



**Horizon Oil Limited** ABN 51 009 799 455

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4 July 2014

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

### **Scheme Booklet**

Further to the announcement by the Company on 3 July 2014 that the Federal Court of Australia had ordered a meeting of Horizon Oil shareholders to consider the Scheme (**Scheme Meeting**) and approved the Scheme Booklet for despatch to Horizon Oil shareholders, Horizon Oil attaches the Scheme Booklet.

A copy of the Scheme Booklet will be sent to Horizon Oil shareholders on or about Monday, 7 July 2014.

The Scheme Meeting will be held at The Sydney Boulevard Hotel, 90 William Street, Sydney at 11.00am (Sydney time) on Thursday, 7 August 2014.

Yours faithfully

A handwritten signature in black ink, appearing to read "Michael Sheridan". The signature is fluid and cursive, with the first name "Michael" and last name "Sheridan" clearly distinguishable.

Michael Sheridan  
Chief Financial Officer and Company Secretary

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# Horizon Oil

HORIZON OIL LIMITED (ACN 009 799 455) ("HORIZON OIL")

## SCHEME BOOKLET

This Scheme Booklet relates to the proposed implementation of a scheme of arrangement between Horizon Oil Shareholders and Horizon Oil, which if implemented, will result in the transfer of all of the issued share capital of Horizon Oil to Roc Oil Company Limited (ACN 075 965 856) ("Roc").

THE HORIZON OIL DIRECTORS UNANIMOUSLY  
RECOMMEND THAT YOU **VOTE IN FAVOUR**  
OF THE SCHEME, IN THE ABSENCE OF  
A SUPERIOR PROPOSAL

This Scheme Booklet contains important information about the Scheme and it will help you make an informed decision about how to vote.

FINANCIAL ADVISER



LEGAL ADVISER

KING & WOOD  
MALLESONS

# 01.

## IMPORTANT NOTICES

### PURPOSE OF SCHEME BOOKLET

This Scheme Booklet includes the explanatory statement required to be sent to Horizon Oil Shareholders under Part 5.1 of the Corporations Act in relation to the Scheme. A copy of the proposed Scheme is included as Attachment D (*Deed Poll and Scheme of Arrangement*) of this Scheme Booklet.

The purpose of this Scheme Booklet is to explain the terms of the Scheme and the manner in which the Scheme will be considered and implemented (if approved by a Requisite Majority of Horizon Oil Shareholders and by the Court) and to provide information as is prescribed or otherwise material to the decision of Horizon Oil Shareholders whether or not to vote in favour of the Scheme.

### READ ENTIRE SCHEME BOOKLET

This Scheme Booklet contains important information that the Horizon Oil Directors believe Horizon Oil Shareholders should consider in deciding whether or not to vote in favour of the Scheme. It has been prepared pursuant to section 412(1) of the Corporations Act to explain the effect of the Scheme.

Horizon Oil Shareholders are encouraged to read this Scheme Booklet carefully and in its entirety before making a decision on whether or not to vote in favour of the Scheme. If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser.

### RESPONSIBILITY FOR INFORMATION

The information contained in this Scheme Booklet has been prepared by Horizon Oil and is the responsibility of Horizon Oil, other than the Roc Information, Attachment A (*Independent Expert's Report and Independent Technical Expert's Report*), Attachment B (*Investigating Accountant's Report*). None of Roc, its directors, officers, shareholders or advisers assume any responsibility for the accuracy or completeness of the Horizon Oil Information.

The Roc Information has been provided by Roc and is the responsibility of Roc. None of Horizon Oil, its directors, officers or advisers assume any responsibility for the accuracy or completeness of the Roc Information.

Deloitte Corporate Finance Pty Limited (**Deloitte**) has prepared and is responsible for the Independent Expert's Report in relation to the Scheme contained in Attachment A (*Independent Expert's Report and Independent Technical Expert's Report*) and takes responsibility for that report. RISC has prepared and is responsible for the Independent Technical Expert's Report in relation to the Scheme contained in Attachment A (*Independent Expert's Report and Independent Technical Expert's Report*) and takes responsibility for that report. PricewaterhouseCoopers Securities Ltd has prepared and is responsible for the Investigating Accountant's Report in relation to the Scheme contained in Attachment B (*Investigating Accountant's Report*) and takes responsibility for that report.

Horizon Oil, Roc and their respective directors, officers and advisers do not assume responsibility for the accuracy or completeness of the Independent Expert's Report, Independent Technical Expert's Report or the Investigating Accountant's Report.

### ASIC AND ASX

A copy of this Scheme Booklet was provided to ASIC for registration under subsection 412(6) of the Corporations Act. ASIC has been given the opportunity to comment on this Scheme Booklet in accordance with subsection 411(2) of the Corporations Act. ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Scheme. If ASIC provides that statement, it will be produced to the Court on the Second Court Date.

A copy of this Scheme Booklet has been lodged with ASX. Neither ASIC, ASX nor any of their respective

officers take any responsibility for the contents of this Scheme Booklet.

### COURT

A copy of this Scheme Booklet has been lodged with the Court to obtain an order of the Court to approve the convening of the Scheme Meeting. The Court has not prepared and is not responsible for the contents of this Scheme Booklet. In ordering that the Scheme Meeting be held pursuant to subsection 411(1) of the Corporations Act, the Court does not in any way indicate that the Court has formed any view as to the merits of the Scheme or as to how members should vote, or in any way approved or will approve the terms of the Scheme. Any order of the Court under section 411(1) of the Corporations Act is not an endorsement of, or any other expression of opinion on, the Scheme.

### NO EXTRANEOUS INFORMATION

No person is authorised to give any information or make any representation in connection with the Scheme, which is not contained in this Scheme Booklet. Any information or representation not contained in this Scheme Booklet may not be relied on as having been authorised by Horizon Oil in connection with the Scheme.

### HORIZON OIL AND ROC WEBSITES

The content of Horizon Oil's and Roc's respective websites do not form part of this Scheme Booklet and Horizon Oil Shareholders should not rely on their content.

### FORWARD-LOOKING STATEMENTS

This Scheme Booklet contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements.

All forward-looking statements in this Scheme Booklet reflect views only as at the date of this Scheme Booklet, and generally may be identified by the use of forward-looking words such as "believe", "aim", "expect", "anticipate", "intending", "foreseeing", "likely", "should", "could", "predict", "planned", "propose", "may", "estimate", "potential", "target", "outlook", "guidance", "forecast", or other similar words. Similarly, statements that describe Horizon Oil's or Roc's or the Merged Group's objectives, plans, goals or expectations are or may be forward-looking statements.

The statements contained in this Scheme Booklet about the impact that the Scheme may have on the results of Horizon Oil's operations and the advantages and disadvantages anticipated to result from the Scheme, are also forward-looking statements.

These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to differ materially from the anticipated results, performance or achievements, which are expressed, projected or implied by these forward-looking statements.

The operations and financial performance of Horizon Oil, Roc or the Merged Group remain subject to various risks that are summarised in this Scheme Booklet and which may be beyond the control of Horizon Oil, Roc or the Merged Group. Those risks and uncertainties include factors and risks specific to the industry in which Horizon Oil, Roc and the Merged Group operate as well as general economic conditions, prevailing oil and petroleum prices, exchange rates and interest rates and conditions in the financial markets. As a result, the actual results of operations and earnings of Horizon Oil, Roc or the Merged Group following implementation of the Scheme (and the actual advantages of the Scheme) may differ significantly from those that are anticipated in respect of timing, amount or nature and may never be achieved.

Section 14 (*Risk factors*) sets out the risks of the Scheme.

Horizon Oil Shareholders should note that the historical financial performance of Horizon Oil is no assurance of future financial performance of Horizon Oil (whether the Scheme is implemented or not).

Likewise, Horizon Oil Shareholders should note that the historical financial performance of Roc is no assurance of future financial performance of Roc (whether the Scheme is implemented or not) and the historical financial performance of either or both of Horizon Oil and Roc is no assurance of future financial performance of the Merged Group (if the Scheme is implemented).

The forward-looking statements included in this Scheme Booklet are made only as of the date of this Scheme Booklet.

Any forward-looking statements included in the Horizon Oil Information have been made on reasonable grounds. Although Horizon Oil believes that the views reflected in any forward-looking statements included in the Horizon Oil Information have been made on a reasonable basis, no assurance can be given that such views will prove to have been correct. None of Horizon Oil, Roc, Horizon Oil's officers, Roc's officers or any persons named in this Scheme Booklet with their consent or any person involved in the preparation of this Scheme Booklet makes any representation or warranty (express or implied) as to the likelihood of fulfilment of any forward-looking statement, or any events or results expressed or implied in any forward-looking statement, except to the extent required by law. You are cautioned not to place undue reliance on any forward-looking statement in this Scheme Booklet.

All subsequent written and oral forward-looking statements attributable to Horizon Oil or Roc or any person acting on their behalf are qualified by this cautionary statement.

### UP TO DATE INFORMATION

Subject to any continuing obligations under relevant laws or the listing rules of a relevant exchange, Horizon Oil and Roc do not give any undertaking to update or revise any such statements after the date of this Scheme Booklet, to reflect any change in expectations in relation thereto or any change in events, conditions or circumstances on which any such statement is based.

Horizon Oil may issue a supplementary statement in certain circumstances as described in section 17.6 (*Supplementary disclosure*) of this Scheme Booklet.

### NOT INVESTMENT ADVICE

The information provided in this Scheme Booklet is not financial product advice or investment advice and is general information only. This Scheme Booklet does not take into account the investment objectives, financial situation or particular needs of individual Horizon Oil Shareholders. Accordingly, nothing in this Scheme Booklet should be construed as a recommendation or statement of opinion by Horizon Oil, its officers, directors or advisers. This Scheme Booklet should not be relied upon as the sole basis for any investment decision in relation to the Scheme or your Horizon Oil Shares. Before making an investment decision in relation to the Scheme or your Horizon Oil Shares (including any decision to vote for or against the Scheme) you should consider, with or without the assistance of a financial adviser, whether that decision is appropriate in the light of your particular investment needs, objectives and financial circumstances. If you are in any doubt about what you should do, you should seek independent financial, legal and taxation advice before making any investment decision in relation to the Scheme or your Horizon Oil Shares.



## RESERVES AND RESOURCES

The information in this Scheme Booklet that relates to Reserves, Contingent Resources and Prospective Resources for Horizon Oil is based on information, and fairly represents, information and supporting documentation compiled by Alan Fernie (Manager – Exploration and Development and full time employee of Horizon Oil). Mr Fernie B.Sc, who is a member of the American Association of Petroleum Geologists, has more than 38 years relevant experience within the industry and consents in writing to the inclusion of the information in the form and context in which it appears. The Reserve, Contingent Resource and Prospective Resource estimates are consistent with the definitions of proved, probable, and possible hydrocarbon reserves and resources that appear in the ASX Listing Rules. Mr Fernie is qualified as a Competent Person under the JORC Code 2012.

The information in this Scheme Booklet that relates to Reserves, Contingent Resources and Prospective Resources for Roc is based on, and fairly represents, information and supporting documentation prepared by, or under the supervision of, Bill Billingsley (Chief Reservoir Engineer and full time employee of Roc). Mr Billingsley BSc (Chem) MSc (Petroleum Engineering) DIC (Imperial College) is a member of the Society of Petroleum Engineers and has more than 18 years relevant experience within the petroleum industry. The Reserves, Contingent Resources and Prospective Resources information that relates to Roc has been issued with the prior written consent of Mr Billingsley in the form and context in which it appears.

Unless otherwise indicated or contained in information which was prepared by a different party, all references to estimates and derivations of the same in this Scheme Booklet are references to estimates by Horizon Oil and management estimates are based on Horizon Oil's views at the date of this Scheme Booklet. Actual facts or outcomes may be different from those estimates.

## FOREIGN HORIZON OIL SHAREHOLDERS

This Scheme Booklet and the Scheme are subject to Australian disclosure requirements. The information contained in this Scheme Booklet may not be the same as that which would have been disclosed if this Scheme Booklet had been prepared in accordance with laws and regulations outside Australia. This Scheme Booklet and the Scheme do not in any way constitute an offer of securities in any place where (or to any person who) it would not be lawful to make such an offer.

A Horizon Oil Shareholder who is recorded in the Horizon Oil Register at the Record Date as having a registered address outside Australia will be a Foreign Horizon Oil Shareholder for the purposes of the Scheme. Foreign Horizon Oil Shareholders should refer to section 8.19 (*Foreign Horizon Oil Shareholders*) of this Scheme Booklet to determine whether they are Ineligible Foreign Shareholders.

Ineligible Foreign Shareholders will not be able to receive New Roc Shares under the Scheme. Instead, Ineligible Foreign Shareholders will receive the net proceeds from the sale of the New Roc Shares which they would have otherwise received. Ineligible Foreign Shareholders should refer to sections 8.19 (*Foreign Horizon Oil Shareholders*) and 8.20 (*Sale Nominee process*) for further information.

Foreign Horizon Oil Shareholders should also note that financial information contained in this Scheme Booklet has been prepared in accordance with AIFRS and is presented in an abbreviated form and does not contain all the disclosures that are usually provided in an annual report prepared in accordance with the Corporations Act. Australian disclosure requirements and AIFRS may differ from those applicable in other jurisdictions.

## NOTICE TO FOREIGN SHAREHOLDERS

This Scheme Booklet and the Scheme do not constitute an offer of securities in any jurisdiction in which it would be unlawful.

## British Virgin Islands

The New Roc Shares may not be offered from within the British Virgin Islands unless Roc or the person offering the New Roc Shares on its behalf is licensed to carry on business in the British Virgin Islands. Neither Roc nor Horizon Oil are licensed to carry on business in the British Virgin Islands. The New Roc Shares may be offered to British Virgin Islands business companies (from outside the British Virgin Islands) without restriction. A British Virgin Islands business company is a company formed under or otherwise governed by the BVI Business Companies Act, 2004 (British Virgin Islands).

## France

This Scheme Booklet is not being distributed in the context of a public offering of financial securities (*offre au public de titres financiers*) in France within the meaning of Article L.411-1 of the French Monetary and Financial Code (*Code monétaire et financier*) and Articles 211-1 et seq. of the General Regulation of the French Autorité des marchés financiers (AMF). The New Roc Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France.

This Scheme Booklet and any other offering material relating to the Scheme have not been, and will not be, submitted to the AMF for approval in France and, accordingly, may not be distributed or caused to be distributed, directly or indirectly, to the public in France.

Such offers, sales and distributions have been and shall only be made in France (i) in a transaction that, in accordance with Article L. 411-2-I of the French Monetary and Financial Code and Article 211-2 of the General Regulation of the AMF, does not constitute a public offering of financial securities and/or (ii) to qualified investors (*investisseurs qualifiés*) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2°, D.411-1, L.533-16, L.533-20, D.533-11, D.533-13, D.744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation and/or (iii) to a restricted number of non-qualified investors (*cercle restreint d'investisseurs*) acting for their own account, as defined in and in accordance with Articles L.411-2-II-2°, D.411-4, D.744-1, D.754-1 and D.764-1 of the French Monetary and Financial Code and any implementing regulation.

Pursuant to Article 211-3 of the General Regulation of the AMF, investors in France are informed that the New Roc Shares cannot be distributed (directly or indirectly) to the public by the investors otherwise than in accordance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Monetary and Financial Code.

## Hong Kong

WARNING – The contents of this document have not been reviewed or approved by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

This document does not constitute an offer or invitation to the public in Hong Kong to acquire or subscribe for or dispose of any securities. This document also does not constitute a prospectus (as defined in section 2(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32 of the Laws of Hong Kong)) or notice, circular, brochure or advertisement offering any securities to the public for subscription or purchase or calculated to invite such offers by the public to subscribe for or purchase any securities, nor is it an advertisement, invitation or document containing an advertisement or invitation falling within the meaning of section 103 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). Accordingly, unless permitted by the securities laws of Hong Kong, no person may issue or cause to be issued this document in Hong Kong, other than to persons who are "professional investors" as defined in the Securities and Futures

Ordinance and any rules made thereunder or in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance or which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance; and no person may issue or have in its possession for the purposes of issue, this document or any advertisement, invitation or document relating to these securities, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than any such advertisement, invitation or document relating to securities that are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made thereunder.

Copies of this document may be issued to a limited number of persons in Hong Kong in a manner which does not constitute any issue, circulation or distribution of this document, or any offer or an invitation in respect of these securities, to the public in Hong Kong. The document is for the exclusive use of Horizon Oil shareholders in connection with the Scheme, and no steps have been taken to register or seek authorisation for the issue of this document in Hong Kong. Only the person to whom a copy of this document has been issued may take action in response to this document. The offer of these securities is personal to the person to whom this document has been delivered, and a subscription for these securities will only be accepted from such person.

This document is confidential to the person to whom it is addressed and no person to whom a copy of this document is issued may issue, circulate, distribute, publish, reproduce or disclose (in whole or in part) this document to any other person in Hong Kong or use for any purpose in Hong Kong other than in connection with the consideration of the Scheme by the person to whom this document is addressed.

## New Zealand

This Scheme Booklet is not a New Zealand prospectus or an investment statement and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Securities Act 1978 (or any other relevant New Zealand law). The offer of New Roc Shares under the Scheme is being made to existing Horizon Oil shareholders in reliance upon the Securities Act (Overseas Companies) Exemption Notice 2013 and accordingly this Scheme Booklet may not contain all the information that an investment statement or prospectus under New Zealand law is required to contain.

## Norway

This Scheme Booklet has not been approved by, or registered with, any Norwegian securities regulator under the Norwegian Securities Trading Act of 29 June 2007. Accordingly, this document shall not be deemed to constitute an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007.

The New Roc Shares may not be offered or sold, directly or indirectly, in Norway except:

- to "professional clients" (as defined in Norwegian Securities Regulation of 29 June 2007 no. 876 and including non-professional clients having met the criteria for being deemed to be professional and for which an investment firm has waived the protection as non-professional in accordance with the procedures in this regulation);
- to fewer than 150 natural or legal persons (other than "professional clients"); or
- in any other circumstances provided that no such offer of New Roc Shares shall result in a requirement for the registration, or the publication by the issuer or an underwriter, of a prospectus pursuant to the Norwegian Securities Trading Act of 29 June 2007.



## Papua New Guinea

This Scheme Booklet is being distributed only to Horizon Oil shareholders. This document has not been registered as a prospectus in PNG and no notice of the proposed offer will be submitted to the Registrar of Companies. No other documents are being lodged with the Registrar of Companies or the PNG Securities Commission in respect of the proposed offer. The proposed offer is not and should not be construed as an offer of securities to the public in PNG.

## Singapore

This Scheme Booklet and any other document or material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of the New Roc Shares have not been and will not be registered as a prospectus with the Monetary Authority of Singapore and this offering is not regulated by any financial supervisory authority pursuant to any legislation in Singapore. Accordingly, statutory liabilities in connection with the contents of prospectuses under the Securities and Futures Act, Cap. 289 (the SFA) will not apply.

This Scheme Booklet and any other document or material in connection with the offer, sale or distribution, or invitation for subscription, purchase or receipt of the New Roc Shares may not be offered, sold or distributed, or be made the subject of an invitation for subscription, purchase or receipt, whether directly or indirectly, to persons in Singapore except pursuant to exemptions in Subdivision (4) Division 1, Part XIII of the SFA, including the exemption under section 273(1)(c) of the SFA, or otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Any offer is not made to you with a view to the New Roc Shares being subsequently offered for sale to any other party. You are advised to acquaint yourself with the SFA provisions relating to on-sale restrictions in Singapore and comply accordingly.

Neither this document nor any copy of it may be taken or transmitted into any country where the distribution or dissemination is prohibited. This document is being furnished to you on a confidential basis and solely for your information and may not be reproduced, disclosed, or distributed to any other person.

The investments contained or referred to in this document may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

Neither Horizon Oil nor Roc is in the business of dealing in securities or hold itself out or purport to hold itself out to be doing so. As such, Horizon Oil and Roc are neither licensed nor exempted from dealing in securities or carrying out any other regulated activities under the SFA or any other applicable legislation in Singapore.

## Switzerland

The New Roc Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (SIX) or on any other stock exchange or regulated trading facility in Switzerland. This Scheme Booklet has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this Scheme Booklet nor any other offering or marketing material relating to the New Roc Shares may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Scheme Booklet nor any other offering or marketing material relating to the New Roc Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Scheme Booklet will not be filed with, and the offer of New Roc Shares will not be supervised by, the Swiss Financial Market Supervisory Authority, and the offer of New Roc Shares has not been and will not be authorised under the Swiss Federal Act on Collective Investment Schemes (CISA). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of New Roc Shares.

This Scheme Booklet is personal to the recipient only and not for general circulation in Switzerland.

## United Kingdom

Neither the information in this Scheme Booklet nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (FSMA)) has been published or is intended to be published in respect of the New Roc Shares.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 FSMA) received in connection with the issue of the New Roc Shares has only been communicated, and will only be communicated, in the United Kingdom in circumstances in which section 21(1) FSMA does not apply to Horizon Oil. In the United Kingdom, this Scheme Booklet is being distributed only to, and is directed at, persons to whom it may lawfully be distributed or directed within the circumstances described in Article 43 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 and/or any other persons to whom it may lawfully be communicated (all such persons being referred to as **Relevant Persons**).

The investments to which this Scheme Booklet relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Scheme Booklet or any of its contents.

## United States

Horizon Oil and Roc intend to rely on an exemption from the registration requirements of the US Securities Act of 1933 provided by Section 3(a)(10) thereof in connection with the consummation of the Scheme and the issuance of New Roc Shares. Approval of the Scheme by the Court will be relied upon by Horizon Oil and Roc for purposes of qualifying for the Section 3(a)(10) exemption.

US shareholders should note that the Scheme is made for the securities of an Australian company in accordance with the laws of Australia and the listing rules of the ASX. The Scheme is subject to disclosure requirements of Australia that are different from those of the United States.

It may be difficult for you to enforce your rights and any claim you may have arising under US federal securities laws, since Roc is located in Australia and most of its officers and directors are residents of Australia. You may not be able to sue Roc or its officers or directors in Australia for violations of the US securities laws. It may be difficult to compel Roc and its affiliates to subject themselves to a US court's judgment.

You should be aware that Roc may purchase securities otherwise than under the Scheme, such as in open market or privately negotiated purchases.

The Scheme Booklet has not been filed with or reviewed by the US Securities and Exchange Commission or any state securities authority and none of them has passed upon or endorsed the merits of the Scheme or the accuracy, adequacy or completeness of the Scheme Booklet. Any representation to the contrary is a criminal offence.

The New Roc Shares to be issued pursuant to the Scheme have not been, and will not be, registered under the US Securities Act 1933 or the securities laws of any US state or other jurisdiction. The Scheme is not being made in any US state or other jurisdiction where it is not legally permitted to do so.

## TAX IMPLICATIONS OF THE SCHEME

Section 15 (*Tax implications*) provides a general outline of the Australian income tax, capital gains tax, GST and stamp duty consequences for Horizon Oil Shareholders who dispose of their Horizon Oil Shares to Roc under the Scheme. It does not purport to be a complete analysis nor to identify all potential tax consequences nor is it intended to replace the need for specialist tax advice in respect of the particular circumstances of individual Horizon Oil Shareholders.

Horizon Oil Shareholders who are subject to taxation outside Australia should also consult their tax adviser as to the applicable tax consequences of the Scheme in the relevant jurisdiction.

## PRIVACY

Horizon Oil and Roc and their respective registries and agents may collect personal information in the process of implementing the Scheme. This information may include the names, contact details and security holdings of Horizon Oil Shareholders and the names of persons appointed by Horizon Oil Shareholders to act as proxy, attorney or corporate representative at the Scheme Meeting.

The primary purpose of collecting this information is to assist Horizon Oil and Roc in the conduct of the Scheme Meeting and to enable the Scheme to be implemented by Horizon Oil in the manner described in this Scheme Booklet. The collection of this personal information is required or authorised by the Corporations Act. Personal information may be disclosed to the Horizon Oil Share Registry, to print and mail services to the extent necessary to conduct the Scheme Meeting and implement the Scheme. If this information is not collected, Horizon Oil may be hindered in, or prevented from, conducting the Scheme Meeting or implementing the Scheme effectively or at all.

