Horizon Oil Limited ABN 51 009 799 455
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28 February 2014

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

Dear Sir,

HORIZON OIL (HZN) ADVISES HALF-YEAR RESULTS

In accordance with Listing Rule 4.2A.3, Horizon Oil Limited lodges its half-year report for the period to 31 December 2013. The financial results for the period are set out in the attached Appendix 4D and half-year report.

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

- **Financial summary**

	Note	Half-year to 31-Dec-13 US$'000	Half-year to 31-Dec-12 US$'000	Change %
Sales revenue		64,769	18,260	255%
EBITDAX from operating activities	1	**32,782**	**4,538**	622%
Exploration expensed		(4,176)	(267)	1,464%
Depreciation and amortisation		(18,226)	(2,116)	761%
Finance costs		(8,584)	(2,790)	208%
Unrealised movement in value of convertible bond conversion rights	2	2,791	(4,734)	(159%)
Profit/(loss) before tax		**1,796**	**(635)**	**(383%)**
NZ royalty tax benefit/(expense)		426	(2,971)	(114%)
Income tax benefit/(expense)		(2,269)	(3,171)	(28%)
Loss after tax		**(47)**	**(6,777)**	**(99%)**
Total comprehensive income		**(5,110)**	**(9,091)**	**(44%)**
Earnings per share (diluted) (Australian cents)		-	(0.60)	

Note 1: EBITDAX from operating activities is a financial measure which is not prescribed by Australian Accounting Standards and represents the profit under Australian Accounting Standards adjusted for depreciation, amortisation, interest expense, taxation expense and exploration expenditure. The Directors consider EBITDAX to be a useful measure of performance as it is widely used by the oil and gas industry. EBITDAX information has not been subject to any specific review procedures by the Group's auditor but has been extracted from the half-year financial report for the half-year ended 31 December 2013, which have been subject to review by the Group's auditors.
Note 2: Movement in mark-to-market valuation of Convertible Bonds issued in June 2011
Note 3: All references to $ are to US dollars unless otherwise specified

- **Financial results**

  - The Group's overall loss for the half-year was $0.05 million, resulting from gross profit from operations of $15.1 million which were driven by China production offset by depreciation, amortisation and exploration costs of $22.4 million, income and royalty tax of $1.8 million, financing costs of $8.6 million and a favourable movement in the mark-to-market valuation of the convertible bonds of $2.8 million.

- Cash on hand at 31 December 2013 of $37.1 million (30 June 2013 –$19.0 million).

• **Operational results**

China

- During the half year, Horizon Oil's working interest share of production from the Beibu Gulf fields was 636,249 barrels of oil. Cumulative oil production from the fields through 31 December 2013 was 3.02 million barrels. Average production over the half year was approximately 13,000 bopd, which increased to approximately 15,000 bopd by 31 December 2013, of which Horizon Oil's share is in excess of 4,000 bopd. All 15 wells are now on production.

- During the half year, the Beibu Gulf development was finalised following the successful hook-up and commissioning of the 10 well development drilling program on the WZ 6-12 wellhead platform, the five well development drilling program on the WZ 12-8W field, installation of the PUQB utilities platform heli-deck and finalisation of the permanent tie-in of three of the WZ 6-12 wells. The project was completed safely and within budget.

- The Company entered into a seismic farm-in option agreement during the half year with a subsidiary of Roc Oil Limited to earn a 40% interest in Block 09/05, Bohai Bay, offshore China. Under the terms of the agreement, Horizon Oil will pay 40% of all exploration costs incurred until the exercise or lapse of the option.

New Zealand

- During the half year, Horizon Oil's working interest share of production from Maari field was 35,895 barrels of oil. Cumulative oil production from the field through 31 December 2013 was 22.4 million barrels. Production for the half year was low as the Maari production facilities were shut in on 21 July 2013 to effect interim repair works on the FPSO Raroa. Production at Maari field re-started on 12 December 2013. The producer wells were progressively brought on line and on 17 December 2013 all 6 wells had been successfully returned to production and were producing at a rate of approximately 11,600 barrels of oil per day.

- The upgrade, maintenance and repair works were carried out safely, within budget and the field returned to production on schedule. Horizon Oil's share of the work package was $8 million with deferred cashflow during field downtime of approximately $5 million. The company expects to recover a proportion of these amounts through insurance.

- The Manaia-2/2A well reached total depth of 2891 m MDRT on 4 November 2013. The well is located 1.25 km north of Maui-4 (which discovered the Manaia Field) and 6 km to the southwest of the Maari Field well head platform. The well achieved its objectives of drilling through the Moki Formation, the Mangahewa Formation, the underlying Farewell Formation and terminating in the North Cape Formation as planned.

Papua New Guinea

- Government negotiations relating to the Petroleum Development Licence (PDL) application were finalised in the period and the Gas Agreement (project agreement) issued to the PNG State Solicitor for formal legal clearance prior to submission to the PNG

Cabinet. Preparatory activities for the landowner Development Forum, to be convened by the PNG Government, are complete. The Development Forum will commence after PNG Cabinet approval of the Gas Agreement and is expected to coincide with the offer of the PDL. Negotiations with the participants in PPL 259 (adjacent to PRL 4), regarding the formation of unit to include the small portion of the Stanley gas field that possibly encroaches into PPL 259 were concluded during the half year. The effect on Horizon Oil's interest in the Stanley gas field will be immaterial, given the Company's near equivalent participation in each licence.

- Work continued on the Elevala/Ketu condensate recovery project development planning during the half year. The objective is to substantially finalise FEED (front end engineering and design) studies and submit a development licence application to the Government at the end of the first quarter of calendar year 2014. The scope of the FEED study has been expanded to provide for the integration of the recently announced Tingu-1 discovery in the development.

- Horizon Oil entered into a farm-in agreement with Eaglewood Energy to acquire a further 20% participating interest in PPL 259 during the half year. The farm-in is subject to government approvals. Under the terms of the farm-in, Horizon Oil will operate the exploration well to be drilled in the licence, anticipated later in calendar year 2014.

