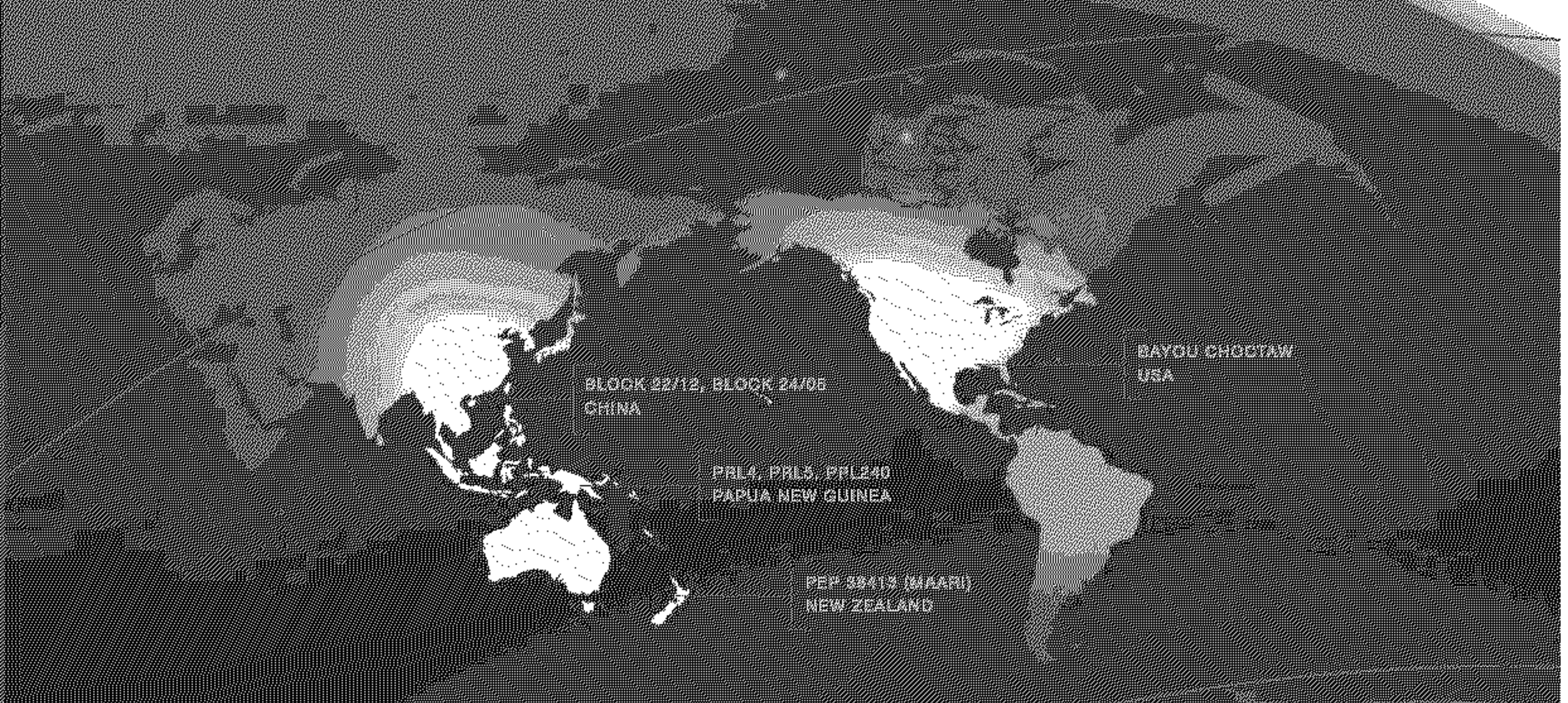
Horizon Oil

Annual Report 2005



Horizon Oil Limited
ABN 51 009 799 455

2004/2005 in Summary

- > Maari oil field development concept finalised and tender of material contracts let, leading to project development decision in second half of 2005
- > Progression of Block 22/12 development concept; commercial negotiations on use of Chinese infrastructure
- > Results of high potential exploration activities in Papua New Guinea (Kapul) and Thailand (Bussabong) were disappointing
- > Project finance in place for Maari development
- > Successful capital raisings with substantial new shareholders joining share register

Contents

Looking Forward 2005/2006

> Approval and execution of Maari oil field development, with 5-6 mmbo recoverable (2P) net to Horizon Oil

> Multi-well field development program at Bayou Choctaw, Louisiana

> 1-2 well drilling program in Block 22/12 with prospect of expanding field development potential

> Continued review and pursuit of high potential opportunities - Lei Dong (offshore China) and Gulf of Thailand

CHINA > PAPUA NEW GUINEA > NEW ZEALAND > UNITED STATES OF AMERICA

Areas of Operations

Chairman's Message

Dear Shareholders,

I am very pleased to report substantial and specific progress in building the well-balanced portfolio of business opportunities that we describe as our "Game Plan".

Maari field, offshore New Zealand, is progressing well

The most significant evidence of this progress is the Horizon Oil announcement on 7 October 2005 that the Company had made a positive Financial Investment Decision on the development of that project.

This follows the announcement on 30 August 2005 that BOS International (a subsidiary of the Bank of Scotland – a leading international resources financier with deep knowledge and experience in the oil and gas industry) had made a committed conditional offer of up to US$40 million to fund the debt component of Horizon Oil's share of the development costs, and that Horizon Oil had accepted this offer.

Whilst there are some matters still to be finalised before development commences (notably confirmation by each of the participants that they are financially committed to the project), clearly the project now has a high probability of proceeding, and Horizon Oil is well-placed to finance its share of the development costs.

The BOS International debt facility will provide the major part of Horizon Oil's 10% share of Maari development costs. We expect that the balance will be funded by way of an equity issue, the timing and amount of which are currently being considered.

Other projects and activities are also at critical points

In addition to Maari, other projects and activities have progressed well, as follows:

> *Block 22/12, offshore China*

The feasibility study on development of the Wei 12-8 West field as a satellite to existing infrastructure owned by China National Offshore Oil Corporation (CNOOC) was completed. Critical commercial discussions with CNOOC are currently underway. Discussions with a drilling contractor have begun for one exploration well plus a contingent 1 – 2 appraisal well program, to begin in the first quarter of 2006.

> *Bayou Choctaw prospect, onshore Louisiana, USA*

The 3D seismic data cube over the salt dome was reprocessed, with good results. Interpretation is nearly complete. Development drilling locations are currently being defined, with drilling to commence by end 2005. An extensive workover program is being contemplated.

Unfortunately, as announced, Horizon Oil and other present and past lessees of the Bayou Choctaw acreage received a claim from a small proportion of the landowner group in respect of alleged environmental damage to the leasehold acreage. Although the claim is one of a proliferation of such claims being pursued by opportunistic plaintiff lawyers in the Louisiana oil industry, the Board has to take the matter seriously and will defend it vigorously. The Board is confident in the knowledge that the Company and its partners have conducted operations at Bayou Choctaw and maintained the property in accordance with appropriate industry standards.

> *Lei Dong block 24/05, offshore China*

A Memorandum of Understanding was executed with CNOOC to explore a large (3,845 sq km), undrilled acreage block in the western South China Sea. Reprocessing of 3,200 km of existing 2D seismic has been completed, with encouraging results.

> *Gulf of Thailand*

Horizon Oil is participating in the current acreage bid round in Gulf of Thailand with its Bussabong partners, with acreage awards anticipated to be made before end 2005.

Unsurprisingly, there were disappointments

A key challenge in the upstream oil and gas industry is to build and maintain a spread of prospects with the right risk / reward balance so that the inevitable failures (mostly – but not always! – in the high risk category) are offset by success (mostly in the lower risk category).

In the Board's view, Horizon Oil management has done an excellent job building such a portfolio.

During the year we did have two failures:

> *Kapul prospect, onshore Papua New Guinea*

The Kapul-1 exploration well was drilled to test a large foreland prospect, but was dry.

> *Bussabong field appraisal, Gulf of Thailand*

Two tri-lateral appraisal well sets were drilled on the previously discovered Bussabong field. Gas zones were penetrated but insufficient additional reserves were proven to sustain a development project.

Although unwelcome, in the Board's view the adverse impact of these disappointments on the value of our portfolio was more than offset by likely substantial increases in the values of the other prospects as described earlier (particularly the Maari project).

Some factors impacting on our Game Plan progress

We have previously advised shareholders that our Game Plan has a five year time frame from 2003 to 2007 in which to crystallise shareholders' value.

For reasons described in Brent Emmett's Chief Executive's Report, the Board has decided to extend this time frame to give us more time to exploit the sound platform that is being built, as well as taking into account the following.

A range of factors (some positive, some negative) is influencing progress towards achieving our Game Plan objective of multiple returns on shareholders' investment within the next few years. Comments on two of these factors are:

> *Oil price*

We do not pretend to have any special expertise in forecasting oil prices. However, we agree with the widely held view that the increase in oil prices over the last year or so is near certain to be the result of straightforward supply / demand interactions. Some elements of supply and demand may be transitory and scope exists (mainly in the medium to long term) for some substitution of other energy sources. However, expected demand growth (especially from China) and apparently limited scope to increase supply suggest that a substantial part of the increase in oil prices will persist. Certainly the market is of that view, with oil futures being traded on the NYMEX at about US$60 per barrel for 2011 delivery.

Clearly, if this oil price outlook prevails, the returns to Horizon Oil shareholders from the development of Maari, Block 22/12 and Bayou Choctaw, would be very attractive, assuming these projects do proceed to development. On the other hand, the oil price increases have some negatives, including increased contractor / material costs and tightness in the drilling rig market. This latter factor means that drilling operations will not always get underway as quickly as we would wish.

> *Disciplined, cautious approach towards project development decisions*

In last year's Annual Report we expressed our frustrations at slow progress in the Maari field development decision making process. However, we are now reaping the benefit of an appropriately cautious and disciplined approach towards project planning and analysis. The planning work and the fact that several of the main elements of the project have been put out to fixed price tender are important safeguards against overruns in the substantial forecast capital cost of the project and – more seriously – the risk of commissioning delays.

Financial results and corporate highlights

The successful 2004 share purchase plan, underwritten by ABN AMRO Morgans Limited, raised approximately $9.8 million before expenses. In addition to this, funds of $3 million have been received subsequent to year end as a result of a placement to Macquarie Bank Limited.

At year end, the group's cash position was sound in the context of steady state operations and forecast commitments i.e. excluding the Maari project, the funding of which is dealt with earlier in this message. Cash on hand, including Horizon Oil's share of joint venture cash surpluses but excluding the funds from the placement to Macquarie Bank Limited, was $7.8 million. Much of the capital expenditure carry at Bayou Choctaw (approximately US$1 million net to Horizon Oil) remains to be realised in 2006.

The main cause of the loss for the year of $8.5 million was a $6.5 million write off of exploration and appraisal expenditure, mainly relating to unsuccessful exploration drilling in Papua New Guinea (Kapul) and Gulf of Thailand (Bussabong). The carrying values of the remaining exploration and development assets are considered by the directors to be appropriately conservative.

Continued rationalisation of the corporate structure resulted in four additional companies being eliminated during the year. This streamlined structure will provide administrative benefits and contribute to the trend of reducing administration costs.

Chairman's Message continued

The transition to adoption of International Financial Reporting Standards (IFRS) is on schedule and the Group will report under Australian equivalents to IFRS from 1 July 2005. Horizon Oil is to adopt US dollar functional and reporting currency for the 2005 / 2006 financial year.

Financing

The BOS International finance facility referred to above will incorporate development funding, completion support, hedge instrument funding and borrowing base facilities of up to US$40 million. (The facility offer is subject to certain conditions, including satisfactory due diligence and completion of documentation.) The finance facility may be expanded and has been designed to concurrently accommodate the financing requirements of Horizon Oil's other potential development assets.

We expect that we will require an equity raising within the next six months primarily for the purpose of the equity component of Maari development costs.

We intend to make every effort to minimise shareholder dilution (by way of equity issues) until the expected cash inflows (from Maari in particular) commence. In this context we will carefully screen the timing of significant expenditures on new business opportunities in the interim, and hopefully utilise growing Bayou Choctaw cash flows to finance such expenditures.

Corporate governance

The Board is satisfied that Horizon Oil's Corporate Governance Practices are consistent in all material respects with the Principles of Good Corporate Governance issued by the Australian Stock Exchange.

The Board has also been deeply involved in several new reporting requirements, including:

> The adoption of Australian equivalents to International Financial Reporting Standards (A-IFRS).

> Substantially increased disclosures relating to the remuneration of Directors and Executives. The resulting Remuneration Report is set out on pages 21 to 25 of this Annual Report.

Acknowledgements

On one hand, current vibrant, high oil price driven conditions prevailing in the upstream petroleum industry augur well for success. At the same time the high oil price environment brings a new and different set of challenges, including a higher cost structure, tight market for services and equipment and an increased level of competition for new business opportunities. Consequently there is an even greater need for cool, objective and disciplined thinking and decision making and a heightened need for continued tight cost control.

The Horizon Oil team remains a small, cost conscious group of people with the management experience, capabilities and style to take full advantage of the current buoyant industry conditions and to deal with challenges such as those noted above.

The board gratefully acknowledges the substantial contributions and achievements of Brent Emmett and his team - as described above and in further detail elsewhere in this Annual Report.

Outlook

We of course acknowledge the risks and uncertainties inherent in all facets of the upstream petroleum industry.

However, for the reasons described in this Report, we are bullish about the prospects of adding substantial shareholder value over the next few years.

Substantial and specific progress on the implementation of our Game Plan underpins this view.

In particular the likelihood of achieving a medium term, high value production base has recently increased substantially – a base which we plan to exploit by adding further high impact business opportunities.

Fraser Ainsworth AM
Chairman
11 October 2005

Chief Executive's Report

Operational activities for the 2004 / 2005 reporting period have been described in detail in the Activities Review section of this Annual Report and the Chairman has summarised the successes - as well as the disappointments - in his message. In this report I shall review the asset portfolio and how we intend to develop and grow it to capitalise on an environment of high commodity prices.

The oil and gas sector ought to be a rewarding one for investors over the medium term and it is this positive outlook that (as noted by the Chairman in his message) has caused us to revisit the Game Plan that was devised over 3 years ago.

That plan envisaged building a balanced portfolio of assets towards a value peak within a 5 year period (2007), and then considering an exit.

We remain committed to the strategy of a balanced portfolio with a mix of high potential exploration plays and lower risk development projects.

However we now believe that we can achieve higher returns by extending the time horizon and giving ourselves the opportunity of significantly growing the asset base to take advantage of high oil and gas prices.

Our view is that the existing asset portfolio, the deal flow that we see in our focus area and the experience and capability of the Horizon Oil team can, in combination, deliver far more to investors over the medium term than would an exit in 2007 or thereabouts.

Another important aspect of this 'resetting' of the time horizon is recognition that the design and execution involved in delivering a technically robust and financeable development project is a lengthy one.

The portfolio as it currently stands (including management's judgement on reserves) can be summarised in the following table:

Asset	Location	Gross 2P Reserves (mmbo)[1]	Horizon Oil Interest %	Net 2P Reserves (mmbo)[1]
Development				
Maari field (Moki formation)	Offshore New Zealand	50 - 56	10	5 - 6
Bayou Choctaw field	Onshore Louisiana, USA	12 - 16	14 - 28.5	2 - 3
Pre-Development				
Maari (other zones and Manaia prospect)	Offshore New Zealand	10 - 20	10	1 - 2
Block 22/12 (12-8 E and W, 6-12-1)	Offshore China	28 - 33	30 / 14.7[2]	4 - 5
Total				12 - 16

Asset	Location	Gross Unrisked Mean Reserves Potential (mmbo)	Horizon Oil Interest %	Net Unrisked Mean Reserves Potential (mmbo)
Appraisal / Exploration				
PRL 4 (Stanley discovery) and PRL 5 (Elevala/Ketu discoveries)	Onshore Papua New Guinea	80 - 120[3]	7.25	6 - 9[3]
Block 22/12 (6-12 area)	Offshore China	40 - 50	30 / 14.7[2]	6 - 7
Lei Dong Block 24/05	Offshore China	50 - 200	100 / 49[2]	25 - 98

[1] Proven and probable reserves in millions of barrels of oil recoverable
[2] Interests shown are before / after expected CNOOC back-in
[3] Oil equivalent of gas and condensate resources

We are generally happy with the content and spread of risk across the portfolio, however realising value from it, even with high commodity prices, comes with some challenges:

Our first priority is to bring existing development projects into production

Progress on Maari over the reporting period has been good and we are confident that development of the field will proceed. The field, with the various upside components, has the potential to be a centrepiece asset for the Company.

