Horizon Oil Limited ABN 51 009 799 455
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27 February 2017

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

Dear Sir,

HORIZON OIL (HZN) ADVISES HALF-YEAR RESULTS

In accordance with Listing Rule 4.2A.3, Horizon Oil Limited lodges its half-year report for the period to 31 December 2016. The financial results for the period are set out in the attached Appendix 4D and half-year report.

HIGHLIGHTS

- Net cash from operations of US$19.7 million, EBITDAX of US$18.4 million, gross profit of US$8.8 million and US$18.3 million cash on hand.
- Operating costs 27% lower at US$22.8 million, driven by cost savings in response to lower oil prices.
- Net operating cashflow of US$53.5 million in CY 2016 and forecast at US$50-US$60 million for CY 2017-2022, with modest capex profile.
- Net debt reduced to US$120.8 million with continued reduction planned in CY 2017.
- Cost recovery production entitlement in Beibu Gulf, offshore China, maintains net field production at ~3,000 bopd over CY 2017-2020, with remaining cost recovery entitlement of US$105 million to be received in that period.
- Current net production from Beibu Gulf and Maari, ~4,000 bopd, including cost recovery oil entitlement.

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

"Horizon Oil performed well in the period, with the strong cashflows from our oil projects in China and New Zealand forecast to increase in calendar year 2017. The outstanding US$58.8 million in convertible bonds was successfully refinanced and net debt reduced. The Company's free cash flow break-even of US$33/bbl in 2017 has Horizon Oil well positioned to capture the benefits of stronger oil prices, further materially reduce its debt and, together with hedging, mitigate against oil price volatility.''

A financial summary and key financial and operational results are set out below:
(All figures are presented in **United States dollars**, unless otherwise stated)

- **Financial summary**

	31-Dec-16 US$'000	31-Dec-15 US$'000	Change %
Oil and gas sales (barrels)	**694,085**	694,245	-
Oil and gas production (barrels)	**549,199**	681,900	(19%)
Sales revenue	**31,603**	41,247	(23%)
EBITDAX[1]	**18,443**	31,935	(42%)
Loss before tax	**(3,083)**	(34,709)	91%
Impairment of non-current assets	**(600)**	(37,971)	98%
Loss after tax	**(5,056)**	(41,992)	88%
Cash on hand	**18,346**	51,066	(64%)
Cashflow from operating activities	**19,747**	28,607	(31%)
Reserves-Based Debt Facility[2]	**89,141**	120,000	(26%)
Subordinated debt[2]	**50,000**	58,800	(15%)
Net debt[2]	**120,795**	127,734	(5%)

Note 1: - EBITDAX is a financial measure which is not prescribed by Australian Accounting Standards and represents the profit under Australian Accounting Standards adjusted for interest expense, taxation expense, depreciation, amortisation, and exploration expenditure (including non-cash impairments). The Directors consider EBITDAX to be a useful measure of performance as it is widely used by the oil and gas industry. EBITDAX information has not been subject to any specific audit procedures by the Group's auditor but has been extracted from the half-year financial report for the half-year ended 31 December 2016, which have been subject to review by the Group's auditors.

Note 2: Represents principal amounts drawn down

Note 3: All references to $ are to US$ unless otherwise specified.

- **Financial results**

  - The Group recorded a solid performance from its producing assets, with sales volumes maintained in line with the prior year at 694,085 barrels of oil (2016: 694,245 barrels), despite a 19% reduction in the Group's net working interest share of oil production, driven by the preferential recovery of historic exploration costs under the cost recovery mechanism of the Petroleum Contract in Block 22/12.

  - Oil and gas sales revenue before hedging of US$31.2 million (2016: US$31.4 million) with an average realised oil price of US$44.94 per barrel (2016: US$45.21 per barrel).

  - Operating costs of US$22.8 million were 27% lower than the prior half-year (2016: US$31.3 million) driven by the lower production levels and cost savings initiatives implemented as a result of the sustained low oil price.

  - The Group reported a loss of US$5.1 million for the current half-year compared with a loss of US$42.0 million in the 2016 half-year. The half-year result includes a gross profit of US$8.8 million (2016: US$9.9 million) from Block 22/12 and Maari operations offset by corporate general and administrative expenditure of US$3.7 million, exploration and development expenses of US$0.2 million, non-cash impairment expenses of US$0.6 million, financing costs of US$7.9 million, income and royalty tax expense of US$2.0 million and a favourable movement in the mark-to-market valuation of the convertible bonds of US$0.5 million.

- Cash on hand at 31 December 2016 of US$18.3 million.

- Net debt reduced to US$120.8 million[2].

- **Operational results**

China

- During the half-year, the Group's working interest share of production from the Beibu Gulf fields was 399,801 barrels of oil. Crude oil sales were 523,960 barrels at an average price of US$44.08/bbl exclusive of executed hedging. Cumulative gross oil production from the fields through 31 December 2016 was 13.8 million barrels. Production for the half year exceeded budget at 1.48 mmbo.

- Average production over the half-year was approximately 8,062 bopd, of which the Group's share was 2,173 bopd.

- During the period the Group continued to benefit from the entitlement to preferential recovery of historic exploration costs under the cost recovery mechanism of the Petroleum Contract in Block 22/12. The Group recorded a production entitlement of approximately 35% of field production for the half-year (net working interest share of 26.95%). Horizon Oil's entitlement to cost recovery oil at 31 December 2016 was US$105.4 million.

- Preparation of the Overall Development Plan for the WZ 12-8E field continues, with completion scheduled in early 2017. The audited gross 2C resources for the field (including WZ 12-10-1 and WZ 12-3-1) are 11.1 mmbo.

New Zealand

- During the half-year the Group's working interest share of production from the Maari and Manaia fields was 149,398 barrels of oil. Crude oil sales were 170,125 barrels at an average effective price of US$47.58/bbl exclusive of executed hedging. Cumulative gross oil production from the fields through 31 December 2016 was 33.1 million barrels.

- Average production over the half-year was approximately 8,119 bopd, of which Horizon Oil's share was approximately 812 bopd.

- Production for the period was affected by the field maintenance and repair shutdown period from 24 November 2016 during which the Maari joint venture successfully completed the scheduled water injection repairs at Maari/Manaia field, including the replacement of the water injection riser and implementation of enhanced integrity measures to further protect the field flowlines. Concurrently, the joint venture repaired an isolated fatigue crack identified on the wellhead platform and undertook reconfiguration works of certain wellhead pipework in preparation for the installation of production enhancing multiphase pumps in 2017. Production recommenced on 12 January 2017 following completion of the abovementioned activity, and the water reinjection system was successfully reinstated on 29 January 2017. The Company anticipates that a portion of these works will be recovered from insurance.

Papua New Guinea

- During the half-year, efforts were focused on progressing the development concept for the Western Province gas aggregation scheme, through collaboration of the PDL 10 and PRL 21 joint ventures, and the formation of a Joint Working Team (JWT). The JWT will progress the technical and commercial work necessary for the Western LNG project, a mid-scale LNG development concept, potentially involving aggregation of the approximate 2.4 tcf of discovered gas resources in Western Province. The project will be supplied by gas aggregated from several discovered fields in Western Province, with PDL 10 (Stanley) and PRL 21 (Elevala/Ketu) providing the cornerstone gas volumes.