Yours faithfully,

Michael Sheridan
Chief Financial Officer and Company Secretary

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Or visit www.horizonoil.com.au

Appendix 4D

Half-year report
31 December 2013

Horizon Oil Limited
ABN 51 009 799 455

This half-year report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3. This information should be read in conjunction with the Half-year report for the period to 31 December 2013.

1. Reporting Period

Current reporting period:	Half year ended 31 December 2013
Previous corresponding period:	Half year ended 31 December 2012

2. Results for Announcement to the Market For the half year ended 31 December 2013

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

			Percentage Change %		Amount $'000
2.1	Revenue from ordinary activities	Up	255%	to	64,769
2.2	Loss from ordinary activities after tax attributable to members	Down	99%	to	(47)
2.3	Net loss for the period attributable to members	Down	99%	to	(47)

2.4 Dividends/distributions

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

2.5	Record date for determining entitlements to dividends	N/A

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

Revenue

During the half-year to 31 December 2013, revenue mainly consisted of sales of crude oil from the Block 22/12 field offshore China. The revenue is higher than the half-year ended 31 December 2012 due to the China field commencing production in March 2013, offset by decreased revenue from the Maari field offshore New Zealand due to a shut-in for field maintenance and upgrade works.

Loss from ordinary activities after tax

The decrease in net loss after tax and net profit attributable to members for the half-year to 31 December 2013 resulted from a combination of an increase in the gross profit from operations of $3.5 million, a decrease in the mark-to-market revaluation of the convertible bond conversion rights of $7.5 million, and a decrease in tax expense of $4.3 million offset by an increase in finance costs of $5.8 million.

3. Net Tangible Assets

	31 December 2013	31 December 2012
Net tangible assets per ordinary share	0.412	0.400

4. Controlled entities acquired or disposed of during period

		Acquisitions	Disposals
4.1	Name of Entity	N/A	N/A
4.2	The date of gain/loss of control	N/A	N/A
4.3	Contribution to profit from ordinary activities during the half year ended 31 December 2013	N/A	N/A
	Profit/(loss) during the half year ended 31 December 2013	N/A	N/A

5. Dividends/distributions

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

6. Dividend Reinvestment Plans

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

7. Associates and Joint Venture Entities

Nil

8. Accounting standards for foreign entities

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

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

Refer to the Half-year report for the period to 31 December 2013 for a copy of the unqualified independent auditor's review report to the members of Horizon Oil Limited.

Horizon Oil Limited
ABN 51 009 799 455

Half-year report – 31 December 2013

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as 'the Group') consisting of Horizon Oil Limited and the subsidiaries it controlled at the end of, or during the half-year ended 31 December 2013.

Directors

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

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

Review and Results of Operations

During the course of the half-year ended 31 December 2013, the Group's principal activities continued to be directed towards petroleum exploration, development and production.

The Group reported a loss of US$47,000 for the current half-year compared with a loss of US$6,777,000 in the 2012 half-year. The half-year result includes a gross profit of US$15,059,000 (2012: US$11,595,000) from Block 22/12 and Maari operations.

Non-cash items impacting on the half-year result include US$17,921,000 (2012: US$1,887,000) in amortisation of production phase assets, a deferred income and royalty tax expense of US$1,186,000 (2012: US$2,971,000), amortisation of the liability portion of the convertible bond of US$2,923,000 (2012: US$2,525,000), a net gain of US$2,791,000 (2012: US$4,734,000 net loss) arising from the unrealised movement in the value of convertible bond conversion rights, exploration expenditure written-off of US$3,931,000 and US$664,000 (2012: US$626,000) related to the value of share options and share appreciation rights granted to Horizon Oil employees.

Cash on hand at the end of the half-year was US$37,099,000. Cash flow during the period was driven by proceeds from the rights issue completed during the period and operating cashflows from the Beibu and Maari fields which were used to fund the exploration and development expenditure program. Cash from operating activities was higher than the comparative period due predominately to the incremental revenues from the Beibu fields, despite reduced revenues from Maari following the shut-in of the field.

CAPITAL RAISING

On 31 July 2013, Horizon Oil announced a fully underwritten 1 for 7 accelerated non-renounceable entitlement offer to raise approximately A$53.5 million. The institutional component of the Entitlement Offer was strongly supported by existing institutional shareholders with a 90% take up rate, complemented by a relatively strong take-up by retail shareholders.

The shares issued under the entitlement offer were priced at A$0.33 per share representing a 9.6% discount to the theoretical ex-rights price and a 10.8% discount to the closing price of Horizon Oil's ordinary shares on the Australian Securities Exchange immediately prior to the announcement of the entitlement offer.

Funds raised from the entitlement offer have and will be used to continue Horizon Oil's active exploration and development work program across Papua New Guinea, China and New

Zealand pending completion and receipt of funds from the Papua New Guinea farmout transaction with Osaka Gas, announced in May 2013.

SALE OF PARTIAL INTEREST IN PNG ASSETS TO OSAKA GAS

In May 2013, the Company announced the sale of 40% of its PNG licence interests to Osaka Gas for a total consideration of $204 million, composed of milestone payments.

The initial payment of $74 million[1] plus completion adjustments (currently approximately $20 million) will be made on grant of the Stanley gas project development licence. Subject to PNG Cabinet approval, the Company anticipates the development licence will be offered in the immediate term.

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

PRODUCTION

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

During the half year, Horizon Oil's working interest share of production from the Beibu Gulf fields was 636,249 barrels of oil. Crude oil sales were 594,097 barrels at an average price of US$105.03. Cumulative oil production from the fields through 31 December 2013 was 3.02 million barrels.

Average production over the half year was approximately 13,000 bopd, which increased to approximately 15,000 bopd by 31 December 2013, of which Horizon Oil's share is in excess of 4,000 bopd. All 15 wells are now on production, with 5 wells still on natural flow and waiting to be put on pump.

During the half year, the Beibu Gulf development was finalised following the successful hook-up and commissioning of the 10 well development drilling program on the WZ 6-12 wellhead platform, the five well development drilling program on the WZ 12-8W field, installation of the PUQB utilities platform heli-deck and finalisation of the permanent tie-in of three of the WZ 6-12 wells. The project was completed safely and within budget and the *HYS1 931* jack-up drilling rig released on 17 August 2013.

