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

26 February 2018

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

Dear Sir,

HORIZON OIL (HZN) ADVISES HALF-YEAR RESULTS

In accordance with Listing Rule 4.2A.3, Horizon Oil Limited lodges its half-year report for the period to 31 December 2017. The financial results for the period are set out in the attached Appendix 4D and half-year report.

HIGHLIGHTS

- 23% increase in net cash from operations to US$24.3 million, 33% increase in EBITDAX to US$24.5 million, 56% increase in gross profit to US$13.6 million, and 15% increase in sales revenue to US$36.4 million.
- Calendar year net operating cash flow of US$56.1 million, within guidance of US$50 – 60 million.
- Net debt reduced by US$14.2 million to US$94.3 million (from US$108.5 million at 30 June 2017) with continued reduction planned in CY 2018.
- Operating costs remain low, with free cash flow breakeven for the period (inclusive of financing and all capital expenditure), a highly competitive US$34/bbl.
- Acquisition of an additional 16% interest in the Maari/Manaia fields in PMP 38160 effective 31 December 2017, forecast to materially increase the Group's production, revenue and cash flow in 2018 and beyond, subject to customary approvals.
- Progressive hedging implemented during the period (covering the period January 2018 to March 2019), with remaining hedge volume at 31 December 2017 of 1,033,750 barrels securing over US$60 million of revenue.
- Cash at 31 December 2017: US$31.7million.
- Further US$5 million voluntary prepayment of subordinated debt.

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

"Horizon Oil performed well in the period, with strong cashflows from our oil projects in China and New Zealand, which are forecast to increase in calendar year 2018 following the acquisition of an additional 16% interest in the Maari/Manaia fields. The Company's free cash flow break-even of US$34/bbl in 2018 has Horizon Oil well positioned to capture the benefits of stronger oil prices, further materially reduce its debt and, together with hedging, mitigate against future oil price volatility."

A financial summary and key financial and operational results are set out below:
(All figures are presented in **United States dollars**, unless otherwise stated)

- **Financial summary**

	31-Dec-17 US$'000	31-Dec-16 US$'000	Change %
Oil and gas sales (barrels)	**662,111**	694,085	(5%)
Oil and gas production (barrels)	**556,061**	549,199	1%
Sales revenue	**36,428**	31,603	15%
EBITDAX[1]	**24,478**	18,443	33%
Exploration expensed	**(1,801)**	(199)	(805%)
Depreciation & amortisation	**(13,576)**	(12,842)	(6%)
Financing costs (interest, transaction fees, other)	**(7,251)**	(6,890)	(5%)
Financing costs (unrealised movement in value of options)	**(9,169)**	(995)	(822%)
Impairment of non-current assets	**-**	(600)	100%
(Loss) before tax	**(7,320)**	(3,083)	(137%)
Income and royalty tax expense	**(2,224)**	(1,973)	(13%)
(Loss) after tax	**(9,544)**	(5,056)	(89%)
Cash on hand	**31,672**	18,346	73%
Cashflow from operating activities	**24,320**	19,747	23%
Revolving Cash Advance Facility[2]	**85,953**	89,141	4%
Subordinated Debt[2]	**40,000**	50,000	20%
Net Debt[2]	**94,281**	120,795	22%

Note 1: EBITDAX is a financial measure which is not prescribed by Australian Accounting Standards and represents the profit under Australian Accounting Standards adjusted for interest expense, taxation expense, depreciation, amortisation, and exploration expenditure (including non-cash impairments). The Directors consider EBITDAX to be a useful measure of performance as it is widely used by the oil and gas industry. EBITDAX information has not been subject to any specific audit procedures by the Group's auditor but has been extracted from the half-year financial report for the half-year ended 31 December 2017, which have been subject to review by the Group's auditors.

Note 2: Represents principal amounts drawn down

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

- **Financial results**

  - The Group recorded a strong performance from its producing assets, with an increase in production volumes to 556,061 barrels (2017: 549,199 barrels).

  - Oil and gas sales revenue after hedging of US$36.4 million (2017: US$31.6 million) with an average realised oil price of US$55.02 per barrel (2017: US$45.53 per barrel).

  - Operating costs (including amortisation) of US$22.8 million were consistent with the prior half-year (2017: US$22.8 million).

  - The half-year result includes a gross profit of US$13.6 million (2017: US$8.8 million) from Block 22/12 and Maari operations offset by corporate general and administrative expenditure of US$3.0 million, exploration and development expenses of US$1.8 million, financing costs of US$16.4 million and income and royalty tax expense of US$2.2 million.

  - The Group reported a loss of US$9.5 million for the current half-year compared with a loss of US$5.1 million in the 2017 half-year. The loss result was driven by the 121% increase in the Company's share price during the period, which resulted in a significant increase in the theoretical value of the options issued under the subordinated loan facility, with an unrealised non-cash financing cost recorded of US$9.2 million.

- Cash on hand at 31 December 2017 of US$31.7 million (30 June 2017: US$24.5 million).

- Net debt reduced by US$14.2 million to US$94.3 million (30 June 2017: US$108.5 million).

▪ **Operational results**

China

- During the half-year, the Group's working interest share of production from the Beibu Gulf fields was 416,699 barrels of oil. Crude oil sales were 529,816 barrels at an average price of US$55.99/bbl exclusive of executed hedging.

- Average production over the half-year was 8,407 bopd, of which the Group's share was 2,266 bopd. The Group's share of sales volumes over the period was an average of 2,879 bopd.

