



Horizon Oil Limited ABN 51 009 799 455

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17 June 2011

The Manager
Company Announcements Office (Sydney)
ASX Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Horizon Oil Limited (ASX: HZN) - Section 708A Cleansing Notice for convertible bonds

As foreshadowed in its announcement on 2 June 2011, Horizon Oil Limited (the “**Company**”) expects to issue today US\$80,000,000 5.50% June 2016 convertible bonds (“**Convertible Bonds**”) to sophisticated, experienced and professional investors.

The Company gives the attached offering circular to ASX as a notice under section 708A(12C)(e) of the Corporations Act 2001 (Cth) (“**Corporations Act**”) as notionally inserted by ASIC Class Order 10/322.

The full terms of the Convertible Bonds are set out in the offering circular.

The Company notifies ASX Limited that:

- (a) the Convertible Bonds will be issued without disclosure to investors under Part 6D.2 of the Corporations Act;
- (b) this notice is being given under section 708A(12C)(e) of the Corporations Act as inserted by ASIC Class Order 10/322; and
- (c) the Company has complied with section 708A(12D) of the Corporations Act as inserted by ASIC Class Order 10/322.

Signed for and on behalf of the Company by:

A handwritten signature in black ink, appearing to read "Michael Sheridan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael Sheridan
Chief Financial Officer/Company Secretary
Horizon Oil Limited

IMPORTANT NOTICE

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering circular accessed from this page or otherwise received as a result of such access and you are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the attached offering circular. In accessing the attached offering circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: You have been sent the attached offering circular on the basis that you have confirmed to UBS AG, Australia Branch, being the sender of the attached that (i) you are outside the United States and (ii) that you consent to delivery by electronic transmission.

This offering circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither UBS AG, Australia Branch or Horizon Oil Limited, nor any person who controls either entity or any director, officer, employee or agent of either entity, or affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the offering circular distributed to you in electronic format and the hard copy version available to you on request from UBS AG, Australia Branch or Horizon Oil Limited.

You are reminded that the attached offering circular has been delivered to you on the basis that you are a person into whose possession this offering circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised, to deliver this offering circular to any other person.

Restrictions: Nothing on this electronic transmission constitutes an offer of securities for sale in the United States or any other jurisdiction into which it would be unlawful to make such offer. Any securities to be issued will not be registered under the U.S. Securities Act of 1933, as amended, and may not be offered or sold in the United States unless registered under the Securities Act or pursuant to an exemption from such registration.

HORIZON OIL LIMITED

(ABN 51 009 799 455)

US\$80,000,000

5.50% Convertible Bonds Due 2016

Convertible into Ordinary Shares of Horizon Oil Limited

The US\$80,000,000 5.50% Convertible Bonds due 2016 (the “**Bonds**”) will be issued by Horizon Oil Limited (the “**Company**” or the “**Issuer**”). The Bonds bear interest from (and including) 17 June 2011 at the rate of 5.50% per annum calculated by reference to the principal amount thereof and payable semi-annually in arrear on 17 June and 17 December in each year commencing with the first interest payment date falling on 17 December 2011.

Each Bond will, at the option of the holder, be convertible (unless previously redeemed, converted or purchased and cancelled) on or after 28 July 2011 up to and including the close of business on the 7th day prior to the maturity date into fully paid ordinary shares of the Issuer (the “**Ordinary Shares**”) at an initial Conversion Price (as defined in the Terms and Conditions of the Bonds) of US\$0.520 per Ordinary Share (based on a fixed exchange rate of US\$1.0621 = A\$1.00). The Conversion Price is subject to adjustment in the circumstances described under “Terms and Conditions of the Bonds – Conversion of Bonds”. The closing price of the Ordinary Shares on ASX Limited (the “**ASX**”) on 2 June 2011 (being the latest practicable date prior to the announcement of the proposed issue of the Bonds) was A\$0.38 per Ordinary Share.

The Conversion Right (as defined in the Terms and Conditions of the Bonds) of a converting Bondholder may be settled in Ordinary Shares or in cash, at the option of the Issuer (subject to mandatory cash settlement described in the Terms and Conditions of the Bonds). The Issuer may make an election to satisfy the exercise of a Conversion Right by making payment to the relevant Bondholder of the Cash Alternative Amount (as defined in the Terms and Conditions of the Bonds).

Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed on 17 June 2016 at 108.80% of their principal amount together with accrued but unpaid interest to the date of redemption. At any time on or after 2 July 2014, the Issuer may redeem all but not some only of the Bonds at a redemption price equal to the Early Redemption Amount (as defined in the Terms and Conditions of the Bonds) together with accrued but unpaid interest to the date of redemption, if the Volume Weighted Average Price (as defined in the Terms and Conditions of the Bonds) converted into US Dollars at the then Prevailing Rate (as defined in the Terms and Conditions of the Bonds) for any 30 consecutive Dealing Days (as defined in the Terms and Conditions of the Bonds), the last of which occurs not more than five Dealing Days prior to the date upon which notice of such redemption is published, is at least 140% of the Early Redemption Amount (as defined in the Terms and Conditions of the Bonds) divided by the Conversion Ratio (as defined in the Terms and Conditions of the Bonds). The Issuer may redeem all but not some only of the Bonds at a redemption price equal to the Early Redemption Amount (as defined in the Terms and Conditions of the Bonds) together with accrued but unpaid interest to the date of redemption, if at any time at least 90% in principal amount of the Bonds originally issued (including any further Bonds issued pursuant to Condition 18 and consolidated and forming a single series with the Bonds) has already been converted, redeemed or purchased and cancelled. The Bonds may also be redeemed at the option of the holders at a redemption price equal to the Early Redemption Amount (as defined in the Terms and Conditions of the Bonds) together with accrued but unpaid interest to the date of redemption, upon the occurrence of a Change of Control or a Delisting (each as defined in the Terms and Conditions of the Bonds). All but not some only of the Bonds may be redeemed at any time at a redemption price equal to the Early Redemption Amount (as defined in the Terms and Conditions of the Bonds) together with accrued but unpaid interest to the date of redemption, in the event of certain changes relating to Australian taxation, subject to the non-redemption option of each Bondholder as described herein. See “Terms and Conditions of the Bonds – Redemption and Purchase”.

Approval in-principle has been received for the listing of the Bonds on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular. Admission of the Bonds to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Bonds or the Ordinary Shares. The Ordinary Shares are listed on the ASX.

Investing in the Bonds and the Ordinary Shares involves certain risks. See “Risk Factors” beginning on page 13 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

The Bonds and the Ordinary Shares to be issued upon conversion of the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) and, may not be offered or sold within the United States.

For a description of these and certain further restrictions on offers and sales of the Bonds and the Ordinary Shares to be issued upon conversion of the Bonds and the distribution of this Offering Circular, see “Subscription and Sale”.

The Bonds will be represented by beneficial interests in a permanent global certificate (the “**Global Certificate**”) in registered form, without interest coupons attached, which will be registered in the name of a nominee of, and shall be deposited on or about 17 June 2011 (the “**Closing Date**”), with a common depositary for, Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”).

Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, certificates for Bonds will not be issued in exchange for interests in the Global Certificate.

Bookrunner and Lead Manager



The date of this Offering Circular is 14 June 2011

IMPORTANT NOTICE

GENERAL

About this document

This document (the “**Offering Circular**”) is issued by Horizon Oil Limited (ABN 51 009 799 455) (the “**Company**” or the “**Issuer**”). Any offering of the Company’s US\$80,000,000 5.50% Convertible Bonds due 2016 (the “**Bonds**”) in Australia is made under this Offering Circular and is open only to select investors who are sophisticated or professional investors as respectively defined within sections 708(8) or 708(11) of the Corporations Act 2001 (Cth) (“**Corporations Act**”).

This Offering Circular is being given to the Australian Securities Exchange (“**ASX**”) in accordance with the requirements of Australian Securities and Investments Commission (“**ASIC**”) Class Order [CO 10/322] (*On-sale for convertible notes issued to wholesale investors*), which has been made under section 741(1) of the Corporations Act and which provides relief so that the ordinary quoted shares of the Company issued on the conversion of Bonds (“**Ordinary Shares**”) may be on-sold to retail investors if an Offering Circular containing disclosure required by section 708A(12D) of the Corporations Act (as inserted by ASIC Class Order [CO 10/322]) is released in connection with the issue of the Bonds to institutional investors. Any offering of Bonds within Australia is open only to selected investors who are sophisticated or professional investors as respectively referred to in sections 708(8) and 708(11) of the Corporations Act.

Neither this Offering Circular nor any other disclosure document in relation to the Bonds or Ordinary Shares has been lodged with ASIC and is not, and does not purport to be, a prospectus or document containing disclosure to investors for the purposes of Part 6D.2 or Part 7.9 of the Corporations Act. This document is not intended to be used in connection with any offer for which such disclosure is required and does not contain all the information that would be required if this document was a prospectus under Part 6D.2 or Part 7.9 of the Corporations Act. This Offering Circular is not to be provided to any “retail client” as defined in section 761G of the Corporations Act. The Issuer is not licensed to provide financial product advice in respect of the Bonds or the Ordinary Shares. Cooling-off rights do not apply to the acquisition of the Bonds or Ordinary Shares.

A person may not make or invite an offer of the Bonds for issue or sale in Australia (including an offer or invitation which is received by a person in Australia) or distribute or publish this Offering Circular or any other offering material or advertisement relating to the Bonds in Australia unless the minimum aggregate consideration payable by each offeree is at least A\$500,000 calculated in accordance with both section 708(9) of the Corporations Act and regulation 7.1.18 of the Corporations Regulations 2001 (Cth) or the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 of the Corporations Act, and such action complies with all applicable laws, regulations and directives.

None of ASIC or ASX Limited or their respective officers takes any responsibility for the contents of this Offering Circular or the merits of the investment to which this Offering Circular relates. The fact that ASX have quoted the Ordinary Shares and may quote the Ordinary Shares into which the Bonds are convertible is not to be taken in any way as an indication of the merits of the Ordinary Shares, the Bonds or the Company.

The Company confirms that this Offering Circular contains or incorporates by reference all information regarding the Company, the Company and its subsidiaries as a whole (the “**Group**”), the Bonds and the Ordinary Shares which is (in the context of the issue of the Bonds) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Offering Circular on the part of the Company are honestly held or made and are

not misleading in any material respect; this Offering Circular does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing. The Company accepts responsibility for the information contained in this Offering Circular.

This Offering Circular should be read in its entirety. It contains general information only and does not take into account your specific objectives, financial situation or needs. In the case of any doubt, investors should seek the advice of a financial or other professional advisor.

None of the Company, any member of its Group, or their respective associates or directors guarantees the success of the offering of the Bonds (the “**Offering**”), the repayment of capital, or any particular rate of capital or income return. Investment-type products are subject to investment risk, including possible loss of income and capital invested.

The Company is not providing investors with any legal, business or tax advice in this Offering Circular. Investors should consult their own advisors to assist them in making their investment decision and to advise themselves whether they are legally permitted to purchase the Bonds. Investors must comply with all laws that apply to them in any place in which they buy, offer or sell any Bonds or possess this Offering Circular. Investors must also obtain any consents or approvals that they need in order to purchase the Bonds. Neither the Company nor UBS AG, Australia Branch (the “**Lead Manager**”) is responsible for investors’ compliance with any such legal requirements. The Company has not authorised the making or provision of any representation or information regarding the Company or the Bonds other than as contained in this Offering Circular or as approved for such purpose by the Company. Any such representation or information should not be relied upon as having been authorised by the Company or the Lead Manager.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Bond shall in any circumstance create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Company or the Group since the date of this Offering Circular.

In this Offering Circular, unless otherwise specified, references to “US\$” are to United States dollars, references to “S\$” are to Singapore dollars and references to “A\$” are to Australian dollars.

No representations or recommendations

No representation or warranty, express or implied, is made by the Lead Manager as to the accuracy or completeness of the information contained or incorporated in this Offering Circular, and nothing contained or incorporated in this Offering Circular is, or shall be relied upon, as a promise or representation by the Lead Manager or DB Trustees (Hong Kong) Limited (the “**Trustee**”). This Offering Circular is not intended to provide the basis of any credit or other evaluation and nor should it be considered as a recommendation by the Company, the Lead Manager or the Trustee that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of Bonds should be based upon such investigations as it deems necessary.

Advisors named in this Offering Circular have acted pursuant to the terms of their respective engagements, have not authorised or caused the issue of, and take no responsibility for, this Offering Circular and do not make, and should not be taken to have verified, any statement or information in this Offering Circular unless expressly stated otherwise.

Restrictions in certain jurisdictions

This Offering Circular does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

The distribution of this Offering Circular and the offering, sale and delivery of Bonds and the Ordinary Shares to be issued on conversion of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Bonds and on distribution of this Offering Circular and other offering material relating to the Bonds, see “Subscription and Sale”.

The Bonds and the Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”). The Bonds and the Ordinary Shares may not be offered or sold within the United States, except pursuant to registration under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Bonds have not been, and will not be, offered or sold within the United States except in accordance with Rule 903 of Regulation S.

Any offering of Bonds in Australia is made under this Offering Circular and is open only to select investors who are sophisticated or professional investors as respectively defined within sections 708(8) or 708(11) of the Corporations Act.

Listing of the Bonds on the Singapore Exchange Securities Trading Limited

Approval in-principle has been received for the listing of the Bonds on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this Offering Circular. Admission of the Bonds to the SGX-ST is not to be taken as an indication of the merits of the Company, the Bonds or the Ordinary Shares.

Listing of Ordinary Shares

The Ordinary Shares of the Company are quoted on the stock market operated by ASX Limited (the “**ASX**”). Upon conversion of the Bonds, application will be made for quotation of the Ordinary Shares issuable upon conversion of the Bonds on the ASX.

Global Certificate

The Bonds will be in registered form. The Bonds will be represented on issue by a Global Certificate (the “**Global Certificate**”). The Global Certificate will be deposited on or around 17 June 2011 (the “**Closing Date**”) with a common depository, and registered in the name of a common nominee, for Euroclear and Clearstream, Luxembourg. The Global Certificate will be exchangeable, in whole or in part, for individual definitive Bonds in registered form serially numbered in denominations of US\$200,000 and integral multiples thereof in certain limited circumstances only as described therein and herein.

Stabilisation

IN CONNECTION WITH THE ISSUE OF THE BONDS, UBS AG, AUSTRALIA BRANCH, OR AN AFFILIATE THEREOF, AS THE STABILISING MANAGER (THE “**STABILISING MANAGER**”) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY, WITH THE PRIOR CONSENT OF THE ISSUER, OUTSIDE AUSTRALIA (AND ON A MARKET OPERATED OUTSIDE AUSTRALIA), AND OTHERWISE SUBJECT TO ALL APPLICABLE LAWS, EFFECT TRANSACTIONS

WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS.

Further information on the Company

The Company is a “disclosing entity” for the purposes of the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the Listing Rules of ASX (the “**ASX Listing Rules**”). Copies of documents regarding the Company lodged with ASIC or ASX, respectively, may be obtained from, or inspected at, any ASIC office or the ASX, respectively.

In addition, a copy of the following documents may be obtained, as described below:

- the audited annual consolidated financial statements of the Company as at and for the financial years ended 30 June 2009 and 30 June 2010, including the auditor’s report and the notes in respect of such financial statements;
- the unaudited half-year financial reports of the Company as at and for the six month periods ended 31 December 2009 and 31 December 2010; and
- any other document used to notify ASX of information relating to the Company under the continuous disclosure provisions of the ASX Listing Rules and the Corporations Act after the lodgement with ASIC of the annual report of the Company for the financial year ended 30 June 2010 and before lodgement of this Offering Circular with the ASX.

These documents may be obtained from the Company, free of charge, by contacting the Company Secretary at the head office of the Company at Level 7, 134 William Street, Woolloomooloo, New South Wales, 2011, Australia (telephone +61 2 9332 5000). These documents, and all other regular reporting and disclosure documents of the Company, are also available electronically on the website of ASX, at www.asx.com.au.

Risk Factors

Prospective purchasers of Bonds should carefully consider the risks and uncertainties described in this Offering Circular before making a decision to invest in the Bonds. An investment in the Bonds should be considered speculative due to various factors, including the nature of the Company’s business. See “Cautionary Statement Regarding Forward-Looking Statements” and “Risk Factors” outlined below.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements concerning anticipated developments in the Company’s operations in future periods, planned exploration activities, the adequacy of the Company’s financial resources and other events or conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by words such as “expects”, “anticipates”, “believes”, “intends”, “estimates”, “potential”, “targeted”, “plans”, “possible” and similar expressions, or statements that events, conditions or results “will”, “may”, “could” or “should” occur or be achieved. Information concerning the interpretation of exploration results and reserves and resource estimates also may be deemed to be forward-

looking statements, as such information constitutes a prediction of what might be found to be present if and when a project is actually developed.

Forward-looking statements are statements about the future and are inherently uncertain, and actual achievements of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to in this document under the heading “Risk Factors”. The Company’s forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and the Company does not assume any obligation to update forward-looking statements if circumstances or management’s beliefs, expectations or opinions should change. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.

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INCORPORATION BY REFERENCE

The following documents filed with ASIC and the ASX, respectively, are deemed to be incorporated by reference into, and to form part of, this Offering Circular:

- (a) the audited annual consolidated financial statements of the Company as at and for the financial years ended 30 June 2009 and 30 June 2010, including the directors' remuneration report and the auditors' report and the notes in respect of such financial statements; and
- (b) the unaudited half-year financial statements of the Company as at and for the six month periods ended 31 December 2009 and 31 December 2010.

Each document incorporated herein by reference is current only as at the date of such document, and the incorporation by reference of such documents shall not create any implication that there has been no change in the affairs of the Company and the Group, as the case may be, since the date thereof or that the information contained therein is current as at any time subsequent to its date. Any statement contained therein shall be deemed to be modified or superseded for the purposes of this Offering Circular to the extent that a subsequent statement contained in another incorporated document herein modifies or supersedes that statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes.

The making of a modifying or superseding statement is not to be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

Copies of the documents incorporated herein by reference may be obtained on request without charge from the Company Secretary at Level 7, 134 William Street, Woolloomooloo, New South Wales, 2011, Australia, telephone +61 2 9332 5000. These documents are also available electronically through the internet from the ASX as set out in the "Important Information" section.

Prospective investors are advised to obtain and read the documents incorporated by reference herein before making their investment decision in relation to the Bonds.

SUMMARY FINANCIAL INFORMATION

The summary financial information below has been derived from, and should be read in conjunction with, the audited financial statements of the Group for the periods ending 30 June 2009 and 30 June 2010, and the unaudited half-year financial statements of the Group for the six month periods ended 31 December 2009 and 31 December 2010 which are incorporated by reference into and deemed to be included in this Offering Circular. Copies of those financial statements can be obtained from the 2009 and 2010 financial reports of the Group from ASX at www.asx.com.au.

Overview

The Company is an Australian company. Its consolidated financial statements are currently presented in United States dollars and in accordance with Australian Accounting Standards. The consolidated financial statements also comply with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Set out below are a summary of the key financial statements as at and for the years ended 30 June 2009 and 30 June 2010, and as at and for the half years ended 31 December 2009 and 31 December 2010.

Consolidated Income Statement

	For the year ended 30 June		For the half-year ended 31 December	
	(audited)		(unaudited)	
	2010 US\$'000	2009 US\$'000	2010 US\$'000	2009 US\$'000
Revenue from continuing operations	47,991	8,144	24,780	24,444
Cost of sales	(15,015)	(3,532)	(9,283)	(7,316)
Gross profit / (loss)	32,976	4,612	15,497	17,128
Profit from sale of assets	32,586	-	-	54,074
Other income	157	201	664	221
Impairment of exploration phase expenditure	-	-	(7,340)	-
General and administrative expenses	(5,448)	(4,012)	(3,493)	(2,476)
Exploration and development expenses	(158)	(890)	(43)	(91)
Financing costs	(3,202)	(2,945)	(1,211)	(1,848)
Other expenses	(218)	(300)	-	-
Profit / (loss) before income tax expense	56,693	(3,334)	4,074	67,008
NZ royalty tax (expense) / benefit	(2,519)	(140)	(2,342)	(1,863)
Income tax (expense) / benefit	(1,827)	1,482	(3,331)	(8,564)
Profit / (loss) from continuing operations	52,347	(1,992)	(1,599)	56,581
Profit / (loss) from discontinued operations (net of tax)	(2)	(6,071)	-	-
Profit / (loss) for the year/half-year	52,345	(8,063)	(1,599)	56,581
Profit / (loss) attributable to members of Horizon Oil Limited	52,345	(8,063)	(1,599)	56,581
Earnings per share for profit / (loss) from continuing operations attributable to the ordinary equity holders of the company:	US Cents	US Cents	US Cents	US Cents
Basic earnings per ordinary share	4.64	(0.24)	(0.14)	5.02
Diluted earnings per ordinary share	4.63	(0.24)	(0.14)	5.01
Earnings per share for profit / (loss) attributable to the ordinary equity holders of the company:	US Cents	US Cents	US Cents	US Cents
Basic earnings per ordinary share	4.64	(0.95)	(0.14)	5.02
Diluted earnings per ordinary share	4.63	(0.95)	(0.14)	5.01

Note: The income statement above has been derived from the statement of comprehensive income contained within the audited financial statements of the Group for the periods ending 30 June 2009 and 30 June 2010, and the unaudited half-year financial statements of the Group for the six month periods ending 31 December 2009 and 31 December 2010, which are incorporated by reference into and deemed to be included in this Offering Circular.

Consolidated Statements of Financial Position

	As at 30 June		As at 31 December	
	(audited)		(unaudited)	
	2010	2009	2010	2009
	US\$'000	US\$'000	US\$'000	US\$'000
Current Assets				
Cash and cash equivalents	26,509	10,000	23,091	27,618
Receivables	3,520	826	3,572	32,643
Inventories	3,272	86	3,604	852
Other	249	185	890	183
Total Current Assets	33,550	11,097	31,157	61,296
Non-Current Assets				
Deferred tax assets	4,326	1,777	4,524	-
Plant and equipment	905	301	1,039	383
Exploration phase expenditure	44,710	34,548	42,014	38,647
Oil and gas assets	88,138	92,428	88,184	92,513
Total Non-Current Assets	138,079	129,054	135,761	131,543
Total Assets	171,629	140,151	166,918	192,839
Current Liabilities				
Payables	8,111	6,537	9,329	10,448
Derivative financial instruments	54	186	36	39
Borrowings	20,553	34,201	20,059	21,444
Total Current Liabilities	28,718	40,924	29,424	31,931
Non-Current Liabilities				
Payables	651	531	464	583
Deferred tax liability	3,145	-	7,527	7,417
Borrowings	19,940	34,836	10,568	30,621
Provisions	4,810	3,255	5,151	4,320
Total Non-Current Liabilities	28,546	38,622	23,710	42,941
Total Liabilities	57,264	79,546	53,134	74,872
Net Assets	114,365	60,605	113,784	117,967
Equity				
Contributed equity	125,328	124,917	125,977	125,213
Reserves	4,003	2,999	4,372	3,484
Accumulated losses	(14,966)	(67,311)	(16,565)	(10,730)
Total Equity	114,365	60,605	113,784	117,967

KEY OFFER FEATURES

Summary of offer

The following is a summary of the principal features of the Bonds and the Offering. Terms defined under “Terms and Conditions of the Bonds” (the “Conditions”) or elsewhere in this Offering Circular shall have the same respective meanings in this summary.

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular.

Issuer	Horizon Oil Limited.
The Bonds	US\$80,000,000 5.50% Convertible Bonds due 2016.
The Offering	The Bonds are being offered and sold by the Lead Manager outside the United States in accordance with Regulation S under the Securities Act.
Issue Price	100% of the principal amount.
Denomination	US\$200,000 and integral multiples thereof.
Closing Date	17 June 2011.
Interest Rate	The Bonds bear interest from and including the Closing Date at the rate of 5.50% per annum calculated by reference to the principal amount thereof and payable semi-annually in equal instalments in arrear on 17 June and 17 December in each year.
Status	The Bonds will constitute direct, unconditional, unsubordinated, senior and (subject to Condition 2 of the Conditions) unsecured obligations of the Issuer, as provided in the Conditions, ranking <i>pari passu</i> and rateably, without any preference among themselves. The payment obligations of the Issuer under the Bonds rank equally with all its other existing and future unsecured and unsubordinated obligations, save for such obligations that may be preferred by provisions of law that are mandatory and of general application.
Conversion Right	Unless previously redeemed or purchased and cancelled, Bondholders will have the right to convert Bonds into Ordinary Shares at the then applicable Conversion Price. The Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time on or after 28 July 2011 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the 7th day prior to the Maturity Date or, if such Bond shall have been called for redemption by the Issuer before the Maturity Date, then up to the close of business (at the place aforesaid) on the 7th day prior to the date fixed for redemption thereof. If such final date for the exercise of Conversion Rights is not a business day at the place aforesaid, then the period for exercise of Conversion Rights by Bondholders shall end on the immediately preceding business

day at the place aforesaid.

Conversion Price

The initial Conversion Price shall be US\$0.52 (based on a fixed exchange rate of US\$1.0621 = A\$1.00). The Conversion Price will be subject to adjustment in certain circumstances described in Condition 6(b) and Condition 6(n) of the Conditions, including upon the making of a Dividend by the Company and upon the occurrence of a Change of Control.

The Conversion Price shall be reset in certain circumstances described in Condition 6(n) of the Conditions, but in no event shall be less than 80 per cent of the initial Conversion Price, except as adjusted according to Condition 6(b) of the Conditions.

Cash Settlement

The Conversion Right of a converting Bondholder may be settled in Ordinary Shares or in cash, at the option of the Issuer (subject to mandatory cash settlement described in the Conditions and as summarised below). The Issuer may make an election to satisfy the exercise of a Conversion Right by making payment to the relevant Bondholder of the Cash Alternative Amount, except where the Issuer must settle in cash in the circumstances described in Condition 6(m)(ii) of the Conditions.

“**Cash Alternative Amount**” means the product of (a) the number of Ordinary Shares deliverable upon exercise of the Conversion Right in respect of which the Issuer has exercised a Cash Alternative Election or is required to make Mandatory Cash Settlement and (b) the arithmetic average of the Volume Weighted Average Price of the Ordinary Shares for the 20 consecutive Dealing Days commencing on the relevant Conversion Date converted into US dollars at the then Prevailing Rate.

Mandatory Cash Settlement

Until shareholder approval is obtained in a general meeting of the Company in respect of the issuance of the Excess Shares and notwithstanding the Conversion Rights of each Bondholder in respect of each Bond, at any time when the delivery of Excess Shares deliverable upon conversion of the Bonds is required to satisfy the Conversion Right in respect of a Conversion Notice, the Company shall pay the relevant Bondholder an amount of cash in US dollars equal to the Cash Alternative Amount in order to satisfy such Conversion Right.

Conversion Price Reset

If the arithmetic average of the Volume Weighted Average Prices for the 20 consecutive Dealing Days immediately prior to each of 17 June 2013, 17 June 2014 and 17 June 2015, converted into US dollars at the Prevailing Rate on each such Dealing Day, is less than the Conversion Price on the relevant Reset Date, the Conversion Price shall be adjusted on that Reset Date to the Average Market Price on that Reset Date, subject to a minimum conversion price of 80 per cent of the initial Conversion Price (subject to appropriate adjustments set out in Condition 6(b)).

Final Maturity

Unless previously purchased and cancelled, redeemed or converted, the Bonds will be redeemed in cash on 17 June 2016 at 108.80 per cent of their principal amount together with accrued but unpaid interest to, but excluding, such date.

