Horizon Oil Limited ABN 51 009 799 455
Level 6, 134 William Street, Woolloomooloo NSW Australia 2011
Tel +61 2 9332 5000, Fax +61 2 9332 5050 www.horizonoil.com.au

23 May 2016

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

Notice to Convertible Bondholders

US$80,000,000 5.50 per cent. Convertible Bonds due 2016 (the "Bonds") issued by the Company (ISIN: XS0635397911)

Please see the attached Notice to Convertible Bondholders recently released to the SGX inviting Convertible Bondholders to approve certain modifications to the terms and conditions of the Bonds.

Yours faithfully

Michael Sheridan

Chief Financial Officer and Company Secretary
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Or visit www.horizonoil.com.au

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This is to inform you that the holders of the Bonds (the **"Bondholders"**) will be asked to consider and, if thought fit, pass a written resolution as set out in the Notice of Written Resolution (the **"Written Resolution"**).

The Company is inviting the Bondholders to approve certain modifications to the terms and conditions of the Bonds, including to:

(a) extend the maturity of the Bonds to 19 September 2016;

(b) adjust the interest rate payable on the Bonds from the Original Maturity Date to the Final Maturity Date (each having the meaning given in the Written Resolution) to 10.0 per cent. per annum calculated by reference to the principal amount of the Bonds; and

(c) adjust the payment of the accrued premium of 8.80 per cent. of the principal amount of the Bonds so that it is payable on the Original Maturity Date.

The terms and conditions of the consent solicitation and the proposed amendments to the terms and conditions of the Bonds will be set out in full in the consent solicitation memorandum (the “**Consent Solicitation Memorandum**”) to be made available by the Company on or about 23 May 2016 (the “**Publication Date**”).

Please also refer to the ASX announcement attached to this notice which sets out the Company’s proposed recapitalisation arrangements.

The detailed timetable in relation to the consent solicitation will be set out in the Consent Solicitation Memorandum.

The Principal Agent for the consent solicitation is Deutsche Bank AG, Hong Kong Branch and the Consent Solicitation Agent is UBS AG, Australia Branch:

Principal Agent **Deutsche Bank AG, Hong Kong Branch** Level 52, International Commerce Centre 1 Austin Road West, Kowloon Hong Kong Attention: Trust and Agency Service Fax: +852 2203 7320 Email: hk.csg@list.db.com	**Consent Solicitation Agent** **UBS AG, Australia Branch** Level 16, Chifley Tower, 2 Chifley Square Sydney NSW 2000 Australia Telephone: +612-9324-2142 / +852-2971-8140 Attention: Richard Saywell / Chris Gray Email: richard.saywell@ubs.com / chris.gray@ubs.com

Dated: 23 May 2016

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Convertible Bond refinancing

Further to the update in the Company's March 2016 quarterly report, the Company advises that its major shareholder, IMC Investments Limited (**IMC**), has agreed to provide financial support for the refinancing of the Company to address the Company's redemption obligations in respect of the US$58.8m 5.5% Convertible Bonds (**Bonds**) issued in 2011 (**Refinancing Arrangements**).

After extensive consideration over the last 12 months of various avenues to fund the redemption of the Bonds, the Company has determined that the Refinancing Arrangements provide the most appropriate solution having regard to the challenging macroeconomic conditions and low oil price environment.

The Refinancing Arrangements are designed to:

- provide the Company with US$60 million of new funding (in addition to current cash of in excess of US$20 million) to enable the Company to repay in full the remaining Bonds (plus accrued interest) at an extended maturity date (as detailed below);
- extend the tenor of the Company's debt profile and continue the Company's program of reducing overall gearing levels; and
- strengthen the Company's financial flexibility in a low oil price environment and position the Company to take advantage of recovering oil prices.

The Company has secured formal undertakings from the Company's Bond holders, in excess of the requisite 90% majority, to vote in favour of the extension to the date of maturity of the Bonds to 19 September 2016. This will provide sufficient time to implement the Refinancing Arrangements. The formal Bondholder Consent Solicitation and Written Resolution will be provided to Bondholders this week.

