



Horizon Oil Limited ABN 51 009 799 455
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26 October 2018

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

HORIZON OIL LIMITED 2018 ANNUAL REPORT AND NOTICE OF AGM

In accordance with Listing Rule 4.7, attached are Horizon Oil Limited's Annual Report for the year ended 30 June 2018 and the Notice of Annual General Meeting to be held on Wednesday, 28 November 2018.

The Notice of Annual General Meeting will be sent to all shareholders. A printed copy of the 2018 Annual Report will be mailed to those shareholders who have made the election to receive it. Copies of these documents can be downloaded from the Company's website www.horizonoil.com.au.

The Annual General Meeting will also be available on live webcast. To register, please copy and paste the link below into your browser:

<https://webcast.openbriefing.com/4777/>

Yours faithfully,

Kylie Quinlivan
General Counsel/Company Secretary

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Horizon Oil
Annual Report
2018

2018

Horizon Oil

Horizon Oil Limited
ABN 51 009 799 455

HIGHLIGHTS

2018

“2018 saw the benefit of year on year oil sales growth when coupled with strengthening oil prices.”

John Humphrey, Chairman
Michael Sheridan, CEO

REVENUE



US\$100m

46% INCREASE FROM 2017

CASH FLOW FROM OPERATING ACTIVITIES



US\$57.6m

62% INCREASE FROM 2017



ADDITIONAL MAARI/MANAIA ACQUISITION TAKES HORIZON OIL'S INTEREST TO

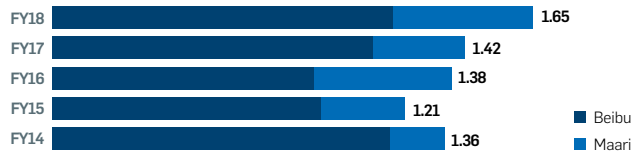


26%

ADDING 3.1 mmbbl OF 2P RESERVES

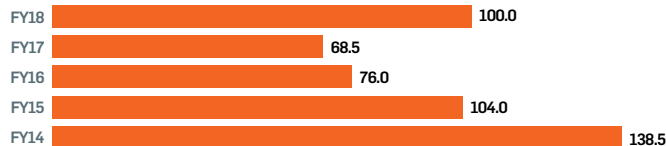
Oil sales (mmbbl)

▲16%



Revenue (US\$m)

▲46%



AREAS OF OPERATION



1. China

Block 22/12 26.95%/55%
(Production/Exploration)

2. Papua New Guinea

PDL 10 (Stanley) 30%
PRL 21 (Elevala/Tingu/Ketu) 30.15%
PRL 28 (Ubuntu) 50%¹
PRL 40 (Puk Puk/Douglas) 0%¹
PPL 372 95%
PPL 373 100%
PPL 430 100%
PPL 259/574 80%

3. New Zealand

PMP 38160 (Maari/Manaia) 26%

¹ Refer to footnote 1 on page 2.



UNDERLYING PROFIT BEFORE TAX



FOR AN EXPLANATION OF UNDERLYING PROFIT BEFORE TAX REFER TO PAGE 21 OF THE DIRECTOR'S REPORT

US\$18.9_m

586% INCREASE FROM 2017

OIL SALES FOR 2018 FINANCIAL YEAR OF 1.65 MILLION bbls, A 16% INCREASE



1.65_{mmbbl}

NET DEBT



US\$88.6_m

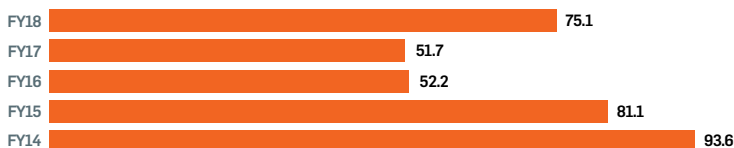
18% REDUCTION FROM 2017



Net operating cash flow

after opex incl hedging, China cost recovery and excl. extraordinary (US\$m)

▲45%



General & administrative expenses (US\$m)

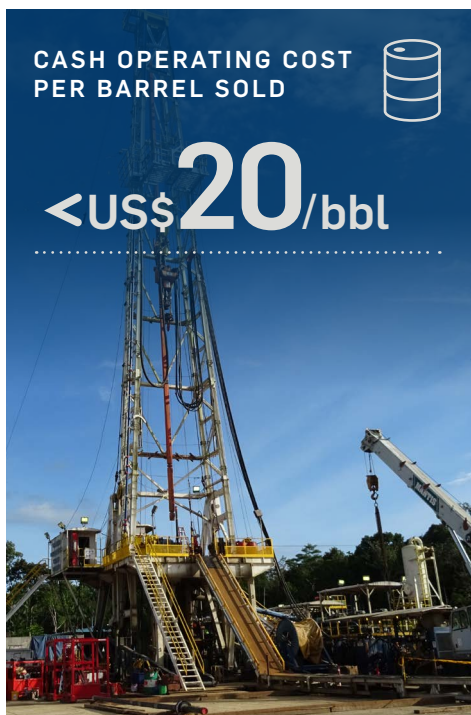
▼18%



CASH OPERATING COST PER BARREL SOLD



<US\$20/bbl



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2018

LEFT TO RIGHT:

John Humphrey
Chairman

Michael Sheridan
Chief Executive Officer



Dear Shareholders

Financial year 2018 saw the benefit of the continuation of the Company's year on year oil sales growth when coupled with strengthening oil prices. With annual revenues in excess of US\$100 million, the substantial resultant free cashflow from the Company's high margin production in China and New Zealand further strengthened the balance sheet, with net debt materially reduced, and enabled the acquisition, from cash reserves, of an additional 16% interest in the Maari/Manaia oil fields.

This strong underlying business is also financing the progression of the Company's material growth opportunities in China and Papua New Guinea constituting the bulk of a net 2C resource base of 600 PJ of sales gas and 27 mmbbl¹.

Increasing investor confidence in the sector, with particular interest in exposure to rising oil prices and, in Horizon Oil's case, recognition of the aggressive reduction of debt from free cashflow, led to an improved share price, increasing by over 250% in the year, albeit from a low base.

Highlights

By most measures, 2018 was a good year for the Company. Oil sales increased 16% to 1.65 million barrels, driven by the contribution of an additional 16% interest in Maari for the 6 months from 1 January 2018 and the production enhancement programs undertaken in our Beibu Gulf and Maari/Manaia fields. The solid production performance was enhanced shortly after year end with the drilling and completion of the two infill wells on the 12-8 West and 12-8 Mid fields, Beibu Gulf, the gross initial flow rates of which exceeded expectations at 3,500 bopd.

The increased sales volume and a strengthening oil price, led to revenues in excess of US\$100 million and EBITDAX of US\$68.5 million, an increase of 52% on the 2017 result. With average operating costs below US\$20/bbl sold and all-in free cashflow breakeven price of US\$38/bbl sold, Horizon Oil was able to acquire the additional interest in the Maari/Manaia joint venture from cash reserves and reduce net debt by US\$20 million, to US\$88.6 million.

Accordingly, as at 30 June, the Company's ratio of net debt to EBITDAX² was a modest 1.3 times and will further reduce with substantial debt reduction from free cashflow over the coming 12 months.

OIL PRODUCTION



1.3mmbbl

19% INCREASE FROM 2017



1 The Group will exchange a 20% interest in the Ubuntu field for a 20% interest in the Puk Puk, Douglas, Langia and Weimang fields in a trade with Kumul Petroleum Holdings, Papua New Guinea's national oil company. Completion of this transaction is conditional on customary Papua New Guinea Government approvals.

2 For an explanation of EBITDAX refer to page 21 of the Director's Report.

EBITDAX
US\$68.5m



▲52%

INCREASE FROM 2017

“2018 was a good year for the Company. Oil sales increased 16% to 1.65 million barrels, driven by the contribution of an additional 16% interest in Maari for the 6 months from 1 January 2018 and the production enhancement programs undertaken in our Beibu Gulf and Maari/Manaia fields.”

John Humphrey and Michael Sheridan



Good progress was made on development planning for both the large 12-8 East field in Beibu Gulf and Horizon Oil's material gas and condensate resources in Western Province, PNG.

CNOOC Limited, which operates Horizon Oil's interests in Beibu Gulf, has scheduled final investment decision on the 12-8 East development later this year, having substantially concluded commercial and legal arrangements with the drilling contractor and platform lessor which facilitate the low capex, phased development approach adopted by the joint venture.

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 that may supply gas to the Western LNG project. The Company holds approximately 30% of the resource¹ 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 the Government of Papua New Guinea has announced that its proposed Gas Policy would seek to ensure third party access to such pipelines, it remains appropriate for Horizon Oil and its fellow joint venturers to progress their independent development plans for their resources.

In this regard, excellent progress was made on the Western LNG gas aggregation scheme. Concept development planning involved a scheme with lowest technical and execution risk, maximum use of standard, proven technology and high system reliability. The Company completed its preliminary Front End Engineering and Design (pre-FEED) studies of the proposed development. Those analyses, conducted with specialist consulting firms, including Technip for liquefaction facilities and Petrochina's subsidiary CPE for pipeline studies, have confirmed both the technical viability of the proposed concepts and cost estimates.

Further, with the resurgence of, and a strengthened outlook for, oil prices and the current competitive cost environment for oil field services and equipment, the Stanley early condensate recovery scheme, which was put on hold after completion of the development drilling when oil prices collapsed in late 2014, is re-emerging as an attractive investment proposition that has the potential to provide nearer term condensate and domestic gas revenue, while planning for, and construction of, the longer-dated Western LNG project take place.

Interest in the Western LNG project and its underlying gas-condensate resource base led to Repsol's announcement earlier this year of its conditional agreement with China Changcheng Natural Gas Power Co. Ltd Group (China Changcheng) to acquire its Papua New Guinea licence interests.



The foregoing positive elements of Horizon Oil's operations in Papua New Guinea and a new Chinese joint venture partner with strong interest in LNG offtake were tempered by the notices of intent to cancel PDL 10 and PL 10 and a notice to terminate the Stanley Gas Agreement received by the PDL 10 joint venture from the PNG Petroleum Minister. Repsol, the operator of PDL 10, is of the view that the notices are without merit and are procedurally invalid. Based on external legal advice, Horizon Oil supports this view. Horizon Oil and the PDL 10 joint venture continue to work with the PNG Petroleum Minister and the Department of Petroleum and Energy to resolve any misunderstanding or disagreement with respect to the good standing of PDL 10, PL 10 and the Stanley Gas Agreement.

Sustainability

The details of the Company's activities in the areas of safety, health and community, environment and security are contained in the Sustainability Report later in this Annual Report.

There were again no serious injuries in Horizon Oil's operated assets, however there were two lost time incidents in our non-operated assets. Thankfully, in each case, the injuries were not serious.

Horizon Oil continues to invest in targeted health care support programs in Western Province, Papua New Guinea. The Company was pleased to continue its involvement by way of sponsorship and logistical support of Australian Doctors International (ADI). In 2018 financial year, ADI conducted 14 remote area medical patrols, delivered over 3,400 clinical services (of which 75% were to women and children), 37 hours of public health education and 66 hours of case based and group training to rural community health care workers. Horizon Oil is grateful for the dedication, capability and efficiency of ADI's medical and support personnel which ensure meaningful health benefits are derived by the people of Western Province.

In February 2018, Papua New Guinea experienced a magnitude 7.5 earthquake in the Highlands region which inflicted substantial damage to Southern Highlands, Hela and Western Provinces and caused the loss of many lives and destruction of social infrastructure. Given our location, there was no impact on Horizon Oil's personnel or operations. Horizon Oil's assistance with earthquake relief and reconstruction efforts in affected areas was carried out by way of donation to the consolidated Ok Tedi Development Foundation and the provision of logistical support, where possible.

Management transition

The management changes announced at the 2017 annual general meeting were effected on 30 June 2018 with a seamless transition to the new management team. Brent Emmett and Alan Fernie retired from the Company having led and been instrumental in the Company's growth over the last 17 years. The board has profound appreciation for Brent's and Alan's respective contributions to the Company and the manner in which they have managed the assignment of their responsibilities.

The Company will continue to benefit from Brent's and Alan's experience and skills as they have been retained in advisory roles, assisting the new management team. The new management team is composed predominantly of internal appointees, which has facilitated the smooth management transition, ensured maintenance of corporate knowledge and existing relationships with key stakeholders.

Outlook for 2019

The 2019 year has started well with the very successful infill drilling campaign in Beibu Gulf.

The offshore drilling and well completion program was incident free, carried out exceptionally efficiently and achieved materially greater reservoir penetration than planned, aided by a high degree of directional drilling accuracy. CNOOC's strong operating performance is very encouraging as the CNOOC-led joint venture looks to proceed with the proposed development of the 12-8 East oil field.

The Company expects to achieve steady production from our producing fields in China and New Zealand with guidance of 1.6 to 1.8 million barrels of oil sales for financial year 2019. The resultant field operating cashflow is estimated to be in the range of US\$70 to 80 million, assuming oil prices remain above US\$70/bbl consistent with industry estimates; funding the Company's capital expenditure requirements with a considerable surplus available for further material debt reduction.

In Papua New Guinea, the Company's commercialisation efforts for its substantial gas and condensate resources will focus on the renewed opportunity for early condensate recovery from the Stanley field and thereafter Elevala and Ketu fields, with progress on development planning for the proposed Western LNG project. The opportunity for acceleration of the large scale development of the resource base will increase should China Changcheng complete its acquisition of Repsol's Papua New Guinea licence interests.

John Humphrey
Chairman

Michael Sheridan
Chief Executive officer

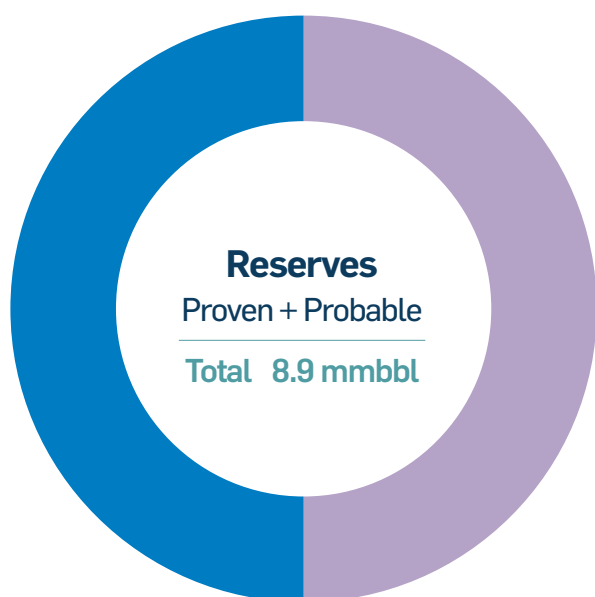
3 October 2018



Highlights

- ▶ Strong performance from producing conventional oil assets in China and New Zealand with a 16% increase in sales volumes on the prior year at 1.6 mmbbl.
- ▶ Proven plus Probable Reserves (2P) of oil increased by 1 mmbbl to 8.9 mmbbl following strong production in China and New Zealand and the increase in Horizon Oil's participating interest in the Maari project from 10 to 26 percent.
- ▶ Following delivery¹ of the infill wells WZ 12-8W-A7H and -A8H in the WZ 12-8W and WZ 12-8M oil pools in Beibu Gulf, all undeveloped 1P and 2P reserves are now on production.
- ▶ Contingent Resources (2C) of oil and condensate increased as a result of the identification of additional infill opportunities in New Zealand and an increase in the expected recovery of condensate from the Elevela-Ketu and Ubuntu fields in Papua New Guinea. These increases were offset by review of the technical basis and commercial considerations of the Manaia-Moki development in New Zealand. In aggregate, Contingent Resources (2C) of oil and condensate decreased by 1.9 mmbbl to 27 mmbbl.
- ▶ Contingent Resources (2C) of gas in Papua New Guinea increased by 49 PJ to 505 PJ of Sales Gas with incorporation of process design considerations including heat and mass balance calculations completed as part of the Western LNG project.

¹ Refer ASX announcement dated 8 August 2018.

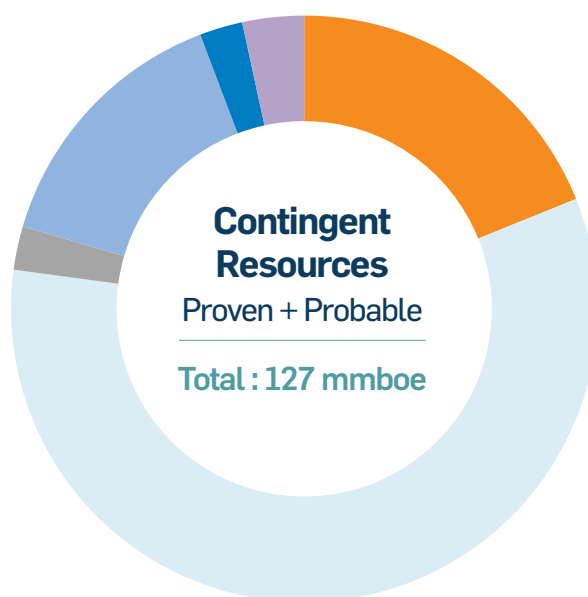


China

■ Block 22/12

New Zealand

■ PMP 38160



Papua New Guinea

■ PRL 21

■ PDL 10

■ PRL 40

■ PRL 28



**HORIZON OIL'S
STAKE IN THE
MAARI PROJECT**



▲ 16%

FROM 10% TO 26%

**PROVED PLUS
PROBABLE
RESERVES (2P)
OF OIL**



▲ 13%

FROM 7.9 TO 8.9 mmbbl

Proved and Proved plus Probable Reserves

	Proved and Proved plus Probable Reserves (Horizon Oil share)					
	1P Developed Liquids mmbbl	1P Undeveloped Liquids mmbbl	1P Total Liquids mmbbl	2P Developed Liquids mmbbl	2P Undeveloped Liquids mmbbl	2P Total Liquids mmbbl
China Block 22/12 WZ 6-12 + WZ 12-8W	2.8	0.1	2.9	4.3	0.2	4.5
New Zealand PMP 38160 Maari + Manaia	1.9	-	1.9	4.5	-	4.5
Closing Balance 30 June 2018	4.7	0.1	4.8	8.8	0.2	8.9

Reconciliation of Proved and Proved plus Probable Reserves

- ▶ **Production:** strong net production of 1.6 mmbbl (0.5 mmbbl in New Zealand, 0.8 mmbbl in China with a further 0.4² mmbbl of cost-recovery oil in China) up 16% on the prior year.
- ▶ **China:** revisions following review of actual field performance and adjustment for preferential cost-recovery due to upward revisions to the oil price forecast.
- ▶ **New Zealand:** revisions following review of actual field performance and the acquisition of an additional 16% participating interest in Maari, increasing Horizon Oil's net working interest from 10% to 26% (an increase of 1.2 mmbbl on a 1P basis and 3.1 mmbbl on a 2P basis).

² Cost recovery oil is reconciled as an Economic Interest Adjustment.

Proved and Proved plus Probable Reserves Reconciliation

	1P Liquids mmbbl	2P Liquids mmbbl
Opening Balance 30 June 2017	5.0	7.9
Production (Net Working Interest)	(1.3)	(1.3)
Production (Cost Recovery Oil Entitlement)	(0.4)	(0.4)
Revisions of Previous Estimates	0.5	(0.2)
Economic Interest Adjustment	(0.2)	(0.2)
Transfers, Discoveries and Extensions	-	-
Acquisitions and Divestments	1.2	3.1
Closing Balance 30 June 2018	4.8	8.9

CONTINGENT
RESOURCES (2C)
OF GAS IN PNG
INCREASED



11%

FROM 456 PJ TO 505 PJ



Contingent Resources

Contingent Resources (Horizon Oil share)

		2C Liquids <i>mmbbl</i>	2C Raw Gas <i>bcf</i>	2C Sales Gas <i>PJ</i>
China				
Block 22/12	WZ 6-12 + WZ 12-8W	0.2	-	-
Block 22/12	WZ 12-8E	2.8	-	-
	sub-total	3.0	-	-
New Zealand				
PMP 38160	Maari + Manaia	4.3	-	-
PMP 38160	Manaia-Moki development	-	-	-
	sub-total	4.3	-	-
Papua New Guinea				
PDL 10	Stanley	3.4	123	110
PRL 21	Elevala-Ketu	15.2	351	371
PRL 28	Ubuntu	1.1	23	24
	sub-total	19.7	497	505
Closing Balance 30 Jun 2018		27.0	497	505

Reconciliation of Contingent Resources

Contingent Resources Reconciliation

	2C Liquids <i>mmbbl</i>	2C Raw Gas <i>Bcf</i>	2C Sales Gas <i>PJ</i>
Opening Balance 30 June 2017	28.9	497.0	456.0
Production (Net Working Interest)	-	-	-
Production (Cost Recovery Oil Entitlement)	(0.1)	-	-
Revisions of Previous Estimates	(1.7)	-	49.0
Economic Interest Adjustment	(0.1)	-	-
Transfers, Discoveries and Extensions	-	-	-
Acquisitions and Divestments	-	-	-
Closing Balance 30 June 2018	27.0	497.0	505.0

- ▶ **China:** 0.2 mmbbl adjustment for cost recovery entitlement due to upward revisions to the oil price forecast and adjustment to economic interest.
- ▶ **New Zealand:** an increase of 0.9 mmbbl associated with the identification of additional infill opportunities in the Maari Moki and Manaia Mangahewa reservoir offset by a decrease of 2.6 mmbbl of oil resulting from a review of the technical basis and commercial considerations of the Manaia-Moki development in New Zealand.
- ▶ **Papua New Guinea:** an upward revision of 0.9 mmbbl liquids and 49 PJ of Sales Gas with incorporation of process design considerations including heat and mass balance calculations completed as part of the proposed Western LNG project and an increase in the expected recovery of condensate from the Elevela-Ketu and Ubuntu fields.

Pending Revision in Contingent Resources

Subject to, and on PNG government approval of, the acquisition of a 20% economic interest in PRL 40 and divestment of a 20% interest in PRL 28³ an increase to net Contingent Resources (2C) will be realised.

Pending revision in Contingent Resources (Horizon Oil share)									
Before government approval						After government approval			
		Working Interest %	2C Liquids mmbbl	2C Raw Gas bcf	2C Sales Gas PJ	Working Interest %	2C Liquids mmbbl	2C Raw Gas bcf	2C Sales Gas PJ
Papua New Guinea									
PRL 28	Ubuntu	50%	1.1	23	24	30%	0.7	14	14
PRL 40	Puk Puk etc.	0%	-	-	-	20%	0.1	111	109
Total			1.1	23	24		0.8	125	123

³ The Group will exchange a 20% interest in PRL 28 for a 20% interest in PRL 40 (Puk Puk, Douglas, Langia and Weimang gas fields) in a trade with Kumul Petroleum Holdings, PNG's national oil company. Completion of this transaction is conditional on customary PNG Government approvals.

Gross Contingent Resource Base for Western LNG

- ▶ **Horizon Oil** has estimated the Contingent Resources (2C) in four licenses in the Western Province of Papua New Guinea that may supply gas to the Company's proposed Western LNG development.
- ▶ **Gross Contingent Resources (2C)** of the combined licenses are tabulated below and have been subject to external audit.

Gross Contingent Resource Base for Western LNG (100% share)				
		2C Liquids mmbbl	2C Raw Gas bcf	2C Sales Gas PJ
Papua New Guinea				
PDL 10, PRL 21, PRL 28 and PRL 40		64.4	2,170	2,188

Permits, Licences and Interests Held

Permit or License	Operator	Material Projects	Working Interest (%)	
			30 June 2018	30 June 2017
China				
Block 22/12	CNOOC	WZ 6-12, WZ 6-12S, South & WZ 12-8 West fields	26.95%	26.95%
		WZ 12-8 East field	55.00% ⁴	55.00%
New Zealand				
PMP 38160	OMV	Maari and Manaia fields	26.00% ⁵	10.00%
Papua New Guinea				
PDL 10	Repsol	Stanley field	30.00% ⁶	30.00%
PRL 21	Horizon Oil	Elevala-Ketu fields	30.15%	30.15%
PRL 28	Horizon Oil	Ubuntu field	50.00% ³	50.00%
PPL 574	Horizon Oil	Exploration activities	80.00%	80.00%
PPL 430	Horizon Oil	Exploration activities	100.00%	100.00%
PPL 372	Horizon Oil	Exploration activities	95.00%	95.00%
PPL 373	Horizon Oil	Exploration activities	100.00%	100.00%
PRL 40	Repsol	Puk Puk, Douglas, Weimang and Langia fields	- ³	-

4 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.

5 As announced on 31 May 2018, Horizon Oil completed the acquisition of Todd Maari Limited's 16% interest in PMP 38160, which contains the producing Maari and Manaia fields.

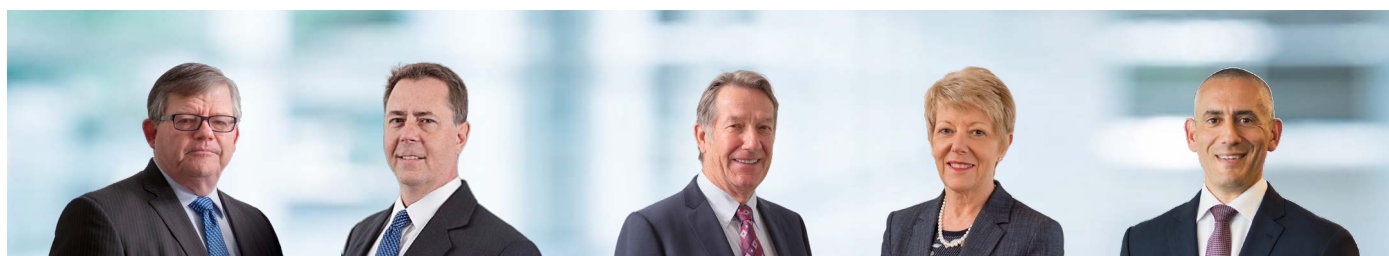
6 PNG government may appoint a state nominee to acquire up to a 22.5% participating interest in any commercial development within the PNG licence areas.

