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

27 June 2016

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

Update on Convertible Bond Refinancing

Further to the announcement on 23 May 2016, Horizon Oil Limited (**Horizon Oil** or the **Company**) is pleased to provide the following update in relation to the proposed refinancing of its outstanding US$58.8m 5.5% Convertible Bonds issued in 2011 (**Bonds**).

Horizon Oil announced on 23 May 2016 that its major shareholder, IMC Investments Limited (**IMC**), had agreed to provide financial support for the refinancing of the Company to address the Company's redemption obligations in respect of the Bonds (**Refinancing Arrangements**).

As a result of the continued recovery in oil prices and the resultant increased cash generation from its producing assets, the funding required (in addition to current cash reserves of the Company) to redeem the outstanding Bonds is currently estimated to be approximately US$50 million, rather than US$60 million as estimated at the time of the 23 May announcement.

In light of the reduced funding requirement and having regard to other factors (including a desire to reduce transaction cost and minimise execution risk), the Company has determined to simplify the Refinancing Arrangements by funding the redemption of the Bonds by way of a US$50 million second ranking secured non-amortising loan from IMC (**Loan**) and its existing cash reserves. Accordingly, it is the current intention of the Company not to proceed with the previously announced US$20 million accelerated non-renounceable entitlement offer.

The revised Refinancing Arrangements are designed to:

- provide the Company with US$50 million of new funding (in addition to current cash) to enable the Company to repay in full the remaining Bonds (plus accrued interest) at or before the extended maturity date (as detailed below);

- extend the tenor of the Company's debt profile and continue the Company's program of reducing overall gearing levels; and

- strengthen the Company's financial flexibility in what remains a low oil price environment to seek to ensure that the Company will be well positioned to exploit its key oil production assets in China and New Zealand and material condensate-rich gas fields in PNG.

In order to provide sufficient time to implement the Refinancing Arrangements, including seeking shareholder approval, the Company advised that it would seek approval from

Bondholders to extend the date of maturity of the Bonds. The Company advised on 1 June 2016 that Bondholders had unanimously passed a resolution to amend the terms and conditions of the Bonds with effect from 31 May 2016 to:

- extend the maturity of the Bonds to 19 September 2016;

- adjust the interest rate payable on the Bonds from the original maturity date of 17 June 2016 to 19 September 2016 to 10.0% per annum calculated by reference to the principal amount of the Bonds; and

- adjust the payment of the accrued premium of 8.80% of the principal amount of the Bonds so that it is payable on the original maturity date of 17 June 2016. This payment has been made.

Since reaching agreement with IMC on the original Refinancing Arrangements, there have been a number of market and operational developments which have reduced the estimated funding requirement from that announced on 23 May 2016. These include:

- the continued recovery in oil prices. The Company expects to be able to take advantage of the improved oil prices (at least in part) through hedging;

- the Company's Beibu Gulf fields are currently producing well above forecast production levels; and

- significantly reduced operating costs at Beibu that have been triggered by the above factors, resulting from early completion of payments into the field abandonment provision fund and reduced pipeline tariff, as the 13 million barrel production milestone is reached within the next three months (considerably earlier than anticipated). The positive effect of these cost reductions is expected to be magnified by operation of the cost recovery mechanism under the Petroleum Contract.

As a result of these factors, the Company has determined that the requirement for additional funding is more appropriately US$50 million, and that this is best achieved by increasing the Loan from IMC from US$40 million to US$50 million and not proceeding with the previously foreshadowed entitlement offer.

Apart from the increase in the Loan amount, the other key features of the Loan are as announced on 23 May 2016, including the issue to IMC of 300 million warrants over unissued shares of the Company. The exercise price of the warrants will be A$0.061 per share, being 120% of the 30 calendar day volume weighted average price of Horizon Oil shares at the close of trading on Friday 24 June 2016. This represents a premium of 39% to the closing price of the shares on Friday.

The issue of the warrants to IMC will be subject to Horizon Oil shareholder approval, which will be sought at a general meeting expected to be convened in August 2016 (**EGM**).

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

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

Yours faithfully

Michael Sheridan
Chief Financial Officer and Company Secretary

Telephone: (+612) 9332 5000
Facsimile: (+612) 9332 5050
Email: exploration@horizonoil.com.au
Or visit www.horizonoil.com.au