



Horizon Oil Limited ABN 51 009 799 455

Level 7, 134 William Street, Woolloomooloo NSW Australia 2011

Tel +61 2 9332 5000, Fax +61 2 9332 5050 [www.horizonoil.com.au](http://www.horizonoil.com.au)

23 February 2015

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

Dear Sir,

### **HORIZON OIL (HZN) ADVISES HALF-YEAR RESULTS**

In accordance with Listing Rule 4.2A.3, Horizon Oil Limited lodges its half-year report for the period to 31 December 2014. The financial results for the period are set out in the attached Appendix 4D and half-year report.

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

#### ▪ **Financial summary**

|                                           | <b>Half Year to<br/>31-Dec-14<br/>US\$'000</b> | <b>Half Year to<br/>31-Dec-13<br/>US\$'000</b> | <b>Change<br/>%</b> |
|-------------------------------------------|------------------------------------------------|------------------------------------------------|---------------------|
| <b>Sales revenue</b>                      | <b>53,148</b>                                  | <b>64,769</b>                                  | <b>(18%)</b>        |
| <b>EBITDAX<sup>1</sup></b>                | <b>43,731</b>                                  | <b>32,911</b>                                  | <b>33%</b>          |
| <b>EBIT<sup>1</sup></b>                   | <b>15,905</b>                                  | <b>10,380</b>                                  | <b>53%</b>          |
| <b>Profit before tax</b>                  | <b>7,932</b>                                   | <b>1,796</b>                                   | <b>342%</b>         |
| Profit/(loss) after tax                   | 7,343                                          | (47)                                           |                     |
| <b>Cash on hand</b>                       | <b>43,506</b>                                  | <b>37,099</b>                                  | <b>17%</b>          |
| Cashflow from operating activities        | 21,962                                         | 27,236                                         | (19%)               |
| Reserves-Based Debt Facility <sup>2</sup> | 110,000                                        | 134,335                                        | (18%)               |
| Convertible Bond <sup>3</sup>             | 80,000                                         | 80,000                                         | -                   |
| Oil and gas production (barrels)          | 618,665                                        | 672,144                                        | (8%)                |

**Note 1:** EBITDAX and EBIT are financial measures which are not prescribed by Australian Accounting Standards and represents the profit under Australian Accounting Standards adjusted for depreciation, amortisation, interest expense, taxation expense and exploration expenditure. The Directors consider EBITDAX and EBIT to be useful measures of performance as they are widely used by the oil and gas industry. EBITDAX and EBIT information has not been subject to any specific audit procedures by the Group's auditor but has been extracted from the half year financial report for the period ended 31 December 2014, which has been subject to review procedures by the Group's auditors.

**Note 2:** Represents principal amounts drawn down as at 31 December 2014

**Note 3:** Represents principal amount repayable unless converted prior to 17 June 2016

**Note 4:** All references to \$ are to US dollars unless otherwise specified

▪ **Financial results**

- The Group reported a profit of US\$7,343,000 for the current half-year compared with a loss of US\$47,000 in the 2014 half-year. The half-year result includes a gross profit of US\$22,349,000 (2013: US\$15,059,000) from Block 22/12 and Maari operations coupled with other income including insurance claim proceeds of US\$3.8 million offset by corporate general and administrative expenditure of US\$4.2 million, exploration and development expenses of US\$10.9 million, financing costs of US\$8.0 million, income and royalty tax expense of US\$0.6 million and a favourable movement in the mark-to-market valuation of the convertible bonds of US\$4.7 million.
- Cash on hand at 31 December 2014 of US\$43.5 million (30 June 2014 – US\$98.9 million).
- Other than the exploration expenses in relation to the non-commercial Nama-1 well in PPL 259, PNG, no other impairments to carrying values of the company's assets resulted from the impairment assessment conducted during the period which considered, amongst other things, the current low oil price environment.

▪ **Operational results**

*China*

- During the half year, Horizon Oil's working interest share of production from the Beibu Gulf fields was 487,883 barrels of oil. Crude oil sales were 455,561 barrels at an average price of US\$83.15/bbl exclusive of executed hedging. Cumulative oil production from the fields through 31 December 2014 was 7.1 million barrels. Production for calendar year 2014 was 4.08 mmbo, about 5% ahead of the budget.
- Average production over the half year was approximately 10,000 bopd, of which Horizon Oil's share is in excess of 2,600 bopd. All 15 wells are on production, with 1 well still on natural flow.
- Evaluation of two successful exploration wells drilled during the period, the WZ 12 -10-1 and WZ 12-10-2, commenced during the period with a preliminary estimate of the recoverable reserve potential of these discoveries determined to be in the order of 10 mmbo. Following the successful exploration drilling, work has commenced on integrating the new discoveries into the Beibu Gulf development. Work also continued during the half year on the Phase II development plan for the WZ 12-8E oil accumulation.

*New Zealand*

- During the half year Horizon Oil's working interest share of production from Maari and Manaia fields was 130,782 barrels of oil. Crude oil sales were 109,835 barrels at an average effective price of US\$98.10/bbl exclusive of executed hedging. Cumulative oil production from the fields through 31 December 2014 was 25.2 million barrels.
- The Maari Growth Program, incorporating 4 new production wells, 1 new injection well and a workover of the existing MR2 dual lateral production well, designed to enhance production rate and oil recovery from the Maari and Manaia fields, progressed during the half year.
- The Whio-1 exploration well in PEP 51313 was drilled during the half year. The well did not encounter hydrocarbons and was plugged and abandoned on

31 August 2014. The well results are being evaluated to determine whether the lack of hydrocarbons is a result of lack of structural closure or charge. The costs of the well were fully carried by OMV New Zealand.

*Papua New Guinea*

- Following receipt of the Stanley development licence, the Stanley-3 and Stanley-5 development wells were drilled and completed during the half year. Stanley project development activities continue with a focus on finalisation and issue of equipment fabrication and construction tender packages, preparation for early works and engagement with the Stanley PNG State team (comprising representatives from key Government departments) and local landowners in respect of local content opportunities. Due to the recent change in market conditions in respect of oil price and costs, a Value Engineering review process has been initiated. The purpose of this is to ensure that project design, execution and timing are optimised. Also project cost estimates are being reviewed and updated to ensure that they accurately reflect the cost deflation anticipated in the current industry climate.
- Work continued on the Elevala/Ketu condensate recovery project development planning during the half year including additional studies and FEED activities to refine the project development plan and costs. An additional seismic survey was also conducted to better define the Elevala and Ketu structures. In light of the current low oil price environment, the project selection duration has been extended in order to ensure that project cost estimates are in line with current market conditions, with the ultimate aim of enhancing the project economics. Internal Value Engineering reviews are currently under way.
- The Nama-1 exploration well in PPL 259 spudded during the half year and the well reached a total depth of 3,533 m on 6 January 2015. The well encountered a total of 77 m of the target sandstones and whilst gas shows were detected the sands were poor quality at this location. Sidewall cores were acquired to determine the causes of reservoir deterioration and the implications for reservoir quality across the remainder of the prospect, which covers a large area (about 60 sq km). Interpretation of the log and core data is under way to evaluate the remaining potential of the broader prospect. The Nama-1 well was plugged and abandoned and the rig released on 19 January 2015.

Yours faithfully,



**Michael Sheridan**

Chief Financial Officer and Company Secretary

For further information please contact: Mr Michael Sheridan

Telephone: (+612) 9332 5000

Facsimile: (+612) 9332 5050

Email: [exploration@horizonoil.com.au](mailto:exploration@horizonoil.com.au)

Or visit [www.horizonoil.com.au](http://www.horizonoil.com.au)



## Appendix 4D

**Half-year report  
31 December 2014**

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

This half-year report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3. This information should be read in conjunction with the Half-year report for the period to 31 December 2014.

