Horizon Oil Limited ABN 51 009 799 455
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20 October 2015

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

Dear Sir,

HORIZON OIL LIMITED 2015 ANNUAL REPORT
AND NOTICE OF AGM

In accordance with Listing Rule 4.7, attached are copies of Horizon Oil Limited's Annual Report for the year ended 30 June 2015 and the Notice of Annual General Meeting to be held on Friday 20 November 2015.

The Notice of Annual General Meeting will be sent to all shareholders. A printed copy of the 2015 Annual Report will be mailed separately to those shareholders who have made the election to receive it. Copies of these documents can be downloaded from the Company's website www.horizonoil.com.au.

The Annual General Meeting will also be available on live webcast. To register, please copy and paste the link below into your browser:

http://webcasting.brrmedia.com/broadcast/561342d9ab3559244a29bd1e

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

ABN 51 009 799 455

Annual Report 2015

2015 Highlights

OIL PRODUCTION from Maari in New Zealand and Block 22/12 in China continues at solid levels and the reserves and resources base continue to grow.

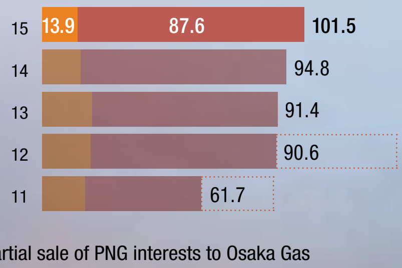
CASH GENERATION is strong and is forecast to continue because of solid production outlook - current low oil prices are being mitigated by hedging and lower operating costs.

FORECAST continuing strong cash generation, in combination with lower capital expenditure, reduced administrative cost and favourable refinancing of the bank debt facility, have placed the company in a good position to redeem the convertible bonds when they mature in mid 2016.

CLEARER line of sight to commercialisation of gas and condensate resources at Stanley and Elevala/Ketu fields in Papua New Guinea.

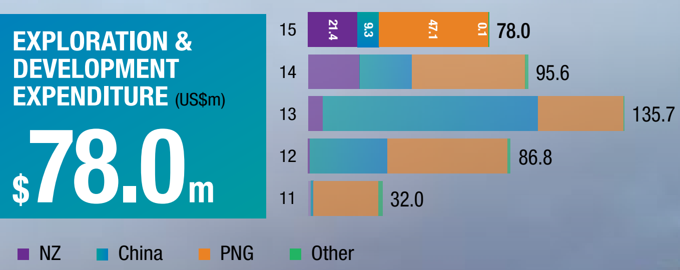
2P + 2C RESERVES AND CONTINGENT RESOURCES (mmboe)

101.5mmboe



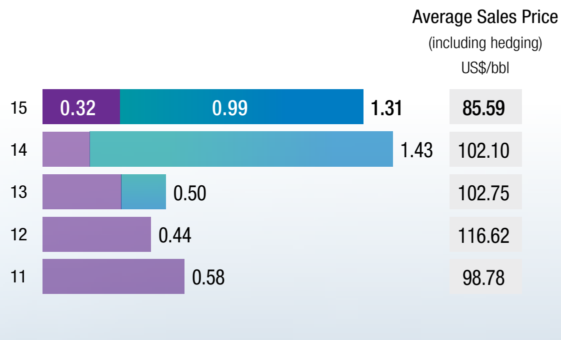
EXPLORATION & DEVELOPMENT EXPENDITURE (US$m)

$78.0m



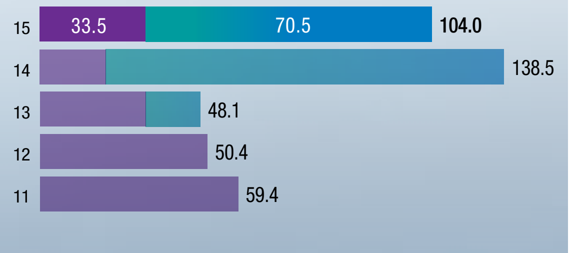
PRODUCTION
(mmbbls)

1.31mmbbls



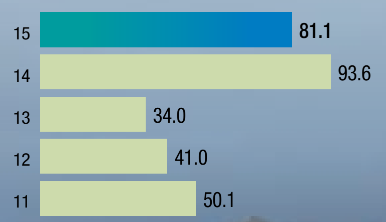
REVENUE
(US$m)

$104.0m

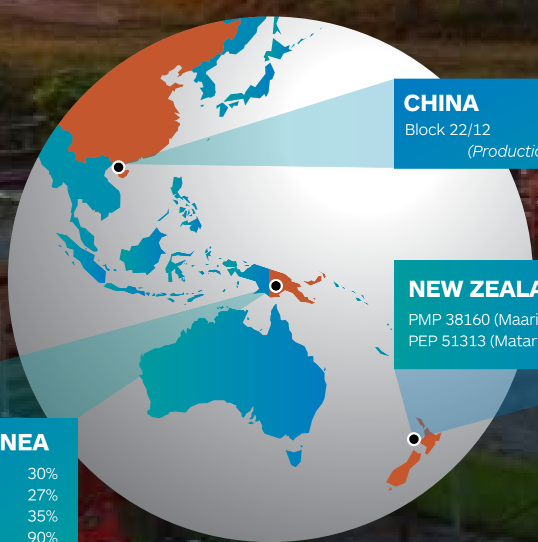


NET OPERATING INCOME AFTER OPEX (incl China Special Levy) EXCLUDING EXTRAORDINARIES
(US$m)

$81.1m



AREAS OF OPERATION



CHINA

Block 22/12	26.95% / 55%
	(Production / Exploration)

NEW ZEALAND

PMP 38160 (Maari/Manaia)	10%
PEP 51313 (Matariki)	21%

PAPUA NEW GUINEA

PDL 10 (Stanley)	30%
PRL 21 (Elevala/Ketu)	27%
PPL 259	35%
PPLs 372 and 373	90%
PPL 430	50%
PRL 4	33.33%*

**Subject to Government approval*

CONTENTS

Chairman's Report

Fraser Ainsworth AM

LAST YEAR WAS A YEAR OF CONTRASTS for Horizon Oil, with a strong operational and financial performance being largely overshadowed by adverse stock market sentiment resulting from the lower oil price environment.

In the board's view, the Company's swiftly implemented response to these lower oil prices, which involved significant changes in our plans and strategies, has been sound and, pleasingly, has opened up some opportunities to benefit from these lower prices, particularly by way of reductions in operating and development costs.

Strong Operational and Financial Performance

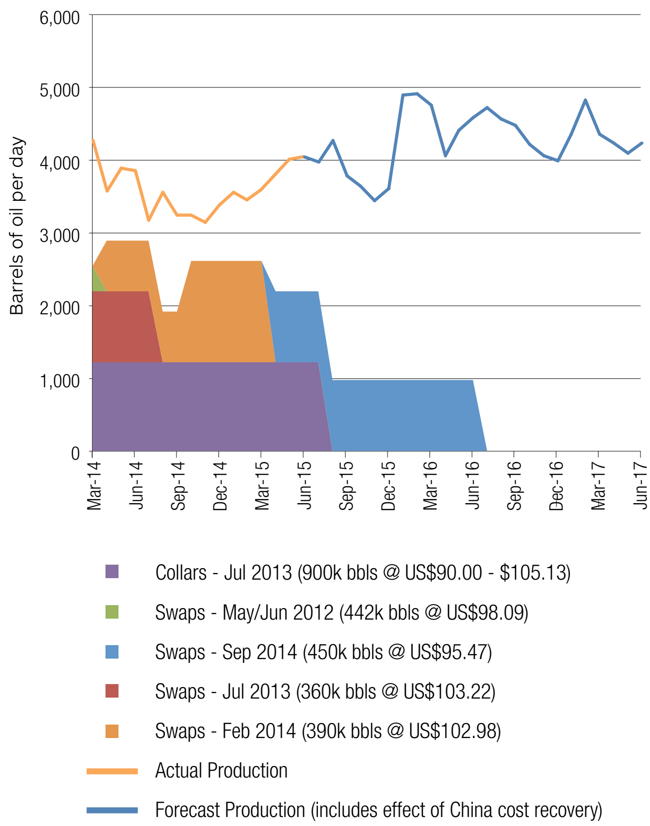
The outstanding feature of the Company's performance was the solid operating cash flows – despite a 40% fall in Brent oil prices, from US$100/barrel to US$60/barrel over the year, cashflow from operating activities was down by only a modest 9% year on year, from US$65.0 million to US$58.8 million. This was achieved mainly as a result of implementation of our hedging policy whereby 74% of our oil sales were hedged at an average price of over US$95/barrel.

The board has a long held policy of hedging oil prices when, opportunistically, it makes sense to do so, as a means of softening the impact of a downturn in prices and ensuring that the Company is able to meet its obligations. The chart opposite illustrates the oil price hedges that have been in place from the beginning of calendar year 2014 and which run off in mid calendar year 2016, compared to actual and forecast production over that period.

Improved Financial Capacity and Flexibility

As foreshadowed in last year's Annual Report, the Company has finalised a US$120 million base tranche revolving cash advance facility, together with an additional US$50 million "accordion" tranche to accommodate, if required, working capital and redemption of the US$80 million, 5.5% convertible bonds in June 2016. This revolving facility replaces the previous US$150 million reserves based facility and provides greater financial flexibility, together with improved commercial terms.

Oil price hedge profile



Taking into account the increased flexibility of this new facility, as well as...

- the Company's significant cash balances and forecast (partly hedged) operating cash flows to July 2016;
- reduced capital expenditure – forecast for FY2016 to be less than half that of the previous year; and
- significantly reduced operating expense – an average cash cost of US$14.10/barrel in FY2015 and forecast to be lower again in FY2016,

...barring unforeseen events, the Company expects to have available the cash to meet redemption of the convertible bonds in mid 2016. In this regard, we have already bought back nearly one quarter of the bonds outstanding for an amount of approximately US$20 million. The savings achieved by doing this, rather than allowing the bonds to run their full term, are about 8% of this amount.

Our Responses to Lower Oil Prices

Our responses to this include:-

(a) Significant reductions, re-scoping or re-scheduling of exploration and development expenditure whilst ensuring that planning for important development projects, (particularly China and Papua New Guinea) continues so that the benefits from expected lower development costs as a result of lower oil prices are captured, and

(b) A hard-nosed analysis of our general and administrative costs was undertaken and steps taken to reduce these. Our net G&A expense of US$7.6 million for FY2015 is very much at the low end of the range for companies with a similar level of activities. Specifically the cash salaries, bonuses and in kind benefits of our three key executives have been reduced in FY2015 by 24% (in Australian dollars), from FY2014 as a result of these executives voluntarily foregoing the significant cash bonuses that would otherwise have been payable under the Company's Short Term Incentive Plan. In addition, the executives have agreed to freeze their salaries at 30 June 2015 levels through to July 2016, together with some net reductions in other benefits.

In the board's view, management deserve praise for the prompt and effective response to this changed oil price environment, as outlined above.

Board Renewal

As part of a board renewal process, I will retire from the board at the conclusion of the Annual General Meeting in November this year. It is intended that two new non-executive directors will be appointed to the board during the next twelve months to replace myself and John Humphrey. As part of an orderly transition process the board intends to appoint John Humphrey as the replacement Chairman while the new directors are identified and appointed. It is intended that John will then retire at the 2016 Annual General Meeting or soon after.

The order of retirement of John and myself as directors has been determined having regard to the perceived mix of skills on the board required by the Company during the transitional period. Appropriate announcements will be made in due course when the new directors are appointed.

Sustainability, Including Safety

The Company is committed to the sustainable development of its operations.

The Company's approach towards sustainable development is based on the four areas that Horizon Oil regards as the pillars of its sustainable development strategy. These are:

- Safety and health;
- Security;
- Environment; and
- Community

Paying careful attention to each of the above pillars is vital if business activities are to succeed (especially in PNG). Our staff are key to this success and, as shareholders would expect, we invest in their career development through training and education, in their health (and in some cases the care of their family members) and, above all, in maintaining a safe working environment for contractors and employees alike.

Over the year, on a base of more than one million hours worked, the Company achieved a creditable Total Recordable Injury Frequency rate ("TRIFR") of 0.9 and there were no lost time injuries. In August 2015, we achieved 12 months without any recordable injuries.

The Outlook

In the near term, the outlook for Horizon Oil in terms of share price is challenging – as is the case for most (if not all!) others in the upstream oil and gas industry. Clearly, continuing low oil prices and risk averse stock market sentiment are the key drivers in this regard.

However, the board encourages existing and potential shareholders to reflect upon the sound business fundamentals that characterise Horizon Oil, namely the combination of high quality, cost competitive cash generating assets with potential growth assets in PNG which our plans indicate will unlock substantial, sustainable shareholder value within the foreseeable future.

E F Ainsworth AM
Chairman

1 October 2015

Chief Executive Officer's Report

Brent Emmett

FINANCIAL YEAR 2015 HAS BEEN A CHALLENGING ONE FOR THE PETROLEUM INDUSTRY with a halving of oil prices causing investors to severely mark down the share prices of E&P companies, including that of Horizon Oil. Notwithstanding this, the operational and financial performance continues to be strong in the current low oil price environment and the board and management have reacted quickly to position the Company to weather this environment, even if it is prolonged. The Chairman's Report outlines the various steps that have been taken to achieve this.

Operational and Financial Performance

Shareholders are able to review the five year operational and financial performance metrics on the inside front cover to this Annual Report. Even with low oil prices and reduced production resulting from natural decline in our China fields, revenue and net operating income (after operating expense) remain strong and the reserves and contingent resources base continues to grow. We expect production growth to resume in FY2016 because of increased production in New Zealand as a result of the recently completed Maari Growth Projects program and because of the increased production entitlement associated with cost recovery under the Petroleum Contract in China, which will begin during the year. (Horizon Oil's entitlement to cost recovery oil at 30 June 2015 was US$98 million). Given this, and making a reasonable assumption of oil prices over the current financial year, net operating income is estimated to be in line with, or exceed, that of the FY2015 figure of US$81 million.

Activities Review

Activities for the reporting period are set out in some detail in the Activities Review section in the following pages. In addition there are tabulations of Horizon Oil's net reserves and contingent resources and also the Company's various permit and licence interests.

Operational highlights over the reporting period are as follows (production, reserves and contingent resources figures indicated are gross):-

China *(Horizon Oil interest 26.95%)*

- The WZ 6-12 and WZ 12-8W fields in Block 22/12 produced at an average of 10,103 bopd, in line with forecast. The production rate at year-end remained at over 10,000 bopd.
- Two exploration wells drilled in the WZ 12-8 area, the WZ 12-10-1 and WZ 12-10-2, were discoveries – adding 7.1 mmbo in reserves and contingent resources.
- Planning for development of the WZ 12-8E accumulation (10.5 mmbo contingent resources) progressed during the year.

New Zealand *(Horizon Oil interest 10%)*

- Production from the Maari and Manaia fields averaged 8,675 bopd over the year.
- The Maari Growth Projects drilling program was completed towards the end of FY2015, lifting production to about 16,000 bopd in July.
- The Maari joint venture's workover unit was reinstalled on the wellhead platform after release of the *Ensco 107* drilling rig in June and a workover program initiated to further enhance production.
- The Whio-1 exploration well in PEP 51313 to the south of Maari was drilled and was dry. Horizon Oil was fully carried through the cost of the well.

Chief Executive Officer's Report

Papua New Guinea *(Horizon Oil interest 30% in Stanley field and 27% in Elevala/Ketu fields)*

- The Stanley-3 and Stanley-5 (PDL 10) development wells were drilled and completed for service, concluding Stanley development drilling activities.
- The Stanley project tanker *Western Queen* passed inspection for use and is currently on sub-charter until required for the project.
- The surface facilities design for Stanley is being modified in the light of lower oil prices – the revised concept is anticipated to be a slimmed down project with gas sales to industrial users and condensate recovery commencing from project start-up, rather than an initial phase of condensate recovery only, as originally envisaged.
- Good progress was made over the reporting period on Elevala/Ketu (PRL 21) front-end-engineering-and-design (FEED) activities and advancing the environmental approvals and landowner studies required for the development and pipeline licence grants.
- As for Stanley field, the Elevala/Ketu development concept is being modified to take account of the low oil price environment. Lower development costs are expected and it is likely that the concept will involve condensate recovery commencing contemporaneously with first gas sales.
- Horizon Oil, with its strategic alliance partner Osaka Gas, progressed a feasibility study for a Western Province-based greenfield mid-scale LNG project, as the base case for gas commercialisation. Work on several other gas commercialisation alternatives progressed during the year.
- The Nama-1 well in PPL 259 (Horizon Oil interest 35%) located 20 km east of Stanley field was drilled, encountering a large gas column but in poor quality reservoir sands and was deemed uncommercial, at least in the vicinity of the well location.

Gas Commercialisation Opportunities in Papua New Guinea

This is a key subject for Horizon Oil, given the potential for the PNG liquids-rich gas resources to generate substantial, long-lived cash flow for shareholders. This year a number of developments have emerged that give us increasing confidence regarding the prospects for commercialisation of the Company's large gas resources.

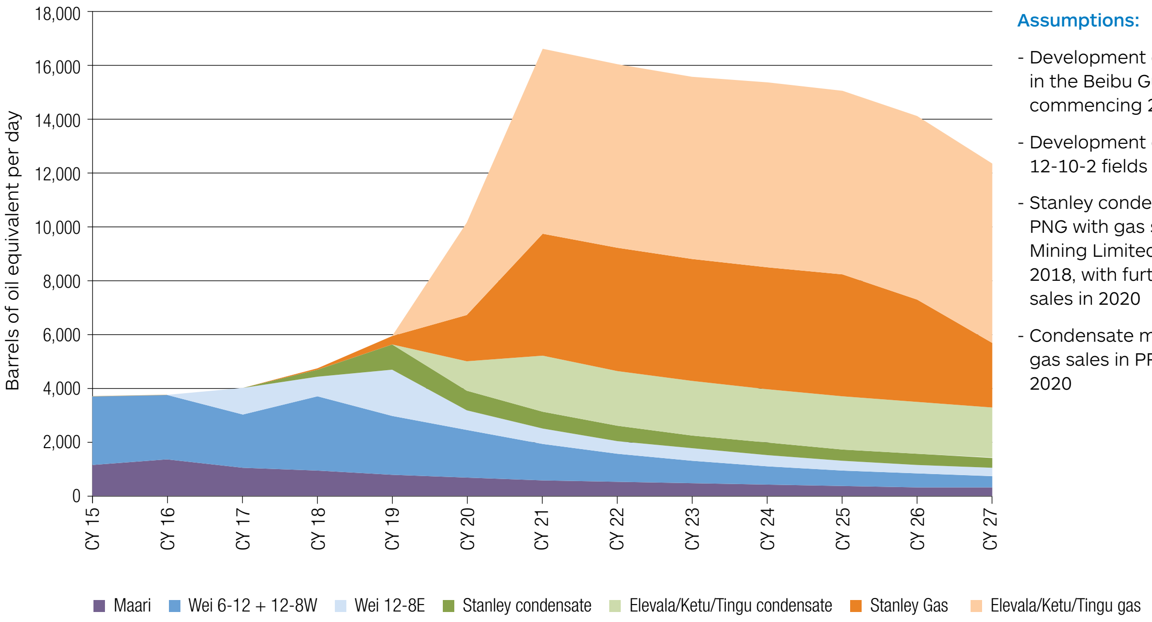
It is likely that Stanley gas will be used for power generation – gas-to-electricity (GTE) – to meet the requirements of regional mining and domestic users, displacing diesel or fuel oil that they would otherwise use. The recent shut-in of the Ok Tedi mine to the north of the Stanley field because diesel fuel for power generation was not able to be shipped to the mine as a result of the low level of the Fly River provides an object lesson on the need for a GTE solution. Whilst we expect that this will eventually proceed, the volume of gas required is relatively small.

The Frieda River copper-gold project, further again to the north, however is potentially a much larger gas consumer and, with Ok Tedi, could account for the entire Stanley gas resource. The prospects for a positive investment decision on the development of Frieda River increased quite significantly earlier this year when Guangdong Rising Assets Management (GRAM) acquired PanAust Limited, the 80% owner and operator of Frieda River, in a A$1.2 billion transaction. It is evident from the recent marked increase in activity by GRAM on Frieda River that the project is central to their acquisition strategy. Furthermore the PNG Government continues to voice its support for the project and has indicated it wishes to take advantage of its right to participate in it at a 30% interest. The Stanley joint venture has engaged with GRAM on the potential for gas sales for power generation.

The commercialisation options for the larger gas resource at Elevala/Ketu are three-fold. As stated earlier, the alternative of a mid-scale LNG project supplied by the aggregation of uncommitted Western Province gas, including Elevala/Ketu, is one that we can deliver on and which will be our base case. We are advanced in evaluating this option.

Chief Executive Officer's Report

Forecast Calendar Year Net Production from Reserves + Contingent Resources as at 1 October 2015



Assumptions:

- Development of WZ 12-8E field in the Beibu Gulf with production commencing 2017
- Development of WZ 12-10-1 and 12-10-2 fields in 2018
- Stanley condensate start up in PNG with gas sales to Ok Tedi Mining Limited commencing 2018, with further large scale gas sales in 2020
- Condensate monetisation and gas sales in PRL 21 commencing 2020

What has gained attention this year is the increasing possibility of an expansion train – Train 3 – to the highly successful ExxonMobil-led PNG LNG project. This would potentially involve the aggregation of gas from ExxonMobil and Oil Search's P'nyang field (located 70 km to the north of PRL 21) with Elevala/Ketu gas. Another participant in the PNG LNG project, Santos, has announced that it will acquire an interest in P'nyang. The PNG Government has mandated that the P'nyang joint venture reach a final investment decision (FID) on P'nyang by the end of 2017 and we understand that the P'nyang joint venture is also required to enter into commercial discussions with the owners of the nearby undeveloped gas fields. The option of participating in a brownfield expansion to an existing project – if the opportunity arises and if acceptable commercial terms can be achieved – is an appealing alternative in terms of reducing financial and engineering risk. Nevertheless Horizon Oil believes that it is important to have a viable standalone greenfield alternative for the commercialisation of Elevala/Ketu in order to be able to conduct those commercial discussions effectively.

The recently-announced takeover attempt of Oil Search by Woodside serves to highlight the attractiveness of the LNG business in PNG in general and the value of an expansion of the existing PNG LNG project (Train 3) in particular.

The third commercialisation option will be pipeline gas supply to regional consumers in PNG or on the West Papuan side of the border. Our business development people are actively pursuing opportunities in this category.

Corporate Strategy

With reference to the production forecast shown above, the fact that the underlying reserves and contingent resources have been independently audited gives us considerable confidence in terms of the forecast contributions from the individual fields, except as to the timing of initial production, particularly from the PNG fields. The assumptions on field start-up times are listed above.

Based on this forecast we can expect production from New Zealand and China to continue at more-or-less current levels until calendar year 2020. This means that, with consensus assumptions of oil prices and barring any unforeseen events, we can anticipate net operating income over the next five years or so to be in line with that of the last two financial years, at around US$80 – 90 million per annum.

This will be utilised initially to reduce the level of indebtedness in the Company – in the first instance by redeeming the outstanding convertible bonds and we are already underway on this process – with remaining cash flow available for investment in developing the large inventory of undeveloped reserves and resources held by the Company.

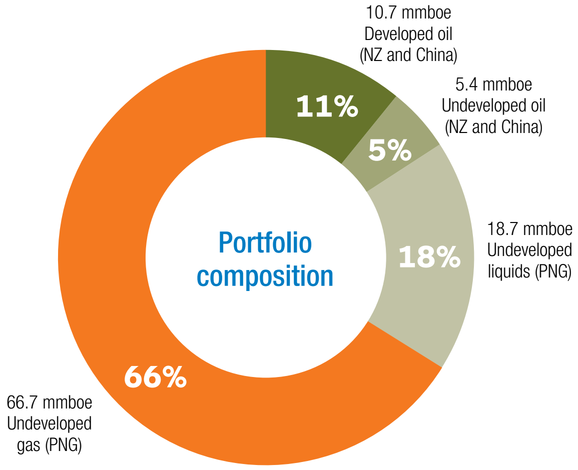
Chief Executive Officer's Report

Although we and our joint venture partners have been able to very significantly reduce our development capital expenditure budget for the next couple of years, this does not mean that work in this category will come to a halt. Rather we will continue our development planning activity in China and PNG so that we will be able, when we consider the time is right to resume development construction work, to move quickly into the contracting phase to take advantage of current capital cost deflation.

We do not budget significant expenditure on exploration activity over the next few years and when we do spend on exploration it will be in and around our existing production and development areas. Nor are we looking seriously at new business opportunities – if we were to participate opportunistically in a new venture that arises because of the current depressed state of the asset market, that venture would have to fit with our geographic focus and our conservative appetite for risk and any required expenditure would have to be long-dated.

The chart to the right illustrates the composition of the asset portfolio and further underlines the strong financial performance of the Company, considering that the significant operating income over the last two years was generated from only 11% of the total reserves and resources base that has been developed. The remaining 89% reserves and contingent resources are yet to be developed and these will be the target of the investment referred to above. It is these reserves and resources, located primarily in PNG and represented in the production forecast as coming on stream in calendar year 2017 and beyond, that constitute the substantial value upside referred to at the conclusion of the Chairman's Report.

Total audited reserves and contingent resources of 101.5 million barrels of equivalent 11% developed / 89% undeveloped - 34% oil / 66% gas



We believe that the strategic make-up of the portfolio – 34% oil and 66% gas – and its location in the Asia Pacific Basin are right for the Company.

The above approach defines our investment priorities – a focus on debt reduction and measured development of already discovered reserves and resources.

Chief Executive Officer's Report

Funding Growth projects

Given the quality and scale of, in particular, the PNG development projects, shareholders may have questions about Horizon Oil's ability to fund its share of development capital expenditure, notwithstanding the considerable cash generation anticipated from existing developed fields in New Zealand and China over the next five years. It should be noted that Horizon Oil's producing fields do not require significant recurring capital investment to maintain production levels (apart from infrequent field upgrades, such as in the case of the recent Maari Growth Projects program) and this conserves funding for investment in new field development.

The undeveloped resources in China comprise a significant volume of about 18 mmbo, but this will essentially be a brownfield development. Two minimal platforms and the necessary development wells will be tied back to an existing processing platform with spare capacity owned by the Block 22/12 joint venture, from where stabilised crude oil will be transported to a sales terminal through the same pipeline currently being utilised with favourable tariff arrangements. The capital cost of bringing on these resources is expected to be relatively modest.

The Stanley field development concept has been scaled down in the light of lower oil prices and the development well drilling phase, the largest cost element of the re-scaled project, is now behind us. Horizon Oil's share of the remaining development cost will be substantially offset by cost reimbursement by the PNG Government assuming it takes up its 22.5% interest in the project. Again, the remaining cost to the Company of bringing Stanley on stream is expected to be modest.

There is no question that the PRL 21 development project will require considerable capital expenditure. Horizon Oil's share of this, allowing for the PNG Government to back-in to its 22.5% entitlement, will be about 21%. As for Stanley, the Company's share of costs will be partially offset by Government reimbursement of prior costs. In the case of an LNG development, Horizon Oil will also be entitled to cash and work carry payments of US$130 million from Osaka Gas upon FID for the project. This receivable was a milestone payment as part of the consideration for the sale of 40% of Horizon Oil's position in PNG to Osaka in May, 2013 and was designed to provide the equity funding component of an LNG development when we needed it. Furthermore, although we would intend to participate at our 21% equity level in the upstream component of the development in any event, in the case of a mid-scale LNG project we would be prepared to participate at a lower level downstream from the field. Our discussions with Osaka Gas anticipate this possibility. Of course, in the case of the brownfield or pipeline sales alternatives materialising, there would be minimal downstream investment required.

At the time of commencing development of Elevala/Ketu, the additional reserves in China and Stanley field should be on stream and contributing to cashflow. We will have the benefit of funding from the PNG Government and Osaka Gas in the case of an LNG development. We believe that these funding sources, in combination with debt if and as required, provide a robust funding solution for Horizon Oil's participation in a potentially large development project.

Conclusion

The 2014/15 year has seen advancement of the long held overarching strategic objectives of the board and management to build an Asian focused energy company, with strong underlying financial and operational performance and a material near term development portfolio in a region of strong and growing energy demand.

The current economic circumstances have required prompt and decisive near term responses to the Company's operations. This has been a necessity throughout the resources sector generally. That Horizon Oil has had the capacity to adapt rapidly without drastic changes to its operating structure is a function of an inherently flexible operating model which adjusts to the business demands. The prudential steps of hedging a considerable volume of the Company's production to mid-2016 at the higher price levels prevailing in mid-2014, further enhanced the Company's ability to address the current oil price environment.

While there are clearly challenges for the industry in the near term, the Company is well positioned in a jurisdiction where keen interest is being shown by international energy companies looking for the opportunity to participate directly or indirectly in PNG's expanding world class, low cost LNG sector. Horizon Oil's position as operator of the largest uncommitted gas resource in PNG is the result of a calculated and patient approach taken by the Company to build such a resource base, which is positioned to deliver substantial value for shareholders.

B D Emmett
Chief Executive Officer

1 October 2015

2015 Reserves and Resources Statement

Highlights:

- At 30 June 2015, Horizon Oil's total proved and probable reserves (2P) and contingent resources (2C) for oil and condensate were 34.8 mmbbl (2P: 13.9 mmbbl, 2C: 20.9 mmbbl), some 14% higher than at 30 June 2014. The increase of 4.4 mmbl after net production was primarily attributable to successful development and appraisal drilling in New Zealand and China.
- The Company's 2C contingent gas resources are 400 bcf representing a 14 bcf increase to the June 2014 position. In Papua New Guinea, planning for reconfiguration of PDL 10 Stanley surface facilities and development of PRL 21 Elevala/Ketu gas and condensate reserves and resources is ongoing.
- At Maari the Growth Projects Program successfully completed four new wells, which increased production and allowed undeveloped reserves to be reclassified as developed reserves.
- In China two exploration wells were successful in adding some 1.9 mmbbl to reserves and resources (2P and 2C). In addition, contingent resources at WZ 12-8 were increased as a result of development studies.

Oil and Gas Reserves

At 30 June 2015, the Company's proved reserves (1P) were 9.7 mmbbl of oil and condensate. 2P reserves were 13.9 mmbbl of oil and condensate, distributed as shown in Table 1.

Table 1

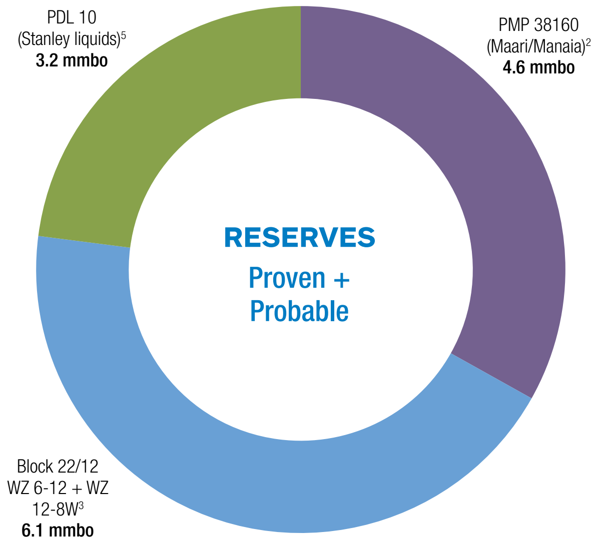
	1P Dev Oil (mmbbl)	1P Dev Gas (bcf)	1P Dev Condensate (mmbbl)	1P UnDev (mmbbl)	**1P Total (mmboe)[1]**	2P Dev Oil (mmbbl)	2P Dev Gas (bcf)	2P Dev Condensate (mmbbl)	2P UnDev (mmbbl)	**2P total (mmboe)[1]**
New Zealand										
PMP 38160 Maari/Manaia[2]	2.5	-	-	-	**2.5**	4.6	-	-	-	**4.6**
China										
Block 22/12 WZ 6-12 + WZ 12-8W[3,4]	4.7	-	-	0.2	**4.9**	5.8	-	-	0.3	**6.1**
Papua New Guinea										
PDL 10 Stanley[5]	-	-	-	2.3	**2.3**	-	-	-	3.2	**3.2**
Closing Balance 30 Jun 15 (Economic Interest)	**7.2**	**-**	**-**	**2.5**	**9.7**	**10.4**	**-**	**-**	**3.5**	**13.9**

1. Estimated in accordance with SPE-PRMS standard; 6 bcf gas equals 1 boe; 1 bbl condensate equals 1 boe
2. Net of production of 27 mmboe gross through 30 June 2015
3. Net of production of 9 mmboe gross through 30 June 2015
4. Reduced to allow for CNOOC participation at 51%
5. Subject to reduction to allow for PNG State Nominee participation at 22.5%

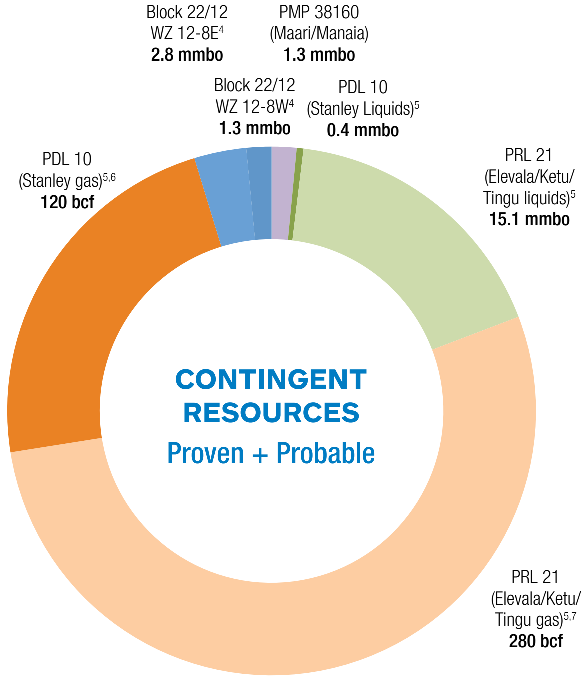
All of the reserves at Maari/Manaia are classifed as developed. The undeveloped 2P reserves of 3.5 mmbbl are related to the planned WZ 12-10-2 well to be drilled in late 2015, and the Stanley field in PNG, where surface facilities planning is under way.

