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QUARTERLY REPORT

PERIOD ENDING 31 DECEMBER 2017 (ASX:HZN)

HIGHLIGHTS

FINANCIAL

- **Calendar year revenue of US$73.4 million (up 11% on previous year) with US$20.2 million recorded for December 2017 quarter** (inclusive of hedge settlements).
- **Net operating cash flow**[1] **for the quarter of US$16.2 million, an increase of over 50% on the previous quarter.** Calendar year net operating cash flow of US$56.1 million, within guidance of US$50 – 60 million.
- **Horizon Oil's free cash flow break-even price for the calendar year**, inclusive of all capital expenditure**, was a highly-competitive US$34/bbl**.
- **Progressive hedging** implemented during the quarter (covering the period January 2018 to March 2019), with remaining hedge volume at 31 December 2017 of 1,033,750 barrels (**at weighted average price of approximately US$59 per barrel**, net of credit charges).
- **Cash at 31 December 2017: US$31.7million**.
- Further US$5 million **voluntary prepayment of higher interest rate subordinated debt.**
- **Net debt reduced to US$94.3 million** (compared with US$120.8 million at end calendar year 2016). **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$6.6 million in quarter.**

PRODUCTION AND DEVELOPMENT

- **Sales for quarter increased 11% to 348,591 bbls**[2] at an average realised oil price of US$57.92/bbl**,** and **production increased 4%** to **283,555 bbls** from the previous quarter, following the **successful completion of production enhancing workover activities**.
- **Average cash operating costs reduced** for the quarter **to US$9.66/bbl (sales)** and **US$13.89/bbl (production)**.
- **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 rate of approximately 9,300 bopd**.
- **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 and beyond,** subject to customary approvals.
- **A production improvement program continued on the Maari/Manaia fields**, with successful completion of a re-perforation and lowering of the submersible pump in the Manaia MN-1 well, and workover of the MR7A well.
- **Excellent progress made on Horizon Oil's Western LNG project, with pre-FEED results providing independent substantiation of technical concept and costing.**

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

CHIEF EXECUTIVE OFFICER'S COMMENTS

The cash generation element of Horizon Oil's strategy remains firmly on track. Crude oil production and sales are up on the previous quarter, with operating expenditure remaining steady. Net operating cash flow from calendar year 2017 of US$56.1 million was within guidance of US$50 – 60 million per annum.

In November the Company advised that it had expanded its interest in the producing assets by acquiring an additional 16% interest in the Maari and Manaia fields, offshore New Zealand, increasing Horizon Oil's interest to 26%. The transaction, which has an effective date of 31 December 2017, is subject to a number of consents, of which the only regulatory consent remaining is the approval of the New Zealand Overseas Investment Office.

When the transaction completes, the Company will hold meaningful interests across its producing asset portfolio, with an increased capacity to influence the way in which the fields are managed. We expect that with ongoing workovers and in-field and near-field development, the production stream will generate average net operating cash flow of US$60 – 70 million per annum for the next five years or so, before going into decline.

The enhanced cash flow will not only serve to pay down debt that was incurred to develop the fields (which is being achieved on a trajectory of US$20 – 25 million per annum), but most importantly will provide Horizon Oil with funding for the planning and development of the Company's Western LNG project (WLNG) in Papua New Guinea.

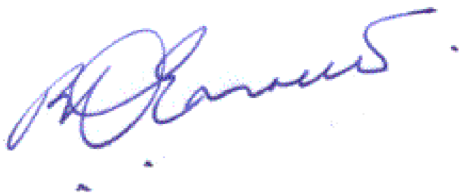
Our target has been to have WLNG ready to meet a widely-anticipated LNG supply/demand gap forecast to open around 2023. Recent signs are that demand for new LNG supply may occur in advance of that timing – and at stronger pricing.

Reflecting the improving outlook, spot Asian LNG prices averaged US$8/mmBtu in 2017, up from the 2016 lows of US$4/mmBtu. Prices have continued to rise early in the new year, reaching more than US$11mmBtu. The renewed price strength for LNG reflects the supportive rise in oil prices, as well as structural changes in demand, particularly in China where large-scale switching from coal to gas is underway as part of its air quality environmental crackdown.

