



Horizon Oil Limited ABN 51 009 799 455

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

**HORIZON OIL (HZN) ANNUAL GENERAL MEETING
CHAIRMAN'S ADDRESS 17 NOVEMBER 2011**

Please find attached Chairman's address to be made today at Horizon Oil's Annual General Meeting by Mr Fraser Ainsworth AM.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Michael Sheridan". The signature is fluid and cursive, with a large initial "M" and "S".

Michael Sheridan

Chief Financial Officer / Company Secretary



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CHAIRMAN'S ADDRESS

2011 HZN AGM

Ladies and Gentlemen:

1. INTRODUCTION

Over the past year solid progress has been made towards achieving the Company's main objective, namely to add significant shareholder value by converting our substantial portfolio of undeveloped reserves and resources into producing oil and gas fields.

The year was characterized by a number of significant achievements, including:-

- the positive Final Investment Decision ("FID") for the development of our fields in Block 22/12, offshore China. Pleasingly, over half of the estimated total cost of about US\$300 million is now subject to fixed price contracts and at prices lower than development plan estimates;
- the near doubling of our interest in this project by the acquisition (on terms favourable to Horizon Oil) of the interest of one of the other joint venturers, thereby increasing our net reserves and resources in Block 22/12 from 6.2 million barrels of oil to 11.3 million;
- in PNG, very successful appraisal drilling results at Stanley in PRL 4 as evidenced by our announcement last week of a 30% upgrading of reserves/resources compared with pre-drill estimates;

- also in PNG, restoration of our interest in the acreage covered by the former PRL 5 (now PRL 21) which contains the Elevala and Ketu fields. Horizon Oil management played the lead role in achieving this restoration;
- in June 2011 the Company completed a US\$80 million 5 year Convertible Bond issue, the specific terms of which I will deal with shortly. Suffice it to observe that there was strong demand for the securities from a broad spectrum of investors across Europe and Asia Pacific, an indicator of the quality of the Company's asset portfolio. The issue was also a useful diversification of the Company's funding sources and the board is strongly of the view that for this reason (together with the terms of the issue) the issue was very much in shareholder interests.

In the board's view, there have been only two significant negatives about the past year.

The first is that the Company's share price does not reflect the significant increases in underlying shareholder value referred to above (about which I will say more later).

The second negative is below expected oil production from the Maari field, which will also be dealt with later.

2. HIGHLIGHTS

CEO Brent Emmett will present specifics of the Company's performance. In the meantime, following are some additional highlights:-

(a) Financial

- Revenue from operating activities was up by US\$11 million to US\$59 million. Higher oil prices more than offset lower oil production from the Maari field.
- Profit before tax was US\$48 million, driven by gross profit from operations of US\$40 million and realized profit on the September 2009 sale of part of the Company's Papua New Guinea assets of US\$22 million.
- Net cash inflow from operating activities (excluding general and administrative costs) was US\$49 million.
- The exploration and development program, including the acquisition of Petsec's interest in Block 22/12 (US\$77 million), and repayment of remaining Maari project bank debt (US\$22 million) were financed by operating cash flows (US\$42 million), proceeds from the part sale of PNG assets (US\$22 million) and net proceeds from the issue of the US\$80 million 5 year term convertible bonds (US\$78 million).
- At year-end the company had cash on hand of US\$65 million and no bank debt.

- There were several considerations taken into account in deciding to finance the acquisition cost and associated development expenditure of the additional interest in Block 22/12 by issuing convertible bonds in June this year:-
 - a. Firstly, we had available but ruled out a debt bridge facility because of the need to replace it later in the year with equity, most likely in an uncertain equity market.
 - b. Secondly, we chose not to issue equity because of the volatile equity market in June and the deep discount (and resultant dilution) that would have had to have been offered to ensure its success.

We saw the convertible bonds as being an appropriate hybrid instrument. From a debt perspective we have a subordinated loan on which we pay a coupon of 5.5% per annum (plus 1.5% per annum deferred to maturity) which, in the ordinary course of business, cannot be recalled prior to June 2016. Alternatively, if converted to shares, we have issued equity at about 50 cents per share (depending on exchange rates at the time) or, if adjusted under certain circumstances, no lower than 38 cents per share, subject to customary anti-dilution provisions.

