



HORIZON OIL LIMITED

ABN 51 009 799 455

ANNUAL FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

This annual financial report covers the consolidated financial statements for the Group, consisting of Horizon Oil Limited (the 'Company') and its subsidiaries. The annual financial report is presented in United States dollars.

Horizon Oil Limited is a public company limited by shares and is listed on the ASX. It is incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 7
134 William Street
Woolloomooloo NSW 2011

The annual financial report was authorised for issue by the Board of Directors on 25 August 2014. The Board of Directors has the power to amend and reissue the annual financial report.

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DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the 'Group') consisting of Horizon Oil Limited (the 'Company') and the subsidiaries it controlled at the end of, or during the financial year ended, 30 June 2014.

DIRECTORS

The following persons were directors of Horizon Oil Limited during the whole of the financial year and up to the date of this report:

E F Ainsworth
B D Emmett
J S Humphrey
G de Nys
A Stock

REVIEW OF OPERATIONS

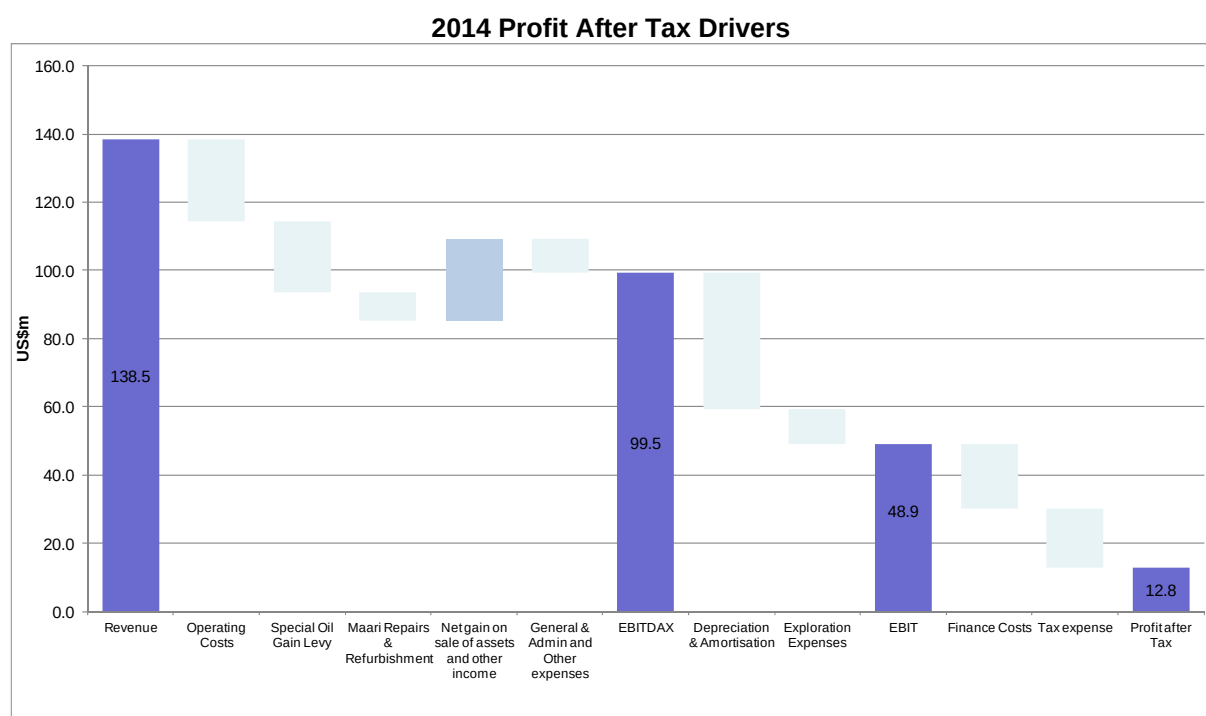
PRINCIPAL ACTIVITIES

During the financial year, the principal activities of the Group continued to be directed towards petroleum exploration, development and production.

A detailed review of the operations of the Group during the financial year is set out in the Activities Review on pages 99 to 103 of this annual financial report.

GROUP FINANCIAL PERFORMANCE

Consolidated Statement of Profit or Loss and Other Comprehensive Income



The Group reported a net profit after income tax of US\$12.8 million (2013: net profit US\$3.5 million) driven by gross profit from operations of US\$45.7 million (2013: US\$25.4 million). Included in the overall result was the profit recorded on the partial sale of the Group's interests in PNG assets to Osaka Gas of US\$23.8 million (2013: US\$0 million). EBITDAX was US\$99.5 million (2013: US\$27.9 million), and EBIT was US\$48.9 million (2013: US\$18.2 million).

EBITDAX and EBIT are financial measures which are not prescribed by Australian Accounting Standards and represent the profit under Australian Accounting Standards adjusted for interest

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expense, taxation expense, depreciation, amortisation, and exploration expenditure. The directors consider EBITDAX and EBIT to be useful measures of performance as they are widely used by the oil and gas industry. EBITDAX and EBIT information have not been audited. However, they have been extracted from the audited annual financial report for the financial year ended 30 June 2014.

Basic earnings per share for the financial year were 1.00 cent based on a weighted average number of fully paid ordinary shares on issue of 1,279,039,421 shares.

Sales and Production Growth

The Group recorded solid performance from its producing assets, with the net working interest share of oil production of 1,434,534 barrels (2013: 503,619 barrels), an increase of 185% compared to the prior financial year resulting predominately from a full year of production from the fields in the Beibu Gulf.

Oil and gas sales revenue of US\$138.5 million (2013: US\$48.1 million) was generated from sales volumes of 1,356,085 barrels of oil (2013: 467,809 barrels), which achieved an average realised oil price of US\$106.43 per barrel (2013: US\$108.75 per barrel) before hedging, slightly less than the Brent oil price which averaged US\$109.02 per barrel for 2014 (2013: US\$108.65 per barrel). Whilst the strong production from China has contributed to increased sales revenue, this was offset at Maari by reduced production as the field facilities were shut-down for the period July to December 2013 to enable substantial remediation and upgrade works to be carried out. The work program, designed to enhance the value of the asset and enable extension of the field life, was successfully completed and the field returned to production during early December 2013. The Maari field has exceeded expectations in the period since production recommenced.

Operating costs of US\$92.7 million (2013: US\$22.7 million) comprised production costs of US\$31.0 million (US\$46.2/BOE), amortisation costs of US\$39.4 million (US\$29.1/BOE), and royalties and Chinese special oil income levy of US\$22.3 million (US\$15.5/BOE). The increase in operating costs is attributable to a full year of China operating costs being included in the current year compared to 3.5 months of ramp up in the prior year. Direct production costs at Maari increased during the financial year due to substantial remediation and upgrade works being carried out from July to December 2013.

General and administrative expenses of US\$8.2 million (2013: US\$7.0 million) comprised net employee benefits expense of US\$3.8 million, corporate office and insurance expense of US\$2.6 million, depreciation of US\$0.6 million, and rental expense of US\$1.1 million. The increase of 17% is driven predominately by an increase in insurance expense following the commencement of Beibu Gulf production in China, and additional rental expense associated with office and facility expansion in preparation for development activities in PNG.

Finance costs of US\$18.9 million (2013: US\$8.2 million) comprised amortisation of the convertible bond through to maturity (inclusive of the 5.5% coupon payable semi-annually), and interest and finance costs payable on the reserves based debt facility. Finance costs of US\$1.3 million were capitalised during the financial year in relation to the Group's development projects. Interest and finance charges increased by 138% due to debt drawn under the borrowing base peaking during the year following the completion of the Block 22/12 development and commencement of the Stanley development. The facility commenced amortisation during the second half with cash repayments of \$15.17 million and extinguishment of the \$20.4 million letter of credit associated with the Osaka Gas asset sale agreement during the year.

Income and Royalty Tax

Income and royalty tax expense of US\$17.2 million (2013: US\$6.6 million) incurred during the financial year included an income tax expense of US\$17.5 million. Current income tax has increased from the prior financial year due to a full year of production in the Beibu Gulf. Deferred tax expense increased during the year due to the write back of Australian tax losses which are presently considered unlikely to be recovered in the near term.

Hedging

At 30 June 2014, the Group held 842,500 barrels of Brent oil price swap contracts (30 June 2013: 119,000 barrels of Brent oil price swap contracts). During the financial year, 926,502 barrels of oil price derivatives were settled, resulting in a cash outflow of US\$5.9 million.

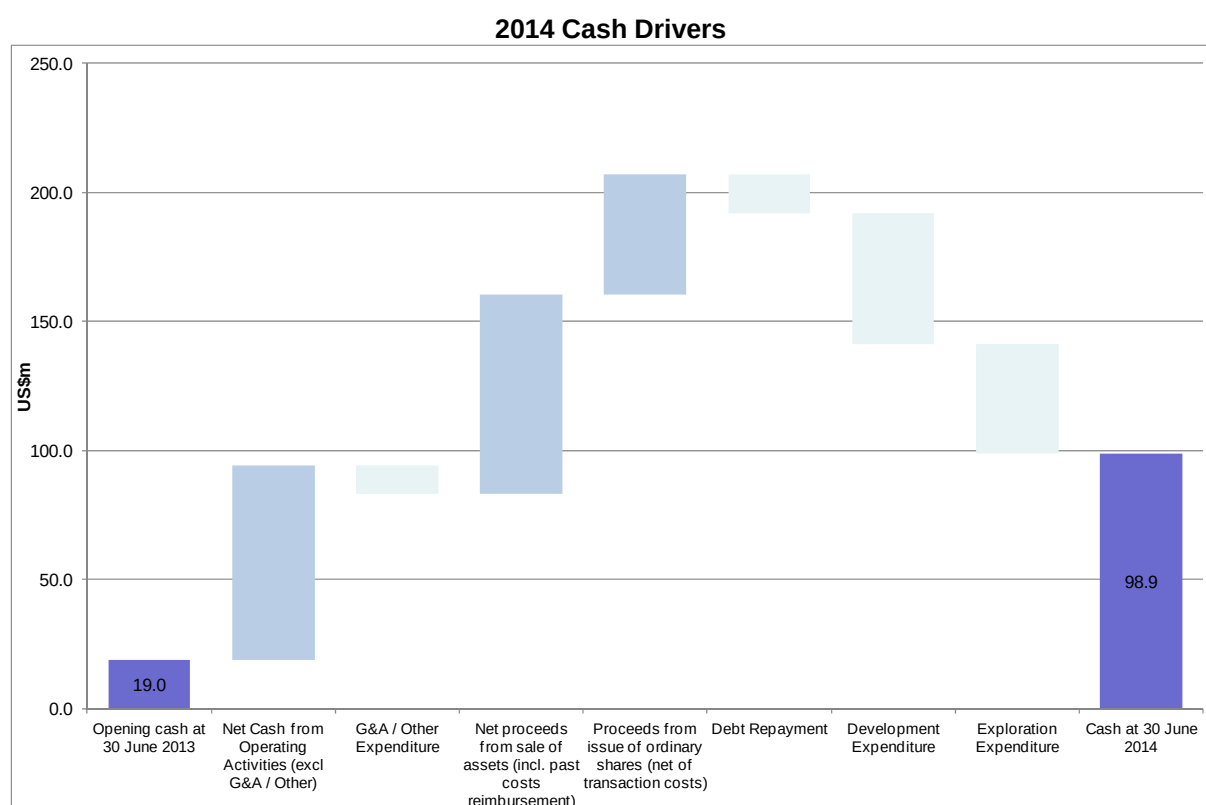
Consolidated Statement of Financial Position

During the financial year, total assets increased to US\$514.9 million (2013: US\$476.2 million) and total liabilities decreased to US\$292.3 million (2013: US\$309.2 million). As a result, net assets increased to US\$222.6 million (2013: US\$167.0 million).

Total assets increased by 8.1% due predominately to the increase in cash and cash equivalents by US\$79.9 million to US\$98.9 million. This increase was largely attributable to the US\$78 million cash received in June 2014 from Osaka Gas Niugini Pty Ltd on completion of the sale of 40% of the Company's PNG assets.

At 30 June 2014, the Group's net debt position was US\$88.5 million (2013: US\$176.5 million), consisting of cash and cash equivalents assets held of US\$98.9 million (2013: US\$19.0 million) offset by borrowings of US\$187.4 million (2013: US\$195.6 million). At financial year end, borrowings consisted of the US\$80 million in convertible bonds issued during June 2011, coupled with cash draw downs of US\$119.17 million against the US\$150 million reserves based debt facility.

Consolidated Statement of Cash Flows



Net cash generated from operating activities was 320% higher for the financial year at US\$65.0 million resulting from a full year of strong production from the Beibu Gulf (2013: US\$15.5 million). Cash outflows from investing activities were offset by proceeds from the partial sale of PNG assets to Osaka Gas, combined with reimbursement of past costs (total US\$76.8 million) to give a net outflow of US\$16.1 million (2013: US\$105.0 million). Cash from operations was supplemented with cash from financing activities of US\$31.6 million (2013: US\$89.5 million) primarily from the issue of ordinary shares as part of a capital raising, offset by payments against the US\$150 million reserves based debt facility of US\$15.2 million. The funds were primarily used for development expenditure of US\$49.7 million (2013: US\$74.0 million) and exploration phase expenditure initially capitalised of US\$42.4 million (2013: US\$22.9 million).

DEBT FACILITIES

Following achievement of financial completion of the Beibu Gulf Project in Block 22/12, China, the Group renegotiated the terms of the Horizon Oil Facility Agreement (reserves based facility) during April 2014. The key amendments included a reduction in the overall facility limit from US\$160 million

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to US\$150 million with a deferral of the commencement of amortisation from 30 June 2014 until 31 December 2014 at which time the facility limit will reduce to US\$110 million. At 30 June 2014, total debt drawn under the facility was \$119.17 million. The \$20.4 million letter of credit associated with the conditionally refundable deposit paid by Osaka Gas on execution of the asset sale agreement in May 2013 was extinguished during the year on completion of the sale transaction. Floating interest in respect of the facility was at LIBOR plus a weighted average margin of 3.95%.

Under the terms of the facility, the Group's production and development assets underpin the debt component of the financing of the development of:

- Block 22/12, offshore China;
- Stanley gas-condensate development project in PDL 10 (formerly PRL 4), onshore PNG; and
- Maari/Manaia expansion activities and general corporate expenses, including exploration and appraisal activities.

The Group's other outstanding debt is the US\$80 million in convertible bonds which were issued on 17 June 2011 with a 5 year term. The bonds were issued with an initial conversion price of US\$0.52, equivalent to A\$0.49 based on exchange rates at the time of pricing, and represented a conversion premium of 29% to the Company's last closing price of A\$0.38 on 2 June 2011. The initial conversion price was subject to adjustment in certain circumstances. Where the arithmetical average of the volume weighted average prices ('Average VWAP') for the 20 consecutive dealing days immediately prior to each of 17 June 2013, 17 June 2014 and 17 June 2015 (each a 'Reset Date') converted into US dollars at the prevailing rate on each such dealing day (each an 'Average Market Price') is less than the conversion price on the Reset Date, the conversion price will be adjusted on the relevant Reset Date to the Average Market Price with respect to such Reset Date. Any adjustment as a result of such provisions is limited so that the conversion price can be no lower than 80 per cent of the initial conversion price of US\$0.520, that is US\$0.416. The Average VWAP in the relevant period to 17 June 2013 was US\$0.374. Accordingly, the conversion price of the convertible bonds was adjusted to US\$0.416 with effect from 17 June 2013. The issuance of new shares during the year under the Entitlement Offer announced during July 2013, resulted in a further adjustment to the conversion price from US\$0.416 to US\$0.409.

No bonds had been converted as at 30 June 2014. On conversion, the Group may elect to settle the bonds in cash or ordinary shares in the parent entity. The bonds carry a coupon of 5.5% per annum, payable semi-annually in arrears and carry a 7% yield to maturity on 17 June 2016 when they will be redeemed at 108.80% of their principal amount. The bonds were listed on the Singapore Securities Exchange on 20 June 2011.

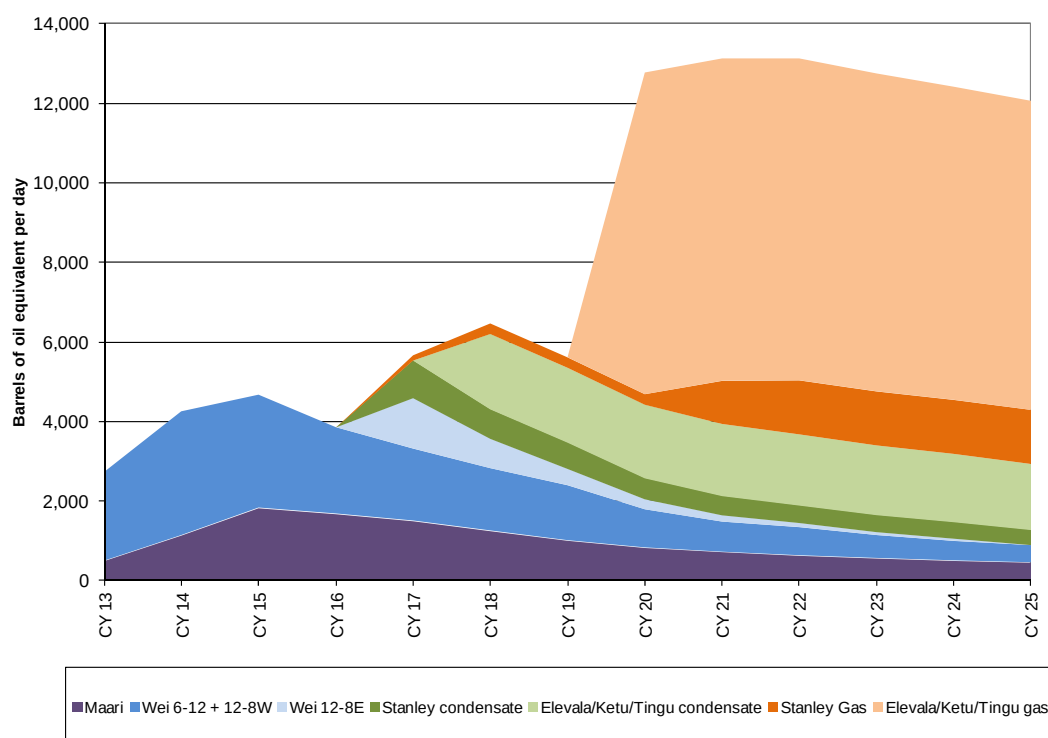
GROUP BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS

The Company's exploration, development and production activities are focused in Southeast Asia. The robust, long-lived cash flows from the Company's interests in the Maari/Manaia fields, offshore New Zealand and Block 22/12, offshore China, will be applied to fund the Company's future capital program. That program is directed to bring into production the Company's substantial inventory of discovered reserves and contingent resources (~95 million barrels of oil equivalent, post the Osaka Gas transaction) in fields in New Zealand, China and Papua New Guinea.

The Company has a conservative and highly selective exploration policy with specific focus on plays providing material scale and upside. The identified prospective resources in the Company's inventory (~82 million barrels of oil equivalent), together with the reserves and contingent resources provide shareholders with exposure to commodity price upside, especially oil price and production growth.

The following chart shows the Group's forecast net production from reserves and contingent resources estimated in accordance with SPE-PRMS standard. The timing of new field production uses operator estimates. The additional production from the China operations during the current financial year, coupled with the Osaka Gas strategic alliance in PNG, provides the catalysts for this growth.

**Forecast Net Production from Reserves + Contingent Resources
as at 30 June 2014**



The achievement of these strategic objectives may be affected by macro-economic and other risks including, but not limited to, China's slowing growth, volatile commodity prices, exchange rates, access to financing and political risks. The speculative nature of petroleum exploration and development will also impact the Company's ability to achieve these objectives; key risks of which include production and development risk, exploration and drilling risks, joint operation's risk, and geological risk surrounding resources and reserves.

The Group has various risk management policies and procedures in place to enable the identification, assessment and mitigation of risks that may arise. Whilst the Group can mitigate some of the risks described above, many are beyond the control of the Group. For further information in relation to the Company's risk management framework, refer to the Corporate Governance Statement.

Funding for the Group's strategic growth plans is to be sourced from a variety of sources. Surplus revenues from the Group's operations in China and New Zealand, combined with debt drawn from the Group's reserves based debt facility of up to US\$150 million provide core funding. In addition, the Group advised on 23 May 2013 that it had entered into an agreement to sell 40% of its Papua New Guinea assets to Osaka Gas Co. Ltd. of Japan for US\$204 million. The first milestone payment of US\$74 million together with completion adjustments (net \$4 million) were received on 12 June and 24 July 2014, following completion of the transaction. A further US\$130 million in cash plus potential production payments where threshold condensate production is exceeded, will be payable on a project development decision which gives rise to Osaka Gas achieving equity LNG from its acquired gas volumes. Existing cash balances together with available debt capacity of existing and potential future debt facilities, and surplus revenue from the Group's operations in New Zealand and China are expected to be sufficient to pursue the current strategy. Should the full amount of the forecast internally generated cash flow and capital required to pursue the strategy not be raised and the Group adopt a modified strategy, the directors expect that the Group will be able to secure the necessary financing through one, or a combination of, additional borrowings, equity raising or asset sales, or deferring discretionary exploration and development activities.

OUTLOOK

It is expected that the 2015 financial year and beyond will be characterised by a further increase in production and revenue growth driven in the near term by incremental production from the Group's New Zealand operations and underpinned by the Group's China operations. Accordingly, operating cashflows for the Group are expected to significantly increase in 2015, barring unforeseen events. Oil

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production from the Group's New Zealand operations is expected to ramp up during the year to the operator's forecast levels of 20,000 bopd gross, more than double current production levels, whilst production from the Group's China operations is expected to decrease due to natural reservoir decline. Despite the decline in China production, revenue from China is expected to be maintained as the Group's share of production will increase through cost recovery.

The Group's short-term focus is on:

- improved production performance from Maari/Manaia fields through the Maari Growth Program;
- optimising production from the Group's China operations following ramp up to peak oil production;
- progressing the Beibu Gulf fields Phase II development plan;
- progress sales of Stanley gas to regional PNG consumers and larger scale gas commercialisation/export plans;
- execution of the PDL 10 Stanley development plan in PNG;
- progressing the Elevala/Ketu development planning in PNG; and
- furthering the Group's exploration program with successful drilling of the Nama exploration well in PPL 259, PNG.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Group during the financial year were as follows:

Sale of Partial Interest in PNG Assets to Osaka Gas

On 23 May 2013, the Group entered into an asset sale agreement (the 'Agreement') to sell 40% of its Papua New Guinea assets to Osaka Gas Niugini Pty Ltd ('Osaka Gas') a subsidiary of Osaka Gas Co. Ltd. of Japan with effect from 1 January 2013. Key aspects of the transaction were:

- Sale price of US\$204 million, including US\$74 million in cash on completion, a further US\$130 million in cash upon a project development decision which gives rise to Osaka Gas achieving equity LNG from its acquired gas volumes, plus potential production payments where threshold condensate production is exceeded. It should be noted that a refundable deposit of 10% of the total sale price (US\$20.4 million) was received following execution of the Agreement, secured by a US\$20.4 million letter of credit issued by Horizon Oil Limited;
- the Group and Osaka Gas to form a strategic alliance to commercialise the Group's net certified reserves and contingent resources of 135 mmboe and develop extensive acreage in Western Province, Papua New Guinea; and
- the Group to transfer 40% of its interests in PDL 10, formerly PRL 4 (Stanley field), PRL 21 (Elevala and Ketu fields) and PPL 259. Osaka Gas was also granted the option to acquire 40% of the Group's interests in PPLs 372, 373 and 430 by paying a proportionate share of costs incurred.

The sale marked the beginning of a 60/40 strategic alliance between the Group and Osaka Gas. The principal objective of the partnership is to commercialise the certified reserves and contingent resources via early condensate production, local gas sales and to market their respective shares of petroleum products, especially LNG, on a combined basis.

Completion of the Agreement was conditional upon customary consents, regulatory approvals and grant of the development licence for the Stanley field. Completion of the Agreement occurred on 12 June 2014 following receipt of all necessary consents, regulatory approvals and grant of the development licence for the Stanley field. Remaining cash due on completion of US\$78 million was received from Osaka Gas on 12 June 2014 and 24 July 2014.

The US\$20.4 million letter of credit was extinguished on completion of the Agreement on 12 June 2014.

The profit on sale recorded at completion was US\$23.8 million.

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Capital Raising

On 31 July 2013, Horizon Oil Limited announced a fully underwritten 1 for 7 accelerated non-renounceable entitlement offer that raised approximately A\$53.5 million. The institutional component of the entitlement offer was strongly supported by existing institutional shareholders with an approximate 90% take-up rate, complemented by a strong take-up by retail shareholders.

The ordinary shares issued under the entitlement offer were priced at A\$0.33 per ordinary share representing a 9.6% discount to the theoretical ex-rights price and a 10.8% discount to the closing price of Horizon Oil Limited's ordinary shares on the ASX immediately prior to the announcement of the entitlement offer.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Scheme of Arrangement

On 29 April 2014, Horizon Oil Limited and Roc Oil Company Limited ('Roc') announced that they had entered into a merger implementation deed ('MID') under which they agreed to merge via a Horizon Oil Limited scheme of arrangement ('Scheme'). Under the proposed Scheme, Horizon Oil Limited shareholders were to receive 0.724 new Roc shares for each Horizon Oil Limited fully paid ordinary share they held. The Scheme was subject to a number of conditions precedent.

On 3 July 2014, the Federal Court of Australia ordered a meeting of Horizon Oil Limited shareholders to consider the Scheme and approved the Scheme Booklet for despatch to Horizon Oil Limited shareholders.

On 4 August 2014, Roc announced that it had entered into a bid implementation agreement in respect of a superior proposal made by Fosun International Limited ('Fosun') under which it was proposed that Fosun (or one of its subsidiaries) would acquire all of the issued shares in the capital of Roc for A\$0.69 cash per share by way of an off-market takeover ('Fosun Offer'). The Roc board unanimously recommended the Fosun Offer to Roc shareholders.

The Roc board's recommendation of the Fosun Offer constituted a 'Roc Oil Prescribed Event' under the MID between Horizon Oil Limited and Roc resulting in the non-satisfaction of one of the conditions precedent to the Horizon Oil-Roc merger.

On 5 August 2014, Horizon Oil Limited gave notice to Roc terminating the MID in accordance with its terms. Horizon Oil Limited also applied for, and received, orders from the Federal Court of Australia cancelling the Scheme Meeting of Horizon Oil Limited shareholders scheduled for 7 August 2014 and vacating the proceedings for the second Court hearing which was scheduled for 14 August 2014.

Convertible Bonds

In connection with the proposed merger with Roc by means of a Scheme, on 2 July 2014 the Company detailed the key terms of a conditional offer to Horizon Oil Limited's convertible bondholders ('Bondholders').

On 21 July 2014, Horizon Oil Limited invited the Bondholders to tender any and all such convertible bonds for purchase by Horizon Oil Limited for cash and to approve certain modifications to the terms and conditions of the bonds, on the terms set out in a Tender and Consent Memorandum dated 21 July 2014.

On termination of the MID with Roc on 5 August 2014, the Company terminated the convertible bond tender offer.

