



Horizon Oil Limited ABN 51 009 799 155

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25 February 2010

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

Dear Sir,

HORIZON OIL (HZN) ADVISES HALF-YEAR PROFIT AFTER TAX OF US\$56.6 MILLION

In accordance with Listing Rule 4.2A.3, Horizon Oil Limited lodges its half-year report for the period to 31 December 2009. The financial results for the period are set out in the attached Appendix 4D and half-year report.

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

• **Financial summary**

	Note	Half-year to 30/06/2009 ^a	Half-year to 31-Dec-09	Change %
Oil and gas production (barrels)		164,444	403,302	145%
Sales revenue (US\$'000)		8,145	24,444	200%
EBITDAX from operating activities		4,958	22,049	345%
Profit on sale of assets	1	0	54,074	N/A
Exploration expensed/(written-back)		(719)	91	N/A
Depreciation and amortisation		2,938	7,176	144%
Finance costs		2,136	1,848	-13%
Profit before tax		603	67,008	11,012%
NZ Royalty expense		140	1,863	1,231%
Income tax expense/(benefit)		(1,482)	8,564	N/A
Profit after tax		1,945	56,581	2,809%
Earnings per share (diluted) (Australian cents)	2	0.28	5.59	

^a Derived from the relevant published annual and half year financial reports

Note 1: Reflects Talisman transaction

Note 2: A\$ conversion calculated based on the exchange rate prevailing at 30 June 2009 and 31 December 2009

• **Financial results**

- The Group's overall profit for the half-year was US\$56.6 million, driven by gross profit from operations of US\$17.1 million and profit of US\$54.1 million on the sale of part of the Group's PNG interests.
- Cash on hand at 31 December 2009 of US\$27.6 million (30 June 2009 – US\$10.0 million).

- The Maari project debt facility completion tests were satisfied in September 2009 with lender's recourse thereafter limited to the Maari project assets and cashflows.
- US\$14.6 million of the Maari project facility was repaid from project cashflow in the half year period resulting in Maari project debt at 31 December 2009 of US\$31.1 million (30 June 2009 – US\$45.7 million).
- Net debt at 31 December 2009 (excluding FPSO finance lease obligations) of US\$3.5 million.

- **Operational results**

New Zealand

- The eight well Maari project development drilling program was completed and an additional two successful appraisal/development wells were drilled and completed in the Maari M2A zone and on the Manaia structure. Development of the field is now complete, with a cumulative 6.4 million barrels of oil produced at the date of this report.
- Horizon Oil's New Zealand exploration position was enhanced with the farm-in to a 30% interest in PEP 51313 adjacent to Maari and Manaia fields with planning for new 200 sq km 3D seismic survey in PEP 51313 underway.

Papua New Guinea

- The Group sold a half interest in PRL 4, Papua New Guinea, to Talisman Energy Inc. for US\$60 million, comprising US\$30 million in cash and a US\$30 million work carry commitment. (US\$22 million of the work carry may be drawn down after PNG Government approval of the working interest transfers required by the transaction has been granted.) The Group retains a 50% participating interest in PRLs 4 and 5 after the sale of the PRL 4 interest to Talisman Energy Inc.
- Planning for drilling of Stanley-2 (PRL 4) and Elevala-2 (PRL 5) wells in Papua New Guinea is progressing well with Stanley-2 scheduled to spud in Q3 2010.

China

- The plan for an integrated development of Block 22/12, offshore China, was completed in the period and commercial discussions with China National Offshore Oil Corporation on remaining issues are at an advanced stage.

Yours faithfully,



Michael Sheridan

Chief Financial Officer / Company Secretary



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Appendix 4D

**Half-year report
31 December 2009**

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

This half-year report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3. This information should be read in conjunction with the Half-year report for the period to 31 December 2009.

