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28 August 2019

HORIZON OIL (HZN) ADVISES 2019 ANNUAL FINANCIAL RESULTS

The results for the financial year ended 30 June 2019 are set out in the attached results announcement, Preliminary Financial Report (Appendix 4E) and Annual Financial Report. All references to reserves and contingent resources within the financial report are drawn from the Horizon Oil 2019 Reserves and Resources Statement dated 28 August 2019.

KEY HIGHLIGHTS

Financial

- Revenue increased 19.4% to US$126.7 million (~A$186 million) for the 2019 financial year (US$106.2 million for the 2018 financial year).
- EBITDAX of US$93.0 million, an increase of 36% over 2018 financial year.
- Cashflow from operating activities of US$72.8 million (~A$107 million) for the 2019 financial year, an increase of 26% on the 2018 financial year.
- Underlying profit before tax of US$37.3 million; statutory profit before tax of US$48.4 million after US$11.2 million unrealised non-cash financing income.
- Net debt reduced 68% to US$28.0 million as at 30 June 2019 (US$88.6 million at 30 June 2018).

Production and Development

- Annual sales of 1.87 million barrels for the 2019 financial year, an increase of 13% on the 2018 financial year, at an average realised oil price of US$67.90/bbl, exclusive of hedge settlements.
- Production of 1.6 million barrels for the 2019 financial year, an increase of 22% on the 2018 financial year.
- Operating costs maintained below US$20/bbl for the financial year.
- ~95% reserve replacement from reserves upgrades in both Maari/Manaia and Block22/12.
- Finalised recovery of approximately US$5.0 million of outstanding insurance claims associated with historical Maari repair works.

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

Horizon Oil's strong operational and financial performance during the 2019 financial year has resulted in record annual oil sales of 1.87 million barrels, a 13% increase over the prior financial year, with operating costs maintained at below US$20/bbl.

This performance has led to annual revenue of US$127 million (before hedge settlements) and EBITDAX of US$93 million, levels last achieved by the Company in FY 2014 when oil prices were over 50% higher than current prices.

The sustained high levels of cashflow generation over FY 2019 and recent years has enabled the accelerated repayment of our development and acquisition debt funding, well ahead of schedule. Our net debt at 30 June 2019 was US$28.0 million, less than one third of our annual EBITDAX. We will continue to materially reduce debt during the current financial year and, assuming current production and oil prices prevail, we expect to be in a net cash position by mid calendar 2020.

The continued strengthening of Horizon Oil's balance sheet from internally generated capital will afford capacity, in the near to medium term, for identification of potential growth opportunities to complement our existing oil production from Beibu Gulf and Maari/Manaia and our material condensate and gas resources in Western Province, PNG.

Financial Summary

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

Horizon Oil 2019 Full Year Result		FY19	FY18	Change (%)
Production volume	bbls	1,604,578	1,317,801	22%
Sales volume	bbls	1,866,581	1,649,626	13%
		US$ '000	**US$ '000**	
Crude oil sales		126,742	106,153	19%
Hedge settlements		(4,341)	(6,108)	(29%)
Revenue		**122,401**	**100,044**	**22%**
Less Operating costs (excl amortisation)		(28,070)	(26,524)	6%
Less Other costs[3]		(1,320)	(5,039)	(74%)
EBITDAX[1]		**93,012**	**68,482**	**36%**
Less Exploration and development expenses		(4,592)	(5,761)	(20%)
Less Depreciation and amortisation		(39,420)	(29,492)	34%
EBIT[1]		**49,000**	**33,230**	**47%**
Less Financing costs - other		(11,748)	(14,345)	(18%)
Underlying profit before tax[1]		**37,252**	**18,885**	**97%**
Add/(less) Financing costs - unrealised movement in value of options		11,157	(20,464)	n.m.
Statutory profit/(loss) before tax		**48,409**	**(1,580)**	**3,163%**
Less Income tax		(12,583)	(1,019)	1,134%
Statutory profit/(loss) for financial year		**35,826**	**(2,599)**	**1,479%**
Cash on hand		**21,472**	27,625	(22%)
Cashflow from operating activities		**72,813**	57,580	26%
Revolving cash advance facility[2]		**49,431**	76,233	(35%)
Subordinated debt[2]		-	40,000	(100%)
Net debt[2]		**27,959**	**88,608**	**(68%)**

Note 1: EBITDAX, EBIT and underlying profit before tax 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, 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 have not been audited. They have been extracted from the audited annual financial reports for the financial years ended 30 June 2019 and 30 June 2018.
Note 2: Represents principal amounts drawn down as at 30 June 2019.
Note 3: Other costs are net of income received in relation to Maari insurance proceeds.
Note 4: Numbers may not cast due to rounding variances.
Note 5: n.m. denotes a variance that is not meaningful.

The webcast will be held on 28 August 2019 at 11.00am (AEDT).

https://webcast.openbriefing.com/5444/

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Michael Sheridan F: +61 2 9332 5050 Woolloomooloo NSW 2011
Chief Executive Officer

Horizon Oil Limited

Appendix 4E
Preliminary Final Report
For the financial year ended 30 June 2019

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 2019.

Current reporting period: Financial year ended 30 June 2019
Previous corresponding period: Financial year ended 30 June 2018

Results for announcement to the market

		Percentage Change		Amount
				US$'000
Revenue from continuing operations	Up	22%	to	122,401
Underlying profit after tax	Up	38%	to	24,669
Profit from ordinary activities after tax	Up	1,478%	to	35,826
Profit for the period attributable to members	Up	1,478%	to	35,826

Dividends/distributions

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

Net Tangible Assets

	FY 2019 US cents	FY 2018 US cents
Net tangible asset backing per ordinary share	10.8	7.3

Controlled entities acquired or disposed of

No controlled entities were acquired or disposed of during the current or prior financial years.

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

	2019 US$'000	**2018 US$'000**
Profit/(Loss) after tax from ordinary activities	35,826	(2,599)
Financing (income)/costs – Unrealised movement in value of options	(11,157)	20,464
Underlying profit after tax	**24,669**	**17,865**

Notes: Reports are based on audited 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 2016 subordinated loan facility. Underlying profit after tax information has not been audited. However, it has been extracted from the audited annual financial reports for the financial years ended 30 June 2019 and 30 June 2018.

HORIZON OIL LIMITED

ABN 51 009 799 455

ANNUAL FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

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 28 August 2019. 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 2019 Reserves and Resources Statement dated 28 August 2019.

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 2019.

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:

M Harding (appointed 28 November 2018)
M Sheridan
G de Nys
S Birkensleigh
G Bittar
C Hodge (appointed 11 April 2019)

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.

Mike 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. He replaced Brent Emmett who retired as an executive director and Chief Executive Officer on 30 June 2018.

Chris Hodge was appointed as a non-executive director on 11 April 2019.

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 2 to 4 of this annual financial report.

ACTIVITIES REVIEW

PRODUCTION

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

During the year, the Group's crude oil sales from the Beibu Gulf fields increased by 10% to 1,290,632 barrels at an average price of US$66.31/bbl, exclusive of executed hedging. Sales volumes were composed of working interest share of production totalling 1,002,178 barrels, and 288,454 barrels of cost recovery oil. The Group's share of sales volumes over the year was an average of 3,536 bopd. Average production over the year was 10,188 bopd, of which the Group's working interest share was 2,746 bopd.

Owing to continued strong production and improved oil prices, the Company had substantially recovered all its remaining cost recovery oil entitlement under the Petroleum Contract during the year, following which Horizon Oil's share of production will revert to approximately its net working interest.

During July 2018, two infill wells were drilled on the WZ 12-8W and WZ 12-8M fields to further enhance production. The wells were brought into production during August 2018, with a combined initial flow rate of 3,500 bopd and have subsequently been sustained at approximately 3,000 bopd, exceeding the initial forecast of 2,000 bopd.

Production optimization activities continued during the year with testing of potential enhancements to the water handling infrastructure.

The Group advanced planning for the WZ 12-8 East field development during the year. 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.

Engineering for the WZ 12-8 East development project continued, with recent activities including commercial negotiations with the proposed drilling and production platform provider, and negotiations with CNOOC on a Supplemental Development Agreement to confirm commercial arrangements largely associated with the tie back of the development to the existing Block 22/12 infrastructure. A final investment decision over the development is expected to be made during the second half of calendar year 2019, with CNOOC targeting first oil in early 2021.

The development has been planned as an extended production test which involves a mobile offshore production platform which will be leased by the joint venture, reducing upfront capital costs.

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

During the year, the Group's working interest share of production from the Maari and Manaia fields was 602,400 barrels of oil. Crude oil sales were 575,949 barrels at an average effective price of US$71.48/bbl, exclusive of executed hedging.

Average gross production from the field over the year was approximately 6,348 bopd (5,832 bopd during the first half, and 6,876 bopd during the second half), of which Horizon Oil's share was 1,650 bopd.

Production enhancing well intervention activities were conducted during the year resulting in increased production during the second half of the year, including the conversion of the MR5 production well to a water injection well as part of the ongoing production improvement program. The conversion was undertaken to provide further pressure support within the reservoir to optimise production rates. In addition, an upgraded Electric Submersible Pump (ESP) was installed on the MR6a well further enhancing production. Additional production enhancement opportunities are being progressed including further upgrades to the MR6a ESP equipment.

The operator implemented a number of cost savings initiatives during the second half of the year, which combined with the increased production have led to a 20% reduction in operating costs during the second half of the year to below US$25/bbl (produced).

During the year the Group finalised insurance claims associated with repair works completed during 2016 and 2017 to Maari infrastructure. The Group's share of repair costs incurred during the 2016 and 2017 repair campaign was approximately US$6.5 million, of which the Group has now recovered approximately US$5 million.

DEVELOPMENT/PRE-DEVELOPMENT
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% - operator)
Papua New Guinea – PRL 40, Puk Puk/Douglas Fields (Horizon Oil: 20%)

In Papua New Guinea, Horizon Oil 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. 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 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.

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.

On 4 April 2019, the Company advised that the PRL 21 licensees had received correspondence from the PNG Petroleum Minister in respect of the development plan for the Elevala and Ketu gas-condensate fields. Then Minister Pok invited the PRL 21 licensees to propose a new or varied development plan. Horizon Oil management, on behalf of the PRL 21 joint venture, met Minister Pok in April to discuss the matters raised in his correspondence. Discussions were constructive and Minister Pok encouraged further engagement with his department regarding our proposed development plans.

With respect to the notices received from the PNG Petroleum Minister during 2018 of intent to cancel PDL 10, PL 10 and the Stanley Gas Agreement, Repsol (PDL 10 operator) and Horizon Oil continue to be of the view that the notices are without merit and are procedurally invalid. The Stanley gas field constitutes approximately 20% of Horizon Oil's petroleum resources in PNG. 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. The joint venture has satisfied its requirements regarding the filing of documentation and appointment of its nominated arbitrator. Notwithstanding the commencement of the formal dispute resolution process, Horizon Oil and the PDL 10 joint venture continue to seek to engage in constructive discussion with the Minister to resolve the matter of the good standing of PDL 10, PL 10 and the Stanley Gas Agreement.

In June 2019, after the Hon. James Marape was appointed prime minister of Papua New Guinea, the Hon. Kerenga Kua was appointed Minister for Petroleum. Horizon Oil met with Minister Kua for preliminary and introductory discussions in July. Those discussions were constructive and Minister Kua encouraged further engagement with his department regarding development planning for Western Province condensate and gas resources. Horizon Oil's objective is to realise a commercialisation pathway for the Elevala and Ketu fields that is mutually acceptable to the State and the PRL 21 licensees including participation in an open dialogue with the State and the proponents of the PNG LNG expansion project on a commercialisation pathway for the fields by way of third-party access to key infrastructure.

During the year, PNG ministerial approval was received for the previously advised transaction entered into in 2017, in which Horizon Oil entered into a purchase and sale agreement with Kumul Petroleum Holdings (Kumul) to acquire a 20% interest in PRL 40 (Puk Puk and Douglas gas fields) and dispose of a 20% interest in PRL 28 (Ubuntu field). Following completion of the transaction on 30 April 2019, Horizon Oil now formerly holds a 20% interest in PRL 40, and a 30% interest in PRL 28.

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)

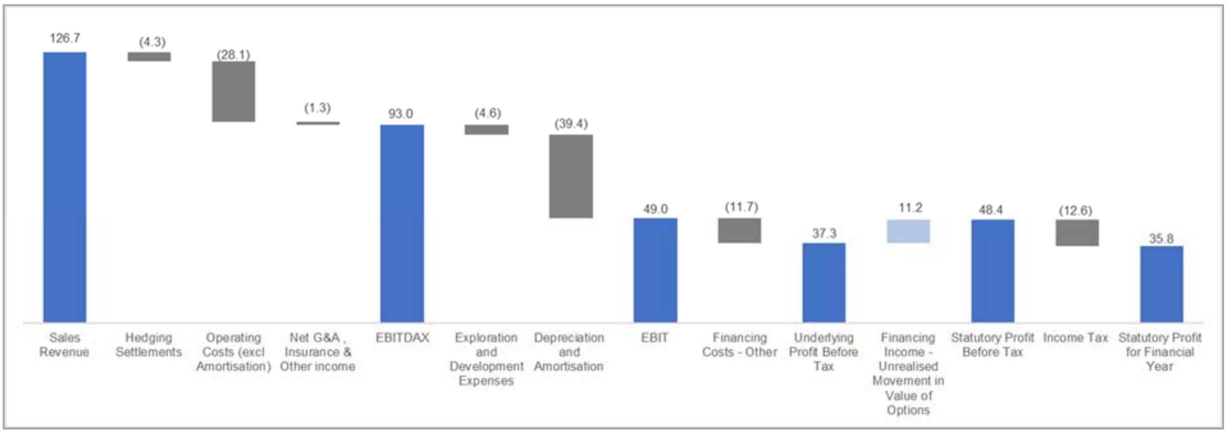
Horizon Oil operates and holds working interests in the exploration licences containing the prospective acreage surrounding its gas-condensate fields in PNG. The largely unexplored acreage provides the potential for expansion gas volumes to complement the commercialisation project of the Group's substantial appraised resource base.

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.

GROUP FINANCIAL PERFORMANCE

Consolidated Statement of Profit or Loss and Other Comprehensive Income

2019 Profit Drivers



The full year result was an underlying profit before tax of US$37.3 million (30 June 2018 – US$18.9 million) comprising a gross profit of US$55.0 million (2018: US$44.4 million) from Block 22/12 and Maari operations offset by general and administrative expenses of US$3.8 million, financing costs of US$11.7 million, an insurance expense of US$1.9 million and exploration and development expenses of US$4.6 million.

EBITDAX was US$93.0 million (2018: US$68.5 million), and EBIT was US$49.0 million (2018: US$33.2 million). After including the non-cash financing income of US$11.2 million associated with the revaluation of the options issued under the subordinated loan facility, the Group reported a statutory profit after tax of US$35.8 million (2018: loss of US$2.6 million).

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 have not been audited. However, they have been extracted from the audited annual financial reports for the financial years ended 30 June 2019 and 30 June 2018.

Basic earnings per share for the financial year were a profit of 2.75 US 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 increasing 13% to 1,866,581 barrels of oil (2018: 1,649,626 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 the full year impact of 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 19% to US$126.7 million (2018: US$106.2 million) during the financial year resulting from a net realised oil price of US$67.90 per barrel (2018: US$64.35), exclusive of hedge settlements. Throughout the period 53% of sales were hedged (2018: 48%) with a hedging settlement of US$4.3 million (2018: US$6.1 million) realised on 980,000 barrels hedged at a weighted average price of US$64.79 (2018: 793,750 barrels at US$57.23).

Operating costs of US$67.4 million were higher than the prior year (2018: US$55.7 million) driven by the 13% increase in sales 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.

General and Administrative Expenses
12% 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 with costs of US$3.8 million (2018: US$4.3 million) in the period. This expense comprised net employee benefits expense of US$2.0 million (including non-cash share-based payment expense of US$0.7 million), corporate office expense of US$1.2 million, depreciation of US$0.1 million, and rental expense of US$0.4 million.

Insurance Expense
Insurance expense of US$1.9 million (2018: US$1.7 million) in the period reflected increased premiums associated with the prior period acquisition of a further 16% interest in the Maari/Manaia field.

Exploration and Development Expenses
Exploration and development expenses of US$4.6 million (2018: US$5.8 million) was primarily related to the Group's exploration and development licences in Papua New Guinea.

Other Income
Other income of US$4.4 million (2018: US$0.8 million) was generated from insurance recoveries associated with the repairs to the Maari water injection flow line, production and test riser, and wellhead platform which were performed during the 2016 and 2017 financial years.

Finance Costs
The Group's net borrowing costs of US$0.6 million (2018: US$34.8 million) are lower than the prior year predominately due to the non-cash financing income of US$11.2 million associated with the revaluation of the options issued under the subordinated loan facility. The refinancing of the Groups senior debt facility at a reduced interest rate of 2.75% plus LIBOR and a US$66.8 million reduction in the nominal value of debt drawn over the financial period assisted in the reduction of financing costs.

Income and Royalty Tax
The net income and royalty tax expense of US$12.6 million (2018: US$1.0 million) incurred during the financial year included a current tax expense of US$10.8 million, a deferred income tax expense of US$0.1 million and a royalty related tax expense of US$1.7 million. The net income tax expense was driven by cash taxes of US$10.8 million in China. Royalty tax expense of US$1.7 million reflected cash and deferred royalty tax associated with the Maari/Manaia field.

Consolidated Statement of Financial Position

At 30 June 2019, total assets were US$262.7 million (2018: US$309.6 million) and total liabilities were US$121.4 million (2018: US$214.3 million), resulting in an increase in net assets to US$141.3 million (2018: net assets of US$95.3 million).

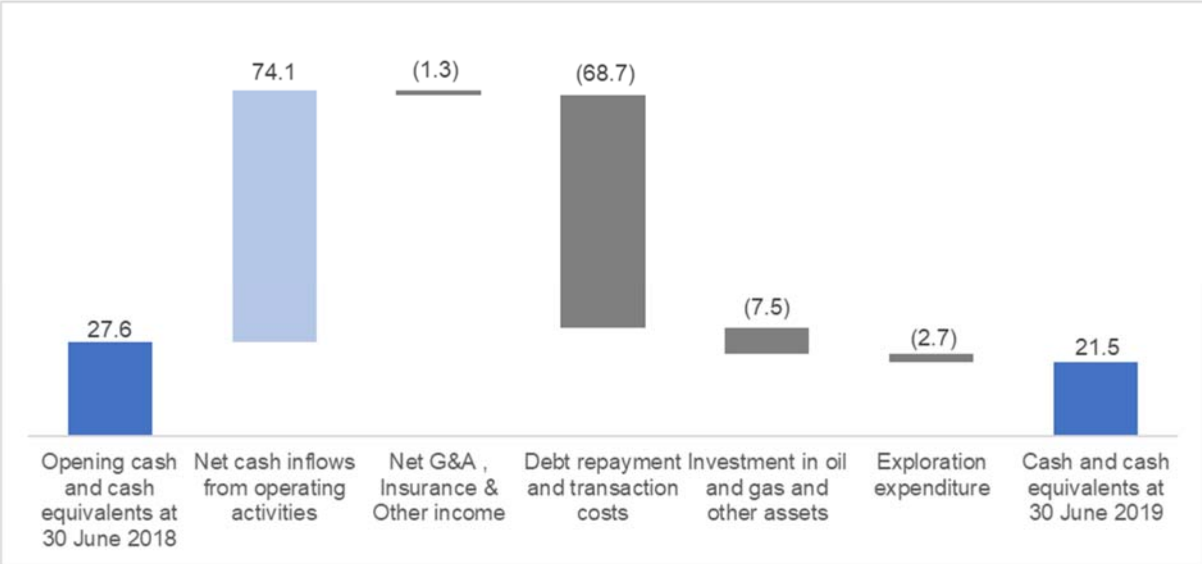
The reduction in assets is primarily due to the amortisation of the producing oil and gas assets. The reduction in total liabilities primarily reflects the US$66.8 million of debt repayments made during the financial period, combined with the US$11.2 million non-cash revaluation of the options issued under the subordinated debt facility.

