Horizon Oil Limited ABN 51 009 799 455
Level 6, 134 William Street, Woolloomooloo NSW Australia 2011
Tel +61 2 9332 5000, Fax +61 2 9332 5050 www.horizonoil.com.au

1 August 2016

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

HORIZON OIL LIMITED
NOTICE OF GENERAL MEETING

Further to the update in the Company's June 2016 quarterly report, the Company is pleased to advise that the Company and its major shareholder, IMC Investments Limited (IMC), have executed the loan agreement for the provision of a subordinated secured non-amortising debt facility of US$50 million. The proceeds of the loan, together with the Company's available cash, will be applied to redeem the remaining US$58.8m of convertible bonds, due to mature on 19 September 2016.

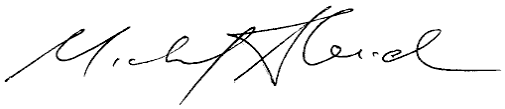
Under the provisions of the subordinated loan agreement, the Company is to issue to IMC 300 million warrants over unissued shares of the Company, which will have the exercise price of A$0.061 per share, calculated based on 120% of the 30 calendar day volume weighted average price of Horizon Oil shares at the close of trading on Friday 24 June 2016.

The loan and issue of the warrants to IMC are subject to Horizon Oil shareholder approval.

A General Meeting of the Company will be held at 9.00am (Sydney time) on Tuesday, 6 September 2016, at The Sydney Boulevard Hotel, 90 William Street, Sydney.

A copy of the Notice of Meeting and Explanatory Statement will be sent to Horizon Oil shareholders.

Yours faithfully,



Michael Sheridan
Chief Financial Officer / Company Secretary

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

HORIZON OIL LIMITED
ACN 009 799 455

NOTICE OF GENERAL MEETING AND EXPLANATORY STATEMENT

Date: Tuesday, 6 September 2016
Time: 9.00am (Sydney time)
Location: Stanley Room, The Sydney Boulevard Hotel
90 William Street, Sydney
New South Wales, 2011

The Independent Expert has prepared an Independent Expert's Report in relation to the IMC Financing Proposal and has concluded that the proposal is not fair but reasonable to non-associated Shareholders. Refer to section 5.9 for further information.

The Independent Directors unanimously recommend that Shareholders

VOTE IN FAVOUR

of the Resolution to approve the IMC Financing Proposal.

This is an important document that requires your prompt attention. This Notice of Meeting and Explanatory Statement should be read in its entirety before making a decision as to how to vote at the Meeting. If you have any doubt as to what you should do once you have read this Notice of Meeting and Explanatory Statement, you should consult your legal, financial or other professional adviser. The Explanatory Statement should be read in conjunction with this Notice of Meeting and the Independent Expert's Report.

IMPORTANT NOTICES

This Notice of Meeting and Explanatory Statement is issued by Horizon Oil Limited ACN 009 799 455 ("Horizon" or "Company").

Purpose of this document
This document is important. It contains information for Shareholders relating to the IMC Financing Proposal. This Notice of Meeting and Explanatory Statement provides Shareholders with information to assist them in deciding how to vote on the Resolution to be considered at the Meeting. This Notice of Meeting and Explanatory Statement does not take into account the individual investment objectives, financial situation and particular needs of Shareholders or any other person. Accordingly, this Notice of Meeting and Explanatory Statement should not be relied upon as the sole basis for any decision in relation to your vote at the Meeting.

This Notice of Meeting and Explanatory Statement has been prepared in accordance with item 7, section 611 and section 208 of the *Corporations Act 2001* (Cth) ("**Corporations Act**"), ASX Listing Rule 10.1 and ASX Listing Rule 10.11, which require Shareholder approval of certain aspects of the IMC Financing Proposal. Further, ASIC Regulatory Guide 74 ("**RG 74**") and ASIC Regulatory Guide 76 ("**RG 76**") set out certain disclosure requirements which have been addressed in this document. This includes the requirement to provide an Independent Expert's Report prepared in accordance with ASIC Regulatory Guide 111 ("**RG 111**") assessing the fairness and reasonableness of the IMC Financing Proposal. The Independent Expert's Report is attached to the Explanatory Statement and should be read in conjunction with this Notice of Meeting and the rest of the Explanatory Statement.

You should read this Notice of Meeting and Explanatory Statement in its entirety before making a decision as to how to vote at the Meeting. If you have any doubt as to what you should do once you have read this Notice of Meeting and Explanatory Statement, you should consult your legal, financial or other professional adviser.

Should you wish to discuss any matter please do not hesitate to contact the Company by telephone on +61 2 9332 5000.

ASIC and ASX involvement
A copy of the Notice of Meeting and Explanatory Statement has been lodged with ASIC pursuant to the Corporations Act and applicable regulatory guides and with ASX pursuant to the ASX Listing Rules. Neither ASIC, ASX nor any of their officers take any responsibility for the contents of the Notice of Meeting and Explanatory Statement.

Disclaimer as to forward looking statements
Some of the statements appearing in this Notice of Meeting and Explanatory Statement (including the Independent Expert's Report) may be in the nature of forward looking statements. You should be aware that such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the industries in which Horizon operates as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement.

Some of the risks that Shareholders may be exposed to if the IMC Financing Proposal is completed are set out in the Explanatory Statement. None of Horizon, the officers or employees of Horizon, any persons named in this Notice of Meeting and Explanatory Statement with their consent or any person involved in the preparation of this Notice of Meeting and Explanatory Statement, makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward looking statement. The forward looking statements in this Notice of Meeting and Explanatory Statement reflect views held only as at the date of this Notice of Meeting and Explanatory Statement.

Defined terms and other references
A number of defined terms are used in this Notice of Meeting and Explanatory Statement. These terms are explained in the Glossary at section 12 of the Explanatory Statement. In addition, unless the contrary intention appears or the context requires otherwise, words and phrases used in the Corporations Act have the same meaning and interpretation as in the Corporations Act.

Unless expressly stated otherwise, all references in this Notice of Meeting and Explanatory Statement to time relate to the time in Sydney, New South Wales.

Disclaimer as to information
No person is authorised to give any information or make any representation in connection with the IMC Financing Proposal which is not contained in this Notice of Meeting and Explanatory Statement. Any information or representation not contained in this Notice of Meeting and Explanatory Statement may not be relied on as having been authorised by Horizon or the Directors in connection with the IMC Financing Proposal.

Responsibility for information
Horizon has prepared, and is responsible for, the Horizon Information. IMC (and each of their respective directors, officers and advisers (as applicable)) do not assume any responsibility for the accuracy or completeness of any of the Horizon Information.

IMC has prepared, and is responsible for, the IMC Information. Horizon (and each of its respective Directors, officers and advisers (as applicable)) do not assume any responsibility for the accuracy or completeness of any of the IMC Information.

The Independent Expert has prepared the Independent Expert's Report and takes responsibility for that report and has consented to the inclusion of that report in this Notice of Meeting and Explanatory Statement. The Independent Technical Specialist has prepared and is responsible for the Independent Technical Specialist's Report.

Horizon does not assume any responsibility for the accuracy or completeness of the Independent Expert's Report or the Independent Technical Specialist's Report, and nor do its Directors, officers and advisers.

Maps and diagrams
Any diagrams, charts, maps, graphs and tables appearing in this Notice of Meeting and Explanatory Statement are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available at the date of this Notice of Meeting and Explanatory Statement.

Rounding
A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Notice of Meeting and Explanatory Statement (including those in respect of IMC's shareholding in Horizon following the exercise of some or all of the Options) are subject to the effect of rounding. Accordingly, their actual calculation may differ from the calculations set out in this Notice of Meeting and Explanatory Statement.

Reserves and resources estimates
Any information in this Notice of Meeting and Explanatory Statement, other than the Independent Expert's Report or the Independent Technical Specialist's Report that relates to Reserves, Contingent Resources and Prospective Resources of Horizon is based on information, and fairly represents, information and supporting documentation compiled by Alan Fernie (General Manager – Exploration and Development and full time employee of Horizon). Mr Fernie, B.Sc, who is a member of the American Association of Petroleum Geologists, has more than 40 years' relevant experience within the industry and consents in writing to the inclusion of the information in the form and context in which it appears. The Reserve, Contingent Resource and Prospective Resource estimates are consistent with the definitions of proved, probable and possible hydrocarbon reserves and resources that appear in the ASX Listing Rules. Mr Fernie is qualified as a Competent Person under the JORC Code. Actual facts or outcomes may be different from those estimates.

Privacy
Horizon has collected your information from the Share Registry for the purpose of providing you with this Notice of Meeting and Explanatory Statement.

The type of information Horizon has collected about you includes your name, contact details and information on your shareholding in Horizon. Without this information, Horizon would be hindered in its ability to issue this Notice of Meeting and Explanatory Statement. The Corporations Act requires the name and address of Shareholders to be held in a public register.

Your information may be disclosed on a confidential basis to Horizon's Related Bodies Corporate and external service providers (such as the Share Registry and print and mail service providers) and may be required to be disclosed to regulators such as ASIC. If you would like details of information about you held by Horizon, please contact the Share Registry at Boardroom Pty Limited via the details found on the contact page at www.boardroomlimited.com.au. The registered address of Horizon is Level 6, 134-138 William Street, Woolloomooloo NSW 2011.

Date
This Notice of Meeting and Explanatory Statement is dated Monday, 1 August 2016.

CONTENTS

LETTER FROM THE CHAIRMAN

1 August 2016

Dear Shareholders,

On behalf of the board of directors of Horizon Oil Limited, I am pleased to invite you to a general meeting ("Meeting") of the Company to be held on Tuesday, 6 September 2016 at 9.00am (Sydney time) at the Stanley Room in The Sydney Boulevard Hotel.

Prior to the unexpected and prolonged fall in oil prices, Horizon was on track to have sufficient cash reserves to address the Company's redemption obligations in respect of the US$80 million 5.5% convertible bonds ("**Bonds**") issued in 2011 and originally due to mature in June 2016 and to provide capital to fund its ongoing initiatives.

The Independent Directors have considered a number of alternatives to fund the full redemption of the Bonds. In May 2015, the Company executed and closed a revolving cash advance facility with its senior financiers, ANZ and Westpac (together, "**Senior Financiers**"), incorporating a base tranche of US$120 million with an additional US$50 million "accordion" tranche to accommodate working capital and fund the redemption of the Bonds ("**Senior Facility**"). Unfortunately, in the context of a low oil price environment, the accordion tranche of the Senior Facility was no longer available to the Company to draw upon. In August 2015, the Independent Directors engaged financial advisors to provide advice in respect of the recapitalisation and refinancing of the Company's debt. The Independent Directors carefully considered the various options available to raise further capital, including the provision of additional bank finance, undertaking a stand-alone capital raising, asset sales or a combination of these.

Ultimately, the Independent Directors' deliberations on the best approach to address the Company's Bond redemption obligations led to the announcement on 23 May 2016 of the proposed refinancing of the Company with the support of its major shareholder, IMC Investments Limited (together with its Associates, "**IMC**"). The refinancing arrangements were to comprise a US$20 million entitlement offer sub-underwritten by IMC and a US$40 million subordinated, secured debt facility provided by IMC in order to raise US$60 million.

Subsequently, as a result of the continued recovery in the oil price, as announced on 27 June 2016, the funding required (in addition to the current cash reserves of the Company) to redeem the outstanding Bonds was estimated to be approximately US$50 million (revised from US$60 million). In light of this reduced funding requirement, Horizon announced on 27 June 2016 that IMC had agreed to increase the size of the subordinated debt facility it would provide to Horizon to US$50 million ("**IMC Financing Proposal**"). Accordingly, it is the current intention of the Company not to proceed with the previously announced entitlement offer.

The IMC Financing Proposal comprises a secured, subordinated non-amortising loan ("**IMC Facility**") to be provided by IMC with an interest rate equal to the 3 month US$ LIBOR plus 9% per annum. As a requirement under the IMC Facility, Horizon has agreed to issue to IMC 300 million options ("**Options**") over unissued fully-paid ordinary shares in Horizon ("**Shares**") with an exercise price of A$0.061 per Share, which is 120% of the 30 calendar day volume weighted average price of the Shares at the close of trading on Friday, 24 June 2016 (being the last full trading day prior to the announcement of the IMC Financing Proposal). Horizon (and certain of its subsidiaries) are also required to grant a second-ranking security over the same assets as are secured under the Senior Facility ("**Security**").

In order to give effect to the IMC Financing Proposal, Horizon has entered into the following, subject to Shareholder approval:

- a loan agreement with IMC under which IMC has agreed to provide the IMC Facility ("**Facility Agreement**"); and
- an "option subscription deed" under which Horizon has agreed to issue and IMC has agreed to subscribe for the Options ("**Subscription Deed**").

The purpose of the Meeting is to consider a resolution ("**Resolution**") to approve the Company proceeding with the IMC Financing Proposal. Further details relating to the Resolution and the IMC Financing Proposal are set out in this Notice of Meeting and the accompanying Explanatory Statement.

I encourage you to consider the contents of this Notice of Meeting and Explanatory Statement as a whole in reaching your decision. Importantly, I draw your attention to:

- section 8.2 of the Explanatory Statement which contains the reasons why the Independent Directors unanimously recommend you vote in favour of the Resolution; and
- section 8.3 of the Explanatory Statement which contains the reasons that you may consider voting against the Resolution.

The Independent Expert's Report has concluded that the IMC Financing Proposal is not fair but reasonable to non-associated Shareholders.

Notwithstanding that the Independent Expert has concluded that the IMC Financing Proposal is "not fair" from a valuation perspective, the Independent Directors share the view that the IMC Financing Proposal is important to secure the future of the Company. In the absence of a more favourable funding solution, the Independent Directors unanimously recommend that Shareholders vote in favour of the Resolution to approve the IMC Financing Proposal.

As your vote is important, I encourage you to return your proxy form as soon as possible.

Yours sincerely,

Mr John Humphrey
Chairman

NOTICE OF GENERAL MEETING

NOTICE OF GENERAL MEETING

Notice is given that a general meeting of the Shareholders of Horizon Oil Limited ACN 009 799 455 ("Company" or "Horizon") will be held at the following time and location, and will conduct the business as specified below:

Date: Tuesday, 6 September 2016

Time: 9.00am (Sydney time)

Location: Stanley Room, The Sydney Boulevard Hotel, 90 William Street, Sydney, New South Wales, 2011

The Explanatory Statement and Independent Expert's Report that accompanies and forms part of this Notice of Meeting should be considered by Shareholders prior to voting on the business to be considered at the Meeting.

Terms used in this Notice of Meeting will, unless the context requires otherwise, have the meaning given to them in the glossary of defined terms in section 12 of the Explanatory Statement.

BUSINESS

RESOLUTION 1: APPROVAL OF THE IMC FINANCING PROPOSAL

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

> *"That for the purposes of section 208 and item 7 of section 611 of the Corporations Act 2001 (Cth), ASX Listing Rule 10.1, ASX Listing Rule 10.11 and for all other purposes, approval is given to the Company (and its subsidiaries) to complete and draw funds under the IMC Financing Proposal, including:*
>
> *(a) to issue and allot up to 300 million Options to IMC;*
>
> *(b) to issue and allot Shares upon the exercise of those Options to IMC; and*
>
> *(c) to grant the Security to IMC,*
>
> *on the terms and conditions and in the manner set out in the Explanatory Statement accompanying this Notice of Meeting".*

The Independent Expert has prepared an Independent Expert's Report on the IMC Financing Proposal and has concluded that the proposal is not fair but reasonable to non-associated Shareholders. Refer to section 5.9 for further information.

Please refer to the accompanying Explanatory Statement for more information.

VOTING EXCLUSION STATEMENT FOR RESOLUTION 1:

The Company will disregard any votes cast on Resolution 1 by IMC and any Associate of IMC.
However, the Company will not disregard a vote if:

(a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

(b) it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

DETERMINATION OF SHAREHOLDING AND VOTING ENTITLEMENT FOR THE PURPOSE OF THE MEETING

ELIGIBILITY TO ATTEND AND VOTE

For the purpose of determining a person's entitlement to vote at the Meeting, Shares will be taken to be held by the persons who are registered as Shareholders at 7.00pm (Sydney time) on 4 September 2016.

VOTING IN PERSON

To vote in person at the Meeting, you must attend the Meeting to be held at 9.00am (Sydney time) on Tuesday, 6 September 2016 at the Stanley Room, The Sydney Boulevard Hotel, 90 William Street, Sydney, New South Wales, 2011.

VOTING BY PROXY

If you are a member entitled to attend and vote, you are entitled to appoint a proxy to attend and vote on your behalf. If you are a member entitled to attend and cast two or more votes, you are entitled to appoint no more than two proxies. Where two proxies are appointed, you may specify the number or proportion of votes that each may exercise, failing which, each may exercise half of the votes. A proxy need not be a member of the Company.

If you want to appoint one proxy, please use the proxy form provided. If you want to appoint two proxies, please follow the instructions on the reverse of the proxy form.

The Company's Constitution provides that, on a show of hands, every person present and qualified to vote shall have one vote. If you appoint one proxy, that proxy may vote on a show of hands, but if you appoint two proxies, only the proxy first-mentioned in the instrument appointing the proxy may vote on a show of hands.

If you appoint a proxy who is also a member or is also a proxy for another member, your directions may not be effective on a show of hands. Your directions will be effective if a poll is effectively demanded and your proxy votes.

To be effective, the proxy form must be received by Boardroom Pty Limited, by online submission or at the address or facsimile number below, or by Horizon at its registered office, Level 6, 134-138 William Street, Woolloomooloo NSW 2011, not later than 9.00am (Sydney time) on 4 September 2016, being 48 hours before the commencement of the Meeting.

HOW THE CHAIRMAN OF THE MEETING WILL VOTE UNDIRECTED PROXIES

Mr John Humphrey, being an independent non-executive Director (or in his absence, another non-executive Director) will act as Chair of the Meeting. The Chair's voting intention is to vote undirected eligible proxies IN FAVOUR of the Resolution set out in this Notice of Meeting.

A Shareholder can appoint the Chair as proxy with directions to cast that Shareholder's votes contrary to the Chair's stated voting intention on the Resolution, or to abstain from voting on the Resolution. Where a Shareholder appoints the Chair as their proxy but does not direct their vote on the Resolution, the Shareholder will be directing the Chair to vote in accordance with the Chair's clearly stated voting intention.

TO VOTE ONLINE:

www.votingonline.com.au/hzngm2016

FOR DELIVERY:

Boardroom Pty Limited, Level 12, 225 George Street, Sydney, NSW 2000, Australia

BY MAIL:

Boardroom Pty Limited, GPO Box 3993, Sydney, NSW, 2001, Australia

BY FAX:

Boardroom Pty Limited
+61 2 9290 9655

ADMISSION TO MEETING

Members who will be attending the Meeting and who will not be appointing a proxy are asked to bring the proxy form to the Meeting to help with admission.

Members who do not plan to attend the Meeting are encouraged to complete and return a proxy form for each of their holdings of Shares in Horizon.

A replacement proxy form may be obtained from Horizon's Share Registry:

Boardroom Pty Limited
Level 12, 225 George Street Sydney NSW 2000
Telephone: +61 2 9290 9600, 1300 737 760 (outside Australia) or Fax: +61 2 9290 9655

By order of the Independent Directors

Michael Sheridan
Company Secretary

1 August 2016

EXPLANATORY STATEMENT

This Explanatory Statement is intended to provide Shareholders with information to assess the merits of the proposed Resolution in the accompanying Notice of Meeting.

The Independent Directors encourage Shareholders to read the Explanatory Statement in full before making any decision in relation to how to vote on the Resolution.

1 Overview

QUESTION	ANSWER	FURTHER INFORMATION
THE IMC FINANCING PROPOSAL		
What is the IMC Facility?	The IMC Facility is a secured, non-amortising, subordinated debt facility provided by IMC in the amount of US$50 million. It has a 5 year term and an interest rate equal to the 3 month US$ LIBOR plus 9% per annum.	Section 3.1
What are the Options?	The Options are 300 million options to acquire Shares that Horizon has agreed to issue to IMC as part of the IMC Financing Proposal. The Exercise Price of the Options will be A$0.061 per Share, which equals 120% of 30 calendar day volume weighted average price of the Shares as at close of trading on Friday, 24 June 2016 (being the last full trading day prior to the announcement of the IMC Financing Proposal). The Options will expire 5 years after issue, and IMC can exercise the Options at any time prior to this.	Sections 3.1 and 3.3
What does Horizon intend to use the funds drawn under the IMC Facility for?	The purpose of the IMC Financing Proposal is to fund Horizon's redemption obligations in respect of the US$58.8 million outstanding Bonds issued in 2011. The Bonds are due to mature on 19 September 2016.	Section 4
Who is IMC?	IMC is a privately owned group of companies with a diverse range of business interests worldwide in investments, including in the mining and minerals, and oil and gas sectors, in industrial and also in real estate sectors. IMC is a current substantial Shareholder in Horizon and as at the date of this Notice of Meeting has Voting Power in Horizon of 30%. Subject to Shareholder approval, IMC has agreed to provide financial support for Horizon through the IMC Financing Proposal on the terms outlined in this Notice of Meeting and Explanatory Statement.	Section 6

QUESTION	ANSWER	FURTHER INFORMATION
What is the potential effect of the IMC Financing Proposal on IMC's Voting Power?	As at the date of this Notice of Meeting, IMC has Voting Power in Horizon of 30%. Assuming no equity issues or other changes in Horizon's capital structure, based on IMC's current shareholding, if IMC exercised all the Options, its Voting Power would increase to 43.1%. Given the Options have a 5 year term, it is possible that IMC may increase its Voting Power in Horizon prior to the exercise of the Options by relying on the "3% creep" exemption in item 9 of section 611 of the Corporations Act. RG 74 requires that fresh shareholder approval be obtained if, prior to the exercise of convertible securities (including options), the relevant person has acquired additional shares, and therefore may exceed the maximum Voting Power approved by shareholders at the time the convertible securities were issued. Accordingly, the maximum extent of the increase in the Voting Power of IMC and its Associates in Horizon as a result of IMC and its Associates: • acquiring Shares under the "3% creep" exemption in item 9 of section 611 of the Corporations Act during the term of the Options; and • acquiring Shares upon exercise of the Options, is 67.5% in aggregate (reflecting the Voting Power IMC and its Associates could potentially obtain if it acquires the maximum Shares permitted under the "3% creep" exemption during the term of the Options, and assuming all of the Options are exercised by IMC prior to their expiry).	Section 6.2
What is the Independent Expert's opinion of the IMC Financing Proposal?	The Independent Expert's Report has concluded that the IMC Financing Proposal is not fair but reasonable to non-associated Shareholders. Notwithstanding that the Independent Expert has concluded that the IMC Financing Proposal is "not fair" from a valuation perspective, the Independent Directors share the view that the IMC Financing Proposal is important to secure the future of the Company. In the absence of a more favourable funding solution, the Independent Directors unanimously recommend that Shareholders vote in favour of the Resolution to approve the IMC Financing Proposal.	Section 5.9 and attached Independent Expert's Report
Why is Shareholder approval required for the IMC Financing Proposal?	If IMC chooses to exercise some or all of the Options, its shareholding in Horizon will increase. Because IMC's shareholding in Horizon is above 20%, Shareholder approval is required under section 611, item 7 of the Corporations Act to permit IMC to acquire the Shares issued on exercise of the Options. Shareholder approval is also being sought under section 208 of the Corporations Act for the giving of a "financial benefit" to IMC, on the basis that IMC may be deemed to be a related party under section 228(6) of the Corporations Act on the basis that IMC may become a related party of Horizon at some point in the future. Shareholder approval is also being sought under: • ASX Listing Rule 10.1, because the grant of Security to IMC under the IMC Financing Proposal is considered the disposal of a substantial asset to a substantial holder under that rule; and • ASX Listing Rule 10.11, because the issue of the Options to IMC may be considered an issue of securities to a party whose relationship with Horizon is such that ASX would likely determine that Shareholder approval is required.	Section 5 and attached Independent Expert's Report
Does Horizon intend on preparing a disclosure document in relation to the issue of the Options?	Horizon proposes to issue a transaction specific prospectus under section 713 of the Corporations Act for the issue of the Options to permit the transfer of the Options and the re-sale of Shares issued on exercise of the Options.	Section 3.4

QUESTION	ANSWER	FURTHER INFORMATION
THE RESOLUTION		
What is the voting threshold for the Resolution?	The Resolution is an ordinary resolution, requiring a simple majority approval, meaning that more than 50% of the votes cast at the Meeting by Shareholders who are eligible to vote must be cast in favour of the Resolution in order for it to be passed. IMC and its Associates may not vote in favour of the Resolution and the Company will disregard any votes cast on the Resolution by IMC or any Associate of IMC.	Sections 5.1 and 5.2
Who can vote on the Resolution?	Shareholders must be recorded on the Share Register by 7.00pm (Sydney time) on Sunday, 4 September 2016 in order to vote at the Meeting. Any vote cast by IMC or an Associate of IMC will be disregarded. However, Horizon need not disregard any votes cast by IMC or an Associate of IMC as proxy for a person entitled to vote.	Sections 5.1 and 5.2
How do the Independent Directors recommend that Shareholders vote on the Resolution?	In the absence of a more favourable funding solution, the Independent Directors unanimously recommend that Shareholders vote in favour of the Resolution. Each Director, other than Mr Gerrit de Nys, will vote **IN FAVOUR** of the Resolution in respect of any Shares they hold or control.	Section 8.2
What will happen if Shareholders approve the Resolution?	If the Resolution is approved, this will enable Horizon to fund the redemption of the Bonds. Based on the current timetable contained at section 3.5, which is subject to change, Horizon (or one of its subsidiaries) will issue a Drawdown Notice for the US$50 million under the IMC Facility following the Meeting. This ensures Horizon will have sufficient time to redeem the Bonds before their Final Maturity Date of 19 September 2016.	Section 9.1
What will happen if Shareholders do not approve the Resolution?	If the Resolution is not approved, the IMC Financing Proposal will not proceed. This will mean that Horizon will have to seek alternative sources of funding to finance the redemption of the Bonds. It is highly unlikely that Horizon would be able to locate an alternate source of funding, or obtain a further extension to the Bonds in the time between the Meeting and the maturity of the Bonds on 19 September 2016.	Section 9.2

2 Reasons FOR and AGAINST the IMC Financing Proposal

WHY YOU SHOULD VOTE IN FAVOUR OF THE RESOLUTION TO APPROVE THE IMC FINANCING PROPOSAL

The key reasons why you should vote **IN FAVOUR** of the Resolution to approve the IMC Financing Proposal are outlined below.

The table below is only a summary of the benefits to Horizon and Horizon Shareholders and should be read in conjunction with the detailed information set out in this Explanatory Statement, including further information on the benefits and the applicable assumptions set out in section 8.2 and the potential disadvantages set out in section 8.3 (and noting in particular the inherent risks and uncertainties associated with the forward looking statements included in the below highlights – see section 8.3(b) and the important notices section inside the front cover of this document).

1

The Independent Directors of the Company unanimously recommend that you vote IN FAVOUR of the IMC Financing Proposal

In the absence of a more favourable funding solution, the Independent Directors unanimously recommend that you vote IN FAVOUR of the IMC Financing Proposal. Each Director of Horizon (other than Mr Gerrit de Nys, a consultant to IMC), intends to vote IN FAVOUR of the IMC Financing Proposal.

2

The Independent Expert has concluded that the IMC Financing Proposal is not fair but reasonable

The Independent Expert has prepared the Independent Expert's Report in relation to the IMC Financing Proposal. The Independent Expert has concluded that the IMC Financing Proposal is not fair but reasonable to Shareholders not associated with IMC.

Notwithstanding that the Independent Expert has concluded that the IMC Financing Proposal is "not fair" from a valuation perspective, the Independent Directors share the view that the IMC Financing Proposal is important to secure the future of the Company. In the absence of a more favourable funding solution, the Independent Directors unanimously recommend that Shareholders vote in favour of the Resolution to approve the IMC Financing Proposal.

Shareholders should carefully read the Independent Expert's Report which is attached to this Notice of Meeting.

3

Provides Horizon with necessary funds to redeem the Bonds

The IMC Financing Proposal provides the necessary funding required for Horizon to redeem the Bonds in full on or before the Final Maturity Date of 19 September 2016. If the Resolution is not approved it is likely Horizon would default on its obligations under the Bonds.

4

Cash repayment

If IMC exercises the Options, Horizon will be able to use the proceeds of the Exercise Price of the Options (A$18.3 million) to repay a portion of the balance outstanding on the IMC Facility, reducing its repayment obligations.

5

Demonstrates IMC's support

The IMC Financing Proposal demonstrates IMC's strong support for Horizon's strategies and initiatives.

6

IMC Financing Proposal is the best available option

The Independent Directors have considered a wide range of options to finance the redemption of the Bonds and have determined that the IMC Financing Proposal is the best available option in the context of a difficult funding environment for mid-tier oil and gas companies.

7

Preserves shareholder exposure to diversified portfolio

The Independent Directors believe that the IMC Financing Proposal best positions the Company to take advantage of any recovery in oil prices.

WHY YOU MIGHT VOTE AGAINST THE RESOLUTION

The below is only a summary of the potential disadvantages of the IMC Financing Proposal and should be read in conjunction with section 8.3 and the rest of this Explanatory Statement.

1 Alternative View

Shareholders may disagree with the unanimous recommendation of the Independent Directors and the Independent Expert's opinion that the IMC Financing Proposal is not fair but reasonable.

2 Advantages may not be realised

The advantages described in this section and in section 8.2 include forward looking statements. Such statements are only predictions and are subject to inherent risks and uncertainties. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement.

3 Dilution of ownership interests

As described in section 6.2, if the Options issued under the IMC Financing Proposal are exercised in full, including the payment of the total Options Exercise Price of A$18.3 million, this will lead to a dilution of the interest of Shareholders (other than IMC) by approximately 18.7% (on a fully-diluted basis).

4 IMC may become a related party of Horizon

As described in section 6.2, there is a possibility that IMC could control Horizon following the acquisition of Shares on exercise of some or all of the Options if it utilises the "3% creep" exemption in item 9 of section 611 throughout the term, and prior to the exercise, of the Options.

5 Changes to IMC's intentions

Although IMC does not currently intend to make any significant change to Horizon's business, or its financial or dividend policy (as described in section 7), this may change as circumstances change.

3 Details of the IMC Financing Proposal

As announced to the market on 27 June 2016, IMC has agreed to provide US$50 million financial support for Horizon through the provision of subordinated, secured debt to fund Horizon's redemption obligation in respect of the US$58.8 million Bonds issued in 2011 ("**IMC Financing Proposal**").

The IMC Financing Proposal comprises:

(a) a US$50 million secured, subordinated non-amortizing facility provided by IMC to Horizon ("**IMC Facility**");

(b) the grant of second-ranking security over the same assets as are secured under Horizon's existing Senior Facility ("**Security**"); and

(c) the issue of 300 million options over Horizon Shares ("**Options**").

3.1 THE FACILITY AGREEMENT

Horizon and IMC have entered into a loan agreement under which IMC agreed to provide the IMC Facility, subject to Shareholder approval as sought in this Notice of Meeting and Explanatory Statement ("**Facility Agreement**").

The IMC Facility has the following features:

KEY FEATURES	DETAIL
Borrower	Horizon or one of its subsidiaries.
Guarantor	Horizon and its subsidiaries (together with the Borrower, the "**Loan Obligors**").
Initial Lender	IMC Resources Investments Pte Ltd (an Associate of IMC Investments Limited (BVI)). The Initial Lender and subsequent Lenders will be permitted to transfer part or all of the IMC Facility in certain circumstances.
Facility Amount	US$50 million subordinated, secured non-amortising loan.
Drawdown	The Facility Amount is available as a single drawdown. This means that the Borrower will not be able to re-draw on any amount it repays under the IMC Facility. The Borrower will be able to drawdown the Facility Amount on the date that all conditions precedent under the Facility Agreement have been satisfied or waived ("**Financial Close**") by issuing a drawdown notice ("**Drawdown Notice**").
Use of Proceeds	Under the terms of the Facility Agreement, the funds drawn by the Borrower can only be used for refinancing the Bonds with any excess to be used to fund Horizon's working capital requirements.
Maturity Date	The IMC Facility will mature 5 years from the date of Financial Close or any later date approved by the Lenders.
Security	Each Loan Obligor is required to grant to IMC a second-ranking security over the same assets as are secured under the Senior Facility ("**Security**"). The Security will be subordinated to the security interest held by the Senior Financiers in terms of priority and will be subject to the terms of an Intercreditor Deed between IMC and the Senior Financiers.
Fees	US$1,200,000 drawdown fee is to be paid to the Initial Lender on the drawdown of the Facility Amount.

KEY FEATURES	DETAIL
Interest rate	The interest rate payable under the Facility Agreement is equal to the 3 month US$ LIBOR plus 9% per annum. The amount of interest payable by Horizon will be increased for any applicable taxes.
Payment of Interest	Interest is payable by the Borrower at the end of each quarter in arrears.
Repayment	The IMC Facility is non-amortising. This means that the repayment of the principal will not be made regularly throughout the term of the Facility Agreement. Instead, the principal of the loan is required to be repaid as a single 'bullet' payment on the Maturity Date together with all accrued or outstanding interest, fees and other amounts. If, at any time, the Lender exercises any of the Options, it may offset the amount payable for the Options against the principal outstanding.
Mandatory Prepayments	The Initial Lender may give three months' written notice requiring the Borrower to prepay all or part of the IMC Facility at any time at least three years after Financial Close. If any of the Options have not been exercised at this time, then the Optionholder will exercise those Options provided that the price of Horizon's Shares is equal to or greater than the Exercise Price.
Conditions precedent outstanding	As at the date of dispatch of this Notice of Meeting and Explanatory Statement, the following material conditions precedent remain outstanding: (a) Shareholder approval of the IMC Financing Proposal; (b) execution of the Intercreditor Deed; (c) the grant of the Options in accordance with the Subscription Deed; and (d) the grant of the Security to IMC. Any drawing under the IMC Facility will also be subject to: (a) no "event of default", "potential event of default" or Review Event (as described below) subsisting; and (b) all representations and warranties in the Facility Agreement being true and correct.
Board Representation	The Initial Lender may, but is not obliged to, nominate one director with appropriate experience to the Board, until the IMC Facility is terminated. This is in addition to the current IMC representative on the Board. IMC's current intention in this respect is described at section 7.4.
Undertakings	Each Loan Obligor will be required to provide a variety of undertakings that are customary for a facility of this nature and are broadly aligned with those provided under the Senior Facility. In addition, there will be the following restrictions given in favour of the Initial Lender: (a) a prohibition on Horizon paying distributions to Shareholders until the IMC Facility has been repaid; (b) a prohibition on the sale of all or part of the Loan Obligors interests in PDL 10 or PRL 21 (being the relevant "Petroleum Development Licence" and "Petroleum Retention Licence" located in Papua New Guinea); (c) restrictions on using the proceeds of any future drawings under the Senior Facility for purposes other than prepaying the IMC Facility, or funding certain costs of Horizon or its subsidiaries; and (d) restrictions on using 25% of the net proceeds of any equity raising for purposes other than prepaying the IMC Facility.
Representations and Warranties	Each Loan Obligor is required to provide a variety of warranties and representations that are customary for a facility of this nature and are broadly aligned with those provided under the Senior Facility.
Guarantees and Indemnities	Each Guarantor will be required to irrevocably and unconditionally, jointly and severally guarantee the performance of the Loan Obligors and each Guarantor. Each Guarantor will be required to indemnify the Lenders and pay any amounts that are not recoverable from the Borrower.
Events of default	The "events of default" provided for under the Facility Agreement are customary for a facility of this nature and are broadly aligned with those under the Senior Facility and include, among other things, insolvency, constitutional amendments and breaches of the Facility Agreement, other debt instruments and material project documents.

KEY FEATURES	DETAIL
Consequences of an event of default	Subject to the provisions of the Intercreditor Deed, where an "event of default" occurs under the Facility Agreement, the Lenders in certain circumstances may require, amongst other things: (a) immediate repayment of the Facility Amount; (b) cancel the ability to drawdown (if drawdown has not occurred); (c) instruct the Security Trustee to take action; or (d) require the appointment of various experts to provide reports.
Review Events	The following are Review Events under the Facility Agreement: (a) except where it is a permitted disposal, a Loan Obligor (other than Horizon) ceasing to be a wholly owned subsidiary of Horizon; (b) Horizon being delisted from the ASX; or (c) a person other than IMC (or a member of the IMC Group) increases its shareholding in Horizon above 50%.
Consequence of a Review Event	If a Review Event occurs, Horizon and the Lenders will negotiate any amendments or restructuring or other matters that the Lenders determine in good faith are appropriate. If no agreement is reached within 60 days of the Review Event, subject to the terms of the Intercreditor Deed, the Lenders are entitled to require the repayment of the Facility Amount within 30 days of providing notice.

3.2 TERMS OF THE INTERCREDITOR DEED WITH THE SENIOR FINANCIERS

IMC will enter into an Intercreditor Deed with the Senior Financiers. Under this deed, the parties will agree that the IMC Facility will rank behind the Senior Facility. The deed will stipulate that IMC can only enforce the Security in limited circumstances. Among other things, it is envisaged the deed will place restrictions on payments to IMC (without excusing the Loan Obligors from its obligations to make such payments to IMC under the Facility Agreement) and the ability of IMC to take enforcement action against the Loan Obligors without the Senior Financiers' consent. The Senior Financiers may also impose certain additional covenants on Horizon and its subsidiaries.

3.3 TERMS OF THE OPTIONS GRANTED TO IMC UNDER THE IMC FINANCING PROPOSAL

Horizon and IMC have entered into the Subscription Deed, under which Horizon has agreed to grant the Options to IMC.

The Options will have the following features:

KEY TERMS	DETAIL
Exercise Price	The Exercise Price for the Options will be A$0.061 per Share. This amount equals 120% of the 30-day VWAP of the Shares as at the close of trading on Friday, 24 June 2016 (being the last full trading day prior to the announcement of the IMC Financing Proposal).
Option Fee	IMC is not required to pay a fee for the issue of the Options.
Entitlement on exercise	Each Option entitles the Optionholder to subscribe for one Share.
Expiry Date	The Options will expire 5 years from the date of issue. The Options will be issued on drawdown by Horizon (or one of its subsidiaries) under the IMC Facility.
Period of exercise	The Options are what are known as "American options". This means that IMC can exercise the Options at any time prior to the Expiry Date. Any Options not exercised by the Expiry Date will automatically lapse.
How to exercise an Option	To exercise, the Optionholder is required to deliver a duly completed notice of exercise, together with a bank cheque drawn on an Australian bank for the total Exercise Price or payment in cleared funds into a bank account nominated in advance by Horizon, at any time prior to the Expiry Date.

KEY TERMS	DETAIL
Issue of Shares	Within 10 business days (being a day for which banks are open in New South Wales other than weekends or public holidays) after receipt of both a valid notice of exercise and receipt (or deemed receipt) of payment of the Exercise Price, Horizon will: (a) issue the new Shares pursuant to the exercise of the Options; and (b) if Horizon did not issue a prospectus under section 713 of the Corporations Act at the time of issue of the Options, issue a notice to ASX in accordance with section 708A(5)(e) of the Corporations Act which complies with section 708A(6) of the Corporations Act.
Nominee	The Optionholder may specify in the notice of exercise that the Shares to be issued on exercise of the Options be issued to a nominee, provided that nominee is a Related Body Corporate of the Optionholder.
Minimum number of Options exercisable	50,000,000 (unless the Optionholder has less than 50,000,000 Options in which event the Optionholder must exercise all of the Options together).
Ranking	Shares issued on exercise of the Options will rank equally with all existing Shares.
Quotation	Horizon will apply to ASX for official quotation of any Shares issued on exercise of the Options, subject to Horizon being admitted to the official list of the ASX at the relevant time.
Listing of Options	The Options will be unlisted.
Dividends	The Options provide no entitlement to participate in dividends of Horizon.
Transferability	Options may be transferred at any time before the Expiry Date provided that the transfer complies with section 707(3) of the Corporations Act and the section of this table headed "Special conditions" below. Options are transferable by any standard form of transfer, provided that notice in writing is given to Horizon.
Effect of corporate restructure following the issue of options	Following any reconstruction, consolidation, subdivision, reduction (by a cancellation of paid up capital that is lost or not represented by available assets where no securities are cancelled), return or pro rata cancellation of the issued capital of Horizon: (a) the number and/or Exercise Price of Options will be adjusted in compliance with the ASX Listing Rules; and (b) subject to provisions with respect to rounding of entitlements as sanctioned by a meeting of Shareholders approving a reconstruction of capital, in all other respects the terms of exercise of the Options will remain unchanged. This provision is subject to the ASX Listing Rules and in the event of an inconsistency, the ASX Listing Rules will prevail.
Pro rata issues	If there is a pro rata issue (other than a bonus issue), the exercise price of an Option will be reduced in accordance with the following formula: $O^n = O - \frac{E[P-(S+D)]}{N+1}$ Where: O^n = the new exercise price of the Option O = the old exercise price of the Option E = the number of underlying securities into which one Option is exercisable P = the average market price per security (weighted by reference to volume) of the underlying securities during the 5 trading days ending on the day before the ex right date or the ex entitlements date or if there is no such date then the date chosen by the Board S = the subscription price for a security under the pro rata issue D = the dividend due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue) N = the number of securities with rights or entitlements that must be held to receive a right to one new security
Bonus issues	If there is a bonus issue to Shareholders, the number of Shares over which the Option is exercisable will be increased by the number of Shares which the Optionholder would have received if the Option were exercised before the record date for the bonus issue.

KEY TERMS	DETAIL
Participation in new issues	The Options do not confer the right to participate in a new issue of Shares in Horizon prior to exercise.
Special conditions	**Mandatory exercise by Optionholder (other than IMC)** If: (a) a Lender under the Facility Agreement gives notice to Horizon that it requires repayment of the IMC Facility prior to the Maturity Date; and (b) evidence of the notice provided by a Lender under paragraph (a) is provided by Horizon to the Optionholder, then Horizon may (by notice in writing to the Optionholder) require the Optionholder to, within 5 business days (being a day for which banks are open in New South Wales other than weekends or public holidays) from the date of receipt of the notice from Horizon, exercise all unexercised Options, provided that at the date of the notice, the price of the Shares is greater than or equal to the Exercise Price. A failure by the Optionholder to comply with this particular condition will result in the immediate cancellation of the Options of that Optionholder for no consideration. **Mandatory exercise by IMC** Under the Subscription Deed, Horizon and IMC have agreed that, despite the process described above, IMC is only mandatorily required to exercise the Options, if the payment of the Exercise Price by other Optionholders (who are not members of the IMC Group) is (in aggregate) insufficient for Horizon to satisfy its early repayment obligation. **Discretionary offset of Facility balance outstanding** If the Optionholder exercises any of the Options in accordance with the Option terms and the Optionholder is also the Lender (or is an associate of the Lender) under the Facility Agreement, the Lender under the Facility Agreement will have the right, at its election, to offset the payment of the Exercise Price per Option by the Optionholder against any balance of principal or interest outstanding under the IMC Facility by the Lender. **Covenant in favour of Horizon** Before the Optionholder transfers any of the Options, the Optionholder is required to obtain from the transferee a covenant in favour of Horizon to comply with these special conditions.
Change in Option terms	The terms of the Options may not be changed to: (a) reduce the Exercise Price; (b) increase the number of securities received on exercise of the Options; or (c) increase any period for exercise of the Options. A change to terms of the Options which is not otherwise prohibited may only be changed with the approval of Shareholders unless it has the effect of cancelling an Option for no consideration or is made to comply with the ASX Listing Rules, in which case such change can be made without obtaining the approval of Shareholders.

If IMC exercises all of the Options, the total amount paid by IMC for the Shares issued under the Options, or offset against the amount outstanding under the IMC Facility, will be approximately US$13.54 million (based on an exchange rate of A$1.00=US$0.74).

The potential effect of the issue of the Options on IMC's Voting Power in Horizon is outlined at section 6.2.

3.4 TRANSACTION SPECIFIC PROSPECTUS

Horizon proposes to prepare and issue a transaction specific prospectus in accordance with section 713 of the Corporation Act in connection with the issue of the Options. Horizon is not required to issue a prospectus in relation to the issue of the Options, because IMC qualifies as a "sophisticated investor" or a "professional investor" in accordance with sections 708(8) and 708(11) of the Corporations Act. However, Horizon has chosen to issue a prospectus in order to permit the Options to be transferred and the on-sale of Shares issued on exercise of the Options. In accordance with the timetable contained at section 3.5, Horizon propose to lodge this prospectus with ASIC following Shareholder approval at the Meeting.

3.5 INDICATIVE TIMETABLE FOR THE IMC FINANCING PROPOSAL

Set out below is the indicative timetable for the IMC Financing Proposal assuming Shareholders approve the Resolution. These dates

are indicative only and are subject to change.

ACTION	TARGET DATE
Date of Notice of Meeting	1 August 2016
Meeting to approve the IMC Financing Proposal	6 September 2016
Prospectus for the issue of Options lodged	6 September 2016
Horizon (or one of its subsidiaries) provides IMC with drawdown notice under the IMC Facility Issues of Options to IMC	6 September 2016
Horizon (or one of its subsidiaries) receives funds drawn under the IMC Facility	Not later than 5 business days following the date of the Drawdown Notice

3.6 IMPACT ON HORIZON'S BALANCE SHEET

Set out below is an unaudited pro forma summary historical balance sheet for Horizon as at 31 May 2016.

The pro forma financial information is presented to provide Shareholders with an indication of Horizon's balance sheet as if the IMC Financing Proposal had been implemented as at 31 May 2016. Because the IMC Financing Proposal will only be implemented following the Meeting, the actual consolidated balance sheet for Horizon following implementation of the IMC Financing Proposal will differ from that below.

US$ 'millions	31 May 2016 (unaudited)	IMC Facility[4]	Redemption of Bonds[7,8]	Pro forma 31 May 2016 (unaudited)
Cash[1,2]	21.7	46.0	(63.6)	4.1
Current debt				
Senior Facility[3,5]	11.4	–	–	11.4
Bonds[3]	63.6	–	(63.6)	–
Total current debt	75.0	–	(63.6)	11.4
Non-current debt				
Senior Facility[3,5]	74.0	–	–	74.0
IMC Facility[4]	–	46.0	–	46.0
Total non-current debt	74.0	46.0	–	120.0
Total debt	**149.0**	**46.0**	**(63.6)**	**131.4**
Net debt[6]	**127.3**	**–**	**–**	**127.3**

Notes:

1. Cash is shown as at 31 May 2016 and is based on unaudited management accounts.
2. At 31 May 2016 there is capacity to drawdown approximately a further US$11.2 million under the Senior Facility. At 30 June 2016 this capacity reduced to approximately US$8.8 million.
3. The Senior Facility and Bonds are presented based on IFRS and as such are shown net of capitalised establishment costs.
4. The face value of the IMC Facility (US$50 million) is shown net of estimated transaction costs of US$4.0 million and classified as debt for the purposes of this pro forma balance sheet.
5. Debt balances are shown as at 31 May 2016 and are based on unaudited management accounts adjusted for the most recent redetermination of the Senior Facility which occurred on 1 May 2016.
6. Net debt includes cash, interest bearing external debt from the Senior Financiers and the debt component of the Bonds (unaudited, based on management accounts as at 31 May 2016).
7. Redemption of the Bonds includes an 8.8% premium accrued to 31 May 2016 under IFRS. This premium was paid in full on 17 June 2016.
8. Indicative gross funds are assumed to be applied for the redemption of the Bonds.

4 Purpose of the IMC Financing Proposal

4.1 BACKGROUND TO THE BONDS

In June 2011, Horizon issued approximately US$80 million, 5.5% convertible bonds ("**Bonds**").

Since issuing the Bonds, Horizon has bought back approximately one quarter of the Bonds. Currently, US$58.8 million of the Bonds remain outstanding.

The Bonds were originally due to mature on 17 June 2016 ("**Original Maturity Date**").

On 1 June 2016, Horizon announced that Bondholders had passed a written resolution to amend the terms of the Bonds as follows:

(a) the maturity date of the Bonds was extended to 19 September 2016 ("**Final Maturity Date**");

(b) an interest rate of 10% per annum is payable by Horizon between the Original Maturity Date and the Final Maturity Date; and

(c) the date for payment of the accrued premium of 8.8% per annum of the principal amount of the Bonds was adjusted so that it is payable on the Original Maturity Date (this payment has been made by Horizon).

4.2 USE OF PROCEEDS FROM THE IMC FINANCING PROPOSAL

The US$50 million that Horizon (or one of its subsidiaries) will draw under the IMC Facility, if the Resolution is approved, will be supplemented by Horizon's cash reserves to fund the redemption of the US$58.8 million of the Bonds that remain outstanding.

If the Resolution is approved, Horizon (or one of its subsidiaries) will issue a Drawdown Notice following the Meeting. This will provide Horizon with sufficient time to redeem the Bonds prior to the Final Maturity Date.

5 Details of the Resolution

5.1 RESOLUTION

Horizon seeks Shareholder approval for the IMC Financing Proposal, described in more detail in section 3.1, including particularly:

(a) to issue and allot the Options to IMC (and to permit IMC to acquire Shares upon exercise of the Options); and

(b) to grant the Security to IMC.

The number of Shares (if any) that will be issued to IMC as a result of the IMC Financing Proposal depends on the number of Options (if any) which IMC chooses to exercise. However, if IMC exercise all the Options before their expiry, Horizon would be required to issue 300 million Shares to IMC.

The Resolution is an ordinary resolution. This means that it will be passed if at least 50% of the votes cast on the Resolution are in favour of the Resolution. Horizon will disregard any votes cast by IMC or any Associate of IMC on the Resolution.

If the Resolution is not approved, the IMC Financing Proposal will not proceed.

Shareholder approval is required for the Resolution under item 7 of section 611 of the Corporations Act, section 208 of the Corporations Act, ASX Listing Rule 10.1 and ASX Listing Rule 10.11. Details of these provisions and the reason why Shareholder approval is required is outlined in section 5.3 to section 5.8 below.

5.2 VOTING ELIGIBILITY

In accordance with the *Corporations Regulations 2001* (Cth), the Independent Directors have determined that Shareholders entitled to attend and vote at the Meeting shall be those persons who are recorded on the Share Register at 7.00pm (Sydney time) on Sunday, 4 September 2016.

Any votes cast by IMC or any Associate of IMC will be disregarded for the purposes of determining whether the Resolution is approved.

However, Horizon need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form.

See the Notice of Meeting for further information about voting (including proxies) and where and when the Meeting is being held.

5.3 SECTION 606 OF THE CORPORATIONS ACT

Section 606 of the Corporations Act prohibits a person from acquiring a Relevant Interest in issued voting shares in a company, if as a result of the acquisition, that person's or someone else's Voting Power in the company increases above 20% (or if the relevant person already holds 20% of the Voting Power in the company, increasing that power further above 20% but below 90%).

A person's Voting Power for these purposes means the total number of votes that the person and their Associates have a Relevant Interest in, expressed as a percentage of total votes attaching to all voting shares in the entity.

For the purposes of section 606 of the Corporations Act, a person has a Relevant Interest in securities if they:

(a) are the holder of the securities;

(b) have the power to exercise, or control the exercise of a power to dispose of, the securities; or

(c) have the power to dispose of, or control the exercise of a power to dispose of, the securities.

As at the date of this Notice of Meeting, IMC has Voting Power in Horizon of 30%. Therefore, IMC is unable to increase its shareholding in Horizon unless there is an applicable exception to section 606 of the Corporations Act.

5.4 ITEM 7, SECTION 611 OF THE CORPORATIONS ACT

There are a number of exceptions to the prohibition in section 606 of the Corporations Act, including the exception set out in item 7 of section 611. Item 7 allows a person to acquire a Relevant Interest in a company's voting shares in excess of the 20% threshold with the approval of shareholders provided:

(a) no votes are cast in favour of the resolution by the proposed acquirer and their Associates or the proposed seller and their Associates; and

(b) the members of the company were given all information known to the proposed acquirer or their Associates, or known to the company, that was material to the decision on how to vote on the resolution, including:

  (i) the identity of the person proposing to make the acquisition and their Associates;

  (ii) the maximum extent of the increase in that person's and each of their Associates' Voting Power in the company that would result from the acquisition; and

  (iii) the Voting Power that person and each of their Associates would have as a result of the acquisition.

A person will only be considered an Associate of another person if provided for under sections 12 and 16 of the Corporations Act.

Shareholder approval under item 7 of section 611 is required to permit IMC to acquire Shares issued upon exercise of the Options under the IMC Financing Proposal.

5.5 SECTION 208 OF THE CORPORATIONS ACT

Section 208 of the Corporations Act requires that for a public company, or an entity that a public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

(a) obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and

(b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

RELATED PARTY

Under section 228(1) of the Corporations Act, an entity that controls a public company is a related party of that public company. An entity controls another entity if it has the capacity to determine the outcome of decisions about that other entity's financial and operating policies. Because IMC is only a 30% Shareholder and only has one nominee on the Board (being Mr Gerrit de Nys), it does not currently control Horizon.

However, section 228(6) of the Corporations Act provides that a "related party" includes an entity that believes, or has reasonable grounds to believe, that it is likely to become a related party of the company (eg by assuming control of the company) at any time in the future.

As outlined at section 6.2, the maximum extent of the increase in the Voting Power of IMC and its Associates in Horizon as a result of IMC and its Associates:

(a) acquiring Shares under the "3% creep" exemption in item 9 of section 611 of the Corporations Act during the term of the Options; and

(b) acquiring Shares upon exercise of the Options,

is 67.5% in aggregate (reflecting the Voting Power IMC and its Associates could potentially obtain if it acquires the maximum Shares permitted under the "3% creep" exemption during the term of the Options, and assuming all of the Options are exercised by IMC prior to their expiry).

Approval up to 67.5% is only sought to contemplate the possibility that IMC's shareholding may increase beyond its current level in reliance on the "3% creep" exemption prior to the acquisition of Shares on exercise of the Options (and not for any other purpose).

Because Shareholder approval is being sought for IMC to increase its Voting Power up to this threshold in these circumstances, Horizon is also seeking Shareholder approval under section 208 on the basis that IMC may be deemed to be a related party under section 228(6) of the Corporations Act on the basis that IMC may become a related party of Horizon at some point in the future.

FINANCIAL BENEFIT

Under the Corporations Act, "financial benefit" is defined broadly and is a question of fact based on economic and commercial substance. In determining whether or not a financial benefit is given, the fact that consideration is given for the benefit is to be disregarded, even if that consideration is adequate.

The IMC Financing Proposal might involve the giving of a financial benefit by Horizon to IMC in the following ways:

(a) a member of IMC Group is the Initial Lender under the IMC Facility and under the Facility Agreement Horizon is obligated to pay interest and other fees;

(b) Horizon has agreed to issue IMC the Options; and

(c) Horizon (and certain of its subsidiaries) have granted the Security to IMC.

REQUIREMENT FOR SHAREHOLDER APPROVAL

Because IMC may be deemed to be a related party under section 228(6) of the Corporations Act on the basis that IMC may become a related party of Horizon in the future, and because Horizon is giving a financial benefit to IMC under the IMC Financing Proposal, Shareholder approval under section 208 of the Corporations Act is sought to approve the IMC Financing Proposal.

5.6 ASX LISTING RULE 10.11

ASX Listing Rule 10.11 requires that shareholder approval be obtained where an entity issues or agrees to issue securities to a related party or a person whose relationship with the entity or a related party is in ASX's opinion such that approval should be obtained, unless an exemption in ASX Listing Rule 10.12 applies.

Given IMC's current shareholding and the potential effect of the issue of the Options on IMC's shareholding (if exercised), it is likely that ASX would form the opinion that IMC is a person whose relationship with Horizon is such that Shareholder approval should be obtained. For this reason, Horizon is seeking Shareholder approval under ASX Listing Rule 10.11 for the issue of Options to IMC (and issue of Shares to IMC upon exercise of the Options) under the IMC Financing Proposal.

5.7 ASX LISTING RULE 7.1

ASX Listing Rule 7.1 requires that shareholder approval must be obtained in order to issue, or agree to issue, equity securities representing more than 15% of the shares on issue within a 12 month period (unless one of the exceptions in ASX Listing Rule 7.2 applies).

The issue of the Options to IMC, and the issue of Shares on the exercise of the Options, do not require Shareholder approval under ASX Listing Rule 7.1. This is because where an approval is given under ASX Listing Rule 10.11, separate approval is not required under ASX Listing Rule 7.1.

Shareholders should therefore note that the Options, or Shares issued on exercise of the Options will not be included in the 15% calculation for the purposes of ASX Listing Rule 7.1.

5.8 ASX LISTING RULE 10.1

ASX Listing Rule 10.1 requires that a listed entity (or any of its child entities) must not dispose of a "substantial asset" to, or acquire a "substantial asset" from, specified persons or companies without the approval of shareholders at a general meeting.

SUBSTANTIAL ASSET UNDER LISTING RULE 10.1

Under ASX Listing Rule 10.2, an asset is treated as a "substantial asset" if its value or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the listed company's equity interests as set out in the latest financial statements given to ASX under the ASX Listing Rules. A listed company's equity interests are the sum of paid up capital, reserves, and accumulated profits or losses, disregarding redeemable preference share capital and outside equity interests.

Although Horizon has not entered into any agreement to dispose of any of its assets as part of the IMC Financing Proposal, ASX considers, for the purpose of the ASX Listing Rules, that the use of assets as collateral amounts to a "disposal" of its assets. As outlined in more detail at section 3.1 above, Horizon (and certain of its subsidiaries) have granted IMC the Security (being a secondary security interest over the same assets and entities as the security provided by Horizon to the Senior Financiers), which will be considered a disposal of a "substantial" asset under ASX Listing Rule 10.1.

SUBSTANTIAL HOLDER

The specified persons or entities to whom ASX Listing Rule 10.1 applies include a substantial holder in the entity who either alone or together with its Associates has a Relevant Interest, or had a Relevant Interest at any time in the six months before the transaction, of at least 10% of the votes attached to the entity's shares.

As a 30% Shareholder in Horizon, IMC will be a "substantial holder" of Horizon for the purposes of ASX Listing Rule 10.1.

REQUIREMENT FOR SHAREHOLDER APPROVAL

On the basis that:

(a) the grant of the Security is considered a disposal of a substantial asset; and

(b) IMC is a substantial holder of Horizon,

Horizon is required to seek Shareholder approval under ASX Listing Rule 10.1 in order to grant the Security to IMC as part of the IMC Financing Proposal.

5.9 SUMMARY OF INDEPENDENT EXPERT'S REPORT

In order to satisfy regulatory requirements, and to assist Shareholders to consider the IMC Financing Proposal, the Independent Directors have commissioned the Independent Expert to prepare the Independent Expert's Report in relation to the IMC Financing Proposal.

The Independent Expert's Report is required for the following reasons:

(a) in order to satisfy the obligation to disclose all information on how to vote on a resolution under item 7, section 611 of the Corporations Act, ASIC considers that directors should provide members with an independent expert's report; and

(b) ASX Listing Rule 10.10 requires that where shareholder approval is required under ASX Listing Rule 10.1, an independent expert's report is required.

The Independent Expert's Report is also required for the purposes of section 208 of the Corporations Act. With respect to a section 208 approval, paragraph 63 of RG 111 states that "an expert need only conduct one analysis of whether the transaction is "fair and reasonable", even if the report has been prepared for a reason other than the transaction being a related party transaction (e.g. if item 7 of s611 approval is also required)". Horizon understands that the Independent Expert has had regard to paragraph 63 of RG 111 and has assessed the IMC Financing Proposal on this basis.

A copy of the Independent Expert's Report is contained at Attachment A to this Notice of Meeting.

The Independent Expert's Report concludes that the IMC Financing Proposal is not fair, but reasonable to non-associated Shareholders.

The Independent Directors encourage Shareholders to carefully read the Independent Expert's Report in full before making a decision on how to vote on the Resolution.

6 About IMC and its Voting Power in Horizon

6.1 ABOUT IMC

IMC Oil and Gas Investments Ltd and IMC Investments Limited are companies incorporated in the British Virgin Islands and are wholly owned subsidiaries within the IMC Group. The ultimate holding company of the IMC Group is IMC Pan Asia, a company incorporated and registered in the British Virgin Islands. IMC Pan Asia is privately held by Mr Chavalit Tsao, a Thai national. Neither IMC Pan Asia, nor Mr Tsao directly hold Shares.

Globally, the IMC Group have key business interests in the investments, industrial and real estate sectors. The IMC Group's main activities in these sectors are as follows:

(a) **Investments**: an investment arm which manages a portfolio of global investments which includes listed equities, fixed income and private equity;

(b) **Industrial**: supply chain solutions provider with interests in maritime and shipping, which includes shipping and logistics, ports and terminals, trading, ship management and design services, shipyards, marine offshore and engineering businesses; and

(c) **Real Estate**: ownership interests in residential, commercial and lifestyle real estate in South East Asia and China.

The IMC Group is headquartered in Singapore and has offices in China, Thailand, Malaysia, Indonesia and Australia, as well as representative offices in other countries of operation.

Further information about the IMC Group is available on its website at www.imcgroup.info.

6.2 IMC'S POTENTIAL SHAREHOLDING AS A RESULT OF THE EXERCISE OF THE OPTIONS

As at the date of this Notice of Meeting IMC has Voting Power in Horizon of 30%. If IMC exercises some or all of the Options, it will acquire further Shares and its Voting Power in Horizon will increase.

If exercised in full, the Options would entitle IMC to acquire an aggregate of 300 million Shares in addition to its current shareholding. This represents approximately 23% of Horizon's share capital as at the date of this Notice of Meeting or 18.7% of Horizon's share capital on a fully-diluted basis (ie including the Shares issued on exercise of the Options).

Assuming that Horizon does not undertake any other equity issues or otherwise change its capital structure, and IMC does not increase its shareholding in Horizon prior to exercise of the Options, the maximum Voting Power IMC could obtain as a result of acquiring Shares on exercise of the Options is 43.1%.

Under RG 74, an item 7 section 611 approval for the acquisition of shares on exercise of convertible securities (including options) will be invalidated if the relevant person acquires additional shares subsequent to the approval, but before exercise, and therefore exceeds the maximum Voting Power approved by shareholders.

The Options have a 5 year term and it is possible that IMC may increase its Voting Power in Horizon prior to exercising the Options, without Shareholder approval, by utilising the "3% creep" rule in item 9, section 611 of the Corporations Act. The "3% creep" rule allows IMC to acquire additional Shares without Shareholder approval provided that acquisition does not cause IMC and its Associates to have Voting Power more than 3% higher than it had 6 months previously.

Accordingly, the maximum extent of the increase in the Voting Power of IMC and its Associates in Horizon as a result of IMC and its Associates:

(a) acquiring Shares under the "3% creep" exemption in item 9 of section 611 of the Corporations Act during the term of the Options; and

(b) acquiring Shares upon exercise of the Options,

is 67.5% in aggregate (reflecting the Voting Power IMC and its Associates could potentially obtain if it acquires the maximum Shares permitted under the "3% creep" exemption during the term of the Options, and assuming all of the Options are exercised by IMC prior to their expiry).

For clarification, the maximum number of Shares IMC will acquire on exercise of the Options is fixed at 300 million and approval up to 67.5% is only sought to contemplate the possibility that IMC's shareholding may increase beyond its current level in reliance on the "3% creep" exemption prior to the acquisition of Shares on exercise of the Options.

6.3 FOREIGN INVESTMENT REVIEW BOARD APPROVAL

In May 2016, IMC obtained approval from the Foreign Investment Review Board ("**FIRB**") to increase its shareholding in Horizon up to 85%, without seeking additional approval from FIRB. Therefore, further FIRB approval is not required to permit the issue of Shares to IMC on exercise of the Options.

6.4 ASSOCIATES OF IMC

As discussed in section 5.4 above, persons who are Associates of IMC Investments Limited (BVI) are not eligible to vote on the Resolution.

A person will only be an Associate of IMC Investments Limited (BVI) if they satisfy one of the relevant definitions in section 12 of the Corporations Act. Under section 12 of the Corporations Act, the following categories of people will be Associates of IMC Investments Limited (BVI):

(a) a body corporate controlled by IMC Investments Limited;

(b) a body corporate that controls IMC Investments Limited;

(c) a body corporate that is controlled by an entity that controls IMC Investments Limited (BVI);

(d) a person whom IMC Investments Limited (BVI) has, or proposes to enter into, a relevant agreement for the purpose of controlling or influencing IMC Investments Limited (BVI)'s board or the conduct of its affairs; and

(e) persons acting, or proposing to "act in concert" with IMC Investments Limited (BVI).