Importantly, the Refinancing Arrangements are intended to ensure the Company will be well positioned to exploit its key oil production assets in China and New Zealand and material condensate rich gas fields in PNG.

Summary of Refinancing Arrangements

The US$60 million Refinancing Arrangements will comprise:

- a US$20 million accelerated non-renounceable entitlements offer (**Rights Issue**) with IMC to commit to take up its full pro-rata entitlement and sub-underwrite up to 100% of any non-IMC shortfall (to be reduced depending on the commitments of other sub-underwriters). Horizon Oil has engaged UBS AG, Australia Branch (**UBS**) to manage the issue and, it is intended, subject to customary terms and final documentation of IMC's commitment and sub-underwriting, that UBS be appointed as underwriter for the Rights Issue and to procure alternative sub-underwriters in an effort to broaden the institutional ownership in the Company post-transaction; together with

- a US$40 million subordinated secured non-amortising loan (**Loan**). The Company may prepay the loan at any time. Loan repayment may be required by IMC after 3 years, where IMC provides not less than 3 months' notice; however the full term of the Loan is up to 5 years. The interest rate is LIBOR plus 9% and there are no prepayment penalties. Upon receipt of shareholder approval (discussed below), the Company will issue to IMC 300 million warrants (**Warrants**) over unissued shares of the Company with an exercise price of 120% of the theoretical ex-Rights' Price of Horizon Oil shares and a term of 5 years. In the event that IMC requires repayment of the loan after 3 years, the Warrant Holder will be required to exercise the Warrants outstanding, as long as the price of the shares is greater than the exercise price, and either IMC or the Company may require the funds from the exercise to be offset against the Loan outstanding.

The drawdown of the Loan and the associated issue of the Warrants to IMC will be subject to Horizon Oil shareholder approval, which will be sought at a general meeting expected to be convened in July 2016 (EGM). The Rights Issue will only proceed if shareholder approval is received at the EGM.

The Loan is subject to customary and specific conditions including completion of confirmatory due diligence by IMC, execution of all required documentation, including satisfactory inter-creditor arrangements, and Horizon Oil shareholder approval, as noted above.

Full details in relation to the Loan, the proposed issue of Warrants and the Rights Issue, including a report from an independent expert, will be set out in the Notice of Meeting and Explanatory Statement to be dispatched convening the EGM.

Financial close of the Loan is intended to occur concurrently with settlement of the Rights Issue.

Horizon Oil's CEO, Mr Brent Emmett, said:

"The proposed refinancing arrangements provide stability and demonstrate the continued benefit of the strong support we enjoy from our major shareholder, IMC, in a challenging environment. Upon implementation, the refinancing arrangements will provide the requisite additional finances for the Company to redeem the Bonds in full, while reducing gearing to a level more appropriate for the current oil price environment. This will ensure that Horizon Oil will be in a strong position when oil prices recover and preserves shareholder exposure to a quality portfolio of producing oil assets and longer term exposure to upside in our strategic Papua New Guinea gas position.

From an operational perspective, I am pleased to say that the Maari and Manaia fields in New Zealand and Beibu Gulf fields in China continue to produce strongly at or above forecast, with significantly reduced cash operating expense. Planning for commercialisation of our Stanley gas/condensate field (PDL 10) and Elevala/Ketu fields (PRL 21) in PNG is progressing well, despite the subdued investment climate. These development projects will benefit from the dramatic deflation in capital costs that the industry is experiencing. In addition, the prospects for commercialisation have been considerably enhanced by:

- *the emergence of potential domestic customers requiring power for large scale projects which can be gas-fired;*
- *potential demand for additional gas reserves for "brownfield" expansion of the highly successful, Exxon-operated PNG LNG project; and*
- *the emerging market for LNG for power generation in the Indonesian archipelago, which our projects are geographically well located to supply."*

Yours faithfully

Michael Sheridan

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