Redemption at the Option of the Issuer

The Issuer may redeem all but not some only of the Bonds on any date on or after 2 July 2014 at the Early Redemption Amount (as defined in the Conditions), together with accrued interest up to but excluding the redemption date, if (i) for any 30 consecutive Dealing Days (as defined in the Conditions) the Volume Weighted Average Price (as defined in the Conditions) converted into US Dollars at the then Prevailing Rate (as defined in the Conditions) is at least 140% of the Early Redemption Amount (as defined in the Conditions) divided by the Conversion Ratio (as defined in the Conditions); or (ii) Conversion Rights (as defined in the Conditions) shall have been exercised and/or purchases and cancellations and/or redemptions effected in respect of 90% or more in principal amount of the Bonds. See Condition 7(b) of the Conditions.

Redemption at the Option of Bondholders

At any time following the occurrence of a Delisting or a Change of Control (each as defined in the Conditions), the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all or some only of that holder's Bonds on the Relevant Event Redemption Date (as defined in the Conditions) at the Early Redemption Amount (as defined in the Conditions), together with accrued interest up to but excluding the redemption date. See Condition 7(e) of the Conditions.

Withholding Taxes

All payments in respect of the Bonds will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed or levied by or on behalf of the Commonwealth of Australia or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall (except in certain circumstances as set out in the Conditions) pay such additional amounts as will result in the receipt by the Bondholders of such amounts as would have been received by them if no such withholding or deduction had been required. See Condition 9 of the Conditions.

Tax Redemption

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at the Early Redemption Amount together with interest accrued to, but excluding the date fixed for redemption, (i) in the event that as a result of any change in, or amendment of, the tax laws or regulations of the Commonwealth of Australia or any political subdivision thereof or any authority thereof or therein having power to tax or any change in the application or official interpretation of such laws or regulations, if the change

	becomes effective after 2 June 2011, the Issuer has or will become obliged to pay additional amounts; and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it. See Condition 7(c) of the Conditions.
Negative Pledge	The Bonds will contain a negative pledge provision given by the Company and its Subsidiaries in respect of Relevant Indebtedness (other than Permitted Security Interests). See Condition 2 of the Conditions.
Cross Acceleration	The Bonds will contain a cross acceleration provision, subject to a threshold of US\$10,000,000 (or its equivalent in other currencies). See Condition 10(c) of the Conditions.
Other Events of Default	For a description of certain events that will permit acceleration of the Bonds, see Condition 10 of the Conditions. Upon acceleration for any such event, the Bonds will become immediately due and repayable at the Early Redemption Amount as at such date, together with accrued but unpaid interest.
Trust Deed	The Bonds will be constituted by a trust deed expected to be dated 17 June 2011 between the Company and the Trustee.
Trustee	DB Trustees (Hong Kong) Limited.
Governing Law	The Bonds and the Trust Deed will be governed by, and construed in accordance with, English law.
Principal Paying and Conversion Agent	Deutsche Bank AG, Hong Kong Branch.
Principal Transfer Agent	Deutsche Bank Luxembourg S.A.
Registrar	Deutsche Bank Luxembourg S.A.
Form of the Bonds and Delivery	The Bonds will be in registered form without coupons attached and will be represented by a Global Certificate registered in the name of a nominee of, and deposited with a common depository for, Euroclear and Clearstream, Luxembourg on or about the Closing Date.
Selling Restrictions	There are restrictions on offers and sales of the Bonds, <i>inter alia</i>, in the United States, the United Kingdom, Hong Kong, Australia and Singapore. See “Subscription and Sale”.
Listing	Approval in-principle has been received for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as any of the Bonds are listed on the SGX-ST. The Company has not applied to have the Bonds admitted to dealing on the ASX. Upon conversion of the Bonds, application will be made for quotation of the Ordinary Shares issuable upon conversion of the Bonds on the ASX.
Lock up	The Company has agreed to certain restrictions on its ability (and the ability of persons acting on its behalf) to issue or dispose of Ordinary Shares or related securities during the period commencing on the date of the Subscription Agreement (as

defined herein) and ending 60 days after the Closing Date (both days inclusive). See “Subscription and Sale”.

ISIN

XS0635397911

Common Code

063539791

Use of Proceeds

The net proceeds of the issue of the Bonds are expected to amount to approximately US\$76,500,000, subject to adjustment for certain expenses in connection with the Offering. The net proceeds will be used for the purposes as set out in “Use of Proceeds”.

RIGHTS AND LIABILITIES OF ORDINARY SHARES

The following is a summary (though not necessarily an exhaustive or definitive statement) of the rights attaching to fully paid Ordinary Shares as set out in the Company's constitution ("Constitution"). The rights attaching to Ordinary Shares are in certain circumstances regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and general law.

Ranking

The Ordinary Shares issuable upon the conversion of the Bonds will rank *pari passu* with all the other shares that have been issued.

Voting rights

Subject to any rights or restrictions for the time being attached to or affecting any class or classes of shares and to the requirements of the ASX Listing Rules:

- (i) at meetings of shareholders, each shareholder entitled to vote may vote in person or by proxy, attorney or representative; and
- (ii) on a show of hands, every shareholder present in person or by proxy, attorney or representative has one vote and on a poll, every shareholder present in person or by proxy, attorney or representative has one vote for each share that shareholder holds. A person who holds a share that is partly paid shall be entitled to vote pro rata to the proportion of the total issue price then paid up on each share.

Dividend Rights

Directors are entitled to distribute Company profits and declare final and interim dividends, subject to any special rights and conditions attaching to any Ordinary Shares and in accordance with shareholders' rights and interests.

Under the Constitution, the directors may, from to time, declare such dividends as appear to the directors to be justified by the profits of the Company.

On 28 June 2010, the Corporations Act was amended by replacing the requirement that dividends be paid out of company profits with a test based on balance sheet solvency. Accordingly, the Company must not pay a dividend unless:

- 1 the Company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend; and
- 2 the payment of the dividend is fair and reasonable to the Company's shareholders as a whole; and
- 3 the payment of the dividend does not materially prejudice the Company's ability to pay its creditors.

Rights on Winding Up

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company, divide among the shareholders in kind, all or any of the assets of the Company,

and for that purpose, set such value as it considers fair upon any property to be so divided and may determine how the division is to be carried out as between the different classes of shareholders, but may not compel a shareholder to accept any shares or other securities in respect of which there is any liability.

If where the Company is wound up, the assets available for distribution among shareholders are insufficient to repay the whole of the capital paid up as at the commencement of the winding up, the assets shall be distributed among the shareholders so that the losses shall be borne by the shareholders as nearly as possible in proportion to the capital paid up or which ought to have been paid up on the shares held by them as at the commencement of the winding up.

If where the Company is wound up, there is a surplus of assets remaining, the surplus must be distributed among the parties entitled to it in proportion to the numbers of shares held by them irrespective of the amount paid up on the shares.

Transfer of Shares

Subject to the Constitution, the Corporations Act and any other laws and the ASX Listing Rules, shares are freely transferable.

The directors may only refuse to register any transfer of shares where the ASX Listing Rules permit or require the Company to do so and where the transfer is a transfer of “Restricted Securities” which is or might be in breach of the ASX Listing Rules or any escrow agreement relating to the “Restricted Securities”.

Future Issues

Subject to the Constitution, the Corporations Act, the ASX Listing Rules and any special rights conferred on the holders of any existing shares or class of shares in the Company, the directors may issue or dispose of shares to persons on terms and conditions determined by the directors, and with such preferred, deferred, or special rights or such restrictions as to dividends, voting, return of capital, payment of calls or otherwise.

Subject to the Corporations Act and the ASX Listing Rules, the Company may issue preference shares which are, or at the option of the Company are to be, liable to be redeemed, in such manner and on such terms and conditions as the Directors determine.

Variation of Rights

If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied or cancelled with the consent in writing of the holders of at least 75% of the shares of that class, or if authorised by at least 75% of shareholders at a separate general meeting of the holders of the shares of that class. Any variation of rights shall be subject to section 246B of the Corporations Act. The provisions of the Corporations Act and the Constitution relating to special resolutions and general meetings will, with

	such modifications as the circumstances require, apply to such special resolution.
Calls on shares	Subject to the Corporations Act, the ASX Listing Rules and any conditions of allotment, the directors may from time to time make calls on shareholders in respect of any money which remains unpaid on the shares held by them. The directors may require a call to be made in instalments and may differentiate between shareholders as to the amount of calls to be paid and the times of payment.
Forfeiture of shares	Any share upon which a call has been made is forfeited if the call remains unpaid 14 days after the date it was stipulated to be paid by. Where any share is so forfeited, notice of the forfeiture shall be given to the person in whose name it stood immediately before the forfeiture and an entry of the forfeiture shall be made in the register. The forfeiture of a share leads to the extinction, at the time of forfeiture, of all interest in and claims and demands against the Company in respect of the share and all other rights and liabilities incidental to the share as between the shareholder and Company, except those rights and liabilities expressly saved by the Constitution or imposed by the Corporations Act on past members.
Procedure for sale or buy back of non-marketable securities	Provided certain procedures are followed, the directors may cause the Company to: 1 sell a shareholder's shares if they hold less than a "Marketable Parcel" of shares; or 2 buy-back a shareholder's shares, and cancel those shares, if they hold less than a "Marketable Parcel" of shares. A "Marketable Parcel" of shares, as defined in the ASX Operating Rules, means a parcel of shares of not less than AU\$500 based on the closing price on the trading platform.
Notice of General Meeting	Shareholders must be given at least 28 days written notice of a general meeting.
Varying or repealing the Constitution	The Company may alter the provisions of the Constitution in accordance with the provisions of the Corporations Act, which state that the Company may modify or repeal its constitution, or a provision of its constitution, if authorised by at least 75% of votes cast by shareholders.

Full details of the rights attaching to the Ordinary Shares are set out in the Constitution, a copy of which can be inspected at the Company's registered office at Level 7, 134 William Street, Woolloomooloo, NSW, 2011, Australia during normal business hours.

RISK FACTORS

There are numerous widespread risks associated with investing in any form of business and with investing in bonds and the share market generally. There are also a range of specific risks associated with the Company's business and its involvement in the petroleum exploration, development and production industry and an investment in the Bonds or the Ordinary Shares of the Company should be considered speculative. Many of these risk factors are largely beyond the control of the Company and its Directors because of the nature and location of the existing and proposed business activities of the Company.

Investors should carefully consider the risks described below before making a decision to invest in the Bonds. The risks described below do not necessarily comprise all those faced by the Company and are not intended to be presented in any assumed order of priority.

The investment referred to in this Offering Circular may not be suitable for all of its recipients. Investors are advised to examine the contents of this Offering Circular and to consult their professional advisors before making a decision to subscribe for Bonds.

GENERAL RISKS RELATING TO THE COMPANY'S BUSINESS

The following summary, which is not exhaustive, represents some of the more general major risk factors for the Company.

Economic conditions

Economic conditions, both domestic and global, may affect the performance of the Group. Adverse changes in macroeconomic conditions, including global and country-by-country economic growth, the costs and general availability of credit, the level of inflation, interest rates, exchange rates, government policy (including fiscal, monetary, and regulatory policies), general consumption and consumer spending, employment rates and industrial disruption, amongst others, are outside the control of the Company and may result in material adverse impacts on the Company's business and its operating results.

Volatility of commodity prices

The profitability of the Company's current operations is directly related to the market price of commodities, in particular oil. Commodities and other resource prices fluctuate widely and are affected by numerous factors beyond the Company's control, including but not limited to global supply and demand, expectations with respect to the rate of inflation, the exchange rates of the US dollar to other currencies, interest rates, forward selling by producers, central bank sales and purchases, production and cost levels in major producing regions, global or regional political, economic or financial situations and a number of other factors.

Production risk

Ongoing production and commissioning of staged expansions to production may not proceed to plan, with potential for delay in the timing of targeted production and/or a failure to achieve the level of targeted production. In extreme circumstances, these potential delays or difficulties may necessitate additional funding which could lead to additional equity or debt requirements for the Group. In addition to potential delays, there is a risk that capital and/or operating costs will be higher than expected or there will be other unexpected changes in variables upon which expansion and commissioning decisions were made. These potential scope changes and/or cost overruns may lead also to additional funding requirements.

The Company's activities may be affected by numerous other factors beyond the Company's control. Mechanical failure of the Company's operating plant and equipment, and general unanticipated operational

and technical difficulties, may adversely affect the Company's operations. There is limited operating history available from the Company's sites. Operating risks beyond the Company's control may expose it to uninsured liabilities. The business of petroleum exploration and development is subject to a variety of risks and hazards. Such occurrences may delay production, increase production costs or result in damage to and destruction of, petroleum properties or production facilities, personal injury, environmental damage and legal liability. The Company has insurance to protect itself against certain risks of petroleum operations and processing within ranges of coverage consistent with industry practice. However, the Company may become subject to liability for hazards that it cannot insure against or that it may elect not to insure against because of high premium costs or other reasons. The occurrence of an event that is not fully covered, or covered at all, by insurance, could have a material adverse effect on its financial condition and results of operations.

Although the Company intends to take adequate precautions to minimise risk, there is a possibility of a material adverse impact on the Company's operations and its financial results.

Development risk

The Company's development projects may be delayed or be unsuccessful for many reasons, including unanticipated financial, operational or political events, the failure to receive government approvals, whether a final investment decision is reached, cost overruns, decline in petroleum prices or demand, equipment and labour shortages, technical concerns including with respect to reserves and deliverability difficulties, increases in operational cost structures, contractual issues with securing sales contracts for petroleum products or with engineering procurement and construction contracts, community or industrial actions, changes in construction costs, design requirements and delays in construction or other circumstances which may result in the delay, suspension or termination of the development projects.

In addition, the ability of counterparties of the relevant sales contracts to meet their commitments under such arrangements may impact on the Company's investment in these projects.

Development projects to which the Company is or may become involved are subject to the abovementioned risks (and the other risks outlined in this document), and may adversely affect the commerciality and economics of project development.

Speculative nature of petroleum exploration and development

Development of the Company's petroleum exploration properties is contingent upon obtaining satisfactory exploration results. Petroleum exploration and development involves substantial expenses and a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to adequately mitigate. The degree of risk increases substantially when the Company's properties are in the exploration as opposed to the development phase. There is no assurance that commercial quantities of petroleum will be discovered on any of the Company's exploration properties. There is also no assurance that, even if commercial quantities of petroleum are discovered, a particular property will be brought into commercial production. The discovery of resources is dependent upon a number of factors not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a particular resource, once discovered, is also dependent upon many factors, some of which are the particular attributes of the resource. In addition, assuming discovery of a commercial resource, depending on the type of operation involved, several years can elapse from the initial phase of drilling until commercial operations are commenced. Most of the above factors are beyond the control of the Company.

Resources and reserves

No assurance can be given that the hydrocarbon resource and reserves estimates will be recovered during production. The failure of the Company to achieve its production estimates could have a material and adverse

effect on any or all of its future cash flows, access to capital, profitability, results of operations, financial condition and prospects. Production estimates are dependent on, among other things, the accuracy of reserve and resource estimates, the accuracy of assumptions regarding the resource calculations and recovery rates. Reserve and resource estimates are based on limited sampling. Commodity price fluctuations, as well as increased production costs or reduced recovery rates, may render reserves uneconomic and may ultimately result in a restatement of such reserves. Moreover, short-term operating factors relating to reserves, such as the need for sequential development of resource bodies and the processing of new or different resource types may cause an operation to be unprofitable in any particular accounting period.

Security of tenure

All licences in which the Company has interests are subject to renewal conditions or are yet to be granted, which will be at the discretion of relevant Ministries in each country. The maintenance of licences, obtaining renewals, or getting licences granted, often depends on the Company being successful in obtaining required statutory approvals for proposed activities. While the Company anticipates that subsequent renewals or licence grants will be given as and when sought, there is no assurance that such renewals or grants will be given as a matter of course and there is no assurance that new conditions will not be imposed in connection with such grant or renewal.

Uninsurable risks

The Company may become subject to liability for accidents, pollution and other hazards against which it cannot insure against, or which it may elect not to insure because of premium costs or for other reasons, or in amounts which exceed policy limits. The occurrence of an event that is not fully covered, or covered at all, by insurance, could have a material adverse effect on its financial condition and results of operations.

Political stability

The Company's material investments and operations are principally conducted in Papua New Guinea, New Zealand and China. The Company's projects may be subject to the effect of economic, political and social instability, civil unrest, the sovereignty of assets held in those foreign countries, subsequent legislative or administrative actions, the ability to repatriate funds from those countries and the dynamics of their particular legal and commercial systems and creation of new laws. These factors (which may include new or modified taxes or other government levies as well as other legislation) may impact on the profitability and viability of the Company's properties.

Unexploded ordinance and security risk

Areas of Papua New Guinea contain unexploded ordinance and there are security risks in isolated parts of the region. The Company takes precautionary measures to minimise the risks these pose to its personnel and property. In the time which the Company has been operating in Papua New Guinea, it has not suffered any material adverse effect from these issues. However, there is no certainty that loss or liability can be avoided in the future.

Government regulation and tenure

The impact of actions by governments in the countries in which the Company operates may affect the Company's licence to operate and tenure. The Company's activities are subject to extensive laws and regulations controlling not only the commercial exploitation of and exploration for petroleum properties, but also the possible effects of such activities upon the environment and upon interests of private landholders and local communities. Permits from a variety of regulatory authorities are required for many aspects of operations and reclamation. Future legislation and regulations could cause additional expense, capital expenditures, restrictions and delays in the development of the Company's properties, the extent of which cannot be

predicted. Any failure to comply with applicable laws and regulations, may impact on the profitability and performance of the Company.

In the context of environmental permitting, including the approval of reclamation plans, the Company must comply with known standards, existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. While it is possible that costs and delays associated with compliance with such laws, regulations and permits could become such that the Company will not proceed with the development or operation of a particular project, the Company is not aware of any material environmental constraint affecting its proposed development and production activities or exploration properties that would preclude the economic development or operation of any specific operation or property.

General legal and taxation matters

Future earnings, assets values and the relative attractiveness of the Company's Bonds and Ordinary Shares may be affected by changes in law and government policy in the jurisdictions in which the Company operates, in particular changes to taxation laws (including stamp duty and goods and services tax).

Any change to the current rate of Company income tax or royalties in jurisdictions where the Company operates will impact on the profitability and performance of the Company.

Liquidity concerns and future financing

Further exploration and development of the various properties in which the Company holds interests depend upon the Company's ability to obtain financing through joint ventures, debt financing, equity financing or other means. There is no assurance that the Company will be successful in obtaining the financing required as and when needed. Volatile markets for commodities may make it difficult or impossible for the Company to obtain debt financing or equity financing on favourable terms or at all. Failure to obtain additional financing on a timely basis may cause the Company to postpone its development plans, forfeit rights in some or all of its properties or joint ventures or reduce or terminate some or all of its operations.

Logistics

Logistical risk relates to long supply lines, and lack of engineering and other support facilities close to the Company's operating sites. In certain of the countries in which the Company operates, the transshipment of commodities through neighbouring countries for export could be subject to disruptions through transshipment licensing delays, political disputes and natural disasters.

Failures in the supply chain for specialist equipment and materials

The Company operates within a complex supply chain depending on suppliers of raw materials, services, equipment and infrastructure to ensure its exploration, development and production activities can operate, and on providers of logistics to ensure products are delivered. Failure of significant components of this supply chain due to strategic factors such as business failure or serious operational factors, could have an adverse effect on the Company's business and results of operations.

Failure to make or integrate acquisitions

Business combinations entail a number of risks including the effective integration of acquisitions (including the realisation of synergies), significant one time write-offs or restructuring charges, and unanticipated costs and liabilities. All of these may be exacerbated by the diversion of management's attention away from other ongoing business concerns. The Company may also be liable for the past acts, omissions or liabilities of companies and businesses or properties it has acquired or disposed of, which may be unforeseen or greater than anticipated.

Joint Ventures and other strategic partnerships may not be successful

The Company participates in several joint venture arrangements and it may enter into further joint ventures. Although the Company has sought to protect its interests, existing and future joint ventures necessarily involve special risks. Whether or not the Company holds majority interests or maintains operational control in its joint ventures, its partners may:

- have economic or business interests or goals that are inconsistent with, or opposed to, those of the Company;
- exercise veto rights to block actions that the Company believes are in its or the joint venture's best interests;
- take action contrary to the Company's policies or objectives with respect to its investments; or
- be unable or unwilling to fulfil their obligations under the joint venture or other agreements, such as contributing capital to expansion or maintenance projects.

Where projects and operations are controlled and managed by the Company's partners, the Company may provide expertise and advise but it has limited control with respect to compliance with its standards and objectives. Improper management or ineffective policies, procedures or controls could adversely affect the value of related non managed projects and operations and, by association, damage the Company's reputation thereby harming the Company's other operations and access to new assets.

Climate change risk

Increased regulation of greenhouse gas emissions could adversely affect the Group's costs of operations. Regulatory change by governments in response to greenhouse gas emissions may represent increased costs to the Company impacting profitability. Increasing regulation of greenhouse gas emissions, including the progressive introduction of a carbon tax in any jurisdiction in which the Company operates is likely to raise energy costs and costs of production over the next decade. Regulation of greenhouse gas emissions in the jurisdictions of the Company's customers could also have an adverse effect on the cost of the Company's production.

Foreign operations

The Company's operations overseas are exposed to various levels of political, economic and other risks and uncertainties associated with operating in a foreign jurisdiction. These risks and uncertainties vary from country to country and include, but are not limited to, currency exchange rate; high rates of inflation; labour unrest; renegotiation or nullification of existing concessions, licenses, permits and contracts; changes in taxation policies; restrictions on foreign exchange; changing political conditions; currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction or otherwise benefit residents of that country or region.

Changes, if any, in petroleum exploration and production or investment policies or shifts in political attitude in any of the countries in which it operates may adversely affect the Company's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use, black economic empowerment or similar policies, employment contractor selection and safety. Failure to comply strictly with applicable laws, regulations and local practices relating to petroleum applications and tenure, could result in loss, reduction or expropriation of entitlements.

The occurrence of these factors adds uncertainties which cannot be accurately predicted and could have an adverse effect on the Company's operations or profitability.

Failure of basic infrastructure

Infrastructure in some developing countries for utilities such as electricity and water supply is under strain and underdeveloped. A serious failure of basic infrastructure or occurrences of power in the regions in which the Company operates could adversely affect production at the Company's operations.

Key personnel

Retaining qualified personnel is critical to the Company's success. The Company may face risks from the loss of key personnel, as it may be difficult to secure and retain candidates with appropriate experience and expertise. The Company has implemented incentive plans to assist in the recruitment and retention of talented people needed to achieve its business objectives. Despite this, one or more of the Company's key employees could leave their employment and this may adversely affect the Company's ability to conduct its business and, accordingly, affect the profitability, financial position and performance and prospects of the Company. The Company's success also depends on its ability to identify, attract, accommodate, motivate and retain additional suitably qualified personnel. The number of persons skilled in the acquisition, exploration, development and operation of petroleum properties is limited and competition for such persons is high. As the Company's business activity grows, it will require additional personnel to meet its growing needs. If the Company is unable to access and retain the services of a sufficient number of qualified personnel, this could be disruptive to the Company's development and may materially adversely affect its profitability, financial position and performance and prospects.

Key contractors

The Company's business relationships, operations and financial performance may be materially and adversely affected if any of its current and proposed contractors and sub-contractors do not perform their contractual obligations. The Company can provide no guarantee that the contractors will fulfil these obligations.

Labour and employment matters

While the Company has good relations with its employees, these relations may be impacted by changes in the scheme of labour relations which may be introduced by the relevant country governmental authorities which regulate its operations. Adverse changes in such legislation may have a material adverse effect on the Company's business.

As the Company's business grows, it may require additional key financial, administrative, technical, marketing and public relations personnel as well as additional staff for operations. In addition, given the remote location of the properties, the lack of infrastructure in the nearby surrounding areas, and the shortage of a readily available labour force in the petroleum industry, the Company may experience difficulties retaining the requisite skilled employees in the region. It is important for the Company's continued success that it attracts,

develops, retains and engages the right employees. A limited supply of skilled workers could lead to an increase in labour costs of the Company being unable to attract and retain the employees it needs. When new workers are hired, it may take a considerable period of training and time before they are equipped with the requisite skills to work effectively and safely on some of the inherently dangerous tasks associated with the petroleum industry. Failure to retain without appropriate replacement or to attract employees with the right skills for the Company's business could have a material adverse effect on the Company's business. While the Company believes that it will be successful in attracting and retaining qualified personnel and employees, there can be no assurance of such success.

Subsidiaries

The Company conducts certain of its operations through subsidiaries and holds certain of its assets in such subsidiaries. Accordingly, any limitation on the transfer of cash or other assets between the Company and its subsidiaries could restrict the Company's ability to fund its operations efficiently. Any such limitations, or the perception that such limitations may exist now or in the future, could have an adverse impact on the Company's valuation and stock price.

Exploration and drilling carry inherent risks

Drilling operations are subject to hazards normally encountered in exploration, development and production. These include unexpected geological formations, infrastructure failure and other incidents or conditions which could result in damage to plant or equipment or the environment and which could impact production throughput. Although it is intended to take adequate precautions to minimise risk, there is a possibility of a material adverse impact on the Company's operations and its financial results should any of these hazards be encountered.

Commodity prices

Commodity prices may substantially impact on the economics of projects and, hence, on exploration and development programs. Commodity prices react to the economic climate, market forces of supply and demand, and other factors beyond the Company's control. The aggregate effect of these factors on commodity prices is impossible to predict. Decreases in commodity prices could adversely effect the Company's ability to finance the development of its projects as well as its results of its operations.

Currency Risk

The Company incurs expenditures in the local currencies of various countries from operations and certain other capital and operating costs will primarily be in other than the Company's functional currency, US dollars. As a result of the use of these different currencies, the Company is subject to foreign currency fluctuations which may materially affect its financial position and operating results.

Competition

Significant and increasing competition exists for petroleum acquisition opportunities throughout the world. As a result of this competition, some of which is with large, better established petroleum companies with substantial capabilities and greater financial and technical resources, the Company may be unable to acquire rights to exploit additional attractive petroleum properties on terms it considers acceptable. Accordingly, there can be no assurance that the Company will acquire any interest in additional operations that would yield reserves or result in commercial petroleum operations.

Hedging risk

The Company has implemented a hedging policy incorporating currency, interest rate, and various commodities with a view to minimising potential adverse effects on revenue while still allowing medium to longer term exposure to commodity prices. The hedging program may include forward contracts. If the Company fails to deliver the required product on the maturity date of each committed contract then it will need to renegotiate or close out and settle the relevant forward contract. This will result in either a cash gain or loss to the Company depending upon the market price of commodities or the US\$/A\$ exchange rate at that point in time. Although the risk is managed by the Company, the Company cannot guarantee the effectiveness of its hedging policies. Although hedging activities may protect the Company in certain instances, forward contracts may also limit upside where the market price exceeds the hedge contract.

Equity dilution

The Company may undertake additional offerings of securities in the future. The increase in the number of fully paid shares issued and the possibility of sales of such shares may have a depressive effect on the price of fully paid shares already on issue. The Conditions provide for an adjustment to the Conversion Price in relation to some but not all future offerings of securities. In addition, as a result of the issue of such additional fully paid shares, the voting power of the Company's existing shareholders will be diluted.

Estimates and assumptions are used in preparing consolidated financial statements

Preparation of the consolidated financial statements requires the Company to use estimates and assumptions. Accounting for estimates requires the Company to use its judgement to determine the amount to be recorded on its financial statements in connection with these estimates. The Company's estimates and assumptions used in the valuation of work-in-progress inventories include estimates of petroleum expected to be recovered and the price expected to be realised when the product is recovered. If the estimates and assumptions are inaccurate, the Company could be required to write down the recorded value of its work in progress inventory. On an ongoing basis, the Company re-evaluates its estimates and assumptions. However, the actual amounts could differ from those based on estimates and assumptions.