1. Reporting Period

Current reporting period:	Half year ended 31 December 2009
Previous corresponding period:	Half year ended 31 December 2008

2. Results for Announcement to the Market For the half year ended 31 December 2009

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

		Percentage Change		Amount
		%		\$'000
2.1	Revenue from ordinary activities	Up	222,118%	to 24,444
2.2	Profit from ordinary activities after tax attributable to members	From loss to profit	N/A	to 56,581
2.3	Net profit for the period attributable to members	From loss to profit	N/A	to 56,581

2.4 Dividends / distributions

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

2.5 Record date for determining entitlements to dividends

N/A

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

Revenue

During the half-year to 31 December 2009, revenue mainly consisted of sales of crude oil from the Maari field offshore New Zealand. The revenue is significantly higher than the half-year ended 31 December 2008 as production from the Maari field did not commence until February 2009.

Profit from ordinary activities after tax

The increase in net profit after tax and net profit attributable to members for the half-year to 31 December 2009 was largely driven by gross profits from Maari field operations of \$17,128,000 and a profit of \$54,070,000 arising from the sale of part of the Group's PNG exploration phase assets.

3. Net Tangible Assets

Net tangible asset per ordinary share

31 December 2009	31 December 2008
0.17	0.13

4. Controlled entities acquired or disposed of during period

	Acquisitions	Disposals
4.1 Name of Entity	N/A	Horizon Oil (Kanau) Limited
4.2 The date of gain/loss of control	N/A	14 September 2009
4.3 Contribution to profit from ordinary activities during the half year ended 31 December 2009	N/A	\$3,000 loss
Profit/(loss) during the half year ended 31 December 2008	N/A	\$5,000 loss

5. Dividends/ distributions

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

6. Dividend Reinvestment Plans

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

7. Associates and Joint Venture Entities

Nil

8. Accounting standards for foreign entities

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

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

Refer to the Half-year report for the period to 31 December 2009 for a copy of the unqualified independent auditor's review report to the members of Horizon Oil Limited.

Horizon Oil Limited
ABN 51 009 799 455

Half-year report – 31 December 2009

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2009 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as 'the Group') consisting of Horizon Oil Limited and the subsidiaries it controlled at the end of, or during the half-year ended 31 December 2009.

Directors

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

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

Review and Results of Operations

During the course of the half-year ended 31 December 2009, the Group's principal activities continued to be directed towards petroleum exploration, development and production.

The Group reported a profit of US\$56,581,000 for the current half-year compared with a loss of US\$10,008,000 in the 2008 half-year. The half-year result includes a gross profit of US\$17,128,000 from Maari operations and a net profit of US\$54,074,000 arising from the disposal of part of the Group's PNG exploration assets. Non-cash expenses impacting on the half-year result include US\$7,144,000 (2008: US\$Nil) in amortisation of production phase assets, US\$9,164,000 (2008: US\$Nil) in deferred income and royalty tax and US\$338,000 (2008: US\$350,000) related to the value of share options granted to Horizon Oil employees.

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

Maari field, offshore Taranaki Basin

Simultaneous drilling and production operations continued during the half-year with the development drilling phase coming to a close on 22 November 2009 following the release of the *EnSCO 107* drilling rig.

Despite frequent interruptions necessitated by development drilling operations, the field produced 403,301 bbls (2008: Nil) net to the Group during the half-year with a total of 357,220 bbls (2008: Nil) lifted and sold during the same period giving rise to revenue of US\$24,444,000 and gross profit of US\$17,128,000. Cumulative gross oil production from Maari field as at the date of this report exceeds 6.4 million bbls.

On a financing front, the technical and operational completion tests of the Maari project debt facility were satisfied during the half-year, with completion under the debt facility achieved on 30 September 2009.

Two successful appraisal / development wells were drilled from the Maari platform on secondary zones – the M2A sands and the Manaia Mangahewa formation. Both wells were completed for production.

The main focus on the wellhead platform now is installation of the workover unit and tie-in of the successfully-drilled M2A and Manaia appraisal and development wells.

