Horizon Oil Limited ABN 51 009 799 455
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27 August 2014

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

Dear Sir,

HORIZON OIL LIMITED ('HZN')
PRELIMINARY FINAL REPORT (APPENDIX 4E)

In accordance with Listing Rule 4.3A, Horizon Oil Limited lodges Horizon Oil Limited's Preliminary Final Report for the financial year ended 30 June 2014.

The financial results for the financial year are set out in the attached results announcement and Preliminary Final Report. A financial summary and key financial and operational results are set out below:

Financial Summary

	30-Jun-14 US$'000	30-Jun-13 US$'000	Change %
Sales revenue	**138,450**	**48,071**	**188%**
Profit on sale of assets	23,830	-	-
EBITDAX[1]	**99,481**	**27,932**	**256%**
EBIT[1]	**48,926**	**18,234**	**168%**
Profit before tax	**30,027**	**10,025**	**200%**
Profit/(loss) after tax	12,830	3,474	269%
Cash on hand	**98,911**	**19,028**	**420%**
Cashflow from operating activities	64,480	15,473	317%
Reserves-Based Debt Facility[2]	119,165	134,335	(11%)
Convertible Bond[3]	80,000	80,000	-
Oil and gas production (barrels)	1,434,534	503,619	185%

Commenting on the result, Horizon Oil's Chief Executive Officer, Brent Emmett, stated:

"This is a solid result. On all key measures, production, revenue, cashflow, profit and balance sheet strength, Horizon Oil is well positioned for continued growth. The Company's strategic assets ensure that we have a development pipeline that will continue to deliver for our shareholders."

Note 1: EBITDAX and EBIT are financial measures which are not prescribed by Australian Accounting Standards and represents the profit under Australian Accounting Standards adjusted for depreciation, amortisation, interest expense, taxation expense and exploration expenditure. The directors consider EBITDAX and EBIT to be useful measures of performance as they are widely used by the oil and gas industry. EBITDAX and EBIT information has not been subject to any specific audit procedures by the Group's auditor but has been extracted from the financial report for the year ended 30 June 2014, which have been subject to audit by the Group's auditors.
Note 2: Represents principal amounts drawn down as at 30 June 2014.
Note 3: Represents principal amount repayable unless converted prior to 17 June 2016.
Note 4: All references to $ are to US dollars unless otherwise specified.

Financial Results

- The Group's overall profit before tax for the financial year was US$30.0 million, resulting from gross profit from operations of US$45.7 million and the profit recorded on the partial sale of the Group's interests in PNG assets to Osaka Gas of US$23.8 million; partially offset by general and administrative expenses of US$8.2 million, financing costs of US$18.9 million and exploration expenditure written-off of US$10.5 million associated with Horizon Oil's seismic option to farm-in to Block 09/05, China and costs associated with the partial relinquishment of PEP 51313, New Zealand.

- Cash on hand as at 30 June 2014 was US$98.9 million (30 June 2013: US$19.0 million).

Operational highlights

China

- During the financial year, the Group's working interest share of production from the Beibu Gulf fields was 1,248,190 barrels of oil. Sales volume was 1,165,497 barrels generating revenue of US$122.7 million. Cumulative oil production from the fields through 30 June 2014 was 5.3 million barrels. Average production over the financial year was approximately 13,000 bopd, of which Horizon Oil's share was in excess of 3,400 bopd.

- During the financial 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 5 well development drilling program on the WZ 12-8W field, and the installation of the PUQB utilities platform heli-deck. The project was completed safely and within budget.

- Horizon Oil entered into a seismic farm-in option agreement during the financial year with a subsidiary of Roc Oil Limited to earn a 40% interest in Block 09/05, Bohai Bay, offshore China. After review of the seismic data acquired by Horizon Oil and Roc Oil, and given other priorities, Horizon Oil elected not to exercise its option.

New Zealand

- During the financial year, the Group's working interest share of production from Maari/Manaia field was 186,345 barrels of oil. Sales volume was 190,588 barrels generating revenue of US$21.7 million. Cumulative gross oil production from the field through 30 June 2014 was 23.9 million barrels. The Maari/Manaia field facilities were shut-down for the period July to December 2013 to enable substantial remedial and upgrade works to be carried out. The work program, designed to enhance the value of the asset and enable extension of the field life, was successfully completed and the field returned to production during early December 2013. Field production performance has exceeded expectations in the period since production recommenced.

