AUSTRALIA

HZN AU Outperform

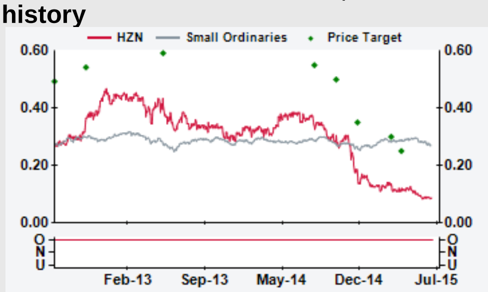
Price (at 09:33, 13 Jul 2015 GMT) A$0.09

Valuation	**A$**	**0.35**
- DCF (WACC 10.2%, beta 1.7, ERP 5.0%, RFR 3.8%)		
12-month target	**A$**	**0.25**
12-month TSR	**%**	**+187.4**
Volatility Index		**High**
GICS sector		**Energy**
Market cap	**A$m**	**113**
30-day avg turnover	**A$m**	**0.2**
Number shares on issue	**m**	**1,302**

Investment fundamentals

Year end 30 Jun		2014A	2015E	2016E	2017E
Revenue	m	144.3	83.7	104.9	130.4
EBIT	m	26.8	20.9	37.5	49.9
Reported profit	m	12.8	11.0	13.8	20.4
Adjusted profit	m	-9.1	2.5	13.8	20.4
Gross cashflow	m	41.5	52.6	60.8	68.6
CFPS	¢	3.3	4.0	4.7	4.8
CFPS growth	%	211.3	23.0	15.4	2.4
PGCFPS	x	2.0	1.6	1.4	1.4
PGCFPS rel	x	0.21	0.18	0.18	0.19
EPS adj	¢	-0.7	0.2	1.1	1.4
EPS adj growth	%	nmf	nmf	458.2	34.2
PER adj	x	nmf	33.9	6.1	4.5
PER rel	x	nmf	2.09	0.48	0.41
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	5.4	4.0	7.4	10.2
ROE	%	-4.7	1.0	5.2	7.0
EV/EBITDA	x	2.9	3.1	2.6	2.4
Net debt/equity	%	39.8	51.4	39.2	19.9
P/BV	x	0.4	0.3	0.3	0.3

HZN AU vs Small Ordinaries, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, July 2015

(all figures in USD unless noted, TP in AUD)

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13 July 2015
Macquarie Securities (Australia) Limited

Horizon Oil

A necessary deleveraging

Event

- HZN held an investor briefing and released June quarter operating results.

Impact

- **Growing free cash flow:** Ahead of the maturity of the convertible note in June 2016 and after securing a new U$120m debt facility, management provided additional comfort into the growing free cash on offer from its core producing assets. This included the conclusion of the Maari Growth Project, which has seen production increase to ~16,500bopd (with scope for further improvements via proposed workover activity over the next 6 months) and the commencement of exploration cost recovery at Beibu Gulf in 3Q (which will see HZN's share of gross revenue increase to ~40% from 25%). Furthermore HZN still has ~400kbbls of production hedged at ~U$95/bbl in FY16 (representing ~25% of forecast production) and has cut its capital budget to merely U$33m following four years of heavy capex burden. This should comfortably see HZN move into positive free cash flow territory in FY16.

- **PNG plans continue to evolve:** After sanctioning a Stanley liquids stripping development in early 2012 and with ~U$90m of development drilling already undertaken, HZN will pursue a phased development, initially delivering ~1,000bopd from late 2017 (vs. the original plan of 4,000bopd as early as 2012). Rather than spend upfront capex on gas re-injection, further liquids production will now be contingent on regional gas sales to OK Tedi initially and ultimately to Frieda River. The JV continues to plan a 2-4tmpa Daru Barge LNG concept however, with P'nyang appraisal drilling forthcoming and following a MoU struck with the PNG government stipulating an FID on an expansion train by the end of 2017, the next 12 months could prove pivotal to HZN's gas commercialisation strategy (with third-party supply a growing possibility).

Earnings and target price revision

- **NAV rises to 35Acps from 30Acps:** As we value HZN on a post money basis and in light of a smaller A$10m funding gap (vs. U$40m previously), this drives the upgrade. Medium-term NPAT upgrades are driven by Maari production improvements and Beibu Gulf exploration cost recovery.

Price catalyst

- 12-month price target: A$0.25 based on a DCF methodology.

- Catalyst: HZN will report FY15 statutory results in August.

Action and recommendation

- **Maintain an Outperform rating and A$0.25/sh target:** While the appetite for highly-geared E&P companies is understandably limited in the current environment, through a combination of attractive hedging, Maari production improvements and capex cuts it appears HZN is sufficiently well funded to manage the pending redemption of the U$80m convertible note next year. Furthermore the current share price is attributing little option value to HZN's PNG gas resources (which is seemingly moving to the fore as terms surrounding initial gas sales to OK Tedi are imminent and PNG LNG pushes ahead with an expansion train).

