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 2019. The financial results for the period are set out in the attached half-year report which incorporates the Appendix 4D.

STRONG PRODUCTION

- Oil sales for 2019 calendar year of 1.62 million barrels; average realised oil price of US$68.97/bbl, inclusive of hedge settlements.
- Sales for half-year of 770,744 bbls at an average realised oil price of realised US$68.34/bbl inclusive of hedge settlements.
- Production of 1.56 million barrels for the 2019 calendar year, half-year production of 754,862 bbls.
- Cash operating costs remained low at approximately US$20/bbl for the half-year.
- Free cashflow breakeven (exclusive of debt repayments), of US$34/bbl sold for the 2019 calendar year.

DRIVING REVENUE AND FREE CASH

- Half-year sales revenue of US$52.7 million, with US$111 million generated for the 2019 calendar year (inclusive of hedge settlements).
- EBITDAX of US$31.3 million for the half-year; US$80 million for the calendar year.
- Cash flow from operating activities for the half-year of US$24.2 million.
- Cash at 31 December 2019 of US$22.1 million.
- Progressive hedging implemented with a further 180,000 bbls of oil swaps executed shortly after 31 December 2019 covering the period to 30 June 2020. Remaining hedge volume is 270,000 bbls of oil swaps covering the 6-month period to June 2020 at a weighted average price of US$68.35/bbl, net of credit charges.

PROGRESSIVE DEBT REDUCTION

- Voluntary prepayment of a further US$20 million of the senior debt facility in the half-year.
- Net debt reduced in the half-year by a further US$20.6 million to US$7.4 million (US$28.0 million at 30 June 2019), with net cash position expected by mid-calendar year 2020.

PNG UPDATE

- An impairment assessment was conducted in respect of the period considering recent challenges faced by the company in PNG, including unresolved licence tenure issues, the lack of progress in commercialisation of the discovered resources in the Western Province of PNG, and the recent shift by the PNG Government in requiring improved fiscal returns from resource projects. The company considered that recent allegations made in the media from 10 February 2020 in respect of Horizon Oil's PNG licence interests could exacerbate these challenges faced by the company in operating in the PNG market. Reference was also made to comparable market transactions.
- In light of the above matters and uncertainties, the Group has impaired its PNG exploration and development assets by US$67.3 million, at 31 December 2019, to a carrying amount of US$5.7 million.

DRILLING SUCCESS

- Exploration drilling success at Beibu with preliminary evaluation of the WZ 6-12 M1 well results exceeding risked pre-drill estimates (Gross 2C contingent resources are estimated at 0.6 mmbbls (0.2 mmbbls net to HZN)).
- Good progress made on 12-8E development planning, CNOOC anticipating FID by the end of the financial year 2020 with first production targeted in mid-2021.

COMMENTING ON THE RESULT, HORIZON OIL'S CHIEF EXECUTIVE OFFICER, CHRIS HODGE, STATED:

"Horizon Oil completed another strong calendar year with production of 1.6 million barrels, resulting in revenue, inclusive of hedge settlements, in excess of US$111 million. The continued optimisation of our producing assets enabled retention of oil production at levels similar to that of the 2018 calendar year. Production for the half-year was 754,862 barrels at an average of 4,103 barrels per day net to Horizon Oil and, following further well enhancing activity and workovers recently completed, production at the date of this report is approximately 4,500 barrels per day net to Horizon Oil.

The Group's assets continued to generate strong cashflow enabling a further US$55.2 million of debt repayments during the 2019 calendar year and resulting in net debt of US$7.4 million. We have done so while retaining appropriate liquidity levels of US$22.1 million in cash together with US$20 million of undrawn debt capacity.

Recognising the recent challenges faced by the Group in respect of its PNG assets, the Group has impaired these assets down to US$5.7 million. With the continued strong free cash flow generation and reduced debt levels, the Group remains well positioned to pursue value accretive growth opportunities."

A financial summary and key financial and operational results are set out below:

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

FINANCIAL SUMMARY

Horizon Oil 2020 Half-Year Result		**31 DEC 19** **US$'000**	**31 DEC 18** **US$'000**	**CHANGE** **%**
Oil and gas sales	*bbls*	770,744	1,021,218	(25%)
Oil and gas production	*bbls*	754,862	801,904	(6%)
Sales revenue		52,675	63,607	(17%)
EBITDAX[1]		31,299	44,312	(29%)
Statutory (loss)/profit before tax		(56,473)	26,360	(>100%)
Statutory (loss)/profit for the period		**(62,748)**	**20,106**	**(>100%)**
Financing costs *(Unrealised movement in value of options)*		1,708	(11,391)	(115%)
Impairment expense		67,285	-	100%
Underlying profit after tax		**6,245**	**8,715**	**(28%)**
Cash on hand		**22,055**	**20,355**	**8%**
Cashflow from operating activities		24,193	34,305	(29%)
Senior debt facility[2]		29,431	84,588	(65%)
Net Debt[2]		**7,376**	**64,233**	**(89%)**

Note 1: EBITDAX is a financial measure 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 to be useful measures of performance as they are widely used by the oil and gas industry. EBITDAX information has been extracted from the financial reports for the periods ended 31 December 2018 and 31 December 2019, which have been subject to review by the Group's auditors.

Note 2: Represents principal amounts drawn down.

The webcast will be held on Friday 28 February 2020 at 11.00am (AEDT).

To register for the webcast link https://services.choruscall.com.au/webcast/horizon200221.html

Authorisation

This ASX announcement is approved and authorised for release by the Horizon Oil board.

Horizon Oil
Level 6, 134 William Street
Woolloomooloo NSW 2011
Australia

Horizon Oil

HALF-YEAR REPORT

INCORPORATING APPENDIX 4D

31 DECEMBER 2019

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 2019 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

APPENDIX 4D
PRELIMINARY FINAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

ABN 51 009 799 455

This Preliminary Final Report is provided to ASX Limited ('ASX') under ASX Listing Rule 4.3A. This information should be read in conjunction with the Half-year report for the period to 31 December 2019.