- 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 work package was US$8 million. The Group expects to recover a proportion of these amounts through insurance.

- The Maari Growth Projects program, which is designed to enhance production rate and oil recovery from the Maari and Manaia fields, progressed during the year. The *Ensco*

107 jack up drilling rig was cantilevered over the Maari platform enabling the commencement during early April 2014 of the substantive phase of the program, incorporating four infill production wells, one new injection well and a workover of the existing MR2 dual lateral production well.

- The Manaia-2/2A exploration/appraisal well was drilled during the year, achieving its objectives of drilling through the Moki Formation, the Mangahewa Formation, the underlying Farewell Formation and terminating in the North Cape Formation as planned.

- The joint operation also secured the *Kan Tan IV* semi-submersible rig to drill the Whio well in PEP 51313, which spudded subsequent to year end on 23 July 2014 reaching a total depth of 2,824 m on 25 August 2014. The well is currently being plugged and abandoned. The well encountered sandstones in all objectives (Whio A Sandstone, M2A Sandstone, Moki Formation, Mangahewa Formation, Kaimiro Formation, and Farewell Formation) as expected, but could not confirm the presence of commercial hydrocarbons. Horizon Oil is free-carried by OMV in the drilling and completion of Whio-1 under the terms of a farm-out agreement signed in December 2012.

Papua New Guinea

- On 23 May 2013, the Group entered into an asset sale agreement ('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. The sale price of US$204 million, included US$74 million in cash on completion, a further US$130 million in cash 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. Completion of the Agreement was conditional upon customary consents, regulatory approvals and grant of the development licence for the Stanley field. Completion of the Agreement occurred on 12 June 2014. Remaining cash due on completion of US$78 million was received from Osaka Gas on 12 June 2014 and 24 July 2014.

- Work continued on the Elevala/Ketu condensate recovery project development planning during the financial year. Finalisation of front end engineering and design ('FEED') studies continued during the year with submission of 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 Tingu-1 discovery in the development.

- In October 2013, Horizon Oil entered into a farm-in agreement with Eaglewood Energy to acquire a further 20% participating interest in PPL 259. Under the terms of the farm-in, Horizon Oil will operate the Nama exploration well to be drilled in the licence in calendar year 2014. The Nama prospect is located near the Stanley gas-condensate field with a potential resource size similar to that of the Stanley field (399 bcf of gas and 13 mmbbl condensate).

Yours faithfully,

Michael Sheridan
Chief Financial Officer / Company Secretary

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Horizon Oil Limited

Appendix 4E
Preliminary Final Report
For the financial year ended 30 June 2014

ABN 51 009 799 455

This Preliminary Final Report is provided to ASX Limited ('ASX') under ASX Listing Rule 4.3A.

Current reporting period:	Financial year ended 30 June 2014
Previous corresponding period:	Financial year ended 30 June 2013

Contents

Notes: Reports are based on audited consolidated financial statements.
All figures are presented in United States dollars, unless otherwise stated.

Results for Announcement to the Market
For the financial year ended 30 June 2014

		Percentage Change		Amount
				US$'000
Revenue from continuing operations	Up	188%	to	138,450
Profit from ordinary activities after tax	Up	269%	to	12,830
Profit for the period attributable to members	Up	269%	to	12,830

Dividends/distributions	Amount per security	Franked amount per security
Final dividend	Nil	Nil
Interim dividend	Nil	Nil

Brief explanation of Revenue, Profit from ordinary activities after tax and Net Profit

Revenue

Revenue from operating activities has increased by US$90.4 million to US$138.5 million, resulting from increased oil production associated with Block 22/12, China and higher realised oil prices.

Profit from ordinary activities after tax

The profit from ordinary activities after tax for the financial year amounted to US$12.8 million (2013: US$3.5 million).

The financial year profit before tax includes the gross operating profit from the Maari/Manaia and Block 22/12, Beibu Gulf oil field operations of US$45.7 million (2013: US$25.4 million) and gain from the Osaka Gas asset sale agreement of US$23.8 million (2013: US$Nil).

