Horizon Oil Limited ABN 51 009 799 455
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17 October 2011

The Manager, Company Announcements
Australian Securities Exchange Limited
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Dear Sir,

HORIZON OIL LIMITED 2011 ANNUAL REPORT
AND NOTICE OF AGM

In accordance with Listing Rule 4.7, attached are copies of Horizon Oil Limited's Annual Report for the year ended 30 June 2011 and the Notice of Annual General Meeting to be held on 17 November 2011.

The Notice of Annual General Meeting will be sent to all shareholders. A printed copy of the 2011 Annual Report will be mailed separately to those shareholders who have made the election to receive it. Copies of these documents can be downloaded from the Company's website www.horizonoil.com.au.

Yours faithfully,

Michael Sheridan
Chief Financial Officer / Company Secretary

LISTED ON ASX

For further information please contact:
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Telephone: (+612) 9332 5000
Facsimile: (+612) 9332 5050
Email: exploration@horizonoil.com.au
Or visit www.horizonoil.com.au

2011



ANNUAL REPORT

Horizon Oil

ABN 51 009 799 455

2011
HIGHLIGHTS

Financial

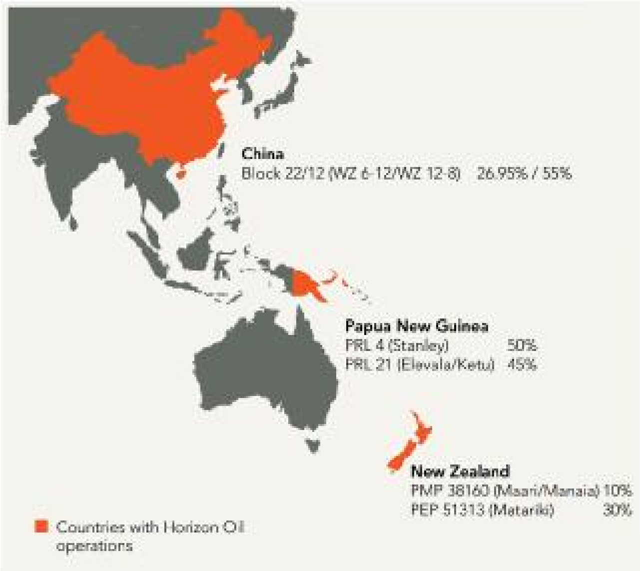
- **NET CASHFLOW FROM OPERATING ACTIVITIES,** excluding general and administrative costs, of US$48.9 million.
- **PROFIT BEFORE TAX OF US$48.5 MILLION;** profit before tax, adjusted for PNG sale and convertible bond revaluation, of US$29.9 million.
- **US$80 MILLION CONVERTIBLE BOND ISSUED TO FINANCE BLOCK 22/12 ACQUISITION** and associated development expenditure.
- **CASH ON HAND INCREASED TO US$64.6 MILLION,** after repayment of all outstanding bank debt.

Operational

- **MAARI FIELD, OFFSHORE NEW ZEALAND,** successful workover of shut-in wells; Manaia well tied into platform; upside zones being appraised.
- **OVERALL DEVELOPMENT PLAN FOR WZ 6-12 AND WZ 12-8W FIELDS,** Beibu Gulf offshore China, approved by CNOOC; final investment decision approved by joint venture.
- **ACQUISITION OF ADDITIONAL 12.25%/25% INTEREST IN BLOCK 22/12;** increased reserves and resources in Block 22/12 following the acquisition from 6.2mmbo to 11.3mmbo.
- **STANLEY-2 AND STANLEY-4 APPRAISAL WELLS IN PRL 4, PAPUA NEW GUINEA** drilled with favourable results; development planning underway; legal proceedings over PRL 5 settled with new licence issued, designated PRL 21.

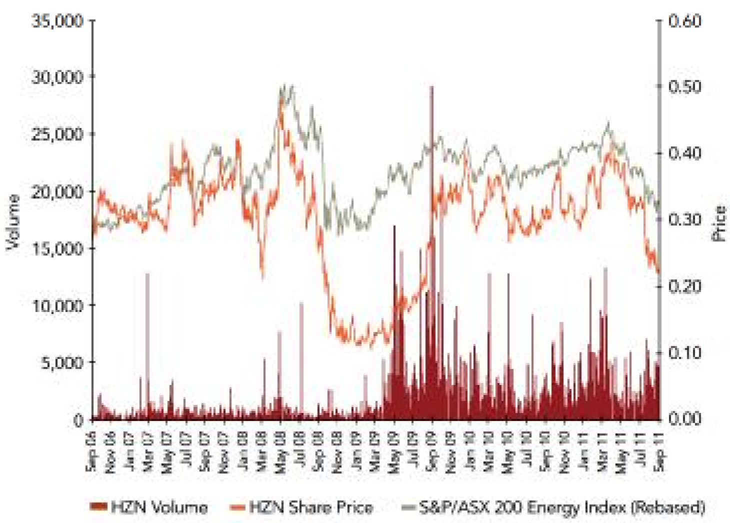
CONTENTS

Global interests



A PROFIT AFTER TAX OF US$34.9 MILLION WAS ACHIEVED IN THE 2011 FINANCIAL YEAR

Share Price History
Horizon Oil Share Price Performance vs ASX 200 Energy index

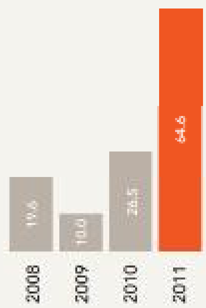


Revenue (US$m)

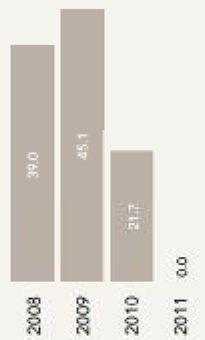
Net cash from operating activities (US$m)

Note: excludes general & administrative expense cashflows

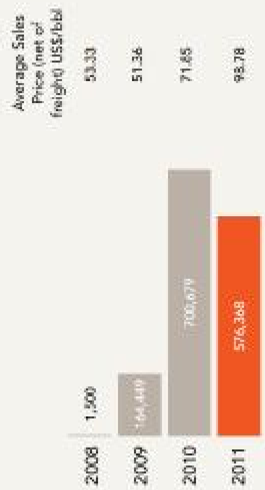
Cash on hand at year end (US$m)



Bank debt at year end (US$m)



Production (bbls)



Exploration & Development Expenditure (US$m)

Note: includes drilling inventory and excludes permit acquisition costs

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT

Brent Emmett
Chief Executive Officer

Fraser Ainsworth AM
Chairman

Dear Shareholders,

Over the last year solid progress has been made towards achieving the Company's main objective, namely to add significant shareholder value by converting our substantial portfolio of undeveloped reserves and resources into producing oil and gas fields. The production forecast below characterises the potential of this portfolio to generate cash and serves as a constant reminder to your board and management of the task at hand.

A key achievement over the last year has been the positive final investment decision (FID) by the joint venture for the development of our fields in Block 22/12, offshore China. In combination with the near doubling of our interest in the project through acquisition of the interest of one of our joint venture partners, a good level of confidence has been added to a significant component of the production forecast.

The second key achievement was in Papua New Guinea where we had very successful appraisal drilling results at Stanley in PRL 4 and also were successful in restoring our interest in the acreage covered by the former PRL 5, being designated as PRL 21, which contains the Elevala and Ketu fields.

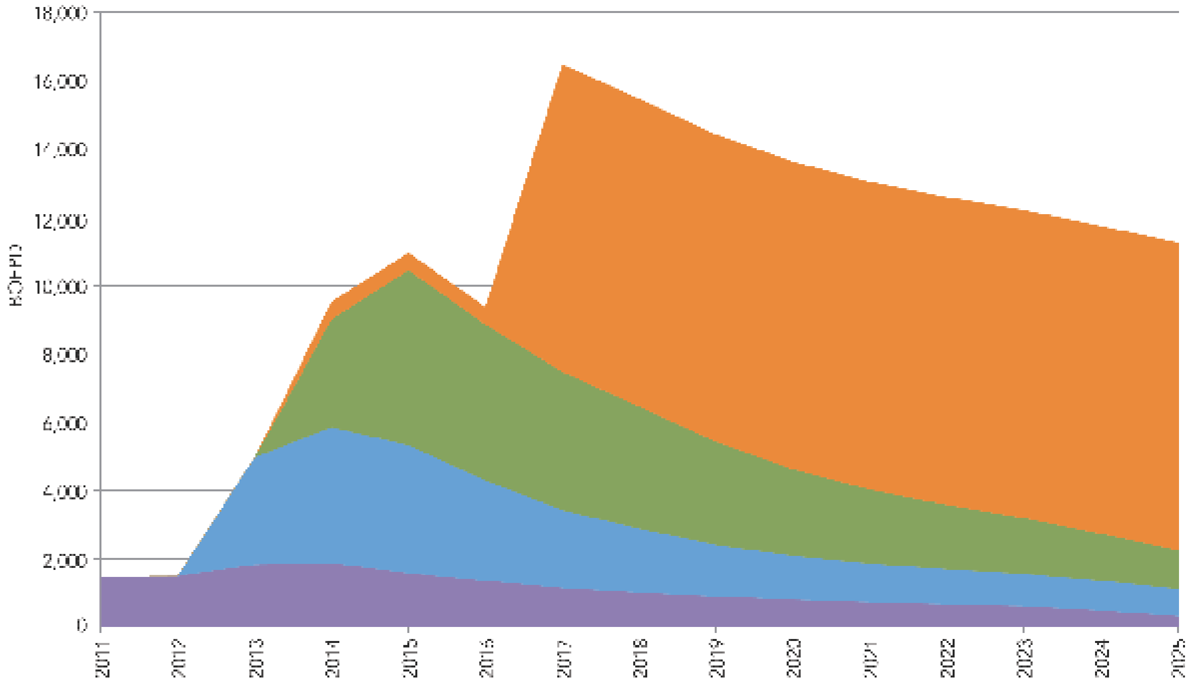
This keeps the significant oil and gas production of the forecast attributed to PNG on track. Of course Elevala and Ketu are yet to be appraised – the drilling program is scheduled to commence shortly.

Highlights of the year were:

Financial

- Revenue from operating activities was up by US$11.4 million to US$59.4 million. Higher oil prices more than offset lower oil production from the Maari field.
- Profit before tax was US$48.5 million (2010: US$56.7 million), driven by gross profit from operations of US$39.7 million (2010: US$33.0 million) and realised profit on the September 2009 sale of part of the Company's Papua New Guinea assets of US$22.0 million (2010: US$32.6 million).
- Net cash inflow from operating activities (excluding general and administrative costs) was US$48.9 million (2010: US$38.7 million).
- The exploration and development program, including the acquisition of Petsec's interest in Block 22/12 (US$76.5 million), and repayment of remaining Maari project bank debt (US$21.7 million) were financed by operating cash flows (US$41.7 million), proceeds from the part sale of PNG assets (US$22.0 million) and net proceeds from the issue of US$80.0 million 5 year term convertible bonds (US$77.6 million).
- At year-end, the Company had cash on hand of US$64.6 million and no bank debt.

Production forecast – reserves and contingent resources



Maari
China[1]
PNG condensate[2]
PNG gas[2]

[1] Reduced to allow for CNOOC participation at 51%

[2] Reduced to allow for PNG State Nominee participation at 22.5%

THE NEXT 18 MONTHS OR SO ARE CLEARLY GOING TO BE A PERIOD OF SUBSTANTIAL GROWTH AND DEVELOPMENT FOR HORIZON OIL

Operational

New Zealand

- Horizon Oil's share of oil production from the Maari/Manaia fields was 576,368 barrels (2010: 700,679 barrels). Production was adversely affected by failures of the electrical submersible pumps (ESPs) and scaling in the ESPs and well completion components. The operator is making good progress in understanding these issues and in the design of ongoing maintenance procedures to minimise recurrence and increase reliability.
- Production was added to the Maari/Manaia fields during the year when the extended reach well drilled to appraise the Mangahewa formation of the Manaia structure, the MN1 well, started clean-up flow production on 9 October 2010 and demonstrated the capacity to flow at a rate in excess of 4,000 barrels of oil per day (bopd). Production performance is being analysed for the purposes of designing a development plan and determining recoverable reserves for the Manaia Mangahewa zone. This is part of the broader objective of exploiting all the commercially viable oil and gas zones within the Greater Maari Area.
- Horizon Oil holds a 30% interest in PEP 51313, a 2,595 sq km block adjacent to the Maari/Manaia fields. Seismic data collection has been completed and interpretation and mapping is underway with a view to maturing a prospect on the Maari/Pike/Matariki trend for drilling in 2012 or 2013.

China

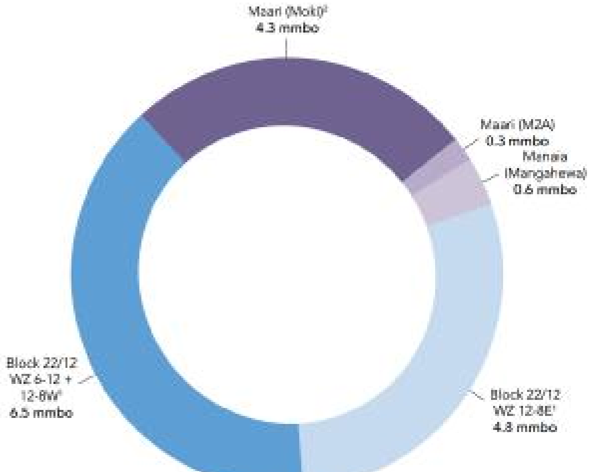
- In February 2011 Horizon Oil and its joint venturers approved the FID for the WZ6-12, WZ6-12S and WZ12-8W combined field development in Block 22/12, offshore China. Work on the project, operated by the China National Offshore Oil Corporation (CNOOC) is underway, with basic engineering design completed and contracts let for design, procurement and construction of the 3 platforms required for the development. First oil production is scheduled by year-end 2012.
- In June 2011 Horizon Oil announced that it had signed an agreement with Petsec Energy Limited (Petsec) to buy Petsec's 25% interest in Block 22/12, which includes a 12.25% interest in the WZ6-12 and WZ12-8W development project, increasing the Company's interest to 55% and 26.95% respectively. The acquisition increases the Company's net reserves and resources in Block 22/12 from 6.2 million barrels of oil (mmbo) to 11.3 mmbo.

Papua New Guinea

- During the year the Stanley-2 and Stanley-4 appraisal wells were drilled and completed as gas production wells for the proposed Stanley stripping project. Stanley-2 was drilled to a total depth of 3,173 m in quartzite basement and confirmed 23 m of net gas/condensate pay in the primary Toro formation and intersected a new zone of 43 m of net gas/condensate pay in the Kimu sandstone of the Imburu formation, below the Toro. An extensive production test was carried out prior to the well being completed as a future production well. The Stanley-4 well, which spudded on 29 March 2011, reached total depth of 3,340 m in economic basement at midnight on 2 May. The primary Toro sandstone in Stanley-4 was found to be gas-filled with 35 m of net gas pay, thicker than the equivalent zone encountered in the Stanley-2 well. The secondary objective, the Kimu sandstone, was approximately the same thickness as in Stanley-2 and contained 10 m of net gas pay. After running electric logs and taking samples and pressure measurements of the prospective zones, the well was cased and completed as a future production well.
- These positive drilling results have allowed front end engineering and design (FEED) work for the proposed Stanley field development to advance significantly during the year. This includes the condensate stripping plant, pipeline from the field to the base in Kiunga and a loading facility on the Fly River. Investigation of marketing opportunities for both the gas and condensate is also progressing well.
- Legal proceedings over the PRL 5 acreage were settled during the year and a new 5 year licence over the acreage, designated as PRL 21, was awarded to Horizon Oil (Papua) Limited with a 35% interest and other licensees. The Company subsequently increased its interest to 45% by acquiring a 10% interest from another licensee.
- Surface locations for drilling of the Elevala-2 and Ketu-2 appraisal/development wells in PRL 21 have been selected and site preparation work on Elevala-2 is complete and in progress on the Ketu-2 location. The expected spud date for Elevala-2 is early November 2011.

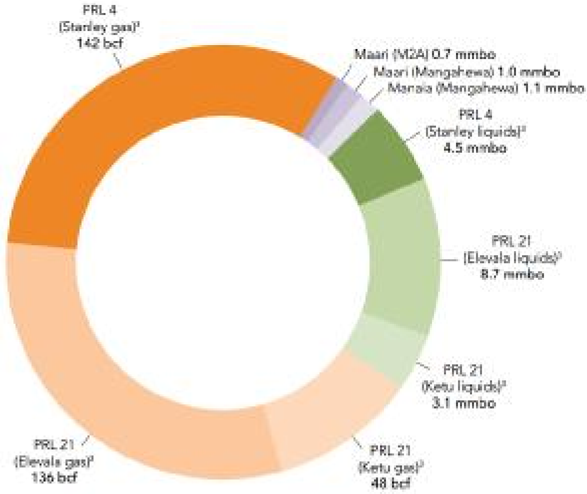
Net Reserves, Contingent Resources and Exploration Potential as at 30 June 2011

Reserves
Proven and Probable



Total 16.5 mmbo

Contingent Resources
Proven and Probable



Total 19.1 mmbo, 326 bcf

Total reserves and resources – 90 mmboe

[1] Reduced to allow for CNOOC participation at 51%
[2] Net of production through 30 June 2011
[3] Subject to reduction to allow for PNG State Nominee participation at 22.5%

In accordance with ASX Listing Rules, the reserves information in this report is based upon information compiled, reviewed and signed off by Mr Alan Fernie (B.Sc), Manager – Exploration and Development, Horizon Oil Limited. Mr Fernie has more than thirty six years' relevant experience within the industry and consents to the information in the form and context to which it appears.

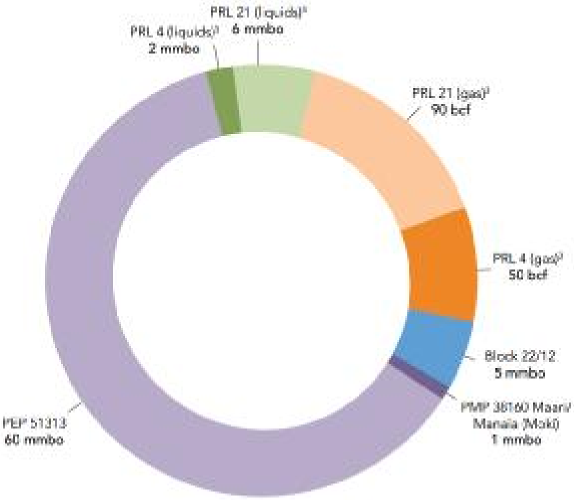
The Risk/Reward Balance of the Asset Portfolio

The 3 charts below show the composition of the Company's asset portfolio in terms of:

- Low risk reserves, which are on production at Maari/Manaia and being developed in China Block 22/12. The key driver of value here is oil price which, as noted later in this message, in our view will be above current levels over the medium to long term.
- The medium risk contingent resources in New Zealand and PNG which are expected to convert to reserves, contingent on appraisal work and/or imminent development approvals.
- Relatively high risk / high reward exploration potential consisting mainly of 60 mmbo in New Zealand's PEP 51313 and 140 bcf of gas, with associated liquids, in PRL 4 and PRL 21 in PNG.

As noted in last year's Annual Report, we believe that this asset portfolio represents the right risk/reward spread for a company at Horizon Oil's stage of development and financial capacity.

Exploration Potential
Unrisked Mean



Total 74 mmbo, 140 bcf

Exploration potential – 97 mmboe

WE BELIEVE THAT THIS ASSET PORTFOLIO REPRESENTS THE RIGHT RISK/REWARD SPREAD FOR A COMPANY AT HORIZON OIL'S STAGE OF DEVELOPMENT AND FINANCIAL CAPACITY

Financing Growth and Development

The next 18 months or so are clearly going to be a period of substantial growth and development for Horizon Oil.

From 1 July 2011 through to the end of calendar year 2012, we are forecasting that the company will commit of the order of US$80 million to completing the Block 22/12 development, about US$50 million to the Stanley gas/condensate project development, assuming a positive FID and around US$40 million on appraisal drilling at Elevala and Ketu in PNG.

The board considers funding of this expenditure will entail a combination of cash on hand (US$64.6 million at 30 June 2011), cashflow from Maari/Manaia production and a reserves-based debt facility which is currently under negotiation.

The board readily acknowledges the risks, challenges and uncertainties associated with project development and financial forecasts. However, and pleasingly, the Block 22/12 development costs are tracking the cost estimate of the Overall Development Plan, with about one third of the total cost of US$300 million already subject to fixed sum contracts. Should there be an unforeseen over-run in the capital programs in China or PNG or a reduction in forecast production income from Maari/Manaia, for example as a result of a near-term dip in oil price, management is prepared to re-phase the capital program to match available funding. The Stanley field development, of which Horizon Oil is operator, offers most scope in this regard.

On the current schedule substantial additional operating cash inflows to Horizon Oil from the Company's overall 26.95% interest in the Block 22/12 development are anticipated early in calendar 2013, to supplement ongoing production income from Maari/Manaia.

WE REMAIN OF THE VIEW THAT IT IS MORE LIKELY THAN NOT THAT OVER THE MEDIUM TO LONG TERM AT LEAST OIL PRICES WILL BE ABOVE CURRENT PRICES

Oil and Gas Markets

Oil

One of the notable features of the recent increased global uncertainty resulting from the well-publicised financial difficulties in North America and Europe is the resilience of oil prices. This is in marked contrast to the substantial oil price falls that occurred during the nadir of the 2008/2009 Global Financial Crisis. Indeed, over the last 12 months the price range of the Brent marker crude (the basis on which Maari crude oil is priced) is up from US$70-80 to around US$100-110 per barrel today. Continued strong oil demand by the fast growing Asia-Pacific economies, led by China and India, is seemingly offsetting the downward impact on prices of the confidence-deficient USA and European economies.

On the supply side, OPEC has provided more confidence to consumers than in 2008 that the market will continue to be supplied, and hopefully this means that we will not see again the dramatic increase in oil prices of 2008, followed by the inevitable over-correction. In keeping the market so supplied OPEC has eroded its spare capacity to the extent that credible industry sources believe there will be little spare supply beyond the next 3-5 years or so. There seems to be little hope that non-OPEC supply growth will be material.

On balance and notwithstanding the increased near-term volatility resulting from current global uncertainties, we remain of the view that it is more likely than not that over the medium to long term oil prices will be above current prices and, whilst remaining very conscious of downside oil price risk, we have factored that positive view into our business strategy.

Gas in the Asia-Pacific region

The outlook for natural gas in the Asia-Pacific region in our view remains positive – there have been substantial increases in natural gas asset values and substantial LNG contracts continue to be signed with buyers in the region.

A significant change in LNG markets (particularly in North America), has been the spectacular growth of shale gas supply in Canada and the USA where shale gas has replaced significant volumes of imported LNG. The impact of this shale gas growth on Asia-Pacific LNG markets remains to be seen. However, for several reasons (particularly available volumes of undeveloped gas resources and proximity to markets) we remain positive about the outlook for LNG in the Asia Pacific region.

This positive regional outlook is extended in part to global energy markets as a result of continuing pressure for reductions in greenhouses gas emissions by substituting natural gas for coal, together with heightened safety concerns in some quarters about nuclear power as a result of the Fukushima disaster.

Acknowledgements

Largely as a result of the skills, determination and high level of commitment shown by the Company's team, Horizon Oil is now well down the track of exploiting the growth opportunities which the team has played a big part in creating.

The board highly commends Brent Emmett and his team for that achievement, and their outstanding overall performance.

Priorities and the Outlook

The Immediate Priorities

The immediate priorities for management over the coming period are to:

- Optimise water a injection and oil production at Maari field; design a development program to produce Greater Maari Area accumulations.
- Process new seismic data over PEP 51313, offshore New Zealand and integrate with existing coverage; select a target for drilling in 2012/2013.
- Continue detailed design, materials procurement and construction on WZ6-12 and WZ12-8W oil fields, Beibu Gulf; complete feasibility study for development of WZ12-8E oil field; evaluate exploration prospects for drilling during field development drilling campaign.
- Finalise Stanley FEED study, investigate marketing outlets for condensate and the natural gas, progress to a positive FID, secure a petroleum development licence and begin development work on PRL 4; execute Elevala/Ketu fields appraisal/development drilling campaign in PRL 21.
- Within the constraints of a modest exploration/business development budget, remain alert for opportunities within, adjacent to, or extensions of, existing areas of activity.

OVER THE LAST 12 MONTHS THE PRICE RANGE OF THE BRENT MARKER CRUDE (THE BASIS ON WHICH MAARI CRUDE OIL IS PRICED) UP FROM US$70-80 TO AROUND US$100-110 PER BARREL

Medium/Longer Term Outlook

We expect the next 18 months or so to be the successful culmination of several years of careful business positioning, and asset portfolio growth/management, together with old-fashioned hard work and deep commitment.

Notwithstanding the risks and challenges that are inherent in the upstream oil and gas industry, for the reasons described above, namely…

- A well balanced portfolio of oil and gas reserves and resources,
- Imminent development of a significant additional part of these reserves and resources,
- Cash flows from the Maari/Manaia oil fields underpinning financing plans to develop these reserves and resources, and
- A favourable outlook for both oil and natural gas prices in the Asia-Pacific region

…the board is buoyant about the outlook for our company.

Fraser Ainsworth AM
Chairman

Brent Emmett
Chief Executive Officer

30 September 2011

HORIZON OIL
BOARD OF DIRECTORS

Top row (L-R) Fraser Ainsworth AM Chairman, Brent Emmett Chief Executive Officer, John Humphrey Director
Bottom row (L-R) Andrew Stock Director, Gerrit de Nys Director, Bob Laws PSM Director

CONSOLIDATED
RESULTS

A summary of consolidated results and a comparison with the previous year is set out below:

	Consolidated	
	2011 US$'000	2010 US$'000
Revenue from continuing operations	59,362	47,991
Cost of sales (includes amortisation)	(19,622)	(15,015)
Gross profit / (loss)	39,740	32,976
Profit from sale of assets	22,000	32,586
Other income	464	157
General and administrative expenses	(7,232)	(5,448)
Exploration and development expenses	(255)	(158)
Financing costs (includes project facility, convertible bonds and FPSO finance lease)	(2,817)	(3,202)
Unrealised movement in value of convertible bond conversion rights	(3,351)	-
Other expenses	(69)	(218)
Profit / (loss) before income tax expense	48,480	56,693
Net tax (expense) / benefit	(13,544)	(4,346)
Profit / (loss) from continuing operations	34,936	52,347
Profit / (loss) from discontinued operations (net of tax)	-	(2)
Profit / (loss) for the financial year	34,936	52,345
Profit / (loss) attributable to members of Horizon Oil Limited	34,936	52,345

ACTIVITIES REVIEW

Horizon Oil Limited - permit listing as at 30 September 2011

	Permit or licence	Principal assets	Interest (%)
New Zealand	PMP 38160	Maari and Manaia fields	10.00%
	PEP 51313	Matariki, Pike, Te Whatu, Pukeko prospects	30.00%
China	Block 22/12	WZ 6-12, WZ 6-12S and WZ 12-8W fields	26.95%[1]
		WZ 12-8E field	55.00%[1]
PNG	PRL 4	Stanley field	50.00%[2]
	PRL 21	Elevala and Ketu discoveries	45.00%[2, 3]

1. China National Offshore Oil Corporation is entitled to participate at up to a 51.00% equity level in any commercial development within Block 22/12. During the year CNOOC exercised its right to participate in the development of WZ 6-12, WZ 6-12S and WZ 12-8W within Block 22/12 at 51.00% reducing Horizon's interest from 55.00% to 26.95%.
2. Papua New Guinea Government may appoint a state nominee to acquired up to a 22.5% participating interest in any commercial development within PRL 4 and PRL 21.
3. PRL 21 was granted with effect from 18 March 2011 for a 5 year term following the settlement of legal proceedings with the Papua New Guinea Government over the acreage, which was formerly designated PRL 5.