An entity controls another entity if it has the capacity to determine the outcome of decisions about that other entity's financial and operating policies.

Section 16 of the Corporations Act contains certain carve-outs from the definition of Associates in section 12, including persons who satisfy the definition of Associate only because they are a professional adviser to the entity.

The relevant Associates of IMC Oil and Gas Investments Ltd (BVI) and IMC Investments Limited (BVI) in relation to the IMC Group's investment in Horizon are:

(a) Austral-Asia Energy Pty Ltd;

(b) IMC Resources Ltd;

(c) IMC Group Holdings Limited;

(d) IMC Pan Asia;

(e) Prudence Holdings Pty Ltd ATF Tsao Pao Chee;

(f) Fidelity Corp Limited; and

(g) Mr Chavalit Tsao.

IMC Resources Investments Pte Ltd is also an Associate of the above listed members of the IMC Group.

7 IMC's intentions in relation to the Company

The intentions of IMC detailed in this section 7 are based on information concerning Horizon, its business and the business environment which is known to IMC at the date of this Notice of Meeting and Explanatory Statement.

7.1 INTENTIONS IN RELATION TO HORIZON BUSINESS

IMC has advised Horizon that it has no current intention to:

(a) make any significant change to the existing business of Horizon;

(b) inject further capital into the business of Horizon;

(c) make any significant change to the employment of present employees of Horizon;

(d) propose any assets be transferred between Horizon and the IMC Group; or

(e) redeploy the fixed assets of Horizon.

7.2 ALTERATIONS TO FINANCIAL AND DIVIDEND DISTRIBUTION POLICIES

IMC has advised Horizon that it has no current intention to make any significant change to the financial or dividend distribution policies of Horizon.

7.3 AGREEMENTS BETWEEN HORIZON AND IMC

Other than as disclosed in this Notice of Meeting and Explanatory Statement, there are no other relevant agreements between Horizon and IMC that are conditional on Shareholder approval of the Resolution.

7.4 APPOINTMENT OF NEW DIRECTOR BY IMC

IMC has no current intention to appoint a new Director to the Board.

8 Consideration of the IMC Financing Proposal by the Independent Directors

8.1 BACKGROUND

The Independent Directors have considered a range of funding proposals which would enable Horizon to redeem the Bonds while ensuring Horizon had adequate cash reserves to fund its operations in Papua New Guinea, China and New Zealand.

In May 2015, Horizon executed and closed the Senior Facility with its Senior Financiers, incorporating a base tranche of US$120 million with an additional US$50 million "accordion" tranche, to accommodate working capital and redemption of the Bonds. Until the further pronounced collapse of the oil price in the second half of 2015, Horizon's internal modelling indicated that it would have sufficient cash reserves generated from its fields in the Beibu Gulf in China and the Maari and Manaia fields in New Zealand and available debt capacity to redeem the Bonds in full.

With the oil price continuing to fall from October 2015 and into 2016, the Independent Directors instituted a range of measures to reduce operating and corporate costs, while investigating financing options to facilitate the redemption of the Bonds. These measures included continuing reductions to the capital program, reductions in staff numbers and a continuation of the freeze on staff remuneration at 2014 levels.

Unfortunately, in the context of a prolonged low oil price environment, the accordion tranche of the Senior Facility was no longer available for Horizon to draw upon. In addition, the continued falls in the oil price and the consequential reduction of lender oil price decks impacted the amount available under the base tranche of the Senior Facility, which further reduced the liquidity available for the redemption of the Bonds. The Senior Financiers were also unwilling to further extend the base tranche of the Senior Facility to enable the redemption of the Bonds.

In the second half of 2015, Horizon commenced a series of alternative formal and informal processes to address potential liquidity constraints created by an extended period of low oil prices. The various alternatives included potential assets sales, issuing replacement convertible bonds to existing and/or new convertible bondholders, procuring subordinated finance from third parties, replacement of the existing Senior Facility and the recapitalisation of the Company's entire debt structure. Each of the alternatives considered presented substantial challenges, either due to the material potential dilution of Shareholders' interests in the Company, high interest rate payable on the financing offered, unacceptably high execution risk, the need to supplement any option with a significant equity raising, or the need for financiers to hold security that ranked equally with that of the Senior Financiers (a requirement which was not acceptable to the Senior Financiers).

Following an approach by IMC to provide financial support, Horizon negotiated the key commercial terms of the refinancing in order to ensure the best commercial result for Horizon. The Independent Directors' key concerns during the negotiations with IMC included the need to:

- minimise the size of any entitlement offer;
- limit the impact of potential dilution of Shareholders;
- minimise the possibility that a "control" event would occur where IMC's shareholding increases above 50%;
- minimise the interest rate payable by Horizon under the IMC Facility; and
- place the Company in a more stable financial position to better position the Company to take advantage of its asset base.

Given the circumstances, after careful consideration of the various alternatives potentially available, the Independent Directors decided that the best available option was for Horizon to accept the offer by IMC to provide financial support to Horizon. The decision was not taken lightly, and involved comparing the various advantages and disadvantages of the limited potential alternatives available to Horizon in a low oil price environment.

As announced to the market on 23 May 2016, it was initially intended that IMC would provide subordinated, secured financing of US$40 million, and would sub-underwrite a pro-rata entitlement offer of US$20 million to raise a total of US$60 million ("**Original Proposal**"). Since this date, however, there have been a number of market and operational developments which have reduced the funding required by Horizon to redeem the Bonds, including:

- the continued recovery in oil prices, of which Horizon has already taken advantage (at least in part) through hedging;
- Horizon's Beibu Gulf fields producing above expected production levels; and
- significantly reduced cash operating costs have been achieved at Beibu through early suspension of payments into the field abandonment provision fund and reduced pipeline tariff, as the 13.9 million barrel production milestone is expected to be reached within the second half of 2016 (which is earlier than anticipated). The positive effect of these cost reductions is expected to be magnified by operation of the cost recovery mechanism under the relevant petroleum contract.

As a result, Horizon has estimated that the funding it requires (in addition to existing cash reserves) to redeem the Bonds is approximately US$50 million. Horizon has determined that this reduced amount is best raised by increasing the amount of the IMC Facility from US$40 million to US$50 million and no longer proceeding with the entitlement offer, as announced on 27 June 2016.

Compared to the Original Proposal, the IMC Financing Proposal has the following advantages:

- the transaction costs and execution risk will be lower than under the Original Proposal; and
- the maximum amount IMC's shareholding could increase to under the IMC Financing Proposal is 43.1%, as opposed to approximately 57% under the Original Proposal (excluding the potential impact of IMC obtaining additional Shares prior to the exercise of the Options).

The consideration received by IMC under the IMC Financing Proposal, including the amount of interest and fees payable by Horizon, the number of Options to be issued and the Exercise Price of the Options, was determined following extensive negotiations between Horizon and IMC. The composition of this consideration is consistent with the structure generally applicable for subordinated, secured "mezzanine" financing arrangements. Based on the proposals received from prospective third-party lenders, and the advice of the financial advisers engaged by Horizon, the Company is able to determine that the consideration in respect of the IMC Financing Proposal is comparable to, or less than, that which might be payable to an unrelated party.

Accordingly, the Independent Directors have concluded that the terms of the IMC Financing Proposal were reasonable in the circumstances and were commensurate with, or more favourable than, the terms that Horizon would be able to procure from a third-party lender on an arm's length basis.

8.2 ADVANTAGES

The **ADVANTAGES** of the IMC Financing Proposal include the following:

(a) Provides Horizon with the necessary funds to redeem the Bonds

The IMC Financing Proposal provides the necessary funding to redeem the Bonds by the Final Maturity Date of 19 September 2016. As outlined in more detail in section 9.2, if the Resolution is not approved it is unlikely that Horizon would be able to locate alternate funding or secure an extension before the Final Maturity Date of the Bonds, in which case Horizon will default on its obligations under the Bonds.

(b) Cash repayment

If IMC or a subsequent Optionholder exercises the Options, Horizon will be able to use the proceeds of the Exercise Price of the Options (A$18.3 million) to repay a portion of the balance outstanding on the IMC Facility, reducing its repayment obligations.

(c) Support of Horizon's strategies and initiatives

IMC's agreement to provide support to Horizon through the IMC Financing Proposal is indicative of IMC's strong support for Horizon's strategies and initiatives.

(d) The IMC Financing Proposal is the best available option in the context of a difficult funding environment for mid-tier oil and gas companies

As outlined at section 8.1 above, the Independent Directors have considered a wide range of funding options over the past eighteen months. Of those options, the IMC Financing Proposal is the best available option to provide the requisite additional funding for the Company to redeem the Bonds in full, while reducing gearing to a level more appropriate for the current oil price environment.

(e) Preserves Shareholder exposure to diversified portfolio

The Independent Directors believe that the IMC Financing Proposal best positions the Company to take advantage of any recovery in oil prices. By maintaining the operating fields in New Zealand and China, Horizon will preserve its cash flow generating assets while maintaining its continued exposure to the potential upside of Horizon's gas rich fields in Papua New Guinea.

8.3 DISADVANTAGES

Although the Independent Directors unanimously recommend that you vote in favour of the Resolution, and the Independent Expert has concluded that the IMC Financing Proposal is not fair but reasonable to non-associated Shareholders, you should consider the potential disadvantages of the IMC Financing Proposal before making a determination as to how to vote on the Resolution.

Potential disadvantages of the IMC Financing Proposal include:

(a) Alternative view

Shareholders may disagree with the unanimous recommendation of the Independent Directors, and the Independent Expert's opinion that the IMC Financing Proposal is reasonable.

(b) Advantages may not be realised

The advantages outlined in section 8.2 above include forward looking statements. Such statements are only predictions and are subject to inherent risks and uncertainties. Those risks and uncertainties include factors and risks specific to the oil industry as well as other general economic conditions. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and Shareholders may disagree with the likelihood of those advantages being realised, based on their own views of the value of Horizon and expectation about future market conditions and Horizon's performance.

(c) Dilution of ownership interests

If IMC, or a party IMC transfers the Options to, chooses to exercise some or all of the Options, the interest of current Shareholders (other than the relevant Optionholder) will be diluted. Assuming Horizon does not undertake any equity raisings or make other changes to its capital structure; if all of the Options are exercised the number of quoted Shares on issue will increase from 1,301,981,265 to 1,601,981,265. This will lead to a dilution of approximately 18.7% (on a fully-diluted basis) and means that each Share will represent a lower proportion of ownership of Horizon. The possible shareholding scenarios as a result of the IMC Financing Proposal are discussed in more detail at section 6.2.

(d) IMC may become a related party of Horizon

There is a possibility that IMC could control Horizon following the acquisition of Shares on exercise of some or all of the Options. This would occur if IMC increases its shareholding prior to exercising the Options under the "3% creep" exemption in item 9 of section 611. If this occurred, IMC would be able to pass ordinary resolutions of Shareholders (ie those requiring more than 50% of votes cast being in favour of the resolution), subject to certain restrictions under the Corporations Act, the ASX Listing Rules and the constitution of Horizon, which might prevent IMC voting in some scenarios.

(e) Changes to IMC's intentions

A summary of IMC's intentions in respect of Horizon is contained at section 7, including that IMC has no current intention to make any significant change to Horizon's business or its financial or dividend policy. However, IMC's intentions may change as new information becomes available to it or as circumstances change.

9 Consequences of approving and not approving the Resolution

9.1 THE CONSEQUENCES OF APPROVING THE RESOLUTION

If the Resolution is approved by Shareholders, this will enable Horizon to proceed with the IMC Financing Proposal. In conjunction with Horizon's cash reserves, the IMC Financing Proposal will provide Horizon with the funds necessary to finance the redemption of the US$58.8 million Bonds outstanding.

Under the current proposed timetable contained at section 3.5, which is subject to change, Horizon will issue a Drawdown Notice following the Meeting. This will ensure that Horizon has sufficient time to fund the redemption of the Bonds prior to the Final Maturity Date.

9.2 THE CONSEQUENCES OF NOT APPROVING THE RESOLUTION

If the Resolution is not passed the IMC Financing Proposal will not proceed.

If Shareholders do not approve the IMC Financing Proposal, in order to avoid an "event of default" under the terms of the Bond Trust Deed, Horizon will be required to either request that Bondholders again extend the deadline for redemption of the Bonds or quickly implement an alternative financing solution. It is highly unlikely that Horizon will be able to pursue and finalise either of these options prior to the Final Maturity Date, in the limited period of time between the Meeting and the Final Maturity Date of the Bonds on 19 September 2016. If Horizon defaults on its redemption obligations under the Bonds, this will also trigger an "event of default" under the terms of the Senior Facility.

The Final Maturity Date of the Bonds cannot be extended unless:

(a) Bondholders pass an *extraordinary resolution* to extend the Final Maturity Date at a meeting of Bondholders. An extraordinary resolution is a resolution in respect of which not less than 75% of the votes cast are in favour of the resolution. The quorum for a meeting for this purpose is Bondholders representing at least 75% of the principal amount of the Bonds outstanding (ie US$44.1 million). Bondholders must be given at least 21 days' notice of a meeting of Bondholders; or

(b) Bondholders pass a *written resolution* to extend the Final Maturity Date of the Bonds. A written resolution for this purpose would need to be signed by Bondholders representing at least 90% of the principal amount of the Bonds outstanding (ie US$52.92 million).

If Horizon was to default under either the Bonds (assuming Horizon cannot obtain a further extension) or the Senior Facility, it is likely that an administrator would be appointed to Horizon. An administrator would assume control of Horizon and make a determination as to Horizon's viability and the best interests of Horizon's creditors (including the Senior Financiers and the Bondholders) as opposed to Shareholders. In the opinion of the Independent Directors, the appointment of an administrator would prejudice Horizon's ability to return value to Shareholders.

Further details regarding the impact of the IMC Financing Proposal not being approved by Shareholders are set out in sections 6.1 and 6.3.6 of the Independent Expert's Report.

10 Regulatory Disclosure Requirements

Horizon is seeking approval of the IMC Financing Proposal for the purposes of certain provisions of the Corporations Act and the ASX Listing Rules, each of which have specific disclosure requirements set out in this Notice of Meeting and Explanatory Statement. For ease of reference, this section provides a summary of this information and where Shareholders can look for further information.

10.1 CORPORATIONS ACT DISCLOSURE

ITEM 7, SECTION 611: ACQUISITIONS APPROVED BY MEMBERS

Under item 7 of section 611 of the Corporations Act, and RG74 which provides guidance in relation to that section, Shareholders must be provided with the following information:

DISCLOSURE REQUIREMENT	SUMMARY
Identity of acquiring party and its Associates: *Item 7(b)(i)*	Acquiring party is IMC. Associates of IMC include other members of the IMC Group, ultimately owned by Mr Chavalit Tsao. **See further:** section 6.1, section 6.4
Maximum extent of increase to IMC's Voting Power in Horizon: *Item 7(b)(ii)* Voting Power in Horizon IMC would have as a result of the acquisition: *Item 7(b)(iii)*	As at the date of this Notice of Meeting, IMC has Voting Power in Horizon of 30%. Assuming no equity issues or other changes in Horizon's capital structure, based on IMC's current shareholding, IMC's Voting Power would increase by 13.1% to 43.1% if IMC exercised all of the Options. However, IMC may increase its shareholding in Horizon prior to the potential exercise of the Options by relying on the "3% creep" exemption in item 9, section 611 of the Corporations Act. Accordingly, the maximum extent of the increase in the Voting Power of IMC and its Associates in Horizon as a result of IMC and its Associates: • acquiring Shares under the "3% creep" exemption in item 9 of section 611 of the Corporations Act during the term of the Options; and • acquiring Shares upon exercise of the Options, is 67.5% in aggregate (reflecting the Voting Power IMC and its Associates could potentially obtain if it acquires the maximum Shares permitted under the "3% creep" exemption during the term of the Options, and assuming all of the Options are exercised by IMC prior to their expiry). **See further:** section 6.2
Maximum extent of increase to IMC's Associates' Voting Power in Horizon: *Item 7(b)(iv)* Voting Power in Horizon IMC's Associates would have as a result of the acquisition: *Item 7(b)(v)*	As outlined above. **See further:** section 6.2

DISCLOSURE REQUIREMENT	SUMMARY
Reasons for proposed acquisition: *RG74.25(a)*	The issue of the Options (and subsequent acquisition by IMC of Shares upon exercise of the Options) is part of the broader IMC Financing Proposal, which Horizon is undertaking to fund the redemption of the Bonds. **See further:** section 4, section 8
When acquisition is to occur: *RG74.25(b)*	IMC can exercise the Options (and acquire Shares as a result) at any time up until the Expiry Date. **See further:** section 3.3
The material terms of the proposed acquisitions: *RG74.25(c)*	The acquisition will occur to the extent IMC exercises some or all of the Options and acquires Shares as a result. The Options form part of the broader IMC Financing Proposal. A detailed description of the IMC Financing Proposal including the issue of the Options is detailed at section 3 of this Explanatory Statement.
Terms of other relevant agreements between IMC and Horizon (or Associates) conditional on approval of Resolution: *RG74.25(d)*	None, other than those detailed in this Notice of Meeting and Explanatory Statement. The Facility Agreement and Subscription Deed are conditional on approval of the Resolution. **See further:** section 3
IMC's intentions regarding Horizon: *RG74.25(e)* and *(f)*	No current intention to make any significant change to the existing business of Horizon or its financial or dividend distribution policies. **See further:** section 7
Interests of any directors in acquisition: *RG74.25(g)*	No Director other than Mr Gerrit de Nys, a consultant to IMC, has an interest in the Resolution.
Details of any person intended to become a Director if the acquisition is approved: *RG74.25(h)*	IMC is entitled under the Facility Agreement to appoint a further Director, but does not intend to do so at this point in time. **See further:** section 7.4
Recommendation of each director on how non-associated members should vote on Resolution and reasons: *RG74.27(a)*	In the absence of a more favourable funding solution, the Independent Directors unanimously recommend that Shareholders vote to approve the Resolution. **See further:** section 8
Analysis of proposed acquisition that complies with RG111: *RG74.27(b)*	The Independent Expert has prepared the Independent Expert's Report (attached to this Notice of Meeting) in relation to the IMC Financing Proposal. The Independent Expert has concluded that the proposal is not fair but reasonable to non-associated Shareholders. **See further:** section 5.9

CHAPTER 2E: RELATED PARTY APPROVAL

Under section 219 of the Corporations Act, and RG 76 which provides guidance in relation to Chapter 2E approvals, Shareholders should be provided with the following information:

DISCLOSURE REQUIREMENT	SUMMARY
Identity of related party: *section 219(1)(a)*	The related party is IMC. As outlined in section 5.5, Horizon is seeking Shareholder approval under section 208 on the basis that IMC may become a related party at some time in the future. **See further:** section 5.5, section 6
Nature of the financial benefit: *section 219(1)(b)*	As outlined at section 5.5, the IMC Financing Proposal might involve the giving of a financial benefit by Horizon to IMC in the following ways: (a) a member of IMC Group is the Initial Lender under the IMC Facility and Horizon is obligated to pay interest and other fees; (b) Horizon has agreed to issue IMC the Options; and (c) Horizon (and certain of its subsidiaries) has granted the Security to IMC. A detailed explanation of the terms of the IMC Financing Proposal is contained in section 3. An explanation of the process undertaken to determine the terms of the IMC Financing Proposal is contained in section 8. **See further:** section 3, section 5.5, section 8
Directors' recommendations: *section 219(1)(c)* Directors' interest in the outcome: *section 219(1)(d)*	In the absence of a more favourable funding solution, the Independent Directors unanimously recommend you vote in favour of the Resolution. Mr de Nys does not make a recommendation in respect of the Resolution as he is a consultant to the IMC Group and believes that in such circumstances it would not be appropriate for him to make any such recommendation. No Director other than Mr de Nys has an interest in the outcome of the Resolution.
Independent Expert: *RG76.103*	ASIC recommends that an independent expert is engaged to prepare an independent expert's report for the purposes of a section 208 approval. However, paragraph 63 of RG 111 states that "an expert need only conduct one analysis of whether the transaction is 'fair and reasonable' even if the report has been prepared for a reason other than the transaction being a related party transaction (e.g. if item 7 of s611 approval is also required)". Horizon understands that the Independent Expert has had regard to paragraph 63 of RG111 and has assessed the IMC Financing Proposal on this basis.
Related party's existing interest: *RG76.103*	IMC has a 30% shareholding in Horizon.
Dilution effect of the transaction on existing member's interests: *RG76.103*	As outlined at section 6.2 above, assuming Horizon's capital structure otherwise remain the same, and IMC does not undertake any further equity raisings, if IMC was to exercise all of the Options, this would result in a dilution to Shareholders of approximately 18.7% (on a fully-diluted basis).
Other information: *section 219(1)(e)*	The Notice of Meeting, this Explanatory Statement and the Independent Expert's Report, contains all the information reasonably required by Shareholders to decide whether or not to pass the Resolution.

10.2 ASX LISTING RULES DISCLOSURE

ASX LISTING RULE 10.10

Under ASX Listing Rule 10.10, this Notice of Meeting must include the following for the purpose of ASX Listing Rule 10.1 to approve the Security:

DISCLOSURE REQUIREMENT	SUMMARY
A voting exclusion statement.	See page 4 of this Notice of Meeting.
A report on the transaction from an independent expert as to whether the transaction is fair and reasonable to non-associated Shareholders.	The Independent Expert has prepared the Independent Expert's Report (attached to this Notice of Meeting) in relation to the IMC Financing Proposal. The Independent Expert has concluded that the proposal is not fair but reasonable to non-associated Shareholders.

ASX LISTING RULE 10.13

Under ASX Listing Rule 10.13, the notice of meeting to approve the issue of securities for the purpose of ASX Listing Rule 10.11 must include the following:

DISCLOSURE REQUIREMENT	SUMMARY
Name of the person to be issued securities.	IMC.
Maximum number of securities to be issued to the person.	300 million options to acquire new Shares.
Date by which Horizon will issue the securities, which must not be more than 1 month after the date of the meeting.	It is proposed the Options will be issued following the Meeting, but in any event not later than 1 month after the Meeting.
A statement of the relationship between the person and a director that requires approval to be obtained.	Approval under ASX Listing Rule 10.11 is required because IMC is a 30% Shareholder and may be considered a party whose relationship with Horizon is such that ASX would likely determine that Shareholder approval is required. A consultant to IMC, Mr Gerrit de Nys is a member of the Board.
The issue price of the securities and statement of the terms of the issue.	The Options will be issued for nil consideration. See section 3.3 for an outline of the terms of the Options.
A voting exclusion statement.	See page 4 of this Notice of Meeting.
Intended use of funds raised.	To fund the redemption of the Bonds, in accordance with section 4.

11 Additional Information

11.1 CONSENTS

Prior to the lodgement of this Notice of Meeting and Explanatory Statement with the ASX, the following parties have given and have not withdrawn their written consent to be named in this Explanatory Statement in the form and context in which they are named:

(a) IMC;

(b) King & Wood Mallesons as legal adviser to Horizon;

(c) the Independent Expert;

(d) the Independent Technical Specialist;

(e) Boardroom Pty Limited as the Horizon Share Registry; and

(f) Alan Fernie.

Both the Independent Expert and the Independent Technical Specialist have also given and have not withdrawn, before the date of lodgement of this Notice of Meeting and Explanatory Statement with the ASX, their written consent to the inclusion of the Independent Expert's Report and Independent Technical Specialist's Report (as applicable) in the Notice of Meeting and Explanatory Statement in the form and context in which it is included and to all references in the Notice of Meeting and Explanatory Statement to that report in the form and context in which they appear.

12 Glossary

Set out below are the defined terms used in this Notice of Meeting and Explanatory Statement (including that a word that is derived from a defined word has a corresponding meaning).

TERM	MEANING
A$	means Australian dollars.
ANZ	means Australia and New Zealand Banking Group Limited and ANZ Bank New Zealand Limited.
ASIC	means the Australian Securities and Investments Commission.
Associate	has the meaning given to that term by sections 12 and 16 of the Corporations Act.
ASX	means ASX Limited ACN 008 624 691 and the financial market that it operates, as the context requires.
Board	means the board of directors of Horizon.
Bond Trust Deed	means the trust deed dated 14 June 2011 under which the issue of the Bonds is constituted.
Bondholders	means the holders of the Bonds.
Bonds	means the US$80 million of 5.5% convertible bonds issued by Horizon in 2011, of which US$58.8 million remain outstanding.
Borrower	means the borrowers under the Facility Agreement as specified in the table in section 3.1.
Chairman	means the chairman of the Board, which at the date of this Notice of Meeting is John Humphrey.
Corporations Act	means the *Corporations Act 2001* (Cth).
Director	means a member of the Board.
Drawdown Notice	means the notice Horizon (or one of its subsidiaries) is required to issue under the Facility Agreement, following Financial Close, in order to drawdown the US$50 million under the IMC Facility.
Excluded Voter	means IMC and its Associates.
Exercise Price	means the exercise price per Option, which is A$0.061, which equals 120% of the 30 calendar day volume weighted average price of Shares as at the close of trading on Friday, 24 June 2016 (being the last full trading day prior to the announcement of the IMC Financing Proposal).
Expiry Date	means the expiry date for the Options, which is five years from the date of issue.
Explanatory Statement	means this explanatory statement, prepared by the Company and sent to Shareholders in respect of the Resolution.
Facility Agreement	means the proposed loan agreement and supporting security documents between the Initial Lender and the Loan Obligors to give effect to the IMC Facility.
Facility Amount	means the principal amount of the IMC Facility which is US$50 million.

TERM	MEANING
Final Maturity Date	means 19 September 2016, which is the maturity date for the Bonds as at the date of this Notice of Meeting.
Financial Close	means "Financial Close" under the Facility Agreement which occurs once all conditions precedent under the Facility Agreement outstanding have been satisfied or waived.
FIRB	means the Foreign Investment Review Board.
FY	means a financial year of Horizon (being 1 July to 30 June ending in the relevant nominated year).
Guarantor	means the guarantors under the Facility Agreement, as specified in the table in section 3.1.
Horizon Information	means the information contained in this Explanatory Statement other than the IMC Information.
Horizon or **Company**	means Horizon Oil Limited ACN 009 799 455.
IFRS	means the International Financial Reporting Standards.
IMC Facility	means the proposed secured, subordinated, non-amortising debt facility to be provided by IMC to Horizon in the amount of US$50 million to give effect to the IMC Financing Proposal.
IMC Financing Proposal	means the proposal under which, subject to Shareholder approval at the Meeting, IMC agrees to provide the IMC Facility to fund the redemption of the Bonds and Horizon (and certain of its subsidiaries) agree to grant the Security and Horizon agrees to issue the Options to IMC on the terms outlined in this Explanatory Statement.
IMC Group	means IMC Pan Asia and its subsidiaries.
IMC Information	means all information regarding IMC and provided by or on behalf of IMC for inclusion in this Explanatory Statement (and any information solely derived from, or prepared solely in reliance on, such information), and any updates to that information prepared by or on behalf of IMC and includes all information contained in sections 6.1, 6.3, 6.4 and 7 of this Explanatory Statement.
IMC	means IMC Oil & Gas Investments Ltd (BVI), IMC Investments Limited (BVI) and their Associates.
IMC Pan Asia	means IMC Pan Asia Alliance Corporation.
Independent Directors	means each Director other than Mr Gerrit de Nys.
Independent Expert	means Grant Samuel & Associates Pty Limited ACN 050 036 372 AFS Licence No 240985.
Independent Expert's Report	means the report prepared by the Independent Expert accompanying this Notice of Meeting and Explanatory Statement and which includes the Independent Technical Specialist's Report.
Independent Technical Specialist	means RISC Operations Pty Ltd ACN 150 789 030.
Independent Technical Specialist's Report	means the report of the Independent Technical Specialist included as part of the Independent Expert's Report accompanying this Notice of Meeting and Explanatory Statement.
Initial Lender	means the Initial Lender under the Facility Agreement, as specified in the table in section 3.1 of this Explanatory Statement.
Intercreditor Deed	means the intercreditor deed to be entered into between the Initial Lender and the Senior Financiers as described in section 3.2.
JORC Code	means the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.
Lender	means lenders under the Facility Agreement from time to time.
LIBOR	means the London Interbank Offered Rate.
Loan Obligors	means the Borrower and the Guarantors under the Facility Agreement.
Material Project Document	means a material project document for the purposes of the Senior Finance Documents from time to time.

TERM	MEANING
Maturity Date	means the maturity date for the IMC Facility, which is 5 years from the date of drawdown of the IMC Facility.
Meeting	means the general meeting of Horizon Shareholders, the subject of this Notice of Meeting.
Notice of Meeting	means the notice of meeting accompanying this Explanatory Statement.
Optionholder	means the holder of some or all of the Options from time to time.
Options	means the 300 million options it is proposed will be granted to IMC to acquire new Shares in Horizon on the terms outlined in this Notice of Meeting. The terms of the Options are described in more detail in section 3.3 of this Explanatory Statement.
Original Maturity Date	means 17 June 2016, which was the original maturity date of the Bonds prior to the written resolution passed by Bondholders to extend the maturity date to the Final Maturity Date.
Original Proposal	means the proposed refinancing arrangements announced by Horizon on 23 May 2016, comprising a US$40 million subordinated, secured facility provided by IMC and a US$20 million entitlement offer sub-underwritten by IMC, which has been superseded by the current IMC Financing Proposal.
Related Body Corporate	has the meaning given to that term in section 50 of the Corporations Act.
Relevant Interest	has the meaning given in the Corporations Act.
Resolution	means Resolution 1 in the Notice of Meeting accompanying this Explanatory Statement.
Review Event	means a "review event" under the Facility Agreement, as described in the table in section 3.1.
RG 74	means "ASIC Regulatory Guide 74, Acquisitions Approved by members".
RG 76	means "ASIC Regulatory Guide 76, Related party transactions".
RG 111	means "ASIC Regulatory Guide 111, Content of expert reports".
Security	means the second-ranking security interest granted to IMC over the same assets as the security provided by Horizon (and its subsidiaries) to the Senior Financiers under the Senior Facility.
Security Trust Deed	means the security trust deed dated on or about 14 May 2015 between Horizon, each other Loan Obligor and the Security Trustee (as amended).
Security Trustee	means the security trustee appointed under the Security Trust Deed from time to time.
Senior Facility	means the revolving cash advance facility provided to Horizon by the Senior Financiers.
Senior Financiers	means ANZ and Westpac, who are the lenders under the Senior Facility.
Share	means a fully paid ordinary share in Horizon.
Share Register	means the register of members of Horizon.
Share Registry	means Boardroom Pty Limited, Level 12, 225 George Street, Sydney NSW 2000.
Shareholder	means a holder of Shares.
Subscription Deed	means the option subscription deed between Horizon and IMC under which Horizon agrees to issue the Options to IMC at the time of drawdown under the IMC Facility.
US$	means United States Dollars.
Voting Power	has the meaning given to that term in section 610 of the Corporations Act.
VWAP	means volume weighted average price.
Westpac	means Westpac Banking Corporation and Westpac New Zealand Limited.

ATTACHMENT A

Independent Expert's Report and Independent Technical Specialist's Report

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29 July 2016

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

Dear Directors

IMC Financing Proposal

1 Introduction

Horizon Oil Limited ("Horizon Oil") is an Australian oil and gas company. Its major assets are interests in the producing Beibu Gulf fields, offshore China ("Beibu Gulf"), the producing Maari/Manaia oilfields in the offshore Taranaki Basin, New Zealand, and exploration and development projects in the Foreland Basin in western PNG. Horizon is listed on the Australian Securities Exchange ("ASX") and, as of 24 June 2016, had a market capitalisation of approximately A$57 million.

On 23 May 2016, Horizon announced a proposal to raise the capital required to redeem its outstanding convertible bonds ("Bonds"). The announcement contemplated a US$20 million rights issue and a US$40 million subordinated loan, to be provided by IMC Investments Limited ("IMC"). IMC is Horizon's major shareholder, with a 30.0% shareholding.

On 27 June 2016, Horizon announced the details of a revised funding proposal ("Financing Proposal"), which no longer involves a rights issue. Instead, it is proposed that IMC will provide a US$50 million secured, subordinated loan facility ("Loan") to Horizon. In partial consideration of the provision of the Loan, Horizon will issue to IMC 300 million options over unissued fully-paid ordinary shares in Horizon ("Options"). The Options will have a term of five years and an exercise price of A$ 6.1 cents, representing a 20% premium to the volume weighted average price ("VWAP") of Horizon shares for the 30 days ended 24 June 2016 (being the last full trading day prior to the announcement of the Funding Proposal).

The key terms of the Loan are as follows:

- interest will be charged at LIBOR plus 9%;
- the term of the Loan is five years;
- the Loan is non-amortising: the full amount of the Loan is repayable at the end of the five year term;
- Horizon may pre-pay the Loan at any time without penalty;
- IMC may require repayment of the Loan after three years (subject to no less than three months' notice). If IMC does require repayment before the end of the five year term, it will be obliged to exercise the Options, as long as the Horizon share price is greater than the Option exercise price; and
- the Loan will have second ranking security behind Horizon's existing banking facilities (which at 31 May 2016 were drawn down to US$89 million).

Horizon's outstanding Bonds have a face value of US$58.8 million. Under the original terms of the Bonds they were redeemable in full on 17 June 2016. Taking into account an accumulated deferred yield amount of US$5.2 million and the half-yearly interest payment on the Bonds, the total amount due to be paid to the bond holders on 17 June 2016 was US$65.6 million.

Horizon has secured the consent of the holders of the Bonds to extend the redemption date to 19 September 2016. Horizon paid the accumulated deferred yield amount of US$5.2 million and the half-yearly interest payment on the Bonds on 17 June 2016. It will pay an effective interest rate of 10% on the Bonds for the period 17 June 2016 to 19 September 2016.

Given IMC's existing 30.0% shareholding and the potential increase in IMC's shareholding on any future exercise of the Options, Horizon is seeking shareholder approval under Item 7 of Section 611 of the Corporations Act for the Financing Proposal, including for the issue of the Options to IMC and any subsequent exercise of the Options by IMC (collectively, "Option Issue"). In addition, Horizon is seeking shareholder approval for the Financing Proposal for the purposes of ASX Listing Rule 10.1, which deals with transactions with related parties, and for the purposes of Section 208 of the Corporations Act, which relates to the giving of financial benefits to related parties.

The directors of Horizon who are not associated with IMC (the "independent directors") have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Financing Proposal is fair and reasonable to Horizon shareholders other than IMC and to state reasons for that opinion. A copy of the report will accompany the Notice of Meeting and Explanatory Statement (the "Explanatory Statement") to be sent to Horizon's shareholders. This letter contains a summary of Grant Samuel's opinion and main conclusions.

2 Summary of Opinion

In Grant Samuel's opinion the Financing Proposal, while not fair, is reasonable having regard to the interests of Horizon shareholders other than IMC.

Horizon faces the immediate need to redeem US$58.8 million of Bonds. Given current oil prices of around US$50/barrel, Horizon's market capitalisation of approximately A$60 million and its bank debt of US$89 million, the funding of this redemption is challenging. A failure to redeem the Bonds would have uncertain consequences, but at worst would expose Horizon to the risk of some insolvency process that could result in substantial destruction of shareholder value. Evaluation of the Financing Proposal needs to reflect the reality of Horizon's stressed financial position and the limited options available to it.

The Option Issue has the potential to increase IMC's interest in Horizon above its current level of 30.0%. Accordingly, the regulatory framework requires that the Financing Proposal be evaluated as a takeover of Horizon by IMC.

Grant Samuel has valued Horizon in the range of US$90-165 million, or A$ 9.3-17.1 cents per share. This valuation reflects an estimate of the full underlying value of Horizon, including a takeover premium. For the purpose of takeover analysis, the value of the "consideration" for Horizon shareholders is the price at which Horizon shares might be expected to trade following completion of the Financing Proposal. While any judgment in this regard is by its very nature subject to considerable uncertainty, Grant Samuel has adopted for the purposes of the analysis a post-completion Horizon share price of A$ 4.5-5.0 cents. Because this range of share prices is less than the estimated underlying value of Horizon of A$ 9.3-17.1 cents per share, Grant Samuel has concluded that the Financing Proposal is not "fair".

The more important issue for Horizon shareholders is whether they will be better off if they vote in favour of the Financing Proposal than if they reject it. The Loan to be provided by IMC is on relatively expensive terms, particularly having regard to the value to be delivered to IMC through the Option Issue. However, there is nothing to suggest that the terms of the Loan are uncommercial: Horizon is a risky credit for a subordinated lender and any subordinated lender would require a significant return to compensate for that risk. The Options will only be exercised in circumstances in which the Loan has in fact provided the "breathing space" for Horizon to recapture some equity value (and such exercise will in any event help to secure the financial position of the company). While IMC's percentage interest in Horizon will increase if it exercises the Options, IMC already has an effective blocking stake in Horizon, and some measure of potential control of the company.

Horizon urgently needs to redeem the Bonds. Failure to redeem the Bonds would potentially result in material destruction of shareholder value. The Financing Proposal is the only refinancing proposal currently available to Horizon. In this context, Horizon shareholders will almost certainly be better off if they approve the Financing Proposal. Accordingly, Grant Samuel has concluded

that the Financing Proposal is reasonable having regard to the interests of Horizon shareholders other than IMC.

3 Key Conclusions

- **Horizon does not have the capacity to redeem the Bonds from its current financial resources.**

  Horizon's outstanding Bonds have a face value of US$58.8 million. As of 31 May 2016, Horizon had cash resources of US$22 million (including approximately US$3 million held in joint ventures) and undrawn facilities of US$11 million, although the company's ability to draw down on this facility reduces over time. On 17 June 2016, Horizon paid holders of the Bonds an accumulated deferred yield amount of US$5.2 million and half-yearly interest of US$1.6 million. This was partially offset by the receipt of US$4.3 million from the settlement of hedges on 8 July 2016. At the date of this report, Horizon's share market capitalisation was around A$60 million. At current oil prices, Horizon generates only modest positive cash flows from operations.

  Horizon clearly does not have the capacity to redeem the Bonds from its current financial resources. In this context, Horizon needs to raise additional capital (whether debt or equity). Horizon's existing debt facilities of US$100 million as at 31 May 2016 (drawn to US$89 million) are secured by first ranking security over Horizon's assets. Accordingly, providers of additional debt facilities will be limited to taking second ranking security (unless the additional debt is provided as part of an overall refinancing of Horizon's existing facilities).

- **Assessment of the Financing Proposal requires that it be analysed as if it was a takeover offer for Horizon from IMC.**

  If IMC exercises all the Options, its shareholding in Horizon will increase from its current level of 30.0% to 43.1% (assuming that no equity is issued before the exercise of the Options and that IMC does not increase its shareholding in the company by using the "creep" provisions of Item 9 of Section 611 of the Corporations Act). Because the Option Issue will allow IMC to increase its shareholding above the 20% "takeover threshold", the regulatory framework requires that the Financing Proposal be analysed as if it were a takeover offer for Horizon from IMC. On this analysis, Horizon shareholders are deemed to be giving up the opportunity to receive a fully priced takeover offer (by approving the Financing Proposal). In this context, the Financing Proposal will only be "fair" if the price at which shares in Horizon trade after completion of the Financing Proposal is equal to or greater than the full underlying value of Horizon (i.e. if an increase in Horizon's share price compensates shareholders for foregoing the opportunity to realise a fully priced takeover offer).

- **Grant Samuel has valued Horizon in the range A$ 9.3-17.1 cents per share.**

  Grant Samuel has valued Horizon in the range US$90-165 million, which corresponds to a value of US$ 6.9-12.7 cents per share. At an exchange rate of A$1.00 = US$0.74, this equates to a value in Australian dollar terms of A$ 9.3-17.1 cents per share. The valuation represents the estimated full underlying value of Horizon and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Horizon shares to trade on the ASX in the absence of a takeover offer.

The valuation is summarised below:

Horizon - Valuation Summary					
	Report Section Reference	Value Range (US$m)		Value Range (A$m)	
		Low	High	Low	High
Beibu Gulf	5.4.1	180	210	243	284
New Zealand	5.4.2	30	40	41	54
Papua New Guinea	5.4.3	30	60	41	81
Other assets and liabilities	5.5	4	4	6	6
Head office costs (net of savings)	5.6	(35)	(30)	(47)	(41)
Enterprise value		**209**	**284**	**283**	**384**
Adjusted net borrowings	5.7	(119)	(119)	(161)	(161)
Equity value		**90**	**165**	**121**	**223**
Shares on issue				1,302	1,302
Value per share				**9.3**	**17.1**

The valuation is principally based on discounted cash flow ("DCF") analysis.

Grant Samuel appointed RISC Operations Pty Ltd ("RISC") as technical specialist to review Horizon's interests in Beibu Gulf, Maari (New Zealand) and its PNG development assets. RISC's role included a review of reserves, development plans, production profiles and capital and operating costs. RISC also prepared a valuation of Horizon's exploration interests. RISC's report is attached to Grant Samuel's report.

Grant Samuel's financial analysis was based on valuation scenarios prepared in conjunction with RISC, reflecting RISC's judgements regarding the range of assumptions as to ultimate hydrocarbon recoveries, capital costs and operating costs that could reasonably be adopted for valuation purposes. The valuation is based on oil prices increasing from the prevailing spot price to a longer term oil price in the range US$60-70/bbl. Present values were estimated in US$ terms using nominal discount rates of 9.5-10.5%, and converted to Australian dollar equivalents at the spot rate of A$1.00 = US$0.74.

The valuation is based on a number of important assumptions, including assumptions regarding oil prices and future operating performance. Oil prices and expectations regarding future operating performance can change significantly over short periods of time. Such changes can have significant impacts on underlying value.

- **Grant Samuel has adopted a range of A$ 4.5-5.0 cents as the price at which shares in Horizon might be expected to trade following completion of the Financing Proposal.**

  Grant Samuel has adopted a range of A$ 4.5-5.0 cents as the price at which shares in Horizon might be expected to trade following completion of the Financing Proposal[1]. Judgements regarding future share prices are inherently uncertain. However, Grant Samuel believes that for the purposes of this analysis the range of A$ 4.5-5.0 cents per share is reasonable, assuming the continuation of spot oil prices at around US$50/bbl and exchange rates of around A$1.00 = US$0.75, having regard to the following:

  - between the first announcement of a refinancing proposal on 23 May 2016 and the subsequent announcement on 27 June 2016 of the Financing Proposal, Horizon shares traded in the range A$ 4.3-6.4 cents, with a volume weighted average price ("VWAP") of A$ 5.2 cents;
  - between the announcement of the Financing Proposal on 27 June 2016 and 29 July 2016, Horizon shares have traded in the range A$ 4.5-5.3 cents, with a VWAP of A$ 4.9 cents; and
  - the assumed trading range of A$ 4.5-5.0 cents represents a relatively deep discount to Horizon's estimated underlying value of A$ 9.3-17.1 cents per share. In Grant Samuel's view, the depth of this discount is not unreasonable, reflecting factors including Horizon's highly geared balance sheet, investor uncertainty regarding future oil prices, IMC's substantial shareholding and the relative illiquidity of trading in Horizon shares.

- **The impact of the Financing Proposal on control of Horizon is a matter of degree rather than an outright passing of control.**

  If IMC exercises all the Options its shareholding in Horizon will increase to 43.1%. IMC will be entitled to appoint an additional director to the Horizon board, giving it two representatives on a board of six directors.

  Given IMC's current 30.0% shareholding in Horizon, it is already in a position to influence control of Horizon. For example, IMC is already able to prevent any third party from acquiring 100% of the shares in Horizon. The increase in IMC's shareholding will arguably increase its ability to influence the direction of Horizon, but IMC will still have a shareholding of less than 50% and will be unable to exercise outright control. Accordingly, the impact of the Financing Proposal on control of Horizon is more a matter of degree (IMC will have more influence over the direction or control of Horizon in some circumstances) than a case of an outright passing of control.[2]

- **The Financing Proposal is not "fair".**

  As a practical matter, the impact of the Financing Proposal on control of Horizon is uncertain, but clearly falls well short of an outright passing of control. However, the regulatory regime requires that the Financing Proposal be evaluated as if it were a change of control transaction. The price at which Horizon shares are assumed to trade following completion of the Financing Proposal (A$ 4.5-5.0 cents) is less than the estimated full underlying value (i.e. "control value") of Horizon in the range A$ 9.3-17.1 cents per share. If the Financing Proposal is assessed as a change of control transaction, Horizon shareholders are not being fully compensated for the "passing of control". Accordingly, the Financing Proposal is not "fair".

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1 This range has been adopted for the purposes of the analysis of the Option Issue as required under the Australian regulatory framework. It does not represent a forecast or prediction by Grant Samuel and Grant Samuel makes no representation and gives no warranty as to the price at which shares in Horizon may trade in the future.

2 If IMC acquired the maximum number of shares permitted to be acquired under the "creep" provisions (i.e. 3% every six months) and then exercised the Options at the end of the five year term of the IMC Loan, it would (absent any other shares issues) end up with a shareholding of 67.5%, which would clearly confer outright control. On the other hand, in such a circumstance IMC (by taking advantage of the "creep" provisions) would already have acquired a shareholding of 60% before exercising the Options and would already have achieved outright control of Horizon. The exercise of the Options would have little or no impact on control of Horizon, which would already have passed to IMC.

- **The Financing Proposal will allow Horizon to stabilise its financial position.**

  The Financing Proposal will provide sufficient funds for Horizon to redeem the Bonds and pay all accrued interest. It will allow Horizon to stabilise its financial position. The Loan will have a minimum term of three years (during which time Horizon will not be obliged to make any principal repayments). Horizon will be able to focus on maximising the value of its operating assets and exploring opportunities to extract value for its development assets in PNG.

- **The Loan is on relatively expensive terms.**

  The Loan is on relatively expensive terms, particularly when the implied cost of the Options is taken into account. Grant Samuel has estimated, based on recent Horizon share prices, that the Options will have a value at issue of approximately US$4.5-5.5 million. Taking into account the value of the Options, the effective interest rate for the Loan is of the order of 13-14%. However, Horizon is a relatively risky credit for a financier with a subordinated security position. Any such financier would require an attractive yield to compensate for that risk.

  In any event, there is nothing to suggest that the Loan is not on arm's length commercial terms. Horizon has held discussions with a number of potential providers of subordinated debt and has concluded that the Loan is the most attractive alternative available, having regard to a variety of factors including interest costs and, in particular, certainty of completion.

  Moreover, the Options will only be exercised in circumstances in which there has been at least some share price appreciation. Their exercise (while it would be dilutive and would in that sense have a real cost for other shareholders) would result in an injection of meaningful additional equity and would help to bolster Horizon's balance sheet.

- **Horizon shareholders will almost certainly be better off if they approve the Financing Proposal. Accordingly, the Financing Proposal is reasonable.**

  The reality is that Horizon urgently needs to raise additional funds to redeem the Bonds. The Financing Proposal is the only "live" option capable of immediate completion now available to Horizon. Absent the Financing Proposal, there would be a real risk that Horizon would be unable to redeem the Bonds, which in turn could potentially result in material damage to shareholder value. The impact of the Financing Proposal on control of Horizon is uncertain, but clearly falls well short of an outright transfer of control.

  In Grant Samuel's view, Horizon shareholders will almost certainly be better off if they approve the Financing Proposal. On this basis, the Financing Proposal is reasonable. Overall, therefore, Grant Samuel has concluded that the terms of the Financing Proposal, while not "fair", are reasonable having regard to the interests of Horizon shareholders other than IMC.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Horizon shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Explanatory Statement issued by Horizon in relation to the Financing Proposal.

Voting for or against the Financing Proposal is a matter for individual shareholders, based on their own views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Financing Proposal should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Horizon. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision as to whether to vote for or against the Financing Proposal. Grant Samuel takes no

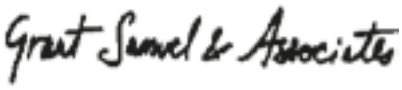
responsibility for any decisions made by shareholders in relation to these investment decisions. Shareholders should consult their own professional adviser in this regard.

Grant Samuel has prepared a Financial Services Guide as required by the *Corporations Act 2001* (Cth). The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully
GRANT SAMUEL & ASSOCIATES PTY LIMITED



Financial Services Guide and Independent Expert's Report in relation to the Proposal by IMC Investments Limited

Grant Samuel & Associates Pty Limited
(ABN 28 050 036 372)

29 July 2016

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Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The *Corporations Act 2001* (Cth) ("Corporations Act") requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Horizon Oil Limited in relation to the Financing Proposal (the "Report"), Grant Samuel will receive a fixed fee of A$200,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 7.3 of the Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 7.3 of the Report:

> *"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Horizon or IMC or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Financing Proposal.*
>
> *Grant Samuel advises that it was engaged by Horizon in July 2015 (i.e. prior to the announcement of the Financing Proposal) to undertake preliminary work to allow Grant Samuel to prepare an independent expert's report for Horizon should such a report be required. This work did not involve Grant Samuel participating in setting the terms of, or any negotiations leading to, the Financing Proposal. This engagement does not affect Grant Samuel's independence or its ability to prepare an independent expert's report in relation to the Financing Proposal.*
>
> *Grant Samuel had no part in the formulation of the Financing Proposal as part of this engagement. Its only role has been the preparation of this report.*
>
> *Grant Samuel will receive a fixed fee of A$200,000 for the preparation of this report (including fees received for the completion of the preliminary work). This fee is not contingent on the conclusions reached or the outcome of the Financing Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.*
>
> *Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."*

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act.

Grant Samuel is only responsible for the Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

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Table of Contents

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1 Terms of the Financing Proposal

Horizon Oil Limited ("Horizon" or the "company") is an oil and gas exploration and production company with operations in China, New Zealand and Papua New Guinea. It is listed on the Australian Securities Exchange ("ASX") and had a market capitalisation of approximately A$57 million immediately prior to the announcement on 27 June 2016 of a proposal to refinance Horizon's outstanding convertible bonds ("Bonds").

Horizon has US$58.8 million of Bonds on issue. The Bonds carry a coupon of 5.5% per year payable six-monthly, a redemption premium of 8.8% of the face value of the Bonds, which is due on repayment of the Bonds, and are convertible into Horizon shares at US$0.409 per share. The Bonds were due to be redeemed on 17 June 2016, at which time US$65.6 million (including interest and the redemption premium) would have become payable

On 23 May 2016, Horizon announced a proposal to raise the capital required to fund the redemption of the Bonds. The announcement contemplated a US$20 million rights issue and the provision by IMC Investment Limited ("IMC"), a 30.0% shareholder in Horizon, of a US$40 million subordinated loan to Horizon.

On 27 June 2016, the company announced a revised funding proposal (the "Financing Proposal"), which no longer involves a rights issue. It is proposed that IMC will provide a US$50 million subordinated secured loan facility ("Loan") to Horizon. In part consideration of the provision of the Loan, Horizon will issue to IMC 300 million options over unissued fully-paid ordinary shares in Horizon ("Options"). The Options will have a term of five years and an exercise price of A$ 6.1 cents, representing a 20% premium to the volume weighted average price ("VWAP") of Horizon shares for the 30 days ended 24 June 2016 (being the last trading day prior to the announcement of the Financing Proposal), and may be exercised at any time before expiry of their five year term. The key terms of the Loan are:

- the interest rate will be 3-month US LIBOR plus a margin of 9.0%;
- the term of the IMC Loan is five years;
- the Loan is non-amortising: there are no principal payments due until redemption;
- Horizon may pre-pay the Loan at any time without penalty;
- IMC may require early repayment after three years (subject to providing three months' notice). If IMC does require such early repayment, it is obliged to exercise the Options, as long as the Horizon share price is equal to or greater than the Option exercise price; and
- the Loan will be secured by a second-ranking charge over the assets over which Horizon's existing banking facility with its senior lenders are secured (Beibu Gulf and Maari) ("Security").

In its announcement of 23 May 2016, Horizon also disclosed that it had received undertakings from the bondholders to vote in favour of the extension of the maturity date of the Bonds from 17 June 2016 to 19 September 2016. On 1 June 2016, the company announced that bondholders had unanimously passed the resolution to give effect to the extension. As part of the arrangements:

- Horizon undertook to pay the 8.8% premium on the US$58.8 million face value of the Bonds on the original maturity date (i.e. 17 June 2016);
- the coupon due on 17 June 2016 in respect of the six months to 17 June 2016 was also payable on that date; and
- the interest rate applicable from the original maturity date of 17 June 2016 to the new maturity date of 19 September 2016 is 10.0% per annum.

The Financing Proposal requires the approval by ordinary resolution of Horizon shareholders under s611 Item 7 and s208 of the Corporations Act and ASX Listing Rules 10.1 and 10.11.

2 Scope of the Report

2.1 Purpose of the Report

Section 606 of the Corporations Act effectively prohibits a person from acquiring a relevant interest in a public company where that person's voting power increases from 20% or below to in excess of 20% or, if that person already has voting power in excess of 20%, their voting power would increase further, except in certain limited circumstances. Item 7 of Section 611 allows non-associated shareholders to waive the Section 606 prohibition by passing a resolution in a general meeting. Section 208 of the Corporations Act prohibits a public company giving a financial benefit to a related party unless the giving of the benefit is approved by shareholders or it falls within specified exceptions. Listing Rule 10.11 prohibits the issue of securities to a related party without the approval of non-associated shareholders, unless an exemption to the rule applies. Listing Rule 10.1 prohibits an entity from providing assets worth more than 5% of its net assets as collateral to a substantial shareholder or related party without the approval of non-associated shareholders.

IMC's percentage shareholding in Horizon may increase as a result of the Financing Proposal as IMC may acquire additional Horizon shares through the exercise of the Options. Accordingly, the issue to IMC of Options and subsequent issue of shares upon exercise of those Options (collectively, "Option Issue") require shareholder approval under Item 7 of Section 611. Because IMC may be deemed to be a related party of Horizon, approval of the Option Issue is also required for the purpose of Listing Rule 10.11, and the giving of a financial benefit to IMC (in the form of the issue of Options and the payment of interest and fees under the Loan) is subject to shareholder approval under Section 208 of the Corporations Act. The provision to IMC of the Security may be deemed to be a disposal of greater than 5% of Horizon's net assets. Because IMC is a substantial shareholder of Horizon, the granting of the security is subject to shareholder approval under ASX Listing Rule 10.1.

Shareholders voting pursuant to Item 7 of Section 611 of the Corporations Act are to be provided with a comprehensive analysis of the proposed transaction. The directors of the company may satisfy their obligations to provide such an analysis by commissioning an independent expert's report. Listing Rule 10.10 requires the notice of meeting at which an approval is sought under Listing Rule 10.1 to include an independent expert's report on whether the transaction is fair and reasonable to the non-associated shareholders. It is market practice for an independent expert's report to be included in the explanatory documents sent to shareholders when their approval is sought under Section 208 of the Corporations Act.

Paragraph 63 of ASIC Regulatory Guide 111 states that "Generally an expert need only conduct one analysis of whether the transaction is 'fair and reasonable', even if the report has been prepared for a reason other than the transaction being a related party transaction (e.g. if item 7 of s611 approval is also required)."

The directors of Horizon who are not associated with IMC (the "independent directors") have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report stating whether, in its opinion, the Financing Proposal is fair and reasonable having regard to the interests of the shareholders not associated with IMC (the "non-associated shareholders"). A copy of the report will accompany the Notice of Meeting and Explanatory Statement (the "Explanatory Statement") to be sent to shareholders by Horizon.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Horizon shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Explanatory Statement issued by Horizon in relation to the Financing Proposal.

Voting for or against the Financing Proposal is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Financing Proposal should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Horizon. This is an investment decision upon which Grant Samuel does not offer an opinion and is independent of a decision on whether to vote for or against the resolution. Shareholders should consult their own professional adviser in this regard.

2.2 Basis of Evaluation

The Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 which establishes guidelines in respect of independent expert's reports. ASIC Regulatory Guide 111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" would be in the best interests of shareholders.

For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. This involves a judgement on the part of the expert as to the overall commercial effect of the proposal, the circumstances that have led to the proposal and the alternatives available. The expert must weigh up the advantages and disadvantages of the proposal and form an overall view as to whether the shareholders are likely to be better off if the proposal is implemented than if it is not. If the advantages outweigh the disadvantages, the proposal would be in the best interests of shareholders.

ASIC Regulatory Guide 111 provides that a proposal under Item 7 of Section 611 involving the issue of securities should be analysed by an expert as if it were a takeover offer. In this case, the Financing Proposal involves the potential issue of shares in Horizon to IMC with the effect that IMC's interest in Horizon could increase above its current level of 30.0%. Accordingly, Grant Samuel has evaluated the IMC funding proposal as a control transaction and formed a judgement as to whether the proposal is "fair and reasonable" to non-associated shareholders.

Fairness involves a comparison of the offer price with the value that may be attributed to the securities that are the subject of the offer based on the value of the underlying businesses and assets. For this comparison, value is determined assuming 100% ownership of the target and a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer such as:

- the offeror's existing shareholding;
- other significant shareholdings;
- the probability of an alternative offer; and
- the liquidity of the market for the target company's shares.

An offer could be considered "reasonable" if there were valid reasons to accept the offer notwithstanding that it was not "fair".

Fairness is a more demanding criteria. A "fair" offer will always be "reasonable" but a "reasonable" offer will not necessarily be "fair". A fair offer is one that reflects the full market value of a company's businesses and assets. An offer that is in excess of the pre-bid market prices but less than full value will not be fair but may be reasonable if shareholders are otherwise unlikely in the foreseeable future to realise an amount for their shares in excess of the offer price. This is commonly the case where the bidder already controls the target company. In that situation,

the minority shareholders have little prospect of receiving full value from a third party offeror unless the controlling shareholder is prepared to sell its controlling shareholding.

While the Financing Proposal may be deemed to be a change of control transaction for Horizon, it is not a "takeover offer" in the conventional sense. The Financing Proposal does not involve the making of any offer or the direct provision of any consideration to Horizon shareholders by IMC. Following the Financing Proposal, Horizon shareholders will continue to hold shares in Horizon, although the value and likely trading price of those shares will be affected by the terms of the IMC Loan. Given that IMC will not provide any consideration directly to Horizon, application of takeover analysis to the Financing Proposal is problematic. Based on recent market practice, the regulatory framework appears to require that the "consideration" should be taken to be the shares in Horizon following implementation of the Financing Proposal. Conceptually, this approach assumes that Horizon shareholders will be surrendering the opportunity to realise full underlying value (i.e. a value including a control premium). In this context, "fairness" from the perspective of Horizon shareholders would require that they are compensated by an increase in the trading price of Horizon such that the trading price of Horizon shares immediately after the completion of the Financing Proposal matches or exceeds the full underlying value of Horizon immediately before the Financing Proposal.

Accordingly, on this formulation of fairness the Financing Proposal would be fair if the expected trading price of shares in Horizon following the Financing Proposal was equal to or greater than the estimated full underlying value of Horizon before the Financing Proposal.

In considering whether the Financing Proposal is reasonable, the factors that have been considered include:

- Horizon's current financial position and its requirement for additional capital;
- Horizon's ability to generate positive cash flows from operations at current oil prices;
- the extent to which the Financing Proposal is likely to improve Horizon's financial position;
- the Option exercise price relative to recent Horizon share prices and to Grant Samuel's estimate of the full underlying value of Horizon;
- the potential dilution of the interests of existing shareholders caused by the Financing Proposal;
- the impact of the Financing Proposal on control of Horizon;
- the potential consequences if the Financing Proposal is not approved by shareholders; and
- any other benefits and disadvantages of the Financing Proposal.

2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Explanatory Statement (including earlier drafts);
- annual reports of Horizon for the four years ended 30 June 2015;
- half year announcement of Horizon for the six months ended 31 December 2015;
- quarterly announcement for the quarter ended 31 March 2016;
- press releases, public announcements, media and analyst presentation material and other public filings by Horizon including information available on its website;
- brokers' reports and recent press articles on Horizon and the oil and gas industry;

- sharemarket data and related information on Australian and international listed companies engaged in the oil and gas industry; and
- information relating to the oil and gas sector including supply/demand forecasts and regulatory decisions and pronouncements (as appropriate).

Non Public Information provided by Horizon

- detailed monthly cash flows models including projections for Horizon's business operations and head office; and
- other confidential documents, board papers, presentations and working papers.

In preparing this report, Grant Samuel has also held discussions with, and obtained information from, senior management of Horizon and its advisers. Grant Samuel appointed a technical adviser, RISC Operations Pty Ltd ("RISC"), to provide certain technical advice to Grant Samuel in relation to the preparation of this report.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Horizon and its advisers. Grant Samuel has considered and relied upon this information. Horizon has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is now, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Financing Proposal is fair and reasonable having regard to the interests of the non-associated shareholders of Horizon. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of Horizon. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting

principles and in a manner consistent with the method of accounting in previous years (except where noted).

RISC was appointed as technical specialist to review the assets of Horizon for Grant Samuel. RISC's review included a review of the reserves, development plans, production schedules, operating costs, capital costs, potential reserve extensions and exploration activities of Horizon. RISC also prepared valuations of Horizon's exploration interests. The report prepared by RISC is attached to and forms part of this report (see Appendix 3).

The information provided to Grant Samuel and RISC included development plans and forecasts for Horizon's key assets and a detailed cash flow model including financial projections for each of its business operations and for its head office for the period commencing 1 January 2016 (the "forward looking information"). Horizon is responsible for the forward looking information. Grant Samuel and RISC have considered and, to the extent deemed appropriate, relied on this information for the purposes of its analysis.

On the basis of the information provided to Grant Samuel and RISC, and the review conducted by Grant Samuel and RISC of such information, Grant Samuel and RISC have concluded that the forward looking information was prepared appropriately and accurately based on the information available to management at the time and within the practical constraints and limitations of such forward looking information. Grant Samuel and RISC have concluded that the forward looking information does not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise. However, the achievability of the forward looking information is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are not necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable. Moreover, the forward looking information provided by Horizon was not originally generated for, and may not be appropriate in the context of, a valuation of the assets of Horizon.

Accordingly, RISC conducted a detailed review of the significant assumptions and technical factors underlying the forward looking information provided by Horizon to RISC and Grant Samuel. This review included a review of the basis on which reserves and resources have been estimated, a review of likely future operating and capital costs, a review of likely future hydrocarbon recovery rates, a review of the potential for the conversion of resources to reserves and such other reviews as RISC deemed appropriate. Having regard to these reviews, RISC made independent judgements regarding the technical assumptions that can reasonably be adopted for the purposes of the valuation of the assets of Horizon ("technical valuation assumptions").

As part of its analysis, Grant Samuel has reviewed the sensitivity of net present values to changes in key variables. The sensitivity analysis isolates a limited number of assumptions and shows the impact of variations to those assumptions. No opinion is expressed as to the probability or otherwise of those variations occurring. Actual variations may be greater or less than those modelled. In addition to not representing best and worst outcomes, the sensitivity analysis does not, and does not purport to, show the impact of all possible variations to the business model. The actual performance of the business may be negatively or positively impacted by a range of factors including, but not limited to:

- changes to the assumptions other than those considered in the sensitivity analysis;
- greater or lesser variations to the assumptions considered in the sensitivity analysis than those modelled; and
- combinations of different variations to a number of different assumptions that may produce outcomes different to the combinations modelled.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by Horizon and its advisers with regard to legal, regulatory, tax and accounting matters relating to the transaction are accurate and complete;
- the information set out in the Explanatory Statement sent by Horizon to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Financing Proposal will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Financing Proposal are correct and will be effective.

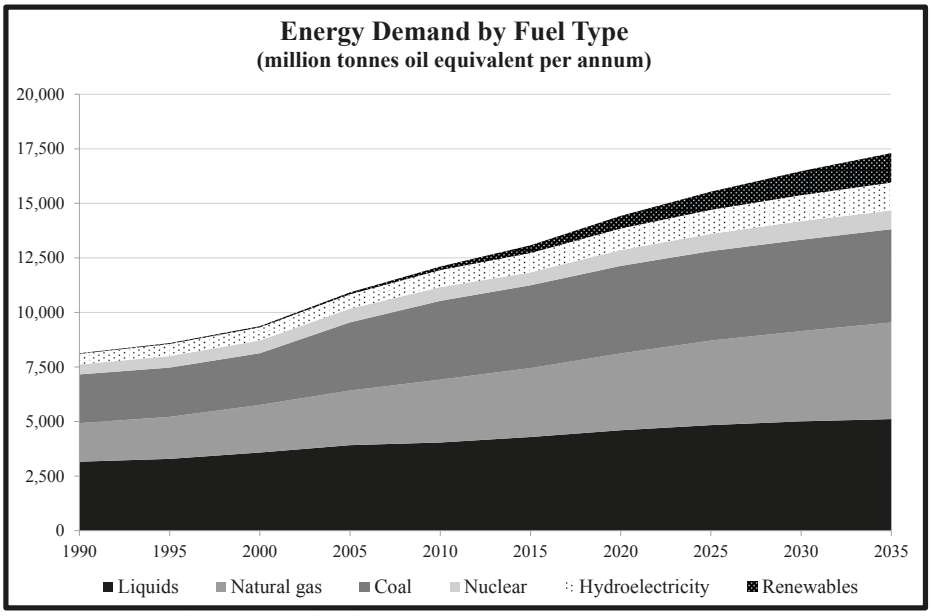
To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

3 Overview of the Oil and Gas Sector

3.1 Global Energy Market

World energy consumption has increased by an average of 1.9% per annum from 1990 to 2014 and is expected to grow on average by 1.4% per annum to 2035[1]. Most of the world's energy requirements are met from oil, coal and natural gas, although alternative sources, in particular renewables, are growing in importance. Recent years have seen high and volatile world energy prices, reflecting growth in global energy demand, an increasing reliance on high cost energy sources, changing geopolitical circumstances, the impact of policy responses to concerns related to climate change, and unsettled economic conditions. The consequences have included increased demand worldwide for natural gas and the growth of renewable energy sources.