Current reporting period:	Half-year ended 31 December 2019
Previous corresponding period:	Half-year ended 31 December 2018

Results for announcement to the market

		PERCENTAGE CHANGE		AMOUNT
Revenue from continuing operations	Down	17%	to	52,675
Loss from ordinary activities after tax	Up	>100%	to	62,748
Loss for the period attributable to members	Up	>100%	to	62,748
Underlying profit after tax	**Down**	**28%**	**to**	**6,245**

Dividends / distributions

	AMOUNT PER SECURITY	FRANKED AMOUNT PER SECURITY
Final dividend	Nil	Nil
Interim dividend	Nil	Nil

Net Tangible Assets

	2019 US CENTS	2018 US CENTS
Net tangible asset backing per ordinary share	5.9	9.8

Controlled entities acquired or disposed of

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

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

US$'000	2019	2018
(Loss)/profit after tax from ordinary activities	(62,748)	20,106
Financing cost/(income) – Unrealised movement in value of options	1,708	(11,391)
Impairment expense	67,285	-
Underlying profit after tax	**6,245**	**8,715**

Notes:

Reports are based on unaudited consolidated financial statements.

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

Underlying profit after tax is a financial measure which is not prescribed by Australian Accounting Standards and represents the profit under Australian Accounting Standards adjusted for the non-cash impairment expense associated with the Group's PNG assets and the unrealised non-cash financing costs associated with the revaluation of the options issued under the 2016 subordinated loan facility. Underlying profit after tax information has not been audited or reviewed. However, it has been extracted from the financial reports for the half-years ended 31 December 2019 and 31 December 2018.

HALF-YEAR FINANCIAL REPORT
DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as 'the Group') consisting of Horizon Oil Limited and the subsidiaries it controlled at the end of, or during the half-year ended, 31 December 2019.

Directors

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

M Harding
M Sheridan
G de Nys
S Birkensleigh
G Bittar
C Hodge

M Sheridan was suspended as the Group's Chief Executive Officer on 12 February 2020, and his employment was terminated with notice on 28 February 2020. Horizon Oil non-executive director C Hodge was appointed Chief Executive Officer on 14 February 2020.

Review of operations

Principal activities

During the course of the half-year ended 31 December 2019, the Group's principal activities continued to be directed towards petroleum production, development and exploration.

The Group's producing assets continued to perform well, with net production of 754,862 barrels of oil (2019: 801,904 barrels), a modest reduction from the prior comparative period owing to production enhancing workover activities which were undertaken during the period. Sales volumes were 770,744 bbls (2019: 1,021,218 bbls) which, as anticipated, reverted to being materially in line with the Group's net working interest share of production owing to the recoupment of the company's remaining Block 22/12 exploration and development cost recovery entitlement under the petroleum sharing contract. Sales volumes attributable to the cost recovery entitlement reduced to 2,474 bbls (2019: 239,213 bbls) during the half-year.

Crude oil sales revenue of US$52.7 million (2019: US$63.6 million) was generated during the half-year resulting from a net realised oil price of US$68.34 per barrel (2019: US$62.29 per barrel), inclusive of hedge settlements. Throughout the period 51% of sales were hedged (2019: 59%) with a hedging gain of US$2.8 million (2019: loss US$6.7 million) realised on 390,000 barrels of oil hedged at a weighted average price of US$69.46 per barrel (2019: 600,000 barrels at US$59.25 per barrel).

Operating costs for the period were US$32.5 million, 12% lower than the prior comparative period (2019: US$37.1 million) driven by continued cost optimisation initiatives at Maari combined with a lower amortisation charge.

General and administrative expenses were 7% lower than the prior comparative period at US$2.5 million (2019: US$2.7 million) owing predominantly to a continued focus on costs and reduced headcount.

Exploration expenditure increased during the period associated mainly with the Group's China and PNG assets. During the period there was continued focus on infill, appraisal and exploration opportunities in and around the Group's existing permit in China, in particular. The objective is to integrate any commercial discoveries, such as the recent drilling success at the WZ 6-12 M1 well, into the existing Block 22/12 development to sustain production rates late into the decade.

Interest and associated financing costs of US$2.0 million were US$6.4 million lower during the period following the successful refinancing and restructuring of the Group's financing arrangements in late calendar year 2018. The progressive repayment of debt during the period has further reduced interest and other financing costs.

Included in the result was US$67.3 million of non-cash impairment expenses associated with the Group's exploration and development assets in Papua New Guinea. The impairment assessment conducted in respect of the period considered recent challenges faced by the company in PNG, including unresolved licence tenure issues, the lack of progress in commercialisation of the discovered resources in the Western Province of PNG, and the recent shift by the PNG Government in requiring improved fiscal returns from resource projects. The company considered that recent allegations made in the media from 10 February 2020 in respect of Horizon Oil's PNG licence interests could exacerbate these challenges faced by the company in operating in the PNG market. Reference was also made to comparable market transactions. In light of these matters and uncertainties, the Group has impaired its PNG exploration and development assets, at 31 December 2019, to a carrying amount of US$5.7 million.

The Group reported a statutory loss before tax of US$56.5 million for the half-year (2019: profit of US$26.4 million). The profit result includes non-cash impairment expense of $67.3 million associated with the Group's PNG licence interests (2019: US$nil), non-cash financing costs of US$1.7 million (2019: gain of US$11.7 million) associated with the revaluation of the options issued under the subordinated loan facility, which once excluded results in an Underlying Profit Before Tax of US$12.5 million (2019: US$15.0 million).

EBITDAX was US$31.3 million (2019: US$44.3 million), and EBIT was a loss of US$52.8 million (2019: gain of US$23.3 million). Cashflows from operating activities of US$24.2 million (2019: US$34.3 million) and cash reserves enabled the Group to meet its capital expenditure commitments and also repay a further US$20.0 million in debt during the half-year.

EBITDAX, EBIT and Underlying Profit Before Tax are financial measures which are not prescribed by Australian Accounting Standards and represent the profit under Australian Accounting Standards adjusted for interest expense, taxation expense, depreciation, amortisation, and exploration expenditure (including non-cash impairments). The directors consider EBITDAX, EBIT and Underlying Profit Before Tax to be useful measures of performance as they are widely used by the oil and gas industry. EBITDAX, EBIT and Underlying Profit Before Tax information has been extracted from the financial reports for the periods ended 31 December 2018 and 31 December 2019.

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

Corporate

Debt facilities

At 31 December 2019, the Group's net debt was further reduced to US$7.4 million (30 June 2019: US$28.0 million), a reduction of US$20.6 million during the half year. The Group expects to be in a net cash position by 30 June 2020. Net debt comprises cash and cash equivalent assets held of US$22.1 million (30 June 2019: US$21.5 million) offset by the nominal value of borrowings drawn down of US$29.4 million (30 June 2019: US$49.4 million) on the Syndicated Revolving Cash Advance Facility. Details of the Group's debt facilities are set out in Note 13.