Ability to manage growth

Future operating results depend to a large extent on management's ability to successfully manage growth. This necessarily requires rapid expansion and consolidation of all aspects of the business operations, such as the development of operations, revenue forecasting, an effective marketing strategy, addressing new markets, controlling expenses, implementing infrastructure and systems and managing its assets and contractors. The inability to control the costs and organisational impacts of business growth, an unpredicted decline in the growth rate of revenues without a corresponding and timely reduction in expenses or a failure to manage other issues arising from growth can have a material adverse effect on the Company's operating results.

Litigation

The Company is subject to litigation risks. All industries, including the petroleum industry, are subject to legal claims, which claims may be with or without merit. Defence and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding to which the Company is or may become subject could have a material effect on its financial position, results of operations or the Company's exploration and project development operations.

RISKS RELATING TO THE BONDS AND THE SHARES

The following summary, which is not exhaustive, outlines some of the major risk factors in respect of an investment in the Bonds.

There is a lack of a public market for the Bonds

There is currently no formal market through which the Bonds may be sold and purchasers may not be able to resell the Bonds purchased under this Offering Circular. In principle approval has been given for the listing of the Bonds on the SGX-ST. However, there is currently no formal trading market for the Bonds and there can be no assurance that an active trading market will develop for the Bonds after the Offering, or that, if it develops, such a market will sustain a price level at the issue price.

Other indebtedness

The Bonds will rank *pari passu* in right of payment with all other existing and future unsecured and unsubordinated obligations of the Company save for such obligations that may be preferred by provisions of law that are mandatory and of general application. To the extent the Company incurs any future secured indebtedness, the Bonds will also effectively rank behind such secured obligations to the extent of the assets serving as security for that secured indebtedness. To the extent that assets of the Group are owned by the Company's Subsidiaries (as defined in the Conditions) and not by the Company, the ability of the Bondholders to have recourse to those assets will also rank effectively behind all obligations incurred by those Subsidiaries. Please refer to the "Summary of financing arrangements" below in relation to potential future indebtedness of the Company.

There is an absence of covenant protection for the Bonds

Other than as described herein, the Trust Deed will not limit the Company's ability to incur additional debt or liabilities (including secured indebtedness). The Trust Deed will not contain any provision specifically intended to protect holders of the Bonds in the event of a future leveraged transaction by the Company (other than certain secured capital markets transactions in the circumstances described in the Conditions).

The Company (or its Subsidiaries) may in the future incur further indebtedness and other liabilities. The Company (and its Subsidiaries) has and may in the future provide guarantees and/or indemnities in respect of such indebtedness. The Company is a holding company with no significant assets other than the shares of its wholly-owned and non wholly-owned Subsidiaries. The ability of the Company's Subsidiaries to pay dividends and make other transfers to the Company may be limited by various regulatory, contractual, legal and tax constraints or the Subsidiaries' debt or other agreements with lenders. If as a result of these restrictions the Company is unable to ensure the continued transfer of dividends and other income to it from these Subsidiaries, this may materially and adversely impair the Company's ability to pay dividends and interest, and to service its debt obligations, including its obligations under the Bonds.

The Company may be unable to redeem the Bonds

The Company must redeem the Bonds on the Maturity Date, on the request of a Bondholder if a Change of Control or a Delisting (each as defined in the Terms and Conditions of the Bonds) occurs or on the occurrence of an Event of Default in relation to which the Trustee has given notice to the Issuer that the Bonds are immediately due and repayable. The Company cannot assure Bondholders that, if required, it would have sufficient cash or other financial resources at the time such a redemption obligation arises or would be able to arrange financing to redeem the Bonds in cash.

The market price of the Bonds following the offering of the Bonds may be volatile

The market price of the Bonds will be based on a number of factors, including:

- (a) the prevailing interest rates being paid by companies similar to the Company;
- (b) the overall condition of the financial and credit markets;
- (c) prevailing interest rates and interest rate volatility;
- (d) the markets for similar securities;
- (e) the financial condition, results of operations and prospects of the Company;
- (f) the publication of earnings estimates or other research reports and speculation in the press or investment community;
- (g) the market price and volatility of the Ordinary Shares;
- (h) the market prices for commodities (including, without limitation, the market price for oil);
- (i) changes in the industry and competition affecting the Company; and
- (j) general market and economic conditions.

The condition of the financial and credit markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Fluctuations in these factors could have an adverse effect on the market price of the Bonds.

Holders will bear the risk of fluctuations in the price of the Ordinary Shares

The market price of the Ordinary Shares may be volatile. The volatility of the market price of the Ordinary Shares may affect the ability of holders of Bonds to sell the Bonds at an advantageous price. Additionally, this may result in greater volatility in the market price of the Bonds than would be the case for non-convertible debt securities. The market price of a publicly traded stock is affected by many variables not directly related to the success of the Company. In recent years, the securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, including in particular companies considered to be development stage companies or companies in early stages of production, has experienced wide fluctuations which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Market price fluctuations in the Ordinary Shares may also arise due to the operating results of the Company failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors along with a variety of additional factors, including, without limitation, those set forth under "Cautionary Statement Regarding Forward-Looking Statements". In addition, stock markets, including the ASX and the SGX-ST from time to time suffer significant price and volume fluctuations that affect the market price for securities and which may be unrelated to the operating performance of the Company. Any of these events could result in volatility and/or a decline in the market price of the Bonds or the Ordinary Shares.

Holders have limited anti-dilution protection

The conversion price of the Bonds will be adjusted in the event that there is a consolidation, sub-division, or reclassification, capitalisation of profits or reserves, rights issue, capital distribution or other adjustment, but only in the circumstances and only to the extent provided in "Terms and Conditions of the Bonds – Conversion of Bonds". There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Ordinary Shares. Events in respect of which no adjustment is

made may adversely affect the value of the Ordinary Shares and, therefore, adversely affect the value of the Bonds.

Before conversion, Bondholders will not be entitled to any shareholder rights, but will be subject to all changes affecting the Ordinary Shares

A Bondholder holding Bonds will not be entitled to any rights with respect to the Ordinary Shares, including voting rights and rights to receive dividends or distributions. However, the Ordinary Shares which the Bondholder will receive upon conversion of his Bonds will be subject to all changes affecting the Ordinary Shares. Except for limited cases under the adjustments to the conversion price, the Bondholder will be entitled only to rights that the Company may grant with respect to the Ordinary Shares if and when the Company delivers Ordinary Shares to the Bondholder upon its election to convert its Bonds into Ordinary Shares. For example, should the Company seek approval from Ordinary Shareholders for a potential merger, or if an amendment is proposed to the Company's certificate of incorporation or Constitution which may require Shareholder approval, the Bondholders will not be entitled to vote on the merger or amendment.

Modifications and waivers

The conditions of the Bonds contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

Change of law

The terms and conditions of the Bonds are based on English law in effect as at the date of Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

Exchange Rate Risks and Exchange Controls

The Company will pay principal and interest on the Bonds in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including the changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Bonds and (3) the Investor's Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The risks described above do not necessarily comprise all those faced by the Company and are not intended to be presented in any assumed order of priority.

The investment referred to in this Offering Circular may not be suitable for all of its recipients. Investors are accordingly advised to consult an investment advisor before making a decision to subscribe for Bonds.

ABOUT THE COMPANY

1.0 Overview

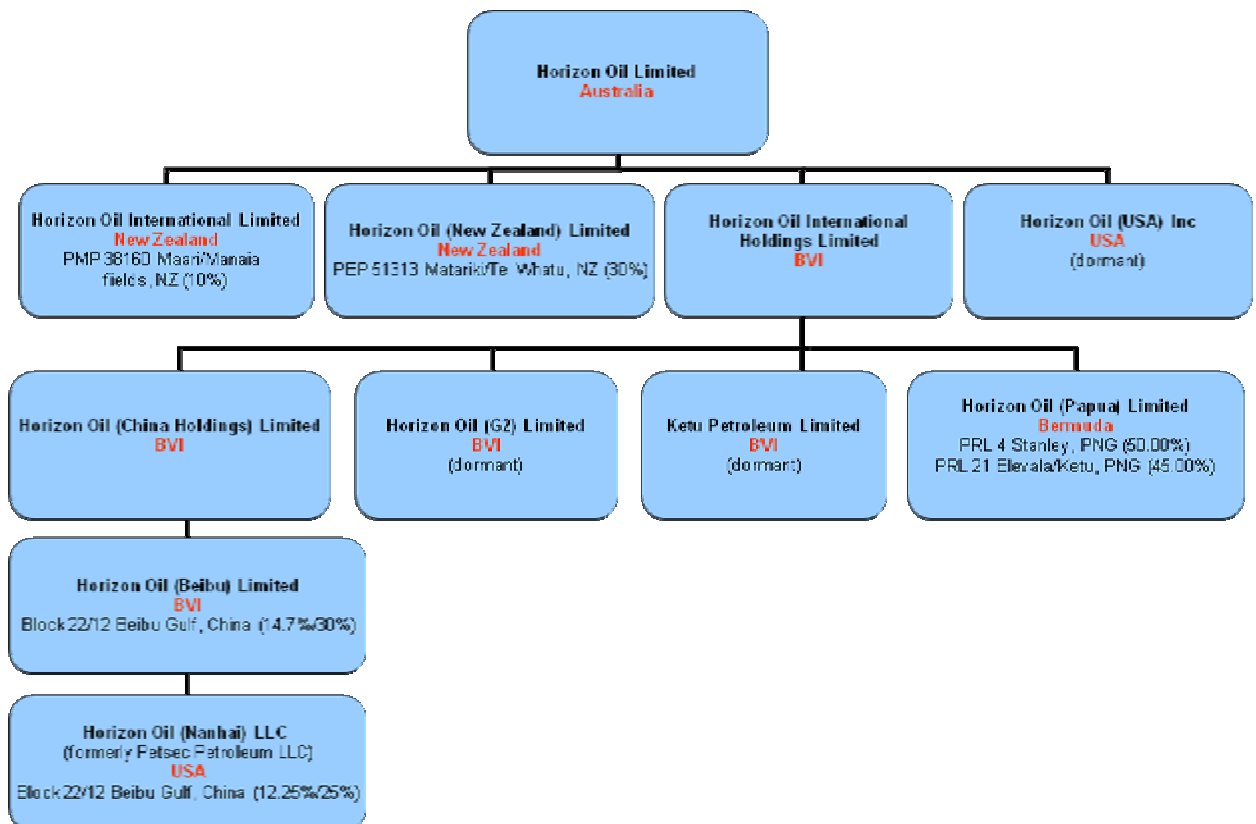
The Company is an international oil and gas exploration, development and production company that is listed on the Australian Stock Exchange (code: HZN) and included in the S&P/ASX 300 Index. With a market capitalisation of approximately A\$381 million, the Company is a “mid-cap” company on the ASX. The Company’s headquarters are located in Sydney, Australia.

The Company’s strategic focus is oil and gas exploration, development and production. Through its wholly owned subsidiary companies, the Company presently conducts joint operations in:

New Zealand:	PMP 38160 (Maari, M2A and Manaia production operations) PEP 51313 (Matariki/Te Whatu exploration operations)
China:	Block 22/12 (Wei 6-12, Wei 6-12S, Wei 12-8W and Wei 12-8E fields development and pre-development operations)
Papua New Guinea:	PRL 4 (Stanley) (appraisal/pre-development operations) PRL 21 (Eleva/Ketu) (appraisal/pre-development operations)

2.0 Corporate structure

Corporate structure – June 2011



3.0 Strategy overview

The Company's exploration, development and production activities are focused in Southeast Asia. The strong, long-lived cashflows from the Company's interest in the Maari field, offshore New Zealand, 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 resources (90 million barrels of oil equivalent) in fields in New Zealand, China and Papua New Guinea.

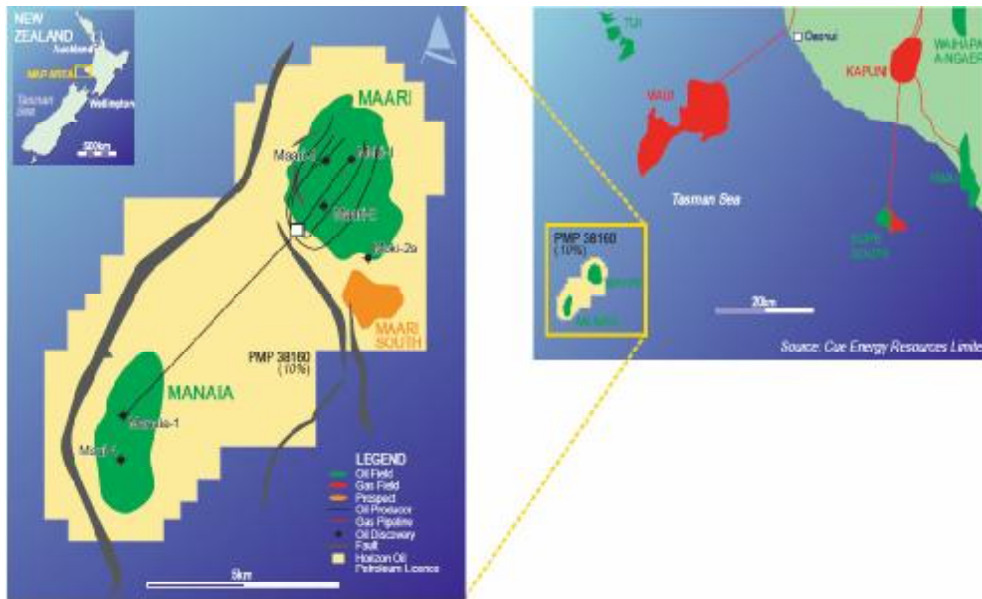
The Company has a conservative and highly selective exploration policy with specific focus on plays providing scale and upside. The identified prospects in the Company's inventory (97 million barrels of oil equivalent unrisked mean potential), together with the reserves and resources provide shareholders exposure to commodity price upside, especially oil price, and production growth.

4.0 Asset overview

New Zealand:	PMP 38160 (Maari, M2A and Manaia production operations) PEP 51313 (Matariki/Te Whatu exploration operations)
China:	Block 22/12 (Wei 6-12, Wei 6-12S, Wei 12-8W and Wei 12-8E fields development and pre-development operations)
Papua New Guinea:	PRL 4 (Stanley appraisal/pre-development operations) PRL 21 (Elevala/Ketu appraisal/pre-development operations)

4.1 PMP 38160, Maari project, New Zealand

The Maari project, incorporating the Maari and Manaia oil fields, is located in the Tasman Sea approximately 80 kilometres off the west coast of Taranaki, New Zealand, in approximately 100 metres of water. Horizon Oil has a 10% participating interest in the Maari joint venture which holds the Maari and Manaia oil fields under petroleum mining permit PMP 38160 which continues until December 2017, unless extended. The operator of the Maari project is OMV New Zealand Limited, a subsidiary of OMV Aktiengesellschaft.



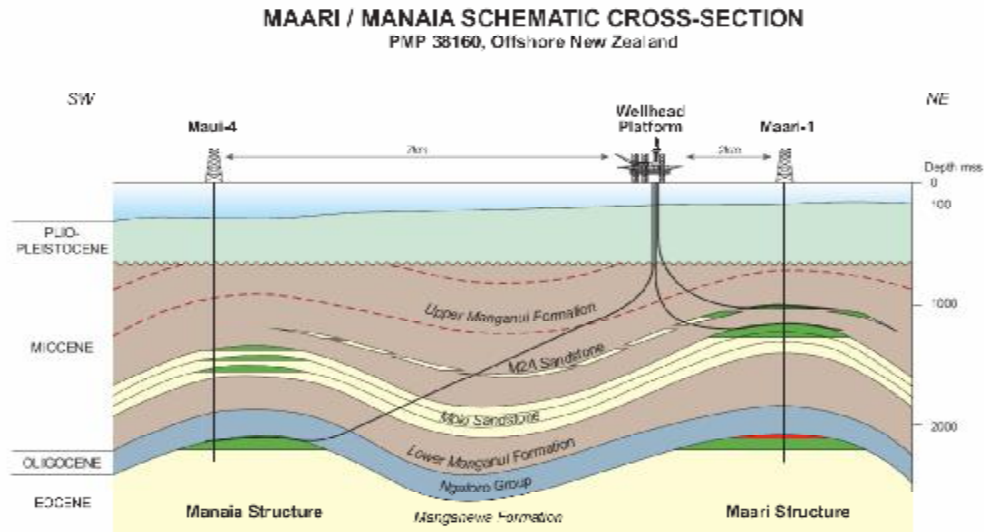
The offshore installation was designed and constructed to operate in a remote and a challenging metocean environment. The project infrastructure includes a wellhead platform, a floating production storage and offloading vessel (“FPSO”), seven production and three water injector wells and associated sub-sea flowlines, together with a workover rig and a coiled tubing unit located permanently on the wellhead platform or at the shorebase.



The FPSO “Raroa” has a capacity of 600,000 barrels. Crude oil is delivered from the FPSO to shuttle tankers which transport the product to purchasers’ refineries in Australia and South East Asia. The Maari field has produced over 14 million barrels since the commencement of production in March 2009, with sales of the Maari crude achieving substantial premiums to dated Brent prices.



The Maari project was approved in 2005 initially to develop the Maari Moki formation, with initial total recoverable proven and probable reserves of approximately 58 million barrels. The successful appraisal/development wells in the Maari M2A sandstone and the Manaia Mangahewa formation during the development drilling campaign resulted in the Maari joint venture's development planning for the full field exploration, appraisal and potential development of the Greater Maari Area, incorporating the discoveries in the Maari M2A and Mangahewa formations, the Manaia Moki and Mangahewa formations and the South Maari exploration prospect. The additional zones are estimated by Horizon Oil to have the potential to increase the total recoverable proven and probable reserves of the Greater Maari Area to between 80 million and 100 million barrels.



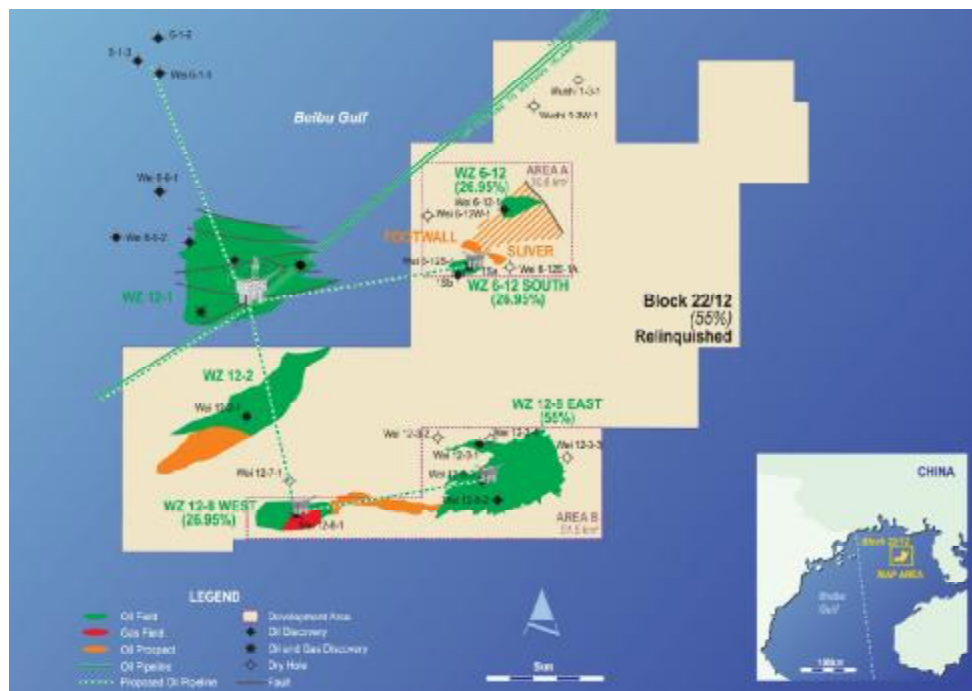
4.2 PEP 51313, Matariki/Te Whatu prospects

Horizon Oil holds a 30% participating interest in the PEP 51313 joint venture, operated by Todd Exploration Limited. PEP 51313 covers an area of 2,595 km² to the south and west of the Maari and Manaia oil fields, incorporating the Matariki, Te Whatu and Pike prospects. The permit has a 5 year term, expiring in July 2014. During 2011, the joint venture has acquired new seismic data which it will process, integrate with existing data and interpret to mature prospects for exploration drilling activity, scheduled for 2012.



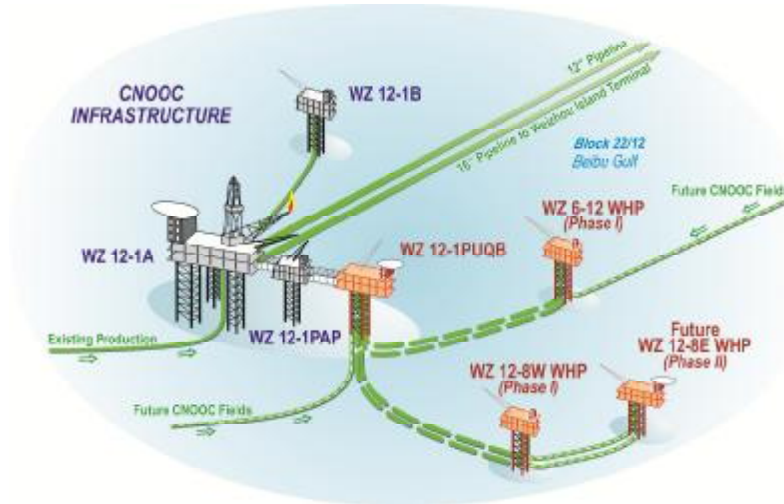
4.3 Block 22/12 development, offshore China

The Block 22/12 development project, offshore China, incorporating the Wei 6-12, Wei 6-12 South and Wei 12-8 West fields is located in the Gulf of Beibu, offshore China, in 40 to 60 metres water depth and in a region of normally benign metocean conditions.



Block 22/12 is held under a petroleum contract signed with China National Offshore Oil Corporation (“CNOOC”) in December 1999. Horizon Oil has a 26.95% participating interest in the development project and a 55% participating interest in the exploration areas within the petroleum contract area. The operator of the Block 22/12 development project and production operations is a subsidiary of CNOOC, which holds a 51% participating interest in the development project.

The relatively uncomplicated development plan incorporates two remote unmanned well head platforms located over the fields and tied back to a processing utilities and accommodation platform to be located adjacent to and connected with the existing CNOOC owned and operated WZ 12-1A processing platform and WZ 12-1 production assistance platform and will utilise its water reinjection and gas processing facilities. Oil and gas export will be via existing CNOOC operated infrastructure, a 32 km 16” pipeline to a storage and export terminal on Weizhou Island. Tariffs for the use by the Block 22/12 participants of the CNOOC pipeline and fees for oil stabilisation and water reinjection operations have been agreed with CNOOC and are documented in a Supplementary Development Agreement to the petroleum contract.



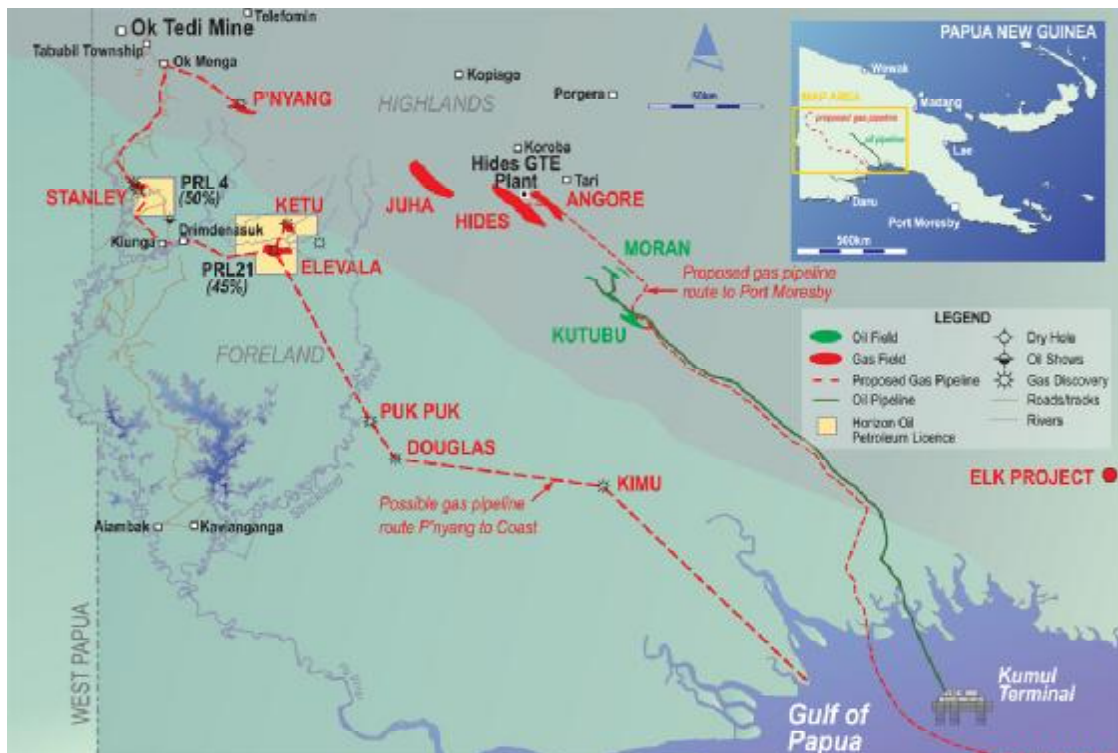
The final investment decision in respect of Phase I of the project was made in the first quarter of 2011. Total project budget capital costs are budgeted to be US\$300 million, Horizon Oil’s share of which is US\$81 million. First oil production is scheduled for December 2012. Horizon Oil’s share of forecast peak production is 4,000 bopd.

The feasibility study for the proposed Phase II of the Block 22/12 development, addressing the Wei 12-8 East field is underway. The proposed development plan incorporates a third unmanned well head platform located over the Wei 12-8 East field, tied back to the Wei 12-8 West platform.

4.4 Papua New Guinea

Horizon Oil has a significant resource position in the Western Province of Papua New Guinea. The Company has a 50%¹ participating interest in Petroleum Retention Lease (“PRL”) 4 which contains the Stanley gas/condensate field and a 45%¹ participating interest in PRL 21 which contains the Elevala and Ketu gas/condensate fields. Each of the gas/condensate fields are located in relatively flat and accessible foreland areas, close to major river transport routes on the Fly River.

¹ Subject to the PNG state equity entitlement of 22.5% under the PNG Oil and Gas Act.



4.4.1 PRL 4 Stanley gas/condensate field

Horizon Oil has a 50% participating interest in PRL 4 which includes the Stanley gas/condensate field. PRL 4 was renewed with effect from 1 September 2010 until 31 August 2011, being the first year of a potential maximum five year term. The PRL 4 joint venture lodged a renewal application for PRL 4 for a further term in accordance with PNG legal requirements in February 2011.

