



HORIZON OIL LIMITED

ABN 51 009 799 455

ANNUAL FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

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 26 August 2013. The Board of Directors has the power to amend and reissue the annual financial report.

HORIZON OIL LIMITED

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the 'Group') consisting of Horizon Oil Limited (the 'Company') and the entities it controlled at the end of, or during the financial year ended, 30 June 2013.

DIRECTORS

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

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

REVIEW OF OPERATIONS

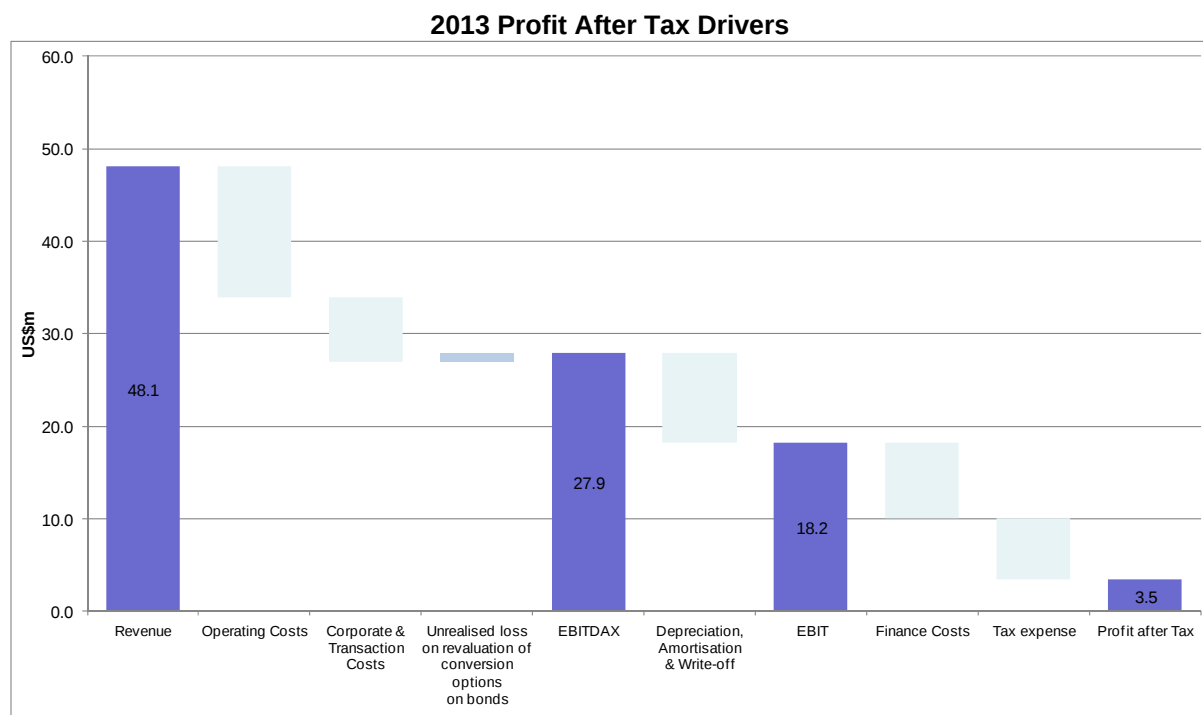
PRINCIPAL ACTIVITIES

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

A detailed review of the operations of the group during the current year is set out in the Activities Review on pages 90 to 95 of this annual financial report.

GROUP FINANCIAL PERFORMANCE

Consolidated Statement of Comprehensive Income



The Group reported a net profit after income tax of US\$3.5 million (2012: net profit US\$7.6 million) driven by gross profit from operations of US\$25.4 million (2012: US\$33.5 million). Included in the overall result was an unrealised gain in the value of convertible bond conversion rights of US\$1.0 million (2012: US\$4.9 million). EBITDAX was US\$27.9 million (2012: US\$38.0 million), and EBIT was US\$18.2 million (2012: US\$29.7 million).

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

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expense, taxation expense, depreciation, amortisation, and exploration expenditure. The Directors consider EBITDAX and EBIT to be useful measures of performance as they are widely used by the oil and gas industry. EBITDAX and EBIT information have not been audited, however have been extracted from the audited financial report for the year ended 30 June 2013.

Basic earnings per share for the year were 0.31 cents based on a weighted average number of fully paid ordinary shares on issue of 1,137,155,238 shares.

Sales and Production Growth

The Group recorded solid performance from its producing assets, with the net working interest share of production of 503,619 barrels (2012: 439,298 barrels), an increase of 15% compared to the prior year resulting predominately from the commencement in March 2013 of commercial production from the Block 22/12 development in China.

Oil and gas sales revenue of US\$48.1 million (2012: US\$50.4 million) was generated from sales volumes of 467,809 barrels of oil (2012: 432,085 barrels), which achieved an average realised oil price of US\$108.75 per barrel (2012: US\$116.20 per barrel) before hedging, on par with the Brent oil price which averaged US\$108.65 per barrel for 2013. Whilst the commencement of production in China has contributed to increased sales revenue, this was offset at Maari by reduced production, due to poor water injection, down hole pump failures and scaling issues. The Maari growth program which is scheduled to be executed during 2014 is designed to address these issues, and also bring the additional undeveloped reserves into production.

Operating costs of US\$22.7 million (2012: US\$16.9 million) comprised production costs of US\$12.1 million (US\$24/BOE), amortisation costs of US\$8.6 million (US\$17/BOE), royalties and Chinese special oil income levy of US\$2.6 million which were offset by inventory movements of US\$0.6 million. The overall increase of operating costs by 34% is largely attributable to the China operating costs including the Chinese special oil income levy which is payable on revenue from the Beibu Gulf which commenced in March 2013. Commencement of production in China has resulted in increased direct production costs, while at Maari, direct production costs increased during the year due to the increased workover costs, coupled with some additional costs on transition of FPSO operator from Tanker Pacific to Modec.

General and administrative expenses of US\$7.0 million (2012: US\$8.1 million) comprised employee benefits expense of US\$4.8 million, corporate office expense of US\$1.4 million, depreciation of US\$0.5 million and rent expense of US\$0.3 million. The decrease of 14% is driven predominately by a decrease in employee expenses of US\$1.4m due to tighter cost control, coupled with favourable exchange rate movements.

Finance costs of US\$8.2 million (2012: US\$6.0 million) comprised of amortisation of the convertible bond through to maturity (inclusive of the 5.5% coupon payable semi-annually), and interest and finance costs payable on the reserves based debt facility. Finance costs of US\$7.4 million were capitalised during the year in relation to the Group's development projects. Interest and finance charges increased by 17% due to increased debt drawdowns throughout the year.

Income and Royalty Tax

An income and royalty tax expense of US\$6.6 million (2012: US\$16.0 million) was incurred during the year, which included an income tax expense of US\$2.6 million and NZ royalty tax expense of US\$4.0 million. Current income and royalty tax has reduced from the prior year due to the reduction in Maari production, coupled with additional exploration costs incurred in New Zealand which can be utilised against Maari income. Deferred tax expense increased due to temporary differences between the tax and accounting treatment of exploration and development expenditure.

Hedging

At 30 June 2013, Horizon Oil held 119,000 barrels of Brent oil price swap contracts. During the year, 275,000 barrels of oil price derivatives were settled, resulting in a cash outflow of US\$2.8 million.

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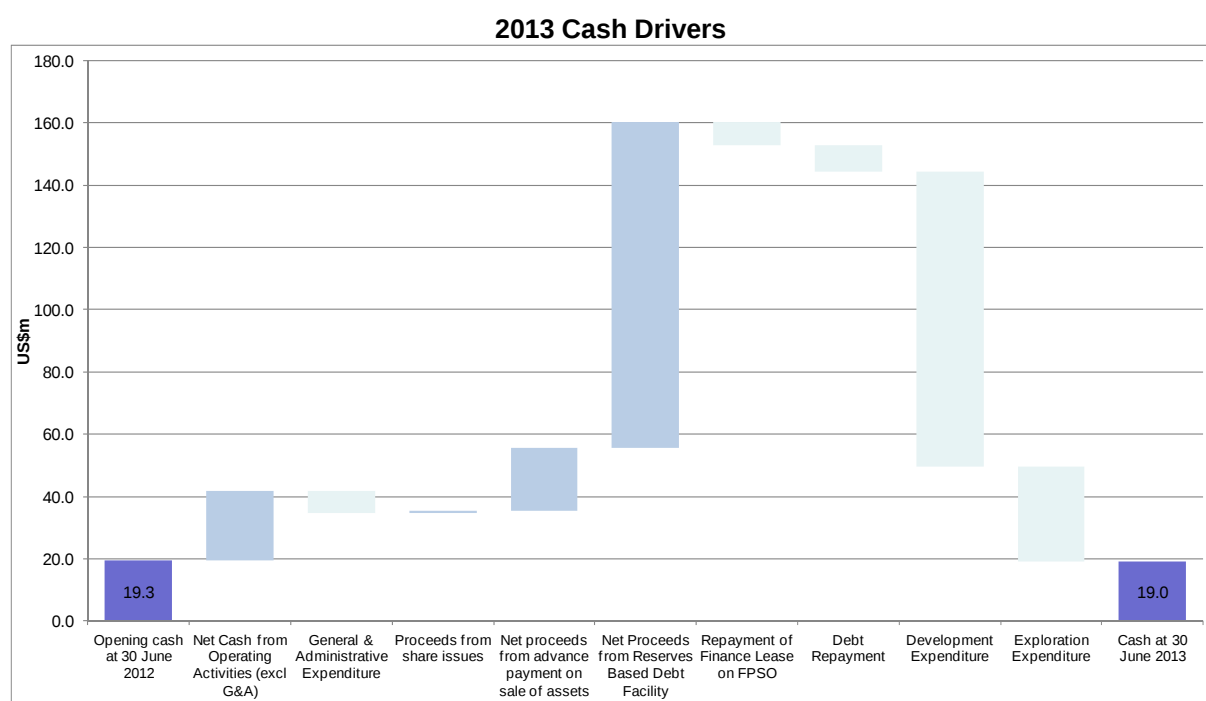
Consolidated Statement of Financial Position

During the period, total assets increased to US\$476.2 million (2012: US\$350.8 million) and total liabilities increased to US\$309.2 million (2012: US\$189.1 million). As a result, net assets increased to US\$167.0 million (2012: US\$161.7 million).

Total assets increased by 36% due predominately to the increase in oil and gas assets by US\$107.7 million to US\$317.6 million. This increase was attributable to \$97.9 million development expenditure incurred predominately in relation to the Block 22/12 development in China, a transfer of successful exploration in China to oil and gas assets of US\$8.0 million and an increase in the China restoration costs of US\$10.4 million offset by amortisation of US\$8.6 million.

At 30 June 2013, Horizon Oil's net debt position was US\$176.5 million (2012: US\$81.4 million), consisting of cash assets held of US\$19.0 million (2012: US\$19.3 million) offset by borrowings of US\$195.6 (2012: US\$100.7 million). At year end, borrowings consisted of the US\$80 million in convertible bonds issued in June 2011 coupled with cash drawdowns of US\$134.3 million against the US\$160 million reserves based debt facility.

Consolidated Statement of Cash Flows



Net cash generated from operating activities was 19% higher for the year at US\$15.5 million resulting from strong working capital management (2012: US\$13.0 million). Cash from operations was supplemented with cash from financing activities of US\$89.5 (2012: US\$ 20.9 million) primarily from drawdowns against the US\$160 million reserves based debt facility. The funds were primarily used for development expenditure of US\$74.0 million (2012: US\$31.0 million) and exploration phase expenditure initially capitalised of US\$22.9 million (2012: US\$51.8 million). Deposit proceeds received from the sale of exploration and development assets (the Strategic Alliance with Osaka Gas) were US\$20.4 million.

DEBT FACILITIES

On 23 March 2012, the Group finalised and executed the facility documentation for the provision of a reserves based debt facility of up to US\$160 million with a term of six years. The lender group is composed of four banks, ANZ, CBA, BNP Paribas and Standard Chartered Bank. The Group achieved financial close on 10 April 2012 with total cash drawdowns of \$134.3 million at 30 June 2013 (US\$33 million as at 30 June 2012). In addition to the cash drawdowns, the Group drew a Letter of Credit of US\$20.4 million associated with a conditionally refundable deposit paid by Osaka Gas on execution of the asset sale agreement in May 2013. The facility is of an amortising nature, where the debt capacity at 30 June 2014 will reduce to US\$140 million. Floating interest in respect of the facility was at LIBOR plus a weighted average margin of 3.95%.

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

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

The Group's other outstanding debt is the US\$80 million in convertible bonds which were issued on 17 June 2011 with a 5 year term. The bonds were issued with an initial conversion price of US\$0.52, equivalent to A\$0.49 based on exchange rates at the time of pricing, and represented a conversion premium of 29% to Horizon Oil's last closing price of A\$0.38 on 2 June 2011. The initial conversion price was subject to adjustment in certain circumstances. Where the arithmetical average of the Volume Weighted Average Prices ("Average VWAP") for the 20 consecutive Dealing Days immediately prior to each of 17 June 2013, 17 June 2014 and 17 June 2015 (each a "Reset Date") converted into US dollars at the Prevailing Rate on each such Dealing Day (each an "Average Market Price") is less than the Conversion Price on the Reset Date, the Conversion Price will be adjusted on the relevant Reset Date to the Average Market Price with respect to such Reset Date. Any adjustment as a result of such provisions is limited so that the Conversion Price can be no lower than 80 per cent of the initial Conversion Price of US\$0.520, that is US\$0.416. The Average VWAP in the relevant period to 17 June 2013 was US\$0.374. Accordingly, the Conversion Price of the convertible bonds has been adjusted to US\$0.416 with effect from 17 June 2013. The issuance of new shares subsequent to year end under the Entitlement Offer discussed later in this report results in a further adjustment to the conversion price from US\$0.416 to US\$0.409.

No bonds had been converted at 30 June 2013. On conversion, the holder may elect to settle the bonds in cash or ordinary shares in the parent entity. The bonds carry a coupon of 5.5% per annum, payable semi-annually in arrears, and carry a 7% yield to maturity on 17 June 2016 when they will be redeemed at 108.80% of their principal amount. The bonds were listed on the Singapore Securities Exchange on 20 June 2011.

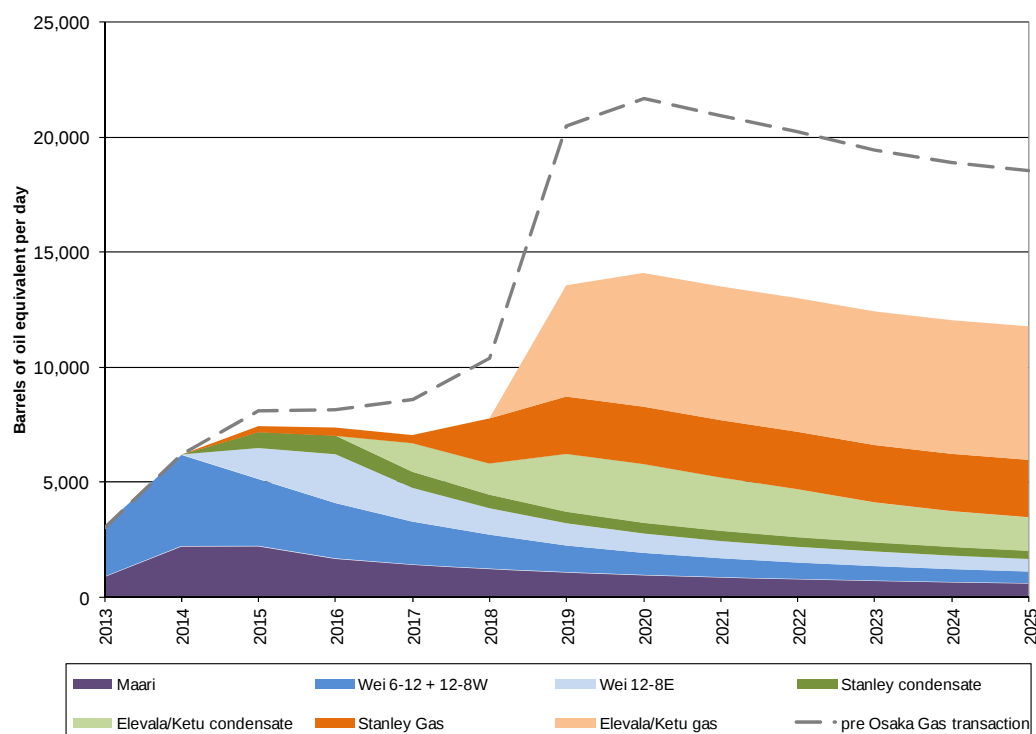
GROUP BUSINESS STRATEGIES AND PROSPECTS FOR FUTURE FINANCIAL YEARS

The Company's exploration, development and production activities are focused in Southeast Asia. The strong, long-lived cashflows from the Company's interests in the Maari/Manaia fields, offshore New Zealand and Block 22/12, offshore China, will be applied to fund the Company's future capital program. That program is directed to bring into production the Company's substantial inventory of discovered reserves and contingent resources (~92 million barrels of oil equivalent, post the Osaka Gas transaction) in fields in New Zealand, China and Papua New Guinea.