Hedging

During the half-year the Group benefited from its progressive hedging programme with hedge contracts covering 390,000 bbls of oil settling at a weighted average price of $69.46 with a resultant net gain on hedge settlements of $2.8 million. As at 31 December 2019, commodity hedges were in place over 90,000 bbls of oil until 31 March 2020 at an average price of $69.28/bbl, net of fees. Shortly after 31 December 2019 the Group executed a further 180,000 bbls of oil swaps which has resulted in aggregate oil swaps of 270,000 bbls covering the 6-month period to 30 June 2020 at a weighted average price of US$68.35/bbl, enhancing revenue certainty. This hedging program assists with securing a portion of the Group's cashflows for the remainder of the financial year.

In addition to the hedging implemented on the oil price, the Group executed currency swaps to manage its exposure to fluctuations and volatility in foreign exchange rates. At 31 December 2019, the Group has RMB 36 million hedged at a fixed USD/RMB rate of 7.0804 and NZD 3.6 million hedged at a fixed NZD/USD rate of 0.6404. These instruments hedge a proportion of the Group's exposure to exchange rate volatility to 31 December 2020 for RMB and 30 June 2020 for NZD.

Production

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

During the half-year, the Group's working interest share of production from the Beibu Gulf fields was 444,740 barrels of oil. Crude oil sales were 410,811 barrels at an average price of US$65.19/bbl inclusive of executed hedging.

Average production over the half-year was 8,969 bopd, of which the Group's share was 2,417 bopd. The Group's share of sales volumes over the period was an average of 2,232 bopd. A production enhancing well workover program was completed during the period, with gross daily production rates achieved shortly after 31 December 2019 in excess of 10,000 bopd.

Basic engineering for the WZ 12-8 East development has been completed with a final CNOOC technical expert review expected ahead of a final investment decision by the end of the 2020 financial year. CNOOC targets first oil in 2021. The development has been planned as an extended production test which involves a mobile offshore production platform which will be leased by the joint venture, reducing upfront capital costs.

The WZ 6-12 M1 exploration well was successfully drilled to a total depth of 2025mMD during the half year. The WZ 6-12 M1 well is located between the Weizhou 6-12 North and South fields and Horizon Oil has a 26.95% net working interest in the well. The well intersected 65m of oil pay in the Oligocene-aged Weizhou T30A, T31L, T31C and T32L sands. Evaluation of the WZ 6-12 M1 well using deterministic methodology has resulted in gross 2C contingent resources of 0.6 mmbbls (0.2 mmbbls net to HZN), which assumes that the discovery is developed by one production well drilled from the existing WZ 6-12 platform.

Given the recent drilling success, the joint venture is maturing plans for evaluation of nearby prospects during the 2020 calendar year, with the intention to integrate any commercial discoveries with the WZ 6-12 M1 discovery and other infill targets in the adjacent WZ 6-12N and WZ 6-12S fields.

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

During the half-year the Group's working interest share of production from the Maari and Manaia fields was 310,122 barrels of oil. Crude oil sales were 359,933 barrels at an average effective price of US$71.94/bbl inclusive of executed hedging.

Average gross production from the field over the half-year was approximately 6,482 bopd, of which Horizon Oil's share was 1,685 bopd. A production enhancing well workover program was completed during the period, with gross daily production rates achieved shortly after 31 December 2019 in excess of 7,000 bopd.

Production for the half year was sustained at levels significantly higher than the prior half year, resulting in a 11% increase in production over the comparative period. The increased production was driven by well optimisation activities including the installation of a larger electric submersible pump (ESP) in the MR6a well and continued water injection. The sustained strong production provides further support for the joint venture's life extension studies which plans for the Maari facilities to produce late into the decade.

During the period Jadestone Energy Inc. (AIM:JSE, TSXV:JSE) announced that it had executed a conditional sale and purchase agreement to acquire OMV New Zealand Limited's 69% interest in the Maari project. The completion of the proposed transaction will occur upon satisfaction of conditions, including acceptance of Jadestone as operator by the Maari joint venture partners, New Zealand Government approvals relating to title transfer and change of operatorship and other customary conditions on or before 15 November 2020. OMV New Zealand will continue as operator of the Maari Project until, and subject to, completion of the proposed transaction.

Development and pre-development

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

In Papua New Guinea, Horizon Oil continued planning for the commercialisation of the gross appraised resource of 2,200 PJ of sales gas and 64 million barrels of associated condensate in four petroleum licences in the foreland basin of Western province. The Company holds approximately 30% of the resource and is operator of two licences constituting the majority of the resource.

During the period, activity to optimise and refine the engineering basis for a condensate development at Elevala and Ketu continued.

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 is planned to 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. Gas agreement negotiations for the planned expansion of PNG LNG continued during the period with the State publicly expressing its strong encouragement for third party access to the pipelines. On 31 January 2020 the Prime Minister of PNG issued a media release stating that negotiations on the P'nyang Gas Agreement had stopped as the parties were unable to reach a mutually acceptable commercial arrangement. The strong stance taken by the PNG Government with a desire for an increased 'state take' in the project may have significant ramifications for future projects.

In light of the above, coupled with the lack of progress in commercialisation of the discovered resources, and unresolved licence tenure issues which could be exacerbated by the recent allegations raised in the media from 10 February 2020, the Group has impaired its exploration and development assets in PNG to a carrying amount of US$5.7 million.

Subsequent to the period end, Arran Energy Pty Limited became the legal and beneficial owner of Repsol Oil & Gas Niugini Pty Ltd and Foreland Oil Limited, which hold PNG licence interests, including PDL 10, PRL 21, PRL 28 and PRL 40. Horizon Oil has raised some concerns regarding this transaction and is in communication with Arran Energy on these matters.

Exploration

Papua New Guinea – PPL 574 (Horizon Oil: 80% - 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 a gas development involving Horizon Oil's PNG resources.

During the period further studies were performed to refine the substantial prospects and leads inventory. The PPL 430 licence was relinquished during the period such that the PPL 430 joint venture will now be formerly wound up.

Outlook

It is expected that the remainder of the 2020 financial year and beyond will be underpinned by continued strong oil production from the Group's China and New Zealand operations. Water injection enhancement activities at Maari combined with the progressive planned development of WZ 12-8E in China and other infill and near field well opportunities, are forecast to materially offset the longer-term reduction in production associated with natural reservoir decline. In the near term, strong cashflow generation is forecast to continue through the 2020 financial year, aided by a strong hedge position, which will enable continued material reductions in the Company's debt levels.

