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27 October 2016

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

HORIZON OIL LIMITED 2016 ANNUAL REPORT
AND NOTICE OF AGM

In accordance with Listing Rule 4.7, attached are copies of Horizon Oil Limited's Annual Report for the year ended 30 June 2016 and the Notice of Annual General Meeting to be held on Tuesday 29 November 2016.

The Notice of Annual General Meeting will be sent to all shareholders. A printed copy of the 2016 Annual Report will be mailed to those shareholders who have made the election to receive it. Copies of these documents can be downloaded from the Company's website www.horizonoil.com.au.

The Annual General Meeting will also be available on live webcast. To register, please copy and paste the link below into your browser:

http://webcasting.boardroom.media/broadcast/57edc857cf09bc4a2cca6079

Yours faithfully,

Monika Fedorczyk
Assistant Company Secretary

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Horizon Oil

ABN 51 009 799 455

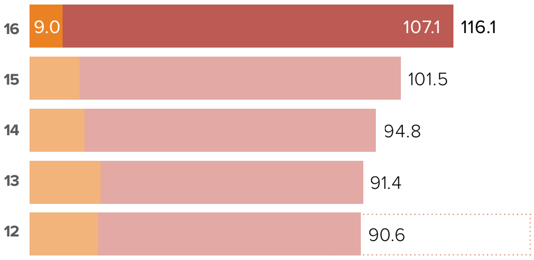
Annual Report 2016

2016 at a glance

2P + 2C Reserves and Contingent Resources
(mmboe)

116.1mmboe

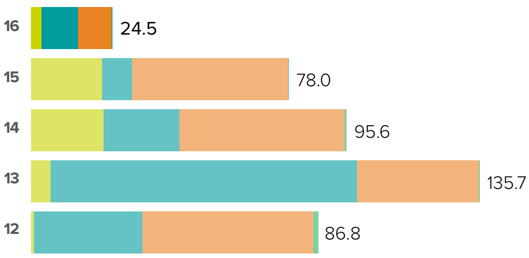
2P
2C
Normalised for partial sale of PNG interests to Osaka Gas



Exploration & Development Expenditure
(US$m)

$24.5m

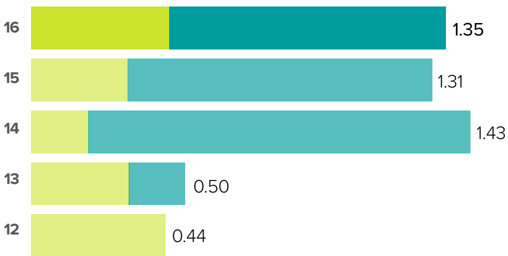
NZ China PNG Other



Production
(mmbbls)

1.35mmbbls

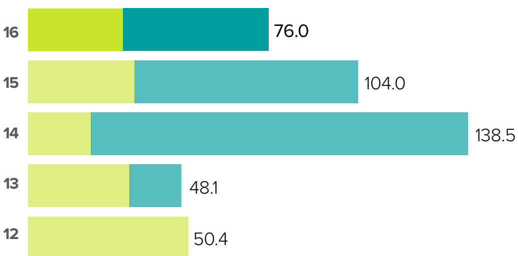
Maari Beibu



Revenue
(US$m)

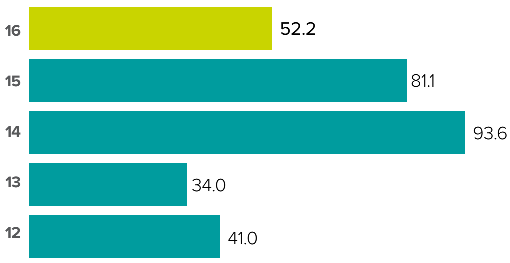
$76.0m

Maari Beibu



Net operating income after opex (incl. China Special Levy), excluding extraordinaries
(US$m)

$52.2m



2016 Highlights

Oil Sales Revenue
Maintenance of robust revenue and cashflows, despite the low oil price environment, as a result of strong performance from producing assets and the Group's hedging program.

Cost Reduction
Significant decrease in costs resulting from reduced production costs, general and administrative expenses, and severe cuts in exploration and development expenditure.

Debt Levels
Significantly reduced gross debt levels arising from senior debt repayments and early redemption of approximately 25% of the convertible bonds.

Outlook
Continuing focus on cost control, oil production optimisation and debt reduction; planning for further field development in China; advancing the large gas and condensate reserves in PNG towards commercialisation.

Areas of Operation

1 China

Block 22/12 (Production / Exploration)	26.95% / 55%

2 Papua New Guinea

PDL 10 (Stanley)	30%
PRL 21 (Elevala/Ketu)	27%
PPL 259 (renewed as PPL 574)	35%
PPLs 372 and 373	90%
PPL 430	50%

3 New Zealand

PMP 38160 (Maari/Manaia)	10%
PEP 51313 (Matariki)	21%

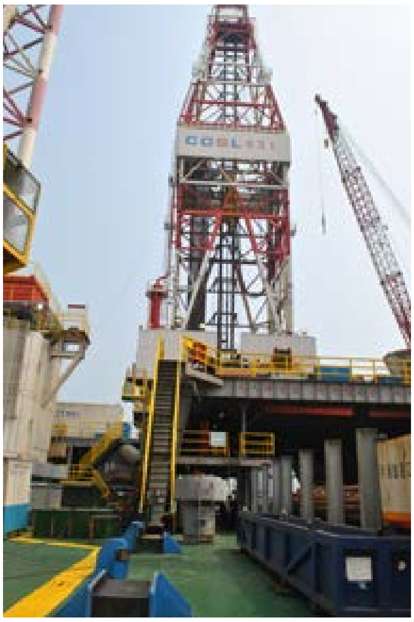
2016 Contents

Chairman & Chief Executive Officer's Report

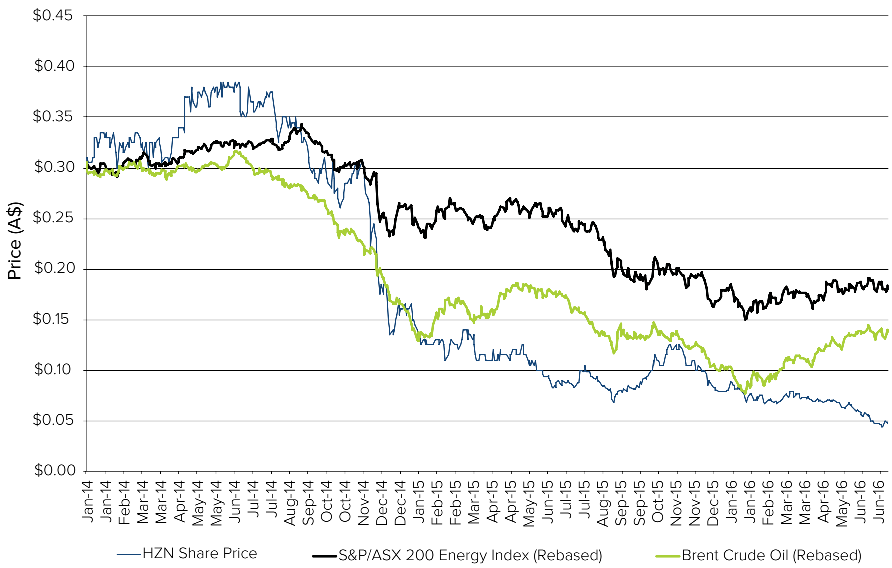
John Humphrey
Chairman

Brent Emmett
Chief Executive Officer

Last year was a challenging one for the petroleum industry. Global oil prices fell sharply from levels of over US$100 per barrel in the first half of 2014 to US$50 in early 2015, reaching a low of less than US$30 in January 2016, before recovering to the current price of approximately US$50 per barrel.



Over the same period, Horizon Oil's share price fell from 30 - 40 cents (Australian) to approximately 4 cents today as institutional investors abandoned the sector.



Refinancing of Convertible Bonds

The effect of the aptly described "once-in-a-generation" collapse in oil prices significantly impacted the Company's ability to repay the US$80 million in convertible bonds outstanding at the beginning of Financial Year 2016 and due to be redeemed on 17 June 2016, subsequently extended with the consent of shareholders to 19 September 2016. The low oil price resulted in less cash generation, although this was partially mitigated by oil price hedging and, more critically, Horizon Oil's borrowing capacity under its senior debt facility, including access to an additional "accordion" tranche, was severely reduced.

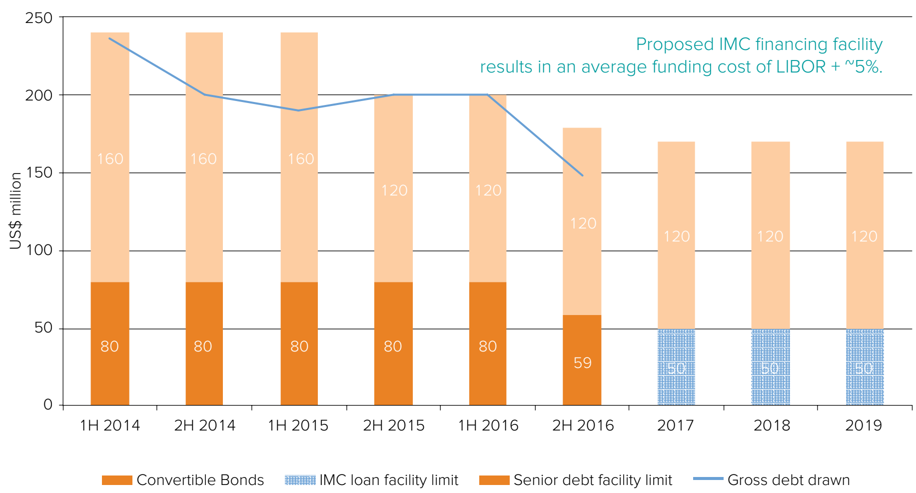
In response to this and in order to meet our obligations we embarked on a multi-pronged approach to stabilising the Company's financial position. The options pursued included:

- Asset sale(s);
- Extension of the term of the existing convertible bonds with a re-set conversion price;
- Issue of medium term notes;
- Securing of subordinated debt to supplement the senior debt; and
- Issue of new equity by way of a placement and/or a rights issue.

Having regard to commercial terms, maintaining the favourable existing senior debt facility, minimising shareholder dilution, certainty of outcome and reducing funding volatility in the future, the board decided that, after conducting a competitive process, a US$50 million subordinated, non-amortising loan from the Company's largest shareholder, IMC Investments Limited (IMC), was the optimal solution. Shareholder approval for the loan, which involved the issue of 300 million options over shares in Horizon Oil, was gained at a general meeting on 6 September 2016, allowing the loan funds to be issued and the outstanding convertible bonds redeemed by the extended redemption date.

Your board considers this to be a satisfactory outcome, with an acceptable level of dilution of 18.7% if and when the options issued to IMC are exercised, and which also avoided the issue of a large number of shares at a price deeply discounted to the current share price. Importantly the refinancing, in combination with the existing senior debt facility, provides a stable capital structure for the ongoing commercialisation of Horizon Oil's substantial undeveloped resources. The blended interest rate of the debt is about 6%.

Completion of the refinancing has not diminished our continuing efforts to reduce debt, with progress to date illustrated below. Gross debt in 2014 (after completion of the China Block 22/12 development) of US$240 million is expected to reduce to a forecast net debt position of US$120 million by the end of calendar year 2016.



Importantly the refinancing, in combination with the existing senior debt facility, provides a stable capital structure for the ongoing commercialisation of Horizon Oil's substantial undeveloped resources.

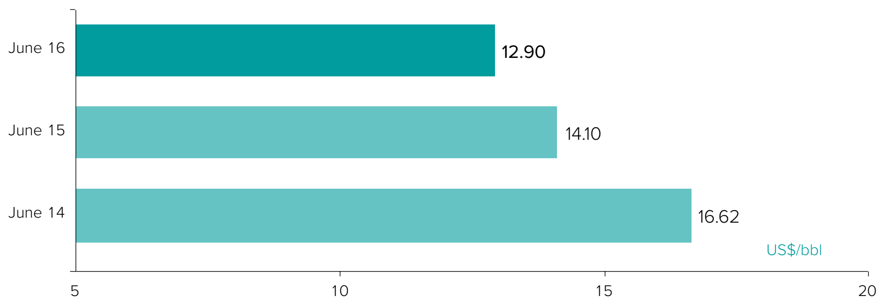
Ongoing Response to Low Oil Prices

Our response to the low oil price environment, which began in FY2015, continued over the year with good achievements in the following areas:

- Further significant reductions in exploration and development expenditure and elimination of discretionary capital expenditure, without compromising planning for development projects in China and Papua New Guinea (refer to five year trend of capital expenditure on the inside cover of this Annual Report);
- Reduced General and Administrative expense achieved by further lowering staff and consultant numbers, maintaining the freeze on salaries of most staff at 2014 levels and continuing forfeiture of cash bonuses by senior executives; and
- Ongoing focus on cutting unit production costs, which have fallen by over 20% in the last two years to US$12.90 per barrel.

The significantly lower operating and capital costs that have been achieved are in part the result of the deliberate actions that we and our field operators have taken, but we are also seeing a continuing trend in construction and service cost deflation associated with the fall in oil prices. We expect to be able to take advantage of the lower cost environment in our upcoming field development work.

Unit production cost has reduced by over 20% in the last 2-years



We expect to be able to take advantage of the lower cost environment in our upcoming field development work.

Operational and Financial Performance

Five year operational and financial performance metrics are shown on the inside front cover to this Annual Report.

The Company recorded a strong performance from its producing assets, with net oil production for the year of 1.35 million barrels, a 3% increase over the prior financial year, resulting predominantly from increased production from Maari field in New Zealand following completion of the Maari Growth Projects program. This level of production has been maintained over the last three years despite a 75% reduction in capital expenditure over the same period. We expect oil production, with the benefit of the increased production entitlement in China associated with cost recovery under the Petroleum Contract which began in April 2016, to continue at this level for the next three to four years. Horizon Oil's share of future cost recovery oil from our China fields at 30 June 2016 was US$114 million, the unrecovered balance of which escalates at 9% per annum.

Clearly low oil prices, with an average realised price of US$41.03 per barrel over the period, had an effect on oil sales revenue and net operating income. This was significantly offset by Horizon Oil's hedging program, which delivered an average oil price inclusive of hedging of US$55.19 per barrel, as 29% of oil sales over the reporting period were hedged at a weighted average price of US$95.48 per barrel. In the circumstances, oil sales revenue of US$76.0 million and net operating income after operating expense of US$52.2 million represented a strong result.

The Company reported a loss of US$144.5 million for FY2016, which included a gross profit of US$15.8 million, in large part due to non-cash asset impairments of US$147.5 million. The impairment of the carrying value of the Company's Maari production asset and its gas and condensate resources in Papua New Guinea reflects the current low oil price and, of necessity, takes into account the valuation prepared for the recent shareholders' general meeting by the independent expert, Grant Samuel.

The 2016 Annual Report marks the third submission of Horizon Oil's Sustainability Report as an ongoing component of its corporate reporting. We invite shareholders to review details of the Company's policy and results for the reporting period in the areas of health and safety, security, the environment and community.

This year there were again no fatalities and Horizon Oil achieved a Total Recordable Injury Frequency Rate (TRIFR) and Lost Time Injury Frequency Rate (LTIFR) of 0.0.

Year	FY14	FY15	FY16
LTIFR	2.8	0.0	0.0
TRIFR	7.0	0.9	0.0
No. of Recordable Injuries	5	1	0

In the circumstances, oil sales revenue of US$76.0 million and net operating income after operating expense of US$52.2 million represented a strong result.

Activities Review and Highlights

Activities for the 2016 Financial Year are reported in detail in the Activities Review section in the following pages. In addition there are tabulations of Horizon Oil's net reserves and contingent resources and also the Company's permit and licence interests.

Operational highlights over the reporting period are as follows:

China (Horizon Oil interest 26.95%)

- Continued strong production from the WZ 6-12 and WZ 12-8W fields in the Beibu Gulf, producing 9,300 bopd gross at year end (Horizon Oil share 2,500 bopd); 3.4 mmbo gross produced over FY2016 (0.90 mmbo net to Horizon Oil).
- WZ 12-8W-A6H appraisal/development well in WZ 12-10-2 field completed in December 2015 and brought on stream at 1,400 bopd gross.
- Horizon Oil's Block 22/12 production entitlement increased from 26.95% to over 35% of production revenue, following commencement of preferential cost recovery under the Petroleum Contract.
- Preparation of the development plan for the WZ 12-8E field continued, with FID expected in 2017.

New Zealand (Horizon Oil interest 10%)

- Maari Growth Projects program successfully completed in July 2015, returning gross field production to in excess of 16,000 bopd.
- Production during the year averaged 12,300 bopd (1,230 net to Horizon Oil), with 4.5 mmbo gross produced during FY2016 (0.45 mmbo net to Horizon Oil).
- FPSO *Raroa's* mooring system was repaired to ensure long term integrity of a core joint venture asset, with a significant portion of the costs expected to be recovered from insurance.

Papua New Guinea

- Commercial and technical negotiations progressed with OkTedi Mining Limited and regional mining operators with respect to gas sales from Stanley field (PDL 10 – Horizon Oil interest 30%) for power generation.
- Feasibility study for a Western Province based mid-scale LNG project progressed, with Elevala/Ketu fields (PRL 21 – Horizon Oil interest 27%) as the foundation gas resource.

Papua New Guinea Development

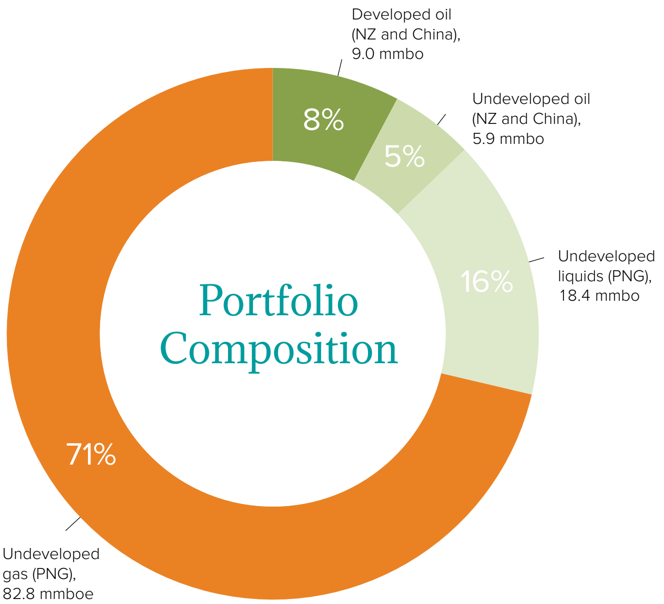
The chart below highlights the job at hand for Horizon Oil's board and management and that is to progress the commercialisation of the Company's substantial gas and condensate resources in Papua New Guinea. These account for 87% of our total audited reserves and contingent resources of 116.1 million barrels of oil equivalent.

Confirmation of the potential value of the PNG resources was received in the recent Independent Expert's Report by Grant Samuel, who assessed the value of Horizon Oil's PNG assets on an unrisked basis as being in the range US$274 – 552 million. Of course these values need to be adjusted to reflect the range of uncertainties to which the project remains exposed (and it was Grant Samuel's risked valuation of US$30 - 60 million which necessitated the non-cash impairment referred to earlier). However, it has to be said that the potential value to the Company of these assets, as the risk is progressively reduced, is very large indeed.

Pleasingly, based on the work of the last year, our project team has focused in on a development concept which involves a mid-scale LNG project of capacity 1.2 - 2.0 mtpa, located at or near Daru Island in Western Province. With reference to the PNG map in the Activities Review section, feed gas for the proposed liquefaction plant will comprise the aggregation of gas from Stanley field that is not required to supply the domestic market, from Elevala/Ketu fields and possibly, but not critically, from other gas resources along the pipeline route (subject of course to the agreement of the owners of those resources).

Certain elements of the concept are yet to be resolved – mainly the additional fields to be included in the aggregation, the specific location of the liquefaction plant and the export route for the condensate – but planning for the upstream processing facilities and pipeline is advanced and landowner studies and environmental approvals are also progressing well.

Total audited reserves and contingent resources of 116.1 million barrels of oil equivalent
8% developed / 92% undeveloped - 29% oil / 71% gas



The potential value to the Company of these assets, as the risk is progressively reduced, is very large indeed.

Advancing Horizon Oil’s large gas and condensate resources in Papua New Guinea towards commercialisation will command the greatest attention from the board and management in the coming year.

Outlook for Next Year

Barring unforeseen events and assuming oil prices remain at around current levels, we expect oil production and net operating income for the coming year to be in line with, or higher than, that of FY2016. We will continue to maintain tight control over exploration and development capital expenditure and also focus on further reducing production operating costs. In particular, in Block 22/12 we anticipate operating cost to be reduced by about US$4 per barrel beginning at the end of calendar year 2016 when a critical production milestone is reached.

When we feel that the oil price forward curve is favourable, we will add to the volume of hedged crude, which is currently 1,054,000 barrels over the period July 2016 to March 2018 (about 40% of net production over that period) at prices of over US$50 per barrel. This will be implemented in accordance with successful past practice – a conservative, layered approach within the hedging policy set by the board. The objective of hedging and other measures we will take is to remove the volatility of the lending limit of the senior debt facility, which is currently drawn to US$89.1 million. We believe the substitution of the non-amortising loan from IMC, a major shareholder with a vested interest in the success of Horizon Oil, for the previously outstanding convertible bonds has stabilised the financial position of the Company in a difficult commodity price environment. The board wishes to maintain this stability and build on it. To this end, as stated earlier in this report, we intend to continue to work assiduously at reducing overall gearing levels.

In China we will finalise the Overall Development Plan for the WZ 12-8E oil accumulation and nearby WZ 12-10-1 and WZ 12-3-1 oil discoveries (gross resource of 11.1 mmbo, net 3.0 mmbo), with the aim of submission to the Chinese Government in calendar year 2017. This development will have attractive economics even at low oil prices because it will share facilities with the existing Block 22/12 development scheme and also because of the current low capital cost environment.

Further optimisation of production from the Maari and Manaia fields offshore New Zealand will be carried out, utilising the workover rig permanently installed on the platform. We also expect to finalise insurance recoveries in relation to facility repairs associated with FPSO *Raroa’s* mooring system.

Advancing Horizon Oil’s large gas and condensate resources in Papua New Guinea towards commercialisation will command the greatest attention from the board and management in the coming year. This is a potentially very valuable asset, with material scale, located in a jurisdiction with an established track record in successful major resource development, particularly LNG.

Although LNG prices, along with those of oil, are currently low because of oversupply of the commodity, the arguments for a balanced LNG market and higher prices beyond 2020 are compelling. Increased demand for low carbon fuel will come overwhelmingly from Asia in the future and Horizon Oil's PNG fields are well placed to supply gas to that market.

The key objectives for PNG next year are to:

- Bring the design of the upstream pipeline and liquefaction components of the mid-scale LNG development scheme to near finalisation;
- Investigate market opportunities for the gas and initiate discussions with potential buyers; and
- Commence planning to finance the project. Horizon Oil will be entitled to cash and work carry payments of US$130 million from Osaka Gas, Co. Ltd. upon FID for the project, as well as reimbursement of prior costs by the PNG Government if, in the likely case, it exercises its 22.5% back-in right. In addition, we are examining the possibility of the pipeline installer and liquefaction plant supplier building and financing such plant and leasing it back to the upstream producers via a tariff.

While the mid-scale LNG project will be the main focus for the Company, we will continue to work with potential industrial buyers of gas directly from Stanley field – Ok Tedi Mining Limited and possibly the developers of the Frieda River project – for power generation. We remain committed to supplying PNG industrial and domestic consumers, with the attendant social, economic and employment benefits to the province and country that will result.

Of course while we are pursuing the greenfield mid-scale LNG project as our primary development option, we will remain open to participating in a brownfield expansion of the existing PNG LNG project, should that opportunity arise and the commercial terms be attractive. That option, which may be appealing from the point of view of reducing engineering and financial risk, is not something we can control. In any event having our own viable project as our base case is of fundamental importance.

J S Humphrey
Chairman

B D Emmett
Chief Executive Officer

7 October 2016

2016 Reserves & Resources Statement

Highlights:

- At 30 June 2016, Horizon Oil's total proved plus probable reserves (2P) and contingent resources (2C) for oil and condensate were 33.3 mmbbl (2P: 9.0 mmbbl, 2C: 24.3 mmbbl). This represents a decrease of 0.2 mmbbl to remaining reserves and resources since 30 June 2015, after net production of 1.4 mmbbl. This was primarily attributable to an increase in China due to cost recovery benefit under the Petroleum Contract, the impact of ongoing production optimisation efforts and the addition of reserves and initiation of production from the WZ 12-10-2 field in Q4 2015, offset by a change to the economic cut-off criteria applied at Maari/Manaia, reflective of lower oil prices.
- The Company's 2C contingent gas resources were 497 bcf, representing a 97 bcf increase to the June 2015 position as a result of modifications to the proposed field development concepts in PDL 10 and PRL 21.
- In China improved reservoir performance from ongoing production optimisation and the addition of production from the WZ 12-8W-A6H well drilled in late 2015 increased 2P net reserves by 1.4 mmbbl.
- In New Zealand, a delay to the reinstatement of water injection in the Maari field and a lower than expected benefit to field performance of the well intervention program also contributed to decreased 2P net reserves of 1.7 mmbbl.

Oil and gas reserves

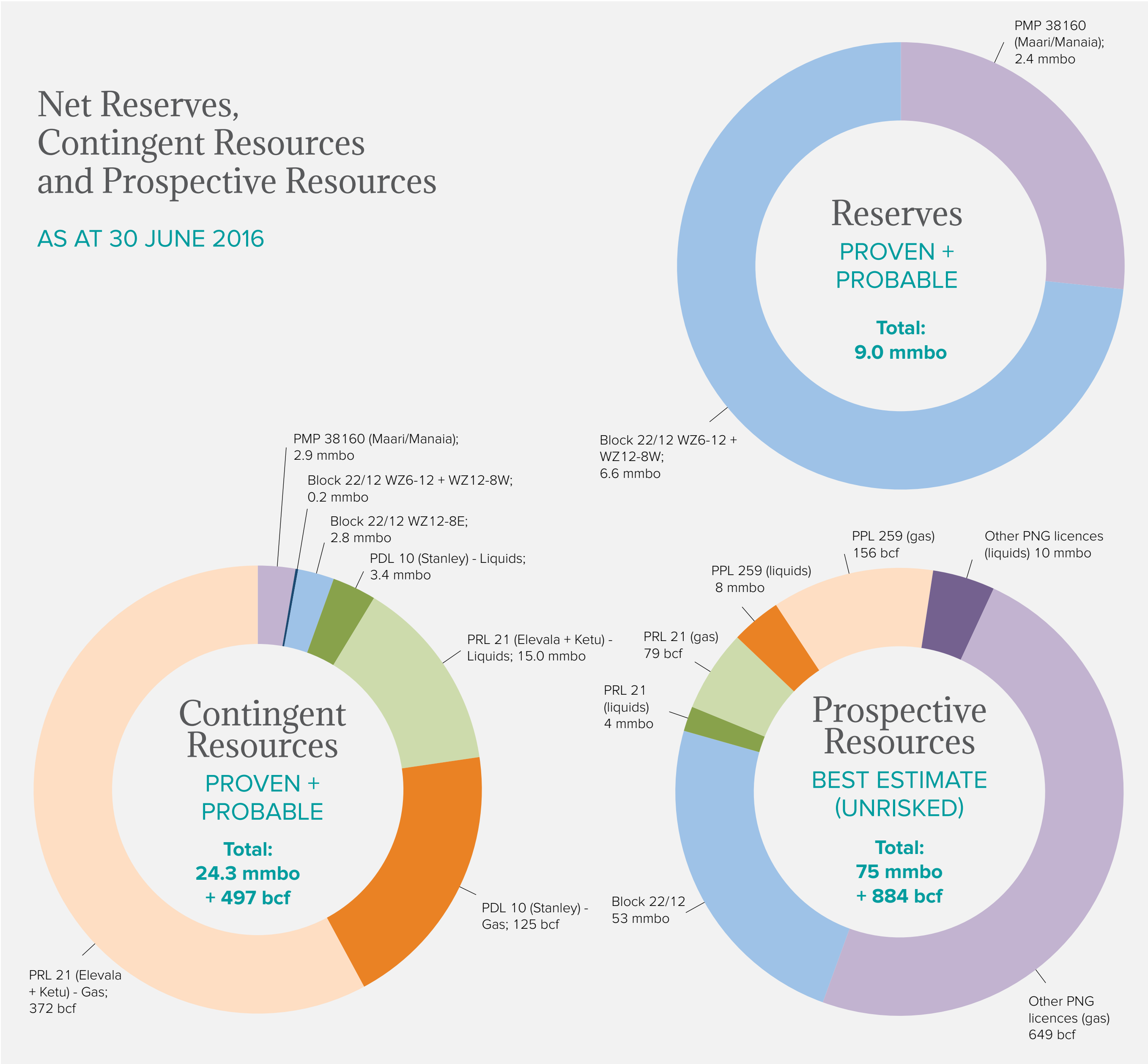
At 30 June 2016, the Company's proved plus probable petroleum reserves (2P) were 9.0 mmbbl of oil, distributed as shown in Table 1.

Table 1: Horizon Oil net economic interest Proved plus Probable petroleum Reserves at 30 June 2016

	2P Developed and Undeveloped Reserves				
	2P Developed Oil (mmbbl)	2P Developed Condensate (mmbbl)	2P Developed Gas (bcf)	2P Liquids Total[1] (mmbbl)	2P Gas Total (bcf)
New Zealand					
PMP 38160 Maari/Manaia[2]	2.4	-	-	2.4	-
China					
Block 22/12 WZ 6-12 + WZ 12-8W[3]	6.6	-	-	6.6	-
Papua New Guinea					
PDL 10 Stanley[4]	-	-	-	-	-
Closing Balance 30 June 16 (Economic Interest)	9.0	-	-	9.0	-

1. Estimated in accordance with SPE-PRMS guidelines; liquids total equals oil plus condensate where 1 bbl condensate equals 1 bbl oil.
2. Net of production 31.6 mmboe gross through 30 June 2016.
3. Net of production of 12.3 mmboe gross through 30 June 2016.
4. Subject to reduction to allow for PNG State Nominee participation at 22.5%.

All of the reserves at Maari/Manaia and in China Block 22/12 are classified as developed. In China the 2015 undeveloped reserves of 0.3 mmbbl were reclassified as developed and increased to 0.9 mmbbl as a result of the WZ 12-8W-A6H well drilled in late 2015. In PNG, the 3.2 mmbbl of 2P undeveloped reserves at Stanley has been reclassified as 2C contingent resources with respect to June 2015 due to changes to the proposed field development plan for the Stanley field which is now envisaged to be a gas sales development as opposed to a condensate stripping project.



Reconciliation of Reserves

The key changes in the Company's proved plus probable petroleum reserves (2P) since 30 June 2015 are summarised in Table 2 below:

Table 2: Reconciliation of Proved plus Probable petroleum Reserves from 30 June 2015 to 30 June 2016

	2P Developed and Undeveloped Reserves				
	Oil (mmbbl)	Condensate (mmbbl)	Gas (bcf)	2P Liquids Total[1] (mmbbl)	2P Gas Total (bcf)
Opening Balance 30 June 15 (Economic Interest)	10.7	3.2	-	13.9	-
Production (WI%)	(1.4)	-	-	(1.4)	-
Reserves revision	(0.3)	(3.2)	-	(3.5)	-
Economic interest adjustment	-	-	-	-	-
Closing Balance 30 June 16 (Economic Interest)	9.0	-	-	9.0	-

1. Estimated in accordance with SPE-PRMS guidelines; liquids total equals oil plus condesnsate where 1 bbl condensate equals 1 bbl oil.

- **Production:** Reserves at 30 June 2016 reflect net production in the year to 30 June 2016 of 1.4 mmbbl (0.5 mmbbl in Maari/Manaia and 0.9 mmbbl in Block 22/12, China).
- **China:** Increased 2P economic reserves in Block 22/12 of 1.4 mmbbl net of production. This increase recognises the effect of cost recovery benefit under the Petroleum Contract, and results from ongoing production optimisation efforts and the initiation of production from the WZ 12-10-2 field in Q4 2015. The remaining discovered resources are the subject of ongoing development planning and are held as 2C resources.
- **New Zealand:** Downward 2P reserves revision of 1.7 mmbbl at Maari/Manaia resulting from a delay to the reinstatement of water injection in the Maari Field, a lower than expected benefit to field performance of the well intervention program and a change to the economic cut-off criteria applied to Maari/Manaia, reflective of lower oil prices.
- **Papua New Guinea:** Downward 2P reserves revision of 3.2 mmbbl of condensate at PDL 10 due to a change to the proposed field development plan for the Stanley field, which resulted in a reclassification of undeveloped reserves to contingent resources. Minor other adjustments result in a net increase in 2C resources of 2.9 mmbbl of condensate.

Contingent Resources

At 30 June 2016, the Company's net 2C Contingent Resources were 24.3 mmbbl of oil and condensate (liquids), and 497 bcf of gas as summarised in Table 3.