PRLs 4 and 5, onshore Papua New Guinea

During the half-year, progress on the PRL 4, Stanley field development was made on two fronts. On the regulatory side, work relating to the Petroleum Development Licence ('PDL') application proceeded. The PNG Department of Petroleum and Energy ('DPE') gave its formal approval to the Field Development Plan for Stanley. The environmental impact assessment and social mapping and landowner identification review were completed and submitted in support of the PDL application.

In the field, location preparation for the first well (Stanley-2), is well underway and the drilling program is scheduled to commence in August 2010. The well site has been identified, cleared of bush and small trees and civil works commenced in February 2010. The site will accommodate two production wells (Stanley-2 and 4) and will later be adapted to site production facilities. Negotiations for a drilling rig are advanced and long lead items such as casing and wellheads have been ordered with other key services under evaluation for award.

Planning and logistics for an appraisal well on PRL 5, Elevala field are progressing in parallel with the Stanley-2 well. Preliminary site investigations have been conducted but, as a result of new mapping, it has been decided to acquire some 60 km of new seismic before a final decision is made. The renewal application for PRL 5, which expires in February 2010, has been submitted to the DPE and is currently under review.

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

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

- US\$30 million in cash;
- US\$8 million to be drawn down at any time and applied to the Group's share of capital expenditure on the licences; and
- US\$22 million to be drawn down and applied to the Group's share of capital expenditure on the licences after PNG Government approval of the working interest transfers required by the transaction has been granted.

There are no other conditions to the transaction.

Block 22/12, Beibu Gulf

During the half-year, activities at Block 22/12 were focused on the preparation and completion of the Overall Development Plan ('ODP'). The technical section of the ODP was completed on 20 December 2009 and commercial negotiations with CNOOC Limited regarding the shared use of existing processing facilities, pipeline, storage and shiploading facilities are at an advanced stage, with the majority of commercial terms agreed.

Completion of the economic section of the ODP, incorporating these commercial arrangements, is expected in Q1 2010, to be followed by formal Chinese Government approvals and Financial Investment Decision.

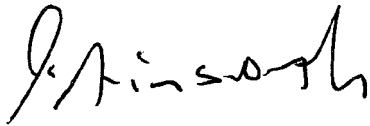
Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set on page 5.

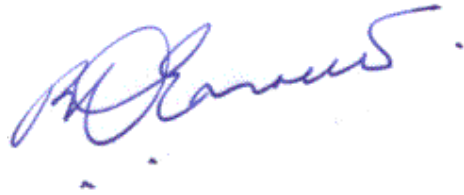
Rounding

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

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



F Ainsworth AM
Chairman



B D Emmett
Chief Executive Officer

Sydney

25 February, 2010

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Auditor's Independence Declaration

As lead auditor for the review of Horizon Oil Limited for the half year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been:

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

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

Robert Baker

Robert Baker
Partner
PricewaterhouseCoopers

Brisbane
25 February 2010

HORIZON OIL LIMITED

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2009

	Note	Half-year	
		2009	2008
		US\$'000	US\$'000
Revenue		24,444	11
Cost of sales		(7,316)	(26)
Gross profit / (loss)		17,128	(15)
Profit from sale of assets	3	54,074	-
Other revenue / other income		221	208
General and administrative expenses		(2,476)	(1,747)
Exploration and development expenses		(91)	(7,637)
Finance costs		(1,848)	(809)
Profit / (loss) before income tax expense		67,008	(10,000)
NZ royalty tax expense		(1,863)	-
Income tax expense		(8,564)	(8)
Profit / (loss) for the half-year		56,581	(10,008)
Other comprehensive income			
Changes in the fair value of cash flow hedges		147	(137)
Total comprehensive income for the half-year		56,728	(10,145)
Profit / (loss) attributable to members of Horizon Oil Limited		56,581	(10,008)
Total comprehensive income attributable to members of Horizon Oil Limited		56,728	(10,145)
Earnings per share for profit / (loss) attributable to the ordinary equity holders of the Company		US Cents	US Cents
Basic earnings per share		5.02	(1.28)
Diluted earnings per share		5.01	(1.28)