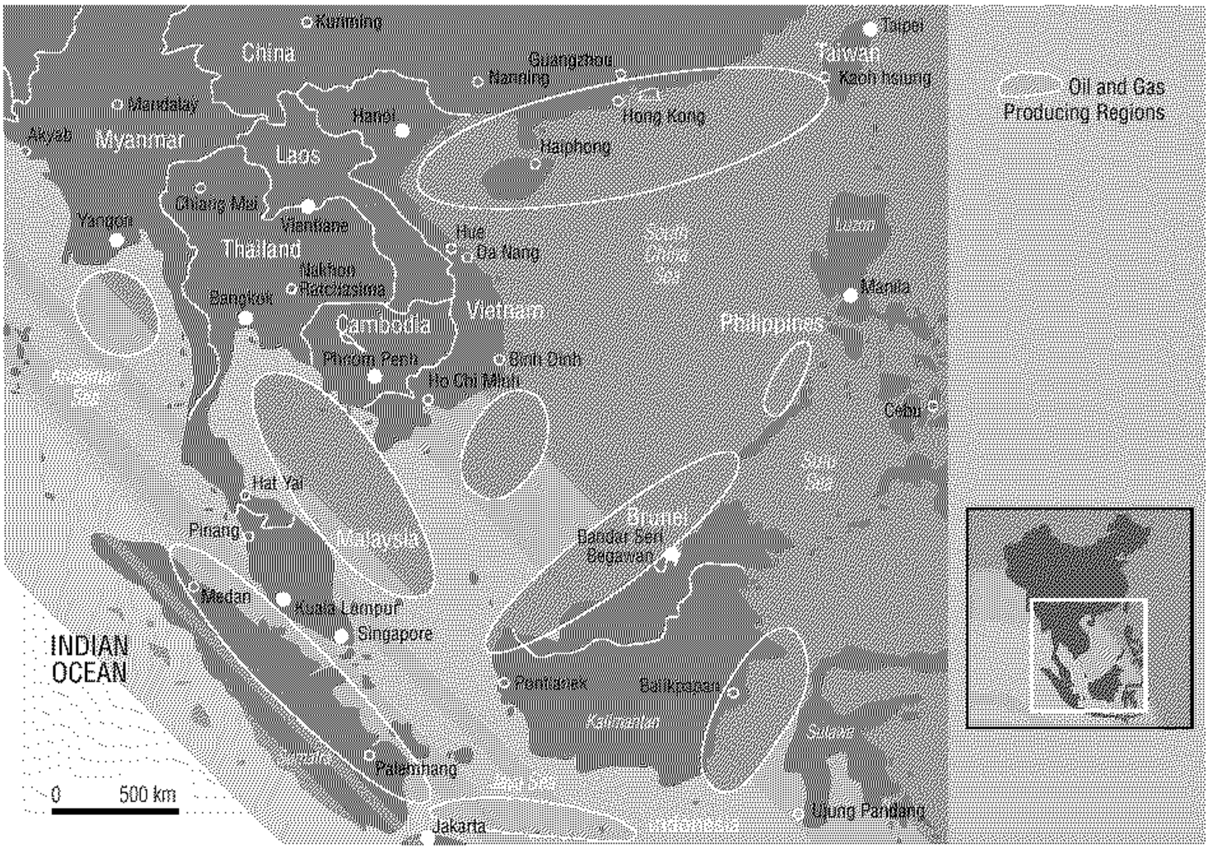
Exploitation of Bayou Choctaw has moved slower than we had hoped, but we believe the quality of the project has been upgraded significantly as a result of the seismic reprocessing, interpretation and geological work performed to date. We have high expectations for both the step-out drilling and evaluation of the deeper zones that should start before the end of calendar year 2005. It is important that this succeeds because Bayou Choctaw is the one asset that offers near term production and income – an obvious deficiency in the asset portfolio.

At Block 22/12 we and our partners have participated in a feasibility study of the development of the Wei 12-8 West oil accumulation, utilising existing infrastructure owned by the China National Offshore Oil Corporation (CNOOC). Discussions with CNOOC on tariffs for use of its facilities are currently underway and, as to be expected in these situations, the negotiations are tough. There are however sound reasons for the parties to come to terms, including the potential for follow-up development projects at Wei 12-8 East and Wei 6-12-1.

Secondly, we have to replenish the pipeline of new exploration and pre-development projects

We are investigating several potential opportunities in our Asian focus area, in some instances with surprisingly little competitive interest. Notwithstanding the competitive pressures in the industry referred to earlier, we have been able to maintain a satisfactory pipeline of opportunities without compromising our strict selection criteria.

The focus for new business is on the producing hydrocarbon fairways shown on the map below.



The attributes of the search area, in summary, are:

> Strong market demand for oil and gas

> Acreage available through bid rounds and farm-out

> Mature operating environments with easy drilling, abundant services and supplies

> Stable jurisdictions where we have experience and contacts

> Acceptable fiscal / tax regimes

> Uncomplicated geological targets, well-defined by seismic and with productive analogues

> Potential to repeat and/or scale-up.

An example of the areas we rank highly is the Gulf of Thailand, where Horizon Oil has recently lodged bids on two blocks offered in Thailand's 2005 Bid Round. The subject blocks are G10/48 and G11/48, whose locations are shown on the map on page 16 of the Activities Review. The blocks cover vast areas of the southern Gulf of Thailand and are offset by prolific fields and discoveries. The successful award of either block would be a worthy addition to Lei Dong at the high impact end of the portfolio.

The third challenge is managing the portfolio so that the required capital program can be financed

The Chairman has in large part dealt with this subject in his message. Project financing is an important component of meeting the financing challenge and in this area the BOS International financing package for Maari (and potentially, other projects) is a good result.

Deal selection also plays a part. The 100% interest in Lei Dong Block, offshore China, provides the opportunity for farming out the initial exploratory drilling.

In the case of the successful award of new acreage in the Gulf of Thailand, major drilling expenditure will not occur prior to the anticipated initial cash flow from Maari production.

In fact a key element of the business development approach in future will be to select and accumulate projects which can be funded from the revenue stream expected from Maari. These revenues have the potential to support very significant growth in the asset portfolio and shareholder value.

Brent Emmett
Chief Executive Officer
11 October 2005

Members of the Board

From left to right:

Bob Laws	Fraser Ainsworth	John Humphrey	Michael Sheridan	Brent Emmett	Paul Nimmo
Director	Director	Director	Company Secretary and Chief Financial Officer	Chief Executive Officer	Executive Director

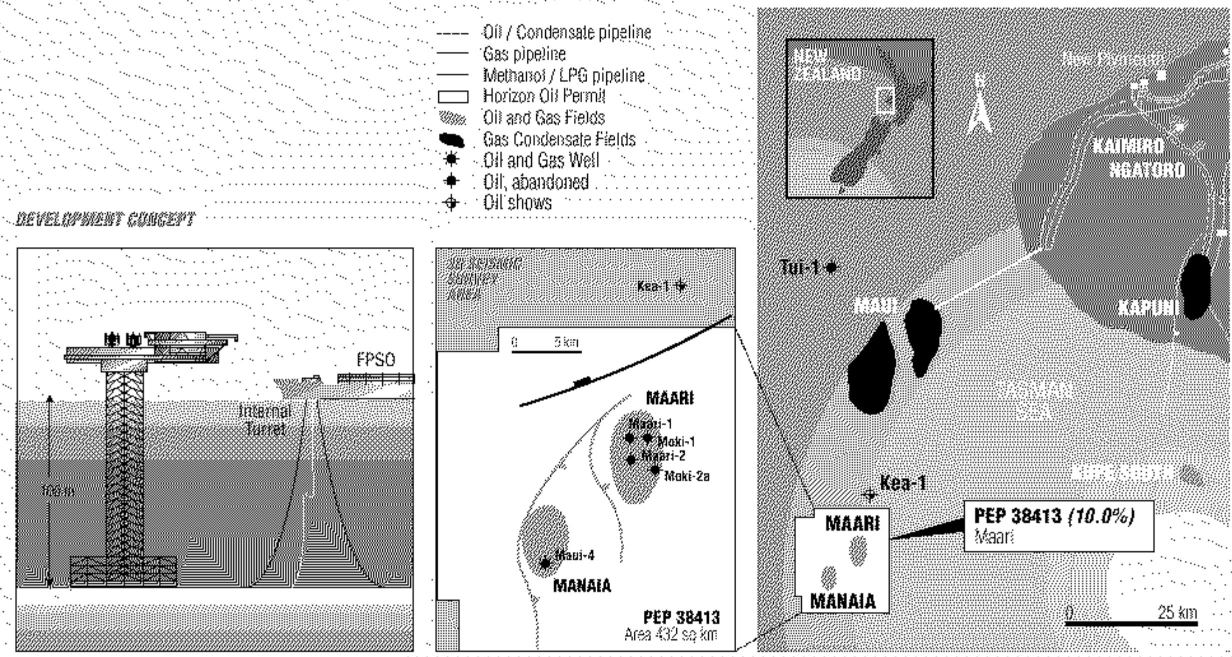
Consolidated Results

A summary of consolidated results and a comparison with the previous year is tabulated below.

	30 June 2005 $'000	30 June 2004 $'000
Revenue from operating activities	330	271
Cost of sales	(451)	(598)
Gross profit	(121)	(327)
Revenues from non-operating activities	482	6,984
Other expenses from non-operating activities	(8,796)	(15,306)
Profit / (loss) from ordinary activities before income tax expense	(8,435)	(8,649)
Income tax benefit / (expense)	(60)	-
Profit / (loss) from ordinary activities after income tax expense	(8,495)	(8,649)
Net profit attributable to outside equity interest	-	-
Net profit / (loss) attributable to members of Horizon Oil Limited	(8,495)	(8,649)

The current year loss of $8.5 million was largely attributable to the directors' decision to write down unsuccessful exploration expenditure of $6.5 million relating mainly to Bussabong, Thailand and PPL240, Papua New Guinea.

New Zealand



PEP 38413, Maari field, Offshore Taranaki Basin

Horizon Oil Interest: 10.0%

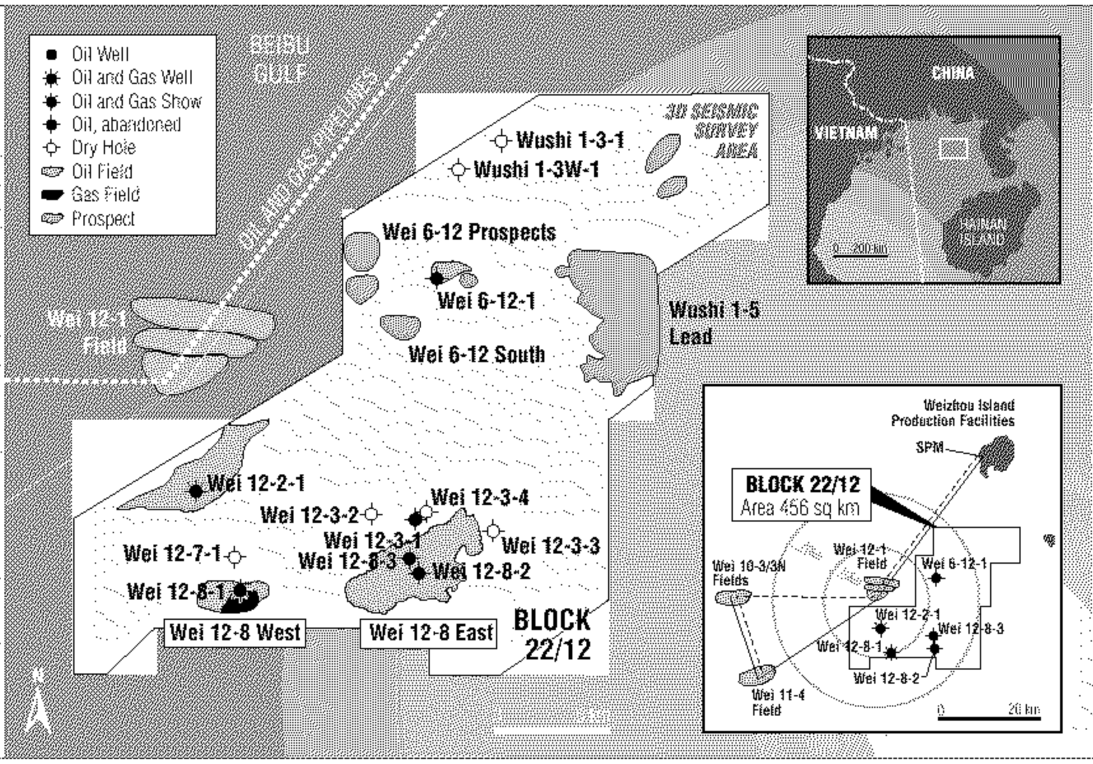
Detailed technical studies and screening of conceptual development options for the Maari field continued during the year with several key technical aspects evaluated and an optimal solution agreed by the joint venture. The subsurface development plan was finalised with the completion of detailed studies confirming the design of the waterflood scheme. The use of a pumped artificial lift system was chosen over gas-lift and is expected to accelerate production and increase recoverable reserves over previous estimates. In addition, flow assurance studies confirm that the waxy nature of the Maari crude will be able to be managed during production.

Selection of the surface development concept – initially a choice between subsea wellheads or dry wellheads on a wellhead platform (WHP) with a Floating Production, Storage and Offtake (FPSO) vessel – was narrowed down to two dry-tree concepts, with sub-sea wellheads having been rejected, after significant engineering effort, on risk and economic grounds. The two dry-tree concepts involving either a jack-up Drilling and Production Unit (DPU) with a Floating Storage and Offloading (FSO) vessel or a minimal facilities wellhead platform with an FPSO, were the subject of detailed definition studies. Ultimately the Maari joint venture determined that the optimal development concept was the WHP/FPSO combination. Tender packages were issued for the main components of the development, which are the WHP, FPSO and drilling contract, in order to have firm bid prices in hand before making a final Financial Investment Decision (FID). Bids were received in early August 2005 and are being evaluated.

Concurrent with the tender process, the joint venture is discussing a draft Field Development Plan and Petroleum Mining Permit application with the relevant New Zealand Government authorities to facilitate timely Government approvals. The FID process takes place over the period July – September 2005 which, if positive, will allow the award of contracts and material purchase orders to proceed immediately thereafter.

The Environmental Impact Assessment (EIA) report for the Maari development has been submitted to the New Zealand Government Reference Group for endorsement and was favourably received. The EIA concluded that there were no significant environmental impacts expected from the Maari development.

China



Block 22/12 Beibu Gulf, Offshore People's Republic of China

Horizon Oil Interest: 30.0%

Analysis of data gathered during the first half of 2004 from the drilling of three wells in Block 22/12 indicated a cluster of exploration targets in the vicinity of the Wei 6-12-1 oil discovery well in the northern part of the Block. The collective, unrisked potential for these prospects, which are supported by Amplitude Variation with Offset (AVO) and other seismic anomalies, is estimated to be 40 – 50 million barrels of oil (mmbo) recoverable.

The data also confirm the highly viscous nature of the oil contained in the Wei 12-8 East field in the southern part of the Block. The post-drill analyses further indicate that the total oil in-place in this field and adjacent Wei 12-8 West field, may be up to 140 mmbo.

On the basis of these results Horizon Oil and its partners elected to enter into the next permit year, which began on 1 October 2004 and involves the drilling of an exploration well.

Discussions have been ongoing with the China National Offshore Oil Corporation (CNOOC) to develop the Wei 12-8 West field as part of a multi-field development program being implemented by CNOOC. The plan would involve minimal facilities on Wei 12-8 West with crude oil processing and export via CNOOC's Wei 12-1 platform approximately 10 km to the north.

After the joint venture initially reached broad agreement with CNOOC on the development concept, a more detailed feasibility study and development plan were prepared in the first half of 2005. The key elements of this agreement are design and fabrication of Block 22/12 facilities as part of CNOOC's broader development programme and the use of existing CNOOC production infrastructure in the Gulf of Beibu. These factors should result in lower cost facilities and a more rapid path to first production. Meanwhile, in preparation for the development, a geotechnical site survey of the planned 12-8 West platform location and pipeline route to the Wei 12-1 hub platform has been carried out with the Nanhai 503 survey vessel.

China continued

Discussions on a commercial framework for the utilisation of CNOOC infrastructure are underway and it is envisaged that this negotiation will be concluded before the end of 2005.

Key issues currently under discussion with CNOOC are:-

- Subsurface development well plan;
- Downstream processing tariff for use of existing CNOOC facilities and pipeline; and
- Marketing arrangements for the produced crude.

Agreement on these issues will have to be reached to allow the development to proceed.

The development of the remaining discovered reserves in Block 22/12 would be phased, following development of the 12-8 West field. This would be followed by either the 12-8-East field or the 6-12-1 discovery, dependant on the results of further studies. This approach will lead to a lower capital funding requirement afforded by re-investment of cashflows.

On the exploration front the operator of Block 22/12, Roc Oil Company, has proposed the location for a well to be drilled on a prospect in the area surrounding the Wei 6-12-1 discovery well, drilled earlier by the joint venture. The proposed Wei 6-12 South well will target the Weizhou formation in a structural closure supported by good AVO anomalies. An updip offset to the Wei 6-12-1 well is also under consideration. The operator has initiated well planning and is investigating the rig market with a one firm plus one optional well programme. Drilling tubulars and supplies for two wells have been pre-purchased in anticipation of drilling the Wei 6-12 South exploration well beginning as early as September 2005.

Block 24/05, Lei Dong Basin, Offshore People's Republic of China

Horizon Oil Interest: 100.0%

On 21 October 2004 Horizon Oil announced that it had executed a Memorandum of Understanding (MOU) with CNOOC to explore Lei Dong Block 24/05, offshore China. The Block covers an area of 3,845 sq km and is located in the western South China Sea, about 60 km east of the oil industry port of Zhanjiang.

The agreement provides for Horizon Oil to conduct technical studies over the Block, including geological review, seismic reprocessing and interpretation. At the conclusion of the study and if results confirm expectations, Horizon Oil will have the option to proceed to further seismic acquisition, exploratory drilling and development work, pursuant to a Petroleum Contract. The terms and conditions of the Petroleum Contract have been pre-agreed and provide for CNOOC to participate at up to 51% in any development project. In that circumstance, CNOOC will fund its share of development costs. The Petroleum Contract also provides for produced oil to be sold at world market prices.

The award of the Petroleum Contract is conditional only upon physical access to the Block being granted by the relevant authorities of the Chinese Government in order to carry out field operations. The MOU enables Horizon Oil to study the potential of the area and to refine exploration concepts and plans on the basis of modest capital expenditure, while preserving further exploration and development rights over the area.