### 1. Reporting Period

|                                |                                  |
|--------------------------------|----------------------------------|
| Current reporting period:      | Half year ended 31 December 2014 |
| Previous corresponding period: | Half year ended 31 December 2013 |

### 2. Results for Announcement to the Market For the half year ended 31 December 2014

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

|     |                                                                   | Percentage<br>Change |         | Amount    |
|-----|-------------------------------------------------------------------|----------------------|---------|-----------|
|     |                                                                   | %                    |         | \$'000    |
| 2.1 | Revenue from ordinary activities                                  | Down                 | 17.9%   | to 53,148 |
| 2.2 | Profit from ordinary activities after tax attributable to members | Up                   | 15,723% | to 7,343  |
| 2.3 | Net profit for the period attributable to members                 | Up                   | 15,723% | to 7,343  |

#### 2.4 Dividends/distributions

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

#### 2.5 Record date for determining entitlements to dividends

N/A

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

**Revenue**

During the half-year to 31 December 2014, revenue mainly consisted of sales of crude oil from the Block 22/12 field offshore China, and the Maari/Manaia fields offshore New Zealand. The revenue is lower than the half-year ended 31 December 2013 due to a decrease in sales from the Block 22/12 field, as well as, falling oil prices. This was offset by a full six month's production being included from the Maari/Manaia fields offshore New Zealand which was shut in for much of the comparative period.

**Profit from ordinary activities after tax**

The increase in net profit after tax and net profit attributable to members for the half-year to 31 December 2014 resulted from a combination of an increase in the gross profit from operations of \$7.3 million, recognition of income from insurance claims of \$3.8 million, a favourable movement in the mark-to-market revaluation of the convertible bond conversion rights of \$1.9 million, and a decrease in tax expense of \$1.3 million offset by an increase in exploration expenditure written off of \$6.7 million.

**3. Net Tangible Assets**

|                                        | 31 December 2014 | 31 December 2013 |
|----------------------------------------|------------------|------------------|
| Net tangible assets per ordinary share | 0.400            | 0.412            |

**4. Controlled entities acquired or disposed of during period**

|                                                                                                 | Acquisitions | Disposals |
|-------------------------------------------------------------------------------------------------|--------------|-----------|
| 4.1 Name of Entity                                                                              | N/A          | N/A       |
| 4.2 The date of gain/loss of control                                                            | N/A          | N/A       |
| 4.3 Contribution to profit from ordinary activities during the half year ended 31 December 2014 | N/A          | N/A       |
| Profit/(loss) during the half year ended 31 December 2014                                       | N/A          | N/A       |

**5. Dividends/distributions**

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

**6. Dividend Reinvestment Plans**

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

**7. Associates and Joint Venture Entities**

|     |
|-----|
| Nil |
|-----|

**8. Accounting standards for foreign entities**

|                                                                                                                                        |
|----------------------------------------------------------------------------------------------------------------------------------------|
| N/A – Australian entity prepared in accordance with AASB 134 <i>Interim Financial Reporting</i> and the <i>Corporations Act 2001</i> . |
|----------------------------------------------------------------------------------------------------------------------------------------|

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

|                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Refer to the Half-year report for the period to 31 December 2014 for a copy of the unqualified independent auditor's review report to the members of Horizon Oil Limited. |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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

**Half-year report – 31 December 2014**

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

## **DIRECTORS' REPORT**

Your directors present their report on the consolidated entity (referred to hereafter as 'the Group') consisting of Horizon Oil Limited and the subsidiaries it controlled at the end of, or during the half-year ended 31 December 2014.

### **Directors**

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

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

### **Review and Results of Operations**

During the course of the half-year ended 31 December 2014, the Group's principal activities continued to be directed towards petroleum exploration, development and production.

The Group reported a profit of US\$7,343,000 for the current half-year compared with a loss of US\$47,000 in the 2014 half-year. The half-year result includes a gross profit of US\$22,349,000 (2013: US\$15,059,000) from Block 22/12 and Maari operations. The Group's commodity hedging program contributed US\$4,497,000 in oil hedging gains to the half-year result. Included within the results is US\$3,800,000 of insurance claim recoveries associated with the Maari operations.

Non-cash items impacting on the half-year result include US\$16,586,000 (2013: US\$17,921,000) in amortisation of production phase assets, a deferred income and royalty tax expense of US\$1,036,000 (2013: US\$1,186,000), amortisation of the liability portion of the convertible bond of US\$3,383,000 (2013: US\$2,923,000), a net gain of US\$4,714,000 (2013: US\$2,791,000 net gain) arising from the unrealised movement in the value of convertible bond conversion rights, exploration expenditure written-off of US\$10,896,000 (2013: US\$4,176,000) and US\$524,000 (2013: US\$664,000) related to the value of share options and share appreciation rights granted to Horizon Oil employees.

Tax expense is driven by deferred NZ royalty tax expense movements of US\$1,003,000, which is partially offset by an income tax benefit which is mainly driven by the allowance of deductions for abandonment payments in China following registration of the abandonment plan during the period.

Cash on hand at the end of the half-year was US\$43,506,000. Cash flow during the period was driven by operating cashflows from the Beibu and Maari fields which were used to fund the exploration and development expenditure program and repay debt. Cash from operating activities was lower than the comparative period, due to a decrease in cash received from sales associated with the fall in the oil price and a decrease in Block 22/12 sales from 594,097 bbls to 455,560 bbls. This was offset by the shut-in of the Maari/Manaia fields for most of the comparative period.

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

## **CORPORATE**

### **Proposed merger with Roc Oil**

Horizon Oil and Roc Oil announced a proposed merger on 29 April 2014. Horizon Oil's motive for the merger was to accelerate the Company's objective of creating a leading Asian mid-cap exploration and production company, combining the complementary production assets of the two companies, together with Horizon Oil's strategic PNG growth assets.

On 4 August 2014, Chinese conglomerate Fosun International Limited (Fosun) announced a takeover offer for Roc Oil at a price, applying then current exchange rates, consistent with Roc Oil's independent expert's mid-point valuation of that company of approximately US\$450 million. Based on Roc Oil's independent expert's report, approximately half of the enterprise value of Roc Oil was attributable to its 19.6% interest in Block 22/12 offshore China.

As a consequence of Roc Oil's board recommendation to shareholders in favour of the Fosun bid, Horizon Oil terminated the merger on 5 August 2014.

## **PRODUCTION**

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

During the half year, Horizon Oil's working interest share of production from the Beibu Gulf fields was 487,883 barrels of oil. Crude oil sales were 455,561 barrels at an average price of US\$83.15/bbl exclusive of executed hedging. Cumulative oil production from the fields through 31 December 2014 was 7.1 million barrels. Production for calendar year 2014 was 4.08 mmbo, about 5% ahead of the budget.

Average production over the half year was approximately 10,000 bopd, of which Horizon Oil's share is in excess of 2,600 bopd. All 15 wells are on production, with 1 well still on natural flow and waiting to be put on pump.

Evaluation of two successful exploration wells drilled during the period, the WZ 12 -10-1 and WZ 12-10-2, commenced during the period with a preliminary estimate of the recoverable reserve potential of these discoveries determined to be in the order of 10 mmbo. Following the successful exploration drilling, work has commenced on integrating the new discoveries into the Beibu Gulf development. Work also continued during the half year on the Phase II development plan for the WZ12-8E oil accumulation.

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

During the half year Horizon Oil's working interest share of production from Maari and Manaia fields was 130,782 barrels of oil. Crude oil sales were 109,835 barrels at an average effective price of US\$98.10/bbl exclusive of executed hedging. Cumulative oil production from the fields through 31 December 2014 was 2,519 million barrels.

The Maari Growth Program, incorporating 4 new production wells, 1 new injection well and a workover of the existing MR2 dual lateral production well, designed to enhance production rate and oil recovery from the Maari and Manaia fields, progressed during the half year.

The MR6A well, which involves the conversion of an existing water injection well to a new production well to address the oil reserves in the deeper Maari Mangahewa formation, was drilled to top reservoir and temporarily suspended due to drilling conditions which required procurement of additional equipment to complete the well.

The Maari MR8A development well was completed during the period and production commenced from this well on the 28 November. At the end of December the well was producing in excess of 1,200 bopd and was still cleaning up.

A work-over of the MR5 well was also carried out to replace a failed ESP and to clean out and acidise the horizontal production interval. The well resumed production on 14 December and at the end of the half year was producing in excess of 800 bopd.

The next well in the Maari Growth Program, the Maari MR7A development well, is drilling ahead towards intermediate casing setting depth above the objective Moki reservoir where 9-

5/8" casing will be run and cemented before the horizontal production hole is drilled to planned total depth of 4,650 m.