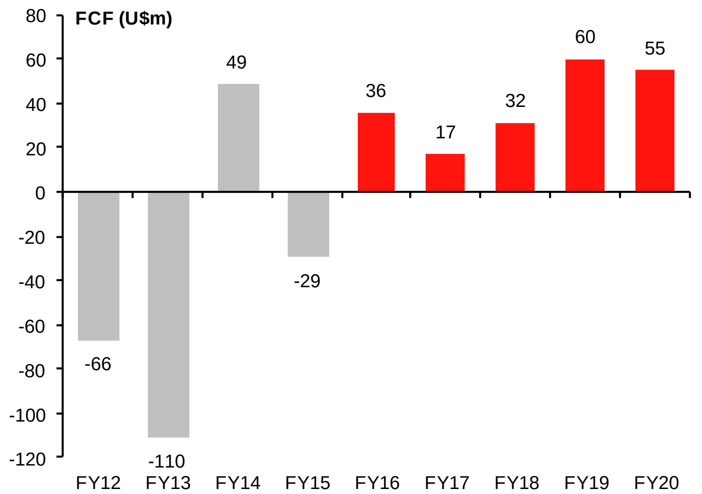
A necessary deleveraging

- HZN held an investor briefing and released June quarter operating results. Ahead of the maturity of the convertible note in June 2016 and after securing a new U$120m debt facility, management provided additional comfort into the growing free cash on offer from its core producing assets (aided by production improvements at Maari and exploration recovery at Beibu Gulf). With the share price trading at a 60% discount to core NAV the market is seemingly penalising HZN for the near-term convertible redemption without due consideration to this cash-flow generation. Furthermore, while only minor progress has been made over the last 12 months to commercialise HZN's large undeveloped gas resources, the share price continues to attribute little value to these assets.
- We have made a number of changes that see NAV rise to A$0.35/sh from A$0.30/sh with FY17 NPAT upgraded to U$21m from U$15m (and minor absolute changes to our FY15 and FY16 forecasts). We retain an Outperform rating and A$0.25/sh target price.

Core assets support free-cash-flow with a manageable funding position evident

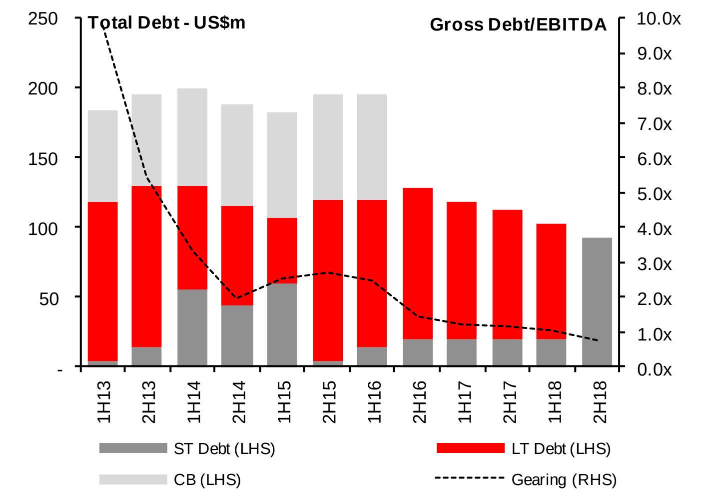
- While management remains focused on PNG growth options (both liquids stripping and gas commercialisation), with HZN's share price well and truly discounting its core NAV, the near-term performance of production assets is likely to come back into focus, in our view. Indeed, the near-term free cash flow generation from its producing assets (supported by Maari rolling off the growth project & the associated production improvements, Beibu Gulf benefiting from the impact of exploration cost recovery and the favourable near-term hedging profile).

Fig 1 After 4-years of significant capex, HZN will transition to become free-cash-flow positive over coming years...



Source: Company data, Macquarie Research, July 2015

Fig 2 ...which will see the balance sheet deleveraged from the high levels seen over the last four years



Source: Company data, Macquarie Research, July 2015

⇒ After a slow start and an ~8 month delay to completion, the Maari Growth program (which incorporated four new production wells, one new injector and a workover) has finally delivered reasonable production improvements. While the 16,500bopd current field production rate has fallen short of 20,000bopd originally anticipated at the commencement of the program this is well ahead of our more conservative ~15,000bopd assumption HZN has more recently adopted. While we anticipate production to decline from these flush levels the operator expects the mobilisation of the work-over unit in late July and subsequently well-optimisation should see production increase to 20,000bopd.

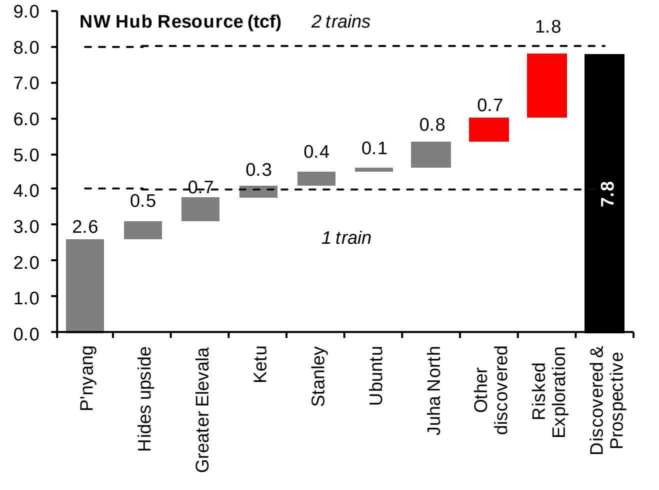
⇒ With all 15 wells at Beibu Gulf now on artificial lift production remains at ~10kbopd. However, with the initial development carry (borne by all partners in the JV) now all but exhausted, management anticipates that ~U$98m of exploration carry will now start to come into effect, which will see HZN's share of field revenue temporality lift to ~40% for 2-3 years (from 25% previously). Following the discovery of the WZ 12-10-1&2 fields last year, drilling of the 12-8W-A6H wells in 2HCY15 (which will partially develop the new 12-10-2 field at a unit cost of merely ~U$8/boe) could contributed a further ~1,500bopd of production. However, with only one well slot remaining in the existing WZ 12-8W platform, HZN anticipates an additional ~U$100m platform will be required to develop the remaining reserves in the newly discovered accumulation. Meanwhile HZN continues to anticipate that the 10.5mmboe 12-8E fields will be developed with a leased MOPU at a cost of ~U$112m (we previously assumed ~U$300m). HZN anticipates that overall development plan could be submitted in late 2015/early 2016.

