



Horizon Oil Limited ABN 51 009 799 155

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24 February 2011

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

Dear Sir,

HORIZON OIL (HZN) ADVISES HALF-YEAR LOSS AFTER TAX OF US\$1.6 MILLION

In accordance with Listing Rule 4.2A.3, Horizon Oil Limited lodges its half-year report for the period to 31 December 2010. The financial results for the period are set out in the attached Appendix 4D and half-year report.

A financial summary and key financial and operational results are set out below:-

- Financial summary**

	Note	Half-year to 31-Dec-10	Half-year to 31-Dec-09	Change %
Sales revenue (US\$'000)		24,780	24,444	1%
EBITDAX from operating activities		17,989	22,049	(18%)
Profit on sale of assets	1	0	54,074	(100%)
Impairment of exploration phase expenditure	2	7,340	0	N/A
Exploration expensed/(written-back)		43	91	(53%)
Depreciation and amortisation		5,321	7,176	(26%)
Finance costs		1,211	1,848	(34%)
Profit before tax		4,074	67,008	(94%)
NZ Royalty expense		2,342	1,863	26%
Income tax expense/(benefit)		3,331	8,564	(61%)
(Loss) / profit after tax		(1,599)	56,581	(103%)
Earnings per share (diluted) (Australian cents)	3	(0.14)	5.01	

Note 1: Reflects prior year sale of part of the Group's PNG exploration assets

Note 2: Reflects impairment of part of the Group's PNG exploration assets (PRL 5)

Note 3: A\$ conversion calculated based on the exchange rate prevailing at 31 December 2010 and 31 December 2009

- Financial results**

- The Group's overall loss for the half-year was US\$1.6 million, driven by gross profit from operations of US\$15.5 million and a net loss of \$7.3 million arising from the impairment of part of the Group's PNG exploration assets.
- Cash on hand at 31 December 2010 of US\$23.1 million (30 June 2010 – US\$26.5 million).

- US\$7.4 million of the Maari project facility was repaid from project cashflow in the half year period resulting in Maari project debt at 31 December 2010 of US\$14.6 million (30 June 2010 – US\$22.0 million).
- Net cash at 31 December 2010 (excluding FPSO finance lease obligations) of US\$8.5 million.

- **Operational results**

New Zealand

- Cumulative oil production from the Maari field through 31 January 2011 was 12.3 million barrels. Production from the field was constrained during the half year due to electrical problems with pumps in 3 wells, and a precautionary field shut down for 7 days. These problems were largely rectified during the half year, with ongoing efforts focusing on optimising production rates.
- The Manaia appraisal/development well was tied into the Maari platform during the half year supplementing Maari production.
- New 3D and 2D seismic surveys were completed over block PEP 51313, adjacent to Maari and Manaia fields, with encouraging preliminary results.

Papua New Guinea

- Site preparation and infrastructure development for the PNG appraisal / development campaign was completed during the half year. Stanley-2 appraisal well in PRL 4 was drilled with favourable preliminary results. Planning for drilling of Stanley-4 (PRL 4) is progressing well with Stanley-4 scheduled to spud in Q1 2011.
- New seismic surveys were also completed over the Sepalosiphon prospect which straddles PRL 4 and PPL 269.
- The PRL 5 joint venture was advised during the period by the Minister of Petroleum and Energy that he had refused to approve the application for an extension of the licence. The Company commenced legal proceedings, seeking leave for a judicial review of the Minister's decision. An injunction was successfully obtained to restrain dealings in respect of the PRL 5 acreage, while the legal proceedings remain afoot.

China

- The joint venture entered into a Supplemental Development Agreement with CNOOC for development of the WZ6-12 and WZ12-8W oil fields in the Beibu Gulf, offshore China. The Overall Development Plan was approved, and the joint venturers made their respective Financial Investment Decision (FID) in February 2011. Early development preparation activities are already underway.

Yours faithfully,



Michael Sheridan

Chief Financial Officer / Company Secretary



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Or visit www.horizonoil.com.au



Appendix 4D

**Half-year report
31 December 2010**

**Horizon Oil Limited
ABN 51 009 799 455**

This half-year report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3. This information should be read in conjunction with the Half-year report for the period to 31 December 2010.

1. Reporting Period

Current reporting period:	Half year ended 31 December 2010
Previous corresponding period:	Half year ended 31 December 2009

2. Results for Announcement to the Market For the half year ended 31 December 2010

NB: All references to \$ herein refer to US\$ unless otherwise specified.