The International Energy Agency recently identified LNG demand growth opportunities in China and India. While gas makes up 25% of the global energy mix, it accounts for only 5% in the world's most populous nations. China, India, Pakistan and Thailand are expected to account for 50% of LNG import growth by 2022.

The pre-FEED (front end engineering and design) studies that we commissioned on the three components of WLNG – upstream, pipelines and liquefaction facility – are substantially complete and our project team is in the process of integrating these in order to firm up our assessment of the project prior to moving to the FEED stage. We are pleased to report that **the preliminary results of the WLNG pre-FEED studies, which were carried out by experienced, independent engineering firms, provide good confirmation of the technical viability and economic attractiveness of the project**.

Pleasingly, these third-party studies have pointed to improvements in the development concept, design optimisation and efficiencies. The next task will be to confirm the suitability of the selected pipeline route and location of the liquefaction plant. Planning for the onshore field survey and offshore bathymetry and metocean studies is underway.



Brent Emmett
Chief Executive Officer

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FINANCIAL SUMMARY

	Q2 FY2018 bbls	Q1 FY2018 bbls	Change %	Calendar 2017 bbls
Production				
Block 22/12 (Beibu Gulf), offshore China				
Crude oil production	213,859	202,840	5.4%	818,948
Crude oil sales[1]	292,437	237,379	23.2%	1,108,649
PMP 38160 (Maari and Manaia), offshore New Zealand				
Crude oil production	69,696	69,666	0.0%	294,268
Crude oil inventory on hand	24,460	11,235	117.7%	81,732
Crude oil sales	56,154	76,141	(26.3%)	281,317
Total Production				
Crude oil production	**283,555**	**272,506**	**4.1%**	**1,113,216**
Crude oil sales[1]	**348,591**	**313,520**	**11.2%**	**1,389,966**