Horizon Oil Shareholders have the right to access personal information that has been collected. If you wish to exercise this right, you should contact the Horizon Oil Share Registry in the first instance.

Horizon Oil Shareholders who appoint a named person to act as their proxy, attorney or corporate representative should ensure that they inform that person of the matters outlined above.

## NOTICE OF MEETING

The Notice of Scheme Meeting is set out in Attachment E (*Notice of Scheme Meeting*).

## EFFECT OF ROUNDING

Figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Scheme Booklet are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Scheme Booklet.

## GLOSSARY, DEFINITIONS AND INTERPRETATION

A number of terms and abbreviations used in this Scheme Booklet have special meanings. These are listed in section 18 (*Glossary, definitions and interpretation*) of this Scheme Booklet. The documents reproduced in the attachments to this Scheme Booklet may have their own defined terms, which are sometimes different from those in the Glossary.

## DATE

This Scheme Booklet is dated 3 July 2014.



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## 02. IMPORTANT DATES

DATE	EVENT
Thursday, 3 July 2014	First Court Date
On or about Monday, 7 July 2014	Scheme Booklet and Notice of Meeting dispatched to Horizon Oil Shareholders
11.00am (Sydney time) on Tuesday, 5 August 2014	Latest time and date for receipt of proxy forms for the Scheme Meeting
7.00pm (Sydney time) on Tuesday, 5 August 2014	Time and date for determining eligibility to vote at the Scheme Meeting
11.00am (Sydney time) on Thursday, 7 August 2014	Meeting of Horizon Oil Shareholders to vote on the Scheme ( <b>Scheme Meeting</b> )

### IF HORIZON OIL SHAREHOLDERS APPROVE THE SCHEME AT THE SCHEME MEETING

DATE	EVENT
Thursday, 14 August 2014	Second Court Date for approval of the Scheme
Friday, 15 August 2014	Court order lodged with ASIC and Scheme takes effect ( <b>Effective Date</b> ) Last day of trading in Horizon Oil Shares Suspension of Horizon Oil Shares from trading on ASX
Monday, 18 August 2014	New Roc Shares issued as Scheme Consideration, commencing trading on ASX on a deferred settlement basis <sup>1</sup>
5.00pm (Sydney time) on Friday, 22 August 2014	Record Date for determining entitlement to receive Scheme Consideration ( <b>Record Date</b> )
Friday, 29 August 2014	Implementation of the Scheme ( <b>Implementation Date</b> ) Scheme Participants receive the Scheme Consideration
Monday, 1 September 2014	New Roc Shares commence trading on ASX on a normal settlement basis
Friday, 5 September 2014	Expected dispatch of holding statements for New Roc Shares

The exact number of New Roc Shares to be issued to you will not be confirmed until you receive your holding statement following the Implementation Date. It is your responsibility to confirm your holding of New Roc Shares before you trade them to avoid the risk of committing to sell more than will be issued to you.

All dates following the date of the Scheme Meeting are indicative only and, among other things, are subject to all necessary approvals from the Court and other Regulatory Authorities. Any changes to this timetable will be announced through ASX.

<sup>1</sup> See the discussion of risks in section 14.1 (*Scheme specific risks*).

## 03. ACTION REQUIRED BY HORIZON OIL SHAREHOLDERS

### STEP 01 READ THIS SCHEME BOOKLET CAREFULLY AND IN ITS ENTIRETY

01

You should read this Scheme Booklet carefully and in its entirety before making any decision on how to vote at the Scheme Meeting.

There are answers to some questions you may have in section 9 (*Frequently asked questions*) of this Scheme Booklet. If you have any further questions, you can call the Horizon Oil Shareholder Information Line on 1300 721 637 (within Australia) or on +61 2 8016 2890 (from outside Australia) at any time from 9.00am to 5.00pm (Sydney time) Monday to Friday.

If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser.

### STEP 02 VOTE AT THE SCHEME MEETING

02

#### a) Entitlement to vote

Horizon Oil Shareholders who are registered on the Horizon Oil Register at 7.00pm (Sydney time) on Tuesday, 5 August 2014 may vote at the Scheme Meeting.

#### b) How to vote

Horizon Oil Shareholders may vote at the Scheme Meeting:

**i) In person** by attending the Scheme Meeting. If you wish to vote in person at the Scheme Meeting, please arrive at least 30 minutes prior to the time designated for the meeting so that we may verify the number of your Horizon Oil Shares for voting and note your attendance.

**ii) By attorney** appointed to vote on your behalf. Those persons attending as an attorney must bring the original power of attorney, or certified copy, unless Horizon Oil has already noted it. The power of attorney must be returned in the same manner, and at the same time, as outlined for the Proxy Forms below.

**iii) By corporate representative** appointed to vote on behalf of a Horizon Oil Shareholder that is a company. Those persons attending as a corporate representative must bring evidence of their authority, such as a letter or certificate evidencing their appointment.

#### iv) By proxy:

- A) by lodging a proxy online by accessing the following website:  
[www.boardroomlimited.com.au/vote/horizonscheme2014](http://www.boardroomlimited.com.au/vote/horizonscheme2014) and following the instructions;
- B) by mailing the enclosed Proxy Form to Boardroom Pty Limited at GPO Box 3993, Sydney NSW 2001 Australia;
- C) by faxing the enclosed Proxy Form to Boardroom Pty Limited to +61 2 9290 9655; or
- D) by hand delivering the enclosed Proxy Form to Boardroom Pty Limited to Level 7, 207 Kent Street, Sydney NSW 2000.

To be valid, a Proxy Form must be received by Boardroom Pty Limited by 11.00am (Sydney time) on Tuesday, 5 August 2014. For further information on proxy voting, please refer to the detailed instructions contained in the enclosed Proxy Form.

Further information on the procedure for voting at the Scheme Meeting can be found in section 9 (*Frequently asked questions*) and Attachment E (*Notice of Scheme Meeting*) of this Scheme Booklet.

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**STEP**  
**02**  
CONTINUED

**c) Details of the Scheme Meeting**

The details of the Scheme Meeting are as follows:

Date	Thursday, 7 August 2014
Time	11.00am (Sydney time)
Venue	The Sydney Boulevard Hotel 90 William Street Sydney NSW 2011

**d) Voting by poll**

Voting at the Scheme Meeting will be conducted by way of a poll. You will have one vote for each Horizon Oil Share you hold.

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**STEP**  
**03** **PARTICIPATE IN THE PROPOSAL**

If you are eligible and wish to participate in the Scheme you will need to ensure that you do not sell your Horizon Oil Shares prior to 5.00pm (Sydney time) on Friday, 22 August 2014 (the Record Date).

Otherwise, you do not need to do anything to participate in the Scheme. The first day that you can trade the New Roc Shares that you will receive through the Scheme is Monday, 18 August 2014 on a deferred settlement basis. On this day, you will not have received your holding statement which sets out the number of New Roc Shares you hold. If you trade your New Roc Shares on ASX during this period you do so at your own risk. Holding statements are expected to be dispatched by Friday, 5 September 2014 and you should receive your holding statement in the subsequent days.

**Note: Ineligible Foreign Shareholders**

Restrictions in foreign countries may make it impractical or unlawful for Roc to deliver New Roc Shares to some Foreign Horizon Oil Shareholders (or for those persons to receive New Roc Shares). Accordingly, Ineligible Foreign Shareholders will not be able to receive New Roc Shares under the Scheme.

Instead, Ineligible Foreign Shareholders will receive the net proceeds from the sale of the New Roc Shares which they would have otherwise received. Ineligible Foreign Shareholders should refer to section 8.19 (*Foreign Horizon Oil Shareholders*) and 8.20 (*Sale Nominee process*) for further information.

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## 04. LETTER FROM THE CHAIRMAN OF HORIZON OIL



Thursday, 3 July 2014

Dear Horizon Oil Shareholder,

On 29 April 2014, Horizon Oil announced a proposed merger with Roc to create a leading Asian-focused upstream oil and gas company. I am pleased to provide this Scheme Booklet to you which sets out the detail of the transaction.

Under the terms of the merger that we are proposing with Roc, Horizon Oil Shareholders (other than Ineligible Foreign Shareholders) will receive the Scheme Consideration of 0.724 New Roc Shares for each Horizon Oil Share that they hold on the Record Date. Following implementation of the Scheme, Horizon Oil Shareholders will own approximately 58% of the Merged Group and Roc Shareholders will own approximately 42%.<sup>2</sup>

This is a transformational and exciting transaction. Horizon Oil has been building a leading portfolio of Asian-focused assets and the opportunity to merge with Roc represents a significant further step towards achieving that objective.

We see a compelling rationale to bring the two companies together to create a leading Asian-focused upstream oil and gas company of substantially greater scale and diversification, providing a platform for significant potential growth and value realisation.

The merger brings together two highly complementary companies. The Horizon Oil Directors and the Roc Directors believe that the Merged Group will be better positioned than either company on a standalone basis. In particular, Roc brings substantial operating capability to the combined leadership team and a robust balance sheet and cash flows from its existing production assets. The merger enhances the financial capacity of the Merged Group to develop its material PNG hydrocarbon assets, which provide the Merged Group with a pipeline of major development projects.

**The Horizon Oil Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal. Each Horizon Oil Director intends to vote in favour of the Scheme in relation to Horizon Oil Shares held or controlled by them, in the absence of a Superior Proposal.**

However each shareholder must reach their own decision in relation to the Scheme. This Scheme Booklet also discusses reasons why shareholders may consider voting against the Scheme and the risks associated with becoming a member of the Merged Group – see sections 6 (*Summary of reasons to vote for or against the Scheme*) and 14 (*Risk factors*).

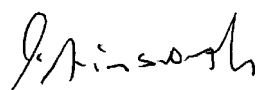
Please read this Scheme Booklet carefully and in its entirety as it contains important information in relation to the Scheme, including the reasons for the Horizon Oil Directors' unanimous recommendation in the absence of a Superior Proposal and the Independent Expert's Report prepared by Deloitte.

Your vote is important regardless of how many Horizon Oil Shares you own. I encourage you to read this Scheme Booklet carefully and cast an informed vote at the Scheme Meeting to be held at The Sydney Boulevard Hotel, 90 William Street, Sydney at 11.00am (Sydney time) on Thursday, 7 August 2014. If you are unable to attend the Scheme Meeting in person, I encourage you to vote by completing your personalised proxy form which is enclosed with this Scheme Booklet and returning it in accordance with the directions on the form so it is received by 11.00am (Sydney time) on Tuesday, 5 August 2014. If you are in doubt as to what you should do, you should consult your legal, financial or other professional adviser.

Please call the Horizon Oil Shareholder Information Line on 1300 721 637 (within Australia) or +61 2 8016 2890 (outside Australia) if you require further information or have questions regarding the Scheme.

The Horizon Oil Directors have stated their unanimous support for this merger and I reiterate on behalf of the Horizon Oil Board our conviction in the merits of the merger in delivering value for Horizon Oil Shareholders and our belief in the investment proposition of the Merged Group that we intend to create.

Yours sincerely,



**FRASER AINSWORTH AM**  
Chairman, Horizon Oil Limited

<sup>2</sup> Based on the total number of New Roc Shares to be issued to Horizon Oil Shareholders as Scheme Consideration having regard to the total number of Horizon Oil Shares on issue as at the date of this Scheme Booklet, as a proportion of the total number of Roc Shares that will be on issue following implementation of the Scheme.

## 05. LETTER FROM THE CHAIRMAN OF ROC



Thursday, 3 July 2014

Dear Horizon Oil Shareholder

### **Proposal to create a leading Asian-focused upstream oil and gas company**

Roc is pleased to provide Horizon Oil Shareholders with the opportunity to participate in a merger of equals between Roc and Horizon Oil that will see the creation of a leading independent Asian-focused upstream oil and gas company with a pro forma market capitalisation of approximately A\$800 million<sup>3</sup>.

The Roc Board believes that the merger has a strong strategic rationale and provides a number of benefits to both Roc Shareholders and Horizon Oil Shareholders that are detailed in this Scheme Booklet.

Roc and Horizon Oil have complementary teams and assets in China, Malaysia, PNG, Australia and New Zealand, the combination of which makes this transaction a compelling and unique opportunity for both companies. The Merged Group will have a high quality portfolio of producing assets, a pipeline of major development projects and attractive exploration assets providing a platform for significant potential growth and value realisation for all shareholders.

The Horizon Oil Directors have unanimously recommended that you vote in favour of the Scheme in the absence of a Superior Proposal. I encourage you to read this Scheme Booklet carefully and vote in favour of the Scheme at the Scheme Meeting to be held on Thursday, 7 August 2014.

The Roc Board is also unanimously of the view that the Scheme is in the best interests of all shareholders.

As a Horizon Oil Shareholder, your vote is important to ensure that the Scheme is implemented so that the benefits associated with the merger can be delivered for both Horizon Oil Shareholders and Roc Shareholders.

I look forward to welcoming you as a shareholder in the Merged Group following the successful implementation of the Scheme.

Yours sincerely,

**MIKE HARDING**

*Chairman, Roc Oil Company Limited*

<sup>3</sup> Based on the combined market capitalisations of each of Horizon Oil and Roc based on the closing share prices on 23 April 2014, the last day Horizon Oil and Roc shares were traded prior to the announcement of the merger.

## 06. SUMMARY OF REASONS TO VOTE FOR OR AGAINST THE SCHEME

### REASONS WHY YOU SHOULD VOTE IN FAVOUR OF THE SCHEME

- ✓ Creates a leading Asian-focused upstream oil and gas company
- ✓ Brings together two highly complementary portfolios
- ✓ The Merged Group will be in a more robust financial position than Horizon Oil as a standalone company
- ✓ Combines the talents and expertise of two experienced leadership teams
- ✓ The merger exchange ratio reflects the relative valuations of the two companies
- ✓ The Independent Expert has concluded that the Scheme is in the best interests of Horizon Oil Shareholders
- ✓ The Horizon Oil Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal

### REASONS WHY YOU MAY CHOOSE NOT TO VOTE IN FAVOUR OF THE SCHEME

- ✗ You may disagree with the recommendation of the Horizon Oil Directors and the conclusions of the Independent Expert
- ✗ There are risks associated with an investment in the Merged Group
- ✗ You may consider the investment profile for the Merged Group to be inferior to that of Horizon Oil
- ✗ The exact value of the Scheme Consideration is not certain
- ✗ You may believe that a Superior Proposal will emerge for Horizon Oil



# 07. Horizon Oil Directors' recommendation and details of reasons to vote for or against the Scheme



## 7.1 THE HORIZON OIL DIRECTORS' RECOMMENDATION

The Horizon Oil Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal. Each Horizon Oil Director intends to vote in favour of the Scheme in relation to Horizon Oil Shares held or controlled by them, in the absence of a Superior Proposal.

In making their recommendation and determining how to vote on the Scheme, the Horizon Oil Directors have considered the advantages and disadvantages of the Scheme, including the information in:

- i) section 7.2 (*Reasons why you should vote in favour of the Scheme*);
- ii) section 7.3 (*Reasons why you may choose not to vote in favour of the Scheme*);
- iii) section 14 (*Risk factors*); and
- iv) Attachment A (*Independent Expert's Report and Independent Technical Expert's Report*).

In considering whether to vote in favour of the Scheme, the Horizon Oil Directors encourage you to:

- i) read this Scheme Booklet carefully and in its entirety;
- ii) have regard to your individual risk profile, portfolio strategy, tax position and financial circumstances;
- iii) obtain financial advice from your broker or financial adviser on the Scheme and obtain taxation advice on the effect of the Scheme becoming effective; and
- iv) consider the current trading prices of Horizon Oil Shares and Roc Shares.

## 7.2 REASONS WHY YOU SHOULD VOTE IN FAVOUR OF THE SCHEME

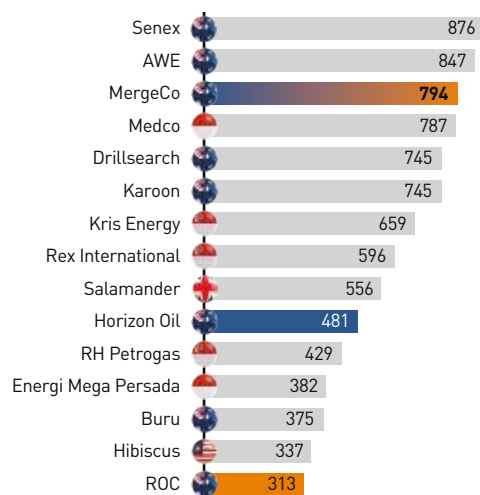
The following is a summary of the reasons why you should vote in favour of the Scheme only and is qualified by the detailed information contained in this Scheme Booklet. You should read this Scheme Booklet carefully and in its entirety.

### A) CREATES A LEADING ASIAN-FOCUSED UPSTREAM OIL AND GAS COMPANY

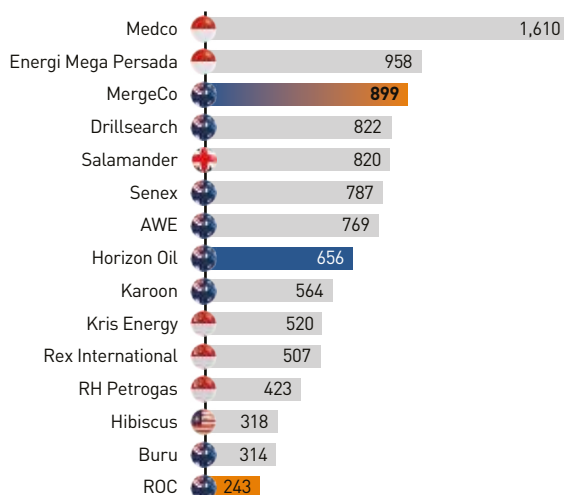
The Scheme will create a leading Asian-focused upstream oil and gas company, providing a platform for significant potential growth and value realisation in the Australasian oil and gas sector.

The Merged Group will have a pro forma market capitalisation of approximately A\$800 million<sup>4</sup>. This compares to Horizon Oil's market capitalisation of approximately A\$480 million<sup>5</sup>.

#### Market Capitalisation (A\$m)<sup>5,6</sup>



#### Enterprise Value (A\$m)<sup>5,6</sup>



<sup>4</sup> Based on the combined market capitalisations of each of Horizon Oil and Roc on 23 April 2014, the last day Horizon Oil and Roc Shares were traded prior to the announcement of the merger.

<sup>5</sup> Based on the market capitalisation of Horizon Oil on 23 April 2014, the last day Horizon Oil Shares were traded prior to the announcement of the merger.

<sup>6</sup> Australasian-focused oil and gas companies A\$300m–A\$1bn market capitalisation.

<sup>7</sup> Enterprise Value has been derived by adding the market capitalisation values for each company (based on closing share prices as at 23 April 2014) with net debt figures for each company as at 31 December 2013. Where relevant, foreign currency net debt amounts have been converted using rates as at 23 April 2014 (AUDUSD: 0.926, AUD:MYR: 3.028)



The Merged Group will have net 2P Reserves of 33.3 MMBOE and net 2C Contingent Resources of 113.0 MMBOE. The Merged Group will have a substantial combined CY14 indicative working interest production estimated at 5.5 MMBOE<sup>8</sup>.

The Merged Group will be one of the largest Asian-focused upstream oil and gas companies listed on ASX (by market capitalisation). Its increased scale and market relevance are likely to enhance the level of interest from analysts and investors seeking exposure to the Asian oil and gas sector and will likely facilitate increased liquidity in the after-market for the Merged Group's shares. The scale and market presence of the Merged Group is also likely to provide access to growth opportunities which are unlikely to otherwise be available to Horizon Oil as a standalone company.

## B) BRINGS TOGETHER TWO HIGHLY COMPLEMENTARY PORTFOLIOS

Horizon Oil has been focused for a number of years on building a leading portfolio of Asian-focused assets and the opportunity to merge with Roc represents a significant step towards achieving that objective. The Scheme brings together two highly complementary Asian-focused companies with assets across China, PNG, Malaysia, Myanmar, Australia and New Zealand. The companies already hold joint interests in assets in China which will be consolidated as part of the merger.

The merger combines Roc's production-weighted portfolio and cash flow with the growth upside provided by Horizon Oil. The Merged Group will have a well-balanced portfolio with an attractive asset pipeline across all stages of development, with strong cash flows to enable it to execute on these growth plans.

The merger also provides a valuable opportunity for Horizon Oil Shareholders to diversify and potentially reduce the risk of their investment in Horizon Oil Shares through exposure to a broader portfolio of oil and gas assets whilst maintaining their exposure to Horizon Oil's existing projects.

The Horizon Oil Directors believe that the process involved in creating an equivalent set of assets of similar quantum and quality could take a number of years and that an alternative growth path may involve considerably more exploration, development and operating risk.



## C) THE MERGED GROUP WILL BE IN A MORE ROBUST FINANCIAL POSITION THAN HORIZON OIL AS A STANDALONE COMPANY

The Merged Group will have a robust balance sheet and greater financial capacity than Horizon Oil has as a standalone company. As at 31 December 2013, Roc had cash and cash equivalents of US\$65 million, no outstanding borrowings and was generating substantial cash flow from its production assets. The merger with Roc significantly enhances Horizon Oil's capacity to execute its planned growth pipeline.

Following the implementation of the Scheme, the Merged Group intends to restructure the companies' existing funding arrangements. It is expected that the greater scale and diversity of the Merged Group will lead to enhanced access to funding on more favourable terms.

<sup>8</sup> Based on 2P production profile forecasts.



## D) COMBINES THE TALENTS AND EXPERTISE OF TWO EXPERIENCED LEADERSHIP TEAMS

The leadership team of the Merged Group will benefit from the combined talents and expertise of two experienced and proven teams. Both Horizon Oil and Roc have management with extensive production, development and exploration experience.

Roc delivers to the Merged Group a substantial level of operating experience and deep relationships with stakeholders in the region, particularly within China and Malaysia. These skills and relationships are expected to significantly enhance the delivery of the Merged Group's portfolio of projects and its access to further growth opportunities.

Further detail on the composition of the Merged Group Board can be found in section 12 (*Profile of the Merged Group*).

## E) THE MERGER EXCHANGE RATIO REFLECTS THE RELATIVE VALUATIONS OF THE TWO COMPANIES

If the Scheme is implemented, Horizon Oil Shareholders (other than Ineligible Foreign Shareholders) will receive the Scheme Consideration of 0.724 New Roc Shares in respect of each Horizon Oil Share they hold on the Record Date.

The merger exchange ratio reflects the ratio implied by the 10 day VWAP of Horizon Oil Shares and Roc Shares ended on 23 April 2014, the last day on which Horizon Oil Shares and Roc Shares were traded prior to the announcement of the merger.

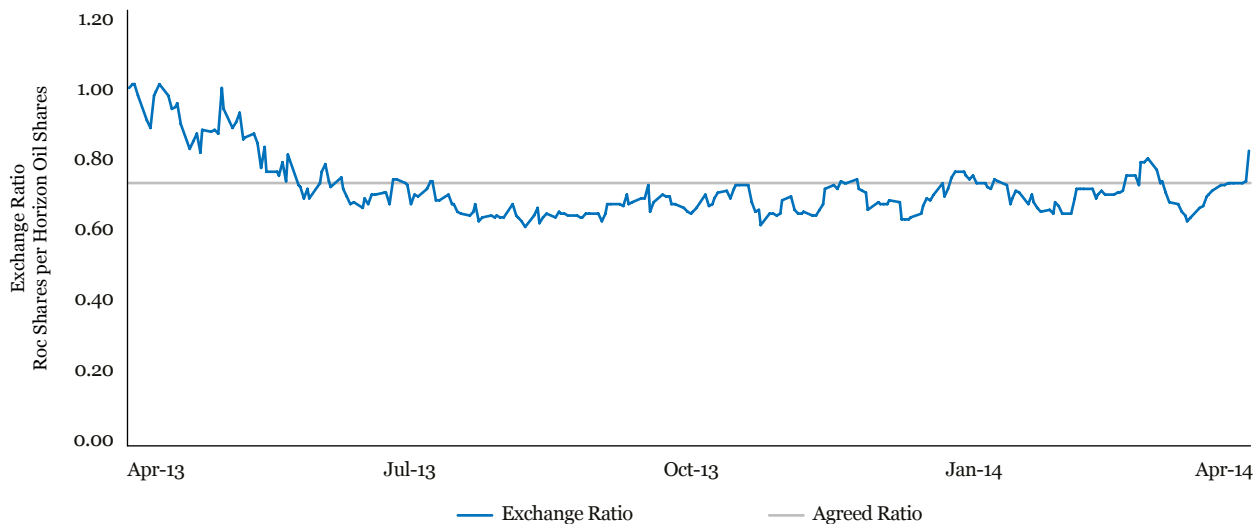
Following implementation of the Scheme, Roc Shareholders will own approximately 42% of the Merged Group and Horizon Oil Shareholders will own approximately 58%<sup>9</sup>.