Table 3: Horizon Oil net economic interest Proved plus Probable Contingent Resources at 30 June 2016

	2C Contingent Resources					
	2C Oil (mmbbl)	2C Condensate (mmbbl)	2C Raw Gas (bcf)	2C Sales Gas[1,2] (PJ)	2C Liquids Total[3] (mmbbl)	2C Raw Gas Total (bcf)
New Zealand						
PMP 38160 Maari/Manaia	2.9	-	-	-	2.9	-
China						
Block 22/12 WZ6-12 + WZ12-8W	0.2	-	-	-	0.2	-
Block 22/12 WZ12-8E[4]	2.8	-	-	-	2.8	-
Papua New Guinea						
PDL 10 Stanley[5]	-	3.4	125	106	3.4	125
PRL 21 Elevala + Ketu[5]	-	15.0	372	350	15.0	372
Closing Balance 30 June 16 (Economic Interest)	5.9	18.4	497	456	24.3	497

1. PDL 10 Stanley Project sales gas assumes an average fuel, flare and shrinkage of 11%; 1 GJ equals 0.957 mscf of gas.
2. PRL 21 Elevala-Ketu Project sales gas assumes an average fuel, flare and shrinkage of 15%; 1 GJ equals 1.103 mscf of gas.
3. Estimated in accordance with SPE-PRMS guidelines; liquids total equals oil plus condensate where 1 bbl condensate equals 1 bbl oil.
4. Reduced to allow for CNOOC participation at 51%.
5. Subject to reduction to allow for PNG State Nominee participation at 22.5%.

Reconciliation of Contingent Resources

The key changes in contingent resources since 30 June 2015 are as per Table 4.

Table 4: Reconciliation of Proved plus Probable Contingent Resources from 30 June 2015 to 30 June 2016

	2C Contingent Resources				
	2C Oil (mmbbl)	2C Condensate (mmbbl)	2C Raw Gas (bcf)	2C Liquids Total[1] (mmbbl)	2C Raw Gas Total (bcf)
Opening Balance 30 June 15 (Economic Interest)	5.5	15.5	400	21.0	400
Resource revisions (WI%)	0.4	2.9	97	3.3	97
Economic interest adjustment	-	-	-	-	-
Closing Balance 30 June 16 (Economic Interest)	5.9	18.4	497	24.3	497

1. Estimated in accordance with SPE-PRMS guidelines; liquids total equals oil plus condensate where 1 bbl condensate equals 1 bbl oil.

- **Papua New Guinea:** Upward revision of 92 bcf gas in PRL 21 due to an extension of production duration in the development concept (from 20 years to 30 years), and in PDL 10, reclassification of 3.0 mmbbl of condensate to 2C contingent and an increase of 5 bcf gas, largely due to a change to the proposed field development concept for the Stanley field.
- **China:** Downward revision of 1.1 mmbbl of oil resulting from a reclassification of contingent resources to developed reserves due to the successful WZ 12-8W-A6H well drilled in late 2015.
- **New Zealand:** Upward revision in Maari/Manaia contingent resources of 1.5 mmbbl, largely due to reclassification of 2P reserves to 2C contingent resources following a change to the economic cut-off criteria applied to Maari/Manaia as a result of the prevailing low oil price environment.

Prospective Resources

At 30 June 2016, the Company's net prospective resources were 75 mmbbl of oil and condensate and 884 bcf of gas, as summarised in Table 5 below.

Table 5: Horizon Oil net economic interest Best Prospective Resources (unrisked) at 30 June 2016

	Unrisked Best Estimate Prospective Resources				
	Best Estimate Oil[1] (mmbbl)	Best Estimate Condensate[1] (mmbbl)	Best Estimate Raw Gas[1,2] (bcf)	Best Estimate Liquids Total[1,3] (mmbbl)	Best Estimate Raw Gas Total[1,2] (bcf)
China					
Block 22/12[4]	53	-	-	53	-
Papua New Guinea					
PRL 21[5]	-	4	79	4	79
PPL 259[5,6]	-	8	156	8	156
PPL 372[5]	-	3	61	3	61
PPL 373[5]	-	2	494	2	494
PPL 430[5]	-	5	94	5	94
Closing Balance 30 June 16 (Economic Interest)	53	22	884	75	884

1. Best Estimate Prospective Resources are unrisked.
2. Raw gas assumes no adjustments for fuel, flare and shrinkage.
3. Estimated in accordance with SPE-PRMS guidelines; liquids total equals oil plus condensate where 1 bbl condensate equals 1 bbl oil.
4. Subject to reduction to allow for CNOOC participation at 51%.
5. Subject to reduction to allow for PNG State Nominee participation at 22.5%.
6. Licence subject to renewal application. New licence PPL 574 offered and accepted on 26 September 2016.

Reconciliation of Prospective Resources

The key changes in prospective resources since 30 June 2015 are as per Table 6.

Table 6: Reconciliation of Best Estimate Prospective Resources (unrisked) from 30 June 2015 to 30 June 2016

Unrisked Best Estimate Prospective Resources

	Best Estimate Liquids Total[1] (mmbbl)	Best Estimate Raw Gas Total (bcf)
Opening Balance 30 June 15 (Economic Interest)	30	286
Resource revisions (WI%)	45	598
Economic interest adjustment	-	-
Closing Balance 30 June 16 (Economic Interest)	75	884

1. Estimated in accordance with SPE-PRMS guidelines; liquids total equals oil plus condensate where 1 bbl condensate equals 1 bbl oil.

- **Papua New Guinea:** Upward revision of 598 bcf of prospective resources through identification of new prospects.
- **China:** Upward revision of 45 mmbbl of prospective resources to 75 mmbbl through identification of new prospects.
- **New Zealand:** No changes.

Permits, licences and interests held at 30 June 2016

Location	Permit or licence	Principal assets	Interest (%)
New Zealand	PMP 38160	Maari and Manaia fields	10.00%
	PEP 51313 (Matariki)	Matariki, Whio (formerly Pike), Pukeko prospects	21.00%[1]
China	Block 22/12	WZ 6-12, WZ 6-12 South and WZ 12-8 West fields	26.95%
		WZ12-8 East field	55.00%[2]
PNG	PDL 10	Stanley field	30.00%[3]
	PRL 21	Elevala/Tingu and Ketu	27.00%[3]
	PPL 259		35.00%[4]
	PPL 372		90.00%[5]
	PPL 373		90.00%[5]
	PPL 430		50.00%

1. The joint venture participants have elected to withdraw from the permit, with completion of withdrawal anticipated in FY2017.
2. China National Offshore Oil Corporation is entitled to participate at up to a 51% equity level in any commercial development within Block 22/12.
3. PNG Govt may appoint a state nominee to acquire up to a 22.5% participating interest in any commercial development within PDL 10 and PRL 21.
4. Licence subject to renewal application. New licence PPL 574 offered and accepted on 26 September 2016.
5. On 22 January 2016 the Group has entered into a transfer agreement whereby 95% undivided participating interest in PPL 372 and 100% undivided participating interest in PPL 373 will be transferred to Ketu Petroleum Limited effective 1 July 2015. At the date of this report the Group is still awaiting PNG government approval for the proposed transaction.

Governance and 2016 Audit Plan

The governance arrangements for the reporting of hydrocarbon Reserves and Resources are based on the following procedure:

- Periodic assessment of proposed changes and additions to the Company's reserves and resource database, based on technical work conducted by Horizon Oil staff with contributions from asset operators, peer review and external experts where appropriate.
- Regular (normally end of calendar year) audits are undertaken by independent third party resource evaluators which are overseen by the General Manager – Exploration and Development of Horizon Oil, who is a petroleum reserves and resources evaluator qualified in accordance with ASX Listing Rule requirements. Historically, Horizon Oil has engaged RISC Pty Ltd to conduct independent audits of its reserves and resources.
- No public reporting of any reserves or resources estimate is permitted without approval of the General Manager – Exploration and Development and the Chief Executive Officer.
- All public reporting of the reserves or resources estimates is in accordance with the requirements set out in Chapter 5 of the ASX Listing Rules and Horizon Oil's Continuous Disclosure Policy.
- Annual reports are subject to board approval at the Audit and Financial Risk Committee.

The Reserves, Contingent Resources and Prospective Resources estimates used in this section are supported by Alan Fernie (General Manager – Exploration and Development and full time employee of Horizon Oil).

Depending on the asset, either deterministic or probabilistic methods have been used to compile Reserve and Contingent Resource estimates and the probabilistic method has been used to compile Prospective Resource estimates. Due to the portfolio effects of arithmetic summation the aggregate 1P Reserve may be a very conservative estimate and the aggregate 3P Reserve may be a very optimistic estimate. Prospective Resources have not been adjusted for risk, i.e. chance of success.

Estimates of reserves are reported net of lease fuel. The reference point used for the purposes of measuring and assessing the estimated reserves is the sales point (at the plant gate).

The reserve and resource estimates used in this report were compiled by Alan Fernie (General Manager – Exploration and Development). Mr Fernie (B.Sc), who is a member of the American Association of Petroleum Geologists, has more than 35 years relevant experience within the industry. The reserve and resource estimates are consistent with the definitions of proved, probable, and possible hydrocarbon reserves and resources that appear in the ASX Listing Rules.

Alan Fernie is qualified in accordance with the requirements of ASX Listing Rule 5.42 and consents to the use of the resource and reserve figures in the form and context in which they appear in this report.

The 1P and 2P reserves and contingent resource estimates provided for the China, New Zealand and PNG assets in this report were audited in early 2015 by independent auditors, RISC, and reviewed by RISC in July 2016.

Prospective resource estimates provided for China, New Zealand and PNG are based on recent internal evaluations conducted by Horizon Oil. These estimates are yet to be independently audited.

Board of Directors

John Humphrey
Chairman

Brent Emmett
Chief Executive Officer

Gerrit de Nys
Director

Andrew Stock
Director

Sandra Birkensleigh
Director

Consolidated Results

	2016 US$'000	2015 US$'000	2014 US$'000	2013 US$'000	2012 US$'000
Revenue from continuing operations	75,952	103,950	138,450	48,071	50,390
Cost of sales (includes amortisation)	(60,179)	(59,970)	(92,716)	(22,685)	(16,935)
Gross profit	15,773	43,980	45,734	25,386	33,455
Profit from sale of assets	-	-	23,830	-	-
Other income	3,638	6,842	234	30	72
General and administrative expenses	(8,094)	(7,569)	(8,183)	(7,038)	(8,110)
Exploration and development expenses	(1,852)	(16,222)	(10,520)	(606)	(303)
Impairment of non-current assets	(147,515)	-	-	-	-
Financing costs (includes project facility, convertible bonds and FPSO finance lease)	(17,264)	(17,360)	(18,899)	(8,209)	(5,974)
Unrealised movement in value of convertible bond conversion rights	5,322	9,063	412	991	4,967
Gain on buyback of convertible bonds during the period	1,193	-	-	-	-
Other expenses	(927)	(983)	(2,581)	(529)	(418)
Profit/(loss) before income tax expense	(149,726)	17,751	30,027	10,025	23,689
Net tax benefit/(expense)	5,201	556	(17,197)	(6,551)	(16,042)
Profit/(loss) for the financial year from continuing operations	(144,525)	18,307	12,830	3,474	7,647
Loss from discontinued operations (net of tax)	-	-	-	-	-
Profit/(loss) for the financial year	(144,525)	18,307	12,830	3,474	7,647
Profit/(loss) attributable to members of Horizon Oil Limited	(144,525)	18,307	12,830	3,474	7,647

Activities Review

P.18 Production

China

Block 22/12, Beibu Gulf
(Horizon Oil: 26.95% Production/
55% Exploration)

New Zealand

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

P.22 Development

Papua New Guinea

PDL 10, Stanley Field
(Horizon Oil: 30%)

P.24 Exploration/ Appraisal

Papua New Guinea

PRL 21, Elevala / Ketu discoveries
(Horizon Oil: 27%)

PPL 259
(Horizon Oil: 35%)

PPL 430
(Horizon Oil: 50%)

PPL 372/PPL 373
(Horizon Oil: 90%)

New Zealand

PEP 51313, offshore Taranaki Basin
(Horizon Oil: 21%)

Production China

Location

Beibu Gulf

Permit

Block 22/12

Interest (%)

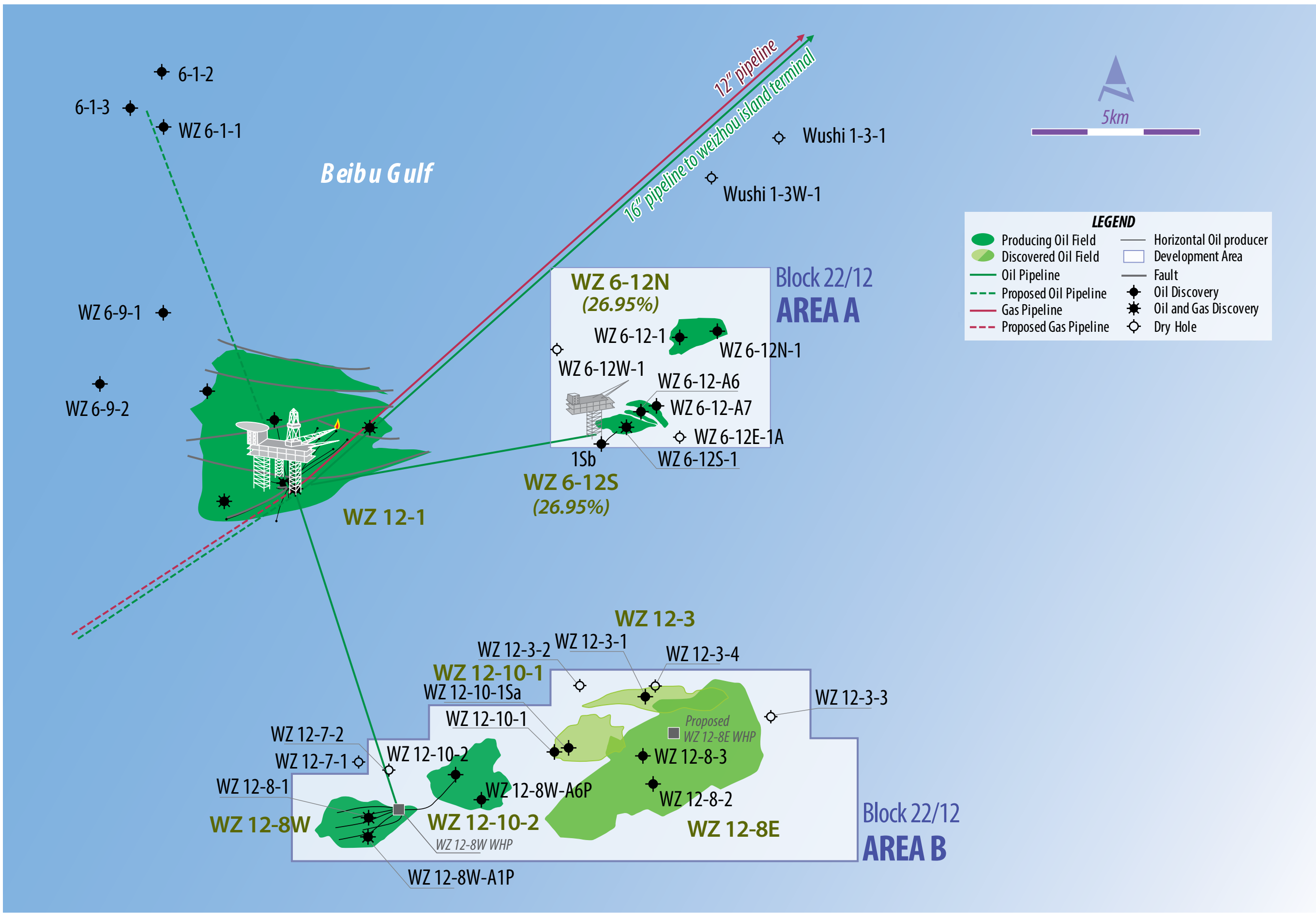
26.95%	55%
Production	Exploration

During the year, Horizon Oil's working interest share of production from the Beibu Gulf fields was 903,598 barrels of oil. Crude oil sales were 903,198 barrels at an average price of US$37.91/bbl exclusive of executed hedging. Cumulative gross oil production from the fields through 30 June 2016 was 12.3 million barrels.

Gross production averaged 9,161 bopd, of which Horizon Oil's share was 2,469 bopd.

Aggregate Block 22/12 production for the last 6 months is approximately 27% ahead of budget, with full year production approximately 8% ahead of budget. During the year, Horizon Oil's Block 22/12 production entitlement increased from 26.95% to over 35% of production, following the commencement of its entitlement to preferential cost recovery.

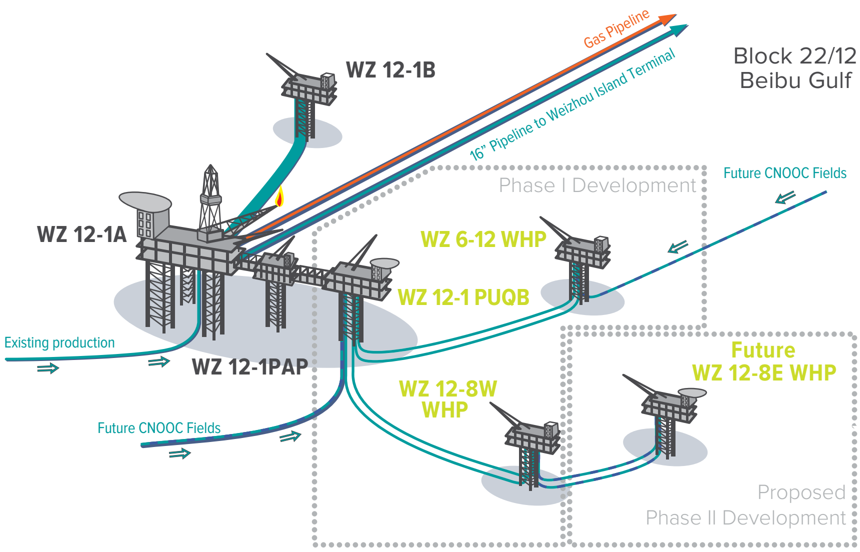
On 18 December 2015, the WZ 12-10-2 field, located in the Weizhou 12-8 Fields Area of Block 22/12, Beibu Gulf, People's Republic of China, had commenced production. The WZ 12-8W-A6P1 well was drilled to appraise the accumulation discovered by the WZ 12-10-2 well in 2014 and, following this appraisal, a horizontal production sidetrack (WZ 12-8W-A6H) was completed and brought on to production. The well was brought online and after an initial clean up period, produced at over 1,400 bopd with a GOR of 40 scf/bbl.



This well will deliver near term incremental production to the existing WZ 12-8W / WZ 6-12 production facility, and provide data to determine production and reservoir performance in the WZ 12-10-2 oil pool to assist in future development evaluations.

Preparation of the Overall Development Plan for the WZ 12-8E field continued, with completion scheduled in 2017. The audited gross 2C resources for the field (including WZ 12-10-1 and WZ 12-3-1) are 11.1 mmbo. To investigate options that can make this project economic at low oil prices, contractors have been invited to bid for this project through Engineering, Procurement, Construction and Installation (EPCI) on lump-sum and competitive cost basis, with bids due in the second half of calendar year 2016.

Integrated Development Concept CNOOC Infrastructure



Production
New Zealand

Location

Maari and Manaia fields, offshore Taranaki Basin

Permit

PMP 38160

Interest (%)

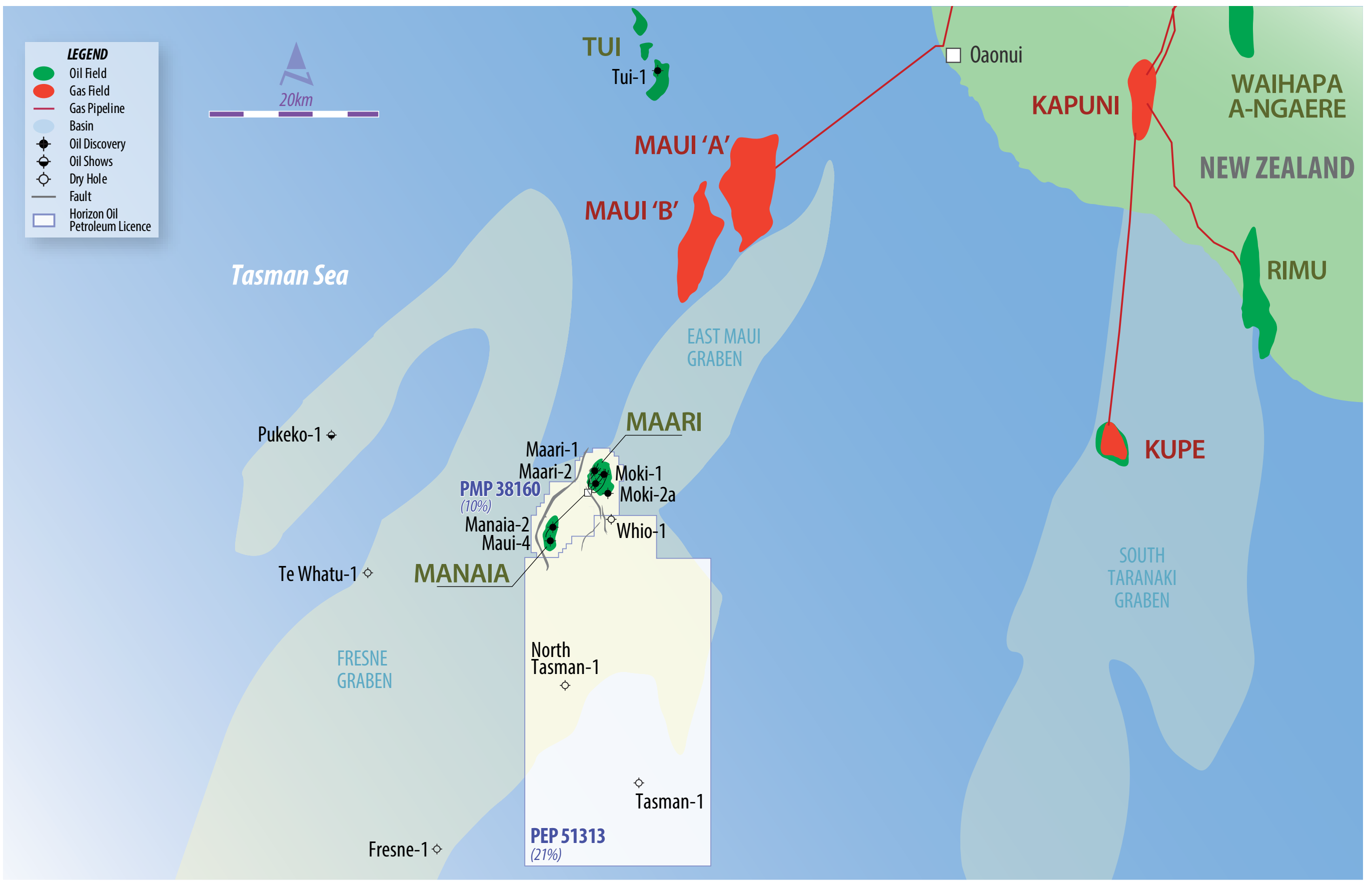
10%

During the year, Horizon Oil's working interest share of production from Maari and Manaia fields was 451,384 barrels of oil. Crude oil sales were 472,871 barrels at an average effective price of US$46.98/bbl exclusive of executed hedging. Cumulative gross oil production from the fields through 30 June 2016 was 31.6 million barrels.

Gross production averaged 12,333 bopd, of which Horizon Oil's share was 1,233 bopd.

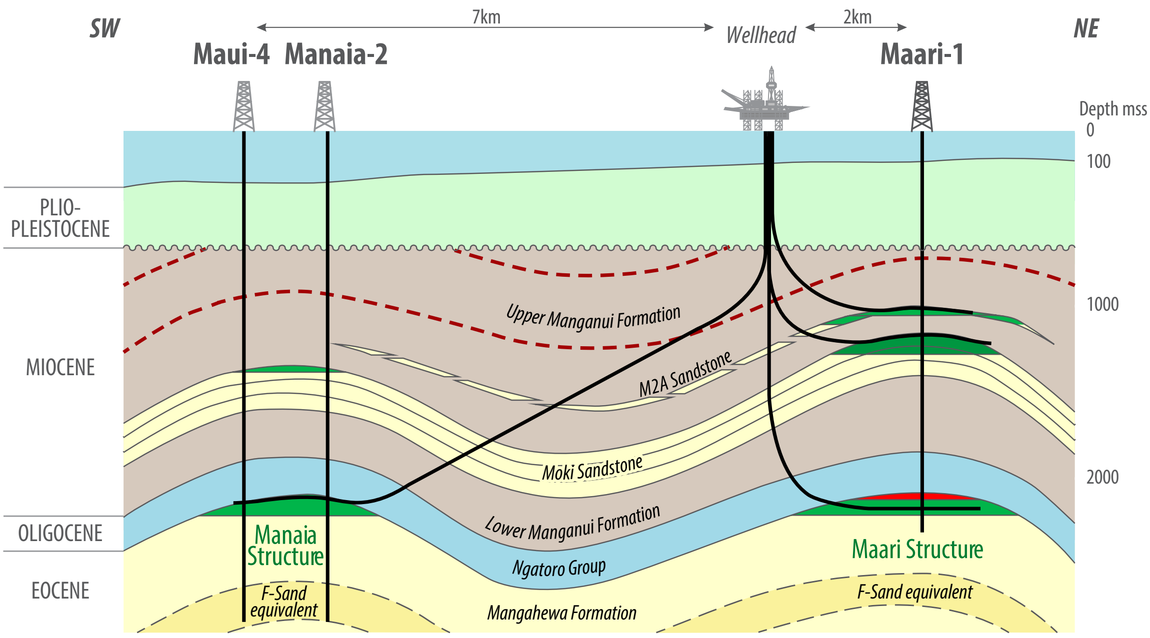
The Maari Growth Program, incorporating 4 new wells which were designed to enhance production rate and oil recovery from the Maari and Manaia fields was completed with all wells brought on production early in the financial year. Following completion of the Maari Growth Projects drilling program, gross production increased to in excess of 16,000 bopd.

The Maari joint venture's work-over unit (WOU) equipment was re-installed on the wellhead platform with recommissioning completed in late August 2015. The WOU has been and will continue to be used to carry out maintenance workovers and other activities such as adding perforations to further enhance production. The highlight of the workover campaign so far has been the MR8A well additional perforation which was completed during the final quarter, with the well now producing ~1,600 bopd. A similar workover is planned for the MN1 well in late August 2016.



The Maari joint venture carried out an upgrade of the FPSO *Raroa's* mooring system during the year. The work, which will "future-proof" the mooring system for the next decade, was carried out during the final quarter, coinciding with the annual 10 day maintenance shutdown. The average oil production rate in the quarter was impacted by shut-in and restart periods while the foregoing activity was undertaken. The cost of the works was approximately US$4 million, net to Horizon Oil, before insurance recoveries. The Company anticipates that a significant portion of these works will be recovered from insurance.

Maari / Manaia schematic cross-section PMP 38160, Offshore New Zealand



Development
Papua New Guinea

Location

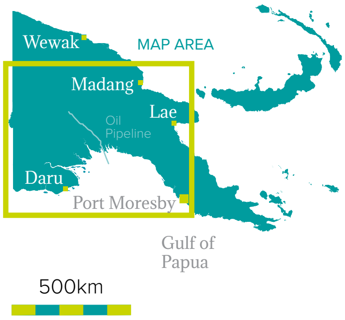
Stanley Field

Permit

PDL 10

Interest (%)

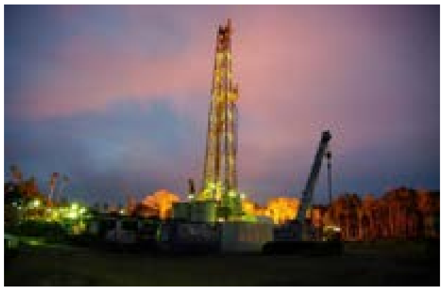
30%



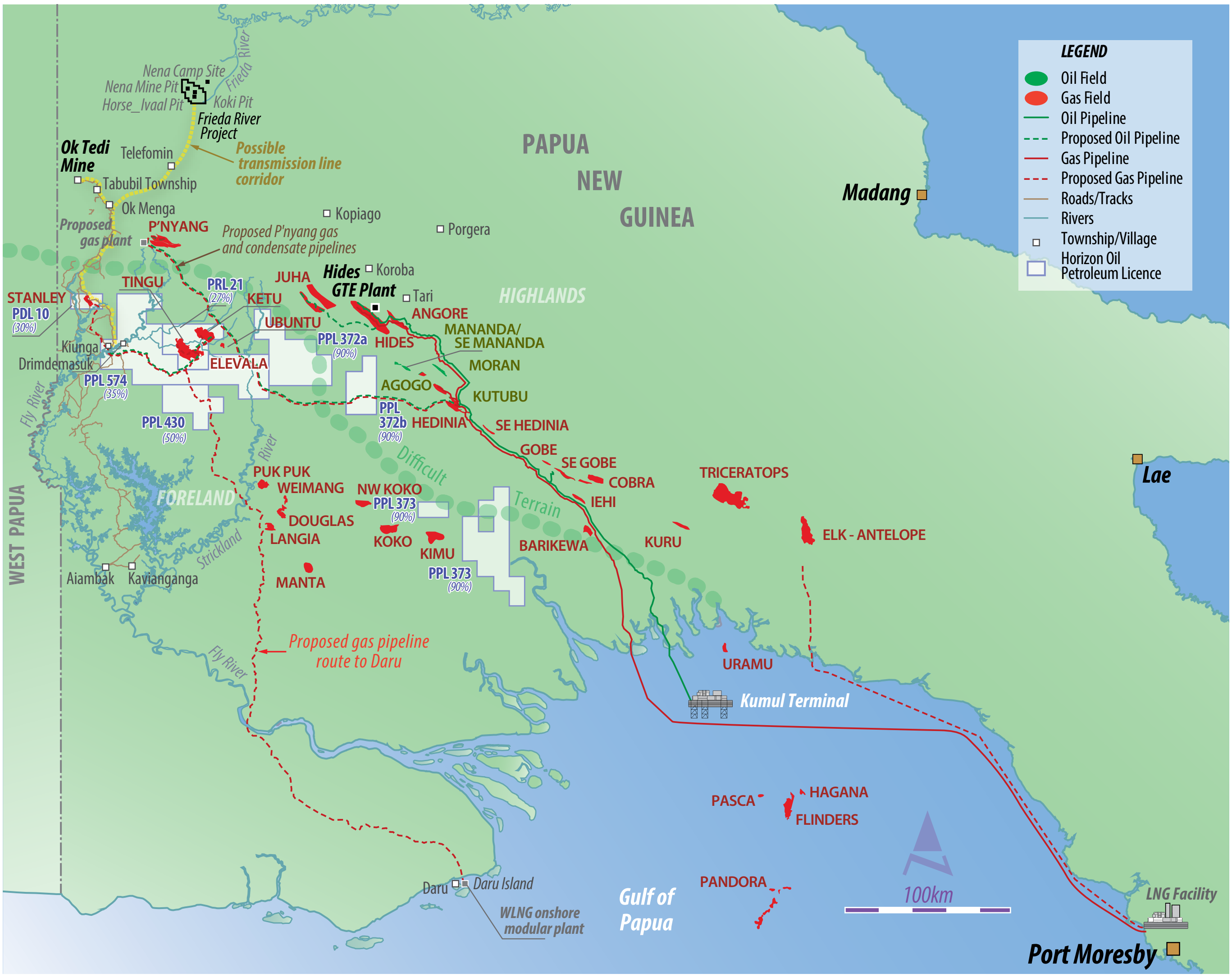
Repsol, operator of the Stanley joint venture, continued to progress commercial and technical discussions with Ok Tedi Mining Limited and regional mining operators with respect to gas sales for power generation.

Concurrently, Repsol continued its optimisation review of project design, execution and timing prior to entering into material contracts for fabrication and construction of the project facilities.

Horizon Oil anticipates the revised project configuration will entail a phasing of the ultimate development and associated capital costs, matching the gas demand for power generation with the requirements of regional mining, industrial and domestic consumers and enabling a reduced initial capital investment.



Repsol is currently reviewing the responses to the invitation to tender for the Stanley front end engineering design.