NEW ZEALAND

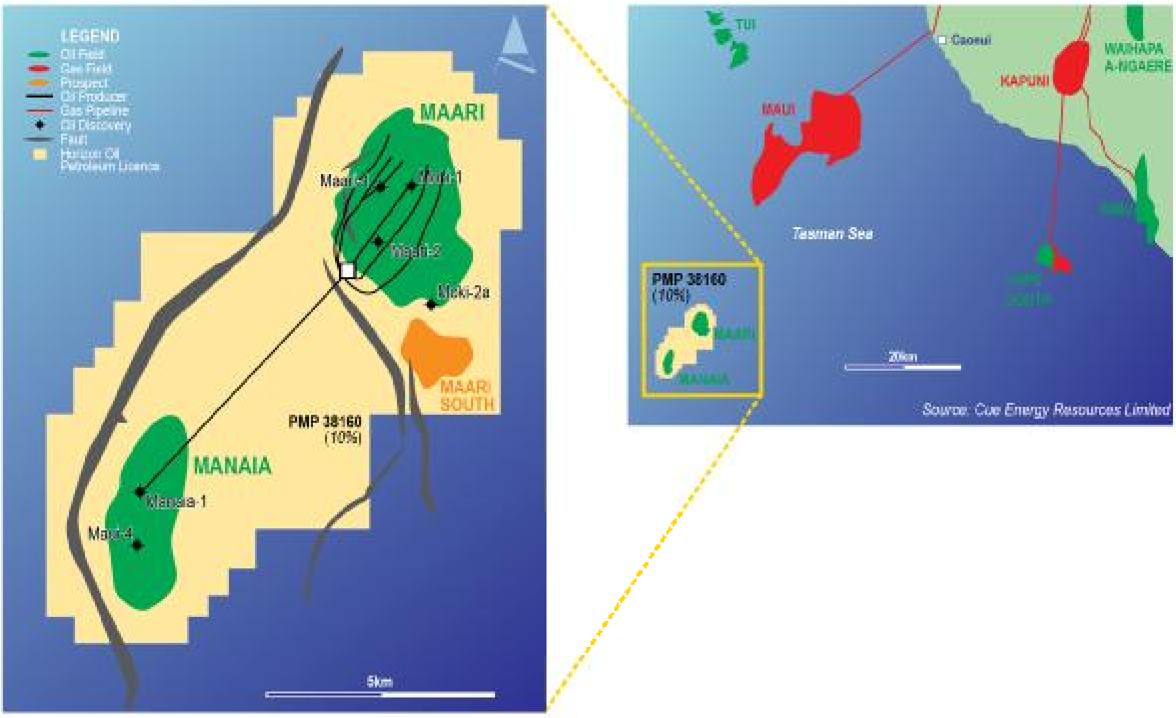
Permit	Principal assets	Interest (%)
PMP 38160	Maari and Manaia fields	10%
PEP 51313	Offshore Taranaki Basin	30%

PMP 38160, Offshore Taranaki Basin, Maari and Manaia Fields (Horizon Oil interest: 10%)

During the year, Horizon Oil's working interest share of production from Maari/Manaia field was 576,368 barrels of oil. Sales volume was 600,942 barrels. Cumulative oil production from the field through 24 August 2011 was 15.3 million barrels, having generated total gross revenue from crude oil sales since first production in February 2009 of over US$1.2 billion.

Additional production was added to the Maari/Manaia field during the year when the extended reach well drilled to appraise the Mangahewa formation of the Manaia structure, the MN1 well, started clean-up flow production on 9 October 2010 and by 10 October was flowing at a rate in excess of 4,000 bopd. Production performance is being analysed for the purposes of designing a development plan and determining recoverable reserves for the Manaia Mangahewa zone. This is part of the broader objective of exploiting all the commercially viable oil and gas zones within the Greater Maari Area.

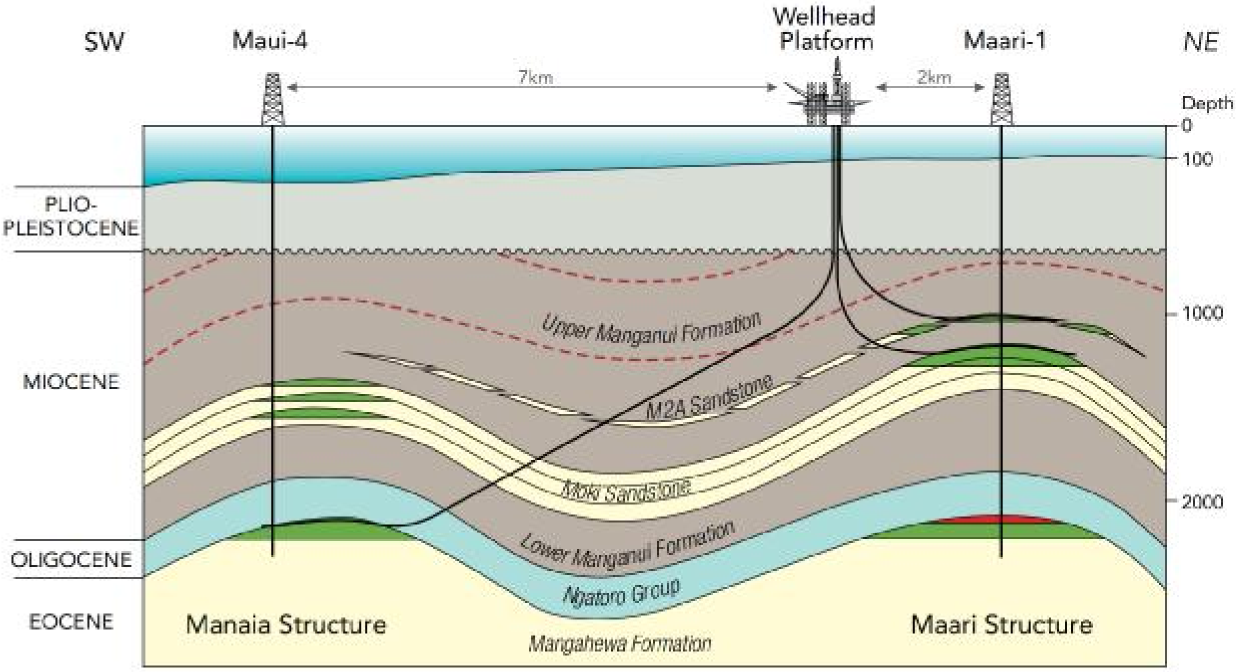
Water injection in the Maari-Moki zone for the purposes of reservoir support has been improved during the year through changes made to the water injection configuration and by running water injection pumps in parallel and is proceeding at a rate in excess of 35,000 barrels of water per day, compared with 25,000 barrels per day previously.



SINCE FEBRUARY 2009, THE MAARI/MANAIA FIELD HAS GENERATED TOTAL GROSS REVENUE FROM CRUDE OIL SALES OF OVER US$1.2 BILLION.

MAARI / MANAIA SCHEMATIC CROSS SECTION

PMP 38160, Offshore New Zealand



Production from the Maari/Manaia field during the year has been hampered by frequent failures of electrical submersible pumps (ESPs) and scaling observed in the pumps and well completion components. The ESP failures and scaling issues have been addressed throughout the year, utilising the workover unit (WOU) that is permanently installed on the wellhead platform and part of the joint venture's equipment inventory. The WOU has performed effectively and, as at the date of this report, all wells are scheduled to be on production by 31 August 2011.

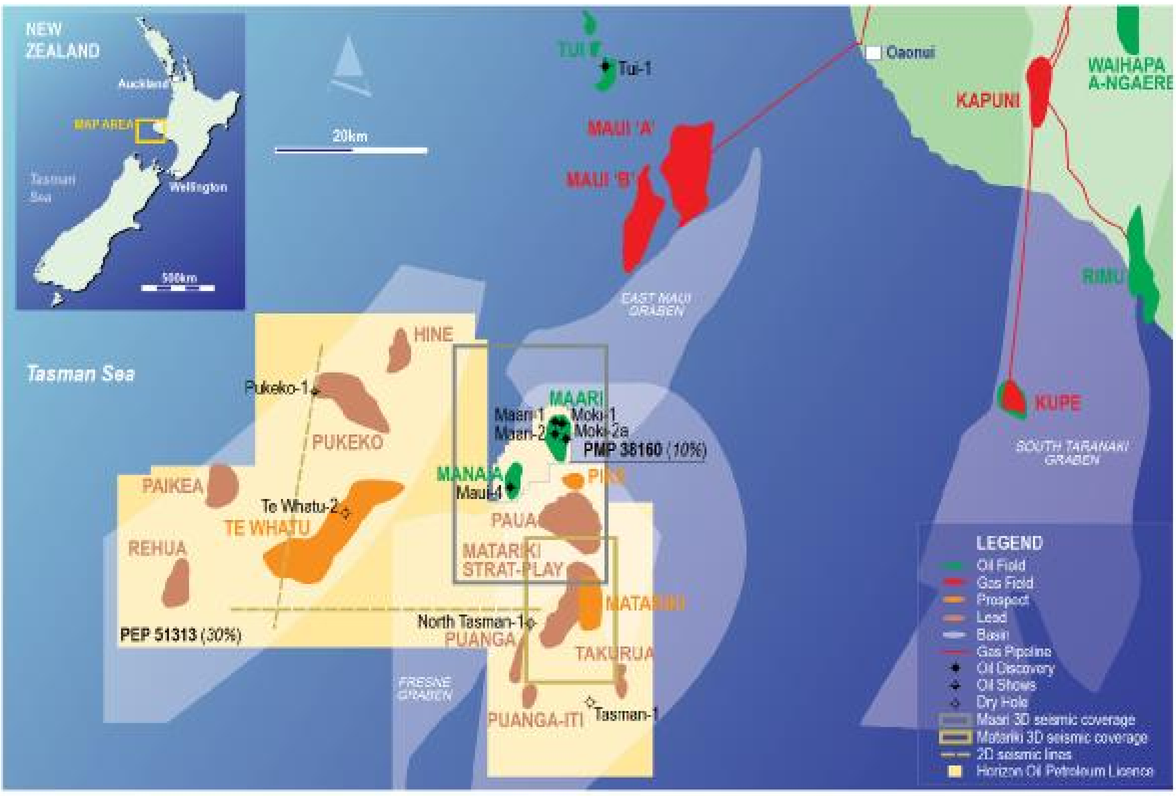
The field operator is working cogently to address the ESP failure and scaling issues and good progress is being made. After thorough core flood studies, an acid treatment has been designed to remove scale without causing formation damage and a procedure instigated to remove existing scale and to prevent further scaling with a regular maintenance program that does not require workover. This should result in less damage to the ESPs. In addition the operator has engaged with the pump supplier to improve ESP performance and maximise run-time.

The field was shut-in from 20 – 27 November 2010 as a precautionary measure, when an oil sheen was observed in the vicinity of the FPSO Raroa. Detailed cargo tank and under hull inspections confirmed its source to be a small amount of residual oil trapped beneath the FPSO's hull from an accidental discharge of oil on 18 October 2010 during de-ballasting operations. The cause of the spill was identified and measures put in place to ensure that this type of accidental discharge does not happen again.

Production was also curtailed for a planned maintenance shut-down of the facilities, completed over the period 20 – 25 June 2011.

Planning for further development of the shallower M2A reservoir (MR9 well) at Maari and the Mangahewa reservoir (MN1 well) at Manaia is continuing. Reservoir studies indicate additional reserves can be obtained with further producer and water injection wells. Additionally, an assessment is being made of the other hydrocarbon accumulations at Maari and Manaia as well as close-in and deeper prospects, with the objective of designing an appraisal/development drilling program to exploit the potential of the Greater Maari Area.

An enquiry is underway regarding the availability of drilling rigs for further appraisal and development drilling on PMP 38160 as well as on PEP 51313 in 2012.



PLANNING FOR FURTHER DEVELOPMENT OF THE SHALLOWER M2A RESERVOIR (MR9 WELL) AT MAARI AND THE MANGAHEWA RESERVOIR (MN1 WELL) AT MANAIA IS CONTINUING.

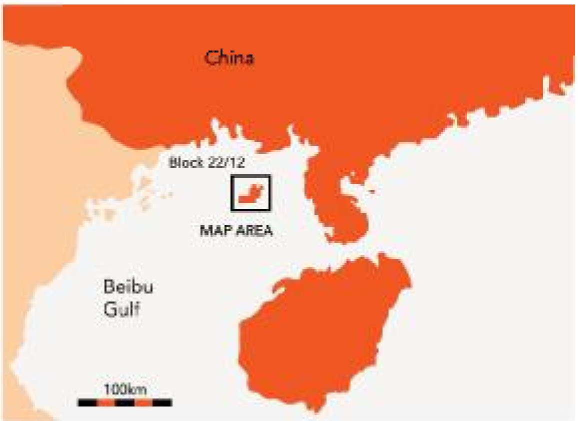
PEP 51313, Offshore Taranaki Basin (Horizon Oil interest: 30%)

Processing of the 204 sq km 3D seismic grid and 85 km 2D seismic lines acquired in April and May 2010 was completed during the year and interpretation is near completion. Some preliminary re-mapping of the seismic over the permit was carried out.

A further 2D seismic program of 683 km was carried out during the year over the Te Whatu and Pukeko prospects and was completed in April 2011. This data is now being processed and will be integrated with the previously acquired Matariki 3D survey to complete the block interpretation.

Interpretation and mapping of the merged Matariki/Maari 3D data is continuing with a view to maturing a prospect on the Maari-Pike-Matariki trend for drilling in 2012.

CHINA



Permit	Principal assets	Interest (%)
Block 22/12	Beibu Gulf	55%/26.95%

Block 22/12, WZ 6-12 and WZ 12-8W/WZ 12-8E fields (Horizon Oil interest: 55%/26.95%)

On 14 February 2011 Horizon Oil advised that it and its partners had approved the final investment decision (FID) for the WZ 6-12 and WZ 12-8W field development. The project investment and overall development plan (ODP) have now been submitted to the relevant Chinese Government authority for formal approval, notwithstanding which development activities are well underway.

The development project plans to utilise existing facilities operated by China National Offshore Oil Corporation (CNOOC), including water disposal wells, oil and gas export facilities and the Weizhou Island oil terminal. A new CNOOC-operated integrated processing platform (PUQB) will host production from two unmanned platforms on the WZ 6-12 and WZ 12-8W fields and support production from other new CNOOC fields. Eleven development wells are scheduled to be drilled during 2012 and 2013, with first oil production anticipated before year-end 2012. Operating costs are expected to be consistent with other CNOOC-operated fields in the area.

To take advantage of the existing synergies and lower cost structure, CNOOC agreed to operate the project facilities on behalf of the joint venture and also be responsible for the engineering and construction phase of the project. CNOOC has established a project management team located in Zhanjiang, which includes several members seconded from Roc Oil. Design and project planning is progressing in the areas of subsurface, facilities and drilling and completion. Prequalification of suppliers and vendors of long lead equipment packages and services commenced in early 2011. Contracts have been let for design, procurement and construction of the 3 platforms required for Phase I of the development. This means that over one third of the estimated project cost of US$300m is now subject to fixed price contracts.

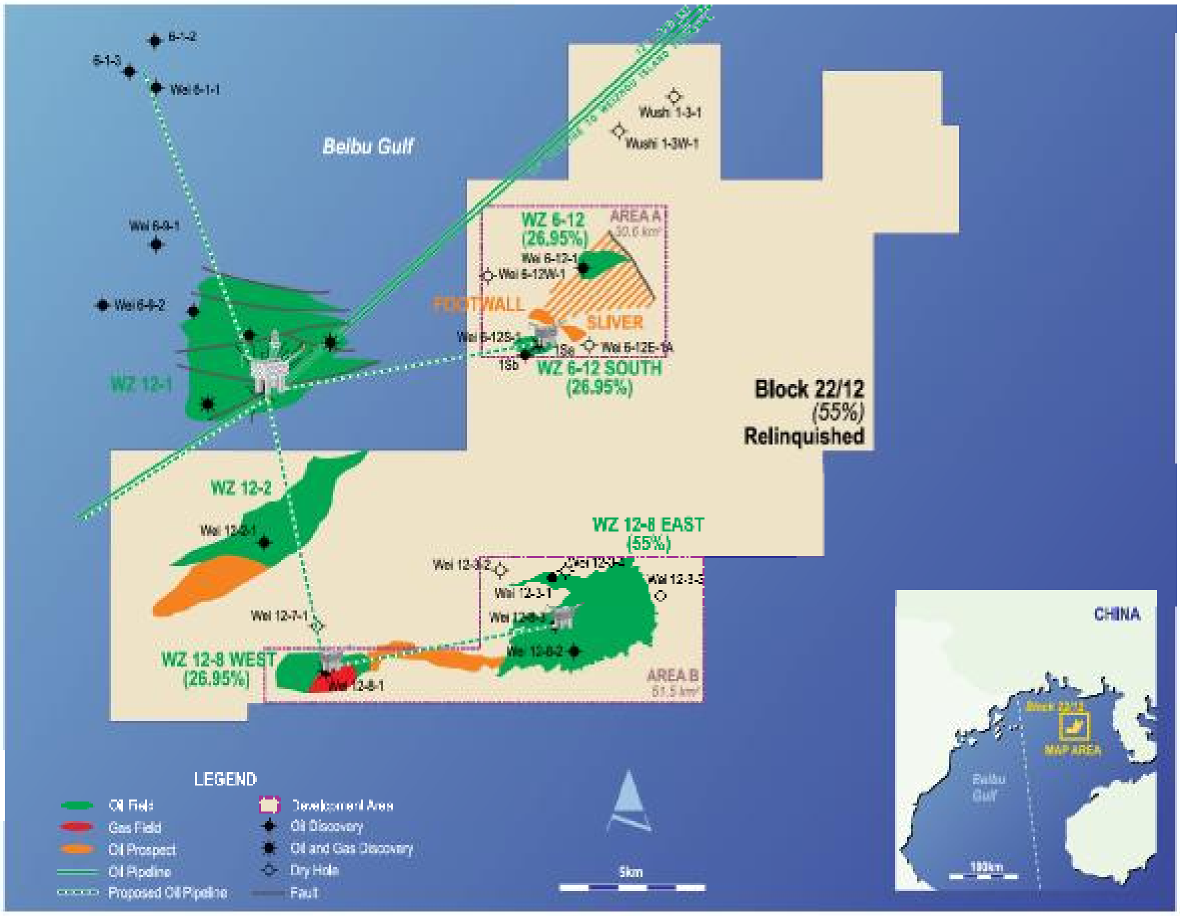
Provision has been made to drill several exploration prospects from the two new well platforms to further test reservoir limits and identified near-field prospects. The prospects are currently being matured and success will potentially increase the development area's commercial reserves and also potentially the peak production rate. The WZ 12-8E field, also located within the approved development area, is currently undergoing feasibility studies. If commercially attractive, development of the WZ 12-8E field will constitute the second phase of an integrated development following completion of the current WZ 6-12 and WZ 12-8W project.

Interpretation work on the near-field and deeper prospects in the WZ 6-12 area is complete. It is likely that several of these prospects will qualify for drilling during the development drilling phase from the WZ 6-12 wellhead platform. Planning is underway to provide for this in the drilling program.

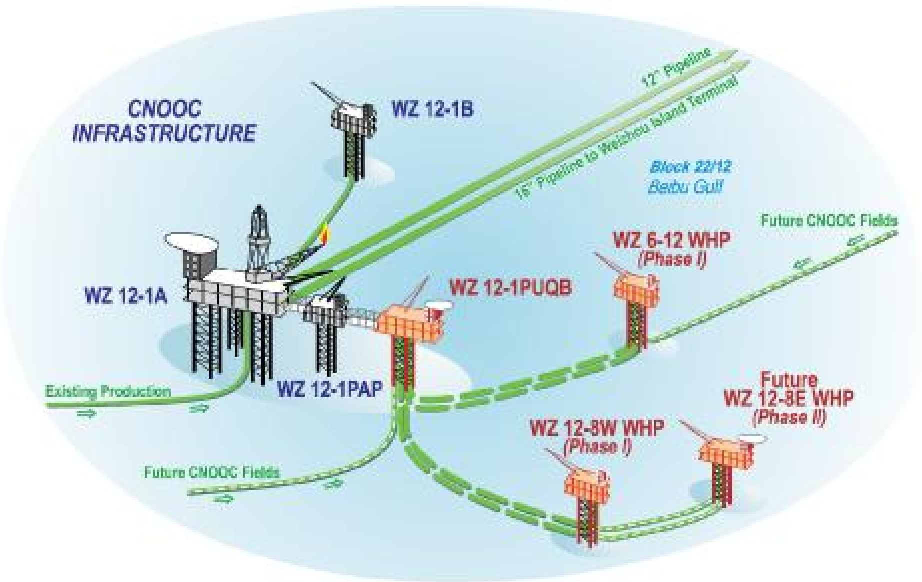
On 2 June 2011 Horizon Oil announced that it had signed an agreement with Petsec Energy Limited (Petsec) to buy Petsec's 25% interest in Block 22/12, which includes a 12.25% interest in the WZ 6-12 and WZ 12-8W development project, increasing the company's interest to 55% and 26.95% respectively. The acquisition price was A$38m (approximately US$40m) in cash plus the issue of 15m options in Horizon Oil at an exercise price of A$0.37 and with a term of 3 years.

With certified gross proven and probable reserves for the WZ 6-12 and WZ 12-8W fields to be developed in Phase I of 24 mmbo and Phase II resources in the WZ 12-8E accumulation, which is currently the subject of a feasibility study, estimated by Horizon Oil to be 18 mmbo, the acquisition increases the company's net reserves and resources in Block 22/12 from 6.2 mmbo to 11.3 mmbo.

China Block 22/12 - fields and prospects



Block 22/12 - phased development scheme



Horizon Oil funded the acquisition and raised proceeds equivalent to the associated development expenditure commitment with a US$80m convertible bond issue. The 5 year convertible bonds were issued with an initial conversion price to Horizon Oil ordinary shares of US$0.52, equivalent to A$0.49 based on exchange rates at the time of pricing, and representing a conversion premium of 29% to Horizon Oil's closing price on 2 June 2011 of A$0.38. The initial conversion price is subject to reset in certain circumstances. The bonds, which are unsecured and will be subordinated to any future bank debt, will carry a coupon of 5.5% per annum.

PAPUA NEW GUINEA

Permit	Principal assets	Interest (%)
PRL 4	Stanley field	50%
PRL 21	Elevala/Ketu discoveries	45%

Preparation for the appraisal/development drilling campaign, which commenced with the Stanley-2 well, was carried out early in the year. A 30,000 sq m supply base was built adjacent to the Kiunga airstrip and an office and camp established in Kiunga. The public wharf on the Fly River was upgraded to expedite the unloading of drilling supplies and equipment and a fuel farm has been constructed near the wharf. The intention is to utilise this infrastructure in future production operations, in particular the export of condensate by river tanker.

PRL 4, Stanley Field (Horizon Oil interest: 50%)

A large site was prepared early in the year, to provide for the Stanley-2 and Stanley-4 well locations, camp and future gas processing facilities. Construction of the camp was completed, and the Parker Drilling Company Rig 226 was mobilised onto the location and commissioned for drilling.

Recording of a 44 km seismic survey over the Sepalosiphon prospect (shared 50/50 between the PRL 4 and PPL 269 joint ventures) as well as a 14 km infill line along the axis of the Stanley structure was completed during the year. The line over Stanley was integrated with the existing seismic grid and the planned trajectory of the Stanley-2 well adjusted in accordance with the revised interpretation.

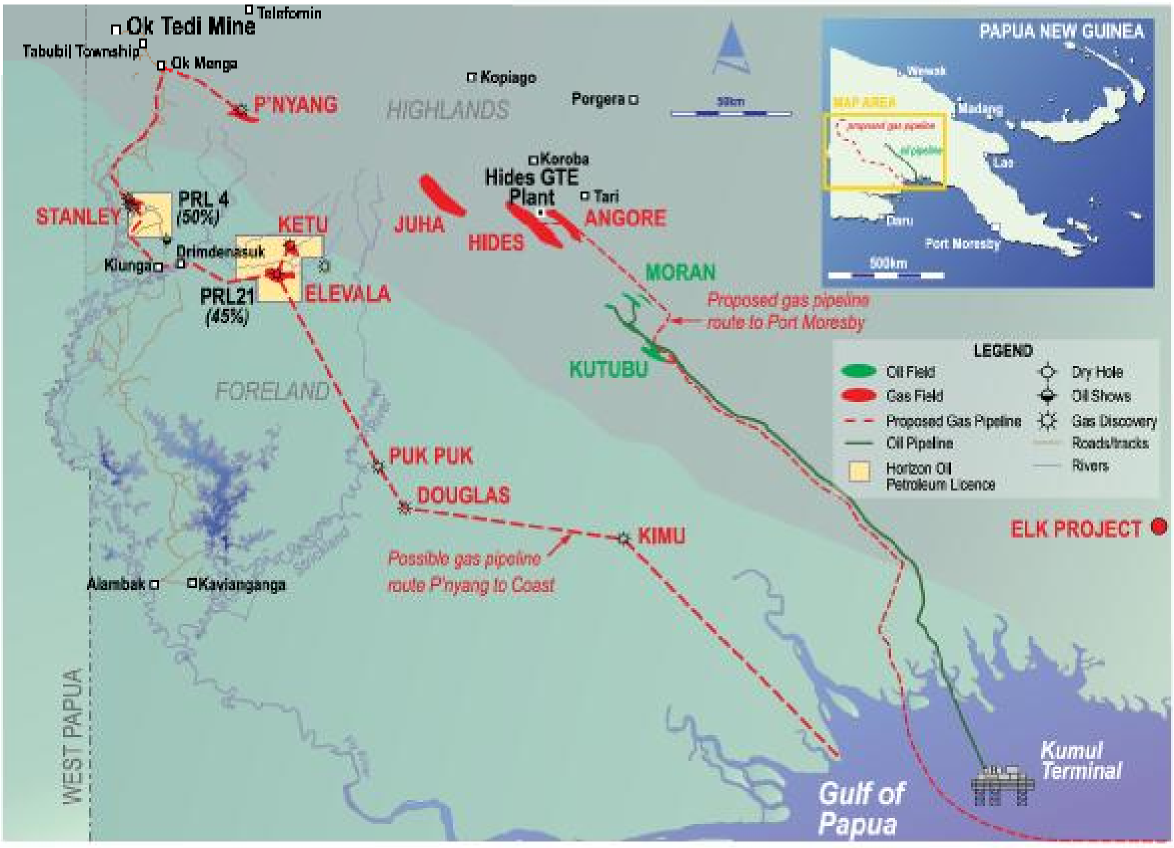
During the year the Stanley-2 appraisal well was drilled and completed as one of two planned gas production wells in the Stanley as condensate stripping project.