⇒ In mid-May, HZN executed a base U$120m reserves-base debt facility with ANZ and Westpac. Under the revised agreement amortisation was eliminated over the subsequent 15 months. Furthermore the borrowing base grew to U$120m (fully drawn at FY15 year-end) from with a further U$50m potentially available (presumably accounting for growing developed reserves at Beibu Gulf). Finally the maturity of the facility will be extended by 12 months to March 2019. HZN now only estimates a ~U$33m capex budget in FY16 with a possible PNG government back-in to a smaller Stanley development as early as late-16 crystallising a healthy sunk capex refund, stronger-than-anticipated Maari production likely to see near-term net operating income to Jun-16 exceed HZN's U$80m forecast and the elimination of the amortisation likely to help manage the redemption of the U$80m of convertible bonds in June 2016. Even ignoring the U$50m accordion we estimate a manageable ~U$10m funding gap.

Slimmed down Stanley concept looking less relevant

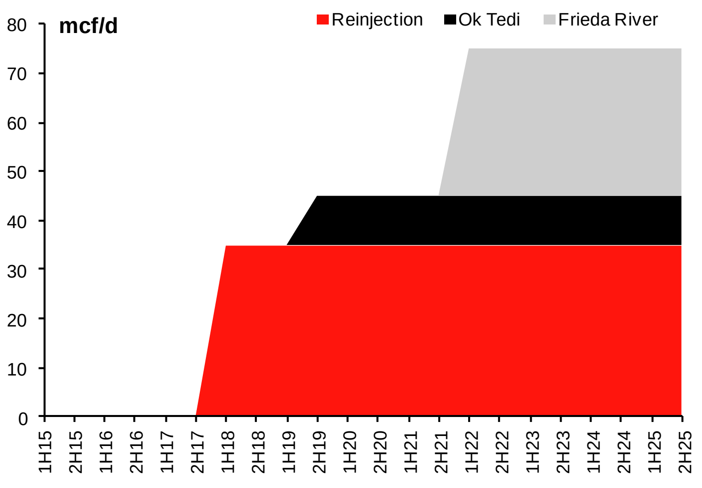
- After sanctioning the Stanley liquids stripping development in early 2012, other than site preparation and drilling of developments wells, little further progress has been made. While the JV has prudential resized the project in the current environment, this sees first liquids production slip to 2017. Meanwhile, outside of sales to the OK Tedi mine, gas commercialisation is increasingly falling outside of HZN hands (with Frieda River initially proposing a fuel-oil power solution and commercialisation of PRL 21 gas increasingly leveraged to the outcome of P'nyang appraisal next year).

Fig 3 PNG LNG requires 4 tcf of 2P reserves from the NW Hub to underpinned a 3rd train – further appraisal at P'nyang (2.6 tcf) will determine the need for 3rd party gas



Source: Company data, Macquarie Research, July 2015

Fig 4 A slower ramp of regional gas sales at Stanley is also likely to impact condensate production

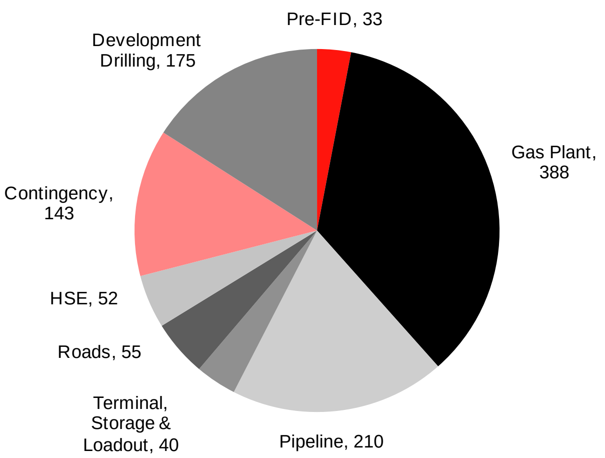


Source: Company data, Macquarie Research, July 2015

⇒ The revised Stanley development plan sees the scale reduce to 25% of the original plan, with revised capex estimated at ~U$120m (gross). The new concept consists of a gas plant and a single compressor capable of gas reinjection at 35mmcf/d, and production of 1,000bbl/d of condensate to be trucked to the Kiunga Condensate Terminal (with further liquids now contingent on gas sales).

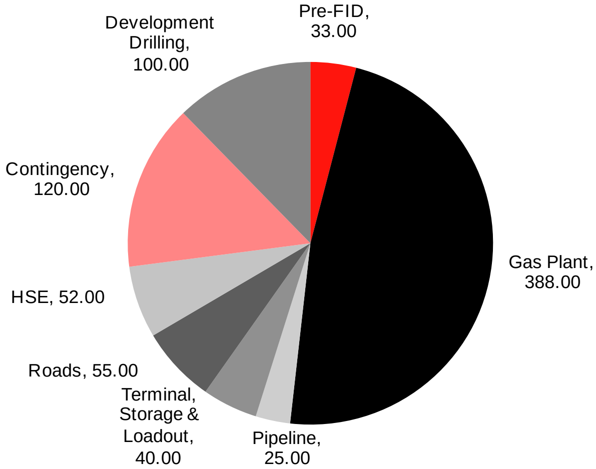
- ⇒ Management stressed that despite the scaled back approach to the development, Stanley will maintain the ability to ramp up to cater for OK Tedi or Frieda River project gas requirements. Management also conceded that the re-worked development plan sees the upstream (U$90m worth of development drilling has been completed) potentially overcapitalised by at least one well.
- ⇒ Momentum has been building towards potential domestic gas sales, with expressions of interests for IPP's issued for both OK Tedi (where demand is anticipated to be 3bcf/a) and the Frieda River Project (while initial for IFO, a gas power option would require ~12bcf/a). Thus, allowing for gas reinjection (35mmcf/d) and pending successful negotiation of terms (term sheets with OK Tedi have already been drafted) as well as the sanctioning of Frieda River, the call on Stanley gas could be in the order of 75mmcf/d. Indeed, management envisage ~U$2-2.5bn worth of gross gas sales over the life of the project (equating to an average nominal price of U$6.50/mcf at the lower end). Meanwhile, associated condensate production would also be leveraged to a ramp-up in gas (through domestic contracts) potentially doubling production to ~2,000bopd.
- ⇒ Ongoing FEED studies continue at the Elevala/Tingu hub (albeit the majority has been completed). Management suggests that the base case, greenfield upstream development would cost ~U$1bn (gross) vs ~U$800m (gross) for a brownfield development whereby Elevala/Tingu gas is incorporated as feedstock into a PNG LNG expansion train, via the proposed P'nyang to Kutubu pipeline. The key difference in capital intensity (~U$200m) relates to the greenfield developments' required re-injection wells (x2) as well as a lengthier 80km pipeline to Kiunga. HZN continues to target first LNG in 2020 regardless of the selected development option, which appears aggressive considering that FID on a PNG LNG expansion train is required under the MoU with the PNG government by the end of 2017 (we assuming 2022 which is consistent with our OSH modelling).
- ⇒ Following the unsuccessful Hides Deep well and with Hides reservoir remodelling now unlikely to deliver meaningful reserves additions, an expansion of PNG LNG remains dependent on P'nyang appraisal, where current 2C estimates stand at 2.6 tcf. With the foundation project JV requiring 4tcf of 2C to underpin a 3rd train, supplementary 3rd party gas in the NW Highlands may indeed have a role to play. Furthermore, with P'nyang appraisal seemingly on the critical path to reach FID, the fully appraised gas resource across PRL 21 could potential be used to fast-track the decision to move forward to FEED ahead of this activity.
- ⇒ In accordance with an agreement with Osaka Gas signed in May 2013, the U$130m contingent payment remains payable at FID of a proposed LNG development, which is still targeted for 2017. However, uncertainties also remain surrounding the timing and the extent of the PNG government's willingness to participate. HZN would receive ~U$30m if the government elects to take up its full 22.5% back-in into PRL 21.