The Group's short-term focus is on:

- Continued optimisation of production performance from the Beibu and Maari/Manaia fields;
- Progressing the Beibu Gulf fields development for WZ 12-8E;
- Progressing evaluation of nearby prospects in Block 22/12, with the intention to integrate any commercial discoveries with the WZ 6-12 M1 discovery and other infill targets in the adjacent fields; and
- Evaluating growth opportunities to complement existing oil production assets.

Matters subsequent to the end of the financial year

In February 2020, the Australian Financial Review published articles pertaining to the acquisition in 2011 of a further 10% interest by Horizon Oil in Petroleum Retention Licence (PRL 21) in the Western Province of Papua New Guinea. Horizon Oil's board established an Independent Board Committee to oversee an investigation into this matter. Herbert Smith Freehills and Deloitte have been engaged to conduct the investigation. In a further response to the matter, M Sheridan was suspended as the Group's Chief Executive Officer on 12 February 2020.

M Sheridan's employment was terminated with notice on 28 February 2020, with Horizon Oil non-executive director C Hodge appointed as Chief Executive Officer on 14 February 2020.

The Company's share price was adversely impacted following the above allegations. Accordingly, if the derivative liability of US$13.5 million associated with the options issued under the 2016 subordinated loan facility was revalued at the date of this report, it would have a materially lower value.

Oil prices have also been significantly impacted by the recent Coronavirus (COVID-19) outbreak which has had an adverse impact on oil demand. Accordingly, the Company's derivative asset of US$0.3m associated with oil price swaps would be materially higher if revalued at the date of this report. As mentioned above, the Company executed additional oil price swaps during January 2020 to mitigate the impact of oil price volatility over the near term.

Reporting currency

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set on page 10.

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.

R. M. Harding

M Harding
Chairman

C Hodge
Chief Executive Officer

Sydney
28 February 2020

Auditor's Independence Declaration

As lead auditor for the review of Horizon Oil Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

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

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

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

S Rugers

Sean Rugers
Partner
PricewaterhouseCoopers

Sydney
28 February 2020

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2019

	NOTE	31 DEC 2019 US$'000	31 DEC 2018 US$'000
Revenue	5	52,675	63,607
Cost of sales		(32,532)	(37,098)
Gross profit		**20,143**	**26,509**
Other revenue / other income	6	28	909
General and administrative expenses		(2,547)	(2,726)
Exploration and development expenses		(3,131)	(1,364)
Impairment of non-current assets	6,16	(67,285)	-
Finance costs – interest, transaction costs, other	6	(1,973)	(8,359)
Finance (cost) / income – unrealised movement in value of options	6	(1,708)	11,391
(Loss)/profit before income tax expense		**(56,473)**	**26,360**
NZ royalty tax expense		(1,848)	(1,160)
Income tax expense		(4,427)	(5,094)
(Loss)/profit for the half-year		**(62,748)**	**20,106**
OTHER COMPREHENSIVE (LOSS)/ INCOME / ITEMS THAT MAY BE RECLASSIFIED TO PROFIT AND LOSS			
Changes in the fair value of cash flow hedges		(1,499)	11,704
Total comprehensive (loss)/income for the half-year		**(64,247)**	**31,810**
(LOSS)/PROFIT ATTRIBUTABLE TO:			
Security holders of Horizon Oil Limited		(62,748)	20,106
(Loss)/profit for the period		**(62,748)**	**20,106**
TOTAL COMPREHENSIVE (LOSS)/INCOME ATTRIBUTABLE TO:			
Security holders of Horizon Oil Limited		(64,247)	31,810
Total comprehensive (loss)/income for the period		**(64,247)**	**31,810**
		US CENTS	
Basic (loss)/earnings per share		(4.82)	1.54
Diluted (loss)/earnings per share		(4.82)	1.21

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTE	31 DEC 2019 US$'000	30 JUN 2019 US$'000
CURRENT ASSETS			
Cash and cash equivalents	8	22,055	21,472
Receivables		12,643	8,046
Inventories		2,038	5,519
Derivative financial instruments		494	2,708
Other assets		1,890	1,673
Total current assets		**39,120**	**39,418**
NON-CURRENT ASSETS			
Deferred tax assets		8,989	8,357
Property, plant and equipment	9	1,087	528
Exploration phase expenditure	10	9,544	56,903
Oil and gas assets	11	127,000	157,453
Total non-current assets		**146,620**	**223,241**
Total assets		**185,740**	**262,659**
CURRENT LIABILITIES			
Payables	12	14,485	11,503
Current tax payable		5,873	4,189
Borrowings	13	3,278	9,506
Derivative financial instruments		126	307
Total current liabilities		**23,762**	**25,505**
NON-CURRENT LIABILITIES			
Payables	12	551	71
Deferred tax liability		15,765	16,623
Other financial liabilities	14	13,546	11,838
Borrowings	13	24,783	38,298
Provisions		31,142	29,018
Total non-current liabilities		**85,787**	**95,848**
Total liabilities		**109,549**	**121,353**
Net assets		**76,191**	**141,306**
EQUITY			
Contributed equity	15	174,801	174,801
Reserves		13,544	15,911
Accumulated losses		(112,154)	(49,406)
Total equity		**76,191**	**141,306**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2019

	ATTRIBUTABLE TO MEMBERS OF THE COMPANY			
	CONTRIBUTED EQUITY US$'000	RESERVES US$'000	RETAINED PROFITS / (ACCUMULATED LOSSES) US$'000	TOTAL EQUITY US$'000
BALANCE AT 1 JULY 2018	**174,801**	**5,740**	**(85,232)**	**95,309**
Profit for the half-year	-	-	20,106	20,106
Other comprehensive income	-	11,704	-	11,704
Total comprehensive profit for the half-year	**-**	**11,704**	**20,106**	**31,810**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS EQUITY HOLDERS:				
Employee share options	-	49	-	49
Balance at 31 Dec 2018	**174,801**	**17,493**	**(65,126)**	**127,168**
Balance at 1 July 2019	**174,801**	**15,911**	**(49,406)**	**141,306**
(Loss) for the half-year	-	-	(62,748)	**(62,748)**
Other comprehensive (loss)	-	(1,499)	-	**(1,499)**
Total comprehensive (loss) for the half-year	**-**	**(1,499)**	**(62,748)**	**(64,247)**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS EQUITY HOLDERS:				
Employee share options	-	(868)	-	(868)
Balance at 31 Dec 2019	**174,801**	**13,544**	**(112,154)**	**76,191**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2019