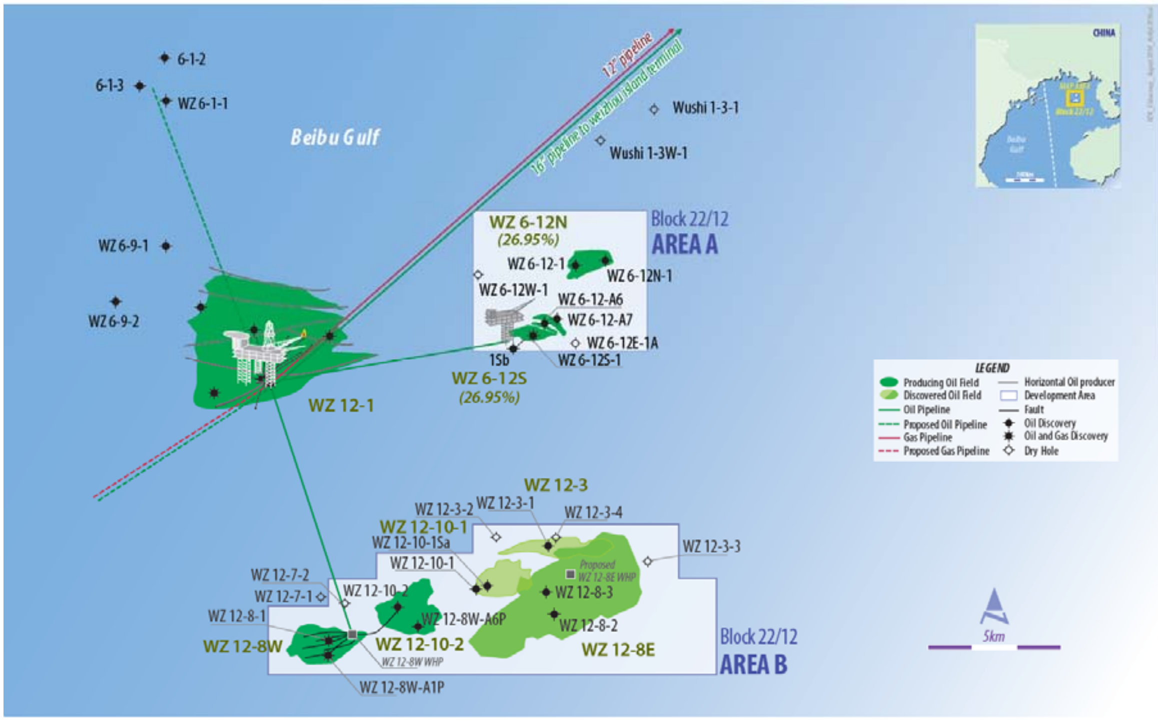
	US$'000	US$'000		
Producing Oil and Gas Properties				
Block 22/12 (Beibu Gulf), offshore China				
Production revenue[2]	17,832	11,818	50.9%	58,380
Operating expenditure	2,185	1,943	(12.4%)	7,524
Workover expenditure	17	1,601	99.0%	1,618
Amortisation	4,734	4,490	(5.4%)	17,783
PMP 38160 (Maari and Manaia), offshore New Zealand				
Production revenue[2]	3,632	4,077	(10.9%)	15,775
Operating expenditure	1,736	1,890	8.1%	6,982
Inventory adjustment[3]	(569)	268	(312.5%)	(560)
Repairs and refurbishment expenditure	24	286	91.6%	1,102
Amortisation	2,088	2,089	0.1%	9,262
Total Producing Oil and Gas Properties				
Production revenue[2]	**21,464**	**15,895**	**35.0%**	**74,155**
Oil hedging settlements	**(1,274)**	**343**	**(471.0%)**	**(796)**
Total revenue (incl. hedging gains/(losses))	**20,190**	**16,238**	**24.3%**	**73,359**
Direct production operating expenditure	3,921	3,833	(2.3%)	14,506
Net operating cash flow[4]	**16,229**	**10,518**	**54.3%**	**56,133**
Amortisation	6,821	6,579	(3.7%)	27,045
Exploration and Development				
Papua New Guinea exploration & pre-development	3,812	1,681		7,617
PMP 38160 (Maari and Manaia), New Zealand	937	506		2,355
Block 22/12 (Beibu Gulf), offshore China	1,844	1,464		4,264
Total capital expenditure	**6,593**	**3,651**		**14,237**
Cash on hand[5]	**31,672**	**28,443**		**31,672**
Reserves-Base Debt Facility[6]	**85,953**	**87,998**		**85,953**
Subordinated Debt[6]	**40,000**	**45,000**		**40,000**
Net Debt[6]	**94,281**	**104,555**		**94,281**

[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 $0.3 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 December 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 8,625 bopd. Horizon Oil's sales entitlement for the quarter averaged 3,179 bopd, taking into account the cost recovery oil entitlement received in the quarter.

Average cash operating costs in the quarter were US$10.29/bbl (produced); US$7.53/bbl (Horizon Oil sales).