After undertaking due diligence on the assets and prospects of each company, the merger terms reflected the Horizon Oil and Roc Boards' mutual judgment that the relative market valuations were the appropriate basis to ensure both groups of shareholders have the appropriate level of equity ownership in the Merged Group.

The relative market valuations of the two companies have remained stable for a substantial period of time. The merger exchange ratio of 0.724 is in line with the ratios implied by:

- i) the 1 month VWAP of 0.699;
- ii) the 3 month VWAP of 0.699;
- iii) the 6 month VWAP of 0.693; and
- iv) the 12 month VWAP of 0.709.

The chart below sets out the exchange ratio implied by the relative trading prices of Horizon Oil Shares and Roc Shares over the 12 months prior to the announcement of the merger.



## F) THE INDEPENDENT EXPERT HAS CONCLUDED THAT THE SCHEME IS IN THE BEST INTERESTS OF HORIZON OIL SHAREHOLDERS

Deloitte was commissioned by the Horizon Oil Directors to assess the merits of the Scheme. Deloitte has concluded that the Scheme is in the best interests of Horizon Oil Shareholders.

The Independent Expert's view is that:

- i) the Scheme will assist Horizon Oil to fund its substantial development programs;
- ii) the Merged Group will have greater geographic diversification, increased scale and a potentially elongated production profile than Horizon Oil on a standalone basis; and
- iii) the Merged Group may enjoy enhanced liquidity, greater broker coverage and potentially improved access to debt and equity capital markets compared to Horizon Oil on a standalone basis.

<sup>9</sup> Based on the total number of New Roc Shares to be issued to Horizon Oil Shareholders as Scheme Consideration having regard to the total number of Horizon Oil Shares on issue as at the date of this Scheme Booklet, as a proportion of the total number of Roc Shares that will be on issue following implementation of the Scheme.

The Independent Expert has concluded that the Scheme does not appear to have any significant disadvantages for Horizon Oil Shareholders, when weighed against the associated advantages. The Independent Expert observed that Horizon Oil Shareholders will dilute their participation in the future growth of Horizon Oil's gas prospects in PNG, however it also noted that it may be difficult for Horizon Oil to realise the underlying value of the PNG assets without the diversification benefits and portfolio of cash generating assets which would result from the Scheme.

The Independent Expert has stated that its estimate of the implied value of the Scheme Consideration on a control basis is in the range of A\$0.46 to A\$0.53 per Horizon Oil Share as a result of the Scheme. This compares with the Independent Expert's valuation of each Horizon Oil Share on a control basis of A\$0.41 to A\$0.50. Given that the value of the interest in the Merged Group is above the value of a Horizon Oil Share, the Independent Expert has concluded that the Scheme is fair.

The Independent Expert's Report is contained in Attachment A (*Independent Expert's Report and Independent Technical Expert's Report*) of this Scheme Booklet. You should read the report carefully and in its entirety.

#### **G) THE HORIZON OIL DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU VOTE IN FAVOUR OF THE SCHEME, IN THE ABSENCE OF A SUPERIOR PROPOSAL**

The Horizon Oil Directors have formed their conclusion and made their recommendation based on the matters outlined in this section. The Horizon Oil Directors have also had regard to the risks associated with the Scheme outlined in section 14 (*Risk factors*) and the Independent Expert's Report contained in Attachment A (*Independent Expert's Report and Independent Technical Expert's Report*) of this Scheme Booklet.

The Horizon Oil Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal. Each Horizon Oil Director intends to vote in favour of the Scheme in relation to shares held or controlled by them, in the absence of a Superior Proposal.

As at the date of this Scheme Booklet, no Superior Proposal has emerged.

### **7.3 REASONS WHY YOU MAY CHOOSE NOT TO VOTE IN FAVOUR OF THE SCHEME**

The following is a summary of the reasons why you may choose not to vote in favour of the Scheme only and is qualified by the detailed information contained in this Scheme Booklet. You should read this Scheme Booklet carefully and in its entirety.

#### **A) YOU MAY DISAGREE WITH THE RECOMMENDATION OF THE HORIZON OIL DIRECTORS AND THE CONCLUSIONS OF THE INDEPENDENT EXPERT**

Notwithstanding the unanimous recommendation of the Horizon Oil Directors and the conclusions of the Independent Expert, you may believe that the Scheme is not in your best interests.

The Horizon Oil Directors and the Independent Expert have made judgements based on future trading conditions and events which are not predictable with certainty and which may prove to be inaccurate (either positively or negatively).

You may hold a different view from, and are not obliged to follow the recommendation of, the Horizon Oil Directors, and may not agree with the Independent Expert's conclusions.

#### **B) THERE ARE RISKS ASSOCIATED WITH AN INVESTMENT IN THE MERGED GROUP**

If the Scheme is implemented, there will be a change in the risk profile to which Horizon Oil Shareholders are exposed. You are currently exposed to various risks as a result of your investment in Horizon Oil. If the Scheme is approved, Horizon Oil will merge its business with that of Roc and Horizon Oil Shareholders who hold Horizon Oil Shares as at the Record Date (other than Ineligible Foreign Shareholders) will receive New Roc Shares. As a consequence, Scheme Participants will be exposed to risk factors relating to Roc, and to certain additional risks relating to the Merged Group and the integration of the two companies. These include risks relating to the operation of a broader suite of assets than Horizon Oil currently operates, different geographies to which Horizon Oil is not currently exposed to, and other risks relating to the two companies.

Further details of some of the risks associated with an investment in the Merged Group are set out in section 14 (*Risk factors*). Horizon Oil Shareholders are encouraged to read this section carefully and in its entirety.

#### **C) YOU MAY CONSIDER THE INVESTMENT PROFILE FOR THE MERGED GROUP TO BE INFERIOR TO THAT OF HORIZON OIL**

While Horizon Oil is active in a number of the same commodity markets, operations and geographic focus as Roc, the operational profile, capital structure, size and geography of the Merged Group will be different to that of Horizon Oil on a standalone basis. It is possible that you may wish to maintain an interest in Horizon Oil as a standalone company because you are seeking an investment in a publicly listed company with the specific characteristics of Horizon Oil (such as its current operational profile, capital structure, size and geographic focus). You may consider such a change in investment profile to be disadvantageous.

#### **D) THE EXACT VALUE OF THE SCHEME CONSIDERATION IS NOT CERTAIN**

If the Scheme is implemented, Horizon Oil Shareholders (other than Ineligible Foreign Shareholders) will receive the Scheme Consideration of 0.724 New Roc Shares in respect of each Horizon Oil Share they hold on the Record Date. The exact value of this Scheme Consideration that would be realised by individual Scheme Participants will be dependent on the price at which the New Roc Shares (being shares in the Merged Group) trade on ASX after the Implementation Date.

Following the implementation of the Scheme, the Merged Group's share price may rise or fall based on market conditions and the Merged Group's financial and operational performance. If the Merged Group's share price falls, the value of those New Roc Shares received by Horizon Oil Shareholders as Scheme Consideration will decline in value.

Further, in circumstances where Roc Shareholders do not intend to continue to hold their Roc Shares, there is a risk that a significant number of Roc Shareholders may seek to sell their Roc Shares, which may adversely impact the price of Roc Shares (including the New Roc Shares which Horizon Oil Shareholders will have received as Scheme Consideration).

In addition, the Sale Nominee will be issued with New Roc Shares attributable to certain Ineligible Foreign Shareholders and will be seeking to sell those shares on ASX as soon as reasonably practicable following the Implementation Date. It is possible that such sales may exert downward pressure on the Merged Group's share price in the period following the Implementation Date.

#### **E) YOU MAY BELIEVE A SUPERIOR PROPOSAL WILL EMERGE FOR HORIZON OIL**

It is possible that a Superior Proposal for Horizon Oil, which is more attractive for Horizon Oil Shareholders than the Scheme, may emerge in the future. The implementation of the Scheme may mean that Horizon Oil Shareholders would not obtain the benefit of any such proposal.

The Horizon Oil Directors are not currently aware of any such proposal and note that since Horizon Oil and Roc announced the merger, there has been a significant period of time for an alternative proposal for Horizon Oil to emerge.

If a Superior Proposal emerges, this will be announced to ASX and the Horizon Oil Directors will carefully reconsider the Scheme and advise you of their recommendation.

#### **7.4 OTHER RELEVANT CONSIDERATIONS**

There are a range of issues which relate to the Scheme and the Merged Group, which Horizon Oil Shareholders should take into account when deciding whether or not to vote in favour of the Scheme, including (but not limited to) the matters described in section 13 (*Other matters relevant to the Scheme*).

You should read this Scheme Booklet carefully and in its entirety.





# 08. Summary of the Scheme





## 8.1 BACKGROUND

On 29 April 2014, Horizon Oil announced that it had entered into the Merger Implementation Deed with Roc, whereby Horizon Oil agreed to propose the Scheme to Horizon Oil Shareholders.

A copy of the Merger Implementation Deed is included as Attachment C (*Merger Implementation Deed*) and a summary of the Merger Implementation Deed is set out in section 16 (*Implementing the Scheme*) of this Scheme Booklet.

## 8.2 EFFECT OF THE SCHEME

If the Scheme is approved by Horizon Oil Shareholders and the Court:

- i) Roc will acquire all of the Horizon Oil Shares;
- ii) Horizon Oil Shareholders (other than Ineligible Foreign Shareholders) will receive the Scheme Consideration of 0.724 New Roc Shares in respect of each Horizon Oil Share they hold on the Record Date; and
- iii) Horizon Oil will become a subsidiary of Roc and subsequently be de-listed from ASX.

A copy of the Scheme is included as Attachment D (*Deed Poll and Scheme of Arrangement*) of this Scheme Booklet.

## 8.3 WHAT YOU WILL RECEIVE

If the Scheme is implemented, Horizon Oil Shareholders (other than Ineligible Foreign Shareholders) will receive the Scheme Consideration of 0.724 New Roc Shares in respect of each Horizon Oil Share they hold on the Record Date.

From the date of their issue, the New Roc Shares received as Scheme Consideration will rank equally in all respects with the existing Roc Shares and will be fully paid and free from any encumbrance. The rights and liabilities attaching to the New Roc Shares will be governed by the Roc Constitution, subject to the Corporations Act and the Listing Rules. Section 13.5 (*Rights and liabilities attached to Roc Shares*) includes a summary of the Roc Constitution.

Holding statements detailing your holding of New Roc Shares are expected to be dispatched to you no later than five Business Days after the Implementation Date, therefore expected to be no later than Friday, 5 September 2014.

Ineligible Foreign Shareholders should refer to sections 8.19 (*Foreign Horizon Oil Shareholders*) and 8.20 (*Sale Nominee process*) for details about the timing for payment of the consideration they will receive.

## 8.4 CONDITIONS OF THE SCHEME

The implementation of the Scheme is subject to the following Conditions Precedent.

The Scheme will not proceed unless all of these conditions are satisfied or waived in accordance with the Merger Implementation Deed. It is important to note that some of these conditions may not be satisfied even if the Scheme is approved by the Requisite Majority of Horizon Oil Shareholders at the Scheme Meeting (for example, the Court may refuse to grant the order referred in condition 4, below). However as at the date of this Scheme Booklet, Horizon Oil and Roc are not aware of any circumstances which would cause these conditions not to be satisfied. However, Horizon Oil Shareholders should note the discussion in section 8.9 (*Roc EGM*) and section 13.1 (*Roc EGM*) of this Scheme Booklet.

The status of each of the Conditions Precedent as at the date of this Scheme Booklet is set out below:

NO.	CONDITION PRECEDENT	STATUS
1	Approvals from all relevant regulatory bodies including ASIC and ASX	ASIC has agreed to grant the relief necessary to implement the Scheme: relief from clause 8302(h), Part 3 of Schedule 8 to the Corporations Regulation. ASX has agreed to grant the waivers and confirmations necessary to implement the Scheme: waiver of Listing Rule 6.23.2. Horizon Oil has made applications to the ATO for the necessary rulings to implement the Scheme.
2	No regulatory authority having issued orders prohibiting the implementation of the Scheme	Horizon Oil is not aware of any restraints or prohibitions.
3	Approval of the Scheme at the Scheme Meeting by the Requisite Majority by Horizon Oil Shareholders	The Scheme Meeting is to be held on Thursday, 7 August 2014 at The Sydney Boulevard Hotel, 90 William Street, Sydney, commencing at 11.00am (Sydney time).
4	Court approval of the Scheme in accordance with section 411(4)(b) of the Corporations Act	On Thursday, 3 July 2014 the Court made an order to convene the Scheme Meeting. Court approval of the Scheme will be sought on or about Thursday, 14 August 2014.

NO.	CONDITION PRECEDENT	STATUS
5	Receipt of all other approvals, consents or agreements of third parties which Horizon Oil and Roc agree are necessary or desirable to implement the Scheme	All third party consents necessary to implement the Scheme have been obtained. See section 13.2 (Change of Control).
6	Issue of an Independent Expert's Report which concludes that the Scheme is in the best interests of the Scheme Participants prior to the date that this Scheme Booklet was lodged with ASIC	Satisfied.
7	No "Roc Oil Prescribed Event" having occurred as stipulated in the Merger Implementation Deed	Horizon Oil is not aware of any Roc Oil Prescribed Events. However, see section 8.9 ( <i>Roc EGM</i> ) and 13.1 ( <i>Roc EGM</i> ). See also the ASX announcements released by Horizon Oil and Roc on 25 June 2014.
8	No "Roc Oil Material Adverse Change" having occurred as stipulated in the Merger Implementation Deed	Horizon Oil is not aware of any Roc Oil Material Adverse Change.
9	No "Horizon Oil Prescribed Event" having occurred as stipulated in the Merger Implementation Deed	Horizon Oil is not aware of any Horizon Oil Prescribed Events.
10	No "Horizon Oil Material Adverse Change" having occurred as stipulated in the Merger Implementation Deed	Horizon Oil is not aware of any Horizon Oil Material Adverse Change.
11	Approval for official quotation on the ASX of the New Roc Shares to be issued under the Scheme	ASX approval to be sought on or before 8.00am (Sydney time) on the Second Court Date.
12	Signing and delivery of the Deed Poll by Roc	Satisfied.
13	The representations and warranties given by Roc under clause 12.1 ( <i>Roc Oil's representation and warranties</i> ) of the Merger Implementation Deed must be true and correct in all material respects, as described in the Merger Implementation Deed	Horizon Oil is not aware of any material inaccuracies in Roc's representations and warranties.
14	The representations and warranties given by Horizon Oil under clause 12.4 ( <i>Horizon Oil's representation and warranties</i> ) of the Merger Implementation Deed must be true and correct in all material respects, as described in the Merger Implementation Deed	Horizon Oil is not aware of any material inaccuracies in its representations and warranties.
15	"PRL Completion" (as defined in the Osaka Gas Sale Agreement) having occurred under and in accordance with the Osaka Gas Sale Agreement	Satisfied.
16	The Merger Implementation Deed not being terminated	The Merger Implementation Deed has not been terminated.

## 8.5 HORIZON OIL SHAREHOLDER AND COURT APPROVALS

As part of the conditions discussed in section 8.4 (Conditions of the Scheme), section 411(4) of the Corporations Act requires a meeting of Horizon Oil Shareholders to be held at which the Scheme must be agreed to by a resolution passed by the following majorities:

- i) (*50% of members, by number*) a majority by number of Horizon Oil Shareholders present and voting at the Scheme Meeting (either in person or by proxy), unless the Court orders otherwise; and
  - ii) (*75% of shares voted, in aggregate*) holders of in aggregate at least 75% of the total number of votes cast on the resolution at the Scheme Meeting,
- (together, the Requisite Majority).

The result of the Scheme Meeting must then be provided to the Court, which will consider whether or not to approve the Scheme. On Thursday, 3 July 2014, the Court made the requisite orders that the Scheme Meeting be convened and that this Scheme Booklet be dispatched to Horizon Oil Shareholders.

## 8.6 HORIZON OIL DIRECTORS' RECOMMENDATION AND VOTING INTENTIONS

The Horizon Oil Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal. See section 7 (*Horizon Oil Directors' recommendation and details of reasons to vote for or against the Scheme*).

Each Horizon Oil Director intends to vote in favour of the Scheme in relation to shares held or controlled by them, in the absence of a Superior Proposal. The interests of the Horizon Oil Directors are disclosed in section 10.12 (*Interests of Horizon Oil Directors*).

## 8.7 INDEPENDENT EXPERT'S CONCLUSIONS

Deloitte was commissioned by the Horizon Oil Directors to assess the merits of the Scheme. Deloitte has concluded that the Scheme is in the best interests of Horizon Oil Shareholders.

In forming this opinion, the Independent Expert has considered:

- a) whether the Scheme consideration being offered for each Horizon Oil Share is fair;
- b) the relative contribution of Horizon Oil and Roc to the Merged Group; and
- c) the advantages and disadvantages relevant to Horizon Oil Shareholders if the Scheme proceeds.

The Independent Expert's Report is included as Attachment A (*Independent Expert's Report and Independent Technical Expert's Report*) of this Scheme Booklet. Horizon Oil Shareholders are encouraged to read the report carefully and in its entirety.

## 8.8 ALTERNATIVE TRANSACTIONS

Prior to announcing the proposed merger on 29 April 2014, Horizon Oil had engaged in confidential and incomplete discussions to explore various opportunities with different parties, from time to time. However, Horizon Oil did not formally consider any alternative proposals prior to entering into the Merger Implementation Deed with Roc.

It is possible that a Superior Proposal for Horizon Oil, which is more attractive for Horizon Oil Shareholders than the Scheme, may materialise in the future. The implementation of the Scheme would mean that Horizon Oil Shareholders would not obtain the benefit of any such proposal. The Horizon Oil Directors are not currently aware of any such proposal.

If a Superior Proposal emerges, this will be announced to ASX and the Horizon Oil Directors will carefully reconsider the Scheme and advise you of their recommendation.

## 8.9 ROC EGM

On 15 May 2014, Roc advised ASX that it had received a notice under section 249D of the Corporations Act from shareholders of Roc, requesting a general meeting of Roc Shareholders to consider a special resolution to amend the Roc Constitution. Together, the relevant Roc Shareholders held 45,393,859 Roc Shares (being 6.6% of Roc Shares) as at 15 May 2014.

On Thursday 5 June 2014, Roc released a notice of extraordinary meeting and explanatory statement to facilitate a meeting of Roc Shareholders scheduled for Friday 11 July 2014. In that release, the Roc Directors unanimously recommended that Roc Shareholders vote against the resolution proposed by the Requisitioner, and advised that the Roc Directors would be voting against the resolution.

Any amendment of the Roc Constitution is a "Roc Oil Prescribed Event" under the Merger Implementation Deed, it being a Condition Precedent that no "Roc Oil Prescribed Event" should occur prior to 8.00am on the Second Court Date.

At the date of this Scheme Booklet, Horizon Oil has not formed an intention or view on the course of action which it may take if the proposed resolution is passed by Roc Shareholders and reserves its rights in this regard.

Horizon Oil does not presently intend to consent to the altering of Roc's Constitution (although it reserves its right to do so) and expects that Roc will honour all of its obligations under the Merger Implementation Deed. If Roc's Constitution is amended, Horizon Oil will undertake all steps available to it to preserve its rights pursuant to the Merger Implementation Deed (which may include claiming damages for any breach of the Merger Implementation Deed to the fullest extent possible).

Further details in relation to the Roc EGM and Horizon Oil's rights under the Merger Implementation Deed are set out in section 13.1 (*Roc EGM*).

## 8.10 CHANGE OF CONTROL

Horizon Oil has reviewed the contracts, licences and permits which are material in the context of its operations and contain change of control or assignment provisions which may be triggered by the implementation of the Scheme.

In relation to its New Zealand assets, Horizon Oil is required to notify the New Zealand Minister for Energy and Resources of the effective change of control in its subsidiary entities which will be deemed to occur as a result of the implementation of the Scheme. At the date of this Scheme Booklet, Horizon Oil has notified the Minister and the administering government department, New Zealand Petroleum and Minerals, of the transaction and provided financial information about the Merged Group.

Horizon Oil has also reviewed its Horizon Oil Facility Agreement for change of control provisions or other undertakings which may be triggered or breached by the implementation of the Scheme. If implemented, the Scheme will:

- i) constitute a “Review Event”; and
  - ii) trigger an “Event of Default”,
- under the Horizon Oil Facility Agreement.

However, Horizon Oil has already notified the ANZ Agent of the possibility of these “Review Events” and “Events of Default” which may result from the Scheme’s implementation. Horizon Oil has obtained the ANZ Agent’s consent to a waiver of these “Review Events” and “Events of Default” as a result of the Scheme’s implementation. To the extent they may occur, the “Review Events” and “Events of Default” ceased to subsist upon receipt by Horizon Oil of such a waiver from the ANZ Agent on Friday, 30 May 2014.

Further details in relation to Horizon Oil’s material contracts, the consequences of a change of control, and the steps taken by Horizon Oil to manage those matters, are set out in section 13.2 (*Change of Control*).

### **8.11 PARTLY PAID SHARES, HORIZON OIL OPTIONS AND HORIZON OIL SARs**

Horizon Oil has granted Horizon Oil Options and Horizon Oil SARs to eligible employees under its various incentive plans. Under the Merger Implementation Deed, Horizon Oil and Roc agreed to use their best endeavours to procure that:

- i) Horizon Oil Options and Horizon Oil SARs are transferred to Roc or cancelled prior to the Record Date; and
- ii) the holders of Horizon Oil Options and Horizon Oil SARs will be provided with consideration for the transfer or cancellation of their Horizon Oil Options and Horizon Oil SARs that is reasonably acceptable to Horizon Oil, the holders and Roc.

Horizon Oil and Roc have agreed that Horizon Oil Options and Horizon Oil SARs should be dealt with in accordance with the principle that holders of Horizon Oil Options and Horizon Oil SARs will be put in a commercially equivalent position.

The details of how each type of security is intended to be dealt with if the Scheme becomes Effective is set out in section 13.3 (*Partly paid shares, Horizon Oil Options and Horizon Oil SARs*).

### **8.12 HORIZON OIL CONVERTIBLE BONDS**

Horizon Oil has 400 Horizon Oil Convertible Bonds on issue. The Horizon Oil Convertible Bonds can be satisfied and discharged by conversion into Horizon Oil Shares or redemption (repayment) on 17 June 2016 (the “Final Maturity Date”).

If implemented, the Scheme will trigger an adjustment event (which results in a reduced conversion price becoming available to Horizon Oil Bondholders) and a redemption right (which results in an early repayment opportunity becoming available to Horizon Oil Bondholders). Horizon Oil Bondholders can elect to action either one of those triggers.

In return for participating in the Horizon Oil CB Early Redemption Offer, Horizon Oil Bondholders agree to redeem their Horizon Oil Convertible Bonds if the Scheme is implemented. The Horizon Oil CB Early Redemption Offer will allow Horizon Oil Bondholders to receive a price for their Horizon Oil Convertible Bonds that is in line with the trading price of the Horizon Oil Convertible Bonds prior to the announcement of the merger.

The purpose of the Horizon Oil CB Early Redemption Offer is to increase the probability of Horizon Oil Bondholders electing to redeem their Horizon Oil Convertible Bonds, with a view to achieving a simpler capital structure for the Merged Group.

Further details in relation to the Horizon Oil Convertible Bonds, the Horizon Oil CB Early Redemption Offer and Roc’s potential rights to compulsorily acquire the outstanding Horizon Oil Convertible Bonds, are set out in section 13.4 (*Treatment of Horizon Oil Convertible Bonds*).