Exploration/Appraisal
Papua New Guinea

Location

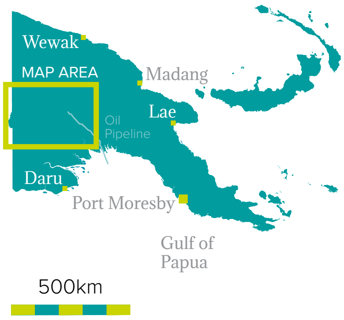
Elevala/Ketu discoveries

Permit

PRL 21

Interest (%)

27%

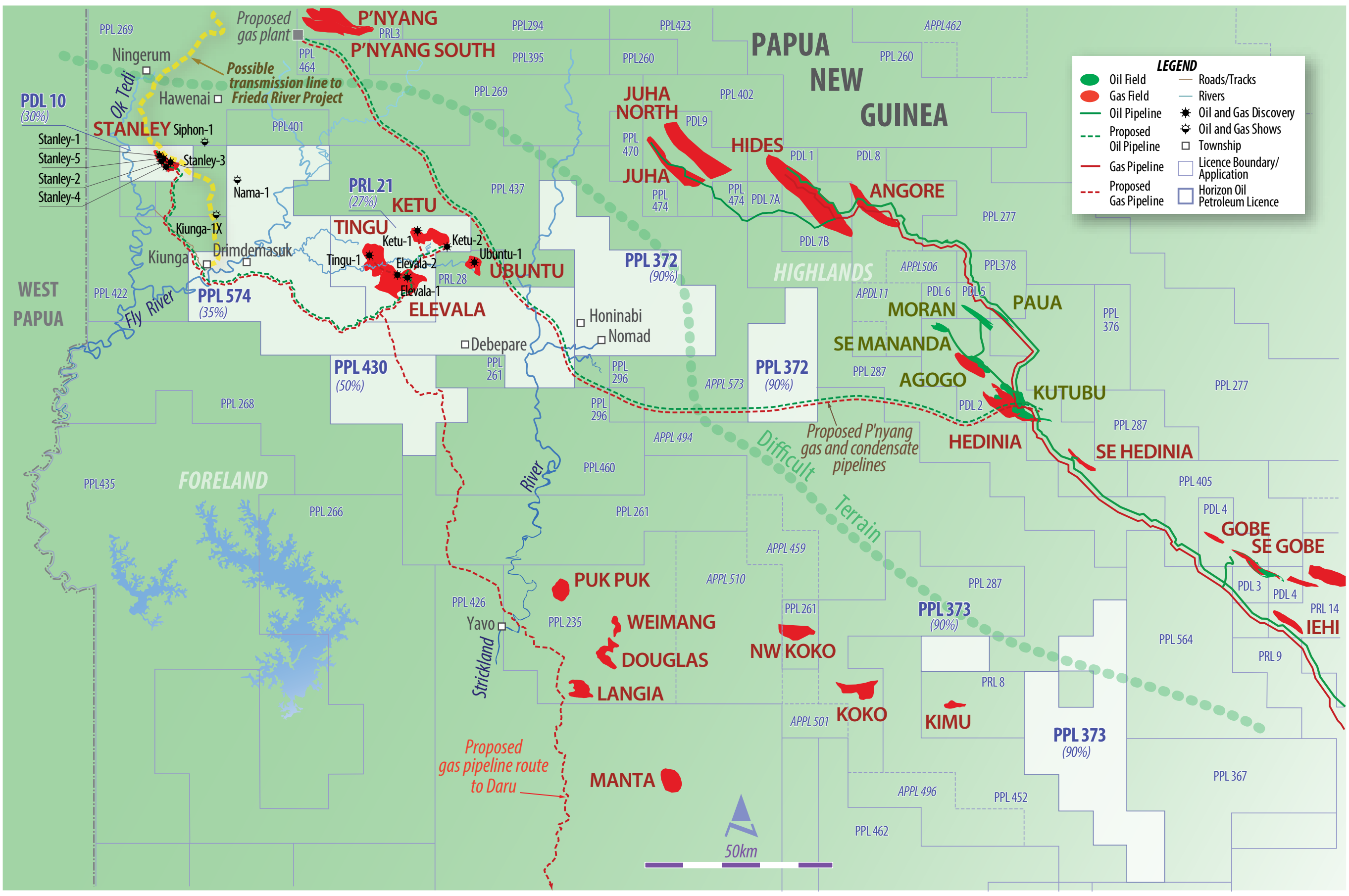


Further progress was made during the year on pre-development planning and regulatory aspects of the project, including landowner, environmental and technical matters.

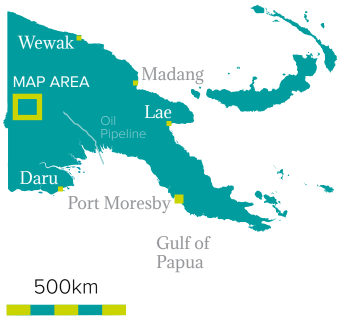
A key milestone was achieved with the formal approval by the PNG Conservation and Environment Protection Authority of the Elevala Development environmental impact statement.

The PRL 21 joint venture participants progressed the feasibility study for a Western Province based mid-scale LNG development concept, potentially involving aggregation of the ~2 tcf of discovered Western Province gas resources, the cornerstone volumes of which are the condensate-rich Elevala/Tingu and Ketu fields operated by Horizon Oil.

Significant potential also emerged during the year for sales of large gas volumes to satisfy future West Papuan agribusiness and industrial demand arising from the Merauke Integrated Food and Energy Estate, an Indonesian government food security initiative. After preliminary discussions with key existing and potential Indonesian stakeholders, the Company is carrying out preliminary feasibility studies on these opportunities.

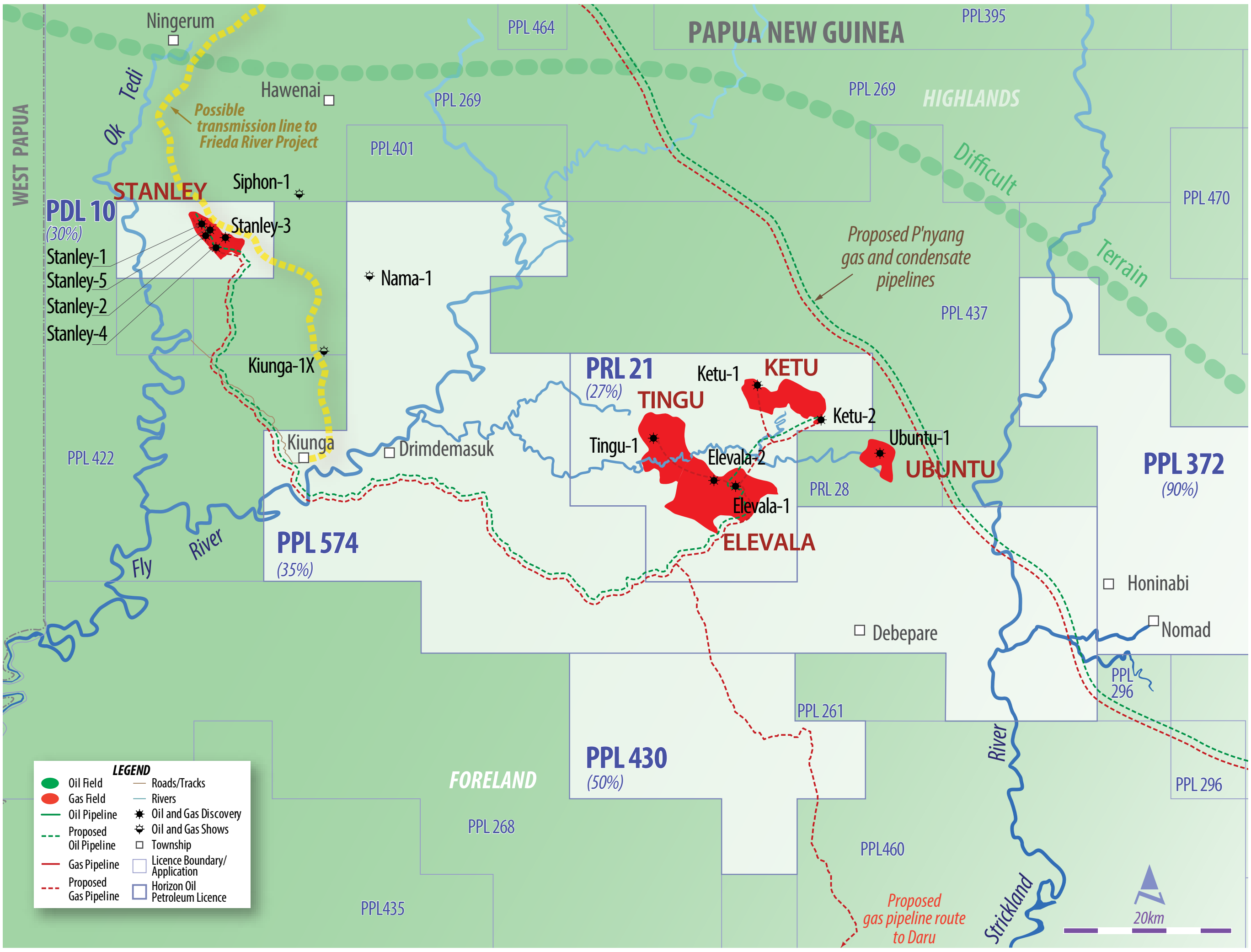


Considerable exploration and appraisal activity commenced in 2016 and will continue into 2017 immediately to the north of Horizon Oil's Western Province gas fields, with the P'nyang participants planning to drill up to two appraisal wells and the PPL 269 participants, including Repsol, Santos and Oil Search spudding two exploration wells during the year, with total drilling costs likely to be in the order of US$400-500 million.



Horizon Oil considers that these recent material developments have the potential to increase the likelihood of promising alternative commercialisation pathways emerging for its substantial gas resources in the Western Province forelands. The possible export pipeline route connecting P'nyang gas field to the existing PNG LNG system at Kutubu, offers, in Horizon Oil's view, the potential for a gas aggregation project involving Stanley, Elevala/Tingu, Ketu, Ubuntu and P'nyang fields.

As noted above, the PRL 21 joint venture will progress planning for a greenfield LNG project at Daru Island as its base case and the Company will continue its feasibility analysis for gas sales to West Papuan agribusiness and industrial users. However, the opportunity to participate in a brownfield LNG development by way of aggregation of Horizon Oil's gas fields with those of other operators represents a potentially attractive proposition with less engineering and financial risk.



Exploration/Appraisal

New Zealand

Location	Offshore Taranaki Basin
Permit	PEP 51313
Interest (%)	21%

Integration of the Whio-1 well result into the regional reservoir, structural, hydrocarbon migration and charge model continued during the reporting period. Following evaluation of the remaining prospects in the permit, the joint venture participants have elected to withdraw from the permit, with completion of withdrawal anticipated in Q3 2016.

Papua New Guinea

Location	Western Province
Permit	PPL 259
Interest (%)	35%

Activity during the year was focused on interpretation and analysis of the Nama-1 well log and sidewall core data to evaluate the remaining potential of the broader prospect. In addition, a thorough reinterpretation of the regional seismic and pressure data was undertaken to refine the prospects and leads portfolio.

Location	Western Province	
Permit	PPL 430	PPL 372 PPL 373
Interest (%)	50%	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.

Annual Financial Report

For the financial year ended 30 June 2016

This annual financial report covers the consolidated financial statements for the Group, consisting of Horizon Oil Limited (the 'Company') and its subsidiaries. The annual financial report is presented in United States dollars.

Horizon Oil Limited is a public company limited by shares and is listed on the ASX. It is incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 6
134 William Street
Woolloomooloo NSW 2011

The annual financial report was authorised for issue by the Board of Directors on 30 August 2016. The Board of Directors has the power to amend and reissue the annual financial report.

Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the 'Group') consisting of Horizon Oil Limited (the 'Company') and the subsidiaries it controlled at the end of, or during the financial year ended, 30 June 2016.

DIRECTORS

The following persons were directors of Horizon Oil Limited during the whole, or for part where noted, of the financial year and up to the date of this report:

J S Humphrey

B D Emmett

G de Nys

A Stock

S Birkensleigh was appointed as a non-executive director on 2 February 2016 and continues in office at the date of this report.

E F Ainsworth was a director and chairman of the Group from the beginning of the year until his retirement and resignation from the board at the Group's 2015 AGM on 20 November 2015. J S Humphrey was appointed as chairman at the conclusion of the AGM on 20 November 2015.

REVIEW OF OPERATIONS

Principal Activities

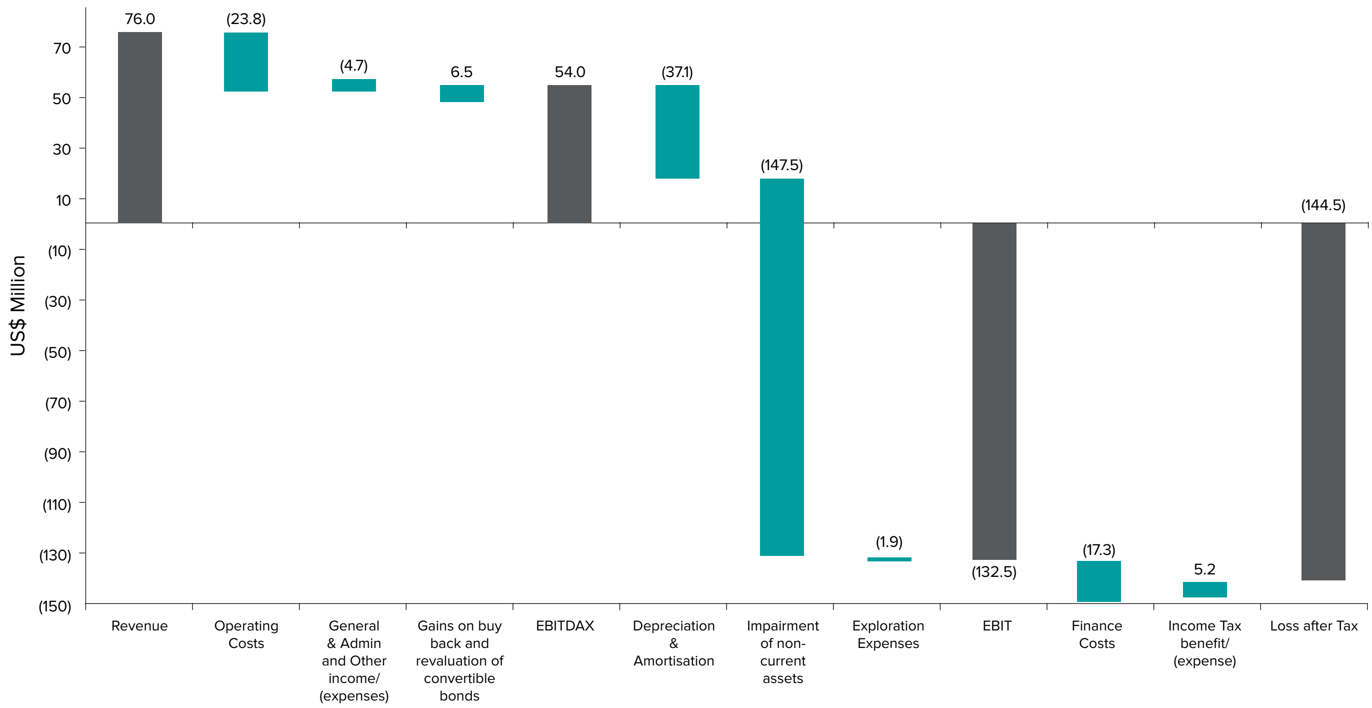
During the financial year, the principal activities of the Group continued to be directed towards petroleum exploration, development and production.

A detailed review of the operations of the Group during the financial year is set out in the Activities Review on pages 17 to 26 of this annual financial report.

Group Financial Performance

Consolidated Statement of Profit or Loss and Other Comprehensive Income

2016 Profit after tax drivers



The Group reported a net loss after tax of US$144.5 million for the year compared with a profit of US$18.3 million in the prior year. The full year result includes a gross profit of US$15.8 million (2015: US$44.0 million) from Block 22/12 and Maari operations coupled with other income including insurance claim proceeds of US$3.6 million offset by corporate general and administrative expenditure of US$8.1 million, exploration and development expenses of US$1.9 million, non-cash impairments of US$147.5 million, financing costs of US$17.3 million, gains of US$6.5 million recorded in connection with the early buy back of convertible bonds and the revaluation of the convertible bond conversion option at year end, and other expenses of US$0.9 million. EBITDAX was US$54.0 million (2015: US$89.1 million), and EBIT was a loss of US$132.5 million (2015: profit of US$35.1 million).

EBITDAX and EBIT are financial measures which are not prescribed by Australian Accounting Standards and represent 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 and EBIT to be useful measures of performance as they are widely used by the oil and gas industry. EBITDAX and EBIT information have not been audited. However, they have been extracted from the audited annual financial reports for the financial years ended 30 June 2016 and 30 June 2015.

Basic earnings per share for the financial year was a loss of 11.08 cents based on a weighted average number of fully and partly paid ordinary shares on issue of 1,303,481,265 shares.

Sales and Production Growth

The Group recorded a strong performance from its producing assets, with the net working interest share of oil production of 1,354,982 barrels (2015: 1,310,485 barrels), a 3% increase compared to the prior financial year, resulting predominately from incremental production in New Zealand following completion of the Maari Growth Project. The Maari Growth Project was successfully completed on 6 July 2015, increasing field production to over 16,000 barrels of oil per day.

Oil and gas sales revenue of US$76.0 million (2015: US$104.0 million) was generated from sales volumes of 1,376,069 barrels of oil (2015: 1,214,488 barrels), with an average realised oil price of US$41.03 per barrel (2015: US$68.90 per barrel) before hedging, slightly less than the Brent oil price which averaged US$43.44 per barrel for 2016 (2015: US$76.20 per barrel). The average realised price inclusive of hedging was US$55.19 per barrel (2015: US$85.59 per barrel), as 29% of oil sales were hedged at a weighted average price of US$95.48 per barrel. This led to the maintenance of strong revenues and cashflow despite the significant fall in oil prices which occurred during the year.

Operating costs of US$60.2 million (2015: US$60.0 million) comprised direct production costs of US$19.2 million (US$14.1/boe), repair and refurbishment costs associated with Maari of US$4.5 million, amortisation costs of US$36.4 million (US$26.9/boe), and royalties and other levies of US$0.1 million (US$0.1/boe). Operating costs overall are in line with the prior year, with the Maari repair and refurbishment costs incurred in 2016 largely offset by the reduction in the Chinese special oil income levy which resulted from lower oil prices.

General and Administrative Expenses

General and administrative expenses of US$8.1 million (2015: US$7.6 million) comprised net employee benefits expense of US$4.5 million, corporate office and insurance expense of US$2.6 million, depreciation of US$0.7 million, and rental expense of US$0.4 million. The increase of 7% is predominately due to one-off restructuring costs incurred during the year following headcount reductions, coupled with lower joint venture recoveries following a reduction in operated joint venture activity during the year as a result of the low oil price environment.

Exploration and Development Expenses

Exploration and development expenses of US$1.9 million (2015: US$16.2 million) was primarily related to NZ exploration which was expensed during the year following the PEP51313 joint venture decision to withdraw from the permit.

Impairment of Non-Current Assets

Included in the result was US$147.5 million of non-cash impairment expenses associated predominately with the Group's exploration and development assets in PNG and production assets in New Zealand. The impairment assessment conducted during the period considered, amongst other things, the reserves and resources update conducted during the year, the current low oil price environment, and the recent valuation performed by the Independent Expert in relation to the IMC Financing Proposal.

Finance Costs

Finance costs of US$17.3 million (2015: US$17.4 million) comprised amortisation of the convertible bonds through to maturity (inclusive of the coupon payable), and interest and finance costs payable on our loan facility. Interest and finance costs were broadly in line with the prior year, as despite the reduction in overall debt during the year which reduced overall interest and finance costs by approximately US$3.0 million, US$3.0 million of interest and finance costs were capitalised during the prior year on borrowings being applied to development activities, with no interest capitalised in the current year.

Gains Recorded on Convertible Bonds

A gain of US$1.2 million was recorded following the buyback of US$21.2 million of the original US$80 million convertible bonds in the first half of the year. This gain represented the excess of the carrying value of the straight bonds and conversion rights of the bonds over the purchase price. An unrealised gain of US$5.3 million (2015: US$9.1 million) was recorded for the revaluation of the conversion option on the convertible bonds at 30 June 2016 based on an independent valuation. The unrealised gain reflects the reduced probability of the bonds being converted to equity as they approach maturity on 19 September 2016.

Income and Royalty Tax

The net income and royalty tax benefit of US$5.2 million (2015: US$0.6 million) incurred during the financial year included a deferred income tax benefit of US$5.5 million and royalty related tax expense of US$1.0 million. The net income tax benefit was predominately driven by impairment charges recorded during the year.

Hedging

At 30 June 2016, the Group's oil hedging expired (30 June 2015: 397,500 barrels). During the financial year, 397,500 barrels of oil price derivatives were settled, resulting in a cash inflow of US$19.5 million. Subsequent to year end, further hedging was implemented with 270,300 bbls hedged at an average price of US$51.32 (net of credit charges) over three quarters to 31 March 2017.

Consolidated Statement of Financial Position

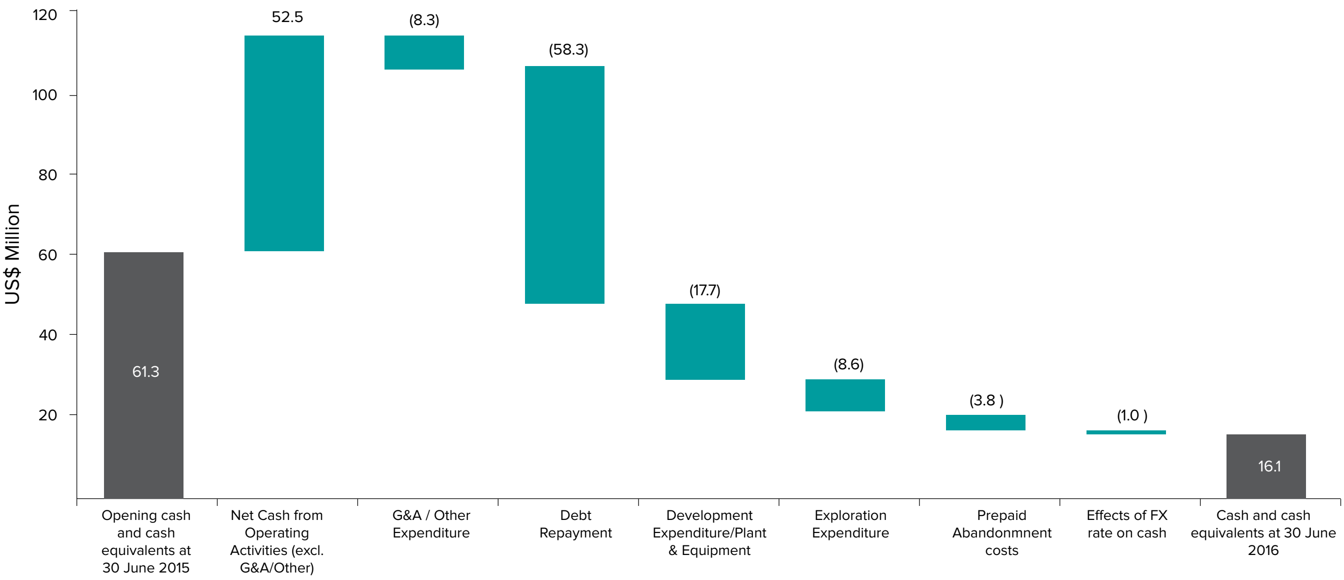
During the financial year, total assets decreased to US$286.7 million (2015: US$523.3 million) and total liabilities decreased to US$182.1 million (2015: US$267.0 million). As a result, net assets decreased to US$104.5 million (2015: US$256.3 million).

Total assets decreased from the prior year, which was primarily due to US$147.5 million of non-cash impairment expenses being recorded associated predominately with the Group's exploration and development assets in PNG and production assets in New Zealand. In addition, US$58.3 million of cash was used to extinguish debt, composed of US$21.2 million of convertible bonds, US$6.2 million in redemption and accrued deferred yield and US$30.9 million of senior debt repayments under the Revolving Cash Advance Facility.

At 30 June 2016, the Group's net debt position was US$128.3 million (2015: US$133.0 million), consisting of cash and cash equivalents assets held of US$16.1 million (2015: US$61.3 million) offset by borrowings of US$144.4 million (2015: US$194.4 million). At financial year end, borrowings consisted of the outstanding US$58.8 million in convertible bonds issued during June 2011, and US$89.1 million principal outstanding on the Revolving Cash Advance Facility executed with senior lenders in May 2015.

Consolidated Statement of Cash Flows

2016 Cash Drivers



Net cash generated from operating activities was 25% lower for the financial year at US$44.2 million (2015: US$58.8 million) primarily resulting from lower cash receipts from sales due to the low oil price environment. Cash and cash equivalents of US$61.3 million from the prior year, along with cash generated from operating activities, was used to finance expenditure of US$30.1 million on our exploration, development and producing assets, including US$3.8 million on restoration payments for the Beibu Gulf which are required to be made over the life of the field. The repayment of US$58.3 million of borrowings during the year, composed of US$21.2 million of convertible bonds, US$6.2 million in redemption and accrued deferred yield and US$30.9 million of senior debt repayments under the Revolving Cash Advance Facility.

Debt Facilities

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). The facility was used to refinance the previous Reserves Based Debt Facility which was drawn to US$110 million. 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 30 June 2016, total debt drawn under the facility was US$89.1 million with undrawn debt capacity available of approximately US$8.8 million. Floating interest in respect of the facility was at LIBOR plus a weighted average margin of 2.90%.

The Group's other outstanding debt is the US$58.8 million in convertible bonds which were issued on 17 June 2011 with a 5 year term. 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 has been reduced to US$0.409 since issue. During the 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. Accordingly, US$58.8m of the bonds remain outstanding at 30 June 2016. The bonds were initially due for redemption on 17 June 2016. However, as part of Horizon Oil's refinancing arrangements, the Company's convertible bondholders unanimously approved the extension of the bond redemption date to 19 September 2016, providing adequate time to obtain the requisite shareholder approval and implement the refinancing arrangements detailed below. While having received the unanimous approval for the deferral of the principal repayment of US$58.8 million, the Company satisfied the other conditions of the convertible bonds at the original redemption date of 17 June 2016, namely the payment of the accrued yield of US$5.2 million, together with the scheduled interest payments of US$1.6 million. No bonds had been converted as at 30 June 2016. On conversion, the Group may elect to settle the bonds in cash or ordinary shares in the parent entity. The bonds carried a coupon of 5.5% per annum until their original maturity date of 17 June 2016, which has now increased to 10% until the extended maturity date of 19 September 2016. The bonds were listed on the Singapore Securities Exchange on 20 June 2011. Details surrounding the bond redemption strategy are outlined further below.

During the year, the Company and its major shareholder, IMC Investments Limited, agreed the terms and conditions for the provision of a subordinated secured non-amortising debt facility of US$50 million. The IMC Financing Proposal loan agreement was signed on 29 July 2016. Under the provisions of the subordinated loan agreement, the Company is to issue to IMC 300 million warrants over unissued shares of the Company, which will have the exercise price of A$0.061 per share. The loan and issue of the warrants to IMC are subject to Horizon Oil shareholder approval. A General Meeting of the Company will be held at 9.00am (Sydney time) on Tuesday, 6 September 2016, at The Sydney Boulevard Hotel, 90 William Street, Sydney. A copy of the Notice of Meeting and Explanatory Statement was sent to Horizon Oil shareholders during the week commencing 1 August 2016. Drawdown on the facility remains subject to satisfaction of customary conditions precedent and shareholder approval. The proceeds of the loan, together with the Company's available cash, will be applied to redeem the remaining US$58.8 million of convertible bonds. The refinancing arrangements extend the maturities of the Company's senior and subordinated debt to an average of no less than three years at a volume weighted interest rate of LIBOR plus 5% p.a. The foregoing refinancing arrangements will continue the progressive reduction of the Company's gross debt in 2014 (after completion of the Block 22/12 development) of approximately US$240 million to a forecast net debt position in Q4 calendar year 2016 of approximately US$120 million. This reduction continues to be funded by revenue generated from the Company's high margin production assets in China and New Zealand.

Group business strategies and prospects for future financial years

The Company's exploration, development and production activities are focused in Southeast Asia. The robust, long-lived cash flows from the Company's interests in the Maari/Manaia fields, offshore New Zealand and Block 22/12, offshore China, will be applied to fund the Company's future capital program. That program is directed to bring into production the Company's substantial inventory of discovered reserves and contingent resources (~116 million barrels of oil equivalent) in fields in New Zealand, China and Papua New Guinea.

The Company has a conservative and highly selective exploration policy with specific focus on plays providing material scale and upside. The identified prospective resources in the Company's inventory, together with the reserves and contingent resources provide shareholders with exposure to commodity price upside, especially oil price and production growth.

The achievement of these strategic objectives may be affected by macro-economic and other risks including, but not limited to, China's slowing rate of growth, volatile commodity prices, exchange rates, access to financing and political risks. The speculative nature of petroleum exploration and development will also impact the Company's ability to achieve these objectives; key risks of which include production and development risk, exploration and drilling risks, joint operations risk, and geological risk surrounding resources and reserves.

The Group has various risk management policies and procedures in place to enable the identification, assessment and mitigation of risks that may arise. Whilst the Group can mitigate some of the risks described above, many are beyond the control of the Group. For further information in relation to the Company's risk management framework, refer to the Corporate Governance Statement.

The Group has a working capital deficit of US$60.4 million at 30 June 2016 resulting from the classification as current liabilities of borrowings associated with the remaining US$58.8 million, 5.5% convertible bonds which are due for redemption on 19 September 2016, combined with presently scheduled amortisation over the next 12 months of the Group's Revolving Cash Advance Facility. The Group has recorded a cash inflow from operating activities of US$44.2 million and a net loss after tax for the period of US$144.5 million (including a non-cash impairment loss of US$147.5 million).

Funding for redemption of the bonds, scheduled principal repayments under the Group's Revolving Cash Advance Facility and the Group's strategic growth plans, is to be obtained from a variety of sources. Surplus revenues from the Group's operations in China and New Zealand, combined with existing cash balances and debt drawn from the Group's US$120 million revolving cash advance facility provide core funding. In addition, the Group has executed a loan agreement with IMC Investments Limited for the provision of a subordinated secured non-amortising debt facility of US$50 million. Financial close and drawdown of the facility are subject to shareholder approval of the IMC financing proposal and other customary conditions for a subordinated loan of this nature.

Taking into account:

- the Group's cash balance of US$16.1 million at 30 June 2016;
- forecast surplus revenue from the Group's operations in New Zealand and China;
- materially reduced budgeted/forecast capital expenditure profile over the coming 12 months;
- the provision by IMC Investments Limited of a subordinated secured non-amortising debt facility of US$50 million; and
- hedged production of 270,300 barrels over the following 9 months at an average price of ~US$51/bbl.

The Company expects to have available the necessary cash reserves to meet redemption obligations under the Company's remaining US$58.8 million, 5.5% convertible bonds maturing on 19 September 2016, scheduled principal repayments under the Group's Revolving Cash Advance Facility and to pursue the current strategy. Since the additional IMC debt funding of US$50 million that is required for full redemption of the bonds is subject to shareholder approval, there is a material uncertainty that may cast significant doubt on the Group's ability to pursue the current strategy. In addition to the IMC financing proposal, the Company continues to consider other initiatives which would add strategic value and/or improve liquidity.

Contained elsewhere within this financial report is an independent auditor's report which includes an emphasis of matter paragraph in regard to the existence of the material uncertainty referenced above that may cast significant doubt about the Group's ability to continue as a going concern. For further information, refer to Note 1 to the financial statements, together with the auditor's report.

Outlook

It is expected that the 2017 financial year and beyond will be characterised by continued strong production from the Group's New Zealand operations and underpinned by the Group's China operations. Oil production from the Group's New Zealand and China operations are expected to decrease due to natural reservoir decline, partially offset by some planned well interventions in New Zealand. Despite the decline in production, Horizon Oil's production entitlement from China is expected to remain elevated at ~35%, well above Horizon Oil's net working interest, due to preferential cost recovery. Accordingly, assuming oil prices average a similar level to where they closed in the 2016 financial year, revenue (before hedging) and operating cash flows for the Group are expected to increase in 2017, barring unforeseen events.

The Group's short-term focus is on:

- finalisation of the redemption of remaining US$58.8 million Convertible Bonds in September 2016 using proceeds from the IMC subordinated secured non-amortising debt facility of US$50 million, subject to receiving shareholder approval;
- optimising production performance from Maari/Manaia fields through continued workover campaign;
- progressing the Beibu Gulf fields Phase II development plan for WZ 12-8E;
- progress sales of Stanley and Elevala/Ketu gas to regional PNG consumers and larger scale gas commercialisation/export plans; and
- progressing the Elevala/Ketu development planning in PNG.

Significant changes in the state of affairs

Other than the matters noted above and disclosed in the review of operations, there have not been any other significant changes in the state of affairs of the Group during the financial year.

Matters subsequent to the end of the financial year

Other than the matters noted above and disclosed in the review of operations, there has not been any matter or circumstance which has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

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

Environmental regulation

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

The directors believe the Group has adequate systems in place for managing its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

Reporting currency

The Company's and the Group's functional and reporting currency is United States dollars. All references in this annual financial report to "$" or "dollars" are references to United States dollars, unless otherwise stated.

Information on Directors

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

Non-executive independent Director and Chairman:	Professor J S Humphrey LL.B., SF Fin
Experience and current directorships:	Director for 26 years. Executive Dean of the Faculty of Law at Queensland University of Technology. Director of Downer EDI Limited and Chairman of Auswide Bank Ltd (formerly Wide Bay Australia Ltd), and a former member of the Australian Takeovers Panel.
Former directorships during last 3 years:	None.
Special responsibilities:	Chairman of Board; Chairman of Remuneration, Nomination and Disclosure Committees; member of Audit Committee; member of Risk Management Committees.
Executive Director and Chief Executive Officer:	B D Emmett B.Sc (Hons)
Experience and current directorships:	Director for 16 years. Over 40 years' experience in petroleum exploration, E&P management and investment banking.
Former directorships during last 3 years:	None.
Special responsibilities:	Chief Executive Officer; member of Risk Management and Disclosure Committees.
Non-executive Director:	G J de Nys B. Tech, FIEAust, FAICD, CPEng (Ret)
Experience and current directorships:	Director for 9 years. Over 44 years' experience in civil engineering, construction, oil field contracting and natural resource investment management. Non-executive director of SOCAM Development Limited and IMC Pan Asia Alliance Group subsidiaries (a related party of Austral Asia Energy Pty Ltd, a substantial shareholder of Horizon Oil Limited).
Former directorships during last 3 years:	Director of Red Sky Energy Limited.
Special responsibilities:	Member of Risk Management and Remuneration and Nomination Committees.
Non-executive independent Director:	A Stock B. Eng (Chem) (Hons), FAIE, GAICD
Experience and current directorships:	Director for 5 years. Over 36 years of development, operations and commercial experience in energy industries in Australia and overseas. Former Director, Executive Projects and Executive General Manager for Major Development Projects for Origin Energy Limited. Board Member of Clean Energy Finance Corporation and a member of the Engineering Faculty and Energy Advisory Boards at University of Adelaide.
Former directorships during last 3 years:	Non-executive director of Geodynamics Limited and Silex Systems Limited; Board Member of Alinta Holdings.
Special responsibilities:	Chairman of Risk Management; member of Audit Committee and Remuneration and Nomination Committees.
Non-executive independent director:	S Birkensleigh B. Comm, CA, GAICD
Experience and current directorships:	Appointed on 2 February 2016. Extensive experience in financial services and risk management, compliance and corporate governance. 24 years at PricewaterhouseCoopers (PwC) where she was formerly a Global Lead for Governance Risk & Compliance; a National Lead Partner Risk and Controls Solutions and a Service Team Leader for Performance Improvement. Non-executive director of Auswide Bank Limited, MLC Limited and Plum Financial Services Limited, an independent member of the Audit Committee of the Reserve Bank of Australia and a member of the audit and risk committee of the University of the Sunshine Coast.
Former directorships during last 3 years:	None.
Special responsibilities:	Chairman of Audit Committee; Member of Risk Management and Remuneration and Nomination Committees.