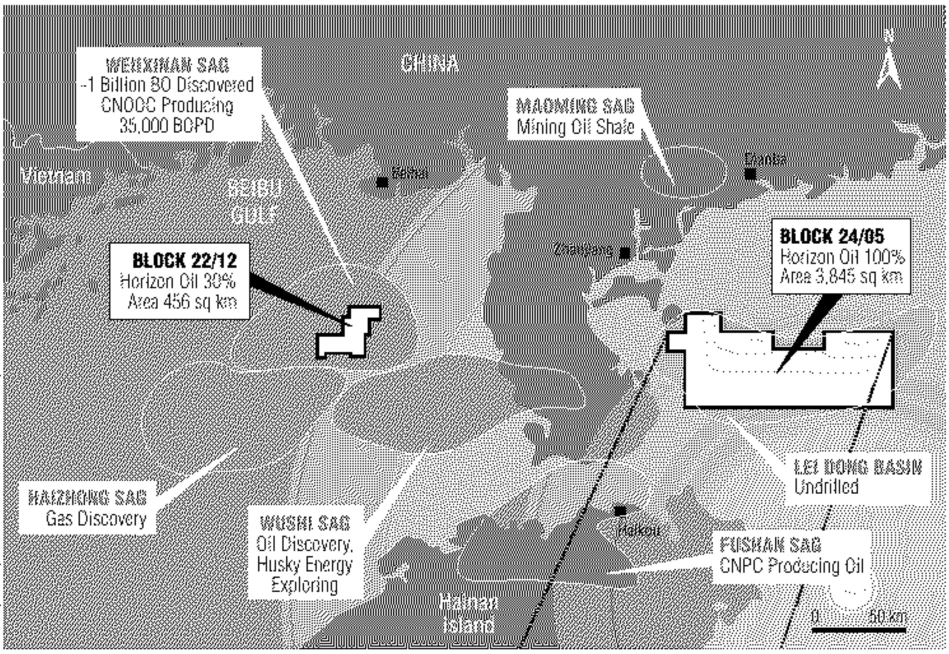
Activities Review

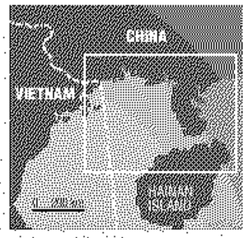
Permit Listing

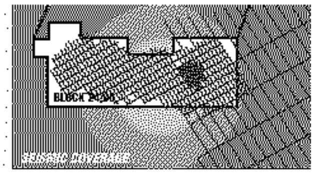
as at 11 October 2005

	Permit	Principal assets	Horizon Oil interests
New Zealand	PEP 38413	Maari field Manaia discovery	10.00%
China	Block 22/12	Wei 12-8 East and West fields Wei 12-2-1 and 6-12-1 discoveries Wei 6-12 prospects	30.00%
	Block 24/05	Lei Dong Basin	100.00%
United States of America	Bayou Choctaw field	Victory Financial Lease Wilberts Lease	14.00% - 28.50%, 19.80% working interest 2.50% royalty interest
Papua New Guinea	PRL 4	Stanley discovery	7.25%
	PRL 5	Elevala and Ketu discoveries	7.25%
	PPL 240 (formerly PPL 227)		20.00%
Tunisia	Anaguid		0.21% royalty interest

China continued







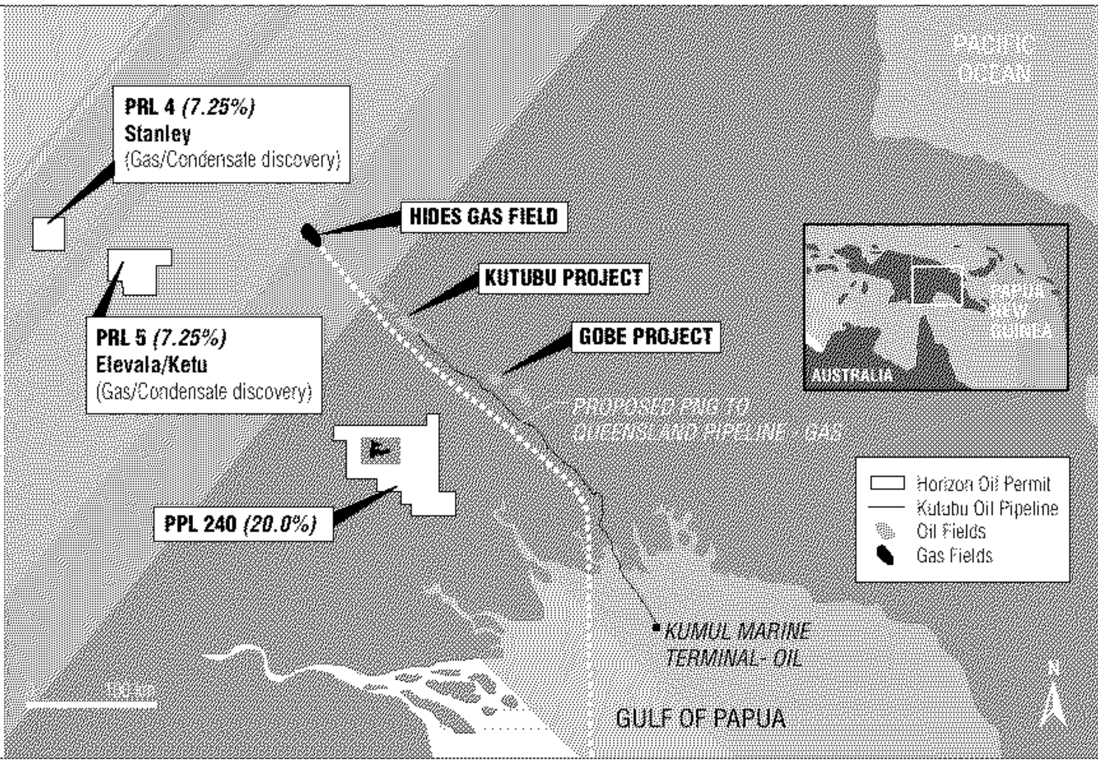
The acquisition builds on the Company's existing position in China, which is regarded as a promising region with the following attributes:-

- Very strong demand for oil and gas in southern China;
- The South China Sea in which Lei Dong Block lies is a proven, prolific hydrocarbon province and the geology and geophysics of the productive analogues are well understood;
- The southern China offshore is maturing as a producing area and there is considerable local availability of exploration services, support for development and producing operations and facility fabrication capability; and
- Horizon Oil has a strong partner in CNOOC which is an experienced and influential operator in the region.

Since execution of the MOU a detailed work plan has been submitted to CNOOC and accepted. The plan initially involves the reprocessing and interpretation of the grid of approximately 3,200 km of existing 2D seismic data that covers the Lei Dong Block, including several long tie lines into existing wells outside the Block.

The reprocessing has been largely completed with good results and CNOOC has provided considerable assistance in this phase of the programme. Currently geological and geophysical interpretation of the reprocessed seismic, which will seek to determine structure, stratigraphy and the possible presence of hydrocarbons, is underway with completion expected by October 2005. At that point a decision on farming out part of the current 100% interest will be made, before further expenditure on seismic and/or drilling.

Papua New Guinea



PPL 240, Kapul Prospect, Papuan Basin Foreland

Horizon Oil Interest: 20.0%

The Kapul-1 exploration well spudded at 0500 hrs on 20 December 2004, utilising Parker rig 140. The well reached a total depth of 2,980 m on 22 January 2005. The well was located in the Papuan foreland and tested both Toro and Iagifu structures with a mean unrisked potential of 113 mmbo. Horizon Oil was partly carried through its share of the cost of the well.

Both the primary and secondary targets, the Iagifu and Toro Sandstones, were penetrated and wireline logs and pressure data confirmed that both zones were water wet. The seal units and good reservoir sands were present as prognosed and the structure came in high to prediction. Significantly there was a lack of shows in the tight sandy zones that were drilled and Horizon Oil's interpretation is that oil has not migrated into the prospect, being the main identified risk pre-drill.

The well was plugged and abandoned on 27 January 2005 and the rig released.

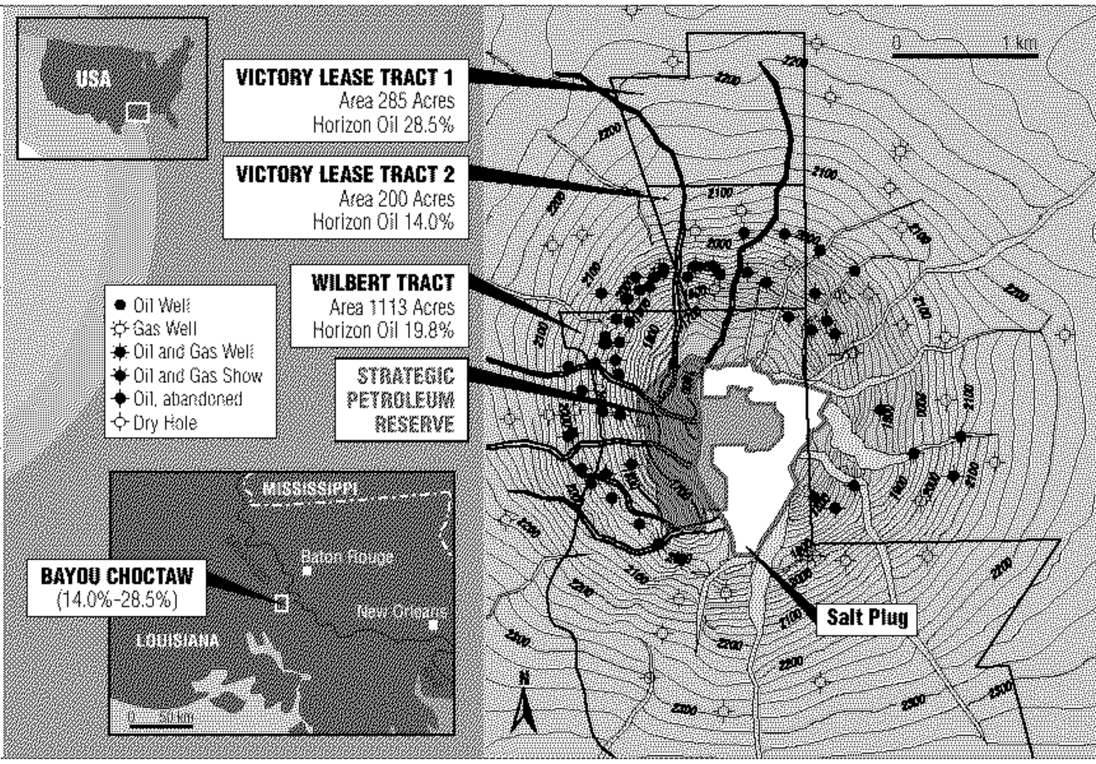
The exploration risk attached to Kapul prospect, especially the risk of oil migration, was always clear but the high potential and follow-up justified the test. Oil Search, as operator, has proposed and the joint venture participants have agreed to carrying out third party geochemical studies to assess the Omati Trough source potential. A decision will then be made on the feasibility of continued foreland exploration.

PRL 4 and PRL 5, Stanley, Elevala and Ketu Discoveries, Papuan Basin Foreland

Horizon Oil Interest: 7.25%

The possibility of developing the Stanley, Elevala and Ketu gas and condensate discoveries held in these two retention leases continues to be evaluated. The area has recently become more accessible, a factor which could lead to lower development costs, whilst the high commodity price provides further incentive to seek viable development options. PRL 5 was recently extended for a further five year period.

United States of America



Bayou Choctaw field, Iberville Parish, Louisiana

Horizon Oil Interest: 19.8% working interest plus 2.5% ORRI Surrounding Salt Dome; 14.0-28.5% North of Salt Dome

In June 2004 Horizon Oil completed a farmout of a partial interest in Bayou Choctaw to CLK Energy, Inc., a Louisiana-based explorer and operator with an outstanding track record of exploration and development in the prolific US Gulf Coast play. The transaction involved payment of cash to Horizon Oil at the time, with additional payments in the future out of production.

Most importantly, Horizon Oil is to be carried through a US$5 million (gross) work programme. It is anticipated that the carry programme will include recompletion of proven oil zones as well as the drilling of about five development wells. Selection of drilling locations will be based on reprocessed 3D seismic data over the Bayou Choctaw salt dome.

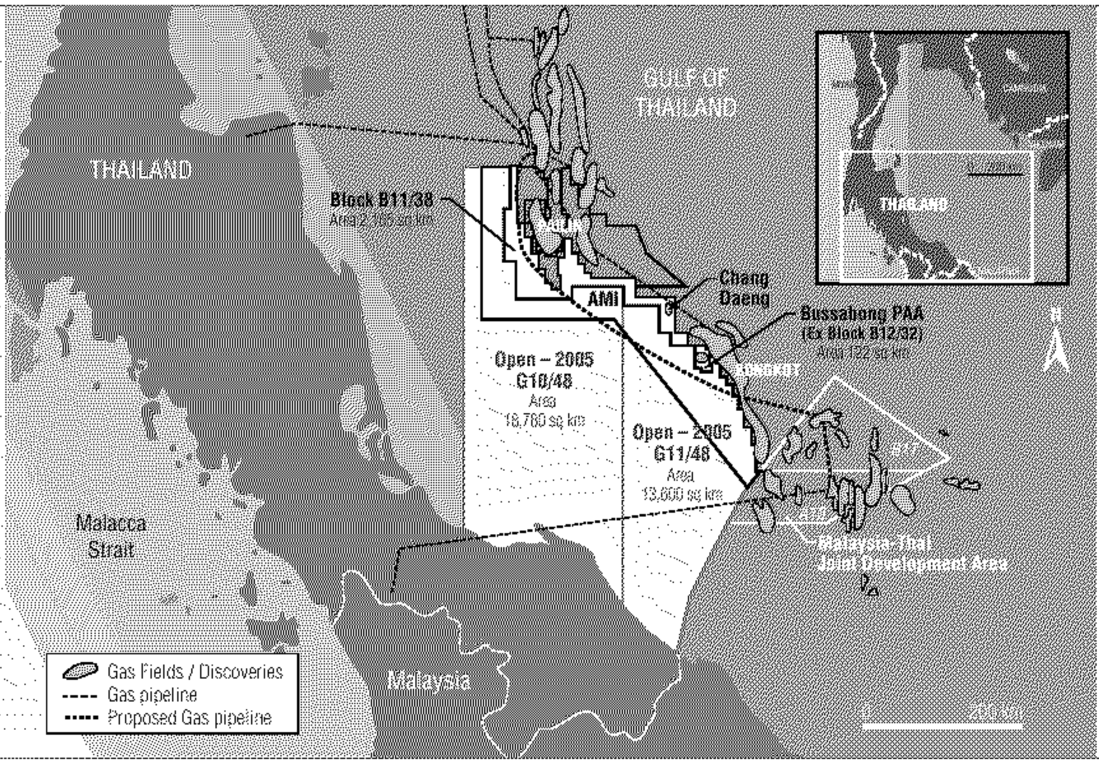
CLK's first task was to initiate an extensive reprocessing of the 42 sq mile 3D seismic data cube covering the field. CLK is now interpreting the reprocessed data to define drilling locations up-dip of existing producing wells. A good image of the salt-sand interface has been achieved and it is thought that this will allow 8 – 10 drilling locations to be picked. The reprocessing has also highlighted the prospectivity of the Bol Mex sands, which lie below the main producing Cib Haz zone.

Drilling is expected to commence in late 2005, subject to rig availability in a market which is admittedly tight.

Meanwhile during the year CLK has worked over several of the existing producers on the field, improving their performance. One other wellbore has been re-entered and perforated in bypassed oil zones indicated on well logs. The net result of this early work is that the field is now operating on a cash positive basis. Additional candidates for recompletion have been identified and the operator has carried out investigations to assess their production potential. There are approximately 40 abandoned well bores than can be re-entered and potentially recompleted in new zones. The recompletion program will resume in early 2006, after a comprehensive engineering study has been carried out with the aim of documenting further recompletion targets. The study will also seek to identify all proven, probable and possible reserves contained in the field.

Although the exploitation of Bayou Choctaw field is moving more slowly than we had anticipated, we believe that the seismic and structural interpretation being undertaken together with the planned engineering study are serving to significantly upgrade the quality of the asset. This will allow the drilling and recompletion programs to be implemented with a high level of technical confidence.

Thailand



Offshore Gulf of Thailand

On 2 June 2005 the Company announced that it had entered into an agreement to farm-in to Blocks 12/32 and B11/38, offshore Gulf of Thailand (GOT). The blocks lie immediately south of the prolific Pailin and Bongkot gas field trend and contain the partially appraised Bussabong and Chang Daeng gas discoveries. Under the farmin agreement Horizon Oil and its co-venturer, Tana Exploration Company LLC, had the right to each earn a 25% interest in the blocks from a subsidiary of Pearl Energy Ltd by drilling 2 tri-lateral wells on Bussabong (6 well bores) and one well on Chang Daeng.

The objective of this phase of the program was to prove up sufficient reserves at Bussabong necessary to begin development of the field. The second and equally important aim of the joint venture participants was to pursue further opportunities in the southern GOT in a defined Area of Mutual Interest (AMI) which offsets the farm-in acreage.