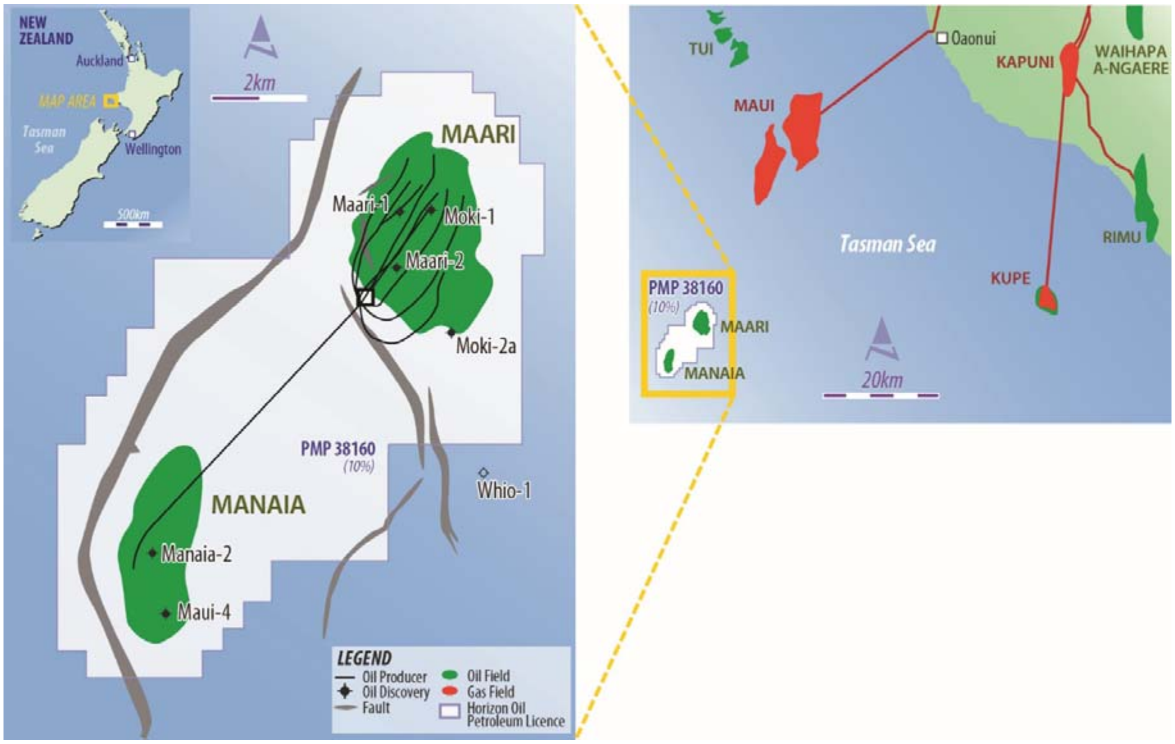
As at 31 December 2017, Horizon Oil's remaining cost recovery oil entitlement under the Petroleum Contract was US$76.7 million.

Production increased 5.4%, and sales volumes increased 23.2% 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, and sought 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.

Two infill wells planned to be drilled on the WZ 12-8W field to further enhance production are expected to spud during the first quarter of calendar year 2018, as soon as necessary environmental permits are obtained.

The Overall Development Plan for the WZ 12-8E field in Beibu Gulf progressed with the CNOOC-led joint venture reviewing opportunities for improved commercial terms for leasing of the mobile 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 7,576 bopd (Horizon Oil net: 758 bopd). Average cash operating costs in the quarter were US$24.91/bbl (produced); US$20.78/bbl (Horizon Oil sales).

Production and operating costs were impacted by the continuation of a production improvement program involving the perforation of a new reservoir section in the Manaia-1 well which was completed on 29 October 2017, and a workover of the MR7A well which was completed on 23 November 2017. Following these workovers, gross production increased to approximately 8,500 bopd.

The future production improvement program involves workovers, re-perforations, water injection enhancement and installation of surface pumps to reduce well back pressure. This program will continue throughout 2018, commencing with the installation and commissioning of the surface pumps which were delivered to the platform during December.

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

During the quarter, the Company entered into an agreement with Todd Maari Limited (Todd) to acquire its 16% interest in PMP 38160, which contains the producing Maari and Manaia fields. When the acquisition completes, the Horizon Oil interest in the PMP 38160 joint venture will be 26%.

The consideration to be paid for the interest is US$17.6 million, subject to customary working capital and purchase price adjustments, with an effective date of 31 December 2017. The transaction, is subject to a number of consents, of which the only regulatory consent remaining is the approval of the New Zealand Overseas Investment Office.

The acquisition will be funded partly from the Company's cash reserves, and partly from the Revolving Cash Advance facility.