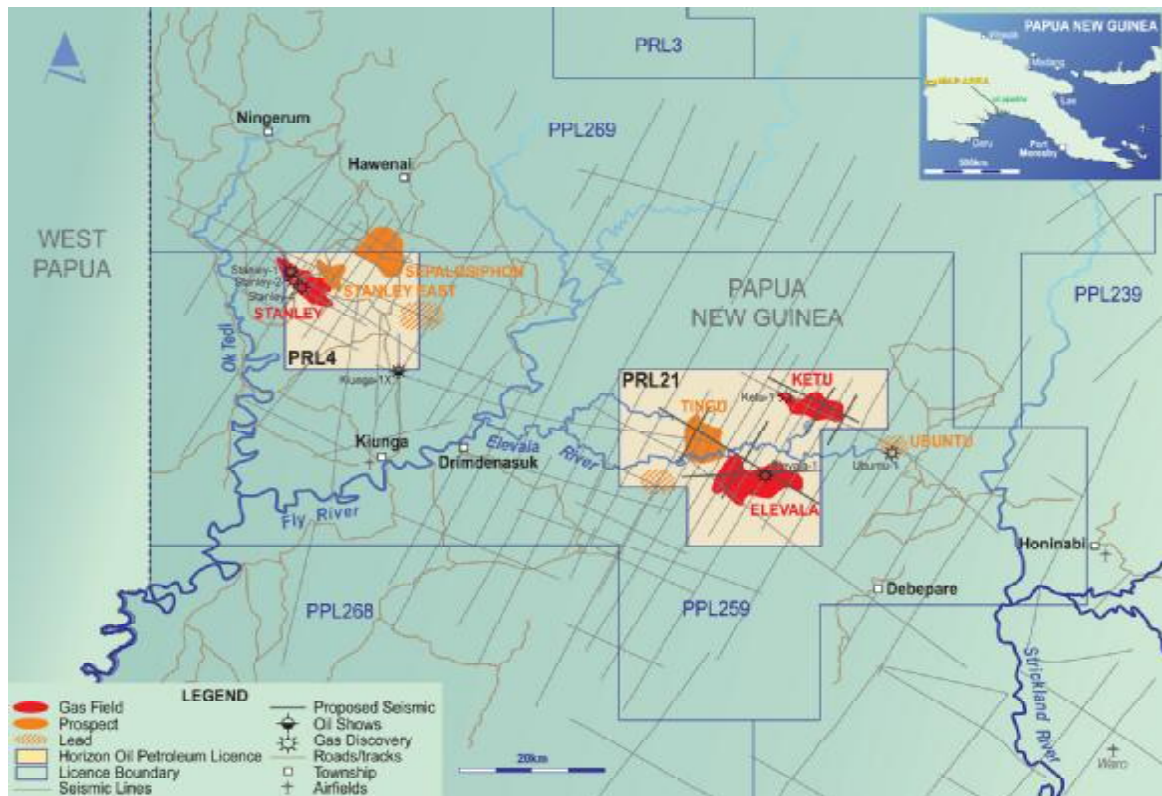
The Stanley gas/condensate field was discovered in 1999 with the drilling of the Stanley-1 discovery well. Horizon Oil re-entered and tested the well in July 2008 to confirm formation deliverability and collect reservoir fluid samples which showed a condensate gas ratio of 31 stb/mmscf. The Stanley-1 well was completed as a reinjection well, in preparation for the proposed development.

Since the re-entry of Stanley-1 in 2008, Horizon Oil has carried out appraisal activities, including the acquisition of 2D seismic data and drilling the Stanley-2 and Stanley-4 appraisal wells, both of which have been completed for production. Development planning has been undertaken in respect of Horizon Oil's proposed development to recover condensate and re-inject dry gas for later sale.

Subject to the outcome of the project feasibility analysis, the PRL 4 joint venture would make its final investment decision to proceed with the development of the Horizon Oil operated Stanley condensate recovery project in the second half of 2011. First production of the 9 million barrels (2C) of condensate is anticipated in mid-2013, at approximately 4,000 barrels of condensate/day.

The current development concept contemplates two production wells (Stanley-2 and Stanley- 4) each producing at 70 mmscf/d and two reinjection wells (Stanley-1 and Stanley-3). The gas will be processed through a refrigeration plant, extracting the condensate which will be transported by a 40 km 6 inch pipeline to the regional port of Kiunga, from where it will be transported down the Fly River by barges to refineries or intermediate storage facilities, as appropriate.

Commercialisation opportunities for the 283 bcf of reinjected Stanley gas resources include supply of gas to regional mining and industrial consumers for power generation and participation in a proposed regional gas aggregation, transport and export enterprise, whereby Horizon Oil would sell its gas to the aggregator.



4.4.2 PRL 21 Elevala and Ketu gas/condensate fields

Horizon Oil has a 45%² participating interest in PRL 21 which includes the Elevala and Ketu gas/condensate fields. PRL 21 was granted with effect from 18 March 2011 for a five year term following the settlement of legal proceedings with the Papua New Guinea Government over the acreage, which was formerly designated PRL 5. The Elevala and Ketu gas/condensate fields were discovered in 1989/1990 with the drilling of the Elevala-1 and Ketu-1 discovery wells.

During 2011 and 2012, the PRL 21 joint venture, operated by Horizon Oil will carry out appraisal activities including the acquisition, processing and interpretation of 105 km of 2D seismic and drilling at least two appraisal wells, Elevala-2 and Ketu-2. Subject to the results of the appraisal wells, the PRL 21 joint venture would initiate a feasibility study for the development of the resources: 26 million barrels of condensate and 408 bcf of gas (2C).

The potential Elevala-Ketu gas/condensate field development concept would be a modular application of the potential Stanley gas/condensate fields development project, with necessary modifications such as increased well numbers (three production wells) and higher plant capacity to accommodate a greater gas production rate and higher condensate yield. The development concept assumes initial production rates of 12,000 barrels of condensate/day which would be transported in conjunction with the Stanley condensate, down the Fly River by barges to refineries or intermediate storage facilities, as appropriate.

² Subject to Ministerial consent in respect of recent acquisition of 10% participating interest

As for the Stanley gas/condensate project, the commercialisation opportunities for the reinjected Elevala/Ketu gas resources include supply of gas to regional mining and industrial consumers for power generation and participation in a proposed regional gas aggregation, transport and export enterprise, whereby Horizon Oil would sell its gas to the aggregator.

5.0 Information on resources and reserves

The following table reflects Horizon Oil's net remaining reserves, resources and exploration potential as at 31 December 2010.

	<i>Reserves 2P</i>	<i>Resources 2C</i>		<i>Exploration potential Unrisked mean</i>	
	<i>Oil/Condensate mmb</i>	<i>Oil/Condensate mmb</i>	<i>Gas bcf</i>	<i>Oil/Condensate mmb</i>	<i>Gas bcf</i>
<i>PMP 38160, New Zealand Maari/M2A/Manaia oil fields</i>	5.5	2.8	-	1	-
<i>PEP 51313, New Zealand</i>	-	-	-	60	-
<i>Block 22/12, China Wei 6-12, 6-12S, 12-8 West, 12-8 East oil fields</i>	11.3	-	-	5	-
<i>PRL 4, PNG¹ Stanley gas /condensate field</i>	-	4.5	142	2	50
<i>PRL 21¹ Elevala and Ketu gas /condensate fields</i>	-	11.8	184	6	90
<i>Total</i>	<i>16.8</i>	<i>19.1</i>	<i>326</i>	<i>74</i>	<i>140</i>

¹ Subject to reduction for PNG State Equity Entitlement of 22.5%

The reserve and resource information set out above is based on information compiled by Mr Alan Fernie B.Sc. (Manager - Exploration and Development). Mr Fernie, who is a member of AAPG, has more than 35 years relevant experience within the petroleum industry and consents to the disclosure of the information in the form and the context in which it appears.

6.0 Summary of financing arrangements

The Company's subsidiary which holds the Group's interest in the Maari/M2A/Manaia production operations, Horizon Oil International Limited, has a limited recourse project debt facility with BOS International (Australia) Limited. The outstanding balance at 31 March 2011 of the project debt facility was US\$11 million and the facility matures on 31 December 2011.

Horizon Oil Limited has sought and received expressions of interest in respect of a reserves based senior debt financing facility to accommodate the Group's existing and anticipated production and development activities and, where appropriate, future asset acquisitions. It is currently anticipated that a secured senior debt facility of in excess of US\$100 million will be arranged to meet existing and anticipated production and development activities. The exact size, timing and terms are dependent on numerous factors, including, amongst others, final development capital expenditure requirements, oil prices, final investment decisions on projects and regulatory approvals.

7.0 Summary of hedging arrangements

The Company's present hedging arrangements are limited to interest rate hedging in respect of its subsidiary's project debt obligations under the BOSI project finance facility. The Company has no commodity hedging currently in place. The Company may enter into commodity, interest and foreign exchange hedging arrangements in the future.

8.0 Details on Petsec Acquisition

Horizon Oil purchased the shares of Petsec Petroleum LLC which holds a 25% interest in the Block 22/12 petroleum contract and a 12.25% interest in the development project encompassing the Wei 6-12, Wei 6-12 South and Wei 12-8 West oil fields ("**Petsec Interest**"). Prior to the agreement, the parties received the endorsement of the transaction from CNOOC Limited. Conditions to the sale and purchase agreement have been satisfied and the transaction is not subject to pre-emptive rights.

The consideration paid by Horizon Oil for the shares was A\$38 million (~US\$40 million) subject to post-effective date and foreign exchange adjustments, and 15 million options in respect of new Horizon Oil Limited shares. The options have an exercise price of A\$0.37 and expire on 30 June 2014. For further details regarding the terms of the share sale and purchase agreement with Petsec refer to additional information on page 95.

The consideration and the budgeted development costs in respect of the Petsec Interest are approximately equivalent to the proceeds raised by the US\$80,000,000 convertible bonds issue.

The acquisition of the Petsec Interest increases Horizon Oil's net reserves in Block 22/12 from 6.1 mmbo to 11.3 mmbo and its share of peak production from approximately 2,200 bopd to 4,000 bopd, with the upside exploration potential in the Wei 6-12 area to be evaluated during the development drilling campaign.

DIRECTORS AND MANAGEMENT

The Company's business is overseen by a board of directors. In accordance with the corporate constitution of the Company, the board may not be fewer than the number required by the Corporations Act, which is currently three, and not more than eight (or such number within this range as the board may determine from time to time).

The directors of the Company are:

Name	Position
Fraser Ainsworth	Chairman (Non-Executive)
Brent Emmett	Managing Director
John Humphrey	Non-Executive
Robert Laws	Non-Executive
Gerrit De Nys	Non-Executive
Andrew Stock	Non-Executive

Fraser Ainsworth AM B.Comm, FAICD, FCPA

Mr Ainsworth has extensive experience in the oil and gas industry. His executive roles include 28 years in CSR's resource and energy business, he is a former managing director of Delhi Petroleum Pty Limited and SAGASCO Holdings Limited. Mr Ainsworth is a non-executive director of Envestra Limited and Chairman of Tarac Australia Limited.

Brent Emmett B.Sc (Hons)

Mr Emmett is a geophysicist who has over 35 years experience in exploration and production management, business development and investment banking. Prior to joining Horizon Oil, Mr Emmett held senior technical and management roles with Exxon Inc, Elf Aquitaine, Ampolex Limited and CIBC.

John Humphrey LL.B., SF Fin

Mr Humphrey is a senior partner in Mallesons Stephen Jaques practising in the area of corporate and securities law. He is a director Downer EDI Limited and Wide Bay Australia Limited and a member of the Australian Government Takeovers Panel.

Robert Laws PSM B.Sc, GAICD

Mr Laws is a geologist who has 24 years experience in exploration management in senior technical and management roles at Geosurveys Australia Pty Limited and Elf Aquitaine and 18 years in the South Australian Department of Mines & Energy where he held the role of Director Petroleum Division.

Gerrit J de Nys B.Tech, FIEAust, FAICD, CPEng

Mr de Nys has 40 years experience in civil engineering, construction, oilfield contracting and natural resource investment management. Mr de Nys was formerly managing director of IMC Group Direct Investment and is presently a Chairman of Red Sky Energy Limited and independent non-executive director of Shui On Construction and Materials Ltd in Hong Kong.

Andrew Stock B.Eng (Chem) (Hons), FAIE, GAICD

Mr Stock has 35 years of development, operations and commercial experience in energy industries in Australia and overseas. He is presently Director, Executive Projects for Origin Energy Limited, and formerly executive general manager for Major Development Projects for Origin Energy Limited. Mr Stock is a director of Geodynamics Limited and a member of the Advisory Boards for the Centre of Energy Technology & the Faculty of Engineering, Computers and Mathematical Sciences at University of Adelaide.

The executive officers of the Company (other than the Managing Director) are:

Name	Position
Michael Sheridan	Chief Financial Officer / Company Secretary
Alan Fernie	Manager, Exploration and Development

Michael Sheridan B.Ec, LL.M., F Fin

Mr Sheridan has over 20 years experience in finance, commercial and legal areas. Before joining the company in 2003, Mr Sheridan held senior finance and commercial roles in Australian and international oil and gas, mining and telecommunications companies.

Alan Fernie B.Sc

Mr Fernie is a geophysicist with over 35 years experience in exploration and production management and business development. Before joining the company in 2002, Mr Fernie held senior management roles in BP p.l.c, Sunoco Inc., Ampolex Limited, Santos Limited and RISC Pty Limited.

USE OF PROCEEDS

The estimated net proceeds from the issue of the Bonds will be, after deduction of commissions, professional fees and other administrative expenses, approximately US\$76,500,000. The net proceeds will be used by the Issuer to fund the acquisition, by one of its Subsidiaries, of Petsec Petroleum LLC (the “**Petsec Acquisition**”), pay fees and transaction costs associated with the acquisition and the issue of the Bonds, and to further advance the Issuer’s exploration and development objectives.

For further details on the Petsec Acquisition see page 95 of this Offering Circular.

CAPITALISATION AND INDEBTEDNESS

Capitalisation and Indebtedness of the Group

The following table sets forth on an actual basis Horizon Oil's short-term and long-term debt and capitalisation as at 31 December 2010 and as adjusted to give effect to the Bonds (but without giving effect to the application of the proceeds thereof). This table should be read in conjunction with the consolidated financial statements and related notes incorporated by reference in this Offering Circular.

The table contains information from the Issuer's unaudited consolidated half-year financial statements as of and for the six months ended 31 December 2010.

	As at 31 December 2010	
	(unaudited)	
	Actual	As Adjusted
	US\$'000	US\$'000
Borrowings – current portion		
Current portion of long-term finance lease	5,625	5,625
Current portion of long-term bank borrowings	14,434	14,434
Total borrowings – current portion	20,059	20,059
Borrowings – non-current portion		
Long-term finance lease	10,568	10,568
Long-term bank borrowings.....	-	-
Bonds to be issued ⁽¹⁾	-	80,000
Equity attributable to equity shareholders of the Company		
Issued capital.....	125,977	125,977
Reserves ⁽²⁾	(12,193)	(12,193)
Total Capitalisation ⁽³⁾	124,352	204,352
Total current portion of borrowings and capitalisation	144,411	224,411

Note:

- (1) In accordance with Australian Accounting Standard AASB 132 'Financial Instruments: Presentation', a convertible bond may be split into an equity, liability and derivative component. For illustrative purposes only, the aggregate principal amount of the Bonds to be issued has been presented as a liability in the above table.
- (2) The Reserves balance is the aggregate of the hedge reserve and share based compensation reserve together with accumulated losses of US\$16,565,000.
- (3) Total capitalisation is defined to be the sum of equity attributable to equity holders of the Company and non-current borrowings.
- (4) Further information on borrowings including details on security are included in the audited consolidated financial statements of the Group for the year ended 30 June 2010, and the unaudited half-year financial statements of the Group for the six month period ended 31 December 2010, which are incorporated by reference into and deemed to be included in this Offering Circular.

Subsequent to 31 December 2010, the following changes to capitalisation of the Company have occurred up to and including 31 May 2011:

- Repayment of US\$2,234,000 of the current portion of the long-term finance lease
- Repayment of US\$3,661,000 of the current portion of the long-term bank borrowings
- Issue of 500,000 fully paid ordinary shares following conversion from partly paid shares (issued on exercise of employee options.) Consideration received was A\$120,000, being the unpaid balance (A\$0.24) of partly paid shares.

Other than as disclosed above, there has been no material change in the capitalisation, on a consolidated basis, of the Group, since 31 December 2010.

GLOBAL CERTIFICATE PROVISIONS

This section summarises the provisions relating to the Bonds while represented by the Global Certificate.

Initial Issue of Bonds

Upon the initial registration of the Bonds in the name of a nominee of Euroclear and Clearstream, Luxembourg and delivery of the Global Certificate to a common depositary for Euroclear and Clearstream, Luxembourg (the “Common Depositary”), Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Bonds equal to the nominal amount thereof for which it has subscribed and paid.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear and Clearstream, Luxembourg as the holder of a Bond represented by the Global Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Company to the holder of the underlying Bond and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear and Clearstream, Luxembourg. Such persons shall have no claim directly against the Company in respect of payments due on the Bonds for so long as the Bonds are represented by the Global Certificate and such obligations of the Company will be discharged by payment to the holder of the underlying Bond, as the case may be, in respect of each amount so paid.

Exchange

The Global Certificate will be exchangeable (free of charge to the holder of the Global Certificate and the Bondholders) in whole, but not in part, for the definitive Bonds described below if, but only if, the Global Certificate is held on behalf of Clearstream, Luxembourg and/or Euroclear and either such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. Thereupon the holder may give notice to the Trustee of its intention to exchange the Global Certificate for definitive certificates in respect of the Bonds on or after the Exchange Date (as defined below) specified in the notice.

In such circumstances, the Issuer will at its own expense cause sufficient individual Definitive Bonds to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant holders of the Bonds. A person with an interest in the Bonds in respect of which the Global Certificate is issued must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual Definitive Bonds.

“Exchange Date” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which the banks are open for business in the city in which the specified office of the Registrar is located.

Conversion Rights

Subject to the requirements of Euroclear and Clearstream, Luxembourg, the Conversion Rights attaching to the Bonds in respect of which the Global Certificate is issued may be exercised by the presentation to or to the order of the Principal Paying and Conversion Agent of one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest in such Bonds. The exercise of the Conversion Right shall be notified by the Principal Paying and Conversion Agent to the Registrar and the holder of the Global Certificate.

Redemption at the Option of the Company

The options of the Company provided for in Condition 7(b) shall be exercised by the Company giving notice to the Bondholders, the Trustee and the Principal Paying and Conversion Agent within the time limits set out in, and containing the information required by, that Condition.

Redemption for Taxation Reasons

The option of the Company provided for in Condition 7(c) may be exercised by the Company by giving notice to the Bondholders, the Trustee and the Principal Paying and Conversion Agent within the time limits set out in Condition 7(c).

Redemption at Option of the Bondholders

The Bondholders' put option in Condition 7(e) may be exercised by the holder of the Global Certificate giving notice to the Principal Paying and Conversion Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Certificate for endorsement or exercise within the time limits specified in such Condition and the principal amount of the Bonds will be reduced in the Register accordingly. The option of the Bondholders provided for in Condition 7(c) may be exercised by the holder of the Global Certificate by giving notice to the Principal Paying and Conversion Agent within the time limits relating to the deposit of Bonds in Condition 7(c).

Trustee's Powers

In considering the interests of Bondholders the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds represented by the Global Certificate.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Bonds represented by the Global Certificate shall be recognised as the beneficiaries of the trusts set out in the Trust Deed to the extent of the principal amount of their interest in the Bonds set out in the certificate of the holder as if they were themselves the holders of Bonds in such principal amounts.

Payments

Payments of principal in respect of Bonds represented by the Global Certificate will be made against presentation and, if no further payment falls to be made in respect of the Bonds, surrender of the Global Certificate to or to the order of the Principal Paying and Conversion Agent or such other Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Each payment will be made to, or to the order of, the person whose name is entered in the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

Notices

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg, notice to holders of the Bonds may be given by delivery of the relevant notice to the relevant clearing system for communication by it to entitled accountholders in

substitution for notification as required by the Conditions, except that the Company shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed and/or admitted to trading.

Prescription

Claims against the Company in respect of principal and interest on the Bonds while the Bonds are represented by the Global Certificate will become prescribed after a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in the Conditions).

Claims in respect of any other amounts payable in respect of the Bonds shall be prescribed and become void unless made within 10 years following the due date for payment thereof.

Redemption or Purchase and Cancellation

Cancellation of any Bonds to be cancelled following their redemption or purchase will be effected by the reduction in the principal amount of the Bonds in the Register.

Meetings

At any meeting of Bondholders, the holder of the Global Certificate will be treated as having one vote in respect of each US\$200,000 in principal amount of Bonds.

The Trustee may allow to attend and speak (but not to vote) at any meeting of Bondholders any accountholder (or the representative of any such person) of a clearing system with an interest in the Bonds represented by the Global Certificate on confirmation of entitlement and proof of his identity.

TERMS AND CONDITIONS OF THE BONDS

The following, subject to completion and amendment, and save for the paragraphs in italics, is the text of the Terms and Conditions of the Bonds.

The issue of the US\$80,000,000 5.50% Convertible Bonds due 2016 (the “**Bonds**”, which expression shall, unless otherwise indicated, include any further Bonds issued pursuant to Condition 18 and consolidated and forming a single series with the Bonds) was (save in respect of any such further Bonds) authorised by a resolution of the board of directors of Horizon Oil Limited (ABN 51 009 799 455) (the “**Issuer**”) passed on 2 June 2011. The Bonds are constituted by a trust deed dated 16 June 2011 (the “**Trust Deed**”) between the Issuer and DB Trustees (Hong Kong) Limited (the “**Trustee**”, which expression shall include all persons for the time being appointed as the trustee or trustees under the Trust Deed) as trustee for the holders (as defined below) of the Bonds. The statements set out in these Terms and Conditions (the “**Conditions**”) are summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. The Bondholders (as defined below) are entitled to the benefit of, and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and to have notice of those provisions applicable to them which are contained in the Paying, Transfer and Conversion Agency Agreement dated 16 June 2011 (the “**Agency Agreement**”) relating to the Bonds between the Issuer, the Trustee and Deutsche Bank AG, Hong Kong Branch (the “**Principal Paying, Transfer and Conversion Agent**”, which expression shall include any successor as principal paying, transfer and conversion agent under the Agency Agreement), the paying, transfer and conversion agents for the time being (such persons, together with the Principal Paying, Transfer and Conversion Agent, being referred to below as the “**Paying, Transfer and Conversion Agents**”, which expression shall include their successors as Paying, Transfer and Conversion Agents under the Agency Agreement) and Deutsche Bank Luxembourg S.A. in its capacity as registrar (the “**Registrar**”, which expression shall include any successor as registrar under the Agency Agreement). Copies of the Trust Deed and the Agency Agreement are available for inspection at the office of the Trustee at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, and at the specified offices of the Paying, Transfer and Conversion Agents and the Registrar.

Capitalised terms used but not defined in these Conditions shall have the meanings attributed to them in the Trust Deed unless the context otherwise requires or unless otherwise stated.

1 Form, Denomination, Title and Status

(a) *Form and Denomination*

The Bonds are in registered form, serially numbered, in principal amounts of US\$200,000 and integral multiples thereof (“**authorised denominations**”).

Upon issue, the Bonds will be represented by the Global Certificate deposited with a common depositary for, and representing Bonds registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg. The Conditions are modified by certain provisions contained in the Global Certificate. Except in the limited circumstances described in the Global Certificate, owners of interests in Bonds represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form. See “The Global Certificate”.

(b) *Title*

Title to the Bonds will pass by transfer and registration as described in Condition 4. The holder (as defined below) of any Bond will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or its theft or loss (or that of the related certificate, as appropriate) or anything written on it or on the certificate representing it) and no person will be liable for so treating the holder.

(c) *Status*

The Bonds constitute direct, unconditional, unsubordinated, senior and (subject to Condition 2) unsecured obligations of the Issuer ranking *pari passu* and rateably, without any preference among themselves. The payment obligations of the Issuer under the Bonds rank equally with all its other existing and future unsecured and unsubordinated obligations, save for such obligations that may be preferred by provisions of law that are mandatory and of general application.

2 Negative Pledge

So long as any of the Bonds remain outstanding (as defined in the Trust Deed), the Issuer will not create or permit to subsist, and will ensure that none of its Subsidiaries will create or permit to subsist, any mortgage, charge, lien, pledge or other form of encumbrance or security interest (each a “**Security Interest**”) upon the whole or any part of its present or future property or assets (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee of or indemnity in respect of any Relevant Indebtedness (other than a Permitted Security Interest) unless in any such case, before or at the same time as the creation of the Security Interest, any and all action necessary shall have been taken to ensure that:

- (i) all amounts payable by the Issuer under the Bonds and the Trust Deed are secured equally and rateably with the Relevant Indebtedness or guarantee or indemnity, as the case may be; or
- (ii) such other Security Interest or guarantee or indemnity or other arrangement (whether or not including the giving of a Security Interest) is provided in respect of all amounts payable by the Issuer under the Bonds and the Trust Deed either (i) as the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Bondholders or (ii) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

3 Definitions

In these Conditions, unless otherwise provided:

“**Additional Cash Alternative Amount**” has the meaning provided in Condition 6(m).

“**Additional Ordinary Shares**” has the meaning provided in Condition 6(c).

“**Alternative Stock Exchange**” means at any time, in the case of the Ordinary Shares, if they are not at that time listed and traded on the Australian Securities Exchange, the principal stock exchange or securities market on which the Ordinary Shares are then listed or quoted or dealt in.

“**Auditors**” means the auditors for the time being of the Issuer or, if they are unable or unwilling to carry out any action requested of them under the Trust Deed or the Bonds, such other firm of accountants as may be nominated by the Issuer and approved in writing by the Trustee for the purpose or, failing such nomination, as selected by the Trustee.

“**Australian dollars**” and “**A\$**” means the lawful currency of the Commonwealth of Australia.

“ASX” or **“Australian Securities Exchange”** means ASX Limited (ABN 98 008 624 691) or the market operated by it, as the context requires.

“Bondholder” and **“holder”** mean the person in whose name a Bond is registered in the Register (as defined in Condition 4(a)).

“business day” means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in that place.

“Cash Alternative Amount” means the product of (a) the number of Ordinary Shares deliverable upon exercise of the Conversion Right at the discretion of the Issuer or mandatorily in respect of the Bonds to which the Conversion Notice applies, and in respect of which the Issuer has exercised a Cash Alternative Election or is required to make Mandatory Cash Settlement and (b) the arithmetic average of the Volume Weighted Average Price of the Ordinary Shares for the Cash Alternative Calculation Period converted into US Dollars at the then Prevailing Rate.

“Cash Alternative Election” has the meaning provided in Condition 6(m).

“Cash Alternative Calculation Period” means the period of 20 consecutive Dealing Days commencing on the relevant Cash Election Date or Mandatory Notice Date (as applicable) (or the next Dealing Day if such date is not a Dealing Day).

“Cash Election Date” has the meaning provided in Condition 6(m).

“Change of Control” has the meaning provided in Condition 6(b)(x).

“Change of Control Notice” has the meaning provided in Condition 6(g).

“Change of Control Period” has the meaning provided in Condition 6(b)(x).

“Closing Date” means 17 June 2011.

“Conversion Date” has the meaning provided in Condition 6(h).

“Conversion Notice” has the meaning provided in Condition 6(h).

“Conversion Period” has the meaning provided in Condition 6(a).

“Conversion Price” has the meaning provided in Condition 6(a).

“Conversion Ratio” has the meaning provided in Condition 7(b).

“Conversion Right” has the meaning provided in Condition 6(a).

“Corporations Act” means the Corporations Act 2001 of Australia.

“Current Market Price” means, in respect of an Ordinary Share at a particular date, the arithmetic average of the Volume Weighted Average Price of an Ordinary Share for each day during the five consecutive Dealing Days ending on the Dealing Day immediately preceding such date; provided that if at any time during the said five Dealing Day period the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex- any other entitlement) and during some other part of that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement), then:

- (a) if the Ordinary Shares to be issued or transferred and delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price cum-Dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair

Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend (or entitlement), in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit; or

- (b) if the Ordinary Shares to be issued or transferred and delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price ex-Dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend (or entitlement), in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit,

and provided further that:

- (A) if on each of the said five Dealing Days the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued or transferred and delivered do not rank for that Dividend (or other entitlement) the Volume Weighted Average Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or other entitlement per Ordinary Share as at the date of the first public announcement of such Dividend or entitlement, in any such case, determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit; and
- (B) if the Volume Weighted Average Price of an Ordinary Share is not available on one or more of the said five Dealing Days (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in that five-dealing-day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the relevant period, the Current Market Price shall be determined in good faith by a Financial Adviser.

