

29 August 2017

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

Dear Sir,

HORIZON OIL (HZN) ADVISES 2017 ANNUAL FINANCIAL RESULTS

The results for the financial year ended 30 June 2017 are set out in the attached results announcement, Preliminary Final Report (Appendix 4E) and Annual Financial Report. All references to reserves and contingent resources within the financial report are drawn from the Horizon Oil 2017 Reserves and Resources Statement dated 29 August 2017.

HIGHLIGHTS

- **Oil sales** volumes 3% **higher** than FY 2016 at 1,421,940 barrels, generating **revenue of US\$68.5 million**
- Average **cash operating cost down 21%** to US\$11 per barrel of oil sold, driven by further cost savings in response to lower oil prices and a reduction in tariffs applying to Beibu Gulf production
- **Net operating cash flow** from oil sales after operating expense of **US\$51.7 million**, in line with FY 2016; forecast to average US\$50 - 60 million pa out to calendar 2022
- Continuing disciplined control over administrative and capital expenditures
- **Free cash flow breakeven cost over FY 2017 of US\$32/barrel** (incl. tax, interest and all capex)
- **Net debt reduced to US\$108.5 million** (from US\$131.9 million at 30 June 2016)
- Beibu Gulf and Maari fields continuing to produce steadily at combined rate of approximately 4,000 bopd net to Horizon Oil, with remaining cost recovery production entitlement in Beibu Gulf equivalent to US\$89.6 million
- **Good progress made on planning for Western LNG development project in Papua New Guinea** with main project elements now in pre-FEED; acreage position strengthened and 2C resource materially increased as a result of strategic acquisitions

Commenting on the result, Horizon Oil's Chief Executive Officer, Brent Emmett, stated:

"Horizon Oil's producing fields in China and New Zealand continued to generate strong cash flows during the year, underpinning a further significant reduction in net debt of over US\$23 million. Production cash flows will be applied to further materially reduce debt during financial year 2018."

The Company's robust net operating cashflow of US\$51.7 million from the Beibu Gulf and Maari/Manaia fields is expected to be sustained into the 2020s, with relatively low cost workover programs, infill drilling and incremental field development. Horizon Oil's low free cashflow breakeven cost of US\$32/bbl, driven largely by the low operating costs in the Beibu Gulf fields of US\$7.54/bbl sold, puts the Company in a strong financial position in the current oil price environment, with pronounced leverage to oil price increases.

In addition to the positive operating and financial results achieved during the year, good progress has been made on development planning for the WZ 12-8E expansion project in Beibu Gulf. The phased development approach, use of leased infrastructure and integration with existing production facilities presents considerable engineering and financial advantages and will enable funding of the expansion project from internally generated capital.

Good progress was also achieved on the proposed Western LNG gas aggregation project in Western Province, Papua New Guinea. In the latter part of the year, Horizon Oil concluded a series of transactions ensuring that the Company is strategically positioned in each of the appraised gas fields comprising the project and holds a material 28% interest in the aggregate gas-condensate resource. Horizon Oil's project team made good headway on planning for the three key elements of Western LNG – the upstream processing facilities, the gas and condensate export pipelines to Daru Island and the modular liquefaction facility to be located near Daru.

The strong operating and financial performance for the year is expected to continue in 2018, complemented by further progress on the development of the Group's substantial undeveloped oil and gas resources in China and PNG."

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-17 US\$'000	30-Jun-16 US\$'000	Change %
Sales revenue (pre-hedging)	67,988	56,455	20%
Hedging revenue	546	19,497	(97%)
Sales revenue	68,534	75,952	(10%)
EBITDAX¹	45,171	53,995	(16%)
Profit/(loss) before tax	4,154	(149,726)	103%
Impairment of non-current assets	-	(147,515)	100%
Income and royalty tax (expense)/benefit	(4,490)	5,201	(186%)
Loss after tax	(336)	(144,525)	(100%)
Cash on hand	24,529	16,079	53%
Cashflow from operating activities	35,633	44,203	(19%)
Revolving Cash Advance Facility ²	87,998	89,141	1%
Subordinated Debt ²	45,000	58,800	23%
Net Debt ²	108,469	131,862	18%
Oil and gas sales (barrels)	1,421,940	1,376,069	3%

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 have not been audited. They have been extracted from the audited annual financial reports for the financial years ended 30 June 2017 and 30 June 2016.

Note 2: Represents principal amounts drawn down as at 30 June 2017.

Note 3: All references to \$ are to US dollars unless otherwise specified.

Financial results

- The Group recorded a strong performance from its producing assets, with a 3% increase in sales volumes on the prior year at 1,421,940 barrels of oil (2016: 1,376,069 barrels). The increased sales were driven by the preferential recovery of historic exploration costs under the cost recovery mechanism of the Petroleum Contract in Block 22/12.
- Oil and gas sales revenue before hedging of US\$68.0 million (2016: US\$56.5 million) with an average realised oil price of US\$47.81 per barrel (2016: US\$41.03 per barrel).
- Operating costs of US\$43.8 million were 27% lower than the prior year (2016: US\$60.2 million) driven by a reduction in tariffs applying to Beibu Gulf production, cost savings in response to lower oil prices and reduced production levels.
- The Group reported a profit before tax of US\$4.2 million for the current year compared with a loss of US\$149.7 million for the prior year. The result includes a gross profit of US\$24.8 million (2016: US\$15.8 million) from Block 22/12 and Maari operations offset by corporate

general and administrative expenditure of US\$5.2 million, insurance expense of US\$1.2 million, exploration and development expenses of US\$1.3 million, financing costs of US\$13.1 million, other expenses of US\$0.4 million and a favourable movement in the mark-to-market valuation of the convertible bonds of US\$0.5 million.

- Income and royalty tax expense of US\$4.5 million reflected cash royalty taxes of US\$0.8 million and non-cash deferred income tax expenses as the Group utilised historical tax losses.
- Cash on hand at 30 June 2017 of US\$24.5 million (30 June 2016 – US\$16.1 million).
- Net debt reduced to US\$108.5 million (30 June 2016 – US\$131.9 million).

▪ **Operational results**

China

- During the year, the Group's working interest share of production from the Beibu Gulf fields was 802,050 barrels of oil. Crude oil sales were 1,102,793 barrels at an average price of US\$47.00/bbl exclusive of executed hedging. Cumulative gross oil production from the fields through 30 June 2017 was 15.3 million barrels. Gross production for the year of 3.0 mmbo exceeded the budget of 2.8 mmbo.
- Average production over the year was approximately 8,154 bopd, of which the Group's share was 2,197 bopd.
- During the year the Group continued to benefit from the entitlement to preferential recovery of historic exploration costs under the cost recovery mechanism of the Petroleum Contract in Block 22/12. The Group recorded a production entitlement of approximately 37% of field production for the year (net working interest share of 26.95%). Horizon Oil's remaining entitlement to cost recovery oil at 30 June 2017 was US\$89.6 million.
- Preparation of the Overall Development Plan for the WZ 12-8E field is well advanced with a Final Investment Decision expected before the end of calendar year 2017. The audited gross 2C resources for the field (including WZ 12-10-1 and WZ 12-3-1) are 11.1 mmbo (Horizon Oil net working interest share at 26.95% following CNOOC back-in).

New Zealand

- During the year the Group's working interest share of production from the Maari and Manaia fields was 304,304 barrels of oil. Crude oil sales were 319,147 barrels at an average effective price of US\$50.63/bbl exclusive of executed hedging.
- Average production over the year was approximately 8,337 bopd, of which Horizon Oil's share was approximately 834 bopd.
- Production for the period was interrupted by the field maintenance and repair shutdown period from 24 November 2016 during which the Maari joint venture successfully completed the scheduled water injection repairs at Maari/Manaia field, including the replacement of the water injection riser and implementation of enhanced integrity measures to further protect the field flowlines. Concurrently, the joint venture repaired an isolated fatigue crack identified on the wellhead platform and undertook reconfiguration works of certain wellhead pipework in preparation for the installation of production enhancing multiphase pumps in 2017. Production recommenced on 12 January 2017 following completion of the abovementioned activity, and the water reinjection system was successfully reinstated on 29 January 2017. The Company anticipates that a portion of these works will be recovered from insurance.

Papua New Guinea

- During the year, the Company progressed the development concept for the proposed Western Province gas aggregation scheme (Western LNG), through collaboration of the PDL 10 and PRL 21 joint ventures, and the formation of a Joint Working Team (JWT). The JWT progressed the technical and commercial work necessary for the Western LNG project, a mid-scale LNG development concept, involving aggregation of the approximate 2.2 tcf of appraised gas resources and 62 mmbo of condensate in Western Province. The project will be supplied by gas aggregated from several discovered fields in Western Province, with PDL 10 (Stanley) and PRL 21 (Eleva/Ketu) providing the cornerstone gas volumes.
- Horizon Oil successfully concluded a series of transactions during the year, which ensure the Company is strategically positioned in each of the appraised gas fields composing the proposed Western LNG gas aggregation project. These have included:
 - o acquisition of a 50% interest in, and operatorship of, PRL 28 (Ubuntu field) adjacent to PRL 21;
 - o acquisition of an additional 3.15% interest in PRL 21 (Eleva/Tingu and Ketu fields) as a result of Mitsubishi Corporation divesting its upstream assets in PNG; and
 - o exchange of a 20% interest in PRL 28 (Ubuntu gas/condensate field) for a 20% interest in PRL 40 (Puk Puk and Douglas gas fields) in a trade with Kumul Petroleum Holdings. Completion of the exchange transactions will occur after customary PNG regulatory approvals.

As a result, the Company is strategically positioned to advance the Western LNG project as it has a material 28% interest in the aggregate gas/condensate resource to supply the project and operatorship of the core Eleva/Tingu and Ketu gas-condensate fields.

The webcast will be held on 30 August 2017 at 11.00am (AEDT).

<http://webcasting.boardroom.media/broadcast/598004005d7edc450ac77dd5>


For more information please contact:

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Horizon Oil Limited

Appendix 4E Preliminary Final Report For the financial year ended 30 June 2017

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 2017.

Current reporting period: Financial year ended 30 June 2017
Previous corresponding period: Financial year ended 30 June 2016

Results for Announcement to the Market

		Percentage Change		Amount
				US\$'000
Revenue from continuing operations	Down	10%	to	68,534
Loss from ordinary activities after tax	Down	100%	to	336
Loss for the period attributable to members	Down	100%	to	336

Dividends/distributions

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

Net Tangible Assets

	2017 US cents	2016 US cents
Net tangible asset backing per ordinary share	8.2	8.0

Controlled entities acquired or disposed of

During the year, the Group acquired Eaglewood Energy (BVI) Limited, a subsidiary of Transform Exploration in order to acquire a 50% interest in the PRL 28 licence containing the Ubuntu field, which is adjacent to PRL 21. The transaction completed on 18 January 2017, and Eaglewood Energy (BVI) Limited became a controlled entity on and from this date.

The Group also disposed of its interest in Jurassic International Holdings Limited during the year following the finalisation of a farm-out agreement, whereby 95%-100% of the undivided participating interest in Jurassic International Holdings Limited's assets were transferred to Ketu Petroleum Limited, effective 1 July 2015. Jurassic International Holdings Limited ceased to be a controlled entity from 30 June 2017.

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 2017

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 29 August 2017. The Board of Directors has the power to amend and reissue the annual financial report.

All references to reserves and contingent resources within the financial report are drawn from the Horizon Oil 2017 Reserves and Resources Statement dated 29 August 2017.

HORIZON OIL LIMITED

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 2017.

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 Humphrey
B Emmett
G de Nys
A Stock
S Birkenleigh

G Bittar was appointed as a non-executive director on 6 March 2017 and continues in office at the date of this report. B Lorenzon was appointed as his alternate on this date.

REVIEW OF OPERATIONS

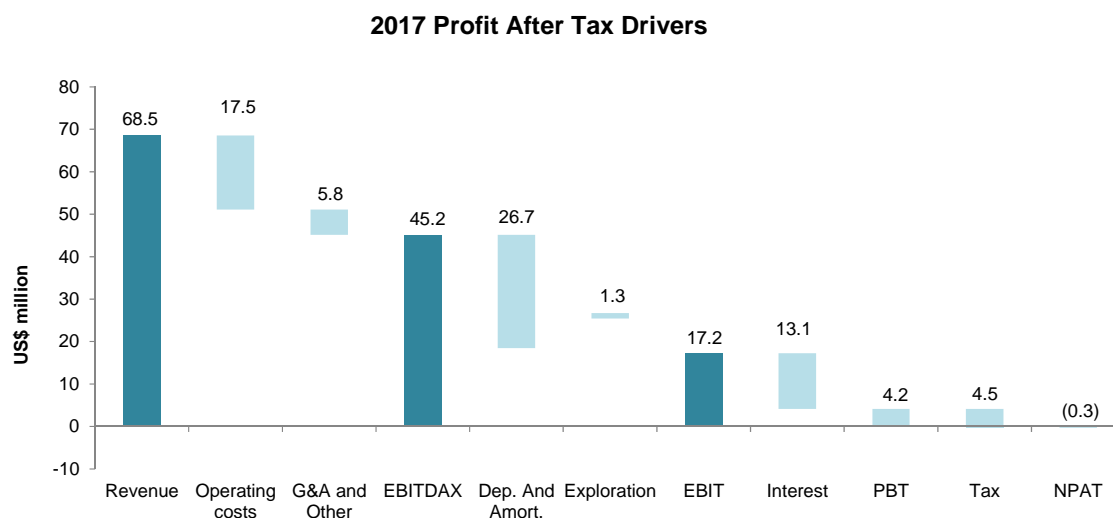
PRINCIPAL ACTIVITIES

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 94 to 96 of this annual financial report.

GROUP FINANCIAL PERFORMANCE

Consolidated Statement of Profit or Loss and Other Comprehensive Income



HORIZON OIL LIMITED

The Group reported a net loss after tax of US\$0.3 million for the year compared with a loss of US\$144.5 million in the prior year. The full year result includes a gross profit of US\$24.8 million (2016: US\$15.8 million) from Block 22/12 and Maari operations offset by general and administrative expenses of US\$5.2 million, financing costs of US\$13.1 million, an insurance expense of US\$1.2 million and exploration and development expenses of US\$1.3 million. EBITDAX was US\$45.2 million (2016: US\$54.0 million), and EBIT was US\$17.2 million (2016: loss of US\$132.5 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 2017 and 30 June 2016.

Basic earnings per share for the financial year were a loss of 0.03 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's producing assets continued to perform well, with sales volumes of 1,421,940 barrels of oil resulting in a 3% increase on the prior year (2016: 1,376,069 barrels), with the Group's net working interest share of oil production for the year of 1,106,353 barrels of crude oil (2016: 1,354,982 barrels). Sales volumes were driven by the preferential recovery of historic exploration costs under the cost recovery mechanism of the Petroleum Contract in Block 22/12 with an economic interest share of approximately 37% attributable to the Group for the financial year (net working interest share of 26.95%). The cost recovery volumes are driven by the continued recovery in oil prices and a material reduction in operating expenditure following the achievement of the gross production milestone of 13.9 million barrels of oil in January 2017 which reduced the oil pipeline transportation tariff payable to China National Offshore Oil Corporation from US\$4.75 per barrel to US\$0.50 per barrel. The Maari field has produced strongly during the year notwithstanding the precautionary shut-in of the Maari field from 24 November 2016 through to 12 January 2017 owing to the identification of a fatigue crack in one of the well head platform struts and the performance of water injection flowline repairs scheduled for the same period.

Crude oil sales revenue pre-hedging of US\$68.0 million (2016: US\$56.5 million) was generated during the financial year resulting from a net realised oil price of US\$47.81 per barrel (2016: US\$41.03). Throughout the period 46% of sales were hedged (2016: 29%) with hedging revenue of US\$0.5 million (2016: US\$19.5 million) realised on 660,300 barrels hedged at an weighted average price of US\$52.05 (2016: 397,500 barrels at US\$95.48).

Operating costs of US\$43.8 million (2016: US\$60.2 million) were 27% lower than the prior year driven by the significantly reduced operating costs per barrel in China, coupled with lower cash operating costs and non-cash amortisation charge as a result of the decreased production levels.

