



Horizon Oil Limited ABN 51 009 799 455

Level 7, 134 William Street, Woolloomooloo NSW Australia 2011

Tel +61 2 9332 5000, Fax +61 2 9332 5050 www.horizonoil.com.au

28 February 2012

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

Dear Sir,

HORIZON OIL (HZN) ADVISES HALF-YEAR PROFIT AFTER TAX OF US\$8.5 MILLION

In accordance with Listing Rule 4.2A.3, Horizon Oil Limited lodges its half-year report for the period to 31 December 2011. The financial results for the period are set out in the attached Appendix 4D and half-year report.

A financial summary and key financial and operational results are set out below:-

- Financial summary**

	Note	Half-year to 31-Dec-11	Half-year to 31-Dec-10	Change %
Sales revenue (US\$'000)		28,032	24,780	13%
EBITDAX from operating activities	1	21,614	17,989	20%
Impairment of exploration phase expenditure	2	-	(7,340)	N/A
Exploration expensed		(48)	(43)	(12%)
Depreciation and amortisation		(4,543)	(5,395)	16%
Finance costs		(5,329)	(1,211)	(340%)
Unrealised movement in value of convertible bond conversion rights	3	1,893	-	N/A
Profit before tax		11,694	4,000	192%
NZ Royalty expense		(3,666)	(2,342)	(57%)
Income tax benefit/(expense)		466	(3,331)	114%
Profit/(loss) after tax		8,494	(1,673)	608%
Earnings per share (diluted) (Australian cents)	4	0.75	(0.14)	

Note 1: EBITDAX from operating activities is a financial measure which is not prescribed by Australian Accounting Standards and represents the profit under Australian Accounting Standards adjusted for depreciation, amortisation, interest expense, taxation expense and exploration expenditure. The Directors consider EBITDAX to be a useful measure of performance as it is widely used by the oil and gas industry. EBITDAX information has not been subject to any specific review procedures by the Group's auditor but has been extracted from the half-year financial report for the half-year ended 31 December 2011, which have been subject to review by the Group's auditors.

Note 2: Reflects reversal of prior year impairment of part of the Group's PNG exploration assets (PRL 5)

Note 3: Movement in mark-to-market valuation of Convertible Bonds issued in June 2011

Note 4: A\$ conversion calculated based on the exchange rate prevailing at 31 December 2011 and 31 December 2010

- Financial results**

- The Group's overall profit for the half-year was US\$8.5 million, driven by gross profit from operations of US\$18.8 million, depreciation and amortisation of \$4.5 million, income and royalty tax of \$3.2 million, and financing costs of US\$5.3 million offset by a favourable movement in the mark-to-market valuation of the convertible bonds of US\$1.9 million.

- Cash on hand at 31 December 2011 of US\$34.8 million (30 June 2011 – US\$64.6 million).
- In light of the decision to develop the Group's interest in Block 22/12 China and PRL 4 – Stanley, PNG (subject to finance), the Group mandated a consortium of four leading reserves based lenders, including two major Australian banks, to provide a reserves based debt facility of up to US\$160 million incorporating the Group's production and development assets. Facility documentation and due diligence reviews are advanced, with financial close anticipated in the first quarter of calendar 2012.

- **Operational results**

New Zealand

- During the half year, Horizon Oil's working interest share of production from Maari field was 245,173 barrels of oil. Cumulative oil production from the field through 31 January 2012 was 17.3 million barrels. Production for the half year continued to be below expectation due to the unreliable performance of the Schlumberger downhole pumps (ESPs) and, to a lesser extent, scale build-up in some well completions. These issues are being addressed, and progress was made during the period on enhancing the water flood in the Moki zone of Maari field.
- Processing of the newly acquired 636 km 2D seismic survey over block PEP 51313 was completed during the period and interpretation is underway.

China

- The operator of the WZ6-12 and WZ12-8W development, China National Offshore Oil Corporation (CNOOC), continued to make good progress during the period and the facilities were 24% built at the end of the period. Over 60% of the total development cost has now been committed by contract and the forecast cost to completion is within the US\$300 million estimate contained in the overall development plan (ODP).

Papua New Guinea

- Subsequent to the end of the half-year, Horizon Oil advised that its board had approved the Final Investment Decision (FID) on the Stanley field gas condensate recovery project, subject to the finalisation of the abovementioned reserves based lending facility on satisfactory terms. It is intended that the formal PDL application be made in mid 2012 with the grant of the PDL anticipated in Q3 2012 after Government review and assessment and the convening of a Development Forum.
- During the period, the Elevala-2 appraisal/development well was drilled with successful results. The current operation is rigging down in preparation for the move to the Ketu-2 appraisal/development well location. Ketu-2 is planned as a vertical test to define the eastern down-dip limit of the gas/condensate accumulation drilled with the Ketu-1 well in 1991. The well is expected to spud in the first half of March 2012. Preparation of the surface location was completed during the period and all long lead items have been purchased.
- Horizon Oil advised on 24 January 2012 that it had executed a farmin agreement with Eaglewood Energy Inc. to earn a 25% interest in PPL 259 in Western Province, Papua New Guinea. The farmin is part of the strategy of increasing the Company's acreage position around what is seen as the "sweet spot" for liquids-rich gas in the Papuan Basin foreland, centred on planned production hubs at Stanley and Elevala/Ketu.
- On 22 February 2012, Talisman Energy and Mitsubishi announced a strategic joint venture in Papua New Guinea. The agreement provides Mitsubishi with entry into nine of Talisman's licences in Papua New Guinea's Western Province via a farmout valued at