“Dealing Day” means a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is open for business and on which Ordinary Shares, Securities, Spin-Off Securities options, warrants or other rights (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant stock exchange or securities market is scheduled to or does close prior to its regular weekday closing time).

A **“Delisting”** occurs when the Ordinary Shares (a) cease to be listed or admitted to trading on the Australian Securities Exchange or any Alternative Stock Exchange (as relevant) or (b) are suspended for trading for a period of 30 consecutive Dealing Days.

“Dividend” means any dividend or distribution to Shareholders (including a Spin-Off) whether of cash, assets or other property, and however described and whether payable out of share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to Shareholders upon or in connection with a reduction in capital (and for these purposes a distribution of assets includes without limitation an issue of Ordinary Shares, or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves) provided that:

- (a) Where: (1) a Dividend in cash is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Ordinary Shares or other property or assets, or

where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then for the purposes of this definition the Dividend or capitalisation in question shall be treated as a cash Dividend of the greater of (i) the Fair Market Value of such cash amount and (ii) the Current Market Price of such Ordinary Shares or, as the case may be, the Fair Market Value of such other property or assets in any case (as at the date of the first public announcement of such Dividend or capitalisation (as the case may be) or if later, the date on which the number of Ordinary Shares (or amount of such other property or assets, as the case may be) which may be issued or transferred and delivered is determined) or (2) there shall be any issue of Ordinary Shares by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) where such issue is or is expressed to be in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Dividend in question shall be treated as a cash Dividend of an amount equal to the Current Market Price of such Ordinary Shares as at the date of first public announcement of such capitalisation or, if later, the date on which the number of Ordinary Shares to be issued or transferred and delivered is determined;

- (b) any issue of Ordinary Shares falling within Condition 6(b)(ii) shall be disregarded;
- (c) a purchase or redemption or buy back of share capital of the Issuer by the Issuer or any Subsidiary of the Issuer shall not constitute a Dividend unless, in the case of a purchase or redemption or buy back of Ordinary Shares by or on behalf of the Issuer or its Subsidiaries, the weighted average price per Ordinary Share (before expenses) on any one day (a “**Specified Share Day**”) in respect of such purchases or redemptions or buy backs (translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate on such day) exceeds the average of the closing prices of the Ordinary Shares on the Relevant Stock Exchange (as published by or derived from the Relevant Stock Exchange) on the five Dealing Days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buy backs approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buy back Ordinary Shares at some future date at a specified price or where a tender offer is made, on the five Dealing Days immediately preceding the date of such announcement or the date of first public announcement of such tender offer (and regardless whether or not a price per Ordinary Share, a minimum price per Ordinary Share or a price range or a formula for the determination thereof is or is not announced at such time), as the case may be, in which case such purchase, redemption or buy back shall be deemed to constitute a Dividend in the Relevant Currency to the extent that the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased, redeemed or bought back by the Issuer or, as the case may be, any of its Subsidiaries (translated where appropriate into the Relevant Currency as provided above) exceeds the product of (i) the average closing price of the Ordinary Shares determined as aforesaid and (ii) the number of Ordinary Shares so purchased, redeemed or bought back;
- (d) if the Issuer or any of its Subsidiaries shall purchase, redeem or buy back any depositary or other receipts or certificates representing Ordinary Shares, the provisions of paragraph (c) shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by a Financial Adviser;
- (e) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by the Issuer for the purpose of enabling Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Ordinary Shares held by them from a person other than, or in addition to the Issuer, such dividend or distribution shall for the purposes of these

Conditions be treated as a dividend or distribution made or paid to Shareholders by the Issuer, and the foregoing provisions of this definition and the provisions of these Conditions shall be construed accordingly; and

- (f) a dividend or distribution that is a Spin-Off shall be deemed to be a Dividend paid or made by the Issuer,

and any such determination shall be made on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit.

“**Early Redemption Amount**” of a Bond, for each U.S.\$200,000 principal amount of the Bonds, is the amount determined so that it represents the amount which, together with (a) unpaid accrued interest from and including the immediately preceding Interest Payment Date or, if none, the Closing Date, and (b) after taking into account any interest paid in respect of such Bonds in preceding periods, represents for the Bondholder on the relevant date for determination of the Early Redemption Amount (the “**Determination Date**”) a gross yield of 7.00 per cent per annum calculated on a semi-annual basis.

The applicable Early Redemption Amount for each U.S.\$200,000 principal amount of Bonds is calculated in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards (provided that if the date fixed for redemption is an Interest Payment Date (as set out below), such Early Redemption Amount shall be as set out in the table below in respect of such Interest Payment Date):

$$\text{Early Redemption Amount} = \text{Previous Redemption Amount} \times (1 + r/2)^{d/p} - \text{AI}$$

where:

Previous Redemption Amount = the Early Redemption Amount for each U.S.\$200,000 principal amount on the Interest Payment Date immediately preceding the date fixed for redemption as set out below (or if the Bonds are to be redeemed prior to 17 December 2011, U.S.\$200,000):

Semi-Annual Date	Early Redemption Amount
	<i>(U.S.\$)</i>
17 December 2011	201,500.00
17 June 2012	203,052.50
17 December 2012	204,659.34
17 June 2013	206,322.41
17 December 2013	208,043.70
17 June 2014	209,825.23
17 December 2014	211,669.11
17 June 2015	213,577.53
17 December 2015	215,552.74

r = 7.00 per cent expressed as a fraction.

d = number of days from and including the immediately preceding Interest Payment Date (or if the Bonds are to be redeemed on or before 17 December 2011, from and including the Closing Date) to, but excluding, the date fixed for redemption, calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

- p = the number of days from and including the immediately preceding Interest Payment Date (or, if none, the Closing Date) to but excluding the next Interest Payment Date.
- AI = the accrued interest on the principal amount of U.S.\$200,000 of a Bond determined in accordance with and pursuant to Condition 5 from and including the immediately preceding Interest Payment Date (or if the Determination Date is before the first Interest Payment Date, from and including the Closing Date) to but excluding the Determination Date.

If the Early Redemption Amount payable in respect of any Bond upon its redemption pursuant to Conditions 7(b), 7(c), 7(d) and 7(e) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the “Early Redemption Amount” due and payable in respect of such Bonds shall be the Early Redemption Amount of such Bonds as described above, as though references to the Determination Date had been replaced by references to the Relevant Date, and interest shall accrue at the rate provided for in Condition 8(f) on the principal amount of such Bonds to but excluding the Relevant Date. The calculation of the Early Redemption Amount will continue to be made (as well after as before judgement) until the Relevant Date, unless the Relevant Date falls on or after the Final Maturity Date, in which case the amount due and payable shall be 108.80 per cent of the principal amount of the Bonds and interest shall accrue thereon at the rate provided for in Condition 8(f) from and including the Final Maturity Date to but excluding the Relevant Date.

“**equity share capital**” means, in relation to any entity, its issued share capital excluding any part of that capital which, neither as regards dividends nor as regards capital, carries any right to participate beyond a specified amount in a distribution.

“**Excess Shares**” means the number of Ordinary Shares to be issued by the Issuer in respect of a Bondholder exercising a Conversion Right in excess of the number of Ordinary Shares for which the Issuer has authority to issue under Listing Rule 7.1 on the Closing Date without first obtaining approval of Shareholders, being 154,621,727 Ordinary Shares.

“**Exempt Newco Scheme**” means a Newco Scheme where immediately after completion of the relevant Scheme of Arrangement the ordinary shares or units or equivalent of Newco (or depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco) are (1) admitted to trading on the Relevant Stock Exchange or (2) admitted to listing on such other regulated, regularly operating, recognised stock exchange or securities market as the Issuer or Newco may determine.

“**Fair Market Value**” means, with respect to any property on any date, the fair market value of that property as determined in good faith by a Financial Adviser provided, that (i) the Fair Market Value of a cash Dividend shall be the amount of such cash Dividend; (ii) the Fair Market Value of any other cash amount shall be the amount of such cash; (iii) where Spin-Off Securities, Securities, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by a Financial Adviser), the fair market value (a) of such Spin-Off Securities or Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Spin-Off Securities or Securities and (b) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (a) and (b) during the period of five Dealing Days on the relevant market commencing on such date (or, if later, the first such Dealing Day such Spin-Off Securities, Securities, options, warrants or other rights are publicly traded); (iv) where Spin-Off Securities, Securities, options, warrants or other rights are not publicly traded (as aforesaid), the Fair Market Value of such Spin-Off Securities, Securities, options, warrants or other rights shall be determined in good faith by a Financial Adviser, on the basis of a commonly accepted market

valuation method and taking account of such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Spin-Off Securities, Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof; (v) in the case of (i) translated into the Relevant Currency (if declared or paid or payable in a currency other than the Relevant Currency) at the rate of exchange used to determine the amount payable to Shareholders who were paid or are to be paid or are entitled to be paid the cash Dividend in the Relevant Currency; and in any other case, translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date and (vi) in the case of (i) and (ii) disregarding any withholding or deduction required to be made on account of tax and any associated tax credit.

“Final Maturity Date” means 17 June 2016.

“Financial Adviser” means an independent investment bank of international repute appointed by the Issuer and notified in writing to the Trustee or, if the Issuer fails to make such appointment and such failure continues for a reasonable period, appointed by the Trustee following notification to the Issuer provided that the Trustee has no obligation to make such appointment unless it has been indemnified and/or pre-funded and/or provided with security to its satisfaction in respect of the costs, fees and expenses of such adviser.

“indebtedness for borrowed money” means any present or future indebtedness (whether being principal, interest or other amounts) for or in respect of (i) money borrowed or raised (ii) liabilities under or in respect of any acceptance or acceptance credit or (iii) any notes, bonds, debentures, debenture stock, loan stock, certificates of deposit, commercial paper or other securities offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash.

“Interest Payment Date” has the meaning provided in Condition 5(a).

“Loan Notes” means any notes, bills of exchange, bonds, debentures, debenture stock, loan stock or other securities issued to commercial banks, financiers under bilateral loans or other participants in loan syndication markets which are not listed or ordinarily dealt in on any recognised listing authority or stock exchange.

“Newco Scheme” means a scheme of arrangement or analogous proceeding (a **“Scheme of Arrangement”**) which effects the interposition of a limited liability company (**“Newco”**) between the Shareholders of the Issuer immediately prior to the Scheme of Arrangement (the **“Existing Shareholders”**) and the Issuer; provided that (i) only ordinary shares or units or equivalent of Newco or depositary or other receipts or certificates representing ordinary shares or units or equivalent are issued to Existing Shareholders; (ii) immediately after completion of the Scheme of Arrangement the only holders of ordinary shares, units or equivalent of Newco or, as the case may be, the only holders of depositary or other receipts or certificates representing ordinary shares or units or equivalent of Newco are Existing Shareholders holding in the same proportions as immediately prior to completion of the Scheme of Arrangement; (iii) immediately after completion of the Scheme of Arrangement, Newco is (or one or more wholly-owned Subsidiaries of Newco are) the only shareholder of the Issuer; (iv) all Subsidiaries of the Issuer immediately prior to the Scheme of Arrangement (other than Newco, if Newco is then a Subsidiary of the Issuer) are Subsidiaries of the Issuer (or of Newco) immediately after completion of the Scheme of Arrangement; and (v) immediately after completion of the Scheme of Arrangement the Issuer (or Newco) holds, directly or indirectly, the same percentage of the ordinary share capital and equity share capital of those Subsidiaries as was held by the Issuer immediately prior to the Scheme of Arrangement.

“Mandatory Cash Settlement” has the meaning provided in Condition 6(m)(ii).

“Mandatory Notice” has the meaning provided in Condition 6(m)(ii).

“**Mandatory Notice Date**” has the meaning provided in Condition 6(m)(ii).

“**Optional Redemption Date**” has the meaning provided in Condition 7(b).

“**Optional Redemption Notice**” has the meaning provided in Condition 7(b).

“**Ordinary Shares**” means fully paid ordinary shares in the capital of the Issuer.

“**Permitted Security Interest**” means a Security Interest in respect of property or assets of a Subsidiary of the Issuer, which Security Interest existed before the relevant entity became a Subsidiary of the Issuer and was not created in contemplation of such entity becoming a Subsidiary of the Issuer and provided that the principal amount of such Relevant Indebtedness is not increased.

A “**person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity).

“**Prevailing Rate**” means, in respect of any currency on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 p.m. (Sydney time) on that date as appearing on or derived from the Relevant Page or if such a rate cannot be determined at such time, the rate prevailing as at or about 12 p.m. (Sydney time) on the immediately preceding day on which such rate can be so determined.

“**Principal Subsidiary**” of the Issuer at any time shall mean any Subsidiary of the Issuer:

- (a) whose gross revenues (consolidated in the case of a Subsidiary which has Subsidiaries) attributable to the Issuer, as shown by its latest audited profit and loss account are at least 5 per cent. of the consolidated gross revenues as shown by the latest published audited profit and loss account of the Issuer and its consolidated Subsidiaries; or
- (b) whose gross assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) attributable to the Issuer, as shown by its latest audited balance sheet, are at least 5 per cent. of the consolidated gross assets of the Issuer and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries, including the investment of the Issuer and its consolidated Subsidiaries in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Issuer and of associated companies and after adjustment for minority interests,

provided that:

- (i) in the case of a Subsidiary acquired or an entity which becomes a Subsidiary after the end of the financial period to which the then latest audited consolidated financial statements of the Issuer relate, the reference to the then latest audited consolidated financial statements of the Issuer for the purposes of the calculation of the above shall until the consolidated audited financial statements of the Issuer are published for the financial period in which the acquisition is made or, as the case may be, in which such entity becomes a Subsidiary, be deemed to be a reference to the then latest consolidated financial statements of the Issuer adjusted in such manner as may be appropriate to consolidate the latest audited financial statements (consolidated or, as the case may be, unconsolidated) of such Subsidiary in such financial statements;
- (ii) if, in the case of any Subsidiary, no audited financial statements are prepared, then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be determined by reference to its unaudited annual financial statements (if any) or on the basis of *pro forma* financial statements;

- (iii) if the financial statements of any Subsidiary (not being a Subsidiary referred to in (i) above) are not consolidated with those of the Issuer, then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be based on a *pro forma* consolidation of its financial statements (consolidated, if appropriate) with the consolidated financial statements of the Issuer; and
- (iv) if the latest financial statements of any Subsidiary of the Issuer are not prepared on the basis of the same accounting principles, policies and practices of the latest consolidated audited financial statements of the Issuer, then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be based on *pro forma* financial statements or, as the case may be, consolidated financial statements of such Subsidiary prepared on the same accounting principles, policies and practices as adopted in the latest consolidated audited financial statements of the Issuer, or an appropriate restatement or adjustment to the relevant financial statements of such Subsidiary; or
- (c) to which is transferred all or substantially all of the business, undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Principal Subsidiary, whereupon the transferor Subsidiary shall immediately cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary under the provisions of this sub-paragraph (c) upon publication of its next audited financial statements but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such audited financial statements have been published by virtue of the provisions of sub-paragraph (a) or (b) above or (as a result of another transfer to which this sub-paragraph (c) applies) before, on or at any time after such date by virtue of the provisions of this sub-paragraph (c).

A report by the Auditors that, in their opinion, a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Principal Subsidiary shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Trustee and the Bondholders.

“**Record Date**” has the meaning provided in Condition 8(c).

“**Reference Date**” has the meaning provided in Condition 6(a).

“**Relevant Currency**” means Australian dollars or, if at the relevant time or for the purposes of the relevant calculation or determination, the Australian Securities Exchange is not the Relevant Stock Exchange, the currency in which the Ordinary Shares are quoted or traded on the Relevant Stock Exchange.

“**Relevant Date**” means, in respect of any Bond, whichever is the later of (i) the date on which payment in respect of it first becomes due and (ii) if any amount of the money payable is improperly withheld or refused the date on which payment in full of the amount outstanding is made or (if earlier) the date on which notice is duly given by the Issuer to the Bondholders in accordance with Condition 17 that, upon further presentation of the Bond, where required pursuant to these Conditions, being made, such payment will be made, provided that such payment is in fact made as provided in these Conditions.

A “**Relevant Event**” occurs when:

- (i) there is a Delisting; or
- (ii) there is a Change of Control.

“**Relevant Indebtedness**” means any present or future indebtedness (whether being principal, premium, interest or other amounts) in the form of or evidenced by notes, bonds, debentures, debenture stock, loan stock or other securities, whether issued for cash or in whole or in part for a consideration other than cash, and

which (in any case) are or are capable of being quoted, listed or ordinarily dealt in or traded on any recognised listing authority, stock exchange, securities quotation system or over-the-counter or other securities market, but shall in any event not include Loan Notes.

“Relevant Page” means the relevant page on Bloomberg or such other information service provider that displays the relevant information.

“Relevant Stock Exchange” means the Australian Securities Exchange or the Alternative Stock Exchange if any.

“Retroactive Adjustment” has the meaning provided in Condition 6(c).

“Securities” means any securities including, without limitation, Ordinary Shares, or options, warrants or other rights to subscribe for or purchase or acquire Ordinary Shares.

“Shareholders” means the holders of Ordinary Shares.

“Specified Date” has the meaning provided in Conditions 6(b)(iv), (vi), (vii) and (viii).

“Spin-Off” means:

- (a) a distribution of Spin-Off Securities by the Issuer to Shareholders as a class; or
- (b) any issue, transfer or delivery of any property or assets (including cash or shares or securities of or in or issued or allotted by any entity) by any entity (other than the Issuer) to Shareholders as a class or, in the case of or in connection with a Newco Scheme, Existing Shareholders as a class (but excluding the issue and allotment of ordinary shares by Newco to Existing Shareholders as a class), pursuant in each case to any arrangements with the Issuer or any of its Subsidiaries.

“Spin-Off Securities” means equity share capital of an entity other than the Issuer or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Issuer.

“Subsidiary” means, in relation to the Issuer, any entity which is a subsidiary of the Issuer within the meaning of Part 1.2 Division 6 of the Corporations Act or is a subsidiary of or otherwise controlled by the Issuer within the meaning of any approved accounting standard applicable to the Issuer.

“Tax Redemption Date” has the meaning provided in Condition 7(c).

“Tax Redemption Notice” has the meaning provided in Condition 7(c).

“Volume Weighted Average Price” means, in respect of an Ordinary Share, Security or, as the case may be, a Spin-Off Security on any Dealing Day, the volume-weighted average price of an Ordinary Share, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of an Ordinary Share) from Bloomberg page AQR or (in the case of a Security (other than an Ordinary Share) or Spin-Off Security) from (in the case of Ordinary Shares) the Relevant Stock Exchange or (in the case of other Securities or Spin-Off Securities) the principal stock exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined to be appropriate by a Financial Adviser on such Dealing Day, provided that if on any such Dealing Day where such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security or a Spin-Off Security, as the case may be, in respect of such Dealing Day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding Dealing Day on which the same can be so determined.

“**Voting Rights**” means the right generally to vote at a general meeting of Shareholders (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the occurrence of any contingency).

References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

References to any issue or offer or grant to Shareholders or Existing Shareholders “as a class” or “by way of rights” shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as a Financial Adviser considers appropriate to reflect any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

For the purposes of Conditions 6(a), (b), (c), (h) and (i) and Condition 11 only, (a) references to the “issue” of Ordinary Shares or Ordinary Shares being “issued” shall include the transfer and/or delivery of Ordinary Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Issuer or any of its Subsidiaries, and (b) Ordinary Shares held by or on behalf of the Issuer or any of its respective Subsidiaries (and which, in the case of Condition 6(b)(iv) and (vi), do not rank for the relevant right or other entitlement) shall not be considered as or treated as “in issue” or “issued” or entitled to receive the relevant Dividend, right or other entitlement.

4 Registration and Transfer of Bonds

(a) Registration

The Issuer will cause a register (the “**Register**”) to be kept at the specified office of the Registrar outside the United Kingdom on which will be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers, redemptions and conversions of Bonds.

(b) Transfer

Bonds may, subject to the terms of the Agency Agreement and to Conditions 4(c) and 4(d), be transferred in whole or in part in an authorised denomination by lodging the relevant Bond (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying, Transfer and Conversion Agent.

No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

The Registrar will within seven business days, in the place of the specified office of the Registrar, of any duly made application for the transfer of a Bond register the relevant transfer and deliver a new Bond to the transferee (and, in the case of a transfer of part only of a Bond, deliver a Bond for the untransferred balance to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary

mail, at the expense of the transferee or, as the case may be, the transferor) mail the Bond by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

(c) *Formalities Free of Charge*

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee.

(d) *Closed Periods*

Neither the Issuer nor the Registrar will be required to register the transfer of any Bond (or part thereof) (i) during the period of 15 days ending on and including the day immediately prior to the Final Maturity Date or any earlier date fixed for redemption of the Bonds pursuant to Condition 7(b) or 7(c), (ii) in respect of which a Conversion Notice has been delivered in accordance with Condition 6(h), (iii) in respect of which a holder shall have exercised its option to require the Issuer to redeem pursuant to Condition 7(e), or (iv) during the period of 15 days ending on (and including) any Record Date (as defined in Condition 8(c)) in respect of any payment of interest on the Bonds.

(e) *Regulations*

All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written notice to the Trustee and the Registrar. A copy of the current regulations will be mailed by the Registrar to any Bondholder upon request.

5 Interest

(a) *Interest Rate*

The Bonds bear interest from and including the Closing Date at the rate (the “**Interest Rate**”) of 5.50 per cent. per annum calculated by reference to the principal amount thereof and payable semi-annually in equal instalments in arrear on June and December in each year (each an “**Interest Payment Date**”) commencing the Interest Payment Date falling on 17 December 2011.

If interest is required to be calculated for a period other than an Interest Period (as defined below) it will be calculated on the basis of a 360 day year consisting of 12 months of 30 days each, and in the case of an incomplete month, the number of days elapsed

“**Interest Period**” means the period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

(b) *Accrual of Interest*

Each Bond will cease to bear interest (i) where the Conversion Right shall have been exercised by a Bondholder, from the Interest Payment Date immediately preceding the relevant Conversion Date or, if none, the Closing Date (subject in any such case as provided in Condition 6(j)) or (ii) where such Bond is redeemed or repaid pursuant to Condition 7 or Condition 10, from the due date for redemption or repayment thereof unless, upon due presentation thereof, payment of principal is improperly withheld

or refused, in which event interest will continue to accrue from the due date for redemption or repayment at the rate specified in Condition 8(f) (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying, Transfer and Conversion Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

6 Conversion of Bonds

(a) *Conversion*

- (i) **Conversion Period and Conversion Price:** Subject to Condition 6(m), each Bond shall entitle the holder to convert such Bond into new Ordinary Shares, credited as fully paid, subject to and as provided in these Conditions (a “**Conversion Right**”).

The number of Ordinary Shares to be issued or transferred and delivered on exercise of a Conversion Right shall (subject as aforesaid) be determined by dividing the principal amount of the Bonds to be converted by the conversion price (the “**Conversion Price**”) in effect on the relevant Conversion Date.

The initial Conversion Price is US\$0.520 per Ordinary Share (based on a fixed exchange rate of A\$1.00 = US\$1.0621) but will be subject to adjustment in the manner provided in Condition 6(b) and Condition 6(n).

A Bondholder may exercise the Conversion Right in respect of a Bond by delivering such Bond together with a duly completed Conversion Notice to the specified office of any Paying, Transfer and Conversion Agent in accordance with Condition 6(h) whereupon the Issuer shall (subject as provided in these Conditions) procure the delivery, to or as directed by the relevant Bondholder of Ordinary Shares credited as paid up in full as provided in this Condition 6.

Subject to, and as provided in these Conditions, the Conversion Right in respect of a Bond may be exercised, at the option of the holder thereof, at any time subject to any applicable fiscal or other laws or regulations and as hereinafter provided, at any time on or after 28 July 2011, provided that the relevant Conversion Date shall not fall later than on the date falling seven days prior to the Final Maturity Date (both days inclusive) or, if such Bond is to be redeemed pursuant to Condition 7(b) or 7(c) prior to the Final Maturity Date, not later than the seventh day before the date fixed for redemption thereof pursuant to Condition 7(b) or 7(c), unless there shall be default in making payment in respect of such Bond on such date fixed for redemption, in which event the Conversion Right may be exercised up to the date on which the full amount of such payment becomes available for payment and notice of such availability has been duly given in accordance with Condition 17 or, if earlier, the date falling seven days prior to the Final Maturity Date (the “**Conversion Period**”) provided that, in each case, if such final date for the exercise of Conversion Rights is not a business day at the place aforesaid, then the period for exercise of Conversion Rights by Bondholders shall end on the immediately preceding business day at the place aforesaid.

Conversion Rights in respect of a Bond may not be exercised following the giving of a notice by the holder thereof pursuant to Condition 7(e).

Conversion Rights may not be exercised following the giving of notice by the Trustee pursuant to Condition 10.

Save where a notice of redemption is given by the Issuer in the circumstances provided in Condition 6(j), Conversion Rights may not be exercised by a Bondholder in circumstances where the relevant Conversion Date would fall during the period commencing on the Record Date in respect of any payment of interest on the Bonds and ending on the relevant Interest Payment Date (both days inclusive).

Conversion Rights may only be exercised in respect of an authorised denomination. Where Conversion Rights are exercised in respect of part only of a Bond, the old Bond shall be cancelled and a new Bond for the balance thereof shall be issued in lieu thereof without charge but upon payment by the holder of any taxes, duties and other governmental charges payable in connection therewith and the Registrar will within seven business days, in the place of the specified office of the Registrar, following the relevant Conversion Date deliver such new Bond to the Bondholder at the specified office of the Registrar or (at the risk and, if mailed at the request of the Bondholder otherwise than by ordinary mail, at the expense of the Bondholder) mail the new Bond by uninsured mail to such address as the Bondholder may request.

The Issuer will procure that Ordinary Shares to be issued or transferred and delivered on conversion will be issued or transferred and delivered to the holder of the Bonds completing the relevant Conversion Notice or his nominee. Such Ordinary Shares will be deemed to be issued or transferred and delivered as of the relevant Conversion Date. Any Additional Ordinary Shares to be issued or transferred and delivered pursuant to Condition 6(c) will be deemed to be issued or transferred and delivered as of the date the relevant Retroactive Adjustment takes effect or as at the date of issue or transfer and delivery of Ordinary Shares if the adjustment results from the issue or transfer and delivery of Ordinary Shares (each such date, the “**Reference Date**”).

- (ii) **Fractions:** Fractions of Ordinary Shares will not be delivered on conversion or pursuant to Condition 6(c) and no cash payment or other adjustment will be made in lieu thereof. However, if the Conversion Right in respect of more than one Bond is exercised at any one time such that Ordinary Shares to be delivered on conversion or pursuant to Condition 6(c) are to be registered in the same name, the number of such Ordinary Shares to be delivered in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds being so converted and rounded down to the nearest whole number of Ordinary Shares.

(b) *Adjustment of Conversion Price*

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

- (i) If and whenever there shall be a consolidation, reclassification or subdivision in relation to the Ordinary Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, reclassification or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such consolidation, reclassification or subdivision, as the case may be; and

B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, reclassification or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification or subdivision, as the case may be, takes effect.