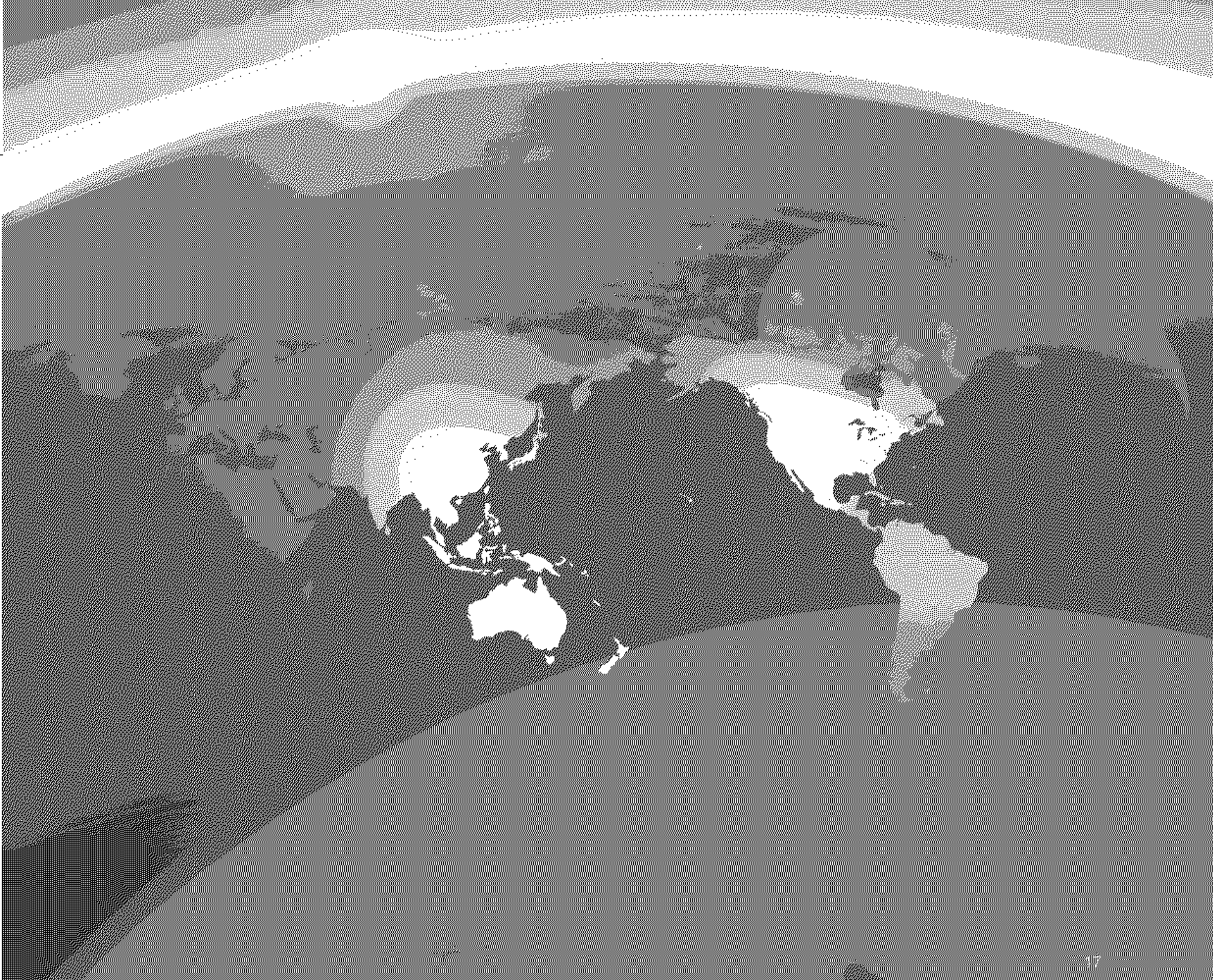
Drilling began on Bussabong in early June with the Ensco-57 jack-up rig. Although several gas-bearing intervals were penetrated in the first 3 well bores, the conclusion was that there was unlikely to be sufficient proven gas at Bussabong to sustain a development project. This result was disappointing, especially since Horizon Oil and its partners, Pearl and Tana – both experienced players in this play-type – had each independently developed a high level of confidence in Bussabong based on very rigorous geophysical interpretation.

After a hard look at the drilling results, the decision was made to cut further expenditure by electing not to drill the second set of 3 well bores on Bussabong. The effect of this was that Horizon Oil and Tana had to contribute part of the cost of a minimal well on Chang Daeng and relinquish the interests to be earned in Blocks B12/32 and B11/38.

The second and higher potential phase of the venture – to explore with our partners the AMI that covers a wide portion of the southern GOT – remains very much alive. The Thai Ministry of Energy has recently announced an open acreage bid round, which includes over 30,000 square kilometres that will be subject to the AMI. We believe that our view of the commercial and operational characteristics of the Gulf of Thailand remains correct. We have shown that wells can be drilled quickly and cheaply, the market is short of gas and good prices are being paid, exploration acreage is widely available and competition is perceived to be limited. We are participating in the current acreage bid round with Pearl and Tana, whom we have found to be capable and experienced partners.

Financial Statements

for the year ended 30 June 2005



Directors' Report

The directors of Horizon Oil Limited present their report together with the consolidated financial statements for the year ended 30 June 2005 and the auditors' report thereon.

Directors

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

F Ainsworth
B D Emmett
J S Humphrey
R A Laws
P Nimmo (appointed on 1 December 2004)

Principal activities

During the course of the 2005 financial year, the consolidated entity's principal activities continued to be directed towards petroleum exploration, development and production.

Significant changes in the state of affairs

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

- Share purchase plan

On 6 December 2004, the company announced a Share Purchase Plan issue, partially underwritten by ABN AMRO Morgans Corporate Limited, which raised approximately $9.8 million before expenses. The capital raised is being applied by the group to finance the costs of the development planning and, if approved, initial project design and construction of the Maari field, offshore New Zealand and the 12-8-West field in Block 22/12 offshore China. Shares were allotted on 30 December 2004. The issue of 82,174,118 new ordinary shares at 12 cents increased the company's ordinary share capital to 534,001,121 shares.

Matters subsequent to the end of the financial year

On 19 July 2005, shareholders approved a placement to Macquarie Bank Limited. The issue of 26,666,667 fully paid shares at 11.25 cents per share increased the company's ordinary share capital to 560,667,788 shares. $3,000,000 was received as a result of this issue.

On 30 August 2005, the company announced that BOS International, a subsidiary of the Bank of Scotland, has provided a committed offer of finance of up to US$40 million to fund the project development of the Maari oil field, offshore New Zealand. The offer is subject to the decision of the Maari joint venture participants to proceed with the development of the Maari field, satisfactory due diligence and completion of documentation.

The finance facility under which the Maari development funding will be provided, assuming satisfaction of the conditions noted above, will incorporate development funding, completion support, hedge instrument funding and borrowing base facilities of up to US$40 million. The finance facility may be expanded and has been designed to concurrently accommodate the financing requirements of the group's other potential development assets.

Other than the matters above, there has not been any matter or circumstance which has arisen since 30 June 2005 that has significantly affected, or may significantly affect:

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

Earnings per share

	2005 Cents	2004 Cents
Basic earnings per share	(1.72)	(2.08)
Diluted earnings per share	(1.72)	(2.08)

Review of operations

A review of operations is set out in the 'Activities Review' accompanying this report.

Likely developments and expected results of operations

Comments on expected results of certain of the operations of the consolidated entity are included in this report under the review of operations.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

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

Information on directors

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

Director:	F Ainsworth AM, B.Comm, FAICD, FCPA
Experience and current Directorships:	Director for 4 years. Former Managing Director of Sagasco Holdings Ltd. Deputy Chairman of Tarac Australia Limited; Director of Oil Search Limited and Envestra Limited.
Former Directorships in last 3 years:	Chairman of Bionomics Ltd
Special Responsibilities:	Chairman of Board; member of Audit, Remuneration and Risk Management Committees; Chairman of Nomination and Disclosure Committees.
Director:	B D Emmett B.Sc (Hons)
Experience and current Directorships:	Director for 5 years. 30 years experience in petroleum exploration, E&P management and investment banking.
Former Directorships in last 3 years:	None
Special Responsibilities:	Chief Executive Officer; member of Risk Management Committee and Disclosure Committee.
Director:	J S Humphrey LL.B., F.S.I.A.
Experience and current Directorships:	Director for 15 years. Member of the firm of Solicitors, Mallesons Stephen Jaques, specialising in the area of Corporate Law. Chairman of Villa World Limited, director of Downer EDI Limited.
Former Directorships in last 3 years:	Former Chairman of Bligh Ventures Limited.
Special Responsibilities:	Chairman of Audit Committee; member of Risk Management Committee.
Director:	R A Laws PSM, B.Sc, GAICD
Experience and current Directorships:	Director for 2 years. Former director of the Petroleum Division of the South Australian Department of Mines and Energy and previously Exploration Manager for Australian Aquitaine Petroleum Pty Ltd.
Former Directorships in last 3 years:	None
Special Responsibilities:	Chairman of Remuneration and Risk Management Committees; member of Nomination Committee.
Director:	Dr P Nimmo B. Tech (Hons) PhD
Experience and current Directorships:	Appointed executive director on 1 December 2004. 25 years experience in petroleum engineering, economics and planning, E&P management and investment banking.
Former Directorships in last 3 years:	None
Special Responsibilities:	Manager – Engineering and Business Development; Member of Risk Management Committee
Company Secretary: and Chief Financial Officer	Michael Sheridan B.Ec, LL.M., A.S.I.A. Before joining Horizon Oil Limited in 2003, Mr Sheridan held senior finance and commercial roles in Australian and international oil and gas, mining and telecommunications companies.

Directors' interests in the share capital

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

Director		Ordinary shares fully paid	Options
F Ainsworth	- direct	-	1,000,000
	- indirect	595,832	-
B D Emmett*	- direct	-	5,000,000
	- indirect	585,000	-
J S Humphrey	- direct	-	500,000
	- indirect	657,878	-
R A Laws	- direct	441,666	500,000
	- indirect	-	-
P Nimmo*	- direct	-	2,000,000
	- indirect	955,396	-

* B D Emmett and P Nimmo also hold an interest in Oasis Energy Investments Pty Ltd, the company's major shareholder.

Meetings of directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2005, and the numbers of meetings attended by each director were:

	Board Meetings	Audit Committee Meetings	Risk Management Committee Meetings	Nomination Committee Meetings	Remuneration Committee Meetings
Number of meetings held	*12*	*2*	*1*	*1*	*1*
Number of meetings attended by:					
F Ainsworth	12	2	1	1	1
B D Emmett	12	-	1	-	-
J S Humphrey	12	2	1	-	-
R A Laws	12	-	1	1	1
P Nimmo* (appointed 1 December 2004)	4	-	1	-	-

* P Nimmo has attended all meetings of the Board and relevant Committees since his appointment to the Board and associated committees.

Remuneration Report

Directors

The following persons were directors of Horizon Oil Limited during the financial year:

F Ainsworth	Chairman, non-executive director
B D Emmett	Chief Executive Officer
J S Humphrey	Non-executive director
R A Laws	Non-executive director
Dr P Nimmo	Executive director (appointed 1 December 2004)

Executives (other than directors) with the greatest authority for strategic direction and management ("specified executives") during the financial year:

M Sheridan	Chief Financial Officer, Company Secretary, Horizon Oil Limited
M Lambert	Financial Controller, Horizon Oil Limited
W Dobbie	New Zealand Country Manager, Horizon Oil International Limited

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

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation

Principles used to determine the nature and amount of remuneration

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's diverse international operations.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the remuneration committee to ensure they are appropriate and in line with the market. The Chairman's fees are determined separately to the fees of non-executive directors based on comparative roles in the external market.

Directors' fees

The current directors' fees were last reviewed with effect from 1 December 2003. Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. Shareholders approved the current fee pool limit of $250,000 on 26 November 2004 at the AGM.

Retirement allowances for directors

There are no retirement allowances in place for directors.

Executive pay

Executive remuneration and other terms of employment are reviewed annually by the Remuneration Committee having regard to relevant comparative information. As well as a base salary, remuneration packages include superannuation and termination entitlements and non-monetary benefits. Executives are eligible to participate in the Horizon Oil Limited Employee Option Scheme. Executive directors are also eligible to participate in the Horizon Oil Limited Employee Option Scheme with participation and allotment subject to the approval of shareholders.

Remuneration and other terms of employment for executives are formalised in a service agreement.

Details of the nature and amount of each element of the emoluments of each director of Horizon Oil Limited and each of the specified executives of the consolidated entity are set out in the following tables.

Details of remuneration (audited)

Details of the remuneration of each director of Horizon Oil Limited and each of the executives of the company and the consolidated entity who received the highest remuneration for the year ended 30 June 2005 are set out in the following tables. The specified executives also include the officers with the greatest authority for strategic direction and management during the financial year. All elements of remuneration are not directly related to performance.

Remuneration Report
continued

	Primary		Post-employment	Equity	Other	
Name	Salary and Fees $	Non Monetary[1] $	Superannuation $	Options $	Termination $	Total $
Directors:						
F Ainsworth						
Chairman, non-executive director	75,000	-	6,750	-	-	81,750
B D Emmett						
Chief Executive Officer	282,715	13,151	11,585	-	-	307,451
J Humphrey						
Non-executive director	37,500	-	-	-	-	37,500
R A Laws						
Non-executive director	37,500	-	3,375	-	-	40,875
P Nimmo[2]						
Executive director						
(appointed 1 December 2004)	233,000	17,677	11,585	-	-	262,262
Total	665,715	30,828	33,295	-	-	729,838
2004 comparatives[2]	389,529	12,864	21,259	4,851	-	428,503
Specified executives:						
M Sheridan						
Chief Financial Officer, Company Secretary	210,000	8,353	11,585	-	-	229,938
M Lambert[4]						
Financial Controller	85,000	-	7,650	12,000	-	104,650
W Dobbie[3]						
New Zealand Country Manager	10,185	-	-	-	-	10,185
Total	305,185	8,353	19,235	12,000	-	344,773
2004 comparatives[2]	617,069	39,261	33,944	9,290	32,919	732,483

1 Non Monetary benefits include the "package value" of car parking, insurances and other expenses inclusive of FBT.

2 P Nimmo was appointed a director on 1 December 2004. Before this appointment he was Manager of Engineering and Business Development. Amounts shown above include all Dr Nimmo's remuneration during the reporting period. Amounts received in his position as director amounted to $152,987 made up of salary and fees of $135,917, non-monetary benefits of $10,312 and superannuation of $6,758.

3 W Dobbie also receives consultancy fees, see note 25.

4 11% of M Lambert's remuneration for the financial year consisted of options.

Service Agreements (audited)

Remuneration and other terms of employment for the Chief Executive Officer and the specified executives are formalised in service agreements. Each of these agreements includes the provision of other benefits such as health insurance, car parking and participation where eligible in the Horizon Oil Employee Option scheme. Except as noted below, each agreement includes a payment of termination benefit of 1/6 of annual salary package plus 1/12 of annual salary package for each year of service. Other major provisions of the agreements relating to remuneration are set out below:

B D Emmett, Chief Executive Officer

- Term of agreement
  – 4 years commencing 1 January 2002.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months salary.
- Initial annual base salary, inclusive of superannuation, of $250,000, adjusted as agreed by the Board.

Dr. P Nimmo, Executive Director and Manager Engineering and Business Development

- Base salary, exclusive of superannuation, for the year ended 30 June 2005 of $233,000.

W Dobbie, New Zealand Country Manager

- Term of agreement – 1 year from 1 January 2004 extended for a year from 1 January 2005 and with an option for W Dobbie to extend for another year after this.
- Fees payable of NZ$55,000 per annum including consultancy fees.

M Sheridan, Chief Financial Officer, Company Secretary

- Base salary, exclusive of superannuation, for the year ended 30 June 2005 of $210,000.

M Lambert, Financial Controller

- Base salary, exclusive of superannuation, for the year ended 30 June 2005 of $85,000.

Share-based compensation – options (audited)

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

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
31/10/2002	31/10/2007	$0.20[1]	$0.0103	50% on date of issue, 25% after 1 July 2003, 25% after 1 July 2004
25/11/2003	25/11/2008	$0.20[1]	$0.0066	50% on date of issue, 50% after 1 July 2004
25/10/2004	25/10/2009	$0.20[1]	$0.0280	50% after 25/10/2004, 50% after 25/10/2005
24/6/2005	31/12/2005	$0.20[1]	$0.000007	100% after 24/6/2005

[1] The option exercise prices are subject to adjustment in certain circumstances as per ASX Listing Rule 6.22.2

Remuneration Report

continued

Options are granted to directors in accordance with the terms as approved on a case by case basis by shareholders at relevant annual general meetings, details of which are set out in note 16. Options are granted to the specified executives as part of the employee option scheme. Details of options granted to, cancelled in respect of and exercised by directors and specified executives during the year are set out below.

Options are granted under the scheme for no consideration. Options are granted for a five year period. When exercisable, each option is convertible into one ordinary share.

Options granted under the scheme carry no dividend or voting rights.

The exercise price of the options is based on the greater of 20 cents or the price determined by the directors being not less than the weighted average sale price per share of all sale prices at which shares were sold on ASX during the period of five business days ending on the business day prior to the date of the directors' meeting at which the directors resolved to grant the option. The option exercise prices are subject to adjustment in certain circumstances as per ASX listing rule 6.22.2.

The amounts disclosed for the remuneration of directors and specified executives include the assessed fair values of options granted during the year, at the date they were granted. Fair values have been assessed using the Black-Scholes option pricing model. Factors taken into account by this model include the exercise price, the term of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The value attributable to options is allocated to particular periods in accordance with guidelines issued by the Australian Securities and Investments Commission (ASIC) which require the value of an option at grant date to be allocated equally over the period from the grant date to the vesting date, unless it is probable that the individual will cease service at an earlier date, in which case the value is to be spread over the period from grant date to that earlier date. For options that vest immediately at grant date, the value is disclosed as remuneration immediately.

