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The Manager, Company Announcements
ASX Limited
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## HORIZON OIL (HZN) BEGINS PREPAYMENT OF SUBORDINATED LOAN

- **Early debt repayment from strong cash position and operating cash flows**
- **Debt reduction plans on track and interest payments reduced**
- **2017 production income protected with loss-of-production insurance and oil price hedging**

Horizon Oil is pleased to advise that it has made a US$5m prepayment of the US$50m subordinated, non-amortising loan from its largest shareholder, IMC Investment Limited (IMC). The Company intends to repay a further US$5m before the end of this year, provided no unforeseen circumstances arise in the interim. This will result in a reduction in interest payments of about US$1.0m p.a.

On the current debt reduction trajectory and barring unforeseen circumstances, net debt by the end of the calendar year 2017 will be around US$100m, down from US$120.8m reported at the end of calendar year 2016. The prepayment is in recognition of the higher interest rate of the subordinated loan (LIBOR + 9%) relative to that of the bank debt facility and is made possible by the level of cash in the Company (US$20.6m at 31 March 2017).

### CHIEF EXECUTIVE OFFICER'S COMMENTS

*Clearly there is an advantage in preferentially prepaying the subordinated loan to the bank debt, which carries an interest rate of LIBOR + 2.9%. The amount we choose to prepay is tempered by our policy of retaining sufficient cash at hand to meet non-budgeted expenses, if and when they occur.*

*The recent successful periodic redetermination of the US$120m reserves-based senior lender facility has given us a better picture of the repayment schedule for the loan, which is currently drawn down to US$88.0m. As part of the redetermination process, the banks require an independent assessment of Horizon Oil's reserves and resources. This was recently completed satisfactorily by reserves auditors RISC and provides solid confirmation of our reserves and resources book. This will be evident when the proved plus probable reserves and resources as at 30 June 2017 are released.*

*We mitigate some uncertainties in cash generation by way of obtaining loss-of-production insurance (LOPI) on our producing properties and by oil price hedging. As previously advised, about half the forecast production for 2017 is hedged at an average price of around US$54/barrel. The LOPI and oil price hedging have been purely matters of Horizon Oil board prudential policy for several years and are not requirements of the lenders. We have flexibility in our hedging program and will continue to progressively lock-in future oil prices with hedging as opportunities arise.*

**BACKGROUND**

On 6 September 2016, Horizon Oil advised that it had satisfied all conditions precedent under a US$50m secured subordinated debt facility. The proceeds of the debt, together with available cash, were applied to redeem the remaining US$58.8m of convertible bonds issued in 2011 to increase the Company's interest in, and provide development funding for, the Company's core production asset – Block 22/12, offshore China.

The US$50m facility is a subordinated, non-amortising loan from Horizon Oil's largest shareholder, IMC Investment Limited and carries an interest rate of LIBOR + 9%. The loan is a 5 year facility which, subject to certain conditions, IMC may require the Company to repay after 3 years. There are no penalties for prepayment of all or part of the loan.

Yours faithfully,

**Brent Emmett**
Chief Executive Officer

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