General and Administrative Expenses

A 22% reduction in general and administrative costs was achieved during the period as the Group continues to focus on the maintenance of a lower cost structure in response to the current oil price environment with costs of US\$5.2 million (2016: US\$6.7 million) in the period. This expense comprised net employee benefits expense of US\$3.5 million (including non-cash share based payment expense of US\$0.9 million), corporate office expense of US\$0.9 million, depreciation of US\$0.4 million, and rental expense of US\$0.4 million.

Insurance expense

Insurance expense of US\$1.2 million (2016: US\$1.4 million) in the period reflected reduced premiums associated with less development and drilling activity in the current oil price environment.

Exploration and Development Expenses

Exploration and development expenses of US\$1.3 million (2016: US\$1.9 million) was primarily related to the Group's exploration licences in Papua New Guinea.

Finance Costs

The Group's borrowing costs of US\$13.1 million (2016: US\$17.3 million) are 24% lower than the prior year predominately due to the reduced debt levels following the refinancing of the US\$58.8 million convertible bonds with a US\$50 million subordinated secured non-amortising debt facility drawn down on 19 September 2016, coupled with continued debt reduction through the repayment of principal amounts outstanding from surplus cash flows.

Gains recorded on convertible bonds

An unrealised gain of US\$0.5 million (2016: US\$5.3 million) was recorded for the revaluation to zero of the conversion option on the convertible bonds following their redemption on the extended redemption date of 19 September 2016.

Income and Royalty Tax

The net income and royalty tax expense of US\$4.5 million (2016: US\$5.2 million) incurred during the financial year included a deferred income tax expense of US\$4.3 million and royalty related tax expense of US\$0.5 million. The net income tax expense was predominately driven by utilisation of carried forward tax losses during the year.

Hedging

At 30 June 2017, the Group had 393,750 barrels of crude oil hedged through Brent oil price swaps (30 June 2016: no barrels) at a weighted average price of US\$54.37. During the financial year, 660,300 barrels of oil price derivatives were settled, securing revenue of US\$34.4 million.

Consolidated Statement of Financial Position

At 30 June 2017, total assets were US\$271.7 million (2016: US\$286.7 million) and total liabilities were US\$165.0 million (2016: US\$182.1 million), resulting in an increase in net assets to US\$106.7 million (2016: US\$104.5 million).

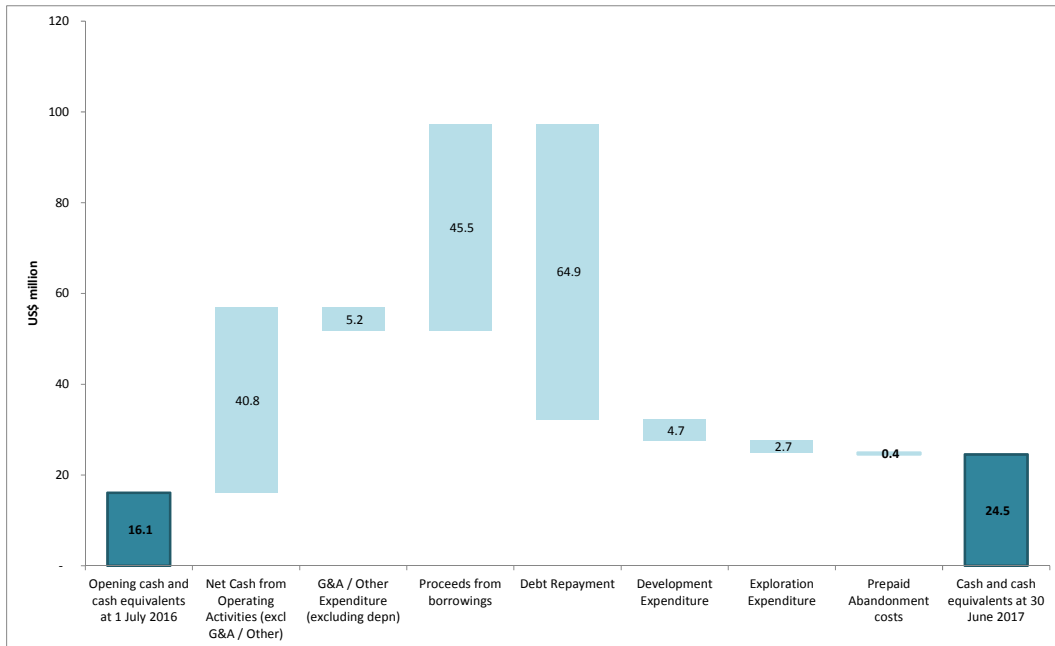
The decrease in total assets is primarily due to the non-cash amortisation of the producing assets at Maari and Beibu Gulf on a unit of production basis. The decrease in total liabilities reflects the refinancing of the US\$58.8 million convertible bonds outstanding at 30 June 2016 with a US\$50 million subordinated non-amortising secured loan coupled with further debt reductions during the period through the use of free cash flow.

At 30 June 2017 the Group had net current assets of US\$3.2 million (2016: net current liabilities of US\$60.4 million) reflecting the improved maturity profile of the debt following the refinancing activities during the year and increased cash reserves available after meeting the operating, capital and financing commitments of the Group.

At 30 June 2017, the Group's net debt position, based on nominal amounts drawn down, was reduced by 18% on the prior year to US\$108.5 million (2016: US\$131.9 million), comprising of cash and cash equivalents held of US\$24.5 million (2016: US\$16.1 million) offset by borrowings of US\$133 million (2016: US\$147.9 million). At financial year end, borrowings consisted US\$88.0 million principal outstanding on the Revolving Cash Advance Facility executed with senior lenders in May 2015 and US\$45.0 million principal outstanding on the subordinated secured non-amortising loan.

Consolidated Statement of Cash Flows

2017 Cash Drivers



Net cash generated from operating activities was 19% lower for the financial year at US\$35.6 million (2016: US\$44.2 million) due to the prior year including approximately US\$20 million of hedge receipts and insurance proceeds. This was partially offset in the current year through a 27% reduction in cash operating costs and higher prevailing oil prices (pre-hedging). The Group continued to reduce capital expenditure in the low oil price environment with expenditure of US\$7.7 million (2016: US\$30.1 million) a 74% decrease on the prior year. The free cash available after operating and investing activities enabled further debt reduction with a net outflow of US\$19.5 million from financing activities for the period.

DEBT FACILITIES

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) and Westpac Banking Corporation (Westpac). The facility was used to refinance the previous Reserves Based Debt Facility. Unless refinanced, or repaid in advance, the facility matures in May 2019. 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 2017, total debt drawn under the facility was US\$88.0 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%.

Redemption of convertible bonds and drawdown of subordinated loan facility

On 15 September 2016 the Group achieved financial close and drawdown of a US\$50 million subordinated secured non-amortising loan. Shareholders approved the loan, which involved the issue of 300 million options over unissued shares in the Company, at a general meeting on 6 September 2016.

Proceeds of the facility were applied to redeem the remaining US\$58.8 million convertible bonds prior to their maturity.

This refinancing, in conjunction with the reduction of the drawn debt levels of the Group's senior debt facility in 2016, sees the Group's gross debt levels reduced by over US\$100 million since April 2014, as well as extending the maturity profile of the Group's debt given the unconditional right of the Group to defer any repayments of the subordinated debt for three years from drawdown.

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 in fields in New Zealand, China and Papua New Guinea.

The Company has a conservative and 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 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.

OUTLOOK

It is expected that the 2018 financial year and beyond will be underpinned by continued strong production from the Group's China and New Zealand operations. Oil production from the Group's China and New Zealand operations are expected to be maintained around 2017 levels with natural reservoir decline offset by planned well interventions in Beibu and Maari and additional in-fill drilling in Beibu. Horizon Oil's production entitlement from China is also 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 2017 financial year, revenue (before hedging) for the Group is expected to remain at 2017 levels, barring unforeseen events.

The Group's short-term focus is on:

- Progressing the Beibu Gulf fields Phase II development for WZ 12-8E;
- Optimising production performance from the Beibu and Maari/Manaia fields through continued workover campaign and additional in-fill drilling in Beibu; and
- Progressing the 1.5 mtpa Western LNG development with a focus on planning the three key elements including the upstream processing facilities, the gas and condensate export pipelines to Daru Island and the modular liquefaction facility to be located near Daru Island.

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 2017 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 – China, New Zealand, 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 Humphrey LL.B., SF Fin
Experience and current directorships:	Director for 27 years. Executive Dean of the Faculty of Law at Queensland University of Technology. Chairman of Auswide Bank Ltd, a director of Lynas Corporation Ltd, Spotless Group Holdings Limited, and a former member of the Australian Takeovers Panel.
Former directorships during last 3 years:	Non-executive director of Downer EDI Limited.
Special responsibilities:	Chairman of Board; Chairman of Remuneration, Nomination and Disclosure Committees; Member of Audit Committee; member of Risk Management Committee.
Executive Director and Chief Executive Officer:	B Emmett B.Sc (Hons)
Experience and current directorships:	Director for 17 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 de Nys B. Tech, FIEAust, FAICD, CPEng (Ret)
Experience and current directorships:	Director for 10 years. Over 44 years' experience in civil engineering, construction, oil field contracting and natural resource investment management. Non-executive director of 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:	Non-executive director of SOCAM Development 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 6 years. Over 40 years of development, operations and commercial experience in energy industries in Australia and overseas. He is Chair, Melbourne University Energy Institute Advisory Board, and Chair, Institute of Mineral and Energy Resources Advisory Board at University of Adelaide. Former Director, Executive Projects and Executive General Manager for Major Development Projects for Origin Energy Limited.
Former directorships during last 3 years:	Non-executive director of Geodynamics Limited and Silex Systems Limited; Board Member of Alinta Holdings and Clean Energy Finance Corporation.
Special responsibilities:	Chairman of Risk Management; member of Audit Committee and Remuneration and Nomination Committees.
Non-executive independent director:	S Birkenleigh B. Comm, CA, GAICD
Experience and current directorships:	Director for 2 years. 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, 7-11 Holdings and its subsidiaries, National Disability Insurance Agency and the Sunshine Coast Children's Therapy Centre, an independent member of the Audit Committee of the Reserve Bank of Australia, a member of the Council of University of the Sunshine Coast and Chair of its Audit and Risk Committee and Chair of the Audit and Risk committee of the Public Trustee of Queensland.
Former directorships during last 3 years:	Plum Financial Services Limited
Special responsibilities:	Chairman of Audit Committee; Member of Risk Management and Remuneration and Nomination Committees.

Non-executive Director:	G Bittar BEc., LL.B., (Hons) M.Sc., (LBS)
Experience and current directorships:	Mr Bittar has been appointed as non-executive director on 6 March 2017.
	Mr Bittar has extensive experience in public and private markets mergers and acquisitions, capital markets and strategic advisory assignments across a range of sectors including general industrials, metals and mining, mining services and energy. He is currently Chairman of Millennium Minerals Limited and Trek Metals Limited and a non-executive director of ECM Limited. Mr Bittar has worked for Bankers Trust, Baring Brothers Burrows and Morgan Stanley.
Former directorships during last 3 years:	None.
Special responsibilities:	None.
Alternate Non-executive Director:	B Lorenzon B.E., MBA., CFA
Experience and current directorships:	Mr Bruno Lorenzon has been appointed as Mr Greg Bittar's alternate on 15 March 2017.
	Mr Lorenzon is Head, Group Corporate Finance for the IMC Group and has more than 15 years' experience in investments, strategy and corporate finance in the resources sector both in Australia and overseas. He has worked for the IMC Group for the past nine years and previously worked for Vale in Brazil and Rio Tinto in Australia in roles encompassing strategic planning, M&A and business development. Mr Lorenzon has a Bachelor of Civil Engineering, MBA and is a CFA chartholder. Mr Lorenzon is also an alternate director representing the IMC Group on the Board of Millennium Minerals Ltd.
Former directorships during last 3 years:	None.

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 paid ordinary shares over unissued ordinary shares in the Company:

Director	Ordinary shares		
	Direct	Indirect	Total
B Emmett	-	20,002,607	20,002,607
J Humphrey	-	5,112,034	5,112,034
G de Nys	-	2,203,639	2,203,639
A Stock	-	320,000	320,000
S Birkenleigh	-	-	-
G Bittar	-	-	-
<i>B Lorenzon (as alternate)</i>	-	-	-

B Emmett also held 33,254,707 share appreciation rights as at the date of this Directors' Report.

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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
<i>Number of meetings held:</i>	9 ¹	2	1	2	1
<i>Number of meetings attended by:</i>					
J Humphrey	9	2	1	2	1
B Emmett	9		1		1
G de Nys	9		1	2	
A Stock	9	2	1	2	
S Birkensleigh	9	2	1	2	
G Bittar ³	2				
<i>B Lorenzon (as alternate for G Bittar)</i>					

- 1 Four board meetings were held for non-executive directors only, three immediately prior to full Board meetings and one after a full Board meeting.
- 2 Two non-executive directors meetings were held via teleconference.
- 3 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 22 August 2017.

The Company's Corporate Governance Statement for the year ended 30 June 2017 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 Remuneration Report has been audited by the external auditor as required by section 308(3)(c) of the *Corporations Act 2001*.

The Remuneration Report sets out:

- 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 remuneration framework for Key Management Personnel (other than non-executive directors) (**Executives**) is to provide reward for performance that is competitive and appropriate for the results delivered. The framework aligns reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward.

The board has structured a remuneration framework for Executives that is market competitive, aligned with shareholders' interests and incentivises its Executives. The key elements of the framework are:

Good reward governance principles:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation;
- transparency; and
- capital management.

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 remuneration framework for Executives comprises a mix of fixed pay and 'at risk' 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 five 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

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relevant comparative information. As well as a base salary, remuneration packages include superannuation and termination entitlements and non-monetary benefits.

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 incentive (STI)

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: <ul style="list-style-type: none"> ▪ achievement of no LTIs (lost time injuries) across Horizon Oil's operated joint ventures; ▪ achievement of budgeted production and operating costs across the Block 22/12 and Maari/Manaia fields; ▪ successful refinancing of the Group's 2011 convertible bonds; ▪ expansion of Group's PNG resource base and execution of Western Foreland PNG gas consolidation strategy; and ▪ progression of Western LNG development planning.

Whilst many of the abovementioned objectives were achieved during the current year, the decision regarding short-term incentive entitlements has been deferred. 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 2017:

Senior executives	STI in respect of 2017 financial year	
	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

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Long-term incentive (LTI)

The LTI arrangements applying to senior executives and involve the grant of rights which will vest subject (amongst other things) to both the absolute and relative total shareholder returns (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 amount is payable to the Company by a participant in the LTI Plan on the exercise of a SAR.
SAR value	V minus G: where V equals 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; and G equals 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.
Satisfaction of exercise of SARs in cash or by issue of shares	Subject to ASX Listing Rules, Horizon Oil may satisfy the exercise of SARs by a participant by payment in cash, issue of Horizon Oil shares or a combination, at the board's discretion. Cash payment on exercise of SARs is calculated by multiplying the number of SARs exercised by the SAR Value (less applicable taxes). The number of Horizon Oil shares that may be issued in satisfaction of exercise of SARs is calculated as follows: <ul style="list-style-type: none">the aggregate SAR Value is calculated by multiplying the number of SARs exercised by the SAR Value; andthe aggregate SAR value is divided by the 10 day VWAP of Horizon Oil shares ending on the exercise date, rounded down to the nearest whole share.