Options provided as remuneration (audited)

Details of options over ordinary shares in the company provided as remuneration to each director of Horizon Oil Limited and each of the specified executives of the consolidated entity are set out below. When exercisable, each option is convertible into one ordinary share of Horizon Oil Limited. Further information on options is set out in note 16.

Shares provided on exercise of remuneration options (audited)

No options were exercised during the year.

Option holdings (audited)

The numbers of options over ordinary shares in the company held during the financial year by each director of Horizon Oil Limited and each of the specified executives of the consolidated entity, including their personally-related entities, are set out below:

Name	Balance at the start of the year	Granted during the year	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors:						
F Ainsworth	1,000,000	-	-	-	1,000,000	1,000,000
B D Emmett	5,000,000	-	-	-	5,000,000	5,000,000
J Humphrey	500,000	-	-	-	500,000	500,000
R A Laws	500,000	-	-	-	500,000	500,000
P Nimmo	2,000,000	-	-	-	2,000,000	2,000,000
Specified executives:						
M Sheridan	2,000,000	-	-	-	2,000,000	2,000,000
M Lambert	-	500,000	-	-	500,000	250,000
W Dobbie	-	-	-	-	-	-

Shareholdings (audited)

The numbers of shares in the company held during the financial year by each director of Horizon Oil Limited and each of the specified executives of the consolidated entity, including their personally-related entities are set out below:

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors				
Ordinary shares				
F Ainsworth	512,500	-	83,332	595,832
B D Emmett*	-	-	585,000	585,000
J Humphrey	657,878	-	-	657,878
R A Laws	400,000	-	41,666	441,666
P Nimmo*	618,730	-	336,666	955,396
Specified executives				
Ordinary shares				
M Sheridan*	437,974	-	186,666	624,640
M Lambert	-	-	42,000	42,000
W Dobbie	-	-	-	-

* B D Emmett, P Nimmo and M Sheridan also hold interests in Oasis Energy Investments Pty Ltd, a substantial shareholder.

Loans to directors and executives

There were no loans to directors or specified executives during the financial year.

Other transactions with directors and specified executives

See note 25 for other transactions with directors and specified executives.

Shares under option

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

Number of Options	Exercise Price[1]	Expiry Date
2,000,000	20 cents	31/12/2005
2,000,000	20 cents	16/1/2007
2,500,000	20 cents	11/3/2007
2,500,000	11 cents	11/3/2007
100,000	20 cents	11/6/2007
2,000,000	20 cents	1/10/2007
1,500,000	20 cents	31/10/2007
2,000,000	20 cents	16/6/2008
500,000	20 cents	25/11/2008
500,000	20 cents	25/10/2009
1,465,000	15 cents[2]	1/9/2010
17,065,000		

[1] The option exercise prices are subject to adjustment in certain circumstances in line with ASX Listing Rule 6.22.2

[2] Subject to restrictions on exercise

On 25 October 2004, the company issued 500,000 options under the Employee Option Scheme exercisable in line with the conditions of the Scheme (see note 16) and expiring 5 years following the date of issue. The company also issued 1,000,000 options on 24 June 2005 exercisable immediately and expiring on 31 December 2005.

During the year, the date of expiry of 1,000,000 options was modified from 16 January 2007 to 31 December 2005.

1,000,000 options exercisable at 20 cents lapsed during the year.

Subsequent to year end, 4,090,000 options were issued or are proposed to be issued under the company's short term performance incentive plan. 1,465,000 options were issued subsequent to year end and 2,625,000 options are proposed to be issued to executive directors, subject to shareholder approval at the company's 2005 Annual General Meeting. These options have not been included in the directors' and executives' option holdings tables. The options granted under the company's short term incentive plan terminate if not exercised within five years and are subject to the following restrictions on exercise:

- options are progressively exercisable in three equal tranches (subject to share price performance restriction) from dates which are 12, 24 and 36 months after grant date; and
- options are not exercisable unless and until the five day volume average weighted price of the company's shares equals or exceeds $0.20. Until such time, all options otherwise exercisable are not able to be exercised.

No shares were issued during the year upon the exercise of options.

Dividend

No dividend is recommended for the year ended 30 June 2005.

Insurance of officers

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

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

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

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

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

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

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 28.

	Consolidated 2005 $	Consolidated 2004 $
During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices:		
Assurance services		
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	59,500	56,500
Related practices of PricewaterhouseCoopers Australian firm	-	5,000
Total remuneration for audit services	59,500	61,500
2. Non-audit services		
Taxation services		
Related practices of PricewaterhouseCoopers Australian firm	17,258	22,264
Total remuneration for taxation services	17,258	22,264
Other services		
PricewaterhouseCoopers Australian firm:		
Due diligence	-	15,000
Related practices of PricewaterhouseCoopers Australian firm	606	2,449
Total remuneration for advisory services	606	17,449

Reporting currency and rounding of amounts to nearest thousand dollars

All references in this Annual Report to "$" or "dollars" are references to Australian dollars, unless otherwise specified.

The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

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

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

F Ainsworth AM
Chairman

B D Emmett
Chief Executive Officer

Sydney
9 September 2005

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Waterfront Place
1 Eagle Street
BRISBANE QLD 4000
GPO Box 150
BRISBANE QLD 4001
DX 77 Brisbane
Australia
www.pwc.com/au

Auditors' Independence Declaration

As lead auditor for the audit of Horizon Oil Limited for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been:

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

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

Robert Hubbard
Partner
PricewaterhouseCoopers

Brisbane
9 September 2005

Corporate Governance Statement

The company has complied with all of the Australian Stock Exchange Corporate Governance Council's best practice recommendations.

A description of the company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. The board and committee charters, together with key corporate governance policies are available for review in the corporate governance section on the company website www.horizonoil.com.au.

The company and its controlled entities together are referred to as the Group in this statement.

Board of Directors

The board operates in accordance with the broad principles set out in its charter as summarised below.

Role of the board

The board is responsible for the overall corporate governance of the Group including the strategic direction, establishment of goals for management and monitoring the achievement of such goals. The board has established a number of committees to assist in the execution of its responsibilities. The committees and their roles are discussed below.

Board composition

The board comprises three non-executive independent directors, including the independent chairman, and two executive directors, including the chief executive officer.

Details of the members of the board, their skills, experience, expertise, qualifications and term of office are set out in the directors' report under the heading "Information on Directors".

The company's constitution provides that directors, other than executive directors, shall not retain office for more than three calendar years or beyond the third annual general meeting following election without submitting to re-election by shareholders. At the annual general meeting each year, one third of the directors in office, or, if their number is not a multiple of three, the number closest to one-third, shall retire from office.

Directors' independence

The board adopts the criteria specified in the ASX Best Practice Recommendations to determine a director's independence. The board considers that Messrs Ainsworth, Humphrey and Laws satisfy the criteria being independent of management and free from any business or other relationship or conflict of interest that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their independent judgement. The board acknowledges that Mr Humphrey has been a director for fifteen years. However, given the complete change of the Group's management within the last three years, the board considers that there are no objective or subjective reasons to believe that Mr Humphrey's period of board service in any way would interfere with his ability to act in the best interests of the company.

Commitment

The number of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2005, and the number of meetings attended by each director is disclosed in the directors' report.

Independent professional advice

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

Performance assessment

Each year the chairman will conduct a formal discussion with each of the directors individually to discuss their performance and ideas for improvement of the operation of the Board. The Board will then review the consolidated views, inputs, comments and deficiencies arising from the formal discussions and identify ways to improve board performance and determine the necessary implementation plans for such improvement measures.

Corporate reporting

The chief executive officer (CEO) and chief financial officer (CFO) have made the following certifications to the board:

- that to the best of their knowledge and, subject to the following provision, the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and Group and are in accordance with relevant accounting standards;

- that the above statement is founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board Committees

The board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the audit, nomination, remuneration, risk management and disclosure committees.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. The board charters are published on the company website.

Audit committee

The audit committee consists of the following non-executive independent directors:

J S Humphrey (Chairman)
F Ainsworth

Details of these directors' qualifications and attendance at audit committee meetings are set out in the directors' report.

The audit committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industry in which the Group operates.

The main responsibilities of the committee are to oversee:

- the adequacy of Horizon Oil's accounting system and internal control environment;
- the adequacy of Horizon Oil's system for compliance with relevant laws, regulations, standards and codes;
- the effectiveness of internal accounting controls;
- the identification of improvements that can or should be made to Horizon Oil's internal controls, policies and financial disclosures;
- the frequency and significance of all transactions with related parties and assess their propriety;
- the integrity and quality of Horizon Oil's financial information including financial information provided to ASIC, ASX and shareholders; and
- the independence, objectivity, scope and quality of the external audit, including a review of the level of total fees paid to the external auditors.

In fulfilling its responsibilities, the audit committee:

- reviews the processes the CEO and CFO have in place to support their certifications to the board;
- meets with the external auditors at least twice a year;
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- meets separately with the external auditors at least twice a year without the presence of management; and
- provides the external auditors with a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the board.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

External auditors

The company and audit committee policy is to appoint external auditors who clearly demonstrate professional qualities and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services would be requested if deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PricewaterhouseCoopers and its predecessor firms have been the external auditors for over 20 years. It is the company's policy to rotate audit engagement partners at least every five years.

An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in note 23 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Nomination committee

The Board established a nomination committee on 10 February 2004. The committee consists of the following non-executive directors:

F Ainsworth (Chairman)
R A Laws

One meeting of the nomination committee was held in the year.

The main responsibilities of the committee are to:

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

When a new director is to be appointed, the committee reviews the range of skills, experience and expertise on the board, identifies its needs and potential candidates with appropriate skills and experience. Where necessary, advice may be sought from independent search consultants.

The full board then appoints the most suitable candidate who must stand for election at the next annual general meeting of the company. The committee's nomination of existing directors for reappointment is not automatic and is contingent on their past performance, contribution to the company and the current and future needs of the board and company.

Remuneration committee

The Board established a remuneration committee on 10 February 2004. The remuneration committee consists of the following non-executive directors:

R A Laws (Chairman)
F Ainsworth

One meeting of the remuneration committee was held in the year.

The remuneration committee advises the board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination.

Further information on directors' and executives' remuneration is set out in the Directors' report and note 24 to the financial statements.

Risk assessment and management

The board, through both the audit and risk management committees, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. These policies are available on the company website. In summary, the company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

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

The company risk management policy and the operation of the risk management and compliance system is overseen by the company risk management committee, established on 20 April 2004, which consists of all directors:

R A Laws (Chairman)
F Ainsworth
J S Humphrey
B D Emmett
P Nimmo

The committee's responsibilities include the company's internal control environment and ensuring that the company has an integrated framework of internal compliance and controls based on formal procedures and appropriate delegation of authority and responsibility.

The key function of the Committee is to identify and prioritise risk arising from business strategies and activities and ensure that appropriate risk management controls are implemented and are effective.

The company recognises the importance of environmental and occupational health and safety ("OH&S") issues and is committed to the highest levels of performance. To help meet this objective the risk management committee is responsible for ensuring the systematic identification of environmental and OH&S issues and for ensuring they are managed in a structured manner.

Ethical Standards

The company has a corporate code of conduct ("code") that has been fully endorsed by the board and applies to all directors and employees. The code is updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

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

The company's policy in relation to dealings in the company's securities applies to directors, employees and consultants. In summary, such persons are permitted to deal in the company's securities during the twenty-eight day period following the release of the quarterly reports, half-yearly and annual financial results to the market. Any intended transactions must be notified to the chairman in advance.

The code and the company's share trading policy are discussed with each new employee as part of their induction training.

The directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

The code and the securities trading policy are available for review on the company's website.

Continuous disclosure and shareholder communication

The company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the company and its controlled entities that a reasonable person would expect to have a material effect on the price of the company's securities. These policies and procedures also include the arrangements the company has in place to promote communication with shareholders and encourage effective participation at general meetings. These policies and procedures are available on the company's website.

The board constituted a disclosure committee, on 20 April 2004, which consists of Mr Ainsworth (chairman) and Mr Emmett (chief executive officer).

The disclosure committee is responsible for:

- ensuring Horizon Oil complies with its disclosure obligations;
- determining what information can or should be disclosed to the market;
- overseeing and coordinating the disclosure of information to the ASX, shareholders, analysts, stockbrokers, media and the public; and
- educating officers and employees on Horizon Oil's disclosure policy and procedures and raising awareness of the principles underlying continuous disclosure.

The chairman, chief executive officer and company secretary have been nominated as persons responsible for communications with the ASX. This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the company's web site as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted on the company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

All shareholders receive a copy of the company's annual report. In addition, the company seeks to provide opportunities for shareholders to participate through electronic means. The website also includes a feedback mechanism and an option for shareholders to register their email address for direct email updates of company matters.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Waterfront Place
1 Eagle Street
BRISBANE QLD 4000
GPO Box 150
BRISBANE QLD 4001
DX 77 Brisbane
Australia
www.pwc.com/au

Independent audit report to the members of Horizon Oil Limited

Audit opinion

In our opinion:

1. the financial report of Horizon Oil Limited:
   - gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Horizon Oil Limited and the Horizon Oil Group (defined below) as at 30 June 2005, and of their performance for the year ended on that date,
   - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*; and
2. the audited remuneration disclosures that are contained in pages 21-25 of the directors' report comply with Accounting Standard AASB 1046 *Director and Executive Disclosures by Disclosing Entities* (AASB 1046) and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Horizon Oil Limited the company and the Horizon Oil Group (the consolidated entity), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives (audited remuneration disclosures) as required by AASB 1046, under the heading "remuneration report" on pages 21-25 of the directors' report, as permitted by the *Corporations Regulations 2001*.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the

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remuneration disclosures comply with AASB 1046 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 1046 and the *Corporations Regulations 2001*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Robert Hubbard
Partner

Brisbane
9 September 2005

Directors' Declaration

In the directors' opinion:

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

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

(ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and

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

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 21 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 21.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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

F Ainsworth AM
Chairman

B D Emmett
Chief Executive Officer

9 September 2005

Statement of Financial Performance

for the year ended 30 June 2005

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Revenue from operating activities	**3**	330	271	-	-
Cost of sales	**4(a)**	(451)	(598)	-	-
Gross profit / (loss)		(121)	(327)	-	-
Revenue from non-operating activities	**3**	482	6,984	1,320	399
General and administrative expenses	**4(b)**	(2,128)	(2,331)	(2,024)	(2,124)
Exploration and development expenses	**4(c)**	(6,529)	(7,816)	(236)	(5,377)
Borrowing costs	**4(d)**	(3)	-	-	-
Write down of investment in subsidiaries to recoverable amount		-	-	(3,305)	-
Write back / (write down) of loans receivable from subsidiaries to recoverable amount		-	-	6,609	(122)
Other expenses	**4(e)**	(136)	(5,159)	(94)	(158)
		(8,314)	(8,322)	2,270	(7,382)
Profit / (loss) from ordinary activities before income tax (expense) / benefit		(8,435)	(8,649)	2,270	(7,382)
Income tax (expense) / benefit relating to ordinary activities	**5**	(60)	-	-	-
Profit / (loss) from ordinary activities after income tax (expense) / benefit		(8,495)	(8,649)	2,270	(7,382)
Net profit / (loss) attributable to members of Horizon Oil Limited		(8,495)	(8,649)	2,270	(7,382)
Increase in foreign currency translation reserve arising on translation of foreign self-sustaining controlled operations		-	-	-	-
Total revenues, expenses and valuation adjustments attributable to members of Horizon Oil Limited recognised directly in equity		-	-	-	-
Total changes in equity attributable to members of Horizon Oil Limited other than those resulting from transactions with owners as owners		(8,495)	(8,649)	2,270	(7,382)
		Cents	Cents		
Basic earnings per share	**33**	(1.72)	(2.08)		
Diluted earnings per share	**33**	(1.72)	(2.08)		

The accompanying notes form an integral part of these financial statements.

Statement of Financial Position
as at 30 June 2005

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Current Assets					
Cash assets	6	7,786	7,777	7,407	6,701
Receivables	7	586	597	2	147
Other financial assets	8	-	-	-	-
Prepayments and other debtors	9	299	58	260	47
Total Current Assets		8,671	8,432	7,669	6,895
Non-Current Assets					
Other financial assets	10	-	-	17,096	7,325
Plant & equipment	11	68	70	68	70
Exploration & development expenditure	12	12,817	11,555	6,383	5,951
Total Non-Current Assets		12,885	11,625	23,547	13,346
Total Assets		21,556	20,057	31,216	20,241
Current Liabilities					
Payables	13	2,623	2,503	663	1,617
Total Current Liabilities		2,623	2,503	663	1,617
Non-Current Liabilities					
Payables	14	118	-	118	-
Provisions	15	412	197	-	-
Total Non-Current Liabilities		530	197	118	-
Total Liabilities		3,153	2,700	781	1,617
Net Assets		18,403	17,357	30,435	18,624
Equity					
Contributed equity	16	93,694	84,153	93,694	84,153
Reserves	17(a)	4,412	4,412	-	-
Accumulated losses	17(b)	(79,703)	(71,208)	(63,259)	(65,529)
Total parent entity interest and Total equity		18,403	17,357	30,435	18,624

The accompanying notes form an integral part of these financial statements.