The profit after tax for the financial year increased by US$9.4 million to US$12.8 million due predominately to the profit from the Osaka Gas asset sale agreement and profits generated from the Group's China operations.

Preliminary consolidated statement of profit or loss and other comprehensive income
For the financial year ended 30 June 2014

		Consolidated	
	Note	**2014**	2013
		US$'000	US$'000
Revenue from continuing operations	3	**138,450**	48,071
Cost of sales	3	**(92,716)**	(22,685)
Gross profit		**45,734**	25,386
Profit from sale of assets	2	**23,830**	-
Other income	3	**234**	30
General and administrative expenses	3	**(8,183)**	(7,038)
Exploration and development expenses	3	**(10,520)**	(606)
Financing costs	3	**(18,899)**	(8,209)
Unrealised movement in value of convertible bond conversion rights	3	**412**	991
Other expenses	3	**(2,581)**	(529)
Profit before income tax expense		**30,027**	10,025
NZ royalty tax expense		**262**	(3,982)
Income tax expense		**(17,459)**	(2,569)
Profit for the financial year		**12,830**	3,474
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges		**(5,303)**	(778)
Items that will not be reclassified to profit or loss		**-**	-
Total comprehensive income for the financial year		**7,527**	2,696
Profit attributable to members of Horizon Oil Limited		**12,830**	3,474
Total comprehensive income attributable to members of Horizon Oil Limited		**7,527**	2,696
Earnings per share for profit attributable to the ordinary equity holders of Horizon Oil Limited:		**US cents**	US cents
Basic earnings per ordinary share	15	**1.00**	0.31
Diluted earnings per ordinary share	15	**1.00**	0.30

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

Horizon Oil Limited

Preliminary consolidated statement of financial position
As at 30 June 2014

	Consolidated	
	2014	2013
	US$'000	US$'000
Current assets		
Cash and cash equivalents	**98,911**	19,028
Receivables	**15,477**	18,956
Inventories	**5,281**	7,898
Current tax receivable	**-**	650
Other assets	**1,674**	832
Total current assets	**121,343**	47,364
Non-current assets		
Deferred tax assets	**2,306**	10,441
Plant and equipment	**5,558**	8,206
Exploration phase expenditure	**74,658**	92,538
Oil and gas assets	**311,038**	317,637
Total non-current assets	**393,560**	428,822
Total assets	**514,903**	476,186
Current liabilities		
Payables	**35,715**	40,150
Derivative financial instruments	**5,935**	1,237
Current tax payable	**1,596**	803
Borrowings	**44,165**	14,735
Restoration provision	**12,497**	-
Total current liabilities	**99,908**	56,925
Non-current liabilities		
Payables	**54**	21,253
Derivative financial instruments	**222**	-
Deferred tax liability	**17,106**	17,064
Borrowings	**143,281**	180,831
Other financial liabilities	**17,024**	17,436
Provisions	**14,742**	15,664
Total non-current liabilities	**192,429**	252,248
Total liabilities	**292,337**	309,173
Net assets	**222,566**	**167,013**
Equity		
Contributed equity	**174,801**	128,038
Reserves	**3,844**	7,884
Retained profits	**43,921**	31,091
Total equity	**222,566**	**167,013**

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

Horizon Oil Limited

Preliminary consolidated statement of changes in equity
For the financial year ended 30 June 2014

Consolidated	Attributable to members of Horizon Oil Limited			
	Contributed equity US$'000	**Reserves US$'000**	**Retained profits US$'000**	**Total US$'000**
Balance as at 1 July 2012	126,686	7,421	27,617	161,724
Profit for prior financial year	-	-	3,474	3,474
Changes in the fair value of cash flow hedges	-	(778)	-	(778)
Total comprehensive income for prior financial year	-	(778)	3,474	2,696
Transactions with owners in their capacity as equity holders:				
Ordinary shares issued, net of transaction costs	1,352	-	-	1,352
Employee share-based payments expense	-	1,241	-	1,241
	1,352	1,241	-	2,593
Balance as at 30 June 2013	128,038	7,884	31,091	167,013
Balance as at 1 July 2013	**128,038**	**7,884**	**31,091**	**167,013**
Profit for the financial year	**-**	**-**	**12,830**	**12,830**
Changes in the fair value of cash flow hedges	**-**	**(5,303)**	**-**	**(5,303)**
Total comprehensive income for the financial year	**-**	**(5,303)**	**12,830**	**7,527**
Transactions with owners in their capacity as equity holders:				
Ordinary shares issued, net of transaction costs	**46,763**	**-**	**-**	**46,763**
Employee share-based payments expense	**-**	**1,263**	**-**	**1,263**
Balance as at 30 June 2014	**174,801**	**3,844**	**43,921**	**222,566**