### **8.13 TAX IMPLICATIONS**

While many of the Scheme Participants are expected to be eligible for scrip-for-scrip CGT roll-over relief, the transfer of your Scheme Shares pursuant to the Scheme may be a taxable transaction for you. You should seek your own professional advice regarding the individual tax consequences applicable to you. A summary of the relevant tax implications for Australian residents is contained in section 15 (*Tax implications*) of this Scheme Booklet.

### **8.14 NO BROKERAGE OR STAMP DUTY**

Except for Ineligible Foreign Shareholders, no brokerage or stamp duty will be payable by Scheme Participants on the transfer of their Scheme Shares to Roc under the Scheme or the issue by Roc to them of the New Roc Shares as the Scheme Consideration.

### **8.15 WARRANTIES AND CONSENTS GIVEN BY SCHEME PARTICIPANTS**

Under the terms of the Scheme, each Scheme Participant will be deemed to have warranted to Roc that:

- i) all of their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) transferred to Roc under the Scheme are, at the date of the transfer, fully paid and free from any mortgage, lien, charge, pledge, assignment by way of security, security interest, title retention, preferential right or trust arrangement, claim, covenant, profit a prendre, easement or any other security arrangements having the same effect (except to the extent such shares are subject to the arrangements set out in section 13.3(b)(ii)); and

ii) they have the full power and capacity to sell and transfer their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) to Roc under the Scheme.

Each Scheme Participant will also be deemed to have irrevocably consented to Horizon Oil and Roc doing all things which are necessary or expedient for or incidental to the implementation of the Scheme.

## **8.16 SCHEME MEETING**

The Scheme must be approved by the Requisite Majority of Horizon Oil Shareholders and also by the Court before it can be implemented. In accordance with the orders of the Court dated Thursday, 3 July 2014, Horizon Oil will convene the Scheme Meeting which will be held at 11.00am (Sydney time) at The Sydney Boulevard Hotel, 90 William Street, Sydney on Thursday, 7 August 2014.

## **8.17 ENTITLEMENT TO VOTE**

Horizon Oil Shareholders who are registered on the Horizon Oil Register at 7.00pm (Sydney time) on Tuesday, 5 August 2014 are entitled to vote at the Scheme Meeting. For the avoidance of doubt, this includes a Horizon Oil Shareholder who holds Horizon Oil Shares as a result of the conversion of or exercise of rights attached to other Horizon Oil Securities (including Horizon Oil Options, Horizon Oil SARs or Horizon Oil Convertible Bonds) on or prior to that date.

Details on how to vote at the Scheme Meeting are set out in section 3 (*Action required by Horizon Oil Shareholders*) and in further detail in the Notice of Scheme Meeting in Attachment E (*Notice of Scheme Meeting*).

## **8.18 WHAT WILL HAPPEN IF THE SCHEME DOES NOT PROCEED**

If the Scheme does not proceed:

- i) Horizon Oil will remain listed on ASX;
- ii) Horizon Oil Shareholders will retain their Horizon Oil Shares; and
- iii) Horizon Oil Shareholders will not receive the Scheme Consideration.

As at the date of this Scheme Booklet, the Horizon Oil Directors have not formed any plans to make any significant changes to the business of Horizon Oil, redeploy any of its operating assets or change or affect the future employment of Horizon Oil's present employees, if the Scheme does not proceed. In that circumstance, the Horizon Oil Directors intend to continue to operate Horizon Oil as a listed public company carrying on its business of exploring, developing and producing oil and petroleum in New Zealand, China, PNG and other locations where suitable opportunities are identified, under the leadership of the current senior management.

Before the Scheme Meeting, Horizon Oil estimates that it will have incurred or committed transaction costs of approximately US\$4.3 million in relation to the Scheme. Those costs will be payable by Horizon Oil regardless of whether or not the Scheme is implemented.

## **8.19 FOREIGN HORIZON OIL SHAREHOLDERS**

### **A) PARTICIPATION IN THE SCHEME**

A Horizon Oil Shareholder who is recorded in the Horizon Oil Register at the Record Date as having a registered address outside Australia, or who is (or who is acting on behalf of) a citizen or resident of a jurisdiction other than residents of Australia and its external territories, will be a Foreign Horizon Oil Shareholder for the purposes of the Scheme.

A Foreign Horizon Oil Shareholder may vote at the Scheme Meeting, however, some Foreign Horizon Oil Shareholders may not be able to receive New Roc Shares under the Scheme. Restrictions in foreign countries may make it impractical or unlawful for Roc to deliver New Roc Shares to Foreign Horizon Oil Shareholders (or for those persons to receive New Roc Shares).

Provided they are not an Ineligible Foreign Shareholder (see below), a Foreign Horizon Oil Shareholder may participate in the Scheme and receive New Roc Shares under the Scheme.

Roc is not obliged to issue New Roc Shares to an Ineligible Foreign Shareholder under the Scheme. Instead, the New Roc Shares that would otherwise have been issued to the Ineligible Foreign Shareholder will be issued to the Sale Nominee (or its nominees) and sold on ASX, with the net proceeds of sale to be distributed proportionately among Ineligible Foreign Shareholders.



## B) DETERMINE IF YOU ARE AN INELIGIBLE FOREIGN SHAREHOLDER

Subject to the qualifications below, a Foreign Horizon Oil Shareholder whose registered address on the Horizon Oil Register is in any of the following jurisdictions at the Record Date **will be** entitled to participate in the Scheme (and therefore will **not** be an Ineligible Foreign Shareholder):

- i) Australia;
- ii) New Zealand;
- iii) British Virgin Islands;
- iv) France, where (i) the Horizon Oil shareholder is a “qualified investor” (as defined in articles D. 411-1, L. 533-16, L. 533-20, D. 533-11 and D. 533-13 of the French Monetary and Financial Code) or (ii) the number of non-qualified investors is less than 150;
- v) Hong Kong, where (i) the Horizon Oil shareholder is a “professional investor” (as defined in the Securities and Futures Ordinance of Hong Kong) and/or (ii) the number of non-professional investors does not exceed 50;
- vi) Norway, where (i) the Horizon Oil shareholder is a “professional client” (as defined in the Norwegian Securities Regulation of 29 June 2007 no. 876) or (ii) the number of nonprofessional clients is less than 150;
- vii) PNG;
- viii) Singapore;
- ix) Switzerland;
- x) United Kingdom; or
- xi) United States;

All other Foreign Horizon Oil Shareholders will be Ineligible Foreign Shareholders for the purpose of the Scheme, unless Roc (in consultation with Horizon Oil) determines that:

- i) it is lawful and not unduly onerous or unduly impracticable to issue that Foreign Horizon Oil Shareholder with New Roc Shares under the Scheme; and
- ii) it is lawful for that Foreign Horizon Oil Shareholder to participate in the Scheme by the law of the relevant place outside Australia and its external territories.

Roc, in consultation with Horizon Oil, reserves the right to determine whether a Foreign Horizon Oil Shareholder is an Ineligible Foreign Shareholder for the purpose of the Scheme. Roc disclaims all liability to the maximum extent permitted by law in respect of any determination as to whether a Foreign Horizon Oil Shareholder is an Ineligible Foreign Shareholder. Horizon Oil disclaims all liability to the maximum extent permitted by law in respect of any determination made by Roc relating to Foreign Horizon Oil Shareholders and Ineligible Foreign Shareholders.

## C) NOTICE TO NOMINEES

Horizon Oil Shareholders who hold shares on behalf of a beneficial owner should consider the following restrictions on forwarding this Scheme Booklet to the beneficial owner of the shares:

- i) Horizon Oil Shareholders who hold Horizon Oil Shares on behalf of beneficial owners may forward this Scheme Booklet to all beneficial owners in the following jurisdictions:
  - A) Australia;
  - B) New Zealand;
  - C) British Virgin Islands;
  - D) PNG;
  - E) Singapore;
  - F) Switzerland;
  - G) United Kingdom; and
  - H) United States.
- ii) Horizon Oil Shareholders who hold Horizon Oil Shares on behalf of beneficial owners in the following jurisdictions may forward this Scheme Booklet only to the extent provided below:
  - A) France, where (i) the beneficial owner is a “qualified investor” (as defined in articles D. 411-1, L. 533-16, L. 533-20, D. 533-11 and D. 533-13 of the French Monetary and Financial Code) or (ii) the number of non-qualified investors is less than 150;
  - B) Hong Kong, (i) to any beneficial owner who is a “professional investor” or (ii) with the consent of Horizon Oil, to other beneficial owners (to the extent the aggregate number of registered and beneficial owners in Hong Kong, excluding “professional investors”, would not exceed 50); and
  - C) Norway, (i) to any beneficial owner who is a “professional client” (as defined in the Norwegian Securities Regulation of 29 June 2007 no. 876) or (ii) with the consent of Horizon Oil, to other beneficial owners (to the extent the aggregate number of registered and beneficial owners in Norway, excluding “professional clients”, is less than 150); and
- iii) Horizon Oil Shareholders who hold Horizon Oil Shares on behalf of beneficial owners may not forward this Scheme Booklet to any person in any jurisdiction other than those eleven jurisdictions listed, and to the extent permitted, above.

## 8.20 SALE NOMINEE PROCESS

Ineligible Foreign Shareholders will not receive New Roc Shares under the Scheme. Instead, the New Roc Shares which would otherwise have been issued to Ineligible Foreign Shareholders will be issued to the Sale Nominee (or its nominees).

Roc will procure that as soon as practicable after the Implementation Date, the Sale Nominee will:

- i) sell on ASX those New Roc Shares which would otherwise have been issued to Ineligible Foreign Shareholders; and
- ii) remit the net proceeds of sale to Ineligible Foreign Shareholders.

The Sale Nominee (acting on behalf of and at the risk of the Ineligible Foreign Shareholders) will sell those New Roc Shares which would otherwise have been issued to Ineligible Foreign Shareholders. Such sale will be conducted in a manner, at a price and on such other terms as the Sale Nominee (acting in good faith) shall determine.

The Sale Nominee will distribute the net proceeds of sale proportionately among Ineligible Foreign Shareholders on an averaged basis, such that each Ineligible Foreign Shareholder receives the same price per New Roc Share which they would otherwise have been issued, subject to rounding to the nearest whole cent.

The Sale Nominee will remit the net proceeds of sale to each Ineligible Foreign Shareholder into an account with an Australian bank nominated by the Ineligible Foreign Shareholder with the Horizon Oil Share Registry as at the Record Date or sending a cheque drawn on an Australian bank account in Australian currency.

None of Horizon Oil, Roc or the Sale Nominee give any assurances as to the price, timeframe or terms which will be achieved for the sale of New Roc Shares on behalf of Ineligible Foreign Shareholders. The net proceeds that Ineligible Foreign Shareholders will receive may be more or less than the current market value of Roc Shares.

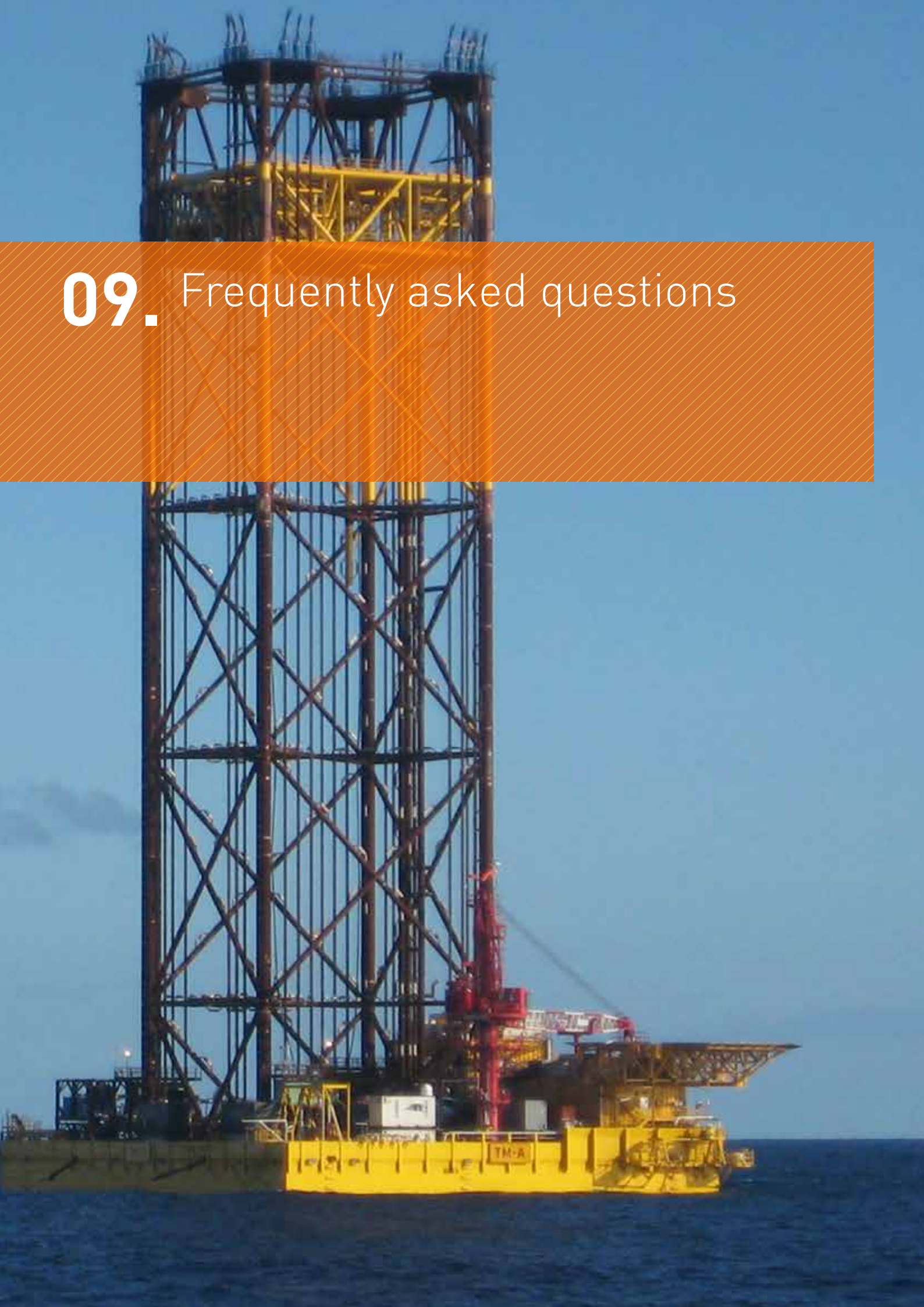
Please note that brokerage, fees, taxes, other costs and charges will be deducted from the proceeds payable to Ineligible Foreign Shareholders. Payments received by Ineligible Foreign Holders will be in full satisfaction of the Ineligible Foreign Shareholders right to receive New Roc Shares under the Scheme. Please also note that the sale of New Roc Shares by the Sale Nominee may result in a number of Roc Shares being offered for sale at the same time, and this may have the effect of depressing the sale price for those shares.

If you are an Ineligible Foreign Shareholder who does not wish to have the Sale Nominee sell the New Roc Shares which you would otherwise have received under the Scheme, you may choose not to participate in the Scheme by selling your Horizon Oil Shares before the Effective Date.

## 8.21 QUESTIONS

If you have any further questions about the Scheme, please call the Horizon Oil Shareholder Information Line on 1300 721 637 (within Australia) or +61 2 8016 2890 (outside Australia) between 9.00am and 5.00pm (Sydney time) Monday to Friday.

# 09. Frequently asked questions



The following is a summary only and is qualified by the detailed information contained in this Scheme Booklet. You should read this Scheme Booklet carefully and in its entirety.

QUESTION	ANSWER	MORE INFORMATION
<b>OVERVIEW OF THIS SCHEME BOOKLET</b>		
<b>Why have I received this Scheme Booklet?</b>	This Scheme Booklet has been sent to you because you are a Horizon Oil Shareholder and you are being asked to vote on the Scheme. This Scheme Booklet is intended to help you to consider and decide on how to vote on the Scheme at the Scheme Meeting.	
<b>What is the Scheme I am being asked to consider?</b>	The Scheme is a proposed transaction whereby the businesses of Horizon Oil and Roc are merged to create a single Asian-focused upstream oil and gas company listed on the ASX (the Merged Group). This transaction is proposed to be implemented as a court-ordered scheme of arrangement between Horizon Oil and the Scheme Participants, which is subject to the satisfaction of certain conditions. If the Scheme is implemented, Roc will acquire all Horizon Oil Shares, Horizon Oil will become a subsidiary of Roc and Horizon Oil will be de-listed from ASX.	Section 8 <i>(Summary of the Scheme)</i> and Attachment D <i>(Deed Poll and Scheme of Arrangement)</i>
<b>What should I do?</b>	You should read this Scheme Booklet carefully and in its entirety. Based on this information and any advice you may receive, you should determine how you wish to vote on the Scheme and vote by attending the Scheme Meeting, or by appointing a proxy to vote on your behalf.  If you are unsure about what to do, you should consult your legal, financial or other professional adviser.	Section 3 <i>(Action required by Horizon Oil Shareholders)</i>
<b>SCHEME CONSIDERATION</b>		
<b>What will I receive if the Scheme is implemented?</b>	If the Scheme is implemented, Horizon Oil Shareholders (other than Ineligible Foreign Shareholders) will receive the Scheme Consideration of 0.724 New Roc Shares in respect of each Horizon Oil Share they hold on the Record Date.  This merger exchange ratio will result in existing Horizon Oil Shareholders owning approximately 58% of the Merged Group and Roc Shareholders owning approximately 42%. <sup>10</sup>	
<b>Can I choose to receive cash instead of New Roc Shares?</b>	No. There is no option for Scheme Participants to elect to receive cash instead of New Roc Shares. However, once you have received the Scheme Consideration, you may sell some or all of your New Roc Shares on the ASX.  Alternatively, you may elect to sell your existing Horizon Oil Shares before the Effective Date.	
<b>Can I receive or subscribe for additional New Roc Shares under the Scheme?</b>	No. The Scheme Consideration is fixed at 0.724 New Roc Shares for each Horizon Oil Share you hold on the Record Date. However you may choose to buy additional Roc Shares through normal trading on a securities exchange.	
<b>Do I need to make any payments to participate in the Scheme?</b>	No.	
<b>Do I have to pay brokerage fees to participate in the Scheme?</b>	No, unless you are an Ineligible Foreign Shareholder.	

<sup>10</sup> Based on the total number of New Roc Shares to be issued to Horizon Oil Shareholders as Scheme Consideration having regard to the total number of Horizon Oil Shares on issue as at the date of this Scheme Booklet, as a proportion of the total number of Roc Shares that will be on issue following implementation of the Scheme.



QUESTION	ANSWER	MORE INFORMATION
<b>Do I have to pay stamp duty under the Scheme?</b>	No.	
<b>Do I need to do or sign anything to transfer my Scheme Shares?</b>	<p>No. If the Scheme becomes Effective, Horizon Oil will automatically have authority to sign a transfer document on behalf of Scheme Participants, who will then receive the Scheme Consideration as set out above.</p> <p>You should be aware that, if you are a Scheme Participant, you will be deemed to have warranted to Horizon Oil, and authorised Horizon Oil to warrant to Roc on your behalf, that:</p> <ul style="list-style-type: none"> <li>i) all of your Scheme Shares are fully paid and free from all encumbrances (except to the extent such shares are subject to the arrangements set out in section 13.3(b)(ii)); and</li> <li>ii) you have full power and capacity to transfer your Scheme Shares to Roc.</li> </ul>	<p>Section 3 <i>(Action required by Horizon Oil Shareholders)</i></p> <p>Section 7 <i>(Horizon Oil Directors' recommendation and details of reasons to vote for or against the Scheme)</i></p>
<b>Will I be able to trade the New Roc Shares on ASX?</b>	Roc Shares currently trade on ASX and the New Roc Shares will trade on ASX if the merger is implemented. It is expected that you will be able to trade the New Roc Shares on a normal settlement basis commencing on or about Monday, 1 September 2014.	
<b>When will I receive the Scheme Consideration?</b>	<p>The Scheme Participants' names will be entered in Roc's share registry in respect of the New Roc Shares issued as Scheme Consideration on the Implementation Date, expected to be on or about Friday 29 August 2014.</p> <p>You will receive a holding statement in relation to your New Roc Shares no later than five Business Days after the Implementation Date.</p>	
<b>Can I keep my Horizon Oil Shares?</b>	If the Scheme is implemented, your Horizon Oil Shares will be transferred to Roc. This will be the case even if you did not vote or you voted against the Scheme.	Section 7 <i>(Horizon Oil Directors' recommendation and details of reasons to vote for or against the Scheme)</i>
<b>Can I sell my Horizon Oil Shares on ASX?</b>	<p>You can sell your Horizon Oil Shares on ASX prior to the Effective Date. However, you will not be able to do so after the Effective Date.</p> <p>If you sell your Horizon Oil Shares on ASX:</p> <ul style="list-style-type: none"> <li>i) you may pay brokerage on the sale;</li> <li>ii) you will not share in any potential ongoing benefits of owning shares in the Merged Group; and</li> <li>iii) there may be different tax consequences for you compared to those that would arise under the implementation of the Scheme.</li> </ul>	
<b>What if I am a Foreign Horizon Oil Shareholder?</b>	Certain Foreign Horizon Oil Shareholders may be able to receive New Roc Shares under the Scheme. However, Ineligible Foreign Shareholders will not be issued New Roc Shares under the Scheme. Instead, the New Roc Shares which would otherwise have been issued to Ineligible Foreign Shareholders under the Scheme will be issued to the Sale Nominee (or its nominees) and sold on ASX, with the net proceeds of sale then distributed proportionately among Ineligible Foreign Shareholders.	<p>Section 8.19 <i>(Foreign Horizon Oil Shareholders)</i></p> <p>See section 8.20 <i>(Sale Nominee process)</i></p>

QUESTION	ANSWER	MORE INFORMATION
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### REASONS TO VOTE FOR OR AGAINST THE SCHEME AND RISKS ASSOCIATED WITH THE SCHEME

<p><b>What are the reasons why I should vote in favour of the Scheme?</b></p>	<p>The reasons why you should vote in favour of the Scheme are that:</p> <ul style="list-style-type: none"> <li>i) the Scheme creates a leading Asian-focused upstream oil and gas company;</li> <li>ii) the Scheme brings together two highly complementary portfolios;</li> <li>iii) the Merged Group will be in a more robust financial position than Horizon Oil as a standalone company;</li> <li>iv) the Scheme combines the talents and expertise of two experienced leadership teams;</li> <li>v) the merger exchange ratio reflects the relative valuations of the two companies;</li> <li>vi) the Independent Expert has concluded that the Scheme is in the best interests of Horizon Oil Shareholders; and</li> <li>vii) the Horizon Oil Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal.</li> </ul>	<p>Section 7.2 <i>(Reasons why you should vote in favour of the Scheme)</i></p>
<p><b>What are the reasons why I may choose not to vote in favour of Scheme?</b></p>	<p>The reasons you may choose not to vote in favour of the Scheme are that:</p> <ul style="list-style-type: none"> <li>i) you may disagree with the recommendation of the Horizon Oil Directors and the conclusions of the Independent Expert;</li> <li>ii) there are risks associated with an investment in the Merged Group;</li> <li>iii) you may consider the investment profile for the Merged Group to be inferior to that of Horizon Oil;</li> <li>iv) the exact value of the Scheme Consideration is not certain; and</li> <li>v) you may believe that a Superior Proposal will emerge for Horizon Oil.</li> </ul>	<p>Section 7.3 <i>(Reasons why you may choose not to vote in favour of the Scheme)</i></p> <p>Section 14 <i>(Risk factors)</i></p>
<p><b>What are the potential risks associated with the Scheme?</b></p>	<p>Potential risks associated with implementation of the Scheme include:</p> <ul style="list-style-type: none"> <li>i) the expected advantages of the Scheme may not materialise;</li> <li>ii) the Scheme may not become Effective if certain conditions are not satisfied; and</li> <li>iii) the Scheme is subject to execution risk, including delays, unexpected costs or other separation and integration issues in establishing the Merged Group.</li> </ul> <p>Investment in the Merged Group will be subject to a range of risks that may adversely affect its future operating or financial performance, prospects, investment returns or value of its securities.</p>	<p>Section 14 <i>(Risk factors)</i></p>

QUESTION	ANSWER	MORE INFORMATION
<b>OVERVIEW OF THE MERGED GROUP</b>		
<b>What will the Merged Group look like if the Scheme is implemented?</b>	The merger will create a leading Asian-focused upstream oil and gas company. The Merged Group will have a pro forma market capitalisation of approximately A\$800 million <sup>11</sup> and net 2P Reserves of 33.3 MMBOE and net 2C Contingent Resources of 113.0 MMBOE.	Section 12 ( <i>Profile of the Merged Group</i> )
<b>What assets will the Merged Group own?</b>	The Merged Group will have assets across China, PNG, Malaysia, Australia, New Zealand and the United Kingdom, including having an ownership interest in the following assets: i) China: Beibu Gulf (Block 22/12), Bohai Bay (Block 09/05) and Zhao Dong; ii) New Zealand: PMP 38160 (Maari / Manaia Fields) and PEP 51313 (Matariki); iii) PNG: PDL 10 (formerly PRL 4) (Stanley Field), PRL 21 (Elevala and Ketu Fields), PPL 259, PPL 430 and PPL 372 and PPL 373; iv) Malaysia: D35/D21/J4 and Balai Cluster; v) Myanmar: Block Mo7 <sup>12</sup> ; vi) United Kingdom: Blane Oil Field and Enoch Oil and Gas Field; and vii) Australia: Cliff Head Oil Field.	Section 12 ( <i>Profile of the Merged Group</i> )
<b>What will be the strategy of the Merged Group?</b>	It is the current intention of Horizon Oil and Roc that the Merged Group will continue to operate the business of Horizon Oil and Roc in substantially the same manner as they are currently being conducted. The Merged Group will continue to review all aspects of the assets and operations to identify ways to maximise value for all shareholders.	Section 12 ( <i>Profile of the Merged Group</i> )
<b>Who will be on the board of the Merged Group?</b>	The board of the Merged Group will comprise eight directors, including three current non-executive Roc Directors, four current non-executive Horizon Oil Directors and Horizon Oil's current CEO and Managing Director Brent Emmett as CEO and Managing Director of the Merged Group.  The current Chairman of Roc, Mike Harding, will be Chairman of the Merged Group.  The current Chairman of Horizon Oil, Fraser Ainsworth, will continue as a non-executive director of the Merged Group.  One Horizon Oil Director will retire from the board of the Merged Group at or before the annual general meeting of the Merged Group in 2015, as contemplated in the Merger Implementation Deed.	Section 12 ( <i>Profile of the Merged Group</i> )
<b>Who will be the senior executive team for the Merged Group?</b>	The current CEO and Managing Director of Horizon Oil, Brent Emmett, will be CEO and Managing Director of the Merged Group.  The current CEO and Managing Director of Roc, Alan Linn, will continue with the Merged Group in the role of President of Roc Oil Malaysia until April 2015.  Other members of the Merged Group's senior management team will be drawn from the two companies' existing management teams following implementation of the Scheme.	Section 12 ( <i>Profile of the Merged Group</i> )

<sup>11</sup> Based on the combined market capitalisations of each of Horizon Oil and Roc on 23 April 2014, the last day Horizon Oil and Roc Shares were traded prior to the announcement of the merger.