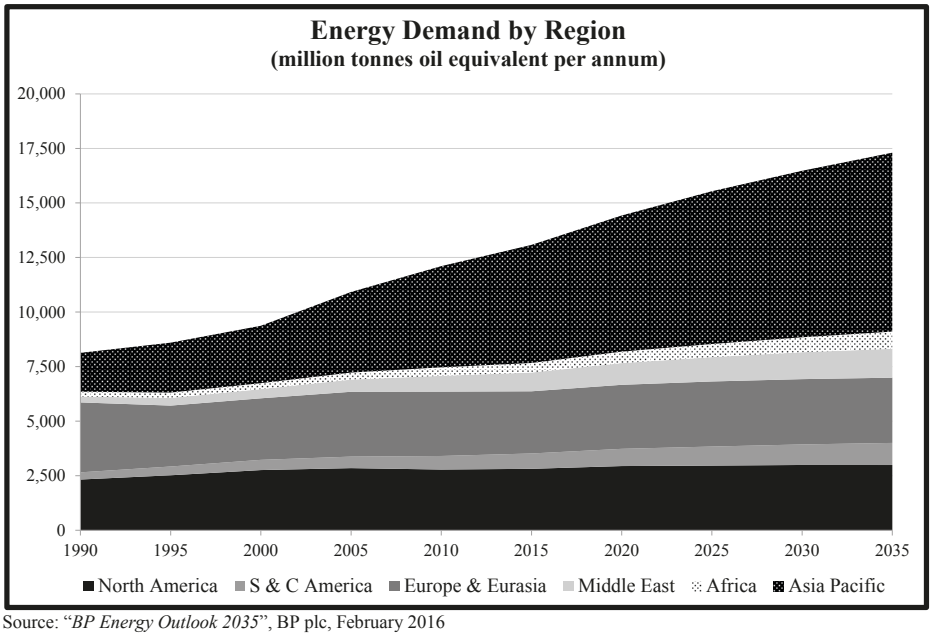
Since 1990, compound annual growth in consumption of natural gas (2.3%) and coal (2.3%) has outpaced demand growth for oil (1.2%). Consumption of natural gas is expected to grow at 1.8% per annum until 2035, while growth in oil demand is expected to weaken to 0.9% and growth in coal demand to 0.5%. As a consequence, oil's share of global energy consumption has declined from around 39% in 1990 to 33% in 2014 and is expected to fall further to around 30% in 2035. Coal's share of energy consumption has grown from 27% in 1990 to 30% in 2014 but is expected to fall to 25% by 2035, and natural gas's share has grown from 22% in 1990 to 24% in 2014 and is expected to reach 26% in 2035. Energy from renewable sources is expected to grow at 7.2% p.a. from 2014 to 2035 but its share of global consumption will remain small at 8% in 2035. World energy demand totalled approximately 12,928 million tonnes of oil equivalent in 2014:



Source: "*BP Energy Outlook 2035*", BP plc, February 2016

Asia Pacific accounted for 41% of global energy demand in 2014, more than half of which relates to China, while North America and Europe & Eurasia each contributed less than one quarter. The Asia Pacific region is forecast to account for two thirds of the growth in demand to 2035, with the Middle East, South & Central America and Africa expected to contribute most of the balance. As a result, Asia Pacific is expected to account for 47% of global energy consumption by 2035:

[1] The major sources of statistical data in the report on the energy sector are "*BP Statistical Review of World Energy 2016"*, BP plc., *"BP Energy Outlook 2035"*, BP plc., February 2016 and "*2016 World LNG Report*", IGU. Growth rates quoted generally use 2014 as the base year.



Source: "*BP Energy Outlook 2035*", BP plc, February 2016

China and India are expected to be the two countries that contribute most to growth in energy demand. China will have the largest impact on energy demand, due both to its absolute size and its rate of economic growth, which is expected to be the highest of any county over the next two decades. While the Indian economy is smaller, it is expected to reach growth rates similar to China's in the period 2025-2035 and therefore become an increasingly important contributor to global energy demand growth.

Energy demand growth has been largely driven by the industrialisation and electrification of growing economies. While these factors are expected to continue to drive growth, analysts are forecasting a gradual diminution in their impact as developing economies approach economic maturity and lower energy intensities are required per unit of GDP.

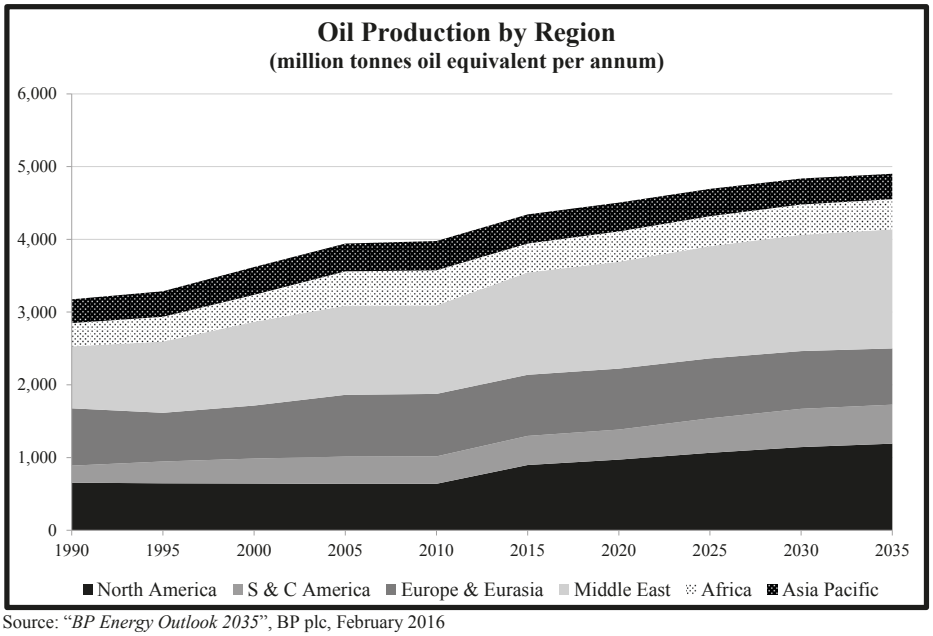
3.2 Oil Industry

Supply and Demand

Oil's primary use is as transport fuel, mostly for road motor vehicles. The production of oil is heavily influenced by the Organisation of Petroleum Exporting Countries ("OPEC"), an intergovernmental organisation of 12 oil-exporting developing nations that coordinates and unifies the petroleum policies of its member countries[2].

Global oil production since 1990 and projected oil production to 2035 are illustrated below:

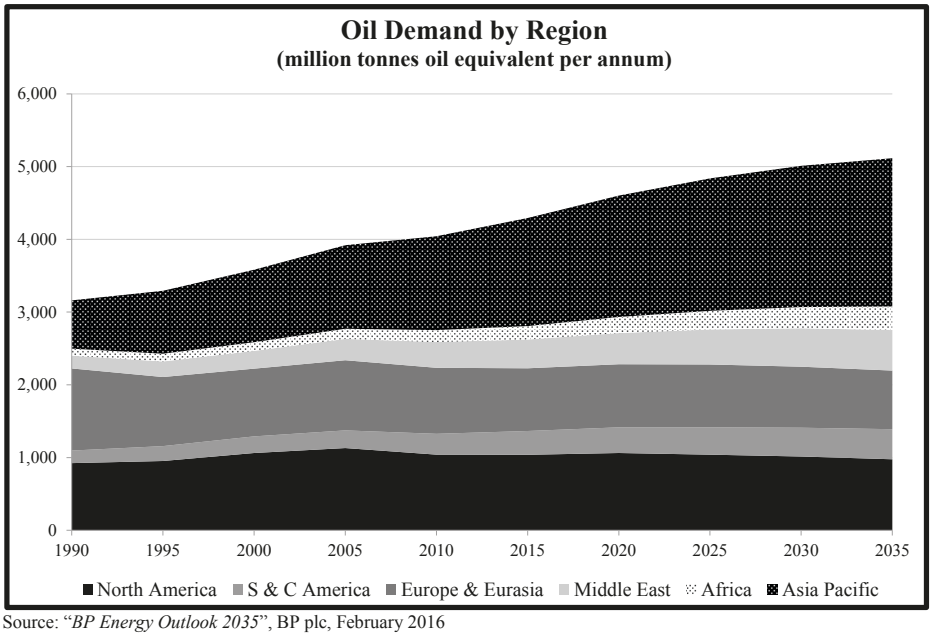
[2] Members: Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, Venezuela.



Source: "*BP Energy Outlook 2035*", BP plc, February 2016

Between 1990 and 2014, oil production increased by 1.2% per annum, with half the increase in production stemming from the Middle East. Global oil production growth between 2014 and 2035 is expected to decrease to an average of 0.7% per annum with half the expected growth in volumes expected to originate from North America and South & Central America and the Middle East contributing the balance in roughly equal shares. The expected increase in North American supply reflects technological advances that have improved the economic viability of unconventional oil sources such as shale oil and tight oil. Growth in South & Central America is expected to result from new discoveries and developments, particularly in Brazil.

Although the North American market has historically been the largest consumer of oil, it was overtaken by the Asia Pacific region around 2005. By 2035, oil consumption in the Asia Pacific region is expected to be more than double the consumption in North America, reflecting increased demand in China and India, particularly for use in transport. Over the same period, oil consumption in North America and Europe & Eurasia is expected to decline.



Source: "*BP Energy Outlook 2035*", BP plc, February 2016

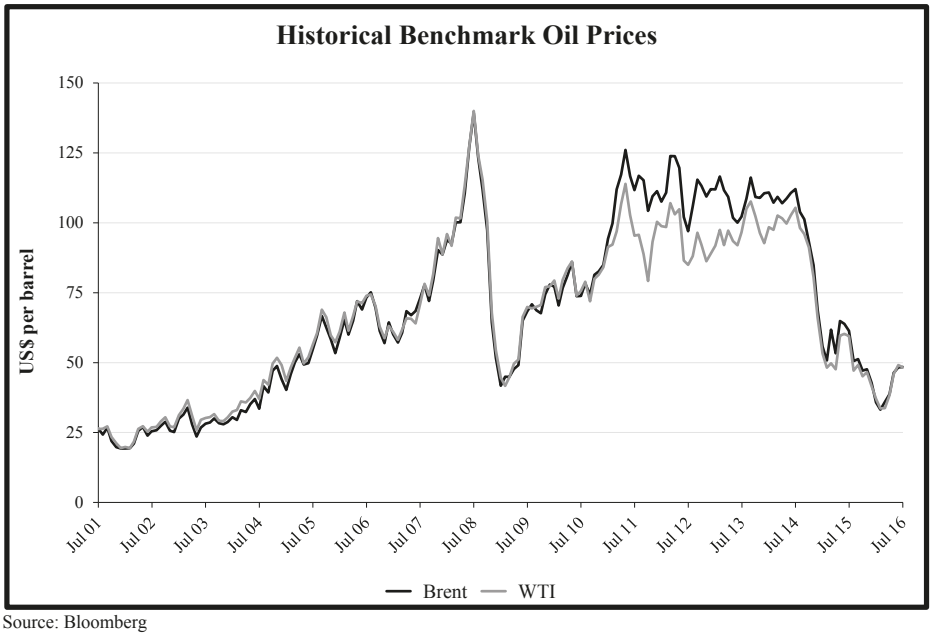
Pricing

Oil is one of the most heavily traded commodities in the world. Prices are typically set against one of the following two international benchmarks and are adjusted to reflect the specific characteristics of the products and the location of the ports of origin and destination:

- West Texas Intermediate ("WTI"), a light, sweet crude oil, is the primary benchmark for oil produced in the United States. Cushing, Oklahoma, is a major hub and delivery location for WTI and represents the settlement point for WTI. Futures contracts on WTI are traded on NYMEX[3]; and
- Dated Brent ("Brent"), which is also a light crude oil, although not as light as WTI, is a composite blend of oils from 15 different oilfields in the North Sea. It has historically been used as a crude oil benchmark primarily within Europe. However, the impact on WTI pricing of United States market specific factors has reduced the relevance of WTI as an international benchmark, and instead Brent is increasingly being used as a global benchmark price for oil.

The Brent and WTI oil prices and the Brent/WTI spread over the past ten years are illustrated below:

[3] A designated contract market operated by CME Group that offers derivative products subject to NYMEX rules and regulations.

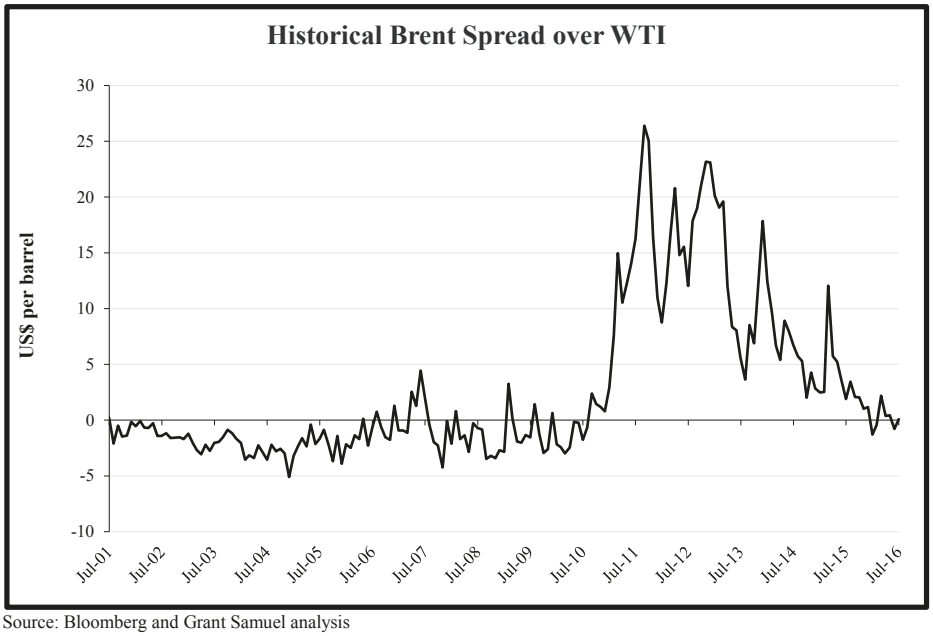


Source: Bloomberg

The oil price trended strongly up to July 2008, including during the global financial crisis of late 2007 and first half of 2008. However, weaker economic conditions eventually affected oil markets and the Brent oil price fell from a high of US$145/bbl in early July 2008 to US$31/bbl in late December 2008. The oil price then slowly recovered and Brent oil broadly traded in the US$100-125/bbl range in 2011, 2012, 2013 and the first half of 2014. Key to this recovery was OPEC's decision to limit production, as well as increasing demand from developing countries in Asia. Furthermore, while political instability across North Africa, the Middle East and Russia/Ukraine caused some price volatility, it also provided general support for higher oil prices.

Since July 2014, however, the oil price has fallen sharply. It fell from around US$100/bbl to lows of around US$26/bbl in mid-January 2016 before rebounding to current levels of around US$45-50/bbl. The fall in the oil price has reflected continued growth in production, particularly from non-OPEC sources, including from shale sources in the USA, which has coincided with softening demand growth in China and a market re-evaluation of China's economic growth prospects. The volatility in the oil price since its sharp decline in the second half of 2014 seems to reflect varying views in the market in relation to recovery prospects. While a lack of investment provided support for higher prices, the availability of cheaper unconventional oil in the US provided an ongoing cap on price. Furthermore, while the market expected OPEC to vary production to address the demand/supply balance and manage price movements as it has done historically, OPEC production, led by Saudi Arabia, has continued at relatively high levels, which has added to downwards pressure on the oil price.

The WTI and Brent benchmarks have historically traded in line with each other, but an increase in United States production combined with a shortage of pipeline capacity to transport the oil to refiners has led to a build-up of WTI inventories, with the result that WTI has traded at a discount to Brent since August 2010, although the gap has closed in recent months:



Source: Bloomberg and Grant Samuel analysis

3.3 LNG Industry

Supply and Demand

Natural gas is a fuel source produced through the breakdown of organic matter. It primarily comprises methane but may also contain other hydrocarbons (such as propane, butane and ethane), nitrogen and carbon dioxide. Liquefied Natural Gas ("LNG") is refrigerated using large gas turbines and cryogenic heat exchangers, which convert natural gas into a liquid by cooling it below its condensing temperature of -160 degrees Celsius. LNG has a much reduced volume relative to natural gas (by a factor of approximately 600 times), which makes it economic to transport over long distances. LNG is typically shipped in specially designed tankers for delivery to purpose built inbound terminals, where it is converted back into gas before being distributed as pipeline natural gas. Natural gas has a range of uses in the industrial, power generation, commercial and domestic sectors.

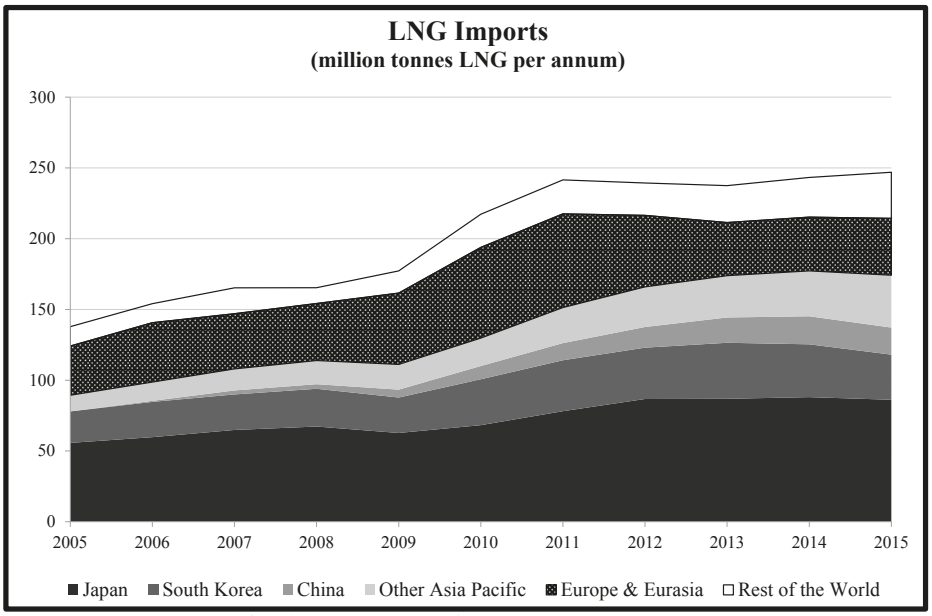
Natural gas is often categorised as "conventional" or "unconventional", depending on its source. Conventional gas is typically found in underground reservoirs (both onshore and offshore), sometimes in association with oil. A hydrocarbon reservoir consists of hydrocarbon-rich porous rocks or sands, capped by overlying rock formations of lower permeability that effectively trap the hydrocarbons within the reservoir. Unconventional gas includes coal seam gas, (contained within coal seams), shale gas (contained within low permeability organic rich rocks), tight gas (contained in low permeability reservoir rocks) and gas from renewable sources such as biogas (landfill and sewage gas) and biomass (wood, wood waste and sugarcane residue). Dramatic technology improvements have seen a massive expansion in unconventional gas resources, which now represent around 45% of the world's estimated remaining technically recoverable gas resources and have been a major factor in the expansion of global gas resources from around 50-60 years' of supply to current estimates of more than 200 years' of supply. The majority of identified unconventional gas is shale gas, principally in North America.

Around 30% of global natural gas production was traded internationally in 2015, with 20% of production delivered via pipelines and 10% delivered as LNG, mostly under long term contracts (although the importance of spot sales is growing).

Commercial scale LNG liquefaction commenced in 1964, with the commencement of production at Arzew in Algeria. Early industry growth was supported by the development of substantial LNG capacity in Malaysia and Indonesia. Australia's first LNG production (from the North-West Shelf project) commenced in 1989. Since 2000, global liquefaction capacity has more than doubled, with significant new capacity from major new LNG projects in Qatar and (to a lesser extent) the expansion of Australian LNG production. While consumption of natural gas overall has grown by around 2.3% per annum from 1990 to 2014 and is forecast to grow at around 1.9% per annum in the period through to 2035, LNG consumption has grown much faster and is expected to continue to grow rapidly. The IEA has projected global LNG demand growth of 5-6% per annum through to 2020, followed by slower rates of growth of 2-3% per annum.

Given that Japan and South Korea have limited natural gas resources and little or no access to international gas pipelines, these two countries are the major importers of LNG, primarily for power generation. Japan is heavily reliant on LNG (a reliance exacerbated by the Fukushima nuclear disaster) and was the world's largest importer of LNG in 2015 (118bcm) ahead of South Korea (44bcm). In 2015, Japan and South Korea accounted for almost half of global demand for LNG and China, India, Taiwan, Spain and the United Kingdom together accounted for 27%. As industrialised countries with limited domestic energy alternatives, Japan, South Korea and Taiwan are viewed as premium markets for LNG supply.

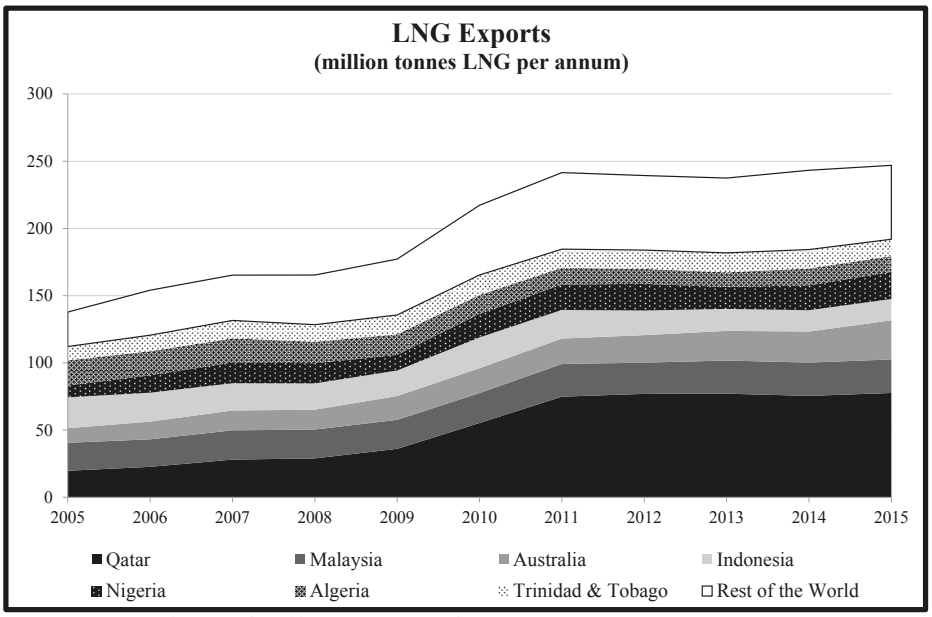
The following chart demonstrates the dominant (and growing) share of global LNG consumption that is attributable to the Asian region:



Source: "*BP Statistical Review of World Energy 2016*", BP plc

While Japan and South Korea will continue to be the major consumers of LNG in the period to 2030, growth in their demand for LNG is likely to be modest. The majority of the growth in demand projected through to 2030 is expected to come from China, India and other Asian countries and, to a lesser extent, Europe. China has implemented a five year plan to gasify its economy by increasing the share of gas in the energy mix. This increased demand for gas is expected to be satisfied by an increase in domestic shale gas production and by gas imports, both in the form of LNG and by way of gas transported via pipelines from Russia, Central Asia and Myanmar. While China and India are expected to be responsible for much of the LNG demand growth, their access to alternative energy sources may make them more price sensitive and less willing to pay the "security premiums" available in traditional Asian markets.

LNG exports are fairly concentrated: Qatar is the largest exporter of LNG and accounted for approximately 31% of global LNG exports in 2015. Six other countries (Australia, Malaysia, Nigeria, Indonesia, Trinidad & Tobago and Algeria) together contributed another 46% to global LNG exports:



Source: "*BP Statistical Review of World Energy 2016*", BP plc,

Global installed LNG production capacity totalled 301mtpa at the end of 2015 As of April 2016, approximately 140mtpa worth of LNG production capacity was under construction and announced to come online before 2020, primarily in Australia and the United States, which is expected to result in a 40% increase in installed capacity to approximately 420mtpa by 2020. Qatar is the world's largest LNG exporter, followed by Australia which surpassed Malaysia as the second largest exporter in 2015.

Qatar exported over 78mt of LNG in 2015. The major participants in Qatar's LNG industry are Qatargas Operating Company Limited ("Qatargas") and RasGas Company Limited ("RasGas"). RasGas and Qatargas have an aggregate of 14 LNG trains in operation, with a total LNG liquefaction capacity of 77mtpa. Six LNG megatrains were commissioned over 2009 and 2011. The Qatar government has stated that it does not anticipate the construction of any additional LNG trains but that production may increase through improved utilisation of the existing facilities.

The LNG sector in Australia is undergoing a substantial expansion. 5.5mtpa of LNG production capacity was added in 2015 and 54mtpa is currently under construction, including the Gorgon, Wheatstone, Ichthys and Prelude projects off-shore Western Australia and two coal seam gas based projects in Queensland. These projects are expected to increase Australian's LNG production capacity from 33mtpa in 2015 to 87mtpa by 2017 or 2018, which would result in Australia becoming the world's largest LNG producer. The introduction of Floating LNG technology ("FLNG"), involving LNG liquefaction facilities mounted on very large vessels tethered over offshore gas fields, has the potential to transform the economics of many offshore gas fields that might otherwise be unviable. Shell's Prelude project was the first approved FLNG project in the world.

Malaysia's LNG industry comprises three integrated plants with a total production capacity of approximately 25mtpa. An additional 6.3mtpa of LNG production capacity is under construction.

The impending entry of United States-based sources of LNG supply has the potential to materially affect the global LNG market. Technical advances and regulatory changes have allowed the viable production of shale gas, the consequent identification of substantial resources of shale and other unconventional gas, and rapid growth in unconventional gas production. The availability of significant volumes of low cost gas has led to a large number of proposals for the development of LNG export facilities. While the United States had installed LNG production capacity of only 6.0mtpa in mid-2016 following the completion of Train 1 of the Sabine Pass project, 32 projects with a total capacity of 307mtpa are being proposed as of early 2016 in addition to the eight projects with a combined capacity of 58mtpa[4] currently under construction. Regulatory issues may be an impediment to the development of a US LNG export industry. Gas exports require the approval of the US Department of Energy. In particular, projects that plan to export to countries that are not parties to free trade agreements ("FTAs") with the US (i.e. all the major LNG importers bar South Korea[5]) require non-FTA export licences, which can be more difficult and time consuming to obtain than FTA export licences. As at June 2016, seven major projects in the United States had received export and Federal Energy Regulatory Commission approvals: Cheniere's Sabine Pass LNG (27mtpa) and Corpus Christi LNG (13.5mtpa), Freeport LNG (13.2mtpa), Cameron LNG trains 1-3 (12mtpa), Cove Point LNG (5.25mtpa), Jordan Cove LNG (6mtpa) and Lake Charles LNG (15mtpa). Notwithstanding the regulatory uncertainty (including the risk of export approval being revoked), US gas price volatility and the possible increase in US gas prices that would result from any significant export volumes, it is to be expected that US LNG will ultimately have a significant effect on the global LNG market. Asian and other customers are likely to be motivated to geographically diversify their sources of supply and access LNG priced off US gas benchmark pricing rather than the oil-based pricing that applies to most LNG contracts in the Asian markets. The long construction times for the US LNG projects currently under development mean that US LNG exports will not directly materially affect the global LNG market in the short term. However, at the marketing level, the entry of the US producers is already having a significant effect on LNG markets. Negotiations of terms for foundation sales for new projects globally are increasingly reflecting the reality of imminent US production.

Approximately 25 LNG projects representing 340mtpa of LNG production capacity are under consideration in Canada. These projects have not yet reached final investment decision and many will clearly not be approved for development, even over the medium to longer term. Even those that are approved are unlikely to enter production before the next decade.

There are other potential new sources of gas supply including Mozambique, Tanzania, Russia and the Asia Pacific. In particular, very large gas fields have been discovered offshore Mozambique and Tanzania. However, poorly developed regulatory frameworks, political instability and other forms of sovereign risk may discourage market participants from making the very large capital investments and entering into the long term supply contracts required to underpin the development of LNG facilities to exploit these resources. In the short to medium term, at least, these factors may hinder the production of LNG from these regions.

Pricing

LNG projects are characterised by large capital investments and long development lead times. Accordingly, LNG producers and consumers have historically typically entered into long term gas supply contracts of 15 to 20 years or more in duration, both to underpin the funding of the project developments and to provide certainty of supply to LNG consumers, although the share of LNG sold on the spot market or under short term (less than two years) and medium term (two to five years) contracts has increased from approximately 8% in 2005 to approximately 30% in 2015.

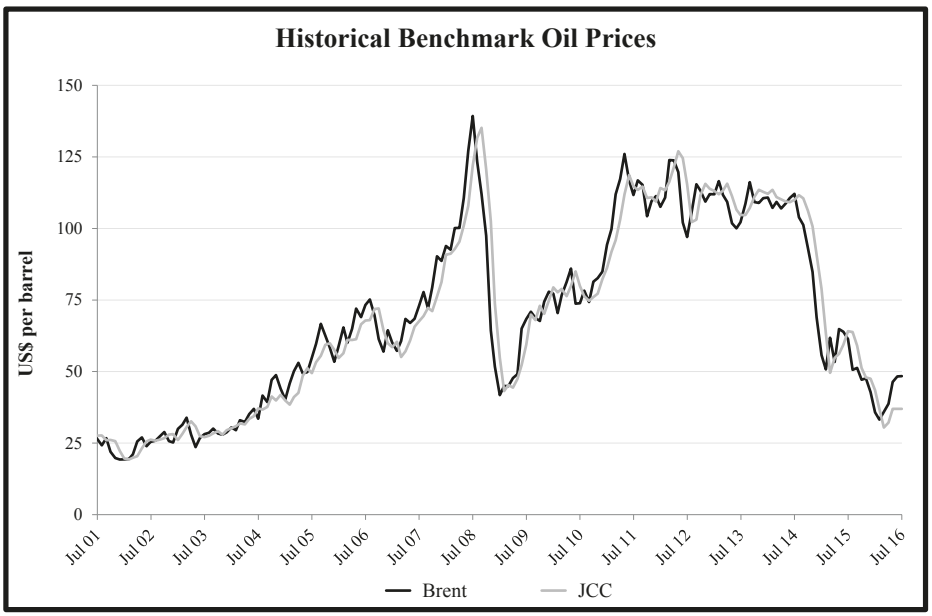
LNG prices in most long term contracts are linked to an energy index, with different indices and methodologies used in different regions:

[4] Excludes production capacity of 4.5mtpa relating to Train 1 of the Sabine Pass project which was completed in May 2016.

[5] Countries that are parties to FTAs with the United States and import LNG are Canada, Mexico, Dominican Republic, Chile, Singapore and South Korea.

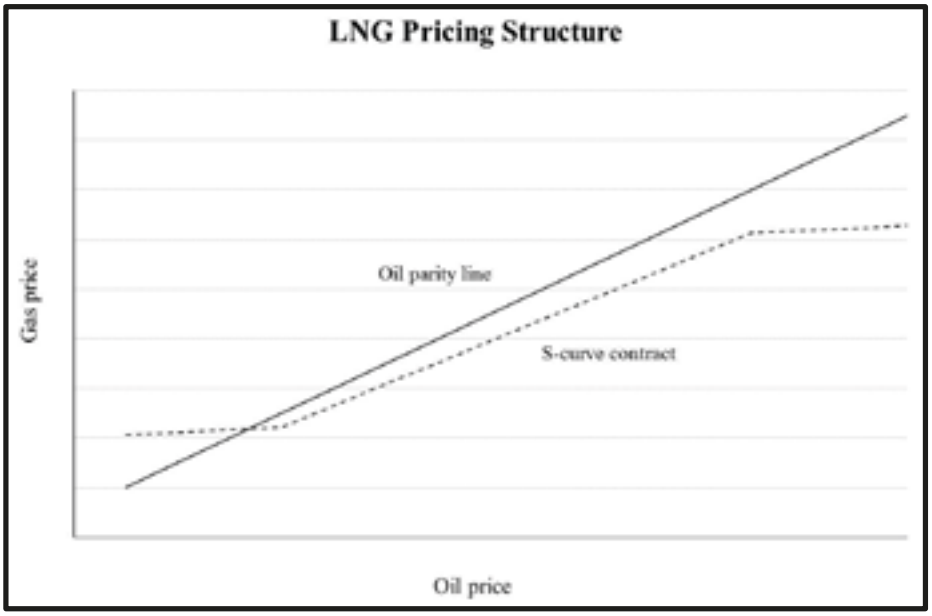
Region	Index	Commodity
Northern Asia	Japan Crude Cocktail	Crude oil
Continental Europe	Various, hub-based pricing	Combination of crude oil, oil products and other energy commodities. There has been a shift away from oil-linked pricing in North-west Europe
United States, United Kingdom	Henry Hub, National Balancing Point	Domestic gas

Australian LNG suppliers participate principally in the North Asian market, where the major customers are Japan, China, South Korea and Taiwan. Contracts for supply in the North Asian market are generally priced relative to the Japan Customs-cleared Crude benchmark, also known as the Japanese Crude Cocktail ("JCC"). The JCC is the average price of customs-cleared crude oil imports into Japan and is calculated on a monthly basis. The JCC typically moves in line with oil benchmark prices, albeit with a time lag reflecting the timing of deliveries:

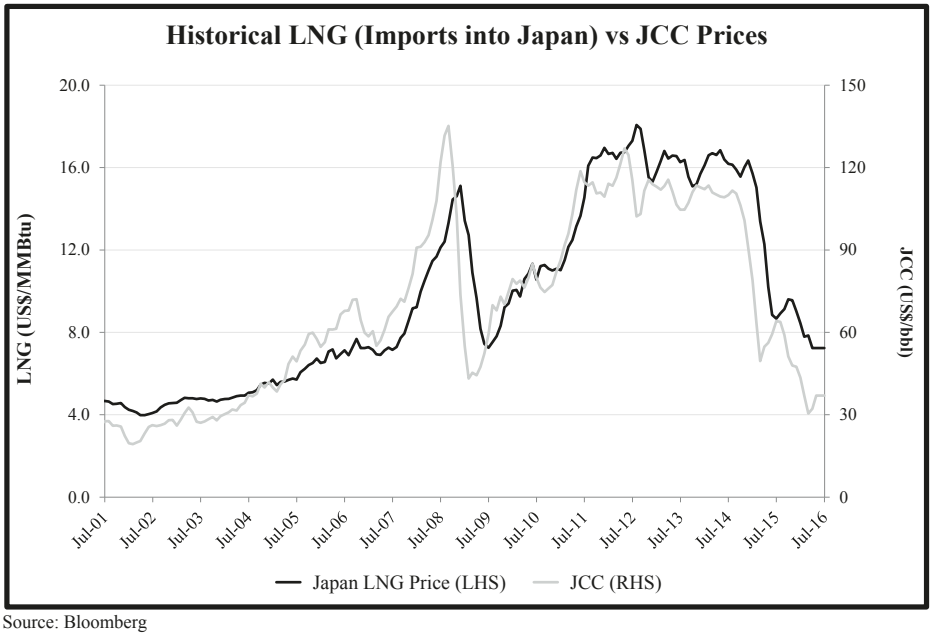


Source: Bloomberg

LNG pricing in the North Asian market is commonly based on the energy relativities between natural gas and oil. One million BTu of gas has approximately 17.2% of the energy content of a barrel of Brent oil. LNG pricing is generally based on a discount to oil parity (generally 14-15% rather than 17.2%) reflecting general market demand and supply dynamics, and allows for a small discount to account for shipping costs. Some contract arrangements, known as "S-curves", are more complex with flatter slopes at low prices (to protect the seller) and at high prices (to protect the buyer). The diagram below compares a typical S-curve arrangement with the oil parity line: the middle portion of the S-curve has a lower gradient than the oil parity line (14-15% vs 17.2%) and is lower (discount for shipping costs):



The linkage between oil and LNG prices is further illustrated by the following chart which compares the historical LNG price for imports into Japan, reflecting both contract and spot sales, with the JCC benchmark:

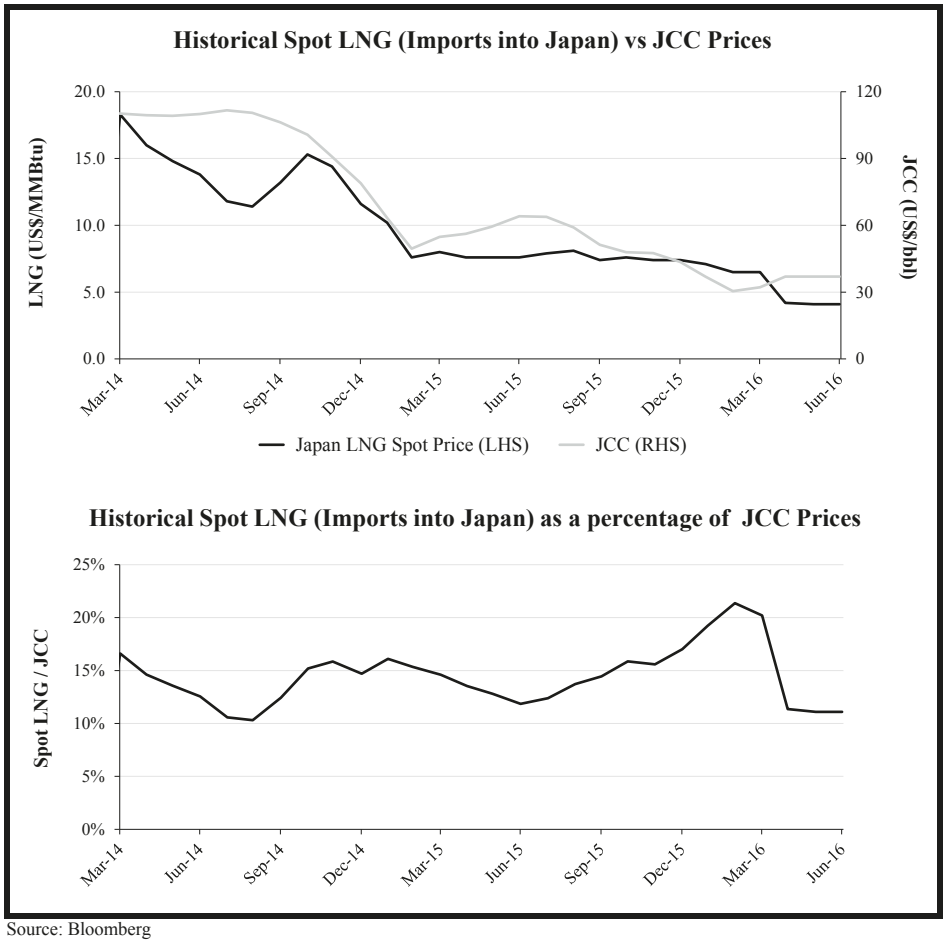


Source: Bloomberg

Between the GFC and December 2014, the price of LNG imported into Japan has generally traded within a range of 14-15% relative to the JCC price, albeit with a three-month lag reflecting the timing of deliveries. This is consistent with typical contract terms and the fact that most sales are made under contract with prices linked to the JCC or another oil price benchmark. Since then, as the JCC price fell below US$50/bbl, the price of LNG imported into Japan has generally been well

in excess of 15% of the JCC potentially reflecting the downside protection that pricing arrangements based on an S-curve provide to LNG producers in low oil price environments.

The LNG spot price (for imports to Japan) has generally tracked the JCC benchmark, although it has traded in the wider range of 10-20% relative to JCC. In particular, LNG spot prices fell before oil prices started to fall in July 2014 but remained relatively strong in the December 2015 and March 2016 quarters while the oil price experienced a sharp decline. LNG prices have since underperformed the oil price and have been trading at around 11% of the JCC price since April 2016:



Source: Bloomberg

Outlook

There are a number of factors that complicate forecasts of future LNG pricing in the North Asian market:

- at a global level, the contrast between the growing scarcity of (relatively high cost) oil and the increasingly abundant supplies of inexpensive natural gas suggests that there will be growing pressure to modify and perhaps break the traditional nexus between LNG and oil prices;
- this pressure will be particularly acute when LNG is competing with other gas (potentially delivered by pipeline) or other energy sources. Those countries that are likely to represent the bulk of future LNG demand growth (China and India) are paradoxically likely to be the

most price sensitive, given their potential access to other sources of energy. In the case of China, this may include both Russian pipeline gas and domestic sources of unconventional gas;

- an increasingly liquid spot market for LNG may mean that some LNG buyers will be less willing to pay the premium for certainty of supply that is implicit in long term oil-linked contracts;
- global market access to US shale gas and East African gas resources has the potential to materially affect the supply/demand balance;
- estimates of future global LNG demand are highly leveraged to assumptions relating to ongoing economic growth on the part of, in particular, China and India. There appears to have been a fracturing of the market consensus that China would experience high rates of uninterrupted economic growth, and markets for a whole range of commodities appear to be pricing in a risk that Chinese (and global) growth will disappoint;
- on the other hand, the LNG business will remain a high capital cost business and will require continued strong pricing to stimulate new supply;
- customers that are critically reliant on LNG and have limited alternatives (e.g. the "premium customers" of Japan, Taiwan and South Korea) will presumably continue to attribute considerable value to low risk sources of supply that can provide a high degree of certainty of supply;
- higher Henry Hub gas prices as a result of US economic growth, higher domestic demand or higher cost structures, may result in US LNG prices being higher than oil-linked prices; and
- ongoing underestimation of gas requirements by buying countries and/or reluctance by LNG producers to build new projects due to low price signals may result in demand/supply imbalances and erratic price movements over time.

Many market commentators have focussed in particular on the possible impact of a growing US LNG export business on the global LNG market, both in terms of contract pricing structure and absolute pricing levels.

The US LNG export industry is based on the extensive shale gas resources developed in recent years, the extensive gas distribution infrastructure already in place and the consequent availability of abundant low cost gas. A number of potential LNG export projects have applied for export approvals (although to date only a limited number have received all necessary approvals).

The contractual arrangements for customers of US LNG export facilities will generally be very different from the North Asian long term contract arrangements under which Australian LNG producers supply LNG. US LNG export facilities will generally operate on a tolling basis, whereby customers will:

- acquire their own gas in the US market, paying Henry Hub benchmark prices;
- arrange and pay for the transport of that gas to the liquefaction facility;
- bear the cost of the gas used in the liquefaction process ("fuel gas") (approximately 15% of the total gas delivered to the liquefaction facility);
- pay a capacity charge on a "take or pay" basis for liquefaction of the gas; and
- arrange and pay for the shipping of the LNG to its ultimate destination.

The consequence will be that almost all of the supply side risks will be passed on to the customer, including Henry Hub pricing risk and continuity of supply risk. In a worst case, customers would continue to be liable to pay capacity charges notwithstanding supply interruptions. Even in contractual arrangements in which the risks were more evenly shared (e.g. where LNG was sold FOB), end users (including customers) are likely to be exposed to full Henry Hub pricing risk.

By contrast, North Asian long term contracts are structured to essentially relieve the customers of as much risk as possible, with cargoes generally delivered on a Delivered Ex Ship ("DES") basis, with the supplier responsible for all costs and bearing all risks until the cargo arrives in the destination port.

There has been speculation that the supply of large volumes of US sourced gas based on Henry Hub pricing could significantly disrupt global LNG market and exert sustained downward pressure on LNG prices, including into the Asian market. However:

- after taking into account capacity (i.e. liquefaction) charges and costs for shipping to Asian market, and adjusting for the incremental risks borne by end users or customers in import countries under the US LNG supply arrangements, US-sourced LNG may not be materially cheaper than LNG priced on a traditional oil-linked basis;
- substantial sales of US gas for LNG export may in any event drive up US gas prices, eroding some of the apparent price advantage of Henry Hub priced gas; and
- the first wave of US export facilities are based on the conversion of mothballed LNG import facilities into export facilities, and the take-or-pay capacity charges negotiated to date reflect the relatively modest capital costs of these brownfields conversions. However, subsequent LNG developments will be greenfield sites, involving potentially much higher capital costs. The higher capacity charges required to recover these higher capital costs will also tend to undermine the price advantage of US-sourced LNG.

There appears to be little doubt that, over time, growing US LNG exports and other new sources of LNG supply (including East Africa and Canada) will affect the global LNG market, although the magnitude and timing of their impact are uncertain. It is likely that Asian LNG customers will choose to diversify their sources of supply, both in terms of geographic location and pricing structures. Supply agreements may reflect "hybrid" pricing arrangements, referencing both the oil price and Henry Hub gas prices. Directionally, there is likely to be some downward pressure on Asian LNG prices, while US prices may increase, narrowing the pricing differential between the two regional markets. Some potential new suppliers of LNG (particularly participants in the East African gas fields that are not currently significant LNG suppliers) may be motivated to attempt to break down existing market structures and pricing mechanisms. But LNG pricing will have to continue to reflect the high costs of liquefaction capacity and certain customers will presumably continue to be prepared to pay some premium for security of supply. It is conceivable that a future market imbalance, perhaps resulting from a material demand shock and/or growth in supply from new participants, could have a more pronounced effect on the LNG market in terms of structure and pricing. However, there is unlikely to be any major change to the North Asian market in the short to medium term as the majority of existing contracts are long term, oil price-linked contracts.

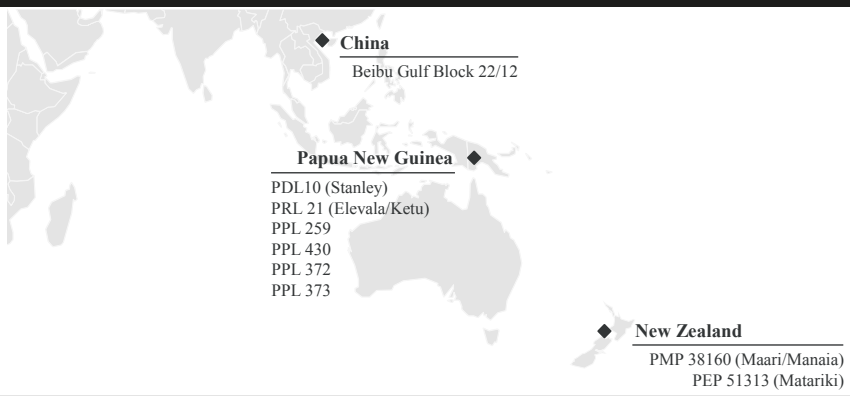
4 Profile of Horizon

4.1 Overview

Horizon is an oil and gas exploration, development and production company, incorporated in Australia and with operations in Southeast Asia and Australasia. Horizon was formed in 1969 as an exploration and production company and was listed on the Australian Securities Exchange ("ASX") as Bligh Oil & Minerals N.L. in June 1981. In October 2002, its name was changed to Horizon Oil N.L. and in February 2004 its status was changed to a company limited by shares.

Horizon owns interests in producing assets in New Zealand and China, and interests in development and exploration assets in China, Papua New Guinea and New Zealand. RISC has estimated proved and probable reserves (2P) of 8.3mmbbl of oil and contingent resources (2C) of 24.5mmbbl of oil and condensate and 497bcf of gas as at 1 May 2016. Horizon has previously reported additional prospective resources (best estimate) of 78mmboe at 30 June 2015:

Horizon − Portfolio of Oil and Gas Assets



Asset	Interest	Status	2P Reserves (mmbbl)	2C Contingent Resources (mmbbl)	2C Contingent Resources (bcf)	Prospective Resources (mmboe)
Papua New Guinea[6]						
PDL 10[7] (Stanley)	30.0%[8]	Development	-	3.4	125	-
PRL 21 (EKT)	27.0%[8]	Exploration	-	15.0	372	17
PPL 259	35.0%[8]	Exploration	-	-	-	45
PPL 430	50.0%[8]	Exploration	-	-	-	-
PPL 372	90.0%[8]	Exploration	-	-	-	-
PPL 373	90.0%[8]	Exploration	-	-	-	-
China – Beibu Gulf						
WZ12-8W, WZ6-12	26.95%	Production	5.9	0.2	-	-
WZ12-8E, WZ12-3	55.0%	Exploration	-	3.0[9]	-	8
New Zealand						
PMP 38160 (Maari/Manaia)	10.0%	Production	2.4	2.9	-	-
PEP 51313 (Matariki)[10]	21.0%	Exploration	-	-	-	8
Total			**8.3**	**24.5**	**497**	**78**

Source: RISC, Horizon

6 PNG oil and gas assets are operated under different licences depending on their advancement: Petroleum Development Licence ("PDL"), Petroleum Retention Licence ("PRL") and Petroleum Prospecting Licence ("PPL").

7 PDL 10 was excised from PRL 4.

8 Prior to PNG Government 22.5% back-in.

9 Assuming CNOOC exercises its right to participate up to 51%.

10 Horizon intends to withdraw from the licence.

In the year ended 31 December 2015, Horizon's share of production was 1.4mmbbl of oil, which corresponds to approximately 3,760 barrels of oil per day. Production is expected to remain relatively stable around this level until Beibu WZ 12-8E and subsequently Stanley and EKT are brought into production. Production is then expected to exceed 10,000 barrels of oil equivalent per day or 3.65mmboe per year.

Horizon's assets are described in more detail in Section 4.7 of this report.

In May 2013, Horizon announced it had entered into arrangements with Osaka Gas Co. Ltd of Japan ("Osaka Gas") in relation to its PNG assets as follows:

- sale to Osaka Gas of 40% of Horizon's interests in PRL 4 (including PDL 10), PRL 21 and PPL 259 (the "Osaka Gas transaction") for the following consideration:
  - a payment of US$74 million (plus completion adjustments of US$24 million) for the acquisition of the licence interests effective from 1 January 2013. This transaction completed and all payments were received by June 2014;
  - an amount of US$130 million payable upon a future decision to enter into an LNG commercialisation project. Commercialisation could be achieved through the development of a proprietary LNG project, entering into an arrangement to toll the gas through third party LNG infrastructure or selling the gas into a third party LNG project. US$50 million is payable on the decision and US$80 million in line with project costs; and
  - an entitlement to Osaka Gas' share of condensate production (post PNG Government back-in) from the Stanley, Elevala and Ketu fields and part of the Tingu field above a cumulative threshold of 6.7mmbbl. This production adjustment is to be received by Horizon over the life of the fields, once Osaka Gas has recouped its share of the condensate development costs; and
- the grant to Osaka Gas of an option to acquire 40% of Horizon's interest in PPL 430, PPL 372 and PPL 373 for reimbursement of past costs. Osaka Gas elected not to exercise the option.

On 29 April 2014, Horizon announced it had entered into a merger implementation deed with Roc Oil Company ("Roc"). However, Horizon terminated the deed on 5 August 2014 following the 4 August 2014 announcement by Roc that it had entered into a Bid Implementation Agreement with Fosun International Limited, a Chinese investment company.

Horizon is headquartered in Sydney with a team of 30 employees. Prior to the announcement of the Financing Proposal on 27 June 2016, it had a market capitalisation of approximately A$57 million.

4.2 Financial Performance

The financial performance of Horizon for the four years ended 30 June 2015 and the six months ended 31 December 2015 is summarised below:

Horizon – Financial Performance (US$ millions)					
	Year ended 30 June				Six months to 31 Dec
	2012 actual	2013 actual	2014 actual	2015 actual	2016
Production (mbbl)	***439***	***504***	***1,435***	***1,310***	***682***
- Maari/Manaia	*439*	*320*	*186*	*317*	*264*
- Beibu	*-*	*184*	*1,248*	*994*	*418*
Realised oil price – before hedging(US$/bbl)	*116*	*109*	*106*	*69*	*45*
Realised oil price – after hedging(US$/bbl)	*111*	*103*	*102*	*86*	*59*
Development and exploration expenditure	*86.8*	*135.7*	*95.6*	*82.9*	*13.2*
Sales revenue	**50.4**	**48.1**	**138.5**	**104.0**	**41.2**
- Maari/Manaia	50.4	31.9	19.7	33.4	24.3
- Beibu	-	16.2	118.7	70.5	16.9
EBITDAX	**33.4**	**27.4**	**77.6**	**74.2**	**25.5**
Exploration costs written off	(0.3)	(0.6)	(10.5)	(16.2)	(0.7)
EBITDA	**33.1**	**26.8**	**67.1**	**58.0**	**24.7**
Depreciation and amortisation	(8.1)	(9.1)	(40.0)	(37.8)	(19.6)
EBIT	**25.0**	**17.7**	**27.0**	**20.2**	**5.1**
Finance income/(expenses) (net)	(5.9)	(8.2)	(18.7)	(17.2)	(8.3)
Other income/(expenses) (net)	(0.4)	(0.5)	(2.6)	0.9	-
Significant and non-recurring items	5.0	1.0	24.2	15.7	(31.5)
Operating profit before tax	**23.7**	**10.0**	**30.0**	**17.8**	**(34.7)**
Income tax expense	(16.0)	(6.6)	(17.2)	0.6	(7.3)
Non-controlling interests	-	-	-	0.0	0.0
NPAT attributable to Horizon shareholders	**7.6**	**3.5**	**12.8**	**18.3**	**(42.0)**
Statistics					
Basic earnings per share (cents)	*0.68*	*0.31*	*1.00*	*1.41*	*(3.22)*
Sales revenue growth (%)	*(15.1)*	*(4.6)*	*188.0*	*(24.9)*	*(22.4)*
EBITDAX margin (%)	*66.3*	*57.1*	*56.0*	*71.4*	*61.7*
EBITDA margin (%)	*65.7*	*55.8*	*48.4*	*55.8*	*60.0*
EBIT margin (%)	*49.7*	*36.9*	*19.5*	*19.4*	*12.3*

Source: Horizon and Grant Samuel analysis

Horizon's financial performance generally reflects the natural production decline at Maari/Manaia and the commencement of production from Beibu in March 2013. Furthermore:

- in FY14[11], Horizon was affected by the loss of 145 days of production at Maari/Manaia between July and December 2013, as a result of unplanned repairs to the swivel and mooring systems for the FPSO. In FY15, Horizon's share of oil production fell by 9%, reflecting the natural production decline at Beibu, which was only partially offset by an increase in production at Maari/Manaia. The production increase at Maari/Manaia reflected a full year's production (by comparison with the 145 days of lost production in the prior year) as well as incremental production from four new wells completed over the course of FY15 as part of the Maari Growth Project;
- the sharp fall in the oil price over the 2015 financial year from above US$110 per barrel in early July 2014 to around US$47 per barrel in mid-January 2015 and the low oil prices experienced during the rest of the financial year were mitigated by the hedging of 74% of oil sales at a weighted average price of US$95 per barrel. Hedging also favourably impacted Horizon in HY16; and

[11] FYXX = financial year end 30 June XX.

- the write off of exploration costs in 2014 related mainly to seismic costs associated with an option to farm-in to Block 09/05 in China, which was not exercised, and costs associated with the relinquishment of the western area of PEP 51313 in New Zealand, and in 2015 to the unsuccessful Nama-1 exploration well in PPL 259 in Papua New Guinea.

Significant and non-recurring items include:

- in FY14, a US$23.8 million profit on the sale of 40% of Horizon's PNG assets to Osaka Gas;
- in FY15, unrealised movement in the value of the conversion rights of the Bonds of US$9.1 million and insurance recoveries of US$6.6 million relating to repair costs for the Maari FPSO swivel and mooring lines and associated lost production between July and December 2013; and
- in HY16, US$38.0 million non-cash impairment predominantly associated with the company's exploration and development assets, unrealised movement in the value of the conversion rights of US$1.7 million, further insurance recoveries of US$3.6 million and US$1.2 million relating to the gain on buyback of Bonds in August and October 2015.

Outlook

Horizon expects production from New Zealand to be significantly higher in 2016 with a full year of production from the wells drilled as part of the Maari Growth Project. In China, additional production from the recently drilled well into the WZ12-10-2 field, coupled with new production from the WZ 12-8E field is expected to more than offset a natural decline from the WZ6-12 and WZ12-8W fields already in production. Furthermore, Horizon's entitlement to production from Beibu increased from 26.95% to over 35% in April 2016 following CNOOC's full recovery of its share of capital costs.

4.3 Financial Position

The financial position of Horizon as at 31 December 2015 is summarised as follows:

Horizon – Financial Position (US$ millions)	
	As at 31 December 2015 actual
Trade and other receivables	12.6
Inventories	0.9
Trade and other payables[12]	(20.6)
Restoration provision – Current	(2.5)
Net working capital	**(9.6)**
Oil and gas assets	297.9
Exploration and evaluation expenditure	77.6
Property, plant and equipment	3.8
Bond conversion right	(4.2)
Deferred tax assets / (liabilities) (net)	(24.5)
Derivative financial instruments (net)	9.9
Restoration provision – Non-current	(11.4)
Total funds employed	**339.5**
Cash and deposits	51.1
Bank loans and Bonds	(176.9)
Net borrowings	**(125.8)**
Net assets attributable to Horizon shareholders	**213.7**
Statistics	
Shares on issue at period end (million)	*1,302*
Net assets per share	*US$0.16*
Gearing[13]	*37%*

Source: Horizon and Grant Samuel analysis

Oil and gas assets represent Horizon's investment in producing assets (net of accumulated amortisation) (Maari/Manaia and Beibu) and assets under development (Stanley).

Exploration and evaluation expenditure represents the capitalised costs associated with Horizon's exploration and appraisal activities. The carrying value of each exploration and evaluation area is dependent on the successful development and commercial exploitation or sale of the respective areas of interest. At 31 December 2015, the majority of this amount related to PRL 21 (Elevala/Tingu/Ketu) in PNG.

Horizon uses derivative financial instruments to manage its exposure to oil price, interest and foreign exchange rate risk (where appropriate). At 31 December 2015, Horizon had in place Brent oil price swap contracts covering 180,000 barrels of oil, approximately a quarter of expected production to 30 June 2016, at a weighted average price of US$94.66/bbl. These derivative instruments had a marked to market value of US$9.9 million as at 31 December 2015. This amount excludes the US$4.6 million which Horizon received in January 2016 following the settlement of hedges relating to deliveries in October, November and December 2015, and is reflected in trade and other receivables above.

The restoration provision represents the best estimate of the present value of Horizon's remaining obligations in relation to the decommissioning and removal of project assets and site restoration at the end of projects' economic life[14].

At 31 December 2015, Horizon had US$176.9 million in borrowings comprising bank facilities and Bonds:

12 Includes deferred income.

13 Gearing is net borrowings divided by net assets plus net borrowings.

14 Chinese legislation requires payments for estimated restoration costs to be made over the life of the field. The restoration provision relating to Beibu is therefore the total restoration provision (discounted) net of payments already made.

- a US$120 million secured revolving cash advance facility, which was executed in May 2015 and was used to refinance the previous Reserves-Based Debt Facility. The facility has a four year term and bears a floating interest rate of LIBOR plus a margin of up to 2.90%. It also provided potential access to a new accordion tranche of up to US$50 million (subject to debt capacity criteria and lender approvals), although this is no longer available to be drawn upon. The facility was recognised in the accounts as at 31 December 2015 at US$115.8 million which corresponds to the fully drawn amount of US$120 million net of prepaid costs of US$4.2 million to be amortised over the remaining life of the loan; and
- 294 Bonds with a face value of US$58.8 million issued on 17 June 2011 and listed on the Singapore Securities Exchange. This amount reflects the 400 Bonds with a combined face value of US$80 million initially issued less the 106 Bonds with a face value of US$21.2 million that Horizon purchased on-market and cancelled in August and October 2015. The Bonds carry a coupon of 5.5% per annum payable semi-annually in arrears, convert at US$0.409 per share and originally matured on 17 June 2016. On conversion, Horizon may elect to settle the Bonds in cash or ordinary shares (except in certain situations where the Bonds must be settled in cash). Based on the conversion price of US$0.409, the maximum number of Horizon shares that could be issued on conversion is 143,765,281 ordinary shares. At the date of this report no Bonds had been converted. At expiry, the outstanding Bonds are redeemed at 108.8% of their face value. The Bonds were recognised by Horizon at US$61.1 million as at 31 December 2015 (excluding a conversion right of US$4.2 million).

  On 1 June 2016, Horizon announced that the bondholders had agreed to extend the maturity of the Bonds to 19 September 2016. As part of the agreement, it was agreed that the interest payable from the original maturity date of 17 June 2016 to the new maturity date of 19 September 2016 would be 10.0% per annum and that the 8.8% premium payable on redemption would be paid on 17 June 2016. Payment of the June 2016 coupon and of the 8.8% premium occurred on 17 June 2016.

At 31 December 2015, Horizon disclosed the following contingent assets:

- remaining consideration of US$130 million contingent on an LNG commercialisation decision under the Osaka Gas agreement; and
- entitlement to Osaka Gas' potential share of production from the Stanley, Elevala/Ketu and part of the Tingu field above a certain production threshold. Horizon has estimated that it would be entitled to an additional 0.9mmbbl of condensate if total production equalled the level of 2P reserves and 2C resources defined at the time of the agreement (May 2013) and a further 3.2mmbbl if total production equalled prospective resources estimated at the time.

Horizon has no Australian subsidiaries and is not subject to the Australian tax consolidation regime. The balance of Horizon's tax losses and imputation credits as at the financial year ended 30 June 2015 was as follows:

Horizon – Tax Position

Jurisdiction	Currency	Income tax losses	Capital tax losses	Imputation credits
Australia	A$m	21.4	13.5	-
New Zealand	NZ$m	32.9	-	23.8
China[15]	RMBm	136.7	-	-
PNG	US$m	-	-	-

Source: Horizon

Utilisation of these carried forward losses is subject to a range of factors and there is no certainty as to whether or when they will be recouped.

[15] Balance as at 31 December 2015 in line with China tax year end.

4.4 Capital Structure

As at 24 June 2016, Horizon had the following securities on issue:

- 1,301,981,265 fully paid ordinary shares;
- 1,500,000 ordinary shares issued at A$0.28 and partly paid to A$0.01;
- 4,366,667 options issued under the Employee Option Scheme;
- 57,078,605 share appreciation rights issued under the Long Term Incentive Plan; and
- 294 Bonds listed on the Singapore Securities Exchange.

The partly paid ordinary shares are issued on the exercise of employee options. The outstanding obligation in relation to these shares is payable when called or by the date not exceeding five years from the grant of the option which gave rise to the partly paid share. Partly paid shares entitle the holder to participate in dividends and the proceeds on winding up in proportion to the number of shares held and to one vote per share in proportion to the total issue price then paid up.

The options and share appreciation rights on issue are summarised below:

Horizon – Options and Share Appreciation Rights on Issue

Grant Date	Expiry Date	Exercise Price (A$)	On Issue	Vested and Exercisable	Unvested
Employee Option Scheme					
28 May 2012	28 May 2017	0.264	1,666,667	1,666,667	-
17 Sept 2012	17 Sept 2017	0.294	500,000	500,000	-
20 Feb 2013	20 Feb 2018	0.434	350,000	-	350,000
20 Feb 2013	20 Feb 2018	0.404	350,000	-	350,000
2 Nov 2015	2 Nov 2020	0.20	1,500,000	-	1,500,000
			4,366,667	**2,166,667**	**2,200,000**
Share Appreciation Rights					
5 Aug 2011	5 Aug 2016	0.31	6,478,276	6,478,276	-
13 Aug 2012	13 Aug 2017	0.27	9,561,936	-	9,561,936
19 Aug 2013	19 Aug 2018	0.33	8,547,599	-	8,547,599
18 Aug 2014	18 Aug 2019	0.37	7,402,177	-	7,402,177
13 Aug 2015	13 Aug 2020	0.09	25,088,617	-	25,088,617
			57,078,605	**6,478,276**	**50,600,329**

Source: Horizon

Each option on issue under the Employee Option Scheme plan is exercisable into one ordinary share, has no dividend entitlement or voting right and expires five years from the date of grant. Options are progressively exercisable in three equal tranches from dates which are 12, 24 and 36 months after grant date. Upon exercise, A$0.01 of the exercise price is payable by the participant (i.e. the shares are issued as partly paid) with the balance being paid when called or by a date not exceeding five years from the grant of the option.