- (ii) If and whenever the Issuer shall issue any Ordinary Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (1) where any such Ordinary Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive, (2) where the Shareholders may elect to receive a Dividend in cash in lieu of such Ordinary Shares or (3) where any such Ordinary Shares are or are expressed to be issued in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such issue; and

B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

- (iii) If and whenever the Issuer shall pay or make any Dividend to Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date (defined below) by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the portion of the Fair Market Value of the aggregate Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Dividend by the number of Ordinary Shares entitled to receive the relevant Dividend (or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares by or on behalf of the Issuer or any Subsidiary of the Issuer, by the number of Ordinary Shares in issue immediately following such purchase, redemption or buy back, and treating as not being in issue any Ordinary Shares, or any Ordinary Shares represented by depositary or other receipts or certificates, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein.

“**Effective Date**” means, in respect of this Condition 6(b)(iii), the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, in the case of a purchase, redemption or buy back of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares, the date on which such purchase, redemption or buy back is made or, in the case of a Spin-Off, on the first date on which the Ordinary Shares are traded ex-the relevant Spin-Off on the Relevant Stock Exchange.

For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) of the definition of “Dividend” and in the definition of “Fair Market Value”) be determined as at the Effective Date.

- (iv) If and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) any other company, person or entity shall issue to Shareholders as a class by way of rights, or issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase or otherwise acquire Ordinary Shares or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or the right to otherwise acquire any Shares (or shall grant any such rights in respect of existing Securities so issued), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of the issue or grant of such Shares, options, warrants or other rights (and notwithstanding that the relevant issue may be or be expressed to be subject to Shareholder or other approvals or consents or other contingency or event occurring or not occurring), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue at close of business on the Dealing Day immediately before such announcement;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights or for the Securities issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share on the date of such first announcement; and
- C is the number of Ordinary Shares issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase (or other rights of acquisition) in respect thereof at the initial conversion, exchange, subscription, purchase or acquisition price or rate;

provided that if at the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange (as used in this Condition 6(b)(iv), the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 6(b)(iv), “C” shall be determined by the application of such

formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the first date on which the Ordinary Shares are traded ex-rights, ex-warrants or ex-options on the Relevant Stock Exchange.

- (v) If and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) any other company, person or entity shall issue any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares or Securities which by their terms carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or rights to otherwise acquire, Ordinary Shares) to all or substantially all Shareholders as a class by way of rights or grant to all or substantially all Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for, purchase or otherwise acquire any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Ordinary Shares or Securities which by their terms carry (directly or indirectly) rights of conversion into, or exchange or subscription for, or rights to otherwise acquire, Ordinary Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the first date on which the terms of such issue or grant are publicly announced (or if that is not a Dealing Day, the immediately preceding Dealing Day); and
- B is the Fair Market Value on the date of such announcement (or, if that is not a Dealing Day, the immediately preceding Dealing Day) of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

- (vi) If and whenever the Issuer shall issue (otherwise than as mentioned in sub-paragraph (b)(iv) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on conversion of the Bonds or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of or rights to otherwise acquire, Ordinary Shares) or if and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) any other company, person or entity shall issue or grant (otherwise than as mentioned in Condition 6(b)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase or otherwise acquire any Ordinary Shares (other than the Bonds, which term shall for this purpose include any further Bonds issued pursuant to Condition 18), in each case at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before the issue of such Ordinary Shares or the grant of such options, warrants or rights;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such additional Shares or, as the case may be, for the Ordinary Shares to be issued or made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share on the date of such first public announcement; and
- C is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights, provided that if at the time of issue of such Ordinary Shares or date of issue or grant of such options, warrants or rights (as used in this Condition 6(b)(vi), the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time, then for the purposes of this Condition 6(b)(vi), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the date of issue of such Ordinary Shares or, as the case may be, the issue or grant of such options, warrants or rights.

- (vii) If and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request of or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) any other company, person or entity (otherwise than as mentioned in Conditions 6(b)(iv), (b)(v) or (b)(vi) above) shall issue wholly for cash or for no consideration any Securities (other than the Bonds which term shall for this purpose exclude any further Bonds issued pursuant to Condition 18), which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, purchase of or rights to otherwise acquire Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be redesignated as Ordinary Shares and the consideration per Ordinary Share receivable upon conversion, exchange, subscription, purchase, acquisition or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or

subscription for Ordinary Shares which have been issued by the Issuer (or at the direction or request or pursuant to any arrangements with the Issuer or any Subsidiary or any Subsidiary of the Issuer) for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued, purchased or acquired);

- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to such Securities or upon the exercise of any such options, warrants or rights or, as the case may be, for the Ordinary Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Ordinary Share on the date of such first public announcement; and
- C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription, purchase or acquisition attached thereto at the initial conversion, exchange, subscription, purchase or acquisition price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such redesignation, provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this Condition 6(b)(vii), the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or, as the case may be, such Securities are redesignated or at such other time as may be provided) then for the purposes of this Condition 6(b)(vii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the date of issue of such Securities or, as the case may be, the grant of such rights.

- (viii) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the Bonds which shall for this purpose include and any further Bonds issued pursuant to Condition 18) as are mentioned in Condition 6(b)(vii) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such modification by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue on the Dealing Day immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of

exchange or subscription for, or purchase or acquisition of, Ordinary Shares which have been issued, purchased or acquired by the Issuer or any Subsidiary of the Issuer (or at the direction or request or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) for the purposes of or in connection with such Securities, less the number of such Ordinary Shares so issued, purchased or acquired);

- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share on the date of such first public announcement or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price of such Securities; and
- C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as a Financial Adviser shall consider appropriate for any previous adjustment under Condition 6(b)(viii) or Condition 6(b)(vii) above, provided that if at the time of such modification (as used in this Condition 6(b)(viii), the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided) then for the purposes of this Condition 6(b)(viii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.

- (ix) Subject to Condition 6(e), if and whenever the Issuer or any Subsidiary of the Issuer or (at the direction or request of or pursuant to any arrangements with the Issuer or any Subsidiary of the Issuer) any other company, person or entity shall offer any Securities of the Issuer of the Subsidiary in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Conversion Price falls to be adjusted under Conditions 6(b)(ii), (iii), (iv), (v), (vi) or (vii) above or (x) below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant Dealing Day)) the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the making of such offer by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the date on which the terms of such offer are first publicly announced; and

B is the Fair Market Value on the date of such announcement (or, if that is not a Dealing Day, the immediately preceding Dealing Day) of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the first date on which the Ordinary Shares are traded ex-rights on the Relevant Stock Exchange.

(x) If:

- (i) an offer is made to all (or as nearly as may be practicable to all) Shareholders (or all (or as nearly as may be practicable to all) Shareholders other than the offeror and/or any associate (as defined in sections 11 and 12 of the Corporations Act) of the offeror) to acquire the whole or any part of the issued ordinary share capital of the Issuer (an **“Offer”**); or
- (ii) any person proposes a scheme of arrangement with regard to such acquisition (other than an Exempt Newco Scheme) (a **“Scheme”**);

and such offer or scheme of arrangement having become or been declared unconditional in all respects, and the offeror has acquired at any time during the relevant offer period a relevant interest in more than 50 per cent. of the Shares in issue or the scheme of arrangement if approved and implemented will result in a person acquiring a relevant interest in more than 50 per cent. of the Shares that will be in issue after the scheme of arrangement is implemented, or an event occurs which has equivalent effect (a **“Change of Control”**), then upon any exercise of Conversion Rights where the Conversion Date falls during the period (the **“Change of Control Period”**) commencing on the occurrence of the Change of Control and ending 30 calendar days following the Change of Control or, if later, 30 calendar days following the date on which a Change of Control Notice as required by Condition 6(g) is given, the Conversion Price (the **“Change of Control Conversion Price”**) shall be as determined pursuant to the following formula:

$$\text{COCCP} = \text{OCP} / (1 + (\text{CP} \times c/t))$$

where:

COCCP = means the Change of Control Conversion Price

OCP = means the Conversion Price in effect on the relevant Conversion Date, disregarding the application of this Condition 6(b)(x)

CP = means 28.95% (expressed as a fraction)

c = means the number of days from and including the date the Change of Control occurs to but excluding the Final Maturity Date

t = means the number of days from and including the Closing Date to but excluding the Final Maturity Date

- (xi) If the Issuer (after consultation with the Trustee) determines that an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to above in this Condition 6(b), the Issuer shall, at its own expense and acting reasonably, request a Financial Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect

in accordance with such determination, provided that an adjustment shall only be made pursuant to this Condition 6(b)(xi) if such Financial Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises and if the adjustment would result in a reduction to the Conversion Price.

Notwithstanding the foregoing provisions, where:

- (a) the events or circumstances giving rise to any adjustment pursuant to this Condition 6(b) have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Issuer, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be advised by a Financial Adviser to be in its opinion appropriate to give the intended result; and
- (b) such modification shall be made to the operation of these Conditions as may be advised by a Financial Adviser to be in its opinion appropriate (i) to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once and (ii) to ensure that the economic effect of a Dividend is not taken into account more than once.

The Issuer has undertaken that it will not take any corporate or other action which is equivalent to Conditions 6(b)(i) to 6(b)(x) that would cause the Conversion Price of the Bonds to be adjusted in a manner that contravenes the Corporations Act or the Listing Rules of the ASX.

For the purpose of any calculation of the consideration receivable or price pursuant to Conditions 6(iv), (vi), (vii) and (viii), the following provisions shall apply:

- (a) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;
- (b) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Issuer to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant date of the first public announcement as referred to in Conditions 6(b)(vi), (b)(vii) or (b)(viii), as the case may be, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights of subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary

Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;

- (c) if the consideration or price determined pursuant to (a) or (b) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Specified Date (in the case of (a) above or the relevant date of the first public announcement (in the case of (b) above);
- (d) in determining consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and
- (e) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable, regardless of whether all or part thereof is received, receivable, paid or payable by or to the Issuer or another entity.

(c) *Retroactive Adjustments*

Subject as provided in Condition 6(m), if the Conversion Date in relation to the conversion of any Bond shall be after the record date in respect of any consolidation, reclassification or sub-division as is mentioned in Condition 6(b)(i), or after the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in Conditions 6(b)(ii), (iii) (iv), (v) or (ix), or after the date of the first public announcement of the terms of any such issue or grant as is mentioned in Conditions 6(b)(vi) and (vii) or of the terms of any such issue or grant as is mentioned in Condition 6(b)(viii), but before the relevant adjustment to the Conversion Price becomes effective under Condition 6(b) (such adjustment, a “**Retroactive Adjustment**”), then the Issuer shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued or transferred and delivered to the converting Bondholder, in accordance with the instructions contained in the Conversion Notice, such additional number of Ordinary Shares (if any) (the “**Additional Ordinary Shares**”) as, together with the Ordinary Shares issued or to be transferred and delivered on conversion of the relevant Bond (together with any fraction of an Ordinary Share not so issued), is equal to the number of Ordinary Shares which would have been required to be issued or delivered on conversion of such Bond as if the relevant adjustment to the Conversion Price had in fact been made and become effective immediately prior to the relevant Conversion Date.

(d) *Decision of a Financial Adviser*

If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price or as to the occurrence of a Change of Control, the Issuer shall consult a Financial Adviser and the written opinion of such Financial Adviser in respect of such adjustment to the Conversion Price shall be conclusive and binding on all parties, save in the case of manifest or proven error.

(e) *Employees Incentive Schemes and Petsec Options*

No adjustment will be made to the Conversion Price:

- (A) where Ordinary Shares or other Securities (including rights, warrants and options) are issued, transferred, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or contractors or former employees or contractors (including Directors holding or formerly holding executive office or the personal service company of any

such person) or their spouses or relatives, in each case, of the Issuer or any of its Subsidiaries or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any employee, contractor or director incentive scheme or pursuant to any Dividend reinvestment plan or similar plan or scheme; or

- (B) in relation to the issue of options over Ordinary Shares by the Issuer to Petsec Energy Limited pursuant to the acquisition of Petsec Petroleum LLC by a Subsidiary of the Issuer.

(f) *Rounding Down and Notice of Adjustment to the Conversion Price*

On any adjustment to the Conversion Price, the resultant Conversion Price, if not an integral multiple of U.S.\$0.001, shall be rounded down to the nearest whole multiple of U.S.\$0.001. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than 1% of the Conversion Price then in effect. Any adjustment not required to be made, and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or , as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Conversion Price shall be given by the Issuer to Bondholders in accordance with Condition 17 and to the Trustee and the Principal Paying, Transfer and Conversion Agent promptly after the determination thereof.

The Issuer undertakes that it shall not take any action, and shall procure that no action is taken, that would otherwise result in the inability to issue Ordinary Shares on conversion as fully paid.

No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation of the Shares as referred to in Condition 6(b)(i) above. The Issuer may at any time and for a specified period only, following notice being given to the Trustee and Bondholders in accordance with Condition 17, reduce the Conversion Price.

(g) *Change of Control*

Within 15 calendar days following the occurrence of a Change of Control, the Issuer shall give notice thereof to the Trustee and to the Bondholders in accordance with Condition 17 (a “**Change of Control Notice**”). Such notice shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and their entitlement to require the Issuer to redeem their Bonds as provided in Condition 7(e).

The Change of Control Notice shall also specify:

- (i) all information material to Bondholders concerning the Change of Control;
- (ii) the Conversion Price immediately prior to the occurrence of the Change of Control and the Change of Control Conversion Price (on the basis of such Conversion Price) applicable pursuant to Condition 6(b)(x) during the Change of Control Period;
- (iii) the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange as at the latest practicable date prior to the publication of such notice;
- (iv) the Change of Control Put Date and the last day of the Change of Control Period;
- (v) details of the right of the Issuer to redeem any Bonds which shall not previously have been converted or redeemed pursuant to Condition 7(e); and

(vi) such other information relating to the Change of Control as the Trustee may reasonably require.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control or any event which could lead to a Change of Control has occurred or may occur and will not be responsible to Bondholders or any other person for any loss arising from any failure by it to do so.

(h) *Procedure for exercise of Conversion Rights*

The Conversion Right may be exercised by a Bondholder during the Conversion Period by delivering the relevant Bond to the specified office of any Paying, Transfer and Conversion Agent, during its usual business hours, accompanied by a duly completed and signed notice of conversion (a “**Conversion Notice**”) in the form (for the time being current) obtainable from any Paying, Transfer and Conversion Agent. Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Paying, Transfer and Conversion Agent to whom the relevant Conversion Notice is delivered is located. If such delivery is made after the end of normal business hours or on a day which is not a business day in the place of the specified office of the relevant Paying, Transfer and Conversion Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

Any determination as to whether any Conversion Notice has been duly completed and properly delivered shall be made by the relevant Paying, Transfer and Conversion Agent and shall, save in the case of manifest or proven error, be conclusive and binding on the Issuer, the Trustee, the Paying, Transfer and Conversion Agents and the relevant Bondholder.

Conversion Rights may only be exercised in respect of an authorised denomination. Where Conversion Rights are exercised in respect of part only of a Bond, the old Bond shall be cancelled and a new Bond for the balance thereof shall be issued in lieu thereof without charge but upon payment by the holder of any taxes, duties and other governmental charges payable in connection therewith and the Registrar will within seven business days, in the place of the specified office of the Registrar, following the relevant Conversion Date deliver such new Bond to the Bondholder at the specified office of the Registrar or (at the risk and, if mailed at the request of the Bondholder otherwise than by ordinary mail, at the expense of the Bondholder) mail the new Bond by uninsured mail to such address as the Bondholder may request.

A Conversion Notice, once delivered, shall be irrevocable.

The conversion date in respect of a Bond (the “**Conversion Date**”) shall be the next Sydney business day following the date of the delivery of the Bonds and the Conversion Notice.

A Bondholder exercising a Conversion Right:

- (i) shall, subject to Condition 6(h)(ii) below, be responsible for paying directly to the relevant authorities any taxes and capital, stamp, issue and registration and transfer taxes and duties arising on conversion and such Bondholder shall be responsible for paying all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond or interest therein in connection with such conversion; but
- (ii) shall not be responsible for any taxes or capital, stamp, issue and registration and transfer taxes and duties payable in Australia (or any province, state or territory thereof) in respect of the allotment and issue of any Ordinary Shares on such conversion or in respect of the delivery of any Ordinary Shares on such conversion (including any Additional Ordinary Shares), which shall be paid by the Issuer. If the Issuer shall fail to pay any taxes and capital, stamp, issue and

registration and transfer taxes and duties payable for which it is responsible as provided above, the relevant holder shall be entitled to tender and pay the same and the Issuer as a separate and independent stipulation, covenants to reimburse and indemnify each Bondholder in respect of any payment thereof and any penalties payable in respect thereof.

For the avoidance of doubt, none of the Agents nor the Trustee shall be responsible for determining whether such taxes or capital, stamp, issue and registration and transfer taxes and duties are payable or the amount thereof and it shall not be responsible or liable for any failure by the Issuer to pay such taxes or capital, stamp, issue and registration and transfer taxes and duties.

Ordinary Shares to be issued on exercise of Conversion Rights will be issued, at the option of the Bondholder exercising its Conversion Right as specified in the Conversion Notice, either:

- (a) in uncertificated form through the securities trading system known as the Clearing House Electronic Sub-register System operated by ASX Settlement and Transfer Corporation Pty Ltd (“CHESS”) (or any successor licensed clearance and settlement facility applicable to the Ordinary Shares), or
- (b) in uncertificated form through the Issuer’s share registry provider,

and in the case of (a) the Ordinary Shares will be credited to the CHESS account specified in the Conversion Notice, or in the case of (b) the Ordinary Shares will be credited to an account with the share registry provider in the name of the Bondholder, in each case by a date which is generally expected to be not later than four Sydney business days (in the case of Ordinary Shares to be issued through CHESS or in certificated form) after the relevant Conversion Date.

Statements of holdings for Ordinary Shares issued on exercise of Conversion Rights through CHESS will be dispatched by the Issuer by mail free of charge as soon as practicable but in any event within 10 Sydney business days after the relevant Conversion Date.

(i) *Ordinary Shares*

- (i) Ordinary Shares issued or transferred and delivered upon conversion of the Bonds will be fully paid and will in all respects rank *pari passu* with the fully paid Ordinary Shares in issue on the relevant Conversion Date or, in the case of Additional Ordinary Shares, on the relevant Reference Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such Ordinary Shares or, as the case may be, Additional Ordinary Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the relevant Conversion Date or, as the case may be, the relevant Reference Date.
- (ii) Save as provided in Condition 6(j), no payment or adjustment shall be made on conversion for any interest which otherwise would have accrued on the relevant Bonds since the last Interest Payment Date preceding the Conversion Date relating to such Bonds (or, if such Conversion Date falls before the first Interest Payment Date, since the Closing Date).

(j) *Interest on Conversion*

If any notice requiring the redemption of any Bonds is given pursuant to Conditions 7(b) or 7(c) on or after the fifteenth calendar day prior to a record date in respect of any Dividend or distribution payable in respect of the Ordinary Shares which has occurred since the last Interest Payment Date (or in the case of the first Interest Period, since the Closing Date) and where such notice specifies a date for redemption falling on or prior to the date which is 14 days after the Interest Payment Date next

following such record date, interest shall accrue at the applicable Interest Rate on Bonds in respect of which Conversion Rights shall have been exercised and in respect of which the Conversion Date falls after such record date and on or prior to the Interest Payment Date next following such record date in respect of such Dividend or distribution, in each case from and including the preceding Interest Payment Date (or, if such Conversion Date falls before the first Interest Payment Date, from the Closing Date) to but excluding such Conversion Date. The Issuer shall pay any such interest by not later than 14 days after the relevant Conversion Date by transfer to, a United States dollar account with a bank in New York City in accordance with instructions given by the relevant Bondholder in the relevant Conversion Notice.

(k) Purchase or Redemption of Ordinary Shares

The Issuer or any Subsidiary may exercise such rights as it may from time to time enjoy to purchase or redeem or buy back its own shares (including Ordinary Shares) or any depositary or other receipts or certificates representing the same without the consent of the Bondholders.

(l) No duty to Monitor

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price and will not be responsible or liable to the Bondholders for any loss arising from any failure by it to do so.

Neither the Trustee nor the Paying, Transfer and Conversion Agents shall be under any duty to determine, calculate or verify the Conversion Price and/or any adjustments to it and will not be responsible or liable to the Bondholders for any loss arising from any failure by it to do so.

(m) Cash Settlement

- (i) **Cash Alternative Election:** Upon exercise of Conversion Rights by a Bondholder and subject to Mandatory Cash Settlement pursuant to Condition 6(m)(ii), the Issuer may make an election (a “**Cash Alternative Election**”) by giving notice (a “**Cash Alternative Election Notice**”) to the relevant Bondholder by not later than the date (the “**Cash Election Date**”) falling 3 Sydney business days following the relevant Conversion Date to the address (or, if a fax number or email address is provided in the relevant Conversion Notice, that fax number or email address) specified for that purpose in the relevant Conversion Notice (with a copy to the Trustee and the Principal Paying, Transfer and Conversion Agent) to satisfy the exercise of the Conversion Right in respect of the relevant Bonds by making payment, or procuring that payment is made, to the relevant Bondholder of the Cash Alternative Amount, together with any other amount payable by the Issuer to such Bondholder pursuant to these Conditions in respect of or relating to the relevant exercise of Conversion Rights, including any interest payable pursuant to Condition 6(j).

A Cash Alternative Election shall be irrevocable.

- (ii) **Mandatory Cash Settlement:** Until shareholder approval is obtained in a general meeting of the Issuer in respect of the issuance of the Excess Shares, at any time when the delivery of Excess Shares is required to satisfy the Conversion Right in respect of a Conversion Notice, the Issuer shall be required to satisfy the exercise of the Conversion Right in respect of the Excess Shares by making payment, or procuring that payment is made, to the relevant Bondholder of the Cash Alternative Amount in respect of the Excess Shares, together with any other amount payable by the Issuer to such Bondholder pursuant to these Conditions in respect of or relating to the relevant exercise of Conversion Rights, including any interest payable pursuant to Condition 6(j) (the “**Mandatory Cash Settlement**”).

If more than one Bondholder exercises the Conversion Right on the same Conversion Date and Mandatory Cash Settlement in part is required, the Issuer shall deliver Ordinary Shares and the Cash Alternative Amount to such Bondholders on a pro rata basis.

The Issuer shall provide notice of the exercise of the Mandatory Cash Settlement (the “**Mandatory Notice**”) to the relevant Bondholder by not later than the date (the “**Mandatory Notice Date**”) falling 3 Sydney business days following the relevant Conversion Date to the address (or, if a fax number or email address is provided in the relevant Conversion Notice, that fax number or email address) specified for that purpose in the relevant Conversion Notice (with a copy to the Trustee and the Principal Paying, Transfer and Conversion Agent). The Mandatory Notice must specify the number of Excess Shares in respect of which the Issuer must make a cash payment in the manner described in this Condition.

- (iii) **Cash Alternative Amount:** In each case of a Cash Alternative Election and Mandatory Cash Settlement, the Issuer will pay the relevant Cash Alternative Amount, together with any other amount as aforesaid, by not later than 5 New York City business days following the last day of the Cash Alternative Calculation Period by transfer to a United States dollar account with a bank in New York City in accordance with instructions contained in the relevant Conversion Notice.
- (iv) **Additional Cash Alternative Amount:** If there is a Retroactive Adjustment to the Conversion Price following the exercise of Conversion Rights by a Bondholder, in circumstances where a Cash Alternative Election is made in respect of such exercise or where Mandatory Cash Settlement is required, the Issuer shall pay to the relevant Bondholder an additional amount (the “**Additional Cash Alternative Amount**”) equal to the Current Market Price of such number of Ordinary Shares equal to that by which the number of Ordinary Shares by reference to which the Cash Alternative Amount shall have been determined would have been increased if the relevant adjustment to the Conversion Price had been made and become effective immediately prior to the relevant Conversion Date, converted into US Dollars at the then Prevailing Rate.

The Issuer will pay the Additional Cash Alternative Amount not later than 5 New York City business days following the relevant Reference Date by transfer to a United States dollar account with a bank in New York City in accordance with instructions contained in the relevant Conversion Notice.

(n) *Conversion Price Reset*

If the arithmetical average of the Volume Weighted Average Prices 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 shall be adjusted on the relevant Reset Date to the Average Market Price with respect to such Reset Date.

Such adjusted Conversion Price shall be rounded down, if necessary, to the nearest whole multiple of US\$0.001, provided that:

- (i) any such adjustment to the Conversion Price shall be limited such that the adjusted Conversion Price in no event shall be less than 80 per cent. of the initial Conversion Price (U.S.\$0.520) (taking into account any adjustments as described in Condition 6(b) which may have occurred prior to the relevant Reset Date);

- (ii) subject to (i) above, the adjustment events set out in Condition 6(b) shall apply, mutatis mutandis, to adjustments hereunder to ensure that appropriate adjustments shall be made to any Conversion Price to reflect any events set out in Condition 6(b);
- (iii) any such adjustment to the Conversion Price shall only be a downward adjustment; and
- (iv) any such adjustments shall become effective as of the relevant Reset Date and shall be notified to the Bondholders as soon as practicable thereafter.

7 Redemption and Purchase

(a) *Final Redemption*

Unless previously purchased and cancelled, redeemed or converted as herein provided, the Bonds will be redeemed at 108.80 per cent. of their principal amount on the Final Maturity Date. The Bonds may only be redeemed at the option of the Issuer prior to the Final Maturity Date in accordance with Conditions 7(b) or 7(c).

(b) *Redemption at the Option of the Issuer*

On giving not less than 30 nor more than 60 days' notice (an "**Optional Redemption Notice**") to the Trustee and to the Bondholders, the Trustee and the Principal Paying, Transfer and Conversion Agent (which notice shall be irrevocable) in accordance with Condition 17:

- (i) the Issuer may redeem all but not some only of the Bonds on any date (an "**Optional Redemption Date**") on or after 2 July 2014 and specified in the Optional Redemption Notice at the Early Redemption Amount together with accrued but unpaid interest to but excluding such date, if the Volume Weighted Average Price converted into US Dollars at the then Prevailing Rate for any 30 consecutive Dealing Days, where the last day of such 30-Dealing Day period falls within five Dealing Days prior to the date upon which notice of such redemption is given, was at least 140% of the Early Redemption Amount divided by the Conversion Ratio; or
- (ii) the Issuer may redeem all but not some only of the Bonds on an Optional Redemption Date specified in the Optional Redemption Notice at the Early Redemption Amount, together with accrued but unpaid interest to but excluding such date if, at any time prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 90% or more in principal amount of the Bonds originally issued (which shall for this purpose include any further Bonds issued pursuant to Condition 18 and consolidated and forming a single series with the Bonds).

Where "**Conversion Ratio**" equals the principal amount of each Bond divided by the then Conversion Price.

(c) *Redemption for Taxation Reasons*

At any time the Issuer may, having given not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Bondholders, the Trustee and the Principal Paying, Transfer and Conversion Agent (which notice shall be irrevocable) redeem (subject to the second following paragraph) all but not some only, of the Bonds on the date ("**Tax Redemption Date**") specified in the Tax Redemption Notice at the Early Redemption Amount, together with accrued but unpaid interest to such date, if (i) the Issuer certifies to the Trustee immediately prior to the giving of such notice that the Issuer has or will become obliged to pay additional amounts in respect of payments on the Bonds pursuant to Condition 9 as a result of any change in, or amendment to, the laws or regulations of the

Commonwealth of Australia or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 2 June 2011, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (a) a certificate signed by two directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and (b) an opinion of independent legal or tax advisers of recognised international standing to the effect that such change or amendment has occurred and that the Issuer has or will be obliged to pay such additional amounts as a result thereof (irrespective of whether such amendment or change is then effective) and the Trustee shall accept without any liability for so doing such certificate and opinion as sufficient evidence of the matters set out in (i) and (ii) above which shall be conclusive and binding on the Bondholders.

On the Tax Redemption Date, the Issuer shall (subject to the next following paragraph) redeem the Bonds at the Early Redemption Amount, together with accrued interest to such date.