Notes

- All estimates are prepared in accordance with the Society of Petroleum Engineers (SPE) Petroleum Resources Management System (PRMS).
- Relevant terms used in this statement, capitalised or otherwise, have the same meaning given to those terms in the SPE PRMS.
- Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.
- Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable owing to one or more contingencies.
- Contingent Resource estimates quoted for China have assumed China National Offshore Oil Corporation (CNOOC) participation at 51%. CNOOC is entitled to participate at up to a 51% equity level in any commercial development within Block 22/12.
- Contingent Resource estimates quoted for PNG do not assume PNG State Nominee participation at this time. The 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.
- Liquids are equal to the total of oil, condensate and natural gas liquids where 1 barrel of condensate or natural gas liquids equals 1 barrel of oil.
- Raw Gas is natural gas as it is produced from the reservoir which may include varying amounts of heavier hydrocarbons which liquefy at atmospheric conditions, water vapor and other non-hydrocarbon gases such as hydrogen sulphide, carbon dioxide, nitrogen or helium.
- Sales Gas represents volumes that are likely to be present a saleable product. Sales Gas are reported assuming average values for fuel, flare and shrinkage considering the variable reservoir fluid properties of each constituent field on an energy basis the customary unit is PJ. PJ means petajoules and is equal to one quadrillion joules.
- Depending on the asset, either deterministic estimates or probabilistic estimates have been used to calculate the petroleum reserves, contingent resources and prospective resources in this statement.
- Reported estimates of petroleum reserves and contingent resources have been aggregated by arithmetic summation by category.
- Unless otherwise noted, estimates are reported according to Horizon Oil's economic interest (Horizon Oil share), this being Horizon Oil's net working interest as adjusted for entitlements under production-sharing contracts and risked-service contracts; and are reported net of royalties and lease fuel up to the reference point. For New Zealand, the reference point is defined as the outlet of the Raroa Floating Production Storage and Offtake (FPSO) facility. For China the reference point is the exit flange of the loading hoses at Weizhou Terminal.
- Horizon Oil employs a Reserves Management System to ensure the veracity of data used in the estimation process. This process includes review by senior staff where data is endorsed for inclusion in the estimating process. Estimates are reviewed annually, at a minimum, with interim reviews as required, to respond to any material changes. Horizon Oil undertakes semi-regular external reviews to complement its own internal process.
- The estimates of petroleum reserves and resources contained in this statement are based on, and fairly represent, information and supporting documentation prepared by staff and independent consultants under the supervision of Mr Andrew McArdle, Chief Operating Officer of 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 15 years of relevant experience. Mr McArdle consents to the use of the petroleum reserves and resources estimates in the form and context in which they appear in this statement.
- Some totals in the tables may not add due to rounding.
- Horizon Oil uses a constant conversion factor for sales gas where 6 Bcf of sales gas equals 1 mmboe.

2018

Board of Directors



John Humphrey
Chairman

Michael Sheridan
Chief Executive Officer

Gerrit de Nys
Director

Sandra Birkenleigh
Director

Gregory Bittar
Director

Consolidated Results

	2018 US\$'000	2017 US\$'000	2016 US\$'000	2015 US\$'000	2014 US\$'000
Revenue from continuing operations	100,044	68,534	75,952	103,950	138,450
Cost of sales (includes amortisation)	(55,686)	(43,768)	(60,179)	(59,970)	(92,716)
Gross profit	44,358	24,766	15,773	43,980	45,734
Profit from sale of assets	-	-	-	-	23,830
Other income	835	15	3,638	6,842	234
General and administrative expenses	(5,985)	(6,440)	(8,094)	(7,569)	(8,183)
Exploration and development expenses	(5,761)	(1,250)	(1,852)	(16,222)	(10,520)
Impairment of non-current assets	-	-	(147,515)	-	-
Financing costs (includes project facility, convertible bonds and FPSO finance lease)	(14,345)	(14,481)	(17,264)	(17,360)	(18,899)
Financing costs (unrealised movement in value of options)	(20,464)	1,400	-	-	-
Unrealised movement in value of convertible bond conversion rights	-	530	5,322	9,063	412
Gain on buyback of convertible bonds during the period	-	-	1,193	-	-
Other expenses	(218)	(386)	(927)	(983)	(2,581)
Profit/(loss) before income tax expense	(1,580)	4,154	(149,726)	17,751	30,027
Net tax (expense)/benefit	(1,019)	(4,490)	5,201	556	(17,197)
Profit/(loss) for the financial year from continuing operations	(2,599)	(336)	(144,525)	18,307	12,830
Loss from discontinued operations (net of tax)	-	-	-	-	-
Profit/(loss) for the financial year	(2,599)	(336)	(144,525)	18,307	12,830
Profit/(loss) attributable to members of Horizon Oil Limited	(2,599)	(336)	(144,525)	18,307	12,830

Production

China

Horizon Oil
Interest

Block 22/12 Beibu Gulf

Production	26.95%
Exploration	55%

New Zealand

Horizon Oil
Interest

PMP 38160

Maari and Manaia fields,
offshore Taranaki Basin

Production & Exploration	26%
--------------------------	-----

Development and Pre-development

Western LNG Project

Horizon Oil
Interest

PDL 10 Stanley Field	30%
PRL 21 (operator) Elevala/Tingu and Ketu Fields	30.15%
PRL 28 (operator) Ubuntu Field	30% ¹
PRL 40 Puk Puk/Douglas Fields	20% ¹

Exploration

Western Province, PNG

Horizon Oil
Interest

PPL 574 (operator)	80%
PPL 430 (operator)	100%
PPL 372 (operator)	95%
PPL 373 (operator)	100%

¹ Percentage participating interests are calculated after the acquisition of a 20% economic interest in PRL 40 and divestment of a 20% economic interest in PRL 28, subject to customary PNG government approvals. Refer to the *Pending revision in Contingent Resources* table on page 8 for further details.

Activities Review 2018

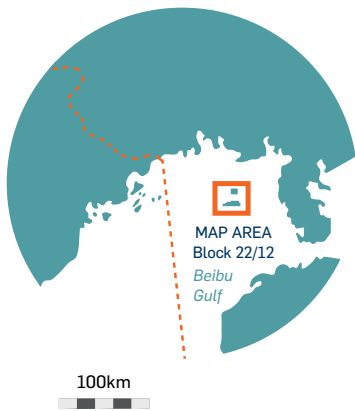
2018



2018 China



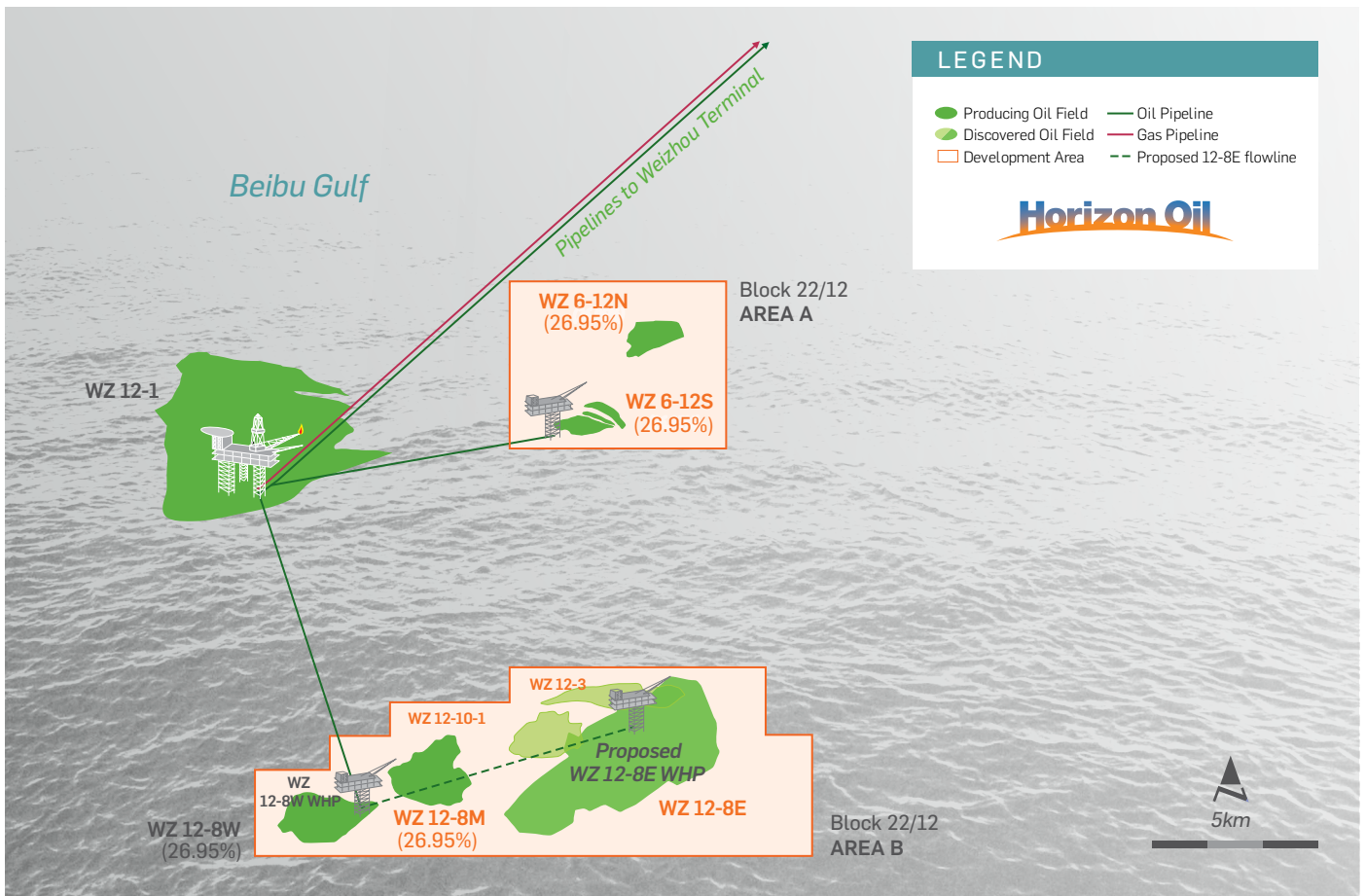
BLOCK 22/12 Beibu Gulf	Horizon Oil Interest
Production	26.95%
Exploration	55%



During the year, the Group's crude oil sales from the Beibu Gulf fields were 1,170,022 barrels at an average price of US\$62.78/bbl, composed of working interest share of 863,608 barrels and 306,414 barrels of cost recovery oil. The Group's share of sales volumes over the year was an average of 3,205 bopd. Average production over the year was 8,779 bopd, of which the Group's share was 2,366 bopd. Horizon Oil's residual entitlement to cost recovery oil remaining at 30 June 2018 was US\$49.1 million.

Workover programs in the WZ 6-12, WZ 12-8W and WZ 12-8M producing fields successfully achieved programs objectives of enhancing production through the replacement of downhole electrical submersible pumps and re-perforation of non-producing zones. Following the workover programs, gross production increased by approximately 2,500 bopd in the WZ 6-12, WZ 12-8W and WZ 12-8M producing fields.

Shortly after year end, 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 the second half of calendar year 2018 with initial flow rates of 3,500 bopd (gross).





The Group advanced planning for the WZ 12-8E field development. The joint venture is progressing to a final investment decision which the operator, CNOOC Limited, anticipates in the second half of calendar year 2018. The development has been planned as a phased development, with an initial three wells being drilled from the leased platform to be tied back to the existing Block 22/12 infrastructure with a flexible flow line. Further production wells are planned to be added later, with well design and location to be determined by the performance of the initial wells.

THE GROUP'S CRUDE OIL SALES FROM THE BEIBU GULF FIELDS WERE 1,170,022 BARRELS OF OIL



US\$62.78bbl

AVERAGE PRICE PER BARREL OF OIL SOLD

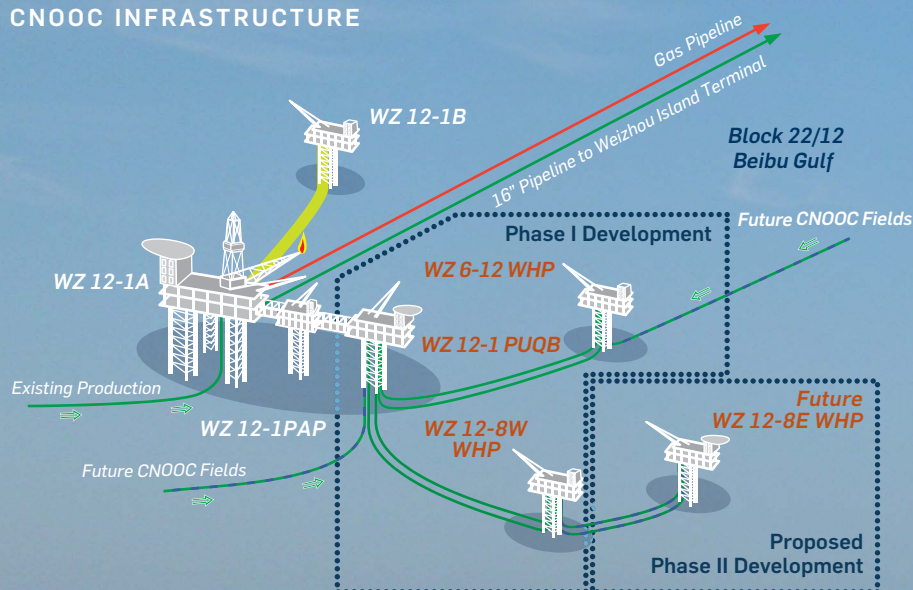
AVERAGE PRODUCTION OVER THE YEAR



8,779bopd

THE GROUP'S SHARE WAS 2,366 bopd

INTEGRATED DEVELOPMENT CONCEPT CNOOC INFRASTRUCTURE



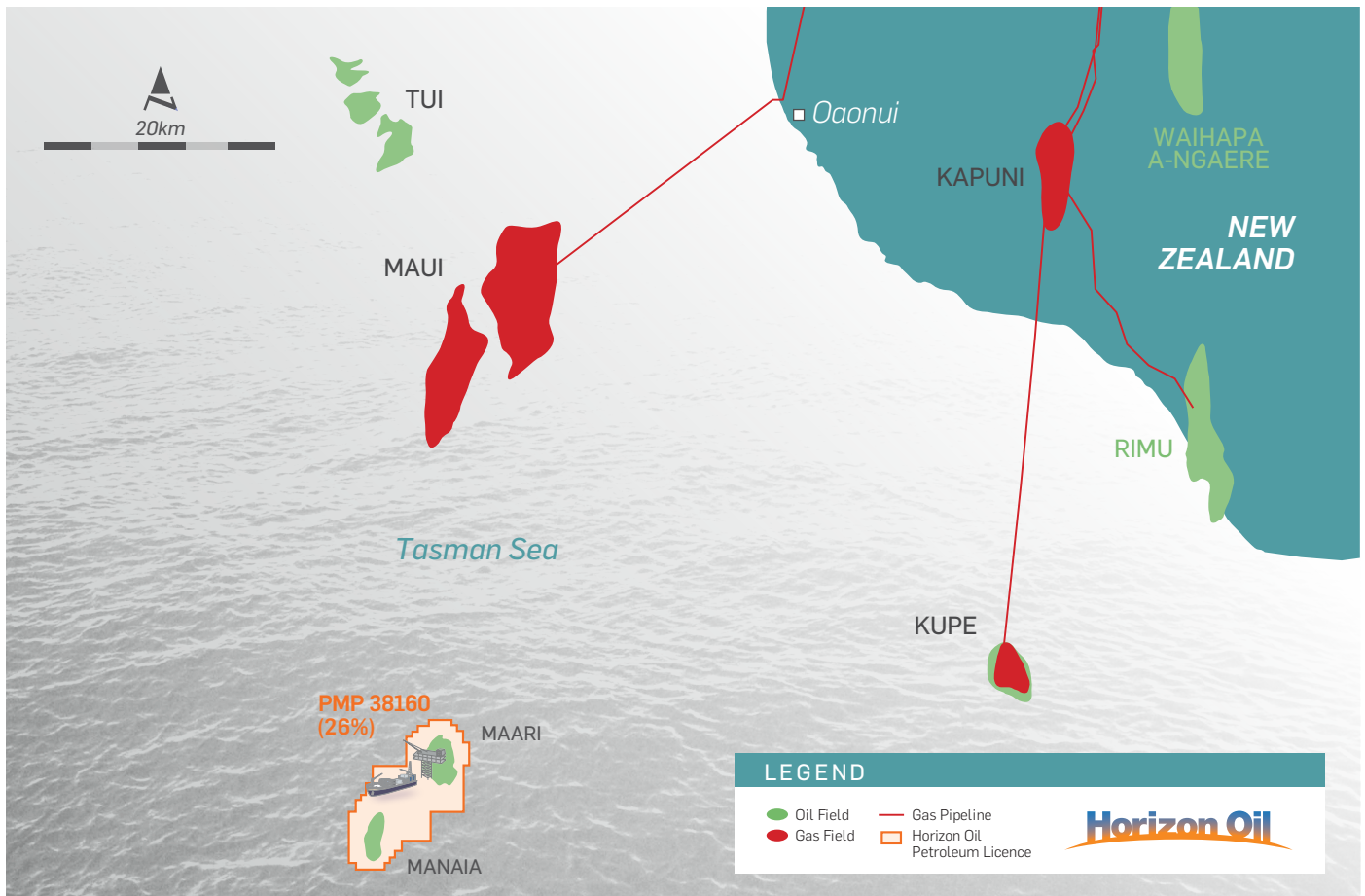
2018 New Zealand

PMP 38160	Horizon Oil Interest
Maari and Manaia fields, offshore Taranaki Basin	
Production and Exploration	26%

The Company advised on 6 November 2017 it had entered into an agreement with Todd Maari Limited (Todd) to acquire Todd's 16% interest in PMP 38160, containing the producing Maari and Manaia fields. The transaction completed on 31 May 2018, resulting in Horizon Oil's interest increasing to 26% with effect from 31 December 2017, and its 2P reserves increasing by 3.1 mmbbl.

The consideration for the 16% interest was US\$17.6 million with the completion payment offset by net working capital adjustments on and from the effective date of 31 December 2017. These adjustments incorporated sales proceeds from pre-completion liftings which, after setting off production, one-off oil and material inventory acquisition costs and the assignment from Todd of post-completion sales proceeds of US\$3.7 million in respect of a May 2018 lifting, led to a net aggregate payment of approximately US\$13.1 million for the acquired interest. The acquisition was wholly funded from the Company's cash reserves.

During the year the Group's working interest share of production from the Maari and Manaia fields was 454,193 barrels of oil. Crude oil sales were 479,604 barrels at an average effective price of US\$68.17/bbl exclusive of executed hedging.






WITH THE ACQUISITION OF AN ADDITIONAL 16% INTEREST IN PMP 38160, HORIZON OIL'S 2P RESERVES INCREASED BY

3.1mmbbl

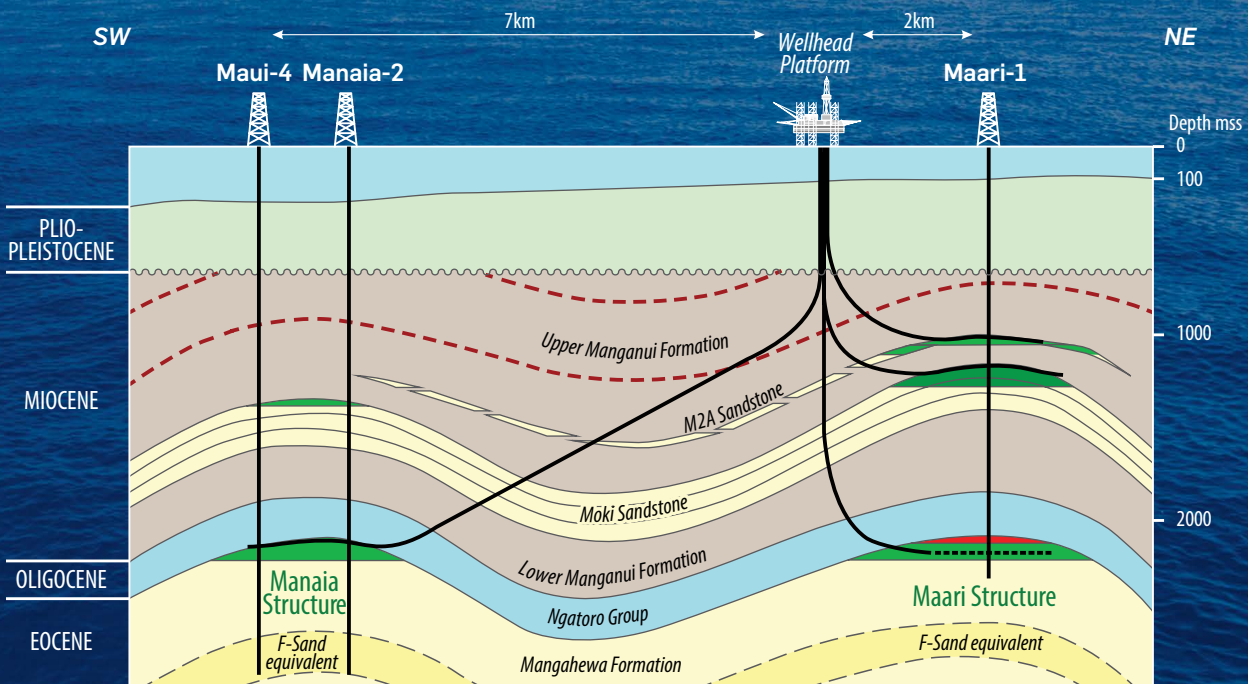
EFFECTIVE 31 DEC 2017



Average gross production from the field over the year was approximately 7,136 bopd, of which Horizon Oil's share was 1,244 bopd. (757 bopd for the first half of the financial year, 1,739 bopd for the second half of the financial year following the acquisition of Todd's 16% interest).

A production improvement program commenced during the year involving the perforation of a new reservoir section in the Manaia-1 well, workovers of the MR7A, MR10 and MR4 wells, and the installation and commissioning of surface pumps to reduce well back pressure. The pumps were successfully commissioned in late February, commencing operation in early April 2018, reducing back pressure and increasing drawdown in the wells, as designed. The ongoing elements of the production improvement program, which will continue throughout 2018, include further workovers, re-perforations and water injection enhancement.

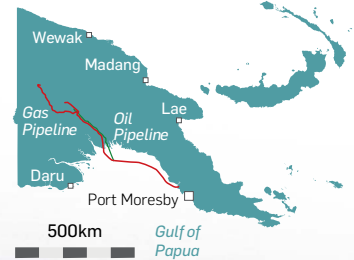
Maari / Manaia schematic cross-section PMP 38160, offshore New Zealand



2018 Western LNG Project

WESTERN LNG PROJECT	Horizon Oil Interest
PDL 10 Stanley Field	30%
PRL 21 (operator) Elevata/Tingu and Ketu Fields	30.15%
PRL 28 (operator) Ubuntu Field	30% ¹
PRL 40 Puk Puk/Douglas Fields	20% ¹

Horizon Oil, as operator of two of the four licences that will comprise the Western Province gas aggregation scheme, progressed planning for the proposed Western LNG project. Pre-FEED studies of the key elements of the project – upstream gas processing, export pipelines and the liquefaction facility – were completed during the year with selected contractors who are well qualified and possess a good level of PNG experience.



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



The results of these studies, which importantly included Class IV (-15%/+25%) cost estimates, are materially in line with Horizon Oil's preliminary estimates and confirm the technical viability of the project. The studies are being integrated with work performed by operators in the remaining licences that will comprise Western LNG. As we refine and optimise the development scheme utilising the results of the pre-FEED studies, our confidence in the technical viability, operational reliability and economics of the project continues to grow.

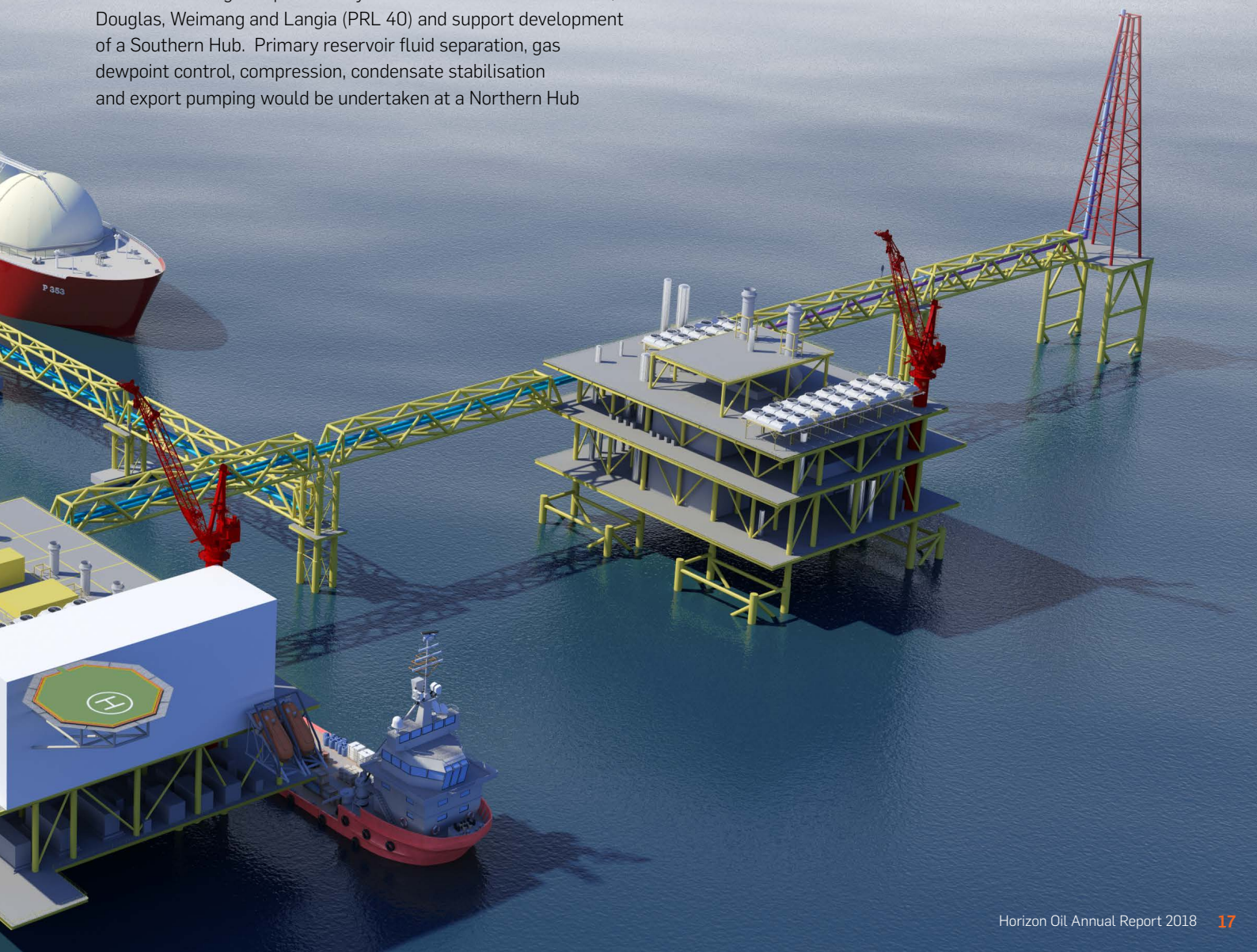
The Western LNG development scheme involves the aggregation of multiple gas-condensate fields. Western LNG's foundation resources are provided by the condensate rich Stanley (PDL 10), Elevala-Ketu (PRL 21) and Ubuntu (PRL 28) gas fields in the north of Western Province. These fully appraised foundation fields support development of a Northern Hub.

