Horizon Oil Limited ABN 51 009 799 455
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20 February 2019

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

Dear Sir,

HORIZON OIL (HZN) ADVISES HALF-YEAR RESULTS

In accordance with Listing Rule 4.2A.3, Horizon Oil Limited lodges its half-year report for the period to 31 December 2018. The financial results for the period are set out in the attached half-year report which incorporates the Appendix 4D.

HIGHLIGHTS

FINANCIAL

- Half-year gross sales revenue of US$70.3 million (up 88% on previous half-year) with calendar year gross revenue of US$139.1 million.
- EBITDAX[1] of US$44.3 million 81% higher than prior half-year, with calendar year EBITDAX[1] of US$88.3 million.
- Cash flow from operating activities for the half-year of US$34.3 million, an increase of 41% on previous half-year.
- Net debt reduced in the period by a further US$24.4 million to US$64.2 million (from US$88.6 million at 30 June 2018), with US$20.4 million cash on hand.
- New US$95 million senior debt facility with ANZ, Westpac and ICBC, resulting in the repayment of both the existing senior and subordinated debt facilities with substantially reduced interest costs at 2.75% plus LIBOR.
- Further hedging during the half-year (covering the period to 30 June 2019), with hedge volumes at 31 December 2018 of 300,000 barrels (at weighted average price of approximately US$71 per barrel, net of credit charges).

PRODUCTION AND DEVELOPMENT

- Oil sales for 2018 calendar year of over 2 million barrels, a 45% increase over the 2017 comparative period; average realised oil price of US$63.33/bbl for the calendar year inclusive of hedge settlements.
- Sales for half-year of 1,021,218 bbls (up 54% on previous half-year) at an average realised oil price of US$62.28/bbl inclusive of hedge settlements.
- Production for 2018 calendar year of over 1.5 million barrels, a 40% increase over the 2017 comparative period.
- Production for half-year of 801,904 bbls (up 44% on prior half-year).
- Low operating cost sustained at below US$20/bbl sold and free cashflow breakeven (inclusive of capital expenditure, corporate, finance cost and tax), at US $36/bbl sold.
- Good progress made on 12-8 E development planning, CNOOC anticipating FID in 2019 with first production targeted in early 2021.

Commenting on the result, Horizon Oil's Chief Executive Officer, Michael Sheridan, stated:

"Horizon Oil continued the strong performance from the 2018 financial year. Half-year oil sales exceeded one million barrels, resulting in sales revenue of US$70.3 million before hedge settlements. EBITDAX for the half-year was approximately US$44.3 million, an increase of 81% on the 2018 half-year.

The strong free cashflow enabled the accelerated reduction of the Company's debt and achievement of materially improved terms under our new debt facility. On financial close of the new facility in November, our previous senior and subordinated debt facilities were repaid, ending the half-year with net debt of US$64.2 million. We plan to continue to materially reduce debt in 2019 which, coupled with an interest rate under the new facility of 2.75% plus LIBOR, will result in significantly lower finance costs."

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

Horizon Oil 2019 Half Year Result		**31-Dec-18 US$'000**	**31-Dec-17 US$'000**	**Change %**
Oil and gas sales	bbls	**1,021,218**	662,111	54%
Oil and gas production	bbls	**801,904**	556,061	44%
Sales Revenue		**63,607**	36,428	75%
EBITDAX[1]		**44,312**	24,478	81%
Statutory Profit / (Loss) before tax		**26,360**	(7,320)	460%
Statutory Profit / (Loss) for the period		**20,106**	(9,544)	311%
Financing costs (Unrealised movement in value of options)		**(11,391)**	9,169	(224%)
Underlying Profit / (loss) after tax		**8,715**	**(375)**	>1000%
Cash on hand		**20,355**	31,672	(36%)
Cashflow from operating activities		**34,305**	24,320	41%
Reserves-Based Debt Facility[2]		**84,588**	85,953	(2%)
Subordinated debt[2]		**-**	40,000	(100%)
Net debt[2]		**64,233**	**94,281**	**(32%)**

Note 1: EBITDAX is a financial measure which is not prescribed by Australian Accounting Standards and represents 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 to be a useful measure of performance as it is widely used by the oil and gas industry. EBITDAX information has not been subject to any specific audit procedures by the Group's auditor but has been extracted from the half-year financial report for the half-year ended 31 December 2018, which have been subject to review by the Group's auditors.

Note 2: Represents principal amounts drawn down.

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

The webcast will be held on Wednesday 20 February 2019 at 11.00am (AEDT).

https://webcast.openbriefing.com/4996/

Yours faithfully,

Michael Sheridan
Chief Executive Officer

For further information please contact: Mr Michael Sheridan
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Email: exploration@horizonoil.com.au Or visit www.horizonoil.com.au

HORIZON OIL LIMITED

ABN 51 009 799 455

Half-year report – 31 December 2018

INCORPORATING APPENDIX 4D

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Appendix 4D

Preliminary Final Report

For the Half-year ended 31 December 2018

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 Half-year report for the period to 31 December 2018.

Current reporting period: Half year ended 31 December 2018

Previous corresponding period: Half year ended 31 December 2017

Results for announcement to the market

		Percentage Change		Amount
				US$'000
Revenue from continuing operations	Up	75%	to	63,607
Profit from ordinary activities after tax	Up	311%	to	20,106
Profit for the period attributable to members	Up	311%	to	20,106
Underlying profit after tax	Up	>1000%	to	8,715

Dividends/distributions

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

Net Tangible Assets

	2018 US cents	2017 US cents
Net tangible asset backing per ordinary share	9.8	7.1

Controlled entities acquired or disposed of

No controlled entities were acquired or disposed of during the current reporting period.