Performance requirements:	<p>Under the LTI Plan, the number of SARs that vest is generally determined by reference to whether the Company achieves certain performance conditions.</p> <p>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:</p> <p>(a) if the Company's TSR is equal to that of the Index ('Minimum Benchmark'), 50%;</p> <p>(b) if the Company's TSR is 14% or more above that of the Index, 100% ('Maximum Benchmark'); and</p> <p>(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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
Cessation of employment:	<p>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.</p>
Maximum number of shares that can be issued:	<p>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.</p>
Restrictions on exercise:	<p>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.</p> <p>SARs are exercised by submitting a notice of exercise to the Company.</p>

Lapse:	<p>SARs will lapse where:</p> <ul style="list-style-type: none"> ▪ 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:	<p>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.</p>
No right to dividends, bonus or rights issues:	<p>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.</p>
No voting rights:	<p>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.</p>
Non-quotation:	<p>The Company will not apply to the ASX for official quotation of the SARs.</p>
Capital re-organisation:	<p>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.</p>
Effect of take-over or change of control of Company, death or disablement:	<p>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.</p> <p>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.</p> <p>The SARs may vest if the performance requirements discussed above are satisfied in relation to that special retesting date.</p>

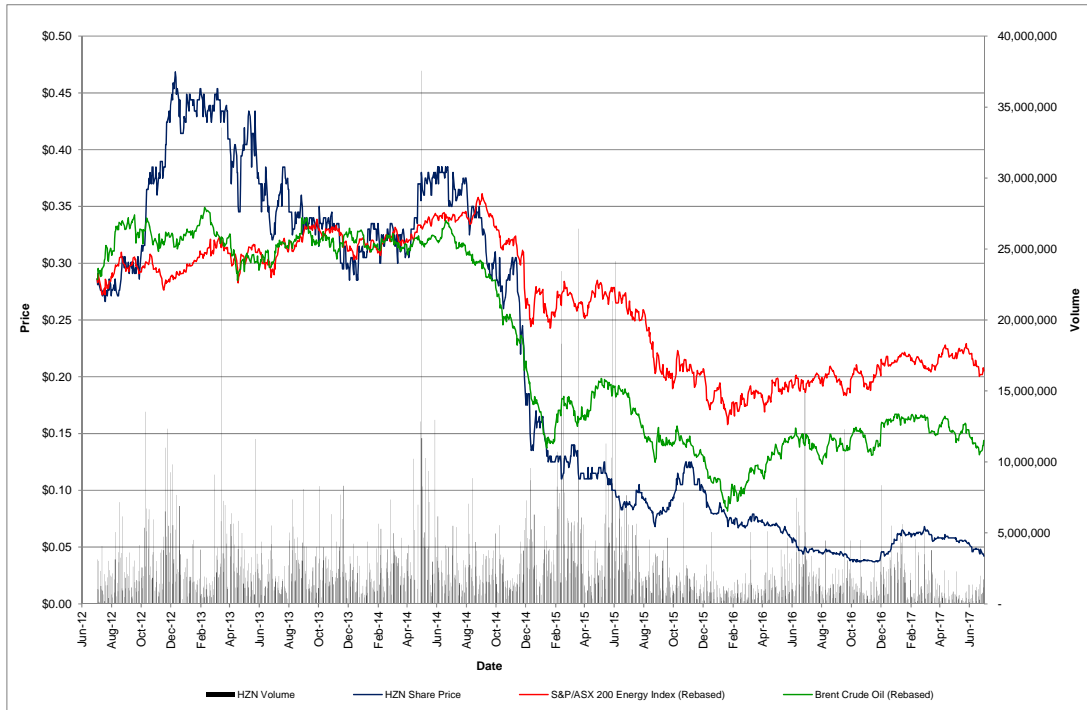
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Performance of Horizon Oil Limited

The board aligns Executive interests with shareholders' interests through its remuneration framework by having 50% of Executive remuneration 'at risk' through STIs and LTIs, linking STI key performance indicators to overall company performance or consolidated measures and linking the vesting of LTIs to the relative performance of the Horizon Oil share price to the performance of S&P/ASX200 Energy Index.

Horizon Oil share price performance 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



Horizon Oil Limited's profit/(loss) before tax for the current and previous four financial years is set out below.

Financial year ended 30 June:	2013	2014	2015	2016	2017
Profit/(loss) before tax (US\$'000)	10,025	30,027	17,751	(149,726)	4,154
EBITDAX (US\$'000)	27,719	99,481	89,117	53,995	45,171

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 pages 8 and 9, and the following executive officers, who are also the highest paid executives of the Company and Group (**KMP**):

M Sheridan
A Fernie

Chief Financial Officer, Company Secretary, Horizon Oil Limited
General Manager Exploration and Development, Horizon Oil Limited

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Financial year ended 30 June 2017 and 2016		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	2017	123,068	-	-	11,692	134,760	-	-	134,760
Chairman ⁶	2016	95,419	-	-	9,065	104,484	-	-	104,484
B Emmett	2017	645,106	-	120,309	26,408	791,823	12,673	345,472	1,149,968
Chief Executive Officer, Executive Director	2016	622,713	-	115,612	25,492	763,817	22,388	385,576	1,171,781
G de Nys	2017	61,535	-	-	5,846	67,381	-	-	67,381
Non-executive Director	2016	44,550	-	-	20,493	65,043	-	-	65,043
A Stock	2017	61,535	-	-	5,846	67,381	-	-	67,381
Non-executive Director	2016	59,400	-	-	5,643	65,043	-	-	65,043
S Birkenleigh	2017	61,535	-	-	5,846	67,381	-	-	67,381
Non-executive Director	2016	24,369	-	-	2,315	26,684	-	-	26,684
G Bittar	2017	20,117	-	-	1,911	22,028	-	-	22,028
Non-executive Director	2016	-	-	-	-	-	-	-	-
E F Ainsworth	2017	-	-	-	-	-	-	-	-
Chairman ⁶	2016	59,400	-	-	5,643	65,043	-	-	65,043
B Lorenzon	2017	-	-	-	-	-	-	-	-
Alternate Non-executive Director for G Bittar	2016	-	-	-	-	-	-	-	-
Total directors' remuneration	2017	972,896	-	120,309	57,549	1,150,754	12,673	345,472	1,508,899
	2016	905,851	-	115,612	68,651	1,090,114	22,388	385,576	1,498,078
Total directors' remuneration (AUD)⁵	2017	1,289,429	-	159,452	76,272	1,525,153	16,796	457,872	1,999,821
	2016	1,243,707	-	158,732	94,256	1,496,695	30,148	519,224	2,046,067
Other key management personnel:									
M Sheridan	2017	466,021	-	30,225	26,408	522,654	9,155	275,820	807,629
Chief Financial Officer, Company Secretary	2016	449,858	-	23,403	25,492	498,753	17,766	282,756	799,275
A Fernie	2017	466,021	-	102,593	26,408	595,022	9,155	275,820	879,997
General Manager - Exploration and Development	2016	449,858	-	91,502	25,492	566,852	17,481	282,756	867,089
Total other key management personnel remuneration	2017	932,042	-	132,818	52,816	1,117,676	18,310	551,640	1,687,626
	2016	899,716	-	114,905	50,984	1,065,605	35,247	565,512	1,666,364
Total other key management personnel remuneration (AUD)⁵	2017	1,235,285	-	176,031	70,000	1,481,316	24,267	731,117	2,236,700
	2016	1,235,285	-	157,762	70,000	1,463,047	47,464	761,529	2,272,040

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.

6 E F Ainsworth resigned as Chairman, and from the Board, on 20 November 2015 and J Humphrey was appointed Chairman on that date.

7 There has been no change in underlying AUD remuneration entitlements for executives since 2014.

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.

Name	Fixed remuneration		At Risk – STI		At Risk – LTI	
	2017	2016	2017	2016	2017	2016
<i>Executive Directors:</i>						
B Emmett	66%	67%	0%	0%	34%	33%
Chief Executive Officer, Executive Director						
<i>Other key management personnel:</i>						
M Sheridan	65%	65%	0%	0%	35%	35%
Chief Financial Officer, Company Secretary						
A Fernie	65%	67%	0%	0%	35%	33%
General Manager - Exploration and Development						

The maximum potential remuneration of all KMP (other than non-executive directors) is split 50% fixed remuneration, 25% at risk – STI and 25% at risk – LTI.

C. Service agreements

Remuneration and other terms of employment for all KMP including the Chief Executive Officer are formalised in service agreements. For KMP (other than non-executive directors), these agreements includes the provision of other non-monetary benefits such as health insurance, car parking and participation in the STI and LTI plans. Other key provisions of the existing agreements relating to remuneration are set out below:

B 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. Security-based compensation – Share Appreciation Rights (SARs)

Presently, Horizon Oil issues SARs to KMP (other than non-executive directors) under the LTI plan as a proportion of 'at risk' remuneration that Horizon Oil may satisfy on exercise of the SARs by issue of shares.

Below is a summary of SARs presently on issue affecting remuneration for KMP (other than non-executive directors) in the previous, current or future reporting periods:-

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Grant date	Expiry date	Exercise price ³	Strike price ¹	Value per SAR at grant date ²	Date exercisable
19/8/2013	19/08/2018	Nil	A\$0.3326	A\$0.1193	100% after 19/08/2016 ⁵
01/7/2014	01/07/2019	Nil	A\$0.3729	A\$0.1433	100% after 01/07/2017 ⁵
01/7/2015	01/07/2020	Nil	A\$0.0865	A\$0.0438	100% after 01/07/2018 ⁵
01/7/2016	01/07/2021	Nil	A\$0.0483	A\$0.0263	100% after 21/10/2019 ⁵
01/7/2016	01/07/2021	Nil	A\$0.0930	A\$0.0193	100% after 21/10/2019 ⁵

¹ The 'strike price' for SARs is the 10 day volume weighted average price for Horizon Oil at grant date.

² The value per SAR at grant date is determined by an independent expert using a Monte Carlo simulation.

³ No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.

⁴ The effective allocation price or 'strike price' for SARs on issue at 31 July 2013 were reduced by A\$0.006 following the rights issue during the 2014 financial year.

⁵ SARs will become exercisable subject to meeting vesting or performance conditions. See summary on page 14.

SARs on issue to Brent Emmett, Horizon Oil's Managing Director, were approved by shareholders for the purposes of the ASX Listing Rules at the 2016, 2015, 2014 and 2013 Annual General Meetings.

Details of SARs provided as remuneration to the KMP (other than non-executive directors) in this financial year 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 Emmett	16,617,522	238,424	-	2,626,328	-
Other key management personnel:					
M Sheridan	12,186,198	242,327	-	1,925,974	-
A Fernie	12,186,198	242,327	-	1,925,974	-

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 KMP include the assessed fair values of 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 'strike price', the term of the SAR, the current price and expected price volatility of the underlying Horizon Oil shares, the expected dividend yield and the risk-free interest rate for the term of the SAR (refer below). The value attributable to 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 a SAR at grant date to be allocated equally over the period from the grant date to the end of the vesting period, unless it is probable that the individual will cease service at an earlier date and the board will determine that such persons SARs lapse, in which case the value is to be spread over the period from grant date to that earlier date.

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The model inputs for each grant of SARs during the financial year ended 30 June 2017 included:

Grant date	1 July 2016
Expiry date	1 July 2021
Exercise price	Nil ¹
'Strike price', being the 10 day VWAP of Horizon Shares at grant date	A\$0.0483
Expected price volatility	65.30% p.a.
Risk free rate	1.65% 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 Share Appreciation Rights provided as remuneration

No SARs were exercised by KMP during the financial year.

Details of remuneration –SARs

For each grant of SARs currently on issue to KMP in the current or prior financial years which results in an amount being disclosed in the remuneration report as a share-based payment to KMP 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 vesting or performance conditions is set out below. The SARs vest after three years have elapsed subject to the vesting or performance conditions being met. No SARs will vest if the vesting or performance conditions are not satisfied, therefore the minimum value of SARs yet to vest is US\$Nil. The maximum value of the SARs yet to vest has been determined as the amount of the grant date fair value of the 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	2013	-	-	30/06/2016	-
	2014	-	-	30/06/2017	-
	2015	-	-	30/06/2018	-
	2016	-	-	30/06/2019	113,812
	2017	-	-	30/06/2020	159,022
M Sheridan	2013	-	-	30/06/2016	-
	2014	-	-	30/06/2017	-
	2015	-	-	30/06/2018	-
	2016	-	-	30/06/2019	83,462
	2017	-	-	30/06/2020	161,625
A Fernie	2013	-	-	30/06/2016	-
	2014	-	-	30/06/2017	-
	2015	-	-	30/06/2018	-
	2016	-	-	30/06/2019	83,462
	2017	-	-	30/06/2020	161,625

¹ The above values have been converted to dollars at the exchange rate prevailing on the date of the grant of the SARs.

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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:

2017 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				
B Emmett	18,902,607	-	1,100,000	20,002,607
J Humphrey	5,112,034	-	-	5,112,034
G de Nys	912,858	-	1,290,781	2,203,639
A Stock	160,000	-	160,000	320,000
S Birkenleigh	-	-	-	-
G Bittar	-	-	-	-
B Lorenzon (as alternate)	-	-	-	-
Other key management personnel of the Group:				
Ordinary shares and partly paid ordinary shares				
M Sheridan	7,968,201	-	-	7,968,201
A Fernie	2,700,000	-	-	2,700,000

Key management personnel option holdings in the Company

No listed or unlisted options in the Company were held during the current or prior financial year by directors and other key management personnel of the Group, including their personally-related entities.

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:

2017 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 ¹
Executive Directors:							
Share appreciation rights							
B Emmett	23,139,973	16,617,522	-	(2,626,328)	37,131,167	-	37,131,167
Other key management personnel of the Group:							
Share appreciation rights							
A Fernie	16,969,316	12,186,198	-	(1,925,974)	27,229,540	-	27,229,540
M Sheridan	16,969,316	12,186,198	-	(1,925,974)	27,229,540	-	27,229,540

¹ Subsequent to year end 9,561,936 SARS lapsed on 13 August 2017.

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.

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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
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
15/09/2016	300,000,000	A\$0.061 ⁴	15/09/2021
	302,200,000		

¹ Subject to restrictions on exercise.

² Options issued under the Employee Option Scheme.

³ The exercise price of the options outstanding at 31 July 2013 was reduced by A\$0.006 following the rights issue during the prior year.

⁴ General options issued to IMC on drawdown of the subordinated secured debt facility during the 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.

HORIZON OIL LIMITED

	Consolidated	
	2017	2016
	US\$	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		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	195,542	144,082
Other assurance services	45,034	15,114
Total remuneration for audit and other assurance services	240,576	159,196
<i>Taxation services</i>		
Tax compliance ¹	13,255	24,555
Total remuneration for taxation services	13,255	24,555
2. Non-PwC audit firms		
<i>Audit and other assurance services</i>	11,681	11,187
Total remuneration for audit and other assurance services	11,681	11,187
Total auditors' remuneration	265,512	194,938

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.

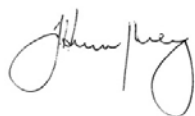
ROUNDING OF AMOUNTS TO THE NEAREST THOUSAND DOLLARS

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.

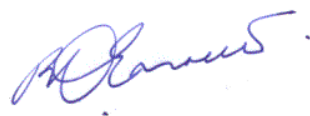
EXTERNAL AUDITOR

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 Humphrey
Chairman



B Emmett
Chief Executive Officer

Sydney
29 August 2017



Auditor's Independence Declaration

As lead auditor for the audit of Horizon Oil Limited for the year ended 30 June 2017, 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 audit; and
- (b) 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.

A handwritten signature in blue ink, appearing to read 'P. Buchholz'.

Peter Buchholz
Partner
PricewaterhouseCoopers

Sydney
29 August 2017

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SUSTAINABILITY REPORT

Horizon Oil is committed to the sustainable development of its operations. This Sustainable Development Report is focused upon those 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 2017.



Figure 1: Sampling receiving environments



Figure 2: Maintaining safe sites

Horizon Oil's philosophy towards sustainable development remains based upon the foundations of its corporate policy. This includes the four areas that Horizon Oil regards as the pillars of its sustainable development strategy. These include:

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

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

(i) Safety & Health

Horizon Oil is committed to the maintenance of a safe and healthy working environment for all personnel including our sub-contractors, attending vendors and visitors. No fatalities or recordable injuries resulted from the conduct of Horizon Oil's activities in the reporting period.

During the reporting period Horizon Oil achieved a Total Recordable Injury Frequency Rate (TRIFR) and a Lost Time Injury Frequency Rate (LTIFR) of 0.0. 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 OGP. In 2017 Horizon Oil outperformed this target. In August of 2017 Horizon Oil achieved 3 years 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	FY15	FY16	FY17
LTIFR	0.0	0.0	0.0
TRIFR	0.9	0.0	0.0
No. of Recordable Injuries	1	0	0

Table 1 – Total Recordable Injury Frequency Rate (TRIFR) for Horizon Oil

The 2017 reporting period was characterised by an ongoing reduction in the nature and scale of in-field activities conducted by the organisation as reported in the 2016 Sustainable Development

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Report. Total exposure hours during the 2017 reporting period were < 5% of those experienced during previous reporting periods in its operational history.