Other than the matters noted above and disclosed in the review of operations, there has not been any matter or circumstance which has arisen since 30 June 2014 that has significantly affected, or may significantly affect:

1. the Group's operations in future financial years; or
2. the results of those operations in future financial years; or
3. the Group's state of affairs in future financial years.

ENVIRONMENTAL REGULATION

The Group is subject to significant environmental regulation in respect of exploration, development and production activities in all countries in which it operates – New Zealand, China and Papua New Guinea. Horizon Oil Limited is committed to undertaking all of its exploration, development and production activities in an environmentally responsible manner.

The directors believe the Group has adequate systems in place for managing its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

REPORTING CURRENCY

The Company's and Group's functional and reporting currency is United States dollars. All references in this annual financial report to "\$" or "dollars" are references to United States dollars, unless otherwise stated.

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INFORMATION ON DIRECTORS

The following persons held office as directors of Horizon Oil Limited at the date of this report:

Non-executive independent director and Chairman:	E F Ainsworth AM, B.Comm, FAICD
Experience and current directorships:	Director for 13 years. Former Managing Director of Sagasco Holdings Limited and Delhi Petroleum Pty Limited. Chairman of Tarac Australia Limited; Non-executive director of Envestra Limited.
Former directorships during last 3 years:	None.
Special responsibilities:	Chairman of Board; Chairman of Remuneration, Nomination and Disclosure Committees; member of Audit and Risk Management Committees.
Executive Director and Chief Executive Officer:	B D Emmett B.Sc (Hons)
Experience and current directorships:	Director for 14 years. 38 years experience in petroleum exploration, E&P management and investment banking.
Former directorships during last 3 years:	None.
Special responsibilities:	Chief Executive Officer; member of Risk Management and Disclosure Committees.
Non-executive independent Director:	Professor J S Humphrey LL.B., SF Fin
Experience and current directorships:	Director for 24 years. Executive Dean of the Faculty of Law at Queensland University of Technology. Director of Downer EDI Limited and Wide Bay Australia Ltd, and a former member of the Australian Takeovers Panel.
Former directorships during last 3 years:	None.
Special responsibilities:	Chairman of Audit Committee; member of Risk Management Committee.
Non-executive Director:	G J de Nys B. Tech, FIEAust, FAICD, CPEng (Ret)
Experience and current directorships:	Director for 7 years. 44 years experience in civil engineering, construction, oil field contracting and natural resource investment management. Director of SOCAM Development Limited and IMC Pan Asia Alliance Group subsidiaries (a related party of Austral Asia Energy Pty Ltd a substantial shareholder of Horizon Oil Limited)
Former directorships during last 3 years:	Director of Red Sky Energy Limited.
Special responsibilities:	Member of Risk Management and Remuneration and Nomination Committees.
Non-executive independent Director:	A Stock B. Eng (Chem) (Hons), FAIE, GAICD
Experience and current directorships:	Appointed on 2 February 2011. Over 36 years of development, operations and commercial experience in energy industries in Australia and overseas. Former Director, Executive Projects and Executive General Manager for Major Development Projects for Origin Energy Limited. Non-executive director of Geodynamics Limited and Silex Systems Limited; Board Member of Alinta Holdings, Clean Energy Finance Corporation and a member of the Engineering Faculty and Energy Advisory Boards at University of Adelaide.
Former directorships during last 3 years:	None
Special responsibilities:	Chairman of Risk Management; member of Audit Committee and Remuneration and Nomination Committees.

COMPANY SECRETARY

Company Secretary and Chief Financial Officer:	M Sheridan B.Ec, LL.M., F Fin
Qualifications and experience:	Before joining Horizon Oil Limited during 2003, Mr Sheridan held senior finance and commercial roles in Australian and international oil and gas, mining and telecommunications companies.

DIRECTORS' INTERESTS IN THE COMPANY'S SECURITIES

As at the date of this Directors' Report, the directors held the following number of fully and partly paid ordinary shares and options over unissued ordinary shares in the Company:

Director	Ordinary shares			Unlisted options		
	Direct	Indirect	Total	Direct	Indirect	Total
E F Ainsworth	113,500	3,896,875	4,010,375	-	-	-
B Emmett	-	18,902,607	18,902,607	-	5,700,000	5,700,000
J Humphrey	-	5,112,034	5,112,034	-	-	-
G de Nys	-	912,858	912,858	-	-	-
A Stock	-	160,000	160,000	-	-	-

B Emmett also held 12,681,745 share appreciation rights as at the date of this Directors' Report.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors (the 'board') and of each board committee held during the financial year, and the numbers of meetings attended by each director were:

	Board	Audit Committee	Risk Management Committee	Remuneration and Nomination Committee	Disclosure Committee
<i>Number of meetings held:</i>	13 ¹	2	1	1	1
<i>Number of meetings attended by:</i>					
E F Ainsworth	13	2	1	1	1
B D Emmett	11		1		1
J S Humphrey	13	2	1	1	
G de Nys	13		1	1	
A Stock	11 ²	2	1	1	

1. Two board meetings were held for non-executive directors only.

2. The chairman acted as proxy for Mr Stock at two telephone board meetings during the financial year called at short notice which Mr Stock was unable to attend. The Company Secretary and Chairman were instructed by Mr Stock as to his voting intentions and were fully briefed of his views prior to the meetings.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate governance and accountability, the directors support the principles of good corporate governance. The Company's Corporate Governance Statement is set out on pages 27 to 35 of this annual financial report.

REMUNERATION REPORT

The Remuneration Report forms part of this Directors' Report. The information provided in the Remuneration Report has been audited by the external auditor as required by section 308(3)(c) of the *Corporations Act 2001*.

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation – options/share appreciation rights

A. Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The board ensures that executive rewards satisfy the following key criteria for good reward governance practices:

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- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation;
- transparency; and
- capital management.

The board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group. The key elements of the framework are:

Alignment to shareholders' interests:

- focuses on sustained growth in shareholder value; and
- attracts and retains high calibre executives capable of managing the Group's diverse international operations.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The framework provides a mix of fixed pay and a blend of short and long-term incentives.

Non-executive directors' fees

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed periodically by the Remuneration and Nomination Committee.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. Shareholders approved the current fee pool limit of A\$600,000 at the 2009 Annual General Meeting.

Retirement allowances for directors

There are no retirement allowances in place for directors.

Executive pay

Executive remuneration and other terms of employment are reviewed annually by the Remuneration and Nomination Committee having regard to relevant comparative information. As well as a base salary, remuneration packages include superannuation and termination entitlements and non-monetary benefits. For periods prior to April 2010, executives were eligible for long term incentives (LTI) through participation in the Company's Employee Option Scheme and Employee Performance Incentive Plan. The grant of options to executive directors under the Employee Option Scheme and Employee Performance Incentive Plan has been subject to the approval of shareholders.

Based on advice received from Guerdon Associates, an independent remuneration consultant, the board has put in place a short term incentive scheme and long term incentive arrangements for the Company's senior executives. The Company's Employee Option Scheme will continue to apply to employees other than senior executives.

Remuneration and other terms of employment for executives are formalised in service agreements. The quantum and composition of the executive remuneration is based on advice received in prior financial years from Guerdon Associates.

Short term incentives

If the Group and individuals achieve pre-determined objectives set in consultation with the board, a short-term incentive (STI) is available to senior executives during the annual review. Using pre-determined objectives ensures variable reward is only available when value has been created for shareholders.

The following table outlines the major features of the plan.

Objective	To drive performance of annual business plans and objectives, at operational and group level, to achieve increased shareholder value.
Frequency and timing	Participation is annual with performance measured over the twelve months to 30 June. Entitlements under the plan are determined and paid (in cash) in the first quarter of the new financial year.
Key Performance Indicators (KPIs)	KPIs are determined each financial year in consultation with the board. The performance of each senior executive against these KPIs is reviewed annually in consultation with the board. A KPI matrix, directly linked to factors critical to the success of the Group's business plan for the financial year, is developed for each executive incorporating health, safety and environment, financial, operational and other KPIs.
STI opportunity	Up to 50% of the senior executive's fixed remuneration package (base salary plus superannuation).
Performance requirements	The executive's STI payment is calculated with reference to achievement of KPI targets based on a weighted scorecard approach. Key objectives during the current year included: • grant of the Stanley Petroleum Development Licence; • completion of the Osaka Gas Asset Sale Agreement; and • successful operations on Tingu well in PRL 21.

The following table shows the STI awards that were achieved during the financial year ended 30 June 2014:

Senior executives	STI in respect of 2014 financial year	
	Percentage of maximum STI payment paid	Percentage of maximum STI payment forfeited
B Emmett	80%	20%
A Fernie	80%	20%
M Sheridan	86%	14%

Long term incentives

Until April 2010, long-term incentives were provided to certain employees via the Company's share option plans. The revised LTI arrangements approved at the 2010 Annual General Meeting apply to senior executives and involve the grant of rights which will vest subject (amongst other things) to the level of total shareholder return (TSR) achieved in the vesting period, relative to an appropriate index.

Under the LTI Plan, the board has the discretion, subject to the ASX Listing Rule requirements, to grant share appreciation rights ('SARs') to executives as long term incentives. The board has determined that 50% of senior executive's fixed remuneration would be long term incentives in the form of SARs, with the number of SARs granted based on the value of a SAR.

A SAR is a right to receive either or both a cash payment or shares in the Company, as determined by the board, subject to the Company satisfying certain conditions, including performance conditions.

The LTI Plan provides that the amount of the cash payment or the number of shares in the Company that the participant receives on exercise of the SAR is based on the value of the SAR at the time it is exercised ('SAR Value'). The SAR Value is the excess, if any, of the volume weighted average price ('VWAP') of shares in the Company for the ten business day period up to the date before the date the SAR is exercised over the VWAP of shares in the Company for the ten business day period up to the day before the "Effective Allocation Date" for the SARs. The Effective Allocation Date for the SARs is the grant date of the SARs or any other day determined by the board, at the time of the grant. The Effective Allocation Date would generally be the date the executive's entitlement was determined.

If the board determines that the SARs are to be satisfied in cash, the amount of cash that the participant receives on the exercise of the SARs is the SAR Value multiplied by the number of SARs exercised (less any deduction for taxes that the Company is required to make from the payment). If the board determines that the SARs are to be satisfied in shares, the number of shares that the participant receives on the exercise of the SARs is the SAR Value divided by the volume weighted average price of shares in the Company for the ten business day period up to the day before the day the SARs are exercised. Where the number of shares calculated is not a whole number, it will be rounded down to the nearest whole number.

The following table outlines the major features of the plan.

Key terms & conditions	Long Term Incentive Plan
Eligible persons:	Under the terms of the LTI Plan, the Company may grant SARs to any employee. However, it is currently intended by the Company to only grant SARs under the LTI Plan to current senior executive employees including executive directors.
Exercise price:	No price is payable by a participant in the LTI Plan on the exercise of a SAR.
Performance requirements:	Under the LTI Plan, the number of SARs that vest is generally determined by reference to whether the Company achieves certain performance conditions. The number of SARs that vest is determined by reference to the Company's total shareholder return ('TSR') over the relevant period relative to that of the S&P/ASX200 Energy Index ('Index'). The number of SARs that vest is: (a) if the Company's TSR is equal to that of the Index ('Minimum Benchmark'), 50%; (b) if the Company's TSR is 14% or more above that of the Index, 100% ('Maximum Benchmark'); and (c) if the Company's TSR is more than the Minimum Benchmark but less than the Maximum Benchmark, a percentage between 50% and 100% based on the Company's TSR performance between the Minimum Benchmark and Maximum Benchmark. The Maximum Benchmark of 14% above the Index return equates to the performance level likely to exceed the 75th percentile of market returns of companies (weighted by company size) in the Index. Furthermore, even where these performance conditions are satisfied, the SARs will not vest unless the Company achieves a TSR of at least 10% over the relevant period. The performance conditions are tested on the date that is three years after the Effective Grant Date of the SARs, and are then re-tested every six months after that until the date that is five years after the Effective Grant Date of the SARs (the final retesting date). The performance conditions are also tested where certain circumstances occur, such as a takeover bid for the Company. The Effective Grant Date for the SARs is the date the SARs are granted, or such other date as the board determines for the SARs. If the SARs have not, pursuant to these performance conditions, vested by the final retesting date that is five years after the date the SARs are granted, the SARs will lapse.
Cessation of employment:	If a holder of SARs under the LTI Plan ceases to be employed by a member of the Group, then this generally does not affect the terms and operation of the SARs. The board does, however, under the LTI Plan have discretion, to the extent permitted by law, to cause the SARs to lapse or accelerate the date on which the SARs become exercisable.
Maximum number of shares that can be issued:	Subject to various exclusions, the maximum number of shares that may be issued on the exercise of SARs granted under the LTI Plan is capped at 5% of the total number of issued shares of the Company.

Restrictions on exercise:	A SAR cannot be exercised unless it has vested. Where a SAR vests, a participant may not exercise the SAR until the first time after the time the SAR vests that the participant is able to deal with shares in the Company under the Company's securities trading policy. SARs are exercised by submitting a notice of exercise to the Company.
Lapse:	SARs will lapse where: - the SARs have not vested by the final retesting date which is five years after the date of grant (see above); - if the SARs have vested by the final retesting date that is five years after the date of grant, the SARs have not been exercised within three months of the date that the SARs would have first been able to be exercised if they vested at the final retesting date that is five years after the date of grant; This may be more than five years and three months from the date of grant depending on whether the holder of the SAR is able to deal with shares in the Company under the Company's securities trading policy at the date five years after the date of grant; - the employee ceases to be employed by a member of the Group, and the board determines that some or all of the SARs lapse (see above); - the board determines that the employee has committed or it is evident that the employee intends to commit, any act (whether by commission or omission) which amounts or would amount to fraud or serious misconduct; or - the employee provides a notice to the Company that they wish the SARs to lapse.
Share ranking and quotation:	Shares provided pursuant to the exercise of a SAR will rank equally with the shares in the Company then on issue. Quotation on the ASX will be sought for all shares issued upon the exercise of SARs. SARs are not assignable or transferable.
No right to dividends, bonus or rights issues:	The SARs will not confer on the holder an entitlement to dividends or to participate in bonus issues or rights issues unless the board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.
No voting rights:	The SARs will not confer an entitlement to vote at general meetings of the Company unless the board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.
Non-quotation:	The Company will not apply to the ASX for official quotation of the SARs.
Capital re-organisation:	In the event of a reorganisation of the capital of the Company, the rights of the SARs holder will be changed to the extent necessary to comply with the ASX Listing Rules and shall not result in any additional benefits being conferred on SARs holders which are not conferred on members.
Effect of take-over or change of control of Company, death or disablement:	The LTI Plan contains provisions to deal with SARs where there is a take-over or change of control of the Company. Depending on the nature of the take-over or change of control event, the Company will either have the discretion or be required (if a change of control) to determine a special retesting date for the performance requirements discussed above. For example, the board will have discretion to determine a special retesting date where a takeover bid is made for the Company or a scheme of arrangement is entered into. In that case, the special retesting date will be the date determined by the board. Where a statement is lodged with the ASX that a person has become entitled to acquire more than 50% of the Company, the board will be required to determine a special retesting date, and the special retesting date will be the day the statement is lodged with the ASX. The SARs may vest if the performance requirements discussed above are satisfied in relation to that special retesting date.

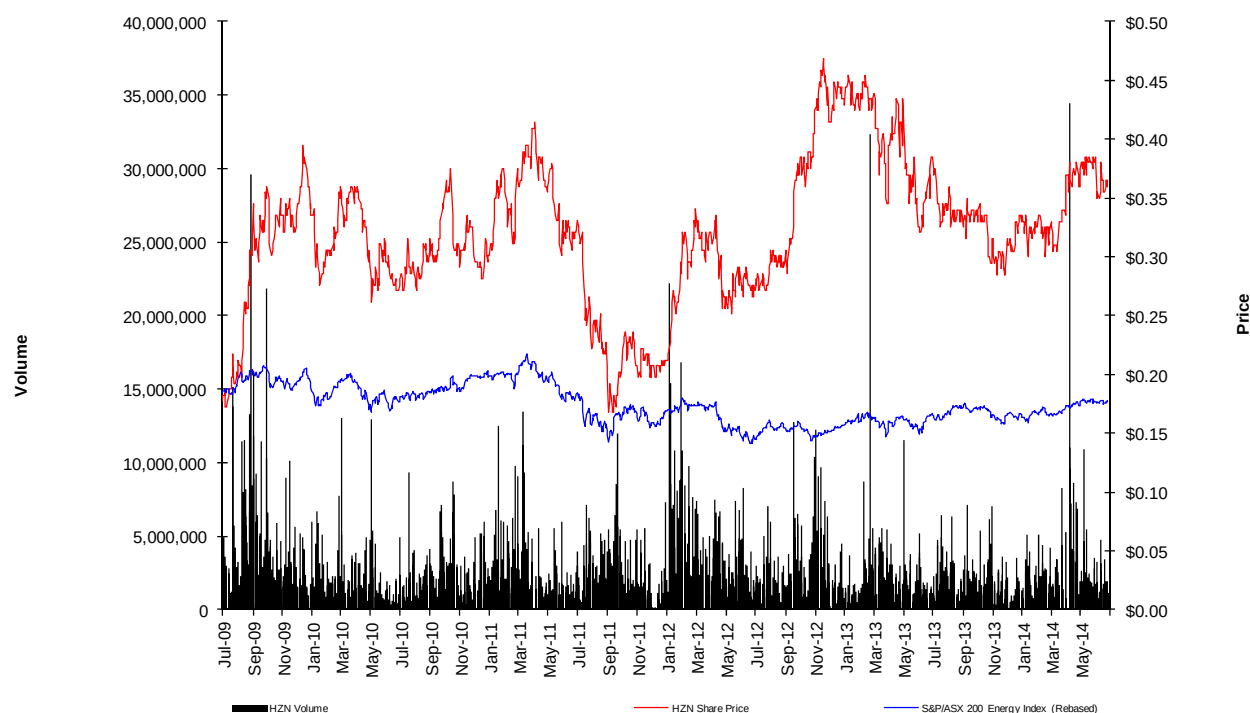
Performance of Horizon Oil Limited

The annual performance objectives and share price hurdle are the means by which management links company performance and remuneration policy. Having regard to the current stage of the Company's

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evolution, linkage of remuneration policy to share price performance rather than earnings is seen as the most sensible method of incentivising employees. Any increase in the share price of the Company has a positive effect on shareholder wealth. The share price performance of the Company for the current and previous four financial years are displayed in the chart below:

Horizon Oil Limited share price ('HZN') versus S&P/ASX200 Energy Index



The table below shows Horizon Oil Limited's profit before tax for the current and previous four financial years. As mentioned above, given the current stage of the Company's evolution, linkage of remuneration policy to earnings is a less relevant measure of incentivising employees at this stage.

Financial year ended 30 June:	2010	2011	2012	2013	2014
Profit before tax (US\$'000)	56,693	48,480	23,689	10,025	30,027

Use of remuneration consultants

No remuneration consultants were employed during the financial year.

B. Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors and other key management personnel (as defined by AASB 124 'Related Party Disclosures') of the Company and the Group are set out in the following tables.

The key management personnel of the Company and the Group includes the directors of Horizon Oil Limited as per page 10, and the following executive officers, who are also the highest paid executives of the Company and Group:

M Sheridan	Chief Financial Officer, Company Secretary, Horizon Oil Limited
A Fernie	Manager Exploration and Development, Horizon Oil Limited

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Financial year ended 30 June 2014	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees US\$	Cash bonus US\$	Non-Monetary ¹ US\$	Super-annuation ² US\$	Long service leave accrual US\$	Options/SARs ³ US\$	Total ⁴ US\$
Directors:							
E F Ainsworth Chairman, Non-executive Director	150,189	-	-	13,892	-	-	164,081
B D Emmett Chief Executive Officer, Executive Director	766,982	324,000	114,899	22,967	21,383	418,675	1,668,906
J Humphrey Non-executive Director	75,095	-	-	6,946	-	-	82,041
G de Nys Non-executive Director	75,095	-	-	6,946	-	-	82,041
A Stock Non-executive Director	75,095	-	-	6,946	-	-	82,041
Total Directors' remuneration	1,142,456	324,000	114,899	57,697	21,383	418,675	2,079,110
<i>Total Directors' remuneration (AUD)⁴</i>	<i>1,243,580</i>	<i>343,949</i>	<i>125,069</i>	<i>62,806</i>	<i>22,699</i>	<i>455,735</i>	<i>2,253,838</i>
Other key management personnel:							
M Sheridan Chief Financial Officer, Company Secretary	556,329	255,420	25,164	22,967	14,855	307,029	1,181,764
A Fernie Manager - Exploration and Development	547,142	237,600	92,590	32,154	12,867	307,029	1,229,382
Total other key management personnel remuneration	1,103,471	493,020	117,754	55,121	27,722	614,058	2,411,146
<i>Total other key management personnel remuneration (AUD)⁴</i>	<i>1,201,146</i>	<i>523,376</i>	<i>128,177</i>	<i>60,000</i>	<i>29,428</i>	<i>668,411</i>	<i>2,610,538</i>
1. Non-monetary benefits include the value of car parking, insurances and other expenses inclusive of Fringe Benefits Tax (FBT). 2. Superannuation includes both compulsory superannuation payments and salary sacrifice payments made on election by directors and KMPs. 3. Reflects the theoretical value (calculated as at grant date and converted to US dollars at the foreign exchange rate prevailing at the date of grant) of previously unvested options/SARs which vested during the financial year. 4. Remuneration is paid in Australian dollars and converted to US dollars at the foreign exchange rate prevailing on the date of the transaction.							
Financial year ended 30 June 2013	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees US\$	Cash bonus US\$	Non-Monetary ¹ US\$	Super-annuation ² US\$	Long service leave accrual US\$	Options/SARs ³ US\$	Total ⁴ US\$
Directors:							
E F Ainsworth Chairman, Non-executive Director	168,295	-	-	15,147	-	-	183,442
B D Emmett Chief Executive Officer, Executive Director	823,512	329,749	101,528	25,677	24,714	389,952	1,695,132
J Humphrey Non-executive Director	-	-	-	91,721	-	-	91,721
G de Nys Non-executive Director	84,148	-	-	7,573	-	1,503	93,224
A Stock Non-executive Director	84,148	-	-	7,573	-	-	91,721
Total Directors' remuneration	1,160,103	329,749	101,528	147,691	24,714	391,455	2,155,240
<i>Total Directors' remuneration (AUD)⁴</i>	<i>1,129,517</i>	<i>355,524</i>	<i>98,851</i>	<i>143,797</i>	<i>26,646</i>	<i>381,134</i>	<i>2,135,469</i>

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Other key management personnel:

M Sheridan Chief Financial Officer, Company Secretary	597,062	239,004	17,393	25,677	11,624	276,440	1,167,200
A Fernie Manager - Exploration and Development	597,062	239,004	93,086	25,677	11,540	276,440	1,242,809

Total other key management personnel remuneration	1,194,124	478,008	110,479	51,354	23,164	552,880	2,410,009
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<i>Total other key management personnel remuneration (AUD)⁴</i>	<i>1,162,640</i>	<i>515,372</i>	<i>107,566</i>	<i>50,000</i>	<i>24,975</i>	<i>538,303</i>	<i>2,398,856</i>
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1. Non-monetary benefits include the value of car parking, insurances and other expenses inclusive of Fringe Benefits Tax (FBT).
2. Superannuation includes both compulsory superannuation payments and salary sacrifice payments made on election by directors and KMPs.
3. Reflects the theoretical value (calculated as at grant date and converted to US dollars at the foreign exchange rate prevailing at the date of grant) of previously unvested options/SARs which vested during the prior financial year.
4. Remuneration is paid in Australian dollars and converted to US dollars at the foreign exchange rate prevailing on the date of the transaction.

	Fixed remuneration		At Risk – STI		At Risk – LTI	
Name	2014	2013	2014	2013	2014	2013
Executive Directors:						
B D Emmett Chief Executive Officer, Executive Director	55%	58%	20%	19%	25%	23%
Other key management personnel:						
M Sheridan Chief Financial Officer, Company Secretary	52%	56%	22%	20%	26%	24%
A Fernie Manager - Exploration and Development	56%	59%	19%	19%	25%	22%

C. Service agreements

Remuneration and other terms of employment for the Chief Executive Officer and other key management personnel are formalised in service agreements. Each of these agreements includes the provision of other benefits such as health insurance, car parking and participation, where eligible, in the Horizon Oil Short Term Incentive and Long Term Incentive plans. Other major provisions of the existing agreements relating to remuneration are set out below:

B D Emmett, Chief Executive Officer

- Term of agreement – 5 years commencing 5 August 2010.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months remuneration.
- Salary levels are subject to annual review.

M Sheridan, Chief Financial Officer, Company Secretary

- Term of agreement – 5 years commencing 5 August 2010.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months remuneration.
- Salary levels are subject to annual review.

A Fernie, Manager - Exploration and Development

- Term of agreement – 5 years commencing 5 August 2010.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months remuneration.
- Salary levels are subject to annual review.

D. Share-based compensation – options/share appreciation rights

Options and share appreciation rights ('SARs') have been granted to eligible employees under the Horizon Oil Limited Employee Option Scheme, the Employee Performance Incentive Plan and the Long Term Incentive Plan. The issue of securities under the Employee Option Scheme, the Employee

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Performance Incentive Plan and the Long Term Incentive Plan were approved by shareholders for the purposes of the ASX Listing Rules at the 2008, 2010, 2011 and 2012 Annual General Meetings.

Options/SARs are granted to executive directors in accordance with the terms of the relevant option scheme or plan and are approved on a case by case basis by shareholders at relevant general meetings.

The terms and conditions of each grant of options/SARs affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option/SAR at grant date	Date exercisable
25/09/2009	25/09/2014	A\$0.289 ²	A\$0.1307	33.4% after 25/09/2010, 33.3% after 25/09/2011, 33.3% after 25/09/2012
9/10/2009	9/10/2014	A\$0.309 ²	A\$0.1344	33.4% after 9/10/2010, 33.3% after 09/10/2011, 33.3% after 09/10/2012
1/10/2010	1/10/2015	A\$0.3046 ^{1,2}	A\$0.1382	100% after 1/10/2013
5/8/2011	5/8/2016	A\$0.3129 ^{1,2}	A\$0.1514	100% after 5/8/2014
13/8/2012	13/8/2017	A\$0.2710 ^{1,2}	A\$0.1025	100% after 13/8/2015
19/8/2013	19/08/2018	A\$0.3326	A\$0.1193	100% after 19/8/2016

¹ No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.

² The exercise price of the options and SARS outstanding at 31 July 2013 were reduced by A\$0.006 following the rights issue during the year.

No new options were granted as remuneration to directors or key management personnel during the financial year. In place of options, SARs were granted to the executive director and key management personnel under the new Long Term Incentive Plan. Details of SARs provided as remuneration to the executive director and each of the key management personnel are set out below:

Name	Number of SARs granted during the financial year	Value of SARs at grant date* US \$	Number of SARs vested during the financial year	Number of SARs lapsed during the financial year	Value at lapse date** US \$
Directors:					
B D Emmett	3,465,243	380,989	-	-	-
Other key management personnel:					
M Sheridan	2,541,178	279,392	-	-	-
A Fernie	2,541,178	279,392	-	-	-

* The value at grant date calculated in accordance with AASB 2 'Share-based Payment' of SARs granted during the financial year as part of remuneration.