Reconciliation of loss after tax from ordinary activities to underlying profit after tax

US$'000	2018	2017
Profit/(Loss) after tax from ordinary activities	20,106	(9,544)
Financing costs – Unrealised movement in value of options	(11,391)	9,169
Underlying Profit/(Loss) after tax	**8,715**	**(375)**

Notes: Reports are based on unaudited consolidated financial statements.

All figures are presented in United States dollars, unless otherwise stated.

Underlying profit after tax is a financial measure which is not prescribed by Australian Accounting Standards and represents the profit under Australian Accounting Standards adjusted for unrealised non-cash financing costs associated with the revaluation of the options issued under the subordinated loan facility. Underlying profit after tax information has not been audited. However, it has been extracted from the financial reports for the half-years ended 31 December 2018 and 31 December 2017.

HALF YEAR FINANCIAL REPORT

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as 'the Group') consisting of Horizon Oil Limited and the subsidiaries it controlled at the end of, or during the half-year ended, 31 December 2018.

DIRECTORS

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

M Harding
M Sheridan
G de Nys
S Birkensleigh
G Bittar

John Humphrey was a director and chairman of the Group from the beginning of the period until his retirement and resignation from the board at the Company's Annual General Meeting on 28 November 2018.

Michael Harding was appointed as a director of Horizon Oil limited on 28 November 2018. Mr Harding was also appointed chairman at the close of the company's Annual General Meeting, following the retirement of John Humphrey.

Michael Sheridan was appointed as an executive director and Chief Executive Officer on 1 July 2018 and continues in office as at the date of this report.

REVIEW OF OPERATIONS

Principal activities

During the course of the half-year ended 31 December 2018, the Group's principal activities continued to be directed towards petroleum exploration, development and production.

The Group's producing assets continued to perform well, with sales volumes increasing 54% on the prior half year to 1,021,218 barrels of oil (2018: 662,111 barrels). Sales volumes were enhanced by the successful completion of two infill wells in the WZ 12-8 West and 12-8 Mid fields in Block 22/12, China, combined with preferential recovery of historic exploration costs under the cost recovery mechanism of the Petroleum Contract. This was combined with incremental sales volumes associated with the acquisition of an additional 16% interest in the Maari/Manaia fields effective 31 December 2017.

Crude oil sales revenue pre-hedging increased 88% to US$70.3 million (2018: US$37.4 million) during the half year resulting from a realised oil price of US$68.87 per barrel (2018: US$56.40), exclusive of hedge settlements. Throughout the period 59% of sales were hedged (2018: 65%) with hedging contract settlements of US$6.7 million (2018: US$0.9 million) realised on 600,000 barrels of crude oil hedged at a weighted average price of US$59.25 (2018: 360,000 barrels at US$54.21).

Operating costs of US$37.1 million (2018: US$22.8 million) were 63% higher than the prior half year driven by the 44% increase in production volume, additional levies that apply to China oil sales at an oil price in excess of US$65 bbl and the sale of crude oil inventory. The Group achieved an 8% reduction in general and administrative expenses with costs of US$2.7 million (2018: US$3.0 million) in the period.

The Group reported a statutory profit before tax of US$26.4 million for the half year (2018: Loss US$7.3 million). The profit result includes non-cash financing income of US$11.4 million associated with the revaluation of the options issued under the subordinated loan facility, which once excluded results in an Underlying Profit Before Tax of US$15 million (2018: US$1.8 million). The profit result has increased the income tax payable in China and Royalties payable in New Zealand.

Non-cash items impacting on the half year result include US$19.5 million (2018: US$13.4 million) in amortisation of production phase assets, non-cash financing income of US$11.4 million associated with the revaluation of the options issued under the subordinated loan facility (2018: expense US$9.2 million), US$0.3 million (2018: US$0.4 million) related to the value of share options and share appreciation rights granted to Horizon Oil employees and US$3.0 million financing expense related to the unamortised establishment fees on the subordinated and senior debt facilities, which were expensed upon financial close of the new Syndicated Revolving Cash Advance Facility.

EBITDAX was $44.3 million (2018: $24.5 million), and EBIT was US$23.3 million (2018: US$9.1 million). Cashflows from operating activities of US$34.3 million (2018: US$24.3 million) and cash reserves enabled the Group to meet its capital expenditure commitments during the period and also prepay US$25 million of subordinated debt on 15 November 2018. The company reached financial close on a US$95 million Syndicated Revolving Cash Advance Facility which was used to repay the residual US$15 million of subordinated debt and repay the remaining $76.2 million of senior debt. The new debt facility has a maturity date of July 2022 and provides improved terms compared to the previous senior and subordinated debt facilities, in particular, a reduced interest rate of 2.75% plus LIBOR.

EBITDAX, EBIT and Underlying profit before tax 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, EBIT and Underlying profit before tax to be useful measures of performance as they are widely used by the oil and gas industry. EBITDAX, EBIT and Underlying profit before tax information has been extracted from the financial reports for the periods ended 31 December 2017 and 31 December 2018.

Segment information is included in Note 4 of the financial statements.

CORPORATE

Debt facilities

At 31 December 2018, the Group's net debt was further reduced to US$64.2 million (30 June 2018: US$88.6 million), a reduction of US$24.4 million during the half year. Net debt comprises cash and cash equivalent assets held of US$20.4 million (30 June 2018: US$27.6 million) offset by nominal value of borrowings drawn down of US$84.59 million (30 June 2018: US$116.2 million), on the Syndicated Revolving Cash Advance Facility. Details of the Group's debt facilities are set out in Note 11.