At 30 June 2019, the Group had a working capital surplus of US$13.9 million (2018: deficit of US$61 million) resulting predominately from the strong cash flow generation and refinancing of the Group's senior debt facility.

At 30 June 2019, the Group's net debt position, based on nominal amounts drawn down, was reduced by 68% on the prior year to US$28.0 million (2018: US$88.6 million), comprising of cash and cash equivalents held of US$21.5 million (2018: US$27.6 million) offset by borrowings of US$49.4 million (2018: US$116.2 million). At financial year end, borrowings consisted US$49.43 million principal outstanding on the US$95 million Syndicated Revolving Cash Advance Facility executed with senior lenders in November 2018.

Consolidated Statement of Cash Flows

2019 Cash Drivers



Net cash generated from operating activities was 26% higher for the financial year at US$72.8 million (2018: US$57.6 million) due to the higher oil prices and the incremental production and sales volumes primarily attributable to the successful infill drilling in Block 22/12, China, and prior period acquisition of a further 16% interest in the Maari/Manaia field. The free cash available after operating and investing activities enabled further debt reduction with a net outflow of US$68.7 million from financing activities for the period.

CORPORATE

Debt Facilities

On 15 November 2018, the Group finalised and executed a US$95 million Syndicated Revolving Cash Advance Facility resulting in the repayment of both the existing senior and subordinated debt facilities with substantially reduced interest costs at 2.75% plus LIBOR. Since refinancing the Group's debt facilities, the Group has made repayments of US$45.2 million, of which US$20.0 million was voluntary, reducing the principal outstanding to US$49.4 million at 30 June 2019.

At 30 June 2019, the Group's net debt was reduced to US$28.0 million (30 June 2018: US$88.6 million), a reduction of US$60.6 million during the financial year. Details of the Group's debt facilities are set out in Note 18.

Oil Price Hedging

At 30 June 2019, the Group had 480,000 barrels of crude oil hedged through Brent oil price swaps (30 June 2018: 600,000 barrels) at a weighted average price of US$69.43. During the financial year, 980,000 barrels of oil price derivatives were settled, securing revenue of US$63.5 million.

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 Block 22/12, offshore China, and the Maari/Manaia fields, offshore New Zealand will be applied to fund the Company's future capital program and retire debt. That program is directed to bring into production the Company's substantial inventory of discovered reserves and contingent resources in fields in China, New Zealand and Papua New Guinea.

The Company has a conservative and selective exploration policy with specific focus on plays providing material scale and upside. The reserves and contingent resources in the company's inventory 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, global growth, volatile commodity prices, exchange rates, climate change, 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 2020 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 oil field 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 albeit at a slightly reduced rate owing to the full recovery of Block 22/12 – WZ 6-12 and 12-8W exploration and development costs during the current year. The forecast cashflow from the producing oil fields, aided by a strong hedge position, will enable continued material reductions in the Company's debt levels and funding for the proposed WZ 12-8E oil field development.

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.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Management Change

Effective 1 July 2018, the management team was as follows:

Michael Sheridan replaced Brent Emmett as Chief Executive Officer and as a director of the Company with effect on 1 July 2018. Michael was Horizon Oil's Chief Financial Officer and Company Secretary since 2003. He has been responsible for the Company's financial, commercial and legal affairs. Prior to joining Horizon Oil, Michael held positions with international resource companies including Ampolex Limited, RGC Limited and Minera Alumbrera Limited in commercial and financial management areas.

Richard Beament assumed the role of Chief Financial Officer. Richard joined Horizon Oil as Finance and Commercial Manager in 2010. He has had line management responsibility for the Company's statutory and joint venture accounting, treasury, taxation and insurance matters.

Andrew McArdle joined the Company and, on Alan Fernie's retirement, assumed the role of Chief Operating Officer. Andrew is a petroleum engineer and has joined the Company from Japan Australia LNG (MIMI) Pty Ltd where he was most recently the Head of Development.

Kylie Quinlivan has been the Company's Corporate Counsel since 2016 and has assumed the role of General Counsel and Company Secretary. Kylie joined the Company from Minter Ellison, practicing corporate law and specialising in mergers and acquisitions.

Kelvin Bramley assumed the role of General Manager - PNG. He has been deeply involved in all areas of Horizon Oil's activity related to PNG since being appointed as Chief Company Representative in PNG in 2011, and for the last 3 years has lived and worked in Port Moresby. Kelvin joined Horizon Oil as Financial Controller in 2006.

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 2019 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:	**R M (Mike) Harding MSc (MecEn)**
Experience and current directorships:	Mr Harding was appointed on 28 November 2018. He has over 25 years of extensive international experience with BP in exploration, production and business management. He has held management positions around the world with British Petroleum (BP) and particularly associated with human resource management, gas strategy, business performance and governance in the Asia Pacific region. He was responsible for significant upstream businesses in Australia, Azerbaijan, PNG and the UK. Chairman of the Lynas Corporation Limited and Downer EDI Limited. Non-executive director of Cleanaway Waste Management Limited.
Former directorships during last 3 years:	Former Chairman of The Army Project Governance Board of the Department of Defence.
Special responsibilities:	Chairman of Board; Member of Audit Committee and Remuneration and Nomination and Disclosure Committees.
Executive Director and Chief Executive Officer:	**M Sheridan B.Ec, LL.B, LL.M., GDipAppFinInv**
Experience and current directorships:	Mr Sheridan was appointed as an executive director and Chief Executive Officer of Horizon Oil Limited on 1 July 2018. From 2003 Mr Sheridan was the Chief Financial Officer and Company Secretary of Horizon Oil Limited, during which period he has been responsible for the Company's financial, commercial and legal affairs. Prior to joining Horizon Oil, Michael held positions with international resource companies including Ampolex Limited, RGC Limited and Minera Alumbrera Limited in commercial and financial management areas.
Former directorships during last 3 years:	None.
Special responsibilities:	Chief Executive Officer; member of Risk Management and Disclosure Committees.
Non-executive Director:	**G J de Nys B. Tech, FIEAust, CPEng (Ret)**
Experience and current directorships:	Director for 12 years. Over 46 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 IMC Pan Asia Alliance Corporation, a substantial shareholder of Horizon Oil Limited).
Former directorships during last 3 years:	Non-executive director of SOCAM Development Limited
Special responsibilities:	Chairman of Risk Management Committee and member of Remuneration and Nomination Committees.
Non-executive independent director:	**S Birkensleigh B. Comm, CA, GAICD**
Experience and current directorships:	Director for 4 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:	Queensland Rail Limited
Special responsibilities:	Chairman of Audit Committee; Member of Risk Management and Remuneration and Nomination Committees.
Non-executive Director:	**G Bittar B.Ec., LL.B., (Hons) M.Sc., (LBS)**
Experience and current directorships:	Director for 2 years. 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. Mr Bittar has worked for Bankers Trust, Baring Brothers Burrows and Morgan Stanley.
Former directorships during last 3 years:	Non-executive Director of ECM Limited.
Special responsibilities:	Member of Audit Committee.
Non-executive Director:	**C Hodge B.Sc., M.Sc., GDipAppFinInv**
Experience and current directorships:	Mr Hodge was appointed on 11 April 2019. Chris has over 40 years' oil and gas experience; training as a geologist and petroleum geophysicist. Chris held senior managerial and consulting positions in major petroleum exploration and production companies, including E&P Advisor to both Mitsubishi and Mitsui in Australia, Managing Director of Adelphi Energy and Exploration Manager of Ampolex. He played a significant part in the growth of each of these companies through a mix of successful exploration, field development and acquisition. Chris is a non-executive director of Xstate Resources. He is a member of the Petroleum Exploration Society of Australia (PESA) and the American Association of Petroleum Geologists (AAPG).
Former directorships during last 3 years:	Non-executive Director of Roc Oil
Special responsibilities:	Member of Risk Management Committee
Alternate Non-executive Director:	**B Lorenzon B.E., MBA., CFA**
Experience and current directorships:	Mr Lorenzon was 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 16 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 ten 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 chart holder. Mr Lorenzon is also a non-executive director representing the IMC Group on the Board of Millennium Minerals Ltd.
Former directorships during last 3 years:	None.

COMPANY SECRETARY

Company Secretary	**K Quinlivan B.Comm, LL.B (Hons), LL.M.**
Qualifications and experience:	Ms Quinlivan was appointed Company Secretary on 1 July 2018. She is General Counsel for Horizon Oil; joining Horizon Oil from Minter Ellison, where she practised corporate law and specialised in mergers and acquisitions.

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**
M Harding	-	-	**-**
M Sheridan	5,791,019	2,177,182	**7,968,201**
G de Nys	-	2,203,639	**2,203,639**
S Birkensleigh	-	-	**-**
G Bittar	-	-	**-**
C Hodge	-	-	**-**
B Lorenzon (as alternate)	-	-	**-**

M Sheridan also held 43,537,715 share appreciation rights as at the date of this Directors' Report.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors (the 'board') and of each board committee held during the financial year, and the numbers of meetings attended by each director were:

	Board	**Audit Committee**	**Risk Management Committee**	**Remuneration and Nomination Committee**	**Disclosure Committee**
Number of meetings held:	8[1]	2	1	1	1
Number of meetings attended by:					
M Harding[2]	4	1	1		
J Humphrey[2]	5	1		1	1
G de Nys	8		1	1	
S Birkensleigh	7	2	1	1	
G Bittar	7	1			
C Hodge[2]	2		1		
B Lorenzon (as alternate for G Bittar)	4				
M Sheridan	8	2[3]	1		1

1 Eight board meetings were held for non-executive directors only, either immediately prior to or after full Board meetings.
2 Incoming and outgoing directors attended all meetings they were eligible to attend.
3 M Sheridan attended the audit committee meetings in his capacity as Chief Executive Officer of Horizon Oil Limited and is not a member of the audit committee.

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 28 August 2019.

The Company's Corporate Governance Statement for the year ended 30 June 2019 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

This Remuneration Report (Report) outlines the remuneration arrangements for the Key Management Personnel (KMP) of the Company for the financial year ended 30 June 2019. This Report forms part of the Directors' Report and has been audited in accordance with section 308(3)(c) of the Corporations Act 2001. The Report is structured as follows:

1. Individuals covered by the Remuneration Report
2. Executive remuneration framework
3. Actual remuneration of executives
4. Contractual arrangements for executives
5. Performance and financial year remuneration outcomes
6. Non-executive director remuneration
7. Statutory and share-based reporting

1. INDIVIDUALS COVERED BY THE REMUNERATION REPORT

The Group is required to prepare a Report in respect of KMP, those persons who have the authority and responsibility for planning, directing and controlling the activities of the Company and the Group, either directly or indirectly, being:

- Directors; and
- Other Key Management Personnel

The table below outlines the KMP movements during the financial year:

Name	Title	Period as KMP
Directors		
Mike Harding[1]	Chairman (non-executive)	Appointed 28 November 2018
John Humphrey[2]	Chairman (non-executive)	Resigned 28 November 2018
Michael Sheridan[3]	Chief Executive Officer (executive)	Full financial year
Gerrit de Nys	Director (non-executive)	Full financial year
Sandra Birkensleigh	Director (non-executive)	Full financial year
Greg Bittar	Director (non-executive)	Full financial year
Chris Hodge[4]	Director (non-executive)	Appointed 11 April 2019
Bruno Lorenzon	Alternate Director (non-executive)	Full financial year
Other KMP (Executives)		
Richard Beament	Chief Financial Officer	Full financial year
Kelvin Bramley	General Manager - PNG	Full financial year
Andrew McArdle	Chief Operating Officer	Full financial year
Kylie Quinlivan	General Counsel/Company Secretary	Full financial year

1 Mike Harding was appointed to the board effective 28 November 2018.
2 John Humphrey, upon his retirement, resigned as Chairman and ceased as a KMP on 28 November 2018.
3 Michael Sheridan was appointed executive director on 1 July 2018.
4 Chris Hodge was appointed to the board effective 11 April 2019.

2. EXECUTIVE REMUNERATION FRAMEWORK

2.1 How does Horizon Oil determine remuneration outcomes?

The objective of the Group's remuneration framework is to provide reward for performance that is competitive and appropriate for the results delivered. The Board, through its Remuneration and Nomination Committee continues to review KMP remuneration arrangements to ensure they align with the Group's strategic objectives. Following the changes to senior management effective 1 July 2018, the Board refined the remuneration framework for Executives. The framework is based on the following principles for guiding the Group's decisions regarding executive remuneration.

- 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.

2.2 Use of remuneration advisers

During the financial year, the Board engaged Guerdon Associates as its independent consultant to provide information on remuneration matters. The Chair of the remuneration committee oversees the engagement of remuneration services for, and payment of, the independent consultant. No remuneration recommendations as defined under Part 1.2, Division 1, 9B of the *Corporations Act 2001*, were made by Guerdon Associates.

The Board was satisfied that advice received from Guerdon Associates was free from any undue influence by KMP, because strict protocols were observed and complied with regarding any interaction between Guerdon Associates and management. All remuneration advice was provided directly to the Chair of the remuneration committee.

2.3 Remuneration policy and link to performance

The remuneration framework is designed to recognise performance during the financial year (Short-Term Incentives (**STIs**)) and maximise shareholder value (Long-Term Incentives (**LTIs**)). Executive remuneration is comprised of fixed and variable ("at risk") remuneration consisting of STIs and LTIs. The graph below sets out the proportion of fixed and variable remuneration mix of maximum incentive payments as a percentage of total remuneration. Annual incentives have been established to drive performance without encouraging undue risk taking. The remuneration mix for the financial year is shown in the table below.

Chief Executive Officer

	Performance-based	
Total Fixed Remuneration (TFR) 50%	Maximum STI 25%	Maximum LTI[1] 25%

Executive KMP

Total Fixed Remuneration (TFR) 70%	Maximum STI 15%	Maximum LTI[1] 15%

1 Face value of LTI at effective allocation date

2.4 Elements of remuneration

Fixed Remuneration (FR)

What is Fixed Remuneration?	Fixed remuneration consists of base salary plus employer contributions to superannuation funds and reflects the total fixed remuneration (**TFR**). In addition, the company provides executives with non-monetary benefits related to their roles including car parking, insurances and other expenses inclusive of fringe benefits tax. Executive remuneration (which is set and paid in Australian Dollars (A$)) and other terms of employment are reviewed annually by the remuneration committee having regard to relevant comparative information.
Link to strategy and performance	Competitive fixed remuneration is paid to ensure that the Group can attract and retain suitable executives to deliver the strategic goals. Fixed remuneration is reviewed annually by the remuneration committee considering market data, scope of the Executive's role, expected skill, experience and qualification and individual performance.

Short-term incentive (STI)

Objective	The STI provides all Executives with an opportunity to earn an annual incentive which is delivered in cash. The STI award is determined by the Board following the end of the financial year having regard to both individual and Group performance over the financial year and is subject to Board discretion.
How is the STI linked to performance?	The STI is designed to motivate and reward Executives for contributing to the delivery of annual business performance. Key Performance Indicators (**KPIs**) are determined each financial year in consultation with the Board. The performance of each Executive against these KPIs is reviewed annually.
How is performance measured for the STI?	Awards are made annually with performance measured over the twelve months to 30 June and are aligned to the attainment of Group and individual targets. Awards under the plan are determined and paid (in cash) in the first quarter of the new financial year. Actual performance against financial, non-financial and individual measures is assessed at the end of the financial year. In assessing the achievement of measures, the remuneration committee may exercise its discretion to adjust outcomes for significant factors outside the control of management that contribute positively or negatively to results.
STI opportunity	Up to 50% of the CEO's TFR and up to 21.4% of the Executives TFR (base salary plus superannuation).

Long-term incentive (LTI)

Objective	The LTI arrangements aim to align executive remuneration with the creation of shareholder value. LTIs 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.
How is the LTI linked to performance?	LTI aligns the rewards received by the executives with the longer-term performance of the Group relative to the increase in the Horizon Oil share price.

Form of LTI grant?	LTI grants are delivered in the form of share appreciation rights (**SARs**). 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 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. 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 VWAP of shares in the Company for the 10 business day period up to the day before the day the SARs are exercised.
What are the performance measures applied to the LTI?	The Board considered that total shareholder return (**TSR**) hurdles effectively align the interests of individual executives with that of the shareholders, by motivating executives to achieve superior outcomes. TSR is a robust and transparent means of measuring shareholder returns. The number of SARs that vest is determined by reference to the Company's TSR over the relevant period relative to that of the S&P/ASX200 Energy Index (**Index**). TSR for the Company is the rate of return of the Company's share price over the relevant performance period. TSR for the Index is the rate of return of the Index over the relevant performance period. The number of SARs that vest is: (a) if the Company's TSR is equal to that of the Index (**Minimum Benchmark**), 50%; (b) if the Company's TSR is 14% or more above that of the Index, 100% (**Maximum Benchmark**); and (c) if the Company's TSR is more than the Minimum Benchmark but less than the Maximum Benchmark, pro rata between 50% and 100% based on the Company's TSR performance between the Minimum Benchmark and Maximum Benchmark. The Maximum Benchmark of 14% above the Index return equates to the performance level likely to exceed the 75th percentile of market returns of companies (weighted by company size) in the Index. Even where these performance conditions are satisfied, the SARs will not vest unless the Company achieves a threshold TSR of at least 10% over the relevant period.
Performance period?	Five financial years, with vesting of SARs after three years subject to satisfaction of performance conditions.
What is the LTI opportunity?	The CEO and other Executives have a predetermined LTI opportunity equal to 50 % of TFR for the CEO and 21.4% of TFR for the Executives. The number of SARs to be granted is calculated in accordance with the LTI Plan by dividing % of TFR by the present day value of the SARs as calculated using a Monte Carlo simulation by an independent valuer, on the effective allocation date for the SARs.
Treatment of incentives on cessation of employment	The Board has the discretion to determine how incentive awards will be treated if an Executive ceases their employment. If a holder of SARs 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 have discretion, to the extent

	permitted by law, to cause the SARs to lapse or accelerate the date on which the SARs become exercisable.
When do SARS lapse?	SARs will lapse where: • the SARs have not vested by the final retesting date which is five years after the date of grant; • 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 the Group and the Board determines that some or all of the SARs lapse; • 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.
Effect of take-over or change of control of Company, death or disablement	Depending on the nature of the takeover or change of control event, the Board will either have the discretion or be required (if a change of control occurs) to determine a special retesting date for the performance requirements discussed above. For example, the Board will have discretion to determine a special retesting date where a takeover bid is made for the Company. In that case, the special retesting date will be the date determined by the board. Where a statement is lodged with the ASX that a person has become entitled to acquire more than 50% of the Company, the board will be required to determine a special retesting date, and the special retesting date will be the day the statement is lodged with the ASX. The SARs may vest if the performance requirements discussed above are satisfied in relation to that special retesting date.