- Subsequent to the half-year period end, the Group acquired Eaglewood Energy (BVI) Limited, a subsidiary of Transform Exploration, which increased the Group's interests in PNG licences PPL 574 to 80% and PPL 430 to 100%. The Group has also acquired a 50% interest in the PRL 28 licence containing the Ubuntu field, which is adjacent to PRL 21. The transaction completed in January 2017.

Horizon Oil advises that a shareholder briefing will be held on Tuesday 7 March 2017 at 10.00am (AEDT) in relation to the 2017 half-year financial results.

The briefing will be in the form of a live audio webcast hosted by Brent Emmett and Michael Sheridan of Horizon Oil.

The briefing will cover information outlined in the Financial Results presentation for the half-year ended 31 December 2016.

To register, please copy and paste the link below into your browser:-

http://webcasting.boardroom.media/broadcast/58ae48fd6eac99045ebf2884

Yours faithfully,

Michael Sheridan
Chief Financial Officer and Company Secretary

For further information please contact: Mr Michael Sheridan

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Appendix 4D
Half-Year Report
For the half-year ended 31 December 2016
ABN 51 009 799 455

This half-year report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3. This information should be read in conjunction with the half-year report for the period to 31 December 2016.

Current reporting period:	Half-year ended 31 December 2016
Previous corresponding period:	Half-year ended 31 December 2015

Results for Announcement to the Market

		Percentage Change		**Amount**
		%		**US$'000**
Revenue from ordinary activities	Down	23%	to	31,603
Profit/(loss) from ordinary activities after tax attributable to members	Up	88%	to	(5,046)
Net profit/(loss) for the period attributable to members	Up	88%	to	(5,046)

Dividends/distributions

	Amount per security	**Franked amount per security**
Final dividend	Nil	Nil
Interim dividend	Nil	Nil

Net Tangible Assets

	2017 US cents	**2016 US cents**
Net tangible asset backing per ordinary share	7.5	16.4

Controlled entities acquired or disposed of

No controlled entities were acquired or disposed of during the current half-year period.

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

Horizon Oil Limited

ABN 51 009 799 455

Half-year report – 31 December 2016

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as 'the Group') consisting of Horizon Oil Limited and the subsidiaries it controlled at the end of, or during the half-year ended, 31 December 2016.

Directors

The following persons were directors of Horizon Oil Limited during the whole of the half-year and up to the date of this report:

J S Humphrey
B D Emmett
G de Nys
A Stock
S Birkensleigh

Review and Results of Operations

During the course of the half-year ended 31 December 2016, the Group's principal activities continued to be directed towards petroleum exploration, development and production.

The Group recorded a solid performance from its producing assets, with sales volumes maintained in line with the prior year at 694,085 barrels of oil (2016: 694,245 barrels) despite a 19% reduction in the Group's net working interest share of oil production to 549,199 barrels (2016: 681,900 barrels). Sales volumes were driven by the preferential cost recovery entitlement under the cost recovery mechanism of the Petroleum Contract in Block 22/12 with a share of approximately 35% attributable to the Group for the half-year (net working interest share of 26.95%). The reduced production was predominately due to a precautionary shut-in of the Maari field from 24 November 2016 through the remainder of the half-year owing to the identification of a fatigue crack in one of the well head platform struts and the performance of water injection flowline repairs scheduled for the same period, coupled with natural reservoir decline in the Maari and Beibu Gulf fields. The Maari field was returned to production during January 2017.

Oil and gas sales revenue of US$31,192,000 (2016: US$31,385,000) was generated from sales volumes of 694,085 barrels of oil (2016: 694,245 barrels), with an average realised oil price of US$44.94 per barrel (2016: US$45.21 per barrel) before hedging, slightly less than the Brent oil price which averaged ~US$47 per barrel for the half-year (2016: ~US$44 per barrel). Throughout the period 55% of production was hedged (2016: 32%) with hedging revenue of US$411,000 (2016: US$9,862,000) realised on 300,300 barrels hedged at a weighted average price of US$50.82 (2016: 217,500 barrels at US$96.17). Operating costs of US$22,837,000 were 27% lower than the prior half-year (2016: US$31,340,000) driven by the cost savings initiatives implemented as a result of the sustained low oil price and the lower production levels (the reasons for which were noted above). The maintenance of sales volumes through preferential cost recovery in China, combined with the reduction in operating costs, led to the maintenance of strong operating income levels despite the decreased production and lower realised oil prices noted above.

The Group reported a statutory loss of US$5,056,000 for the current half-year (2016: US$41,992,000). The half-year result includes a gross profit of US$8,766,000 (2016: US$9,907,000) from Block 22/12 and Maari operations, offset by corporate general and administrative expenditure of US$3,701,000, exploration and development expenses of US$199,000, non-cash impairment expenses of US$600,000, financing costs of US$7,885,000, income and royalty tax expense of US$1,973,000 and a favourable movement in the mark-to-market valuation of the convertible bonds of US$530,000 following their redemption on 19 September 2016.

Non-cash items impacting on the half-year result include US$12,655,000 (2016: US$19,294,000) in amortisation of production phase assets, a deferred income and royalty tax expense of US$1,571,000 (2016: US$6,591,000), a net gain of US$530,000 (2016: US$1,652,000 net gain) arising from the write-off of the mark-to-market valuation of the convertible bonds conversion rights following their redemption on 19 September 2016, impairment losses of US$600,000 (2016: US$37,971,000), non-cash financing costs of US$995,000 associated with the mark-to-market valuation of the options issued under the subordinated loan facility as part of the convertible bond refinancing in September 2016 and US$459,000 (2016: US$490,000) related to the value of share options and share appreciation rights granted to Horizon Oil employees.

Cash on hand at the end of the half-year was US$18,346,000, a 14% increase over the 30 June 2016 balance. Cash flow during the period was driven by operating cashflows from the Beibu and Maari fields which were used, in conjunction with the drawdown of US$50 million under the subordinated loan facility, to redeem the remaining US$58.8 million convertible bonds and fund the remaining committed exploration and development expenditure program. Cash from operating activities decreased on the prior half-year, despite consistent revenues being earned before hedging, due to the significant hedge receipts and historic insurance claim settlements received in the prior half-year.

Segment information is included in Note 3 of the financial statements.

CORPORATE

Redemption of convertible bonds and drawdown of subordinated loan facility

On 15 September 2016 the Group achieved financial close and drawdown of a US$50 million subordinated secured non-amortising loan. Shareholders approved the loan, which involved the issue of 300 million options over unissued shares in the Company, at a general meeting on 6 September 2016.

Completion of the refinancing arrangements enabled redemption of the remaining US$58.8 million convertible bonds prior to their extended redemption date of 19 September 2016. The bonds were initially due for redemption on 17 June 2016 but the bondholders unanimously approved the extension of their maturity date to 19 September 2016 to allow adequate time to obtain the requisite shareholder approval and implement the refinancing arrangements detailed above.