Statement of Cash Flows

for the year ended 30 June 2005

	Note	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Cash flows from operating activities					
Receipts from customers		313	271	-	-
Payments to suppliers		(2,311)	(1,871)	(1,953)	(927)
		(1,998)	(1,600)	(1,953)	(927)
Interest received		315	151	302	126
Income taxes paid		(60)	-	-	-
Withholding tax paid		-	-	-	-
Net cash inflow / (outflow) from operating activities	**30**	(1,743)	(1,449)	(1,651)	(801)
Cash flows from investing activities					
Expenditure on exploration phase properties		(7,472)	(5,470)	(667)	(4,351)
Expenditure on development phase properties		(320)	(175)	-	-
Proceeds from sale of exploration & development phase properties		-	2,297	-	-
Payments for plant and equipment		(55)	(79)	(55)	(79)
Proceeds on sale of interests		163	-	115	-
Proceeds from sale of financial assets		-	5,335	-	-
Payments to acquire investments		-	-	(6,194)	-
Loans to controlled entities		-	-	(273)	5,599
Net cash inflow / (outflow) from investing activities		(7,684)	1,908	(7,074)	1,169
Cash flows from financing activities					
Proceeds from share issues		9,861	6,326	9,861	6,326
Payment of share issue expenses		(319)	(440)	(319)	(440)
Dividend paid		-	-	-	-
Repayment of borrowings		-	-	-	-
Net cash inflow / (outflow) from financing activities		9,542	5,886	9,542	5,886
Net increase / (decrease) in cash held		115	6,345	817	6,254
Cash at the beginning of the financial year		7,777	1,571	6,701	594
Effects of exchange rate changes on cash		(106)	(139)	(111)	(147)
Cash at the end of the financial year	**6**	7,786	7,777	7,407	6,701
Non-cash financing and investing activities	**31**				

The accompanying notes form an integral part of these financial statements.

1. Summary of significant accounting policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

The financial report has been prepared on a going concern basis. The carrying values of non-current assets disclosed in these Financial Statements are predicated on the consolidated entity's continued pursuit of its strategy in respect of these assets. The strategy involves raising additional capital, likely to be a combination of equity and debt. Should the full amount of the capital required to pursue the strategy not be raised and the consolidated entity adopt a modified strategy involving rationalisation of any non-current assets, while there is inherent uncertainty, the directors consider that it is unlikely that the carrying values of non-current assets would exceed the realisable value of such assets in an orderly sales process and so no adjustment has been made to their carrying values.

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006. Information about how the transition to Australian equivalents to IFRS is being managed, the key differences in accounting policies that arise and the impacts of the transition is set out in note 34.

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Horizon Oil Limited ("parent entity") as at 30 June 2005 and the results of all controlled entities for the year then ended. Horizon Oil Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control exists.

Investments in joint ventures are accounted for as set out in note 1(f).

(b) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on net cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(c) Foreign currency translation

(i) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences arising on translation are recognised in the Statement of Financial Performance.

(ii) Foreign controlled entities

The assets and liabilities of foreign controlled entities that are considered to be self-sustaining are translated into Australian currency at rates of exchange current at balance date, while their revenues and expenses are translated at the average rates ruling during the year. Exchange differences arising on translation are taken to the foreign currency translation reserve.

For foreign controlled entities whose operations are considered to be integrated with the activities of the parent entity, the assets, liabilities and equity of these entities are consolidated into the parent entity using the temporal method of translation whereby non-monetary assets and liabilities and equity items, including revenues and expenses, are translated using historic rates of exchange, and monetary assets and liabilities are translated using rates of exchange current at balance date. Any resultant exchange differences are recorded as revenue or expenses by the consolidated entity.

(d) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

(e) Exploration and development expenditure

(i) Exploration phase property costs

Exploration expenditure incurred by or on behalf of the entity is accumulated separately for each area of interest until such time as the area moves into Development Phase, or is abandoned or sold. The realisation of the value of expenditure carried forward depends upon any commercial results that may be obtained through successful development and exploitation of the area of interest or alternatively by its sale. If an area of interest is abandoned or is considered to be of no further commercial interest the accumulated exploration costs relating to the area are written off against income in the year of abandonment. Some exploration expenditure may also be written off where areas of interest are partly relinquished.

When an area of interest commences production, all exploration phase property costs are transferred to development and production phase property costs.

(ii) Development and production phase property costs

Development expenditure incurred by or on behalf of the entity is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the directors. When an area of interest commences production, accumulated acquisition costs, exploration and development expenditure are amortised over the area of interest's estimated recoverable reserves. Although an area of interest has entered the development and production phase, exploration activities within the same area of interest may continue. Such costs, although of an exploration nature, are classified as expenditure on development phase properties and are amortised along with carried forward costs and current year development expenditure.

(iii) Restoration, rehabilitation and environmental expenditure

At each balance date the directors review the estimated costs of restoration and rehabilitation on currently held permits. The directors consider the estimated costs of reclamation, plant and waste site closure and subsequent monitoring of the environment. Costs are estimated on the basis of current undiscounted costs, current legal requirements and current technology. In general, due to the non-invasive nature of oil and gas exploration, as compared with mining operations, the estimated restoration costs associated with any permit are minor. Where the provision is either increased or decreased, the resulting expense or benefit is charged against or credited to results for the year.

(f) Joint ventures

The proportionate interests in the assets, liabilities and expenses of joint venture operations have been incorporated in the financial statements under the appropriate headings. Details of major joint venture interests and the sum of the group's interests in joint venture assets and liabilities are set out in note 22.

Where part of a joint venture interest is farmed out in consideration of the farminee undertaking to incur further expenditure on behalf of both the farminee and the entity in the joint venture area of interest, exploration expenditure incurred and carried forward prior to farmout continues to be carried forward without adjustment, unless the terms of the farmout are excessive based on the diluted interest retained. A provision is then made to reduce exploration expenditure to its estimated recoverable amount. Any cash received in consideration for farming out part of a joint venture interest is treated as a reduction in the carrying value of the related area of interest.

(g) Investments

Interests in unlisted securities, other than controlled entities, are brought to account at cost and subsequently recorded at the lower of cost and recoverable amount. Dividend income is recognised in the statement of financial performance when receivable.

Controlled entities are accounted for in the consolidated financial statements as set out in note 1(a).

Interests in listed securities held for resale are valued at market value.

(h) Leased non-current assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and interest expense.

The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset.

Other operating lease payments are charged to the statement of financial performance in the period in which they are incurred.

(i) Depreciation
Depreciation is calculated on a straight line basis so as to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual re-assessments for major items. The expected useful lives are as follows:

Plant and equipment	3 – 10 years

(j) Cash
For purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(k) Inventories
Inventories are valued at the lower of cost and net realisable value.

(l) Recoverable amount of non-current assets
The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. The decrement in the carrying amount is recognised as an expense in the statement of financial performance in the reporting period in which the recoverable amount write down occurs. The expected net cash flows included in determining recoverable amounts of non-current assets are not discounted to their present values.

(m) Revenue recognition
Revenue is recognised to the extent that it is probable the economic benefits will flow to the entity and the revenue can be reliably measured. Amounts disclosed as revenue are net of production taxes paid.

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

(n) Receivables
All trade debtors are recognised at the amounts receivable, as they are due for settlement no more than 60 days from the date of recognition.

Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised where some doubt as to collection exists.

(o) Trade and other creditors
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Employee entitlements
(i) Wages and salaries and annual leave
Liabilities for wages, salaries, annual leave and other employee entitlements expected to be settled within 12 months of the reporting date are recognised in other creditors in respect of employees' services up to the reporting date, and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave
A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) Ownership-based remuneration schemes
Ownership-based remuneration is provided to employees via the Employee Option Scheme. Information relating to this scheme is set out in note 16.

No accounting entries are made in relation to the Employee Option Scheme until options are exercised, at which time the amounts receivable from employees are recognised in the statement of financial position as share capital. The amounts disclosed for remuneration of directors and executives in the Directors Report include the assessed fair value of options at the date they were granted.

(q) Earnings per share
(i) Basic earnings per share
Basic earnings per share is determined by dividing the profit (loss) from ordinary activities after income tax attributable to members of Horizon Oil Limited by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

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

(r) Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(s) Leasehold Improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter.

(t) International Financial Reporting Standards (IFRS)

See note 34 for the expected impacts of the transition to Australian equivalents to International Financial Reporting Standards on the group's accounting policies.

2. Segment information

Primary Reporting – Geographical Segments

The consolidated entity's risks and returns are affected predominantly by differences in the geographical areas in which it operates. Therefore, geographical segments are considered its primary reporting format.

Secondary Reporting – Business Segments

The consolidated entity operates in one business segment, namely exploration, development and production of hydrocarbons.

Segment Accounting Policies

Segment accounting policies are the same as the consolidated entity's policies as disclosed in note 1. Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories and exploration and development expenditure. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated on a reasonable estimate of usage. Segment liabilities consist primarily of trade and other creditors. Segment assets and liabilities do not include income taxes.

Primary reporting- Geographical Segments

The consolidated entity operates in the following geographical segments: New Zealand, China, Papua New Guinea, USA and Thailand (2004: New Zealand, China, Papua New Guinea, USA and Tunisia). Segment reporting information for these segments is set out below:

	New Zealand	China	Papua New Guinea	USA	Thailand	Unallocated	Consolidated
Segment Revenue	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2005							
Sales to customers outside the consolidated entity (oil & gas)	-	-	-	330	-	-	330
Other revenue from entities outside the consolidated entity	-	-	-	48	-	434	482
Total segment revenue	-	-	-	378	-	434	812

	New Zealand	China	Papua New Guinea	USA	Tunisia	Unallocated	Consolidated
Segment Revenue	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2004							
Sales to customers outside the consolidated entity (oil & gas)	-	-	-	271	-	-	271
Other revenue from entities outside the consolidated entity	5,370	-	-	1,457	-	157	6,984
Total segment revenue	**5,370**	**-**	**-**	**1,728**	**-**	**157**	**7,255**

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	New Zealand	China	Papua New Guinea	USA	Thailand	Unallocated	Consolidated
Segment Results	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2005							
Segment Results	9	(167)	(2,460)	(78)	(3,979)	189	(6,486)
Interest income							319
Borrowing costs expensed							(3)
Net foreign currency (losses) / gains							(136)
Other expenditure (including general and administrative costs)							(2,129)
Consolidated entity (loss) / profit from ordinary activities before income tax expense							**(8,435)**
Income tax (expense) / benefit							(60)
Net (loss) / profit							**(8,495)**

	New Zealand	China	Papua New Guinea	USA	Tunisia	Unallocated	Consolidated
Segment Results	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2004							
Segment Results	502	(5,101)	(82)	(1,494)	(166)	(27)	(6,368)
Interest income							157
Borrowing costs expensed							-
Net foreign currency (losses) / gains							(100)
Other expenditure (including general and administrative costs)							(2,338)
Consolidated entity (loss) / profit from ordinary activities before income tax expense							**(8,649)**
Income tax (expense) / benefit							-
Net (loss) / profit							**(8,649)**

	New Zealand	China	Papua New Guinea	USA	Thailand	Unallocated	Consolidated
Segment Other	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2005							
Segment Assets	5,251	6,651	793	1,393	-	7,468	21,556
Segment Liabilities	112	412	1,791	464	29	345	3,153
Other Segment Information:							
Acquisition of property, plant and equipment and other non-current assets (excluding investments, exploration and development expenditure)	-	-	-	-	-	55	55
Depreciation of non-current assets	-	-	-	-	-	57	57
Significant non-cash expenses (other than depreciation) included in segment results:							
Exploration & development written off & carrying value of assets disposed	-	-	2,480	-	3,913	-	6,393

	New Zealand	China	Papua New Guinea	USA	Tunisia	Unallocated	Consolidated
Segment Other	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2004							
Segment Assets	5,028	7,609	947	1,168	99	5,206	20,057
Segment Liabilities	143	1,314	654	290	21	278	2,700
Other Segment Information:							
Acquisition of property, plant and equipment and other non-current assets (excluding investments, exploration and development expenditure)	-	-	-	-	-	79	79
Depreciation of non-current assets	-	-	-	-	-	57	57
Significant non-cash expenses (other than depreciation) included in segment results:							
Exploration & development written off & carrying value of assets disposed	4,945	4,985	-	2,382	47	-	12,359
Significant revenue or expenses:							
Proceeds on sale of development assets	-	-	-	1,453	-	-	1,453
Proceeds on sale of financial assets	5,335	-	-	-	-	-	5,335

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
3. Revenue				
Revenue from operating activities				
Oil sales	330	271	-	-
	330	271	-	-
Revenue from non-operating activities				
Interest received from unrelated corporations	319	157	305	131
Proceeds from sale of current investments	-	5,370	-	-
Proceeds from sale of interests / permits	163	1,453	115	-
Miscellaneous other revenue	-	4	900	268
	482	6,984	1,320	399
Revenue from ordinary activities	812	7,255	1,320	399

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
4. Profit / (loss) from ordinary activities				
(a) Cost of sales				
Cost of production				
Direct production costs	236	598	-	-
	236	598	-	-
Provision for restoration of operating locations	215	-	-	-
Total cost of sales	451	598	-	-
(b) General and administrative expenses				
Corporate office expenses	1,986	2,180	1,967	1,988
Depreciation – Plant & equipment	57	57	57	57
Rental expense relating to operating leases	85	94	-	79
Total general and administrative expenses	2,128	2,331	2,024	2,124
(c) Exploration and development expenses				
Exploration expenditure written off / expensed	6,529	5,434	236	5,377
Written down value of assets sold	-	2,382	-	-
Total exploration and development expenses	6,529	7,816	236	5,377
(d) Borrowing costs				
Interest and finance charges paid	3	-	-	-
(e) Other expenses				
Foreign exchange losses (net)	136	100	94	158
Written down value of current investments sold	-	4,945	-	-
Other	-	114	-	-
Total other expenses	136	5,159	94	158

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
(f) Profit / (loss) from ordinary activities before income tax expense includes the following specific expenses:				
Depreciation of plant and equipment	57	57	57	57
Total depreciation and amortisation	57	57	57	57
(g) Net gains / (losses) on disposal of assets				
Net gains / (losses) on disposal of: -				
Permits / interests	163	(929)	115	-
Investments	-	368	-	-
	163	(561)	115	-
5. Income tax				
(a) Income tax expense / (benefit) for the financial year differs from the amount calculated on the profit / (loss) from ordinary activities				
The differences are reconciled as follows: -				
Profit / (loss) from ordinary activities before income tax expense	(8,435)	(8,649)	2,270	(7,382)
Income tax calculated at 30% (2004 – 30%)	(2,530)	(2,595)	681	(2,215)
Tax effect of permanent differences:				
Non deductible expenditure/(non assessable income) (net)	1,356	1,796	(845)	1,518
Income tax adjusted for permanent differences	(1,174)	(799)	(164)	(697)
Benefit of tax losses of prior years recouped	(113)	(3,167)	-	-
Future income tax benefits not brought to account	1,355	3,783	164	697
Write-back deferred income tax liability	-	-	-	-
Effect of higher / (lower) rates of tax on overseas income	(68)	183	-	-
Under / (over) provision in previous years	60	-	-	-
Total income tax expense / (benefit)	60	-	-	-

(b) As at 30 June 2005 the directors estimate that the consolidated entity has gross offsets to future assessable income arising from carried forward exploration and development expenditure and from carried forward tax losses as follows:

> Horizon Oil Limited	$19,200,000
> Horizon Oil (USA) Inc. and other U.S. entities	$26,950,000
> Horizon Oil International Ltd and other N.Z. entities	$37,330,000
> Bligh Papua Ltd and Bligh Kanau Ltd and other PNG branches	$33,760,000

The benefit of these tax losses will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised or the losses are transferred to an eligible entity; and

(ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

The company and its wholly-owned Australian subsidiaries have determined they will not elect to enter the tax consolidation regime at this stage. As at 30 June 2005, no deferred tax balances have been recognised in the statements of financial position of the company and the consolidated entity. Therefore, the decision not to elect to enter into the tax consolidation regime will not have any material impact on the disclosed statements of financial position at balance date.

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
6. Current assets – Cash assets				
Cash at bank and on hand	5,297	2,403	4,918	1,893
Deposits at call (refer note (a))	2,489	5,374	2,489	4,808
	7,786	7,777	7,407	6,701

Note: (a) The US$ and A$ deposits bear average floating interest rates of approximately 2.86% (2004 – 3.37%)

	Consolidated 2005	Consolidated 2004	Parent Entity 2005	Parent Entity 2004
7. Current assets – Receivables				
Trade receivables	586	353	2	114
Other receivables	-	244	-	33
	586	597	2	147
8. Current assets – Other financial assets				
Shares held for resale – cost	20	20	20	20
Provision for shares held for resale	(20)	(20)	(20)	(20)
	-	-	-	-
9. Current assets – Prepayments and other debtors				
Prepayments	115	58	110	47
Other debtors	184	-	150	-
	299	58	260	47

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
10. Non-current assets – Other financial assets				
Non-traded investments				
Shares in controlled entities				
- at cost (note 20)	-	-	9,125	12,849
Provision for write-down to recoverable amount	-	-	(3,305)	(12,849)
	-	-	5,820	-
Loans to controlled entities	-	-	32,087	40,972
Provision for write down to recoverable amount	-	-	(20,811)	(33,647)
	-	-	11,276	7,325
	-	-	17,096	7,325
11. Non-current assets – Plant and equipment				
Plant and equipment – at cost	470	457	470	452
Less accumulated depreciation	(402)	(387)	(402)	(382)
	68	70	68	70
Total Plant and Equipment	68	70	68	70

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

	Plant and equipment	Total
	$'000	$'000
Consolidated		
Carrying amount at 1 July 2004	70	70
Additions	55	55
Disposals	-	-
Depreciation / amortisation expense	(57)	(57)
Carrying amount at 30 June 2005	68	68
Parent Entity		
Carrying amount at 1 July 2004	70	70
Additions	55	55
Disposals	-	-
Depreciation / amortisation expense	(57)	(57)
Carrying amount at 30 June 2005	68	68

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
12. Non-current assets – Exploration and development expenditure				
Exploration Phase Property Costs				
Deferred geological, geophysical, drilling and other expenditure	11,536	10,594	6,383	5,951
Development and Production Phase Property Costs				
Producing oil and gas property acquisition, deferred geological, seismic and drilling, production and distribution facilities and other expenditure	1,647	1,327	-	-
Less accumulated amortisation	(366)	(366)	-	-
	1,281	961	-	-
	12,817	11,555	6,383	5,951
The capitalised Exploration and Development Expenditure carried forward above has been determined as follows:				
Exploration Phase Properties				
Opening balance	10,594	10,157	5,951	6,587
Expenditure incurred during the year	7,335	5,468	432	4,348
Expenditure written off during the year	(6,393)	(5,031)	-	(4,984)
Closing balance as shown above	11,536	10,594	6,383	5,951
Development Phase Properties				
Opening balance	961	3,168	-	-
Expenditure incurred during the year	320	175	-	-
Acquisitions and disposals during the year	-	(2,382)	-	-
Closing balance as shown above	1,281	961	-	-

Ultimate recoupment of exploration and evaluation expenditure carried forward is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas.

