Horizon Oil Limited ABN 51 009 799 455
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30 August 2016

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

Dear Sir

HORIZON OIL LIMITED ('HZN')
RESULTS FOR THE YEAR ENDED 30 JUNE 2016
INCLUDING PRELIMINARY FINAL REPORT (APPENDIX 4E)

The financial results for the financial year ended 30 June 2016 are set out in the attached results announcement, Preliminary Final Report (Appendix 4E) and Annual Financial Report.

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

Financial Summary

	30-Jun-16 US$'000	30-Jun-15 US$'000	Change %
Sales revenue	**75,952**	103,950	(27%)
EBITDAX[1]	**53,995**	89,117	(39%)
(Loss)/profit before tax and impairment	**(2,211)**	17,751	(112%)
Impairment of non-current assets	**(147,515)**	-	-
(Loss)/profit after tax	**(144,525)**	18,307	(889%)
Cash on hand	**16,079**	61,343	(74%)
Cashflow from operating activities	**44,203**	58,843	(25%)
Reserves-Based Debt Facility[2]	**89,141**	120,000	26%
Convertible Bond[3]	**58,800**	80,000	27%
Net Debt[2,3]	**131,862**	138,657	5%
Oil and gas production (barrels)	**1,354,982**	1,310,485	3%

Commenting on the result, Horizon Oil's Chief Executive Officer, Brent Emmett, stated:
"The Company's strong operational performance from its core oil production assets in China and New Zealand has resulted in a sound underlying financial result, in the face of a challenging oil price environment. Despite the low average oil price through the year, the Company has continued to materially reduce its overall debt levels, complete the Maari growth project program and bring on an additional production well in Block 22/12, China. This has been achieved by way of solid operating income enhanced by oil price hedging, reduced per barrel operating costs and deep cuts in capital expenditure.
Subject to shareholder approval at the forthcoming general meeting, the redemption of the Company's convertible bonds in September 2016 with the IMC subordinated debt facility extends the maturity profile of the Company's debt, eliminating near term liquidity challenges and providing a stable platform for the continued reduction of overall gearing levels from oil production revenues.
The non-cash impairment of the carrying value of the Company's Maari production asset and its condensate-rich gas resources in Papua New Guinea reflects the current oil price and, of necessity, takes into account the independent expert's valuation, prepared for the purposes of the upcoming general meeting. Having said that, the material unrisked valuation of the Company's PNG assets, between US$274 and US$552 million, determined by the independent expert, demonstrates the substantial potential to be realised from the Company's participation in the development of an

aggregate PNG 2C resource of 1.8 tcf of gas and 67 mmbbl of condensate. Horizon Oil and its partners have made good progress over the last 12 months in advancing plans to commercialise this large resource."

Note 1: EBITDAX and EBIT are financial measures which are not prescribed by Australian Accounting Standards and represents the profit under Australian Accounting Standards adjusted for depreciation, amortisation, interest expense, taxation expense 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 has not been subject to any specific audit procedures by the Group's auditor but has been extracted from the financial reports for the years ended 30 June 2016 and 30 June 2015, which have been subject to audit by the Group's auditors.
Note 2: Represents principal amounts drawn down as at 30 June 2016.
Note 3: Represents principal amount repayable unless converted prior to 19 September 2016.
Note 4: All references to $ are to US dollars unless otherwise specified.

Financial Results

- 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.

- 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 (2014: US$68.90 per barrel) before hedging. 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.

- The Group reported a loss 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.

- Cash on hand as at 30 June 2016 was US$16.1 million (30 June 2015: US$61.3 million).

- 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. Drawdown on the facility remains subject to satisfaction of customary conditions precedent and shareholder approval, with a General Meeting to be held on 6 September 2016. 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, which were issued in 2011 to increase the Company's interest in, and provide the development funding for, the Company's core production asset – Block 22/12, offshore China. 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% pa.

- In conjunction with 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 shareholder approval and implement the refinancing arrangements. 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.