COMPANY SECRETARY

Company Secretary and Chief Financial Officer:	M Sheridan B.Ec, LL.M., F Fin
Qualifications and experience:	Before joining Horizon Oil Limited during 2003, Mr Sheridan held senior finance and commercial roles in Australian and international oil and gas, mining and telecommunications companies.

Directors' Interests in the Company's Securities

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

	Ordinary shares			Unlisted options		
Director	Direct	Indirect	Total	Direct	Indirect	Total
B Emmett	-	18,902,607	18,902,607	-	-	-
J Humphrey	-	5,112,034	5,112,034	-	-	-
G de Nys	-	912,858	912,858	-	-	-
A Stock	-	160,000	160,000	-	-	-
S Birkensleigh		-	-	-	-	-

B Emmett also held 23,139,973 share appreciation rights as at the date of this Directors' Report.

Meetings of Directors

The numbers of meetings of the Company's Board of Directors (the 'board') and of each board committee held during the financial year, and the numbers of meetings attended by each director were:

	Board	Audit Committee	Risk Management Committee	Remuneration and Nomination Committee	Disclosure Committee
Number of meetings held:	11[1]	2	1	3	1
Number of meetings attended by:					
J S Humphrey	11	2	1	3	
E F Ainsworth[2]	4	1	1	3	1
B D Emmett	11		1		1
G de Nys	11		1	3	
A Stock	11	2	1	3	
S Birkensleigh[2]	6	1	-	-	-

1. Four board meetings were held for non-executive directors only immediately prior to full board meetings.
2. Incoming and outgoing directors attended all meetings they were eligible to attend.

Corporate Governance

The Company and the board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders. The Corporate Governance Statement was approved by the board on 30 August 2016.

The Company's Corporate Governance Statement for the year ended 30 June 2016 may be accessed from the Company's website at www.horizonoil.com.au. A description of the Company's main corporate governance practices is set out in the Corporate Governance Statement. All these practices, unless otherwise stated, were in place for the full financial year and comply with the ASX Corporate Governance Council's revised Corporate Governance Principles and Recommendations 3rd edition, released in March 2014.

Remuneration Report

The Remuneration Report forms part of this Directors' Report. The information provided in the Remuneration Report has been audited by the external auditor as required by section 308(3)(c) of the *Corporations Act 2001*.

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

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Share-based compensation – options/share appreciation rights

A. Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The board ensures that executive rewards satisfy the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation;
- transparency; and
- capital management.

The board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group. The key elements of the framework are:

Alignment to shareholders' interests:

- focuses on sustained growth in shareholder value; and
- attracts and retains high calibre executives capable of managing the Group's diverse international operations.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The framework provides a mix of fixed pay and a blend of short and long-term incentives.

Non-executive directors' fees

Fees and payments to non-executive directors are set and paid in Australian Dollars (A$), and reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed periodically by the Remuneration and Nomination Committee.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. Shareholders approved the current fee pool limit of A$600,000 at the 2009 Annual General Meeting. The non-executive directors' base fee is A$81,555 plus statutory superannuation per annum and the Chairman's base fee is A$163,110 plus statutory superannuation per annum. These fees have not changed in A$ terms for the last four years. Note that the remuneration table set out on page 39 shows remuneration in US$ in line with the Group's functional currency.

Retirement allowances for directors

There are no retirement allowances in place for directors.

Executive pay

Executive remuneration (which is set and paid in Australian Dollars (A$) and other terms of employment are reviewed annually by the Remuneration and Nomination Committee having regard to relevant comparative information. As well as a base salary, remuneration packages include superannuation and termination entitlements and non-monetary benefits. For periods prior to April 2010, executives were eligible for long-term incentives (LTI) through participation in the Company's Employee Option Scheme and Employee Performance Incentive Plan. The grant of options to executive directors under the Employee Option Scheme and Employee Performance Incentive Plan has been subject to the approval of shareholders.

Based on advice received from Guerdon Associates, an independent remuneration consultant, in 2010 the board put in place a short-term incentive scheme and long-term incentive arrangements for the Company's senior executives. The Company's Employee Option Scheme continues to apply to employees other than senior executives.

Remuneration and other terms of employment for executives are formalised in service agreements. The quantum and composition of the executive remuneration is based on advice received in prior financial years from Guerdon Associates.

Short-term incentives

If the Group and individuals achieve pre-determined objectives set in consultation with the board, a short-term incentive (STI) is available to senior executives during the annual review. Using pre-determined objectives ensures variable reward is only available when value has been created for shareholders.

The following table outlines the major features of the plan:

Objective	To drive performance of annual business plans and objectives, at operational and group level, to achieve increased shareholder value.
Frequency and timing	Participation is annual with performance measured over the twelve months to 30 June. Entitlements under the plan are determined and paid (in cash) in the first quarter of the new financial year.
Key Performance Indicators (KPIs)	KPIs are determined each financial year in consultation with the board. The performance of each senior executive against these KPIs is reviewed annually in consultation with the board. A KPI matrix, directly linked to factors critical to the success of the Group's business plan for the financial year, is developed for each executive incorporating health, safety and environment, financial, operational and other KPIs.
STI opportunity	Up to 50% of the senior executive's fixed remuneration package (base salary plus superannuation).
Performance requirements	The executive's STI payment is calculated with reference to achievement of KPI targets based on a weighted scorecard approach. Key objectives during the current year included: • successful refinancing of the Group's maturing convertible bonds; • achievement of budgeted production and operating costs across the Maari/Manaia and Block 22/12 fields; • achievement of no LTIs (lost time injuries) across Horizon Oil's operated joint ventures; and • progressing the Elevala/Ketu development planning in PRL 21 towards a final investment decision.

Whilst many of the abovementioned objectives were achieved during the current year, in response to the current depressed share price and the focus on the refinancing of the convertible bonds, any decision regarding any short-term incentive entitlements in respect of the current year has been deferred until after the convertible bond refinancing arrangements are finalised. The following table shows the STI awards that were paid or payable as at the date of this report in respect of the financial year ended 30 June 2016:

	STI in respect of 2016 financial year	
Senior executives	Percentage of maximum STI payment paid	Percentage of maximum STI payment forfeited
B Emmett	NIL	N/A
A Fernie	NIL	N/A
M Sheridan	NIL	N/A

Long-term incentives

Until April 2010, long-term incentives were provided to certain employees via the Company's share option plans. The revised LTI arrangements approved at the 2010 Annual General Meeting apply to senior executives and involve the grant of rights which will vest subject (amongst other things) to the level of total shareholder return ('TSR') achieved in the vesting period, relative to an appropriate index.

Under the LTI Plan, the board has the discretion, subject to the ASX Listing Rule requirements, to grant share appreciation rights ('SARs') to executives as long-term incentives. The board has determined that 50% of senior executive's fixed remuneration would be long-term incentives in the form of SARs, with the number of SARs granted based on the value of a SAR.

A SAR is a right to receive either or both a cash payment or shares in the Company, as determined by the board, subject to the Company satisfying certain conditions, including performance conditions.

The LTI Plan provides that the amount of the cash payment or the number of shares in the Company that the participant receives on exercise of the SAR is based on the value of the SAR at the time it is exercised ('SAR Value'). The SAR Value is the excess, if any, of the volume weighted average price ('VWAP') of shares in the Company for the ten business day period up to the date before the date the SAR is exercised over the VWAP of shares in the Company for the ten business day period up to the day before the "Effective Allocation Date" for the SARs. The Effective Allocation Date for the SARs is the grant date of the SARs or any other day determined by the board, at the time of the grant. The Effective Allocation Date would generally be the date the executive's entitlement was determined.

If the board determines that the SARs are to be satisfied in cash, the amount of cash that the participant receives on the exercise of the SARs is the SAR Value multiplied by the number of SARs exercised (less any deduction for taxes that the Company is required to make from the payment). If the board determines that the SARs are to be satisfied in shares, the number of shares that the participant receives on the exercise of the SARs is the SAR Value divided by the volume weighted average price of shares in the Company for the ten business day period up to the day before the day the SARs are exercised. Where the number of shares calculated is not a whole number, it will be rounded down to the nearest whole number.

The following table outlines the major features of the plan;

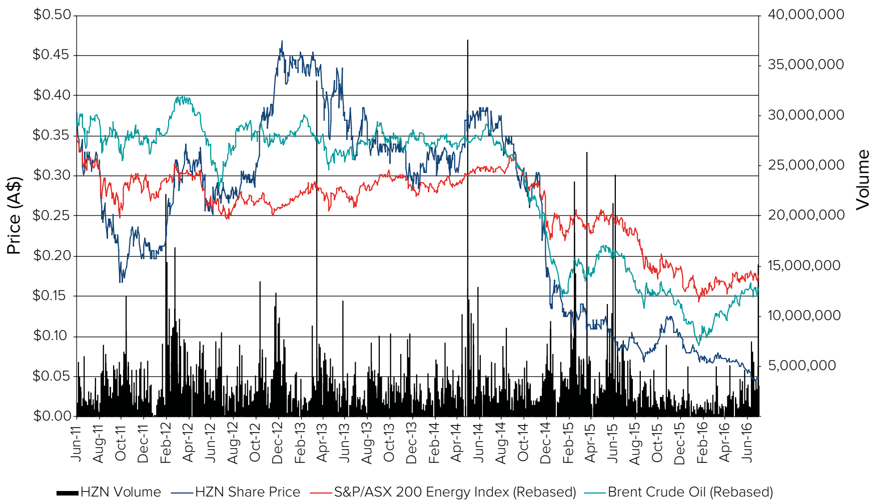
Key terms and conditions	Long Term Incentive Plan
Eligible persons:	Under the terms of the LTI Plan, the Company may grant SARs to any employee. However, it is currently intended by the Company to only grant SARs under the LTI Plan to current senior executive employees including executive directors.
Exercise price:	No price is payable by a participant in the LTI Plan on the exercise of a SAR.
Performance requirements:	Under the LTI Plan, the number of SARs that vest is generally determined by reference to whether the Company achieves certain performance conditions. The number of SARs that vest is determined by reference to the Company's total shareholder return ('**TSR**') over the relevant period relative to that of the S&P/ASX200 Energy Index ('**Index**'). The number of SARs that vest is: (a) if the Company's TSR is equal to that of the Index ('**Minimum Benchmark**'), 50%; (b) if the Company's TSR is 14% or more above that of the Index, 100% ('**Maximum Benchmark**'); and (c) if the Company's TSR is more than the Minimum Benchmark but less than the Maximum Benchmark, a percentage between 50% and 100% based on the Company's TSR performance between the Minimum Benchmark and Maximum Benchmark. The Maximum Benchmark of 14% above the Index return equates to the performance level likely to exceed the 75th percentile of market returns of companies (weighted by company size) in the Index. Furthermore, even where these performance conditions are satisfied, the SARs will not vest unless the Company achieves a TSR of at least 10% over the relevant period. The performance conditions are tested on the date that is three years after the Effective Grant Date of the SARs, and are then re-tested every six months after that until the date that is five years after the Effective Grant Date of the SARs (the final retesting date). The performance conditions are also tested where certain circumstances occur, such as a takeover bid for the Company. The Effective Grant Date for the SARs is the date the SARs are granted, or such other date as the board determines for the SARs. If the SARs have not, pursuant to these performance conditions, vested by the final retesting date that is five years after the date the SARs are granted, the SARs will lapse.
Cessation of employment:	If a holder of SARs under the LTI Plan ceases to be employed by a member of the Group, then this generally does not affect the terms and operation of the SARs. The board does, however, under the LTI Plan have discretion, to the extent permitted by law, to cause the SARs to lapse or accelerate the date on which the SARs become exercisable.
Maximum number of shares that can be issued:	Subject to various exclusions, the maximum number of shares that may be issued on the exercise of SARs granted under the LTI Plan is capped at 5% of the total number of issued shares of the Company.
Restrictions on exercise:	A SAR cannot be exercised unless it has vested. Where a SAR vests, a participant may not exercise the SAR until the first time after the time the SAR vests that the participant is able to deal with shares in the Company under the Company's securities trading policy. SARs are exercised by submitting a notice of exercise to the Company.
Lapse:	SARs will lapse where: • the SARs have not vested by the final retesting date which is five years after the date of grant (see above); • if the SARs have vested by the final retesting date that is five years after the date of grant, the SARs have not been exercised within three months of the date that the SARs would have first been able to be exercised if they had vested at the final retesting date that is five years after the date of grant; • This may be more than five years and three months from the date of grant depending on whether the holder of the SAR is able to deal with shares in the Company under the Company's securities trading policy at the date five years after the date of grant; • the employee ceases to be employed by a member of the Group, and the board determines that some or all of the SARs lapse (see above); • the board determines that the employee has committed or it is evident that the employee intends to commit, any act (whether by commission or omission) which amounts or would amount to fraud or serious misconduct; or • the employee provides a notice to the Company that they wish the SARs to lapse.
Share ranking and quotation:	Shares provided pursuant to the exercise of a SAR will rank equally with the shares in the Company then on issue. Quotation on the ASX will be sought for all shares issued upon the exercise of SARs. SARs are not assignable or transferable.
No right to dividends, bonus or rights issues:	The SARs will not confer on the holder an entitlement to dividends or to participate in bonus issues or rights issues unless the board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.

No voting rights:	The SARs will not confer an entitlement to vote at general meetings of the Company unless the board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.
Non-quotation:	The Company will not apply to the ASX for official quotation of the SARs.
Capital re-organisation:	In the event of a reorganisation of the capital of the Company, the rights of the SARs holder will be changed to the extent necessary to comply with the ASX Listing Rules and shall not result in any additional benefits being conferred on SARs holders which are not conferred on members.
Effect of take-over or change of control of Company, death or disablement:	The LTI Plan contains provisions to deal with SARs where there is a take-over or change of control of the Company. Depending on the nature of the take-over or change of control event, the Company will either have the discretion or be required (if a change of control) to determine a special retesting date for the performance requirements discussed above. For example, the board will have discretion to determine a special retesting date where a takeover bid is made for the Company or a scheme of arrangement is entered into. In that case, the special retesting date will be the date determined by the board. Where a statement is lodged with the ASX that a person has become entitled to acquire more than 50% of the Company, the board will be required to determine a special retesting date, and the special retesting date will be the day the statement is lodged with the ASX. The SARs may vest if the performance requirements discussed above are satisfied in relation to that special retesting date.

Performance of Horizon Oil Limited

The annual performance objectives and share price hurdle are the means by which management links company performance and remuneration policy. Having regard to the current stage of the Company's evolution, linkage of remuneration policy to share price performance rather than earnings is seen as the most sensible method of incentivising employees. In response to the current depressed share price and the focus on refinancing of the convertible bonds, any decision regarding any short-term incentive entitlements in respect of the current year has been deferred until after the convertible bond refinancing arrangements are finalised. The share price performance of the Company for the current and previous four financial years is displayed in the chart adjacent:

Horizon Oil Limited share price ('HZN') versus S&P/ASX200 Energy Index and Brent Crude Oil



The table below shows Horizon Oil Limited's profit/(loss) before tax for the current and previous four financial years. As mentioned above, given the current stage of the Company's evolution, linkage of remuneration policy to earnings is a less relevant measure of incentivising employees at this stage.

Financial year ended 30 June:	2012	2013	2014	2015	2016
Profit before tax (US$'000)	23,689	10,025	30,027	17,751	(149,726)
EBITDAX (US$'000)	37,378	27,719	99,481	89,117	53,995

B. Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors and other key management personnel (as defined by AASB 124 '*Related Party Disclosures*') of the Company and the Group are set out in the following tables.

The key management personnel of the Company and the Group includes the directors of Horizon Oil Limited as per page 33, and the following executive officers, who are also the highest paid executives of the Company and Group:

M Sheridan Chief Financial Officer, Company Secretary, Horizon Oil Limited

A Fernie General Manager Exploration and Development, Horizon Oil Limited

Financial year ended 30 June 2016 and 2015		Short-term benefits			Post-employment benefits	Total cash or in-kind benefit	Long-term benefits	Share-based payments	Total[5]
		Cash salary and fees	Cash bonus	Non-Monetary[1]	Super-annuation[2]		Long service leave accrual[3]	Options/ SARs[4]	
Name		US$	US$	US$	US$	US$	US$	US$	US$
Directors:									
J Humphrey	2016	95,419	-	-	9,065	104,484	-	-	104,484
Chairman (from 20 November 2015), Non-executive Director	2015	68,360	-	-	6,494	74,854	-	-	74,854
E F Ainsworth	2016	59,400	-	-	5,643	65,043	-	-	65,043
Chairman (until 20 November 2015), Non-executive Director	2015	136,720	-	-	12,988	149,708	-	-	149,708
B D Emmett	2016	622,713	-	115,612	25,492	763,817	22,388	385,576	1,171,781
Chief Executive Officer, Executive Director	2015	716,640	-	119,312	29,337	865,289	(29,137)	398,682	1,234,834
G de Nys	2016	44,550	-	-	20,493	65,043	-	-	65,043
Non-executive Director	2015	51,270	-	-	23,584	74,854	-	-	74,854
A Stock	2016	59,400	-	-	5,643	65,043	-	-	65,043
Non-executive Director	2015	68,360	-	-	6,494	74,854	-	-	74,854
S Birkensleigh	2016	24,369	-	-	2,315	26,684	-	-	26,684
Non-executive Director	2015	-	-	-	-	-	-	-	-
Total directors' remuneration	2016	905,851	-	115,612	68,651	1,090,114	22,388	385,576	1,498,078
	2015	1,041,350	-	119,312	78,897	1,239,559	(29,137)	398,682	1,609,104
Total directors' remuneration (AUD)[5]	2016	1,243,707	-	158,732	94,256	1,496,695	30,148	519,224	2,046,067
	2015	1,242,354	-	142,342	94,128	1,478,824	(37,938)	475,636	1,916,522
Other key management personnel:									
M Sheridan	2016	449,858	-	23,403	25,492	498,753	17,766	282,756	799,275
Chief Financial Officer, Company Secretary	2015	517,713	-	21,466	29,337	568,516	10,415	292,367	871,298
A Fernie	2016	449,858	-	91,502	25,492	566,852	17,481	282,756	867,089
General Manager - Exploration and Development	2015	515,384	-	89,376	29,337	634,097	11,825	292,367	938,289
Total other key management personnel remuneration	2016	899,716	-	114,905	50,984	1,065,605	35,247	565,512	1,666,364
	2015	1,033,097	-	110,842	58,674	1,202,613	22,240	584,734	1,809,587
Total other key management personnel remuneration (AUD)[5]	2016	1,235,285	-	157,762	70,000	1,463,047	47,464	761,529	2,272,040
	2015	1,232,508	-	132,236	70,000	1,434,744	28,958	697,600	2,161,302

1. Non-monetary benefits include the value of car parking, insurances and other expenses inclusive of Fringe Benefits Tax ('FBT').
2. Superannuation includes both compulsory superannuation payments and salary sacrifice payments made on election by directors and KMPs.
3. Reflects the movement in the long service accrual between respective reporting dates.
4. Reflects the theoretical value (calculated as at grant date and converted to US dollars at the foreign exchange rate prevailing at the date of grant) of previously unvested options/SARs which vested during the financial year.
5. Remuneration is paid in Australian dollars and converted to US dollars at the foreign exchange rate prevailing on the date of the transaction.

At-risk remuneration summary

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed based on the amounts disclosed in the table on page 39.

	Fixed remuneration		At Risk – STI		At Risk – LTI	
Name	2016	2015	2016	2015	2016	2015
Executive Directors:						
B D Emmett	67%	68%	0%	0%	33%	32%
Chief Executive Officer, Executive Director						
Other key management personnel:						
M Sheridan	65%	66%	0%	0%	35%	34%
Chief Financial Officer, Company Secretary						
A Fernie	67%	69%	0%	0%	33%	31%
General Manager - Exploration and Development						

The maximum potential remuneration of all key management personnel is split 50% fixed remuneration, 25% at risk – STI and 25% at risk – LTI. Due to the deferral of any decision regarding any short-term incentive entitlements in respect of the current year until after the convertible bond refinancing arrangements are finalised, the relative proportion of fixed remuneration and at risk – LTI has increased.

C. Service agreements

Remuneration and other terms of employment for the Chief Executive Officer and other key management personnel are formalised in service agreements which were renewed during 2015. Each of these agreements includes the provision of other benefits such as health insurance, car parking and participation, where eligible, in the Horizon Oil Short Term Incentive and Long Term Incentive plans. Other major provisions of the existing agreements relating to remuneration are set out below:

B D Emmett, Chief Executive Officer

- Term of agreement – 2 year period expiring on 31 December 2017.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months remuneration.
- Salary levels are subject to annual review.

M Sheridan, Chief Financial Officer, Company Secretary

- Term of agreement – 2.5 year period expiring 31 December 2018.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months remuneration.
- Salary levels are subject to annual review.

A Fernie, General Manager - Exploration and Development

- Term of agreement – 2 year period expiring on 31 December 2017.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months remuneration.
- Salary levels are subject to annual review.

D. Share-based compensation – options/share appreciation rights

Options and share appreciation rights ('SARs') have been granted to eligible employees under the Horizon Oil Limited Employee Option Scheme, the Employee Performance Incentive Plan and the Long Term Incentive Plan. The issue of securities under the Employee Option Scheme, the Employee Performance Incentive Plan and the Long Term Incentive Plan were approved by shareholders for the purposes of the ASX Listing Rules at the 2010, 2011, 2012 and 2014 Annual General Meetings.

Options/SARs are granted to executive directors in accordance with the terms of the relevant option scheme or plan and are approved on a case by case basis by shareholders at relevant general meetings.

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

Grant date	Expiry date	Exercise price	Value per option/SAR at grant date	Date exercisable
05/8/2011	05/11/2016	A$0.3129[1,2]	A$0.1514	100% after 05/08/2014
13/8/2012	13/08/2017	A$0.2710[1,2]	A$0.1025	100% after 13/08/2015[3]
19/8/2013	19/08/2018	A$0.3326	A$0.1193	100% after 19/08/2016[3]
01/7/2014	01/07/2019	A$0.3729	A$0.1433	100% after 01/07/2017[3]
01/7/2015	01/07/2020	A$0.0865	A$0.0438	100% after 01/07/2018[3]

1. No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.
2. The exercise price of the options and SARS outstanding at 31 July 2013 were reduced by A$0.006 following the rights issue during the 2014 financial year.
3. The SARs will become exercisable subject to the relevant performance hurdles being met on vesting.

No new options were granted as remuneration to directors or key management personnel during the financial year. In place of options, SARs were granted to the executive director and key management personnel under the new Long Term Incentive Plan. Details of SARs provided as remuneration to the executive director and each of the key management personnel are set out below:

Name	Number of SARs granted during the financial year	Value of SARs at grant date[1] US $	Number of SARs vested during the financial year	Number of SARs lapsed during the financial year	Value at lapse date[2] US $
Directors:					
B D Emmett	10,171,063	341,748	-	-	-
Other key management personnel:					
M Sheridan	7,458,777	250,615	-	-	-
A Fernie	7,458,777	250,615	-	-	-

1. The value at grant date calculated in accordance with AASB 2 'Share-based Payment' of SARs granted during the financial year as part of remuneration.
2. The value at lapse date of SARs that were granted as part of remuneration and that lapsed during the financial year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

The amounts disclosed for the remuneration of directors and other key management personnel include the assessed fair values of options/SARs granted during the financial year, at the date they were granted. Fair values have been assessed by an independent expert using a Monte Carlo simulation. Factors taken into account by this model include the exercise price, the term of the option/SAR, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option/SAR (refer below). The value attributable to options/SARs is allocated to particular periods in accordance with AASB 2 'Share-based Payment' and also with the guidelines issued by the Australian Securities and Investments Commission ('ASIC') which require the value of an option/SAR at grant date to be allocated equally over the period from the grant date to the vesting date, unless it is probable that the individual will cease service at an earlier date, in which case the value is to be spread over the period from grant date to that earlier date. For options/SARs that vest immediately at grant date, the value is disclosed as remuneration immediately.

The model inputs for each grant of options/SARs during the financial year ended 30 June 2016 included:

Grant date	1 July 2015
Expiry date	1 July 2020
Exercise price	N/A[1]
10 Day VWAP of Horizon Shares at grant date	A$0.0865
Expected price volatility	57.10% p.a.
Risk free rate	2.32% p.a.
Expected dividend yield	0.00% p.a.

1. No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.

Shares issued on the exercise of options/share appreciation rights provided as remuneration

No share appreciation rights or remuneration options were exercised by directors or key management personnel during the financial year.

Further information on options is set out in Note 33.

Details of remuneration – options/SARs

For each grant of options/SARs in the current or prior financial years which results in an amount being disclosed in the remuneration report as a share-based payment to directors and other key management personnel for the financial year, the percentage of the grant that vested in the financial year and the percentage that was forfeited because the person did not meet the service and/or performance criteria is set out below. The options vest over a three year period provided the vesting conditions are met. The SARs vest after three years have lapsed provided the vesting conditions are met. No options/SARs will vest if the conditions are not satisfied, therefore the minimum value of the options/SARs yet to vest is US$Nil. The maximum value of the options/SARs yet to vest has been determined as the amount of the grant date fair value of the options/SARs that is yet to be expensed.

Options/SARs					
Name	Financial year granted	Vested %	Forfeited %	Financial years in which options/SARs may vest	Maximum total value of grant yet to vest[1] US$
B Emmett	2012	-	-	30/06/2015	-
	2013	-	-	30/06/2016	-
	2014	-	-	30/06/2017	17,381
	2015	-	-	30/06/2018	134,877
	2016	-	-	30/06/2019	227,624
M Sheridan	2012	-	-	30/06/2015	-
	2013	-	-	30/06/2016	-
	2014	-	-	30/06/2017	12,746
	2015	-	-	30/06/2018	98,910
	2016	-	-	30/06/2019	166,924
A Fernie	2012	-	-	30/06/2015	-
	2013	-	-	30/06/2016	-
	2014	-	-	30/06/2017	12,746
	2015	-	-	30/06/2018	98,910
	2016	-	-	30/06/2019	166,924

1. The above values have been converted to dollars at the exchange rate prevailing on the date of the grant of the options/SARs.

Equity Interests held by Key Management Personnel

Key management personnel shareholdings in the Company

The numbers of shares in the Company held during the financial year by each director of Horizon Oil Limited and other key management personnel of the Group, including their personally-related entities, are set out below:

2016 Name	Balance at start of financial year	Received during financial year on the exercise of options	Other changes during financial year	Balance at end of financial year
Directors: Ordinary shares				
E F Ainsworth	4,010,375	-	-	4,010,375[1]
J Humphrey	5,112,034	-	-	5,112,034
B D Emmett	18,902,607	-	-	18,902,607
G de Nys	912,858	-	-	912,858
A Stock	160,000	-	-	160,000
S Birkensleigh	-	-	-	-
Other key management personnel of the Group: Ordinary shares and partly paid ordinary shares				
A Fernie	2,700,000	-	-	2,700,000
M Sheridan	7,968,201	-	-	7,968,201

1. E F Ainsworth was a director and chairman of the Group from the beginning of the year until his retirement and resignation from the board at the Group's 2015 AGM on 20 November 2015. Accordingly, this balance represents his shareholding at the date of his retirement from the board.

Key management personnel option holdings in the Company

The numbers of options (both listed and unlisted) in the Company held during the financial year by each director of Horizon Oil Limited and other key management personnel of the Group, including their personally-related entities, are set out below:

No listed or unlisted options were on issue during the current or prior financial year.

All vested options are exercisable at the end of the financial year.

Details of options provided as remuneration and ordinary shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the Remuneration Report on pages 40 to 42.

Key management personnel share appreciation right holdings in the Company

The numbers of share appreciation rights ('SARs') held during the financial year by each executive director of Horizon Oil Limited and other key management personnel of the Group, including their personally-related entities, are set out below:

Share appreciation rights:

2016 Name	Balance at start of financial year	Granted as remuneration during financial year	Exercised during financial year	Lapsed during financial year	Balance at end of financial year	Vested and exercisable at end of financial year	Unvested
Executive Directors:							
Share appreciation rights							
B D Emmett	15,682,624	10,171,063	-	(2,713,714)	23,139,973	2,626,328	20,513,645
Other key management personnel of the Group:							
Share appreciation rights							
A Fernie	11,500,596	7,458,777	-	(1,990,057)	16,969,316	1,925,974	15,043,342
M Sheridan	11,500,596	7,458,777	-	(1,990,057)	16,969,316	1,925,974	15,043,342

Details of SARs provided as remuneration and ordinary shares issued on the exercise of such SARs, together with terms and conditions of the SARs, can be found in section D of the Remuneration Report on pages 40 to 42.

Loans to Directors and Other Key Management Personnel

There were no loans to Directors or other key management personnel during the financial year.

Other Transactions with Directors and Other Key Management Personnel

There were no other transactions with Directors and other key management personnel during the financial year.

Shares under option

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

Date options granted	Number options	Issue price of ordinary shares	Expiry date
28/05/2012	1,666,667	A$0.264[1,2,3]	28/05/2017
17/09/2012	500,000	A$0.294[1,2,3]	17/09/2017
20/02/2013	350,000	A$0.434[1,2,3]	20/02/2018
16/04/2013	350,000	A$0.404[1,2,3]	16/04/2018
02/11/2015	1,500,000	A$0.200[1,2]	02/11/2020
	4,366,667		

1. Subject to restrictions on exercise.

2. General options issued.

3. The exercise price of the options outstanding at 31 July 2013 were reduced by A$0.006 following the rights issue during the prior year.

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Dividends

No dividend has been paid or declared by the Company to the shareholders since the end of the prior financial year.

Insurance of Officers

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

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

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

Non-Audit Services

The Company may decide to employ PricewaterhouseCoopers on assignments additional to its statutory audit duties where the external auditor's expertise and experience with the Company and/or the Group are important.

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

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

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the external auditor; and

- none of the services undermine the general principles relating to auditor independence as set out in Australian Professional Ethical Standards 110 Code of Ethics for Professional Accountants, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risk and rewards.

	Consolidated	
	2016 US$	2015 US$
During the financial year, the following fees were paid or payable for services provided by the external auditor of the parent entity and its related practices:		
1. PwC Australia		
Audit and other assurance services		
Audit and review of financial reports	144,082	154,228
Other assurance services	15,114	156,589
Other services	-	2,419
Total remuneration for audit and other assurance services	159,196	313,236
Taxation services		
Tax compliance[1]	24,555	111,717
Total remuneration for taxation services	24,555	111,717
2. Non-PwC audit firms		
Audit and other assurance services	11,187	18,833
Other services	-	-
Total remuneration for audit and other assurance services	11,187	18,833
Total auditors' remuneration	194,938	443,786

1. Remuneration for taxation services has been recorded on a gross basis, some of these fees were for services provided to PNG operated joint ventures.

External Auditor's Independence Declaration

A copy of the external auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 45.

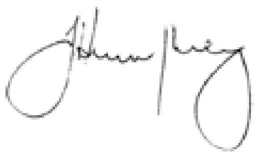
Rounding of amounts to the nearest thousand dollars

The amounts contained in this report, and in the financial report, have been rounded under the option available to the Group under ASIC Corporations *(Rounding in Financial/Directors' Reports)* Instrument 2016/191. The Group is an entity of the kind to which the Class Order applies, and accordingly amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars or, in certain cases, to the nearest dollar.

External Auditor

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

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



J S Humphrey
Chairman

B D Emmett
Chief Executive Officer

Sydney
30 August 2016

Auditor's Independence Declaration

As lead auditor for the audit of Horizon Oil Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

2. no contraventions of any applicable code of professional conduct in relation to the audit.

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

PricewaterhouseCoopers

Sydney
30 August 2016

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
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Sustainability Report

Introduction

Horizon Oil is committed to the sustainable development of its operations. This Sustainable Development Report focuses on assets for which Horizon Oil was the designated operator. Where Horizon Oil is a non-operating joint venture partner it is assumed that sustainable development reporting is undertaken on behalf of the joint venture by the designated operator. Horizon Oil is committed to the audit and assessment of joint venture partners operating on its behalf to ensure that activities are conducted in a manner consistent with our expectations around the sustainable development of our assets. This report is for the financial year ending 30 June 2016.

Horizon Oil's philosophy towards sustainable development remains based upon the foundations of its corporate policy. This includes the following four areas that Horizon Oil regards as the pillars of its sustainable development strategy:

- Health and Safety;
- Security;
- Environment; and
- Community.

Each pillar is discussed in greater detail within this Sustainable Development Report.

Health and Safety

Horizon Oil is committed to maintaining a safe and healthy working environment for all its personnel including sub-contractors, attending vendors and visitors.

Horizon Oil targets an injury rate that outperforms the average within the overall industry as reported in the Safety Performance Indicator Series published annually by the International Association of Oil & Gas Producers. This year, Horizon Oil outperformed this target. There were no fatalities, and Horizon Oil achieved a Total Recordable Injury Frequency Rate (TRIFR) and a Lost Time Injury Frequency Rate (LTIFR) of 0.0.