Future back-fill gas is provided by the southern fields of Puk Puk, Douglas, Weimang and Langia (PRL 40) and support development of a Southern Hub. Primary reservoir fluid separation, gas dewpoint control, compression, condensate stabilisation and export pumping would be undertaken at a Northern Hub

Central Processing Facility (CPF) and another in the south. The conditioned gas and stabilised condensate streams are planned to be conveyed via a cross country gas export pipeline (GEP) and separate condensate export pipeline (CEP) which extend from the northern Fly region 500 km to Daru Island. The offshore liquefaction facility would be located near Daru Island producing LNG, condensate and, subject to market demand, LPG.

Below is a conceptual model of the preferred offshore liquefaction facility to be located near Daru Island.

Towards the end of the year, Repsol announced that it had agreed to sell its Papua New Guinea licence interests, including PDL 10, PRL 21, PRL 28 and PRL 40, to a subsidiary of the China Changcheng Natural Gas Power Co. Ltd Group which has investments in the natural gas and power sectors in the Asia Pacific Region, including in the People's Republic of China.

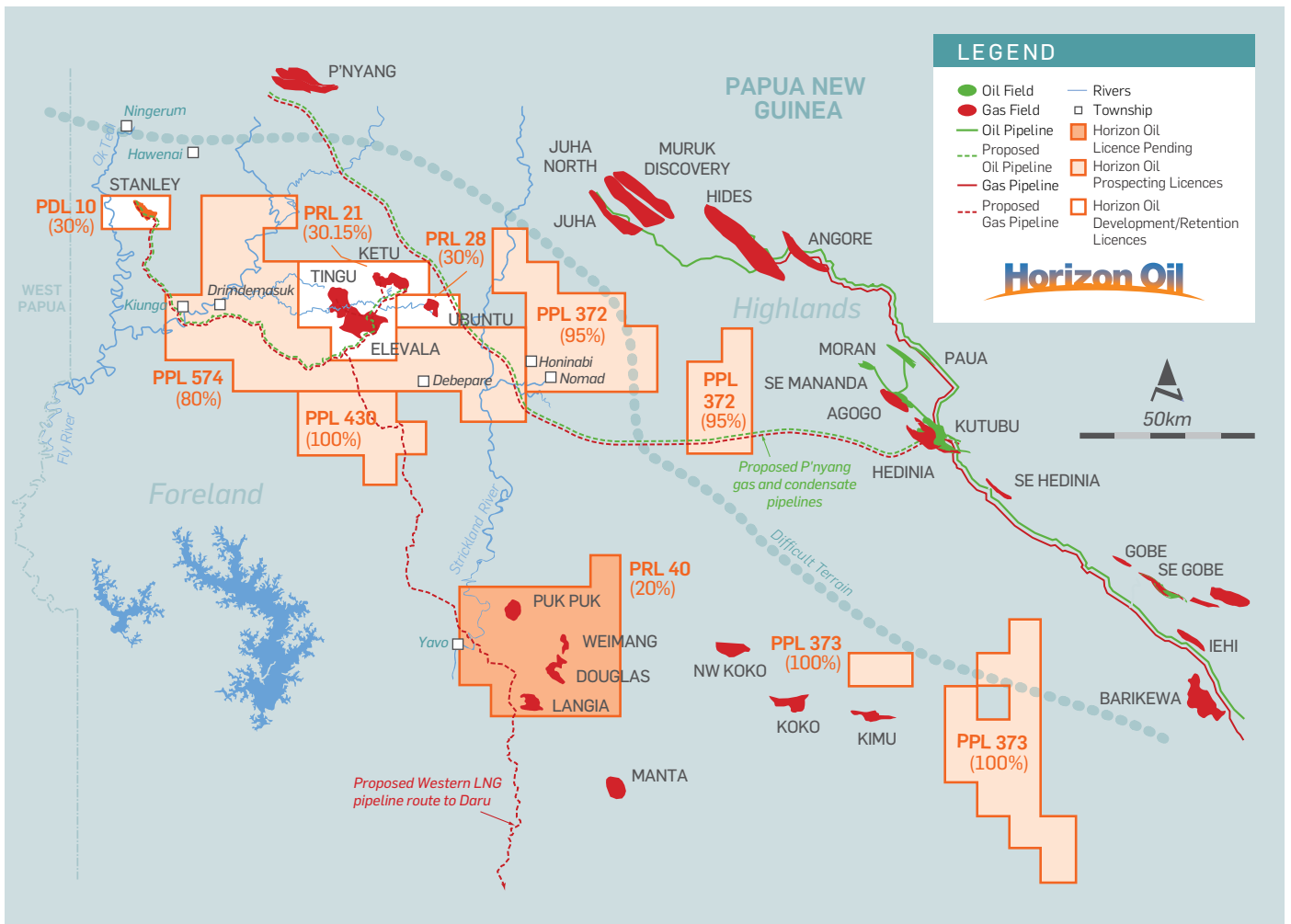
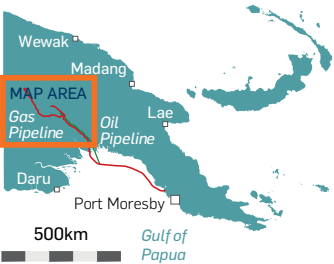


2018 Western Province, PNG

WESTERN PROVINCE, PNG	Horizon Oil Interest
PPL 574 (operator)	80%
PPL 430 (operator)	100%
PPL 372 (operator)	95%
PPL 373 (operator)	100%

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

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



Annual Financial Report

For the financial year
ended 30 June 2018

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 23 August 2018. 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 2018 Reserves and Resources Statement dated 23 August 2018.

2018



Horizon Oil

Horizon Oil Limited
ABN 51 009 799 455

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 2018.

DIRECTORS

The following persons were directors of Horizon Oil Limited during the whole, or for part where noted, of the financial year and up to the date of this report:

J Humphrey

G de Nys

S Birkenleigh

G Bittar

M 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.

B Emmett was an executive director and Chief Executive Officer from the beginning of the year until his retirement from the board on 30 June 2018.

A Stock was a non-executive director from the beginning of the year until his retirement from the Board at the Group's 2017 AGM on 24 November 2017.

REVIEW OF OPERATIONS

Principal activities

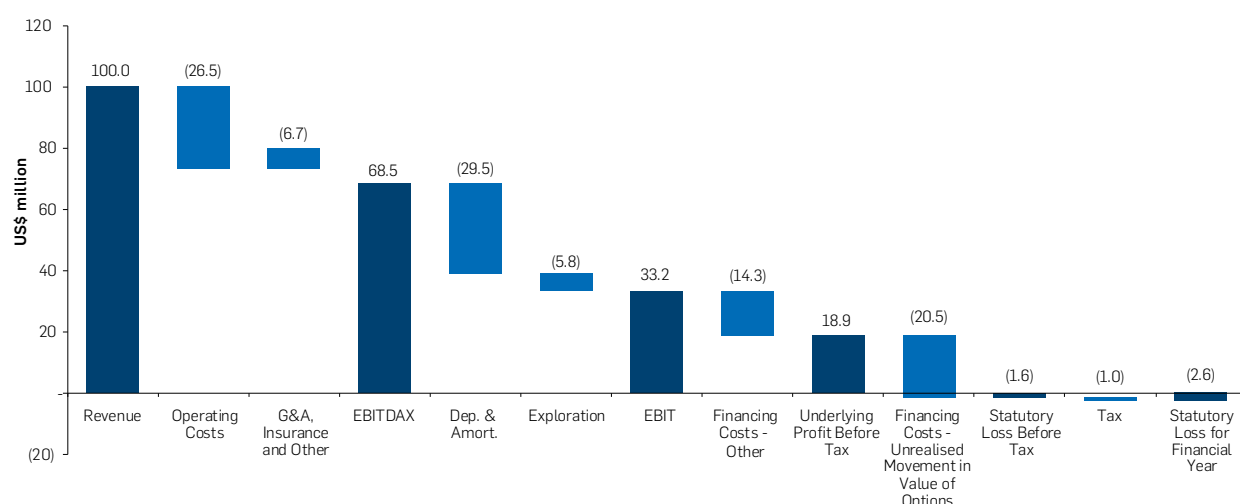
During the financial year, the principal activities of the Group continued to be directed towards petroleum exploration, development and production.

A detailed review of the operations of the Group during the financial year is set out in the Activities Review on pages 11 to 18 of this annual financial report.

Group financial performance

Consolidated Statement of Profit or Loss and Other Comprehensive Income

2018 Profit and Loss Drivers



The full year result was an Underlying profit before tax of US\$18.9 million (2017: US\$2.8 million) comprising a gross profit of US\$44.4 million (2017: US\$24.8 million) from Block 22/12 and Maari operations offset by general and administrative expenses of US\$4.3 million, financing costs of US\$14.3 million, an insurance expense of US\$1.7 million and exploration and development expenses of US\$5.8 million. EBITDAX was US\$68.5 million (2017: US\$45.2 million), and EBIT was US\$33.2 million (2017: US\$17.2 million). After including the non-cash financing costs of US\$20.5 million associated with the revaluation of the options issued under the subordinated loan facility, the Group reported a statutory loss after tax of US\$2.6 million (2017: US\$0.3 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 2018 and 30 June 2017.

Basic earnings per share for the financial year were a loss of 0.20 cents based on a weighted average number of fully and partly paid ordinary shares on issue of 1,303,481,265 shares.

Sales and production growth

The Group's producing assets continued to perform well, with sales volumes of 1,649,626 barrels of oil resulting in a 16% increase on the prior year (2017: 1,421,940 barrels), with the Group's net working interest share of oil production for the year of 1,317,801 barrels of crude oil (2017: 1,106,353 barrels). Sales volumes were increased by the addition of preferential recovery of historic exploration costs under the cost recovery mechanism of the Petroleum Contract in Block 22/12 with an economic interest share of approximately 37% attributable to the Group for the financial year (net working interest share of 26.95%). This was combined with incremental sales volumes (217,049 barrels) associated with the acquisition of an additional 16% interest in the Maari/Manaia fields effective 31 December 2017.

Crude oil sales revenue of US\$106.2 million (2017: US\$68.0 million) was generated during the financial year resulting from a net realised oil price of US\$64.35 per barrel (2017: US\$47.81). Throughout the period 48% of sales were hedged (2017: 46%) with a hedging settlement of US\$6.1 million (2017: gain US\$0.5 million) realised on 793,750 barrels hedged at a weighted average price of US\$57.23 (2017: 660,300 barrels at US\$52.05).

Operating costs of US\$55.7 million were higher than the prior year (2017: US\$43.8 million) driven by the additional operating costs associated with the further 16% interest acquired in the Maari/Manaia field with effect from 31 December 2017.

General and administrative expenses

18% 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\$4.3 million (2017: US\$5.2 million) in the period. This expense comprised net employee benefits expense of US\$1.6 million (including non-cash share based payment expense of US\$0.8 million), corporate office expense of US\$1.0 million, depreciation of US\$0.3 million, and rental expense of US\$0.5 million.

Insurance expense

Insurance expense of US\$1.7 million (2017: US\$1.2 million) in the period reflected increased premiums associated with the acquisition of a further 16% interest in the Maari/Manaia field.

Exploration and development expenses

Exploration and development expenses of US\$5.8 million (2017: US\$1.3 million) was primarily related to the Group's exploration and development licences in Papua New Guinea.

Other income

Other income of US\$0.8 million (2017: US\$NIL) was primarily generated from US\$0.6 million of insurance recoveries associated with the Maari water injection line repairs completed in 2017.

Finance costs

The Group's borrowing costs of US\$34.8 million (2017: US\$13.1 million) are 166% higher than the prior year predominately due to the non-cash financing costs of US\$20.5 million associated with the revaluation of the options issued under the subordinated loan facility. The loss on revaluation reflects the 257% increase in the Company's share price during the period, which resulted in a significant increase in the theoretical value of the options issued.

Income and royalty tax

The net income and royalty tax expense of US\$1.0 million (2017: US\$4.5 million) incurred during the financial year included a current tax expense of US\$1.7 million, a deferred income tax benefit of US\$1.6 million and a royalty related tax expense of US\$0.9 million. The net income tax expense was driven by cash taxes of US\$1.7 million and the utilisation of carried forward tax losses in China, which were offset by the recognition of historical tax losses in New Zealand. Royalty tax expense of US\$0.9 million reflected cash and deferred royalty tax associated with the Maari/Manaia field.

Consolidated Statement of Financial Position

At 30 June 2018, total assets were US\$309.6 million (2017: US\$271.7 million) and total liabilities were US\$214.3 million (2017: US\$165.0 million), resulting in a decrease in net assets to US\$95.3 million (2017: US\$106.7 million).

The increase in total assets is primarily due to the acquisition of a further 16% interest in the Maari/Manaia field, which was funded wholly from cash reserves following increased positive cashflow from the producing assets during the financial period. The increase in total liabilities primarily reflects the US\$20.5 million non-cash revaluation of the options issued under the subordinated debt facility, combined with additional restoration liabilities recorded on the acquisition of a further 16% interest in the Maari/Manaia field.

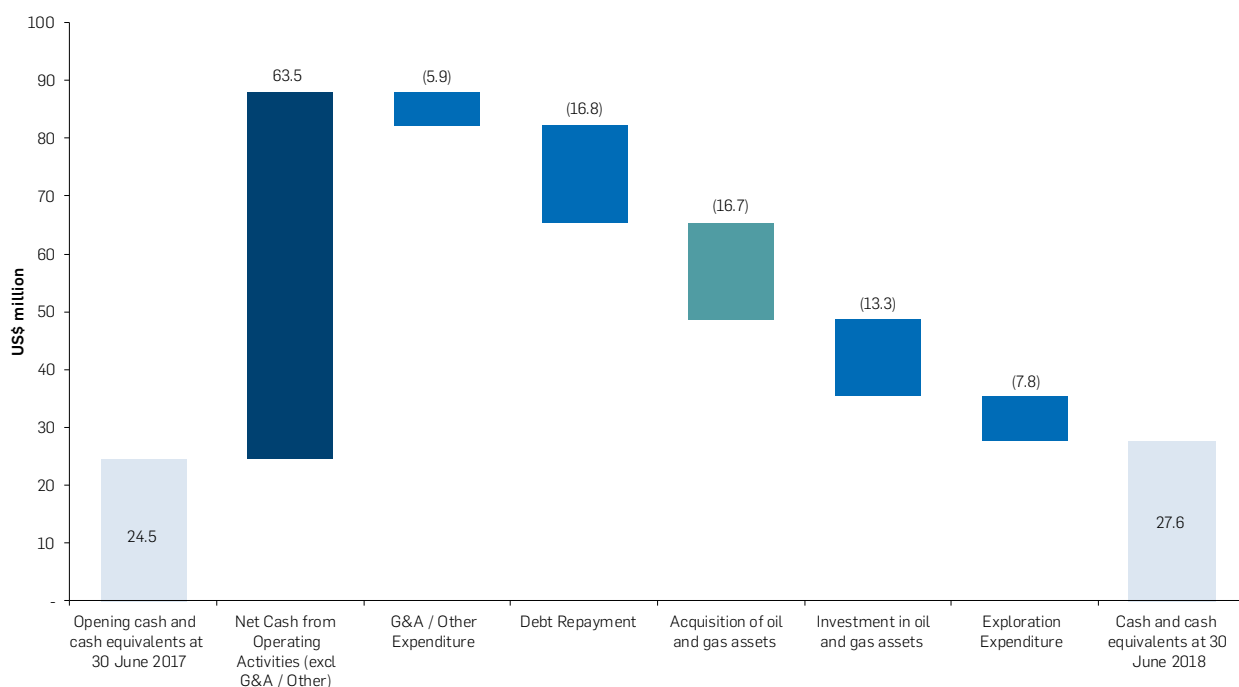
At 30 June 2018 the Group had a working capital deficit of US\$61 million resulting predominately from the scheduled amortisation of the outstanding US\$76.2 million Revolving Cash Advance Facility being classified as a current liability.

Funding for the Group's strategic growth plans and repayment of the facility is to be sourced from a variety of sources, with surplus revenues from the Group's operations in China and New Zealand providing core funding. The Group commenced a process during the year to refinance the US\$76 million outstanding under the Revolving Cash Advance Facility. The refinancing is well advanced with prospective lenders providing credit approved offers to refinance the Facility. The prospective lenders are expected to be mandated under a common credit approved term sheet during Q1 FY 2019, with documentation and financial close to follow thereafter. The Group expects to complete the refinancing during the first half of the 2019 financial year, ahead of the Facility maturity.

At 30 June 2018, the Group's net debt position, based on nominal amounts drawn down, was reduced by 18% on the prior year to US\$88.6 million (2017: US\$108.5 million), comprising of cash and cash equivalents held of US\$27.6 million (2017: US\$24.5 million) offset by borrowings of US\$116.2 million (2017: US\$133 million). At financial year end, borrowings consisted US\$76.2 million principal outstanding on the Revolving Cash Advance Facility executed with senior lenders in May 2015 and US\$40.0 million principal outstanding on the subordinated secured non-amortising loan.

Consolidated Statement of Cash Flows

2018 Cash Drivers



Net cash generated from operating activities was 62% higher for the financial year at US\$57.6 million (2017: US\$35.6 million) due to the higher oil prices and the incremental production and sales volumes attributable to the acquisition of a further 16% interest in the Maari/Manaia field, which was funded wholly from cash reserves. The free cash available after operating and investing activities enabled further debt reduction with a net outflow of US\$16.8 million from financing activities for the period.

Corporate

Acquisition of additional 16% interest in Maari/Manaia fields, New Zealand

During the financial year the Group entered into an agreement with Todd Maari Limited (Todd) to acquire its 16% interest in PMP 38160, which contains the producing Maari and Manaia fields, thereby increasing Horizon Oil's interest in the fields to 26%.

The consideration paid for the interest was US\$17.6 million, which was subject to customary working capital and purchase price adjustments of US\$0.8 million. The transaction, with an effective date of 31 December 2017, completed 31 May 2018. The acquisition was funded wholly from the Group's cash reserves.

Debt facilities

Net debt was further reduced during the financial year from US\$108.5 million to US\$88.6 million with a voluntary prepayment of the subordinated debt facility of US\$5.0 million and repayments of the senior facility amounting to US\$11.8 million. This provides annual interest savings of over US\$1.0 million per annum. Details of the Group's debt facilities are set out in Note 19.

Oil price hedging

At 30 June 2018, the Group had 600,000 barrels of crude oil hedged through Brent oil price swaps (30 June 2017: 393,750) at a weighted average price of US\$58.80. During the financial year, 793,750 barrels of oil price derivatives were settled, securing revenue of US\$45.4 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 the Maari/Manaia fields, offshore New Zealand and Block 22/12, offshore China, 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 New Zealand, China and Papua New Guinea.

The Company has a conservative and selective exploration policy with specific focus on plays providing material scale and upside. The 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, China's rate of growth, volatile commodity prices, exchange rates, access to financing and political risks. The speculative nature of petroleum exploration and development will also impact the Company's ability to achieve these objectives; key risks of which include production and development risk, exploration and drilling risks, joint operations risk, and geological risk surrounding resources and reserves.

The Group has various risk management policies and procedures in place to enable the identification, assessment and mitigation of risks that may arise. Whilst the Group can mitigate some of the risks described above, many are beyond the control of the Group. For further information in relation to the Company's risk management framework, refer to the Corporate Governance Statement.

Outlook

It is expected that the 2019 financial year and beyond will be underpinned by continued strong oil production from the Group's China and New Zealand operations. Oil production from the Group's China and New Zealand operations is expected to increase in 2019 following the acquisition announced in November 2017 of an additional 16% interest in PMP 38160, increasing the Group's interest in the producing Maari and Manaia fields to 26% with effect from 1 January 2018. In addition, natural reservoir decline in Beibu during 2019 is expected to be offset by additional in-fill drilling which commenced in July 2018. Horizon Oil's production entitlement from China is also expected to remain in excess of 35% during 2019, well above Horizon Oil's net working interest, due to preferential cost recovery. Accordingly, assuming oil prices average a similar level to where they closed at 30 June 2018, revenue (before hedging) for the Group is expected to be sustained during 2019, barring unforeseen events.

The Group's short-term focus is on:

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

Significant changes in the state of affairs

Management change

As foreshadowed at the 2017 Annual General Meeting, Brent Emmett and Alan Fernie retired from their roles in the Company as Chief Executive Officer/Executive Director and General Manager - Exploration and Development on 30 June 2018. They have been retained in consultancy roles for a period of time to provide ongoing advice to the board and management.

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

Michael Sheridan has replaced Brent Emmett as Chief Executive Officer and as a Director of the Company with effect on 1 July 2018. Michael has been 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 Alumbrrera Limited in commercial and financial management areas.

Richard Beament has 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 recently joined the Company and, on Alan's retirement, has 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 continues as Chief Company Representative in PNG. He has been deeply involved in all areas of Horizon Oil's activity related to PNG since being appointed to the role 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

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, is of the view that the notices are without merit and are procedurally invalid. Based on external legal advice, Horizon Oil supports this view. Horizon Oil and the PDL 10 joint venture will continue to work with the PNG Petroleum Minister and the Department of Petroleum and Energy to resolve any misunderstanding or disagreement with respect to the good standing of PDL 10, PL 10 and the Stanley Gas Agreement. 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 2018. In the event that the licences were to be cancelled, whilst the company would likely mount a strong legal challenge, the maximum impairment charge that would be recorded at 30 June 2018 is US\$21 million.

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 2018 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:

<p>Non-executive independent Director and Chairman:</p> <p>Experience and current directorships:</p> <p>Former directorships during last 3 years:</p> <p>Special responsibilities:</p>	<p>Professor J Humphrey LL.B., SF Fin</p> <p>Director for 28 years. Executive Dean of the Faculty of Law at Queensland University of Technology. Chairman of Auswide Bank Ltd, a director of Lynas Corporation Ltd, Spotless Group Holdings Limited, and a former member of the Australian Takeovers Panel.</p> <p>Non-executive director of Downer EDI Limited.</p> <p>Chairman of Board; Chairman of Remuneration, Nomination and Disclosure Committees; Member of Audit Committee; member of Risk Management Committee.</p>
<p>Executive Director and Chief Executive Officer:</p> <p>Experience and current directorships:</p> <p>Former directorships during last 3 years:</p> <p>Special responsibilities:</p>	<p>M Sheridan B.Ec, LL.M., F Fin</p> <p>M Sheridan has been 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.</p> <p>None.</p> <p>Chief Executive Officer; member of Risk Management and Disclosure Committees.</p>
<p>Non-executive independent director:</p> <p>Experience and current directorships:</p> <p>Former directorships during last 3 years:</p> <p>Special responsibilities:</p>	<p>S Birkenleigh B. Comm, CA, GAICD</p> <p>Director for 3 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.</p> <p>Plum Financial Services Limited</p> <p>Chairman of Audit Committee; Member of Risk Management and Remuneration and Nomination Committees.</p>
<p>Non-executive Director:</p> <p>Experience and current directorships:</p> <p>Former directorships during last 3 years:</p> <p>Special responsibilities:</p>	<p>G J de Nys B. Tech, FIEAust, FAICD, CPEng (Ret)</p> <p>Director for 11 years. Over 45 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).</p> <p>Non-executive director of SOCAM Development Limited</p> <p>Member of Risk Management and Remuneration and Nomination Committees.</p>
<p>Non-executive Director:</p> <p>Experience and current directorships:</p> <p>Former directorships during last 3 years:</p> <p>Special responsibilities:</p>	<p>G Bittar B.Ec., LL.B., (Hons) M.Sc., (LBS)</p> <p>Director for 1 year. Extensive experience in public and private markets mergers and acquisitions, capital markets and strategic advisory assignments across a range of sectors including general industrials, metals and mining, mining services and energy. He is currently Chairman of Millennium Minerals Limited and Trek Metals Limited and a non-executive director of ECM Limited. Mr Bittar has worked for Bankers Trust, Baring Brothers Burrows and Morgan Stanley.</p> <p>None.</p> <p>None.</p>

Alternate Non-executive Director:	B Lorenzon B.E., MBA., CFA
Experience and current directorships:	Mr Bruno 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 chartholder. 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 assistant Company Secretary on 3 July 2017 and 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		Total
	Direct	Indirect	
M Sheridan	5,791,019	2,177,182	7,968,201
J Humphrey	-	5,112,034	5,112,034
G de Nys	-	2,203,639	2,203,639
S Birkenleigh	-	-	-
G Bittar	-	-	-
B Lorenzon (<i>as alternate</i>)	-	-	-

M Sheridan also held 38,402,628 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
<i>Number of meetings held:</i>	8 ¹	2	1	1	1
<i>Number of meetings attended by:</i>					
J Humphrey	8	2	1	1	1
B Emmett ²	6		1		1
G de Nys	8		1	1	
S Birkenleigh	8	2	1	1	
G Bittar ²	8				
A Stock ²	4	1			
B Lorenzon (as alternate for G Bittar)					
M Sheridan (as company secretary)	8				

¹ Two board meetings were held for non-executive directors only, one immediately prior to a full board meeting and one after a full board meeting.

² Incoming and outgoing directors attended all meetings they were eligible to attend.

Corporate Governance

The Company and the board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders. The Corporate Governance Statement was approved by the board on 23 August 2018.

The Company's Corporate Governance Statement for the year ended 30 June 2018 may be accessed from the Company's website at www.horizonoil.com.au. A description of the Company's main corporate governance practices is set out in the Corporate Governance Statement. All these practices, unless otherwise stated, were in place for the full financial year and comply with the ASX Corporate Governance Council's revised Corporate Governance Principles and Recommendations 3rd edition, released in March 2014.

Remuneration Report

The Remuneration Report forms part of this Directors' Report. The Remuneration Report has been audited by the external auditor as required by section 308(3)(c) of the *Corporations Act 2001*.

The Remuneration Report sets out:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation – options/share appreciation rights

A. Principles used to determine the nature and amount of remuneration

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

The board has structured a remuneration framework for Executives that is market competitive, aligned with shareholders' interests and incentivises its Executives. Following the changes to Key Management Personnel effective 1 July 2018, the board refined the remuneration framework for executives. The key elements of the framework are:

Good reward governance principles:

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

Alignment to shareholders' interests:

- ▶ focuses on sustained growth in shareholder value; and
- ▶ attracts and retains high calibre executives capable of managing the Group's diverse international operations.

Alignment to program participants' interests:

- ▶ rewards capability and experience;
- ▶ reflects competitive reward for contribution to growth in shareholder wealth;
- ▶ provides a clear structure for earning rewards; and
- ▶ provides recognition for contribution.

The remuneration framework for Executives comprises a mix of fixed pay and 'at risk' short and long-term incentives.

Non-executive directors' fees

Fees and payments to non-executive directors are set and paid in Australian Dollars (A\$), and reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed periodically by the Remuneration and Nomination Committee.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. Shareholders approved the current fee pool limit of A\$600,000 at the 2009 Annual General Meeting. The non-executive directors' base fee is A\$81,555 plus statutory superannuation per annum and the Chairman's base fee is A\$163,110 plus statutory superannuation per annum. These fees have not changed in A\$ terms for the last six years. Note that the remuneration table set out on page 32 shows remuneration in US\$ in line with the Group's functional currency.

Retirement allowances for directors

There are no retirement allowances in place for directors.