Health Programs

Horizon Oil is committed to the health and welfare of its workforce. During 2017 Horizon Oil maintained and extended its periodic health assessment program. This included an extension of targeted vaccination program for employees locally sourced, working and living in both high-risk and low-risk environments. Employee health continues to be 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 continues to contribute to the development of capability within community health systems and services. During 2017, Horizon Oil worked closely with local service providers to help them develop the skills and systems required for the delivery of pre-employment and periodic health assessments at levels appropriate for Horizon Oil's current and future requirements. This was then implemented as a component of a health extension exercise in which locally sourced casual employees in remotely located villages were provided with baseline health assessment as a component of their engagement.

During the reporting period Horizon Oil's Port Moresby and Sydney based personnel conducted first aid training as part of the ongoing HSSE skills development program. This complements the First Aid Training initiative undertaken in Kiunga during the previous reporting period. The course was designed to provide remote area first response capability reflective of the remote locations and, at times, limited medical response capability that may be available. As the vast majority of our employees in Papua New Guinea are locally-sourced and residentially-based these skills are transferred directly back into the communities.

(ii) Security

Horizon Oil maintains a Security Policy that sets standards that detail its expectations for the protection of its personnel, its assets and the public. Horizon Oil conducts its operations in a manner consistent with the *Voluntary Principles on Security and Human Rights*. During the period no breaches of the Principles were reported.

The organisation remains committed to responding proactively to developing circumstances that may impact the personal security of its people.

Horizon Oil maintains stable working relationships with public service security providers based in Kiunga including the Royal Papua New Guinea Constabulary (RPNGC). These relationships are effectively maintained through a shared understanding of the scope of each organisations activities and a clear delineation of their respective roles. Horizon Oil does not directly engage the services of the RPNGC in activities to be conducted on its behalf.

(iii) Environment

During the reporting period Horizon Oil continued to develop and refine the environmental baseline within its operational areas in support of the Environment Permit (EP) issued by the CEPA for the Elevala Development Project.

Horizon Oil also undertook a permit review and rationalisation activity in partnership with CEPA to streamline the governance and reporting process. This is expected to deliver a 75% reduction in the number of permits required to effectively manage its operational activities while delivering a more cohesive structure for the delivery of our environmental obligations.

Horizon Oil complied with all regulatory limits and environmental permit conditions during the reporting period.

In 2017 the scope of the existing environmental monitoring program was expanded to include sites of proposed future development activity while simultaneously rationalising the program to reduce sample

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numbers where effective spatial and temporal data-sets have already been collected. Ongoing baseline monitoring involves quarterly monitoring of an established network allowing assessment and recording of the presence and impact of any potential seasonal variations. Analysis of the samples and monitoring results indicates a healthy and dynamic riverine system with no evidence of impact from historical oil and gas activities in the area.



Figure 3: The team on an environmental monitoring run on the Fly River near Kiunga

A baseline riverbank erosion monitoring program for the impacted project area was implemented during the reporting period in response to community engagement and remains ongoing. This work has allowed the development of an understanding of riverbank conditions and behaviour prior to project implementation. The results reflect a highly active and mobile riverbank environment in the riverine ecosystem.



Figure 4: Measuring riverbank erosion



Figure 5: Simple but effective measurement techniques

In the reporting period a comprehensive, periodic assessment of all sites of historic operations was undertaken. This included assessment of environmental stability, water, soils and sediment quality at each site along with assessment of the broader receiving environments. These results were integrated into the ongoing environmental monitoring network and baseline and indicate that no discernible or material environmental impact has resulted from the conduct of these historic operations. As a component of these activities Horizon Oil implemented the first phase of rehabilitation and site stabilisation trials to assess various site remediation methods. Site-based assessment of proposed remediation methods is critical to their success in remote locations and an environment which experiences, including incident rainfall in excess of 5 metres per annum. Horizon Oil expects to implement a more comprehensive program of site rehabilitation trials in the coming reporting period in support of future planned operational and development activities.

(iv) Community

Horizon Oil seeks to conduct its operations in a manner that is transparent, respectful of the rights of all stakeholders with whom we interact and that promotes sustainable social and economic development within our project area communities. Horizon Oil recognises that strong relationships with host communities are essential in maintaining both a sustainable business and our social licence to operate.

Engagement with project area communities remained ongoing notwithstanding the continued reduction in the scale of Horizon Oil's field operations in FY17. Horizon Oil's program of regular 'village patrols' and publication of a quarterly newsletter, Komuniti Nius were supplemented during the reporting period by the roll out of a number of small scale community investment programs (CIPs). These programs are designed to be participatory, with the community contributing time and resources

HORIZON OIL LIMITED

of their own to supplement those provided by Horizon Oil. Following the 2015/2016 El Nino event and the associated severe dry weather experienced by the region, CIP activity during FY17 included the establishment of a combined 20,000 litres of rain water storage and enhanced rainwater catchment systems at Drimdemasuk and Gasuke villages. Improved access to fresh water supply reduces reliance on local river water for drinking and cooking, minimising exposure to water borne disease. In keeping with Horizon Oil's philosophy, this project was implemented with material levels of assistance from the Drimdemasuk and Gasuke village communities. A vocational training program was delivered under Horizon Oil's CIP to the Gusiore village community in association with the Kiunga Vocational Training Centre. The training program aimed to enhance basic life skills and provide opportunities for the participants to develop sustainable income generating activities and increased self sufficiency. The training program involved the donation of seven hand sewing machines, associated sewing equipment and provision of an accredited trainer and training materials. Twenty participants successfully completed the ten day course and were awarded Certificate of Attainment by the Kiunga Vocational Training Centre.



Figure 6: Vocational training participants at Gusiore



Figure 7: Enhanced water supply and catchment at Gasuke

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, ADI deployed 2 volunteer doctors and a nurse educator in FY17. These volunteers and along with local support staff from Catholic Health Services conducted a number of remote area medical patrols, treating over 2,800 patients and delivered over 120 hours of case based and group training to rural community health workers.



Figure 8: an ADI volunteer doctor on a rural medical patrol

Conclusion

Horizon Oil is committed to the sustainable development of its operations within the communities and environments that host our activities. The organisation 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 2017 Annual Report marks the fourth submission of Horizon Oil's Sustainability Report as an ongoing component of its corporate reporting.

The organisation remains open to feedback from its stakeholders regarding the content and structure of sustainable development reporting.



Independent auditor's report

To the shareholders of Horizon Oil Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Horizon Oil Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the consolidated statement of financial position as at 30 June 2017
- the consolidated statement of profit or loss and other comprehensive income for the financial year then ended
- the consolidated statement of changes in equity for the financial year then ended
- the consolidated statement of cash flows for the financial year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterhouseCoopers, ABN 52 780 433 757

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$0.9 million, which represents approximately 2% of the Group's EBITDA after adjusting for non-recurring items. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose Group EBITDA because, in our view, it is the benchmark against which the performance of the Group is most commonly measured as a proxy for free cash flow from operations. 	<ul style="list-style-type: none"> Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions over the assessment of the adequacy of future funding and the impairment of assets. Our audit focused on the joint venture oil producing operations in New Zealand and China, the joint venture gas exploration and development assets in PNG and the Group's head office in Sydney. The Group use an independent expert to perform an assessment of the Reserves and Resources on an annual basis. Our scope included assessing the work of the independent expert and their report on economic Reserves and Resources. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: <ul style="list-style-type: none"> Adequacy of funding Impairment of oil and gas assets Assessment of Reserves and Resources These are further described in the <i>Key audit matters</i> section of our report.



- We selected 2% based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Funding requirements to support monetisation of PNG exploration assets</i></p> <p>Refer to note 19</p> <p>The Group holds exploration assets in Papua New Guinea (PNG) and is reliant on receiving sufficient funding from operations, shareholders or other sources to finance ongoing exploration and development activities.</p> <p>On 15 September 2016 the Group refinanced US\$58.8 million convertible bonds payable with free cash and a 5 year non amortising subordinated debt facility of US\$50 million from IMC Investments Limited, a major shareholder of the Company.</p> <p>The Group prepared a detailed cash flow forecast to assess the surplus cash available in conjunction with the undrawn debt capacity. The forecasts were flexed for a range of oil price assumptions and development expenditure.</p> <p>The funding requirements of the Group were a key audit matter due to inherent uncertainties associated with net cash flows from joint venture oil producing operations in China and New Zealand and the level of funding required to monetise the joint venture exploration assets in PNG.</p>	<p>We performed the following procedures, amongst others:</p> <p>We tested the repayment of the US\$58.8 million in convertible bonds following approval by shareholders of the finance agreement entered into with IMC Investments Limited.</p> <p>We read the subordinated debt facility agreement for the US\$50 million subordinated debt and the amended terms of the revolving cash advance facility which is based on the level of economic oil reserves available to the Group.</p> <p>We tested the Group's cash flow forecasts which included the net cash inflows from the China and New Zealand Joint Ventures and the development expenditure planned to monetise the PNG exploration and development assets. We evaluated the key assumptions in the forecasts as follows:</p> <ul style="list-style-type: none"> • We compared the cash flow forecasts to a report on the required operating and capital expenditure over the production forecast prepared by the Group's independent expert. • We compared the Group's forecast oil prices to forward oil price curve and broker forecast beyond 12 months, assisted by our PwC valuation experts. • We also flexed the cash flow forecasts for changes to the oil price assumptions and reviewed the impact on the cash flow forecast.

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of oil and gas assets</p> <p>Refer to note 15 & 16</p> <p>The Group recognised an impairment charge of US\$147.5 million in 2016, primarily associated with the exploration and development assets in PNG and the interest in production assets in New Zealand. The Group performed an impairment assessment in 2016 in which they considered the Statement of Reserves and Resources (see below), the low oil price environment and the valuation performed by the Group's independent expert in relation to the refinancing negotiated with IMC Investments Limited.</p> <p>The Group prepared an updated impairment assessment at 30 June 2017. The impairment assessment was modelled on a Fair Value less Cost of Disposal (FVLCD) basis.</p> <p>This was a key audit matter due to the downward pressure on global oil prices in recent years, the significance of the value of these assets, the level of judgement required to assess impairment and the risks associated with monetizing the gas exploration and development assets in PNG.</p>	<ul style="list-style-type: none"> • We compared the cash flow forecast to the debt facility amortization schedule as provided by the lenders. <p>We performed the following procedures, amongst others:</p> <p>We read the impairment assessment prepared by the Group. Assisted by PwC valuation experts, we assessed the reasonableness of the key assumptions within the discounted cash flow model, including:</p> <ul style="list-style-type: none"> • The discount rate applied against the assets in New Zealand, China and PNG. • The project risks associated with the monetization of the PNG exploration assets. • The oil prices compared to PwC research on oil prices over the relevant period. <p>We performed a sensitivity analysis over the cash flows derived from the funding assessment as a proxy for fair value.</p> <p>We also compared the underlying value drivers in the Group's impairment assessment to the underlying value drivers identified by the Group's independent expert in their most recent reserves and resources report for China and New Zealand.</p>
<p>Reserves and Resources</p> <p>Refer to Statement of Reserves and Resources</p> <p>The Group used an internal expert to prepare base information for the annual Statement of Reserves and Resources. This information was provided to the Group's independent expert who determined a production profile along with an assessment of the required operational and capital expenditure. This information formed the basis of the cash flow forecast and impairment assessment referred to above.</p> <p>The Statement of Reserves and Resources was a key audit matter due to its importance to the cash flow models, the impairment assessment and due to the sensitivity of these models to changes in the base information.</p>	<p>We read the Statement of Reserves and Resource prepared by the Group's internal expert.</p> <p>We performed the following procedures:</p> <ul style="list-style-type: none"> • We compared the findings of the Group's internal expert with the Group's independent expert. • We compared the reported production profile and operating and capital expenditure provided by the independent expert to the cash flow forecast and impairment assessment model prepared by the Group. <p>We compared the reported production profile to the six monthly review of the funding provided by the lenders under the revolving cash advance facility.</p>

Other information

The directors are responsible for the other information. The other information comprises the Reserves and Resource Statement, Activities Review, Director's report, and Sustainability Report included in the Group's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_files/ar1.pdf. This description forms part of our auditor's report.



Report on the remuneration report

Our opinion 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 2017.

In our opinion, the remuneration report of Horizon Oil Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Horizon Oil Limited for the year ended 30 June 2017 included on Horizon Oil Limited's web site. The directors of the Company are responsible for the integrity of Horizon Oil Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. 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 audited financial report to confirm the information included in the audited financial report presented on this web site.

A stylized signature in blue ink, likely representing the PricewaterhouseCoopers firm.

PricewaterhouseCoopers

A stylized signature in blue ink, likely representing Peter Buchholz.

Peter Buchholz
Partner

Sydney
29 August 2017

HORIZON OIL LIMITED

DIRECTORS' DECLARATION

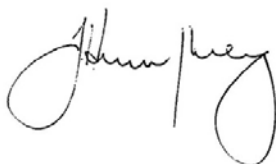
In the directors' opinion:

- (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 2017 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 Humphrey
Chairman



B Emmett
Chief Executive Officer

Sydney
29 August 2017

HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	Note	Consolidated 2017 US\$'000	2016 US\$'000
Revenue	4	68,534	75,952
Cost of sales	5	(43,768)	(60,179)
Gross profit		24,766	15,773
Other income	4	15	3,638
General and administrative expenses	5	(5,200)	(6,666)
Insurance expense	5	(1,240)	(1,428)
Exploration and development expenses	5	(1,250)	(1,852)
Impairment of non-current assets	5, 25	-	(147,515)
Financing costs	5	(13,081)	(17,264)
Unrealised movement in value of convertible bond conversion rights	4	530	5,322
Gain on buyback of convertible bonds during the financial year	4	-	1,193
Other expenses	5	(386)	(927)
Profit/(loss) before income tax		4,154	(149,726)
NZ royalty tax expense	6a	(512)	(988)
Income tax (expense)/ benefit	6b	(3,978)	6,189
Loss for the financial year		(336)	(144,525)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges	24a	1,612	(8,237)
Total comprehensive income/(loss) for the financial year		1,276	(152,762)
Loss attributable to:			
Security holders of Horizon Oil Limited		(336)	(144,471)
Non-controlling interests		-	(54)
Loss for the financial year		(336)	(144,525)
Total comprehensive loss attributable to:			
Security holders of Horizon Oil Limited		1,196	(152,708)
Non-controlling interests		80	(54)
Total comprehensive income/(loss) for the financial year		1,276	(152,762)
Earnings per share for loss attributable to ordinary equity holders of Horizon Oil Limited:			
		US cents	US cents
Basic earnings per ordinary share	42a	(0.03)	(11.08)
Diluted earnings per ordinary share	42b	(0.03)	(11.08)

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 2017

	Note	Consolidated 2017 US\$'000	2016 US\$'000
Current assets			
Cash and cash equivalents	7	24,529	16,079
Receivables	8	6,376	9,932
Inventories	9	1,497	1,792
Current tax receivable	10	47	650
Derivative financial instruments	11	2,191	-
Other assets	12	1,000	1,655
Total current assets		35,640	30,108
Non-current assets			
Deferred tax assets	13	4,122	6,453
Plant and equipment	14	903	1,886
Exploration phase expenditure	15	51,940	53,613
Oil and gas assets	16	179,098	194,612
Total non-current assets		236,063	256,564
Total assets		271,703	286,672
Current liabilities			
Payables	17	9,950	12,501
Current tax payable	18	354	125
Borrowings	19	22,132	76,937
Other financial liabilities	20	-	530
Provisions	21	-	428
Total current liabilities		32,436	90,521
Non-current liabilities			
Payables	17	28	22
Deferred tax liabilities	22	17,705	15,924
Other financial liabilities	20	2,531	-
Borrowings	19	102,666	67,428
Provisions	21	9,611	8,243
Total non-current liabilities		132,541	91,617
Total liabilities		164,977	182,138
Net assets		106,726	104,534
Equity			
Contributed equity	23	174,801	174,801
Reserves	24a	14,558	12,030
Accumulated losses	24b	(82,633)	(82,217)
Total Equity Attributable to equity holders of the Company		106,726	104,614
Non-controlling interest		-	(80)
Total equity		106,726	104,534