** The value at lapse date of SARs that were granted as part of remuneration and that lapsed during the financial year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

The amounts disclosed for the remuneration of directors and other key management personnel include the assessed fair values of options/SARs granted during the financial year, at the date they were granted. Fair values have been assessed by an independent expert using a Monte Carlo simulation. Factors taken into account by this model include the exercise price, the term of the option/SAR, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option/SAR (refer below). The value attributable to options/SARs is allocated to particular periods in accordance with AASB 2 'Share-based Payment' and also with the guidelines issued by the Australian Securities and Investments Commission ('ASIC') which require the value of an option/SAR at grant date to be allocated equally over the period from the grant date to the vesting date, unless it is probable that the individual will cease service at an earlier date, in which case the value is to be spread over the period from grant date to that earlier date. For options/SARs that vest immediately at grant date, the value is disclosed as remuneration immediately.

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The model inputs for each grant of options/SARs during the financial year ended 30 June 2014 included:

Grant date	19 August 2013
Expiry date	19 August 2018
Exercise price	N/A ¹
10 Day VWAP of Horizon Shares at grant date	A\$0.3326
Expected price volatility	34.60% p.a.
Risk free rate	3.29% p.a.
Expected dividend yield	0.00% p.a.

¹ No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.

Shares issued on the exercise of options/share appreciation rights provided as remuneration

No share appreciation rights were exercised during the financial year.

Details of ordinary shares in the Company provided as a result of the exercise of remuneration options to each director of Horizon Oil Limited and other key management personnel of the Group during the financial year are set out below:

Name	Date of exercise of options	Number of ordinary shares issued on exercise of options during the financial year	Value at exercise date*
Directors			
G de Nys	05/05/2014	500,000	33,441
Other key management personnel:			
A Fernie	03/10/2013	1,500,000	107,388

* The value at the exercise date of options that were granted as part of remuneration and were exercised during the financial year has been determined as the intrinsic value of the options at that date.

The amounts paid per ordinary share by each director and other key management personnel on the exercise of options during the financial year at the date of exercise were as follows:

Exercise Date	Options exercised	Amount paid per share	Amount remaining to be paid
05/05/2014	500,000	A\$0.289	-
03/10/2013	1,500,000	A\$0.264	-

Upon exercise, only A\$0.01 cent of the exercise price of the option is payable, with the balance being due prior to the expiration of the option period which is 5 years from the date of the issue of the options. Further information on options is set out in note 33.

Details of remuneration – options/SARs

For each grant of options/SARs in the current or prior financial years which results in an amount being disclosed in the remuneration report as a share-based payment to directors and other key management personnel for the financial year, the percentage of the grant that vested in the financial year and the percentage that was forfeited because the person did not meet the service and/or performance criteria is set out below. The options vest over a three year period provided the vesting conditions are met. The SARs vest after three years have elapsed provided the vesting conditions are met. No options/SARs will vest if the conditions are not satisfied, therefore the minimum value of the options/SARs yet to vest is US\$Nil. The maximum value of the options/SARs yet to vest has been determined as the amount of the grant date fair value of the options/SARs that is yet to be expensed.

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Options/SARs					
Name	Financial year granted	Vested %	Forfeited %	Financial years in which options/SARs may vest	Maximum total value of grant yet to vest ¹ US\$
B Emmett	2010	100	-	-	-
	2011	-	-	30/06/2014	-
	2012	-	-	30/06/2015	389
	2013	-	-	30/06/2016	145,513
	2014	-	-	30/06/2017	271,490
M Sheridan	2011	-	-	30/06/2014	-
	2012	-	-	30/06/2015	285
	2013	-	-	30/06/2016	106,710
	2014	-	-	30/06/2017	199,092
A Fernie	2010	100	-	-	-
	2011	-	-	30/06/2014	-
	2012	-	-	30/06/2015	285
	2013	-	-	30/06/2016	106,710
	2014	-	-	30/06/2017	199,092

1. The above values have been converted to dollars at the exchange rate prevailing on the date of the grant of the options/SARs.

EQUITY INTERESTS HELD BY KEY MANAGEMENT PERSONNEL

Key management personnel shareholdings in the Company

The numbers of shares in the Company held during the financial year by each director of Horizon Oil Limited and other key management personnel of the Group, including their personally-related entities, are set out below:

2014 Name	Balance at start of financial year	Received during financial year on the exercise of options	Other changes during financial year	Balance at end of financial year
Directors:				
Ordinary shares				
E F Ainsworth	4,010,375	-	-	4,010,375
B D Emmett	16,752,607	-	2,150,000	18,902,607
J Humphrey	5,112,034	-	-	5,112,034
G de Nys	361,250	500,000	51,608	912,858
A Stock	140,000	-	20,000	160,000
Other key management personnel of the Group:				
Ordinary shares and partly paid ordinary shares				
A Fernie	1,050,000	1,500,000	150,000	2,700,000
M Sheridan	9,468,201	-	-	9,468,201

Key management personnel option holdings in the Company

The numbers of options (both listed and unlisted) in the Company held during the financial year by each director of Horizon Oil Limited and other key management personnel of the Group, including their personally-related entities, are set out below:

Listed options:

All unexercised listed options expired on 28 February 2008 and therefore no listed options were on issue during the current or prior financial year.

Unlisted options:

2014 Name	Balance at start of financial year	Granted as remuneration during financial year	Exercised during financial year	Other changes during financial year	Balance at end of financial year	Vested and exercisable at end of financial year	Unvested
Directors:							
Unlisted options							
B D Emmett	5,700,000	-	-	-	5,700,000	5,700,000	-
G de Nys	500,000	-	(500,000)	-	-	-	-
Other key management personnel of the Group:							
Unlisted options							
A Fernie	3,000,000	-	(1,500,000)	-	1,500,000	1,500,000	-

All vested options are exercisable at the end of the financial year.

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Details of options provided as remuneration and ordinary shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the Remuneration Report on pages 18 to 22.

Key management personnel share appreciation right holdings in the Company

The numbers of share appreciation rights ('SARs') held during the financial year by each executive director of Horizon Oil Limited and other key management personnel of the Group, including their personally-related entities, are set out below:

Share appreciation rights:

2014 Name	Balance at start of financial year	Granted as remuneration during financial year	Exercised during financial year	Other changes during financial year	Balance at end of financial year	Vested and exercisable at end of financial year	Unvested
Executive Directors:							
Share appreciation rights							
B D Emmett	9,216,502	3,465,243	-	-	12,681,745	-	12,681,745
Other key management personnel of the Group:							
Share appreciation rights							
A Fernie	6,758,769	2,541,178	-	-	9,299,947	-	9,299,947
M Sheridan	6,758,769	2,541,178	-	-	9,299,947	-	9,299,947

Details of SARs provided as remuneration and ordinary shares issued on the exercise of such SARs, together with terms and conditions of the SARs, can be found in section D of the Remuneration Report on pages 18 to 22.

LOANS TO DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

There were no loans to directors or other key management personnel during the financial year.

OTHER TRANSACTIONS WITH DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

There were no other transactions with Directors and other key management personnel during the financial year.

SHARES UNDER OPTION

Unissued ordinary shares of Horizon Oil Limited under option at the date of this report are as follows:

Date options granted	Number options	Issue price of ordinary shares	Expiry date
25/09/2009	5,525,000	A\$0.295 ^{1,2}	25/10/2014
09/10/2009	2,700,000	A\$0.309 ^{1,2}	09/10/2014
11/12/2009	500,000 ²	A\$0.344 ^{1,2}	11/12/2014
16/09/2010	350,000	A\$0.304 ^{1,2}	16/09/2015
10/01/2012	1,000,000 ²	A\$0.209 ^{1,2}	10/04/2015
28/05/2012	2,000,000 ²	A\$0.264 ^{1,2}	28/08/2015
28/05/2012	1,666,667	A\$0.264 ^{1,2}	28/05/2017
17/09/2012	500,000	A\$0.294 ^{1,2}	17/09/2017
20/02/2013	350,000	A\$0.434 ^{1,2}	20/02/2018
16/04/2013	350,000	A\$0.404 ^{1,2}	16/04/2018
	14,941,667		

1. Subject to restrictions on exercise.

2. General options issued.

3. The exercise price of the options outstanding at 31 July 2013 were reduced by A\$0.006 following the rights issue during the year.

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

DIVIDENDS

No dividend has been paid or declared by the Company to the shareholders since the end of the prior financial year.

INSURANCE OF OFFICERS

During the financial year, Horizon Oil Limited paid a premium to insure the directors and secretaries of the Company and related bodies corporate. The insured liabilities exclude conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage. The contract prohibits the disclosure of the premium paid.

The officers of the Company covered by the insurance policy include the directors and secretaries, and other officers who are directors or secretaries of subsidiaries who are not also directors or secretaries of Horizon Oil Limited.

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company or a related body corporate.

NON-AUDIT SERVICES

The Company may decide to employ PricewaterhouseCoopers on assignments additional to its statutory audit duties where the external auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to PricewaterhouseCoopers for audit and non-audit services provided during the financial year are set out below.

The Board of Directors has considered the position and, in accordance with the written advice received from the Audit Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for external auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the external auditor, as set out below, did not compromise the external auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the external auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Australian Professional Ethical Standards 110 *Code of Ethics for Professional Accountants*, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risk and rewards.

	Consolidated	
	2014	2013
	US\$	US\$
During the financial year, the following fees were paid or payable for services provided by the external auditor of the parent entity and its related practices:		
1. PwC Australia		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	152,876	178,507
Other assurance services		
Independent limited assurance report on the proposed merged group pro forma financial information in Scheme Booklet dated 3 July 2014	97,002	-
Other services	18,927	-
Total remuneration for audit and other assurance services	268,805	178,507
<i>Taxation services</i>		
Tax compliance	98,723	47,104
Other services	-	6,240
Total remuneration for taxation services	98,723	53,344
2. Non-PwC audit firms		
<i>Audit and other assurance services</i>	14,012	11,797
Other services	-	-
Total remuneration for audit and other assurance services	14,012	11,797
Total auditors' remuneration	381,540	243,648

EXTERNAL AUDITOR'S INDEPENDENCE DECLARATION

A copy of the external auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 26.

ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

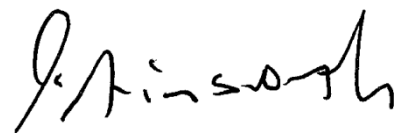
The Company is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars or, in certain cases, to the nearest dollar.

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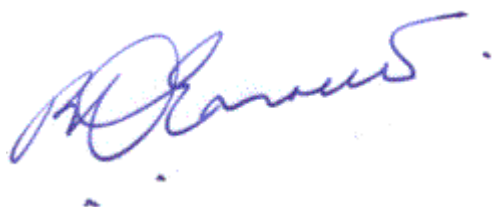
EXTERNAL AUDITOR

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'E F Ainsworth'.

E F Ainsworth AM
Chairman

A handwritten signature in blue ink, appearing to read 'B D Emmett'.

B D Emmett
Chief Executive Officer

Sydney
27 August 2014



Auditor's Independence Declaration

As lead auditor for the audit of Horizon Oil Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Horizon Oil Limited and the entities it controlled during the period.



Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
27 August 2014

CORPORATE GOVERNANCE STATEMENT

Horizon Oil Limited (the 'Company') and the board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders.

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the full financial year. They comply with the ASX Corporate Governance Council's revised *Corporate Governance Principles and Recommendations 3RD edition*, released in March 2014, except where noted herein.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The relationship between the board and senior management is critical to the Company's long-term success. The directors are responsible to the shareholders for the performance of the Company in both the short and longer term and seek to balance sometimes competing objectives in the best interests of the Company as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Company is properly managed.

The responsibilities of the board include:

- providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy;
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- overseeing and monitoring:
 - organisational performance and the achievement of the Company's strategic goals and objectives;
 - compliance with the Company's Code of Conduct;
 - progress in relation to the Company's diversity objectives and compliance with its Diversity Policy; and
 - progress of significant corporate projects including any acquisitions or divestments;
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors;
- appointment, performance assessment and, if necessary, removal of the chief executive officer ('CEO');
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the chief financial officer ('CFO') and the company secretary;
- ensuring there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the Company;
- overseeing the operation of the Company's system for compliance and risk management reporting to shareholders; and
- ensuring appropriate resources are available to senior management.

Day to day management of the Company's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the CEO and senior executives. These delegations are reviewed on an annual basis. (*Recommendation 1.1*)

Appropriate checks are undertaken before appointing or putting forward for election any director. It is the Company's policy to provide all material information relevant to a security holder's decision on whether or not to elect or re-elect a director. (*Recommendation 1.2*)

The directors and senior executives have a clear understanding of their roles and responsibilities within the Company and of the Company's expectations of them. The Company has a written agreement with each director and senior executive setting out the terms of their appointment. The key terms of these agreements are set out in the Directors' Report. (*Recommendation 1.3*)

The company secretary is regarded by the board as carrying out an important role in supporting the effectiveness of the board and its committees. The company secretary is accountable directly to the

board, through the Chair, on all matters to do with the proper functioning of the board. *(Recommendation 1.4)*

Diversity

The Company strongly values diversity and recognises the benefits it can bring to its ability to achieve its goals. Accordingly, the Company's Diversity Policy (available on the Company's website at www.horizonoil.com.au) outlines the Company's gender diversity objectives. It includes requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually the objectives and the Company's progress in achieving them.

As outlined in the Code of Conduct and Diversity Policy, merit is the basis for employment with the Company and all employees and applicants for employment are treated and evaluated according to their job-related skills, qualifications, abilities and aptitude, regardless of age, disability, ethnicity, marital or family status, religious or cultural background, sexual orientation and gender identity. Diversity is applicable to all levels of the organisation, including senior executive and board positions, and all appointment processes are to be conducted in a manner that promotes gender diversity in accordance with the Code of Conduct and Diversity Policy. *(Recommendation 1.5)*

In the past financial year, the Company continued its commitment in promoting gender and other forms of diversity by achieving the 2013/2014 measurable objectives set by the board. The Company continued to review the Diversity Policy and undertook an assessment of the female participation in the Company's Papua New Guinean operations (where the Company is appointed as Operator) and identified culturally appropriate positions in order to maximise female representation where appropriate. The Company also continued its commitment to increase the representation of women in management roles and under-represented roles by improving its recruitment process to ensure that gender diversity was considered in all processes when determining the successful applicant.

The board has established the following measureable objectives in relation to gender diversity for 2014/2015:

- raise awareness of gender and all types of diversity across the organisation;
- conduct a survey of women in the organisation to identify career needs and issues and concerns regarding diversity in the workplace; and
- identify issues or goals from the survey conducted to consider as measureable objectives for 2015.

The proportion of Australian based female employees in the organisation is 47% (nine of nineteen). The three senior executive managers of the Company are male, as are the four non-executive directors of the Company. Senior executive managers are defined as being key management personnel of the Company and the Group. The Company's senior executive managers are set out on page 16. *(Recommendation 1.5)*

Performance assessment

Every year the Chairman conducts a formal discussion with each of the directors individually to discuss their performance and ideas for improvement of the operation of the board and board committees. This process was last performed during 2014. The board reviews the consolidated views, input, comments and deficiencies arising from the formal discussions and identifies ways to improve board and board committee performance and determine the necessary implementation plans for such improvement measures. *(Recommendation 1.6)*

A performance assessment for senior executives took place in 2014. Performance was assessed having regard to a variety of key performance indicators. A formal discussion with each of the senior executives was undertaken during the financial year to evaluate and discuss their performance. *(Recommendation 1.7)*

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The board has a primary responsibility to the shareholders for the welfare of the Company by guiding and monitoring the business and affairs of the Company. The Company has formalised and defined the functions reserved for board accountability and those delegated to management in a formal Board

Charter. The board operates in accordance with the broad principles set out in the Board Charter. The Board Charter details the board's composition and responsibilities. The Board Charter was in force for the full financial year.

The Company recognises the importance of the board in providing a sound base for good corporate governance in the operations of the Company. The board must at all times act honestly, fairly and diligently in all respects in accordance with the laws applicable to the Company. Furthermore, the board will at all times act in accordance with all relevant Company policies.

Subject to the prior approval of the Chairman, directors and board committees have the right, in connection with the discharge of their duties and responsibilities, to seek independent professional advice at the Company's expense.

The Company's Constitution provides that directors, other than the CEO, shall not retain office for more than three calendar financial years or beyond the third annual general meeting following election without submitting for re-election by shareholders.

The board has established a number of board committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are: Audit, Remuneration and Nomination, and Risk Management Committees. Copies of the Board Charter and Charters for each of the board committees are posted in the Corporate Governance section of the Company's website at www.horizonoil.com.au.

Board composition

The board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective; and
- the size of the board is conducive to effective discussion and efficient decision-making.

The board is comprised of four non-executive directors, and one executive director. The role of Chairman and CEO are performed by different individuals. (*Recommendation 2.5*)

Details of the members of the board, their skills, experience, expertise, qualifications and term of office are set out in the Directors' Report. (*Recommendation 2.2 and 2.3*) The board actively seeks to ensure that the board and its committees have the right mix of skills, knowledge and experience necessary to guide and govern the Company effectively and in accordance with highest standards. The board considers that collectively the current board has the range of skills, knowledge and experience necessary to direct the Company. The directors represent a wide range of operational and international experience with an in depth understanding of the industry. The combination of skills and experience allows for contributions on operational, financial and management matters. The board considers that the educational qualifications of the Company's directors represent a good mix of science and engineering, finance and accounting and legal skills which are relevant to the Company's business. In addition, the geographic experience of the board is global, encompassing Australia, Asia Pacific and the Americas. (*Recommendation 2.2*)

Directors are encouraged to attend appropriate training and professional development courses to update and enhance their skills and knowledge. New directors are inducted into the Company in accordance with the Company's Director Induction Program. (*Recommendation 2.6*)

Directors' independence

The board has adopted specific principles in relation to directors' independence. These state that when determining independence, a director must be a non-executive and the board should consider whether the director:

- is, or has been, employed in an executive capacity by the entity or any of its child entities and there has not been a period of at least three years between ceasing such employment and serving on the board;
- is, or has within the last three years been, a partner, director or senior employee of a provider of material professional services to the entity or any of its child entities;

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- is, or has been within the last three years, in a material business relationship (eg as a supplier or customer) with the entity or any of its child entities, or an officer of, or otherwise associated with, someone with such a relationship;
- is a substantial security holder of the entity or an officer of, or otherwise associated with, a substantial security holder of the entity;
- has a material contractual relationship with the entity or its child entities other than as a director;
- has close family ties with any person who falls within any of the categories described above; or
- has been a director of the entity for such a period that his or her independence may have been compromised.

The board annually assesses the independence of each non-executive director and considers that Messrs Ainsworth, Humphrey and Stock satisfy the criteria of being independent of management and free from any business or other relationship or conflict of interest that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their independent judgement. (*Recommendation 2.3*)

In determining materiality, the board has regard, among other things, to the matters detailed in paragraph 6 of the Board Charter. The board acknowledges that Mr Humphrey has been a director for twenty four years, however, given the complete change of the Group's management and re-composition of the board thirteen years ago, the board considers that there is no objective or subjective reason to believe that Mr Humphrey's period of board service in any way would interfere with his ability to bring an independent judgement to bear on issues before the board and to act in the best interests of the Company and its shareholders. The board also acknowledges that Mr Ainsworth has been a director for thirteen years, however the board considers that there is no objective or subjective reason to believe that Mr Ainsworth's period of board service in any way would interfere with his ability to act in the best interests of the Company and its shareholders. Accordingly, the board has assessed Mr Ainsworth and Mr Humphrey to be independent directors.

The board acknowledges that Mr de Nys is a non-independent director by virtue of his association with a substantial shareholder, the IMC Group. Despite Mr de Nys being a non-independent director, the Company was in full compliance with *Recommendation 2.4* (which recommends that a majority of the board be composed of independent directors) for the full financial year.

In the event of a tied vote, the casting vote rests with the Chairman, Mr Ainsworth, who is a non-executive independent director.

The board is actively and regularly involved in risk management and strategic planning. The board has an active program of continuous improvement, including keeping up to date on best practice, fostering a compliance culture, training and recognition.

Remuneration and Nomination Committee

The board has established a Remuneration and Nomination Committee. (*Recommendations 2.1*)

The Remuneration and Nomination Committee consists of the following non-executive directors, the majority of whom are independent, including the Chair:

Independent

E F Ainsworth (Chairman of Committee)
A Stock

Non-independent

G de Nys

The main responsibilities of the Remuneration and Nomination Committee in respect of the composition of the board are to:

- assess the skills and competencies required on the board;
- from time to time assess the extent to which the required skills are represented on the board;

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- establish processes for the review of the performance of individual directors and the board as a whole;
- establish processes for the identification of suitable candidates for appointment to the board; and
- recommend the appointment and removal of directors.

Details of attendance at meetings of the committee during the financial year are detailed in the Directors' Report.

A copy of the Remuneration and Nomination Committee Charter is available in the Corporate Governance section of the Company's website at www.horizonoil.com.au.

PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

The Company has a corporate Code of Conduct ('Code') that has been fully endorsed by the board and applies to all directors and employees. The Code is updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Company's integrity. (*Recommendation 3.1*)

In summary, the Code requires that at all times all Company personnel must act with the utmost integrity, objectivity and in compliance with both the letter and spirit of the law and Company policies.

The Company's policy in relation to dealings in the Company's securities applies to directors, employees and consultants. In summary, such persons are not permitted to deal in the Company's securities during the twenty-eight day period immediately prior to the release of ASX quarterly reports, half-yearly and annual financial results to the market. Any intended transactions must be notified to the Chairman in advance.

The Code, Diversity Policy and the Company's Securities Trading Policy are discussed with each new employee as part of their induction training. The directors are satisfied that the Group and Company have complied with its policies on ethical standards, including trading in securities.

The Code, Diversity Policy and the Securities Trading Policy are available in the Corporate Governance section of the Company's website at www.horizonoil.com.au.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING

The Company recognises the importance of maintaining appropriate safeguards and independent oversight of its financial reporting and has a structure in place to achieve this. An important part of this structure is the board's Audit Committee. (*Recommendation 4.1*)

The Audit Committee consists of the following non-executive independent directors:

J S Humphrey (Chairman of Committee)
E F Ainsworth
A Stock

The qualifications of Audit Committee members and their attendance at meetings of the Committee during the financial year ended 30 June 2014 are detailed in the Directors' Report.

In the period 1 July 2013 to the date of this report, the Audit Committee was composed of three non-executive directors. The board considers that the size and composition of the Audit Committee is appropriate to enable its effective and efficient operation having regard to the size of the board and the relevant qualifications of the members of the Audit Committee.

The board requires the CEO and CFO to provide a declaration in accordance with section 295A of the *Corporations Act 2001*. The board acknowledges that, in their opinion, the financial records of the Company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company. That opinion has been formed on the basis of a sound system of risk management and internal control which is, in their view, operating effectively. (*Recommendation 4.2*)

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The Audit Committee has a formal charter that details its role and responsibilities, composition, structure and membership requirements.

A copy of the Audit Committee Charter, including information on procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners is available in the Corporate Governance section of the Company's website at www.horizonoil.com.au.

External auditor

The external auditor attended all Audit Committee meetings during the financial year, including holding discussions with the Audit Committee at each meeting without management present. The external auditor also attended the annual general meeting and was available to answer shareholder questions about the conduct of the external audit and the preparation and content of the independent auditor's report. (*Recommendation 4.3*)

The Company and Audit Committee policy is to appoint an external auditor who clearly demonstrates professional qualities and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services would be requested, if deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

The Company's policy is to rotate audit engagement partners at least every five years.

An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in note 30 to the financial statements. It is the policy of the external auditor to provide an annual declaration of its independence to the Audit Committee.

PRINCIPLES 5 AND 6: MAKE TIMELY AND BALANCED DISCLOSURE AND RESPECT THE RIGHTS OF SHAREHOLDERS

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company and its subsidiaries that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage effective participation at annual general meetings. The Continuous Disclosure Policy is available in the Corporate Governance section of the Company's website. (*Recommendation 5.1 and 6.1*)

The Disclosure Committee consists of the following directors, the Chair of which is independent:

E F Ainsworth (Chairman of Committee)
B D Emmett

The Committee's role includes responsibility for ensuring compliance with the continuous disclosure requirements of both the *Corporations Act 2001* and the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

The Chairman, CEO, Company Secretary and Assistant Company Secretary have been nominated as persons responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the Company's website as soon as it is released by the ASX. When presentations on aspects of the Group's operations are made, the material used in the presentation is released to the ASX. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market. The Company seeks to provide opportunities for shareholders to participate through electronic means. The website also includes a feedback mechanism and an option for shareholders to register their e-mail address for direct e-mail updates of Company matters. (*Recommendations 6.2 and 6.4*)

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The Company has written policies and procedures which are used to assist the Company in developing and promoting its communication with shareholders and encouraging effective participation at general meetings. The Shareholder Communications Guidelines Policy is available in the Corporate Governance section of the Company's website. *(Recommendation 6.3)*

All shareholders receive a copy of the Company's annual (full or concise) and half-yearly reports. In addition, the Company seeks to provide opportunities for shareholders to participate through electronic means. Recent initiatives to facilitate this include making all Company announcements, media briefings, details of Company meetings, press releases for the last three years and financial reports for the last five years available on the Company's website. *(Recommendation 6.4)*

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The board, through both the Risk Management and Audit Committees, is responsible for ensuring there are adequate policies and procedures in place in relation to risk management, compliance and internal control systems.

In summary, the Company's Risk Management Policy is designed to ensure strategic, operational, environmental, legal, reputational and financial risks are identified, assessed, effectively and efficiently monitored and managed to enable achievement of the Group's business objectives. *(Recommendation 7.1)*

Considerable importance is placed on maintaining a strong internal control environment. There is an organisational structure with clearly drawn lines of accountability and delegation of authority.

Adherence to the corporate Code of Conduct (refer to Principle 3) is required at all times and the board actively promotes a culture of quality and integrity.

The Company's Risk Management Policy and procedural operation of the risk management and compliance system is overseen by the Risk Management Committee which consists of all directors and is chaired by an independent non-executive director:

A Stock (Chairman of Committee)
E F Ainsworth
B D Emmett
J S Humphrey
G de Nys

The key function of the committee is to identify and prioritise risk arising from business strategies and activities and ensure that appropriate risk management controls are implemented and are effective. The committee's responsibilities also include the Company's internal control environment and ensuring that the Company has an integrated framework of internal compliance and controls based on formal procedures and appropriate delegation of authority and responsibility.

Details of attendance at meetings of the committee during the financial year are detailed in the Directors' Report.

