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The Manager
Company Announcements
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# ACQUISITION OF 25% NON-OPERATED INTEREST IN THE PRODUCING MEREENIE OIL AND GAS FIELD

## Project delivers exposure to attractive domestic gas markets and enhances Horizon's capital management potential

Horizon is pleased to announce that it has executed a sale and purchase agreement (the "Agreement") with Macquarie Mereenie ("Macquarie" or "Seller") to acquire a 25% non-operated participating interest in the OL4 and OL5 development licences, Northern Territory, Australia, which contain the producing Mereenie conventional oil and gas field. The proposed acquisition has been executed together with New Zealand Oil and Gas ("NZOG"), an incumbent Mereenie joint venture partner, who will acquire a further 25% participating interest in OL4 and OL5 from Macquarie on identical terms.

The headline cash consideration is US$27.6 million[1], with an effective date of 1 April 2023, plus up to US$5.8 million in deferred and contingent payments over the next 24 months which are subject to certain conditions being met. The headline cash consideration will be 100% funded from a new five-year debt facility from Macquarie Bank which is secured against the acquired asset. The funding structure, together with the expected free cashflow generation from Mereenie allows for the continuation and potential enhancement of Horizon's distribution strategy. The transaction remains subject to customary completion conditions including regulatory, landowner and joint venture approvals, and documentation of the committed debt facility.

## HIGHLIGHTS

- Horizon agrees to acquire a 25% non-operated participating interest in the OL4 and OL5 development licenses which contain the producing Mereenie conventional oil and gas field, Northern Territory, Australia.
- The headline cash consideration is fully debt funded from a new five-year debt facility from Macquarie which is secured against the acquired asset. Importantly, this funding structure, combined with the expected additional cashflow to be derived from the asset allows for continuation and potential enhancement of the Company's distribution strategy.
- Horizon is acquiring 6.4 mmboe of 2P reserves as at an effective date of 1 April 2023 (6.3 mmboe 2P reserves as at 30 June 2023, an increase of ~129% compared to the Company's 2P reserves position at 30 June 2023). Based on a total consideration of US$33.4 million, comprising the headline consideration of US$27.6 million plus deferred contingent payments of US$5.8 million, this represents an acquisition cost of ~US$5.3/boe.
- Mereenie is a high margin and low-cost conventional oil and gas project, with a long track record of stable production (currently approximately 1,150 boe/d net to Horizon), significant contracted gas offtake with high-quality contract counterparties and material cashflows. Mereenie is linked to both the high demand Northern Territory and East Coast gas markets via the Amadeus and Northern Gas Pipelines.
- The recent signing by the Mereenie joint venture of a substantial gas offtake agreement with Arafura Rare Earths Limited demonstrates the strategic value of Mereenie, particularly its role in supporting the energy transition.

[1] Assuming an AUD:USD exchange rate of 1:0.65

- Mereenie operating costs are approximately US$13/boe, which is materially lower than the Company's current unit cost of approximately US$20/boe.
- Horizon sees potential to enhance value through further Pacoota sandstone infill drilling and the possible development of the shallower Stairway Formation. The extraction of helium from the raw gas stream provides an additional potential revenue stream with the joint venture having signed a memorandum of understanding with Twin Bridges LLC to evaluate a potential project.
- Central Petroleum are a high-quality operator who have a focus on cost effective and efficient operations at Mereenie, and consistently deliver on safety, sustainability and community support.
- New Zealand Oil and Gas (NZOG) are an incumbent partner who have also agreed to purchase the remaining 25% of Macquarie's holding, which takes NZOG's holding in Mereenie to 42.5%.

## Horizon CEO, Richard Beament commented:

*This asset is an excellent addition to our portfolio - complementing, diversifying and expanding our production base. The acquisition plays to Horizon's strengths as a non-operator, being also right sized, largely self-funded and with material upside. Consistent with our strategy, we are delighted to have identified an inorganic growth opportunity which meets our strict investment criteria of acquiring assets which allow for the continuation and potential enhancement of our capital distribution strategy. As a long-life cashflow producing asset, this acquisition provides the Company with a strong platform to continue distributions beyond the life of our existing assets.*

*The consideration payable for the acquisition is substantially supported by the contracted gas offtake from the asset, which has enabled Macquarie Bank to provide full debt funding for the initial consideration on attractive terms.*