The well, operated by Horizon Oil and designed to appraise the Stanley gas/condensate accumulation discovered by the Stanley-1 well in 1999, spudded on 5 December 2010. Stanley-2 was drilled to a total depth of 3,173 m in quartzite basement and confirmed 23 m of net gas/condensate pay in the primary Toro formation and intersected a new zone of 43 m of net gas/condensate pay in the Kimu sandstone of the Imburu formation, below the Toro.

The initial pilot well was plugged back to above the Toro formation and a parallel sidetrack drilled about 8 m away from the original wellbore. Four cores were successfully cut, in addition to a core in the initial well, bringing the total to 5 cores in the Toro and Kimu sandstones and these are currently being analysed for reservoir development planning purposes.

An extensive production test was carried out over the Kimu zone at sustained rates stepping up to 47 million cubic feet of gas per day (mmcfd) through test separator equipment. A condensate gas ratio of 25 barrels/mmcf was confirmed, as expected. (This is expected to increase to about 30 barrels/mmcf when the field goes on production with specialised separation equipment.)

The Kimu zone was then isolated and a clean-up flow of the Toro sandstone conducted. The maximum rate measured during this flow period was 30 mmcfd with the same condensate yield as the lower zone. No free formation water or significant hydrogen sulphide was recorded from either zone during the test process.



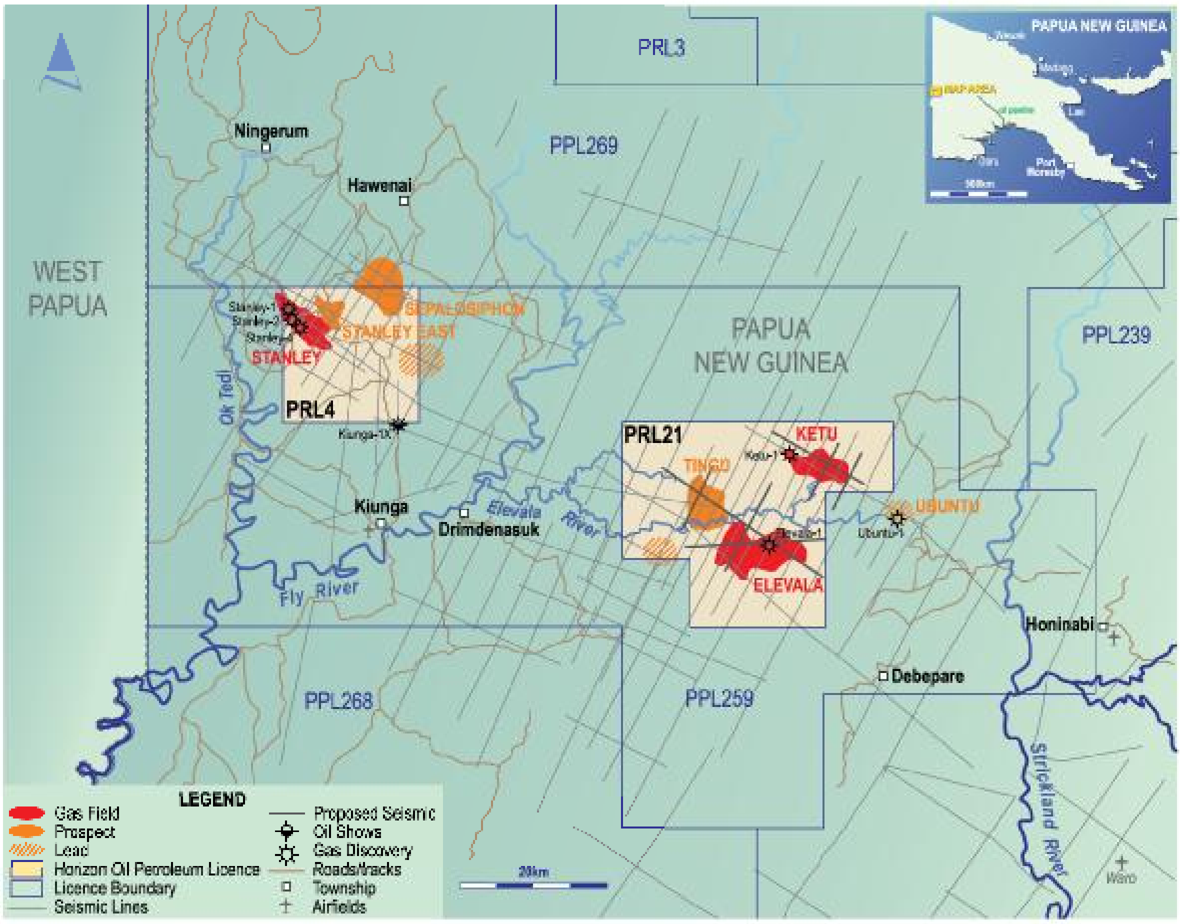
The well was then lined with 7" casing, the two pay zones perforated and the well equipped for production from either or both zones. The well was temporarily suspended and the rig skidded to drill the Stanley-4 well from the current surface location to a bottomhole location approximately 1 km southeast of the bottomhole location of Stanley-2.

Drilling of the Stanley-4 well, the second appraisal well on the field, spudded on 29 March 2011 with Parker Rig 226 and reached total depth of 3,340 m in economic basement at midnight on 2 May. The primary Toro sandstone was found to be gas-filled with 35 m of net gas pay, thicker than the equivalent zone encountered in the Stanley-2 well. The secondary objective, the Kimu sandstone, was about the same thickness as in Stanley-2 and contained 10 m of net gas pay. The gas water contact (GWC) observed in the Kimu sandstone is 24 m lower than the GWC calculated for the Toro sandstone from the pressure data recorded in Stanley-2. A third possible zone, the Alene sandstone, which was only thin in Stanley-2, was encountered overlying the Toro. This exhibited gas shows during drilling but is of poor reservoir quality and currently no gas pay is being attributed to the zone. The target zones were penetrated lower than prognosis, in part as a result of structural variation, and also due to thickening of the Alene and Toro units.

After running electric logs and taking samples and pressure measurements of the prospective zones, the well was cased and completed as a future production well and the rig released on 15 May 2011. The rig is currently drilling the Sepalosiphon prospect (Siphon-1 well) at a location within PPL 269 adjacent to PRL 4. Horizon Oil has arranged to trade the Stanley-2 well results for Siphon-1 data to enable evaluation of the significant portion of the Sepalosiphon prospect that lies within PRL 4.

Front end engineering and design (FEED) work for the Stanley field development is nearing completion. This includes the condensate stripping plant, pipeline from the field to the base in Kiunga and a loading facility on the Fly River. Horizon Oil, as operator of the condensate stripping project, has engaged with a maritime operator currently managing bulk shipping operations in the region to develop a shipping solution for export of condensate. Design of a condensate river tanker is near completion. Investigation of marketing opportunities for the product is underway.

The various reports and documents required for the petroleum development licence application are at an advanced stage. These include the social mapping and landowner identification report, environmental impact statement and gas agreement.



PRL 5/21, Elevala/Ketu discoveries (Horizon Oil interest: 45%)

During the year the PRL 5 joint venture, composed of subsidiaries of Horizon Oil, Santos Limited and Talisman Energy Inc., was advised by the Minister of Petroleum and Energy that he had refused to approve the application for an extension of the licence. The Company had previously advised shareholders that the Minister had advised his intent not to renew PRL 5 on the basis that the joint venture had failed to fulfil the licence conditions. The joint venture made submissions to the Minister, demonstrating that the joint venture had, in fact, satisfied the licence conditions and that the permit was in good standing. A subsidiary of the Company, Horizon Oil (Papua) Limited, commenced legal proceedings in the PNG courts, seeking leave for a judicial review of the Minister's decision not to renew PRL 5. Horizon Oil (Papua) Limited was successful in obtaining an injunction to restrain dealings in respect of the PRL 5 acreage, while the legal proceedings remained afoot.

The Company advised on 31 March 2011 that the legal proceedings were settled and a new 5 year licence over the PRL 5 acreage, designated as PRL 21, in which Horizon Oil (Papua) Limited was awarded a 70% interest, had been granted. In accordance with the company's existing joint venture arrangements in PNG with Talisman Niugini Pty Ltd (Talisman), Horizon Oil assigned half its interest in PRL 21 to Talisman. This obligated Talisman to pay Horizon Oil US$22 million in cash following receipt of certain administrative approvals from the PNG government, in finalisation of the original sale of a 50% interest in PRL 4 to Talisman for US$60 million in cash and work carry. The company had previously received US$38 million to date in proceeds from that sale, with the remaining US$22 million received during the current year.

On 1 June 2011, Horizon Oil advised that it had acquired an additional 10% interest in PRL 21 from joint venture participant Elevala Energy Limited. This increased the interest held by Horizon Oil (Papua) Limited in PRL 21 to 45%.

Surface locations for drilling of the Elevala-2 and Ketu-2 appraisal/development wells have been selected and site preparation work on both locations has begun. The site for the first well to be drilled, Elevala-2, is 65% complete. The well will be drilled with Parker Rig 226, which is currently drilling the Sepalosiphon prospect in PPL 269 and is expected to be released to the PRL 21 joint venture in September 2011. Ketu-2 will follow the drilling of Elevala-2.

A seismic program of 105 km has been planned to fine tune bottomhole locations for the appraisal wells and this should get underway in August 2011.

2011

FINANCIAL REPORT

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

Horizon Oil Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Horizon Oil Limited
Level 7,134 William Street
Woolloomooloo NSW 2011

The annual financial report was authorised for issue by the Board of Directors on 25 August 2011. The Board of Directors have the power to amend and reissue the annual financial report.

DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

Your directors present their report on the consolidated entity (referred to hereafter as the 'Group') consisting of Horizon Oil Limited (the 'Company') and the entities it controlled at the end of, or during the financial year ended, 30 June 2011.

DIRECTORS

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

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

A Stock was appointed a director on 2 February 2011 and continued in office at the date of this report.

P Nimmo was a director from the beginning of the financial year until his resignation on 18 November 2010.

PRINCIPAL ACTIVITIES

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

Convertible bond issue and acquisition of Petsec's interest in Block 22/12

During June 2011, Horizon Oil successfully raised US$80 million via a convertible bond issue to fund the acquisition of Petsec's 25% interest in Block 22/12 and associated development costs. The acquisition was achieved through the purchase of Petsec Petroleum LLC (the holding company of Petsec's interest in Block 22/12) for A$38 million (approximately US$40 million) cash plus the issue of 15 million options in Horizon Oil. The options were issued on 6 June 2011 and have an exercise price of A$0.37 and a term of 3 years.

The acquisition of the additional interest in Block 22/12 increased Horizon Oil's stake in the WZ6-12, WZ6-12 South and WZ12-8 West development project from 14.70% to 26.95%, and increases Horizon Oil's net reserves in Block 22/12 from 6.2 mmbo to 11.3 mmbo.

Residual payments in respect of 2009 PRL 4 transfer

In the 2010 financial statements, the group reversed revenue amounting to US$21.5 million recognised in the period to 31 December 2009 for deferred consideration on the transfer to Talisman Energy Inc. of an interest in PRL 4, PNG. The receipt of the deferred consideration was subject to the grant of PNG ministerial consent to transfers of interests in PRLs 4 and 5 to Talisman, which were outstanding at the date of preparing the 2010 financial statements.

During 2011, all remaining conditions of the 2009 transfer were satisfied. Accordingly, the US$22 million deferred consideration was received and recorded as revenue in the current year.

[1] US$21.5 million of revenue represents US$22 million consideration discounted due to the deferred nature of its receipt.

[2] The Santos Limited subsidiary remained a joint venture participant until the application for an extension of the PRL 5 licence was refused by the Minister of Petroleum and Energy.

Debt facilities

The Group's US$45.75 million Maari project debt facility with BOS International (Australia) Limited was fully repaid during the year from surplus Maari cashflows and the proceeds from the convertible bond issue. The remaining project debt at 30 June 2011 was US$Nil.

After repayment of the Maari project debt facility, the Group's remaining debt is the US$80 million in convertible bonds which were issued on 17 June 2011 with a 5 year term. The bonds were issued with an initial conversion price of US$0.52, equivalent to A$0.49 based on exchange rates at the time of pricing, and represents a conversion premium of 29% to Horizon Oil's last closing price of A$0.38 on 2 June 2011. The initial conversion price is subject to adjustment in certain circumstances. The bonds carry a coupon of 5.5% per annum, payable semi-annually in arrears. The bonds were listed on the Singapore Securities Exchange on 20 June 2011.

REVIEW OF OPERATIONS

A review of the operations of the group and its business strategies and prospects is set out in the Activities Review on pages 9 to 18 of this annual financial report.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Other than the matters noted above and disclosed in the review of operations, there has not been any matter or circumstance which has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Comments on expected results of certain operations of the Group are included in this annual financial report under the review of operations contained in the Activities Review.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION

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

The Directors believe the Group has adequate systems in place for managing its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group. During the financial year, one incident occurred which was required to be reported under environmental legislation in New Zealand, as follows:

The Maari/Manaia field was shut-in from 20 – 27 November 2010 as a precautionary measure, when an oil sheen was observed in the vicinity of the FPSO Raroa. Detailed cargo tank and under hull inspections confirmed its source to be a small amount of residual oil trapped beneath the FPSO's hull from an accidental discharge of oil on 18 October 2010 during de-ballasting operations. The cause of the spill has been identified and measures put in place to ensure that this type of accidental discharge does not happen again.

REPORTING CURRENCY

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

INFORMATION ON DIRECTORS

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

Non-executive independent Director & Chairman:	E F Ainsworth AM, B.Comm, FAICD, FCPA
Experience and current directorships:	Director for 10 years. Former Managing Director of Sagasco Holdings Limited and Delhi Petroleum Pty Limited. Chairman of Tarac Australia Limited; Non-executive director of Envestra Limited.
Former directorships during last 3 years:	Director of Oil Search Limited.
Special responsibilities:	Chairman of Board; Chairman of Remuneration, Nomination and Disclosure Committees; member of Audit and Risk Management Committees.
Executive Director and Chief Executive Officer:	B D Emmett B.Sc (Hons)
Experience and current directorships:	Director for 11 years. 35 years experience in petroleum exploration, E&P management and investment banking.
Former directorships during last 3 years:	None.
Special responsibilities:	Chief Executive Officer; member of Risk Management and Disclosure Committees.
Non-executive independent Director:	J S Humphrey LL.B., SF Fin
Experience and current directorships:	Director for 21 years. Member of the firm of Solicitors, Mallesons Stephen Jaques, specialising in the area of Corporate Law. Director of Downer EDI Limited and Wide Bay Australia Ltd, and a member of the Australian Government Takeovers Panel.
Former directorships during last 3 years:	None
Special responsibilities:	Chairman of Audit Committee; member of Risk Management Committee.
Non-executive independent Director:	R A Laws PSM, B.Sc, GAICD
Experience and current directorships:	Director for 8 years. Former director of the Petroleum Division of the South Australian Department of Mines and Energy and previously Exploration Manager for Australian Aquitaine Petroleum Pty Ltd.
Former directorships during last 3 years:	None.
Special responsibilities:	Chairman of Risk Management Committee; member of Audit, Remuneration and Nomination Committees.
Non-executive Director:	G J de Nys B. Tech, FIEAust, FAICD, CPEng
Experience and current directorships:	Director for 3 years. 42 years experience in civil engineering, construction, oil field contracting and natural resource investment management. Director of Shui On Construction and Materials Limited. Non-Executive Chairman of Red Sky Energy Limited.
Former directorships during last 3 years:	Former Managing Director of IMC Group Direct Investments and Director of View Resources Limited and LinQ Capital Limited.
Special responsibilities:	Member of Risk Management Committee.
Non-executive independent Director:	A Stock B. Eng (Chem) (Hons), FAIE, GAICD
Experience and current directorships:	Appointed on 2 February 2011. 35 years of development, operations and commercial experience in energy industries in Australia and overseas. Director, Executive Projects for Origin Energy Limited, former Executive General Manager for Major Development Projects for Origin Energy Limited. 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.
Former directorships during last 3 years:	N/A
Special responsibilities:	Member of Risk Management Committee.
COMPANY SECRETARY	
Company Secretary and Chief Financial Officer:	M Sheridan B.Ec, LL.M., F Fin
Qualifications and experience:	Before joining Horizon Oil Limited in 2003, Mr Sheridan held senior finance and commercial roles in Australian and international oil and gas, mining and telecommunications companies.

DIRECTORS' INTERESTS IN THE COMPANY'S SECURITIES

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

	Ordinary shares			Unlisted options		
Director	Direct	Indirect	Total	Direct	Indirect	Total
E F Ainsworth	113,500	3,896,875	4,010,375	-	-	-
B Emmett	-	13,802,607	13,802,607	-	15,150,000	15,150,000
J Humphrey	-	5,112,034	5,112,034	-	-	-
R A Laws	-	779,375	779,375	-	-	-
P Nimmo (resigned 18 Nov 2011)	-	7,874,587	7,874,587	-	6,170,000	6,170,000
G de Nys	-	361,250	361,250	-	500,000	500,000
A Stock (appointed 2 Feb 2011)	-	-	-	-	-	-

B Emmett also held 2,713,714 share appreciation rights as at the date of this Directors' Report. A further, 2,626,328 share appreciation rights were granted to B Emmett on 5 August 2011 subject to shareholder approval at the 2011 annual general meeting.

MEETINGS OF DIRECTORS

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

	Board	Audit Committee	Risk Management Committee	Remuneration and Nomination Committee	Disclosure Committee
Number of meetings held:	13[2]	3	1	2	1
Number of meetings attended by:					
E F Ainsworth	13	3	1	2	1
B D Emmett	10[2]		1		1
J S Humphrey[1]	10	3	1		
R A Laws	13	3	1	2	
P Nimmo (resigned 18 Nov 2010)	7		1		
G de Nys	13		1		
Andrew Stock (appointed 2 Feb 2010)	7				

[1] The company secretary acted as proxy for Mr Humphrey at three telephone board meetings during the year called at short notice which Mr Humphrey was unable to attend. The company secretary was instructed by Mr Humphrey as to his voting intentions and was fully briefed of his views prior to the meetings.

[2] One board meeting was held for non executive directors only. The company secretary acted as proxy for Mr Emmett at two telephone board meetings during the year called at short notice which Mr Emmett was unable to attend. The company secretary was instructed by Mr Emmett as to his voting intentions and was fully briefed of his views prior to the meetings.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate governance and accountability, the Directors support the principles of good corporate governance. The Company's Corporate Governance Statement is set out on pages 37 to 40 of this annual financial report.

REMUNERATION REPORT

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

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

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation

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

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

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

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

Non-executive directors' fees

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

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

Retirement allowances for directors

There are no retirement allowances in place for directors.

Executive pay

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

In April 2010, the board resolved to modify the remuneration arrangements for the Company's senior executives. Based on advice received from Guerdon Associates, an independent remuneration consultant, the board has put in place a short term incentive scheme and substituted the previous long term incentive arrangements for the Company's senior executives with a revised long term incentive scheme. The Company's existing Employee Option Scheme will continue to apply to employees other than senior executives. No options are intended to be issued under the Company's Employee Performance Incentive Plan.

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

Short term incentives

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

The following table outlines the major features of the plan.

Objective	To drive performance of annual business plans and objectives, at operational and group level, to achieve increased shareholder value.
Frequency and timing	Participation is annual with performance measured over the twelve months to 30 June. Entitlements under the plan are determined and paid (in cash) in the first quarter of the new financial year.
Key Performance Indicators (KPIs)	KPIs are determined in advance each year in consultation with the board. The performance of each senior executive against these KPIs is reviewed annually in consultation with the board. A KPI matrix, directly linked to factors critical to the success of Horizon Oil's business plan for the financial year, is developed for each executive incorporating health, safety and environment, financial, operational and other KPIs.
STI opportunity	Up to 50% of the senior executive's fixed remuneration package (base salary plus superannuation).
Performance requirements	50% of the executive's maximum STI payment can be achieved by meeting KPI targets based on a weighted scorecard approach, with the remaining 50% earned by over achievement of KPI 'stretch targets'.

The following table shows the STI awards that were achieved during the year ended 30 June 2011:

	STI in respect of 2011 financial year	
Senior executives	Percentage of maximum STI payment paid	Percentage of maximum STI payment forfeited
B Emmett	83%	17%
A Fernie	85%	15%
M Sheridan	85%	15%

Long term incentives

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

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

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

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

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

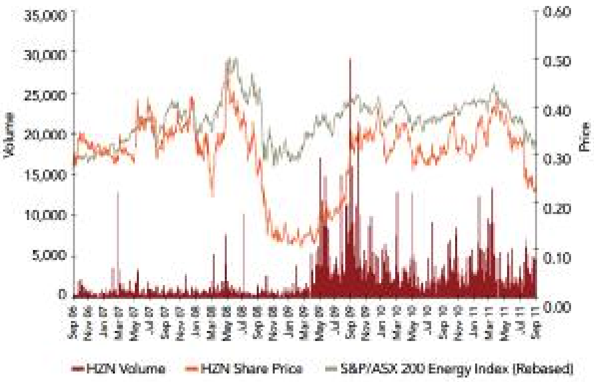
The following table outlines the major features of the plan.

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

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

The annual performance objectives and share price hurdle are the means by which management links company performance and remuneration policy. Having regard to the current stage of the Company's evolution, linkage of remuneration policy to share price performance rather than earnings is seen as the most sensible method of incentivising employees. Any increase in the share price of the Company has a positive effect on shareholder wealth. The share price performance of the Company for the current and previous four financial years are displayed in the chart adjacent:

Horizon share price (HZN) Vs S&P/ASX 200 Energy Index



B. Details of remuneration

Amounts of remuneration

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

The key management personnel of Company and the Group includes the directors of Horizon Oil Limited as per page 22 and the following executive officers, who are also the highest paid executives of the Company and Group:

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

Financial year ended 30 June 2011	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees US$	Cash bonus US$	Non-Monetary[1] US$	Super-annuation US$	Long service leave US$	Options/ SARs[2] US$	Total[3] US$
Directors:							
E F Ainsworth Chairman, Non-executive Director	145,763	-	-	13,176	-	-	158,939
B D Emmett Chief Executive Officer, Executive Director	695,107	334,251	68,992	49,867	21,022	341,642	1,510,881
J Humphrey Non-executive Director	72,881	-	-	6,588	-	-	79,469
R A Laws Non-executive Director	72,881	-	-	6,588	-	-	79,469
P Nimmo (resigned 18 Nov 2010) Non-executive Director	36,441	-	-	3,294	-	6,229	45,964
G de Nys Non-executive Director	72,881	-	-	6,588	-	20,301	99,770
A Stock (appointed 2 Feb 2011) Non-executive Director	30,367	-	-	2,745	-	-	33,112
Total Directors' remuneration	1,126,321	334,251	68,992	88,846	21,022	368,172	2,007,604
Other key management personnel:							
M Sheridan Chief Financial Officer, Company Secretary	521,330	251,024	16,953	24,934	13,911	156,977	985,129
A Fernie Manager - Exploration and Development	496,505	251,024	60,824	49,867	13,714	156,341	1,028,275
Total other key management personnel remuneration	1,017,835	502,048	77,777	74,801	27,625	313,318	2,013,404

1. Non-monetary benefits include the value of car parking, insurances and other expenses inclusive of FBT.
2. Reflects the theoretical value (calculated as at grant date and converted to US dollars at the foreign exchange rate prevailing at the date of grant) of previously unvested options/SARs which vested during the financial year.
3. Remuneration is paid in Australian dollars and converted to US dollars at the foreign exchange rate prevailing on the date of the transaction.

Financial year ended 30 June 2010	Short-term benefits			Post-employment benefits	Long-term benefits		Share based payments	
Name	Cash salary and fees US$	Cash bonus US$	Non-monetary[1] US$	Super-annuation US$	Long service leave US$	Cessation Payment US$	Options[2] US$	Total[3] US$
Directors:								
E F Ainsworth	102,691	-	-	9,296	-	-	-	111,987
Chairman, Non-executive Director								
B D Emmett	506,579	165,248	47,007	44,321	37,136	-	358,937	1,159,228
Chief Executive Officer, Executive Director								
J Humphrey	51,346	-	-	4,648	-	-	-	55,994
Non-executive Director								
R A Laws	51,346	-	-	4,648	-	-	-	55,994
Non-executive Director								
P Nimmo[4]	51,346	-	8,341	4,648	-	505,000	40,547	609,882
Executive Director								
G de Nys	51,346	-	-	4,648	-	-	26,357	82,351
Non-executive Director								
Total Directors' remuneration	814,654	165,248	55,348	72,209	37,136	505,000	425,841	2,075,436
Other key management personnel:								
M Sheridan	374,562	121,182	12,316	22,101	24,572	-	169,769	724,502
Chief Financial Officer, Company Secretary								
A Fernie	374,562	121,182	47,503	44,140	19,459	-	165,979	772,825
Manager - Exploration and Development								
Total other key management personnel remuneration	749,124	242,364	59,819	66,241	44,031	-	335,748	1,497,327

1. Non-monetary benefits include the value of car parking, insurances and other expenses inclusive of FBT.
2. Reflects the theoretical value (calculated as at grant date and converted to US dollars at the foreign exchange rate prevailing at the date of grant) of previously unvested options which vested during the financial year.
3. Remuneration is paid in Australian dollars and converted to US dollars at the foreign exchange rate prevailing on the date of the transaction.
4. P Nimmo ceased to be an executive of the Company effective 1 July 2009 and became a non-executive Director on that date. In accordance with the terms of P Nimmo's service agreement with the Company, a payment on the cessation of executive duties of US$505,000 was paid on 1 July 2009.

	Fixed remuneration		At Risk – STI		At Risk – LTI	
Name	2011	2010	2011	2010	2011	2010
Executive Directors:						
B D Emmett Chief Executive Officer, Executive Director	55%	55%	22%	14%	23%	31%
Other key management personnel:						
M Sheridan Chief Financial Officer, Company Secretary	59%	60%	24%	17%	16%	23%
A Fernie Manager - Exploration and Development	61%	63%	23%	16%	15%	21%

C. Service agreements

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

B D Emmett, Chief Executive Officer

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

M Sheridan, Chief Financial Officer, Company Secretary

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

A Fernie, Manager - Exploration and Development

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

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

Options and share appreciation rights (SARs) have been granted to eligible employees under the Horizon Oil Limited Employee Option Scheme, the Employee Performance Incentive Plan, and the Long Term Incentive Plan. The issue of securities under the Employee Option Scheme, the Employee Performance Incentive Plan and the Long Term Incentive Plan were approved by shareholders for the purposes of the ASX Listing Rules at the 2008 and 2010 annual general meetings.