Hedging

During the half-year the Group implemented progressive hedging of an additional 200,000 barrels of oil covering the period January 2019 to June 2019 securing over US$15.4 million of revenue. This hedging program assists with securing a material portion of the Group's cashflows for the remainder of the financial year. Remaining hedged volume at 31 December 2018 is 300,000 barrels of oil to June 2019 at a weighted average price of US$71.07 per barrel, inclusive of credit charges.

In addition to the hedging implemented on the oil price, the Group entered into LIBOR swaps to manage its exposure to fluctuations and volatility in the LIBOR rate. The hedges effectively fix LIBOR at a weighted average rate of 2.87% for the period 31 December 2018 to 30 June 2020, and covers an initial nominal value of US$50 million which reduces in line with the anticipated debt repayment schedule.

PRODUCTION

Block 22/12, Beibu Gulf (Horizon Oil: 26.95% production / 55% exploration)

During the half-year, the Group's working interest share of production from the Beibu Gulf fields was 523,141 barrels of oil. Crude oil sales were 716,731 barrels at an average price of US$68.48/bbl exclusive of executed hedging.

Average production over the half-year was 10,550 bopd, of which the Group's share was 2,843 bopd. The Group's share of sales volumes over the period was an average of 3,895 bopd.

During the period the Group continued to benefit from the preferential entitlement to production under the cost recovery mechanism of the Petroleum Contract in Block 22/12. The Group recorded a production entitlement of approximately 39% of field production for the half-year (additional 193,590 barrels over net working interest share of 26.95%). Horizon Oil's entitlement to cost recovery oil remaining at 31 December 2018 was US$19.5 million, which is expected to be fully recovered during FY 2019, following which Horizon Oil's share of production will revert to its net working interest.

In January 2019, a significant milestone was achieved in respect of the approval process for WZ 12-8 East development project with CNOOC Limited's special experts' review endorsing the project's engineering scheme and confirming the economic evaluation satisfied CNOOC's requirements. The project overall development plan will be finalised by CNOOC in January, incorporating experts' comments.

The final investment decision is scheduled during 2019 with CNOOC targeting first oil in early 2021.

New Zealand - PMP 38160, Maari and Manaia fields, offshore Taranaki Basin (Horizon Oil: 26%)

During the half-year the Group's working interest share of production from the Maari and Manaia fields was 278,763 barrels of oil. Crude oil sales were 304,487 barrels at an average effective price of US$69.78/bbl exclusive of executed hedging.

Average gross production from the field over the half-year was approximately 5,827 bopd, of which Horizon Oil's share was 1,515 bopd.

During the period, production enhancing workovers were conducted including the conversion of one of the production wells to a water injector to maintain pressure support and increase oil recovery.

DEVELOPMENT AND PRE-DEVELOPMENT

WESTERN LNG PROJECT
Papua New Guinea – PDL 10, Stanley field (Horizon Oil: 30%)
Papua New Guinea – PRL 21, Elevala/Tingu and Ketu fields (Horizon Oil: 30.15% - operator)
Papua New Guinea – PRL 28, Ubuntu field (Horizon Oil: 30[1]% - operator)
Papua New Guinea – PRL 40, Puk Puk/Douglas fields (Horizon Oil: 20[1]%)

[1] Calculated after the acquisition of a 20% interest in PRL 40 and divestment of 20% interest in PRL 28, subject to customary PNG Govt approval. See HZN's market announcement of the transaction dated 18 July 2017

Horizon Oil, as operator of two of the four licences that will comprise the Western Province gas aggregation scheme, progressed planning for the commercialisation of the gross appraised resource of 2,200 PJ of sales gas and 64 million barrels of associated condensate in the four petroleum licences in the foreland basin of Western province that are intended to supply gas to the Western LNG project. The Company holds approximately 30% of the resource and is operator of two licences constituting the majority of the resource.

The condensate rich gas resources in the Stanley, Elevala, Ketu, Tingu and Ubuntu fields lie to the south of ExxonMobil and Oil Search's P'nyang gas field which will provide the threshold volumes for expansion train 3 of the PNG LNG scheme. The planned pipeline route from P'nyang to the PNG LNG facilities passes within 20 kilometres of the Ketu field.

In December 2018, PNG's Minister for Petroleum stated that the Papua New Guinea's new Natural Gas Policy will require third party access to such pipelines, further noting such arrangements will be required for the PNG LNG expansion project.

Consistent with such policy requirements, in December 2018, ExxonMobil announced its planned gas and condensate pipelines from P'nyang to Kutubu for the PNG LNG expansion would have valve stations approximately 50 km apart for third party access opportunities.

While such a potential commercialisation pathway may provide a beneficial opportunity, it remains appropriate for Horizon Oil and its fellow joint venturers to progress their independent development plans for their resources by way of the Western LNG project and the reactivation of the Stanley condensate recovery project to provide nearer term condensate and domestic gas revenue, while planning for, and construction of, the longer-dated Western LNG project take place.

Notice of intent to cancel PDL 10

Repsol, as operator of the PDL 10 licence in PNG, received notices of intent to cancel PDL 10 and PL 10 and a notice to terminate the Stanley Gas Agreement for PDL 10 from the PNG Petroleum Minister. The licensees submitted a written response to the Minister on 24 July 2018. Repsol, the operator of PDL 10, and Horizon Oil are of the view that the notices are without merit and are procedurally invalid. Meetings were held during the half year with the Minister to resolve the matter and discussions were constructive. Owing to procedural timelines arising from the Minister's notices and the Stanley gas agreement, Repsol, on behalf of the joint venture, initiated the formal dispute resolution process required under the gas agreement, referring the matter to arbitration in November 2018. Initiation of the formal process serves to ensure parties' positions are safeguarded. Whilst the notices are a potential indicator of impairment, on the basis that tenure remains current, and the notices are without merit and procedurally invalid, no impairment has been recorded as at 31 December 2018. In the event that the licences were to be cancelled, whilst the company would likely mount a strong legal challenge, the maximum impairment charge that would be recorded at 31 December 2018 is US$21.3 million.