*We are pleased to be able to partner with NZOG, a natural partner in such a deal given our long history together in the Maari asset through NZOG's subsidiary Cue Energy. Clearly, as an incumbent partner in the Mereenie joint venture, NZOG's desire to increase their interest through this acquisition is a strong endorsement of the significant remaining value to be unlocked at Mereenie.*

*Upon completion, the acquisition will increase Horizon's net daily production by ~1,150 boepd, proved and probable (2P) reserves by 6.3 million barrels of oil equivalent as at 30 June 2023, an increase of ~129% compared to the Company's 2P reserves position at 30 June 2023, and 2C (contingent resources) by 7.9 million barrels of oil equivalent, an increase of ~114% compared to the Company's 2C contingent resource position at 30 June 2023.*

*The acquisition is expected to meaningfully increase net operating cash flow over the next 5+ years and provide a production base beyond the expiry of our existing assets. The asset provides the Company with material exposure to both the Northern Territory and East Coast gas markets, both of which are forecast to have significant supply side opportunities. With domestic gas recognised as key to the energy transition, Mereenie has a strong part to play in providing essential energy to miners and other industrial users to support the energy transition.*

*We look forward to finalising the transaction over the coming months as we finalise debt facility documentation and customary regulatory, landowner and joint venture approvals.*

## Overview

Macquarie Mereenie holds a 50% interest in the Mereenie oil and gas field. Horizon has agreed to acquire a 25% non-operated interest in the OL4 and OL5 development licences, Northern Territory, Australia, which contain the producing Mereenie conventional oil and gas field. Central Petroleum operates the field with a 25% interest, New Zealand Oil and Gas (NZOG) are an incumbent partner who has also agreed to purchase the remaining 25% of Macquarie Mereenie's holding, which takes NZOG's holding in Mereenie to 42.5%. The remaining 7.5% is held by Cue Energy.

### The Mereenie oil and gas field

The Mereenie oil and gas field was discovered in 1963 and commenced production in 1984 from the Mereenie gas and liquid processing plant which comprised liquid separation, dehydration and compression. The hydrocarbon accumulation is contained in an elongate four-way dip anticline that has a length of 40 km and width of more than

5 km. Reservoirs comprise a series of interbedded sandstones of the Pacoota Formation which have been the development focus, as well as the shallower Stairway Sandstone which has produced gas from a number of wells and has observable gas in most other well intersections.

More than twenty separate conventional reservoir sands have been identified and correlated across the field, with typical individual net sand thicknesses of less than five metres. The Mereenie field has a gross hydrocarbon interval of more than 800 metres with a gas cap and an oil rim.

Most wells in the field have been drilled on the flank of the Mereenie anticline to intersect reservoir sands within the Pacoota P3 oil rim. Six wells have been drilled on the crest of the structure to target the Pacoota P1 gas cap with the Pacoota P3 gas cap not initially produced in order to maintain pressure support for the Pacoota P3 oil rim. As such, development drilling and recompletions are needed in the Pacoota P3 gas cap to develop the gas reserves.

The field has historically produced hydrocarbon liquids for sale in South Australia and natural gas for Northern Territory markets. In 2019, the Northern Gas Pipeline began commercial operation and provided access to East Coast gas markets. In response, gas rates from Mereenie nearly tripled in CY 2019 when compared to the prior year. Gross production peaked in CY 2019 at approximately 16 PJ/yr. In June 2023, gross field production was approximately 30 TJ/day.

Gas is sold to McArthur River Mining, NT Gas Distribution, and Power and Water Corporation in the Northern Territory and South 32 in the East Coast gas market, in addition to various short term and spot sales. A further gas offtake agreement was recently signed with Arafura Rare Earths Limited in order to provide gas to their Nolans rare earths project in the Northern Territory which is nearing FID. Oil and condensate are produced from the field, processed and trucked to Port Bonython for storage prior to export by tanker, primarily to refineries in Singapore.

The current priority of the joint venture is to optimise existing gas production and plan development and appraisal activities to access additional resources to supply the Northern Territory and East Coast gas markets. Appraisal of the Stairway Formation is also being evaluated, with cost-saving options to re-use existing bores being prioritised.

The joint venture is also evaluating the potential for a helium recovery unit to be installed at Mereenie to extract helium from the raw gas stream, and to that end has entered into a memorandum of understanding with Twin Bridges LLC in order to progress a project towards commercialisation.