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

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

Grant date	Expiry date	Exercise price	Value per option/SAR at grant date	Date exercisable
1/9/2005	1/9/2010	A$0.15	A$0.04755	33.4% after 1/9/2006, 33.3% after 1/9/2007, 33.3% after 1/9/2008
11/4/2006	11/4/2011	A$0.25	A$0.0567	50% after 11/4/2006, 50% after 11/4/2007
31/8/2006	31/8/2011	A$0.33	A$0.1308	33.4% after 31/8/2007, 33.3% after 31/8/2008, 33.3% after 31/8/2009
31/8/2006	31/8/2011	A$0.33	A$0.1302	33.4% after 31/8/2007, 33.3% after 31/8/2008, 33.3% after 31/8/2009
10/10/2007	10/10/2012	A$0.35	A$0.1491	33.4% after 10/10/2008, 33.3% after 10/10/2009, 33.3% after 10/10/2010
3/10/2008	3/10/2013	A$0.27	A$0.1354	33.4% after 3/10/2009, 33.3% after 3/10/2010, 33.3% after 3/10/2011
25/09/2009	25/09/2014	A$0.295	A$0.1307	33.4% after 25/09/2010, 33.3% after 25/09/2011, 33.3% after 25/09/2012
9/10/2009	9/10/2014	A$0.315	A$0.1344	33.4% after 9/10/2010, 33.3% after 09/10/2011, 33.3% after 09/10/2012
1/10/2010	1/10/2015	A$0.3106[1]	A$0.1382	100% after 1/10/2013
5/8/2011	5/8/2016	A$0.3189[1]	A$0.1514	100% after 5/8/2014

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

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

Name	Number of SARs granted during the year	Value of SARs at grant date* US $	Number of SARs vested during the year	Number of SARs lapsed during the year	Value at lapse date** US $
Directors:					
B D Emmett	2,713,714	362,925	-	-	-
Other key management personnel:					
M Sheridan	1,990,057	266,145	-	-	-
A Fernie	1,990,057	266,145	-	-	-

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

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

SARs are granted for no consideration. SARs granted to employees are granted for a five year period. When exercised, each SAR will be settled in either cash or shares in the Company as determined by the board. The number of shares that can be issued or cash paid on exercise of the SARs is based on the value of the SAR at the time it is exercised.

SARs granted under the Long Term Incentive Plan carry no dividend or voting rights.

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

The SAR exercise price is subject to adjustment in certain circumstances as per ASX Listing Rule 6.22.2.

SARs granted under the Long Term Incentive Plan are subject to the following restrictions on exercise:

- *Long Term Incentive Plan:* The number of SARs that vest is determined by reference to the Company's total shareholder return ("TSR") over the relevant period relative to that of the S&P/ASX200 Energy Index ("Index"). The number of SARs that vest is:

  (a) if the Company's TSR is equal to that of the Index ("Minimum Benchmark"), 50%;

  (b) if the Company's TSR is 14% or more above that of the Index, 100% ("Maximum Benchmark"); and

  (c) if the Company's TSR is more than the Minimum Benchmark but less than the Maximum Benchmark, a percentage between 50% and 100% based on the Company's TSR performance between the Minimum Benchmark and Maximum Benchmark.

  The Maximum Benchmark of 14% above the Index return equates to the performance level likely to exceed the 75th percentile of market returns of companies (weighted by company size) in the Index. Furthermore, even where these performance conditions are satisfied, the SARs will not vest unless the Company achieves a TSR of at least 10% over the relevant period.

  The performance conditions are tested on the date that is three years after the Effective Grant Date of the SARs, and are then re-tested every six months after that until the date that is five years after the Effective Grant Date of the SARs (the final retesting date). The performance conditions are also tested where certain circumstances occur, such as a takeover bid for the Company. The Effective Grant Date for the SARs is the date the SARs are granted, or such other date as the board determines for the SARs. If the SARs have not, pursuant to these performance conditions, vested by the final retesting date that is five years after the date the SARs are granted, the SARs will lapse.

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

The model inputs for each grant of options/SARs during the financial year ended 30 June 2011 included:

Grant date	27 September 2010
Expiry date	27 September 2015
Exercise price	N/A[1]
10 Day VWAP of Horizon Shares at grant date	A$0.3106
Expected price volatility	43.40% p.a.
Risk free rate	5.01% p.a.
Expected dividend yield	0.00% p.a.

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

Further information on options/SARs is set out in note 34.

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

No share appreciation rights were exercised during the year.

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

Name	Date of exercise of options	Number of ordinary shares issued on exercise of options during the year	Value at exercise date*
Directors			
B D Emmett	8/09/2010	1,500,000	241,300
P Nimmo	1/09/2010	1,125,000	171,250
Other key management personnel:			
M Sheridan	12/11/2010	1,000,000	27,680

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

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

Exercise Date	Amount paid per share	Amount remaining to be paid
1/09/2010	A$0.148	-
8/09/2010	A$0.148	-
12/11/2010	A$0.01	A$0.26
12/11/2010	A$0.01	A$0.285

Upon exercise, only A$0.01 cent of the exercise price of the option is payable, with the balance being due prior to the expiration of the option period which is 5 years from the date of the issue of the options. Further information on options is set out in note 34.

Details of remuneration – options/SARs

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

Name	Options/SARs Year granted	Vested %	Forfeited %	Financial years in which options/SARs may vest	Maximum total value of grant yet to vest[1] US$
B Emmett	2006	100	-	-	
	2007	100	-	-	
	2008	100	-	-	
	2010	33.34	-	-	
		-	-	30/06/2012	104,023
		-	-	30/06/2013	19,135
	2011	-	-	30/06/2014	272,586
P Nimmo (resigned 18 Nov 2010)	2006	100	-	-	-
	2007	100	-	-	-
	2008	100	-	-	-
G de Nys	2010	33.34	-	-	-
		-	-	30/06/2012	8,646
		-	-	30/06/2013	1,503
M Sheridan	2007	100	-	-	-
	2008	100	-	-	-
	2009	33.34	-	-	-
		33.33	-	-	-
		-	-	30/06/2012	4,702
	2010	33.34	-	-	-
		-	-	30/06/2012	25,939
		-	-	30/06/2013	4,508
	2011	-	-	30/06/2014	200,094
A Fernie	2007	100	-	-	-
	2008	100	-	-	-
		-	-	-	-
	2009	33.34	-	-	-
		33.33	-	-	-
		-	-	30/06/2012	4,702
	2010	33.34	-	-	-
		-	-	30/06/2012	25,939
		-	-	30/06/2013	4,508
	2011	-	-	30/06/2014	200,094

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

LOANS TO DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

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

OTHER TRANSACTIONS WITH DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

See note 33 for other transactions with directors and other key management personnel.

SHARES UNDER OPTION

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

Date options granted	Number options	Issue price of ordinary shares	Expiry date
31/08/2006	20,110,000	A$0.33	31/08/2011
10/10/2007	5,973,000	A$0.35[1]	10/10/2012
03/10/2008	2,698,000	A$0.27[1]	03/10/2013
25/09/2009	7,025,000	A$0.295[1]	25/10/2014
09/10/2009	2,700,000	A$0.315[1]	09/10/2014
11/12/2009	500,000[2]	A$0.35[1]	11/12/2014
16/09/2010	350,000	A$0.31[1]	16/09/2015
06/06/2011	15,000,000[3]	A$0.37	30/06/2014
	54,356,000		

1. Subject to restrictions on exercise.
2. General options issued to consultants.
3. Relates to general options issued to Petsec America Pty Limited as part consideration for the acquisition of Petsec Petroleum LLC (the Petsec subsidiary which held Petsec's interest in Block 22/12, offshore China)

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

DIVIDENDS

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

INSURANCE OF OFFICERS

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

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

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

NON-AUDIT SERVICES

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

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

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

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

	Consolidated 2011 US$	Consolidated 2010 US$
During the financial year, the following fees were paid or payable for services provided by the external auditor of the parent entity and its related practices:		
1. PwC Australia		
Audit and other assurance services		
Audit and review of financial reports	141,848	118,658
Other assurance services		
Assurance on convertible bond issue	80,483	-
Due diligence	12,165	-
Accounting advice	5,370	-
Total remuneration for audit and other assurance services	239,866	118,658
Taxation services		
Tax compliance	38,173	17,583
Total remuneration for taxation services	38,173	17,583
2. Non-PwC audit firms		
Audit and other assurance services	17,943	-
Other services	-	-
Total remuneration for audit and other assurance services	17,943	-
Total auditors' remuneration	295,982	136,241

EXTERNAL AUDITOR'S INDEPENDENCE DECLARATION

A copy of the external auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 36.

ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

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

EXTERNAL AUDITOR

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

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

E F Ainsworth AM
Chairman

B D Emmett
Chief Executive Officer

Sydney
25 August 2011

AUDITORS' INDEPENDENCE DECLARATION

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Auditor's Independence Declaration

As lead auditor for the audit of Horizon Oil Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the *audit*.

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

Brett Delaney
Partner
PricewaterhouseCoopers

Brisbane
25 August 2011

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CORPORATE GOVERNANCE STATEMENT

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

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the full financial year and comply with the ASX Corporate Governance Council's revised *Corporate Governance Principles and Recommendations 2nd edition*, released during August 2007, except where noted herein.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Company has formalised and defined the functions reserved for board accountability and those delegated to management in a formal Board Charter. The Board Charter was in force for all of 2011. *(Recommendation 1.1)*

The board reviews the performance of senior executives on a regular basis. The Chief Executive Officer ('CEO') conducts annual performance reviews with senior executives with performance assessed having regard to a variety of key performance indicators. The board also assesses the performance of the CEO and senior executives. The Chairman meets with the CEO and gives him feedback on that assessment. *(Recommendation 1.2)*

A performance evaluation for senior executives was carried out in 2011 in accordance with the performance review process set out in the previous paragraph. The Company expects that a performance review for all senior executives will be carried out in accordance with that process during the next reporting period.

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

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The board operates in accordance with the broad principles set out in the Board Charter. The board has a primary responsibility to the shareholders for the welfare of the Company by guiding and monitoring the business and affairs of the Company.

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

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

The Company's Constitution provides that directors, other than the CEO, shall not retain office for more than three calendar financial years or beyond the third annual general meeting following election without submitting for re-election by shareholders. At each annual general meeting, one third of the directors in office, or, if their number is not a multiple of three, the number closest to one-third, shall retire from office.

Directors' independence

The board adopts the criteria specified in ASX *Corporate Governance Principles and Recommendations* to determine a directors' independence. The board considers that Messrs Ainsworth, Humphrey, Laws and Stock satisfy the criteria being independent of management and free from any business or other relationship or conflict of interest that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their independent judgement. *(Recommendation 2.1)*

In determining materiality, the board has regard, among other things, to the matters detailed in paragraph 6 of the Board Charter. The board acknowledges that Mr Humphrey has been a director for twenty one years. However, given the complete change of the Group's management and re-composition of the board ten years ago, the board considers that there is no objective or subjective reason to believe that Mr Humphrey's period of board service in any way would interfere with his ability to act in the best interests of the Company and accordingly that Mr Humphrey is an independent director. The board acknowledges that Mr de Nys is a non-independent director by virtue of his association with a substantial shareholder, the IMC Group. The board acknowledges that its composition was not wholly in compliance with Recommendation 2.1 (which requires that a majority of the board be composed of independent directors) for the full year with 3 directors not considered independent up until Dr Nimmo's resignation on 18 November 2010. However, the board considers that there is no objective or subjective reason to believe that this period of non-compliance impeded the ability of the board to act in the best interests of the Company. Following Dr Nimmo's resignation, the Company was in full compliance with Recommendation 2.1 for the remainder of the year.

In the event of a tied vote, the casting vote rests with the Chairman, Mr Ainsworth, who is a non-executive independent director. *(Recommendation 2.2)*

Board composition

In the period 1 July 2010 to the date of this report, the board comprised of five non-executive directors, and one executive director. The role of Chairman and CEO are performed by different individuals. *(Recommendation 2.3)*

Details of the members of the board, their skills, experience, expertise, qualifications and term of office are set out in the Directors' Report.

Remuneration and Nomination Committee

The board has established a Remuneration and Nomination Committee. *(Recommendation 2.4)*

The Remuneration and Nomination Committee consists of the following non-executive independent directors:

E F Ainsworth (Chairman of Committee)
R A Laws

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

- assess the skills and competencies required on the board;
- from time to time assess the extent to which the required skills are represented on the board;
- establish processes for the review of the performance of individual directors and the board as a whole;
- establish processes for the identification of suitable candidates for appointment to the board; and
- recommend the appointment and removal of directors.

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

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

Performance assessment

Every two years the chairman conducts a formal discussion with each of the directors individually to discuss their performance and ideas for improvement of the operation of the board and board Committees. This process was last performed during 2009. The board reviews the consolidated views, inputs, comments and deficiencies arising from the formal discussions and identifies ways to improve board and board committee performance and determine the necessary implementation plans for such improvement measures. *(Recommendation 2.5)*

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

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

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

The Company's policy in relation to dealings in the Company's securities applies to directors, employees and consultants. In summary, such persons are not permitted to deal in the Company's securities during the twenty-eight day period immediately prior to the release of ASX quarterly reports, half-yearly and annual financial results to the market. Any intended transactions must be notified to the chairman in advance. *(Recommendation 3.2)*

The Code and the Company's Securities Trading Policy are discussed with each new employee as part of their induction training.

The Directors are satisfied that the Group and Company have complied with its policies on ethical standards, including trading in securities.

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

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

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

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

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

The qualifications of Audit Committee members and their attendance at meetings of the Committee during 2010 are detailed in the Directors' Report.

In the period 1 July 2010 to the date of this report, the audit committee comprised of three non-executive directors. The board considers that the size and composition of the Audit Committee is appropriate to enable its effective and efficient operation having regard to the size of the board and the relevant qualifications of the members of the Audit Committee. *(Recommendation 4.2)*

The Audit Committee has a formal charter that details its role and responsibilities, composition, structure and membership requirements. *(Recommendation 4.3)*

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

External auditor

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

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

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

An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in note 31 to the financial statements. It is the policy of the external auditor to provide an annual declaration of its independence to the Audit Committee.

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

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

The Disclosure Committee consists of the following Directors:

E F Ainsworth (Chairman of Committee)
B D Emmett

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

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

All information disclosed to the ASX is posted on the Company's website as soon as it is released by the ASX. When presentations on aspects of the Group's operations are made, the material used in the presentation is released to the ASX. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

The Company seeks to provide opportunities for shareholders to participate through electronic means. The website also includes a feedback mechanism and an option for shareholders to register their e-mail address for direct e-mail updates of Company matters.

The Continuous Disclosure Policy and Shareholder Communications Policy are available in the Corporate Governance section of the Company's website at www.horizonoil.com.au.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

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

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

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

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

The Company's Risk Management Policy and procedural operation of the risk management and compliance system is overseen by the Risk Management Committee which consists of all directors:

R A Laws (Chairman of Committee)
E F Ainsworth
B D Emmett
J S Humphrey
P Nimmo (resigned 18 November 2010)
G de Nys
A Stock (appointed 2 February 2011)

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

The Committee ensures that appropriate risk management controls are implemented and effective by meeting with senior executives, at least annually, to review and discuss the material business risks arising from business strategies and the adequacy of the relevant risk management controls in place. This review was conducted during 2011. The Risk Management Committee Chairman (or a delegate) reports to the board following each meeting of the Risk Management Committee. *(Recommendation 7.2)*

The board requires the CEO and Chief Financial Officer ('CFO') to provide a declaration in accordance with section 295A of the *Corporations Act 2001*. The board acknowledges that it has received this declaration for 2011 along with written assurance from the CEO and CFO that the declaration is founded on a sound system of risk management internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. *(Recommendation 7.3)*

A copy of the Risk Management Policy is available in the Corporate Governance section of the Company's website at www.horizonoil.com.au.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The Company has established a Remuneration and Nomination Committee. *(Recommendation 8.1)*

The Remuneration and Nomination Committee consists of the following non-executive independent directors:

E F Ainsworth (Chairman of Committee)
R A Laws

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

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

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

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

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

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

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

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

Report on the financial report

We have audited the accompanying financial report of Horizon Oil Limited (the company), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Horizon Oil Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of Horizon Oil Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 24 to 33 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Horizon Oil Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Brett Delaney

Brett Delaney
Partner

25 August 2011

DIRECTOR'S DECLARATION

In the directors' opinion:

(a) the financial statements and notes are in accordance with the *Corporations Act 2001* including:

(i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(c) the remuneration disclosures set out on pages 24 to 33 of the Directors' Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

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

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

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

E F Ainsworth AM
Chairman

B D Emmett
Chief Executive Officer

Sydney
25 August 2011

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

	Note	Consolidated 2011 US$'000	Consolidated 2010 US$'000
Revenue from continuing operations	6	59,362	47,991
Cost of sales	7	(19,622)	(15,015)
Gross profit / (loss)		39,740	32,976
Profit from sale of assets	5	22,000	32,586
Other income	6	464	157
General and administrative expenses	7	(7,232)	(5,448)
Exploration and development expenses	7	(255)	(158)
Financing costs	7	(2,817)	(3,202)
Unrealised movement in value of convertible bond conversion rights	7	(3,351)	-
Other expenses	7	(69)	(218)
Profit / (loss) before income tax expense		48,480	56,693
NZ royalty tax (expense) / benefit	8a	(6,680)	(2,519)
Income tax (expense) / benefit	8b	(6,864)	(1,827)
Profit / (loss) from continuing operations		34,936	52,347
Profit / (loss) from discontinued operations (net of tax)		-	(2)
Profit / (loss) for the financial year		34,936	52,345
Other comprehensive income			
Changes in the fair value of cash flow hedges	26	54	132
Total comprehensive income for the year		34,990	52,477
Profit / (loss) attributable to members of Horizon Oil Limited		34,936	52,345
Total comprehensive income attributable to members of Horizon Oil Limited		34,990	52,477
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:		US Cents	US Cents
Basic earnings per ordinary share	43a	3.09	4.64
Diluted earnings per ordinary share	43b	3.08	4.63
Earnings per share for profit attributable to the ordinary equity holders of the company:		US Cents	US Cents
Basic earnings per ordinary share	43a	3.09	4.64
Diluted earnings per ordinary share	43b	3.08	4.63

The above Statements of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Note	Consolidated 2011 US$'000	2010 US$'000
Current Assets			
Cash and cash equivalents	10	64,572	26,509
Receivables	11	2,272	3,520
Inventories	12	2,293	3,272
Other	13	280	249
Total Current Assets		69,417	33,550
Non-Current Assets			
Deferred tax assets	14	13,803	4,326
Plant and equipment	15	1,268	905
Exploration phase expenditure	16	63,488	44,710
Oil and gas assets	17	145,504	88,138
Total Non-Current Assets		224,063	138,079
Total Assets		293,480	171,629
Current Liabilities			
Payables	18	18,713	7,026
Derivative financial instruments	19	-	54
Current tax payable		7,944	1,085
Borrowings	20	5,909	20,553
Total Current Liabilities		32,566	28,718
Non-Current Liabilities			
Payables	21	1,037	651
Deferred tax liability	23	14,396	3,145
Borrowings	20	64,328	19,940
Other financial liabilities	22	23,394	-
Provisions	24	5,208	4,810
Total Non-Current Liabilities		108,363	28,546
Total Liabilities		140,929	57,264
Net Assets		152,551	114,365
Equity			
Contributed equity	25	125,976	125,328
Reserves	26a	6,605	4,003
Retained profits / (accumulated losses)	26b	19,970	(14,966)
Total Equity		152,551	114,365

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

Consolidated	Attributable to members of Horizon Oil Limited					
	Contributed equity	Reserves	Retained profits / (accumulated losses)	Total	Minority Interest	Total Equity
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance at 1 July 2009	124,917	2,999	(67,311)	60,605	-	60,605
Profit / (loss) for the year	-	-	52,345	52,345	-	52,345
Cash flow hedges	-	132	-	132	-	132
Total comprehensive income for the year	-	132	52,345	52,477	-	52,477
Transactions with owners in their capacity as equity holders:						
Contributions of equity, net of transaction costs	411	-	-	411	-	411
Employee share options	-	872	-	872	-	872
	411	872	-	1,283	-	1,283
Balance at 30 June 2010	125,328	4,003	(14,966)	114,365	-	114,365
Balance at 1 July 2010	125,328	4,003	(14,966)	114,365	-	114,365
Profit / (loss) for the year	-	-	34,936	34,936	-	34,936
Cash flow hedges	-	54	-	54	-	54
Total comprehensive income for the year	-	54	34,936	34,990	-	34,990
Transactions with owners in their capacity as equity holders:						
Contributions of equity, net of transaction costs	648	-	-	648	-	648
Employee share based payments	-	784	-	784	-	784
Share options	-	1,764	-	1,764	-	1,764
	648	2,548	-	3,196	-	3,196
Balance at 30 June 2011	125,976	6,605	19,970	152,551	-	152,551

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

	Note	Consolidated 2011 US$'000	2010 US$'000
Cash flows from operating activities			
Receipts from customers		59,275	47,877
Payments to suppliers and employees		(10,845)	(10,569)
		48,430	37,308
Interest received		50	43
Interest paid		(2,073)	(2,931)
Income taxes paid		(4,729)	(1,209)
Net cash inflow from operating activities	41	41,678	33,211
Cash flows from investing activities			
Payments for exploration phase expenditure		(34,522)	(10,551)
Payments for oil and gas assets		(41,401)	(7,762)
Payments for plant and equipment		(666)	(365)
Net proceeds on sale of exploration phase expenditure		22,000	29,988
Net cash (outflow) / inflow from investing activities		(54,589)	11,310
Cash flows from financing activities			
Proceeds from share issues		616	300
Payment of share issue expenses		-	(55)
Proceeds from issue of convertible bonds (net of transaction costs)		77,604	-
Repayment of borrowings		(27,297)	(28,773)
Net cash inflow / (outflow) from financing activities		50,923	(28,528)
Net increase / (decrease) in cash held		38,012	15,993
Cash at the beginning of the financial year		26,509	10,000
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		51	516
Cash at the end of the financial year		64,572	26,509

Finance leases	39(ii)
Non-cash financing and investing activities	42

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

Note 1. Summary Of Significant Accounting Policies

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

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

(a) Basis of preparation

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

The financial report has been prepared on a going concern basis. The carrying values of non-current assets disclosed in these financial statements are predicated on the Group's pursuit of its strategy in respect of these assets. Following the decision to develop the Group's interest in Block 22/12 China, it is expected that, in addition to forecast internally generated cash flow, additional capital, composed of debt and, if necessary, equity will be required. The Group has commenced discussions with financiers to obtain additional debt financing for this purpose. Should the full amount of the forecast internally generated cash flow and capital required to pursue the strategy not be raised and the Group adopt a modified strategy involving the rationalisation of any non-current assets, while there is inherent uncertainty, the Directors consider that it is unlikely that the carrying values of non-current assets would exceed the realisable value of such assets in an orderly sales process and so no adjustment has been made to their carrying values.

Compliance with IFRS

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

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of plant and equipment and investment property.

Critical accounting estimates

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

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Horizon Oil Limited (the 'Company' or 'Parent Entity') as at 30 June 2011 and the results of all subsidiaries for the financial year then ended. Horizon Oil Limited and its subsidiaries together are referred to in these financial statements as the Group.

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

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

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

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

The Group does not designate any investments in subsidiaries as being subject to the requirements of Australian Accounting Standards specifically applicable to financial instruments. There is no present intention to dispose of such investments. They are held for strategic and not trading purposes.

Joint venture operations

The proportionate interests in the assets, liabilities and expenses of joint venture operations have been incorporated in the financial statements under the appropriate headings. Details of major joint venture interests and the sum of the Group's interests in joint venture operation assets and liabilities are set out in Note 30.

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

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

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

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

(d) Under / overlift

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

(e) Operating segment reporting

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

(f) Foreign currency translation

(i) Functional and presentation currency

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

(a) a significant portion of Horizon Oil Limited's activity is denominated in US dollars; and

(b) it is widely understood by Australian and international investors and analysts.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(iii) Group companies

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

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

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

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

(g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties.

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

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

(h) Taxation

(i) Income tax

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

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

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

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

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

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

(ii) Government royalties

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

(i) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases (Note 39). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments, including any bargain purchase price where its payment is considered probable. The corresponding rental obligations, net of finance charges, are included in borrowings. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (Note 39). Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(j) Impairment of assets

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

(k) Cash and cash equivalents

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

(l) Trade receivables

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

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

Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

(m) Business combinations

The acquisition method of accounting is used to account for all purchase combinations which constitute the acquisition of a business, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests of the

Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition related costs are expensed as incurred.

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

(n) Exploration phase expenditure

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

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

Cash flows associated with exploration phase expenditure (comprising both amounts expensed and amounts capitalised) are classified as investing activities in statements of cash flows.

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

Impairment of capitalised exploration phase expenditure

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

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

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

(o) Oil and gas assets

(i) Development Expenditure

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

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

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

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

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

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

(ii) Production Assets

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

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

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

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

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

(iii) Restoration provision

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

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

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

The unwinding of the effect of discounting on the restoration provision is included within finance costs in the statement of comprehensive income.

(iv) Reserves

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

(p) Investments and other financial assets

Interests in unlisted securities, other than subsidiaries, are brought to account at cost and subsequently recorded at the lower of fair value and recoverable amount. Dividend income is recognised in the statement of comprehensive income when receivable.

Interests in listed securities held for resale are valued at market value.

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

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

(q) Plant and equipment

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

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

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

(r) Trade and other payables

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

(s) Derivatives

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

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

The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 19. Movements in the hedging reserve in equity are shown in Note 26.

(i) Fair value hedge

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

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

(ii) Cash flow hedge

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

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

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

(t) Borrowings

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

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

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

(u) Borrowing costs

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

The amount of borrowing costs incurred which were capitalised during the financial year were interest and associated costs of US$NIL (2010: US$NIL) and amortised borrowing costs of US$NIL (2010: US$NIL).

(v) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Long service leave

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

(iii) Share-based payments

Share-based payment compensation benefits are provided to employees via the Horizon Oil Long Term Incentive Plan, the Horizon Oil Limited Employee Option Scheme and Employee Performance Incentive Plan. Information relating to these schemes is set out in Note 32.

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

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

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

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

(w) Contributed equity

Ordinary shares are classified as equity.

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

(x) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(y) Financial guarantee contracts

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

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

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

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

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

(aa) Parent entity financial information

The financial information for the parent entity, Horizon Oil Limited, disclosed in note 44 has been prepared on the same basis as the consolidated financial statements, except as set out below.

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

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

(ii) Financial guarantees

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

(bb) Rounding of amounts

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

(cc) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

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

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. The group is yet to assess its full impact. However, initial indications are that it will not have a material effect on the group's financial statements. The group has not yet decided when to adopt AASB 9.

(ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The group will apply the amended standard from 1 July 2011. When the amendments are applied, the group and the parent will need to disclose any transactions between its subsidiaries and its associates. Refer to Note 33 for details of the transactions which will be included in the revised disclosures.

(iii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Horizon Oil Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

(iv) AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011)

Amendments made to AASB 7 Financial Instruments: Disclosures in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the group's disclosures. The group intends to apply the amendment from 1 July 2011.

Note 2. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity price risk); credit risk; and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and commodity price risks, and aging analysis for credit risk.