- During the period the Group continued to benefit from the preferential entitlement to production under the cost recovery mechanism of the Petroleum Contract in Block 22/12. The Group recorded a production entitlement of approximately 34% of field production for the half-year (additional 113,117 barrels over net working interest share of 26.95%). Horizon Oil's entitlement to cost recovery oil at 31 December 2017 was US$76.7 million.

- A workover program involving six wells in the WZ 6-12 producing fields was completed during the period utilising the *Haiyang 943* drilling rig. Following the workovers, gross production from the fields increased from 7,800 bopd to approximately 9,300 bopd.

- The joint venture finalised plans to drill two infill wells on the WZ 12-8W field to further enhance production. The wells are expected to spud during the first quarter of calendar year 2018, as soon as necessary environmental permits are obtained by the operator, CNOOC.

- The Overall Development Plan for the WZ 12-8E field in Beibu Gulf progressed with the CNOOC-led joint venture reviewing opportunities for improved commercial terms for leasing of the mobile production platform.

New Zealand

- During the half-year the Group's working interest share of production from the Maari and Manaia fields was 139,362 barrels of oil. Crude oil sales were 132,295 barrels at an average effective price of US$58.27/bbl exclusive of executed hedging.

- Average gross production from the field over the half-year was 7,571 bopd, of which Horizon Oil's share was 757 bopd.

- A production improvement program commenced during the period which involves workovers, re-perforations, water injection enhancement and installation of surface pumps to reduce well back pressure. The initial workovers lifted the production rate to approximately 8,500 bopd. This program will continue throughout 2018, commencing with the installation and commissioning of the surface pumps which were delivered to the platform during December.

- During the half 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. The consideration to be paid for the interest is US$17.6 million, subject to customary working capital and purchase price adjustments, with an effective date of 31 December 2017. The transaction is subject to a number of consents, of which the only regulatory consent remaining is the approval of the New Zealand Overseas Investment Office.

Papua New Guinea

- 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 substantially completed during the period with selected contractors who are well qualified and possess a good level of PNG experience.

- The preliminary results of these studies, which importantly include 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 results of the three pre-FEED studies are now being integrated and planning is underway for field work to confirm the suitability of the selected export pipeline routes and offshore liquefaction facility location.

- Following the successful execution of a series of transactions undertaken over the past year, the Company is now represented in all four fields that will supply the Western LNG project and has a material 28% interest in the total resource. Importantly, the Company operates the core, liquids-rich Elevala/Ketu and adjacent Ubuntu fields.

The webcast will be held on Tuesday 27 February 2018 at 11.00am (AEDT)

http://webcast.openbriefing.com/4210/

For more information please contact:

Horizon Oil Limited
Brent Emmett CEO

T: +61 2 9332 5000
F: +61 2 9332 5050
E: info@horizonoil.com.au

Level 6, 134 William St
Woolloomooloo NSW 2011
horizonoil.com.au

Media enquiries
Gavan Collery
ResourceComms Pty Ltd

M: +61 419 372 210
E: gavan@resourcecomms.com

Appendix 4D
Preliminary Final Report
For the half-year ended 31 December 2017
ABN 51 009 799 455

This half-year report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3. This information should be read in conjunction with the Half-year report for the period to 31 December 2017.

Current reporting period: Half year ended 31 December 2017
Previous corresponding period: Half year ended 31 December 2016

Results for Announcement to the Market

		Percentage Change		**Amount**
		%		**US$'000**
Revenue from ordinary activities	Up	15.3	to	36,428
(Loss) from ordinary activities after tax attributable to members	Up	88.8	to	(9,544)
(Loss) for the period attributable to members	Up	88.8	to	(9,544)

Dividends/distributions

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

Net Tangible Assets

	2017 US cents	**2016 US cents**
Net tangible asset backing per ordinary share	7.1	7.5

Controlled entities acquired or disposed of

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

Notes: Reports are based on audited consolidated financial statements.
All figures are presented in United States dollars, unless otherwise stated.

Horizon Oil Limited
ABN 51 009 799 455

Half-year report – 31 December 2017

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as 'the Group') consisting of Horizon Oil Limited and the subsidiaries it controlled at the end of, or during the half-year ended, 31 December 2017.

DIRECTORS

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

J Humphrey
B Emmett
G de Nys
S Birkensleigh
G Bittar

A Stock was a director of the Group from the beginning of the period until his retirement and resignation from the board at the Group's AGM on 24 November 2017.

REVIEW OF OPERATIONS

Principal activities

During the course of the half-year ended 31 December 2017, the Group's principal activities continued to be directed towards petroleum exploration, development and production.

The Group recorded a strong performance from its producing assets, with an increase in production volumes to 556,061 barrels (2017: 549,199 barrels). Oil and gas sales revenue of US$37.4 million (2017: US$31.2 million) was generated from sales volumes of 662,111 barrels of oil (2017: 694,085 barrels), with an average realised oil price of US$56.40 per barrel (2017: US$44.94 per barrel) before hedging. 65% of production in the period was hedged (2017: 55%) with net hedging settlement payments of US$0.9 million (2017: net gain of US$0.4 million) realised on 360,000 barrels, which were hedged at a weighted average price of US$54.21 per barrel (2017: 300,300 barrels at US$50.82). Operating costs (including amortisation) of US$22.8 million were consistent with the prior half-year (2017: US$22.8 million) demonstrating continued cost control.