Fig 5 HZN's gross capex estimate for a greenfield PRL 21 development of ~U$1bn is in line with RISC's June 2014 assessment...



Source: Company data, Macquarie Research, July 2015

Fig 6 ...however with a P'nyang-Kutubu pipeline tie in removing the need for injector wells and a costly pipeline to Kiunga capex would fall to ~U$800m



Source: Company data, Macquarie Research, July 2015

Maari Growth Project sees June quarter production tick up

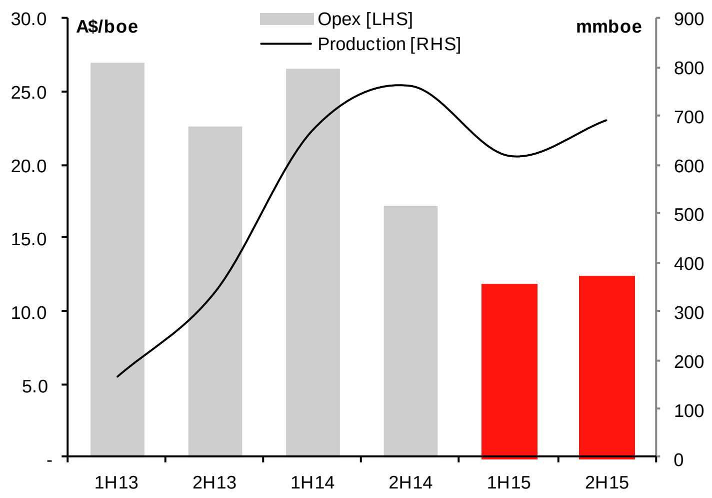
June quarter production of 367 kboe was 13% up on 3Q but 5% below our forecasts, as a result of the timing of completion of the final MR10 development well at Maari. Current Maari full field production has risen to 16,500 bopd, with a work over campaign (work-over unit load out scheduled for late July) and optimisation at MR10 set to drive deliverability to approximately 20,000 bopd.

⇒ While underlying average oil realisations were ~U$59.70/bbl, U$5.9m of hedge book gains saw all in realisations average U$78/bbl for the period. While management's active hedging program saw ~50% of FY15 production hedged at ~U$95/bbl (a result of locking in volumes ahead of the Brent price slide in late 2014), hedged volumes are set to fall to ~25% across FY16.

⇒ Field operating costs across 4Q averaged ~U$10/bbl with Maari and Beibu Gulf averaging ~U$8.4/bbl and U$10.7/bbl, respectively. Additionally, all in opex fell across the quarter as a result of the absence of a Chinese Special Oil gain Levy (as Brent remained below the U$65/bbl threshold for the quarter). Average operating costs for 2HFY15 fell 24% U$12.35/bbl.

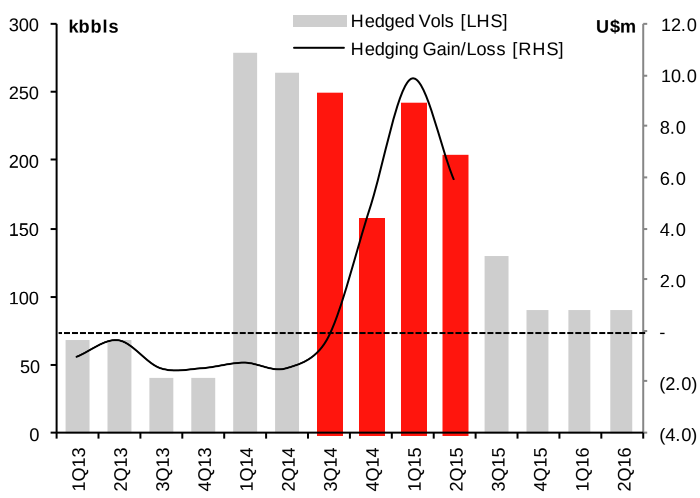
⇒ Capex of U$9.8m was below our forecasts as a result of lower residual spend relating to the Maari Growth Project and minimal exploration spend. However, we anticipate further spend over FY16 as the work-over campaign sets out to optimise production across the field. Guidance of ~U$33m for FY16 capex was in line with our expectations.