		Percentage Change		Amount
		%		\$'000
2.1	Revenue from ordinary activities	Up	1.37%	to 24,780
2.2	Loss from ordinary activities after tax attributable to members	From profit to loss	N/A	to (1,599)
2.3	Net loss for the period attributable to members	From profit to loss	N/A	to (1,599)

2.4 Dividends / distributions

No dividends were paid during the half-year and none are proposed to be paid.

2.5 Record date for determining entitlements to dividends

N/A

2.6 Brief explanation of figures in 2.1 to 2.4 to enable the figures to be understood.

Revenue

During the half-year to 31 December 2010, revenue mainly consisted of sales of crude oil from the Maari field offshore New Zealand. The revenue is higher than the half-year ended 31 December 2009 due to higher realised oil prices during the period.

Profit from ordinary activities after tax

The decrease in net profit after tax and net profit attributable to members for the half-year to 31 December 2010 was largely driven by the prior period including a profit of \$54,070,000 arising from the sale of part of the Group's PNG exploration phase assets, and the current period including a net loss of \$7,340,000 arising from the impairment of part of the Group's PNG exploration assets, PRL 5.

3. Net Tangible Assets

Net tangible asset per ordinary share

31 December 2010	31 December 2009
0.15	0.17

4. Controlled entities acquired or disposed of during period

	Acquisitions	Disposals
4.1 Name of Entity	N/A	N/A
4.2 The date of gain/loss of control	N/A	N/A
4.3 Contribution to profit from ordinary activities during the half year ended 31 December 2010	N/A	N/A
Profit/(loss) during the half year ended 31 December 2009	N/A	N/A

5. Dividends/ distributions

No dividends were paid during the half-year and none are proposed to be paid.

6. Dividend Reinvestment Plans

N/A – the company does not operate a dividend reinvestment plan.

7. Associates and Joint Venture Entities

Nil

8. Accounting standards for foreign entities

N/A – Australian entity prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

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

Refer to the Half-year report for the period to 31 December 2010 for a copy of the unqualified independent auditor's review report to the members of Horizon Oil Limited.

Horizon Oil Limited
ABN 51 009 799 455

Half-year report – 31 December 2010

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as 'the Group') consisting of Horizon Oil Limited and the subsidiaries it controlled at the end of, or during the half-year ended 31 December 2010.

Directors

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

E F Ainsworth
B D Emmett
J S Humphrey
R A Laws
G de Nys

A Stock was appointed a director on 2 February 2011 and continued in office at the date of this report.

P Nimmo was a director from the beginning of the financial year until his resignation on 18 November 2010.

Review and Results of Operations

During the course of the half-year ended 31 December 2010, the Group's principal activities continued to be directed towards petroleum exploration, development and production.

The Group reported a loss of US\$1,599,000 for the current half-year compared with a profit of US\$56,581,000 in the 2009 half-year. The half-year result includes a gross profit of US\$15,497,000 (2009: US\$17,128,000) from Maari operations and a net loss of US\$7,340,000 arising from the impairment of part of the Group's PNG exploration assets.

The prior year result included a net profit of US\$54,074,000 arising from the disposal of part of the Group's PNG exploration assets. As noted in the 2010 Annual Report, the Group subsequently adjusted this gain on sale by reversing deferred consideration of US\$21,488,000 during the six months to 30 June 2010. Accordingly, the net gain on sale decreased by US\$21,488,000 to US\$32,586,000, and the deferred consideration was reclassified as a contingent asset.

Non-cash expenses impacting on the half-year result include US\$5,274,000 (2009: US\$7,144,000) in amortisation of production phase assets, US\$4,185,000 (2009: US\$9,164,000) in deferred income and royalty tax and US\$351,000 (2009: US\$338,000) related to the value of share options and share appreciation rights granted to Horizon Oil employees.

Segmental information is included in note 2 of the financial statements.

Maari and Manaia fields, offshore Taranaki Basin

During the half year, Horizon Oil's working interest share of production from Maari field was 303,322 barrels of oil. Cumulative oil production from the field through 31 January 2011 was 12.3 million barrels.

Production from the field was constrained during the period by the shut-in of 3 wells, the MR2, MR4 and MR9, with down-hole electrical problems. The MR2 and MR4 wells were worked over to successfully repair down-hole pump faults and these wells are now on production. The Maari M2A well, the MR9, remains shut-in awaiting work over in April / May 2011.