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

Horizon Oil Limited

Preliminary consolidated statement of cash flows
For the financial year ended 30 June 2014

	Note	Consolidated **2014** **US$'000**	2013 US$'000
Cash flows from operating activities			
Receipts from customers		**139,336**	43,144
Payments to suppliers and employees		**(55,987)**	(11,494)
		83,349	31,650
Interest received		**234**	24
Interest paid		**(11,042)**	(7,980)
Income taxes paid		**(7,575)**	(8,221)
Net cash inflow from operating activities	7	**64,966**	15,473
Cash flows from investing activities			
Payments for exploration phase expenditure		**(42,422)**	(29,732)
Payments for oil and gas assets		**(49,654)**	(94,756)
Proceeds from deposit on sale of assets		**-**	20,400
Proceeds from sale of oil and gas assets	2	**52,600**	-
Proceeds from sale of exploration phase assets	2	**1,000**	-
Reimbursement of oil and gas asset expenditure	2	**22,627**	-
Reimbursement of exploration phase expenditure	2	**615**	-
Payments for plant and equipment		**(836)**	(128)
Payments for acquisition of exploration assets	13	**-**	(783)
Net cash (outflow) from investing activities		**(16,070)**	(104,999)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	2	**49,014**	766
Payments for transaction costs arising on ordinary shares issued		**(2,251)**	-
Proceeds from borrowings (net of transaction costs)		**-**	104,561
Repayment of borrowings		**(15,170)**	(15,877)
Net cash inflow from financing activities		**31,593**	89,450
Net increase/(decrease) in cash and cash equivalents		**80 489**	(76)
Cash and cash equivalents at the beginning of the financial year		**19,028**	19,287
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		**(606)**	(183)
Cash and cash equivalents at the end of the financial year		**98,911**	19,028

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

Notes to the preliminary consolidated financial statements and other information
For the financial year ended 30 June 2014

1. Basis of preparation

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E. The accounting policies adopted in the preparation of the preliminary final report are consistent with those adopted and disclosed in the 2013 annual financial report, other than as detailed below.

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$12.5 million are recognised as current, being due within 12 months.

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

- *AASB 10 'Consolidated Financial Statements'*. AASB 10 replaced the guidance on control and consolidation in *AASB 127 'Consolidated and Separate Financial Statements'* and in *Interpretation 112 'Consolidation – Special Purpose Entities'*. Under the new principles, the Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group reviewed its investments in subsidiaries to assess whether the consolidation conclusion in relation to these entities is different under AASB 10 than under AASB 127. No differences were found and therefore no adjustments to any of the carrying amounts in the consolidated financial statements was required as a result of the adoption of AASB 10.
- *AASB 11 'Joint Arrangements'*. Under AASB 11, joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations rather than the legal structure of the joint arrangement. The Group assessed the nature of its joint arrangements and determined them to be joint operations. The accounting for the Group's joint operations has not changed as a result of the adoption of AASB 11. The Group continues to recognise its direct right to the, and its share of, jointly held assets, liabilities, revenues and expenses of joint operations.

Other new Australian Accounting Standards that are applicable for the first time for the Group are *AASB 13 'Fair Value Measurement', AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'* and AASB *2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'*. These standards have introduced new disclosures but did not affect the Group's accounting policies or any of the amounts recognised in the consolidated financial statements.

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 (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.