Fig 7 Despite production falling slightly across 2015, 2H unit operating costs fell 28% on pcp, as a result of the weak Brent price environment



Source: Company data, Macquarie Research, July 2015

Fig 8 While delivering a loss in FY14, management's active approach to hedging has delivered a gain of ~U$20m across FY15



Source: Company data, Macquarie Research, July 2015

Changes for forecasts and NAV

- We have made a number of changes that see NAV rise to A$0.35/sh from A$0.30/sh with FY17 NPAT upgraded to U$21m from U$15m (with minor absolute changes to our FY15 and FY16 forecasts). We retain an Outperform rating and A$0.25/sh target price.

⇒ We have updated our forecasts following completion of the Maari Growth Project, with production anticipated to average ~16kbopd (gross) over the next 12 months (aided by the proposed workover program) with production expected to subsequently decline.

⇒ We have incorporated additional WZ 12-10-field 2 reserves/resources of 6.5mb (gross), with first production from the A6-H well from early CY16 at an anticipated rate of 1,500bopd. We have also incorporated the additional ~U$100m (gross) development capex associated with the additional proposed platform.

⇒ We now assume that HZN receives ~U$20m in PNG government back-in related to the PDL 10 licence in 2H16. We have lowered our FY16 capex forecast to U$30m to reflect the proposed budget, with the spend relating to HZN's share of the A6-H wells. This see the forecast funding gap fall to merely U$10m (we previously assumed a U$40m funding gap). Given we value HZN on a post-money (with any equity raised at the current discounted share price), this drives a significant portion of the upgrade.

⇒ Assuming that the U$80m convertible note is payable in June 2016, we now estimate a manageable U$10m funding gap (and this does not assume that the U$50m accordion facility is drawn upon).

We have re-risked the Stanley liquids development to 70% and have adopted the more conservative development capex and condensate ramp-up profile. We continue to credit HZN with an 3bcf/a OK Tedi gas sale agreement, however at this stage we have not incorporated any value for potential supply to Frieda River.

Fig 9 Horizon Oil financials

Horizon Oil (HZN-AU) — Share Price: A$0.09

Outperform — Shares: 1302m

Profit & Loss		2H14A	1H15E	FY14A	FY15E	FY16E	FY17E
Sales revenue	US$m	80	49	144	84	105	130
add other income	US$m	(6)	5	(6)	20	14	-
Total revenue	**US$m**	**74**	**53**	**138**	**104**	**119**	**130**
less operating costs	US$m	(26)	(18)	(61)	(32)	(35)	(32)
EBITDAX	**US$m**	**48**	**36**	**78**	**72**	**84**	**98**
less exploration expensed	US$m	(6)	(11)	(11)	(13)	(6)	(9)
EBITDA	**US$m**	**41**	**25**	**67**	**59**	**78**	**89**
less dep. & amort.	US$m	(22)	(17)	(40)	(37)	(41)	(39)
less other non-cash costs	US$m	(0)	(1)	(0)	(1)	-	-
EBIT	**US$m**	**19**	**7**	**27**	**21**	**37**	**50**
less net interest	US$m	(10)	(8)	(19)	(16)	(12)	(11)
Pre-tax operating profit	**US$m**	**9**	**(1)**	**8**	**5**	**26**	**39**
less tax expense (incl APT)	US$m	(15)	(1)	(17)	(3)	(12)	(19)
Net operating profit	**US$m**	**(6)**	**(1)**	**(9)**	**2**	**14**	**20**
add non-recurring items	US$m	19	9	22	9	-	-
Reported profit	**US$m**	**13**	**7**	**13**	**11**	**14**	**20**
Adjusted profit	**US$m**	**(6)**	**(1)**	**(9)**	**2**	**14**	**20**
				0			
EPS (Adjusted)	**Acps**	**(0.5)**	**(0.1)**	**(0.8)**	**0.3**	**1.5**	**2.0**
EPS Growth	*%*	*(106%)*	*81%*	*(426%)*	*127%*	*458%*	*34%*
DPS	USc	-	-	-	-	-	-
DPS	Ac	-	-	-	-	-	-
Franking	%	0%	0%	100%	100%	100%	100%
EFPOWA shares on issue	m	1,302	1,302	1,261	1,302	1,302	1,439

Cashflow Analysis		2H14A	1H15E	FY14A	FY15E	FY16E	FY17E
Cash receipts from operations	**US$m**	**71**	**54**	**139**	**110**	**111**	**126**
less operating costs	US$m	(23)	(24)	(56)	(44)	(32)	(31)
less interest paid	US$m	(5)	(4)	(11)	(9)	(8)	(8)
less tax paid	US$m	(5)	(5)	(8)	(7)	(12)	(19)
Gross cashflow from operation	**US$m**	**38**	**22**	**65**	**50**	**59**	**68**
less expl & devlp	US$m	(38)	(59)	(93)	(79)	(29)	(53)
less acq./inv.	US$m	-	-	77	-	-	-
less dividends	US$m	-	-	-	-	-	-
add debt movements	US$m	(15)	(9)	(15)	1	(70)	(20)
add equity/other	US$m	0	(10)	47	-	-	11
Net cashflow	**US$m**	**62**	**(56)**	**80**	**(37)**	**(40)**	**30**
+exchange rate adjustments	US$m	(0)	0	(1)	0	-	-
Increase in cash	**US$m**	**62**	**(56)**	**80**	**(37)**	**(40)**	**30**
Net debt (cash)	**US$m**	**89**	**139**	**(28)**	**54**	**87**	**41**

Balance sheet		2H14A	1H15E	FY14A	FY15E	FY16E	FY17E
Cash	US$m	99	44	99	62	21	51
Other current Assets	US$m	22	51	22	46	54	59
Fixed Assets	US$m	394	427	394	424	406	387
Total Assets	**US$m**	**515**	**521**	**515**	**532**	**482**	**497**
Current Liabilities	US$m	100	93	100	31	50	51
Total Liabilities	US$m	292	264	292	272	208	192
Shareholder equity	**US$m**	**223**	**256**	**223**	**260**	**274**	**305**