Work continued during the half year on the Phase II development plan for the WZ12-8E oil accumulation.

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

During the half year Horizon Oil's working interest share of production from Maari and Manaia fields was 35,895 barrels of oil. Crude oil sales were 48,509 barrels at an average effective price of US$113.67. Cumulative oil production from the fields through 31 December 2013 was 22.4 million barrels.

Half year production was low as the Maari production facilities were shut in on 21 July 2013 to effect interim repair works on the FPSO *Raroa*. Production re-started on 12 December 2013. The producer wells were progressively brought on line and on 17 December 2013 all 6 wells had been successfully returned to production and were producing at a rate of approximately 11,600 barrels of oil per day.

The FPSO *Raroa* had been 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.

[1] Including initial deposit of US$20.4 million

The upgrade, maintenance and repair works were carried out safely, within budget and the field returned to production on schedule. Horizon Oil's share of the work package was US$8 million with deferred cashflow during field downtime of approximately US$5 million. The company expects to recover a proportion of these amounts through insurance.

A workover utilising the wellhead platform workover unit to convert the MR1 well into a water injector was commenced in the period and concluded in early January 2014. The well conversion is part of the Maari Growth Projects investment program, designed to enhance production rate and oil recovery from the Maari and Manaia fields.

Preparations for the Maari/Manaia Growth Projects program continues, with the *Ensco 107* jack-up drilling rig expected to arrive in March 2014.

DEVELOPMENT

Papua New Guinea - *PRL 4, Stanley Field* (Horizon Oil : 30% following Osaka Gas sale completion)

Government negotiations relating to the Petroleum Development Licence (PDL) application were finalised in the period and the Gas Agreement (project agreement) issued to the PNG State Solicitor for formal legal clearance prior to submission to the PNG Cabinet.

Preparatory activities for the landowner Development Forum, to be convened by the PNG Government, are complete. The Development Forum will commence after PNG Cabinet approval of the Gas Agreement and is expected to coincide with the offer of the PDL.

Negotiations with the participants in PPL 259 (adjacent to PRL 4) regarding the formation of unit to include the small portion of the Stanley gas field that possibly encroaches into PPL 259 were concluded during the half year. The effect on Horizon Oil's interest in the Stanley gas field will be immaterial, given the Company's near equivalent participation in each licence.

Work on the 90m tanker progressed during the half year with the vessel launched on 18 December 2013 and now in the process of fit-out and completion.

Negotiations with Ok Tedi Mining Limited for the supply of gas from the Stanley gas field progressed during the half year. Technical matters and commercial issues in the detailed term sheet have been resolved, subject to final agreement on price.

EXPLORATION/APPRAISAL

Papua New Guinea - *PRL 21, Elevala / Ketu discoveries* (Horizon Oil : 27% following Osaka Gas sale completion)

Work continued on the Elevala/Ketu condensate recovery project development planning during the half year. The objective is to substantially finalise FEED (front end engineering and design) studies and submit a development licence application to the Government at the end of the first quarter of calendar year 2014. The scope of the FEED study has been expanded to provide for the integration of the recently announced Tingu-1 discovery in the development.

Tingu-1 discovery well and flow test

The Tingu-1 exploration well, located 9.2 km northwest of the Elevala-2 appraisal well, spudded on 26 August 2013.

Data from logs and pressure measurements confirmed a significant gas/condensate discovery in the primary target Elevala Sandstone. The well encountered a gas water contact in that reservoir consistent with that in the Elevala accumulation to the southeast, implying a connected field of considerable size.

Data from the Toro Formation underlying the Elevala Sandstone indicated a possible gas column also exists in that reservoir up-dip from the Tingu-1 location.

The well was perforated across a 7 m interval in the Elevala Sandstone and production testing operations commenced. Following the clean-up flow period, the average flow rate was 48 million cubic feet of gas per day (mmcfd) on a 72/64" choke, with no water, indicating high deliverability from the reservoir which is encouraging for future production operations. For the main flow period, the gas was flowed to a test separator and an average condensate gas ratio (CGR) of 65 barrels of condensate per million cubic feet of gas was measured over a three hour period, after which hydrocarbon samples were taken for compositional and pressure analysis. This analysis will be required to confirm the flow test results and CGR, but it is certainly an encouraging result so far.

The Tingu accumulation is potentially similar in size to the Elevala gas-condensate field (2C contingent resource of approximately 400 billion cubic feet of gas and 22 million barrels of condensate).

Ketu-2 production test

Strong gas/condensate flows were recorded during production testing of the successful Ketu-2 appraisal well, drilled and completed for production in 2012 and located 8.9 km southeast of the Ketu-1 discovery well. The flow test confirmed the high deliverability of the Elevala sandstone reservoir and also that the CGR is consistent with that of the nearby Elevala and Tingu accumulations.

During the comprehensive multi-rate test sequence, the well flowed gas consistently at rates of 35 - 40 mmcfd through a 56/64" choke, with no produced water and minimal CO_2 and H_2S. The CGR stabilized at a rate of 50-60 barrels of condensate per million cubic feet of gas, in line with the Elevala and Tingu accumulations and about double that of the Stanley field CGR.

New Zealand - *PMP 38160, Manaia-2/2A* exploration/appraisal well, Taranaki Basin (Horizon Oil: 10%)

The Manaia-2/2A well reached total depth of 2891 m MDRT on 4 November 2013. The well is located 1.25 km north of Maui-4 (which discovered the Manaia Field) and 6 km to the southwest of the Maari Field well head platform.

The well achieved its objectives of evaluating the Moki Formation, the Mangahewa Formation, the underlying Farewell Formation and terminating in the North Cape Formation as planned.

Elevated gas readings and oil fluorescence were observed in the Moki Formation. Fluid samples with indications of oil were recovered by the MDT logging program in the Moki Formation, and several oil stained cores were recovered by the MSCT. Analysis of these samples and the wireline logging data is ongoing.