Executive pay

Executive remuneration (which is set and paid in Australian Dollars (A\$)) and other terms of employment are reviewed annually by the Remuneration and Nomination Committee having regard to relevant comparative information. As well as a base salary, remuneration packages include superannuation and termination entitlements and non-monetary benefits.

Based on advice received from Guerdon Associates, an independent remuneration consultant, in 2010 the board put in place a short-term incentive scheme and long-term incentive arrangements for the Company's senior executives. The Company's Employee Option Scheme continues to apply to employees other than senior executives.

Remuneration and other terms of employment for executives are formalised in service agreements. The quantum and composition of the executive remuneration is based on advice received in prior financial years from Guerdon Associates.

Short-term incentive (STI)

If the Group and individuals achieve pre-determined objectives set in consultation with the board, a short-term incentive (STI) is available to senior executives during the annual review. Using pre-determined objectives ensures variable reward is only available when value has been created for shareholders.

The following table outlines the major features of the plan:

Objective:	To drive performance of annual business plans and objectives, at operational and group level, to achieve increased shareholder value.
Frequency and timing:	Participation is annual with performance measured over the twelve months to 30 June. Entitlements under the plan are determined and paid (in cash) in the first quarter of the new financial year.
Key Performance Indicators (KPIs):	KPIs are determined each financial year in consultation with the board. The performance of each senior executive against these KPIs is reviewed annually in consultation with the board. A KPI matrix, directly linked to factors critical to the success of the Group's business plan for the financial year, is developed for each executive incorporating health, safety and environment, financial, operational and other KPIs.
STI opportunity:	Up to 50% of the senior executive's fixed remuneration package (base salary plus superannuation).
Performance requirements:	The executive's STI payment is calculated with reference to achievement of KPI targets based on a weighted scorecard approach. Key objectives during the current year included: <ul style="list-style-type: none"> ▶ achievement of no LTIs (lost time injuries) across Horizon Oil's operated joint ventures; ▶ achievement of budgeted production and operating costs across the Block 22/12 and Maari/Manaia fields; ▶ reserves replacement with successful acquisition of additional Maari interest; ▶ expansion of Group's PNG resource base and execution of Western Foreland PNG gas consolidation strategy; and ▶ progression of Western LNG development planning.

Whilst many of the abovementioned objectives were achieved during the current year, only M Sheridan received an STI. The following table shows the STI awards that were paid or payable as at the date of this report in respect of the financial year ended 30 June 2018:

STI in respect of 2018 financial year		
Senior executives	Percentage of maximum STI payment paid	Percentage of maximum STI payment forfeited
B Emmett	NIL	100%
A Fernie	NIL	100%
M Sheridan	50%	50%

Long-term incentive (LTI)

The LTI arrangements apply to senior executives and involve the grant of rights which will vest subject (amongst other things) to both the absolute and relative total shareholder returns (TSR) achieved in the vesting period, relative to an appropriate index.

Under the LTI Plan, the board has the discretion, subject to the ASX Listing Rule requirements, to grant share appreciation rights ('SARs') to executives as long-term incentives. The board has determined that up to 50% of senior executive's fixed remuneration would be long-term incentives in the form of SARs, with the number of SARs granted based on the theoretical value of a SAR at the effective allocation date. The theoretical value of a SAR at effective allocation date is determined by an independent expert using a Monte Carlo simulation.

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

The LTI Plan provides that the amount of the cash payment or the number of shares in the Company that the participant receives on exercise of the SAR is based on the value of the SAR at the time

it is exercised ('SAR Value'). The SAR Value is the excess, if any, of the volume weighted average price ('VWAP') of shares in the Company for the ten business day period up to the date before the date the SAR is exercised over the VWAP of shares in the Company for the ten business day period up to the day before the "Effective Allocation Date" for the SARs. The Effective Allocation Date for the SARs is the grant date of the SARs or any other day determined by the board, at the time of the grant. The Effective Allocation Date would generally be the date the executive's entitlement was determined.

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

The following table outlines the major features of the plan:

Key terms & conditions	Long Term Incentive Plan
Eligible persons:	Under the terms of the LTI Plan, the Company may grant SARs to any employee. However, it is currently intended by the Company to only grant SARs under the LTI Plan to current senior executive employees including executive directors.
Exercise price:	No amount is payable to the Company by a participant in the LTI Plan on the exercise of a SAR.
SAR value:	V minus G: where V equals volume weighted average price ('VWAP') of shares in the Company for the ten business day period up to the date before the date the SAR is exercised; and G equals the VWAP of shares in the Company for the ten business day period up to the day before the "Effective Allocation Date" for the SARs.
Satisfaction of exercise of SARs in cash or by issue of shares:	Subject to ASX Listing Rules, Horizon Oil may satisfy the exercise of SARs by a participant by payment in cash, issue of Horizon Oil shares or a combination, at the board's discretion. Cash payment on exercise of SARs is calculated by multiplying the number of SARs exercised by the SAR Value (less applicable taxes). The number of Horizon Oil shares that may be issued in satisfaction of exercise of SARs is calculated as follows: ▶ the aggregate SAR Value is calculated by multiplying the number of SARs exercised by the SAR Value; and ▶ the aggregate SAR value is divided by the 10 day VWAP of Horizon Oil shares ending on the exercise date, rounded down to the nearest whole share.

Performance requirements:	<p>Under the LTI Plan, the number of SARs that vest is generally determined by reference to whether the Company achieves certain performance conditions.</p> <p>The number of SARs that vest is determined by reference to the Company's total shareholder return ('TSR') over the relevant period relative to that of the S&P/ASX200 Energy Index ('Index'). The number of SARs that vest is:</p> <p>(a) if the Company's TSR is equal to that of the Index ('Minimum Benchmark'), 50%;</p> <p>(b) if the Company's TSR is 14% or more above that of the Index ('Maximum Benchmark'), 100%; and</p> <p>(c) if the Company's TSR is more than the Minimum Benchmark but less than the Maximum Benchmark, a percentage between 50% and 100% based on the Company's TSR performance between the Minimum Benchmark and Maximum Benchmark.</p> <p>The Maximum Benchmark of 14% above the Index return equates to the performance level likely to exceed the 75th percentile of market returns of companies (weighted by company size) in the Index.</p> <p>Furthermore, even where these performance conditions are satisfied, the SARs will not vest unless the Company achieves a TSR of at least 10% over the relevant period.</p> <p>The performance conditions are tested on the date that is three years after the Effective Grant Date of the SARs, and are then re-tested every six months after that until the date that is five years after the Effective Grant Date of the SARs (the final retesting date). The performance conditions are also tested where certain circumstances occur, such as a takeover bid for the Company.</p> <p>The Effective Grant Date for the SARs is the date the SARs are granted, or such other date as the board determines for the SARs.</p> <p>If the SARs have not, pursuant to these performance conditions, vested by the final retesting date that is five years after the date the SARs are granted, the SARs will lapse.</p>
Cessation of employment:	<p>If a holder of SARs under the LTI Plan ceases to be employed by a member of the Group, then this generally does not affect the terms and operation of the SARs. The board does, however, under the LTI Plan have discretion, to the extent permitted by law, to cause the SARs to lapse or accelerate the date on which the SARs become exercisable.</p>
Maximum number of shares that can be issued:	<p>Subject to various exclusions, the maximum number of shares that may be issued on the exercise of SARs granted under the LTI Plan is capped at 5% of the total number of issued shares of the Company.</p>
Restrictions on exercise:	<p>A SAR cannot be exercised unless it has vested. Where a SAR vests, a participant may not exercise the SAR until the first time after the time the SAR vests that the participant is able to deal with shares in the Company under the Company's securities trading policy.</p> <p>SARs are exercised by submitting a notice of exercise to the Company.</p>
Lapse:	<p>SARs will lapse where:</p> <ul style="list-style-type: none"> ▶ the SARs have not vested by the final retesting date which is five years after the date of grant (see above); ▶ if the SARs have vested by the final retesting date that is five years after the date of grant, the SARs have not been exercised within three months of the date that the SARs would have first been able to be exercised if they vested at the final retesting date that is five years after the date of grant; ▶ this may be more than five years and three months from the date of grant depending on whether the holder of the SAR is able to deal with shares in the Company under the Company's securities trading policy at the date five years after the date of grant; ▶ the employee ceases to be employed by a member of the Group, and the board determines that some or all of the SARs lapse (see above); ▶ the board determines that the employee has committed or it is evident that the employee intends to commit, any act (whether by commission or omission) which amounts or would amount to fraud or serious misconduct; or ▶ the employee provides a notice to the Company that they wish the SARs to lapse.
Share ranking and quotation:	<p>Shares provided pursuant to the exercise of a SAR will rank equally with the shares in the Company then on issue. Quotation on the ASX will be sought for all shares issued upon the exercise of SARs. SARs are not assignable or transferable.</p>
No right to dividends, bonus or rights issues:	<p>The SARs will not confer on the holder an entitlement to dividends or to participate in bonus issues or rights issues unless the board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.</p>
No voting rights:	<p>The SARs will not confer an entitlement to vote at general meetings of the Company unless the board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.</p>
Non-quotation:	<p>The Company will not apply to the ASX for official quotation of the SARs.</p>

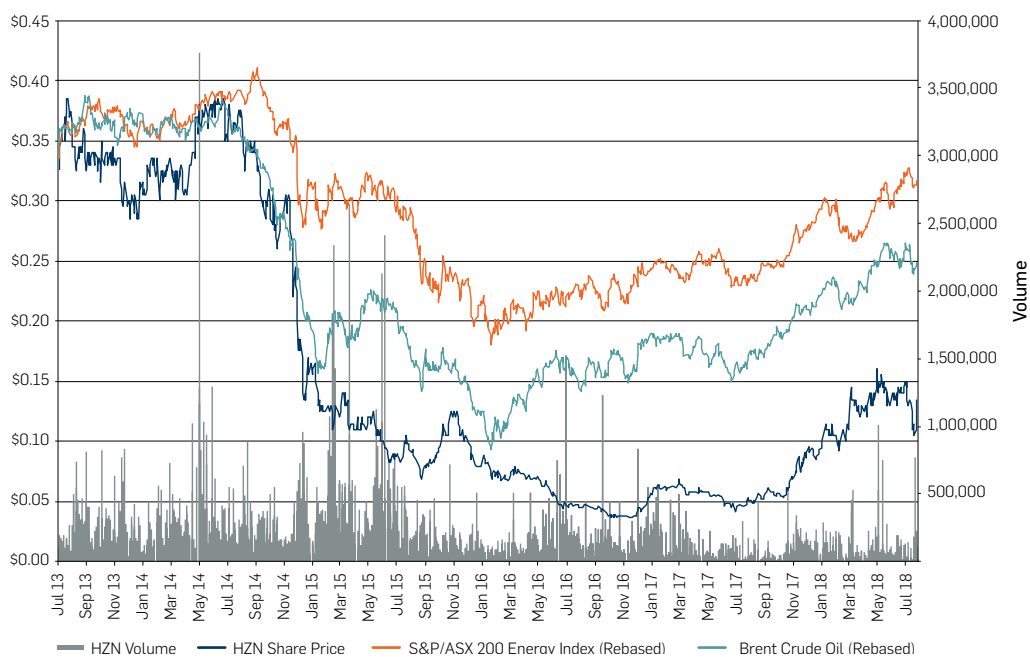
Capital re-organisation:	In the event of a reorganisation of the capital of the Company, the rights of the SARs holder will be changed to the extent necessary to comply with the ASX Listing Rules and shall not result in any additional benefits being conferred on SARs holders which are not conferred on members.
Effect of take-over or change of control of Company, death or disablement:	<p>The LTI Plan contains provisions to deal with SARs where there is a take-over or change of control of the Company. Depending on the nature of the take-over or change of control event, the Company will either have the discretion or be required (if a change of control) to determine a special retesting date for the performance requirements discussed above.</p> <p>For example, the board will have discretion to determine a special retesting date where a takeover bid is made for the Company or a scheme of arrangement is entered into. In that case, the special retesting date will be the date determined by the board. Where a statement is lodged with the ASX that a person has become entitled to acquire more than 50% of the Company, the board will be required to determine a special retesting date, and the special retesting date will be the day the statement is lodged with the ASX.</p> <p>The SARs may vest if the performance requirements discussed above are satisfied in relation to that special retesting date.</p>

Performance of Horizon Oil Limited

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

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

Horizon Oil Limited share price ('HZN') versus S&P/ASX200 Energy Index and Brent Crude Oil



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

Financial year ended 30 June:	2014	2015	2016	2017	2018
Profit/(loss) before tax (US\$'000)	30,027	17,751	(149,726)	4,154	(1,580)
EBITDAX (US\$'000)	99,481	89,117	53,995	45,171	68,482

B. Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors and other Key Management Personnel (as defined by AASB 124 'Related Party Disclosures') of the Company and the Group are set out in the following tables.

The Key Management Personnel of the Company and the Group for the year ended 30 June 2018 includes the directors of Horizon Oil Limited as per page 20, and the following executive officers, who are also the highest paid executives of the Company and Group ('KMP'):

B Emmett	Chief Executive Officer, Horizon Oil Limited
A Fernie	General Manager - Exploration and Development, Horizon Oil Limited
M Sheridan	Chief Financial Officer, Horizon Oil Limited

B Emmett and A Fernie ceased to be KMP's effective 30 June 2018 following a change in the management team of the company. To assist with the transition of the new management team, both continue in consulting roles to the Company.

Financial year ended 30 June 2018 and 2017		Short-term benefits			Post-employment benefits	Total cash or in-kind benefit	Long-term benefits	Share-based payments	Total ⁵
		Cash salary and fees	Cash bonus ⁸	Non-Monetary ¹	Super-annuation ²		Long service leave accrual ^{3,7}	Options/SARs ⁴	
					US\$				
Name									
Directors:									
J Humphrey Chairman	2018	126,781	-	-	12,044	138,825	-	-	138,825
	2017	123,068	-	-	11,692	134,760	-	-	134,760
B Emmett Chief Executive Officer, Executive Director	2018	672,198	92,388	124,044	19,428	908,058	(6,674)	307,204	1,208,588
	2017	645,106	-	120,309	26,408	791,823	12,673	345,472	1,149,968
G de Nys Non-executive Director	2018	63,391	-	-	6,022	69,413	-	-	69,413
	2017	61,535	-	-	5,846	67,381	-	-	67,381
A Stock Non-executive Director	2018	31,927	-	-	3,033	34,960	-	-	34,960
	2017	61,535	-	-	5,846	67,381	-	-	67,381
S Birkenleigh Non-executive Director	2018	63,391	-	-	6,022	69,413	-	-	69,413
	2017	61,535	-	-	5,846	67,381	-	-	67,381
G Bittar Non-executive Director	2018	63,391	-	-	6,022	69,413	-	-	69,413
	2017	20,117	-	-	1,911	22,028	-	-	22,028
B Lorenzon Alternate Non-executive Director for G Bittar	2018	-	-	-	-	-	-	-	-
	2017	-	-	-	-	-	-	-	-
Total directors' remuneration	2018	1,021,079	92,388	124,044	52,571	1,290,082	(6,674)	307,204	1,590,612
	2017	972,896	-	120,309	57,549	1,150,754	12,673	345,472	1,508,899
Total directors' remuneration (AUD) ⁵	2018	1,313,521	125,000	159,617	67,613	1,665,751	(8,588)	403,310	2,060,473
	2017	1,289,429	-	159,452	76,272	1,525,153	16,796	457,872	1,999,821

Financial year ended 30 June 2018 and 2017	Short-term benefits			Post- employment benefits	Total cash or in-kind benefit	Long-term benefits	Share-based payments	Total ⁵	
	Cash salary and fees	Cash bonus ⁸	Non- Monetary ¹	Super- annuation ²		Long service leave accrual ^{3,7}	Options/ SARs ⁴		
	US\$	US\$	US\$	US\$		US\$	US\$		US\$
Other key management personnel:									
M Sheridan	2018	487,764	125,259	23,034	19,428	655,485	12,861	247,757	916,103
Chief Financial Officer, Company Secretary	2017	466,021	-	30,225	26,408	522,654	9,155	275,820	807,629
A Fernie	2018	487,764	-	109,046	19,428	616,238	(8,698)	247,757	855,297
General Manager - Exploration and Development	2017	466,021	-	102,593	26,408	595,022	9,155	275,820	879,997
Total other key management personnel remuneration	2018	975,528	125,259	132,080	38,856	1,271,723	4,163	495,514	1,771,400
	2017	932,042	-	132,818	52,816	1,117,676	18,310	551,640	1,687,626
Total other key management personnel remuneration (AUD)⁵	2018	1,255,286	163,161	169,957	50,000	1,638,404	5,357	652,048	2,295,809
	2017	1,235,285	-	176,031	70,000	1,481,316	24,267	731,117	2,236,700

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

7 Reflects the release of previously accrued superannuation which is not payable when the employee receives a lump sum payment upon termination of contract.

8 B Emmett received an entitlement to A\$125,000 relating to residual contract entitlement which crystallised on termination of his employment contract.

At-Risk remuneration summary

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed based on the amounts disclosed in the table on page 32.

Name	Fixed remuneration		At Risk – STI		At Risk – LTI	
	2018	2017	2018	2017	2018	2017
Executive Directors:						
B Emmett	73%	66%	0%	0%	27%	34%
Chief Executive Officer, Executive Director						
Other key management personnel:						
M Sheridan	59%	65%	14%	0%	27%	35%
Chief Financial Officer, Company Secretary						
A Fernie	71%	65%	0%	0%	29%	35%
General Manager - Exploration and Development						

The maximum potential remuneration of all KMP (other than non-executive directors) is split 50% fixed remuneration, 25% at risk – STI and 25% at risk – LTI. Due to key management personnel not being awarded the full short term incentive, the relative proportion of fixed remuneration and at risk – LTI has increased.

C. Service agreements

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

B Emmett, Chief Executive Officer

- ▶ Term of agreement – 2 year period expiring on 31 December 2017. B Emmett's contract was extended, on the same terms, to 30 June 2018.
- ▶ Upon expiration of the extended contract, B Emmett entered into an 18 month consultancy agreement with the Group, with monthly remuneration of A\$22,000.

M Sheridan, Chief Financial Officer, Company Secretary

- ▶ Term of agreement – 2.5 year period expiring 31 December 2018. M Sheridan was appointed Chief Executive Officer on 1 July 2018, upon which his previous contract was terminated and replaced by a 3 year contract expiring on 30 June 2021.
- ▶ Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 12 months remuneration.
- ▶ Total Fixed remuneration of A\$750,000 per annum.
- ▶ Salary levels are subject to annual review.

A Fernie, General Manager - Exploration and Development

- ▶ Term of agreement – 2 year period expired on 31 December 2017. A Fernie's contract was extended, on the same terms, to 30 June 2018.
- ▶ Upon expiration of the extended contract, A Fernie entered into a 12 month consultancy agreement with the Group, with monthly remuneration of A\$24,000.

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

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

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

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 10/09/2020 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 on page 29.

SARs on issue to Brent Emmett, Horizon Oil's Managing Director, were approved by shareholders for the purposes of the ASX Listing Rules at the 2017, 2016, 2015, 2014 and 2013 Annual General Meetings.

Details of SARs provided as remuneration to the KMP (other than non-executive directors) in this financial year are set out below:

Name	Number of SARs granted during the financial year	Value of SARs at effective allocation date ¹ US\$	Number of SARs vested during the financial year	Number of SARs lapsed during the financial year	Value at lapse date ² US\$
Directors:					
B Emmett	22,577,706	342,282	-	7,341,703	-
Other key management personnel:					
M Sheridan	16,557,004	251,007	-	5,383,916	-
A Fernie	16,557,004	251,007	-	5,383,916	-

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.

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 2018 included:

Effective allocation date	1 July 2017
Estimated expiry date	1 July 2022
Exercise price	Nil ¹
'Strike price', being the 10 day VWAP of Horizon Oil Shares at effective allocation date	A\$0.0453
Expected price volatility	52.30% p.a.
Risk free rate	2.18% p.a.
Expected dividend yield	0.00% p.a.

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

Shares issued on the exercise of Share Appreciation Rights provided as remuneration

No SARs were exercised by KMP during the financial year.

Details of remuneration –SARs

For each grant of SARs currently on issue to KMP in the current or prior financial years which results in an amount being disclosed in the remuneration report as a share-based payment to KMP for the financial year, the percentage of the grant that vested in the financial year and the percentage that was forfeited because the person did not meet the vesting or performance conditions is set out below. The SARs vest after three years have elapsed subject to the vesting or performance conditions being met. No SARs will vest if the vesting or performance conditions are not satisfied, therefore the minimum value of SARs yet to vest is US\$Nil. The maximum value of the SARs yet to vest has been determined as the amount of the effective allocation date fair value of the SARs that is yet to be expensed.

Name	Financial year granted	Options/SARs		Financial years in which options/SARs may vest	Maximum total value of grant yet to vest ¹ US\$
		Vested %	Forfeited %		
B Emmett	2014	-	-	30/06/2017	-
	2015	-	-	30/06/2018	-
	2016	-	-	30/06/2019	-
	2017	-	-	30/06/2020	79,620
	2018	-	-	30/06/2021	228,292
M Sheridan	2014	-	-	30/06/2017	-
	2015	-	-	30/06/2018	-
	2016	-	-	30/06/2019	-
	2017	-	-	30/06/2020	80,293
	2018	-	-	30/06/2021	167,414
A Fernie	2014	-	-	30/06/2017	-
	2015	-	-	30/06/2018	-
	2016	-	-	30/06/2019	-
	2017	-	-	30/06/2020	80,293
	2018	-	-	30/06/2021	167,414

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

Equity interests held by key management personnel

Key management personnel shareholdings in the Company

The numbers of shares in the Company held during the financial year by each director of Horizon Oil Limited and other KMP of the Group, including their personally-related entities, are set out below:

2018 Name	Balance at start of financial year	Received during financial year on the exercise of options	Other changes during financial year	Balance at end of financial year
Directors:				
Ordinary shares				
B Emmett	20,002,607	-	-	20,002,607
J Humphrey	5,112,034	-	-	5,112,034
G de Nys	2,203,639	-	-	2,203,639
S Birkenleigh	-	-	-	-
G Bittar	-	-	-	-
B Lorenzon (as alternate)	-	-	-	-
Other key management personnel of the Group:				
Ordinary shares and partly paid ordinary shares				
M Sheridan	7,968,201	-	-	7,968,201
A Fernie	2,700,000	-	-	2,700,000

Key management personnel option holdings in the Company

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

Key management personnel share appreciation right holdings in the Company

The numbers of share appreciation rights ('SARs') held during the financial year by each executive director of Horizon Oil Limited and other key management personnel of the Group, including their personally-related entities, are set out below:

Share appreciation rights:

2018 Name	Balance at start of financial year	Granted as remuneration during financial year	Exercised during financial year	Lapsed during financial year	Balance at end of financial year	Vested and exercisable at end of financial year ¹	Unvested ¹
Executive Directors:							
Share appreciation rights							
B Emmett	37,131,167	22,577,706	-	(7,341,703)	52,367,170	-	52,367,170
Other key management personnel of the Group:							
Share appreciation rights							
A Fernie	27,229,540	16,557,004	-	(5,383,916)	38,402,628	-	38,402,628
M Sheridan	27,229,540	16,557,004	-	(5,383,916)	38,402,628	-	38,402,628

¹ Subsequent to year end 25,088,617 SARs vested on 13 August 2018.

Details of SARs provided as remuneration and ordinary shares issued on the exercise of such SARs, together with terms and conditions of the SARs, can be found in section D of the Remuneration Report on pages 34 to 37.

Loans to Directors and other key management personnel

There were no loans to Directors or other key management personnel during the financial year.

Other transactions with Directors and other key management personnel

There were no other transactions with Directors and other key management personnel during the financial year.

Shares under option

Unissued ordinary shares of Horizon Oil Limited under option at the date of this report are as follows:

Date options granted	Number options	Issue price of ordinary shares	Expiry date
02/11/2015	1,000,000	A\$0.200 ^{1,2}	02/11/2020
15/09/2016	300,000,000	A\$0.061 ³	15/09/2021
	301,000,000		

¹ Subject to restrictions on exercise.

² Options issued under the Employee Option Scheme.

³ General options issued to IMC on drawdown of the subordinated secured debt facility during the 2017 financial year.

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Dividends

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

Insurance of officers

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

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

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

Non-audit services

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

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

The Board of Directors has considered the position and, in accordance with the written advice received from the Audit Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence for external auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the external

auditor, as set out below, did not compromise the external auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- ▶ all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the external auditor; and
- ▶ none of the services undermine the general principles relating to auditor independence as set out in Australian Professional Ethical Standards 110 *Code of Ethics for Professional Accountants*, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risk and rewards.

	Consolidated	
	2018 US\$	2017 US\$
During the financial year, the following fees were paid or payable for services provided by the external auditor of the parent entity and its related practices:		
1. PwC Australia		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	169,687	195,542
Other assurance services	11,573	45,034
Total remuneration for audit and other assurance services	181,260	240,576
<i>Taxation services</i>		
Tax compliance ¹	10,672	13,255
Total remuneration for taxation services	10,672	13,255
2. Non-PwC audit firms		
<i>Audit and other assurance services</i>		
Total remuneration for audit and other assurance services	14,616	11,681
Total auditors' remuneration	206,548	265,512

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 39.

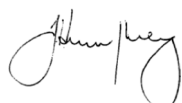
Rounding of amounts to the nearest thousand dollars

The amounts contained in this report, and in the financial report, have been rounded under the option available to the Group under ASIC Corporations (*Rounding in Financial/Directors' Reports*) Instrument 2016/191. The Group is an entity of the kind to which the Class Order applies, and accordingly amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars or, in certain cases, to the nearest dollar.

External Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

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



J Humphrey
Chairman



M Sheridan
Chief Executive Officer

Sydney 23 August 2018



Auditor's Independence Declaration

As lead auditor for the audit of Horizon Oil Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in blue ink that reads 'S Rugers'.

Sean Rugers
Partner
PricewaterhouseCoopers

Sydney
23 August 2018

Sustainability Report

The focus of Horizon Oil's sustainability efforts in Papua New Guinea relate to safety, health and community, the environment and security. Horizon Oil takes seriously the impact that climate-change has on our consolidated resource base including changes to law and policy, technology, markets and reputation.

Horizon Oil's sustainability governance framework was implemented to achieve alignment of our sustainability principles with core non-operated business in China, New Zealand and Papua New Guinea. Horizon Oil semi-annually reviews 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.

(i) Safety, health and community

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 far exceeded industry norms¹. Total exposure hours were consistent with the 2017 financial year and as at the date of this report, Horizon Oil will achieve 3 years free of recordable injuries.

Horizon Oil continues to monitor its non-operated assets to ensure that safety and health performance remains consistent with its expectations. During the reporting period a single Lost Time Injury ('LTI') was reported in each of the non-operated assets (China and New Zealand). Incident investigations were conducted (led by the operator) to identify the root causes of the incident and to develop effective remedial actions that can prevent recurrence.

During the financial year, Papua New Guinea experienced a magnitude 7.5 earthquake in the Southern Highlands region. There was no impact on Horizon Oil's operations in the Western Province region with all Horizon Oil personnel unharmed and accounted for and no damage was identified to Horizon Oil's operated assets.