## **DEVELOPMENT**

### **Papua New Guinea - PDL 10, Stanley Field (Horizon Oil: 30%)**

Following receipt of the Stanley development licence, the Stanley-3 and Stanley-5 development wells were drilled and completed during the half year. The Stanley-5 production well spudded on 16 June 2014 using Parker Rig 226 and was drilled to target total measured depth of 3,405 m. The observed quality and size of the objective Toro and Kimu reservoirs were better than had been predicted, with a combined gross reservoir column of about 110 m and net pay of about 96 m.

Horizon Oil carried out a production test over the Toro and Kimu zones. After a clean-up period of 24 hours, the Stanley-5 well flowed at approximately 68 million cubic feet of gas per day (mmcf), with associated condensate, on a 122/64" choke at a wellhead pressure of 3,233 psi. Log and test data from the well, together with wellhead condensate samples obtained, are consistent with and exceed pre-drill estimates and the Stanley -2 results.

On completion of the Stanley-5 well, the Parker Rig 226 was skidded to commence drilling the Stanley-3 injection well, which spudded on 4 September 2014. The well was drilled to a measured total depth of 3,501 m and achieved its objectives of confirming a gas column in the Toro formation with a gas-water contact at the base of the reservoir. The well has been completed as a gas re-injection well, as planned.

Horizon Oil has managed the drilling of the Stanley-5 and -3 development wells on behalf of the joint venture.

The two production wells for the Stanley gas-condensate project (Stanley-2 and -5) are now completed, ready for production and, through testing, have demonstrated the capacity to produce well in excess of the design capacity of the Stanley gas plant (140 mmcf). With a condensate gas ratio 30 barrels / mmcf, the Stanley gas-condensate project is forecast to achieve initial production of approximately 4,000 barrels / day of condensate when the field commences production.

With completion of the Stanley-3 well, all development drilling activities will have been completed in respect of the Stanley project.

Stanley project development activities continue with current focus on finalisation and issue of equipment fabrication and construction tender packages, preparation for early works and engagement with the Stanley PNG State team (comprising representatives from key Government departments) and local landowners in respect of local content opportunities.

The Stanley Gas Plant pre-construction survey report was submitted to the PNG Department of Environment and Conservation (DEC) in December 2014.

Due to the recent change in market conditions in respect of oil price and costs, a Value Engineering review process has been initiated. The purpose of this is to ensure that project design, execution and timing are optimised. Also project cost estimates are being reviewed and updated to ensure that they accurately reflect the cost deflation anticipated in the current industry climate.

The Stanley project tanker Western Queen passed an inspection, which qualifies the vessel for bunkering operations in Port Moresby under a sub-charter arrangement. This will offset holding costs until the vessel is required to transport Stanley condensate.

## **EXPLORATION/APPRAISAL**

### **Papua New Guinea - *PRL 21, Elevala / Ketu discoveries* (Horizon Oil: 27%)**

Work conducted in the period included additional studies and FEED activities to refine the project development plan and costs. The joint venture acquired a further 102 km of new 2D seismic data, primarily over the Elevala/Tingu area, with two additional lines over the Ketu area. The survey was completed on time and within budget. The data is being processed and integrated with reprocessing of the older data sets to provide better definition of the Elevala and Ketu structures and to facilitate stratigraphic modelling.

Review of the development and pipeline applications by the PNG Department of Petroleum and Energy (DPE), DEC assessment of the Environmental Impact Statement and review of the Social Mapping and Landowner Identification Study are all well underway. Meetings with the Provincial Government and landowner representatives are ongoing. The DPE has engaged the National Petroleum Corporation of PNG to assist with the review of surface and subsurface elements of the development plan. The DEC has planned a series of community engagement and feedback forums in PRL 21 during February 2015.

In light of the current low oil price environment, the project selection duration has been extended by two months in order to ensure that project cost estimates are in line with current market conditions, with the ultimate aim of enhancing the project economics. Internal Value Engineering reviews are currently under way.

Horizon Oil, in partnership with Osaka Gas, are conducting a pre-feasibility study for a Western Province-based greenfield mid-scale LNG project. The study evaluated several development options and the shortlisted options shall be further evaluated through the course of a feasibility study due to commence in February 2015. A scheme with a near shore plant at Daru Island is the leading concept.

Subsequent to the end of the half year, the participants in the PNG LNG project advised that they had signed an agreement with the PNG Government that provided for the award of development and pipeline licences for the P'nyang field, located roughly 70 km to the north of Stanley, Elevala/Tingu and Ketu fields to enable expansion of the PNG LNG project. Under the agreement a final investment decision for an additional LNG train is to be taken by the end of 2017 at the latest.

Horizon Oil regards this development as a promising alternative commercialisation pathway for its substantive gas resources in the Western province foreland. The possible export pipeline route connecting P'nyang gas field to the existing PNG LNG system at Kutubu, in Horizon Oil's view offers the potential for a gas aggregation project involving Stanley, Elevala/Tingu, Ketu, Ubuntu and P'nyang fields.

The Company intends to progress planning for a greenfield LNG project at Daru Island as its base case. However, the opportunity to participate in a brownfield LNG development by way of aggregation of Horizon Oil's gas fields with those of other operators will remain an attractive proposition.

### **New Zealand - *PEP 51313, offshore Taranaki Basin* (Horizon Oil: 21%)**

The Whio-1 well was spudded on 23 July 2014. The well failed to encounter hydrocarbons and was plugged and abandoned on 31 August 2014. The well results are being evaluated to determine whether the lack of hydrocarbons is a result of lack of structural closure or charge. The costs of the well were fully carried by OMV New Zealand.

### **Papua New Guinea - PPL 259, Western Province (Horizon Oil: 35%)**

During the half year the Nama-1 rig site was completed and the well spudded on 4 December 2014. The well reached a total depth of 3,533 m on 6 January 2015. The well encountered a total of 77 m of the target sandstones and whilst gas shows were detected the sands were poor quality at this location. Sidewall cores were acquired to determine the causes of reservoir deterioration and the implications for reservoir quality across the remainder of the prospect, which covers a large area (about 60 sq km). Interpretation of the log and core data is under way to evaluate the remaining potential of the broader prospect. The Nama-1 well was plugged and abandoned and the rig released on 19 January 2015.

### **China - Block 22/12, Beibu Gulf, offshore China (Horizon Oil: 26.95% production / 55% exploration)**

Two successful exploration wells were drilled during the half year.

The first well, WZ 12-10-1, targeted the T42 and Weizhou formations, adjacent to the WZ 12-8 East field of the WZ 12-8 Development Area. The well discovered oil in the Jiaowei (T42) formation over an interval of 5.5 m, with a high porosity net oil pay of 4.2 m. A sidetrack (WZ 12-10-1Sa) with 340 m eastern stepout was then drilled to evaluate the updip T42 reservoir and confirmed oil in the T42 formation with a thicker net oil pay of 5.5 m. No oil pay was interpreted in the Weizhou formation. A wireline evaluation logging program was run, confirming the oil pay in the T42 reservoir.

The second exploration well, the WZ 12-10-2 well, located 1.6 km east northeast of the existing WZ 12-8W facilities and in water depth of approximately 36 m, discovered oil in the T42 formation, with a high porosity net oil pay of approximately 11 m true vertical thickness. Wireline evaluation logging programs were run and confirmed the oil pay in the T42 reservoir with favourable reservoir porosities, in the region of 31%, and oil of approximately 29 deg API. The optimal integration of both discoveries into the Beibu Project is under evaluation.

A preliminary estimate of the recoverable reserve potential of these discoveries is of the order of 10 mmbo.

### **Papua New Guinea - PPLs 430 (Horizon Oil interest: 50%), 372 and 373 (Horizon Oil interest: 90%)**

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

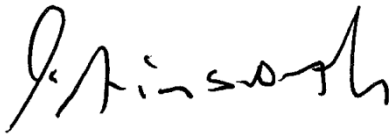
## **Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set on page 8.

## **Rounding**

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

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



**E F Ainsworth AM**  
Chairman



**B D Emmett**  
Chief Executive Officer

Sydney

23 February 2015



## Auditor's Independence Declaration

As lead auditor for the review of Horizon Oil for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in blue ink, appearing to read 'P. Buchholz'.