2015 Reserves and Resources Statement

Net Reserves[1], Contingent Resources[1] and Prospective Resources[1] as at 30 June 2015



Total 13.9 mmbo



Total 87.6 mmboe / including 400 bcf of gas

Reconciliation of Reserves

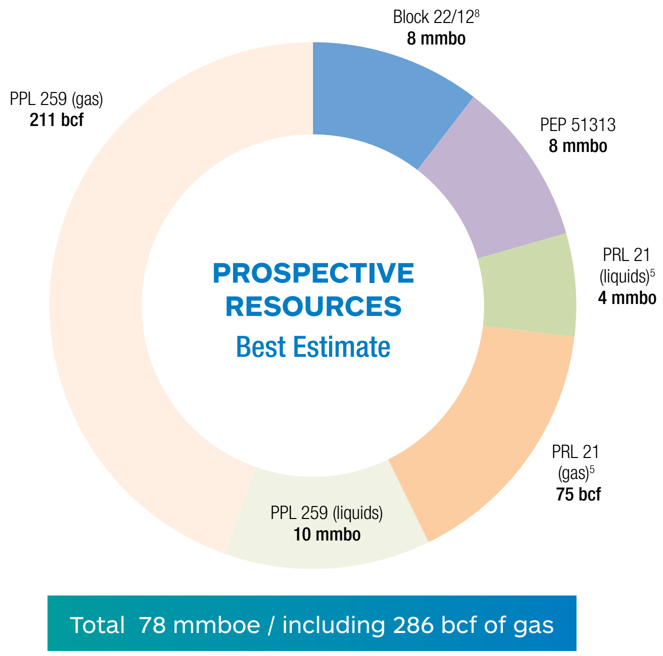
Table 2

	1P Developed and Undeveloped				2P Developed and Undeveloped			
	Oil (mmbbl)	Condensate (mmbbl)	Gas (bcf)	Oil Equivalent (mmboe)	Oil (mmbbl)	Condensate (mmbbl)	Gas (bcf)	Oil Equivalent (mmboe)
Opening Balance 30 June 2014 (Economic Interest)	8.0	2.6	-	10.6	11.6	3.5	-	15.1
WI% adjustment	-	(0.3)	-	(0.3)	-	(0.3)	-	(0.3)
Production (WI%)	(1.3)	-	-	(1.3)	(1.3)	-	-	(1.3)
Reserves revision	(0.1)	-	-	(0.1)	(0.5)	-	-	(0.5)
Economic interest adjustment	0.8	-	-	0.8	0.9	-	-	0.9
Closing Balance 30 Jun 2015 (Economic Interest)	**7.4**	**2.3**	**-**	**9.7**	**10.7**	**3.2**	**-**	**13.9**

The key changes in 1P and 2P reserves since 30 June 2014 are summarised in Table 2 above:

- **Production:** Reserves at 30 June 2015 have been adjusted for net production of 1.3 mmbbl (0.32 mmbbl in Maari/Manaia and 0.99 mmbbl in Block 22/12, China).
- **China:** Increased 1P economic reserves of 0.1 mmbbl and 2P reserves in Block 22/12 of 0.3 mmbbl net of production. This increase recognises the effect of cost recovery benefit under the PSC and also results from two successful exploration wells drilled in 3Q 2014, one of which will be partially developed through the WZ 12-8W platform in late 2015. The remaining discovered resources are the subject of ongoing development planning and are held as 2C resources. The Block 22/12 fields were independently audited by RISC in early 2015.
- **New Zealand:** Downward economic 1P reserves revision of 0.4 mmbl net of production and 2P reserves revision of 0.9 mmbbl in Maari/Manaia resulting from a reconfiguration of the Maari Growth Projects Program. The associated undeveloped reserves have been reclassified as 2C resources. In addition, further adjustments have been made as a consequence of Horizon Oil's evaluation of the geological and production data obtained from the four new wells integrated with ongoing production information. This recent evaluation will be the subject of independent audit in due course.
- **Papua New Guinea:** Downward revision of 0.3 mmbbl at PDL 10 Stanley due to working interest assumptions.

2015 Reserves and Resources Statement



1. Estimated in accordance with SPE-PRMS standard; 6 bcf gas equals 1 boe; 1 bbl condensate equals 1 boe
2. Net of production of 27 mmboe gross through 30 June 2015
3. Net of production of 9 mmboe gross through 30 June 2015
4. Reduced to allow for CNOOC participation at 51%
5. Subject to reduction to allow for PNG State Nominee participation at 22.5%
6. Includes 2.6 mmbbl LPG (1 tonne LPG equals 11 bbl)
7. Includes 9.0 mmbbl LPG
8. Subject to confirmation of acreage extension

Contingent and Prospective Resources

At 30 June 2015, the Company's 2C contingent resources were 20.9 mmbbl of oil and condensate, and 400 bcf of gas; prospective resources were 30mmbbl of oil and condensate and 286 bcf of gas as summarised in Table 3 below. Note that the table includes 2P reserves for reference.

Table 3

	2P[1]	2C[1]				Best Estimate Prospective Unrisked Resource[1]		
	(mmboe)	Oil (mmbbl)	Gas (bcf)	Condensate (mmbbl)	Total (mmboe)	Liquids (mmbbl)	Gas (bcf)	Total (mmboe)
New Zealand								
PMP 38160 Maari/Manaia	4.6[2]	1.3	-	-	**1.3**	-	-	**-**
PEP 51313	-	-	-	-	**-**	8	-	**8**
China								
Block 22/12 WZ 6-12 + WZ 12-8W[3]	6.1[4]	1.3	-	-	**1.3**	-	-	**-**
Block 22/12 WZ 12-8E	-	2.8	-	-	**2.8**	8	-	**8**
Papua New Guinea (post Osaka Gas transaction)								
PDL 10 Stanley[5]	3.2	-	120[6]	0.4	**20.3**	-	-	**-**
PRL 21 Elevala[5]	-	-	202[7]	11.1	**44.8**	4	75	**17**
PRL 21 Ketu[5]	-	-	78[8]	4.0	**17.0**	-	-	**-**
PPL 259[5]	-	-	-	-	**-**	10	211	**45**
Closing Balance 30 Jun 15 (Economic Interest)	**13.9**	**5.4**	**400**	**15.5**	**87.6**	**30**	**286**	**78**

1. Estimated in accordance with SPE-PRMS standard; 6 bcf gas equals 1 boe; 1 bbl condensate equals 1 boe
2. Net of production of 27 mmboe gross through 30 June 2015
3. Net of production of 9 mmboe gross through 30 June 2015
4. Reduced to allow for CNOOC participation at 51%
5. Subject to reduction to allow for PNG State Nominee participation at 22.5%
6. Includes 2.6 mmbbl LPG (1 tonne LPG equals 11 bbl)
7. Includes 6.5 mmbbl LPG
8. Includes 2.5 mmbbl LPG

2015 Reserves and Resources Statement

Reconcilliation of Contingent Resources and Prospective Resources

The key changes in contingent resources since 30 June 2014 are as per Table 4:

Table 4

	2C boe (mmboe)	Best Estimate Prospective Unrisked Resources (mmboe)
Opening Balance 30 June 2014 (Economic Interest)	79.7	82
Reserve revisions (WI%)	8.6	(4)
WI% adjustment	(0.4)	-
Economic Interest Adjustment	(0.3)	-
Closing Balance 30 June 2015 (Economic Interest)	**87.6**	**78**

- **Papua New Guinea:** Increase in PRL 21 of 1.7 mmbbl of condensate and 14 bcf of gas resulting from ongoing evaluation of geological data and subsurface development plans.
- **China:** Increase in Block 22/12 12-8E (including the 12-10-1 prospect) of 1.5 mmbbl net working interest; increased revision in Block 22/12 12-8W (12-10-2 prospect) of 1.5 mmbbl net working interest.
- **New Zealand:** Increased revision in Maari contingent resources of 1.3 mmbbl.

Initial booking of Contingent Resource - Beibu Gulf, Block 22/12

A total of 1.6 mmbbl of oil has been booked for the first time as 2C contingent resource relating to Horizon Oil's 26.95% net working interest in Block 22/12, China. The resources were discovered by the WZ 12-10-1 and WZ 12-10-2 wells drilled in late 2014. It is planned to partially develop the WZ 12-10-2 well (0.3 mmbbl 2P reserves) by means of an extended reach well drilled from the WZ 12-8W field in late 2015. This will effectively appraise the accumulation and lead to further development of the remaining 2C resources in due course. It is planned to develop the WZ 12-10-1 resource as part of the WZ 12-8E development which is currently in the development planning stage. The resources assigned to the undeveloped and contingent categories were independently audited by RISC in early 2015.

Initial Booking of Contingent Resource - Maari/Manaia, PMP 38160

A total of 1.3 mmbbl of oil has been booked as 2C contingent resource relating to Horizon Oil's 10% economic interest in PMP 38160, hosting the Maari/Manaia fields offshore New Zealand.

- **Manaia Moki:** The Manaia-2 well, drilled in late 2013 as an appraisal to the Manaia Field discovery well, Maui-4, proved the existence of moveable oil in the Moki formation which has been assessed to have 2C potential of 8.5 (net 0.85) mmbbl. The accumulation would be developed through a new platform and feasibility studies are under way.
- **Manaia Mangehewa:** 3.6 (net 0.36) mmbbl of 2C resources have been assessed as available to be developed by a second production well into the currently producing Mangahewa reservoir at Manaia. A second production well planned for inclusion in the 2014/15 Growth Projects Program was not drilled and the resource, previously classified as undeveloped reserves, has been reclassified as contingent resources subject to completion of ongoing development studies.
- **Maari Moki M2A:** 1.2 (net 0.12) mmbbl of contingent resource assigned to the M2A reservoir at the Maari Field. This resource has also been reclassified from undeveloped reserves to contingent resources subject to completion of development studies based on revised mapping.

2015 Reserves and Resources Statement

Permits held

Location	Permit or licence	Principal assets	Interest (%)
New Zealand	PMP 38160	Maari and Manaia fields	10.00%
	PEP 51313 (Matariki)	Matariki, Whio (formerly Pike), Pukeko prospects	21.00%[1]
China	Block 22/12	WZ 6-12, WZ 6-12 South and WZ 12-8 West fields	26.95%
		WZ12-8 East field	55.00%[2]
PNG	PDL 10	Stanley field	30.00%[3]
	PRL 21	Elevala/Tingu and Ketu	27.00%[3]
	PPL 259		35.00%
	PPL 372		90.00%
	PPL 373		90.00%
	PPL 430		50.00%
	PRL 4		33.33%*

**Subject to Government approval.*

1. Under the terms of the farm in agreement executed in November 2012, in the event of a commercial discovery at the Whio prospect, Horizon Oil's interest over the Whio prospect will reduce to 10%. No commerical hydrocarbons were discovered when this was drilled in July 2014.
2. China National Offshore Oil Corporation is entitled to participate at up to a 51.00% equity level in any commercial development within Block 22/12. No commerical hyrdrocarbons were discovered when this was drilled in July 2014.
3. PNG Govt may appoint a state nominee to acquire up to a 22.5% participating interest in any commercial development within PDL 10 and PRL 21.

Governance and 2015 Audit Plan

The governance arrangements for the reporting of hydrocarbon Reserves and Resources are based on the following procedure:

- Periodic assessment of proposed changes and additions to the Company's reserves and resource database, based on technical work conducted by Horizon Oil staff with contributions from asset operators, peer review and external experts where appropriate.
- Regular (normally end of calendar year) audits are undertaken by independent third party resource evaluators which are overseen by the General Manager – Exploration and Development of Horizon Oil, who is a petroleum reserves and resources evaluator qualified in accordance with ASX Listing Rule requirements. Historically, Horizon Oil has engaged RISC Pty Ltd to conduct independent audits of its reserves and resources.
- No public reporting of any reserves or resources estimate is permitted without approval of the General Manager – Exploration and Development and the Chief Executive Officer.
- All public reporting of the reserves or resources estimates is in accordance with the requirements set out in Chapter 5 of the ASX Listing Rules and Horizon Oil's Continuous Disclosure Policy.
- Annual reports are subject to Board approval at the Audit and Financial Risk Committee.

The Reserves, Contingent Resources and Prospective Resources estimates used in this section are supported by Alan Fernie (General Manager – Exploration and Development and full time employee of Horizon Oil).

Depending on the asset, either deterministic or probabilistic methods have been used to compile Reserve and Contingent Resource estimates and the probabilistic method has been used to compile Prospective Resource estimates. Due to the portfolio effects of arithmetic summation the aggregate 1P Reserve may be a very conservative estimate and the aggregate 3P Reserve may be a very optimistic estimate. Prospective Resources have not been adjusted for risk, i.e. chance of success.

Estimates of reserves are reported net of lease fuel. The reference point used for the purposes of measuring and assessing the estimated reserves is the sales point.

The reserve and resource estimates used in this report were compiled by Alan Fernie (General Manager – Exploration and Development). Mr Fernie (B.Sc), who is a member of the American Association of Petroleum Geologists, has more than 39 years relevant experience within the industry. The reserve and resource estimates are consistent with the definitions of proved, probable, and possible hydrocarbon reserves and resources that appear in the ASX Listing Rules. Alan Fernie is qualified in accordance with the requirements of ASX Listing Rule 5.42 and consents to the use of the resource and reserve figures in the form and context in which they appear in this report.

The 1P, 2P reserves and contingent resource estimates provided for the China and PNG assets in this report were audited in early 2015 by independent auditors, RISC. The estimates provided for Maari/Manaia are based on recent internal evaluations conducted by Horizon Oil and assessments provided by the Operator, OMV. These estimates are yet to be independently audited.

Board of Directors

Fraser Ainsworth AM
Chairman

Brent Emmett
Chief Executive Officer

John Humphrey
Director

Andrew Stock
Director

Gerrit de Nys
Director

Consolidated Results

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

	2015 US$'000	2014 US$'000	2013 US$'000	2012 US$'000	2011 US$'000
Revenue from continuing operations	**103,950**	138,450	48,071	50,390	59,362
Cost of sales (includes amortisation)	**(59,970)**	(92,716)	(22,685)	(16,935)	(19,622)
Gross profit	**43,980**	45,734	25,386	33,455	39,740
Profit from sale of assets	**-**	23,830	-	-	22,000
Other income	**6,842**	234	30	72	464
General and administrative expenses	**(7,569)**	(8,183)	(7,038)	(8,110)	(7,232)
Exploration and development expenses	**(16,222)**	(10,520)	(606)	(303)	(255)
Financing costs (includes project facility, convertible bonds and FPSO finance lease)	**(17,360)**	(18,899)	(8,209)	(5,974)	(2,817)
Unrealised movement in value of convertible bond conversion rights	**9,063**	412	991	4,967	(3,351)
Other expenses	**(983)**	(2,581)	(529)	(418)	(69)
Profit/(loss) before income tax expense	**17,751**	30,027	10,025	23,689	48,480
Net tax benefit/(expense)	**556**	(17,197)	(6,551)	(16,042)	(13,544)
Profit/(loss) for the financial year from continuing operations	**18,307**	12,830	3,474	7,647	34,936
Loss from discontinued operations (net of tax)	**-**	-	-	-	-
Profit/(loss) for the financial year	**18,307**	12,830	3,474	7,647	34,936
Profit/(loss) attributable to members of Horizon Oil Limited	**18,307**	12,830	3,474	7,647	34,936

Activities Review

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PRODUCTION

CHINA

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

NEW ZEALAND

PMP 38160, Maari and Manaia fields, offshore Taranaki Basin
(Horizon Oil: 10%)

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DEVELOPMENT

PAPUA NEW GUINEA

PDL 10, Stanley field
(Horizon Oil: 30%)

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EXPLORATION/ APPRAISAL

PAPUA NEW GUINEA

PRL 21, Elevala / Ketu fields
(Horizon Oil: 27%)

PPL 259
(Horizon Oil: 35%)

PPLs 372 and 373
(Horizon Oil: 90%)

PPL 430
(Horizon Oil: 50%)

*PRL 4
(Horizon Oil: 33.33%)
**Subject to government approval*

NEW ZEALAND

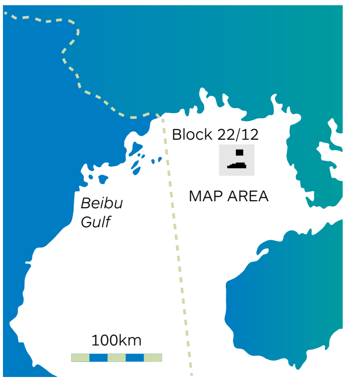
PEP 51313, offshore Taranaki Basin
(Horizon Oil: 21%)

Production

China

Block 22/12, Beibu Gulf

PERMIT	INTEREST (%)
Block 22/12	26.95% production 55% exploration



China > Beibu Gulf

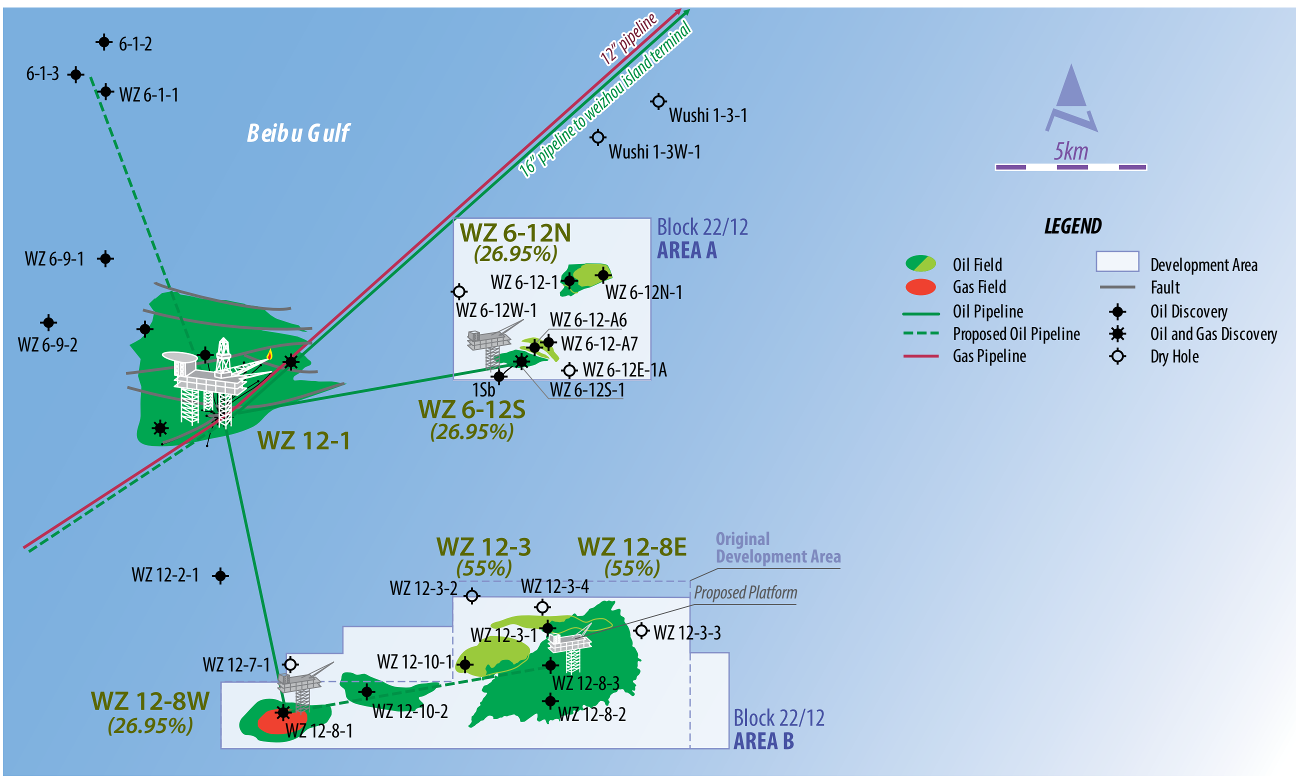
During the year, Horizon Oil's working interest share of production from the Beibu Gulf fields was 993,857 barrels of oil. Crude oil sales were US$62.5 million generated from 928,014 barrels, at an average price exclusive of executed hedging of US$67.34 per barrel. Gross oil production averaged 10,103 bopd, of which Horizon Oil's share was 2,723 bopd. All of the 15 production wells are now being produced with artificial lift by electrical submersible pumps (ESPs). Cumulative oil production from the combined fields of 9 mmbo was achieved shortly after 30 June 2015.

Horizon Oil's entitlement to cost recovery oil at 30 June 2015 was US$98 million. Based on forecast field production rates, Horizon Oil's Block 22/12 production entitlement will increase from 26.95% to over 35% of production with effect from the fourth quarter of the 2015 calendar year, while the cost recovery entitlement is preferentially recovered.

Work continued during the year on the Phase II development plan for the WZ 12-8E oil accumulation. The development of the WZ 12-8E field will constitute the second phase of an integrated development with the existing WZ 6-12 and WZ 12-8W development.

The WZ 12-8E feasibility expert review by CNOOC was concluded in May 2015. Preparation of the Overall Development Plan for the field is underway, with completion scheduled in late calendar year 2015/ early calendar year 2016. The audited gross 2C resources for the field (including WZ 12-10-1 and WZ 12-3-1) are 11.1 mmbo.

Two successful exploration wells were also drilled within Block 22/12 during the year.



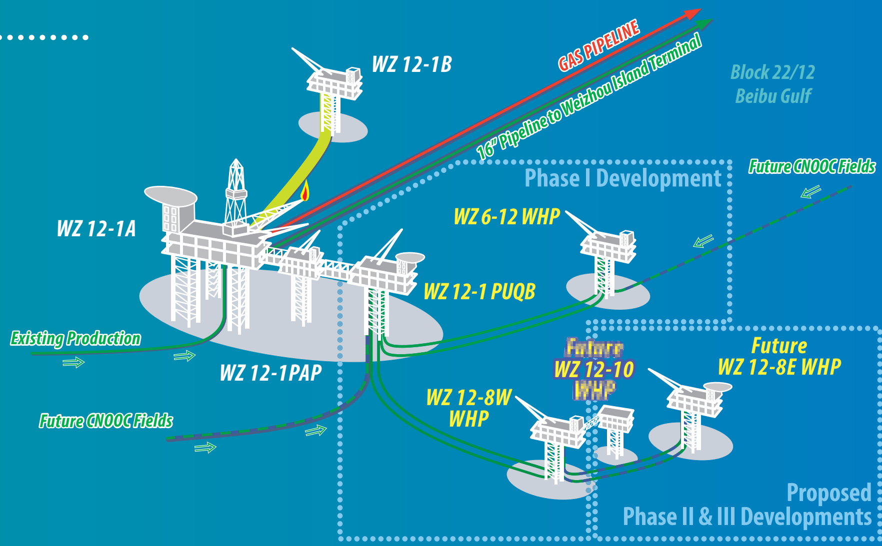
The first well, WZ 12-10-1, targeted the T42 and Weizhou formations, adjacent to the WZ 12-8E field of the WZ 12-8 Development Area. The well discovered oil in the Jiaowei (T42) formation over an interval of 5.5 m, with high porosity net oil pay of 4.2 m. A sidetrack (WZ 12-10-1Sa) with a 340 m eastern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

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

Planning for an approved appraisal/development well on the WZ 12-10-2 new field discovery progressed during the year. The well (WZ 12-8W-A6H) will be drilled in Q4 of calendar year 2015 from the WZ 12-8W platform to evaluate the south eastern part of the structure and enable immediate production. The audited gross 2P reserves and 2C resources for the structure are 1.1 mmbo and 5.4 mmbo, respectively.

Crude oil sales were US$62.5 million generated from 928,014 barrels

Integrated Development Concept CNOOC Infrastructure



Production

New Zealand

Maari and Manaia fields, offshore Taranaki Basin

PERMIT	INTEREST (%)
PMP 38160	10%

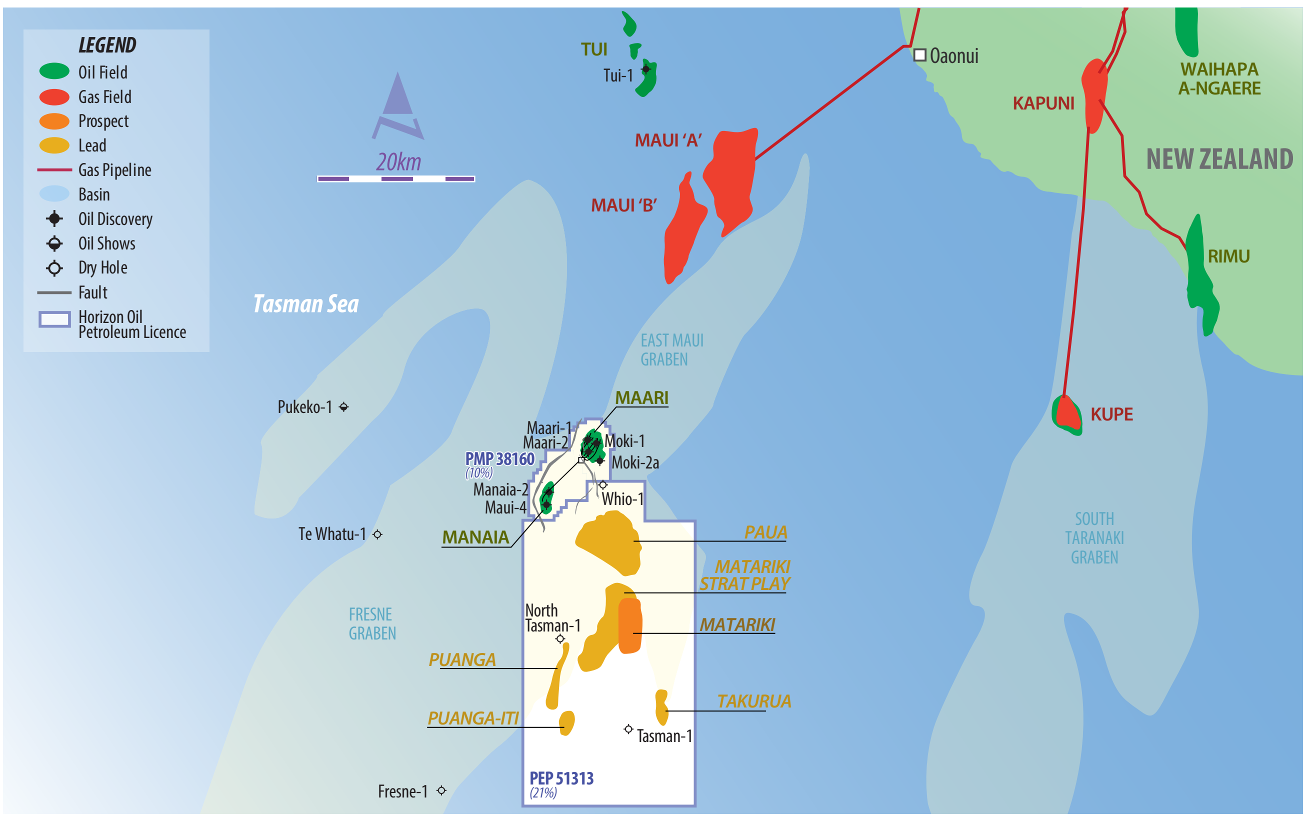
New Zealand > offshore Taranaki Basin

During the year, Horizon Oil's working interest share of production from Maari and Manaia fields was 316,628 barrels of oil. Crude oil sales were US$21.2 million generated from 286,474 barrels at an average price exclusive of executed hedging of US$73.95 per barrel. Gross oil production averaged 8,675 bopd, of which Horizon Oil's share was 867 bopd. Cumulative gross oil production from the fields through 30 June 2015 was in excess of 27 million barrels.

The Maari Growth Projects drilling program was completed during the year, incorporating four new wells which were designed to enhance production rate and oil recovery from the Maari and Manaia fields. The Maari MR8A development well was completed and production commenced from this well on 28 November 2014. The Maari MR6A development well, which involved the conversion of an existing water injection well to a new production well to address the oil reserves in the deeper Maari Mangahewa formation, commenced production on 21 March 2015, with initial production of 7,800 bopd. The Maari MR7A and MR10 wells were drilled and completed in the final quarter of the financial year and commenced production respectively on 18 May and 6 July 2015. Following completion of the Maari Growth Projects drilling program, gross production increased to in excess of 16,000 bopd.

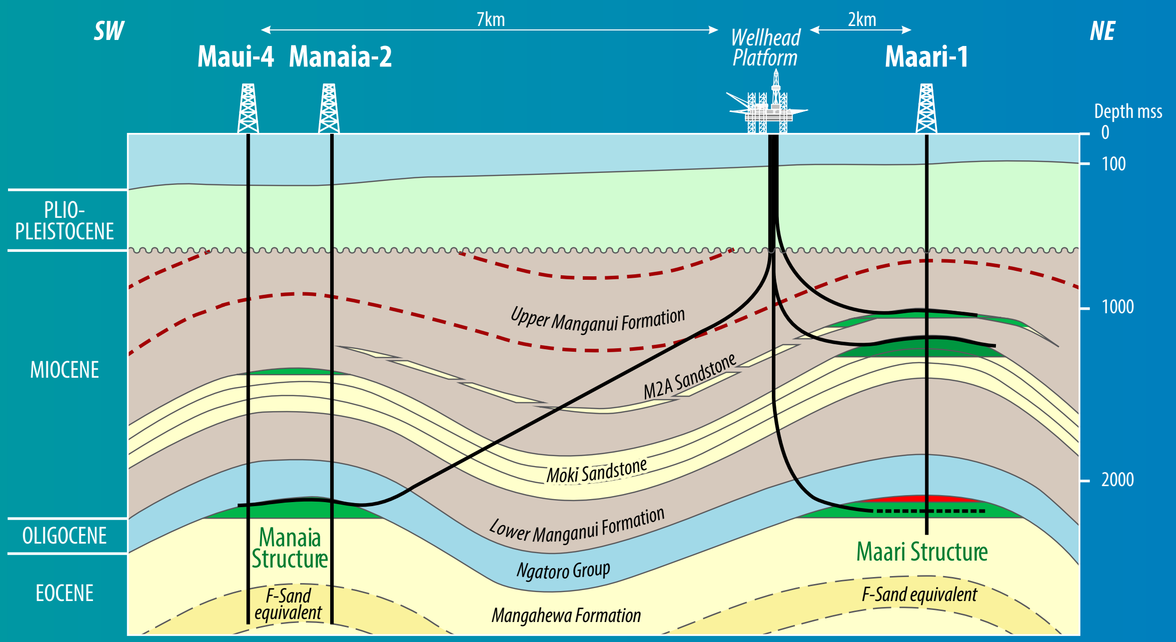
Drilling operations involving the Ensco 107 were completed on 29 June 2015. The rig was successfully floated off the Maari field location for demobilisation on 11 July 2015.

The Maari joint venture's workover unit (WOU) is being reinstalled on the wellhead platform in preparation for carrying out maintenance workovers and other activities such as adding perforations, initially on four wells, to further enhance production.



Cumulative gross oil production from the fields through 30 June 2015 was in excess of 27 million barrels

Maari / Manaia schematic cross-section PMP 38160, Offshore New Zealand

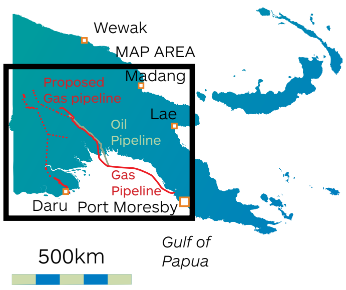


Development

Papua New Guinea

PDL 10, Stanley Field

PERMIT	INTEREST (%)
PDL 10	30%

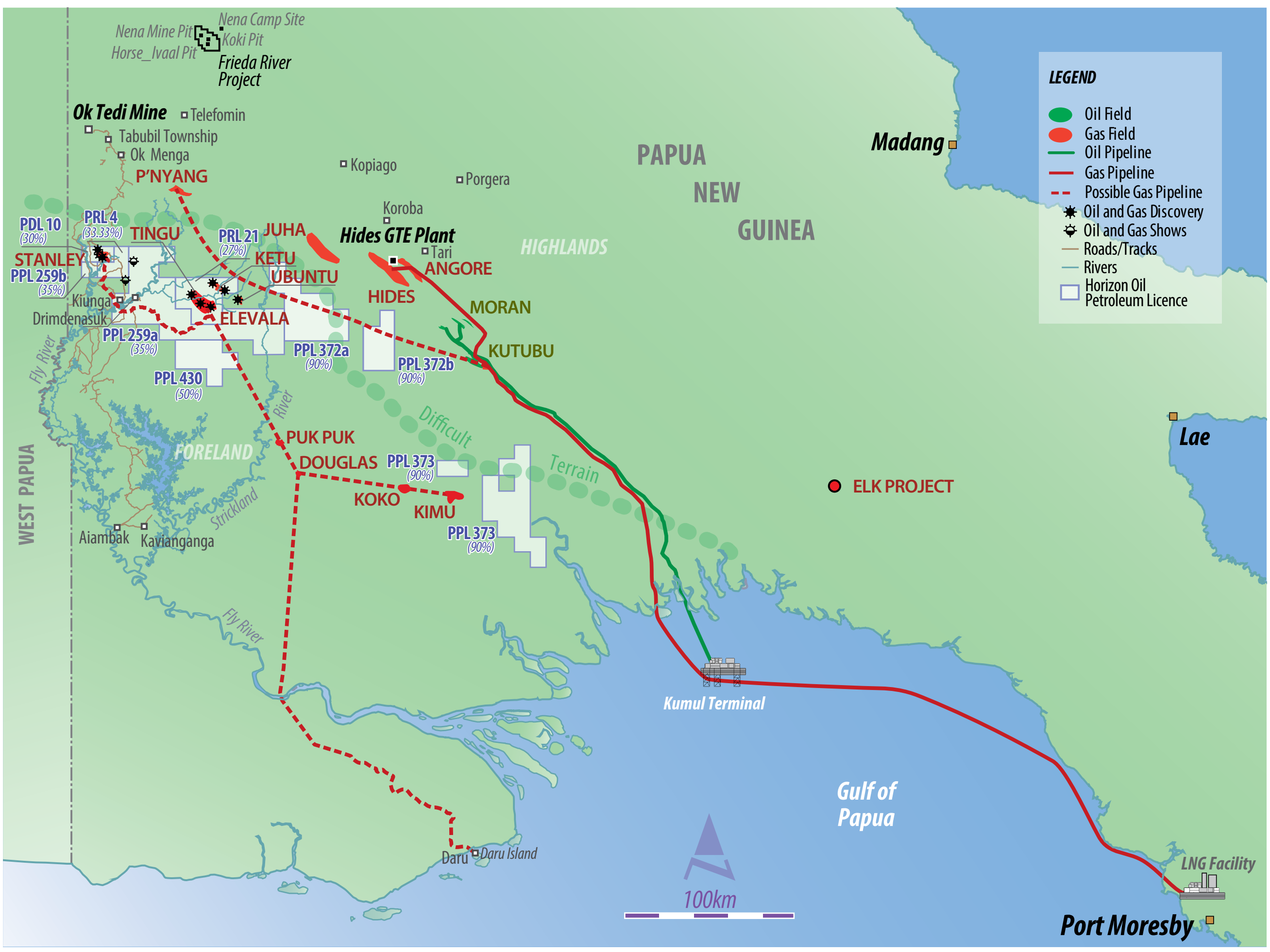


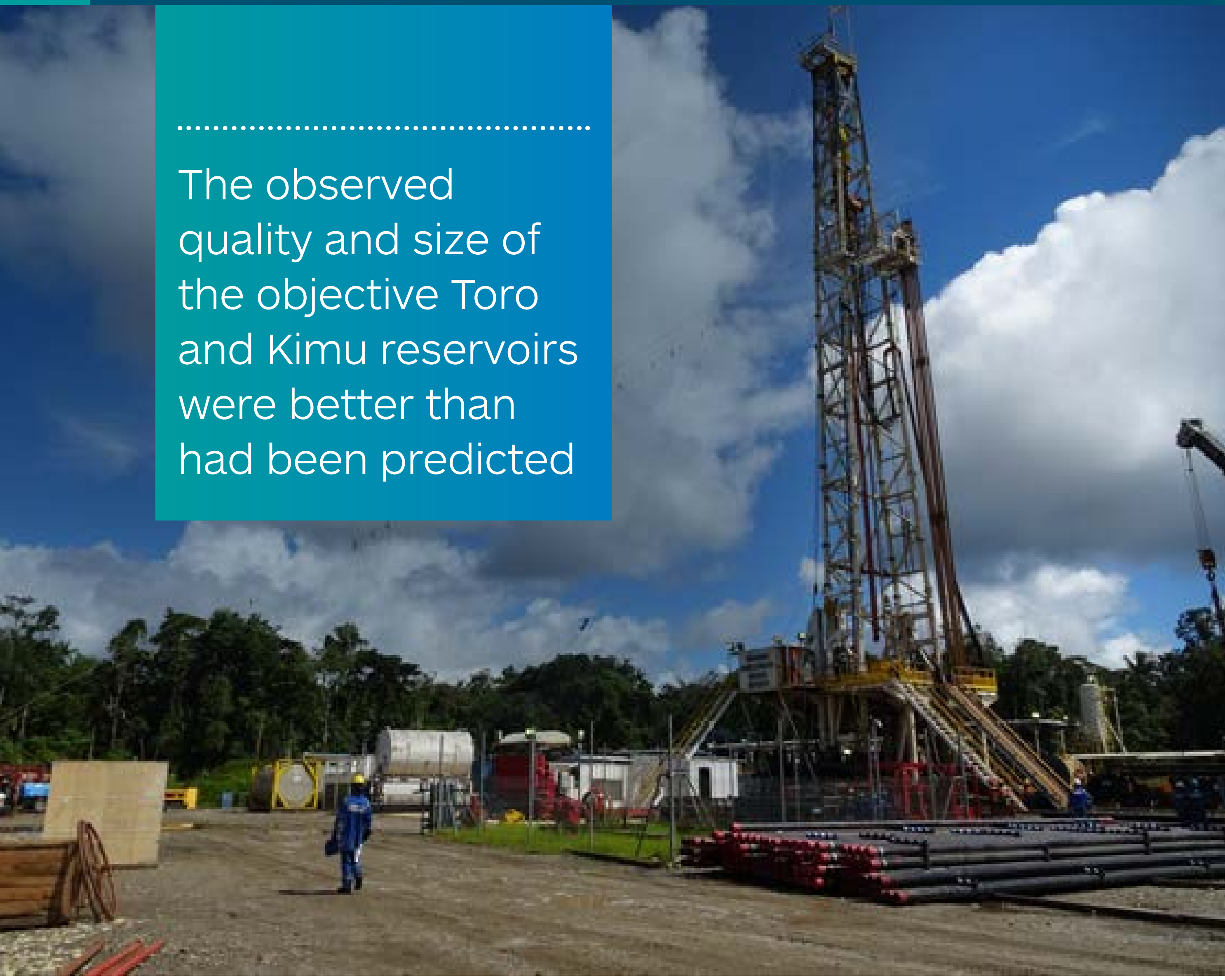
PAPUA NEW GUINEA › Stanley Field

Following receipt of the Stanley development licence, the Stanley-3 and Stanley-5 development wells were drilled and completed during the year.