<sup>12</sup> Subject to signing PSC with MOE and Roc Board approval.



QUESTION	ANSWER	MORE INFORMATION
<b>What will the dividend policy of the Merged Group be?</b>	Following refinancing of the Merged Group's finance facilities, the board of the Merged Group will be looking to pay dividends as soon as it is responsible to do so. In making any determination on dividends, the board of the Merged Group will have regard to, amongst other things, the available profits, its financial position, franking credits and the board of the Merged Group's assessment of the capital required to grow the combined businesses.	Section 12 ( <i>Profile of the Merged Group</i> )
<b>What will happen to the Horizon Oil name?</b>	Following implementation of the Scheme, the board of the Merged Group may make a decision on the name of the Merged Group. Any decision to change the name of the listed entity would be subject to shareholder approval of the Merged Group.  Until then, the Merged Group intends to use the Roc name, including any associated trade marks and logos in the conduct of its business in China and South East Asia, which will include Malaysia and Myanmar. The Horizon Oil name, including any associated trade marks and logos will be used in the conduct of its business in PNG and New Zealand.  The branding of any new operations and projects in countries not specified will be subject to management consideration.	Section 12 ( <i>Profile of the Merged Group</i> )
<b>What will be the trading price of the New Roc Shares?</b>	There is no certainty as to the trading price of the New Roc Shares following implementation of the Scheme.	

## OVERVIEW OF THE SCHEME

<b>What is a scheme of arrangement?</b>	A scheme of arrangement is a statutory procedure that can be used to enable one company to acquire another company. It requires a vote in favour of the Scheme by a Requisite Majority of Horizon Oil Shareholders at a meeting of shareholders and Court approval.	
<b>Is the Scheme subject to any conditions?</b>	Implementation of the Scheme is subject to a number of conditions. These conditions are summarised in section 8.4 ( <i>Conditions of the Scheme</i> ) and set out in full in the Merger Implementation Deed.	Section 8.4 ( <i>Conditions of the Scheme</i> ) Attachment C ( <i>Merger Implementation Deed</i> )
<b>Under what scenarios can Horizon Oil or Roc terminate the transaction?</b>	The transaction can be terminated by Horizon Oil or Roc (as applicable) in the circumstances set out in the Merger Implementation Deed including if: <ul style="list-style-type: none"> <li>i) the Scheme is not implemented by the End Date;</li> <li>ii) the Horizon Oil Directors no longer recommend the Scheme;</li> <li>iii) either Roc or Horizon Oil is in material breach of the Merger Implementation Deed;</li> <li>iv) the Scheme Meeting resolution does not meet the Requisite Majority;</li> <li>v) a Regulatory Authority has issued a final order restraining the Scheme;</li> <li>vi) the Conditions Precedent are not satisfied or waived (including the occurrence of a "Roc Oil Prescribed Event" or "Horizon Oil Prescribed Event");</li> <li>vii) a Competing Transaction is publicly announced for either Roc or Horizon Oil and is recommended by the Roc Board or Horizon Oil Board (as applicable);</li> <li>viii) failure of an appeal if the Court does not approve the Scheme;</li> <li>ix) either party's insolvency; or</li> <li>x) by agreement.</li> </ul>	Section 16.1 ( <i>Merger Implementation Deed</i> ) Attachment C ( <i>Merger Implementation Deed</i> )

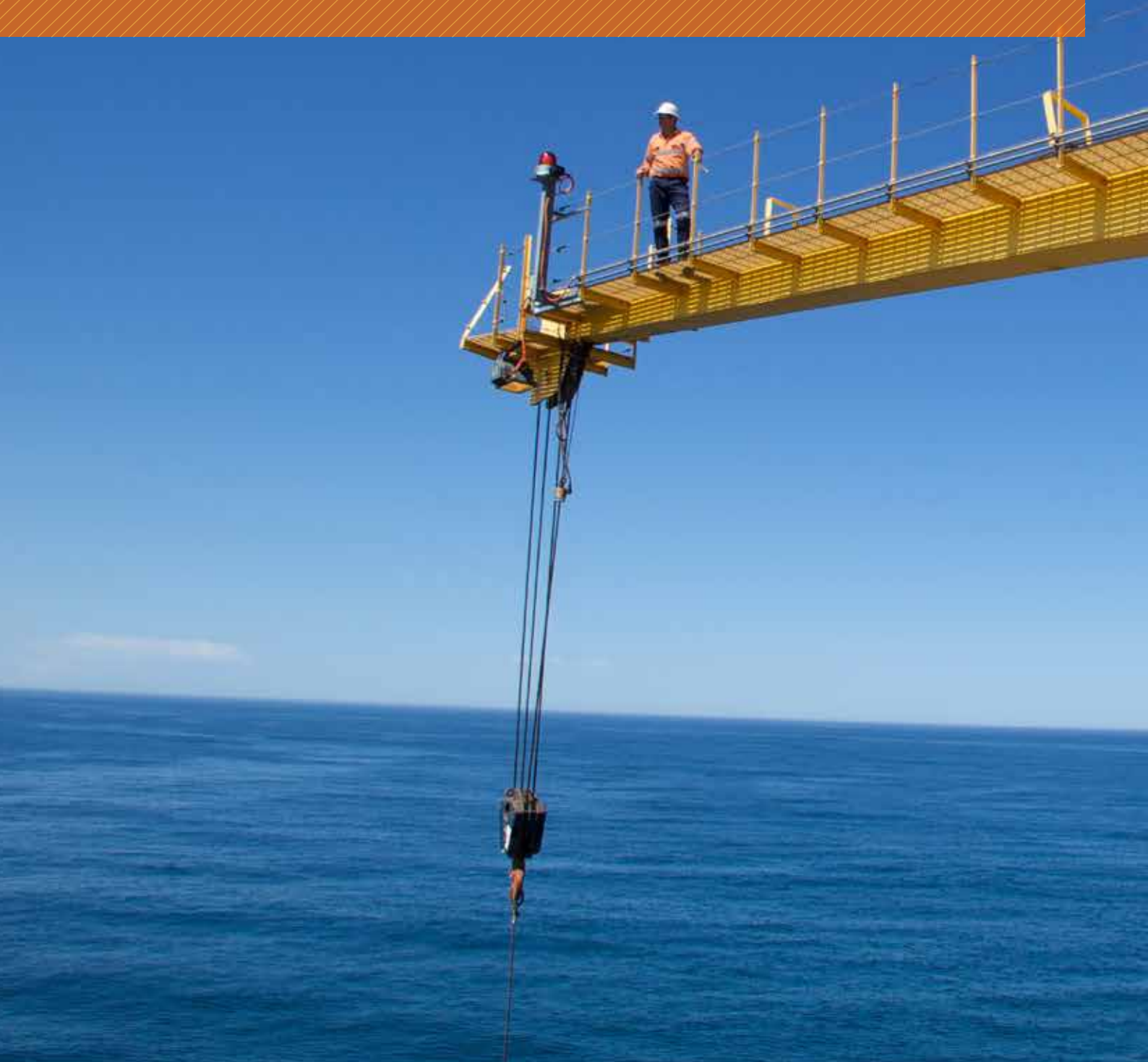
QUESTION	ANSWER	MORE INFORMATION
<b>What if the Scheme is not approved by a Requisite Majority of Horizon Oil Shareholders at the Scheme Meeting or it is not approved by the Court?</b>	<p>If the Scheme is not approved by a Requisite Majority of Horizon Oil Shareholders at the Scheme Meeting or it is not approved by the Court:</p> <ul style="list-style-type: none"> <li>i) Horizon Oil will remain listed on ASX and continue to operate as it does now;</li> <li>ii) Horizon Oil will not merge with Roc, the potential benefits of the Scheme will not be realised and the potential disadvantages of the Scheme will not arise;</li> <li>iii) you will retain your Horizon Oil Shares; and</li> <li>iv) Horizon Oil Shareholders will not receive the Scheme Consideration.</li> </ul> <p>It is possible that the price of Horizon Oil Shares may fall if the Scheme is not implemented.</p> <p>Before the Scheme Meeting, Horizon Oil estimates that it will have incurred or committed transaction costs of approximately US\$4.3 million in relation to the Scheme. Those costs will be payable by Horizon Oil regardless of whether or not the Scheme is implemented.</p>	<p>Section 8.18 (<i>What will happen if the Scheme does not proceed</i>)</p> <p>Section 17.5 (<i>Fees and interests of advisers and others</i>)</p>
<b>What are the prospects of a Superior Proposal emerging?</b>	<p>It is possible that a Superior Proposal for Horizon Oil, which is more attractive for Horizon Oil Shareholders than the Scheme, may emerge in the future. The Horizon Oil Directors are not currently aware of any such proposal and note that since Horizon Oil and Roc announced the merger, there has been a significant period of time for an alternative proposal for Horizon Oil to emerge.</p>	
<b>What happens if a Superior Proposal emerges?</b>	<p>If a Superior Proposal emerges, this will be announced to ASX and the Horizon Oil Directors will carefully reconsider the Scheme and advise you of their recommendation.</p>	
<b>HORIZON OIL DIRECTORS' RECOMMENDATION AND THE INDEPENDENT EXPERT'S CONCLUSION</b>		
<b>What do the Horizon Oil Directors recommend?</b>	<p>The Horizon Oil Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal.</p>	<p>Section 7 (<i>Horizon Oil Directors' recommendation and details of reasons to vote for or against the Scheme</i>)</p>
<b>How do the Horizon Oil Directors intend to vote?</b>	<p>Each Horizon Oil Director intends to vote in favour of the Scheme in relation to shares held or controlled by them, in the absence of a Superior Proposal.</p>	<p>Section 7 (<i>Horizon Oil Directors' recommendation and details of reasons to vote for or against the Scheme</i>)</p>
<b>What is the Independent Expert's conclusion?</b>	<p>The Independent Expert has concluded that the Scheme is in the best interests of Horizon Oil Shareholders.</p> <p>The Independent Expert has concluded that the Scheme does not appear to have any significant disadvantages for Horizon Oil Shareholders, when weighed against the associated advantages.</p> <p>The Independent Expert has stated that its estimate of the implied value of the Scheme Consideration on a control basis is in the range of A\$0.46 to A\$0.53 per Horizon Oil Share as a result of the Scheme. This compares with the Independent Expert's valuation of each Horizon Oil Share on a control basis of A\$0.41 to A\$0.50.</p>	<p>Attachment A (<i>Independent Expert's Report and Independent Technical Expert's Report</i>)</p>
<b>VOTING</b>		
<b>What choices do I have as a Horizon Oil Shareholder?</b>	<p>As a Horizon Oil Shareholder you have the following choices:</p> <ul style="list-style-type: none"> <li>i) you can vote in person or by proxy at the Scheme Meeting;</li> <li>ii) you can elect not to vote at the Scheme Meeting; or</li> <li>iii) you can sell your Horizon Oil Shares on ASX prior to the Effective Date.</li> </ul> <p>If you sell your Horizon Oil Shares on ASX you may incur brokerage costs.</p>	<p>Section 3 (<i>Action required by Horizon Oil Shareholders</i>)</p>

QUESTION	ANSWER	MORE INFORMATION
<b>Am I entitled to vote?</b>	If you are registered as a Horizon Oil Shareholder on the Horizon Oil Register at 7.00pm (Sydney time) on Tuesday, 5 August 2014, you will be entitled to vote at the Scheme Meeting. For the avoidance of doubt, this includes a Horizon Oil Shareholder who holds Horizon Oil Shares as a result of the conversion of or exercise of rights attached to other Horizon Oil Securities (including Horizon Oil Options, Horizon Oil SARs or Horizon Oil Convertible Bonds) on or prior to that date.	Section 3 (Action required by Horizon Oil Shareholders)
<b>Should I vote?</b>	Voting is not compulsory. However, the Horizon Oil Directors believe that the Scheme is important to Horizon Oil Shareholders. The Horizon Oil Directors unanimously recommend that you vote in favour of the Scheme, in the absence of a Superior Proposal.	Section 3 (Action required by Horizon Oil Shareholders)
<b>How do I vote?</b>	Horizon Oil Shareholders who are entitled to vote may do so by: <ul style="list-style-type: none"> <li>i) attending the Scheme Meeting to be held on Thursday, 7 August 2014 at The Sydney Boulevard Hotel, 90 William Street, Sydney, commencing at 11.00am (Sydney time);</li> <li>ii) completing and lodging the proxy form that is enclosed with this Scheme Booklet;</li> <li>iii) by corporate representative appointed to vote on behalf of a Horizon Oil Shareholder that is a company; or</li> <li>iv) by attorney appointed to vote on your behalf.</li> </ul>	Section 3 (Action required by Horizon Oil Shareholders) Attachment E (Notice of Scheme Meeting)
<b>What vote is required to approve the Scheme?</b>	For the Scheme to proceed, votes in favour of the resolution to approve the Scheme at the Scheme Meeting must be received from a Requisite Majority of Horizon Oil Shareholders. A Requisite Majority consists of: <ul style="list-style-type: none"> <li>i) unless the Court orders otherwise, a majority by number (more than 50%) of Horizon Oil Shareholders, who are present and voting either in person or by proxy, attorney or, in the case of corporate Horizon Oil Shareholders, by corporate representative at the Scheme Meeting; and</li> <li>ii) at least 75% of the total number of votes cast on the resolution at the Scheme Meeting.</li> </ul> It is also necessary for the Court to approve the Scheme before it can become Effective.	Section 3 (Action required by Horizon Oil Shareholders)
<b>What happens if I do not vote, or I vote against the Scheme?</b>	Even if you do not vote or you vote against the Scheme, but a Requisite Majority of other Horizon Oil Shareholders vote in favour of the Scheme and the Scheme also receives Court approval, the Scheme will become Effective and binding on all Horizon Oil Shareholders. If the Scheme is implemented, on the Implementation Date your Horizon Oil Shares will be transferred to Roc and you will receive the Scheme Consideration for your Horizon Oil Shares. However, if you are not eligible to receive the Scheme Consideration because you are an Ineligible Foreign Shareholder, your existing Horizon Oil Shares will be exchanged for cash through a sale facility. If you do not vote or you vote against the Scheme and a Requisite Majority of other Horizon Oil Shareholders do not vote in favour of the Scheme, the Scheme will not be approved at the Scheme Meeting. If this occurs, the Scheme will not proceed and you will not receive the Scheme Consideration and you will remain a Horizon Oil Shareholder.	Section 3 (Action required by Horizon Oil Shareholders) Section 8.19 (Foreign Horizon Oil Shareholders) Section 8.20 (Sale Nominee process)

QUESTION	ANSWER	MORE INFORMATION
<b>When will the result of the Scheme Meeting be known?</b>	<p>The results of the Scheme Meeting will be made available shortly after the conclusion of the Scheme Meeting and will be announced to ASX as soon as practicable.</p> <p>Even if the Scheme is approved at the Scheme Meeting, it will remain subject to a number of conditions including approval of the Scheme by the Court. The Second Court Hearing is currently anticipated to be held on Thursday, 14 August 2014.</p>	Section 16 ( <i>Implementing the Scheme</i> )
<b>What if I want to oppose the Scheme?</b>	<p>If you wish to oppose the Scheme, you may:</p> <ul style="list-style-type: none"> <li>i) attend the Scheme Meeting in person or by proxy and vote against the Scheme;</li> <li>ii) attend the Second Court Hearing to oppose the Court exercising its discretion to grant orders approving the Scheme; or</li> <li>iii) make a complaint to ASIC about the Scheme.</li> </ul> <p>If you wish to attend the Second Court Hearing, you should seek legal advice and note that the Second Court Hearing for the approval of the Scheme is presently scheduled for Thursday, 14 August 2014. You should file and serve a notice of appearance in the Federal Court of Australia Proceedings Number NSD 479 of 2014 together with any affidavit on which you wish to rely at the hearing, at least one day before the hearing. The address for service is that of Horizon Oil's Australian legal adviser as set out in section 24 (<i>Corporate Directory</i>) (to the attention of: Mr Alex Morris).</p>	
<b>AUSTRALIAN TAX IMPLICATIONS</b>		
<b>What are the Australian tax implications of the Scheme for Scheme Participants?</b>	<p>Section 15 (<i>Tax implications</i>) provides a general outline of the Australian income tax, capital gains tax and stamp duty consequences for Scheme Participants who dispose of their Horizon Oil Shares in accordance with the Scheme.</p> <p>You should consult with your own tax adviser regarding the tax consequences of disposing of your Horizon Oil Shares in accordance with the Scheme in light of current tax laws and your particular circumstances.</p>	Section 15 ( <i>Tax implications</i> )
<b>Will shareholders be entitled to scrip-for-scrip capital gains tax roll-over relief as part of the transaction?</b>	Based on the summary of taxation implications included in this Scheme Booklet, Australian-resident Horizon Oil Shareholders who hold Horizon Oil Shares on capital account should be entitled to scrip-for-scrip CGT roll-over relief to the extent they would otherwise make a capital gain.	Section 15 ( <i>Tax implications</i> )
<b>FURTHER QUESTIONS</b>		
<b>What if I have further questions about the Scheme?</b>	If you have any further questions about the Scheme, please call the Horizon Oil Shareholder Information Line on 1300 721 637 (within Australia) or +61 2 8016 2890 (outside Australia) between 9.00am and 5.00pm (Sydney time) Monday to Friday.	



# 10. Profile of Horizon Oil



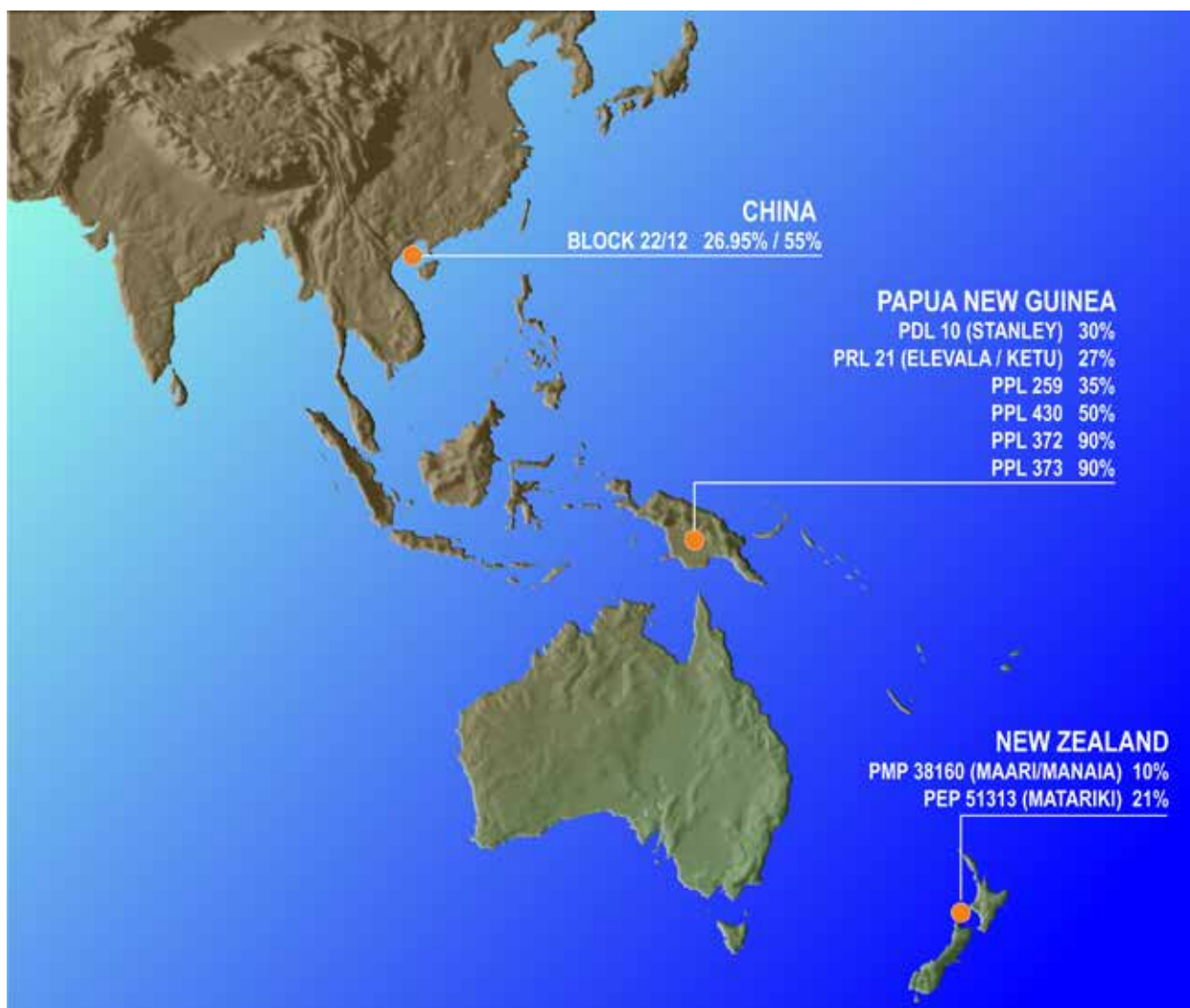
## 10.1 OVERVIEW OF HORIZON OIL

Horizon Oil is an oil and gas exploration, development and production company, incorporated and domiciled in Australia. Horizon Oil is listed on ASX and was added to the S&P/ASX 200 Index in March 2013. Horizon Oil's portfolio is comprised of petroleum interests in China, New Zealand and PNG and includes producing assets in the Beibu Gulf of China (Block 22/12) and the Maari/Manaia Fields in New Zealand (PMP 38160). Horizon Oil also has substantial exploration acreage in the forelands of the Western Province of PNG with the Stanley Field PDL 10 (formerly PRL 4) currently in development and the Elevela/Tingu and Ketu Fields (PRL 21) currently in appraisal.