2. Significant changes in the state of affairs

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

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. Key aspects of the transaction were:

- sale price of US$204 million, including US$74 million in cash on completion, a further US$130 million in cash 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. An upfront deposit of 10% of the total sale price (US$20.4 million) was received following execution of the Agreement, secured by a US$20.4 million letter of credit issued by Horizon Oil Limited;

- the Group and Osaka Gas to form a strategic alliance to commercialise the Group's net certified reserves and contingent resources of 135 mmboe and develop extensive acreage in Western Province, Papua New Guinea; and

- the Group to transfer 40% of its interests in PDL 10 (Stanley field), PRL 4, PRL 21 (Elevala and Ketu fields) and PPL 259. Osaka Gas was also granted the option to acquire 40% of the Group's interests in recently acquired PPLs 372, 373 and 430 by paying a proportionate share of costs incurred.

The sale marked the beginning of a 60/40 strategic alliance between the Group and Osaka Gas. The principal objective of the partnership is to commercialise the certified reserves and contingent resources via early condensate production, local gas sales and to market their respective shares of petroleum products, especially LNG, on a combined basis.

Completion of the Agreement was conditional upon customary consents, regulatory approvals and grant of the development licence for the Stanley field. Completion of the Agreement occurred on 12 June 2014. Remaining cash due on completion of US$78 million was received from Osaka Gas on 12 June 2014 and 24 July 2014.

The US$20.4 million letter of credit was extinguished on completion of the Agreement on 12 June 2014.

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

	Consolidated	
	2014	2013
	US$'000	US$'000
Consideration on sale of assets		
Deposit on execution of agreement[1]	**20,400**	
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.

Capital Raising

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

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

3. Profit from continuing operations

	Consolidated	
	2014	2013
	US$'000	US$'000
Revenue:		
(a) From continuing operations		
Crude oil sales	**144,329**	50,875
Net realised (loss) on oil hedging derivatives	**(5,879)**	(2,804)
	138,450	48,071
(b) Other income		
Interest received from unrelated entities	**230**	24
Gain from disposal of oil and gas assets; exploration assets[1]	**23,830**	-
Rental income received from unrelated entities	**5**	6
	24,065	30

(c) Gains – Conversion rights on convertible bonds[1]

Unrealised movement in value of convertible bond conversion rights	**412**	991

[1] 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 Horizon Oil Limited, at the option of the issuer, and the number of ordinary 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.

	Consolidated	
	2014	2013
Expenses:	**US$'000**	US$'000
(d) Cost of sales		
Direct production costs	**30,987**	12,072
Inventory adjustments[1]	**75**	(599)
Amortisation expense	**39,397**	8,579
Royalties and other levies[2]	**22,257**	2,633
	92,716	22,685

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

(e) General and administrative expenses		
Employee benefits expense (net)	**3,842**	4,812
Corporate office expenses (including insurance)	**2,645**	1,421
Depreciation expense – plant & equipment	**637**	513
Rental expense relating to operating leases	**1,059**	292
	8,183	7,038
(f) Exploration and development expenses		
Exploration expenditure written off/expensed	**10,521**	606
	10,521	606
(g) Financing costs		
Interest and finance charges	**14,839**	6,227
Discount unwinding on provision for restoration	**806**	234
Amortisation of prepaid financing costs	**3,254**	1,748
	18,899	8,209
(h) Other expenses		
Net foreign exchange losses	**233**	143
Other expenses	**2,348**[1]	386
	2,581	529

[1] Other expenses includes costs associated with the proposed merger with Roc Oil.

4. Commentary on results

Results

Refer to the commentary on page 2.

Key points – Finance

Cash
Cash on hand as at 30 June 2014 was US$98.9 million (2013: US$19.0 million).

Debt Facilities
Following achievement of financial completion of the Beibu Gulf Project in Block 22/12, China, the Group renegotiated the terms of the Horizon Oil Facility Agreement (reserves based facility) during April 2014. The key amendments included a reduction in the overall facility limit from US$160 million to US$150 million with a deferral of the commencement of amortisation from 30 June 2014 until 31 December 2014 at which time the facility limit will reduce to US$110 million. At 30 June 2014, total debt drawn under the facility was $119.17 million. The $20.4 million letter of credit associated with the conditionally refundable deposit paid by Osaka Gas on execution of the asset sale agreement in May 2013 was extinguished during the year on completion of the sale transaction. Total cash drawdowns were US$Nil (2013: US$134.34 million). Maturity of the facility is 31 March 2018, unless terminated or cancelled early. Floating interest in respect of the facility was at LIBOR plus a weighted average margin of 3.95%.

