Horizon Oil

ABN 51 009 799 455

HORIZON OIL LIMITED
New Zealand Petroleum Conference 2006

From 2006 –
The way forward

BLOCK 22/12, BLOCK 24/05
CHINA

PRL4, PRL5, PPL240
PAPUA NEW GUINEA

PEP 38413 (MAARI)
NEW ZEALAND

BAYOU CHOCTAW
USA

Michael Sheridan
Chief Financial Officer

This presentation contains some references to forward looking assumptions, representations, estimates and outcomes. These are uncertain by the nature of the business and no assurance can be given by Horizon Oil Limited that its expectations, estimates and forecast outcomes will be achieved. Actual results may vary materially from those expressed

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- Horizon Oil (HZN)

  - Australian listed oil company, market cap of approx A$100 million

  - commenced NZ exploration in 1986

  - 10% interest in Maari project

  - other interests in China (Blocks 22/12 & 24/05); US (onshore Louisiana), PNG (PRLs 4&5)

  - Business development focus - South East Asia

“Getting energy out of exploration”

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- Production, not exploration, will solve NZ energy dilemma

- Key to attraction of capital investment is overall probable economic return
  - Exploration is important but not only factor

- Greater focus on development required
  - Generally long lead times experienced from discovery to production: Maari 25 years, Pohukura 10 years

- Recognise that another Maui is unlikely and rapid development of smaller, economically marginal fields is required to meet NZ’s energy deficit

Attracting petroleum investment capital: key considerations

- Every stage of petroleum investment is subject to economic analysis

- Capital is scarce and priority is given to opportunities with greater economic return

- Deal with “art of the possible”
  - No control of geology, geography, costs of and access to goods and services

- Overall fiscal regime
  - Favourable on objective comparisons
  - Crown’s most effective tool to achieve desired outcome of attracting petroleum investment
  - Fiscal altruism won’t solve the energy deficit

Petroleum royalty – background

- Current regime based on 1991/92[1] modelling of *“Representative non-marginal projects”* using a *“typical”* offshore project (150 mmbl) and *“typical”* onshore project (30 mmbl)

- Maximum APR determined by that modelling for high risk, high return marginal prospects:

	Single Instrument	Hybrid
- Extremely marginal:	0.7%	0%
- Moderately marginal:	7.1%	3.6%
- Less marginal:	17%	11%

- Given the limited likelihood of finding such “typical, non-marginal” fields, it is time for a substantive review of applicability of royalty provisions to an industry for which the reality is smaller, economically marginal fields

[1]Ministry of Commerce, Crown Minerals Act 1991: Evaluation of Allocation and Pricing Regimes, Sept 1992

Risk capital and after tax value

- Large scale capital investment requires near certainty of economic return applying:
  - Standard industry investment criteria
  - DCF analysis

- Crown does not invest risk capital, therefore is less likely to have same focus on NPV of cash flow; likely to look to quantum of cash flow and broader economic benefits of capital investment

- Income tax deductions are worth more, earlier, to a capital investor

Proposals

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- Modify fiscal regime to increase attractiveness of NZ petroleum investment by compensating for inherent geographical and geological factors

- Royalty
  - Review royalty regime for marginal fields
    - Eliminate royalty or apply deferral mechanisms

  - Eliminate ring-fencing of expenditure
    - increases incentive for incumbent producers to explore
- Income tax
  - Modify project depreciation regime – lesser of 5 years and unit of production basis

  - Consider flow-through shares to increase NZ capital market investment in petroleum exploration

Horizon Oil

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