The Stanley-5 production well spudded on 16 June 2014 using the Parker 226 rig and was drilled to target total measured depth of 3,405 m. The observed quality and size of the objective Toro and Kimu reservoirs were better than had been predicted, with a combined gross reservoir column of about 110 m and net pay of about 96 m. A production test was carried out over the Toro and Kimu zones. After a clean-up period of 24 hours, the Stanley-5 well flowed at approximately 68 million cubic feet of gas per day (mmcfd), with associated condensate, on a 122/64" choke at a wellhead pressure of 3,233 psi. Log and test data from the well, together with wellhead condensate samples obtained, confirm reservoir and fluid properties consistent with and exceeding pre-drill estimates and the nearby Stanley-2 results.

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





The observed quality and size of the objective Toro and Kimu reservoirs were better than had been predicted

Horizon Oil managed the drilling of the Stanley-5 and -3 development wells on behalf of the joint venture. The two production wells for the Stanley gas-condensate project (Stanley-2 and -5) are now completed, ready for production and, through testing, have demonstrated the capacity to produce well in excess of the design capacity of the Stanley gas plant (140 mmcfd). With completion of the Stanley-3 well, all development drilling activities will have been completed in respect of the Stanley project.

In light of the material changes in market conditions in respect of oil price and costs which commenced in the fourth quarter of calendar year 2014, the Stanley joint venture initiated a value engineering review process to optimise project design, execution and timing prior to entering into material contracts for fabrication and construction of the project facilities. Project cost estimates are being revised, taking advantage of the cost deflation prevailing in the current industry climate. The review process continued during the first half of the 2015 calendar year. The operator, Repsol, anticipates finalising the revised development concept for joint venture approval in the second half of the 2015 calendar year.

Horizon Oil anticipates the revised project configuration will entail a phasing of the ultimate development and associated capital costs, enabling early investment limited to match the gas demand for power generation to meet the requirements of regional mining and industrial users. The operator, Repsol, advises the target timing for first production is prior to the end of 2017.

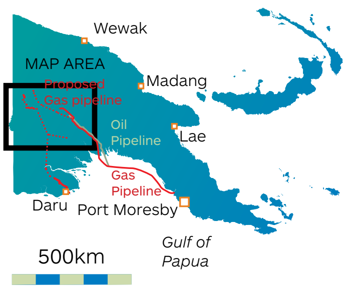
The Stanley project tanker *Western Queen* passed all inspections during the year which qualifies the vessel for sub-charter arrangements. The vessel is currently sub-chartered on a long-term charter arrangement which will serve to offset holding costs until the vessel is required to transport Stanley condensate.

Exploration/Appraisal

Papua New Guinea

PRL 21, Elevala / Ketu discoveries

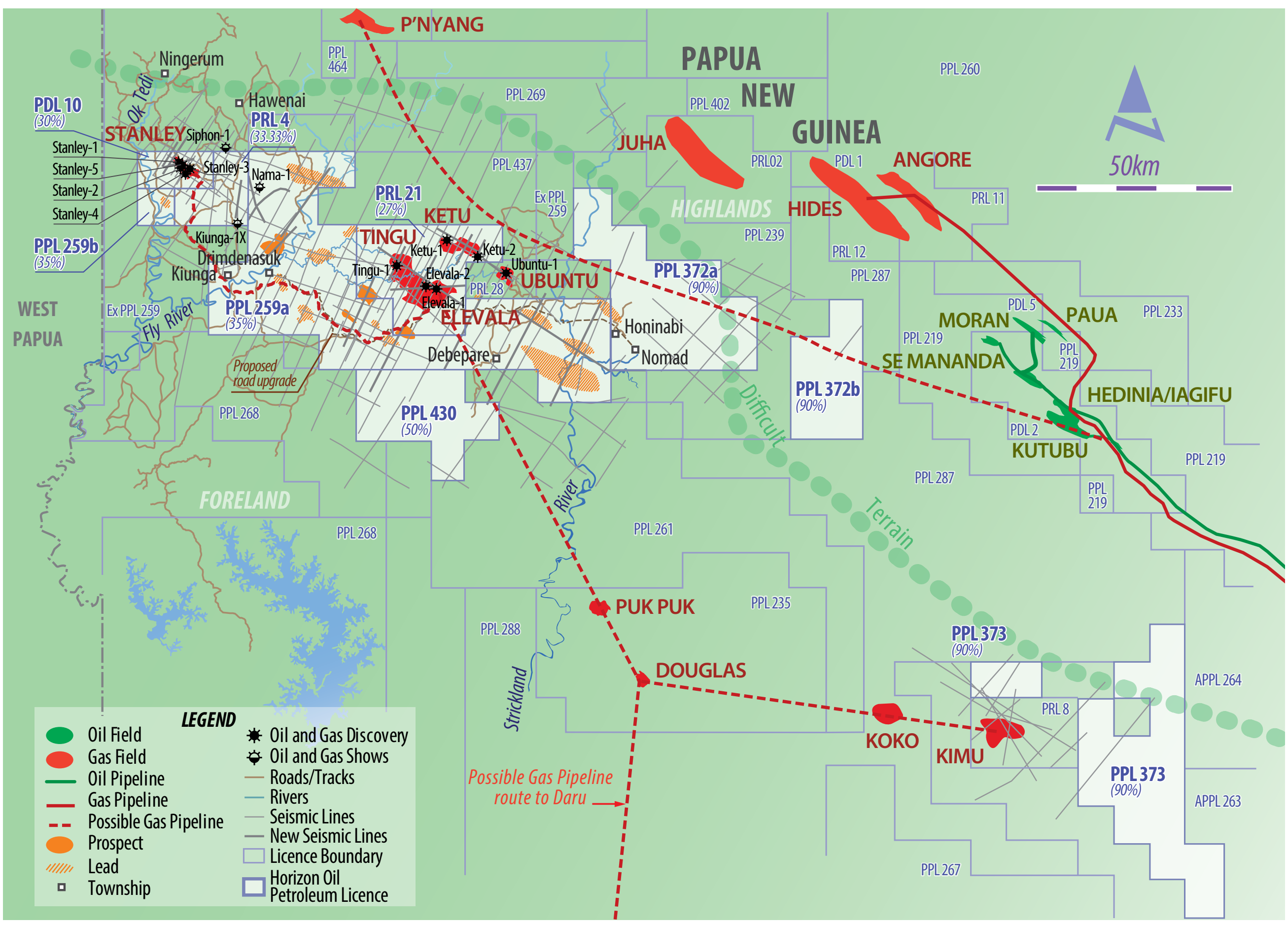
PERMIT	INTEREST (%)
PRL 21	27%

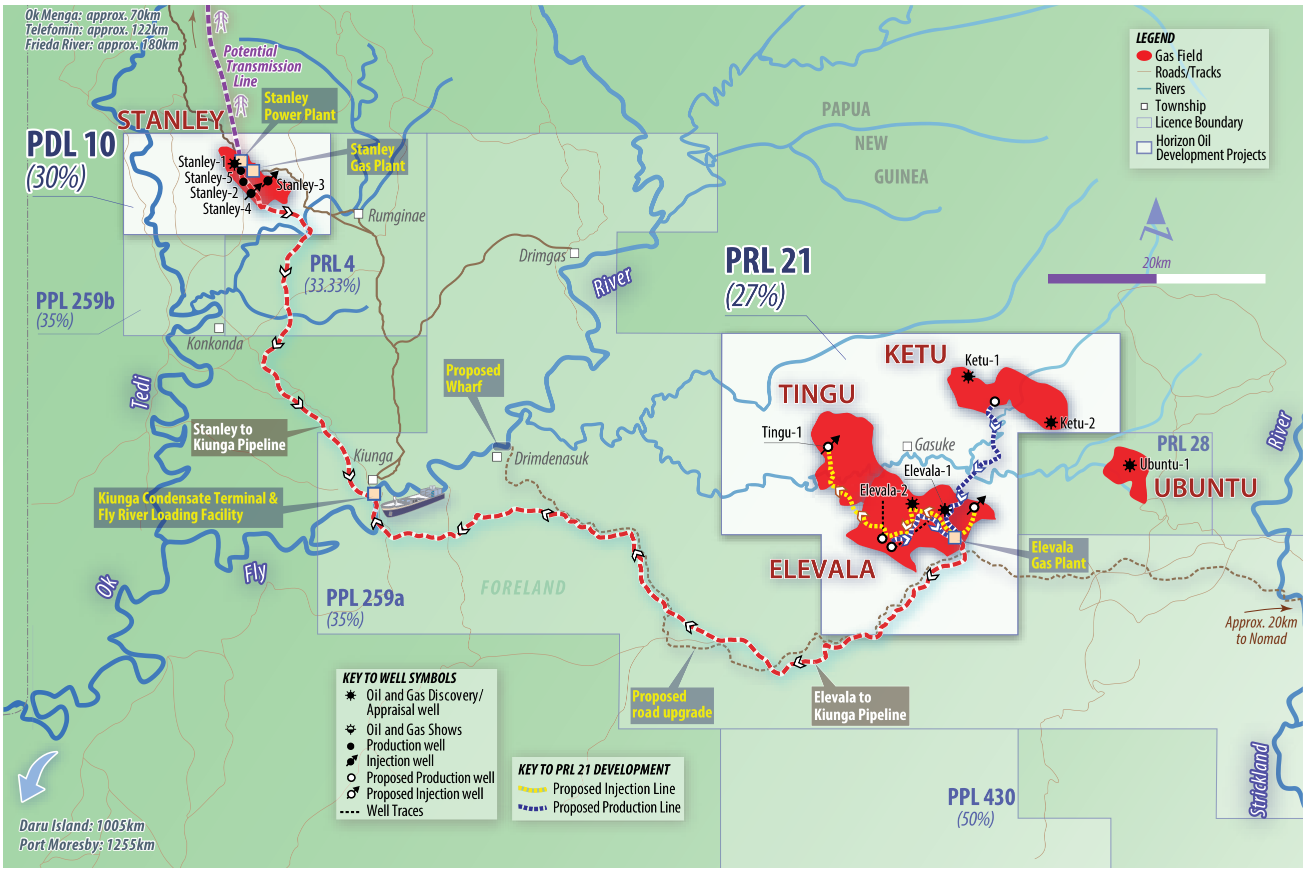


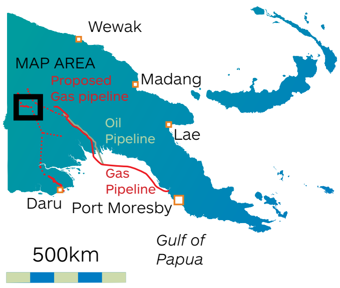
PAPUA NEW GUINEA › Elevala / Ketu

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

Review of the development and pipeline applications by the PNG Department of Petroleum and Energy (DPE), Conservation and Environment Protection Authority (CEPA – formerly known as the Department of Environment and Conservation), assessment of the Environmental Impact Statement and review of the Social Mapping and Landowner Identification Study are all well advanced. Meetings with the Provincial Government and landowner representatives are ongoing. The DPE has engaged the National Petroleum Corporation of PNG to assist with the review of surface and subsurface elements of the development plan. CEPA conducted a series of community engagement and feedback forums in PRL 21 during March 2015.







In light of the current low oil price environment, the project selection duration was extended in order to ensure that project cost estimates are in line with current market conditions, with the ultimate aim of enhancing the project economics. Internal value engineering reviews were also commenced during the year to optimise the project configuration and take into account revised market conditions and cost deflation.

Horizon Oil, in partnership with Osaka Gas, conducted a pre-feasibility study for a Western Province-based greenfield mid-scale LNG project. The study evaluated several development options and the shortlisted options will be further evaluated through the course of a feasibility study scheduled to be completed in late calendar year 2015. A scheme with a near shore plant at Daru Island is the leading concept, which is similar in approach to other barge mounted near shore LNG projects/proposals such as Pacific Rubiales Caribbean FLNG project, Santos/Engie's 2 mtpa Bonaparte Basin mid-scale LNG proposal and Woodside's Grassy Point near shore LNG development concept.

During the year, participants in the PNG LNG project advised that they had signed an agreement with the PNG Government providing for the award of development and pipeline licences for the P'nyang field, located roughly 70 km to the north of Stanley, Elevala/Tingu and Ketu fields, to enable expansion of the PNG LNG project. Under the agreement a final investment decision for an additional LNG train is to be taken by the end of 2017, at the latest. Oil Search Limited, a key participant in P'nyang, continued to highlight the potential for NW Hub gas resources, potentially including with P'nyang the gas resources in Stanley, Elevala, Ketu and Ubuntu fields, to supply the third PNG LNG expansion train.

Considerable exploration and appraisal activity will be carried out in early 2016 immediately to the north of Horizon Oil's Western Province gas fields with the P'nyang participants planning to drill up to two appraisal wells and the PPL 269 participants, including Repsol, Santos and Oil Search to drill up to two exploration wells, with total drilling costs likely to be in the order of US$400-500 million.

Elsewhere in PNG Total, InterOil and Oil Search recently announced the selection of the facilities site for the Papua LNG project, which will utilise the Elk and Antelope gas accumulations, and confirmed the timetable for selection of the final development concept in early 2016.

Horizon Oil considers that these recent material developments have the potential to increase the likelihood of promising alternative commercialisation pathways emerging for its substantial gas resources in the Western Province foreland. The possible export pipeline route connecting P'nyang gas field to the existing PNG LNG system at Kutubu offers, in Horizon Oil's view, the potential for a gas aggregation project involving Stanley, Elevala/ Tingu, Ketu, Ubuntu and P'nyang fields. An alternative possible pipeline route could connect Horizon Oil's gas to the Puk Puk, Douglas, Koko and Kimu dry gas fields to the south and thence to the Elk/Antelope pipeline system, to enable expansion of the Papua LNG project.

Naturally, the Company intends to progress planning for a greenfield LNG project at Daru Island as its base case. However, the opportunity to participate in a brownfield LNG development by way of aggregation of Horizon Oil's gas fields with those of other operators represents a potentially attractive proposition. The Company further understands that such proposals have considerable PNG governmental support.

Exploration/Appraisal

Papua New Guinea / New Zealand

Papua New Guinea

PPL 259

PERMIT	INTEREST (%)
PPL 259	35%

During the year the Nama-1 rig site, located 20 km east of Stanley field, was completed and the exploration well spudded with the Parker 226 rig on 4 December 2014.

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

Demobilisation of the rig and associated services commenced after the Nama-1 well. The Parker 226 rig had successfully carried out the multi-well and multi-licence exploration and development drilling programs of various joint ventures in Western Province, PNG. The demobilisation activities are complete and within the gross demobilisation budget for the rig and services.

Papua New Guinea

PPLs 372,373 and 430

PERMIT	INTEREST (%)
PPLs 372 and 373	90%
PPL 430	50%

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

New Zealand

PEP 51313, offshore Taranaki Basin

PERMIT	INTEREST (%)
PEP 51313	21%

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

Horizon Oil Limited
ABN 51 009 799 455

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

Horizon Oil Limited is a public company limited by shares and is listed on the ASX. It is incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 6
134 William Street
Woolloomooloo NSW 2011

Annual Financial Report

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

The annual financial report was authorised for issue by the Board of Directors on 25 August 2015. The Board of Directors has the power to amend and reissue the annual financial report.

Directors' Report

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

Your directors present their report on the consolidated entity (referred to hereafter as the 'Group') consisting of Horizon Oil Limited (the 'Company') and the subsidiaries it controlled at the end of, or during the financial year ended, 30 June 2015.

DIRECTORS

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

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

REVIEW OF OPERATIONS

PRINCIPAL ACTIVITIES

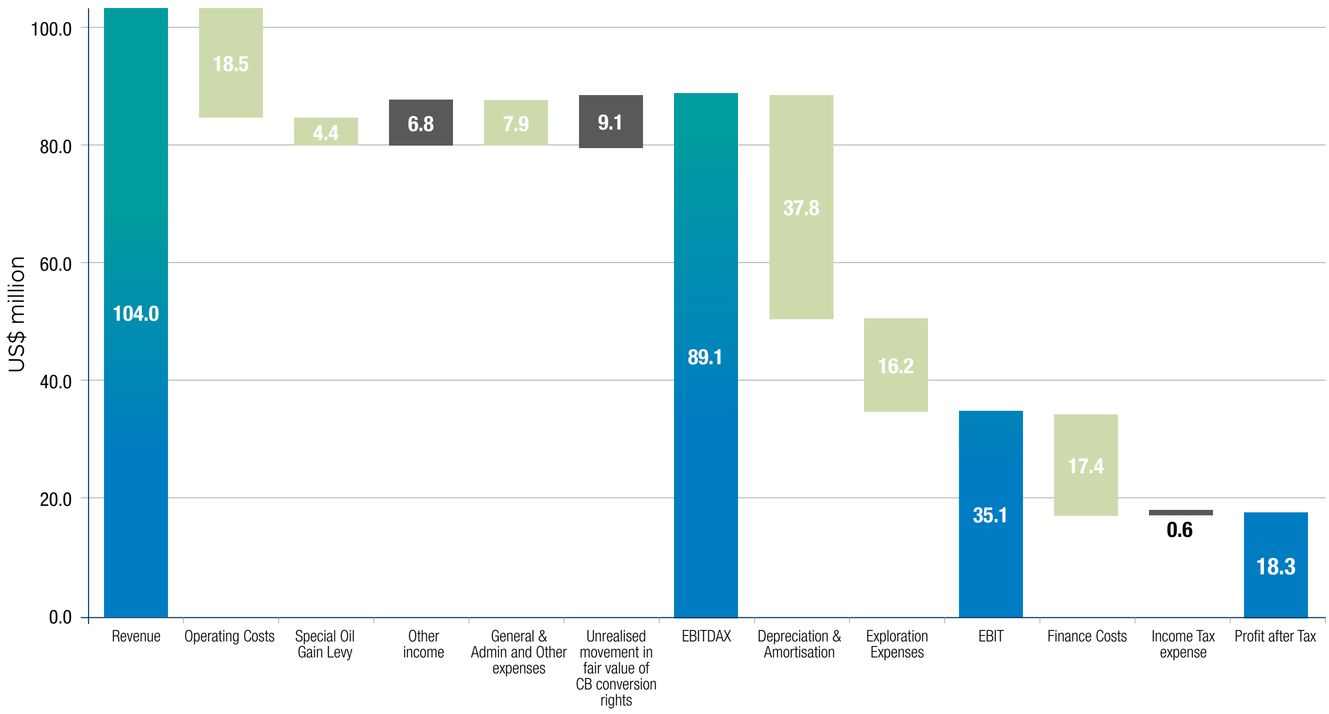
During the financial year, the principal activities of the Group continued to be directed towards petroleum exploration, development and production.

A detailed review of the operations of the Group during the financial year is set out in the Activities Review on pages 15 to 24 of this annual financial report.

GROUP FINANCIAL PERFORMANCE

Consolidated Statement of Profit or Loss and Other Comprehensive Income

2015 Profit After Tax Drivers



The Group reported a net profit after income tax of US$18.3 million (2014: net profit US$12.8 million), driven by gross profit from operations of US$44.0 million (2014: US$45.7 million). Included in the overall result were insurance recoveries associated with Maari/Manaia equipment repairs and replacement and other income of US$6.8 million, and an unrealised gain in the value of convertible bond conversion rights of US$9.1 million (2014: US$0.4 million). EBITDAX was US$89.1 million (2014: US$99.5 million), and EBIT was US$35.1 million (2014: US$48.9 million).

EBITDAX and EBIT are financial measures which are not prescribed by Australian Accounting Standards and represent the profit under Australian Accounting Standards adjusted for interest expense, taxation expense, depreciation, amortisation, and exploration expenditure. The directors consider EBITDAX and EBIT to be useful measures of performance as they are widely used by the oil and gas industry. EBITDAX and EBIT information have not been audited. However, they have been extracted from the audited annual financial report for the financial year ended 30 June 2015.

Basic earnings per share for the financial year were 1.41 cents based on a weighted average number of fully and partly paid ordinary shares on issue of 1,303,481,265 shares.

Sales and Production Growth

The Group recorded a strong performance from its producing assets, with the net working interest share of oil production of 1,310,485 barrels (2014: 1,434,534 barrels), a decrease of 9% compared to the prior financial year, resulting from natural reservoir decline from the Beibu Gulf fields which was partially offset by incremental production from completion of the Maari Growth Project. The Maari Growth Project was successfully completed on 6 July 2015, increasing field production to over 16,000 barrels of oil per day.

Oil and gas sales revenue of US$104.0 million (2014: US$138.5 million) was generated from sales volumes of 1,214,488 barrels of oil (2014: 1,356,085 barrels), with an average realised oil price of US$68.90 per barrel (2014: US$106.43 per barrel) before hedging, slightly less than the Brent oil price which averaged US$76.20 per barrel for 2015 (2014: US$109.02 per barrel). The average realised price inclusive of hedging was US$85.59 per barrel (2014: US$102.10 per barrel), as 74% of oil sales were hedged at a weighted average price of US$95.45 per barrel. This led to the maintenance of strong operating income levels despite the significant fall in oil prices which occurred during the year.

Operating costs of US$60.0 million (2014: US$92.7 million) comprised production costs of US$18.5 million (US$14.1/boe), amortisation costs of US$37.1 million (US$28.3/boe), and royalties and Chinese special oil income levy of US$4.4 million (US$3.4/boe). The significant decrease in operating costs is attributable to a focused reduction in production costs resulting from the lower oil price environment, combined with no Chinese special oil income levy being incurred in the second half of the year (a factor of low oil prices).

General and Administrative Expenses

General and administrative expenses of US$7.6 million (2014: US$8.2 million) comprised net employee benefits expense of US$3.4 million, corporate office and insurance expense of US$2.6 million, depreciation of US$0.7 million, and rental expense of US$0.9 million. The decrease of 8% is predominately due to a decrease in net employee benefits expense, driven by the voluntary foregoing of short-term incentive entitlements by key management personnel, a heavy focus on cost control in the lower oil price environment and favourable foreign exchange rate movements.

Exploration and Development Expenses

Exploration and development expenses of US$16.2 million (2014: US$10.5 million) which was primarily related to the unsuccessful Nama-1 exploration well in PPL 259, Papua New Guinea.

Finance Costs

Finance costs of US$17.4 million (2014: US$18.9 million) comprised amortisation of the convertible bond through to maturity (inclusive of the 5.5% coupon payable semi-annually), and interest and finance costs payable on our loan facility. Finance costs of US$3.0 million were capitalised during the financial year in relation to the Group's development projects. Interest and finance costs decreased by 8.1% due to decreases in the interest rates payable on debt facilities, as well as, an increase in capitalised finance costs of US$1.7 million.

Unrealised movement in value of conversion option on bonds

An unrealised gain of US$9.1 million (2014: US$0.4 million) was recorded for the revaluation of the conversion option on the convertible bonds at 30 June 2015 based on an independent valuation. The unrealised gain reflects the reduced probability of the bonds being converted to equity as they approach maturity on 17 June 2016.

Income and Royalty Tax

The net income and royalty tax benefit of US$0.56 million (2014: US$17.2 million) incurred during the financial year included a deferred income tax benefit of US$4.86 million and royalty related tax expense of US$4.3 million. Current income tax expense has decreased from the prior financial year due to the fall in oil prices, and deductions for abandonment payments in China following the registration of the abandonment plan during the period. Deferred tax expense decreased during the year due to the recognition of Australian tax losses which are now expected to be utilised in the short-term.

Hedging

At 30 June 2015, the Group had 397,500 barrels of crude oil hedged through a mixture of Brent oil price swaps and collars at a weighted average price of US$94.77/bbl which represents approximately 3.0% of its proven and probable reserves (30 June 2014: 842,500 barrels). During the financial year, 895,002 barrels of oil price derivatives were settled, resulting in a cash inflow of US$20.3 million.

Consolidated Statement of Financial Position

During the financial year, total assets increased to US$523.3 million (2014: US$514.9 million) and total liabilities decreased to US$267.0 million (2014: US$292.3 million). As a result, net assets increased to US$256.3 million (2014: US$222.6 million).

Total assets increased from the prior year, which was primarily due to increased expenditure on our oil and gas assets, as well as, increases in our derivative asset and deferred tax asset positions of US$11.4 million and US$8.9 million respectively. This was partially offset by amortisation on our oil and gas assets of US$37.1 million and a decrease in cash of US$37.6 million. The increase in expenditure resulted from the Group's share of costs associated with the drilling and completion of one exploration and two development wells in PNG, two exploration wells in the Beibu Gulf and the successful completion of the Maari Growth Program.

Directors' Report

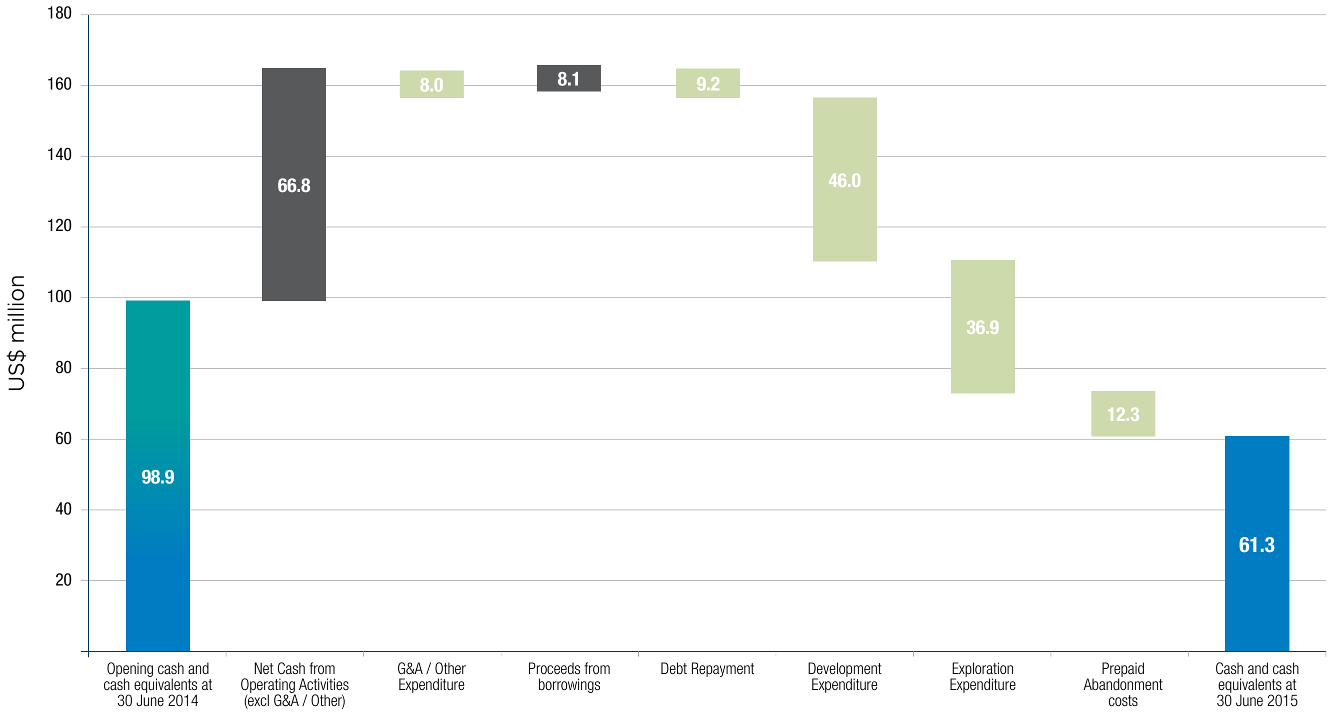
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

At 30 June 2015, the Group's net debt position was US$133.0 million (2014: US$88.5 million), consisting of cash and cash equivalents assets held of US$61.3 million (2014: US$98.9 million) offset by borrowings of US$194.4 million (2014: US$187.4 million).

At financial year end, borrowings consisted of the US$80 million in convertible bonds issued during June 2011, and US$120 million principal outstanding on the new Revolving Cash Advance Facility executed and completed in May 2015.

Consolidated Statement of Cash Flows

2015 Cash Drivers



Net cash generated from operating activities was 9.4% lower for the financial year at US$58.8 million (2014: US$65.0 million) primarily resulting from lower cash receipts from sales due to the low oil price environment. Cash and cash equivalents of US$98.9 million from the prior year, along with cash generated from operating activities, was used to finance expenditure of US$95.3 million on our exploration, development and producing assets, including US$12.3 million on restoration payments for the Beibu Gulf which are required to be made over the life of the field. The repayment of US$9.2 million of borrowings during the year was largely offset by additional borrowings of US$8.1 million (net of transaction costs) from the new Revolving Cash Advance Facility, resulting in a net cash outflow of US$1.1 million from financing activities.

Debt Facilities

On 14 May 2015, the Group finalised and executed a US$120 million Revolving Cash Advance Facility with Australia and New Zealand Banking Group (ANZ) as mandated lead arranger and Westpac Banking Corporation (Westpac). The facility was used to refinance the existing Reserves Based Debt Facility which was drawn to US$110 million. The facility retains key elements of the previous Reserves Based Debt Facility, however includes the removal of the forced repayment schedule, additional tenor to May 2019 and access to a new accordion tranche of up to US$50 million (subject to debt capacity criteria and lender approvals). At 30 June 2015, total debt drawn under the facility was $120 million. Floating interest in respect of the facility was at LIBOR plus a weighted average margin of 2.90%.

The Group's other outstanding debt is the US$80 million in convertible bonds which were issued on 17 June 2011 with a 5 year term. The bonds were issued with an initial conversion price of US$0.52, equivalent to A$0.49 based on exchange rates at the time of pricing, and represented a conversion premium of 29% to the Company's last closing price of A$0.38 on 2 June 2011. The initial conversion price was subject to adjustment in certain circumstances such that the conversion price has been reduced to US$0.409 since issue.

No bonds had been converted as at 30 June 2015. On conversion, the Group may elect to settle the bonds in cash or ordinary shares in the parent entity. The bonds carry a coupon of 5.5% per annum, payable semi-annually in arrears and carry a 7% yield to maturity on 17 June 2016 when they will be redeemed at 108.80% of their principal amount. The bonds were listed on the Singapore Securities Exchange on 20 June 2011. Details surrounding the bond redemption strategy are outlined further below.

Group business strategies and prospects for future financial years

The Company's exploration, development and production activities are focused in Southeast Asia. The robust, long-lived cash flows from the Company's interests in the Maari/Manaia fields, offshore New Zealand and Block 22/12, offshore China, will be applied to fund the Company's future capital program. That program is directed to bring into production the Company's substantial inventory of discovered reserves and contingent resources (~100 million barrels of oil equivalent) in fields in New Zealand, China and Papua New Guinea.

The Company has a conservative and highly selective exploration policy with specific focus on plays providing material scale and upside. The identified prospective resources in the Company's inventory (~78 million barrels of oil equivalent), together with the reserves and contingent resources provide shareholders with exposure to commodity price upside, especially oil price and production growth.

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

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

The Group has a working capital deficit of US$31.8 million at 30 June 2015 resulting from the reclassification of borrowings associated with the US$80 million, 5.5% convertible bonds to current liabilities at balance date as they are due for redemption in June 2016.

Funding for the Group's strategic growth plans and redemption of the bonds is to be sourced from a variety of sources. Surplus revenues from the Group's operations in China and New Zealand, combined with debt drawn from the Group's US$120 million revolving cash advance facility provide core funding. In addition, the Revolving Cash Advance Facility, provided by ANZ and Westpac, incorporates an additional US$50 million "accordion" tranche to accommodate, if required, working capital and redemption of the US$80 million, 5.5% convertible bonds in June 2016, subject to debt capacity criteria and lender approvals.

Taking into account:

- the Group's cash balance of US$61.3 million at 30 June 2015;
- forecast surplus revenue from the Group's operations in New Zealand and China;
- materially reduced budgeted/forecast capital expenditure profile over the coming 12 months;
- deferral of scheduled amortisation under the recently executed Revolving Cash Advance Facility; and
- to the extent required, the potential for additional debt capacity under the "accordion" tranche of the Revolving Cash Advance Facility (maximum additional debt of US$50 million).