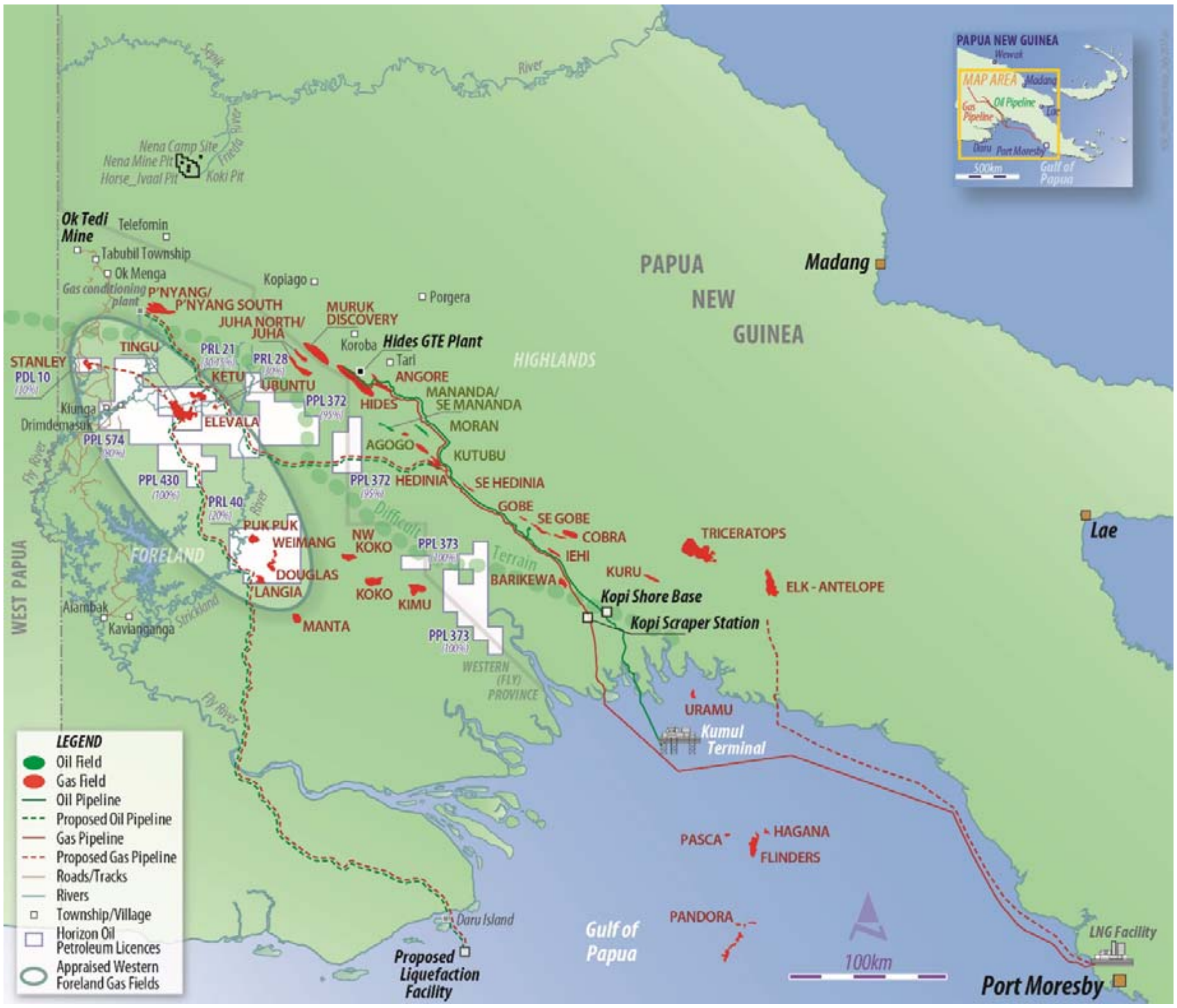
Upon completion, the acquisition will increase Horizon Oil's net daily production from about 4,100 bopd to 5,500 bopd (inclusive of cost recovery production entitlements in China). Net proven and probable (2P) reserves will increase 43% to 11.3 million barrels of oil, and proven and probable (2C) contingent resources will increase 9% to 140.3 million barrels of oil equivalent, based on the Reserves and Resources Snapshot set out in the 2017 Annual Report.

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]



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

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. Pre-FEED studies of the key elements of the project – upstream gas processing, export pipelines and the liquefaction facility – were substantially completed during the quarter with selected contractors who are well qualified and possess a good level of PNG experience.

The preliminary results of these studies, which importantly include Class IV (-15%/+25%) cost estimates, are materially in line with Horizon Oil's preliminary estimates and confirm the technical and economic viability of the project. The results of the three pre-FEED studies are now being integrated and planning is underway for a field campaign to confirm the suitability of the selected export pipeline routes and offshore liquefaction facility location.

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.

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.