The committee ensures that appropriate risk management controls are implemented and effected by meeting with senior executives, at least annually, to review and discuss the material business risks arising from business strategies and the adequacy of the relevant risk management controls in place. This review was conducted during 2013. The Risk Management Committee Chairman (or a delegate) reports to the board following each meeting of the Risk Management Committee. *(Recommendation 7.2)*

In accordance with the Risk Management Policy, an annual review of the policy and charter was undertaken to ensure that it reflected the current best industry practice processes. A copy of the Risk Management Policy is available in the Corporate Governance section of the Company's website at www.horizonoil.com.au. *(Recommendation 7.2)*

While the Company does not utilise a formal internal audit function, given the relative size of the organisation and the key roles of the Risk Management Committee and Audit Committee in evaluating and continually improving the effectiveness of the Company's risk management and internal control

processes, the board considers the regular systematic monitoring of control activities to be sufficient to manage current and future risks. (*Recommendation 7.3*)

The Company strongly values economic, environmental and social sustainability within the areas which it operates. In order to mitigate any material exposure to economic, environmental and social sustainability risks, the Company undertakes regular monitoring and assessment of both its operating and non-operating assets to ensure that all activities are conducted in a manner that is consistent with the Company's commitment to safe and sustainable operations. Current monitoring and assessment has not indicated any material exposures in the areas of environmental and social sustainability. The Company has written policies and procedures which are implemented to protect the well-being and integrity of all stakeholders and the social and natural environment in which the Company's operations are positioned. These policies and procedures, which include the Company's Safety & Health Policy, Environment Policy, Fitness for Work Policy and Security Policy, are discussed with each new employee as part of their induction training. Further details of the Company's sustainability performance and key initiatives are set out in the Sustainability Report on pages 36 to 41. (*Recommendation 7.4*)

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The Company has established a Remuneration and Nomination Committee.

The Remuneration and Nomination Committee consists of the following directors, the majority of whom are independent, including the Chair:

E F Ainsworth (Chairman of Committee)
A Stock
G de Nys

Details of attendance at meetings of the Committee during the financial year are detailed in the Directors' Report. (*Recommendation 8.1*)

The Committee's role is to advise the board on remuneration and incentive policies and practices generally, and make specific recommendations on remuneration packages and other terms of employment for key management personnel. This includes reviewing and making recommendations to the board in respect of:

- an executive remuneration and incentive policy;
- the remuneration of the CEO and all senior management reporting directly to the CEO;
- an executive incentive plan;
- an equity based incentive plan;
- the remuneration of non-executive directors;
- superannuation arrangements;
- accidental death and disability insurance and other insurance arrangements;
- recruitment, retention, performance measurement and termination policies and procedures for non-executive directors, the CEO, the Company Secretary and all senior management reporting directly to the CEO; and
- the disclosure of remuneration in Horizon Oil Limited's public materials including ASX filings and the annual report.

The Company clearly distinguishes the structure of non-executive director remuneration from that of executive remuneration. The Company's policy in relation to remuneration for both executive and non-executive directors is set out in the Remuneration Report. (*Recommendation 8.2*)

Retirement benefits for non-executive directors consist only of statutory superannuation contributions. There is no separate retirement benefit plan for non-executive directors.

The Company's Securities Trading Policy prohibits employees entering into transactions in financial derivatives (including options) which limit the economic risk of participating in unvested entitlements under equity based remuneration schemes. (*Recommendation 8.3*)

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A copy of the Remuneration and Nomination Committee Charter and the Securities Trading Policy is available in the Corporate Governance section of the Company's website at www.horizonoil.com.au.

SUSTAINABILITY REPORT

1 Introduction

The Company is committed to the sustainable development of its operations. This report is focused upon those assets in Papua New Guinea for which the Company is the designated operator. The Company is committed to the audit and assessment of joint venture partners operating on its behalf to ensure that activities are conducted in a manner consistent with our expectations around the sustainable development of its assets.

This report is for the financial year ending 30 June 2014.

The Company's philosophy towards sustainable development is based upon the foundations of its corporate policy. This includes the four areas that the Company regards as the pillars of its sustainable development strategy. These include:

- Safety & Health
- Security
- Environment, and
- Community

Each pillar will be discussed in greater detail within this Sustainability Report.

2 Health & Safety

The Company is committed to the maintenance of a safe and healthy working environment for all personnel including its sub-contractors, attending vendors and visitors. No fatalities resulted from the conduct of the Company's activities during the reporting period. The Company remains proud of its record of not having suffered a fatal injury during its history as an operator. The Company has taken this strong performance as a challenge to continue to safeguard the wellbeing of all those that may be associated with its operations in the future.

During the reporting period the Company has achieved a Lost Time Injury Frequency Rate ('LTIFR') of 2.8. The Company targets an injury rate that outperforms the average within the industry as reported in the Safety Performance Indicator Series published annually by OGP. In 2014, the Company did not meet this target. For the purposes of this report the Company calculates its LTIFR based only on hours worked directly in field. This does not include hours attributable to the corporate or office environments. It should be recognised that the activities in which the Company is primarily engaged are recognised as amongst the highest risk categories in the Oil and Gas industry generally. This has not diverted the organisation from targeting a performance that meets or exceeds that of the industry overall.

Year	2012	2013	2014
LTIFR	2.9	0.0	2.8

Table 1.0 – Lost Time Injury Frequency Rate (LTIFR) for the Company

During the reporting period the Company successfully drilled the Tingu-1 well in Petroleum Retention Licence 21 ('PRL 21'). Following the demobilisation of the drilling rig from the Tingu-1 location to the Stanley location the rig was placed into warm stack. On 30 May 2014, the Petroleum Development Licence 10 ('PDL 10') was granted, at which point ramp-up and remobilisation activities were commenced.

During this period a total of 5 recordable injuries were reported. This included three medical treatment injuries ('MTIs') and two lost time injuries ('LTIs'). All injured personnel were treated by on-site medical staff and have subsequently returned to full duties. During the reporting period 16 significant or high potential incidents were reported. Each of these was investigated and remedial actions designed, developed and implemented. Three quarters of all significant incidents reported were related to Safety and Health. No environmental significant incidents were reported during the period.

3 Security

The Company's Security Policy sets standards that detail its expectations for the protection of its personnel, its assets and the public. The Company conducts its operations in a manner consistent with the Voluntary Principles on Security and Human Rights. During the period no actions contrary to the Principles were reported.

Three high potential security incidents were reported during the period. Analysis of these incidents indicates that in each instance the underlying causes were related to sporadic unrest that is consistent with the existing working environment in Papua New Guinea and was not targeted at the Company employees or assets.

It is recognised by the Company that the security of its assets and personnel is dependent upon it maintaining a high standing within the communities that host its operations. To this end the Company remains committed to the engagement and development of local personnel and businesses to develop and deliver a functional security capability. The Company works in partnership with its local businesses, coaching and regularly assessing their performance and capability to ensure that standards are met and upheld. Currently, greater than 70% of security services for the Company facilities are provided by companies that are registered within the North Fly Region. Of the personnel employed in the provision of security services at the Company facilities of the Stanley development operations, greater than 90% of individuals are drawn from individuals residing within the operations immediate area of influence.

The Company intends to maintain coaching and development partnerships with local groups to enable the development of skills and capability that are transferable and sustainable beyond an engagement with the Company.

4 Environment

During the reporting period no high potential environmental incidents were reported.

The Company has developed and implemented an extensive environmental monitoring program that assesses the impacts of its operations on the surrounding environment. During the reporting period no acts or omissions contrary to permit or regulatory limits were identified.

During the reporting period the Company developed and implemented a program of environmental studies and assessment that resulted in it receiving milestone approvals from regulatory bodies supporting its proposed developments. Milestone approvals and submissions included:

- Stanley Development – Minister's Approval in Principle
- Stanley Development – Environment Permits for Drilling and Construction
- Elevala Development – Notification of Preparatory Works
- Elevala Development – Environmental Inception Report
- Elevala Development – Environmental Impact Statement

The Company is committed to the identification and management of all potential environmental impacts of its operations. To this end it has undertaken significant and extensive environmental surveys in the areas in which it intends to conduct its operations. These include both baseline environmental surveys for the Elevala development, the proposed Nama drilling and pre-clearance survey program in support of the Stanley development. These included:

- social and cultural heritage;
- noise and dust;
- soil and contaminated sites;
- hydrology and water quality;
- aquatic ecology;
- terrestrial ecology; and
- ecosystem services.

Impact Management

The Company has developed a Biodiversity Management and Offsets Strategy. This is applied on a hierarchical basis to avoid and then mitigate impacts which have the potential to occur as a result of proposed operations. This is shown below in Figure 1.0.

The Company is working closely with the Department of Environment and Conservation to develop an effective mechanism for the assessment and measurement of residual impacts on biodiversity and the assessment of proposed biodiversity off-sets.

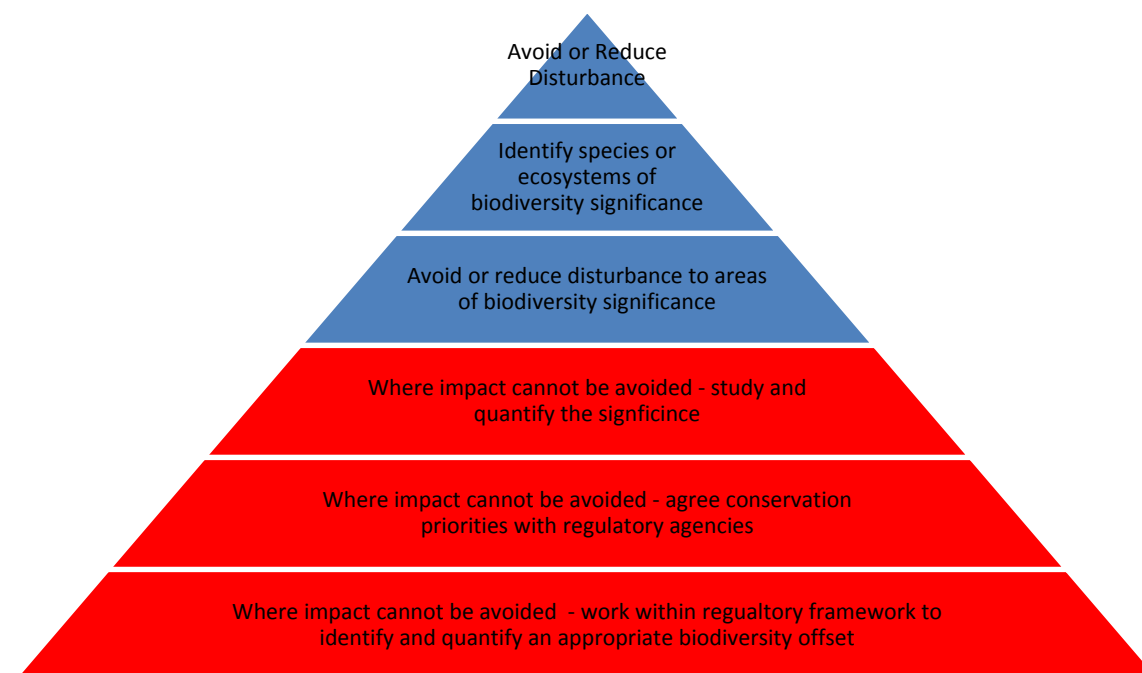


Figure 1.0 – Biodiversity Management & Offsets Strategy

5 Community

The Company values the communities within which it operates and endeavours to ensure that local land-owners are identified correctly and remain integral to the development of resources within their areas. To ensure that this process remains fair and equitable the Company has assessed and mapped the clan boundaries within its areas of proposed development. This has involved extensive programs of field work to assess the communities and their history of development in conjunction with the relevant regulatory agencies. The studies undertaken are transferred into a database that can act as a platform for future discussions within the region.

The Company has developed and implemented strategies to facilitate community engagement and to maximise local content within its operations. The Company is committed to the employment of personnel and the engagement of services where practicable from within the communities that host its operations. This is based on a hierarchical framework that gives priority based on capability and locality. Where personnel or service providers of comparable capability are identified priority will be given in the following order:

1. from within the project impacted area;
2. from within the Western Province; and
3. from within Papua New Guinea.

The Company is committed to the sustainable development of communities within which it operates. The desire to return benefit to the community through employment and business engagement is tempered by the need to ensure that the systems and structures supporting local business developments and initiatives are sustainable. This has been developed on a foundation of capable, experienced personnel providing support from within local communities. Initiatives include community skills assessment which allows the matching of local capability to particular business development

opportunity. This ground-up approach has fostered the establishment of locally-led initiatives including:

- security service provision;
- light transport for personnel and equipment;
- labour hire;
- food supply and delivery;
- implementation of food supply businesses providing enhanced food security within the region; and
- ongoing active assistance in community development initiatives being supported by locally-based non-governmental organisations ('NGOs').

During the year the Company embarked on a scholarship program in which a high-potential member of the local community is provided assistance with their studies in combination with a dedicated work experience program. Rogana Yandit (Community Affairs Officer) is pictured below (Figure 2.0) working with the community in Gasuke undertaking a resource use mapping study prior to her return to studies. This program is designed to develop a pipeline of young talent in the sciences supporting the Company's sustainable development programs. It is hoped that the fostering of potential will contribute to the emergence of the next generation of locally-based Papuan leaders.



Figure 2.0 – Resource Use Mapping in Gasuke

The Company recognises that its Social Licence to Operate depends on the strength of its relationships with its host communities. These relationships must be built on trust and a commitment to making a positive contribution to the community in which the Company operates. Importantly, this commitment must be expressed at each level of the Company from the corporate office to the field. An example of this personal commitment is highlighted below in an excerpt from the Post Courier (PNG newspaper) dated 14 August 2014.



Figure 3.0 Courtesy Papua New Guinea Post Courier 14 August 2013

The Company also provides substantial financial and in kind support to the activities of two Western Province based charities, Australian Doctors International ('ADI') and Mercy Works. The work of both organisations is focused primarily on building partnerships with local communities to enhance capacity and self reliance in an area where access to basic resources such as education, health care and social welfare is limited or non-existent.

An example of the activity undertaken by these two organisations is a recent Village Health Volunteer training undertaken by Mercy Works at Tarakbits, Western Province. The training course took place over six weeks between 9 June and 25 July 2014 and involved a number of women who are active village birth attendants. The program is aimed at enhancing the skills and techniques of local health workers who often work in extremely remote locations with limited recourse to outside assistance. The Tarakbits training program was the first in a series of such events to take place over the next 18 months in the North Fly District of Western Province.



Figure 4.0 Village Health Volunteers Training – Tarakbits, WP. Photo courtesy of Mercy Works July 2014

Further information on the activities of both Mercy Works and ADI can be found on their websites, www.mercyworks.org.au and www.adi.org.au.

6 Conclusion

The Company is committed to the sustainable development of its operations within the communities and environments that host its activities. The Company regards this commitment as an integral component of an ongoing, long-term engagement with its host communities.

The Company builds its activities on a framework established from corporate policy and assesses its performance against both internal and industry standards.

The 2014 Annual Report marks the first submission of the Company's Sustainability Report as a component of its corporate reporting. However this should be seen as an extension of established internal governance processes rather than a newly minted development.



Independent auditor's report to the members of Horizon Oil Limited

Report on the financial report

We have audited the accompanying financial report of Horizon Oil Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Horizon Oil Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Auditor's opinion

In our opinion:

- (a) the financial report of Horizon Oil Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

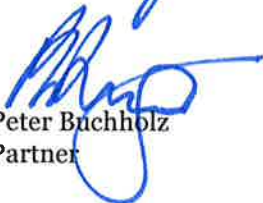
Report on the Remuneration Report

We have audited the remuneration report included in pages 11 to 22 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Horizon Oil Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.


PricewaterhouseCoopers


Peter Buchholz
Partner

Sydney
27 August 2014

DIRECTORS' DECLARATION

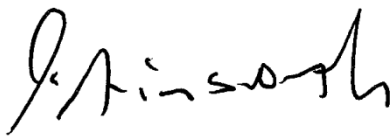
In the directors' opinion:

- (a) the financial statements and notes are in accordance with the *Corporations Act 2001* including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



E F Ainsworth AM
Chairman



B D Emmett
Chief Executive Officer

Sydney
27 August 2014

HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

	Note	Consolidated 2014 US\$'000	2013 US\$'000
Revenue from continuing operations	6	138,450	48,071
Cost of sales	7	(92,716)	(22,685)
Gross profit		45,734	25,386
Profit from sale of assets	5	23,830	-
Other income	6	234	30
General and administrative expenses	7	(8,183)	(7,038)
Exploration and development expenses	7	(10,520)	(606)
Financing costs	7	(18,899)	(8,209)
Unrealised movement in value of convertible bond conversion rights	6	412	991
Other expenses	7	(2,581)	(529)
Profit before income tax expense		30,027	10,025
NZ royalty tax expense	8a	262	(3,982)
Income tax expense	8b	(17,459)	(2,569)
Profit for the financial year		12,830	3,474
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges	25	(5,303)	(778)
<i>Items that will not be reclassified to profit or loss</i>			
		-	-
Total comprehensive income for the financial year		7,527	2,696
Profit attributable to members of Horizon Oil Limited		12,830	3,474
Total comprehensive income attributable to members of Horizon Oil Limited		7,527	2,696
Earnings per share for profit attributable to the ordinary equity holders of the Horizon Oil Limited:		US cents	US cents
Basic earnings per ordinary share	41a	1.00	0.31
Diluted earnings per ordinary share	41b	1.00	0.30

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

HORIZON OIL LIMITED
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014**

	Note	Consolidated 2014 US\$'000	2013 US\$'000
Current assets			
Cash and cash equivalents	9	98,911	19,028
Receivables	10	15,477	18,956
Inventories	11	5,281	7,898
Current tax receivable		-	650
Other assets	12	1,674	832
Total current assets		121,343	47,364
Non-current assets			
Deferred tax assets	13	2,306	10,441
Plant and equipment	14	5,558	8,206
Exploration phase expenditure	15	74,658	92,538
Oil and gas assets	16	311,038	317,637
Total non-current assets		393,560	428,822
Total assets		514,903	476,186
Current liabilities			
Payables	17	35,715	40,150
Derivative financial instruments	18	5,935	1,237
Current tax payable		1,596	803
Borrowings	19	44,165	14,735
Provisions	23	12,497	-
Total current liabilities		99,908	56,925
Non-current liabilities			
Payables	20	54	21,253
Derivative financial instruments	18	222	-
Deferred tax liability	22	17,106	17,064
Borrowings	19	143,281	180,831
Other financial liabilities	21	17,024	17,436
Provisions	23	14,742	15,664
Total non-current liabilities		192,429	252,248
Total liabilities		292,337	309,173
Net assets		222,566	167,013
Equity			
Contributed equity	24	174,801	128,038
Reserves	25a	3,844	7,884
Retained profits	25b	43,921	31,091
Total equity		222,566	167,013

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

HORIZON OIL LIMITED
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014**

Consolidated	Note	Attributable to members of Horizon Oil Limited			
		Contributed equity US\$'000	Reserves US\$'000	Retained profits US\$'000	Total US\$'000
Balance as at 1 July 2012		126,686	7,421	27,617	161,724
Profit for financial year	25(b)	-	-	3,474	3,474
Changes in the fair value of cash flow hedges	25(a)	-	(778)	-	(778)
Total comprehensive income for the financial year		-	(778)	3,474	2,696
Transactions with owners in their capacity as equity holders:					
Ordinary shares issued, net of transaction costs	24(b)	1,352	-	-	1,352
Employee share-based payments expense	25(a)	-	1,241	-	1,241
		1,352	1,241	-	2,593
Balance as at 30 June 2013		128,038	7,884	31,091	167,013
Balance as at 1 July 2013		128,038	7,884	31,091	167,013
Profit for the financial year	25(b)	-	-	12,830	12,830
Changes in the fair value of cash flow hedges	25(a)	-	(5,303)	-	(5,303)
Total comprehensive income for the financial year		-	(5,303)	12,830	7,527
Transactions with owners in their capacity as equity holders:					
Ordinary shares issued, net of transaction costs	24(b)	46,763	-	-	46,763
Employee share-based payments expense	25(a)	-	1,263	-	1,263
		46,763	1,263	-	48,026
Balance as at 30 June 2014		174,801	3,844	43,921	222,566

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2014

	Note	Consolidated 2014 US\$'000	2013 US\$'000
Cash flows from operating activities			
Receipts from customers		139,336	43,144
Payments to suppliers and employees		(55,987)	(11,494)
		83,349	31,650
Interest received		234	24
Interest paid		(11,042)	(7,980)
Income taxes paid		(7,575)	(8,221)
Net cash inflow from operating activities	40	64,966	15,473
Cash flows from investing activities			
Payments for exploration phase expenditure		(42,422)	(29,732)
Payments for oil and gas assets		(49,654)	(94,756)
Proceeds from deposit on sale of assets		-	20,400
Proceeds from sale of oil and gas assets		52,600	-
Proceeds from sale of exploration phase assets		1,000	-
Reimbursement of oil and gas asset expenditure		22,627	-
Reimbursement of exploration phase expenditure		615	-
Payments for plant and equipment		(836)	(128)
Payments for acquisition of exploration assets		-	(783)
Net cash (outflow) from investing activities		(16,070)	(104,999)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		49,014	766
Payments for transaction costs arising on ordinary shares issued		(2,251)	-
Proceeds from borrowings (net of transaction costs)		-	104,561
Repayment of borrowings		(15,170)	(15,877)
Net cash inflow from financing activities		31,593	89,450
Net increase in cash and cash equivalents		80,489	(76)
Cash and cash equivalents at the beginning of the financial year		19,028	19,287
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		(606)	(183)
Cash and cash equivalents at the end of the financial year		98,911	19,028

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Note 1. Summary of Significant Accounting Policies

A summary of the significant accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied, unless otherwise stated. The financial statements are for the consolidated entity consisting of Horizon Oil Limited and its subsidiaries (the 'Group').

The nature of the operations and principal activities for the Group are described in the Directors' Report.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

The financial report has been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they become due.

Compliance with IFRS

The consolidated financial statements of Horizon Oil Limited also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

New and amended standards adopted by the Group

The Group has adopted all of the new and revised Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to its operations and effective for the financial year ended 30 June 2014.

New and revised Australian Accounting Standards and amendments thereof and Interpretations effective for the financial year that are relevant to the Group include:

- AASB 10 '*Consolidated Financial Statements*'. AASB 10 replaced the guidance on control and consolidation in AASB 127 '*Consolidated and Separate Financial Statements*' and in *Interpretation 112 'Consolidation – Special Purpose Entities*'. Under the new principles, the Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reviewed its investments in subsidiaries to assess whether the consolidation conclusion in relation to these entities is different under AASB 10 than under AASB 127. No differences were found and therefore no adjustments to any of the carrying amounts in the consolidated financial statements was required as a result of the adoption of AASB 10.
- AASB 11 '*Joint Arrangements*'. Under AASB 11, joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations rather than the legal structure of the joint arrangement. The Group assessed the nature of its joint arrangements and determined them to be joint operations. The accounting for the Group's joint operations has not changed as a result of the adoption of AASB 11. The Group continues to recognise its direct right to the, and its share of, jointly held assets, liabilities, revenues and expenses of joint operations.
- AASB 12 '*Disclosure of Interests in Other Entities*' is a new disclosure standard and is applicable to the Group as it has interests in subsidiaries and joint arrangements. In general, the application of AASB 12 has resulted in additional disclosures in the consolidated financial statements but this has not had a material impact on the current financial year consolidated financial statements.

Other new Australian Accounting Standards that are applicable for the first time for the Group are AASB 13 '*Fair Value Measurement*', AASB 2012-2 '*Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*' and AASB 2012-5 '*Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*'. These standards have introduced new disclosures but did not affect the Group's accounting policies or any of the amounts recognised in the consolidated financial statements.

In addition, during July 2011, the AASB decided to remove the individual key management personnel disclosure requirements from AASB 124 '*Related Party Disclosures*', to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this reduced the disclosures that are currently required in the notes to the consolidated

HORIZON OIL LIMITED

financial statements, it did not affect any of the amounts recognised in the consolidated financial statements. The amendments applied from 1 July 2013.

Early adoption of standards

The Group has elected to apply the following pronouncement to the financial year beginning 1 July 2013:

- (i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. In December 2013, the AASB issued a revised version of AASB 9 incorporating three primary changes:

1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures;
2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time; and
3. The mandatory effective date moved to 1 January 2017.

Given that these changes are focused on simplifying some of the complexities surrounding hedge accounting, Horizon Oil Limited has elected to early adopt the amendments in order to ensure hedge accounting can continue to be applied and to avoid unnecessary volatility within the profit and loss.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss, or other comprehensive income where hedge accounting is adopted.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Changes in accounting policies

A review of the Group's accounting policies, following the commencement of production in China, has resulted in a change to the Group's accounting policy which affected items recognised in the financial statements.

- (i) Oil & gas assets – restoration provision

Legislation in China requires the provision for restoration to be paid over the remaining life of the field. As such, payments relating to restoration provisions of US\$12.5 million are recognised as current, being due within 12 months.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Horizon Oil Limited (the 'Company' or 'Parent Entity') as at 30 June 2014 and the results of all subsidiaries for the financial year then ended. Horizon Oil Limited and its subsidiaries together are referred to in these financial statements as the Group.

Subsidiaries are those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

HORIZON OIL LIMITED

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 1(m)). Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Horizon Oil Limited. These investments may have subsequently been written down to their recoverable amount determined by reference to the net assets of the subsidiaries as at 30 June each financial year where this is less than cost.

Joint operations

A joint operation is a joint arrangement whereby the participants that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognises assets, liabilities, revenues and expenses according to its share in the assets, liabilities, revenues and expenses of a joint operation or similar as determined and specified in contractual arrangements (Joint Operating Agreements). Details of major joint operation interests and the sum of the Group's interests in joint operation assets, liabilities, revenue and expenses are set out in Note 29.

Where part of a joint operation interest is farmed out in consideration of the farminee undertaking to incur further expenditure on behalf of both the farminee and the entity in the joint operation area of interest, exploration expenditure incurred and carried forward prior to farm-out continues to be carried forward without adjustment, unless the terms of the farm-out are excessive based on the diluted interest retained. An impairment provision is then made to reduce exploration expenditure to its estimated recoverable amount. Any cash received in consideration for farming out part of a joint operation interest is recognised in the profit or loss.

(c) Crude oil and gas inventory and materials in inventory

Crude oil and gas inventories, produced but not sold, are valued at the lower of cost and net realisable value. Cost comprises a relevant proportion of all fixed and variable production, overhead, restoration and amortisation expenses and is determined on an average cost basis.

Stocks of materials inventory, consumable stores and spare parts are carried at the lower of cost and net realisable value, with cost primarily determined on an average cost basis.

(d) Under/ overlift

Crude oil underlifts and overlifts arise on differences in quantities between the Group's production entitlement and the production either sold or held as inventory. Underlifts and overlifts of entitlement to crude oil production are recorded as a current receivable and current payable respectively and are measured at market value with the corresponding entry to cost of sales in the profit or loss.

(e) Operating segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

(f) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the 'functional currency'). The consolidated financial statements are presented in United States dollars, which is Horizon Oil Limited's functional and presentation currency. Horizon Oil Limited has selected US dollars as its presentation currency for the following reasons:

HORIZON OIL LIMITED

- (a) a significant portion of Horizon Oil Limited's activity is denominated in US dollars; and
- (b) it is widely understood by Australian and international investors and analysts.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year end exchange rates of monetary assets and liabilities denominated in foreign currencies are generally recognised in the profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

(iii) Group companies

The results and financial position of all the Group subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in subsidiaries, and of borrowings and other financial instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a subsidiary are treated as assets and liabilities of the subsidiaries and translated at the closing rate.