The Company expects to have available the necessary cash reserves to meet redemption obligations under the Company's US$80 million, 5.5% convertible bonds maturing in mid-2016, and to pursue the current strategy. Should the full amount of the forecast internally generated cash flow and capital required to pursue the strategy not be raised, the directors expect that the Group would be able to adopt a modified strategy and would be able to secure the necessary financing through one or a combination of, additional borrowings or asset sales; or deferring discretionary exploration and development activities.

Outlook

It is expected that the 2016 financial year and beyond will be characterised by a further increase in production growth driven in the near term by incremental production from the Group's New Zealand operations and underpinned by the Group's China operations. Oil production from the Group's New Zealand operations is expected to ramp up following completion of the Maari Growth Projects drilling program and subsequent workover campaign, whilst production from the Group's China operations is expected to decrease due to natural reservoir decline. Despite the decline in China production, revenue from China is expected to be maintained as the Group's share of production will increase through cost recovery. Accordingly, assuming oil prices average a similar level to where they closed in the 2015 financial year, revenue and operating cash flows for the Group are expected to be maintained in 2016, barring unforeseen events.

The Group's short-term focus is on:

- optimising production performance from Maari/Manaia fields following the Maari Growth Project drilling and through the subsequent workover campaign;
- expansion of the Beibu Gulf field through appraisal/development of the WZ 12-10-1 field;
- progressing the Beibu Gulf fields Phase II development plan for WZ 12-8E;
- progress sales of Stanley and Elevala/Ketu gas to regional PNG consumers and larger scale gas commercialisation/export plans; and
- progressing the Elevala/Ketu development planning in PNG.

Directors' Report

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

Termination of proposed merger with Roc Oil

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

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

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Other than the matters noted above and disclosed in the review of operations, there has not been any matter or circumstance which has arisen since 30 June 2015 that has significantly affected, or may significantly affect:

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

ENVIRONMENTAL REGULATION

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

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

During offtake operations at the Maari/Manaia field, a transfer hose onboard the FPSO Raroa developed a leak spilling oil to the deck. The majority of the spill was recovered on the deck but a small amount (~300 litres) entered the sea. Regulators were notified and offtake operations were ceased until the operator had confirmed that all necessary repairs had been undertaken. The sheen was monitored closely until it began to break up and diminish naturally. The locations of potential landfall were modelled and monitored. No residual environmental impact is expected from the incident.

REPORTING CURRENCY

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

INFORMATION ON DIRECTORS

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

Non-executive independent director and Chairman:	E F Ainsworth AM, B.Comm, FAICD
Experience and current directorships:	Director for 14 years. Former Managing Director of Sagasco Holdings Limited and Delhi Petroleum Pty Limited. Chairman of Tarac Australia Limited.
Former directorships during last 3 years:	Non-executive director of Envestra Limited.
Special responsibilities:	Chairman of Board; Chairman of Remuneration, Nomination and Disclosure Committees; member of Audit and Risk Management Committees.
Executive Director and Chief Executive Officer:	B D Emmett B.Sc (Hons)
Experience and current directorships:	Director for 15 years. 40 years experience in petroleum exploration, E&P management and investment banking.
Former directorships during last 3 years:	None.
Special responsibilities:	Chief Executive Officer; member of Risk Management and Disclosure Committees.
Non-executive independent Director:	Professor J S Humphrey LL.B., SF Fin
Experience and current directorships:	Director for 25 years. Executive Dean of the Faculty of Law at Queensland University of Technology. Director of Downer EDI Limited and Auswide Bank Ltd (formerly Wide Bay Australia), and a former member of the Australian Takeovers Panel.
Former directorships during last 3 years:	None.
Special responsibilities:	Chairman of Audit Committee; member of Risk Management Committee.
Non-executive Director:	G J de Nys B. Tech, FIEAust, FAICD, CPEng (Ret)
Experience and current directorships:	Director for 8 years. 44 years experience in civil engineering, construction, oil field contracting and natural resource investment management. Director of SOCAM Development Limited and IMC Pan Asia Alliance Group subsidiaries (a related party of Austral Asia Energy Pty Ltd a substantial shareholder of Horizon Oil Limited)
Former directorships during last 3 years:	Director of Red Sky Energy Limited.
Special responsibilities:	Member of Risk Management and Remuneration and Nomination Committees.
Non-executive independent Director:	A Stock B. Eng (Chem) (Hons), FAIE, GAICD
Experience and current directorships:	Director for 4 years. Over 36 years of development, operations and commercial experience in energy industries in Australia and overseas. Former Director, Executive Projects and Executive General Manager for Major Development Projects for Origin Energy Limited. Non-executive director of Geodynamics Limited and Silex Systems Limited; Board Member of Alinta Holdings, Clean Energy Finance Corporation and a member of the Engineering Faculty and Energy Advisory Boards at University of Adelaide.
Former directorships during last 3 years:	None
Special responsibilities:	Chairman of Risk Management; member of Audit Committee and Remuneration and Nomination Committees.

COMPANY SECRETARY

Company Secretary and Chief Financial Officer:	M Sheridan B.Ec, LL.M., F Fin
Qualifications and experience:	Before joining Horizon Oil Limited during 2003, Mr Sheridan held senior finance and commercial roles in Australian and international oil and gas, mining and telecommunications companies.

Directors' Report

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

DIRECTORS' INTERESTS IN THE COMPANY'S SECURITIES

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

Director	Ordinary shares			Unlisted options		
	Direct	Indirect	Total	Direct	Indirect	Total
E F Ainsworth	113,500	3,896,875	**4,010,375**	-	-	**-**
B Emmett	-	18,902,607	**18,902,607**	-	-	**-**
J Humphrey	-	5,112,034	**5,112,034**	-	-	**-**
G de Nys	-	912,858	**912,858**	-	-	**-**
A Stock	-	160,000	**160,000**	-	-	**-**

B Emmett also held 15,682,624 share appreciation rights as at the date of this Directors' Report.

MEETINGS OF DIRECTORS

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

	Board	Audit Committee	Risk Management Committee	Remuneration and Nomination Committee	Disclosure Committee
Number of meetings held:	11[1]	2	1	1	1
Number of meetings attended by:					
E F Ainsworth	11	2	1	1	1
B D Emmett	11		1		1
J S Humphrey	10[2]	2	1		
G de Nys	11		1	1	
A Stock	11	2	1	1	

1. Five board meetings were held for non-executive directors only.
2. The chairman acted as proxy for Mr Humphrey at one board meeting during the financial year which Mr Humphrey was unable to attend. The Company Secretary and Chairman were instructed by Mr Humphrey as to his voting intentions and were fully briefed of his views prior to the meeting.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate governance and accountability, the directors support the principles of good corporate governance. The Company's Corporate Governance Statement is set out on pages 45 to 53 of this annual financial report.

REMUNERATION REPORT

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

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

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Share-based compensation – options/share appreciation rights

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

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

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

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

Non-executive directors' fees

Fees and payments to non-executive directors are set and paid in Australian Dollars (A$), and reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed periodically by the Remuneration and Nomination Committee.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. Shareholders approved the current fee pool limit of A$600,000 at the 2009 Annual General Meeting. The Non-executive Directors' base fee is A$81,555 plus statutory superannuation per annum and the Chairman's base fee is A$163,110 plus statutory superannuation per annum. These fees have not changed in A$ terms for the last three years. Note that the remuneration table set out on page 37 shows remuneration in US$ in line with the Group's functional currency.

Retirement allowances for directors

There are no retirement allowances in place for directors.

Executive pay

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

Based on advice received from Guerdon Associates, an independent remuneration consultant, in 2010 the board put in place a short-term incentive scheme and long-term incentive arrangements for the Company's senior executives. The Company's Employee Option Scheme continues to apply to employees other than senior executives.

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

Short-term incentives

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

The following table outlines the major features of the plan:

Objective	To drive performance of annual business plans and objectives, at operational and group level, to achieve increased shareholder value.
Frequency and timing	Participation is annual with performance measured over the twelve months to 30 June. Entitlements under the plan are determined and paid (in cash) in the first quarter of the new financial year.
Key Performance Indicators (KPIs)	KPIs are determined each financial year in consultation with the board. The performance of each senior executive against these KPIs is reviewed annually in consultation with the board. A KPI matrix, directly linked to factors critical to the success of the Group's business plan for the financial year, is developed for each executive incorporating health, safety and environment, financial, operational and other KPIs.
STI opportunity	Up to 50% of the senior executive's fixed remuneration package (base salary plus superannuation).
Performance requirements	The executive's STI payment is calculated with reference to achievement of KPI targets based on a weighted scorecard approach. Key objectives during the current year included: • successful refinancing of the Group's reserves based debt facility; • improved production performance from Maari/Manaia fields through the Maari Growth Program; • progressing the Elevala/Ketu development planning in PRL 21 towards a final investment decision; • successful drilling operations on Stanley-3 and Stanley-5 wells in PDL 10; and • safe drilling operations on Nama-1 well in PPL 259.

Directors' Report

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

Whilst many of the abovementioned objectives were achieved during the current year, in response to the fall in the company's share price and prevailing oil price environment, key management personnel voluntarily elected to forego any short-term incentive entitlements. The following table shows the STI awards that were paid or payable in respect of the financial year ended 30 June 2015:

	STI in respect of 2015 financial year	
Senior executives	Percentage of maximum STI payment paid	Percentage of maximum STI payment forfeited
B Emmett	NIL	100%
A Fernie	NIL	100%
M Sheridan	NIL	100%

Long-term incentives

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

Under the LTI Plan, the board has the discretion, subject to the ASX Listing Rule requirements, to grant share appreciation rights ('SARs') to executives as long-term incentives. The board has determined that 50% of senior executive's fixed remuneration would be long-term incentives in the form of SARs, with the number of SARs granted based on the value of a SAR.

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

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

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

The following table outlines the major features of the plan:

Key terms & conditions	Long Term Incentive Plan
Eligible persons:	Under the terms of the LTI Plan, the Company may grant SARs to any employee. However, it is currently intended by the Company to only grant SARs under the LTI Plan to current senior executive employees including executive directors.
Exercise price:	No price is payable by a participant in the LTI Plan on the exercise of a SAR.
Performance requirements:	Under the LTI Plan, the number of SARs that vest is generally determined by reference to whether the Company achieves certain performance conditions. The number of SARs that vest is determined by reference to the Company's total shareholder return ('**TSR**') over the relevant period relative to that of the S&P/ASX200 Energy Index ('**Index**'). The number of SARs that vest is: (a) if the Company's TSR is equal to that of the Index ('**Minimum Benchmark**'), 50%; (b) if the Company's TSR is 14% or more above that of the Index, 100% ('**Maximum Benchmark**'); and (c) if the Company's TSR is more than the Minimum Benchmark but less than the Maximum Benchmark, a percentage between 50% and 100% based on the Company's TSR performance between the Minimum Benchmark and Maximum Benchmark. The Maximum Benchmark of 14% above the Index return equates to the performance level likely to exceed the 75th percentile of market returns of companies (weighted by company size) in the Index.

	Furthermore, even where these performance conditions are satisfied, the SARs will not vest unless the Company achieves a TSR of at least 10% over the relevant period. The performance conditions are tested on the date that is three years after the Effective Grant Date of the SARs, and are then re-tested every six months after that until the date that is five years after the Effective Grant Date of the SARs (the final retesting date). The performance conditions are also tested where certain circumstances occur, such as a takeover bid for the Company. The Effective Grant Date for the SARs is the date the SARs are granted, or such other date as the board determines for the SARs. If the SARs have not, pursuant to these performance conditions, vested by the final retesting date that is five years after the date the SARs are granted, the SARs will lapse.
Cessation of employment:	If a holder of SARs under the LTI Plan ceases to be employed by a member of the Group, then this generally does not affect the terms and operation of the SARs. The board does, however, under the LTI Plan have discretion, to the extent permitted by law, to cause the SARs to lapse or accelerate the date on which the SARs become exercisable.
Maximum number of shares that can be issued:	Subject to various exclusions, the maximum number of shares that may be issued on the exercise of SARs granted under the LTI Plan is capped at 5% of the total number of issued shares of the Company.
Restrictions on exercise:	A SAR cannot be exercised unless it has vested. Where a SAR vests, a participant may not exercise the SAR until the first time after the time the SAR vests that the participant is able to deal with shares in the Company under the Company's securities trading policy. SARs are exercised by submitting a notice of exercise to the Company.
Lapse:	SARs will lapse where: • the SARs have not vested by the final retesting date which is five years after the date of grant (see above); • if the SARs have vested by the final retesting date that is five years after the date of grant, the SARs have not been exercised within three months of the date that the SARs would have first been able to be exercised if they vested at the final retesting date that is five years after the date of grant; • This may be more than five years and three months from the date of grant depending on whether the holder of the SAR is able to deal with shares in the Company under the Company's securities trading policy at the date five years after the date of grant; • the employee ceases to be employed by a member of the Group, and the board determines that some or all of the SARs lapse (see above); • the board determines that the employee has committed or it is evident that the employee intends to commit, any act (whether by commission or omission) which amounts or would amount to fraud or serious misconduct; or • the employee provides a notice to the Company that they wish the SARs to lapse.
Share ranking and quotation:	Shares provided pursuant to the exercise of a SAR will rank equally with the shares in the Company then on issue. Quotation on the ASX will be sought for all shares issued upon the exercise of SARs. SARs are not assignable or transferable.
No right to dividends, bonus or rights issues:	The SARs will not confer on the holder an entitlement to dividends or to participate in bonus issues or rights issues unless the board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.
No voting rights:	The SARs will not confer an entitlement to vote at general meetings of the Company unless the board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.
Non-quotation:	The Company will not apply to the ASX for official quotation of the SARs.
Capital re-organisation:	In the event of a reorganisation of the capital of the Company, the rights of the SARs holder will be changed to the extent necessary to comply with the ASX Listing Rules and shall not result in any additional benefits being conferred on SARs holders which are not conferred on members.
Effect of take-over or change of control of Company, death or disablement:	The LTI Plan contains provisions to deal with SARs where there is a take-over or change of control of the Company. Depending on the nature of the take-over or change of control event, the Company will either have the discretion or be required (if a change of control) to determine a special retesting date for the performance requirements discussed above. For example, the board will have discretion to determine a special retesting date where a takeover bid is made for the Company or a scheme of arrangement is entered into. In that case, the special retesting date will be the date determined by the board. Where a statement is lodged with the ASX that a person has become entitled to acquire more than 50% of the Company, the board will be required to determine a special retesting date, and the special retesting date will be the day the statement is lodged with the ASX. The SARs may vest if the performance requirements discussed above are satisfied in relation to that special retesting date.

Directors' Report

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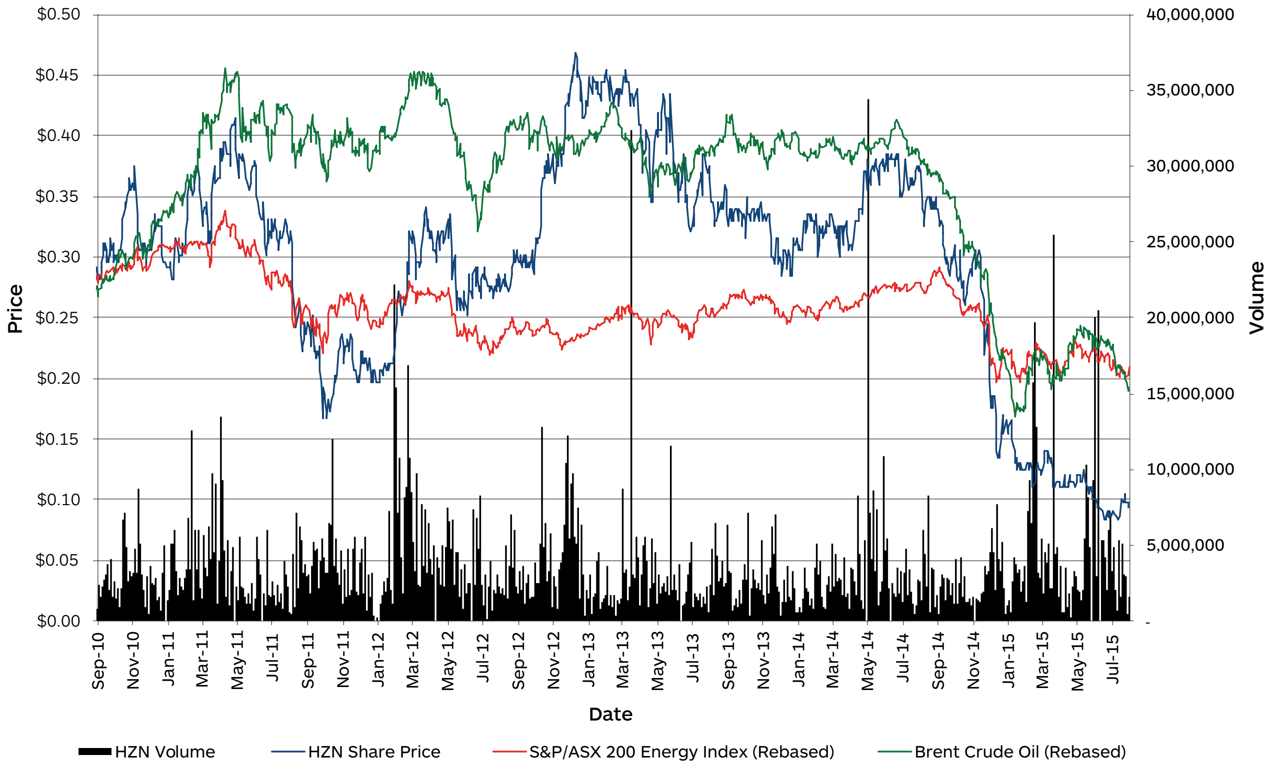
Performance of Horizon Oil Limited

The annual performance objectives and share price hurdle are the means by which management links company performance and remuneration policy. Having regard to the current stage of the Company's evolution, linkage of remuneration policy to share price performance rather than earnings is seen as the most sensible method of incentivising employees. In response to the decrease in the share price over the last six months, management has elected to forego any short-term incentive entitlements, refer to table on page 38. The share price performance of the Company for the current and previous four financial years is displayed in the chart below:

Horizon Oil Limited share price ('HZN') versus S&P/ASX200 Energy Index and Brent Crude Oil



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

Financial year ended 30 June:	2011	2012	2013	2014	2015
Profit before tax (US$'000)	48,480	23,689	10,025	30,027	**17,751**

B. Details of remuneration

Amounts of remuneration

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

The key management personnel of the Company and the Group includes the directors of Horizon Oil Limited as per page 31, and the following executive officers, who are also the highest paid executives of the Company and Group:

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

Financial year ended 30 June 2015 and 2014		Short-term benefits			Post-employment benefits	Total cash or in-kind benefit	Long-term benefits	Share-based payments	Total[5]
		Cash salary and fees	Cash bonus	Non-Monetary[1]	Super-annuation[2]		Long service leave accrual[3]	Options/ SARs[4]	
Name		US$	US$	US$	US$	US$	US$	US$	US$
Directors:									
E F Ainsworth	**2015**	**136,720**	**-**	**-**	**12,988**	**149,708**	**-**	**-**	**149,708**
Chairman, Non-executive Director	2014	150,189	-	-	13,892	164,081	-	-	164,081
B D Emmett	**2015**	**716,640**	**-**	**119,312**	**29,337**	**865,289**	**(29,137)**	**398,682**	**1,234,834**
Chief Executive Officer, Executive Director	2014	766,982	324,000	114,899	22,967	1,228,848	21,383	418,675	1,668,906
J Humphrey	**2015**	**68,360**	**-**	**-**	**6,494**	**74,854**	**-**	**-**	**74,854**
Non-executive Director	2014	75,095	-	-	6,946	82,041			82,041
G de Nys	**2015**	**51,270**	**-**	**-**	**23,584**	**74,854**	**-**	**-**	**74,854**
Non-executive Director	2014	75,095			6,946	82,041			82,041
A Stock	**2015**	**68,360**	**-**	**-**	**6,494**	**74,854**	**-**	**-**	**74,854**
Non-executive Director	2014	75,095			6,946	82,041			82,041
Total Directors' remuneration	**2015**	**1,041,350**	**-**	**119,312**	**78,897**	**1,239,559**	**(29,137)**	**398,682**	**1,609,104**
	2014	1,142,456	324,000	114,899	57,697	1,639,052	21,383	418,675	2,079,110
Total Directors' remuneration (AUD)[5]	**2015**	**1,242,354**	**-**	**142,342**	**94,128**	**1,478,824**	**(37,938)**	**475,636**	**1,916,522**
	2014	1,243,580	343,949	125,069	62,806	1,775,404	22,699	455,735	2,253,838
Other key management personnel:									
M Sheridan	**2015**	**517,713**	**-**	**21,466**	**29,337**	**568,516**	**10,415**	**292,367**	**871,298**
Chief Financial Officer, Company Secretary	2014	556,329	255,420	25,164	22,967	859,880	14,855	307,029	1,181,764
A Fernie	**2015**	**515,384**	**-**	**89,376**	**29,337**	**634,097**	**11,825**	**292,367**	**938,289**
General Manager - Exploration and Development	2014	547,142	237,600	92,590	32,154	909,486	12,867	307,029	1,229,382
Total other key management personnel remuneration	**2015**	**1,033,097**	**-**	**110,842**	**58,674**	**1,202,613**	**22,240**	**584,734**	**1,809,587**
	2014	1,103,471	493,020	117,754	55,121	1,769,366	27,722	614,058	2,411,146
Total other key management personnel remuneration (AUD)[5]	**2015**	**1,232,508**	**-**	**132,236**	**70,000**	**1,434,744**	**28,958**	**697,600**	**2,161,302**
	2014	1,201,146	523,376	128,177	60,000	1,912,699	29,428	668,411	2,610,538

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

Directors' Report

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

At-Risk Remuneration Summary

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed based on the amounts disclosed in the table on page 37.

	Fixed remuneration		At Risk – STI		At Risk – LTI	
Name	2015	2014	2015	2014	2015	2014
Executive Directors:						
B D Emmett Chief Executive Officer, Executive Director	**68%**	55%	**0%**	20%	**32%**	25%
Other key management personnel:						
M Sheridan Chief Financial Officer, Company Secretary	**66%**	52%	**0%**	22%	**34%**	26%
A Fernie General Manager - Exploration and Development	**69%**	56%	**0%**	19%	**31%**	25%

The maximum potential remuneration of all key management personnel is split 50% fixed remuneration, 25% at risk – STI and 25% at risk – LTI. Due to key management personnel voluntarily electing to forego any short-term incentive entitlements during the current year, the relative proportion of fixed remuneration and at risk – LTI has increased.

C. Service agreements

Remuneration and other terms of employment for the Chief Executive Officer and other key management personnel are formalised in service agreements which were renewed during 2015. Each of these agreements includes the provision of other benefits such as health insurance, car parking and participation, where eligible, in the Horizon Oil Short Term Incentive and Long Term Incentive plans. Other major provisions of the existing agreements relating to remuneration are set out below:

B D Emmett, Chief Executive Officer

- Term of agreement – ~2.5 years with expiry on 31 December 2017.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months remuneration.
- Salary levels are subject to annual review.

M Sheridan, Chief Financial Officer, Company Secretary

- Term of agreement – ~3.5 years with expiry on 31 December 2018.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months remuneration.
- Salary levels are subject to annual review.

A Fernie, General Manager - Exploration and Development

- Term of agreement – ~2.5 years with expiry on 31 December 2017.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months remuneration.
- Salary levels are subject to annual review.

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

Options and share appreciation rights ('SARs') have been granted to eligible employees under the Horizon Oil Limited Employee Option Scheme, the Employee Performance Incentive Plan and the Long Term Incentive Plan. The issue of securities under the Employee Option Scheme, the Employee Performance Incentive Plan and the Long Term Incentive Plan were approved by shareholders for the purposes of the ASX Listing Rules at the 2010, 2011, 2013 and 2014 Annual General Meetings.

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

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

Grant date	Expiry date	Exercise price	Value per option/SAR at grant date	Date exercisable
25/09/2009	25/09/2014	A$0.289[2]	A$0.1307	33.4% after 25/09/2010, 33.3% after 25/09/2011, 33.3% after 25/09/2012
9/10/2009	9/10/2014	A$0.309[2]	A$0.1344	33.4% after 9/10/2010, 33.3% after 09/10/2011, 33.3% after 09/10/2012
1/10/2010	1/10/2015	A$0.3046[1,2]	A$0.1382	100% after 1/10/2013
5/8/2011	5/8/2016	A$0.3129[1,2]	A$0.1514	100% after 5/8/2014
13/8/2012	13/8/2017	A$0.2710[1,2]	A$0.1025	100% after 13/8/2015
19/8/2013	19/08/2018	A$0.3326	A$0.1193	100% after 19/8/2016
01/7/2014	01/07/2019	A$0.3729	A$0.1433	100% after 01/7/2017

1. No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.
2. The exercise price of the options and SARS outstanding at 31 July 2013 were reduced by A$0.006 following the rights issue during the 2014 financial year.

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

Name	Number of SARs granted during the financial year	Value of SARs at grant date[1] US $	Number of SARs vested during the financial year	Number of SARs lapsed during the financial year	Value at lapse date[2] US $
Directors:					
B D Emmett	3,000,879	405,000	-	-	-
Other key management personnel:					
M Sheridan	2,200,649	297,000	-	-	-
A Fernie	2,200,649	297,000	-	-	-

1. The value at grant date calculated in accordance with AASB 2 '*Share-based Payment*' of SARs granted during the financial year as part of remuneration.
2. The value at lapse date of SARs that were granted as part of remuneration and that lapsed during the financial year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

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

The model inputs for each grant of options/SARs during the financial year ended 30 June 2015 included:

Grant date	1 July 2014
Expiry date	1 July 2019
Exercise price	N/A[1]
10 Day VWAP of Horizon Shares at grant date	A$0.3729
Expected price volatility	38.55% p.a.
Risk free rate	2.99% p.a.
Expected dividend yield	0.00% p.a.

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

Directors' Report

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

No share appreciation rights or remuneration options were exercised by directors or key management personnel during the financial year.

Further information on options is set out in Note 33.

Details of remuneration – options/SARs

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

	Options/SARs				
Name	Financial year granted	Vested %	Forfeited %	Financial years in which options/ SARs may vest	Maximum total value of grant yet to vest[1] US$
B Emmett	2010	-	-	-	-
	2011	100	-	-	-
	2012	-	-	30/06/2015	-
	2013	-	-	30/06/2016	8,978
	2014	-	-	30/06/2017	127,228
	2015	-	-	30/06/2018	134,877
M Sheridan	2010	-	-	-	-
	2011	100	-	-	-
	2012	-	-	30/06/2015	-
	2013	-	-	30/06/2016	6,584
	2014	-	-	30/06/2017	93,301
	2015	-	-	30/06/2018	98,910
A Fernie	2010	-	-	-	-
	2011	100	-	-	-
	2012	-	-	30/06/2015	-
	2013	-	-	30/06/2016	6,584
	2014	-	-	30/06/2017	93,301
	2015	-	-	30/06/2018	98,910

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

EQUITY INTERESTS HELD BY KEY MANAGEMENT PERSONNEL

Key management personnel shareholdings in the Company

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

2015 Name	Balance at start of financial year	Received during financial year on the exercise of options	Other changes during financial year	Balance at end of financial year
Directors:				
Ordinary shares				
E F Ainsworth	4,010,375	-	-	4,010,375
B D Emmett	18,902,607	-	-	18,902,607
J Humphrey	5,112,034	-	-	5,112,034
G de Nys	912,858	-	-	912,858
A Stock	160,000	-	-	160,000
Other key management personnel of the Group:				
Ordinary shares and partly paid ordinary shares				
A Fernie	2,700,000	-	-	2,700,000
M Sheridan	9,468,201	-	(1,500,000)	7,968,201

Key management personnel option holdings in the Company

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

Listed options:

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

Unlisted options:

2015 Name	Balance at start of financial year	Granted as remuneration during financial year	Exercised during financial year	Lapsed during financial year	Balance at end of financial year	Vested and exercisable at end of financial year	Unvested
Directors:							
Unlisted options							
B D Emmett	5,700,000	-	-	(5,700,000)	-	-	-
Other key management personnel of the Group:							
Unlisted options							
A Fernie	1,500,000	-	-	(1,500,000)	-	-	-

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

Details of options provided as remuneration and ordinary shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the Remuneration Report on pages 38 to 41.

Key management personnel share appreciation right holdings in the Company

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

Share appreciation rights:

2015 Name	Balance at start of financial year	Granted as remuneration during financial year	Exercised during financial year	Lapsed during financial year	Balance at end of financial year	Vested and exercisable at end of financial year	Unvested
Executive Directors:							
Share appreciation rights							
B D Emmett	12,681,745	3,000,879	-	-	15,682,624	2,626,328	13,056,296
Other key management personnel of the Group:							
Share appreciation rights							
A Fernie	9,299,947	2,200,649	-	-	11,500,596	1,925,974	9,574,622
M Sheridan	9,299,947	2,200,649	-	-	11,500,596	1,925,974	9,574,622

Details of SARs provided as remuneration and ordinary shares issued on the exercise of such SARs, together with terms and conditions of the SARs, can be found in section D of the Remuneration Report on pages 38 to 41.

LOANS TO DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

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

OTHER TRANSACTIONS WITH DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

There were no other transactions with Directors and other key management personnel during the financial year.

Directors' Report

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

SHARES UNDER OPTION

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

Date options granted	Number options	Issue price of ordinary shares	Expiry date
16/09/2010	350,000	A$0.304[1,2]	16/09/2015
28/05/2012	1,000,000[2,4]	A$0.264[1,2]	28/08/2015
28/05/2012	1,666,667	A$0.264[1,2]	28/05/2017
17/09/2012	500,000	A$0.294[1,2]	17/09/2017
20/02/2013	350,000	A$0.434[1,2]	20/02/2018
16/04/2013	350,000	A$0.404[1,2]	16/04/2018
	4,216,667		

1. Subject to restrictions on exercise.
2. General options issued.
3. The exercise price of the options outstanding at 31 July 2013 were reduced by A$0.006 following the rights issue during the prior year.
4. 1,000,000 options were cancelled during the financial year.

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

DIVIDENDS

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

INSURANCE OF OFFICERS

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

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

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

NON-AUDIT SERVICES

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

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

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

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

	Consolidated 2015 US$	Consolidated 2014 US$
During the financial year, the following fees were paid or payable for services provided by the external auditor of the parent entity and its related practices:		
1. PwC Australia		
Audit and other assurance services		
Audit and review of financial reports	**178,973**	152,876
Other assurance services	**156,589**	97,002
Other services	**2,419**	18,927
Total remuneration for audit and other assurance services	**337,981**	268,805
Taxation services		
Tax compliance[1]	**111,717**	98,723
Total remuneration for taxation services	**111,717**	98,723
2. Non-PwC audit firms		
Audit and other assurance services	**18,833**	14,012
Other services	**-**	-
Total remuneration for audit and other assurance services	**18,833**	14,012
Total auditors' remuneration	**468,531**	381,540

1. Remuneration for taxation services has been recorded on a gross basis, some of these fees were for services provided to PNG operated joint ventures.

EXTERNAL AUDITOR'S INDEPENDENCE DECLARATION

A copy of the external auditors' independence declaration as required under section 307C of *the Corporations Act 2001* is set out on page 44.

ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

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

EXTERNAL AUDITOR

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

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

E F Ainsworth AM
Chairman

B D Emmett
Chief Executive Officer

Sydney
25 August 2015

Auditors' Independence Declaration

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Horizon Oil Limited for the year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
25 August 2015

Corporate Governance Statement

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

Horizon Oil Limited (the 'Company') and the board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders. The Corporate Governance Statement was approved by the board on 25 August 2015.

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the full financial year. They comply with the ASX Corporate Governance Council's revised *Corporate Governance Principles and Recommendations 3rd edition*, released in March 2014 ("ASX Recommendations"), except where noted herein.

ASX RECOMMENDATIONS		COMPLY	PAGE NO
Principle 1: Lay solid foundations for management and oversight			
1.1	A listed entity should disclose:		
	(a) the respective roles and responsibilities of its board and management; and	✓	48
	(b) those matters expressly reserved to the board and those delegated to management.	✓	48
1.2	A listed entity should:		
	(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and	✓	48
	(b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.	✓	48
1.3	A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.	✓	48
1.4	The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.	✓	48
1.5	A listed entity should:		
	(a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both objectives and the entity's progress in achieving them;	✓	48
	(b) disclose that policy or summary of it;	✓	48-49
	(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with entity's diversity policy and its progress towards achieving them, and either:	✓	48-49
	(1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or	✓	49
	(2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.	n/a	
1.6	A listed entity should:		
	(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and	✓	49
	(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	✓	49
1.7	A listed entity should:		
	(a) have and disclose a process for periodically evaluating the performance of its senior executives; and	✓	49
	(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.	✓	49
Principle 2: Structure and the board to add value			
2.1	The board of a listed entity should:		
	(a) have a nomination committee which:		
	(1) has at least three members, a majority of whom are independent directors; and	✓	50
	(2) is chaired by an independent director,	✓	50
	and disclose:		
	(3) the charter of the committee;	✓	51
	(4) the members of the committee; and	✓	50
	(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or	✓	51
	(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.	n/a	

Corporate Governance Statement

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

2.2	A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.	✓	50
2.3	A listed entity should disclose:		
	(a) the names of the directors considered by the board to be independent directors;	✓	50
	(b) if a director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX Recommendations ("Factors relevant to assessing the independence of a director"), but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and	✓	50
	(c) the length of service of each director.	✓	50
2.4	A majority of the board of a listed entity should be independent directors.	✓	50
2.5	The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	✓	50
2.6	A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	✓	50
Principle 3: Act ethically and responsibly			
3.1	A listed entity should:		
	(a) have a code of conduct for its directors, senior executives and employees; and	✓	51
	(b) disclose that code or a summary of it.	✓	51
Principle 4: Safeguard integrity in corporate reporting			
4.1	The board of a listed entity should:		
	(a) have an audit committee which:		
	(1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and	✓	51
	(2) is chaired by an independent director, who is not the chair of the board, and disclose:	✓	51
	(3) the charter of the committee;	✓	51
	(4) the relevant qualifications and experience of the members of the committee; and	✓	51
	(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or	✓	51
	(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.	n/a	
4.2	The board of a listed entity should, before it approved the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	✓	51
4.3	A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	✓	51
Principle 5: Make timely and balanced disclosure			
5.1	A listed entity should:		
	(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and	✓	52
	(b) disclose that policy or a summary of it.	✓	52
Principle 6: Respect the rights of security holders			
6.1	A listed entity should provide information about itself and its governance to investors via its website.	✓	52
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	✓	52
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	✓	52
6.4	A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	✓	52

Principle 7: Recognise and manage risk			
7.1	The board of a listed entity should: (a) have a committee or committees to oversee risk, each of which:		
	(1) has at least three members, a majority of whom are independent directors; and	✓	52
	(2) is chaired by an independent director,	✓	52
	and disclose:		
	(3) the charter of the committee;	✓	53
	(4) the members of the committee; and	✓	52
	(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or	✓	52
	(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.	n/a	
7.2	The board or a committee of the board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and	✓	52
	(b) disclose, in relation to each reporting period, whether such a review has taken place.	✓	52
7.3	A listed entity should disclose: (a) if it has an internal audit function, how the function is structured and what role it performs; or	n/a	
	(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.	✓	53
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.	✓	53
Principle 8: Remunerate fairly and responsibly			
8.1	The board of a listed entity should: (a) have a remuneration committee which:		
	(1) has at least three members, a majority of whom are independent directors; and	✓	53
	(2) is chaired by an independent director, and disclose:	✓	53
	(3) the charter of the committee;	✓	53
	(4) the members of the committee; and	✓	53
	(5) as at the end of each reporting period, the number of times the committee met through the period and the individual attendances of the members at those meetings; or	✓	53
	(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.	n/a	
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.	✓	53
8.3	A listed entity which has an equity-based remuneration scheme should: (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and	✓	53
	(b) disclose that policy or summary of it.	✓	53

Corporate Governance Statement

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The relationship between the board and senior management is critical to the Company's long-term success. The directors are responsible to the shareholders for the performance of the Company in both the short and longer term and seek to balance sometimes competing objectives in the best interests of the Company as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Company is properly managed.