	HALF-YEAR TO	
	31 DEC 2019 US$'000	31 DEC 2018 US$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	47,837	63,788
Payments to suppliers and employees	(15,745)	(20,399)
	32,092	**43,389**
Interest received	23	14
Interest paid	(2,194)	(4,657)
Income and royalty taxes paid	(5,728)	(4,441)
Net cash inflows from operating activities	**24,193**	**34,305**
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for exploration phase expenditure	(2,437)	(1,291)
Payments for oil and gas assets	(1,084)	(6,694)
Payments for plant and equipment	(13)	(3)
Receipts from sale of plant and equipment	5	-
Net cash (outflows) from investing activities	**(3,529)**	**(7,988)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Drawdown of borrowings (net of transaction costs)	-	92,646
Payments under leasing arrangements	(81)	-
Repayment of borrowings	(20,000)	(126,233)
Net cash (outflows) from financing activities	**(20,081)**	**(33,587)**
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	583	(7,270)
Cash and cash equivalents at the beginning of the half-year	21,472	27,625
Effects of exchange rate changes on cash and cash equivalents	-	-
Cash and cash equivalents at the end of the half-year	**22,055**	**20,355**

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

Notes to the consolidated financial statements

Note 1 Basis of preparation of half-year report

The general purpose financial statements for the interim half-year reporting period ended 31 December 2019 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 2019 and any public announcements made by Horizon Oil Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

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

New and amended standards adopted by the group

The Group has adopted all of the new and revised Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to its operations and effective for the half-year ended 31 December 2019. None of the new and revised standards and interpretations were deemed to have a material impact on the results of the Group.

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 new standard has been applied as at 1 July 2019 using the simplified transition approach. Under this method, the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings as at 1 July 2019 and comparatives are not restated. The application of AASB 16 has resulted in the recognition of right-of-use assets of US$140,510 and an equal increase in lease liabilities at 1 July 2019, with no impact on the opening retained earnings for the half-year ending 31 December 2019.

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

Note 2 Changes in significant accounting policies

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's Annual Financial Statements for the year ended 30 June 2019, except as described below. Note that the change in accounting policy specified below only applies to the current period. The accounting policies included in the Group's last Annual Financial Statements for the year ended 30 June 2019 are the relevant policies for the purposes of comparatives. AASB 16 Leases became effective for periods beginning on or after 1 January 2019. Accordingly, the Group applied AASB 16 for the first time to the interim period ended 31 December 2019. Changes to the Group's accounting policies arising from this standard is summarised below:

Leases

The Group leases offices in Sydney and PNG, as well as various equipment, with rental contracts typically taken out for fixed periods of 12 months to 3 years. These contracts do not have a reasonably certain extension option and may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis, and do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Previously, the above leases were classified as operating leases by the Group, where the Group is the lessee. The company did not have any leases which are classified as finance leases. On adoption of AASB 16 at 1 July 2019, the leases described above are recognised as a right-of-use asset (Note 9) and a corresponding liability (Note 12) at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 5.1%.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost and are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The Group has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying AASB 117 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

Note 3 Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

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

(i) Exploration and evaluation assets

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

(ii) Reserve estimates

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

(iii) Provisions for restoration

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

During the period the Group revised the future cost estimates from which the provisions for restoration of the PNG licences are derived. The resultant effect is an increase in the restoration provision of US$1.7 million.

(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. An impairment expense of US$67.3 million was recorded for the half-year, as set out in Note 16.

(v) Share-based payments

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

(vi) Recoverability of deferred tax assets

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

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

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

Note 4 Segment information

(a) Description of segments

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

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

- China exploration and development – the Group is currently involved in developing and producing crude oil from the Block 22/12 – WZ 6-12 and WZ 12-8W oil field development, and the exploration and evaluation of hydrocarbons within Block 22/12;
- 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, PRL 40, PPL 574, PPL 372 and PPL 373; 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 2020 (31 DECEMBER 19)	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	26,780	25,895	-	-	52,675
Profit/(loss) before tax	**9,807**	**5,615**	**(70,525)**	**(1,370)**	**(56,473)**
Depreciation and amortisation	(7,619)	(5,900)	(48)	(107)	(13,674)
Impairment expense	-	-	(67,285)	-	(67,285)
Total segment assets at 31 December 2019	**86,567**	**75,479**	**8,077**	**15,617**	**185,740**
Additions to non-current assets other than financial assets and deferred tax during the half-year:					
Exploration phase expenditure:	1,773	(58)	546	209	2,470
Development and production phase expenditure:	46	1,608	145	-	1,799
Plant and equipment:	-	-	123	592	715
Total segment liabilities at 31 December 2019	**40,380**	**46,922**	**6,116**	**16,131**	**109,549**

HALF-YEAR 2019 (31 DECEMBER 18)	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	43,621	19,986	-	-	63,607
Profit/(loss) before tax	17,865	(1,866)	(1,330)	11,600	26,269
Depreciation and amortisation	(11,187)	(8,355)	(10)	(67)	(19,619)
Impairment expense	-	-	-	-	-
Total segment assets at 31 December 2018	**112,554**	**94,131**	**78,875**	**4,997**	**290,557**
Additions to non-current assets other than financial assets and deferred tax during the half-year:					
Exploration phase expenditure:	852	485	272	-	1,609
Development and production phase expenditure:	3,481	(366)	383	-	3,498
Plant and equipment:	-	-	75	445	520
Total segment liabilities at 31 December 2018	**86,666**	**60,096**	**4,322**	**12,305**	**163,389**

Other segment information

(i) Segment revenue

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

Reportable segment revenues are equal to consolidated revenue.

(ii) Segment profit before tax

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

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

	CONSOLIDATED	
	31 DEC 2019 US$'000	**31 DEC 2018 US$'000**
Total segment (loss) / profit before tax	(56,473)	26,269
Interest income	-	14
Net foreign exchange gain	-	77
Total	**(56,473)**	26,360

(iii) Segment assets and liabilities

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

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

Note 5 Revenue

Revenue for the half-year ended 31 December 2019 relates to contracts executed for the sale of crude oil and the performance obligations being met within the period. There is no variable consideration requiring estimation for the period ended 31 December 2019.

The Group did not have contracts that were executed in a prior period, whereby the performance obligations were partially met at the beginning of the period. There are no existing contracts that are unsatisfied or partially unsatisfied as at 31 December 2019.