The field was shut-in from 20 – 27 November 2010 as a precautionary measure, when an oil sheen was observed in the vicinity of the FPSO *Raroa*. Detailed cargo tank and under hull inspections confirmed its source to be a small amount of residual oil trapped beneath the FPSO's hull from an accidental discharge of oil on 18 October 2010 during de-ballasting operations. The cause of the spill has been identified and measures put in place to ensure that this type of accidental discharge does not happen again.

The extended reach well drilled to appraise the Mangahewa formation of the Manaia structure, the MN1 well, started clean-up flow production on 9 October and by 10 October was flowing at a rate in excess of 4,000 bopd. Production performance over the next several months will be analysed for the purposes of designing a development plan and determining recoverable reserves for the Manaia Mangahewa zone.

Reservoir engineering work is continuing with the objective of designing development plans for all the commercially viable oil and gas zones within the Greater Maari Area.

PEP 51313, Offshore Taranaki Basin

Processing of the 204 sq km 3D seismic grid and 85 km 2D lines acquired in April and May 2010 was completed during the half year and interpretation is underway. The objective is to develop a prospect for drilling on the Matariki trend, south of Maari field, for drilling in the summer of 2011 / 2012.

Papua New Guinea

Preparation for the appraisal / development drilling campaign was completed during the half year with significant infrastructure development including the establishment of a supply base, office and camp, and upgraded wharf facilities in Kiunga. The intention is to utilise this infrastructure in future production operations, in particular the export of condensate by river tanker.

PRL 4, Stanley Field

Site preparation was completed during the half year to provide for the Stanley-2 and Stanley-4 well locations, camp and future gas processing facilities. Construction of the camp was also completed in the period.

Stanley-2 spudded on 5 December 2010, utilising Parker *Rig* 226. The well is designed to appraise the Stanley gas / condensate accumulation, discovered by the Stanley-1 well in 1999. The well has been drilled to a measured depth of 3,173 m in quartzite basement and wireline logs, fluid sampling and pressure measurements were acquired. The primary Toro formation was present with the expected thickness of 35 m, similar to that of the equivalent discovery zone in the Stanley-1 well and appears to contain gas and condensate of similar composition. The secondary objective in the Imburu zone, below the Toro, contained a 56 m thick reservoir section which was also gas-bearing.

Front end engineering and design (FEED) work for the Stanley field development is complete and under review. Horizon Oil, as operator of the condensate stripping project, has engaged with a maritime operator currently managing bulk shipping operations in the region to develop a shipping solution for export of condensate. Investigation of marketing opportunities for the product is underway.

Recording of a 44 km seismic survey over the Sepalosiphon prospect (to be shared 50/50 between the PRL 4 and PPL 269 joint ventures) as well as a 14 km infill line along the axis of the Stanley structure was also completed during the half year.

The joint venture has been granted a one year extension of PRL 4 until August 2011. Documents and reports required for the application for the Stanley field Production Development Licence (PDL) have been submitted and are progressing through the various government departments.

PRL 5, Elevala / Ketu discoveries

During the half year, the PRL 5 joint venture, composed of subsidiaries of Horizon Oil, Santos Limited and Talisman Energy Inc., was advised by the Minister of Petroleum and Energy that he had refused to approve the application for an extension of the licence. The Company had previously advised shareholders that the Minister had advised his intent not to renew PRL 5 on the basis that the joint venture had failed to fulfil the licence conditions. The joint venture has made submissions to the Minister, demonstrating that the joint venture has, in fact, satisfied the licence conditions and that the permit is in good standing.

Several options remain open to the joint venture to gain the requested extension of PRL 5, including taking action under the laws of Papua New Guinea and / or the Agreement between the Government of Australia and the Government of the Independent State of Papua New Guinea for the Promotion and Protection of Investments. A subsidiary of the Company, Horizon Oil (Papua) Limited, commenced legal proceedings in the PNG courts, seeking leave for a judicial review of the Minister's decision not to renew PRL 5. Horizon Oil (Papua) Limited was successful in obtaining an injunction to restrain dealings in respect of the PRL 5 acreage, while the legal proceedings remain afoot. Whilst the Company considers there is a good prospect that the Minister's decision will be reviewed following the judicial review, due to the inherent uncertainty surrounding the judicial review, the Company considers it prudent to impair the carrying value of the PRL 5 exploration expenditure until the matter is resolved.