EXPLORATION

Papua New Guinea – PPL 574 (Horizon Oil: 80% - operator)
Papua New Guinea – PPL 430 (Horizon Oil: 100% - operator)
Papua New Guinea – PPL 372 (Horizon Oil: 95% - operator)
Papua New Guinea – PPL 373 (Horizon Oil: 100% - operator)

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

Key activities in the licence areas during the period included extensive seismic data analysis and reinterpretation, an aerial geomagnetic survey together with further development of the substantial prospects and leads inventory.

OUTLOOK

It is expected that the remainder of the 2019 financial year and beyond will be underpinned by continued strong oil production from the Group's China and New Zealand operations. Water injection enhancement activities at Maari combined with the progressive planned development of WZ 12-8E in China and other infill well opportunities, are forecast to materially offset the longer term reduction in production associated with natural reservoir decline. In the near term, strong cashflow generation is forecast to continue through the 2019 financial year, aided by the elevated production entitlement from China combined with a strong hedge position, which will enable continued material reductions in the Company's debt levels.

The Group's short-term focus is on:

- Optimising production performance from the Beibu and Maari/Manaia fields through various production enhancing well intervention activities;
- Progressing the Beibu Gulf fields Phase II development for WZ 12-8E; and
- Progressing commercialisation pathways for Horizon Oil's material gas and condensate resources in PNG through Western LNG or the emerging opportunity for potential third party access to gas and condensate pipelines proposed as part of PNG LNG's planned expansion.

REPORTING CURRENCY

The Company's and the Group's functional and reporting currency is United States dollars. All references in this half year financial report to "$" or "dollars" are references to United States dollars, unless otherwise stated.

AUDITOR'S INDEPENDENCE DECLARATION

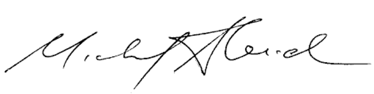
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set on page 8.

ROUNDING

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2017/191 and accordingly amounts in the directors' report and interim financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

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

M Harding
Chairman



M Sheridan
Chief Executive Officer

Sydney
20 February 2019

pwc

Auditor's Independence Declaration

As lead auditor for the review of Horizon Oil Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

S Rugers

Sean Rugers
Partner
PricewaterhouseCoopers

Sydney
20 February 2019

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2018

	Note	Half-year to 31 Dec 2018 US$'000	31 Dec 2017 US$'000
Revenue	5	63,607	36,428
Cost of sales		(37,098)	(22,780)
Gross profit		**26,509**	**13,648**
Other revenue/other income	6	909	217
General and administrative expenses		(2,726)	(2,964)
Exploration and development expenses		(1,364)	(1,801)
Finance costs – interest, transaction costs, other	6	(8,359)	(7,251)
Finance income/(costs) – unrealised movement in value of options	6	11,391	(9,169)
Profit/(Loss) before income tax expense		**26,360**	**(7,320)**
NZ royalty tax expense		(1,160)	(304)
Income tax expense		(5,094)	(1,920)
Profit/(Loss) for the half-year		**20,106**	**(9,544)**
Other comprehensive income/(loss)			
Items that may be reclassified to profit and loss			
Changes in the fair value of cash flow hedges		11,704	(5,629)
Total comprehensive income/(loss) for the half-year		**31,810**	**(15,173)**
Profit/(loss) attributable to:			
Security holders of Horizon Oil Limited		20,106	(9,544)
Profit/(Loss) for the period		20,106	(9,544)
Total comprehensive income/(loss) attributable to:			
Security holders of Horizon Oil Limited		31,810	(15,173)
Total comprehensive income/(loss) for the period		**31,810**	**(15,173)**
		US Cents	
Basic earnings/(loss) per share		1.54	(0.73)
Diluted earnings/(loss) per share		1.21	(0.73)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	31 Dec 2018 US$'000	30 Jun 2018 US$'000
Current assets			
Cash and cash equivalents	8	20,355	27,625
Receivables		14,476	15,477
Inventories		1,932	3,147
Derivative financial instruments		5,212	-
Other assets		839	903
Total current assets		**42,814**	**47,152**
Non-current assets			
Deferred tax assets		11,796	10,659
Plant and equipment		520	594
Exploration phase expenditure	9	57,698	57,453
Oil and gas assets	10	177,729	193,774
Total non-current assets		**247,743**	**262,480**
Total assets		**290,557**	**309,632**
Current liabilities			
Payables		12,419	19,479
Current tax payable		6,124	2,946
Borrowings	11	38,379	75,145
Derivative financial instruments		104	10,768
Total current liabilities		**57,026**	**108,338**
Non-current liabilities			
Payables		67	62
Deferred tax liability		21,980	17,876
Other financial liabilities	12	11,604	22,995
Borrowings	11	44,331	36,867
Provisions		28,381	28,185
Total non-current liabilities		**106,363**	**105,985**
Total liabilities		**163,389**	**214,323**
Net assets		**127,168**	**95,309**
Equity			
Contributed equity	13	174,801	174,801
Reserves		17,493	5,740
Accumulated losses		(65,126)	(85,232)
Total equity		**127,168**	**95,309**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2018