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

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

The Group holds the following financial instruments:

	Consolidated	
	30 June 2011 US$'000	30 June 2010 US$'000
Financial Assets		
Cash and cash equivalents	64,572	26,509
Receivables	2,272	3,520
	66,844	30,029
Financial Liabilities		
Payables (current)	18,713	7,026
Derivative financial instruments	-	54
Current tax payable	7,944	1,085
Payables (non-current)	1,037	651
Borrowings (net of borrowing costs)	70,237	40,493
Other financial liabilities	23,394	-
	121,325	49,309

(a) Market risk

(i) Foreign exchange risk

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

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

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

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

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

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

Exposure to foreign exchange risk

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

Group	30 June 2011			30 June 2010		
	AUD	NZD	PGK	AUD	NZD	PGK
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Cash and cash equivalents	367	342	210	1,866	798	1,034
Receivables	787	455	71	1,357	258	92
Current Payables	2,144	3,995	19	1,153	2,323	43
Current Tax Payable	-	7,944	-	-	1,085	-
Non-current Payables	180	-	-	203	-	-

For the financial year ended and as at 30 June 2011, if the currencies set out in the table below, strengthened or weakened against the US dollar by the percentage shown, with all other variables held constant, net result for the financial year would (increase) / decrease and net assets would increase / (decrease) by:

Group	Net Result		Net Assets		Net Result		Net Assets	
	2011	2010	2011	2010	2011	2010	2011	2010
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Change in currency[1]	+10%	+10%	+10%	+10%	-10%	-10%	-10%	-10%
Australian dollar impact	450	165	(117)	187	(450)	(165)	(117)	(187)
New Zealand dollar impact	(2,353)	(1,291)	(1,114)	(235)	2,353	1,291	(1,114)	235
Papua New Guinea kina impact	(26)	(10)	26	108	26	(10)	26	(108)

1. This has been based on the change in the exchange rate against the US dollar in the financial years ended 30 June 2011 and 30 June 2010. The sensitivity analysis has been based on the sensitivity rates when reporting foreign exchange risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates based on historic volatility. In management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the end of the reporting period exposure does not necessarily reflect the exposure during the course of the financial year.

(ii) Commodity price risk

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

The objective of the Group's commodity price risk management policy is to ensure its financial viability despite potential periods of unfavourable prices. Regular sensitivity analysis is conducted to evaluate the potential impact of unfavourable prices on the Group's future financial position. The results of this evaluation are used to determine the most appropriate risk mitigation tool to be used. The Group will hedge when it is deemed the most appropriate risk mitigation tool to be used or where required by its financing arrangements.

As at 30 June 2011 and 30 June 2010 the Group did not have any crude oil price hedging in place. No crude oil price hedging contracts were entered into during the current or prior financial year.

For the financial year ended and as at 30 June 2011, if the crude oil price rose or fell by the percentage shown, with all other variables held constant, the result for the financial year would (increase) / decrease and net assets would increase / (decrease) by:

Group	Net Result		Net Assets		Net Result		Net Assets	
	2011	2010	2011	2010	2011	2010	2011	2010
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Change in crude oil price	+10%	+10%	+10%	+10%	-10%	-10%	-10%	-10%
Impact	5,705	4,882	-	80	(5,705)	(4,882)	-	(80)

There were no commodity price hedging transactions entered into during the financial year ended 30 June 2011.

(iii) Interest rate risk

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

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

At 30 June 2011, the Group has no interest-bearing liabilities considered to materially expose the Group's core income and/or operating cash flows to changes in market interest rates as all long term borrowings, issued at variable rates, were fully repaid at 30 June 2011. All interest rate swaps were settled as at 30 June 2011.

At 30 June 2010, the Group's interest rate risk arises from long term borrowings, issued at variable rates, exposing the Group to cash flow interest rate risk. Group policy is to manage material interest rate exposure. During the relevant period, the Group fixed rates for approximately 50% of its borrowings.

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

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

	Floating interest rate	Fixed interest rate			Non-interest bearing	Total contractual cash flows	Carrying amount
		1 year or less	Over 1 to 2 years	Over 2 to 5 years			
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2011:							
Financial assets							
Cash and deposits	62,055	-	-	-	2,517	64,572	64,572
Receivables	-	-	-	-	2,272	2,272	2,272
	62,055	-	-	-	4,789	66,844	66,844
Weighted average interest rate p.a.	0.01%						
Financial liabilities							
Trade and other creditors	-	-	-	-	19,829	19,829	19,829
Derivative financial instruments (net)	-	-	-	-	-	-	-
Current tax payable	-	-	-	-	7,944	7,944	7,944
Borrowings	-	11,155	12,308	100,240	-	123,703	70,237
	-	11,155	12,308	100,240	27,773	151,476	98,010
Weighted average interest rate p.a.		10.80%	10.55%	14.81%			
Net financial assets / (liabilities)	62,055	(11,155)	(12,308)	(100,240)	(22,984)	(84,632)	(31,166)

	Floating interest rate	Fixed interest rate 1 year or less	Fixed interest rate Over 1 to 2 years	Fixed interest rate Over 2 to 5 years	Non-interest bearing	Total contractual cash flows	Carrying amount
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
2010:							
Financial assets							
Cash and deposits	10,177	-	-	-	16,332	26,509	26,509
Receivables	-	-	-	-	3,525	3,525	3,520
	10,177	-	-	-	19,857	30,034	30,029
Weighted average interest rate p.a.	0.71%						
Financial liabilities							
Trade and other creditors	-	-	-	-	7,677	7,677	7,677
Derivative financial instruments (net)	(10,979)	10,979	-	-	-	-	54
Current tax payable	-	-	-	-	1,085	1,085	1,085
Borrowings	21,958	5,381	5,867	7,591	-	40,797	40,493
	10,979	16,360	5,867	7,591	8,762	49,559	49,309
Weighted average interest rate p.a.	1.85%	3.48%	8.19%	8.19%			
Net financial assets / (liabilities)	(802)	(16,360)	(5,867)	(7,591)	11,095	(19,525)	(19,280)

As at 30 June 2011, the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	30 June 2011 Weighted average interest rate	30 June 2011 Balance	30 June 2010 Weighted average interest rate	30 June 2010 Balance
	% p.a.	US$'000	% p.a.	US$'000
Bank loans	-	-	2.40	21,957
Interest rate swaps (notional principal amount)	-	-	1.18	(10,979)
Net exposure to cash flow interest rate risk		-		10,978

At 30 June 2011, if the interest rates had been 1.0% p.a. higher or lower and all other variables held constant, the net result for the financial year would (increase) / decrease and net assets as at 30 June 2011 would increase / (decrease) by:

Group	Net Result 2011	Net Result 2010	Net Assets 2011	Net Assets 2010	Net Result 2011	Net Result 2010	Net Assets 2011	Net Assets 2010
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Change in interest rate p.a.	+1%	+1%	+1%	+1%	-1%	-1%	-1%	-1%
Impact of Assets	361	97	361	97	-	(97)	-	(97)
Impact of Liabilities	-	353	-	353	-	(330)	-	(330)
Impact of Net Assets	361	(256)	361	(256)	-	261	-	261

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(b) Credit risk

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

It is acknowledged that the Group's sales of crude oil are currently concentrated with a single counterparty; however the Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

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

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

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

	Consolidated	
	2011 US$'000	2010 US$'000
Cash and cash equivalents		
Counterparties with external credit rating (Standard & Poors)		
AA	62,342	24,271
	62,342	24,271
Counterparties without external credit rating		
Share of joint venture operations cash balances	749	383
Overseas financial institutions	1,479	1,853
Cash on hand	2	2
	2,230	2,238
Total cash and cash equivalents	64,572	26,509
Receivables		
Counterparties with external credit rating (Standard & Poors)		
AAA	546	435
BBB	-	1,541
	546	1,976
Counterparties without external credit rating		
Share of joint venture operation receivables balances	529	272
Joint venture partners	753	922
Related parties (partly paid ordinary shares)	433	331
Other	11	19
	1,726	1,544
Total receivables	2,272	3,520

As at 30 June 2011, there were US$Nil (30 June 2010: US$Nil) financial assets that are either past due or impaired.

(c) Liquidity risk

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

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

Financing arrangements

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

	Consolidated	
	30 June 2011 US$'000	30 June 2010 US$'000
Floating rate:		
Expiring within one year	-	-
Expiring beyond one year	-	-

Maturities of financial liabilities

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

	Non-interest bearing US$'000	Variable rate US$'000	Fixed rate US$'000	Derivatives (net) US$'000
2011:				
Less than 6 months	27,593	-	5,596	-
6 – 12 months	-	-	5,559	-
Between 1 and 2 years	-	-	12,308	-
Between 2 and 5 years	180	-	100,240	-
Over 5 years	-	-	-	-
Total contractual cash flows	27,773	-	123,703	-

	Non-interest bearing US$'000	Variable rate US$'000	Fixed rate US$'000	Derivatives (net) US$'000
2010:				
Less than 6 months	8,111	7,321	3,396	29
6 – 12 months	-	8,054	3,341	18
Between 1 and 2 years	448	6,583	6,755	7
Between 2 and 5 years	203	-	7,908	-
Over 5 years	-	-	-	-
Total contractual cash flows	8,762	21,958	21,400	54

d) Fair value estimation

The fair value of financial instruments as at 30 June 2011 is set out in the tables under Note 2(a)(iii).

The fair value of financial instruments traded in active markets (such as interest rate swap contracts) was based on quoted market prices at the end of each reporting period. The quoted market price used for financial assets held by the Group was the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, investments in unlisted subsidiaries) was determined to approximate their carrying value.

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

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

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

(e) Capital risk

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

Note 3. Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

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

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

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

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

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

The recoverability of deferred tax assets is based on the assumption of certainty with respect to the relevant entity's ability to generate future taxable income.

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

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

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

Note 4. Segment information

(a) Description of segments

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

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

- New Zealand development – the Group is currently producing crude oil from the Maari/Manaia fields, located offshore New Zealand;
- New Zealand exploration – the Group is currently involved in the exploration and evaluation of hydrocarbons in one offshore permit area, PEP 51313;
- China exploration and development – the Group is currently involved in the Block 22/12 – WZ6-12 and WZ12-8W oil field development (project FID during 2011) and in the exploration and evaluation of hydrocarbons within Block 22/12; and
- PNG exploration - the Group is currently involved in the exploration and evaluation of hydrocarbons in two onshore permit areas, PRL 4 and PRL 21.

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

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

2011	New Zealand Development US$'000	New Zealand Exploration US$'000	China Exploration and Development US$'000	Papua New Guinea Exploration US$'000	All other segments US$'000	Total US$'000
Segment revenue:						
Revenue from external customers	59,362	-	-	-	-	59,362
Profit / (loss) before tax	32,743	223	(109)	(1,635)	(1,855)	29,367
Depreciation and amortisation	10,324	-	-	108	194	10,626
Total segment assets at 30 June 2011	97,968	4,922	73,338	61,817	55,435	293,480
Additions to non-current assets other than financial assets and deferred tax during the year ended:						
Exploration and evaluation phase expenditure:	-	720	940	28,821	-	30,481
Development and production phase expenditure:	1,228	861	-	-	-	2,089
Plant and equipment:	-	-	-	313	352	665
Total segment liabilities at 30 June 2011	44,282	1,494	2,213	7,584	85,356	140,929

2010	New Zealand Development US$'000	New Zealand Exploration US$'000	China Exploration US$'000	Papua New Guinea Exploration US$'000	All other segments US$'000	Total US$'000
Segment revenue:						
Revenue from external customers	47,991	-	-	-	-	47,991
Profit / (loss) before tax	18,624	(15)	(31)	(28)	5,576	24,126
Depreciation and amortisation	12,096	-	-	16	79	12,191
Total segment assets at 30 June 2010	99,607	9,448	19,440	23,780	19,354	171,629
Additions to non-current assets other than financial assets and deferred tax during the year ended:						
Exploration and evaluation phase expenditure:	-	8,297	1,789	5,037	-	15,123
Development and production phase expenditure:	7,806	-	-	-	-	7,806
Plant and equipment:	-	-	-	508	191	699
Total segment liabilities at 30 June 2010	52,851	388	1,482	1,058	1,485	57,264

(c) Other segment information

(i) Segment revenue

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

Segment revenue reconciles to total consolidated revenue as follows:

	Consolidated 2011 US$'000	Consolidated 2010 US$'000
Total segment revenue	59,362	47,991
Rental income	79	64
Interest income	50	93
Profit from sale of assets	22,000	32,586
Foreign exchange gain (net)	335	-
Total revenue	81,826	80,734

(ii) **Segment profit before tax**

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

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

	Consolidated	
	2011 US$'000	2010 US$'000
Total segment profit / (loss) before tax	29,367	24,126
Rental income	79	64
Interest income	50	93
Profit from sale of assets	22,000	32,586
Unrealised movement in value of convertible bond conversion rights	(3,351)	-
Foreign exchange (loss) / gain (net)	335	(176)
Profit / (loss) before tax	48,480	56,693

(iii) **Segment assets**

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

Reportable segment assets are equal to consolidated total assets.

(iv) **Segment liabilities**

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

Reportable segment liabilities are equal to consolidated total liabilities.

	Consolidated	
	2011 US$'000	2010 US$'000
Note 5. Significant items		
Consideration on sale of assets		
Cash received	22,000	20,980
Fair value of deferred consideration	-	8,085
	22,000	29,065
Net liabilities disposed	-	6,360
Cost of sale	-	(2,839)
Profit from sale of assets	22,000	32,586

On 14 September 2009, the Group entered into a sale agreement with a subsidiary of Talisman Energy Inc. to dispose of a 22.05% working interest in PRL 4 and all of the shares in a wholly-owned subsidiary, Horizon Oil (Kanau) Limited. Total consideration for the transaction amounted to US$60 million, of which the company received US$38 million (US$29 million net of intercompany loan repayments and discounting of deferred consideration) in proceeds during the year ended 30 June 2010 including US$30 million cash and US$8 million work carry. The remaining US$22 million was deferred pending receipt of PNG ministerial consent to the working interest transfers required by the transaction. Due to the uncertainty at the time regarding PNG ministerial consent, the deferred consideration was recorded as a contingent asset in the 2010 financial statements. During 2011 the required PNG ministerial approvals were received and accordingly, the US$22 million received during the current year was booked as revenue.

	Consolidated 2011 US$'000	Consolidated 2010 US$'000
Note 6. Revenue		
From continuing operations		
Crude oil sales	59,362	47,991
	59,362	47,991
Other income		
Interest received from unrelated corporations	50	93
Rental income received from unrelated corporations	79	64
Net foreign exchange gains	335	-
	464	157

	Consolidated 2011 US$'000	Consolidated 2010 US$'000
Note 7. Expenses		
Cost of sales		
Direct production costs	8,023	4,138
Inventory adjustments[1]	1,155	(1,352)
Amortisation expense	10,324	12,096
Royalties	120	133
	19,622	15,015

[1] Includes production overlift/underlift and inventory adjustments

	Consolidated 2011 US$'000	Consolidated 2010 US$'000
General and administrative expenses		
Employee benefit expense (net)	5,136	3,843
Corporate office expenses (including insurance)	1,590	1,355
Depreciation expense	302	95
Rental expense relating to operating leases	204	155
	7,232	5,448
Exploration and development expenses		
Exploration expenditure written off / expensed	255	158
	255	158
Financing costs		
Interest and finance charges	2,115	2,931
Discount unwinding on provision for restoration	398	43
Amortisation of prepaid financing costs	304	228
	2,817	3,202
Unrealised movement in value of convertible bond conversion rights		
Unrealised movement in value of convertible bond conversion rights	3,351	-
	3,351	-
Other expenses		
Net foreign exchange losses	-	176
Other expenses	69	42
	69	218

	Consolidated 2011 US$'000	Consolidated 2010 US$'000
Note 8. Income tax expense		
(a) New Zealand royalty		
Royalty paid	2,302	1,909
Royalty payable	825	653
Origination and reversal of royalty temporary differences	3,553	(43)
Total New Zealand royalty expense / (benefit)	6,680	2,519
(b) Income tax expense		
Current tax	7,743	1,207
Deferred tax	(1,772)	621
Under / (over) provided in prior financial years	893	1
Total income tax expense / (benefit)	6,864	1,829
Income tax expense is attributable to:		
Profit from continuing operations	6,864	1,827
Profit from discontinued operations	-	2
Aggregate income tax expense	6,864	1,829
Deferred income tax (revenue) / expenses included in income tax expense comprises:		
(Increase) / decrease in deferred tax asset	(2,895)	(3,092)
Increase / (decrease) in deferred tax liabilities	1,123	3,713
	(1,772)	621
(c) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit / (loss) from continuing operations before income tax	48,480	56,693
Profit / (loss) from discontinuing operations before income tax	-	-
Less: Royalty paid / payable	(3,127)	(2,562)
	45,353	54,131
Tax at the Australian tax rate of 30% (2010: 30%)	13,606	16,239
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Expenditure not allowed for income tax purposes	1,099	175
Other deductible items	-	-
Non-assessable income	(6,600)	(9,794)
Other assessable income	5,544	733
	13,649	7,353
Effect of overseas tax rates	626	870
Deferred tax asset not brought to account	231	65
Previously unrecognised tax losses now recognised	(8,535)	(6,925)
Under / (over) provision in prior financial years	893	466
Income tax expense / (benefit)	6,864	1,829

	Consolidated 2011 US$'000	Consolidated 2010 US$'000
(d) Tax losses		
Unused tax losses (and applicable tax rate) for which no deferred tax asset has been recognised:		
Horizon Oil Limited – 30% (2010: 30%)	-	-
Horizon Oil (USA) Inc. and other US entities – 34% (2010: 34%)	10,615	10,607
Horizon Oil International Limited and NZ entities – 30% (2010: 30%)	-	-
Horizon Oil (Papua) Limited and other PNG entities – 45% / 30% (2010: 45% / 30%)	57,995	22,735
Horizon Oil (Beibu) Limited and Horizon Oil (Nanhai) LLC (formerly Petsec Petroleum LLC) – 25% (2010: 25%)	27,358[1]	31,878
	95,968	65,220
Potential tax benefit at applicable tax rates	27,847	21,807

[1] Tax losses of $8,535,000 were recognised as a deferred tax asset during the year following Final Investment Decision on the China Block 22/12 oil field development. The utilisation of the losses is now deemed probably with first production from the field expected in December 2012.

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

Note 9. Discontinued operation

(i) Description

Current Year - There were no discontinued operations during the current year.

Prior Year - After a significant period without production, and given the Company's intention not to incur further capital expenditure on the Bayou Choctaw fields in the US, the Company withdrew from the Bayou Choctaw fields during March 2010.

Financial information relating to the discontinued operation for the period to the date of cessation is set out below.

(ii) Financial performance and cash flow information

The financial performance and cash flow information presented are for the year ended 30 June 2011 and the period ended 31 March 2010.

	Consolidated 2011 US$'000	Consolidated 2010 US$'000
Revenue	-	1
Expenses	-	(1)
(Loss) / profit before income tax	-	-
Income tax expense	-	(2)
(Loss) / profit after income tax expense	-	(2)
(Loss) / profit on sale of the operation before income tax	-	-
Income tax expense	-	-
(Loss) / profit on sale of the operation after income tax	-	-
(Loss) / profit from discontinued operation	-	(2)
Net cash (outflow) from operating activities	-	-
Net cash (outflow) from investing activities	-	-
Net cash (outflow) / inflow from financing activities	-	(2)
Net (decrease) in cash generated by the segment	-	(2)
(iii) Details of the sale of the operation		
Consideration– assumption of liabilities by acquirer	-	-
Carrying amount of net assets sold	-	-
(Loss) / profit on sale before income tax	-	-
Income tax expense	-	-
(Loss) / profit on sale after income tax	-	-

	Consolidated 2011 US$'000	2010 US$'000
Note 10. Current assets – Cash and cash equivalents		
Cash at bank and on hand	64,570	5,724
Deposits at call (refer note (a) below)	-	14,194
Restricted cash (refer note (b) below)	-	6,589
Petty cash	2	2
	64,572	26,509

Note: (a) The US dollar and Australian dollar deposits bear average floating interest rates of approximately NIL% p.a. (2010: 0.71% p.a.)

Note: (b) Under the terms of a finance facility (refer to Note 20), certain cash balances are available to the Group after certain conditions of the relevant facility agreement are satisfied. The restricted cash balance was held on deposit at average floating rates consistent with those in note (a) above. There was no restricted cash as at 30 June 2011 following repayment of the finance facility.

	Consolidated 2011 US$'000	2010 US$'000
Note 11. Current assets – Receivables		
Receivable – Deferred consideration from sale of assets	-	628
Other receivables (refer to note (a) below)	2,272	2,892
	2,272	3,520

Note:(a) Of this balance US$432,245 (2010: US$330,692) related to amounts receivable from related parties. Refer to Note 33 for further details.

No receivable amounts were past due.

	Consolidated 2011 US$'000	2010 US$'000
Note 12. Inventories		
Crude oil, at cost	242	560
Drilling inventory, at cost	2,051	2,712
	2,293	3,272

	Consolidated 2011 US$'000	2010 US$'000
Note 13. Current assets – Other		
Prepayments	280	249
	280	249

	Assets 2011 US$'000	Assets 2010 US$'000	Liabilities 2011 US$'000	Liabilities 2010 US$'000	Net asset 2011 US$'000	Net asset 2010 US$'000
Note 14. Non-current assets – Deferred tax assets						
Recognised deferred tax assets and liabilities are attributable to the following:						
Prepaid borrowing costs	-	-	(166)	(1,159)	(166)	(1,159)
Provisions	798	702	-	-	798	702
Tax losses	13,171	4,783	-	-	13,171	4,783
Tax assets / (liabilities)	13,969	5,485	(166)	(1,159)	13,803	4,326
Set off	(166)	(1,159)	166	1,159	-	-
Net tax assets	13,803	4,326	-	-	13,803	4,326

Note 15. Non-current assets – Plant and equipment

	Consolidated		
	Other plant and equipment US$'000	Leasehold improvements US$'000	Total US$'000
As at 1 July 2009			
Cost	347	278	625
Accumulated depreciation	(281)	(43)	(324)
Net book amount	66	235	301
Financial year ended 30 June 2010			
Opening net book amount	66	235	301
Additions	614	85	699
Disposals	-	-	-
Depreciation expense	(67)	(28)	(95)
Closing net book amount	613	292	905
As at 30 June 2010			
Cost	961	363	1,324
Accumulated depreciation	(348)	(71)	(419)
Net book amount	613	292	905
Financial year ended 30 June 2011			
Opening net book amount	613	292	905
Additions	390	275	665
Disposals	-	-	-
Depreciation expense	(248)	(54)	(302)
Closing net book amount	755	513	1,268
As at 30 June 2011			
Cost	1,201	638	1,839
Accumulated depreciation	(446)	(125)	(571)
Net book amount	755	513	1,268

Note 16. Non-current assets – Exploration phase expenditure

	Consolidated	
	2011 US$'000	2010 US$'000
Exploration phase expenditure		
Deferred geological, geophysical, drilling and other exploration and evaluation expenditure, including directly attributable general administrative costs	63,488	44,710
The reconciliation of exploration phase expenditure carried forward above is as follows:		
Balance at beginning of financial year	44,710	34,548
Expenditure incurred during financial year	30,481	15,123
Transferred to development phase	(23,776)	-
Intra-group transfer of exploration expenditure	-	-
Acquisitions/ (disposals) during the year	12,073	(4,961)
Expenditure written off during financial year	-	-
Balance at end of financial year	63,488	44,710

Note 17. Non-current assets – Oil & gas assets

	Consolidated 2011 US$'000	2010 US$'000
Production phase expenditure		
Producing oil and gas property acquisition, deferred geological, seismic and drilling, production and distribution facilities and other development expenditure	81,498	75,851
Leased production phase asset	27,296	27,296
Less accumulated amortisation	(25,332)	(15,009)
	83,462	88,138

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

	Consolidated Development phase expenditure US$'000	Production phase expenditure US$'000	Total US$'000
Balance at 1 July 2009	-	92,428	92,428
Expenditure incurred during financial year	-	7,806	7,806
Recognition of leased asset	-	-	-
Transferred from exploration phase	-	-	-
Amortisation incurred	-	(12,096)	(12,096)
Expenditure written off during financial year	-	-	-
Acquisitions and disposals during financial year	-	-	-
Balance at 30 June 2010	-	88,138	88,138
Expenditure incurred during financial year	861	1,228	2,089
Recognition of leased asset	-	-	-
Transferred from exploration phase	19,356	4,420	23,776
Amortisation incurred	-	(10,324)	(10,324)
Expenditure written off during financial year	-	-	-
Acquisitions and disposals during financial year	41,825	-	41,825
Balance at 30 June 2011	62,042	83,462	145,504

Note 18. Current liabilities – Payables

	Consolidated 2011 US$'000	2010 US$'000
Trade creditors	10,248	5,721
Other creditors	8,465	1,305
	18,713	7,026

Note 19. Current liabilities - Derivative financial instruments

	Consolidated 2011 US$'000	2010 US$'000
Interest rate swap – cash flow hedges (refer to (a) below)	-	54
	-	54

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to interest rate fluctuations in accordance with the Group's financial risk management policies (refer to Note 2(a)(iii)). All derivative financial instruments were settled as at 30 June 2011 as there were no material interest rate exposures outstanding.

(a) Interest rate swap contracts (cash flow hedges)

In 2010, the bank loans of the Group beared a weighted average variable interest rate of LIBOR plus 1.79% p.a. The Group entered into interest rate swap contracts under which it was obliged to receive interest at variable rates and to pay interest at a weighted average fixed rate of 2.03% p.a. As at 30 June 2011 the notional principal amount was US$Nil (2010: US$10,978,800). The notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	Consolidated	
	2011 US$'000	2010 US$'000
Less than 1 year	-	10,979
1 – 2 years	-	-
2 – 3 years	-	-
	-	10,979

The contracts required settlement of net interest receivable or payable each 30 days. The settlement dates coincided with the dates on which interest is payable on the underlying debt. The contracts were settled on a net basis.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified into the statement of comprehensive income when the hedged interest expense is recognised. The ineffective portion is recognised in the statement of comprehensive income immediately. During the financial year, US$Nil (2010: US$Nil) was transferred to the statement of comprehensive income.

		Consolidated	
	Note	2011 US$'000	2010 US$'000
Note 20. Borrowings			
Current:			
Bank loans		-	15,172
Lease liability	39	5,909	5,381
		5,909	20,553
Non-current:			
Bank loans		-	6,482
Convertible Bonds		56,737	-
Lease liability	39	7,591	13,458
		64,328	19,940
Total Borrowings		70,237	40,493

Bank loans

There were no outstanding bank loans at 30 June 2011. In 2010, bank loans consisted of a project debt facility which was net of prepaid financing costs of US$304,000. Details of each are set out below:

Bank loans – Project debt facilities

As at 30 June 2010, the remaining balance of the Maari project debt facility was US$21,957,600. Floating interest in respect of the facility was at LIBOR plus a weighted average margin of 1.79% (2010). The facility was due to mature on 31 December 2011, however was fully repaid at 30 June 2011.

The facility was secured by a floating charge over the shares and assets of the borrower and related entities. The Group was subject to covenants which are common for a facility of this nature.

Lease liability

The lease liability is secured by a floating charge over the leased asset.

Convertible Bonds

The parent entity issued 400 5.5% convertible bonds for US$80 million on 17 June 2011. The bonds were issued with an initial conversion price of US$0.52, equivalent to A$0.49 based on exchange rates at the time of pricing, and represents a conversion premium of 29% to Horizon Oil's last closing price of A$0.38 on 2 June 2011. The initial conversion price is subject to adjustment in certain circumstances. No bonds were eligible for conversion at 30 June 2011 as the conversion period commences 41 days following settlement which occurred on 17 June 2011. On conversion by the holder, and subject to any conversion price resets, the issuer may elect to settle the bonds in cash or ordinary shares in the parent entity. Based on the initial conversion price, the maximum number of shares that could be issued on conversion is 153,846,154 ordinary shares in the parent entity. The bonds carry a coupon of 5.5% per annum, payable semi-annually in arrears, and carry a 7% yield to maturity on 17 June 2016 when they will be redeemed at 108.80% of their principal amount. The bonds were listed on the Singapore Securities Exchange on 20 June 2011.