- 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.

- 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.

Operational highlights
China

- 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. Later in 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, 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.

- 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.

New Zealand

- 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.

Papua New Guinea

- During the year, 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.

- The Stanley joint venture 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.

- The PRL 21 joint venture achieved a major milestone with the formal approval by the PNG Conservation and Environment Protection Authority of the Elevala Development environmental impact statement.

- The PRL 21 joint venture 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.

Yours faithfully

Michael Sheridan
Chief Financial Officer / Company Secretary

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Or visit:	www.horizonoil.com.au

Horizon Oil Limited

Appendix 4E
Preliminary Final Report
For the financial year ended 30 June 2016

ABN 51 009 799 455

This Preliminary Final Report is provided to ASX Limited ('ASX') under ASX Listing Rule 4.3A.

This information should be read in conjunction with the Annual Financial Report for the financial year ended 30 June 2016.

Current reporting period:	Financial year ended 30 June 2016
Previous corresponding period:	Financial year ended 30 June 2015

Results for Announcement to the Market

		Percentage Change		Amount
				US$'000
Revenue from continuing operations	Down	27%	to	75,952
Loss from ordinary activities after tax	Up	889%	to	144,525
Loss for the period attributable to members	Up	888%	to	144,471

Dividends/distributions

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

Net Tangible Assets

	2016 US cents	2015 US cents
Net tangible asset backing per ordinary share	22.0	40.1

Controlled entities acquired or disposed of

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.

No other controlled entities were acquired or disposed of during the current or previous financial year.

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

HORIZON OIL LIMITED

ABN 51 009 799 455

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

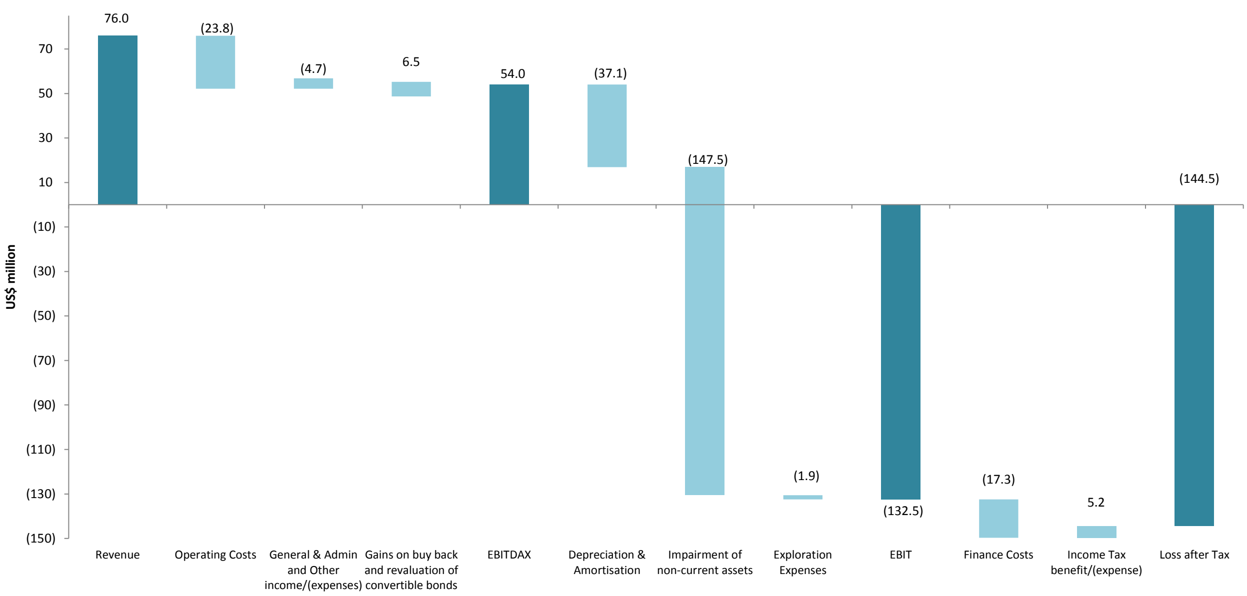
During the financial year, the principal activities of the Group continued to be directed towards petroleum exploration, development and production.