This refinancing, in conjunction with the reduction of the drawn debt levels of the Group's senior debt facility in 2016, sees the Group's gross debt levels reduced by over US$100 million since April 2014, as well as extending the maturity profile of the Group's debt given the unconditional right of the Group to defer any repayments of the subordinated debt for three years from drawdown.

Oil Price Hedging

During the half-year the Group implemented progressive hedging of 1,054,050 barrels of oil over the period July 2016 to March 2018 at a weighted average price of approximately US$53 per barrel net of credit charges. This hedging program assists with securing the Group's cashflows for the remainder of 2017 with forecast net operating cashflow and other income for the remaining period to 30 June 2017 estimated to be approximately US$25.0 million. Remaining hedged volume at 31 December 2016 is 753,750 barrels of oil to March 2018 at prices of US$52.50 to US$56 per barrel, net of credit charges.

PRODUCTION

China - *Block 22/12,* Beibu Gulf (Horizon Oil: 26.95% production / 55% exploration)

During the half-year, the Group's working interest share of production from the Beibu Gulf fields was 399,801 barrels of oil. Crude oil sales were 523,960 barrels at an average price of US$44.08/bbl exclusive of executed hedging. Cumulative gross oil production from the fields through 31 December 2016 was 13.8 million barrels. Gross field production for the half-year exceeded budget at 1.48 mmbo.

Average production over the half-year was approximately 8,062 bopd, of which the Group's share was 2,173 bopd.

During the period the Group continued to benefit from the preferential entitlement to production under the cost recovery mechanism of the Petroleum Contract in Block 22/12. The Group recorded a production entitlement of approximately 35% of field production for the half-year (additional 124,159 barrels over net working interest share of 26.95%). Horizon Oil’s entitlement to cost recovery oil at 31 December 2016 was US$105.4 million.

Shortly after period end, on 12 January 2017, cumulative oil production from the Beibu Gulf fields reached the milestone of 13.9 million barrels. Having reached the milestone, the oil pipeline transportation tariff paid to China National Offshore Oil Corporation, previously US$4.75 per barrel, reduced to US$0.50 per barrel, which will significantly reduce operating costs in future periods.

Preparation of the Overall Development Plan for the WZ 12-8E field continues, with completion scheduled in early 2017. The audited gross 2C resources for the field (including WZ 12-10-1 and WZ 12-3-1) are 11.1 mmbo.

New Zealand - *PMP 38160, Maari and Manaia fields,* offshore Taranaki Basin (Horizon Oil: 10%)

During the half-year the Group's working interest share of production from the Maari and Manaia fields was 149,398 barrels of oil. Crude oil sales were 170,125 barrels at an average effective price of US$47.58/bbl exclusive of executed hedging. Cumulative gross oil production from the fields through 31 December 2016 was 33.1 million barrels.

Average gross production from the field over the half-year was approximately 8,119 bopd.

Production for the period was affected by the field maintenance and repair shutdown period from 24 November 2016 during which the Maari joint venture successfully completed the scheduled water injection repairs at Maari/Manaia field, including the replacement of the water injection riser and implementation of enhanced integrity measures to further protect the field flowlines. Concurrently, the joint venture repaired an isolated fatigue crack identified on the wellhead platform and undertook reconfiguration works of certain wellhead pipework in preparation for the installation of production enhancing multiphase pumps in 2017. Production recommenced on 12 January 2017 following completion of the abovementioned activity, and the water reinjection system was successfully reinstated on 29 January 2017. The Company anticipates that a portion of these works will be recovered from insurance.

DEVELOPMENT

Papua New Guinea - *PDL 10, Stanley Field* (Horizon Oil: 30%)

The joint venture continued to focus its effort on progressing the development concept for the Western Province gas aggregation scheme, through collaboration with the PRL 21 joint venture, and the formation of a Joint Working Team (JWT). The JWT will progress the technical and commercial work necessary for the Western LNG project, a mid-scale LNG development concept, potentially involving aggregation of the approximate 2.4 tcf of discovered gas resources in Western Province. The project will be supplied by gas aggregated from several discovered fields in Western Province, with PDL 10 (Stanley) and PRL 21 (Elevala/Ketu) providing the cornerstone gas volumes.

EXPLORATION/APPRAISAL

Papua New Guinea - *PRL 21, Elevala / Ketu discoveries* (Horizon Oil: 27%)

The joint venture progressed feasibility studies for the prospective Western LNG project, by forming a Joint Working Team (JWT) with the PDL 10 joint venture. As noted above, the JWT will progress the technical and commercial work necessary for the Western LNG project, a mid-scale LNG development concept, potentially involving aggregation of the approximate 2.4 tcf of discovered gas resources in Western Province. The cornerstone volumes for the project are the condensate-rich Elevala/Tingu and Ketu fields operated by Horizon Oil, supplemented by the nearby Repsol operated Stanley condensate-gas field, in which Horizon Oil holds a 30% interest.

New Zealand - *PEP 51313,* offshore Taranaki Basin (Horizon Oil: 21%)

Following evaluation of the remaining prospects in the permit, the joint venture participants elected to withdraw from the permit, with completion of withdrawal anticipated in early 2017.

Papua New Guinea - *PPL574 (formerly PPL 259),* Western Province (Horizon Oil: 35%)

Activity during the half-year was focused on an assessment of the prospects and leads portfolio, and work associated with application for a licence extension. A new licence, PPL 574, was awarded over the old licence area with a term of up to six years.

Papua New Guinea - *PPLs 430* (Horizon Oil interest: 50%), *372* and *373* (Horizon Oil interest: 90%)

Seismic data has been sourced, reprocessed and integrated into the interpretation over the acreage, with the intent of high-grading prospective areas ahead of acquiring new seismic data. The acreage will be explored with the objective of confirming sufficient gas reserves, when added to the existing PNG reserves base, to underwrite regional gas commercialisation options currently under consideration.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set on page 7.

Rounding

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and accordingly amounts in the directors' report and interim financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

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

J S Humphrey	**B D Emmett**
Chairman	Chief Executive Officer

Sydney

27 February 2017

pwc

Auditor's Independence Declaration

As lead auditor for the review of Horizon Oil Limited for the half-year ended 31 December 2016, 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 review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
27 February 2017

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HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2016

	Note	Half-year to 31 December 2016 US$'000	31 December 2015 US$'000
Revenue		**31,603**	41,247
Cost of sales		**(22,837)**	(31,340)
Gross profit		**8,766**	9,907
Other revenue/other income		**6**	3,628
General and administrative expenses		**(3,701)**	(4,086)
Exploration and development expenses		**(199)**	(729)
Impairment of non-current assets	4	**(600)**	(37,971)
Finance costs	4	**(7,885)**	(8,303)
Unrealised movement in value of convertible bonds conversion rights	4	**530**	1,652
Gain on buyback of convertible bonds	4	**-**	1,193
Loss before income tax expense		**(3,083)**	(34,709)
NZ royalty tax expense		**(246)**	(2,331)
Income tax expense		**(1,727)**	(4,952)
Loss for the half-year		**(5,056)**	(41,992)
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges		**(2,598)**	(1,102)
Total comprehensive income/(loss) for the half-year		**(7,654)**	(43,094)
Profit/(loss) attributable to:			
Security holders of Horizon Oil Limited		**(5,046)**	(41,980)
Non-controlling interests		**(10)**	(12)
Loss for the period		**(5,056)**	(41,992)
Total comprehensive income/(loss) attributable to:			
Security holders of Horizon Oil Limited		**(7,644)**	(43,082)
Non-controlling interests		**(10)**	(12)
Total comprehensive income/(loss) for the period		**(7,654)**	(43,094)
		US Cents	
Basic earnings/(loss) per share		**(0.39)**	(3.22)
Diluted earnings/(loss) per share		**(0.39)**	(3.22)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2016