	Consolidated	
	2011	2010
	US$'000	US$'000
Face value of bonds issued	80,000	-
Less: Other financial liabilities – value of conversion rights (Note 22)	(20,043)	-
Less: Transaction costs	(3,362)	-
	56,595	-
Finance costs[1]	298	-
Less: Coupon accrued	(157)	-
Non-current liability	56,736	-

[1] Finance costs are calculated by applying the effective interest rate of 14.8% to the liability component.

	Consolidated	
	2011	2010
	US$'000	US$'000
Note 21. Non-current liabilities – Payables		
Other creditors	1,037	651
	1,037	651

	2011	2010
	US$'000	US$'000
Note 22. Non-current – Other financial liabilities		
Conversion rights on convertible bonds	23,394	-
	23,394	-

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

	Assets		Liabilities		Net liability	
	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000	2011 US$'000	2010 US$'000
Note 23. Non-current liabilities – Deferred tax liability						
Recognised deferred tax assets and liabilities are attributable to the following:						
Exploration expenditure	-	-	4,727	3,902	4,727	3,902
Development and production expenditure	-	-	6,456	5,075	6,456	5,075
Prepaid borrowing costs	-	-	-	91	-	91
Royalty benefit (net)	-	(338)	3,216	-	3,216	(338)
Provisions	(3)	-	-	-	(3)	-
Tax losses	-	(5,585)	-	-	-	(5,585)
Tax (assets) / liabilities	(3)	(5,923)	14,399	9,068	14,396	3,145
Set off	3	5,923	(3)	(5,923)	-	-
Net tax liabilities	-	-	14,396	3,145	14,396	3,145

	Consolidated	
	2011 US$'000	2010 US$'000
Note 24. Non-current liabilities – Provisions		
Restoration	5,208	4,810
Balance at beginning of financial year	4,810	3,255
Additional provision during financial year	-	1,396
Unwinding of discount	398	159
Balance at end of financial year	5,208	4,810

	Note	Consolidated 2011 Number of shares '000	Consolidated 2010 Number of shares '000	Consolidated 2011 US$'000	Consolidated 2010 US$'000
Note 25. Contributed equity					
(a) Issued share capital					
Ordinary shares					
Fully paid	(b) (c)	1,130,812	1,126,622	125,578	124,999
Partly paid	(b) (c)	1,500	2,000	398	329
		1,132,312	1,128,622	125,976	125,328

(b) Movements in ordinary share capital

(i) Ordinary shares (fully paid)

Date	Details	Number of shares	Issue price	US$'000
30/06/2009	Balance as at 30 June 2009	1,125,621,515		124,703
31/12/2009	Exercise of general options*	1,000,000	A$0.33	296
30/06/2010	Balance as at 30 June 2010	1,126,621,515		124,999
1/09/2010	Exercise of employee options*	1,190,000	A$0.15	154
1/09/2010	Transfer from partly paid shares	1,000,000	A$0.15	116
8/09/2010	Exercise of employee options*	1,500,000	A$0.15	211
11/04/2011	Transfer from partly paid shares	500,000	A$0.25	98
30/06/2011	Balance as at 30 June 2011	1,130,811,515		125,578

* Relates to issue of fully paid ordinary shares on exercise of options issued to consultants and employees. Information relating to Option Schemes is set out in Note 34.

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

Date	Details	Number	Issue price	US$'000
30/06/2009	Balance as at 30 June 2009	1,500,000		214
03/06/2010	Exercise of employee options*	500,000	A$0.27	115
30/06/2010	Balance as at 30 June 2010	2,000,000		329
1/09/2010	Transfer to fully paid shares	(1,000,000)	A$0.15	(116)
12/11/2010	Exercise of employee options*	500,000	A$0.27	136
12/11/2010	Exercise of employee options*	500,000	A$0.30	147
11/04/2011	Transfer to fully paid shares	(500,000)	A$0.25	(98)
30/06/2011	Balance as at 30 June 2011	1,500,000		398

* Relates to issue of partly paid ordinary shares on exercise of employee options. Information relating to Employee Option Scheme is set out in Note 34.

(c) Ordinary shares

Fully paid

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

Partly paid

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

(d) Unlisted options over unissued ordinary shares

Information related to general options, the Employee Option Scheme and the Employee Performance Incentive Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year is set out in Note 34.

	Consolidated	
	2011 US$'000	2010 US$'000
Note 26. Reserves and retained profits		
(a) Reserves		
Share-based payment reserve	6,605	4,057
Movements:		
Balance at beginning of financial year	4,057	3,185
Employee share based payment expense	784	872
Share option expense	1,764	-
Balance at end of financial year	6,605	4,057
Hedge reserve	-	(54)
Movements:		
Balance at beginning of financial year	(54)	(186)
Movement in net market value of hedge contracts	54	132
Balance at end of financial year	-	(54)
Total reserves	6,605	4,003
(b) Retained profits		
Accumulated losses at beginning of financial year	(14,966)	(67,311)
Net Profit / (loss) for financial year	34,936	52,345
Retained profits / (accumulated losses) at end of financial year	19,970	(14,966)

(c) Nature and purpose of reserves

Share-based payment reserve:

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

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

Hedge reserve:

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

	Consolidated	
	2011	2010
	US$'000	US$'000
Note 27. Franking credits		
Franking credits available for subsequent financial years	84	1

Note 28. Asset acquisition

(a) Summary of acquisition

On 2 June 2011, Horizon Oil (Beibu) Limited, a wholly owned subsidiary of Horizon Oil Limited, entered into a sale and purchase agreement with Petsec America Pty Limited to acquire 100% of the issued capital of Petsec Petroleum LLC (subsequently renamed Horizon Oil (Nanhai) LLC). Horizon Oil (Nanhai) LLC held a 25% interest in Block 22/12, Beibu Gulf, offshore China which includes a 12.25% interest in the WZ6-12/12-8W oil fields development. The acquisition increased Horizon Oil's net reserves in Block 22/12 from 6.2 mmbo to 11.3 mmbo. The effective date of acquisition was 1 January 2011, such that the entity was consolidated from that date.

Whilst the acquisition involved the purchase of the legal entity Horizon Oil (Nanhai) LLC, formerly Petsec Petroleum LLC, the substance of the transaction was the acquisition of an asset, being a 25% interest in Block 22/12. As such, in accordance with the accounting policy described in Note 1(m), the Group identified and recognised the individual identifiable assets acquired and liabilities assumed at the effective acquisition date. The consideration paid was allocated to the individual identifiable assets and liabilities on the basis of their relative fair values. Transaction costs associated with the acquisition are a component of the consideration transferred.

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

	US$'000
Purchase consideration:	
Cash paid	40,500
Share options issued	1,764
Acquisition costs	106
Total purchase consideration	42,370

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

	Fair Value US$'000
Cash	63[1]
Receivables	46[1]
Exploration phase expenditure	1,769
Oil and gas assets – development	41,825
Payables	(1,333)[1]
Net identifiable assets acquired	42,370

[1] The acquired entity is a participant in the Block 22/12 joint venture operation. The entity has an interest in the assets and liabilities of this joint venture operation. The entity's share of assets and liabilities of the joint venture operation at the effective acquisition date is included in the assets and liabilities recognised on acquisition in accordance with the accounting policy described in Note 1(b).

The acquired entity is a party to the Block 22/12 joint venture operation. Contingent liabilities in respect of joint venture operations are detailed in Note 37.

There were no acquisitions in the year ended 30 June 2010.

(b) Purchase consideration – cash outflow

	US$'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	40,500
Acquisition costs	106
	40,606
Less: cash balances acquired	63
Outflow of cash – investing activities	40,543

Note 29. Subsidiaries

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

Name of subsidiary	Country of incorporation	Percentage of equity holding and voting interest (all shares issued are ordinary shares)		Business activities carried on in
		2011 %	2010 %	
Horizon Oil International Limited	New Zealand	100	100	New Zealand
Horizon Oil (New Zealand) Limited	New Zealand	100	100	New Zealand
Horizon Oil International Holdings Limited	BVI	100	100	BVI
Horizon Oil (Beibu) Limited	BVI	100	100	China
Horizon Oil (China Holdings) Limited	BVI	100	100	BVI
Horizon Oil (G2) Limited	BVI	100	100	BVI
Horizon Oil (Papua) Limited	Bermuda	100	100	PNG
Horizon Oil (USA) Inc.	USA	100	100	USA
Ketu Petroleum Limited	BVI	100	-	BVI
Horizon Oil (Nanhai) LLC	USA	100	-	China

Note 30. Interest in joint venture operations

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

	Consolidated	
	2011 US$'000	2010 US$'000
Current Assets		
Cash and cash equivalents	749	1,919
Receivables	529	272
Inventories	2,954	2,712
Total Current Assets	4,232	4,903
Non-Current Assets		
Plant and equipment	538	334
Exploration phase expenditure	62,576	42,486
Development and production phase expenditure	132,198	65,238
Total Non-Current Assets	195,312	108,058
Total Assets	199,544	112,961
Current Liabilities		
Payables	6,705	4,336
Total Current Liabilities	6,705	4,336
Non-Current Liabilities		
Payables	857	448
Total Non-Current Liabilities	857	448
Total Liabilities	7,562	4,784
Share of net assets employed in joint venture operations	191,982	108,177

Contingent liabilities in respect of joint venture operations are detailed in Note 37.

Exploration expenditure commitments and development expenditure in respect of joint venture operations are detailed in Note 40.

The Group had an interest in the following joint venture operations:

Permit or licence	Principal activities	Interest (%) 30 June 2011	Interest (%) 30 June 2010
New Zealand			
PMP 38160 (Maari/Manaia)	Oil and gas production, exploration and development	10.00%	10.00%
PEP 51313 (Matariki)	Oil and gas exploration	30.00%	30.00%
China			
Block 22/12	Oil and gas exploration and development	26.95% / 55%[1]	30.00%[1]
PNG			
PRL 4	Oil and gas exploration and development	50.00%[2]	50.00%[2]
PRL 21	Oil and gas exploration	45.00%[2]	-
PRL 5	Oil and gas exploration	-	50.00%[2]

1. China National Offshore Oil Corporation is entitled to participate at up to a 51.00% equity level in any commercial development within Block 22/12. During the year they exercised their right to participate in the development of WZ 6-12 and WZ 12-8W within Block 22/12 at 51.00%.

2. PNG Govt may appoint a state nominee to acquired up to a 22.5% participating interest in any commercial development within PRL 4 and PRL 21. PRL 21 was granted with effect from 18 March 2011 for a 5 year term following the settlement of legal proceedings with the Papua New Guinea Government over the acreage, which was formerly designated PRL 5.

Note 31. Remuneration of external auditors

	Consolidated 2011 US$	Consolidated 2010 US$
1. PwC Australia		
Audit and other assurance services		
Audit and review of financial reports	141,848	118,658
Other assurance services		
Assurance on convertible bond issue	80,483	-
Due diligence	12,165	-
Accounting advice	5,370	-
Total remuneration for audit and other assurance services	239,866	118,658
Taxation services		
Tax compliance	38,173	17,583
Total remuneration for taxation services	38,173	17,583
2. Non-PwC audit firms		
Audit and other assurance services	17,943	-
Other services	-	-
Total remuneration for audit and other assurance services	17,943	-
Total auditors' remuneration	295,982	136,241

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

Note 32. Remuneration of key management personnel

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

Key management personnel compensation

	Consolidated 2011 US$	2010 US$
Short-term employee benefits	3,127,224	2,086,557
Post-employment benefits	163,647	138,450
Long term benefits	48,647	81,167
Termination benefits	-	505,000
Share-based payments (non-cash)	681,490	761,589
Total key management personnel remuneration	4,021,008	3,572,763

Detailed remuneration disclosures are provided in sections A-D of the audited Remuneration Report on pages 24 to 33.

Key management personnel shareholdings in the Company

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

2011 Name	Balance at start of financial year	Received during financial year on the exercise of options	Other changes during financial year	Balance at end of financial year
Directors: Ordinary shares				
E F Ainsworth	4,010,375	-	-	4,010,375
B D Emmett	12,302,607	1,500,000	-	13,802,607
J Humphrey	5,112,034	-	-	5,112,034
R A Laws	779,375	-	-	779,375
P Nimmo[1]	4,032,321	1,125,000	2,717,266	7,874,587
G de Nys	361,250	-	-	361,250
A Stock	-	-	-	-
Other key management personnel of the Group: Ordinary shares and partly paid ordinary shares				
A Fernie	2,200,431	-	(850,000)	1,350,431
M Sheridan	5,768,201	1,000,000	-	6,768,201

2010 Name	Balance at start of financial year	Received during financial year on the exercise of options	Other changes during financial year	Balance at end of financial year
Directors: Ordinary shares				
E F Ainsworth	4,010,375	-	-	4,010,375
B D Emmett	7,397,742	-	4,904,865	12,302,607
J Humphrey	5,112,034	-	-	5,112,034
R A Laws	779,375	-	-	779,375
P Nimmo[1]	4,032,321	-	-	4,032,321
G de Nys	361,250	-	-	361,250
Other key management personnel of the Group: Ordinary shares and partly paid ordinary shares				
A Fernie	1,750,000	-	450,431	2,200,431
M Sheridan	4,817,770	500,000	450,431	5,768,201

1. P Nimmo acquired 2,717,266 shares on 28 July 2010 following an ownership restructure of Oasis Energy Investments Pty Ltd (a Horizon Oil Limited shareholder).

Key management personnel option holdings in the Company

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

Listed options:

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

Unlisted options:

2011 Name	Balance at start of financial year	Granted as remuneration during financial year	Exercised during financial year	Other changes during financial year	Balance at end of financial year	Vested and exercisable at end of financial year	Unvested
Directors:							
Unlisted options							
E F Ainsworth	-	-	-	-	-	-	-
B D Emmett	16,650,000	-	(1,500,000)	-	15,150,000	11,350,000	3,800,000
J Humphrey	-	-	-	-	-	-	-
R A Laws	-	-	-	-	-	-	-
P Nimmo	7,295,000	-	(1,125,000)	-	6,170,000	6,170,000	-
G de Nys	500,000	-	-	-	500,000	166,667	333,333
A Stock	-	-	-	-	-	-	-
Other key management personnel of the Group:							
Unlisted options							
A Fernie	7,450,000	-	-	-	7,450,000	5,950,000	1,500,000
M Sheridan	7,400,000	-	(1,000,000)	-	6,400,000	4,900,000	1,500,000

2010 Name	Balance at start of financial year	Granted as remuneration during financial year	Exercised during financial year	Other changes during financial year	Balance at end of financial year	Vested and exercisable at end of financial year	Unvested
Directors:							
Unlisted options							
E F Ainsworth	-	-	-	-	-	-	-
B D Emmett	10,950,000	5,700,000	-	-	16,650,000	10,300,000	6,350,000
J Humphrey	-	-	-	-	-	-	-
R A Laws	-	-	-	-	-	-	-
P Nimmo	7,295,000	-	-	-	7,295,000	6,805,000	490,000
G de Nys	-	500,000	-	-	500,000	-	500,000
Other key management personnel of the Group:							
Unlisted options							
A Fernie	5,950,000	1,500,000	-	-	7,450,000	4,600,000	2,850,000
M Sheridan	6,400,000	1,500,000	(500,000)	-	7,400,000	4,500,000	2,900,000

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

Details of options provided as remuneration and ordinary shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the Remuneration Report on pages 24 to 33.

Key management personnel share appreciation right holdings in the Company

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

Share appreciation rights:

2011 Name	Balance at start of financial year	Granted as remuneration during financial year	Exercised during financial year	Other changes during financial year	Balance at end of financial year	Vested and exercisable at end of financial year	Unvested
Executive Directors:							
Share appreciation rights							
B D Emmett	-	2,713,714	-	-	2,713,714	-	2,713,714
Other key management personnel of the Group:							
Share appreciation rights							
A Fernie	-	1,990,057	-	-	1,990,057	-	1,990,057
M Sheridan	-	1,990,057	-	-	1,990,057	-	1,990,057

Details of SARs provided as remuneration and ordinary shares issued on the exercise of such SARs, together with terms and conditions of the SARs, can be found in section D of the Remuneration Report on pages 24 to 33.

Loans to key management personnel

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

Other transactions with key management personnel

See Note 33 for other transactions with directors and other key management personnel.

Note 33. Related parties

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

Directors and other key management personnel

Mr J Humphrey, a director of Horizon Oil Limited is also a member of the law firm Mallesons Stephen Jacques. During the financial year, Mallesons Stephen Jacques provided legal services to the Group. Total fees paid during the financial year amounted to US$543,687 (2010: US$229,382).

Dr P Nimmo, a director of Horizon Oil Limited is also a director and shareholder of Hydra Energy Services Pty Limited. During the financial year, Hydra Energy Services Pty Limited provided consulting services to the Group. Total fees paid during the financial year amounted to US$2,267 (2010: US$63,216).

Disclosures relating to key management personnel are set out in Note 32.

Subsidiaries

Interests in subsidiaries are set out in Note 29.

Details in respect of guarantees provided to subsidiaries are set out in Note 44.

Transactions with related parties

Transactions between Horizon Oil Limited and related parties in the wholly-owned Group during the financial years ended 30 June 2010 and 2011 consisted of:

(a) Contributions to share capital by Horizon Oil Limited;

(b) Loans advanced by Horizon Oil Limited;

(c) Loans repaid to Horizon Oil Limited;

(d) Dividends paid by subsidiaries to Horizon Oil Limited;

(e) Payments to Horizon Oil Limited under financial guarantee contract arrangements;

(f) Interest payments to Horizon Oil Limited on loans advanced to subsidiaries;

(g) Reimbursement of expenses to Horizon Oil Limited; and

(h) Uncalled share capital.

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

The following transactions occurred with related parties:

	2011 US$	2010 US$
Superannuation contributions		
Superannuation contributions to superannuation funds on behalf of employees	138,929	104,501
Other transactions		
Dividends paid to Horizon Oil Limited from wholly owned subsidiary	19,340,000	-
Payments to Horizon Oil Limited under financial guarantee contract arrangements from wholly owned subsidiary	205,616	525,839
Contributions to share capital in subsidiaries by Horizon Oil Limited	1	-
Final call on partly paid ordinary shares in Horizon Oil Limited paid by employees	277,066	-
Provision for write down / (write back) of investment in subsidiaries by Horizon Oil Limited	(1,335,925)	-

Loans to/from related parties

	2011 US$	2010 US$
Loans to other related parties (uncalled share capital)		
Balance at beginning of the financial year	330,692	209,341
Loans advanced	378,619	121,351
Loan repayments received	(277,066)	-
Interest charged/paid	-	-
Balance at end of financial year	432,245	330,692

	2011 US$	2010 US$
Loans from Horizon Oil Limited (ultimate Australian parent entity)		
Balance at beginning of the financial year	84,095,536	87,291,153
Loans advanced	70,934,075	4,444,756
Loan repayments received	-	(9,010,429)
Interest charged	2,911,519	10,889,621
Interest paid	(5,402,801)	(7,000,000)
Provision for (write down) / write back of loans to subsidiaries by Horizon Oil Limited	-	(2,519,565)
Balance at end of financial year	152,538,329	84,095,536

Terms and conditions

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

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties, and no interest has been charged or credited to loans with other related parties. Certain loans to/from subsidiaries are subject to interest, however the interest is typically suspended until commercial production commences or a change in the ownership interest of the entity occurs. The average interest rate on loans attracting interest during the year was 5.5% (2010: 5.6%) Outstanding balances are unsecured and repayable in cash.

Note 34. Share-based payments

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

Grant date	Expiry date	Exercise price	Balance start of financial year Number	Granted during financial year Number	Exercised during financial year Number	Forfeited during financial year Number	Balance end of financial year Number	Vested and exercisable at end of financial year Number
Consolidated Entity 2011								
Share Appreciation Rights issued								
27/10/2010	27/10/2015	N/A[4]	-	6,693,828	-	-	6,693,828	-
Options issued								
01/09/2005	01/09/2010	A$0.15[1]	2,690,000	-	(2,690,000)	-	-	-
31/08/2006	31/08/2011	A$0.33	14,100,000	-	-	-	14,100,000	14,100,000
31/08/2006	31/08/2011	A$0.33[1]	6,010,000	-	-	-	6,010,000	6,010,000
10/10/2007	10/10/2012	A$0.35[1]	5,973,000	-	-	-	5,973,000	5,973,000
03/10/2008	03/10/2013	A$0.27[1]	2,848,000	-	(500,000)	-	2,348,000	1,232,000
03/10/2008	03/10/2013	A$0.27[3]	350,000	-	-	-	350,000	233,333
25/09/2009	25/10/2014	A$0.30[1]	6,675,000	-	(500,000)	-	6,175,000	1,725,000
25/09/2009	25/10/2014	A$0.30[3]	850,000	-	-	-	850,000	283,333
09/10/2009	09/10/2014	A$0.32[3]	2,700,000	-	-	-	2,700,000	900,000
11/12/2009	11/12/2014	A$0.35[2]	500,000	-	-	-	500,000	166,667
16/09/2010	16/09/2015	A$0.31[3]	-	350,000			350,000	-
06/06/2011	30/06/2014	A$0.37[5]	-	15,000,000	-	-	15,000,000	15,000,000
Total			42,696,000	15,350,000	-	(3,690,000)	54,356,000	45,623,333
Weighted average exercise price			A$0.31	A$0.37	A$0.19	-	A$0.34	A$0.34

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

Grant date	Expiry date	Exercise price	Balance start of financial year Number	Granted during financial year Number	Exercised during financial year Number	Forfeited during financial year Number	Balance end of financial year Number	Vested and exercisable at end of financial year Number
Consolidated Entity 2010								
Options issued								
01/09/2005	01/09/2010	A$0.15[1]	2,690,000	-	-	-	2,690,000	2,690,000
31/08/2006	31/08/2011	A$0.33	14,100,000	-	-	-	14,100,000	14,100,000
31/08/2006	31/08/2011	A$0.33[1]	6,010,000	-	-	-	6,010,000	6,010,000
23/03/2007	31/12/2009	A$0.33[2]	1,000,000	-	(1,000,000)	-	-	-
10/10/2007	10/10/2012	A$0.35[1]	5,973,000	-	-	-	5,973,000	3,982,000
03/10/2008	03/10/2013	A$0.27[1]	3,348,000	-	(500,000)	-	2,848,000	616,000
03/10/2008	03/10/2013	A$0.27[3]	350,000	-	-	-	350,000	116,667
25/09/2009	25/10/2014	A$0.30[1]	-	6,675,000	-	-	6,675,000	-
25/09/2009	25/10/2014	A$0.30[3]	-	850,000	-	-	850,000	-
09/10/2009	09/10/2014	A$0.32[3]	-	2,700,000	-	-	2,700,000	-
11/12/2009	11/12/2014	A$0.35[2]	-	500,000	-	-	500,000	-
Total			33,471,000	10,725,000	(1,500,000)		42,696,000	27,514,667
Weighted average exercise price			A$0.31	A$0.30	A$0.31	-	A$0.31	A$0.31

1 Relates to options issued under the Employee Performance Incentive Plan.
2 Relates to general options issued to third party consultants.
3. Relates to options issued under the Employee Option Scheme.

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2011 was A$0.30 (2010 – A$0.33).

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.32 years (2010 – 2.19 years).

Long Term Incentive Plan

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

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

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

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

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

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

Employee Option Scheme

The issue of securities under the Employee Option Scheme was approved by shareholders for the purposes of ASX Listing Rules at the 2008 annual general meeting. The scheme is open to permanent full time or part time employees of the Company. Executive directors and the Company's senior executives were eligible to participate until April 2010, when the board resolved to modify the remuneration arrangements for the Company's senior executives.

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

Each option entitles the employee to subscribe for one share in the Company and each option expires 5 years from the date of issue. For options issued prior to 30 June 2006, half of the total number of options issued to an employee may be exercised at any time after issue and half may be exercised at any time after the expiration of one year following the date of issue. Options granted from 1 July 2006 are progressively exercisable in three equal tranches from dates which are 12, 24 and 36 months after grant date. Upon exercise of the option, only one cent of the exercise price will be payable, with the balance being paid at the expiration of the period which is 5 years from the date of the issue of the options.

The exercise price will be the greater of:

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

(b) 20 cents per option.

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

Employee Performance Incentive Plan

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

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

The number of options granted under the Employee Performance Incentive Plan was subject to the performance of relevant employees. Eligible employees were required to achieve at least 50% of agreed annual performance objectives before options would be granted. The number of options granted was equal to the percentage of performance objective achievement multiplied by the maximum number of options able to be granted. The maximum number of options able to be granted to an employee in any financial year was 60% of the total number of options granted to the relevant employee under the Company's employee share scheme.

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

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

Options/share appreciation rights issued

During the financial year, the company issued 350,000 options under the Employee Option Scheme. The exercise price of these options is A$0.31 per option with a share price hurdle of A$0.36 to be achieved before the options are exercisable. The assessed fair value at grant date of these options was A$0.1260 per option.

15,000,000 general options were issued to Petsec America Pty Limited as part consideration for the acquisition of Petsec Petroleum LLC (the Petsec subsidiary which held Petsec's interest in Block 22/12, offshore China). The exercise price of these options is A$0.37 per option with no vesting conditions. The assessed fair value at grant date of these options was A$0.1095 per option.

6,693,828 share appreciation rights were issued under the Long Term Incentive Plan. The exercise price of these SARs is A$0.3106 with performance hurdles to be achieved prior to exercise. The independently assessed fair value at grant date of these share appreciation rights was A$0.1382 per SAR.

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

The model inputs for the grant of employee options during the financial year ended 30 June 2011 included:

Grant date	16 September 2010
Expiry date	16 September 2015
Exercise price	A$0.31
Share price at grant date	A$0.30
Expected price volatility	42.5% p.a.
Risk free rate	4.83% p.a.
Expected dividend yield	0.00% p.a.

The model inputs for the grant of general options during the financial year ended 30 June 2011 included:

Grant date	6 June 2011
Expiry date	30 June 2014
Exercise price	A$0.37
Share price at grant date	A$0.35
Expected price volatility	40.6% p.a.
Risk free rate	4.924% p.a.
Expected dividend yield	0.00% p.a.

The model inputs for the grant of share appreciation rights during the financial year ended 30 June 2011 included:

Grant date	1 October 2010
Expiry date	1 October 2015
Exercise price	A$0.31
Share price at grant date	A$0.31
Expected price volatility	43.4% p.a.
Risk free rate	5.01% p.a.
Expected dividend yield	0.00% p.a.

Expenses arising from share-based payment transactions

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

	Consolidated 2011 US$'000	Consolidated 2010 US$'000
Share Appreciation Rights issued under:		
Long Term Incentive Plan	242	-
Options issued under:		
Employee Option Scheme	190	252
Employee Performance Incentive Plan	352	620
Total employee share based payment expense	784	872

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

No options/SARs were modified during the financial year.

Options/SARs exercised during the financial year

During the financial year 3,690,000 options were exercised. 2,690,000 of the options exercised during the year were for employees, such that the company issued a corresponding number of fully paid ordinary shares. The remaining 1,000,000 options exercised during the year were for employees, such that the company issued a corresponding number of ordinary shares, partly paid to A$0.01 in accordance with the Employee Performance Incentive Plan.

No SARs were exercised during the financial year.

Options/SARs lapsing or cancelled during the financial year

During the financial year, no options or SARs lapsed or were cancelled.