A detailed review of the operations of the Group during the financial year is set out in the Activities Review on pages 86 to 88 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 bond 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.

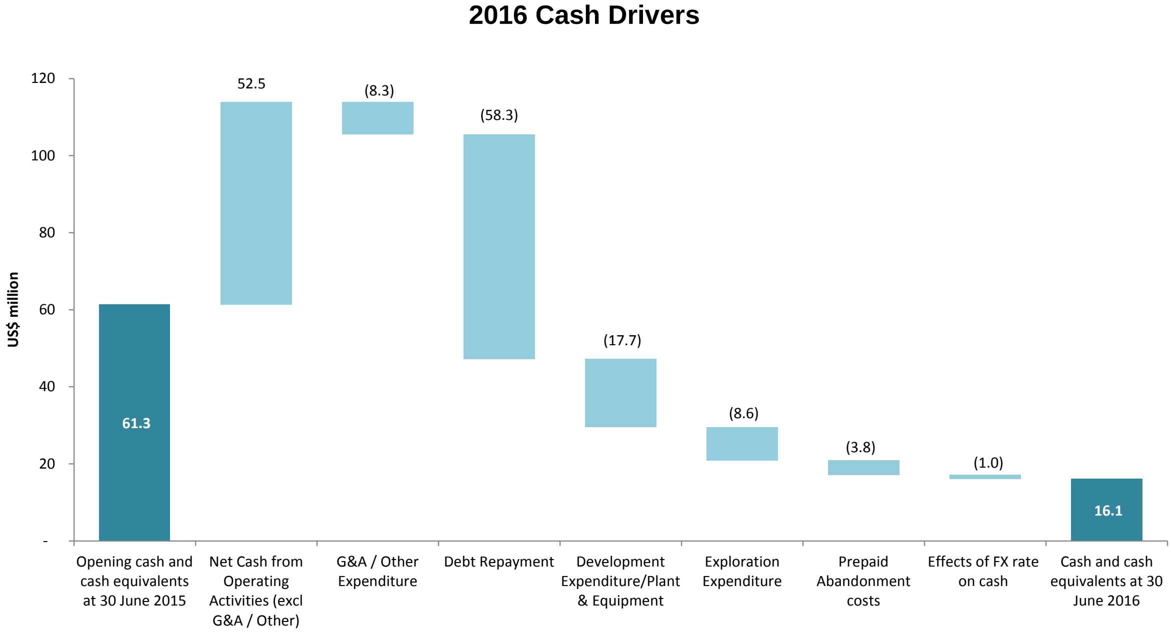
Consolidated Statement of Financial Position

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



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 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 17 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 & 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.