The half-year result includes a gross profit of US$13,648,000 (2017: US$8,766,000) from Block 22/12 and Maari operations, offset by corporate general and administrative expenditure of US$2,964,000, exploration and development expenses of US$1,801,000, financing costs of US$16,420,000 and income and royalty tax expense of US$2,224,000.

The Group reported a statutory loss of US$9,544,000 for the current half-year (2017: US$5,056,000). The loss result was driven by the 121% increase in the Company's share price during the period, which resulted in a significant increase in the theoretical value of the options issued under the subordinated loan facility, with an unrealised non-cash financing cost recorded of US$9,169,000.

Non-cash items impacting on the half-year result include US$13,400,000 (2017: US$12,655,000) in amortisation of production phase assets, a deferred income and royalty tax expense of US$720,000 (2017: US$1,571,000), non-cash financing costs of US$9,169,000 associated with the revaluation of the options issued under the subordinated loan facility (2017: US$995,000) and US$405,000 (2017: US$459,000) related to the value of share options and share appreciation rights granted to Horizon Oil employees.

Cash on hand at the end of the half-year was US$31,672,000, a 29% increase over the 30 June 2017 balance. Cash flow during the period was driven by operating cashflows from the Beibu and Maari fields which were used to repay debt, including a voluntary prepayment of US$5 million of debt under the subordinated loan facility, and fund the remaining committed exploration and development expenditure program. Cash from operating activities increased 23% on the prior half-year, driven by a 15% increase in revenues with operating costs unchanged.

Segment information is included in Note 3 of the financial statements.

CORPORATE

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

During the half 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.

The consideration to be paid for the interest is US$17.6 million, subject to customary working capital and purchase price adjustments, with an effective date of 31 December 2017. The transaction is subject to a number of consents, of which the only regulatory consent remaining is the approval of the New Zealand Overseas Investment Office.

The acquisition will be funded partly from the Group's cash reserves, which were US$31.7 million as at 31 December 2017, and partly from the Group's Revolving Cash Advance facility.

When the acquisition completes, the PMP 38160 joint venture will comprise:-

Horizon Oil International Limited	26%
OMV New Zealand Limited	69% (operator)
Cue Taranaki Pty Ltd	5%

Debt facilities

Net debt was further reduced during the half year from US$108.5 million to US$94.3 million with voluntary prepayments of the subordinated debt facility now totalling US$10 million providing annual interest savings of over US$1 million per annum. Details of the Group's debt facilities are set out in Note 9.

Oil Price Hedging

During the half-year the Group implemented progressive hedging of 1,000,000 barrels of oil over the period January 2018 to March 2019 securing over US$60 million of revenue. This hedging program assists with securing the Group's cashflows for the remainder of the financial year. Remaining hedged volume at 31 December 2017 is 1,033,750 barrels of oil to March 2019 at prices of US$52.69 to US$62.67 per barrel, net of credit charges.

PRODUCTION

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

During the half-year, the Group's working interest share of production from the Beibu Gulf fields was 416,699 barrels of oil. Crude oil sales were 529,816 barrels at an average price of US$55.99/bbl exclusive of executed hedging.

Average production over the half-year was 8,407 bopd, of which the Group's share was 2,266 bopd. The Group's share of sales volumes over the period was an average of 2,879 bopd.

During the period the Group continued to benefit from the preferential entitlement to production under the cost recovery mechanism of the Petroleum Contract in Block 22/12. The Group recorded a production entitlement of approximately 34% of field production for the half-year (additional 113,117 barrels over net working interest share of 26.95%). Horizon Oil's entitlement to cost recovery oil remaining at 31 December 2017 was US$76.7 million.

A workover program involving six wells in the WZ 6-12 producing fields was completed during the period utilising the *Haiyang 943* drilling rig. The program objectives were to enhance production through the replacement of downhole electrical submersible pumps and re-perforation of non-producing zones in one well. Following the workovers, gross production from the fields increased from 7,800 bopd to approximately 9,300 bopd.

The joint venture finalised plans to drill two infill wells on the WZ 12-8W field to further enhance production. The wells are expected to spud during the first quarter of calendar year 2018, as soon as necessary environmental permits are obtained by the operator, CNOOC.

The Overall Development Plan for the WZ 12-8E field in Beibu Gulf progressed with the CNOOC-led joint venture reviewing opportunities for improved commercial terms for leasing of the mobile production platform. 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 will be added later, with well design and location to be determined by the performance of the initial wells.

New Zealand - *PMP 38160, Maari and Manaia fields,* offshore Taranaki Basin (Horizon Oil: 10%)

During the half-year the Group's working interest share of production from the Maari and Manaia fields was 139,362 barrels of oil. Crude oil sales were 132,295 barrels at an average effective price of US$58.27/bbl exclusive of executed hedging.

Average gross production from the field over the half-year was approximately 7,571 bopd, of which Horizon Oil's share was 757 bopd.

A production improvement program commenced during the period involving the perforation of a new reservoir section in the Manaia-1 well which was completed on 29 October 2017, and a workover of the MR7A well which was completed on 23 November 2017. Following these workovers, gross production increased to approximately 8,500 bopd.

The future production improvement program involves workovers, re-perforations, water injection enhancement and installation of surface pumps to reduce well back pressure. This program will continue throughout 2018, commencing with the installation and commissioning of the surface pumps which were delivered to the platform during December.

DEVELOPMENT & PRE DEVELOPMENT

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

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 substantially completed during the period with selected contractors who are well qualified and possess a good level of PNG experience.