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. 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 during the year under the Entitlement Offer announced during July 2013 resulted in a further adjustment to the conversion price from US$0.416 to US$0.409.

No bonds had been converted as at 30 June 2014. On conversion, the holder may elect to settle the bonds in cash or ordinary shares in the parent entity. The bonds carry a coupon of 5.5% per annum, payable semi-annually in arrears, and carry a 7% yield to maturity on 17 June 2016 when they will be redeemed at 108.80% of their principal amount. The bonds were listed on the Singapore Securities Exchange on 20 June 2011.

Derivatives
Oil price hedging is 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 2014, the Group had 842,500 BBLS of crude oil hedged through a mixture of Brent oil price swaps and collars at a weighted average price of US$99.5/BBL which represents approximately 5.6% of its proven and probable reserves.

Returns to shareholders
No dividends or distributions were made to shareholders during the financial year.

5. Fundamental errors
Nil

6. Extraordinary items

Nil

7. Notes to consolidated statement of cash flows

Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated	
	2014	2013
	US$'000	US$'000
Profit for financial year	**12,830**	3,474
Exploration and development expenditure written off/expensed	**9,233**	606
Depreciation expense	**636**	513
Movement in employee entitlement liabilities	**(1)**	68
Non-cash employee share-based payments expense	**1,263**	1,241
Non-cash share option expense		
Amortisation expense	**39,397**	8,579
Amortisation of prepaid financing costs	**1,741**	1,667
Provision for restoration	**807**	(848)
Gain from disposal of oil and gas assets; exploration assets	**(23,830)**	-
Unrealised movement in value of convertible bond conversion rights	**(412)**	(991)
Non-cash convertible bond interest expense	**5,309**	4,660
Net unrealised foreign currency losses/(gains)	**606**	183
Change in operating assets and liabilities:		
(Increase) in trade debtors	**886**	(7,731)
Decrease in other debtors and prepayments	**1,335**	526
(Increase) in inventory	**75**	(599)
Decrease in deferred tax assets/liabilities	**8,178**	2,066
(Decrease) in tax receivable/payable	**1,444**	(3,941)
Increase (decrease) in trade creditors	**(13,918)**	5,216
Increase (decrease) in other creditors	**19,387**	784
Net cash inflow from operating activities	**64,966**	15,473

8. 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 petroleum tenement, arranged by developmental phase. Discrete pre-tax financial information (including pre-tax operating profit and capital expenditure on exploration phase assets and oil and gas assets) for each petroleum tenement is prepared and provided to the chief operating decision maker on a regular basis. In certain circumstances, individual petroleum tenements are aggregated into a single operating segment where the economic characteristics and long term planning and operational considerations of the individual petroleum tenements 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 Matariki; and PMP 38160 Maari/Manaia;

- China exploration and development – the Group is currently involved in developing and producing 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;
- PNG exploration and development - the Group is currently involved in the Stanley condensate/ gas development, and the exploration and evaluation of hydrocarbons in six onshore licence areas: PRL 21 Elevala/Ketu, 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

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**

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	31,852	-	16,219	-	-	48,071
Profit (loss) before tax	**13,472**	**(10)**	**10,856**	**(404)**	**(14,524)**	**9,390**
Depreciation and amortisation	3,700	-	4,652	431	309	9,092
Total segment assets as 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 financial year ended:						
Exploration phase expenditure	-	3,916	5,658	13,314	-	22,888
Development and production phase expenditure	2,279	-	86,291	19,688	-	108,258
Plant and equipment	-	-	-	3,857	315	4,172
Total segment liabilities as at 30 June 2013	**87,184**	**3,100**	**99,275**	**33,358**	**86,256**	**309,173**

(c) Other segment information

(i) Segment revenue

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

Segment revenue reconciles to total consolidated revenue as follows:

	Consolidated	
	2014	2013
	US$'000	US$'000
Total segment revenue	138,450	48,071
Rental income	5	6
Interest income	229	24
Profit from sale of assets	23,830	
Total revenue	**162,514**	48,101

(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	
	2014	2013
	US$'000	US$'000
Total segment profit before tax	**5,783**	9,390
Rental income	**5**	6
Interest income	**229**	24
Profit on sale of assets	**23,830**	
Unrealised movement in value of convertible bond conversion rights	**412**	991
Net foreign exchange (losses)	**(232)**	(386)
Profit before tax	**30,027**	10,025

(iii) Segment assets

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

Reportable segment liabilities are equal to consolidated total liabilities.