The Company has a conservative and highly selective exploration policy with specific focus on plays providing scale and upside. The identified prospective resources in the Company's inventory (~111 million barrels of oil equivalent, post the Osaka Gas transaction), together with the reserves and contingent resources provide shareholders with exposure to commodity price upside, especially oil price, and production growth.

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

**Forecast Net Production from Reserves + Contingent Resources
as at 30 June 2013, Post Osaka Gas Transaction**



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

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

Funding for the Group's strategic growth plans is to be sourced from a variety of sources. Surplus revenues from the Group's operations in China and New Zealand, combined with debt drawn from the Group's reserves based debt facility of up to US\$160 million provide core funding. In addition, the Group advised on 23 May 2013 that it had entered into an agreement to sell 40% of its Papua New Guinea assets to Osaka Gas Co. Ltd. of Japan for US\$204 million, including US\$74 million in cash on completion, a further US\$130 million in cash upon FID for an LNG project, plus potential production payments where threshold condensate production is exceeded. Completion of the transaction is conditional upon customary consents, regulatory approvals and grant of the development licence for Stanley field. Due to uncertainty surrounding the timing of completion of the transaction, the Group launched a fully underwritten accelerated non-renounceable pro-rata entitlement offer to raise approximately A\$53.5 million to fund Horizon Oil's intensive near-term exploration and development program. Proceeds from the sale and capital raising, together with existing cash balances, debt facilities, and surplus revenue from the Group's operations in New Zealand and China are expected to be sufficient to pursue the current strategy. Should the full amount of the forecast internally generated cash flow and capital required to pursue the strategy not be raised the Group has the ability to adopt a modified strategy. This can include securing the necessary financing through one, or a combination of, additional borrowings, equity raising or asset sales; or deferring discretionary exploration and development activities.

OUTLOOK

It is expected that the 2014 financial year and beyond will be characterised by a significant increase in production and revenue growth driven in the near term by the Group's China operations. Oil production from the Group's China operations is ramping up to a forecast 16-18,000 bopd (4-5,000 at Horizon Oil's net working interest) peak during 2014 (approximately 10,000 bopd as at 30 June 2013).

The Group's short-term focus is on:

- improved production performance from Maari/Manaia fields and progress on appraisal drilling and field upgrade;
- optimising production from the Group's China operations following ramp up to peak oil production;
- progress on the Beibu Gulf fields Phase II development plan;
- progress on sales of Stanley gas to regional PNG consumers and larger scale gas commercialisation/export plans;
- obtain Stanley Petroleum Development Licence award and execute development plan in PNG;
- progress Elevala/Ketu development planning in PNG; and
- furthering the Group's exploration program with successful drilling of the Manaia-2 appraisal well in PMP38160, NZ; the Tingu-1 exploration well in PRL 21, PNG; and the Whio exploration well in PEP51313, NZ.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

Strategic Alliance with Osaka Gas

On 23 May 2013 the Company advised that it had entered into an agreement to sell 40% of its Papua New Guinea assets to Osaka Gas Co. Ltd. of Japan. Key aspects of the transaction are:

- Sale price of US\$204 million, including US\$74 million in cash on completion, a further US\$130 million in cash upon FID for an LNG project, plus potential production payments where threshold condensate production is exceeded;
- Horizon Oil and Osaka Gas to form a strategic alliance to commercialise Horizon Oil's net certified reserves and contingent resources of 125 mmboe and develop acreage covering 7,900 sq km in Western Province; and
- Horizon Oil to transfer 40% of its interests in PRL 4 (Stanley field), PRL 21 (Elevala and Ketu fields) and PPL 259 and grant Osaka Gas the option to acquire 40% of Horizon Oil's interests in recently-acquired PPLs 372, 373 and 430 by paying a proportionate share of costs incurred.

The sale marked the beginning of a 60/40 strategic alliance between Horizon Oil and Osaka Gas, a leading global gas company and one of Japan's largest utility companies and LNG importers. The principle objective of the partnership is to grow and develop the PNG assets for the purposes of supporting a mid-scale LNG project located on the coast in Western Province, PNG. The companies intend to exploit the full potential of the assets via early condensate production, local gas sales and LPG sales and to market their respective shares of petroleum products, especially LNG, on a combined basis.

Completion of the transaction is conditional upon customary consents, regulatory approvals and grant of the development licence for Stanley field. Due to the conditions required for completion of the transaction, all consideration receivable is recorded as a contingent asset at 30 June 2013.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Non-Renounceable Pro-Rata Entitlement Offer

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

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

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

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

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

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

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

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 2013 that has significantly affected, or may significantly affect:

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

ENVIRONMENTAL REGULATION

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

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

The metering on the Maari/Manaia production platform went out of calibration for a short period during the year allowing a small quantity (less than one third of a litre) of oil to be disposed into the sea which was slightly above the 50 ppm limit. With such a small quantity there was no harm to the environment, however the process has been amended to ensure 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.

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INFORMATION ON DIRECTORS

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

Non-executive independent Director and Chairman:	E F Ainsworth AM, B.Comm, FAICD
Experience and current directorships:	Director for 12 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 13 years. 37 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 23 years. Executive Dean of the Faculty of Law at Queensland University of Technology. Director of Downer EDI Limited and Wide Bay Australia Ltd, and a member of the Australian Takeovers Panel.
Former directorships during last 3 years:	None.
Special responsibilities:	Chairman of Audit Committee; member of Risk Management Committee.
Non-executive Director:	G J de Nys B. Tech, FIEAust, FAICD, CPEng (Ret)
Experience and current directorships:	Director for 5 years. 44 years experience in civil engineering, construction, oil field contracting and natural resource investment management. Director of SOCAM Development Limited. Non-Executive Chairman of Red Sky Energy Limited.
Former directorships during last 3 years:	None.
Special responsibilities:	Member of Risk Management and Remuneration and Nomination Committees.
Non-executive independent Director:	A Stock B. Eng (Chem) (Hons), FAIE, GAICD
Experience and current directorships:	Appointed on 2 February 2011. Over 36 years of development, operations and commercial experience in energy industries in Australia and overseas. Former Director, Executive Projects and Executive General Manager for Major Development Projects for Origin Energy Limited. Non-executive director of Geodynamics Limited and Silex Systems Limited; Board Member of the Clean Energy Finance Corporation and a member of the Engineering Faculty and Energy Advisory Boards at University of Adelaide.
Former directorships during last 3 years:	None
Special responsibilities:	Chairman of Risk Management; member of Audit Committee and Remuneration and Nomination Committees.

COMPANY SECRETARY

Company Secretary and Chief Financial Officer:	M Sheridan B.Ec, LL.M., F Fin
Qualifications and experience:	Before joining Horizon Oil Limited 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:

Director	Ordinary shares			Unlisted options		
	Direct	Indirect	Total	Direct	Indirect	Total
E F Ainsworth	113,500	3,896,875	4,010,375	-	-	-
B Emmett	-	16,752,607	16,752,607	-	5,700,000	5,700,000
J Humphrey	-	5,112,034	5,112,034	-	-	-
G de Nys	-	361,250	361,250	-	500,000	500,000
A Stock	-	140,000	140,000	-	-	-

B Emmett also held 9,216,502 share appreciation rights as at the date of this Directors' Report. A further, 3,465,243 share appreciation rights were granted to B Emmett on 21 August 2013 subject to shareholder approval at the 2013 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
<i>Number of meetings held:</i>	10 ¹	2	1	2	1
<i>Number of meetings attended by:</i>					
E F Ainsworth	10	2	1	2	1
B D Emmett	9 ¹		1		1
J S Humphrey	8 ²	2	1	2	
G de Nys	10		1	2	
A Stock	10	2	1	2	

1 One board meeting was held for non-executive directors only.

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

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate governance and accountability, the Directors support the principles of good corporate governance. The Company's Corporate Governance Statement is set out on pages 25 to 30 of this annual financial report.

REMUNERATION REPORT

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

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

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

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

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with

market best practice for delivery of reward. The board ensures that executive rewards satisfy the following key criteria for good reward governance practices:

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

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

Non-executive directors' fees

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

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

Retirement allowances for directors

There are no retirement allowances in place for directors.

Executive pay

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

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

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

Short term incentives

As noted above, a short term incentive scheme was introduced during 2010 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 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	The executive's STI payment is calculated with reference to achievement of KPI targets based on a weighted scorecard approach.

The following table shows the STI awards that were achieved during the year ended 30 June 2013:

	STI in respect of 2013 financial year	
Senior executives	Percentage of maximum STI payment paid	Percentage of maximum STI payment forfeited
B Emmett	86%	14%
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 50% of senior executive's fixed remuneration would be long term incentives in the form of SARs, with the number of SARs granted based on the value of a SAR.

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

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

If the board determines that the SARs are to be satisfied in cash, the amount of cash that the participant receives on the exercise of the SARs is the SAR Value multiplied by the number of SARs exercised (less any deduction for taxes that the Company is required to make from the payment). If the board determines that the SARs are to be satisfied in shares, the number of shares that the participant receives on the exercise of the SARs is the SAR Value divided by the volume weighted

HORIZON OIL LIMITED

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.

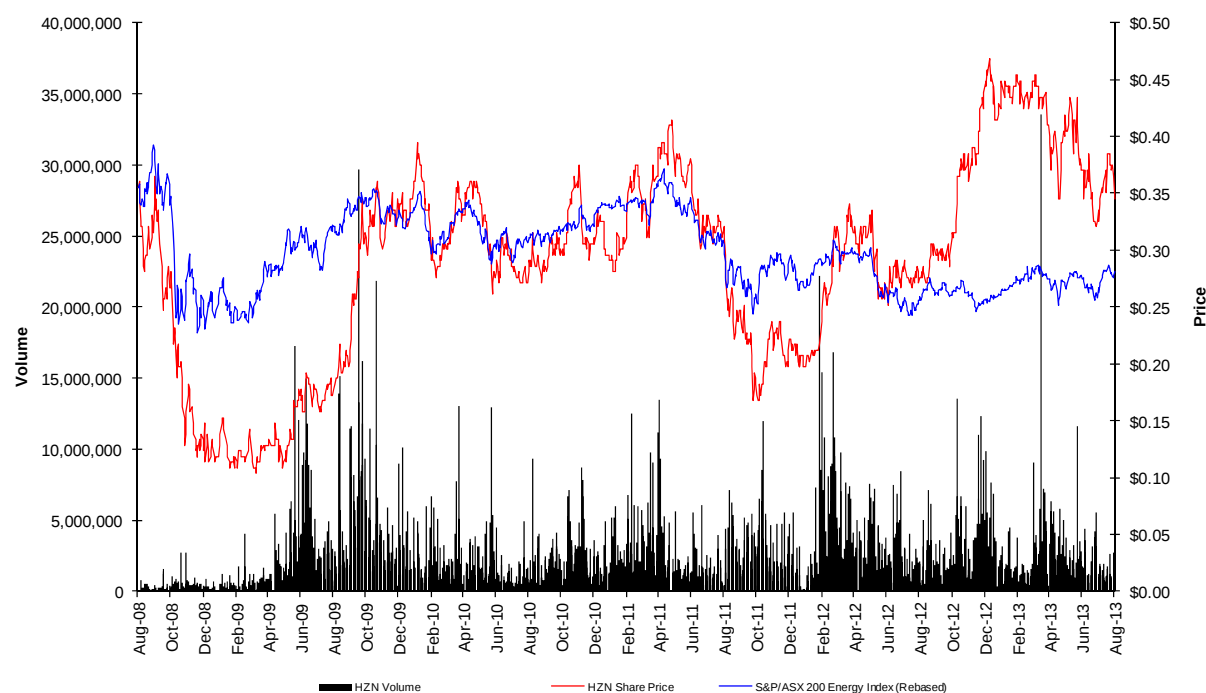
Key terms & conditions	Long Term Incentive Plan
Eligible persons:	Under the terms of the LTI Plan, the Company may grant SARs to any employee. However, it is currently intended by the Company to only grant SARs under the LTI Plan to current senior executive employees including executive directors.
Exercise 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.

Performance of Horizon Oil Limited

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

Horizon Oil share price (HZN) Vs S&P/ASX200 Energy Index



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

Year	2009	2010	2011	2012	2013
Profit (loss) before tax (US\$'000)	(3,369)	56,693	48,480	23,689	10,025

Use of remuneration consultants

No remuneration consultants were employed during the year.

B. Details of remuneration

Amounts of remuneration

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

The key management personnel of Company and the Group includes the directors of Horizon Oil Limited as per page 9, 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 2013	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Cash bonus	Non-Monetary ¹	Super-annuation ²	Long service leave	Options/SARs ³	Total ⁴
Name	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Directors:							
E F Ainsworth Chairman, Non-executive Director	168,295	-	-	15,147	-	-	183,442
B D Emmett Chief Executive Officer, Executive Director	823,512	329,749	101,528	25,677	24,714	389,952	1,695,132
J Humphrey Non-executive Director	-	-	-	91,721	-	-	91,721
G de Nys Non-executive Director	84,148	-	-	7,573	-	1,503	93,224
A Stock Non-executive Director	84,148	-	-	7,573	-	-	91,721
Total Directors' remuneration	1,160,103	329,749	101,528	147,691	24,714	391,455	2,155,240
<i>Total Directors' remuneration (AUD)⁴</i>	<i>1,129,517</i>	<i>355,524</i>	<i>98,851</i>	<i>143,797</i>	<i>26,646</i>	<i>381,134</i>	<i>2,135,469</i>
Other key management personnel:							
M Sheridan Chief Financial Officer, Company Secretary	597,062	239,004	17,393	25,677	11,624	276,440	1,167,200
A Fernie Manager - Exploration and Development	597,062	239,004	93,086	25,677	11,540	276,440	1,242,809
Total other key management personnel remuneration	1,194,124	478,008	110,479	51,354	23,164	552,880	2,410,009
<i>Total other key management personnel remuneration (AUD)⁴</i>	<i>1,162,640</i>	<i>515,372</i>	<i>107,566</i>	<i>50,000</i>	<i>24,975</i>	<i>538,303</i>	<i>2,398,856</i>

1. Non-monetary benefits include the value of car parking, insurances and other expenses inclusive of Fringe Benefits Tax (FBT).
2. Superannuation includes both compulsory superannuation payments and salary sacrifice payments made on election by directors and KMPs.
3. Reflects the theoretical value (calculated as at grant date and converted to US dollars at the foreign exchange rate prevailing at the date of grant) of previously unvested options/SARs which vested during the financial year.
4. Remuneration is paid in Australian dollars and converted to US dollars at the foreign exchange rate prevailing on the date of the transaction.