The responsibilities of the board include:

- providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy;
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives;
- overseeing and monitoring:
  - organisational performance and the achievement of the Company's strategic goals and objectives;
  - compliance with the Company's Code of Conduct;
  - progress in relation to the Company's diversity objectives and compliance with its Diversity Policy; and
  - progress of significant corporate projects including any acquisitions or divestments;
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors;
- appointment, performance assessment and, if necessary, removal of the chief executive officer ('CEO');
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the chief financial officer ('CFO') and the company secretary;
- ensuring there are effective management processes in place and approving major corporate initiatives;
- enhancing and protecting the reputation of the Company;
- overseeing the operation of the Company's system for compliance and risk management reporting to shareholders; and
- ensuring appropriate resources are available to senior management.

Day to day management of the Company's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the CEO and senior executives. These delegations are reviewed on an annual basis. *(Recommendation 1.1)*

Appropriate checks are undertaken before appointing or putting forward for election any director. It is the Company's policy to provide all material information relevant to a security holder's decision on whether or not to elect or re-elect a director. *(Recommendation 1.2)*

The directors and senior executives have a clear understanding of their roles and responsibilities within the Company and of the Company's expectations of them. The Company has a written agreement with each director and senior executive setting out the terms of their appointment. The key terms of these agreements are set out in the Directors' Report. *(Recommendation 1.3)*

The company secretary is regarded by the board as carrying out an important role in supporting the effectiveness of the board and its committees. The company secretary is accountable directly to the board, through the Chair, on all matters to do with the proper functioning of the board. *(Recommendation 1.4)*

Diversity

The Company strongly values diversity and recognises the benefits it can bring to its ability to achieve its goals. Accordingly, the Company's Diversity Policy (available on the Company's website at www.horizonoil.com.au) outlines the Company's gender diversity objectives. It includes commitment of the board to establish measurable objectives for achieving gender diversity and for the board to assess annually the objectives and the Company's progress in achieving them.

As outlined in the Code of Conduct and Diversity Policy, merit is the basis for employment with the Company and all employees and applicants for employment are treated and evaluated according to their job-related skills, qualifications, abilities and aptitude, regardless of age, disability, ethnicity, marital or family status, religious or cultural background, sexual orientation and gender identity. Diversity is applicable to all levels of the organisation, including senior executive and board positions, and, subject to the overriding condition of merit, all appointment processes are to be conducted in a manner that promotes gender diversity in accordance with the Code of Conduct and Diversity Policy. *(Recommendation 1.5)*

In the past financial year, the Company continued its commitment to promoting gender and other forms of diversity by achieving the 2015 measurable objectives set by the board. The progress during 2015 against the measurable objectives is summarised below.

2015 Measurable Objective	Progress in 2015
Raise awareness of gender and all types of diversity across the organisation	Objective achieved Raised awareness of gender and all types of diversity by discussing the Diversity Policy with existing employees and each new employee as part of their induction training.
Conduct a survey of women in the organisation to identify career needs and issues and concerns regarding diversity in the workplace	Objective achieved Survey was conducted which helped females identify their career needs and issues and concerns regarding diversity in the workplace. The female employees also met and discussed gender perception within the organisation.
Identify issues or goals from the survey conducted to consider as measureable objectives for 2016	Objective achieved Survey identified key issues and concerns regarding discrimination, gender pay equity, training and representation of women in management roles which have been considered as measurable objectives for 2016.

The board has established the following measureable objectives in relation to gender diversity for 2015/2016:

- undertake gender pay equity audit to ensure equity in remuneration practices;
- increase the representation of women in executive roles and under-represented roles through appropriate succession planning and recruitment;
- develop a discrimination, harassment and bullying policy that will promote diversity and set out the Company's commitment to eliminating harassment, bullying and unlawful discrimination; and
- encourage training and personal development to assist in furthering career goals.

The proportion of female employees in the Group is 33% (thirteen of thirty-nine). The three senior executive managers of the Company are male, as are the four non-executive directors of the Company. Senior executive managers are defined as being key management personnel of the Company and the Group. The Company's senior executive managers are set out on page 38. *(Recommendation 1.5)*

Performance assessment

Every two years the Chairman conducts a formal discussion with each of the directors individually to discuss their performance and ideas for improvement of the operation of the board and board committees. This process was last performed during 2015. The board reviews the consolidated views, input, comments and deficiencies arising from the formal discussions and identifies ways to improve board and board committee performance and determine the necessary implementation plans for such improvement measures. *(Recommendation 1.6)*

A performance assessment for senior executives took place in 2015. Performance was assessed having regard to a variety of key performance indicators. A formal discussion with each of the senior executives was undertaken during the financial year to evaluate and discuss their performance. *(Recommendation 1.7)*

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The board has a primary responsibility to the shareholders for the welfare of the Company by guiding and monitoring the business and affairs of the Company. The Company has formalised and defined the functions reserved for board accountability and those delegated to management in a formal Board Charter. The board operates in accordance with the broad principles set out in the Board Charter. The Board Charter details the board's composition and responsibilities. The Board Charter was in force for the full financial year.

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

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

The Company's Constitution provides that directors, other than the CEO, shall not retain office for more than three years or beyond the third annual general meeting following election without submitting for re-election by shareholders.

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

Corporate Governance Statement

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

Board composition

The board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective; and
- the size of the board is conducive to effective discussion and efficient decision-making.

The board is comprised of four non-executive directors, and one executive director. The Chairman of the board is an independent director and the role of Chairman and CEO are performed by different individuals. *(Recommendation 2.5)*

Details of the members of the board, their skills, experience, expertise, qualifications and term of office are set out in the Directors' Report *(Recommendation 2.2 and 2.3)*. The board actively seeks to ensure that the board and its committees have the right mix of skills, knowledge and experience necessary to guide and govern the Company effectively and in accordance with highest standards. The board considers that collectively the current board has the range of skills, knowledge and experience necessary to direct the Company. The directors represent a wide range of operational and international experience with an in depth understanding of the industry. The combination of skills and experience allows for contributions on operational, financial and management matters. The board considers that the educational qualifications of the Company's directors represent a good mix of science, engineering, finance, accounting and legal skills which are relevant to the Company's business. In addition, the geographic experience of the board is global, encompassing Australia, Asia Pacific and the Americas. *(Recommendation 2.2)*

Directors are encouraged to attend appropriate training and professional development courses to update and enhance their skills and knowledge. New directors are inducted into the Company in accordance with the Company's Director Induction Program. *(Recommendation 2.6)*

The board is actively and regularly involved in risk management and strategic planning. The board has an active program of continuous improvement, including keeping up to date on best practice, fostering a compliance culture, training and recognition.

Directors' independence

The board has adopted specific principles in relation to directors' independence. These state that when determining independence, a director must be a non-executive and the board should consider whether the director:

- is, or has been, employed in an executive capacity by the entity or any of its child entities and there has not been a period of at least three years between ceasing such employment and serving on the board;
- is, or has within the last three years been, a partner, director or senior employee of a provider of material professional services to the entity or any of its child entities;
- is, or has been within the last three years, in a material business relationship (e.g. as a supplier or customer) with the entity or any of its child entities, or an officer of, or otherwise associated with, someone with such a relationship;
- is a substantial security holder of the entity or an officer of, or otherwise associated with, a substantial security holder of the entity;
- has a material contractual relationship with the entity or its child entities other than as a director;
- has close family ties with any person who falls within any of the categories described above; or
- has been a director of the entity for such a period that his or her independence may have been compromised.

The board annually assesses the independence of each non-executive director and considers that Messrs Ainsworth, Humphrey and Stock satisfy the criteria of being independent of management and free from any business or other relationship or conflict of interest that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their independent judgement. *(Recommendation 2.3)*

In determining materiality, the board has regard, among other things, to the matters detailed in paragraph 6 of the Board Charter. The board acknowledges that Mr Humphrey has been a director for twenty five years, however the board considers that there is no objective or subjective reason to believe that Mr Humphrey's period of board service in any way would interfere with his ability to bring an independent judgement to bear on issues before the board and to act in the best interests of the Company and its shareholders. The board also acknowledges that Mr Ainsworth has been a director for fourteen years, however the board considers that there is no objective or subjective reason to believe that Mr Ainsworth's period of board service in any way would interfere with his ability to act in the best interests of the Company and its shareholders. Accordingly, the board has assessed Mr Ainsworth and Mr Humphrey to be independent directors.

The board acknowledges that Mr de Nys is a non-independent director by virtue of his association with a substantial shareholder, the IMC Group. The Company was in full compliance with *Recommendation 2.4* (which recommends that a majority of the board be composed of independent directors) for the full financial year.

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

Remuneration and Nomination Committee

The board has established a Remuneration and Nomination Committee. *(Recommendations 2.1)*

The Remuneration and Nomination Committee consists of the following non-executive directors, the majority of whom are independent, including the Chair:

Independent
E F Ainsworth (Chairman of Committee)
A Stock

Non-independent
G de Nys

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

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

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

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

PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

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

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

The Code and Diversity Policy are discussed with each new employee as part of their induction training. The directors are satisfied that the Group and Company have complied with its policies on ethical standards.

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

PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING

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

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

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

The qualifications of Audit Committee members and their attendance at meetings of the Committee during the financial year ended 30 June 2015 are detailed in the Directors' Report.

In the period 1 July 2014 to the date of this report, the Audit Committee was composed of three non-executive directors. The board considers that the size and composition of the Audit Committee is appropriate to enable its effective and efficient operation having regard to the size of the board and the relevant qualifications of the members of the Audit Committee.

The board requires the CEO and CFO to provide a declaration in accordance with section 295A of the *Corporations Act 2001*. The board acknowledges that, in their opinion, the financial records of the Company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company. That opinion has been formed on the basis of a sound system of risk management and internal control which is, in their view, operating effectively. *(Recommendation 4.2)*

The Audit Committee has a formal charter that details its role and responsibilities, composition, structure and membership requirements.

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

External auditor

The external auditor attended all Audit Committee meetings during the financial year, including holding discussions with the Audit Committee at each meeting without management present. The external auditor also attended the annual general meeting and was available to answer shareholder questions about the conduct of the external audit and the preparation and content of the independent auditor's report. *(Recommendation 4.3)*

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

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

An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in Note 30 to the financial statements. It is the policy of the external auditor to provide an annual declaration of its independence to the Audit Committee.

Corporate Governance Statement

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

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

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company and its subsidiaries that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage effective participation at annual general meetings. The Continuous Disclosure Policy together with all other relevant corporate governance information is available in the Corporate Governance section of the Company's website. *(Recommendation 5.1 and 6.1)*

The Disclosure Committee consists of the following directors, the Chair of which is independent:

E F Ainsworth (Chairman of Committee)
B D Emmett

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

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

All information disclosed to the ASX is posted on the Company's website as soon as it is released by the ASX. When presentations on aspects of the Group's operations are made, the material used in the presentation is released to the ASX. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market. The Company seeks to provide opportunities for shareholders to participate through electronic means. The website also includes a feedback mechanism and an option for shareholders to register their e-mail address for direct e-mail updates of Company matters. *(Recommendations 6.2 and 6.4)*

The Company has written policies and procedures which are used to assist the Company in developing and promoting its communication with shareholders and encouraging effective participation at general meetings. The Shareholder Communications Guidelines Policy is available in the Corporate Governance section of the Company's website. *(Recommendation 6.3)*

Shareholders are given the opportunity to elect to receive a copy of the Company's annual (full or concise) and half-yearly reports. In addition, the Company seeks to provide opportunities for shareholders to participate through electronic means. Current initiatives to facilitate this include making all Company announcements, media briefings, details of Company meetings, press releases for the last three years and financial reports for the last five years available on the Company's website. *(Recommendation 6.4)*

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

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

In summary, the Company's Risk Management Policy is designed to ensure strategic, operational, environmental, legal, reputational and financial risks are identified, assessed, effectively and efficiently monitored and managed to enable achievement of the Group's business objectives.

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

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

The Company's Risk Management Policy and procedural operation of the risk management and compliance system is overseen by the Risk Management Committee which consists of all directors and is chaired by an independent non-executive director:

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

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

Details of attendance at meetings of the committee during the financial year are detailed in the Directors' Report. *(Recommendation 7.1)*

The committee ensures that appropriate risk management controls are implemented and effected by meeting with senior executives, at least annually, to review and discuss the material business risks arising from business strategies and the adequacy of the relevant risk management controls in place. This review was conducted during 2015. The Risk Management Committee Chairman (or a delegate) reports to the board following each meeting of the Risk Management Committee. In addition, the board also reviews and considers material business risks and the adequacy of the risk management controls at each board meeting. *(Recommendation 7.2)*

In accordance with the Risk Management Policy, an annual review of the policy and charter was undertaken to ensure that it reflected the current best industry practice processes. A copy of the Risk Management Policy is available in the Corporate Governance section of the Company's website at www.horizonoil.com.au *(Recommendation 7.1 and 7.2)*

While the Company does not utilise a formal internal audit function, given the relative size of the organisation and the key roles of the Risk Management Committee and Audit Committee in evaluating and continually improving the effectiveness of the Company's risk management and internal control processes, the board considers the regular systematic monitoring of control activities to be sufficient to manage current and future risks. *(Recommendation 7.3)*

The Company strongly values economic, environmental and social sustainability within the areas in which it operates. In order to mitigate any material exposure to economic, environmental and social sustainability risks, the Company undertakes regular monitoring and assessment of both its operating and non-operating assets to ensure that all activities are conducted in a manner that is consistent with the Company's commitment to safe and sustainable operations. Current monitoring and assessment has not indicated any material exposures in the areas of environmental and social sustainability. The Company has written policies and procedures which are implemented to protect the well-being and integrity of all stakeholders and the social and natural environment in which the Company's operations are positioned. These policies and procedures, which include the Company's Safety & Health Policy, Environment Policy, Fitness for Work Policy and Security Policy, are discussed with each new employee as part of their induction training. Further details of the Company's sustainability performance and key initiatives are set out in the Sustainability Report on pages 54 to 58. *(Recommendation 7.4)*

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The Company has established a Remuneration and Nomination Committee.

The Remuneration and Nomination Committee consists of the following directors, the majority of whom are independent, including the Chair:

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

Details of attendance at meetings of the Committee during the financial year are detailed in the Directors' Report. *(Recommendation 8.1)*

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

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

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

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

The Company's Securities Trading Policy prohibits employees entering into transactions in financial derivatives (including options) which limit the economic risk of participating in unvested entitlements under equity based remuneration schemes. *(Recommendation 8.3)*

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

Sustainability Report

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

1. Introduction

The Company is committed to the sustainable development of its operations. This Sustainability Report is focused upon those assets for which the Company was the designated operator. Where the Company is a non-operating joint venture partner it is assumed that sustainable development reporting is undertaken on behalf of the joint venture by the designated operator. The Company is committed to the audit and assessment of joint venture partners operating on its behalf to ensure that activities are conducted in a manner consistent with our expectations around the sustainable development of our assets.

This report is for the financial year ended 30 June 2015.

In October 2014, the Company completed the Stanley-3 and Stanley-5 development wells, on behalf of the PDL 10 joint venture. The drilling rig was transported to the Nama-1 location via a road transport campaign that included heli-support for key operational items. The Company completed the drilling of the Nama-1 well on behalf of the PPL 259 joint venture in January 2015. During the period September to November 2014 the Company also completed the successful Tana-1 seismic program in PRL 21.

During the reporting period an independent assessment of the Elevala Project Environmental Impact Statement ('EIS') was undertaken by the PNG Conservation and Environment Protection Authority ('CEPA'). The Company expects to receive the Minister's Approval in Principle for the EIS early in the new financial year.

The Company's sustainable development strategy is focused on four key pillars. These include:

- Safety & Health;
- Security;
- Environment; and
- Community.

Each pillar is discussed in detail within this Sustainability Report.

2. Health & Safety

The Company is committed to the maintenance of a safe and healthy working environment for all personnel, contractors, vendors and visitors attending Company operated sites. No fatalities resulted from the conduct of the Company's activities in the reporting period.

During the reporting period the Company achieved a Total Recordable Injury Frequency Rate ('TRIFR') of 0.9 and a Lost Time Injury Frequency Rate ('LTIFR') of 0.0. This result was achieved on a base of greater than 1,000,000 man-hours and significant contribution of comparatively high risk activities (such as drilling) undertaken in a challenging environment. Over the three year period to 30 June 2015, the Company returned a performance for LTIFR of 0.9 and TRIFR of 2.8 which is consistent with industry expectations for comparable activities, such as drilling (LTIFR – 0.84 & TRIFR – 3.05 based on the results of the International Association of Oil and Gas Producers ('IOGP')).

The Company targets an injury rate that outperforms the average within the industry as reported in the Safety Performance Indicator Series published annually by the IOGP. In 2015, the Company outperformed this target. In June 2015, the Company recorded 12 months lost time injury (LTI) free.

Year	FY13	FY14	FY15
LTIFR	0.0	2.8	0.0
TRIFR	0.0	7.0	0.9
No. of Recordable Injuries	0	5	1

Table 1: Total Recordable Injury Frequency Rate (TRIFR) for Horizon Oil

During the reporting period a single recordable injury was reported. The injury related to prophylactic administration of antibiotics during the treatment of a suspected foreign body in the eye. The improved performance from the prior year is the result of a concerted leadership effort to stabilise the operating environment while guiding employees and contracting parties through a period of relative change and uncertainty.

During the reporting period the Company embarked upon the development and implementation of a safety culture and leadership program designed to develop its leaders of the future and safeguard the sustainability of its operations. The program is based on our own operational experience, as well as, developments in safety leadership within the oil and gas industry.

A review of the safety performance of the Company indicates that safety incidents are more prevalent during unsettled periods that characterise the start of specific campaigns of work. The safety culture and leadership program has been designed as an integral component of pre-project planning activities to directly address this risk associated with future programs of work. For example, the Elevala Project will involve the integration of personnel from different ethnic and cultural backgrounds in a remote, greenfield environment. Ensuring that all personnel understand the Company's safety and health requirements and their individual responsibilities will be integral to the successful delivery of this project.

Health Programs

The Company is committed to the health and welfare of its personnel. During the reporting period, the Company embarked upon a pilot program focused on individualised health and fitness for work assessments. This included the introduction of a vaccination program for local employees working and living in Papua New Guinea, to immunise personnel against tetanus, Japanese encephalitis, typhoid, hepatitis A and B, and cholera.

The Company continues to contribute to the improvement of community health systems and services. During the financial year, the Company donated a range of medical goods to local community-sponsored health and medical stations. This included community-based health care services based in the villages of Gasuke, Drimdenasuk, Iowara, Rumginae and the central township of Kiunga.

Figure 1: Representatives of the Drimdenasuk village health clinic and Horizon Oil team members during the donation of medical supplies

The area within which the Company operates in Papua New Guinea is one of the least developed areas, with regards to the provision of health services. The Company periodically finds itself in a position to provide much needed assistance to local health service providers. For example, during a community meeting for the Elevala Project EIS at Iowara Station, Company employees were notified of a young woman experiencing a difficult labour, who required advanced medical care that could not be provided locally. The opportunity was taken to assist the local health service via the use of the helicopter to transport the mother-to-be to Kiunga Airport and then via road transport to the Kiunga Hospital for further medical attention. The young woman, Veronica, gave birth to a healthy baby boy on 25 March, at Kiunga Hospital.

Figure 2: Preparing for transfer to Kiunga Hospital for further treatment

Reporting Culture

The Company is committed to the development of a culture in which reporting of occurrences is valued and recognised, and uses this to continually improve its operations and activities.

During the reporting period, thirteen Significant Near Miss occurrences were reported. While no material impact resulted from these occurrences, each of them was investigated and remedial actions designed, developed and implemented. A breakdown of significant incidents reported is shown in Figure 3. This result is a slight decrease from the prior year (sixteen incident reports). It should be noted that this decrease occurred, despite a 44% increase in man-hours worked to 1,037,205 (2014: 717,816) attributable to the Stanley and Nama drilling programs which the Company operated. The majority of incidents related to Safety and Health, which is consistent with the prior year result.

Significant near miss occurrences

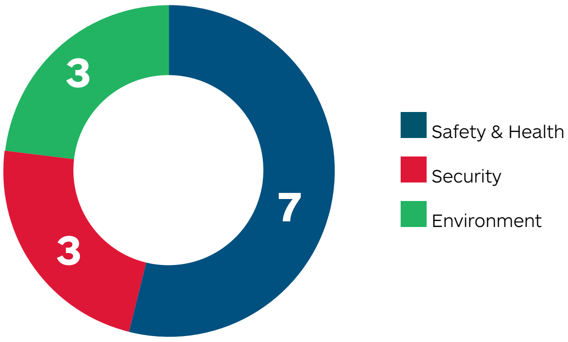

Figure 3: Significant Near Miss Occurrences by Sustainable Development Pillar

3. Security

The Company maintains a Security Policy that sets standards that detail its expectations for the protection of its personnel, its assets and the public. The Company conducts its operations in a manner consistent with the *Voluntary Principles on Security and Human Rights*, which is a multi-stakeholder initiative for the extractive industry involving governments, companies and non-government organisations. During the period no breaches of the Principles were reported.

As detailed in Figure 3, three significant near miss security occurrences were reported during the year. Investigation and analysis of these incidents indicated that in each instance the underlying causes were related to an opportunistic exposure, which is commonly experienced in Papua New Guinea.

The Company recognises that the security of its assets and personnel is dependent upon its standing within the communities in which it operates. To this end, the Company remains committed to the engagement and development of local residents and businesses to develop and deliver a functional security capability. The Company has worked in partnership with local businesses, coaching and regularly assessing their performance and capability, to ensure that standards are met and upheld. During the reporting period, the Company transitioned to security contractors wholly provided by companies registered within the North Fly Region. The contractors engaged in the provision of security services at the Company's facilities are all local residents.

Sustainability Report

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

Figure 4: The Security Team at Lobire Lodge, Kiunga

4. Environment

During the reporting period three significant near miss occurrences relating to the environment were reported. None of these had a material or lasting environmental impact, but rather reflect the Company's commitment to proactive reporting and the processes and systems established to prevent environmental harm.

No instances of exceeding regulatory limits or non-compliance with environment permit conditions were identified during the reporting period.

The Company has developed and implemented an extensive environmental monitoring program that establishes existing environmental conditions and will be used to assess the potential impacts of future project activities on the surrounding environment. The quarterly data collection has focused on the Elevala River system which is the primary receiving catchment for activities related to the development of the Elevala Project. Key findings from analysis of the collected data are provided to local communities.

The Company is in the process of expanding its environmental monitoring program to include river bank erosion monitoring at selected locations along the Fly River that may be impacted by future vessel traffic associated with the Company's activities.

Figure 5: Water quality sampling on the Elevala River

During the reporting period the Company's environmental activities focused on the regulatory environmental approval process for the Elevala Project, this involved engaging all levels of government, as well as, community stakeholders, primarily through the roadshow for the EIS. The Company organised a number of meetings with CEPA and the Western Provincial Administration at key population centres within the Company's operational area including at:

- Gasuke;
- Iowara;
- Drimdenasuk; and
- Kiunga.

Close to 1,000 people attended these sessions. The main focus of the presentations was to explain the potential environmental and social impacts identified in the EIS and to describe how the Company would manage and mitigate these impacts. Comments and queries raised were captured by CEPA and form part of their environmental assessment documentation on the EIS. As a direct outcome of the roadshow meetings and based on the common issues of concern raised by stakeholders, a number of information sheets are currently being prepared for circulation to local communities. Overall, the EIS roadshow was a resounding success and has set the benchmark for project engagement with communities in the Western Province.

Figure 6: Presentation of the Elevala EIS to the community at the village of Drimdenasuk

Figure 7: Presentation of the Elevala EIS to the community at the village of Gasuke

The presentation of the Elevala EIS to stakeholders was concluded with a presentation to the State Team in Port Moresby, as a final opportunity for government agencies to comment on the EIS and to raise any concerns with CEPA and the Company. No objections to the project have been lodged. The EIS is currently under review by CEPA, with the Minister's Approval in Principle anticipated in the near future. Subject to approval, the Company looks forward to working with all project stakeholders during the 2016 financial year on the next stage of the project.

5. Community

The Company seeks to conduct its operations in a manner that is transparent, respectful of the rights of all stakeholders with whom we interact and that promotes sustainable social and economic development within our project area communities.

The Company's approach to sustainable development seeks to integrate the local community into our operational activity at every possible opportunity, with the objective of leaving a long-term positive social development legacy. The case study "a participatory approach" included within this report has been provided in order to demonstrate how this desired approach translates into practical action.

Case study: a participatory approach

In late 2014, the Company acquired approximately 105 km of 2D seismic within Petroleum Retention Licence 21 (PRL 21) over a period of approximately 12 weeks. PRL 21 is relatively remote, lying some 60 km to the east of Kiunga in the Western Province of PNG. The population within PRL 21 and the surrounding area is approximately 5,000 people, a figure which includes some 3,000 West Papuan refugees who were settled in the area in the mid 1980s. Access to the area is difficult and generally restricted to helicopter, boat or on foot. As a consequence, the level of basic services in the area is poor and there are limited opportunities for business or employment. A seismic program in PNG relies heavily on a large contingent of semi-skilled and unskilled labour to assist with line clearing, bridging, drilling and other tasks. The work is hard and hot, nevertheless, it provides a sound short-term employment opportunity for the local community.

The Company's Community Affairs team worked closely with the seismic contractors to develop and execute a strategy that focused on maximising the level of community participation for the duration of the seismic program. The majority of the labour force was recruited from the main impacted landowner villages of the PRL 21 area (refer Figure 8). These villages were Gasuke, Iowara, Drimdenasuk, Pipila, Tegena, Debepari, Diabi, Tomotona, Kuyu, Korona, Damaro and Komhnai. Composite work crews (whereby work crews are made up of men from a number of different villages and clans) were established. This enabled individual work crews to remain employed for the duration of the program and also mitigated the risks of work stoppages arising as work crews crossed clan land boundaries. In addition to labour, a total of eight dinghies were sourced from the local community and contracted for the duration of the seismic survey to assist with the transport of food, fuel and manpower between work sites. Additional boats and crews were utilised during periods of peak demand, such as the mobilisation and demobilisation phase.

Labour distribution by Villages

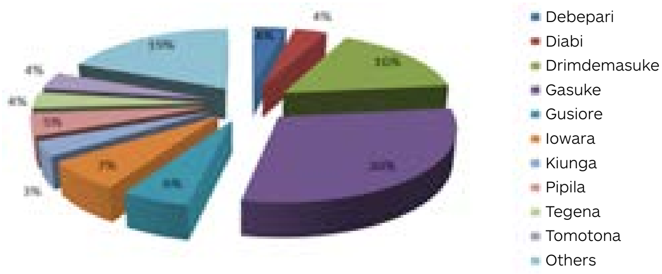

Figure 8: The distribution of labour from the villages within the project area

The strategy proved to be very successful. A peak workforce of 360 local labourers was sourced from the project area, zero LTIs were recorded and the program was completed on time and on budget. The Company's commitment to partnering with the local community and integrating them into our operational activities was a significant contributor to the success of the program.

From the communities' perspective and notwithstanding the relatively short duration of the seismic program, the direct impact of employment opportunities presented by seismic programs within the project area are substantial. Overall, a total of PGK892,056 (approximately US$325,000) was paid directly into the local community in the form of wages and boat hire fees. This represents a significant, and very welcome injection of cash into an area that otherwise sees little in the way of economic opportunities. In addition, the Company contributed a further PGK29,469 (approximately US$11,000) in donations of surplus materials (including water tanks and medical supplies) to the local community at the conclusion of the program.

Figure 9: Food and supplies being loaded into boats

Sustainability Report

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

Consistent and transparent stakeholder engagement remains a fundamental aspect of the Company's approach to sustainable development. A number of initiatives have been established in the last 12 months to ensure the key principle of free, prior and informed consent are adhered to. These initiatives include:

1. the establishment of a formal grievance procedure to ensure that any issues or concerns raised by the community are recorded and responded to in a diligent and effective manner;
2. the preparation and distribution of the Company's Community News, a monthly publication that is used to disseminate information relevant to the Company's activities within its project areas; and
3. the conduct of regular 'village patrols' by the Company's Community Affairs ('CA') team which are aimed at ensuring direct contact and interaction with project area communities at a village level. These patrols, which often involve an overnight stay, enable CA personnel to effectively disseminate project information and also provide community members with an opportunity to ask questions and voice any concerns with the CA team directly.

Figure 10: Horizon Oil Community & Government Affairs team member speaking with community members during a village patrol to Drimdenasuk Village

The Company continues to pursue a number of social investment programs, with substantial financial and in kind support provided to two Western Province based charities, Australian Doctors International ('ADI') and Mercy Works. The work of both organisations is focused primarily on healthcare and specifically in building partnerships with local communities to enhance capacity and self reliance in areas where access to basic health care is limited or non-existent.

The Company is also in consultation with the Fly River Provincial Administration's North Fly Development Authority in order to develop additional health and education focused social investment programs aligned with the North Fly District Development Plan. The intention is that aligning these social investment programs with that of the Fly River Provincial Government will greatly enhance their sustainability over the long-term.

Further information on the activities of both Mercy Works and ADI can be found on their websites, www.mercyworks.org.au and www.adi.org.au.

6. Developing and Sustaining HSSE Capability

The reporting period marked an important milestone in the development of a sustainable HSSE capability within the areas the Company operates. In February 2015, the Company employed three Kiunga residents as HSSE Officers. Each of the new team members are a product of the local education system having graduated through the Kiunga primary and secondary schools, prior to departing to higher education institutions for the completion of their tertiary studies. The new team members are currently working with the HSSE leadership team to develop a dedicated individual development plan, that is designed to test and consolidate existing capability, while developing the skills required for a future in the industry. The Company does this through a commitment to providing learning opportunities, industry exposure, ongoing training and mentoring. The Company increasingly recognises the potential benefit that exists from developing personnel from local communities, to become future leaders of the Company.

Figure 11: Horizon Oil HSSE Officers – Geyam Anas, Lina Kerekere & Merolyn Urio

7. Conclusion

The Company is committed to the sustainable development of its operations within the communities and environments in which it operates. The Company regards this commitment as an integral component of an ongoing, long-term engagement with local communities.

The Company builds its activities on a framework established by corporate policy and assesses its performance against both internal and industry standards.

Independent Audit Report to the members of Horizon Oil Limited

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

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

Report on the financial report

We have audited the accompanying financial report of Horizon Oil Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Horizon Oil Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Independent Audit Report to the members of Horizon Oil Limited

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

pwc

Auditor's opinion

In our opinion:

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

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report

We have audited the remuneration report included in pages 32 to 42 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Horizon Oil Limited for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Peter Buchholz
Partner

Sydney
25 August 2015

Directors' Declaration

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

In the directors' opinion:

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

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

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the financial year ended on that date; and

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

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

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

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

E F Ainsworth AM
Chairman

B D Emmett
Chief Executive Officer

Sydney
25 August 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

		Consolidated	
	Note	2015	2014
		US$'000	US$'000
Revenue from continuing operations	6	**103,950**	138,450
Cost of sales	7	**(59,970)**	(92,716)
Gross profit		**43,980**	45,734
Profit from sale of assets	5	**-**	23,830
Other income	6	**6,842**	234
General and administrative expenses	7	**(7,569)**	(8,183)
Exploration and development expenses	7	**(16,222)**	(10,520)
Financing costs	7	**(17,360)**	(18,899)
Unrealised movement in value of convertible bond conversion rights	6	**9,063**	412
Other expenses	7	**(983)**	(2,581)
Profit before income tax expense		**17,751**	30,027
NZ royalty tax expense	8a	**(4,299)**	262
Income tax expense	8b	**4,855**	(17,459)
Profit for the financial year		**18,307**	12,830
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	26a	**14,394**	(5,303)
Total comprehensive income for the financial year		**32,701**	7,527
Profit/(loss) attributable to:			
Security holders of Horizon Oil Limited		**18,333**	12,830
Non-controlling interests		**(26)**	-
Profit/(loss) for the period		**18,307**	12,830
Total comprehensive income/(loss) attributable to:			
Security holders of Horizon Oil Limited		**32,727**	7,527
Non-controlling interests		**(26)**	-
Total comprehensive income/(loss) for the period		**32,701**	7,527
Earnings per share for profit attributable to ordinary equity holders of Horizon Oil Limited:		US cents	US cents
Basic earnings per ordinary share	41a	**1.41**	1.00
Diluted earnings per ordinary share	41b	**1.41**	1.00

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	Note	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Current assets			
Cash and cash equivalents	9	**61,343**	98,911
Receivables	10	**14,580**	15,477
Inventories	11	**4,907**	5,281
Derivative financial instruments	20	**11,399**	-
Current tax receivable	12	**2,091**	-
Other assets	13	**1,435**	1,674
Total current assets		**95,755**	121,343
Non-current assets			
Deferred tax assets	14	**11,165**	2,306
Plant and equipment	15	**5,065**	5,558
Exploration phase expenditure	16	**96,959**	74,658
Oil and gas assets	17	**314,395**	311,038
Total non-current assets		**427,584**	393,560
Total assets		**523,339**	514,903
Current liabilities			
Payables	18	**16,781**	35,715
Deferred income	19	**2,212**	-
Derivative financial instruments	20	**-**	5,935
Current tax payable		**271**	1,596
Borrowings	21	**97,104**	44,165
Other financial liabilities	22	**7,961**	-
Provisions	24	**3,181**	12,497
Total current liabilities		**127,510**	99,908
Non-current liabilities			
Payables		**15**	54
Derivative financial instruments	20	**-**	222
Deferred tax liability	23	**29,408**	17,106
Borrowings	21	**97,286**	143,281
Other financial liabilities	22	**-**	17,024
Provisions	24	**12,803**	14,742
Total non-current liabilities		**139,512**	192,429
Total liabilities		**267,022**	292,337
Net assets		**256,317**	222,566
Equity			
Contributed equity	25	**174,801**	174,801
Reserves	26a	**19,288**	3,844
Retained profits	26b	**62,254**	43,921
Total Equity Attributable to equity holders of the Company		**256,343**	222,566
Non-controlling interest		**(26)**	-
Total equity		**256,317**	222,566

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

Consolidated		Attributable to members of Horizon Oil Limited					
		Contributed equity	Reserves	Retained profits	Total	Non-controlling interest	Total Equity
	Note	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Balance as at 1 July 2013		128,038	7,884	31,091	167,013	-	167,013
Profit for financial year	26(b)	-	-	12,830	12,830	-	12,830
Changes in the fair value of cash flow hedges	26(a)	-	(5,303)	-	(5,303)	-	(5,303)
Total comprehensive income for the financial year		-	(5,303)	12,830	7,527	-	7,527
Transactions with owners in their capacity as equity holders:							
Ordinary shares issued, net of transaction costs	25(b)	46,763	-	-	46,763	-	46,763
Employee share-based payments expense	26(a)	-	1,263	-	1,263	-	1,263
		46,763	1,263	-	48,026	-	48,026
Balance as at 30 June 2014		174,801	3,844	43,921	222,566	-	222,566
Balance as at 1 July 2014		**174,801**	**3,844**	**43,921**	**222,566**	**-**	**222,566**
Profit for the financial year	26(b)	**-**	**-**	**18,333**	**18,333**	**(26)**	**18,307**
Changes in the fair value of cash flow hedges	26(a)	**-**	**14,394**	**-**	**14,394**	**-**	**14,394**
Total comprehensive income for the financial year		**-**	**14,394**	**18,333**	**32,727**	**(26)**	**32,701**
Transactions with owners in their capacity as equity holders:							
Ordinary shares issued, net of transaction costs	25(b)	-	-	-	-	-	-
Employee share-based payments expense	26(a)	-	1,050	-	1,050	-	1,050
		-	1,050	-	1,050	-	1,050
Balance as at 30 June 2015		**174,801**	**19,288**	**62,254**	**256,343**	**(26)**	**256,317**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

	Note	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Cash flows from operating activities			
Receipts from customers		**104,088**	139,336
Payments to suppliers and employees		**(33,718)**	(55,987)
		70,370	83,349
Interest received		**146**	234
Interest paid		**(8,722)**	(11,042)
Income taxes paid		**(2,951)**	(7,575)
Net cash inflow from operating activities	40	**58,843**	64,966
Cash flows from investing activities			
Payments for exploration phase expenditure		**(36,934)**	(42,422)
Payments for oil and gas assets		**(45,847)**	(49,654)
Payments for China restoration costs		**(12,310)**	-
Proceeds from sale of oil and gas assets		**-**	52,600
Proceeds from sale of exploration phase assets		**-**	1,000
Reimbursement of oil and gas asset expenditure		**-**	22,627
Reimbursement of exploration phase expenditure		**-**	615
Payments for plant and equipment		**(191)**	(836)
Net cash (outflow) from investing activities		**(95,282)**	(16,070)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**-**	49,014
Payments for transaction costs arising on ordinary shares issued		**-**	(2,251)
Proceeds from borrowings (net of transaction costs)		**8,076**	-
Repayment of borrowings		**(9,165)**	(15,170)
Net cash (outflow) from financing activities		**(1,089)**	31,593
Net (decrease)/increase in cash and cash equivalents		**(37,528)**	80,489
Cash and cash equivalents at the beginning of the financial year		**98,911**	19,028
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		**(40)**	(606)
Cash and cash equivalents at the end of the financial year		**61,343**	98,911

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Note 1. Summary of Significant Accounting Policies

A summary of the significant accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied, unless otherwise stated. The financial statements are for the consolidated entity consisting of Horizon Oil Limited and its subsidiaries (the 'Group'). For the purposes of preparing the financial statements, the consolidated entity is a for profit entity.