approximately US\$280 million. The nine licences involved in the transaction include Petroleum Retention Licences 4 (Stanley) and 21 (Elevala/Ketu), in which Horizon Oil (HZN) holds 50% and 45% working interests respectively. Talisman and Mitsubishi have agreed to work together closely to aggregate natural gas in the Western Province of Papua New Guinea with a view to potential LNG export of approximately 3 million tonnes per annum.

Yours faithfully,



Michael Sheridan

Chief Financial Officer / Company Secretary



For further information please contact: Mr Michael Sheridan

Telephone: (+612) 9332 5000

Facsimile: (+612) 9332 5050

Email: exploration@horizonoil.com.au

Or visit www.horizonoil.com.au



Appendix 4D

**Half-year report
31 December 2011**

**Horizon Oil Limited
ABN 51 009 799 455**

This half-year report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3. This information should be read in conjunction with the Half-year report for the period to 31 December 2011.

1. Reporting Period

Current reporting period:	Half year ended 31 December 2011
Previous corresponding period:	Half year ended 31 December 2010

2. Results for Announcement to the Market For the half year ended 31 December 2011

NB: All references to \$ herein refer to US\$ unless otherwise specified.

		Percentage Change		Amount
		%		\$'000
2.1	Revenue from ordinary activities	Up	13.1%	to 28,032
2.2	Profit from ordinary activities after tax attributable to members	From loss to profit	N/A	to 8,494
2.3	Net profit for the period attributable to members	From loss to profit	N/A	to 8,494

2.4 Dividends / distributions

No dividends were paid during the half-year and none are proposed to be paid.

2.5 Record date for determining entitlements to dividends

N/A

2.6 Brief explanation of figures in 2.1 to 2.4 to enable the figures to be understood.

Revenue

During the half-year to 31 December 2011, revenue mainly consisted of sales of crude oil from the Maari field offshore New Zealand. The revenue is higher than the half-year ended 31 December 2010 owing to higher realised oil prices during the period.

Profit from ordinary activities after tax

The increase in net profit after tax and net profit attributable to members for the half-year to 31 December 2011 was largely driven by an increase in the gross profit from the Maari operations in New Zealand of \$3.3 million, and the inclusion in the prior year of a \$7.3m impairment relating to the Group's interest in PRL 5 (renewed as PRL 21). This is partially offset by an increase in finance costs relating to the \$2.2 million coupon paid in the period on the convertible bond issue.

3. Net Tangible Assets

Net tangible assets per ordinary share

31 December 2011	31 December 2010
0.27	0.15

4. Controlled entities acquired or disposed of during period

	Acquisitions	Disposals
4.1 Name of Entity	N/A	N/A
4.2 The date of gain/loss of control	N/A	N/A
4.3 Contribution to profit from ordinary activities during the half year ended 31 December 2011	N/A	N/A
Profit/(loss) during the half year ended 31 December 2010	N/A	N/A

5. Dividends/ distributions

No dividends were paid during the half-year and none are proposed to be paid.

6. Dividend Reinvestment Plans

N/A – the company does not operate a dividend reinvestment plan.

7. Associates and Joint Venture Entities

Nil

8. Accounting standards for foreign entities

N/A – Australian entity prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

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

Refer to the Half-year report for the period to 31 December 2011 for a copy of the unqualified independent auditor's review report to the members of Horizon Oil Limited.

Horizon Oil Limited
ABN 51 009 799 455

Half-year report – 31 December 2011

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as 'the Group') consisting of Horizon Oil Limited and the subsidiaries it controlled at the end of, or during the half-year ended 31 December 2011.

Directors

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

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

R A Laws was a director from the beginning of the half year until his resignation on 17 November 2011.

Review and Results of Operations

During the course of the half-year ended 31 December 2011, the Group's principal activities continued to be directed towards petroleum exploration, development and production.

The Group reported a profit of US\$8,494,000 for the current half-year compared with a loss of US\$1,599,000 in the 2010 half-year. The half-year result includes a gross profit of US\$18,845,000 (2010: US\$15,497,000) from Maari operations.

The prior year result included a net loss of \$7,340,000 arising from the impairment of part of the Group's PNG exploration assets. The Group subsequently reversed the impairment following settlement of the legal dispute in relation to the PNG exploration assets during the six months to 30 June 2011.