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

HORIZON OIL LIMITED**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

At 31 December 2009

		31 December 2009 US\$'000	30 June 2009 US\$'000
	Note		
Current Assets			
Cash and cash equivalents	4	27,618	10,000
Receivables		32,643	826
Inventories		852	86
Other		183	185
Total Current Assets		61,296	11,097
Non-Current Assets			
Deferred tax assets		-	1,777
Plant and equipment		383	301
Exploration phase expenditure	5	38,647	34,548
Development and production phase expenditure	6	92,513	92,428
Total Non-Current Assets		131,543	129,054
Total Assets		192,839	140,151
Current Liabilities			
Payables		10,448	6,537
Derivative financial instruments		39	186
Borrowings	7	21,444	34,201
Total Current Liabilities		31,931	40,924
Non-Current Liabilities			
Payables		583	531
Deferred tax liability		7,417	-
Borrowings	7	30,621	34,836
Provisions		4,320	3,255
Total Non-Current Liabilities		42,941	38,622
Total Liabilities		74,872	79,546
Net Assets		117,967	60,605
Equity			
Contributed equity	8	125,213	124,917
Reserves		3,484	2,999
Accumulated losses		(10,730)	(67,311)
Total Equity		117,967	60,605

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

HORIZON OIL LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2009

	Attributable to members of Horizon Oil Limited					
	Contributed equity	Reserves	Accumulated losses	Total	Minority Interest	Total Equity
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance at 1 July 2008	100,291	2,189	(59,248)	43,232	-	43,232
Profit / (loss) for the half-year	-	-	(10,008)	(10,008)	-	(10,008)
Cash flow hedges	-	(137)	-	(137)	-	(137)
Total comprehensive income for the half-year	-	(137)	(10,008)	(10,145)	-	(10,145)
Transactions with owners in their capacity as equity holders:						
Employee share options	-	350	-	350	-	350
	-	350	-	350	-	350
Balance at 31 December 2008	100,291	2,402	(69,256)	33,437	-	33,437
Balance at 1 July 2009	124,917	2,999	(67,311)	60,605	-	60,605
Profit / (loss) for the half-year	-	-	56,581	56,581	-	56,581
Cash flow hedges	-	147	-	147	-	147
Total comprehensive income for the half-year	-	147	56,581	56,728	-	56,728
Transactions with owners in their capacity as equity holders:						
Contributions of equity, net of transaction costs	296	-	-	296	-	296
Employee share options	-	338	-	338	-	338
	296	338	-	634	-	634
Balance at 31 December 2009	125,213	3,484	(10,730)	117,967	-	117,967

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

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

For the half-year ended 31 December 2009

	Half-year	
	2009	2008
	US\$'000	US\$'000
Cash flows from operating activities		
Receipts from customers	24,032	15
Payments to suppliers and employees	(4,878)	(1,310)
	19,154	(1,295)
Interest received	20	102
Income tax paid	(2)	(8)
Borrowing costs	(1,722)	(809)
Net cash inflows / (outflows) from operating activities	17,450	(2,010)
Cash flows from investing activities		
Expenditure on exploration phase properties	(4,799)	(11,109)
Expenditure on development and production phase properties	(7,993)	(15,348)
Payments for plant and equipment	(114)	(20)
Net proceeds on sale of exploration phase properties	29,988	-
Net cash inflows / (outflows) from investing activities	17,082	(26,477)
Cash flows from financing activities		
Proceeds from issue of shares	296	-
Payment of share issue expenses	(55)	-
Proceeds from borrowings	-	19,150
Repayment of borrowings	(17,099)	-
Net cash (outflows) / inflows from financing activities	(16,858)	19,150
Net increase / (decrease) in cash and cash equivalents	17,674	(9,337)
Cash and cash equivalents at the beginning of the half-year	10,000	19,562
Effects of exchange rate changes on cash and cash equivalents	(56)	(63)
Cash and cash equivalents at the end of the half-year	27,618	10,162

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

Note 1. Basis of preparation of half year report

The general purpose financial statements for the interim half-year reporting period ended 31 December 2009 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2009 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as set out below:

Changes in accounting policy

Horizon Oil Limited changed some of its accounting policies as the result of new or revised accounting standards which became operative for the annual reporting periods commencing on 1 July 2009.