In August of 2015, Horizon Oil celebrated 12 months free of recordable injuries. The current injury-free performance period represents the longest period recordable injury free of any time in Horizon Oil's operational history.

Year	FY14	FY15	FY16
LTIFR	2.8	0.0	0.0
TRIFR	7.0	0.9	0.0
No. of Recordable Injuries	5	1	0

Table 1 – Total Recordable Injury Frequency Rate (TRIFR) for Horizon Oil

This year there was a significant reduction in the nature and scale of in-field activities conducted by the Company. Total exposure hours during the year were < 20% of those experienced at any other reporting period.

Health Programs

Horizon Oil is committed to the health and welfare of its workforce. During the year, Horizon Oil implemented a periodic health assessment program for its employees in Papua New Guinea. This included a targeted vaccination program for employees locally sourced, working and living in high-risk environments. Employee health is tracked via periodic medical examination and supported by the provision of a full range of vaccinations to combat key identified health risks. This includes preventative vaccination against common disease such as cholera, typhoid, Japanese encephalitis, polio, tetanus, influenza and hepatitis.

Horizon Oil continued to contribute to the development of capability within community health systems by conducting a review of the capabilities and resources available to local health and medical facilities. Based on this review, Horizon Oil successfully partnered equipment, capability and demand to help provide effective contribution to community health within the Company's operational areas.

During the year, Horizon Oil's Kiunga based personnel conducted first aid training as part of the ongoing HSSE skills development program. The training was designed to provide first response capability in remote locations and when limited medical response capability is available. As the majority of the Company's employees in Papua New Guinea are locally-sourced and residentially-based, these skills were transferred directly back into the communities.

Figure 1: Horizon Oil employees practise their CPR

Figure 3: The team presents medical equipment to Kiunga hospital personnel

Security

Horizon Oil maintains a Security Policy which sets out standards for the protection of its personnel, assets and the public. Horizon Oil conducts its operations in a manner consistent with the *Voluntary Principles on Security and Human Rights*. During the year, no breaches of the Principles were reported.

Recent episodes of unrest in Port Moresby have been cause for some concern. The Company is committed to ensuring that its personnel are safe and protected from such events. Accordingly, the Company maintains travel management, vehicle and personal security systems to safeguard the security of its personnel. Horizon Oil's personnel have not been impacted directly by the unrest, however, Horizon Oil continues to monitor the situation through both official sources and its extensive network of informal contacts within the country. The Company remains committed to responding proactively to developing circumstances that may impact the personal security of its personnel.

Environment

Horizon Oil achieved a key milestone by receiving formal approval of the Elevala Development Project environment impact statement from the Conservation and Environment Protection Authority and was issued an environment permit setting out the conditions and controls required for the proposed activities. The Company complied with all of its environmental permit conditions for the year.

Figure 2: Taking a break during a sampling run

Figure 4: Taking measurements of riverbank erosion

The 2015/16 El Nino event

El Nino is a natural, periodic and recurring event. This year Papua New Guinea experienced one of the strongest El Nino events in recent history. The impact of El Nino in Papua New Guinea was primarily through a severe restriction to rainfall (>40% reduction) throughout the region. The resultant reduction in water levels along the Fly River rendered it unnavigable to anything other than small watercraft for long periods during the event. The supply of critical materials such as food and fuel was seriously disrupted for a number of months with the Ok Tedi mining operations taking the step to cease operations until weather conditions had recovered to a level that allowed reliable access to shipping along the Fly River.

Restrictions to supply had a significant impact on availability and cost of basic living materials within the community. Horizon Oil took the initiative to reduce its presence to business-critical and residential personnel thereby avoiding exacerbation of existing supply shortfalls.

During El Nino field-based personnel continued to undertake monitoring of the environmental impacts of the event. This included water quality, flows and availability. It also included assessment of the impacts on local environmental systems of flora and fauna. A study of produce available revealed a reduction in the availability of fruit and vegetables, however protein produce increased as the community took advantage of the concentrated fish stocks that resulted from the low water levels.

Studies conducted by Horizon Oil during the recent El Nino event provide invaluable insights that allow Horizon Oil to frame its response and planned activities should a similar event occur in the future.

Community

Horizon Oil seeks to conduct its operations in a manner that is transparent, respectful of the rights of all stakeholders and promotes sustainable social and economic development within the Company's project area communities. Horizon Oil recognises that strong relationships with host communities are essential in maintaining both a sustainable business and its social licence to operate.

This year saw a significant reduction in the nature and the scale of in-field activities conducted by the Company. Nonetheless, engagement with project area communities remained ongoing, with face to face contact - essential for building positive relationships - being a core aspect of that engagement. During the year, Horizon Oil continued its program of regular 'village patrols' supplemented by the publication of its monthly newsletter, 'Komuniti Nius', in order to disseminate information about current and planned activities. Many of Horizon Oil's project area communities are located in remote, difficult to reach areas where access to postal services or telecommunications is extremely limited or non-existent. The village patrols, which involve Company personnel travelling to remote communities (often staying overnight) to conduct face to face information sessions, provide community members with an important opportunity to ask questions, share their views or offer insights into Horizon Oil's activities.

Horizon Oil continues to support a number of social investment programs in Papua New Guinea. In particular, substantial financial and in-kind support is provided to two non-government organisations active in the Western Province, namely Australian Doctors International (ADI) and Mercy Works. Both organisations are focused on improving healthcare services in the North Fly region of the Western Province, where they seek to build partnerships with local communities to enhance capacity and self reliance in areas where access to basic health care is limited or non-existent. With Horizon Oil's support, this year saw the re-establishment of ADI's remote area medical patrols in the Western Province for the first time in 6 years. In the course of these medical patrols, a single ADI Doctor treated 499 patients and delivered 35 hours of in-service training to rural community health workers. Also, during the year, a series of small scale community investment projects were being developed for implementation in partnership with project area communities. These projects are on track to be rolled out in 2017.

The 2015/2016 El Nino event and associated severe dry weather conditions had a significant impact on communities in and around Horizon Oil's project area. Supplies of food and water were greatly restricted and many community members were obliged to leave their usual village houses for remote bush camps in search of reliable sources of food and water. Disaster relief in the form of staple foodstuffs (e.g. rice) was ultimately made available by the Fly River Provincial Government. In addition to its social investment programs and consistent with its desire to be a good corporate citizen, Horizon Oil, along with other businesses active in the region, assisted the Fly River Provincial Government with in-kind assistance to transport and distribute these much needed relief supplies to various communities in the North Fly region of Western Province.

Figure 5: Dr Anna Morris of ADI examining a patient at Gasuke village, Western Province, PNG

Figure 6: Horizon Oil Community Affairs officer conducting a community information session at Gusiore Village, Western Province, PNG

Conclusion

Horizon Oil is committed to the sustainable development of its operations within the communities and environments that host its activities. The Company regards this commitment as an integral component of an ongoing, long-term engagement with its host communities.

Horizon Oil builds its activities on a framework established by corporate policy and assesses its performance against both internal and industry standards.

The 2016 Annual Report marks the third submission of Horizon Oil's Sustainability Report as an ongoing component of its corporate reporting. The Company remains open to feedback from its stakeholders regarding the content and structure of sustainable development reporting.

Report on the financial report
We have audited the accompanying financial report of Horizon Oil Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Horizon Oil Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report
The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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Auditor's opinion
In our opinion:

(a) the financial report of Horizon Oil Limited is in accordance with the Corporations Act 2001,including:

1. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
2. complying with Australian Accounting Standards and the Corporations Regulations 2001. (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuation as a Going Concern
Without modifying our audit report, we draw attention to Note 1 b) in the financial report, which indicates that the consolidated entity incurred a net loss after tax of US $144,525,000 during the year ended 30 June 2016, has a net current asset deficiency of US $60,413,000 at that date and comments on the consolidated entity's plans to address the net current asset deficiency. These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report
We have audited the remuneration report included in pages 34 to 43 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion
In our opinion, the remuneration report of Horizon Oil Limited for the year ended 30 June 2016 complies with section 300A of the Corporations Act 2001.

PricewaterhouseCoopers

Peter Buchholz
Partner

Sydney
30 August 2016

Directors' Declaration

In the directors' opinion:

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

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

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and

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

Note 1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295A of the Corporations Act 2001.

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

J S Humphrey
Chairman

B D Emmett
Chief Executive Officer

Sydney
30 August 2016

Consolidated statement of profit or loss and other comprehensive income

	Note	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Revenue from continuing operations	5	75,952	103,950
Cost of sales	6	(60,179)	(59,970)
Gross profit		15,773	43,980
Other income	5	3,638	6,842
General and administrative expenses	6	(8,094)	(7,569)
Exploration and development expenses	6	(1,852)	(16,222)
Impairment of non-current assets	6, 29	(147,515)	-
Financing costs	6	(17,264)	(17,360)
Unrealised movement in value of convertible bond conversion rights	5	5,322	9,063
Gain on buyback of convertible bonds during the period	5	1,193	-
Other expenses	6	(927)	(983)
(Loss)/profit before income tax expense		(149,726)	17,751
NZ royalty tax expense	7a	(988)	(4,299)
Income tax benefit/(expense)	7b	6,189	4,855
(Loss)/profit for the financial year		(144,525)	18,307
Other comprehensive income			
Items that may be reclassified to profit or loss Changes in the fair value of cash flow hedges	25a	(8,237)	14,394
Total comprehensive (loss)/income for the financial year		(152,762)	32,701
(Loss)/profit attributable to:			
Security holders of Horizon Oil Limited		(144,471)	18,333
Non-controlling interests		(54)	(26)
(Loss)/profit for the period		(144,525)	18,307
Total comprehensive (loss)/income attributable to:			
Security holders of Horizon Oil Limited		(152,708)	32,727
Non-controlling interests		(54)	(26)
Total comprehensive (loss)/income for the period		(152,762)	32,701
Earnings per share for (loss)/profit attributable to ordinary equity holders of Horizon Oil Limited:		US cents	US cents
Basic earnings per ordinary share	41a	(11.08)	1.41
Diluted earnings per ordinary share	41b	(11.08)	1.41

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 30 June 2016

	Note	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Current assets			
Cash and cash equivalents	8	16,079	61,343
Receivables	9	9,932	14,580
Inventories	10	1,792	4,907
Derivative financial instruments	19	-	11,399
Current tax receivable	11	650	2,091
Other assets	12	1,655	1,435
Total current assets		30,108	95,755
Non-current assets			
Deferred tax assets	13	6,453	11,165
Plant and equipment	14	1,886	5,065
Exploration phase expenditure	15	53,613	96,959
Oil and gas assets	16	194,612	314,395
Total non-current assets		256,564	427,584
Total assets		286,672	523,339
Current liabilities			
Payables	17	12,501	16,781
Deferred income	18	-	2,212
Current tax payable		125	271
Borrowings	20	76,937	97,104
Other financial liabilities	21	530	7,961
Provisions	23	428	3,181
Total current liabilities		90,521	127,510
Non-current liabilities			
Payables		22	15
Deferred tax liabilities	22	15,924	29,408
Borrowings	20	67,428	97,286
Provisions	23	8,243	12,803
Total non-current liabilities		91,617	139,512
Total liabilities		182,138	267,022
Net assets		104,534	256,317
Equity			
Contributed equity	24	174,801	174,801
Reserves	25a	12,030	19,288
Retained profits	25b	(82,217)	62,254
Total equity attributable to equity holders of the Company		104,614	256,343
Non-controlling interest		(80)	(26)
Total equity		104,534	256,317

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

Consolidated	Note	Attributable to members of Horizon Oil Limited					
		Contributed equity US$'000	Reserves US$'000	Retained profits US$'000	Total US$'000	Non-controlling interest US$'000	Total Equity US$'000
Balance as at 1 July 2014		174,801	3,844	43,921	222,566	-	222,566
Profit for financial year	25(b)	-	-	18,333	18,333	(26)	18,307
Changes in the fair value of cash flow hedges	25(a)	-	14,394	-	14,394	-	14,394
Total comprehensive income for the financial year		-	14,394	18,333	32,727	(26)	32,701
Transactions with owners in their capacity as equity holders:							
Ordinary shares issued, net of transaction costs	24(b)	-	-	-	-	-	-
Employee share-based payments expense	25(a)	-	1,050	-	1,050	-	1,050
		-	1,050	-	1,050	-	1,050
Balance as at 30 June 2015		174,801	19,288	62,254	256,343	(26)	256,317
Balance as at 1 July 2015		174,801	19,288	62,254	256,343	(26)	256,317
Profit/(loss) for the financial year	25(b)	-	-	(144,471)	(144,471)	(54)	(144,525)
Changes in the fair value of cash flow hedges	25(a)	-	(8,237)	-	(8,237)	-	(8,237)
Total comprehensive income for the financial year		174,801	11,051	(82,217)	103,635	(80)	103,555
Transactions with owners in their capacity as equity holders:							
Ordinary shares issued, net of transaction costs	24(b)	-	-	-	-	-	-
Employee share-based payments expense	25(a)	-	979	-	979	-	979
		-	979	-	979	-	979
Balance as at 30 June 2016		174,801	12,030	(82,217)	104,614	(80)	104,534

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the financial year ended 30 June 2016

	Note	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Cash flows from operating activities			
Receipts from customers		76,254	104,088
Payments to suppliers and employees		(23,180)	(33,718)
		53,074	70,370
Interest received		25	146
Interest paid		(9,806)	(8,722)
Income taxes refunded/(paid)		910	(2,951)
Net cash inflow from operating activities	40	44,203	58,843
Cash flows from investing activities			
Payments for exploration phase expenditure		(8,627)	(36,934)
Payments for oil and gas assets		(17,487)	(45,847)
Payments for China restoration costs		(3,774)	(12,310)
Payments for plant and equipment		(220)	(191)
Net cash (outflow) from investing activities		(30,108)	(95,282)
Cash flows from financing activities			
Proceeds from borrowings (net of transaction costs)		-	8,076
Repayment of borrowings		(58,303)	(9,165)
Net cash (outflow) from financing activities		(58,303)	(1,089)
Net (decrease)/increase in cash and cash equivalents		(44,208)	(37,528)
Cash and cash equivalents at the beginning of the financial year		61,343	98,911
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		(1,056)	(40)
Cash and cash equivalents at the end of the financial year		16,079	61,343

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Note 1. Summary of Significant Accounting Policies

A summary of the significant accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied, unless otherwise stated. The financial statements are for the consolidated entity consisting of Horizon Oil Limited and its subsidiaries (the 'Group'). For the purposes of preparing the financial statements, the consolidated entity is a for profit entity.
The nature of the operations and principal activities for the Group are described in the Directors' Report.

a) Statement of compliance

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'), Urgent Issues Group Interpretations and the *Corporations Act 2001*.

The consolidated financial statements comply with Australian Accounting Standards as issued by the AASB and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

b) Basis of preparation

These financial statements are presented in United States dollars and have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss, or other comprehensive income where hedge accounting is adopted.

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

The general purpose financial statements for the year ended 30 June 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. As at 30 June 2016, the Group had cash reserves of US$16,079,000 and a net current asset deficiency of US$60,413,000 resulting from the classification as current liabilities of borrowings associated with the remaining US$58,800,000, 5.5% convertible bonds which are due for redemption on 19 September 2016, combined with presently scheduled amortisation over the next 12 months of the Group's Revolving Cash Advance Facility (refer to Note 20). The Group has recorded a cash inflow from operating activities of US$44,203,000 and a net loss after tax for the period of US$144,525,000 (including a non-cash impairment loss of US$147,515,000).

Funding for redemption of the bonds, scheduled principal repayments under the Group's Revolving Cash Advance Facility and the Group's strategic growth plans, is to be obtained from a variety of sources. Surplus revenues from the Group's operations in China and New Zealand, combined with existing cash balances and debt drawn from the Group's US$120 million revolving cash advance facility provide core funding. In addition, the Group has executed a loan agreement with IMC Investments Limited for the provision of a subordinated secured non-amortising debt facility of US$50 million. Under the provisions of the subordinated loan agreement, the Company is to issue to IMC 300 million warrants over unissued shares of the Company, which will have the exercise price of A$0.061 per share. The loan and issue of the warrants to IMC are subject to Horizon Oil shareholder approval. A General Meeting of the Company will be held at 9.00am (Sydney time) on Tuesday, 6 September 2016. A copy of the Notice of Meeting and Explanatory Statement was sent to Horizon Oil shareholders during the week commencing 1 August 2016. Financial close and drawdown of the facility are subject to shareholder approval of the IMC financing proposal and other customary conditions for a subordinated loan of this nature.

Taking into account:

- the Group's cash balance of US$16.1 million at 30 June 2016;
- forecast surplus revenue from the Group's operations in New Zealand and China;
- materially reduced budgeted/forecast capital expenditure profile over the coming 12 months;
- the provision by IMC Investments Limited of a subordinated secured non-amortising debt facility of US$50 million; and
- hedged production of 270,300 barrels over the following 9 months at an average price of ~US$51/bbl.

The directors expect to have available the necessary cash reserves to meet redemption obligations under the Company's remaining US$58.8 million, 5.5% convertible bonds maturing on 19 September 2016, scheduled principal repayments under the Group's Revolving Cash Advance Facility and to pursue the current strategy. Accordingly, the financial report has been prepared on a going concern basis. Since the additional IMC debt funding of US$50 million that is required for full redemption of the bonds is subject to shareholder approval, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, and therefore it may be unable to realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report. In addition to the IMC financing proposal, the directors continue to consider other initiatives which would add strategic value and/or improve liquidity.

At the date of this report, the directors are of the opinion that no asset is likely to be realised for amounts less than the amount at which it is recorded in the financial report as at 30 June 2016. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

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 financial year ended 30 June 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 elected to apply the following pronouncement to the financial years beginning on or after 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.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Changes in accounting estimates

A review of the Group's accounting estimates has affected items recognised in the financial statements.

(i) Oil and gas assets – restoration provision

Legislation in China requires the provision for restoration to be paid over the remaining life of the field. Payments are to be made in accordance with a restoration plan lodged with the relevant governmental authority. During the financial year, the restoration plan was updated which changed the timing and amount of outflows used to calculate the provision for restoration.

This change in estimate resulted in a decrease of $4.0 million in the provision for restoration which was applied against the restoration asset.

c) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Horizon Oil Limited (the 'Company' or 'Parent Entity') as at 30 June 2016 and the results of all subsidiaries for the financial year then ended. Horizon Oil Limited and its subsidiaries together are referred to in these financial statements as the Group.

Subsidiaries are those entities (including special purpose entities) over which the Group has control. Control exists when the Company is exposed to, or has the rights to, variable returns from its involvement and has the ability to affect those returns through its power over that entity. There is a general presumption that a majority of voting rights results in control. The existence and effect of potential voting rights that are currently exercisable or convertible are also considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 1(n)). Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Horizon Oil Limited. These investments may have subsequently been written down to their recoverable amount determined by reference to the net assets of the subsidiaries as at 30 June each financial year where this is less than cost.

Joint operations

A joint operation is a joint arrangement whereby the participants that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognises assets, liabilities, revenues and expenses according to its share in the assets, liabilities, revenues and expenses of a joint operation or similar as determined and specified in contractual arrangements (Joint Operating Agreements). Details of major joint operation interests and the sum of the Group's interests in joint operation assets, liabilities, revenue and expenses are set out in Note 28.

Where part of a joint operation interest is farmed out in consideration of the farminee undertaking to incur further expenditure on behalf of both the farminee and the entity in the joint operation area of interest, exploration expenditure incurred and carried forward prior to farm-out continues to be carried forward without adjustment, unless the terms of the farm-out are excessive based on the diluted interest retained. An impairment provision is then made to reduce exploration expenditure to its estimated recoverable amount. Any cash received in consideration for farming out part of a joint operation interest is recognised in the profit or loss.

d) Crude oil and gas inventory and materials in inventory

Crude oil and gas inventories, produced but not sold, are valued at the lower of cost and net realisable value. Cost comprises a relevant proportion of all fixed and variable production, overhead, restoration and amortisation expenses and is determined on an average cost basis.

Stocks of materials inventory, consumable stores and spare parts are carried at the lower of cost and net realisable value, with cost primarily determined on an average cost basis.

e) Operating segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

f) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the 'functional currency'). The consolidated financial statements are presented in United States dollars, which is Horizon Oil Limited's functional and presentation currency. Horizon Oil Limited has selected US dollars as its presentation currency for the following reasons:

(a) a significant portion of Horizon Oil Limited's activity is denominated in US dollars; and

(b) it is widely understood by Australian and international investors and analysts.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year end exchange rates of monetary assets and liabilities denominated in foreign currencies are generally recognised in the profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

(iii) Group companies

All Group subsidiaries have a functional currency of United States dollars and, as a result, there is no exchange differences arising from having a different functional currency to the presentation currency of Horizon Oil Limited.

g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable to the extent it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. All revenue is stated net of the amount of GST.

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

Interest income is recognised on a time proportion basis using the effective interest method.

h) Deferred income

A liability is recorded for obligations under petroleum sales contracts where the risks and rewards of ownership have not passed to the customer and payment has already been received.

i) Taxation

(i) Income tax

The income tax expense or revenue for the reporting period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(ii) Government royalties

Government royalties are treated as taxation arrangements when they are imposed under Government authority and when the calculation of the amount payable is derived from a measure of profit that falls within the definition of 'taxable profit' for the purposes of AASB 112 Income Taxes. Current and deferred tax is then provided on the same basis as described in (i) above. Royalty arrangements that do not meet the criteria for treatment as a tax are recognised on an accruals basis.

j) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (Note 38). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease. The Company has no leases which are classified as finance leases under AASB 117 Leases at 30 June 2016.

k) Impairment of assets

Assets are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. If an impairment indicator exists a formal estimate of the recoverable amount is calculated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets ('cash-generating units').

In assessing the recoverable amount, an asset's estimated future cash flows are discounted to their present value using an after tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Exploration phase expenditure is assessed for impairment in accordance with Note 1(o).

l) Cash and cash equivalents

For presentation purposes in the statement of cash flows, cash and cash equivalents includes cash at banks and on hand (including share of joint operation cash balances), deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

m) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are generally due for settlement within 30 days from the date of recognition. They are included in current assets, except for those with maturities greater than one year after the end of the reporting period which are classified as non-current assets.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in profit or loss.

n) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred, equity interests issued by the Group, fair value of any asset or liability resulting from a contingent consideration arrangement, and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Acquisition related costs are expensed as incurred.

For purchase combinations which do not constitute the acquisition of a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed. The consideration paid is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Transaction costs associated with the acquisition are a component of the consideration transferred and are therefore capitalised.

o) Exploration phase expenditure

Exploration phase expenditure in respect of each area of interest is accounted for using the successful efforts method of accounting. The successful efforts method requires all exploration phase expenditure to be expensed in the period it is incurred, except the costs of successful wells, the costs of acquiring interests in new exploration assets and pre-development costs where there is a high degree of probability that the development will go ahead, which are capitalised. Costs directly associated with the drilling of exploration wells and any associated geophysical and geological costs are initially capitalised pending determination of whether potentially economic reserves of hydrocarbons have been discovered. Areas of interest are recognised at the cash-generating unit level, being the smallest grouping of assets generating independent cash flows which usually is represented by an individual oil or gas field.

When an oil or gas field has been approved for development, the capitalised exploration phase expenditure is reclassified as oil and gas assets in the statement of financial position. Prior to reclassification, capitalised exploration phase expenditure is assessed for impairment.

Where an ownership interest in an exploration and evaluation asset is purchased, any cash consideration paid net of transaction costs is treated as an asset acquisition. Alternatively, where an ownership interest is sold, any cash consideration received net of transaction costs is treated as a recoupment of costs previously capitalised, with any excess accounted for as a gain on disposal of non-current assets.

Impairment of capitalised exploration phase expenditure

Exploration phase expenditure is reviewed for impairment semi-annually in accordance with the requirements of AASB 6 'Exploration for and Evaluation of Mineral Resources'. The carrying value of capitalised exploration phase expenditure is assessed for impairment at the asset or cash-generating unit level (which usually is represented by an exploration permit or licence) whenever facts and circumstances (as defined in AASB 6) suggest that the carrying amount of the asset may exceed its recoverable amount. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written-down to its recoverable amount. Impairment losses are recognised as an expense in profit or loss.

Capitalised exploration phase expenditure that suffered impairment is tested for possible reversal of the impairment loss whenever facts or changes in circumstances indicate that the impairment may have reversed.

p) Oil and gas assets

(i) Development expenditure

Development expenditure is stated at cost less any accumulated impairment losses. Development expenditure incurred by or on behalf of the Group is accumulated separately for fields in which proven and probable hydrocarbon reserves have been identified to the satisfaction of directors. Such expenditure comprises direct costs and overhead expenditure incurred which can be directly attributable to the development phase or is acquired through the acquisition of a permit.

Once a development decision has been taken on an oil or gas field, the carrying amount of the relevant exploration and evaluation expenditure in respect of the relevant area of interest is aggregated with the relevant development expenditure.

Development expenditure is reclassified as 'production assets' at the end of the commissioning phase, when the oil or gas field is capable of operating in the manner intended by management (that is, when commercial levels of production are capable of being achieved).

Development expenditure is tested for impairment in accordance with the accounting policy set out in Note 1(k).

(ii) Production assets

When further development costs are incurred in respect of a production asset after the commencement of production, such expenditure is carried forward as part of the production asset when it is probable that additional future economic benefits associated with the expenditure will flow to the Group. Otherwise such expenditure is classified as production expense in income statements when incurred.

Production assets are stated at cost less accumulated amortisation and any accumulated impairment losses.

Once commercial levels of production commence, amortisation is charged using the unit-of-production method. The unit-of-production method results in an amortisation expense proportional to the depletion of proven and probable hydrocarbon reserves for the field. Production assets are amortised by area of interest in the proportion of actual production for the financial period to the proven and probable hydrocarbon reserves of the field. The proven and probable hydrocarbon reserves figure is that estimated at the end of the financial period plus production during the financial period.

The cost element of the unit-of-production calculation is the capitalised costs incurred to date for the field together with the estimated/anticipated future development costs (stated at current financial period-end unescalated prices) of obtaining access to all the proven and probable hydrocarbon reserves included in the unit-of-production calculation.

Production assets are tested for impairment in accordance with the accounting policy set out in Note 1(k).

(iii) Restoration provision

The estimated costs of decommissioning and removing an asset and restoring the site are included in the cost of the asset as at the date the obligation first arises and to the extent that it is first recognised as a provision. This restoration asset is subsequently amortised on a unit-of-production basis.

The corresponding provision, of an amount equivalent to the restoration asset created, is reviewed at the end of each reporting period. The provision is measured at the best estimate of the present value amount required to settle the present obligation at the end of the reporting period based on current legal and other requirements and technology, discounted where material using market yields at the balance sheet date on US Treasury bonds with terms to maturity and currencies that match, as closely as possible, to the estimated future cash outflows.

Where there is a change in the expected restoration, rehabilitation or decommissioning costs, an adjustment is recorded against the carrying value of the provision and any related restoration asset, and the effects are recognised in profit or loss on a prospective basis over the remaining life of the operation.

The unwinding of the effect of discounting on the restoration provision is included within finance costs in profit or loss.

Legislation in China requires the provision for restoration to be paid over the life of the field. As such, payments relating to restoration provisions of US$0.4 million are recognised as current, being due within 12 months.

(iv) Reserves

The estimated reserves include those determined on an annual basis by Mr Alan Fernie, General Manager – Exploration and Development, Horizon Oil Limited. Mr Fernie has forty years' relevant experience within the sector. The reserve estimates are determined by Mr Fernie based on assumptions, interpretations, and assessments. These include assumptions regarding commodity prices, foreign exchange rates, operating costs and capital expenditures, and interpretations of geological and geophysical models to make assessments of the quantity of hydrocarbons and anticipated recoveries.

q) Investments and other financial assets

Subsidiaries are accounted for in the consolidated financial statements as set out in Note 1(c).

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position.

r) Plant and equipment

The cost of improvements to, or on, leasehold property is depreciated over the unexpired period of the lease or the estimated useful life of the improvement to the Group, whichever is shorter.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Computer equipment 3 – 4 years
- Furniture, fittings and equipment 3 – 10 years
- Leasehold improvement 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

s) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Due to their short-term nature they are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition. They are included in current liabilities, except for those with maturities greater than one year after the end of the reporting period which are classified as non-current liabilities.

t) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges). The Group currently does not have any derivatives designated as fair value hedges.

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 19. Movements in the hedging reserve in equity are shown in Note 25(a).

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense.

Amounts accumulated in equity are recycled to profit or loss in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within "finance costs". The gain or loss relating to the effective portion of forward foreign exchange contracts and commodity price contracts hedging export sales is recognised in profit or loss within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss.

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other income or other expense.

u) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities which are not an incremental cost relating to the actual drawdown of the facility, are recognised as prepayments and amortised on a straight line basis over the term of the facility.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion right. This is recognised and included in shareholders' equity when the conversion right meets the equity definition at inception. Where the conversion right does not meet the definition of equity, as for convertible bonds which include a cash settlement option or conversion price resets, the conversion right is fair valued at inception and recorded as a financial liability. The financial liability for the conversion right is subsequently remeasured at balance date to fair value with gains and losses recorded in the profit or loss.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

v) Borrowing costs

Borrowing costs which includes the costs of arranging and obtaining financing, incurred for the acquisition or construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed when incurred.

There were no borrowing costs capitalised during the current financial year (2015: US$2,983,000) and the amount of borrowing costs amortised to the income statement were US$1,817,000 (2015: US$1,924,000).

w) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and related on-costs expected to be settled within 12 months of the end of the reporting period are recognised in other payables in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are recognised in other creditors.

(ii) Long service leave

The liability for long service leave is recognised as a provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share-based payments

Share-based payment compensation benefits are provided to employees and consultants via the Horizon Oil Long Term Incentive Plan, the Horizon Oil Limited Employee Option Scheme, the Employee Performance Incentive Plan and the General Option Plan. Information relating to these schemes is set out in Note 33.

The fair value of options and share appreciation rights ('SARs') granted under the Horizon Oil Long Term Incentive Plan, Horizon Oil Limited Employee Option Scheme and Employee Performance Incentive Plan are recognised as an employee share-based payments expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options and SARs granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions. Non-market performance vesting conditions are included in assumptions about the number of options and SARs that are expected to vest.

The fair value is measured at grant date. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options and SARs that are expected to vest based on the non-market performance vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The fair value at grant date is independently determined using either a Black-Scholes or Monte Carlo simulation option pricing model that takes into account the exercise price, the term of the option or SAR, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option or SAR.

The Company has elected to retain any amounts originally recognised in the share-based payments reserve, regardless of whether the associated options are exercised, cancelled or lapse unexercised.

x) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options over unissued ordinary shares are shown in share capital as a deduction, net of related income tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration but are expensed.

y) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

(ii) Diluted earnings per share

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

z) Goods and Services Tax ('GST')

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

aa) Parent entity financial information

The financial information for the parent entity, Horizon Oil Limited, disclosed in Note 42 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Horizon Oil Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

bb) New Australian Accounting Standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 2014-3 *'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'*

The AASB has amended AASB 11 '*Joint Arrangements*'. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business' as defined in AASB 3 'Business Combinations'. The amendments to AASB 11 will be applied prospectively for annual periods on or after 1 January 2016. Earlier application is permitted. The Group has interests in a number of joint operations. The Group is yet to assess the full impact of the amendments given it will only apply to future potential transactions. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the financial year ending 30 June 2017.

(ii) AASB 15 *'Revenue from Contracts with Customers'*

AASB 15 '*Revenue from Contracts with Customers*' (issued during January 2015) is the new standard for revenue recognition, replacing AASB 111 '*Construction Contracts*', AASB 118 '*Revenue*' and AASB 1004 '*Contributions*'. It is applicable for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is yet to assess AASB 15's full impact. The new standard's core principle is that an entity recognises revenue in accordance with the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the financial year ending 30 June 2018.

There are no other Australian Accounting Standards that are not yet effective and that are expected to have a material impact on the Group in the current or future financial years and on foreseeable future transactions.

(iii) AASB 16 *'Leases'*

AASB 16 '*Leases*' (issued during January 2016) is the new standard for lease accounting which eliminates the classification of leases as either 'operating' or 'finance' and requires a lessee to recognise on statements of financial positions assets and liabilities for leases with terms of more than 12 months unless the underlying asset is of low value. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the financial year ending 30 June 2019.

Note 2. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as oil price swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and commodity price risks, and aging analysis for credit risk.

Risk management is carried out by the finance function under policies approved by the Board of Directors. The finance function identifies, evaluates and if necessary hedges financial risks in close co-operation with Group management. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investment of excess liquidity.

The Group has no off-balance sheet financial assets or liabilities as at the end of the reporting period.

The Group holds the following financial instruments:

	Consolidated	
	30 June 2016 US$'000	30 June 2015 US$'000
Financial Assets		
Cash and cash equivalents	16,079	61,343
Receivables	9,932	14,580
Derivative financial instruments	-	11,399
Current tax receivable	650	2,091
	26,661	89,413
Financial Liabilities		
Payables (current)	12,501	16,781
Current tax payable	125	271
Payables (non-current)	22	15
Borrowings (net of borrowing costs capitalised)	144,365	194,390
Other financial liabilities	530	7,961
	157,543	219,418

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in a currency that is not the Group's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising predominately from Australian and New Zealand dollars, Chinese renminbi, Papua New Guinea kina and Singapore dollar.

The Group manages foreign exchange risk by monitoring forecast cash flows in currencies other than US dollars and ensuring that adequate Australian dollar, New Zealand dollar, Chinese renminbi, Papua New Guinea kina and Singapore dollar cash balances are maintained.