2.5 Associated policies

The Group has adopted several policies to support remuneration framework and governance, including the Securities Trading Policy, Disclosure Policy and the Code of Conduct. These policies are available on the Group's website (www.horizonoil.com.au).

3. ACTUAL REMUNERATION OF EXECUTIVES

Disclosing actual pay provides shareholders with additional information to assist in understanding the cash and other benefits received by executives in the financial year. This information differs from the remuneration details prepared in accordance with statutory obligations and accounting standards on pages 22 - 23 of this Report, as those details include the values of performance rights that have been awarded, but which may or may not vest. The information provided below is not prescribed by Australian Accounting Standards and represents the actual remuneration paid to KMP relating to the financial year. See Statutory and Security-based Reporting (Section 7) of this Report for statutory remuneration disclosures that have been prepared in accordance with the Australian Accounting Standards. The table below excludes the accounting expenses of equity grants and other long-term benefits such as annual and long service leave awards and sets out the actual value of remuneration received by executive KMP in connection with the financial year.

Actual remuneration received in respect of the financial year

Executive	Fixed Remuneration (including superannuation) $	Non-monetary benefits $	Termination benefits $	STI Amounts $[1]	LTI Awards[2]	Total
M Sheridan	536,138	56,829	-	223,539	-	**816,506**
R Beament	321,486	7,277	-	57,405	-	**386,168**
K Bramley[3]	399,612[3]	146,136[3]	-	48,475	-	**594,223**
A McArdle	357,425	6,171	-	63,783	-	**427,379**
K Quinlivan	271,480	5,165	-	48,475	-	**325,120**
Total	**1,886,141**	**221,578**	**-**	**441,677**	**-**	**2,549,396**

1 Includes STIs payable in respect of the current financial period performance. Amounts to be paid during FY20.
2 LTI awards that vested and were exercised during the financial year.
3 Included in Kelvin Bramley's fixed remuneration and non-monetary benefits are expatriate allowances and insurances commensurate with expatriates' living abroad in countries such as Papua New Guinea.

4. CONTRACTUAL ARRANGEMENTS FOR EXECUTIVES

Remuneration and other terms of employment for the Executives are formalised in employment contracts for a fixed term. On 1 July 2018, Michael Sheridan assumed the role of CEO, Richard Beament assumed the role of CFO, Kylie Quinlivan in the role of General Counsel/Company Secretary, Andrew McArdle as COO and Kelvin Bramley in the role of General Manager, PNG.

The key terms of the contractual arrangements for the CEO are summarised below:

Component	Contract Term	Expiry Date	Notice Period Employee	Notice Period Group
Chief Executive Officer	Three-year term	30 June 2021	6 months	12 months
Termination of employment (without cause) Payable if the Company gives notice of termination		Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months remuneration. Value of any STI paid to the Executive in the preceding 12 months. Value of any LTI awards granted or paid to the Executive in the preceding 12 months. Board has discretion to permit the SARs not yet exercised to lapse or accelerate the date on which the SARs become exercisable.		
Termination of employment (with cause)		All SARs that have not yet become exercisable lapse. STI is not awarded.		

The key terms of the contractual arrangements for the other Executive KMPs are summarised below:

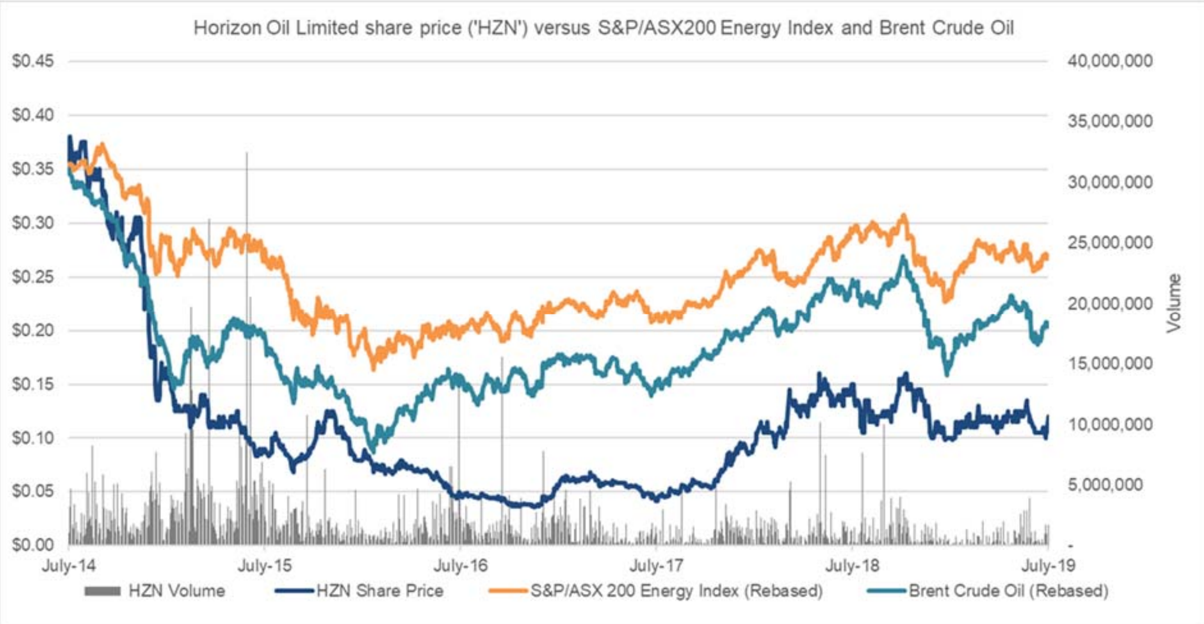
Component	Contract Term	Expiry Date	Notice Period Employee	Notice Period Group
Other Executives	Three-year term	30 June 2021	3 months	6 months
Termination of employment (without cause) Payable if the Company initiates termination		Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 6 months remuneration.		
		50% of the value of any STI paid to the Executive in the preceding 12 months. 50% of the value of any LTI awards granted or paid in the preceding 12 months. Board has discretion to cause the SARs not yet exercised to lapse or accelerate the date on which the SARs become exercisable.		
Termination of employment (with cause)		All SARs that have not yet become exercisable lapse. STI is not awarded.		

5. GROUP PERFORMANCE AND FINANCIAL YEAR REMUNERATION OUTCOMES

5.1 Overview of Horizon Oil performance

The Board aligns remuneration and performance by the remuneration mix by linking ‘at risk’ incentives with STIs awarded dependant on overall company performance and the vesting of LTIs to the relative performance of the Horizon Oil share price against the S&P/ASX200 Energy Index.

Horizon Oil share price performance for the current and previous four financial years is displayed in the chart below:



The table below sets out information regarding the Group’s performance over the last five years as requires by the Corporations Act.

	FY19	FY18	FY17	FY16	FY15
Profit/(loss) before tax (US$’000)	48,409	(1,580)	4,154	(149,726)	17,751
EBITDAX (US$’000)	93,012	68,482	45,171	53,995	89,117
Net debt (US$’000)	27,959	88,608	108,469	131,862	138,760

5.2 Performance against STI measures for the financial year

The Executive’s STI payment is calculated with reference to achievement of KPI targets based on a weighted scorecard approach. The following table sets out the performance conditions for the STI and their rationale for the financial year.

	Key Focus Areas	Objective and Measurement	Rationale	Status
Financial	**Financial Metrics & Profitability**	Achievement of budgeted revenue, operating costs and cashflow across the Block 22/12 and Maari/Manaia fields	Maintain and enhance operating income streams Maximise profitability and cashflow Effective cost control	Exceed
		Settlement of outstanding Maari insurance claims	Maximise profitability and cashflow	Exceed
	Capital Management	Gearing & Net debt reduction	Appropriate level of gearing and exposure to manage business risk	Exceed
		Completion of Group Refinancing	Adequate debt/equity levels to achieve business outcomes	Achieved
Operational	**Operating Costs**	Maintain average Group operating costs below US$20/bbl and maintain low corporate general and administrative expenditure	Maximise profitability and cashflow	Exceed
	Production Optimisation	Achieve budgeted production set by operators	Maximise profitability and cashflow	Exceed
	Reserves	Reserves replacement	Ensure sustainability of business and cashflow	Achieved
	PNG Commercialisation	Progression of PNG resource development planning and commercialisation	Maximise shareholder value and future growth	In Progress
HSSE & Workforce	**HSSE**	Achievement of no lost time injuries across Horizon Oil's operated joint ventures	Provide a safe workplace for employees and residents	Achieved
	People & Culture	Attracting the right skills and retaining key staff	Ensure Company has the necessary resources to achieve strategic objectives	Achieved

The table below shows the STIs awarded during the financial year:

Executive	Total Opportunity US$	% of Fixed Remuneration	% Awarded	% Forfeited
M Sheridan	262,988	50%	85%	15%
R Beament	67,535	21.4%	85%	15%
K Bramley	57,030	21.4%	85%	15%
A McArdle	75,039	21.4%	85%	15%
K Quinlivan	57,030	21.4%	85%	15%

5.3 *Performance against LTI measures for the financial year*

Horizon Oil share price performance for the current and previous four financial years is displayed in the chart under section 5.1 of this Report.

<table>
<tr><td>LTI awarded in FY19</td><td>SARs were allocated to Executives as part of the financial year LTI award. These rights, which have a five-year performance period are subject to performance hurdles as outlined on page 16. The grant of FY19 SARs for the CEO was approved by shareholders at the AGM on 28 November 2018. The number of SARs granted was calculated in accordance with the LTI Plan by dividing a prescribed percentage of fixed remuneration by the present day theoretical value of the SARs as calculated using a Monte Carlo simulation by an independent valuer, on the effective allocation date for the SARs, being 1 July 2018 (“Effective Allocation Date”) (A$0.073027). The VWAP of shares in the Company for the 10 business day period up to the day before the Effective Allocation Date for the purposes of the FY19 SARs award was A$0.1439.</td></tr>
<tr><td>LTI quantum for FY19</td><td>The table below shows the financial year LTI grants.
<table>
<tr><th>Executive</th><th>% of TFR</th><th>Number of SARs granted during FY19</th><th>Value of SARs at Effective Allocation Date[1]</th><th>Number of SARs vested during FY19</th><th>Number of SARs lapsed during FY19</th><th>Value at Lapse Date[2]</th></tr>
<tr><td>M Sheridan</td><td>50%</td><td>5,135,087</td><td>$276,825</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>R Beament</td><td>21.4%</td><td>1,318, 690</td><td>$71,089</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>K Bramley</td><td>21.4%</td><td>1,113,561</td><td>$60,030</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>A McArdle[3]</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>K Quinlivan</td><td>21.4%</td><td>1,113,561</td><td>$60,030</td><td>-</td><td>-</td><td>-</td></tr>
</table>
1 The value at effective allocation 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.
3 Under the terms of A McArdle’s employment agreement, SARs will be granted following the first anniversary of employment as the Group’s Chief Operating Officer.</td></tr>
<tr><td>Awards vesting in FY19</td><td>No SARs were exercised by KMP during the financial year.</td></tr>
</table>

6. NON-EXECUTIVE DIRECTOR REMUNERATION

NEDs are paid fees for services on the Board and committees and do not receive any performance-related incentives and no retirement benefits are provided other than superannuation contributions. The remuneration committee reviews fees annually and the Board may also seek advice from external advisers when undertaking the review process.

NED 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$600,000 at the 2009 Annual General Meeting. These fees have not changed in A$ terms for the last seven years. Note that the remuneration table set out on page 22 shows remuneration in US$ in line with the Group’s functional currency.

The table below shows the levels for NEDs (exclusive of superannuation) for FY19.

Fees	Description	Per Annum
Board Fees	Chair	A$163,110
	Other non-executive director	A$81,555

There were no additional fees paid to NEDs during the financial year for being members of the Board committees. The NEDs are reimbursed for expenses reasonably incurred in attending to the affairs of the Company. There are no retirement allowances in place for NEDS.

7. STATUTORY AND SHARE BASED REPORTING

7.1 Director remuneration for the financial year

The following table sets out the statutory disclosures required under the *Corporations Act 2001 (Cth)* and in accordance with Australian Accounting Standards remuneration for Directors for the years ended 30 June 2019 and 30 June 2018.

Financial year ended 30 June 2019 and 2018		Short-term benefits			Post-employment benefits	Long-term benefits	Share based payments	Total[11]
		Cash salary/board Fees	Other cash payments	Non-Monetary[7]	Superannuation[8]	Long service leave accrual[9]	SARs[10]	
Directors		**US$**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**
M Harding[1]	**2019**	**68,260**	**-**	**-**	**6,485**	**-**	**-**	**74,745**
	2018	-	-	-	-	-	-	-
J Humphrey[2]	**2019**	**59,188**	**-**	**-**	**5,623**	**-**	**-**	**64,811**
	2018	126,781	-	-	12,044	-	-	138,825
M Sheridan[3]	**2019**	**518,266**	**223,539**	**56,829**	**17,871**	**30,733**	**256,706**	**1,103,944**
	2018	-	-	-	-	-	-	-
G de Nys	**2019**	**58,237**	**-**	**-**	**5,532**	**-**	**-**	**63,769**
	2018	63,391	-	-	6,022	-	-	69,413
S Birkensleigh	**2019**	**58,237**	**-**	**-**	**5,532**	**-**	**-**	**63,769**
	2018	63,391	-	-	6,022	-	-	69,413
G Bittar	**2019**	**58,237**	**-**	**-**	**5,532**	**-**	**-**	**63,769**
	2018	63,391	-	-	6,022	-	-	69,413
C Hodge[4]	**2019**	**12,508**	**-**	**-**	**1,188**	**-**	**-**	**13,696**
	2018	-	-	-	-	-	-	-
B Emmett[5]	**2019**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2018	672,198	92,388[12]	124,044	19,428	(6,674)	307,204	1,208,588
A Stock[6]	**2019**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	2018	31,927	-	-	3,033	-	-	34,960
Total Director remuneration	**2019**	**832,933**	**223,539**	**56,829**	**47,763**	**30,733**	**256,706**	**1,448,503**
	2018	1,021,079	92,388	124,044	52,571	(6,674)	307,204	1,590,612
Total Director remuneration (A$)	**2019**	**1,166,234**	**318,750**	**79,498**	**66,917**	**42,992**	**342,533**	**2,016,924**
	2018	1,354,299	125,000	159,617	71,487	(8,588)	403,310	2,105,125

1 Mike Harding commenced as a Director and Chairman on 28 November 2018.
2 John Humphrey resigned as a Director and Chairman on 28 November 2018.
3 M Sheridan was the company's Chief Financial Officer/Company Secretary in 2018 and assumed the role as the Group's CEO and Executive Director from 1 July 2018. He continued as a KMP throughout the current and prior financial year.
4 Chris Hodge commenced as a Director on 11 April 2019.
5 B Emmett ceased to be Director effective 30 June 2018 following a change to the management team of the company.
6 A Stock ceased to be a Director upon his retirement from the Board at the Group's 2017 AGM on 24 November 2017.
7 Non-monetary benefits include the value of car parking, insurances and other expenses inclusive of Fringe Benefits Tax ('FBT').
8 Superannuation includes both compulsory superannuation payments and salary sacrifice payments made on election by Directors.
9 Reflects the movement in the long service accrual between respective reporting dates.
10 Reflects the theoretical value (calculated as at effective allocation 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.
11 Remuneration is paid in Australian dollars and converted to US dollars at the foreign exchange rate prevailing on the date of the transaction.
12 B Emmett became entitled to an amount of A$125,000 relating to a residual contract amount which crystallised on completion of his employment contract on 30 June 2018. Payment was made in the 2020 financial period.
13 B Lorenzon received no fees during the current and prior financial periods.

7.2 *Statutory details of other key management personnel remuneration for the financial year*

The table below outlines the remuneration of other key management personnel for the years ended 30 June 2019 and 30 June 2018.

Financial year ended 30 June 2019 and 2018		Short-term benefits			Post-employment benefits	Total cash or in-kind benefit	Long-term benefits	Share-based payments	Total[5]
		Cash salary and fees	STIs	Non-Monetary[1]	Super-annuation[2]		Long service leave accrual[3]	SARs[4]	
Other key management personnel		**US$**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**	**US$**
R Beament[6]	**2019**	**303,615**	**57,405**	**7,277**	**17,871**	**386,168**	**25,119**	**23,675**	**434,962**
Chief Financial Officer	2018	-	-	-	-	-	-	-	-
K Bramley[6]	**2019**	**381,761**	**48,475**	**146,136**	**17,852**	**594,224**	**26,689**	**19,992**	**640,905**
General Manager PNG	2018	-	-	-	-	-	-	-	-
A McArdle[6]	**2019**	**342,748**	**63,783**	**6,171**	**14,677**	**427,379**	**-**	**-**	**427,379**
Chief Operations Officer	2018	-	-	-	-	-	-	-	-
K Quinlivan[6]	**2019**	**253,608**	**48,475**	**5,165**	**17,871**	**325,119**	**-**	**19,992**	**345,111**
General Counsel	2018	-	-	-	-	-	-	-	-
M Sheridan[7]	**2019**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Former Chief Financial Officer and Company Secretary	2018	487,764	211,133[9]	23,034	19,428	741,359	12,861	247,757	1,001,977
A Fernie[8]	**2019**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Former General Manager – Exploration and Development	2018	487,764	-	109,046	19,428	616,238	(8,698)	247,757	855,297
Total KMP remuneration	**2019**	**1,281,732**	**218,138**	**164,749**	**68,271**	**1,732,890**	**51,808**	**63,659**	**1,848,357**
	2018	975,528	211,133	132,080	38,856	1,357,597	4,163	495,514	1,857,274
Total KMP remuneration (A$)	**2019**	**1,793,714**	**311,049**	**230,466**	**95,531**	**2,430,760**	**72,473**	**86,235**	**2,589,468**
	2018	1,255,286	293,689	169,957	50,000	1,768,932	5,357	652,048	2,426,337

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 effective allocation 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 Individuals became KMPs effective 1 July 2018.
7 M Sheridan was the company's Chief Financial Officer/Company Secretary in 2018 and assumed the role as the Group's CEO and Executive Director from 1 July 2018. He continued as a KMP throughout the current and prior financial year.
8 A Fernie ceased to be a KMP effective 30 June 2018 following a change to the management team of the company.
9 M Sheridan's final STI for the 2018 financial period was approved by the board subsequent to the release of the 2018 Annual Report. STIs paid in the current period, which relate to the prior period, are not included in current period earnings.