	Note	31 December 2016 US$'000	30 June 2016 US$'000
Current Assets			
Cash and cash equivalents	6	**18,346**	16,079
Receivables		**5,012**	9,932
Inventories		**875**	1,792
Current tax receivable		**193**	650
Other Assets		**735**	1,655
Total Current Assets		**25,161**	30,108
Non-Current Assets			
Deferred tax assets		**6,119**	6,453
Plant and equipment		**1,099**	1,886
Exploration phase expenditure	7	**55,498**	53,613
Oil and gas assets	8	**184,688**	194,612
Total Non-Current Assets		**247,404**	256,564
Total Assets		**272,565**	286,672
Current Liabilities			
Payables		**13,266**	12,501
Current tax payable		**114**	125
Borrowings	9	**21,479**	76,937
Derivative financial instruments		**3,436**	-
Other financial liabilities	10	**-**	530
Provisions		**376**	428
Total Current Liabilities		**38,671**	90,521
Non-Current Liabilities			
Payables		**23**	22
Deferred tax liability		**16,242**	15,924
Derivative financial instruments		**80**	-
Other financial liabilities	10	**4,927**	-
Borrowings	9	**106,959**	67,428
Provisions		**8,324**	8,243
Total Non-Current Liabilities		**136,555**	91,617
Total Liabilities		**175,226**	182,138
Net Assets		**97,339**	104,534
Equity			
Contributed equity	11	**174,801**	174,801
Reserves		**9,891**	12,030
Accumulated losses		**(87,263)**	(82,217)
Total Equity Attributable to equity holders of the Company		**97,429**	104,614
Non-controlling interest		**(90)**	(80)
Total Equity		**97,339**	104,534

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2016

	Attributable to members of the Company					
	Contributed equity US$'000	**Reserves US$'000**	**Retained Profits US$'000**	**Total US$'000**	**Non-controlling interest US$'000**	**Total Equity US$'000**
Balance at 1 July 2015	**174,801**	**19,288**	**62,254**	**256,343**	**(26)**	**256,317**
(Loss) for the half-year	-	-	(41,980)	(41,980)	(12)	(41,992)
Other comprehensive income	-	(1,102)	-	(1,102)	-	(1,102)
Total comprehensive (loss) for the half-year	**-**	**(1,102)**	**(41,980)**	**(43,082)**	**(12)**	**(43,094)**
Transactions with owners in their capacity as equity holders:						
Ordinary shares issued, net of transaction costs	-	-	-	-	-	-
Employee share options	-	490	-	490	-	490
	-	**490**	**-**	**490**	**-**	**490**
Balance at 31 December 2015	**174,801**	**18,676**	**20,274**	**213,751**	**(38)**	**(213,713)**
Balance at 1 July 2016	**174,801**	**12,030**	**(82,217)**	**104,614**	**(80)**	**104,534**
(Loss) for the half-year	-	-	(5,046)	(5,046)	(10)	(5,056)
Other comprehensive income	-	(2,598)	-	(2,598)	-	(2,598)
Total comprehensive (loss) for the half-year	**-**	**(2,598)**	**(5,046)**	**(7,644)**	**(10)**	**(7,654)**
Transactions with owners in their capacity as equity holders:						
Ordinary shares issued, net of transaction costs	-	-	-	-	-	-
Employee share options	-	459	-	459	-	459
	-	**459**	**-**	**459**	**-**	**459**
Balance at 31 December 2016	**174,801**	**9,891**	**(87,263)**	**97,429**	**(90)**	**97,339**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2016

	Half-year to	
	31 December 2016 US$'000	**31 December 2015 US$'000**
Cash flows from operating activities		
Receipts from customers	**36,289**	40,574
Payments to suppliers and employees	**(11,921)**	(9,996)
	24,368	30,578
Interest received	**6**	15
Interest paid	**(4,645)**	(3,795)
Income and royalty taxes (paid)/received	**18**	1,809
Net cash inflows from operating activities	**19,747**	28,607
Cash flows from investing activities		
Payments for exploration phase expenditure	**(1,456)**	(2,284)
Payments for oil and gas assets	**(2,709)**	(10,909)
Payments for abandonment costs	**-**	(2,183)
Payments for plant and equipment	**-**	(220)
Net cash (outflows) from investing activities	**(4,165)**	(15,596)
Cash flows from financing activities		
Drawdown of borrowings (net of transaction costs)	**45,483**	-
Repayment of borrowings	**(58,800)**	(22,270)
Net cash (outflows) from financing activities	**(13,317)**	(22,270)
Net increase/(decrease) in cash and cash equivalents	**2,265**	(9,259)
Cash and cash equivalents at the beginning of the half-year	**16,079**	61,343
Effects of exchange rate changes on cash and cash equivalents	**2**	(1,018)
Cash and cash equivalents at the end of the half-year	**18,346**	51,066

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Note 1. Basis of preparation of half-year report

The general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The interim financial statements have been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they become due.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

New and amended standards adopted by the group

The Group has adopted all of the new and revised Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to its operations and effective for the half-year ended 31 December 2016. None of the new and revised standards and interpretations were deemed to have a material impact on the results of the Group.

Early adoption of standards

The Group has elected to apply the following pronouncements to the period beginning 1 July 2013:

(i) *AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9*
AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. In December 2013, the AASB issued a revised version of AASB 9, with a final version issued in December 2014, incorporating three primary changes:

1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures;
2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time; and
3. The mandatory effective date moved to 1 January 2018.

Given that these changes are focused on simplifying some of the complexities surrounding hedge accounting, Horizon Oil Limited elected to early adopt the amendments in order to ensure hedge accounting can continue to be applied and to avoid unnecessary volatility within the profit and loss.

The Group has elected to apply the following pronouncements to the half-year beginning 1 July 2016:

(i) *AASB 107 Statement of Cash Flows, AASB 2016-2 Amendments to Australian Accounting Standards Disclosure Initiative: Amendments to AASB 107*
AASB 107 addresses the requirements for providing information about historical changes in cash and cash equivalents by means of a statement of cash flows which classifies cash flows into those from operating, investing and financing activities. In January 2016, the AASB issued an amendment requiring additional disclosures to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as effects of changes in foreign exchange rates and changes in fair values). The mandatory effective date is 1 January 2017.

Horizon Oil Limited elected to early adopt the amendments given that they provide further clarification around changes in liabilities arising from cash flows from financing activities.

Note 2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The most significant estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities relate to:

(i) Exploration and evaluation assets

Management makes certain estimates and assumptions as to future events and circumstances. These estimates and assumptions include whether commercially viable reserves have been found and whether the capitalised exploration and evaluation expenditure will be recovered through future exploitation or sale.