	Attributable to members of the Company			
	Contributed equity	**Reserves**	**Retained profits/ (accumulated losses)**	**Total equity**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Balance at 1 July 2017	**174,801**	**14,558**	**(82,633)**	**106,726**
Loss for the half-year	-	-	(9,544)	(9,544)
Other comprehensive income	-	(5,629)	-	(5,629)
Total comprehensive loss for the half-year	**-**	**(5,629)**	**(9,544)**	**(15,173)**
Transactions with owners in their capacity as equity holders:				
Employee share options	-	405	-	405
Balance at 31 Dec 2017	**174,801**	**9,334**	**(92,177)**	**91,958**
Balance at 1 July 2018	**174,801**	**5,740**	**(85,232)**	**95,309**
Profit for the half-year	-	-	20,106	**20,106**
Other comprehensive income	-	11,704	-	**11,704**
Total comprehensive profit for the half-year	**-**	**11,704**	**20,106**	**31,810**
Transactions with owners in their capacity as equity holders:				
Employee share options	-	49	-	49
Balance at 31 Dec 2018	**174,801**	**17,493**	**(65,126)**	**127,168**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2018

	Half-year to	
	31 Dec 2018 US$'000	**31 Dec 2017 US$'000**
Cash flows from operating activities		
Receipts from customers	63,788	35,926
Payments to suppliers and employees	(20,399)	(6,787)
	43,389	29,139
Interest received	14	11
Interest paid	(4,657)	(4,322)
Income and royalty taxes paid	(4,441)	(508)
Net cash inflows from operating activities	**34,305**	**24,320**
Cash flows from investing activities		
Payments for exploration phase expenditure	(1,291)	(3,561)
Payments for oil and gas assets	(6,694)	(6,573)
Payments for plant and equipment	(3)	-
Net cash (outflows) from investing activities	**(7,988)**	**(10,134)**
Cash flows from financing activities		
Drawdown of borrowings (net of transaction costs)	92,646	-
Repayment of borrowings	(126,233)	(7,045)
Net cash (outflows) from financing activities	**(33,587)**	**(7,045)**
Net increase/(decrease) in cash and cash equivalents	(7,270)	7,141
Cash and cash equivalents at the beginning of the half-year	27,625	24,529
Effects of exchange rate changes on cash and cash equivalents	-	2
Cash and cash equivalents at the end of the half-year	**20,355**	**31,672**

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

Notes to the financial statements

Note 1 Basis of preparation of half year report

The general purpose financial statements for the interim half year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The interim financial statements 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.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as described in Note 2.

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 half year ended 31 December 2018. None of the new and revised standards and interpretations were deemed to have a material impact on the results of the Group.

i) AASB 9 'Financial Instruments'

The Group elected to apply the following pronouncement from the financial year beginning 1 July 2013:

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. In December 2013, the AASB issued a revised version of AASB 9, with a final version issued in December 2014, incorporating three primary changes:

1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures;
2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time; and
3. The mandatory effective date was 1 January 2018.

The adoption of AASB 9 prior to the effective date results in no change required to the Group's accounting policies with regards to financial instruments for the period presented.

ii) AASB 15 'Revenue from Contracts with Customers'

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and several revenue-related Interpretations. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, therefore the notion of control replaces the existing notion of risks and rewards.

The new Standard has been applied as at 1 July 2018 using the modified retrospective approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 1 July 2018 and comparatives are not restated. In accordance with the transition guidance, AASB 15 is only to be applied to contracts that are incomplete as at 1 July 2018.

While this represents significant new guidance, the implementation of this new guidance did not have an impact on the timing or amount of revenue recognised by the Group during the half year ended 31 December 2018. Similarly, the application of the standard using the modified retrospective approach did not result in an adjustment to the opening retained earnings as at 31 December 2018.

Standards not yet effective

i) 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 position 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 2020. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. The full impact of these changes are yet to be assessed, however management have commenced their assessment.

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 Changes in significant accounting policies

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's Annual Financial Statements for the year ended 30 June 2018, except as described below. Note that the change in accounting policy specified below only apply to the current period. The accounting policies included in the Group's last Annual Financial Statements for the year ended 30 June 2018 are the relevant policies for the purposes of comparatives. AASB 15 Revenue from Contracts with Customers became effective for periods beginning on or after 1 January 2018. Accordingly, the Group applied AASB 15 for the first time to the interim period ended 31 December 2018. Changes to the Group's accounting policies arising from this standard is summarised below:

Revenue

Revenue arises from the sale of crude oil. To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognising revenue when/as performance obligation(s) are satisfied.

The Group enters into sales transactions involving a single product. The total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties. Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

The application of AASB 15 has had no impact on the Group's statement of profit or loss and other comprehensive income and the statement of financial position for the half year ending 31 December 2018. The adoption of AASB 15 did not have an impact on the Group's statement of cash flows.

Note 5 provides additional disclosures disaggregating revenue by geographical market and the timing of revenue recognition.

Note 3 Critical accounting estimates and judgements

Estimates and judgements 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

Management makes 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.

(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.

(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 fair value 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.

Notice of intent to cancel PDL 10

Repsol, as operator of the PDL 10 licence in PNG, received notices of intent to cancel PDL 10 and PL 10 and a notice to terminate the Stanley Gas Agreement for PDL 10 from the PNG Petroleum Minister. The licensees submitted a written response to the Minister on 24 July 2018. Repsol, the operator of PDL 10, and Horizon Oil are of the view that the notices are without merit and are procedurally invalid. Meetings were held during the half year with the Minister to resolve the matter and discussions were constructive. Owing to procedural timelines arising from the Minister's notices and the Stanley gas agreement, Repsol, on behalf of the joint venture, initiated the formal dispute resolution process required under the gas agreement, referring the matter to arbitration in November 2018. Initiation of the formal process serves to ensure parties' positions are safeguarded. Whilst the notices are a potential indicator of impairment, on the basis that tenure remains current, and the notices are without merit and procedurally invalid, no impairment has been recorded as at 31 December 2018. In the event that the licences were to be cancelled, whilst the company would likely mount a strong legal challenge, the maximum impairment charge that would be recorded at 31 December 2018 is US$21.3 million.