The objective of the Group's foreign exchange risk management policy is to ensure its financial viability despite potential periods of unfavourable exchange rates. Regular sensitivity analysis is conducted to evaluate the potential impact of unfavourable exchange rates on the Group's future financial position. The results of this evaluation are used to determine the most appropriate risk mitigation tool to be used. The Group will hedge when it is deemed the most appropriate risk mitigation tool to be used.

No foreign currency hedging transactions were entered into during the current or prior financial year.

Exposure to foreign exchange risk

The Group's exposure to foreign exchange risk at the end of each reporting period was as follows:

Group	30 June 2016					30 June 2015				
	AUD	NZD	PGK	RMB	SGD	AUD	NZD	PGK	RMB	SGD
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Cash and cash equivalents	358	380	37	3	16	4,401	2,600	1,009	80	-
Receivables	145	203	27	-	-	676	343	428	-	-
Current tax payable	-	125	-	-	-	-	271	-	-	-
Current payables	1,764	923	169	-	-	1,315	176	222	-	-
Non-current payables	22	-	-	-	-	15	-	-	-	-

For the financial year ended and as at 30 June 2016, if the currencies set out in the table below strengthened or weakened against the US dollar by the percentage shown, with all other variables held constant, the net result for the financial year would increase/(decrease) and net assets would increase/ (decrease) by:

Group	Net Result		Net Assets		Net Result		Net Assets	
	2016	2015	2016	2015	2016	2015	2016	2015
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Change in currency[1]	+10%	+10%	+10%	+10%	-10%	-10%	-10%	-10%
Australian dollar impact	(763)	(1,093)	(92)	270	763	1,093	92	(270)
New Zealand dollar impact	(966)	14	(33)	180	966	(14)	33	(180)
Papua New Guinea kina impact	(56)	69	(8)	88	56	(69)	8	(88)
Chinese Renminbi impact	(71)	(1)	-	6	71	1	-	(6)
Singapore dollar impact	-	-	-	-	-	-	-	-

1. This has been based on the change in the exchange rate against the US dollar in the financial years ended 30 June 2016 and 30 June 2015. The sensitivity analysis has been based on the sensitivity rates when reporting foreign exchange risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates based on historic volatility. In management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the end of the reporting period exposure does not necessarily reflect the exposure during the course of the financial year.

(ii) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market commodity prices for crude oil.

The objective of the Group's commodity price risk management policy is to ensure its financial viability despite potential periods of unfavourable prices. Regular sensitivity analysis is conducted to evaluate the potential impact of unfavourable prices on the Group's future financial position. The results of this evaluation are used to determine the most appropriate risk mitigation tool to be used. The Group will hedge when it is deemed the most appropriate risk mitigation tool to be used or where required by its financing arrangements. During the current financial year, oil price hedging was undertaken as a risk mitigation measure to ensure the Group's financial position remains sound and that the Group is able to meet its financial obligations in the event of low oil prices.

As at 30 June 2016, the Group had no derivative assets or liabilities (30 June 2015: US$11,399,000 derivative asset) as there were no bbls hedged at this date (30 June 2015: 397,500 bbls).

For the financial year ended and as at 30 June 2016, if the crude oil price rose or fell by the percentage shown, with all other variables held constant, the result for the financial year would increase/(decrease) and net assets would increase/(decrease) by:

Group	Net Result		Net Assets		Net Result		Net Assets	
	2016	2015	2016	2015	2016	2015	2016	2015
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Change in crude oil price	+10%	+10%	+10%	+10%	-10%	-10%	-10%	-10%
Impact	2,312	1,268	2,312	1,268	(2,312)	(1,268)	(2,312)	(1,268)

(iii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group has no interest-bearing assets considered to materially expose the Group's core income and/or operating cash flows to changes in market interest rates.

As at 30 June 2016 and 30 June 2015, the Group's interest rate risk arises from long term borrowings, issued at variable rates, exposing the Group to cash flow interest rate risk. Group policy is to manage material interest rate exposure. Regular sensitivity analysis is conducted to evaluate the potential impact of unfavourable interest rate movements on the Group's future financial position. The results of this evaluation are used to determine the most appropriate risk mitigation tool to be used. During the current and prior financial year, the Group did not enter into any interest rate swap contracts.

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specific intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

The Group's exposure to interest rate risk for financial instruments is set out below:

	Floating interest rate	Fixed interest rate maturing in:			Non-interest bearing	Carrying amount
		1 year or less	Over 1 to 2 years	Over 2 to 5 years		
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As at 30 June 2016						
Financial assets						
Cash and cash equivalents	13,514	-	-	-	2,565	16,079
Receivables	-	-	-	-	9,932	9,932
Derivative financial instruments (net)	-	-	-	-	-	-
Current tax receivable	-	-	-	-	650	650
	13,514	-	-	-	13,147	26,661
Weighted average interest rate p.a.	0.10%					
Financial liabilities						
Trade and other payables	-	-	-	-	12,523	12,523
Current tax payable	-	-	-	-	125	125
Borrowings	85,565	58,800	-	-	-	144,365
	85,565	58,800	-	-	12,648	157,013
Weighted average interest rate p.a.	3.45%	10%				
Net financial assets/(liabilities)	(72,051)	(58,800)	-	-	499	(130,352)

	Floating interest rate	Fixed interest rate maturing in:			Non-interest bearing	Carrying amount
		1 year or less	Over 1 to 2 years	Over 2 to 5 years		
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
As at 30 June 2015						
Financial assets						
Cash and cash equivalents	53,953	-	-	-	7,390	61,343
Receivables	-	-	-	-	14,580	14,580
Derivative financial instruments (net)	-	-	-	-	11,399	11,399
Current tax receivable	-	-	-	-	2,091	2,091
	53,953	-	-	-	35,460	89,413
Weighted average interest rate p.a.	0.04%					
Financial liabilities						
Trade and other payables	-	-	-	-	16,796	16,796
Current tax payable	-	-	-	-	271	271
Borrowings	115,115	79,275	-	-	-	194,390
	115,115	79,275	-	-	17,067	211,457
Weighted average interest rate p.a.	3.70%	14.81%				
Net financial assets/(liabilities)	(61,162)	(79,275)	-	-	18,393	(122,044)

As at 30 June 2016, the Group had the following variable rate borrowings outstanding:

	30 June 2016		30 June 2015	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	% p.a.	US$'000	% p.a.	US$'000
Bank loans	3.45%	89,141	3.70%	120,000
Net exposure to cash flow interest rate risk		89,141		120,000

At 30 June 2016, if the interest rates had been 1.0% p.a. higher or lower and all other variables held constant, the net result for the financial year would increase/(decrease) and net assets as at 30 June 2016 would increase/(decrease) by:

Group

	Net Result		Net Assets		Net Result		Net Assets	
	2016	2015	2016	2015	2016	2015	2016	2015
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Change in interest rate p.a.	+1%	+1%	+1%	+1%	-1%	-1%	-1%	-1%
Impact of Assets	240	521	240	521	(24)	(20)	(24)	(20)
Impact of Liabilities	742	849	742	849	(742)	(849)	(742)	(849)
Impact of Net Assets	(502)	(328)	(502)	(328)	718	829	718	829

b) Credit risk

Credit risk is managed on a Group basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, derivative financial instruments, as well as credit exposures to customers, including outstanding receivables.

It is acknowledged that the Group's sales of crude oil are currently concentrated with two counterparties. However, the Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history, and that the Group has the ability to sell crude to other parties if desired.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions. Where commercially practical the Group seeks to limit the amount of credit exposure to any one financial institution.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets as summarised in this note.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	Consolidated	
	2016	2015
	US$'000	US$'000
Cash and cash equivalents		
Counterparties with external credit rating (Standard & Poors)		
AA-	13,508	56,571
	13,508	56,571
Counterparties without external credit rating		
Share of joint operations cash balances	2,508	4,368
Overseas financial institutions	63	404
Cash on hand	-	-
	2,571	4,772
Total cash and cash equivalents	16,079	61,343
Receivables		
Counterparties with external credit rating (Standard & Poors / Fitch)		
AAA	69	175
AA-	4,255	12,798
AA	213	348
A+	4,381	-
A-	309	-
	9,227	13,321
Counterparties without external credit rating		
Share of joint operation receivables balances	400	282
Joint operations partners	264	209
Related parties (partly paid ordinary shares)	-	331
Other	41	437
	705	1,259
Total receivables	9,932	14,580

As at 30 June 2016, there were US$38,750 (30 June 2015: US$291,767) financial assets that are past due. Management has assessed the collectability of these amounts based on the customer relationships and historical payment behaviour and believe that the amounts are still collectible in full.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

The Group has policies in place to manage liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching profiles of financial assets and liabilities.

Financing arrangements

The Group had access to the following undrawn borrowing facilities as at the end of each reporting period:

	Consolidated	
	2016	2015
	US$'000	US$'000
Floating rate:		
Expiring within one year	8,758	-
Expiring beyond one year	-	-

Maturities of financial liabilities

An analysis of the Group's financial liability maturities for the current and prior financial year is set out below:

As at 30 June 2016	Non-interest bearing US$'000	Variable rate US$'000	Fixed rate US$'000
Less than 6 months	12,626	6,195	60,314
6 – 12 months	-	15,822	-
Between 1 and 2 years	-	25,360	-
Between 2 and 5 years	22	44,721	-
Over 5 years	-	-	-
Total contractual cash flows	12,648	92,098	60,314

As at 30 June 2015	Non-interest bearing US$'000	Variable rate US$'000	Fixed rate US$'000
Less than 6 months	17,052	1,963	2,200
6 – 12 months	-	19,688	89,240
Between 1 and 2 years	-	29,427	-
Between 2 and 5 years	15	79,327	-
Over 5 years	-	-	-
Total contractual cash flows	17,067	130,405	91,440

d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *'Financial Instruments: Disclosures'* requires disclosure of fair value measurements 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 as at 30 June 2016 and 30 June 2015:

As at 30 June 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	-	-	-	-
Financial liabilities at fair value through profit or loss:				
Conversion rights on convertible bonds	-	-	530	530
Total liabilities	-	-	530	530

As at 30 June 2015	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Derivatives used for hedging	-	11,399	-	11,399
Total assets	-	11,399	-	11,399
Liabilities				
Derivatives used for hedging	-	-	-	-
Financial liabilities at fair value through profit or loss:				
Conversion rights on convertible bonds	-	-	7,961	7,961
Total liabilities	-	-	7,961	7,961

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 assets 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 is 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.

The fair value of conversion rights on convertible bonds 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 convertible bonds such as the inherent path dependency. 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 convertible bonds - 100,000) 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. Market interest rates were applied in the model with a credit spread of 7.0%, together with a calculated share price volatility of 51.2% when quoted in US dollar terms. All other parameters were based on the specific terms of the convertible bonds issued.

The carrying value of receivables and payables are assumed to approximate their fair values due to their short-term nature.

The fair value of other financial liabilities (being financial guarantees), after factoring in the likelihood that the parent entity would be required to perform under the guarantees, was not considered material.

The fair value of borrowings for disclosure purposes is not materially different to their carrying value given the likely anticipated repayment profile.

The fair value of other classes of financial instruments not yet covered above were determined to approximate their carrying value.

(d) Capital risk

The consolidated entity manages its capital to ensure that entities in the consolidated group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balances.

Note 3. Critical accounting estimates and judgements

Estimates and judgements which 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

The Group's policy for exploration and evaluation expenditure is discussed in Note 1(o). The application of this policy requires management to make 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. The carrying amount of exploration and evaluation assets has been disclosed in Note 15. A detailed impairment assessment of the Group's exploration and evaluation assets has been performed in Note 29.

(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. The carrying amount of the provision for restoration is disclosed in Note 23.

(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 10% and 11% to take into account risks which have not already been adjusted for in the cash flows. A detailed impairment assessment of the Group's oil and gas assets has been performed in Note 29.

(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. The number of share performance rights and options outstanding are disclosed in Note 33.

(vi) Recoverability of deferred tax assets

The recoverability of deferred tax assets is based on the probability that future taxable amounts will be available to utilise those temporary differences and losses. The Group has not recognised deferred tax assets in respect of some tax losses and temporary tax differences as the future utilisation of these losses and temporary tax differences is not considered probable at this point in time. Assessing the future utilisation of tax losses and temporary tax differences requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future utilisation of these tax losses and temporary tax differences becomes probable, this could result in significant changes to deferred tax assets recognised, which would in turn impact future financial results. During the current year, tax losses and temporary tax differences in Australia have been recognised as deferred tax assets on the basis that it is expected the operations will generate sufficient taxable profits to fully utilise those losses.

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

No critical judgements 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.

Note 4. 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 five operating segments:

- New Zealand development – the Group is currently producing crude oil from the Maari/Manaia fields, located offshore New Zealand;
- New Zealand exploration – during the year the Group was involved in the exploration and evaluation of hydrocarbons in the offshore permit area: PEP 51313;
- China exploration and development – the Group is currently involved in the developing and producing of crude oil from the Block 22/12 – WZ 6-12 and WZ 12-8W oil field development and in 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 – PRL 21, 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

2016	New Zealand 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	40,466	-	35,486	-	-	75,952
Profit (loss) before tax	(29,132)	(5,306)	(3,455)	(107,558)	(14,229)	(159,680)
Depreciation and amortisation	(13,769)	-	(22,631)	(432)	(258)	37,090
Total segment assets as 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 financial year ended:						
Exploration 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 as at 30 June 2016	47,921	56	71,258	1,011	61,892	182,138

2015	New Zealand 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	33,447	-	70,503	-	-	103,950
Profit (loss) before tax	15,993	(12)	16,129	(15,556)	(13,399)	3,155
Depreciation and amortisation	9,023	-	28,074	443	239	37,779
Total segment assets as at 30 June 2015	135,656	5,207	166,170	176,767	39,539	523,339
Additions to non-current assets other than financial assets and deferred tax during the financial year ended:						
Exploration phase expenditure:	-	92	8,179	26,116	-	34,387
Development and production phase expenditure:	21,295	-	1,116	21,025	-	43,436
Plant and equipment:	-	-	-	48	143	191
Total segment liabilities as at 30 June 2015	80,225	238	92,246	5,022	89,291	267,022

(c) Other segment information

(i) Segment revenue

The Group's revenue is derived from the sale of crude oil produced in China and New Zealand. The Group sells to external customers through back-to-back sales agreements with the respective joint venture operators.

Segment revenue reconciles to total consolidated revenue as follows:

	Consolidated	
	2016	2015
	US$'000	US$'000
Total segment revenue	75,952	103,950
Proceeds from insurance claims	3,613	6,600
Interest income	25	146
Other non-operating income	-	96
Total revenue	79,590	110,792

(ii) 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:

	Consolidated	
	2016	2015
	US$'000	US$'000
Total segment (loss)/profit before tax	(159,680)	3,155
Proceeds from insurance claims	3,613	6,600
Interest income	25	146
Other non-operating income	-	96
Unrealised movement in value of convertible bond conversion rights	5,322	9,063
Realised gain on purchase of bonds	1,193	-
Net foreign exchange (losses)	(199)	(1,309)
Profit before tax	(149,726)	17,751

(iii) Segment assets

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

Reportable segment assets are equal to consolidated total assets.

(iv) Segment liabilities

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

Reportable segment liabilities are equal to consolidated total liabilities.

Note 5. Revenue

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
From continuing operations		
Crude oil sales	56,455	83,683
Net realised gain/(loss) on oil hedging derivatives	19,497	20,267
	75,952	103,950
Other income		
Insurance claim income[1]	3,613	6,600
Other operating income	-	96
Interest received from unrelated entities	25	146
	3,638	6,842
Gains – Conversion rights on convertible bonds		
Unrealised movement in fair value of convertible bond conversion rights[2]	5,322	9,063
Gain on buyback of convertible bonds[3]	1,193	-
	6,515	9,063

1. Insurance claims of US $813,000 received for repair costs associated with FPSO mooring and loss of production claims received of US$2,800,000.
2. The amount shown is the movement during the financial year of the fair value of the conversion rights relating to the 5.5% convertible bonds issued on 17 June 2011. The conversion rights can 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 is subject to the conversion price which may reset under certain circumstances. Accordingly, the conversion rights are a derivative financial liability and are marked to market through the profit and loss. Fair value of conversion rights at issuance on 17 June 2011 was US$20,043,000. The redemption date of the bonds has been extended to 19 September 2016. Refer to Note 20 for further details of the convertible bonds issued.
3. Horizon Oil purchased in the open market, by private contract, US$21.2 million of the US$80 million 5.5% convertible bonds, and surrendered the purchased bonds for cancellation in accordance with the bond trust deed. A gain has been realised to reflect the excess of the carrying value of the straight bonds and the conversion rights over the purchase price paid. Refer to Note 20 for further details of the convertible bonds issued.

Note 6. Expenses

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Cost of sales		
Direct production costs	22,858	19,641
Inventory adjustments[1]	817	(1,181)
Amortisation expense	36,400	37,096
Royalties and other levies[2]	104	4,414
	60,179	59,970

1. Includes production overlift/underlift and inventory adjustments.
2. Includes Chinese special oil income levy.

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
General and administrative expenses		
Employee benefits expense *(net)*	4,454	3,383
Corporate office expense	1,160	685
Insurance expense	1,427	1,950
Depreciation expense	690	683
Rental expense relating to operating leases	363	868
	8,094	7,569
Exploration and development expenses		
Exploration and development expenditure written off/expensed	1,852	16,222
	1,852	16,222
Impairment of non-current assets		
Impairment of non-current assets[1]	147,515	-
	147,515	-

1. Refer to Note 29 for detailed impairment assessment of the Group's non-current assets.

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Financing costs		
Interest and finance charges	15,189	15,075
Discount unwinding on provision for restoration	258	416
Amortisation of prepaid financing costs	1,817	1,869
	17,264	17,360
Other expenses		
Net foreign exchange losses	199	1,309
Other expenses	728	(326)
	927	983

Note 7. Income tax expense

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
(a) Royalty tax expense/(benefit)		
Royalty paid/payable in New Zealand – current tax expense	1,078	1,028
Tax expense/(benefit) related to movements in deferred tax balances	(90)	3,271
Total royalty tax expense/(benefit)	988	4,299
(b) Income tax expense		
Current tax expense	-	51
Tax expense/(benefit) related to movements in deferred tax balances	(5,520)	(2,990)
Adjustments for current tax of prior periods	(669)	(1,916)
Total income tax expense/(benefit)	(6,189)	(4,855)
Income tax expense/(benefit) is attributable to:		
Profit from continuing operations	(6,189)	(4,855)
Profit from discontinued operations	-	-
Aggregate income tax expense/(benefit)	(6,189)	(4,855)
Deferred income tax (benefit)/expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	6,953	(8,859)
(Decrease)/increase in deferred tax liabilities	(12,473)	5,869
	(5,520)	(2,990)
(c) Numerical reconciliation between profit before tax and tax expense (benefit)		
Profit/(loss) from continuing operations before income tax	(149,726)	17,751
Less: Royalty paid/payable	(1,078)	(1,028)
	(150,804)	16,722
Tax at the Australian tax rate of 30% (2015: 30%)	(45,241)	5,017
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Expenditure not allowed for income tax purposes	1,357	8,429
Other deductible items	(5,255)	(8,825)
Non-assessable income	(78)	(2,597)
	(49,217)	2,024
Effect of overseas tax rates	1,596	(1,668)
Deferred tax asset not brought to account	42,101	3,649
Previously unrecognised tax losses now recognised to reduce deferred tax expense	-	(6,143)
Previously unrecognised tax losses now recouped to reduce current tax expense	-	(801)
Adjustments for current tax of prior periods	(669)	(1,916)
Income tax expense/(benefit)	(6,189)	(4,855)
Royalty tax expense/(benefit)	988	4,299
Total tax expense/(benefit) recognised in statement of profit or loss	(5,201)	(556)

	Consolidated	
	2016 US$'000	2015 US$'000
(d) Amounts recognised in other comprehensive income		
Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited to other comprehensive income.		
Deferred tax: Changes in fair value of cash flow hedges	(3,162)	3,162
Total tax expense/(benefit) recognised in other comprehensive income	(3,162)	3,162
(e) Tax losses		
Unused tax losses (and applicable tax rate) for which no deferred tax asset has been recognised:		
Horizon Oil Limited – 30% (2015: 30%)	-	-
Horizon Oil (USA) Inc. and other US entities – 34% (2015: 34%)	-	10,615
Horizon Oil (Papua) Limited and other PNG entities – 45% / 30% (2015: 45% / 30%)	-	-
	-	10,615
Potential tax benefit at applicable tax rates	-	3,609

The Company has no Australian subsidiaries and therefore it is not subject to the Australian tax consolidation regime.

Note 8. Current assets – Cash and cash equivalents

	Consolidated	
	2016 US$'000	2015 US$'000
Cash at bank and on hand	9,615	41,279
Restricted cash[1]	6,464	20,064
	16,079	61,343

1. Under the terms of our finance facility (refer to Note 20), certain cash balances are available to the Group after certain conditions of the relevant facility agreement are satisfied. The restricted cash balance was held on deposit at average floating interest rates of approximately 0.00% pa (2015: 0.00%).

Note 9. Current assets – Receivables

	Consolidated	
	2016 US$'000	2015 US$'000
Other receivables[1]	9,932	14,580
	9,932	14,580

1. Of this balance US$Nil (2015: US$331,339) related to amounts receivable from related parties. Refer to Note 32 for further details.

Information about the Company's exposure to credit and market risks, and collectability of overdue amounts, is included in Note 2(b).

Note 10. Inventories

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Crude oil, at cost	1,370	2,186
Drilling inventory, at cost	422	2,721
	1,792	4,907

Note 11. Current tax receivable

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Income tax – China	650	2,091
	650	2,091

Note 12. Current – Other assets

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Prepayments	1,655	1,435
	1,655	1,435

Note 13. Non-current assets – Deferred tax assets

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Recognised deferred tax assets are attributable to:		
Tax losses	5,118	5,135
Development expenditure	-	5,022
Provisions and other	1,335	1,008
Total deferred tax assets	6,453	11,165
Set off of deferred tax liabilities pursuant to set off provisions	-	-
Net deferred tax assets	6,453	11,165

2016 Movements	Tax Losses US$'000	Development expenditure $US'000	Provisions and other $US'000	Total $US'000
At 1 July 2015	5,135	5,022	1,008	11,165
(Charged)/credited				
- to profit or loss	(17)	(5,022)	327	(4,712)
At 30 June 2016	5,118	-	1,335	6,453

2015 Movements	Tax losses US$'000	Development expenditure $US'000	Provisions and other $US'000	Total $US'000
At 1 July 2014	1,880	-	426	2,306
(Charged)/credited				
- to profit or loss	3,255	5,022	582	8,859
At 30 June 2015	5,135	5,022	1,008	11,165

Note 14. Non-current assets – Plant and equipment

	Consolidated		
	Other plant and equipment US$'000	Leasehold improvements US$'000	Total US$'000
As at 1 July 2014			
Cost	2,749	4,928	7,677
Accumulated depreciation	(1,436)	(683)	(2,119)
Net book amount	1,313	4,245	5,558
Financial year ended 30 June 2015			
Opening net book amount	1,313	4,245	5,558
Additions	154	37	191
Disposals	(1)	-	(1)
Depreciation expense	(414)	(269)	(683)
Closing net book amount	1,052	4,013	5,065
As at 30 June 2015			
Cost	2,846	4,965	7,811
Accumulated depreciation	(1,794)	(952)	(2,746)
Net book amount	1,052	4,013	5,065

	Consolidated		
	Other plant and equipment US$'000	Leasehold improvements US$'000	Total US$'000
Financial year ended 30 June 2016			
Opening net book amount	1,052	4,013	5,065
Additions	220	-	220
Disposals	(322)	(980)	(1,302)
Impairment losses[1]	-	(1,407)	(1,407)
Depreciation expense	(418)	(272)	(690)
Closing net book amount	532	1,354	1,886

1. Refer to Note 29 for details of impairment expense for the financial year.

As at 30 June 2016			
Cost	2,157	1,863	4,020
Accumulated depreciation	(1,625)	(509)	(2,134)
Net book amount	532	1,354	1,886

Note 15. Non-current assets – Exploration phase expenditure

	Consolidated	
	2016	2015
	US$'000	US$'000
Exploration phase expenditure		
Deferred geological, geophysical, drilling and other exploration and evaluation expenditure	53,613	96,959
The reconciliation of exploration phase expenditure carried forward above is as follows:		
Balance at beginning of financial year	96,959	74,658
Expenditure incurred during financial year	9,317	34,387
Transferred to development phase	(3,486)	-
Disposals during the financial year	-	-
Expenditure written off during financial year	(1,110)	(12,086)
Impairment losses	(48,067)	-
Balance at end of financial year	53,613	96,959

Note 16. Non-current assets – Oil and gas assets

	Consolidated	
	2016	2015
	US$'000	US$'000
Development and production phase expenditure		
Producing oil and gas property acquisition, deferred geological, seismic and drilling, production and distribution facilities and other development expenditure	447,048	432,390
Impairment losses[1]	(98,041)	-
Less accumulated amortisation	(154,395)	(117,995)
	194,612	314,395

1. Refer to Note 29 for details of impairment expense for the financial year.

The reconciliation of development and production phase expenditure carried forward above is follows:

	Consolidated		
	Development phase expenditure	Production phase expenditure	Total
	US$'000	US$'000	US$'000
Balance at 1 July 2014	60,670	250,368	311,038
Transferred from development phase	(9,125)	-	(9,125)
Transfer to production phase	-	9,125	9,125
Reassessment of rehabilitation asset	-	640	640
Amortisation incurred	-	(37,096)	(37,096)
Expenditure incurred during financial year	21,025	22,411	43,436
Oil and gas asset expense[1]	-	(3,623)	(3,623)
Balance at 30 June 2015	72,570	241,825	314,395
Transferred from exploration phase	3,486	-	3,486
Transfer to production phase	(3,486)	3,486	-
Reassessment of rehabilitation asset	-	(3,797)	(3,797)
Amortisation incurred	-	(36,400)	(36,400)
Expenditure incurred during financial year	3,247	11,722	14,969
Impairment losses[2]	(60,460)	(37,581)	(98,041)
Balance at 30 June 2016	15,357	179,255	194,612

1. Relates to expenditure in the prior year on proposed production wells in the Maari field in New Zealand, a decision was made during the prior year not to proceed with the drilling of these wells.

2. Refer to Note 29 for details of impairment expense for the financial year.

Note 17. Current liabilities – Payables

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Trade creditors	2,102	1,722
Share of joint operation creditors and accruals	7,232	10,472
Other creditors	3,167	4,587
	12,501	16,781

Note 18. Deferred income

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Deferred income	-	2,212
	-	2,212

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Note 19. Derivative financial instruments

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Current:		
Derivative asset - Oil price swaps – cash flow hedges	-	11,399
	-	11,399

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to oil price fluctuations in accordance with the Group's financial risk management policies (refer to Note 2(a)(ii)).

Oil price swap contracts (cash flow hedges)

During the financial year, oil price hedging was undertaken as a risk mitigation measure to ensure the Group's financial position remains sound and that the Group is able to meet its financial obligations in the event of low oil prices. As at 30 June 2016, the Group has no further open hedges outstanding.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified into profit or loss when the hedged oil price transaction is recognised. The ineffective portion is recognised in profit or loss immediately. During the financial year, a gain of US$19,497,000 (2015: US$20,267,000) was transferred to profit or loss.

Note 20. Borrowings

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Current:		
Bank loans	18,137	17,829
Convertible Bonds	58,800	79,275
	76,937	97,104
Non-current:		
Bank loans	67,428	97,286
	67,428	97,286
Total Borrowings	144,365	194,390

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). The facility retained key elements of the previous Reserves Based Debt Facility, with key changes including the removal of the forced repayment schedule, additional tenor to May 2019 and potential access to a new accordion tranche of up to US$50 million (subject to debt capacity criteria and lender approvals). 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 30 June 2016, total debt drawn under the facility was US$89.1 million with undrawn debt capacity available of approximately US$8.8 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 and 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 and 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.

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 has been reduced to US$0.409 since issue. During the 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 has surrendered the purchased bonds for cancellation in accordance with the bond trust deed. Accordingly, US$58.8m of the bonds remain outstanding at 30 June 2016. The bonds were initially due for redemption on 17 June 2016. However, as part of Horizon Oil's refinancing arrangements, the Company's convertible bondholders unanimously approved the extension of the bond redemption date to 19 September 2016, providing adequate time to obtain the requisite shareholder approval and implement the refinancing arrangements detailed below. While having received the unanimous approval for the deferral of the principal repayment of US$58.8 million, the Company satisfied the other conditions of the convertible bonds at the original redemption date of 17 June 2016, namely the payment of the accrued yield of US$5.2 million, together with the scheduled interest payments of US$1.6 million.

No bonds had been converted as at 30 June 2016. On conversion, the Group may elect 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 year, the maximum number of shares that could be issued on conversion is 143,765,281 ordinary shares in the parent entity. The bonds carried a coupon of 5.5% per annum until their original maturity date of 17 June 2016, which has now increased to 10% until the extended maturity date of 19 September 2016. The bonds were listed on the Singapore Securities Exchange on 20 June 2011. Details surrounding the bond redemption strategy are outlined in the Directors' Report and Note 1.

	2016 US$'000	2015 US$'000
Face value of bonds issued	80,000	80,000
Less: Other financial liabilities – value of conversion rights (Note 21)	(20,043)	(20,043)
Less: Transaction costs	(3,362)	(3,362)
	56,595	56,595
Finance costs in prior periods[1]	40,449	29,120
Finance costs[1]	9,579	11,329
Less: CB buybacks	(21,589)	-
Less: Coupon paid in prior periods	(17,600)	(13,200)
Less: Coupon paid during the financial year	(3,234)	(4,400)
Less: Coupon accrued	(226)	(169)
Less: Premium paid	(5,174)	-
Current liability	58,800	79,275

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

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Note 21. Current – Other financial liabilities		
Conversion rights on convertible bonds	530	7,961
	530	7,961

The amount shown for other financial liabilities is the fair value of the conversion rights relating to the 5.5% convertible bonds. The conversion rights can 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 is subject to the conversion price which may reset under certain circumstances. Accordingly, the conversion rights are a derivative financial liability and are marked to market. Fair value of conversion rights at issuance on 17 June 2011 was US$20,043,000. Refer to Note 20 for further details of the convertible bonds issued.

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Note 22. Non-current liabilities – Deferred tax liabilities		
Recognised deferred tax liabilities are attributable to:		
Exploration expenditure	-	1,440
Development and production expenditure	14,940	19,695
Accounting profits royalty	8,004	8,094
Cash flow hedges	-	3,162
Other	1,118	3,632
Total deferred tax liabilities	24,062	36,023
Set off of deferred tax assets pursuant to set off provisions	(8,138)	(6,615)
Net deferred tax liabilities	15,924	29,408

2016

Movements	Exploration expenditure US$'000	Development and production expenditure US$'000	Accounting profits royalty US$'000	Cash flow hedges US$'000	Other US$,000	Total US$'000
At 1 July 2015	1,440	19,695	8,094	3,162	3,632	36,023
Charged/(credited)						
- to profit or loss	(1,440)	(4,755)	(90)	-	(2,514)	(8,799)
- to other comprehensive income	-	-	-	(3,162)	-	(3,162)
At 30 June 2016	-	14,940	8,004	-	1,118	24,062

2015

Movements	Exploration expenditure US$'000	Development and production expenditure US$'000	Accounting profits royalty US$'000	Cash flow hedges US$,000	Other US$'000	Total US$'000
At 1 July 2014	1,414	13,021	4,823	-	1,601	20,859
Charged/(credited)						
- to profit or loss	26	6,674	3,271	-	2,031	12,002
- to other comprehensive income	-	-	-	3,162	-	3,162
At 30 June 2015	1,440	19,695	8,094	3,162	3,632	36,023

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Note 23. Provisions		
Restoration (current)	428	3,181
Restoration (non-current)	8,243	12,803
	8,671	15,984

The reconciliation of the movement in the total of the restoration provisions is as follows:

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Balance at beginning of financial year	15,984	27,239
Payments made for China restoration	(3,774)	(12,310)
Additional provision during financial year	(3,797)	639
Unwinding of discount	258	416
Balance at end of financial year	8,671	15,984

	Consolidated		Consolidated	
	2016	2015	2016	2015
	Number of shares			
	'000	'000	US$'000	US$'000
Note 24. Contributed equity				
(a) Issued share capital				
Ordinary shares				
Fully paid	1,301,981	1,301,981	174,342	174,342
Partly paid to A$0.01	1,500	1,500	459	459
	1,303,481	1,303,481	174,801	174,801

(b) Movements in ordinary share capital

(i) Ordinary shares (fully paid)

Date	Details	Number of shares	Issue price	US$'000
30/06/2015	Balance as at 30 June 2015	1,301,981,265		174,342
30/06/2016	Balance as at 30 June 2016	1,301,981,265		174,342

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

Date	Details	Number	Issue price	US$'000
30/06/2015	Balance as at 30 June 2015	1,500,000		459
30/06/2016	Balance as at 30 June 2016	1,500,000		459

(c) Ordinary shares

Fully paid

Fully paid ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. Voting rights are governed by the Company's Constitution. In summary, on a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each fully paid ordinary share is entitled to one vote.

Partly paid

Partly paid ordinary shares are issued on exercise of employee options. The outstanding obligation in relation to the partly paid ordinary shares is payable either when called or by the date not exceeding 5 years from the grant date of the option which gave rise to the partly paid ordinary share. Partly paid ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. Voting rights are governed by the Company's Constitution. In summary, on a show of hands every holder of partly paid ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll, is entitled to one vote to the proportion of the total issue price then paid up.