7.3 Shareholding of key management personnel

Shareholding

The following tables detail the number of shares held by KMP, either directly or indirectly or beneficially during the reporting period ended 30 June 2019:

KMP	Opening Balance 30 June 2018	Acquired during FY19	Disposed of during FY19	Received during financial year on the exercise of options	Closing Balance 30 June 2019
Directors					
M Harding	-	-	-	-	-
J Humphrey	5,112,034	-	-	-	5,112,034
M Sheridan	7,968,201	-	-	-	7,968,201
G de Nys	2,203,639	-	-	-	2,203,639
S Birkensleigh	-	-	-	-	-
G Bittar	-	-	-	-	-
C Hodge	-	-	-	-	-
Other KMP					
R Beament	38,184	-	-	-	38,184
K Bramley	36,250	-	-	-	36,250
A McArdle	50,000	-	-	-	50,000
K Quinlivan	-	-	-	-	-

Long Term Incentives (Share Appreciation Rights)

The following tables detail the number of SARs held by KMP, either directly or indirectly or beneficially during the reporting period ended 30 June 2019:

KMP	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
M Sheridan	38,402,628	5,135,087	-	-	43,537,715	7,458,777	36,078,938
R Beament	-	1,318,690	-	-	1,318,690	-	1,318,690
K Bramley	-	1,113,561	-	-	1,113,561	-	1,113,561
A McArdle[1]	-	-	-	-	-	-	-
K Quinlivan	-	1,113,561	-	-	1,113,561	-	1,113,561

1 Under the terms of A McArdle's employment agreement, SARs will be granted following the first anniversary of employment as the Group's Chief Operating Officer.

2 Subsequent to year end and in accordance with contract entitlement, 12,859,747 SARs were issued to key management personnel. 6,508,496 SARs issued to M Sheridan remain subject to shareholder approval at the 2019 Annual General Meeting.

Option holdings

No listed or unlisted options in the Company were held during the current or prior financial year by directors and other KMP, including their personally related entities.

7.4 Securities Trading Policy

The Group's Securities Trading Policy applies to all directors, executive directors, other executives and their related parties and sets out the procedures and principles that apply to trading in Horizon Oil Limited securities. A copy of the Securities Trading Policy is available on the website at https://horizonoil.com.au/investor-centre/governance/securities-trading-policy/.

7.5 Other transactions with KMP

Other than as noted above, there are no other transactions between any of the KMP with any of the companies which are related to or provide services to the Group unless disclosed in this Report.

There were no loans to any of the KMP during the financial year.

7.6 Additional statutory information

Terms and conditions of the share-based arrangements.

The terms and conditions of each grant of SARs presently on issue affecting remuneration for Executive KMP in the previous, current or future reporting periods are as follows:

Effective allocation date	Estimated expiry date	Exercise price[3]	Strike price[1]	Value per SAR at effective allocation date[2]	Date exercisable
01/07/2014	01/07/2019	Nil	A$0.3729	A$0.1433	100% after 17/08/2017[4]
01/07/2015	01/07/2020	Nil	A$0.0865	A$0.0438	100% after 12/08/2018[4]
01/07/2016	01/07/2021	Nil	A$0.0483	A$0.0263	100% after 20/10/2019[4]
01/07/2016	01/07/2021	Nil	A$0.0930	A$0.0193	100% after 20/10/2019[4]
01/07/2017	01/07/2022	Nil	A$0.0453	A$0.0197	100% after 20/10/2020[4]
01/07/2018	01/07/2023	Nil	A$0.1439	A$0.0730	100% after 20/10/2021[4]

1 The ‘strike price’ for SARs is the 10-day volume weighted average price for Horizon Oil at effective allocation date.
2 The value per SAR at effective allocation 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 SARs will become exercisable subject to meeting vesting or performance conditions. See summary in section 2.
5 SARs on issue to Michael Sheridan, Horizon Oil’s Chief Executive Officer, for the 30 June 2019 financial year, were approved by shareholders for the purposes of the ASX listing rules at the 2018 Annual General Meeting.

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 effective allocation date to be allocated equally over the period from the effective allocation 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 effective allocation date to that earlier date.

The model inputs for each grant of SARs during the financial year ended 30 June 2019 included:

Effective allocation date	1 July 2018
Estimated expiry date	1 July 2023
Exercise price	Nil[1]
‘Strike price’, being the 10-day VWAP of Horizon Oil shares at effective allocation date	A$0.1439
Expected price volatility	57.80% p.a.
Risk free rate	2.285% 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.

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 may vest after three years, 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 effective allocation 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$**
M Sheridan	2014	-	-	30/06/2017	-
	2015	100%	-	30/06/2018	-
	2016	-	-	30/06/2019	-
	2017	-	-	30/06/2020	-
	2018	-	-	30/06/2021	83,822
	2019	-	-	30/06/2022	184,634
R Beament	2019	-	-	30/06/2022	47,414
K Bramley	2019	-	-	30/06/2022	40,039
K Quinlivan	2019	-	-	30/06/2022	40,039
Former KMP					
A Fernie	2014	-	-	30/06/2017	-
	2015	100%	-	30/06/2018	-
	2016	-	-	30/06/2019	-
	2017	-	-	30/06/2020	-
	2018	-	-	30/06/2021	83,822
B Emmett	2014	-	-	30/06/2017	-
	2015	100%	-	30/06/2018	-
	2016	-	-	30/06/2019	-
	2017	-	-	30/06/2020	-
	2018	-	-	30/06/2021	114,302

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

DIVIDENDS

No dividend has been paid or declared by the Company to the shareholders since the end of the prior financial year.

INSURANCE OF OFFICERS

During the financial year, Horizon Oil Limited paid a premium to insure the directors and secretaries of the Company and related bodies corporate. The insured liabilities exclude conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage. The contract prohibits the disclosure of the premium paid.

The officers of the Company covered by the insurance policy include the directors and secretaries, and other officers who are directors or secretaries of subsidiaries who are not also directors or secretaries of Horizon Oil Limited.

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company or a related body corporate.

NON-AUDIT SERVICES

The Company may decide to employ PricewaterhouseCoopers on assignments additional to its statutory audit duties where the external auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to PricewaterhouseCoopers for audit and non-audit services provided during the financial year are set out below.

The Board of Directors has considered the position and, in accordance with the written advice received from the Audit Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for external auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the external auditor, as set out below, did not compromise the external auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the external auditor; and

- none of the services undermine the general principles relating to auditor independence as set out in Australian Professional Ethical Standards 110 *Code of Ethics for Professional Accountants*, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risk and rewards.

	Consolidated	
	2019	2018
	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		
Audit and other assurance services		
Audit and review of financial reports	168,234	169,687
Other assurance services	14,307	11,573
Total remuneration for audit and other assurance services	**182,541**	181,260
Taxation services		
Tax compliance[1]	16,361	10,672
Total remuneration for taxation services	**16,361**	10,672
2. Non-PwC audit firms		
Audit and other assurance services	19,667	14,616
Total remuneration for audit and other assurance services	**19,667**	14,616
Total auditors' remuneration	**218,569**	206,548

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 28.

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.

R. M. Harding

M Harding
Chairman

M Sheridan
Chief Executive Officer
Sydney
28 August 2019

Auditor's Independence Declaration

As lead auditor for the audit of Horizon Oil Limited for the year ended 30 June 2019, 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.

S Rugers

Sean Rugers
Partner
PricewaterhouseCoopers

Sydney
28 August 2019

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SUSTAINABILITY REPORT

Horizon Oil is committed to continuously improving its performance in sustainability. This review covers Horizon's activity and performance across four key areas of sustainability: safety, environment, community and people.

Our approach to operating sustainably is designed to anticipate and respond to the most pressing emerging topics (issues and opportunities) that have the potential to materially impact employees, suppliers and securityholders, as well as the wider community and the environment at large. Sustainability considerations are embedded within our core business activities and are aligned with our priorities that aim to create sustainable long-term returns for the business and its shareholders.

Safety

Horizon Oil continues to maintain its strong safety and health performance in its operated assets and is committed to maintaining a safe and healthy working environment for all people across its operations. Horizon Oil achieved a Total Recordable Injury Frequency Rate (TRIFR), a Lost Time Injury Frequency Rate (LTIFR) of 0.0 and had no recordable injuries which exceeds industry norms. Total exposure hours were consistent with the 2018 financial year and as at the date of this report, Horizon Oil will achieve 5 years free of recordable injury.

Horizon Oil continues to monitor its non-operated assets to ensure that safety and health performance remains consistent with its expectations. This includes an ongoing programme of targeted on-site assessments of the non-operated assets. During the reporting period no Lost Time Injuries were reported in each of the non-operated assets (China and New Zealand).

Horizon Oil remains committed to the health of its employees. This includes periodic medical assessment supported by a full range of vaccinations combatting key health risks including cholera, typhoid, Japanese encephalitis, polio, tetanus, seasonal influenza and hepatitis. In 2019 financial year Horizon Oil again offered annual influenza vaccinations to all its people with more than 90% of employees taking the opportunity to receive vaccinations.

During the year, Horizon Oil employees in Sydney, Port Moresby and Kiunga received or renewed their first aid qualifications. A staff-led initiative based on this training resulted in the purchase and installation of an Automated External Defibrillator (AED) at each of Horizon Oil's offices with an awareness programme delivered in support of their deployment.

Security

Horizon Oil operations are conducted in compliance with internal policies based on the *Voluntary Principles on Security and Human Rights*. Horizon Oil is cognisant of its obligations under the Modern Slavery Act, 2018. Horizon Oil undertakes risk-based assessments of its operations, partners and suppliers to confirm that they remain in compliance with legislative requirements. Horizon Oil will continue the collection of data across 2020 and expects to submit a modern slavery statement in the coming reporting period.

Horizon Oil recognises the value of its information and the critical role played by its information technology (IT) systems in supporting a sustainable business that remains resilient to the risks inherent in the rapidly evolving cyber-environment. During the reporting period Horizon Oil examined and assessed each component of its IT systems. The business carried out a major programme of renewal and resilience building. This programme significantly increased the ability of the business to minimise business disruption from cyber-security threats including data breach, and loss of business continuity (down-time).

Environment

Papua New Guinea monitoring

Horizon Oil has developed a robust environmental baseline in its area of operations and during the reporting period maintained a comprehensive programme of ongoing environmental baseline monitoring. The monitoring showed no discernible or material environmental impact from activities in our Western Province project impact area and broader environment. The scope of Horizon Oil's environmental baseline monitoring program includes regular assessment of environmental stability, riverbank erosion and testing of water, soil and sediment quality.

Horizon Oil is committed to ensuring that past, present and planned operations do not impact the environment or the continued ability of the community to make use of it. During the year, Horizon Oil accompanied representatives of the Conservation and Environment Protection Authority (CEPA) during a site-based environmental assessment of all its historic sites of operation in Papua New Guinea (PNG). We have made satisfactory progress with site remediation activities and continue to monitor on ongoing basis site and asset maintenance. Based on the results of the assessment, several sites were regarded as sufficiently advanced in their remediation and it is anticipated no further monitoring will be required of these sites. Horizon Oil continues to build upon the long-term, sustained and productive engagement with the environmental regulator as a key component of its sound and sustainable environmental management practice.

Climate Change risks

Horizon Oil recognises climate change as a significant global issue that presents many challenges, particularly in a world with growing energy demands. Horizon Oil acknowledges the potential impact of climate change on its operations and business resilience, and believes that a diversified energy mix will be important in meeting sustainable energy requirements whilst curbing climatic impacts. These challenges present both opportunities and risks for companies over the medium to longer term.

Horizon Oil continues to assess the potential impact to its asset portfolio associated with climate change and has implemented a governance framework to assess and evaluate material risks arising from climate change and to formulate strategic responses to the risks and possible opportunities. During the financial year, Horizon Oil reviewed the data collected from its operated assets and non-operated projects to enable it to better evaluate the risks and opportunities presented by climate change. The Horizon Oil Risk Management Committee has oversight and is responsible to the board for the evaluation and management of material risks associated with climate change.

Emissions from Horizon Oil’s operated and non-operated activities in Papua New Guinea are minimal as these assets are in the exploration and pre-development phase. Emissions from Horizon Oil’s non-operated China assets were managed in accordance with the environmental standards relating to air and water quality in China and subject to periodic regulatory reporting. Emissions arising from Horizon Oil’s non-operated New Zealand assets met or exceeded New Zealand environmental standards and were offset by the acquisition and surrender of carbon units in accordance with the New Zealand Carbon Emissions Trading Scheme.

Horizon Oil has formulated a framework for reporting the assessment and management of climate change related risk and this framework includes an annual assessment of business resilience including the identification of risks and opportunities, corporate targets and metrics.

Recognising the need for information on climate related impacts, the G20’s Task Force on Climate-Related Financial Disclosure (TCFD) developed voluntary, consistent climate-related financial disclosures for use by stakeholders to make better informed decisions. Horizon Oil is committed to the recommendations made by the TCFD and is progressively working towards improved disclosures in relation to the areas of governance, strategy, risk management, and metrics and targets relevant to climate risk.

The alignment with TCFD is voluntary, and the task force recognises that meaningful adoption of the report’s recommendations are expected to be achieved over a three-year timeframe as both experience and disclosures evolve in response to clearer messaging from financial markets.

Horizon Oil supports the TCFD objectives, and undertook a high-level impact assessment of climate related risks and opportunities on the business over the short, medium and longer terms. The Group will continue to enhance its climate related disclosures in alignment with the recommendations of the TCFD, in order to assist investors, lenders, insurers and other stakeholders to make informed decisions.

Risk	Description	TCFD Risk Type	Potential Impact to Business	Management Response and Mitigation
Exposure to extreme weather events	Severe weather events impacting production in Maari and Beibu fields; damage to physical assets; disruption to operations, supply chains, etc.	**Physical:** Acute and Chronic, and Legal	Declining revenue, repair costs, not meeting budget and expected shareholder returns. **Time frame:** Short/Medium/ Long Term	Assess potential climate impacts and contractual arrangements ensuring appropriate mitigation measures are in place; e.g. ensure potential climate impacts are considered in design and construction of assets; and maintain requisite insurance policies to protect assets and revenue against extreme weather events including loss of production insurance, as appropriate.
Policy/legal changes	Legislation and regulation to address climate change and risks associated with policy-driven transitions.	**Non-physical:** Transition and Liability risks	Increased compliance costs, changes in demand and pricing, and potential litigation arising from non-compliance. Restrictions on use of carbon-intensive assets, stranded assets. **Time frame:** Medium and Long-term	Participation in the New Zealand Emissions Trading Scheme with proactive monitoring of its carbon emissions, obligations and pricing. All NZ economic analysis completed with a NZ$25/tonne CO_2 price. Retain focus on high margin, low cost assets. Active hedging policy. Management continues to monitor and engage with the appropriate government and regulatory authorities to keep up to date with evolving legislation.
Damage to Company reputation	Reputational damage arising from association with an asset or company. Damage to reputation by targeted shareholder activism or divestment.	**Non-physical:** Reputational	Reduction of shareholder value and declining access to finance. **Time frame:** Medium and Long-term	Consider climate risks and opportunities during project design, development and operation of operated and non-operated assets. Progressive adoption of TCFD recommendations for reporting and disclosure. Ongoing implementation of the Horizon Oil Community Investment Program in PNG.
Technology	Changes in supply, and demand for carbon-intensive assets resulting from new technologies as the market transition to a lower-carbon economy.	**Non-Physical:** Financial and Economical	Declining revenues, asset write-offs and reduction of shareholder value. **Time frame:** Long Term	Management continues to monitor technology developments. Retain focus on high margin, low cost assets.

Opportunity	Description	TCFD Opportunity Type	Potential Growth to Business	Management Response
Technological opportunities	Commercial opportunities arising from new technologies as the market transition to a lower-carbon economy	**Non-physical:** Financial and Economical	Improved operating efficiency and accelerated technological innovation, resulting in lower operating costs for the business. **Time frame:** Medium and Long Term	Given the company's size and agility, the Group is well placed to be a fast follower of viable new technologies.

Community

Papua New Guinea Health Programs

Horizon Oil is committed to supporting long-term sustainable health training and healthcare support infrastructure for its local employees and the broader community in regional and remote areas of the Western Province.

As part of broader community initiatives with a focus on the Western Province region, Horizon Oil continues to develop sustainable healthcare infrastructure through its sponsorship and in-field support of Australian Doctors International (ADI) and MercyWorks.

Horizon Oil's objective is to conduct its operations in a manner that supports and promotes sustainable social and economic development in the Western Province. Horizon Oil believes that strong relationships with its host communities are an essential component of its social licence to operate. Accordingly, the Company continued to engage closely with Western Province communities in Papua New Guinea during the year.

Horizon Oil's regular community engagement during the reporting period was supplemented by the ongoing implementation of the Horizon Oil Community Investment Program (CIP). These small-scale community investments are participatory in nature, with communities contributing both their own time and resources to supplement the materials and resources provided by Horizon Oil.

CIP activities aim to enhance life skills and provide opportunities to improve resilience and self-sufficiency. During the year, training courses were delivered in partnership with the Kiunga Vocational Training Centre and the Bank of South Pacific covering sewing, baking and financial literacy. In addition, a pilot project was completed in co-operation with MercyWorks to establish solar power, cold storage and internal lighting and plumbing for the first time in the community aid post at Drimdemasuk village.

People and Governance

Horizon Oil's board and management are committed to the sustainable development of both the business and its assets. The governance processes applied are founded in the corporate governance principles as defined in the corporate governance statement. The identification and assessment of sustainability-material issues at Horizon Oil are integral to this process and are considered a fundamental part of the way that we do business.

Horizon Oil's sustainability governance framework is subject to continual improvement to achieve alignment of our sustainability principles with core non-operated business in China, New Zealand and Papua New Guinea. Horizon Oil reviews on a semi-annual basis the relevant operator's Health, Safety, Security and Environment (**HSSE**) policies and monitors HSSE performance through regular communication and reporting. Annually, Horizon Oil reviews compliance against these HSSE policies and obtains certification from the relevant operator that it has materially complied with its HSSE policies.

Embracing diversity in the workplace results in increased effective and innovative business performance outcomes. Horizon Oil recognises this and is committed to a workplace culture that promotes the engagement of well qualified, diverse and motivated people across all levels. The Board approved measurable objectives for achieving gender diversity and Horizon Oil's progress in achieving these objectives in FY19 are set out in the Corporate Governance statement.

Independent auditor's report

To the members 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 2019 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 Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2019
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the 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.

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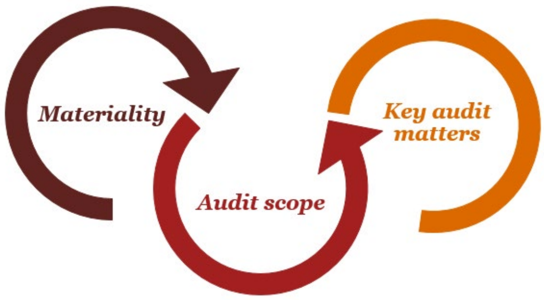
Our audit approach

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*
• For the purpose of our audit we used overall Group materiality of $1.85 million, which represents approximately 2% of the Group's EBITDA after adjusting for exploration write off (adjusted EBITDA). • 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 adjusted EBITDA because, in our view, it is the benchmark against which the performance of the Group is most commonly measured and is a generally accepted benchmark in the oil and gas industry. We determined that a 2% threshold was appropriate based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and activities that involve future events that are inherently uncertain. • Our audit focused on the joint arrangement oil producing operations in New Zealand and China, the joint arrangement gas exploration and development assets in PNG and the Group's corporate head office in Sydney. • The Group uses an internal expert to perform an assessment of the Reserves and Resources on an annual basis. Our scope included assessing the work of the internal expert and their report on economic Reserves and Resources.	• Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: – Impairment of oil and gas assets – Reserves and Resources • These are further described in the *Key audit matters* section of our report.