9. Discontinued operations

There were no discontinued operations during the current or prior financial years.

10. Events occurring after reporting date

Scheme of Arrangement

On 29 April 2014, Horizon Oil Limited and Roc Oil Company Limited ('Roc') announced that they had entered into a merger implementation deed ('MID') under which they agreed to merge via a Horizon Oil Limited scheme of arrangement ('Scheme'). Under the proposed Scheme, Horizon Oil Limited shareholders were to receive 0.724 new Roc shares for each Horizon Oil Limited fully paid ordinary share they held. The Scheme was subject to a number of conditions precedent.

On 3 July 2014, the Federal Court of Australia ordered a meeting of Horizon Oil Limited shareholders to consider the Scheme and approved the Scheme Booklet for despatch to Horizon Oil Limited shareholders.

On 4 August 2014, Roc announced that it had entered into a bid implementation agreement in respect of a superior proposal made by Fosun International Limited ('Fosun') under which it was proposed that Fosun (or one of its subsidiaries) would acquire all of the issued shares in the capital of Roc for A$0.69 cash per share by way of an off-market takeover ('Fosun Offer'). The Roc board unanimously recommended the Fosun Offer to Roc shareholders.

The Roc board's recommendation of the Fosun Offer constituted a 'Roc Oil Prescribed Event' under the MID between Horizon Oil Limited and Roc resulting in the non-satisfaction of one of the conditions precedent to the Horizon Oil-Roc merger.

On 5 August 2014, Horizon Oil Limited gave notice to Roc terminating the MID in accordance with its terms. Horizon Oil Limited also applied for, and received, orders from the Federal Court of Australia cancelling the Scheme Meeting of Horizon Oil Limited shareholders scheduled for 7

August 2014 and vacating the proceedings for the second Court hearing which was scheduled for 14 August 2014.

Convertible Bonds

In connection with the proposed merger with Roc by means of a Scheme, on 2 July 2014 the Company detailed the key terms of a conditional offer to Horizon Oil Limited's convertible bondholders ('Bondholders').

On 21 July 2014, Horizon Oil Limited invited the Bondholders to tender any and all such convertible bonds for purchase by Horizon Oil Limited for cash and to approve certain modifications to the terms and conditions of the bonds, on the terms set out in a Tender and Consent Memorandum dated 21 July 2014.

On termination of the MID with Roc on 5 August 2014, Horizon Oil Limited terminated the convertible bond tender offer.

Other than the matters noted above and disclosed in this report, there has not been any matter or circumstance which has arisen since 30 June 2014 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.

11. Additional dividend/distribution information

No dividends/distributions were declared or paid during or subsequent to the financial year ended 30 June 2014. There are no dividend/ distribution reinvestment plans.

12. NTA backing

	2014	2013
Net tangible asset backing per ordinary share	**39.5 US cents**	41.8 US cents

13. Controlled entities acquired or disposed of

(a) Summary of acquisition

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

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

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

	2013 US$'000
Purchase consideration:	
Cash paid	783
Total purchase consideration	783

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

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

(b) Purchase consideration – cash outflow

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

No controlled entities were acquired or disposed of during the financial year ended 30 June 2014.

14. Associates and joint venture entities

Nil

15. Earnings per share

	Consolidated	
	2014 US cents	2013 US cents
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	**1.00**	0.31
From discontinued operation	**-**	-
Total basic earnings per share attributable to the ordinary equity holders of the Company	**1.00**	0.31
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	**1.00**	0.30
From discontinued operation	**-**	-
Total diluted earnings per share attributable to the ordinary equity holders of the Company	**1.00**	0.30

	2014 Number	2013 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	**1,279,039,421**	1,137,155,238
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**1,284,748,334**	1,143,023,825