The affected policies and standards are:

- Principles of consolidation – revised AASB 127 *Consolidated and Separate Financial Statements* and changes made by AASB 2008-7 *Amendments to Australian Accounting Standards- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Business combinations – revised AASB 3 *Business Combinations*
- Segments – new AASB 8 *Operating Segments*

Principles of consolidation

AASB 127 (revised) requires dividends received from investments in subsidiaries, jointly controlled entities or associates after 1 July 2009 to be recognised as revenue even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a result of the dividend payment. Under the Group's previous policy, these dividends would have been deducted from the cost of investment.

The changes were implemented prospectively from 1 July 2009. There has been no impact on the current period as no dividends were paid out.

Business combinations

AASB 3 (revised) continues to apply the acquisition method to business combinations, but with some significant changes.

All payments to purchase a business are now recorded at fair value at the acquisition date, with contingent payments classified as debt and subsequently remeasured through the income statement. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net assets.

If the Group recognises acquired deferred tax assets after the initial acquisition accounting there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

The changes were implemented prospectively from 1 July 2009. There has been no impact on the current period as there have been no acquisitions and no previously acquired deferred tax assets recognised in the six months to 31 December 2009.

Segment reporting

The Group has applied AASB 8 *Operating Segments* from 1 July 2009. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Previously, segment information was determined and presented in accordance with AASB 114 *Segment Reporting*.

The adoption of AASB 8 *Operating Segments* has resulted in a change to the number of reportable segments as segment information was not previously reported in a manner consistent with the internal reporting provided to the chief operating decision maker. Comparative segment information has been re-presented in conformity with the transitional requirements of AASB 8 *Operating Segments*. Since the change in accounting policy only impacts presentation and disclosure, there is no impact on earnings per share.

Note 2. Segment information

(a) Description of segments

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

The operating segments identified are broadly based on the Group's working interest in each individual oil and gas permit, arranged by developmental phase. Discrete pre-tax financial information (including pre-tax operating profit and capital expenditure on exploration and evaluation assets and oil and gas assets) for each oil and gas permit is prepared and provided to the chief operating decision maker on a regular basis. In certain circumstances, individual oil and gas permits are aggregated into a single operating segment where the economic characteristics and long term planning and operational considerations of the individual oil and gas permits are such they are considered interdependent. The Group has identified six operating segments:

- Maari – the Group is currently producing crude oil from the Maari field, located offshore New Zealand;
- New Zealand exploration – the Group is currently involved in the exploration and evaluation of hydrocarbons in two offshore permit areas, PEP 38413 and PEP 51313;
- China exploration – the Group is currently involved in the exploration and evaluation of hydrocarbons in one permit area, Block 22/12;
- PNG exploration - the Group is currently involved in the exploration and evaluation of hydrocarbons in two onshore permit areas, PRL 4 and PRL 5; and
- Thailand exploration – in the prior reporting period the Group was involved in the exploration of hydrocarbons in five permit areas which were disposed of during February 2009.