The preliminary results of these studies, which importantly include 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 results of the three pre-FEED studies are now being integrated and planning is underway for field work to confirm the suitability of the selected export pipeline routes and offshore liquefaction facility location.

Following the successful execution of a series of transactions undertaken over the past year, the Company is now represented in all four fields that will supply the Western LNG project and has a material 28% interest in the total resource. Importantly, the Company operates the core, liquids-rich Elevala/Ketu and adjacent Ubuntu fields.

[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

EXPLORATION

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

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

Key activities in the licence areas during the period included extensive seismic data analysis and reinterpretation, together with further development of the substantial prospects and leads inventory. This activity has increased the Company's level of confidence in several prospects, in particular, the 'Elevala-Extension' prospect in PPL 574. Planning continued for a new seismic acquisition program to commence with an aerial geomagnetic survey which is expected to be completed during FY2018.

OUTLOOK

It is expected that the remainder of the 2018 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 2018 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, subject to regulatory approvals and joint venture consent. In addition, natural reservoir decline in Beibu and Maari during 2018 is expected to be offset by planned well interventions, additional in-fill drilling in Beibu, and the installation of production enhancing multiphase pumps in Maari. Horizon Oil's production entitlement from China is also expected to remain in excess of 35%, well above Horizon Oil's net working interest, due to preferential cost recovery. Accordingly, assuming oil prices average a similar level to where they closed at 31 December 2017, revenue (before hedging) for the Group is expected to materially increase during the remainder of 2018, barring unforeseen events.

The Group's short-term focus is on:

- Completing the acquisition of additional 16% interest of PMP 38160 containing the Maari/Manaia fields;
- Optimising production performance from the Beibu and Maari/Manaia fields through additional in-fill drilling in Beibu and installation of multiphase pumps at Maari;
- Progressing the Beibu Gulf fields Phase II development for WZ 12-8E; and
- Progressing planning for the 1.5 mtpa Western LNG development with a focus on 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.

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.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set on page 7.

ROUNDING

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

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

J Humphrey
Chairman

B Emmett
Chief Executive Officer

Sydney

26 February 2018

Auditor's Independence Declaration

As lead auditor for the review of Horizon Oil Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Sean Rugers
Partner
PricewaterhouseCoopers

Sydney
26 February 2018

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half-year ended 31 December 2017

		Half-year to	
	Note	**31 Dec 2017 US$'000**	**31 Dec 2016 US$'000**
Revenue		**36,428**	31,603
Cost of sales		**(22,780)**	(22,837)
Gross profit		**13,648**	8,766
Other revenue/other income		**217**	6
General and administrative expenses		**(2,964)**	(3,701)
Exploration and development expenses		**(1,801)**	(199)
Impairment of non-current assets	4	**-**	(600)
Finance costs – interest, transaction costs, other	4	**(7,251)**	(6,890)
Finance costs – unrealised movement in value of options	4	**(9,169)**	(995)
Unrealised movement in value of convertible bonds conversion rights	4	**-**	530
Loss before income tax expense		**(7,320)**	(3,083)
NZ royalty tax expense		**(304)**	(246)
Income tax expense		**(1,920)**	(1,727)
Loss for the half-year		**(9,544)**	(5,056)
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges		**(5,629)**	(2,598)
Total comprehensive income/(loss) for the half-year		**(15,173)**	(7,654)
Profit/(loss) attributable to:			
Security holders of Horizon Oil Limited		**(9,544)**	(5,046)
Non-controlling interests		**-**	(10)
Loss for the period		**(9,544)**	(5,056)
Total comprehensive income/(loss) attributable to:			
Security holders of Horizon Oil Limited		**(15,173)**	(7,644)
Non-controlling interests		**-**	(10)
Total comprehensive income/(loss) for the period		**(15,173)**	(7,654)
		US Cents	
Basic earnings/(loss) per share		**(0.73)**	(0.39)
Diluted earnings/(loss) per share		**(0.73)**	(0.39)

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

HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2017

	Note	31 Dec 2017 US$'000	30 Jun 2017 US$'000
Current assets			
Cash and cash equivalents	6	**31,672**	24,529
Receivables		**8,691**	6,376
Inventories		**1,866**	1,497
Current tax receivable		**-**	47
Derivative financial instruments		**-**	2,191
Other assets		**646**	1,000
Total current assets		**42,875**	35,640
Non-current assets			
Deferred tax assets		**4,988**	4,122
Plant and equipment		**736**	903
Exploration phase expenditure	7	**56,359**	51,940
Oil and gas assets	8	**170,173**	179,098
Total non-current assets		**232,256**	236,063
Total assets		**275,131**	271,703
Current liabilities			
Payables		**17,654**	9,950
Current tax payable		**329**	354
Borrowings	9	**31,910**	22,132
Derivative financial instruments		**3,767**	-
Total current liabilities		**53,660**	32,436
Non-current liabilities			
Payables		**-**	28
Deferred tax liability		**18,338**	17,705
Derivative financial instruments		**1,589**	-
Other financial liabilities	10	**11,700**	2,531
Borrowings	9	**88,104**	102,666
Provisions		**9,782**	9,611
Total non-current liabilities		**129,513**	132,541
Total liabilities		**183,173**	164,977
Net assets		**91,958**	106,726
Equity			
Contributed equity	11	**174,801**	174,801
Reserves		**9,334**	14,558
Accumulated losses		**(92,177)**	(82,633)
Total equity		**91,958**	106,726