An oil zone exhibiting virgin pressure was drilled in the lower part of the Mangehawa Formation. The upper part of the Mangahewa Formation is being produced by an extended reach well drilled from the Maari Field well head platform and the data from Manaia-2 will contribute to optimization of a planned additional development well into this zone.

New Zealand - *PEP 51313,* offshore Taranaki Basin (Horizon Oil: 21%; 10% in Whio prospect area if a discovery is made)

Planning for drilling of the Whio-1 well with the semi-submersible rig *Kan Tan IV* progressed during the half year towards an expected spud in March 2014. The budget estimate remains at US$56 million. The costs of the well are fully carried by OMV.

Processing of the 450 km 3D seismic program in the Te Whatu-Pukeko area was completed in early September. Following analysis of the seismic, and recent drilling results of the formation sands being targeted in the region, Horizon Oil has elected not to drill a well in the Te Whatu area. Exploration costs associated with this part of the permit were expensed during the half year.

Papua New Guinea - *PPL 259,* Western Province (Horizon Oil: 35% following Osaka Gas sale completion)

Horizon Oil entered into a farm-in agreement with Eaglewood Energy to acquire a further 20% participating interest in PPL 259 during the half year. The farm-in is subject to government approvals. Under the terms of the farm-in, Horizon Oil will operate the exploration well to be drilled in the licence, anticipated later in calendar year 2014.

Several large prospects have been delineated as drilling targets following interpretation of the 67 km of new 2D seismic data acquired in calendar year 2013.

China - *Block 09/05*, Bohai Bay (option to acquire 40% interest)

The Company entered into a seismic farm-in option agreement during the half year with a subsidiary of Roc Oil Limited to earn a 40% interest in Block 09/05, Bohai Bay, offshore China. Under the terms of the agreement, Horizon Oil will pay 40% of prior costs and all exploration costs incurred until the exercise or lapse of the option.

The exploration costs are essentially those associated with a 162 sq km ocean bottom cable 3D seismic survey, which was completed on 12 September 2013, ahead of schedule, within budget and without incident. Processing of the 3D seismic data volume has commenced and, on completion, will help de-risk exploration prospects ahead of exploration drilling scheduled for 2014.

Prior to spudding the first well, Horizon Oil may exercise the option to earn the 40% interest by paying a two-for-one promote on the first two exploration wells on the block. The transfer of interest to Horizon Oil will be subject to the approval of China National Offshore Oil Corporation (CNOOC). CNOOC has the right to participate at a level of up to 51% in any field development on the block, which would cause Horizon Oil's interest to reduce to 19.6%.

Horizon Oil has enjoyed a successful relationship with CNOOC and Roc Oil in its Beibu Gulf joint venture and expects to continue this in Bohai Bay. Roc Oil operates the Zhao Dong field, which is located about 15 km south of Block 09/05 and is well placed to utilise this experience as operator of Block 09/05.

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

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

Auditor's Independence Declaration

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

Rounding

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

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

E F Ainsworth AM
Chairman

B D Emmett
Chief Executive Officer

Sydney

28 February 2014

Auditor's Independence Declaration

As lead auditor for the review of Horizon Oil Limited for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
28 February 2014

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HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half-year ended 31 December 2013

	Note	Half-year to 31 December 2013 US$'000	Half-year to 31 December 2012 US$'000
Revenue		**64,769**	18,260
Cost of sales		**(49,710)**	(6,665)
Gross profit		**15,059**	11,595
Other revenue/other income		**143**	11
General and administrative expenses		**(3,437)**	(4,450)
Exploration and development expenses		**(4,176)**	(267)
Finance costs		**(8,584)**	(2,790)
Unrealised movement in fair value of convertible bond conversion rights	3	**2,791**	(4,734)
Profit/(loss) before income tax expense		**1,796**	(635)
NZ royalty tax benefit/(expense)		**426**	(2,971)
Income tax expense		**(2,269)**	(3,171)
Loss for the half-year		**(47)**	(6,777)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges		**(5,063)**	(2,314)
Items that will not be reclassified to profit or loss		**-**	-
Total comprehensive income for the half-year		**(5,110)**	(9,091)
Loss attributable to members of Horizon Oil Limited		**(47)**	(6,777)
Total comprehensive income attributable to members of Horizon Oil Limited		**(5,110)**	(9,091)
Earnings per share attributable to the ordinary equity holders of the Company		**US Cents**	
Basic earnings per share		**-**	(0.60)
Diluted earnings per share		**-**	(0.60)

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

HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2013

	Note	31 December 2013 US$'000	30 June 2013 US$'000
Current Assets			
Cash and cash equivalents	5	**37,099**	19,028
Receivables		**22,223**	18,956
Inventories		**6,376**	7,898
Current tax receivable		**1,768**	650
Other Assets		**567**	832
Total Current Assets		**68,033**	47,364
Non-Current Assets			
Deferred tax assets		**7,278**	10,441
Plant and equipment		**7,965**	8,206
Exploration phase expenditure	6	**112,761**	92,538
Oil and gas assets	7	**340,046**	317,637
Total Non-Current Assets		**468,050**	428,822
Total Assets		**536,083**	476,186
Current Liabilities			
Payables		**44,893**	40,150
Derivative financial instruments		**4,915**	1,237
Current tax payable		**2**	803
Borrowings	8	**55,135**	14,735
Restoration Provision		**10,689**	-
Total Current Liabilities		**115,634**	56,925
Non-Current Liabilities			
Payables		**21,143**	21,253
Derivative financial instruments		**1,003**	-
Deferred tax liability		**15,327**	17,064
Borrowings	8	**143,870**	180,831
Other financial liabilities		**14,645**	17,436
Provisions		**15,365**	15,664
Total Non-Current Liabilities		**211,353**	252,248
Total Liabilities		**326,987**	309,173
Net Assets		**209,096**	167,013
Equity			
Contributed equity	9	**174,567**	128,038
Reserves		**3,485**	7,884
Retained profits		**31,044**	31,091
Total Equity		**209,096**	167,013