Block 22/12, Beibu Gulf

On 24 August 2010 the Block 22/12 joint venture entered into a Supplemental Development Agreement (SDA) with China National Offshore Oil Corporation (CNOOC) for development of the WZ6-12 and WZ12-8W oil fields in the Beibu Gulf, offshore China. This was a key milestone for development of the fields, in which Horizon Oil will hold a 14.7% interest in the development which currently has certified recoverable reserves of 24 million barrels of oil gross, 3.5 million barrels of oil net. The SDA confirms that CNOOC will take a 51% participating interest in the project. The existing Petroleum Contract provides for recovery of Horizon Oil's past exploration and appraisal costs out of a cost recovery pool.

The Environmental Impact Assessment and Overall Development Plan (ODP) were submitted to CNOOC for final expert review and approval, and in January 2011, CNOOC advised that it had internally approved Project Investment and the Overall Development Plan (ODP). Project Investment and ODP was subsequently submitted to Chinese Government Authorities for formal approvals.

The joint venturers made their respective Financial Investment Decision (FID) in February, 2011. Early development preparation activities such as preliminary engineering design work and bidding for long lead equipment are already under way.

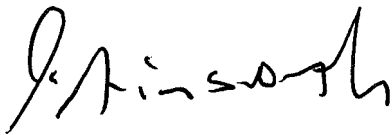
Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set on page 6.

Rounding

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission ('ASIC'), relating to the "rounding off" of amounts in the directors' report and interim financial report. Amounts in the directors' report and interim financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

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



E F Ainsworth AM
Chairman



B D Emmett
Chief Executive Officer

Sydney

24 February 2011

PricewaterhouseCoopers
ABN 52 780 433 757

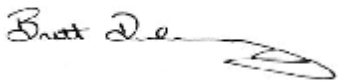
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Auditors' Independence Declaration

As lead auditor for the review of Horizon Oil Limited for the half year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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



Brett Delaney
Partner
PricewaterhouseCoopers

Brisbane
24 February 2011

HORIZON OIL LIMITED

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2010

	Note	Half-year	
		2010 US\$'000	2009 US\$'000
Revenue		24,780	24,444
Cost of sales		(9,283)	(7,316)
Gross profit / (loss)		15,497	17,128
Profit from sale of assets	3	-	54,074
Other revenue / other income		664	221
Impairment of exploration phase expenditure	3	(7,340)	-
General and administrative expenses		(3,493)	(2,476)
Exploration and development expenses		(43)	(91)
Finance costs		(1,211)	(1,848)
Profit / (loss) before income tax expense		4,074	67,008
NZ royalty tax expense		(2,342)	(1,863)
Income tax expense		(3,331)	(8,564)
(Loss) / profit for the half-year		(1,599)	56,581
Other comprehensive income			
Changes in the fair value of cash flow hedges		18	147
Total comprehensive income for the half-year		(1,581)	56,728
(Loss) / profit attributable to members of Horizon Oil Limited		(1,599)	56,581
Total comprehensive income attributable to members of Horizon Oil Limited		(1,581)	56,728
Earnings per share for (loss) / profit attributable to the ordinary equity holders of the Company		US Cents	US Cents
Basic earnings per share		(0.14)	5.02
Diluted earnings per share		(0.14)	5.01

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

HORIZON OIL LIMITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

		31 December 2010 US\$'000	30 June 2010 US\$'000
	Note		
Current Assets			
Cash and cash equivalents	4	23,091	26,509
Receivables		3,572	3,520
Inventories		3,604	3,272
Other		890	249
Total Current Assets		31,157	33,550
Non-Current Assets			
Deferred tax assets		4,524	4,326
Plant and equipment		1,039	905
Exploration phase expenditure	5	42,014	44,710
Oil and gas assets	6	88,184	88,138
Total Non-Current Assets		135,761	138,079
Total Assets		166,918	171,629
Current Liabilities			
Payables		9,329	8,111
Derivative financial instruments		36	54
Borrowings	7	20,059	20,553
Total Current Liabilities		29,424	28,718
Non-Current Liabilities			
Payables		464	651
Deferred tax liability		7,527	3,145
Borrowings	7	10,568	19,940
Provisions		5,151	4,810
Total Non-Current Liabilities		23,710	28,546
Total Liabilities		53,134	57,264
Net Assets		113,784	114,365
Equity			
Contributed equity	8	125,977	125,328
Reserves		4,372	4,003
Accumulated losses		(16,565)	(14,966)
Total Equity		113,784	114,365