Non-cash items impacting on the half-year result include US\$4,236,000 (2010: US\$5,274,000) in amortisation of production phase assets, a deferred income and royalty tax credit of US\$946,000 (2010: US\$4,185,000 expense), amortisation of the fair value of the liability portion of the convertible bond of US\$2,181,000 (2010: US\$Nil), a net gain of US\$1,893,000 (2010: US\$Nil) arising from the unrealised movement in the value of convertible bond conversion rights, and US\$434,000 (2010: US\$351,000) related to the value of share options and share appreciation rights granted to Horizon Oil employees.

Segmental information is included in note 2 of the financial statements.

New Zealand

Maari and Manaia fields, offshore Taranaki Basin

During the half year, Horizon Oil's working interest share of production from Maari field was 245,173 barrels of oil. Cumulative oil production from the field through 31 January 2012 was 17.3 million barrels.

Production for the half year continued to be below expectation due to the unreliable performance of the downhole pumps (ESPs) and, to a lesser extent, scale build-up in some well completions. The field operator engaged with the pump supplier, Schlumberger, during the period to improve ESP design and performance and to maximise run-time. In addition, an acid treatment procedure has been instigated to remove existing scale and to prevent further scaling with a regular maintenance program

that does not require workover. Currently 6 of the 7 available production wells are on line, with the MR1 well awaiting workover.

With the field now in its third year of production, opportunities to improve production rate at relatively low cost by way of enhanced water injection efficiency are being recognized. Progress was made during the period on enhancing the water flood in the Moki zone of Maari field. Additional perforations have been added to the MR7 and MR8 injection wells, which have improved injection performance and should provide enhanced support to the producers over the long term. Additionally, the injection pumping capacity has been increased to inject more water into the reservoir zones.

The operator has progressed plans for additional development of the Maari and Manaia fields. Planning is underway for a new, high definition 3D seismic survey to be acquired shortly over Maari, Manaia and the Maari South prospect, as a basis for selecting locations for vertical Manaia Deep and Maari South appraisal wells. The first of these will target the discovered but unappraised and undeveloped accumulation in the Moki sands. The well will also allow assessment of how the current production well is draining the Mangahewa accumulation and confirm whether there is commercial oil recoverable from the deeper F sand equivalent, in which oil shows were encountered in the Maui-4 well and which is a proven oil producer elsewhere in the Taranaki Basin. The second appraisal well will be drilled to confirm the reservoir quality and size of the Maari South structure which can potentially be developed by extended reach drilling from the Maari platform. It is expected that the appraisal wells will be drilled in the 2012/13 summer drilling season.

The new 3D seismic survey will also assist in planning of a second phase of development of the permit. Planning is underway for full field development of all the commercial accumulations associated with Maari and Manaia, with further development drilling to be conducted in 2013/14.

PEP 51313, offshore Taranaki Basin

Processing of the newly acquired 636 km 2D seismic survey over the Te Whatu and Pukeko prospects was completed during the period and interpretation is underway.

The PEP 51313 joint venture has agreed to extend to the south the new 3D seismic survey being acquired over Maari and Manaia fields, to dovetail with the recent 3D coverage over PMP 38160. This is designed to provide definition over the leads and prospects to the south of Maari and Manaia, in particular the Pike prospect. Interpretation of the existing 3D seismic coverage over the Maari-Pike-Matariki trend has highlighted the Pike prospect as the most likely candidate for drilling of the first well. It is likely that Pike will be drilled using the rig to be mobilised for drilling of two appraisal wells in PMP 38160 in 2012/2013. This is seen as a progressive, risk-reducing approach to evaluating the prospectivity of the Tasman ridge to the south, including Matariki prospect.

China

Block 22/12, Beibu Gulf

The operator of the WZ6-12 and WZ12-8W development, China National Offshore Oil Corporation (CNOOC), continued to make good progress and the facilities were 24% built at the end of the period. Over 60% of the total development cost has now been committed by contract and the forecast cost to completion is within the US\$300 million estimate contained in the overall development plan (ODP).

Development activity included basic and detailed design, procurement, platform fabrication and preparation for pipeline laying is scheduled for March 2012. The auxiliary platform PUQB and wellhead platform construction contract was awarded to COOEC, a CNOOC subsidiary, on 15 September 2011. COOEC has also been contracted to install the facilities. The current schedule calls for loadout of the two wellhead platforms (WHP) and utility platform (PUQB) in April 2012, to allow development drilling over the WZ6-12 WHP to begin in September 2012. CNOOC continues to anticipate first oil production from the Beibu Gulf project by the end of calendar year 2012. The ramp-up to peak production is anticipated during 2013.

Prior to commencement of the development drilling program, the joint venture has agreed to drill four in-field and near-field appraisal wells. These will appraise a deeper zone in the WZ6-12 (north) structure, the Sliver prospect, the Liushagang formation underlying the currently identified producing zones and the main producing zone in the WZ6-12 South structure itself. Three of these wells are planned to be drilled from the WZ6-12 WHP and, if successful and commercial, will be completed and included as additional production wells for the Beibu Gulf project.