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

HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2017

	Attributable to members of the Company					
	Contributed equity	**Reserves**	**Retained profits/ (accumulated losses)**	**Total**	**Non-controlling interest**	**Total equity**
	US$'000	**US$'000**	**US$'000**	**US$'000**	**US$'000**	**US$'000**
Balance at 1 July 2016	**174,801**	**12,030**	**(82,217)**	**104,614**	**(80)**	**104,534**
Loss for the half-year	-	-	(5,046)	(5,046)	(10)	(5,056)
Other comprehensive income	-	(2,598)	-	(2,598)	-	(2,598)
Total comprehensive loss for the half-year	**-**	**(2,598)**	**(5,046)**	**(7,644)**	**(10)**	**(7,654)**
Transactions with owners in their capacity as equity holders:						
Employee share options	-	459	-	459	-	459
	-	**459**	**-**	**459**	**-**	**459**
Balance at 31 Dec 2016	**174,801**	**9,891**	**(87,263)**	**97,429**	**(90)**	**97,339**
Balance at 1 July 2017	**174,801**	**14,558**	**(82,633)**	**106,726**	**-**	**106,726**
Loss for the half-year	-	-	(9,544)	(9,544)	-	(9,544)
Other comprehensive income	-	(5,629)	-	(5,629)	-	(5,629)
Total comprehensive loss for the half-year	**-**	**(5,629)**	**(9,544)**	**(15,173)**	**-**	**(15,173)**
Transactions with owners in their capacity as equity holders:						
Employee share options	-	405	-	405	-	405
Balance at 31 Dec 2017	**174,801**	**9,334**	**(92,177)**	**91,958**	**-**	**91,958**

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

HORIZON OIL LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2017

	Half-year to	
	31 Dec 2017 US$'000	31 Dec 2016 US$'000
Cash flows from operating activities		
Receipts from customers	35,926	36,289
Payments to suppliers and employees	(6,787)	(11,921)
	29,139	24,368
Interest received	11	6
Interest paid	(4,322)	(4,645)
Income and royalty taxes (paid)/received	(508)	18
Net cash inflows from operating activities	24,320	19,747
Cash flows from investing activities		
Payments for exploration phase expenditure	(3,561)	(1,456)
Payments for oil and gas assets	(6,573)	(2,709)
Payments for abandonment costs	-	-
Payments for plant and equipment	-	-
Net cash (outflows) from investing activities	(10,134)	(4,165)
Cash flows from financing activities		
Drawdown of borrowings (net of transaction costs)	-	45,483
Repayment of borrowings	(7,045)	(58,800)
Net cash (outflows) from financing activities	(7,045)	(13,317)
Net increase/(decrease) in cash and cash equivalents	7,141	2,265
Cash and cash equivalents at the beginning of the half-year	24,529	16,079
Effects of exchange rate changes on cash and cash equivalents	2	2
Cash and cash equivalents at the end of the half-year	31,672	18,346

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

Note 1. Basis of preparation of half year report

The general purpose financial statements for the interim half year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The interim financial statements have been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they become due.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

New and amended standards adopted by the group

The Group has adopted all of the new and revised Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to its operations and effective for the half year ended 31 December 2017. None of the new and revised standards and interpretations were deemed to have a material impact on the results of the Group.

Early adoption of standards

The Group elected to apply the following pronouncement from the financial year beginning 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 moved to 1 January 2018.

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

Note 2. Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

(i) Exploration and evaluation assets

Management makes certain estimates and assumptions as to future events and circumstances. These estimates and assumptions include whether commercially viable reserves have been found and whether the capitalised exploration and evaluation expenditure will be recovered through future exploitation or sale.

(ii) Reserve estimates

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

(iii) Provisions for restoration

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

(iv) Impairment of oil and gas assets

The Group assesses whether its oil and gas assets are impaired on a semi-annual basis. This requires an estimation of the recoverable amount of the cash generating unit to which each asset belongs. The recoverable amount of an asset is the higher of its fair value less cost to sell and value in use. The fair value less cost to sell is assessed on the basis of the estimated net cash flows that will be received from the asset's continued employment and subsequent disposal. The estimated future cash flows are based on estimates of hydrocarbon reserves, future production profiles, commodity prices, operating costs and future development costs necessary to access the reserves. The estimated future cash flows are discounted back to today's dollars to obtain the fair value amount using an after-tax discount rate of between 10% and 11% to take into account risks which have not already been adjusted for in the cash flows.

(v) Share-based payments

Share-based payment transactions with directors and employees are measured by reference to the fair value of the share performance rights or options at the date they were granted. The fair value is ascertained using an appropriate pricing model, either Black-Scholes or Monte Carlo simulation, depending on the terms and conditions upon which the share performance rights or options were granted. The Group also applies assumptions around the likelihood of the share performance rights or options vesting which will have an impact on the expense and equity recorded in the financial year.

(vi) Recoverability of deferred tax assets

The recoverability of deferred tax assets is based on the probability that future taxable amounts will be available to utilise those temporary differences and losses. The Group has not recognised deferred tax assets in respect of some tax losses and temporary tax differences as the future utilisation of these losses and temporary tax differences is not considered probable at this point in time. Assessing the future utilisation of tax losses and temporary tax differences requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future utilisation of these tax losses and temporary tax differences becomes probable, this could result in significant changes to deferred tax assets recognised, which would in turn impact future financial results. Tax losses and temporary tax differences recognised in prior periods in Australia have continued to be recognised as deferred tax assets on the basis that it is expected the operations will generate sufficient taxable profits to fully utilise those losses.

(b) Critical judgements in applying the Group's accounting policies

No critical judgements which are considered to have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year were made during the preparation of this report.