A share appreciation right is a right to receive a combination of a cash payment and shares in Horizon subject to satisfying certain conditions, including performance conditions. The amount of the cash payment or the number of shares that the participant receives on exercise is based on the excess, if any, of the 10-day VWAP of Horizon shares prior to exercise date over the exercise price of the rights. No consideration is payable by the participant on the exercise of a share appreciation right.

4.5 Ownership

There are around 6,700 registered ordinary shareholders in Horizon. The top 20 shareholders account for around 60% of the ordinary shares on issue. Horizon shareholders are predominantly Australian based investors (around 40% of shares on issue and 55% excluding the shares held by IMC). Directors and executives of Horizon are estimated to account for around 3% of the shares on issue. Horizon has received substantial shareholder notices as follows:

Horizon – Substantial Shareholders

Shareholder	Date of Notice	Number of Shares	Percentage
Austral-Asia Energy Pty Limited	17 November 2015	380,425,545	29.22%
Commonwealth Bank of Australia	2 June 2015	101,312,290	7.78%

Source: Horizon

Austral-Asia Energy Pty Limited ("Austral-Asia") is a subsidiary of IMC and has been a long term investor in Horizon. Since the lodgement of the substantial shareholder notice, Austral-Asia has increased its shareholding to 390,574,175 shares representing 30.0% of the Horizon shares on issue.

4.6 Share Price Performance

A summary of the price and trading history of Horizon since 1 January 2010 is set out below:

Horizon - Share Price History

	Share Price (cents)			Average Weekly Volume (000's)	Average Weekly Transactions
	High	Low	Close		
Year ended 31 December					
2010	39.5	25.2	29.1	12,578	806
2011	41.9	16.3	19.7	14,667	1,018
2012	46.9	20.2	42.4	17,616	1,205
2013	46.9	27.5	30.5	15,676	3,107
2014	39.0	12.0	16.0	14,944	2,519
2015	17.0	6.5	8.0	15,988	1,312
Month ended					
31 January 2016	8.9	6.7	7.1	3,189	320
29 February 2016	7.7	6.6	6.9	4,133	580
31 March 2016	8.4	7.0	7.4	5,801	439
30 April 2016	7.6	6.7	7.1	7,240	608
31 May 2016	7.0	5.3	5.6	8,302	397
30 June 2016	5.9	4.3	4.7	11,838	320

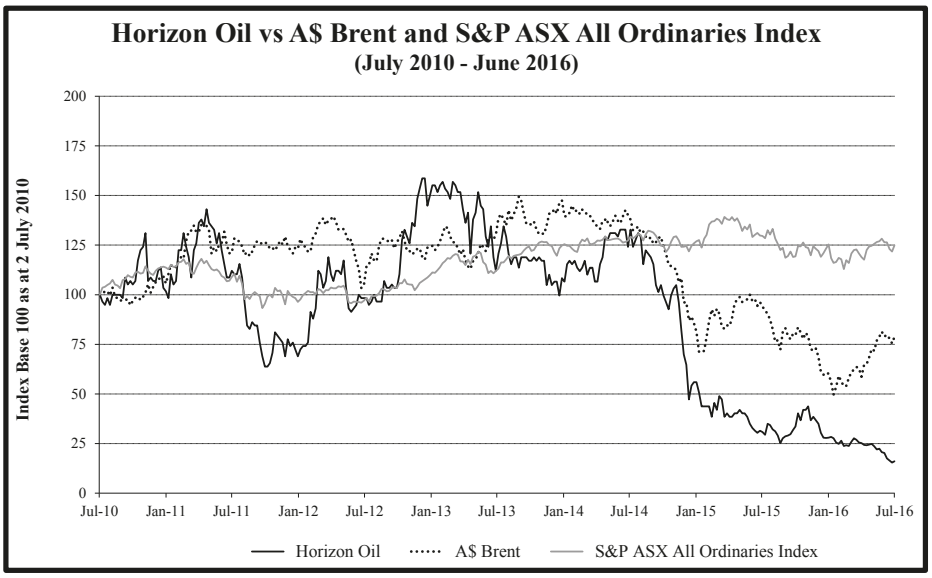
Source: IRESS

The following graph illustrates the movement in the Horizon share price and trading volumes since July 2010:

Source: IRESS
Note: Share prices on an adjusted basis reflecting rights issues during the period.

Approximately 32% of the share register (and 46% excluding the shares held by Austral-Asia Energy Pty Limited) was turned over in the 12 months ended 24 June 2016.

The following graph illustrates the performance of Horizon shares relative to the A$ Brent oil price since 1 July 2010:



Source: IRESS

Between July 2010 and mid-2014, Horizon overall performed in line with the A$ Brent oil price and the S&P ASX All Ordinaries index. Horizon shares reached a low of A$0.16 in October 2011 following the acquisition of interests in the Beibu Gulf Joint Venture, the consideration for which was cash (funded by the issue of the Bonds) and the issue of options over unissued shares. The Horizon share price recovered during 2012, reflecting positive news from all of its operations, and

performed well during the first half of 2013, seemingly supported by Horizon's inclusion in the S&P/ASX 200 Index in March 2013, the announcement of the Osaka Gas transaction in May 2013 and completion of the Beibu development in August 2013. Weaker share price performance between July 2013 and December 2013 coincided with the extended FPSO repair period and the associated loss of production at Maari. The 14 April 2014 announcement that development approval had been received for the Stanley project and the announcement of the proposed merger with Roc on 29 April 2014 provided support for the share price, until Roc announced on 4 August 2014 that it had received a superior proposal and would not proceed with the merger.

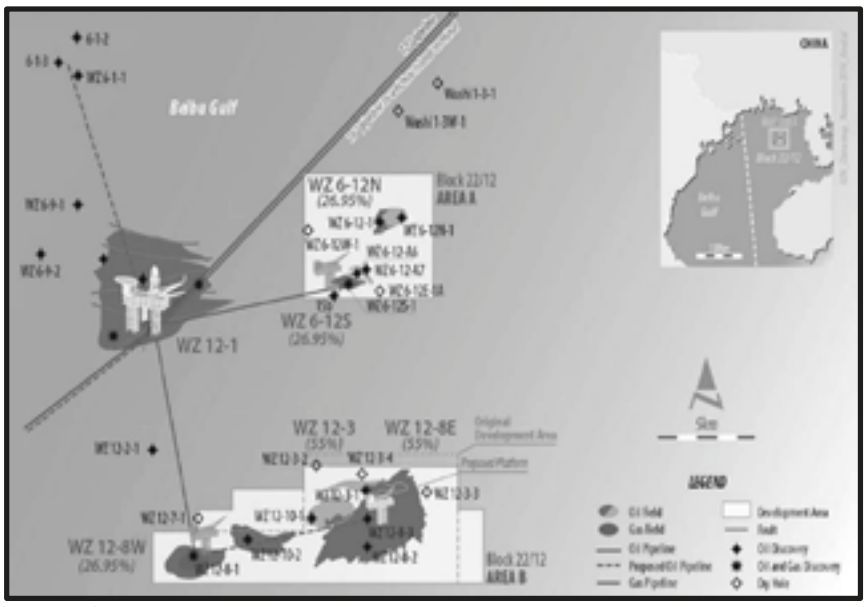
The decline in US$ oil prices from July 2014 onwards, which was only partially offset by the depreciation of the Australian dollar against the US dollar, resulted in a dramatic fall in the Horizon share price. While Australian oil stocks were generally much weaker over this period, Horizon's share price was particularly hard hit, apparently reflecting market concerns regarding the level and timing of Horizon's debt redemption obligations. These concerns may have been exacerbated by the announcement of disappointing results for the Nama-1 well in PNG and difficulties experienced at the Maari Growth Project in the first half of 2015. In 2016, the Horizon share price has continued to decline despite the strengthening of the A$ Brent oil price. This is likely to reflect continued concerns about the company's ability to refinance the Bonds.

4.7 Operations

4.7.1 Beibu Gulf

Overview

Horizon's stake in the Beibu Gulf asset is held through its 55% interest in the Beibu Gulf Joint Venture. The other joint venture participants are Roc (40%) and Majuko Corporation (5%). The joint venture holds Block 22/12 which is located in the Beibu Gulf of the South China Sea, in approximately 40 metres of water and near several known oil fields:



Source: Horizon

The joint venture holds Block 22/12 under a petroleum contract entered into by Horizon with China National Offshore Oil Corporation ("CNOOC") in December 1999. Under the agreement, CNOOC has a right to participate in up to 51% of any development. The term of the contract is for 30 years with a 15 year production period.

The WZ 12-8W field was discovered in 1993. The WZ 6-12 oil field was discovered in 2002 and the WZ 12-8E field was discovered in 2004 but because the oil encountered was viscous, its commercial development was deemed problematic. Work on a development plan for the WZ 6-12 and WZ 12-8W oil fields commenced in 2008. In August 2010, the joint venture entered into a development agreement supplementary to the petroleum contract under which commercial arrangements for the development of Beibu were agreed and CNOOC assumed a 51% interest in the development and became its operator. Consequently the ownership interests in WZ 6-12 and WZ 12-8W are now CNOOC (51%), Horizon (26.95%), Roc (19.6%) and Majuko Corporation (2.45%). However, the Beibu Gulf joint venture remains the sole participant of the remaining areas of Block 22/12 (including WZ 12-8E) and Roc is the operator of these areas.

RISC has estimated Horizon's net working interest in Beibu Gulf's reserves and resources at 1 May 2016 as follows:

Beibu Gulf – Reserves and Resources (Horizon Share)

	Reserves (2P) Oil (mmbbl)	Contingent Resources (2C) Oil (mmbbl)	Prospective Resources (Best Estimate) Oil (mmbbl)
WZ 6-12 / WZ 12-8W	5.9	0.2	-
WZ 12-8E	-	3.0	-
Other	-	-	8

Source: RISC (2P Reserves and 2C Contingent Resources), Horizon (Prospective Resources)
Note: Assumes CNOOC exercises its right to participate up to 51%. Prospective resources are as at 30 June 2015.

WZ 6-12 and WZ 12-8W

The development of the WZ 6-12 and WZ 12-8W fields consists of 16 production wells around two remote wellhead platforms tied back to a processing platform. The processing platform is located adjacent to the existing CNOOC owned and operated WZ 12-1A and WZ 12-1PAP platforms. It is a shared facility, processing liquids from other fields. Each field has its own process train which can handle up to 20,000bopd. The platform treats the mixed streams of crude oil, associated gas and water from the wellheads via a conventional three stage physical separation process. Separated oil is then piped to a buffer tank for storage and export. Oil is transported via an existing CNOOC owned pipeline to CNOOC's storage and export terminal on Weizhou Island, 34 kilometres away. All oil produced is sold to CNOOC. Given the viscosity of the oil, the price received is at a discount to the Brent crude oil price.

First production from Beibu occurred in March 2013 and the drilling of all 15 wells was completed in August 2013. Beibu production from commencement of operations to 31 December 2015 is summarised below:

Beibu – Production

	Year ended 30 June			Half year ended 31 December
	2013	2014	2015	2015
Oil production rate (bopd – 100%)	n.m.	12,700	10,103	8,434
Oil production (mbbl – Horizon)	184	1,248	994	418

Source: Horizon

Under the production sharing arrangements (see below for further detail), Horizon has been entitled to approximately 25% of production on a cumulative basis from commencement of production to 31 December 2015. The company's share of production is forecast to range from 35 to 40% from April 2016 to February 2020, as it recovers its exploration and development costs on an accelerated basis under the production sharing arrangements. The value of this preferential oil entitlement (relative to its nominal net working interest of 26.95%) was US$120.0 million at 31 March 2016. Once Horizon has fully recovered its

exploration and development costs, its economic interest in Beibu production will revert to 26.95% (before taking into account the share of production that accrues for the benefit of the Chinese government).

Expansion and Exploration

Two successful exploration wells were drilled within Block 22/12 in the 2015 financial year. The first well, WZ 12-10-1, targeted the T42 formation and the deeper Weizhou formations adjacent to the WZ 12-8E field. Economic quantities of oil were found in the T42 reservoir but not in the Weizhou formation. The second well, WZ 12-10-2, located east-north-east of the WZ 12-8W facilities, discovered economic quantities of oil in the T42 formation. A further appraisal and development well was drilled during December 2015 to test the WZ 12-10-2 discovery. The well was drilled from the existing WZ 12-8W platform and following appraisal, a horizontal production sidetrack was completed and brought on to production. The well will deliver near term incremental production to the existing WZ6-12 / WZ12-8W production facility, and provide data to determine production and reservoir performance in the WZ12-10-2 oil pool to assist in future development evaluations.

A development plan for the WZ 12-8E oil accumulation is expected to be completed and submitted for Government approval in 2017, which may be extended to include the WZ12-3 and WZ12-10-1 oil accumulations. The combined fields WZ12-8E, WZ12-3 and WZ12-10-1 have certified gross 2C resources of 11.8mmbbl. The proposed development is expected to consist of a leased mobile production platform connected to up to three production wells, with a potential further four or five wells and a permanent wellhead platform depending on production performance. Oil produced will be piped to the existing WZ 12-8W platform. To investigate options that can make this project economic at low oil prices, contractors have been invited to bid for this project through Engineering, Procurement, Construction and Installation (EPCI) on lump-sum and competitive cost basis, with bids due in the second half of 2016.

The WZ12-10-3 contingent exploration well is expected to be drilled in 2017 to test two targets located in the south-eastern corner of the Block 22-12 (Xiayang1_I sands and T100 basement buried Hill). Horizon's share of commercially risked resources has been estimated in the range of 3.8-7.4mmbbl of oil.

Oil and Gas Fiscal Regime

The Beibu Gulf project is subject to the following fiscal regime:

- a 5% Value Added Tax ("VAT") on revenue;
- a Special Windfall Levy which is levied on each barrel of oil sold for more than US$65, at a rate which increases with the oil price; and
- a Corporate Income Tax Rate of 25%. The Value Added Tax and Special Windfall Levy are allowable deductions for tax purposes.

The Beibu Gulf project is not subject to Petroleum Royalties (production from each field is below the threshold) or Export Levy (the oil is sold to a Chinese entity).

There is a 7-10% withholding tax on interest paid on borrowings sourced from outside China to fund the operations but no withholding taxes on the repatriation of profits.

CNOOC has the option to participate in up to 51% of any development. Once production commences, oil revenue (net of VAT) is split into:

- Cost Recovery Oil, which accounts for 62.5% of revenue and is dedicated to operating and capital cost recoveries as follows:
    - CNOOC and the Contractor (in this case the Beibu Gulf Joint Venture) recover their operating and abandonment costs;

- CNOOC then preferentially recovers its share of development costs from 51% of the Cost Recovery Oil and the Contractor recovers its exploration costs from 49% of the stream;
- once CNOOC has recovered all its development costs, the Contractor is entitled to recover its unrecovered exploration costs and its development costs from 100% of the Cost Recovery Oil stream; and
- any amounts left over once all costs have been recovered form part of Remainder Oil as described below.

Unrecovered development costs are carried forward and indexed at a rate of 9%.

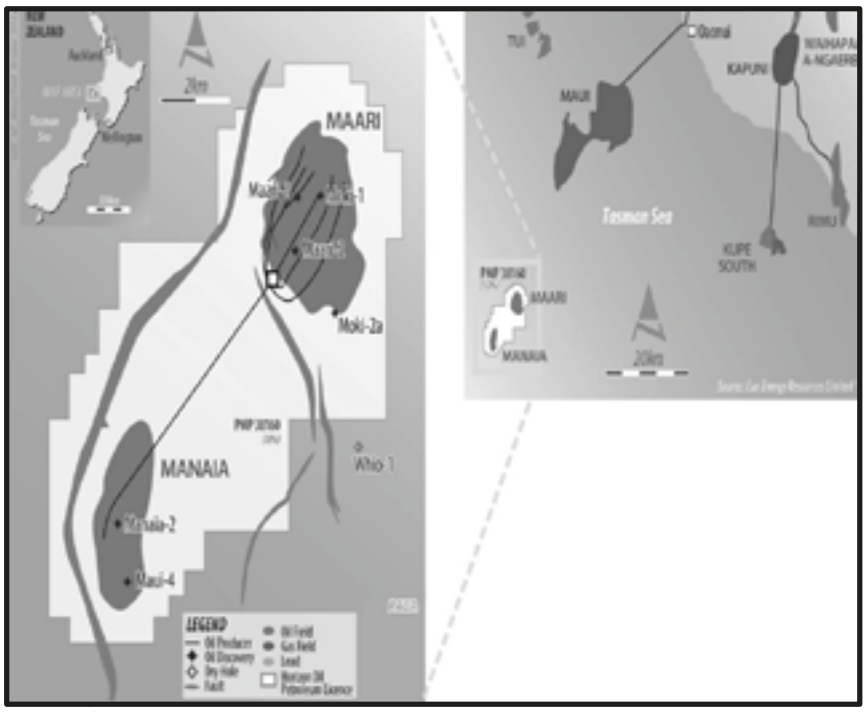
- Remainder Oil, which consists of 32.5% of gross revenue plus the portion of Cost Recovery Oil remaining after cost recoveries, is split into:
  - Allocable Remainder Oil, which accounts for between 95% and 40% of the stream depending on gross production volumes in each year, and is shared 51%/49% between CNOOC and the Contractor; and
  - Share Oil of the Chinese Side, which accounts for the balance and is paid to the government.

  In the case of the Beibu Gulf asset, Allocable Remainder Oil is expected to account for approximately 95% of total Remainder Oil.

4.7.2 New Zealand

PMP 38160 (Maari/Manaia)

Horizon holds a 10% interest in the PMP 38160 permit, which hosts the Maari and Manaia producing oil fields located in the Taranaki Basin in the Tasman Sea. The fields are located 80 km offshore the south Taranaki coast of New Zealand in approximately 100 metres of water:

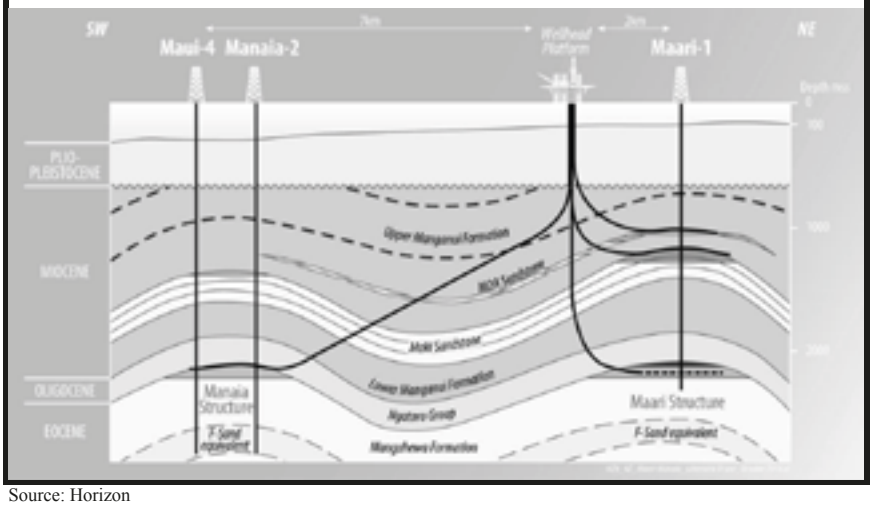


Source: Horizon

Horizon's joint venture partners in the permit are OMV New Zealand Ltd ("OMV", 69% and operator), Todd Exploration Limited ("Todd", 16%) and Cue Energy Resources Limited ("Cue", 5%).

The Maari and Manaia fields source oil from several reservoirs hosted by different formations at depths of up to 2,100 metres:

Maari/Manaia Cross-Section



Source: Horizon

The infrastructure associated with PMP 38160 includes the Maari wellhead platform, a joint venture owned floating production, storage and offloading ("FPSO") vessel, seven production wells and one water injector well and associated sub-sea flow lines. Oil is loaded onto tankers for delivery to refineries in Australia and South East Asia. The oil is sold at a premium to the Brent Crude oil price benchmark reflecting its high quality. The premium received has generally been in the range of US$2.00-6.00 per barrel.

RISC has estimated Horizon's share in reserves and contingent resources at Maari/Manaia as at 1 May 2016 as follows:

PMP 38160 – Reserves and Resources (Horizon Share)

	Reserves (2P) **Oil** (mmbbl)	Contingent Resources (2C) **Oil** (mmbbl)
Maari/Manaia	2.4	2.9

Source: RISC

First production from the Maari-Manaia fields occurred in February 2009. Production from PMP 38160 from first production to 31 December 2015 is summarised below:

PMP 38160 – Production

	Year ended 30 June							HY to 31 Dec 2015
	2009	2010	2011	2012	2013	2014	2015	
Oil production rate (bopd – 100%)	13,052	19,197	15,791	12,029	8,772	8,470[16]	8,675	14,330
Oil production (mbbl – Horizon)	164	701	576	440	320	186	317	264

Source: Horizon

[16] Excludes lost production days whilst repairs to the FPSO swivel and mooring were undertaken.

The production history reflects the natural decline of the field, the loss of 145 days of production from July to December 2013 while repairs to the swivel and mooring systems of the FPSO were undertaken, interruptions to existing production through development drilling as part of the Maari Growth Project in FY15, and the incremental production in half year 2015 following completion of the Maari Growth Project.

The Maari Growth Project, which was designed to enhance the production rate and oil recovery from the Maari field was completed in July 2015. The project led to an increase in the field's production rate to 16,000 barrels of oil per day (100%). The project included the drilling of one production well at Maari to exploit reservoirs in the Mangahewa formation and two production wells and one combined production/water injection well at Maari, targeting reservoirs hosted in the Moki formation. The project was completed at a cost of NZ$515 million, compared to an initial estimate prior to commencement of the project of NZ$354 million (100%) due to operational issues encountered during the drilling campaign. Maintenance workovers, which were completed in September 2015, have resulted in further increases in oil production above 16,000 barrels of oil per day (100%).

During the June 2016 quarter, the Maari joint venture completed upgrade works to the FPSO Raroa's mooring system designed to "future" proof the mooring system for the next decade. The total cost of the works was approximately US$4 million, net to Horizon, before insurance recoveries.

Exploration

Horizon holds a 21% interest in PEP 51313 (Matariki), an exploration block located south east of PMP 38610. Horizon's joint venture partners are OMV (30% and operator), Todd (35%) and Cue (14%). Following the drilling of the Whio-1 prospect in July 2014 which was dry, the joint venture opted to forgo the drilling of a contingent well, relinquished the western part of the permit and intends to withdraw from the rest of the permit.

Oil and Gas Fiscal Regime

Petroleum projects in New Zealand are subject to the following fiscal terms:

- royalties, which are the greater (on an annual basis) of:
  - ad valorem royalty ("AVR"), which is 5% of net sales revenue; and
  - accounting profits royalty ("APR"), which is essentially 20% of the amount calculated by subtracting operating and capital expenditure from sales revenue; and
- a corporate tax rate of 28%

There is a 0-15% withholding tax on interest paid on borrowings sourced from outside New Zealand to fund the operations, but no withholding taxes on dividends repatriated out of New Zealand.

4.7.3 Papua New Guinea

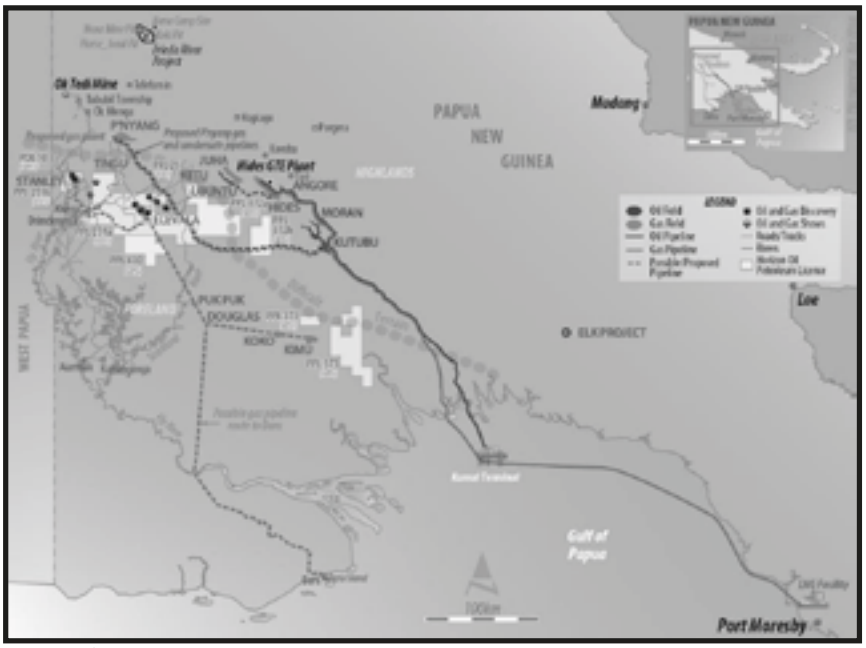
Overview

Horizon's assets in PNG consist of interests in tenements covering an area of 7,900km^2 in the liquids-rich Foreland Basin of the Western Province of PNG:

Horizon - PNG Interests					
Licence	**Field/ Prospect**	**Horizon Interest**[17]	**Partners**	**Operator**	**Status**
PDL 10	Stanley	30%	Osaka Gas (20%), Repsol (40%), Mitsubishi (10%)	Repsol	Development
PRL 21	Elevala/ Ketu	27%	Osaka Gas (18%), Repsol (32.5%), Kina (15%), Mitsubishi (7.5%)	Horizon	Appraisal
PPL 259	Elevala Extension	35%	Osaka Gas (10%), Transformex (45%), Mega Fortune (10%)	Transformex	Exploration
PPL 430	-	50%	Transformex (50%)	Horizon	Exploration
PPL 372	-	90%	Jurassic (10%)	Horizon	Exploration
PPL 373	-	90%	Jurassic (10%)	Horizon	Exploration

Source: Horizon

These tenements are close to the town of Kiunga, located on the Fly River. The Fly River is navigable and is the primary supply route for the Ok Tedi mine. Existing roads and the Fly River provide relatively good access to local areas and to the coast:

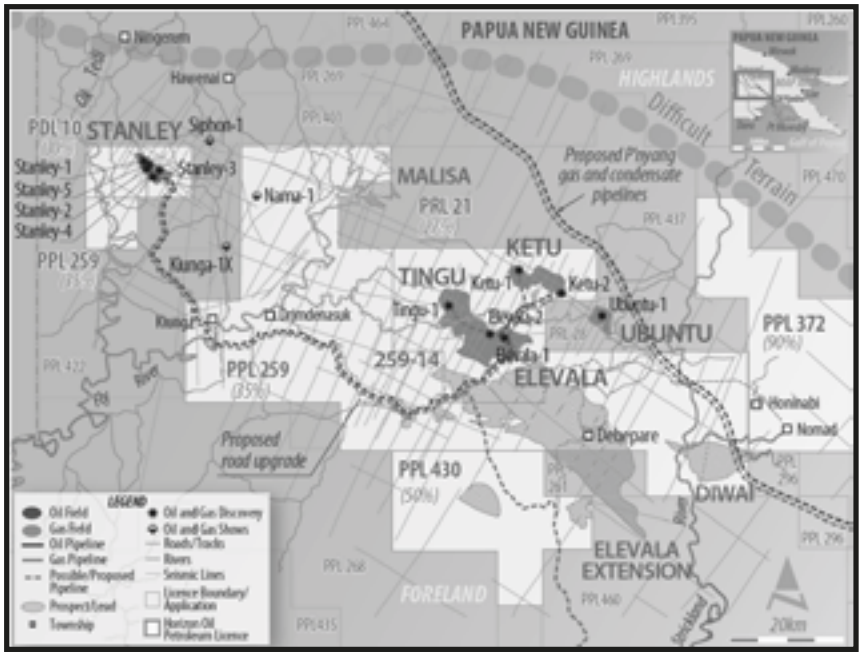


Source: Horizon

The licences are at various stages of exploration and development. The PDL 10 licence, which contains the Stanley field, is operated under a Petroleum Development Licence excised from the PRL 4 Petroleum Retention Licence. The licence is operated by Repsol and is in the development stage, with all development drilling activities completed. The PRL 21 licence area contains the Elevala, Ketu and Tingu fields. These fields, referred to as the EKT fields, are subject to feasibility studies to select the optimal concept for an integrated gas and condensate development. The other licence areas are operated under Petroleum Prospecting Licences and are in the exploration stage.

The location of the key fields with respect to the Ok Tedi and Fly rivers is shown below:

[17] The PNG government has a right to acquire up to 22.5% in any commercial development within the PNG license areas.



Source: Horizon

Activities to date have been focused on the exploration and development of the Stanley gas condensate field in PDL 10 and on feasibility studies on the Elevala and Ketu gas condensate discoveries in PRL 21 following the submission of a PDL application in March 2014.

RISC has estimated Horizon's interest in resources at PDL 10 and PRL 21 as at 1 May 2016 as follow:

PNG – Reserves and Resources (Horizon Share)		
	Contingent Resources (2C)	
	Gas (bcf)	Condensate (mmbbl)
PDL 10 - Stanley	125	3.4
PRL 21 - EKT	372	15.0
Total	**497**	**18.4**

Source: RISC

Development plans are yet to be finalised. Current expectations are that Stanley will be developed in two phases. The development of an up to 40 MW gas to power project for Ok Tedi mine could lead to first electricity sales from 2019. Early condensate production from EKT via an integrated gas and condensate development could commence as early as 2022. Gas resources from EKT (and potentially from Stanley) could be aggregated with other regional gas resources to underpin the development of a long life small to mid-scale LNG project or could be sold to a third party LNG project (e.g. PNG LNG or Papua LNG).

Stanley Field

The Stanley gas and condensate field was discovered in 1999 following the drilling of the Stanley-1 well. Horizon re-entered and tested the well in 2008 and undertook further appraisal at the tenement including 2D seismic and the drilling of Stanley-2 and Stanley-4

appraisal wells. A FEED study completed in 2012 led to a final investment decision in July 2012.

It is proposed that the Stanley field be developed in two stages. The first stage will involve the construction of gas processing and power generation facilities to supply up to 40 MW of power to the Ok Tedi mine. The Ok Tedi mine, which is operated by a company owned by the State of Papua New Guinea, is located approximately 100 kilometres north of the Stanley field. Power requirements are currently met by a run-of-the-river hydroelectric plant supplemented by a diesel power plant when water flows are not sufficient. Recent drought conditions have resulted in low water levels and affected the operation's ability to generate hydroelectric power and to barge diesel up to site. Accordingly, Ok Tedi is exploring alternative power sources as part of its 11 year mine life extension granted in 2014. Ok Tedi and the PDL 10 joint venture partners have been in discussions for some time and a Heads of Agreement is expected to be signed by late-2016.

In the second stage, it is proposed that wet gas will be produced through two existing wells and treated at a 70mmscfd gas plant to recover the condensate. Condensate will be transported by road tankers or piped through a 40 kilometre pipeline to Kiunga where it will be stored in a 60,000bbl storage tank before shipping in a 33,000bbl tanker down the Fly River and across the Gulf of Papua to the Napa Napa refinery in Port Moresby. The dry gas will either be sold to local customers for power generation (e.g. Frieda River mine) or for the production of fertilisers, aggregated with other local gas sources to underpin a standalone LNG project or sold into a third party LNG project (e.g. PNG LNG or Papua LNG).

Frieda River is a large scale, long life copper-gold project located approximately 80 kilometres northwest of Ok Tedi. The peak project demand load for power is expected to be 140MW. The project sponsors applied for a mining licence in June 2016. The project development plan contemplates the construction of an intermediate fuel oil power station and a hydroelectric power facility. However, the PDL 10 joint venture participants are promoting the use of domestic gas-fired power generation and the upgrade and extension of the Ok Tedi power transmission line to meet the mine's power requirements. The mine would require 10-15PJ of gas per annum

Horizon (as operator) applied for a petroleum development licence and a pipeline licence for the Stanley gas condensate project in August 2012. Approval for the development was received on 4 April 2014 and the licensees and the PNG Government entered into the Stanley Gas Agreement, which sets out the fiscal and other terms under which the project will operate, on 17 April 2014. The petroleum development licence (PDL 10) and pipeline licence (PL 10) were granted on 30 May 2014. Prior to the award of the PDL, Talisman elected to resume operatorship of the Stanley Field. Talisman was subsequently acquired by Repsol.

All development drilling activities have been completed: two production wells (Stanley-2 and Stanley-5), two injector wells (Stanley-3 and Stanley-4) and one spare well have been drilled and are ready for production. Flow testing has demonstrated the potential for the production wells to produce in excess of the design capacity of the contemplated Stanley gas plant.

The Stanley gas resources can support a production plateau of approximately 14PJ per annum for around 20 years. The information collected during the exploration and appraisal programme suggests that there is little prospect of significant exploration upside at the Stanley Field.

EKT Fields

The Elevala and Ketu fields were discovered in 1990 and 1991 and successfully appraised in 2011 and 2012. The Tingu field was discovered in late 2013. It is interpreted to be an

extension of the Elevala field, and was added to the scope of the feasibility study contemplating the development of the Elevala and Ketu fields. These fields are expected to be developed using a development concept similar to that of the Stanley Field.

A detailed feasibility study for the condensate stripping component of an EKT development was completed in 2014. The study was initially expected to lead to a final investment decision in 2015, however the project selection timeline was extended to optimise the project in light of current market conditions, the advancement of plans for the expansion of existing LNG projects and the development of new LNG projects in PNG. The progress of these projects has resulted in a development concept based on an integrated gas and condensate scheme.

Current studies are based on the following development scenario:

- extraction of the wet gas through several production wells in Elevala and one production well in Ketu;
- stripping and processing of the condensate at a central processing facility at Elevala;
- transport of the condensate via pipeline to Kiunga to be loaded onto tankers and shipped down the Fly River to a suitable aggregation facility; and
- commercialisation of the gas through one of several potential options discussed below.

Horizon (as operator) lodged applications for petroleum development and pipeline licences in March 2014. These applications are currently under review by the regulatory authorities.

Pre-production costs have been estimated at approximately US$1.0 billion although this estimate is subject to review.

The development of an integrated gas and condensate project would target first condensate and gas production in 2022. Condensate production is expected to reach 3.8mmbbl in the first full year of production (100%) and gas production could average approximately 65PJ per annum (100%) for the first ten years. The project is expected to have a field life in excess of 20 years.

Gas Commercialisation

Horizon Oil's leading alternative for the commercialisation of the material EKT gas and condensate resources is through a stand-alone development, initially involving the EKT and surplus Stanley resources and potentially the aggregation of other undeveloped Western Province gas resources.

In addition to the stand-alone development alternatives noted above, the material aggregate EKT and Stanley resource base presents an additional commercialisation alternative in the supply to a third party LNG Project (e.g. PNG LNG or Papua LNG), particularly given the location and comparatively benign foreland setting of the resources.

Exploration

Two prospects (Elevala Toro and Tingu Toro) have been identified in the Toro reservoir, which underlies the Elevala Sandstone reservoir that hosts the Elevala/Tingu field in PRL 21. It is also possible that the Elevala Sandstone reservoir of the Elevala field extends within PRL21 and into PPL 259. Mean unrisked resources of 5.7mmbbl of liquids and 113bcf of gas have been estimated at PRL 21 (Horizon share)[18].

[18] As estimated by RISC as at 1 May 2016.

Horizon also has interests in four petroleum prospecting licences, PPLs 259, 372, 373 and 430, is the operator of all except PPL 259. PPLs 259, 372 and 430 are adjacent to PDL 10 and PRL 21. PPL 373, which was acquired at the same time as PPL 372, is located approximately 200 kilometres southeast of the other PPLs but relatively close to acreage in which Repsol and Oil Search have an interest. Mean unrisked resources of 11.6mmbbl of liquids and 245bcf of gas have been estimated at PPL 259 (Horizon share). PPL 259 hosts the Nama prospect, which covers an area of 60sqm and was drilled in FY15. While the Nama-1 well encountered gas shows in the targeted Toro and Kimu sandstones, the reservoir was of poor quality at the drilled location. The well was plugged and abandoned and the data collected is being evaluated to understand the implications of this result on the remainder of the prospect. Data relating to PPLs 430, 372 and 373 is being interpreted.

PNG Oil and Gas Fiscal Regime

The fiscal regime for petroleum assets in PNG is based on a combination of royalties, taxes and levies. In general, petroleum licences are governed by concession terms. The following taxes apply to Horizon's oil and gas assets in PNG:

- a 2% royalty (tax credit) and 2% social development levy (tax deduction) payable on the wellhead revenue;
- a Petroleum Income Tax ("PIT"), which is applied on pre-tax income at a rate of 45% on oil licences and 30% on gas licences; and
- an additional profits tax ("APT") of 7.5% of net profit after tax if the internal rate of return exceeds 17.5% plus 10% of net profit after tax net of APT1 if the internal rate of return after APT1 exceeds 20%.

Oil and gas assets are exempt from withholding taxes on interest paid on borrowings used to fund the operations and from withholding taxes on dividends paid out of profits from the operations.

The Government has the option to acquire up to 22.5% in a project upon the granting of a PDL against payment of its share of past costs.

5 Valuation of Horizon

5.1 Summary

Grant Samuel has valued Horizon in the range US$90-165 million, which corresponds to a value of A$ 9.3-17.1 cents per share. The valuation represents the estimated full underlying value of Horizon assuming 100% of the company was available to be acquired and includes a premium for control. The value exceeds the price at which, based on current market conditions, Grant Samuel would expect Horizon shares to trade on the ASX in the absence of a takeover offer.

The valuation of Horizon is the aggregate of the estimated market value of Horizon's oil and gas interests and its net cash, adjusted for its non-trading assets and liabilities. The valuation is summarised below:

Horizon - Valuation Summary

	Report Section Reference	Value Range (US$m)		Value Range (A$m)	
		Low	High	Low	High
Beibu Gulf	5.4.1	180	210	243	284
New Zealand	5.4.2	30	40	41	54
Papua New Guinea	5.4.3	30	60	41	81
Other assets and liabilities	5.5	4	4	6	6
Head office costs (net of savings)	5.6	(35)	(30)	(47)	(41)
Enterprise value		**209**	**284**	**283**	**384**
Adjusted net borrowings	5.7	(119)	(119)	(161)	(161)
Equity value		**90**	**165**	**121**	**223**
Shares on issue				1,302	1,302
Value per share (A$ cents)				**9.3**	**17.1**

The principal approach to valuing Horizon's producing assets was by discounted cash flow analysis. Valuation scenarios were developed by Grant Samuel for the Beibu, New Zealand and PNG assets on the basis of assumptions regarding production rates, operating costs and capital costs developed by the independent technical specialist, RISC. RISC's operating assumptions are summarised below and set out in detail in RISC's report in Appendix 3.

Grant Samuel's valuation models use as their starting point the balance sheet of Horizon as at 31 December 2015 and project US$ denominated cash flows from 1 January 2016 onwards. Projected ungeared after tax cash flows were discounted to a present value using a nominal after tax discount rate of 9.5-10.5%. Appendix 1 sets out a detailed analysis of the selection of this discount rate. Estimated US$ values were converted to A$ equivalents at the spot exchange rate of A$1.00 = US$0.74.

The valuation reflects market conditions and expectations as at the date of this report. It should be considered in the context of the following:

- given the recent volatility in oil prices, judgements about future oil prices are inherently uncertain. While Grant Samuel has assumed long term prices for Brent oil in the range of US$60-70/bbl (in real 2016 $ terms) for the purposes of the valuation, a broad range of assumptions could reasonably be adopted. In particular, it is conceivable that potential acquirers of Horizon's assets would adopt oil price assumptions much lower than Grant Samuel's oil price assumptions, which would result in much lower estimates of value;
- a significant proportion of the value attributed to Horizon relates to its interest in the PNG assets. While Horizon and its joint venture partners have identified a number of development options and avenues to commercialise the Stanley and EKT gas resources, these are still at a conceptual level and considerable uncertainty remains in relation to their overall feasibility, potential capital and operating costs, the prices at which the raw gas will be sold and the

timing of any development. A decision to develop the PNG fields is likely to require some level of commitment from end users in relation to the volumes and the terms under which the gas will be purchased. For that reason, the path to development of the PNG fields is largely outside Horizon's control: it is likely to be determined by external factors such as the demand from third party LNG projects (PNG LNG and Papua LNG) for Stanley and EKT gas, the requirements of local customers to procure gas for power generation or for fertilizer production, or by the potential to aggregate local gas sources to underpin the development of an independent standalone LNG project. The intrinsic uncertainties are exacerbated by the need to achieve alignment of the partners in the Stanley and EKT joint ventures to progress any of the potential development options;

- while RISC has recommended valuation scenarios that contemplate a range of production and cost outcomes for these assets and Grant Samuel has modelled sensitivities to illustrate the impact on value of uncertainties in relation to the timing of development and the prices at which the PNG gas resource will be sold, the actual oil recoveries, price and cost outcomes, and timing could be very different from those modelled;
- given the relatively high degree of gearing, small changes in the estimated value of Horizon's business will have significant impacts on the estimated value of Horizon's equity; and
- the decision by some bondholders in August and October 2015 to sell their debt at a discount to face value suggests that, at least at that time, those bondholders believed that there was a risk that Horizon equity had little or no value.

Overall, given these factors, the value of Horizon could shift, potentially materially, over the short to medium term. In particular, movements in oil prices or oil price expectations and developments in the oil and gas sector in PNG could result in major changes, either positive or negative, in the value of Horizon.

The valuation range of US$90-165 million implies the following valuation parameters:

Horizon – Implied Valuation Parameters (US$/mmboe)

	Variable	Implied Multiple	
		Low	High
Enterprise Value range (US$ million)		**209**	**284**
2P reserves - as at 1 May 2016 (mmboe)	8.3	25.2	34.3
2P + 2C - as at 1 May 2016 (mmboe)	115.6	1.8	2.5
Production - year ended 31 December 2015 (mmboe)	1.4	150	203

The multiples of reserves, resources and production implied by the share market values of comparable companies are set out in Appendix 2.[19] The multiples of 2P+2C resources implied by the valuation of Horizon are consistent with those for the comparable companies (after taking into account the fact that the multiples for the comparable companies do not incorporate a premium for control.) The multiples of 2P reserves and production implied by the valuation of Horizon are generally higher than for the comparable companies. It should be recognised that, given the wide variations in such factors as asset life, production rates, operating costs, capital costs, reserves potential and exploration upside, valuation evidence based on reserve, resource and production benchmarks provides in this context only very general guidance as to value.

[19] The multiples implied by Grant Samuel's valuation of Horizon are based on estimates of reserves and resources as at 1 May 2016 prepared by RISC as part of its review of Horizon assets, whereas the multiples implied by the sharemarket ratings of comparable companies are based on the most recent available public information.

Grant Samuel's valuation of Horizon in the range of A$ 9.3-17.1 cents per share implies the following premiums over the Horizon share price to 24 June 2016, the last trading day before the announcement of the Financing Proposal:

Horizon – Premiums Implied by the Grant Samuel Valuation

Period	Share Price/VWAP[20]	Implied Premia	
		Low	High
Equity value (cents per share)		**9.3**	**17.1**
Last closing price – 24 June 2016	4.4¢	112%	289%
5 days prior to 24 June 2016 (VWAP)	4.6¢	104%	274%
1 month prior to 24 June 2016 (VWAP)	5.1¢	83%	236%
3 months prior to 24 June 2016 (VWAP)	6.0¢	56%	186%
12 months prior to 24 June 2016 (VWAP)	8.2¢	14%	110%

Source: IRESS and Grant Samuel analysis

The valuation range represents premiums of 112-289% to the last closing price, but much lower premiums to the three month VWAP to 24 June 2016 (56-186%) and 12-month VWAP to 24 June 2016 (14-110%).

While these premiums are much higher than would normally be expected, in Grant Samuel's view they are not inappropriate. It is reasonable to expect that Horizon shares would trade at a deep discount to underlying value, reflecting the uncertainty in relation to Horizon's funding situation. Brokers have set target prices for the company at a large discount to net asset values because of their concerns in relation to the company's debt redemption obligations. Furthermore, share market prices are unlikely to reflect significant value for the PNG assets in the context of current oil prices and the considerable uncertainty in relation to the development path for the assets.

5.2 Methodology

Grant Samuel's valuation of Horizon has been estimated by aggregating the estimated market value of its interests in oil and gas assets (on a "control" basis) and deducting external borrowings and non-trading liabilities. The value of the oil and gas assets has been estimated on the basis of fair market value as a going concern, defined as the maximum price that could be realised in an open market over a reasonable period of time assuming that potential buyers have full information.

The most reliable evidence as to the value of a business is the price at which the business or a comparable business has been bought and sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available evidence. There are four primary valuation methodologies that are commonly used for valuing businesses:

- capitalisation of earnings or cash flows;
- discounting of projected cash flows;
- industry rules of thumb; and
- estimation of the aggregate proceeds from an orderly realisation of assets.

Each of these valuation methodologies has application in different circumstances. The primary criterion for determining which methodology is appropriate is the actual practice adopted by purchasers of the type of business involved.

[20] VWAP = volume weighted average price

Grant Samuel's primary approach to the valuation of Horizon's producing and development oil and gas assets has involved the application of the DCF methodology. The discounted cash flow methodology involves the calculation of net present values ("NPV") by discounting expected future cash flows. Projected cash flows are discounted to a present value using discount rates that take into account the time value of money and risks associated with the cash flows. The discounted cash flow methodology is particularly appropriate for assets such as oil and gas projects where reserves are depleted over time and significant capital expenditure is required. By contrast, capitalisation of earnings or cash flows is the most commonly used method for valuation of industrial businesses. This methodology is most appropriate for industrial businesses with a substantial operating history and a consistent earnings trend that is sufficiently stable to be indicative of ongoing earnings potential. This methodology is not particularly suitable for start-up businesses, businesses with an erratic earnings pattern or businesses that have unusual capital expenditure requirements. This methodology is in particular not suitable for the valuation of Horizon's oil and gas assets, which have high upfront capital expenditure requirements (in the case of the PNG assets) and limited lives and declining production profiles (in the case of the Beibu and New Zealand interests).

Grant Samuel developed a cash flow model for Horizon's interests in the Beibu Gulf joint venture, the Maari project and the PNG assets on the basis of operating scenarios developed by RISC, which were based on production plans provided by Horizon. RISC reviewed each of the technical assumptions in Horizon's operating models, including those regarding reserve estimates, production profiles, operating costs, capital costs and the potential for reserve extensions, and made adjustments to these assumptions when appropriate. Grant Samuel determined the economic and financial assumptions used in the cash flow models. The net present values of the Beibu, New Zealand and PNG interests have been calculated on an ungeared after tax basis as at 1 January 2016.

Alternative valuation methodologies have been considered as secondary evidence as to the value of Horizon's producing interests. In particular, the estimates of value have been reviewed to the extent possible and appropriate in terms of multiples of oil and gas reserves and resources and production, which are metrics commonly used to assess values in the oil and gas sector. The valuation metrics, while relatively crude, are useful in assessing the reasonableness of a discounted cash flow valuation since the discounted cash flow valuation is typically sensitive to the assumptions adopted.

The valuation of the Beibu, Maari and PNG interests represents Grant Samuel's overall judgement as to value. It does not rely on any one particular scenario or set of economic assumptions. The valuation has been determined having regard to the sensitivity of the DCF analysis to a range of technical and economic assumptions. It incorporates Grant Samuel's judgemental assessment of the impact on value of development status and optionality, to the extent not reflected in the DCF analysis.

The valuation is based on a number of important assumptions, in particular assumptions regarding future oil and gas prices, and reflects the technical judgements of RISC regarding the prospects for Horizon's Beibu, New Zealand and PNG assets. Oil prices and expectations regarding future operating parameters can change significantly over short periods of time. Such changes can have significant impacts on underlying value. Accordingly, while the values estimated are believed to be appropriate for the purpose of assessing the Financing Proposal, they may not be appropriate for other purposes or in the context of changed economic circumstances or different operational prospects for the oil and gas assets of Horizon.

5.3 Valuation Assumptions

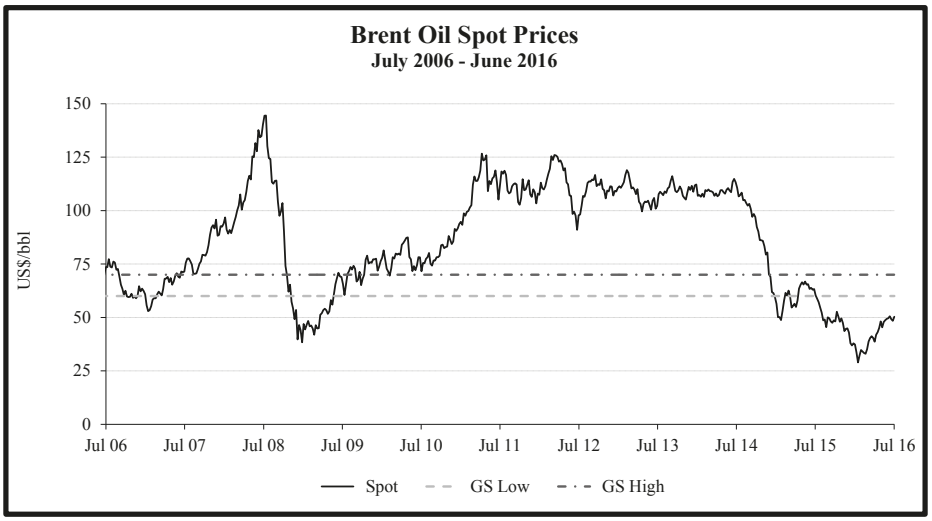
The valuation of Horizon's Beibu, New Zealand and PNG interests has been determined by reference to DCF valuation analysis. This analysis involves making a number of general assumptions regarding future oil and gas prices, economic factors and discount rates. The calculated NPVs are sensitive to the assumptions used in the analysis and relatively small changes

in certain variables can cause significant changes in calculated NPV. For this reason, DCF valuations should be treated with caution.

The key assumptions are:

- Brent crude oil prices increasing from the prevailing spot to a range of US$60-70 per barrel from 2021 (in 2016 real terms US$) and flat in real terms thereafter;
- tax depreciation schedules determined on the basis of tax written down values of the assets;
- allowance for carry forward tax losses in New Zealand and China; and
- nominal discount rates for the discounted cash flow valuations in the range 9.5-10.5%. The discount rates represent estimates of the costs of capital for investors in oil and gas projects based on analysis using the capital asset pricing model. The rates are estimates of weighted average costs of capital and have been applied to expected future ungeared after tax cash flows. The basis for the selection of the rates is set out in Appendix 1.

The valuation was based on current oil prices and expectations of future oil prices prevailing in May 2016. Grant Samuel has assumed that Brent crude prices (in real terms) will increase from current levels to a long term price range of US$60-70 per barrel (real terms in 2016 US$) by 2021. The Brent price assumptions compared to historical Brent prices for the past 10 years are shown below:



Source: Bloomberg
Note: Historical prices are in nominal terms whereas Grant Samuel price assumptions are in 2016 dollars.

The Brent crude price assumptions adopted for the purposes of the valuation of Horizon's assets are broadly consistent with the range of forecast price assumptions used by market analysts. However, assumptions regarding future oil prices are subject to considerable uncertainty:

- the Brent oil price has recently been extremely volatile. The Brent oil price fell from approximately US$115/bbl on 19 June 2014 to a six-year low of US$47/bbl on 13 January 2015. While it partially recovered, with Brent trading around US$65/bbl in May and June 2015, it fell again rapidly and reached a low of US$28/bbl on 20 January 2016, the lowest price since October 2003. The Brent oil price has since almost doubled and Brent was trading at around US$50/bbl as at the date of this report. Overall in the past 12 months, it has fluctuated in the range of US$28/bbl to US$65/bbl;

- in the context of extreme oil price volatility, price forecasts by analysts and industry commentators may become rapidly out of date and so "consensus" price forecasts may lag current market expectations;
- although the forecasts of Brent oil prices by industry analysts, commentators and corporate participants generally support long term Brent oil price assumptions within a relatively narrow range of US$60-70 per barrel (real terms), there are some market participants who are forecasting much lower or much higher prices; and
- the ICE Brent Futures Contract curve in late May 2016 slopes up to approximately US$62 per barrel by March 2023, which corresponds to approximately US$53 per barrel in real terms. Although prices of futures contracts are not necessarily directly correlated to forecast spot prices, they are used by some market participants for their investment decisions.

The value of Horizon's producing interests could vary significantly with changes in oil price expectations. The assumptions in relation to future oil prices adopted by Grant Samuel do not represent forecasts by Grant Samuel but are intended to reflect the range of assumptions that could reasonably be adopted by industry participants in their pricing of Horizon and its assets.

5.4 Horizon's Oil and Gas Assets

5.4.1 Beibu Gulf

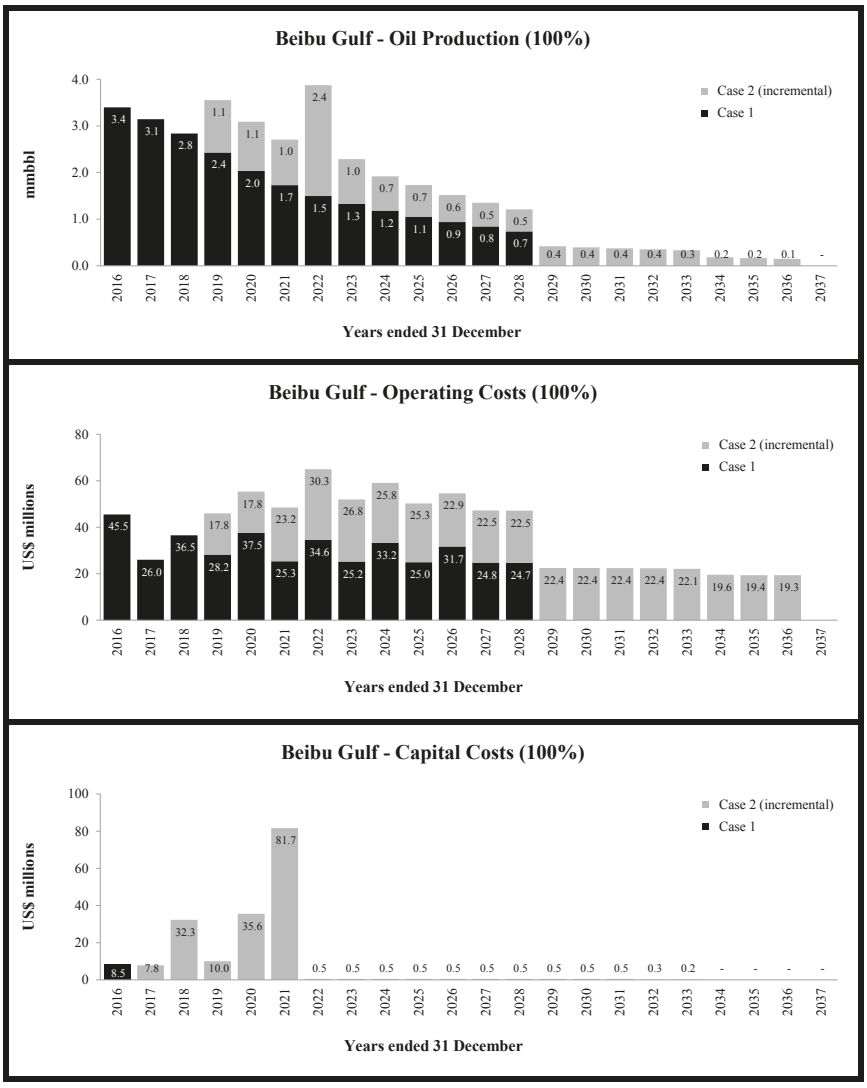
Grant Samuel has valued Horizon's interests in the Beibu Gulf Joint Venture in the range US$180-210 million.

Two scenarios were developed for the valuation of the Beibu Gulf Joint Venture[21]:

- **Case 1** assumes the production of 2P reserves for the WZ 6-12 and WZ 12-8 West Oil Fields which commenced production in March 2013. Production continues until 2028 (though there is minor tail production beyond this date) and yields a total of 23.2 mmbbl of crude oil. As these fields are already developed, only minimal capital expenditure is assumed (to complete the A6H well in January 2016). In accordance with normal practice in China, abandonment costs are incurred over the life of the field and the model assumes that approximately US$6 million remains to be incurred. Operating costs (excluding abandonment costs) over the life of the field total US$392 million (in real terms) with annual fluctuations reflecting changes in tariffs relating to oil production and water injection and well workover costs every two years; and
- **Case 2** is based on Case 1 but also assumes the production of 2C resources from the WZ 12-8E Field. US$163 million is spent on the development of the field from 2017 to 2021. Production from WZ 12-8E is assumed to start in 2019. New wells are brought online in 2022 resulting in a sharp increase in production that year. Unit operating costs increase substantially over the life of the field reflecting the increasing water content in the WZ 12-E reservoir. Based on Grant Samuel's oil price assumptions, production becomes uneconomic in 2029. Case 2 results in incremental oil production of 9.5mmbbl (compared to total potential incremental production of 11.8mmbbl based on the technical life of the field). Incremental operating costs over the economic life of the field total US$235 million, including US$30 million allowed for abandonment costs.

The following charts summarise the crude production, operating and capital costs for both scenarios. Costs are expressed in real 2016 dollars and amounts relating to the second case are incremental over the amounts assumed in Case 1:

[21] All volumes and costs information are for 100%. Costs are expressed in real terms (2016).



The following table summarises the NPV analysis for the Beibu Gulf Joint Venture:

Beibu Gulf Joint Venture – NPV Analysis (US$ million) (Horizon Interest)				
	Discount Rate	Brent Oil Long Term Price (US$/bbl)		
		60	65	70
Case 1				
	10.5%	179	186	193
	10.0%	182	189	196
	9.5%	185	193	200
Case 2				
	10.5%	182	195	206
	10.0%	186	198	210
	9.5%	189	202	214

The NPV analysis takes into account the written down tax value of assets and tax losses as at 31 December 2015. Under the terms of the sale agreement with CNOOC and due to the

quality of the crude oil produced, a discount of US$4/bbl is applied to the Brent crude oil price.

Grant Samuel's valuation of Horizon's interest in the Beibu Gulf Joint Venture in the range US$180-210 million reflects the NPV analysis summarised above and takes into account the following factors:

- the WZ 6-12 and WZ 12-8 West Oil Fields commenced production in March 2013 and have generally performed as per expectations. Scenario 1 assumes production of 2P reserves from these fields over the period to 2028. The analysis indicates NPVs in the order of US$190 million for the existing producing fields;
- the WZ 12-8 East Field is marginally economic at the assumed oil prices. This field is in pre-development with an Overall Development Plan expected to be completed in 2016; and
- RISC has valued Horizon's exploration interests in Beibu Gulf in the range US$1.8-12.1 million (refer to Section 5.4.4 for further information);

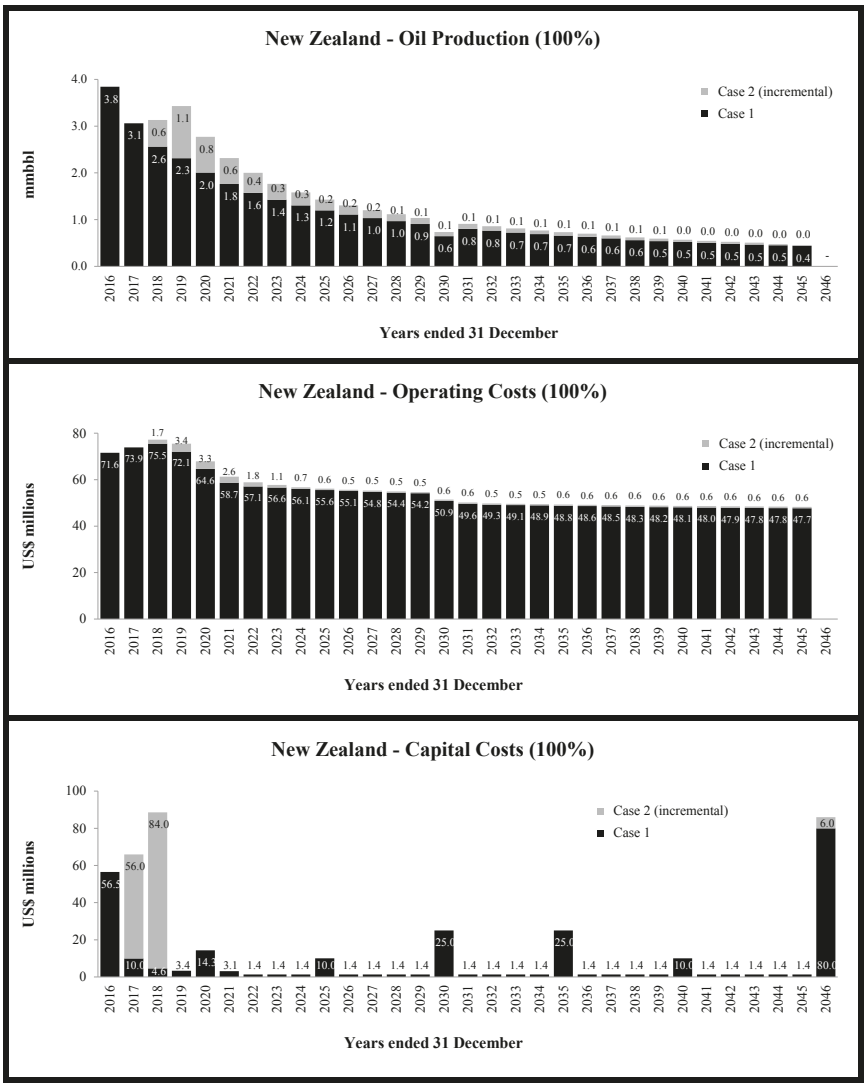
5.4.2 New Zealand

Grant Samuel has valued Horizon's 10% interest in the Maari field in the range US$30-40 million.

Grant Samuel's valuation of Maari had regard to two life of field cases recommended by RISC. The cases are summarised as follows:

- **Case 1** assumes the production of 2P reserves and is based on RISC's best estimate of reservoir performance and factors in significant benefits from the water injection scheme. Capital expenditure over the technical life of the field totals US$189 million. This primarily consists of US$56 million incurred in 2016 to replace the water injection line and capital expenditure to progressively refurbish the FPSO over the life of the field. Annual operating costs of US$70-75 million in the first four years declining to around US$50 million per year as production decreases are assumed. Abandonment costs of US$80 million are allowed for. Based on Grant Samuel's oil price assumptions, production becomes uneconomic in 2029. This results in oil production over the economic life of the field of 25.1mmbbl compared to a potential total of 34.6mmbbl over the technical life of the field; and
- **Case 2** is based on Case 1 but also assumes the production of 2C resources from the Manaia Mangehewa and Maari Moki reservoirs. US$140 million is spent on the development of these accumulations from July 2017 to June 2018. Production from these reservoirs is assumed to start in July 2018, peaks at 1.1mmbbl in 2019 and declines after that. Although production of the fields on a combined basis is economic post 2029, the US$25 million investment required in 2030 to partially refurbish the FPSO means that it is not advantageous to continue production after 2029 at the assumed oil prices. As a consequence, oil production over the economic life of the field is 30.0mmbbl compared to a potential total of 40.5mmbbl over the technical life of the field. Incremental operating costs are fairly minor. Additional abandonment costs of US$6 million are assumed.

The following charts summarise projected production and costs for Cases 1 and 2:



Grant Samuel has calculated net present values for Cases 1 and 2 for a range of assumptions regarding future oil prices and discount rates. The results of the NPV analysis are summarised as follows:

Maari (Horizon Share) – NPV Analysis (US$ million)				
	Discount Rate	Brent Oil Price Scenario (US$/bbl)		
		60	65	70
Case 1				
	10.5%	27	31	35
	10.0%	27	31	35
	9.5%	28	32	36
Case 2				
	10.5%	31	36	40
	10.0%	31	36	41
	9.5%	32	37	42

The NPV analysis takes into account the written down tax value of assets and the carried forward tax losses as at 31 December 2015. It also assumes that the oil is sold at a US$4.00/bbl premium to Brent reflecting its high quality.