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

Consolidated	Attributable to members of Horizon Oil Limited					
	Contributed equity	Reserves	Retained profits / (accumulated losses)	Total	Non-controlling interest	Total Equity
	Note	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance as at 1 July 2015		174,801	19,288	62,254	256,343	(26) 256,317
Loss for financial year	24(b)	-	-	(144,471)	(144,471)	(54) (144,525)
Changes in the fair value of cash flow hedges	24(a)	-	(8,237)	-	(8,237)	- (8,237)
Total comprehensive loss for the financial year		-	(8,237)	(144,471)	(152,708)	(54) (152,762)
Transactions with owners in their capacity as equity holders:						
Employee share-based payments expense	24(a)	-	979	-	979	- 979
		-	979	-	979	- 979
Balance as at 30 June 2016		174,801	12,030	(82,217)	104,614	(80) 104,534
Balance as at 1 July 2016		174,801	12,030	(82,217)	104,614	(80) 104,534
Loss for the financial year	24(b)	-	-	(336)	(336)	- (336)
De-recognition of non-controlling interests		-	-	(80)	(80)	80 -
Changes in the fair value of cash flow hedges	24(a)	-	1,612	-	1,612	- 1,612
Total comprehensive income for the financial year		-	1,612	(416)	1,196	80 1,276
Transactions with owners in their capacity as equity holders:						
Employee share-based payments expense	24(a)	-	916	-	916	- 916
		-	916	-	916	- 916
Balance as at 30 June 2017		174,801	14,558	(82,633)	106,726	- 106,726

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

	Note	Consolidated 2017 US\$'000	2016 US\$'000
Cash flows from operating activities			
Receipts from customers		71,294	76,254
Payments to suppliers and employees		(26,149)	(23,180)
		45,145	53,074
Interest received		15	25
Interest paid		(9,413)	(9,806)
Income taxes (paid)/refunded		(114)	910
Net cash inflow from operating activities	41	35,633	44,203
Cash flows from investing activities			
Payments for exploration phase expenditure		(2,682)	(8,627)
Payments for oil and gas assets		(4,483)	(17,487)
Prepayments into China restoration fund		(376)	(3,774)
Payments for plant and equipment		(2)	(220)
Payments for acquisition of exploration assets	28	(198)	-
Net cash outflow from investing activities		(7,741)	(30,108)
Cash flows from financing activities			
Proceeds from borrowings (net of transaction costs)	19a	45,483	-
Repayment of borrowings	19a	(64,943)	(58,303)
Net cash outflow from financing activities		(19,460)	(58,303)
Net increase/(decrease) in cash and cash equivalents		8,432	(44,208)
Cash and cash equivalents at the beginning of the financial year		16,079	61,343
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		18	(1,056)
Cash and cash equivalents at the end of the financial year	7	24,529	16,079

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 2017 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. 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 2017. 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 2017. 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 from the financial year beginning on 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

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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 2.

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

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 21.

During the period, the Group revised the future cost estimates from which the provision for restoration of the PNG and New Zealand assets are derived, taking into consideration enhanced experience and reduction in uncertainty surrounding future obligations. The resultant effect is an increase in the restoration provision of US\$1,235,000.

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 2017 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.

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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 30.

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.

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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 brought 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.

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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 39). 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 2017.

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 assumed, 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

HORIZON OIL LIMITED

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).

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(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.

(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 more than 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,

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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 11. Movements in the hedging reserve in equity are shown in Note 24(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 expenses.

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

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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 expenses.

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 rate 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 (netted against the loan balance) 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 US\$Nil borrowing costs (2016: US\$Nil) capitalised during the current financial year and the amount of borrowing costs amortised to the income statement were US\$860,000 (2016: US\$1,204,000).

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 payables.

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(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, and the General Option Plan. Information relating to these schemes is set out in Note 34.

The fair value of options and share appreciation rights ('SARs') granted under the Horizon Oil Long Term Incentive Plan and Horizon Oil Limited Employee Option Scheme 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 considered dilutive only when their conversion to ordinary shares would decrease earnings per share, or increase loss per share, from continuing operations.

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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 43, 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 2017 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

(i) 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.

(ii) 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.

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.

Note 2. Critical accounting estimates and judgements

This section considers 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.

(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 21.

During the period, the Group revised the future cost estimates from which the provision for restoration of the PNG and New Zealand assets are derived, taking into consideration enhanced experience and reduction in uncertainty surrounding future obligations. The resultant effect is an increase in the restoration provision of US\$1,235,000.

(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.

(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 34.

(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 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 3. 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 four operating segments (five for 2016 – management no longer consider New Zealand Exploration to be a separate operating segment as the joint venture participants of the New Zealand exploration permit, PEP 51313, have withdrawn from the permit during the period):

- New Zealand exploration and development – the Group is currently involved in developing and producing crude oil from the Maari/Manaia oil field development, and the exploration and evaluation of hydrocarbons within the permit;
- China exploration and development – the Group is currently involved in developing and producing 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 six onshore permit areas – PRL 21, PRL 28, PPL 574, 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

	China Exploration and Development	New Zealand Exploration and Development	Papua New Guinea Exploration and Development	All other segments	Total
2017	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment revenue:					
Revenue from external customers	52,180	16,354	-	-	68,534
Profit/(loss) before tax	15,220	(5,210)	(2,955)	(3,385)	3,670
Depreciation and amortisation	(17,031)	(9,270)	(159)	(226)	(26,686)
Total segment assets as at 30 June 2017	128,183	52,695	71,186	19,639	271,703
Additions to non-current assets other than financial assets and deferred tax during the financial year ended:					
Exploration phase expenditure:	1,679	56	1,832	-	3,567
Development and production phase expenditure:	(27)	1,924	2,996	-	4,893
Plant and equipment:	-	-	-	2	2
Total segment liabilities as at 30 June 2017	111,385	44,743	5,161	3,689	164,977

	China Exploration and Development	New Zealand Development	New Zealand Exploration	Papua New Guinea Exploration and Development	All other segments	Total
2016	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Segment revenue:						
Revenue from external customers	35,486	40,466	-	-	-	75,952
Loss before tax	(3,455)	(29,132)	(5,306)	(107,558)	(14,229)	(159,680)
Depreciation and amortisation	(22,631)	(13,769)	-	(432)	(258)	37,090
Total segment assets as at 30 June 2016	143,644	65,061	56	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:	2,614	-	155	6,547	-	9,316
Development and production phase expenditure:	8,575	3,147	-	3,247	-	14,969
Plant and equipment:	-	-	-	-	220	220
Total segment liabilities as at 30 June 2016	71,258	47,921	56	1,011	61,892	182,138

(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, including through sales agreements with the respective joint venture operators.

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Segment revenue reconciles to total consolidated revenue as follows:

	Consolidated	
	2017	2016
	US\$'000	US\$'000
Total segment revenue	68,534	75,952
Proceeds from insurance claims	-	3,613
Interest income	15	25
Total revenue	68,549	79,590

(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	
	2017	2016
	US\$'000	US\$'000
Total segment profit/ (loss) before tax	3,670	(159,680)
Proceeds from insurance claims	-	3,613
Interest income	15	25
Unrealised movement in value of convertible bond conversion rights	530	5,322
Realised gain on purchase of bonds	-	1,193
Net foreign exchange losses	(61)	(199)
Profit/(loss) before tax	4,154	(149,726)

(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.

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	Consolidated	
	2017	2016
	US\$'000	US\$'000
Note 4. Revenue		
From continuing operations		
Crude oil sales	67,988	56,455
Net realised gain on oil hedging derivatives	546	19,497
	68,534	75,952
Other income		
Insurance claim income	-	3,613
Interest received from unrelated entities	15	25
	15	3,638
Gains – Conversion rights on convertible bonds		
Unrealised movement in fair value of convertible bond conversion rights ¹	530	5,322
Gain on buyback of convertible bonds	-	1,193
	530	6,515

¹ 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 could 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 was subject to the conversion price which may have reset under certain circumstances. Accordingly, the conversion rights were a derivative financial liability and were marked to market through profit or loss. Fair value of conversion rights at issuance on 17 June 2011 was US\$20,043,000. The bonds were redeemed during the period, prior to extended redemption date of 19 September 2016. Refer to Note 19(d) for further details of the convertible bonds issued.

	Consolidated	
	2017	2016
	US\$'000	US\$'000
Note 5. Expenses		
Cost of sales		
Direct production costs	16,262	22,858
Inventory adjustments ¹	612	817
Amortisation expense	26,301	36,400
Royalties and other levies	593	104
	43,768	60,179

¹ Includes production overlift/underlift and inventory adjustments.

General and administrative expenses		
Employee benefits expense (<i>net</i>)	2,594	3,474
Employee share options expense	916	979
Corporate office expense	926	1,160
Depreciation expense	385	690
Rental expense relating to operating leases	379	363
	5,200	6,666
Insurance expense		
Insurance expense (including <i>Loss of Production Income</i> insurance)	1,240	1,428
	1,240	1,428
Exploration and development expenses		
Exploration and development expenditure written off/expensed	1,250	1,852
	1,250	1,852
Impairment of non-current assets		
Impairment of non-current assets ¹	-	147,515
	-	147,515

¹ Refer to Note 25 for further discussion surrounding the prior year impairment charge.

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	Consolidated	
	2017	2016
	US\$'000	US\$'000
Financing costs		
Interest and finance charges	11,925	15,189
Discount unwinding on provision for restoration	133	258
Unrealised movement in fair value of derivative financial instrument ¹	(1,400)	-
Amortisation of prepaid financing costs	2,423	1,817
	13,081	17,264

¹ The amount shown reflects an unrealised gain of \$1,400,000 relating to the marked to market revaluation of the derivative financial liability arising from the share options issued in respect of the subordinated secured facility. Refer to Notes 19(c) and 20 for further details of the component parts recognised in relation to this financing transaction.

Other expenses		
Net foreign exchange losses	323	199
Other expenses	63	728
	386	927

	Consolidated	
	2017	2016
	US\$'000	US\$'000

Note 6. Income tax expense

(a) Royalty tax expense (benefit)

Royalty paid/payable in New Zealand – current tax expense	816	1,078
Tax benefit related to movements in deferred tax balances	(304)	(90)
Total royalty tax expense	512	988

(b) Income tax expense

Current tax expense	-	-
Tax expense/(benefit) related to movements in deferred tax balances	3,837	(5,520)
Adjustments for current tax of prior periods	141	(669)
Total income tax expense/(benefit)	3,978	(6,189)

Deferred income tax expense/(benefit) included in income tax expense comprises:

Decrease in deferred tax assets	2,331	6,953
Increase/(decrease) in deferred tax liabilities	1,506	(12,473)
Total deferred income tax expense/(benefit)	3,837	(5,520)

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(c) Numerical reconciliation between profit before tax and tax expense/(benefit)

Profit/(loss) from continuing operations before income tax	4,154	(149,726)
Less: Royalty paid/payable	(816)	(1,078)
	3,338	(150,804)
Tax at the Australian tax rate of 30% (2016: 30%)	1,001	(45,241)
Tax effect of amounts which are not deductible / (taxable) in calculating taxable income:		
Expenditure not allowed for income tax purposes	1,160	1,357
Other deductible items	(1,814)	(5,255)
Non-assessable income	(28)	(78)
	319	(49,217)
Effect of overseas tax rates	(215)	1,596
Deferred tax asset not brought to account	3,733	42,101
Adjustments for current tax of prior periods	141	(669)
Income tax expense/(benefit)	3,978	(6,189)
Royalty tax expense	512	988
Total tax expense/(benefit) recognised in statement of profit or loss	4,490	(5,201)

	Consolidated	
	2017	2016
	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	579	(3,162)
Total tax expense/(benefit) recognised in other comprehensive income	579	(3,162)

(e) Tax losses

Unused tax losses (and applicable tax rate) for which no deferred tax asset has been recognised:

Horizon Oil International Limited – 28% (2016: 28%)	4,995	-
Horizon Oil (New Zealand) Limited – 28% (2016: 28%)	3,764	-
	8,759	-
Potential tax benefit at applicable tax rates	2,453	-

The Company has no Australian subsidiaries and therefore it is not subject to the Australian tax consolidation regime.

	Consolidated	
	2017	2016
	US\$'000	US\$'000

Note 7. Current assets – Cash and cash equivalents

Cash at bank and on hand	19,368	9,615
Restricted cash ¹	5,161	6,464
	24,529	16,079

¹ Under the terms of Horizon Oil's Revolving Cash Advance Facility (refer to Note 19(b)), certain cash balances are available to the Group after certain conditions of the relevant facility agreement are satisfied. No restricted cash was held on deposit during the year (2016: \$Nil).

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	Consolidated	
	2017	2016
	US\$'000	US\$'000
Note 8. Current assets – Receivables		
Trade and other receivables ¹	6,376	9,932
	6,376	9,932

¹ Of this balance US\$Nil (2016: US\$Nil) related to amounts receivable from related parties. Refer to Note 33 for further details.

Information about the Company's exposure to credit and market risks, and collectability of overdue amounts, is included in Note 26(b).

	Consolidated	
	2017	2016
	US\$'000	US\$'000
Note 9. Inventories		
Crude oil, at cost	758	1,370
Drilling and workover spares inventory, at cost	739	422
	1,497	1,792

	Consolidated	
	2017	2016
	US\$'000	US\$'000
Note 10. Current tax receivable		
Income tax – China	47	650

	Consolidated	
	2017	2016
	US\$'000	US\$'000
Note 11. Derivative financial instruments		
Current:		
Derivative asset - Oil price swaps – cash flow hedges	2,191	-
	2,191	-

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 26(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 2017, the Group has 393,750 barrels of crude oil hedged.

The gain or loss arising from re-measurement of 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\$546,000 (2016: gain of US\$19,497,000) was transferred to profit or loss.