Horizon Oil donated K25,000 to the Ok Tedi Development Foundation to assist with earthquake relief and reconstruction efforts in affected areas of the Western Province.

Papua New Guinea Health Programs

Horizon Oil continues the development of 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.

During the financial year, significant outbreaks of infectious disease including the re-emergence of polio and an outbreak of yaws in the Western Province occurred. Horizon Oil undertakes periodic medical examinations of its employees, which are supported by a full range of vaccinations combatting key health risks including cholera, typhoid, Japanese encephalitis, polio, tetanus, seasonal influenza and hepatitis.

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).



Figure 1: An ADI volunteer doctor on rural medical patrol

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 essential in maintaining a sustainable business and our 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 program of regular engagements with local villages and communities in the Western Province region was supplemented during the reporting period by continued implementation of the Horizon Oil Community Investment Program ('CIP').

These small-scale community investments programs are participatory in nature, with the community contributing both their own time and resources to supplement materials and resources provided by Horizon Oil. These community investments programs are directed at improving levels of health and hygiene in Western Province communities as well as promoting resilience and self-sufficiency.

¹ This target is the average number of recordable injuries for the oil and gas industry in 2017, as reported in the Safety Performance Indicators 2017 data published annually by International Association of Oil and Gas Producers ('IOGP').

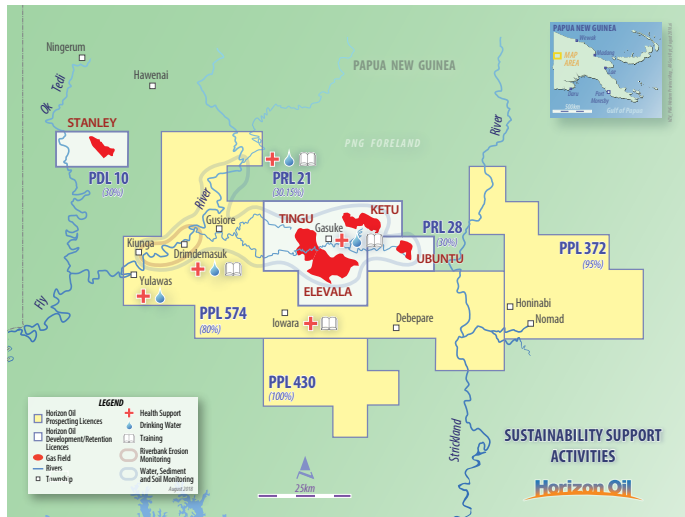


Figure 2: Western Province map

Activity during the year included installation of a 25,000 litre rain water storage and enhanced rainwater catchment systems at Gasuke, Gusiore, Drimdemasuk and Yulawas villages. Horizon Oil commenced the installation of poly toilets at communal village pit toilets with the first installation completed at Drimdemasuk village in June 2018. Poly toilets will also be distributed to Gasuke, Gusiore and Yulawas for installation. Training courses delivered in association with the Kiunga Vocational Training Centre and the Bank of South Pacific during the reporting period covered sewing, baking and financial literacy. These courses are aimed at enhancing life skills and provide opportunities for the community to increase their level of self-sufficiency. Over 190 participants from within the Horizon Oil project impact area successfully completed these courses during the reporting period.



Figure 3: Financial literacy training at Gusiore

Horizon Oil continues to support social investments in Papua New Guinea. Substantial financial and in-kind support is provided to two non-government organisations active in the Western Province, namely Australian Doctors International and Mercy Works. Both these organisations are focused on improving healthcare services in the North Fly region of the Western Province, building partnerships with local communities to enhance capacity and self-reliance in areas where access to basic health care is limited or non-existent.

With Horizon Oil's support, Australian Doctors International deployed two volunteer doctors during the year with these doctors, supported by local support staff from Catholic Health Services, conducting remote area medical patrols providing over 3,400 clinical services and delivering more than 66 hours of case-based and group training to rural community health workers.

During the year, Horizon Oil employees based in Kiunga participated in first aid training. Training was also offered to local personnel who staff aid stations at remote village communities within Horizon Oil's project impact area in the Western Province. The course was designed to provide all trainees with first response capability recognising the remote locations in which they are based and the limited access to timely external medical response.



Figure 4: First Aid trainees practice CPR under the trainer's watchful eye

(ii) Environment

Papua New Guinea Baseline Monitoring

Horizon Oil maintains its strong environmental management performance during the year with environmental baseline monitoring showing no discernible or material environmental impact from activities in the Western Province project impact area and broader environment. Water sampling and assessment of riverbank erosion indicated a healthy and dynamic riverine system. Through its ongoing baseline monitoring program, rehabilitation trials and specific studies, Horizon Oil continues to develop its knowledge of the ecosystem of the project area, which is integral to managing the impact of its current and future operations.

The scope of Horizon Oil's environmental baseline monitoring program includes assessment of environmental stability, riverbank erosion and testing of water, soil and sediment quality. Quarterly assessment allows for potential seasonal variations. During the financial year, the program's footprint was expanded to include sites in the North Fly district. Horizon Oil also actively engages with regulators and fellow industry participants to share data with a view to the creation of a coherent and integrated regional biodiversity data-set.



Figure 5: Sample collection

During the financial year, Horizon Oil also initiated a program to identify and assess the nature and extent of its activities by analysing and mapping impact and disturbance based on multi-spectral imaging of current and future operational sites.

Monitoring of the riverine system indicated a healthy and dynamic riverine system that exhibits many metres of riverbank movement from one year to the next with no discernible evidence of impact from historical oil and gas activities in the area. In addition to monitoring and evaluating Horizon Oil's impact, the continued monitoring of the riverine system allows Horizon Oil to understand how ecosystems and communities interact with the dynamic and rapidly changing water-ways. Understanding the existing processes of adaptation is important to the development of change management strategies that may result from operational activities or broader forces such as climate change.



Figure 6: Small rivercraft traffic near the Kiunga wharf

Climate Change Risks

Horizon Oil has identified 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 initiated a review of 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 nominal as these assets are in the exploration and pre-development phase. Emissions from Horizon Oil's non-operated China assets were managed by CNOOC in accordance with the robust environmental standards relating to air quality in China and subject to periodic regulatory reporting. Emissions arising from Horizon Oil's non-operated New Zealand assets were offset by the acquisition and surrender of carbon units in accordance with the New Zealand Carbon Emissions Trading Scheme.

(iii) Security

Horizon Oil operations are conducted in compliance with internal policies based on the *Voluntary Principles on Security and Human Rights*. During the financial year, periods of unrest in Papua New Guinea did not impact our employees or operations and there were no reportable security incidents.



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 2018 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 2018
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows 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.

PricewaterhouseCoopers, ABN 52 780 433 757

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Our audit approach

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

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



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> For the purpose of our audit we used overall Group materiality of \$1.38 million, which represents approximately 2% of the Group's EBITDA after adjusting for non-recurring items. We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. We chose Group EBITDA because, in our view, it is the benchmark against which the performance of the Group is most commonly measured 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. 	<ul style="list-style-type: none"> 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 oil producing joint operations in New Zealand and China, the joint operation gas exploration and development assets in PNG and the Group's corporate head office in Sydney. The Group uses an independent expert to perform an assessment of the Reserves and Resources on an annual basis. Our scope included assessing the work of the independent expert and their report on economic Reserves and Resources. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: <ul style="list-style-type: none"> Funding requirements to support the objective of monetising the PNG exploration assets Impairment of oil and gas assets Reserves and Resources These are further described in the <i>Key audit matters</i> 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.

Key audit matter	How our audit addressed the key audit matter
<p>Funding requirements to support the objective of monetising the PNG exploration assets and repayment of the debt facility <i>Refer to note 19</i></p> <p>The Group holds exploration assets in Papua New Guinea (PNG) and is reliant on receiving sufficient funding from operations, shareholders or other sources to finance ongoing exploration and development activities.</p> <p>The Group's revolving cash advance facility (debt facility) which is based on the level of economic oil reserves available, matures in May 2019. The Group is in the process of securing a new loan to facilitate the repayment of the debt facility.</p> <p>The Group prepared a detailed cash flow forecast to assess the surplus cash available to fund the repayment of the debt facility.</p> <p>The funding requirements of the Group are a key audit matter due to net current deficit of \$61 million noted as of the year end mainly in relation to the maturing debt facility of \$76 million and the significant level of funding that will be required to monetise the joint operation exploration assets in PNG.</p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> • Tested the Group's cash flow forecasts which included the net cash inflows from the China and New Zealand joint operations and the development expenditure planned to monetise the PNG exploration and development assets. To evaluate the key assumptions used in the forecasts we: <ul style="list-style-type: none"> - Compared the cash flow forecasts to a report on the required operating and capital expenditure over the production forecast prepared by the Group's independent expert. We also considered the independence, experience and competency of the Group's independent expert as well as the results of their procedures. - Considered the Group's forecast oil prices which were derived from broker forecasts and compared them to a forward oil price curve (beyond 12 months), that was independently compiled by PwC using Bloomberg data. • Compared the cash flow forecast to the debt facility amortisation schedule as provided by the Group's lenders and considered alternative forecast scenarios prepared by the Group. • Inspected correspondence with the potential lenders on the credit term sheets to consider the ability of the Group to refinance the debt facility that is due to mature within the next 12 months.
<p>Impairment of exploration, development and oil & gas assets <i>Refer to note 15 & 16</i></p> <p>The Group prepared an impairment assessment at 30 June 2018. The impairment assessment was modelled on a Fair Value less Cost of</p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> • Read the impairment assessment prepared by the Group. Assisted by PwC valuation experts, we assessed the reasonableness of the key assumptions applied within the



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
- pressure on 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

Additional Net Working Interest (NWI) in the New Zealand operation

The Group acquired an additional NWI in the New Zealand joint operations during the year. The consideration agreed and paid by the Group was proportionately less than the carrying value of the existing 10% NWI held by the Group. While the acquisition of the increased NWI is accounted for as a business combination, it does not require the re-measurement of the previously held interest.

In addition to the reasons noted above, we considered the acquisition of the increased NWI as a key audit matter given that the acquisition price was an indicator of impairment of the existing held interest.

PNG Petroleum Ministry's notice of intention to cancel the licenses

During the year, the PNG Petroleum Ministry issued a letter of intention to cancel the PDL10, PL10 and Stanley Gas agreements in PNG suggesting that there were certain conditions that the license holders did not fulfil as part of the license and invited a response from the joint venture parties.

Group's discounted cash flow model, including:

- Comparing the discount rates applied against the assets in the New Zealand, China and PNG joint operations against the range of discount rates considered reasonable by PwC valuation experts
- Performing a sensitivity analysis over the change in project risks associated with the monetisation of the PNG exploration assets
- Comparing oil prices to our independently compiled future oil price estimates
- 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 independent expert in their most recent reserves and resources report for the China and New Zealand joint operations.

Additional NWI in the New Zealand joint operation

- We agreed the transaction as recorded in the Group's accounting records to the relevant supporting documents.
- Given the acquisition price is considered an indicator of impairment of the original 10% NWI held, we reconsidered the carrying amount of the existing interest, specifically to confirm the reasonableness of the key assumptions.
- We assessed the Group's discounted cash flow model as at year-end based on the combined 26% NWI for the NZ assets by applying the procedures noted above. In both cases, we found that the recoverable amount was higher than the carrying amount.

PNG Petroleum Ministry's notice of intention to cancel the licenses

- To develop an understanding of the implications of the notice of intent, we read correspondence between the Ministry and the Group, including the Group's response to the Ministry, and held discussions with the Group's external solicitor surrounding the legal merit and validity of the notices.



In addition to the reasons noted above, we considered this a key audit matter given the notices from the Ministry introduce judgement about the validity of the Groups interest in the PNG licenses and therefore whether the carrying value of the asset is appropriate.

- We evaluated the adequacy of the disclosures made 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 base information for the annual Statement of Reserves and Resources. This information was provided to the Group's independent expert who determined a production profile along with an assessment of the required operational and capital expenditure. This information formed the basis of the cash flow forecast and impairment assessment referred to 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 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 independent 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 2018, 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 Director's report, 2018 Reserves and Resources Statement and Sustainability report. We expect the remaining other information to be made available to us after the date of this auditor's report, including 2018 Highlights, Chairman and Chief Executive Officer's report, Reserves and resources snapshot, Consolidated results, Activities review, Shareholder information, Glossary and Company Directory.

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

If, based on the work we have performed 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 as identified above, 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 27 to 37 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Horizon Oil Limited for the year ended 30 June 2018 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

PricewaterhouseCoopers

S Rugers

Sean Rugers
Partner

Sydney
23 August 2018

DIRECTORS' DECLARATION

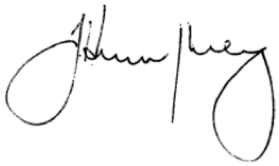
In the directors' opinion:

- (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 2018 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.



J Humphrey
Chairman



M Sheridan
Chief Executive Officer

Sydney
23 August 2018

Consolidated statement of profit or loss and other comprehensive income

For the financial year ended 30 June 2018

	Note	Consolidated 2018 US\$'000	Consolidated 2017 US\$'000
Revenue	4	100,044	68,534
Cost of sales	5	(55,686)	(43,768)
Gross profit		44,358	24,766
Other income	4	835	15
General and administrative expenses	5	(4,261)	(5,200)
Insurance expense	5	(1,724)	(1,240)
Exploration and development expenses	5	(5,761)	(1,250)
Financing costs – interest, transaction costs, other	5	(14,345)	(14,481)
Financing costs – unrealised movement in value of options	5	(20,464)	1,400
Unrealised movement in value of convertible bond conversion rights	4	-	530
Other expenses	5	(218)	(386)
(Loss)/profit before income tax		(1,580)	4,154
NZ royalty tax expense	6a	(869)	(512)
Income tax (expense)/ benefit	6b	(150)	(3,978)
Loss for the financial year		(2,599)	(336)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges	24a	(9,627)	1,612
Total comprehensive (loss)/income for the financial year		(12,226)	1,276
Loss attributable to:			
Security holders of Horizon Oil Limited		(2,599)	(336)
Non-controlling interests		-	-
Loss for the financial year		(2,599)	(336)
Total comprehensive loss attributable to:			
Security holders of Horizon Oil Limited		(12,226)	1,196
Non-controlling interests		-	80
Total comprehensive income/(loss) for the financial year		(12,226)	1,276
Earnings per share for loss attributable to ordinary equity holders of Horizon Oil Limited:			
Basic earnings per ordinary share	41a	(0.20)	(0.03)
Diluted earnings per ordinary share	41b	(0.20)	(0.03)

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 2018

	Note	Consolidated 2018 US\$'000	Consolidated 2017 US\$'000
Current assets			
Cash and cash equivalents	7	27,625	24,529
Receivables	8	15,477	6,376
Inventories	9	3,147	1,497
Current tax receivable	10	-	47
Derivative financial instruments	11	-	2,191
Other assets	12	903	1,000
Total current assets		47,152	35,640
Non-current assets			
Deferred tax assets	13	10,659	4,122
Plant and equipment	14	594	903
Exploration phase expenditure	15	57,453	51,940
Oil and gas assets	16	193,774	179,098
Total non-current assets		262,480	236,063
Total assets		309,632	271,703
Current liabilities			
Payables	17	19,479	9,950
Current tax payable	18	2,946	354
Borrowings	19	75,145	22,132
Derivative financial instruments	11	10,768	-
Total current liabilities		108,338	32,436
Non-current liabilities			
Payables	17	62	28
Deferred tax liabilities	22	17,876	17,705
Other financial liabilities	20	22,995	2,531
Borrowings	19	36,867	102,666
Provisions	21	28,185	9,611
Total non-current liabilities		105,985	132,541
Total liabilities		214,323	164,977
Net assets		95,309	106,726
Equity			
Contributed equity	23	174,801	174,801
Reserves	24a	5,740	14,558
Accumulated losses	24b	(85,232)	(82,633)
Total equity		95,309	106,726

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 2018

Consolidated	Attributable to members of Horizon Oil Limited						
		Contributed equity	Reserves	Retained profits / (accumulated losses)	Total	Non-controlling interest	Total Equity
	Note	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance as at 1 July 2016		174,801	12,030	(82,217)	104,614	(80)	104,534
Loss for the financial year	24(b)	-	-	(336)	(336)	-	(336)
De-recognition of non-controlling interests		-	-	(80)	(80)	80	-
Changes in the fair value of cash flow hedges	24(a)	-	1,612	-	1,612	-	1,612
Total comprehensive income for the financial year		-	1,612	(416)	1,196	80	1,276
Transactions with owners in their capacity as equity holders:							
Employee share-based payments expense	24(a)	-	916	-	916	-	916
		-	916	-	916	-	916
Balance as at 30 June 2017		174,801	14,558	(82,633)	106,726	-	106,726
Balance as at 1 July 2017		174,801	14,558	(82,633)	106,726	-	106,726
Loss for the financial year	24(b)	-	-	(2,599)	(2,599)	-	(2,599)
Changes in the fair value of cash flow hedges	24(a)	-	(9,627)	-	(9,627)	-	(9,627)
Total comprehensive loss for the financial year		-	(9,627)	(2,599)	(12,226)	-	(12,226)
Transactions with owners in their capacity as equity holders:							
Employee share-based payments expense	24(a)	-	809	-	809	-	809
		-	809	-	809	-	809
Balance as at 30 June 2018		174,801	5,740	(85,232)	95,309	-	95,309

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 2018

	Note	Consolidated 2018 US\$'000	2017 US\$'000
Cash flows from operating activities			
Receipts from customers		95,975	71,294
Payments to suppliers and employees		(27,754)	(26,149)
		68,221	45,145
Interest received		20	15
Interest paid		(9,372)	(9,413)
Income taxes (paid)/refunded		(1,289)	(114)
Net cash inflow from operating activities	40	57,580	35,633
Cash flows from investing activities			
Payments for exploration phase expenditure		(7,777)	(2,682)
Payments for oil and gas assets		(13,261)	(4,483)
Prepayments into China restoration fund		-	(376)
Payments for plant and equipment		(20)	(2)
Payments for acquisition of oil and gas assets	27	(16,660)	(198)
Net cash outflow from investing activities		(37,718)	(7,741)
Cash flows from financing activities			
Proceeds from borrowings (net of transaction costs)	19a	-	45,483
Repayment of borrowings	19a	(16,765)	(64,943)
Net cash outflow from financing activities		(16,765)	(19,460)
Net increase/(decrease) in cash and cash equivalents		3,097	8,432
Cash and cash equivalents at the beginning of the financial year		24,529	16,079
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		(1)	18
Cash and cash equivalents at the end of the financial year	7	27,625	24,529

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

Note 1. Summary of Significant Accounting Policies

A summary of the significant accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied, unless otherwise stated. The financial statements are for the consolidated entity consisting of Horizon Oil Limited and its subsidiaries (the 'Group'). For the purposes of preparing the financial statements, the consolidated entity is a for profit entity.

The nature of the operations and principal activities for the Group are described in the Directors' Report.

a) Statement of compliance

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'), Urgent Issues Group Interpretations and the *Corporations Act 2001*.

The consolidated financial statements comply with Australian Accounting Standards as issued by the AASB and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

b) Basis of preparation

These financial statements are presented in United States dollars and have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss, or other comprehensive income where hedge accounting is adopted.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and accordingly amounts in the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

The general purpose financial statements for the year ended 30 June 2018 have been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they become due. 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 2018. 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 2018. None of the new and revised standards and interpretations were deemed to have a material impact on the results of the Group.

Early adoption of standards

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

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

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

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

Given that these changes are focused on simplifying some of the complexities surrounding hedge accounting, Horizon Oil Limited elected to early adopt the amendments in order to ensure hedge accounting can continue to be applied and to avoid unnecessary volatility within the profit and loss.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Changes in accounting estimates

A review of the Group's accounting estimates has affected items recognised in the financial statements, as follows:

(i) Oil & gas assets – restoration provision

The Group estimates the future removal and restoration costs of petroleum production facilities, wells, pipelines and related assets at the time of installation of the assets and reviews these assessments periodically. In most instances the removal of these assets will occur well into the future. The estimate of future removal costs therefore requires management to make judgements around the timing of the required restoration, rehabilitation and decommissioning, as well as the discount rate. The carrying amount of the provision for restoration is disclosed in Note 21.

Note 1. Summary of Significant Accounting Policies (cont'd.)

During the period, the Group revised the future cost estimates from which the provision for restoration of the New Zealand asset is derived, taking into consideration enhanced experience and reduction in uncertainty surrounding future obligations. The resultant effect is an increase in the restoration provision of US\$3,257,800.

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 2018 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 29.

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.

Note 1. Summary of Significant Accounting Policies (cont'd.)**(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 is measured at the fair value of the consideration received or receivable to the extent it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. All revenue is stated net of the amount of Goods and Services Tax.

For product sales, revenue is brought to account when the product is passed from the Group's physical control under an enforceable contract, when selling prices are known or can be reasonably estimated and the products are in a form that requires no further treatment by the Group.

Interest income is recognised on a time proportion basis using the effective interest method.

h) Deferred income

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

i) Taxation**(i) Income tax**

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

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

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

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

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

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

(ii) Government royalties

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

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 38). 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 2018.

Note 1. Summary of Significant Accounting Policies (cont'd.)

k) Impairment of assets

Assets are reviewed for impairment at each reporting date to determine whether there is any indication of impairment. If an impairment indicator exists a formal estimate of the recoverable amount is calculated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets ('cash-generating units').

In assessing the recoverable amount, an asset's estimated future cash flows are discounted to their present value using an after tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Exploration phase expenditure is assessed for impairment in accordance with Note 1(o).

l) Cash and cash equivalents

For presentation purposes in the statement of cash flows, cash and cash equivalents includes cash at banks and on hand (including share of joint operation cash balances), deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

m) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are generally due for settlement within 30 days from the date of recognition. They are included in current assets, except for those with maturities greater than one year after the end of the reporting period which are classified as non-current assets.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in profit or loss.

n) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities assumed, equity interests issued by the Group, fair value of any asset or liability resulting from a contingent consideration arrangement, and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Acquisition related costs are expensed as incurred.

For purchase combinations which do not constitute the acquisition of a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed. The consideration paid is allocated to the individual identifiable assets and liabilities on the basis of their relative fair 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.

Note 1. Summary of Significant Accounting Policies (cont'd.)**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 proven and probable hydrocarbon reserves figure is that estimated at the end of the financial period plus production during the financial period.

The cost element of the unit-of-production calculation is the capitalised costs incurred to date for the field together with the estimated/anticipated future development costs (stated at current financial period-end unescalated prices) of obtaining access to all the proven and probable hydrocarbon reserves included in the unit-of-production calculation.

Production assets are tested for impairment in accordance with the accounting policy set out in Note 1(k).

(iii) Restoration provision

The estimated costs of decommissioning and removing an asset and restoring the site are included in the cost of the asset as at the date the obligation first arises and to the extent that it is first recognised as a provision. This restoration asset is subsequently amortised on a unit-of-production basis.

The corresponding provision, of an amount equivalent to the restoration asset created, is reviewed at the end of each reporting period. The provision is measured at the best estimate of the present value amount required to settle the present obligation at the end of the reporting period, based on current legal and other requirements and technology, discounted where material using market yields at the balance sheet date on US Treasury bonds with terms to maturity and currencies that match, as closely as possible, to the estimated future cash outflows.

Where there is a change in the expected restoration, rehabilitation or decommissioning costs, an adjustment is recorded against the carrying value of the provision and any related restoration asset, and the effects are recognised in profit or loss on a prospective basis over the remaining life of the operation.

The unwinding of the effect of discounting on the restoration provision is included within finance costs in profit or loss.

(iv) Reserves

The estimated reserves include those determined on an annual basis by Mr 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 15 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.

Note 1. Summary of Significant Accounting Policies (cont'd.)

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

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expenses.

Amounts accumulated in equity are recycled to profit or loss in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within "finance costs". The gain or loss relating to the effective portion of forward foreign 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.

Note 1. Summary of Significant Accounting Policies (cont'd.)

u) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest rate method. Fees paid on the establishment of loan facilities which are not an incremental cost relating to the actual drawdown of the facility, are recognised as prepayments (netted against the loan balance) and amortised on a straight line basis over the term of the facility.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion right. This is recognised and included in shareholders' equity when the conversion right meets the equity definition at inception. Where the conversion right does not meet the definition of equity, as for convertible bonds which include a cash settlement option or conversion price resets, the conversion right is fair valued at inception and recorded as a financial liability. The financial liability for the conversion right is subsequently remeasured at balance date to fair value with gains and losses recorded in the profit or loss.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

v) Borrowing costs

Borrowing costs which includes the costs of arranging and obtaining financing, incurred for the acquisition or construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed when incurred.

There were US\$Nil borrowing costs (2017: US\$Nil) capitalised during the current financial year and the amount of borrowing costs amortised to the income statement were US\$892,123 (2017: US\$860,000).

w) Employee benefits**(i) Wages and salaries and annual leave**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and related on-costs expected to be settled within 12 months of the end of the reporting period are recognised in other payables in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are recognised in other payables.

(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 33.

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.

Note 1. Summary of Significant Accounting Policies (cont'd.)

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 42, has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Horizon Oil Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

bb) New Australian Accounting Standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

(i) AASB 15 'Revenue from Contracts with Customers'

AASB 15 'Revenue from Contracts with Customers' (issued during January 2015) is the new standard for revenue recognition, replacing AASB 111 'Construction Contracts', AASB 118 'Revenue' and AASB 1004 'Contributions'. It is applicable for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The 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 standard permits either a full retrospective or a modified retrospective approach for the adoption.

The Group intends to adopt the standard using the modified retrospective approach, which means that the cumulative impact of the adoption will be recognised in retained earnings as of 30 June 2019 and that comparatives will not be restated. The Group has assessed the effects of applying the new standard on the financial statements and has concluded that there is no impact for the current financial year end, and anticipates no material impact on future periods associated with the existing operations.

(ii) AASB 16 'Leases'

AASB 16 'Leases' (issued during January 2016) is the new standard for lease accounting which eliminates the classification of leases as either 'operating' or 'finance' and requires a lessee to recognise on statements of financial position assets and liabilities for leases with terms of more than 12 months unless the underlying asset is of low value. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the financial year ending 30 June 2020. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. The full impact of these changes are yet to be assessed, however management have commenced their assessment.

There are no other Australian Accounting Standards that are not yet effective and that are expected to have a material impact on the Group in the current or future financial years and on foreseeable future transactions.

Note 2. Critical accounting estimates and judgements

This section considers estimates and judgements which are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The most significant estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities relate to:

(i) Exploration and evaluation assets

The Group's policy for exploration and evaluation expenditure is discussed in Note 1(o). The application of this policy requires management to make certain estimates and assumptions as to future events and circumstances. These estimates and assumptions include whether commercially viable reserves have been found and whether the capitalised exploration and evaluation expenditure will be recovered through future exploitation or sale. The carrying amount of exploration and evaluation assets has been disclosed in Note 15.