The value of US$30-40 million attributed by Grant Samuel to Horizon's 10% interest in Maari takes into account the analysis set out above as well as the following factors:

- Cases 1 and 2 are based on RISC's best estimate of future reservoir performance. Present values calculated for these scenarios should be given most weight in assessing the value of Maari. However, the effectiveness of the water injection programme in terms of improving oil recoveries remains highly uncertain. Water injection has only been used at Maari for short periods of time in the past and its effectiveness is therefore yet to be fully assessed;
- based on the current understanding of the field, Maari could technically produce well beyond 2029. The established field infrastructure and exploration potential in the vicinity of the Maari field combined with the field's long life results in real option value that is not captured in the net present values set out above;
- the analysis does not assume any water injection for the incremental volumes produced out of the Manaia Mangehewa and Maari Moki reservoirs in Case 2. While the potential benefits from a water injection programme have not been quantified, a successful water injection programme could yield substantial benefits;
- there is limited exploration potential at Horizon's licences; and
- there are good prospects for Horizon to recover some of the costs incurred to repair mooring lines and a water injection line under the company's insurance policy. Insurance claims have been lodged and are being progressed. Horizon's share of recoveries could exceed US$3 million.

5.4.3 Papua New Guinea

Grant Samuel has valued Horizon's interests in PDL 10 and PRL 21 (i.e. the Stanley and EKT fields) in the range US$30-60 million. The valuation range is relatively wide, reflecting the wide range of possible outcomes for Horizon's PNG assets. It represents a very deep discount to estimated net present values for the PNG assets, given the early stage of the assets and the variety of risks and uncertainties relating to their development. The valuation reflects a judgement that, given the substantial gas resources at Stanley and EKT and the variety of potential development options, the PNG assets clearly have at least some option value. The valuation range incorporates value for the exploration upside at PRL 21 and PPLs 259, 372, 373 and 430.

The valuation reflects market conditions and expectations as at the date of this report. The value of Horizon's PNG assets could change materially and in short order as a result of factors such discovery of a major gas source locally or the decision by owners of third party LNG projects to use Stanley and EKT gas as feedstock.

A number of development plans are being considered for the fields. They are all underpinned by the initial extraction of gas from Stanley to produce electricity for sale to the OK Tedi mine from 2019. The remaining gas from Stanley and the gas from EKT could be monetised through sale to other local customers for power generation or industrial use, through sale to third party LNG projects such as PNG LNG or Papua LNG, or through aggregation with other local gas sources to underpin the development of an independent small scale LNG project. Gas from Stanley would probably be piped to EKT to be fed into the gas pipeline linking EKT to the end users. Condensate could either be sold into a third party LNG project or barged down the Fly River and across the Gulf of Papua to the Napa Napa refinery in Port Moresby. At current oil prices, development of condensate treatment facilities only becomes economic once EKT enters production. Plans to manage the condensate that will be produced in the first phase of the project (i.e. production of gas

from Stanley for electricity generation) are yet to be developed. Horizon expects that a heads of agreement for the sale of power to OK Tedi will be signed in the next few months. There are no firm plans for the monetisation of the rest of the gas and the timing of any development of the remaining gas resources is highly uncertain.

Because of the interdependency of the fields in relation to the production of condensate and the sale of gas and the general uncertainty in terms of the ultimate development scenario for the gas resources, it was deemed appropriate to treat the Stanley and EKT fields as a single source of gas and condensate for the purposes of the valuation analysis.

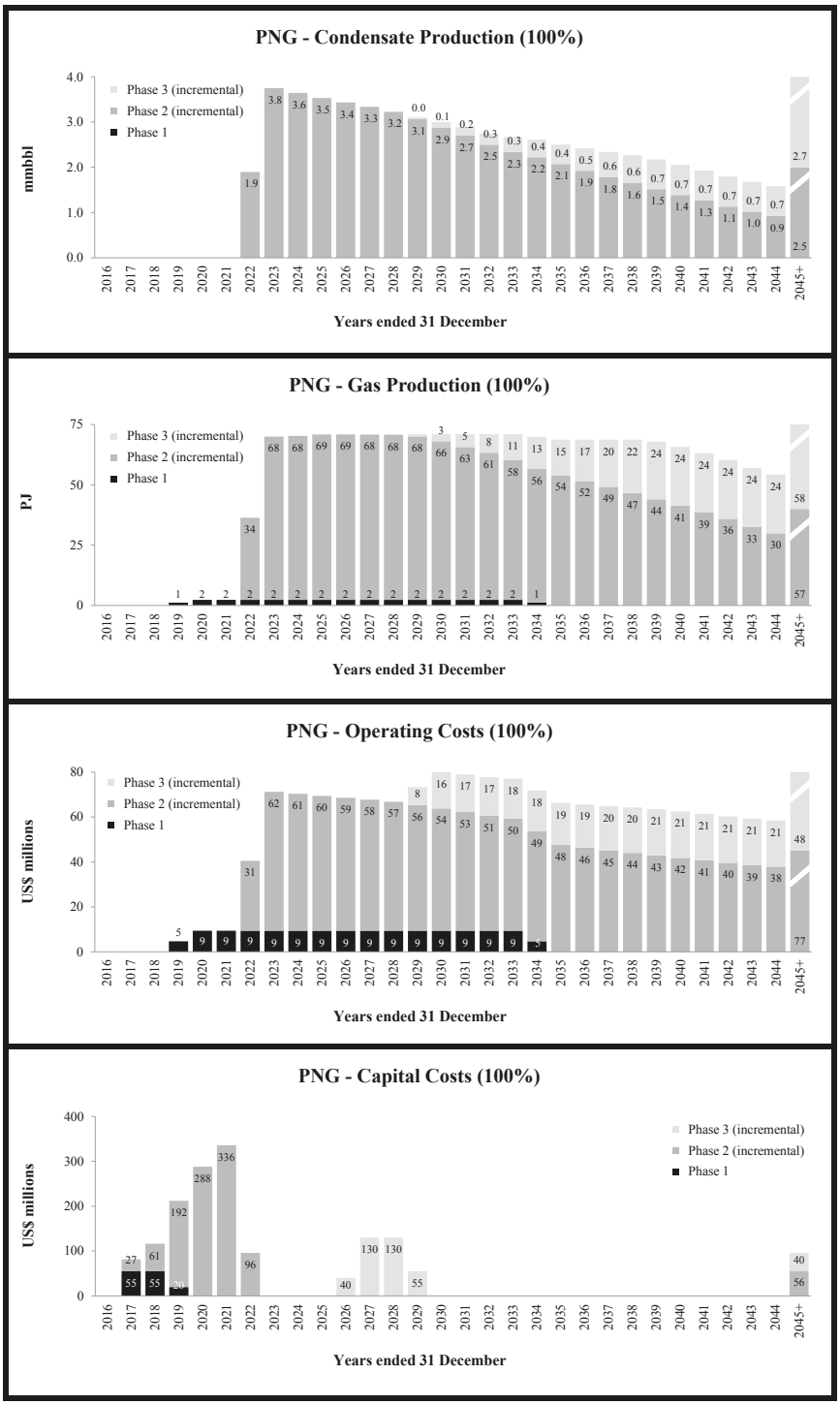
Grant Samuel has undertaken DCF analysis for the Stanley and EKT fields as a single asset, based on a single operating scenario developed by RISC. This scenario reflects development and production plans provided by Horizon for an independent small scale LNG project. Uncertainty as to the ultimate development path, which also affects the timing of any development, is captured through sensitivity analysis in relation to both gas pricing (effectively on a netback basis) and development timing.

The valuation scenario for the Stanley and EKT fields assumes a development in three phases:

- Phase 1 assumes the extraction of a total of 35PJ of gas from the Stanley field to produce electricity over a period of 15 years from 2019 onwards. It also assumes the sale of approximately 3.4Ml of diesel to the OK Tedi mine for the duration of the power supply agreement. A 12mmscf(d) gas processing plant and a 20MW power station yielding 166MWh a year are built in 2017 to 2019 at a cost of US$130 million. No well development is required. Operating costs of approximately US$9 million a year are incurred;
- Phase 2 assumes the development of the EKT fields. The development requires the drilling of five wells, the construction of a 210mmscfd gas processing plant and the laying of a pipeline to transport the condensate to Kiunga. Gas is assumed to be transported to end users through third-party owned pipelines. Capital expenditure of approximately US$1,000 million is incurred between 2018 and 2022. Incremental annual operating expenditure of approximately US$60 million, decreasing as condensate production decreases, is assumed; and
- Phase 3 involves a further development of the Stanley gas resource. Capital expenditure of US$355 million is spent in 2026-2029 to construct a 70mmscf gas processing plant, lay a condensate line to Kiunga and build a gas pipeline to transport the gas to EKT for sale into the third party pipeline. The addition of the gas processing plant results in an increase in operating expenditure of US$15-20 million per year.

Condensate production peaks at 3.8mmbbl in 2023, declines thereafter and totals 65.8mmbbl over the life of the fields. Gas sales plateau at 68PJ a year, resulting in total gas production over the life of the field of approximately 1,650PJ (including the 35PJ used to produce electricity for sale to OK Tedi). Abandonment costs of US$96 million are assumed.

The following charts summarises the condensate production, gas production and capital and operating costs for the production case:



While the modelled scenario reflects a realistic development path for an independent small scale LNG development, it is intended more broadly to be representative of the range of

potential development outcomes for EKT/Stanley, to provide some indication of the potential economics of an EKT/Stanley development.

The key economic assumption relates to the netback price at which EKT and Stanley gas could be sold. Analysis undertaken by RISC suggests that for oil prices around US$60-70/bbl, Stanley and EKT gas could be expected to sell at effective netback prices in the range of US$2.00-5.00/GJ. The actual netback price will reflect in part the development scenario for EKT/Stanley that ultimately eventuates. Because of the uncertainty relating to the ultimate development path, netback price assumptions can be no more than indicative and it is conceivable that the range selected does not capture the full range of potential outcomes.

Grant Samuel has calculated NPVs for a range of assumptions regarding gas netback prices and discount rates. The NPV analysis assumes condensate sales at the Brent oil price. The PNG Government is assumed to back in to the project in June 2017 by paying its share of past costs. The DCF analysis takes into account the cash flows resulting from Horizon's disproportionate entitlement to condensate production, which arises as a result of the terms of the Osaka Gas transaction, and the payment of the US$130 million contingent payment by Osaka Gas to Horizon upon a final investment decision being made on the export of gas as LNG.

The results of the NPV analysis are as follows:

PNG (Horizon Share post PNG Government Back In) – NPV Analysis (US$ million)				
	Discount Rate	Gas netback price (US$/GJ)		
		2.00	3.50	5.00
Base case	10.5%	274	383	483
	10.0%	292	409	516
	9.5%	313	438	552

A delay in the development by five years, which would see first gas sales in 2027, would result in a calculated NPV of US$254 million (calculated at a gas price of US$3.50/GJ and a discount rate of 10.0%).

The DCF analysis suggests values in the range of US$274-552 million (Horizon's share) for a full development including gas export, and first gas sales in 2022. These values are unrisked and need to be adjusted to reflect the range of uncertainties to which the project remains exposed. Grant Samuel's valuation of US$30-60 million reflects the very high degree of uncertainty relating to the commercialisation route for the gas resource, including in relation to gas pricing, the costs to build and operate the project, and the likely timing of development. In particular, the valuation reflects the following:

- all the gas monetisation options are subject to a range of risks and uncertainties, including:
  - exploration success and/or some form of aggregation with local gas sources controlled by other parties would be required to underpin the development of a standalone LNG project. Depending on the volume of gas sales to local customers for power generation or for fertilizer production, the PDL 10/ PRL 21 participants currently have around 1.0-1.3tcf available. A total of 2-4tcf of gas is likely to be required to support a standalone medium sized LNG plant;
  - the opportunity to sell gas into a third party LNG project (either PNG LNG or Papua LNG) is largely outside the control of Horizon and its partners. Furthermore, it is unlikely to occur for at least 10 to 15 years and it might not occur at all if the projects have sufficient exploration success or source gas from other parties;

- the Frieda River project is yet to be sanctioned and plans for the power supply are yet to be finalised and, while there is potential to sell gas to other local customers, this option remains conceptual;

- the calculated NPVs are extremely sensitive to the gas netback price assumptions, which are highly uncertain;
- the EKT fields have not yet been fully appraised and development studies remain to be completed for both the EKT and Stanley fields. The DCF analysis is based on 2C resources and capital and operating costs are not well defined;
- any development of the EKT field is still subject to permitting;
- the development is subject to general PNG sovereign risk, although this is arguably mitigated to some extent by the government imperative to promote development in the Western Province and by the successful development of the PNG LNG project; and
- the presence of multiple joint venture partners with potentially non-aligned objectives may make it more difficult to achieve the consensus required to move to a development decision.

On the other hand, there are factors that suggest that the gas will ultimately be commercialised:

- as potential LNG offtakers, Osaka Gas and Mitsubishi Corporation have a real incentive to promote a gas development;
- Mitsubishi Corporation and Repsol have joint interests in existing resources further to the south in the Foreland Basin, which, when combined with the Stanley/EKT resources, could already provide sufficient gas to support an LNG project;
- there is a realistic possibility that sufficient gas resources will be delineated in the vicinity of Stanley and EKT fields through further exploration success;
- the proposed developments are of proven design and there are no significant technical risks associated with the construction of the gas processing facility, power plant and pipeline, or with the LNG facility.

In the context of these uncertainties, and given the relatively early stage of development of the assets, any valuation judgement is highly subjective. Grant Samuel's valuation of Horizon's interests in the PNG assets in the range US$30-60 million reflects the financial analysis set out above, the risks and opportunities outlined and the following factors:

- RISC has valued Horizon's exploration interests PRL 21 and PPLs 259, 372, 373 and 430 in the range US$3.0-5.6 million (refer to Section 5.4.4 for further information); and
- Horizon expects to incur a total of approximately US$13 million on studies and other work undertaken on the Stanley and EKT fields leading up to a final investment decision. These costs are not reflected in the costs included in the DCF analysis.

5.4.4 Exploration

Horizon's exploration assets have been valued by RISC in the range US$4.8-17.7 million. RISC has attributed value to prospects in PNG and China, but no value to Horizon's exploration interests in New Zealand:

Horizon Exploration Assets (Horizon share) – Valuation (US$ million)		
	Value Range	
Asset	**Low**	**High**
China	**1.8**	**12.1**
PNG (portfolio value)	**3.0**	**5.6**
PRL 21	*1.5*	*5.8*
PPL 259	*0.4*	*2.4*
PPL 372	*0*	*1.1*
PPL 373	*0*	*1.1*
PPL 430	*0*	*0.6*
Total	**4.8**	**17.7**

RISC has attributed a value of US$1.8-12.1 million to the Xiayang1_I sands and T100 basement buried Hill prospects to be drilled in 2017 based on a commercially risked resources estimate in the range of 3.8-7.4mmbbl of oil.

In PNG, the Nama-1 prospect in PPL 259 was drilled in 2015. While it was classified as a gas discovery, the well was not deemed to be commercial at current oil prices. There are other prospects in PPL 259 and mean net unrisked prospective resources of 11.6mmboe of liquids and 245bcf of gas have been estimated. There are also leads in PPL 372, PPL 373 and PPL 430. Data is being collated to be reprocessed to determine the appropriate course of action. RISC's valuation of Horizon's interest in these licences is in the range of US$3.0-5.6 million on a portfolio basis.

The value of Horizon's exploration interests has been taken into account in Grant Samuel's valuation of the company's interests in the Beibu Gulf and PNG assets.

5.5 Other Assets and Liabilities

Grant Samuel has attributed a value of US$4 million to Horizon's hedge book. This is the mark to market value of its oil price derivative financial instruments relating to deliveries in April, May and June 2016 to be settled in July 2016.

No value has been attributed to Horizon's Australian carried forward capital losses. The value of Horizon's carried forward income tax losses in China, New Zealand and Australia is reflected in the value of the assets.

Grant Samuel is not aware of any other assets or liabilities that have not otherwise been taken into account in the valuation of the company.

5.6 Corporate Costs

Horizon incurs cash corporate costs of around US$6 million per annum, net of recharges to the operations (which are reflected in the asset valuations). These costs include expenses associated with maintaining a head office, the executive management team and finance, human resources, administration activities and listed company costs. Grant Samuel has estimated that US$3.0-3.5 million of these costs could be eliminated by a corporate acquirer. An allowance of US$30-35 million has been made in the valuation for the capitalised value of the residual corporate costs.

5.7 Adjusted Net Borrowings

Horizon's net borrowings for valuation purposes are summarised in the following table:

Horizon – Adjusted Net Borrowings	
	US$ million
Cash and cash equivalents as at 31 December 2015	51.1
Cash proceeds from settlement of hedges in January 2016 and April 2016	10.1
Insurance proceeds received in February 2016	2.8
Bank debt as at 31 December 2015	(120.0)
Bonds	(63.5)
Net cash / (borrowings)	**(119.5)**

Cash as at 31 December 2015 was adjusted for the following items:

- cash received in January 2016 following the settlement of hedges covering deliveries in October, November and December 2015 and cash received in April 2016 following the settlement of hedges covering deliveries in January, February and March 2016; and
- proceeds of US$2.8 million received in February 2016 on an insurance claim in relation to repairs at Maari.

Grant Samuel has attributed a value of US$63.5 million to the Bonds. This corresponds to the face value of the bonds of US$58.8 million plus the value of the redemption premium accrued as at 31 December 2015 of US$4.7 million.

5.8 Options and Share Appreciation Rights

The out-of-the-money options and share appreciation rights currently on issue have an approximate value of US$0.2 million. Grant Samuel has made no adjustment to the value of Horizon's equity for these options and share appreciation rights.

6 Evaluation of the Financing Proposal

6.1 Conclusion

Horizon faces the immediate need to redeem US$58.8 million of Bonds. Given current oil prices of around US$50/barrel, Horizon's market capitalisation of approximately US$60 million and its bank debt of US$89 million, the funding of this redemption is challenging. A failure to redeem the Bonds would have uncertain consequences, but at worst would expose Horizon to the risk of some insolvency process that could result in substantial destruction of shareholder value. Evaluation of the Financing Proposal needs to reflect the reality of Horizon's stressed financial position and the limited options available to it.

The Financing Proposal involves the issue of 300 million Options to IMC. If all of these Options are exercised, IMC's interest in Horizon will increase from its current level of 30.0% to 43.1% assuming no changes to Horizon's capital structure before the exercise of the options or other acquisition of Horizon shares by IMC. Accordingly, the regulatory framework requires that the Financing Proposal be evaluated as a takeover of Horizon by IMC.

Grant Samuel has valued Horizon in the range US$90-165 million, or A$ 9.3-17.1 cents per share. This valuation reflects an estimate of the full underlying value of Horizon, including a takeover premium. For the purpose of takeover analysis, the value of the "consideration" for Horizon shareholders is the price at which Horizon shares might be expected to trade following completion of the Financing Proposal. While any judgment in this regard is by its very nature subject to considerable uncertainty, Grant Samuel has adopted for the purposes of the analysis a post-refinancing Horizon share price of A$ 4.5-5.0 cents. Because this range of share prices is less than the estimated underlying value of Horizon of A$ 9.3-17.1 cents per share, the Financing Proposal is not "fair".

The more important issue for Horizon shareholders is whether they will be better off if they vote in favour of the Financing Proposal than if they reject it. The Loan to be provided by IMC is on relatively expensive terms, particularly having regard to the value to be delivered to IMC through the Option Issue. However, there is nothing to suggest that the terms of the Loan are uncommercial: Horizon is a risky credit for a subordinated lender and any subordinated lender would require a significant return to compensate for that risk. The Financing Proposal will result in an extension of Horizon's debt maturity profile. The Options will only be exercised in circumstances in which the Financing Proposal has in fact provided the "breathing space" for Horizon to recapture some equity value (and such exercise will in any event help to secure the financial position of the company). While IMC's percentage interest in Horizon is likely to increase (potentially materially), IMC already has an effective blocking stake in Horizon, and some measure of potential control of the company.

The interests of Horizon shareholders other than IMC will be diluted to the extent that IMC exercises its Options in the future. However, non-IMC shareholders will retain exposure (albeit potentially diluted) to any future uplift in the value of the company. The interests of IMC, as the major shareholder in the company, will be aligned with those of non-associated shareholders.

The prospects of an alternative refinancing proposal on terms more favourable to Horizon appear remote. Horizon and its advisers have conducted a wide-ranging review of the company's options, including consideration of asset sales and a variety of recapitalisation proposals. The Financing Proposal was the most attractive alternative for Horizon.

Horizon urgently needs to satisfy its Bond redemption obligation. The alternative potentially involves material destruction of shareholder value. The Financing Proposal is the only refinancing option currently available to Horizon. In this context, Horizon shareholders will almost certainly be better off if they approve the Financing Proposal. Accordingly, Grant Samuel has concluded that the terms of the Financing Proposal are reasonable.

6.2 Fairness

6.2.1 Overview

Horizon has been valued in the range US$90-165 million. At an exchange rate of A$1.00 = US$0.74, this equates to A$121-223 million or A$ 9.3-17.1 cents per share.

Grant Samuel has adopted a range of A$ 4.5-5.0 cents as the price at which shares in Horizon might be expected to trade immediately after completion of the Financing Proposal[22]. This is consistent with share trading in the range of A$ 4.5-5.3 cents per share between the announcement of the Financing Proposal on 27 June 2016 and the date of this report.

Assessment of the fairness of the Financing Proposal requires a comparison of the estimated trading range for Horizon shares following the Financing Proposal with the estimated underlying value of Horizon before the Financing Proposal. Both the valuation of Horizon and the assessment of its future trading price are subject to considerable uncertainty. Nonetheless, in Grant Samuel's view it is highly likely that, in the short term at least, Horizon shares will trade after the Financing Proposal at prices lower than Horizon's underlying value before the Financing Proposal. On this basis, the Financing Proposal is not fair.

6.2.2 Approach

The Australian regulatory framework requires that the Financing Proposal be assessed as if it were a takeover offer for Horizon by IMC. This reflects an implicit assumption that shareholders in approving the Financing Proposal will be giving up the opportunity to realise a control premium (because IMC will potentially increase its existing 30.0% shareholding, possibly by a material amount). The assessment requires a comparison of the value of the opportunity foregone (i.e. the opportunity to realise full underlying value) with the "consideration" to be received by shareholders, where that consideration is deemed to be shares in Horizon after completion of the Financing Proposal. The shares are to be valued at their trading (non-control) value.

Given that shares in listed companies normally trade at a significant discount to underlying value, in the ordinary course it is to be expected that almost any re-financing proposal of this nature analysed on this basis would be "not fair".

6.2.3 Impact on Control

If IMC exercises all the Options its shareholding in Horizon will increase to 43.1%. IMC will be entitled to appoint an additional director to the Horizon board, giving it two representatives on a board of six directors.

Given IMC's current 30.0% shareholding in Horizon, it is already in a position to influence control of Horizon. For example, IMC is already able to prevent any third party from acquiring 100% of the shares in Horizon. The increase in IMC's shareholding will arguably increase its ability to influence the direction of Horizon, but IMC will still have a shareholding of less than 50% and will be unable to exercise outright control. Accordingly, the impact of the Financing Proposal on control of Horizon is more a matter of degree (IMC will have more influence over the direction or control of Horizon in some circumstances) than a case of an outright passing of control.[23]

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[22] This range has been adopted for the purposes of the analysis of the Option Issue as required under the Australian regulatory framework. It does not represent a forecast or prediction by Grant Samuel and Grant Samuel makes no representation and gives no warranty as to the price at which shares in Horizon may trade in the future.

[23] If IMC acquired the maximum number of shares permitted to be acquired under the "creep" provisions (i.e. 3% every six months) and then exercised the Options at the end of the five year term of the IMC Loan, it would (absent any other shares issues) end up with a

(footnote continued)

As a practical matter, the impact of the Financing Proposal on control of Horizon is uncertain, but clearly falls well short of an outright passing of control. However, the regulatory regime requires that the Financing Proposal be evaluated as if it were a change of control transaction.

6.2.4 Horizon share price after completion of the Financing Proposal

Grant Samuel has estimated the price at which Horizon shares might be expected to trade following the completion of the Financing Proposal having regard to trading in Horizon shares since the announcement of the Financing Proposal on 27 June 2016 and other relevant factors.

Judgements in relation to the price at which Horizon shares might be expected to trade are subject to considerable uncertainty:

- the estimate of the range is based on a relatively short trading period between the announcement of the Financing Proposal on 27 June 2016 and the date on which this report was finalised (29 July 2016);
- the shares have traded within a relatively wide range of A$ 4.5-5.3 cents between 27 June 2016 and 29 July 2016 and in the broader range of A$ 4.3-6.4 cents since the 23 May 2016 announcement in which Horizon announced the initial refinancing proposal. Grant Samuel has adopted a range of A$ 4.5-5.0 cents per share for the purpose of this analysis but it is conceivable that trading after the date of this report would suggest values outside Grant Samuel's range; and
- it is possible that share trading since the announcement of the Financing Proposal on 27 June 2016 reflected temporary factors (positive or negative), the impact of which on the share price would be offset or diluted over a longer trading period (for example the market's reaction to the "Brexit" vote in the United Kingdom).

Despite these reservations, based on the information available, Grant Samuel believes that a range of A$ 4.5-5.0 cents per Horizon share is appropriate for the purposes of this analysis (given the continuation of current oil prices and broader market conditions). Share trading in the weeks leading up to the shareholder vote will provide further information to shareholders (although it could also reflect other factors such as movements in the oil price and further market reactions in the aftermath of the Brexit vote). While there is a possibility that the share price will strengthen in that period (particularly if the market becomes increasingly confident that the Financing Proposal will complete and the Bonds will be redeemed), the gap between Grant Samuel's estimate of the range at which Horizon might be expected to trade (A$ 4.5-5.0 cents per share) and the estimated underlying value of the company (A$ 9.3-17.1 cents per share) means that the share price would have to increase substantially for the conclusion in relation to fairness to change.

The following table sets out Grant Samuel's estimate of the underlying value of Horizon after the Financing Proposal:

shareholding of 67.5%, which would clearly confer outright control. On the other hand, in such a circumstance IMC (by taking advantage of the "creep" provisions) would already have acquired a shareholding of 60% before exercising the Options and would already have achieved outright control of Horizon. The exercise of the Options would have little or no impact on control of Horizon, which would already have passed to IMC.

Impact of the Financing Proposal on Horizon's Underlying Value (A$ million)			
		Low	High
Estimated full underlying value (equity value)	A$m	121	223
Equity value attributable to Options	A$m	(6)	(5)
Estimated full underlying value (equity value) after Financing Proposal	A$m	116	218
Shares on issue after Financing Proposal	m	1,302	1,302
Estimated full underlying value per share after Financing Proposal	A$ cents	8.9	16.8

Grant Samuel's estimate is that following the Financing Proposal Horizon's underlying value would be in the range A$ 8.9-16.8 cents. This represents a premium of 87-253% relative to the mid-point of the price range at which shares in Horizon might be expected to trade following the Financing Proposal of A$ 4.5-5.0 cents. This is well in excess of the premiums typically paid in takeover offers. Having regard to factors including Horizon's high degree of gearing, IMC's position on the register, limited share liquidity, uncertainty about the value of the PNG assets and general oil price uncertainty, in Grant Samuel's view the premium is not unreasonable. Grant Samuel believes that the trading price of A$ 4.5-5.0 cents adopted for the purposes of the analysis is appropriate.

6.3 Reasonableness

6.3.1 Overview

Grant Samuel has concluded that the Financing Proposal is not fair, on the basis that, following the Financing Proposal, Horizon shares are unlikely to trade at levels equal to or greater than the estimated underlying value of Horizon. "Fairness" in this context is arguably not particularly relevant for Horizon shareholders. As a result of the Financing Proposal, IMC's percentage shareholding could increase from its current level of 30.0%, potentially by a significant margin. The control implications of IMC's increased shareholding (if any) are not clear. It is not obvious that the Financing Proposal will significantly reduce shareholders' prospects of realising full underlying value for their shareholdings. IMC's current shareholding is already well over the 20% threshold and is probably already sufficient to deter any third party from proceeding with a non-agreed offer for the company. While IMC will become entitled to appoint a second director to the Board of Horizon, there is little to suggest that the Financing Proposal will affect IMC's day to day influence over the conduct of the company, or affect its willingness to sell its stake into a takeover offer. Shareholders will presumably retain at least some prospect of realising underlying value in the future, as IMC can be expected to seek to maximise the value of its investment, potentially by crystallising that value through a change of control transaction.

However, even if it was the case that the Financing Proposal involved a real opportunity cost, in the sense that it resulted in a reduction in the prospects for Horizon shareholders of realising full underlying value, in Grant Samuel's view there would be compelling reasons for Horizon shareholders to approve the Financing Proposal. On that basis the Financing Proposal is reasonable.

6.3.2 Impact on Horizon's financial position

The Bonds have a face value of US$58.8 million. The company does not have the capacity to redeem the Bonds from its current financial resources and has a clear need to re-schedule its obligations and/or raise additional capital:

- as at 31 May 2016, the company had cash of approximately US$22 million (including the company's share of cash held in joint ventures of approximately US$3 million);

- on 17 June 2016, Horizon paid holders of the Bonds an accumulated deferred yield amount of US$5.2 million and half-yearly interest of US$1.6 million. This was only partially offset by the receipt of US$4 million from the settlement of hedges;
- at current oil prices, Horizon generates only modest positive cash flows from operations;
- Horizon has a senior secured reserves-based facility, which was drawn to US$89 million as at 31 May 2016. This facility is amortising based on an agreed repayment schedule, which is subject to adjustments in the event that there are changes in expectations in relation to the future oil price or production from Horizon's assets. While Horizon has the ability to redraw US$11.3m under this facility at 31 May 2016, this capacity will reduce to US$8.8m at 30 June 2016 and will further reduce over the course of the year; and
- at the date of this report, Horizon's share market capitalisation was around A$60 million.

In conjunction with the Financing Proposal, Horizon has been able to secure deferment of the Bond redemption obligation to 19 September 2016. The Financing Proposal delivers US$50 million of funding (US$46 million after transaction costs) to fund the redemption of the Bonds.

The table below shows the impact of the Financing Proposal on Horizon's cash and debt position, on the assumption that the Financing Proposal had completed at 31 May 2016:

Impact of Financing Proposal on Horizon's Net Debt

	Actual 31 May 2016	IMC Loan	Bonds	Pro-forma Post Financing Proposal
Cash[24]	21.7	46.0	(63.6)	4.7
Current debt				
Reserves-based facility	11.4	-	-	11.4
Bonds	63.6	-	(63.6)	-
Total current debt	**75.1**	**-**	**(63.6)**	**11.4**
Non-current debt				
Reserves-based facility	77.7	-	-	77.7
IMC Loan	-	50.0	-	50.0
Total non-current debt	**77.7**	**50.0**	**-**	**127.7**
Total debt	**152.8**	**50.0**	**(63.6)**	**139.2**
Net debt	**131.1**	**4.0**	**-**	**134.5**

The liability relating to the reserves-based facility and the IMC Loan represents the economic value of the debt (i.e. US$89.1 million for the reserves-based facility and US$50.0 million for the IMC Loan) rather than the accounting value which Horizon is disclosing in its Explanatory Statement. This accounting value is stated in accordance with accounting standards which require the deferral of transaction costs and their amortisation over the life of the facilities resulting in a value of US$85.4 million for the reserves-based facility (i.e. US$89.1 million less capitalised transaction costs of US$3.7 million) and

[24] Includes Horizon Oil's share of cash held in joint ventures.

US$46.0 million for the IMC Loan (i.e. US$50.0 million less capitalised transaction costs of US$4.0 million).

As at 31 May 2016, the economic value of Horizon's total debt was US$152.8 million and its cash holding was US$21.7 million (including its share of cash held in joint ventures). Of the total debt, US$75.1 million was current, including US$63.6 million[25] relating to the Bonds. The pro-forma impact of the Financing Proposal on Horizon's debt position as at 31 May 2016 is a reduction in current debt to US$11.4 million (reflecting the redemption of the Bonds funded, in large part, by the IMC Loan, which has a minimum term of three years).

6.3.3 Structure of the Financing Proposal

The Financing Proposal, which consists solely of "replacement" debt, needs to be assessed having regard to a variety of objectives, including:

- minimising completion risk;
- reducing Horizon's overall level of financial risk; and
- minimising Horizon shareholder dilution.

Adding an equity component, as was initially contemplated, may have facilitated the debt raising (minimising completion risk and potentially reducing the cost of debt) and would have improved Horizon's overall financial position. It would have provided increased financial flexibility and "buffering" against any adverse events (e.g. falls in the oil price or operational performance issues). On the other hand, given Horizon's modest market capitalisation and a perception that Horizon is trading at a deep discount to fair value, any material equity raising could have significantly diluted shareholders who did not participate and potentially exacerbated issues relating to control if it led to an increase in IMC's shareholding in the company. The structure of the Financing Proposal represents a compromise, having regard to these issues. Overall, in Grant Samuel's view, the structure of the Financing Proposal is reasonable.

6.3.4 Terms of the IMC Loan

The US$50 million IMC Loan carries an interest rate equal to the 3-month US LIBOR rate (currently around approximately 0.7%) plus a margin of 9.0%. As part consideration for provision of the IMC Loan, Horizon will issue 300 million options over unissued shares to IMC. The Options are exercisable at a price of A$ 6.1 cents per share, a 20% premium to the VWAP of Horizon shares for the 30 days ended 24 June 2016. The IMC Loan has a nominal term of five years, although IMC can require repayment after three years. Based on an estimated value for the Options at issue of A$4.5-5.5 million, a drawdown fee on the IMC Loan of US$1.2 million and a current interest rate of approximately 9.7%, the terms of the IMC Loan imply a yield, or effective annual cost to Horizon, in the approximate range 13-14%, for an ultimate loan term in the range 3-5 years.

These yields are broadly consistent with the yields implied by Horizon's buy-back of Bonds in August and October 2015 and with the yield on which the remaining Bonds are trading:

- Horizon bought back 106 Bonds in August 2015 and October 2015 for prices that implied yields in the range of 8-11%. While the oil price at the time was around current levels, the Bonds were arguably less risky then than more recently. Cash as at

[25] Includes the face value of the Bonds of US$58.8 million plus the portion of the 8.8% premium payable on redemption of the Bonds accrued to 31 May 2016. It does not include the remaining amount of the premium or the US$1.6 million coupon due and paid on 17 June 2016.

30 June 2015 was US$61 million and the Bonds were not due for redemption for another eight to ten months (based on the original maturity date of 17 June 2016); and

- the Bonds traded at implied yields of 17-21% in the two weeks ended 20 May 2016, the last trading day prior to the announcement of the initial proposal on 23 May 2016. Between 23 May 2016 and the announcement of the Financing Proposal on 27 June 2016, the Bonds traded at implied yields in the approximate range of 14-19% (except on 23, 24 and 25 May when they traded at yields of 43-66%). While the Bonds are illiquid and their trading prices and yield can therefore be influenced by a small number of transactions, this provides at least an indication of the return investors would expect from an investment in Horizon subordinated debt securities.

Grant Samuel has also considered the yields on bonds issued by sub-investment grade resources companies in the Asia Pacific region. While there are no companies directly comparable to Horizon, and limitations to the information publicly available complicate the analysis, the market evidence suggests that the implied cost of the IMC Loan is broadly at market:

- the Bloomberg USD High Yield Corporate Bond Index Energy implied its constituents traded at an average yield[26] of 9.2% at the date of this report. The index includes non-investment grade, fixed rate corporate bonds denominated in US dollars for companies in the energy sector that have issued bonds with an aggregate par value in excess of US$250 million. The average rating of all the constituents of the index as calculated by Bloomberg is B+;
- KrisEnergy Ltd, a US$175 million Singapore-listed oil and gas company with assets in South-East Asia has two series of bonds on issue listed on the Singapore exchange. One matures in June 2017, carries a coupon of 6.25% and was trading as at the date of this report at a yield of around 21%. The second matures in August 2018, carries a coupon of 5.75% and was trading at a yield of around 16%; and
- in November 2015, Poseidon Nickel Limited, an ASX-listed mineral exploration company, refinanced outstanding bonds with the issue of new bonds on terms which implied a yield of approximately 12.7% at issue[27]

The IMC Loan has a nominal term of five years. However, given that IMC is entitled to require repayment of the Loan after three years (subject to giving three months' notice), the effective term is three years. If IMC does require early repayment, it will be obliged to exercise the Options, as long as the Horizon share price at the time is greater than or equal to the Option exercise price. Any obligatory exercise of the Options would deliver additional equity to Horizon (and arguably minimise dilution by accelerating the exercise of the Options). On the other hand, the arrangements would be unlikely to provide any benefit in circumstances in which Horizon was most vulnerable and most in need of additional equity: if Horizon was under financial pressure and its share price was below the Option exercise price, IMC would not be obliged to exercise the Options notwithstanding any demand for early repayment of the IMC Loan.

The exercise price of the options has been set at A$ 6.1 cents, a 20% premium to the VWAP of Horizon shares for the 30 days ended 24 June 2016. The exercise price has been set based on what appear to be relatively depressed share prices, potentially reflecting among other factors the continuing uncertainty in relation to the company's ability to fund the redemption of the Bonds or the market's reaction to the terms of the initial funding proposal. The 30 day VWAP to 24 June 2016 compares with a three month VWAP of 6.0 cents and a 12 month VWAP of 8.1 cents. Horizon shares were trading at all-time lows in the period immediately before the announcement of the Financing Proposal.

[26] Yield to worst

[27] Excluding upfront fees paid to the bondholder.

Accordingly, while Grant Samuel's estimate of the all up cost of the IMC Loan in the range 13-14% represents a reasonable estimate based on recent share prices (and is consistent with a theoretical valuation of the Options based on recent share prices), it may be the case that the actual economic cost of the IMC Loan will ultimately be greater.

6.3.5 Ownership and Control

The Financing Proposal includes the issue of 300 million Options to IMC. The Option Issue has no direct benefit for Horizon (i.e. there is no equity injection until the Options are exercised, at which time Horizon may no longer have a need for additional equity). The Options Issue effectively represents a dilution (or at least potential dilution) of the interests of existing Horizon shareholders other than IMC and a value transfer to IMC. Exercise of the Options would result in an increase in IMC's percentage shareholding in Horizon from 30.0% currently to 43.1% (assuming that no equity is issued before the exercise of the Options and that IMC does not increase its shareholding in the company by using the "creep provisions" of Item 9 of Section 611 of the Corporations Act). If IMC acquired the maximum number of shares permitted to be acquired under the "creep" provisions (i.e. 3% every six months) and then exercised the Options at the end of the five year term of the IMC Loan, it would (absent any other shares issues) end up with a shareholding of 67.5%, which would clearly confer outright control. On the other hand, in such a circumstance IMC (by taking advantage of the "creep" provisions) would already have acquired a shareholding of 60% before exercising the Options and would already have achieved outright control of Horizon. The exercise of the Options would have little or no impact on control of Horizon, which would already have passed to IMC.

If IMC exercises the Options, all shareholders will be diluted. As a result, the exposure of Horizon shareholders other than IMC to the potential upside in the company's assets, whether through an increase in the oil price or through the potential development of (or realisation of value for) the PNG assets, will be diminished.

While the issue of additional shares pursuant to the exercise of the Options will result in a substantial increase in IMC's shareholding, given its current shareholding of 30.0% IMC is already in a position to influence the outcome of any control proposal. It is reasonable to expect that IMC will be seeking to maximise the value of its investment and that it may be prepared to consider crystallising value through a fully priced change of control proposal (if such a proposal is forthcoming). Accordingly, it is not obvious that the Financing Proposal will materially reduce the prospects for non-IMC shareholders of realising full value through a change of control transaction.

Under the terms of the IMC Debt facility, IMC is entitled to nominate one director to the board of Horizon, in addition to its existing representative. This would increase its representation on the board from one director out of a total of five currently to two directors out of a total of six. The majority of directors will be independent of IMC and IMC will not be able to exercise board control of Horizon. IMC has advised that it does not currently intend to nominate additional directors, although this current intention is not binding. As the shareholder with the largest stake in Horizon, IMC is likely to be focussed on maximising the value of its investment and its interests should be broadly aligned with those of the other shareholders.

Accordingly, while the Financing Proposal is likely to increase IMC's shareholding in Horizon, the extent of any disadvantage from a control perspective will arguably be limited.

6.3.6 Alternatives

Horizon has for some time been considering various alternative approaches to funding the redemption of the Bonds.

Amongst the options that Horizon evaluated was a potential asset sale. However, Horizon concluded that indicative prices offered were well below fair value. In any event, even if an asset sale could have been completed on acceptable terms, it is likely that there would still have been a requirement to raise additional capital.

Horizon held discussions with a number of parties that were interested in providing subordinated debt funding. Horizon concluded that the Financing Proposal was the most attractive capital raising alternative available to it, having regard to criteria including the following:

- certainty of completion, particularly having regard to IMC's support and its position as a 30.0% shareholder;
- overall funding costs, including through the retention of the existing reserves-based facility, which carries a very favourable interest rate of 3 month US LIBOR, currently around 0.7%, plus a margin of 2.9%; and
- security interaction with Horizon's existing reserves-based debt facility.

Even if it was the case that there was an opportunity to source additional capital on terms more attractive than the terms of the Financing Proposal, this would be unlikely to change a conclusion that it is in Horizon shareholders' best interests to vote in favour of the Financing Proposal. The reality is that Horizon now has an urgent need to raise sufficient new capital to allow the redemption of the Bonds. The Financing Proposal is the only "live" opportunity to raise new capital that is available for Horizon to immediately progress. If the Financing Proposal was not approved, Horizon would face having to identify new sources of funding, negotiate and document transaction terms and (potentially) seek shareholder approval. Given the limited time available before the 19 September 2016 redemption date for the Bonds, there would be a material risk that this alternative capital raising would not be completed in time. A failure to redeem the Bonds would have uncertain consequences, but at worst could lead to some form of insolvency administration of Horizon, which would likely result in substantial destruction of shareholder value. In this context, in Grant Samuel's view, it is clearly in the best interests of Horizon shareholders to vote in favour of the Financing Proposal. Accordingly, the Financing Proposal is reasonable having regard to the interests of Horizon shareholders other than IMC.

6.4 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Financing Proposal is fair and reasonable to the non-associated shareholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Financing Proposal, the responsibility for which lies with the directors of Horizon.

In any event, the decision whether to vote for or against the Financing Proposal is a matter for individual shareholders based on each shareholder's views as to value, their expectations about future market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Financing Proposal, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Horizon. This is an investment decision upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Financing Proposal. Shareholders should consult their own professional adviser in this regard.

7 Qualifications, Declarations and Consents

7.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally) and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 500 public independent expert and appraisal reports.

The person responsible for preparing this report on behalf of Grant Samuel is Stephen Cooper. Stephen has a significant number of years of experience in relevant corporate advisory matters. Matt Leroux MEng MBA, David Szeleczky BCom (Hons) LLB (Hons) and Tom Rowe BCom CA assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

7.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Financing Proposal is fair and reasonable to Horizon shareholders other than IMC. Grant Samuel expressly disclaims any liability to any Horizon shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Explanatory Statement issued by Horizon and has not verified or approved any of the contents of the Explanatory Statement. Grant Samuel does not accept any responsibility for the contents of the Explanatory Statement (except for this report).

7.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Horizon or IMC or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Financing Proposal.

Grant Samuel advises that it was engaged by Horizon in July 2015 (i.e. prior to the announcement of the Financing Proposal) to undertake preliminary work to allow Grant Samuel to prepare an independent expert's report for Horizon should such a report be required. This work did not involve Grant Samuel participating in setting the terms of, or any negotiations leading to, the Financing Proposal. This engagement does not affect Grant Samuel's independence or its ability to prepare an independent expert's report in relation to the Financing Proposal.

Grant Samuel had no part in the formulation of the Financing Proposal as part of this engagement. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of A$200,000 for the preparation of this report (including fees received for the completion of the preliminary work). This fee is not contingent on the conclusions reached or the outcome of the Financing Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

7.4 Declarations

Horizon has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving gross negligence or wilful misconduct by Grant Samuel. Horizon has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by Horizon are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been grossly negligent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to Horizon and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

7.5 Consents

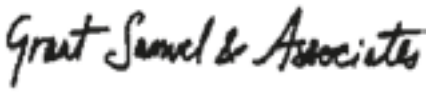
Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Explanatory Statement to be sent to shareholders of Horizon. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

7.6 Other

The accompanying letter dated 29 July 2016 and the Appendices form part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
29 July 2016



Appendix 1

Selection of Discount Rate

1 Overview

A discount rate in the range of 9.5-10.5% has been selected as appropriate to apply to the forecast nominal ungeared after tax US$ denominated cash flows for Horizon Oil's oil and gas assets.

Selection of the appropriate discount rate to apply to the forecast cash flows of any business enterprise is fundamentally a matter of judgement. The valuation of an asset or business involves judgements about the discount rates that may be utilised by potential acquirers of that asset. There is a body of theory which can be used to support that judgement. However, a mechanistic application of formulae derived from that theory can obscure the reality that there is no "correct" discount rate. Despite the growing acceptance and application of various theoretical models, it is Grant Samuel's experience that many companies rely on less sophisticated approaches. Many businesses and investors use relatively arbitrary "hurdle rates" which do not vary significantly from investment to investment or change significantly over time despite interest rate movements. Valuation is an estimate of what real world buyers and sellers of assets would pay and must therefore reflect criteria that will be applied in practice even if they are not theoretically correct. Grant Samuel considers the rates adopted to be reasonable discount rates that acquirers would use irrespective of the outcome of any particular theoretical model.

The discount rate that Grant Samuel has adopted is reasonable relative to the rates derived from theoretical models. The discount rate represents an estimate of the weighted average cost of capital ("WACC") appropriate for these assets. Grant Samuel has calculated a WACC based on a weighted average of the cost of equity and the cost of debt. This is the relevant rate to apply to ungeared cash flows. There are three main elements to the determination of an appropriate WACC. These are:

- cost of equity;
- cost of debt; and
- debt/equity mix.

WACC is a commonly used basis but it should be recognised that it has shortcomings in that it:

- represents a simplification of what are usually much more complex financial structures; and
- assumes a constant degree of leverage which is seldom correct.

The cost of equity has been derived from application of the capital asset pricing model ("CAPM") methodology. The CAPM is probably the most widely accepted and used methodology for determining the cost of equity capital. There are more sophisticated multivariate models which utilise additional risk factors but these models have not achieved any significant degree of usage or acceptance in practice. However, while the theory underlying the CAPM is rigorous the practical application is subject to shortcomings and limitations and the results of applying the CAPM model should only be regarded as providing a general guide. There is a tendency to regard the rates calculated using CAPM as inviolate. To do so is to misunderstand the limitations of the model. For example:

- the CAPM theory is based on expectations but uses historical data as a proxy. The future is not necessarily the same as the past;
- the measurement of historical data such as risk premia and beta factors is subject to very high levels of statistical error. Measurements vary widely depending on factors such as source, time period and sampling frequency;
- the measurement of beta is often based on comparisons with other companies. None of these companies is likely to be directly comparable to the entity for which the discount rate is being calculated and may operate in widely varying markets;
- parameters such as the debt/equity ratio and risk premium are based on subjective judgements; and

- there is not unanimous agreement as to how the model should adjust for factors such as taxation. The CAPM was developed in the context of a "classical" tax system. Australia's system of dividend imputation has a significant impact on the measurement of net returns to investors.

In addition, the market upheaval since 2007 has seen a repricing of risk by investors and global interest rates, including long term bond rates, are at low levels by comparison with historical norms. The CAPM methodology does not readily allow for these types of events.

The cost of debt has been determined by reference to the pricing implied by the debt markets in the United States. The cost of debt represents an estimate of the expected future returns required by debt providers. In determining the appropriate cost of debt over this forecast period, regard was had to debt ratings of comparable companies.

Selection of an appropriate debt/equity mix is a matter of judgement. The debt/equity mix represents an appropriate level of gearing, stated in market value terms, for the business over the forecast period. The relevant proportions of debt and equity have been determined having regard to the financial gearing of the industry in general and comparable companies, and judgements as to the appropriate level of gearing considering the nature and quality of the cash flow stream.

The following sections set out the basis for Grant Samuel's determination of the discount rates for Horizon Oil's oil and gas assets and the factors which limit the accuracy and reliability of the estimates.

2 Definition and Limitations of the CAPM and WACC

The CAPM provides a theoretical basis for determining a discount rate that reflects the returns required by diversified investors in equities. The rate of return required by equity investors represents the cost of equity of a company and is therefore the relevant measure for estimating a company's weighted average cost of capital. CAPM is based on the assumption that investors require a premium for investing in equities rather than in risk free investments (such as United States government bonds). The premium is commonly known as the market risk premium and notionally represents the premium required to compensate for investment in the equity market in general.

The risks relating to a company or business may be divided into specific risks and systematic risks. Specific risks are risks that are specific to a particular company or business and are unrelated to movements in equity markets generally. While specific risks will result in actual returns varying from expected returns, it is assumed that diversified investors require no additional returns to compensate for specific risk, because the net effect of specific risks across a diversified portfolio will, on average, be zero. Portfolio investors can diversify away all specific risk.

However, investors cannot diversify away the systematic risk of a particular investment or business operation. Systematic risk is the risk that the return from an investment or business operation will vary with the market return in general. If the return on an investment was expected to be completely correlated with the return from the market in general, then the return required on the investment would be equal to the return required from the market in general (i.e. the risk free rate plus the market risk premium).

Systematic risk is affected by the following factors:

- financial leverage: additional debt will increase the impact of changes in returns on underlying assets and therefore increase systematic risk;
- cyclicality of revenue: projects and companies with cyclical revenues will generally be subject to greater systematic risk than those with non-cyclical revenues; and
- operating leverage: projects and companies with greater proportions of fixed costs in their cost structure will generally be subject to more systematic risk than those with lesser proportions of fixed costs.

CAPM postulates that the return required on an investment or asset can be estimated by applying to the market risk premium a measure of systematic risk described as the beta factor. The beta for an

investment reflects the covariance of the return from that investment with the return from the market as a whole. Covariance is a measure of relative volatility and correlation. The beta of an investment represents its systematic risk only. It is not a measure of the total risk of a particular investment. An investment with a beta of more than one is riskier than the market and an investment with a beta of less than one is less risky. The discount rate appropriate for an investment which involves zero systematic risk would be equal to the risk free rate.

The formula for deriving the cost of equity using CAPM is as follows:

$$Re = Rf + Beta\ (Rm - Rf)$$

Where:

Re	=	the cost of equity capital;
Rf	=	the risk free rate;
Beta	=	the beta factor;
Rm	=	the expected market return; and
Rm - Rf	=	the market risk premium.

The beta for a company or business operation is normally estimated by observing the historical relationship between returns from the company or comparable companies and returns from the market in general. The market risk premium is estimated by reference to the actual long run premium earned on equity investments by comparison with the return on risk free investments.

The formula conventionally used to calculate a WACC under a classical tax system is as follows:

$$WACC = (Re \times E/V) + (Rd \times (1-t) \times D/V)$$

Where:

E/V	=	the proportion of equity to total value (where V = D + E);
D/V	=	the proportion of debt to total value;
Re	=	the cost of equity capital;
Rd	=	the cost of debt capital; and
t	=	the corporate tax rate

The models, while simple, are based on a sophisticated and rigorous theoretical analysis. Nevertheless, application of the theory is not straightforward and the discount rate calculated should be treated as no more than a general guide. The reliability of any estimate derived from the model is limited. Some of the issues are discussed below:

- **Risk Free Rate**

  Theoretically, the risk free rate used should be an estimate of the risk free rate in each future period (i.e. the one year spot rate in that year if annual cash flows are used). There is no official "risk free" rate but rates on government securities are typically used as an acceptable substitute. More importantly, forecast rates for each future period are not readily available. In practice, the long term Commonwealth Government Bond rate is used as a substitute in Australia and medium to long term Treasury Bond rates are used in the United States. It should be recognised that the yield to maturity of a long term bond is only an average rate and where the yield curve is strongly positive (i.e. longer term rates are significantly above short term rates) the adoption of a single long term bond rate has the effect of reducing the net present value where the major positive cash flows are in the initial years. The long term bond rate is therefore only an approximation.

  The ten year bond rate is a widely used and accepted benchmark for the risk free rate. Where the forecast period exceeds ten years, an issue arises as to the appropriate bond to use. While longer term bond rates are available, the ten year bond market is the deepest long term bond market in Australia and is a widely used and recognised benchmark. There is a very limited market for bonds of more than ten years. In the United States, there are deeper markets for longer term bonds. The 30 year bond rate is a widely used benchmark. However, long term rates accentuate the distortions

of the yield curve on cash flows in early years. In any event, a single long term bond rate matching the term of the cash flows is no more theoretically correct than using a ten year rate. More importantly, the ten year rate is the standard benchmark used in practice.

- **Market Risk Premium**

  The market risk premium (*Rm - Rf*) represents the "extra" return that investors require to invest in equity securities as a whole over risk free investments. This is an "ex-ante" concept. It is the expected premium and as such it is not an observable phenomenon. There is no generally accepted approach to estimating a forward looking market risk premium and therefore the historical premium is used as the best available proxy measure. The premium earned historically by equity investments is usually calculated over a time period of many years, typically at least 30 years. This long time frame is used on the basis that short term numbers are highly volatile and that a long term average return would be a fair indication of what most investors would expect to earn in the future from an investment in equities with a 5-10 year time frame.

  In the United States it is generally believed that the premium is in the range of 5-6% but there are widely varying assessments (from 3% to 9%). Australian studies have been more limited and mainly derive from the Officer Study[1] which was based on data for the period 1883 to 1987 (prior to the introduction of dividend imputation) and indicated that the long run average premium was in the order of 8% using an arithmetic average but subject to significant statistical error[2]. More recently, the Officer Study has been updated to 2011[3] with the long term average declining to around 6%. However, due to concerns about the earlier market data, Officer now places emphasis on the average risk premium since 1958 which is estimated to be 5.9% ignoring the impact of imputation[4].

  In addition, the market risk premium is not constant and changes over time. At various stages of the market cycle investors perceive that equities are more risky than at other times and will increase or decrease their expected premium. Indeed, prior to 2008 there were arguments being put forward that the risk premium was lower than it had been historically while today there is evidence to indicate that current market risk premiums are above historical averages. However, there is no accepted approach to deal with changes in market risk premia for current conditions.

  In the absence of controls over capital flows, differences in taxation and other regulatory and institutional differences, it is reasonable to assume that the market risk premium should be approximately equal across markets which exhibit similar risk characteristics after adjusting for the effects of expected inflation differentials. Accordingly, it is reasonable to assume similar market risk premiums for first world countries enjoying political economic stability, such as Australia, New Zealand, the United States, Japan, the United Kingdom and various western European countries.

- **Beta Factor**

  The beta factor is a measure of the expected covariance (i.e. volatility and correlation of returns) between the return on an investment and the return from the market as a whole. The expected beta factor cannot be observed. The conventional practice is to calculate an historical beta from past share price data and use it as a proxy for the future but it must be recognised that the expected beta is not necessarily the same as the historical beta. A company's relative risk does change over time.

  The appropriate beta is the beta of the company being acquired rather than the beta of the acquirer (which may be in a different business with different risks). Betas for the particular subject company

1 R.R. Officer in Ball, R., Brown, P., Finn, F. J. & Officer, R. R., "Share Market and Portfolio Theory: Readings and Australian Evidence" (second edition), University of Queensland Press, 1989 ("Officer Study").

2 The "true" figure lies within a range of approximately 2-10% at a 95% confidence level.

3 Dr. S. Bishop and Professor R.R. Officer, "Review of Debt Risk Premium and Market Risk Premium" (February 2013), prepared for Aurizon Holdings Limited.

4 Where the market return explicitly includes a component for imputation benefits of 1.0 the market risk premium over the same period is around 6.5%.

may be utilised. However, it is also appropriate (and may be necessary if the investment is not listed) to utilise betas for comparable companies and sector averages (particularly as those may be more reliable).

However, there are very significant measurement issues with betas which mean that only limited reliance can be placed on such statistics. There is no "correct" beta. For example:

- over the last three years, Horizon Oil's beta as measured by the Securities Industry Research Centre of Asia-Pacific (SIRCA Limited ("SIRCA")) has varied between 1.38 and 2.53 and in March 2016 was measured at 1.38; and
- the standard error of the SIRCA's estimate of the Horizon Oil beta has been in the range of 0.43 to 0.60 over the same time period and was measured at 0.54 in March 2016, meaning that for a beta of, say, 1.38 even at a 68% confidence level, the range is 0.84 to 1.92.

- **Debt/Equity Mix**

The tax deductibility of the cost of debt means that the higher the proportion of debt the lower the WACC, although this would be offset, at least in part, by an increase in the beta factor as leverage increases.

The debt/equity mix assumed in calculating the discount rate should be consistent with the level implicit in the measurement of the beta factor. Typically, the debt/equity mix changes over time and there is significant diversity in the levels of leverage across companies in a sector. There is a tendency to calculate leverage at a point in time whereas the leverage should represent the average over the period the beta was measured. This can be difficult to assess with a meaningful degree of accuracy.

The measured beta factors for listed companies are "equity" betas and reflect the financial leverage of the individual companies. It is possible to unleverage beta factors to derive asset betas and releverage betas to reflect a more appropriate or comparable financial structure. In Grant Samuel's view this technique is subject to considerable estimation error. Deleveraging and releveraging betas exacerbates the estimation errors in the original beta calculation and gives a misleading impression as to the precision of the methodology. Deleveraging and releveraging is also incorrectly calculated based on debt levels at a single point in time.

In addition, the actual debt and equity structures of most companies are typically relatively complex. It is necessary to simplify this for practical purposes in this kind of analysis.

Finally, it should be noted that, for this purpose, the relevant measure of the debt/equity mix is based on market values not book values.

- **Specific Risk**

The WACC is designed to be applied to "expected cash flows" which are effectively a weighted average of the likely scenarios. To the extent that a business is perceived as being particularly risky, this specific risk should be dealt with by adjusting the cash flow scenarios. This avoids the need to make arbitrary adjustments to the discount rate which can dramatically affect estimated values, particularly when the cash flows are of extended duration or much of the business value reflects future growth in cash flows. In addition, risk adjusting the cash flows requires a more disciplined analysis of the risks that the valuer is trying to reflect in the valuation.

However, it is also common in practice to allow for certain classes of specific risk (particularly sovereign and other country specific risks) in a different way by adjusting the discount rate applied to forecast cash flows.

3 Calculation of WACC for Horizon Oil

3.1 Cost of Equity Capital

The cost of equity capital has been estimated by reference to the CAPM. Grant Samuel has adopted a cost of equity capital in the range 8.9-10.1%.

- **Risk Free Rate**

  Grant Samuel has adopted a risk free rate of 1.7%. The risk free rate approximates the yield to maturity on ten year United States Government bonds prevailing at the end of June 2016.

- **Market Risk Premium**

  Grant Samuel has consistently adopted a market risk premium of 6% and believes that this continues to be a reasonable estimate. It:

  - is not statistically significantly different to the premium suggested by long term historical data;
  - is similar to that used by a wide variety of analysts and practitioners (typically in the range 5-7%); and
  - makes no explicit allowance for the impact of Australia's dividend imputation system.

- **Beta Factor**

  Grant Samuel has adopted a beta factor in the range 1.2-1.4 for the purposes of valuing Horizon Oil's oil and gas assets.

  Grant Samuel has considered the beta factors for a wide range of Australian and international listed companies in the oil and gas industry in determining an appropriate beta for Horizon Oil's businesses. The betas have been calculated on two bases relative to each company's home exchange index and relative to the Morgan Stanley Capital International Developed World Index ("MSCI"), an international equities market index that is widely used as a proxy for the global stockmarket as a whole. Where a company is extensively traded by global investors it can be argued that the regression against the MSCI is more relevant but:

  - this depends on who the "price setting" investors are; and
  - it raises a related issue as to whether a global risk premium is also appropriate and, if so, what that global premium is.

  Put alternatively, there is no simple, universal answer.

  A summary of betas for selected comparable listed companies is set out in the table below:

Equity Beta Factors for Selected Listed Upstream Oil and Gas Companies

Company	Market Capital-isation[5] (US$m)	Monthly Observations over 5 years Barra[6]	Monthly Observations over 4 years			Weekly Observations over 2 years	
				Bloomberg[8]		Bloomberg	
			SIRCA[7]	Local Index	MSCI[9]	Local Index	MSCI
Horizon Oil	43		1.38	1.13	1.35	1.32	1.50
Australia							
Exploration, Development and Production							
AWE	330		1.35	1.26	1.64	2.37	2.73
Cooper Energy	71		1.54	1.10	2.03	0.56	0.64
Cue Energy	38		0.83	0.65	0.11	0.50	0.16
NZOG	115		0.83	0.54	0.56	0.73	0.26
Senex Energy	237		2.63	2.12	2.32	2.20	2.32
Tap Oil	28		1.88	1.68	1.99	1.24	1.13
Exploration and Development							
Buru Energy	62		0.55	0.85	0.77	1.64	1.12
Sino	153		2.66	2.16	3.39	1.71	1.81
International							
Exploration, Development and Production							
Energi Mega	183	1.04		1.49	0.70	0.38	0.34
KrisEnergy	158	1.84		0.85	1.32	1.54	0.96
Medco Energi	348	1.76		0.42	1.57	0.68	1.08
RH Petrogas	75	1.93		2.98	2.72	2.21	2.42
Minimum				*0.42*	*0.11*	*0.38*	*0.16*
Maximum				*2.98*	*3.39*	*2.37*	*2.73*
Median				*1.18*	*1.60*	*1.39*	*1.10*
Weighted average[10]				*1.27*	*1.68*	*1.42*	*1.49*

Source: SIRCA, BARRA, Bloomberg

The table shows outcomes that suggest it is extremely difficult to determine a reliable beta for Horizon Oil:

- Horizon Oil's beta varies materially depending on the measurement source (SIRCA, Bloomberg etc) and, as discussed earlier, has varied significantly over time;
- individual company betas (for the same source/period) fall in a very wide range. For example, Bloomberg Four Year MSCI betas are generally between 0.5 and 2.5 although they range from 0.11 (Cue Energy) to 3.39 (Sino);
- some individual company betas vary significantly depending on which market index is utilised (Local or MSCI);

5 Based on share prices as at 24 June 2016.

6 Beta factors calculated by MSCI Barra, Inc. ("Barra") as at May 2016 over a period of 60 months using ordinary least squares regression or the Scholes-Williams technique (including lag) where the stock is thinly traded.

7 Australian beta factors calculated by SIRCA as at March 2016 over a period of 48 months using ordinary least squares regression.

8 Bloomberg betas have been calculated up to 24 June 2016. Grant Samuel understands that betas estimated by Bloomberg are not calculated strictly in conformity with accepted theoretical approaches to the estimation of betas (i.e. they are based on regressing total returns rather than the excess return over the risk free rate). However, in Grant Samuel's view the Bloomberg beta estimates can still provide a useful insight into the systematic risks associated with companies and industries. The figures used are the Bloomberg raw betas.

9 MSCI is calculated using local currency so that there is no impact of currency changes in the performance of the index.

10 Weighted by market capitalisation converted to US dollars using the exchange rates as at 24 June 2016.

- none of the other companies are directly comparable to Horizon Oil; and
- gearing levels vary significantly but this is not always consistent with beta factors.

Taking all of these factors into account, Grant Samuel believes that a beta in the range 1.2-1.4 is a reasonable estimate of the appropriate beta for Horizon Oil's operating business.

- **Calculation**

Using the estimates set out above, the cost of equity capital can be calculated as follows:

Low			**High**		
Re	=	*Rf + Beta (Rm-Rf)*	*Re*	=	*Rf + Beta (Rm-Rf)*
	=	*1.7% + 1.2 x 6.0%*		=	*1.7% + 1.4 x 6.0%*
	=	***8.9%***		=	***10.1%***

3.2 Cost of Debt

A cost of debt of 5% has been adopted. This figure represents the expected future cost of borrowing over the duration of the cash flow model. Grant Samuel believes that this would be a reasonable estimate of an average interest rate, including a margin, that would match the duration of the cash flows assuming that the operations were funded with a mixture of short term and long term debt.

3.3 Debt/Equity Mix

The selection of the appropriate debt/equity ratio involves perhaps the most subjectivity of discount rate selection analysis. In determining an appropriate debt/equity mix, regard was had to gearing levels of Horizon Oil and the peer group companies used in the beta analysis.