Options/SARs exercised and options/SARs issued subsequent to 30 June 2011

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

On 5 August 2011, 6,478,276 share appreciation rights were granted under the Long Term Incentive Plan. Of the 6,478,276 SARs granted, 2,626,328 are proposed to be issued to an executive director and are therefore granted subject to shareholder approval at the 2011 annual general meeting.

No SARs have been exercised subsequent to financial year end.

	Consolidated 2011 US$'000	Consolidated 2010 US$'000
Note 35. Employee entitlements		
Employee entitlement liabilities are included within:		
Current – other creditors (Note 18)	492	250
Non-current - other creditors (Note 21)	180	203
	Number 2011	**Number 2010**
Employee numbers		
Average number of employees during financial year	10	8

Note 36. Contingent assets

There were no contingent assets as at 30 June 2011.

The Group had the following contingent assets as at 30 June 2010 that subsequently became receivable and were received during the current year following the receipt of ministerial consent to the working interest transfers:

On 14 September 2009, the Group entered into a sale agreement with a subsidiary of Talisman Energy Inc. to dispose of a 22.05% working interest in PRL 4 and all of the shares in a wholly-owned subsidiary, Horizon Oil (Kanau) Limited. Total consideration for the transaction amounted to US$60 million, of which the company received US$38 million (US$29 million net of intercompany loan repayments and discounting of deferred consideration) in proceeds during the year ended 30 June 2010 including US$30 million cash and US$8 million work carry. The remaining US$22 million was deferred pending receipt of PNG ministerial consent to the working interest transfers required by the transaction. Due to the uncertainty regarding PNG ministerial consent, the deferred consideration was recorded as a contingent asset in the 2010 financial statements. During 2011 the required PNG ministerial approvals were received and accordingly, the US$22 million received during the current year was booked as revenue.

Note 37. Contingent liabilities

The Group had contingent liabilities as at 30 June 2011 and 30 June 2010 that may become payable in respect of:

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

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

Note 38. Events after balance sheet date

Other than the matters disclosed in this report, there has not been any matter or circumstance which has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

- The Group's operations in future financial years; or
- The results of those operations in future financial years; or
- The Group's state of affairs in future financial years.

The financial statements were authorised for issue by the Board of Directors on 25 August 2011. The Board of Directors has the power to amend and reissue the financial statements.

Note 39. Commitments for expenditure

(i) Non-cancellable operating leases

The Group leases various office premises in Sydney and PNG under non-cancellable operating leases expiring within 3 to 5 years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	Consolidated	
	2011 US$'000	2010 US$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases, not recognised in the financial statements, are payable as follows:		
Within one financial year	625	403
Later than one financial year but not later than 5 financial years	329	498
	954	901

(ii) Finance leases

The Group leases plant and equipment with a carrying value of US$24,077,458 under a finance lease expiring within 4 years. Under the terms of the lease, the Group has the option to acquire the asset at a price anticipated to be significantly below the market value of the asset on expiry of the lease term.

	Consolidated 2011 US$'000	Consolidated 2010 US$'000
Commitments in relation to finance leases are payable as follows:		
Within one financial year	6,755	6,736
Later than one financial year but not later than 5 financial years	7,908	14,653
Minimum lease payments	14,663	21,389
Less: Future finance charges	(1,163)	(2,550)
Recognised as a lease liability (refer Note 20)	13,500	18,839

(iii) Remuneration commitments

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

	Consolidated 2011 US$'000	Consolidated 2010 US$'000
Within one financial year	2,106	1,577
Later than one financial year but not later than 5 financial years	6,531	795
	8,637	2,372

Note 40. Exploration and development commitments

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

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

2011	New Zealand Development US$'000	New Zealand Exploration US$'000	China Exploration & Development US$'000	Papua New Guinea Exploration US$'000	Total US$'000
Within one financial year	1,168	1,274	49,461	33,521	85,424
Later than one financial year but not later than 5 financial years	-	-	36,341	-	36,341
Total	1,168	1,274	85,802	33,521	121,765

2010	New Zealand Development US$'000	New Zealand Exploration US$'000	China Exploration US$'000	Papua New Guinea Exploration US$'000	Total US$'000
Within one financial year	1,650	37	867	16,870	19,424
Later than one financial year but not later than 5 financial years	-	-	-	-	-
Total	1,650	37	867	16,870	19,424

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

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

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

If a participant to a joint venture operation defaults and fails to contribute its share of joint venture obligations, the remaining joint venture participants are joint and severally liable to meet the obligations of the defaulting participant. In this event, the interest in the permit or licence held by the defaulting participant may be redistributed to the remaining participants. In the event of a default, a contingent liability exists in respect of expenditure commitments due to be met by the Group in respect of defaulting joint venture participants.

Note 41. Reconciliation of net cash flows from operating activities to net profit / (loss)

	Consolidated	
	2011	2010
	US$'000	US$'000
Net profit / (loss) for financial year	34,936	52,345
Exploration and development expenditure written off / expensed	-	-
Depreciation expense	302	95
Movement in employee entitlement liabilities	100	170
Non-cash employee share benefit expense	784	872
Non-cash share option expense	1,764	-
Amortisation expense	10,324	12,096
Amortisation of prepaid financing costs	446	228
Provision for restoration	398	159
Profit on sale of assets	(22,000)	(32,586)
Unrealised movement in value of convertible bond conversion rights	3,351	-
Net unrealised foreign currency losses / (gains)	(51)	(516)
Change in operating assets and liabilities:		
Decrease / (increase) in trade debtors	(87)	(166)
(Increase) / decrease in other debtors and prepayments	944	(207)
(Increase) / decrease in inventory	318	(474)
(Increase) / decrease in deferred tax assets / liabilities	1,776	596
Increase / (decrease) in tax payable	6,859	1,085
Increase / (decrease) in trade creditors	1,640	(1,055)
(Decrease) / increase in other creditors	(126)	569
Net cash inflow / (outflow) from operating activities	41,678	33,211

	Consolidated	
	2011	2010
	US$'000	US$'000
Note 42. Non-cash financing and investing activities		
Carry utilised to fund the Group's share of capital expenditure on PNG licences[1]	633	7,367
	633	7,367

1 Consideration drawn down under the sale to Talisman Energy Inc. of a 50% interest in PRL 4, PNG.

	Consolidated 2011 US cents	2010 US cents
Note 43. Earnings per share		
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	3.09	4.64
From discontinued operation	-	-
Total basic earnings per share attributable to the ordinary equity holders of the company	3.09	4.64
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	3.08	4.63
From discontinued operation	-	-
Total diluted earnings per share attributable to the ordinary equity holders of the company	3.08	4.63

	2011 Number	2010 Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,131,448,583	1,127,654,392
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,134,074,862	1,130,031,199

	2011 US$'000	2010 US$'000
Reconciliation of earnings used in calculating earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the company used in calculating earnings per share		
Basic earnings per ordinary share:		
from continuing operations	34,936	52,347
from discontinued operations	-	(2)
	34,936	52,345
Diluted earnings per ordinary share:		
from continuing operations	34,936	52,347
from discontinued operations	-	(2)
	34,936	52,345

Information concerning the classification of securities

(a) Partly paid ordinary shares

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

Details regarding the partly paid ordinary shares are set out in Note 25.

(b) Options and share appreciation rights granted as compensation

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

Details regarding the options and share appreciation rights are set out in Note 34.

(c) Convertible bonds

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

Details regarding the convertible bonds are set out in Note 20 and 22.

Note 44. Parent entity financial information

(i) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	Parent Entity	
	2011 US$'000	2010 US$'000
Balance sheet		
Current assets	49,596	14,613
Total assets	210,966	106,443
Current liabilities	4,790	1,081
Total liabilities	85,353	1,537
Shareholders' equity		
Issued capital	125,976	125,328
Share based payments reserve	6,605	4,057
Accumulated losses	(6,968)	(24,479)
	125,613	104,906
Profit or (loss) for the year	17,511	8,660
Total comprehensive income / (loss)	17,511	8,660

(ii) Guarantees entered into by the parent entity

The Parent Entity has provided guarantees in respect of leases of the subsidiary participating in the Maari joint venture operations amounting to US$13,500,000 (2010: US$40,800,000).

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

(iii) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2011 or 30 June 2010. For information about guarantees given by the parent entity, please see above.

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

As at 30 June 2011, the parent entity had no contractual commitments for the acquisition of property, plant or equipment (30 June 2010 – US$Nil).

Horizon Oil Limited and Controlled Entities
Securities Exchange Information as at 21 September 2011

DISTRIBUTION OF EQUITY SECURITIES

The distribution of equity security holders ranked according to size at 21 September 2011 was as follows:

	Class of equity security			
	Ordinary shares		Share appreciation rights	Convertible bonds
Size of holding	Shares	Unlisted options		
1 to 1,000	370	-	-	1
1,001 to 5,000	970	-	-	-
5,001 to 10,000	1,023	-	-	-
10,001 to 100,000	2,879	-	-	-
100,001 and over	789	12	3	-
Total	6,031	12	3	1

A total of 674 holders held less than a marketable parcel of 2,174 ordinary shares.

TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest shareholders of the Company's ordinary shares are listed below:

	Name	No. of ordinary shares	% of issued ordinary shares
1	J P Morgan Nominees Australia Limited	189,928,816	16.80
2	National Nominees Limited	158,976,403	14.06
3	Austral-Asia Energy Pty Ltd	129,792,176	11.48
4	Citicorp Nominees Pty Limited	68,953,285	6.10
5	HSBC Custody Nominees (Australia) Limited	60,137,222	5.32
6	Bond Street Custodians Limited	21,969,443	1.94
7	Cogent Nominees Pty Limited	21,553,970	1.91
8	V L H Pty Ltd	13,802,607	1.22
9	Berne No 132 Nominees Pty Ltd	12,811,575	1.13
10	RBC Dexia Investor Services Australia Nominees Pty Limited	12,456,364	1.10
11	Mr Douglas Thomas Nicholas & Mr Graeme Douglas Nicholas	9,505,073	0.84
12	Macquarie Bank Limited	7,952,612	0.70
13	Hydra Energy Services Pty Ltd	7,874,587	0.70
14	Douglas Financial Consultants Pty Ltd	7,800,000	0.69
15	Finot Pty Ltd	7,750,000	0.69
16	Grizzley Holdings Pty Limited	7,447,948	0.66
17	Mr Angus Douglas & Mrs Susan Jane Douglas	7,300,000	0.65
18	Mr David Harvey Peek	5,404,335	0.48
19	Hawkins & Birthwright Limited	5,300,000	0.47
20	Mr Michael Sheridan	5,268,201	0.47
	Total	761,984,617	67.38

SHAREHOLDER INFORMATION

ISSUED SECURITIES

Issued securities as at 21 September 2011:

Security	Number on issue	Number of holders
Ordinary fully paid shares[1]	1,130,811,515	6,031
Ordinary partly paid shares[1]	1,500,000	1
Unlisted employee options	18,246,000	9
Unlisted general options	16,000,000[2]	3
Unlisted share appreciation rights	13,172,104[3]	3
5.5% Convertible bonds of US$200,000 each[4]	400	1

[1] The Company's ordinary fully and partly paid shares are listed on the Australian Securities Exchange.

[2] 15,000,000 general options are held by Petsec America Pty Limited

[3] 2,626,328 unlisted share appreciation rights have been issued subject to shareholders' approval at the 2011 Annual General Meeting.

[4] The Company's 5.5% convertible bonds are listed on the Singapore Securities Exchange, with BT Globenet Nominees Limited the registered holder of the global certificate for 100% of the bonds.

SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

Ordinary shares	No. of ordinary shares	% of issued ordinary shares
Austral-Asia Energy Pty Limited as trustee for Triplex Global Ventures Limited	129,792,176	11.48
Acorn Capital Limited	95,955,758	8.49
Commonwealth Bank of Australia	70,258,135	6.21
Total	296,006,069	26.18

VOTING RIGHTS

a) Ordinary shares – fully paid

Voting of members is governed by the Company's Constitution. In summary, every member present in person or by proxy attorney or representative shall have one vote on a show of hands and one vote for each share on a poll.

b) Ordinary shares – partly paid

Voting of members is governed by the Company's Constitution. In summary, every member present in person or by proxy attorney or representative shall have one vote on a show of hands and upon a poll, is entitled to one vote to the proportion of the total issue price then paid up.

c) Options (employee/general) - unlisted

No voting rights.

d) Share appreciation rights - unlisted

No voting rights.

e) 5.5% Convertible bonds

One vote for each bond, but limited to matters affecting the rights of such bonds.

GLOSSARY

A-IFRS	Australian equivalents to International Financial Reporting Standards
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
bbl(s)	Blue barrel(s), oil barrel volume is 0.159 cubic metres
bcf	Billion cubic feet of natural gas
boe	Barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 cubic feet per barrel and not price equivalence at the time
boepd	Barrel of oil equivalent per day
bopd	Barrel of oil per day inclusive of NGLs
CNOOC	China National Offshore Oil Corporation
DEC	Department of Environment and Conservation (PNG)
DPE	Department of Petroleum and Energy (PNG)
EBITDAX	Earnings before interest, tax, depreciation, depletion and amortisation, and exploration expenses
ESP	Electrical submersible pump
FEED	Front end engineering and design
FID	Final investment decision
FPSO	Floating production, storage and offloading vessel
GST	Goods and services tax
JOA	Joint operating agreement
km	Kilometres
LIBOR	London inter-bank offered rate
LNG	Liquified natural gas
mmbbl/mmbo	Million barrels of oil
mmboe	Million barrels of oil equivalent
NGL(s)	Natural gas liquid(s)
ODP	Overall development plan (China)
PDL	Petroleum development licence
PEP	Petroleum exploration permit
PMP	Petroleum mining permit
PRL	Petroleum retention licence
Reserves	Reserves as included in this report refers to both proven and probable reserves (2P). Proven and probable reserves are reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable – there is at least a 50% probability that reserves recovered will exceed proven and probable reserves.
Contingent Resources	The Company's technically recoverable proven and probable resources (2C) for its discovered oil and gas fields are classified as contingent resources. These resources would be expected to be booked in reserves (proven and probable reserves) once commercialisation arrangements have been finalised.
PSA	Production Sharing Agreement
PNG	Papua New Guinea
SDA	Supplemental Development Agreement (China)
USD / US$	United States dollars
WHP	Wellhead platform
WOU	Workover unit
2D Seismic	Seismic recorded in 2 dimensions
3D Seismic	Seismic recorded in 3 dimensions

NOTES

NOTES

BOARD OF DIRECTORS	Fraser Ainsworth AM (Chairman) Brent Emmett (Chief Executive Officer) John Humphrey Robert Laws PSM Gerrit de Nys Andrew Stock
COMPANY SECRETARY	Michael Sheridan
ASSISTANT COMPANY SECRETARY	Richard Beament
AUSTRALIAN REGISTERED OFFICE (PRINCIPAL PLACE OF BUSINESS)	Level 7, 134 William Street, WOOLLOOMOOLOO NSW 2011 Telephone: +(612) 9332 5000 Facsimile: +(612) 9332 5050 E-mail: exploration@horizonoil.com.au Web site: www.horizonoil.com.au
DOMICILE AND COUNTRY OF INCORPORATION	Australia
SHARE REGISTRAR	**Boardroom Pty Limited** Level 7, 207 Kent Street SYDNEY NSW 2000 Telephone: +(612) 9290 9600
CONVERTIBLE BOND REGISTRAR	**Deutsche Bank Luxembourg S.A.** 2, Boulevard Konrad Adenauer L-1115, LUXEMBOURG
SOLICITORS	**Mallesons Stephen Jaques** Level 30 Waterfront Place 1 Eagle Street BRISBANE QLD 4000
AUDITOR	**PricewaterhouseCoopers** Riverside Centre 123 Eagle Street BRISBANE QLD 4000
TRUSTEE FOR CONVERTIBLE BOND HOLDERS	**DB Trustees (Hong Kong) Limited** Level 52, International Commerce Centre 1 Austin Road West Kowloon HONG KONG
STOCK EXCHANGES	Horizon Oil Limited shares are listed on the Australian Securities Exchange (ASX) ASX code: HZN Horizon Oil Limited convertible bonds are listed on the Singapore Securities Exchange (SGX)
NOTICE OF ANNUAL GENERAL MEETING	The Annual General Meeting of Horizon Oil Limited will be held at Mezzanine Level, Robinson / William Room, Bayview Boulevard Sydney, 90 William Street, SYDNEY Time: 10.00am Date: 17 November 2011

Horizon Oil
ABN 51 009 799 455

Level 7, 134 William Street
Woolloomooloo NSW 2011 Australia
T +612 9332 5000 F +612 9332 5050
www.horizonoil.com.au

NOTICE OF 2011 ANNUAL GENERAL MEETING

The Annual General Meeting ("AGM") of the members of the Company will be held at 10.00 am on Thursday 17 November 2011 at Mezzanine Level, Robinson / William Room, Bayview Boulevard Hotel, 90 William Street, Sydney to transact the business set out below.

Members should refer to the accompanying Explanatory Memorandum for further information concerning the business to be carried out at this meeting.

Business

1 Consideration of reports

To receive and consider the Annual Financial Statements, the Directors' Report and the Independent Audit Report of the Company for the year ended 30 June 2011.

There is no requirement for members to pass a resolution on these reports.

2 Remuneration Report

To consider and, if thought appropriate, to pass the following as an advisory ordinary resolution:

"That the Remuneration Report for the year ended 30 June 2011 (set out in the Directors' Report) be adopted".

This resolution is advisory only and does not bind the Company. Further information in relation to this advisory resolution is set out in the Explanatory Memorandum attached to this Notice of Meeting.

Voting restriction

No votes may be cast on this item by members of the key management personnel of the Company or their closely related parties. However, a vote may be cast by such a person as a proxy for a person who is entitled to vote on this item, appointed by way of a proxy form that directs how the proxy is to vote on the item.

3 Election of director – Mr Andrew Stock

To consider and, if thought appropriate, to pass the following ordinary resolution:

"That Andrew Stock, a director holding office until the 2011 Annual General Meeting in accordance with the Company's Constitution, being eligible, is elected as a director of the Company".

Further information in relation to this resolution and Mr Stock is set out in the Explanatory Memorandum attached to this Notice of Meeting.

4 Approval of issue of 5.50% US$80 million convertible bonds

To consider and, if thought appropriate, to pass the following ordinary resolution:

"That the issue of the 5.50% US$80 million convertible bonds ("Bonds") and the future issue of ordinary shares to the holders of Bonds in accordance with the terms and conditions of the Bonds be approved for all purposes".

Information in respect of the convertible bonds issued, including a summary of the key terms and conditions of the convertible bonds, is set out in the Explanatory Memorandum attached to this Notice of Meeting.

Voting exclusion statement

In accordance with the ASX Listing Rules, the Company will disregard any votes cast in respect of Item 4 by a person who participated in the issue of Bonds and any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

5 Approval of issue of 15 million general options to Petsec America Pty Limited for the purposes of ASX Listing Rules 7.4 and 7.5

To consider and, if thought appropriate, to pass the following ordinary resolution:

"That the issue of 15 million options to Petsec America Pty Limited as part consideration for the acquisition of the share capital of Petsec Petroleum LLC, as set out in the attached Explanatory Memorandum to this Notice of Meeting, be approved for all purposes".

A summary of the key terms and conditions of the options issued and the purpose of the issuance is set out in the Explanatory Memorandum attached to this Notice of Meeting.

Voting exclusion statement

In accordance with the ASX Listing Rules, the Company will disregard any votes cast in respect of Item 5 by Petsec America Pty Limited and any of its associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form.

6 Approval of 2011 grant of long term incentives to Mr Brent Emmett, chief executive officer and executive director

To consider and, if thought appropriate, to pass the following as an ordinary resolution:

"That the grant of securities (including share appreciation rights and shares) under the Long Term Incentive Plan to Mr Brent Emmett (chief executive officer and executive director), as set out in the attached Explanatory Memorandum to this Notice of Meeting, be approved for all purposes."

Voting exclusion statement and voting restriction

In accordance with the ASX Listing Rules, the Company will disregard any votes cast in respect of Item 6 by a director of the Company (except a director who is ineligible to participate in any employee incentive scheme in relation to the Company) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

In accordance with the Corporations Act 2001 (Cth), a vote must not be cast on Item 6 by a member of the key management personnel of the company, or their closely related parties, acting as proxy, if their appointment does not specify the way the proxy is to vote on Item 6. However, this voting restriction does not apply if the member of key management personnel is the Chairman of the meeting acting as proxy and their appointment expressly authorises the Chairman of the meeting to exercise the proxy even if that item is connected directly or indirectly with the remuneration of a member of the key management personnel of the Company.

7 Renewal of approval of issue of securities under the Employee Option Scheme for the purposes of ASX Listing Rules 7.1 and 7.2

To consider and, if thought appropriate, to pass the following ordinary resolution:

"That the issue of options under the Employee Option Scheme be approved as an exception to Listing Rule 7.1".

A summary of the key terms and conditions of the Employee Option Scheme is set out in the Explanatory Memorandum attached to this Notice of Meeting.

Voting exclusion statement and voting restriction

In accordance with the ASX Listing Rules, the Company will disregard any votes cast in respect of Item 7 by a director of the Company (except a director who is ineligible to participate in any employee incentive scheme in relation to the Company) and any of their associates. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

In accordance with the Corporations Act 2001 (Cth), a vote must not be cast on Item 7 by a member of the key management personnel of the company, or their closely related parties, acting as proxy, if their appointment does not specify the way the proxy is to vote on Item 7. However, this voting restriction does not apply if the member of key management personnel is the Chairman of the meeting acting as proxy and their appointment expressly authorises the Chairman of the meeting to exercise the proxy even if that item is connected directly or indirectly with the remuneration of a member of the key management personnel of the Company.

According to a resolution of the directors.

Dated: 6 October 2011

Michael Sheridan
Company Secretary

DETERMINATION OF ENTITLEMENT TO ATTEND AND VOTE

For the purposes of the meeting, shares will be taken to be held by the persons who are registered as members as at 7.00 pm AESST on Tuesday, 15 November 2011.

Proxies

If you are a member entitled to attend and vote, you are encouraged to appoint a proxy to attend and vote on your behalf which you may do by signing the proxy and ticking "For", "Against" or "Abstain" against the various items of business in the proxy form. If you are a member entitled to attend and cast two or more votes, you are entitled to appoint no more than two proxies. Where two proxies are appointed, you may specify the number or proportion of votes that each may exercise, failing which, each may exercise half of the votes. A proxy need not be a member of the Company.

If you want to appoint one proxy, please use the proxy form provided. If you want to appoint two proxies, please follow the instructions on the reverse of the proxy form.

The Company's Constitution provides that, on a show of hands, every person present and qualified to vote shall have one vote. If you appoint one proxy, that proxy may vote on a show of hands, but if you appoint two proxies, neither proxy may vote on a show of hands.

If you appoint a proxy who is also a member or is also a proxy for another member, your directions may not be effective on a show of hands. Your directions will be effective if a poll is required and your proxy votes.

To be effective, the Proxy Form must be received by Boardroom Pty Limited, by online submission or at the address or facsimile number below, or by the Company at its registered office, Level 7, 134 William Street, Woolloomooloo NSW 2011, not later than 10.00 am AESST on Tuesday, 15 November 2011, being 48 hours before the commencement of the meeting.

The Chairman of the meeting is not permitted to vote undirected proxies on Item 2. If the Chairman of the meeting is your proxy, and you fail to provide a voting direction in respect of Item 2 on the proxy form (which you may do by ticking 'For', 'Against' or 'Abstain' opposite Item 2 on the proxy form), you are directing the Chairman of the meeting to vote in favour of Item 2 even if that resolution is connected directly or indirectly with the remuneration of members of the key management personnel of the Company.

To vote online:

STEP 1:	VISIT www.boardroomlimited.com.au/vote/horizonoilagm2011
STEP 2:	Enter your holding/investment type
STEP 3:	Enter your SRN/HIN and VAC: <VAC NUMBER>

By mail:	For delivery:	By fax:
Boardroom Pty Limited	Boardroom Pty Limited	Boardroom Pty Limited
GPO Box 3993	Level 7, 207 Kent Street	+61 2 9290 9655
Sydney NSW 2001	Sydney NSW 2000	
AUSTRALIA	AUSTRALIA	

Admission to meeting

Members who will be attending the meeting and who will not be appointing a proxy are asked to bring the proxy form to the meeting to help speed admission.

Members who do not plan to attend the meeting are encouraged to complete and return a proxy form for each of their holdings of shares in the Company.

A replacement proxy form may be obtained from the Company's external share register:

Boardroom Pty Ltd
Level 7, 207 Kent Street
Sydney NSW 2000
AUSTRALIA
Telephone: +61 2 9290 9600
Fax: +61 2 9279 0664
Email: callcentre@boardroomlimited.com.au

Questions and comments by members at the meeting

In accordance with the *Corporations Act 2001 (Cth)* and the Company's past practice, a reasonable opportunity will be given to members as a whole to ask questions about or make comments on the management of the Company at the meeting. Similarly, a reasonable opportunity will also be given to members as a whole to ask the auditor, or their representative questions relevant to the conduct of the audit and the preparation and content of the auditor's report.

EXPLANATORY MEMORANDUM

Items of business

1 Consideration of reports

There is no requirement for members to pass a resolution on this item. A reasonable opportunity will be given to members as a whole to ask the auditor, or their representative, questions relevant to the conduct of the audit and the preparation and content of the auditor's report.

2 Remuneration Report

The Remuneration Report is contained in the Directors' Report of the Company's 2011 Annual Report. A copy of the 2011 Annual Report is available on the Company's website www.horizonoil.com.au. Shareholders who have elected, prior to the date of this Notice of Meeting, to receive a printed copy of the Company's Annual Report will be sent a hard copy of the Annual Report. Those shareholders who wish to receive a hard copy of the Annual Report in future should contact the Company's share registry.

The Remuneration Report:

- Explains the principles used by the board to determine the nature and amount of remuneration of directors and executives; and
- Sets out remuneration details for each director and each named executive.

In April 2010, the board resolved to modify the remuneration arrangements for the Company's senior executives. Based on advice received from Guerdon Associates, an independent remuneration consultant, the board put in place a short term incentive scheme and substituted the existing long term incentive arrangements for the Company's senior executives with a revised long term incentive scheme, the operation of which is discussed in Item 6 below.

The Chairman will give shareholders reasonable opportunity to ask questions about or make comments on the Remuneration Report. An advisory resolution that the Remuneration Report is adopted will then be put to the vote.

The vote on this item is advisory only and does not bind the directors of the Company. However, the board will take the outcome of this vote into consideration when reviewing the remuneration practices and policies of the Company.

The directors and the named executives will not vote on this advisory resolution, except as directed by any proxies.

3 Election of director

Mr Andrew Stock

The Company's Constitution provides that any director appointed as an addition to the existing directors shall hold office until the next annual general meeting and shall then be eligible for re-election.

Mr Stock was appointed to the board as a director with effect from 2 February 2011.

Mr Stock has over 35 years of development, operations and commercial experience in energy industries in Australia and overseas. Most recently, as Executive General Manager for Major Development Projects for Origin Energy, he has led the development and delivery of Origin's major capital program. This included oil and gas projects which now account for the majority of Origin's liquids and conventional gas production, including the offshore and onshore A$1 billion Kupe Gas Project in New Zealand.