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

HORIZON OIL LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2010

	Attributable to members of Horizon Oil Limited				Minority Interest	Total Equity
	Contributed equity US\$'000	Reserves US\$'000	Accumulated losses US\$'000	Total US\$'000	US\$'000	US\$'000
Balance at 1 July 2009	124,917	2,999	(67,311)	60,605	-	60,605
Profit for the half-year	-	-	56,581	56,581	-	56,581
Cash flow hedges	-	147	-	147	-	147
Total comprehensive income for the half-year	-	147	56,581	56,728	-	56,728
Transactions with owners in their capacity as equity holders:						
Contributions of equity, net of transaction costs	296	-	-	296	-	296
Employee share options	-	338	-	338	-	338
	296	338	-	634	-	634
Balance at 31 December 2009	125,213	3,484	(10,730)	117,967	-	117,967
Balance at 1 July 2010	125,328	4,003	(14,966)	114,365	-	114,365
(Loss) for the half-year	-	-	(1,599)	(1,599)	-	(1,599)
Cash flow hedges	-	18	-	18	-	18
Total comprehensive income for the half-year	-	18	(1,599)	(1,581)	-	(1,581)
Transactions with owners in their capacity as equity holders:						
Contributions of equity, net of transaction costs	649	-	-	649	-	649
Employee share options	-	351	-	351	-	351
	649	351	-	1,000	-	1,000
Balance at 31 December 2010	125,977	4,372	(16,565)	113,784	-	113,784

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

HORIZON OIL LIMITED**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

For the half-year ended 31 December 2010

	Half-year	
	2010	2009
	US\$'000	US\$'000
Cash flows from operating activities		
Receipts from customers	24,663	24,032
Payments to suppliers and employees	(5,773)	(4,878)
	18,890	19,154
Interest received	33	20
Interest paid	(1,109)	(1,722)
Income and royalty taxes paid	(1,918)	(2)
Net cash inflows / (outflows) from operating activities	15,896	17,450
Cash flows from investing activities		
Payments for exploration phase expenditure	(9,281)	(4,799)
Payments for oil and gas assets	(251)	(7,993)
Payments for plant and equipment	(197)	(114)
Net proceeds on sale of exploration phase expenditure	-	29,988
Net cash (outflows) / inflows from investing activities	(9,729)	17,082
Cash flows from financing activities		
Proceeds from issue of shares	505	296
Payment of share issue expenses	-	(55)
Repayment of borrowings	(9,966)	(17,099)
Net cash (outflows) / inflows from financing activities	(9,461)	(16,858)
Net (decrease) / increase in cash and cash equivalents	(3,294)	17,674
Cash and cash equivalents at the beginning of the half-year	26,509	10,000
Effects of exchange rate changes on cash and cash equivalents	(124)	(56)
Cash and cash equivalents at the end of the half-year	23,091	27,618

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

Note 1. Basis of preparation of half year report

The general purpose financial statements for the interim half-year reporting period ended 31 December 2010 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

Impact of standards issued but not yet applied by the entity

In December 2009, the AASB issued AASB 9 *Financial Instruments* which addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The group is yet to assess its full impact. However, initial indications are that it will not have a material effect on the group's financial statements. The group has not yet decided when to adopt AASB 9.

Note 2. 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 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 field (PMP 38160), located offshore New Zealand;
- New Zealand exploration – the Group is currently involved in the exploration and evaluation of hydrocarbons in one offshore permit area, PEP 51313;
- China exploration – the Group is currently involved in the exploration and evaluation of hydrocarbons in one permit area, Block 22/12; and
- PNG exploration - the Group is currently involved in the exploration and evaluation of hydrocarbons in two onshore permit areas, PRL 4 and PRL 5.

'All other segments' include amounts of a corporate nature not specifically attributable to an operating segment.