(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.

(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. Tax losses and temporary tax differences recognised in prior periods in Australia and New Zealand have continued to be 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 which are considered to have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year were made during the preparation of this report.

(c) Assumptions on funding

The general purpose financial statements for the half year ended 31 December 2018 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.

The Group has a working capital deficit of US$14.2 million at 31 December 2018 resulting predominately from the scheduled amortisation of US$38.4 million of the remaining US$84.6 million Syndicated Revolving Cash Advance Facility during calendar year 2019 being classified as a current liability at balance date.

Funding for the Group's strategic growth plans and repayment of the facility is to be sourced from a variety of sources, with surplus revenues from the Group's operations in China and New Zealand providing core funding. Should the full amount of the forecast internally generated cash flow and capital required to pursue the strategy not be raised, the directors expect that the Group would be able to adopt a modified strategy and would be able to secure the necessary financing through one or a combination of, additional borrowings, equity raisings or asset sales; or deferring discretionary exploration and development activities.

Note 4 Segment information

(a) Description of segments

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

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

- 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 the exploration and evaluation of hydrocarbons within Block 22/12;

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- 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;
- PNG exploration and development – the Group is currently involved in the Stanley condensate/gas development in PDL 10 and the exploration and evaluation of hydrocarbons in six onshore permit areas in Papua New Guinea – 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
Half-year 2019 (31 December 18)	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Segment revenue:					
Revenue from external customers	43,621	19,986	-	-	63,607
Profit/(loss) before tax	**17,865**	**(1,866)**	**(1,330)**	**11,600**	**26,269**
Depreciation and amortisation	(11,187)	(8,355)	(10)	(67)	(19,619)
Total segment assets at 31 December 2018	**112,554**	**94,131**	**78,875**	**4,997**	**290,557**
Additions to non-current assets other than financial assets and deferred tax during the half-year:					
Exploration phase expenditure:	852	485	272	-	1,609
Development and production phase expenditure:	3,481	(366)	383	-	3,498
Plant and equipment:	-	-	75	445	520
Total segment liabilities at 31 December 2018	**86,666**	**60,096**	**4,322**	**12,305**	**163,389**

	China Exploration and Development	New Zealand Exploration and Development	Papua New Guinea Exploration and Development	All other segments	Total
Half-year 2018 (31 December 17)	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Segment revenue:					
Revenue from external customers	29,025	7,403	-	-	36,428
Profit/(loss) before tax	6,353	(2,996)	(1,836)	(9,046)	(7,525)
Depreciation and amortisation	(9,224)	(4,176)	(76)	(101)	(13,577)
Total segment assets at 30 June 2018	124,420	99,720	75,542	9,950	309,632
Additions to non-current assets other than financial assets and deferred tax during the half-year:					
Exploration phase expenditure:	922	525	4,639	-	6,086
Development and production phase expenditure:	1,455	23,785	4,551	-	29,791
Plant and equipment:	-	-	-	20	20
Total segment liabilities at 30 June 2018	124,348	60,668	5,207	24,100	214,323

(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.

Segment revenue reconciles to total consolidated revenue as follows:

	Half-year to	
	31 Dec 2018	**31 Dec 2017**
	US$'000	**US$'000**
Total segment revenue	**63,607**	36,428
Interest income	**14**	11
Proceeds from insurance claims	**895**	-
Total revenue	**64,516**	36,439

(ii) Segment profit before tax

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

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

	Half-year to	
	31 Dec 2018	**31 Dec 2017**
	US$'000	**US$'000**
Total segment profit/(loss) before tax	**26,269**	(7,525)
Interest and other income	**14**	217
Net foreign exchange gain/(loss)	**77**	(12)
Profit/(loss) before tax	**26,360**	(7,320)

(iii) Segment assets and liabilities

The amounts provided to the chief operating decision maker with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements.

Reportable segment assets and liabilities are equal to consolidated total assets and liabilities.

Note 5 Revenue

Revenue for the half-year ended 31 December 2018 relates to contracts executed for the sale of crude oil and the performance obligations being met within the period. There is no variable consideration requiring estimation for the period ended 31 December 2018.

The Group did not have contracts that were executed in a prior period, whereby the performance obligations were partially met at the beginning of the period. There are no existing contracts that are unsatisfied or partially unsatisfied as at 31 December 2018.

The Group's revenue disaggregated by primary geographical markets is reported in Note 4 – Segment information.

The Group's revenue disaggregated by pattern of revenue recognition is as follows:

	Half-year to	
	31 Dec 2018	**31 Dec 2017**
	US$'000	**US$'000**
Crude oil sales		
Goods transferred at a point in time	**19,986**	7,403
Goods transferred over a period of time	**43,621**	19,986
Total	**63,607**	**27,389**

Note 6 Profit for the half year - Significant items

Profit for the half-year includes the following items that are unusual because of their nature, size or incidence:

	Half-year to	
	31 Dec 2018 US$'000	31 Dec 2017 US$'000
Income		
Proceeds from insurance claims (refer to note (a) below)	**895**	-
Expenses		
Finance costs – interest, transaction costs, other (refer to note (b) below)	**(8,359)**	(7,251)
Finance income/(costs) – unrealised movement in value of options (refer to note (c) below)	**11,391**	(9,169)

(a) The Maari joint venture carried out repairs to the FPSO *Raroa's* water injection flow line during the 2016 and 2017 financial years. The Group has recovered approximately US$1.5 million from insurance in relation to the repairs, of which US$0.6 million was recovered during the period ended 30 June 2018, and the residual US$0.9 million has been recovered in the period ended 31 December 2018.