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

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

	HALF-YEAR TO	
	31 DEC 2019 US$'000	**31 DEC 2018 US$'000**
CRUDE OIL SALES		
Goods transferred at a point in time	**25,895**	19,986
Goods transferred over a period of time	**26,780**	43,621
Total	**52,675**	63,607

Note 6 Profit for the half-year - Significant items

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

	HALF-YEAR TO	
	31 DEC 2019 US$'000	**31 DEC 2018 US$'000**
INCOME		
Proceeds from insurance claims (refer to note (a) below)	**-**	895
EXPENSES		
Finance (cost) / income – unrealised movement in value of options (refer to note (b) below)	**(1,708)**	11,391
Impairment of non-current assets (refer to note 16)	**(67,285)**	-

(a) In the prior half-year the Group recovered US$0.9 million from insurance for repairs that were made to the FPSO *Raroa's* water injection flow line during the 2016 and 2017 financial years.

(b) Financing costs includes an unrealised movement of US$1.7 million relating to the revaluation of the derivative financial liability arising from the share options issued in respect of the subordinated secured facility in September 2016. The increase in the theoretical value of the options was primarily due to the increase in the Company's share price during the period.

Note 7 Fair value measurement of financial instruments

(a) Fair value measurements

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

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

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

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December 2019 and 30 June 2019:

AT 31 DECEMBER 2019	LEVEL 1 US$'000	LEVEL 2 US$'000	LEVEL 3 US$'000	TOTAL US$'000
ASSETS				
Derivatives used for hedging	494	-	-	494
New Zealand carbon credits	988	-	-	988
Total assets	**1,482**	**-**	**-**	**1,482**
LIABILITIES				
Derivatives used for hedging	126	-	-	126
New Zealand Emissions Trading Scheme obligation	1,193			1,193
Financial liabilities at fair value through profit or loss:				
Options over unissued shares	-	-	13,546	13,546
Total liabilities	**1,319**	**-**	**13,546**	**14,865**

AT 30 JUNE 2019	LEVEL 1 US$'000	LEVEL 2 US$'000	LEVEL 3 US$'000	TOTAL US$'000
ASSETS				
Derivatives used for hedging	2,708	-	-	2,708
New Zealand carbon credits	796			796
Total assets	3,504	-	-	3,504
LIABILITIES				
Derivatives used for hedging	307	-	-	307
New Zealand Emissions Trading Scheme obligation	488	-	-	488
Financial liabilities at fair value through profit or loss:				
Options over unissued shares	-	-	11,838	11,838
Total liabilities	**795**	**-**	**11,838**	**12,633**

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

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 2019.

(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;
- The fair value of foreign currency contracts and swaps calculated as the present value of the estimated future cash flows based on forward prices at balance sheet date; and
- Other techniques, such as discounted cash flow analysis and Black-Scholes valuations, 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
- Black-Scholes valuations.

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 2019 for recurring fair value measurements:

	OPTIONS OVER UNISSUES SHARES US$'000
Opening balance at 1 July 2019	11,838
Additions during the period	-
Loss recognised in profit or loss	1,708
Closing balance at 31 December 2019	**13,546**

(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 2019 $'000	UNOBSERVABLE INPUTS	RANGE OF INPUTS (PROBABILITY-WEIGHTED AVERAGE)	RELATIONSHIP OF UNOBSERVABLE INPUTS TO FAIR VALUE
Options over unissued shares	13,546	Share price volatility	52.5%	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 risk-neutral framework using the Black-Scholes Model. The Black-Scholes Model used to calculate the theoretical value of the options uses current stock prices, expected dividend yield, the option's strike price, expected interest rates, time to expiration and expected volatility.

A calculated share price volatility of 52.5% was applied in the valuation. All other parameters were based on the specific terms of the options issued or observable market data.

Note 8 Cash and cash equivalents

	31 DEC 2019 US$'000	30 JUN 2019 US$'000
Cash at bank and on hand	16,196	10,050
Restricted cash[1]	5,859	11,422
Closing balance	**22,055**	21,472

[1] Under the terms of Horizon Oil's Syndicated Revolving Cash Advance Facility, 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 half year.

Note 9 Property, Plant and Equipment

	LAND[a] US$'000	BUILDING[a] US$'000	OTHER PLANT AND EQUIPMENT[a] US$'000	LEASEHOLD IMPROVEMENTS US$'000	TOTAL US$'000
As at 1 July 2019					
Cost	-	-	2,247	1,263	3,510
Adjustment on transition to AASB 16	16	103	21	-	140
Accumulated depreciation	-	-	(2,163)	(819)	(2,982)
Net book amount	**16**	**103**	**105**	**444**	**668**
Half-year ended 31 December 2019					
Opening net book amount	16	103	105	444	668
Additions	-	547	27	-	574
Disposals	-	-	-	-	-
Depreciation expense[b]	(4)	(78)	(26)	(47)	(155)
Closing net book amount	**12**	**572**	**106**	**397**	**1,087**
As at 31 December 2019					
Cost	16	650	2,249	1,263	4,178
Accumulated depreciation	(4)	(78)	(2,143)	(866)	(3,091)
Net book amount	**12**	**572**	**106**	**397**	**1,087**

(a) Included in the net book amount of land and building, and other plant and equipment are right-of-use assets as follows:

	31 DEC 2019 US$'000	1 JUL 2019 US$'000
Land	12	16
Office premises	572	103
Photocopier and IT equipment	29	21
Total	**613**	**140**

(b) Depreciation expense in relation to the right of use assets is US$88,279.