	Consolidated	
	2017	2016
	US\$'000	US\$'000
Note 12. Other assets – current		
Prepayments	1,000	1,655
	1,000	1,655

	Consolidated	
	2017	2016
	US\$'000	US\$'000
Note 13. Non-current assets – Deferred tax assets		
Recognised deferred tax assets are attributable to:		
Tax losses	3,410	5,118
Provisions and other	712	1,335
Total deferred tax assets	4,122	6,453
Set off of deferred tax liabilities pursuant to set off provisions	-	-
Net deferred tax assets	4,122	6,453

2017

Movements	Tax Losses US\$'000	Provisions and other \$US'000	Total \$US'000
At 1 July 2016	5,118	1,335	6,453
(Charged)/credited			
- to profit or loss	(1,708)	(623)	(2,331)
At 30 June 2017	3,410	712	4,122

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

Note 14. Non-current assets – Plant and equipment

	Consolidated		Total
	Other plant and equipment US\$'000	Leasehold improvements US\$'000	US\$'000
As at 1 July 2015			
Cost	2,846	4,965	7,811
Accumulated depreciation	(1,794)	(952)	(2,746)
Net book amount	1,052	4,013	5,065
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	-	(1,407)	(1,407)
Depreciation expense	(418)	(272)	(690)
Closing net book amount	532	1,354	1,886
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

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	Other plant and equipment US\$'000	Consolidated Leasehold improvements US\$'000	Total US\$'000
Financial year ended 30 June 2017			
Opening net book amount	532	1,354	1,886
Additions	2	-	2
Disposals	-	(600)	(600)
Depreciation expense	(263)	(122)	(385)
Closing net book amount	271	632	903
As at 30 June 2017			
Cost	2,159	1,263	3,422
Accumulated depreciation	(1,888)	(631)	(2,519)
Net book amount	271	632	903

Note 15. Non-current assets – Exploration phase expenditure	Consolidated 2017 US\$'000	2016 US\$'000
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Exploration phase expenditure

Deferred geological, geophysical, drilling and other exploration and evaluation expenditure	51,940	53,613
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The reconciliation of exploration phase expenditure carried forward above is as follows:

Balance at beginning of financial year	53,613	96,959
Expenditure incurred during financial year	3,567	9,317
Transferred to development phase	(6,049)	(3,486)
Reassessment of rehabilitation asset	1,390	-
Expenditure written off during financial year	(581)	(1,110)
Impairment losses	-	(48,067)
Balance at end of financial year	51,940	53,613

Note 16. Non-current assets – Oil & gas assets	Consolidated 2017 US\$'000	2016 US\$'000
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Development and production phase expenditure

Producing oil and gas property acquisition, deferred geological, seismic and drilling, production and distribution facilities and other development expenditure	457,835	447,048
Impairment losses	(98,041)	(98,041)
Less accumulated amortisation	(180,696)	(154,395)
	179,098	194,612

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The reconciliation of development and production phase expenditure carried forward above is follows:

	Development phase expenditure US\$'000	Consolidated Production phase expenditure US\$'000	Total US\$'000
Balance at 1 July 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	(60,460)	(37,581)	(98,041)
Balance at 30 June 2016	15,357	179,255	194,612
Transferred from exploration phase	6,049	-	6,049
Transfer to production phase	(6,049)	6,049	-
Reassessment of rehabilitation asset	2,053	(2,208)	(155)
Amortisation incurred	-	(26,301)	(26,301)
Expenditure incurred during financial year	2,996	1,897	4,893
Balance at 30 June 2017	20,406	158,692	179,098

	Consolidated 2017 US\$'000	2016 US\$'000
Note 17. Payables		
Current liabilities:		
Trade creditors	468	2,102
Share of joint operation creditors and accruals	5,769	7,232
Other creditors	3,713	3,167
	9,950	12,501
Non-current liabilities:		
Other creditors	28	22
	28	22

	Consolidated 2017 US\$'000	2016 US\$'000
Note 18. Current tax payable		
Current tax payable – New Zealand	354	125
	354	125

	Consolidated 2017 US\$'000	2016 US\$'000
Note 19. Borrowings		
Current:		
Bank loans (b)	22,132	18,137
Convertible bonds (d)	-	58,800
	22,132	76,937
Non-current:		
Bank loans (b)	63,534	67,428
Subordinated debt (c)	39,132	-
	102,666	67,428
Total Borrowings	124,798	144,365

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a) Reconciliation of borrowings arising from financing activities:

	Opening 1 July 2016 US\$'000	Cashflows		Non-cash changes		Closing 30 June 2017 US\$'000
		Drawdown ¹ US\$'000	Repayments US\$'000	Amortisation of transaction costs US\$'000	Changes in fair value US\$'000	
Revolving Cash Advance Facility (current)	18,137	-	(1,143)	-	5,138	22,132
Revolving Cash Advance Facility (non-current)	67,428	-	-	1,244	(5,138)	63,534
Convertible Bonds	58,800	-	(58,800)	-	-	-
Subordinated debt	-	45,483	(5,000)	1,179	(2,530)	39,132
Total liabilities from financing activities	144,365	45,483	(64,943)	2,423	(2,530)	124,798

¹ Funds drawn down are shown net of associated transaction costs incurred during the period.

b) 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) and Westpac Banking Corporation (Westpac). The facility was used to refinance the previous Reserves Based Debt Facility. Unless refinanced, or repaid in advance, the facility matures in May 2019. 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 2017, total debt drawn under the facility was US\$88.0 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.

c) Subordinated secured debt facility

On 15 September 2016, the Group reached financial close on a US\$50 million subordinated secured non-amortising loan with its major shareholder, IMC Investments Limited (IMC). The proceeds from the drawdown of the facility were used to redeem the outstanding US\$58.8 million in convertible bonds which matured during the period. Shareholders approved the loan, which involved the issue of 300 million options over unissued shares in the parent entity, at a general meeting on 6 September 2016. This loan was secured by a second ranking charge over the shares and assets of the borrowers included in the Revolving Cash Advance Facility (senior facility) above. ANZ Fiduciary Services Pty Limited acts as security trustee for both the senior facility and this subordinated facility. Floating interest in respect of the facility was at LIBOR plus a margin of 9.0%. The facility has a term of 5 years, and is callable after 3 years at the election of the lender. If the loan is called prior to maturity, the company may require the optionholder to mandatorily exercise its options if the share price is equal to or greater than the exercise price. The proceeds from the exercise of the options may be set off against the outstanding facility balance.

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During the year the Group voluntarily prepaid and cancelled US\$5 million of the outstanding facility resulting in total remaining debt drawn at 30 June 2017 of US\$45 million, with no undrawn debt capacity available. The following is a reconciliation of the movement of the carrying value of the subordinated debt facility for the year ended 30 June 2017:

	2017
	US\$'000
Face value of debt drawn down	50,000
Less: Other financial liabilities – value of share options ¹	(3,931)
Less: Transaction costs	(4,483)
Initial fair value	41,586
Finance costs ²	5,784
Less: Principal repaid during the financial year ³	(5,000)
Add back: loss recognised on principal repayment ³	682
Less: Interest paid	(3,118)
Less: Interest accrued ⁴	(802)
Non-current liability at amortised cost	39,132

¹ Fair value of the debt on initial recognition is net of the fair value of the derivative financial liability component (refer to Note 20).

² Finance costs are calculated by applying the effective interest rate of 17.3% to the liability component.

³ On 31 May 2017 the Group completed a voluntary prepayment of US\$5 million of the principal outstanding on the subordinated secured debt facility. A loss of US\$682,000 was recorded to profit or loss reflecting the difference between the carrying value and the nominal amount paid.

⁴ Interest accrued at 30 June 2017 is included within the 'other creditors' balance per Note 17.

d) 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 was reduced to US\$0.409 since issue. The bonds were listed on the Singapore Securities Exchange on 20 June 2011.

During the prior financial year the parent entity 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.

Completion of the refinancing arrangements during the current period through the subordinated loan facility enabled redemption of the remaining US\$58.8 million convertible bonds prior to the due date of 19th September 2016.

	2017	2016
	US\$'000	US\$'000
Face value of bonds issued	80,000	80,000
Less: Other financial liabilities – value of conversion rights	(20,043)	(20,043)
Less: Transaction costs	(3,362)	(3,362)
	56,595	56,595
Finance costs in prior periods ¹	50,028	40,449
Finance costs ¹	1,277	9,579
Less: Convertible bond buybacks	(21,589)	(21,589)
Less: Coupon paid in prior periods	(20,834)	(17,600)
Less: Coupon paid during the financial year	(1,503)	(3,234)
Less: Coupon accrued	-	(226)
Less: Principal repaid during the financial year	(58,800)	-
Less: Premium paid in prior periods	(5,174)	-
Less: Premium paid during the financial year	-	(5,174)
Non-current liability	-	58,800

¹ Finance costs are calculated by applying the effective interest rate of 14.8% to the liability component.

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	Consolidated	
	2017	2016
	US\$'000	US\$'000
Note 20. Other financial liabilities		
Current		
Conversion rights on convertible bonds	-	530
Non-Current		
Fair value of share options	2,531	-
Total other financial liabilities	2,531	530

The amount shown for other financial liabilities is the fair value of the derivative financial liability arising from the 300 million share options issued as part of the subordinated debt facility discussed in Note 19(c). The options are exercisable at A\$0.061 per share and as the functional currency of the Group is United States dollars, which will result in a variable amount of cash being received on exercise of the options, the share options are accounted for as a derivative financial liability at fair value on a recurring basis and are marked to market at each balance date, with any gains/losses arising recognised through profit or loss.

The following is a reconciliation of the fair value of the share options:

	2017
	US\$'000
Balance at beginning of financial year	-
Initial recognition during the period (see Note 19(c)) ¹	3,931
Unrealised (gain)/loss on revaluation during the period	(1,400)
Balance at end of financial year	2,531

¹ The weighted average fair value of the options at measurement date was A\$0.018. Refer to Note 26(d) for details of the valuation techniques used to derive this fair value.

	Consolidated	
	2017	2016
	US\$'000	US\$'000
Note 21. Provisions		
Restoration (current)	-	428
Restoration (non-current)	9,611	8,243
	9,611	8,671

	Consolidated	
	2017	2016
	US\$'000	US\$'000
The reconciliation of the movement in the total of the restoration provisions is as follows:		
Balance at beginning of financial year	8,671	15,984
Prepayments made into China restoration fund	(428)	(3,774)
Additional provision during financial year	1,235	(3,797)
Unwinding of discount	133	258
Balance at end of financial year	9,611	8,671

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	Consolidated 2017 US\$'000	2016 US\$'000
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Note 22. Non-current liabilities – Deferred tax liabilities

Recognised deferred tax liabilities are attributable to:

Development and production expenditure	13,488	14,940
Accounting profits royalty	7,700	8,004
Cash flow hedges	579	-
Other	2,592	1,118
Total deferred tax liabilities	24,359	24,062
Set off of deferred tax assets pursuant to set off provisions	(6,654)	(8,138)
Net deferred tax liabilities	17,705	15,924

2017

Movements	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 2016					
Charged/(credited)	14,940	8,004	-	1,118	24,062
- to profit or loss	(1,452)	(304)	-	1,474	(282)
- to other	-	-	579	-	579
comprehensive income					
At 30 June 2017	13,488	7,700	579	2,592	24,359

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						
Charged/(credited)	1,440	19,695	8,094	3,162	3,632	36,023
- to profit or loss	(1,440)	(4,755)	(90)	-	(2,514)	(8,799)
- to other	-	-	-	(3,162)	-	(3,162)
comprehensive income						
At 30 June 2016	-	14,940	8,004	-	1,118	24,062

	Consolidated 2017 Number of shares '000	2016 Number of shares '000	Consolidated 2017 US\$'000	2016 US\$'000
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Note 23. 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

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(b) Movements in ordinary share capital

(i) Ordinary shares (fully paid)

Date	Details	Number of shares	Issue price	US\$'000
30/06/2016	Balance as at 30 June 2016	1,301,981,265		174,342
30/06/2017	Balance as at 30 June 2017	1,301,981,265		174,342

(ii) Ordinary shares (partly paid to A\$0.01):

Date	Details	Number	Issue price	US\$'000
30/06/2016	Balance as at 30 June 2016	1,500,000		459
30/06/2017	Balance as at 30 June 2017	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 partly paid shares currently on issue are held by the Company following forfeiture by their original holder. 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 and the Employee Option Scheme, 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 34.

Note 24. Reserves and retained profits	Consolidated	
	2017	2016
	US\$'000	US\$'000
(a) Reserves		
Share-based payments reserve		
Movements:		
Balance at beginning of financial year	12,030	11,051
Employee share-based payments expense	916	979
Balance at end of financial year	12,946	12,030
Hedge reserve		
Movements:		
Balance at beginning of financial year	-	8,237
Movement in net market value of hedge contracts	2,191	(11,399)
Deferred tax	(579)	3,162
Balance at end of financial year	1,612	-
Total reserves	14,558	12,030

(b) Accumulated (losses)/retained profits	Consolidated	
	2017	2016
	US\$'000	US\$'000
Accumulated (losses)/retained profits at beginning of financial year	(82,217)	62,254
Net loss for financial year	(336)	(144,471)
De-recognition of non-controlling interest	(80)	-
Accumulated losses at end of financial year	(82,633)	(82,217)

(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 unless accounting standards require the options to be treated otherwise.

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).

Note 25. Impairment of non-current assets

At 30 June 2017, the Group reassessed the carrying amounts of its non-current assets for indicators of impairment in accordance with the Group's accounting policy.

No indicators of impairment were deemed to exist at 30 June 2017 and therefore impairment write-downs of US\$Nil (2016: US\$147,515,000) were expensed to profit or loss.

The impairment charges noted in the prior year primarily resulted from the lower oil price environment, the reserves and resources update conducted during the period and consideration of the valuation performed by the Independent Expert in relation to the proposed subordinated debt facility.

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 key assumptions, namely:

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.

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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 exists 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.

Recoverable amounts and resulting impairment write-downs recognised during the prior year ended 30 June 2016 are presented in the table below.

Area of Interest/CGU		Impairment write-down 2016	Recoverable amount ¹ 2016
Exploration Phase Expenditure	Segment		
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)	

¹ 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) at 30 June 2016.

The post-tax discount rates that have been applied to the above non-current assets range between 10% and 11%.

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.

Note 26. 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 at 30 June 2017 and 30 June 2016:

	Consolidated	
	30 June 2017	30 June 2016
	US\$'000	US\$'000
Financial Assets		
Cash and cash equivalents	24,529	16,079
Receivables	6,376	9,932
Derivative financial instruments	2,191	-
Current tax receivable	47	650
	33,143	26,661
Financial Liabilities		
Payables (current)	9,950	12,501
Current tax payable	354	125
Payables (non-current)	28	22
Borrowings (net of borrowing costs capitalised)	124,798	144,365
Other financial liabilities	2,531	530
	137,661	157,543

(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

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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 2017					30 June 2016				
	AUD US\$'0 00	NZD US\$'0 00	PGK US\$'0 00	RMB US\$'0 00	SGD US\$'0 00	AUD US\$'0 00	NZD US\$'0 00	PGK US\$'0 00	RMB US\$'0 00	SGD US\$'0 00
Cash and cash equivalents	330	137	25	238	-	358	380	37	3	16
Receivables	95	107	5	-	-	145	203	27	-	-
Current tax payable	-	351	-	-	3	-	125	-	-	-
Current payables	1,269	175	185	369	5	1,764	923	169	-	-
Non-current payables	28	-	-	-	-	22	-	-	-	-

For the financial year ended and as at 30 June 2017, if the currencies set out in the table below had 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	
	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000
Change in currency¹	+10%	+10%	+10%	+10%	-10%	-10%	-10%	-10%
Australian dollar impact	(566)	(763)	(61)	(92)	566	763	61	92
New Zealand dollar impact	(440)	(966)	(20)	(33)	440	966	20	33
Papua New Guinea kina impact	(61)	(56)	(11)	(8)	61	56	11	8
Chinese Renminbi impact	(11)	(71)	(9)	-	11	71	9	-
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 2017 and 30 June 2016. 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 2017, the Group had derivative assets of US\$2,191,000 (30 June 2016: Nil derivative assets/liabilities) as there were 393,750 bbls hedged at this date (30 June 2016: Nil bbls).

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For the financial year ended and as at 30 June 2017, 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	
	2017	2016	2017	2016	2017	2016	2017	2016
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Change in crude oil price	+10%	+10%	+10%	+10%	-10%	-10%	-10%	-10%
Impact	2,585	2,312	2,585	2,312	(2,585)	(2,312)	(2,585)	(2,312)

(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 2017 and 30 June 2016, 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
	US\$'000	1 year or less US\$'000	Over 1 to 2 years US\$'000	Over 2 to 5 years US\$'000	US\$'000	US\$'000
As at 30 June 2017						
Financial assets						
Cash and cash equivalents	14,813	-	-	-	9,716	24,529
Receivables	-	-	-	-	6,376	6,376
Derivative financial instruments	-	-	-	-	2,191	2,191
Current tax receivable	-	-	-	-	47	47
	14,813	-	-	-	18,330	33,143
Weighted average interest rate p.a.	0.16%					
Financial liabilities						
Trade and other payables	-	-	-	-	9,950	9,950
Current tax payable	-	-	-	-	354	354
Borrowings	124,798	-	-	-	-	124,798
	124,798	-	-	-	10,304	135,102
Weighted average interest rate p.a.	5.94%					
Net financial assets/(liabilities)	(109,985)	-	-	-	8,026	(101,959)

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	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	-	-	-	-	-	-
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)

As at 30 June 2017 and 30 June 2016, the Group had the following variable rate borrowings outstanding:

	30 June 2017		30 June 2016	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	% p.a.	US\$'000	% p.a.	US\$'000
External loans	5.94%	132,998	3.45%	89,141
Net exposure to cash flow interest rate risk		132,998		89,141

At 30 June 2017, 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 2017 would increase/(decrease) by:

Group	Net Result		Net Assets		Net Result		Net Assets	
	2017	2016	2017	2016	2017	2016	2017	2016
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Change in interest rate p.a.	+1%	+1%	+1%	+1%	-1%	-1%	-1%	-1%
Impact of Assets	99	240	99	240	(15)	(24)	(15)	(24)
Impact of Liabilities	795	742	795	742	(795)	(742)	(795)	(742)
Impact of Net Assets	(696)	(502)	(696)	(502)	780	718	780	718

(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.