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

HORIZON OIL LIMITED
Notes to the financial statements

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

	Maari	New Zealand Exploration	China Exploration	Papua New Guinea Exploration	Thailand Exploration	All other segments	Total
Half-year 2009	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment revenue:							
Revenue from external customers	24,443	-	-	-	-	1	24,444
Profit / (loss) before tax	15,018	(10)	-	(162)	-	(2,101)	12,745
Depreciation and amortisation	7,144	-	-	4	-	28	7,176
Total segment assets at 31 December 2009	108,445	6,843	18,627	45,611	-	13,313	192,839
Additions to non-current assets other than financial assets and deferred tax during the half-year ended:							
Exploration and evaluation phase expenditure:	-	5,445	1,190	2,425	-	-	9,060
Development and production phase expenditure:	7,229	-	-	-	-	-	7,229
Plant and equipment:	-	-	-	82	-	32	114
Half-year 2008							
Segment revenue:							
Revenue from external customers	-	-	-	-	-	11	11
Loss before tax	(58)	-	-	(46)	(6,830)	(3,274)	(10,208)
Depreciation and amortisation	-	-	-	-	-	20	20
Total segment assets at 30 June 2008	99,627	105	17,473	17,158	-	5,788	140,151
Additions to non-current assets other than financial assets and deferred tax during the year ended:							
Exploration and evaluation phase expenditure:	-	105	1,735	4,844	2,205	-	8,889
Development and production phase expenditure:	55,640	-	-	-	-	-	55,640
Plant and equipment:	-	-	-	-	-	61	61

HORIZON OIL LIMITED
Notes to the financial statements

(c) Other segment information

(i) Segment revenue

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

Segment revenue reconciles to total consolidated revenue as follows:

	Half-year	
	2009 US\$'000	2008 US\$'000
Total segment revenue	24,444	11
Rental income	31	32
Interest income	20	100
Foreign exchange gain (net)	-	76
Fees charged to operated joint ventures	104	-
Other income	66	-
Total revenue	24,665	219

(ii) Segment profit before tax

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

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

	Half-year	
	2009 US\$'000	2008 US\$'000
Total segment profit before tax	12,745	(10,208)
Rental income	31	32
Interest income	20	100
Fees charged to operated joint ventures	104	-
Other income	66	-
Foreign exchange (loss)/gain (net)	(32)	76
Profit from sale of assets	54,074	-
Profit / (loss) before tax	67,008	(10,000)

(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.

HORIZON OIL LIMITED
Notes to the financial statements

Note 3. Significant items

	31 December 2009 US\$'000	30 June 2009 US\$'000
Consideration on sale of assets		
Cash received	20,980	-
Fair value of deferred consideration	29,573	-
	50,553	-
Net liabilities disposed	6,360	-
Cost of sale	(2,839)	-
Profit from sale of assets	54,074	-

On 14 September 2009, the Group entered into a sale agreement with a subsidiary of Talisman Energy Inc. to dispose of a 22.05% working interest in PRL 4 and all of the shares in a wholly-owned subsidiary, Horizon Oil (Kanau) Limited. The net effect of the transaction is that the Group retains a 50% interest in both PRLs 4 and 5.

Note 4. Cash and cash equivalents

	31 December 2009 US\$'000	30 June 2009 US\$'000
Cash at bank and on deposit	17,078	5,720
Restricted cash*	10,540	4,280
	27,618	10,000

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

Note 5. Exploration phase expenditure

	31 December 2009 US\$'000	30 June 2009 US\$'000
Opening balance	34,548	33,237
Expenditure	9,060	8,889
Disposals	(4,961)	(7,578)
Closing balance	38,647	34,548

Note 6. Development and production phase expenditure

	31 December 2009 US\$'000	30 June 2009 US\$'000
Opening balance	92,428	40,529
Expenditure	7,229	28,344
Recognition of leased asset	-	27,296
Amortisation incurred	(7,144)	(2,918)
Expenditure written off	-	(823)
Closing balance	92,513	92,428

Note 7. Borrowings

	31 December 2009 US\$'000	30 June 2009 US\$'000
Current		
Bank loan (a)	16,270	29,232
Lease liability (b)	5,174	4,969
	21,444	34,201
Non-Current		
Bank loan (a)	14,434	15,986
Lease liability (b)	16,187	18,850
	30,621	34,836
Total Borrowings	52,065	69,037

(a) Bank loan – Project debt facility

The facility is a USD denominated finance facility providing funding up to an agreed maximum of US\$31,109,100 (30 June 2009: US\$45,750,000 including cost overrun facilities). Floating interest in respect of the facility is at LIBOR plus a weighted average margin of 1.76% (30 June 2009: 1.65%). The facility matures in December 2011.