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

a) Statement of compliance

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

The consolidated financial statements comply with Australian Accounting Standards as issued by the AASB and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

b) Basis of preparation

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

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order amounts in the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

The financial statements have been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they become due.

New and amended standards adopted by the Group

The Group has adopted all of the new and revised Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to its operations and effective for the financial year ended 30 June 2015.

New and revised Australian Accounting Standards and amendments thereof and Interpretations effective for the financial year that are relevant to the Group include:

(i) AASB 2013-3 Amendments to AASB 136 Recoverable Amount Disclosures for Non Financial Assets

This amendment increases the disclosure requirements in AASB 136 *Impairment of Assets*. The amendment includes the requirement to disclose additional information about recoverable amounts and the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. This amendment will not affect any of the amounts recognised in the financial statements.

(ii) AASB Interpretation 21 Levies

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

Early adoption of standards

The Group has elected to apply the following pronouncement to the financial year beginning 1 July 2013:

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

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. In December 2013, the AASB issued a revised version of AASB 9 incorporating three primary changes:

1. new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures;
2. entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time; and
3. the mandatory effective date moved to 1 January 2017.

Given that these changes are focused on simplifying some of the complexities surrounding hedge accounting, Horizon Oil Limited has elected to early adopt the amendments in order to ensure hedge accounting can continue to be applied and to avoid unnecessary volatility within the profit and loss.

Critical accounting estimates

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

Changes in accounting estimates

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

(i) Oil & gas assets – amortisation

On 1 January 2015, the Group revised the reserve and resource estimates for the Maari/Manaia field in New Zealand and Beibu fields in China. The change in proven and probable hydrocarbon reserves affects the amortisation recorded in the financial year and also impacts the recoverable amount used to assess impairment and the value of the restoration provision at 30 June 2015. See critical accounting estimates disclosed in Note 3.

The change in estimate resulted in an increase in the amortisation charge of $1.1 million for the financial year.

(ii) Oil & gas assets – restoration provision

Legislation in China requires the provision for restoration to be paid over the remaining life of the field. Payments are to be made in accordance with a restoration plan lodged with the relevant governmental authority. During the financial year, the Group commenced payments to meet this legal obligation. This resulted in a change at 30 June 2015, to the timing and amount of outflows used to calculate the provision for restoration.

This change in estimate resulted in a decrease of $0.9 million in the provision for restoration which was applied against the restoration asset.

c) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Horizon Oil Limited (the 'Company' or 'Parent Entity') as at 30 June 2015 and the results of all subsidiaries for the financial year then ended. Horizon Oil Limited and its subsidiaries together are referred to in these financial statements as the Group.

Subsidiaries are those entities (including special purpose entities) over which the Group has control. Control exists when the Company is exposed to, or has the rights to, variable returns from its involvement and has the ability to affect those returns through its power over that entity. There is a general presumption that a majority of voting rights results in control. The existence and effect of potential voting rights that are currently exercisable or convertible are also considered when assessing whether the Group controls another entity.

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

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

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

Joint operations

A joint operation is a joint arrangement whereby the participants that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognises assets, liabilities, revenues and expenses according to its share in the assets, liabilities, revenues and expenses of a joint operation or similar as determined and specified in contractual arrangements (Joint Operating Agreements). Details of major joint operation interests and the sum of the Group's interests in joint operation assets, liabilities, revenue and expenses are set out in Note 29.

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

d) Crude oil and gas inventory and materials in inventory

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

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

e) Operating segment reporting

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

f) Foreign currency translation

(i) Functional and presentation currency

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

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

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year end exchange rates of monetary assets and liabilities denominated in foreign currencies are generally recognised in the profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

(iii) Group companies

All Group subsidiaries have a functional currency of United States dollars, as a result, there is no exchange differences arising from having a different functional currency to the presentation currency of Horizon Oil Limited.

g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable to the extent it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. All revenue is stated net of the amount of GST.

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

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

h) Deferred income

A liability is recorded for obligations under petroleum sales contracts where the risks and rewards of ownership have not passed to the customer and payment has already been received.

i) Taxation

(i) Income tax

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

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

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

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

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

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

(ii) Government royalties

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

j) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (Note 38). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. The Company has no leases which are classified as finance leases under AASB 117 Leases at 30 June 2015.

k) Impairment of assets

Assets are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. If an impairment indicator exists a formal estimate of the recoverable amount is calculated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets ('cash-generating units').

In assessing the recoverable amount, an assets estimated future cash flows are discounted to their present value using an after tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Exploration phase expenditure is assessed for impairment in accordance with Note 1(o).

l) Cash and cash equivalents

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

m) Trade receivables

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

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

n) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred, equity interests issued by the Group, fair value of any asset or liability resulting from a contingent consideration arrangement, and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Acquisition related costs are expensed as incurred.

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

o) Exploration phase expenditure

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

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

Where an ownership interest in an exploration and evaluation asset is purchased, any cash consideration paid net of transaction costs is treated as an asset acquisition. Alternatively, where an ownership interest is sold, any cash consideration received net of transaction costs is treated as a recoupment of costs previously capitalised, with any excess accounted for as a gain on disposal of non-current assets.

Impairment of capitalised exploration phase expenditure

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

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

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

p) Oil and gas assets

(i) Development expenditure

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

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

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

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

(ii) Production Assets

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

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

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

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

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

(iii) Restoration provision

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

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

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

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

Legislation in China requires the provision for restoration to be paid over the remaining life of the field. As such, payments relating to restoration provisions of US$3.2 million are recognised as current, being due within 12 months.

(iv) Reserves

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

q) Investments and other financial assets

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

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

r) Plant and equipment

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

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

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

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

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

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

s) Trade and other payables

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

t) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges). The Group currently does not have any derivatives designated as fair value hedges.

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

The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 20. Movements in the hedging reserve in equity are shown in Note 26(a).

(i) Cash flow hedge

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

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

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

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

(ii) Derivatives that do not qualify for hedge accounting

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

u) Borrowings

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

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

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

v) Borrowing costs

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

The amount of borrowing costs incurred which were capitalised during the financial year were interest and associated costs of US$2,983,000 (2014: US$1,282,000) and amortised borrowing costs of US$1,924,000 (2014: US$1,103,000).

w) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Long service leave

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

(iii) Share-based payments

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

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

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

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

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

x) Contributed equity

Ordinary shares are classified as equity.

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

y) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

z) Goods and Services Tax ('GST')

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

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

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

aa) Parent entity financial information

The financial information for the parent entity, Horizon Oil Limited, disclosed in Note 42 has been prepared on the same basis as the consolidated financial statements, except as set out below.

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

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

(ii) Financial guarantees

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

bb) New Australian Accounting Standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 2014-3 '*Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*'

The AASB has amended AASB 11 *'Joint Arrangements'*. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' as defined in AASB 3 '*Business Combinations*'. The amendments to AASB 11 will be applied prospectively for annual periods on or after 1 January 2016. Earlier application is permitted. The Group has interests in a number of joint operations. The Group is yet to assess the full impact of the amendments given it will only apply to future potential transactions. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the financial year ending 30 June 2017.

(ii) AASB 15 '*Revenue from Contracts with Customers*'

AASB 15 '*Revenue from Contracts with Customers*' (issued during January 2015) is the new standard for revenue recognition, replacing AASB 111 '*Construction Contracts*', AASB 118 '*Revenue*' and AASB 1004 '*Contributions*'. It is applicable for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Group is yet to assess AASB 15's full impact. The new standard's core principle is that an entity recognises revenue in accordance with the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the financial year ending 30 June 2018.

There are no other Australian Accounting Standards that are not yet effective and that are expected to have a material impact on the Group in the current or future financial years and on foreseeable future transactions.

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Note 2. Financial risk management

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

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

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

The Group holds the following financial instruments:

	Consolidated	
	30 June 2015 US$'000	30 June 2014 US$'000
Financial Assets		
Cash and cash equivalents	**61,343**	98,911
Receivables	**14,580**	15,477
Derivative financial instruments	**11,399**	-
Current tax receivable	**2,091**	-
	89,413	114,388
Financial Liabilities		
Payables (current)	**16,781**	35,715
Current tax payable	**271**	1,596
Payables (non-current)	**15**	54
Derivative financial instruments (current and non-current)	**-**	6,157
Borrowings (net of borrowing costs capitalised)	**194,390**	187,446
Other financial liabilities	**7,961**	17,024
	219,418	247,992

(a) Market risk

(i) Foreign exchange risk

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

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

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

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

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

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

Exposure to foreign exchange risk

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

Group	30 June 2015				30 June 2014			
	AUD	NZD	PGK	RMB	AUD	NZD	PGK	RMB
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Cash and cash equivalents	**4,401**	**2,600**	**1,009**	**80**	608	1,658	115	3
Receivables	**676**	**343**	**428**	**-**	2,786	-	1,186	-
Current tax payable	**-**	**271**	**-**	**-**	-	464	-	-
Current payables	**1,315**	**176**	**222**	**-**	3,207	373	586	-
Non-current payables	**15**	**-**	**-**	**-**	42	-	-	-

For the financial year ended and as at 30 June 2015, if the currencies set out in the table below, strengthened or weakened against the US dollar by the percentage shown, with all other variables held constant, net result for the financial year would increase/(decrease) and net assets would increase/ (decrease) by:

Group	Net Result		Net Assets		Net Result		Net Assets	
	2015	2014	2015	2014	2015	2014	2015	2014
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Change in currency[1]	**+10%**	+10%	**+10%**	+10%	**-10%**	-10%	**-10%**	-10%
Australian dollar impact	**(1,093)**	(1,342)	**270**	10	**1,093**	1,342	**(270)**	(10)
New Zealand dollar impact	**14**	116	**180**	59	**(14)**	(116)	**(180)**	(59)
Papua New Guinea kina impact	**69**	(164)	**88**	51	**(69)**	164	**(88)**	(51)
Chinese renminbi impact	**(1)**	(1,496)	**6**	-	**1**	1,496	**(6)**	-

1. This has been based on the change in the exchange rate against the US dollar in the financial years ended 30 June 2015 and 30 June 2014. The sensitivity analysis has been based on the sensitivity rates when reporting foreign exchange risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates based on historic volatility. In management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the end of the reporting period exposure does not necessarily reflect the exposure during the course of the financial year.

(ii) Commodity price risk

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

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

As at 30 June 2015, the Group had a US$11,398,881 derivative asset (30 June 2014: US$6,157,000 derivative liability) arising from 397,500 bbls (30 June 2014: 842,500 bbls) of Brent oil price swaps and collars which represents approximately 3.0% (30 June 2014: 5.6%) of its proven and probable reserves.

For the financial year ended and as at 30 June 2015, if the crude oil price rose or fell by the percentage shown, with all other variables held constant, the result for the financial year would increase/(decrease) and net assets would increase/(decrease) by:

Group	Net Result		Net Assets		Net Result		Net Assets	
	2015	2014	2015	2014	2015	2014	2015	2014
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Change in crude oil price	**+10%**	+10%	**+10%**	+10%	**-10%**	-10%	**-10%**	-10%
Impact	**1,268**	2,634	**1,268**	2,634	**(1,268)**	(2,634)	**(1,268)**	(2,634)

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(iii) Interest rate risk

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

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

As at 30 June 2015 and 30 June 2014, the Group's interest rate risk arises from long term borrowings, issued at variable rates, exposing the Group to cash flow interest rate risk. Group policy is to manage material interest rate exposure. Regular sensitivity analysis is conducted to evaluate the potential impact of unfavourable interest rate movements on the Group's future financial position. The results of this evaluation are used to determine the most appropriate risk mitigation tool to be used. During the current and prior financial year, the Group did not enter into any interest rate swap contracts.

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

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

	Floating interest rate	Fixed interest rate maturing in:			Non-interest bearing	Carrying amount
		1 year or less	Over 1 to 2 years	Over 2 to 5 years		
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As at 30 June 2015						
Financial assets						
Cash and cash equivalents	53,953	-	-	-	7,390	61,343
Receivables	-	-	-	-	14,580	14,580
Derivative financial instruments (net)	-	-	-	-	11,399	11,399
Current tax receivable	-	-	-	-	2,091	2,091
	53,953	**-**	**-**	**-**	**35,460**	**89,413**
Weighted average interest rate p.a.	**0.04%**					
Financial liabilities						
Trade and other payables	-	-	-	-	16,796	16,796
Current tax payable	-	-	-	-	271	271
Borrowings	115,115	79,275	-	-	-	194,390
	115,115	**79,275**	**-**	**-**	**17,067**	**211,457**
Weighted average interest rate p.a.	**3.70%**	**14.81%**				
Net financial assets/ (liabilities)	**(61,162)**	**(79,275)**	**-**	**-**	**18,393**	**(122,044)**

	Floating interest rate	Fixed interest rate maturing in:			Non-interest bearing	Carrying amount
		1 year or less	Over 1 to 2 years	Over 2 to 5 years		
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As at 30 June 2014						
Financial assets						
Cash and cash equivalents	92,911	-	-	-	6,000	98,911
Receivables	-	-	-	-	15,477	15,477
Current tax receivable	-	-	-	-	-	-
	92,911	**-**	**-**	**-**	**21,477**	**114,388**
Weighted average interest rate p.a.	**0.02%**					
Financial liabilities						
Trade and other creditors	-	-	-	-	35,715	35,715
Derivative financial instruments (net)	-	-	-	-	6,157	6,157
Current tax payable	-	-	-	-	1,596	1,596
Borrowings	115,100	-	72,346	-	-	187,446
	115,100	**-**	**72,346**	**-**	**43,468**	**230,914**
Weighted average interest rate p.a.	**4.07%**	**-**	**14.81%**	**-**		
Net financial liabilities	**(22,189)**	**-**	**(72,346)**	**-**	**(21,991)**	**(116,526)**

As at 30 June 2015, the Group had the following variable rate borrowings outstanding:

		30 June 2015		30 June 2014
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	% p.a.	US$'000	% p.a.	US$'000
Bank loans	**3.70%**	**120,000**	4.07%	119,165
Net exposure to cash flow interest rate risk		**120,000**		119,165

At 30 June 2015, if the interest rates had been 1.0% p.a. higher or lower and all other variables held constant, the net result for the financial year would increase/(decrease) and net assets as at 30 June 2015 would increase/(decrease) by:

Group		Net Result		Net Assets		Net Result		Net Assets
	2015	2014	2015	2014	2015	2014	2015	2014
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Change in interest rate p.a.	**+1%**	+1%	**+1%**	+1%	**-1%**	-1%	**-1%**	-1%
Impact of Assets	**521**	398	**521**	398	**(20)**	(7)	**(20)**	(7)
Impact of Liabilities	**849**	900	**849**	900	**(849)**	(900)	**(849)**	(900)
Impact of Net Assets	**(328)**	(502)	**(328)**	(502)	**829**	893	**829**	893

(b) Credit risk

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

It is acknowledged that the Group's sales of crude oil are currently concentrated with two counterparties. However, the Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history, and that the Group has the ability to sell crude to other parties if desired.

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

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

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

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	Consolidated	
	2015	2014
	US$'000	US$'000
Cash and cash equivalents		
Counterparties with external credit rating (Standard & Poors)		
AA-	**56,571**	94,132
	56,571	94,132
Counterparties without external credit rating		
Share of joint operations cash balances	**4,368**	4,683
Overseas financial institutions	**404**	95
Cash on hand	**-**	1
	4,772	4,779
Total cash and cash equivalents	**61,343**	98,911
Receivables		
Counterparties with external credit rating (Standard & Poors)		
AAA	**175**	276
AA-	**12,798**	-
AA	**348**	-
	13,321	276
Counterparties without external credit rating		
Share of joint operation receivables balances	**282**	1,955
Joint operations partners	**209**	9,450
Related parties (partly paid ordinary shares)	**331**	1,112
Other	**437**	2,684
	1,259	15,201
Total receivables	**14,580**	15,477

As at 30 June 2015, there were US$291,767 (30 June 2014: US$Nil) financial assets that are past due. Management has assessed the collectability of these amounts based on the customer relationships and historical payment behaviour and believe that the amounts are still collectible in full.

(c) Liquidity risk

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

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

Financing arrangements

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

	Consolidated	
	30 June 2015	30 June 2014
	US$'000	US$'000
Floating rate:		
Expiring within one year	**-**	30,835
Expiring beyond one year	**-**	-

The Revolving Cash Advance Facility executed in May 2015 includes the potential for additional debt capacity under an accordion tranche of up to US$50 million (subject to debt capacity criteria and lender approval).

Maturities of financial liabilities

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

As at 30 June 2015	Non-interest bearing US$'000	Variable rate US$'000	Fixed rate US$'000	Derivatives (net) US$'000
Less than 6 months	17,052	1,963	2,200	-
6 – 12 months	-	19,688	89,240	-
Between 1 and 2 years	-	29,427	-	-
Between 2 and 5 years	15	79,327	-	-
Over 5 years	-	-	-	-
Total contractual cash flows	**17,067**	**130,405**	**91,440**	**-**

As at 30 June 2014	Non-interest bearing US$'000	Variable rate US$'000	Fixed rate US$'000	Derivatives (net) US$'000
Less than 6 months	43,426	11,576	2,200	3,416
6 – 12 months	-	36,877	2,200	2,519
Between 1 and 2 years	-	22,013	91,440	222
Between 2 and 5 years	42	57,178	-	-
Over 5 years	-	-	-	-
Total contractual cash flows	**43,468**	**127,644**	**95,840**	**6,157**

d) Fair value estimation

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

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

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value as at 30 June 2015 and 30 June 2014:

As at 30 June 2015	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Derivatives used for hedging	**-**	**11,399**	**-**	**11,399**
Total Assets	**-**	**11,399**	**-**	**11,399**
Liabilities				
Derivatives used for hedging	**-**	**-**	**-**	**-**
Financial liabilities at fair value through profit or loss				
Conversion rights on convertible bonds	**-**	**-**	**7,961**	**7,961**
Total liabilities	**-**	**-**	**7,961**	**7,961**

As at 30 June 2014	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Derivatives used for hedging	-	-	-	-
Total Assets	**-**	**-**	**-**	**-**
Liabilities				
Derivatives used for hedging	-	6,157	-	6,157
Financial liabilities at fair value through profit or loss	-	-	17,024	17,024
Conversion rights on convertible bonds				
Total liabilities	**-**	**6,157**	**17,024**	**23,181**

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

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

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

Specific valuation techniques used to value financial instruments include:

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

The fair value of conversion rights on convertible bonds is determined based on a simulation-based pricing methodology using a Monte Carlo simulation. A simulation-based pricing methodology was applied in order to model the dynamics of the underlying variables and to account for the individual specifications of the convertible bonds such as the inherent path dependency. Monte Carlo simulation uses random numbers as inputs to iteratively evaluate a deterministic model. The method involves simulating the various sources of uncertainty that affect the value of the relevant instrument and then calculating a representative value by substituting a range of values – in this case a lognormal probability distribution – for any factor that has inherent uncertainty. The results are calculated repeatedly, each time using a different set of random values from the probability functions. Depending upon the number of uncertainties and the ranges specified for them, a Monte Carlo simulation may typically involve thousands or tens of thousands (for Horizon Oil convertible bonds - 100,000) of recalculations before it is complete. The result is a probability distribution of possible outcomes providing a more comprehensive view of both what could happen and its likelihood. Market interest rates were applied in the model with a credit spread of 7.0%, together with a calculated share price volatility of 58.8% when quoted in US dollar terms. All other parameters were based on the specific terms of the convertible bonds issued.

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

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

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

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

(d) Capital risk

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

Note 3. Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

(i) Exploration and evaluation assets

The Group's policy for exploration and evaluation expenditure is discussed in Note 1(o). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances. These estimates and assumptions include whether commercially viable reserves have been found and whether the capitalised exploration and evaluation expenditure will be recovered through future exploitation or sale. The carrying amount of exploration and evaluation assets has been disclosed in Note 16.

(ii) Reserve estimates

The estimated quantities of proven and probable hydrocarbons reported by the Group are integral to the calculation of amortisation expense (depletion), assessments of impairment of assets, provision for restoration and the recognition of deferred tax assets due to changes in expected future cash flows. Reserve estimates require interpretation of complex and judgemental geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoir, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Reserve estimates are prepared in accordance with guidelines prepared by the Society of Petroleum Engineers.

(iii) Provisions for restoration

The Group estimates the future removal and restoration costs of petroleum production facilities, wells, pipelines and related assets at the time of installation of the assets and reviews these assessments periodically. In most instances the removal of these assets will occur well into the future. The estimate of future removal costs therefore requires management to make judgements around the timing of the required restoration, rehabilitation and decommissioning, as well as, the discount rate. The carrying amount of the provision for restoration is disclosed in Note 24.

(iv) Impairment of oil and gas assets

The Group assesses whether its oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash generating unit to which each asset belongs. The recoverable amount of an asset is the higher of its fair value less cost to sell and value in use. The fair value less cost to sell is assessed on the basis of the estimated net cash flows that will be received from the asset's continued employment and subsequent disposal. The estimated future cash flows are based on estimates of hydrocarbon reserves, future production profiles, commodity prices, operating costs and future development costs necessary to access the reserves. The estimated future cash flows are discounted back to today's dollars to obtain the value in use amount using an after-tax discount rate of between 9% and 12% to take into account risks which have not already been adjusted for in the cash flows.

(v) Share-based payments

Share-based payment transactions with directors and employees are measured by reference to the fair value of the share performance rights or options at the date they were granted. The fair value is ascertained using an appropriate pricing model either Black-Scholes or Monte Carlo simulation depending on the terms and conditions upon which the share performance rights or options were granted. The Group also applies assumptions around the likelihood of the share performance rights or options vesting which will have an impact on the expense and equity recorded in the financial year. The number of share performance rights and options outstanding are disclosed in Note 33.

(vi) Recoverability of deferred tax assets

The recoverability of deferred tax assets is based on the probability that future taxable amounts will be available to utilise those temporary differences and losses. The Group has not recognised deferred tax assets in respect of some tax losses and temporary tax differences as the future utilisation of these losses and temporary tax differences is not considered probable at this point in time. Assessing the future utilisation of tax losses and temporary tax differences requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future utilisation of these tax losses and temporary tax differences becomes probable, this could result in significant changes to deferred tax assets recognised, which would in turn impact future financial results. During the current year, tax losses and temporary tax differences in Australia, New Zealand and PNG have been recognised as deferred tax assets on the basis that it is expected the operations will generate sufficient taxable earnings to fully utilise those losses. In Australia, the assessment of future taxable income to support utilisation of tax losses is based on taxable income generated during 2015 and a short-term forecast showing taxable income expected to be generated in future years. In PNG, the assessment of future taxable income to support the temporary tax differences in relation to Allowable Exploration Expenditure is based on the award of the Stanley PDL in May 2014 and expectation of future production. In New Zealand, the assessment of future taxable income to support utilisation of tax losses is based on the Maari production following the completion of the Maari Growth Project.

(vii) Borrowings

In May 2015, the Group finalised and executed a US$120 million Revolving Cash Advance Facility to refinance the Group's existing Reserves Based Debt Facility and was therefore required to assess whether the refinancing represented a debt modification or debt extinguishment. In making this determination, the Group had regard, amongst other things, to the continuation of the banking relationship with ANZ as mandated lead arranger, agent and fronting bank under both facilities, and to the nature of the changes to the terms of the facility which were assessed through a quantitative assessment. The Group concluded that there was a debt modification, and the US$1.9 million of additional fees incurred were capitalised and are being amortised through interest expense over the remaining tenor of the facility.

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

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

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

(c) Assumptions on funding

The Group has a working capital deficit of US$31.8 million at 30 June 2015 resulting from the reclassification of borrowings associated with the US$80 million, 5.5% convertible bonds to current liabilities at balance date as they are due for redemption in June 2016.

Funding for the Group's strategic growth plans and redemption of the bonds is to be sourced from a variety of sources. Surplus revenues from the Group's operations in China and New Zealand, combined with debt drawn from the Group's US$120 million revolving cash advance facility provide core funding. In addition, the Revolving Cash Advance Facility, provided by ANZ and Westpac, incorporates an additional US$50 million "accordion" tranche to accommodate, if required, working capital and redemption of the US$80 million, 5.5% convertible bonds in June 2016, subject to debt capacity criteria and lender approvals.

Taking into account:

- the Group's cash balance of US$61.3 million at 30 June 2015;
- forecast surplus revenue from the Group's operations in New Zealand and China;
- materially reduced budgeted/forecast capital expenditure profile over the coming 12 months;
- deferral of scheduled amortisation under the recently executed Revolving Cash Advance Facility; and
- to the extent required, the potential for additional debt capacity under the "accordion" tranche of the Revolving Cash Advance Facility (maximum additional debt of US$50 million).

The Company expects to have available the necessary cash reserves to meet redemption obligations under the Company's US$80 million, 5.5% convertible bonds maturing in mid-2016, and to pursue the current strategy. Should the full amount of the forecast internally generated cash flow and capital required to pursue the strategy not be raised, the directors expect that the Group would be able to adopt a modified strategy and would be able to secure the necessary financing through one or a combination of, additional borrowings or asset sales; or deferring discretionary exploration and development activities.

Note 4. Segment information

(a) Description of segments

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

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

- New Zealand development – the Group is currently producing crude oil from the Maari/Manaia fields, located offshore New Zealand;
- New Zealand exploration – the Group is currently involved in the exploration and evaluation of hydrocarbons in two offshore permit areas: PEP 51313; and PMP 38160 Maari/Manaia;
- China exploration and development – the Group is currently involved in developing and producing of crude oil from the Block 22/12 – WZ 6-12 and WZ 12-8W oil field development and in the exploration and evaluation of hydrocarbons within Block 22/12;
- PNG exploration and development - the Group is currently involved in the Stanley condensate/gas development, and the exploration and evaluation of hydrocarbons in five onshore permit areas – PRL 21, PPL 259, PPL 372, PPL 373 and PPL 430; and
- 'All other segments' include amounts of a corporate nature not specifically attributable to an operating segment.

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

2015	New Zealand Development US$'000	New Zealand Exploration US$'000	China Exploration and Development US$'000	Papua New Guinea Exploration and Development US$'000	All other segments US$'000	Total US$'000
Segment revenue:						
Revenue from external customers	**33,447**	**-**	**70,503**	**-**	**-**	**103,950**
Profit (loss) before tax	**15,993**	**(12)**	**16,129**	**(15,556)**	**(13,399)**	**3,155**
Depreciation and amortisation	**9,023**	**-**	**28,074**	**443**	**239**	**37,779**
Total segment assets as at 30 June 2015	**135,656**	**5,207**	**166,170**	**176,767**	**39,539**	**523,339**
Additions to non-current assets other than financial assets and deferred tax during the financial year ended:						
Exploration phase expenditure:	**-**	**92**	**8,179**	**26,116**	**-**	**34,387**
Development and production phase expenditure:	**21,295**	**-**	**1,116**	**21,025**	**-**	**43,436**
Plant and equipment:	**-**	**-**	**-**	**48**	**143**	**191**
Total segment liabilities as at 30 June 2015	**80,225**	**238**	**92,246**	**5,022**	**89,291**	**267,022**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

2014	New Zealand Development US$'000	New Zealand Exploration US$'000	China Exploration and Development US$'000	Papua New Guinea Exploration and Development US$'000	All other segments US$'000	Total US$'000
Segment revenue:						
Revenue from external customers	19,722	-	118,728	-	-	138,450
Profit (loss) before tax	**(6,341)**	**(3,949)**	**34,340**	**(1,557)**	**(16,710)**	**5,783**
Depreciation and amortisation	3,622	-	35,775	464	173	40,034
Total segment assets as at						
30 June 2014	**104,424**	**5,100**	**187,414**	**210,998**	**6,967**	**514,903**
Additions to non-current assets other than financial assets and deferred tax during the financial year ended:						
Exploration phase expenditure:	-	4,765	5,564	26,706	-	37,035
Development and production phase expenditure:	17,412	-	17,179	25,212	-	59,803
Plant and equipment:	-	-	-	159	719	878
Total segment liabilities as at						
30 June 2014	**78,016**	**2,228**	**102,873**	**13,754**	**95,466**	**292,337**

(c) Other segment information

(i) Segment revenue

The Group's revenue is derived from the sale of crude oil produced in China and New Zealand. The Group sells to external customers through back-to back sales agreements with the respective joint venture operators.

Segment revenue reconciles to total consolidated revenue as follows:

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Total segment revenue	**103,950**	138,450
Rental income	**-**	5
Proceeds from insurance claims	**6,600**	-
Interest income	**146**	229
Profit from sale of assets	**-**	23,830
Other non-operating income	**96**	-
Total revenue	**110,792**	162,514

(ii) Segment profit before tax

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

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

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Total segment profit before tax	**3,155**	5,783
Rental income	**-**	5
Proceeds from insurance claims	**6,600**	-
Interest income	**146**	229
Profit from sale of assets	**-**	23,830
Other non-operating income	**96**	-
Unrealised movement in value of convertible bond conversion rights	**9,063**	412
Net foreign exchange (losses)	**(1,309)**	(232)
Profit before tax	**17,751**	30,027

(iii) Segment assets

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

Reportable segment assets are equal to consolidated total assets.

(iv) Segment liabilities

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

Reportable segment liabilities are equal to consolidated total liabilities.

Note 5. Sale of Assets

Sale of Partial Interest in PNG Assets to Osaka Gas

On 23 May 2013, the Group entered into an asset sale agreement (the 'Agreement') to sell 40% of its Papua New Guinea assets to Osaka Gas Niugini Pty Ltd ('Osaka Gas') a subsidiary of Osaka Gas Co. Ltd. of Japan with effect from 1 January 2013. Completion of the Agreement occurred on 12 June 2014 following receipt of all necessary consents, regulatory approvals and grant of the development licence for the Stanley field. Refer to Note 35 for further details.