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Financial year ended 30 June 2012	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total ⁴
	Cash salary and fees US\$	Cash bonus US\$	Non-Monetary ¹ US\$	Super-annuation ² US\$	Long service leave US\$	Options/SARs ³ US\$	
Name							
Directors:							
E F Ainsworth Chairman, Non-executive Director	155,501	-	-	13,938	-	-	169,439
B D Emmett Chief Executive Officer, Executive Director	766,925	378,761	92,474	51,260	13,962	360,113	1,663,495
J Humphrey Non-executive Director	-	-	-	84,400	-	-	84,400
R A Laws (resigned 17 Nov 2011) Non-executive Director	-	-	-	41,008	-	-	41,008
G de Nys Non-executive Director	56,665	-	-	27,967	-	8,646	93,278
A Stock Non-executive Director	77,751	-	-	6,969	-	-	84,720
Total Directors' remuneration	1,056,842	378,761	92,474	225,542	13,962	368,759	2,136,340
<i>Total Directors' remuneration (AUD)⁴</i>	<i>1,026,629</i>	<i>371,663</i>	<i>89,831</i>	<i>219,998</i>	<i>13,700</i>	<i>358,218</i>	<i>2,080,039</i>

Other key management personnel:

M Sheridan Chief Financial Officer, Company Secretary	564,127	294,097	21,956	35,882	15,333	218,440	1,149,835
A Fernie Manager - Exploration and Development	548,686	294,097	72,231	51,260	15,070	218,440	1,199,784
Total other key management personnel remuneration	1,112,813	588,194	94,187	87,142	30,403	436,880	2,349,619
<i>Total other key management personnel remuneration (AUD)⁴</i>	<i>1,081,000</i>	<i>577,170</i>	<i>91,494</i>	<i>85,000</i>	<i>29,833</i>	<i>424,391</i>	<i>2,288,888</i>

1. Non-monetary benefits include the value of car parking, insurances and other expenses inclusive of FBT.
2. Superannuation includes both compulsory superannuation payments and salary sacrifice payments made on election by directors and KMPs.
3. Reflects the theoretical value (calculated as at grant date and converted to US dollars at the foreign exchange rate prevailing at the date of grant) of previously unvested options/SARs which vested during the financial year.
4. Remuneration is paid in Australian dollars and converted to US dollars at the foreign exchange rate prevailing on the date of the transaction.

Name	Fixed remuneration		At Risk – STI		At Risk – LTI	
	2013	2012	2013	2012	2013	2012
Executive Directors:						
B D Emmett Chief Executive Officer, Executive Director	58%	56%	19%	23%	23%	22%
Other key management personnel:						
M Sheridan Chief Financial Officer, Company Secretary	56%	55%	20%	26%	24%	19%
A Fernie Manager - Exploration and Development	59%	57%	19%	25%	22%	18%

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:

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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, 2010, 2011 and 2012 annual general meetings.

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

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

Grant date	Expiry date	Exercise price	Value per option/SAR at grant date	Date exercisable
25/09/2009	25/09/2014	A\$0.295	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
13/8/2012	13/8/2017	A\$0.2770 ¹	A\$0.1025	100% after 13/8/2015

¹No 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	3,876,460	406,881	-	-	-
Other key management personnel:					
M Sheridan	2,842,738	298,379	-	-	-
A Fernie	2,842,738	298,379	-	-	-

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

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** 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.

The amounts disclosed for the remuneration of directors and other key management personnel include the assessed fair values of options/SARs granted during the financial year, at the date they were granted. Fair values have been assessed by an independent expert using a Monte Carlo simulation. Factors taken into account by this model include the exercise price, the term of the option/SAR, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option/SAR (refer below). The value attributable to options/SARs is allocated to particular periods in accordance with AASB 2 *Share-based 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 2013 included:

Grant date	13 August 2012
Expiry date	13 August 2017
Exercise price	N/A ¹
10 Day VWAP of Horizon Shares at grant date	A\$0.2770
Expected price volatility	37.60% p.a.
Risk free rate	2.27% 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 33.

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			
No options exercised.			
Other key management personnel:			
M Sheridan	10/10/2012	2,700,000	81,156
A Fernie	10/10/2012	1,050,000	-

* 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	Options exercised	Amount paid per share	Amount remaining to be paid
10/10/2012	2,250,000	A\$0.35	-
10/10/2012	1,000,000	A\$0.01	A\$0.285
10/10/2012	500,000	A\$0.01	A\$0.26

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

Details of remuneration – options/SARs

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

Options/SARs					
Name	Year granted	Vested %	Forfeited %	Financial years in which options/SARs may vest	Maximum total value of grant yet to vest ¹ US\$
B Emmett	2010	100	-	-	-
	2011	-	-	30/06/2014	30,796
	2012	-	-	30/06/2015	135,277
	2013	-	-	30/06/2016	279,916
G de Nys	2010	100	-	-	-
M Sheridan	2010	100	-	-	22
	2011	-	-	30/06/2014	22,583
	2012	-	-	30/06/2015	99,203
	2013	-	-	30/06/2016	205,272
A Fernie	2010	100	-	-	-
	2011	-	-	30/06/2014	22,583
	2012	-	-	30/06/2015	99,203
	2013	-	-	30/06/2016	205,272

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 32 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
03/10/2008	2,198,000	A\$0.27 ¹	03/10/2013
25/09/2009	6,025,000	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
10/01/2012	1,000,000 ²	A\$0.215 ¹	10/04/2015
28/05/2012	2,000,000 ²	A\$0.27 ¹	28/08/2015
28/05/2012	2,000,000	A\$0.27 ¹	28/05/2017
17/09/2012	500,000	A\$0.30 ¹	17/09/2017
20/02/2013	350,000	A\$0.44 ¹	20/02/2018
16/04/2013	350,000	A\$0.41 ¹	16/04/2018
	32,973,000		

1. Subject to restrictions on exercise.

2. General options issued.

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	
	2013	2012
	US\$	US\$
During the financial year, the following fees were paid or payable for services provided by the external auditor of the parent entity and its related practices:		
1. PwC Australia		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	178,507	149,808
Other assurance services		
Assurance on convertible bond issue	-	-
Accounting and tax due diligence associated with the reserves based debt facility ¹	-	177,939
Accounting advice	-	-
Other services	-	1,039
Total remuneration for audit and other assurance services	178,507	328,786
<i>Taxation services</i>		
Tax compliance	47,104	45,054
Other services	6,240	-
Total remuneration for taxation services	53,344	45,054
2. Non-PwC audit firms		
<i>Audit and other assurance services</i>	11,797	11,928
<i>Other services</i>		-
Total remuneration for audit and other assurance services	11,797	11,928
Total auditors' remuneration	243,648	385,768

¹Note : PwC were engaged by ANZ as agent for the lender group of the reserves based debt facility following a formal tender process. Under the terms of the facility, Horizon was liable for the costs associated with these services and accordingly has included them above on this basis.

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 24.

ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

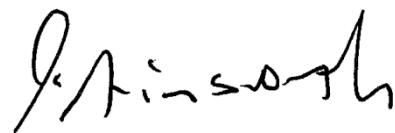
The Company is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand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

HORIZON OIL LIMITED

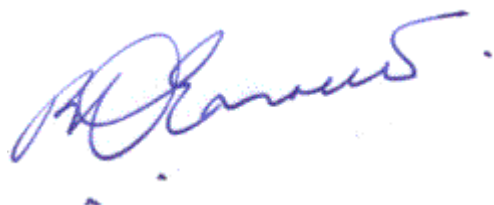
EXTERNAL AUDITOR

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

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

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

E F Ainsworth AM
Chairman

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

B D Emmett
Chief Executive Officer

Sydney
27 August 2013



Auditor's Independence Declaration

As lead auditor for the audit of Horizon Oil Limited for the year ended 30 June 2013, 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.

A handwritten signature in blue ink, appearing to read 'P. Buchholz', with a long horizontal stroke extending to the right.

Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
27 August 2013

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 with 2010 Amendments 2nd edition*, released during June 2010, 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 2013. (*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 2013 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. (*Recommendation 1.3*)

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 director's independence. The board considers that Messrs Ainsworth, Humphrey 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 three years. However, given the complete change of the Group's management and re-composition of the board twelve 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. Despite Mr de Nys being a non-independent director, the Company was in full compliance with Recommendation 2.1 (which recommends that a majority of the board be composed of independent directors) for the full 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

The board is comprised of four non-executive directors, and one executive director. The role of Chairman and CEO are performed by different individuals. (*Recommendation 2.3*)

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 directors:

Independent

E F Ainsworth (Chairman of Committee)
A Stock

Non-independent

G de Nys

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

- assess the skills and competencies required on the board;
- from time to time assess the extent to which the required skills are represented on the board;
- 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 2013. 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 strongly values diversity and recognises the benefits it can bring to its ability to achieve its goals. Accordingly, the Company's Diversity Policy outlines the Company's gender diversity objectives. It includes requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually the objectives and the Company's progress in achieving them.

As outlined in the Code and Diversity Policy, merit is the basis for employment with the Company and all employees and applicants for employment are treated and evaluated according to their job-related skills, qualifications, abilities and aptitude. Diversity is applicable to all levels of the organisation, including senior executive and board positions, and all appointment processes are to be conducted in a manner that promotes gender diversity in accordance with the Code and Diversity Policy. (*Recommendation 3.2*)

In 2013 the Company continued its commitment in promoting gender and other forms of diversity by achieving the 2013 measurable objectives set by the board. The Company introduced an education programme within the organisation where all employees were educated in the Company's commitment in developing a diverse workforce and as such were provided with the Diversity Policy. The Company also continued its commitment to increase the representation of women in management roles and under-represented roles by improving its recruitment process to ensure that gender diversity was considered in all processes when determining the successful applicant.

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

- review and update the Diversity Policy as necessary and provide regular training for new and existing employees; and
- assess female participation in the Company's Papua New Guinean operations (where the Company is appointed as Operator) and identify culturally appropriate positions in order to maximise female representation where appropriate. (*Recommendation 3.3*)

The proportion of Australian based female employees in the organisation is 47% (eight of seventeen). The three executive managers of the Company are male, as are the four non-executive directors of the Company. The gender of the executive managers on non-executive directors of the board is assessed by inspection in the Annual Report. (*Recommendation 3.4*)

The Company's policy in relation to dealings in the Company's securities applies to directors, employees and consultants. In summary, such persons are not permitted to deal in the Company's securities during the twenty-eight day period immediately prior to the release of ASX quarterly reports, half-yearly and annual financial results to the market. Any intended transactions must be notified to the Chairman in advance. The Code, Diversity Policy and the Company's Securities Trading Policy are discussed with each new employee as part of their induction training.

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

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

PRINCIPLE 4: SAFEGUARD INTEGRITY IN 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
A Stock

The qualifications of Audit Committee members and their attendance at meetings of the Committee during 2013 are detailed in the Directors' Report.

In the period 1 July 2012 to the date of this report, the Audit Committee was composed of three non-executive directors. The board considers that the size and composition of the Audit Committee is appropriate to enable its effective and efficient operation having regard to the size of the board and the relevant qualifications of the members of the Audit Committee. (*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 30 to the financial statements. It is the policy of the external auditor to provide an annual declaration of its independence to the Audit Committee.

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

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

The Disclosure Committee consists of the following directors:

E F Ainsworth (Chairman of Committee)
B D Emmett

HORIZON OIL LIMITED

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:

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

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

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 2013. 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 2013 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 directors:

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

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

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 8.3*)

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.



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 2013, 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 Horizon Oil (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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



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 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 10 to 20 of the directors' report for the year ended 30 June 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.

A blue ink signature, likely of a representative from PricewaterhouseCoopers.

PricewaterhouseCoopers

A blue ink signature, likely of Peter Buchholz.

Peter Buchholz
Partner

Sydney
27 August 2013

DIRECTORS' DECLARATION

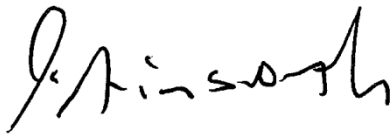
In the directors' opinion:

- (a) the financial statements and notes are in accordance with the *Corporations Act 2001* including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

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

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

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



E F Ainsworth AM
Chairman



B D Emmett
Chief Executive Officer

Sydney
27 August 2013

HORIZON OIL LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

	Note	Consolidated 2013 US\$'000	2012 US\$'000
Revenue from continuing operations	6	48,071	50,390
Cost of sales	7	(22,685)	(16,935)
Gross profit		25,386	33,455
Other income	6	30	72
General and administrative expenses	7	(7,038)	(8,110)
Exploration and development expenses	7	(606)	(303)
Financing costs	7	(8,209)	(5,974)
Unrealised movement in value of convertible bond conversion rights	6	991	4,967
Other expenses	7	(529)	(418)
Profit before income tax expense		10,025	23,689
NZ royalty tax expense	8a	(3,982)	(7,270)
Income tax expense	8b	(2,569)	(8,772)
Profit for the financial year		3,474	7,647
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges	25	(778)	(77)
<i>Items that will not be reclassified to profit or loss</i>		-	-
Total comprehensive income for the year		2,696	7,570
Profit attributable to members of Horizon Oil Limited		3,474	7,647
Total comprehensive income attributable to members of Horizon Oil Limited		2,696	7,570
Earnings per share for profit attributable to the ordinary equity holders of the company:		US Cents	US Cents
Basic earnings per ordinary share	41a	0.31	0.68
Diluted earnings per ordinary share	41b	0.30	0.68

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

HORIZON OIL LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

	Note	Consolidated 2013 US\$'000	2012 US\$'000
Current Assets			
Cash and cash equivalents	9	19,028	19,287
Receivables	10	18,956	14,966
Inventories	11	7,898	7,827
Derivative financial instruments	18	-	394
Current tax receivable		650	-
Other	12	832	4,515
Total Current Assets		47,364	46,989
Non-Current Assets			
Deferred tax assets	13	10,441	11,552
Plant and equipment	14	8,206	4,700
Exploration phase expenditure	15	92,538	77,658
Oil and gas assets	16	317,637	209,950
Total Non-Current Assets		428,822	303,860
Total Assets		476,186	350,849
Current Liabilities			
Payables	17	40,150	42,683
Derivative financial instruments	18	1,237	-
Current tax payable		803	4,093
Borrowings	19	14,735	7,632
Total Current Liabilities		56,925	54,408
Non-Current Liabilities			
Payables	20	21,253	974
Derivative financial instruments	18	-	294
Deferred tax liability	22	17,064	16,109
Borrowings	19	180,831	93,091
Other financial liabilities	21	17,436	18,428
Provisions	23	15,664	5,821
Total Non-Current Liabilities		252,248	134,717
Total Liabilities		309,173	189,125
Net Assets		167,013	161,724
Equity			
Contributed equity	24	128,038	126,686
Reserves	25a	7,884	7,421
Retained profits	25b	31,091	27,617
Total Equity		167,013	161,724

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

HORIZON OIL LIMITED
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2013

Consolidated		Attributable to members of Horizon Oil Limited			
		Contributed equity US\$'000	Reserves US\$'000	Retained profits US\$'000	Total US\$'000
Balance at 1 July 2011		125,976	6,605	19,970	152,551
Profit for the financial year	25(b)	-	-	7,647	7,647
Changes in the fair value of cash flow hedges	25(a)	-	(77)	-	(77)
Total comprehensive income for the year		-	(77)	7,647	7,570
Transactions with owners in their capacity as equity holders:					
Contributions of equity, net of transaction costs	24(b)	710	-	-	710
Employee share based payments	25(a)	-	893	-	893
Share options	25(a)	-	-	-	-
		710	893	-	1,603
Balance at 30 June 2012		126,686	7,421	27,617	161,724
Balance at 1 July 2012		126,686	7,421	27,617	161,724
Profit for the financial year	25(b)	-	-	3,474	3,474
Changes in the fair value of cash flow hedges	25(a)	-	(778)	-	(778)
Total comprehensive income for the year		-	(778)	3,474	2,696
Transactions with owners in their capacity as equity holders:					
Contributions of equity, net of transaction costs	24(b)	1,352	-	-	1,352
Employee share based payments	25(a)	-	1,241	-	1,241
Share options	25(a)	-	-	-	-
		1,352	1,241	-	2,593
Balance at 30 June 2013		128,038	7,884	31,091	167,013