Papua New Guinea

PRL 4, Stanley Field

Subsequent to the end of the half-year, Horizon Oil advised that its board had approved the Final Investment Decision (FID) on the Stanley field gas condensate recovery project, subject to the finalisation of the reserves based lending facility on satisfactory terms. The Company holds a 50% interest in PRL 4 with equal partner Talisman Niugini Pty Ltd. The State nominee, Petromin PNG Holdings Limited, is entitled to acquire up to a 22.5% interest in the project at the time of award of a Production Development Licence (PDL) by reimbursement of Horizon Oil and Talisman's allowable past costs associated with that interest and funding ongoing project costs. At that time, anticipated to be during Q3 in 2012, Horizon Oil and Talisman's interests will reduce to 38.75% each.

In November 2011, the Company advised shareholders that it had received independent certification of mean contingent resources for Stanley field of 361 bcf of gas and 11.4 million barrels of condensate. This represents an upgrade of about 30% to the resources that were certified prior to the drilling of the successful Stanley-2 and -4 appraisal/development wells. As a result of the FID approval, the condensate resources will move to the reserves category. The certified gas resource is of a scale that has the capacity to supply domestic and large industrial consumers located in the region. Negotiations with potential customers are in train and, as sales contracts are confirmed, the associated gas resources will also be classified as reserves.

The Stanley resource will be developed initially as a condensate recovery project, with subsequent and increasing sales of gas as customers are contracted. It is envisaged that these will primarily be domestic and industrial consumers located in the region who require gas for power generation. PNG's Minister for State Enterprises, Sir Mekere Morauta, announced in December 2011 that cabinet had approved a gas power plant at Stanley, proposed by PNG Energy Developments Limited, a 50:50 joint venture between Origin Energy Limited and PNG Sustainable Development Program Limited, to supply Ok Tedi mine, the Frieda River mine if development proceeds and potential consumers across the border in West Papua. In addition, a key social objective of the project is to supply power through rural electrification schemes to about 50,000 people in Western Province.

The development concept involves producing 140 million cubic feet of wet gas per day, from which initially 4,000 barrels of condensate per day will be recovered utilising a two train refrigeration plant located in the field. Any dry gas not sold will be re-injected into the reservoir and "banked" until required for sale. The condensate will be transported via a 6" 40 km pipeline to a 60,000 barrel storage tank at Kiunga base and then loaded onto a tanker at a loading facility about 1 km downstream of the existing Kiunga wharf, which is the export point for Ok Tedi mine's copper concentrate. A special purpose 33,000 barrel river tanker with ocean going capability has been designed to transport the condensate to market.

Front End Engineering and Design (FEED) for the project is complete, with an all in capital cost estimate of approximately US\$300 million, including contingency. This is the cost to develop the entire resource, about 70 million barrels of oil equivalent. Horizon Oil is the operator of the project and believes a target for first production of the end of calendar year 2013, although aggressive, is achievable provided there are no delays in the regulatory approval process.

The Minister for Petroleum and Energy approved the requested extension of PRL 4 through 31 August 2012. It is intended to submit the Petroleum Development Licence (PDL) application for Stanley field prior to that date, which will serve to maintain tenure. The PDL application process involves submission of key constituent documents, including a field development plan, social mapping and

landowner interest report, environmental assessment and gas agreement, all of which are at an advanced stage of preparation. It is intended that the formal PDL application be made in mid 2012 with the grant of the PDL anticipated in Q3 2012 after Government review and assessment and the convening of a Development Forum. The Company intends to carry out some early works and procurement of long lead items in advance of the PDL grant in order to maintain schedule.

PRL 21, Elevala / Ketu discoveries

During the period the Elevala-2 appraisal/development well was drilled with successful results. The well was designed to appraise the Elevala gas/condensate accumulation, discovered in 1989-1990 by the Elevala-1 well, which flowed on test at a rate of 11.9 million cubic feet of gas and 634 barrels of 54 deg API condensate per day from the Elevala sandstone. The objective was to drill to penetrate the Elevala sandstone and the deeper Toro sandstone down-dip from the Elevala-1 discovery at a location 2.1 km west of that well, to determine the gas water contact, the composition of the hydrocarbon column and the quality of the reservoirs.

The well was spudded with Parker Rig 226 at 1600 hrs on 14 November 2011. A core was cut over the interval 3,114 m to 3,142 m in the primary Elevala sandstone target, with 100% recovery. Good gas shows were encountered during the coring operation, confirming extension of the gas/condensate zone found in Elevala-1. The well was then drilled to a total measured depth of 3,293 m in basement on 21 December 2011 and a full suite of logs, pressure measurements and samples acquired. These confirmed a gross gas/condensate interval of 18 m in the Elevala sandstone, with no water indicated. The pay zone is slightly thicker and better developed than that encountered in the Elevala-1 discovery well. The secondary Toro sandstone objective was dry.

The well was specifically located to test the northern extent of the hydrocarbon accumulation, about 60 m down-dip of Elevala-1. In fact, the gas zone was encountered high to prognosis, approximately 20 m down-dip and no water leg was observed, implying that the field extends further to the north than expected. This gave the joint venture incentive to plan a sidetrack well to penetrate the Elevala sandstone about 650 m northeast of the current bottom hole location, with the objective of defining the northern limit of the accumulation.