Note 10 Exploration phase expenditure

	31 DEC 2019 US$'000	30 JUN 2019 US$'000
Opening balance	56,903	57,453
Acquisition of exploration asset	-	202
Disposal of exploration asset	-	(202)
Reassessment of rehabilitation asset	1,695	-
Exploration expenditure incurred during the period	2,470	2,747
Exploration expenditure expensed during the period	(2,796)	(3,297)
Impairment expenditure	(48,728)	-
Closing balance	**9,544**	56,903

Note 11 Oil and gas assets

	31 DEC 2019 US$'000	30 JUN 2019 US$'000
Opening balance	157,453	193,774
Development and production costs incurred during the period	1,799	4,258
Amortisation incurred	(13,519)	(39,284)
Development and production costs expensed during the period	(176)	(1,295)
Impairment expenditure	(18,557)	-
Closing balance	**127,000**	157,453

Note 12 Payables

Lease liabilities are presented in the statement of financial position within payables as follows:

	31 DEC 2019 US$'000	30 JUN 2019 US$'000
CURRENT		
Trade creditors	1,778	707
Share of joint operation creditors and accruals	8,964	7,546
NZ Emissions Trading Scheme obligation	1,193	488
Other creditors	2,281	2,762
Lease liabilities (a)	269	-
	14,485	11,503
NON-CURRENT		
Other creditors	172	71
Lease liabilities (a)	379	-
	551	71
Total payables	**15,036**	11,574

(a) The Group has leases for Sydney and PNG offices, land in PNG and various equipment. The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2019 were as follows:

	MINIMUM LEASE PAYMENTS DUE			
	Within one year US$'000	One to five years US$'000	After five years US$'000	Total US$'000
31 December 2019				
Lease payments	298	397	-	695
Finance charges	(29)	(18)	-	(47)
Net present values	**269**	**379**	**-**	**648**

Note 13 Borrowings

	31 DEC 2019 US$'000	30 JUN 2019 US$'000
CURRENT		
Bank loans (b)	3,278	9,506
	3,278	9,506
NON-CURRENT		
Bank loans (b)	24,783	38,298
	24,783	38,298
Total borrowings	**28,061**	47,804

(a) Net debt reconciliation

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

	31 DEC 2019 US$'000	30 JUN 2019 US$'000
Cash and cash equivalents	22,055	21,472
Borrowings[1] – repayable within one year (including overdraft)	(3,801)	(10,030)
Borrowings[1] – repayable after one year	(25,630)	(39,401)
Net (debt) / cash	**(7,376)**	**(27,959)**
Cash and liquid investments	22,055	21,472
Gross debt[1] – variable interest rates	(29,431)	(49,431)
Net (debt) / cash	**(7,376)**	**(27,959)**

[1] Borrowings exclude associated transaction costs and accrued interest and accordingly represents the nominal value of the borrowings as at 31 December 2019 and 30 June 2019.

(b) Reconciliation of borrowings arising from financing activities

		CASHFLOWS			
	Opening 1 Jul 2019 US$'000	Drawdown[1] US$'000	Repayments US$'000	Amortisation of transaction costs US$'000	Closing 31 Dec 2019 US$'000
Syndicated Revolving Cash Advance Facility	**47,804**	-	(20,000)	257	28,061
Total liabilities from financing activities	**47,804**	**-**	**(20,000)**	**257**	**28,061**

[1] Funds drawn down are shown net of associated transaction costs.

(c) Bank loans – Revolving Cash Advance Facility / Syndicated Revolving Cash Advance Facility

On 15 November 2018, the Group finalised and executed a US$95 million Syndicated Revolving Cash Advance Facility with Australia and New Zealand Banking Group (ANZ), Westpac Banking Corporation (Westpac) and Industrial and Commercial Bank of China. The proceeds on this facility were applied to repay the outstanding subordinated and senior debt facilities. The facility retained key elements of the previous Reserves Based Debt Facility, with key changes including additional tenor to July 2022, reduced interest rate at LIBOR plus 2.75% and the removal of lender security over Horizon Oil's interests in PNG. Under the facility, the facility limit and thus future repayments are determined by applying a minimum loan life coverage ratio to the net present value of estimated future cash flows from all projects included in the facility. Estimated future cash flows are dependent on, amongst other things, the lenders views on forecast oil prices, reserve estimates, operating and capital cost estimates and forecast interest and exchange rates.

At 31 December 2019, total debt drawn under the facility was US$29.4 million with undrawn debt capacity of US$20 million available. Floating interest in respect of the facility was at LIBOR plus a weighted average margin of 2.75%.

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

Note 14 Other financial liabilities

	31 DEC 2019 US$'000	30 JUN 2019 US$'000
NON-CURRENT		
Fair value of share options	13,546	11,838
Total other financial liabilities	**13,546**	11,838

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 undertaken in 2016, and subsequently extinguished in 2018. The options are exercisable at A$0.061 per share on or before 15 September 2021 and as the functional currency of the Group is United States Dollars, this will result in a variable amount of cash being received on exercise of the options. The share options are accounted for as a derivative financial liability at fair value on a recurring basis and are revalued at each balance date, with any gains/losses recognised though profit or loss.

Note 15 Contributed equity

(a) Share capital

		31 DEC 2019 NUMBER'000	30 JUN 2019 NUMBER'000	31 DEC 2019 US$'000	30 JUN 2019 US$'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
30/06/2019	Balance at 30 June 2019	1,301,981,265	174,342
31/12/2019	**Balance at 31 December 2019**	**1,301,981,265**	**174,342**

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

DATE	DETAILS	NUMBER	US$'000
30/06/2019	Balance at 30 June 2019	1,500,000	459
31/12/2019	**Balance at 31 December 2019**	**1,500,000**	**459**

Note 16 Impairment of non-current assets

At 31 December 2019, the Group reassessed the carrying amounts of its exploration and development assets for indicators of impairment in accordance with the Group's accounting policy.

Estimates of recoverable amount are based on an asset's value-in-use or fair value less costs to sell (level 3 value hierarchy), using a discounted cash flow method, and are most sensitive to the following key assumptions:

For oil and gas assets, the estimated future cash flows for the value-in-use calculation are based on estimates, the most significant of which are 2P hydrocarbon reserves, future production profiles, commodity prices, operating costs and any future development costs necessary to produce the reserves. Under a fair value less costs to sell calculation, future cash flows are based on estimates of 2P hydrocarbon reserves in addition to other relevant factors such as value attributable to additional resource and exploration opportunities beyond 2P reserves based on production plans.

Estimates of future commodity prices are based on the Group's best estimate of future market prices with reference to external market analysts' forecasts, current and historical spot prices and forward curves. Future commodity prices are reviewed at least annually.

Forecasts of the foreign exchange rate for foreign currencies, where relevant, are estimated with reference to observable external market data and forward values, including analysis of broker and consensus estimates.

The discount rates applied to the future forecast cash flows are based on the Group's post-tax weighted average cost of capital, adjusted for risks where appropriate, including the risk profile of the countries in which the asset operates.

For capitalised exploration phase expenditure, in conjunction with consideration of the key assumptions detailed above, a further assessment is performed at each balance date, to determine whether any of the following indicators of impairment exists:

(i) tenure over the licence area has expired during the period or will expire in the near future, and is not expected to be renewed; or

(ii) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is not budgeted or planned; or

(iii) exploration for and evaluation of resources in the specific area have not led to the discovery of commercially viable quantities of resources, and the Group has decided to discontinue activities in the specific area; or

(iv) sufficient data exists to indicate that although a development is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or from sale.