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

HORIZON OIL LIMITED
STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

	Note	Consolidated 2013 US\$'000	2012 US\$'000
Cash flows from operating activities			
Receipts from customers		43,144	46,174
Payments to suppliers and employees		(11,494)	(12,626)
		31,650	33,548
Interest received		24	64
Interest paid		(7,980)	(5,296)
Income taxes paid		(8,221)	(15,289)
Net cash inflow from operating activities	40	15,473	13,027
Cash flows from investing activities			
Payments for exploration phase expenditure		(29,732)	(53,732)
Payments for oil and gas assets		(94,756)	(25,211)
Payments for plant and equipment		(128)	(174)
Payments for acquisition of exploration assets	27	(783)	-
Proceeds from deposit on sale of assets		20,400	-
Net cash (outflow) from investing activities		(104,999)	(79,117)
Cash flows from financing activities			
Proceeds from share issues		766	20
Proceeds from issue of convertible bonds (net of transaction costs)		-	(965)
Proceeds from borrowings (net of transaction costs)		104,561	27,667
Repayment of borrowings		(15,877)	(5,867)
Net cash inflow from financing activities		89,450	20,855
Net decrease in cash held		(76)	(45,235)
Cash at the beginning of the financial year		19,287	64,572
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		(183)	(50)
Cash at the end of the financial year		19,028	19,287
Finance leases	38(ii)		

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

Note 1. Summary of Significant Accounting Policies

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

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

(a) Basis of preparation

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

The financial report has been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they become due. The Group had a working capital deficit of US\$9.6 million as at 30 June 2013 resulting from timing differences between the expenditure associated with the exploration and development activity during the year and cashflows from the Group's Maari and Beibu oilfields. The Group has access to a reserves based debt facility of up to US\$160 million, of which cash was drawn to \$134 million at 30 June 2013. Subsequent to the period end, the Group launched a fully underwritten accelerated non-renounceable pro-rata entitlement offer to raise approximately A\$53.5 million. The Group also advised on 23 May 2013 that it had entered into an agreement to sell 40% of its Papua New Guinea assets to Osaka Gas Co. Ltd. of Japan. Proceeds from the sale process, together with existing cash balances, debt facilities, and surplus revenue from the Group's operations in New Zealand and China are expected to be sufficient to extinguish outstanding current liabilities and pursue the current strategy. Should the full amount of the forecast internally generated cash flow and capital required to pursue the strategy not be raised and the Group adopt a modified strategy, the Director's expect that the Group will be able to secure the necessary financing through one, or a combination of, additional borrowings, equity raising or asset sales. Accordingly, the consolidated financial statements have been prepared on a going concern basis in the belief that the Company will realise its assets and settle its liabilities and commitments in the normal course of business and for at least the amounts stated.

Compliance with IFRS

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

New and amended standards adopted by the group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2012.

Historical cost convention

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

Critical accounting estimates

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

(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 2013 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.

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 29.

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 profit or loss.

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

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

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

(d) Under/overlift

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

(e) Operating segment reporting

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

(f) Foreign currency translation

(i) Functional and presentation currency

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

- (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 profit or loss.

(iii) Group companies

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

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

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

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

(g) Revenue recognition

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

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

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

(h) Taxation

(i) Income tax

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

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

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

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

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

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

(ii) Government royalties

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

(i) Leases

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

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

(j) Impairment of assets

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

(k) Cash and cash equivalents

For presentation purposes in the statement of cash flows, cash and cash equivalents includes cash at banks and on hand, 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 profit or loss.

(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 recognizes the individual identifiable assets acquired and liabilities assumed. The consideration paid is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Transaction costs associated with the acquisition are a component of the consideration transferred and are therefore capitalised.

(n) Exploration phase expenditure

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

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

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

Impairment of capitalised exploration phase expenditure

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

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

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

(o) Oil and gas assets

(i) Development Expenditure

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

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

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

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

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

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

(ii) Production Assets

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

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

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

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

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

(iii) Restoration provision

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

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

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

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

(iv) Reserves

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

(p) Investments and other financial assets

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

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

(q) Plant and equipment

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

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

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

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

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

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

(r) Trade and other payables

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

(s) Derivatives

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

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

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

(i) Fair value hedge

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

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

(ii) Cash flow hedge

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

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

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

(t) Borrowings

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

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

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

(u) Borrowing costs

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

The amount of borrowing costs incurred which were capitalised during the financial year were interest and associated costs of US\$6,527,000 (2012: US\$3,097,000) and amortised borrowing costs of US\$916,000 (2012: US\$2,411,000).

(v) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Long service leave

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

(iii) Share-based payments

Share-based payment compensation benefits are provided to employees and consultants via the Horizon Oil Long Term Incentive Plan, the Horizon Oil Limited Employee Option Scheme, the Employee Performance Incentive Plan, and the General Option Plan. Information relating to these schemes is set out in Note 33.

The fair value of options and share appreciation rights (SARs) granted under the Horizon Oil Long Term Incentive Plan, Horizon Oil Limited Employee Option Scheme and Employee Performance Incentive Plan are recognised as an employee share based 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 42 has been prepared on the same basis as the consolidated financial statements, except as set out below.

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

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Horizon Oil Limited. Dividends received from associates are recognized 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 interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2013 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2015)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 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. In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. Accordingly, in September 2012, the AASB also delayed the application date of AASB 9 to 1 January 2015.

(ii) AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. The Group does not expect the new standard to have a significant impact on its composition.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

The Group's investments in joint venture operations will be classified as joint operations under the new rules. As the Group already accounts for its share of revenues, expenses, assets and liabilities in much the same way as under the previous standard, AASB 11 will not have any impact on the amounts recognised in its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The group does not anticipate any changes resulting from these amendments.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(iii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013).

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

Note 2. Financial risk management

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

Risk management is carried out by the finance function under policies approved by the board of directors. The finance function identifies, evaluates and if necessary hedges financial risks in close co-

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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 2013	30 June 2012
	US\$'000	US\$'000
Financial Assets		
Cash and cash equivalents	19,028	19,287
Receivables	18,956	14,966
Current tax receivable	650	-
Derivative financial instruments	-	394
	<u>38,634</u>	<u>34,647</u>
Financial Liabilities		
Payables (current)	40,150	42,683
Current tax payable	-	4,093
Payables (non-current)	21,253	974
Derivative financial instruments (current and non-current)	1,237	294
Borrowings (net of borrowing costs capitalised)	195,566	100,723
Other financial liabilities	17,436	18,428
	<u>275,642</u>	<u>167,195</u>

(a) Market risk

(i) Foreign exchange risk

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

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

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

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

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

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

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Exposure to foreign exchange risk

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

Group	30 June 2013				30 June 2012			
	AUD US\$'000	NZD US\$'000	PGK US\$'000	RMB US\$'000	AUD US\$'000	NZD US\$'000	PGK US\$'000	RMB US\$'000
Cash and cash equivalents	970	827	527	164	1,250	1,392	969	-
Receivables	1893	176	485	-	2,338	15	34	-
Current Tax Receivable	-	651	-	-	-	-	-	-
Current Tax Payable	-	-	-	-	-	4,093	-	-
Current Payables	2,962	96	913	2,434	2,292	448	48	-
Non-current Payables	22	-	-	-	110	-	-	-

For the financial year ended and as at 30 June 2013, 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	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
Change in currency¹	+10%	+10%	+10%	+10%	-10%	-10%	-10%	-10%
Australian dollar impact	(777)	(1,039)	(9)	85	777	1,039	9	(85)
New Zealand dollar impact	(386)	(1,015)	112	(226)	386	1,015	(112)	226
Papua New Guinea kina impact	(39)	(30)	7	69	39	30	(7)	(69)
Chinese Renminbi impact	(175)	-	(163)	-	175	-	163	-

1. This has been based on the change in the exchange rate against the US dollar in the financial years ended 30 June 2013 and 30 June 2012. The sensitivity analysis has been based on the sensitivity rates when reporting foreign exchange risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates based on historic volatility. In management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the end of the reporting period exposure does not necessarily reflect the exposure during the course of the financial year.

(ii) Commodity price risk

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

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

As at 30 June 2013, the Group had a US\$1,237,000 derivative liability arising from 177,000 bbls of Brent oil price swaps which represents approximately 1.1% of its proven and probable reserves. At 30 June 2012 the Group had a net US\$100,000 derivative asset arising from 426,000 bbls of Brent oil price swaps which represented approximately 1.9% of its proven and probable reserves at the time.

For the financial year ended and as at 30 June 2013, 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	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
Change in crude oil price	+10%	+10%	+10%	+10%	-10%	-10%	-10%	-10%
Impact	1,356	2,495	1,356	2,495	(1,356)	(2,495)	(1,356)	(2,495)

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

At 30 June 2012, the Group's interest rate risk arose from long term borrowings, issued at variable rates, exposing the Group to cash flow interest rate risk. Group policy is to manage material interest rate exposure. Regular sensitivity analysis is conducted to evaluate the potential impact of unfavourable interest rate movements on the Group's future financial position. The results of this evaluation are used to determine the most appropriate risk mitigation tool to be used. During the prior period, the Group did not enter into any interest rate swap contracts.

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

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

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

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	Floating interest rate	Fixed interest rate			Non-interest bearing	Total contractual cash flows	Carrying amount
		1 year or less	Over 1 to 2 years	Over 2 to 5 years			
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
2012:							
Financial assets							
Cash and deposits	6,748	-	-	-	12,539	19,287	19,287
Receivables	-	-	-	-	14,966	14,966	14,966
Derivative financial instruments (net)	-	-	-	-	100	100	100
	6,748	-	-	-	27,605	34,353	34,353
Weighted average interest rate p.a.	0.21%						
Financial liabilities							
Trade and other creditors	-	-	-	-	43,657	43,657	43,657
Current tax payable	-	-	-	-	4,093	4,093	4,093
Borrowings	33,000	12,308	4,400	95,840	-	145,548	100,723
	33,000	12,308	4,400	95,840	47,750	193,298	148,473
Weighted average interest rate p.a.	4.68%	10.55%	14.81%	14.81%			
Net financial liabilities	(26,252)	(12,308)	(4,400)	(95,840)	(20,145)	(158,945)	(114,120)

As at 30 June 2013, the Group had the following variable rate borrowings outstanding.

	30 June 2013		30 June 2012	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	% p.a.	US\$'000	% p.a.	US\$'000
Bank loans	4.37%	134,335	4.68%	33,000
Net exposure to cash flow interest rate risk		134,335		33,000

At 30 June 2013, 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 2013 would increase/(decrease) by:

Group	Net Result		Net Assets		Net Result		Net Assets	
	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000	2013 US\$'000	2012 US\$'000
Change in interest rate p.a.	+1%	+1%	+1%	+1%	-1%	-1%	-1%	-1%
Impact of Assets	116	244	116	244	(5)	(51)	(5)	(51)
Impact of Liabilities	834	117	834	117	(834)	(117)	(834)	(117)
Impact of Net Assets	(718)	127	(718)	127	829	66	829	66

(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.

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

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Cash and cash equivalents		
<i>Counterparties with external credit rating (Standard & Poors)</i>		
AA-	15,325	10,312
		10,312
<i>Counterparties without external credit rating</i>		
Share of joint venture operations cash balances	3,528	8,721
Overseas financial institutions	174	253
Cash on hand	1	1
		8,975
Total cash and cash equivalents	19,028	19,287
Receivables		
<i>Counterparties with external credit rating (Standard & Poors)</i>		
AAA	336	308
BBB-	-	69
	336	377
<i>Counterparties without external credit rating</i>		
Share of joint venture operation receivables balances	4,221	8,023
Joint venture partners	13,217	5,447
Related parties (partly paid ordinary shares)	1,112	1,074
Other	70	45
	18,620	14,589
Total receivables	18,956	14,966

As at 30 June 2013, there were US\$Nil (30 June 2012: 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 2013	30 June 2012
	US\$'000	US\$'000
Floating rate:		
Expiring within one year	5,265 ¹	-
Expiring beyond one year	-	87,000

¹The undrawn borrowing facility is the reserves based debt facility which provides up to US\$160 million. As at balance date, the facility limit was US\$160 million, expanded from US\$120 million during the current year following the inclusion of additional Block 22/12 reserves. At balance date, cash draw downs of US\$134.34 million (2012: US\$33 million) had been drawn against the facility and a letter of credit had been issued for US\$20.4 million.

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

	Non-interest bearing	Variable rate	Fixed rate	Derivatives (net)
	US\$'000	US\$'000	US\$'000	US\$'000
2012:				
Less than 6 months	47,640	-	5,596	(436)
6 – 12 months	-	-	6,712	42
Between 1 and 2 years	-	-	4,400	294
Between 2 and 5 years	110	-	95,840	-
Over 5 years	-	33,000	-	-
Total contractual cash flows	47,750	33,000	112,548	(100)

d) Fair value estimation

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

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

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

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2013 and 30 June 2012:

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

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At 30 June 2012	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Assets				
Derivatives used for hedging	-	100	-	100
Total Assets	-	100	-	100
Liabilities				
Financial liabilities at fair value through profit or loss				
Conversion rights on convertible bonds	-	-	18,428	18,428
Total liabilities	-	-	18,428	18,428

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

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

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

Specific valuation techniques use to value financial instruments include:

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

The fair value of conversion rights on convertible bonds is determined based on a simulation-based pricing methodology using a Monte Carlo simulation. A simulation-based pricing methodology was applied in order to model the dynamics of the underlying variables and to account for the individual specifications of the convertible bonds such as the inherent path dependency. Monte Carlo simulation uses random numbers as inputs to iteratively evaluate a deterministic model. The method involves simulating the various sources of uncertainty that affect the value of the relevant instrument and then calculating a representative value by substituting a range of values—in this case a lognormal probability distribution—for any factor that has inherent uncertainty. The results are calculated repeatedly, each time using a different set of random values from the probability functions. Depending upon the number of uncertainties and the ranges specified for them, a Monte Carlo simulation may typically involve thousands or tens of thousands (for Horizon Oil convertible bonds - 100,000) of recalculations before it is complete. The result is a probability distribution of possible outcomes providing a more comprehensive view of both what could happen and its likelihood. Market interest rates were applied in the model with a credit spread of 7.5%, together with a calculated share price volatility of 45.8% when quoted in US dollar terms. All other parameters were based on the specific terms of the convertible bonds issued.

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

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

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

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

(d) Capital risk

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

Note 3. Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

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

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

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

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

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

The recoverability of deferred tax assets is based on the assumption that it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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 two offshore permit areas, PEP 51313; and PMP 38160 Maari/Manaia;
- China exploration and development – the Group is currently involved in developing and producing of crude oil from the Block 22/12 – WZ6-12 and WZ12-8W oil field development and in the exploration and evaluation of hydrocarbons within Block 22/12; and
- PNG exploration and development - the Group is currently involved in the Stanley condensate/gas development (project FID during 2012), and the exploration and evaluation of hydrocarbons in six onshore permit areas, PRL 4, PRL 21, PPL 259, PPL 372, PPL 373 and PPL 430.
- 'All other segments' include amounts of a corporate nature not specifically attributable to an operating segment.