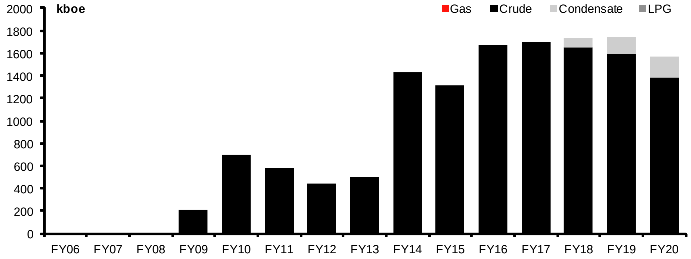
Ratio analysis		2H14A	1H15E	FY14A	FY15E	FY16E	FY17E
ND/ND+E	%	28%	35%	-14%	17%	24%	12%
Interest cover	x	3.1 x	0.9 x	2.2 x	1.7 x	4.6 x	6.5 x
Dividend payout ratio	%	0%	0%	0%	0%	0%	0%
ROA	%	4%	1%	5%	4%	7%	10%
ROE	%	-3%	0%	-5%	1%	5%	7%
ROIC	%	0%	2%	2%	4%	6%	8%
Effective tax rate	%	166%	71%	215%	26%	30%	30%
EBITDA margin	%	65%	67%	56%	69%	71%	75%
EBIT margin	%	26%	14%	19%	20%	31%	38%
Free cash flow	US$m	77	(37)	49	(29)	30	16

Valuation		2H14A	1H15E	FY14A	FY15E	FY16E	FY17E
EV/EBITDAX ratio	x	4.1 x	6.6 x	1.0 x	3.8 x	3.3 x	2.8 x
P/E ratio	x	nmf	nmf	nmf	72.8 x	5.8 x	4.3 x
P/CEPS ratio	x	18.8 x	11.6 x	9.4 x	3.7 x	1.3 x	1.3 x
FCF yield	%	18.5%	nmf	12.5%	nmf	37.2%	17.7%
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Sensitivities (Adjusted Earnings)		NPV	FY14A	FY15E	FY16E	FY17E
Oil price (+US$1/bbl)	US$m	**0.35**	**(9)**	**2**	**15**	**21**
	delta	0.00	-	-	1	1
	%	*1%*	*0%*	*0%*	*5%*	*4%*

Price assumptions		2H14A	1H15E	FY14A	FY15E	FY16E	FY17E
US$/A$	¢	0.93	0.85	0.92	0.81	0.71	0.70
Oil - Brent	US$/bbl	109.73	90.43	109.73	73.50	60.75	76.50

Production		2H14A	1H15E	FY14A	FY15E	FY16E	FY17E
Natural gas	PJ	-	-	-	-	-	-
Crude & condensate	kbbls	762.5	618.7	1,434.7	1,310.5	1,676.3	1,698.7
Total production	**kboe**	**762.5**	**618.7**	**1,434.7**	**1,310.5**	**1,676.3**	**1,698.7**
Production rate	*bopd*	*4,178*	*3,390*	*3,931*	*3,590*	*4,593*	*4,654*



Reserves		FY14A	FY15E	FY16E	FY17E
Natural gas	Tcf	-	-	-	-
Crude & condensate	mmbbl	15.1	13.8	12.1	10.4
Total reserves	**mmboe**	**15.1**	**13.8**	**12.1**	**10.4**
2P reserve life	years	11.5	8.2	7.1	6.0
Mkt cap / 2P reserves	US$/boe	7.0	6.3	6.4	8.9
EV / 2P reserves	US$/boe	15.1	16.5	18.8	21.8

Per bbl statistics		2H14A	1H15E	FY14A	FY15E	FY16E	FY17E
Sales Revenue / boe	US$/boe	104.3	78.6	100.6	63.9	62.6	76.8
EBIT / boe	US$/boe	25.4	11.8	18.7	15.9	22.4	29.4
Profit / boe	US$/boe	nmf	nmf	nmf	1.9	8.2	12.0
Opex/boe	US$/boe	17.2	11.9	21.6	12.1	12.9	7.9
DDA/boe	US$/boe	28.6	27.4	27.9	28.6	24.4	23.1

NPV @ WACC of 10.2%		US$m	A$ps	%
Developing assets		**US$m**	**A$ps**	**%**
Maari		136	0.11	
Static assets & exploration				
Maari /M2A water injection	risked valuation @ 40%	9	0.01	
Beibu Gulf (+WZ 12-10-2)	risked valuation @ 100%	211	0.17	
Stanley liquids	risked valuation @ 70%	35	0.03	
Elevala/Ketu/Tingu Liquids	risked valuation @ 30%	63	0.05	
Static & Exploration		96	0.08	
Financial assets				
Corporate		(25)	(0.02)	
Cash & Investments		73	0.06	
Risked Osaka Gas Payment		18	0.02	
Debt		(186)	(0.15)	
Group NPV		**429**	**0.35**	
Shareprice prem/(disc) to NPV				*-75%*
- core NPV per share (A$)			0.22	
- risked NPV per share (A$)			**0.35**	
- unrisked NPV per share (A$)			1.20	