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

HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2013

	Attributable to members of Horizon Oil Limited			
	Contributed equity US$'000	Reserves US$'000	Retained Profits US$'000	Total equity US$'000
Balance at 1 July 2012	**126,686**	**7,421**	**27,617**	**161,724**
Loss for the half-year	-	-	(6,777)	(6,777)
Other comprehensive income	-	(2,314)	-	(2,314)
Total comprehensive income for the half-year	**-**	**(2,314)**	**(6,777)**	**(9,091)**
Transactions with owners in their capacity as equity holders:				
Contributions of equity, net of transaction costs	1,368	-	-	1,368
Employee share options	-	626	-	626
	1,368	**626**	**-**	**1,994**
Balance at 31 December 2012	**128,054**	**5,733**	**20,840**	**154,627**
Balance at 1 July 2013	**128,038**	**7,884**	**31,091**	**167,013**
Profit for the half-year	-	-	(47)	(47)
Other comprehensive income	-	(5,063)	-	(5,063)
Total comprehensive income for the half-year	**-**	**(5,063)**	**(47)**	**(5,110)**
Transactions with owners in their capacity as equity holders:				
Contributions of equity, net of transaction costs	46,529	-	-	46,529
Employee share options	-	664	-	664
	46,529	**664**	**-**	**47,193**
Balance at 31 December 2013	**174,567**	**3,485**	**31,044**	**209,096**

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

HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2013

	Half-year to	
	31 December 2013 US$'000	31 December 2012 US$'000
Cash flows from operating activities		
Receipts from customers	**67,950**	19,890
Payments to suppliers and employees	**(32,716)**	(5,689)
	35,234	14,201
Interest received	**140**	9
Interest paid	**(5,747)**	(3,401)
Income and royalty taxes paid	**(2,391)**	(5,531)
Net cash inflows from operating activities	**27,236**	5,278
Cash flows from investing activities		
Payments for exploration phase expenditure	**(26,602)**	(17,974)
Payments for oil and gas assets	**(28,290)**	(42,804)
Payments for plant and equipment	**(156)**	(238)
Net cash (outflows) from investing activities	**(55,048)**	(61,016)
Cash flows from financing activities		
Proceeds from issue of shares	**48,544**	3
Payments for issue of shares	**(2,269)**	-
Proceeds from borrowings (net of transaction costs)	**-**	88,104
Repayment of borrowings	**-**	(3,136)
Net cash inflows from financing activities	**46,275**	84,971
Net increase in cash and cash equivalents	**18,463**	29,233
Cash and cash equivalents at the beginning of the half-year	**19,028**	19,287
Effects of exchange rate changes on cash and cash equivalents	**(392)**	(98)
Cash and cash equivalents at the end of the half-year	**37,099**	48,422

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

Note 1. Basis of preparation of half year report

The general purpose financial statements for the interim half year reporting period ended 31 December 2013 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. Comparatives have been updated where appropriate to ensure comparability and consistency in reporting.

The general purpose financial statements for the interim half year reporting period ended 31 December 2013 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. The Group had a working capital deficit of US$47.6 million as at 31 December 2013 resulting from timing differences between the repayment of loans and expenditure associated with the exploration and development activity during the half-year; and cashflows from the Group's Maari and Beibu oilfields. The Group has access to a reserves based debt facility of up to US$160 million, of which cash was drawn to $134 million at 31 December 2013. The Group also advised on 23 May 2013 that it had entered into an agreement to sell 40% of its Papua New Guinea assets to Osaka Gas Co. Ltd. of Japan for US$204 million, including US$74 million in cash on completion, a further US$130 million in cash upon FID for an LNG project, plus potential production payments where threshold condensate production is exceeded. The proceeds from completion of the Osaka Gas sale, together with existing cash balances, debt facilities, and surplus revenue from the Group's operations in New Zealand and China are expected to be sufficient to extinguish outstanding current liabilities and pursue the current strategy. Should the full amount of the forecast internally generated cash flow and capital required to pursue the strategy not be raised and the Group adopt a modified strategy, the Director's expect that the Group will be able to secure the necessary financing through one, or a combination of, additional borrowings, equity raising or asset sales. Accordingly, the consolidated interim financial statements have been prepared on a going concern basis in the belief that the Company will realise its assets and settle its liabilities and commitments in the normal course of business and for at least the amounts stated.

Changes in accounting policies

A review of the Group's accounting policies, following the commencement of production in China, has resulted in a change to the Group's accounting policy which affected items recognised in the financial statements.

(i) Oil & gas assets – restoration provision

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$10.7 million are recognised as current, being due within 12 months.

New and amended standards adopted by the group

The Group has applied the following standards and amendments for first time in their half year reporting period commencing 1 July 2013:

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

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

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. The Group has determined that the new standard has no impact on its composition.

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

The Group’s investments in joint venture operations are classified as joint operations under the new rules. As the group already applies the proportionate consolidation of joint venture operations in accounting for this investment, AASB 11 does not have any impact on the amounts recognised in its financial statements.

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

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a “partial disposal” concept. As all joint venture operations are proportionately consolidated, there are no changes resulting from these amendments.

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

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has determined that none of its current measurement techniques will change as a result of the new guidance. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements.

Early adoption of standards
The group has elected to apply the following pronouncement to the half year reporting period 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 (effective from 1 January 2013)

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 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.

Impact of standards issued but not yet applied by the entity
Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2013 half year reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements (effective 1 July 2013)

On 30 June 2010, the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. The Group has public accountability as it is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

(ii) AASB 2012-3 Amendments to Australian Accounting Standard - Offsetting Financial Assets and Financial Liabilities and AASB 2012-2 Disclosures - Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014 and 1 January 2013 respectively)

In June 2012, the AASB approved amendments to the application guidance in AASB 132 Financial Instruments: Presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 January 2013. When they become applicable, the Group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The Group intends to apply the new rules for the first time in the financial year commencing 1 July 2013.

(iii) AASB Interpretation 21 Levies (effective 1 January 2014)

Interpretation 21 was issued by the AASB in June 2013. 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 will not be affected by the interpretation. No adjustments will therefore be necessary to any of the amounts recognised in the financial statements. The Group will apply the interpretation from 1 July 2014.