(d) Unlisted options over unissued ordinary shares

Information related to general options, the Employee Option Scheme and the Employee Performance Incentive Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year is set out in Note 33.

Note 25. Reserves and retained profits

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
(a) Reserves		
Share-based payments reserve	12,030	11,052
Movements:		
Balance at beginning of financial year	11,051	10,002
Employee share-based payments expense	979	1,050
Balance at end of financial year	12,030	11,052
Hedge reserve	-	8,236
Movements:		
Balance at beginning of financial year	8,237	(6,158)
Movement in net market value of hedge contracts	(11,399)	17,556
Deferred tax	3,162	(3,162)
Balance at end of financial year	-	8,236
Total reserves	12,030	19,288
(b) Retained profits		
Retained profits at beginning of financial year	62,254	43,921
Net profit for financial year	(144,471)	18,333
Retained profits at end of financial year	(82,217)	62,254

(c) Nature and purpose of reserves

Share-based payment reserve:

The fair value of options and share appreciation rights granted to employees results in an increase in equity upon recognition of the corresponding employee benefits expense, as described in the accounting policy set out in Note 1(w)(iii). The fair value of general options granted also results in an increase in equity.

The Company has elected to retain any amounts originally recognised in the share-based payments reserve, regardless of whether the associated options or share appreciation rights are exercised, cancelled or lapse unexercised.

Hedge reserve:

Changes in the market value of the effective portion of derivatives is reflected directly in equity until such time as the hedge is ineffective or expires, as described in the accounting policy set out in Note 1(t).

Note 26. New Zealand Imputation Credits

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Imputation credits available for subsequent financial years[1]	2,857	2,857

1. The franking credits available for subsequent financial years are only available to New Zealand resident shareholders under the Trans-Tasman imputation legislation.

Note 27. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy set out in Note 1(c):

Name of subsidiary	Country of incorporation	Percentage of equity holding and voting interest (all shares issued are ordinary shares)		Business activities carried on in
		2016	2015	
		%	%	
Horizon Oil International Limited	New Zealand	100	100	New Zealand
Horizon Oil (New Zealand) Limited	New Zealand	100	100	New Zealand
Horizon Oil International Holdings Limited	BVI	100	100	BVI
Horizon Oil (Beibu) Limited	BVI	100	100	China
Horizon Oil (China Holdings) Limited	BVI	100	100	BVI
Horizon Oil (PNG Holdings) Limited	BVI	100	100	BVI
Horizon Oil (Papua) Limited	Bermuda	100	100	PNG
Horizon Oil (USA) Inc.	USA	100	100	USA
Ketu Petroleum Limited	BVI	100	100	PNG
Jurassic International Holdings Limited[1]	PNG	90	90	PNG

1. The Group has entered into a farm-out agreement, whereby 95%-100% of the undivided participating interest in Jurassic International Holdings Limited's assets will be transferred to Ketu Petroleum Limited, effective 1 July 2015. Upon conclusion of this transaction a subsequent share cancellation agreement will take effect, with the Group cancelling their shares in Jurassic International Holdings Limited effective the same date. At 30 June 2016 the Group is still awaiting PNG government approval for the proposed transaction.

Note 28. Interest in joint operations

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

	Consolidated	
	2016	2015
	US$'000	US$'000
Current assets		
Cash and cash equivalents	2,509	4,368
Receivables	400	282
Inventories	1,792	4,907
Total current assets	4,701	9,557
Non-current assets		
Plant and equipment	1,136	4,894
Exploration phase expenditure	92,045	86,059
Oil and gas assets	444,574	402,667
Total non-current assets	537,755	493,620
Total assets	542,456	503,177
Current liabilities		
Payables	7,232	10,472
Total current liabilities	7,232	10,472
Non-current liabilities		
Payables	-	-
Total non-current liabilities	-	-
Total liabilities	7,232	10,472
Share of net assets employed in joint operations	535,224	492,705

Contingent liabilities in respect of joint operations are detailed in Note 36.

Exploration and development expenditure commitments in respect of joint operations are detailed in Note 39.

The Group had an interest in the following joint operations:

Permit or licence	Principal activities	Interest (%) 30 June 2016	Interest (%) 30 June 2015
New Zealand			
PMP 38160 (Maari/Manaia)	Oil and gas production, exploration and development	10.00%	10.00%
PEP 51313 (Matariki)	Oil and gas exploration	21.00%[1]	21.00%[1]
China			
Block 22/12	Oil and gas exploration and development	26.95% / 55%[2]	26.95% / 55%[2]
PNG			
PDL 10	Oil and gas development	30.00%[3]	30.00%[3]
PRL 21	Oil and gas exploration and development	27.00%[3]	27.00%[3]
PPL 259	Oil and gas exploration	35.00%[3]	35.00%[3]
PPL 372	Oil and gas exploration	90.00%[3,4]	90.00%[3]
PPL 373	Oil and gas exploration	90.00%[3,4]	90.00%[3]
PPL 430	Oil and gas exploration	50.00%[3]	50.00%[3]

1. Under the terms of the farm in agreement executed in November 2012, in the event of commercial discovery at the Whio prospect, Horizon Oil Limited's interest over the Whio prospect would reduce to 10%. No commercial hydrocarbons were discovered when this well was drilled in July 2014. The joint venture participants have elected to withdraw from the permit with completion of withdrawal anticipated in Q3 2016.
2. China National Offshore Oil Corporation is entitled to participate at up to a 51% equity level in any commercial development within Block 22/12. During 2011 CNOOC exercised their right to participate in the development of WZ 6-12 and WZ 12-8W within Block 22/12 at 51%.
3. The PNG government may appoint a state nominee to acquire up to a 22.5% participating interest in any commercial development within the PNG licence areas.
4. On 22 January 2016 the Group has entered into a farm-out agreement whereby 95% undivided participating interest in PPL 372 and 100% undivided participating interest in PPL 373 will be transferred to Ketu Petroleum Limited effective 1 July 2015. At 30 June 2016 the Group is still awaiting PNG government approval for the proposed transaction.

Note 29. Impairment of Non-current assets

At 30 June 2016, the Group reassessed the carrying amounts of its non-current assets for indicators of impairment in accordance with the Group's accounting policy.

Estimates of recoverable amount are based on an asset's value-in-use or fair value less costs to sell (level 3 value hierarchy), using a discounted cash flow method, and are most sensitive to the following key assumptions:

For oil and gas assets, the estimated future cash flows for the value-in-use calculation are based on estimates, the most significant of which are 2P hydrocarbon reserves, future production profiles, commodity prices, operating costs and any future development costs necessary to produce the reserves. Under a fair value less costs to sell calculation, future cash flows are based on estimates of 2P hydrocarbon reserves in addition to other relevant factors such as value attributable to additional resource and exploration opportunities beyond 2P reserves based on production plans.

Estimates of future commodity prices are based on the Group's best estimate of future market prices with reference to external market analysts' forecasts, current and historical spot prices and forward curves. Future commodity prices are reviewed at least annually.

Forecasts of the foreign exchange rate for foreign currencies, where relevant, are estimated with reference to observable external market data and forward values, including analysis of broker and consensus estimates.

The discount rates applied to the future forecast cash flows are based on the Group's post-tax weighted average cost of capital, adjusted for risks where appropriate, including the risk profile of the countries in which the asset operates.

For capitalised exploration phase expenditure, in conjunction with consideration of the key assumptions detailed above, a further assessment is performed at each balance date, to determine whether any of the following indicators of impairment exists:

(i) tenure over the licence area has expired during the period or will expire in the near future, and is not expected to be renewed; or

(ii) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is not budgeted or planned; or

(iii) exploration for and evaluation of resources in the specific area have not led to the discovery of commercially viable quantities of resources, and the Group has decided to discontinue activities in the specific area; or

(iv) sufficient data exists to indicate that although a development is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or from sale.

For plant and equipment, an assessment is performed at each balance date to determine if an asset's carrying amount is greater than its estimated recoverable amount. This assessment considers, amongst other things, whether the asset is still in use and the value that would likely be recovered from sale.

Recoverable amounts and resulting impairment write-downs recognised during the year ended 30 June 2016 are presented in the table below.

Area of Interest/CGU:		Impairment write-down	Recoverable amount[1]
Exploration Phase Expenditure	Segment	2016	2016
PEP 51313 (Matariki)	New Zealand Exploration	(4,187)	-
PPL 259	Papua New Guinea Exploration and Development	(20,551)	-
PRL 21	Papua New Guinea Exploration and Development	(21,860)	44,643
PPL 430	Papua New Guinea Exploration and Development	(316)	-
PPL 372	Papua New Guinea Exploration and Development	(708)	-
PPL 373	Papua New Guinea Exploration and Development	(445)	-
Impairment of exploration phase expenditure		(48,067)	
Oil and Gas Assets			
PMP 38160 (Maari/Manaia)	New Zealand Development	(37,581)	57,056
PDL 10 (Stanley)	Papua New Guinea Exploration and Development	(60,460)	15,357
Impairment of oil and gas assets		(98,041)	
Plant and Equipment			
Leasehold improvements	Papua New Guinea Exploration and Development	(1,407)	1,354
Impairment of plant and equipment		(1,407)	
Total impairment of non-current assets		(147,515)	

1. Recoverable amounts represent the carrying value of assets before deducting the carrying value of restoration liabilities ($6,853,000) and deferred royalty tax balances ($8,004,000).

The post-tax discount rates that have been applied to the above non-current assets range between 10% and 11% (2015: between 10% and 11%). The impairment charges noted above primarily result from the lower oil price environment, the reserves and resources update conducted during the year, consideration of the recent valuation performed by the Independent Expert in relation to the IMC Financing Proposal and, in some cases, a consequential reduction or deferral of future capital expenditure that diminishes or defers the path to commercialisation.

Note 30. Remuneration of external auditors

During the financial year, the following fees were paid or payable for services provided by the external auditor of the parent entity and its related practices:

	Consolidated 2016 US$	Consolidated 2015 US$
1. PwC Australia		
Audit and other assurance services		
Audit and review of financial reports	144,082	154,228
Other assurance services	15,114	156,589
Other services	-	2,419
Total remuneration for audit and other assurance services	159,196	313,236
Taxation services		
Tax compliance[1]	24,555	111,717
Total remuneration for taxation services	24,555	111,717
2. Non-PwC audit firms		
Audit and other assurance services	11,187	18,833
Other services	-	-
Total remuneration for audit and other assurance services	11,187	18,833
Total auditors' remuneration	194,938	443,786

1. Remuneration for taxation services has been recorded on a gross basis; some of these fees were for services provided to PNG operated joint ventures.

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

Note 31. Remuneration of key management personnel

See the Remuneration Report within the Directors' Report for details of directors and other key management and their detailed remuneration.

Key management personnel compensation

	Consolidated	
	2016 US$	2015 US$
Short-term employee benefits	2,036,084	2,304,601
Post-employment benefits	119,635	137,571
Long-term benefits	57,635	(6,897)
Share-based payments (non-cash)	951,088	983,416
Total key management personnel remuneration	3,164,442	3,418,691

Detailed remuneration disclosures are provided in sections A-D of the audited Remuneration Report.

Loans to key management personnel

There were no loans to directors or other key management personnel during the current or prior financial year.

Other transactions with key management personnel

There were no other transactions with key management personnel during the current or prior financial year.

Note 32. Related parties

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

Directors and other key management personnel

There were no related party transactions with directors and other key management personnel during the current or prior year other than as disclosed in sections A – D of the Remuneration report and Note 31.

Subsidiaries

Interests in subsidiaries are set out in Note 27.

Details in respect of guarantees provided to subsidiaries are set out in Note 42 (ii).

Transactions with related parties

Transactions between Horizon Oil Limited and related parties in the wholly-owned Group during the financial years ended 30 June 2016 and 30 June 2015 consisted of:

(a) Contributions to share capital by Horizon Oil Limited;
(b) Loans advanced by Horizon Oil Limited;
(c) Loans repaid to Horizon Oil Limited;
(d) Payments to Horizon Oil Limited under financial guarantee contract arrangements;
(e) Interest payments to Horizon Oil Limited on loans advanced to subsidiaries;
(f) Dividends paid to Horizon Oil Limited;
(g) Reimbursement of expenses to Horizon Oil Limited; and
(h) Uncalled share capital.

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

The following transactions occurred with related parties:

	2016 US$	2015 US$
Superannuation contributions		
Superannuation contributions to superannuation funds on behalf of employees	379,097	431,893
Other transactions		
Payments to Horizon Oil Limited under financial guarantee contract arrangements from wholly owned subsidiaries	2,237,826	2,223,381
Final call on partly paid and fully paid ordinary shares in Horizon Oil Limited paid by employees	331,339	1,024,482

Loans to/from related parties

	2016 US$	2015 US$
Loans to other related parties (uncalled share capital)		
Balance at beginning of the financial year	331,339	1,355,821
Loans advanced	-	-
Loan repayments received/cancelled	(331,339)	(1,024,482)
Balance at end of financial year	-	331,339

	2016 US$	2015 US$
Balance at beginning of the financial year	221,058,652	256,026,759
Loans advanced	57,551,744	94,048,568
Loan repayments received	(57,793,364)	(132,395,271)
Interest charged	9,060,434	10,003,956
Interest paid	(6,696,547)	(6,625,360)
Debt capitalised as equity	(24,832,906)	-
Dividends received	9,000,000	-
Balance at end of financial year	207,348,013	221,058,652

Terms and conditions

Transactions relating to dividends, calls on partly paid shares and subscriptions for new ordinary shares were on the same terms and conditions that applied to other shareholders.

All other transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. Certain loans to/from subsidiaries are subject to interest. However the interest is typically suspended until commercial production commences or a change in the ownership interest of the entity occurs. The average interest rate on loans attracting interest during the financial year was 6.2% (2015: 6.1%). Outstanding balances are unsecured and repayable in cash.

Note 33. Share-based payments

Set out below is a summary of unlisted options and share appreciation rights on issue:

Grant date	Expiry date	Exercise price	Balance start of financial year Number	Granted during financial year Number	Exercised during financial year Number	Forfeited during financial year Number	Balance end of financial year Number	Vested and exercisable at end of financial year Number
Consolidated Entity 2016								
Share Appreciation Rights issued								
27/10/2010	27/10/2015	A$0.30[3]	6,693,828	-	-	(6,693,828)	-	-
05/08/2011	05/11/2016	A$0.31[3]	6,478,276	-	-	-	6,478,276	6,478,276
13/08/2012	13/08/2017	A$0.27[3]	9,561,936	-	-	-	9,561,936	-
19/08/2013	19/08/2018	A$0.33[3]	8,547,599	-	-	-	8,547,599	-
01/07/2014	01/07/2019	A$0.37[3]	7,402,177	-	-	-	7,402,177	-
01/07/2015	01/07/2020	A$0.09[3]	-	25,088,617	-	-	25,088,617	
Total			**38,683,816**	**25,088,617**	**-**	**(6,693,828)**	**57,078,605**	**6,478,276**
Weighted average exercise price			A$0.32	A$0.09	-	-	A$0.22	A$0.31
Options issued								
16/09/2010	16/09/2015	A$0.30[2]	350,000	-	-	(350,000)	-	-
28/05/2012	28/08/2015	A$0.26[1]	1,000,000	-	-	(1,000,000)	-	-
28/05/2012	28/05/2017	A$0.26[2]	1,666,667	-	-	-	1,666,667	1,666,667
17/09/2012	17/09/2017	A$0.29[2]	500,000	-	-	-	500,000	500,000
20/02/2013	20/02/2018	A$0.43[2]	350,000	-	-	-	350,000	-
16/04/2013	16/04/2018	A$0.40[2]	350,000	-	-	-	350,000	-
02/11/2015	02/11/2020	A$0.20[2]	-	1,500,000	-	-	1,500,000	-
Total			**4,216,667**	**1,500,000**	**-**	**(1,350,000)**	**4,366,667**	**2,166,667**
Weighted average exercise price			A$0.30	A$0.20	-	-	A$0.27	A$0.27

1. Relates to general options issued to third party consultants.
2. Relates to options issued under the Employee Option Scheme.
3. No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.
4. The exercise price of the options and SARS outstanding at 31 July 2013 were reduced by A$0.006 following the rights issue during the year.

Grant date	Expiry date	Exercise price	Balance start of financial year Number	Granted during financial year Number	Exercised during financial year Number	Forfeited during financial year Number	Balance end of financial year Number	Vested and exercisable at end of financial year Number
Consolidated Entity 2015								
Share Appreciation Rights issued								
27/10/2010	27/10/2015	A$0.30[4]	6,693,828	-	-	-	6,693,828	-
05/08/2011	05/11/2016	A$0.31[4]	6,478,276	-	-	-	6,478,276	6,478,276
13/08/2012	13/08/2017	A$0.27[4]	9,561,936	-	-	-	9,561,936	-
19/08/2013	19/08/2018	A$0.33[4]	8,547,599	-	-	-	8,547,599	-
01/07/2014	01/07/2019	A$0.37[4]		7,402,177	-	-	7,402,177	-
Total			31,281,639	7,402,177	-	-	38,683,816	6,478,276
Weighted average exercise price			A$0.30	A$0.37	-	-	A$0.32	A$0.31
Options issued								
25/09/2009	25/09/2014	A$0.29[1]	5,175,000	-	-	(5,175,000)	-	-
25/09/2009	25/09/2014	A$0.29[3]	350,000	-	-	(350,000)	-	-
09/10/2009	09/10/2014	A$0.31[3]	2,700,000	-	-	(2,700,000)	-	-
11/12/2009	11/12/2014	A$0.34[2]	500,000	-	-	(500,000)	-	-
16/09/2010	16/09/2015	A$0.30[3]	350,000	-	-	-	350,000	350,000
10/01/2012	10/04/2015	A$0.21[2]	1,000,000	-	-	(1,000,000)	-	-
28/05/2012	28/08/2015	A$0.26[2]	2,000,000	-	-	(1,000,000)	1,000,000	1,000,000
28/05/2012	28/05/2017	A$0.26[3]	1,666,667	-	-	-	1,666,667	1,666,667
17/09/2012	17/09/2017	A$0.29[3]	500,000	-	-	-	500,000	333,334
20/02/2013	20/02/2018	A$0.43[3]	350,000	-	-	-	350,000	-
16/04/2013	16/04/2018	A$0.40[3]	350,000	-	-	-	350,000	-
Total			14,941,667	-	-	(10,725,000)	4,216,667	3,350,001
Weighted average exercise price			A$0.29	-	-	A$0.29	A$0.30	A$0.27

1. Relates to options issued under the Employee Performance Incentive Plan.
2. Relates to general options issued to third party consultants.
3. Relates to options issued under the Employee Option Scheme.
4. No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.
5. The exercise price of the options and SARS outstanding at 31 July 2013 were reduced by A$0.006 following the rights issue during the year.

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.24 years (2015 – 1.51 years).

Long Term Incentive Plan

Until April 2010, long-term incentives were provided to certain employees via the Company's share option plans. The revised LTI arrangements approved at the 2010 annual general meeting apply to senior executives and involve the grant of share appreciation rights which may vest subject (amongst other things) to the level of total shareholder return ('TSR') achieved in the vesting period, relative to an appropriate index.

Under the LTI Plan, the board has the discretion, subject to the ASX Listing Rule requirements, to grant share appreciation rights ('SARs') to executives as long-term incentives. The board has determined that 25% of senior executive's total remuneration would be long-term incentives in the form of SARs, with the number of SARs granted based on the value of a SAR.

A SAR is a right to receive either or both a cash payment or shares in the Company, as determined by the board, subject to the Company satisfying certain conditions, including performance conditions.

The LTI Plan provides that the amount of the cash payment or the number of shares in the Company that the participant receives on exercise of the SAR is based on the value of the SAR at the time it is exercised ('SAR Value'). The SAR Value is the excess, if any, of the volume weighted average price ('VWAP') of shares in the Company for the ten business day period up to the date before the date the SAR is exercised over the VWAP of shares in the Company for the ten business day period up to the day before the "Effective Allocation Date" for the SARs. The Effective Allocation Date for the SARs is the grant date of the SARs or any other day determined by the board, at the time of the grant. The Effective Allocation Date would generally be the date the executive's entitlement was determined.

If the board determines that the SARs are to be satisfied in cash, the amount of cash that the participant receives on the exercise of the SARs is the SAR Value multiplied by the number of SARs exercised (less any deduction for taxes that the Company is required to make from the payment). If the board determines that the SARs are to be satisfied in shares, the number of shares that the participant receives on the exercise of the SARs is the SAR Value divided by the volume weighted average price of shares in the Company for the ten business day period up to the day before the day the SARs are exercised. Where the number of shares calculated is not a whole number, it will be rounded down to the nearest whole number.

No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.

Employee Option Scheme

The issue of securities under the Employee Option Scheme was approved by shareholders for the purposes of the ASX Listing Rules at the 2011 Annual General Meeting. The scheme is open to permanent full time or part time employees of the Company. Executive directors and the Company's senior executives were eligible to participate until April 2010, when the board resolved to modify the remuneration arrangements for the Company's senior executives.

The maximum number of ordinary shares in respect of which options may be issued pursuant to the Employee Option Scheme, together with the number of partly paid ordinary shares on issue pursuant to any other employee share scheme of the Company, must not exceed 5% of the number of ordinary shares in the Company on issue from time to time.

Each option entitles the employee to subscribe for one share in the Company and each option expires 5 years from the date of issue. Options granted are progressively exercisable in three equal tranches from dates which are 12, 24 and 36 months after grant date. Upon exercise of the option, only one cent of the exercise price will be payable, with the balance being paid at the expiration of the period which is 5 years from the date of the issue of the options.

The exercise price will be the greater of:

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

(b) 20 cents per option.

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

Options/Share Appreciation Rights Issued

25,088,617 share appreciation rights were issued under the Long Term Incentive Plan. The exercise price of these SARs is A$0.0865 with performance hurdles to be achieved prior to exercise. The independently assessed fair value at grant date of these share appreciation rights was A$0.0438 per SAR.

The fair value at grant date is independently determined using a Monte Carlo Simulation method that takes into account the exercise price, the term of the option/SAR, the impact of dilution, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option/SAR.

The model inputs for the grant of share appreciation rights during the financial year ended 30 June 2016 included:

Grant date	1 July 2015
Expiry date	1 July 2020
Exercise price	N/A
10 Day VWAP of Horizon Oil shares at grant date	A$0.0865
Expected price volatility	57.10% p.a.
Risk free rate	2.32% p.a.
Expected dividend yield	0.00% p.a.

No options were issued during the year.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the financial year as part of employee benefits expense in profit or loss were as follows:

	Consolidated	
	2016 US$'000	2015 US$'000
Share Appreciation Rights issued under:		
Long Term Incentive Plan	951	1,034
Options issued under:		
Employee Option Scheme	28	16
Total employee share-based payments expense	979	1,050

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

No options/SARs were modified during the financial year.

Options/SARs exercised during the financial year

No options/SARs were exercised during the financial year.

Options/SARs lapsing or cancelled during the financial year

During the financial year, 1,350,000 unlisted general options lapsed or were cancelled.

During the financial year, 6,693,828 SARs lapsed or were cancelled.

Options/SARs exercised and options/SARs issued subsequent to 30 June 2016

No options or SARS have been granted subsequent to financial year end.

No options or SARs have been exercised subsequent to financial year end.

Note 34. Employee entitlements

	Consolidated	
	2016 US$'000	2015 US$'000
Employee entitlement liabilities are included within:		
Current – other creditors (Note 17)	771	667
Non-current - other creditors	23	15

	Number	
	2016	2015
Employee numbers		
Average number of employees during financial year	39	30

Note 35. Contingent asset

(i) 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, 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 disclosed as a contingent asset as at 30 June 2016.

(ii) The Maari joint venture carried out an upgrade of the FPSO *Raroa's* mooring system during the year. The upgrade, maintenance and repair works were carried out safely, within budget and the the Group anticipates that a significant portion of these works will be recovered from insurance. The field returned to production on schedule. The Group's share of the repair costs was approximately US$4 million.

Note 36. Contingent liabilities

The Group had contingent liabilities as at 30 June 2016 and 30 June 2015 that may become payable in respect of:

In accordance with normal oil and gas industry practice, the Group has entered into joint operations and farm-out agreements with other parties for the purpose of exploring and developing its petroleum interests. If a participant to a joint operation defaults and fails to contribute its share of joint operation obligations, then the remaining joint operation 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 claims 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 any of the above contingent liabilities.

Note 37. Events after balance sheet date

Other than the matters disclosed in this report, there has not been any matter or circumstance which has arisen since 30 June 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.

The financial statements were authorised for issue by the Board of Directors on 30 August 2016. The Board of Directors has the power to amend and reissue the financial statements.

Note 38. Commitments for expenditure

(i) Non-cancellable operating leases

The Group leases an office premises in Sydney under a non-cancellable operating lease expiring within 1 to 5 years.

	Consolidated	
	2016	2015
	US$'000	US$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases, not recognised in the financial statements, are payable as follows:		
Within one financial year	407	277
Later than one financial year but not later than five financial years	788	75
	1,195	352

(ii) Finance leases

The Group had no outstanding finance leases as at 30 June 2016 or 30 June 2015.

Note 39. Exploration and development 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 consolidated financial statements. These are payable as follows, based on current status and knowledge of estimated quantum and timing of such commitments by segment.

2016	New Zealand Development	New Zealand Exploration[1]	China Exploration & Development	Papua New Guinea Exploration & Development	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Within one financial year	5,183	16	836	5,036	11,071
Later than one financial year but not later than 5 financial years	-	-	-	6,084	6,084
After 5 financial years	-	-	-	6,006	6,006
Total	5,183	16	836	17,126	23,161

2015	New Zealand Development	New Zealand Exploration[1]	China Exploration & Development	Papua New Guinea Exploration & Development	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Within one financial year	6,525	280	12,195	10,550	29,550
Later than one financial year but not later than 5 financial years	-	-	-	-	-
Total	6,525	280	12,195	10,550	29,550

1. The joint venture participants have elected to withdraw from the permit, with completion of withdrawal anticipated in Q3 2016. Horizon Oil are committed to meeting all budgeted work obligations until formal withdrawal has occurred.

The above commitments may be deferred or modified with the agreement of the host government, by variations to the terms of individual petroleum interests, 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 interests at any time at no cost penalty other than the loss of the interests.

Note 40. Reconciliation of profit/(loss) after income tax to net cash flows from operating activities

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Profit/(loss) for financial year	(144,525)	18,307
Exploration and development expenditure written off/expensed	1,110	16,222
Impairment expense	147,515	-
Depreciation expense	690	683
Disposal of fixed assets	127	-
Movement in employee entitlement liabilities	112	114
Non-cash employee share-based payments expense	979	1,050
Amortisation expense	36,400	37,096
Amortisation of prepaid financing costs	1,817	1,775
Provision for restoration	258	416
Unrealised movement in value of convertible bond conversion rights	(5,322)	-
Realised gain on purchase of bonds	(1,193)	(9,063)
Non-cash convertible bond interest expense	5,600	6,257
Net unrealised foreign currency losses/(gains)	1,056	40
Change in operating assets and liabilities:		
(Increase)/Decrease in trade debtors	(317)	5,012
(Increase)/Decrease in other debtors and prepayments	8,245	(8,561)
(Increase)/Decrease in inventory	817	(1,181)
Increase/(Decrease) in net deferred tax liabilities	(8,772)	3,443
(Increase)/Decrease in tax receivable/payable	1,294	(3,416)
Increase/(Decrease) in trade creditors	381	(11,006)
Increase/(Decrease) in deferred income	(2,212)	2,212
Increase/(Decrease) in other creditors	143	(557)
Net cash inflow from operating activities	44,203	58,843

Note 41. Earnings per share

	2016 US cents	2015 US cents
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	(11.08)	1.41
Total basic earnings per share attributable to the ordinary equity holders of the Company	(11.08)	1.41
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	(11.08)	1.41
Total diluted earnings per share attributable to the ordinary equity holders of the Company	(11.08)	1.41

	2016 Number	2015 Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,303,481,265	1,303,481,265
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,303,481,265	1,304,795,974

	2016 US$'000	2015 US$'000
Reconciliation of earnings used in calculating earnings per share		
Profit/(loss) attributable to the ordinary equity holders of the company used in calculating earnings per share		
Basic earnings per ordinary share:		
from continuing operations	(144,471)	18,333
	(144,471)	18,333
Diluted earnings per ordinary share:		
from continuing operations	(144,471)	18,333
	(144,471)	18,333

Information concerning the classification of securities

(a) Partly paid ordinary shares

Partly paid ordinary shares carry the rights of fully paid ordinary shares and to that extent they have been recognised as ordinary share equivalents in the determination of basic earnings per share.

Details regarding the partly paid ordinary shares are set out in Note 24.

(b) Options and share appreciation rights granted as compensation

Options and share appreciation rights granted to employees under the Long Term Incentive Plan, Employee Option Scheme or Employee Performance Incentive Plan; and general options issued, are included in the calculation of diluted earnings per share to the extent to which they are dilutive. They have not been included in the determination of basic earnings per share.

Details regarding the options and share appreciation rights are set out in Note 33.

(c) Convertible bonds

Convertible bonds issued during the financial year are included in the calculation of diluted earnings per share to the extent to which they are dilutive from their date of issue. They have not been included in the determination of basic earnings per share.

Details regarding the convertible bonds are set out in Note 20 and 21.

Note 42. Parent entity financial information

(i) Summary financial information

The individual financial statements for the Parent Entity show the following aggregate amounts:

	Parent Entity	
	2016	2015
	US$'000	US$'000
Statement of financial position		
Current assets	7,860	32,007
Non-current assets	256,687	250,235
Total assets	264,547	282,242
Current liabilities	61,618	89,024
Non-current liabilities	274	266
Total liabilities	61,892	89,290
Net assets	202,655	192,952
Contributed equity	174,801	174,801
Share-based payments reserve	12,030	11,052
Retained earnings	15,824	7,099
Total equity	202,655	192,952
Profit/(loss) for the financial year	8,725	21,381
Total comprehensive income/(loss) for the financial year	8,725	21,381

(ii) Guarantees entered into by the parent entity

The parent entity has provided guarantees in respect of bank loans and leases of its subsidiaries amounting to US$89,141,000 (2015: US$120,000,000).

No liability has been recognised for guarantees provided. After factoring in the likelihood that the parent entity would be required to perform under the guarantees the fair value of the liability was not considered material.

(iii) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2015. For information about guarantees given by the parent entity, please see above.

(iv) Contractual commitment for the acquisition of property, plant or equipment

As at 30 June 2016, the parent entity had no contractual commitments for the acquisition of property, plant or equipment (30 June 2015 – US$Nil).

Shareholder Information

Horizon Oil Limited and Controlled Entities
Securities Exchange Information as at 30 September 2016

DISTRIBUTION OF EQUITY SECURITIES

The distribution of equity security holders ranked according to size at 30 September 2016 was as follows:

	Class of equity security		
	Ordinary shares		Share
Size of holding	Shares	Unlisted options	appreciation rights
1 to 1,000	498	-	-
1,001 to 5,000	1,001	-	-
5,001 to 10,000	942	-	-
10,001 to 100,000	2,649	-	-
100,001 and over	1,063	6	3
Total	6,153	6	3

A total of 2,656 holders held less than a marketable parcel of 12,500 ordinary shares.

TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest shareholders of the Company's ordinary shares at 30 September 2016 are listed below:

	Name	No. of ordinary shares	% of issued ordinary shares
1	Citicorp Nominees Pty Limited[1]	527,978,807	40.55
2	J P Morgan Nominees Australia Limited	59,322,672	4.56
3	HSBC Custody Nominees (Australia) Limited	39,310,959	3.02
4	Carrington Land Pty Ltd	20,000,000	1.54
5	Mr Brent Emmett (V L H Pty Ltd)	18,902,607	1.45
6	Mr David Harvey Peek	9,309,110	0.71
7	Mr Geoffrey Victor Day & Mrs Anne Margaret Day	9,000,000	0.69
8	Finot Pty Ltd	8,857,143	0.68
9	Grizzley Holdings Pty Limited	8,511,941	0.65
10	Mr Michael Sheridan	7,968,201	0.61
11	Mr Douglas Thomas Nicholas & Mr Graeme Douglas Nicholas	7,657,731	0.59
12	Berne No 132 Nominees Pty Ltd	7,219,044	0.55
13	Mr Geoffrey Victor Day	7,000,000	0.54
14	Mr William George Williams	5,194,509	0.40
15	Hydra Energy Services Pty Ltd	5,151,770	0.40
16	Mr John Scott Humphrey	5,112,034	0.39
17	Grandway Holdings Pty Ltd	4,900,000	0.38
18	Mr Damian Mario Cifonelli	4,600,000	0.35
19	Dawney & Co Pty Limited	4,600,000	0.35
20	Floteck Consultants Limited	4,450,000	0.34
	Total	765,046,528	58.76

1. Includes 30% held by IMC Investments Ltd as beneficial holder.

ISSUED SECURITIES

Issued securities as at 30 September 2016:

Security	Number on issue	Number of holders
Ordinary fully paid shares[1]	1,301,981,265	6,153
Ordinary partly paid shares[1]	1,500,000	1
Unlisted general options[2]	300,000,000	1
Unlisted employee options	3,866,667	5
Unlisted share appreciation rights	57,078,605	3

1. The Company's ordinary fully paid shares are listed on the Australian Securities Exchange. Partly paid ordinary shares have been forfeited and are held in trust by the Company.
2. The Company issued 300 million warrants over unissued shares of the Company in accordance with the terms of the subordinated debt facility with IMC Investments Limited signed on 15 September 2016.

SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

Ordinary shares	No. of ordinary shares	% of issued ordinary shares
IMC Investments Ltd (an associate of Austral-Asia Energy Pty Ltd)	390,574,175	30.00
Commonwealth Bank of Australia	101,312,290	7.78
Total	491,886,465	37.78

VOTING RIGHTS

a) Ordinary shares – fully paid

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

b) Ordinary shares – partly paid

Voting of members is governed by the Company's Constitution. In summary, every member present in person or by proxy attorney or representative shall have one vote on a show of hands and upon a poll, is entitled to one vote to the proportion of the total issue price then paid up.

c) Options (employee/general) - unlisted

No voting rights.

d) Share appreciation rights - unlisted

No voting rights.

Glossary

A-IFRS	Australian equivalents to International Financial Reporting Standards
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
bbl(s)	Barrel(s), oil barrel volume is 0.159 cubic metres
bcf	Billion cubic feet of natural gas
boe	Barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 cubic feet per barrel and not price equivalence at the time
boepd	Barrel of oil equivalent per day
bopd	Barrel of oil per day inclusive of NGLs
CNOOC	China National Offshore Oil Corporation
CEPA	Conservation and Environment Protection Authority PNG (formerly Department of Environment and Conservation (DEC)
DPE	Department of Petroleum and Energy (PNG)
EBITDAX	Earnings before interest, tax, depreciation, depletion and amortisation, and exploration expenses
ESP	Electrical submersible pump
FID	Final investment decision
FPSO	Floating production, storage and offloading vessel
GST	Goods and services tax
JOA	Joint operating agreement
km	Kilometres
LIBOR	London inter-bank offered rate
LNG	Liquified natural gas
mmbbl/mmbo	Million barrels / million barrels of oil
mmboe	Million barrels of oil equivalent
mtpa	Million tonnes (of LNG) per annum
NDRC	National Development and Reform Commission (China)
NGL(s)	Natural gas liquid(s)
ODP	Overall Development Plan (China)
PL	Pipeline Licence
PDL	Petroleum development licence (PNG)
PEP	Petroleum exploration permit (New Zealand)
PMP	Petroleum mining permit (New Zealand)
PRL	Petroleum retention licence (PNG)
Reserves	Reserves as included in this report refers to both Proven and Probable reserves (2P). Proven and Probable reserves are reserves that analysis of geological and engineering data suggests are more likely than not to be recoverable – there is at least a 50% probability that reserves recovered will exceed Proven and Probable reserves.
Contingent Resources	The company's technically recoverable resources (2C) for its discovered oil and gas fields are classified as contingent resources. These resources would be expected to be booked in reserves (Proven and Probable reserves) once commercialisation arrangements have been finalised.
PSA	Production Sharing Agreement
PNG	Papua New Guinea
SDA	Supplemental Development Agreement (China)
Sq km	Square kilometres
USD / US$	United States dollars
WHP	Wellhead platform
WOU	Workover unit
2D Seismic	Seismic recorded in 2 dimensions
3D Seismic	Seismic recorded in 3 dimensions

Company Directory

Horizon Oil Limited

ABN 51 009 799 455

Board of Directors	John Humphrey (Chairman) Brent Emmett (Chief Executive Officer) Gerrit de Nys Andrew Stock Sandra Birkensleigh
Company Secretary	Michael Sheridan
Assistant Company Secretary	Monika Fedorczyk
Australian Registered Office (Principal place of business)	Level 6, 134 William Street, Woolloomooloo NSW 2011 Telephone: +(612) 9332 5000 Facsimile: +(612) 9332 5050 E-mail: exploration@horizonoil.com.au Web site: www.horizonoil.com.au
Domicile and country of incorporation	Australia
Share Registrar	Boardroom Pty Limited Level 12, 225 George Street SYDNEY NSW 2000 Telephone: +(612) 9290 9600
Solicitors	King & Wood Mallesons Level 33 Waterfront Place 1 Eagle Street BRISBANE QLD 4000
Auditor	PricewaterhouseCoopers Darling Park Tower 2 201 Sussex Street SYDNEY NSW 1171
Stock Exchanges	Horizon Oil Limited shares are listed on the ASX (ASX code: HZN)
Notice of Annual General Meeting	The Annual General Meeting of Horizon Oil Limited will be held at Level 1, Grand Ballroom, The Sydney Boulevard Hotel, 90 William Street, Sydney Time: 10.00am Date: 29 November 2016

Horizon Oil

ABN 51 009 799 455

Level 6, 134 William Street
Woolloomooloo NSW 2011 Australia
T +612 9332 5000 F +612 9332 5050
www.horizonoil.com.au

NOTICE OF 2016 ANNUAL GENERAL MEETING

Horizon Oil Limited ABN 51 009 799 455

The Annual General Meeting (**"AGM"**) of the members of Horizon Oil Limited ACN 009 799 455 (the **"Company"**) will be held at 10.00am (Sydney time) on Tuesday, 29 November 2016 at Level 1, Grand Ballroom, The Sydney Boulevard Hotel, 90 William Street, Sydney, New South Wales, 2011 to transact the business set out below.

Members should refer to the accompanying Explanatory Memorandum for further information concerning the business to be carried out at the AGM.

Business

1. Consideration of reports

To receive and consider the Annual Financial Statements, the Directors' Report and the Independent Audit Report of the Company for the year ended 30 June 2016.

Note: There is no requirement for members to vote on this item of business.

2. Remuneration Report

To consider and, if thought appropriate, to pass the following as an ordinary resolution:

"That the Remuneration Report for the year ended 30 June 2016 (set out in the Directors' Report) be adopted."

Note: The vote on this resolution is advisory only and does not bind the Company or the directors.

Note: A voting exclusion applies to this item – see the Explanatory Memorandum.

3. Election of director – Ms Sandra Birkensleigh

To consider and, if thought appropriate, to pass the following as an ordinary resolution:

"That Ms Sandra Birkensleigh, a non-executive director appointed as an addition to the existing directors, being eligible, is elected as a non-executive director of the Company."

Further information in relation to this resolution and Ms Birkensleigh is set out in the Explanatory Memorandum.

4. Re-election of director – Mr Gerrit de Nys

To consider and, if thought appropriate, to pass the following as an ordinary resolution:

"That Mr Gerrit de Nys, a non-executive director retiring in accordance with the Company's Constitution, being eligible, is re-elected as a non-executive director of the Company."

Further information in relation to this resolution and Mr de Nys is set out in the Explanatory Memorandum.

5. Approval of 2016 grant of long term incentives ("LTIs") to Mr Brent Emmett, Chief Executive Officer and Managing Director

To consider and, if thought appropriate, to pass the following as an ordinary resolution:

"That approval be given for all purposes for the grant of up to 16,617,522 securities (including share appreciation rights ("**SARs**") and shares which may be issued as a result of the exercise or vesting of SARs) to the Chief Executive Officer and Managing Director, Mr Brent Emmett, in accordance with the terms of his employment agreement and as set out in the accompanying Explanatory Memorandum."

Further information in relation to this resolution is set out in the Explanatory Memorandum.

Note: A voting exclusion applies to this item – see the Explanatory Memorandum.

6. Renewal of Proportional Takeover Provisions in Company's Constitution

To consider and, if thought appropriate, pass the following as a special resolution:

"That Article 6.2 of the Company's Constitution be renewed for a period of three years in accordance with Part 6.5 of the Corporations Act."

Further information in relation to this resolution is set out in the Explanatory Memorandum.

By order of the Board.
Dated: 21 October 2016

....

Michael Sheridan
Company Secretary

Eligibility to attend and vote

For the purposes of the meeting and in accordance with regulation 7.11.37 of the *Corporations Regulations 2001* and ASX Settlement Operating Rule 5.6.1, shares will be taken to be held by the persons who are registered as members as at 7.00pm (Sydney time) on Sunday, 27 November 2016.

Proxies

If you are a member entitled to attend and vote, you are entitled to appoint a proxy to attend and vote on your behalf. If you are a member entitled to attend and cast two or more votes, you are entitled to appoint no more than two proxies. Where two proxies are appointed, you may specify the number or proportion of votes that each may exercise, failing which, each may exercise half of the votes. A proxy need not be a member of the Company.

If you want to appoint one proxy, please use the proxy form provided. If you want to appoint two proxies, please follow the instructions on the reverse of the proxy form.

The Company's Constitution provides that, on a show of hands, every person present and qualified to vote shall have one vote. If you appoint one proxy, that proxy may vote on a show of hands, but if you appoint two proxies, only the proxy first-mentioned in the instrument appointing the proxy may vote on a show of hands.

If you appoint a proxy who is also a member or is also a proxy for another member, your directions may not be effective on a show of hands. Your directions will be effective if a poll is required and your proxy votes.

To be effective, the proxy form must be received by Boardroom Pty Limited, by online submission or at the address or facsimile number below, or by the Company at its registered office, Level 6, 134 William Street, Woolloomooloo NSW 2011, not later than 10.00am (Sydney time) on Sunday, 27 November 2016, being 48 hours before the commencement of the meeting.

If the Chairman of the meeting is your proxy, and you fail to provide a voting direction in respect of Item 2 or Item 5 or on the proxy form (which you may do by ticking 'For', 'Against' or 'Abstain' opposite Item 2 or Item 5, as applicable, on the proxy form), you are expressly authorising the Chairman of the meeting to vote in favour of Item 2 or Item 5, as applicable, even if that resolution is connected directly or indirectly with the remuneration of directors or members of the key management personnel of the Company ("KMP"). Subject to any applicable laws or voting exclusions, the Chairman of the meeting intends to vote all available proxies in favour of the resolutions in this Notice of Meeting (including Item 2 and Item 5).

To vote online:

TO VOTE ONLINE
Step 1: VISIT www.votingonline.com.au/horizonoilagm2016
Step 2: Enter your Postcode OR Country of Residence (if outside Australia)
Step 3: Enter your Voting Access Code:

By mail:	**For delivery:**	**By fax:**
Boardroom Pty Limited	Boardroom Pty Limited	Boardroom Pty Limited
GPO Box 3993	Level 12, 225 George Street	+61 2 9290 9655
Sydney NSW 2001	Sydney NSW 2000	
AUSTRALIA	AUSTRALIA	

Admission to meeting

Members who will be attending the meeting and who will not be appointing a proxy are asked to bring the proxy form to the meeting to help with admission.

Members who do not plan to attend the meeting are encouraged to complete and return a proxy form for each of their holdings of shares in the Company.

A replacement proxy form may be obtained from the Company's external share registry:

Boardroom Pty Limited
Level 12, 225 George Street Sydney NSW 2000
Telephone: +61 2 9290 9600 or 1300 737 760
Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

EXPLANATORY MEMORANDUM

This Explanatory Memorandum contains information about the resolutions to be considered at the 2016 AGM, which are set out in the accompanying Notice of Meeting, to assist shareholders to determine how they wish to vote on the resolutions. This Explanatory Memorandum forms part of the accompanying Notice of Meeting and should be read together with the Notice of Meeting.

Items of business

1. Consideration of reports

There is no requirement for members to approve the reports described in Item 1. In accordance with the *Corporations Act 2001* ("**Corporations Act**") and the Company's usual practice, the Chairman will allow a reasonable opportunity for shareholders to ask questions or make comments about the reports and the management of the Company. A reasonable opportunity will also be given to members, as a whole, to ask the auditor, or their representative, questions relevant to the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

Written questions to the Company's auditor about:

> the content of the Independent Auditor Report; or

> the conduct of the audit of the Annual Financial Statement,

must be submitted no later than Tuesday 22 November 2016 to:

The Company Secretary
Level 6
134 William Street
Woolloomooloo, NSW 2011
Australia
Facsimile: +61 2 9332 5050

Copies of the questions, if any, to the Company's auditor will be available at or before the 2016 AGM.

2. Remuneration Report

The Remuneration Report is contained in the 'Directors' Report' of the Company's 2016 Annual Report. A copy of the 2016 Annual Report is available on the Company's website www.horizonoil.com.au.

The Remuneration Report:

> explains the principles used by the board to determine the nature and amount of remuneration of directors and executives; and

> sets out remuneration details for each director and each named executive.

The Chairman will give shareholders a reasonable opportunity to ask questions about or make comments on the Remuneration Report. The Corporations Act requires the Company to propose a resolution that the Remuneration Report be adopted.

The vote on this item is advisory only and does not bind the Company or the directors. However, the board will take the outcome of this vote into consideration when reviewing the remuneration practices and policies of the Company.

Voting exclusion statement – Item 2

*No votes may be cast on this item by or on behalf of members of the key management personnel of the Company ("**KMP**") or their closely related parties.*

However, a vote may be cast on Item 2 if the vote is not cast on behalf of a member of the KMP or their closely related parties and either the vote is cast:

- *by a member of the KMP, or their closely related party, if the vote is cast as a proxy for a person who is entitled to vote on this item, and the proxy appointment is in writing and specifies how the proxy is to vote on Item 2; or*
- *by the Chairman of the meeting, if the vote is cast as a proxy appointed in writing that does not specify the way the proxy is to vote on Item 2, and expressly authorises the Chairman of the meeting to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.*

If you appoint the Chairman of the meeting as your proxy, and you do not direct your proxy how to vote on Item 2, you will be expressly authorising the Chairman of the meeting to exercise your proxy even if Item 2 is connected directly or indirectly with the remuneration of a member of the KMP. The Chairman intends to vote all undirected proxies in favour of Item 2.

3. Election of director – Ms Sandra Birkensleigh

Ms Birkensleigh was appointed to the board as a director with effect from 2 February 2016.

Ms Birkensleigh has extensive experience in financial services particularly in respect to risk management, compliance and corporate governance. Ms Birkensleigh's career includes 24 years at PricewaterhouseCoopers (PwC) where she was formerly a Global Lead for Governance Risk & Compliance; a National Lead Partner Risk and Controls Solutions and a Service Team Leader for Performance Improvement.

She is currently a non-executive director of several companies including Auswide Bank Limited, MLC Limited and Plum Financial Services Limited. She is chair of the board audit committee and a member of the board risk committee for those companies and is an independent member of the audit committee of the Reserve Bank of Australia and a member of the audit and risk committee of the University of the Sunshine Coast.

Ms Birkensleigh is also chair to the Audit Committee, member of Remuneration and Nomination Committee, Risk Management and Disclosure Committees.

The directors (with Ms Birkensleigh abstaining) recommend that you vote in favour of this ordinary resolution.

4. Re-election of director – Mr Gerrit de Nys

The Company's Constitution provides that a director (other than the managing director) will not retain office for a period of more than three years or beyond the third annual general meeting following that person's election (whichever is greater).

Accordingly, Mr de Nys is required to retire at the end of this AGM and seeks re-election in accordance with the requirements of the Company's Constitution.

Mr de Nys, has been a director since 2007. He is a member of the Risk Management and Remuneration and Nomination Committees. Mr de Nys has over 44 years' experience in civil engineering, construction, oil field contracting and natural resource investment management. He is a non-executive director of SOCAM Development Limited and IMC Pan Asia Alliance Group subsidiaries (a related party of Austral Asia Energy Pty Ltd a substantial shareholder of Horizon Oil Limited), and a former director of Red Sky Energy Limited.

The directors (with Mr de Nys abstaining) recommend that you vote in favour of this ordinary resolution.

5. Approval of 2016 grant of long term incentives ("LTIs") to Mr Brent Emmett, Chief Executive Officer and Managing Director

The Company introduced the LTI Plan during 2010 to provide annual performance incentives to the Company's key employees. Members last approved the LTI Plan for the purposes of ASX Listing Rule 7.2, exception 9 at the Company's 2013 annual general meeting.

On 21 October 2016, the board (with Mr Emmett abstaining) approved the grant of 40,989,917 share appreciation rights ("**SARs**") to employees under the LTI Plan.

Of those, 16,617,522 SARs were approved by the board (with Mr Emmett abstaining) to be granted to Mr Emmett, subject to the approval of shareholders. As at the date of this Notice of Meeting, Mr Emmett's total fixed remuneration is A$889,968. The amount of 16,617,522 SARs to be granted to Mr Emmett (subject to the resolution of this Item 5) was calculated in accordance with the LTI Plan by dividing 50% of Mr Emmett's fixed remuneration by the present day value of the SARs as calculated by an independent valuer, Dalway Securities, on the effective allocation date for the SARS ("**Effective Allocation Date**") (A$0.026778). The VWAP of shares in the Company for the 10 business day period up to the day before the Effective Allocation Date for the purposes of the 2016 SARs award is A$0.0483.

The remaining 24,372,395 SARs were approved to be granted to employees who are not directors of the Company. The proposed grant to Mr Emmett is on the terms and conditions as outlined below.

Summary of the terms of the LTI Plan

In order to provide annual performance incentives to the Company's executives the board resolved on 1 April 2010 to establish the LTI Plan to replace previous LTI arrangements for the Company's senior executives. The grant of LTIs in accordance with the Company's LTI arrangements to Mr Emmett was last approved by members at the Company's 2015 annual general meeting. The LTI arrangements apply to senior executives and involve the grant of rights which will vest subject (amongst other things) to the level of total shareholder return ("**TSR**") achieved in the vesting period, relative to an appropriate index. Under the LTI Plan, the board has the discretion, subject to ASX Listing Rule requirements, to grant SARs to executives as LTIs. The board has determined that 50% of senior executives' fixed remuneration would be LTIs in the form of SARs, with the number of SARs granted to be based on the present day value of a SAR.

A SAR is a right to receive either or both a cash payment or shares in the Company, as determined by the board, subject to the Company satisfying certain conditions, including performance conditions.

The LTI Plan provides that the amount of the cash payment or the number of shares in the Company that the participant receives on exercise of the SAR is based on the value of the SAR at the time it is exercised ("**SAR Value**"). The SAR Value is the excess, if any, of the volume weighted average price ("**VWAP**") of shares in the Company for the ten business day period up to the date before the date the SAR is exercised over the VWAP of shares in the Company for the ten business day period up to the day before the Effective Allocation Date for the SARs. The Effective Allocation Date for the SARs is the grant date of the SARs or any other day determined by the board, at the time of the grant. The Effective Allocation Date would generally be the date the executive's entitlement was determined.

If the board determines that the SARs are to be satisfied in cash, the amount of cash that the participant receives on the exercise of the SARs is the SAR Value multiplied by the number of SARs exercised (less any deduction for taxes that the Company is required to make from the payment).

If the board determines that the SARs are to be satisfied in shares, the number of shares that the participant receives on the exercise of the SARs is the SAR Value divided by the VWAP of shares in the Company for the ten business day period up to the day before the day the SARs are exercised. Where the number of shares calculated is not a whole number, it will be rounded down to the nearest whole number.

Other key terms and conditions of the SARs that may be granted under the LTI Plan include:

Key terms & conditions	Long Term Incentive Plan
Eligible persons:	Under the terms of the LTI Plan, the Company may grant SARs to any employee. However, it is currently intended by the Company to only grant SARs under the LTI Plan to current senior executive employees including executive directors.
Exercise price:	No price is payable by a participant in the LTI Plan on the exercise of a SAR.
Performance requirements:	Under the LTI Plan, the number of SARs that vest is generally determined by reference to whether the Company achieves certain performance conditions. The number of SARs that vest is determined by reference to the Company's total shareholder return ("**TSR**") over the relevant period relative to that of the S&P/ASX200 Energy Index ("**Index**"). The number of SARs that vest is: • if the Company's TSR is equal to that of the Index ("**Minimum Benchmark**"), 50%; • if the Company's TSR is 14% or more above that of the Index, 100% ("**Maximum Benchmark**"); and • if the Company's TSR is more than the Minimum Benchmark but less than the Maximum Benchmark, a percentage between 50% and 100% based on the Company's TSR performance between the Minimum Benchmark and Maximum Benchmark. The Maximum Benchmark of 14% above the Index return equates to the performance level likely to exceed the 75th percentile of market returns of companies (weighted by company size) in the Index. Furthermore, even where these performance conditions are satisfied, the SARs will not vest unless the Company achieves a TSR of at least 10% over the relevant period. The performance conditions are tested on the date that is three years after the Effective Allocation Date of the SARs, and are then re-tested every six months after that until the date that is five years after the Effective Allocation Date of the SARs (the final retesting date). The performance conditions are also tested where certain circumstances occur, such as a takeover bid for the Company. If the SARs have not, pursuant to these performance conditions, vested by the final retesting date that is five years after the date the SARs are granted, the SARs will lapse.
Cessation of employment:	If a holder of SARs under the LTI Plan ceases to be employed by a member of the Company's corporate group, then this generally does not affect the terms and operation of the SARs. The board does, however, under the LTI Plan have discretion, to the extent permitted by law, to cause the SARs to lapse or accelerate the date on which the SARs become exercisable.
Maximum number of shares that can be issued:	Subject to various exclusions, the maximum number of shares that may be issued on the exercise of SARs granted under the LTI Plan is capped at 5% of the total number of issued shares of the Company.
Restrictions on exercise:	A SAR cannot be exercised unless it has vested. Where a SAR vests, a participant may not exercise the SAR until the first time after the time the SAR vests that the participant is able to deal with shares in the Company under the Company's securities trading policy. SARs are exercised by submitting a notice of exercise to the Company.

Lapse:	SARs will lapse where: • the SARs have not vested by the final retesting date which is five years after the date of grant (see above); • if the SARs have vested by the final retesting date that is five years after the date of grant, the SARs have not been exercised within three months of the date that the SARs would have first been able to be exercised if they vested at the final retesting date that is five years after the date of grant. This may be more than five years and three months from the date of grant depending on whether the holder of the SAR is able to deal with shares in the Company under the Company's securities trading policy at the date five years after the date of grant; • the employee ceases to be employed by the Company (or a member of its corporate group), and the board determines that some or all of the SARs lapse (see above); • the board determines that the employee has committed or it is evident that the employee intends to commit, any act (whether by commission or omission) which amounts or would amount to fraud or serious misconduct; or • the employee provides a notice to the Company that they wish the SARs to lapse.
Share ranking and quotation:	Shares provided pursuant to the exercise of a SAR will rank equally with the shares in the Company then on issue. Quotation on the ASX will be sought for all shares issued upon the exercise of SARs. SARs are not assignable or transferable.
No right to dividends, bonus or rights issues:	The SARs will not confer on the holder an entitlement to dividends or to participate in bonus issues or rights issues unless the board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.
No voting rights:	The SARs will not confer an entitlement to vote at general meetings of the Company unless the board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.
Non-quotation:	The Company will not apply to the ASX for official quotation of the SARs.
Capital re-organisation:	In the event of a reorganisation of the capital of the Company, the rights of the SARs holder will be changed to the extent necessary to comply with the ASX Listing Rules and shall not result in any additional benefits being conferred on SARs holders which are not conferred on members.
Effect of take-over or change of control of Company, death or disablement:	The LTI Plan contains provisions to deal with SARs where there is a takeover or change of control of the Company. Depending on the nature of the takeover or change of control event, the Company will either have the discretion or be required (if a change of control occurs) to determine a special retesting date for the performance requirements discussed above. For example, the board will have discretion to determine a special retesting date where a takeover bid is made for the Company or a scheme of arrangement is entered into. In that case, the special retesting date will be the date determined by the board. Where a statement is lodged with the ASX that a person has become entitled to acquire more than 50% of the Company, the board will be required to determine a special retesting date, and the special retesting date will be the day the statement is lodged with the ASX. The SARs may vest if the performance requirements discussed above are satisfied in relation to that special retesting date.

As at the date of this Notice of Meeting, Mr Emmett's total fixed remuneration is A$889,968. The amount of 16,617,522 SARs to be granted to Mr Emmett (subject to the resolution of this Item 5) was calculated in accordance with the LTI Plan by dividing 50% of Mr Emmett's fixed remuneration by the present day value of the SARs as calculated by an independent valuer, Dalway Securities, on the Effective Allocation Date (A$0.026778). The VWAP of shares in the Company for the 10 business day period up to the day before the Effective Allocation Date for the purposes of the 2016 SARs award is A$0.0483.

Shareholder approval of the grant of securities under the LTI Plan to Mr Emmett is sought for all purposes under the Corporations Act and the Listing Rules of the ASX, including Listing Rule 10.14.

As required by Listing Rule 10.15, the following information is provided in respect of the grant of SARs under the LTI Plan to an executive director:

Listing Rule	Content requirement	Item 4 LTI Plan
10.15.2	The maximum number of Company's ordinary shares that may be acquired on exercise of the proposed grant of securities and the formula for calculating the number of securities to be issued:	The maximum number of shares that may be acquired by Mr Emmett is 16,617,522. The number of shares that may be acquired by Mr Emmett on exercise of the SARs proposed to be granted to him, is determined at the time of exercise by reference to the SAR Value at the time the SAR is exercised and the VWAP of shares in the Company for the 10 business day period up to the day before the day the SAR is exercised (as described above).
10.15.3	Formula for calculating the price of securities to be acquired under the scheme:	Mr Emmett is not required to pay any price in order to acquire SARs under the LTI Plan. However, the value of what Mr Emmett receives if his SARs become exercisable is the SAR Value. This is based on the appreciation in the share price of the Company from the Effective Allocation Date until the date of exercise (see discussion above). The proposed Effective Allocation Date for Mr Emmett's SARs is 1 July 2016.
10.15.4	Names of directors and associates who have received securities under the scheme since the last approval; number received; and acquisition price:	Mr Emmett was granted 10,171,063 SARs following approval at the 2015 AGM which are exercisable at A$0.0865.
10.15.4A	Names of directors and associates entitled to participate in scheme:	Mr Emmett.
10.15.5	Voting exclusion statement:	Included – see below.
10.15.6	Terms of any loan in relation to acquisition:	There are no loans in relation to the acquisition of SARs or securities issued under the LTI Plan.
10.15.7	Date on which securities will be issued:	Subject to shareholder approval of the issue of the SARs, within five business days of the 2016 AGM, but in any event no later than 12 months after the date of the 2016 AGM.

Voting exclusion statement – Item 5

The Company will disregard any votes cast on Item 5 by:

- *Mr Brent Emmett, being the only director eligible to participate in the LTI Plan; or*
- *an associate of Mr Emmett.*

However, the Company need not disregard a vote if:

- *it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or*
- *it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.*

A vote must not be cast on Item 5 by a member of the KMP, or their closely related parties, acting as proxy, if their appointment does not specify the way the proxy is to vote on Item 5. However, this voting restriction does not apply if the member of the KMP is the Chairman of the meeting acting as proxy and their appointment expressly authorises the Chairman of the meeting to exercise the proxy even if that item is connected directly or indirectly with the remuneration of a member of the KMP.

If you appoint the Chairman of the meeting as your proxy, and you do not direct your proxy how to vote on Item 5, you will be expressly authorising the Chairman of the meeting to exercise your proxy even if Item 5 is connected directly or indirectly with the remuneration of a member of the KMP. The Chairman intends to vote undirected proxies in favour of Item 5.

The directors (with Mr Emmett abstaining) recommend that you vote in favour of Item 5.

6. Renewal of Proportional Takeover Provisions

It is proposed to renew, by special resolution of shareholders, Article 6.2 of the Company's Constitution for a three year period in accordance with Part 6.5 of the Corporations Act ("**Proportional Takeover Provisions**").

Section 648G of the Corporations Act requires a company's shareholders to approve the renewal of proportional takeover provisions at least every three years in order for those provisions to remain effective. The resolution in Item 6 proposes to renew Article 6.2 as a proportional takeover provision for the purposes of Part 6.5 of the Corporations Act.

Effect of renewing Proportional Takeover Provisions

The effect of approving the Proportional Takeover Provisions will be:

> if a proportional takeover bid is received by the Company, the directors are required to ensure that a resolution is voted on to approve the bid before the fourteenth day before the bid closes;

> a majority of the shares voted, excluding the shares of the offeror and its associates, is required for the resolution to be passed;

> if no resolution is voted on before the fourteenth day before the bid closes, such resolution is deemed to have been passed; and

> if the resolution is rejected:

- all offers that have not been accepted or that have been accepted and from whose acceptance binding contracts have not resulted shall be deemed to be withdrawn; and
- the bidder must rescind each contract resulting from the acceptance of an offer made under the takeover bid.

The Proportional Takeover Provisions do not apply to full takeover bids.

Reasons for approving the provisions

The board of directors considers that shareholders should have the opportunity to vote on a proposed proportional takeover bid.

A proportional takeover bid may result in effective control of the Company changing hands without shareholders having the opportunity of disposing of all of their shares. Shareholders could be at risk of passing control to the bidder without payment of an adequate control premium for all their shares whilst leaving themselves as a part of a minority interest in the Company.

Present acquisition proposals

As at the date of this notice, no director is aware of a proposal by any person to acquire, or increase the extent of, a substantial interest in the Company.

Review of the advantages and disadvantages of the Proportional Takeover Provisions

The potential advantages and disadvantages of the Proportional Takeover Provisions for the directors and shareholders of the Company are set out below. There has not been any proportional takeover bid as at the date of this notice.

Potential advantages:

> the board is able to formally ascertain the views of shareholders in respect of a proportional takeover;

> shareholders are given the right to determine whether a proportional takeover bid should proceed;

> shareholders have greater ability to avoid being locked in as a minority;

> bidders may be more inclined to structure their offer in a way which is more attractive to a majority of shareholders as a result of the shareholders' greater bargaining power; and

> knowing the view of a majority of shareholders may assist each individual shareholder in assessing the likely outcome of the bid and whether to approve or reject the offer under the bid.

Potential disadvantages:

> potential bidders may be discouraged from making a proportional takeover bid;

> the discouragement of potential bidders may lead to a depressed share price;

> an increased likelihood that a proportional takeover bid would not be successful; and

> the provisions may be considered by some shareholders as an unreasonable restriction on their ability to freely deal with their shares.

The directors recommend that you vote in favour of Item 6. The Chairman intends to vote undirected proxies in favour of Item 6.

Sydney

21 October 2016

Horizon Oil

All Correspondence to:

By Mail	Boardroom Pty Limited GPO Box 3993 Sydney NSW 2001 Australia
By Fax:	+61 2 9290 9655
Online:	www.boardroomlimited.com.au
By Phone:	(within Australia) 1300 737 760 (outside Australia) +61 2 9290 9600

YOUR VOTE IS IMPORTANT

For your vote to be effective it must be recorded **before 10:00am (Sydney time) on Sunday, 27 November 2016.**

TO VOTE ONLINE

BY SMARTPHONE

STEP 1: VISIT www.votingonline.com.au/horizonoilagm2016

STEP 2: Enter your Postcode OR Country of Residence (if outside Australia)

STEP 3: Enter your Voting Access Code (VAC):

Scan QR Code using smartphone QR Reader App

PLEASE NOTE: For security reasons it is important you keep the above information confidential.

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.

If you wish to appoint the Chair of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chair of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chair of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the company's securities registry or you may copy this form.

To appoint a second proxy you must:

(a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and

(b) return both forms together in the same envelope.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses (subject to any applicable voting restrictions). If you mark more than one box on an item for all your securities your vote on that item will be invalid.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders should sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the meeting, therefore by **10:00am (Sydney time) on Sunday, 27 November 2016.** Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

Online	www.votingonline.com.au/horizonoilagm2016
By Fax	+ 61 2 9290 9655
By Mail	Boardroom Pty Limited GPO Box 3993 Sydney NSW 2001 Australia
In Person	Boardroom Pty Limited Level 12, 225 George Street Sydney NSW 2000 Australia

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

Horizon Oil Limited
ACN 009 799 455

☐ **Your Address**
This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Securityholders sponsored by a broker should advise their broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

PROXY FORM

STEP 1 APPOINT A PROXY

I/We being a member/s of **Horizon Oil Limited (Company)** and entitled to attend and vote hereby appoint:

☐ the **Chair of the Meeting (mark box)**

OR if you are **NOT** appointing the Chair of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chair of the Meeting as my/our proxy at the Annual General Meeting **(Meeting)** of the Company to be held at **The Sydney Boulevard Hotel, Grand Ballroom, Level 1, 90 William Street, Sydney NSW 2011 on Tuesday 29 November 2016 at 10:00am (Sydney time)** and at any adjournment or postponement of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

If the Chair of the Meeting is your proxy or becomes your proxy by default: If I/we have appointed the Chair of the Meeting as my/our proxy or the Chair of the Meeting becomes my/our proxy by default and I/we have not directed my/our proxy how to vote in respect of Resolutions 2 or 5, I/we expressly authorise the Chair of the Meeting to exercise my/our proxy in respect of Resolutions 2 and/or 5 (as applicable) even though Resolutions 2 and 5 are connected directly or indirectly with the remuneration of a member of the key management personnel of the Company.

Subject to any applicable laws or voting exclusions, the Chair of the Meeting will vote all undirected or available proxies in favour of all Items of business (including Resolutions 2 and 5). In exceptional circumstances, the Chair of the Meeting may change his/her voting intention on any item of business, in which case an ASX announcement will be made by the Company. If you wish to appoint the Chair of the Meeting as your proxy with a direction to vote against, or to abstain from voting on an item of business, you must provide a direction by marking the 'Against' or 'Abstain' box opposite that item of business.

The Chair of the Meeting intends to vote all undirected or available proxies in favour of each item of business.

STEP 2 VOTING DIRECTIONS

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your vote will not be counted in calculating the required majority if a poll is called.

		For	Against	Abstain*
Resolution 2	To Adopt the Remuneration Report	☐	☐	☐
Resolution 3	Election of director – Ms Sandra Birkensleigh	☐	☐	☐
Resolution 4	Re-election of director – Mr Gerrit de Nys	☐	☐	☐
Resolution 5	Approval of 2016 grant of long term incentives ("LTIs") to Mr Brent Emmett, Chief Executive Officer and Managing Director	☐	☐	☐
Resolution 6	Renewal of Proportional Takeover Provisions in Company's Constitution	☐	☐	☐

STEP 3 SIGNATURE OF SHAREHOLDERS

This form must be signed to enable your directions to be implemented.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director / Company Secretary

Contact Name…………………………………………….. Contact Daytime Telephone……………………….......................... Date / / 2016