(g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable to the extent it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. All revenue is stated net of the amount of GST.

For product sales, revenue is brought to account when the product is passed from the Group's physical control under an enforceable contract, when selling prices are known or can be reasonably estimated and the products are in a form that requires no further treatment by the Group.

Interest income is recognised on a time proportion basis using the effective interest method.

(h) Taxation

(i) Income tax

The income tax expense or revenue for the reporting period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(ii) Government royalties

Government royalties are treated as taxation arrangements when they are imposed under Government authority and when the calculation of the amount payable is derived from a measure of profit that falls within the definition of 'taxable profit' for the purposes of AASB 112 *Income Taxes*. Current and deferred tax is then provided on the same basis as described in (i) above. Royalty arrangements that do not meet the criteria for treatment as a tax are recognised on an accruals basis.

(i) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases (Note 38). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments, including any bargain purchase price where its payment is considered probable. The corresponding rental obligations, net of finance charges, are included in borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (Note 38). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(j) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets ('cash-generating units').

(k) Cash and cash equivalents

For presentation purposes in the statement of cash flows, cash and cash equivalents includes cash at banks and on hand (including share of joint operation cash balances), deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are generally due for settlement within 30 days from the date of recognition. They are included in current assets, except for those with maturities greater than one year after the end of the reporting period which are classified as non-current assets.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in profit or loss.

(m) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred, equity interests issued by the Group, fair value of any asset or liability resulting from a contingent consideration arrangement, and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Acquisition related costs are expensed as incurred.

For purchase combinations which do not constitute the acquisition of a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed. The consideration paid is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Transaction costs associated with the acquisition are a component of the consideration transferred and are therefore capitalised.

(n) Exploration phase expenditure

Exploration phase expenditure in respect of each area of interest is accounted for using the successful efforts method of accounting. The successful efforts method requires all exploration phase expenditure to be expensed in the period it is incurred, except the costs of successful wells, the costs of acquiring interests in new exploration assets and pre-development costs where there is a high degree of probability that the development will go ahead, which are capitalised. Costs directly associated with the drilling of exploration wells are initially capitalised pending determination of whether potentially economic reserves of hydrocarbons have been discovered. Areas of interest are recognised at the cash-generating unit level, being the smallest grouping of assets generating independent cash flows which usually is represented by an individual oil or gas field.

As capitalised exploration phase expenditure is not available for use, it is not amortised.

When an oil or gas field has been approved for development, the capitalised exploration phase expenditure is reclassified as oil and gas assets in the statement of financial position. Prior to reclassification, capitalised exploration phase expenditure is assessed for impairment.

Impairment of capitalised exploration phase expenditure

Exploration phase expenditure is reviewed for impairment semi-annually in accordance with the requirements of AASB 6 '*Exploration for and Evaluation of Mineral Resources*'. The carrying value of capitalised exploration phase expenditure is assessed for impairment at the asset or cash-generating unit level (which usually is represented by an exploration permit or licence) whenever facts and circumstances (as defined in AASB 6) suggest that the carrying amount of the asset may exceed its recoverable amount. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written-down to its recoverable amount. Impairment losses are recognised as an expense in profit or loss.

Capitalised exploration phase expenditure that suffered impairment are tested for possible reversal of the impairment loss whenever facts or changes in circumstances indicate that the impairment may have reversed.

(o) Oil and gas assets

(i) Development expenditure

Development expenditure is stated at cost less any accumulated impairment losses. Development expenditure incurred by or on behalf of the Group is accumulated separately for fields in which proven and probable hydrocarbon reserves have been identified to the satisfaction of directors. Such expenditure comprises direct costs and overhead expenditure incurred which can be directly attributable to the development phase or is acquired through the acquisition of a permit.

Once a development decision has been taken on an oil or gas field, the carrying amount of the relevant exploration and evaluation expenditure in respect of the relevant area of interest is aggregated with the relevant development expenditure.

Development expenditure is reclassified as 'production assets' at the end of the commissioning phase, when the oil or gas field is capable of operating in the manner intended by management (that is, when commercial levels of production are capable of being achieved).

No amortisation expense is recognised in respect of development expenditure until it is reclassified as a production asset.

In accordance with Australian Accounting Standard AASB116 '*Property, Plant and Equipment*', revenue from saleable oil or gas produced during the development phase of an oil or gas field, prior to the commencement of commercial levels of production, has been credited to sales revenue, but an amount based on such revenue has been charged to cost of sales and credited against development expenditure capitalised, so as to record a zero gross profit on such production.

Development expenditure is tested for impairment in accordance with the accounting policy set out in Note 1(j).

(ii) Production Assets

When further development costs are incurred in respect of a production asset after the commencement of production, such expenditure is carried forward as part of the production asset when it is probable that additional future economic benefits associated with the expenditure will flow to the Group. Otherwise such expenditure is classified as production expense in income statements when incurred.

Production assets are stated at cost less accumulated amortisation and any accumulated impairment losses.

Once commercial levels of production commence, amortisation is charged using the unit-of-production method. The unit-of-production method results in an amortisation expense proportional to the depletion of proven and probable hydrocarbon reserves for field. Production assets are amortised by area of interest in the proportion of actual production for the financial period to the proven and probable hydrocarbon reserves of the field. The proven and probable hydrocarbon reserves figure is that estimated at the end of the financial period plus production during the financial period.

The cost element of the unit-of-production calculation is the capitalised costs incurred to date for the field together with the estimated / anticipated future development costs (stated at current financial period-end unescalated prices) of obtaining access to all the proven and probable hydrocarbon reserves included in the unit-of-production calculation.

Production assets are tested for impairment in accordance with the accounting policy set out in Note 1(j).

(iii) Restoration provision

The estimated costs of decommissioning and removing an asset and restoring the site are included in the cost of the asset as at the date the obligation first arises and to the extent that it is first recognised as a provision. This restoration asset is subsequently amortised on a unit-of-production basis.

The corresponding provision, of an amount equivalent to the restoration asset created, is reviewed at the end of each reporting period. The provision is measured at the best estimate of the present value amount required to settle the present obligation at the end of the reporting period based on current legal and other requirements and technology, discounted where material using market yields at the balance sheet date on Australian Government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Where there is a change in the expected restoration, rehabilitation or decommissioning costs, an adjustment is recorded against the carrying value of the provision and any related restoration asset, and the effects are recognised in profit or loss on a prospective basis over the remaining life of the operation.

The unwinding of the effect of discounting on the restoration provision is included within finance costs in profit or loss.

Legislation in China requires the provision for restoration to be paid over the remaining life of the field. As such, payments relating to restoration provisions of US\$12.5 million are recognised as current, being due within 12 months.

(iv) Reserves

The estimated reserves include those determined on an annual basis by Mr Alan Fernie, Manager – Exploration and Development, Horizon Oil Limited. Mr Fernie has thirty eight years' relevant experience within the sector. The reserve estimates are determined by Mr Fernie based on assumptions, interpretations, and assessments. These include assumptions regarding commodity prices, foreign exchange rates, operating costs and capital expenditures, and interpretations of geological and geophysical models to make assessments of the quantity of hydrocarbons and anticipated recoveries.

(p) Investments and other financial assets

Subsidiaries are accounted for in the consolidated financial statements as set out in Note 1(b).

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position.

(q) Plant and equipment

The cost of improvements to or on leasehold property is depreciated over the unexpired period of the lease or the estimated useful life of the improvement to the Group, whichever is shorter.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- | | |
|-------------------------------------|--------------|
| • Computer equipment | 3 – 4 years |
| • Furniture, fittings and equipment | 3 – 10 years |
| • Leasehold improvement | 10 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Due to their short-term nature they are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition. They are included in current liabilities, except for those with maturities greater than one year after the end of the reporting period which are classified as non-current liabilities.

(s) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 18. Movements in the hedging reserve in equity are shown in Note 25.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within other income or other expense together with the gain or loss relating to the ineffective portion and changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense.

Amounts accumulated in equity are recycled to profit or loss in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within "finance costs". The gain or loss relating to the effective portion of forward foreign exchange contracts and commodity price contracts hedging export sales is recognised in profit or loss within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expense.

(t) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities which are not an incremental cost relating to the actual drawdown of the facility, are recognised as prepayments and amortised on a straight line basis over the term of the facility.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion right. This is recognised and included in shareholders' equity when the conversion right meets the equity definition at inception. Where the conversion right does not meet the definition of equity, as for convertible bonds which include a cash settlement option or conversion price resets, the conversion right is fair valued at inception and recorded as a financial liability. The financial liability for the conversion right is subsequently remeasured at balance date to fair value with gains and losses recorded in the profit or loss.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(u) Borrowing costs

Borrowing costs which includes the costs of arranging and obtaining financing, incurred for the acquisition or construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed when incurred.

The amount of borrowing costs incurred which were capitalised during the financial year were interest and associated costs of US\$1,282,000 (2013: US\$6,527,000) and amortised borrowing costs of US\$1,103,000 (2013: US\$916,000).

(v) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave, related on-costs and accumulating sick leave expected to be settled within 12 months of the end of the reporting period are recognised in other payables in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are recognised in other creditors.

(ii) Long service leave

The liability for long service leave is recognised as a provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

Share-based payment compensation benefits are provided to employees and consultants via the Horizon Oil Long Term Incentive Plan, the Horizon Oil Limited Employee Option Scheme, the Employee

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Performance Incentive Plan, and the General Option Plan. Information relating to these schemes is set out in Note 33.

The fair value of options and share appreciation rights ('SARs') granted under the Horizon Oil Long Term Incentive Plan, Horizon Oil Limited Employee Option Scheme and Employee Performance Incentive Plan are recognised as an employee share-based payments expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options and SARs granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions. Non-market performance vesting conditions are included in assumptions about the number of options and SARs that are expected to vest.

The fair value is measured at grant date. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options and SARs that are expected to vest based on the non-market performance vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option or SAR, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option or SAR.

The Company has elected to retain any amounts originally recognised in the share-based payments reserve, regardless of whether the associated options are exercised, cancelled or lapse unexercised.

(w) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options over unissued ordinary shares are shown in share capital as a deduction, net of related income tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration but are expensed.

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares. Potential ordinary shares are not considered dilutive where the Group incurs a loss per share as calculated above.

(y) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher amount determined in accordance with AASB 137 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less cumulative amortisation where appropriate.

(z) Goods and Services Tax ('GST')

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(aa) Parent entity financial information

The financial information for the parent entity, Horizon Oil Limited, disclosed in note 42 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Horizon Oil Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

(bb) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(cc) New Australian Accounting Standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 2013-3 'Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets' (effective 1 January 2014)

AASB 13 was released during June 2013. It makes certain amendments to recoverable amount disclosures so that only the recoverable amount of impaired assets is disclosed. It also introduces additional disclosures about fair value measurement when recoverable amount is based on fair value less costs of disposal. The Group is yet to assess its full impact. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the financial year ending 30 June 2015.

There are no other Australian Accounting Standards that are not yet effective and that are expected to have a material impact on the Group in the current or future financial years and on foreseeable future transactions.

Note 2. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity price risk); credit risk; and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as oil price swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging

purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and commodity price risks, and aging analysis for credit risk.

Risk management is carried out by the finance function under policies approved by the Board of Directors. The finance function identifies, evaluates and if necessary hedges financial risks in close co-operation with Group management. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investment of excess liquidity.

The Group has no off-balance sheet financial assets or liabilities as at the end of the reporting period.

The Group holds the following financial instruments:

	Consolidated	
	30 June 2014	30 June 2013
	US\$'000	US\$'000
Financial Assets		
Cash and cash equivalents	98,911	19,028
Receivables	15,477	18,956
Current tax receivable	-	650
	<u>114,388</u>	<u>38,634</u>
Financial Liabilities		
Payables (current)	35,715	40,150
Current tax payable	1,596	-
Payables (non-current)	54	21,253
Derivative financial instruments (current and non-current)	6,157	1,237
Borrowings (net of borrowing costs capitalised)	187,446	195,566
Other financial liabilities	<u>17,024</u>	<u>17,436</u>
	<u>247,992</u>	<u>275,642</u>

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in a currency that is not the Group's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to predominately Australian and New Zealand dollars, Chinese Renminbi and Papua New Guinea Kina.

The Group manages foreign exchange risk by monitoring forecast cash flows in currencies other than US dollars and ensuring that adequate Australian dollar, New Zealand dollar, Chinese Renminbi and Papua New Guinea Kina cash balances are maintained.

The objective of the Group's foreign exchange risk management policy is to ensure its financial viability despite potential periods of unfavourable exchange rates. Regular sensitivity analysis is conducted to evaluate the potential impact of unfavourable exchange rates on the Group's future financial position. The results of this evaluation are used to determine the most appropriate risk mitigation tool to be used. The Group will hedge when it is deemed the most appropriate risk mitigation tool to be used.

No foreign currency hedging transactions were entered into during the current or prior financial year.

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Exposure to foreign exchange risk

The Group's exposure to foreign exchange risk at the end of each reporting period was as follows:

Group	30 June 2014				30 June 2013			
	AUD US\$'000	NZD US\$'000	PGK US\$'000	RMB US\$'000	AUD US\$'000	NZD US\$'000	PGK US\$'000	RMB US\$'000
Cash and cash equivalents	608	1,658	115	3	970	827	527	164
Receivables	2,786	-	1,186	-	1,893	176	485	-
Current tax receivable	-	-	-	-	-	651	-	-
Current tax payable	-	464	-	-	-	-	-	-
Current payables	3,207	373	586	-	2,962	96	913	2,434
Non-current payables	42	-	-	-	22	-	-	-

For the financial year ended and as at 30 June 2014, if the currencies set out in the table below, strengthened or weakened against the US dollar by the percentage shown, with all other variables held constant, net result for the financial year would (increase)/ decrease and net assets would increase/ (decrease) by:

Group	Net Result		Net Assets		Net Result		Net Assets	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Change in currency¹	+10%	+10%	+10%	+10%	-10%	-10%	-10%	-10%
Australian dollar impact	(1,342)	(777)	10	(9)	1,342	777	(10)	9
New Zealand dollar impact	116	(386)	59	112	(116)	386	(59)	(112)
Papua New Guinea kina impact	(164)	(39)	51	7	164	39	(51)	(7)
Chinese Renminbi impact	(1,496)	(175)	-	(163)	1,496	175	-	163

1. This has been based on the change in the exchange rate against the US dollar in the financial years ended 30 June 2014 and 30 June 2013. The sensitivity analysis has been based on the sensitivity rates when reporting foreign exchange risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates based on historic volatility. In management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the end of the reporting period exposure does not necessarily reflect the exposure during the course of the financial year.

(ii) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market commodity prices for crude oil.

The objective of the Group's commodity price risk management policy is to ensure its financial viability despite potential periods of unfavourable prices. Regular sensitivity analysis is conducted to evaluate the potential impact of unfavourable prices on the Group's future financial position. The results of this evaluation are used to determine the most appropriate risk mitigation tool to be used. The Group will hedge when it is deemed the most appropriate risk mitigation tool to be used or where required by its financing arrangements. During the current financial year, oil price hedging was undertaken as a risk mitigation measure to ensure the Group's financial position remains sound and that the Group is able to meet its financial obligations in the event of low oil prices.

As at 30 June 2014, the Group had a US\$6,157,000 derivative liability (30 June 2013: US\$1,237,000 derivative liability) arising from 842,500 bbls (30 June 2013: 177,000 bbls) of Brent oil price swaps and collars which represents approximately 5.6% (30 June 2013: 1.9%) of its proven and probable reserves.

For the financial year ended and as at 30 June 2014, if the crude oil price rose or fell by the percentage shown, with all other variables held constant, the result for the financial year would (increase)/ decrease and net assets would increase/ (decrease) by:

Group	Net Result		Net Assets		Net Result		Net Assets	
	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000	2014 US\$'000	2013 US\$'000
Change in crude oil price	+10%	+10%	+10%	+10%	-10%	-10%	-10%	-10%
Impact	2,634	1,356	2,634	1,356	(2,634)	(1,356)	(2,634)	(1,356)

(iii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group has no interest-bearing assets considered to materially expose the Group's core income and/or operating cash flows to changes in market interest rates.

As at 30 June 2014 and 30 June 2013, the Group's interest rate risk arises from long term borrowings, issued at variable rates, exposing the Group to cash flow interest rate risk. Group policy is to manage material interest rate exposure. Regular sensitivity analysis is conducted to evaluate the potential impact of unfavourable interest rate movements on the Group's future financial position. The results of this evaluation are used to determine the most appropriate risk mitigation tool to be used. During the current and prior financial year, the Group did not enter into any interest rate swap contracts.

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specific intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

The Group's exposure to interest rate risk for financial instruments is set out below:

	Floating interest rate	Fixed interest rate			Non-interest bearing	Total contractual cash flows	Carrying amount
		1 year or less	Over 1 to 2 years	Over 2 to 5 years			
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
AS AT 30 JUNE 2014							
Financial assets							
Cash and cash equivalents	92,911	-	-	-	6,000	98,911	98,911
Receivables	-	-	-	-	15,477	15,477	15,477
	92,911	-	-	-	21,477	114,388	114,388
Weighted average interest rate p.a.	0.02%						
Financial liabilities							
Trade and other creditors	-	-	-	-	35,715	35,715	35,715
Derivative financial instruments (net)	-	-	-	-	6,157	6,157	6,157
Current tax payable	-	-	-	-	1,596	1,596	1,596
Borrowings	119,165	4,400	91,440	-	-	215,005	187,446
	119,165	4,400	91,440	-	43,468	258,473	230,914
Weighted average interest rate p.a.	4.07%	14.81%	14.81%	-			
Net financial liabilities	(26,254)	(4,400)	(91,440)	-	(21,991)	(144,085)	(116,526)

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	Floating interest rate	Fixed interest rate			Non-interest bearing	Total contractual cash flows	Carrying amount
		1 year or less	Over 1 to 2 years	Over 2 to 5 years			
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
AS AT 30 JUNE 2013							
Financial assets							
Cash and cash equivalents	13,254	-	-	-	5,774	19,028	19,028
Receivables	-	-	-	-	18,956	18,956	18,956
Current tax receivable	-	-	-	-	650	650	650
	13,254				25,380	38,634	38,634
Weighted average interest rate p.a.	0.13%						
Financial liabilities							
Trade and other creditors	-	-	-	-	40,150	40,150	40,150
Derivative financial instruments (net)	-	-	-	-	1,237	1,237	1,237
Current tax payable	-	-	-	-	803	803	803
Borrowings	134,335	4,400	4,400	91,440	-	234,575	195,566
	134,335	4,400	4,400	91,440	42,190	276,765	237,756
Weighted average interest rate p.a.	4.37%	14.81%	14.81%	14.81%			
Net financial liabilities	(121,081)	(4,400)	(4,400)	(91,440)	(16,810)	(238,131)	(199,122)

As at 30 June 2014, the Group had the following variable rate borrowings outstanding.

	30 June 2014		30 June 2013	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	% p.a.	US\$'000	% p.a.	US\$'000
Bank loans	4.07%	119,165	4.37%	134,335
Net exposure to cash flow interest rate risk		119,165		134,335

At 30 June 2014, if the interest rates had been 1.0% p.a. higher or lower and all other variables held constant, the net result for the financial year would (increase)/ decrease and net assets as at 30 June 2014 would increase/ (decrease) by:

Group	Net Result		Net Assets		Net Result		Net Assets	
	2014	2013	2014	2013	2014	2013	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Change in interest rate p.a.	+1%	+1%	+1	+1%	-1%	-1%	-1%	-1%
Impact of Assets	398	116	398	116	(7)	(5)	(7)	(5)
Impact of Liabilities	900	834	900	834	(900)	(834)	(900)	(834)
Impact of Net Assets	(502)	(718)	(502)	(718)	893	829	893	829

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, derivative financial instruments, as well as credit exposures to customers, including outstanding receivables.

It is acknowledged that the Group's sales of crude oil are currently concentrated with two counterparties. However, the Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history, and that the Group has the ability to sell crude to other parties if desired.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions. Where commercially practical the Group seeks to limit the amount of credit exposure to any one financial institution.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets as summarised in this note.

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The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Cash and cash equivalents		
<i>Counterparties with external credit rating (Standard & Poors)</i>		
AA-	94,132	15,325
	94,132	15,325
<i>Counterparties without external credit rating</i>		
Share of joint operations cash balances	4,683	3,528
Overseas financial institutions	95	174
Cash on hand	1	1
	4,779	3,703
Total cash and cash equivalents	98,911	19,028
Receivables		
<i>Counterparties with external credit rating (Standard & Poors)</i>		
AAA	276	336
	276	336
<i>Counterparties without external credit rating</i>		
Share of joint operation receivables balances	1,955	4,221
Joint operations partners	9,450	13,217
Related parties (partly paid ordinary shares)	1,112	1,112
Other	2,684	70
	15,201	18,620
Total receivables	15,477	18,956

As at 30 June 2014, there were US\$Nil (30 June 2013: US\$Nil) financial assets that are either past due or impaired.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

The Group has policies in place to manage liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching profiles of financial assets and liabilities.

Financing arrangements

The Group had access to the following undrawn borrowing facilities as at the end of each reporting period:

	Consolidated	
	30 June 2014	30 June 2013
	US\$'000	US\$'000
Floating rate:		
Expiring within one year	30,835	5,265 ¹
Expiring beyond one year	-	-

¹. The undrawn borrowing facility is the reserves based debt facility. As at balance date, the facility limit was US\$150.0 million (30 June 2013: US\$160.0 million), cash draw downs of US\$119.17 million (2013: cash draw down of US\$134.34 million and a letter of credit had been issued for US\$20.4 million) had been drawn against the facility. The letter of credit for US\$20.4 million was extinguished on 12 June 2014, on completion of the Osaka Gas Asset Sale Agreement.

Maturities of financial liabilities

An analysis of the Group's financial liability maturities for the current and prior financial year is set out below:

	Non-interest bearing	Variable rate	Fixed rate	Derivatives (net)
As at 30 June 2014	US\$'000	US\$'000	US\$'000	US\$'000
Less than 6 months	43,426	9,165	2,200	3,416
6 – 12 months	-	35,000	2,200	2,519
Between 1 and 2 years	-	20,000	91,440	222
Between 2 and 5 years	42	55,000	-	-
Over 5 years	-	-	-	-
Total contractual cash flows	43,468	119,165	95,840	6,157

	Non-interest bearing	Variable rate	Fixed rate	Derivatives (net)
As at 30 June 2013	US\$'000	US\$'000	US\$'000	US\$'000
Less than 6 months	39,350	-	2,200	1,237
6 – 12 months	-	14,735	2,200	-
Between 1 and 2 years	-	79,600	4,400	-
Between 2 and 5 years	22	40,000	91,440	-
Over 5 years	-	-	-	-
Total contractual cash flows	39,372	134,335	100,240	1,237

d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 'Financial Instruments: Disclosures' requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value as at 30 June 2014 and 30 June 2013:

	Level 1	Level 2	Level 3	Total
As at 30 June 2014	US\$'000	US\$'000	US\$'000	US\$'000
Assets				
Derivatives used for hedging	-	-	-	-
Total Assets	-	-	-	-
Liabilities				
Derivatives used for hedging	-	6,157	-	6,157
Financial liabilities at fair value through profit or loss	-	-	17,024	17,024
Conversion rights on convertible bonds	-	-	-	-
Total liabilities	-	6,157	17,024	23,181

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As at 30 June 2013	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Assets				
Derivatives used for hedging	-	-	-	-
Total Assets	-	-	-	-
Liabilities				
Derivatives used for hedging	-	1,237	-	1,237
Financial liabilities at fair value through profit or loss	-	-	17,436	17,436
Conversion rights on convertible bonds				
Total liabilities	-	1,237	17,436	18,673

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) was based on quoted market prices at the end of each reporting period. The quoted market price used for financial assets held by the Group was the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimate. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- the fair value of oil price swaps is calculated as the present value of the estimated future cash flows based on forward prices at balance sheet date;
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- other techniques, such as discounted cash flow analysis and Monte Carlo simulations, are used to determine fair value for the remaining financial instruments.

The fair value of conversion rights on convertible bonds is determined based on a simulation-based pricing methodology using a Monte Carlo simulation. A simulation-based pricing methodology was applied in order to model the dynamics of the underlying variables and to account for the individual specifications of the convertible bonds such as the inherent path dependency. Monte Carlo simulation uses random numbers as inputs to iteratively evaluate a deterministic model. The method involves simulating the various sources of uncertainty that affect the value of the relevant instrument and then calculating a representative value by substituting a range of values—in this case a lognormal probability distribution—for any factor that has inherent uncertainty. The results are calculated repeatedly, each time using a different set of random values from the probability functions. Depending upon the number of uncertainties and the ranges specified for them, a Monte Carlo simulation may typically involve thousands or tens of thousands (for Horizon Oil convertible bonds - 100,000) of recalculations before it is complete. The result is a probability distribution of possible outcomes providing a more comprehensive view of both what could happen and its likelihood. Market interest rates were applied in the model with a credit spread of 7.0%, together with a calculated share price volatility of 40.6% when quoted in US dollar terms. All other parameters were based on the specific terms of the convertible bonds issued.

The carrying value of receivables and payables are assumed to approximate their fair values due to their short-term nature.

The fair value of other financial liabilities (being financial guarantees), after factoring in the likelihood that the parent entity would be required to perform under the guarantees the fair value of the liability, was not considered material.

The fair value of borrowings for disclosure purposes is not materially different to their carrying value given the likely anticipated repayment profile.

The fair value of other classes of financial instruments not yet covered above were determined to approximate their carrying value.

(d) Capital risk

The consolidated entity manages its capital to ensure that entities in the consolidated group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances.

Note 3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The most significant estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities relate to:

- (i) the recoverability of exploration, development and production phase expenditure carried forward;
- (ii) reserve estimates;
- (iii) provisions for restoration;
- (iv) share-based payments; and
- (v) the recoverability of deferred tax assets.

The assumptions required to be made in order to assess the recoverability of exploration, development and production expenditure carried forward include the future price of crude oil, an estimated discount rate and estimates of crude oil reserves.

Reserve estimates require interpretation of complex and judgemental geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoir, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, provision for restoration and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserves are integral to amount of amortisation charged to profit or loss. Reserve estimates are prepared in accordance with guidelines prepared by the Society of Petroleum Engineers.

Assumptions made in respect of restoration, obligations include estimates of future costs, timing of required restoration, rehabilitation and decommissioning and an estimated discount rate.

Share-based payment transactions with directors and employees are measured by reference to the fair value of the options at the date they were granted. The fair value is ascertained using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The accounting estimates and assumptions relating to share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expense and equity.

The recoverability of deferred tax assets is based on the assumption that it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The Group has not recognised deferred tax assets in respect of some tax losses and temporary tax differences as the future utilisation of these losses and temporary tax differences is not considered probable at this point in time. Assessing the future utilisation of tax losses and temporary tax differences requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future utilisation of these tax losses and temporary tax differences becomes probable, this could result in significant changes to deferred tax assets recognised, which would in turn impact future financial results. During the current year, tax losses in New Zealand and PNG have been recognised as deferred tax assets on the basis that it is expected the operations will generate sufficient taxable earnings to fully utilise those losses. In New Zealand, the assessment of future taxable income to

support utilisation of tax losses is based on the Maari production facilities being back on-line following completion of repairs and maintenance work during the first half of 2014. In PNG, the assessment of future taxable income to support utilisation of tax losses is based on award of the Stanley PDL in May 2014 and expectation of production in the near term following positive initial drilling results.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the reporting period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future reporting period.