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

The AASB has made small changes to some of the disclosures that are required under AASB 136 Impairment of Assets. These may result in additional disclosures if the Group recognises an impairment loss or the reversal of an impairment loss during the period. They will not affect any of the amounts recognised in the financial statements. The Group intends to apply the amendment from 1 July 2014.

(v) Annual Improvements to IFRSs 2010-2012 and 2011-2013 cycle (effective 1 July 2014)

In December 2013, the IASB approved a number of amendments to International Financial Reporting Standards as a result of the annual improvements project. While the AASB has not yet made equivalent amendments to the Australian Accounting Standards, they are expected to be issued in the first quarter of 2014. The Group does not expect that any adjustments will be necessary as the result of applying the revised rules.

Note 2. Segment information

(a) Description of segments

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

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

- New Zealand development – the Group is currently producing crude oil from the Maari/Manaia fields, located offshore New Zealand;

- New Zealand exploration – the Group is currently involved in the exploration and evaluation of hydrocarbons in two offshore permit areas, PEP 51313; and PMP 38160 Maari/Manaia;
- China exploration and development – the Group is currently involved in developing and producing of crude oil from the Block 22/12 – WZ6-12 and WZ12-8W oil field development and in the exploration and evaluation of hydrocarbons within Block 22/12 and Block 09/05; and
- PNG exploration and development - the Group is currently involved in the Stanley condensate/gas development (project FID during 2012), and the exploration and evaluation of hydrocarbons in six onshore permit areas, PRL 4, PRL 21, PPL 259, PPL 372, PPL 373 and PPL 430.

'All other segments' include amounts of a corporate nature not specifically attributable to an operating segment.

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

Half-year 2013	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	**4,234**	**-**	**60,535**	**-**	**-**	**64,769**
Profit / (loss) before tax	**(13,738)**	**(3,933)**	**22,507**	**(367)**	**(5,524)**	**(1,055)**
Depreciation and amortisation	**406**	-	**17,515**	**224**	**81**	**18,226**

Half-year 2012	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Segment revenue:						
Revenue from external customers	**18,260**	**-**	**-**	**-**	**-**	**18,260**
Profit / (loss) before tax	**8,375**	**(5)**	**(639)**	**(985)**	**(2,514)**	**4,232**
Depreciation and amortisation	**1,887**	-	-	**219**	**10**	**2,116**

	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
Total segment assets at 31 December 2013	**88,411**	**5,997**	**212,174**	**198,598**	**30,903**	**536,083**
Additions to non-current assets other than financial assets and deferred tax during the half-year ended:						
Exploration and evaluation phase expenditure:	-	4,432	5,564	19,891	-	29,887
Oil and gas assets:	5,704	-	17,401	11,622	-	34,727
Plant and equipment:	-	-	-	151	36	187
Total segment liabilities at 31 December 2013	**88,777**	**1,700**	**109,283**	**41,596**	**85,631**	**326,987**
Total segment assets at 30 June 2013	**80,158**	**9,787**	**206,769**	**164,122**	**15,350**	**476,186**
Additions to non-current assets other than financial assets and deferred tax during the year ended:						
Exploration and evaluation phase expenditure:	-	3,916	5,658	13,314	-	22,888
Oil and gas assets:	2,279	-	86,291	19,688	-	108,258
Plant and equipment:	-	-	-	3,857	315	4,172
Total segment liabilities at 30 June 2013	**87,184**	**3,100**	**99,275**	**33,358**	**86,256**	**309,173**

Other segment information

(i) Segment revenue

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

Segment revenue reconciles to total consolidated revenue as follows:

	Half-year to 31 December 2013 US$'000	Half-year to 31 December 2012 US$'000
Total segment revenue	**64,769**	18,260
Rental income	**3**	2
Interest income	**140**	9
Total revenue	**64,912**	18,271

(ii) Segment profit before tax

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

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

	Half-year to 31 December 2013 US$'000	31 December 2012 US$'000
Total segment (loss)/profit before tax	**(1,055)**	4,232
Rental income	**3**	2
Interest income	**140**	9
Foreign exchange loss (net)	**(83)**	(144)
Unrealised movement in fair value of convertible bond conversion rights	**2,791**	(4,734)
Profit/(loss) before tax	**1,796**	(635)

(iii) Segment assets and liabilities

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

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

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

Profit/(loss) for the half-year includes the following items that are unusual because of their nature, size or incidence:	31 December 2013 US$'000	31 December 2012 US$'000
Conversion rights on convertible bonds		
Income		
Unrealised movement in fair value of convertible bond conversion rights	**2,791**	-
Expenses		
Unrealised movement in fair value of convertible bond conversion rights	**-**	4,734

The amount shown is the movement during the period of the fair value of the conversion rights relating to the 5.5% convertible bonds issued on 17 June 2011. The conversion rights can be settled in cash or ordinary shares of the parent entity, at the option of the issuer, and the number of shares to be issued at conversion is subject to the conversion price which may reset under certain circumstances. Accordingly, the conversion rights are a derivative financial liability and are marked to market through the profit and loss. Fair value of conversion rights at issuance on 17 June 2011 was US$20,043,000. Refer to Note 8 for further details of the convertible bonds issued.

Note 4. Fair value measurement of financial instruments

(a) Fair value measurements

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

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

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes by level of the following fair value measurement hierarchy:

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

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December 2013 and 30 June 2013:

At 31 December 2013	**Level 1 US$'000**	**Level 2 US$'000**	**Level 3 US$'000**	**Total US$'000**
Assets				
Derivatives used for hedging	-	-	-	-
Total Assets	**-**	**-**	**-**	**-**
Liabilities				
Derivatives used for hedging	-	5,918	-	5,918
Financial liabilities at fair value through profit or loss				
Conversion rights on convertible bonds	-	-	14,645	14,645
Total liabilities	**-**	**-**	**14,645**	**20,563**
At 30 June 2013				
Assets				
Derivatives used for hedging	-	-	-	-
Total Assets	-	-	-	-
Liabilities				
Derivatives used for hedging	-	1,237	-	1,237
Financial liabilities at fair value through profit or loss				
Conversion rights on convertible bonds	-	-	17,436	17,436
Total liabilities	-	1,237	17,436	18,673

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

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

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2013.