(ii) Reserve estimates

The estimated quantities of proven and probable hydrocarbons reported by the Group are integral to the calculation of amortisation expense (depletion), assessments of impairment of assets, provision for restoration and the recognition of deferred tax assets due to changes in expected future cash flows. Reserve estimates require interpretation of complex and judgemental geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoir, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Reserve estimates are prepared in accordance with guidelines prepared by the Society of Petroleum Engineers.

(iii) Provisions for restoration

The Group estimates the future removal and restoration costs of petroleum production facilities, wells, pipelines and related assets at the time of installation of the assets and reviews these assessments periodically. In most instances the removal of these assets will occur well into the future. The estimate of future removal costs therefore requires management to make judgements around the timing of the required restoration, rehabilitation and decommissioning, as well as, the discount rate. The carrying amount of the provision for restoration is disclosed in Note 21.

During the period, the Group revised the future cost estimates from which the provision for restoration of the New Zealand asset is derived, taking into consideration enhanced experience and reduction in uncertainty surrounding future obligations. The resultant effect, following an external consultant review, is an increase in the restoration provision of US\$3,257,800. In addition to the revision of the Maari restoration provision, a further \$14.8 million was recorded for the acquisition of a further 16% interest in the Maari/Manaia field. The fair value of the assets acquired and liabilities assumed for the acquisition are disclosed in Note 27.

(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, is of the view that the notices are without merit and are procedurally invalid. Based on external legal advice, Horizon Oil supports this view. Horizon Oil and the PDL 10 joint venture will continue to work with the PNG Petroleum Minister and the Department of Petroleum and Energy to resolve any misunderstanding or disagreement with respect to the good standing of PDL 10, PL 10 and the Stanley Gas Agreement. 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 2018. In the event that the licences were to be cancelled, whilst the company would likely mount a strong legal challenge, the maximum impairment charge that would be recorded at 30 June 2018 is US\$21 million.

Note 2. Critical accounting estimates and judgements (cont'd.)**(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 33.

(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.

(c) Assumptions on funding

The general purpose financial statements for the year ended 30 June 2018 have been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they become due.

The Group has a working capital deficit of US\$61 million at 30 June 2018 resulting predominately from the scheduled amortisation and maturity, in May 2019, of the outstanding US\$76 million Revolving Cash Advance Facility being classified as a current liability at balance date.

Funding for the Group's strategic growth plans and repayment of the facility is to be sourced from a variety of sources, with surplus revenues from the Group's operations in China and New Zealand providing core funding. The Group commenced a process during the year to refinance the US\$76 million outstanding under the Revolving Cash Advance Facility. The refinancing is well advanced with prospective lenders providing credit approved proposals to refinance the Facility. The prospective lenders are expected to be mandated under a common credit approved term sheet during Q1 FY 2019, with documentation and financial close to follow thereafter. The Group expects to complete the refinancing during the first half of the 2019 financial year, ahead of the Facility maturity.

Given the current advanced status of refinancing of the Revolving Cash Advance Facility, together with the surplus cashflows forecast to be generated from the Group's China and New Zealand operations, the Group expects to have available the necessary cash reserves to meet debt repayment obligations, and to pursue the current strategy. Should the full amount of the forecast internally generated cash flow and capital required to pursue the strategy not be raised, the directors expect that the Group would be able to adopt a modified strategy and would be able to secure the necessary financing through one or a combination of, additional borrowings, equity raisings or asset sales; or deferring discretionary exploration and development activities.

Note 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 six onshore permit areas – PRL 21, PRL 28, PPL 574, PPL 372, PPL 373 and PPL 430; and
- ▶ 'All other segments' include amounts of a corporate nature not specifically attributable to an operating segment.

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

	China Exploration and Development	New Zealand Exploration and Development	Papua New Guinea Exploration and Development	All other segments	Total
2018	US\$'000	US\$'000	US\$'000	US\$'000	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

Note 3. Segment information (cont'd.)

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

(c) Other segment information**(i) Segment revenue**

The Group's revenue is derived from the sale of crude oil produced in China and New Zealand. The Group sells to external customers, including through sales agreements with the respective joint venture operators.

Segment revenue reconciles to total consolidated revenue as follows:

	Consolidated	
	2018	2017
	US\$'000	US\$'000
Total segment revenue	100,044	68,534
Proceeds from insurance claims	610	-
Interest income	20	15
Other non-operating income	205	-
Total revenue	100,879	68,549

(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	
	2018	2017
	US\$'000	US\$'000
Total segment profit/(loss) before tax	(1,848)	3,670
Interest income	20	15
Unrealised movement in value of convertible bond conversion rights	-	530
Net foreign exchange losses	248	(61)
Profit/(loss) before tax	(1,580)	4,154

(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	
	2018 US\$'000	2017 US\$'000
Note 4. Revenue		
From continuing operations		
Crude oil sales	106,153	67,988
Net realised (loss)/gain on oil hedging derivatives	(6,109)	546
	100,044	68,534
Other income		
Insurance claim income	610	-
Interest received from unrelated entities	20	15
Other non-operating income	205	-
	835	15
Gains – Conversion rights on convertible bonds		
Unrealised movement in fair value of convertible bond conversion rights ¹	-	530
	-	530

1 The amount shown in the prior year reflects the movement during the prior financial year of the fair value of the conversion rights relating to the 5.5% convertible bonds issued on 17 June 2011. As the bonds were redeemed during the prior financial year, before the extended redemption date of 19 September 2016, the carrying balance of the fair value of the derivative financial liability associated with the conversion rights of US\$530,000 was written back to the profit and loss during the prior financial year.

	Consolidated	
	2018 US\$'000	2017 US\$'000
Note 5. Expenses		
Cost of sales		
Direct production costs	23,304	16,262
Inventory adjustments ¹	1,610	612
Amortisation expense	29,163	26,301
Royalties and other levies	1,609	593
	55,686	43,768
General and administrative expenses		
Employee benefits expense (net)	1,635	2,594
Employee share options expense	809	916
Corporate office expense	1,031	926
Depreciation expense	329	385
Rental expense relating to operating leases	457	379
	4,261	5,200
Insurance expense		
Insurance expense (including <i>Loss of Production Income</i> insurance)	1,724	1,240
	1,724	1,240
Exploration and development expenses		
Exploration and development expenditure written off/expensed	5,761	1,250
	5,761	1,250
Financing costs		
Interest and finance charges	11,078	11,925
Discount unwinding on provision for restoration	529	133
Unrealised movement in fair value of derivative financial instrument ¹	20,464	(1,400)
Amortisation of prepaid financing costs	2,738	2,423
	34,809	13,081
Other expenses		
Net foreign exchange losses/(gain)	(43)	323
Other expenses	261	63
	218	386

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

	Consolidated	
	2018	2017
	US\$'000	US\$'000
Note 6. Income tax expense		
(a) Royalty tax expense (benefit)		
Royalty paid/payable in New Zealand – current tax expense	2,482	816
Tax benefit related to movements in deferred tax balances	(1,613)	(304)
Total royalty tax expense	869	512
(b) Income tax expense		
Current tax expense	1,445	-
Tax expense/(benefit) related to movements in deferred tax balances	(1,578)	3,837
Adjustments for current tax of prior periods	283	141
Total income tax expense/(benefit)	150	3,978
Deferred income tax expense/(benefit) included in income tax expense comprises:		
Decrease/(Increase) in deferred tax assets	(449)	2,331
Increase/(decrease) in deferred tax liabilities	(1,129)	1,506
Total deferred income tax expense/(benefit)	(1,578)	3,837
(c) Numerical reconciliation between profit before tax and tax expense/(benefit)		
Profit/(loss) from continuing operations before income tax	(1,580)	4,154
Less: Royalty paid/payable	(2,482)	(816)
	(4,062)	3,338
Tax at the Australian tax rate of 30% (2017: 30%)	(1,219)	1,001
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Expenditure not allowed for income tax purposes	7,164	1,160
Other deductible items	(1,508)	(1,814)
Non-assessable income	(559)	(28)
	3,878	319
Effect of overseas tax rates	(981)	(215)
Deferred tax asset not brought to account	2,576	3,733
Previously unrecognised deferred tax assets now recognised	(6,402)	-
Previously recognised tax losses now not allowable	651	-
Tax paid on non-resident insurance premiums	30	-
Previously unrecognised tax losses now recognised to reduce current tax expense	115	-
Adjustments for current tax of prior periods	283	141
Income tax expense/(benefit)	150	3,978
Royalty tax expense	869	512
Total tax expense/(benefit) recognised in statement of profit or loss	1,019	4,490
(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	(3,049)	579
Total tax expense/(benefit) recognised in other comprehensive income	(3,049)	579
(e) Tax losses		
Unused tax losses (and applicable tax rate) for which no deferred tax asset has been recognised:		
Horizon Oil International Limited – 28% (2017: 28%)	2,522	4,995
Horizon Oil (New Zealand) Limited – 28% (2017: 28%)	3,514	3,764
	6,036	8,759
Potential tax benefit at applicable tax rates	1,690	2,453

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

	Consolidated	
	2018	2017
	US\$'000	US\$'000
Note 7. Cash and cash equivalents		
Cash at bank and on hand	16,274	19,368
Restricted cash ¹	11,351	5,161
	27,625	24,529

1 Under the terms of Horizon Oil's Revolving Cash Advance Facility (refer to Note 19(b)), certain cash balances are available to the Group after certain conditions of the relevant facility agreement are satisfied. No restricted cash was held on deposit during the year (2017: US\$Nil).

	Consolidated	
	2018	2017
	US\$'000	US\$'000
Note 8. Receivables		
Trade and other receivables ¹	15,477	6,376
	15,477	6,376

1 Of this balance US\$Nil (2017: US\$Nil) related to amounts receivable from related parties. Refer to Note 32 for further details.

Information about the Company's exposure to credit and market risks, and collectability of overdue amounts, is included in Note 25(b).

	Consolidated	
	2018	2017
	US\$'000	US\$'000
Note 9. Inventories		
Crude oil, at cost	1,976	758
Drilling and workover spares inventory	1,171	739
	3,147	1,497

	Consolidated	
	2018	2017
	US\$'000	US\$'000
Note 10. Current tax receivable		
Income tax – China	-	47

	Consolidated	
	2018	2017
	US\$'000	US\$'000
Note 11. Derivative financial instruments		
Current:		
Derivative (liability)/asset - Oil price swaps – cash flow hedges	(10,768)	2,191
	(10,768)	2,191

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to oil price fluctuations in accordance with the Group's financial risk management policies (refer to Note 25(a)(ii)).

Oil price swap contracts (cash flow hedges)

During the financial year, oil price hedging was undertaken as a risk mitigation measure to ensure the Group's financial position remains sound and that the Group is able to meet its financial obligations in the event of low oil prices. As at 30 June 2018, the Group has 600,000 barrels of crude oil hedged.

The gain or loss arising from re-measurement of the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and re-classified into profit or loss when the hedged oil price transaction is recognised. The ineffective portion is recognised in profit or loss immediately. During the financial year, a loss of US\$6,109,000 (2017: gain of US\$546,000) was transferred to profit or loss.

	Consolidated	
	2018	2017
	US\$'000	US\$'000
Note 12. Other assets		
Prepayments	903	1,000
	903	1,000

	Consolidated	
	2018 US\$'000	2017 US\$'000
Recognised deferred tax assets are attributable to:		
Tax losses	4,421	3,410
Development and production expenditure	6,149	-
Cash flow hedges	568	-
Provisions and other	411	712
Total deferred tax assets	11,549	4,122
Set off of deferred tax liabilities pursuant to set off provisions	(890)	-
Net deferred tax assets	10,659	4,122

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

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

Note 14. Plant and equipment

	Other plant and equipment US\$'000	Consolidated Leasehold improvements US\$'000	Total US\$'000
As at 1 July 2016			
Cost	2,157	1,863	4,020
Accumulated depreciation	(1,625)	(509)	(2,134)
Net book amount	532	1,354	1,886
Financial year ended 30 June 2017			
Opening net book amount	532	1,354	1,886
Additions	2	-	2
Disposals	-	(600)	(600)
Depreciation expense	(263)	(122)	(385)
Closing net book amount	271	632	903
As at 30 June 2017			
Cost	2,159	1,263	3,422
Accumulated depreciation	(1,888)	(631)	(2,519)
Net book amount	271	632	903
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	
	2018 US\$'000	2017 US\$'000
Note 15. Exploration phase expenditure		
Exploration phase expenditure		
Deferred geological, geophysical, drilling and other exploration and evaluation expenditure	57,453	51,940
The reconciliation of exploration phase expenditure carried forward above is as follows:		
Balance at beginning of financial year	51,940	53,613
Expenditure incurred during financial year	6,086	3,567
Transferred to development phase	-	(6,049)
Reassessment of rehabilitation asset	-	1,390
Expenditure written off during financial year	(573)	(581)
Balance at end of financial year	57,453	51,940

	Consolidated	
	2018 US\$'000	2017 US\$'000
Note 16. Oil & gas assets		
Development and production phase expenditure		
Producing oil and gas property acquisition, deferred geological, seismic and drilling, production and distribution facilities and other development expenditure	505,671	457,835
Expenditure written off during financial year	(3,997)	-
Carried forward accumulated impairment losses	(98,041)	(98,041)
Less accumulated amortisation	(209,859)	(180,696)
	193,774	179,098

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

	Consolidated		Total US\$'000
	Development phase expenditure US\$'000	Production phase expenditure US\$'000	
Balance at 1 July 2016	15,357	179,255	194,612
Transferred from exploration phase	6,049	-	6,049
Transfer to production phase	(6,049)	6,049	-
Reassessment of rehabilitation asset	2,053	(2,208)	(155)
Amortisation incurred	-	(26,301)	(26,301)
Expenditure incurred during financial year	2,996	1,897	4,893
Balance at 30 June 2017	20,406	158,692	179,098
Acquisition of oil and gas asset	-	32,642	32,642
Amortisation incurred	-	(29,163)	(29,163)
Reassessment of rehabilitation asset	-	3,258	3,258
Expenditure incurred during financial year	4,551	7,385	11,936
Expenditure written off during financial year	(3,997)	-	(3,997)
Balance at 30 June 2018	20,960	172,814	193,774

	Consolidated	
	2018 US\$'000	2017 US\$'000
Note 17. Payables		
Current liabilities:		
Trade creditors	6,532	468
Share of joint operation creditors and accruals	9,956	5,769
Other creditors	2,991	3,713
	19,479	9,950
Non-current liabilities:		
Other creditors	62	28
	62	28

	Consolidated	
	2018 US\$'000	2017 US\$'000
Note 18. Current tax payable		
Current tax payable – China	1,411	-
Current tax payable – New Zealand	1,535	354
	2,946	354

	Consolidated	
	2018 US\$'000	2017 US\$'000
Note 19. Borrowings		
Current:		
Bank loans (b)	75,145	22,132
	75,145	22,132
Non-current:		
Bank loans (b)	-	63,534
Subordinated debt (c)	36,867	39,132
	36,867	102,666
Total Borrowings	112,012	124,798

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.

	2018 US\$'000	2017 US\$'000
Cash and cash equivalents	27,625	24,529
Borrowings ¹ – repayable within one year (including overdraft)	(76,233)	(22,132)
Borrowings ¹ – repayable after one year	(40,000)	(110,866)
Net (debt)/cash	(88,608)	(108,469)
Cash and liquid investments	27,625	24,529
Gross debt – fixed interest rates	-	-
Gross debt ¹ – variable interest rates	(116,233)	(132,998)
Net (debt)/cash	(88,608)	(108,469)

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

	Opening 1 July 2017 US\$'000	Cashflows		Non-cash changes		Closing 30 June 2018 US\$'000
		Drawdown ¹ US\$'000	Repayments US\$'000	Amortisation of transaction costs US\$'000	Changes in fair value US\$'000	
Revolving Cash Advance Facility (current)	22,132	-	(11,765)	-	64,778	75,145
Revolving Cash Advance Facility (non-current)	63,534	-	-	1,244	(64,778)	-
Subordinated debt	39,132	-	(5,000)	1,494	1,241	36,867
Total liabilities from financing activities	124,798	-	(16,765)	2,738	1,241	112,012

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

Note 19. Borrowings (cont'd.)

b) Bank loans – Revolving Cash Advance Facility

The Group holds a US\$120 million Revolving Cash Advance Facility with Australia and New Zealand Banking Group (ANZ) and Westpac Banking Corporation (Westpac) which was executed on 14 May 2015. The facility was used to refinance the previous Reserves Based Debt Facility which primarily financed the development of the Group's Block 22/12 oil fields in China, and Maari Growth Program in New Zealand. Unless refinanced, or repaid in advance, the facility matures in May 2019. Under the facility, the facility limit and thus future repayments are determined by applying a minimum loan life coverage ratio to the net present value of estimated future cash flows from all projects included in the facility. Estimated future cash flows are dependent on, amongst other things, the lenders' views on forecast oil prices, reserve estimates, operating and capital cost estimates and forecast interest and exchange rates.

At 30 June 2018, total debt drawn under the facility was US\$76.2 million with undrawn debt capacity available of approximately US\$16.4 million. Floating interest in respect of the facility was at LIBOR plus a weighted average margin of 2.90%.

The facility was secured by a floating charge over the shares and assets of the borrowers (Horizon Oil International Limited, Horizon Oil (Papua) Limited and Horizon Oil (Beibu) Limited which are wholly owned subsidiaries of Horizon Oil Limited) and other Horizon Oil Limited subsidiaries, in favour of ANZ Fiduciary Services Pty Limited as security trustee. Horizon Oil Limited and other Horizon Oil Limited subsidiaries have guaranteed the performance of Horizon Oil International Limited, Horizon Oil (Papua) Limited and Horizon Oil (Beibu) Limited (which have also given guarantees) in relation to the loan facility from ANZ and Westpac. In addition, the shares of the following Horizon Oil Limited subsidiaries have been mortgaged to ANZ Fiduciary Services Pty Limited: Horizon Oil International Limited, Horizon

Oil (Papua) Limited, Horizon Oil (Beibu) Limited, Horizon Oil International Holdings Limited, Horizon Oil (Ketu) Limited (formerly Ketu Petroleum Limited), Horizon Oil (PNG Holdings) Limited and Horizon Oil (China Holdings) Limited. The Group is subject to covenants which are common for a facility of this nature.

c) Subordinated secured debt facility

On 15 September 2016, the Group reached financial close on a US\$50 million subordinated secured non-amortising loan with its major shareholder, IMC Investments Limited (IMC), which enabled the redemption of US\$58.8 million convertible bonds prior to the due date of 19 September 2016. Shareholders approved the loan, which involved the issue of 300 million options over unissued shares in the parent entity, at a general meeting on 6 September 2016. This loan was secured by a second ranking charge over the shares and assets of the borrowers included in the Revolving Cash Advance Facility (senior facility) above. ANZ Fiduciary Services Pty Limited acts as security trustee for both the senior facility and this subordinated facility. Floating interest in respect of the facility was at LIBOR plus a margin of 9.0%. The facility has a term of 5 years, and is callable after 3 years at the election of the lender. If the loan is called prior to maturity, the company may require the option holder to mandatorily exercise its options if the share price is equal to or greater than the exercise price. The proceeds from the exercise of the options may be set off against the outstanding facility balance.

During the year the Group voluntarily prepaid and cancelled a further US\$5 million of the outstanding facility resulting in total remaining debt drawn at 30 June 2018 of US\$40 million, following an earlier voluntary prepayment and cancellation of US\$5 million in May 2017. There is no undrawn debt capacity available under the facility at 30 June 2018. The following is a reconciliation of the movement of the carrying value of the subordinated debt facility for the year ended 30 June 2018:

	2018 US\$'000	2017 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	5,784	-
Finance costs ²	6,798	5,784
Less: Principal repaid during the financial year ³	(5,000)	(5,000)
Less: Principal repaid during the prior financial year	(5,000)	-
Add back: loss recognised on principal repayment ³	486	682
Add back: loss recognised on prior period principal repayment	682	-
Less: Interest paid	(4,581)	(3,118)
Less: Interest paid in prior period	(3,118)	-
Less: Interest accrued ⁴	(770)	(802)
Non-current liability at amortised cost	36,867	39,132

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

2 Finance costs are calculated by applying the effective interest rate to the debt component. The effective interest rate ranged from 10.17% to 11.36% during the financial period.

3 On 22 December 2017 the Group completed a voluntary prepayment of US\$5 million of the principal outstanding on the subordinated secured debt facility. A loss of US\$486,000 was recorded to profit or loss reflecting the difference between the carrying value and the nominal amount paid.

4 Interest accrued at 30 June 2018 is included within the 'other creditors' balance per Note 17.

	Consolidated	
	2018 US\$'000	2017 US\$'000
Note 20. Other financial liabilities		
Non-Current		
Fair value of share options	22,995	2,531
Total other financial liabilities	22,995	2,531

The amount shown for other financial liabilities is the fair value of the derivative financial liability arising from the 300 million share options issued as part of the subordinated debt facility discussed in Note 19(c). The options are exercisable at A\$0.061 per share and as the functional currency of the Group is United States dollars, which will result in a variable amount of cash being received on exercise of the options, the share options are accounted for as a derivative financial liability at fair value on a recurring basis and are marked to market at each balance date, with any gains/losses arising recognised through profit or loss. Refer to Note 25 (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	
	2018 US\$'000	2017 US\$'000
Balance at beginning of financial year	2,531	-
Initial recognition during the period (see Note 19(c)) ¹	-	3,931
Unrealised loss/(gain) on revaluation during the period	20,464	(1,400)
Balance at end of financial year	22,995	2,531

1 The weighted average fair value of the options at measurement date was A\$0.1037. Refer to Note 25(d) for details of the valuation techniques used to derive this fair value.

	Consolidated	
	2018 US\$'000	2017 US\$'000
Note 21. Provisions		
Restoration (current)	-	-
Restoration (non-current)	28,185	9,611
	28,185	9,611

	Consolidated	
	2018 US\$'000	2017 US\$'000
The reconciliation of the movement in the total of the restoration provisions is as follows:		
Balance at beginning of financial year	9,611	8,671
Prepayments made into China restoration fund	-	(428)
Acquisition related restoration asset	14,787	-
Additional provision during financial year	3,258	1,235
Unwinding of discount	529	133
Balance at end of financial year	28,185	9,611

	Consolidated	
	2018 US\$'000	2017 US\$'000
Note 22. Deferred tax liabilities		
Recognised deferred tax liabilities are attributable to:		
Development and production expenditure	12,579	13,488
Accounting profits royalty	5,962	7,700
Cash flow hedges	-	579
Other	1,764	2,592
Total deferred tax liabilities	20,305	24,359
Set off of deferred tax assets pursuant to set off provisions	(2,429)	(6,654)
Net deferred tax liabilities	17,876	17,705

Note 22. Non-current liabilities – Deferred tax liabilities (cont'd.)

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
2017 Movements	Development and production expenditure \$US'000	Accounting profits royalty \$US'000	Cash flow hedges US\$,000	Other US\$'000	Total \$US'000
At 1 July 2016					
Charged/(credited)	14,940	8,004	-	1,118	24,062
-to profit or loss	(1,452)	(304)	-	1,474	(282)
-to other comprehensive income	-	-	579	-	579
At 30 June 2017	13,488	7,700	579	2,592	24,359

Note 23. Contributed equity

	Consolidated 2018		Consolidated 2017	
	Number of shares '000	US\$'000	Number of shares '000	US\$'000
(a) Issued share capital				
Ordinary shares				
Fully paid	1,301,981	174,342	1,301,981	174,342
Partly paid to A\$0.01	1,500	459	1,500	459
	1,303,481	174,801	1,303,481	174,801

(b) Movements in ordinary share capital

(i) Ordinary shares (fully paid):

Date	Details	Number of shares	US\$'000
30/06/2017	Balance as at 30 June 2017	1,301,981,265	174,342
30/06/2018	Balance as at 30 June 2018	1,301,981,265	174,342

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

Date	Details	Number	US\$'000
30/06/2017	Balance as at 30 June 2017	1,500,000	459
30/06/2018	Balance as at 30 June 2018	1,500,000	459

Note 23. Contributed equity (cont'd.)

(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 33.

	Consolidated	
	2018	2017
	US\$'000	US\$'000
Note 24. Reserves and retained profits		
(a) Reserves		
Share-based payments reserve		
Movements:		
Balance at beginning of financial year	12,946	12,030
Employee share-based payments expense	809	916
Balance at end of financial year	13,755	12,946
Hedge reserve		
Movements:		
Balance at beginning of financial year	1,612	-
Movement in net market value of hedge contracts	(12,959)	2,191
Deferred tax	3,332	(579)
Balance at end of financial year	(8,015)	1,612
Total reserves	5,740	14,558
(b) Accumulated (losses)/retained profits		
Accumulated (losses)/retained profits at beginning of financial year	(82,633)	(82,217)
Net loss for financial year	(2,599)	(336)
De-recognition of non-controlling interest	-	(80)
Accumulated losses at end of financial year	(85,232)	(82,633)

Note 24. Reserves and retained profits (cont'd.)

(c) Nature and purpose of reserves**Share-based payment reserve:**

The fair value of options and share appreciation rights granted to employees results in an increase in equity upon recognition of the corresponding employee benefits expense, as described in the accounting policy set out in Note 1(w)(iii). The fair value of general options granted also results in an increase in equity unless accounting standards require the options to be treated otherwise.

The Company has elected to retain any amounts originally recognised in the share-based payments reserve, regardless of whether the associated options or share appreciation rights are exercised, cancelled or lapse unexercised.

Hedge reserve:

Changes in the market value of the effective portion of derivatives is reflected directly in equity until such time as the hedge is ineffective or expires, as described in the accounting policy set out in Note 1(t).

Note 25. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity price risk); credit risk; and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as oil price swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and commodity price risks, and aging analysis for credit risk.

Risk management is carried out by the finance function under policies approved by the Board of Directors. The finance function identifies, evaluates and if necessary hedges financial risks in close co-operation with Group management. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investment of excess liquidity.

The Group has no off-balance sheet financial assets or liabilities as at the end of the reporting period.

The Group holds the following financial instruments at 30 June 2018 and 30 June 2017:

	Consolidated	
	30 June 2018	30 June 2017
	US\$'000	US\$'000
Financial Assets		
Cash and cash equivalents	27,625	24,529
Receivables	15,477	6,376
Derivative financial instruments	-	2,191
Current tax receivable	-	47
	43,102	33,143
Financial Liabilities		
Payables (current)	19,479	9,950
Current tax payable	2,946	354
Payables (non-current)	62	28
Borrowings (net of borrowing costs capitalised)	112,012	124,798
Derivative financial instruments	10,768	-
Other financial liabilities	22,995	2,531
	168,262	137,661

Note 25. Financial risk management (cont'd.)

(a) Market risk**(i) Foreign exchange risk**

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk arises when future commercial transactions and recognised financial assets and financial liabilities are denominated in a currency that is not the Group's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising predominately from Australian and New Zealand dollars, Chinese Renminbi, Papua New Guinea Kina and Singapore dollar.