(b) Critical judgements in applying the Group's accounting policies

No critical judgements considered to have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year were made during the preparation of this report.

(c) Assumptions on funding

Funding for the Group's strategic growth plans is to be sourced from a variety of sources. Surplus revenues from the Group's operations in China and New Zealand, combined with debt drawn from the Group's reserves based debt facility of up to US\$150 million provide core funding. In addition, the Group advised on 23 May 2013 that it had entered into an agreement to sell 40% of its Papua New Guinea assets to Osaka Gas Co. Ltd. of Japan for US\$204 million. The first milestone payment of US\$78 million was received on 12 June and 24 July 2014, following completion of the transaction. A further US\$130 million in cash plus potential production payments where threshold condensate production is exceeded, will be payable on a project development decision which gives rise to Osaka Gas achieving equity LNG from its acquired gas volumes. Existing cash balances together with available debt capacity of existing and potential future debt facilities, and surplus revenue from the Group's operations in New Zealand and China are expected to be sufficient to pursue the current strategy. Should the full amount of the forecast internally generated cash flow and capital required to pursue the strategy not be raised and the Group adopt a modified strategy, the director's expect that the Group will be able to secure the necessary financing through one, or a combination of, additional borrowings, equity raising or asset sales; or deferring discretionary exploration and development activities.

Note 4. Segment information

(a) Description of segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors.

The operating segments identified are broadly based on the Group's working interest in each individual oil and gas permit, arranged by developmental phase. Discrete pre-tax financial information (including pre-tax operating profit and capital expenditure on exploration and evaluation assets and oil and gas assets) for each oil and gas permit is prepared and provided to the chief operating decision maker on a regular basis. In certain circumstances, individual oil and gas permits are aggregated into a single operating segment where the economic characteristics and long term planning and operational considerations of the individual oil and gas permits are such they are considered interdependent. The Group has identified five operating segments:

- New Zealand development – the Group is currently producing crude oil from the Maari/Manaia fields, located offshore New Zealand;
- New Zealand exploration – the Group is currently involved in the exploration and evaluation of hydrocarbons in two offshore permit areas: PEP 51313; and PMP 38160 Maari/Manaia;
- China exploration and development – the Group is currently involved in developing and producing of crude oil from the Block 22/12 – WZ6-12 and WZ12-8W oil field development and in the exploration and evaluation of hydrocarbons within Block 22/12; and
- PNG exploration and development - the Group is currently involved in the Stanley condensate/gas development (project FID during 2012), and the exploration and evaluation of hydrocarbons in six onshore permit areas - PRL 21, PPL 259, PPL 372, PPL 373 and PPL 430.

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- 'All other segments' include amounts of a corporate nature not specifically attributable to an operating segment.

(b) Segment information provided to the chief operating decision maker

	New Zealand Development	New Zealand Exploration	China Exploration and Development	Papua New Guinea Exploration and Development	All other segments	Total
2014	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment revenue:						
Revenue from external customers	19,722	-	118,728	-	-	138,450
Profit (loss) before tax	(6,341)	(3,949)	34,340	(1,557)	(16,710)	5,783
Depreciation and amortisation	3,622	-	35,775	464	173	40,034
Total segment assets as at 30 June 2014	104,424	5,100	187,414	210,998	6,967	514,903
Additions to non-current assets other than financial assets and deferred tax during the financial year ended:						
Exploration phase expenditure:	-	4,765	5,564	26,706	-	37,035
Development and production phase expenditure:	17,412	-	17,179	25,212	-	59,803
Plant and equipment:	-	-	-	159	719	878
Total segment liabilities as at 30 June 2014	78,016	2,228	102,873	13,754	95,466	292,337

	New Zealand Development	New Zealand Exploration	China Exploration and Development	Papua New Guinea Exploration and Development	All other segments	Total
2013	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment revenue:						
Revenue from external customers	31,852	-	16,219	-	-	48,071
Profit (loss) before tax	13,472	(10)	10,856	(404)	(14,524)	9,390
Depreciation and amortisation	3,700	-	4,652	431	309	9,092
Total segment assets as at 30 June 2013	80,158	9,787	206,769	164,122	15,350	476,186
Additions to non-current assets other than financial assets and deferred tax during the financial year ended:						
Exploration phase expenditure:	-	3,916	5,658	13,314	-	22,888
Development and production phase expenditure:	2,279	-	86,291	19,688	-	108,258
Plant and equipment:	-	-	-	3,857	315	4,172
Total segment liabilities as at 30 June 2013	87,184	3,100	99,275	33,358	86,256	309,173

(c) Other segment information

(i) Segment revenue

Revenue from external customers is derived from the sale of crude oil.

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Segment revenue reconciles to total consolidated revenue as follows:

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Total segment revenue	138,450	48,071
Rental income	5	6
Interest income	229	24
Profit from sale of assets	23,830	-
Total revenue	162,514	48,101

(ii) Segment profit before tax

The chief operating decision maker assesses the performance of operating segments based on a measure of profit before tax.

Segment profit before tax reconciles to consolidated profit before tax as follows:

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Total segment profit before tax	5,783	9,390
Rental income	5	6
Interest income	229	24
Profit on sale from assets	23,830	-
Unrealised movement in value of convertible bond conversion rights	412	991
Net foreign exchange (losses)	(232)	(386)
Profit before tax	30,027	10,025

(iii) Segment assets

The amounts provided to the chief operating decision maker with respect to total assets are measured in a manner consistent with that of the financial statements.

Reportable segment assets are equal to consolidated total assets.

(iv) Segment liabilities

The amounts provided to the chief operating decision maker with respect to total liabilities are measured in a manner consistent with that of the financial statements.

Reportable segment liabilities are equal to consolidated total liabilities.

Note 5. Sale of Assets

Sale of Partial Interest in PNG Assets to Osaka Gas

On 23 May 2013, the Group entered into an asset sale agreement (the 'Agreement') to sell 40% of its Papua New Guinea assets to Osaka Gas Niugini Pty Ltd ('Osaka Gas') a subsidiary of Osaka Gas Co. Ltd. of Japan with effect from 1 January 2013. Key aspects of the transaction were:

- Sale price of US\$204 million, including US\$74 million in cash on completion, a further US\$130 million in cash upon a project development decision which gives rise to Osaka Gas achieving equity LNG from its acquired gas volumes, plus potential production payments where threshold condensate production is exceeded. It should be noted that an upfront refundable

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deposit of 10% of the total sale price (US\$20.4 million) was received following execution of the Agreement, secured by a US\$20.4 million letter of credit issued by Horizon Oil Limited;

- the Group and Osaka Gas to form a strategic alliance to commercialise the Group's net certified reserves and contingent resources of 135 mmbbl and develop extensive acreage in Western Province, Papua New Guinea; and
- the Group to transfer 40% of its interests in PDL 10, formerly PRL 4 (Stanley field), PRL 21 (Elevala and Ketu fields) and PPL 259. Osaka Gas was also granted the option to acquire 40% of the Group's interests in recently acquired PPLs 372, 373 and 430 by paying a proportionate share of costs incurred.

The sale marked the beginning of a 60/40 strategic alliance between the Group and Osaka Gas. The principal objective of the partnership is to commercialise the certified reserves and contingent resources and develop the PNG assets for the purposes of supporting a mid-scale LNG project located on the coast in Western Province, PNG.

Completion of the Agreement was conditional upon customary consents, regulatory approvals and grant of the development licence for the Stanley field. Completion of the Agreement occurred on 12 June 2014 following receipt of all necessary consents, regulatory approvals and grant of the development licence for the Stanley field. Remaining cash due on completion of US\$78 million was received from Osaka Gas on 12 June 2014 and 24 July 2014.

The US\$20.4 million letter of credit was extinguished on completion of the Agreement on 12 June 2014.

The profit on sale recorded at completion is detailed as follows:

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Consideration on sale of assets		
Deposit on execution of agreement ¹	20,400	-
Remaining consideration received on completion	53,600	-
	74,000	-
Reimbursement of costs to effective sale date paid on completion	23,242	-
Reimbursement of costs to effective sale date receivable at completion	1,205	-
Total cash received/receivable at completion	98,447	-
Less:		
Reimbursement of costs to effective sale date	(24,447)	-
Exploration and oil and gas assets disposed	(48,523)	-
Transaction costs	(1,647)	-
Profit from sale of assets	23,830	-

¹ Refundable deposit received on execution of asset sale agreement in May 2013.

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Note 6. Revenue		
From continuing operations		
Crude oil sales	144,329	50,875
Net realised (loss) on oil hedging derivatives	(5,879)	(2,804)
	138,450	48,071
Other income		
Interest received from unrelated entities	229	24
Gain from disposal of oil and gas assets; exploration assets ¹	23,830	-
Rental income received from unrelated entities	5	6
	24,064	30

Gains – Conversion rights on convertible bonds²

Unrealised movement in fair value of convertible bond conversion rights	412	991
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¹ Following completion on 12 June 2014, under the Osaka Gas asset sale agreement, a significant gain was recognised on disposal of 40% of Horizon's interests in PDL 10 (formerly PRL 4), PRL 21 and PPL 259.

² The amount shown is the movement during the financial year of the fair value of the conversion rights relating to the 5.5% convertible bonds issued on 17 June 2011. The conversion rights can be settled in cash or ordinary shares of the parent entity, at the option of the issuer, and the number of shares to be issued at conversion is subject to the conversion price which may reset under certain circumstances. Accordingly, the conversion rights are a derivative financial liability and are marked to market through the profit and loss. Fair value of conversion rights at issuance on 17 June 2011 was US\$20,043,000. Refer to Note 21 for further details of the convertible bonds issued.

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Note 7. Expenses		
Cost of sales		
Direct production costs	30,987	12,072
Inventory adjustments ¹	75	(599)
Amortisation expense	39,397	8,579
Royalties and other levies ²	22,257	2,633
	92,716	22,685
General and administrative expenses		
Employee benefits expense (net)	3,842	4,812
Corporate office expense (including insurance)	2,645	1,421
Depreciation expense	637	513
Rental expense relating to operating leases	1,059	292
	8,183	7,038
Exploration and development expenses		
Exploration expenditure written off/expensed	10,520	606
	10,520	606
Financing costs		
Interest and finance charges	14,839	6,227
Discount unwinding on provision for restoration	806	234
Amortisation of prepaid financing costs	3,254	1,748
	18,899	8,209

¹ Includes production overlift/ underlift and inventory adjustments

² Includes Chinese special oil income levy

Other expenses		
Net foreign exchange losses	233	143
Other expenses	2,348 ¹	386
	2,581	529

¹ Other expenses includes costs associated with the proposed merger with Roc Oil.

	Consolidated	
	2014	2013
	US\$'000	US\$'000

Note 8. Income tax expense

(a) New Zealand royalty

Royalty paid/payable	599	5,436
Origination and reversal of royalty temporary differences	(861)	(1,454)
Total New Zealand royalty tax (benefit) / expense	(262)	3,982

(b) Income tax expense

Current tax	6,722	10
Deferred tax	9,039	3,676
(Over) provided in prior financial years	1,698	(1,117)
Total income tax expense	17,459	2,569

Income tax expense is attributable to:

Profit from continuing operations	17,459	2,569
Profit from discontinued operations	-	-
Aggregate income tax expense	17,459	2,569

Deferred income tax (revenue) expenses included in income tax expense comprises:

Decrease in deferred tax asset	5,525	2,134
Increase in deferred tax liabilities	3,514	1,542
	9,039	3,676

(c) Numerical reconciliation of income tax expense to prima facie tax payable

Profit from continuing operations before income tax	30,027	10,025
Less: Royalty paid/payable	(599)	(5,436)
	29,428	4,589

Tax at the Australian tax rate of 30% (2013: 30%)

Tax effect of amounts which are not deductible (taxable) in

calculating taxable income:

Expenditure not allowed for income tax purposes	4,122	2,011
Other deductible items	87	(1,772)
Non-assessable income	(7,383)	(297)
Other assessable income	-	165

Effect of overseas tax rates

Deferred tax asset not brought to account

Previously unrecognised tax losses now recognised

Under provision in prior financial years

Income tax expense

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(d) Tax losses

Unused tax losses (and applicable tax rate) for which no deferred tax asset has been recognised:

Horizon Oil Limited – 30% (2013: 30%)	27,648	-
Horizon Oil (USA) Inc. and other US entities – 34% (2013: 34%)	10,615	10,615
Horizon Oil (Papua) Limited and other PNG entities – 45% / 30% (2013: 45% / 30%)	7,041 ¹	105,850 ¹
	45,304	116,465
Potential tax benefit at applicable tax rates	15,072	35,364

¹ Following PDL award on the Stanley development during the current year, relevant PNG tax losses of \$1,880,000 (tax effected) have been recorded as a deferred tax asset with the majority of the remaining balance recorded as the tax base of the asset for which future deductions will be derived following the commencement of production.

The Company has no Australian subsidiaries and therefore it is not subject to the Australian tax consolidation regime.

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Note 9. Current assets – Cash and cash equivalents		
Cash at bank and on hand	81,161	8,992
Restricted cash (refer note (a) below)	17,749	10,035
Petty cash	1	1
	98,911	19,028

(a) Under the terms of a finance facility (refer to Note 19), certain cash balances are available to the Group after certain conditions of the relevant facility agreement are satisfied. The restricted cash balance was held on deposit at average floating interest rates of approximately 0.00% pa (2013: 0.13%).

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Note 10. Current assets – Receivables		
Other receivables (refer to note (a) below)	15,477	18,956
	15,477	18,956

(a) Of this balance US\$1,355,821 (2013: US\$1,112,032) related to amounts receivable from related parties. Refer to Note 32 for further details.

No receivable amounts were past due.

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Note 11. Inventories		
Crude oil, at cost	1,004	1,082
Drilling inventory, at cost	4,277	6,816
	5,281	7,898

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Note 12. Current – Other assets		
Prepayments	1,674	832
	1,674	832

	Assets		Liabilities		Net asset	
	2014	2013	2014	2013	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Note 13. Non-current assets – Deferred tax assets						
Recognised deferred tax assets and liabilities are attributable to the following:						
Prepaid borrowing costs	-	-	-	(2,014)	-	(2,014)
Provisions	426	379	-	-	426	379
Tax losses	1,880	12,076	-	-	1,880	12,076
Tax assets (liabilities)	2,306	12,455	-	(2,014)	2,306	10,441
Set off	-	(2,014)	-	2,014	-	-
Net tax assets	2,306	10,441	-	-	2,306	10,441

Note 14. Non-current assets – Plant and equipment

	Other plant and equipment US\$'000	Consolidated Leasehold improvements US\$'000	Total US\$'000
As at 1 July 2012			
Cost	2,207	3,533	5,740
Accumulated depreciation	(665)	(375)	(1,040)
Net book amount	1,542	3,158	4,700
Financial year ended 30 June 2013			
Opening net book amount	1,542	3,158	4,700
Additions	1,106	3,090	4,196
Disposals	-	-	-
Depreciation expense	(411)	(279)	(690)
Closing net book amount	2,237	5,969	8,206
As at 30 June 2013			
Cost	3,509	6,624	10,133
Accumulated depreciation	(1,272)	(655)	(1,927)
Net book amount	2,237	5,969	8,206
Financial year ended 30 June 2014			
Opening net book amount	2,237	5,969	8,206
Additions	177	659	836
Disposals	(754)	(2,094)	(2,848)
Depreciation expense	(347)	(289)	(636)
Closing net book amount	1,313	4,245	5,558
As at 30 June 2014			
Cost	2,749	4,928	7,677
Accumulated depreciation	(1,436)	(683)	(2,119)
Net book amount	1,313	4,245	5,558

Note 15. Non-current assets – Exploration phase expenditure

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Exploration phase expenditure		
Deferred geological, geophysical, drilling and other exploration and evaluation expenditure, including directly attributable general administrative costs	74,658	92,538

The reconciliation of exploration phase expenditure carried forward above is as follows:

Balance at beginning of financial year	92,538	77,658
Expenditure incurred during financial year	37,035	22,888
Transferred to development phase	(5,733)	(8,008)
Acquisitions during the financial year		-
Disposals during the financial year	(39,949)	-
Reimbursement of costs		-
Expenditure written off during financial year	(9,233)	-
Balance at end of financial year	74,658	92,538

Note 16. Non-current assets – Oil & gas assets

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Development and production phase expenditure		
Producing oil and gas property acquisition, deferred geological, seismic and drilling, production and distribution facilities and other development expenditure	424,675	359,139
Disposals during the financial year	(32,738)	-
Leased production phase asset	-	-
Less accumulated amortisation	(80,899)	(41,502)
	311,038	317,637

The reconciliation of development and production phase expenditure carried forward above is follows:

	Consolidated		
	Development phase expenditure	Production phase expenditure	Total
	US\$'000	US\$'000	US\$'000
Balance at 1 July 2012	133,263	76,687	209,950
Expenditure incurred during financial year	74,013	34,245	108,258
Transferred from exploration phase	8,008	-	8,008
Amortisation incurred	-	(8,579)	(8,579)
Balance at 30 June 2013	215,284	102,353	317,637
Transferred from exploration phase	5,733		5,733
Transferred from development phase		156,213	156,213
Transfer to production phase	(156,213)		(156,213)
Amortisation incurred	-	(39,397)	(39,397)
Disposals during the financial year	(32,738)	-	(32,738)
Expenditure incurred during financial year	28,604	31,199	59,803
Balance at 30 June 2014	60,670	250,368	311,038

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Note 17. Current liabilities – Payables		
Trade creditors	7,409	809
Share of joint operation creditors and accruals	17,745	33,925
Other creditors	10,561	5,416
	35,715	40,150

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Note 18. Derivative financial instruments		
Current:		
Derivative asset - Oil price swaps – cash flow hedges	-	-
Derivative liability - Oil price swaps – cash flow hedges	(5,935)	(1,237)
	(5,935)	(1,237)
Non-current:		
Derivative asset - Oil price swaps – cash flow hedges	-	-
Derivative liability - Oil price swaps – cash flow hedges	(222)	-
	(222)	-
Net derivative (liability) asset	(6,157)	(1,237)

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to oil price fluctuations in accordance with the Group's financial risk management policies (refer to Note 2(a)(ii)).

Oil price swap contracts (cash flow hedges)

During the financial year, oil price hedging was undertaken as a risk mitigation measure to ensure the Group's financial position remains sound and that the Group is able to meet its financial obligations in the event of low oil prices. As at 30 June 2014, the Group's oil hedge position was summarised as follows:

Crude oil price swap contracts	2015	2016	Total
Volume (bbls)	805,000	37,500	842,500
Weighted average Brent oil price (net of credit margin) (US\$/bbl)	99.59	97.56	99.5

As at 30 June 2013, the Group's oil hedge position was summarised as follows:

Crude oil price swap contracts	2014	2015	Total
Volume (bbls)	119,000	-	119,000
Weighted average Brent oil price (net of credit margin) (US\$/bbl)	94.45	-	94.45

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified into profit or loss when the hedged oil price transaction is recognised. The ineffective portion is recognised in profit or loss immediately. During the financial year, US\$5,879,000 (2013: US\$2,804,000) was transferred to profit or loss.

		Consolidated	
		2014	2013
		US\$'000	US\$'000
Note 19.	Borrowings		
Current:			
Bank loans		44,165	14,735
		44,165	14,735
Non-current:			
Bank loans		70,935	114,464
Convertible Bonds		72,346	66,367
		143,281	180,831
Total Borrowings		187,446	195,566

Bank loans – Reserves based debt facility

Following achievement of financial completion of the Beibu Gulf Project in Block 22/12, China, the Group renegotiated the terms of the Horizon Oil Facility Agreement (reserves based facility) during April 2014. The Joint Mandated Lead Arranging banks are Australia and New Zealand Banking Group Limited and Commonwealth Bank of Australia. The key amendments included a reduction in the overall facility limit from US\$160 million to US\$150 million with a deferral of the commencement of amortisation from 30 June 2014 until 31 December 2014 at which time the facility limit will reduce to US\$110 million. At 30 June 2014, total debt drawn under the facility was \$119.17 million. The \$20.4 million letter of credit associated with the conditionally refundable deposit paid by Osaka Gas on execution of the asset sale agreement in May 2013 was extinguished during the year on completion of the sale transaction.

Floating interest in respect of the facility was at LIBOR plus a weighted average margin of 3.95%. The facility is an amortising facility which matures in March 2018.

The facility was secured by a floating charge over the shares and assets of the borrowers (Horizon Oil International Limited, Horizon Oil (Papua) Limited, Horizon Oil (Beibu) Limited and Horizon Oil (Nanhai) LLC which are wholly owned subsidiaries of Horizon Oil Limited) and other Horizon Oil Limited subsidiaries, in favour of ANZ Fiduciary Services Pty Limited as security trustee. Horizon Oil Limited and other Horizon Oil Limited subsidiaries have guaranteed the performance of Horizon Oil International Limited, Horizon Oil (Papua) Limited, Horizon Oil (Beibu) Limited, Horizon Oil (Nanhai) LLC (which have also given guarantees) in relation to the loan facility from Australia and New Zealand Banking Group Limited and Commonwealth Bank of Australia. In addition, the shares of the following Horizon Oil Limited subsidiaries have been mortgaged to ANZ Fiduciary Services Pty Limited: Horizon Oil International Limited, Horizon Oil (Papua) Limited, Horizon Oil (Beibu) Limited, Horizon Oil (Nanhai) LLC, Horizon Oil International Holdings Limited, Ketu Petroleum Limited, Horizon Oil (PNG Holdings) Limited and Horizon Oil (China Holdings) Limited. The net book value of the entities in which shares have been mortgaged is US\$95 million. The Group was subject to covenants which are common for a facility of this nature.

Convertible Bonds

The parent entity issued 400 5.5% convertible bonds for US\$80 million on 17 June 2011. The bonds were issued with an initial conversion price of US\$0.52, equivalent to A\$0.49 based on exchange rates at the time of pricing, and represents a conversion premium of 29% to Horizon Oil Limited's last closing price of A\$0.38 on 2 June 2011. The initial conversion price was subject to adjustment in certain circumstances. Where the arithmetical average of the volume weighted average prices ('Average VWAP') for the 20 consecutive dealing days immediately prior to each of 17 June 2013, 17 June 2014 and 17 June 2015 (each a 'Reset Date') converted into US dollars at the prevailing rate on each such dealing day (each an 'Average Market Price') is less than the conversion price on the Reset Date, the conversion price will be adjusted on the relevant Reset Date to the Average Market Price with respect to such Reset Date. Any adjustment as a result of such provisions is limited so that the conversion price can be no lower than 80 per cent of the initial conversion price of US\$0.520, that is US\$0.416. The Average VWAP in the relevant period to 17 June 2013 was US\$0.374. Accordingly, the conversion price of the convertible bonds had been adjusted to US\$0.416 with effect from 17 June 2013. The issuance of new ordinary shares during the financial year under the Entitlement Offer discussed earlier in this report results in a further adjustment to the conversion price from US\$0.416 to US\$0.409.

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No bonds had been converted at 30 June 2014. On conversion the holder may elect to settle the bonds in cash or ordinary shares in the parent entity. Based on the adjusted conversion price, the maximum number of shares that could be issued on conversion is 195,599,022 ordinary shares in the parent entity. The bonds carry a coupon of 5.5% per annum, payable semi-annually in arrears, and carry a 7% yield to maturity on 17 June 2016 when they will be redeemed at 108.80% of their principal amount. The bonds are listed on the Singapore Securities Exchange.

	2014 US\$'000	2013 US\$'000
Face value of bonds issued	80,000	80,000
Less: Other financial liabilities – value of conversion rights (Note 21)	(20,043)	(20,043)
Less: Transaction costs	(3,362)	(3,362)
	<u>56,595</u>	<u>56,595</u>
Finance costs in prior periods ¹	18,739	9,176
Finance costs ¹	10,381	9,568
Less: Coupon paid in prior periods	(8,800)	(4,400)
Less: Coupon paid during the financial year	(4,400)	(4,400)
Less: Coupon accrued	(169)	(172)
Non-current liability	<u>72,346</u>	<u>66,367</u>

¹ Finance costs are calculated by applying the effective interest rate of 14.8% to the liability component. A component of these has been capitalised in accordance with note 1(u).

	Consolidated 2014 US\$'000	2013 US\$'000
Note 20. Non-current liabilities – Payables		
Other creditors	54	21,253
	<u>54</u>	<u>21,253</u>

Other creditors in the prior financial year included US\$20.4 million payable to Osaka Gas associated with a conditionally refundable deposit paid by Osaka Gas on execution of the asset sale agreement dated 23 May 2013. Following completion of the Agreement on 12 June 2014, the deposit was no longer refundable and was reclassified as part of the sale proceeds. Refer to note 5 for further details.

	Consolidated 2014 US\$'000	2013 US\$'000
Note 21. Non-current – Other financial liabilities		
Conversion rights on convertible bonds	17,024	17,436
	<u>17,024</u>	<u>17,436</u>

The amount shown for other financial liabilities is the fair value of the conversion rights relating to the 5.5% convertible bonds. The conversion rights can be settled in cash or ordinary shares of the parent entity, at the option of the issuer, and the number of shares to be issued at conversion is subject to the conversion price which may reset under certain circumstances. Accordingly, the conversion rights are a derivative financial liability and are marked to market. Fair value of conversion rights at issuance on 17 June 2011 was US\$20,043,000. Refer to Note 19 for further details of the convertible bonds issued.

	Assets		Liabilities		Net liability	
	2014	2013	2014	2013	2014	2013
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Note 22. Non-current liabilities – Deferred tax liability						
Recognised deferred tax assets and liabilities are attributable to the following:						
Prepaid borrowing costs	-	-	1,601	-	1,601	-
Exploration expenditure	-	-	1,414	2,714	1,414	2,714
Development and production expenditure	-	-	13,021	8,708	13,021	8,708
Royalty benefit (net)	-	-	4,823	5,684	4,823	5,684
Provisions	(215)	(42)	-	-	(215)	(42)
Tax losses	(3,538)	-	-	-	(3,538)	-
Tax (assets) liabilities	(3,753)	(42)	20,859	17,106	17,106	17,064
Set off	3,753	42	(3,753)	(42)	-	-
Net tax liabilities	-	-	17,106	17,064	17,106	17,064

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Note 23. Provisions		
Restoration (current)	12,497	-
Restoration (non-current)	14,742	15,664
	27,239	15,664

The reconciliation of the movement in the total of the restoration provisions is as follows:

Balance at beginning of financial year	15,664	5,821
Additional provision during financial year	10,768	9,609
Unwinding of discount	807	234
Balance at end of financial year	27,239	15,664

	Consolidated		Consolidated	
	2014	2013	2014	2013
	Number of shares			
	'000	'000	US\$'000	US\$'000
Note 24. Contributed equity				
(a) Issued share capital				
<i>Ordinary shares</i>				
Fully paid	1,301,981	1,135,267	174,342	127,187
Partly paid to A\$0.01	1,500	3,000	459	851
	1,303,481	1,138,267	174,801	128,038

(b) Movements in ordinary share capital

(i) Ordinary shares (fully paid)

Date	Details	Number of shares	Issue price	US\$'000
30/06/2012	Balance as at 30 June 2012	1,130,811,515		125,578
10/10/2012	Transfer from partly paid shares	1,950,000	A\$0.35	710
10/10/2012	Exercise of employee options*	2,505,000	A\$0.35	899
30/06/2013	Balance as at 30 June 2013	1,135,266,515		127,187
15/08/2013	Institutional Entitlement Offer ¹	99,296,446	A\$0.33	28,272
02/09/2013	Retail Entitlement Offer ¹	62,886,971	A\$0.33	17,712
03/10/2013	Exercise of employee options	2,198,000	A\$0.26	545
03/10/2013	Transfer from partly paid shares	1,500,000	A\$0.26	392
05/05/2014	Exercise of general employee options*	500,000	A\$0.29	145
16/05/2014	Exercise of employee options*	333,333	A\$0.26	89
30/06/2014	Balance as at 30 June 2014	1,301,981,265		174,342

* Relates to issue of fully paid ordinary shares on exercise of options issued to consultants and employees. Information relating to Option Schemes is set out in Note 33.