(b) Valuation techniques used to derive fair values

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

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

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

Specific valuation techniques used to value financial instruments include:

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

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

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

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

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

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

The following table presents the changes in level 3 items for the half year ended 31 December 2013 for recurring fair value measurements:

	Conversion Rights on Convertible Bonds US$'000
Opening balance at 30 June 2013	17,436
(Gains)/losses recognised in other income[1]	(2,791)
(Gains)/losses recognised in other comprehensive income	-
Closing balance at 31 December 2013	**14,645**

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

(i) Valuation inputs and relationships to fair value

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

Description	Fair value at 31 Dec 2013 $000	Unobservable inputs	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Conversion Rights on Convertible Bonds	14,645	Share price volatility	37.8% - 40.0% (38.9%)	An increase in share volatility results in an increase in the fair value of the conversion rights
		Credit spread	6.0% - 8.0% (7.0%)	The lower the credit spread, the higher the fair value of the conversion rights

(ii) Valuation processes

The Group engages external, independent and qualified valuers to determine the fair value of the conversion rights on convertible bonds for financial reporting purposes on a half yearly basis. The fair value of conversion rights on convertible bonds is determined based on a simulation-based pricing methodology using a Monte Carlo simulation. A simulation-based pricing methodology was applied in order to model the dynamics of the underlying variables and to account for the individual specifications of the convertible bonds such as the inherent path dependency. Monte Carlo simulation uses random numbers as inputs to iteratively evaluate a deterministic model. The method involves simulating the various sources of uncertainty that affect the value of the relevant instrument and then calculating a representative value by substituting a range of values—in this case a lognormal probability distribution—for any factor that has inherent uncertainty. The results are calculated repeatedly, each time using a different set of random values from the probability functions. Depending upon the number of uncertainties and the ranges specified for them, a Monte Carlo simulation may typically involve thousands or tens of thousands (for Horizon Oil convertible bonds - 500,000) of recalculations before it is complete. The result is a probability distribution of possible outcomes providing a more comprehensive view of both what could happen and its likelihood. Market interest rates were applied in the model with a credit spread of 7.0%, together with a calculated share price volatility of 38.9% when quoted in US dollar terms. All other parameters were based on the specific terms of the convertible bonds issued.

Note 5. Cash and cash equivalents

	31 December 2013 US$'000	**30 June 2013 US$'000**
Cash at bank and on deposit	**22,602**	8,992
Restricted cash (refer note (a) below)	**14,496**	10,035
Petty cash	**1**	1
	37,099	19,028

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

Note 6. Exploration phase expenditure

	31 December 2013 US$'000	**30 June 2013[1] US$'000**
Opening balance	**92,538**	77,658
Expenditure	**29,887**	22,888
Transfers to oil and gas assets	**(5,733)**	(8,008)
Acquisitions		-
Expenditure written off	**(3,931)**	-
Closing balance	**112,761**	92,538

[1] Comparative numbers presented represent a 12-month movement to 30 June 2013.

Note 7. Oil and gas assets

	31 December 2013 US$'000	**30 June 2013[1] US$'000**
Opening balance	**317,637**	209,950
Expenditure	**34,727**	108,258
Transfers from exploration phase expenditure	**5,733**	8,008
Amortisation incurred	**(18,051)**	(8,579)
Closing balance	**340,046**	317,637

[1] Comparative numbers presented represent a 12-month movement to 30 June 2013.

Note 8. Borrowings

	31 December 2013 US$'000	30 June 2013 US$'000
Current		
Bank loans (a)	**55,135**	14,735
	55,135	14,735
Non-Current		
Bank loans (a)	**74,600**	114,464
Convertible bonds (b)	**69,270**	66,367
	143,870	180,831
Total Borrowings	**199,005**	195,566

a) Bank loans – Reserves based debt facility

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

Floating interest in respect of the facility was at LIBOR plus a weighted average margin of 3.5%. The facility is an amortising facility which matures in March 2018.

The facility was secured by a floating charge over the shares and assets of the borrowers (Horizon Oil International Limited, Horizon Oil (Papua) Limited, Horizon Oil (Beibu) Limited and Horizon Oil (Nanhai) LLC which are wholly owned subsidiaries of Horizon Oil Limited) and other Horizon subsidiaries, in favour of ANZ Fiduciary Services Pty Limited as security trustee. Horizon Oil Limited and other Horizon subsidiaries have guaranteed the performance of Horizon Oil International Limited, Horizon Oil (Papua) Limited, Horizon Oil (Beibu) Limited, Horizon Oil (Nanhai) LLC (which have also given guarantees) in relation to the loan facility from Australia and New Zealand Banking Group Limited, Commonwealth Bank of Australia, BNP Paribas and Standard Chartered Bank. In addition, the shares of the following Horizon subsidiaries have been mortgaged to ANZ Fiduciary Services Pty Limited: Horizon Oil International Limited, Horizon Oil (Papua) Limited, Horizon Oil (Beibu) Limited, Horizon Oil (Nanhai) LLC, Horizon Oil International Holdings Limited, Ketu Petroleum Limited, Horizon Oil (PNG Holdings) Limited and Horizon Oil (China Holdings) Limited. The net book value of the entities in which shares have been mortgaged is US$68.7 million as at 31 December 2013. The Group was subject to covenants which are common for a facility of this nature.

b) Convertible bonds

The parent entity issued 400 5.5% convertible bonds for US$80 million on 17 June 2011. The bonds were issued with an initial conversion price of US$0.52, equivalent to A$0.49 based on exchange rates at the time of pricing, and represents a conversion premium of 29% to Horizon Oil's last closing price of A$0.38 on 2 June 2011. The initial conversion price was subject to adjustment in certain circumstances. Where the arithmetical average of the Volume Weighted Average Prices ("Average VWAP") for the 20 consecutive Dealing Days immediately prior to each of 17 June 2013, 17 June 2014 and 17 June 2015 (each a "Reset Date") converted into US dollars at the Prevailing Rate on each such Dealing Day (each an "Average Market Price") is less than the Conversion Price on the Reset Date, the Conversion Price will be adjusted on the relevant Reset Date to the Average Market Price with respect to such Reset Date. Any adjustment as a result of such provisions is limited so that the Conversion Price can be no lower than 80 per cent of the initial Conversion Price of US$0.520, that is US$0.416. The Average VWAP in the relevant period to 17 June 2013 was US$0.374. Accordingly, the Conversion Price of the convertible bonds has been adjusted to US$0.416 with effect from 17 June 2013. The issuance of new shares on 15 August 2013 under the accelerated non-renounceable pro-rata entitlement offer announced by the company on 31 July 2013 resulted in a further adjustment to the conversion price from US$0.416 to US$0.409.