HORIZON OIL LIMITED
Notes to the financial statements

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

	New Zealand Development	New Zealand Exploration	China Exploration	Papua New Guinea Exploration	All other segments	Total
Half-year 2010	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment revenue:						
Revenue from external customers	24,780	-	-	-	-	24,780
Profit / (loss) before tax	13,660	(1)	(20)	(7,900)	(2,329)	3,410
Depreciation and amortisation	5,274	-	-	45	76	5,395
Half-year 2009						
Segment revenue:						
Revenue from external customers	24,443	-	-	-	1	24,444
Profit / (loss) before tax	15,018	(10)	-	(162)	(2,101)	12,745
Depreciation and amortisation	7,144	-	-	4	28	7,176
Total segment assets at 31 December 2010						
	103,347	4,159	20,137	27,326	11,949	166,918
Additions to non-current assets other than financial assets and deferred tax during the half-year ended:						
Exploration and evaluation phase expenditure:	-	141	855	8,068	-	9,064
Oil and gas assets:	900	-	-	-	-	900
Plant and equipment:	-	-	-	145	110	255
Total segment liabilities at 31 December 2010	48,036	454	1,294	1,973	1,377	53,134
Total segment assets at 30 June 2010						
	99,607	9,448	19,440	23,780	19,354	171,629
Additions to non-current assets other than financial assets and deferred tax during the year ended:						
Exploration and evaluation phase expenditure:	-	8,297	1,789	5,037	-	15,123
Oil and gas assets:	7,806	-	-	-	-	7,806
Plant and equipment:	-	-	-	508	191	699
Total segment liabilities at 30 June 2010	52,851	388	1,482	1,058	1,485	57,264

(c) Other segment information

(i) Segment revenue

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

Segment revenue reconciles to total consolidated revenue as follows:

	Half-year	
	2010	2009
	US\$'000	US\$'000
Total segment revenue	24,780	24,444
Rental income	35	31
Interest income	33	20
Foreign exchange gain (net)	343	-
Fees charged to operated joint ventures	188	104
Other income	65	66
Total revenue	25,444	24,665

(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:

	Half-year	
	2010	2009
	US\$'000	US\$'000
Total segment profit before tax	3,410	12,745
Rental income	35	31
Interest income	33	20
Fees charged to operated joint ventures	188	104
Other income	65	66
Foreign exchange gain / (loss) (net)	343	(32)
Profit from sale of assets	-	54,074
Profit / (loss) before tax	4,074	67,008

(iii) Segment assets and liabilities

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

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

Note 3. Loss / (profit) for the half year - Significant items

Loss / (profit) for the half-year includes the following items that are unusual because of their nature, size or incidence:	31 December 2010 US\$'000	31 December 2009 US\$'000
a) Gains – Profit from sale of assets		
Consideration on sale of assets		
Cash received	-	20,980
Fair value of deferred consideration	-	29,573
	-	50,553
Net liabilities disposed	-	6,360
Cost of sale	-	(2,839)
Profit from sale of assets	-	54,074
b) Expenses – Impairment		
Impairment of exploration phase expenditure - PRL 5	7,340	-

- a)** On 14 September 2009, the Company completed a transaction with a subsidiary of Talisman Energy Inc. ('Talisman') regarding the Company's interests in PRLs 4 and 5, PNG.

The intended net effect of the transaction, which included the transfer of a working interest and the shares in a wholly-owned subsidiary of Horizon Oil to Talisman, was that the Group and Talisman would each hold 50% interests in PRLs 4 and 5. The consideration of US\$60,000,000 to be received by the Group is to be paid as follows:-

- US\$30,000,000 in cash which was received at closing on 14 September 2009.
- US\$8,000,000 to be drawn down at any time and applied to Group's share of capital expenditure on the licences. As at 31 December 2010 this has been fully drawn down.
- US\$22,000,000¹ in deferred consideration to be drawn down and applied to the Group's share of capital expenditure on the licences after PNG ministerial consents to the working interest transfers in PRLs 4 and 5 required by the transaction have been granted. As at the date of this report, these approvals have not been received.

The Group initially recorded a gain on sale of US\$54,074,000 from the above transaction in the period to 31 December 2009 which included US\$21,488,000¹ in deferred consideration attributable to the transfer to Talisman of an interest in PRL 4. As noted above, receipt of the deferred consideration remains subject to PNG ministerial consent to the relevant working interest transfers. At 31 December 2009, the Group had every expectation those transfers would be approved and as a result the deferred consideration was recognised in accordance with accounting standards.

Given the circumstances surrounding the status of PNG ministerial consent (discussed in more detail below), the Group has subsequently adjusted the gain on sale by reversing deferred consideration of US\$21,488,000¹ during the six months to 30 June 2010. Accordingly, the net gain on sale has decreased by US\$21,488,000 to US\$32,586,000, and the deferred consideration has been reclassified as a contingent asset.

- b) On 5 November 2010, the PRL 5 joint venture, composed of Horizon Oil (Papua) Limited, and wholly owned subsidiaries of Santos Limited and Talisman Energy Inc., was advised by the PNG Minister of Petroleum and Energy that he had refused to approve the application for an extension of the PRL 5 licence on the basis that the joint venture had failed to fulfil the licence conditions and consequently the Minister will not approve the working interest transfers mentioned above.