The Elevala-2 well bore was subsequently plugged back to just below the 9-5/8" casing shoe and the sidetrack was kicked off at a measured depth of 2,446 m on 1 January and reached a measured total depth of 3,630 m in the Toro sandstone (below the Elevala sandstone) on 9 January 2012. Logging while drilling, sampling and pressure measurements have defined a gas-water-contact to the hydrocarbon accumulation, successfully fulfilling the primary objective of the sidetrack well. This establishes a field gas column height of greater than 50 m and further implies that the Elevala structure is full to spill point. Horizon Oil has previously advised (pre-drill) certified mean recoverable contingent resources of 302 bcf of gas and 19.3 million barrels of condensate. Based on the drilling results and the existing seismic data, the well outcome is to the high side of expectations.

Plugs were set in the sidetrack well bore and the well suspended for possible use in the future. The surface location for drilling of the Elevala-2 well was specifically selected for this purpose. The rig was released at 1200 hrs on 29 January 2012.

The current operation is rigging down in preparation for the move to the Ketu-2 appraisal/development well location. Ketu-2 is planned as a vertical test to define the eastern down-dip limit of the gas/condensate accumulation drilled with the Ketu-1 well in 1991. The well is expected to spud in the first half of March 2012, is programmed to drill to a total measured depth of 3,800 m and should take about 45 days to drill. Preparation of the surface location was completed during the period and all long lead items have been purchased.

Meanwhile a seismic program of 105 km over the Elevala, Tingu and Ketu structures is complete. The objective of this is to fine tune the bottom hole location for Ketu-2 and to improve structural definition for reserves revision and development planning purposes.

PPL 259

Horizon Oil advised on 24 January 2012 that it had executed a farm-in agreement with Eaglewood Energy Inc. to earn a 25% interest in PPL 259 in Western Province, Papua New Guinea. Under the terms of the farm-out agreement, after receipt of requisite government approvals transferring a 25% participating interest share in PPL 259, Horizon Oil will reimburse a proportionate share of Eaglewood's PPL 259 sunk costs (approximately US\$2.5 m) and will carry Eaglewood for future seismic and drilling costs to a capped amount of US\$6.375 m. The drilling program will be operated by Horizon Oil.

The farm-in is part of the strategy of increasing the Company's acreage position around what is seen as the "sweet spot" for liquids-rich gas in the Papuan Basin foreland, centred on planned production hubs at Stanley and Elevala/Ketu and is timely.

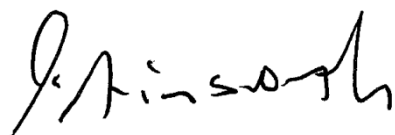
Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set on page 7.

Rounding

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission ('ASIC'), relating to the "rounding off" of amounts in the directors' report and interim financial report. Amounts in the directors' report and interim financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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



E F Ainsworth AM
Chairman



B D Emmett
Chief Executive Officer

Sydney

28 February 2012



Auditor's Independence Declaration

As lead auditor for the review of Horizon Oil Limited for the half year ended 31 December 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

A handwritten signature in black ink, appearing to read 'Brett Delaney', with a long, sweeping horizontal line extending to the right.

Brett Delaney
Partner
PricewaterhouseCoopers

Brisbane
28 February 2012

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, GPO Box 4001, BRISBANE QLD 4000
DX 77 Brisbane, Australia
T +61 7 3257 5000, F +61 7 3257 5999, www.pwc.com.au

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HORIZON OIL LIMITED

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2011

	Note	Half-year to	
		31 December 2011	31 December 2010
		US\$'000	US\$'000
Revenue		28,032	24,780
Cost of sales		(9,187)	(9,283)
Gross profit		18,845	15,497
Other revenue / other income		60	664
Impairment of exploration phase expenditure	3b)	-	(7,340)
General and administrative expenses		(3,727)	(3,493)
Exploration and development expenses		(48)	(43)
Finance costs		(5,329)	(1,211)
Unrealised movement in fair value of convertible bond conversion rights	3a)	1,893	-
Profit before income tax expense		11,694	4,074
NZ royalty tax expense		(3,666)	(2,342)
Income tax benefit / (expense)		466	(3,331)
Profit / (loss) for the half-year		8,494	(1,599)
Other comprehensive income			
Changes in the fair value of cash flow hedges		-	18
Total comprehensive income / (loss) for the half-year		8,494	(1,581)
Profit / (loss) attributable to members of Horizon Oil Limited		8,494	(1,599)
Total comprehensive income / (loss) attributable to members of Horizon Oil Limited		8,494	(1,581)
Earnings per share for profit / (loss) attributable to the ordinary equity holders of the Company		US Cents	
Basic earnings per share		0.75	(0.14)
Diluted earnings per share		0.75	(0.14)