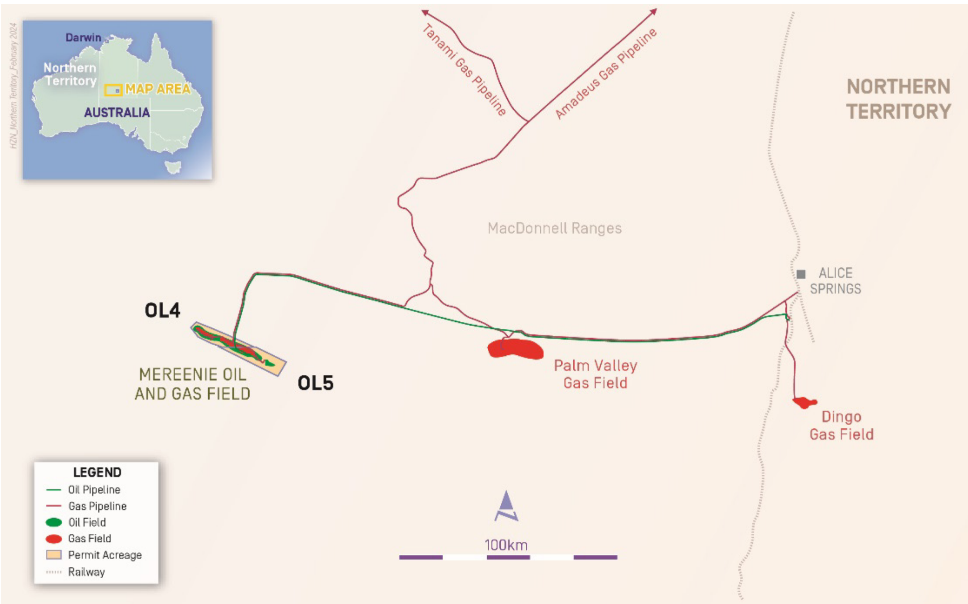


Figure 1 – Location of OL4 and OL5 development licences, Northern Territory, Australia, which contain the Mereenie conventional oil and gas field

**Consideration and debt funding**

The headline cash consideration is US$27.6 million, with an effective date of 1 April 2023, plus up to US$5.8 million in deferred and contingent payments subject to certain conditions being met. The headline consideration will be 100% funded from a new Macquarie Bank backed reserves-based debt facility. The re-introduction of a modest gearing position into the Group, coupled with the material cashflow from the Mereenie asset, allows for the continuation and enhancement of Company's distribution strategy whilst delivering on the production growth pillar in our strategy.

The five-year debt facility essentially re-finances the previous US$20 million senior debt facility which matured in July 2023 and is underwritten by a robust contracted gas offtake position with high quality counterparties. Payback of the debt facility, from the acquisition asset cashflows, is expected within the loan term. There is the potential for additional free cashflow generation over this period from infill drilling and the commercialisation of the material contingent resource base. The facility is secured against the interest in the acquired asset, with interest payable at BBSW + 5%.

### Reserves, resources and production

Horizon's Mereenie reserves and resources at the 1 April 2023 effective date and at financial year end (30 June 2023) are shown in the tables below:

| | as at 1 April 2023 | Production 1 April –30 June 2023 | as at 30 June 2023 | |
|---|---|---|---|---|
| | (PJ) | (PJ) | (PJ) | mmboe |
| 1P | 23.1 | 0.6 | 22.5 | 3.9 |
| 2P | 34.7 | | 34.1 | 5.9 |
| 2C | 45.6 | - | 45.6 | 7.8 |

Figure 2 – Mereenie 1P, 2P Developed gas reserves and 2C gas resources (Horizon 25% net equity) at 1 April effective date and at financial year end (30 June 2023)

| | as at 1 April 2023 | Production 1 April –30 June 2023 | as at 30 June 2023 | |
|---|---|---|---|---|
| | (mmbbl) | (mmbbl) | (mmbbl) | mmboe |
| 1P | 0.3 | 0.03 | 0.3 | 0.3 |
| 2P | 0.4 | | 0.4 | 0.4 |
| 2C | 0.05 | - | 0.05 | 0.05 |

Figure 3 – Mereenie 1P, 2P Developed oil reserves and 2C oil resources (Horizon 25% net equity) at 1 April 2023 effective date and at financial year end (30 June 2023)

Developed reserves have been estimated using deterministic reservoir simulation models. Contingent resources have been estimated using deterministic volumetric methods and include Stairway and Pacoota reservoirs.