For plant and equipment, an assessment is performed at each balance date to determine if an asset's carrying amount is greater than its estimated recoverable amount. This assessment considers, amongst other things, whether the asset is still in use and the value that would likely be recovered from sale.

Recoverable amounts and resulting impairment write-downs recognised during the year ended 31 December 2019 are presented in the table below:

AREA OF INTEREST/CGU	SEGMENT	IMPAIRMENT WRITE DOWN US$'000	RECOVERABLE AMOUNT[1] US$'000
Exploration Phase Expenditure			
Block 22/12 (WZ 12-8E, M1 well)	China Exploration	-	6,242
PRL 21	Papua New Guinea Exploration and Development	(48,498)	3,302
PRL 28	Papua New Guinea Exploration and Development	(230)	-
PRL 40	Papua New Guinea Exploration and Development	-	-
PRL 259/574	Papua New Guinea Exploration and Development	-	-
PPL 372	Papua New Guinea Exploration and Development	-	-
PPL 373	Papua New Guinea Exploration and Development	-	-
Impairment of exploration phase expenditure		**(48,728)**	**9,544**
Oil & Gas Assets			
PMP 38160 (Maari/Manaia)	New Zealand Development and Production	-	56,074
Block 22/12	China Development and Production	-	68,553
PDL 10 (Stanley)	Papua New Guinea Exploration and Development	(18,557)	2,373
Impairment of oil and gas assets		**(18,557)**	**127,000**
Property, Plant & Equipment			
Land	Papua New Guinea Exploration and Development	-	12
Building	All other segments	-	502
Building	Papua New Guinea Exploration and Development	-	70
Other plant and equipment	All other segments	-	106
Leasehold improvements	All other segments	-	347
Leasehold improvements	Papua New Guinea Exploration and Development	-	50
Impairment of property, plant & equipment		**-**	**1,087**
Total		**(67,285)**	**137,632**

[1] Recoverable amount represent the carrying value of the asset before deducting the carrying value of the restoration liability (US$31,142,000) and deferred royalty tax balance (US$2,902,000).

The post-tax discount rates that have been applied to the above non-current assets range between 10% and 11% (2019: between 10% and 11%). The impairment assessment conducted in respect of the period considered recent challenges faced by the company in PNG, including unresolved licence tenure issues, the lack of progress in commercialisation of the discovered resources in the Western Province of PNG, and the recent shift by the PNG Government in requiring improved fiscal returns from resource projects. The company considered that recent allegations made in the media in respect of Horizon Oil's PNG licence interests from 10 February 2020 could exacerbate these challenges faced by the company in operating in the PNG market. Reference was also made to comparable market transactions. In light of these matters and uncertainties, the Group has impaired its PNG exploration and development assets, at 31 December 2019, to a carrying amount of US$5.7 million.

Note 17 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 2019. 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 and within budget and the Group's share of the repair costs was approximately US$6.5 million. During the 2019 financial period the Group recovered approximately US$5.0 million as settlement for the claims relating to the repairs to the water injection flow line, production and test riser, and Maari wellhead platform. Investigation by the relevant insurers continues in relation to the claim for the upgrade of the FSPO *Raroa's* mooring system.

(b) Contingent liabilities

The Group had contingent liabilities as at 31 December 2019 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 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.

Refer also to note 20, which describe events occurring after balance sheet date. As at the date of this report, the company is not aware that any regulatory investigation into Horizon Oil's involvement in the allegations raised in the articles in the Australian Financial Review from 10 February 2020 has been commenced.

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

Note 18 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 2019	NEW ZEALAND EXPLORATION & DEVELOPMENT US$'000	CHINA EXPLORATION & DEVELOPMENT US$'000	PAPUA NEW GUINEA EXPLORATION & DEVELOPMENT US$'000	TOTAL US$'000
Within one year	**2,862**	**5,578**	**3,951**	**12,391**
Later than one year but not later than 5 years	-	-	**-**	**-**
After 5 financial years	-	-	-	-
Total	**2,862**	**5,578**	**3,951**	**12,391**

30 JUNE 2019	NEW ZEALAND EXPLORATION & DEVELOPMENT US$'000	CHINA EXPLORATION & DEVELOPMENT US$'000	PAPUA NEW GUINEA EXPLORATION & DEVELOPMENT US$'000	TOTAL US$'000
Within one year	2,767	2,058	3,300	8,125
Later than one year but not later than 5 years	-	-	-	-
After 5 financial years	-	-	-	-
Total	**2,767**	**2,058**	**3,300**	**8,125**

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 19 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.

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

Note 20 Events occurring after balance sheet date

In February 2020, the Australian Financial Review published articles pertaining to the acquisition in 2011 of a further 10% interest by Horizon Oil in Petroleum Retention Licence (PRL 21) in the Western Province of Papua New Guinea. Horizon Oil's board established an Independent Board Committee to oversee an investigation into this matter. Herbert Smith Freehills and Deloitte have been engaged to conduct the investigation. In a further response to the matter, M Sheridan was suspended as the Group's Chief Executive Officer on 12 February 2020.

M Sheridan's employment was terminated with notice on 28 February 2020, with Horizon Oil non-executive director C Hodge appointed as Chief Executive Officer on 14 February 2020.

The Company's share price was adversely impacted following the above allegations. Accordingly, if the derivative liability of US$13.5 million associated with the options issued under the 2016 subordinated loan facility was revalued at the date of this report, it would have a materially lower value.

Oil prices have also been significantly impacted by the recent Coronavirus (COVID-19) outbreak which has had an adverse impact on oil demand. Accordingly, the Company's derivative asset of US$0.3m associated with oil price swaps would be materially higher if revalued at the date of this report. As mentioned above, the Company executed additional oil price swaps during January 2020 to mitigate the impact of oil price volatility over the near term.

Other than the matters disclosed above and elsewhere in this report, there has not been any other matter or circumstance which has arisen since 31 December 2019 that has significantly affected, or may significantly affect:

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

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 2019 and of its performance, as represented by the results of its operations and its cashflows, for the half-year ended on that date; and

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

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

R. M. Harding

M Harding
Chairman

C Hodge
Chief Executive Officer

Sydney
28 February 2020

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) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

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 gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Horizon Oil Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

1. giving a true and fair view of the Group's financial position as at 31 December 2019 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
28 February 2020