If the Issuer gives a Tax Redemption Notice, each Bondholder will have the right to elect that his Bond(s) shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment of interest to be made on such Bond(s) which falls due after the relevant Tax Redemption Date whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 9 and payment of all amounts of interest on the Bonds shall be made subject to the deduction or withholding of the taxation required to be withheld or deducted by the Commonwealth of Australia or any political subdivision or any authority thereof or therein having power to tax. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying, Transfer and Conversion Agent a duly completed and signed notice of election, in the form for the time being current, obtainable from the specified office of any Paying, Transfer and Conversion Agent together with the relevant Bonds on or before the day falling 10 days prior to the Tax Redemption Date.

(d) Optional and Tax Redemption Notices

Any Optional Redemption Notice or Tax Redemption Notice shall be irrevocable. Any such notice shall specify (i) the Optional Redemption Date or, as the case may be, the Tax Redemption Date, (ii) the Conversion Price, the aggregate principal amount of the Bonds outstanding and the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange, in each case as at the latest practicable date prior to the publication of the Optional Redemption Notice or, as the case may be, the Tax Redemption Notice, (iii) the last day on which Conversion Rights may be exercised by Bondholders and (iv) the Early Redemption Amount on the relevant Optional Redemption Date or Tax Redemption Date.

(e) Redemption at the Option of Bondholders

Following the occurrence of a Relevant Event, the holder of each Bond will have the right at such holder's option, to require the Issuer to redeem all or some only of that holder's Bonds on the Relevant Event Redemption Date (as defined below) at the Early Redemption Amount, together with accrued interest to but excluding the redemption date. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying, Transfer and Conversion Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (the "**Relevant Event Redemption Notice**") together

with the Certificate evidencing the Bonds to be redeemed by not later than 60 days following a Relevant Event, or, if later, 60 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 17. The “**Relevant Event Redemption Date**” shall be the 14th day after the expiry of such period of 60 days as referred to above.

A Relevant Event Redemption Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds the subject of Relevant Event Redemption Notices delivered as aforesaid on the Relevant Event Redemption Date.

The Issuer shall give notice to the Bondholders in accordance with Condition 17 and the Trustee and the Agents by not later than 14 days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition and shall give brief details of the Relevant Event.

The Trustee shall not be required to take any steps to ascertain whether a Relevant Event or any event which could lead to the occurrence of a Relevant Event has occurred and shall not be liable to any person for any loss arising from any failure to do so.

(f) *Purchase*

Subject to the requirements (if any) of any stock exchange on which the Bonds may be admitted to listing and trading at the relevant time and subject to compliance with applicable laws and regulations, the Issuer or any Subsidiary of the Issuer may at any time purchase some or all of the Bonds in the open market, by private contract or otherwise at any price.

(g) *Cancellation*

All Bonds which are redeemed or in respect of which Conversion Rights are exercised will be cancelled and may not be reissued or resold. Bonds purchased by the Issuer or any of its Subsidiaries shall be surrendered to the Principal Paying, Transfer and Conversion Agent for cancellation and may not be reissued or re-sold.

(h) *Multiple Notices*

If more than one notice of redemption is given pursuant to this Condition 7, the first of such notices to be given shall prevail, save that a notice of redemption given by a Bondholder pursuant to Condition 7(e) shall prevail over any other notice of redemption given pursuant to this Condition 7, whether given before, after or at the same time as any notice of redemption under Condition 7(e).

8 **Payments**

(a) *Principal*

Payment of principal in respect of the Bonds and accrued interest payable on a redemption of the Bonds other than on an Interest Payment Date will be made to the persons shown in the Register at the close of business on the Record Date and subject to the surrender of the Bonds at the specified office of the Registrar or of any of the Paying, Transfer and Conversion Agents.

(b) *Interest and other Amounts*

- (i) Payments of interest due on an Interest Payment Date, which shall be for value on such Interest Payment Date, (or, if such Interest Payment Date is not a business day (as defined below), for value on the first following day which is a business day) will be made to the persons shown in the Register at close of business on the Record Date.

- (ii) Payments of all amounts other than as provided in Condition 8(a) and (b)(i) will be made as provided in these Conditions.

(c) *Record Date*

“**Record Date**” means the fifth business day, in the place of the specified office of the Registrar, before the due date for the relevant payment.

(d) *Payments*

Each payment in respect of the Bonds pursuant to Condition 8(a) and (b)(i) will be made by transfer to a United States dollar account with a bank in New York City as notified to the Registrar by the relevant Bondholder by no later than the relevant Record Date.

The Issuer will not be required to make any such payment in respect of the Bonds until six business days after the Bondholder has provided the necessary account details for payment in accordance with this Condition 8(d).

(e) *Payments subject to fiscal laws*

All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations but without prejudice to Condition 9. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(f) *Default Interest and Delay In Payment*

If the Issuer fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions (including as provided in Condition 5(b)), interest shall accrue on the overdue sum at the rate of 10.0% per annum from the due date. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year.

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due (i) as a result of the due date not being a business day, (ii) if the Bondholder is late in surrendering the relevant Bond or (iii) if the Bondholder does not provide the necessary account details for payment in accordance with these Conditions.

(g) *Business Days*

In this Condition, “**business day**” means a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business, in New York City and (where such surrender is required by these Conditions) in the place of the specified office of the Registrar or relevant Paying, Transfer and Conversion Agent, to whom the relevant Bond is or surrendered.

(h) *Paying, Transfer and Conversion Agents, etc.*

The initial Paying, Transfer and Conversion Agents and Registrar and their initial specified offices are listed below. The Issuer reserves the right under the Agency Agreement at any time, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying, Transfer and Conversion Agent or the Registrar and appoint additional or other Paying, Transfer and Conversion Agents or another Registrar, provided that it will (i) maintain a Principal Paying, Transfer and Conversion Agent and a Registrar, (ii) maintain Paying, Transfer and Conversion Agents having specified offices in at least two major European cities including a Paying, Transfer and Conversion Agent having a specified office in London, (iii) a Paying, Transfer and Conversion Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive

implementing the conclusions of the ECOFIN council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive, (iv) so long as the Bonds are listed on the Singapore Exchange Securities Trading Limited and the rules of that exchange so require, a Paying, Transfer and Conversion Agent having a specified office in Singapore and (v) maintain a Registrar with a specified office outside the United Kingdom. Notice of any change in the Paying, Transfer and Conversion Agents or the Registrar or their specified offices will promptly be given by the Issuer to the Bondholders, the Trustee and the Principal Paying, Transfer and Conversion Agent in accordance with Condition 17.

(i) *Fractions*

When making payments to Bondholders, if the relevant payment is not of an amount which is a whole multiple of the smallest unit of the relevant currency in which such payment is to be made, such payment will be rounded down to the nearest unit.

9 Taxation

All payments made by or on behalf of the Issuer in respect of the Bonds will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Commonwealth of Australia or any political subdivision or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is required to be made by law.

In the event that any such withholding or deduction is required to be made, the Issuer will pay such additional amounts as will result in the receipt by the Bondholders of the amounts which would otherwise have been receivable had no such withholding or deduction been required, except that no such additional amount shall be payable in respect of interest on any Bond:

- (a) to a holder (or to a third party on behalf of a holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the Commonwealth of Australia (and where the withholding or deduction is required on account of the Bondholder failing to provide their tax file number or Australian business number to the Issuer) otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond; or
- (b) in respect of which the Certificate representing it is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such Additional Tax Amount on surrendering the relevant Certificate for payment on the last day of such period of 30 days; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments or governmental charges by reason of the holder being an associate (as defined in section 128F(9) of the Income Tax Assessment Act 1936 of Australia ("**Australian Tax Act**")) of the Issuer that is either a non-resident of Australia that does not acquire the Bonds or an interest in the Bonds in carrying on a business in Australia at or through a permanent establishment of the associate in Australia, or, a resident of Australia that acquires the Bonds or an interest in the Bonds in carrying on a business in a country outside Australia at or through a permanent establishment of the associate outside Australia, except as permitted under section 128F(5) of the Australian Tax Act.

References in these Conditions and the Trust Deed to principal and interest shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

This Condition 9 shall not apply in respect of payments on any Bonds which are the subject of an election by the relevant Bondholder pursuant to Condition 7(c) (Redemption for Taxation Reasons).

10 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (subject in each case to being indemnified and/or pre-funded and/or secured to its satisfaction), give notice to the Issuer that the Bonds are, and they shall accordingly thereby immediately become, due and repayable at the Early Redemption Amount as at such date together with accrued interest if any of the following events (each an “**Event of Default**”) shall have occurred:

- (a) default is made in:
 - (i) the payment on the due date of (i) any principal payable in respect of the Bonds or (ii) any interest payable in respect of the Bonds and such default is not remedied within five Sydney business days of the due date;
 - (ii) the delivery of Ordinary Shares to satisfy a Conversion Right pursuant to Condition 6 and such default continues for more than five Sydney business days; or
- (b) the Issuer does not perform or comply with any one or more of its other obligations under the Bonds or the Trust Deed and is not remedied within 30 days (or such longer period as the Trustee may permit) after the Issuer shall have received from the Trustee written notice of such default requiring it to be remedied; or
- (c)
 - (i) any other present or future indebtedness for borrowed money of the Issuer or any Subsidiary of the Issuer becomes due and payable prior to its stated maturity by reason of an event of default (however described); or
 - (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period; or
 - (iii) the Issuer or any Subsidiary of the Issuer fails to pay when due or, as the case may be, within any applicable grace period any amount payable by it under any present or future guarantee for, or indemnity in respect of, any indebtedness for borrowed money; or
 - (iv) any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any Subsidiary of the Issuer for any indebtedness for borrowed money (or any guarantee of, or indemnity in respect of, indebtedness for borrowed money) that has become payable becomes enforceable and steps are taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator manager, judicial manager, controller or other similar person),

and the aggregate amount of the indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds US\$10,000,000 (or its equivalent in other currencies); or

- (d) a distress, attachment, execution, seizure before judgment or other legal process is levied or enforced on or against all or any material part of the property, assets or revenues of the Issuer or any Principal Subsidiary which is not discharged, removed, stayed or paid within 45 days; or
- (e) the Issuer or any Principal Subsidiary (i) is (or is deemed by law or a court to be) or states that it is insolvent or unable to pay its debts when they fall due, (ii) stops, suspends or threatens to stop or suspend payment of its debts generally, or (iii) makes or enters into a general assignment or an arrangement or composition or compromise with or for the benefit of its creditors (other than in connection with a reconstruction, amalgamation, reorganisation, merger or consolidation permitted under paragraph (f)); or
- (f) an administrator (as defined in the Corporations Act) or liquidator or a like or similar officer is appointed in respect of the Issuer or any Principal Subsidiary or a court order is made or a resolution passed for the winding-up or dissolution of the Issuer or any Principal Subsidiary (which is not stayed, withdrawn or dismissed within 45 days), or the Issuer or any Principal Subsidiary ceases or threatens to cease to carry on business (other than, in the case of a Principal Subsidiary, as a result of a bona fide disposal of such business or its assets), except in any such case for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Principal Subsidiary, where that Principal Subsidiary is solvent or its undertaking and assets are transferred to or otherwise vested in the Issuer or another Subsidiary of the Issuer; or
- (g) a final judgment or judgments of a court or courts of competent jurisdiction for the payment of money aggregating in excess of US\$10,000,000 (or its equivalent in the relevant currency of payment) are rendered against the Issuer or any Principal Subsidiary and which judgments are not bonded, discharged or stayed pending appeal within 45 days (or such longer period as the Trustee may permit) after the Latest Date, or are not discharged within 45 days (or such longer period as the Trustee may permit) after the later of the expiration of such stay and the Latest Date; or
- (h) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds and the Trust Deed admissible in evidence in the courts of Australia or England is not taken, fulfilled or done and not remedied within 45 days (or such longer period as the Trustee may permit); or
- (i) it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed; or
- (j) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in paragraphs (d) to (f) above.

“Latest Date” means the latest of (i) the entry of such judgment; (ii) if such judgment specifies a date by which it must be satisfied, the date so specified; and (iii) the time allowed or specified under applicable law for such judgment to be bonded, discharged or stayed pending appeal.

11 Undertakings

Whilst any Conversion Right remains exercisable, the Issuer will, save with the approval of an Extraordinary Resolution or with the prior written approval of the Trustee where, in its opinion, it is not materially prejudicial to the interests of the Bondholders to give such approval:

- (a) other than in connection with a Newco Scheme, not issue or pay up any Securities, in either case by way of capitalisation of profits or reserves, other than:
 - (i) by the issue of fully paid Ordinary Shares or other securities to Shareholders and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive Ordinary Shares or other shares of Securities on a capitalisation of profits or reserves; or
 - (ii) by the issue of Ordinary Shares paid up in full (in accordance with applicable law) and issued wholly, ignoring fractional entitlements, in lieu of the whole or part of a cash dividend; or
 - (iii) by the issue of fully paid equity share capital (other than Ordinary Shares) to the holders of equity share capital of the same class and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive equity share capital (other than Ordinary Shares); or
 - (iv) by the issue of Securities or any equity share capital to, or for the benefit of, any employee or contractor or former employee or contractor (including Directors holding or formerly holding executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Issuer or any of its Subsidiaries or any associated company or to trustees to be held for the benefit of any such person, in any such case pursuant to an employees, director or contractor incentive scheme whether for all employees, directors, or executives or any one or more of them,

unless, in any such case, the same constitutes a Dividend or otherwise gives rise (or would, but for the provisions of any exclusion from Conditions 6(b)(i) to (x) (inclusive) or Condition 6(f) relating to the carry forward of adjustments, give rise) to an adjustment to the Conversion Price; or

- (b) not modify the rights attaching to the Ordinary Shares with respect to voting, dividends or liquidation nor issue any other class of equity share capital carrying any rights which are more favourable than the rights attaching to the Ordinary Shares but so that nothing in this Condition 11(b) shall prevent:
 - (i) any consolidation, reclassification or subdivision of the Ordinary Shares; or
 - (ii) any modification of such rights which is not, in the opinion of a Financial Adviser, materially prejudicial to the interests of the holders of the Bonds; or
 - (iii) any issue of equity share capital where the issue of such equity share capital results, or would, but for the provisions of Condition 6(f) relating to roundings or the carry forward of adjustments or, where comprising Ordinary Shares, the fact that the consideration per Ordinary Share receivable therefor is at least the Current Market Price per Ordinary Share, otherwise result, in an adjustment to the Conversion Price; or
 - (iv) any issue of equity share capital or modification of rights attaching to the Ordinary Shares, where prior thereto the Issuer shall have instructed a Financial Adviser to determine what (if any) adjustments should be made to the Conversion Price as being fair and reasonable to take account thereof and such Financial Adviser shall have determined either that no adjustment is required or that an adjustment resulting in an decrease in the Conversion Price is required and, if so, the new Conversion Price as a result thereof and the basis upon which such adjustment is to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly);
- (c) procure that no Securities (whether issued by the Issuer or any Subsidiary of the Issuer or procured by the Issuer or any Subsidiary of the Issuer to be issued or issued by any other person pursuant to any arrangement with the Issuer or any Subsidiary of the Issuer) issued without rights to convert into, or

exchange or subscribe for, Ordinary Shares shall subsequently be granted such rights exercisable at a consideration per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share at the close of business on the last Dealing Day preceding the date of the first public announcement of the proposed inclusion of such rights unless the same gives rise (or would, but for the provisions of Condition 6(f) relating to roundings and minimum adjustments or the carry forward of adjustments, give rise) to an adjustment to the Conversion Price and that at no time shall there be in issue Ordinary Shares of differing nominal values, save where such Ordinary Shares have the same economic rights;

- (d) not make any issue, grant or distribution take or omit to take any other action if the effect thereof would be that, on the exercise of Conversion Rights, Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid;
- (e) not reduce its issued share capital or any uncalled liability in respect thereof, or any non-distributable reserves, except:
 - (i) pursuant to the terms of issue of the relevant share capital; or
 - (ii) by means of a purchase or redemption of share capital of the Issuer to the extent permitted by applicable law; or
 - (iii) pursuant to a Newco Scheme; or
 - (iv) by way of transfer to reserves as permitted under applicable law; or
 - (v) where the reduction is permitted by applicable law and the Trustee is advised by a Financial Adviser, acting as an expert, that the interests of the Bondholders will not be materially prejudiced by such reduction; or
 - (vi) where the reduction is permitted by applicable law and results in (or would, but for the provisions of Condition 6(f) relating to roundings or the carry forward of adjustments, result in) an adjustment to the Conversion Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made,

provided that, without prejudice to the other provisions of these Conditions, the Issuer may exercise such rights as it may from time to time be entitled pursuant to applicable law to purchase its Ordinary Shares and any depositary or other receipts or certificates representing Ordinary Shares without the consent of Bondholders;

- (f) if any offer is made to all (or as nearly as may be practicable all) Shareholders (or all (or as nearly as may be practicable all) Shareholders other than the offeror and/or any associate (as defined in sections 11 and 12 of the Corporations Act)) to acquire the whole or any part of the issued Ordinary Shares, or if any person proposes a scheme with regard to such acquisition (other than a Newco Scheme), give notice of such offer or scheme to the Bondholders, the Trustee and the Principal Paying, Transfer and Conversion Agent at the same time as any notice thereof is sent to the Shareholders (or as soon as practicable thereafter) that details concerning such offer or scheme may be obtained from the specified offices of the Paying, Transfer and Conversion Agents and, where such an offer or scheme has been recommended by the board of Directors of the Issuer, or where such an offer has become or been declared unconditional in all respects or such scheme has become effective, use all reasonable endeavours to procure that a like offer or scheme is extended to the holders of any Ordinary Shares issued during the period of the offer or scheme arising out of the exercise of the Conversion Rights by the Bondholders;

- (g) in the event of a Newco Scheme take (or shall procure that there is taken) all necessary action to ensure that (to the satisfaction of the Trustee) immediately after completion of the Scheme of Arrangement, at its option, either (x) Newco is substituted under the Bonds and the Trust Deed as principal obligor in place of the Issuer (with the Issuer providing a guarantee) subject to and as provided in the Trust Deed; or (y) Newco becomes a guarantor under the Bonds and the Trust Deed and, in either case, (i) such amendments are made to these Conditions and the Trust Deed as are necessary in the opinion of the Trustee to ensure that the Bonds may be converted into or exchanged for ordinary shares or units or the equivalent in Newco *mutatis mutandis* in accordance with and subject to these Conditions and the Trust Deed and (ii) the ordinary shares or units or the equivalent of Newco are:
 - (A) admitted to listing on the Relevant Stock Exchange; or
 - (B) admitted to listing on another regulated, regularly operating, recognised stock exchange or securities market;
- (h) use its best endeavours to ensure that the Ordinary Shares issued upon exercise of Conversion Rights will, as soon as is practicable, be admitted to listing and to trading on the Australian Securities Exchange and will be listed, quoted or dealt in, as soon as is practicable, on any other stock exchange or securities market on which the Ordinary Shares may then be listed or quoted or dealt in;
- (i) not change the jurisdiction in which it is domiciled or resident or to whose taxing authority it is subject generally unless it would not thereafter be required pursuant to then current laws and regulations to withhold or deduct for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of such jurisdiction or any political subdivision thereof or therein having power to tax in respect of any payment on or in respect of the Bonds; and
- (j) for so long as any Bond remains outstanding and subject to the occurrence of a Change of Control, use its reasonable endeavours to ensure that its issued and outstanding Ordinary Shares shall be admitted to listing and to trading on the Australian Securities Exchange.

The Issuer has undertaken in the Trust Deed to deliver to the Trustee annually a certificate of the Issuer, as to there not having occurred an Event of Default or Potential Event of Default since the date of the last such certificate or if such event has occurred as to the details of such event. The Trustee will be entitled to rely on such certificate and shall not be obliged to independently monitor compliance by the Issuer with the undertakings set forth in this Condition 11, nor be liable to any person for not so doing.

12 Prescription

Claims against the Issuer for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of such payment.

Claims in respect of any other amounts payable in respect of the Bonds shall be prescribed and become void unless made within 10 years following the due date for payment thereof.

13 Replacement of Bonds

If any Bond is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of any Paying, Transfer and Conversion Agent subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer may require. Mutilated or defaced Bonds must be surrendered before replacements will be issued.

14 Meetings of Bondholders, Modification and Waiver, Substitution

(a) Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if requested in writing by Bondholders holding not less than 10% in principal amount of the Bonds for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be one or more persons holding or representing a clear majority in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity of the Bonds (other than deferring the earliest date on which the Bonds may be redeemed pursuant to Condition 7(b)(i)) or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the principal amount, or interest on, the Bonds or to reduce the amount payable on redemption of the Bonds (including the Early Redemption Amount or the method of calculation thereof) or modifying or cancelling the Conversion Rights, (iii) to increase the Conversion Price other than in accordance with these Conditions, (iv) to change the currency of any payment in respect of the Bonds, (v) to change the governing law of the Bonds, the Trust Deed or the Agency Agreement (other than in the case of a substitution of the Issuer (or any previous substitute or substitutes) under Condition 14(c)), or (vi) to modify the provisions concerning the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be one or more persons holding or representing not less than three-quarters, or at any adjourned meeting not less than 50%, in principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed). An Extraordinary Resolution is a resolution in respect of which not less than 75% of the votes cast shall have been in favour at a meeting of Bondholders duly convened and held in accordance with the Trust Deed.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90% of the aggregate principal amount of Bonds outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

No consent or approval of Bondholders shall be required in connection with any Newco Scheme Modification.

(b) Modification and Waiver

The Trustee may agree, without the consent of the Bondholders, to (i) any modification of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions which in the Trustee's opinion is of a formal, minor or technical nature or is made to correct a manifest error or to comply with mandatory provisions of law, and (ii) any other modification to the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to the Agency Agreement, the Bonds or these Conditions (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, any trust deed supplemental to the Trust Deed, the Agency Agreement, any agreement supplemental to

the Agency Agreement, the Bond or these Conditions which is, in the opinion of the Trustee, not materially prejudicial to the interests of the Bondholders. The Trustee may, without the consent of the Bondholders, determine any Event of Default or a Potential Event of Default should not be treated as such, provided that in the opinion of the Trustee, the interests of Bondholders will not be materially prejudiced thereby. Any such modification, authorisation, waiver or determination shall be binding on the Bondholders and, if the Trustee so requires, shall be notified to the Bondholders, the Trustee and the Principal Paying, Transfer and Conversion Agent promptly in accordance with Condition 17. The Trustee's agreement may be subject to any condition that the Trustee requires including but not limited to obtaining, at the expense of the Issuer, an opinion of any investment bank or legal or other expert and being indemnified and/or secured and/or pre-funded to its satisfaction.

(c) *Substitution*

The Trustee may, without the consent of the Bondholders, agree with the Issuer to the substitution in place of the Issuer (or any previous substitute or substitutes under this Condition) as the principal debtor under the Bonds and the Trust Deed of any Subsidiary of the Issuer subject to (i) the Bonds being unconditionally and irrevocably guaranteed by the Issuer and (ii) the Bonds continuing to be convertible or exchangeable into Ordinary Shares as provided in these Conditions mutatis mutandis as provided in these Conditions, with such amendments as the Trustee shall consider appropriate provided that in any such case, (x) the Trustee is satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution, and (y) certain other conditions set out in the Trust Deed are complied with. In the case of such a substitution the Trustee may agree, without the consent of the Bondholders, to a change of the law governing the Bonds and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Bondholders. Any such substitution shall be binding on the Bondholders and shall be notified promptly to the Bondholders, the Trustee and the Principal Paying, Transfer and Conversion Agent.

(d) *Entitlement of the Trustee*

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Bondholders as a class and, in particular but without limitation, shall not have regard to the consequences of the exercise of its trusts, powers or discretions for individual Bondholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory, and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

15 Enforcement

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed and the Bonds, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed or the Bonds unless (i) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (ii) it shall have been indemnified and/or pre-funded and/or secured to its satisfaction. No Bondholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

16 The Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including relieving it from taking any action or proceedings unless indemnified and/or pre-funded and/or secured to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit. The Trustee may rely without liability to Bondholders on a report, confirmation or certificate or any advice of any accountants (including the Auditors), financial advisers, investment bank or other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee shall be obliged to accept and be entitled to rely on any such report, confirmation or certificate or advice where the Issuer procures delivery of the same pursuant to its obligation to do so under a condition hereof or any provision of the Trust Deed and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Bondholders in the absence of manifest error.

17 Notices

All notices regarding the Bonds will be valid if published in a leading daily newspaper having circulation in (i) Asia (which is expected to be the *Asian Wall Street Journal*) and (ii) Europe (which is expected to be the *Financial Times*). The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if required to be published in more than one newspaper or in more than one manner, on the date of the first such publication in all the required newspapers or in each required manner. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve.

So long as the Bonds are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to Bondholders shall be given by delivery of the relevant notice to such clearing system for communication by them to their respective accountholders instead of in accordance with Condition 17.

18 Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further notes, bonds or debentures either having the same terms and conditions in all respects as the outstanding notes, bonds or debentures of any series (including the Bonds) or in all respects except for the first payment of interest on them and the first date on which Conversion Rights may be exercised and so that such further issue shall be consolidated and form a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) or upon such terms as to interest, conversion, premium, redemption and otherwise as the Issuer may determine at the time of their issue. Any further notes, bonds or debentures consolidated and forming a single series with the outstanding notes, bonds or debentures of any series (including the Bonds) constituted by the Trust Deed or any deed supplemental to it shall, and any other notes, bonds or debentures may, with the consent of the Trustee, be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Bondholders and the holders of notes, bonds or debentures of other series in certain circumstances where the Trustee so decides.

19 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999 (United Kingdom).

20 Governing Law and Jurisdiction

(a) *Governing Law*

The Trust Deed, the Agency Agreement and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) *Jurisdiction*

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds (“**Proceedings**”) may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of such courts and has waived any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of the Trustee and each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) *Agent for Service of Process*

The Issuer has irrevocably appointed Mallesons Stephen Jaques (London office) at its registered office for the time being, currently at 3rd Floor, 10 Old Broad Street, London EC2N 1DW, United Kingdom as its agent in England to receive service of process in any Proceedings in England. Nothing herein or in the Trust Deed shall affect the right to serve process in any other manner permitted by law.

TAX IMPLICATIONS

AUSTRALIAN TAXATION

INTRODUCTION

Scope

The following is a general summary of the material Australian income tax and capital gains tax (“**CGT**”) consequences arising under the Income Tax Assessment Act 1936 and the Income Tax Assessment Act 1997 (“**Tax Acts**”) and any relevant regulations, rulings, or judicial or administrative interpretations as at the date of this Offering Circular in relation to an investment in the Bonds by a purchaser of the Bonds (“**Bondholder**”).

This general summary is not intended to be nor should it be construed to be legal or tax advice to any particular investor. Prospective investors are urged to contact their tax advisors for specific advice relating to their particular circumstances, in particular in relation to local taxes in their home jurisdictions.

While the Company has sought legal advice on the Australian taxation implications of the Bonds, it has not sought, and does not intend to seek, a ruling from the Australian Taxation Office or any other revenue authority in relation to this matter.

Payments under the Bonds

It should be noted that the Bonds should be properly characterised as debt interests in the Company for Australian tax purposes on the basis that the Company is under an effectively non-contingent obligation to pay the Bondholders (in the form of interest and the redemption price) an amount at least equal to the issue price for the Bonds.

Accordingly, payments made under the Bonds (prior to any exercise of the Conversion Right) will constitute interest or amounts in the nature of interest in the hands of the Bondholders.