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.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
Impairment of exploration, development and oil & gas assets
Refer to note 14 & 15
The Group prepared an impairment assessment at 30 June 2019. The impairment assessment was modelled on a Fair Value less Cost of Disposal (FVLCD) basis.
This is a key audit matter due to the:

significant judgement required by the Group in estimating the recoverable amount of the exploration, development and oil and gas assets in different jurisdictions
volatility of global oil prices in recent years
financial significance of these assets to the business
risks associated with monetising the gas exploration and development assets in PNG
Market capitalisation being lower than the net asset position as of year end.

</td><td>
We performed the following procedures, amongst others:

Read the impairment assessment prepared by the Group. Assisted by PwC valuation experts, we assessed the key assumptions applied within the Group's discounted cash flow model, including:

Comparing the discount rates applied to the assets held in the joint arrangements that the Group is party to in New Zealand, China and PNG against a range of discount rates we, together with PwC valuation experts, considered reasonable
Performing a sensitivity analysis over the change in project risks associated with the monetisation of the PNG exploration assets
Considering the Group's forecast oil prices which were derived from broker forecasts and comparing them to analyst oil price forecasts (beyond 12 months), that were compiled using Bloomberg data.
Comparing recent similar market transactions to the carrying value of the relevant asset, where available.

Compared the underlying value drivers (reserves estimate, production profile, operating and capital expenditure requirements) in the Group's impairment assessment to the underlying value drivers identified by the Group's internal expert in their most recent reserves and resources statement on China and New Zealand joint arrangement.
</td></tr>
<tr><td>
<u>PNG Petroleum Ministry's notice of intention to cancel the licenses</u>
In the prior year, the PNG Petroleum Ministry issued a letter of intention to cancel the PDL10, PL10 and Stanley Gas agreements in PNG ("PNG Development assets") suggesting that there were certain conditions that the license holders did not fulfil as part of the
</td><td>
<u>PNG Petroleum Ministry's notice of intention to cancel the licenses</u>

We inspected recent communications between the PNG government and the Group and discussed with management the status of the matter.
We evaluated the adequacy of the disclosures made

</td></tr>
</table>

Key audit matter	How our audit addressed the key audit matter
license and invited a response from the joint arrangement. There has been further communication between the relevant parties during the year. However, the notice of intention to cancel has not been withdrawn. We considered this a key audit matter given the notices from the Ministry introduce judgement about the validity of the Group's interest in the PNG licenses and therefore whether the carrying value of the PNG Development assets is appropriate.	in note 2, including the statements made in relation to the notices received from the Ministry in light of the requirements of Australian Accounting Standards.
Reserves and Resources *Refer to Statement of Reserves and Resources* The Group used an internal expert to prepare the annual Statement of Reserves and Resources. This information was also reviewed by the Group's independent expert who determined a production profile along with an assessment of the required operational and capital expenditure. This information forms the basis of the cash flow forecast and impairment assessment referred to in the key audit matter above. The Statement of Reserves and Resources is a key audit matter due to its importance to the cash flow models and the Group's impairment assessment and due to the sensitivity of these models to changes in the base information.	We read the Statement of Reserves and Resource prepared by the Group's internal expert and we performed the following procedures amongst others: • Compared the findings of the Group's internal expert with the Group's independent expert. • Compared the reported production profile and operating and capital expenditure provided by the internal expert to the cash flow forecast and impairment assessment model prepared by the Group.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' report, sustainability report and reserves and resources statement. We expect the remaining other information to be made available to us after the date of this auditor's report.

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

In connection with our audit of the financial report, our responsibility is to read the other information 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

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_responsibilities/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 13 to 26 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Horizon Oil Limited for the year ended 30 June 2019 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.

PricewaterhouseCoopers

Sean Rugers
Partner

Sydney
28 August 2019

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;

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 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.

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.

R. M. Harding

M Harding
Chairman

M Sheridan
Chief Executive Officer

Sydney
28 August 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	Note	Consolidated **2019** **US$'000**	2018 US$'000
Revenue	4	**122,401**	100,044
Cost of sales	5	**(67,354)**	(55,686)
Gross profit		**55,047**	**44,358**
Other income	4	**4,427**	835
General and administrative expenses	5	**(3,754)**	(4,261)
Insurance expense	5	**(1,907)**	(1,724)
Exploration and development expenses	5	**(4,592)**	(5,761)
Financing costs – interest, transaction costs, other	5	**(11,748)**	(14,345)
Financing costs – unrealised movement in value of options	5	**11,157**	(20,464)
Other expenses	5	**(221)**	(218)
Profit/(loss) before income tax		**48,409**	**(1,580)**
NZ royalty tax expense	6a	**(1,653)**	(869)
Income tax (expense)/benefit	6b	**(10,930)**	(150)
Profit/(loss) for the financial year		**35,826**	**(2,599)**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	23a	**9,782**	(9,627)
Total comprehensive income/(loss) for the financial year		**45,608**	**(12,226)**
Profit/(loss) attributable to:			
Security holders of Horizon Oil Limited		**35,826**	(2,599)
Non-controlling interests		**-**	-
Profit/(loss) for the financial year		**35,826**	**(2,599)**
Total comprehensive loss attributable to:			
Security holders of Horizon Oil Limited		**45,608**	(12,226)
Non-controlling interests		**-**	-
Total comprehensive income/(loss) for the financial year		**45,608**	**(12,226)**
Earnings per share for profit/(loss) attributable to ordinary equity holders of Horizon Oil Limited:		**US cents**	US cents
Basic earnings per ordinary share	40a	**2.75**	(0.20)
Diluted earnings per ordinary share	40b	**2.17**	(0.20)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Note	Consolidated **2019** **US$'000**	Consolidated 2018 US$'000
Current assets			
Cash and cash equivalents	7	**21,472**	27,625
Receivables	8	**8,046**	15,477
Inventories	9	**5,519**	3,147
Derivative financial instruments	10	**2,708**	-
Other assets	11	**1,673**	903
Total current assets		**39,418**	**47,152**
Non-current assets			
Deferred tax assets	12	**8,357**	10,659
Plant and equipment	13	**528**	594
Exploration phase expenditure	14	**56,903**	57,453
Oil and gas assets	15	**157,453**	193,774
Total non-current assets		**223,241**	**262,480**
Total assets		**262,659**	**309,632**
Current liabilities			
Payables	16	**11,503**	19,479
Current tax payable	17	**4,189**	2,946
Borrowings	18	**9,506**	75,145
Derivative financial instruments	10	**307**	10,768
Total current liabilities		**25,505**	**108,338**
Non-current liabilities			
Payables	16	**71**	62
Deferred tax liabilities	21	**16,623**	17,876
Other financial liabilities	19	**11,838**	22,995
Borrowings	18	**38,298**	36,867
Provisions	20	**29,018**	28,185
Total non-current liabilities		**95,848**	**105,985**
Total liabilities		**121,353**	**214,323**
Net assets		**141,306**	**95,309**
Equity			
Contributed equity	22	**174,801**	174,801
Reserves	23a	**15,911**	5,740
Accumulated losses	23b	**(49,406)**	(85,232)
Total equity		**141,306**	**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 FINANCIAL YEAR ENDED 30 JUNE 2019

Consolidated		Attributable to members of Horizon Oil Limited			
	Note	Contributed equity US$'000	Reserves US$'000	Retained profits / (accumulated losses) US$'000	Total Equity US$'000
Balance as at 1 July 2017		**174,801**	**14,558**	**(82,633)**	**106,726**
Loss for the financial year	23(b)	-	-	(2,599)	(2,599)
Changes in the fair value of cash flow hedges	23(a)	-	(9,627)	-	(9,627)
Total comprehensive income for the financial year		-	(9,627)	(2,599)	(12,226)
Transactions with owners in their capacity as equity holders:					
Employee share-based payments expense	23(a)	-	809	-	809
		-	809	-	809
Balance as at 30 June 2018		**174,801**	**5,740**	**(85,232)**	**95,309**
Balance as at 1 July 2018		**174,801**	**5,740**	**(85,232)**	**95,309**
Profit for the financial year	23(b)	-	-	35,826	35,826
Changes in the fair value of cash flow hedges	23(a)	-	9,782	-	9,782
Total comprehensive income for the financial year		-	9,782	35,826	45,608
Transactions with owners in their capacity as equity holders:					
Employee share-based payments expense	23(a)	-	389	-	389
		-	389	-	389
Balance as at 30 June 2019		**174,801**	**15,911**	**(49,406)**	**141,306**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

	Note	Consolidated 2019 US$'000	2018 US$'000
Cash flows from operating activities			
Receipts from customers		**130,383**	95,975
Payments to suppliers and employees		**(37,441)**	(27,754)
		92,942	68,221
Interest received		**32**	20
Interest paid		**(6,490)**	(9,372)
Income taxes paid		**(13,671)**	(1,289)
Net cash inflow from operating activities	39	**72,813**	**57,580**
Cash flows from investing activities			
Payments for exploration phase expenditure		**(2,684)**	(7,777)
Payments for oil and gas assets		**(7,465)**	(13,261)
Payments for plant and equipment		**(71)**	(20)
Payments for acquisition of oil and gas assets		**-**	(16,660)
Net cash outflow from investing activities		**(10,220)**	**(37,718)**
Cash flows from financing activities			
Transaction costs incurred on borrowings		**(1,942)**	-
Proceeds from borrowings	18a	**94,588**	-
Repayment of borrowings	18a	**(161,390)**	(16,765)
Net cash outflow from financing activities		**(68,744)**	**(16,765)**
Net increase/(decrease) in cash and cash equivalents		**(6,151)**	**3,097**
Cash and cash equivalents at the beginning of the financial year		**27,625**	24,529
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		**(2)**	(1)
Cash and cash equivalents at the end of the financial year	7	**21,472**	**27,625**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the consolidated Financial Statements

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 2019 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 2019. 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 2019. 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.

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 financial year ended 30 June 2019. In addition, there was no impact on the Group's statement of profit or loss and other comprehensive income, the statement of financial position and the Group's statement of cash flows for the financial year ended 30 June 2019. Similarly, the application of the standard using the modified retrospective approach did not result in an adjustment to the opening retained earnings as at 30 June 2019.

The adoption of AASB 15 has resulted in a change in the Groups revenue recognition policy (refer to Note 1(g)).

Standards not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

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 Group has performed an assessment of the impact that the application of AASB16 will have on the consolidated financial statements. The application of AASB16 will result in the recognition of right-of-use assets of US$151,000, and an equal increase in lease liabilities at 1 July 2019, with no impact on the opening retained earnings for the financial year ending 30 June 2020. The recognition of the right-of-use assets and lease liabilities as at 1 July 2019 excludes the impact of any future lease agreements which will be accounted for prospectively. Subsequent to 1 July 2019 the Group signed a new lease agreement for the rental of the Groups Sydney offices.

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.

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 not affected items recognised in the financial statements for the financial year ended 30 June 2019.

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 2019 and the results of all subsidiaries for the financial year then ended. Horizon Oil Limited and its subsidiaries together are referred to in these financial statements as 'the Group'.

Subsidiaries are those entities (including special purpose entities) over which the Group has control. Control exists when the Company is exposed to, or has the rights to, variable returns from its involvement and has the ability to affect those returns through its power over that entity. There is a general presumption that a majority of voting rights results in control. The existence and effect of potential voting rights that are currently exercisable or convertible are also considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 1(n)). Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Horizon Oil Limited. These investments may have subsequently been written down to their recoverable amount determined by reference to the net assets of the subsidiaries as at 30 June each financial year where this is less than cost.

Joint operations

A joint operation is a joint arrangement whereby the participants that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognises assets, liabilities, revenues and expenses according to its share in the assets, liabilities, revenues and expenses of a joint operation or similar as determined and specified in contractual arrangements (Joint Operating Agreements). Details of major joint operation interests and the sum of the Group's interests in joint operation assets, liabilities, revenue and expenses are set out in Note 28.

Where part of a joint operation interest is farmed out in consideration of the farminee undertaking to incur further expenditure on behalf of both the farminee and the entity in the joint operation area of interest, exploration expenditure incurred and carried forward prior to farm-out continues to be carried forward without adjustment, unless the terms of the farm-out are excessive based on the diluted interest retained. An impairment provision is then made to reduce exploration expenditure to its estimated recoverable amount. Any cash received in consideration for farming out part of a joint operation interest is recognised in the profit or loss.

d) Crude oil and gas inventory and materials in inventory

Crude oil and gas inventories, produced but not sold, are valued at the lower of cost and net realisable value. Cost comprises a relevant proportion of all fixed and variable production, overhead, restoration and amortisation expenses and is determined on an average cost basis.

Stocks of materials inventory, consumable stores and spare parts are carried at the lower of cost and net realisable value, with cost primarily determined on an average cost basis.

e) Operating segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

f) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the 'functional currency'). The consolidated financial statements are presented in United States dollars, which is Horizon Oil Limited's functional and presentation currency. Horizon Oil Limited has selected United States dollars as its presentation currency for the following reasons:

(a) a significant portion of Horizon Oil Limited's activity is denominated in United States dollars; and
(b) it is widely understood by Australian and international investors and analysts.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year end exchange rates of monetary assets and liabilities denominated in foreign currencies are generally recognised in the profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

(iii) Group companies

All Group subsidiaries have a functional currency of United States dollars and, as a result, there is no exchange differences arising from having a different functional currency to the presentation currency of Horizon Oil Limited.

g) Revenue recognition

Revenue 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.

Revenue from Block 22/12, China, is derived over a period in time as the crude oil produced continuously flows through a metered pipeline. The metered monthly production is invoiced at the end of each month, in accordance with a monthly sales contract, and revenue recognised for the month of production. At the end of each month, once billing occurs and revenue is recognised, there are no unsatisfied performance obligations or variable revenue requiring estimation.

Revenue from the Maari/Manaia fields, New Zealand, is derived at a point in time as the crude oil produced is stored and sold in individual liftings which are pursuant to individual sales contracts. Each lifting is invoiced in accordance with the respective contract and revenue recognised based on the bill of lading date associated with the lifting. Once the lifting is complete there are no unsatisfied performance obligations or variable revenue requiring estimation.

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.

h) Deferred income

A liability is recorded for obligations under petroleum sales contracts where the risks and rewards of ownership have not passed to the customer and payment has already been received.

i) Taxation

(i) Income tax

The income tax expense or revenue for the reporting period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised, or deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(ii) Government royalties

Government royalties are treated as taxation arrangements when they are imposed under Government authority and when the calculation of the amount payable is derived from a measure of profit that falls within the definition of 'taxable profit' for the purposes of AASB 112 *Income Taxes*. Current and deferred tax is then provided on the same basis as described in (i) above. Royalty arrangements that do not meet the criteria for treatment as a tax are recognised on an accruals basis.

j) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (Note 37). 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 2019. The Group has not adopted AASB 16 'Leases' 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.

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.

The group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 30 June 2019 and the corresponding historical credit losses experienced within this period. The historical rates are adjusted to reflect current and forward-looking information on key factors affecting the ability of the customers to settle the receivables. Management assesses the collectability of these amounts based on the customer relationships and historical payment behaviour.

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 values at the date of purchase. Transaction costs associated with the acquisition are a component of the consideration transferred and are therefore capitalised.

o) Exploration phase expenditure

Exploration phase expenditure in respect of each area of interest is accounted for using the successful efforts method of accounting. The successful efforts method requires all exploration phase expenditure to be expensed in the period it is incurred, except the costs of successful wells, the costs of acquiring interests in new exploration assets and pre-development costs where there is a high degree of probability that the development will go ahead, which are capitalised. Costs directly associated with the drilling of exploration wells and any associated geophysical and geological costs are initially capitalised pending determination of whether potentially economic reserves of hydrocarbons have been discovered. Areas of interest are recognised at the cash-generating unit level, being the smallest grouping of assets generating independent cash flows which usually is represented by an individual oil or gas field.

When an oil or gas field has been approved for development, the capitalised exploration phase expenditure is reclassified as oil and gas assets in the statement of financial position. Prior to reclassification, capitalised exploration phase expenditure is assessed for impairment.

Where an ownership interest in an exploration and evaluation asset is purchased, any cash consideration paid net of transaction costs is treated as an asset acquisition. Alternatively, where an ownership interest is sold, any cash consideration received net of transaction costs is treated as a recoupment of costs previously capitalised, with any excess accounted for as a gain on disposal of non-current assets.

Impairment of capitalised exploration phase expenditure
Exploration phase expenditure is reviewed for impairment semi-annually in accordance with the requirements of AASB 6 ‘*Exploration for and Evaluation of Mineral Resources’*. The carrying value of capitalised exploration phase expenditure is assessed for impairment at the asset or cash-generating unit level (which usually is represented by an exploration permit or licence) whenever facts and circumstances (as defined in AASB 6) suggest that the carrying amount of the asset may exceed its recoverable amount. If any indication of impairment exists, an estimate of the asset’s recoverable amount is calculated.

An impairment loss exists when the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written-down to its recoverable amount. Impairment losses are recognised as an expense in profit or loss.

Capitalised exploration phase expenditure that suffered impairment is tested for possible reversal of the impairment loss whenever facts or changes in circumstances indicate that the impairment may have reversed.

p) Oil and gas assets

(i) Development expenditure

Development expenditure is stated at cost less any accumulated impairment losses. Development expenditure incurred by or on behalf of the Group is accumulated separately for fields in which proven and probable hydrocarbon reserves have been identified to the satisfaction of directors. Such expenditure comprises direct costs and overhead expenditure incurred which can be directly attributable to the development phase or is acquired through the acquisition of a permit.

Once a development decision has been taken on an oil or gas field, the carrying amount of the relevant exploration and evaluation expenditure in respect of the relevant area of interest is aggregated with the relevant development expenditure.

Development expenditure is reclassified as ‘production assets’ at the end of the commissioning phase, when the oil or gas field is capable of operating in the manner intended by management (that is, when commercial levels of production are capable of being achieved).

Development expenditure is tested for impairment in accordance with the accounting policy set out in Note 1(k).

(ii) Production assets

When further development costs are incurred in respect of a production asset after the commencement of production, such expenditure is carried forward as part of the production asset when it is probable that additional future economic benefits associated with the expenditure will flow to the Group. Otherwise such expenditure is classified as production expense in income statements when incurred.

Production assets are stated at cost less accumulated amortisation and any accumulated impairment losses.

Once commercial levels of production commence, amortisation is charged using the unit-of-production method. The unit-of-production method results in an amortisation expense proportional to the depletion of proven and probable hydrocarbon reserves for the field. Production assets are amortised by area of interest in the proportion of actual production for the financial period to the proven and probable hydrocarbon reserves of the field.

The 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 Andrew McArdle, Chief Operating Officer, Horizon Oil Limited. Mr McArdle is a full-time employee of Horizon Oil Limited and is a member of the Society of Petroleum Engineers. Mr McArdle's qualifications include a Master of Engineering from The University of Western Australia, Australia and more than 16 years of relevant experience. The reserve estimates are determined by Mr McArdle based on assumptions, interpretations, and assessments. These include assumptions regarding commodity prices, foreign exchange rates, operating costs and capital expenditures, and interpretations of geological and geophysical models to make assessments of the quantity of hydrocarbons and anticipated recoveries.

q) Investments and other financial assets

Subsidiaries are accounted for in the consolidated financial statements as set out in Note 1(c).

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position.

r) Plant and equipment

The cost of improvements to, or on, leasehold property is depreciated over the unexpired period of the lease or the estimated useful life of the improvement to the Group, whichever is shorter.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

▪ Computer equipment	3 – 4 years
▪ Furniture, fittings and equipment	3 – 10 years
▪ Leasehold improvement	10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

s) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Due to their short-term nature they are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition. They are included in current liabilities, except for those with maturities greater than one year after the end of the reporting period which are classified as non-current liabilities.

t) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges). The Group currently does not have any derivatives designated as fair value hedges.