(c) Assumptions on funding

The general purpose financial statements for the interim half year reporting period ended 31 December 2017 have been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they become due.

The Group has a working capital deficit of US$10.8 million at 31 December 2017 resulting predominately from the scheduled amortisation of US$32.9 million of the remaining US$86 million Revolving Cash Advance Facility during calendar year 2018 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 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:

- China exploration and development – the Group is currently involved in developing and producing crude oil from the Block 22/12 – WZ 6-12 and WZ 12-8W oil field development, and the exploration and evaluation of hydrocarbons within Block 22/12;
- New Zealand exploration and development – the Group is currently involved in developing and producing crude oil from the Maari/Manaia oil field development, and the exploration and evaluation of hydrocarbons within the permit;
- PNG exploration and development – the Group is currently involved in the Stanley condensate/gas development in PDL 10 and the exploration and evaluation of hydrocarbons in

six onshore permit areas in Papua New Guinea – PRL 21, PRL 28, PPL 574, PPL 372, PPL 373 and PPL 430; and

- 'All other segments' include amounts of a corporate nature not specifically attributable to an operating segment.

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

Half-year 2018 (31 December 17)	China Exploration and Development US$'000	New Zealand Exploration and Development US$'000	Papua New Guinea Exploration and Development US$'000	All other segments US$'000	Total US$'000
Segment revenue:					
Revenue from external customers	**29,025**	**7,403**	**-**	**-**	**36,428**
Profit/(loss) before tax	**6,353**	**(2,996)**	**(1,836)**	**(9,046)**	**(7,525)**
Depreciation and amortisation	(9,224)	(4,176)	(76)	(101)	(13,577)
Impairment expenses	**-**	**-**	**-**	**-**	**-**
Total segment assets at 31 December 2017	**134,138**	**51,535**	**74,989**	**14,469**	**275,131**
Additions to non-current assets other than financial assets and deferred tax during the half-year:					
Exploration phase expenditure:	651	325	4,258	-	5,234
Development and production phase expenditure:	1,438	2,870	1,046	-	5,354
Plant and equipment:	-	-	-	-	-
Total segment liabilities at 31 December 2017	**110,117**	**45,714**	**7,370**	**19,013**	**182,214**

Half-year 2017 (31 December 2016)	China Exploration and Development US$'000	New Zealand Exploration and Development US$'000	Papua New Guinea Exploration and Development US$'000	All other segments US$'000	Total US$'000
Segment revenue:					
Revenue from external customers	23,364	8,239	-	-	31,603
Profit/(loss) before tax	5,118	(2,542)	(1,583)	(4,593)	(3,600)
Depreciation and amortisation	8,471	4,184	84	103	12,842
Impairment expenses	-	-	600	-	600
Total segment assets 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:					
Exploration and evaluation 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 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:

	Half-year to	
	31 Dec 2017 US$'000	**31 Dec 2016 US$'000**
Total segment revenue	**36,428**	31,603
Interest income	**11**	6
Total revenue	**36,439**	31,609

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

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

	Half-year to	
	31 Dec 2017 US$'000	**31 Dec 2017 US$'000**
Total segment loss before tax	**(7,525)**	(3,600)
Interest and other income	**217**	6
Foreign exchange loss (net)	**(12)**	(19)
Unrealised movement in value of convertible bonds conversion rights	**-**	530
Loss before tax	**(7,320)**	(3,083)

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

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

Note 4. Loss for the half year - Significant items

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

	Half-year to	
	31 Dec 2017 US$'000	**31 Dec 2016 US$'000**
Income		
Unrealised movement in value of convertible bonds conversion rights (refer to note (a) below)	**-**	530
Expenses		
Finance costs – interest, transaction costs, other (refer to note (b) below)	**(7,251)**	(6,890)
Finance costs – unrealised movement in value of options (refer to note (c) below)	**(9,169)**	(995)
Impairment of non-current assets	**-**	(600)

(a) The amount shown in the prior half year reflects the movement during the period 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 half 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 half year.

(b) Finance costs contain interest and other costs associated with the Revolving Cash Advance Facility, and the subordinated facility (refer to Note 9 for further details).

(c) Financing costs includes an unrealised movement of $9,169,000 relating to the revaluation of the derivative financial liability arising from the share options issued in respect of the subordinated secured facility. The significant increase in the theoretical value of the options was primarily due to the 121% increase in the Company's share price during the period.

Note 5. Fair value measurement of financial instruments

(a) Fair value measurements

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

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

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

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

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December 2017 and 30 June 2017:

At 31 December 2017	**Level 1 US$'000**	**Level 2 US$'000**	**Level 3 US$'000**	**Total US$'000**
Assets				
Derivatives used for hedging	-	-	-	-
Total assets	**-**	**-**	**-**	**-**
Liabilities				
Derivatives used for hedging	5,356	-	-	5,356
Financial liabilities at fair value through profit or loss				
Options over unissued shares	-	-	11,700	11,700
Total liabilities	**5,356**	**-**	**11,700**	**17,056**
At 30 June 2017				
Assets				
Derivatives used for hedging	2,191	-	-	2,191
Total assets	2,191	-	-	2,191
Liabilities				
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 31 December 2017.

(b) Valuation techniques used to derive fair values

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) was based on quoted market prices at the end of each reporting period. The quoted market price used for financial liabilities held by the Group was the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- The fair value of oil price swaps and collars are calculated as the present value of the estimated future cash flows based on forward prices at balance sheet date;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- Other techniques, such as discounted cash flow analysis and Monte Carlo simulations, are used to determine fair value for the remaining financial instruments.