Source: Company data, Macquarie Research, July 2015

Fig 10 Horizon Oil NAV break-down

Production Assets	Interest	Unrisked mmboe	Unrisked USD (m)	Risk	Risked mmboe	Risked USD (m)	USD/boe	Aps risked	Aps unrisked	% NPV	Sensitivity -$10	Sensitivity Base	Sensitivity +$10
Maari	10.0%	4.4	136	100%	4.4	136	30.6	0.11	0.11	31%	0.09	0.11	0.12
Beibu Gulf (+WZ 12-10-2)	27.0%	6.8	211	100%	6.8	211	30.9	0.17	0.17	49%	0.14	0.17	0.18
Sub Total		**11.3**	**347**		**11.3**	**347**		**0.28**	**0.28**	81%	**0.23**	**0.28**	**0.30**
Developing Assets													
Maari /M2A water injection	10.0%	0.7	23	40%	0.3	9	31.7	0.01	0.02	2%	0.01	0.01	0.01
Stanley liquids	23.3%	2.4	49	70%	1.7	35	20.4	0.03	0.04	8%	0.02	0.03	0.03
Elevala/Ketu/Tingu Liquids	20.9%	11.7	209	30%	3.5	63	17.9	0.05	0.17	15%	0.04	0.05	0.06
Sub Total		**14.8**	**282**		**5.5**	**107**		**0.09**	**0.23**	25%	**0.06**	**0.09**	**0.10**
Static assets and exploration													
Beibu Gulf: WZ 12-8E & 12-10-1	27.0%	2.6	48	30%	0.8	15	18.3	0.01	0.04	3%	0.01	0.01	0.01
PRL 21: Toro (liquids)	34.9%	4.2	58	15%	0.6	9	16.3	0.01	0.05	2%	0.00	0.01	0.01
Stanley contracted gas	23.3%	2.3	20	25%	0.6	5	8.6	0.00	0.02	1%	0.01	0.00	0.00
Daru mid-scale LNG	12.9%	39.5	167	10%	3.9	17	4.2	0.01	0.14	4%	0.01	0.01	0.02
PNG LNG 3rd Party Supply	21.0%	48.9	143	20%	9.8	29	2.9	0.02	0.12	7%	0.02	0.02	0.02
PEP 51313: Matariki	21.0%	23.1	116	2.5%	0.6	3	7.0	0.00	0.09	1%	0.00	0.00	0.00
PEP 51313: Te Wahtu	21.0%	11.8	37	2.5%	0.3	1	7.0	0.00	0.03	0%	0.00	0.00	0.00
PEP 51313: Pukeko NE	21.0%	7.0	4	2.5%	0.2	0	7.0	0.00	0.00	0%	0.00	0.00	0.00
PPL 259: Other	35.0%	39.0	369	5.0%	2.0	18	10.0	0.02	0.30	4%	0.01	0.02	0.01
Sub Total		**178**	**962**		**18.7**	**96**		**0.08**	**0.78**	22%	**0.06**	**0.08**	**0.08**
Financial & Corporate													
Cash						62		0.05	0.05	14%	0.07	0.05	0.07
Post-money raising						11		0.01	0.01	3%	0.01	0.01	0.01
Risked Osaka Gas Payment						18		0.02	0.02	4%	0.00	0.02	0.00
Debt						(119)		(0.10)	(0.10)	-27%	(0.09)	(0.10)	(0.10)
Hedge Book						14		0.01	0.01	3%	0.01	0.01	0.01
Convertible Bond						(80)		(0.07)	(0.07)	-19%	(0.06)	(0.07)	(0.06)
Corporate costs						(25)		(0.02)	(0.02)	-6%	(0.02)	(0.02)	(0.02)
Sub Total						**(120)**		**(0.10)**	**(0.10)**	-27%	**(0.08)**	**(0.10)**	**(0.09)**
Overall total		**204**	**mmboe**			**429**	**USDm**	**0.35**	**1.20**	100%	**0.28**	**0.35**	**0.39**
- core NPV per share (A$)		11						0.22			0.18	0.22	0.25
- risked NPV per share (A$)		35						**0.35**			**0.28**	**0.35**	**0.39**
- unrisked NPV per share (A$)		204						1.20			0.97	1.20	1.27

Diluted shares outstanding (m)	1,494.9
Ordinary Shares on Issue (m)	1,302.0
Post-money shares (m)	192.9
New shares from convertible debt (m)	-
Exchange Rate	0.82
WACC (post tax)	10.2%
Share Price	0.09
Price premium to NPV	-75%

Source: Macquarie Research, July 2015

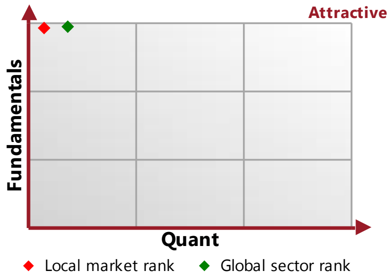
Macquarie Quant View

The quant model currently holds a strong negative view on Horizon Oil. The strongest style exposure is Earnings Momentum, indicating this stock has received earnings upgrades and is well liked by sell side analysts. The weakest style exposure is Price Momentum, indicating this stock has had weak medium to long term returns which often persist into the future.

545/619

Global rank in Energy

% of BUY recommendations	50% (3/6)
Number of Price Target downgrades	3
Number of Price Target upgrades	0

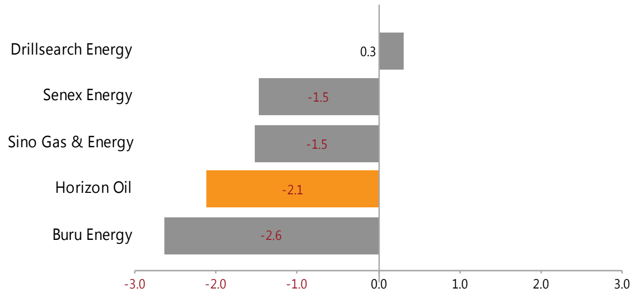


Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model.