The acquisition will increase the Horizon 2P (proved and probable) reserves by 6.4 million barrels of oil equivalent as at an effective date of 1 April 2023 (6.3 mmboe 2P reserves as at 30 June 2023, an increase of ~129% compared to the Company's 30 June 2023 2P reserves position of 4.9 million barrels of oil equivalent), and the Company's 2C (contingent resources) by 7.9 million barrels of oil equivalent, an increase of ~114% compared to the company's 30 June 2023 contingent resource position of 6.9 million barrels of oil equivalent. The Company's daily production rates will increase by ~1,150 boepd.

### Participating interest and operator

Horizon Oil are acquiring a 25% non-operated participating interest, and New Zealand Oil and Gas are acquiring the other 25% being sold by Macquarie Mereenie. The Mereenie Joint Venture participating interests before and after the Agreement are outlined below:

| | Central Petroleum (Operator) | Macquarie Mereenie | New Zealand Oil and Gas | Cue Energy Resources | Horizon Oil |
|---|---|---|---|---|---|
| Prior to transaction | 25% | 50% | 17.5% | 7.5% | - |
| After transaction | 25% | - | 42.5% | 7.5% | 25% |

Figure 4 – Meerenie oil and gas field participating interest prior to and after transaction

As Operator, Central Petroleum manage the gas sales function on behalf of the Joint Venture under a pre-existing joint marketing agreement.

## Notes:

1 All estimates are prepared in accordance with the Society of Petroleum Engineers (SPE) Petroleum Resources Management System (PRMS) revised 2018.

2 Relevant terms used in this statement, capitalised or otherwise, have the same meaning given to those terms in the SPE PRMS.

3 Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.

4 Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable owing to one or more contingencies.

5 Prospective Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects.

6 Petajoule reserves have been converted to oil 5.816 PJ/mmboe

7 Liquids are equal to the total of oil, condensate and natural gas liquids where 1 barrel of condensate or natural gas liquids equals 1 barrel of oil.

8 Raw Gas is natural gas as it is produced from the reservoir which may include varying amounts of heavier hydrocarbons which liquefy at atmospheric conditions, water vapor and other non-hydrocarbon gases such as hydrogen sulphide, carbon dioxide, nitrogen or helium.

9 Sales Gas represents volumes that are likely to be present a saleable product. Sales Gas are reported assuming average values for fuel, flare and shrinkage considering the variable reservoir fluid properties of each constituent field on an energy basis the customary unit is PJ. PJ means petajoules and is equal to $10^{15}$ joules.

10 Reported estimates of petroleum reserves and contingent resources have been prepared using the deterministic method and aggregated by arithmetic summation. 1P reserves and 1C contingent resources reported beyond the field, property or project level aggregated by arithmetic summation may be a very conservative estimate due to the portfolio effects of arithmetic summation.

11 Estimates are reported according to Horizon Oil's economic interest, this being Horizon Oil's net working interest as adjusted for entitlements (Economic Interest adjustment) under production-sharing contracts and risked-service contracts; and are reported net of royalties and lease fuel up to the reference point. Reference points for Horizon's petroleum Reserves and Contingent Resources and production are defined points where normal operations cease, and petroleum products are measured under defined conditions prior to custody transfer.

12 Horizon Oil employs a Reserves Management System to ensure the veracity of data used in the estimation process. This process includes review by senior staff where data is endorsed for inclusion in the estimating process. Estimates are reviewed annually, at a minimum, with interim reviews as required, to respond to any material changes. Horizon Oil undertakes semi-regular external reviews to complement its own internal process.

13 The estimates of petroleum reserves and resources contained in this statement are based on, and fairly represent, information and supporting documentation prepared by staff and independent consultants under the supervision of Mr Gavin Douglas, Chief Operating Officer of Horizon Oil Limited. Mr Douglas is a full-time employee of Horizon Oil Limited and is a member of the American Association of Petroleum Geologists and the Society of Petroleum Engineers. Mr Douglas' qualifications include a Masters of Reservoir Evaluation and Management from the Heriot Watt University UK, and more than 25 years of relevant experience. Mr Douglas consents to the use of the petroleum reserves and resources estimates in the form and context in which they appear in this statement.

14 Some totals in the tables may not add due to rounding.

**Authorisation:** This ASX announcement is approved and authorised for release by the Board.