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

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

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	New Zealand Development	New Zealand Exploration	China Exploration and Development	Papua New Guinea Exploration	All other segments	Total
2012	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment revenue:						
Revenue from external customers	50,390	-	-	-	-	50,390
Profit (loss) before tax	26,378	(18)	(335)	(1,481)	(5,618)	18,926
Depreciation and amortisation	7,591	-	-	405	64	8,060
Total segment assets at 30 June 2012	88,230	6,257	111,320	129,932	15,110	350,849
Additions to non-current assets other than financial assets and deferred tax during the year ended:						
Exploration and evaluation phase expenditure:	-	1,330	1,238	49,250	-	51,818
Development and production phase expenditure:	816	-	31,839	(807)	-	31,848
Plant and equipment:	-	-	-	3,636	265	3,901
Total segment liabilities at 30 June 2012	69,815	1,764	11,255	20,484	85,807	189,125

(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 2013 US\$'000	2012 US\$'000
Total segment revenue	48,071	50,390
Rental income	6	8
Interest income	24	64
Total revenue	48,101	50,462

(ii) Segment profit before tax

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

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

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Total segment profit before tax	9,390	18,926
Rental income	6	8
Interest income	24	64
Unrealised movement in value of convertible bond conversion rights	991	4,967
Foreign exchange loss (net)	(386)	(276)
Profit before tax	10,025	23,689

(iii) Segment assets

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

Reportable segment assets are equal to consolidated total assets.

(iv) Segment liabilities

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

Reportable segment liabilities are equal to consolidated total liabilities.

Note 5. Sale of Assets

Osaka Gas Strategic Alliance

On 23 May 2013 the Company advised that it had entered into an agreement to sell 40% of its Papua New Guinea assets to Osaka Gas Co. Ltd. of Japan. Key aspects of the transaction are:

- Sale price of US\$204 million, including US\$74 million in cash on completion, a further US\$130 million in cash upon FID for an LNG project, plus potential production payments where threshold condensate production is exceeded;
- Horizon Oil and Osaka Gas to form a strategic alliance to commercialise Horizon Oil's net certified reserves and contingent resources of 125 mmboe and develop acreage covering 7,900 sq km in Western Province; and
- Horizon Oil to transfer 40% of its interests in PRL 4 (Stanley field), PRL 21 (Elevala and Ketu fields) and PPL 259 and grant Osaka Gas the option to acquire 40% of Horizon Oil's interests in recently-acquired PPLs 372, 373 and 430 by paying a proportionate share of costs incurred.

The sale marked the beginning of a 60/40 strategic alliance between Horizon Oil and Osaka Gas, a leading global gas company and one of Japan's largest utility companies and LNG importers. The principle objective of the partnership is to grow and develop the PNG assets for the purposes of supporting a mid-scale LNG project located on the coast in Western Province, PNG. The companies intend to exploit the full potential of the assets via early condensate production, local gas sales and LPG sales and to market their respective shares of petroleum products, especially LNG, on a combined basis.

Completion of the transaction is conditional upon customary consents, regulatory approvals and grant of the development licence for Stanley field. Due to the conditions required for completion of the transaction, all consideration is recorded as a contingent asset at 30 June 2013.

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Farmout of 30% interest in PEP 51313, offshore New Zealand

In November 2012, Horizon Oil and its joint venture partners farmed out a 30% interest in PEP 51313 to OMV New Zealand Limited. Prior to the farm-out PEP 51313 joint venture interests were:

Horizon Oil (New Zealand) Ltd	30%
Todd Exploration	50%
Cue Taranaki Pty Ltd	20%

Following the farm-out the new PEP 51313 joint venture interests are:

Horizon Oil (New Zealand) Ltd	21%
OMV New Zealand Limited	30%
Todd Exploration Ltd	35%
Cue Taranaki Pty Ltd	14%

The key earning provision of the farm-out agreement is that OMV will fund 100% of the cost (without limitation) of an exploration well in the licence targeting the Whio prospect. The well will be drilled in conjunction with appraisal drilling at Manaia with the semi-submersible rig *Kan Tan IV*, which arrived in New Zealand waters in Q3 calendar year 2013. The Whio-1 location will be selected utilising the newly acquired 288 sq km 3D seismic survey across the Maari/Manaia fields and Whio prospect.

Under the farm-in agreement, in the event of a commercial discovery at the Whio prospect, OMV's share in the Whio prospect area alone will increase to 69%. The equity interests over the Whio area in this instance will match those of the Maari licence (PMP 38160) and this will facilitate the development of Whio through the Maari facilities:

Horizon Oil (New Zealand) Ltd	10%
OMV New Zealand Limited	69%
Todd Exploration Ltd	16%
Cue Taranaki Pty Ltd	5%

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Note 6. Revenue		
From continuing operations		
Crude oil sales	50,875	50,209
Net realised (loss) gain on oil hedging derivatives	(2,804)	181
	48,071	50,390
Other income		
Interest received from unrelated corporations	24	64
Rental income received from unrelated corporations	6	8
	30	72

Gains – Conversion rights on convertible bonds¹

Unrealised movement in fair value of convertible bond conversion rights	991	4,967
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¹The amount shown is the movement during the year of the fair value of the conversion rights relating to the 5.5% convertible bonds issued on 17 June 2011. The conversion rights can be settled in cash or ordinary shares of the parent entity, at the option of the issuer, and the number of shares to be issued at conversion is subject to the conversion price which may reset under certain circumstances. Accordingly, the conversion rights are a derivative financial liability and are marked to market through the profit and loss. Fair value of conversion rights at issuance on 17 June 2011 was US\$20,043,000. Refer to Note 21 for further details of the convertible bonds issued.

		Consolidated	
		2013	2012
		US\$'000	US\$'000
Note 7.	Expenses		
Cost of sales			
	Direct production costs	12,072	9,497
	Inventory adjustments ¹	(599)	(239)
	Amortisation expense	8,579	7,591
	Royalties and other levies ²	2,633	86
		22,685	16,935

¹Includes production overlift/underlift and inventory adjustments

²Includes Chinese Special Oil Income levy

General and administrative expenses			
	Employee benefit expense (net)	4,812	6,186
	Corporate office expense (including insurance)	1,421	1,236
	Depreciation expense	513	469
	Rental expense relating to operating leases	292	219
		7,038	8,110
Exploration and development expenses			
	Exploration expenditure written off/expensed	606	303
		606	303
Financing costs			
	Interest and finance charges	6,227	5,321
	Discount unwinding on provision for restoration	234	613
	Amortisation of prepaid financing costs	1,748	40
		8,209	5,974
Other expenses			
	Net foreign exchange losses	143	276
	Other expenses	386	142
		529	418

		Consolidated	
		2013	2012
		US\$'000	US\$'000
Note 8.	Income tax expense		
(a) New Zealand royalty			
	Royalty paid	4,700	1,834
	Royalty payable	736	2,770
	Origination and reversal of royalty temporary differences	(1,454)	2,666
	Total New Zealand royalty expense	3,982	7,270
(b) Income tax expense			
	Current tax	10	6,076
	Deferred tax	3,676	1,295
	(Over) Under provided in prior financial years	(1,117)	1,401
	Total income tax expense	2,569	8,772

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	Consolidated	
	2013	2012
	US\$'000	US\$'000
Income tax expense is attributable to:		
Profit from continuing operations	2,569	8,772
Profit from discontinued operations	-	-
Aggregate income tax expense	2,569	8,772
Deferred income tax (revenue) expenses included in income tax expense comprises:		
Decrease in deferred tax asset	2,134	1,832
Increase (decrease) in deferred tax liabilities	1,542	(537)
	3,676	1,295
(c) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax	10,025	23,689
Less: Royalty paid/payable	(5,436)	(4,604)
	4,589	19,085
Tax at the Australian tax rate of 30% (2012: 30%)	1,377	5,726
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Expenditure not allowed for income tax purposes	2,011	94
Other deductible items	(1,772)	(396)
Non-assessable income	(297)	(1,490)
Other assessable income	165	20
	1,484	3,954
Effect of overseas tax rates	16	231
Deferred tax asset not brought to account	(135)	2,979
Previously unrecognised tax losses now recognised	927	207
Under provision in prior financial years	277	1,401
Income tax expense	2,569	8,772
(d) Tax losses		
Unused tax losses (and applicable tax rate) for which no deferred tax asset has been recognised:		
Horizon Oil Limited – 30% (2012: 30%)	-	-
Horizon Oil (USA) Inc. and other US entities – 34% (2012: 34%)	10,615	10,615
Horizon Oil International Limited and NZ entities – 28% (2012: 28%)	-	-
Horizon Oil (Papua) Limited and other PNG entities – 45% / 30% (2012: 45% / 30%)	105,850 ¹	105,850
Horizon Oil (Beibu) Limited and Horizon Oil (Nanhai) LLC (formerly Petsec Petroleum LLC) – 25% (2012: 25%)	-	67,338
	116,465	183,803
Potential tax benefit at applicable tax rates	35,364	52,199

¹Subject to reduction following completion of the Osaka Gas Asset Sale transaction

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

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Note 9. Current assets – Cash and cash equivalents		
Cash at bank and on hand	8,992	14,074
Restricted cash (refer note (a) below)	10,035	5,212
Petty cash	1	1
	19,028	19,287

(a) Under the terms of a finance facility (refer to Note 19), certain cash balances are available to the Group after certain conditions of the relevant facility agreement are satisfied. The restricted cash balance was held on deposit at average floating interest rates of approximately 0.13% pa (2012: 0.02%).

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Note 10. Current assets – Receivables		
Other receivables (refer to note (a) below)	18,956	14,966
	18,956	14,966

(a) Of this balance US\$1,112,032 (2012: US\$1,085,851) related to amounts receivable from related parties. Refer to Note 32 for further details.

No receivable amounts were past due.

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Note 11. Inventories		
Crude oil, at cost	1,082	481
Drilling inventory, at cost	6,816	7,346
	7,898	7,827

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Note 12. Current assets – Other		
Prepayments	832	4,515
	832	4,515

	Assets		Liabilities		Net asset	
	2013	2012	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Note 13. Non-current assets – Deferred tax assets						
Recognised deferred tax assets and liabilities are attributable to the following:						
Prepaid borrowing costs	-	-	(2,014)	(1,050)	(2,014)	(1,050)
Provisions	379	757	-	-	379	757
Tax losses	12,076	11,845	-	-	12,076	11,845
Tax assets (liabilities)	12,455	12,602	(2,014)	(1,050)	10,441	11,552
Set off	(2,014)	(1,050)	2,014	1,050	-	-
Net tax assets	10,441	11,552	-	-	10,441	11,552

Note 14. Non-current assets – Plant and equipment

	Other plant and equipment US\$'000	Consolidated Leasehold improvements US\$'000	Total US\$'000
As at 1 July 2011			
Cost	1,351	638	1,989
Accumulated depreciation	(596)	(125)	(721)
Net book amount	755	513	1,268
Financial year ended 30 June 2012			
Opening net book amount	755	513	1,268
Additions	1,006	2,895	3,901
Disposals	-	-	-
Depreciation expense	(219)	(250)	(469)
Closing net book amount	1,542	3,158	4,700
As at 30 June 2012			
Cost	2,207	3,533	5,740
Accumulated depreciation	(665)	(375)	(1,040)
Net book amount	1,542	3,158	4,700
Financial year ended 30 June 2013			
Opening net book amount	1,542	3,158	4,700
Additions	1,106	3,090	4,196
Disposals	-	-	-
Depreciation expense	(411)	(279)	(690)
Closing net book amount	2,237	5,969	8,206
As at 30 June 2013			
Cost	3,509	6,624	10,133
Accumulated depreciation	(1,272)	(655)	(1,927)
Net book amount	2,237	5,969	8,206

Note 15. Non-current assets – Exploration phase expenditure

	Consolidated 2013 US\$'000	2012 US\$'000
Exploration phase expenditure		
Deferred geological, geophysical, drilling and other exploration and evaluation expenditure, including directly attributable general administrative costs	92,538	77,658
The reconciliation of exploration phase expenditure carried forward above is as follows:		
Balance at beginning of financial year	77,658	63,488
Expenditure incurred during financial year	22,888	51,818
Transferred to development phase	(8,008)	(40,189)
Acquisitions during the year	-	2,541
Expenditure written off during financial year	-	-
Balance at end of financial year	92,538	77,658

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

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Development and production phase expenditure		
Producing oil and gas property acquisition, deferred geological, seismic and drilling, production and distribution facilities and other development expenditure	359,139	215,577
Leased production phase asset	-	27,296
Less accumulated amortisation	(41,502)	(32,923)
	317,637	209,950

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

	Development phase expenditure	Production phase expenditure	Total
	US\$'000	US\$'000	US\$'000
Balance at 1 July 2011	62,042	83,462	145,504
Expenditure incurred during financial year	31,032	816	31,848
Recognition of leased asset	-	-	-
Transferred from exploration phase	40,189	-	40,189
Amortisation incurred	-	(7,591)	(7,591)
Expenditure written off during financial year	-	-	-
Acquisitions during financial year	-	-	-
Balance at 30 June 2012	133,263	76,687	209,950
Expenditure incurred during financial year	74,013	34,245	108,258
Recognition of leased asset	-	-	-
Transferred from exploration phase	8,008	-	8,008
Amortisation incurred	-	(8,579)	(8,579)
Expenditure written off during financial year	-	-	-
Acquisitions during financial year	-	-	-
Balance at 30 June 2013	215,284	102,353	317,637

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Note 17. Current liabilities – Payables		
Trade creditors	809	5,259
Share of joint venture creditors and accruals	33,925	34,543
Other creditors	5,416	2,881
	40,150	42,683

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Note 18. Derivative financial instruments		
Current:		
Derivative asset - Oil price swaps – cash flow hedges	-	394
Derivative liability - Oil price swaps – cash flow hedges	(1,237)	-
	(1,237)	394
Non-current:		
Derivative asset - Oil price swaps – cash flow hedges	-	-
Derivative liability - Oil price swaps – cash flow hedges	-	(294)
	-	(294)
Net derivative (liability) asset	(1,237)	100

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

Oil price swap contracts (cash flow hedges)

During the current year, oil price hedging was undertaken as a risk mitigation measure to ensure the Group's financial position remains sound and that the Group is able to meet its financial obligations in the event of low oil prices. As at 30 June 2013, the Group's oil hedge position was summarised as follows:

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

As at 30 June 2012, the Group's oil hedge position was summarised as follows:

Crude oil price swap contracts	2013	2014	Total
Volume (bbls)	307,000	119,000	426,000
Weighted average Brent oil price (net of credit margin) (US\$/bbl)	98.85	94.45	97.62

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified into profit or loss when the hedged oil price transaction is recognised. The ineffective portion is recognised in profit or loss immediately. During the financial year, US\$2,804,000 (2012: US\$181,000) was transferred to profit or loss.

	Note	Consolidated	
		2013 US\$'000	2012 US\$'000
Note 19. Borrowings			
Current:			
Bank loans		14,735	-
Lease liability		-	7,632
		14,735	7,632
Non-current:			
Bank loans		114,464	31,888
Convertible Bonds		66,367	61,203
		180,831	93,091
Total Borrowings		195,566	100,723

Bank loans – Reserves based debt facility

On 23 March 2012, the Group finalised and executed the facility documentation for the provision of a reserves based debt facility of up to US\$160 million with a term of six years. The Joint Mandated Lead Arranging banks are Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, BNP Paribas and Standard Chartered Bank. The Group achieved financial close on 10 April 2012 with total cash drawdowns of US\$134.34 million as at 30 June 2013 (US\$33 million as at 30 June 2012). In addition to the cash drawdowns, the Group drew a Letter of Credit of US\$20.4 million associated with a refundable deposit paid by Osaka Gas on execution of the asset sale agreement in May 2013. The facility is of an amortising nature, where the debt capacity at 30 June 2014 will reduce to US\$140 million.