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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 2017 US\$'000	2016 US\$'000
Cash and cash equivalents		
<i>Counterparties with external credit rating (Standard & Poors)</i>		
AA-	22,329	13,508
	22,329	13,508
<i>Counterparties without external credit rating</i>		
Share of joint operations cash balances	2,175	2,508
Overseas financial institutions	25	63
	2,200	2,571
Total cash and cash equivalents	24,529	16,079
Receivables		
<i>Counterparties with external credit rating (Standard & Poors/Fitch)</i>		
AAA	19	69
AA-	513	4,255
AA	107	213
A+	3,844	4,381
A-	1,827	309
	6,310	9,227
<i>Counterparties without external credit rating</i>		
Share of joint operation receivables balances	65	400
Joint operations partners	1	264
Other	-	41
	66	705
Total receivables	6,376	9,932

As at 30 June 2017, there were no financial assets that are past due (30 June 2016: US\$38,750). 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.

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Financing arrangements

The Group had access to the following undrawn borrowing facilities as at the end of each reporting period:

	Consolidated	
	30 June 2017	30 June 2016
	US\$'000	US\$'000
Floating rate:		
Expiring within one year	8,832	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:

	Non-interest bearing US\$'000	Variable rate¹ US\$'000	Fixed rate US\$'000
As at 30 June 2017			
Less than 6 months	10,304	11,145	-
6 – 12 months	-	19,203	-
Between 1 and 2 years	-	32,529	-
Between 2 and 5 years	28	87,761	-
Over 5 years	-	-	-
Total contractual cash flows	10,332	150,638	-

	Non-interest bearing US\$'000	Variable rate¹ US\$'000	Fixed rate US\$'000
As at 30 June 2016			
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

¹ Includes principal repayments and future interest payments.

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:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- 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
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

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(i) Fair value measurements

The following table presents the Group's assets and liabilities measured and recognised at fair value as at 30 June 2017 and 30 June 2016:

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
As at 30 June 2017				
Assets				
Derivatives used for hedging	2,191	-	-	2,191
Total Assets	2,191	-	-	2,191
Liabilities				
Derivatives used for hedging	-	-	-	-
Financial liabilities at fair value through profit or loss:				
Options over unissued shares	-	-	2,531	2,531
Total liabilities	-	-	2,531	2,531
As at 30 June 2016				
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

There were no transfers between levels 1, 2 or 3 for recurring fair value measurements during the year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2017.

(ii) Valuation techniques used to derive fair values

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.

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All of the resulting fair value estimates are included in level 2 unless otherwise stated.

For the financial liabilities, the best evidence of fair value is current prices in an active market for similar financial liabilities. Where such information is not available the directors consider information from a variety of sources including:

- discounted cash flow projections based on reliable estimates of future cash flows; and
- Monte Carlo simulations.

All resulting fair value estimates for properties are included in level 3.

(iii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the year ended 30 June 2017 for recurring fair value measurements:

	Options over unissued shares US\$'000	Conversion Rights on Convertible Bonds US\$'000
Opening balance at 1 July 2016	-	530
Additions during the period	3,931	-
Gains recognised in profit or loss	(1,400)	(530)
Closing balance at 30 June 2017	2,531	-

a) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

Description	Fair value at 30 June 2017 \$'000	Unobservable inputs	Range of inputs (probability- weighted average)	Relationship of unobservable inputs to fair value
Options over unissued shares	2,531	Share price volatility	44.2%	All other inputs being equal, an increase/decrease in share volatility results in an increase/decrease in the fair value of the liability

b) Valuation processes

The Group engages external, independent and qualified valuers to determine the fair value of the share options for financial reporting purposes at key reporting dates (half and full year end). The fair value of the share options 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 share options. 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 share options - 500,000) of recalculations before it is complete. The result is a probability distribution of possible outcomes providing a more comprehensive view of both what could

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happen and its likelihood. A calculated share price volatility of 44.2% as applied in the model. All other parameters were based on the specific terms of the options issued.

(iv) Other fair value measurements

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 non-current liability associated with the subordinated debt was initially measured at fair value on drawdown during the period and subsequently measured at amortised cost. Refer to Note 19 for further details.

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.

	Consolidated 2017 US\$'000	2016 US\$'000
Note 27. New Zealand Imputation Credits		
Imputation credits available for subsequent financial years ¹	2,775	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 28. Acquisition of subsidiary

(a) Summary of acquisition

On 26 December 2016 Horizon Oil PNG Holdings Limited, a wholly-owned subsidiary of Horizon Oil Limited, entered into a sale and purchase agreement with Transform PNG Pte Limited to acquire 100% of its wholly-owned subsidiary Eaglewood Energy (BVI) Limited. The transaction completed on 18 January 2017 and resulted in Horizon Oil Limited acquiring additional licence interests in Western Province, Papua New Guinea as the acquiree holds a 50%¹ interest in the Ubuntu gas condensate field adjacent to PRL 21, a 45% interest in PPL 574 and a 50% interest in PPL 430. The transaction increased Horizon Oil Limited's share in PPL 574 to 80% and PPL 430 to 100%.

Details of the purchase consideration and the net assets acquired are as follows:

	2017 US\$'000
Purchase consideration – cash paid	460

The identifiable assets and liabilities recognised as a result of the acquisition are as follows:

	2017 US\$'000
Exploration phase expenditure	721
Cash	262
Receivables ²	2
Payables	(525)
Net identifiable assets acquired	460

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The acquired business contributed \$Nil revenues and a net loss of US\$71,000 to the Group from the period 18 January 2017 to 30 June 2017. If the acquisition had occurred on 1 July 2016 consolidated revenue and loss after tax for the year would have been US\$68,534,000 and US\$578,000 respectively.

(b) Purchase consideration – cash outflow

	2017
	US\$'000
Outflow of cash to acquire the subsidiary	460
Cash acquired	(262)
Net cash outflow - Investing activities	198

In addition to the abovementioned identifiable assets and liabilities, the Group assumed oil and gas exploration commitments in PNG associated with the acquired licences. Refer to Note 39 for further detail in relation to the Group's capital commitments.

Acquisition related costs of US\$40,000 are recognised in general and administrative expenses in profit or loss and in operating cashflows in the statement of cash flows.

¹ The acquiree's share in PRL 28 has increased from 40% to 50% following the decision of Diamond Gas Niguini B.V. (a wholly-owned subsidiary of Mitsubishi Corporation) to relinquish its interest in the permit. This transfer of an additional 10% achieved PNG government approval post acquisition date but prior to 30 June 2017.

² The Group acquired trade receivables of US\$2,000. All receivables acquired are expected to be collectible.

Note 29. 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
		2017	2016	
		%	%	
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
Eaglewood Energy (BVI) Limited	BVI	100	-	PNG
Jurassic International Holdings Limited	PNG	-	90	PNG

Note 30. 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 current 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), and the carrying values of Group's share of exploration, development and production phase expenditure is recorded in accordance with the accounting policies set out in Note 1(o) & (p), under the following classifications:

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	Consolidated	
	2017	2016
	US\$'000	US\$'000
Current assets		
Cash and cash equivalents	2,175	2,509
Receivables	64	400
Inventories	1,497	1,792
Total current assets	3,736	4,701
Non-current assets		
Plant and equipment	536	1,136
Exploration phase expenditure	51,940	53,613
Oil and gas assets	179,098	194,612
Total non-current assets	231,574	249,361
Total assets	235,310	254,061
Current liabilities		
Payables	5,769	7,232
Total current liabilities	5,769	7,232
Non-current liabilities		
Payables	-	-
Total non-current liabilities	-	-
Total liabilities	5,769	7,232
Share of net assets employed in joint operations	229,541	246,829

Contingent liabilities in respect of joint operations are detailed in Note 37.

Exploration and development expenditure commitments in respect of joint operations are detailed in Note 40.

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The Group had an interest in the following joint operations:

Permit or licence	Principal activities	Interest (%) 30 June 2017	Interest (%) 30 June 2016
New Zealand PMP 38160 (Maari/Manaia)	Oil and gas production, exploration and development	10.00%	10.00%
PEP 51313 (Matariki)	Oil and gas exploration	- ¹	21.00%
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	30.15% ^{3,4}	27.00% ³
PRL 28	Oil and gas exploration and development	50.00% ^{3,5}	-
PPL 259/574 ⁶	Oil and gas exploration	80.00% ^{3,7}	35.00% ³
PPL 430	Oil and gas exploration	100.00% ^{3,7}	50.00% ³
PPL 372	Oil and gas exploration	95.00% ^{3,8}	90.00% ^{3,8}
PPL 373	Oil and gas exploration	100.00% ^{3,8}	90.00% ^{3,8}

1 During the financial year ended 30 June 2017 the Group and its joint venture partners withdrew from the PEP 51313 permit in New Zealand. The joint venture was subsequently wound up.

2 China National Offshore Oil Corporation ('CNOOC') is entitled to participate at up to a 51% equity level in any commercial development within Block 22/12. During 2011 CNOOC exercised its right to participate in the development of WZ 6-12 and WZ 12-8W within Block 22/12 at 51%.

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 During the financial year ended 30 June 2017 the Group acquired an additional 3.15% interest in PRL 21 (Elevala/Tingu and Ketu fields) as a result of joint venture partner Diamond Gas Niguini B.V. (a wholly-owned subsidiary of Mitsubishi Corporation) relinquishing its interest in the permit.

5 During the financial year ended 30 June 2017 the Group acquired a 50% interest in the PRL 28 (Ubuntu condensate and gas field) through the 100% acquisition of Eaglewood Energy (BVI) Limited. Subsequent to year end, the Group exchanged a 20% interest in PRL 28 for a 20% interest in PRL 40 (Puk Puk and Douglas gas fields) in a trade with Kumul Petroleum Holdings, PNG's national oil company. Completion of this transaction is conditional on customary PNG Government approvals.

6 During the financial year ended 30 June 2017 a new licence, PPL 574, was awarded over substantially the old licence area of former licence PPL 259 with a term of up to six years.

7 During the financial year ended 30 June 2017 the Group increased its net working interest shares of PPL 574 and PPL 430 by 45% and 50% respectively through the 100% acquisition of Eaglewood Energy (BVI) Limited.

8 On 22 January 2016, the Group entered into a farm-out agreement whereby 95% undivided participating interest in PPL 372 and 100% undivided participating interest in PPL 373 would be transferred to Ketu Petroleum Limited. At 30 June 2016 the Group was still awaiting PNG government approval for the proposed transaction. The necessary approvals were received during the financial year ended 30 June 2017.

	Consolidated	
	2017	2016
	US\$	US\$

Note 31. 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		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	195,542	144,082
Other assurance services	45,034	15,114
Total remuneration for audit and other assurance services	240,576	159,196
<i>Taxation services</i>		
Tax compliance ¹	13,255	24,555
Total remuneration for taxation services	13,255	24,555
2. Non-PwC audit firms		
<i>Audit and other assurance services</i>		
	11,681	11,187
Total remuneration for audit and other assurance services	11,681	11,187
Total auditors' remuneration	265,512	194,938

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 32. 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

	2017	2016
	US\$	US\$
Short-term employee benefits	2,158,065	2,036,084
Post-employment benefits	110,365	119,635
Long-term benefits	30,983	57,635
Share-based payments (non-cash)	897,111	951,088
Total key management personnel remuneration	3,196,524	3,164,442

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.

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Note 33. 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.

Financing

On 15 September 2016, the Group reached financial close on a US\$50 million subordinated secured non-amortising loan with its major shareholder, IMC Investments Limited (IMC). Shareholders approved the loan, which involved the issue of 300 million options over shares in the Company, at a general meeting on 6 September 2016. During the year the Group voluntarily prepaid and cancelled US\$5 million of the outstanding facility. Refer to Notes 19(c) and 20 for further details.

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 32.

Subsidiaries

Interests in subsidiaries are set out in Note 29. Details in respect of guarantees provided to subsidiaries are set out in Note 43 (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 2017 and 30 June 2016 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; and
- (g) Reimbursement of expenses to Horizon Oil Limited.

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:

	2017	2016
	US\$	US\$
<i>Superannuation contributions</i>		
Superannuation contributions to superannuation funds on behalf of employees	405,321	379,097
<i>Other transactions</i>		
Payments to Horizon Oil Limited under financial guarantee contract arrangements from wholly owned subsidiary	2,590,136	2,237,826
Final call on partly paid and fully paid ordinary shares in Horizon Oil Limited paid by employees	-	331,339

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Loans to/from related parties

	2017 US\$	2016 US\$
<i>Loans to other related parties (uncalled share capital)</i>		
Balance at beginning of the financial year	-	331,339
Loans advanced	-	-
Loan repayments received/cancelled	-	(331,339)
Balance at end of financial year	-	-
	2017 US\$	2016 US\$
Balance at beginning of the financial year	207,348,013	221,058,652
Loans advanced	19,178,094	57,551,744
Loan repayments received	(74,636,997)	(57,793,364)
Interest charged	4,122,964	9,060,434
Interest paid	(2,628,602)	(6,696,547)
Debt capitalised as equity	(10,000,000)	(24,832,906)
Dividends received	13,144,000	9,000,000
Balance at end of financial year	156,527,472	207,348,013

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 6.7% (2016: 6.2%). Outstanding balances are unsecured and repayable in cash.

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Note 34. 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	Lapsed/cancelled during financial year Number	Balance end of financial year Number	Vested and exercisable at end of financial year Number
Consolidated Entity 2017								
Share Appreciation Rights issued								
05/08/2011	05/11/2016	A\$0.31 ²	6,478,276	-	-	(6,478,276)	-	-
13/08/2012	13/08/2017	A\$0.27 ^{2,6}	9,561,936	-	-	-	9,561,936	-
19/08/2013	19/08/2018	A\$0.33 ²	8,547,599	-	-	-	8,547,599	-
01/07/2014	01/07/2019	A\$0.37 ²	7,402,177	-	-	-	7,402,177	-
01/07/2015	01/07/2020	A\$0.09 ²	25,088,617	-	-	-	25,088,617	-
01/07/2016	01/07/2021	A\$0.09 ²	-	16,617,522	-	-	16,617,522	-
01/07/2016	01/07/2021	A\$0.05 ²	-	24,372,395	-	-	24,372,395	-
Total			57,078,605	40,989,917	-	(6,478,276)	91,590,246	-
Weighted average exercise price			A\$0.22	A\$0.07	-	A\$0.31	A\$0.14	-
Options issued								
28/05/2012	28/05/2017	A\$0.26 ¹	1,666,667	-	-	(1,666,667)	-	-
17/09/2012	17/09/2017	A\$0.29 ¹	500,000	-	-	(500,000) ³	-	-
20/02/2013	20/02/2018	A\$0.43 ¹	350,000	-	-	-	350,000	-
16/04/2013	16/04/2018	A\$0.40 ¹	350,000	-	-	-	350,000	-
02/11/2015	02/11/2020	A\$0.20 ¹	1,500,000	-	-	-	1,500,000	-
15/09/2016	15/09/2021	A\$0.06 ⁵	-	300,000,000	-	-	300,000,000	-
Total			4,366,667	-	-	(2,166,667)	302,200,000	-
Weighted average exercise price			A\$0.27	-	-	A\$0.27	A\$0.06	-

1 Relates to options issued under the Employee Option Scheme.

2 No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.

3 The Group cancelled 500,000 employee options during financial year 2017.

4 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.

5 Relates to general options issued in connection with the subordinated secured debt facility. Refer to Notes 19(c) and 20 for further details.