(ii) Reserve estimates

The estimated quantities of proven and probable hydrocarbons reported by the Group are integral to the calculation of amortisation expense (depletion), assessments of impairment of assets, provision for restoration and the recognition of deferred tax assets due to changes in expected future cash flows. Reserve estimates require interpretation of complex and judgemental geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoir, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Reserve estimates are prepared in accordance with guidelines prepared by the Society of Petroleum Engineers.

(iii) Provisions for restoration

The Group estimates the future removal and restoration costs of petroleum production facilities, wells, pipelines and related assets at the time of installation of the assets and reviews these assessments periodically. In most instances the removal of these assets will occur well into the future. The estimate of future removal costs therefore requires management to make judgements around the timing of the required restoration, rehabilitation and decommissioning, as well as, the discount rate.

(iv) Impairment of oil and gas assets

The Group assesses whether its oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash generating unit to which each asset belongs. The recoverable amount of an asset is the higher of its fair value less cost to sell and value in use. The fair value less cost to sell is assessed on the basis of the estimated net cash flows that will be received from the asset's continued employment and subsequent disposal. The estimated future cash flows are based on estimates of hydrocarbon reserves, future production profiles, commodity prices, operating costs and future development costs necessary to access the reserves. The estimated future cash flows are discounted back to today's dollars to obtain the value in use amount using an after-tax discount rate of between 9% and 12% to take into account risks which have not already been adjusted for in the cash flows.

(v) Share-based payments

Share-based payment transactions with directors and employees are measured by reference to the fair value of the share performance rights or options at the date they were granted. The fair value is ascertained using an appropriate pricing model, either Black-Scholes or Monte Carlo simulation, depending on the terms and conditions upon which the share performance rights or options were granted. The Group also applies assumptions around the likelihood of the share performance rights or options vesting which will have an impact on the expense and equity recorded in the financial year.

(vi) Borrowings

In September 2016, the Group achieved financial close and drawdown of a US$50 million subordinated secured non-amortising loan. Under the terms of the facility the Group issued 300 million options over unissued shares in Horizon Oil Limited. The Group was therefore required to assess the nature of the transaction and how best to account for it. The Group concluded that the transaction was a hybrid financial instrument, consisting of a derivative financial liability component relating to the fair value attributable to the share options, and a debt component relating to the residual value of the loan drawn down. Direct fees incurred in respect of the transaction have been allocated to the component parts, with those attributable to the debt portion being capitalised and amortised through interest expense over the remaining tenor of the facility, whilst those attributable to the derivative financial liability component are expensed in the period.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the reporting period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future reporting period.

(b) Critical judgements in applying the Group's accounting policies

No critical judgements which are considered to have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year were made during the preparation of this report.

(c) Assumptions on funding

The general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they become due.

The Group has a working capital deficit of US$13.5 million at 31 December 2016 resulting predominately from the scheduled amortisation of US$21.5 million of the remaining US$89.1 million Revolving Cash Advance Facility during calendar year 2017 being classified as a current liability at balance date. The Group has recorded a cash inflow from operating activities for the half-year of US$19.7 million arising from surplus revenue from the Group's operations in New Zealand and China. The Group's strategic growth plans and the working capital deficit are forecast to be fully funded by the maintenance of surplus revenues during calendar year 2017.

Should the full amount of the forecast internally generated cash flow and capital required to pursue the strategy not be raised, the directors expect that the Group would be able to adopt a modified strategy and would be able to secure the necessary financing.

Note 3. Segment information

(a) Description of segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the board of directors.

The operating segments identified are broadly based on the Group's working interest in each individual oil and gas permit, arranged by developmental phase. Discrete pre-tax financial information (including pre-tax operating profit and capital expenditure on exploration and evaluation assets and oil and gas assets) for each oil and gas permit is prepared and provided to the chief operating decision maker on a regular basis. In certain circumstances, individual oil and gas permits are aggregated into a single operating segment where the economic characteristics and long term planning and operational considerations of the individual oil and gas permits are such that they are considered interdependent. The Group has identified four operating segments (five for 2016 – management no longer consider *New Zealand Exploration* to be a separate operating segment as the joint venture participants of the New Zealand exploration permit, PEP 51313, have elected to withdraw from the permit, with completion of withdrawal expected in early 2017):

- New Zealand exploration and development – the Group is currently involved in developing and producing crude oil from the Maari/Manaia oil field development, and the exploration and evaluation of hydrocarbons within the permit;
- China exploration and development – the Group is currently involved in developing and producing crude oil from the Block 22/12 – WZ6-12 and WZ12-8W oil field development, and the exploration and evaluation of hydrocarbons within Block 22/12;
- PNG exploration and development - the Group is currently involved in the Stanley condensate/gas development and the exploration and evaluation of hydrocarbons in five onshore permit areas in Papua New Guinea - PRL 21, PPL 574 (formerly PPL 259), PPL 372, PPL 373 and PPL 430; and
- 'All other segments' include amounts of a corporate nature not specifically attributable to an operating segment.

(b) Segment information provided to the chief operating decision maker

Half-year 2017	New Zealand Exploration and Development US$'000	New Zealand Exploration US$'000	China Exploration and Development US$'000	Papua New Guinea Exploration and Development US$'000	All other segments US$'000	Total US$'000
Segment revenue:						
Revenue from external customers	**8,239**	**-**	**23,364**	**-**	**-**	**31,603**
Profit / (loss) before tax	**(2,542)**	**-**	**5,118**	**(1,583)**	**(4,593)**	**(3,600)**
Depreciation and amortisation	**4,184**	-	**8,471**	**84**	**103**	**12,842**
Impairment expenses	**-**	-	**-**	**600**	**-**	**600**
Half-year 2016	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Segment revenue:						
Revenue from external customers	24,287	-	16,960	-	-	41,247
Profit / (loss) before tax	6,509	(4,192)	(4,884)	(31,806)	(6,654)	(41,027)
Depreciation and amortisation	7,083	-	12,211	219	128	19,641
Impairment expenses	3,731	4,187	-	30,053	-	37,971

	New Zealand Exploration and Development US$'000	New Zealand Exploration US$'000	China Exploration and Development US$'000	Papua New Guinea Exploration and Development US$'000	All other segments US$'000	Total US$'000
Total segment assets at 31 December 2016	**55,238**	**-**	**133,643**	**65,015**	**18,669**	**272,565**
Additions to non-current assets other than financial assets and deferred tax during the half-year ended:						
Exploration and evaluation phase expenditure:	**-**	**-**	**1,150**	**735**	**-**	**1,885**
Development and production phase expenditure:	**871**	**-**	**(13)**	**1,873**	**-**	**2,731**
Plant and equipment:	**-**	**-**	**-**	**-**	**-**	**-**
Total segment liabilities at 31 December 2016	**50,063**	**-**	**115,817**	**1,310**	**8,036**	**175,226**
Total segment assets at 30 June 2016	65,061	56	143,644	62,706	15,205	286,672
Additions to non-current assets other than financial assets and deferred tax during the year ended:						
Exploration and evaluation phase expenditure:	-	155	2,614	6,547	-	9,316
Development and production phase expenditure:	3,147	-	8,575	3,247	-	14,969
Plant and equipment:	-	-	-	-	220	220
Total segment liabilities at 30 June 2016	47,921	56	71,258	1,011	61,892	182,138

Other segment information

(i) Segment revenue

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

Segment revenue reconciles to total consolidated revenue as follows:

	Half-year to	
	31 December 2016 US$'000	**31 December 2015 US$'000**
Total segment revenue	**31,603**	41,247
Interest income	**6**	15
Insurance claims	**-**	3,613
Total revenue	**31,609**	44,875

Segment profit before tax

The chief operating decision maker assesses the performance of operating segments based on a measure of profit before tax.