This approach allowed us to significantly increase our interest, at an attractive price, in a development project that we understand and was already underway, with minimal funding risk and shareholder dilution.

The key terms of the Convertible Bonds are set out fully in the annual report.

(b) Operational

New Zealand

- Oil production from the Maari/Manaia fields was adversely affected by failures of the electrical submersible pumps (ESPs) and scaling in the ESPs and well completion components. The operator is making good progress in understanding these issues and in the design of ongoing maintenance procedures to minimise recurrence and increase reliability. In addition, Horizon Oil and the Operator are investigating other means of increasing reservoir productivity.
- Brent Emmett will describe initiatives to exploit all oil and gas zones in the Greater Maari Area and our exploration progress in adjacent areas.

Papua New Guinea

PRL 4 – Stanley Field

- Front-end engineering and design (FEED) work for the Stanley field development has been completed, reserves audited by an independent engineering firm and cost estimates determined with suitable accuracy for a final investment decision. The intention is to make the FID presentation to the Horizon Oil board prior to calendar year-end.

- Discussions about the marketing of condensate and achieving long term gas contracts are progressing very well.
- The Minister for Petroleum and Energy has approved the requested extension of PRL 4 through 31 August 2012. It is intended to submit the Petroleum Development Licence (PDL) application for Stanley field prior to that date, which will serve to maintain tenure. Preparation of the PDL submission is at an advanced stage.

PRL 21 – Elevela/Ketu discoveries

- The site for the Elevela-2 appraisal well has been built and the well spudded using Parker Rig 226 last Monday 14 November.
- After Elevela-2, the intention is to drill the Ketu-2 appraisal well. Preparation of the surface location is progressing well and all long lead items have been purchased.

3. THE ASSET PORTFOLIO

- The composition of the Company's asset portfolio is in 3 categories:-
 - Low risk reserves, which are on production at Maari/Manaia and being developed in China Block 22/12. The key driver of value here is oil price which, as noted later, in our view will be above current levels over the medium to long term.

- The medium risk contingent resources in New Zealand and PNG which are expected to convert to reserves, contingent on appraisal work and/or imminent development approvals.
 - Relatively high risk/high reward exploration potential consisting mainly of 60 mmbo in New Zealand's PEP 51313 and 140 bcf of gas, with associated liquids, in PRL 4 and PRL 21 in PNG.
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- We believe that this asset portfolio represents the right risk/reward spread for a company at Horizon Oil's stage of development and financial capacity.
 - Over the last 2 years we have realised a total of US\$55 million in pre-tax profits from the sale of part of the Company's PNG assets. This is an example of success arising from continual review and tailoring of the Company's asset portfolio to achieve the appropriate risk/reward profile, in harmony with the Company's financial position and funding capacity. Such adjustments are not "once-offs" – rather, they are an important ongoing means of adding shareholder value and the Horizon Oil team have demonstrated that they are very good at it.

4. FINANCING GROWTH AND DEVELOPMENT

- The next 18 months or so are clearly going to be a period of substantial growth and development for Horizon Oil.

- From 1 July 2011 through to the end of calendar year 2012, we are forecasting that the company will commit of the order of US\$80 million to completing the Block 22/12 development, about US\$50 million to the Stanley gas/condensate project development, (assuming a positive FID) and around US\$40 million on appraisal drilling at Elevala and Ketu in PNG.
- The board considers funding of this expenditure will be by way of a combination of cash on hand (US\$51 million at 30 September 2011), cashflow from Maari/Manaia production and a reserves-based debt facility of about US\$120 million which is at an advanced stage of negotiation.
- The board readily acknowledges the risks, challenges and uncertainties associated with project development and financial forecasts. However, should there be an unforeseen over-run in the capital programs in China or PNG or a reduction in forecast production income from Maari/Manaia, for example as a result of a near-term dip in oil price, we have various levers (or responses) open to us, an example of which could be re-phasing of the capital program to match available funding. The Stanley field development, of which Horizon Oil is operator, offers most scope in this regard.
- On the current schedule substantial additional operating cash inflows to Horizon Oil from the Company's overall 26.95% interest in the Block 22/12 development are anticipated early in calendar 2013, to supplement ongoing production income from Maari/Manaia.