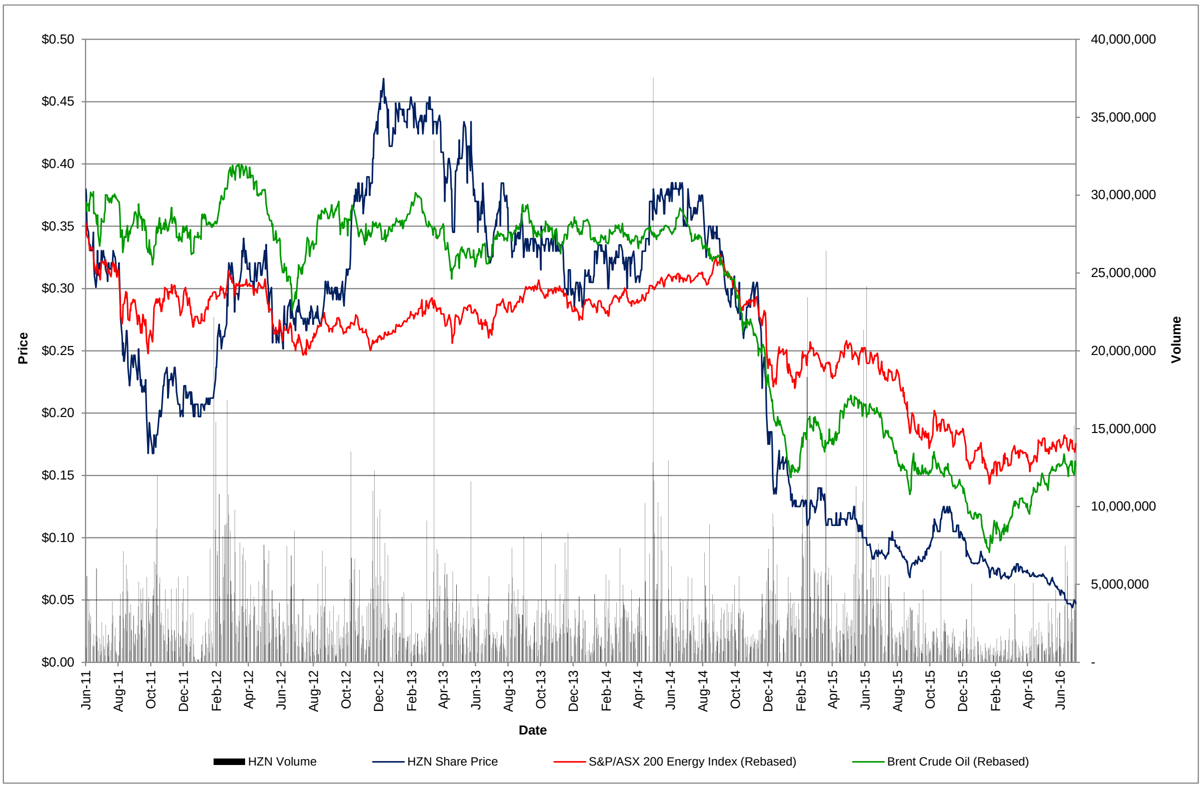
Performance requirements:	Under the LTI Plan, the number of SARs that vest is generally determined by reference to whether the Company achieves certain performance conditions. The number of SARs that vest is determined by reference to the Company's total shareholder return ('**TSR'**) over the relevant 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 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 below:

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 9, 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 17.

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

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 elapsed 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*
B D 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	-	-	-	-
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

*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 18 to 20.

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 18 to 20.

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 24.

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.

Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
30 August 2016

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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:

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

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

HEALTH & 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 1.0 – 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: Nick Wambare & Baila Mase practise their CPR
Figure 2: 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.

During the year, the Company maintained an environmental monitoring program. The program included quarterly reviews of an established network to gain an overall understanding of seasonal variations in the Company's proposed area of operation. Analysis of the results indicates a healthy and dynamic riverine system with no evidence of impact from historical oil and gas activities in the area.

As part of the environmental monitoring program, the Company expanded the monitoring network to develop and implement a baseline riverbank erosion program for the project area. This measure was taken to develop a comprehensive understanding of riverbank conditions prior to the project and included local land-owners as key members of the team that assessed and established the locations.

Figure 3: 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, Margaret Sibert 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.

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

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 11 to 21 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 FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Note	Consolidated 2016 US$'000	2015 US$'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.

HORIZON OIL LIMITED

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
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

Consolidated		Attributable to members of Horizon Oil Limited					
		Contributed equity	Reserves	Retained profits	Total	Non-controlling interest	Total Equity
	Note	US$'000	US$'000	US$'000	US$'000	US$'000	US$'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 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 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 & 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	30 June 2015
	US$'000	US$'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 US$'000	NZD US$'000	PGK US$'000	RMB US$'000	SGD US$'000	AUD US$'000	NZD US$'000	PGK US$'000	RMB US$'000	SGD US$'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, 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 US$'000	2015 US$'000	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'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 US$'000	2015 US$'000	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'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 US$'000	2015 US$'000	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'000	2016 US$'000	2015 US$'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	
	30 June 2016	30 June 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 estimate. 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 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.