No bonds had been converted at 30 June 2013. On conversion the holder may elect to settle the bonds in cash or ordinary shares in the parent entity. Based on the adjusted conversion price, the maximum number of shares that could be issued on conversion is 195,599,022 ordinary shares in the parent entity. The bonds carry a coupon of 5.5% per annum, payable semi-annually in arrears, and carry a 7% yield to maturity on 17 June 2016 when they will be redeemed at 108.80% of their principal amount. The bonds were listed on the Singapore Securities Exchange on 20 June 2011.

Note 9. Contributed equity

a) Share capital

		31 December 2013 Number	30 June 2013 Number	31 December 2013 US$'000	30 June 2013 US$'000
Ordinary shares					
Fully paid	(b) (i)	**1,301,147,932**	1,135,266,515	**174,108**	127,187
Partly paid	(b) (ii)	**1,500,000**	3,000,000	**459**	851
		1,302,647,932	1,138,266,515	**174,567**	128,038

b) Movements in share capital

(i) Ordinary shares (fully paid)

Date	Details	Number	Issue price	US$'000
30/06/2013	Balance at 30 June 2013	1,135,266,515		127,187
15/08/2013	Institutional Entitlement Offer[1]	99,296,446	A$0.33	28,272
02/09/2013	Retail Entitlement Offer[1]	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
31/12/2013	**Balance at 31 December 2013**	**1,301,147,932**		**174,108**

[1]Non-Renounceable Pro-Rata Entitlement Offer

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

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

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

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

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

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

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

(ii) Ordinary shares (partly paid)

Date	Details	Number	Issue price	US$'000
30/06/2013	Balance at 30 June 2013	3,000,000		851
03/10/2013	Transfer to fully paid shares	(1,500,000)	A$0.26	(392)
31/12/2013	**Balance at 31 December 2013**	**1,500,000**		**459**

Note 10. Contingent assets and liabilities

a) Contingent assets

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

Completion of the transaction is conditional upon customary consents, regulatory approvals and grant of the development licence for Stanley field. Due to the conditions required for completion of the transaction, all consideration is recorded as a contingent asset at 31 December 2013.

(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.

There were no contingent assets as at 31 December 2012.

b) Contingent liabilities

The Group had the following contingent liabilities as at 31 December 2013 that may become payable:

In accordance with normal oil and gas industry practice, the Group has entered into joint venture operations and farm out agreements with other parties for the purpose of exploring and developing its permit interests. If a participant to a joint venture defaults and fails to contribute its share of joint venture obligations, the remaining joint venture participants are jointly and severally liable to meet the obligations of the defaulting participant. In this event the interest in the permit held by the defaulting participant may be redistributed to the remaining participants. In the event of a default, a contingent liability exists in respect of expenditure commitments due to be met by the Group in respect of defaulting joint venture participants.

No material losses are anticipated in respect of the above contingent liabilities.

Note 11. Exploration, development and production expenditure commitments

The Group has entered into joint venture operations for the purpose of exploring, developing and producing from certain petroleum permits or licences. To maintain existing interests or rights to earn interests in those ventures the Group will be expected to make contributions to ongoing exploration and development programs. Since such programs are subject to continual review by operating committees, upon which the Group is represented, the extent of future contributions in accordance with these arrangements is subject to continual renegotiation.

Subject to the above mentioned limitations, the directors have prepared the following disclosure of exploration and development expenditure commitments not recognised in the financial statements. These are payable as follows, based on current status and knowledge of estimated quantum and timing of such commitments by segment.

	NZ Development	New Zealand Exploration	China Exploration & Development	Papua New Guinea Exploration & Development	Total
31 December 2013	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Within one year	**15,517**	**2,138**	**12,476**	**48,233**	**78,364**
Later than one year but not later than 5 years	**12,215**	**-**	**-**	**26,024**	**38,239**
Total	**27,732**	**2,138**	**12,476**	**74,257**	**116,603**

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

The above commitments may be deferred or modified with the agreement of the host government, by variations to the terms of individual permits or licences, or extensions to the terms thereof. Another factor likely to delay timing of these commitments is the potential lack of availability of suitable drilling rigs in the area of interest.

The commitments may also be reduced by the Group entering into farm-out agreements or working interest trades, both of which are typical of the normal operating activities of the Group.

In addition to the above commitments, the Group has invested funds in other exploration permits or licences, but is not exposed to a contingent liability in respect of these, as it may choose to exit such permits or licences at any time at no cost penalty other than the loss of the permits or licences.

Note 12. Related party transactions

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

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

Note 13. Events occurring after balance sheet date

Other than the matters disclosed in the remainder of this interim financial report, there has not been any other matter or circumstance which has arisen since 31 December 2013 that has significantly affected, or may significantly affect.

- the Group's operations in future financial years: or
- the results of those operations in future financial years: or
- the Group's state of affairs in future financial years.

HORIZON OIL LIMITED

Directors' Declaration

In the directors' opinion:

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

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

   (ii) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance, as represented by the results of its operations and its cashflows, for the half-year ended on that date; and

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

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

E F Ainsworth AM
Chairman

B D Emmett
Chief Executive Officer

Sydney

28 February 2014

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Horizon Oil Limited (the Company), which comprises the statement of financial position as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Horizon Oil Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Horizon Oil Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date;

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

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the company for the half-year ended 31 December 2013 included on Horizon Oil Limited's web site. The company's directors are responsible for the integrity of the Horizon Oil Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

PricewaterhouseCoopers

Peter Buchholz
Partner

Sydney
28 February 2014