(b) Finance costs contain interest and other costs associated with the Syndicated Revolving Cash Facility, Revolving Cash Advance Facility, and the subordinated facility (refer to Note 11 for further details).

(c) Financing income includes an unrealised movement of US$11.4 million relating to the revaluation of the derivative financial liability arising from the share options issued in respect of the subordinated secured facility in September 2016. The reduction in the theoretical value of the options was primarily due to the decrease in the Company's share price during the period.

Note 7 Fair value measurement of financial instruments

(a) Fair value measurements

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Derivative financial instruments
- Financial liabilities at fair value through profit or loss (FVTPL)

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December 2018 and 30 June 2018:

At 31 December 2018	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Derivatives used for hedging	5,212	-	-	5,212
Total assets	**5,212**	**-**	**-**	**5,212**
Liabilities				
Derivatives used for hedging	104	-	-	104
Financial liabilities at fair value through profit or loss:				
Options over unissued shares	-	-	11,604	11,604
Total liabilities	**104**	**-**	**11,604**	**11,708**
At 30 June 2018				
Assets				
Derivatives used for hedging	-	-	-	-
Total assets	-	-	-	-
Liabilities				
Derivatives used for hedging	10,768	-	-	10,768
Financial liabilities at fair value through profit or loss:				
Options over unissued shares	-	-	22,995	22,995
Total liabilities	10,768	-	22,995	33,763

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 31 December 2018.

(b) 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 liabilities 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 estimates. 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 and collars are 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.

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.

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

The following table presents the changes in level 3 items for the half year ended 31 December 2018 for recurring fair value measurements:

	Options over unissued shares US$'000
Opening balance at 1 July 2018	22,995
Additions during the period	-
(Gains)/losses recognised in profit or loss	(11,391)
Closing balance at 31 December 2018	**11,604**

(i) 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 31 Dec 2018 $'000**	**Unobservable inputs**	**Range of inputs (probability-weighted average)**	**Relationship of unobservable inputs to fair value**
Options over unissued shares	11,604	Share price volatility	60.15%	All other inputs being equal, an increase in share volatility results in an increase in the fair value of the liability

(ii) Valuation processes

The Group engages external, independent and qualified valuers to determine the fair value of the share options for financial reporting purposes on a half yearly basis. 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 happen and its likelihood. A calculated share price volatility of 60.15% was applied in the model. All other parameters were based on the specific terms of the options issued.

Note 8 Cash and cash equivalents

	31 Dec 2018 US$'000	30 Jun 2018 US$'000
Cash at bank and on hand	9,794	16,274
Restricted cash[1]	10,561	11,351
Closing balance	**20,355**	27,625

[1] Under the terms of a finance facility, certain cash balances are available to the Group after certain conditions of the relevant facility agreement are satisfied.

Note 9 Exploration phase expenditure

	31 Dec 2018 US$'000	30 Jun 2018 US$'000
Opening balance	57,453	51,940
Expenditure incurred during the period	1,609	6,086
Expenditure written off during the period	(1,364)	(573)
Closing balance	**57,698**	57,453

Note 10 Oil and gas assets

	31 Dec 2018 US$'000	30 Jun 2018 US$'000
Opening balance	193,774	179,098
Acquisition of oil and gas assets	-	32,642
Expenditure incurred during the period	3,498	11,936
Reassessment of rehabilitation asset	-	3,258
Amortisation incurred	(19,543)	(29,163)
Expenditure written off during the period	-	(3,997)
Closing balance	**177,729**	193,774

Note 11 Borrowings

	31 Dec 2018 US$'000	30 Jun 2018 US$'000
Current		
Bank loans (b)	38,379	75,145
	38,379	75,145
Non-current		
Bank loans (b)	44,331	-
Subordinated debt (c)	-	36,867
	44,331	36,867
Total borrowings	**82,710**	112,012

a) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	31 Dec 2018 US$'000	30 Jun 2018 US$'000
Cash and cash equivalents	20,355	27,625
Borrowings[1] – repayable within one year (including overdraft)	(38,901)	(76,233)
Borrowings[1] – repayable after one year	(45,687)	(40,000)
Net (debt)/cash	**(64,233)**	(88,608)
Cash and liquid investments	20,355	27,625
Gross debt – fixed interest rates	**-**	-
Gross debt[1] – variable interest rates	(84,588)	(116,233)
Net (debt)/cash	**(64,233)**	(88,608)

1 Borrowings exclude associated transaction costs and accrued interest and accordingly represents the nominal value of the borrowings as at 31 December 2018 and 30 June 2018.

b) Reconciliation of borrowings arising from financing activities

		Cashflows		Non-cash changes		
	Opening 1 Jul 2018 US$'000	Drawdown[1] US$'000	Repayments US$'000	Amortisation of transaction costs US$'000	Changes in fair value US$'000	Closing 31 Dec 2018 US$'000
Revolving Cash Advance Facility	**75,145**	-	(76,233)	1,088	-	-
Subordinated debt	**36,867**	-	(40,000)	3,133	-	-
Syndicated Revolving Cash Advance Facility	-	92,646	(10,000)	64	-	82,710
Total liabilities from financing activities	**112,012**	**92,646**	**(126,233)**	**4,285**	**-**	**82,710**

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

b) Bank loans – Revolving Cash Advance Facility / Syndicated Revolving Cash Advance Facility

On 15 November 2018, the Group finalised and executed a US$95 million Syndicated Revolving Cash Advance Facility with Australia and New Zealand Banking Group (ANZ), Westpac Banking Corporation (Westpac) and Industrial and Commercial Bank of China. The proceeds on this facility were applied to repay the outstanding subordinated and senior debt facilities. The facility retained key elements of the previous Reserves Based Debt Facility, with key changes including additional tenor to July 2022, reduced interest rate at LIBOR plus 2.75% and the removal of lender security over Horizon Oil's interests in PNG. 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 31 December 2018, total debt drawn under the facility was US$84.59 million with no undrawn debt capacity available. Floating interest in respect of the facility was at LIBOR plus a weighted average margin of 2.75%.