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

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

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

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

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

The following table presents the changes in level 3 items for the half year ended 31 December 2017 for recurring fair value measurements:

	Options over unissued shares US$'000
Opening balance at 1 July 2017	2,531
Additions during the period	-
(Gains)/losses recognised in profit or loss	9,169
Closing balance at 31 December 2017	11,700

(i) Valuation inputs and relationships to fair value
The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

Description	Fair value at 31 Dec 2017 $'000	Unobservable inputs	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Options over unissued shares	11,700	Share price volatility	52.3%	All other inputs being equal, an increase in share volatility results in an increase in the fair value of the liability

(ii) Valuation processes

The Group engages external, independent and qualified valuers to determine the fair value of the share options for financial reporting purposes on a half yearly basis. The fair value of the share options is determined based on a simulation-based pricing methodology using a Monte Carlo simulation. A simulation-based pricing methodology was applied in order to model the dynamics of the underlying variables and to account for the individual specifications of the share options. Monte Carlo simulation uses random numbers as inputs to iteratively evaluate a deterministic model.

The method involves simulating the various sources of uncertainty that affect the value of the relevant instrument and then calculating a representative value by substituting a range of values - in this case a lognormal probability distribution – for any factor that has inherent uncertainty. The results are calculated repeatedly, each time using a different set of random values from the probability functions. Depending upon the number of uncertainties and the ranges specified for them, a Monte Carlo simulation may typically involve thousands or tens of thousands (for Horizon Oil share options - 500,000) of recalculations before it is complete. The result is a probability distribution of possible outcomes providing a more comprehensive view of both what could happen and its likelihood. A calculated share price volatility of 52.3% was applied in the model. All other parameters were based on the specific terms of the options issued.

Note 6. Cash and cash equivalents

	31 Dec 2017 US$'000	30 Jun 2017 US$'000
Cash at bank and on hand	**19,440**	19,368
Restricted cash (a)	**12,232**	5,161
Closing balance	**31,672**	24,529

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

Note 7. Exploration phase expenditure

	31 Dec 2017 US$'000	30 Jun 2017 US$'000
Opening balance	**51,940**	53,613
Expenditure incurred during the period	**5,266**	3,567
Transfers to oil and gas assets	**-**	(6,049)
Reassessment of rehabilitation asset	**-**	1,390
Expenditure written off during the period	**(847)**	(581)
Closing balance	**56,359**	51,940

Note 8. Oil and gas assets

	31 Dec 2017 US$'000	30 Jun 2017 US$'000
Opening balance	**179,098**	194,612
Expenditure incurred during the period	**5,354**	4,893
Transfers from exploration phase expenditure	**-**	6,049
Reassessment of rehabilitation asset	**-**	(155)
Amortisation incurred	**(13,400)**	(26,301)
Expenditure written off during the period	**(879)**	-
Closing balance	**170,173**	179,098

Note 9. Borrowings

	31 Dec 2017 US$'000	30 Jun 2017 US$'000
Current		
Bank loans (b)	**31,910**	22,132
	31,910	22,132
Non-current		
Bank loans (b)	**52,332**	63,534
Subordinated debt (c)	**35,772**	39,132
	88,104	102,666
Total borrowings	**120,014**	124,798

a) Reconciliation of borrowings arising from financing activities

		Cashflows		Non-cash changes		
	Opening 1 Jul 2017 US$'000	Drawdown[1] US$'000	Repayments US$'000	Amortisation of transaction costs US$'000	Changes in Fair value US$'000	Closing 31 Dec 2017 US$'000
Revolving Cash Advance Facility (current)	**22,132**	**-**	**(2,045)**	**1,056**	**10,767**	**31,910**
Revolving Cash Advance Facility (non-current)	**63,534**	**-**	**-**	**(435)**	**(10,767)**	**52,332**
Subordinated debt	**39,132**	**-**	**(5,000)**	**1,020**	**620**	**35,772**
Total liabilities from financing activities	**124,798**	**-**	**(7,045)**	**1,641**	**620**	**120,014**

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

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 31 December 2017, total debt drawn under the facility was US$86.0 million with no undrawn debt capacity available. Floating interest in respect of the facility was at LIBOR plus a weighted average margin of 2.90%.

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

c) Subordinated secured debt facility - IMC loan facility

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

During the period the Group voluntarily prepaid and cancelled US$5 million of the outstanding facility resulting in total remaining debt drawn at 31 December 2017 of US$40 million, following an earlier voluntary prepayment, and cancellation of that portion of the loan, of US$5 million in May 2017. There is no undrawn debt capacity available under the facility at 31 December 2017.

Note 10. Other financial liabilities

	31 Dec 2017 US$'000	30 Jun 2017 US$'000
Non-current		
Fair value of share options	**11,700**	2,531
Total other financial liabilities	**11,700**	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 9 (c). The options are exercisable at A$0.061 per share and as the functional currency of the Group is United States Dollars, this will result in a variable amount of cash being received on exercise of the options. The share options are accounted for as a derivative financial liability at fair value on a recurring basis and are revalued at each balance date, with any gains/losses recognised though profit or loss.