¹**Non-Renounceable Pro-Rata Entitlement Offer**

On 31 July 2013, the Company announced a fully underwritten accelerated non-renounceable pro-rata entitlement offer to raise approximately A\$53.5 million ('Entitlement Offer').

Net proceeds from the Entitlement Offer was used to continue Horizon Oil Limited's active exploration and development work programme across Papua New Guinea, China and New Zealand pending completion and receipt of funds from the Papua New Guinea asset sale transaction with Osaka Gas.

The Entitlement Offer comprised a 1 for 7 accelerated non-renounceable Entitlement Offer of new fully paid ordinary shares in Horizon Oil Limited ('New Shares') to raise approximately A\$53.5 million, consisting of:

- an accelerated institutional component completed on 31 July 2013, raising approximately A\$33 million ('Institutional Entitlement Offer'); and
- a retail component which was open from Friday, 9 August 2013 to Friday, 23 August 2013, aimed at raising approximately A\$21 million ('Retail Entitlement Offer').

The 162,180,930 New Shares were priced at \$0.33 per share ('Offer Price') representing:

- 10.8% discount to the closing price of Horizon Oil Limited's ordinary shares on the ASX on Tuesday, 30 July 2013;
- 13.0% discount to the 5-day volume weighted average price ('VWAP'); and
- 9.6% discount to the theoretical ex-rights price ('TERP') of \$0.365.

The New Shares rank equally with existing Horizon Oil Limited shares from the date of issue. The issuance of new shares under the Entitlement Offer resulted in an adjustment to the conversion price of the Group's US\$80 million in convertible bonds from US\$0.416 to US\$0.409. The initial conversion price was reduced in June 2013 from US\$0.52 to US\$0.416.

(ii) Ordinary shares (partly paid to A\$0.01):

Date	Details	Number	Issue price	US\$'000
30/06/2012	Balance as at 30 June 2012	3,450,000		1,108
10/10/2012	Transfer to fully paid shares	(1,950,000)	A\$0.35	(710)
10/10/2012	Exercise of employee options*	500,000	A\$0.27	142
10/10/2012	Exercise of employee options*	1,000,000	A\$0.30	311
30/06/2013	Balance as at 30 June 2013	3,000,000		851
03/10/2013	Transfer to fully paid shares	(1,500,000)	A\$0.26	(392)
30/06/2014	Balance as at 30 June 2014	1,500,000		459

* Relates to issue of partly paid ordinary shares on exercise of employee options. Information relating to Employee Option Schemes is set out in Note 33.

(c) Ordinary shares**Fully paid**

Fully paid ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. Voting rights are governed by the Company's Constitution. In summary, on a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each fully paid ordinary share is entitled to one vote.

Partly paid

Partly paid ordinary shares are issued on exercise of employee options. The outstanding obligation in relation to the partly paid ordinary shares is payable either when called or by the date not exceeding 5 years from the grant date of the option which gave rise to the partly paid ordinary share. Partly paid ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. Voting rights are governed by the Company's Constitution. In summary, on a show of hands every holder of partly paid ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll, is entitled to one vote to the proportion of the total issue price then paid up.

(d) Unlisted options over unissued ordinary shares

Information related to general options, the Employee Option Scheme and the Employee Performance Incentive Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year is set out in Note 33.

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Note 25. Reserves and retained profits		
(a) Reserves		
Share-based payments reserve		8,739
Movements:		
Balance at beginning of financial year	8,739	7,498
Employee share-based payments expense	1,263	1,241
Balance at end of financial year	10,002	8,739
Hedge reserve		(855)
Movements:		
Balance at beginning of financial year	(855)	(77)
Movement in net market value of hedge contracts	(5,303)	(778)
Balance at end of financial year	(6,158)	(855)
Total reserves	3,844	7,884
(b) Retained profits		
Retained profits at beginning of financial year	31,091	27,617
Net profit for financial year	12,830	3,474
Retained profits at end of financial year	43,921	31,091

(c) Nature and purpose of reserves*Share-based payment reserve:*

The fair value of options and share appreciation rights granted to employees results in an increase in equity upon recognition of the corresponding employee benefits expense, as described in the accounting policy set out in Note 1(v)(iii). The fair value of general options granted also results in an increase in equity.

The Company has elected to retain any amounts originally recognised in the share-based payments reserve, regardless of whether the associated options or share appreciation rights are exercised, cancelled or lapse unexercised.

Hedge reserve:

Changes in the market value of the effective portion of derivatives is reflected directly in equity until such time as the hedge is ineffective or expires, as described in the accounting policy set out in Note 1(s).

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Note 26. Franking credits		
Franking credits available for subsequent financial years ¹	148	104

¹ The franking credits available for subsequent financial years are only available to New Zealand resident shareholders under the Trans-Tasman imputation legislation.

Note 27. Asset acquisition

(a) Summary of acquisition

On 16 April 2013, Horizon Oil (PNG Holdings) Limited, a wholly owned subsidiary of Horizon Oil Limited, entered into a sale and purchase agreement with Jurassic International Holdings Limited to acquire 90% of Jurassic International Holdings Limited (PNG), a wholly owned subsidiary of Jurassic International Holdings Limited which holds a 100% net working interest in PPL 372 and PPL 373 in PNG. Consideration for the acquisition consisted of US\$803,250 adjusted for working capital balances on hand at the date of acquisition.

Whilst the acquisition involved the purchase of a controlling interest in the legal entity Jurassic International Holdings Limited, the substance of the transaction was the acquisition of assets, being a 90% interest in PPLs 372 and 373. As such, in accordance with the accounting policy described in Note 1(m), the Group identified and recognised the individual identifiable assets acquired and liabilities assumed at the effective acquisition date. The consideration paid was allocated to the individual identifiable assets and liabilities on the basis of their relative fair values. Transaction costs associated with the acquisition are a component of the consideration transferred.

Details of the purchase consideration and the net assets acquired are as follows:

	2013 US\$'000
Purchase consideration:	
Cash paid	783
Total purchase consideration	<u>783</u>

The assets and liabilities recognised as a result of the acquisition are as follows:

2013	Fair Value US\$'000
Exploration phase expenditure	803
Payables	<u>(20)</u>
Net identifiable assets acquired	<u>783</u>

There were no acquisitions in the financial year ended 30 June 2013.

(b) Purchase consideration – cash outflow

	2013 US\$'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	783
Outflow of cash – investing activities	<u>783</u>

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Note 28. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy set out in Note 1(b):

Name of subsidiary	Country of incorporation	Percentage of equity holding and voting interest (all shares issued are ordinary shares)		Business activities carried on in
		2014	2013	
		%	%	
Horizon Oil International Limited	New Zealand	100	100	New Zealand
Horizon Oil (New Zealand) Limited	New Zealand	100	100	New Zealand
Horizon Oil International Holdings Limited	BVI	100	100	BVI
Horizon Oil (Beibu) Limited	BVI	100	100	China
Horizon Oil (China Holdings) Limited	BVI	100	100	BVI
Horizon Oil (PNG Holdings) Limited	BVI	100	100	BVI
Horizon Oil (Papua) Limited	Bermuda	100	100	PNG
Horizon Oil (USA) Inc.	USA	100	100	USA
Ketu Petroleum Limited	BVI	100	100	BVI
Horizon Oil (Nanhai) LLC	USA	100	100	China
Jurassic International Holdings Limited	PNG	90	90	PNG

Note 29. Interest in joint operations

Companies in the Group were participants in a number of joint operations. The Group has an interest in the assets and liabilities of these joint operations. The Group's share of assets and liabilities of the joint operations is included in the consolidated statement of financial position in accordance with the accounting policy described in Note 1(b) under the following classifications:

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Current assets		
Cash and cash equivalents	4,682	3,528
Receivables	1,955	4,221
Inventories	4,937	7,899
Total current assets	11,574	15,648
Non-current assets		
Plant and equipment	4,514	7,617
Exploration phase expenditure	58,434	82,086
Oil and gas assets	409,866	296,757
Total non-current assets	472,814	386,460
Total assets	484,388	402,108
Current liabilities		
Payables	32,030	33,925
Total current liabilities	32,030	33,925
Non-current liabilities		
Payables	13	831
Total non-current liabilities	13	831
Total liabilities	32,043	34,756
Share of net assets employed in joint operations	452,345	367,352

Contingent liabilities in respect of joint operations are detailed in Note 36.

Exploration and development expenditure commitments in respect of joint operations are detailed in Note 39.

The Group had an interest in the following joint operations:

Permit or licence	Principal activities	Interest (%) 30 June 2014	Interest (%) 30 June 2013
New Zealand PMP 38160 (Maari/Manaia)	Oil and gas production, exploration and development	10.00%	10.00%
PEP 51313 (Matariki)	Oil and gas exploration	21.00%/10.00% ¹	21.00%/10.00% ¹
China Block 22/12	Oil and gas exploration and development	26.95% / 55% ²	26.95% / 55% ²
PNG PDL 10 (formerly PRL 4)	Oil and gas development	30.00% ^{3,4,5}	50.00% ^{3,4}
PRL 21	Oil and gas exploration and development	27.00% ^{3,4}	45.00% ^{3,4}
PPL 259	Oil and gas exploration	35.00% ^{3,4}	25.00% ^{3,4}
PPL 372	Oil and gas exploration	90.00% ^{3,4}	90.00% ^{3,4}
PPL 373	Oil and gas exploration	90.00% ^{3,4}	90.00% ^{3,4}
PPL 430	Oil and gas exploration	50.00% ^{3,4}	50.00% ^{3,4}

- Under the terms of the farm in agreement executed in November 2012, in the event of commercial discovery at the Whio prospect, Horizon Oil Limited's interest over the Whio prospect will reduce to 10%.
- China National Offshore Oil Corporation is entitled to participate at up to a 51.00% equity level in any commercial development within Block 22/12. During 2011 CNOOC exercised their right to participate in the development of WZ 6-12 and WZ 12-8W within Block 22/12 at 51.00%.
- PNG Govt may appoint a state nominee to acquire up to a 22.5% participating interest in any commercial development within the PNG licence areas.
- Under the terms of the asset sale agreement executed with Osaka Gas on 23 May 2013, Horizon's interests in PDL 10 (formerly PRL 4), PRL 21 and PPL 259 were reduced by 40% on transaction completion during 2014. Osaka Gas have an option to acquire 40% of Horizon's interests in PPLs 372, 373 and 430. Refer to Note 5 for further details.
- Subject to finalisation of Stanley gas field unitisation adjustments (which do not reduce Horizon Oil group interests)

	Consolidated	
	2014	2013
	US\$	US\$

Note 30. Remuneration of external auditors

During the financial year, the following fees were paid or payable for services provided by the external auditor of the parent entity and its related practices:

1. PwC Australia		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	152,876	178,507
Other assurance servicesIndependent limited assurance report on the proposed merged group pro forma financial information in Scheme Booklet dated 3 July 2014	97,002	-
Other services	18,927	-
Total remuneration for audit and other assurance services	268,805	178,507
<i>Taxation services</i>		
Tax compliance	98,723	47,104
Other services	-	6,240
Total remuneration for taxation services	98,723	53,344
2. Non-PwC audit firms		
<i>Audit and other assurance services</i>		
	14,012	11,797
Other services	-	-
Total remuneration for audit and other assurance services	14,012	11,797
Total auditors' remuneration	381,540	243,648

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It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to its statutory external audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. It is the Group's policy to seek competitive tenders for all major consulting projects.

Note 31. Remuneration of key management personnel

See the Remuneration Report within the Directors' Report for details of directors' and other key management and their detailed remuneration.

Key management personnel compensation

	Consolidated 2014 US\$	2013 US\$
Short-term employee benefits	3,295,600	3,313,476
Post-employment benefits	112,818	199,045
Long term benefits	49,104	47,878
Share-based payments (non-cash)	1,032,733	942,832
Total key management personnel remuneration	4,490,255	4,105,141

Detailed remuneration disclosures are provided in sections A-D of the audited Remuneration Report on pages 11 to 22.

Loans to key management personnel

There were no loans to directors or other key management personnel during the current or prior financial year.

Other transactions with key management personnel

There were no other transactions with key management personnel during the current or prior financial year.

Note 32. Related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties, unless otherwise stated.

Directors and other key management personnel

There were no related party transactions with Directors and other key management personnel during the current or prior year other than as disclosed in sections A – D of the Remuneration report and note 31.

Subsidiaries

Interests in subsidiaries are set out in Note 28.

Details in respect of guarantees provided to subsidiaries are set out in Note 42.

Transactions with related parties

Transactions between Horizon Oil Limited and related parties in the wholly-owned Group during the financial years ended 30 June 2014 and 2013 consisted of:

- (a) Contributions to share capital by Horizon Oil Limited;
- (b) Loans advanced by Horizon Oil Limited;
- (c) Loans repaid to Horizon Oil Limited;
- (d) Dividends paid by subsidiaries to Horizon Oil Limited;
- (e) Payments to Horizon Oil Limited under financial guarantee contract arrangements;
- (f) Interest payments to Horizon Oil Limited on loans advanced to subsidiaries;
- (g) Reimbursement of expenses to Horizon Oil Limited; and
- (h) Uncalled share capital.

The reimbursement of expenses to Horizon Oil Limited by subsidiaries is based on costs recharged on a relevant time allocation of consultants and employees and associated office charges.

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The following transactions occurred with related parties:

	2014 US\$	2013 US\$
<i>Superannuation contributions</i>		
Superannuation contributions to superannuation funds on behalf of employees	296,811	327,054
<i>Other transactions</i>		
Payments to Horizon Oil Limited under financial guarantee contract arrangements from wholly owned subsidiary	2,724,015	1,920,253
Final call on partly paid and fully paid ordinary shares in Horizon Oil Limited paid by employees	309,420	669,207

Loans to/from related parties

	2014 US\$	2013 US\$
<i>Loans to other related parties (uncalled share capital)</i>		
Balance at beginning of the financial year	1,112,032	1,085,851
Loans advanced	553,209	695,388
Loan repayments received	(309,420)	(669,207)
Interest charged/paid	-	-
Balance at end of financial year	1,355,821	1,112,032

	2014 US\$	2013 US\$
<i>Loans from Horizon Oil Limited (ultimate Australian parent entity)</i>		
Balance at beginning of the financial year	203,665,890	207,826,358
Loans advanced	78,525,337	21,042,807
Loan repayments received	(27,574,601)	(22,077,596)
Interest charged	3,687,684	796,725
Interest paid	(2,277,551)	(3,922,404)
Balance at end of financial year	256,026,759	203,665,890

Terms and conditions

Transactions relating to dividends, calls on partly paid shares and subscriptions for new ordinary shares were on the same terms and conditions that applied to other shareholders.

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties, and no interest has been charged or credited to loans with other related parties. Certain loans to/ from subsidiaries are subject to interest, however, the interest is typically suspended until commercial production commences or a change in the ownership interest of the entity occurs. The average interest rate on loans attracting interest during the financial year was 6.0% (2013: 4.4%). Outstanding balances are unsecured and repayable in cash.

Note 33. Share-based payments

Set out below is a summary of unlisted options and share appreciation rights on issue:

Grant date	Expiry date	Exercise price	Balance start of financial year Number	Granted during financial year Number	Exercised during financial year Number	Forfeited during financial year Number	Balance end of financial year Number	Vested and exercisable at end of financial year Number
Consolidated Entity 2014								
Share Appreciation Rights issued								
27/10/2010	27/10/2015	A\$0.30 ⁴	6,693,828	-	-	-	6,693,828	-
05/08/2011	05/08/2016	A\$0.31 ⁴	6,478,276	-	-	-	6,478,276	-
13/08/2012	13/08/2017	A\$0.27 ⁴	9,561,936	-	-	-	9,561,936	-
19/08/2013	19/08/2018	A\$0.33 ⁴	-	8,547,599	-	-	8,547,599	-
Total			22,734,040				31,281,639	
Weighted average exercise price			A\$0.29	A\$0.33	-	-	A\$0.30	-
Options issued								
03/10/2008	03/10/2013	A\$0.26 ¹	1,848,000	-	(1,848,000)	-	-	-
03/10/2008	03/10/2013	A\$0.26 ³	350,000	-	(350,000)	-	-	-
25/09/2009	25/10/2014	A\$0.29 ¹	5,175,000	-	-	-	5,175,000	5,175,000
25/09/2009	25/10/2014	A\$0.29 ³	850,000	-	(500,000)	-	350,000	350,000
09/10/2009	09/10/2014	A\$0.31 ³	2,700,000	-	-	-	2,700,000	2,700,000
11/12/2009	11/12/2014	A\$0.34 ²	500,000	-	-	-	500,000	500,000
16/09/2010	16/09/2015	A\$0.30 ³	350,000	-	-	-	350,000	350,000
06/06/2011	30/06/2014	A\$0.36 ⁵	15,000,000	-	(15,000,000)	-	-	-
10/01/2012	10/04/2015	A\$0.21 ²	1,000,000	-	-	-	1,000,000	666,667
28/05/2012	28/08/2015	A\$0.26 ²	2,000,000	-	-	-	2,000,000	1,333,334
28/05/2012	28/05/2017	A\$0.26 ³	2,000,000	-	(333,333)	-	1,666,667	1,000,001
17/09/2012	17/09/2017	A\$0.29 ³	500,000	-	-	-	500,000	166,667
20/02/2013	20/02/2018	A\$0.43 ³	350,000	-	-	-	350,000	-
16/04/2013	16/04/2018	A\$0.40 ³	350,000	-	-	-	350,000	-
Total			32,973,000				14,941,667	
Weighted average exercise price			A\$0.32	-	A\$0.27	A\$0.36	A\$0.29	A\$0.26

1. Relates to options issued under the Employee Performance Incentive Plan.
2. Relates to general options issued to third party consultants.
3. Relates to options issued under the Employee Option Scheme.
4. No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.
5. Relates to general options issued to Petsec America Pty Limited as part consideration for the acquisition of Petsec Petroleum LLC (the Petsec subsidiary which held Petsec's interest in Block 22/12, offshore China).
6. The exercise price of the options and SARS outstanding at 31 July 2013 were reduced by A\$0.006 following the rights issue during the year.

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Grant date	Expiry date	Exercise price	Balance start of financial year Number	Granted during financial year Number	Exercised during financial year Number	Forfeited during financial year Number	Balance end of financial year Number	Vested and exercisable at end of financial year Number
Consolidated Entity 2013								
Share Appreciation Rights issued								
27/10/2010	27/10/2015	A\$0.31 ⁴	6,693,828	-	-	-	6,693,828	-
05/08/2011	05/08/2016	A\$0.32 ⁴	6,478,276	-	-	-	6,478,276	-
13/08/2012	13/08/2017	A\$0.28 ⁴	-	9,561,936	-	-	9,561,936	-
Total			13,172,104	9,561,936	-	-	22,734,040	-
Weighted average exercise price			A\$0.31	A\$0.28	-	-	A\$0.30	-
Options issued								
10/10/2007	10/10/2012	A\$0.35 ¹	4,023,000	-	(2,505,000)	(1,518,000)	-	-
03/10/2008	03/10/2013	A\$0.27 ¹	2,348,000	-	(500,000)	-	1,848,000	1,848,000
03/10/2008	03/10/2013	A\$0.27 ³	350,000	-	-	-	350,000	350,000
25/09/2009	25/10/2014	A\$0.30 ¹	6,175,000	-	(1,000,000)	-	5,175,000	5,175,000
25/09/2009	25/10/2014	A\$0.30 ³	850,000	-	-	-	850,000	850,000
09/10/2009	09/10/2014	A\$0.32 ³	2,700,000	-	-	-	2,700,000	2,700,000
11/12/2009	11/12/2014	A\$0.35 ²	500,000	-	-	-	500,000	500,000
16/09/2010	16/09/2015	A\$0.31 ³	350,000	-	-	-	350,000	233,333
06/06/2011	30/06/2014	A\$0.37 ⁵	15,000,000	-	-	-	15,000,000	15,000,000
10/01/2012	10/04/2015	A\$0.22 ²	1,000,000	-	-	-	1,000,000	333,333
28/05/2012	28/08/2015	A\$0.27 ²	2,000,000	-	-	-	2,000,000	666,667
28/05/2012	28/05/2017	A\$0.27 ³	2,000,000	-	-	-	2,000,000	666,667
17/09/2012	17/09/2017	A\$0.30 ³	-	500,000	-	-	500,000	-
20/02/2013	20/02/2018	A\$0.44 ³	-	350,000	-	-	350,000	-
16/04/2013	16/04/2018	A\$0.41 ³	-	350,000	-	-	350,000	-
Total			37,296,000	1,200,000	(4,005,000)	(1,518,000)	32,973,000	28,323,000
Weighted average exercise price			A\$0.33	A\$0.37	A\$0.33	A\$0.35	A\$0.33	A\$0.33

1. Relates to options issued under the Employee Performance Incentive Plan.
2. Relates to general options issued to third party consultants.
3. Relates to options issued under the Employee Option Scheme.
4. No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.
5. Relates to general options issued to Petsec America Pty Limited as part consideration for the acquisition of Petsec Petroleum LLC (the Petsec subsidiary which held Petsec's interest in Block 22/12, offshore China).

The weighted average share price at the date of exercise of options exercised during the financial year ended 30 June 2014 was A\$0.35 (2013 – A\$0.35).

The weighted average remaining contractual life of share options outstanding at the end of the period was 0.99 years (2013 – 1.45 years).

Long Term Incentive Plan

Until April 2010, long-term incentives were provided to certain employees via the Company's share option plans. The revised LTI arrangements approved at the 2010 annual general meeting apply to senior executives and involve the grant of share appreciation rights which may vest subject (amongst other things) to the level of total shareholder return ('TSR') achieved in the vesting period, relative to an appropriate index.

Under the LTI Plan, the board has the discretion, subject to the ASX Listing Rule requirements, to grant share appreciation rights ('SARs') to executives as long term incentives. The board has determined that 25% of senior executive's total remuneration would be long term incentives in the form of SARs, with the number of SARs granted based on the value of a SAR.

A SAR is a right to receive either or both a cash payment or shares in the Company, as determined by the board, subject to the Company satisfying certain conditions, including performance conditions.

The LTI Plan provides that the amount of the cash payment or the number of shares in the Company that the participant receives on exercise of the SAR is based on the value of the SAR at the time it is exercised ('SAR Value'). The SAR Value is the excess, if any, of the volume weighted average price

('VWAP') of shares in the Company for the ten business day period up to the date before the date the SAR is exercised over the VWAP of shares in the Company for the ten business day period up to the day before the "Effective Allocation Date" for the SARs. The Effective Allocation Date for the SARs is the grant date of the SARs or any other day determined by the board, at the time of the grant. The Effective Allocation Date would generally be the date the executive's entitlement was determined.

If the board determines that the SARs are to be satisfied in cash, the amount of cash that the participant receives on the exercise of the SARs is the SAR Value multiplied by the number of SARs exercised (less any deduction for taxes that the Company is required to make from the payment). If the board determines that the SARs are to be satisfied in shares, the number of shares that the participant receives on the exercise of the SARs is the SAR Value divided by the volume weighted average price of shares in the Company for the ten business day period up to the day before the day the SARs are exercised. Where the number of shares calculated is not a whole number, it will be rounded down to the nearest whole number.

No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.

Employee Option Scheme

The issue of securities under the Employee Option Scheme was approved by shareholders for the purposes of the ASX Listing Rules at the 2011 Annual General Meeting. The scheme is open to permanent full time or part time employees of the Company. Executive directors and the Company's senior executives were eligible to participate until April 2010, when the board resolved to modify the remuneration arrangements for the Company's senior executives.

The maximum number of ordinary shares in respect of which options may be issued pursuant to the Employee Option Scheme, together with the number of partly paid ordinary shares on issue pursuant to any other employee share scheme of the Company, must not exceed 5% of the number of ordinary shares in the Company on issue from time to time.

Each option entitles the employee to subscribe for one share in the Company and each option expires 5 years from the date of issue. Options granted are progressively exercisable in three equal tranches from dates which are 12, 24 and 36 months after grant date. Upon exercise of the option, only one cent of the exercise price will be payable, with the balance being paid at the expiration of the period which is 5 years from the date of the issue of the options.

The exercise price will be the greater of:

- (a) the price determined by directors but will not be less than the weighted average sale price per share of all sale prices at which fully paid ordinary shares are sold on the ASX during the period of 5 business days ending on the business day prior to the date of the directors' meeting at which the directors resolved to grant the option; and
- (b) 20 cents per option.

The option exercise prices are subject to adjustment in certain circumstances in line with the ASX Listing Rule 6.22.2.

Employee Performance Incentive Plan

In April 2010, the board resolved to modify the remuneration arrangements such that no new options are intended to be issued under the Company's Employee Performance Incentive Plan.

Prior to April 2010, employees, including executive directors, were eligible to participate in the Employee Performance Incentive Plan. The issue of securities under the Employee Performance Incentive Plan was approved by shareholders for the purposes of the ASX Listing Rules at the 2009 Annual General Meeting.

The number of options granted under the Employee Performance Incentive Plan was subject to the performance of relevant employees. Eligible employees were required to achieve at least 50% of agreed annual performance objectives before options would be granted. The number of options granted was equal to the percentage of performance objective achievement multiplied by the maximum number of options able to be granted. The maximum number of options able to be granted to an employee in

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any financial year was 60% of the total number of options granted to the relevant employee under the Company's employee share scheme.

Options granted under the Employee Performance Incentive Plan are subject to the following restrictions on exercise:

- options are not exercisable unless and until the five day volume average weighted price of the Company's ordinary shares equals or exceeds a share price "hurdle" in excess of the exercise price determined by the board at the date of grant of the options. Until such time, all options otherwise exercisable are not able to be exercised; and
- subject to the Company's share price exceeding the hurdle, options granted are progressively exercisable in three equal tranches from dates which are 12, 24 and 36 months after grant date.