The Group manages foreign exchange risk by monitoring forecast cash flows in currencies other than US dollars and ensuring that adequate Australian dollar, New Zealand dollar, Chinese Renminbi, Papua New Guinea Kina and Singapore dollar cash balances are maintained.

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

No foreign currency hedging transactions were entered into during the current or prior financial year.

Exposure to foreign exchange risk

The Group's exposure to foreign exchange risk at the end of each reporting period was as follows:

Group	30 June 2018					30 June 2017				
	AUD US\$'000	NZD US\$'000	PGK US\$'000	RMB US\$'000	SGD US\$'000	AUD US\$'000	NZD US\$'000	PGK US\$'000	RMB US\$'000	SGD US\$'000
Cash and cash equivalents	672	39	75	2	-	330	137	25	238	-
Receivables	173	336	3	-	-	95	107	5	-	-
Current tax payable	-	831	-	1,411	-	-	351	-	-	3
Current payables	1,195	2,152	88	827	-	1,269	175	185	369	5
Non-current payables	62	-	-	-	-	28	-	-	-	-

For the financial year ended and as at 30 June 2018, if the currencies set out in the table below had strengthened or weakened against the US dollar by the percentage shown, with all other variables held constant, net result for the financial year would increase/(decrease) and net assets would increase/(decrease) by:

Group	Net Result		Net Assets		Net Result		Net Assets	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Change in currency¹	+10%	+10%	+10%	+10%	-10%	-10%	-10%	-10%
Australian dollar impact	(77)	(566)	(29)	(61)	77	566	29	61
New Zealand dollar impact	(453)	(440)	(183)	(20)	453	440	183	20
Papua New Guinea Kina impact	(64)	(61)	(1)	(11)	64	61	1	11
Chinese Renminbi impact	(47)	(11)	(157)	(9)	47	11	157	9

¹ This has been based on the change in the exchange rate against the US dollar in the financial years ended 30 June 2018 and 30 June 2017. 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.

Note 25. Financial risk management (cont'd.)

(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 2018, the Group had a derivative liability of US\$10,768,000 (30 June 2017: US\$2,191,000 derivative asset) as there were 600,000 bbls hedged at this date (30 June 2017: 393,750 bbls) at a weighted average price of US\$58.80/bbl.

For the financial year ended and as at 30 June 2018, 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	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Change in crude oil price	+10%	+10%	+10%	+10%	-10%	-10%	-10%	-10%
Impact	3,306	2,585	3,306	2,585	(3,845)	(2,585)	(3,845)	(2,585)

(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 2018 and 30 June 2017, the Group's interest rate risk arises from long term borrowings, issued at variable rates, exposing the Group to cash flow interest rate risk. Group policy is to manage material interest rate exposure. Regular sensitivity analysis is conducted to evaluate the potential impact of unfavourable interest rate movements on the Group's future financial position. The results of this evaluation are used to determine the most appropriate risk mitigation tool to be used. During the current and prior financial year, the Group did not enter into any interest rate swap contracts.

The Group manages its cash flow interest rate risk by using floating to fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specific intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

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

	Floating interest rate US\$'000	Fixed interest rate maturing in:			Non-interest bearing US\$'000	Carrying amount US\$'000
		1 year or less US\$'000	Over 1 to 2 years US\$'000	Over 2 to 5 years 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)

Note 25. Financial risk management (cont'd.)

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

As at 30 June 2018 and 30 June 2017, the Group had the following variable rate borrowings outstanding:

	30 June 2018		30 June 2017	
	Weighted average interest rate % p.a.	Balance US\$'000	Weighted average interest rate % p.a.	Balance US\$'000
External loans	6.57%	116,233	5.94%	132,998
Net exposure to cash flow interest rate risk		116,233		132,998

At 30 June 2018, 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 2018 would increase/(decrease) by:

Group	Net Result		Net Assets		Net Result		Net Assets	
	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000	2018 US\$'000	2017 US\$'000
Change in interest rate p.a.	+1%	+1%	+1%	+1%	-1%	-1%	-1%	-1%
Impact of Assets	71	99	71	99	(10)	(15)	(10)	(15)
Impact of Liabilities	829	795	829	795	(829)	(795)	(829)	(795)
Impact of Net Assets	(758)	(696)	(758)	(696)	818	780	818	780

(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.

Note 25. Financial risk management (cont'd.)

	Consolidated	
	2018 US\$'000	2017 US\$'000
Cash and cash equivalents		
<i>Counterparties with external credit rating (Standard & Poors)</i>		
AA-	25,168	22,329
A+	2	-
B	7	-
	25,177	22,329
<i>Counterparties without external credit rating</i>		
Share of joint operations cash balances	2,381	2,175
Overseas financial institutions	67	25
	2,448	2,200
Total cash and cash equivalents	27,625	24,529
Receivables		
<i>Counterparties with external credit rating (Standard & Poors/Fitch)</i>		
AAA	93	19
AA	-	107
AA-	336	513
A+	7,765	3,844
A-	6,189	1,827
	14,383	6,310
<i>Counterparties without external credit rating</i>		
Share of joint operation receivables balances	907	65
Joint operations partners	187	1
	1,094	66
Total receivables	15,477	6,376

As at 30 June 2018, there were no financial assets that are past due (30 June 2017: US\$Nil). 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.

(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 2018 US\$'000	30 June 2017 US\$'000
Floating rate:		
Expiring within one year	16,357	8,832
Expiring beyond one year	-	-

Note 25. Financial risk management (cont'd.)

Maturities of financial liabilities

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

	Non-interest bearing US\$'000	Variable rate ¹ US\$'000	Fixed rate US\$'000
As at 30 June 2018			
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	-

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

¹ Includes principal repayments and future interest payments.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 'Financial Instruments: Disclosures' requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

(i) Fair value measurements

The following table presents the Group's assets and liabilities measured and recognised at fair value as at 30 June 2018 and 30 June 2017:

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
As at 30 June 2018				
Assets				
Derivatives used for hedging	-	-	-	-
Total Assets	-	-	-	-
Liabilities				
Derivatives used for hedging	10,768	-	-	10,768
Financial liabilities at fair value through profit or loss:				
Options over unissued shares	-	-	22,995	22,995
Total liabilities	10,768	-	22,995	33,763

Note 25. Financial risk management (cont'd.)

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

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 2018.

(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; 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 2018 for recurring fair value measurements:

	Options over unissued shares US\$'000
Opening balance at 1 July 2017	2,531
Additions during the period	-
Loss recognised in profit or loss	20,464
Closing balance at 30 June 2018	22,995

Note 25. Financial risk management (cont'd.)

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 2018 US\$'000	Unobservable inputs	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Options over unissued shares	22,995	Share price volatility	63.40%	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 63.4% 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 and current classification. The non-current liability associated with the subordinated debt was initially measured at fair value on drawdown during the period and subsequently measured at amortised cost. Refer to Note 19 for further details.

The fair value of other classes of financial instruments not yet covered above 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.

Note 26. New Zealand Imputation Credits

	Consolidated	
	2018	2017
	US\$'000	US\$'000
Imputation credits available for subsequent financial years ¹	2,856	2,775

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

Note 27. Acquisition of a further interest in PMP 38160 (Maari/Manaia)

(a) Summary of acquisition

On 6 November 2017, Horizon Oil International Limited, a wholly owned subsidiary of Horizon Oil Limited, entered into a purchase agreement with Todd Maari Limited (Todd) to acquire Todd's 16% interest in PMP 38160, which contains the producing Maari and Manaia fields. Following completion of the transaction on 31 May 2018, Horizon Oil holds a 26% interest in the PMP 38160 joint venture.

The effective date of acquisition was 31 December 2017.

The acquisition of the 16% interest in PMP 38160 has been accounted for as a business combination. In accordance with the accounting policy described in Note 1 (n), the group identified and recognised the fair value of the individual identifiable assets acquired and liabilities assumed at the effective acquisition date. The fair values recognised for the identifiable assets acquired and liabilities assumed was the cash consideration paid, with the exception of the restoration asset and liability of US\$14,787,000 which was estimated by the Group on acquisition following an external consultant review.

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

	2018 US\$'000
Purchase consideration:	
Cash paid	17,600
Net working capital cash flows	717
Total purchase consideration	18,317

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

	Fair Value US\$'000
Cash	1,657 ¹
Receivables	610 ¹
Inventory – consumable spare parts	574 ¹
Inventory – crude oil	2,829 ¹
Oil and gas assets	32,642 ¹
Restoration provision	(14,787) ¹
Payables	(5,208) ¹
Net identifiable assets acquired	18,317

¹ In addition to the abovementioned identifiable assets and liabilities, the Group assumed oil and gas expenditure commitments in New Zealand associated with the acquired licence. Refer to Note 39 for further detail in relation to the Group's capital commitments.

(b) Purchase consideration – cash outflow

	US\$'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	17,600
Net working capital cash flows	717
	18,317
Less: cash balances acquired	1,657
Outflow of cash – investing activities	16,660

Note 28. 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
		2018	2017	
		%	%	
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

During the financial period the group changed the names of Eaglewood Energy (BVI) Limited and Ketu Petroleum Limited to Horizon Oil (Ubuntu) Limited and Horizon Oil (Ketu) Limited.

Note 29. 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	
	2018	2017
	US\$'000	US\$'000
Current assets		
Cash and cash equivalents	2,381	2,175
Receivables	297	64
Inventories	3,147	1,497
Total current assets	5,825	3,736
Non-current assets		
Plant and equipment	536	536
Exploration phase expenditure	57,453	51,940
Oil and gas assets	193,774	179,098
Total non-current assets	251,763	231,574
Total assets	257,588	235,310
Current liabilities		
Payables	10,106	5,769
Total current liabilities	10,106	5,769
Non-current liabilities		
Payables	-	-
Total non-current liabilities	-	-
Total liabilities	10,106	5,769
Share of net assets employed in joint operations	247,482	229,541

Contingent liabilities in respect of joint operations are detailed in Note 36.

Exploration and development expenditure commitments in respect of joint operations are detailed in Note 39.

Note 29. Interest in joint operations (cont'd.)

The Group had an interest in the following joint operations:

Permit or licence	Principal activities	Interest (%) 30 June 2018	Interest (%) 30 June 2017
New Zealand			
PMP 38160 (Maari/Manaia)	Oil and gas production, exploration and development	26.00% ¹	10.00%
China			
Block 22/12	Oil and gas production, exploration and development	26.95% / 55% ²	26.95% / 55% ²
PNG			
PDL 10	Oil and gas development	30.00% ³	30.00% ³
PRL 21	Oil and gas exploration and development	30.15% ³	30.15% ³
PRL 28	Oil and gas exploration and development	50.00% ^{3,4}	50.00% ³
PPL 259/574	Oil and gas exploration	80.00% ³	80.00% ³
PPL 430	Oil and gas exploration	100.00% ³	100.00% ³
PPL 372	Oil and gas exploration	95.00% ³	95.00% ³
PPL 373	Oil and gas exploration	100.00% ³	100.00% ³
PRL 40	Oil and gas exploration	- ⁴	-

1 Effective 31 December 2017, the Group acquired an additional 16% interest in PMP 38160, which contains the producing Maari and Manaia fields.

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

3 PNG government may appoint a state nominee to acquire up to a 22.5% participating interest in any commercial development within the PNG licence areas.

4 The Group will exchange a 20% interest in PRL 28 for a 20% interest in PRL 40 (Puk Puk and Douglas gas fields) in a trade with Kumul Petroleum Holdings, PNG's national oil company. Completion of this transaction is conditional on customary PNG Government approvals.

	Consolidated	
	2018 US\$	2017 US\$
Note 30. Remuneration of external auditors		
During the financial year, the following fees were paid or payable for services provided by the external auditor of the parent entity and its related practices:		
1. PwC Australia		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	169,687	195,542
Other assurance services	11,573	45,034
Total remuneration for audit and other assurance services	181,260	240,576
<i>Taxation services</i>		
Tax compliance ¹	10,672	13,255
Total remuneration for taxation services	10,672	13,255
2. Non-PwC audit firms		
<i>Audit and other assurance services</i>		
	14,616	11,681
Total remuneration for audit and other assurance services	14,616	11,681
Total auditors' remuneration	206,548	265,512

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 31. 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

	2018 US\$	2017 US\$
Short-term employee benefits	2,470,376	2,158,065
Post-employment benefits	91,429	110,365
Long-term benefits	(2,511)	30,983
Share-based payments (non-cash)	802,717	897,111
Total key management personnel remuneration	3,362,011	3,196,524

Detailed remuneration disclosures are provided in sections A-D of the audited Remuneration Report.

Loans to key management personnel

There were no loans to directors or other key management personnel during the current or prior financial year.

Other transactions with key management personnel

There were no other transactions with key management personnel during the current or prior financial year, other than as disclosed in sections A – D of the remuneration report.

Note 32. Related parties

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

Financing

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

Directors and other key management personnel

There were no related party transactions with directors and other key management personnel during the current or prior year other than as disclosed in sections A – D of the Remuneration report and Note 32.

Subsidiaries

Interests in subsidiaries are set out in Note 28. Details in respect of guarantees provided to subsidiaries are set out in Note 42 (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 2018 and 30 June 2017 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.

Note 32. Related parties (cont'd.)

The following transactions occurred with related parties:

	2018 US\$	2017 US\$
<i>Superannuation contributions</i>		
Superannuation contributions to superannuation funds on behalf of employees	383,100	405,321
<i>Other transactions</i>		
Payments to Horizon Oil Limited under financial guarantee contract arrangements from wholly owned subsidiary	2,556,383	2,590,136
Loans to/from related parties		
Balance at beginning of the financial year	156,527,472	207,348,013
Loans advanced	33,068,359	19,178,094
Loan repayments received	(17,002,398)	(74,636,997)
Interest charged	1,707,849	4,122,964
Interest paid	-	(2,628,602)
Debt capitalised as equity	(16,939,732)	(10,000,000)
Dividends received	6,000,000	13,144,000
Balance at end of financial year	163,361,550	156,527,472

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 7.4% (2017: 6.7%). Outstanding balances are unsecured and repayable in cash.

Note 33. 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	Granted during financial year	Exercised during financial year	Lapsed/cancelled during financial year	Balance end of financial year	Vested and exercisable at end of financial year
			Number	Number	Number	Number	Number	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	-
Total			302,200,000	-	-	(1,200,000)	301,000,000	-
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 19(c) and 20 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.

Note 33. Share-based payments (cont'd.)

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

1 Relates to options issued under the Employee Option Scheme.

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

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

4 The exercise price of the options and SARs outstanding at 31 July 2013 were reduced by A\$0.006 following the rights issue during the year.

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

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

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.13 years (2017 – 2.48 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

Note 33. Share-based payments (cont'd.)

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 2018 was \$22,995,000 (2017: \$2,531,000). 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 prior financial year, and if exercised, in certain circumstances may be offset against the principal and interest outstanding on this facility at the election of the lender.

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

The fair value at grant date is independently determined using a Monte Carlo Simulation method that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk free 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 2018 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	63.40% p.a.
Risk free rate	2.12% p.a.
Expected dividend yield	0.00% p.a.

Note 33. Share-based payments (cont'd.)**Share appreciation rights issued**

55,691,714 share appreciation rights were issued under the Long Term Incentive Plan. The weighted average exercise price of these SARs is A\$0.0453 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\$0.019709 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 2018 included:

Effective allocation date	1 July 2017
Estimated expiry date	1 July 2022
Exercise price	N/A
10 Day VWAP of Horizon Oil shares at effective allocation date	A\$0.0453
Expected price volatility	52.30% p.a.
Risk free rate	2.18% 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	
	2018	2017
	US\$'000	US\$'000
Share Appreciation Rights issued under:		
Long Term Incentive Plan	803	897
Options issued under:		
Employee Option Scheme	6	19
Total employee share-based payments expense	809	916

Options/SARs in respect of which expiry dates were modified during the financial year

No options/SARs were modified during the financial year.

Options/SARs exercised during the financial year

No options/SARs were exercised during the financial year.

Options/SARs lapsing or cancelled during the financial year

During the financial year 500,000 unlisted general options lapsed or were cancelled.

During the financial year 18,109,535 SARs lapsed or were cancelled.

Options/SARs exercised and options/SARs issued subsequent to 30 June 2018

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

Options/SARs lapsed subsequent to 30 June 2018

No options or SARs have lapsed subsequent to financial year end.

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

Note 34. Employee entitlements

	Consolidated	
	2018	2017
	US\$'000	US\$'000
Employee entitlement liabilities are included within:		
Current – other creditors	748	791
Non-current - other creditors (Note 17)	62	28
	Number	
	2018	2017
Employee numbers		
Average number of employees during financial year	32	34

Note 35. 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 2018. 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 *Rarua'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\$0.6 million and investigation by the relevant insurers continues. The Group anticipates that a further portion of these costs will be recovered from insurance.

Note 36. Contingent liabilities

The Group had contingent liabilities as at 30 June 2018 and 30 June 2017 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 37. 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 2018 that has significantly affected, or may significantly affect:

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

The financial statements were authorised for issue by the Board of Directors on 23 August 2018. The Board of Directors has the power to amend and reissue the financial statements.

Note 38. 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 2018 US\$'000	2017 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	442	456
Later than one financial year but not later than five financial years	133	476
	575	932

(ii) Finance leases

The Group had no outstanding finance leases as at 30 June 2018 or 30 June 2017.

Note 39. 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.

2018	New Zealand Development	China Exploration & Development	Papua New Guinea Exploration & Development	Total
	US\$'000	US\$'000	US\$'000	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

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

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

	Consolidated	
	2018 US\$'000	2017 US\$'000
Loss for financial year	(2,599)	(336)
Exploration and development expenditure written off/expensed	4,571	1,250
Depreciation expense	329	385
Movement in employee entitlement liabilities	(9)	26
Non-cash employee share-based payments expense	809	916
Amortisation expense	29,163	26,301
Amortisation of prepaid financing costs	2,738	2,423
Provision for restoration	529	133
Unrealised movement in value of convertible bond conversion rights	-	(530)
Unrealised fair value movements associated with subordinated debt	1,241	1,750
Unrealised movement in in fair value of other financial liabilities	20,464	(1,400)
Net unrealised foreign currency (gains)/losses	1	(18)
<i>Change in operating assets and liabilities:</i>		
Decrease/(increase) in trade debtors	(4,069)	2,761
Decrease in other debtors and prepayments	(1,323)	335
Decrease in inventory	(1,652)	313
Increase/(decrease) in net deferred tax liabilities	(6,366)	3,533
Decrease in tax receivable/payable	(2,638)	832
(Decrease)/increase in trade creditors	9,765	(1,635)
(Decrease)/increase in other creditors	6,626	(1,406)
Net cash inflow from operating activities	57,580	35,633

Note 41. Earnings per share

	Consolidated	
	2018 US cents	2017 US cents
(a) Basic earnings per share attributable to the ordinary equity holders of the Company	(0.20)	(0.03)
(b) Diluted earnings per share attributable to the ordinary equity holders of the Company	(0.20)	(0.03)

	2018	2017
	Number	Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	1,303,481,265	1,303,481,265
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	1,303,481,265	1,303,481,265

	2018	2017
	US\$'000	US\$'000
Reconciliation of earnings used in calculating earnings per share		
Loss attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	(2,599)	(336)

Note 41. Earnings per share (cont'd.)

Information concerning the classification of securities**(a) Partly paid ordinary shares**

Partly paid ordinary shares carry the rights of fully paid ordinary shares and to that extent they have been recognised as ordinary share equivalents in the determination of basic earnings per share. All partly paid shares on issue are held by the Company.

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

(b) Options and share appreciation rights granted as compensation

Options and share appreciation rights (SARs) granted to employees under the Long Term Incentive Plan or Employee Option Scheme and general options issued (including the 300 million options issued in connection with the drawdown of the subordinated secured non-amortising loan facility during the period), are included in the calculation of diluted earnings per share to the extent to which they are dilutive. The SARs are considered to be contingently issuable shares and are treated as outstanding and included in the calculation of diluted earnings per share if the relevant performance hurdles have been met. Options and SARs have not been included in the determination of basic earnings per share.

Details regarding the options and share appreciation rights are set out in Note 33.

Note 42. Parent Entity financial information**(i) Summary financial information**

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

	Parent Entity	
	2018	2017
	US\$'000	US\$'000
Statement of financial position		
Current assets	5,898	14,847
Non-current assets	148,274	114,333
Total assets	154,172	129,180
Current liabilities	1,043	1,127
Non-current liabilities	23,057	2,558
Total liabilities	24,100	3,685
Net assets	130,072	125,495
Contributed equity	174,801	174,801
Share-based payments reserve	13,756	12,946
Retained earnings	(58,485)	(62,252)
Total equity	130,072	125,495
Profit/(loss) for the financial year	3,767	(78,076)
Total comprehensive profit/(loss) for the financial year	3,767	(78,076)

(ii) Guarantees entered into by the parent entity

The parent entity has provided guarantees in respect of bank loans, hedge derivatives and environmental compliance obligations of its subsidiaries amounting to US\$127,781,000 (2017: US\$134,998,000).

No liability has been recognised for guarantees provided. After factoring in the likelihood that the parent entity would be required to perform under the guarantees the fair value of the liability was not considered material.

(iii) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2018 or 30 June 2017. 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 2018, the parent entity had no contractual commitments for the acquisition of property, plant or equipment (30 June 2017 – US\$Nil).

SHAREHOLDER INFORMATION

Horizon Oil Limited and Controlled Entities Securities Exchange Information as at 4 October 2018

DISTRIBUTION OF EQUITY SECURITIES

The distribution of equity security holders ranked according to size at 4 October 2018 was as follows:

Size of holding	Ordinary shares		Share appreciation rights
	Shares	Unlisted options	
1 to 1,000	506	-	-
1,001 to 5,000	900	-	-
5,001 to 10,000	875	-	-
10,001 to 100,000	2,205	-	-
100,001 and over	882	3	3
Total	5,368	3	3

A total of 1,016 holders held less than a marketable parcel of 3,333 ordinary shares.

TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest shareholders of the Company's ordinary shares are listed below:

Name	No. of ordinary shares	% of issued ordinary shares
1 Citicorp Nominees Pty Limited	521,426,405	40.05
2 HSBC Custody Nominees (Australia) Limited	97,838,672	7.51
3 J P Morgan Nominees Australia Limited	49,882,788	3.83
4 Carrington Land Pty Ltd	20,000,000	1.54
5 Mr Geoffrey Victor Day & Mrs Anne Margaret Day	19,000,000	1.46
6 Mr David Harvey Peek	14,000,000	1.08
7 NGE Capital Limited	13,760,451	1.06
8 National Nominees Limited	13,392,978	1.03
9 Mr John Gustav Svendsen & Associated Entities	11,109,000	0.85
10 V L H Pty Ltd	10,002,607	0.77
11 Finot Pty Ltd	8,857,143	0.68
12 Grizzley Holdings Pty Limited	8,511,941	0.65
13 Berne No 132 Nominees Pty Ltd	8,262,911	0.63
14 Mr Michael Sheridan	7,968,201	0.61
15 Mr Douglas Thomas Nicholas & Mr Graeme Douglas Nicholas	7,926,729	0.61
16 Mr John Bernard Porteous	7,558,716	0.58
17 AET CT Pty Limited	7,200,000	0.55
18 Mr Christian James Haustead	6,800,000	0.52
19 Hamilton Securities Limited	6,250,000	0.48
20 Neweconomy.Com.Au Nominees Pty Limited	5,539,681	0.43
Total	845,288,223	64.92

ISSUED SECURITIES

Issued securities as at 4 October 2018:

Security	Number on issue	Number of holders
Ordinary fully paid shares ¹	1,301,981,265	5,367
Ordinary partly paid shares ¹	1,500,000	1
Unlisted general options	300,000,000 ²	1
Unlisted employee options	1,000,000	2
Unlisted share appreciation rights	129,172,425	3

¹ The Company's ordinary fully and partly paid shares are listed on the Australian Securities Exchange.

² The Company issued 300 Million warrants over unissued shares in the Company in accordance with the terms of the subordinated debt facility with IMC investments Limited signed on 15 September 2016.

SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

Ordinary shares	No. of ordinary shares	% of issued ordinary shares
IMC Investments Ltd (an associate of Austral-Asia Energy Pty Ltd)	393,981,792	30.26
Spheria Asset Management Pty Limited	109,519,176	8.41
Commonwealth Bank of Australia	95,340,252	7.32
Total	598,841,220	45.99

VOTING RIGHTS

a) Ordinary shares – fully paid

Voting of members is governed by the Company's Constitution. In summary, every member present in person or by proxy attorney or representative shall have one vote on a show of hands and one vote for each share on a poll.

b) Ordinary shares – partly paid

Voting of members is governed by the Company's Constitution. In summary, every member present in person or by proxy attorney or representative shall have one vote on a show of hands and upon a poll, is entitled to one vote to the proportion of the total issue price then paid up.

c) Options (employee/general) - unlisted

No voting rights.

d) Share appreciation rights - unlisted

No voting rights.

A-IFRS	Australian equivalents to International Financial Reporting Standards
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
bbl(s)	Blue barrel(s), oil barrel volume is 0.159 cubic metres
bcf	Billion cubic feet of natural gas
boe	Barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 cubic feet per barrel and not price equivalence at the time
boepd	Barrel of oil equivalent per day
bopd	Barrel of oil per day inclusive of NGLs
CEPA	Conservation & Environment Protection Authority (PNG)
CNOOC	China National Offshore Oil Corporation
DEC	Department of Environment and Conservation (PNG)
DPE	Department of Petroleum and Energy (PNG)
EBITDAX	Earnings before interest, tax, depreciation, depletion and amortisation, and exploration expenses
ESP	Electrical submersible pump
FID	Final investment decision
FPSO	Floating production, storage and offloading vessel
FEED	Front end engineering and design
GST	Goods and services tax
JOA	Joint operating agreement
km	Kilometres
LIBOR	London inter-bank offered rate
LNG	Liquefied natural gas
mmbbl	Million barrels
mmbo	Million barrels of oil
mmboe	Million barrels of oil equivalent
mmcfb	Millions cubic feet barrels
mtpa	Million tonnes per annum
NDRC	National Development and Reform Commission
NGL(s)	Natural gas liquid(s)
ODP	Overall Development Plan
PJ	Petajoules, equal to one quadrillion joules
PL	Pipeline licence
PDL	Petroleum development licence
PMP	Petroleum mining permit
PPL	Petroleum prospecting licence
PRL	Petroleum retention licence

GLOSSARY

Reserves	Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.
Contingent Resources	Contingent Resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable owing to one or more contingencies.
PSA	Production Sharing Agreement
PNG	Papua New Guinea
SDA	Supplemental Development Agreement
SPE-PRMS	Society of Petroleum Engineers – Petroleum Resources Management System
Sq km	Square kilometres
tcf	Trillion cubic feet of natural gas
USD / US\$	United States dollars
WHP	Wellhead platform
WOU	Workover unit
WLNG	The “Western LNG” gas aggregation development project
2D Seismic	Seismic recorded in 2 dimensions
3D Seismic	Seismic recorded in 3 dimensions

Horizon Oil Limited

ABN 51 009 799 455

Board of Directors	John Humphrey (Chairman) Michael Sheridan (Chief Executive Officer) Gerrit de Nys Sandra Birkenleigh Gregory Bittar (Alternate: Bruno Lorenzon)
General Counsel/Company Secretary	Kylie Quinlivan
Australian Registered Office (Principal place of business)	Level 6, 134 William Street, SYDNEY NSW 2011
Telephone:	+(612) 9332 5000
Facsimile:	+(612) 9332 5050
E-mail:	exploration@horizonoil.com.au
Website:	www.horizonoil.com.au
Domicile and country of incorporation	Australia
Share Registrar	Boardroom Pty Limited Level 7, 207 Kent Street SYDNEY NSW 2000
Telephone:	+(612) 9290 9600
Solicitors	King & Wood Mallesons Level 30 Waterfront Place 1 Eagle Street BRISBANE QLD 4000
Auditor	PwC One International Towers Sydney Watermans Quay, Barrangaroo SYDNEY NSW 2000
Stock Exchanges	Horizon Oil Limited shares are listed on the ASX (ASX code: HZN)
Notice of Annual General Meeting	The Annual General Meeting of Horizon Oil Limited will be held at Mezzanine Level, Robinson/William Room, The Sydney Boulevard Hotel, 90 William Street, Sydney
Time:	10.00am
Date:	28 November 2018



Horizon Oil Limited
ABN 51 009 799 455

Level 6, 134 William Street
Woolloomooloo NSW 2011 Australia
T +612 9332 5000 F +612 9332 5050

www.horizonoil.com.au

Notice of 2018 Annual General Meeting



Horizon Oil Limited ABN 51 009 799 455

The Annual General Meeting ('AGM') of the members of Horizon Oil Limited ACN 009 799 455 (the 'Company') will be held at 10.00am (Sydney time) on Wednesday, 28 November 2018 at Mezzanine Level, Robinson/William Room, The Sydney Boulevard Hotel, 90 William Street, Sydney, New South Wales, 2011 to transact the business set out below.