Note 11. Contributed equity

a) Share capital

		31 Dec 2017 Number'000	30 Jun 2017 Number'000	31 Dec 2017 US$'000	30 Jun 2017 US$'000
Ordinary shares					
Fully paid	(b) (i)	**1,301,981**	1,301,981	**174,342**	174,342
Partly paid	(b) (ii)	**1,500**	1,500	**459**	459
		1,303,481	1,303,481	**174,801**	174,801

b) Movements in share capital

(i) Ordinary shares (fully paid)

Date	Details	Number	US$'000
30/06/2017	Balance at 30 June 2017	1,301,981,265	174,342
31/12/2017	**Balance at 31 December 2017**	**1,301,981,265**	**174,342**

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

Date	Details	Number	US$'000
30/06/2017	Balance at 30 June 2017	1,500,000	459
31/12/2017	**Balance at 31 December 2017**	**1,500,000**	**459**

Note 12. Contingent assets and liabilities

a) Contingent assets

On 23 May 2013, the Group advised ASX that it had entered into an Agreement to sell 40% of its Papua New Guinea assets to Osaka Gas Niugini Pty Ltd ('Osaka Gas'), a subsidiary of Osaka Gas Co. Ltd. of Japan. In addition to the cash on completion, a further US$130 million in cash is due upon a project development decision which gives rise to Osaka Gas achieving equity LNG from its acquired gas volumes, plus potential production payments where threshold condensate production is exceeded. Due to the conditions required for the deferred consideration of US$130 million, and the potential production payments, all remaining consideration under the Agreement is disclosed as a contingent asset as at 31 December 2017. In the event that Osaka Gas does not participate in a project, under the terms of the Agreement, it is obliged to return its licence interests to Horizon Oil.

The Maari joint venture carried out an upgrade of the FPSO Raroa's mooring system and repairs to the water injection flow line, production and test riser, and Maari wellhead platform during the 2016 and 2017 financial years. The works were carried out safely, within budget and the Group anticipates that a portion of these works will be recovered from insurance. The Group's share of the repair costs was approximately US$7.0 million.

b) Contingent liabilities

The Group had contingent liabilities as at 31 December 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.

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

Note 13. Exploration, development and production expenditure commitments

The Group has entered into joint operations for the purpose of exploring, developing and producing from certain petroleum interests. To maintain existing interests or rights to earn interests in those joint operations the Group will be expected to make contributions to ongoing exploration and development programs. Since such programs are subject to continual review by operating committees, upon which the Group is represented, the extent of future contributions in accordance with these arrangements is subject to continual renegotiation.

Subject to the above mentioned limitations, the directors have prepared the following disclosure of exploration and development expenditure commitments not recognised in the financial statements. These are payable as follows, based on current status and knowledge of estimated quantum and timing of such commitments by segment.

31 December 2017	**China Exploration & Development US$'000**	**New Zealand Exploration & Development US$'000**	**Papua New Guinea Exploration & Development US$'000**	**Total US$'000**
Within one year	**4,932**	**3,110**[1]	**7,416**	**15,458**
Later than one year but not later than 5 years	**-**	**-**	**-**	**-**
After 5 financial years	**-**	**-**	**-**	**-**
Total	**4,932**	**3,110**[1]	**7,416**	**15,458**

[1]Excludes additional commitments that will arise on completion of the acquisition of Todd Maari Limited's 16% interest in PMP 38160. In addition to the purchase price of US$17.6 million, which is subject to customary working capital and purchase price adjustments, an additional $4,976,000 expenditure commitment will become payable within one year associated with the additional 16% interest. The transaction is subject to a number of consents, of which the only regulatory consent remaining is the approval of the New Zealand Overseas Investment Office.

. 30 June 2017	China Exploration & Development US$'000	New Zealand Exploration & Development US$'000	Papua New Guinea Exploration & Development US$'000	Total US$'000
Within one year	5,551	2,269	5,748	13,568
Later than one year but not later than 5 years	-	-	6,350	6,350
After 5 financial years	-	-	2,443	2,443
Total	5,551	2,269	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 permits or licences, or extensions to the terms thereof. Another factor likely to delay timing of these commitments is the potential lack of availability of suitable drilling rigs in the area of interest.

The commitments may also be reduced by the Group entering into farm-out agreements or working interest trades, both of which are typical of the normal operating activities of the Group.

In addition to the above commitments, the Group has invested funds in other petroleum exploration interests, but is not exposed to a commitment for expenditure in respect of these, as it may choose to exit such permits or licences at any time at no cost penalty other than the loss of the interests.

Note 14. Related party transactions

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

On 21 December 2017, the Group made a US$5 million prepayment on the US$50 million subordinated secured non-amortising loan with its major shareholder, IMC Investments Limited (IMC). This was the second prepayment made since the loan was issued, with the outstanding balance at 31 December 2017 being US$ 40 million.

Other than the matters disclosed elsewhere in this report, there were no related party transactions with Directors and other key management personnel during the half year outside of contractual remuneration and on-market acquisitions by Directors of the Company's shares.

Note 15. Events occurring after balance sheet date

Other than the matters disclosed in this report, there has not been any other matter or circumstance which has arisen since 31 December 2017 that has significantly affected, or may significantly affect:

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

HORIZON OIL LIMITED

Directors' Declaration

In the directors' opinion:

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

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

   (ii) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance, as represented by the results of its operations and its cashflows, for the half-year ended on that date; and

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

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

J Humphrey
Chairman

B Emmett
Chief Executive Officer

Sydney

26 February 2018

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Horizon Oil Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Horizon Oil Limited. The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Horizon Oil Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

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Conclusion

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

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

PricewaterhouseCoopers

S Rugers

Sean Rugers
Partner

Sydney
26 February 2018