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 10. Movements in the hedging reserve in equity are shown in Note 23(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 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.

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$Nil borrowing costs (2018: US$Nil) capitalised during the current financial year and the amount of borrowing costs amortised to the income statement were US$1,053,169 (2018: US$892,123).

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.

(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 32.

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 effective allocation 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 effective allocation 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 effective allocation 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.

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 41, 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.

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 14.

(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 20.

(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 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 30 June 2019. 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 30 June 2019 is US$21.0 million.

(v) Share-based payments and General options

Share-based payment transactions with directors and employees are measured by reference to the fair value of the share performance rights and employee options at the date they were granted. The fair value of the derivative liability associated with the general options is valued as at financial year end. The fair value is ascertained using an appropriate pricing model, being either the Black-Scholes or Monte Carlo simulation, depending on the terms and conditions upon which the share performance rights, employee options and general 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, employee options and general options outstanding are disclosed in Note 32.

(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 and New Zealand 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 recorded.

(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:

- 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 seven onshore permit areas – PRL 21, PRL 28, PRL 40, 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

2019	China Exploration and Development US$'000	New Zealand Exploration and Development US$'000	Papua New Guinea Exploration and Development US$'000	All other segments US$'000	Total US$'000
Segment revenue:					
Revenue from external customers	**80,112**	**42,289**	**-**	**-**	**122,401**
Profit/(loss) before tax	**36,126**	**6,810**	**(4,298)**	**9,771**	**48,409**
Depreciation and amortisation	**(21,234)**	**(18,050)**	**(20)**	**(116)**	**(39,420)**
Total segment assets as at 30 June 2019	**96,340**	**80,480**	**75,407**	**10,432**	**262,659**
Additions to non-current assets other than financial assets and deferred tax during the financial year ended:					
Exploration phase expenditure:	**1,070**	**171**	**1,440**	**66**	**2,747**
Development and production phase expenditure:	**3,495**	**3**	**760**	**-**	**4,258**
Plant and equipment:	**-**	**-**	**5**	**66**	**71**
Total segment liabilities as at 30 June 2019	**62,732**	**40,573**	**4,610**	**13,438**	**121,353**

2018	China Exploration and Development US$'000	New Zealand Exploration US$'000	Papua New Guinea Exploration and Development US$'000	All other segments US$'000	Total US$'000
Segment revenue: Revenue from external customers	68,875	31,169	-	-	100,044
Profit/(loss) before tax	28,448	2,197	(6,156)	(26,337)	(1,848)
Depreciation and amortisation	(18,779)	(10,383)	(148)	(181)	(29,491)
Total segment assets as 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 financial year ended:					
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 as 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.

Reportable segment revenues are equal to consolidated revenue.

(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	
	2019	2018
	US$'000	US$'000
Total segment profit/(loss) before tax	**48,409**	**(1,848)**
Interest income	**-**	**20**
Net foreign exchange gain/(loss)	**-**	**248**
Profit/(loss) before tax	**48,409**	**(1,580)**

(iii) Segment assets

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

Reportable segment assets are equal to consolidated total assets.

(iv) Segment liabilities

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

Reportable segment liabilities are equal to consolidated total liabilities.

	Consolidated	
	2019	2018
	US$'000	US$'000
Note 4. Revenue		
From continuing operations		
Crude oil sales	**126,742**	106,153
Net realised gain/(loss) on oil hedging derivatives	**(4,341)**	(6,109)
	122,401	100,044
Other income		
Insurance claim income[1]	**4,395**	610
Interest received from unrelated entities	**32**	20
Other non-operating income	**-**	205
	4,427	835

1 During the financial period the Group finalised the recovery of US$4.4 million of outstanding insurance claims associated with historical Maari repair works.

Revenue for the financial year ended 30 June 2019 relates to contracts executed for the sale of crude oil and all performance obligations have been met within the period. There is no variable consideration requiring estimation for the year ended 30 June 2019.

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 30 June 2019.

The Group's revenue disaggregated by primary geographical markets is reported in Note 3 – Segment information.

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

	Consolidated	
	2019	2018
	US$'000	US$'000
Crude oil sales		
Goods transferred at a point in time	**42,289**	31,169
Goods transferred over a period of time	**80,112**	68,875
	122,401	100,044

	Consolidated	
	2019	2018
	US$'000	US$'000
Note 5. Expenses		
Cost of sales		
Direct production costs	**27,414**	23,304
Inventory adjustments[1]	**(1,750)**	1,610
Amortisation expense	**39,284**	29,163
Royalties and other levies	**2,406**	1,609
	67,354	55,686

1 Adjustment for the cost of inventory produced which is on hand as at the end of the financial period.

General and administrative expenses		
Employee benefits expense *(net)*	**1,317**	1,635
Employee share options expense	**680**	809
Corporate office expense	**1,189**	1,031
Depreciation expense	**136**	329
Rental expense relating to operating leases	**432**	457
	3,754	4,261
Insurance expense		
Insurance expense (including Loss of Production Income insurance)	**1,907**	1,724
	1,907	1,724
Exploration and development expenses		
Exploration and development expenditure expensed	**4,592**	5,761
	4,592	5,761

	Consolidated	
	2019	2018
	US$'000	US$'000
Financing costs		
Interest and finance charges	**6,379**	11,078
Discount unwinding on provision for restoration	**833**	529
Unrealised movement in fair value of derivative financial instrument[1]	**(11,157)**	20,464
Amortisation of prepaid financing costs	**4,536**	2,738
	591	34,809

1 The amount shown reflects an unrealised gain of $11,157,000 (2018: loss of $20,464,000) relating to the mark to market revaluation of the derivative financial liability arising from the share options issued in respect of the subordinated secured facility. Refer to Notes 18(c) and 19 for further details of the component parts recognised in relation to this financing transaction.

Other expenses		
Net foreign exchange losses/(gain)	**104**	(43)
Other expenses	**117**	261
	221	218

	Consolidated 2019 US$'000	2018 US$'000
Note 6. Income tax expense		
(a) Royalty tax expense (benefit)		
Royalty paid/payable in New Zealand – current tax expense	**4,069**	2,482
Tax benefit related to movements in deferred tax balances	**(2,416)**	(1,613)
Total royalty tax expense	**1,653**	869
(b) Income tax expense		
Current tax expense	**10,798**	1,445
Tax expense/(benefit) related to movements in deferred tax balances	**126**	(1,578)
Adjustments for current tax of prior periods	**6**	283
Total income tax expense	**10,930**	150
Deferred income tax expense/(benefit) included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**875**	(449)
Decrease in deferred tax liabilities	**(749)**	(1,129)
Total deferred income tax expense/(benefit	**126**	(1,578)

	Consolidated 2019 US$'000	2018 US$'000
(c) Numerical reconciliation between profit before tax and tax expense/(benefit)		
Profit/(loss) from continuing operations before income tax	**48,409**	(1,580)
Less: Royalty paid/payable	**(4,069)**	(2,482)
	44,340	(4,062)
Tax at the Australian tax rate of 30% (2018: 30%)	**13,302**	(1,219)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Expenditure not allowed for income tax purposes	**6,497**	7,164
Other deductible items	**(268)**	(1,508)
Non-assessable income	**(7,844)**	(559)
Other assessable income	**214**	-
	(1,401)	3,878
Effect of overseas tax rates	**(2,017)**	(981)
Deferred tax asset not brought to account	**1,320**	2,576
Previously unrecognised deferred tax now recognised	**1,163**	(6,402)
Previously recognised tax losses now not allowable	**-**	651
Tax paid on non-resident insurance premiums	**6**	30
Previously unrecognised tax losses now recognised to reduce current tax expense	**(1,449)**	115
Adjustments for current tax of prior periods	**6**	283
Income tax expense/(benefit)	**10,930**	150
Royalty tax expense	**1,653**	869
Total tax expense/(benefit) recognised in statement of profit or loss	**12,583**	1,019

	Consolidated 2019 US$'000	2018 US$'000
(d) Amounts recognised in other comprehensive income		
Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited to other comprehensive income.		
Deferred tax: Changes in fair value of cash flow hedges	**3,387**	(3,049)
Total tax expense/(benefit) recognised in other comprehensive income	**3,387**	(3,049)
(e) Tax losses		
Unused tax losses (and applicable tax rate) for which no deferred tax asset has been recognised:		
Horizon Oil International Limited – 28% (2018: 28%)	**-**	2,522
Horizon Oil (New Zealand) Limited – 28% (2018: 28%)	**-**	3,514
		6,036
Potential tax benefit at applicable tax rates	**-**	1,690

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

	Consolidated 2019 US$'000	2018 US$'000
Note 7. Current assets – Cash and cash equivalents		
Cash at bank and on hand	**10,050**	16,274
Restricted cash[1]	**11,422**	11,351
	21,472	27,625

1 Under the terms of Horizon Oil's Revolving Cash Advance Facility (refer to Note 18(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 (2018: US$Nil).

	Consolidated 2019 US$'000	2018 US$'000
Note 8. Current assets – Receivables		
Trade and other receivables[1]	**8,046**	15,477
	8,046	15,477

1 Of this balance US$Nil (2018: US$Nil) related to amounts receivable from related parties. Refer to Note 31 for further details.

Information about the Company's exposure to credit and market risks, and collectability of overdue amounts, is included in Note 24(b).

	Consolidated 2019 US$'000	2018 US$'000
Note 9. Inventories		
Crude oil, at cost	**3,726**	1,976
Drilling and workover spares inventory	**1,793**	1,171
	5,519	3,147

	Consolidated	
	2019	2018
	US$'000	US$'000
Note 10. Derivative financial instruments		
Current:		
Derivative asset/(liability) - Oil price swaps – cash flow hedges	**2,605**	(10,768)
Derivative asset – Foreign exchange contracts – cash flow hedges	**103**	-
Derivative (liability) – Interest rate swaps – cash flow hedges	**(307)**	-
	2,401	(10,768)

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to oil price, interest rate and foreign exchange fluctuations in accordance with the Group's financial risk management policies (refer to Note 24(a)).

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. At 30 June 2019, the Group had 480,000 barrels of crude oil hedged through Brent oil price swaps (30 June 2018: 600,000) at a weighted average price of US$69.43.

Interest rate swap contracts (cash flow hedges)

During the financial year, interest rate 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 a high LIBOR rate. As at 30 June 2019, the Group had 74% of the nominal outstanding debt balance of US$49.4 million hedged through LIBOR swaps at a fixed LIBOR rate of 2.867%.

Foreign exchange contracts (cash flow hedges)

During the financial year, foreign currency 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 a weakening United States Dollar against the Group's major operating currencies, the NZD and RMB. As at 30 June 2019, the Group had RMB 12 million hedged through currency swaps, hedging a portion of the China operating costs over the next 6 months. In addition, the Group had hedged NZD 6 million, through forward exchange contracts, hedging a portion of the New Zealand operating costs over the next 6 months.

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 transaction is recognised. The ineffective portion is recognised in profit or loss immediately. During the financial year, a loss of US$4,379,815 (2018: loss of US$6,109,000) was transferred to profit or loss.

	Consolidated	
	2019	2018
	US$'000	US$'000
Note 11. Other assets – current		
Prepayments	**877**	903
Financial asset at fair value – New Zealand carbon credits[1]	**796**	-
	1,673	903

1 The Group acquires New Zealand Units ((NZUs) also referred to as carbon credits) to surrender to the New Zealand Government through the Environmental Protection Authority, for its proportionate share of the Maari/Manaia fields direct greenhouse gas emissions for the calendar year. NZUs are tradable instruments with transactions taking place on the New Zealand Emissions Trading Register, which is operated by the Environmental Protection Authority. The NZUs are recorded at fair value through profit and loss.

	Consolidated	
	2019	2018
	US$'000	US$'000
Note 12. Non-current assets – deferred tax assets		
Recognised deferred tax assets are attributable to:		
Tax losses	**2,804**	4,421
Development and production expenditure	**6,681**	6,149
Cash flow hedges	**78**	568
Provisions and other	**865**	411
Total deferred tax assets	**10,428**	11,549
Set off of deferred tax liabilities pursuant to set off provisions	**(2,071)**	(890)
Net deferred tax assets	**8,357**	10,659

2019

Movements	**Tax Losses US$'000**	**Development and production expenditure $US'000**	**Cash flow hedges US$'000**	**Provisions and other US$'000**	**Total $US'000**
At 1 July 2018	**4,421**	**6,149**	**568**	**411**	**11,549**
(Charged)/credited					
- to profit or loss	(1,617)	532	-	454	(631)
- to other comprehensive income	-	-	(490)	-	(490)
At 30 June 2019	**2,804**	**6,681**	**78**	**865**	**10,428**

2018

Movements	**Tax Losses US$'000**	**Development and production expenditure $US'000**	**Cash flow hedges US$'000**	**Provisions and other US$'000**	**Total $US'000**
At 1 July 2017	**3,410**	**-**	**-**	**712**	**4,122**
(Charged)/credited					
- to profit or loss	1,011	6,149	-	(301)	6,859
- to other comprehensive income	-	-	568	-	568
At 30 June 2018	**4,421**	**6,149**	**568**	**411**	**11,549**

Note 13. Non-current assets – Plant and equipment

	Consolidated		
	Other plant and equipment US$'000	Leasehold improvements US$'000	**Total US$'000**
As at 1 July 2017			
Cost	2,159	1,263	**3,422**
Accumulated depreciation	(1,888)	(631)	**(2,519)**
Net book amount	**271**	**632**	**903**
Financial year ended 30 June 2018			
Opening net book amount	271	632	**903**
Additions	20	-	**20**
Disposals	-	-	**-**
Depreciation expense	(222)	(107)	**(329)**
Closing net book amount	**69**	**525**	**594**
As at 30 June 2018			
Cost	2,179	1,263	**3,442**
Accumulated depreciation	(2,110)	(738)	**(2,848)**
Net book amount	**69**	**525**	**594**

	Consolidated		
	Other plant and equipment US$'000	Leasehold improvements US$'000	**Total US$'000**
Financial year ended 30 June 2019			
Opening net book amount	**69**	**525**	**594**
Additions	71	-	**71**
Disposals	(1)	-	**(1)**
Depreciation expense	(55)	(81)	**(136)**
Closing net book amount	**84**	**444**	**528**
As at 30 June 2019			
Cost	2,247	1,263	**3,510**
Accumulated depreciation	(2,163)	(819)	**(2,982)**
Net book amount	**84**	**444**	**528**

Note 14. Non-current assets – exploration phase expenditure

	Consolidated	
	2019 US$'000	2018 US$'000
Exploration phase expenditure		
Deferred geological, geophysical, drilling and other exploration and evaluation expenditure	**56,903**	57,453
The reconciliation of exploration phase expenditure carried forward above is as follows:		
Balance at beginning of financial year	**57,453**	51,940
Acquisition of exploration asset	**202**	-
Disposal of exploration asset	**(202)**	-
Exploration expenditure incurred during financial year	**2,747**	6,086
Exploration expenditure expensed during financial year	**(3,297)**	(573)
Balance at end of financial year	**56,903**	57,453

Note 15. Non-current assets – oil & gas assets

	Consolidated 2019 US$'000	2018 US$'000
Development and production phase expenditure		
Producing oil and gas property acquisition, deferred geological, seismic and drilling, production and distribution facilities and other development expenditure	**505,932**	505,671
Development costs expensed during financial year	**(1,295)**	(3,997)
Carried forward accumulated impairment losses	**(98,041)**	(98,041)
Less accumulated amortisation	**(249,143)**	(209,859)
	157,453	193,774

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

	Consolidated Development phase expenditure US$'000	Production phase expenditure US$'000	**Total US$'000**
Balance at 1 July 2017	20,406	158,692	179,098
Acquisition of oil and gas asset	-	32,642	32,642
Amortisation incurred	-	(29,163)	(29,163)
Reassessment of rehabilitation asset	-	3,258	3,258
Development and production costs incurred during financial year	4,551	7,385	11,936
Development and production costs expensed during financial year	(3,997)	-	(3,997)
Balance at 30 June 2018	20,960	172,814	193,774
Amortisation incurred	**-**	**(39,284)**	**(39,284)**
Development and production costs incurred during financial year	**760**	**3,498**	**4,258**
Development and production costs expensed during financial year	**(760)**	**(535)**	**(1,295)**
Balance at 30 June 2019	**20,960**	**136,493**	**157,453**

Note 16. Payables

	Consolidated 2019 US$'000	2018 US$'000
Current liabilities:		
Trade creditors	**707**	6,532
Share of joint operation creditors and accruals	**7,546**	9,956
Financial liability at fair value – ETS obligation[1]	**488**	-
Other creditors	**2,762**	2,991
	11,503	19,479
Non-current liabilities:		
Other creditors	**71**	62
	71	62

1 The ETS financial liability represents Horizon Oil International Limited's obligation to the New Zealand Government for the companies proportionate share of the Maari/Manaia fields greenhouse gas emissions. Refer to Note 11 for the disclosure of the carbon credits acquired (NZUs) which will be surrendered to the New Zealand Government for settlement of this obligation. The ETS obligation is recorded at fair value through profit and loss.

	Consolidated 2019 US$'000	2018 US$'000
Note 17. Current tax payable		
Current tax payable – China	**2,503**	1,411
Current royalty tax payable – New Zealand	**1,686**	1,535
	4,189	2,946

	Consolidated 2019 US$'000	2018 US$'000
Note 18. Borrowings		
Current:		
Bank loans (b)	**9,506**	75,145
	9,506	75,145
Non-current:		
Bank loans (b)	**38,298**	-
Subordinated debt (c)	**-**	36,867
	38,298	36,867
Total Borrowings	**47,804**	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.

	2019 US$'000	2018 US$'000
Cash and cash equivalents	**21,472**	27,625
Borrowings[1] – repayable within one year (including overdraft)	**(10,030)**	(76,233)
Borrowings[1] – repayable after one year	**(39,401)**	(40,000)
Net (debt)/cash	**(27,959)**	(88,608)
Cash and liquid investments	**21,472**	27,625
Gross debt – fixed interest rates	**-**	-
Gross debt[1] – variable interest rates	**(49,431)**	(116,233)
Net (debt)/cash	**(27,959)**	(88,608)

1 Borrowings exclude associated transaction costs and accrued interest and accordingly represents the nominal value of the borrowings as at 30 June 2019 and 30 June 2018.

		Cashflows		Non-cash changes		
	Opening 1 July 2018 US$'000	**Drawdown[1] US$'000**	**Repayments US$'000**	**Amortisation of transaction costs US$'000**	**Changes in fair value US$'000**	**Closing 30 June 2019 US$'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**	**(45,157)**	**315**	**-**	**47,804**
Total liabilities from financing activities	**112,012**	**92,646**	**(161,390)**	**4,536**	**-**	**47,804**

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 some key elements of the previous Reserves Based Debt Facility, with key changes including additional tenure 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 30 June 2019, total debt drawn under the facility was US$49.43 million with undrawn debt capacity of US$9.3 million. 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

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.