Segment profit before tax reconciles to consolidated profit before tax as follows:

	Half-year to	
	31 December 2016 US$'000	**31 December 2015 US$'000**
Total segment loss before tax	**(3,600)**	(41,027)
Interest income	**6**	15
Insurance claim	**-**	3,613
Foreign exchange loss (net)	**(19)**	(155)
Unrealised movement in value of convertible bonds conversion rights	**530**	1,652
Gain on buyback of convertible bonds	**-**	1,193
Loss before tax	**(3,083)**	(34,709)

(ii) Segment assets and liabilities

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

Reportable segment assets and liabilities are equal to consolidated total assets and liabilities.

Note 4. Loss for the half-year - Significant items

Loss for the half-year includes the following items that are unusual because of their nature, size or incidence:	Half-year to 31 December 2016 US$'000	31 December 2015 US$'000
Income		
Insurance claims	**-**	3,613
Unrealised movement in value of convertible bonds conversion rights (refer to note (a) below)	**530**	1,652
Gain on buyback of convertible bonds during the period	**-**	1,193
Expenses		
Finance costs (refer to note (b) below)	**(7,885)**	(8,303)
Impairment of non-current assets (refer to note (c) below)	**(600)**	(37,971)

(a) The amount shown reflects the movement during the period of the fair value of the conversion rights relating to the 5.5% convertible bonds issued on 17 June 2011. As the bonds were redeemed during the half-year, prior to the extended redemption date of 19 September 2016, the carrying balance of the fair value of the derivative financial liability associated with the conversion rights of US$530,000 was written back to the profit and loss during the half-year. Refer to Note 9(d) for further details of the convertible bond redemption.

(b) Finance costs contain interest and other costs associated with the Revolving Cash Advance Facility, the convertible bonds and the subordinated facility (refer to Note 9 for further details). Also included within this figure is an unrealised movement of $995,000 relating to the marked to market revaluation of the derivative financial liability arising from the share options issued in respect of the subordinated secured facility.

(c) Following the impairment assessment which was performed at balance date, the carrying value of the PDL 10 construction camp was deemed to exceed its recoverable amount by US$600,000 and an impairment charge has been booked accordingly. The recoverable amount for leasehold improvements at 31 December 2016 was US$693,000 post impairment.

Note 5. Fair value measurement of financial instruments

(a) Fair value measurements

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Derivative financial instruments
- Financial liabilities at fair value through profit or loss (FVTPL)

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December 2016 and 30 June 2016:

At 31 December 2016	**Level 1 US$'000**	**Level 2 US$'000**	**Level 3 US$'000**	**Total US$'000**
Assets				
Derivatives used for hedging	-	-	-	-
Total Assets	**-**	**-**	**-**	**-**
Liabilities				
Derivatives used for hedging	3,516	-	-	3,516
Financial liabilities at fair value through profit or loss				
Options over unissued shares	-	-	4,927	4,927
Total liabilities	**3,516**	**-**	**4,927**	**8,443**
At 30 June 2016				
Assets				
Derivatives used for hedging	-	-	-	-
Total Assets	**-**	**-**	**-**	**-**
Liabilities				
Financial liabilities at fair value through profit or loss				
Conversion rights on convertible bonds	-	-	530	530
Total liabilities	**-**	**-**	**530**	**530**

There were no transfers between levels 1, 2 or 3 for recurring fair value measurements during the year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2016.

(b) Valuation techniques used to derive fair values

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) was based on quoted market prices at the end of each reporting period. The quoted market price used for financial liabilities held by the Group was the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- The fair value of oil price swaps and collars are calculated as the present value of the estimated future cash flows based on forward prices at balance sheet date;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- Other techniques, such as discounted cash flow analysis and Monte Carlo simulations, are used to determine fair value for the remaining financial instruments.

All of the resulting fair value estimates are included in level 2 unless otherwise stated.

For the financial liabilities, the best evidence of fair value is current prices in an active market for similar financial liabilities. Where such information is not available the directors consider information from a variety of sources including:

- discounted cash flow projections based on reliable estimates of future cash flows; and
- Monte Carlo simulations.

All resulting fair value estimates for properties are included in level 3.

(c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the half-year ended 31 December 2016 for recurring fair value measurements:

	Options over unissued shares US$'000	Conversion Rights on Convertible Bonds US$'000
Opening balance at 1 July 2016	-	530
Additions during the period	3,932	-
(Gains)/losses recognised in profit or loss	995	(530)
Closing balance at 31 December 2016	4,927	-

(i) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

Description	Fair value at 31 Dec 2016 $'000	Unobservable inputs	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Options over unissued shares	4,927	Share price volatility	48.4%	All other inputs being equal, an increase in share volatility results in an increase in the fair value of the liability

(ii) Valuation processes

The Group engages external, independent and qualified valuers to determine the fair value of the share options for financial reporting purposes on a half yearly basis. The fair value of the share options is determined based on a simulation-based pricing methodology using a Monte Carlo simulation. A simulation-based pricing methodology was applied in order to model the dynamics of the underlying variables and to account for the individual specifications of the share options. Monte Carlo simulation uses random numbers as inputs to iteratively evaluate a deterministic model.

The method involves simulating the various sources of uncertainty that affect the value of the relevant instrument and then calculating a representative value by substituting a range of values - in this case a lognormal probability distribution - for any factor that has inherent uncertainty. The results are calculated repeatedly, each time using a different set of random values from the probability functions. Depending upon the number of uncertainties and the ranges specified for them, a Monte Carlo simulation may typically involve thousands or tens of thousands (for Horizon Oil share options - 500,000) of recalculations before it is complete. The result is a probability distribution of possible outcomes providing a more comprehensive view of both what could happen and its likelihood. A calculated share price volatility of 48.4% as applied in the model. All other parameters were based on the specific terms of the options issued.

Note 6. Cash and cash equivalents

	31 December 2016 US$'000	30 June 2016 US$'000
Cash at bank and on hand	**14,592**	9,615
Restricted cash (a)	**3,754**	6,464
Closing balance	**18,346**	16,079

(a) Under the terms of a finance facility, certain cash balances are available to the Group after certain conditions of the relevant facility agreement are satisfied.