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

The facility was secured by a floating charge over the shares and assets of the borrowers (Horizon Oil International Limited, Horizon Oil (Papua) Limited, Horizon Oil (Beibu) Limited and Horizon Oil (Nanhai) LLC which are wholly owned subsidiaries of Horizon Oil Limited) and other Horizon subsidiaries, in

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favour of ANZ Fiduciary Services Pty Limited as security trustee. Horizon Oil Limited and other Horizon subsidiaries have guaranteed the performance of Horizon Oil International Limited, Horizon Oil (Papua) Limited, Horizon Oil (Beibu) Limited, Horizon Oil (Nanhai) LLC (which have also given guarantees) in relation to the loan facility from Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, BNP Paribas and Standard Chartered Bank. In addition, the shares of the following Horizon subsidiaries have been mortgaged to ANZ Fiduciary Services Pty Limited: Horizon Oil International Limited, Horizon Oil (Papua) Limited, Horizon Oil (Beibu) Limited, Horizon Oil (Nanhai) LLC, Horizon Oil International Holdings Limited, Ketu Petroleum Limited, Horizon Oil (PNG Holdings) Limited and Horizon Oil (China Holdings) Limited. The net book value of the entities in which shares have been mortgaged is US\$70.8 million. The Group was subject to covenants which are common for a facility of this nature.

Lease liability

The lease of the FPSO Raroa was extinguished during the year following the decision by the Maari JV to exercise a purchase option on 8 March 2013. The lease liability in the prior year was 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 was subject to adjustment in certain circumstances. Where the arithmetical average of the Volume Weighted Average Prices ("Average VWAP") for the 20 consecutive Dealing Days immediately prior to each of 17 June 2013, 17 June 2014 and 17 June 2015 (each a "Reset Date") converted into US dollars at the Prevailing Rate on each such Dealing Day (each an "Average Market Price") is less than the Conversion Price on the Reset Date, the Conversion Price will be adjusted on the relevant Reset Date to the Average Market Price with respect to such Reset Date. Any adjustment as a result of such provisions is limited so that the Conversion Price can be no lower than 80 per cent of the initial Conversion Price of US\$0.520, that is US\$0.416. The Average VWAP in the relevant period to 17 June 2013 was US\$0.374. Accordingly, the Conversion Price of the convertible bonds has been adjusted to US\$0.416 with effect from 17 June 2013. The issuance of new shares subsequent to year end under the Entitlement Offer discussed earlier in this report results in a further adjustment to the conversion price from US\$0.416 to US\$0.409.

No bonds had been converted at 30 June 2013. On conversion the holder may elect to settle the bonds in cash or ordinary shares in the parent entity. Based on the adjusted conversion price, the maximum number of shares that could be issued on conversion is 192,307,692 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.

	2013	2012
	US\$'000	US\$'000
Face value of bonds issued	80,000	80,000
Less: Other financial liabilities – value of conversion rights (Note 21)	(20,043)	(20,043)
Less: Transaction costs	(3,362)	(3,362)
	56,595	56,595
Finance costs in prior periods ¹	9,176	299
Finance costs ¹	9,568	8,877
Less: Coupon paid in prior periods	(4,400)	-
Less: Coupon paid during the year	(4,400)	(4,400)
Less: Coupon accrued	(172)	(168)
Non-current liability	66,367	61,203

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

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Note 20. Non-current liabilities – Payables		
Other creditors	21,253	974
	21,253	974

Other creditors includes US\$20.4 million payable to Osaka Gas associated with a conditionally refundable deposit paid by Osaka Gas on execution of the asset sale agreement in May 2013. The agreement is conditional upon customary consents, regulatory approvals and grant of the development licence for Stanley field in PRL 4, PNG. The agreement provides up to 24 months for the conditions to be satisfied. Refer to note 5 for further details.

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Note 21. Non-current – Other financial liabilities		
Conversion rights on convertible bonds	17,436	18,428
	17,436	18,428

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

	Assets		Liabilities		Net liability	
	2013	2012	2013	2012	2013	2012
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Note 22. Non-current liabilities – Deferred tax liability						
Recognised deferred tax assets and liabilities are attributable to the following:						
Exploration expenditure	-	-	2,714	1,857	2,714	1,857
Development and production expenditure	-	-	8,708	8,956	8,708	8,956
Royalty benefit (net)	-	-	5,684	5,882	5,684	5,882
Provisions	(42)	(586)	-	-	(42)	(586)
Tax (assets) liabilities	(42)	(586)	17,106	16,695	17,064	16,109
Set off	42	586	(42)	(586)	-	-
Net tax liabilities	-	-	17,064	16,109	17,064	16,109

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Note 23. Non-current liabilities – Provisions		
Restoration	15,664	5,821
Balance at beginning of financial year	5,821	5,208
Additional provision during financial year	9,609	-
Unwinding of discount	234	613
Balance at end of financial year	15,664	5,821

	Consolidated		Consolidated	
	2013	2012	2013	2012
	Number of shares			
	'000	'000	US\$'000	US\$'000
Note 24. Contributed equity				
(a) Issued share capital				
Ordinary shares				
Fully paid	1,135,267	1,130,812	127,187	125,578
Partly paid	3,000	3,450	851	1,108
	1,138,267	1,134,262	128,038	126,686

(b) Movements in ordinary share capital**(i) Ordinary shares (fully paid)**

Date	Details	Number of shares	Issue price	US\$'000
30/06/2011	Balance as at 30 June 2011	1,130,811,515		125,578
	No movements			
30/06/2012	Balance as at 30 June 2012	1,130,811,515		125,578
10/10/2012	Transfer from partly paid shares	1,950,000	A\$0.35	710
10/10/2012	Exercise of employee options*	2,505,000	A\$0.35	899
30/06/2013	Balance as at 30 June 2013	1,135,266,515		127,187

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

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

Date	Details	Number	Issue price	US\$'000
30/06/2011	Balance as at 30 June 2011	1,500,000		398
26/03/2012	Exercise of employee options*	1,950,000	A\$0.35	710
30/06/2012	Balance as at 30 June 2012	3,450,000		1,108
10/10/2012	Transfer to fully paid shares	(1,950,000)	A\$0.35	(710)
10/10/2012	Exercise of employee options*	500,000	A\$0.27	142
10/10/2012	Exercise of employee options*	1,000,000	A\$0.30	311
30/06/2013	Balance as at 30 June 2013	3,000,000		851

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

(c) Ordinary shares**Fully paid**

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

Partly paid

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

(d) Unlisted options over unissued ordinary shares

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

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Note 25. Reserves and retained profits		
(a) Reserves		
Share-based payment reserve	8,739	7,498
Movements:		
Balance at beginning of financial year	7,498	6,605
Employee share based payment expense	1,241	893
Share option expense	-	-
Balance at end of financial year	8,739	7,498
Hedge reserve	(855)	(77)
Movements:		
Balance at beginning of financial year	(77)	-
Movement in net market value of hedge contracts	(778)	(77)
Balance at end of financial year	(855)	(77)
Total reserves	7,884	7,421
(b) Retained profits		
Retained profits at beginning of financial year	27,617	19,970
Net profit for financial year	3,474	7,647
Retained profits at end of financial year	31,091	27,617

(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	
	2013	2012
	US\$'000	US\$'000
Note 26. Franking credits		
Franking credits available for subsequent financial years ¹	104	91

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

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Note 27. Asset acquisition

(a) Summary of acquisition

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

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

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

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

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

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

There were no acquisitions in the year ended 30 June 2012.

(b) Purchase consideration – cash outflow

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

Note 28. Subsidiaries

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

Name of subsidiary	Country of incorporation	Percentage of equity holding and voting interest (all shares issued are ordinary shares)		Business activities carried on in
		2013	2012	
		%	%	
Horizon Oil International Limited	New Zealand	100	100	New Zealand
Horizon Oil (New Zealand) Limited	New Zealand	100	100	New Zealand
Horizon Oil International Holdings Limited	BVI	100	100	BVI
Horizon Oil (Beibu) Limited	BVI	100	100	China
Horizon Oil (China Holdings) Limited	BVI	100	100	BVI
Horizon Oil (PNG Holdings) Limited	BVI	100	100	BVI
Horizon Oil (Papua) Limited	Bermuda	100	100	PNG
Horizon Oil (USA) Inc.	USA	100	100	USA
Ketu Petroleum Limited	BVI	100	100	BVI
Horizon Oil (Nanhai) LLC	USA	100	100	China
Jurassic International Holdings Limited	PNG	90	-	PNG

Note 29. 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	
	2013	2012
	US\$'000	US\$'000
Current Assets		
Cash and cash equivalents	3,528	8,721
Receivables	4,221	8,023
Inventories	7,899	5,602
Total Current Assets	15,648	22,346
Non-Current Assets		
Plant and equipment	7,617	3,726
Exploration phase expenditure	82,086	71,934
Development and production phase expenditure	296,757	229,967
Total Non-Current Assets	386,460	305,627
Total Assets	402,108	327,973
Current Liabilities		
Payables	33,925	34,543
Total Current Liabilities	33,925	34,543
Non-Current Liabilities		
Payables	831	864
Total Non-Current Liabilities	831	864
Total Liabilities	34,756	35,407
Share of net assets employed in joint venture operations	367,352	292,566

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

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

HORIZON OIL LIMITED

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

Permit or licence	Principal activities	Interest (%) 30 June 2013	Interest (%) 30 June 2012
New Zealand			
PMP 38160 (Maari/Manaia)	Oil and gas production, exploration and development	10.00%	10.00%
PEP 51313 (Matariki)	Oil and gas exploration	21.00%/10.00% ¹	30.00%
China			
Block 22/12	Oil and gas exploration and development	26.95% / 55% ²	26.95% / 55% ²
PNG			
PRL 4	Oil and gas exploration and development	50.00% ^{3,4}	50.00% ³
PRL 21	Oil and gas exploration	45.00% ^{3,4}	45.00% ³
PPL 259	Oil and gas exploration	25.00% ⁴	25.00%
PPL 372	Oil and gas exploration	90.00% ⁴	-
PPL 373	Oil and gas exploration	90.00% ⁴	-
PPL 430	Oil and gas exploration	50.00% ⁴	-

- Under the terms of the farm in agreement executed in November 2012, in the event of commercial discovery at the Whio prospect, Horizon's interest over the Whio prospect will reduce to 10%.
- China National Offshore Oil Corporation is entitled to participate at up to a 51.00% equity level in any commercial development within Block 22/12. During 2011 they exercised their right to participate in the development of WZ 6-12 and WZ 12-8W within Block 22/12 at 51.00%.
- PNG Govt may appoint a state nominee to acquire up to a 22.5% participating interest in any commercial development within PRL 4 and PRL 21.
- Under the terms of the asset sale agreement executed with Osaka Gas Co. Ltd. on 23 May 2013, Horizon's interests in PRL 4, PRL 21 and PPL 259 will be reduced by 40% on transaction completion. Osaka Gas have an option to acquire 40% of Horizon's interests in PPLs 372, 373 and 430. Refer to Note 5 for further details.

	Consolidated	
	2013	2012
	US\$	US\$

Note 30. Remuneration of external auditors

1. PwC Australia

Audit and other assurance services

Audit and review of financial reports	178,507	149,808
Other assurance services		

Accounting and tax due diligence associated with the reserves based debt facility¹

- 177,939

Accounting advice

- -

Other services

- 1,039

Total remuneration for audit and other assurance services

178,507 328,786

Taxation services

Tax compliance

47,104 45,054

Other services

6,240 -

Total remuneration for taxation services

53,344 45,054

2. Non-PwC audit firms

Audit and other assurance services

11,797 11,928

Other services

- -

Total remuneration for audit and other assurance services

11,797 11,928

Total auditors' remuneration

243,648 385,768

- PwC were engaged by ANZ as agent for the lender group of the reserves based debt facility following a formal tender process. Under the terms of the facility, Horizon was liable for the costs associated with these services and accordingly has included them above on this basis.

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

Note 31. Remuneration of key management personnel

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

Key management personnel compensation

	Consolidated 2013 US\$	2012 US\$
Short-term employee benefits	3,313,476	3,323,271
Post-employment benefits	199,045	312,684
Long term benefits	47,878	44,365
Share-based payments (non-cash)	942,832	805,639
Total key management personnel remuneration	4,105,141	4,485,959

Detailed remuneration disclosures are provided in sections A-D of the audited Remuneration Report on pages 10 to 20.

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:

2013 Name	Balance at start of financial year	Received during financial year on the exercise of options	Other changes during financial year	Balance at end of financial year
Directors:				
Ordinary shares				
E F Ainsworth	4,010,375	-	-	4,010,375
B D Emmett	16,752,607	-	-	16,752,607
J Humphrey	5,112,034	-	-	5,112,034
G de Nys	361,250	-	-	361,250
A Stock	60,000	-	80,000	140,000
Other key management personnel of the Group:				
Ordinary shares and partly paid ordinary shares				
A Fernie	1,350,431	1,050,000	(1,350,431)	1,050,000
M Sheridan	6,768,201	2,700,000	-	9,468,201

2012 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	13,802,607	1,950,000	1,000,000	16,752,607
J Humphrey	5,112,034	-	-	5,112,034
R A Laws (resigned 17 Nov 2011)	779,375	-	-	779,375
G de Nys	361,250	-	-	361,250
A Stock (appointed 2 Feb 2011)	-	-	60,000	60,000
Other key management personnel of the Group:				
Ordinary shares and partly paid ordinary shares				
A Fernie	1,350,431	-	-	1,350,431
M Sheridan	6,768,201	-	-	6,768,201

Key management personnel option holdings in the Company

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

Listed options:

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

Unlisted options:

2013 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	5,700,000	-	-	-	5,700,000	5,700,000	-
J Humphrey	-	-	-	-	-	-	-
G de Nys	500,000	-	-	-	500,000	500,000	-
A Stock	-	-	-	-	-	-	-
Other key management personnel of the Group:							
Unlisted options							
A Fernie	4,050,000	-	(1,050,000)	-	3,000,000	3,000,000	-
M Sheridan	2,700,000	-	(2,700,000)	-	-	-	-

2012 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	15,150,000	-	(1,950,000)	(7,500,000)	5,700,000	3,800,000	1,900,000
J Humphrey	-	-	-	-	-	-	-
R A Laws	-	-	-	-	-	-	-
G de Nys	500,000	-	-	-	500,000	333,333	166,667
A Stock	-	-	-	-	-	-	-
Other key management personnel of the Group:							
Unlisted options							
A Fernie	7,450,000	-	-	(3,400,000)	4,050,000	3,550,000	500,000
M Sheridan	6,400,000	-	-	(3,700,000)	2,700,000	2,200,000	500,000

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 18 to 20.

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:

2013 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	5,340,042	3,876,460	-	-	9,216,502	-	9,216,502
Other key management personnel of the Group:							
Share appreciation rights							
A Fernie	3,916,031	2,842,738	-	-	6,758,769	-	6,758,769
M Sheridan	3,916,031	2,842,738	-	-	6,758,769	-	6,758,769

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2012 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	2,626,328	-	-	5,340,042	-	5,340,042
Other key management personnel of the Group:							
Share appreciation rights							
A Fernie	1,990,057	1,925,974	-	-	3,916,031	-	3,916,031
M Sheridan	1,990,057	1,925,974	-	-	3,916,031	-	3,916,031

Details of SARs provided as remuneration and ordinary shares issued on the exercise of such SARs, together with terms and conditions of the SARs, can be found in section D of the Remuneration Report on pages 18 to 20.

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 32 for other transactions with directors and other key management personnel.

Note 32. Related parties

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

Directors and other key management personnel

There were no related party transactions with Directors and other key management personnel during the current year.