	2019 US$'000	2018 US$'000
Face value of debt drawn down	50,000	50,000
Less: Other financial liabilities – value of share options[1]	(3,931)	(3,931)
Less: Transaction costs	(4,483)	(4,483)
Initial fair value	41,586	41,586
Finance costs in prior periods	12,582	5,784
Finance costs[2]	2,626	6,798
Less: Principal repaid during the financial year[3]	(40,000)	(5,000)
Less: Principal repaid during the prior financial years	(10,000)	(5,000)
Add back: loss recognised on principal repayment[3]	2,828	486
Add back: loss recognised on prior period principal repayments	1,168	682
Less: Interest paid	(3,091)	(4,581)
Less: Interest paid in prior periods	(7,699)	(3,118)
Less: Interest accrued	-	(770)
Non-current liability at amortised cost	-	36,867

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 to the debt component. The effective interest rate averaged 11.35% during the financial period.
3 During the period the Group voluntarily prepaid and cancelled the total remaining debt drawn under facility of US$40 million.

	Consolidated 2019 US$'000	2018 US$'000
Note 19. Other financial liabilities		
Non-Current		
Fair value of share options	**11,838**	22,995
Total other financial liabilities	**11,838**	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 18(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. Refer to Note 24(d) for details of the valuation techniques used to derive this fair value.

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

	Consolidated 2019 US$'000	2018 US$'000
Balance at beginning of financial year	**22,995**	2,531
Unrealised (gain)/loss on revaluation during the period	**(11,157)**	20,464
Balance at end of financial year	**11,838**	22,995

1 The weighted average fair value of the options at measurement date was A$0.0563 (2018: A$0.1037). Refer to Note 24(d) for details of the valuation techniques used to derive this fair value.

	Consolidated 2019 US$'000	2018 US$'000
Note 20. Provisions		
Restoration (current)	**-**	-
Restoration (non-current)	**29,018**	28,185
	29,018	28,185

The reconciliation of the movement in the total of the restoration provisions is as follows:	Consolidated 2019 US$'000	2018 US$'000
Balance at beginning of financial year	**28,185**	9,611
Acquisition related restoration asset	**-**	14,787
Additional provision during financial year	**-**	3,258
Unwinding of discount	**833**	529
Balance at end of financial year	**29,018**	28,185

	Consolidated 2019 US$'000	2018 US$'000
Note 21. Non-current liabilities – Deferred tax liabilities		
Recognised deferred tax liabilities are attributable to:		
Development and production expenditure	**11,345**	12,579
Accounting profits royalty	**3,498**	5,962
Cash flow hedges	**711**	-
Other	**3,140**	1,764
Total deferred tax liabilities	**18,694**	20,305
Set off of deferred tax assets pursuant to set off provisions	**(2,071)**	(2,429)
Net deferred tax liabilities	**16,623**	17,876

2019

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 2018					
Charged/(credited)	**12,579**	**5,962**	**-**	**1,764**	**20,305**
- to profit or loss	(1,234)	(2,464)	-	1,376	(2,322)
- to other comprehensive income	-	-	711	-	711
At 30 June 2019	**11,345**	**3,498**	**711**	**3,140**	**18,694**

2018

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 2017					
Charged/(credited)	**13,488**	**7,700**	**579**	**2,592**	**24,359**
- to profit or loss	(909)	(1,738)	-	(828)	(3,475)
- to other comprehensive income	-	-	(579)	-	(579)
At 30 June 2018	**12,579**	**5,962**	**-**	**1,764**	**20,305**

	Consolidated		Consolidated	
	2019	2018	**2019**	2018
	Number of shares			
	'000	'000	**US$'000**	US$'000
Note 22. Contributed equity				
(a) Issued share capital				
Ordinary shares				
Fully paid	**1,301,981**	1,301,981	**174,342**	174,342
Partly paid to A$0.01	**1,500**	1,500	**459**	459
	1,303,481	1,303,481	**174,801**	174,801

(b) Movements in ordinary share capital

(i) Ordinary shares (fully paid)

Date	Details	Number of shares	US$'000
30/06/2018	Balance as at 30 June 2018	1,301,981,265	174,342
30/06/2019	Balance as at 30 June 2019	1,301,981,265	174,342

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

Date	Details	Number	US$'000
30/06/2018	Balance as at 30 June 2018	1,500,000	459
30/06/2019	Balance as at 30 June 2019	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 32.

	Consolidated	
	2019	2018
Note 23. Reserves and retained profits	**US$'000**	US$'000
(a) Reserves		
Share-based payments reserve		
Movements:		
Balance at beginning of financial year	**13,755**	12,946
Employee share-based payments expense	**389**	809
Balance at end of financial year	**14,144**	13,755
Hedge reserve		
Movements:		
Balance at beginning of financial year	**(8,015)**	1,612
Movement in net market value of hedge contracts	**13,169**	(12,959)
Deferred tax	**(3,387)**	3,332
Balance at end of financial year	**1,767**	(8,015)
Total reserves	**15,911**	5,740

(b) Accumulated (losses)/retained profits	Consolidated	
	2019	2018
	US$'000	US$'000
Accumulated (losses)/retained profits at beginning of financial year	**(85,232)**	(82,633)
Net profit/(loss) for financial year	**35,826**	(2,599)
Accumulated losses at end of financial year	**(49,406)**	(85,232)

(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 24. 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; liquidity risk; capital risk; and climate related and other emerging risks. 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, interest rate swaps and foreign exchange forward contracts, 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 2019 and 30 June 2018:

	Consolidated	
	30 June 2019	30 June 2018
	US$'000	US$'000
Financial Assets		
Cash and cash equivalents	**21,472**	27,625
Receivables	**8,046**	15,477
Derivative financial instruments	**2,708**	-
Financial asset – New Zealand carbon credits	**796**	-
	33,022	43,102
Financial Liabilities		
Payables (current)	**11,503**	19,479
Current tax payable	**4,189**	2,946
Payables (non-current)	**71**	62
Borrowings (net of borrowing costs capitalised)	**47,804**	112,012
Derivative financial instruments	**307**	10,768
Other financial liabilities	**11,838**	22,995
	75,712	168,262

(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 and Papua New Guinea Kina.

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 and Papua New Guinea Kina cash balances are maintained.

The objective of the Group's foreign exchange risk management policy is to ensure its financial viability despite potential periods of unfavourable exchange rates. Regular sensitivity analysis is conducted to evaluate the potential impact of unfavourable exchange rates on the Group's future financial position. The results of this evaluation are used to determine the most appropriate risk mitigation tool to be used. The Group will hedge when it is deemed the most appropriate risk mitigation tool to be used.

As at 30 June 2019, the Group had a derivative asset of US$103,000 (30 June 2018: US$Nil) with NZD 6 million hedged through forward exchange contracts at an average USD rate of 0.6588 and RMB 12 million hedged through currency swaps at an average USD rate of 6.9013. Both hedges are designed to cover a portion of the group's future operating costs in New Zealand and China.

Effects of hedge accounting

The effects of the foreign currency related hedging instruments on the group's financial position and performance are as follows:

	Consolidated	
	30 June 2019	30 June 2018
	US$'000	US$'000
Foreign currency swaps (USD/RMB)		
Carrying amount – asset	**8**	-
Notional amount	**1,739**	-
Maturity date	**1 July 2019 – 31 December 2019**	-
Hedge ratio[1]	**1:1**	-
Change in discounted spot value of outstanding hedging instruments since 30 June 2018	**8**	-
Change in value of hedged item used to determine hedge effectiveness	**(8)**	-
Weighted average hedged rate for the year	**US$1: RMB6.9013**	-
Foreign currency forwards (USD/NZD)		
Carrying amount – asset	**95**	-
Notional amount	**3,953**	-
Maturity date	**15 July 2019 – 16 December 2019**	-
Hedge ratio[1]	**1:1**	-
Change in discounted spot value of outstanding hedging instruments since 30 June 2018	**95**	-
Change in value of hedged item used to determine hedge effectiveness	**(95)**	-
Weighted average hedged rate for the year	**US$1: NZD0.6588**	-

1 The foreign currency swaps and foreign currency forward contracts are denominated in the same currencies as the highly probable future operating expenditures (RMB and NZD respectively), therefore the hedge ratio is 1:1.

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 2019				30 June 2018			
	AUD	**NZD**	**PGK**	**RMB**	**AUD**	**NZD**	**PGK**	**RMB**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Cash and cash equivalents	**702**	**279**	**90**	**9**	672	39	75	2
Receivables	**128**	**111**	**8**	**-**	173	336	3	-
Financial asset – New Zealand carbon credits	**-**	**796**	**-**	**-**	-	-	-	-
Current tax payable	**-**	**1,686**	**-**	**2,503**	-	831	-	1,411
Current payables	**1,760**	**542**	**120**	**256**	1,195	2,152	88	827
Non-current payables	**71**	**-**	**-**	**-**	62	-	-	-

For the financial year ended and as at 30 June 2019, 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, the 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	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Change in currency[1]	**+10%**	+10%	**+10%**	+10%	-10%	-10%	-10%	-10%
Australian dollar impact	**(519)**	(77)	**(70)**	(29)	**519**	77	**70**	29
New Zealand dollar impact	**(979)**	(453)	**(75)**	(183)	**979**	453	**75**	183
Papua New Guinea kina impact	**(84)**	(64)	**(2)**	(1)	**84**	64	**2**	1
Chinese Renminbi impact	**(87)**	(47)	**(206)**	(157)	**87**	47	**206**	157

1 This has been based on the change in the exchange rate against the US dollar in the financial years ended 30 June 2019 and 30 June 2018. 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 2019, the Group had a derivative asset of US$2,605,000 (30 June 2018: US$10,768,000 derivative liability) as there were 480,000 bbls hedged at this date (30 June 2018: 600,000 bbls) at a weighted average price of US$69.43/bbl.

Effects of hedge accounting

The effects of the oil price swaps on the group's financial position and performance are as follows:

	Consolidated	
	30 June 2019	30 June 2018
	US$'000	US$'000
Oil price swaps		
Carrying amount – asset/(liability)	**2,605**	(10,768)
Notional amount	**33,326**	35,280
Maturity date	**1 July 2019 – 31 March 2020**	1 July 2018 – 31 March 2019
Hedge ratio[1]	**1:1**	1:1
Change in fair value of outstanding hedging instruments since 30 June 2018	**13,373**	**(12,959)**
Change in value of hedged item used to determine hedge effectiveness	**(13,373)**	**12,959**
Weighted average hedged rate for the year	**US$69.43/bbl**	**US$58.80/bbl**

1 The oil price swaps were executed in the same oil price benchmark as the highly probable future oil sales, therefore the hedge ratio is 1:1.

For the financial year ended and as at 30 June 2019, 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**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	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	**2,661**	3,306	**2,661**	3,306	**(3,360)**	(3,845)	**(3,360)**	(3,845)

(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 2019 and 30 June 2018, 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.

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.

As at 30 June 2019, the Group had a derivative liability of US$307,000 (30 June 2018: US$Nil) as US$36.6 million (30 June 2018: US$Nil) of the variable interest rate component (3 month USD LIBOR) of the Syndicated Revolving Cash Advance Facility was hedged at a weighted average fixed rate of LIBOR plus 2.867%.

Effects of hedge accounting

The effects of the interest rate swaps on the group's financial position and performance are as follows:

	Consolidated	
	30 June 2019	30 June 2018
	US$'000	US$'000
Interest rate swaps		
Carrying amount – liability	**307**	-
Notional amount	**36,600**	-
Maturity date	**30 June 2020**	-
Hedge ratio[1]	**1:1**	-
Change in fair value of outstanding hedging instruments since 30 June 2018	**(307)**	-
Change in value of hedged item used to determine hedge effectiveness	**307**	-
Weighted average hedged rate for the year	**2.867%**	-

1 The interest rate swaps were executed with the same reference rate as the interest rate applied against the senior debt facility, therefore the hedge ratio is 1:1.

The Group's exposure to interest rate risk for financial instruments is set out below:

	Floating interest rate	**Fixed interest rate maturing in:**			**Non-interest bearing**	**Carrying amount**
		1 year or less	**Over 1 to 2 years**	**Over 2 to 5 years**		
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
As at 30 June 2019						
Financial assets						
Cash and cash equivalents	**6,687**	**-**	**-**	**-**	**14,785**	**21,472**
Receivables	**-**	**-**	**-**	**-**	**8,046**	**8,046**
Financial asset – New Zealand carbon credits	**-**	**-**	**-**	**-**	**796**	**796**
Derivative financial instruments	**-**	**-**	**-**	**-**	**2,708**	**2,708**
	6,687	**-**	**-**	**-**	**26,335**	**33,022**
Weighted average interest rate p.a.	**0.15%**					
Financial liabilities						
Trade and other payables	**-**	**-**	**-**	**-**	**11,503**	**11,503**
Current tax payable	**-**	**-**	**-**	**-**	**4,189**	**4,189**
Non-current payables	**-**	**-**	**-**	**-**	**71**	**71**
Derivative financial instruments	**-**	**-**	**-**	**-**	**307**	**307**
Borrowings	**49,431**	**-**	**-**	**-**	**-**	**49,431**
	49,431	**-**	**-**	**-**	**16,070**	**65,501**
Weighted average interest rate p.a.	**5.90%**					
Net financial assets/(liabilities)	**(42,744)**	**-**	**-**	**-**	**10,265**	**(32,479)**

	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 2018						
Financial assets						
Cash and cash equivalents	5,485	-	-	-	22,140	27,625
Receivables	-	-	-	-	15,477	15,477
	5,485	-	-	-	37,617	43,102
Weighted average interest rate p.a.	0.15%					
Financial liabilities						
Trade and other payables	-	-	-	-	19,479	19,479
Current tax payable	-	-	-	-	2,946	2,946
Borrowings	112,011	-	-	-	-	112,011
	112,011	-	-	-	22,425	134,436
Weighted average interest rate p.a.	6.57%					
Net financial assets/(liabilities)	(106,526)	-	-	-	15,192	(91,334)

As at 30 June 2019 and 30 June 2018, the Group had the following variable rate borrowings outstanding:

	30 June 2019		30 June 2018	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	% p.a.	US$'000	% p.a.	US$'000
External loans	**5.90%**	**49,431**	6.57%	116,233
Net exposure to cash flow interest rate risk		**12,831**		116,233

At 30 June 2019, 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 2019 would increase/(decrease) by:

Group	Net Result		Net Assets		Net Result		Net Assets	
	2019	2018	2019	2018	2019	2018	2019	2018
	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	**43**	71	**43**	71	**(6)**	(10)	**(6)**	(10)
Impact of Liabilities	**521**	829	**521**	829	**(521)**	(829)	**(521)**	(829)
Impact of Net Assets	**(478)**	(758)	**(478)**	(758)	**515**	818	**515**	818

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, derivative financial instruments, as well as credit exposures to customers, including outstanding receivables.

It is acknowledged that the Group's sales of crude oil are currently concentrated with two counterparties. However, the Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history, and that the Group has the ability to sell crude to other parties if desired.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions. Where commercially practical the Group seeks to limit the amount of credit exposure to any one financial institution.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets as summarised in this note.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	Consolidated	
	2019	2018
	US$'000	US$'000
Cash and cash equivalents		
Counterparties with external credit rating (Standard & Poors)		
AA-	**19,794**	25,168
A+	**9**	2
B	**-**	7
	19,803	**25,177**
Counterparties without external credit rating		
Share of joint operations cash balances	**1,579**	2,381
Overseas financial institutions	**90**	67
	1,669	**2,448**
Total cash and cash equivalents	**21,472**	**27,625**
Receivables		
Counterparties with external credit rating (Standard & Poors/Fitch)		
AAA	**125**	93
AA+	**111**	-
AA-	**1,492**	336
A+	**5,656**	7,765
A-	**-**	6,189
B	**5**	-
	7,389	**14,383**
Counterparties without external credit rating		
Share of joint operation receivables balances	**412**	907
Joint operations partners	**117**	187
Other	**128**	-
	657	**1,094**
Total receivables	**8,046**	**15,477**

The group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 30 June 2019 and the corresponding historical credit losses experienced within this period. The historical rates are adjusted to reflect current and forward-looking information on key factors affecting the ability of the customers to settle the receivables. Management has assessed the collectability of these amounts based on the customer relationships and historical payment behaviour and believe that the amounts are still collectable in full.

On that basis, the loss allowance as at 30 June 2019 was determined as follows for trade receivables:

As at 30 June 2019	**Current**	**More than 30 days due past**	**More than 60 days due past**	**Total**
Expected loss rate	**0%**	**0%**	**0%**	
Gross carrying amount	**8,046**	**-**	**-**	**8,046**
Loss Allowance	**-**	**-**	**-**	**-**

As at 30 June 2019, there were no financial assets that are past due (30 June 2018: US$Nil). At the date of this report, the full balance of the receivables has been received in cash.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

The Group has policies in place to manage liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching profiles of financial assets and liabilities.

Financing arrangements

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

	Consolidated	
	30 June 2019	30 June 2018
	US$'000	US$'000
Floating rate:		
Expiring within one year	**9,300**	16,357
Expiring beyond one year	**-**	-

Maturities of financial liabilities

An analysis of the Group's financial liability maturities for the current and prior financial year is set out below:

As at 30 June 2019	**Non-interest bearing US$'000**	**Variable rate[1] US$'000**	**Fixed rate US$'000**
Less than 6 months	**15,692**	**1,350**	**-**
6 – 12 months	**307**	**11,315**	**-**
Between 1 and 2 years	**71**	**25,216**	**-**
Between 2 and 5 years	**-**	**16,338**	**-**
Over 5 years	**-**	**-**	**-**
Total contractual cash flows	**16,070**	**54,219**	**-**

As at 30 June 2018	**Non-interest bearing US$'000**	**Variable rate[1] US$'000**	**Fixed rate US$'000**
Less than 6 months	29,902	4,268	-
6 – 12 months	1,645	80,114	-
Between 1 and 2 years	-	4,619	-
Between 2 and 5 years	62	45,767	-
Over 5 years	-	-	-
Total contractual cash flows	31,609	134,768	-

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:

(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).

(i) Fair value measurements

The following table presents the Group's assets and liabilities measured and recognised at fair value as at 30 June 2019 and 30 June 2018:

As at 30 June 2019	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Derivatives used for hedging	**2,708**	**-**	**-**	**2,708**
New Zealand carbon credits	**796**	**-**	**-**	**796**
Total Assets	**3,504**	**-**	**-**	**3,504**
Liabilities				
Derivatives used for hedging	**307**	**-**	**-**	**307**
New Zealand ETS obligation	**488**	**-**	**-**	**488**
Financial liabilities at fair value through profit or loss:				
Options over unissued shares	**-**	**-**	**11,838**	**11,838**
Total liabilities	**795**	**-**	**11,838**	**12,633**

As at 30 June 2018	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets				
Derivatives used for hedging	-	-	-	-
Total Assets	-	-	-	-
Liabilities				
Derivatives used for hedging	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 30 June 2019.

(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 hedging derivatives 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;

- the fair value of foreign currency contracts and swaps 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.

(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 2019 for recurring fair value measurements:

	Options over unissued shares US$'000
Opening balance at 1 July 2018	22,995
Additions during the period	-
Profit recognised in profit or loss	(11,157)
Closing balance at 30 June 2019	**11,838**

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 2019 US$'000	Unobservable inputs	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Options over unissued shares	11,838	Share price volatility	60.40%	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 happen and its likelihood. A calculated share price volatility of 60.40% 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. Refer to Note 18 for further details.

The fair value of other classes of financial instruments not yet covered above was determined to approximate their carrying value.

(e) 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.