The above Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

HORIZON OIL LIMITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

		31 December 2011 US\$'000	30 June 2011 US\$'000
Note			
Current Assets			
	4	34,830	64,572
Cash and cash equivalents			
Receivables		10,118	2,272
Inventories		5,288	2,293
Other		1,356	280
Total Current Assets		51,592	69,417
Non-Current Assets			
		17,143	13,803
Deferred tax assets			
Plant and equipment		4,748	1,268
Exploration phase expenditure	5	81,349	63,488
Oil and gas assets	6	152,699	145,504
Total Non-Current Assets		255,939	224,063
Total Assets		307,531	293,480
Current Liabilities			
		25,898	18,713
Payables			
Current tax payable		5,998	7,944
Borrowings	7	6,155	5,909
Total Current Liabilities		38,051	32,566
Non-Current Liabilities			
		860	1,037
Payables			
Deferred tax liability		16,791	14,396
Borrowings	7	63,354	64,328
Other financial liabilities		21,501	23,394
Provisions		5,495	5,208
Total Non-Current Liabilities		108,001	108,363
Total Liabilities		146,052	140,929
Net Assets		161,479	152,551
Equity			
	8	125,976	125,976
Contributed equity			
Reserves		7,039	6,605
Retained profits		28,464	19,970
Total Equity		161,479	152,551

The above Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

HORIZON OIL LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2011

	Attributable to members of Horizon Oil Limited			
	Contributed equity	Reserves	Retained Profits (Accumulated losses)	Total equity
	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 July 2010	125,328	4,003	(14,966)	114,365
(Loss) for the half-year	-	-	(1,599)	(1,599)
Other comprehensive income	-	18	-	18
Total comprehensive income for the half-year	-	18	(1,599)	(1,581)
Transactions with owners in their capacity as equity holders:				
Contributions of equity, net of transaction costs	648	-	-	648
Employee share options	-	351	-	351
	648	351	-	999
Balance at 31 December 2010	125,976	4,372	(16,565)	113,783
Balance at 1 July 2011	125,976	6,605	19,970	152,551
Profit for the half-year	-	-	8,494	8,494
Other comprehensive income	-	-	-	-
Total comprehensive income for the half-year	-	-	8,494	8,494
Transactions with owners in their capacity as equity holders:				
Contributions of equity, net of transaction costs	-	-	-	-
Employee share options	-	434	-	434
	-	434	-	434
Balance at 31 December 2011	125,976	7,039	28,464	161,479

The above Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

HORIZON OIL LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2011

	Half-year to	
	31 December 2011	31 December 2010
	US\$'000	US\$'000
Cash flows from operating activities		
Receipts from customers	22,503	24,663
Payments to suppliers and employees	(9,548)	(5,773)
	12,955	18,890
Interest received	55	33
Interest paid	(3,053)	(1,109)
Income and royalty taxes paid	(6,060)	(1,918)
Net cash inflows / (outflows) from operating activities	3,897	15,896
Cash flows from investing activities		
Payments for exploration phase expenditure	(24,254)	(9,281)
Payments for oil and gas assets	(5,773)	(251)
Payments for plant and equipment	(150)	(197)
Net proceeds on sale of exploration phase expenditure	-	-
Net cash (outflows) / inflows from investing activities	(30,177)	(9,729)
Cash flows from financing activities		
Proceeds from issue of shares	-	505
Payments for issue of convertible bonds	(473)	-
Repayment of borrowings	(2,890)	(9,966)
Net cash (outflows) / inflows from financing activities	(3,363)	(9,461)
Net (decrease) / increase in cash and cash equivalents	(29,643)	(3,294)
Cash and cash equivalents at the beginning of the half-year	64,572	26,509
Effects of exchange rate changes on cash and cash equivalents	(99)	(124)
Cash and cash equivalents at the end of the half-year	34,830	23,091

The above Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Note 1. Basis of preparation of half year report

The general purpose financial statements for the interim half year reporting period ended 31 December 2011 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2011 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The general purpose financial statements for the interim half year reporting period ended 31 December 2011 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 and PRL 4 – Stanley, PNG (subject to finance), 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 mandated a consortium of four leading reserves based lenders, including two major Australian banks, to provide a reserves based debt facility incorporating the Group's production and development assets. The proposed facility size of US\$160 million was oversubscribed by the lenders group. Facility documentation and due diligence reviews are advanced, with financial close anticipated in the first quarter of calendar 2012. 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.

Impact of standards issued but not yet applied by the entity

In December 2009, the AASB issued AASB 9 Financial Instruments which 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. In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

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.