The joint venture had made submissions to the Minister, demonstrating that the joint venture had, in fact, satisfied the licence conditions and that the permit was in good standing. Independent legal advice supports this view and indicates that the Minister's decision is contrary to law and practice. On this basis, the Company has commenced legal action under the laws of Papua New Guinea requesting a judicial review over the Minister's decision to refuse to approve the application for an extension of the PRL 5 licence. Based on independent legal advice, the Company considers there is a good prospect that the Minister's decision will be reviewed following the judicial review. However, due to the inherent uncertainty surrounding the judicial review, the Company considers it prudent to impair the carrying value of the PRL 5 exploration expenditure until the matter is resolved.

Accordingly, the Company has fully impaired the value of its exploration phase expenditure related to PRL 5 of \$7,340,000 at 31 December 2010.

¹ US\$21,488,000 of revenue represents US\$22,000,000 consideration discounted due to the deferred nature of its receipt.

Note 4. Cash and cash equivalents

	31 December 2010 US\$'000	30 June 2010 US\$'000
Cash at bank and on deposit	17,596	19,920
Restricted cash*	5,495	6,589
	23,091	26,509

*Under the terms of its finance facilities (refer Note 7) certain cash balances are not available to the Group until certain conditions of the facility agreement are satisfied.

Note 5. Exploration phase expenditure

	31 December 2010 US\$'000	30 June 2010 US\$'000
Opening balance	44,710	34,548
Expenditure	9,064	15,123
Transfers to oil and gas assets ¹	(4,420)	-
Disposals	-	(4,961)
Expenditure written-off/impaird – see note 3	(7,340)	-
Closing balance	42,014	44,710

¹ On 1 July 2010 the New Zealand Crown Minerals Group approved the extension of the Maari PMP 38160 to incorporate the Manaia field. The Manaia well (MN1) commenced production during the period and accordingly all associated Manaia exploration expenditure was transferred to oil and gas assets.

Note 6. Oil and gas assets

	31 December 2010 US\$'000	30 June 2010 US\$'000
Opening balance	88,138	92,428
Expenditure	900	7,806
Transfers from exploration phase expenditure ¹	4,420	-
Amortisation incurred	(5,274)	(12,096)
Closing balance	88,184	88,138

¹ On 1 July 2010 the New Zealand Crown Minerals Group approved the extension of the Maari PMP 38160 to incorporate the Manaia field. The Manaia well (MN1) commenced production during the period and accordingly all associated Manaia exploration expenditure was transferred to oil and gas assets.

Note 7. Borrowings

	31 December 2010 US\$'000	30 June 2010 US\$'000
Current		
Bank loan (a)	14,434	15,172
Lease liability (b)	5,625	5,381
	20,059	20,553
Non-Current		
Bank loan (a)	-	6,482
Lease liability (b)	10,568	13,458
	10,568	19,940
Total Borrowings	30,627	40,493

(a) Bank loan – Project debt facility

The facility is a USD denominated finance facility providing funding up to an agreed maximum of US\$14,636,400 (30 June 2010: US\$21,957,600 including cost overrun facilities). Floating interest in respect of the facility is at LIBOR plus a weighted average margin of 1.69% (30 June 2010: 1.79%). The facility matures in December 2011.

The facility is secured by a floating charge over the shares and assets of the borrower and related entities. The Group is subject to covenants which are common for a facility of this nature.

(b) Lease liability

The lease liability is secured by a floating charge over the leased asset.

Note 8. Contributed equity

a) Share capital

		31 December 2010 Number	30 June 2010 Number	31 December 2010 US\$'000	30 June 2010 US\$'000
Ordinary shares					
Fully paid	(b)(i)	1,130,311,515	1,126,621,515	125,480	124,999
Partly paid	(b)(ii)	2,000,000	2,000,000	497	329
		1,132,311,515	1,128,621,515	125,977	125,328

b) Movements in share capital

(i) Ordinary shares (fully paid)

Date	Details	Number of shares	Issue price	US\$'000
30/06/2010	Balance at 30 June 2010	1,126,621,515		124,999
1/09/2010	Exercise of employee options	1,190,000	A\$0.148	154
1/09/2010	Transfer from partly paid shares	1,000,000	A\$0.148	116
8/09/2010	Exercise of employee options	1,500,000	A\$0.148	211
31/12/2010	Balance at 31 December 2010	1,130,311,515		125,480

(ii) Ordinary shares (partly paid)

