDAX and EV/2P+2C multiples into line with its peer group medians, as calculated in November 2016. These share prices are A$0.24 and A$0.30 respectively.



The above analysis demonstrates that Horizon Oil shares are undervalued with respect to a sum-of-the-parts valuation by a credible independent expert and with respect to peer companies. It also highlights the considerable value that can be achieved as the PNG development project is de-risked.

The share price understandably suffered when oil prices fell dramatically in the second half of 2014 and investors were concerned about the Company's ability to redeem outstanding convertible bonds in June 2016. We believe that the replacement of the convertible bond debt with a smaller, longer-dated loan from our major shareholder, IMC, and the demonstrated quarter-by-quarter reduction in net debt from consistent production cashflow has provided considerable financial stability to the Company. Net debt is now at an undemanding multiple of annual net operating cashflow and will continue to fall as current levels of cashflow persist into the 2020s.

Oil prices continue to rebound and, where prudent to do so, we will continue to take advantage of the price rise and reduce financial volatility by adding to our hedging position.

Turning now to our Papua New Guinea assets, the joint venture participants in the two licences, PDL 10 (Stanley) and PRL 21 (Elevala/Ketu), that hold the foundation volume of gas for the proposed Western LNG project (WLNG) have formed a Joint Working Team (JWT) to focus the work effort and facilitate planning for the gas aggregation project. It is envisaged that the JWT scope will be expanded to include other gas accumulations to be included in the aggregation, as appropriate. Notably the Minister for Petroleum and Energy, Minister Duban, is highly supportive of the JWT approach.

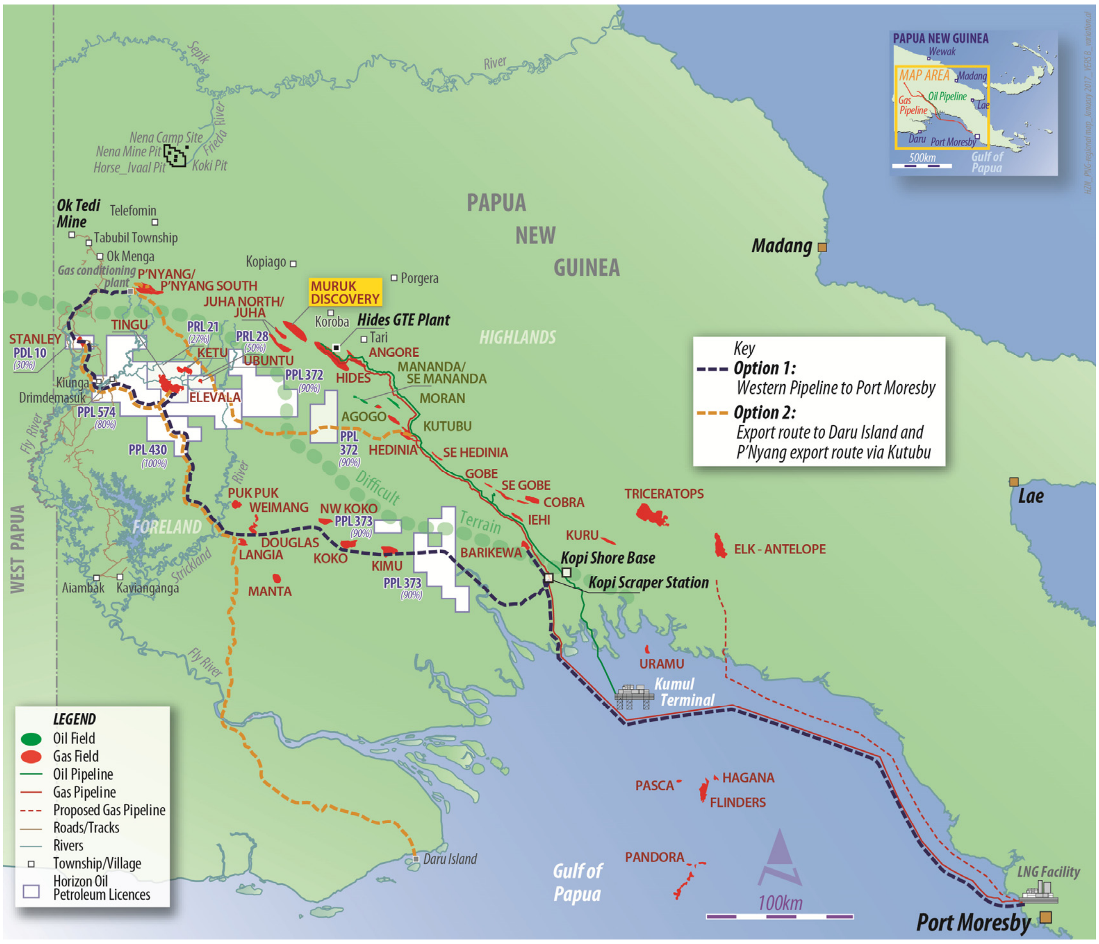
Horizon Oil, as operator of PRL 21, has engaged with the PNG National Oil Company, Kumul Petroleum Holdings, to provide input on planning of an open access pipeline that will facilitate the commercialisation of several undeveloped gas accumulations in Western Province, to be called the "Western Pipeline". Again, the PNG Government and Minister Duban are highly supportive of this initiative.