(f) Climate-related and other emerging risks

Climate-related and other emerging risks encompass the impact of climate change, any associated climate change regulations, funding restrictions and any other emerging factors (e.g. technological disruption to the oil and gas industry) that could have a material impact on the Group. The Group will continue to monitor the impact of these risks.

At the date of this report, the Group is impacted by emissions trading regulations in New Zealand. Currently there are no equivalent emissions trading regulations in the other jurisdictions in which the Group operates.

The Group manages the impact of the emissions trading regulations in New Zealand by acquiring New Zealand carbon credits (NZUs) throughout the financial period to offset its annual obligation, such that it is not wholly exposed to the NZU price at the date of settlement.

At 30 June 2019, if the New Zealand carbon credit price had been 10% 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 2019 would increase/(decrease) by:

Group	**Net Result**		**Net Assets**		**Net Result**		**Net Assets**	
	2019 US$'000	**2018 US$'000**	**2019 US$'000**	**2018 US$'000**	**2019 US$'000**	**2018 US$'000**	**2019 US$'000**	**2018 US$'000**
Change in NZU price	**+10%**	+10%	**+10%**	+10%	**-10%**	-10%	**-10%**	-10%
Impact	**(74)**	(50)	**31**	(22)	**74**	50	**(31)**	22

	Consolidated	
	2019 US$'000	2018 US$'000
Note 25. New Zealand Imputation Credits		
Imputation credits available for subsequent financial years[1]	**2,983**	2,856

1 The franking credits available for subsequent financial years are only available to New Zealand resident shareholders under the Trans-Tasman imputation legislation.

Note 26. Acquisition and disposal of assets

(a) Summary of the acquisition of a 20% interest in PRL 40 and disposal of a 20% interest in PRL 28

During 2017, Horizon Oil (Papua) Limited, a wholly owned subsidiary of Horizon Oil Limited, entered into a purchase and sale agreement with Kumul Petroleum Holdings (Kumul) to acquire a 20% interest in PRL

40 (Puk Puk and Douglas gas fields) and dispose of a 20% interest in PRL 28. Consideration for the acquisition was in the form of an exchange, where a 20% interest in PRL 28 was exchanged for the 20% interest acquired in PRL 40. Following completion of the transaction on 30 April 2019, Horizon Oil holds a 20% interest in PRL 40 and a 30% interest in PRL 28. The effective date of the sale and purchase was 31 May 2017.

The acquisition of the 20% interest in PRL 40 and disposal of the 20% interest in PRL 28 have been accounted for as an asset acquisition and asset disposal with no resultant goodwill or gain from bargain purchase being recorded.

Details for the recognition of the sale and purchase are as follows:

	2019 US$'000
Recognition of 20% Interest in PRL 40 (Exploration Expenditure)	202
Derecognition of 20% Interest in PRL 28 (Exploration Expenditure)	(202)
Resultant goodwill or gain from bargain purchase	**-**

(b) Purchase and sales consideration – Cashflow

No cash was transferred or received as the purchase and sale was affected through the exchange of interests in the respective licences.

Note 27. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy set out in Note 1(c):

Name of subsidiary	**Country of incorporation**	**Percentage of equity holding and voting interest (all shares issued are ordinary shares)**		**Business activities carried on in**
		2019	2018	
		%	%	
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
Horizon Oil (Ketu) Limited	BVI	**100**	100	PNG
Horizon Oil (Ubuntu) Limited	BVI	**100**	100	PNG

Note 28. Interest in joint operations

Companies in the Group were participants in a number of joint operations. The Group has an interest in the assets and liabilities of these joint operations. The Group's share of 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:

	Consolidated 2019 US$'000	2018 US$'000
Current assets		
Cash and cash equivalents	1,579	2,381
Receivables	412	297
Inventories	5,519	3,147
Total current assets	**7,510**	**5,825**
Non-current assets		
Plant and equipment	-	536
Exploration phase expenditure	56,903	57,453
Oil and gas assets	157,453	193,774
Total non-current assets	**214,356**	**251,763**
Total assets	**221,866**	**257,588**
Current liabilities		
Payables	7,441	10,106
Total current liabilities	**7,441**	**10,106**
Non-current liabilities		
Payables	-	-
Total non-current liabilities	**-**	**-**
Total liabilities	**7,441**	**10,106**
Share of net assets employed in joint operations	**214,425**	**247,482**

Contingent liabilities in respect of joint operations are detailed in Note 35.

Exploration and development expenditure commitments in respect of joint operations are detailed in Note 38.

The Group had an interest in the following joint operations:

Permit or licence	**Principal activities**	**Interest (%) 30 June 2019**	Interest (%) 30 June 2018
New Zealand PMP 38160 (Maari/Manaia)	Oil and gas production, exploration and development	26.00%	26.00%
China Block 22/12	Oil and gas production, exploration and development	26.95% / 55%[1]	26.95% / 55%[1]
PNG PDL 10	Oil and gas development	30.00%[2]	30.00%[2]
PRL 21	Oil and gas exploration and development	30.15%[2,4]	30.15%[2]
PRL 28	Oil and gas exploration and development	30.00%[2,3]	50.00%[2,3]
PPL 259/574	Oil and gas exploration	80.00%[2]	80.00%[2]
PPL 430	Oil and gas exploration	100.00%[2,5]	100.00%[2]
PPL 372	Oil and gas exploration	95.00%[2,6]	95.00%[2]
PPL 373	Oil and gas exploration	100.00%[2,6]	100.00%[2]
PRL 40	Oil and gas exploration	20.00%[2,3]	- [3]

1 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%.
2 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.
3 During the financial period the Group exchanged a 20% interest in PRL 28 (Ubuntu field) 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.
4 The PRL 21 licensees have applied for a development licence. Tenure remains current, subject to PNG ministerial approval.
5 Subsequent to 30 June 2019, the PPL 430 licence term expired. The licence has a $nil carrying value at 30 June 2019.
6 The PPL 372 and 373 licensees have applied for an extension and variation of the licenses. Tenure remains current, subject to PNG ministerial approval.

	Consolidated	
	2019	2018
	US$	US$

Note 29. 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:

	2019 US$	2018 US$
1. PwC Australia		
Audit and other assurance services		
Audit and review of financial reports	168,234	169,687
Other assurance services	14,307	11,573
Total remuneration for audit and other assurance services	**182,541**	181,260
Taxation services		
Tax compliance[1]	16,361	10,672
Total remuneration for taxation services	**16,361**	10,672
2. Non-PwC audit firms		
Audit and other assurance services	19,667	14,616
Total remuneration for audit and other assurance services	**19,667**	14,616
Total auditors' remuneration	**218,569**	206,548

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 30. 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

	2019 US$	2018 US$
Short-term employee benefits	2,777,949	2,470,376
Post-employment benefits	116,036	91,429
Long-term benefits	82,541	(2,511)
Share-based payments (non-cash)	320,365	802,717
Total key management personnel remuneration	3,296,891	3,362,011

Detailed remuneration disclosures are provided in sections 1-7 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, other than as disclosed in sections 1-7 of the remuneration report.

Note 31. 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
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). Refer to Notes 18(c) and 19 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 1-7 of the Remuneration report and Note 32.

Consultancy arrangements with former key management personnel

As disclosed in the Remuneration report for the financial period ended 30 June 2018, the following former key management personnel entered into consultancy agreements with the Group.

B Emmett, Former Chief Executive Officer
Upon expiration of his contract, B Emmett entered into an 18-month consultancy agreement with the Group, with monthly remuneration of A$22,000. The consultancy agreement commenced 1 July 2018.

A Fernie, Former General Manager - Exploration and Development
Upon expiration of his contract, A Fernie entered into a 12-month consultancy agreement with the Group, with monthly remuneration of A$24,000. The consultancy agreement commenced 1 July 2018 and has expired as at the date of this report.

Exercise of SARs by former key management personnel

During the financial year former key management personnel exercised 7,458,777 SARs and received cash payments of US$291,163 as settlement.

Subsidiaries
Interests in subsidiaries are set out in Note 27. Details in respect of guarantees provided to subsidiaries are set out in Note 41 (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 2019 and 30 June 2018 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:

	2019 US$	2018 US$
Superannuation contributions		
Superannuation contributions to superannuation funds on behalf of employees	**296,757**	383,100
Other transactions		
Payments to Horizon Oil Limited under financial guarantee contract arrangements from wholly owned subsidiary	**2,067,258**	2,556,383
Dividends from Horizon Oil (Beibu) Limited to Horizon Oil Limited	**5,000,000**	6,000,000

Loans to/from related parties

	2019 US$	2018 US$
Balance at beginning of the financial year	**163,361,550**	156,527,472
Loans advanced	**58,923,695**	33,068,359
Loan repayments received	**(53,403,781)**	(17,002,398)
Interest charged	**1,370,388**	1,707,849
Interest paid	**-**	-
Debt capitalised as equity	**-**	(16,939,732)
Dividends received	**-**	6,000,000
Balance at end of financial year	**170,251,852**	163,361,550

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 LIBOR plus 5.64% (2018: LIBOR plus 5.80%). Outstanding balances are unsecured and repayable in cash.

Note 32. Share-based payments

Set out below is a summary of unlisted options and share appreciation rights on issue:

Effective allocation date	Estimated 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 2019								
Share Appreciation Rights issued								
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	-	7,458,777	-	17,629,840	17,629,840
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	-
01/07/2017	01/07/2022	A$0.05[2]	55,691,714	-	-	-	55,691,714	-
01/07/2018	01/07/2023	A$0.07[2]	-	8,680,899	-	-	8,680,899	-
Total			**129,172,425**	**8,680,899**	**7,458,777**	**-**	**130,394,547**	**17,629,840**
Weighted average exercise price			A$0.8	A$0.07	A$0.09	-	A$0.8	A$0.09
Options issued								
02/11/2015	02/11/2020	A$0.20[1]	1,000,000	-	-	-	1,000,000	-
15/09/2016	15/09/2021	A$0.06[3]	300,000,000	-	-	-	300,000,000	300,000,000
Total			**301,000,000**	**-**	**-**	**-**	**301,000,000**	**300,000,000**
Weighted average exercise price			A$0.06	-	-	-	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 Relates to general options issued in connection with the subordinated secured debt facility. Refer to Notes 18(c) and 19 for further details.

Effective allocation date	Estimated 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 2018								
Share Appreciation Rights issued								
13/08/2012	13/08/2017	A$0.27[2]	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[2,6]	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	-
01/07/2017	01/07/2022	A$0.05[2]	-	55,691,714	-	-	55,691,714	
Total			**91,590,246**	**55,691,714**	**-**	**(18,109,535)**	**129,172,425**	**-**
Weighted average exercise price			A$0.14	A$0.05	-	A$0.30	A$0.8	-
Options issued								
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	-	-	(500,000)[5]	1,000,000	-
15/09/2016	15/09/2021	A$0.06[4]	300,000,000	-	-	-	300,000,000	300,000,000
Total			**302,200,000**	**-**	**-**	**(1,200,000)**	**301,000,000**	**300,000,000**
Weighted average exercise price			A$0.06	-	-	A$0.28	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 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.
4 Relates to general options issued in connection with the subordinated secured debt facility. Refer to Notes 18(c) and 19 for further details.
5 The group cancelled 500,000 employee options during the financial year 2018.
6 On 13 August 2018 25,088,617 SARs vested.

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.32 years (2018 – 3.13 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 up to 25% of senior executive's total remuneration would be long-term incentives in the form of SARs, with the number of SARs granted based on the value of a SAR.

A SAR is a right to receive either or both a cash payment or shares in the Company, as determined by the board, subject to the Company satisfying certain conditions, including performance conditions.

The LTI Plan provides that the amount of the cash payment or the number of shares in the Company that the participant receives on exercise of the SAR is based on the value of the SAR at the time it is exercised ('SAR Value'). The SAR Value is the excess, if any, of the volume weighted average price ('VWAP') of shares in the Company for the ten business day period up to the date before the date the SAR is exercised over the VWAP of shares in the Company for the ten business day period up to the day before the "Effective Allocation Date" for the SARs. The Effective Allocation Date for the SARs is the grant date of the SARs or any other day determined by the board, at the time of the grant. The Effective Allocation Date would generally be the date the executive's entitlement was determined.

If the board determines that the SARs are to be satisfied in cash, the amount of cash that the participant receives on the exercise of the SARs is the SAR Value multiplied by the number of SARs exercised (less any deduction for taxes that the Company is required to make from the payment). If the board determines that the SARs are to be satisfied in shares, the number of shares that the participant receives on the exercise of the SARs is the SAR Value divided by the volume weighted average price of shares in the Company for the ten business day period up to the day before the day the SARs are exercised. Where the number of shares calculated is not a whole number, it will be rounded down to the nearest whole number.

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

Employee Option Scheme
The issue of securities under the Employee Option Scheme was approved by shareholders for the purposes of the ASX Listing Rules at the 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 2019 was $11,838,224 (2018: $22,995,000). 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 option holder 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 2017 financial year. The options are standalone instruments and accordingly were not cancelled and/or lapsed upon early settlement of the subordinated secured debt facility in November 2018.

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 interest rate for the term of the option. Refer to Note 25(d) 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 2019 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	60.40% p.a.
Risk free rate	0.971% p.a.
Expected dividend yield	0.00% p.a.

Share appreciation rights issued

8,680,899 share appreciation rights were issued under the Long-Term Incentive Plan. The weighted average exercise price of these SARs is A$0.1439 with performance hurdles to be achieved prior to exercise. The independently assessed weighted average fair value at effective allocation date of these share appreciation rights was A$0.073027 per SAR.

The fair value at effective allocation 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 effective allocation 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 2019 included:

Effective allocation date	1 July 2018
Estimated expiry date	1 July 2023
Exercise price	N/A
10 Day VWAP of Horizon Oil shares at effective allocation date	A$0.1439
Expected price volatility	57.80% p.a.
Risk free rate	2.285% 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	
	2019	2018
	US$'000	US$'000
Share Appreciation Rights issued under:		
Long Term Incentive Plan	678	803
Options issued under:		
Employee Option Scheme	2	6
Total employee share-based payments expense	680	809

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
During the financial year 7,458,777 SARs were exercised and settled with a cash payment of US$291,163.

Options/SARs lapsing or cancelled during the financial year
No options/SARs lapsed or were cancelled during the financial year.

Options/SARs exercised and options/SARs issued subsequent to 30 June 2019
Subsequent to year end and in accordance with contract entitlement, 12,859,747 SARs were issued to key management personnel. 6,508,496 SARs issued to M Sheridan remain subject to shareholder approval at the 2019 Annual General Meeting.

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

Options/SARs lapsed subsequent to 30 June 2019
No options or SARs have lapsed subsequent to financial year end.

	Consolidated	
	2019	2018
	US$'000	US$'000
Note 33. Employee entitlements		
Employee entitlement liabilities are included within:		
Current – other creditors	453	748
Non-current - other creditors (Note 16)	71	62
	Number	
	2019	2018
Employee numbers		
Average number of employees during financial year	30	32

Note 34. Contingent asset

(i) On 23 May 2013, the Group advised the 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 2019. 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 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 US$5.0 million as settlement for the claims relating to the repairs to the water injection flow line, production and test riser, and Maari wellhead platform. Investigation by the relevant insurers continues in relation to the claim for the upgrade of the FPSO *Raroa*'s mooring system.

Note 35. Contingent liabilities

The Group had contingent liabilities as at 30 June 2019 and 30 June 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.

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 36. 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 2019 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 28 August 2019. The Board of Directors has the power to amend and reissue the financial statements.

Note 37. 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	
	2019	2018
	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	329	442
Later than one financial year but not later than five financial years	543	133
	872	575

(ii) Finance leases

The Group had no outstanding finance leases as at 30 June 2019 or 30 June 2018.

Note 38. 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.

2019	**New Zealand Development US$'000**	**China Exploration & Development US$'000**	**Papua New Guinea Exploration & Development US$'000**	**Total US$'000**
Within one financial year	**2,767**	**2,058**	**3,300**	**8,125**
Later than one financial year but not later than 5 financial years	**-**	**-**	**-**	**-**
After 5 financial years	**-**	**-**	**-**	**-**
Total	**2,767**	**2,058**	**3,300**	**8,125**

2018	New Zealand Development US$'000	China Exploration & Development US$'000	Papua New Guinea Exploration & Development US$'000	Total US$'000
Within one financial year	**3,912**	**3,743**	**2,159**	**9,814**
Later than one financial year but not later than 5 financial 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 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 39. Reconciliation of profit after income tax to net cash flows from operating activities

	Consolidated	
	2019	2018
	US$'000	US$'000
Profit/(Loss) for financial year	35,826	(2,599)
Exploration and development expenditure written off/expensed	4,592	4,571
Depreciation expense	136	329
Profit on sale of fixed assets	(24)	-
Movement in employee entitlement liabilities	9	(9)
Non-cash employee share-based payments expense	680	809
Amortisation expense	39,284	29,163
Amortisation of prepaid financing costs	1,406	2,738
Provision for restoration	833	529
Unrealised fair value movements associated with subordinated debt	3,133	1,241
Unrealised movement in in fair value of other financial liabilities	(11,157)	20,464
Net unrealised foreign currency (gains)/losses	-	1
Change in operating assets and liabilities:		
Decrease/(increase) in trade debtors	6,806	(4,069)
Decrease in other debtors and prepayments	(3)	(1,323)
(Increase) in inventory	(2,372)	(1,652)
(Decrease) in net deferred tax liabilities	(1,049)	(6,366)
Increase/(Decrease) in tax payable	1,243	(2,638)
(Decrease)/increase in trade creditors	(5,825)	9,765
(Decrease)/increase in other creditors	(705)	6,626
Net cash inflow from operating activities	**72,813**	**57,580**

	Consolidated 2019 US cents	2018 US cents
Note 40. Earnings per share		
(a) Basic earnings per share attributable to the ordinary equity holders of the Company	2.75	(0.20)
(b) Diluted earnings per share attributable to the ordinary equity holders of the Company	2.17	(0.20)

	2019 Number	2018 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	1,653,557,138	1,303,481,265

	2019 US$'000	2018 US$'000
Reconciliation of earnings used in calculating earnings per share		
Profit/(Loss) attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	**35,826**	(2,599)

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 22.

(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 in a prior 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 32.

Note 41. Parent Entity financial information

(i) Summary financial information

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

	Parent Entity	
	2019	2018
	US$'000	US$'000
Statement of financial position		
Current assets	6,988	5,898
Non-current assets	154,556	148,274
Total assets	161,544	154,172
Current liabilities	1,530	1,043
Non-current liabilities	11,909	23,057
Total liabilities	13,439	24,100
Net assets	148,105	130,072
Contributed equity	174,801	174,801
Share-based payments reserve	14,144	13,756
Retained earnings	(40,840)	(58,485)
Total equity	148,105	130,072
Profit/(loss) for the financial year	17,645	3,767
Total comprehensive profit/(loss) for the financial year	17,645	3,767

(ii) Guarantees entered into by the parent entity

The parent entity has provided guarantees in respect of bank loans and hedge derivatives of its subsidiaries amounting to US$50,405,616 (2018: US$127,781,000) and has also provided customary joint venture guarantees.

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 2019 or 30 June 2018. For information about guarantees given by the parent entity, see above.

(iv) Contractual commitment for the acquisition of property, plant or equipment

As at 30 June 2019, the parent entity had no contractual commitments for the acquisition of property, plant or equipment (30 June 2018 – US$Nil).