5. THE SHARE PRICE

Some observations from the board on the Company's share price are:-

- recent prices represent a significant discount to realistic, risked, medium term value
- various analysts and observers have suggested several possible reasons for this, including concerns about funding the Company's substantial development plans
- the board does not agree that funding concerns should legitimately be a reason for the discounted share price
- rather, we think a better explanation is that Horizon Oil is being caught up in broader market sentiment – including a (hopefully short term!) movement by institutional investors away from smaller cap stocks with risk/reward profiles similar to that of Horizon Oil.
- finally, the board is determined not to let the short term share price distract us from the main game, which is realizing value from what we believe to be an outstanding asset portfolio.

6. BOARD CHANGES, ACKNOWLEDGEMENTS AND REMUNERATION

(a) Board changes

As advised in the Notice of Meeting, Bob Laws has advised that he will be retiring from the board at the conclusion of this meeting. The board acknowledges – and

is most grateful for the significant contribution Bob Laws has made over his 8 years as a Director and wishes him well for the future.

We are delighted that Andrew Stock accepted the board's invitation to become a Director in February this year and I will comment further about Andrew's credentials when we come to the formal part of this meeting.

(b) Acknowledgement of the Management

- Turning now to Brent Emmett and his team – the board highly commends Brent and the team for the achievements noted earlier, together with their skills, determination and high level of commitment.

(c) Remuneration

- Some shareholders have noted and expressed concern about the significant increases in the remuneration levels of the Company's senior executives for ye 30/6/11 over the previous year, so I will spend a little time dealing with this issue. First, some background:-
 - Until the cash inflows began from Maari, the cash component of the executive team's remuneration had been deliberately restrained and consequently was well below that of the Company's peer group (as analysed by Guerdon and Associates, our Remuneration Expert). For example, CEO Brent Emmett's cash remuneration at December 2009

- was about 35% below peer group (“market”) levels, in part because there had been no increases for the 2 previous years
- As previously reported to shareholders, in early 2010 (with the assistance of our Remuneration Expert), a revised Total Remuneration Structure for the executive team was introduced, including:-
 - increasing salaries (including superannuation) to at least market levels
 - introducing an “at risk” Short Term Incentive Plan payable in cash but only if “stretch” performance targets are achieved
 - an at risk Long Term Incentive Plan (“SARS”) only to be awarded if demanding hurdles are met

 - Against the above background the 3 reasons for the year-on-year increases in cash remuneration are:-
 - bringing salaries up to at least market levels (in A\$ terms)
 - the cash bonuses paid for FY 2011 were the first covering a full year of the new STI Plan referred to above (FY 2010 was for 6 months only)
 - the material impact of the appreciation of the A\$ accounted for about 15% of the increase, as reported in US\$ (the Annual Report disclosures are expressed in US\$, whereas the executives are of course paid in A\$)

- the board is satisfied that these remuneration levels are now appropriate, and therefore salary increases awarded in June 2011 for the period through to June 2012 were a modest 6%. Furthermore, because possible cash bonuses payable under the STI Plan are capped at 50% of salaries, even with superlative performances the increases in cash bonuses for ye 30 June 2012 will also be modest.

7. THE OUTLOOK/CONCLUSION

(a) The Immediate Priorities

Brent Emmett will shortly describe the immediate operational/project priorities that management is working on.

(b) Medium/Longer Term Outlook

We expect the next 18 months or so to be the successful culmination of several years of careful business positioning, and asset portfolio growth/management, together with old-fashioned hard work and deep commitment.

Notwithstanding the risks and challenges that are inherent in the upstream oil and gas industry, for the reasons described above, namely...

- A well balanced portfolio of oil and gas reserves and resources;
- Imminent development of a significant additional part of these reserves and resources;

- Cash flows from the Maari/Manaia oil fields underpinning financing plans to develop these reserves and resources; and
- Notwithstanding current global financial uncertainties (particularly those emanating from Europe), a favourable outlook for both oil and natural gas prices in the Asia-Pacific region

...the board is buoyant about the outlook for our company.

Thank you.

Fraser Ainsworth

17 November 2011