Note 2. 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 (PMP 38160), 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 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

	New Zealand Development	New Zealand Exploration	China Exploration and Development	Papua New Guinea Exploration	All other segments	Total
Half-year 2011	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment revenue:						
Revenue from external customers	28,032	-	-	-	-	28,032
Profit / (loss) before tax	15,588	-	-	589	(1,856)	14,321
Depreciation and amortisation	4,324	-	-	180	39	4,543
Half-year 2010						
Segment revenue:	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Revenue from external customers	24,780	-	-	-	-	24,780
Profit / (loss) before tax	13,660	(1)	(20)	(7,900)	(2,329)	3,410
Depreciation and amortisation	5,274	-	-	45	76	5,395

HORIZON OIL LIMITED
Notes to the financial statements

	New Zealand Development	New Zealand Exploration	China Exploration and Development	Papua New Guinea Exploration	All other segments	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Total segment assets at 31 December 2011	88,297	8,025	94,251	92,263	24,695	307,531
Additions to non-current assets other than financial assets and deferred tax during the half-year ended:						
Exploration and evaluation phase expenditure:	-	169	999	16,693	-	17,861
Oil and gas assets:	105	-	11,326	-	-	11,431
Plant and equipment:	-	-	-	3,569	241	3,810
Total segment liabilities at 31 December 2011	38,742	5,213	6,134	10,358	85,605	146,052
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
Oil and gas assets:	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

(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:

	Half-year to 31 December 2011 US\$'000	31 December 2010 US\$'000
Total segment revenue	28,032	24,780
Rental income	5	35
Interest income	55	33
Foreign exchange gain (net)	-	343
Fees charged to operated joint ventures	-	188
Other income	-	65
Total revenue	28,092	25,444

(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:

	Half-year to	
	31 December 2011	31 December 2010
	US\$'000	US\$'000
Total segment profit before tax	14,321	3,410
Rental income	5	35
Interest income	55	33
Fees charged to operated joint ventures	-	188
Other income	-	65
Foreign exchange gain / (loss) (net)	(199)	343
Interest and finance expense	(4,381)	-
Unrealised movement in fair value of convertible bond conversion rights	1,893	-
Profit before tax	11,694	4,074

(iii) Segment assets and liabilities

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

Reportable segment assets and liabilities are equal to consolidated total assets and liabilities.

Note 3. Profit / (loss) for the half year - Significant items

Profit / (Loss) for the half-year includes the following items that are unusual because of their nature, size or incidence:	31 December 2011	31 December 2010
	US\$'000	US\$'000
a) Gains – Conversion rights on convertible bonds		
Unrealised movement in fair value of convertible bond conversion rights	(1,893)	-
b) Expenses – Impairment		
Impairment of exploration phase expenditure - PRL 5	-	7,340

- a)** The amount shown is the movement during the period of the fair value of the conversion rights relating to the 5.5% convertible bonds issued on 17 June 2011. The conversion rights can be settled in cash or ordinary shares of the parent entity, at the option of the issuer, and the number of shares to be issued at conversion is subject to the conversion price which may reset under certain circumstances. Accordingly, the conversion rights are a derivative financial liability and are marked to market through the profit and loss. Fair value of conversion rights at issuance on 17 June 2011 was US\$20,043,000. Refer to Note 7 for further details of the convertible bonds issued.

b) On 5 November 2010, the PRL 5 joint venture, composed of Horizon Oil (Papua) Limited, and wholly owned subsidiaries of Santos Limited and Talisman Energy Inc., was advised by the PNG Minister of Petroleum and Energy that he had refused to approve the application for an extension of the PRL 5 licence. Due to the uncertainty surrounding licence tenure, the exploration expenditure capitalized at 31 December 2010 of US\$7.3m was impaired. The Company commenced legal action under the laws of Papua New Guinea requesting a judicial review of the Minister's decision. Legal proceedings were settled during March 2011 with the award of a new 5 year licence over the PRL 5 acreage, designated as PRL 21. Horizon Oil (Papua) Limited was awarded a 70% interest in the new licence and 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. Following receipt of the relevant administrative approvals from the PNG government, Talisman paid Horizon Oil US\$22 million in cash in finalisation of the original sale in September 2009 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 in proceeds from that sale with the remaining US\$22 million recorded as a contingent asset in the 31 December 2010 financial statements. Accordingly, the US\$22 million received during the prior year was booked as revenue. Following the resolution of the licence tenure issues, the impairment of US\$7.3 million recorded at 31 December 2010 was also reversed in the period to 30 June 2011 as the new permit issued covered the same acreage, and the exploration program is continuing as initially planned.

Note 4. Cash and cash equivalents

	31 December 2011 US\$'000	30 June 2011 US\$'000
Cash at bank and on deposit	34,829	64,570
Petty cash	1	2
	34,830	64,572

Note 5. Exploration phase expenditure

	31 December 2011 US\$'000	30 June 2011 US\$'000
Opening balance	63,488	44,710
Expenditure	17,861	30,481
Transfers to oil and gas assets ¹	-	(23,776)
Acquisitions / (disposals)	-	12,073
Closing balance	81,349	63,488

¹ On 1 July 2010 the New Zealand Crown Minerals Group approved the extension of the Maari PMP 38160 to incorporate the Manaia field. The Manaia well (MN1) commenced production during 2010 and accordingly all associated Manaia exploration expenditure was transferred to oil and gas assets.

On 14 February 2011, Horizon Oil advised that it and its partners had approved the final investment decision for the WZ6-12 and WZ12-8W field development and accordingly all associated exploration expenditure was transferred to oil and gas assets.