6 On 13 August 2017 9,561,936 SARS lapsed.

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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 ³	6,693,828	-	-	(6,693,828)	-	-
05/08/2011	05/11/2016	A\$0.31 ³	6,478,276	-	-	-	6,478,276	6,478,276
13/08/2012	13/08/2017	A\$0.27 ³	9,561,936	-	-	-	9,561,936	-
19/08/2013	19/08/2018	A\$0.33 ³	8,547,599	-	-	-	8,547,599	-
01/07/2014	01/07/2019	A\$0.37 ³	7,402,177	-	-	-	7,402,177	-
01/07/2015	01/07/2020	A\$0.09 ³	-	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\$0.30	A\$0.22	A\$0.31
Options issued								
16/09/2010	16/09/2015	A\$0.30 ²	350,000	-	-	(350,000)	-	-
28/05/2012	28/08/2015	A\$0.26 ¹	1,000,000	-	-	(1,000,000)	-	-
28/05/2012	28/05/2017	A\$0.26 ²	1,666,667	-	-	-	1,666,667	1,666,667
17/09/2012	17/09/2017	A\$0.29 ²	500,000	-	-	-	500,000	500,000
20/02/2013	20/02/2018	A\$0.43 ²	350,000	-	-	-	350,000	-
16/04/2013	16/04/2018	A\$0.40 ²	350,000	-	-	-	350,000	-
02/11/2015	02/11/2020	A\$0.20 ²	-	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	A\$0.27

1 Relates to general options issued to third party consultants.

2 Relates to options issued under the Employee Option Scheme.

3 No price is payable by a participant in the Long Term Incentive Plan on the exercise of a SAR.

4 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 2.48 years (2016 – 2.24 years).

Long Term Incentive Plan

The 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

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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 2014 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.

General options issued

On 15 September 2016 the Group issued 300 million general options over unissued shares in Horizon Oil Limited in connection with the drawdown of the subordinated secured non-amortising loan during the period. The carrying value of the associated derivative liability at 30 June 2017 was \$2,531,000 (2016: \$Nil). Refer to Note 20 for further details, including details of unrealised gains/losses resulting from revaluations through profit or loss recorded during the year. This liability is measured at fair value on a recurring basis and the options are not subject to any vesting conditions.

The general terms associated with the options included:

- Each option entitles the optionholder to subscribe for one share in Horizon Oil Limited;
- The options expire 5 years from date of grant;
- Options are settled by the issue of shares in Horizon Oil Limited; and
- Options are unlisted.

The options were issued in connection with the subordinated secured debt facility drawn down during the financial year, and if exercised, in certain circumstances may be offset against the principal and interest outstanding on this facility at the election of the lender.

The lender has a right to call the loan after three years. If the lender exercises the call option prior to final maturity, Horizon Oil can in certain circumstances require mandatory exercise of the share options to satisfy part of its early repayment obligation.

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, 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

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interest rate for the term of the option. Refer to Note 26(b) for further details of the valuation techniques and option pricing models associated with these instruments.

The model inputs for the measurement of the fair value of the general options on grant date during the financial year ended 30 June 2017 included:

Grant date	15 September 2016
Expiry date	15 September 2021
Exercise price	A\$0.061
Horizon Oil share price at grant date	A\$0.043
Expected price volatility	56.30% p.a.
Risk free rate	1.79% p.a.
Expected dividend yield	0.00% p.a.

Share appreciation rights issued

40,989,917 share appreciation rights were issued under the Long Term Incentive Plan. The weighted average exercise price of these SARs is A\$0.0664 with performance hurdles to be achieved prior to exercise. The independently assessed weighted average fair value at grant date of these share appreciation rights was A\$0.0238 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 2017 included:

Grant date	1 July 2016
Expiry date	1 July 2021
Exercise price	N/A
10 Day VWAP of Horizon Oil shares at grant date	A\$0.0483
Expected price volatility	65.30% p.a.
Risk free rate	1.65% p.a.
Expected dividend yield	0.00% p.a.

No options were issued under the Employee Option Scheme 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 2017 US\$'000	2016 US\$'000
Share Appreciation Rights issued under:		
Long Term Incentive Plan	897	951
Options issued under:		
Employee Option Scheme	19	28
Total employee share-based payments expense	916	979

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 2,166,667 unlisted general options lapsed or were cancelled.

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During the financial year 6,478,276 SARs lapsed or were cancelled.

Options/SARs exercised and options/SARs issued subsequent to 30 June 2017

No options or SARS have been granted subsequent to financial year end.

Options/SARs lapsed subsequent to 30 June 2017

On 13 August 2017 9,561,936 SARS lapsed.

No options or SARs have been exercised subsequent to financial year end.

	Consolidated 2017 US\$'000	2016 US\$'000
Note 35. Employee entitlements		
Employee entitlement liabilities are included within:		
Current – other creditors (Note 17)	791	771
Non-current - other creditors	28	22
	Number 2017	2016
Employee numbers		
Average number of employees during financial year	34	39

Note 36. 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 2017. In the event that Osaka Gas does not participate in a project, under the terms of the Agreement, they are obliged to return their licence interests to Horizon Oil.
- (ii) The Maari joint venture carried out an upgrade of the FPSO *Raroa's* mooring system and repairs to the water injection flow line, production and test riser, and Maari wellhead platform during the 2016 and 2017 financial years. The works were carried out safely, within budget and the Group anticipates that a significant portion of these works will be recovered from insurance. The Group's share of the repair costs was approximately US\$6.5 million.

Note 37. Contingent liabilities

The Group had contingent liabilities as at 30 June 2017 and 30 June 2016 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 38. 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 2017 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 29 August 2017. The Board of Directors has the power to amend and reissue the financial statements.

Note 39. 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	
	2017	2016
	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	456	407
Later than one financial year but not later than five financial years	476	788
	932	1,195

(ii) Finance leases

The Group had no outstanding finance leases as at 30 June 2017 or 30 June 2016.

Note 40. 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.

2017	New Zealand Development	China Exploration & Development	Papua New Guinea Exploration & Development	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Within one financial year	2,269	5,551	5,748	13,568
Later than one financial year but not later than 5 financial years	-	-	6,350	6,350
After 5 financial years	-	-	2,443	2,443
Total	2,269	5,551	14,541	22,361

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2016	New Zealand Development	New Zealand Exploration	China Exploration & Development	Papua New Guinea Exploration & Development	Total
	US\$'000	US\$'000	US\$'000	US\$'000	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

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 41. Reconciliation of profit after income tax to net cash flows from operating activities

	Consolidated	
	2017	2016
	US\$'000	US\$'000
Loss for financial year	(336)	(144,525)
Exploration and development expenditure written off/expensed	1,250	1,110
Impairment expense	-	147,515
Depreciation expense	385	690
Disposal of fixed assets	-	127
Movement in employee entitlement liabilities	26	112
Non-cash employee share-based payments expense	916	979
Amortisation expense	26,301	36,400
Amortisation of prepaid financing costs	2,423	1,817
Provision for restoration	133	258
Unrealised movement in value of convertible bond conversion rights	(530)	(5,322)
Realised gain on purchase of bonds	-	(1,193)
Unrealised fair value movements associated with subordinated debt	1,750	-
Unrealised movement in in fair value of other financial liabilities	(1,400)	-
Non-cash convertible bond interest expense	-	5,600
Net unrealised foreign currency (gains)/ losses	(18)	1,056
<i>Change in operating assets and liabilities:</i>		
Decrease/(increase) in trade debtors	2,761	(317)
Decrease in other debtors and prepayments	335	8,245
Decrease in inventory	313	817
Increase/(Decrease) in net deferred tax liabilities	3,533	(8,772)
Decrease in tax receivable/payable	832	1,294
(Decrease)/increase in trade creditors	(1,635)	381
(Decrease)/increase in deferred income	-	(2,212)
(Decrease)/increase in other creditors	(1,406)	143
Net cash inflow from operating activities	35,633	44,203

	Consolidated	
	2017	2016
	US cents	US cents
Note 42. Earnings per share		
(a) Basic earnings per share attributable to the ordinary equity holders of the Company	(0.03)	(11.08)
(b) Diluted earnings per share attributable to the ordinary equity holders of the Company	(0.03)	(11.08)
	2017	2016
	Number	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	1,303,481,265
	2017	2016
	US\$'000	US\$'000
Reconciliation of earnings used in calculating earnings per share		
Loss attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	(336)	(144,471)

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. All partly paid shares on issue are held by the Company.

Details regarding the partly paid ordinary shares are set out in Note 23.

(b) Options and share appreciation rights granted as compensation

Options and share appreciation rights (SARS) granted to employees under the Long Term Incentive Plan or Employee Option Scheme and general options issued (including the 300 million options issued in connection with the drawdown of the subordinated secured non-amortising loan facility during the period), are included in the calculation of diluted earnings per share to the extent to which they are dilutive. The SARS are considered to be contingently issuable shares and are treated as outstanding and included in the calculation of diluted earnings per share if the relevant performance hurdles have been met. Options and SARS 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 34.

Note 43. Parent Entity financial information**(i) Summary financial information**

The individual financial statements for the Parent Entity show the following aggregate amounts:

	Parent Entity	
	2017	2016
	US\$'000	US\$'000
Statement of financial position		
Current assets	14,847	7,860
Non-current assets	114,333	256,687
Total assets	129,180	264,547
Current liabilities	1,127	61,618
Non-current liabilities	2,558	274
Total liabilities	3,685	61,892
Net assets	125,495	202,655
Contributed equity	174,801	174,801
Share-based payments reserve	12,946	12,030
Retained earnings	(62,252)	15,824
Total equity	125,495	202,655
(Loss)/profit for the financial year	(78,076)	8,725
Total comprehensive (loss)/profit for the financial year	(78,076)	8,725

(ii) Guarantees entered into by the parent entity

The parent entity has provided guarantees in respect of bank loans, leases and environmental compliance obligations of its subsidiaries amounting to US\$134,998,000 (2016: US\$89,141,000).

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 2017 or 30 June 2016. 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 2017, the parent entity had no contractual commitments for the acquisition of property, plant or equipment (30 June 2016 – US\$Nil).

ACTIVITIES REVIEW

PRODUCTION

China - Block 22/12, Beibu Gulf

Interest

26.95% Production

55% Exploration

Horizon Oil has a 26.95% working interest in the four producing fields of WZ 6-12N, WZ 6-12S, WZ 12-8W and WZ 12-10-2 in Block 22/12, Beibu Gulf, People's Republic of China. The producing fields are operated by a subsidiary of Horizon Oil's major partner, China National Offshore Oil Company Limited (CNOOC). In addition to the producing fields, Horizon Oil holds a 55% working interest in the exploration prospects and undeveloped fields in Block 22/12, including the undeveloped WZ 12-8E oil accumulation.

Cumulative gross production from the Block 22/12 fields from first oil to 30 June 2017 was 15.3 million barrels, approximately 45% of total ultimate reserves.

Gross annual production from Block 22/12 was 2,976,065 barrels, exceeding budget by 15%. Horizon Oil's sales for the year, including the preferential cost recovery oil entitlement, were 1,102,793 barrels, achieving an average price of US\$47.00/bbl (before hedging) and resulting in revenue of US\$51.8 million. With cash operating costs per barrel sold of US\$7.54, the producing fields generated high margin net operating cashflow of US\$43.5 million.

At 30 June 2017, Horizon Oil's remaining cost recovery entitlement was US\$89.6 million, the unrecovered balance of which escalates at 9% pa. Preferential cost recovery results from CNOOC now having recovered its development expenses, allowing Horizon Oil and the other non-operators priority recovery of unrecouped exploration and development capital costs, from the cost oil tranche of production.

Shortly after year end, the joint venture commenced an infill drilling and workover program, involving the drilling of two new development wells, perforation of additional oil zones and pump replacement. The work is expected to be completed in Q4 of calendar year 2017 and is forecast to significantly improve near term production.

The development planning and approvals for the WZ 12-8E project progressed well during the year. The development of the 11.1 mmbo gross recoverable resource (Horizon Oil net working interest share at 26.95%, following CNOOC back-in) is planned as a phased development with the initial three wells being drilled from a leased platform, to be tied back to the existing Block 22/12 infrastructure. The investment phasing and use of leased infrastructure is appropriate and prudent in the current oil price environment. Project approvals for the WZ 12-8E development advanced as anticipated, with the completion of CNOOC Research Institute's review of the Overall Development Plan and the project environmental impact report now finalised. CNOOC's schedule anticipates the final investment decision for the project in Q4 of calendar year 2017 and first oil in early calendar year 2019.

New Zealand - PMP 38160, Maari and Manaia fields, offshore Taranaki Basin

Interest

10% Production/Exploration

Gross production from the Maari and Manaia fields over the year was 3,043,037 bbls. Horizon Oil's net working interest share was 304,304 barrels, with 2017 sales of 319,147 bbls at an average realised price of US\$50.63/bbl (excluding hedging), resulting in revenue of US\$16.2 million.

Cumulative gross production from the Maari and Manaia fields from first oil to 30 June 2017 is 34.6 million barrels.

Production at Maari/Manaia was temporarily suspended from late November 2016 until early January 2017 to complete scheduled repairs and maintenance of the water injection riser and also implement integrity measures to further protect the field flowlines. Concurrent with these scheduled operations,

temporary repairs were undertaken to the wellhead platform structure and subsequently permanent repairs were completed.

Reconfiguration works of certain wellhead pipework in preparation for the installation of production enhancing multiphase pumps were carried out in the first half of financial year 2018. The installation of the multiphase pumps and a workover of the Manaia MN-1 well are forecast to materially increase the field production rate.

DEVELOPMENT AND PREDEVELOPMENT

Western LNG project

<i>PDL 10, Stanley Field</i>	30%
<i>PRL 21, Elevala/Tingu and Ketu fields (operator)</i>	30.15%
<i>PRL 28, Ubuntu field (operator)</i>	30%¹
<i>PRL 40, Puk Puk/Douglas</i>	20%¹

During the year, the Company and its joint venture partners progressed feasibility studies for the proposed 1.5 mtpa Western LNG gas aggregation project. The foundation gas volumes will be provided by the appraised condensate rich gas fields of Elevala/Tingu and Ketu (PRL 21), Stanley (PDL 10) and Ubuntu (PRL 28), with the Puk Puk/Douglas (PRL 40) lean gas fields providing later life gas volumes and a potential hub for other regional gas discoveries such as Kimu (PRL 8). Western LNG will involve development of the appraised Western Province gas resources via pipeline to a gas liquefaction facility located near Daru Island and export of LNG and condensate from Daru, with gas and LPG made available for domestic consumers at appropriate points on the pipeline.

In the coming year, the Company will continue to progress planning, design and engineering work for the three key elements of Western LNG – the upstream processing facilities, the gas and condensate export pipelines to Daru Island and the near-shore modular liquefaction facility.

In addition to the foregoing activities, Horizon Oil engaged with the PNG national oil company, Kumul Petroleum Holdings Limited (Kumul), to provide input on planning for Kumul's initiative of an open access pipeline that would facilitate the commercialisation of several undeveloped gas accumulations in Western Province, to be called the Western Pipeline.

In the latter part of the year, Horizon Oil executed a series of transactions strengthening the Company's strategic position in the appraised gas fields composing the proposed 1.5 mtpa Western LNG gas aggregation project. Horizon Oil increased its interest in Elevala/Ketu (PRL 21) by 3.15% on the acquisition of Mitsubishi's interest, acquired 50% of the Ubuntu field (PRL 28) and then traded 20% of its Ubuntu interest for a 20% interest in the Puk Puk/Douglas fields (PRL 40)¹, acquired from Kumul. The Company now owns material interests in all fields that will comprise the gas aggregation scheme and operates the core PRL 21 fields.

The recent regional consolidation of ownership of gas-condensate resources also saw the entry of Kumul as a significant working interest holder in the region, indicating strong PNG Government support for the commercialisation of Western Province gas fields.

¹ Horizon Oil entered into a sales agreement to divest 20% of the field to Kumul Petroleum, PNG's national oil company. In consideration, Horizon Oil acquired a 20% interest in PRL 40 (Puk Puk/Douglas fields). The transactions are subject to customary government approvals.

EXPLORATION

Western Province, PNG

<i>PPL 372 (operator)</i>	<i>95%</i>
<i>PPL 373 (operator)</i>	<i>100%</i>
<i>PPL 430 (operator)</i>	<i>100%</i>
<i>PPL 574 (formerly PPL 259) (operator)</i>	<i>80%</i>

Horizon Oil operates and holds working interests in the exploration licences containing the prospective acreage surrounding its gas-condensate fields noted above. The largely underexplored acreage provides the potential for expansion gas volumes for Western LNG.

The Company increased its working interests in the exploration licences during the year as a result of the acquisition of Transform Exploration's interests in PPLs 430 and 574.

Key activities for the year in the licence areas included extensive seismic data analysis and reinterpretation, together with further development of the substantial prospects and leads inventory. This activity has increased the Company's level of confidence in several prospects, in particular, the 'Elevala-Extension' prospect in PPL 574.