Horizon Oil's approach will be to continue advancing the gas pipeline export route southwards to Daru Island as its base case, because this alternative does not rely on support from other parties. However the emergence of the Western Pipeline could be a compelling proposition, especially if broadly supported.

The recent Muruk gas discovery located about 20 km from the Hides gas facilities has the potential to displace P'nyang as the gas supply for the foreshadowed expansion of the PNG LNG project (Train 3). Should this eventuate, P'nyang gas could potentially flow via the Western Pipeline to supply, with the Western Province gas, another expansion train or trains in Port Moresby.

Horizon Oil intends to collaborate closely with Kumul and the other holders of gas resources in Western Province to determine the optimal gas export pipeline route.

The map below shows the locations of the various gas fields mentioned above, Horizon Oil's base case pipeline route to Daru Island and a possible Western Pipeline route to Port Moresby.



Brent Emmett
Chief Executive Officer

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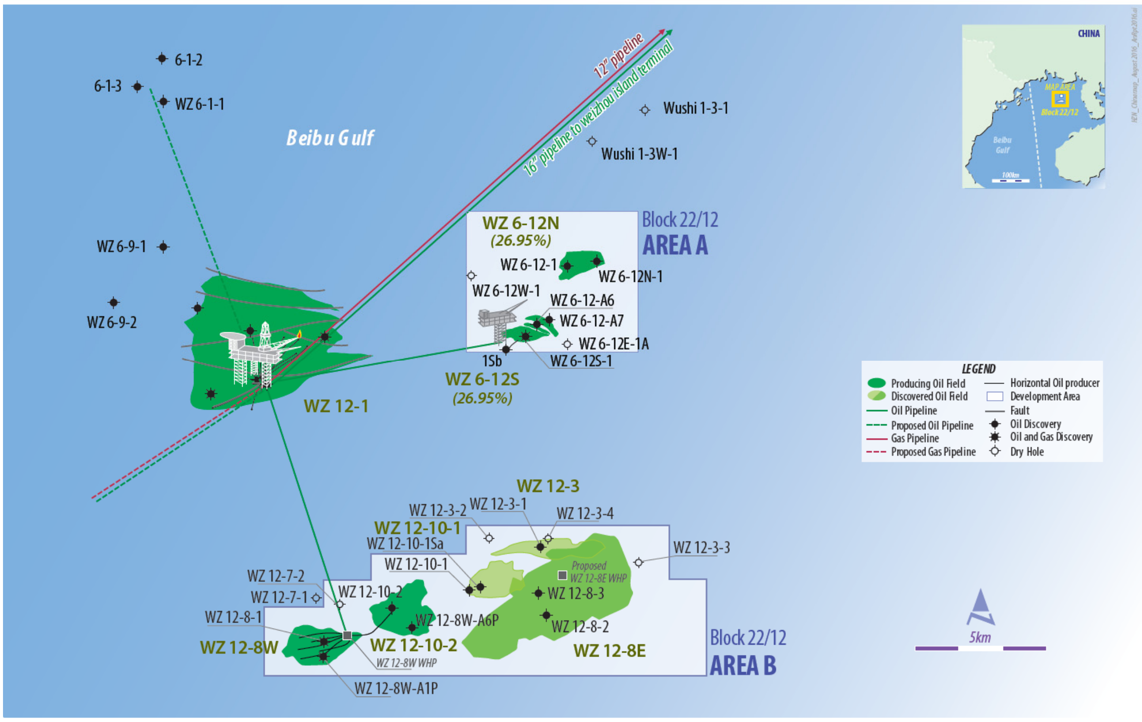
FINANCIAL SUMMARY