Peter Buchholz  
Partner  
PricewaterhouseCoopers

23 February 2015  
Sydney

# HORIZON OIL LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2014

|                                                                         |      | Half-year to    |                |
|-------------------------------------------------------------------------|------|-----------------|----------------|
|                                                                         |      | 31              | 31             |
|                                                                         |      | December        | December       |
|                                                                         | Note | 2014            | 2013           |
|                                                                         |      | US\$'000        | US\$'000       |
| Revenue                                                                 |      | 53,148          | 64,769         |
| Cost of sales                                                           |      | (30,799)        | (49,710)       |
| <b>Gross profit</b>                                                     |      | <b>22,349</b>   | <b>15,059</b>  |
| Other revenue/other income                                              |      | 3,943           | 143            |
| General and administrative expenses                                     |      | (4,205)         | (3,437)        |
| Exploration and development expenses                                    | 3    | (10,896)        | (4,176)        |
| Finance costs                                                           |      | (7,973)         | (8,584)        |
| Unrealised movement in fair value of convertible bond conversion rights | 3, 4 | 4,714           | 2,791          |
| <b>Profit before income tax expense</b>                                 |      | <b>7,932</b>    | <b>1,796</b>   |
| NZ royalty tax (expense)/benefit                                        |      | (1,003)         | 426            |
| Income tax benefit/(expense)                                            |      | 414             | (2,269)        |
| <b>Profit /(loss) for the half-year</b>                                 |      | <b>7,343</b>    | <b>(47)</b>    |
| <b>Other comprehensive income/(loss)</b>                                |      |                 |                |
| <i>Items that may be reclassified to profit or loss</i>                 |      |                 |                |
| Changes in the fair value of cash flow hedges                           |      | 25,966          | (5,063)        |
| <b>Total comprehensive income/(loss) for the half-year</b>              |      | <b>33,309</b>   | <b>(5,110)</b> |
| <b>Profit/(loss) attributable to:</b>                                   |      |                 |                |
| Security holders of Horizon Oil Limited                                 |      | 7,371           | (47)           |
| Non-controlling interests                                               |      | (28)            | -              |
| <b>Profit/(loss) for the period</b>                                     |      | <b>7,343</b>    | <b>(47)</b>    |
| <b>Total comprehensive income/(loss) attributable to:</b>               |      |                 |                |
| Security holders of Horizon Oil Limited                                 |      | 33,337          | (5,110)        |
| Non-controlling interests                                               |      | (28)            | -              |
| <b>Total comprehensive income/(loss) for the period</b>                 |      | <b>33,309</b>   | <b>(5,110)</b> |
|                                                                         |      | <b>US Cents</b> |                |
| Basic earnings per share                                                |      | 0.56            | -              |
| Diluted earnings per share                                              |      | 0.56            | -              |

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

# HORIZON OIL LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

|                                                                   |      | 31<br>December<br>2014<br>US\$'000 | 30<br>June<br>2014<br>US\$'000 |
|-------------------------------------------------------------------|------|------------------------------------|--------------------------------|
|                                                                   | Note |                                    |                                |
| <b>Current Assets</b>                                             |      |                                    |                                |
| Cash and cash equivalents                                         | 5    | 43,506                             | 98,911                         |
| Receivables                                                       |      | 18,025                             | 15,477                         |
| Inventories                                                       |      | 5,321                              | 5,281                          |
| Derivative financial instruments                                  |      | 22,396                             | -                              |
| Current tax receivable                                            |      | 4,337                              | -                              |
| Other Assets                                                      |      | 565                                | 1,674                          |
| <b>Total Current Assets</b>                                       |      | <b>94,150</b>                      | <b>121,343</b>                 |
| <b>Non-Current Assets</b>                                         |      |                                    |                                |
| Derivative financial instruments                                  |      | 4,785                              | -                              |
| Deferred tax assets                                               |      | 1,104                              | 2,306                          |
| Plant and equipment                                               |      | 5,364                              | 5,558                          |
| Exploration phase expenditure                                     | 6    | 93,017                             | 74,658                         |
| Oil and gas assets                                                | 7    | 322,339                            | 311,038                        |
| <b>Total Non-Current Assets</b>                                   |      | <b>426,609</b>                     | <b>393,560</b>                 |
| <b>Total Assets</b>                                               |      | <b>520,759</b>                     | <b>514,903</b>                 |
| <b>Current Liabilities</b>                                        |      |                                    |                                |
| Payables                                                          |      | 28,894                             | 35,715                         |
| Derivative financial instruments                                  |      | -                                  | 5,935                          |
| Current tax payable                                               |      | 186                                | 1,596                          |
| Borrowings                                                        | 8    | 60,000                             | 44,165                         |
| Provisions                                                        |      | 3,714                              | 12,497                         |
| <b>Total Current Liabilities</b>                                  |      | <b>92,794</b>                      | <b>99,908</b>                  |
| <b>Non-Current Liabilities</b>                                    |      |                                    |                                |
| Payables                                                          |      | -                                  | 54                             |
| Derivative financial instruments                                  |      | -                                  | 222                            |
| Deferred tax liability                                            |      | 24,735                             | 17,106                         |
| Borrowings                                                        | 8    | 122,181                            | 143,281                        |
| Other financial liabilities                                       |      | 12,310                             | 17,024                         |
| Provisions                                                        |      | 12,340                             | 14,742                         |
| <b>Total Non-Current Liabilities</b>                              |      | <b>171,566</b>                     | <b>192,429</b>                 |
| <b>Total Liabilities</b>                                          |      | <b>264,360</b>                     | <b>292,337</b>                 |
| <b>Net Assets</b>                                                 |      | <b>256,399</b>                     | <b>222,566</b>                 |
| <b>Equity</b>                                                     |      |                                    |                                |
| Contributed equity                                                | 9    | 174,801                            | 174,801                        |
| Reserves                                                          |      | 30,334                             | 3,844                          |
| Retained profits                                                  |      | 51,292                             | 43,921                         |
| <b>Total Equity Attributable to equity holders of the Company</b> |      | <b>256,427</b>                     | <b>222,566</b>                 |
| Non controlling interest                                          |      | (28)                               | -                              |
| <b>Total Equity</b>                                               |      | <b>256,399</b>                     | <b>222,566</b>                 |

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

# HORIZON OIL LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2014

|                                                                      | Attributable to members of the Company |                |                  |                |                          |                |
|----------------------------------------------------------------------|----------------------------------------|----------------|------------------|----------------|--------------------------|----------------|
|                                                                      | Contributed equity                     | Reserves       | Retained Profits | Total          | Non-controlling interest | Total Equity   |
|                                                                      | US\$'000                               | US\$'000       | US\$'000         | US\$'000       | US\$'000                 | US\$'000       |
| <b>Balance at 1 July 2013</b>                                        | <b>128,038</b>                         | <b>7,884</b>   | <b>31,091</b>    | <b>167,013</b> | <b>-</b>                 | <b>167,013</b> |
| Loss for the half-year                                               | -                                      | -              | (47)             | (47)           | -                        | (47)           |
| Other comprehensive loss                                             | -                                      | (5,063)        | -                | (5,063)        | -                        | (5,063)        |
| <b>Total comprehensive loss for the half-year</b>                    | <b>-</b>                               | <b>(5,063)</b> | <b>(47)</b>      | <b>(5,110)</b> | <b>-</b>                 | <b>(5,110)</b> |
| <b>Transactions with owners in their capacity as equity holders:</b> |                                        |                |                  |                |                          |                |
| Contributions of equity, net of transaction costs                    | 46,529                                 | -              | -                | 46,529         | -                        | 46,529         |
| Employee share options                                               | -                                      | 664            | -                | 664            | -                        | 664            |
|                                                                      | <b>46,529</b>                          | <b>664</b>     | <b>-</b>         | <b>47,193</b>  | <b>-</b>                 | <b>47,193</b>  |
| <b>Balance at 31 December 2013</b>                                   | <b>174,567</b>                         | <b>3,485</b>   | <b>31,044</b>    | <b>209,096</b> | <b>-</b>                 | <b>209,096</b> |
| <b>Balance at 1 July 2014</b>                                        | <b>174,801</b>                         | <b>3,844</b>   | <b>43,921</b>    | <b>222,566</b> | <b>-</b>                 | <b>222,566</b> |
| Profit for the half-year                                             | -                                      | -              | 7,371            | 7,371          | (28)                     | 7,343          |
| Other comprehensive income                                           | -                                      | 25,966         | -                | 25,966         | -                        | 25,966         |
| <b>Total comprehensive income for the half-year</b>                  | <b>-</b>                               | <b>25,966</b>  | <b>7,371</b>     | <b>33,337</b>  | <b>(28)</b>              | <b>33,309</b>  |
| <b>Transactions with owners in their capacity as equity holders:</b> |                                        |                |                  |                |                          |                |
| Contributions of equity, net of transaction costs                    | -                                      | -              | -                | -              | -                        | -              |
| Employee share options                                               | -                                      | 524            | -                | 524            | -                        | 524            |
|                                                                      | <b>-</b>                               | <b>524</b>     | <b>-</b>         | <b>524</b>     | <b>-</b>                 | <b>524</b>     |
| <b>Balance at 31 December 2014</b>                                   | <b>174,801</b>                         | <b>30,334</b>  | <b>51,292</b>    | <b>256,427</b> | <b>(28)</b>              | <b>256,399</b> |