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

(b) Lease liability

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

Note 8. Contributed equity

a) Share capital

		31 December 2009 Number	30 June 2009 Number	31 December 2009 US\$'000	30 June 2009 US\$'000
Ordinary shares					
Fully paid	(b)(i)	1,126,621,515	1,125,621,515	124,999	124,703
Partly paid	(b)(ii)	1,500,000	1,500,000	214	214
		1,128,121,515	1,127,121,515	125,213	124,917

b) Movements in share capital

(i) Ordinary shares (fully paid)

Date	Details	Number of shares	Issue price	US\$'000
30/06/2009	Balance at 30 June 2009	1,125,621,515		124,703
31/12/09	Exercise of unlisted options	1,000,000	A\$0.33	296
31/12/2009	Balance at 31 December 2009	1,126,621,515		124,999

(ii) Ordinary shares (partly paid)

There was no movement in partly paid ordinary shares during the current half-year.

Note 9. Contingent assets and liabilities

There are no contingent assets as at 31 December 2009.

The Group had the following contingent liabilities as at 31 December 2009 that may become payable:

- a) In accordance with normal oil and gas industry practice, the Group has entered into joint venture operations and farm out agreements with other parties for the purpose of exploring and developing its permit interests. If a participant to a joint venture defaults and fails to contribute its share of joint venture obligations, the remaining joint venture participants are jointly and severally liable to meet the obligations of the defaulting participant. In this event the interest in the permit held by the defaulting participant may be redistributed to the remaining participants. In the event of a default, a contingent liability exists in respect of expenditure commitments due to be met by the Group in respect of defaulting joint venture participants.

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

HORIZON OIL LIMITED
Notes to the financial statements

Note 10. Exploration, development and production expenditure commitments

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

	Maari	New Zealand Exploration	China Exploration	Papua New Guinea Exploration	Total
31 December 2009	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Within one year	5,700	300	4,700	4,200	14,900
Over one year	-	-	-	-	-
Total	5,700	300	4,700	4,200	14,900

	Maari	New Zealand Exploration	China Exploration	Papua New Guinea Exploration	Total
30 June 2009	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Within one year	9,840	2,800	1,224	280	14,144
Over one year	-	-	-	-	-
Total	9,840	2,800	1,224	280	14,144

Note 11. Events occurring after balance sheet date

Other than the matters disclosed in this interim financial report, there has not been any matter or circumstance which has arise since 31 December 2009 that has significantly affected, or may significantly affect.

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

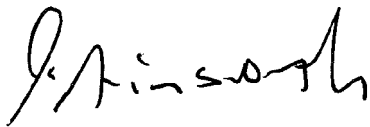
HORIZON OIL LIMITED

Directors' Declaration

In the directors' opinion:

- (a) the attached interim financial statements and notes are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with relevant Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2009 and of its performance, as represented by the results of its operations and its cashflows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Horizon Oil Limited will be able to pay its debts as and when they become due and payable.

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



F Ainsworth AM
Chairman



B D Emmett
Chief Executive Officer

Sydney

25 February, 2010

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial statements of Horizon Oil Limited, which comprises the statement of financial position as at 31 December 2009, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Horizon Oil Limited Group (the consolidated entity). The consolidated entity comprises both Horizon Oil Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Horizon Oil Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

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



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

Matters relating to the electronic presentation of the reviewed financial report

This review report relates to the financial report of the Company for the half-year ended 31 December 2009 included on Horizon Oil Limited's web site. The company's directors are responsible for the integrity of the Horizon Oil Limited's web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

Independence

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

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers

A handwritten signature in cursive script that reads "Robert Baker".

Robert Baker
Partner

Brisbane
25 February 2010