Two rankings: Local market (Australia & NZ) and Global sector (Energy)

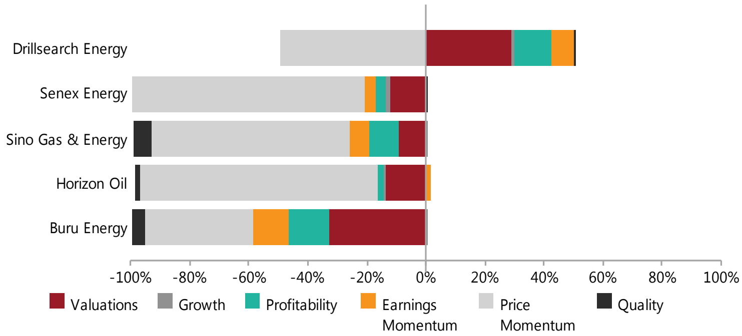
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



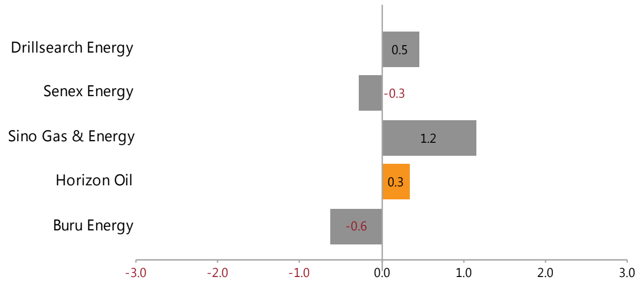
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



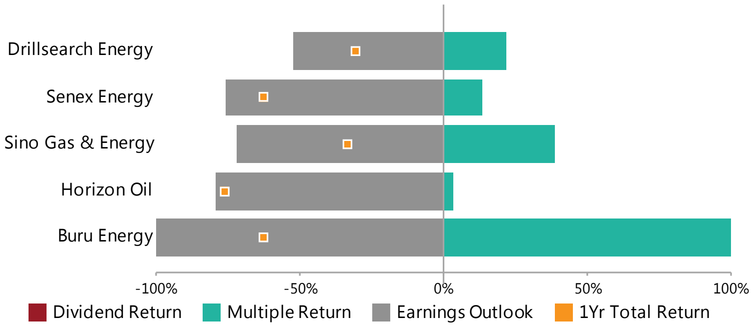
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



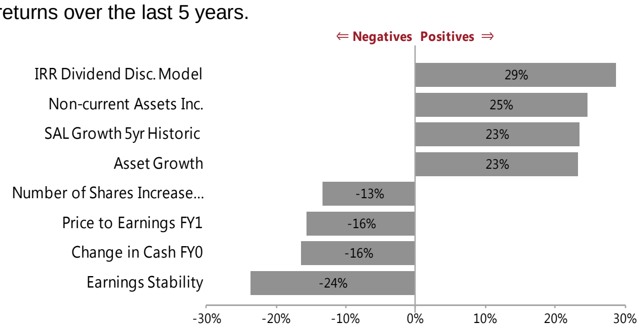
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



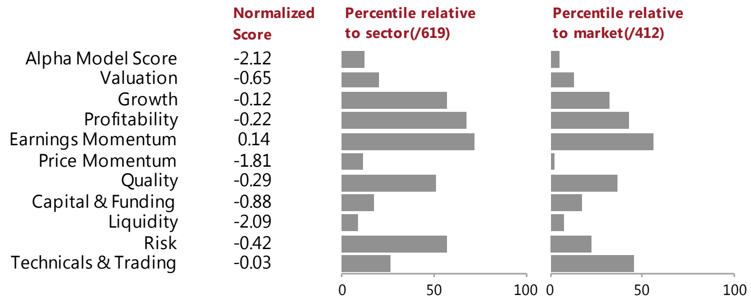
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and market.



Source (all charts): FactSet, Thomson Reuters, and Macquarie Research. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

Important disclosures:

Recommendation definitions

Macquarie - Australia/New Zealand
Outperform – return >3% in excess of benchmark return
Neutral – return within 3% of benchmark return
Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie First South - South Africa
Outperform – expected return >+10%
Neutral – expected return from -10% to +10%
Underperform – expected return <-10%

Macquarie - Canada
Outperform – return >5% in excess of benchmark return
Neutral – return within 5% of benchmark return
Underperform – return >5% below benchmark return

Macquarie - USA
Outperform (Buy) – return >5% in excess of Russell 3000 index return
Neutral (Hold) – return within 5% of Russell 3000 index return
Underperform (Sell)– return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.
* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months
Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:
Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

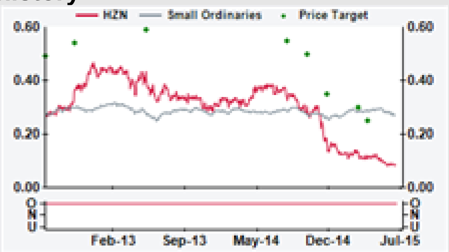
EPS = adjusted net profit / efpowa*
ROA = adjusted ebit / average total assets
ROA Banks/Insurance = adjusted net profit /average total assets
ROE = adjusted net profit / average shareholders funds
Gross cashflow = adjusted net profit + depreciation
*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 30 June 2015

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	46.23%	58.36%	47.27%	44.20%	60.65%	43.01%	(for US coverage by MCUSA, 9.68% of stocks followed are investment banking clients)
Neutral	37.67%	25.65%	29.09%	49.29%	34.19%	40.93%	(for US coverage by MCUSA, 5.53% of stocks followed are investment banking clients)
Underperform	16.10%	15.99%	23.64%	6.52%	5.16%	16.06%	(for US coverage by MCUSA, 1.38% of stocks followed are investment banking clients)

HZN AU vs Small Ordinaries, & rec history



(all figures in AUD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.
Source: FactSet, Macquarie Research, July 2015

12-month target price methodology

HZN AU: A$0.25 based on a DCF methodology

Company-specific disclosures:
HZN AU: Macquarie and its affiliates collectively and beneficially own or control 1% or more of any class of Horizon Oil Limited's equity securities.
Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
15-Apr-2015	HZN AU	Outperform	A$.25
17-Mar-2015	HZN AU	Outperform	A$.30
09-Dec-2014	HZN AU	Outperform	A$.35
08-Oct-2014	HZN AU	Outperform	A$.50
06-Aug-2014	HZN AU	Outperform	A$.55
24-May-2013	HZN AU	Outperform	A$.59
12-Oct-2012	HZN AU	Outperform	A$.54
13-Jul-2012	HZN AU	Outperform	A$.49

Target price risk disclosures:
HZN AU: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification:
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