Horizon Oil was originally registered as Bligh Oil & Minerals N.L. in 1969. It changed its name to Horizon Oil N.L. on 31 October 2002 and to Horizon Oil Limited, a company limited by shares, on 16 January 2004.

Horizon Oil is one of Australia's leading mid-cap oil and gas companies. As at 30 June 2014, Horizon Oil had 1,301,981,265 fully paid ordinary shares on issue and a market capitalisation of approximately A\$455 million.

Horizon Oil is focused on productive fairways and mature operating areas in south-east Asia and Australasia as summarised in the map and table below:<sup>13, 14</sup>



<sup>13</sup> PNG interests are subject to reduction if the PNG State exercises its right to take up to a 22.5% interest in a development licence.

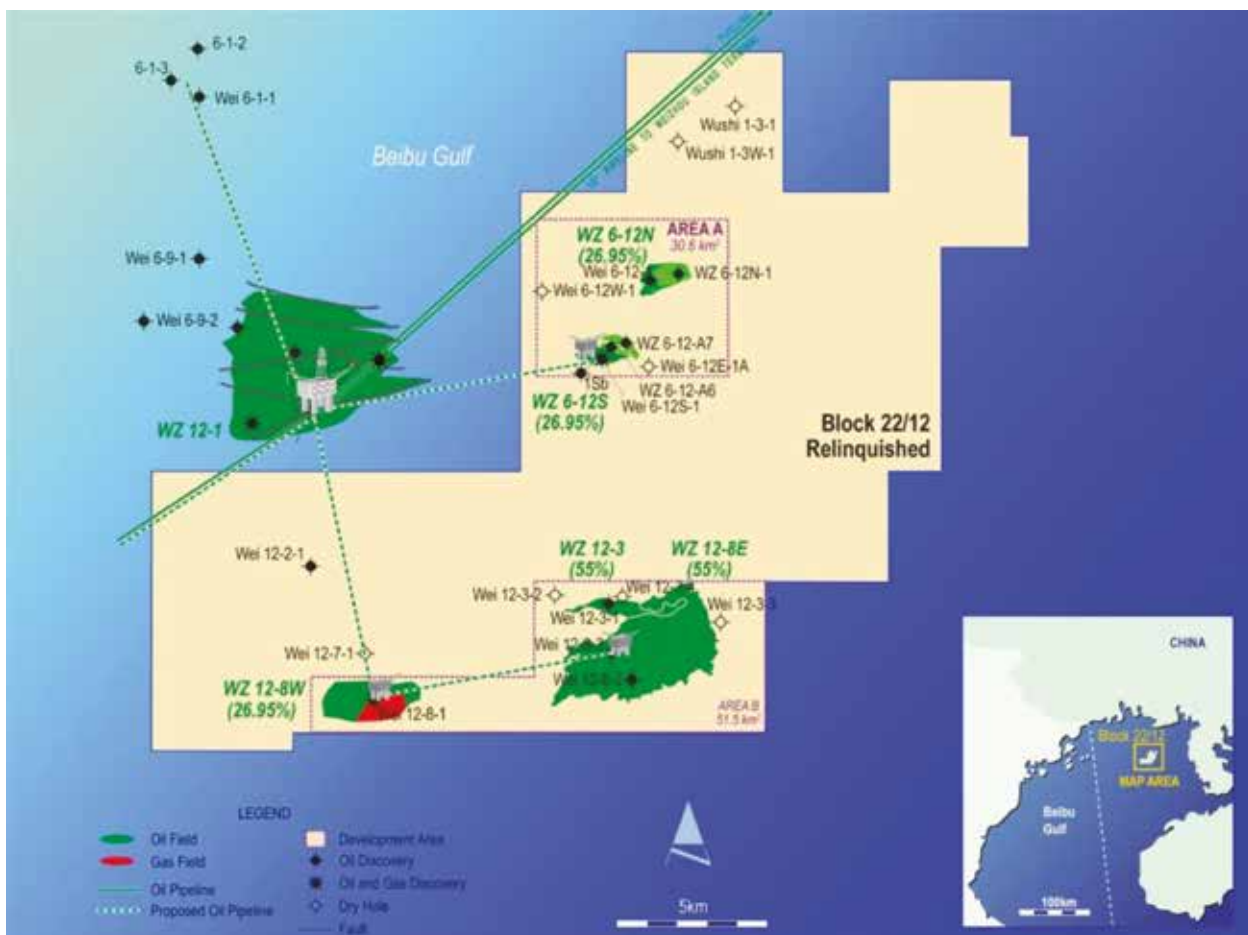
<sup>14</sup> 21% interest in Whio prospect area in New Zealand subject to reduction to 10% in event of a commercial discovery at Whio.

LOCATION	ASSET	FIELD & HORIZON OIL INTEREST	ACTIVITY	OPERATOR STATUS	CY2013 NET PRODUCTION
China	22/12 (Beibu Gulf)	• WZ 6-12 N&S 26.95%	Production	Non-operator	0.8 MMBOE
		• WZ 12-8 W 26.95%	Production	Non-operator	Production commenced March 2013
		• WZ 12-8 E 55% <sup>15</sup>	Appraisal	Non-operator	
New Zealand	PMP 38160	Maari and Manaia 10%	Production	Non-operator	0.2 MMBOE
	PEP 51313	Whio prospect and others 21%/10% <sup>16</sup>	Exploration	Non-operator	–
Papua New Guinea	PDL 10 (formerly PRL 4)	Stanley 30% <sup>17,18</sup>	Development	Non-operator	–
	PRL 21	Elevala/Tingu and Ketu 27%	Appraisal	Operator	–
	PPL 259	Nama and other prospects 35%	Exploration	Non-operator	–
	PPL 372	90%	Exploration	Operator	–
	PPL 373	90%	Exploration	Operator	–
	PPL 430	50%	Exploration	Operator	–

## 10.2 OVERVIEW OF HORIZON OIL'S ASSETS

### A) CHINA

#### i) Block 22/12, Beibu Gulf



<sup>15</sup> Subject to CNOOC participation of 51%.

<sup>16</sup> 21% interest in Whio prospect area subject to reduction to 10% in event of a commercial discovery at Whio.

<sup>17</sup> Subject to reduction if the PNG State exercises its right to take up to a 22.5% interest in the development.

<sup>18</sup> Subject to change following determination by expert (appointed pursuant to a unitisation agreement) of extent to which the Stanley Field extends in to block 1622 (contained in PPL 259).

Block 22/12 is located in the Beibu Gulf offshore China. Production in 6-12 N and 6-12 S commenced at the end of March 2013, followed by 12-8W with all fifteen wells online by August 2013.

Key details of the Beibu Gulf project are contained in the table below:

#### WZ 6-12 and WZ 12-8, Beibu Gulf, offshore China

Operator	CNOOC Limited (development and production) Roc Oil (China) Company (exploration and appraisal)
Horizon Oil interest	26.95% (development and production); 55% (exploration and appraisal)
Joint venture partners and interests	CNOOC Limited: 51% (development and production) Roc Oil (China) Company: 19.6% (development and production); 40% (exploration and appraisal) Oil Australia Pty Ltd (Majuko): 2.45% (development and production); 5% (exploration and appraisal)
1Q 2014 production rate	Gross: 13,330 BOPD Net to Horizon Oil: 3,592 BOPD
Net 2P Reserves as at 1 January 2014	6.5 MMBBL (see section 10.3(e) ( <i>Reserves and resources methodology</i> ))
Production start-up	March 2013
Field facilities	Two wellhead platforms and one joint processing platform, which are connected by bridge to the CNOOC WZ 12-1A platform complex and utilise existing water injection and gas export facilities.

The Beibu Gulf development was finalised in 2013 following the successful hook-up and commissioning of the ten well development drilling program on the WZ 6-12 wellhead platform, the five well development drilling program on the WZ 12-8W Field and installation of the PUQB utilities platform heli-deck. The development project was completed safely and within budget.

There are two undeveloped oil accumulations in the retained development areas (WZ 12-8E and WZ 12-3) with development feasibility studies in progress for WZ 12-8E. The development of the WZ12-8E Field will constitute the second phase of an integrated development following completion of the current WZ6-12 and WZ12-8W project.

Gross oil production at December 2013 was 14,501 BOPD (HZN: 3,908 BOPD) with all 15 wells on line for the full period. Five of the 15 wells continue to flow naturally whilst 10 of the wells are being produced with artificial lift by electric submersible pumps. Crude oil sales for the calendar year were 759,628 BBLs at an average realised price (net of hedging) of US\$101.04/BBL. Cumulative gross production from the combined fields was 3.0 MMBOE to 31 December 2013 (0.8 MMBOE net to Horizon Oil). In the quarter ended 31 March 2014, the project produced 1.2 MMBOE (0.3 MMBOE net to Horizon Oil).

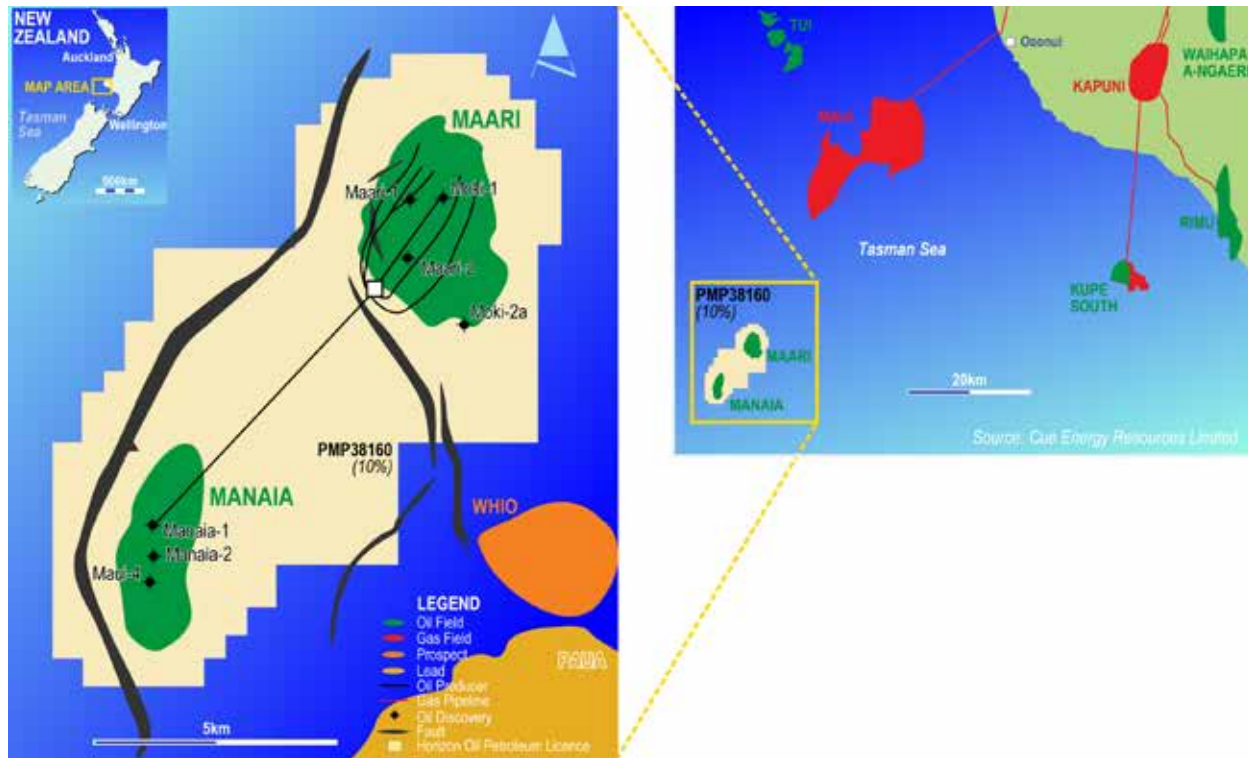
#### ii) Block 09/05, Bohai Bay

In October 2013, Horizon Oil entered into a farm-in option agreement with Roc Oil (Bohai) Company in Block 09/05. Under the terms of the agreement, Horizon Oil had a right to farm into a 40% working interest in Block 09/05. In light of the proposed merger with Roc, Horizon Oil has elected not to exercise the option.



## B) NEW ZEALAND

### i) PMP 38160, Maari/Manaia



The Maari development, operated by OMV New Zealand Ltd, and the Manaia structure are located in PMP 38160 approximately 80 km offshore Taranaki, New Zealand, in 102 metres of water. Production of the field commenced in February 2009 with production from the three producing reservoirs flowing to a single wellhead platform located adjacent to the Maari Field, before connecting to a floating production storage and offload vessel moored approximately 1.5 km from the wellhead platform.

Key details of the Maari/Manaia Fields are contained in the table below:

#### PMP 38160, Maari/Manaia Fields, Taranaki Basin, offshore New Zealand

Operator	OMV New Zealand Limited
Horizon Oil interest	10%
Joint venture partners and interests	OMV New Zealand Limited: 69% Todd Maari Limited: 16% Cue Taranaki Pty Ltd: 5%
1Q 2014 production rate	Gross: 9,814 BOPD Net to Horizon Oil: 981 BOPD
Net 2P Reserves as at 1 January 2014	6.0 MMBBL (see section 10.3(e) ( <i>Reserves and resources methodology</i> ))
Production start-up	February 2009
Field facilities	Six producer wells with two water injectors. The producer wells access three producing reservoirs which tie in to a single wellhead platform. The platform is connected to a floating production storage and offload vessel moored approximately 1.5 km from the wellhead platform.

During the 2013 calendar year, Horizon Oil's working interest share of production from Maari Field was 192,673 BBL of oil. Cumulative oil production from the field through 31 December 2013 was 22.4 million BBL. Crude oil sales were 179,069 BBL at an average realised price (net of hedging) of US\$99.55/BBL. At the end of December 2013, gross oil production was approximately 10,200 BOPD (HZN: 1,020 BOPD). In the quarter ended 31 March 2014, the project produced 0.9 MMBOE (88,340 BBL net to Horizon Oil). The field was developed on the basis of 60 MMBOE recoverable reserves.

The Maari growth program was approved for the 2014 budget and is designed to access untapped oil accumulations and enhance production rate and oil recovery from the Maari and Manaia Fields. The program commenced with the workover of the MR1 well utilising the wellhead platform workover unit to convert the well into a water injector.

After the successful completion of the workover, the Ensco 107 jack up drilling rig arrived and was located alongside and cantilevered over the Maari platform with minimal delays. This enabled the commencement during early April 2014 of the substantive phase of the program, incorporating four infill production wells, one new injection well and a workover of the existing MR2 dual lateral production well.

On 4 November 2013, the Manaia-2/2A well reached total depth of 2,891 metres. The well is located 1.25 km north of Maui-4 (which discovered the Manaia Field) and 6 km to the southwest of the Maari Field well head platform.

The evaluation of the Manaia-2 well has continued with the results assisting in the planning of the upcoming Manaia-3 infill development well, as part of the abovementioned Maari growth project program.

iii) PEP 51313



The PEP 51313 Field is located to the south of PMP 38160 in the offshore Taranaki Basin, New Zealand. The first target to be drilled in the permit is the Whio prospect, which is located approximately 4 km from the Maari installation in 95 metres of water.

Key details of the Whio prospect are contained in the table below:

**PEP 51313, Whio prospect, offshore Taranaki Basin, New Zealand**

Operator	OMV New Zealand Limited (OMV)
Horizon Oil interest	21%; 10% <sup>19</sup>
Joint venture partners and interests	OMV New Zealand Limited: 30%; 69% Todd Exploration Limited: 35%; 16% Cue Taranaki Pty Ltd: 14%; 5%

In November 2012, Horizon Oil and its joint venture partners farmed out a 30% interest in PEP 51313 to OMV. The key earning provision of the farm-out agreement is that OMV will fund 100% of the cost (without limitation) of the exploration well targeting the Whio prospect. The well will be drilled in conjunction with appraisal drilling at Manaia with the semi-submersible rig Kan Tan IV, which arrived in New Zealand waters in August 2013.

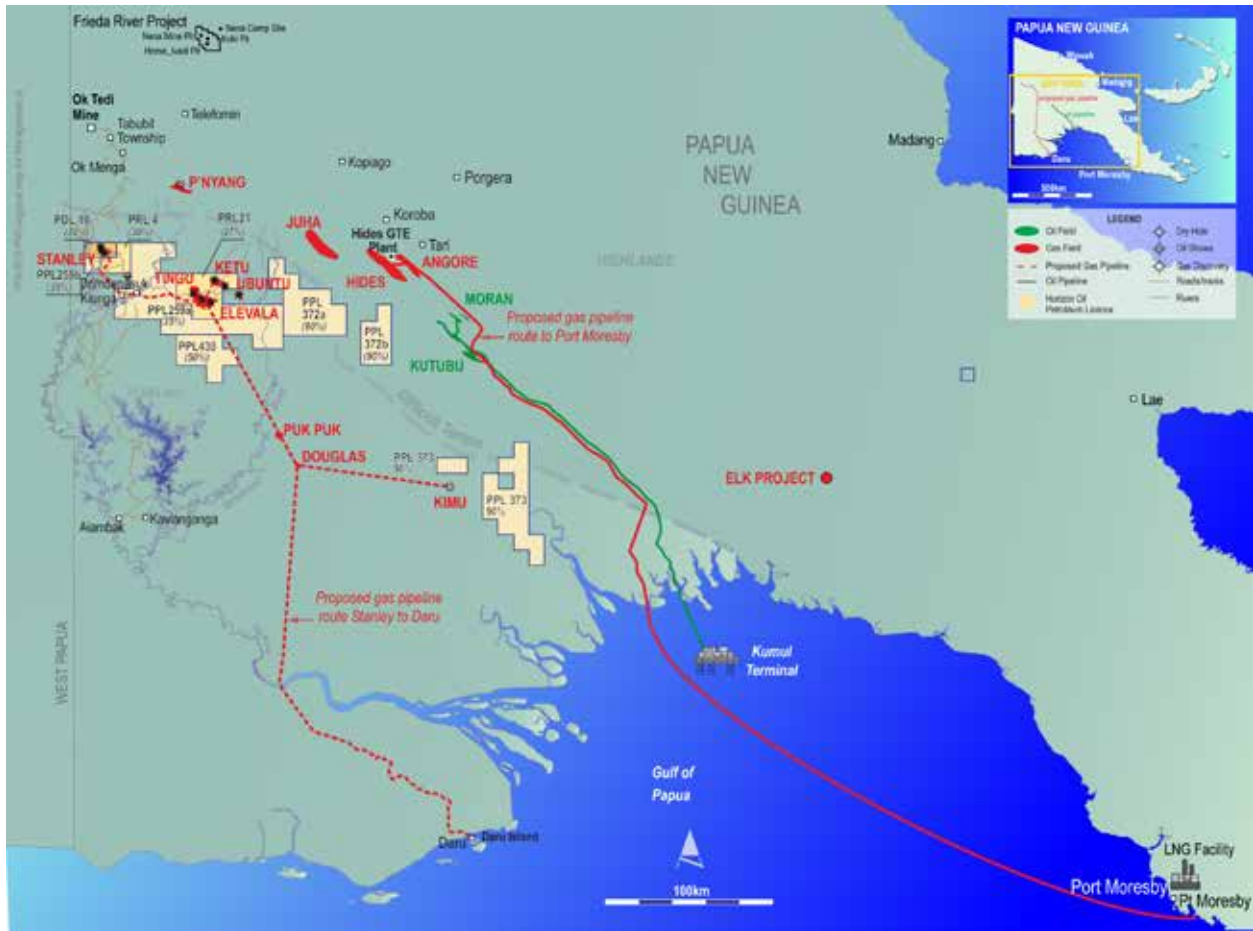
The planning for the drilling of the Whio-1 well has progressed towards an expected spud in Q3 calendar year 2014, following drilling of 3 wells for other joint ventures. The remaining 2014 budget estimate is US\$37 million, the costs of which are fully carried by OMV.

<sup>19</sup> Interest in Whio prospect area if a discovery is made.

Under the farm-out agreement, in the event of a commercial discovery at the Whio prospect, OMV's share in the Whio prospect area alone will increase to 69%. The equity interests over the Whio area in this instance will match those of the Maari licence (PMP 38160) and this will facilitate the development of Whio through the existing Maari facilities.

OMV assumed operatorship over PEP 51313 following completion of a 450 sq km 3D seismic program over the Pukeko and Te Whatu prospects in Q1 calendar year 2013. The original PEP 51313 participants funded this program. In Q1 calendar year 2014, the joint venture made the decision not to commit to the drilling of the Te Whatu well and, as a consequence, relinquished the western area of the licence, retaining the core area containing the Whio, Matariki and Paua prospects.

**C) PAPUA NEW GUINEA**



**i) Strategic alliance with Osaka Gas**

On 23 May 2013, Horizon Oil announced that it had entered into an agreement to sell 40% of its PNG assets to Osaka Gas Niugini Pty Ltd, a subsidiary of Osaka Gas Co. Ltd of Japan (Osaka Gas).

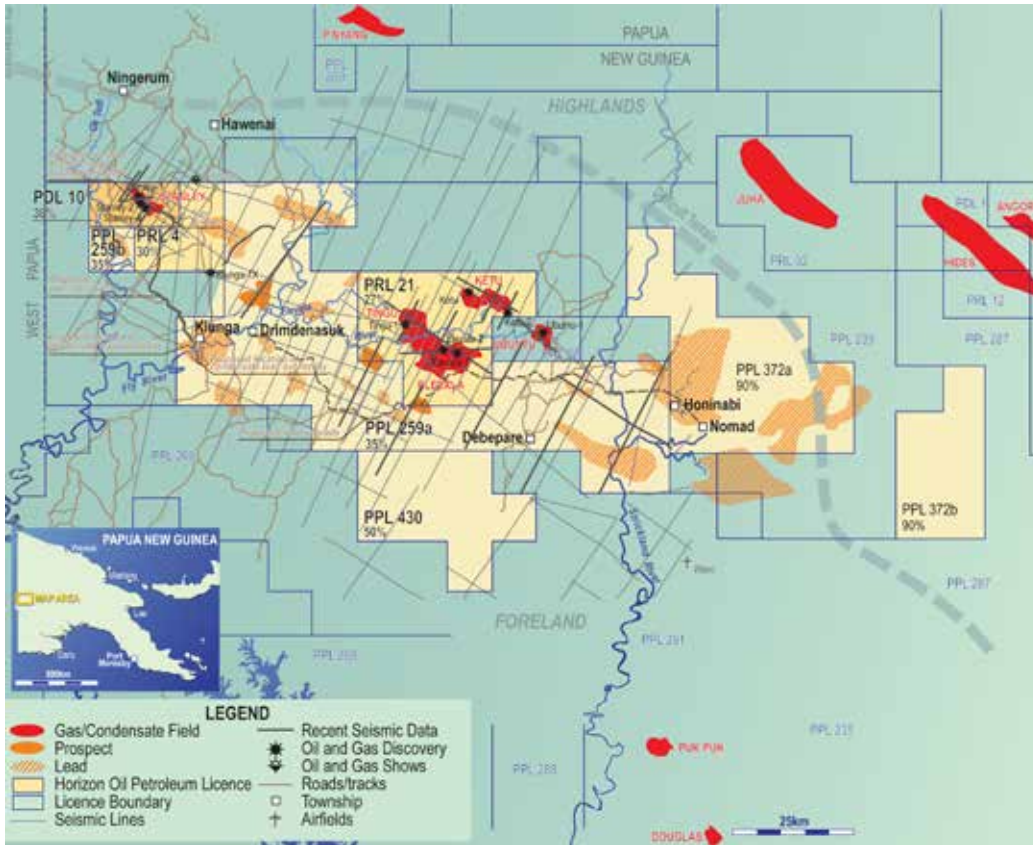
With the grant of the petroleum development licence over the Stanley Field representing the final condition precedent to be satisfied, the transaction completed on Thursday 12 June 2014 resulting in approximately US\$54 million in cash being transferred to Horizon Oil in consideration for the transfer of 40% of Horizon Oil's interests in PDL 10 (formerly PRL 4) (Stanley Field), PRL 21 (Elevala and Ketu Fields) and PPL 259 with an additional US\$24 million in past costs also paid on completion. The remaining US\$130 million of the sale price will be payable to Horizon Oil upon FID for an LNG project (which includes FID on any project in which Osaka Gas is entitled to take its share of LNG in kind on an equity basis utilising the gas from any of the assets), plus potential production payments where threshold condensate production is exceeded.