In the prior year, Mr J Humphrey, a director of Horizon Oil Limited was also a member of the law firm King & Wood Mallesons. During the prior year, King & Wood Mallesons provided legal services to the Group in connection with the reserves based debt facility. J Humphrey was not the engagement partner connected with these legal services. Total fees paid during the prior financial year amounted to US\$667,481. Mr Humphrey resigned from King & Wood Mallesons during the current year.

Disclosures relating to key management personnel are set out in Note 31.

Subsidiaries

Interests in subsidiaries are set out in Note 28.

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

Transactions with related parties

Transactions between Horizon Oil Limited and related parties in the wholly-owned Group during the financial years ended 30 June 2013 and 2012 consisted of:

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

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

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The following transactions occurred with related parties:

	2013 US\$	2012 US\$
<i>Superannuation contributions</i>		
Superannuation contributions to superannuation funds on behalf of employees	327,054	260,626
<i>Other transactions</i>		
Dividends paid to Horizon Oil Limited from wholly owned subsidiary	-	15,500,000
Payments to Horizon Oil Limited under financial guarantee contract arrangements from wholly owned subsidiary	1,920,253	219,862
Final call on partly paid ordinary shares in Horizon Oil Limited paid by employees	669,207	-

Loans to/from related parties

	2013 US\$	2012 US\$
<i>Loans to other related parties (uncalled share capital)</i>		
Balance at beginning of the financial year	1,085,851	432,245
Loans advanced	695,388	653,606
Loan repayments received	(669,207)	-
Interest charged/paid	-	-
Balance at end of financial year	1,112,032	1,085,851

	2013 US\$	2012 US\$
<i>Loans from Horizon Oil Limited (ultimate Australian parent entity)</i>		
Balance at beginning of the financial year	207,826,358	152,538,329
Loans advanced	21,042,807	67,352,376
Loan repayments received	(22,077,596)	(14,421,192)
Interest charged	796,725	3,337,034
Interest paid	(3,922,404)	(980,189)
Balance at end of financial year	203,665,890	207,826,358

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 4.4% (2012: 5.5%). Outstanding balances are unsecured and repayable in cash.

Note 33. Share-based payments

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

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

1. Relates to options issued under the Employee Performance Incentive Plan.

2. Relates to general options issued to third party consultants.

3. Relates to options issued under the Employee Option Scheme.

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

5. Relates to general options issued to Petsec America Pty Limited as part consideration for the acquisition of Petsec Petroleum LLC (the Petsec subsidiary which held Petsec's interest in Block 22/12, offshore China)

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Grant date	Expiry date	Exercise price	Balance start of financial year Number	Granted during financial year Number	Exercised during financial year Number	Forfeited during financial year Number	Balance end of financial year Number	Vested and exercisable at end of financial year Number
Consolidated Entity 2012								
Share Appreciation Rights issued								
27/10/2010	27/10/2015	A\$0.31 ⁴	6,693,828	-	-	-	6,693,828	-
05/08/2011	05/08/2016	A\$0.32 ⁴	-	6,478,276	-	-	6,478,276	-
Total			6,693,828	6,478,276	-	-	13,172,104	-
Weighted average exercise price			A\$0.31	A\$0.32	-	-	A\$0.31	-
Options issued								
31/08/2006	31/08/2011	A\$0.33	14,100,000	-	-	(14,100,000)	-	-
31/08/2006	31/08/2011	A\$0.33 ¹	6,010,000	-	-	(6,010,000)	-	-
10/10/2007	10/10/2012	A\$0.35 ¹	5,973,000	-	(1,950,000)	-	4,023,000	4,023,000
03/10/2008	03/10/2013	A\$0.27 ¹	2,348,000	-	-	-	2,348,000	2,348,000
03/10/2008	03/10/2013	A\$0.27 ³	350,000	-	-	-	350,000	350,000
25/09/2009	25/10/2014	A\$0.30 ¹	6,175,000	-	-	-	6,175,000	4,116,667
25/09/2009	25/10/2014	A\$0.30 ³	850,000	-	-	-	850,000	566,667
09/10/2009	09/10/2014	A\$0.32 ³	2,700,000	-	-	-	2,700,000	1,800,000
11/12/2009	11/12/2014	A\$0.35 ²	500,000	-	-	-	500,000	333,333
16/09/2010	16/09/2015	A\$0.31 ³	350,000	-	-	-	350,000	116,667
06/06/2011	30/06/2014	A\$0.37 ⁵	15,000,000	-	-	-	15,000,000	15,000,000
10/01/2012	10/04/2015	A\$0.22 ²	-	1,000,000	-	-	1,000,000	-
28/05/2012	28/08/2015	A\$0.27 ²	-	2,000,000	-	-	2,000,000	-
28/05/2012	28/05/2017	A\$0.27 ³	-	2,000,000	-	-	2,000,000	-
Total			54,356,000	5,000,000	(1,950,000)	(20,110,000)	37,296,000	28,654,334
Weighted average exercise price			A\$0.34	A\$0.26	A\$0.35	A\$0.33	A\$0.33	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)

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2013 was A\$0.35 (2012 – A\$0.35).

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.45 years (2012 – 2.10 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 2011 annual general meeting. The scheme is open to permanent full time or part time employees of the Company. Executive directors and the Company’s senior executives were eligible to participate until April 2010, when the board resolved to modify the remuneration arrangements for the Company’s senior executives.

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

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

The exercise price will be the greater of:

- (a) The price determined by directors but will not be less than the weighted average sale price per share of all sale prices at which fully paid ordinary shares are sold on 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.

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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 500,000 options under the Employee Option Scheme. The exercise price of these options is A\$0.30 per option with a share price hurdle of A\$0.38 to be achieved before the options are exercisable. The assessed fair value at grant date of these options was A\$0.0893 per option.

During the financial year, the company issued 350,000 options under the Employee Option Scheme. The exercise price of these options is A\$0.44 per option with a share price hurdle of A\$0.52 to be achieved before the options are exercisable. The assessed fair value at grant date of these options was A\$0.1340 per option.

During the financial year, the company issued 350,000 options under the Employee Option Scheme. The exercise price of these options is A\$0.41 per option with a share price hurdle of A\$0.49 to be achieved before the options are exercisable. The assessed fair value at grant date of these options was A\$0.1362 per option.

9,561,936 share appreciation rights were issued under the Long Term Incentive Plan. The exercise price of these SARs is A\$0.2770 with performance hurdles to be achieved prior to exercise. The independently assessed fair value at grant date of these share appreciation rights was A\$0.1025 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 2013 included:

Grant date	17 September 2012
Expiry date	17 September 2017
Exercise price	A\$0.30
Share price at grant date	A\$0.30
Expected price volatility	29.7% p.a.
Risk free rate	2.91% p.a.
Expected dividend yield	0.00% p.a.

Grant date	20 February 2013
Expiry date	20 February 2018
Exercise price	A\$0.44
Share price at grant date	A\$0.44
Expected price volatility	28.4% p.a.
Risk free rate	3.1% p.a.
Expected dividend yield	0.00% p.a.

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Grant date	16 April 2013
Expiry date	16 April 2018
Exercise price	A\$0.41
Share price at grant date	A\$0.40
Expected price volatility	34.4% p.a.
Risk free rate	2.9% 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 2013 included:

Grant date	13 August 2012
Expiry date	13 August 2017
Exercise price	A\$0.2770
Share price at grant date	A\$0.28
Expected price volatility	37.6% p.a.
Risk free rate	2.27% p.a.
Expected dividend yield	0.00% p.a.

Expenses arising from share-based payment transactions

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

	Consolidated 2013 US\$'000	2012 US\$'000
Share Appreciation Rights issued under:		
Long Term Incentive Plan	915	657
Options issued under:		
Employee Option Scheme	169	110
Employee Performance Incentive Plan	157	126
Total employee share based payment expense	1,241	893

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 4,005,000 options were exercised by 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, 1,518,000 unlisted employee options exercisable at A\$0.35 on 10 October 2012 lapsed. No SARs lapsed or were cancelled during the financial year.

Options/SARs exercised and options/SARs issued subsequent to 30 June 2013

On 21 August 2013, 8,547,599 share appreciation rights were granted under the Long Term Incentive Plan. Of the 8,547,599 SARs granted, 3,465,243 are proposed to be issued to an executive director and are therefore granted subject to shareholder approval at the 2013 annual general meeting.

No options have been granted subsequent to financial year end.

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

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Note 34. Employee entitlements		
Employee entitlement liabilities are included within:		
Current – other creditors (Note 17)	641	544
Non-current - other creditors (Note 20)	22	110
	Number	
	2013	2012
Employee numbers		
Average number of employees during financial year	15	13

Note 35. Contingent assets

As outlined in Note 5, on 23 May 2013 the Company advised that it had entered into an agreement to sell 40% of its Papua New Guinea assets to Osaka Gas Co. Ltd. of Japan. The sale price of US\$204 million, includes US\$74 million in cash on completion, a further US\$130 million in cash upon Final Investment Decision for an LNG project, plus potential production payments where threshold condensate production is exceeded.

Completion of the transaction is conditional upon customary consents, regulatory approvals and grant of the development licence for Stanley field. Due to the conditions required for completion of the transaction, all consideration is recorded as a contingent asset at 30 June 2013.

There were no contingent assets as at 30 June 2012.

Note 36. Contingent liabilities

The Group had contingent liabilities as at 30 June 2013 and 30 June 2012 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 37. Events after balance sheet date**Non-Renounceable Pro-Rata Entitlement Offer**

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

Net proceeds from the Entitlement Offer will be used to continue Horizon Oil's active exploration and development work programme across Papua New Guinea, China and New Zealand pending completion and receipt of funds from the recently announced Papua New Guinea farm-in transaction with Osaka Gas.

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

- an accelerated institutional component completed on 31 July 2013, raising approximately A\$33 million ("Institutional Entitlement Offer"); and

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- a retail component which was open from Friday, 9 August 2013 to Friday, 23 August 2013, aimed at raising approximately A\$21 million ("Retail Entitlement Offer").

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

- 10.8% discount to the closing price of Horizon Oil's ordinary shares on the ASX on Tuesday, 30 July 2013;
- 13.0% discount to the 5-day VWAP; and
- 9.6% discount to TERP of \$0.365.

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

Other than the matters disclosed in this report, there has not been any matter or circumstance which has arisen since 30 June 2013 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 26 August 2013. The Board of Directors has the power to amend and reissue the financial statements.

Note 38. Commitments for expenditure

(i) Non-cancellable operating leases

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

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases, not recognised in the financial statements, are payable as follows:		
Within one financial year	576	618
Later than one financial year but not later than 5 financial years	528	987
	1,104	1,605

(ii) Finance leases

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

At 30 June 2012, the Group leased plant and equipment with a carrying value of US\$19,096,939 under a finance lease expiring within 1 year. Under the terms of the lease, the Group had 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. The Group exercised the option to acquire the asset during the current year.

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Commitments in relation to finance leases are payable as follows:		
Within one financial year	-	7,950
Later than one financial year but not later than 5 financial years	-	-
Minimum lease payments	-	7,950
Less: Future finance charges	-	(318)
Recognised as a lease liability (refer Note 19)	-	7,632

(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	
	2013	2012
	US\$'000	US\$'000
Within one financial year	1,892	2,078
Later than one financial year but not later than 5 financial years	2,078	4,362
	3,970	6,440

Note 39. 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.

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

2012	New Zealand Development	New Zealand Exploration	China Exploration & Development	Papua New Guinea Exploration	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Within one financial year	1,944	1,521	67,681	114,662	185,808
Later than one financial year but not later than 5 financial years	-	-	-	28,955	28,955
Total	1,944	1,521	67,681	143,617	214,763

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

	Consolidated	
	2013	2012
	US\$'000	US\$'000
Profit for financial year	3,474	7,647
Exploration and development expenditure written off/expensed	606	303
Depreciation expense	513	469
Movement in employee entitlement liabilities	68	29
Non-cash employee share benefit expense	1,241	893
Non-cash share option expense	-	-
Amortisation expense	8,579	7,591
Amortisation of prepaid financing costs	1,667	737
Provision for restoration	(848)	613
Unrealised movement in value of convertible bond conversion rights	(991)	(4,967)
Non-cash convertible bond interest expense	4,660	3,938
Net unrealised foreign currency losses/(gains)	183	50
<i>Change in operating assets and liabilities:</i>		
(Increase) in trade debtors	(7,731)	(4,040)
Decrease in other debtors and prepayments	526	15
(Increase) in inventory	(599)	(239)
Decrease in deferred tax assets/liabilities	2,066	3,962
(Decrease) in tax receivable/payable	(3,941)	(3,850)
Increase (Decrease) in trade creditors	5,216	(25)
Increase (decrease) in other creditors	784	(99)
Net cash inflow from operating activities	15,473	13,027

Note 41. Earnings per share

(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	0.31	0.68
From discontinued operation		-
Total basic earnings per share attributable to the ordinary equity holders of the company	0.31	0.68
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	0.30	0.68
From discontinued operation		-
Total diluted earnings per share attributable to the ordinary equity holders of the company	0.30	0.68

	2013	2012
	Number	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	1,137,155,238	1,132,812,335
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,143,023,825	1,132,895,274
	2013	2012
	US\$'000	US\$'000
Reconciliation of earnings used in calculating earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating earnings per share		
Basic earnings per ordinary share:		
from continuing operations	3,474	7,647
from discontinued operations		-
	3,474	7,647
Diluted earnings per ordinary share:		
from continuing operations	3,474	7,647
from discontinued operations		-
	3,474	7,647

Information concerning the classification of securities
(a) Partly paid ordinary shares

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

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

(b) Options and share appreciation rights granted as compensation

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

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

(c) Convertible bonds

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

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

Note 42. Parent Entity financial information**(i) Summary financial information**

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

	Parent Entity	
	2013 US\$'000	2012 US\$'000
Balance sheet		
Current assets	9,241	7,606
Total assets	223,785	226,979
Current liabilities	1,381	5,814
Total liabilities	85,457	85,807
<i>Shareholders' equity</i>		
Issued capital	128,038	126,686
Share based payments reserve	8,739	7,498
Retained Earnings	1,551	6,988
	138,328	141,172
 (Loss) profit for the year	 (5,436)	 13,955
Total comprehensive (loss) income	(5,436)	13,955

(ii) Guarantees entered into by the parent entity

The parent entity has provided guarantees in respect of bank loans and leases of its subsidiaries amounting to US\$134,335,000 (2012: US\$40,632,000).

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 2013 or 30 June 2012. 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 2013, the parent entity had no contractual commitments for the acquisition of property, plant or equipment (30 June 2012 – US\$Nil).

ACTIVITIES REVIEW

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 field was 320,191 barrels of oil. Cumulative oil production from the field through 21 July 2013 was 22.2 million barrels.

Production for the year continued to be hampered by the unreliable performance of the downhole pumps (ESPs) and, to a lesser extent, scale build-up in some well completions. Current field production is about 10,000 barrels of oil per day. Despite these interruptions, Horizon Oil believes that the field operator, OMV New Zealand Limited, is continuing to increase its understanding of the mechanical and reservoir factors that affect production reliability. This has led to progress on extending pump runtimes and in carrying out preventative maintenance on the wells, reconfiguring the downhole completions where necessary to do so.

During the period, RISC, a leading independent petroleum advisory firm, was commissioned by Horizon Oil to update its previous review of developed and undeveloped reserves contained within the existing producing zones, being the Maari Moki, Maari M2A and Manaia Mangahewa reservoirs. The audit confirmed Horizon Oil's share of remaining proven and probable reserves in the currently producing zones at Maari and Manaia of 8.8 mmbo. Given that around 20 mmbo has been produced to date, the reserves audit supports Horizon Oil's long-held opinion that these zones will ultimately produce in excess of 100 mmbo.