Note 7. Exploration phase expenditure

	31 December 2016 US$'000	30 June 2016 US$'000
Opening balance	**53,613**	96,959
Expenditure incurred during the period	**2,030**	9,317
Transfers to oil and gas assets	**-**	(3,486)
Expenditure written off during the period	**(145)**	(1,110)
Impairment losses	**-**	(48,067)
Closing balance	**55,498**	53,613

Note 8. Oil and gas assets

	31 December 2016 US$'000	30 June 2016 US$'000
Opening balance	**194,612**	314,395
Expenditure incurred during the period	**2,731**	14,969
Transfers from exploration phase expenditure	**-**	3,486
Reassessment of rehabilitation asset	**-**	(3,797)
Amortisation incurred	**(12,655)**	(36,400)
Impairment losses	**-**	(98,041)
Closing balance	**184,688**	194,612

Note 9. Borrowings

	31 December 2016 US$'000	30 June 2016 US$'000
Current		
Bank loans (b)	**21,479**	18,137
Convertible bonds (d)	**-**	58,800
	21,479	76,937
Non-Current		
Bank loans (b)	**64,708**	67,428
Subordinated debt (c)	**42,251**	-
	106,959	67,428
Total Borrowings	**128,438**	144,365

a) Reconciliation of borrowings arising from financing activities

		Cashflows		Non-cash changes		
	Opening 1 July 2016	Drawdown[1]	Repayments	Amortisation of transaction costs	Changes in Fair value	Closing 31 Dec 2016
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Revolving Cash Advance Facility (current)	**18,137**	**-**	**-**	**-**	**3,342**	**21,479**
Revolving Cash Advance Facility (non-current)	**67,428**	**-**	**-**	**622**	**(3,342)**	**64,708**
Convertible Bonds	**58,800**	**-**	**(58,800)**	**-**	**-**	**-**
Subordinated debt	**-**	**45,483**	**-**	**438**	**(3,670)**	**42,251**
Total liabilities from financing activities	**144,365**	**45,483**	**(58,800)**	**1,060**	**(3,670)**	**128,438**

[1] Funds drawn down are shown net of associated transaction costs incurred during the period.

b) Bank loans – Revolving Cash Advance Facility

On 14 May 2015, the Group finalised and executed a US$120 million Revolving Cash Advance Facility with Australia and New Zealand Banking Group (ANZ), as mandated lead arranger and Westpac Banking Corporation (Westpac). Under the facility, the facility limit and thus future repayments are determined by applying a minimum loan life coverage ratio to the net present value of estimated future cash flows from all projects included in the facility. Estimated future cash flows are dependent on, amongst other things, the lenders views on forecast oil prices, reserve estimates, operating and capital cost estimates and forecast interest and exchange rates.

At 31 December 2016, total debt drawn under the facility was US$89.1 million with undrawn debt capacity available of approximately US$6.5 million. Floating interest in respect of the facility was at LIBOR plus a weighted average margin of 2.90%.

The facility was secured by a floating charge over the shares and assets of the borrowers (Horizon Oil International Limited, Horizon Oil (Papua) Limited, Horizon Oil (Beibu) Limited which are wholly owned subsidiaries of Horizon Oil Limited) and other Horizon Oil Limited subsidiaries, in favour of ANZ Fiduciary Services Pty Limited as security trustee. Horizon Oil Limited and other Horizon Oil Limited subsidiaries have guaranteed the performance of Horizon Oil International Limited, Horizon Oil (Papua) Limited, Horizon Oil (Beibu) Limited (which have also given guarantees) in relation to the loan facility from ANZ and Westpac. In addition, the shares of the following Horizon Oil Limited subsidiaries have been mortgaged to ANZ Fiduciary Services Pty Limited: Horizon Oil International Limited, Horizon Oil (Papua) Limited, Horizon Oil (Beibu) Limited, Horizon Oil International Holdings Limited, Ketu Petroleum Limited, Horizon Oil (PNG Holdings) Limited and Horizon Oil (China Holdings) Limited. The Group is subject to covenants which are common for a facility of this nature.

c) Subordinated secured debt facility - IMC loan facility

On 15 September 2016, the Group reached financial close on a US$50 million subordinated secured non-amortising loan with its major shareholder, IMC Investments Limited (IMC). The proceeds from the drawdown of the facility were used to redeem the outstanding US$58.8 million in convertible bonds which matured during the period. Shareholders approved the loan, which involved the issue of 300 million options over shares in the Company, at a general meeting on 6 September 2016. This loan was secured by a second ranking charge over the shares and assets of the borrowers included in the Revolving Cash Advance Facility (senior facility) above. ANZ Fiduciary Services Pty Limited acts as security trustee for both the senior facility and this subordinated facility. Floating interest in respect of the facility was at LIBOR plus a margin of 9.0%. The facility has a term of 5 years, and is callable after 3 years at the election of the lender. If the loan is called prior to maturity, the company may require the optionholder to mandatorily exercise its options if the share price is equal to or greater than the exercise price. The proceeds from the exercise of the options may be set off against the outstanding facility balance.

d) Convertible Bonds

The parent entity issued 400 5.5% convertible bonds for US$80 million on 17 June 2011. The bonds were issued with an initial conversion price of US$0.52, equivalent to A$0.49 based on exchange rates at the time of pricing, and represented a conversion premium of 29% to the Company's last closing price of A$0.38 on 2 June 2011. The initial conversion price was subject to adjustment in certain circumstances such that the conversion price was reduced to US$0.409 since issue. The bonds were listed on the Singapore Securities Exchange on 20 June 2011.

During the prior financial year the parent entity purchased in the open market, by private contract, US$21.2 million of the US$80m 5.5% Convertible Bonds and surrendered the purchased Bonds for cancellation in accordance with the Bond trust deed. If converted, the Group had an election to settle the bonds in cash or ordinary shares in the parent entity. Based on the adjusted conversion price and following the buy back and cancellation of US$21.2 million in bonds during the prior year, the maximum number of shares that could have been issued on conversion was 143,765,281 ordinary shares in the parent entity.

Completion of the refinancing arrangements during the current period through the subordinated loan facility enabled redemption of the remaining US$58.8 million convertible bonds prior to their extended redemption date of 19 September 2016. The bonds were initially due for redemption on 17 June 2016 but the bondholders unanimously approved the extension of their maturity date to 19 September 2016 to provide adequate time to obtain the requisite shareholder approval and implement the refinancing arrangements detailed above. The bonds carried a coupon of 5.5% per annum until their original maturity date of 17 June 2016, which was then increased to 10% until the extended maturity date of 19 September 2016. No bonds were converted prior to redemption.

	31 December 2016	30 June 2016
Face value of bonds issued	**80,000**	80,000
Less: Other financial liabilities – fair value of conversion rights (Note 10)	**(20,043)**	(20,043)
Less: Transaction costs	**(3,362)**	(3,362)
	56,595	56,595
Finance costs in prior periods[1]	**50,028**	40,449
Finance costs[1]	**1,277**	9,579
Less: Convertible bond buybacks	**(21,589)**	(21,589)
Less: Coupon paid in prior periods	**(20,834)**	(17,600)
Less: Coupon paid during the financial year	**(1,503)**	(3,234)
Less: Coupon accrued	**-**	(226)
Less: Principal repaid during the financial year	**(58,800)**	-
Less: Premium paid in prior periods	**(5,174)**	-
Less: Premium paid during the financial year	**-**	(5,174)
Non-current liability	**-**	58,800

[1] Finance costs are calculated by applying the effective interest rate of 14.8% to the liability component.