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
13. Current liabilities - Payables				
Trade creditors	1,427	2,194	437	1,418
Other creditors	1,196	309	226	199
	2,623	2,503	663	1,617
14. Non-Current liabilities - Payables				
Trade creditors	118	-	118	-
15. Non-Current liabilities - Provisions				
Restoration	412	197	-	-
Opening balance	197	197	-	-
Additional provision in year	215	-	-	-
Closing balance	412	197	-	-

	Note	Parent Entity		Parent Entity	
		2005	2004	2005	2004
		Number of shares			
		'000	'000	$'000	$'000
16. Contributed equity					
(a) Share capital					
Ordinary shares	**(b)(c)**				
Fully paid		534,001	451,827	93,694	84,153
		534,001	451,827	93,694	84,153

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	$'000
1/7/2003	Opening balance	365,825,031		78,268
8/10/2003	Cancellation of partly paid shares	(4,363,600)		-
5/12/2003	Rights Issue	90,365,572	0.07	6,326
31/12/2003	Share issue expenses	-		(441)
30/6/2004	Balance as at 30 June 2004	451,827,003		84,153
30/12/2004	Share Purchase Plan	82,174,118	0.12	9,861
30/12/2004	Share issue expenses	-		(317)
31/1/2005	Share issue expenses	-		(3)
30/6/2005	**Balance as at 30 June 2005**	534,001,121		93,694

(c) Ordinary shares

Fully Paid

Fully paid ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

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(d) Options over unissued shares

Set out below is a summary of options on issue:

Grant date	Expiry date	Exercise price[1]	Balance start of year Number	Issued during year Number	Exercised during year Number	Lapsed/ cancelled during year Number	Expiry date varied Number	Balance at end of year Number
Consolidated and parent entity 2005								
Options issued pursuant to the Employee Option Scheme								
21/01/2000	21/01/2005	$0.20	1,000,000	-	-	(1,000,000)	-	-
16/01/2002	31/12/2005	$0.20	-	-	-	-	1,000,000	1,000,000
16/01/2002	16/01/2007	$0.20	3,000,000	-	-	-	(1,000,000)	2,000,000
3/06/2002	1/08/2004	$0.20	500,000	-	-	(500,000)	-	-
11/06/2002	11/06/2007	$0.20	100,000	-	-	-	-	100,000
1/10/2002	1/10/2007	$0.20	2,000,000	-	-	-	-	2,000,000
15/07/2003	16/06/2008	$0.20	2,000,000	-	-	-	-	2,000,000
25/10/2004	25/10/2009	$0.20	-	500,000	-	-	-	500,000
			8,600,000	500,000	-	(1,500,000)	-	7,600,000
General options issued								
11/03/2002	11/03/2007	$0.11	2,500,000	-	-	-	-	2,500,000
11/03/2002	11/03/2007	$0.20	2,500,000	-	-	-	-	2,500,000
31/10/2002	31/10/2007	$0.20	1,500,000	-	-	-	-	1,500,000
25/11/2003	25/11/2008	$0.20	500,000	-	-	-	-	500,000
24/06/2005	31/12/2005	$0.20	-	1,000,000	-	-	-	1,000,000
			7,000,000	1,000,000	-	-	-	8,000,000
Total			15,600,000	1,500,000	-	(1,500,000)	-	15,600,000

[1] The option exercise prices are subject to adjustment in certain circumstances in line with ASX Listing Rule 6.22.2

Employee Option Scheme

A scheme under which options may be issued by the company to employees for no cash consideration was approved by shareholders on 11 September 1997 and amendments were approved on 23 November 2001. The scheme is open to permanent full time or part time employees of the company. Executive directors are eligible to participate.

The maximum number of shares in respect of which options may be issued pursuant to the option scheme, together with the number of partly paid shares on issue pursuant to any other employees share scheme of the company, must not exceed 5% of the number of shares in the company on issue from time to time.

Each option entitles the employee to subscribe for one share in the company and each option expires 5 years from the date of issue. Upon exercise of the option, only one cent of the exercise price will be payable, with the balance being paid at the expiration of the period which is 5 years from the date of the issue of the options. Half of the total number of options issued to an employee may be exercised at any time after issue and half may be exercised at any time after the expiration of one year following the date of issue.

The exercise price will be the greater of: -

(a) the price determined by directors but will not be less than the weighted average sale price per share of all sale prices at which shares are sold on ASX during the period of 5 business days ending on the business day prior to the date of the directors' meeting at which the directors resolved to grant the option; and

(b) 20 cents.

However, the option exercise prices are subject to adjustment in certain circumstances in line with ASX Listing Rule 6.22.2.

Options issued pursuant to the Employee Option Scheme

The company issued 500,000 options under the Employee Option Scheme exercisable in line with the terms of the Scheme and expiring 5 years following the date of issue. The options are exercisable at 20 cents each.

General options issued

The company issued 1,000,000 options exercisable immediately and expiring on 31 December 2005. The options are exercisable at 20 cents each.

Options in respect of which expiry dates were modified during the year

During the year the expiry date of 1,000,000 options was modified from 16 January 2007 to 31 December 2005.

Options exercised during the year

No options were exercised during the year.

Options lapsing or cancelled during the year

1,500,000 options exercisable at 20 cents lapsed during the year.

Options issued subsequent to year end

Subsequent to year end, 4,090,000 options were issued or are proposed to be issued under the company's short term performance incentive plan. 1,465,000 options were issued subsequent to year end and 2,625,000 options are proposed to be issued to executive directors, subject to shareholder approval at the company's 2005 Annual General Meeting. The options granted under the company's short term incentive plan terminate if not exercised within five years and are subject to the following restrictions on exercise:

- Options are progressively exercisable in three equal tranches (subject to share price performance restriction) from dates which are 12, 24 and 36 months after grant date; and
- Options are not exercisable unless and until the five day volume average weighted price of the company's shares equals or exceeds $0.20. Until such time, all options otherwise exercisable are not able to be exercised.

(e) Share Purchase Plan

On 6 December 2004, the company announced a Share Purchase Plan issue, partially underwritten by ABN AMRO Morgans Corporate Limited, which raised approximately $9.8 million before expenses. The capital raised is being applied by the group to finance the costs of the development planning and, if approved, initial project design and construction of the Maari field, offshore New Zealand and the 12-8-West field in Block 22/12 offshore China. Shares were allotted on 30 December 2004. The issue of 82,174,118 new ordinary shares at 12 cents increased the company's ordinary share capital to 534,001,121 shares.

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
17. Reserves and retained profits				
(a) Reserves				
Foreign currency translation reserve	4,412	4,412	-	-
Movements:				
Foreign currency translation reserve:				
Balance at the beginning of the financial year	4,412	5,729	-	-
Transfer between reserves	-	(889)	-	-
Realisation of reserve on disposal of subsidiary	-	(428)	-	-
Net exchange differences on translation of foreign controlled entities	-	-	-	-
Balance at the end of the financial year	4,412	4,412	-	-
(b) Retained profits / (accumulated losses)				
Retained profits / (accumulated losses) at the beginning of the financial year	(71,208)	(63,876)	(65,529)	(58,147)
Transfer between reserves	-	889	-	-
Realisation of reserve on disposal of subsidiary	-	428	-	-
Net profit / (loss) attributable to members of Horizon Oil Limited	(8,495)	(8,649)	2,270	(7,382)
Retained profits / (accumulated losses) at the end of the financial year	(79,703)	(71,208)	(63,259)	(65,529)

(c) Nature and purpose of foreign currency translation reserve

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve, as described in accounting policy note 1(c)(ii).

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
18. Equity				
Total equity at the beginning of the financial year	17,357	20,121	18,624	20,121
Total changes in equity recognised in the statement of financial performance	(8,495)	(8,649)	2,270	(7,382)
Transactions with owners as owners:				
Contributions of equity net of transaction costs	9,541	5,885	9,541	5,885
Total changes in outside equity interest	-	-	-	-
Total equity at the end of the financial year	18,403	17,357	30,435	18,624

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
19. Franking Credits				
Franking credits available for subsequent year	2	2	2	2

20. Investments in controlled entities

The ultimate controlling entity of the consolidated entity is Horizon Oil Limited. All the controlled entities are wholly owned (100%). All shares held in controlled entities are ordinary shares.

All controlled entities carried on activities in their country of incorporation except where noted below: -

Name of entity	Country of incorporation	Equity holding		Activities carried on in
		2005 %	2004 %	
Bligh United States Ltd[b]	Australia	-	100	Australia
Bligh New Zealand Ltd[b]	Australia	-	100	Australia
Detlex Pty Ltd[b]	Australia	-	100	Australia
Bligh Petroleum Inc[a]	USA	-	100	USA
Horizon Oil (USA) Inc. (formerly Bligh Tunisia Inc.)	USA	100	100	USA
Horizon Oil International Ltd	New Zealand	100	100	New Zealand, PNG
Horizon Oil International Holdings Ltd	BVI	100	-	BVI
Horizon Oil (Thailand Holdings) Ltd	BVI	100	-	BVI
Horizon Oil (Thailand) Ltd	Thailand	100	-	Thailand
Bligh PNG Ltd	New Zealand	100	100	PNG, USA
Bligh Kanau Ltd	Bermuda	100	100	PNG
Bligh Papua Ltd	Bermuda	100	100	PNG

(a) This company merged with Horizon Oil (USA) Inc. during the year.

(b) These companies were deregistered during the year.

21. Deed of cross guarantee

Horizon Oil Limited, Bligh United States Limited, Bligh New Zealand Limited and Detlex Pty Limited were parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended by Class Orders 98/2017, 00/0321, 01/1087, 02/0248 and 02/1017) issued by the Australian Securities & Investments Commission. Bligh United States Limited, Bligh New Zealand Limited and Detlex Pty Limited were deregistered during the year.

The above companies represented a "Closed Group" for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Horizon Oil Limited, they also represented the "Extended Closed Group".

Set out below are the consolidated statement of financial performance and consolidated statement of financial position for the year ended 30 June 2005 of the Closed Group consisting of Horizon Oil Limited, Bligh United States Limited, Bligh New Zealand and Detlex Pty Limited. Horizon Oil Limited is the only remaining member of the group as at 30 June 2005.

	2005 $'000	2004 $'000
Revenue from oil and gas operations	-	-
Cost of sales	-	-
Gross profit	-	-
Other revenues from ordinary activities	1,290	469
Other expenses from ordinary activities	(2,367)	(7,988)
Provisions for investments / loans	2,718	-
Profit / (loss) from ordinary activities before income tax expense	1,641	(7,519)
Income tax benefit	-	-
Profit / (loss) from ordinary activities after income tax expense	1,641	(7,519)
Total changes in equity other than those resulting from transactions with owners as owners	1,641	(7,519)
Retained profits / (accumulated losses) at the beginning of the financial year	(64,900)	(57,381)
Profit / (loss) from ordinary activities after income tax expense	1,641	(7,519)
Retained profits / (accumulated losses) at the end of the financial year	(63,259)	(64,900)

	2005 $'000	2004 $'000
Current assets		
Cash assets	7,407	6,701
Receivables	2	147
Other financial assets	-	-
Other	260	47
Total current assets	7,669	6,895
Non-current assets		
Other financial assets	17,096	7,954
Plant & equipment	68	70
Exploration and development expenditure	6,383	5,951
Total non-current assets	23,547	13,975
Total assets	31,216	20,870
Current liabilities		
Payables	663	1,617
Total current liabilities	663	1,617
Non-current liabilities		
Payables	118	-
Total liabilities	781	1,617
Net assets	30,435	19,253
Equity		
Contributed equity	93,694	84,153
Retained profits / (accumulated losses)	(63,259)	(64,900)
Total equity	30,435	19,253

22. Interest in Joint Ventures

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

	Consolidated		Parent Entity	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Current assets				
Cash assets	379	2,129	118	1,642
Receivables	461	92	2	8
Total current assets	840	2,221	120	1,650
Non-current assets				
Exploration and development	7,919	6,948	5,469	5,054
Total assets	8,759	9,169	5,589	6,704
Current liabilities				
Payables	1,077	1,808	266	1,314
Non-current liabilities				
Payables	118	-	118	-
Total liabilities	1,195	1,808	384	1,314
Net investment in joint ventures	7,564	7,361	5,205	5,390

The consolidated entity has an interest in the following joint venture operations:

Joint Venture Operation	Principal activities	Interest 30 June 2005	Interest 30 June 2004
New Zealand PEP 38413	Oil and gas exploration and development	10.00%	10.00%
China			
Block 22/12	Oil and gas exploration and development	30.00%	30.00%
Block 24/05	Oil and gas exploration and development	100.00%	0%
United States			
Bayou Choctaw (field)	Oil and gas exploration and development	Victory Financial Lease 14.00% – 28.5% Wilberts Lease 19.80% ORRI 2.5%	Victory Financial Lease 14.00% – 28.5% Wilberts Lease 19.80% -
Bayou Choctaw (exploration)	Oil and gas exploration	-	100.00% Schwing Lease[1]
PNG			
PRL 4	Oil and gas exploration	7.25%	7.25%
PRL 5	Oil and gas exploration	7.25%	7.25%
PPL 228	Oil and gas exploration	0%[3]	10.00%
PPL 240 (formerly PPL 227)	Oil and gas exploration	20.00%	20.00%
PPL 206	Oil and gas exploration	0%[2]	0%[2]
Tunisia			
Anaguid	Oil and gas exploration	0.21% Royalty Interest	0.21% Royalty Interest

[1] Relinquished in July 2004.
[2] The joint venture has applied to surrender this permit.
[3] Permit was surrendered during the year.

	Consolidated 2005 $	Consolidated 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
23. Remuneration of auditors				
Remuneration for audit or review of the financial reports of the parent entity or any entity in the consolidated entity:				
Auditors of parent entity				
– PricewaterhouseCoopers Australian firm	59,500	56,500	59,500	56,500
Other auditors of controlled entities				
Related practices of the auditor of the parent entity				
Overseas PricewaterhouseCoopers firms	-	5,000	-	-
	59,500	61,500	59,500	56,500
Remuneration for other services				
Auditor of parent entity				
– PricewaterhouseCoopers Australian firm	-	15,000	-	15,000
Related practices of the auditor of the parent entity (including overseas PricewaterhouseCoopers firms)	17,864	24,713	6,504	2,449
	17,864	39,713	6,504	17,449
Total remuneration	77,364	101,213	66,004	73,949

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

24. Remuneration of directors and executives

See the Remuneration report within the Directors Report for details of directors' and specified executives' remuneration.

Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Horizon Oil Limited and each of the specified executives of the consolidated entity, including their personally-related entities, are set out below:

Name	Balance at the start of the year	Granted during the year	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors:						
F Ainsworth	1,000,000	-	-	-	1,000,000	1,000,000
B D Emmett	5,000,000	-	-	-	5,000,000	5,000,000
J Humphrey	500,000	-	-	-	500,000	500,000
R A Laws	500,000	-	-	-	500,000	500,000
P Nimmo	2,000,000	-	-		2,000,000	2,000,000
Specified executives:						
M Sheridan	2,000,000	-	-	-	2,000,000	2,000,000
M Lambert	-	500,000	-	-	500,000	250,000
W Dobbie	-	-	-	-	-	-

Shareholdings

The numbers of shares in the company held during the financial year by each director of Horizon Oil Limited and each of the specified executives of the consolidated entity, including their personally-related entities are set out below:

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors				
Ordinary shares				
F Ainsworth	512,500	-	83,332	595,832
B D Emmett*	-	-	585,000	585,000
J Humphrey	657,878	-	-	657,878
R A Laws	400,000	-	41,666	441,666
P Nimmo*	618,730	-	336,666	955,396
Specified executives				
Ordinary shares				
M Sheridan*	437,974	-	186,666	624,640
M Lambert	-	-	42,000	42,000
W Dobbie	-	-	-	-

* B D Emmett, P Nimmo and M Sheridan also hold interests in Oasis Energy Investments Pty Ltd, a substantial shareholder.

Loans to directors and executives

There were no loans to directors or specified executives during the financial year.

Other transactions with directors and specified executives

See note 25 for other transactions with directors and specified executives.

25. Related parties

Directors and specified executives

Mr Dobbie, a director of an overseas controlled entity, received $40,654 (2004: $35,180) in consultancy fees in addition to his remuneration.

Wholly-owned group

The wholly-owned group consists of the ultimate parent entity, Horizon Oil Limited, and its controlled entities of Horizon Oil (USA) Inc., Bligh PNG Limited, Bligh Papua Limited, Bligh Kanau Limited, Horizon Oil International Limited, Horizon Oil International Holdings Limited, Horizon Oil (Thailand Holdings) Limited and Horizon Oil (Thailand) Limited. Ownership interests in these controlled entities are set out in note 20.