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

# HORIZON OIL LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2014

|                                                               | Half-year to                     |                               |
|---------------------------------------------------------------|----------------------------------|-------------------------------|
|                                                               | 31<br>December<br>2014<br>\$'000 | 31 December<br>2013<br>\$'000 |
| <b>Cash flows from operating activities</b>                   |                                  |                               |
| Receipts from customers                                       | 53,938                           | 67,950                        |
| Payments to suppliers and employees                           | (23,509)                         | (32,716)                      |
|                                                               | 30,429                           | 35,234                        |
| Interest received                                             | 61                               | 140                           |
| Interest paid                                                 | (4,021)                          | (5,747)                       |
| Income and royalty taxes paid                                 | (4,507)                          | (2,391)                       |
| <b>Net cash inflows from operating activities</b>             | <b>21,962</b>                    | <b>27,236</b>                 |
| <b>Cash flows from investing activities</b>                   |                                  |                               |
| Payments for exploration phase expenditure                    | (30,251)                         | (26,602)                      |
| Payments for oil and gas assets                               | (28,288)                         | (28,290)                      |
| Payments for abandonment costs                                | (9,678)                          | -                             |
| Payments for plant and equipment                              | (139)                            | (156)                         |
| <b>Net cash (outflows) from investing activities</b>          | <b>(68,356)</b>                  | <b>(55,048)</b>               |
| <b>Cash flows from financing activities</b>                   |                                  |                               |
| Proceeds from issue of shares                                 | -                                | 48,544                        |
| Payments for issue of shares                                  | -                                | (2,269)                       |
| Repayment of borrowings                                       | (9,165)                          | -                             |
| <b>Net cash (outflows)/inflows from financing activities</b>  | <b>(9,165)</b>                   | <b>46,275</b>                 |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   | <b>(55,559)</b>                  | <b>18,463</b>                 |
| Cash and cash equivalents at the beginning of the half-year   | 98,911                           | 19,028                        |
| Effects of exchange rate changes on cash and cash equivalents | 154                              | (392)                         |
| <b>Cash and cash equivalents at the end of the half-year</b>  | <b>43,506</b>                    | <b>37,099</b>                 |

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

## **HORIZON OIL LIMITED**

### Notes to the financial statements

#### **Note 1. Basis of preparation of half year report**

The general purpose financial statements for the interim half year reporting period ended 31 December 2014 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below:

#### **Changes in accounting estimates**

A review of the Group's accounting estimates, has affected items recognised in the financial statements.

##### **(i) Oil and gas assets – restoration provision**

Legislation in China requires the provision for restoration to be paid over the remaining life of the field. Payments are to be made in accordance with a restoration plan lodged with the relevant governmental authority. During the half year, the Group commenced payments to meet this legal obligation. This resulted in a change at 31 December 2014, to the timing and amount of outflows used to calculate the provision for restoration.

This change in estimate resulted in a decrease of \$1.8m in the provision for restoration which was applied against the restoration asset.

#### **New and amended standards adopted by the group**

The group has applied the following new and amended standards issued by the Australian Accounting Standards Board ('AASB') for the first time in the half year reporting period commencing 1 July 2014:

##### **(i) AASB Interpretation 21 Levies (effective 1 January 2014)**

It sets out the accounting for an obligation to pay a levy imposed by a government in accordance with legislation. The interpretation clarifies that a liability must be recognised when the obligating event occurs, being the event that triggers the obligation to pay the levy. The Group has reviewed the levies it is currently paying and determined that the accounting for these levies is not affected by the interpretation.

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

The AASB has made small changes to some of the disclosures that are required under AASB 136 Impairment of Assets. These may result in additional disclosures if the Group recognises an impairment loss or the reversal of an impairment loss. They will not affect any of the amounts recognised in the financial statements.

**HORIZON OIL LIMITED**

## Notes to the financial statements

**Note 2. Segment information****(a) Description of segments**

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

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

- New Zealand development – the Group is currently producing crude oil from the Maari/Manaia fields, 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 and the exploration and evaluation of hydrocarbons in five onshore permit areas 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<br>Development | New Zealand<br>Exploration | China<br>Exploration<br>and<br>Development | Papua New<br>Guinea<br>Exploration<br>and<br>Development | All other<br>segments | Total           |
|-----------------------------------|----------------------------|----------------------------|--------------------------------------------|----------------------------------------------------------|-----------------------|-----------------|
| Half-year 2014                    | US\$'000                   | US\$'000                   | US\$'000                                   | US\$'000                                                 | US\$'000              | US\$'000        |
| <b>Segment revenue:</b>           |                            |                            |                                            |                                                          |                       |                 |
| Revenue from external customers   | 14,151                     | -                          | 38,997                                     | -                                                        | -                     | 53,148          |
| <b>Profit / (loss) before tax</b> | <b>5,919</b>               | <b>(8)</b>                 | <b>11,427</b>                              | <b>(11,532)</b>                                          | <b>(5,881)</b>        | <b>(75)</b>     |
| Depreciation and amortisation     | 2,708                      | -                          | 13,878                                     | 223                                                      | 122                   | 16,931          |
| <b>Half-year 2013</b>             | <b>US\$'000</b>            | <b>US\$'000</b>            | <b>US\$'000</b>                            | <b>US\$'000</b>                                          | <b>US\$'000</b>       | <b>US\$'000</b> |
| <b>Segment revenue:</b>           |                            |                            |                                            |                                                          |                       |                 |
| Revenue from external customers   | 4,234                      | -                          | 60,535                                     | -                                                        | -                     | 64,769          |
| <b>Profit / (loss) before tax</b> | <b>(13,738)</b>            | <b>(3,933)</b>             | <b>22,507</b>                              | <b>(367)</b>                                             | <b>(5,524)</b>        | <b>(1,055)</b>  |
| Depreciation and amortisation     | 406                        | -                          | 17,515                                     | 224                                                      | 81                    | 18,226          |