Options/ share appreciation rights issued

8,547,599 share appreciation rights were issued under the Long Term Incentive Plan. The exercise price of these SARs is A\$0.3326 with performance hurdles to be achieved prior to exercise. The independently assessed fair value at grant date of these share appreciation rights was A\$0.1193 per SAR.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option/SAR, the impact of dilution, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option/SAR.

The model inputs for the grant of share appreciation rights during the financial year ended 30 June 2014 included:

Grant date	19 August 2013
Expiry date	19 August 2018
Exercise price	N/A
10 Day VWAP of Horizon Shares at grant date	A\$0.3326
Expected price volatility	34.60% p.a.
Risk free rate	3.29% p.a.
Expected dividend yield	0.00% p.a.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the financial year as part of employee benefits expense in profit or loss were as follows:

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Share Appreciation Rights issued under: Long Term Incentive Plan	1,099	915
Options issued under:		
Employee Option Scheme	164	169
Employee Performance Incentive Plan	-	157
Total employee share-based payments expense	1,263	1,241

Options/SARs in respect of which expiry dates were modified during the financial year

No options/SARs were modified during the financial year.

Options/SARs exercised during the financial year

During the financial year 3,031,333 options were exercised by employees, such that the company issued a corresponding number of fully paid ordinary shares.

No SARs were exercised during the financial year.

Options/SARs lapsing or cancelled during the financial year

During the financial year, 15,000,000 unlisted general options exercisable at A\$0.364 on 30 June 2014 lapsed. No SARs lapsed or were cancelled during the financial year.

Options/SARs exercised and options/SARs issued subsequent to 30 June 2014

On 18 August 2014, 7,402,177 share appreciation rights were granted under the Long Term Incentive Plan. Of the 7,402,177 SARs granted, 3,000,879 are proposed to be issued to an executive director and are therefore granted subject to shareholder approval at the 2014 Annual General Meeting.

No options have been granted subsequent to financial year end.

No options or SARs have been exercised subsequent to financial year end.

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Note 34. Employee entitlements		
Employee entitlement liabilities are included within:		
Current – other creditors (Note 17)	632	641
Non-current - other creditors (Note 20)	42	22
	Number	
	2014	2013
Employee numbers		
Average number of employees during financial year	17	15

Note 35. Contingent asset

- (i) On 23 May 2013, the Group advised ASX that it had entered into an Agreement to sell 40% of its Papua New Guinea assets to Osaka Gas Niugini Pty Ltd ('Osaka Gas') a subsidiary of Osaka Gas Co. Ltd. of Japan. In addition to the cash on completion, a further US\$130 million in cash is due upon a project development decision which gives rise to Osaka Gas achieving equity LNG from its acquired gas volumes, plus potential production payments where threshold condensate production is exceeded. Due to the conditions required for the deferred consideration of US\$130 million, and the potential production payments, all remaining consideration under the Agreement is recorded as a contingent asset as at 30 June 2014.
- (ii) On 29 August 2013, the operator of the Maari oilfield, OMV New Zealand Limited ('OMV'), advised that production at the field would be shut in while major facility repairs and equipment upgrades were undertaken. This involved the FPSO Raroa being disconnected from its mooring and towed to nearby Port Nelson to refurbish and upgrade its process equipment and install a new swivel. At the same time the opportunity was taken to repair several of the buoy mooring lines at the field. The upgrade, maintenance and repair works were carried out safely, within budget and the field returned to production on schedule. The Group's share of the repair costs was US\$8 million. The Group expects to recover a proportion of these amounts through insurance.

Note 36. Contingent liabilities

The Group had contingent liabilities as at 30 June 2014 and 30 June 2013 that may become payable in respect of:

In accordance with normal oil and gas industry practice, the Group has entered into joint operations and farm-out agreements with other parties for the purpose of exploring and developing its petroleum interests. If a participant to a joint operation defaults and fails to contribute its share of joint operation obligations, then the remaining joint operation participants are jointly and severally liable to meet the obligations of the defaulting participant. In this event, the interest in the permit or licence held by the defaulting participant may be redistributed to the remaining participants. In the event of a default, a contingent liability exists in respect of expenditure commitments due to be met by the Group in respect of defaulting joint operation participants.

No material losses are anticipated in respect of any of the above contingent liabilities.

Note 37. Events after balance sheet date

Scheme of Arrangement

On 29 April 2014, Horizon Oil Limited and Roc Oil Company Limited ('Roc') announced that they had entered into a merger implementation deed ('MID') under which they agreed to merge via a Horizon Oil Limited scheme of arrangement ('Scheme'). Under the proposed Scheme, Horizon Oil Limited shareholders were to receive 0.724 new Roc shares for each Horizon Oil Limited fully paid ordinary share they held. The Scheme was subject to a number of conditions precedent.

On 3 July 2014, the Federal Court of Australia ordered a meeting of Horizon Oil Limited shareholders to consider the Scheme and approved the Scheme Booklet for despatch to Horizon Oil Limited shareholders.

On 4 August 2014, Roc announced that it had entered into a bid implementation agreement in respect of a superior proposal made by Fosun International Limited ('Fosun') under which it was proposed that Fosun (or one of its subsidiaries) would acquire all of the issued shares in the capital of Roc for A\$0.69 cash per share by way of an off-market takeover ('Fosun Offer'). The Roc board unanimously recommended the Fosun Offer to Roc shareholders.

The Roc board's recommendation of the Fosun Offer constituted a 'Roc Oil Prescribed Event' under the MID between Horizon Oil Limited and Roc resulting in the non-satisfaction of one of the conditions precedent to the Horizon Oil-Roc merger.

Accordingly, on 5 August 2014, Horizon Oil Limited gave notice to Roc terminating the MID in accordance with its terms. Horizon Oil Limited also applied for, and received, orders from the Federal Court of Australia cancelling the Scheme Meeting of Horizon Oil Limited shareholders scheduled for 7 August 2014 and vacating the proceedings for the second Court hearing which was scheduled for 14 August 2014.

Convertible Bonds

In connection with the proposed merger with Roc by means of a Scheme, on 2 July 2014 the Company detailed the key terms of a conditional offer to Horizon Oil Limited's convertible bondholders ('Bondholders').

On 21 July 2014, Horizon Oil Limited invited the Bondholders to tender any and all such convertible bonds for purchase by Horizon Oil Limited for cash and to approve certain modifications to the terms and conditions of the Bonds, on the terms set out in a Tender and Consent Memorandum dated 21 July 2014.

On termination of the MID with Roc on 5 August 2014, the Company terminated the convertible bond tender offer.

Note 38. Commitments for expenditure

(i) Non-cancellable operating leases

The Group leases various office premises in Sydney and PNG under non-cancellable operating leases expiring within 1 to 5 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases, not recognised in the financial statements, are payable as follows:		
Within one financial year	1,388	576
Later than one financial year but not later than five financial years	588	528
	1,976	1,104

(ii) Finance leases

The Group had no outstanding finance leases as at 30 June 2014 or 30 June 2013.

(iii) Remuneration commitments

Commitments for the payment of remuneration under long-term employment contracts, not recognised in the financial statements, are payable as follows:

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Within one financial year	1,998	1,892
Later than one financial year but not later than five financial years	197	2,078
Total	2,195	3,970

Note 39. Exploration and development commitments

The Group has entered into joint operations for the purpose of exploring, developing and producing from certain petroleum interests. To maintain existing interests or rights to earn interests in those joint operations the Group will be expected to make contributions to ongoing exploration and development programs. Since such programs are subject to continual review by operating committees, upon which the Group is represented, the extent of future contributions in accordance with these arrangements is subject to continual renegotiation.

Subject to the above mentioned limitations, the directors have prepared the following disclosure of exploration and development expenditure commitments not recognised in the consolidated financial statements. These are payable as follows, based on current status and knowledge of estimated quantum and timing of such commitments by segment.

2014	New Zealand Development	New Zealand Exploration	China Exploration & Development	Papua New Guinea Exploration & Development	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Within one financial year	20,160	391	4,374	56,593	81,518
Later than one financial year but not later than 5 financial years	-	-	-	19,656	19,656
Total	20,160	391	4,374	76,249	101,174

2013	New Zealand Development	New Zealand Exploration	China Exploration & Development	Papua New Guinea Exploration & Development	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Within one financial year	15,845	3,755	25,723	75,778	121,101
Later than one financial year but not later than 5 financial years	13,444	-	-	26,024	39,468
Total	29,289	3,755	25,723	101,802	160,569

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The above commitments may be deferred or modified with the agreement of the host government, by variations to the terms of individual petroleum interests, or extensions to the terms thereof. Another factor likely to delay timing of these commitments is the potential lack of availability of suitable drilling rigs in the area of interest.

The commitments may also be reduced by the Group entering into farm-out agreements or working interest trades, both of which are typical of the normal operating activities of the Group.

In addition to the above commitments, the Group has invested funds in other petroleum exploration interests, but is not exposed to a contingent liability in respect of these, as it may choose to exit such interests at any time at no cost penalty other than the loss of the interests.

Note 40. Reconciliation of profit after income tax to net cash flows from operating activities

	Consolidated	
	2014	2013
	US\$'000	US\$'000
Profit for financial year	12,830	3,474
Exploration and development expenditure written off/expensed	9,233	606
Depreciation expense	636	513
Movement in employee entitlement liabilities	(1)	68
Non-cash employee share-based payments expense	1,263	1,241
Non-cash share option expense		
Amortisation expense	39,397	8,579
Amortisation of prepaid financing costs	1,741	1,667
Provision for restoration	807	(848)
Gain from disposal of oil and gas assets; exploration assets	(23,830)	-
Unrealised movement in value of convertible bond conversion rights	(412)	(991)
Non-cash convertible bond interest expense	5,309	4,660
Net unrealised foreign currency losses/(gains)	606	183
<i>Change in operating assets and liabilities:</i>		
(Increase) in trade debtors	886	(7,731)
Decrease in other debtors and prepayments	1,335	526
(Increase) in inventory	75	(599)
Decrease in deferred tax assets/liabilities	8,178	2,066
(Decrease) in tax receivable/payable	1,444	(3,941)
Increase (decrease) in trade creditors	(13,918)	5,216
Increase (decrease) in other creditors	19,387	784
Net cash inflow from operating activities	64,966	15,473

Note 41. Earnings per share

(a) Basic earnings per share

From continuing operations attributable to the ordinary equity holders of the Company	1.00	0.31
From discontinued operation	-	-
Total basic earnings per share attributable to the ordinary equity holders of the Company	1.00	0.31

(b) Diluted earnings per share

From continuing operations attributable to the ordinary equity holders of the Company	1.00	0.30
From discontinued operation	-	-
Total diluted earnings per share attributable to the ordinary equity holders of the Company	1.00	0.30

	2014 Number	2013 Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,279,039,421	1,137,155,238
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,284,748,334	1,143,023,825
	2014 US\$'000	2013 US\$'000
Reconciliation of earnings used in calculating earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating earnings per share		
Basic earnings per ordinary share:		
from continuing operations	12,830	3,474
from discontinued operations	-	-
	12,830	3,474
Diluted earnings per ordinary share:		
from continuing operations	12,830	3,474
from discontinued operations	-	-
	12,830	3,474

Information concerning the classification of securities

(a) Partly paid ordinary shares

Partly paid ordinary shares carry the rights of fully paid ordinary shares and to that extent they have been recognised as ordinary share equivalents in the determination of basic earnings per share.

Details regarding the partly paid ordinary shares are set out in Note 24.

(b) Options and share appreciation rights granted as compensation

Options and share appreciation rights granted to employees under the Long Term Incentive Plan, Employee Option Scheme or Employee Performance Incentive Plan; and general options issued, are included in the calculation of diluted earnings per share to the extent to which they are dilutive. They have not been included in the determination of basic earnings per share.

Details regarding the options and share appreciation rights are set out in Note 33.

(c) Convertible bonds

Convertible bonds issued during the financial year are included in the calculation of diluted earnings per share to the extent to which they are dilutive from their date of issue. They have not been included in the determination of basic earnings per share.

Details regarding the convertible bonds are set out in Note 19 and 21.

Note 42. Parent Entity financial information

(i) Summary financial information

The individual financial statements for the Parent Entity show the following aggregate amounts:

	Parent Entity	
	2014	2013
	US\$'000	US\$'000
Statement of financial position		
Current assets	5,829	9,241
Non-current assets	260,157	214,544
Total assets	265,986	223,785
Current liabilities	5,802	1,381
Non-current liabilities	89,664	84,076
Total liabilities	95,466	85,457
Net assets	170,520	138,328
Contributed equity	174,801	128,038
Share-based payments reserve	10,001	8,739
Retained earnings	(14,282)	1,551
Total equity	170,520	138,328
(Loss) profit for the financial year	(15,274)	(5,436)
Total comprehensive (loss) income for the financial year	(15,274)	(5,436)

(ii) Guarantees entered into by the parent entity

The parent entity has provided guarantees in respect of bank loans and leases of its subsidiaries amounting to US\$119,165,000 (2013: US\$134,335,000).

No liability has been recognised in accordance with the accounting policy set out in Note 1(y). After factoring in the likelihood that the parent entity would be required to perform under the guarantees the fair value of the liability was not considered material.

(iii) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2014 or 30 June 2013. For information about guarantees given by the parent entity, please see above.

(iv) Contractual commitment for the acquisition of property, plant or equipment

As at 30 June 2014, the parent entity had no contractual commitments for the acquisition of property, plant or equipment (30 June 2013 – US\$Nil).

ACTIVITIES REVIEW

PRODUCTION

China - Block 22/12, Beibu Gulf (Horizon Oil: 26.95%/55%)

During the year, Horizon Oil's working interest share of production from the Beibu Gulf fields was 1,248,190 barrels of oil. Crude oil sales were US\$122.7 million generated from 1,165,497 barrels at an average price of US\$105.24. Cumulative oil production from the fields through 30 June 2014 was 5.3 million barrels.

Average production over the year was approximately 12,700 bopd, of which Horizon Oil's share was in excess of 3,400 bopd. All 15 wells were brought on production during the year, with 5 wells still on natural flow and waiting to be put on pump.

The Beibu Gulf development was finalised in calendar year 2013 following the successful hook-up and commissioning of the 10 well development drilling program on the WZ 6-12 wellhead platform, the five well development drilling program on the WZ 12-8W field and installation of the PUQB utilities platform heli-deck. The project was completed safely and within budget and the HYS1 931 jack-up drilling rig released on 17 August 2013.

There are two undeveloped oil accumulations in the retained development areas (WZ 12-8E and WZ 12-3) with development feasibility studies in progress for WZ 12-8E. The development of the WZ12-8E field will constitute the second phase of an integrated development following completion of the current WZ6-12 and WZ12-8W project. Work continued during the year on the Phase II development plan for the WZ12-8E oil accumulation.

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

During the year, Horizon Oil's working interest share of production from Maari and Manaia fields was 186,345 barrels of oil. Crude oil sales were US\$21.7 million generated from 190,588 barrels at an average effective price of US\$113.76. Cumulative oil production from the fields through 30 June 2014 was 23.9 million barrels.

Full year production was lower than previous years as the Maari production facilities were shut in for approximately five months from 21 July 2013 to effect repair works on the FPSO *Raroa*. Production re-started on 12 December 2013 with the producer wells progressively brought on line. By 17 December 2013 all 6 wells had been successfully returned to production and were producing at a rate of approximately 11,600 barrels of oil per day.

The FPSO *Raroa* had been disconnected from its mooring and towed to nearby Port Nelson to refurbish and upgrade its process equipment and install a new swivel. At the same time the opportunity was taken to repair several of the buoy mooring lines at the field.

The upgrade, maintenance and repair works were carried out safely, within budget and the field returned to production on schedule. Horizon Oil's share of the work package was US\$8 million with deferred cashflow during field downtime of approximately US\$5 million. Horizon Oil expects to recover a proportion of these amounts through insurance.

The Maari Growth Projects Program, which is designed to enhance production rate and oil recovery from the Maari and Manaia fields, progressed during the year. The program commenced with the workover of the MR1 well utilising the wellhead platform workover unit to convert the well into a water injector. After the successful completion of the workover, the *Ensco 107* jack up drilling rig arrived and was located alongside and cantilevered over the Maari platform with minimal delays. This enabled the commencement during early April 2014 of the substantive phase of the program, incorporating four infill production wells, one new injection well and a workover of the existing MR2 dual lateral production well.

The first phase of the drilling program, the conversion of the MR6A water injection well to a new production well, addressing the oil reserves in the deeper Maari Mangahewa formation, proceeded during the final quarter of the year.

DEVELOPMENT

Papua New Guinea – PDL 10, Stanley Field (Horizon Oil: 30% following Osaka Gas sale completion)

On 14 April 2014, Horizon Oil announced that the PNG Cabinet had approved the Stanley gas condensate development project and on 17 April 2014, the PDL 10 (formerly PRL 4) licensees and the State executed the Stanley Gas Agreement which prescribes the key rights and obligations of the State and licensees in respect of the Stanley project (including fiscal terms). The landowner Development Forum was convened by the PNG Government on 16 May 2014. At the successful conclusion of the Development Forum on 30 May 2014, Horizon Oil was presented the development and pipeline licences by Hon. Nixon Duban, Minister for Petroleum and Energy.

Following the grant of the licences, drilling of the Stanley-5 development well commenced on 16 June 2014 and was drilled to a total depth of 3,469 m. The observed quality and size of the objective Toro and Kimu reservoirs were better than had been predicted, with a combined gross sand column of about 120 m and net pay of about 96 m. The Stanley-5 well will be completed in August 2014 and is expected to be an excellent production well.

On completion of the Stanley-5 well, the Parker Rig 226 will be skidded to commence drilling the Stanley-3 production well.

The Stanley field (certified at 399 bcf of gas and 13 mmbbl condensate) will be developed initially as a condensate recovery project, with subsequent and increasing sales of gas as customers are contracted. It is envisaged that these will primarily be domestic and industrial consumers located in the region. The development concept involves producing 140 mmscfd of wet gas, from which initially 4,000 bbls of condensate per day will be recovered utilising a two train 140 mmcf gas refrigeration plant located in the field. Any dry gas not sold or used for operations will be re-injected into the reservoir until required for sale. The condensate will be transported via a 6 inch 40 km pipeline to a 60,000 bbl storage tank near the Kiunga laydown area and then loaded onto a tanker at a loading facility about 1 km downstream of the existing Kiunga wharf, which is the export point for copper concentrate from the Ok Tedi mine.

A special purpose 33,000 bbl river tanker with ocean going capability has been designed to transport the condensate to market. The tanker has been built under the supervision of P&O Maritime and has completed sea trials. The tanker will be sub-let until production commences.

Negotiations with Ok Tedi Mining Limited for the supply of gas from the Stanley field have significantly progressed, with indications from the Ok Tedi mine that they will take up to 3 petajoules of gas per annum. Technical and commercial issues in the detailed term sheet have been resolved, subject to final agreement on price. Horizon Oil is exploring other avenues to commercialise the remainder of the gas resources, such as the potential provision of gas to the Frieda River Copper-Gold Project, should the development plan for that project be approved.

Negotiations with the participants in PPL 259 regarding the formation of a unit to include the small portion of the Stanley field that possibly encroaches into PPL 259 were concluded in December 2013. The effect on Horizon Oil's interest in the Stanley field will be immaterial, given Horizon Oil's near equivalent participation in each licence.

Strategic alliance with Osaka Gas

On 23 May 2013, Horizon Oil announced that it had entered into an agreement to sell 40% of its PNG assets to Osaka Gas Niugini Pty Ltd, a subsidiary of Osaka Gas Co. Ltd of Japan (Osaka Gas).

With the grant of the petroleum development licence over the Stanley field representing the final condition precedent to be satisfied, the transaction completed on 12 June 2014 resulting in the receipt of approximately US\$78 million in cash in consideration for the transfer of 40% of Horizon Oil's interests in PDL 10 (formerly PRL 4) (Stanley field), PRL 21 (Elevala and Ketu fields) and PPL 259 and reimbursement of past costs. The remaining US\$130 million of the sale price will be payable to Horizon Oil upon FID for an LNG project (which includes FID on any project in which Osaka Gas is entitled to take

its share of LNG in kind on an equity basis utilising the gas from any of the assets), plus potential production payments where threshold condensate production is exceeded.

The sale marked the beginning of a 60/40 strategic alliance between Horizon Oil and Osaka Gas, a leading global gas company and one of Japan's largest utility companies and LNG importers. The principal objective of the partnership is to commercialise Horizon Oil's and Osaka Gas' net of 135 MMBOE certified reserves and Contingent Resources via early condensate production, local gas sales and to market their respective shares of petroleum products, especially LNG, on a combined basis.

Osaka Gas' experience as a participant in LNG projects, its LNG engineering capability and its role as a large scale off-taker, transporter and distributor of LNG all add credibility to the venture and will enable Horizon Oil to play its part and participate in a mid-scale LNG development, which has the potential to generate strong cash flows.

EXPLORATION/APPRAISAL

Papua New Guinea - PRL 21, Elevala / Ketu discoveries (Horizon Oil: 27% following Osaka Gas sale completion)

On 17 March 2014, Horizon Oil submitted the petroleum development and pipeline applications for the Elevala / Ketu fields to the PNG Department of Petroleum and Energy. Work continued throughout the year on FEED activities and other studies to refine the project development plan and costs for a joint venture development decision in early 2015. The Environmental Impact Statement for the potential project was submitted to the Department of Environment and Conservation in June, 2014.

As a party to both the PDL 10 and PRL 21 joint ventures, Horizon Oil will be using the experience gained in the design of the Stanley field development in PDL 10 to fast track development plans and early production of the liquids in PRL 21 by way of condensate stripping. The combined contingent gas resources of around 1.4 tcf in PDL 10 and PRL 21 approach the scale required for a mid-scale LNG project and Horizon Oil is advancing its pre-development studies of this opportunity.

The Elevala/ Ketu fields were appraised in 2012 and were estimated at that time to contain a substantial resource of gross proven and probable contingent resources of 795 BCF of gas and 40 mmbbl of condensate with prospective upside associated with the Tingu structure located some 9.2 km northwest of the Elevala-2 well.

The Tingu-1 appraisal well was spudded on 26 August 2013. Data from logs and pressure measurements confirmed a significant gas-condensate discovery in the primary target Elevala Sandstone. The well encountered a gas water contact in that reservoir consistent with that in the Elevala accumulation to the southeast, implying a connected field. The well was tested and flowed at an average rate of 48 mmscfd with a stabilised condensate ratio (CGR) of around 50 bbl/mmscf, similar to Elevala gas.

The Tingu structure is considered to be connected to the Elevala field and, after evaluation and modelling of the data, the combined resource of the Elevala (including Tingu) and Ketu fields is now estimated at 980 bcf with 50 mmbbl of condensate and approximately 30 mmboe of LPG. The Tingu and Elevala accumulation comprise gross contingent 2C resources of 689 tcf and 35 mmbbls of condensate.

New Zealand - PMP 38160, Manaia-2/2A exploration/appraisal well, Taranaki Basin (Horizon Oil: 10%)

The Manaia-2/2A well reached total depth of 2891 m MDRT on 4 November 2013. The well is located 1.25 km north of Maui-4 (which discovered the Manaia field) and 6 km to the southwest of the Maari field well head platform.

The well achieved its objectives of evaluating the Moki Formation, the Mangahewa Formation, the underlying Farewell Formation and terminating in the North Cape Formation as planned.

Elevated gas readings and oil fluorescence were observed in the Moki Formation. Fluid samples with indications of oil were recovered by the MDT logging program in the Moki Formation, and several oil

stained cores were recovered by the MSCT. Analysis of these samples and the wireline logging data is ongoing.

An oil zone exhibiting virgin pressure was drilled in the lower part of the Mangahewa Formation. The upper part of the Mangahewa Formation is being produced by an extended reach well drilled from the Maari field well head platform and the data from Manaia-2 will contribute to optimization of a planned additional development well into this zone.

New Zealand - PEP 51313, offshore Taranaki Basin (Horizon Oil: 21%; 10% in Whio prospect area if a discovery is made)

In November 2012, Horizon Oil and its joint venture partners farmed out a 30% interest in PEP 51313 to OMV. The key earning provision of the farm-out agreement was that OMV would fund 100% of the cost (without limitation) of the exploration well targeting the Whio prospect. This well was drilled in conjunction with appraisal drilling at Manaia with the semi-submersible rig *Kan Tan IV*, which arrived in New Zealand waters in August 2013.

The Whio-1 well was spudded at 21:45 hrs on 23 July 2014 reaching a total depth of 2,824m on 25 August 2014 in the Paleocene Farewell Formation. The well encountered sandstones in all objectives (Whio A Sandstone, M2A Sandstone, Moki Formation, Mangahewa Formation, Kaimiro Formation, and Farewell Formation) as expected, but could not confirm the presence of commercial hydrocarbons. Accordingly, the well will be plugged and abandoned.

OMV assumed operatorship over PEP 51313 following completion of a 450 sq km 3D seismic program over the Pukeko and Te Whatu prospects in Q1 calendar year 2013. The original PEP 51313 participants funded this program. In Q1 calendar year 2014, the joint venture made the decision not to commit to the drilling of the Te Whatu well and, as a consequence, relinquished the western area of the licence, retaining the core area containing the Whio, Matariki and Paua prospects.

Papua New Guinea - PPL 259, Western Province (Horizon Oil: 35% following Osaka Gas sale completion)

In October 2013, Horizon Oil entered into a farm-in agreement with Eaglewood Energy to acquire a further 20% participating interest in PPL 259. The farm-in was on industry terms, incorporating reimbursement of proportionate past costs and a carry, and was subject to customary government approvals which were received during the year. Under the terms of the farm-in, Horizon Oil will operate the Nama exploration well to be drilled in the licence in 2014. Substantial progress was made in the year on constructing the rig site for the Nama-1 well, which is expected to spud in late-October 2014. The Nama prospect is located near the Stanley gas-condensate field with a potential resource size similar to that of the Stanley field.

In addition, several large prospects have been delineated as drilling targets following interpretation of the 67 km of new 2D seismic data acquired in 2013.

China - Block 09/05, Bohai Bay (option to acquire 40% interest)

The Company entered into a seismic farm-in option agreement in October 2013 with a subsidiary of Roc Oil Limited to earn a 40% interest in Block 09/05, Bohai Bay, offshore China. Under the terms of the agreement, Horizon Oil paid 40% of prior costs and all exploration costs incurred until the exercise or lapse of the option.

The exploration costs were essentially those associated with a 162 sq km ocean bottom cable 3D seismic survey, which was completed on 12 September 2013, ahead of schedule, within budget and without incident. Seismic processing of the 3D data was completed during the year with interpretation progressing and planning for the exploration drilling program in 2H 2014 underway.

After review of the seismic data acquired by Horizon Oil and Roc Oil, and given other priorities, Horizon Oil elected not to exercise its option.

Papua New Guinea - PPLs 430 (Horizon Oil interest: 50%), 372 and 373 (Horizon Oil interest: 90%)

Horizon Oil materially expanded its acreage holdings in PNG in 2013, with the award of a 50% interest in a new licence PPL 430 and the acquisition of 90% interests in PPLs 372 and 373.

Data on the new acreage is being collated, with the intent of reprocessing existing seismic ahead of acquiring new seismic data. The acreage will be explored with the objective of confirming sufficient gas reserves, when added to the existing PNG reserves base, to underwrite a mid-scale LNG plant on the coast.

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