Bligh United States Limited, Bligh New Zealand Limited and Detlex Pty Ltd were deregistered during the year.

Transactions between Horizon Oil Limited and related parties in the wholly-owned group during the years ended 30 June 2004 and 2005 consisted of: -

(a) contributions to share capital by Horizon Oil Limited;
(b) loans advanced by Horizon Oil Limited;
(c) loans repaid to Horizon Oil Limited;
(d) the reimbursement of expenses to Horizon Oil Limited

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

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
Aggregate amounts receivable from related parties in the wholly-owned group at balance date were as follows:-				
Non-current receivables (net)	-	-	11,276	7,325
Aggregate amounts included in the determination of profit from ordinary activities before income tax that resulted from transactions with entities in the wholly-owned group:				
Provision for write down / write down of loans to recoverable amount	-	-	(6,609)	122
Provision for write down of investments to recoverable amount	-	-	3,305	-

Joint ventures

The interests in joint ventures are set out in note 22.

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
26. Employee entitlements				
Employee entitlement liabilities				
Current payables (note 13)	65	55	65	55
	Number		Number	
Employee numbers				
Average number of employees during the financial year	5	6	5	6

27. Contingent assets

As part of the partial sale of the Bayou Choctaw interests in June 2004, the group may be entitled to additional cash consideration based on achievement of production targets. The contingent asset has not been recognised as a receivable at 30 June 2005 as the amount is dependent on the future performance of the operations and cannot be reliably measured at this stage. The maximum amount which may be received is US$900,000.

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
28. Commitments for expenditure				
Lease commitments				
Commitment in relation to leases contracted for at reporting date but not recognised as liabilities, payable:				
Within one year	69	56	69	56
Later than one year but not later than 5 years	129	-	129	-
	198	56	198	56
Representing:				
Non-cancellable operating leases	198	56	198	56
Future finance charges on finance leases	-	-	-	-
	198	56	198	56
Operating leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:-				
Within one year	69	56	69	56
Later than one year but not later than 5 years	129	-	129	-
Commitments not recognised in the financial statements	198	56	198	56
Remuneration commitments				
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:				
Within one year	160	283	160	283
	160	283	160	283

29. Exploration and Development commitments

The consolidated entity has entered into joint ventures for the purpose of exploring and developing certain mining tenements. 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 based on current status and knowledge of estimated quantum and timing of such commitments by geographical area on a consolidated basis.

	Within 12 months Local currency '000	Within 12 months $'000[1]
China	US$1,809	2,368
New Zealand	NZ$760	697
Total		3,065

[1] Translated to Australian dollars using spot exchange rate at 30 June 2005

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.

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

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.

If a participant to a joint venture defaults and fails to contribute its share of joint venture obligations, the remaining joint venture participants are joint and severally liable to meet the obligations of the defaulting participant. In this event the interest in the tenement 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.

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	$'000	$'000	$'000	$'000
30. Reconciliation of net cash flows from operating activities to profit / (loss) from ordinary activities after income tax				
Profit / (loss) from ordinary activities after income tax	(8,495)	(8,649)	2,270	(7,382)
Exploration & development expenditure written off/expensed	6,529	5,031	235	4,985
Depreciation	57	57	57	57
Provision for diminution in value of investments in controlled entities	-	-	3,305	-
Provision for write down / write down of loans to controlled entities	-	-	(6,609)	122
(Profit) / loss on sale of investments	-	(368)	-	-
(Profit) / loss on sale of permits	(163)	929	(115)	-
Loss / (profit) on disposal of fixed assets	-	-	-	-
Provision for restoration	215	-	-	-
Net exchange differences	106	139	111	147
Change in operating assets and liabilities:				
Decrease / (increase) in trade debtors	11	(250)	(5)	(25)
Decrease / (increase) in other debtors and prepayments	(242)	(49)	(63)	81
Increase / (decrease) in trade creditors	(650)	1,513	(864)	1,149
Increase / (decrease) in other creditors	889	198	27	65
Increase / (decrease) in provision for deferred income tax	-	-	-	-
Net cash (outflow) from operating activities	(1,743)	(1,449)	(1,651)	(801)

31. Non-cash financing and investing activities

There were no non-cash financing and investing activities during the year.

32. Financial instruments and risk management

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenue and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument is disclosed in Note 1.

(a) Foreign exchange risk

The consolidated entity is exposed to fluctuations in exchange rates, and in particular to fluctuations of rates of exchange between the Australian dollar, United States dollar and New Zealand dollar. No foreign exchange hedging transactions were entered into during the year.

(b) Commodity price risk

As at 30 June 2005 and 30 June 2004 the consolidated entity did not have any oil price hedging in place. No oil price hedging contracts were entered into during the year.

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The carrying amount of financial assets recorded in the financial statements represents the consolidated entity's maximum exposure to credit risk.

(d) Net fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in the financial statements.

(e) Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below:

	Floating interest rate $'000	Fixed one year or less $'000	Non -interest bearing $'000	Total $'000
2005				
Financial assets				
Cash and deposits	7,258	-	528	7,786
Receivables	-	-	586	586
	7,258	-	1,114	8,372
Weighted average interest rate	2.86%			
Financial liabilities				
Trade and other creditors	-	-	2,741	2,741
	-	-	2,741	2,741
Weighted average interest rate	n/a			
Net financial assets / (liabilities)	7,258	-	(1,627)	5,631

	Floating interest rate $'000	Fixed one year or less $'000	Non -interest bearing $'000	Total $'000
2004				
Financial assets				
Cash and deposits	5,585	-	2,192	7,777
Receivables	-	-	597	597
	5,585	-	2,789	8,374
Weighted average interest rate	3.37%			
Financial liabilities				
Trade and other creditors	-	-	2,503	2,503
	-	-	2,503	2,503
Weighted average interest rate	n/a			
Net financial assets / (liabilities)	5,585	-	286	5,871

The consolidated entity has no off-balance sheet financial assets or liabilities as at balance date.

	Consolidated 2005 Cents	2004 Cents
33. Earnings per share		
Basic earnings per share (loss)	(1.72)	(2.08)
Diluted earnings per share (loss)	(1.72)	(2.08)

Note: Diluted earnings per share equates to basic earnings per share because a loss per share is not considered dilutive for the purposes of calculating earnings per share pursuant to AASB 1027.

	2005 Number	2004 Number
Weighted average number of shares used as the denominator		
Weighted average number of shares used as the denominator in calculating basic earnings per share	493,026,629	416,401,484
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	493,026,629	416,401,484

	2005 $'000	2004 $'000
Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share		
Net loss for the period attributable to members	(8,495)	(8,649)
Diluted earnings per share		
Net loss for the period attributable to members	(8,495)	(8,649)

Information concerning the classification of securities

(a) Options

Options on issue are not considered to be potential ordinary shares as at 30 June 2005 which are dilutive for the purposes of AASB 1027, given that the exercise price of the options was significantly in excess of the market price of ordinary shares as listed on the Australian Stock Exchange. In addition, given that the consolidated entity reported a loss for the period any potential ordinary shares could not produce a more favourable result than basic earnings (loss) per share.

Details relating to options are set out in Note 16.

34. Impacts of adopting Australian equivalents to IFRS

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The consolidated entity established a project team to manage the transition to AIFRS, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team is chaired by the chief financial officer and reports twice a year to the audit committee and regularly to the Board. The project team has prepared a detailed timetable for managing the transition and is on schedule.

The project team has analysed all of the AIFRS and has identified the accounting policy changes that will be required. In some cases, choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards'. These choices have been analysed to determine the most appropriate accounting policy for the consolidated entity.

The known or reliably estimable impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out below. The expected financial effects of adopting AIFRS are shown for key indicators, with descriptions of the differences. No material impacts are expected in relation to the statements of cash flows.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

Impacts on the statements of financial performance

	Note	Consolidated $'000	Parent Entity $'000
Profit (loss) after tax under existing GAAP – A$		($8,495)	$2,270
Adjustments:			
Profit (loss) after tax – US$	(a)	(US$6,098)	US$2,552
Restoration provision	(b)	US$ 198	US$ -
Equity-based compensation benefits	(e)	(US$ 4)	(US$ 4)
Profit (loss) after tax under AIFRS		(US$5,904)	US$2,548

Impacts on the statements of financial position

	Note	Consolidated $'000	Parent Entity $'000
Net assets under existing GAAP – A$		$18,403	$30,435
Adjustments:			
Net assets – US$	(a)	US$12,263	US$22,208
Restoration provision	(b)	US$ 189	US$ -
Net assets under AIFRS		US$12,452	US$22,208

Notes explaining the impacts on the statements of financial performance and statements of financial position

(a) Functional currency

Under AASB 121 'The Effects of Changes in Foreign Exchange Rates', companies have to determine both their functional and presentation currency. The Board has considered the factors within AASB 121 in order to determine the functional and presentation currency of each company within the group. Currently, AASB 1012 'Foreign Currency Translation' requires only a reporting currency and AASB 1034 'Financial Report Presentation and Disclosures' requires entities to present their financial reports in Australian currency.

The Board has determined that the functional currency of the parent entity is United States dollars. The Board has decided that the presentation currency of the parent and the consolidated group under AIFRS will be United States dollars.

If this policy had been applied during the year ended 30 June 2005, the parent company and consolidated entity would produce US$ statements of financial performance and statements of financial position. The conversion from A$ to US$ requires the closing rate to be applied to monetary assets and liabilities. For non-monetary assets, the rate on the date that US$ became the functional currency is used or the rate on the transaction date if later. Average rates are required to be used to translate the profit and loss accounts into US$.

The change in functional currency has resulted in an increase in the parent entity profit before tax due to a foreign exchange gain on Australian dollar transactions.

(b) Rehabilitation and restoration provisions

Under AASB 116 'Property, Plant and Equipment', the estimated costs of dismantling and removing an asset and restoring the site should be included in the cost of the asset to the extent that it is recognised as a provision under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'. AASB 137 requires the liability to be measured at the amount required to settle the present obligation at the reporting date, discounted where material. Currently, the cost of restoring the site is not included within the cost of the asset and cash flows are not discounted.

If the policy required by AASB 116 and AASB 137 had been applied during the year ended 30 June 2005, the accumulated losses for the consolidated entity would decrease by US$189,000. The group's assets would increase by US$98,000 and the group's liabilities would decrease by US$91,000. For the year to 30 June 2005, the consolidated loss would decrease by US$198,000. There would have been no effect on the parent entity.

(c) Income tax
Under AASB 112 'Income Taxes', deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

The adoption of AASB 112 will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

If the policy required by AASB 112 had been applied during the year ended 30 June 2005, deferred tax assets of approximately US$40 million would have been disclosed but not booked in the consolidated entity accounts (parent entity – approximately US$11 million). The benefit of these assets will only be obtained if the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised or the losses are transferred to an eligible entity.

(d) Foreign currency translation reserve: cumulative translation differences
On the initial application of AIFRS, the group will elect to apply the exemption in AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' relating to the balance of the foreign currency translation reserve. The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve will be deemed to be zero at the date of transition to AIFRSs.

As a result of this exemption, the balance of the foreign currency translation reserve of the group at 1 July 2004 will decrease by US$3,866,000. Retained earnings will increase by this amount. There is no effect on the parent entity.

(e) Equity-based compensation benefits
Under AASB 2 'Share-based Payment', from 1 July 2004 the group is required to recognise an expense for those options that were issued to employees under the employee option scheme after 7 November 2002 that had not vested by 1 January 2005.

This will result in a change to the current accounting policy under which no expense is recognised for equity-based compensation.

If the policy required by AASB 2 had been applied during the year ended 30 June 2005, the consolidated loss for the year would increase by US$4,000 and the parent entity profit for the year would increase by US$4,000 as this is the value attributed to the options vesting after 1 January 2005. There would be a corresponding increase in reserves as at 30 June 2005 in the consolidated and parent entity.

(f) Exploration and development expenditure
AASB 6 'Exploration for and Evaluation of Mineral Resources' was issued on 14 December 2004. Management have reviewed this to determine the impact it will have on the group's financial statements. The 'area of interest' method of accounting for exploration costs has been retained and therefore impact on existing exploration expenditure is expected to be minimal. Impairment reviews will be required based on criteria similar to the previous requirements for capitalising exploration costs.

AASB 6 deals only with exploration expenditure, therefore development expenditure which was previously dealt with under AASB 1022 'Accounting for the Extractive Industries', will now fall under a number of new accounting standards, mainly AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets'. Impairment reviews will be required where impairment indications exist. Currently no impairment requirements exist, although the carrying value is reviewed.

If the policy required by AASB 6 had been applied during the year ended 30 June 2005, there would have been no change in the results of the consolidated or parent entity.

(g) Recoverable amount of non-current assets
Under AASB 136 'Impairment of assets', expected net cashflows included in determining recoverable amounts of non-current assets will be discounted to their present values. This will result in a change to the current accounting policy under which expected net cash flows are not discounted.

If the policy required by AASB 136 had been applied during the year ended 30 June 2005, there would have been no change in the results of the consolidated or parent entity.

Shareholder Information

Distribution of Listed Shareholdings

	Number of Holders	
No. of Shares	Fully paid ordinary shares	Options
1 to 1,000	28	-
1,001 to 5,000	220	-
5,001 to 10,000	558	-
10,001 to 100,000	1,699	-
100,001 and over	486	10
	2,991	10

A total of 139 shareholders held less than a marketable parcel of 3,449 ($0.145) fully paid shares.

Voting Rights

Voting of members is governed by the Articles of Association. In summary every member present in person or by proxy attorney or representative shall have one vote on a show of hands and one vote for each share on a poll.

Substantial Shareholders Including Holders of Relevant Interest

Name of Shareholder / Holder of Relevant Interest	Ordinary shares fully paid
Oasis Energy Investments Pty Ltd	149,595,916
TRT Holdings, Inc. & Associates	149,595,916

Twenty Largest Shareholdings
Listed fully paid shares

Shareholder	Ordinary Shares fully paid	% of total holding
Oasis Energy Investments Pty Ltd	149,595,916	26.68
Westpac Custodian Nominees Limited	54,199,100	9.67
Macquarie Bank Limited	26,666,667	4.76
Nefco Nominees Pty Ltd	21,049,534	3.75
Berne No 132 Nominees Pty Ltd	19,753,690	3.52
ANZ Nominees Limited	12,725,295	2.27
Citicorp Nominees Pty Limited	10,857,832	1.94
Douglas Financial Consultants	9,858,697	1.76
GD & DT Nicholas	6,830,000	1.22
National Nominees Limited	5,787,777	1.03
Wengor Investments Pty Ltd	5,000,000	.89
Walker & Hall Fine Gifts Ltd	4,871,227	.87
Uuro Pty Ltd	4,609,584	.82
Paradyn Holdings Pty Limited	4,325,231	.77
Mararch Investments Pty Ltd	4,100,000	.73
Mr P Grenville Schoch	4,000,000	.71
Hancroft Pty Ltd	3,400,000	.61
AD & SJ Douglas	3,291,250	.59
Hawkins & Birthwright Limited	3,000,000	.54
Mr Angus Douglas	2,203,943	.39
	356,125,743	63.52

UNLISTED OPTIONS – TYPE 1	Number on issue	Number of holders
Options issued under the Horizon Oil Employee Options Scheme	7,600,000	6

UNLISTED OPTIONS – TYPE 2	Options exercisable at 11c	% of total
B D Emmett	2,500,000	100

UNLISTED OPTIONS – TYPE 3	Options exercisable at 20c	% of total
B D Emmett	2,500,000	45.5
Other (4 holders)	3,000,000	54.5
	5,500,000	100.0

UNLISTED OPTIONS – TYPE 4	Number on issue	Number of holders
Options issued under the Horizon Oil Short Term Performance Incentive Plan	1,465,000	3

Directory

Horizon Oil Limited
ABN 51 009 799 455

Board of Directors	Fraser Ainsworth AM (Chairman) Brent Donald Emmett (Chief Executive Officer) John Scott Humphrey Robert Anthony Laws Paul Nimmo
Company Secretary	Michael Sheridan
Registered Office (Principal place of business)	Suite 1, 10th Floor, 100 William Street, Sydney NSW 2011
Telephone:	+(612) 9332 5000
Facsimile:	+(612) 9332 5050
E-mail:	exploration@horizonoil.com.au
Website:	www.horizonoil.com.au
Domicile and country of incorporation	Australia
Share Registrar	Link Market Services Limited (formerly ASX Perpetual Registrars Limited) Level 8, 580 George St Sydney NSW 2000
Telephone:	+(612) 8280 7454
Facsimile:	+(612) 9287 0303
Bankers	Westpac Banking Corporation 60 Martin Place, Sydney NSW 2000
Solicitors	Johnson Winter & Slattery Australia Square 264 George St Sydney NSW 2000
	Mallesons Stephen Jaques Level 30 Waterfront Place 1 Eagle Street, Brisbane, QLD 4000
Auditor	PricewaterhouseCoopers Chartered Accountants Waterfront Place 1 Eagle Street, Brisbane, QLD 4000
Stock Exchange	Horizon Oil Limited shares are listed on the Australian Stock Exchange
Notice of annual general meeting	The Annual General Meeting of Horizon Oil Limited will be held at Sydney Harbour Marriott Hotel, Dorothea Mackellar Room, Level 3, 30 Pitt Street, Circular Quay, Sydney.
Time:	10.00am
Date:	25 November 2005
	A formal notice of meeting is enclosed.

Horizon Oil

Suite 1, 10th Floor, 100 William Street,
Sydney NSW 2011, Australia

www.horizonoil.com.au

T: +(612) 9332 5000   F: +(612) 9332 5050