The sale marked the beginning of a 60/40 strategic alliance between Horizon Oil and Osaka Gas, a leading global gas company and one of Japan's largest utility companies and LNG importers. The principal objective of the partnership is to commercialise Horizon Oil's and Osaka Gas' net of 135 MMBOE certified Reserves and Contingent Resources and develop extensive acreage in Western Province for the purposes of supporting a mid-scale LNG project. The companies intend to exploit the full potential of the assets via early condensate production, local gas sales and LPG sales and to market their respective shares of petroleum products, especially LNG, on a combined basis.

Osaka Gas' experience as a participant in LNG projects, its LNG engineering capability and its role as a large scale off-taker, transporter and distributor of LNG all add credibility to the venture and will enable Horizon Oil to play its part and participate in a mid-scale LNG development, which has the potential to generate strong cash flows.



ii) PDL 10 (formerly PRL 4) Stanley Field



The Stanley Field is located in PDL 10 (formerly PRL 4), approximately 40 km by road from the township of Kiunga in the Western Province of PNG.

Key details of the Stanley Field development are contained in the table below:

**PDL 10 (formerly PRL 4), Stanley Field, Western Province, Papua New Guinea**

Operator	Talisman Energy Niugini Limited
Horizon Oil interest	30% <sup>20,21</sup>
Joint venture partners and interests	Osaka Gas Niugini Pty Ltd: 20% Talisman Energy Niugini Limited: 40% Diamond Gas Niugini B.V. (Mitsubishi): 10%
Net 2P Reserves at 1 January 2014	3.4 MMBBL (see section 10.3(e) ( <i>Reserves and resources methodology</i> ))
Net 2C Contingent Resources at 1 January 2014	20.4 MMBOE (see section 10.3(e) ( <i>Reserves and resources methodology</i> ))
Field facilities	Condensate will be transported via a 6 inch 40 km pipeline to a 60,000 BBL storage tank near Kiunga laydown area, before being loaded onto a special purpose 33,000 BBL tanker 1 km downstream of the existing Kiunga wharf.

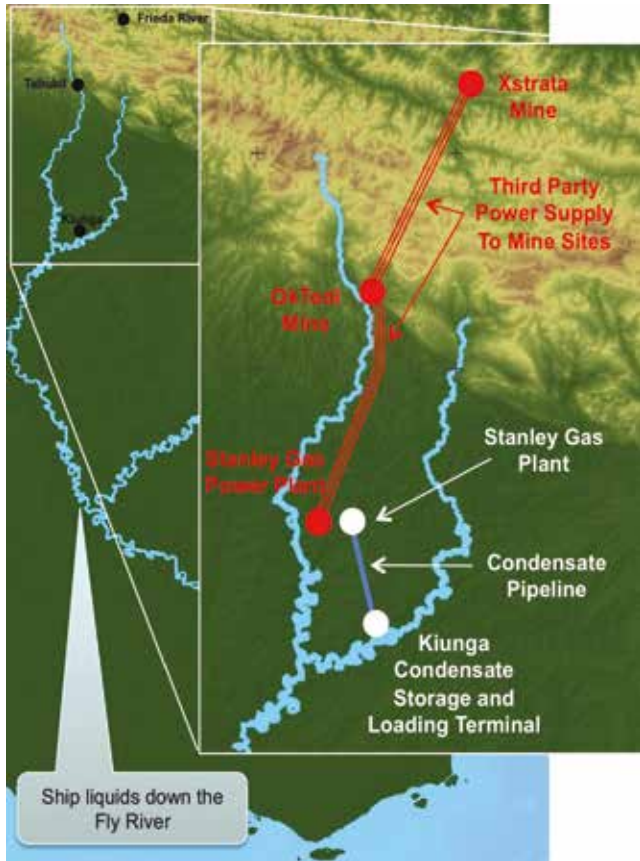
On 14 April 2014, Horizon Oil announced that the PNG Cabinet had approved the Stanley gas condensate development project and on 17 April 2014, the PDL 10 (formerly PRL 4) licensees and the State executed the Stanley Gas Agreement which prescribes the key rights and obligations of the State and licensees in respect of the Stanley project (including fiscal terms). On Friday, 30 May 2014, Minister Nixon Duban granted the licensees the Stanley development PDL 10 (formerly PRL 4) and pipeline licences.

<sup>20</sup> Subject to reduction if the PNG State exercises its right to take up to a 22.5% interest in the development.

<sup>21</sup> Subject to change following determination by expert (appointed pursuant to a unitisation agreement) of extent to which the Stanley Field extends in to block 1622 (contained in PPL 259).



The Stanley Field will be developed initially as a condensate recovery project, with subsequent and increasing sales of gas as customers are contracted. It is envisaged that these will primarily be domestic and industrial consumers located in the region (see below). The development concept involves producing 140 MMSCFD of wet gas, from which initially 4,000 BBL of condensate per day will be recovered utilising a two train 140 MMCFD gas refrigeration plant located in the field. Any dry gas not sold or used for operations will be re-injected into the reservoir and “banked” until required for sale. The condensate will be transported via a 6 inch 40 km pipeline to a 60,000 BBL storage tank near the Kiunga laydown area and then loaded onto a tanker at a loading facility about 1 km downstream of the existing Kiunga wharf, which is the export point for copper concentrate from the Ok Tedi mine.



A special purpose 33,000 BBL river tanker with ocean going capability has been designed to transport the condensate to market. The tanker has been built under the supervision of P&O Maritime and has completed sea trials.

Negotiations with Ok Tedi Mining Limited for the supply of gas from the Stanley Field have significantly progressed, with indications from the Ok Tedi mine that they will take up to 3 petajoules of gas per annum. Technical and commercial issues in the detailed term sheet have been resolved, subject to final agreement on price. Horizon Oil is exploring other avenues to commercialise the remainder of the gas resources, such as the potential provision of gas to the Frieda River Copper-Gold Project, should the development plan for that project be approved.

The Parker Rig 226 commenced development drilling operations of the Stanley-3 and Stanley-5 development wells on 16 June 2014.

Negotiations with the participants in PPL 259 regarding the formation of a unit to include the small portion of the Stanley Field that possibly encroaches into PPL 259 were concluded in December 2013. The effect on Horizon Oil’s interest in the Stanley Field will be immaterial, given Horizon Oil’s near equivalent participation in each licence.

### iii) PRL 21, Elevala/Ketu Fields



PRL 21 is located approximately 50 km east of the town of Kiunga in the Western Province of PNG. It consists of two fields, Elevala (which includes Tingu) and Ketu. The licence is operated by Horizon Oil.

Key details of the Elevala/Ketu Fields are contained in the table below:

#### PRL 21, Elevala/Ketu Fields, Western Province, Papua New Guinea

Operator	Horizon Oil (Papua) Limited
Horizon Oil interest	27% <sup>22</sup>
Joint venture partners and interests	Osaka Gas Niugini Pty Ltd: 18% Talisman Energy Niugini Limited: 32.5% Kina Petroleum Limited: 15% Diamond Gas Niugini B.V. (Mitsubishi): 7.5%
Net 2C Contingent Resources as at 1 January 2014	57.4 MMBOE (see section 10.3(e) ( <i>Reserves and resources methodology</i> ))

On 17 March 2014, Horizon Oil submitted the petroleum development and pipeline applications for the Elevala/Ketu Fields to the PNG Department of Petroleum and Energy.

As a party to both the PDL 10 (formerly PRL 4) and PRL 21 joint ventures, Horizon Oil will be using the experience gained in the design of the Stanley Field development in PDL 10 (formerly PRL 4) to fast track development plans and early production of the liquids in PRL 21 by way of condensate stripping. The combined contingent gas resources of around 1.4 TCF in PDL 10 (formerly PRL 4) and PRL 21 approach the scale required for a mid-scale LNG project and Horizon Oil is advancing its pre-development studies of this opportunity.

The Elevala/ Ketu Fields were appraised in 2012 and were estimated at that time to contain a substantial resource of gross proven and probable contingent resources of 795 BCF of gas and 40 MMBBL of condensate with prospective upside associated with the Tingu structure located some 9.2 km northwest of the Elevala-2 well.

The Tingu-1 appraisal well was spudded on 26 August 2013. Data from logs and pressure measurements confirmed a significant gas-condensate discovery in the primary target Elevala Sandstone. The well encountered a gas water contact in that reservoir consistent with that in the Elevala accumulation to the southeast, implying a connected field. The well was tested and flowed at an average rate of 48 MMSCFD with a stabilised condensate ratio (CGR) of around 50 BBL/MMSCF, similar to Elevala gas.

The Tingu structure is considered to be connected to the Elevala Field and, after evaluation and modelling of the data, the combined resource of the Elevala (including Tingu) and Ketu Fields is now estimated at 980 BCF of gas with 50 MMBBL of condensate and approximately 30 MMBOE of LPG.

The Tingu and Elevala accumulation comprise gross contingent 2C resources of 688 BCF of gas and 35 MMBBL of condensate.

<sup>22</sup> Subject to reduction if the PNG State exercises its right to take up to a 22.5% interest in the development.

#### iv) PPL 259

PPL 259 covers an area of approximately 2,805 sq km in the Western Province of PNG.

Key details of PPL 259 are contained in the table below:

#### PPL 259, Western Province, Papua New Guinea

Operator	Eaglewood Energy (BVI) Limited
Horizon Oil interest	35%
Joint venture partners and interests	Eaglewood Energy (BVI) Limited: 45% Osaka Gas Niugini E&P Pty Ltd: 10% Mega Fortune International Limited: 10%

In October 2013, Horizon Oil entered into a farm-in agreement with Eaglewood Energy to acquire a further 20% participating interest in PPL 259. The farm-in is on industry terms, incorporating reimbursement of proportionate past costs and a carry. Under the terms of the farm-in, Horizon Oil will operate the Nama exploration well to be drilled in the licence in 2014. The Nama prospect is located near the Stanley Field with a potential resource size similar to that of the Stanley Field.

In addition, several large prospects have been delineated as drilling targets following interpretation of the 67 km of new 2D seismic data acquired in 2013.

#### v) PPLs 430, 372 and 373

Horizon Oil materially expanded its acreage holdings in PNG in 2013, with the award of a 50% interest in a new licence PPL 430 and the acquisition of 90% interests in PPLs 372 and 373.

These additions, which are part of Horizon Oil's strategy of selectively building up its exploration acreage portfolio in and around discovered hydrocarbon accumulations, increased Horizon Oil's gross acreage position in PNG. Horizon Oil is the designated operator of the three new licences, as well as existing licence PRL 21.

Data on the new acreage is being collated, with the intent of reprocessing existing seismic ahead of acquiring new seismic data. The acreage will be explored with the objective of confirming sufficient gas reserves, when added to the existing reserves base, to potentially underwrite a mid-scale LNG plant on the coast.

### 10.3 HORIZON OIL'S RESERVES AND RESOURCES STATEMENT

The Reserve and Contingent Resource estimates used in this Scheme Booklet for Horizon Oil are supported by the Competent Person statement contained in section 1 (*Important notices*).

#### A) RECONCILIATION OF ECONOMIC INTEREST RESERVES

	1P DEVELOPED AND UNDEVELOPED				2P DEVELOPED AND UNDEVELOPED			
	OIL (MMBBL)	CONDENSATE (MMBBL)	GAS (BCF)	BOE (MMBOE)	OIL (MMBBL)	CONDENSATE (MMBBL)	GAS (BCF)	BOE (MMBOE)
<b>Opening Balance 30 Jun 2013 (WI%)</b>	9.9	2.5	–	12.4	16.1	3.4	–	19.5
Reserve revisions (WI%)	(0.5)	–	–	(0.5)	(2.8)	–	–	(2.8)
Production (WI%)	(0.7)	–	–	(0.7)	(0.7)	–	–	(0.7)
Economic interest adjustment	(0.1)	–	–	(0.1)	(0.1)	–	–	(0.1)
<b>Closing Balance 1 Jan 2014 (economic interest)</b>	<b>8.6</b>	<b>2.5</b>	<b>–</b>	<b>11.1</b>	<b>12.5</b>	<b>3.4</b>	<b>–</b>	<b>15.9</b>

## B) ECONOMIC INTEREST RESERVES BY ASSET

	1P DEV OIL (MMBBL)	1P DEV GAS (BCF)	1P DEV CON- DENSATE (MMBBL)	1P UNDEV (MMBBL)	1P TOTAL (MMBOE) <sup>23</sup>	2P DEV OIL (MMBBL)	2P DEV GAS (BCF)	2P DEV CONDEN- SATE (MMBBL)	2P UNDEV (MMBBL)	2P TOTAL (MMBOE) <sup>23</sup>
<b>New Zealand</b>										
PMP 38160 Maari/Manaia <sup>24,28</sup>	1.7	–	–	1.6	3.3	2.1	–	–	3.9	6.0
<b>China</b>										
Block 22/12 WZ 6-12 + WZ 12-8W <sup>25,26,28</sup>	5.3	–	–	–	5.3	6.5	–	–	–	6.5
<b>Papua New Guinea</b> (post Osaka Gas transaction)										
PDL 10 (formerly PRL 4) Stanley <sup>27,39</sup>	–	–	–	2.5	2.5	–	–	–	3.4	3.4
<b>Closing Balance 1 Jan 2014</b> <b>(economic interest)</b>	<b>7.0</b>	<b>–</b>	<b>–</b>	<b>4.1</b>	<b>11.1</b>	<b>8.6</b>	<b>–</b>	<b>–</b>	<b>7.3</b>	<b>15.9</b>

## C) ECONOMIC INTEREST RESERVES AND RESOURCES BY ASSET

	2P <sup>29</sup>		2C <sup>29</sup>		BEST ESTIMATE PROSPECTIVE UNRISKED RESOURCE <sup>29</sup>			
	(MMBOE)	OIL (MMBBL)	GAS (BCF)	CONDENSATE (MMBBL)	TOTAL (MMBOE)	LIQUIDS (MMBBL)	GAS (BCF)	TOTAL (MMBOE)
<b>New Zealand</b>								
PMP 38160 Maari/Manaia	6.0 <sup>30</sup>	–	–	–	–	2	–	2 <sup>37</sup>
PEP 51313 <sup>37</sup>	–	–	–	–	–	12	–	12
<b>China</b>								
Block 22/12 WZ 6-12 + WZ 12-8W <sup>31,32,37</sup>	6.5	–	–	–	–	–	–	–
Block 22/12 WZ 12-8E <sup>37</sup>	–	1.5	–	–	1.5	3 <sup>38</sup>	–	3
<b>Papua New Guinea</b> (post Osaka Gas transaction)								
PDL 10 (formerly PRL 4) Stanley <sup>33,39</sup>	3.4	–	120 <sup>34</sup>	0.4	20.4	–	–	–
PRL 21 Elevala <sup>33,37</sup>	–	–	186 <sup>35</sup>	9.6	40.5	1	17	4
PRL 21 Ketu <sup>33,37</sup>	–	–	79 <sup>36</sup>	3.8	16.9	–	–	–
PPL 259 <sup>37</sup>	–	–	–	–	–	12	295	61
<b>Total Net Reserves and resources</b> <b>(economic interest)</b>	<b>15.9</b>	<b>1.5</b>	<b>385</b>	<b>13.8</b>	<b>79.3</b>	<b>30</b>	<b>312</b>	<b>82</b>

23 Estimated in accordance with SPE-PRMS standard; 6 BCF gas equals 1 BOE; 1 BBL condensate equals 1 BOE.

24 Net of production of 22.0 MMBOE gross through 31 December 2013.

25 Net of production of 3.0 MMBOE gross through 31 December 2013.

26 Reduced to allow for CNOOC participation at 51%.

27 Subject to reduction to allow for PNG State Nominee participation at 22.5%.

28 Revised 1 January 2014.

29 Estimated in accordance with SPE-PRMS standard; 6 BCF gas equals 1 BOE; 1 BBL condensate equals 1 BOE.

30 Net of production of 22.0 MMBOE gross through 31 December 2013.

31 Net of production of 3.0 MMBOE gross through 31 December 2013.

32 Reduced to allow for CNOOC participation at 51%.

33 Subject to reduction to allow for PNG State Nominee participation at 22.5%.

34 Includes 2.6 MMBBL LPG (1 tonne LPG equals 11 BBL).

35 Includes 6.0 MMBBL LPG.

36 Includes 2.5 MMBBL LPG.

37 Revised 1 January 2014.

38 Subject to confirmation of acreage extension.

39 Subject to change following determination by expert (appointed pursuant to a unitisation agreement) of extent to which the Stanley Field extends in to block 1622 (contained in PPL 259).



## D) RECONCILIATION OF ECONOMIC INTEREST RESOURCES

	2C BOE (MMBOE)	BEST ESTIMATE PROSPECTIVE UNRISKED RESOURCES (MMBOE)
<b>Opening Balance 30 June 13</b>	71.9	111
Reserve revisions (WI%)	7.4	(65)
WI% adjustment	–	36 <sup>40</sup>
Economic interest adjustment	–	–
<b>Closing Balance 1 Jan 2014 (economic interest)</b>	<b>79.3</b>	<b>82</b>

The estimated quantities of petroleum that may potentially be recovered by the application of future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further appraisal is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

## E) RESERVES AND RESOURCES METHODOLOGY

Depending on the asset, either deterministic or probabilistic methods has been used to compile Reserve and Contingent Resource estimates and the probabilistic method has been used to compile Prospective Resource estimates. Due to the portfolio effects of arithmetic summation the aggregate 1P Reserve may be a very conservative estimate and the aggregate 3P Reserve may be a very optimistic estimate. Prospective Resources have not been adjusted for risk i.e. chance of success.

Estimates of Reserves are reported net of lease fuel. The reference point used for the purposes of measuring and assessing the estimated Reserves is the sales point.

The Reserve and resource estimates used in this Scheme Booklet relating to Horizon Oil were, where indicated, compiled by Alan Fernie (Manager – Exploration and Development). Mr Fernie (B.Sc), who is a member of American Association of Petroleum Geologists, has more than 38 years relevant experience within the industry. The Reserve and resource estimates are consistent with the definitions of proved, probable, and possible hydrocarbon Reserves and resources that appear in the ASX Listing Rules. Alan Fernie is qualified in accordance with the requirements of ASX Listing Rule 5.42 and consents to the use of the resource and reserve figures in the form and context in which they appear in this Scheme Booklet.

All audits are undertaken by independent third party resource evaluators and are overseen by the Horizon Oil Manager – Exploration and Development, who is a petroleum reserves and resources evaluator qualified in accordance with ASX Listing Rule requirements. No public reporting of any Reserves or resources estimate is permitted without the sign off by Horizon Oil’s Manager – Exploration and Development and the approval of Horizon Oil’s Chief Executive Officer. All public reporting of the Reserves or resources estimates is in accordance with the requirements set out in Chapter 5 of the ASX Listing Rules and Horizon Oil’s Continuous Disclosure Policy.

The Reserves, Contingent Resources and Prospective Resources estimates used in this section are supported by Alan Fernie (Manager – Exploration and Development and full time employee of Horizon Oil) as per the statement contained in section 1 (*Important notices*) regarding Reserves and resources.

## 10.4 HORIZON OIL DIRECTORS

Brief profiles of the Horizon Oil Directors as at the date of this Scheme Booklet are set out below:

### **Fraser Ainsworth** AM FAICD

*Non-Executive independent Director and Chairman*

Director for 13 years

Fraser has had over 28 years of experience in the resource and energy industries. Fraser spent 26 years with CSR Limited, mainly in CSR’s resources and energy business, including four years as Managing Director of Adelaide-based Delhi Petroleum Pty Ltd. Fraser left CSR in 1988 to become the Managing Director of the ASX listed SAGASCO Holdings Ltd, a position he held until 1994. Over this period SAGASCO’s market capitalisation increased from \$150 million to \$850 million. Previous Chairmanships include Bionomics Limited, the SA Generation Corporation (“SAGC”) and SAGC’s subsidiary, Synergen Pty Ltd (the SAGC Group comprised the then South Australian Government-owned electricity generators).

Fraser is a Non-Executive Director of Envestra Limited (an ASX listed company with a market capitalisation of over \$2.4 billion), and is Chairman of Tarac Australia Limited. Fraser holds a Bachelor of Commerce (UNSW).

Fraser is Chairman of the Board, Chairman of the Remuneration, Nomination and Disclosure Committees and a member of the Audit and Risk Management Committees.

<sup>40</sup> In October 2013, Horizon Oil entered into a farm-in agreement with Eaglewood Energy to acquire a further 20% participating interest in PPL 259.

**Brent Emmett**

*Executive Director and Chief Executive Officer*

Director for 14 years

Brent has had over 35 years of experience across the exploration, E&P management, and investment banking industries. Brent holds a Bachelor of Science (Honours) degree. After graduating from Adelaide University with a Bachelor of Science First Class Honours degree, majoring in Physics and Geophysics, Brent Emmett worked from 1974 to 1983 as an explorationist in Australia, PNG and New Zealand for Esso and Elf Aquitaine. Brent joined Ampolex Limited as Exploration Manager in 1983 and filled General Management roles in North and South America, International and Business Development, and was a member of the Executive Committee. During his tenure at Ampolex the market capitalisation of the company increased ten-fold to approximately \$1.6 billion.

From 1997 until 2001 Mr Emmett was Managing Director – Oil & Gas Advisory with the investment banking firm of CIBC World Markets. During this time he advised on acquisitions and divestments of oil and gas assets totalling about US\$900 million in value.

In October 2000 Brent was elected to the board of Bligh Oil and Minerals NL and in 2001 he founded an investor group, Oasis Energy Investments Pty Limited, which took a major stake in Bligh. In January 2002 Brent was appointed as CEO of the company, which subsequently changed its name to Horizon Oil Limited. Since then Brent has been actively engaged in building Horizon Oil's portfolio of international exploration, production and development assets.

Brent is a member of the Risk Management and Disclosure Committees.

**John Humphrey**

*Non-executive independent Director*

Director for 24 years

John Humphrey has over 20 years of legal experience as a commercial lawyer as a partner of King & Wood Mallesons specialising in corporate law. In 2013, John took up a position as the Executive Dean of the Faculty of Law at Queensland University of Technology. As a lawyer, John was ranked by three editions of the national independent commentary "Legal Profiles" as the leading corporate lawyer in Queensland. John has had extensive experience in a wide range of resources projects and commercial matters. John is a regular speaker on the conference circuit and has published numerous papers.

John is a director of Downer EDI Limited and Wide Bay Australia Limited and a former member of the Australian Takeovers Panel (from 2011-2014). John is a past president of the Queensland division of the Securities Institute of Australia and a former national vice-president of that organisation.

He was also a member of the Consultative Group appointed by the Commonwealth Attorney-General in relation to the simplification of the Corporations Law.

John is Chairman of the Audit Committee and a member of the Risk Management Committee.

**Gerrit J de Nys**

*Non-Executive Director*

Director for 7 years

Gerrit has 44 years' experience in civil engineering, construction, oil field contracting and natural resource investment management, mostly whilst based in Asia over a period in excess of 30 years.