The facility was secured by a floating charge over the shares and assets of the borrowers (Horizon Oil International 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 has guaranteed the performance of Horizon Oil International Limited and Horizon Oil (Beibu) Limited (which have also given guarantees) in relation to the loan facility from ANZ, Westpac and ICBC. In addition, the shares of the following Horizon Oil Limited subsidiaries have been mortgaged to ANZ Fiduciary Services Pty Limited: Horizon Oil International Limited and Horizon Oil (Beibu) Limited. The Group is subject to covenants which are common for a facility of this nature.

c) Subordinated secured debt facility - IMC loan 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). 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.

During the period the Group voluntarily prepaid and cancelled the total remaining debt drawn under facility of US$40 million, almost 3 years prior to the expiration date of 15 September 2021. The prepayment was part funded from cash reserves and part funded from drawdown of the new Syndicated Revolving Cash Advance Facility.

Note 12 Other financial liabilities

	31 Dec 2018 US$'000	30 Jun 2018 US$'000
Non-current		
Fair value of share options	11,604	22,995
Total other financial liabilities	**11,604**	22,995

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 11(c). The options are exercisable at A$0.061 per share on or before 15 September 2021 and as the functional currency of the Group is United States Dollars, this 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 revalued at each balance date, with any gains/losses recognised though profit or loss.

Note 13 Contributed equity

a) Share capital

		31 Dec 2018 Number'000	30 Jun 2018 Number'000	31 Dec 2018 US$'000	30 Jun 2018 US$'000
Ordinary shares					
Fully paid	(b) (i)	**1,301,981**	1,301,981	**174,342**	174,342
Partly paid	(b) (ii)	**1,500**	1,500	**459**	459
		1,303,481	1,303,481	**174,801**	174,801

b) Movements in share capital

(i) Ordinary shares (fully paid)

Date	Details	Number	US$'000
30/06/2018	Balance at 30 June 2018	1,301,981,265	174,342
31/12/2018	**Balance at 31 December 2018**	**1,301,981,265**	**174,342**

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

Date	Details	Number	US$'000
30/06/2018	Balance at 30 June 2018	1,500,000	459
31/12/2018	**Balance at 31 December 2018**	**1,500,000**	**459**

Note 14 Contingent assets and liabilities

a) Contingent assets

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 31 December 2018. In the event that Osaka Gas does not participate in a project, under the terms of the Agreement, it is obliged to return its licence interests to Horizon Oil. If Osaka Gas decide to transfer their PNG interests, the transferee must assume Osaka Gas's obligations and be financially acceptable to Horizon Oil. If Osaka Gas decide to sell the entities holding the PNG interests, Osaka Gas's parent company, Osaka Gas Australia, will continue to guarantee the entities' performance of the obligations, unless Horizon Oil agrees otherwise.

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 and within budget and the Group's share of the repair costs was approximately US$6.5 million. At the date of this report the Group had recovered approximately US$1.5 million from insurers and investigation by the relevant insurers continues. The Group anticipates that a further portion of these costs will be recovered from insurance.

b) Contingent liabilities

The Group had contingent liabilities as at 31 December 2018 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.

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

Note 15 Exploration, development and production expenditure 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 financial statements. These are payable as follows, based on current status and knowledge of estimated quantum and timing of such commitments by segment.

	China Exploration & Development	New Zealand Exploration & Development	Papua New Guinea Exploration & Development	Total
31 December 2018	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Within one year	**563**	**2,172**	**4,740**	**7,475**
Later than one year but not later than 5 years	**-**	**-**	**1,200**	**1,200**
After 5 financial years	**-**	**-**	**-**	**-**
Total	**563**	**2,172**	**5,940**	**8,675**

	China Exploration & Development	New Zealand Exploration & Development	Papua New Guinea Exploration & Development	Total
30 June 2018	US$'000	US$'000	US$'000	US$'000
Within one year	3,912	3,743	2,159	9,814
Later than one year but not later than 5 years	-	-	-	-
After 5 financial years	-	-	-	-
Total	3,912	3,743	2,159	9,814

The above commitments may be deferred or modified with the agreement of the host government, by variations to the terms of individual permits or licences, 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 commitment for expenditure in respect of these, as it may choose to exit such permits or licences at any time at no cost penalty other than the loss of the interests.

Note 16 Related party transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties, unless otherwise stated.

During the period the Group prepaid and cancelled the outstanding balance of US$40 million on the US$50 million subordinated secured non-amortising loan with its major shareholder, IMC Investments Limited (IMC).

Other than the matters disclosed elsewhere in this report, there were no related party transactions with Directors and other key management personnel during the half year outside of contractual remuneration.

Note 17 Events occurring after balance sheet date

Other than the matters disclosed in this report, there has not been any other matter or circumstance which has arisen since 31 December 2018 that has significantly affected, or may significantly affect:

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

HORIZON OIL LIMITED

Directors' Declaration

In the directors' opinion:

(a) the attached interim financial statements and notes are in accordance with the Corporations Act 2001, including:

(i) complying with relevant Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance, as represented by the results of its operations and its cashflows, for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Horizon Oil Limited will be able to pay its debts as and when they become due and payable.

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

R. M. Harding

M Harding
Chairman

M Sheridan
Chief Executive Officer

Sydney

20 February 2019

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Horizon Oil Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Horizon Oil Limited. The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Horizon Oil Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

S Rugers

Sean Rugers
Partner

Sydney
20 February 2019