**HORIZON OIL LIMITED**  
Notes to the financial statements

|                                                                                                          | New Zealand<br>Development | New Zealand<br>Exploration | China<br>Exploration<br>and<br>Development | Papua New<br>Guinea<br>Exploration<br>and<br>Development | All other<br>segments | Total          |
|----------------------------------------------------------------------------------------------------------|----------------------------|----------------------------|--------------------------------------------|----------------------------------------------------------|-----------------------|----------------|
|                                                                                                          | US\$'000                   | US\$'000                   | US\$'000                                   | US\$'000                                                 | US\$'000              | US\$'000       |
| <b>Total segment assets at 31 December 2014</b>                                                          | <b>135,050</b>             | <b>5,075</b>               | <b>182,937</b>                             | <b>180,156</b>                                           | <b>17,541</b>         | <b>520,759</b> |
| Additions to non-current assets other than financial assets and deferred tax during the half-year ended: |                            |                            |                                            |                                                          |                       |                |
| Exploration and evaluation phase expenditure:                                                            | -                          | 12                         | 7,723                                      | 21,485                                                   | -                     | 29,220         |
| Oil and gas assets:                                                                                      | 11,494                     | -                          | 791                                        | 17,395                                                   | -                     | 29,680         |
| Plant and equipment:                                                                                     | -                          | -                          | -                                          | 12                                                       | 139                   | 151            |
| <b>Total segment liabilities at 31 December 2014</b>                                                     | <b>70,256</b>              | <b>837</b>                 | <b>87,416</b>                              | <b>16,321</b>                                            | <b>89,530</b>         | <b>264,360</b> |
| <b>Total segment assets at 30 June 2014</b>                                                              | <b>104,424</b>             | <b>5,100</b>               | <b>187,414</b>                             | <b>210,998</b>                                           | <b>6,967</b>          | <b>514,903</b> |
| Additions to non-current assets other than financial assets and deferred tax during the year ended:      |                            |                            |                                            |                                                          |                       |                |
| Exploration and evaluation phase expenditure:                                                            | -                          | 4,765                      | 5,564                                      | 26,706                                                   | -                     | 37,035         |
| Oil and gas assets:                                                                                      | 17,412                     | -                          | 17,179                                     | 25,212                                                   | -                     | 59,803         |
| Plant and equipment:                                                                                     | -                          | -                          | -                                          | 159                                                      | 719                   | 878            |
| <b>Total segment liabilities at 30 June 2014</b>                                                         | <b>78,016</b>              | <b>2,228</b>               | <b>102,873</b>                             | <b>13,754</b>                                            | <b>95,466</b>         | <b>292,337</b> |

Other segment information

(i) Segment revenue

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

Segment revenue reconciles to total consolidated revenue as follows:

|                       | Half-year to<br>31 December<br>2014<br>US\$'000 | 31 December<br>2013<br>US\$'000 |
|-----------------------|-------------------------------------------------|---------------------------------|
| Total segment revenue | 53,148                                          | 64,769                          |
| Rental income         | -                                               | 3                               |
| Other income          | 82                                              | -                               |
| Interest income       | 61                                              | 140                             |
| Insurance claim       | 3,800                                           | -                               |
| <b>Total revenue</b>  | <b>57,091</b>                                   | <b>64,912</b>                   |

**HORIZON OIL LIMITED**

## Notes to the financial statements

## (ii) Segment profit before tax

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

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

|                                                                         | <b>Half-year to</b>     |                         |
|-------------------------------------------------------------------------|-------------------------|-------------------------|
|                                                                         | <b>31 December 2014</b> | <b>31 December 2013</b> |
|                                                                         | <b>US\$'000</b>         | <b>US\$'000</b>         |
| Total segment loss before tax                                           | (75)                    | (1,055)                 |
| Rental income                                                           | -                       | 3                       |
| Interest income                                                         | 61                      | 140                     |
| Insurance claim                                                         | 3,800                   | -                       |
| Foreign exchange loss (net)                                             | (568)                   | (83)                    |
| Unrealised movement in fair value of convertible bond conversion rights | 4,714                   | 2,791                   |
| Profit before tax                                                       | 7,932                   | 1,796                   |

## (iii) Segment assets and liabilities

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

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

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

|                                                                                                                           |                         |                         |
|---------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| Profit/(loss) for the half-year includes the following items that are unusual because of their nature, size or incidence: | <b>31 December 2014</b> | <b>31 December 2013</b> |
|                                                                                                                           | <b>US\$'000</b>         | <b>US\$'000</b>         |
| <b>Income</b>                                                                                                             |                         |                         |
| Insurance claim (refer to note (a) below)                                                                                 | 3,800                   | -                       |
| Unrealised movement in fair value of convertible bond conversion rights (refer to note (b) below)                         | 4,714                   | 2,791                   |
| <b>Expenses</b>                                                                                                           |                         |                         |
| Exploration expenditure (refer to note (c) below)                                                                         | (10,896)                | (4,176)                 |

- (a) On 29 August 2013, the operator of the Maari oilfield, OMV New Zealand Limited ("OMV"), advised that production at the field would be shut in while major facility repairs and equipment upgrades were undertaken. This involved the FPSO *Raroa* being disconnected from its mooring and towed to nearby Port Nelson to refurbish and upgrade its process equipment and install a new swivel. At the same time the opportunity was taken to repair several of the buoy mooring lines at the field.

The upgrade, maintenance and repair works were carried out safely, within budget and the field returned to production on schedule. The Group's share of the repair costs was US\$8.0 million. The Group expected to recover a proportion of these

## **HORIZON OIL LIMITED**

### Notes to the financial statements

amounts through insurance. As at 31 December 2014, an insurance claim for repair costs of US\$3.8 million associated with the FPSO mooring was deemed virtually certain of receipt following acceptance of the claim by underwriters and an initial part payment of the claim received up to the date of this report of US\$0.5 million. Accordingly, US\$3.8 million was recorded as revenue in the current period with the remaining outstanding claims disclosed as a contingent asset (refer to note 10).

- (b) The amount shown is the movement during the period of the fair value of the conversion rights relating to the 5.5% convertible bonds issued on 17 June 2011. The conversion rights can be settled in cash or ordinary shares of the parent entity, at the option of the issuer, and the number of shares to be issued at conversion is subject to the conversion price which may reset under certain circumstances. Accordingly, the conversion rights are a derivative financial liability and are marked to market through the profit and loss. Fair value of conversion rights at issuance on 17 June 2011 was US\$20,043,000. Refer to Note 8 for further details of the convertible bonds issued.
- (c) Following the impairment assessment which was performed at balance date and in light of the preliminary results of the PPL 259 Nama-1 exploration well which was drilled during the half year, it was determined that the carrying amount of exploration expenditure associated with PPL 259 exceeded its recoverable amount at balance date, such that US\$10,861,000 of exploration expenditure associated with the Nama-1 well was expensed in the period.

During the comparative period to 31 December 2013, the PEP 51313 joint venture made the decision to not commit to the drilling of the Te Whatu commitment well in New Zealand and, as a consequence, relinquished the western area of the licence. Exploration costs of US\$ 4.2 million associated with this part of the permit were expensed during the comparative half year.

#### **Note 4. Fair value measurement of financial instruments**

##### **(a) Fair value measurements**

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Derivative financial instruments
- Financial liabilities at fair value through profit or loss (FVTPL)

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

**HORIZON OIL LIMITED**

## Notes to the financial statements

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December 2014 and 30 June 2014:

| <b>At 31 December 2014</b>                                        | <b>Level 1<br/>US\$'000</b> | <b>Level 2<br/>US\$'000</b> | <b>Level 3<br/>US\$'000</b> | <b>Total<br/>US\$'000</b> |
|-------------------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|---------------------------|
| <b>Assets</b>                                                     |                             |                             |                             |                           |
| Derivatives used for hedging                                      | -                           | 27,181                      | -                           | 27,181                    |
| <b>Total Assets</b>                                               | <b>-</b>                    | <b>27,181</b>               | <b>-</b>                    | <b>27,181</b>             |
| <b>Liabilities</b>                                                |                             |                             |                             |                           |
| Derivatives used for hedging                                      | -                           | -                           | -                           | -                         |
| <i>Financial liabilities at fair value through profit or loss</i> |                             |                             |                             |                           |
| Conversion rights on convertible bonds                            | -                           | -                           | 12,310                      | 12,310                    |
| <b>Total liabilities</b>                                          | <b>-</b>                    | <b>-</b>                    | <b>12,310</b>               | <b>12,310</b>             |
| <b>At 30 June 2014</b>                                            |                             |                             |                             |                           |
| <b>Assets</b>                                                     |                             |                             |                             |                           |
| Derivatives used for hedging                                      | -                           | -                           | -                           | -                         |
| <b>Total Assets</b>                                               | <b>-</b>                    | <b>-</b>                    | <b>-</b>                    | <b>-</b>                  |
| <b>Liabilities</b>                                                |                             |                             |                             |                           |
| Derivatives used for hedging                                      | -                           | 6,157                       | -                           | 6,157                     |
| <i>Financial liabilities at fair value through profit or loss</i> |                             |                             |                             |                           |
| Conversion rights on convertible bonds                            | -                           | -                           | 17,024                      | 17,024                    |
| <b>Total liabilities</b>                                          | <b>-</b>                    | <b>6,157</b>                | <b>17,024</b>               | <b>23,181</b>             |

There were no transfers between levels 1, 2 or 3 for recurring fair value measurements during the year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2014.