Members should refer to the accompanying Explanatory Memorandum for further information concerning the business to be carried out at the AGM.

Business

1. Consideration of reports

To receive and consider the Annual Financial Statements, the Directors' Report and the Independent Audit Report of the Company for the year ended 30 June 2018.

Note: There is no requirement for members to vote on this item of business.

2. Remuneration Report

To consider and, if thought appropriate, to pass the following as an ordinary resolution:

"That the Remuneration Report for the year ended 30 June 2018 (set out in the Directors' Report) be adopted."

Note: The vote on this resolution is advisory only and does not bind the Company or the directors.

Note: A voting exclusion applies to this item – see the Explanatory Memorandum.

3. Re-election of director – Mr Gerrit de Nys

To consider and, if thought appropriate, to pass the following as an ordinary resolution:

"That Mr Gerrit de Nys, a non-executive director retiring in accordance with the Company's Constitution, being eligible, is re-elected as a non-executive director of the Company."

Further information in relation to this resolution and Mr de Nys is set out in the Explanatory Memorandum.

4. Approval of 2018 grant of long term incentives ('LTIs') to Mr Michael Sheridan, Managing Director and Chief Executive Officer

To consider and, if thought appropriate, to pass the following as an ordinary resolution:

"That approval be given for all purposes under the Corporations Act and the Listing Rules of the ASX, including Listing Rule 10.14, for the grant of up to 5,135,087 securities (including share appreciation rights ('SARs') and shares which may be issued as a result of the exercise or vesting of SARs) to the Managing Director and Chief Executive Officer, Mr Michael Sheridan, in accordance with the terms of his employment agreement and as set out in the accompanying Explanatory Memorandum."

Further information in relation to this resolution is set out in the Explanatory Memorandum.

Note: A voting exclusion applies to this item – see the Explanatory Memorandum.

By order of the Board.

Dated: 26 October 2018

Kylie Quinlivan
General Counsel and Company Secretary

Eligibility to attend and vote

For the purposes of the meeting and in accordance with regulation 7.11.37 of the *Corporations Regulations 2001* and ASX Settlement Operating Rule 5.6.1, shares will be taken to be held by the persons who are registered as members as at 7.00pm (Sydney time) on Monday, 26 November 2018.

Proxies

If you are a member entitled to attend and vote, you are entitled to appoint a proxy to attend and vote on your behalf. If you are a member entitled to attend and cast two or more votes, you are entitled to appoint no more than two proxies. Where two proxies are appointed, you may specify the number or proportion of votes that each may exercise, failing which, each may exercise half of the votes. A proxy need not be a member of the Company.

If you want to appoint one proxy, please use the proxy form provided. If you want to appoint two proxies, please follow the instructions on the reverse of the proxy form.

The Company's Constitution provides that, on a show of hands, every person present and qualified to vote shall have one vote. If you appoint one proxy, that proxy may vote on a show of hands, but if you appoint two proxies, only the proxy first-mentioned in the instrument appointing the proxy may vote on a show of hands.

If you appoint a proxy who is also a member or is also a proxy for another member, your directions may not be effective on a show of hands. Your directions will be effective if a poll is required and your proxy votes.

To be effective, the proxy form must be received by Boardroom Pty Limited, by online submission or at the address or facsimile number below, or by the Company at its registered office, Level 6, 134 William Street, Woolloomooloo NSW 2011, not later than 10.00am (Sydney time) on Monday, 26 November 2018, being 48 hours before the commencement of the meeting.

If the Chairman of the meeting is your proxy, and you fail to provide a voting direction in respect of Items 2, 3 or 4 on the proxy form (which you may do by ticking 'For', 'Against' or 'Abstain' opposite Items 2, 3 or 4, as applicable, on the proxy form), you are expressly authorising the Chairman of the meeting to vote in favour of Items 2, 3 or 4, as applicable, even if that resolution is connected directly or indirectly with the remuneration of directors or members of the KMP of the Company. Subject to any applicable laws or voting exclusions, the Chairman intends to vote all available proxies in favour of the resolutions in this Notice of Meeting (including Items 2, 3 and 4).

To vote online:

TO VOTE ONLINE
Step 1: VISIT https://www.votingonline.com.au/horizonoilagm2018
Step 2: Enter your Postcode OR Country of Residence (if outside Australia)
Step 3: Enter your Voting Access Code:

By mail: Boardroom Pty Limited GPO Box 3993 Sydney NSW 2001 AUSTRALIA	For delivery: Boardroom Pty Limited Level 12, 225 George Street Sydney NSW 2000 AUSTRALIA	By fax: Boardroom Pty Limited +61 2 9290 9655
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Admission to meeting

Members who will be attending the meeting and who will not be appointing a proxy are asked to bring the proxy form to the meeting to help with admission.

Members who do not plan to attend the meeting are encouraged to complete and return a proxy form for each of their holdings of shares in the Company.

A replacement proxy form may be obtained from the Company's external share registry:

Boardroom Pty Limited

Level 12, 225 George Street Sydney NSW 2000
Telephone: +61 2 9290 9600 or 1300 737 760
Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

Explanatory Memorandum



Horizon Oil Limited ABN 51 009 799 455

This Explanatory Memorandum contains information about the resolutions to be considered at the 2018 AGM, which are set out in the accompanying Notice of Meeting, to assist shareholders to determine how they wish to vote on the resolutions. This Explanatory Memorandum forms part of the accompanying Notice of Meeting and should be read together with the Notice of Meeting.

Items of business

1. Consideration of reports

There is no requirement for members to approve the reports described in Item 1. In accordance with the Corporations Act 2001 (**'Corporations Act'**) and the Company's usual practice, the Chairman will allow a reasonable opportunity for shareholders to ask questions or make comments about the reports and the management of the Company. A reasonable opportunity will also be given to members, as a whole, to ask the auditor, or their representative, questions relevant to the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

Written questions to the Company's auditor about:

- > the content of the Independent Auditor Report; or
 - > the conduct of the audit of the Annual Financial Statements,
- must be submitted no later than Wednesday, 21 November 2018 to:

The Company Secretary
Level 6, 134 William Street
Woolloomooloo NSW 2011 Australia

Facsimile: +61 2 9332 5050
Email: exploration@horizonoil.com.au

Copies of the questions, if any, to the Company's auditor will be available at or before the 2018 AGM.

2. Remuneration Report

The Remuneration Report is contained in the 'Directors' Report' of the Company's 2018 Annual Report. A copy of the 2018 Annual Report is available on the Company's website www.horizonoil.com.au.

The Remuneration Report:

- > explains the principles used by the board to determine the nature and amount of remuneration of directors and executives; and
- > sets out remuneration details for each director and each named executive.

The Chairman will give shareholders a reasonable opportunity to ask questions about or make comments on the Remuneration Report. The Corporations Act requires the Company to propose a resolution that the Remuneration Report be adopted.

The vote on this item is advisory only and does not bind the Company or the directors. However, the board will take the outcome of this vote into consideration when reviewing the remuneration practices and policies of the Company.

Voting exclusion statement – Item 2

No votes may be cast on this item by or on behalf of members of the key management personnel of the Company ('KMP') or their closely related parties.

However, a vote may be cast on Item 2 if the vote is not cast on behalf of a member of the KMP or their closely related parties and either the vote is cast:

- *by a member of the KMP, or their closely related party, if the vote is cast as a proxy for a person who is entitled to vote on this item, and the proxy appointment is in writing and specifies how the proxy is to vote on Item 2; or*
- *by the Chairman of the meeting, if the vote is cast as a proxy appointed in writing that does not specify the way the proxy is to vote on Item 2, and expressly authorises the Chairman of the meeting to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the KMP.*

If you appoint the Chairman of the meeting as your proxy, and you do not direct your proxy how to vote on Item 2, you will be expressly authorising the Chairman of the meeting to exercise your proxy even if Item 2 is connected directly or indirectly with the remuneration of a member of the KMP. The Chairman intends to vote all undirected proxies in favour of Item 2.

3. Re-election of director – Mr Gerrit de Nys

The Company's Constitution provides that an election of directors shall take place every year.

Accordingly, Mr de Nys will retire at the end of this AGM and seeks re-election in accordance with the requirements of the Company's Constitution.

Mr de Nys has been a director since 2007. He is chairman of the Risk Management Committee and a member of the Remuneration and Nomination Committee. Mr de Nys has over 45 years' experience in civil engineering, construction, oil field contracting and natural resource investment management. Mr de Nys is a 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).

The directors (with Mr de Nys abstaining) recommend that you vote in favour of this ordinary resolution.

4. Approval of 2018 grant of long term incentives ('LTIs') to Mr Michael Sheridan, Managing Director and Chief Executive Officer

The Company introduced the LTI Plan during 2010 to provide annual performance incentives to the Company's key employees.

On 9 October 2018, the board (with Mr Sheridan abstaining) approved the issue of 5,135,087 share appreciation rights ('SARs') to be granted to Mr Sheridan, subject to the approval of shareholders.

As at the date of this Notice of Meeting, Mr Sheridan's total fixed remuneration is A\$750,000. The amount of 5,135,087 SARs to be issued to Mr Sheridan (subject to the resolution of this Item 4) was calculated in accordance with the LTI Plan by dividing 50% of Mr Sheridan's fixed remuneration by the present day value of the SARs as calculated using a Monte Carlo simulation by an independent valuer, Dalway Securities, 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 2018 SARs award is A\$0.1439.

Shareholder approval of the grant of securities under the LTI Plan to Mr Sheridan is sought for all purposes under the Corporations Act and the Listing Rules of the ASX, including Listing Rule 10.14. If approval is given under this ASX Listing Rule 10.14, then approval is not required under ASX Listing Rule 7.1.

The proposed grant to Mr Sheridan is on the terms and conditions as outlined below.

Summary of the terms of the LTI Plan

In order to provide annual performance incentives to the Company's executives, the Company adopted the LTI Plan on 18 November 2010 to replace previous LTI arrangements for the Company's senior executives. The LTI arrangements apply to senior executives and involve the grant of rights which will 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 ASX Listing Rule requirements, to grant SARs to executives as LTIs. The board has determined that a fixed proportion of a senior executives' fixed remuneration would be LTIs in the form of SARs, with the number of SARs granted to be based on the present day 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 (being, in the case of 2018 SARs, A\$0.1439). 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

Explanatory Memorandum

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. Where the number of shares calculated is not a whole number, it will be rounded down to the nearest whole number.

Other key terms and conditions of the SARs that may be granted under the LTI Plan include:

Key terms & conditions	Long Term Incentive Plan
Eligible persons:	Under the terms of the LTI Plan, the Company may grant SARs to any employee. However, it is currently intended by the Company to only grant SARs under the LTI Plan to current senior executive employees including executive directors.
Exercise price:	No price is payable by a participant in the LTI Plan on the exercise of a SAR.
SAR Value:	<p>$V \text{ minus } G$</p> <p>where:</p> <p>V equals volume weighted average price ('VWAP') of shares in the Company for the 10 business day period up to the date before the date the SAR is exercised; and</p> <p>G equals the VWAP of shares in the Company for the 10 business day period up to the day before the Effective Allocation Date for the SARs.</p>
Satisfaction of exercise of SARs in cash or by issue of shares:	<p>Subject to ASX Listing Rules, the Company may satisfy the exercise of SARs by a participant by payment in cash, issue of shares or a combination, at the board's discretion.</p> <p>Cash payment on exercise of SARs is calculated by multiplying the number of SARs exercised by the SAR Value (less applicable taxes).</p> <p>The number of shares that may be issued in satisfaction of exercise of SARs is calculated as follows:</p> <ul style="list-style-type: none"> the aggregate SAR Value is calculated by multiplying the number of SARs exercised by the SAR Value; and the aggregate SAR value is divided by the 10 day VWAP of shares in the Company ending on the exercise date, rounded down to the nearest whole share.
Performance requirements:	<p>Under the LTI Plan, the number of SARs that vest is generally determined by reference to whether the Company achieves certain performance conditions.</p> <p>The number of SARs that vest is determined by reference to the Company's total shareholder return ('TSR') over the relevant period relative to that of the S&P/ASX200 Energy Index ('Index'). 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.</p> <p>The number of SARs that vest is:</p> <ul style="list-style-type: none"> if the Company's TSR is equal to that of the Index ('Minimum Benchmark'), 50%; if the Company's TSR is 14% or more above that of the Index, 100% ('Maximum Benchmark'); and 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. <p>The Maximum Benchmark of 14% above the Index return equates to the performance level likely to exceed the 75th percentile of market returns of companies (weighted by company size) in the Index.</p> <p>Furthermore, even where these performance conditions are satisfied, the SARs will not vest unless the Company achieves a TSR of at least 10% over the relevant period.</p> <p>The performance conditions are tested on the date that is three years after the Effective Allocation Date of the SARs, and are then re-tested every six months after that until the date that is five years after the Effective Allocation Date of the SARs (the final retesting date). The performance conditions are also tested where certain circumstances occur, such as a takeover bid for the Company.</p> <p>If the SARs have not, pursuant to these performance conditions, vested by the final retesting date that is five years after the date the SARs are granted, the SARs will lapse.</p>
Cessation of employment:	If a holder of SARs under the LTI Plan ceases to be employed by a member of the Company's corporate group, then this generally does not affect the terms and operation of the SARs. The board does, however, under the LTI Plan have discretion, to the extent permitted by law, to cause the SARs to lapse or accelerate the date on which the SARs become exercisable.
Maximum number of shares that can be issued:	Subject to various exclusions, the maximum number of shares that may be issued on the exercise of SARs granted under the LTI Plan is capped at 5% of the total number of issued shares of the Company.
Restrictions on exercise:	<p>A SAR cannot be exercised unless it has vested. Where a SAR vests, a participant may not exercise the SAR until the first time after the time the SAR vests that the participant is able to deal with shares in the Company under the Company's securities trading policy.</p> <p>SARs are exercised by submitting a notice of exercise to the Company.</p>

Explanatory Memorandum

Lapse:	<p>SARs will lapse where:</p> <ul style="list-style-type: none"> • the SARs have not vested by the final retesting date which is five years after the date of grant (see above); • if the SARs have vested by the final retesting date that is five years after the date of grant, the SARs have not been exercised within three months of the date that the SARs would have first been able to be exercised if they vested at the final retesting date that is five years after the date of grant. This may be more than five years and three months from the date of grant depending on whether the holder of the SAR is able to deal with shares in the Company under the Company's securities trading policy at the date five years after the date of grant; • the employee ceases to be employed by the Company (or a member of its corporate group), and the board determines that some or all of the SARs lapse (see above); • the board determines that the employee has committed or it is evident that the employee intends to commit, any act (whether by commission or omission) which amounts or would amount to fraud or serious misconduct; or • the employee provides a notice to the Company that they wish the SARs to lapse.
Share ranking and quotation:	Shares provided pursuant to the exercise of a SAR will rank equally with the shares in the Company then on issue. Quotation on the ASX will be sought for all shares issued upon the exercise of SARs. SARs are not assignable or transferable.
No right to dividends, bonus or rights issues:	The SARs will not confer on the holder an entitlement to dividends or to participate in bonus issues or rights issues unless the board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.
No voting rights:	The SARs will not confer an entitlement to vote at general meetings of the Company unless the board determines that the SARs will be satisfied in shares and until the SARs are exercised and shares are provided to the holder.
Non-quotation:	The Company will not apply to the ASX for official quotation of the SARs.
Capital re-organisation:	In the event of a reorganisation of the capital of the Company, the rights of the SARs holder will be changed to the extent necessary to comply with the ASX Listing Rules and shall not result in any additional benefits being conferred on SARs holders which are not conferred on members.
Effect of take-over or change of control of Company, death or disablement:	<p>The LTI Plan contains provisions to deal with SARs where there is a takeover or change of control of the Company. Depending on the nature of the takeover or change of control event, the Company 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.</p> <p>For example, the board will have discretion to determine a special retesting date where a takeover bid is made for the Company or a scheme of arrangement is entered into. In that case, the special retesting date will be the date determined by the board. Where a statement is lodged with the ASX that a person has become entitled to acquire more than 50% of the Company, the board will be required to determine a special retesting date, and the special retesting date will be the day the statement is lodged with the ASX.</p> <p>The SARs may vest if the performance requirements discussed above are satisfied in relation to that special retesting date.</p>

As required by Listing Rule 10.15, the following information is provided in respect of the grant of SARs under the LTI Plan to an executive director:

Listing Rule	Content requirement	Item 4 LTI Plan
10.15.2	The maximum number of Company's ordinary shares that may be acquired on exercise of the proposed grant of securities and the formula for calculating the number of securities to be issued:	<p><i>In the case of SARs:</i></p> <p>The maximum number of SARs granted to Mr Sheridan is 5,135,087 SARs, calculated on the basis of 50% of Mr Sheridan's fixed remuneration divided by the present day value of a SAR (A\$0.073027) on the Effective Allocation Date (1 July 2018), as calculated using a Monte Carlo simulation by an independent valuer, Dalway Securities.</p> <p><i>In the case of satisfaction of exercise of SARs by issue of ordinary shares (at the board's discretion):</i></p> <p>The maximum number of ordinary shares that may be issued to Mr Sheridan to satisfy exercise of SARs is 5,135,087 ordinary shares applying the following formula.</p> <p>The number of shares that may be issued in satisfaction of exercise of SARs is calculated as follows:</p> <ul style="list-style-type: none"> • the aggregate SAR Value is calculated by multiplying the number of SARs exercised by the SAR Value; and • the aggregate SAR Value is divided by the 10 day VWAP of shares in the Company ending on the exercise date, rounded down to the nearest whole share. <p>Where 'SAR Value' is calculated as follows:</p> $V \text{ minus } G$ <p>where</p> <p>V equals volume weighted average price ('VWAP') of shares in the Company for the 10 business day period up to the date before the date the SAR is exercised; and</p> <p>G equals the VWAP of shares in the Company for the 10 business day period up to the day before the Effective Allocation Date for the SARs.</p> <p>For the 2018 SARs, 'G' is A\$0.1439.</p>

Explanatory Memorandum

10.15.2 (cont'd.)		<p>By way of example:</p> <p>> provided the Company <i>outperforms by 14% the S&P ASX 200 Energy Index</i> and the 10 business day VWAP of the Company before the day the SAR is exercised is:</p> <ul style="list-style-type: none"> • A\$ 0.18, Mr Sheridan would be entitled to approximately 20.1% of the maximum number of shares <p>> where the Company's rate of return is <i>equal to the S&P ASX 200 Energy Index</i> and the 10 business day VWAP of the Company before the day the SAR is exercised is:</p> <ul style="list-style-type: none"> • A\$ 0.18, Mr Sheridan would be entitled to approximately 10.1% of the maximum number of shares <p>> where the Company's rate of return <i>does not meet the rate of return of the S&P ASX 200 Energy Index</i> and the 10 business day VWAP of the Company before the day the SAR is exercised is:</p> <ul style="list-style-type: none"> • A\$ 0.18, Mr Sheridan would be entitled to nil shares
10.15.3	Formula for calculating the price of securities to be acquired under the scheme:	Mr Sheridan is not required to pay any price in order to acquire SARs under the LTI Plan. Each 2018 SAR has a present day value on the Effective Allocation Date (1 July 2017) of A\$0.073027, as calculated using a Monte Carlo simulation by an independent valuer, Dalway Securities. No price is payable on exercise of a SAR.
10.15.4	Names of directors and associates who have received securities under the scheme since the last approval; number received; and acquisition price:	Mr Brent Emmett, formerly Chief Executive Officer and Managing Director, was issued 22,577,706 SARs in 2017. Mr Sheridan, in his former position as Chief Financial Officer, was issued 16,557,004 SARs in 2017. Neither Mr Emmett nor Mr Sheridan were required to pay any price in order to acquire SARs under the LTI Plan. Each SAR issued to them in 2017 had a value at the Effective Allocation Date (1 July 2017) of A\$0.019709, as calculated using a Monte Carlo simulation by independent valuer, Dalway Securities.
10.15.4A	Names of directors and associates entitled to participate in scheme:	Mr Sheridan.
10.15.5	Voting exclusion statement:	See voting exclusion statement set out below.
10.15.6	Terms of any loan in relation to acquisition:	There are no loans in relation to the acquisition of SARs or ordinary shares issued under the LTI Plan.
10.15.7	Date on which securities will be issued:	Subject to shareholder approval of the issue of the SARs, within five business days of the 2018 AGM, but in any event no later than 12 months after the date of the 2018 AGM.

Voting exclusion statement – Item 4

The Company will disregard any votes cast in favour of Item 4 by:

- Mr Michael Sheridan; or
- an associate of Mr Sheridan.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

A vote must not be cast on Item 4 by a member of the KMP, or their closely related parties, acting as proxy, if their appointment does not specify the way the proxy is to vote on Item 4. However, this voting restriction does not apply if the member of the KMP is the Chairman of the meeting acting as proxy and their appointment expressly authorises the Chairman of the meeting to exercise the proxy even if that item is connected directly or indirectly with the remuneration of a member of the KMP.

If you appoint the Chairman of the meeting as your proxy, and you do not direct your proxy how to vote on Item 4, you will be expressly authorising the Chairman of the meeting to exercise your proxy even if Item 4 is connected directly or indirectly with the remuneration of a member of the KMP. The Chairman intends to vote undirected proxies in favour of Item 4.

The directors (with Mr Sheridan abstaining) recommend that you vote in favour of Item 4.

Sydney

26 October 2018



All Correspondence to:

- ✉ **By Mail** Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001 Australia
- 📠 **By Fax:** +61 2 9290 9655
- 💻 **Online:** www.boardroomlimited.com.au
- ☎ **By Phone:** (within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

YOUR VOTE IS IMPORTANT

For your vote to be effective it must be recorded **before 10:00am (Sydney time) on Monday 26 November 2018**

🖥 TO VOTE ONLINE

- STEP 1:** VISIT <https://www.votingonline.com.au/horizonoilagm2018>
- STEP 2:** Enter your Postcode OR Country of Residence (if outside Australia)
- STEP 3:** Enter your Voting Access Code (VAC):

📱 BY SMARTPHONE



Scan QR Code using smartphone
QR Reader App

PLEASE NOTE: For security reasons it is important you keep the above information confidential.

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.

If you wish to appoint the Chair of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chair of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chair of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the company's securities registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together in the same envelope.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses (subject to any applicable voting restrictions). If you mark more than one box on an item for all your securities your vote on that item will be invalid.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders should sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the meeting, therefore by **10:00am (Sydney time) on Monday 26 November 2018**. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

🖥 **Online** <https://www.votingonline.com.au/horizonoilagm2018>

📠 **By Fax** + 61 2 9290 9655

✉ **By Mail** Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001 Australia

👤 **In Person** Boardroom Pty Limited
Level 12, 225 George Street
Sydney NSW 2000 Australia

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

Your Address
 This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Securityholders sponsored by a broker should advise their broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

PROXY FORM

STEP 1 APPOINT A PROXY

I/We being a member/s of **Horizon Oil Limited (Company)** and entitled to attend and vote hereby appoint:

the **Chair of the Meeting (mark box)**

OR if you are **NOT** appointing the Chair of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chair of the Meeting as my/our proxy at the **Annual General Meeting (Meeting)** of the Company to be held at **Mezzanine Level, Robinson/William Room, The Sydney Boulevard Hotel, 90 William Street, Sydney NSW 2011 on Wednesday 28 November 2018 at 10:00am (Sydney time)** and at any adjournment or postponement of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

If the Chair of the Meeting is your proxy or becomes your proxy by default: If I/we have appointed the Chair of the Meeting as my/our proxy or the Chair of the Meeting becomes my/our proxy by default and I/we have not directed my/our proxy how to vote in respect of Items 2 and 4, I/we expressly authorise the Chair of the Meeting to exercise my/our proxy in respect of Items 2 and 4 (as applicable) even though Items 2 and 4 are connected directly or indirectly with the remuneration of a member of the key management personnel of the Company.

Subject to any applicable laws or voting exclusions, the Chair of the Meeting will vote all undirected or available proxies in favour of all Items of business (including Items 2 and 4). In exceptional circumstances, the Chair of the Meeting may change his/her voting intention on any item of business, in which case an ASX announcement will be made by the Company. If you wish to appoint the Chair of the Meeting as your proxy with a direction to vote against, or to abstain from voting on an item of business, you must provide a direction by marking the 'Against' or 'Abstain' box opposite that item of business.

The Chair of the Meeting intends to vote all undirected or available proxies in favour of each item of business.

STEP 2 VOTING DIRECTIONS
 * If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your vote will not be counted in calculating the required majority if a poll is called.

		For	Against	Abstain*
Item 2	Adoption of the Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 3	Re-election of Director – Mr Gerrit de Nys	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Item 4	Approval of 2018 grant of long term incentives to Mr Michael Sheridan, Managing Director and Chief Executive Officer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

STEP 3 SIGNATURE OF SECURITYHOLDERS
 This form must be signed to enable your directions to be implemented.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
<input style="width: 100%; height: 30px;" type="text"/>	<input style="width: 100%; height: 30px;" type="text"/>	<input style="width: 100%; height: 30px;" type="text"/>
Sole Director and Sole Company Secretary	Director	Director / Company Secretary

Contact Name..... Contact Daytime Telephone..... Date / / 2018