NON-RESIDENT INVESTORS

Scope

The following paragraphs deal with the consequences to a Bondholder who:

- is not a resident of Australia for tax purposes;
- does not carry on business in Australia or have a permanent establishment or fixed base in Australia;
- purchased the Bonds pursuant to the offer detailed in this Offering Circular; and
- holds the Bonds (and any Shares obtained from the exercise of Conversion Rights) on capital account.

This summary assumes that the issue of the Bonds by the Company will satisfy one of the public offer tests that is described in section 128F(3) of the Tax Act.

Australian withholding Taxation — Exemption

Payments of interest or amounts in the nature of interest to a Bondholder will be subject to a 10% withholding tax unless either the exemption provided by section 128F of the Tax Act applies or an exemption is available under a double tax treaty. If the exemption in section 128F of the Tax Act does apply to the Bonds, there will be no Australian withholding tax on payments of interest or amounts in the nature of interest under the Bonds to the Bondholders.

The Company intends to issue the Bonds in a manner which will satisfy the public offer test and which otherwise meets all relevant requirements of section 128F of the Tax Act. If that is done, then based on the current legislation and administrative policy of the Australian Taxation Office, the exemption should be available.

Australian withholding Tax — Associates

The exemption in section 128F of the Tax Act is not available where Bonds are issued to an “associate”, as defined in section 128F(9) of the Tax Act, of the Company, that is either an Australian resident who holds the Bonds in the course of carrying on business at or through a permanent establishment outside Australia or a non-resident associate who does not hold the Bonds in the course of carrying on business at or through a permanent establishment in Australia (“**Offshore Associate**”) (other than in the capacity of a dealer, manager, or underwriter in relation to the placement of the Bonds or a clearing house, custodian, funds manager or responsible entity of a registered scheme), if the Company knew or had reasonable grounds to suspect the payee was an Offshore Associate at the time of issue (other than in the capacity of a dealer, manager, or underwriter in relation to the placement of the Bonds or a clearing house, custodian, funds manager or responsible entity of a registered scheme).

The exemption in section 128F of the Tax Act is also not available where interest under the Bonds is paid to an Offshore Associate (other than in the capacity of a clearing house, paying agent, custodian, funds manager or responsible entity of a registered scheme), if the Company knew or had reasonable grounds to suspect the person receiving the interest is an Offshore Associate (other than in the capacity of a clearing house, paying agent, custodian, funds manager or responsible entity of a registered scheme) at the time the interest is paid.

Double Tax Treaty - withholding tax relief

If the exemption in section 128F of the Tax Act is not available in respect of the Bonds, a Bondholder may be eligible for relief from such tax under a tax treaty between Australia and the Bondholder’s country of residence.

The Australian Government has signed new or amended double tax conventions (“**New Treaties**”) with a number of countries (including the United States and the United Kingdom) (“**Specified Countries**”), which contain certain exemptions from interest withholding tax where the interest is derived by:

- governments of the relevant Specified Country and certain governmental authorities and agencies in the Specified Country; or
- a “financial institution” which is a resident of a Specified Country and which is unrelated to and dealing wholly independently with the Company. The term “financial institution” refers to either a bank or any other form of enterprise which substantially derives its profits by carrying on a business of raising and producing finance. (However, interest under a back-to-back loan or an economically equivalent arrangement will not qualify for this exemption).

Profits or Gains on Disposal or Redemption of the Bonds

General

Any profit or gain made on a disposal or redemption of the Bonds will be subject to Australian tax unless such profit or gain does not have an Australian source (as described under “Australian Source” below).

Australian Source

Whether a profit or gain on a disposal or redemption of the Bonds has an Australian source is a question of fact that will be determined on the basis of the circumstances existing at the time of the disposal or redemption.

In general, the profit or gain should not have an Australian source provided that the Bonds are:

- acquired, held and dealt with outside Australia; and
- held in connection with a business conducted exclusively outside Australia.

However, this is not an exhaustive list of the factors that can determine source, nor would the absence of one of these elements, of itself, mean that there is an Australian source, as it will depend on all the relevant circumstances.

Double Tax Treaty on disposal or redemption

If the profit or gain on disposal or redemption of a Bond is deemed to have an Australian source, a Bondholder may be eligible for relief from Australian tax on such profit or gain under a double tax treaty between Australia and the Bondholder’s country of residence. Prospective purchasers should consult their tax advisors regarding their entitlement to benefits under a tax treaty.

Conversion of Bonds into Ordinary Shares

A Bondholder will be entitled to exercise Conversion Rights and receive Ordinary Shares upon surrendering the relevant Bond to the Company.

For income tax and CGT purposes, no taxable gain or profit should arise to the Bondholder on the conversion of the Bond into Ordinary Shares even if the gain or profit has an Australian source, as the conversion is not regarded as a taxable event.

CGT - TARP

Australia has special CGT rules that may impose CGT on the disposal of interest (which may include shares and rights to acquire shares) in “land rich” companies. However, the disposal of the Bonds (which have a Conversion Right) or the Ordinary Shares arising from the conversion of the Bonds will not be subject to CGT unless the taxable Australian real property (“**TARP**”) of the Company is greater than 50% of its assets. Broadly, TARP is Australian land (including a lease of land) and mining, quarrying and prospecting rights.

Even if the TARP of the Company is greater than 50%, CGT is only applicable to non-residents who hold 10% or more of the Ordinary Shares in the Company (or possibly a right to acquire 10% or more of the Ordinary Shares via a Conversion Right) either at the time of disposal or throughout a 12 month period in the 24 months prior to disposal. Bondholders should seek their own tax advice before they dispose of any Ordinary Shares or Bonds.

Dividends

Australia has an imputation system where tax paid at the company level is imputed to shareholders in determining the taxation consequences of dividends paid by the company. A dividend will be treated as “franked” where the dividend is paid out of profits of the company that have already been subject to tax. The Bondholders would be subject to Australian dividend withholding tax at a rate of 30% to the extent that the dividends paid by the Company on its Ordinary Shares are unfranked (the rate of withholding tax may be reduced in accordance with any double tax treaty between the Bondholder’s home jurisdiction and Australia). However, the Bondholders would not be subject to Australian dividend withholding tax or other Australian income tax in relation to fully franked dividends paid on the Ordinary Shares.

Taxation of Financial Arrangements

Non-residents may need to consider the impact of the taxation of financial arrangements provisions referred to below, and any relevant double tax treaty provisions, if they have any gains (including on conversion) under those provisions that have an Australian source. It should be noted that those provisions should generally not override the exemption available under section 128F of the Tax Act.

RESIDENTS

Scope

The following is a summary for a Bondholder who:

- is a resident of Australia for income tax purposes or is a non-resident who carries on business in Australia or through a permanent establishment or fixed place in Australia and the holding of the Bonds is connected with such place of business; and
- purchased the Bonds pursuant to the offer detailed in this Offering Circular.

Interest

Interest income paid under the Bonds will be included in a Bondholder’s assessable income.

Profits or Gains on Disposal or Redemption of the Bonds

General

Any profit or gain made on a disposal or a redemption of the Bonds will be included in a Bondholder’s assessable income.

Conversion of Bonds into Ordinary Shares

A Bondholder will be entitled to exercise Conversion Rights and receive Ordinary Shares upon surrendering the relevant Bond to the Company.

Subject to any application of the TOFA rules for income tax and CGT purposes, no taxable gain or profit should arise to the Bondholder on the conversion of the Bond into Ordinary Shares as the conversion is not regarded as a taxable event.

Ordinary Shares

The Ordinary Shares issued to a Bondholder on an exercise of the Conversion Rights are CGT assets. The cost base of the Ordinary Shares for CGT purposes will be the cost base of the Bonds at the time of

conversion plus any amounts paid to convert the Bonds. A subsequent disposal of Ordinary Shares by a Bondholder may give rise to ordinary income or capital gains on disposal.

Dividends

Dividends paid by the Company on Ordinary Shares will be included in a Bondholder's assessable income. To the extent that those dividends are franked, a Bondholder is generally required to gross-up the dividend and will generally receive a tax offset against their tax liability.

Taxation of Financial Arrangements

Division 230 of the Tax Act contains rules which represent a code for the taxation of receipts and payments in relation to "financial arrangements". In this regard the Bonds (including the Conversion Right) will likely constitute a financial arrangement. The amendments apply for tax years commencing on or after 1 July 2010 (unless a Bondholder has elected to apply the amendments to tax years from 1 July 2009). Further, the rules do not apply to "financial arrangements" which are existing as at the start date. However, taxpayers can elect to apply the rules to existing financial arrangements held at the relevant start date.

However, the TOFA regime should not apply to a Bond held by:

- (i) individual Bondholders;
- (ii) a superannuation entity, management investment scheme or an entity substantially similar to a managed investment scheme under foreign law with assets of less than AU\$100,000,000;
- (iii) certain financial entities with a turnover of less than AU\$20,000,000;
- (iv) other entities with a turnover of less than AU\$100,000,000, financial assets of less than AU\$100,000,000 and assets of less than AU\$300,000,000; or

unless a Bondholder makes an election for the TOFA rules to apply to all of their financial arrangements.

As the application of Division 230 is dependent on the facts and circumstances of the Bondholder, Bondholders should obtain their own advice in relation to the potential applicability of Division 230, in light of their own individual facts and circumstances.

Division 230 should not override the exemption available under section 128F of the Tax Act.

GOODS AND SERVICES TAX ("GST")

GST should not be payable by the Bondholders in respect of the issue or redemption of Bonds by the Company, the transfer of Bonds or the conversion of Bonds into Ordinary Shares.

STAMP DUTY

The issue or transfer of the Bonds will not be subject to stamp duty in any Australian jurisdiction. As the Company is listed on the ASX, the conversion of the Bonds into Ordinary Shares, or the transfer of the Ordinary Shares after conversion, will not be subject to stamp duty except in certain circumstances. In the event that the Ordinary Shares are suspended from quotation, stamp duty may, depending on the circumstances, be assessed in an Australian jurisdiction where the Company holds interests in land at the time of the conversion or transfer, if the Company is "land rich" and the conversion or transfer results in a person and its defined associates holding an interest of 50% or more in the Company. In the event that the Ordinary Shares remain quoted on the ASX, stamp duty may be chargeable if the Company is "land rich" in Western

Australia, New South Wales or the Northern Territory and the conversion or transfer results in a person and its defined associates holding an interest of 90% or more in the Company. From 1 July 2011, it is anticipated that Queensland and South Australia will also adopt this 90% or more threshold for listed companies. In general, a company will be land rich in a particular jurisdiction if it is entitled to land in that jurisdiction with a value equal to or greater than a specified amount (starting from A\$500,000). In some jurisdictions, the company's worldwide land must also have a total value equal to or greater than a specified percentage (usually 60%) of the value of all property (other than certain excluded items) to which it is entitled.

Further stamp duty advice should be sought before any conversion of Bonds or transfer of Ordinary Shares which may result in a person and its associates holding an interest of 50% or more in the Company.

EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

The Council of the European Union has adopted a new directive regarding the taxation of savings income. Member States are required from 1 January 2005 to provide to the tax authorities of other Member States details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments unless during such period they elect otherwise.

SUBSCRIPTION AND SALE

This section summarises the Subscription Agreement entered into by the Company and the Lead Manager. It also sets out restrictions on the Offering in various jurisdictions.

SUBSCRIPTION AGREEMENT

The Lead Manager has entered into a subscription agreement dated 2 June 2011 with the Company (the “**Subscription Agreement**”). Upon the terms and subject to the conditions contained therein, the Lead Manager has agreed to subscribe or procure subscribers for the aggregate principal amount of the Bonds at the issue price of 100% of their principal amount (the “**Issue Price**”).

The Company has agreed to pay certain commissions to the Lead Manager and to reimburse the Lead Manager for certain of its expenses incurred in connection with the management of the issue of the Bonds. The Lead Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issue of the Bonds.

The Company has undertaken that during the period commencing on the date of the Subscription Agreement and ending 60 days after the Closing Date, it will not, and the Company has undertaken to procure that no person acting on its behalf will, without the prior written consent of the Lead Manager, (i) directly or indirectly, issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase, purchase any option or contract to issue or sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any Ordinary Shares or any securities convertible into or exercisable or exchangeable for Ordinary Shares or announce an intention to do any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of Ordinary Shares, whether any such swap or transaction described in paragraph (i) or (ii) above is to be settled by delivery of Ordinary Shares or such other securities, in cash or otherwise or announce its intention to do any of the foregoing. The foregoing sentence shall not apply (a) to the Bonds or (b) upon exercise of existing options in respect of Ordinary Shares which have been publicly disclosed or (c) the issue or grant of securities under the SSPA (defined below) or (d) the issue or grant of securities under any employee, contractor or director incentive scheme (whether or not in existence as at the date of this agreement) or (e) as consideration for an acquisition of shares or assets (with the prior consent of the Lead Manager (not to be unreasonably withheld)).

The Lead Manager and each of its affiliates have or may have, in the past, performed investment banking and advisory services for the Company and the Group, for which they have received customary fees and expenses. The Lead Manager and each of its affiliates may, from time to time, engage in further transactions with, and perform services for, the Company and the Group in the ordinary course of their businesses.

The Lead Manager or certain of its respective affiliates may purchase the Bonds for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Bonds and/or other securities of the Issuer or its subsidiaries or associates at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds).

SELLING RESTRICTIONS

General

Under the terms of the Subscription Agreement neither the Company nor the Lead Manager makes any representation that any action will be taken in any jurisdiction by the Lead Manager or the Company that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Bonds (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. The Lead Manager has agreed in the Subscription Agreement that it will comply (to the best of its knowledge and belief) in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes this Offering Circular or any other such material, in all cases at its own expense. It has also agreed to ensure that no obligations are imposed on the Company or the Lead Manager in any such jurisdiction as a result of any of the foregoing actions. The Company and the Lead Manager will have no responsibility for, and the Lead Manager will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery.

United States

The Bonds and the Ordinary Shares to be issued upon conversion of the Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Lead Manager has represented and warranted that it has not offered or sold, and has agreed that it will not offer or sell, any Bonds constituting part of its allotment except in an offshore transaction in accordance with Rule 903 and Rule 904 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Bonds or the Ordinary Shares to be issued upon conversion of the Ordinary Shares. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

The Lead Manager has represented and warranted that it has not entered and agrees that it will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S under the Securities Act) with respect to the distribution or delivery of the Bonds, except with its affiliates or with the prior written consent of the Issuer.

United Kingdom

The Lead Manager has represented, warranted and agreed that:

- (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Company; and
- (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Australia

The Lead Manager has warranted and agreed that it has not and will not offer directly or indirectly for issue, or invite applications for the issue of any Bonds or offer any Bonds for sale or invite offers to purchase any Bonds to a person, where the offer or invitation is received by that person in Australia or distribute the Offering Circular or any other advertisement or document in relation to any such offer or invitation, unless:

- (a) (i) the aggregate consideration payable by that person for such Bonds (after disregarding any amount lent by the Lead Manager or its associates) on acceptance of the offer by that person is at least A\$500,000 (or its equivalent in another currency); or (ii) the offer or invitation otherwise does not require disclosure to investors in accordance with Part 6D.2 or Part 7.9 of the Corporations Act, except if the only reason the offer or invitation otherwise does not require disclosure is due to section 708(1) of the Corporations Act;
- (b) the offer or invitation is not made to a person who is a “retail client” within the meaning of section 761G of the Corporations Act; and
- (c) such action complies with applicable laws, and directives.

In connection with the primary distribution of the Bonds, the Lead Manager has represented and warranted that it will not offer or sell any of the Bonds (or any interest in any of the Bonds) to any person, if, at the time of such offer of sale, its employees directly involved in the sale knew or had reasonable grounds to suspect that, as a result of the sale, such Bonds would be acquired (directly or indirectly) by an “Offshore Associate” (within the meaning of section 128F of the Tax Act) of the Issuer (other than in the capacity of dealer, manager or underwriter in relation to the placement of the Bonds or in the capacity of a clearing house, custodian, funds manager or responsible entity of an Australian registered managed investment scheme). For the avoidance of doubt, if a person is not listed as an Offshore Associate of the Issuer as set out in Schedule 2 of the Subscription Agreement, nothing obliges the Lead Manager in respect of an offering of Bonds to make positive enquiries of that person to confirm that person is not an Offshore Associate of the Issuer

Hong Kong

The Lead Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap.571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to so do under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Singapore

The Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Lead Manager has represented, warranted and agreed

that it has not offered or sold any Bonds or caused such Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause such Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this Offering Circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds may not be circulated or distributed, nor may the Bonds be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the SFA, (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such securities of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- (ii) where no consideration is or will be given for the transfer; or
- (iii) where the transfer is by operation of law.

ADDITIONAL INFORMATION

SUMMARY OF THE TERMS OF THE SHARE SALE AND PURCHASE AGREEMENT WITH PETSEC

The Share Sale and Purchase Agreement (“SSPA”) contemplates the acquisition by the Issuer (through Horizon Oil (Beibu) Limited, a subsidiary of the Issuer (“HOBL”)) of the entire ownership interest Petsec America Pty Limited (“**Petsec America**”) holds in Petsec Petroleum LLC (“**Target Company**”), a limited liability company formed in Nevada in the United States of America and the holder of participating interests in certain projects in the People’s Republic of China (the “**Projects**”). Petsec Energy Limited (“**Petsec**”) is also a party to the SSPA as a guarantor to the obligations of Petsec America. The acquisition is subject to the terms and conditions of the SSPA, as described in further detail below.

Consideration

Purchase Price

At completion of the acquisition on 6 June 2011, the Issuer paid the initial purchase price of A\$15,000,000 to Petsec America and delivered to Petsec 15,000,000 options to subscribe for ordinary shares of the Issuer (as described in further detail below).

In addition, upon the earlier to occur of:

- the receipt by the Issuer of proceeds from the issuance of the Bonds contemplated by this Offering Circular; or
- 31 August 2011 or such later date as agreed by the parties,

the Issuer will pay an additional A\$23,000,000 to Petsec America (“**Deferred Payment**”). The Deferred Payment is also subject to interest at an annualised rate of 9% calculated on a daily basis for each day after 1 July 2011 that the Deferred Payment has not been made (“**Delay Interest**”).

The Purchase Price is subject to adjustment (up or down) based on a review of certain balance sheet items after completion.

In the event that the Deferred Payment is not made by 31 August 2011 (or such later date as agreed by the parties), then a portion representing 23/38ths of the ownership interest in the Target Company which was transferred to HOBL will be transferred back to Petsec America, along with Delay Interest which would have been payable had the Deferred Payment been made.

Issuer Options

As described above, at completion the Issuer delivered 15,000,000 unlisted options to Petsec to subscribe for ordinary shares of the Issuer at an exercise price of A\$0.37 per option. Such options may only be exercised until 30 June 2014. Until exercise, such options will not have any right to participate in dividends of the Issuer and will not have any right to participate in new issuances of the Issuer. The options may be exercised by delivering a notice of exercise, together with payment of the exercise price.

Completion Subject to Conditions Precedent

The completion of the acquisition occurred on 6 June 2011 with the conditions precedent of the SSPA having been satisfied. Those conditions were:

- confirmation in writing from China National Offshore Oil Corporation that it is satisfied with or has no objections to the sale of the Target Company to the Issuer for purposes of certain contracts related to the Projects; and
- the execution of a deed of release by PEL related to the release of the Target Company from the Petsec tax group.

OWNERSHIP RESTRICTIONS

Foreign Acquisitions and Takeovers

The acquisition of interests in the Company is regulated by the Australian Foreign Acquisitions and Takeovers Act 1975 (the “**FATA**”).

FATA generally prohibits (with the sanction of penalties) the acquisition by a “foreign person” of certain interests in the Company (including Ordinary Shares and Bonds), and gives the Treasurer of the Commonwealth of Australia power to make a divestment order in respect of such an acquisition, if as a consequence of that acquisition a single foreign person (alone or together with its associates) would have an interest in 15% or more of the Ordinary Shares, votes or potential votes (including through interests in Ordinary Shares such as Bonds and options) of the Company, or a number of foreign persons (alone or together with their respective associates) would have in aggregate an interest in 40% or more of the shares, votes or potential votes of the Company (including through interests in Ordinary Shares such as Bonds and options), unless prior notice of the acquisition has been given to the Treasurer and the Treasurer has either stated that there is no objection to the acquisition or a statutory period has expired without the Treasurer objecting. The restrictions under FATA apply equally to acquisitions of interests through issue or transfer.

The Bonds will confer an interest in Ordinary Shares for the purposes of FATA. As the Conversion Price will be subject to adjustment in certain circumstances described in Condition 6(b) (Conversion of Bonds - Adjustment of Conversion Price), including upon the making of a Dividend by the Issuer and upon the occurrence of a Change of Control, the percentage interests held in the Ordinary Shares, and the levels of voting power and potential voting power conferred, cannot be determined precisely until the time the Bonds are converted. In these circumstances, FATA provides that the Bonds (being rights over shares) will be treated as having been exercised at a particular point in time (for example, at the time the Bonds are acquired) to determine whether a person will acquire a controlling interest that requires the approval of the Treasurer.

Investors requiring further information as to whether notification under FATA to the Treasurer (through the Foreign Investment and Review Board) is required in respect of a proposed investment or further investment in the Company should consult their professional advisor.

Takeover Restrictions

The acquisition of interests in the Company is regulated by the takeover provisions in Chapter 6 of the Corporations Act. These provisions prohibit (with the sanction of penalties) the acquisition of relevant interests in Ordinary Shares, if as a result of the acquisition the acquirer’s (or another party’s) “voting power” in the Company would increase to above 20%, or would increase from a starting point that is above 20% and below 90%. That prohibition is subject to a number of exceptions, including for acquisitions pursuant to a regulated takeover bid. Chapter 6C of the Corporations Act also contains provisions requiring disclosure to the Company and ASX of the relevant interests (and changes in relevant interests) in Ordinary Shares of persons holding voting power in the Company of 5% or more.

ASX Listing Rules

The ASX Listing Rules prohibit the issue of equity securities (including convertible securities) if the number of those securities, when aggregated with the number of any other equity securities issued during the previous 12 months, exceeds 15% of the number of equity securities on issue at the commencement of that period of 12 months, except with prior shareholder approval, or subject to certain exceptions, including exceptions for offers to ordinary shareholders pro rata, or pursuant to a takeover or scheme of arrangement, or to finance a takeover or scheme of arrangement, or an exercise by the directors of a declared right to dispose of the shortfall remaining after a pro rata equity offering.

Investors requiring further information relating to takeover restrictions or restrictions under the ASX Listing Rules should consult their professional advisors as these matters may be applicable to the conversion of the Bonds.

ASX CONFIRMATIONS

ASX Confirmations

ASX has confirmed the following to the Company:

- the terms of the Bonds are appropriate and equitable for the purposes of ASX Listing Rule 6.1; and
- the conversion or redemption of the Bonds in accordance with the terms will not constitute a divestment of the Bonds for the purposes of ASX Listing Rule 6.12.

Interests of Directors

Other than as set out below or elsewhere in this Offering Circular, no Director or a candidate for election as Director has, or has had within the two years prior to release of this Offering Circular, any interest in:

- the promotion or formation of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion of the Offering; or
- the Offering,

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any Director or any candidate for election as a Director;

- to induce him or her to become, or to qualify him or her as, a Director; or
- services rendered by him or her in connection with the formation or promotion of the Company or the Offering.

Details of the interests of the Directors in the securities of the Company as at the date hereof, including those held directly and indirectly, are disclosed in the Company's most recent annual report dated 30 June 2010.

Details on the Directors' remuneration are contained in the most recently lodged annual report for the Company.

The information described above can be obtained from the Company, ASIC or the ASX respectively, as set out in the "Important Notice".

Authorisations and consents

Written consents have been given, and as of the date of this Offering Circular, have not been withdrawn by the parties identified below on the terms states below. Each of the parties set out below:

- does not make, or purport to make, any statement in this Offering Circular and is not aware of any statement in this Offering Circular, which purports to be based on a statement made by them; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Offering Circular other than a reference to its name.

The consenting parties are:

- UBS AG, Australia Branch, as Lead Manager to the Offer;
- Deutsche Bank as Trustee, Principal Paying and Conversion Agent, Principal Transfer Agent and as Registrar;
- Mallesons Stephen Jaques as legal advisor to the Company as to Australian law;
- Linklaters as legal advisor to the Lead Manager as to English law; and
- PricewaterhouseCoopers as auditors to the Company.

Directors' Authorisations

This Offering Circular is issued by Horizon Oil ABN 51 009 799 455. Each Director consents to the release of this Offering Circular with the ASX.

ASIC Class Order [CO 10/322]

The Company is releasing this Offering Circular in accordance with requirements of ASIC Class Order [CO 10/322] to enable the on-sale of Ordinary Shares issued on conversion of the Bonds.

GENERAL INFORMATION

1. The Company's corporate head office and principal place of business is located at Level 7, 134 William Street, Woolloomooloo, NSW, 2011, Australia.
2. The independent and reporting auditors to the Company in Australia are PricewaterhouseCoopers.
3. The Principal Paying and Conversion Agent for the Bonds is Deutsche Bank AG, Hong Kong Branch at its offices located at Level 52, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. The Principal Transfer Agent and Registrar for the Bonds is Deutsche Bank Luxembourg S.A. at its offices located at 2, Boulevard Konrad Adenauer, L-1115, Luxembourg.
4. The issue of the Bonds and the Ordinary Shares to be issued on conversion of the Bonds and the terms of the Offering and the issue of the Bonds were approved by resolutions of the Board of Directors of the Company passed on 2 June 2011.
5. Copies of the constitutive documents of the Company and copies of the Trust Deed and the Paying, Transfer and Conversion Agency Agreement (upon execution) will be available for inspection, and the published financial statements of the Company will be available for collection at the specified office of the Principal Paying and Conversion Agent during normal business hours, so long as any of the Bonds is outstanding.
6. The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The International Securities Identification Number for the Bonds is XS0635397911. The Common Code for the Bonds is 063539791.
7. The Company has obtained or will at the date of issue obtain all consents, approvals and authorisations in Australia and Singapore required to be obtained by it in connection with the issue and performance of the Bonds.
8. Except as set out in this Offering Circular, there has been no significant change in the financial or trading position of the Company or the Group since 30 June 2010 and no material adverse change in the financial position or prospects of the Company or the Group since 31 December 2010.
9. Except as described in this Offering Circular, none of the Company nor any of its subsidiaries is involved in any litigation or arbitration proceedings or any regulatory investigations relating to claims or amounts which are material in the context of the issue of the Bonds nor, so far as the Company is aware, is any such litigation or arbitration pending or threatened.
10. The consolidated financial statements of the Company as of and for each of the financial years ended 30 June 2009 and 30 June 2010, including the directors' remuneration report and auditors' report and the notes in respect of such financial statements incorporated by reference to this Offering Circular have been audited, without qualification, by PricewaterhouseCoopers, Australia (Chartered Accountants), as stated in their reports appearing in the Annual Report of the Company for the years ended 30 June 2009 and 30 June 2010 respectively. All other information contained in the 30 June 2009 and 30 June 2010 Annual Reports, is not incorporated by reference herein and does not form part of this Offering Circular.
11. Approval in-principle has been received for the listing of the Bonds on the SGX-ST. So long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Company shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for individual definitive

Bonds. In addition, in the event that the Global Certificate is exchanged for individual definitive Bonds, an announcement of such exchange shall be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the individual definitive Bonds, including details of the paying agent in Singapore.

REGISTERED OFFICE OF THE COMPANY

Level 7, 134 William Street
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Australia

TRUSTEE

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Kowloon
Hong Kong

PRINCIPAL PAYING AND CONVERSION AGENT

Deutsche Bank AG, Hong Kong Branch
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Kowloon
Hong Kong

PRINCIPAL TRANSFER AGENT AND REGISTRAR

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L-1115, Luxembourg

LEAD MANAGER

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*To the Lead Manager and the Trustee as
to English law*

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