Additional development drilling, including an additional oil producer in the lower cycle of the Moki reservoir at Maari and also enhancement of the water injection system will be required to extract these reserves. The joint venture is aligned on the need for this and a Maari growth project program to implement this work in 2013 and 2014 has been designed.

In addition to the existing producing zones, further potential resides in deeper zones at Maari, shallower and deeper zones at Manaia and in the undrilled Maari South structure. At least part of this additional potential, which Horizon Oil estimates to be 35 mmbo gross unrisks, will be evaluated in the drilling program planned for 2013/2014. Planning for an appraisal well to evaluate the Moki and F-sands reservoirs as well as the Mangahewa oil accumulation at Manaia is progressing well.

The field operator has contracted the *Ensco 107* jack-up rig to carry out the planned multi-well Maari growth projects campaign. This includes the drilling of additional production offset wells at Maari and Manaia and reconfiguration of the water injection scheme at Maari to enhance pressure support. This drilling will complement activity currently underway on the Maari platform using the permanently installed workover unit to reconfigure and recompleat two of the existing water injection wells. The program will take about 12 months to complete and is anticipated to increase production rate in the medium term and increase oil recovery from the fields in the longer term. The rig, which successfully carried out the original Maari development drilling program, is expected to arrive in the first quarter of calendar year 2014.

The joint venture has also secured a semi-submersible rig, the *Kan Tan IV*, to drill the Manaia-2 appraisal well and the Whio-1 well in PEP 51313. This rig, which has been extensively refurbished since it was last in New Zealand waters, arrived in New Zealand waters in August 2013. The campaign will begin with Manaia-2, which will evaluate several additional prospective reservoir intervals at a crestal location on the field. The rig will then be released to drill wells for other joint ventures, before returning to drill the Whio prospect located immediately south of Maari field in PEP 51313, in which Horizon Oil has a 21% interest. If successful, Whio prospect will be tied into the Maari facility.

In November 2012, the Maari joint venture announced its decision to exercise its option to purchase the FPSO *Raroa*. The vessel has been operating at the offshore Maari oil field since 2009 and was leased from Tablelands Development Ltd to the Maari joint venture. The lease included an option to purchase the *Raroa* after the fourth contract year at a pre-agreed buy-out price, of which Horizon Oil's share was US\$3.3 million. Besides leading to an approximate halving of field operating expense, purchase of the *Raroa* is seen as an integral part of the investment strategy for the Maari field and will facilitate the tie-in of new reservoirs through drilling of additional wells. Ownership of the *Raroa* will provide both flexibility and control, which is particularly important in terms of upgrades and refurbishment that may be required

to meet anticipated field production and life. The transfer of ownership was effective as of 8 March 2013.

MODEC Management Services Pte Ltd was awarded a contract during the year to provide operations and maintenance services for Maari field. The initial contract period is until the end of 2017 with options to extend in two year increments. MODEC currently operates 15 FPSO vessels worldwide, including three offshore Western Australia. It is considered one of the world's leading providers of operations and maintenance services for floating production units. The award was based on an extensive pre-qualification and tendering process carried out by OMV, on behalf of the Maari joint venture, over the past year.

PEP 51313, Offshore Taranaki Basin (Horizon Oil interest: 21%)

In November 2012, Horizon Oil and its joint venture partners farmed out a 30% interest in PEP 51313 to OMV New Zealand Limited. Given that the first target to be drilled in the permit is the Whio prospect, which is located approximately 7 km from the Maari installation (about the same distance as Manaia from Maari) and which in the event of a discovery could be developed through the Maari facilities, it made sense to harmonise the participants in PEP 51313 and PMP 38160, the Maari production permit.

Prior to the farm-out PEP 51313 joint venture interests were:-

Horizon Oil (New Zealand) Ltd	30%
Todd Exploration	50%
Cue Taranaki Pty Ltd	20%

Following the farm-out the new PEP 51313 joint venture interests are:-

Horizon Oil (New Zealand) Ltd	21%
OMV New Zealand Limited	30%
Todd Exploration Ltd	35%
Cue Taranaki Pty Ltd	14%

The key earning provision of the farm-out agreement is that OMV will fund 100% of the cost (without limitation) of an exploration well in the licence targeting the Whio prospect. The well will be drilled in conjunction with appraisal drilling at Manaia with the semi-submersible rig *Kan Tan IV*, which arrived in New Zealand waters in August 2013. The Whio-1 location will be selected utilising the newly acquired 288 sq km 3D seismic survey across the Maari/Manaia fields and Whio (formerly Pike) prospect. Processing of the seismic data continued during the year.

Under the farm-in agreement, in the event of a commercial discovery at the Whio prospect, OMV's share in the Whio prospect area alone will increase to 69%. The equity interests over the Whio area in this instance will match those of the Maari licence (PMP 38160) and this will facilitate the development of Whio through the Maari facilities:-

Horizon Oil (New Zealand) Ltd	10%
OMV New Zealand Limited	69%
Todd Exploration Ltd	16%
Cue Taranaki Pty Ltd	5%

OMV assumed operatorship post completion of a 450 sq km 3D seismic program acquired by Seabird Exploration using the *MV Voyager Explorer* over the Pukeko and Te Whatu prospects in Q1 calendar year 2013. The original PEP 51313 participants funded this program. Processing of the data continued during the year, with results due to be delivered in Q3 calendar year 2013.

CHINA

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

The operator of the WZ 6-12 and WZ 12-8W development, China National Offshore Oil Corporation (CNOOC), made good progress during the year with facilities construction, installation and commissioning completed. Development activity during the year included the completion of all onshore platform jacket and topsides fabrication in Tanggu. Following sea transport by barge from Tanggu 3,300 km to the development area in Beibu Gulf waters of the South China Sea, the three jacket structures and the well head platform topsides were successfully lifted into place by China Offshore Oil Engineering Corporation's (COOEC) heavy lift vessels *Nantianlong* and *Lanjiang* and the jackets piled to the seabed without incident. Offshore commissioning of both the WZ 12-8W and WZ 6-12 platforms was completed. All utility platform (PUQB) topside modules were successfully lifted into place by the end of November 2012. Hook-up and commissioning work commenced in early December 2012 and work on the facilities is now substantially complete. Forecast cost to completion remains within the original US\$300 million (gross) development budget, prior to accounting for the cost of additional development wells to produce the newly discovered zones identified during the exploration drilling program.

Final Government approval of the project was granted by the National Development and Reform Commission (NDRC) during the year.

During the year a three well exploration/appraisal program was completed with the *Haiyang 931* jack-up rig with good results. Five exploration/appraisal targets were evaluated, of which four were found to be productive. The Company advised the results of an independent review and audit of reserves following the exploration drilling program, which indicated a 24% increase in proved reserves and an 18% increase in proved plus probable reserves to 28.3 mmbo gross. These reserves will be produced through two of the exploration wells, A6 and A7, which were cased for production and three additional development wells drilled on the WZ 6-12N structure. The facilities have been designed to provide capacity for increased oil volume from these new discoveries.

Following successful commissioning of offshore facilities, first production was achieved from two development wells, A5H and A2, on the WZ 6-12 wellhead platform on 21 March 2013. The ten well development drilling program from the WZ 6-12 wellhead platform has been completed safely and within budget. Production from the WZ 6-12 fields is currently at a rate of 10,000 bopd gross, of which Horizon Oil's share is 2,700 bopd. Oil sales commenced during the second quarter of calendar year 2013 and cumulative production through 22 August 2013 was 1,096,971 barrels of oil.

The *Haiyang 931* jack-up drilling unit moved off the WZ 6-12 platform on 15 June 2013 and onto the WZ 12-8W platform for the five well development drilling program. All five wells (A1H to A5H) have been drilled in batch mode and 9-5/8" casing run to the top of the reservoir section in each well. Drilling of the horizontal reservoir sections commenced in July 2013, with all five now successfully completed for production. First hydrocarbons from the WZ 12-8W field reached the PUQB utilities platform on 22 July 2013. Development drilling of the field was completed ahead of schedule and the rig released on 17 August 2013. Peak plateau production from the overall project is anticipated at rates of 16,000 – 18,000 bopd, of which Horizon Oil's share will be approximately 4,500 bopd.

The project team is currently working on the Phase II development plan for the WZ 12-8E oil accumulation, which will be finalised in August 2013.

PAPUA NEW GUINEA

On 23 May 2013, the Company advised that it had entered into an agreement to sell 40% of its Papua New Guinea assets to Osaka Gas Co. Ltd. of Japan. Key aspects of the transaction are:

- Sale price of US\$204 million, including US\$74 million in cash on completion, a further US\$130 million in cash upon FID for an LNG project, plus potential production payments where threshold condensate production is exceeded.
- Horizon Oil and Osaka Gas to form a strategic alliance to commercialise Horizon Oil's net certified reserves and contingent resources of 125 mmboe and develop acreage covering 7,900 sq km in Western Province.
- Horizon Oil to transfer 40% of its interests in PRL 4 (Stanley field), PRL 21 (Elevala and Ketu fields) and PPL 259 and grant Osaka Gas the option to acquire 40% of Horizon Oil's interests in recently-acquired PPLs 372, 373 and 430 by paying a proportionate share of costs incurred.
- Potential profit of approximately US\$153 million, made up of US\$23 million on completion and a further amount of approximately US\$130 million upon achieving the LNG FID milestone.

The sale marks the beginning of a 60/40 strategic alliance between Horizon Oil and Osaka Gas, a leading global gas company and one of Japan's largest utility companies and LNG importers. The principle objective of the partnership is to grow and develop the PNG assets for the purposes of supporting a mid-scale LNG project located on the coast in Western Province. The companies intend to exploit the full potential of the assets via early condensate production, local gas sales and LPG sales and to market their respective shares of petroleum products, especially LNG, on a combined basis.

The consideration payable by Osaka Gas implies a valuation of Horizon Oil's PNG assets of about US\$500 million, which meets the board's expectations of value. Osaka Gas' experience as a participant in LNG projects, its LNG engineering capability and its role as a large scale offtaker, transporter and distributor of LNG all add credibility to the venture and will enable Horizon Oil to play its part and participate in a substantive mid-scale LNG development, which has the potential to generate large, long-lived cash flows. The milestone cash payments of the consideration are structured to provide Horizon Oil with funding at critical stages of the integrated project execution.

Although completion of the transaction is conditional upon customary consents, regulatory approvals and grant of the development licence for Stanley field, no barriers to the satisfaction of these conditions are currently envisaged.

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

Horizon Oil, as operator of the PRL 4 joint venture, lodged applications for a petroleum development licence (PDL) and associated pipeline licence (PL) with the Papua New Guinea Department of Petroleum and Energy (DPE) on 28 August 2012. Government negotiations relating to the PDL application continued throughout the year with some important milestones achieved. On 30 May 2013 the Minister for Environment and Conservation, John Pundari, granted Approval in Principle of the Environmental Impact Statement for Stanley field. In July 2013, a technical review meeting was held with officers of the DPE, at which all outstanding technical matters relating to the Stanley field development were brought to a conclusion to the satisfaction of the DPE.

The remaining issues to be finalised are execution of the Gas (project) Agreement with the Government and convening of the Development Forum with landowners and affected parties at Stanley field. Horizon Oil, as operator, is working actively to conclude these issues.

Early works in advance of PDL grant were initiated during the year. These included execution of a charter contract with P&O Maritime Services for the condensate tanker on 18 September 2012, ordering of the construction camp and preparation for commencement of site grading at the gas plant location. Significant progress was made on the civil site construction engineering and tender process. The 3D piping model has progressed and various technical reports required for the project completed. Fabrication of the construction and permanent camp has been completed in China ahead of schedule.

Design work on the loadout facility to be located on the Fly River is continuing and pipeline construction bid documents are nearly complete.

Building of the river tanker at a yard in Jiangsu, China under the supervision of P&O Maritime is on schedule to achieve a yard delivery date of January 2014.

Negotiations for sale of the produced condensate and discussions with potential gas consumers continued throughout the year. In July 2013, Mining Minister Byron Chan advised that the Government was seeking to acquire GlencoreXstrata's 82% interest in the Frieda River copper-gold project. The development plan for Frieda River involves gas-fired power supply with gas sourced from Stanley field, which would potentially account for a large portion of the Stanley gas volume. There are clear synergies with supply of gas-fired power to the operator of the closer Ok Tedi mine, with whom Horizon Oil is currently in discussion.

The participants in PPL 259 adjacent to PRL 4 initiated negotiations regarding the formation of a unit to include the small portion of Stanley field that possibly encroaches into PPL 259. The effect on Horizon Oil's interest in Stanley field will be minimal, as the Company is a participant in both licences.

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

Evaluation of the results of the successful Elevala-2 and Ketu-2 appraisal wells was finalised during the year and RISC was commissioned to carry out an independent audit of the revised resource estimates for the Elevala and Ketu fields and Tingu prospect.

The audit confirmed a substantial resource in PRL 21 of gross proven and probable contingent resources of 795 bcf gas, 40 million barrels of condensate and the equivalent of 26 million barrels of LPG contained in the gas. In addition, significant upside has been identified in the Tingu prospect which may be joined to Elevala field.

This outcome, which constitutes a doubling of the certified resource size estimate before the drilling of the Elevala-2 and Ketu-2 appraisal wells, provided the incentive for detailed development planning. As operator of both the PRL 4 and PRL 21 joint ventures, Horizon Oil will be using the experience gained in the design of the Stanley field development in PRL 4 to fast track development plans and early production of the liquids in PRL 21 by way of condensate stripping. Importantly, the increased gas volume - around 1.2 tcf in PRLs 4 and 21 combined - is approaching the scale required for a mid-scale LNG project and the Company is advancing its pre-development studies of this opportunity.

Work commenced during the year on the Elevala/Ketu condensate recovery project development planning. The pre-FEED (front end engineering and design) stage was completed and FEED studies are now underway. The objective is to substantially finalise FEED and submit a development licence application to the Government in Q1 calendar year 2014.

Progress has been made on:-

- reservoir modelling to progress subsurface development planning
- gas plant engineering
- survey of the selected central processing facility site and export pipeline route
- hydrographic survey of the Fly and Elevala rivers upstream of Kiunga
- environmental and social studies required to support regulatory approvals

A key element of the PRL 21 development planning will be the results of an appraisal/exploration well on Tingu prospect which, if successful, would increase the scale of the potential project. The development planning makes provision for the integration of any discovery from the upcoming drilling of Tingu prospect. Construction of the site for the Tingu-1 well has been completed and mobilisation of *Parker Rig 226* from Kiunga to the well location began in July 2013. The well spud on 26 August 2013 and is anticipated to take about 45 days to drill to a planned total depth of 3,213 m. If successful, Tingu has the potential to be about the same size as Elevala field (2C contingent resource of approximately 400 bcf gas and 22 mmbbl condensate).

PPL 259, (Horizon Oil interest: 25%)

A 67 km 2D seismic program was acquired over leads and prospects in the western part of the licence and is in the process of being interpreted. Several large prospects have been delineated as potential drilling targets and additional seismic acquisition is being planned to finalise at least one location for drilling.

PPLs 430 (Horizon Oil interest: 50%), 372 and 373 (Horizon Oil interest: 90%)

During the year, Horizon Oil materially expanded its acreage holdings in Papua New Guinea, following notice of award of a 50% interest in a new licence PPL 430 and the acquisition of 90% interests in PPLs 373 and 373. These additions, which are part of the Company's strategy of selectively building up its exploration acreage portfolio in and around discovered hydrocarbon accumulations, increased Horizon Oil's gross acreage position in PNG from 3,900 sq km to approximately 7,900 sq km. Horizon Oil is the designated operator of the three new licences as well as existing licences PRLs 4 and 21.

Data on the new acreage is being collated, with the intent of reprocessing existing seismic ahead of acquiring new seismic data. The acreage will be explored with the objective of confirming sufficient gas reserves, when added to the existing reserves base, to underwrite a mid-scale LNG plant on the coast.