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Note 5. Revenue		
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.

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Note 6. Expenses		
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

	2016 US$'000	2015 US$'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

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Note 7. Income tax expense		
(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	2015
	US$'000	US$'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.

	Consolidated	
	2016	2015
	US$'000	US$'000
Note 8. Current assets – Cash and cash equivalents		
Cash at bank and on hand	**9,615**	41,279
Restricted cash (refer note (a) below)	**6,464**	20,064
	16,079	61,343

(a) 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%).

	Consolidated	
	2016	2015
	US$'000	US$'000
Note 9. Current assets – Receivables		
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).

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Note 10. Inventories		
Crude oil, at cost	**1,370**	2,186
Drilling inventory, at cost	**422**	2,721
	1,792	4,907

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Note 11. Current tax receivable		
Income tax – China	**650**	2,091
	650	2,091

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Note 12. Current – Other assets		
Prepayments	**1,655**	1,435
	1,655	1,435

	Consolidated 2016 US$'000	Consolidated 2015 US$'000
Note 13. Non-current assets – Deferred tax assets		
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	Leasehold improvements	**Total**
	US$'000	US$'000	**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	Leasehold improvements	**Total**
	US$'000	US$'000	**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 & 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.

	Consolidated 2016 US$'000	2015 US$'000
Note 17. Current liabilities – Payables		
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

	Consolidated 2016 US$'000	2015 US$'000
Note 18. Deferred Income		
Deferred income	**-**	2,212
	-	2,212

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	Consolidated 2016 US$'000	2015 US$'000
Note 19. Derivative financial instruments		
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.

	Consolidated 2016 US$'000	2015 US$'000
Note 20. Borrowings		
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$'000	2015 US$'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$'000	2015 US$'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	2015
	US$'000	US$'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	2015
	US$'000	US$'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	2015
	US$'000	US$'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).

	Consolidated	
	2016	2015
	US$'000	US$'000
Note 26. New Zealand Imputation Credits		
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 US$'000	2015 US$'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 51.00% 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 51.00%.
3. 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 exist 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 **Exploration Phase Expenditure**	**Segment**	**Impairment write-down 2016**	**Recoverable amount* 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)**	

*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.

	Consolidated	
	2016	2015
	US$'000	US$'000
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:		
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	2015
	US$	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 subsidiary	**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[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	-
01/07/2015	01/07/2020	A$0.09[4]	-	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[3]	350,000	-	-	(350,000)	-	-
28/05/2012	28/08/2015	A$0.26[2]	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	500,000
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	-
02/11/2015	02/11/2020	A$0.20[3]	-	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 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.

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	2015
	US$'000	US$'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.

	Consolidated	
	2016	2015
	US$'000	US$'000
Note 34. Employee entitlements		
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 leases 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 US$'000**	**New Zealand Exploration[1] US$'000**	**China Exploration & Development US$'000**	**Papua New Guinea Exploration & Development US$'000**	**Total 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 US$'000**	**New Zealand Exploration US$'000**	**China Exploration & Development US$'000**	**Papua New Guinea Exploration & Development US$'000**	**Total 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**

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 after income tax to net cash flows from operating activities

	Consolidated	
	2016	2015
	US$'000	US$'000
Profit 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

	2016	2015
	US cents	US cents
Note 41. Earnings per share		
(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).

ACTIVITIES REVIEW

PRODUCTION

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

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

DEVELOPMENT

Papua New Guinea *- PDL 10, Stanley Field* (Horizon Oil: 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 *- PRL 21, Elevala / Ketu discoveries* (Horizon Oil: 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.

New Zealand *- PEP 51313,* offshore Taranaki Basin (Horizon Oil: 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 *- PPL 259,* Western Province (Horizon Oil: 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 & pressure data was undertaken to refine the prospects and leads portfolio.

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

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