Note 10. Other financial liabilities

	31 December 2016 US$'000	30 June 2016 US$'000
Current		
Conversion rights on convertible bonds	**-**	530
	-	530
Non-Current		
Fair value of share options	**4,927**	-
	4,927	-
Total other financial liabilities	**4,927**	530

The amount shown for other financial liabilities is the fair value of the derivative financial liability arising from the 300 million share options issued to the Group's major shareholder, IMC Investments Limited, as part of the refinancing discussed in Note 9 (c). The options are exercisable at A$0.061 per share and as the functional currency of the Group is United States Dollars which will result in a variable amount of cash being received on exercise of the options, the share options are accounted for as a derivative financial liability and are marked to market at each balance date. As disclosed in the Notice of Meeting issued to shareholders in advance of the general meeting on 6 September 2016, exercise of all of the options by IMC has the potential to increase their shareholding to a maximum level of 67.5% at the end of the 5 year option term.

Prior period balance is the conversion rights relating to the 5.5% convertible bonds. The conversion rights could be settled in cash or ordinary shares of the parent entity, at the option of the issuer, and the number of shares to be issued at conversion was subject to the conversion price which could reset under certain circumstances. Accordingly, the conversion rights were a derivative financial liability and were marked to market. The bonds were redeemed during the half-year ended 31 December 2016 and therefore no value remains for the conversion rights. Refer to Note 9 (d) for further details of the convertible bonds.

Note 11. Contributed equity

a) Share capital

		31 December 2016 Number'000	30 June 2016 Number'000	31 December 2016 US$'000	30 June 2016 US$'000
Ordinary shares					
Fully paid	(b) (i)	**1,301,981**	1,301,981	**174,342**	174,342
Partly paid	(b) (ii)	**1,500**	1,500	**459**	459
		1,303,481	1,303,481	**174,801**	174,801

b) Movements in share capital

(i) Ordinary shares (fully paid)

Date	Details	Number	Issue price	US$'000
30/06/2016	Balance at 30 June 2016	1,301,981,265		174,342
31/12/2016	**Balance at 31 December 2016**	**1,301,981,265**		**174,342**

(ii) Ordinary shares (partly paid to A$0.01)

Date	Details	Number	Issue price	US$'000
30/06/2016	Balance at 30 June 2016	1,500,000		459
31/12/2016	**Balance at 31 December 2016**	**1,500,000**		**459**

Note 12. Contingent assets and liabilities

a) Contingent assets

On 23 May 2013, the Group advised ASX that it had entered into an Agreement to sell 40% of its Papua New Guinea assets to Osaka Gas Niugini Pty Ltd ('Osaka Gas'), a subsidiary of Osaka Gas Co. Ltd. of Japan. In addition to the cash on completion that was received, a further US$130 million in cash is due upon a project development decision which gives rise to Osaka Gas achieving equity LNG from its acquired gas volumes, plus potential production payments where threshold condensate production is exceeded. Due to the conditions required for the deferred consideration of US$130 million, and the potential production payments, all remaining consideration under the Agreement is recorded as a contingent asset as at 31 December 2016.

The Maari joint venture carried out repairs, upgrade and maintenance works to the wellhead platform, water injection flowline, and the FPSO *Raroa*'s mooring system during the 2016 calendar year. The works were carried out safely, within budget and the Group anticipates that a significant portion of these works will be recovered from insurance. The field returned to production in January 2017. The Group's share of the repair costs was approximately US$5 million.

b) Contingent liabilities

The Group had the following contingent liabilities as at 31 December 2016 that may become payable:

In accordance with normal oil and gas industry practice, the Group has entered into joint venture operations and farm out agreements with other parties for the purpose of exploring and developing its petroleum interests. If a participant to a joint venture defaults and fails to contribute its share of joint venture obligations, the remaining joint venture participants are jointly and severally liable to meet the obligations of the defaulting participant. In this event the interest in the permit or licence 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 operation participants.

The Group occasionally receives claim arising from its operations in the normal course of business. In the opinion of the directors, all such matters are either covered by insurance or, if not covered, are without merit or are of such a nature the amounts involved would not have a material impact on the results.

No material losses are anticipated in respect of the above contingent liabilities.

Note 13. Exploration, development and production expenditure commitments

The Group has entered into joint operations for the purpose of exploring, developing and producing from certain petroleum interests. To maintain existing interests or rights to earn interests in those joint operations 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 not recognised in the financial statements. These are payable as follows, based on current status and knowledge of estimated quantum and timing of such commitments by segment.

31 December 2016	NZ Exploration & Development US$'000	China Exploration & Development US$'000	Papua New Guinea Exploration & Development US$'000	Total US$'000
Within one year	**3,982**	**2,133**	**7,696**	**13,811**
Later than one year but not later than 5 years	**-**	**-**	**8,334**	**8,334**
After 5 financial years	**-**	**-**	**2,509**	**2,509**
Total	**3,982**	**2,133**	**18,539**	**24,654**

30 June 2016	NZ Development US$'000	New Zealand Exploration US$'000	China Exploration & Development US$'000	Papua New Guinea Exploration & Development US$'000	Total US$'000
Within one year	**5,183**	**16**	**836**	**5,036**	**11,071**
Later than one year but not later than 5 years	**-**	**-**	**-**	**6,084**	**6,084**
After 5 financial years	**-**	**-**	**-**	**6,006**	**6,006**
Total	**5,183**	**16**	**836**	**17,126**	**23,161**

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.

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.

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

Note 14. Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties, unless otherwise stated.

On 15 September 2016, the Group reached financial close on a US$50 million subordinated secured non-amortising loan with its major shareholder, IMC Investments Limited (IMC). Shareholders approved the loan, which involved the issue of 300 million options over shares in the Company, at a general meeting on 6 September 2016. Refer to Notes 9(c) and 10 for further details.

Other than the matters disclosed elsewhere in this report, there were no related party transactions with Directors and other key management personnel during the half-year outside of contractual remuneration and on-market acquisitions by Directors of the Company's shares.

Note 15. Events occurring after balance sheet date

In December 2016 the Group entered into an agreement with Transform Exploration to acquire its subsidiary, Eaglewood Energy (BVI) Limited, which holds a strategic 50% interest in the discovered Ubuntu gas and condensate field in PRL 28 (adjacent to PRL 21). The transaction also increases the Group's interests in PNG licences PPL 574 to 80% and PPL 430 to 100%. The transaction completed in January 2017.

Other than the matters disclosed in this report, there has not been any other matter or circumstance which has arisen since 31 December 2016 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years; or
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

HORIZON OIL LIMITED

Directors' Declaration

In the directors' opinion:

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

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

  (ii) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance, as represented by the results of its operations and its cashflows, for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Horizon Oil Limited will be able to pay its debts as and when they become due and payable.

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

J S Humphrey
Chairman

B D Emmett
Chief Executive Officer

Sydney

27 February 2017

Independent auditor's review report to the members of Horizon Oil Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Horizon Oil Limited (the company), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Horizon Oil Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Horizon Oil Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Horizon Oil Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Peter Buchholz
Partner

Sydney
27 February 2017