Gearing levels for these companies for the past five years are set out below:

Gearing Levels for Selected Listed Oil and Gas Companies								
	Net Debt/(Net Debt + Market Capitalisation)							
	Financial Year Ended					Current[11]	*4 Year Average*	*5 Year Average*
Company	**Historical 5**	**Historical 4**	**Historical 3**	**Historical 2**	**Historical 1**			
Horizon Oil	1%	21%	36%	20%	63%	77%	35%	28%
Australia								
Exploration, Development and Production								
AWE	(25%)	(4%)	5%	(5%)	16%	31%	3%	(3%)
Cooper Energy	(206%)	(68%)	(54%)	(40%)	(94%)	(43%)	(64%)	(92%)
Cue Energy	(35%)	(37%)	(327%)	(34%)	(108%)	(144%)	(127%)	(108%)
NZOG	(35%)	(95%)	(83%)	(68%)	(59%)	(114%)	(76%)	(68%)
Senex Energy	(18%)	(20%)	(23%)	(11%)	(18%)	(46%)	(18%)	(18%)
Tap Oil	(133%)	(177%)	(55%)	38%	37%	42%	(39%)	(58%)
Exploration and Development								
Buru Energy	(12%)	(7%)	(16%)	(68%)	(18%)	(17%)	(27%)	(24%)
Sino	na	(6%)	(28%)	(10%)	(50%)	(34%)	(24%)	(24%)
International								
Energi Mega	36%	46%	67%	67%	54%	0%	58%	54%
Krisenergy	na	na	(14%)	29%	62%	63%	26%	26%
Medco Energi	31%	50%	43%	41%	82%	0%	54%	49%
RH Petrogas	25%	5%	(2%)	1%	27%	28%	8%	11%
Minimum	*(206%)*	*(177%)*	*(327%)*	*(68%)*	*(108%)*	*(144%)*	*(127%)*	*(108%)*
Maximum	*36%*	*50%*	*67%*	*67%*	*82%*	*63%*	*58%*	*54%*
Median	*(22%)*	*(7%)*	*(19%)*	*(8%)*	*(1%)*	*(9%)*	*(21%)*	*(21%)*
Weighted average	*(10%)*	*(2%)*	*(6%)*	*6%*	*15%*	*(8%)*	*4%*	*1%*

Source: Bloomberg, Grant Samuel analysis

The selection of gearing levels is highly judgemental. The table shows that most upstream oil and gas companies are not geared, with the exception generally being those with producing assets and then generally at relatively modest levels. Furthermore, debt levels should be the weighted average measured over the same period as the beta factor rather than just at the current point in time. However, gearing levels do not always bear any relationship to the betas of the individual companies. In some cases lowly geared companies still have equity betas towards the higher end of the range (e.g. Senex Energy has no borrowings but its beta is at the high end of the range). Moreover, the companies that are most comparable to Horizon Oil (i.e. with producing as well as exploration and development assets) have either no or low levels of gearing.

Having regard to the above, the debt/equity mix has been estimated as 80-90% equity and 10-20% debt. This is regarded as being broadly consistent with a beta factor of 1.2-1.4.

[11] Current gearing levels are based on the most recent balance sheet information and on sharemarket prices as at 24 June 2016.

3.4 WACC

On the basis of the parameters outlined and assuming a corporate tax rate of 40%[12], the nominal WACC is calculated to be in the range 7.7-9.4%.

Low	High
WACC = (Re x E/V) + (Rd x (1-t) x D/V)	*WACC = (Re x E/V) + (Rd x (1-t) x D/V)*
= (8.9% x 80%) + (5.0% x 60% x 20%)	*= (10.1% x 90%) + (5.0% x 60% x 10%)*
= 7.7%	***= 9.4%***

This is an after tax discount rate to be applied to nominal ungeared after tax cash flows. However, it must be recognised that this is a calculation based on statistics of limited reliability and involving a multitude of assumptions. In this regard, these calculations are likely to understate the true cost of capital. In this context:

- anecdotal information suggests that equity investors have repriced risk since the global financial crisis in 2007 and that acquirers are pricing offers on the basis of hurdle rates above those implied by theoretical models. However, this has yet to be translated into the measures of market risk premium (at least those based on longer term historical data). In this regard, an increase in the market risk premium of 1% (i.e. from 6% to 7%) would increase the calculated WACC range to 8.7-10.7%;
- global interest rates, including long term bond rates, are at low levels by comparison with historical norms reflecting the liquidity still being pumped into many advanced economies to stimulate economic activity. Effective real interest rates remain low. Grant Samuel does not believe this position is sustainable and the risk is clearly towards a rise in bond yields. Conceptually, the interest rates used to calculate the discount rate should recognise this expectation (i.e. they should be forecast for each future period) but for practical ease market practice is that a single average rate based on the long term bond rate is generally adopted for valuation purposes. Some academics/valuation practitioners consider it to be inappropriate to add a "normal" market risk premium (e.g. 6%) to a temporarily depressed bond yield and therefore advocate that a "normalised" risk free rate should be used. On this basis, an increase in the risk free rate to (say) 4% would increase the calculated WACC range to 9.6-11.5%; and
- analysis of research reports on Horizon indicates that brokers are currently adopting WACCs in the range 10.0-10.2%.

Having regard to these matters and the calculations set out above, Grant Samuel has selected a discount rate range of 9.5-10.5% for application in the discounted cash flow analysis.

4 Dividend Imputation

The conventional WACC formula set out above was formulated under a "classical" tax system. The CAPM model is constructed to derive returns to investors after corporate taxes but before personal taxes. Under a classical tax system, interest expense is deductible to a company but dividends are not. Investors are also taxed on dividends received. Accordingly, there is a benefit to equity investors from increased gearing.

Under Australia's dividend imputation system, domestic equity investors now receive a taxation credit (franking credit) for any tax paid by a company. The franking credit attaches to any dividends paid out by a company and the franking credit offsets personal tax. To the extent the investor can utilise the franking credit to offset personal tax, then the corporate tax is not a real impost. It is best considered as a

[12] Based on effective United States corporate income tax rates. The actual tax rate will be based on the jurisdiction that the asset is located and for companies will be a blend of the tax rates of the jurisdiction in which investments are located. Nevertheless, as the assumed gearing level is relatively low (10-20%), a higher or lower assumed tax rate has minimal impact on the calculated WACC.

withholding tax for personal taxes. It can therefore be argued that the benefit of dividend imputation should be added into any analysis of value.

There is no generally accepted method of allowing for dividend imputation. In fact, there is considerable debate within the academic community as to the appropriate adjustment or even whether any adjustment is required at all. Some suggest that it is appropriate to discount pre-tax cash flows, with an increase in the discount rate to "gross up" the market risk premium for the benefit of franking credits that are on average received by shareholders. On this basis, the discount rate might increase by approximately 2% but it would be applied to pre-tax cash flows. However, not all of the necessary conditions for this approach exist in practice:

- not all shareholders can use franking credits. In particular, foreign investors gain no benefit from franking credits. If foreign investors are the marginal price setters in the Australian market there should be no adjustment for dividend imputation;
- not all franking credits are distributed to shareholders; and
- capital gains tax operates on a different basis to income tax. Investors with high marginal personal tax rates will prefer cash to be retained and returns to be generated by way of a capital gain.

Others have proposed a different approach involving an adjustment to the tax rate in the discount rate by a factor reflecting the effective use or value of franking credits. If the credits can be used, the tax rate is reduced towards zero. The proponents of this approach have in the past suggested a factor in the range 50-65% as representing the appropriate adjustment (gamma). Alternatively, the tax charge in the forecast cash flows can be decreased to incorporate the expected value of franking credits distributed.

There is undoubtedly merit in the proposition that dividend imputation affects value. Over time dividend imputation will become factored into the determination of discount rates by corporations and investors. In Grant Samuel's view, however, the evidence gathered to date as to the value the market attributes to franking credits is insufficient to rely on for valuation purposes. More importantly, Grant Samuel does not believe that such adjustments are widely used by acquirers of assets at present. While acquirers are undoubtedly attracted by franking credits there is no clear evidence that they will actually pay extra for them or build it into values based on long term cash flows. The studies that measure the value attributed to franking credits are based on the immediate value of franking credits distributed and do not address the risk and other issues associated with the ability to utilise them over the longer term. Accordingly, it is Grant Samuel's opinion, that it is not appropriate to make any adjustment.

Appendix 2

Market Evidence

The most reliable evidence as to value of a business or asset is the price at which it or a comparable business or asset has been bought or sold in an arm's length transaction. In the absence of direct market evidence of value, estimates of value are made using methodologies that infer value from other available businesses or assets (i.e. from both transactions and the sharemarket rating of listed comparable entities). For upstream oil and gas businesses or assets market evidence is typically adopted as a cross check of valuation conclusions from discounted cash flow analysis. However, the usefulness of this analysis is limited due to a range of factors such as technical differences between assets, the jurisdictions in which they are located, their stage of delineation or development, the combination of assets owned by an entity, the lack of consistent earnings and the absence of full information in the public arena.

In the case of Horizon Oil's assets, there is little useful valuation guidance to be derived from transaction evidence. However, Grant Samuel has considered the sharemarket ratings of selected mid cap listed upstream oil and gas companies with an Asia-Pacific focus. The companies considered have been classified according to whether they have producing assets and by the location of their stockmarket listing (i.e. Australia/international) and, due to the nature of the activities of these companies, the focus of analysis has been on valuation metrics based on reserves, resources and production (as appropriate). In this context, the sharemarket ratings of the selected companies are set out below.

Sharemarket Ratings of Selected Listed Companies – Upstream Oil and Gas Industry

	Market Capital-isation[1]	Reserves and Resources (mmboe)		Multiple of Reserves and Resources (US$/mmboe)		Production (mmboe)		Multiple of Production (US$/mmboe)	
Company	(US$m)	2P[2]	2P+2C[3]	2P[4]	2P+2C[5]	Historical	Forecast	Historical	Forecast
Australia and New Zealand									
Production, Exploration and Development									
AWE	330	74.3	195.9	3.7	1.4	5.1	5.0	55	56
Cooper Energy	68	3.1	64.1	10.2	0.5	0.5	0.5	66	66
Cue Energy	37	4.4	6.1	4.8	3.4	0.7	n.a.	32	n.a.
NZOG	126	13.8	61.2	4.4	1.0	2.3	2.1	27	29
Senex Energy	236	72.4	413.1	2.1	0.4	1.4	1.0	111	151
Tap Oil Limited	28	4.0	43.0	5.6	0.5	1.5	n.a.	15	n.a.
Exploration and Development									
Buru Energy	62	-	147.3	-	0.3	-	-	n.a.	n.a.
Sino	153	92.0	227.7	1.1	0.5	-	-	n.a.	n.a.
International									
Production, Exploration and Development									
Energi Mega	183	150.5	150.5	3.1	3.1	22.8	n.a.	20	n.a.
KrisEnergy	159	105.9	215.3	4.1	2.0	3.5	6.9	124	63
Medco Energi	344	277.0	277.0	4.0	4.0	20.3	21.0	54	52
RH Petrogas	75	19.8	66.8	5.3	1.6	1.5	n.a.	69	n.a.

Source: Grant Samuel analysis[6]

While none of these companies is precisely comparable to Horizon Oil, the sharemarket data provides some framework to assess valuation parameters. However, these multiples:

- are relatively imprecise valuation metrics and are limited in that they are calculated on publicly available information;
- are based on sharemarket prices as at 24 June 2016 and do not reflect a premium for control.

1 Market capitalisation based on sharemarket prices as at 24 June 2016.
2 2P = proven and probable reserves
3 2C = best estimate of contingent resources
4 Gross capitalisation (that is, the sum of the market capitalisation adjusted for minorities, plus borrowings less cash as at the latest balance date) divided by 2P reserves.
5 Gross capitalisation dividend by the sum of 2P reserves and 2C contingent resources.
6 Grant Samuel analysis based on data obtained from IRESS, Capital IQ and company announcements.

Senex Energy Limited ("Senex") and Buru Energy Limited ("Buru") hold oil and gas interests located exclusively in Australia. Other ASX listed entities (AWE Limited ("AWE"), Cooper Energy Limited ("Cooper Energy"), Cue Energy Limited ("Cue Energy") and Tap Oil Limited ("Tap Oil")) have assets in a range of jurisdictions, including Australia and the Asia-Pacific region. Sino Gas & Energy Holding Limited ("Sino") and the companies listed on foreign exchanges hold interests in oil and gas assets located outside Australia and New Zealand.

A brief description of each company is set out below:

AWE Limited

AWE is an ASX listed oil and gas exploration and production company with interests in producing assets in Australia, New Zealand and the United States and interests in development/appraisal/exploration assets in Australia, New Zealand, Indonesia and the United States. Following recent sales and reserves and resources upgrades, AWE had an estimated 74mmboe of 2P reserves and 122mmboe of 2C resources at June 2016. The company expects its share of production to be in the range of 4.9-5.1mmboe in the year ended 30 June 2016.

Cooper Energy Limited

Cooper Energy is an ASX listed energy company focused on upstream oil and gas exploration and production. It has interests in producing and development/appraisal/exploration assets in the Cooper Basin, Otway Basin, Gippsland Basin and Indonesia. Its share of production is expected to grow from 0.5mmbl in the year ended 30 June 2016 to in excess of 5mboe per annum by 2022 as the Sole gas project and the Manta gas and liquids project are brought into production. As at 31 December 2015, Cooper Energy had 3.1mmboe of 2P reserves and 61.0mmboe of 2C resources.

Cue Energy Limited

Cue Energy is an ASX listed energy company focused on the exploration, development and production of upstream oil and gas. It has interests in producing assets in the Taranaki Basin in New Zealand, offshore East Java in Indonesia and onshore in Texas, and interests in development/appraisal/exploration assets in the Carnarvon Basin in Australia, Taranaki Basin in New Zealand and Kutei Basin and Central Sumatra Basin in Indonesia. Its share of production was 0.7mmboe in the year to 30 June 2015. Cue Energy reported 4.4mmbbl of 2P reserves and 1.7mmboe of 2C resources as at 30 June 2015. Cue Energy is 48.1% owned by New Zealand Oil and Gas.

New Zealand Oil and Gas

New Zealand Oil and Gas ("NZOG") is an oil and gas exploration and production company listed on the New Zealand Stock Exchange. It has direct interests in producing assets in the offshore Taranaki Basin, New Zealand. NZOG also has a direct exploration interests in Indonesia and New Zealand. Through its 48.11% shareholding in Cue Energy, NZOG has indirect production interests in the Maari oil field in the offshore Taranaki Basin, Sampang PSC in Indonesia and exploration exposure in Western Australia and Indonesia. NZOG had 13.8mmboe of 2P reserves as at 31 March 2016 and 47.5mmboe of 2C resources at 31 December 2015. It expects to produce approximately 2.1mmboe in the year ended 30 June 2016.

Senex Energy Limited

Senex is an ASX listed energy company focused on the exploration, development and production of conventional oil and gas assets in Australia's Cooper, Eromanga and Surat Basins, as well as coal seam gas acreage in Queensland. It expects to produce 1.0-1.05mmboe in FY16. Senex had 72.4mmboe of 2P reserves as at 31 March 2016 and 340.7mmboe of 2C resources at 30 June 2015.

Tap Oil Limited

Tap Oil is an ASX listed oil and gas company. Its flagship asset is a 30% stake in the Manora Oil Field, which is located offshore in the Northern Gulf of Thailand and was brought into production in November 2014. The company also has interests in exploration assets in the Carnarvon Basin in Australia and Myanmar. In the year ended 31 December 15, Tap Oil's share of production was 1.5mmbbl. As at 31 December 2015, Tap Oil had 4.0mmboe of 2P reserves and 39.1mmboe of 2C resources. In addition to the above, the company receives a share of the gas produced at the John Brookes

field offshore Western Australia which it on-sells to third parties. Its share of gas sales in the 2015 calendar year was 3.4PJ. Tap Oil does not declare reserves for this gas.

Buru Energy Limited

Buru Energy is an ASX listed oil and gas exploration and production company with interests in conventional oil fields and tight gas accumulations in the Canning Superbasin in the southwest Kimberley region of Western Australia. Following the suspension of production at the Ungani oilfield in January 2016 as a result of the fall in the oil price, the company is now focused on optimising its exploration portfolio. 2C resources of 6.6mmboe (3.3mmbbl net to Buru Energy) have been estimated at Ungani and 2C resources of 288mmbbl (144mmbbl net to Buru Energy) have been estimated for the Laurel Formation tight gas accumulation.

Sino Gas & Energy Holdings

Sino is an ASX listed oil and gas company focused on exploring and developing Chinese unconventional gas assets. It holds a 49% interest in Sino Gas & Energy Limited ("SGE") through the strategic partnership with MIE Holdings Corporation. SGE is the operator of the Linxing and Sanjiaobei Production Sharing Contracts in the Ordos Basin, Shanxi province. As at 31 December 2015, Sino reported 92mmbbe of 2P reserves and 136mmboe of 2C resources. Sino does not currently have producing assets.

Energi Mega Persada Tbk PT

PT Energi Mega Persada Tbk ("Energi Mega Persada") is an upstream oil and gas company listed on the Jakarta Stock Exchange. It has operations throughout the Indonesian Archipelago and in Mozambique. Reserves have been defined for all the blocks in which Energi Mega Persada has an interest, bar the two licences containing coal bed methane accumulations, and eight of the 12 blocks are in production. In the year to 31 December 2015, the company's share of production was 22.8mmboe of oil and gas and as at 31 December 2015, Energi Mega Persada had declared 2P reserves of 150.5mmboe and no contingent resources.

KrisEnergy Limited

KrisEnergy Limited ("KrisEnergy") is an oil and gas exploration and production company listed on the Singapore Exchange since July 2013. It has an extensive portfolio of onshore and offshore licences throughout Asia, including in Bangladesh, Cambodia, Indonesia, Thailand and Vietnam. It reported 105.9mmboe of 2P reserves and 109.4mmboe of 2C resources as at 31 December 2015. KrisEnergy's share of production was 3.5mmboe in the year to 31 December 2015 and 1.7mmboe in the quarter ended 31 March 2016 (equivalent to 7.0mmboe on an annualised basis) reflecting the full contribution over the period of the two assets that were brought into production in mid-2015.

Medco Energi Internasional Tbk PT

Medco Energi Internasional Tbk PT ("Medco Energi") is an integrated energy company listed on the Jakarta Stock Exchange. Its business comprises upstream oil and gas exploration, development and production operations and downstream operations (e.g. power generation, LPG processing, diesel marketing, storage and transportation, gas transportation and coal mining). It has interests in oil and gas assets in Indonesia as well as Libya, Tunisia, Oman and the United States. As at 31 December 2015, it had 277mmboe of 2P oil and gas reserves and no contingent resources. The company expects to produce around 21mmboe of oil and gas in the 2016 calendar year.

RH Petrogas Limited

RH Petrogas Limited ("RH Petrogas") is an oil and gas exploration and production company listed on the Singapore Exchange. RH Petrogas has interests in two producing assets in Indonesia, one development asset in China and one exploration asset in Malaysia. In the 12 months to 31 December 2015, its share of production totalled 1.5mmboe of oil and gas. As at 31 December 2015, RH Petrogas' share of 2P reserves was 19.8mmboe and its share of 2C resources was 47.0mmboe.

GRANT SAMUEL

Appendix 3

Report by RISC Operations Pty Ltd

Independent Technical Specialists Report on the Petroleum Properties of Horizon Oil Limited

For Grant Samuel & Associates Pty Ltd

July 2016

decisions with confidence

Table of contents

List of Figures

List of Tables

1. Summary

1.1. Overview

The document comprises the Independent Technical Specialists Report by RISC Operations Pty Ltd (RISC) to assist the Independent Expert Grant Samuel & Associates Pty Ltd (Grant Samuel) in the preparation of an Independent Expert's Report to the Directors of Horizon Oil Limited (Horizon) by RISC. The location of Horizon's petroleum properties is shown in Figure 1-1.

The report documents our review of the petroleum reserves, resources and associated development schedules, production and cost forecasts (projects) provided by Horizon to the Independent Expert which have been used to value the oil and gas properties. We have also addressed the risks associated with the projects. We have audited the estimates provided by Horizon and made such adjustments that in our judgment were necessary to provide a reasonable assessment and reflect current information.

This report also provides an opinion on the fair market value of the exploration properties of Horizon.

Figure 1-1 Location Map Horizon Oil and Gas Properties

The estimated oil reserves volumes as at 1 May 2016 for projects on production and planned for development are shown in Table 1-1.

Table 1-1 Gross and Horizon Net Working Interest Oil Reserves as at 1/5/2016

Area	Gross Oil Reserves (MMstb)			Working Interest	Net WI Oil Reserves (MMstb)		
	1P	2P	3P	%	1P	2P	3P
New Zealand[1]	10.3	23.7	33.6	10.0%	1.0	2.4	3.4
China[2]	15.0	21.9	26.8	26.95%	4.0	5.9	7.2
Total[3]	25.3	45.6	60.4		5.0	8.3	10.6

1. The Maari project remaining technical recovery down to a 1000 bbl/d cut-off from 1/5/2016 is 15.8, 35.3 and 47.5 MMstb for the 1P, 2P and 3P cases respectively. The difference between the reserves and technical recovery is carried as contingent resources.
2. Reserve and resource entitlement is determined by the net economic interest which is a function of the PSC terms, costs and prices prevailing during the PSC term. Depending on these factors, there may be a material difference between the working interest and the net economic interest.
3. The volumes have been estimated using a combination of deterministic and probabilistic methods and have been added arithmetically. The aggregate 1P may be a very conservative estimate and the aggregate 3P may be a very optimistic estimate due to the portfolio effects of arithmetic summation.

Estimated contingent resources associated with projects where development planning is not yet sufficiently mature to qualify as reserves are shown in Table 1-2.

Table 1-2 Gross and Horizon Net Working Interest 2C Contingent Resources as at 1/5/2016

Area	Gross 2C Resources		Working Interest	Net WI 2C Resources	
	Oil+Condensate (MMstb)	Gas (PJ)	%	Oil+Condensate (MMstb)	Gas (PJ)
New Zealand	29.2		10.0%	2.9	
China[1]	11.8		26.95%[2]	3.2	
PNG	66.9	1649	27.0-30.0%[3]	18.4	455.2
Total	**107.9**	**1649**		**24.5**	**455.2**

1. Reserve and resource entitlement is determined by the net economic interest which is a function of the PSC terms, costs and prices prevailing during the PSC term. Depending on these factors, there may be a material difference between the working interest and the net economic interest.
2. Assumes CNOOC exercises right to back in for 51% reducing the 55% interest to 26.95%.
3. PNG Government has the right to back in for up to 22.5%, reducing the 30% interest to 23.25% and the 27% interest to 20.9%.
4. The volumes have been estimated using a combination of deterministic and probabilistic methods.

Details of the costs and production profiles associated with the development and production of these resources are included in our report.

Reserves and resources have been evaluated in accordance with PRMS Guidelines. Reserves have been assigned a cut-off based on Grant Samuel's long term oil price projection of $65/bbl real terms.

1.2. Exploration Valuation

RISC has assessed the fair market value of Horizon's exploration interests using a combination of methods including value of the work program, farm-in promotes from comparable transactions and expected monetary value (EMV), the basis of which is included in our report. Our estimates are summarised in Table 1-3.

Table 1-3 Exploration Valuation - Horizon Net Working Interest as at 1/5/2016

Asset	Fair Market Value US$ million Horizon net working interest		
	Low	Mid	High
New Zealand	0	0	0
China	1.8	5.7	12.1
PNG (Portfolio)	3.0	4.3	5.6
Total	**4.8**	**10.0**	**17.7**

Since our previous valuation in 2014, the value of Horizon's exploration acreage has fallen significantly. The main drivers of this valuation change are:

- Market factors:
  - Low oil prices which have seen the enterprise value of ASX listed exploration companies reduce by an average of 46% from October 2014 to June 2016;
  - A paucity of exploration transactions reflecting the state of the market and anecdotal evidence that buyers are seeking ground floor or very modest promotes for farm-in terms.
- The Nama-1 well in PPL 259 in PNG did not encounter commercially producible hydrocarbons which has downgraded value in the permit.
- The failure of the Whio-1 well in NZ and Horizon's intention to withdraw from the permit.

2. Terms of Reference and Basis of Assessment

2.1. Terms of Reference

This assignment has been conducted under the terms of an Engagement Letter dated 24 May 2016.

2.2. Basis of Assessment

The data and information used in the preparation of this report were provided by Horizon supplemented by public domain information. RISC has relied upon the information provided and has undertaken the evaluation on the basis of a review and audit of existing interpretations and assessments as supplied making adjustments that in our judgment were necessary. Our assessment for the producing assets is based on production data to 4 May 2016 for New Zealand and 14 May 2016 for China.

RISC has reviewed the reserves/resources in accordance with the Society of Petroleum Engineers internationally recognised Petroleum Resources Management System (PRMS)[1].

We have reviewed the production forecasts, development plans and costs prepared by Horizon and provided these to Grant Samuel who have carried out the valuation. The reserves presented in this report are based on Grant Samuel's long term oil price projections of $60-70/bbl real terms. We have used the mid-point value of $65/bbl real terms for the economic cut-off for reserves.

Unless otherwise stated, all resources presented in this report are gross (100%) quantities with an effective date of 1 May 2016. All costs are in US$ real terms with a reference date of 1 January 2016 (RT2016).

2.3. Exploration valuation

The valuation is based on the concept of 'fair market value' (Value) as defined by the VALMIN Code.

The VALMIN Code defines Value as the amount of money (or the cash equivalent of some other consideration) determined by the Expert in accordance with the provisions of the VALMIN Code for which the Mineral or Petroleum Asset or Security should change hands on the Valuation Date in an open and unrestricted market between a willing buyer and a willing seller in an "arm's length" transaction, with each party acting knowledgeably, prudently and without compulsion.

A range of oil and gas industry accepted practices in relation to exploration properties has been considered to determine value, which are described below.

Note that in this report, RISC in some instances uses mean or average values for prospective resources to estimate the fair market value of Horizon's exploration properties. RISC's report is not intended to be an Australian Securities Exchange (ASX) compliant prospective resource disclosure. The purpose of using mean or average values is that in our opinion, where used, they are appropriate for estimating the fair market value of the exploration portfolio. The use of mean values is not permitted under ASX rules and should not be used in place of the permitted low, best and high estimates for ASX compliant resource statements.

[1] SPE/WPC/AAPG/SPEE 2007 Petroleum Resources Management System

2.3.1. Comparable transaction metrics

The Value of exploration properties can be estimated using recent comparable transactions. Such transactions may provide relevant metrics such as Value per unit of reserves, contingent or prospective resources, and price paid per unit area of the permit or % interest. The VALMIN Code advises Value must also take into account risk and premium or discount relating to market, strategic or other considerations.

2.3.2. Farm-in promotion factors

An estimate of Value can be based on an estimation of the share of future costs likely to be borne by a reasonable farmee under prevailing market conditions. A premium or promotion factor may be paid by the farmee. The promotion factor is defined as the ratio of the proportion of the activity being paid for and the amount of equity being earned.

The nominal permit value is defined as the amount spent by the farmee divided by the interest earned. The premium value for the permit is the difference between the nominal value and the equity share of the cost of the activity divided by the equity interest being earned.

The premium or promotion factor will be dependent upon the perceived prospectivity of the property, competition and general market conditions. The premium value is equivalent to the farmee paying the farmor a cash amount in return for the acquisition of the interest in the permit and is the fair market value.

Farm-in transactions may have several stages. For example, a farmee may acquire an initial interest by committing to a future cost in the first stage of the transaction, but has an option to acquire an additional interest or interests in return to committing to funding a further work programme or programmes.

Farm-in agreements can also include re-imbursement of past costs and bonus payments once certain milestones are achieved, for example declaration of commerciality, or achieving threshold reserves volumes. Depending on their conditionality, such future payments may contribute to Value. However, they may need to be adjusted for the time value of money and probability of occurring.

2.3.3. Work programme

The costs of a future work programme may also be used to estimate Value. The work programme valuation relies on the assumption that unless there is evidence to the contrary the permit is worth what a company will spend on it. This method is relevant for permits in the early stages of exploration and for expenditure which is firmly committed as part of a venture budget or as agreed with the government as a condition of holding the permit. There may need to be an adjustment for risk and the time value of money.

2.3.4. Expected monetary value (EMV)

EMV is the risked net present value (NPV) of a prospect. EMV is calculated as the success case NPV times the probability of success less the NPV of failure multiplied by the probability of failure. The EMV method provides a more representative estimate of Value in areas with a statistically significant number of mature prospects within proven commercial hydrocarbon provinces where the chance of success and volumes can be assessed with a reasonable degree of predictability.

The EMV valuation can also be used as a relative measure for ranking exploration prospects within a portfolio to make drilling decisions, assessing commercial potential and to demonstrate the commercial attractiveness of a permit, which may influence a buyer or seller.

2.3.5. Market Factors

Since the latter part of 2014, oil prices have substantially declined from near the $100/bbl mark to under $30/bbl in January 2016. They have since recovered somewhat and are trading near $50/bbl at the time of writing this report (Figure 2-1).

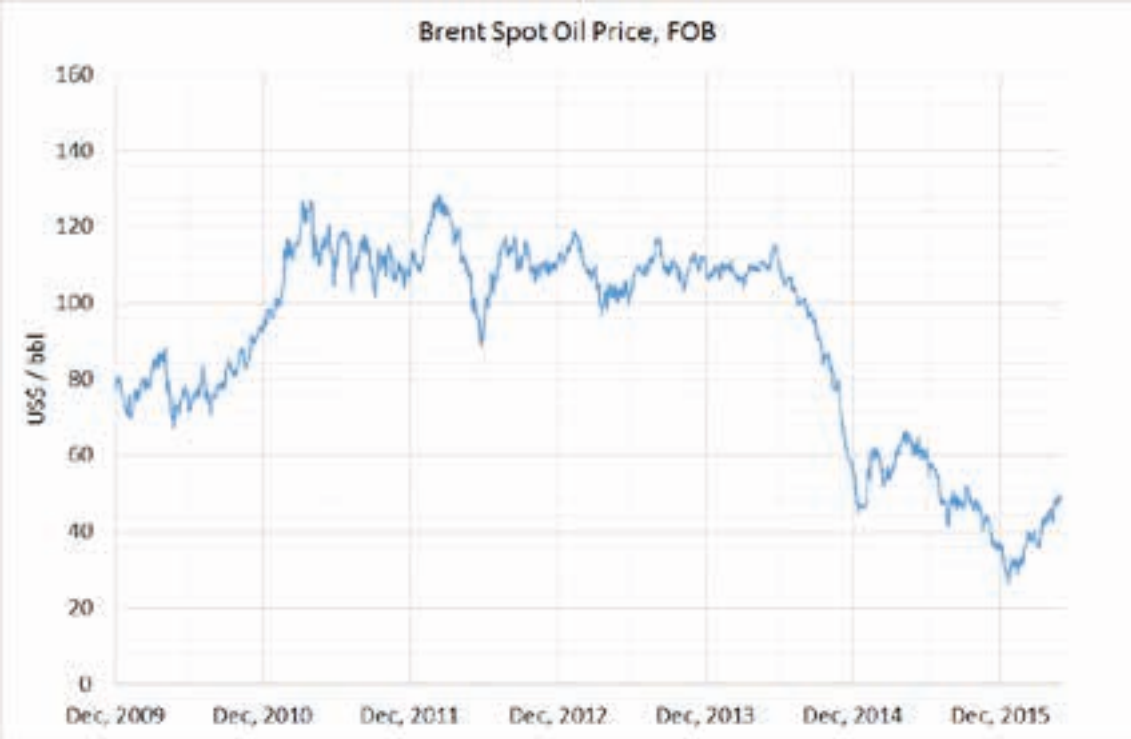


Figure 2-1 Brent Oil Price 2010-2016

Prior to the oil price decline, farm-in promotes of 2 or even 3 to 1 were being seen for quality acreage. Since then, there has been a paucity of transactions and anecdotally, RISC has identified that buyers are seeking farm-in promotes at or just about above ground floor level.

In response to the market factors, oil and gas companies have slashed their exploration budgets and the value of exploration companies has declined significantly. Figure 2-2 shows the change in enterprise value (EV)[2] for ASX listed exploration companies with conventional portfolios from October 2014 to June 2016. Out of the 26 companies evaluated, 3 have increased their enterprise value and the remaining 23 companies have shown significant reductions, with current EV averaging 46% lower than the 2014 EV[3].

[2] Enterprise value is calculated as the market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents.
[3] The scale of the vertical axis is been truncated at +200% and -200% to improve its readability. In the companies sampled, the largest positive change was over 800% and the largest negative change was over 1000%.

Consequently, it is to be expected that unless there are special circumstances, market factors will result in significant reduction in the value of oil and gas exploration portfolios.

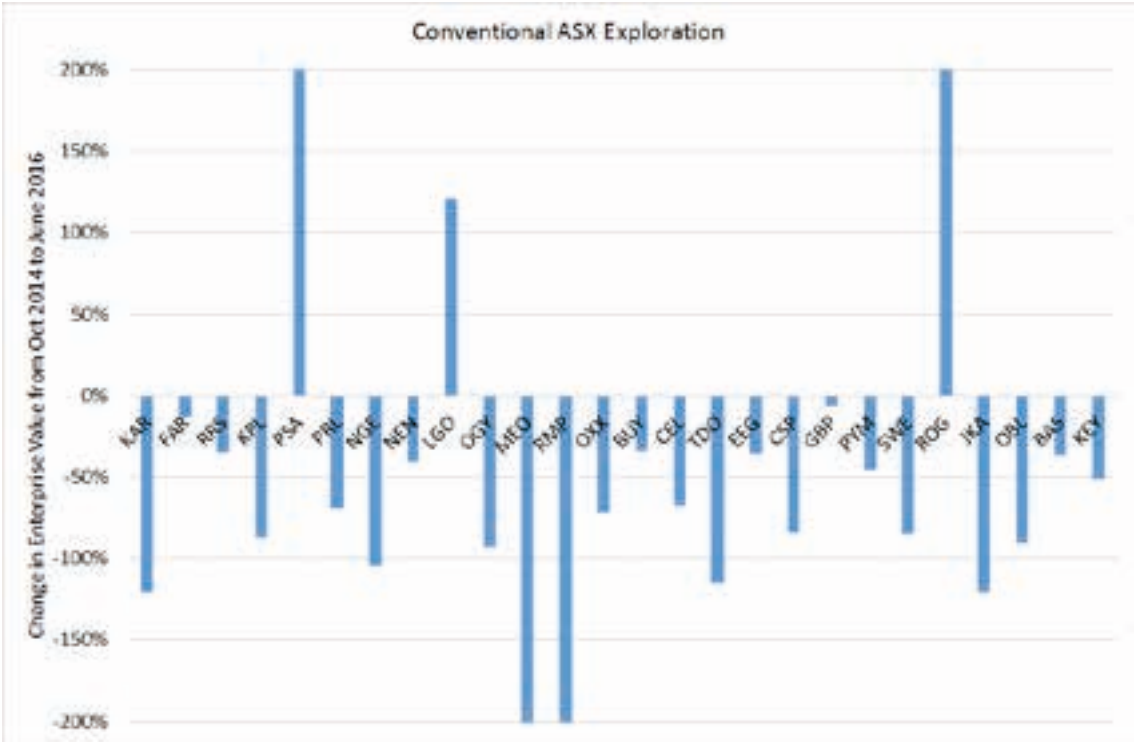


Figure 2-2 Change in EV for ASX listed Conventional Exploration Companies October 2014 to June 2016

3. China

3.1. Beibu Gulf Block 22/12 Overview

Horizon holds a 26.95% working interest in the development and production assets of Beibu Gulf Block 22/12 Area A and B and a 55% working interest in the exploration and appraisal phases. The producing fields are WZ6-12 North, WZ6-12 South, WZ12-8 West and WZ12-8 Mid (Figure 3-1). The development and production assets are operated by CNOOC (51%). Upon declaration of commerciality of a development project, CNOOC has the right to back in for 51% and assume operatorship which has been exercised in the development and production assets to date.

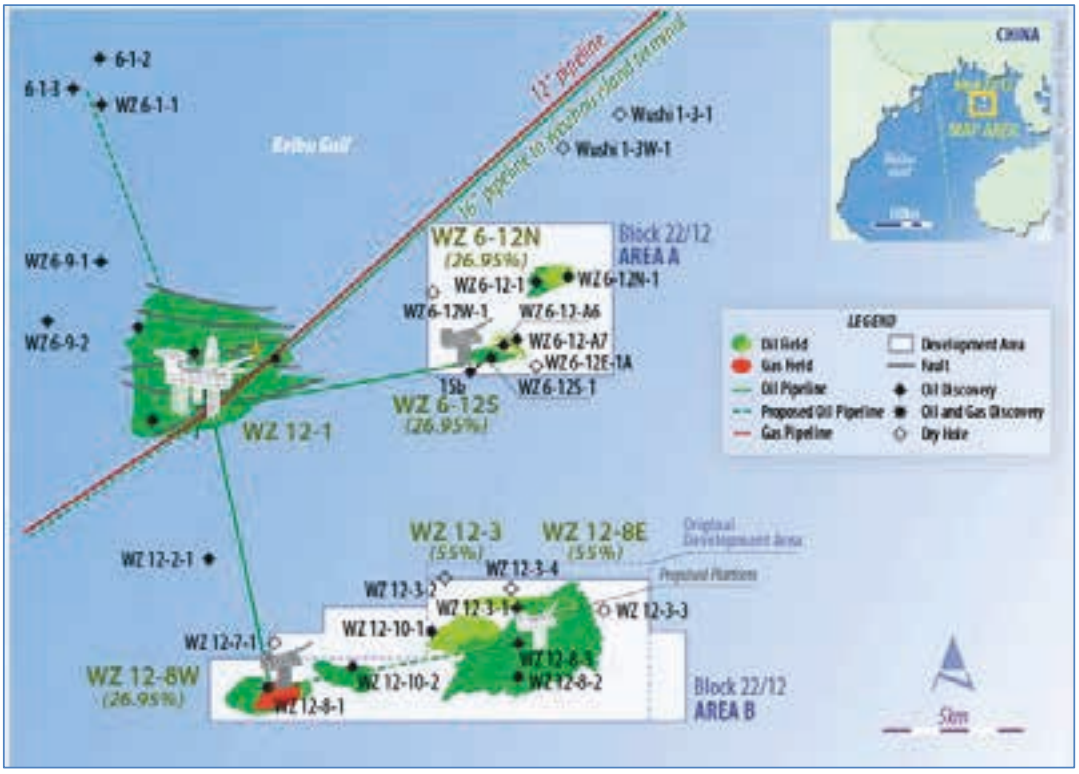


Figure 3-1 Location Map – Beibu Block 22-12 (source Horizon website)

The WZ 6-12 North oil field was discovered in 2002. An appraisal well on the WZ 12-8 East oil field drilled in 2004 confirmed the presence of oil but indicated that the oil was viscous so commercial development would not be straightforward. In 2006, the WZ 6-12 South Field was discovered.

Following the formal end to the exploration period for Block 22/12 on 30 September 2008, the WZ 6-12 North, WZ 6-12 South and WZ 12-8 West oil fields were declared development areas.

In 2010 CNOOC elected to participate for its full 51% share in the development, reducing Horizon's working interest to 26.95%. The Overall Development Plan (ODP) was completed in 2010 and following final CNOOC approval in January 2011 the joint venture proceeded to its Final Investment Decision in February 2011. CNOOC assumed operatorship of the project in 2Q11 and a CNOOC operating subsidiary company (Weizhou Operating Company) was established.

The Beibu Gulf development project was completed in 2013. First oil occurred in March 2013 with production quickly reaching forecast plateau rates. The development incorporates two remote wellhead platforms and one joint processing platform. The latter is connected by bridge to the CNOOC WZ 12-1A platform complex and utilises existing water injection and gas processing facilities.

Ten development wells were drilled from the WZ 6-12 platform and five development wells from the WZ 12-8 platform. During 2015, an additional development well was drilled to the WZ 12-8 Mid accumulation from the WZ 12-8 platform.

Cumulative oil production to 30 April 2016 was 11.8 MMstb.

3.2. Field Description

Key oil bearing reservoirs are the Eocene-aged fluvial-lacustrine sandstones of the Luishagang Formation, Miocene-aged Jiaowei shallow marine sandstones and the Oligocene-aged Weizhou sandstones. Oil quality varies from light to heavy quality, low to high viscosity, with some waxy crude.

WZ 6-12 North Field

The WZ 6-12 North field consists of stacked pay in the T30, T31 and T32 units. The field was discovered by well WZ 6-12-1 in March 2002. The trap is a fault sealed structure with dip closure to the west, Figure 3-2. The well intersected 13.5 m of excellent quality net oil pay in the Weizhou T31C sand but was not tested. The follow up WZ 6-12N-1 vertical exploration well in October 2012 intersected 9.5 m of gross oil pay in the T31C and 33.7 m of gross oil pay in the T32L. Also 13.5 m of gross oil pay was intersected in the shallower T30D sand.

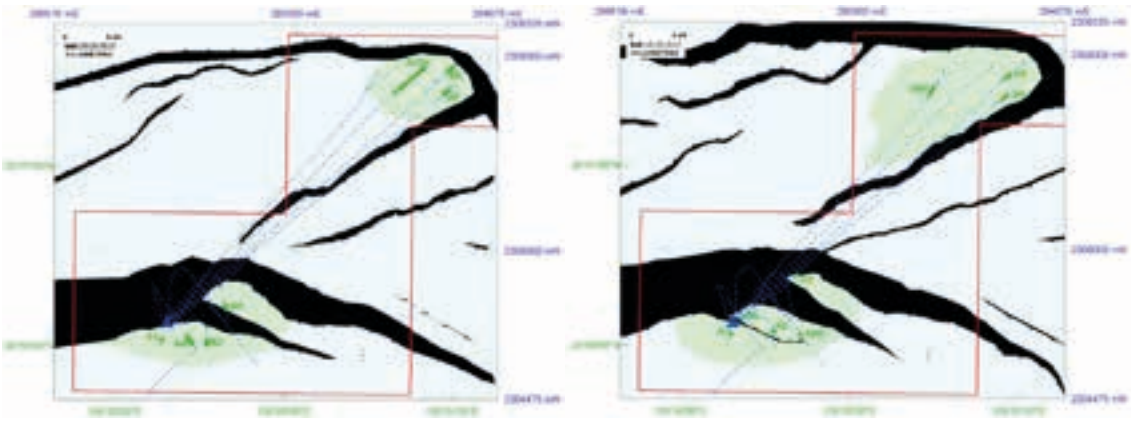


Figure 3-2 Well locations and schematic North, South and "Sliver" Block Field Areas

Production performance to date from the WZ 6-12 North Field has been above original expectations. In particular the wells are receiving good pressure support and the modest decline rate observed is due to water cut development at wells A5H and A10H.

WZ 6-12 South Field and Sliver Block

The WZ 6-12 South Field was discovered by well WZ 6-12S-1 in May 2006, approximately 3 km southwest of well WZ 6-12-1. The WZ 6-12S-1 well encountered over 70 m of net pay, mainly oil, in multiple sands of the Weizhou Formation. Gas was found in two thin sands. The trap is a hanging wall rollover structure, approximately 2 km long and 1 km wide, against an arcuate east-west trending fault, Figure 3-2. Adjacent to but not part of the interpreted WZ 6-12 South Field lies a separate interpreted fault related high which is designated the "Sliver" Block This prospect was matured by the Foreign JV for exploration drilling via a well drilled from the WZ 6-12 Wellhead Platform (WZ 6-12-A7).

Well WZ 6-12A-6 intersected oil pay in the T30D and T31U in the South area and in the T 32L in the "Sliver" area. The hydrocarbon type within the T30 A is uncertain and the T30B is gas bearing. The T31C is thin and is interpreted to be fault affected.

Well WZ 6-12-A7 intersected oil pay in the T31C and T32U sands in the northern part of the "Sliver" Block. The upper sands (T30 to T31U) were faulted out at this location, as were the T32 L sands. The T31C sand with 6 m of gross oil-bearing sand is interpreted to be in reservoir continuity with the thin T31C sand intersected in well WZ 6-12E-1A. Brightening of T31C seismic amplitudes down dip of the A7 well suggests the presence of thicker reservoir development. WZ 6-12-A7 intersected 26.5 m of gross sand and 2.3 m of net oil pay in the T32U sand. A limited MDT run (restricted by hole condition) was conducted in A7 with sampling of one zone.

Figure 3-3 is a schematic cross section showing the structural relationship between the South Field, "Sliver Block" and North Field.

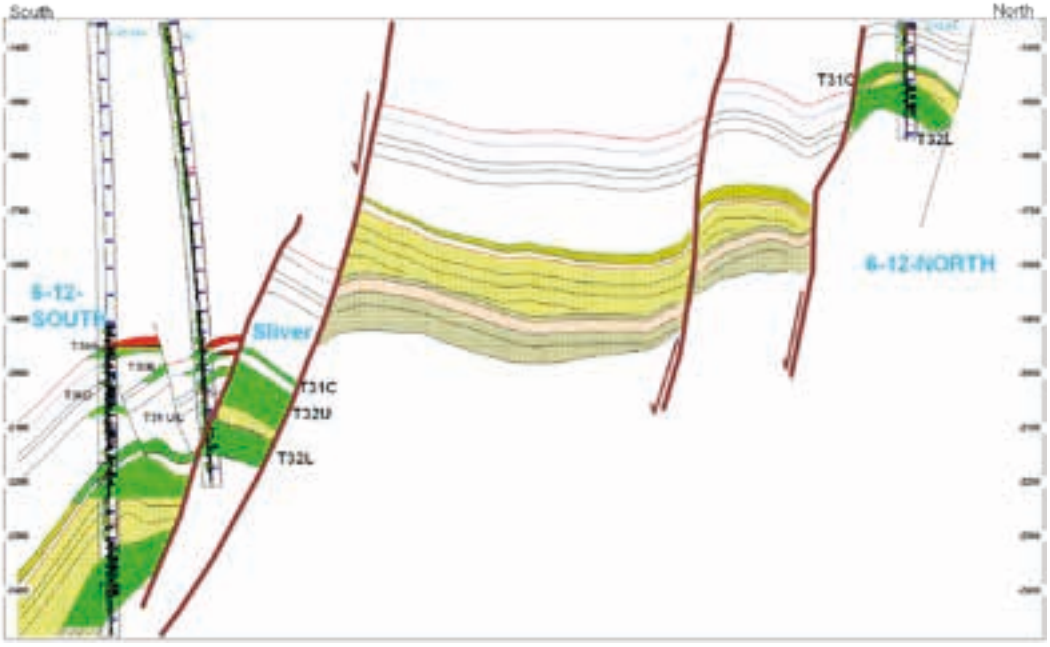


Figure 3-3 Structural relationship of WZ 6-12 South, "Sliver" and North Fields

Production performance to date from the WZ 6-12 South and Sliver Field has indicated some decline in oil rate attributable to moderate pressure support and limited volumes accessed by each well, however the

Operator strategy of increasing liquid rate (reflecting spare well capacity) is maintaining the oil rate at 6,000 bopd.

The following plot shows total production performance at the WZ 6-12 Platform, i.e. WZ 6-12 North and South and Sliver Fields combined.

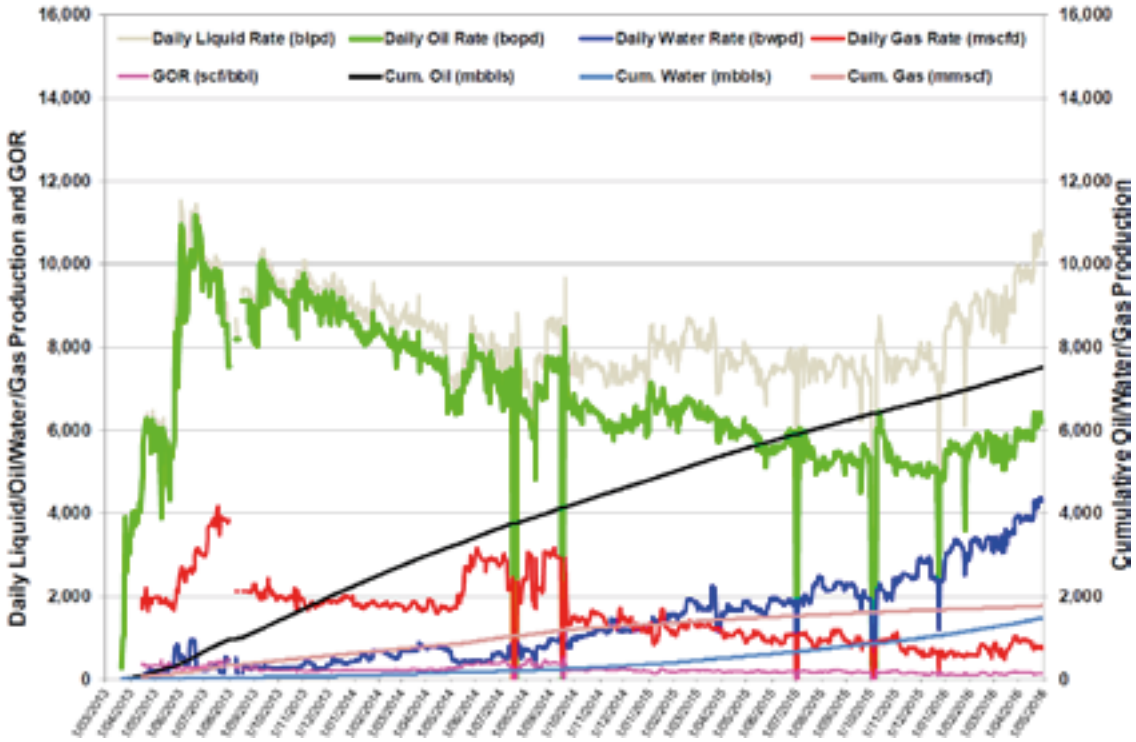


Figure 3-4 WZ 6-12 Platform Production Performance

WZ 12-8 West Field

The WZ 12-8 West field was discovered by well WZ 12-8-1 drilled in 1993. The well encountered a 12 m net oil column and a 2 m overlaying gas column within the Jiaowei Formation. Four DSTs were run and a series of RFT sampling and measurements were conducted. The well flowed 1300 barrels per day of 21 degree API oil with 2.1 MMscf/d of gas on test.

Development drilling was undertaken during 2013. This programme included an initial pilot hole, WZ 12-8-A1P, which penetrated the entire reservoir sequence and acquired conventional core over the lower portion of the J2 reservoir. Subsequently five horizontal reservoir sections were drilled in an east to west direction.

Confidence in the latest mapping is provided by the seismic amplitude anomaly shown as yellow to red colour fill in Figure 3-5 which generally conforms closely to the structural limits of the oil pool (the green polygon marks the depth of the OWC at -953 mTVDss and the red polygon marks the GOC at -943.5 mTVDss).

The only fault of any significance for the J2 reservoir is the southern boundary fault. No internal faults of any significance are mapped and production compartmentalisation caused by faulting is not anticipated.

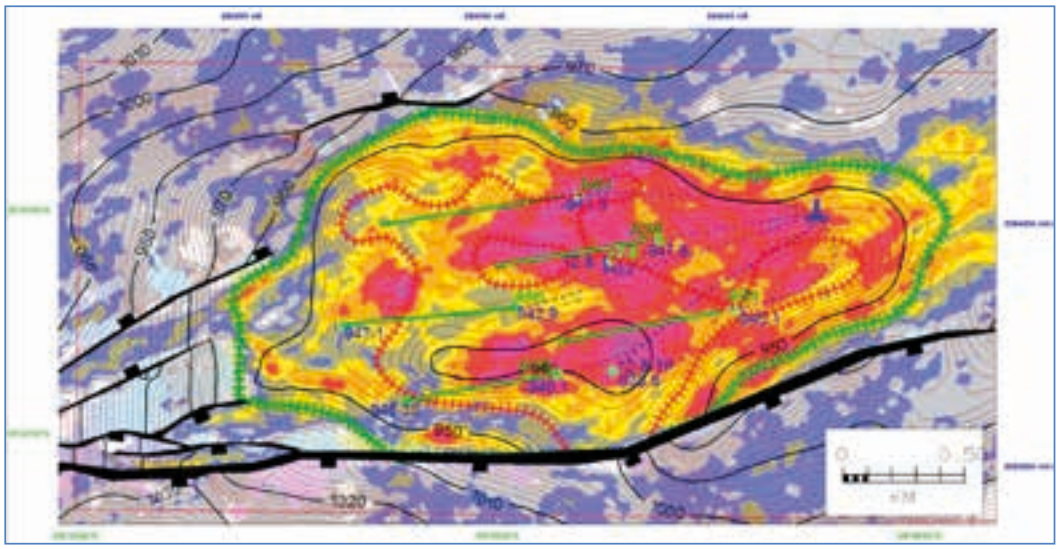


Figure 3-5 WZ 12-8 West Final well tied top J2 reservoir depth structure map (post development drilling)

Production performance to date has been significantly better than original expectations. Water production has increased but at a slower rate than indicated by pre-production simulation models indicating either lower reservoir oil viscosity or effective vertical baffles to bottom water encroachment. The GOR is steady following the initial blowdown of the small original gas cap.

WZ 12-8 Mid Field

The WZ 12-8 Mid Field, Figure 3-6 was discovered by the well WZ 12-10-2 which intersected approximately 12.3 m of oil pay within two zones in the T42 reservoir. Neither zone was flow tested.

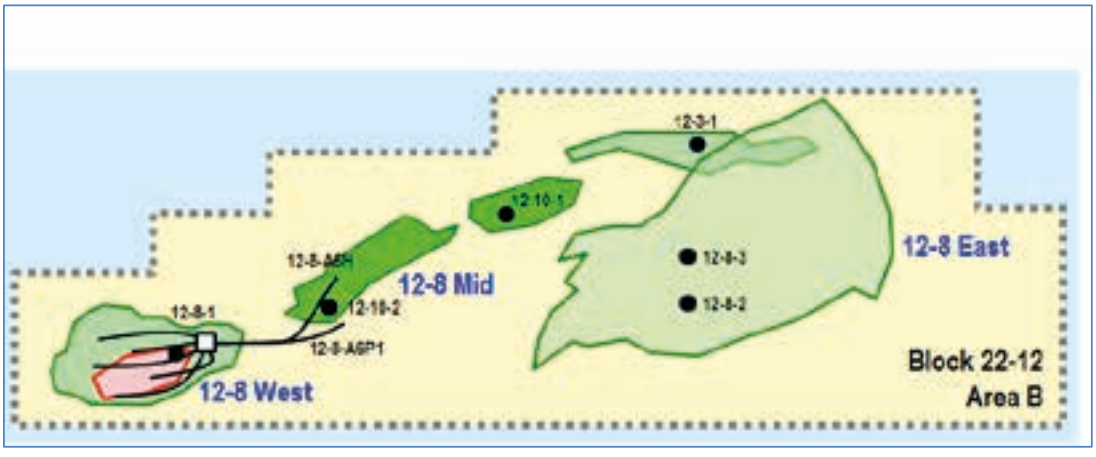


Figure 3-6 Location of oil accumulations and wells in Block 22-12 Area B

The T42 upper zone (Unit 1 and 2) is dolomitic and reservoir quality is poor with an average porosity of 17.9% net oil thickness is estimated to be 1.3 m. Schlumberger's *InSitu Fluid Analyser* (IFA) was used to measure reservoir fluid viscosity of 152 cP. The T42 lower sand (Unit 4) has good reservoir quality. Net oil pay is estimated to be 11 m with an average porosity estimated by Operator to be 31%. Schlumberger's *InSitu Fluid Analyser* (IFA) was used to measure reservoir fluid viscosity at 14 cP. A caliche layer is interpreted at the base of the both zones. A similar caliche zone is interpreted in the WZ12-8W Field and is a possible explanation for delayed water production in the Field which is performing above expectations.

WZ12-8-A6H (horizontal producer) was then drilled adjacent to the WZ-12-10-2 discovery well. It intersected 560 m of T42 lower reservoir and was completed for production which commenced in December 2015. After 6 months production the oil rate is stable at about 1,000 bopd with 5% water cut. It is too early to determine to what extent the caliche layer is having an influence on aquifer movement but the relatively low current water production suggests some degree of water retardation is occurring. The analogue is the adjacent WZ-12-8 West Field in which a similar caliche layer is present in the T41 reservoir at the OWC.

The following plot shows total production performance at the WZ 12-8 Platform, i.e. WZ 12-8 West and Mid Fields combined. The oil rate is being maintained at around 4,000 bopd through a combination of Operator increasing liquid rate (reflecting spare well capacity) and protection from early water production by the various caliche layers.

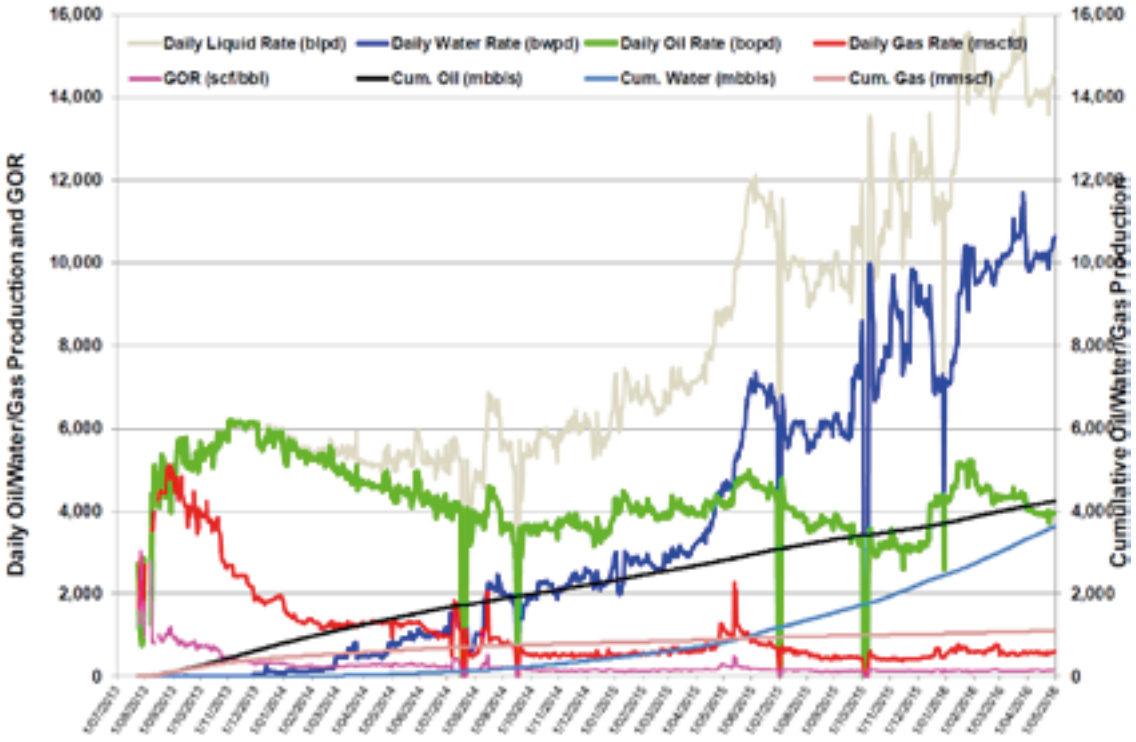


Figure 3-7 WZ 12-8W Platform Production Performance

WZ12-8 East (including 12-3)

The WZ12-8 East Weizhou oil accumulation was discovered in 1982 by Wei 12-3-1. The well was a combined structural test of the Middle Miocene Jiaowei Formation and stratigraphic test of an interpreted lower Weizhou Formation pinch out upon Basement. A single 11.5 m oil bearing Weizhou sand was encountered (net oil pay 9.8 m). The Jiaowei sands were encountered water bearing and outside of structural closure.

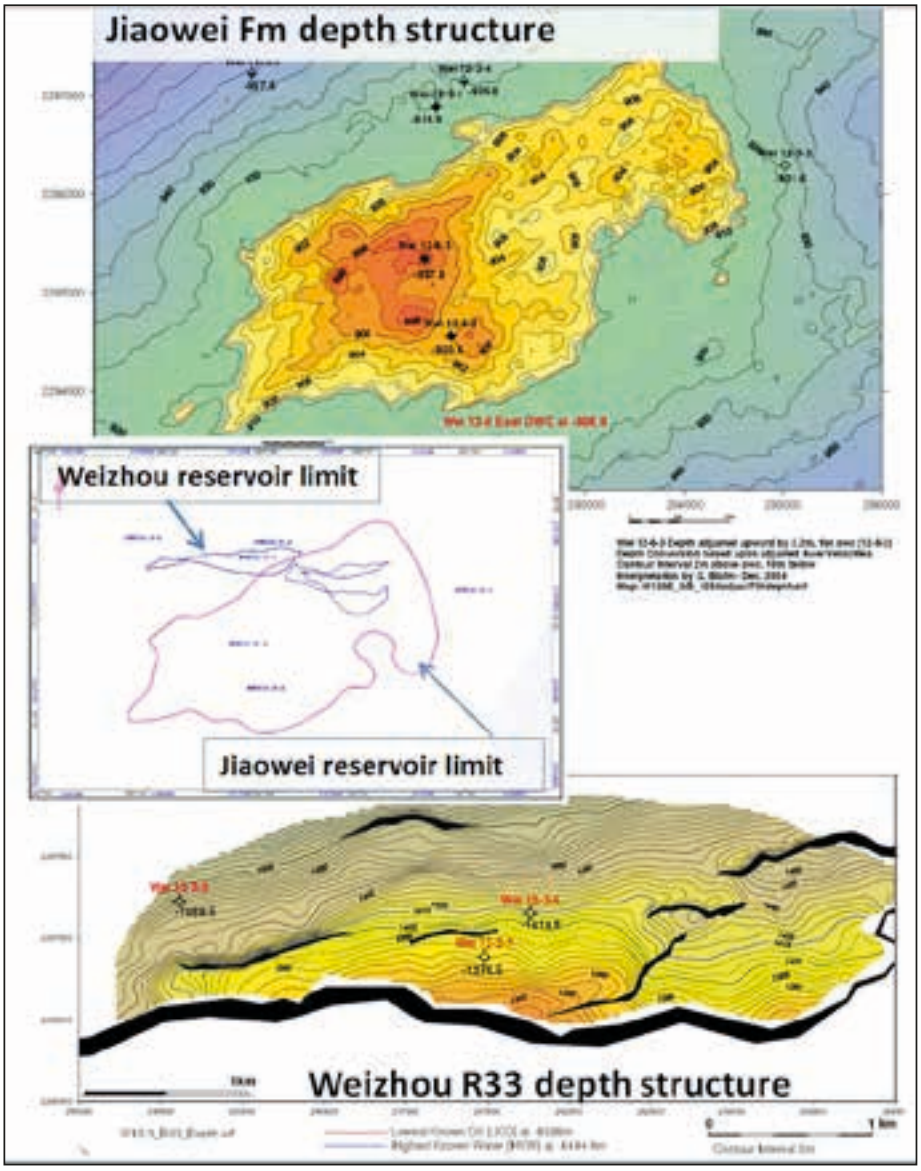


Figure 3-8 WZ12-8 East reservoir depth structure maps and field limits

A drill stem test of this sand flowed oil at a maximum rate of 1380 bopd on a 48/64" choke. Reservoir fluid studies indicated a similar oil to the current WZ 6-12 production. The Weizhou oil accumulation is volumetrically small, with a Best Estimate STOIIP of 3.4 MMstb.

Well 12-8-2 drilled in 1994 intersected an 8 m oil column in the Jiaowei reservoir at a depth of 930.5 m within highly porous and permeable, shallow-water marine sands. The well tested 2295 bopd of 21 degree API oil from the interval 931 – 935 m with artificial lift provided by electric submersible pump (ESP). The Jiaowei trap is relatively simple and is defined by 3D seismic as a simple, unfaulted four way dip closure, as shown in Figure 3-8 (upper map). Reservoir fluid studies on samples from appraisal well 12-8-3 indicated reservoir oil viscosity of 69cP.

A Project Feasibility Study commenced in 2015 continues into 2016 trying to identify commercially viable development options.

WZ12-10-1/12-10-1sa Discovery

The WZ12-10-1 exploration well encountered a thin oil column with an OWC at 1083.4 m (1050.4 m TVDss) and total oil pay of 4.2 m. Sidewall cores and MDT pressures were acquired but the zone was not tested. No oil pay was interpreted in the Weizhou Formation.

Following the preliminary interpretation of the 12-10-1 well results, a decision was taken to drill an up dip side-track with a 340 m step-out to appraise the T42 reservoir to the east of the discovery well.

WZ12-10-1/1sa intersected 5.7 m of net oil pay in the T42. The side track was not flow tested. Correlation with the original 12-10-1 well is shown in Figure 3-9 and a thinning of the gross T42 isopach at WZ12-10-1/1sa is evident.