The profit on sale recorded at completion is detailed as follows:

	Consolidated	
	2015	2014
	US$'000	US$'000
Consideration on sale of assets		
Deposit on execution of agreement	-	20,400[1]
Remaining consideration received on completion	-	53,600
	-	74,000
Reimbursement of costs to effective sale date paid on completion	-	23,242
Reimbursement of costs to effective sale date receivable at completion	-	1,205
Total cash received/receivable at completion	-	98,447
Less:		
Reimbursement of costs to effective sale date	-	(24,447)
Exploration and oil and gas assets disposed	-	(48,523)
Transaction costs	-	(1,647)
Profit from sale of assets	-	23,830

1. Refundable deposit received on execution of asset sale agreement in May 2013.

Note 6. Revenue

	Consolidated	
	2015	2014
	US$'000	US$'000
From continuing operations		
Crude oil sales	**83,683**	144,329
Net realised gain/(loss) on oil hedging derivatives	**20,267**	(5,879)
	103,950	138,450
Other income		
Insurance claim income[1]	**6,600**	-
Other operating income	**96**	-
Interest received from unrelated entities	**146**	229
Rental income received from unrelated entities	-	5
	6,842	234
Gains – Conversion rights on convertible bonds[2]		
Unrealised movement in fair value of convertible bond conversion rights	**9,063**	412

1. Insurance claims for repair costs associated with FPSO mooring and swivel were deemed virtually certain of receipt following acceptance of the claim by the underwriters and part payment of US$2.1 million has been received up to 30 June 2015. Refer to Note 35 for further details of the insurance claim.
2. The amount shown is the movement during the financial year of the fair value of the conversion rights relating to the 5.5% convertible bonds issued on 17 June 2011. The conversion rights can be settled in cash or ordinary shares of the parent entity, at the option of the issuer, and the number of shares to be issued at conversion is subject to the conversion price which may reset under certain circumstances. Accordingly, the conversion rights are a derivative financial liability and are marked to market through the profit and loss. Fair value of conversion rights at issuance on 17 June 2011 was US$20,043,000. Refer to Note 22 for further details of the convertible bonds issued.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Note 7. Expenses		
Cost of sales		
Direct production costs	**19,641**	30,987
Inventory adjustments[1]	**(1,181)**	75
Amortisation expense	**37,096**	39,397
Royalties and other levies[2]	**4,414**	22,257
	59,970	92,716

1. Includes production overlift/underlift and inventory adjustments
2. Includes Chinese special oil income levy

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
General and administrative expenses		
Employee benefits expense (net)	**3,383**	3,842
Corporate office expense	**685**	703
Insurance expense	**1,950**	1,942
Depreciation expense	**683**	637
Rental expense relating to operating leases	**868**	1,059
	7,569	8,183
Exploration and development expenses		
Exploration and development expenditure written off/expensed	**16,222**	10,520
	16,222	10,520
Financing costs		
Interest and finance charges	**15,075**	14,839
Discount unwinding on provision for restoration	**416**	806
Amortisation of prepaid financing costs	**1,869**	3,254
	17,360	18,899

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Other expenses		
Net foreign exchange losses	**1,309**	233
Other expenses	**(326)[1]**	2,348
	983	2,581

1. The Company over accrued for costs associated with the proposed merger with Roc Oil in the prior year.

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Note 8. Income tax expense		
(a) Royalty tax expense (benefit)		
Royalty paid/payable in New Zealand – current tax expense	**1,028**	599
Tax expense (benefit) related to movements in deferred tax balances	**3,271**	(861)
Total royalty tax expense (benefit)	**4,299**	(262)
(b) Income tax expense		
Current tax expense	**51**	6,722
Tax expense (benefit) related to movements in deferred tax balances	**(2,990)**	9,039
Adjustments for current tax of prior periods	**(1,916)**	1,698
Total income tax expense (benefit)	**(4,855)**	17,459
Income tax expense (benefit) is attributable to:		
Profit from continuing operations	**(4,855)**	17,459
Profit from discontinued operations	**-**	-
Aggregate income tax expense (benefit)	**(4,855)**	17,459
Deferred income tax (benefit) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets	**(8,859)**	5,525
(Decrease) increase in deferred tax liabilities	**5,869**	3,514
	(2,990)	9,039
(c) Numerical reconciliation between profit before tax and tax expense (benefit)		
Profit from continuing operations before income tax	**17,751**	30,027
Less: Royalty paid/payable	**(1,028)**	(599)
	16,722	29,428
Tax at the Australian tax rate of 30% (2014: 30%)	**5,017**	8,828
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Expenditure not allowed for income tax purposes	**8,429**	4,122
Other deductible items	**(8,825)**	87
Non-assessable income	**(2,597)**	(7,383)
	2,024	5,654
Effect of overseas tax rates	**(1,668)**	291
Deferred tax asset not brought to account	**3,649**	9,816
Previously unrecognised tax losses now recognised to reduce deferred tax expense	**(6,143)**	-
Previously unrecognised tax losses now recouped to reduce current tax expense	**(801)**	-
Adjustments for current tax of prior periods	**(1,916)**	1,698
Income tax expense (benefit)	**(4,855)**	17,459
Royalty tax expense (benefit)	**4,299**	(262)
Total tax expense (benefit) recognised in statement of profit or loss	**(556)**	17,197

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
(d) Amounts recognised in other comprehensive income		
Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited to other comprehensive income.		
Deferred tax: Changes in fair value of cash flow hedges	**3,162**	-
Total tax expense recognised in other comprehensive income	**3,162**	-
(e) Tax losses		
Unused tax losses (and applicable tax rate) for which no deferred tax asset has been recognised:		
Horizon Oil Limited – 30% (2014: 30%)	**-**	27,648
Horizon Oil (USA) Inc. and other US entities – 34% (2014: 34%)	**10,615**	10,615
Horizon Oil (Papua) Limited and other PNG entities – 45% / 30% (2014: 45% / 30%)	**-**	7,041
	10,615	45,304
Potential tax benefit at applicable tax rates	**3,609**	15,072

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

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Note 9. Current assets – Cash and cash equivalents		
Cash at bank and on hand	**41,279**	81,161
Restricted cash (refer note (a) below)	**20,064**	17,749
Petty cash	**-**	1
	61,343	98,911

(a) Under the terms of our finance facility (refer to Note 21), certain cash balances are available to the Group after certain conditions of the relevant facility agreement are satisfied. The restricted cash balance was held on deposit at average floating interest rates of approximately 0.00% pa (2014: 0.00%).

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Note 10. Current assets – Receivables		
Other receivables (refer to note (a) below)	**14,580**	15,477
	14,580	15,477

(a) Of this balance US$331,339 (2014: US$1,355,821) related to amounts receivable from related parties. Refer to Note 32 for further details.

Information about the Company's exposure to credit and market risks, and collectability of overdue amounts, is included in Note 2(b).

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Note 11. Inventories		
Crude oil, at cost	**2,186**	1,004
Drilling inventory, at cost	**2,721**	4,277
	4,907	5,281

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Note 12. Current tax receivable		
Income tax – China	**2,091**	-
	2,091	-

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Note 13. Current – Other assets		
Prepayments	**1,435**	1,674
	1,435	1,674

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Note 14. Non-current assets – Deferred tax assets		
Recognised deferred tax assets are attributable to:		
Tax losses	**5,135**	1,880
Development expenditure	**5,022**	-
Provisions and other	**1,008**	426
Total deferred tax assets	**11,165**	2,306
Set off of deferred tax liabilities pursuant to set off provisions	**-**	-
Net deferred tax assets	**11,165**	2,306

2015

Movements	Tax Losses US$'000	Development expenditure US$'000	Provisions and other US$'000	Total $US'000
At 1 July 2014	1,880	-	426	**2,306**
(Charged)/credited -to profit or loss	3,255	5,022	582	**8,859**
At 30 June 2015	5,135	5,022	1,008	**11,165**

2014

Movements	Tax Losses US$'000	Development expenditure US$'000	Provisions and other US$'000	Total $US'000
At 1 July 2013	12,076	-	379	**12,455**
(Charged)/credited - to profit or loss	(10,196)	-	47	**(10,149)**
At 30 June 2014	1,880	-	426	**2,306**

Note 15. Non-current assets – Plant and equipment

	Consolidated		
	Other plant and equipment	Leasehold improvements	Total
	US$'000	US$'000	US$'000
As at 1 July 2013			
Cost	3,509	6,624	**10,133**
Accumulated depreciation	(1,272)	(655)	**(1,927)**
Net book amount	2,237	5,969	**8,206**
Financial year ended 30 June 2014			
Opening net book amount	2,237	5,969	**8,206**
Additions	177	659	**836**
Disposals	(754)	(2,094)	**(2,848)**
Depreciation expense	(347)	(289)	**(636)**
Closing net book amount	1,313	4,245	**5,558**
As at 30 June 2014			
Cost	2,749	4,928	**7,677**
Accumulated depreciation	(1,436)	(683)	**(2,119)**
Net book amount	1,313	4,245	**5,558**

	Consolidated		
	Other plant and equipment	Leasehold improvements	Total
	US$'000	US$'000	US$'000
Financial year ended 30 June 2015			
Opening net book amount	1,313	4,245	**5,558**
Additions	154	37	**191**
Disposals	(1)	-	**(1)**
Depreciation expense	(414)	(269)	**(683)**
Closing net book amount	1,052	4,013	**5,065**
As at 30 June 2015			
Cost	2,846	4,965	**7,811**
Accumulated depreciation	(1,794)	(952)	**(2,746)**
Net book amount	1,052	4,013	**5,065**

Note 16. Non-current assets – Exploration phase expenditure

	Consolidated	
	2015	2014
	US$'000	US$'000
Exploration phase expenditure		
Deferred geological, geophysical, drilling and other exploration and evaluation expenditure	**96,959**	74,658
The reconciliation of exploration phase expenditure carried forward above is as follows:		
Balance at beginning of financial year	**74,658**	92,538
Expenditure incurred during financial year	**34,387**	37,035
Transferred to development phase	**-**	(5,733)
Disposals during the financial year	**-**	(39,949)
Expenditure written off during financial year	**(12,086)**	(9,233)
Balance at end of financial year	**96,959**	74,658

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

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Development and production phase expenditure		
Producing oil and gas property acquisition, deferred geological, seismic and drilling, production and distribution facilities and other development expenditure	**432,390**	424,675
Disposals during the financial year	**-**	(32,738)
Less accumulated amortisation	**(117,995)**	(80,899)
	314,395	311,038

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

	Consolidated Development phase expenditure US$'000	Consolidated Production phase expenditure US$'000	Consolidated Total US$'000
Balance at 1 July 2013	215,284	102,353	317,637
Expenditure incurred during financial year	28,604	31,199	59,803
Transferred from exploration phase	5,733	-	5,733
Transferred from development phase	-	156,213	156,213
Transfer to production phase	(156,213)	-	(156,213)
Amortisation incurred	-	(39,397)	(39,397)
Disposals during the financial year	(32,738)	-	(32,738)
Balance at 30 June 2014	**60,670**	**250,368**	**311,038**
Transferred from development phase	**(9,125)**	**-**	**(9,125)**
Transfer to production phase	**-**	**9,125**	**9,125**
Reassessment of rehabilitation asset	**-**	**640**	**640**
Amortisation incurred	**-**	**(37,096)**	**(37,096)**
Expenditure incurred during financial year	**21,025**	**22,411**	**43,436**
Oil and gas asset expense[1]	**-**	**(3,623)**	**(3,623)**
Balance at 30 June 2015	**72,570**	**241,825**	**314,395**

1. Relates to expenditure on proposed production wells in the Maari field in New Zealand, a decision was made during the financial year not to proceed with the drilling of these wells.

Note 18. Current liabilities – Payables

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Trade creditors	**1,722**	7,409
Share of joint operation creditors and accruals	**10,472**	17,745
Other creditors	**4,587**	10,561
	16,781	35,715

Note 19. Deferred Income

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Deferred income	**2,212**	-
	2,212	-

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	Consolidated	
	2015	2014
	US$'000	US$'000
Note 20. Derivative financial instruments		
Current:		
Derivative asset - Oil price swaps – cash flow hedges	**11,399**	-
Derivative liability - Oil price swaps – cash flow hedges	**-**	(5,935)
	11,399	(5,935)
Non-current:		
Derivative asset - Oil price swaps – cash flow hedges	**-**	-
Derivative liability - Oil price swaps – cash flow hedges	**-**	(222)
	-	(222)
Net derivative (liability) asset	**11,399**	(6,157)

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

Oil price swap contracts (cash flow hedges)

During the financial year, oil price hedging was undertaken as a risk mitigation measure to ensure the Group's financial position remains sound and that the Group is able to meet its financial obligations in the event of low oil prices. As at 30 June 2015, the Group's oil hedge position was summarised as follows:

Crude oil price swap contracts	2016	2017	Total
Volume (bbls)	397,500	-	397,500
Weighted average Brent oil price (net of credit margin) (US$/bbl)	94.77	-	94.77

As at 30 June 2014, the Group's oil hedge position was summarised as follows:

Crude oil price swap contracts	2015	2016	Total
Volume (bbls)	805,000	37,500	842,500
Weighted average Brent oil price (net of credit margin) (US$/bbl)	99.59	97.56	99.5

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified into profit or loss when the hedged oil price transaction is recognised. The ineffective portion is recognised in profit or loss immediately. During the financial year, US$20,267,000 (2014: US$5,879,000) was transferred to profit or loss.

	Consolidated	
	2015	2014
	US$'000	US$'000
Note 21. Borrowings		
Current:		
Bank loans	**17,829**	44,165
Convertible Bonds	**79,275**	-
	97,104	44,165
Non-current:		
Bank loans	**97,286**	70,935
Convertible Bonds	**-**	72,346
	97,286	143,281
Total Borrowings	**194,390**	187,446

Bank loans – Revolving Cash Advance Facility

On 14 May 2015, the Group finalised and executed a US$120 million Revolving Cash Advance Facility with Australia and New Zealand Banking Group (ANZ) as mandated lead arranger and Westpac Banking Corporation (Westpac). The facility retains key elements of the previous Reserves Based Debt Facility, with key changes including the removal of the forced repayment schedule, additional tenor to May 2019 and access to a new accordion tranche of up to US$50 million (subject to debt capacity criteria and lender approvals). Under the facility, the facility limit and thus future repayments are determined by applying a minimum loan life coverage ratio to the net present value of estimated future cash flows from all projects included in the facility.

At 30 June 2015, total debt drawn under the facility was US$120 million and floating interest in respect of the facility was at LIBOR plus a weighted average margin of 2.90%.

The facility was secured by a floating charge over the shares and assets of the borrowers (Horizon Oil International Limited, Horizon Oil (Papua) Limited, Horizon Oil (Beibu) Limited and Horizon Oil (Nanhai) LLC which are wholly owned subsidiaries of Horizon Oil Limited) and other Horizon Oil Limited subsidiaries, in favour of ANZ Fiduciary Services Pty Limited as security trustee. Horizon Oil Limited and other Horizon Oil Limited subsidiaries have guaranteed the performance of Horizon Oil International Limited, Horizon Oil (Papua) Limited, Horizon Oil (Beibu) Limited, Horizon Oil (Nanhai) LLC (which have also given guarantees) in relation to the loan facility from ANZ and Westpac. In addition, the shares of the following Horizon Oil Limited subsidiaries have been mortgaged to ANZ Fiduciary Services Pty Limited: Horizon Oil International Limited, Horizon Oil (Papua) Limited, Horizon Oil (Beibu) Limited, Horizon Oil (Nanhai) LLC, Horizon Oil International Holdings Limited, Ketu Petroleum Limited, Horizon Oil (PNG Holdings) Limited and Horizon Oil (China Holdings) Limited. The net book value of the entities in which shares have been mortgaged is US$129 million. The Group is subject to covenants which are common for a facility of this nature.

Convertible Bonds

The parent entity issued 400 5.5% convertible bonds for US$80 million on 17 June 2011. The bonds were issued with an initial conversion price of US$0.52, equivalent to A$0.49 based on exchange rates at the time of pricing, and represents a conversion premium of 29% to Horizon Oil Limited's last closing price of A$0.38 on 2 June 2011. The initial conversion price was subject to adjustment in certain circumstances. Where the arithmetical average of the volume weighted average prices ('Average VWAP') for the 20 consecutive dealing days immediately prior to each of 17 June 2013, 17 June 2014 and 17 June 2015 (each a 'Reset Date') converted into US dollars at the prevailing rate on each such dealing day (each an 'Average Market Price') is less than the conversion price on the Reset Date, the conversion price will be adjusted on the relevant Reset Date to the Average Market Price with respect to such Reset Date. Any adjustment as a result of such provisions is limited so that the conversion price can be no lower than 80% of the initial conversion price of US$0.520, that is US$0.416. The Average VWAP in the relevant period to 17 June 2013 was US$0.374. Accordingly, the conversion price of the convertible bonds had been adjusted to US$0.416 with effect from 17 June 2013. The issuance of ordinary shares in the prior financial year under the Entitlement Offer resulted in a further adjustment to the conversion price from US$0.416 to US$0.409.

No bonds had been converted at 30 June 2015. On conversion the holder may elect to settle the bonds in cash or ordinary shares in the parent entity. Based on the adjusted conversion price, the maximum number of shares that could be issued on conversion is 195,599,022 ordinary shares in the parent entity. The bonds carry a coupon of 5.5% per annum, payable semi-annually in arrears, and carry a 7% yield to maturity on 17 June 2016 when they will be redeemed at 108.80% of their principal amount.

	2015 US$'000	2014 US$'000
Face value of bonds issued	**80,000**	80,000
Less: Other financial liabilities – value of conversion rights (Note 21)	**(20,043)**	(20,043)
Less: Transaction costs	**(3,362)**	(3,362)
	56,595	56,595
Finance costs in prior periods[1]	**29,120**	18,739
Finance costs[1]	**11,329**	10,381
Less: Coupon paid in prior periods	**(13,200)**	(8,800)
Less: Coupon paid during the financial year	**(4,400)**	(4,400)
Less: Coupon accrued	**(169)**	(169)
Non-current liability	**79,275**	72,346

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

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FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Note 22. Current – Other financial liabilities		
Conversion rights on convertible bonds	**7,961**	17,024
	7,961	17,024

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

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Note 23. Non-current liabilities – Deferred tax liabilities		
Recognised deferred tax liabilities are attributable to:		
Exploration expenditure	**1,440**	1,414
Development and production expenditure	**19,695**	13,021
Accounting profits royalty	**8,094**	4,823
Cash flow hedges	**3,162**	-
Other	**3,632**	1,601
Total deferred tax liabilities	**36,023**	20,859
Set off of deferred tax assets pursuant to set off provisions	**(6,615)**	(3,753)
Net deferred tax liabilities	**29,408**	17,106

2015

Movements	Exploration expenditure US$'000	Development and production expenditure US$'000	Accounting profits royalty US$'000	Cash flow hedges US$'000	Other US$'000	Total US$'000
At 1 July 2014	**1,414**	**13,021**	**4,823**	**-**	**1,601**	**20,859**
Charged/(credited) credited						
- to profit or loss	**26**	**6,674**	**3,271**	**-**	**2,031**	**12,002**
- to other comprehensive income	**-**	**-**	**-**	**3,162**	**-**	**3,162**
At 30 June 2015	**1,440**	**19,695**	**8,094**	**3,162**	**3,632**	**36,023**

2014

Movements	Exploration expenditure US$'000	Development and production expenditure US$'000	Accounting profits royalty US$'000	Cash flow hedges US$'000	Other US$'000	Total $US'000
At 1 July 2013	**2,714**	**8,708**	**5,684**	**-**	**-**	**17,106**
Charged/(credited)						
- to profit or loss	(1,300)	4,313	(861)	-	1,601	3,753
At 30 June 2014	**1,414**	**13,021**	**4,823**	**-**	**1,601**	**20,859**

	Consolidated 2015 US$'000	Consolidated 2014 US$'000
Note 24. Provisions		
Restoration (current)	**3,181**	12,497
Restoration (non-current)	**12,803**	14,742
	15,984	27,239

The reconciliation of the movement in the total of the restoration provisions is as follows:	Consolidated 2015 US$'000	2014 US$'000
Balance at beginning of financial year	**27,239**	15,664
Payments made for China restoration[1]	**(12,310)**	-
Additional provision during financial year	**639**	10,768
Unwinding of discount	**416**	807
Balance at end of financial year	**15,984**	27,239

1. During the financial year the Group commenced payment towards estimated restoration costs of the Beibu field in China, in accordance with the restoration plan lodged with the relevant governmental authority.

	Consolidated 2015	2014	Consolidated 2015	2014
	Number of shares			
	'000	'000	US$'000	US$'000
Note 25. Contributed equity				
(a) Issued share capital				
Ordinary shares				
Fully paid	**1,301,981**	1,301,981	**174,342**	174,342
Partly paid to A$0.01	**1,500**	1,500	**459**	459
	1,303,481	1,303,481	**174,801**	174,801

(b) Movements in ordinary share capital

(i) Ordinary shares (fully paid)

Date	Details	Number of shares	Issue price	US$'000
30/06/2013	**Balance as at 30 June 2013**	**1,135,266,515**		**127,187**
15/08/2013	Institutional Entitlement Offer	99,296,446	A$0.33	28,272
02/09/2013	Retail Entitlement Offer	62,886,971	A$0.33	17,712
03/10/2013	Exercise of employee options	2,198,000	A$0.26	545
03/10/2013	Transfer from partly paid shares	1,500,000	A$0.26	392
05/05/2014	Exercise of general employee options[1]	500,000	A$0.29	145
16/05/2014	Exercise of employee options[1]	333,333	A$0.26	89
30/06/2014	**Balance as at 30 June 2014**	**1,301,981,265**		**174,342**
30/06/2015	**Balance as at 30 June 2015**	**1,301,981,265**		**174,342**

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

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

Date	Details	Number	Issue price	US$'000
30/06/2013	**Balance as at 30 June 2013**	**3,000,000**		**851**
03/10/2013	Transfer to fully paid shares	(1,500,000)	A$0.26	(392)
30/06/2014	**Balance as at 30 June 2014**	**1,500,000**		**459**
30/06/2015	**Balance as at 30 June 2015**	**1,500,000**		**459**

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

(c) Ordinary shares

Fully paid

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

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Partly paid

Partly paid ordinary shares are issued on exercise of employee options. The outstanding obligation in relation to the partly paid ordinary shares is payable either when called or by the date not exceeding 5 years from the grant date of the option which gave rise to the partly paid ordinary share. Partly paid ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. Voting rights are governed by the Company's Constitution.

In summary, on a show of hands every holder of partly paid ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll, is entitled to one vote to the proportion of the total issue price then paid up.

(d) Unlisted options over unissued ordinary shares

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

	Consolidated	
	2015 US$'000	2014 US$'000
Note 26. Reserves and retained profits		
(a) Reserves		
Share-based payments reserve	**11,052**	10,002
Movements:		
Balance at beginning of financial year	**10,002**	8,739
Employee share-based payments expense	**1,050**	1,263
Balance at end of financial year	**11,052**	10,002
Hedge reserve	**8,236**	(6,158)
Movements:		
Balance at beginning of financial year	**(6,158)**	(855)
Movement in net market value of hedge contracts	**17,556**	(5,303)
Deferred tax	**(3,162)**	-
Balance at end of financial year	**8,236**	(6,158)
Total reserves	**19,288**	3,844

(b) Retained profits

Retained profits at beginning of financial year	**43,921**	31,091
Net profit for financial year	**18,333**	12,830
Retained profits at end of financial year	**62,254**	43,921

(c) Nature and purpose of reserves

Share-based payment reserve:

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

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

Hedge reserve:

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

	Consolidated	
	2015 US$'000	2014 US$'000
Note 27. New Zealand Imputation Credits		
Imputation credits available for subsequent financial years[1]	**2,857**	148

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

Note 28. Subsidiaries

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

Name of subsidiary	Country of incorporation	Percentage of equity holding and voting interest (all shares issued are ordinary shares)		Business activities carried on in
		2015	2014	
		%	%	
Horizon Oil International Limited	New Zealand	**100**	100	New Zealand
Horizon Oil (New Zealand) Limited	New Zealand	**100**	100	New Zealand
Horizon Oil International Holdings Limited	BVI	**100**	100	BVI
Horizon Oil (Beibu) Limited	BVI	**100**	100	China
Horizon Oil (China Holdings) Limited	BVI	**100**	100	BVI
Horizon Oil (PNG Holdings) Limited	BVI	**100**	100	BVI
Horizon Oil (Papua) Limited	Bermuda	**100**	100	PNG
Horizon Oil (USA) Inc.	USA	**100**	100	USA
Ketu Petroleum Limited	BVI	**100**	100	PNG
Horizon Oil (Nanhai) LLC	USA	**100**	100	China
Jurassic International Holdings Limited	PNG	**90**	90	PNG

Note 29. Interest in joint operations

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

	Consolidated	
	2015	2014
	US$'000	US$'000
Current assets		
Cash and cash equivalents	**4,368**	4,682
Receivables	**282**	1,955
Inventories	**4,907**	4,937
Total current assets	**9,557**	11,574
Non-current assets		
Plant and equipment	**4,894**	4,514
Exploration phase expenditure	**86,059**	58,434
Oil and gas assets	**402,667**	409,866
Total non-current assets	**493,620**	472,814
Total assets	**503,177**	484,388
Current liabilities		
Payables	**10,472**	32,030
Total current liabilities	**10,472**	32,030
Non-current liabilities		
Payables	**-**	13
Total non-current liabilities	**-**	13
Total liabilities	**10,472**	32,043
Share of net assets employed in joint operations	**492,705**	452,345

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

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

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The Group had an interest in the following joint operations:

Permit or licence	Principal activities	Interest (%) 30 June 2015	Interest (%) 30 June 2014
New Zealand			
PMP 38160 (Maari/Manaia)	Oil and gas production, exploration and development	**10.00%**	10.00%
PEP 51313 (Matariki)	Oil and gas exploration	**21.00%[1]**	21.00%/10.00%[1]
China			
Block 22/12	Oil and gas exploration and development	**26.95% / 55%[2]**	26.95% / 55%[2]
PNG			
PDL 10 (formerly PRL 4)	Oil and gas development	**30.00%[3]**	30.00%[3,4]
PRL 21	Oil and gas exploration and development	**27.00%[3]**	27.00%[3,4]
PPL 259	Oil and gas exploration	**35.00%[3]**	35.00%[3,4]
PPL 372	Oil and gas exploration	**90.00%[3]**	90.00%[3,4]
PPL 373	Oil and gas exploration	**90.00%[3]**	90.00%[3,4]
PPL 430	Oil and gas exploration	**50.00%[3]**	50.00%[3,4]

1. Under the terms of the farm in agreement executed in November 2012, in the event of commercial discovery at the Whio prospect, Horizon Oil Limited's interest over the Whio prospect would reduce to 10%. No commercial hydrocarbons were discovered when this well was drilled in July 2014.
2. China National Offshore Oil Corporation is entitled to participate at up to a 51.00% equity level in any commercial development within Block 22/12. During 2011 CNOOC exercised their right to participate in the development of WZ 6-12 and WZ 12-8W within Block 22/12 at 51.00%.
3. PNG Govt may appoint a state nominee to acquire up to a 22.5% participating interest in any commercial development within the PNG licence areas.
4. Under the terms of the asset sale agreement executed with Osaka Gas on 23 May 2013, Horizon Oil's interests in PDL 10 (formerly PRL 4), PRL 21 and PPL 259 were reduced by 40% on transaction completion during 2014. Osaka Gas had an option to acquire 40% of Horizon's interests in PPLs 372, 373 and 430 which lapsed during the year.

Note 30. Remuneration of external auditors

During the financial year, the following fees were paid or payable for services provided by the external auditor of the parent entity and its related practices:

	Consolidated 2015 US$	Consolidated 2014 US$
1. PwC Australia		
Audit and other assurance services		
Audit and review of financial reports	**178,973**	152,876
Other assurance services	**156,589**	97,002
Other services	**2,419**	18,927
Total remuneration for audit and other assurance services	**337,981**	268,805
Taxation services		
Tax compliance[1]	**111,717**	98,723
Total remuneration for taxation services	**111,717**	98,723
2. Non-PwC audit firms		
Audit and other assurance services	**18,833**	14,012
Other services	**-**	-
Total remuneration for audit and other assurance services	**18,833**	14,012
Total auditors' remuneration	**468,531**	381,540

1. Remuneration for taxation services has been recorded on a gross basis, some of these fees were for services provided to PNG operated joint ventures.

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

Note 31. Remuneration of key management personnel

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

Key management personnel compensation

	Consolidated	
	2015 US$	2014 US$
Short-term employee benefits	**2,304,601**	3,295,600
Post-employment benefits	**137,571**	112,818
Long-term benefits	**(6,897)**	49,104
Share-based payments (non-cash)	**983,416**	1,032,733
Total key management personnel remuneration	**3,418,691**	4,490,255

Detailed remuneration disclosures are provided in sections A-D of the audited Remuneration Report on pages 32 to 42.

Loans to key management personnel

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

Other transactions with key management personnel

There were no other transactions with key management personnel during the current or prior financial year.

Note 32. Related parties

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

Directors and other key management personnel

There were no related party transactions with Directors and other key management personnel during the current or prior year other than as disclosed in sections A – D of the Remuneration report and Note 31.

Subsidiaries

Interests in subsidiaries are set out in Note 28.

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

Transactions with related parties

Transactions between Horizon Oil Limited and related parties in the wholly-owned Group during the financial years ended 30 June 2015 and 2014 consisted of:

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

(b) Loans advanced by Horizon Oil Limited;

(c) Loans repaid to Horizon Oil Limited;

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

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

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

(g) Uncalled share capital.

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

The following transactions occurred with related parties:

	2015 US$	2014 US$
Superannuation contributions		
Superannuation contributions to superannuation funds on behalf of employees	**431,893**	296,811
Other transactions		
Payments to Horizon Oil Limited under financial guarantee contract arrangements from wholly owned subsidiary	**2,223,381**	2,724,015
Final call on partly paid and fully paid ordinary shares in Horizon Oil Limited paid by employees	**1,024,482**	309,420

Loans to/from related parties

	2015 US$	2014 US$
Loans to other related parties (uncalled share capital)		
Balance at beginning of the financial year	**1,355,821**	1,112,032
Loans advanced	**-**	553,209
Loan repayments received	**(1,024,482)**	(309,420)
Interest charged/paid	**-**	-
Balance at end of financial year	**331,339**	1,355,821

	2015 US$	2014 US$
Balance at beginning of the financial year	**256,026,759**	203,665,890
Loans advanced	**94,048,568**	78,525,337
Loan repayments received	**(132,395,271)**	(27,574,601)
Interest charged	**10,003,956**	3,687,684
Interest paid	**(6,625,360)**	(2,277,551)
Balance at end of financial year	**221,058,652**	256,026,759

Terms and conditions

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

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties, and no interest has been charged or credited to loans with other related parties. Certain loans to/from subsidiaries are subject to interest, however, the interest is typically suspended until commercial production commences or a change in the ownership interest of the entity occurs. The average interest rate on loans attracting interest during the financial year was 6.1% (2014: 6.0%). Outstanding balances are unsecured and repayable in cash.

Note 33. Share-based payments

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

Grant date	Expiry date	Exercise price	Balance start of financial year Number	Granted during financial year Number	Exercised during financial year Number	Forfeited during financial year Number	Balance end of financial year Number	Vested and exercisable at end of financial year Number
Consolidated Entity 2015								
Share Appreciation Rights issued								
27/10/2010	27/10/2015	A$0.30[4]	6,693,828	-	-	-	6,693,828	-
05/08/2011	05/08/2016	A$0.31[4]	6,478,276	-	-	-	6,478,276	6,478,276
13/08/2012	13/08/2017	A$0.27[4]	9,561,936	-	-	-	9,561,936	-
19/08/2013	19/08/2018	A$0.33[4]	8,547,599	-	-	-	8,547,599	-
01/07/2014	01/07/2019	A$0.37[4]	-	7,402,177	-	-	7,402,177	-
Total			**31,281,639**	**7,402,177**	**-**	**-**	**38,683,816**	**6,478,276**
Weighted average exercise price			A$0.30	A$0.37	-	-	A$0.32	A$0.31
Options issued								
25/09/2009	25/09/2014	A$0.29[1]	5,175,000	-	-	(5,175,000)	-	-
25/09/2009	25/09/2014	A$0.29[3]	350,000	-	-	(350,000)	-	-
09/10/2009	09/10/2014	A$0.31[3]	2,700,000	-	-	(2,700,000)	-	-
11/12/2009	11/12/2014	A$0.34[2]	500,000	-	-	(500,000)	-	-
16/09/2010	16/09/2015	A$0.30[3]	350,000	-	-	-	350,000	350,000
10/01/2012	10/04/2015	A$0.21[2]	1,000,000	-	-	(1,000,000)	-	-
28/05/2012	28/08/2015	A$0.26[2]	2,000,000	-	-	(1,000,000)	1,000,000	1,000,000
28/05/2012	28/05/2017	A$0.26[3]	1,666,667	-	-	-	1,666,667	1,666,667
17/09/2012	17/09/2017	A$0.29[3]	500,000	-	-	-	500,000	333,334
20/02/2013	20/02/2018	A$0.43[3]	350,000	-	-	-	350,000	-
16/04/2013	16/04/2018	A$0.40[3]	350,000	-	-	-	350,000	-
Total			**14,941,667**	**-**	**-**	**(10,725,000)**	**4,216,667**	**3,350,001**
Weighted average exercise price			A$0.29	-	-	A$0.29	A$0.30	A$0.27

1. Relates to options issued under the Employee Performance Incentive Plan.
2. Relates to general options issued to third party consultants.
3. Relates to options issued under the Employee Option Scheme.
4. No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.
5. The exercise price of the options and SARS outstanding at 31 July 2013 were reduced by A$0.006 following the rights issue during the year.

Grant date	Expiry date	Exercise price	Balance start of financial year Number	Granted during financial year Number	Exercised during financial year Number	Forfeited during financial year Number	Balance end of financial year Number	Vested and exercisable at end of financial year Number
Consolidated Entity 2014								
Share Appreciation Rights issued								
27/10/2010	27/10/2015	A$0.30[4]	6,693,828	-	-	-	6,693,828	-
05/08/2011	05/08/2016	A$0.31[4]	6,478,276	-	-	-	6,478,276	-
13/08/2012	13/08/2017	A$0.27[4]	9,561,936	-	-	-	9,561,936	-
19/08/2013	19/08/2018	A$0.33[4]	-	8,547,599	-	-	8,547,599	-
Total			**22,734,040**	**8,547,599**	**-**	**-**	**31,281,639**	
Weighted average exercise price			A$0.29	A$0.33	-	-	A$0.30	-
Options issued								
03/10/2008	03/10/2013	A$0.26[1]	1,848,000	-	(1,848,000)	-	-	-
03/10/2008	03/10/2013	A$0.26[3]	350,000	-	(350,000)	-	-	-
25/09/2009	25/09/2014	A$0.29[1]	5,175,000	-	-	-	5,175,000	5,175,000
25/09/2009	25/09/2014	A$0.29[3]	850,000	-	(500,000)	-	350,000	350,000
09/10/2009	09/10/2014	A$0.31[3]	2,700,000	-	-	-	2,700,000	2,700,000
11/12/2009	11/12/2014	A$0.34[2]	500,000	-	-	-	500,000	500,000
16/09/2010	16/09/2015	A$0.30[3]	350,000	-	-	-	350,000	350,000
06/06/2011	30/06/2014	A$0.365[5]	15,000,000	-	-	(15,000,000)	-	-
10/01/2012	10/04/2015	A$0.21[2]	1,000,000	-	-	-	1,000,000	666,667
28/05/2012	28/08/2015	A$0.26[2]	2,000,000	-	-	-	2,000,000	1,333,334
28/05/2012	28/05/2017	A$0.26[3]	2,000,000	-	(333,333)	-	1,666,667	1,000,001
17/09/2012	17/09/2017	A$0.29[3]	500,000	-	-	-	500,000	166,667
20/02/2013	20/02/2018	A$0.43[3]	350,000	-	-	-	350,000	-
16/04/2013	16/04/2018	A$0.40[3]	350,000	-	-	-	350,000	-
Total			**32,973,000**	**-**	**(3,031,333)**	**(15,000,000)**	**14,941,667**	**12,241,669**
Weighted average exercise price			A$0.32	-	A$0.27	A$0.36	A$0.29	A$0.26

1. Relates to options issued under the Employee Performance Incentive Plan.
2. Relates to general options issued to third party consultants.
3. Relates to options issued under the Employee Option Scheme.
4. No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.
5. Relates to general options issued to Petsec America Pty Limited as part consideration for the acquisition of Petsec Petroleum LLC (the Petsec subsidiary which held Petsec's interest in Block 22/12, offshore China).
6. The exercise price of the options and SARS outstanding at 31 July 2013 were reduced by A$0.006 following the rights issue during the year.

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.51 years (2014: 0.99 years).

Long Term Incentive Plan

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

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

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

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

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

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

Employee Option Scheme

The issue of securities under the Employee Option Scheme was approved by shareholders for the purposes of the ASX Listing Rules at the 2011 Annual General Meeting. The scheme is open to permanent full time or part time employees of the Company. Executive directors and the Company's senior executives were eligible to participate until April 2010, when the board resolved to modify the remuneration arrangements for the Company's senior executives.

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

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

The exercise price will be the greater of:

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

(b) 20 cents per option.