Note 6. Oil and gas assets

	31 December 2011 US\$'000	30 June 2011 US\$'000
Opening balance	145,504	88,138
Expenditure	11,431	2,089
Transfers from exploration phase expenditure ¹	-	23,776
Amortisation incurred	(4,236)	(10,324)
Acquisitions and disposals during year ²	-	41,825
Closing balance	152,699	145,504

¹ On 1 July 2010 the New Zealand Crown Minerals Group approved the extension of the Maari PMP 38160 to incorporate the Manaia field. The Manaia well (MN1) commenced production during 2010 and accordingly all associated Manaia exploration expenditure was transferred to oil and gas assets.

On 14 February 2011, Horizon Oil advised that it and its partners had approved the final investment decision for the WZ6-12 and WZ12-8W field development and accordingly all associated exploration expenditure was transferred to oil and gas assets.

² During June 2011, Horizon Oil acquired Petsec's 25% interest in Block 22/12. The acquisition of the additional interest in Block 22/12 increased Horizon Oil's stake in the WZ 6-12 and WZ12-8W development project from 14.70% to 26.95%, and increased Horizon Oil's net reserves in Block 22/12 from 6.2mmbo to 11.3mmbo.

Note 7. Borrowings

	31 December 2011 US\$'000	30 June 2011 US\$'000
Current		
Lease liability (a)	6,155	5,909
	6,155	5,909
Non-Current		
Convertible bonds (b)	58,899	56,737
Lease liability (a)	4,455	7,591
	63,354	64,328
Total Borrowings	69,509	70,237

(a) Lease liability

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

(b) 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 representing 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 commenced 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.

Note 8. Contributed equity

a) Share capital

		31 December 2011 Number	30 June 2011 Number	31 December 2011 US\$'000	30 June 2011 US\$'000
Ordinary shares					
Fully paid	(b) (i)	1,130,811,515	1,130,811,515	125,578	125,578
Partly paid	(b) (ii)	1,500,000	1,500,000	398	398
		1,132,311,515	1,132,311,515	125,976	125,976

b) Movements in share capital

(i) Ordinary shares (fully paid)

Date	Details	Number of shares	US\$'000
30/06/2011	Balance at 30 June 2011	1,130,811,515	125,578
31/12/2011	Balance at 31 December 2011	1,130,811,515	125,578

(ii) Ordinary shares (partly paid)

Date	Details	Number of shares	US\$'000
30/06/2011	Balance at 30 June 2011	1,500,000	398
31/12/2011	Balance at 31 December 2011	1,500,000	398

Note 9. Contingent assets and liabilities

a) Contingent assets

There were no contingent assets as at 31 December 2011.

b) Contingent liabilities

The Group had the following contingent liabilities as at 31 December 2011 that may become payable:

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 interests. If a participant to a joint venture defaults and fails to contribute its share of joint venture obligations, 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 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 the above contingent liabilities.

Note 10. Exploration, development and production expenditure commitments

The exploration, development and production expenditure commitments based on current status and knowledge of estimated quantum and timing are as follows:

	NZ Development	New Zealand	China Exploration	Papua New Guinea	Total
31 December 2011	US\$'000	Exploration US\$'000	& Development US\$'000	Exploration US\$'000	US\$'000
Within one year	2,859	1,077	54,162	30,677	88,775
Over one year	-	-	18,170	-	18,170
Total	2,859	1,077	72,332	30,677	106,945

	NZ Development	New Zealand	China Exploration	Papua New Guinea	Total
30 June 2011	US\$'000	Exploration US\$'000	US\$'000	Exploration US\$'000	US\$'000
Within one year	1,168	1,274	49,461	33,521	85,424
Over one year	-	-	36,341	-	36,341
Total	1,168	1,274	85,802	33,521	121,765

Note 11. Related party transactions

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

Mr J Humphrey, a director of Horizon Oil Limited is also a member of the law firm Mallesons Stephen Jacques. During the half year to 31 December 2011, Mallesons Stephen Jacques provided legal services to the Group. Total fees paid during the half year amounted to US\$178,459.

Note 12. Events occurring after balance sheet date

Other than the matters disclosed in this interim financial report, there has not been any matter or circumstance which has arisen since 31 December 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.

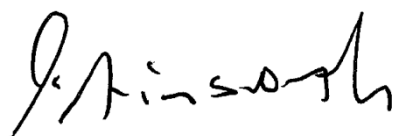
HORIZON OIL LIMITED

Directors' Declaration

In the directors' opinion:

- (a) the attached interim financial statements and notes are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with relevant Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance, as represented by the results of its operations and its cashflows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Horizon Oil Limited will be able to pay its debts as and when they become due and payable.

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



E F Ainsworth AM
Chairman



B D Emmett
Chief Executive Officer

Sydney

28 February 2012



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Horizon Oil Limited, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Horizon Oil Limited Group (the consolidated entity). The consolidated entity comprises both Horizon Oil Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Horizon Oil Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, GPO Box 4001, BRISBANE QLD 4000
DX 77 Brisbane, Australia
T +61 7 3257 5000, F +61 7 3257 5999, www.pwc.com.au

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Horizon Oil Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script that reads 'Brett Delaney'.

Brett Delaney
Partner

Brisbane
28 February 2012