	Q2 FY2017 bbls	Q1 FY2017 bbls	Change %	Calendar Year 2016 bbls
Production				
Block 22/12 (Beibu Gulf), offshore China				
Crude oil production	188,238	211,563	(11.0%)	885,181
Crude oil sales[1]	245,669	278,291	(11.7%)	1,036,647
PMP 38160 (Maari and Manaia), offshore New Zealand				
Crude oil production	52,884	96,514	(45.2%)	337,100
Crude oil inventory on hand	11,924	4,727	152.3%	11,924
Crude oil sales	45,349	124,776	(63.7%)	339,261
Total Production				
Crude oil production	**241,122**	**308,077**	**(21.7%)**	**1,222,281**
Crude oil sales[1]	**291,018**	**403,067**	**(27.8%)**	**1,375,908**
	US$'000	**US$'000**	**%**	**US$'000**
Producing Oil and Gas Properties				
Block 22/12 (Beibu Gulf), offshore China				
Production revenue[2]	11,624	11,474	1.3%	41,623
Operating expenditure	2,582	2,334	(10.6%)	9,695
Amortisation	3,988	4,483	11.0%	18,891
PMP 38160 (Maari and Manaia), offshore New Zealand				
Production revenue[2]	2,318	5,776	(59.9%)	14,638
Operating expenditure	1,747	1,275	(37.0%)	7,013
Inventory adjustment[3]	(302)	1,173	125.8%	44
Repairs and refurbishment expenditure	1,372	0	(100.0%)	5,162
Amortisation	1,481	2,703	45.2%	10,870
Total Producing Oil and Gas Properties				
Production revenue[2]	**13,942**	**17,250**	**(19.2%)**	**56,261**
Oil hedging gains/(losses)	**14**	**397**	**(96.4%)**	**10,046**
Total revenue (incl hedging gains/(losses))	**13,956**	**17,647**	**(20.9%)**	**66,308**
Direct production operating expenditure	**4,329**	**3,609**	**(19.9%)**	**16,708**
Inventory adjustments and repairs and refurbishment expenditure[3]	**1,070**	**1,173**	**8.8%**	**5,206**
Amortisation	**5,469**	**7,186**	**23.9%**	**29,761**
Exploration and Development				
PEP 51313, offshore New Zealand	0	36		91
PDL 10, Papua New Guinea	487	1,474		4,265
PRL 21, Papua New Guinea	355	244		1,603
PPL 259/574, Papua New Guinea	0	0		256
PPL 430, Papua New Guinea	0	54		83
PMP 38160 (Maari and Manaia), offshore New Zealand	817	58		1,131
Block 22/12 (Beibu Gulf), offshore China	0	0		5,018
	1,659	**1,866**	**11.1%**	**12,447**
Cash on hand[4]	**18,346**	**13,717**		**18,346**
Reserves-Base Debt Facility[5]	**89,141**	**89,141**		**89,141**
Subordinated Debt[5]	**50,000**	**50,000**		**50,000**

[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] Includes cash in transit
[5] Represents principal amounts drawn down as at 31 December 2016

PRODUCTION

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



Gross oil production for the quarter averaged 7,592 bopd (HZN: 2,046 bopd prior to additional cost recovery oil entitlement). Production was affected in the quarter by typhoon *Sarika* which, for safety reasons, required temporary evacuation of personnel from the offshore production facilities and suspension of production for approximately 5 days in October. Current field production is approximately 8,500 bopd.

On 12 January 2017, the Company advised that cumulative oil production from the Beibu Gulf fields, offshore China, which came on stream in March 2013, reached the milestone of 13.9 million barrels. Having reached the milestone, the oil pipeline transportation tariff paid to China National Offshore Oil Corporation, previously US$4.75 per barrel, is now reduced to US$0.50 per barrel, the material impact of which will arise in the March 2017 quarter and subsequent periods.