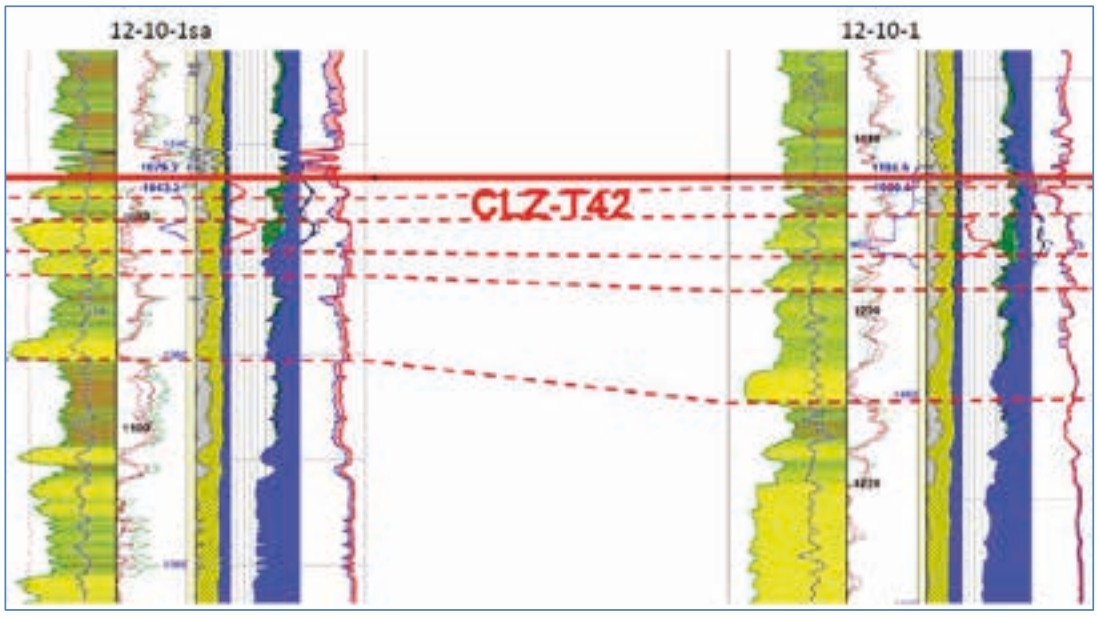


Figure 3-9 T42 reservoir correlation

GRV uncertainty is due to a combination of structural and stratigraphic uncertainty. The T42 depth structure map is shown in Figure 3-10.

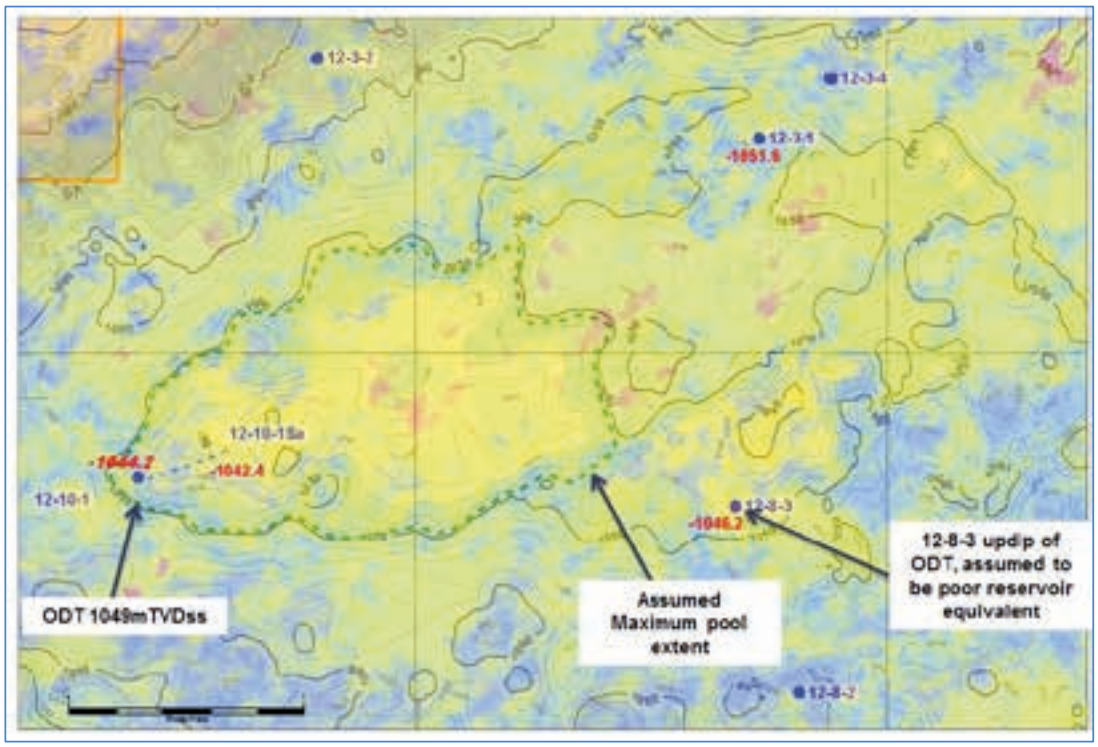


Figure 3-10 12-10-1 T42 Depth map showing amplitude variation (colour fill)

Fluid property data are limited to some on-site specific gravity data. These are reported to indicate oil specific gravity of 0.89 gm/cc in line with the WZ 12-8W Field.

3.3. Oil Initially In Place

WZ 6-12 North, WZ 6-12 South + Sliver Block and WZ 12-8 West + Mid Fields

RISC has reviewed the reservoir mapping, geological modelling and volumetrics for the WZ North, WZ 6-12 South and Sliver Block and WZ 12-8 West Fields that was carried out by the Operator (ROC) in January 2014 following the completion of development drilling and considered them to be reasonable. In early 2016, we also reviewed WZ 12-8 Mid volumetrics on T42 Lower (unit 4) carried out by Horizon. These results are shown in Table 3-1.

Table 3-1 STOIIP for Developed Fields - Beibu Gulf

Field	STOIIP (MMstb)		
	Low	Best	High
WZ 6-12 North	25.8	30.5	36.2
WZ 6-12 South and Sliver Block	23.2	28.0	30.3
WZ 12-8 West	19.5	26.2	27.7
WZ 12-8 Mid	7.0	15.2	24.5

WZ12-8 East

Operator estimates of STOIIP for the Jiaowei reservoir are shown below. These have been reviewed by RISC and are considered reasonable.

Table 3-2 STOIIP for WZ 12-8 East - Beibu Gulf

Discovery	STOIIP (MMstb)		
	Low	Best	High
WZ 12-8 East (Jiaowei reservoir)	57.5	88.3	136.6

WZ12-10-1/12-10-1sa Discovery

The Operator's estimated probabilistic volumetric estimate for the 12-10-1 discovery has been reviewed by RISC and we support the parameter input range and volumetric estimates (Table 3-3).

Table 3-3 STOIIP for WZ 12-10-1 Discovery - Beibu Gulf

Discovery	STOIIP (MMstb)		
	Low	Best	High
WZ 12-10-1	1.9	3.4	4.3

3.4. Reserves and Production Forecasts

In estimating reserves, RISC has considered the following:-

- Reservoir simulation studies on the WZ 6-12 South and Sliver, WZ 6-12 North and WZ12-8 West Fields prepared by Horizon during early 2016. These are generally based on Fosun's original models but have been updated to reflect new interpretations and history matched to recent production data. RISC has reviewed the results of these studies but has not audited the simulation models
- Decline curve analysis prepared by RISC for producing fields generally using the log WOR vs Cum Oil method using production data to mid-February 2016 – we have prepared oil forecasts assuming an increasing liquid offtake rate in line with the current production policies

- A simulation study of the WZ 12-8M Field prepared by Horizon during early 2016 based on the volumetric analysis presented above
- Production processing capacities at the PUQB platform
- Based on Grant Samuels oil price scenario, the production is economic until the end of the PSC term at 31/12/2028

For the producing fields, the simulation models generally predict higher oil ultimate recovery than decline curve analysis and we have considered both methods in the assessment of reserves uncertainty. A limited range of alternative simulation models have been evaluated by Horizon. For the WZ 6-12 South & Sliver Fields a case with weaker aquifer support was evaluated and this was found to have limited impact on ultimate recovery. Two alternate interpretations of the WZ 12-8 Field West have been modelled – a low oil viscosity scenario (1.8 cP based on recent lab work) and an extensive 'caliche' layer model with higher viscosity (22.5 cP). Good quality history matches were achieved with both models and projections of ultimate recovery are very similar. However these alternatives models do not explore the full range of uncertainty.

Taking account of these the data and studies, RISC has

- Estimated 1P, 2P and 3P ultimate recovery for each field – in general the 1P outcomes are representative of decline curve analysis with the 2P/3P being based on simulation results
- Generated production forecasts assuming 95% production availability
- Reviewed all production forecasts against the additional production data from mid-February to end April 2016 and satisfied ourselves that the our February 2016 forecasts remain reasonable

RISC's estimates of the gross Beibu Gulf Development Project oil reserves as at 1 May 2016 to the end of the 15 year Production Period are shown below. There are currently no further development plans for these fields. Two side-tracks are under consideration on the WZ 6-12 South and Sliver Field and the resources associated with these potential activities are assigned as contingent resources.

Table 3-4 Beibu Gulf Development Project Oil Reserves at 1 May 2016 (100%)

Beibu Gulf Development Project	**Gross Oil (MMstb)**		
	1P	**2P**	**3P**
WZ 6-12 South & Sliver - Developed Ultimate Recovery	5.6	7.2	8.3
WZ 6-12 North - Developed Ultimate Recovery	11.2	12.7	14.0
WZ 12-8 West - Developed Ultimate Recovery	7.7	10.5	12.0
WZ 12-8M - Developed Ultimate Recovery	2.1	3.3	4.3
Total Ultimate Recovery	**26.7**	**33.7**	**38.6**
Total Production to 30 April 2016	11.8	11.8	11.8
Total Reserves as at 1 May 2016 (see Note 1)	**15.0**	**21.9**	**26.8**

1. The volumes are added arithmetically. The aggregate 1P may be a very conservative estimate and the aggregate 3P may be a very optimistic estimate due to the portfolio effects of arithmetic summation

RISC has generated production forecasts associated with the 1P, 2P and 3P volumes identified above. The 2P production forecast for the Beibu Gulf Development Project is shown below.

Figure 3-11 Gross 2P Oil Production Forecast - Beibu WZ6-12 N, 6-12 S, 12-8 W and 12-8M Fields

3.5. Contingent Resources and Production Forecasts

WZ 6-12 South and Sliver Block

Two sidetracks are under consideration on the WZ 6-12 South and Sliver Field. These sidetracks are targeting volumes indicated to be unswept by the current well configuration. The resources associated with these potential activities are based on Horizon's reservoir simulation described above. However, these volumes are not carried in the JV plans and as such are assigned as contingent resources.

WZ12-8 East (including 12-3 and 12-10-1)

A Feasibility Study commenced in 2015 and continues into 2016 with the objective of identifying commercially viable development options centred on the large WZ 12-8 East (Jiaowei reservoir) viscous oil accumulation. These studies also include consideration of the much smaller WZ 12-3-1 Weizhou reservoir accumulation and the WZ 12-10-1 discovery.

RISC has reviewed the results of CNOOC's reservoir simulation studies WZ 12-8 East (including WZ 12-3-1 Weizhou accumulation) and considers them to be reasonable and in line with analogue fields. The JV concept is a phased development of three initial oil production wells that include elements of appraisal followed by

three further wells based on results with first oil currently envisaged early 2019. The concept only develops part of the Jiaowei accumulation and recovers about 5 MMstb of oil over a 15 year production life. We have adjusted the development plan and forecasts to include a Phase 2 development that fully develops the above Jiaowei STOIIP estimates. RISC has assumed the Weizhou reservoir to be developed by one horizontal well with a total of 13 horizontal wells in the Jiaowei reservoir and estimates the total oil production over a 15 year forecast period at 10.5 MMstb.

The WZ 12-10-1 contingent resources are assumed to be developed with a single well development tied back to a future platform located over WZ 12-8 East with first oil 2020.

Our estimates of Contingent Resources associated with contingent activities in the developed fields and discoveries where development planning is not yet mature are summarised below.

Table 3-5 Best Estimate Contingent Resources as at 1 May 2016 (100%)

	Gross Oil (MMstb)
Contingent Resources	**2C**
WZ 6-12 South and Sliver – A3 and A7 side-tracks	0.7
WZ 12-8 East (incl. 12-3)	10.5
WZ 12-10-1	0.6
Total	**11.8**

RISC has generated production forecasts associated with the 2P+2C volumes identified above as shown below.

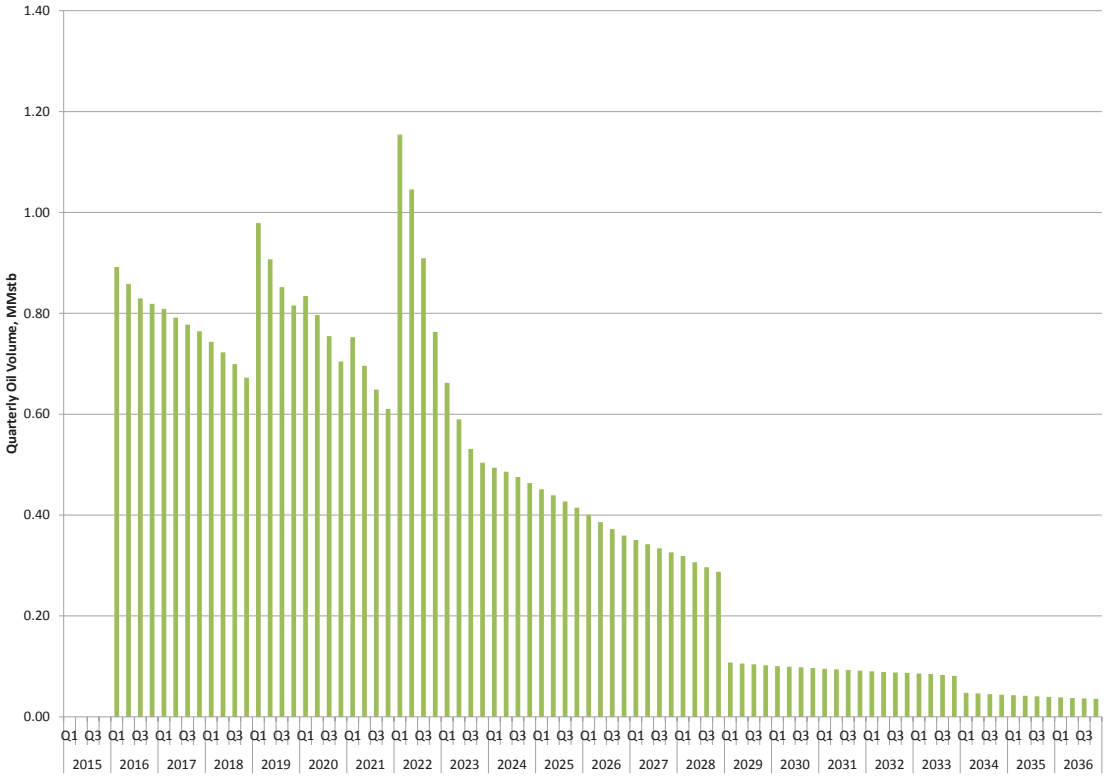


Figure 3-12 Gross 2P+2C Oil Production Forecast

3.6. Capital and Operating Costs

The 2016 budget operating costs and information from ROC have been used as the basis for estimating projected costs. Costs have been allocated to each field using various factors depending on the nature of the costs. Contingent resource development costs are estimated based on JV documentation that details up to date negotiations with suppliers and vendors. These negotiations include cost variances linked to oil price scenarios. We have assumed the cost basis associated with an oil price of US$65/bbl in line with Grant Samuel's oil price forecast. All costs are in US$ and are as of 1 January 2016. A RMB to USD exchange rate of 0.1537 is used.

3.6.1. 2P Case

As the WZ 6-12 and 12-8W fields are already developed, future capital costs are minor. The WZ12-8M accumulation was developed by a well from the existing WZ12-8W WHP in 2015. The costs for this well, tie-ins and ESP are estimated at $9m in Q1 2016.

The 2016 WZ6-12 and 12-8W operating budget is $41.8m which includes $21.8m of fixed field costs, $17.6m of tariffs and $2.5m of workovers. The tariff structure determines payments of $5.16/bbl for all production up to 13.9 MMbbl and $0.71/bbl for further production as well as $0.51/bbl for water injection up to 44.3 MMbbl and $0.23/bbl thereafter. Since developing the 2016 budget and as a result of the low oil price environment, the operator has proposed cost savings that reduce field operating costs by approximately

7 percent. As such, a 7 percent saving on field operating cost has been applied to 2016, 2017 and 2018. An allocation of $10m is made every 2 years from 2018 forward to cover well workover costs.

Abandonment costs includes platforms, jackets, wells, pipelines, cables and 50% of the PUQB (12-1) platform. Abandonment costs are estimated by the operator at $57m in 2016 terms or $70m in 2026 terms escalated at 2% p.a. Abandonment liability is accumulated based on production and to the end of 2015 approximately $52 million had been paid. Horizon advised RISC that the operator is currently reviewing plans to end abandonment payments at July 2016 as opposed to continue payments towards the escalated abandonment cost of $70 million. It is proposed that interest gained on a term deposit would offset price escalation. As such, abandonment payments in the forecast below end during 2016. The forecasts capital and operating costs are shown in Figure 3-13. The 2016 costs are for the full year.

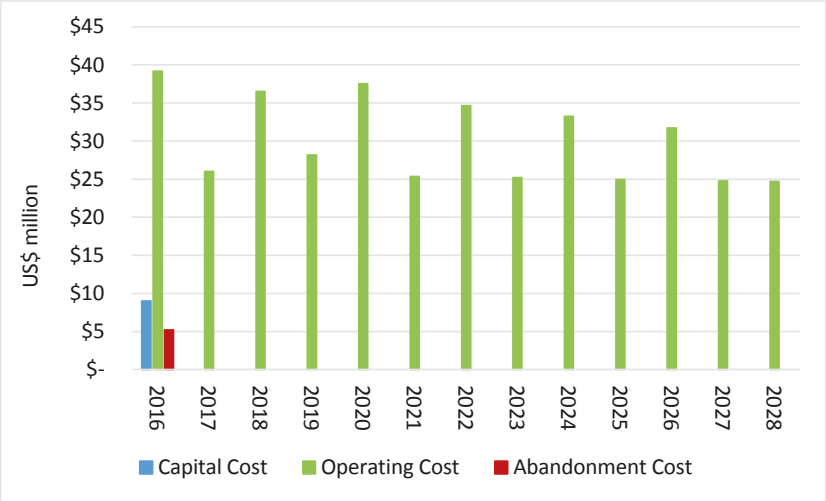


Figure 3-13 Gross 2P Cost Forecast - Beibu

The 2016 exploration and development budget for the Beibu Gulf Block 22/12 is $10.1m firm and $9.9m contingent. RISC has been advised that due to the current low oil price environment, the operator proposes to defer some 2016 exploration spending. As such the 2016 exploration budget has been reduced to only $2.1m.

3.6.2. 2P and 2C Case (12-8 East full field and 12-10-1)

The 2P+2C production forecast for the Beibu Gulf Development Project includes two side-tracks that are under consideration on the WZ 6-12 South and Sliver Field plus a phased WZ 12-8 East development.

A Feasibility Study commenced in 2015 and continues into 2016 with the objective of identifying commercially viable development options centred on the large WZ 12-8 East (Jiaowei reservoir) viscous oil accumulation. An ODP is understood to be in preparation.

The 'ODP' 12-8 East development concept includes an initial 3 wells with production commencing in 2019 followed by a further 4 wells after a year. The field will be developed with a new platform tied back to the 12-8W wellhead platform (WHP) and utilizing the existing 12-8W WHP pipeline to the WZ 12-1 platform. ROC considers 50% of the produced water will need to be reinjected due to WZ 12-1 water processing capacity constraints. RISC considers the 12-8W to WZ 12-1 pipeline capacity will be exceeded before WZ 12-1

constraints are met and as a consequence we assume 95% of the produced water to be reinjected by 2018. Gas will need to be supplied from WZ 12-1 for power generation, this is assumed to be at no material cost.

Overall development capex for this 'ODP' phase is estimated at $74m. Pre-FID studies and ODP preparations are estimated to cost $5.8m. Development well drilling and completions is estimated to cost $17.7m for the initial 3 ODP wells, $23.6m for the remaining 4 ODP wells and $7m for the 12-10-1 well. A charge of $5.8m is estimated for pipeline and tieback costs to the 12-8W WHP. $1m is estimated for the tie-in of the 12-10-1 well. $8.1m is estimated for project management, production preparations and other minor costs. A contingency of 20% is carried on these costs.

12-8E minor capex includes $3m in 2019 to cover minor upgrade work and an annual allowance of $0.5m.

Operating costs form the bulk of the 12-8 East development costs. The platform lease rate is $5.1m p.a. during the life of the development. This rate is indicative, subject to project approval and based on an oil price assumption of $65/bbl. Fixed opex of $6.6m p.a. is estimated to cover logistics and overheads. Tariffs in line with those described above are included in the variable costs alongside a workover allowance of $0.3m p.a.

The ODP only develops the western part of the 12-8 East accumulation and RISC has added a further ('non ODP') phase of the 12-8E development for the east of the field comprising 7 development wells with production commencing in 2021. Due to the high water production a further water injector and doubling of the water injection capacity is considered. A WHP bridge linked to the leased 12-8E platform is assumed as the development option.

The overall development capex for this 'non ODP' phase is estimated to cost $84m. Drilling and completions is estimated to cost $54.7m. The WHP and tie-ins are estimated to cost $21.5m. An additional $7.5m in pre-FID and project management costs are estimated. All costs contain a 20% contingency allowance.

Incremental fixed opex of $3m p.a. has been estimated for the non-ODP development. An additional workover allowance of $2.4m p.a. is assumed based on MODU requirement for workovers. All additional non-ODP production is subject to the aforementioned tariff structure.

In parallel to the development of 12-8 East we have assumed that a single deviated development well will be drilled from the 12-8 East platform to develop the 12-10-1 accumulation. This well is assumed to be drilled in 2018 for a cost of $7m. There are also 2 additional sidetracks of existing wells in the developed fields carried as contingent with an estimated cost of $5m to be spent in 2020.

Each development is assumed to have a 15 year Production Period as per the Petroleum Contract.

Abandonment costs of $30m are estimated and are paid progressively as for the 2P case. Cost forecasts for the 2P + 2C case are presented in Figure 3-14 below.

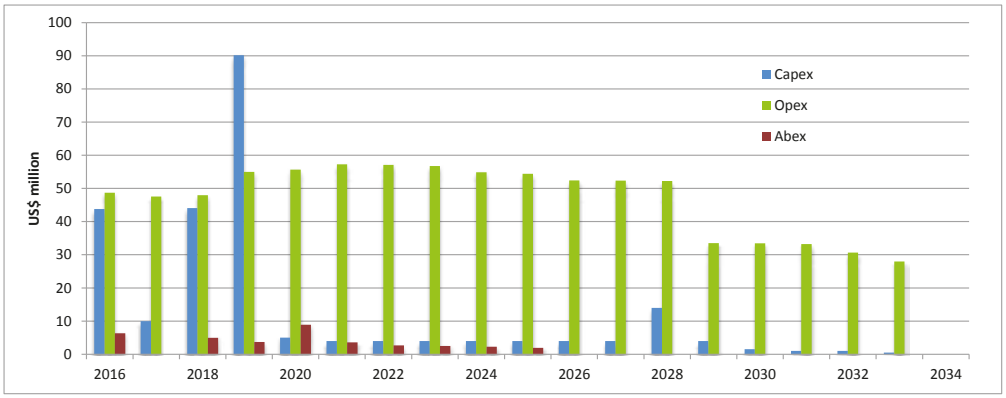


Figure 3-14 Gross 2P + 2C Cost Forecast - Beibu WZ6-12, 12-8 W, 12-8E, 12-10-1

3.7. Exploration

Since the last report in Dec 2013 two exploration prospects in Horizon's Chinese acreage have been drilled (WZ12-10-1 and WZ12-10-2 discovery wells Figure 3-15). The WZ12-10-2 discovery has been developed via a well from the 12-8W platform. The WZ12-10-1 discovery is considered to be potentially economic and is part of the contingent resource project (Section 3.5). The current exploration objective is to the southeast of the Weizhou 12-8 East field.

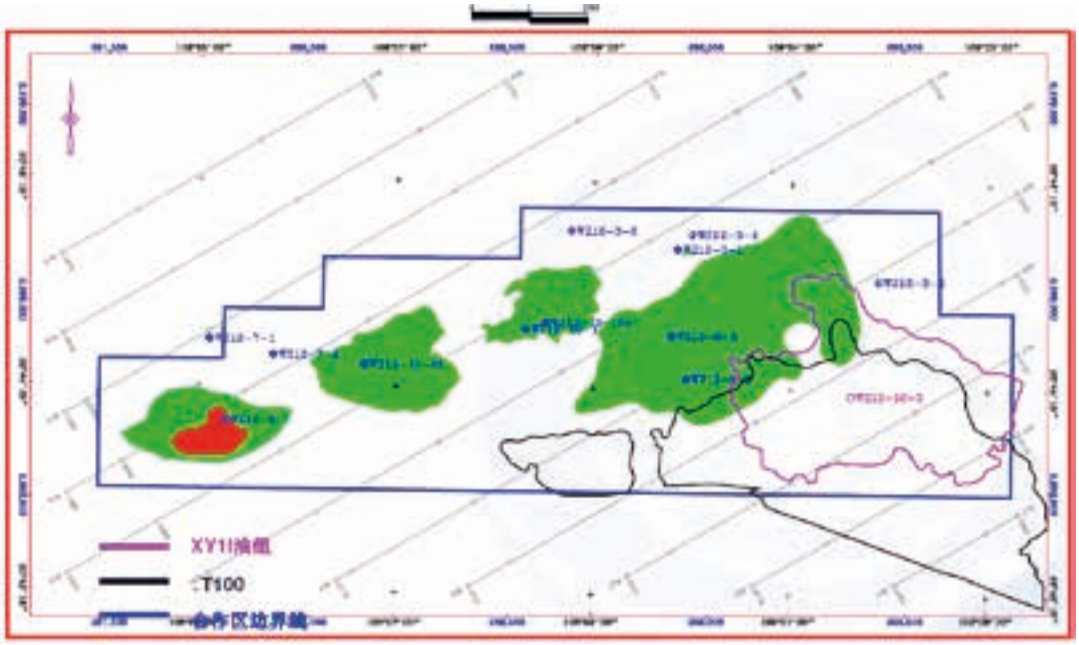


Figure 3-15 Location map of Weizhou discovery wells and WZ12-10-3 proposed well location

A contingent exploration well, WZ12-10-3, was proposed for 2016 but has been pushed out to next year. The well will address two targets: Xiayang1_I sands and the T100 basement buried hill outlined in Figure 3-15. The resource potential of these targets is tabulated below in Table 3-6 where the net interest used is

assuming the current net production interest of 26.9%. Discoveries on the block at the Xiayang1-I level have not been full to spill and have flowed viscous oil which effects their chances of commercial success and their value.

Table 3-6 WZ12-10-3 prospect volumetrics as at 1 May 2016

Prospect Case	Low Gross Recoverable Oil MMbbl	Mid[1] Gross Recoverable Oil MMbbl	High Gross Recoverable Oil MMbbl	Average Net (Production 26.9%) Recoverable Oil MMbbl	GPOS (RISC) %	Low RISKED Net (26.9%) Oil MMbbl	Mid RISKED Net (26.9%) Oil MMbbl	High RISKED Net (26.9%) Oil MMbbl
Xiayang1_I Reservoir	42	34.2	82.0	16.7	66%	7.5	11.1	14.6
T100 Buried Hill	5	3.4	7.5	1.7	30%	0.4	0.5	0.6
Total	47.3	37.6	89.5	18.4		7.9	11.6	15.2

1. Based on average of low and high values. The resource estimates are for valuation purposes only and may require adjustment in order to meet ASX compliant prospective resource disclosure requirements.

The geological probability of success (GPOS) for the Xiayang1_I reservoir of 66% comes directly from the 12 wells drilled in this area of which 8 have found hydrocarbons. Of that 8 four have been deemed commercial successes giving a commercial probability of success (CPOS) of 50%. The range of commercially risked net resources is shown in Table 3-6 below.

Table 3-7 WZ12-10-3 Horizon's Net Risked prospect volumetrics as at 1 May 2016

Prospect Case	Commercial POS %	Low RISKED (GPOS and CPOS) Prod Net Oil MMbbl	Mid RISKED[1] (GPOS and CPOS) Prod Net Oil MMbbl	High RISKED (GPOS and CPOS) Prod Net Oil MMbbl
Xiayang1_I Reservoir	50%	3.8	5.5	7.3
T100 Buried Hill	10%	0.0	0.1	0.1
Total		3.8	5.6	7.4

1. The resource estimates are for valuation purposes only and may require adjustment in order to meet ASX compliant prospective resource disclosure requirements.

Exploration Valuation

The contingent exploration budget for 2016 contained US$9.9 million for a contingent well at WZ12-10-3. This is expected to be carried over into next year.

A valuation based on an EMV using a range around the incremental NPV10 $ per barrel calculated from RISC's contingent resource valuation of Horizon's Chinese fields of US$3.5/bbl less the net well cost of $5.45 million provides an upside EMV of US$24.2 million for the exploration potential. The adjustment shown for the reduction from EMV to fair market value is typical of the type of adjustment made by a purchaser in an arm's length deal.

Table 3-8 China Exploration Valuation Summary

Valuation	Low	Mid[1]	High
Risked Net Oil MMbbl	3.8	5.6	7.4
NPV10/bbl US$ million	3.0	3.5	4.0
EMV US$ million (- net well cost $5.45 million)	6.0	14.2	24.2
Adjustment for Market fair value %	70%	60%	50%
Fair Market Value US$ million	1.8	5.7	12.1

1. The resource estimates are for valuation purposes only and may require adjustment in order to meet ASX compliant prospective disclosure requirements.

4. Papua New Guinea

4.1. Overview of PDL10 and PRL21 Development Plans

Horizon's discovered resources are contained within the Stanley Gas Field located in permit PDL10, and the Elevala, Ketu and Tingu (EKT) gas fields in the nearby permit PRL21 (Figure 4-1). There is also gas which has been discovered in PPL259 by the Nama-1 well, located between Stanley and EKT, which is interpreted to be tight.

Figure 4-1 Horizon PNG Interest Location Map

In April 2014, the Stanley Project was approved by the PNG Government and the development licence (PDL 10) was awarded on 30 May 2014 on the basis of an initial liquids stripping project followed by gas export as a gas market developed. However with the collapse in oil prices the project is no longer considered economic in its current format and an alternate development strategy is being advanced with a focus on gas commercialisation. Accordingly the oil reserves previously attributed to this project will be transferred to contingent resources.

Options to monetise the assets includes supplying power to the local Ok Tedi mine initially from the partly developed Stanley field, followed by further development of the gas, via a PRL21 led development, to supply into either a third party LNG project or a stand-alone small scale LNG project that is under consideration.

Other options under consideration include the supply of gas to other local users for power generation, and the supply of gas to an industrial user (such as a fertilizer or methanol plant).

RISC notes that the supply of power or gas to mine sites or other local users will not develop the full resource base, and we view these projects as incremental to the main development options of supplying gas into an LNG or industrial gas plant.

RISC considers that the most likely option to monetize the entire resource base is through a stand-alone development, which could feed either a large scale industrial gas plant or a small scale LNG facility. Although it is recognized that supply to 3rd party LNG projects remains an option, the timing of gas supply in these scenarios is more uncertain.

We have therefore based our analysis on the development of an upstream gas business that will sell gas at the plant gate to an end user (notionally either LNG or industrial gas). The gas will then be transported through a third party owned pipeline to the end point user (notionally based on the coast near Daru). We anticipate that the earliest a development of this nature could be sanctioned is late 2017 or sometime in 2018, and we anticipate a 4 year execution timeframe resulting in an earliest potential start in production in 2022.

In our analysis the price obtained at the exit of the plant gate is estimated to reflect the need to pay for the capital and operating costs of the export pipeline and downstream processing.

4.1.1. Stanley Field Description

The Stanley Field is located in permit PDL10. Horizon has a 30% interest in the permit, which will reduce to 23.25% in the event that the PNG Government exercises its back-in rights of up to 22.5%. The permit is operated by Talisman Nuigini Pty Ltd (since April 2014), now a subsidiary of Repsol.

Five wells and one sidetrack have been drilled to date on the Stanley structure. Stanley-1 was drilled in 1999 and discovered gas in the Toro Sandstone, which was later tested by Horizon in 2008 at a rate of 9 MMscf/d gas. The well subsequently flowed gas on open flow at 30 MMscf/d.

In 2011, Stanley-2 was drilled as a near vertical well targeting the Toro reservoir on the crest of the structure, with the additional objective of testing for deeper reservoirs. The well proved the Toro Sandstone to be gas bearing on the central portion of the field with 22.1m of net gas sand, and also encountered a deeper gas bearing reservoir, named the Kimu Sandstone, with 41.2m of net gas sand. Both reservoirs encountered gas to the base of reservoir and demonstrated a common gas gradient consistent with the gas column at Stanley-1.

In order to obtain a full suite of core across the gas bearing reservoirs, the well was sidetracked as Stanley-2ST1 adjacent to the original wellbore. Stanley-2ST1 encountered a similar net gas sand thicknesses to Stanley-2 in the Toro and Kimu reservoirs as expected. The sands then completed and tested gas separately at up to 30 MMscf/d and up to 40 MMscf/d respectively.

Wells Stanley-3 and -5 were drilled in 2014. Stanley-5 was drilled in the central portion of the field, Stanley-3 to the northeast. Both wells encountered the reservoirs low to prognosis by approximately 20m, this uncertainty was not unexpected as Stanley-5 was drilled between seismic lines and Stanley-3 was drilled in an area of pick uncertainty. The wells also encountered thicker reservoir than expected, resulting in a similar gross rock volume. The structural interpretation, petrophysical evaluation and geological model for the Stanley Field has yet to be updated.

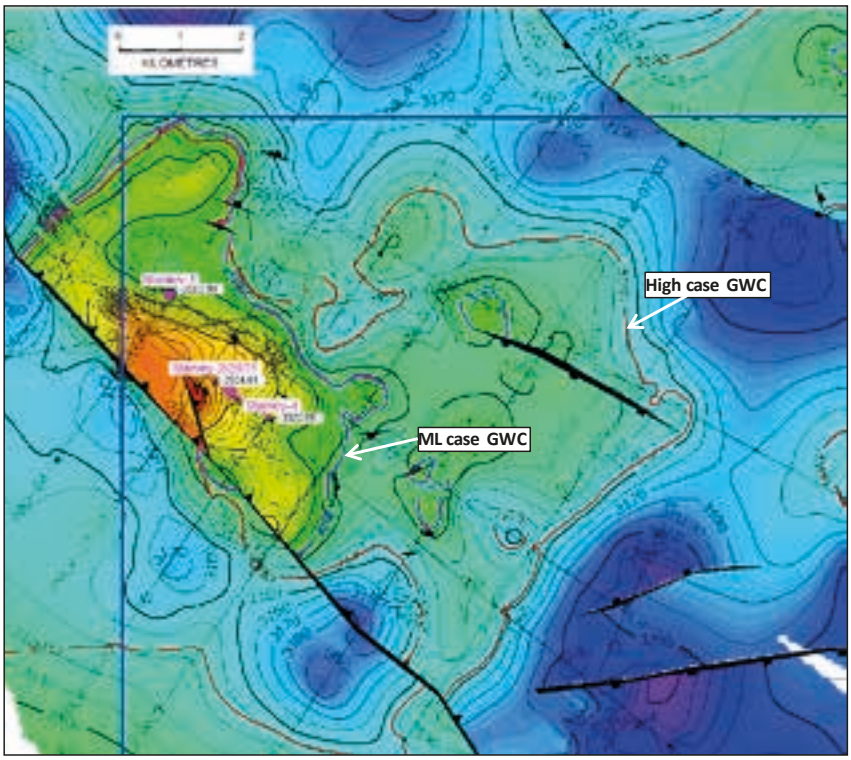


Figure 4-2 Top Toro reservoir depth map

Probabilistic gas and condensate in place have been calculated for both the Toro reservoir and the Kimu reservoir. RISC has previously audited these resources as at 30 June 2012. Since then, there have been minor changes to the recoverable volumes to accommodate the change in development plan from liquids stripping to gas export (Table 4-2). Volumes associated with potential gas sales and condensate recovery are assigned to Contingent Resources.

Table 4-1 Stanley Field Volumetrics

Gross	Low	Best	High
GIIP (Bcf)	474	591	728
Condensate in Place (MMbbl)	14.2	17.7	21.8

Table 4-2 Stanley Field Gross 2C Contingent Resources as at 1 May 2016 (100%)

Gross Contingent Resources	2C
Raw Gas (Bcf)	416
Sales Gas (PJ)	353
Condensate (MMbbl)	11.2

4.1.2. Production and Cost Forecasts

4.1.2.1. Project Overview

The proposed initial Stanley development will consist of two production wells (already drilled), conceptually Stanley 2 and 5.

The gas plant will be located near the existing wells, where site clearance is largely completed. The initial facilities scope will be a single train small gas processing plant development designed for up to 12 MMscf/d feeding gas into 40MW gas to electricity (GTE) power plant, with power export to the OK Tedi mine. We note that initial power requirements are anticipated to be of the order of 20MW.

With the ongoing negotiations with the OK Tedi mine anticipated to be completed soon, this initial project is anticipated to be sanctioned in 2017, and power supply to the OK Tedi mine to commence in 2019 for a period of 15 years.

Total costs for this project have been estimated by Horizon to be approximately US$130 million. RISC notes that this estimate is lower than the estimate produced by the operator, Talisman, of US$170 million.

RISC considers that the requirements for gas processing for a power supply project of this nature may have been significantly overstated, and that a much simpler design for power generation could potentially be adopted in the future, as a result we consider the Talisman costs to be overly conservative and we have therefore used the Horizon information in analysis.

Horizon advises that a diesel stripping unit is being considered which has been estimated to produce 3.4 million litres of diesel per annum to be sold locally. Condensate sales may also be possible in conjunction with the PRL21 Gas Project, however this has not been evaluated.

The second phase of development will be the installation of a gas plant to provide backfill gas to the EKT field for supply to the LNG or industrial gas plant. A single processing train of approximately 70 MMscf/d is envisaged to maintain plateau production at the export of the EKT gas plant. Stabilised condensate produced by the Stanley Gas Plant will be shipped 40 km (either by a 6" pipeline or by trucks) to a loading terminal located on the Fly River at Kiunga that will be built as part of the EKT development. The proposed condensate shipping facility will be located near the Kiunga airport at the site of an existing staging area used to support drilling operations. A short 1 ½ km condensate transfer pipeline will move the product from the shipping facility to a riverside load out facility on the Fly River, approximately 1 km downstream of the OK Tedi wharf at Kiunga.

Main components of the project are as follows:

- Inlet separation;
- Refrigeration;
- Condensate stabilisation;
- Condensate storage and transport infrastructure;
- Export Gas compression;
- Utilities and Power generation;
- Gas export pipeline to EKT.

We anticipate that this second phase of development will not be required until the late 2020's.

4.1.2.2. Production forecast

The gas and condensate production profiles are shown in Figure 4-3 and Figure 4-4. These include the EKT production from PRL21. Note that there is still 37PJ of PDL 10 tail 2C gas to be produced beyond 2045, when the economic model is curtailed. Diesel sales of 3.4 million litres per annum have been included in the cash flow evaluation (not shown in Figure 4-4).

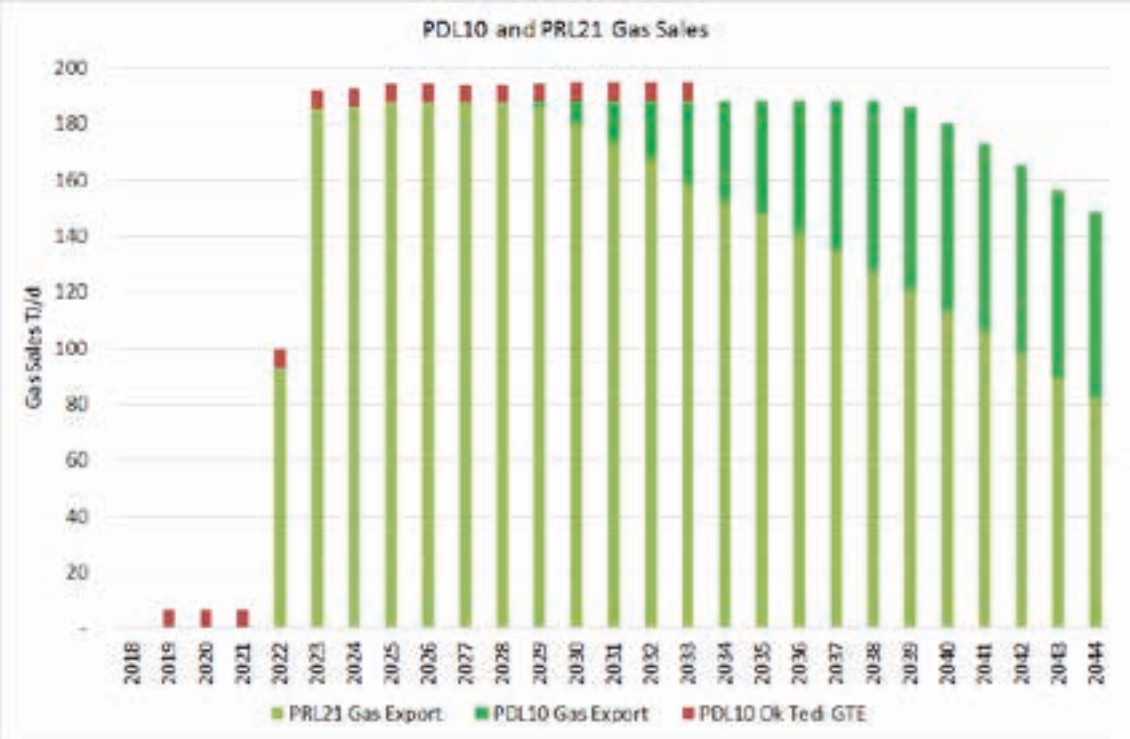


Figure 4-3 PDL10 and PRL21 Gross 2C Gas Sales Production Forecast

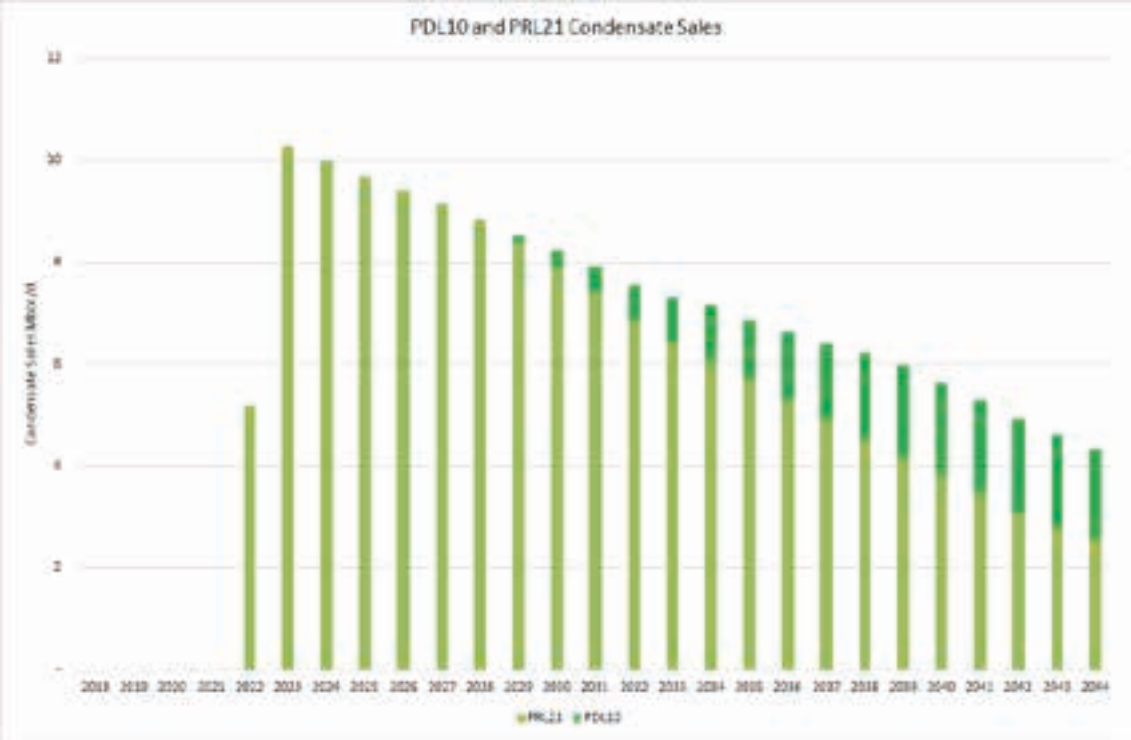


Figure 4-4 PDL10 and PRL21 Gross 2C Condensate Production Forecast

4.1.2.3. Cost and Schedule estimates

RISC has reviewed the Horizon cost and schedule basis for the Stanley field development and in the main finds them to be reasonable.

However RISC is aware that since Talisman assumed the role of operator there has been some differences of opinion regarding the development scope and timing of the project.

RISC considers that there will be further scope and cost adjustments made as the joint venture comes to an agreement on the final project development. We have based our estimate on the Horizon supplied estimate, but note that there is still significant uncertainty regarding both scope and timing. The Stanley capital cost estimate is shown in Table 4-3.

Table 4-3 Stanley Gross Capital and Operating Costs from 01.01.2017 - RISC estimate

Cost Item	Phase 1, US$ Million, RT 2016	Phase 2, US$ Million, RT 2016
Small scale gas plant and Power generation	113	
Stanley Gas Plant		160
Pipelines		135
Contingency	17	60
Total Capital Cost	130	355
Abandonment	Incl. in Phase 2	40
Operating Cost/year	9	16

Operating costs for the Stanley development are estimated at approximately $16 million per year including condensate transport costs and overheads.

4.2. PRL 21

4.2.1. Elevala and Ketu Field Description

Horizon has a 27% interest in PRL 21 which will reduce to 20.925% when the PNG Government exercises its back-in rights. Horizon is the operator of PRL 21, which is located to the east of PDL 10 and contains the Elevala, Ketu and Tingu gas condensate fields (Figure 4-1).

Options to monetise the gas include gas export into a stand-alone LNG project or other industrial gas user, or sale into third party LNG projects. As indicated previously we consider a stand-alone project the more likely outcome in the medium term, and have based our analysis on this option.

The Elevala Field was discovered by the Elevala-1 well drilled by BP in 1990. The well encountered gas throughout the Elevala Sandstone reservoir and gas shows in the deeper Toro reservoir. The Elevala reservoir was tested, flowing gas at a rate of 11.9 MMscf/d. An attempt was made to test the Toro reservoir which was unsuccessful, leaving the test string in the hole and precluding a further test attempt. Potential for gas in the Toro reservoir below the Elevala and Tingu structure exists and has been noted as prospective resources.

The Ketu Field is located 14 km northeast of Elevala. The Ketu-1ST well was drilled in 1991 by BP and encountered similar gas condensate in the Elevala Sandstone with no evidence of a GWC (the original hole was abandoned due to hole conditions and a side-track drilled).

The Elevala-2 appraisal well was drilled in late 2011, encountering approximately 19m net gas bearing reservoir in the Elevala Sandstone. The well was side-tracked down dip into Elevala-2ST1 in order to establish the GWC, and encountered approximately 17m of water wet Elevala Sandstone. Elevala-2 established an RDT gas down to of -3,029.4 mTVDSS and Elevala-2ST1 established an RDT water up to of -3,045.2 mTVDSS, which in combination enabled a determination of the gas water contact at -3,045 mTVDss. The Tingu-1 well drilled in August 2013 confirmed an extension of the Elevala field. The Tingu-1 well was tested at up to 46 MMscf/d and encountered a similar gas water contact. The Toro sandstone was encountered water bearing at the Tingu-1 location, however up dip gas potential remains.

The structure of the fields is defined by grid of 2D seismic data, with a line spacing of 1.5 to 2.5km between dip lines and 4km between strike lines, of different vintages and variable quality. The time and depth mapping has been reviewed by RISC and is supported. In 2014, 102 km of new seismic data was acquired over the Elevala (including Tingu) and Ketu fields. An early processed dataset has been received and incorporated into the structural mapping. This has been reviewed by RISC, however we note that the processing, interpretation, mapping and depth conversion are not final and are subject to change. The initial results indicate that the gross rock volume and therefore the GIIP may increase by up to 10%.

Elevala is shown to be an areally large, low relief structure, closing against faults to the south and possibly bisected by a northeast-southwest fault (Figure 4-5).

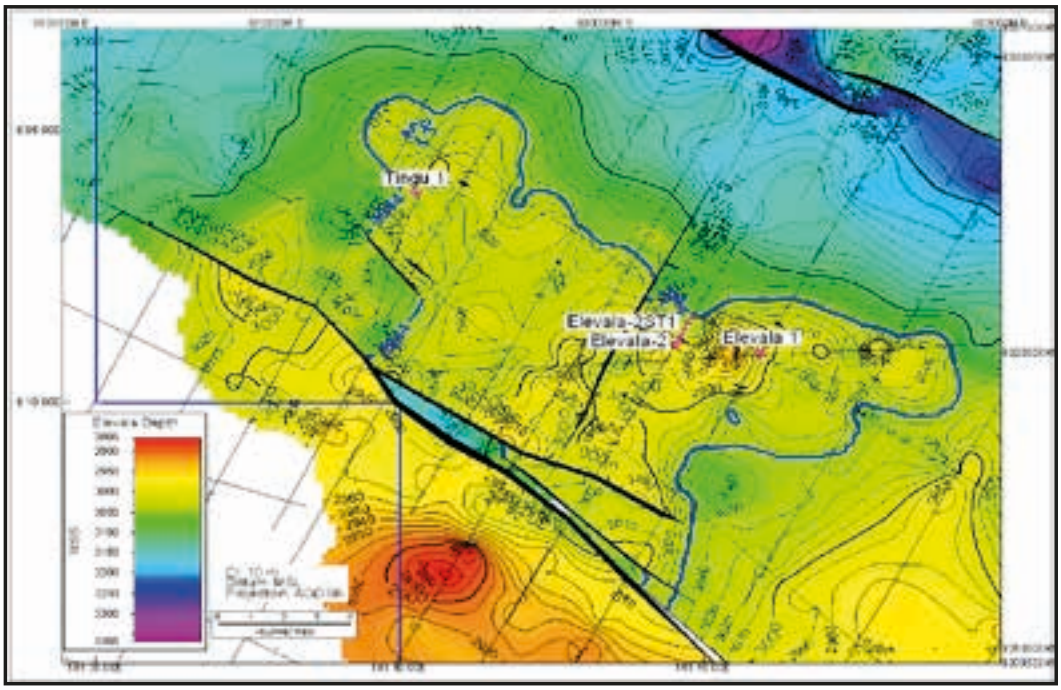


Figure 4-5 Elevala Field Elevala Reservoir Depth Structure Map

The Ketu Field has a range of potential gas water contacts of 3,220 to 3,250 mTVDss, determined from pressure gradients. The Ketu Elevala reservoir depth structure map is shown in Figure 4-6.

Static and dynamic modelling has been undertaken. RISC considers the reference case model reasonable. The reference case static models was used as the input for the dynamic modelling.

RISC has reviewed the 2014 reference case static and dynamic models and considers them fit for purpose given the project maturity level. We have also reviewed Horizon simulation results for the depletion only option carried out in August 2015 and consider the results to be reasonable.

RISC independently calculated a similar range of resources and therefore supports the resource ranges derived by Horizon shown in Table 4-4.

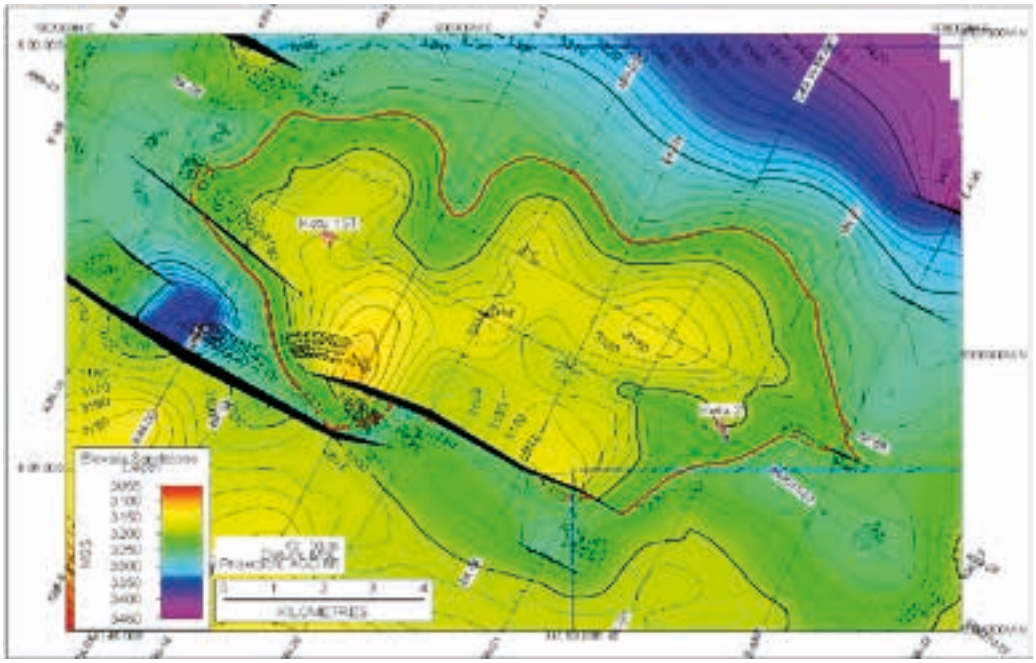


Figure 4-6 Ketu Field Elevala Reservoir Depth Structure Map

Table 4-4 Elevala and Ketu Gross In Place Estimates

Elevala	**Gross**		
	Low	**Best**	**High**
GIIP (Bcf)	768	1365	2097
Condensate in Place (MMstb)	41.1	74.5	117.5
Ketu	**Gross**		
	Low	**Best**	**High**
GIIP (Bcf)	380	522	705
Condensate in Place (MMstb)	22.1	31.2	43.5
Elevala and Ketu probabilistically summed	**Gross**		
	Low	**Best**	**High**
GIIP (Bcf)	1279	1909	2655
Condensate in Place (MMstb)	71.6	107.1	150.5

The 2C contingent resource estimates are shown in Table 4-5.

Table 4-5 Elevala and Ketu Gross Contingent Resource Estimates as at 1 May 2016 (100%)

Gross Contingent Resources	2C
Raw Gas (Bcf)	1378
Sales Gas (PJ)	1296
Condensate (MMbbl)	55.7

4.2.2. Production and Cost forecasts

4.2.2.1. Project Overview

The proposed development concept involves the development of Elevala and Ketu through 5 new production wells, 3 in Elevala and 2 in Ketu.

The gas plant is planned to be located approximately 5-10km from the Elevala wells, with the Ketu well tied in from approximately 15km away. The facilities scope includes 2 x 50% processing trains capable of processing a total of 210 MMscf/d nameplate capacity gas. The initial condensate rate is expected to be 10,300 bbl/d. Stabilised condensate produced by the Elevala Gas Plant would be shipped via a 92 km 8" pipeline to a new loading terminal located on the Fly River at Kiunga, as indicated for the Stanley condensate export. Main components of the project are estimated as follows:

- Inlet separator module(s);
- 2 x 50% Refrigeration modules;
- 3 x 50% Export gas compressors;
- 1 x 100% Condensate stabilization module;
- 1 x 50,000 bbl Condensate tank at the gas plant;
- 2 x 100% Condensate transfer pumps;
- Power generation, control and support utilities.
- 1 x 50,000 bbl Condensate tank, loading pumps and utilities at Kiunga

Processed gas from the Elevala Gas Plant will be used for fuel gas.

RISC estimates that the proposed development will support an LNG export plant producing approximately 1.2 Mtpa nominal and 1.05 Mtpa of LNG on average. Note that the introduction of Stanley gas will increase the Nitrogen content of the sales gas and this is likely to lead to a slight reduction in LNG plant processing capacity (no allowance has been included for this). We also note that the scale of the development might be reduced in the event that the end user is an industrial gas user, given that most large scale industrial users (e.g. fertiliser or methanol plants) are designed at capacities that require approximately 100 MMscf/d of feed gas.

4.2.2.2. Production Forecasts

The gas and condensate production forecasts are shown in Figure 4-3 and Figure 4-4. Note that there is 34 PJ of PRL 21 2C tail gas to be produced at the end of 2045 when the economic model is curtailed.

4.2.2.3. *Cost and Schedule Estimates*

RISC has reviewed the high level Horizon costs and schedule basis for the Elevala and Ketu field development. Whilst we have not been able to review the detail behind the estimates we consider that the project cost estimates in general are reasonable. We also consider that whilst the project schedule to achieve a start-up date of 2022 as proposed by Horizon is technically achievable, it may be optimistic.

The technical execution project timeframe a project of this nature appears reasonable. However, we consider that the commercial arrangements required for the sanctioning of this project, together with the need to bring in downstream participants, and obtain JV, and government and regulatory approvals, are likely to lead to delays in project approval, FID timeframe and first production.

RISC's EKT capital cost estimates are shown in Table 4-6.

Table 4-6 EKT Gross Capital and Operating Costs from 01.01.2017

Cost Item	US$ Million RT 2016
Wells	220
Flowlines and field	135
Gas Plant	225
Condensate Pipeline to Kiunga	60
Unloading facility and Supply base	30
Roads and other infrastructure	60
HSE, Regulatory, PM & Owners Costs	70
Contingency (20%)	175
Total Cost	960
Operating Cost/year	56

In addition to the above we would anticipate approximately $40 million in pre-FID costs.

4.2.3. Tariffs and impact on Plant Gate Prices

Horizon has indicated that they anticipate selling the gas at the export of the upstream processing plant gate. This scenario requires 3rd parties to build both the export pipeline and downstream processing infrastructure. Whilst we have not reviewed the cost basis for the pipeline and downstream infrastructure, we have reviewed the Horizon supplied estimates for the anticipated tariff, or tariff equivalent for the use of these facilities, and consider them to be reasonable. Based on the tariffs we would consider that a range in plant gate prices from $2/GJ to $5/GJ can be envisaged.

4.3. Exploration

Horizon holds interests in a number of permits in PNG with exploration potential (Figure 4-7).

Figure 4-7 Horizon PNG Exploration Acreage

4.3.1. PRL 21

Potential exists in the Toro reservoir below the eastern and western crests of the Elevala Field, termed the Elevala Toro and the Tingu Toro prospects.

The Toro reservoir underlies the Elevala sandstone in the Elevala and Tingu structures. The Elevala-1 well petrophysical analysis indicates gas saturations in the Toro reservoir, and the pressure readings taken across the reservoir indicate that this section could contain gas, which if the Ketu Field Toro reservoir aquifer pressures were taken into the Elevala Field might have a potential contact at 3,100 mTVDss.

The Toro reservoir has not been tested in either of the Elevala wells, however it was about to be tested in the Elevala-1 well, but the test encountered problems and the test tool was left in the well.

In order for RISC to calculate prospective resources for the Toro reservoir, areas were derived from the Toro depth map, supplied by Horizon. The Tingu area was measured with a high case immediately up dip from the Tingu-1 well penetration, resulting in a P50 area of 12km^2. The Elevala Toro had 6.5km^2 up dip from the wells, which was used as the P90 input and the area of closure to a possible gas-down-to of -3100m (58km^2) was used as the P10 input.

RISC considers that the Toro reservoir prospects underlying the two culminations in the Elevala Field have a POS of 50%. None of the resource estimates tabulated below have changed since the previous report, although for consistency in this report we are tabulating the Mean Prospective Resources.

There is also the possibility that the Elevala Sandstone reservoir in PRL21 does not structurally close at the measured free water level (FWL) creating the possibility for an extension of the Elevala gas field into PPL259. The volumes of gas in PRL21 in the leads Elevala Extension and 259-14 are tabulated below.

Table 4-7 PRL21 Mean Prospective Resources as at 1 May 2016

Prospect Case	On Block, Mean Gross Recoverable Gas Bcf[1]	On Block, Mean Gross Recoverable Cond MMbb[1]l	Mean Net Recoverable Gas Bcf	Mean Net Recoverable Cond MMbbl	GPOS	Net RISKED Mean Gas Bcf	Net RISKED Mean Cond MMbbl
Elevala Extension	138	6.9	37.2	1.9	13%	4.8	0.2
259-14	199	10.0	53.7	2.7	14%	7.5	0.4
Elevala Toro Res	57	3.0	15.4	0.8	50%	7.7	0.4
Tingu Toro	25	1.3	6.8	0.4	50%	3.4	0.2
Total	419	21	113	5.7		23	1.2

1. The resource estimates are for valuation purposes only and may require adjustment in order to meet ASX compliant prospective resource disclosure requirements.

Exploration Valuation

There are no further commitments on PRL 21.

The 2016 work program and budget mainly comprises development planning, plus technical costs, and direct costs and community affairs.

The case values have been based on a risk adjusted value of the prospective gas and liquids as tabulated below (Table 4-8).

Table 4-8 PRL 21 Net P50 Prospective Resources and Value as at 1 May 2016

Gas Value		Low	Mid	High
PRL 21	P50 Net On Block Gas Recoverable Bcf	Net Risked Value $M	Net Risked Value $M	Net Risked Value $M
Elevala Extension	25.0	0.3	0.4	0.8
259-14	38.4	0.4	0.7	1.4
Elevala Toro	10.5	0.4	0.7	1.4
Tingu Toro	6.2	0.2	0.4	0.8
Condensate Value		**Low**	**Mid**	**High**
PRL 21	P50 Net On Block Cond Recoverable MMbbl	Net Risked Value $M	Net Risked Value $M	Net Risked Value $M
Elevala Extension	1.3	0.0	0.1	0.3
259-14	2.0	0.1	0.2	0.4
Elevala Toro	0.5	0.1	0.2	0.4
Tingu Toro	0.3	0.0	0.1	0.3
Total Value		1.5	2.9	5.8

The low case value assumes the NPV10 per Mcf is $0.6 and a low chance of commercial success (CPOS) of 10%. The mid and high case have been valued with an NPV10 per Mcf of $1.0 and a low 10% CPOS and high 20% CPOS respectively.

4.3.2. PPL259

Horizon holds a 35% interest in PPL 259 operated by Transform (Eaglewood Energy). PPL 259 lies between the Stanley and Elevala Fields and extends to the southeast of Elevala as shown in Figure 4-8. The permit is due to expire on 20th September 2016 and the joint venture intends to renew it.

The Nama-1 well was drilled in 2015 and found that the reservoir section was pervasively cemented and tight. Log interpretation is ambiguous on the saturation of gas but there may be a gas column down dip of the well. RISC believes it is unlikely that this will be pursued with further drilling.

Reservoir risk on the Malisa Prospect has been increased and further seismic data over the prospect reduced its size. The favoured prospect is now the Elevala Extension which requires more seismic.

Figure 4-8 PPL 259 Block Location and Prospects

The Elevala Extension is based on the inability to close off at the free water level (FWL) of the gas discoveries at Elevala/Tingu from a large but complex, low side fault structure, given the current time, velocity and depth mapping. On the high side of the fault another prospect, "259-14", adds upside to the feature.

There are a number of other poorly defined leads in the permit, the largest being Diwai in the east of the permit at 105 Bcf MSV with a low 8% GPOS due to the fact that it has only been identified on one seismic line so far.

The GPOS of these prospects are all low and reflective of the poor control the existing seismic data affords. The operator has indicated a 50-100km 2D survey infilling lines over the crest of Elevala Extension which will help reduce the risk of drilling this complex structure in the future.

RISC has not run independent Prospective Resources analysis on these prospects and leads and has relied on the operators values to give a qualitative view of the prospectivity (Table 4-9). RISC has used Mean Prospective Resources to be consistent with the operator's presentations and maps.

Table 4-9 PPL259 Mean Prospective Resources as at 1 May 2016

Prospect Case	On Block, Mean Gross Recoverable Gas Bcf[1]	On Block, Mean Gross Recoverable Condensate MMbbl[1]	Mean Net Recoverable Gas Bcf	Mean Net Recoverable Condensate MMbbl	GPOS	Net RISKED Mean Gas Bcf	Net RISKED Mean Condensate MMbbl
Elevala Extension	358	17.9	125.3	6.3	13%	16.3	0.8
259-14	68	3.4	23.8	1.2	14%	3.3	0.2
Diwai	105	5.2	36.8	1.8	8%	2.9	0.1
Malisa	170	6.5	59.5	2.3	24%	14.3	0.5
Total	701	33	245	11.6		36.8	1.7

1. The resource estimates are for valuation purposes only and may require adjustment in order to meet ASX compliant prospective resource disclosure requirements.