He also oversaw growing Origin's power generation asset portfolio to almost 3000 MW of gas fired generation, as well as a development portfolio of renewables. Andrew is also a director of Geodynamics Limited and a member of the Advisory Boards for the Centre of Energy Technology and the Faculty of Engineering, Computers and Mathematical Sciences at the University of Adelaide.

He has a Chemical Engineering Degree (Honours) from the University of Adelaide, is a Fellow of the Institution of Engineers, Australia and a graduate member of the Australian Institute of Company Directors.

The directors (with Mr Stock abstaining) recommend that you vote in favour of this ordinary resolution.

Retirement of director

Mr Bob Laws PSM

Mr Laws, in accordance with the Company's Constitution, retires at the 2011 Annual General Meeting. Mr Laws has advised the board that he will not stand for re-election at the meeting.

The board has reluctantly accepted Mr Laws' advice that he wishes to retire from the Horizon Oil board at the meeting. Mr Laws joined the Horizon Oil board in February 2003 and over the last 8 ½ years has played an integral role at board level in the development of the Company. Mr Laws will depart the board of Horizon Oil with the deep respect, admiration and gratitude of the Company's board, management and personnel.

4 Approval of issue of 5.50% US$80 million convertible bonds

The purpose of the resolution is to ensure that the administrative requirements of the ASX Listing Rules are satisfied so that the future issue of securities upon the conversion of the 5.50% US$80 million convertible bonds ("Bonds") is excluded from the calculation of the 15% threshold of the Company's shares which may be issued without shareholder approval.

Listing Rules 7.1, 7.2 and 7.4

Broadly speaking, Listing Rule 7.1 provides that a listed company may issue or agree to issue in aggregate up to 15% of its fully paid ordinary shares within a 12 month period without shareholder approval. Listing Rule 7.2 provides exceptions to Listing Rule 7.1. Listing Rule 7.2 Exception 4 provides that securities issued on the conversion of convertible securities (such as the Bonds) are not taken into account when calculating the 15% limit, provided that the Company's shareholders have approved the issue of the convertible securities as an exception to the general rule at the time the Company issued the convertible securities.

The Bonds were issued on 17 June 2011 without prior approval of the Company's shareholders. Listing Rule 7.4, however, provides that an issue of securities made without approval under Listing Rule 7.1 is treated as having been made with approval for the purpose of Listing Rule 7.1 if the issue did not breach Listing Rule 7.1 and the holders of ordinary shares subsequently approve it.

The issue of the Bonds on 17 June 2011 satisfied the requirements of Listing Rule 7.1. The terms and conditions of the Bond provides that the Bonds convert to up to 15% of the Company's ordinary shares, above which amounts otherwise convertible to ordinary shares are mandatorily cash settled unless shareholder approval is obtained in a general meeting. Item 4 seeks shareholder approval of the issue of Bonds for the purpose of Listing Rules 7.1, 7.2 and 7.4 so that the Company has the ability to issue ordinary shares in accordance with the terms and conditions of the Bonds.

The Board believes that shareholder approval of the resolution proposed in Item 4 will provide the Company with the flexibility necessary to raise additional capital as and when appropriate.

In order to satisfy Listing Rule 7.4, Listing Rule 7.5 requires the following information to be provided to shareholders.

Listing Rule		Item 4 Convertible bonds
7.5.1	The number of securities allotted:	The total number of convertible securities issued was 400 Bonds in denominations of US$200,000, which are convertible to the Company's shares at an initial conversion price of US$0.52 (as reset from time to time according to the terms and conditions of the Bonds). Assuming no adjustments to the initial conversion price, the number of ordinary shares to be issued upon full conversion of the Bonds is 153,846,154 shares, and, assuming conversion at the floor conversion price, the number of ordinary shares to be issued upon full conversion of the Bonds is 192,307,692 shares.
7.5.2	The price at which the securities were issued:	The Bonds were issued for a subscription price of US$200,000 each, for a total issue size of US$80,000,000.
7.5.3	The terms of the securities:	A detailed summary and a copy of the full terms and conditions of the Bonds were included in the Company's ASX announcement released on 17 June 2011. A summary of the key terms and conditions of the Bonds are summarised below.
7.5.4	The names of allottees:	The allottee of the Bonds was: BT Globenet Nominees Limited; who is the registered holder of the Global Certificate for 100% of the bonds.
7.5.5	The use (or intended use) of the funds raised:	The net proceeds of issuing the Bonds were used by the Company to fund the acquisition by one of its subsidiaries of Petsec Petroleum LLC ("Petsec Acquisition"), pay fees and transaction costs associated with the Petsec Acquisition and the issue of the Bonds, and to further advance the Company's exploration and development objectives and general corporate purposes. For further details on the Petsec Acquisition see the Company's announcement to the ASX on 2 June 2011.
7.5.6	Voting exclusion statement:	A voting exclusion statement is included in the Notice of Meeting.

The key terms and conditions of the Bonds are as follows:

Summary of the key terms and conditions	
Maturity Date	17 June 2016.
Coupon (interest rate)	5.50% per annum, payable semi-annually in arrears with a first coupon to be paid 17 December 2011.
Yield to Maturity	7.00% per annum calculated on a semi-annual basis.
Redemption Price	108.80% of principal.
Early Redemption Amount	Accreted value of the Bonds to the date of redemption.
Initial Conversion Price	A 28.95% premium to the Reference Price, ie. US$0.520, based on a fixed exchange rate of US1.0621 = A$1.0000.
Reference Price	A$0.38 being the closing price of the ordinary shares on the ASX on 2 June 2011.
Conversion Ratio	384,615.3846 ordinary shares per Bond at the initial conversion price.
Conversion Right	Each Bond shall entitle the Bond holder to convert such Bond into ordinary shares at the then applicable conversion price during the conversion period. The number of ordinary shares to be delivered on exercise of a conversion right shall be determined by dividing the principal amount of the Bonds to be converted by the conversion price in effect on the relevant conversion date.
Shares	Shares issued on conversion of the Bonds will be fully paid and will carry the same rights as the shares in the Company then on issue and quotation on the ASX will be sought for all shares issued at the relevant conversion date, except that the shares issued on conversion will not rank for any rights, distributions or payments if the record date for the entitlements falls prior to the conversion date.
Conversion Price Reset	If the arithmetical average of the volume weighted average prices of the Company's ordinary shares for each of 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 prevailing conversion price on the relevant reset date, the conversion price shall be adjusted on the relevant reset date to the average market price for that reset date. 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 (US$0.520) (taking into account any anti-dilution adjustments which may have occurred prior to the relevant reset date). The floor for the conversion price reset (subject to anti-dilution adjustments) is US$0.416.
Cash Settlement	The conversion right of a converting Bond holder may be settled in ordinary shares or in cash, at the option of the Company (subject to mandatory cash settlement described below). The Company may make an election to satisfy the exercise of a conversion right by making payment to the relevant Bond holder of the cash alternative amount. At any time when the delivery of excess shares is required to satisfy the conversion right of a converting Bond holder, the Company must pay to the relevant Bond holder the cash alternative amount in relation to such excess shares. "Cash Alternative Amount" means the US$ equivalent, at the prevailing rate, of the product of (a) the number of ordinary shares deliverable (i) upon exercise of the conversion right in respect of which the Company has exercised a cash alternative election or, (ii) in relation to mandatory cash settlement, in respect of the excess shares, 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 cash election date or the mandatory notice date (as applicable). "Excess Shares" means the number of ordinary shares to be issued by the Company in respect of a Bond holder exercising a conversion right in excess of the number of ordinary shares for which the Company 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.
Conversion Period	Any time from the day which is 41 days after the settlement of the issue of the Bonds until the day which is seven days prior to maturity, or in the event of early redemption, until seven days prior to the date fixed for redemption.

Redemption at the Option of the Company or the Bond holders	Redemption of the Bonds is permitted upon the occurrence of certain events as set out in the terms and conditions of the Bonds.
Anti-dilution Adjustments	Standard provisions protecting against, inter alia, free distribution, bonus issue, division, consolidation and re-classification of ordinary shares, declaration of dividend in ordinary shares, distributions, issuance of options, rights or warrants, the issue of further convertible or exchangeable bonds, the issue of ordinary shares and certain other dilutive events, subject to a 5% threshold. No adjustment to the conversion price shall be made for any security or beneficial interest therein issued under any employee or contractor incentive schemes or with respect to the issue of options with respect to ordinary shares that will be issued to Petsec Energy Limited pursuant to the Petsec Acquisition.
Cash Dividend Protection	Investor protection in the form of conversion price adjustment in respect of all dividends and distributions.
Listing	On the Singapore Exchange Securities Trading Limited.
Purchase and trading	Subject to the requirements (if any) of the Singapore stock exchange, the Bonds may be purchased at any price on the open market by private contract or otherwise.

The directors recommend that you vote in favour of this ordinary resolution.

5 Approval of issue of 15 million general options to Petsec America Pty Limited for the purposes of ASX Listing Rules 7.4 and 7.5

In June 2011, Horizon Oil purchased the share capital of Petsec Petroleum LLC from Petsec America Pty Limited 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 acquisition of the Petsec Interest increased 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.

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.

Listing Rule 7.4 allows an issue of securities without approval under Listing Rule 7.1 to be treated as having been made with approval so long as the issue does not breach Listing Rule 7.1 and the shareholders subsequently approve it. The issue of 15 million options to Petsec America Limited was conducted in accordance with Listing Rule 7.1, and the company seeks the subsequent approval of shareholders to the issue.

As required by Listing Rule 7.5, the following information is provided in respect of the issue of options to Petsec America Pty Limited:

Listing Rule		**Item 5 General options**
7.5.1	The number of securities allotted:	The maximum number of shares that may be issued on exercise of the options is 15,000,000.
7.5.2	The price at which the securities were issued:	The options have an exercise price of A$0.37 per share.
7.5.3	The terms of the securities:	The options must be exercised in minimum lots of 5,000 prior to their expiry on 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.
7.5.4	The names of allottees:	Petsec America Pty Limited.
7.5.5	The use (or intended use) of the funds raised:	As described above, the issue of options was part consideration for the acquisition of the shares in Petsec Petroleum LLC which held Petsec's interest in Block 22/12, China. Any funds raised on the exercise of these options will be used to further advance the Issuer's exploration and development objectives.
7.5.6	Voting exclusion statement:	A voting exclusion statement is included in the Notice of Meeting.

The directors recommend that you vote in favour of this ordinary resolution.

6 Approval of 2011 grant of long term incentives to Brent Emmett, chief executive officer and executive director

The Company introduced the LTI Plan during 2010 to provide annual performance incentives to the Company's key employees. Shareholders have previously approved the LTI Plan under ASX Listing Rule 7.2.

On 5 August 2011, the board approved the grant of 6,478,276 SARs to employees under the LTI Plan. 2,626,328 of the SARs were approved by the board to be granted to Brent Emmett, an executive director, subject to the approval of shareholders. The remaining 3,851,948 SARs were approved to be granted to employees who are not directors of the Company. The proposed grant to Mr Emmett is on the terms and conditions as outlined below:

Summary of the terms of the LTI Plan

In order to provide annual performance incentives to the Company's executives, based on advice received from Guerdon Associates, an independent remuneration consultant, the board resolved on 1 April 2010 to establish the LTI Plan to replace existing long term incentive arrangements for the Company's senior executives. Under the LTI Plan, the board has the discretion, subject to ASX Listing Rule requirements, to grant share appreciation rights ("SARs") to executives as long term incentives. The board has determined that 25% of senior executive's total remuneration would be long term incentives in the form of SARs, with the number of SARs granted based on the value of a SAR.

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

The LTI Plan provides that the amount of the cash payment or the number of shares in the Company that the participant receives on exercise of the SAR is based on the value of the SAR at the time it is exercised ("SAR Value"). The SAR Value is the excess, if any, of the volume weighted average price ("VWAP") of shares in the Company for the ten business day period up to the date before the date the SAR is exercised over the VWAP of shares in the Company for the ten business day period up to the day before the "Effective Allocation Date" for the SARs. The Effective Allocation Date for the SARs is the grant date of the SARs or any other day determined by the board, at the time of the grant. The Effective Allocation Date would generally be the date the executive's entitlement was determined. The VWAP of shares in the Company for the ten business day period up to the day before the "Effective Allocation Date" for the purposes of the 2011 SARs is A$0.3189.

If the board determines that the SARs are to be satisfied in cash, the amount of cash that the participant receives on the exercise of the SARs is the SAR Value multiplied by the number of SARs exercised (less any deduction for taxes that the Company is required to make from the payment).

If the board determines that the SARs are to be satisfied in shares, the number of shares that the participant receives on the exercise of the SARs is the SAR Value divided by the volume weighted average price of shares in the Company for the ten business day period up to the day before the day the SARs are exercised. Where the number of shares calculated is not a whole number, it will be rounded down to the nearest whole number.

Other key terms and conditions of the SARs that may be granted under the LTI Plan include:

Key terms & conditions	**Long Term Incentive Plan**
Eligible persons:	Under the terms of the LTI Plan, the Company may grant SARs to any employee. However, it is currently intended by the Company to only grant SARs under the LTI Plan to current senior executive employees including executive directors.
Exercise price:	No price is payable by a participant in the LTI Plan on the exercise of a SAR.
Performance requirements:	Under the LTI Plan, the number of SARs that vest is generally determined by reference to whether the Company achieves certain performance conditions. The number of SARs that vest is determined by reference to the Company's total shareholder return ("TSR") over the relevant period relative to that of the S&P/ASX200 Energy Index ("Index"). The number of SARs that vest is: • if the Company's TSR is equal to that of the Index ("Minimum Benchmark"), 50%; • if the Company's TSR is 14% or more above that of the Index, 100% ("Maximum Benchmark"); and • if the Company's TSR is more than the Minimum Benchmark but less than the Maximum Benchmark, a percentage between 50% and 100% based on the Company's TSR performance between the Minimum Benchmark and Maximum Benchmark. The Maximum Benchmark of 14% above the Index return equates to the performance level likely to exceed the 75th percentile of market returns of companies (weighted by company size) in the Index. Furthermore, even where these performance conditions are satisfied, the SARs will not vest unless the Company achieves a TSR of at least 10% over the relevant period. The performance conditions are tested on the date that is three years after the Effective Grant Date of the SARs, and are then re-tested every six months after that until the date that is five years after the Effective Grant Date of the SARs (the final retesting date). The performance conditions are also tested where certain circumstances occur, such as a takeover bid for the Company. The Effective Grant Date for the SARs is the date the SARs are granted, or such other date as the board determines for the SARs. If the SARs have not, pursuant to these performance conditions, vested by the final retesting date that is five years after the date the SARs are granted, the SARs will lapse.
Cessation of employment:	If a holder of SARs under the LTI Plan ceases to be employed by a member of the Horizon Oil Group, then this generally does not affect the terms and operation of the SARs. The Board does, however, under the LTI Plan have discretion, to the extent permitted by law, to cause the SARs to lapse or accelerate the date on which the SARs become exercisable.
Maximum number of shares that can be issued:	Subject to various exclusions, the maximum number of shares that may be issued on the exercise of SARs granted under the LTI Plan is capped at 5% of the total number of issued shares of the Company.
Restrictions on exercise:	A SAR cannot be exercised unless it has vested. Where a SAR vests, a participant may not exercise the SAR until the first time after the time the SAR vests that the participant is able to deal with shares in the Company under the Company's securities trading policy. SARs are exercised by submitting a notice of exercise to the Company.
Lapse:	SARs will lapse where: • the SARs have not vested by the final retesting date which is five years after the date of grant (see above); • if the SARs have vested by the final retesting date that is five years after the date of grant, the SARs have not been exercised within three months of the date that the SARs would have first been able to be exercised if they vested at the final retesting date that is five years after the date of grant. • This may be more than five years and three months from the date of grant depending on whether the holder of the SAR is able to deal with shares in the Company under the Company's securities trading policy at the date five years after the date of grant; • the employee ceases to be employed by a member of the Horizon Oil Group, and the board determines that some or all of the SARs lapse (see above); • the board determines that the employee has committed or it is evident that the employee intends to commit, any act (whether by commission or omission) which amounts or would amount to fraud or serious misconduct; or • the employee provides a notice to the Company that they wish the SARs to lapse.
Share ranking and quotation:	Shares provided pursuant to the exercise of a SAR will rank equally with the shares in the Company then on issue. Quotation on the ASX will be sought for all shares issued upon the exercise of SARs. SARs are not assignable or transferable.
No right to dividends, bonus or rights issues:	The SARs will not confer on the holder an entitlement to dividends or to participate in bonus issues or rights issues unless the Board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.
No voting rights:	The SARs will not confer an entitlement to vote at general meetings of the Company unless the Board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.
Non-quotation:	The Company will not apply to the ASX for official quotation of the SARs.
Capital re-organisation:	In the event of a reorganisation of the capital of the Company, the rights of the SARs holder will be changed to the extent necessary to comply with the ASX Listing Rules and shall not result in any additional benefits being conferred on SARs holders which are not conferred on members.

Effect of take-over or change of control of Company, death or disablement:	The LTI Plan contains provisions to deal with SARs where there is a take-over or change of control of the Company. Depending on the nature of the take-over or change of control event, the Company will either have the discretion or be required (if a change of control) to determine a special retesting date for the performance requirements discussed above. For example, the board will have discretion to determine a special retesting date where a takeover bid is made for the Company or a scheme of arrangement is entered into. In that case, the special retesting date will be the date determined by the board. Where a statement is lodged with the ASX that a person has become entitled to acquire more than 50% of the Company, the board will be required to determine a special retesting date, and the special retesting date will be the day the statement is lodged with the ASX. The SARs may vest if the performance requirements discussed above are satisfied in relation to that special retesting date.

Listing Rule 10.14 requires that the grant of securities to a director (or an associate of the director) under an employee incentive scheme be approved by shareholders.

As required by Listing Rule 10.15, the following information is provided in respect of the grant of SARs under the LTI Plan to an executive director:

Listing Rule		Item 6 Long Term Incentive Plan
10.15.2	The maximum number of Company's ordinary shares that may be acquired on exercise of the proposed grant of securities and the formula for calculating the number of securities to be issued:	The maximum number of shares that may be acquired by Mr Emmett is 2,626,328. The number of shares that may be acquired by Mr Emmett on exercise of the SARs proposed to be granted to him, is determined at the time of exercise by reference to the SAR Value at the time the SAR is exercised and the volume weighted average price of shares in the Company for the ten business day period up to the day before the day the SAR is exercised (as described above).
10.15.3	Formula for calculating the price of securities to be acquired under the scheme:	Mr Emmett is not required to pay any price in order to acquire SARs under the LTI Plan. However, the value of what Mr. Emmett receives if his SARs become exercisable is the SAR Value. This is based on the appreciation in the share price of the Company from the Effective Allocation Date until the date of exercise (see discussion above). The proposed Effective Allocation Date for Mr. Emmett's SARs is 1 July 2011.
10.15.4	Names of directors and associates who have received securities under the scheme since the last approval; number received; and acquisition price:	Nil
10.15.4A	Names of directors and associates entitled to participate in scheme:	Brent Emmett
10.15.5	Voting exclusion statement:	A voting exclusion statement is included in the Notice of Meeting.
10.15.6	Terms of any loan in relation to acquisition:	Not applicable.
10.15.7	Date on which securities will be issued:	Subject to shareholder approval of the issue of the SARs, within 5 business days of the Annual General Meeting, but in any event no later than 12 months after the date of the Annual General Meeting.

The directors (with Mr Brent Emmett abstaining) recommend that you vote in favour of these ordinary resolutions.

7 Renewal of approval of issue of securities under the Employee Option Scheme for the purposes of ASX Listing Rules 7.1 and 7.2

The purpose of the resolution is to ensure that the administrative requirements of the ASX Listing Rules are satisfied so that future issues of securities under the Company's Employee Option Scheme ('EOS') ('the option plan') are excluded from the calculation of the 15% threshold of the Company shares which may be issued without shareholder approval.

Listing Rules 7.1 and 7.2

Broadly speaking, Listing Rule 7.1 provides that a listed company may issue or agree to issue in aggregate up to 15% of its fully paid ordinary shares within a 12 month period without shareholder approval. Listing Rule 7.2 provides exceptions to Listing Rule 7.1.

One of the exceptions to the general rule, provided for in Listing Rule 7.2 Exception 9(b), is that securities issued under an employee incentive scheme will not be taken into account when calculating the 15% limit, provided that the Company's shareholders have approved the issue of securities under the scheme as an exception to the general rule within 3 years prior to the date of issue of the securities. Accordingly, Item 7 seeks shareholder approval of the issue of options under the EOS so that the Company has the ability to issue up to 15% of its capital during the year in addition to any options issued under the EOS.

The Board believes that shareholder approval of the resolution proposed in Item 7 will provide the Company with the flexibility necessary to raise additional capital as and when appropriate.

Summary of the terms of the option plan

In order to provide performance incentives to the Company's employees and recognising the importance of maintaining the Company's cash reserves, the Board has put in place the EOS to provide non-cash incentives to reward employee performance.

The key terms and conditions of the EOS are as follows:

Key terms & conditions	Employee Option Scheme
Eligible persons:	Current employees including executive directors
Conversion ratio:	Each option entitles the holder to subscribe for one ordinary share
Exercise price:	The price determined by the directors, but not less than; a) the volume weighted average at which the Company's share are sold on the ASX on the 5 days preceding the grant of the options; and b) 20 cents Upon exercise, only one cent of the exercise price is immediately payable, with the balance payable at any time prior to the expiration period of the option
Performance requirements:	None
Maximum options able to be granted each year:	Options granted under the plan (together with any partly paid shares on issue pursuant to any other employee share scheme of the Company) must not exceed 5% of the number of shares in the Company on issue from time to time
Restrictions on exercise:	Deferred exercise periods: the options are progressively exercisable in three equal tranches from dates which are 12, 24 and 36 months after grant date
Expiry:	5 years from date of issue
Share ranking and quotation:	Shares issued pursuant to the exercise of an option will rank equally with the shares in the Company then on issue. Quotation by ASX will be sought for all shares issued upon the exercise of the options. Options are not assignable or transferable
No right to dividends, bonus or rights issues:	The options will not confer on the holder an entitlement to dividends or to participate in bonus issues. The options will not confer an entitlement to participate in rights issues
No voting rights:	The options will not confer an entitlement to vote at general meetings of the Company
Non-quotation:	The Company will not apply to the ASX for official quotation of the options
Capital re-organisation:	In the event of a reorganisation of the capital of the Company, the rights of the option holder will be changed to the extent necessary to comply with the ASX Listing Rules and shall not result in any additional benefits being conferred on option holders which are not conferred on members
Effect of take-over or change of control of Company, death or disablement:	Options become immediately exercisable. All restrictions on exercise including option barrier, removed

Since the date of the last approval by shareholders in 2008, 3,900,000 options have been issued under the EOS.

A voting exclusion statement is included in the Notice.

The directors (with executive directors abstaining) recommend that you vote in favour of this ordinary resolution.

8 Miscellaneous

References to "$" or "dollars" in this document are references to Australian dollars, unless otherwise specified.

Sydney
6 October 2011

Horizon Oil

Horizon Oil Limited
ABN 51 009 799 455

FOR ALL ENQUIRIES CALL:
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ALL CORRESPONDENCE TO:
Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001
Australia

☐ **Your Address**
This is your address as it appears on company's share register. If this is incorr please mark the box with an "X" and make correction on the form. Securityholders sponsc by a broker should advise your broker of changes. **Please note, you cannot chai ownership of your securities using this form**

YOUR VOTE IS IMPORTANT

FOR YOUR VOTE TO BE EFFECTIVE IT MUST BE RECORDED BEFORE 10.00AM TUESDAY 15th NOVEMBER 2011

<SRN/HIN>

TO VOTE ONLINE

STEP 1 : VISIT www.boardroomlimited.com.au/vote/horizonoilagm2011

STEP 2: Enter your holding/Investment type

STEP 3: Enter your SRN/HIN and VAC: <VAC NUMBER>

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 Appointment of Proxy

Indicate here who you want to appoint as your Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chairman of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's securities registry or you may copy this form.

To appoint a second proxy you must:

(a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.

(b) return both forms together in the same envelope.

STEP 2 Voting Directions to your Proxy

You can tell your Proxy how to vote

To direct your proxy how to vote, place a mark in one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

STEP 3 Sign the Form

The form **must** be signed

In the spaces provided you must sign this form as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders must sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below not later than 48 hours before the commencement of the meeting at **10.00am on Thursday, 17 November 2011**. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxies may be lodged using the reply paid envelope or:

BY MAIL Share Registry – Boardroom Pty Limited,
GPO Box 3993, Sydney NSW 2001 Australia

BY FAX 1300 653 459 (or if outside Australia + 61 2 9290 9655)

IN PERSON Share Registry – Boardroom Pty Limited,
Level 7, 207 Kent Street, Sydney NSW 2000 Australia

Horizon Oil

<Address 1>
<Address 2>
<Address 3>
<Address 4>
<Address 5>

<BARCODE>

STEP 1 - Appointment of Proxy

I/We being a member/s of **Horizon Oil Limited** and entitled to attend and vote hereby appoint

☐ the Chairman of the Meeting (mark with an 'X') OR ______________________

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the meeting, as my/our proxy at the **Annual General Meeting of Horizon Oil Limited to be held at Mezzanine Level, Robinson / William Room, Bayview Boulevard Hotel, 90 William Street, Sydney, on the 17th of November 2011 at 10.00am** and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

Important for Item 2 - If the Chairman of the meeting is appointed as your proxy or may be appointed by default

If the Chairman of the meeting is your proxy, and you fail to provide a voting direction in respect of Item 2 on this proxy (which you may do by ticking 'For', 'Against' or 'Abstain' opposite Item 2 in Step 2 below), you are directing the Chairman of the meeting to vote in favour of Item 2 even if that resolution is connected directly or indirectly with the remuneration of members of the key management personnel of the Company.

Important for Items 6 and 7 - If the Chairman of the meeting is appointed as your proxy or may be appointed by default

☐ (mark with an 'X')

By marking this box, you are directing and authorising the Chairman of the Meeting to vote in accordance with the Chairman's voting intention as set out below and in the Notice of Meeting even if Items 6 and 7 are connected directly or indirectly with the remuneration of members of the key management personnel of the Company or the Chairman has an interest in the outcome of the items and that votes cast by the Chairman of the meeting for those items other than as proxy holder would be disregarded because of that interest. **If you do not mark this box, and you have not directed your proxy how to vote (which you may do by ticking 'For', 'Against' or 'Abstain' opposite Items 6 and 7 in Step 2 below), the Chairman of the meeting will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called.** The Chairman of the meeting intends to vote all available proxies in favour of Items 6 and 7 of business.

STEP 2 - Voting directions to your Proxy – please mark ☒ to indicate your directions

Ordinary Business			For	Against	Abstain*
Item	2	To adopt the remuneration report	☐	☐	☐
Item	3	To elect Mr Andrew Stock as a director	☐	☐	☐
Item	4	To approve the issue of 5.50% US$80 million convertible bonds	☐	☐	☐
Item	5	To approve the issue of 15 million general options to Petsec America Pty Limited	☐	☐	☐
Item	6	To approve 2011 grant of long term incentives to Brent Emmett, chief executive officer	☐	☐	☐
Item	7	To approve issue of options under the Employee Option Scheme	☐	☐	☐

In addition to the intentions advised above. The Chairman of the Meeting intends to vote undirected proxies in favour of each of the items of business.

*If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3 - PLEASE SIGN HERE

This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name .... Contact Daytime Telephone Date / /