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

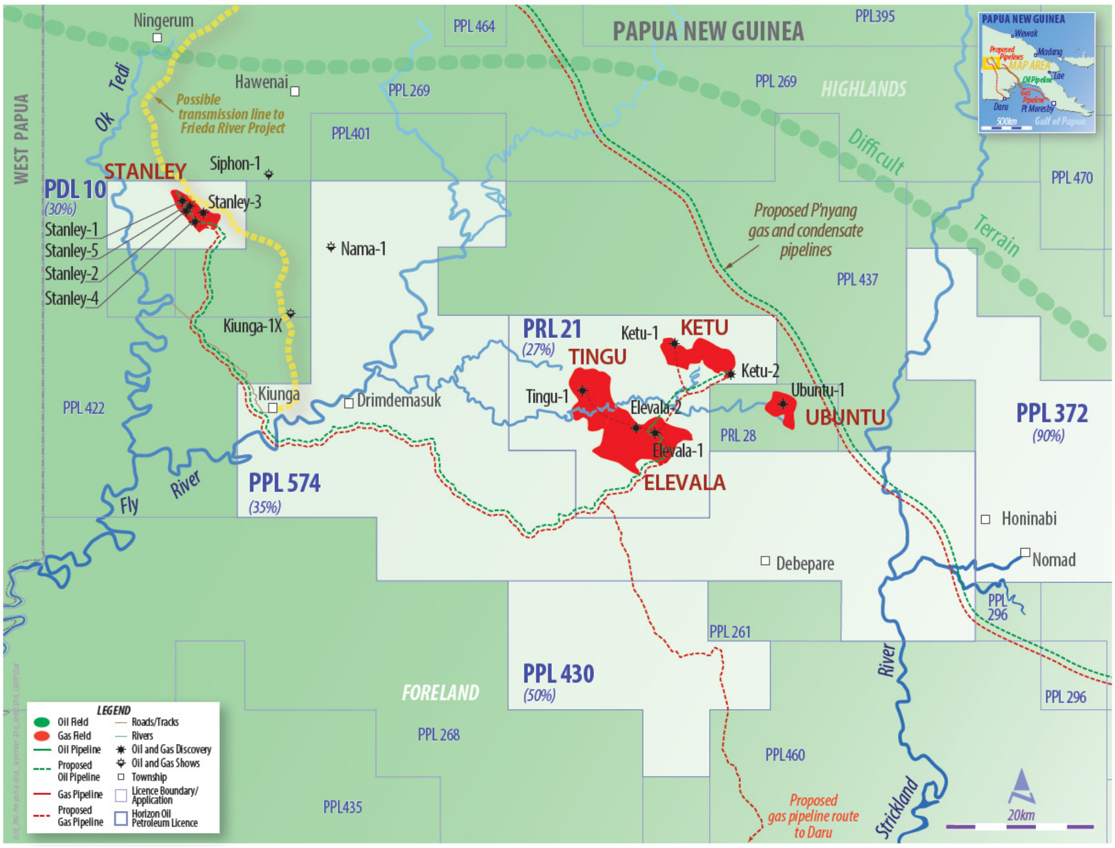
PMP 38160, Maari/Manaia fields, Taranaki Basin, offshore New Zealand (Horizon Oil: 10%)

Gross oil production for the quarter averaged 5,748 bopd (HZN: 575 bopd).

Production for the period was affected by the field maintenance and repair shutdown period from 24 November 2016 during which the Maari joint venture successfully completed the scheduled water injection repairs at Maari/Manaia field, including the replacement of the water injection riser and implementation of enhanced integrity measures to further protect the field flowlines. Concurrently, the joint venture repaired an isolated fatigue crack identified on the wellhead platform and undertook reconfiguration works of certain wellhead pipework in preparation for the installation of production enhancing multiphase pumps in 2017. By consolidating the activities above, the joint venture has minimised the production suspension period otherwise required to install the multiphase pumps, the purpose of which is to increase oil production and overall recovery from the field through a reduction in bottom hole pressures, enabling increased drawdown from each well.

As advised by the Company, production recommenced on 12 January 2017, following completion of the abovementioned activity and the water reinjection system was successfully reactivated on 29 January 2017.

Horizon Oil's net cost of the recent repairs, including the repair of the fatigue crack on the platform, was approximately US$1.5 million, the majority of which is anticipated to be recovered through insurance.



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

The joint venture progressed feasibility studies for the prospective Western LNG project, by forming a Joint Working Team (JWT) with the PDL 10 joint venture, composed of representatives from the respective joint ventures. The JWT will progress the technical and commercial work necessary for the 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 for the project 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.

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

The joint venture continues to focus its effort on progressing the development concept for the Western Province gas aggregation scheme, through collaboration with the PRL 21 joint venture, and the formation of the JWT. As noted, the JWT is progressing plans for the Western LNG project–that will be supplied by gas aggregated from several discovered fields in Western Province, with PDL 10 (Stanley) and PRL 21 (Elevala/Ketu) providing the cornerstone gas volumes.

Acquisition of additional licence interests in Papua New Guinea

In January 2017, the Company acquired Eaglewood Energy (BVI) Limited which holds licence interests in Western Province, Papua New Guinea, including a 50% interest in, and operatorship of, the Ubuntu gas condensate field, adjacent to PRL 21. Participation in the Ubuntu gas condensate field provides complementary strategic benefits to Horizon Oil's material PNG portfolio as the resource can be aggregated into the proposed Western LNG project. The consideration for the acquisition was a combination of cash, funded through existing cash reserves, and assumption of the acquired entity's PNG liabilities, including longer term licence obligations.

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.