Exploration Valuation

PPL 259 when renewed will have at least a 50km 2D seismic commitment, plus seismic reprocessing and G&G studies in the first two years from September 2016. The Joint Venture has indicated that this may be doubled to 100km.

RISC estimates that the technical part of the 2016-17 year one budget comprises firm expenditure of US$3.9 million if a 50km survey is acquired and $9.0 million if 100km is acquired.

It is also expected that a well will be in the contingent budget for the following term. The cost of wells in this permit are between US$30 and US$40 million. RISC does not see a case for Horizon getting a promoted farm-out on the contingent well accomplished in the current depressed market or prior to acquisition of further seismic data.

The farm out value of the permit corresponding to a 1.25 for 1 farm-in for the committed seismic program is the 25% promote on the value of the work program (US$4.6million). Horizon's share (35%) of the value is US$1.6 million which RISC considers to be the low fair value case. The mid case would be represented by a the same promote on the farm-in of 1.25 for 1, but on the 100km seismic survey and G&G, making Horizon's net value to US$0.8 million (Table 4-10). The high case uses a promote of 1.75 for 1 on the 100km seismic program and values PPL259 at $2.4 million.

In December 2013 Horizon increased its interest in PPL 259 by 20% from Eaglewood Energy Inc. by paying a contribution to back costs of $3.75 million and contribution of $5 million to Eaglewood for the Nama-1 well, a total of $8.75 million for 20%. This valued their 35% interest at completion of the transaction at $15.3 million, which RISC has previously adopted as the mid fair market value but now that the well was not a success and that the oil price is considerably lower, we believe this value would not represent even the high case.

Horizon carries a book value of US$ 0.9 million on PPL259.

Table 4-10 PPL259 Comparisons of Fair Market Value for PPL259 from 2013 to 2016

PPL259	Fair Market Value US$ million net working interest			Comments
	Low	Best	High	
Dec 2013	15.3	15.3	45.0	Low/Mid case based on Horizons current farm-in terms to acquire an additional 20%. High case based on farm-in plus EMV of one prospect
June 2016	0.4	0.8	2.4	Low is 1.25 for 1 on commitment 50km and Best is 1.25 for 1 Farm-in on 100km seismic, High is 1.75 for 1 on farm-in for 100km seismic

4.3.3. PPL 372

Horizon also holds a 90% interest in PPL 372, located to the east of, and adjacent to PPL 259 (Figure 4-7). This permit is in an early stage of exploration. Gravity and magnetic data modelling was used to locate a 2006 seismic survey which did not prove up any large leads. The three documented leads are not well defined because of the lack of seismic data and consequently have a low GPOS.

Two deterministic cases were provide for each lead using a 20m net sand case and 40m net sand. RISC has averaged the results of these deterministic cases and applied a 65% recovery factor and an estimate of the GPOS to provide the prospective resources tabulated below (Table 4-11).

Table 4-11 PPL372 Average Prospective Resources as at 1 May 2016

Prospect Case	On Block, Average Gross Recoverable Gas Bcf[1]	Average Net Recoverable Gas Bcf	GPOS (RISC)	Net RISKED Average Gas Bcf
Lead A	49	44.2	10%	4.4
Lead B	45	40.1	8%	3.2
Lead C	12	10.8	7%	0.8
Total	**105.7**	**95.1**		**8.4**

1. The resource estimates are for valuation purposes only and may require adjustment in order to meet ASX compliant prospective resource disclosure requirements.

Exploration Valuation

The 2016/17 commitment for PPL 372 has recently been renegotiated and is for 20km of 2D seismic acquisition and G&G studies for US$400,000 with a contingent well. The gross technical expenditure is likely to be around US$1.6MM over two years.

On the low side valuation RISC would not assign any value to these early stage permits. A mid and high fair value case would be based on a farm-out of the committed technical expenditure on seismic acquisition. A

farm out ratio of 1.25 for 1 and 1.75 for 1 are considered reasonable for the low prospectivity of PPL372. This provides a net (90%) mid fair value of US$0.4 million and a high fair value of US$1.1 million.

Horizon carries a book value of $0.7 million for PPL372.

4.3.4. PPL 373

Horizon holds a 90% interest in PPL373, located around 180km to the southeast of PPL 259 (Figure 4-7). It is adjacent to the Kimu gas discovery in PRL8 (Figure 4-9). Horizon acquired its interest in 2013. The permit is also in the early phase of exploration but does now have a reasonable coverage of 2D seismic data.

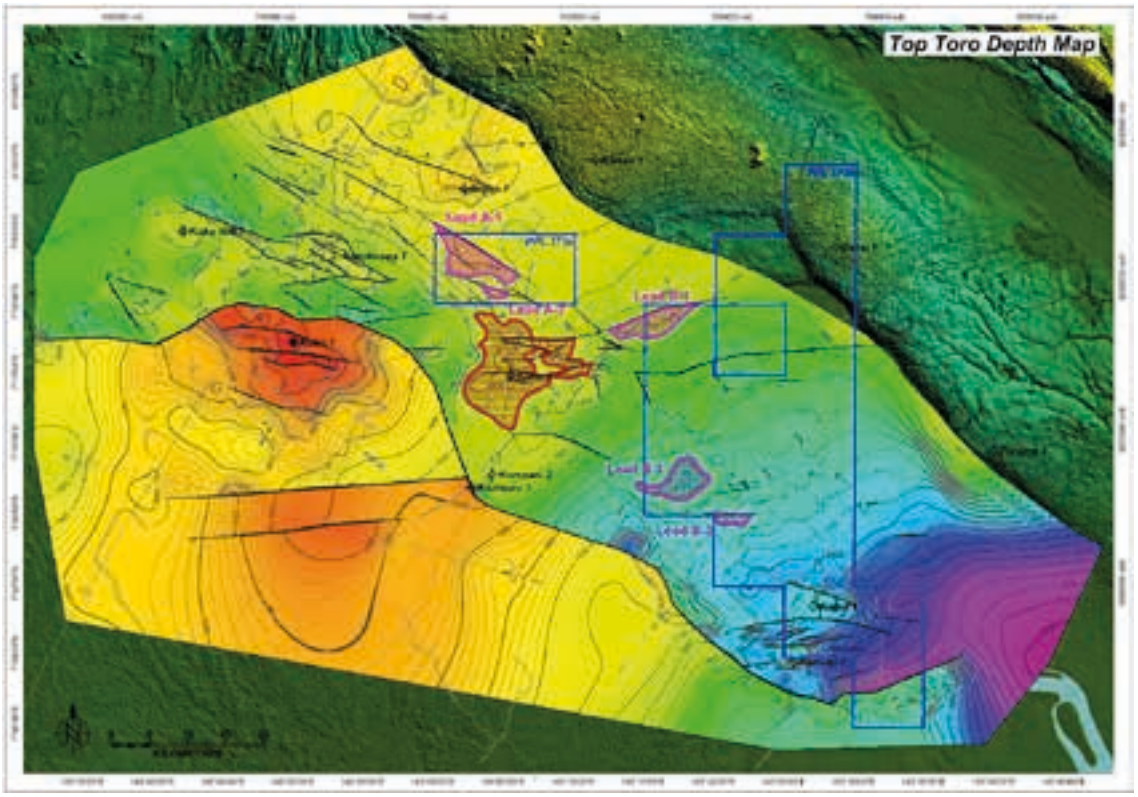


Figure 4-9 PPL 373 Toro Sst Depth Structure Map

Five leads have been identified on the existing data of which Lead A-1 is the largest and B-1 the second largest. Horizon has examined the cross fault seal and risked the possibility of gas accumulating in each of four reservoir horizons at each location according to the likelihood of seal failure and other more ubiquitous factors. This has focused the prospectivity to the Alene and Iagifu Sandstones.

RISC has reviewed Horizon's prospective resource estimates in the sands most likely to be sealed (Alene and Iagifu) and tabulated the Mean Prospective Resources for the three largest leads. RISC has again used an estimate of recovery factor of 65% and estimated GPOS in Lead B3 (Table 4-12).

Table 4-12 PPL373 Mean Prospective Resources as at 1 May 2016

Prospect Case	Reservoir	On Block, Mean Gross Rec Gas Bcf[1]	On Block, Mean Gross Rec Cond MMbbl[1]	Mean Net Rec Gas Bcf	Mean Net Rec Cond MMbbl	GPOS	Net RISKED Mean Gas Bcf	Net RISKED Mean Cond MMbbl
Lead A1 In Block	Alene	279	1.4	251	1.3	19%	47.7	0.2
	Iagifu	142	0.7	128	0.6	16%	20.4	0.1
Lead B1 In Block	Alene	40	0.2	36	0.2	10%	3.6	0.0
	Iagifu	191	1.0	172	0.9	8%	13.7	0.1
Lead B3 In Block	Alene	58	0.3	52	0.3	10%	5.2	0.0
	Iagifu	104	0.5	94	0.5	10%	9.4	0.0
Total		814	4.1	732	3.7		100.1	0.5

1. The resource estimates are for valuation purposes only and may require adjustment in order to meet ASX compliant prospective resource disclosure requirements.

Exploration Valuation

PPL373 also has recently varied its commitment program for year's 5 and 6 to a firm 20Km 2D seismic program worth US$400,000 with a contingent well of not less than US$15 million. RISC estimates that the committed gross technical work program will cost US$1.6 million over the next two years.

On the low side valuation RISC would not assign any value to this permit. A mid and high fair value case would be based on a farm-out of the committed technical expenditure on seismic acquisition. A farm out ratio of 1.5 for 1 and 1.75 for 1 are considered reasonable for the prospectivity of PPL373 which is slightly better than PPL372. This provides a net (90%) mid fair value of US$0.7 million and a high fair value of US$1.1 million.

Horizon has a book value of US$0.44 Million for PPL 373.

4.3.5. PPL 430

Horizon holds a 50% interest in PPL 430, located adjacent and to the south of PPL 259. This permit is also in an early stage of exploration, and as yet contains only leads which are very poorly delineated by the sparse 2D seismic data. Being south and updip of the Elevala gas accumulation, the most likely hydrocarbon is gas.

Three leads have been reviewed by RISC and Horizon's Mean OGIP has been relied upon. A 65% recovery factor was applied by RISC and an estimate of GPOS based on the other leads in this portfolio. These leads are tabulated below (Table 4-13) and require extra seismic to confirm their presence and quality.

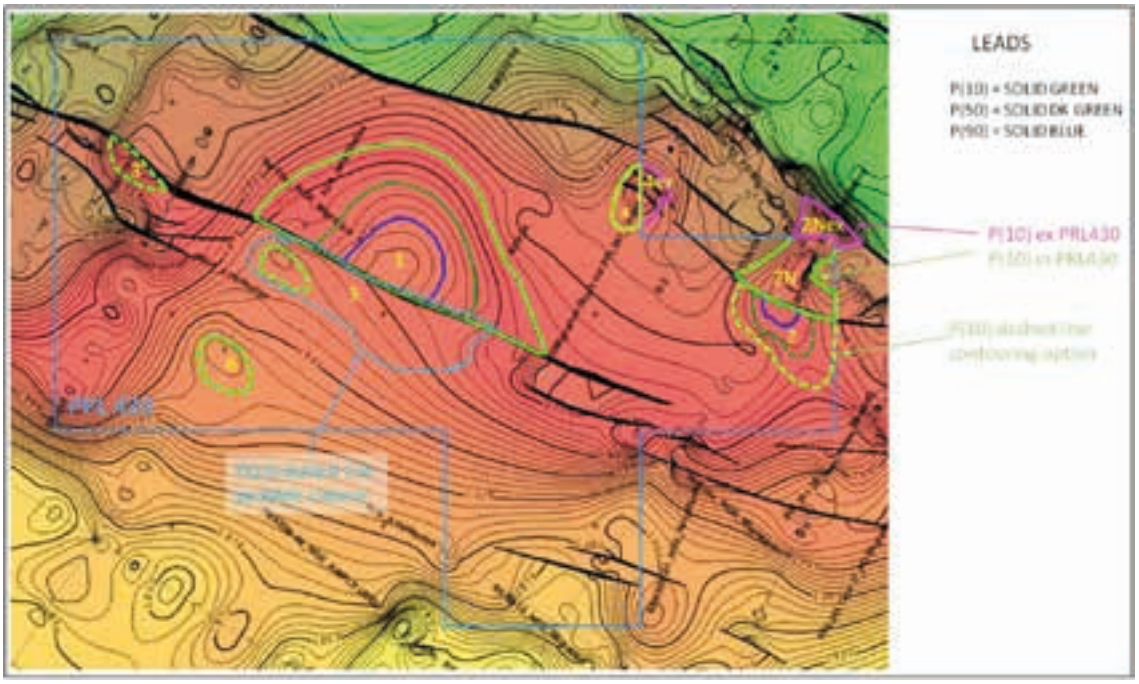


Figure 4-10 PPL 373 Toro Sst Depth Structure Map

Table 4-13 PPL430 Mean Prospective Resources as at 1 May 2016

Prospect Case	On Block, Mean Gross Rec Gas Bcf[1]	On Block, Mean Gross Rec Cond MMbbl[1]	Mean Net Rec Gas Bcf	Mean Net Rec Cond MMbbl	GPOS	Net RISKED Mean Gas Bcf	Net RISKED Mean Cond MMbbl
Lead1	169	8.5	84	4.2	15%	12.6	0.6
Lead 2 on Block	26	1.3	13	0.7	15%	2.0	0.1
Lead 5	78	3.9	39	2.0	15%	5.8	0.3
Total	272	13.7	136	6.8		20.4	1.0

1. The resource estimates are for valuation purposes only and may require adjustment in order to meet ASX compliant prospective resource disclosure requirements.

Exploration Valuation

PPL430 has also had a variation to its commitments approved such that the current commitment is for the acquisition of 20km of 2D seismic and accompanying G & G. The commitment is for not less than US$0.65 million to 24 July 2017 in years 3 and 4. A contingent well is required in years 5 and 6. RISC estimates that a technical expenditure of $1.6 million will be spent over the coming year on seismic acquisition.

On the low side valuation RISC would not assign any value to PPL430. A mid and high fair value case would be based on a farm-out of the committed technical expenditure on seismic acquisition. A farm out ratio of 1.25 for 1 and 1.75 for 1 are considered reasonable for the low prospectivity of PPL430. This provides a net (50%) mid fair value of US$0.2 million and a high fair value of US$0.6 million.

Horizon carries a book value of US$0.3 million.

4.3.6. PNG Exploration Value Summary

A summary of the PNG exploration fair market value is shown in Table 4-14.

Table 4-14 PNG Exploration Fair Market Value - Net Horizon Working Interest

Permit	Low US$ million	Mid US$ million	High US$ million
PRL 21	1.5	2.9	5.8
PPL 259	0.4	0.8	2.4
PPL 372	0	0.4	1.1
PPL 373	0	0.7	1.1
PPL 430	0	0.2	0.6
Total	**1.9**	**5.0**	**10.9**

As the low and high values of the exploration assets portfolio are derived by the arithmetic addition of the individual asset low and high values, respectively, they represent the possible extremes of the exploration value envelop. While farmees into the individual permits could value the assets at either end of the value range assessed, it is unlikely that potential buyers of the exploration asset portfolio would value all of the assets at either all of the low or all of the high estimated extremes. Their own assessments of individual permits will span the low, mid or high outcomes based on factors including: their strategic objectives and region or geological basin focus; assessment of an assets prospectivity and associated geological risks; the fiscal and regulatory framework applicable to the asset; accessibility of commercialisation routes, including markets and infrastructure, for each asset; equity interests, operator capability and joint venture partners in each asset. RISC has determined the low and high values of the portfolio of exploration assets at an estimated one standard deviation from the total mid value of the portfolio (Table 4-15).

Table 4-15 PNG Exploration Portfolio Fair Market Value - Net Horizon Working Interest

Permit	Low US$ million	Mid US$ million	High US$ million
Portfolio Value	3.0	4.3	5.6

5. New Zealand

5.1. Field Description

The Maari and Manaia fields are located in PMP 38160 offshore New Zealand (shown in Figure 5-1), in which Horizon Oil holds a 10% interest. The fields are operated by OMV New Zealand Limited (OMV).

Production commenced in February 2009 peaking at 40,000 stb/d (Figure 5-2). Field production was 12,000 stb/d at the end of April 2016 from 9 production wells. As at 1 May 2016, the project has produced 31.1 MMstb of oil, 5.7 MMbbl of water and 31.7 bcf of gas. Water injection has totalled 40.0 MMbbl, a substantial proportion of which is believed to have been out of zone.

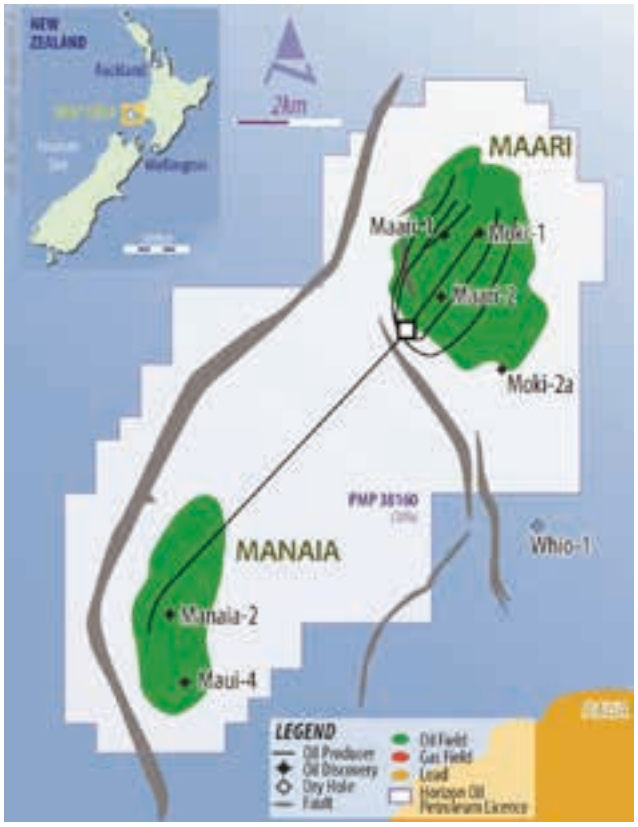


Figure 5-1 Maari and Manaia Field Location

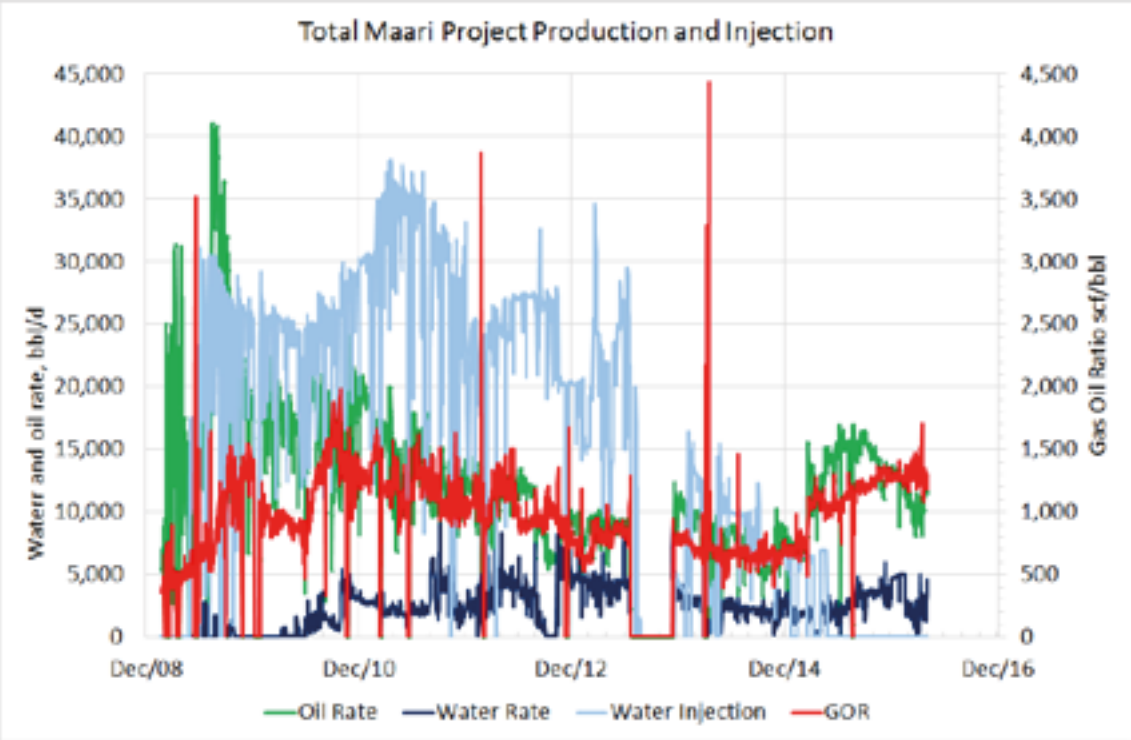


Figure 5-2 Maari Project Production and Injection

The Maari Development involves a not-normally manned wellhead platform housing the wellheads of both production and water injection wells producing from the Maari and Manaia fields, linked via subsea flowlines to the floating production, storage and offloading vessel (FPSO) Raroa, moored 1.5 km away in a water depth of approximately 100m. Production wells are lifted with ESP's. Because the ESP's need regular replacement, a workover rig is kept on the platform. Water is injected with the aim of maintaining reservoir pressure. Water injection has been shut down since May 2015 due to a ruptured water injection line. Repairs are planned towards the end of 2016. The annual shutdown occurred from 5 May to 20 May 2016.

Following a refurbishment of the FPSO mooring and turret system in 2013, in April 2014, the Maari Growth project commenced. The original scope of the project involved:

- drilling of 2 new producers and 1 new injector in the Maari Moki reservoir and the conversion of 1 producer to a water injector
- drilling of 1 new producer in the Maari Mangahewa reservoir
- drilling of 1 new extended reach development (ERD) well in the Manaia Mangahewa reservoir

The Maari Growth project anticipated increasing production to 20,000 stb/d gross by end 2014. It also aimed to remedy problems with the water injection scheme, which has not generated the expected benefits and resulted in a reserves downgrade in 2013.

However the project experienced operational difficulties resulting in delays and cost overruns. As a result, the Maari Growth Project plans were revised as follows:

- MR6A was drilled and started production in March 2015 from the Maari Mangahewa reservoir at an initial rate of 7830 stb/d oil.
- MR8A was drilled, completed and came on line in November 2014. The well encountered a channel in the Lower Moki, then drilled low into the Moki 3 shale before exiting the top of the shale into the overlying reservoir. This resulted in a reduced Lower Moki reservoir section and lower production in the target zone. There is additional behind pipe pay in the well which was perforated in April 2016 with production rates of 2000 bbl/d being achieved in early June 2016.
- The MR10 Upper Moki Eastern Flank well was drilled initially as a producer to be converted into a water injector after at least 2 years of production. The well came on stream in July 2015 at 2000 bbl/d.
- Sidetrack of the MR7A well into the Upper Moki as a producer was carried out and the well came into production in May 2015 at an initial rate of 2300 bbl/d.
- MN3, the Manaia Mangahewa ERD well was dropped from the project. This well remains a future infill opportunity, but recoverable oil is currently classified as contingent resources pending JV commitment.
- Peak production of just under 17,000 bbl/d was achieved in Q2 2015.

At the time of writing this report, there are a total of 10 production wells, with MR9 shut-in awaiting a well intervention to investigate high ESP temperatures. The status of the Maari production wells and cumulative production is shown in Table 5-1.

Table 5-1 Maari Well Status 1 May 2016

Well	Reservoir	Cumulative Production to 30 April 2016 MMstb	Status
MR1A	Moki	1.86	Converted to water injector, shut in awaiting re-start of water injection
MR2	Moki	5.78	Producing
MR3	Moki	5.15	Producing
MR4	Moki	6.28	Producing
MR5	Moki	4.31	Producing
MR6	Moki	0	Abandoned water injector, slot recovered for MR6A producer
MR6A	Maari Mangahewa	2.18	Producing
MR7	Moki	0	Abandoned water injector, slot reclaimed for MR7A production well.
MR7A	Moki	0.51	Producing
MR8A	Moki	0.28	Producing
MR9	M2A	1.36	Shut in awaiting well intervention est. June 2016
MR10	Moki	0.34	Producing
MN-1	Manaia Mangahewa	2.99	Producing
Total		31.05	

5.2. Oil Initially In Place

The Maari Field currently produces from the Moki and M2A sands, both of which were deposited as turbidites in the Miocene downwarping of the Taranaki Basin. Further oil is reservoired in the deeper Mangahewa Formation of the Kapuni Group, which was deposited in the post-rift thermal sag phase in the Eocene, which has been producing from the Manaia field.

The Moki and M2A sands are deepwater turbidites deposited during the Miocene downwarping of the Taranaki Basin. The Moki contains seven fining-upwards depositional cycles of which the lower cycles are easily correlatable. However, the upper cycles display more lateral variation in deposition, possibly due to channel migration over subtle sea floor depth variations. The Maari Moki oil column is contained within the upper two cycles (separated by a thin shale). The operator has recently further divided these intervals resulting in five correlatable cycles.

The M2A sands appear to be a distal basin floor fan and are thinner and possibly less areally continuous than the Moki sands.

The deeper Mangahewa sands of the Kapuni Group were deposited in the post-rift thermal sag phase in the Eocene. The Mangahewa sands are fluvial in origin, leading to significant areal variations in reservoir quality.

A deviated well from the Maari platform has been drilled to the Mangahewa Formation of the Manaia field and is currently producing. There is further potential for oil in the Manaia Moki Formation; oil shows were observed during the drilling of the Maui-4 discovery well and further significant shows were intersected in the recent Manaia-2 appraisal well. The evaluation of these results is not yet complete and no resource has been assigned to this reservoir.

A structural section showing the location of significant reservoirs is shown in Figure 5-3.

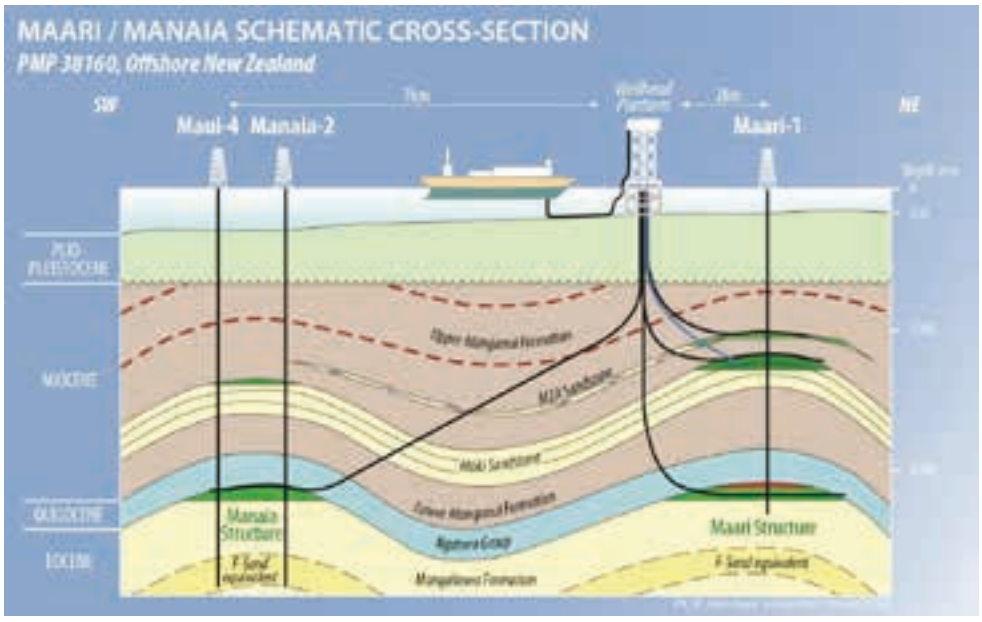


Figure 5-3 Maari Manaia Structural Section (from Horizon)

The Maari Field is covered by 3D seismic data acquired by OMV in 2013. The data are of superior quality to the previous 3D, the reservoir markers are clearer and the maps should be more accurate. New maps have been created and OMV has run a comparison of the depth maps between the 2009 and 2013 generations of mapping in order to locate anomalies. The first maps from this new dataset are being incorporated into new reserves calculations.The Moki reservoir provides the bulk of the production. The Operator's structure map at the Top Moki reservoir (Figure 5-4) is considered well-defined due mainly to the amount of well penetrations. The wells drilled to date have not encountered large depth uncertainty issues. There is some faulting in the reservoir which has been identified in the horizontal wellbores and correlated on the seismic data. The difference in volume above the OWC between the 2009 and 2013 mapping is less than 0.5%.

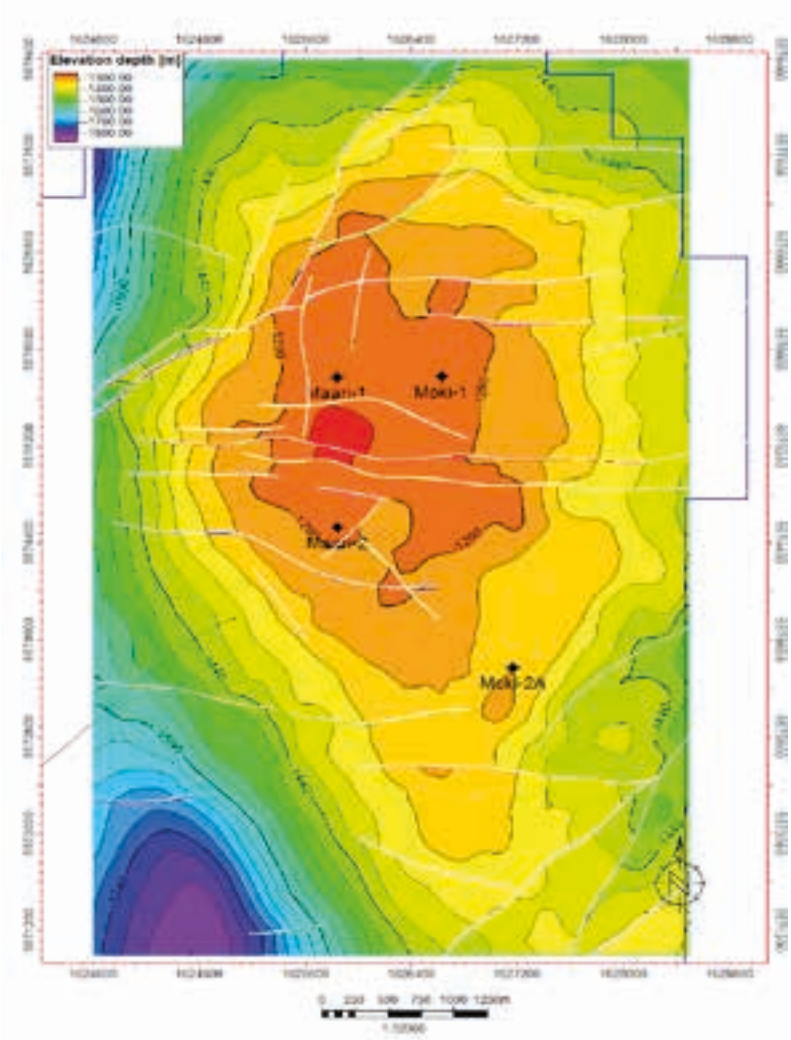


Figure 5-4 Maari Moki Depth Map

RISC has estimated STOIIP ranges for the Maari and Manaia accumulations reservoir shown in Table 5-2.

Table 5-2 Maari and Manaia Field STOIIP Estimates

Reservoir	Low	Best	High
Maari Moki STOIIP (MMbbl)	115	163	223
Maari M2A	33	45	59
Maari Mangahewa	9	14	20
Manaia Moki	27	39	56
Manaia Mangahewa	19	25	35

The STOIIP for the main Moki reservoirs remains the same as the previous evaluation carried out by RISC in 2013, however new mapping and well penetrations in the shallower M2A reservoir have increased the STOIIP for the M2A. The recent Manaia-2 well proved oil in the Manaia Moki structure, for which a range in STOIIP has been calculated. The same well gave another data point in the Manaia Mangahewa oil pool, which slightly reduced the STOIIP range from our previous evaluation.

5.3. Reserves and Production Forecasts

RISC has evaluated the production performance of the existing producers using decline curve analysis and analogues from offset producers. Our analysis shows that the performance is generally hyperbolic tending towards harmonic. Due to the intermittent nature of production from individual wells and the operational influences associated with ESP performance, the data contains a lot of noise which increases the uncertainty in well analysis.

The decline curve behaviour is consistent with the reservoir architecture, limited connectivity and some pressure support which we believe is coming from the underlying aquifer. There is evidence from flushed zones seen in MR10 and MR8A that the Lower Moki in particular is likely to be subject to weak aquifer support which is also consistent with reservoir simulation history matches carried out by Horizon. There is evidence from history matching that the reservoir has responded in places to water injection although the overall response to date has been significantly lower than anticipated. A total of 40.0 MMbbl of water has been injected and 5.7 MMbbl produced. Horizon and the Operator estimate that approximately 1/3 of the water injection has been out of zone.

There is remaining water flood potential in the Maari Moki reservoir. Horizon has carried out preliminary reservoir simulation studies on models constructed by them that show an estimated range of 7.4-12.7 MMstb assuming 10,000 bwpd injection into MR10. Using OMV's simulation model, Horizon estimated a benefit of 4.2 MMstb with 10,000 bwpd injection. We note that these studies are preliminary and the OMV model has not been calibrated.

The water flood potential will likely be achieved using MR1A and/or recompletion of MR10, MR5 or MR2. At this stage the operator OMV is planning to use MR10 in combination with MR1A although it is likely that additional injector points will be required at some stage using the remaining candidates. The MR10 conversion is scheduled for mid-2017. We have assumed a water injection rate of 10,000 bwpd. We have estimated the 2P and 3P incremental technical recovery based on material balance and conformance factor considerations to be 7.0 to 10.1 MMstb respectively at a technical cut-off of 1000 bopd.

In our opinion, there is still significant uncertainty in regards to the effectiveness of water injection and a risk that it yields no tangible benefits. Accordingly, we do not carry reserves for water injection in the 1P case based on the current data and interpretations available.

Technical ultimate recovery at a 1000 bbl/d cut-off for the developed resources is shown in Table 5-3 along with reserves estimated at a cut-off of 2400 bbl/d based on Grant Samuel's oil price of $65/bbl. All reserves are considered developed as the water injection facilities are already installed, the conversion is planned and, consistent with PRMS guidelines, the costs of conversion of producers to injectors are small compared to the cost of a well.

Table 5-3 Maari Project Gross Developed Resources and Reserves – Maari and Manaia Fields as at 1 May 2016 (100%)

	Gross Oil MMstb		
	1P	2P	3P
Developed EUR 1000 bb/d cut-off	46.86	66.34	78.56
Developed EUR 2400 bbl/d, $65/bbl cut-off	41.32	54.78	64.64
Production to 30 April 2016	31.05		
Developed Reserves ($65/bbl cut-off)	10.27	23.73	33.59

For the valuation of reserves by Grant Samuel, we have considered the 2P production scenario which is shown in Figure 5-5. Tail volumes beyond the economic cut-off are shown as contingent resources, estimated to be 11.6 MMstb at the 2C level (see Section 5.4 and Table 5-4).

In addition to planned shutdowns which are explicitly captured, an uptime of 92.5% has been used.

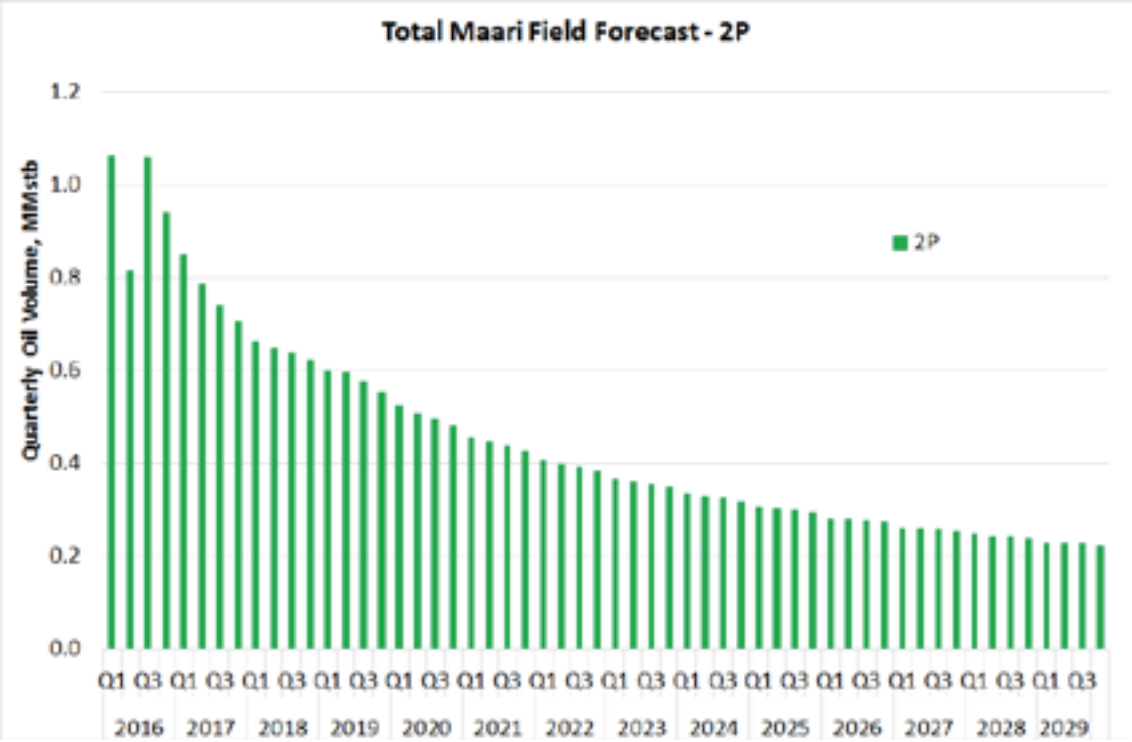


Figure 5-5 Maari Project Developed Reserves Production Forecast

5.4. Contingent Resources

There are several projects that have been identified for which development planning is immature or sub-economic that are assigned Contingent Resources. The estimates are shown in Table 5-4.

Table 5-4 Maari Project Gross Contingent Resources - Maari and Manaia Fields as at 1 May 2016 (100%)

Project	Gross Contingent Resources (MMstb)
	2C
Maari Project Developed Tail Volumes (1000 bopd cut-off)	11.6
Maari M2A producer	1.5
Manaia Moki Development	10.1
Maari Moki producer	3.0
Manaia Mangahewa producer	3.0
Total	**29.2**

At this time, the Manaia Moki development project involves a platform and a number of production wells and is considered to be uneconomic due to its substantial capital investment, although there is an option

involving extended reach drilling from the Maari platform which has not been evaluated. Of the remaining projects, based on current estimates the Manaia Mangahewa and Moki infill wells are considered to be potentially economic and consequently we have prepared production forecasts for these two activities. The resulting incremental production is 4.9 MMstb to a 2400 bbl/d cut-off. The 2P + 2C production forecast for the developed reserves plus Manaia Mangahewa and Moki infill wells is shown in Figure 5-6.

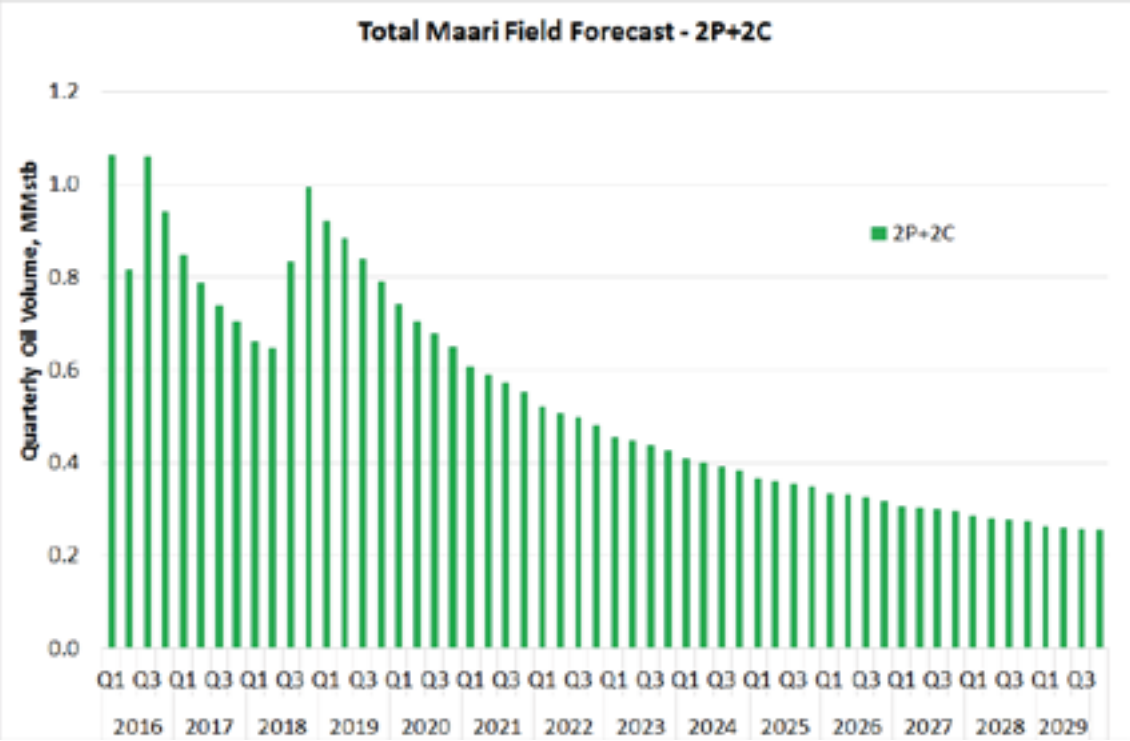


Figure 5-6 Maari Project 2P + 2C Production Forecast

5.5. Capital and Operating Costs

All costs are in US$ real terms (RT) as at 1 January 2016. Removal of 2 percent inflation has been applied to the operators forecast where applicable.

Figure 5-7 shows the 2P operating cost forecast. Operating cost increases slightly in the short term due to increased well intervention activity. Operating cost increases in 2018/2019 due to increased maintenance spending. Cost post 2024 has been forecast based on a moderate reduction in variable cost. The MODEC operations contract of US$30.3 million has been held constant in real terms until 2040. It should be noted that future market conditions may affect the ability to hold these costs constant in real terms.

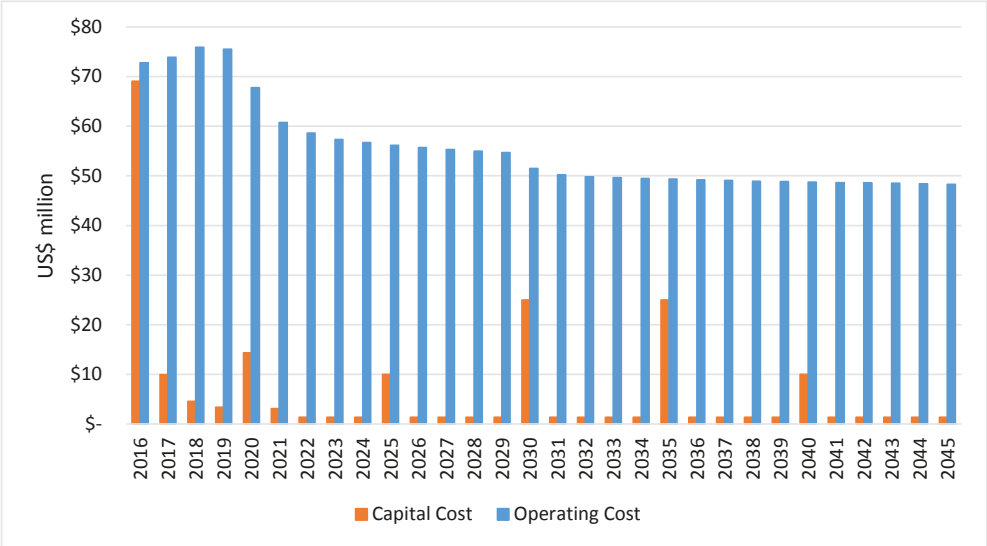


Figure 5-7 Gross 2P Operating Forecast - Maari and Manaia Fields

Figure 5-7 also shows the 2P capital cost forecast. All costs are in real US$ terms as at 1 January 2016. Activities remain mostly constant across each scenario. The single exception is that the 2P and 3P cases include US$2.0 million in 2017 for conversion of the Moki eastern flank producer into a water injector. This activity does not occur in the 1P case where we consider that additional reservoir information may be available which does not justify the conversion. 2016 includes US$5.2 million of capital cost for a planned FPSO topside upgrade.

An allowance of US$25 million has been made in 2030 and every 5 years thereafter for life extension and refurbishment works for the FPSO and the WHP. These works are anticipated to be carried out to follow the 2029 Class inspection survey and may require dry-dock of the FPSO at some point.

Abandonment costs are expected be US$80 million for the existing wells, the WHP and tieback and the FPSO.

Two additional development wells are planned as contingent projects. These wells are planned to be drilled from the existing wellhead platform by reclaiming well slots in 2017/18. Each well is estimated to cost US$70m to drill and complete. Incremental opex related to the wells is minor and totals US$4.5/bbl in variable costs associated with workovers, chemical treatment and materials. Abandonment charges for the two wells is estimated to be US$6m.

5.6. Exploration

The PEP51313 joint venture has met its work program commitments in Stage 2, Permit Year 6 which expired on 29 October 2015, by drilling Whio-1 well in August 2014 and submitting a well completion report. The current Permit Year 7 commitments for G & G studies and a permit prospectivity report are nearing completion and the Joint Venture is in the process of deciding whether to enter Stage 2 Extension to 29 August 2018 or surrender the permit. It is Horizon's intention to withdraw from the permit at the end of Stage 2, upon the completion of the Year 7 work program commitment. We have therefore assigned no exploration value to this permit.

6. Declarations

6.1. Qualifications

RISC is an independent oil and gas advisory firm. The RISC staff engaged in this assignment include qualified petroleum reserves and resources evaluators as specified in ASX listing rules, professionally qualified engineers, geoscientists and commercial analysts, each with many years of relevant experience and most have in excess of 20 years.

The preparation of this report has been supervised by Mr Geoffrey Barker, RISC Partner, who also carried out the reserves and resources evaluation for the PNG and New Zealand properties. He has thirty-five years of global experience in the upstream hydrocarbon industry, with extensive expertise in the areas of asset valuation, business strategies, evaluation of conventional and non-conventional petroleum (coal seam gas and tight gas), due diligence assessment for mergers, acquisitions and project finance requirements and reserves assessment/certification and preparation of Independent Technical Specialist reports. Mr. Barker is a Past Chairman of the SPE WA Section, a past member of the SPE International's Oil and Gas Reserves Committee 2007-2009, and is a co-author of the Guidelines for Application of the Petroleum Resources Management System published by the SPE in November 2011 (Chapter 8.5 Coal Bed Methane). Mr Barker is a Member of the Society of Petroleum Engineers (SPE), and holds a BSc (Chemistry), Melbourne University, 1980 and a M.Eng.Sc. (Pet. Eng.), Sydney University, 1989 and is a qualified petroleum reserves and resources evaluator (QPPRE) as defined by ASX listing rules.

David Cliff, Head of Geoscience, prepared the exploration evaluation. Mr Cliff is a Petroleum Geologist with over 30 years of upstream experience, focused mainly on exploration in technical and management roles. He has worked for Australian and international companies, both large and small, from Woodside Petroleum to Bridge Oil. More recently Mr Cliff has held the position of Exploration Manager at Hardman Resources and Neon Energy giving him exposure to exploration in Africa and Southeast Asia respectively. He has also had experience as a resource stock analyst at BBY and held the role of Managing Director at Gas Link Global. David is a past President of PESA, a long-time member of AAPG and a graduate of the Australian Institute of Company Directors. Mr Cliff has a BSc in Geology from the University of Exeter, 1980.

Geoff Salter, RISC Partner prepared the evaluation of reserves and resources for the China properties. Mr Salter has over 35 years of global upstream experience in technical and management positions with major operators and consulting firms. Geoff has extensive experience of leading teams engaged in technical and commercial due diligence on acquisition opportunities, independent expert roles, independent reserves/valuation reporting, development planning, and decision analysis in the Asia-Pacific region, Europe, Middle East and Africa. Mr Salter has a M.A. Engineering (Hons), Cambridge University, UK, 1979, M.Sc. Petroleum Engineering, Imperial College, London, UK, 1983 (with Distinction), is a Member of SPE and is a qualified petroleum reserves and resources evaluator (QPPRE) as defined by ASX listing rules.

Martin Wilkes, RISC Principal Adviser carried out the review of development costs and schedule for the PNG properties. Mr Wilkes has over 25 years' experience in the international oil and gas industry encompassing upstream oil and gas, LNG and gas technology development with both large and small companies. His experience covers a wide range of roles including business leadership and planning, corporate governance, project development and management, technical training, commercial and contractual agreements, intellectual property management and environmental impact assessment. Mr Wilkes has a Master of

Engineering, University of Newcastle Upon Tyne, UK, is a Chartered Chemical Engineer, Chartered Environmentalist, Member of IChemE and a Member of SPE.

Joe Collins, RISC Principal Development Engineer carried out the review of development costs and schedule for the China and NZ properties. Mr Collins has ten years' diverse experience in process and facilities engineering and well evaluation. Mr Collins has a Bachelor of Oil & Gas Engineering (Petroleum and Process Engineering), UWA, a Diploma of Project Management, is a Chartered Professional Engineer, Engineers Australia and is a Member of SPE.

RISC was founded in 1994 to provide independent advice to companies associated with the oil and gas industry. Today the company has approximately 40 highly experienced professional staff at offices in Perth and Brisbane, Australia, Jakarta, Dubai and London, UK. We have completed over 1500 assignments in 68 countries for nearly 500 clients. Our services cover the entire range of the oil and gas business lifecycle and include:

- Oil and gas asset valuations, expert advice to banks for debt or equity finance;
- Exploration/Portfolio management;
- Field development studies and operations planning;
- Reserves assessment and certification, peer reviews;
- Gas market advice;
- Independent Expert/Expert Witness;
- Strategy and corporate planning.

6.2. VALMIN Code and ASIC Regulatory Guides

This Report has been prepared by RISC. This Report has been prepared in accordance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2005 Edition ("The VALMIN Code") as well as the Australian Securities and Investment Commission (ASIC) Regulatory Guides 111 and 112.

6.3. Petroleum Resources Management System

In the preparation of this Report, RISC has complied with the guidelines and definitions of the Petroleum Resources Management System approved by the Board of the Society of Petroleum Engineers in 2007 (PRMS).

6.4. Report to be presented in its entirety

RISC has been advised by Horizon that this report will be presented in its entirety without summarisation.

6.5. Independence

This report does not give and must not be interpreted as giving, an opinion, recommendation or advice on a financial product within the meaning of section 766B of the Corporations Act 2001 or section 12BAB of the Australian Securities and Investments Commission Act 2001.

RISC is not operating under an Australian financial services licence in providing this report.

In accordance with regulation 7.6.01(1)(u) of the Corporations Regulation 2001. RISC makes the following disclosures:

- RISC is independent with respect to Horizon and Grant Samuel and confirms that there is no conflict of interest with any party involved in the assignment;
- Under the terms of engagement between RISC and Horizon for the provision of this report RISC will receive a time-based fee, with no part of the fee contingent on the conclusions reached, or the content or future use of this report. Except for these fees, RISC has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report;
- Neither RISC nor any of its personnel involved in the preparation of this report have any material interest in Horizon or in any of the properties described herein;
- RISC has provided the following professional services to Horizon in the past two years. These assignments were independent services based on standard fee for service terms and did not involve contingent payments:
  - Update of Maari and Beibu Reserves, completed 30/04/2016;
  - Update of Maari Reserves, completed 18/12/2015;
  - Industry report on oil and gas costs, completed 04/02/2015;
  - Independent technical report on China, PNG and NZ properties, completed 20/4/2015;
  - Independent technical report on the properties of Horizon and Roc Oil, completed 30/7/2014.
- RISC has not provided advice to Horizon specifically in relation to the Proposed Transaction.

6.6. Limitations

The assessment of petroleum assets is subject to uncertainty because it involves judgments on many variables that cannot be precisely assessed, including reserves, future oil and gas production rates, the costs associated with producing these volumes, access to product markets, product prices and the potential impact of fiscal/regulatory changes.

The statements and opinions attributable to RISC are given in good faith and in the belief that such statements are neither false nor misleading. In carrying out its tasks, RISC has considered and relied upon information obtained from Horizon as well as information in the public domain.

The information provided to RISC has included both hard copy and electronic information supplemented with discussions between RISC and key Horizon staff.

Whilst every effort has been made to verify data and resolve apparent inconsistencies, we believe our review and conclusions are sound, but neither RISC nor its servants accept any liability, except any liability which cannot be excluded by law, for its accuracy, nor do we warrant that our enquiries have revealed all of the matters, which an extensive examination may disclose.

RISC has not audited the opening balances at the economic evaluation date of past recovered and unrecovered development and exploration costs, undepreciated past development costs and tax losses or property titles.

We believe our review and conclusions are sound but no warranty of accuracy or reliability is given to our conclusions.

Our review was carried out only for the purpose referred to above and may not have relevance in other contexts.

This report was substantially completed by 29 June 2016. We are not aware of any changes since that date that would have a material impact on the values and opinions contained within this report.

6.7. Consent

RISC has consented to this report, in the form and context in which it appears, being included in the Independent Expert's Report prepared by Grant Samuel for Horizon. Neither the whole nor any part of this report nor any reference to it may be included in or attached to any other document, circular, resolution, letter or statement without the prior consent of RISC.

This Report is authorised for release by Mr. Geoffrey Barker, RISC Partner dated 29 July 2016.

Geoffrey J Barker

Partner

7. List of terms

The following lists, along with a brief definition, abbreviated terms that are commonly used in the oil and gas industry and which may be used in this report.

Term	Definition
1P	Equivalent to Proved reserves or Proved in-place quantities, depending on the context.
1Q	1st Quarter
2P	The sum of Proved and Probable reserves or in-place quantities, depending on the context.
2Q	2nd Quarter
2D	Two Dimensional
3D	Three Dimensional
4D	Four Dimensional – time lapsed 3D in relation to seismic
3P	The sum of Proved, Probable and Possible Reserves or in-place quantities, depending on the context.
3Q	3rd Quarter
4Q	4th Quarter
AFE	Authority for Expenditure
Bbl	US Barrel
BBL/D	US Barrels per day
BCF	Billion (10^9) cubic feet
BCM	Billion (10^9) cubic meters
BFPD	Barrels of fluid per day
BOPD	Barrels of oil per day
BTU	British Thermal Units
BOEPD	US barrels of oil equivalent per day
BWPD	Barrels of water per day
°C	Degrees Celsius
Capex	Capital expenditure
CAPM	Capital asset pricing model
CGR	Condensate Gas Ratio – usually expressed as bbl/MMscf
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable resources as defined in the PRMS.
CO^2	Carbon dioxide
cP	Centipoise (measure of viscosity)
CPI	Consumer Price Index
DEG	Degrees
DHI	Direct hydrocarbon indicator
Discount Rate	The interest rate used to discount future cash flows into a dollars of a reference date
DST	Drill stem test
E&P	Exploration and Production
EG	Gas expansion factor. Gas volume at standard (surface) conditions/gas volume at reservoir conditions (pressure and temperature)

Term	Definition
EMV	Expected Monetary Value
EOR	Enhanced Oil Recovery
ESMA	European Securities and Markets Authority
ESP	Electric submersible pump
EUR	Economic ultimate recovery
Expectation	The mean of a probability distribution
F	Degrees Fahrenheit
FDP	Field Development Plan
FEED	Front End Engineering and design
FID	Final investment decision
FM	Formation
FPSO	Floating Production Storage and offtake unit
FWL	Free Water Level
FVF	Formation volume factor
GIIP	Gas Initially In Place
GJ	Giga (10^9) joules
GOC	Gas-oil contact
GOR	Gas oil ratio
GRV	Gross rock volume
GSA	Gas sales agreement
GTL	Gas To Liquid(s)
GWC	Gas water contact
H_2S	Hydrogen sulphide
HHV	Higher heating value
ID	Internal diameter
IRR	Internal Rate of Return is the discount rate that results in the NPV being equal to zero.
JV(P)	Joint Venture (Partners)
Kh	Horizontal permeability
km^2	Square kilometres
Krw	Relative permeability to water
Kv	Vertical permeability
kPa	Kilo (thousand) Pascals (measurement of pressure)
Mstb/d	Thousand Stock tank barrels per day
LIBOR	London inter-bank offered rate
LNG	Liquefied Natural Gas
LTBR	Long-Term Bond Rate
m	Metres
MDT	Modular dynamic (formation) tester
mD	Millidarcies (permeability)
MJ	Mega (10^6) Joules
MMbbl	Million US barrels
MMscf(d)	Million standard cubic feet (per day)

Term	Definition
MMstb	Million US stock tank barrels
MOD	Money of the Day (nominal dollars) as opposed to money in real terms
MOU	Memorandum of Understanding
Mscf	Thousand standard cubic feet
Mstb	Thousand US stock tank barrels
MPa	Mega (10^6) pascal (measurement of pressure)
mss	Metres subsea
MSV	Mean Success Volume
mTVDss	Metres true vertical depth subsea
MW	Megawatt
NPV	Net Present Value (of a series of cash flows)
NTG	Net to Gross (ratio)
ODT	Oil down to
OGIP	Original Gas In Place
OOIP	Original Oil in Place
Opex	Operating expenditure
OWC	Oil-water contact
P90, P50, P10	90%, 50% & 10% probabilities respectively that the stated quantities will be equalled or exceeded. The P90, P50 and P10 quantities correspond to the Proved (1P), Proved + Probable (2P) and Proved + Probable + Possible (3P) confidence levels respectively.
PBU	Pressure build-up
PJ	Peta (10^{15}) Joules
POS	Probability of Success
Possible Reserves	As defined in the PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
PRMS	Petroleum Resources Management System, approved by the Board of the SPE March 2007 and endorsed by the Boards of Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council and Society of Petroleum Evaluation Engineers.
Probable Reserves	As defined in the PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Probable Reserves are those additional Reserves that are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations as defined in the PRMS.
Proved Reserves	As defined in the PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. Often referred to as 1P, also as “Proven”.

Term	Definition
PSC	Production Sharing Contract
PSDM	Pre-stack depth migration
PSTM	Pre-stack time migration
psia	Pounds per square inch pressure absolute
p.u.	Porosity unit e.g. porosity of 20% +/- 2 p.u. equals a porosity range of 18% to 22%
PVT	Pressure, volume & temperature
QA/QC	Quality Assurance/ Control
rb/stb	Reservoir barrels per stock tank barrel under standard conditions
RFT	Repeat Formation Test
Real Terms (RT)	Real Terms (in the reference date dollars) as opposed to Nominal Terms of Money of the Day
Reserves	RESERVES are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.
RT	Measured from Rotary Table or Real Terms, depending on context
SC	Service Contract
scf	Standard cubic feet (measured at 60 degrees F and 14.7 psia)
Sg	Gas saturation
Sgr	Residual gas saturation
SRD	Seismic reference datum lake level
SPE	Society of Petroleum Engineers
s.u.	Fluid saturation unit. e.g. saturation of 80% +/- 10 s.u. equals a saturation range of 70% to 90%
stb	Stock tank barrels
STOIIP	Stock Tank Oil Initially In Place
Sw	Water saturation
TCM	Technical committee meeting
Tcf	Trillion (10^{12}) cubic feet
TJ	Tera (10^{12}) Joules
TLP	Tension Leg Platform
TRSSV	Tubing retrievable subsurface safety valve
TVD	True vertical depth
US$	United States dollar
US$ million	Million United States dollars
WACC	Weighted average cost of capital
WHFP	Well Head Flowing Pressure
Working interest	A company's equity interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms.
WPC	World Petroleum Council
WTI	West Texas Intermediate Crude Oil

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ATTACHMENT B

Proxy Form

All Correspondence to:

By Mail Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001 Australia

By Fax: +61 2 9290 9655

Online: www.boardroomlimited.com.au

By Phone: (within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

YOUR VOTE IS IMPORTANT

For your vote to be effective it must be received **before 9:00am (Sydney time) on Sunday, 4 September 2016.**

TO VOTE ONLINE

BY SMARTPHONE

STEP 1: VISIT www.votingonline.com.au/hzngm2016

STEP 2: Enter your Postcode OR Country of Residence (if outside Australia)

STEP 3: Enter your Voting Access Code (VAC):

PLEASE NOTE: For security reasons it is important you keep the above information confidential.

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Scan QR Code using smartphone
QR Reader App

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.
If you wish to appoint the Chair of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chair of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chair of the Meeting will be appointed as your proxy by default. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Appointment of a Second Proxy
You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the company's securities registry or you may copy this form.

To appoint a second proxy you must:
(a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
(b) return both forms together in the same envelope.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses (subject to any applicable voting restrictions). If you mark more than one box on an item for all your securities your vote on that item will be invalid.

Proxy which is a Body Corporate
Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:
Individual: this form is to be signed by the securityholder.
Joint Holding: where the holding is in more than one name, all the securityholders should sign.
Power of Attorney: to sign under a Power of Attorney, you must have already lodged a copy of the Power of Attorney with the company's securities registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the meeting, therefore by **9:00am (Sydney time) on Sunday, 4 September 2016.** Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

Online	www.votingonline.com.au/hzngm2016
By Fax	+ 61 2 9290 9655
By Mail	Boardroom Pty Limited GPO Box 3993, Sydney NSW 2001 Australia
In Person	Boardroom Pty Limited Level 12, 225 George Street, Sydney NSW 2000 Australia

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

Horizon Oil Limited
ACN 009 799 455

☐ **Your Address**
This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Securityholders sponsored by a broker should advise their broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

PROXY FORM

STEP 1 APPOINT A PROXY

I/We being a member/s of **Horizon Oil Limited** (Company) and entitled to attend and vote hereby appoint:

☐ the **Chair of the Meeting (mark box)**

OR if you are **NOT** appointing the Chair of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered securityholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chair of the Meeting as my/our proxy at the General Meeting of the Company to be held at the **Stanley Room, Sydney Boulevard Hotel, 90 William Street, Sydney, NSW 2011 on Tuesday, 6 September 2016 at 9:00am (Sydney time)** and at any adjournment or postponement of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

The Chair of the Meeting intends to vote all undirected proxies in favour of Resolution 1. In exceptional circumstances, the Chair of the Meeting may change his/her voting intention on Resolution 1, in which case an ASX announcement will be made by the Company. If you wish to appoint the Chair of the Meeting as your proxy with a direction to vote against, or to abstain from voting on Resolution 1, you must provide a direction by marking the 'Against' or 'Abstain' box.

STEP 2 VOTING DIRECTIONS

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your vote will not be counted in calculating the required majority if a poll is called.

		For	Against	Abstain*
Resolution 1	Approval of the IMC Financing Proposal	☐	☐	☐

STEP 3 SIGNATURE OF SECURITYHOLDERS

This form must be signed to enable your directions to be implemented.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director / Company Secretary

Contact Name……..... Contact Daytime Telephone……..... Date / / 2016

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Corporate Directory

BOARD OF DIRECTORS

John Humphrey (Chairman)

Brent Emmett (Chief Executive Officer)

Andrew Stock

Sandra Birkensleigh

Gerrit de Nys

COMPANY SECRETARY

Michael Sheridan

AUSTRALIAN REGISTERED OFFICE (Principal place of business)

Level 6, 134-138 William Street
Woolloomooloo NSW 2011

Tel: +61 2 9332 5000
Fax: +61 2 9332 5050

Email: exploration@horizonoil.com.au

Website: www.horizonoil.com.au

DOMICILE AND COUNTRY OF INCORPORATION

Australia

SHARE REGISTRAR

Boardroom Pty Limited
Level 12, 225 George Street
Sydney NSW 2000

Tel: +61 2 9290 9600

CONVERTIBLE BOND REGISTRAR

Deutsche Bank Luxembourg S.A.
2, Boulevard Konrad Adenauer
L-1115, Luxembourg

SOLICITORS

King & Wood Mallesons
Level 33, Waterfront Place
1 Eagle Place
Brisbane QLD 4000


Horizon Oil