Date	Details	Number of shares	Issue price	US\$'000
30/06/2010	Balance at 30 June 2010	2,000,000		329
1/09/2010	Transfer to fully paid shares	(1,000,000)	A\$0.148	(116)
12/11/2010	Exercise of employee options	500,000	A\$0.27	136
12/11/2010	Exercise of employee options	500,000	A\$0.295	148
31/12/2010	Balance at 31 December 2010	2,000,000		497

Note 9. Contingent assets and liabilities

a) Contingent assets

The Group had the following contingent assets as at 31 December 2010 that may become receivable:

On 14 September 2009, the Group completed a transaction with a subsidiary of Talisman Energy Inc. ('Talisman') regarding the Group's interests in PRLs 4 and 5, onshore PNG. The intended net effect of the transaction, which included the transfer of a working interest and the shares in a wholly-owned subsidiary of Horizon Oil to Talisman, was that the Group and Talisman would each hold 50% interests in PRLs 4 and 5. Total consideration for the transaction amounted to US\$60,000,000 of which US\$22,000,000 was deferred pending receipt of PNG ministerial consent of the working interest transfers required by the transaction. See Note 3(a) for further details. Having received independent legal advice, the Group considers that there is a reasonable basis to believe that the ministerial consent will be forthcoming. However, the contingent asset for the \$22,000,000 deferred consideration has not been

recognised as a receivable at 31 December 2010 as receipt of the amount is dependent on ministerial consent to the working interest transfers being granted.

b) Contingent liabilities

The Group had the following contingent liabilities as at 31 December 2010 that may become payable:

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

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

Note 10. Exploration, development and production expenditure commitments

The exploration, development and production expenditure commitments based on current status and knowledge of estimated quantum and timing are as follows:

	NZ Development	New Zealand Exploration	China Exploration	Papua New Guinea Exploration	Total
31 December 2010	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Within one year	1,956	1,578	14,999	8,682	27,215
Over one year	2,450	-	32,957	-	35,407
Total	4,406	1,578	47,956	8,682	62,622

	NZ Development	New Zealand Exploration	China Exploration	Papua New Guinea Exploration	Total
30 June 2010	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Within one year	1,650	37	867	16,870	19,424
Over one year	-	-	-	-	-
Total	1,650	37	867	16,870	19,424

Note 11. Related party transactions

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

Mr J Humphrey, a director of Horizon Oil Limited is also a member of the law firm Mallesons Stephen Jacques. During the half year to 31 December 2010, Mallesons Stephen Jacques provided legal services to the Group. Total fees paid during the half year amounted to US\$67,387.

Dr Nimmo, a director of Horizon Oil Limited for part of the half year is also a director and shareholder of Hydra Energy Services Pty Limited. During the financial year, Hydra Energy

Services Pty Limited provided consulting services to the Group. Total fees paid during the half year amounted to US\$2,268.

Note 12. Events occurring after balance sheet date

Other than the matters disclosed in this interim financial report, there has not been any matter or circumstance which has arisen since 31 December 2010 that has significantly affected, or may significantly affect.

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

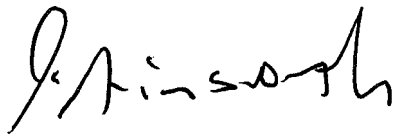
HORIZON OIL LIMITED

Directors' Declaration

In the directors' opinion:

- (a) the attached interim financial statements and notes are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with relevant Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance, as represented by the results of its operations and its cashflows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Horizon Oil Limited will be able to pay its debts as and when they become due and payable.

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



E F Ainsworth AM
Chairman



B D Emmett
Chief Executive Officer

Sydney

24 February 2011

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Horizon Oil Limited, which comprises the balance sheet as at 31 December 2010, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the consolidated entity. The consolidated entity comprises both Horizon Oil Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Horizon Oil Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

**Independent auditor's review report to the members of
Horizon Oil Limited (continued)**

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the Company for the half-year ended 31 December 2010 included on Horizon Oil Limited's web site. The company's directors are responsible for the integrity of the Horizon Oil Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

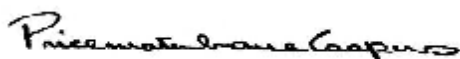
Independence

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

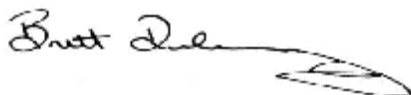
Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



PricewaterhouseCoopers



Brett Delaney
Partner

Brisbane
24 February 2011