**(b) Valuation techniques used to derive fair values**

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.

## HORIZON OIL LIMITED

### Notes to the financial statements

Specific valuation techniques used to value financial instruments include:

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

All of the resulting fair value estimates are included in level 2 except for the financial liabilities explained in (c) below.

For the financial liabilities, the best evidence of fair value is current prices in an active market for similar financial liabilities. Where such information is not available the directors consider information from a variety of sources including:

- discounted cash flow projections based on reliable estimates of future cash flows; and
- Monte Carlo simulations.

All resulting fair value estimates for properties are included in level 3.

#### (c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the half year ended 31 December 2014 for recurring fair value measurements:

|                                                          | <b>Conversion<br/>Rights on<br/>Convertible<br/>Bonds</b><br>US\$'000 |
|----------------------------------------------------------|-----------------------------------------------------------------------|
| Opening balance at 30 June 2014                          | 17,024                                                                |
| (Gains)/losses recognised in profit or loss <sup>1</sup> | (4,714)                                                               |
| (Gains)/losses recognised in other comprehensive income  | -                                                                     |
| Closing balance at 31 December 2014                      | 12,310                                                                |

<sup>1</sup> Unrealised (gains) or losses recognised in profit or loss attributable to liabilities held at the end of the reporting period (included in (gains)/losses recognised in other income above)

**HORIZON OIL LIMITED**

## Notes to the financial statements

## (i) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

| Description                            | Fair value at 31 Dec 2014 \$000 | Unobservable inputs    | Range of inputs (probability-weighted average) | Relationship of unobservable inputs to fair value                                                                               |
|----------------------------------------|---------------------------------|------------------------|------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Conversion Rights on Convertible Bonds | 12,310                          | Share price volatility | 55.6% - 77.9% (65.6%)                          | All other inputs being equal, an increase in share volatility results in an increase in the fair value of the conversion rights |
|                                        |                                 | Credit spread          | 6.0% - 8.0% (7.0%)                             | All other inputs being equal, the lower the credit spread, the higher the fair value of the conversion rights                   |

## (ii) Valuation processes

The Group engages external, independent and qualified valuers to determine the fair value of the conversion rights on convertible bonds for financial reporting purposes on a half yearly basis. 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 - 500,000) of recalculations before it is complete. The result is a probability distribution of possible outcomes providing a more comprehensive view of both what could happen and its likelihood. Market interest rates were applied in the model with a credit spread of 7.0%, together with a calculated share price volatility of 65.6% when quoted in US dollar terms. All other parameters were based on the specific terms of the convertible bonds issued.

**Note 5. Cash and cash equivalents**

|                                        | 31 December 2014<br>US\$'000 | 30 June 2014<br>US\$'000 |
|----------------------------------------|------------------------------|--------------------------|
| Cash at bank and on deposit            | 36,531                       | 81,161                   |
| Restricted cash (refer note (a) below) | 6,974                        | 17,749                   |
| Petty cash                             | 1                            | 1                        |
|                                        | <b>43,506</b>                | <b>98,911</b>            |

**HORIZON OIL LIMITED**

## Notes to the financial statements

- (a) Under the terms of a finance facility, certain cash balances are available to the Group after certain conditions of the relevant facility agreement are satisfied.

**Note 6. Exploration phase expenditure**

|                                 | <b>31 December<br/>2014<br/>US\$'000</b> | <b>30 June<br/>2014<br/>US\$'000</b> |
|---------------------------------|------------------------------------------|--------------------------------------|
| Opening balance                 | <b>74,658</b>                            | 92,538                               |
| Expenditure                     | <b>29,220</b>                            | 37,035                               |
| Transfers to oil and gas assets | -                                        | (5,733)                              |
| Disposals                       | -                                        | (39,949)                             |
| Expenditure written off         | <b>(10,861)</b>                          | (9,233)                              |
| Closing balance                 | <b>93,017</b>                            | 74,658                               |

**Note 7. Oil and gas assets**

|                                              | <b>31 December<br/>2014<br/>US\$'000</b> | <b>30 June<br/>2014<br/>US\$'000</b> |
|----------------------------------------------|------------------------------------------|--------------------------------------|
| Opening balance                              | <b>311,038</b>                           | 317,637                              |
| Expenditure                                  | <b>29,680</b>                            | 59,803                               |
| Transfers from exploration phase expenditure | -                                        | 5,733                                |
| Reassessment of rehabilitation asset         | <b>(1,793)</b>                           | -                                    |
| Amortisation incurred                        | <b>(16,586)</b>                          | (39,397)                             |
| Disposals                                    | -                                        | (32,738)                             |
| Closing balance                              | <b>322,339</b>                           | 311,038                              |

**Note 8. Borrowings**

|                       | <b>31 December<br/>2014<br/>US\$'000</b> | <b>30 June<br/>2014<br/>US\$'000</b> |
|-----------------------|------------------------------------------|--------------------------------------|
| <b>Current</b>        |                                          |                                      |
| Bank loans (a)        | <b>60,000</b>                            | 44,165                               |
|                       | <b>60,000</b>                            | 44,165                               |
| <b>Non-Current</b>    |                                          |                                      |
| Bank loans (a)        | <b>46,470</b>                            | 70,935                               |
| Convertible bonds (b) | <b>75,711</b>                            | 72,346                               |
|                       | <b>122,181</b>                           | 143,281                              |
| Total Borrowings      | <b>182,181</b>                           | 187,446                              |

**a) Bank loans – Reserves based debt facility**

The Group has a US\$150 million reserves based debt facility with Australia and New Zealand Banking Group Limited and Commonwealth Bank of Australia. The present facility limit includes an amortisation profile which, subject to negotiation, includes quarterly debt repayments totalling US\$60 million during the year to 31 December 2015.

## **HORIZON OIL LIMITED**

### Notes to the financial statements

At 31 December 2014, the facility was drawn to US\$110 million. Floating interest in respect of the facility is at LIBOR plus a weighted average margin of 3.95%. The facility is presently an amortising facility which matures in March 2018.

Recognising the funding requirement of the Group's strategic growth plans negotiations are well advanced with lenders to revise the terms of the existing facility which, once completed would result in a significant reduction in debt repayments required over at least the next 12 months, plus, subject to debt capacity criteria, provides an additional US\$50 million accordion feature to accommodate working capital requirements and potential redemption of the convertible bonds in June 2016. The proposed terms provide greater flexibility to the Group with improved commercial terms and would replace the existing reserved based debt facility. The ability of the Group to revise the terms of the existing facility in this low oil price environment is significantly enhanced by the Group's commodity hedging program which at 31 December 2014 includes 842,500 barrels of oil hedged out to mid-2016 at a weighted average hedge price of US\$95/barrel.

The Directors remain confident they will be able to reach agreement with lenders on the terms of the new debt facility within the short term. Alternatively the directors expect that the Group would be able to adopt a modified strategy and would be able to secure the necessary financing through one or a combination of, additional borrowings, equity raisings or asset sales; or deferring discretionary exploration and development activities.

#### **b) Convertible bonds**

The parent entity issued 400 5.5% convertible bonds for US\$80 million on 17 June 2011. The bonds were issued with an initial conversion price of US\$0.52, equivalent to A\$0.49 based on exchange rates at the time of pricing, and 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 on 15 August 2013 under the accelerated non-renounceable pro-rata entitlement offer announced by the company on 31 July 2013 resulted in a further adjustment to the conversion price from US\$0.416 to US\$0.409.

No bonds had been converted at 31 December 2014. On conversion the holder may elect to settle the bonds in cash or ordinary shares in the parent entity. Based on the adjusted conversion price, the maximum number of shares that could be issued on conversion is 195,599,022 ordinary shares in the parent entity. The bonds carry a coupon of 5.5% per annum, payable semi-annually in arrears, and carry a 7% yield to maturity on 17 June 2016 when they will be redeemed at 108.80% of their principal amount. The bonds are listed on the Singapore Securities Exchange.