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

Options/share appreciation rights issued

7,402,177 share appreciation rights were issued under the Long Term Incentive Plan. The exercise price of these SARs is A$0.3729 with performance hurdles to be achieved prior to exercise. The independently assessed fair value at grant date of these share appreciation rights was A$0.1433 per SAR.

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

The model inputs for the grant of share appreciation rights during the financial year ended 30 June 2015 included:

Grant date	1 July 2014
Expiry date	1 July 2019
Exercise price	N/A
10 Day VWAP of Horizon Oil shares at grant date	A$0.3729
Expected price volatility	38.55% p.a.
Risk free rate	2.99% p.a.
Expected dividend yield	0.00% p.a.

No options were issued during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

Expenses arising from share-based payment transactions

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

	Consolidated	
	2015 US$'000	2014 US$'000
Share Appreciation Rights issued under:		
Long Term Incentive Plan	**1,034**	1,099
Options issued under:		
Employee Option Scheme	**16**	164
Total employee share-based payments expense	**1,050**	1,263

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

No options/SARs were modified during the financial year.

Options/SARs exercised during the financial year

No options/SARs were exercised during the financial year.

Options/SARs lapsing or cancelled during the financial year

During the financial year, 10,725,000 unlisted general options lapsed or were cancelled.

No SARs lapsed or were cancelled during the financial year.

Options/SARs exercised and options/SARs issued subsequent to 30 June 2015

On 13 August 2015, 25,088,617 share appreciation rights were granted under the Long Term Incentive Plan. Of the 25,088,617 SARs granted, 10,171,063 are proposed to be issued to an executive director and are therefore granted subject to shareholder approval at the 2015 Annual General Meeting.

No options have been granted subsequent to financial year end.

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

	Consolidated	
	2015 US$'000	2014 US$'000
Note 34. Employee entitlements		
Employee entitlement liabilities are included within:		
Current – other creditors (Note 18)	**667**	632
Non-current - other creditors	**15**	42
	Number	
	2015	2014
Employee numbers		
Average number of employees during financial year	**30**	17

Note 35. Contingent asset

(i) On 23 May 2013, the Group advised ASX that it had entered into an Agreement to sell 40% of its Papua New Guinea assets to Osaka Gas Niugini Pty Ltd ('Osaka Gas') a subsidiary of Osaka Gas Co. Ltd. of Japan. In addition to the cash on completion, a further US$130 million in cash is due upon a project development decision which gives rise to Osaka Gas achieving equity LNG from its acquired gas volumes, plus potential production payments where threshold condensate production is exceeded. Due to the conditions required for the deferred consideration of US$130 million, and the potential production payments, all remaining consideration under the Agreement is disclosed as a contingent asset as at 30 June 2015.

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

The upgrade, maintenance and repair works were carried out safely, within budget and the field returned to production on schedule. The Group's share of the repair costs was US$8 million. The Group expects to recover a proportion of these amounts through insurance. As at 30 June 2015, insurance claims for repair costs of US$6.6 million associated with the FPSO mooring and swivel were deemed virtually certain of receipt following acceptance of the claim by the underwriters and part payments of US$ 2.1 million received up to 30 June 2015. The loss of production insurance claim of approximately US$4 million covering the repair period remains a contingent asset at 30 June 2015.

Note 36. Contingent liabilities

The Group had contingent liabilities as at 30 June 2015 and 30 June 2014 that may become payable in respect of:

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

The Group occasionally receives claims arising from its operations in the normal course of business. In the opinion of the Directors, all such matters are either covered by insurance or, if not covered, are without merit or are of such a nature the amounts involved would not have a material impact on the results.

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

Note 37. Events after balance sheet date

Other than the matters disclosed in this report, there has not been any matter or circumstance which has arisen since 30 June 2015 that has significantly affected, or may significantly affect:

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

The financial statements were authorised for issue by the Board of Directors on 25 August 2015. The Board of Directors has the power to amend and reissue the financial statements.

Note 38. Commitments for expenditure

(i) Non-cancellable operating leases

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

	Consolidated	
	2015 US$'000	2014 US$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases, not recognised in the financial statements, are payable as follows:		
Within one financial year	**277**	1,388
Later than one financial year but not later than five financial years	**75**	588
	352	1,976

(ii) Finance leases

The Group had no outstanding finance leases as at 30 June 2015 or 30 June 2014.

Note 39. Exploration and development commitments

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

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

2015	New Zealand Development	New Zealand Exploration	China Exploration & Development	Papua New Guinea Exploration & Development	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Within one financial year	6,525	280	12,195	10,550	29,550
Later than one financial year but not later than 5 financial years	-	-	-	-	-
Total	**6,525**	**280**	**12,195**	**10,550**	**29,550**

2014	New Zealand Development	New Zealand Exploration	China Exploration & Development	Papua New Guinea Exploration & Development	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Within one financial year	20,160	391	4,374	56,593	81,518
Later than one financial year but not later than 5 financial years	-	-	-	19,656	19,656
Total	**20,160**	**391**	**4,374**	**76,249**	**101,174**

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

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

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

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

	Consolidated	
	2015	2014
	US$'000	US$'000
Profit for financial year	**18,307**	12,830
Exploration and development expenditure written off/expensed	**16,222**	9,233
Depreciation expense	**683**	636
Movement in employee entitlement liabilities	**114**	(1)
Non-cash employee share-based payments expense	**1,050**	1,263
Amortisation expense	**37,096**	39,397
Amortisation of prepaid financing costs	**1,775**	1,741
Provision for restoration	**416**	807
Gain from disposal of oil and gas assets; exploration assets	**-**	(23,830)
Unrealised movement in value of convertible bond conversion rights	**(9,063)**	(412)
Non-cash convertible bond interest expense	**6,257**	5,309
Net unrealised foreign currency losses/(gains)	**40**	606
Change in operating assets and liabilities:		
Decrease in trade debtors	**5,012**	886
(Increase) in other debtors and prepayments	**(8,561)**	1,335
(Increase) in inventory	**(1,181)**	75
Increase in deferred tax assets/liabilities	**3,443**	8,178
(Decrease) in tax receivable/payable	**(3,416)**	1,444
(Decrease) in trade creditors	**(11,006)**	(13,918)
Increase in deferred income	**2,212**	-
(Decrease) in other creditors	**(557)**	19,387
Net cash inflow from operating activities	**58,843**	64,966

	2015 US cents	2014 US cents
Note 41. Earnings per share		
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	**1.41**	1.00
From discontinued operation	**-**	-
Total basic earnings per share attributable to the ordinary equity holders of the Company	**1.41**	1.00
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	**1.41**	1.00
From discontinued operation	**-**	-
Total diluted earnings per share attributable to the ordinary equity holders of the Company	**1.41**	1.00

	2015 Number	2014 Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**1,303,481,265**	1,279,039,421
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,304,795,974**	1,284,748,334

	2015 US$'000	2014 US$'000
Reconciliation of earnings used in calculating earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating earnings per share		
Basic earnings per ordinary share:		
from continuing operations	**18,333**	12,830
from discontinued operations	**-**	-
	18,333	12,830
Diluted earnings per ordinary share:		
from continuing operations	**18,333**	12,830
from discontinued operations	**-**	-
	18,333	12,830

Information concerning the classification of securities

(a) Partly paid ordinary shares

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

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

(b) Options and share appreciation rights granted as compensation

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

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

(c) Convertible bonds

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

Details regarding the convertible bonds are set out in Notes 21 and 22.

Note 42. Parent Entity financial information

(i) Summary financial information

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

	Parent Entity 2015 US$'000	Parent Entity 2014 US$'000
Statement of financial position		
Current assets	**32,007**	5,829
Non-current assets	**250,235**	260,157
Total assets	**282,242**	265,986
Current liabilities	**89,024**	5,802
Non-current liabilities	**266**	89,664
Total liabilities	**89,290**	95,466
Net assets	**192,952**	170,520
Contributed equity	**174,801**	174,801
Share-based payments reserve	**11,052**	10,001
Retained earnings	**7,099**	(14,282)
Total equity	**192,952**	170,520
Profit/(loss) for the financial year	**21,381**	(15,274)
Total comprehensive income/(loss) for the financial year	**21,381**	(15,274)

(ii) Guarantees entered into by the parent entity

The parent entity has provided guarantees in respect of bank loans and leases of its subsidiaries amounting to US$120,000,000 (2014: US$119,165,000).

No liability has been recognised for guarantees provided. After factoring in the likelihood that the parent entity would be required to perform under the guarantees the fair value of the liability was not considered material.

(iii) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2015 or 30 June 2014. For information about guarantees given by the parent entity, please see above.

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

As at 30 June 2015, the parent entity had no contractual commitments for the acquisition of property, plant or equipment (30 June 2014 – US$Nil).

Shareholder information

HORIZON OIL LIMITED AND CONTROLLED ENTITIES SECURITIES EXCHANGE INFORMATION

AS AT 25 SEPTEMBER 2015

DISTRIBUTION OF EQUITY SECURITIES

The distribution of equity security holders ranked according to size at 25 September 2015 was as follows:

	Class of equity security			
	Ordinary shares			
Size of holding	Shares	Unlisted options	Share appreciation rights	Convertible bonds
1 to 1,000	482	-	-	1
1,001 to 5,000	1,104	-	-	-
5,001 to 10,000	1,069	-	-	-
10,001 to 100,000	3,005	-	-	-
100,001 and over	1,048	5	3	-
Total	**6,708**	**5**	**3**	**1**

A total of 1,646 holders held less than a marketable parcel of 5,555 ordinary shares.

TWENTY LARGEST SHAREHOLDERS

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

	Name	No. of ordinary shares	% of issued ordinary shares
1	Citicorp Nominees Pty Limited	364,008,789	27.96
2	Austral-Asia Energy Pty Ltd	148,333,916	11.39
3	J P Morgan Nominees Australia Limited	60,575,545	4.65
4	HSBC Custody Nominees (Australia) Limited	59,223,697	4.55
5	National Nominees Limited	34,933,462	2.68
6	Carrington Land Pty Ltd	20,000,000	1.54
7	V L H Pty Ltd	18,902,607	1.45
8	RBC Investor Services Australia Nominees Pty Limited	9,644,981	0.74
9	Finot Pty Ltd	8,857,143	0.68
10	Grizzly Holdings Pty Limited	8,511,941	0.66
11	Berne No 132 Nominees Pty Ltd	7,199,919	0.55
12	Mr Geoffrey Victor Day & Mrs Anne Margaret Day	7,000,000	0.54
13	Mr David Harvey Peek	6,966,552	0.54
14	Mr Michael Sheridan	5,515,948	0.42
15	Global Mosaic Pty Ltd	5,400,073	0.41
16	Citicorp Nominees Pty Limited (Colonial First State Inv A/c)	4,741,468	0.36
17	HSBC Custody Nominees (Australia) Limited – (Euroclear Bank SA NV A/C)	4,291,392	0.33
18	Mr Ronald Langley & Mrs Rhonda Langley	4,000,000	0.31
19	HSBC Custody Nominees (Australia) Limited - GSCO	3,591,028	0.28
20	Mr John Scott Humphrey	3,537,053	0.27
	Total	**785,235,514**	**60.31**

SHAREHOLDER INFORMATION

HORIZON OIL LIMITED AND CONTROLLED ENTITIES SECURITY EXCHANGE INFORMATION AS AT 25 SEPTEMBER 2015

ISSUED SECURITIES

Issued securities as at 25 September 2015:

Security	Number on issue	Number of holders
Ordinary fully paid shares[1]	1,301,981,265	6,708
Ordinary partly paid shares[1]	1,500,000	1
Unlisted employee options	2,866,667	5
Unlisted share appreciation rights[2]	63,772,433[2]	3
5.5% Convertible bonds of US$200,000 each[3]	400	1

1. The Company's ordinary fully and partly paid shares are listed on the Australian Securities Exchange.
2. 10,171,063 unlisted share appreciation rights have been issued subject to shareholders' approval at the 2015 Annual General Meeting.
3. The Company's 5.5% convertible bonds are listed on the Singapore Securities Exchange, with BT Globenet Nominees Limited the registered holder of the global certificate for 100% of the bonds.

SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

Ordinary shares	No. of ordinary shares	% of issued ordinary shares
Austral-Asia Energy Pty Limited as trustee for Triplex Global Ventures Limited	366,762,048	28.17
Commonwealth Bank of Australia	101,312,290	7.78
Tribeca Investment Partners Pty Ltd	68,387,994	5.26
Total	**536,462,332**	**41.21**

VOTING RIGHTS

a) Ordinary shares – fully paid

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

b) Ordinary shares – partly paid

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

c) Options (employee/general) - unlisted

No voting rights.

d) Share appreciation rights - unlisted

No voting rights.

e) 5.5% Convertible bonds

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

Glossary

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

Notes

Directory

Horizon Oil Limited
ABN 51 009 799 455

Board of Directors	Fraser Ainsworth AM (Chairman) Brent Emmett (Chief Executive Officer) John Humphrey Gerrit de Nys Andrew Stock
Company Secretary	Michael Sheridan
Assistant Company Secretary	Michael Lyon
Australian Registered Office (Principal place of business)	Level 6, 134 William Street, Woolloomooloo NSW 2011 Telephone: +(612) 9332 5000 Facsimile: +(612) 9332 5050 E-mail: exploration@horizonoil.com.au Web site: www.horizonoil.com.au
Domicile and country of incorporation	Australia
Share Registrar	Boardroom Pty Limited Level 7, 207 Kent Street SYDNEY NSW 2000 Telephone: +(612) 9290 9600
Convertible Bond Registrar	Deutsche Bank Luxembourg S.A. 2, Boulevard Konrad Adenauer L-1115, Luxembourg
Solicitors	King & Wood Mallesons Level 30 Waterfront Place 1 Eagle Street BRISBANE QLD 4000
Auditor	PricewaterhouseCoopers Darling Park Tower 2 201 Sussex Street SYDNEY NSW 1171
Trustee for convertible bond holders	DB Trustees (Hong Kong) Limited Level 52, International Commerce Centre 1 Austin Road West Kowloon HONG KONG
Stock Exchanges	Horizon Oil Limited shares are listed on the ASX (ASX code: HZN) Horizon Oil Limited convertible bonds are listed on the Singapore Securities Exchange (SGX)
Notice of Annual General Meeting	The Annual General Meeting of Horizon Oil Limited will be held at Level 1, Grand Ballroom, The Sydney Boulevard Hotel, 90 William Street, Sydney Time: 10.00am Date: 20 November 2015

Horizon Oil

ABN 51 009 799 455

Level 6, 134 William Street
Woolloomooloo NSW 2011 Australia
T +612 9332 5000 F +612 9332 5050
www.horizonoil.com.au

NOTICE OF 2015 ANNUAL GENERAL MEETING

Horizon Oil Limited ABN 51 009 799 455

The Annual General Meeting ("**AGM**") of the members of Horizon Oil Limited ACN 009 799 455 (the "**Company**") will be held at 10.00am (Sydney time) on Friday, 20 November 2015 at Level 1, Grand Ballroom, The Sydney Boulevard Hotel, 90 William Street, Sydney, New South Wales, 2011 to transact the business set out below.

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

Business

1. Consideration of reports

To receive and consider the Annual Financial Statements, the Directors' Report and the Independent Audit Report of the Company for the year ended 30 June 2015.

Note: There is no requirement for members to vote on this item of business.

2. Remuneration Report

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

"That the Remuneration Report for the year ended 30 June 2015 (set out in the Directors' Report) be adopted."

Note: The vote on this resolution is advisory only and does not bind the Company or the directors.

Note: A voting exclusion applies to this item – see the Explanatory Memorandum.

3. Re-election of director – Mr John Humphrey

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

"That Mr John Humphrey, a non-executive director retiring in accordance with the Company's Constitution, being eligible, is re-elected as a non-executive director of the Company."

Further information in relation to this resolution and Mr Humphrey is set out in the Explanatory Memorandum.

4. Approval of 2015 grant of long term incentives ("LTIs") to Mr Brent Emmett, Chief Executive Officer and Managing Director

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

"That approval be given for all purposes for the grant of up to 10,171,063 securities (including share appreciation rights ("**SARs**") and shares which may be issued as a result of the exercise or vesting of SARs) to the Chief Executive Officer and Managing Director, Mr Brent Emmett, in accordance with the terms of his employment agreement and as set out in the accompanying Explanatory Memorandum."

Further information in relation to this resolution is set out in the Explanatory Memorandum.

Note: A voting exclusion applies to this item – see the Explanatory Memorandum.

By order of the Board.

Dated: 8 October 2015

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Michael Sheridan
Company Secretary

Eligibility to attend and vote

For the purposes of the meeting and in accordance with regulation 7.11.37 of the *Corporations Regulations 2001* (Cwlth) and ASX Settlement Operating Rule 5.6.1, shares will be taken to be held by the persons who are registered as members as at 7.00pm (Sydney time) on Wednesday, 18 November 2015.

Proxies

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 the Company at its registered office, Level 6, 134 William Street, Woolloomooloo NSW 2011, not later than 10.00am (Sydney time) on Wednesday, 18 November 2015, being 48 hours before the commencement of the meeting.

If the Chairman of the meeting is your proxy, and you fail to provide a voting direction in respect of Item 2 or Item 4 or on the proxy form (which you may do by ticking 'For', 'Against' or 'Abstain' opposite Item 2 or Item 4, as applicable, on the proxy form), you are expressly authorising the Chairman of the meeting to vote in favour of Item 2 or Item 4, as applicable, even if that resolution is connected directly or indirectly with the remuneration of directors or members of the key management personnel of the Company ("KMP"). Subject to any applicable laws or voting exclusions, the Chairman of the meeting intends to vote all available proxies in favour of the resolutions in this Notice of Meeting (including Item 2 and Item 4).

To vote online:

TO VOTE ONLINE
Step 1: VISIT www.votingonline.com.au/horizonoilagm2015
Step 2: Enter your Postcode OR Country of Residence (if outside Australia)
Step 3: Enter your Voting Access Code:

By mail:	For delivery:	By fax:
Boardroom Pty Limited	Boardroom Pty Limited	Boardroom Pty Limited
GPO Box 3993	Level 12, 225 George Street	+61 2 9290 9655
Sydney NSW 2001	Sydney NSW 2000	
AUSTRALIA	AUSTRALIA	

Admission to meeting

Members who will be attending the meeting and who will not be appointing a proxy are asked to bring the proxy form to the meeting to help 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 the Company.

A replacement proxy form may be obtained from the Company's external share registry:

Boardroom Pty Ltd
Level 12, 225 George Street Sydney NSW 2000
Telephone: +61 2 9290 9600
Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

EXPLANATORY MEMORANDUM

This Explanatory Memorandum contains information about the resolutions to be considered at the AGM, which are set out in the accompanying Notice of Meeting, to assist shareholders to determine how they wish to vote on the resolutions. This Explanatory Memorandum forms part of the accompanying Notice of Meeting and should be read together with the Notice of Meeting.

Items of business

1. Consideration of reports

There is no requirement for members to approve the reports described in Item 1. In accordance with the *Corporations Act 2001* (Cwlth) ("**Corporations Act**") and the Company's usual practice, the Chairman of the meeting will allow a reasonable opportunity for shareholders to ask questions or make comments about the reports and the management of the Company. A reasonable opportunity will also be given to members, as a whole, to ask the auditor, or their representative, questions relevant to the conduct of the audit, the preparation and content of the Independent Audit Report, the accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

Written questions to the Company's auditor about:

- the content of the Independent Audit Report; or
- the conduct of the audit of the reports,

must be submitted no later than Friday, 13 November 2015 to:

The Company Secretary
Level 6
134 William Street
Woolloomooloo, NSW 2011
Australia

Facsimile: +61 2 9332 5050

Copies of the questions, if any, to the Company's auditor will be available at or before the AGM.

2. Remuneration Report

The Remuneration Report is contained in the 'Directors' Report' of the Company's 2015 Annual Report. A copy of the 2015 Annual Report is available on the Company's website www.horizonoil.com.au.

The Remuneration Report:

- explains the principles used by the board to determine the nature and amount of remuneration of directors and executives; and
- sets out remuneration details for each director and each named executive.

In April 2010, the board resolved to modify the remuneration arrangements for the Company's senior executives. Based on advice received from Guerdon Associates, an independent remuneration consultancy firm, the board put in place a short term incentive scheme and substituted the existing long term incentive arrangements for the Company's senior executives with a revised long term incentive scheme, the operation of which is discussed in Item 4 below.

The Chairman of the meeting will give shareholders a reasonable opportunity to ask questions about or make comments on the Remuneration Report. The Corporations Act requires the Company to propose a resolution that the Remuneration Report be adopted.

The vote on this item is advisory only and does not bind the Company or the directors. However, the board will take the outcome of this vote into consideration when reviewing the remuneration practices and policies of the Company.

Voting exclusion statement – Item 2

*No votes may be cast on this item by or on behalf of members of the key management personnel of the Company ("**KMP**") or their closely related parties, whether as shareholder or proxy.*

However, a vote may be cast on Item 2:

- *by a member of the KMP, or their closely related party, if the vote is cast as a proxy for a person who is entitled to vote on this item, and the proxy appointment is in writing and specifies how the proxy is to vote on Item 2; or*
- *by the Chairman of the meeting, if the vote is cast as a proxy appointed in writing that does not specify the way the proxy is to vote on Item 2, and expressly authorises the Chairman of the meeting to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.*

If you appoint the Chairman of the meeting as your proxy, and you do not direct your proxy how to vote on Item 2, you will be expressly authorising the Chairman of the meeting to exercise your proxy even if Item 2 is connected directly or indirectly with the remuneration of a member of the KMP. The Chairman of the meeting intends to vote all undirected proxies in favour of Item 2.

3. Re-election of director – Mr John Humphrey

The Company's Constitution provides that a director (other than the managing director) will not retain office for a period of more than three years or beyond the third annual general meeting of members of the Company following that person's election (whichever is greater).

Accordingly, Mr Humphrey is required to retire at the end of the AGM and seeks re-election in accordance with the requirements of the Company's Constitution.

The Chairman, Mr. Fraser Ainsworth has advised that he will retire from the board at the conclusion of the 2015 AGM, and the board has appointed Mr. Humphrey as the replacement Chairman. As part of an orderly transition process, it is intended that Mr. Humphrey will then retire at the 2016 Annual General Meeting or soon after with two new non-executive directors to be appointed to the board during the next twelve months to replace each of Mr. Ainsworth and Mr. Humphrey.

Mr Humphrey, LL.B., SF Fin has been a director of the Company since 1990. He is the Executive Dean of the Faculty of Law at Queensland University of Technology. He is a former partner of the firm of solicitors, King & Wood Mallesons, specialising in the area of corporate law; a director of Downer EDI Limited and Auswide Bank Ltd (formerly Wide Bay Australia); a former member of the Australian Takeovers Panel and a former Chairman of Villa World Limited. Mr Humphrey is Chairman of the Company's Audit Committee and a member of the Company's Risk Management Committee.

The board acknowledges that Mr Humphrey has been a director for twenty-five years. However, the board considers that there is no objective or subjective reason to believe that Mr Humphrey's period of board service would in any way interfere with his ability to act in the best interests of the Company and accordingly considers that Mr Humphrey is an independent director.

The directors (with Mr Humphrey abstaining) recommend that you vote in favour of Item 3.

4. Approval of 2015 grant of long term incentives ("LTIs") to Mr Brent Emmett, Chief Executive Officer and Managing Director

The Company introduced the LTI Plan during 2010 to provide annual non-cash performance incentives to the Company's key employees. Members last approved the LTI Plan for the purposes of ASX Listing Rule 7.2, exception 9 at the Company's 2013 annual general meeting.

On 13 August 2015, the board with Mr Emmett abstaining), approved the grant of 25,088,617 share appreciation rights ("**SARs**") to the three Key Management Personnel ("**KMPs**") under the LTI Plan.

Of those SARs, 10,171,063 were approved by the board (with Mr Emmett abstaining) to be granted to Mr Emmett in accordance with the terms of his employment agreement, subject to the approval of shareholders. As at the date of this Notice of Meeting, Mr Emmett's total fixed remuneration is A$889,968. The amount of 10,171,063 SARs to be granted to Mr Emmett (subject to the resolution of this Item 4) was calculated in accordance with the LTI Plan by dividing 50% of Mr Emmett's fixed remuneration by the present day value of the SARs as calculated by an independent valuer, Dalway Securities, on the effective allocation date for the SARs ("**Effective Allocation Date**") (A$0.04375). The VWAP of shares in the Company for the 10 business day period up to the day before the Effective Allocation Date for the purposes of the 2015 SARs award is A$0.0865.

The remaining 14,917,554 SARs were approved to be granted to employees who are not directors of the Company. The proposed grant to Mr Emmett is on the terms and conditions as outlined below.

In the board's view the proposal to grant these LTIs should be considered against the background of the three KMPs (including Mr. Emmett) voluntarily foregoing their entitlements to significant cash bonuses that would have otherwise been payable to them under the company's Short Term Incentive Plan.

Summary of the terms of the LTI Plan

In order to provide annual performance incentives to the Company's executives, based on advice received from Guerdon Associates, an independent remuneration consultant, the board resolved on 1 April 2010 to establish the LTI Plan to replace previous LTI arrangements for the Company's senior executives. The grant of LTIs in accordance with the Company's LTI arrangements to Mr Emmett was last approved by members at the Company's 2014 annual general meeting. The LTI arrangements apply to senior executives and involve the grant of rights which will vest subject (amongst other things) to the level of total shareholder return ("**TSR**") achieved in the vesting period, relative to an appropriate index. Under the LTI Plan, the board has the discretion, subject to ASX Listing Rule requirements, to grant SARs to executives as LTIs. The board has determined that 50% of senior executives' fixed remuneration would be LTIs in the form of SARs, with the number of SARs granted to be based on the present day value of a SAR.

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

The LTI Plan provides that the number of shares in the Company or the amount of the cash payment that the participant receives on exercise of the SAR is based on the value of the SAR at the time it is exercised ("**SAR Value**"). The SAR Value is the excess, if any, of the volume weighted average price ("**VWAP**") of shares in the Company for the 10 business day period up to the date before the date the SAR is exercised over the VWAP of shares in the Company for the 10 business day period up to the day before the Effective Allocation Date for the SARs. The Effective Allocation Date for the SARs is the grant date of the SARs or any other day determined by the board, at the time of the grant. The Effective Allocation Date would generally be the date the executive's entitlement was determined.

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

If the board determines that the SARs are to be satisfied in shares, the number of shares that the participant receives on the exercise of the SARs is the SAR Value divided by the VWAP of shares in the Company for the 10 business day period up to the day before the day the SARs are exercised. Where the number of shares calculated is not a whole number, it will be rounded down to the nearest whole number.

Other key terms and conditions of the SARs that may be granted under the LTI Plan include:

Key terms & conditions	LTI Plan
Eligible persons:	Under the terms of the LTI Plan, the Company may grant SARs to any employee. However, it is currently intended by the Company to only grant SARs under the LTI Plan to current senior executive employees including the sole executive director, Brent Emmett.
Exercise price:	No price is payable by a participant in the LTI Plan on the exercise of a SAR.
Performance requirements:	Under the LTI Plan, the number of SARs that vest is generally determined by reference to whether the Company achieves certain performance conditions. The number of SARs that vest is determined by reference to the Company's TSR over the relevant period relative to that of the S&P/ASX200 Energy Index ("**Index**"). The number of SARs that vest is: • if the Company's TSR is equal to that of the Index ("**Minimum Benchmark**"), 50%; • if the Company's TSR is 14% or more above that of the Index, 100% ("**Maximum Benchmark**"); and • if the Company's TSR is more than the Minimum Benchmark but less than the Maximum Benchmark, a percentage between 50% and 100% based on the Company's TSR performance between the Minimum Benchmark and Maximum Benchmark. The Maximum Benchmark of 14% above the Index return equates to the performance level likely to exceed the 75th percentile of market returns of companies (weighted by company size) in the Index. Furthermore, even where these performance conditions are satisfied, the SARs will not vest unless the Company achieves a TSR of at least 10% over the relevant period. The performance conditions are tested on the date that is three years after the Effective Allocation Date of the SARs, and are then re-tested every six months after that until the date that is five years after the Effective Allocation Date of the SARs (the final retesting date). The performance conditions are also tested where certain circumstances occur, such as a takeover bid for the Company. If the SARs have not, pursuant to these performance conditions, vested by the final retesting date that is five years after the date the SARs are granted, the SARs will lapse.
Cessation of employment:	If a holder of SARs under the LTI Plan ceases to be employed by a member of the Company's corporate group, then this generally does not affect the terms and operation of the SARs. The board does, however, under the LTI Plan have discretion, to the extent permitted by law, to cause the SARs to lapse or accelerate the date on which the SARs become exercisable.
Maximum number of shares that can be issued:	Subject to various exclusions, the maximum number of shares that may be issued on the exercise of SARs granted under the LTI Plan is capped at 5% of the total number of issued shares of the Company.
Restrictions on exercise:	A SAR cannot be exercised unless it has vested. Where a SAR vests, a participant may not exercise the SAR until the first time after the time the SAR vests that the participant is able to deal with shares in the Company under the Company's securities trading policy. SARs are exercised by submitting a notice of exercise to the Company.
Lapse:	SARs will lapse where: • the SARs have not vested by the final retesting date which is five years after the date of grant (see above); • if the SARs have vested by the final retesting date that is five years after the date of grant, the SARs have not been exercised within three months of the date that the SARs would have first been able to be exercised if they vested at the final retesting date that is five years after the date of grant. This may be more than five years and three months from the date of grant depending on whether the holder of the SAR is able to deal with shares in the Company under the Company's securities trading policy at the date five years after the date of grant; • the employee ceases to be employed by the Company (or a member of its corporate group), and the board determines that some or all of the SARs lapse (see above); • the board determines that the employee has committed or it is evident that the employee intends to commit, any act (whether by commission or omission) which amounts or would amount to fraud or serious misconduct; or • the employee provides a notice to the Company that they wish the SARs to lapse.
Share ranking and quotation:	Shares provided pursuant to the exercise of a SAR will rank equally with the shares in the Company then on issue. Quotation on the ASX will be sought for all shares issued upon the exercise of SARs. SARs are not assignable or transferable.
No right to dividends, bonus or rights issues:	The SARs will not confer on the holder an entitlement to dividends or to participate in bonus issues or rights issues unless the board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.
No voting rights:	The SARs will not confer an entitlement to vote at general meetings of the Company unless the board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.
Non-quotation:	The Company will not apply to the ASX for official quotation of the SARs.
Capital re-organisation:	In the event of a reorganisation of the capital of the Company, the rights of the SARs holder will be changed to the extent necessary to comply with the ASX Listing Rules and shall not result in any additional benefits being conferred on SARs holders which are not conferred on members.
Effect of take-over or change of control of Company, death or disablement:	The LTI Plan contains provisions to deal with SARs where there is a takeover or change of control of the Company. Depending on the nature of the takeover or change of control event, the Company will either have the discretion or be required (if a change of control occurs) to determine a special retesting date for the performance requirements discussed above. For example, the board will have discretion to determine a special retesting date where a takeover bid is made for the Company or a scheme of arrangement is entered into. In that case, the special retesting date will be the date determined by the board. Where a statement is lodged with the ASX that a person has become entitled to acquire more than 50% of the Company, the board will be required to determine a special retesting date, and the special retesting date will be the day the statement is lodged with the ASX. The SARs may vest if the performance requirements discussed above are satisfied in relation to that special retesting date.

As at the date of this Notice of Meeting, Mr Emmett's total fixed remuneration is A$889,968. The amount of 10,171,063 SARs to be granted to Mr Emmett (subject to the resolution of this Item 4) was calculated in accordance with the LTI Plan by dividing 50% of Mr Emmett's fixed remuneration by the present day value of the SARs as calculated by an independent valuer, Dalway Securities, on the Effective Allocation Date (A$0.04375). The VWAP of shares in the Company for the 10 business day period up to the day before the Effective Allocation Date for the purposes of the 2015 SARs award is A$0.0865.

Shareholder approval of the grant of securities under the LTI Plan to Mr Emmett is sought for all purposes under the Corporations Act and the Listing Rules of the ASX, including Listing Rule 10.14.

As required by Listing Rule 10.15, the following information is provided in respect of the grant of SARs under the LTI Plan to an executive director:

Listing Rule	Content requirement	Item 4 LTI Plan
10.15.2	The maximum number of Company's ordinary shares that may be acquired on exercise of the proposed grant of securities and the formula for calculating the number of securities to be issued:	The maximum number of shares that may be acquired by Mr Emmett is 10,171,063. The number of shares that may be acquired by Mr Emmett on exercise of the SARs proposed to be granted to him, is determined at the time of exercise by reference to the SAR Value at the time the SAR is exercised and the VWAP of shares in the Company for the 10 business day period up to the day before the day the SAR is exercised (as described above). As an example, contingent on the performance requirements of the SARs being met, if the VWAP of shares in the Company for the 10 business day period up to the day before the day the SAR is exercised is: • A$0.10, Mr Emmett would be entitled to approximately 13.5% of the maximum number of shares; or • A$0.20, Mr Emmett would be entitled to approximately 57% of the maximum number of shares.
10.15.3	Formula for calculating the price of securities to be acquired under the scheme:	Mr Emmett is not required to pay any price in order to acquire SARs under the LTI Plan. However, the value of what Mr Emmett receives if his SARs become exercisable is the SAR Value. This is based on the appreciation in the share price of the Company from the Effective Allocation Date until the date of exercise (see discussion above). The proposed Effective Allocation Date for Mr Emmett's SARs is 1 July 2015.
10.15.4	Names of directors and associates who have received securities under the scheme since the last approval; number received; and acquisition price:	Mr Emmett was granted 3,000,879 SARs following approval at the Company's 2014 annual general meeting which are exercisable at A$0.3729.
10.15.4A	Names of directors and associates entitled to participate in scheme:	Mr Emmett.
10.15.5	Voting exclusion statement:	Included – see below.
10.15.6	Terms of any loan in relation to acquisition:	There are no loans in relation to the acquisition of SARs or securities issued under the LTI Plan.
10.15.7	Date on which securities will be issued:	Subject to shareholder approval of the issue of the SARs, within five business days of the AGM, but in any event no later than 12 months after the date of the AGM.

Voting exclusion statement – Item 4

The Company will disregard any votes cast on Item 4 by:

- *Mr Brent Emmett; and*
- *an associate of Mr Emmett.*

However, the Company need not disregard a vote if:

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

A vote must not be cast on Item 4 by a member of the KMP, or their closely related parties, acting as proxy, if their appointment does not specify the way the proxy is to vote on Item 4. However, this voting restriction does not apply if the member of the KMP is the Chairman of the meeting acting as proxy and their appointment expressly authorises the Chairman of the meeting to exercise the proxy even if that item is connected directly or indirectly with the remuneration of a member of the KMP.

If you appoint the Chairman of the meeting as your proxy, and you do not direct your proxy how to vote on Item 4, you will be expressly authorising the Chairman of the meeting to exercise your proxy even if Item 4 is connected directly or indirectly with the remuneration of a member of the KMP. The Chairman of the meeting intends to vote undirected proxies in favour of Item 4.

The directors (with Mr Emmett abstaining) recommend that you vote in favour of Item 4.

Sydney

8 October 2015