**Note 9. Contributed equity**

**a) Share capital**

|                 |          | <b>31 December<br/>2014<br/>Number'000</b> | <b>30 June<br/>2014<br/>Number'000</b> | <b>31 December<br/>2014<br/>US\$'000</b> | <b>30 June<br/>2014<br/>US\$'000</b> |
|-----------------|----------|--------------------------------------------|----------------------------------------|------------------------------------------|--------------------------------------|
| Ordinary shares |          |                                            |                                        |                                          |                                      |
| Fully paid      | (b) (i)  | <b>1,301,981</b>                           | 1,301,981                              | <b>174,342</b>                           | 174,342                              |
| Partly paid     | (b) (ii) | <b>1,500</b>                               | 1,500                                  | <b>459</b>                               | 459                                  |
|                 |          | <b>1,303,481</b>                           | 1,303,481                              | <b>174,801</b>                           | 174,801                              |

**b) Movements in share capital**

**(i) Ordinary shares (fully paid)**

| <b>Date</b>       | <b>Details</b>                     | <b>Number</b>        | <b>Issue price</b> | <b>US\$'000</b> |
|-------------------|------------------------------------|----------------------|--------------------|-----------------|
| 30/06/2014        | Balance at 30 June 2014            | 1,301,981,265        |                    | 174,342         |
| <b>31/12/2014</b> | <b>Balance at 31 December 2014</b> | <b>1,301,981,265</b> |                    | <b>174,342</b>  |

**(ii) Ordinary shares (partly paid)**

| <b>Date</b>       | <b>Details</b>                     | <b>Number</b>    | <b>Issue price</b> | <b>US\$'000</b> |
|-------------------|------------------------------------|------------------|--------------------|-----------------|
| 30/06/2014        | Balance at 30 June 2014            | 1,500,000        |                    | 459             |
| <b>31/12/2014</b> | <b>Balance at 31 December 2014</b> | <b>1,500,000</b> |                    | <b>459</b>      |

**Note 10. Contingent assets and liabilities**

**a) Contingent assets**

- (i)** On 23 May 2013, the Group advised ASX that it had entered into an Agreement to sell 40% of its Papua New Guinea assets to Osaka Gas Niugini Pty Ltd ('Osaka Gas') a subsidiary of Osaka Gas Co. Ltd. of Japan. In addition to the cash on completion that was received, a further US\$130 million in cash is due upon a project development decision which gives rise to Osaka Gas achieving equity LNG from its acquired gas volumes, plus potential production payments where threshold condensate production is exceeded. Due to the conditions required for the deferred consideration of US\$130 million, and the potential production payments, all remaining consideration under the Agreement is disclosed as a contingent asset as at 31 December 2014.
- (ii)** On 29 August 2013, the operator of the Maari oilfield, OMV New Zealand Limited ("OMV"), advised that production at the field would be shut in while major facility repairs and equipment upgrades were undertaken. This involved the FPSO *Raroa* being disconnected from its mooring and towed to nearby Port Nelson to refurbish and upgrade its process equipment and install a new swivel. At the same time the opportunity was taken to repair several of the buoy mooring lines at the field.

The upgrade, maintenance and repair works were carried out safely, within budget and the field returned to production on schedule. The Group's share of the repair costs was US\$8 million. The Group expected to recover a proportion of these amounts through insurance. As at 31 December 2014, an insurance claim for repair costs of US\$3.8 million associated with the FPSO mooring were deemed virtually certain of receipt following acceptance of the claim by underwriters and an initial part payment of the claim

## HORIZON OIL LIMITED

### Notes to the financial statements

received up to the date of this report of US\$0.5 million. Accordingly, US\$3.8 million was recorded as revenue in the current period. The remaining claims associated with the FPSO consist of \$3.6 million associated with repairs to the FPSO swivel and a loss of production insurance claim covering the repair period of approximately US\$10 million. These outstanding claims remain a contingent asset at 31 December 2014.

#### b) Contingent liabilities

The Group had the following contingent liabilities as at 31 December 2014 that may become payable:

In accordance with normal oil and gas industry practice, the Group has entered into joint venture operations and farm out agreements with other parties for the purpose of exploring and developing its permit interests. If a participant to a joint venture defaults and fails to contribute its share of joint venture obligations, the remaining joint venture participants are jointly and severally liable to meet the obligations of the defaulting participant. In this event the interest in the permit 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 the above contingent liabilities.

#### Note 11. Exploration, development and production expenditure 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.

|                                                   | NZ Development | New Zealand<br>Exploration | China<br>Exploration &<br>Development | Papua New<br>Guinea<br>Exploration &<br>Development | Total          |
|---------------------------------------------------|----------------|----------------------------|---------------------------------------|-----------------------------------------------------|----------------|
| 31 December 2014                                  | US\$'000       | US\$'000                   | US\$'000                              | US\$'000                                            | US\$'000       |
| Within one year                                   | 13,917         | 537                        | 3,491                                 | 29,464                                              | 47,409         |
| Later than one year but not later<br>than 5 years | -              | -                          | -                                     | 57,441                                              | 57,441         |
| <b>Total</b>                                      | <b>13,917</b>  | <b>537</b>                 | <b>3,491</b>                          | <b>86,905</b>                                       | <b>104,850</b> |

**HORIZON OIL LIMITED**

## Notes to the financial statements

|                                                   | NZ Development  | New Zealand<br>Exploration | China<br>Exploration &<br>Development | Papua New<br>Guinea<br>Exploration &<br>Development | Total           |
|---------------------------------------------------|-----------------|----------------------------|---------------------------------------|-----------------------------------------------------|-----------------|
| <b>30 June 2014</b>                               | <b>US\$'000</b> | <b>US\$'000</b>            | <b>US\$'000</b>                       | <b>US\$'000</b>                                     | <b>US\$'000</b> |
| Within one year                                   | 20,160          | 391                        | 4,374                                 | 56,593                                              | 81,518          |
| Later than one year but not later<br>than 5 years | -               | -                          | -                                     | 19,656                                              | 19,656          |
| <b>Total</b>                                      | <b>20,160</b>   | <b>391</b>                 | <b>4,374</b>                          | <b>76,249</b>                                       | <b>101,174</b>  |

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.

**Note 12. Related party transactions**

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

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

**Note 13. Events occurring after balance sheet date**

During the half year the Nama-1 rig site in PPL 259, PNG was completed and the well spudded on 4 December 2014. The well reached a total depth of 3,533 m subsequent to balance sheet date on 6 January 2015. The well encountered a total of 77 m of the target sandstones and whilst gas shows were detected the sands were poor quality at this location. Sidewall cores were acquired to determine the causes of reservoir deterioration and the implications for reservoir quality across the remainder of the prospect, which covers a large area (about 60 sq km). Interpretation of the log and core data is under way to evaluate the remaining potential of the broader prospect. The Nama-1 well was plugged and abandoned and the rig released on 19 January 2015. Following an impairment analysis performed at 31 December 2014, costs associated with the Nama-1 well were expensed during the period (refer to Note 3).

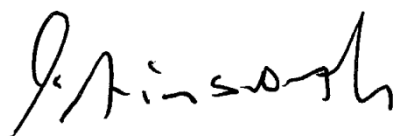
## **HORIZON OIL LIMITED**

### **Directors' Declaration**

In the directors' opinion:

- (a) the attached interim financial statements and notes are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with relevant Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance, as represented by the results of its operations and its cashflows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Horizon Oil Limited will be able to pay its debts as and when they become due and payable.

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



**E F Ainsworth AM**  
Chairman



**B D Emmett**  
Chief Executive Officer

Sydney

23 February 2015



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

### ***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of Horizon Oil Limited (the Company), which comprises the statement of financial position as at 31 December 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Horizon Oil Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

### ***Directors' responsibility for the half-year financial report***

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

### ***Auditor's responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Horizon Oil Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### ***Independence***

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

### ***Conclusion***

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;

---

**PricewaterhouseCoopers, ABN 52 780 433 757**

Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171

T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.



- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Matters relating to the electronic presentation of the reviewed financial report*

This review report relates to the financial report of the company for the half-year ended 31 December 2014 included on Horizon Oil Limited's web site. The company's directors are responsible for the integrity of the Horizon Oil Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

A blue ink signature, likely of a PwC representative, written in a cursive style.

PricewaterhouseCoopers

A blue ink signature, likely of Peter Buchholz, written in a cursive style.

Peter Buchholz  
Partner

23 February 2015  
Sydney