Gerrit is an independent non-executive director of SOCAM Development Limited (HKSE stock code 983). Gerrit is the former group managing director-direct investments of the IMC Pan Asia Alliance Group (IMC) (a related party of Austral-Asia Energy Pty Ltd, a substantial shareholder of Horizon Oil) and although now based in Australia has a continuing non-executive involvement including directorships of subsidiaries of IMC and as chair of IMC's Audit Committee.

Gerrit is a former director of Red Sky Energy Limited, View Resources Limited, Ashton Coal Limited and LinQ Capital Limited.

Gerrit is a member of the Risk Management, Remuneration and Nomination Committees.

**Andrew Stock**

*Non-executive independent Director*

Director for 3 years

Andrew has over 36 years of development, operations and commercial experience in energy industries in Australia and overseas.

Andrew is a former Director, Executive Projects and Executive General Manager for Major Development Projects for Origin Energy Limited and is a former non-executive director of Geodynamics Limited. Andrew is a non-executive director of Silex Systems Limited, a Board Member of Alinta Holdings and the Clean Energy Finance Corporation and a member of the Engineering Faculty and Energy Advisory Boards at University of Adelaide.

Andrew is Chairman of the Risk Management Committee and a member of the Audit Committee and Remuneration and Nomination Committees.

## 10.5 HORIZON OIL HISTORICAL FINANCIAL INFORMATION

The following selected financial information for Horizon Oil is extracted from the audited consolidated financial statements of Horizon Oil for the years ended 30 June 2013 and 30 June 2012, and the reviewed consolidated financial statements of Horizon Oil for the six months ended 31 December 2013.

The financial information has been prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act. The financial information also complies with the recognition and measurement requirements of International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board. The audit and review opinions in these financial statements were issued by PricewaterhouseCoopers and were unqualified.

The financial information presented in the tables below does not represent complete financial statements and should therefore be read in conjunction with the financial statements for the respective periods, including the description of accounting policies contained in those financial statements and the notes to those financial statements. Where appropriate, adjustments have been made to headings and classifications of historical data to provide a consistent basis of presentation.

Except as set out in section 10.7 (*Update on Horizon Oil financial performance and financial position*), in the interval between the end of the half year to 31 December 2013 and the date of this Scheme Booklet, there has not arisen any item, transaction or event of a material and unusual nature likely, in the opinion of the Horizon Oil Directors, to significantly affect the operations of the Horizon Oil Group, the results of those operations, or the state of affairs of the Horizon Oil Group, in future financial years other than as disclosed in the 31 December 2013 half year financial statements and subsequent filings on ASX.

Horizon Oil Shareholders may view complete copies of the audited consolidated financial statements of Horizon Oil for the years ended 30 June 2013 and 30 June 2012 and the reviewed consolidated financial statements of Horizon Oil for the six months ended 31 December 2013 on the ASX website at [www.asx.com.au](http://www.asx.com.au) or on the "Investor Centre" section of the Horizon Oil website at [www.horizonoil.com.au](http://www.horizonoil.com.au).

Alternatively, Horizon Oil will give a copy of the financial report for the half-year ended 31 December 2013 free of charge to any registered Horizon Oil Shareholder who requests a copy prior to the Scheme being approved by the Court.

### A) HORIZON OIL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	FULL YEAR 30 JUNE 2012 (AUDITED) US\$'000	FULL YEAR 30 JUNE 2013 (AUDITED) US\$'000	HALF YEAR 31 DEC 2013 (REVIEWED) US\$'000
<b>Sales revenue</b>	<b>50,390</b>	<b>48,071</b>	<b>64,769</b>
Cost of sales	(16,935)	(22,685)	(49,710)
<b>Gross profit</b>	<b>33,455</b>	<b>25,386</b>	<b>15,059</b>
Other revenue/other income	72	30	143
General and administrative expenses	(8,110)	(7,038)	(3,203)
Exploration and development expenses	(303)	(606)	(4,176)
Finance costs	(5,974)	(8,209)	(8,584)
Unrealised movement in fair value of convertible bond conversion rights	4,967	991	2,791
Other expenses	(418)	(529)	(234)
<b>Profit before income tax expense</b>	<b>23,689</b>	<b>10,025</b>	<b>1,796</b>
NZ royalty tax (expense)/benefit	(7,270)	(3,982)	426
Income tax expense	(8,772)	(2,569)	(2,269)
<b>Profit/(loss) for the period</b>	<b>7,647</b>	<b>3,474</b>	<b>(47)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of cash flow hedges	(77)	(778)	(5,063)
<b>Total comprehensive income for the period</b>	<b>7,570</b>	<b>2,696</b>	<b>(5,110)</b>
Basic earnings per share – cents	0.68	0.31	–
Diluted earnings per share – cents	0.68	0.30	–

## B) HORIZON OIL CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 JUNE 2012 (AUDITED) US\$'000	30 JUNE 2013 (AUDITED) US\$'000	31 DEC 2013 (REVIEWED) US\$'000
<b>Current assets</b>			
Cash and cash equivalents	19,287	19,028	37,099
Receivables	14,966	18,956	22,223
Inventories	7,827	7,898	6,376
Derivative financial instruments	394	–	–
Current tax receivable	–	650	1,768
Other assets	4,515	832	567
<b>Total current assets</b>	<b>46,989</b>	<b>47,364</b>	<b>68,033</b>
<b>Non-current assets</b>			
Deferred tax assets	11,552	10,441	7,278
Plant and equipment	4,700	8,206	7,965
Exploration phase expenditure	77,658	92,538	112,761
Oil and gas assets	209,950	317,637	340,046
<b>Total non-current assets</b>	<b>303,860</b>	<b>428,822</b>	<b>468,050</b>
<b>Total assets</b>	<b>350,849</b>	<b>476,186</b>	<b>536,083</b>
<b>Current liabilities</b>			
Payables	42,683	40,150	44,893
Derivative financial instruments	–	1,237	4,915
Current tax payable	4,093	803	2
Borrowings	7,632	14,735	55,135
Restoration provision	–	–	10,689
<b>Total current liabilities</b>	<b>54,408</b>	<b>56,925</b>	<b>115,634</b>
<b>Non-current liabilities</b>			
Payables	974	21,253	21,143
Derivative financial instruments	294	–	1,003
Deferred tax liability	16,109	17,064	15,327
Borrowings	93,091	180,831	143,870
Other financial liabilities	18,428	17,436	14,645
Provisions	5,821	15,664	15,365
<b>Total non-current liabilities</b>	<b>134,717</b>	<b>252,248</b>	<b>211,353</b>
<b>Total liabilities</b>	<b>189,125</b>	<b>309,173</b>	<b>326,987</b>
<b>Net assets</b>	<b>161,724</b>	<b>167,013</b>	<b>209,096</b>
<b>Equity</b>			
Contributed equity	126,686	128,038	174,567
Reserves	7,421	7,884	3,485
Retained profits	27,617	31,091	31,044
<b>Total equity</b>	<b>161,724</b>	<b>167,013</b>	<b>209,096</b>



## C) HORIZON OIL CONSOLIDATED STATEMENT OF CASH FLOWS

	FULL YEAR 30 JUNE 2012 (AUDITED) US\$'000	FULL YEAR 30 JUNE 2013 (AUDITED) US\$'000	HALF YEAR 31 DEC 2013 (REVIEWED) US\$'000
<b>Cash flows from operating activities</b>			
Receipts from customers	46,174	43,144	67,950
Payments to suppliers and employees	(12,626)	(11,494)	(32,716)
	<b>33,548</b>	<b>31,650</b>	<b>35,234</b>
Interest received	64	24	140
Interest paid	(5,296)	(7,980)	(5,747)
Income and royalty taxes paid	(15,289)	(8,221)	(2,391)
<b>Net cash inflows from operating activities</b>	<b>13,027</b>	<b>15,473</b>	<b>27,236</b>
<b>Cash flows from investing activities</b>			
Payments for exploration phase expenditure	(53,732)	(29,732)	(26,602)
Payments for oil and gas assets	(25,211)	(94,756)	(28,290)
Payments for plant and equipment	(174)	(128)	(156)
Proceeds from deposit of sale of assets	–	20,400	–
Payments acquisition of exploration assets	–	(783)	–
<b>Net cash (outflows) from investing activities</b>	<b>(79,117)</b>	<b>(104,999)</b>	<b>(55,048)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	20	766	48,544
Payments for issue of shares	–	–	(2,269)
Proceeds from issue of Horizon Oil Convertible Bonds (net of transaction costs)	(965)	–	–
Proceeds from borrowings (net of transaction costs)	27,667	104,561	–
Repayment of borrowings	(5,867)	(15,877)	–
<b>Net cash inflows from financing activities</b>	<b>20,855</b>	<b>89,450</b>	<b>46,275</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(45,235)</b>	<b>(76)</b>	<b>18,463</b>
Cash and cash equivalents at the beginning of the period	64,572	19,287	19,028
Effects of exchange rate changes on cash and cash equivalents	(50)	(183)	(392)
<b>Cash and cash equivalents at the end of the period</b>	<b>19,287</b>	<b>19,028</b>	<b>37,099</b>

## 10.6 MANAGEMENT DISCUSSION

During the course of the half year ended 31 December 2013, Horizon Oil reported a loss of US\$47,000 compared with a loss of US\$6,777,000 in the previous corresponding half year. The half year result included a gross profit of US\$15,059,000 from Block 22/12 and Maari operations. During the half year, Horizon Oil's working interest share of production from the Beibu Gulf fields was 636,249 BBL. Crude oil sales were 594,097 BBL at an average price of US\$105.03/BBL. During the half year, Horizon Oil's working interest share of production from Maari and Manaia fields was 35,895 BBL. Crude oil sales were 48,509 BBL at an average effective price of US\$113.67/BBL. Production from Maari and Manaia fields were impacted by the shut-in of the fields from 21 July 2013 to 12 December 2013 to effect interim repair works on the FPSO Raroa.

Non-cash items impacting on the half year result included US\$17,921,000 in amortisation of production phase assets, a deferred income and royalty tax expense of US\$1,186,000, amortisation of the liability portion of the Horizon Oil Convertible Bonds of US\$2,923,000, a net gain of US\$2,791,000 arising from the unrealised movement in the value of Horizon Oil Convertible Bond conversion rights, exploration expenditure written off of US\$3,931,000 and US\$664,000 related to the value of Horizon Oil Options and Horizon Oil SARs granted to Horizon Oil employees.

Cash on hand at the end of the half year ended 31 December 2013 was US\$37,099,000. Cash flow during the half year was driven by proceeds from the US\$53.5 million rights issue completed during the period and operating cash flows from the Beibu and Maari fields which were used to fund the exploration and development expenditure program. Cash from operating activities was higher than the comparative period due predominately to the incremental revenues from the Beibu fields, despite reduced revenues from Maari following the shut-in of the field.

## 10.7 UPDATE ON HORIZON OIL FINANCIAL PERFORMANCE AND FINANCIAL POSITION

The following selected financial information for Horizon Oil is extracted from the unaudited Report on Third Quarter Activities to 31 March 2014 issued to ASX on 30 April 2014:

- i) Production for the third quarter to 31 March 2014 was 411,664 BBLs, an increase of 6.7% over the prior quarter. This comprised 88,340 BBLs from the Maari and Manaia Fields, offshore New Zealand; and 323,324 BBLs from Block 22/12, offshore China.
- ii) Production revenue for the third quarter to 31 March 2014 was US\$44.1 million (from the sale of 408,091 BBLs), an increase of 23% over the prior quarter.
- iii) Expenditure on exploration and development totalled US\$17.0 million for the third quarter to 31 March 2014.
- iv) Cash on hand at 31 March 2014 was US\$23.2 million following the repayment of US\$15.2 million of borrowings during that quarter. Restricted cash as at 31 March 2014 was US\$14.5 million – these cash balances are only available to the Horizon Oil Group after certain conditions are satisfied.

The following selected financial transactions for Horizon Oil have occurred since 31 March 2014:

### i) Osaka Gas Sale Agreement

On Friday 30 May 2014, the PDL 10 (formerly PRL 4) joint venture was awarded Petroleum Development Licence 10. Award of the PDL triggered completion of the Osaka Gas Sale Agreement. The sale resulted in the Horizon Oil Group transferring 40% of its interests in PDL 10 (formerly PRL 4) (Stanley Field), PRL 21 (Eleva and Ketu Fields) and PPL 259 to Osaka Gas Niugini Pty Ltd with the receipt of the remaining sale proceeds (~US\$54 million) and associated capital cost reimbursements (~US\$24 million) to the effective date of transfer (1 January 2013). Completion of the transaction also allowed for the US\$20.4 million letter of credit drawn under the Horizon Oil Facility Agreement to be extinguished, and the associated deposit sale proceeds (recorded in non-current payables as at 31 December 2013) to be recorded as revenue.

### ii) Horizon Oil Facility Agreement

Following achievement of financial completion of the Beibu Gulf Project in Block 22/12, China, the Horizon Oil Group renegotiated the terms of the Horizon Oil Facility Agreement (reserves based facility) during April 2014. The key amendments included a reduction in the overall facility limit from US\$160 million to US\$150 million with a deferral of the commencement of amortisation from 30 June 2014 until 31 December 2014 at which time the facility limit will reduce to US\$110 million.

## 10.8 HORIZON OIL CAPITAL STRUCTURE

### A) HORIZON OIL SECURITIES

As at Monday 30 June 2014 (being the last practicable date prior to finalisation of this Scheme Booklet), Horizon Oil has the following securities on issue:

- i) 1,301,981,265 Horizon Oil Shares quoted on ASX.
- ii) 1,500,000 Horizon Oil partly paid shares.
- iii) Horizon Oil Options exercisable over a maximum of 11,441,667 unissued Horizon Oil Shares. The tranches of these options are as follows:

EXERCISE PRICE	EXPIRY DATE	NUMBER OF HORIZON OIL SHARES WHICH OPTIONS CUMULATIVELY CONVERT INTO	VESTED	UNVESTED
A\$0.289	25 Sept 2014	5,525,000	5,525,000	–
A\$0.309	9 Oct 2014	2,700,000	2,700,000	–
A\$0.304	16 Sept 2015	350,000	350,000	–
A\$0.264	28 May 2017	1,666,667	1,000,001	666,666
A\$0.294	17 Sept 2017	500,000	166,667	333,333
A\$0.434	20 Feb 2018	350,000	–	350,000
A\$0.404	20 Feb 2018	350,000	–	350,000

- iv) General Horizon Oil Options exercisable over a maximum of 3,500,000 unissued Horizon Oil Shares. The tranches of these general options are as follows:

EXERCISE PRICE	EXPIRY DATE	NUMBER OF HORIZON OIL SHARES WHICH OPTIONS CUMULATIVELY CONVERT INTO	VESTED	UNVESTED
A\$0.344	11 Dec 2014	500,000	500,000	–
A\$0.209	10 Apr 2015	1,000,000	666,667	333,333
A\$0.264	27 Aug 2015	2,000,000	1,333,334	666,666

Note: 15,000,000 unlisted options with an exercise price of A\$0.364 expired on 30 June 2014.

- v) 31,281,639 Horizon Oil SARs, which on vesting, require the payment of cash or issue of Horizon Oil Shares. The maximum number of Horizon Oil Shares that may be issued on the exercise of Horizon Oil SARs is capped at 5% of the total number of Horizon Oil Shares. The tranches of these Horizon Oil SARs are as follows:

EXERCISE PRICE	EXPIRY DATE	NUMBER OF HORIZON OIL SARs	VESTING DATES
A\$0.3046	1 Oct 2015	6,693,828	From 1 Oct 2013
A\$0.3129	5 Aug 2016	6,478,276	From 5 Aug 2014
A\$0.2710	13 Aug 2017	9,561,936	From 13 Aug 2015
A\$0.3326	19 Aug 2018	8,547,599	From 19 Aug 2016

Under the Horizon Oil LTI Plan, the number of Horizon Oil SARs that vest is generally determined by reference to whether Horizon Oil achieves certain performance conditions. The number of Horizon Oil SARs that vest is determined by reference to Horizon Oil's total shareholder return ("TSR") over the relevant period relative to that of the S&P/ASX200 Energy Index ("Energy Index"). The number of Horizon Oil SARs that vest is:

- A) if Horizon Oil's TSR is equal to that of the Energy Index ("Minimum Benchmark"), 50%;
- B) if Horizon Oil's TSR is 14% or more above that of the Energy Index, 100% ("Maximum Benchmark"); and
- C) if Horizon Oil's TSR is more than the Minimum Benchmark but less than the Maximum Benchmark, a percentage between 50% and 100% based on Horizon Oil's TSR performance between the Minimum Benchmark and Maximum Benchmark.

The Maximum Benchmark of 14% above the Energy Index return equates to the performance level likely to exceed the 75th percentile of market returns of companies (weighted by company size) in the Energy Index.

Furthermore, even where these performance conditions are satisfied, the Horizon Oil SARs will not vest unless Horizon Oil achieves a TSR of at least 10% over the relevant period.

The performance conditions are tested on the date that is three years after the "Effective Grant Date" of the Horizon Oil SARs under the Horizon Oil LTI Plan, and are then re-tested every six months after that until the date that is five years after the "Effective Grant Date" of the Horizon Oil SARs (the final retesting date).

- vi) 400 Horizon Oil Convertible Bonds. The Horizon Oil Convertible Bonds are listed on the Singapore Securities Exchange, with BT Globenet Nominees Limited the registered holder of the global certificate for 100% of the Horizon Oil Convertible Bonds.

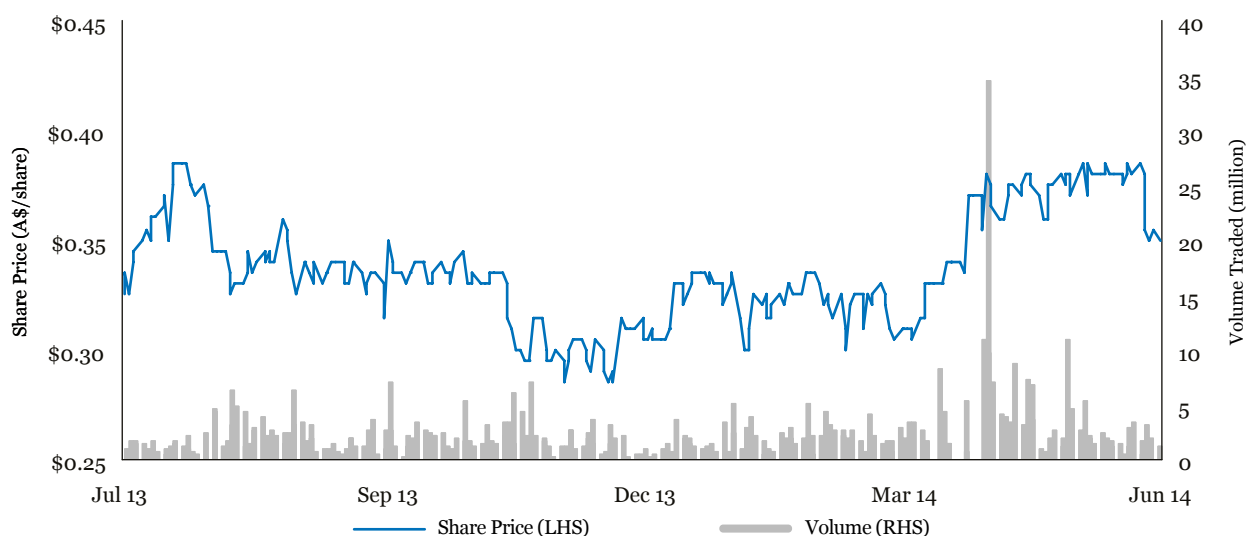
## 10.9 HORIZON OIL SUBSTANTIAL SHAREHOLDERS

As at Monday, 30 June 2014 (being the last practicable date prior to finalisation of this Scheme Booklet), Horizon Oil has been notified that the following persons hold 5%, or more, of Horizon Oil Shares:

NAME	NO. OF FULLY PAID ORDINARY SHARES HELD	% HELD OF ISSUED ORDINARY SHARES
Austral-Asia Energy Pty Limited as trustee for IMC Oil & Gas Investments Limited (formerly Triplex Global Ventures Limited), IMC Investments Ltd (BVI)	319,695,688	24.55
Commonwealth Bank of Australia	144,984,627	11.14
Tribeca Investment Partners Pty Ltd	68,387,994	5.25
<b>Total</b>	<b>533,068,309</b>	<b>40.94</b>

## 10.10 RECENT HORIZON OIL SHARE PRICE PERFORMANCE

The graph below shows the Horizon Oil Share price and the volume of Horizon Oil Shares traded for the twelve months to Monday, 30 June 2014 (being the last practicable date prior to finalisation of this Scheme Booklet).



As at Monday, 30 June 2014, being the last practicable date prior to finalisation of this Scheme Booklet:

- the last recorded trading price of Horizon Oil Shares was A\$0.350;
- the 10 day VWAP of Horizon Oil Shares was A\$0.373;
- the highest recorded trading price of Horizon Oil Shares in the previous three months was A\$0.390; and
- the lowest recorded trading price of Horizon Oil Shares in the previous three months was A\$0.300.

As at 23 April 2014, being the being the last day on which Horizon Oil Shares traded prior to announcement of the merger:

- the last recorded trading price of Horizon Oil Shares was A\$0.370;
- the 10 day VWAP of Horizon Oil Shares was A\$0.337;
- the highest recorded trading price of Horizon Oil Shares in the previous three months was A\$0.370; and
- the lowest recorded trading price of Horizon Oil Shares in the previous three months was A\$0.295.

## 10.11 HORIZON OIL DIVIDEND HISTORY

No dividends were paid or declared during or since the financial year ended 30 June 2013 or the half year ended 31 December 2013. No dividends have been recommended by the Horizon Oil Directors in respect of or since the half year ended 31 December 2013.

## 10.12 INTERESTS OF HORIZON OIL DIRECTORS

### A) INTERESTS IN HORIZON OIL SECURITIES

The Horizon Oil Directors' interests in Horizon Oil Securities as at the date of this Scheme Booklet are detailed in the table below.

DIRECTOR	HORIZON OIL SHARES
Fraser Ainsworth	4,010,375
Brent Emmett	18,902,607
John Humphrey	5,112,034
Andrew Stock	160,000
Gerrit de Nys	912,858

DIRECTOR	UNLISTED HORIZON OIL OPTIONS
Brent Emmett	5,700,000

DIRECTOR	UNLISTED HORIZON OIL SARs
Brent Emmett	12,681,745

Except as expressed in the tables above:

- there are no Horizon Oil Securities held by or on behalf of Horizon Oil Directors as at the date of this Scheme Booklet; and
- other than Gerrit de Nys exercising an option to take 500,000 fully paid ordinary shares on Monday 5 May 2014, there has been no dealing by any Horizon Oil Director in any Horizon Oil Securities or Roc Securities in the four months preceding the date of this Scheme Booklet.



## **B) RELEVANT INTERESTS IN ROC SECURITIES**

As at the date of this Scheme Booklet, no Horizon Oil Director has any Relevant Interests in any Roc Securities.

### **10.13 HORIZON OIL RELEVANT INTEREST IN ROC SECURITIES**

As at the date of this Scheme Booklet, Horizon Oil does not have a Relevant Interest in any Roc Securities.

Horizon Oil has not acquired or disposed of a Relevant Interest in any Roc security in the four months preceding the date of this Scheme Booklet.

### **10.14 NO PRE-TRANSACTION BENEFITS**

During the period of four months before the date of this Scheme Booklet, neither Horizon Oil nor any associate of Horizon Oil gave, or offered to give, or agreed to give, a benefit to another person which was likely to induce the other person, or an associate of the other person, to:

- i) vote in favour of the Scheme; or
- ii) dispose of Horizon Oil Shares,

and which will not be provided to all Scheme Participants under the Scheme.

#### **A) BENEFITS IN CONNECTION WITH RETIREMENT FROM OFFICE**

No payment or other benefit from Horizon Oil is proposed to be made or given to any director, company secretary or executive officer of Horizon Oil (or its Related Bodies Corporate) as compensation for the loss of, or as consideration for or in connection with his or her retirement from, office in Horizon Oil or any of its Related Bodies Corporate in connection with the Scheme other than in his or her capacity as a Horizon Oil Shareholder, or holder of a Horizon Oil Option or Horizon Oil SAR (as applicable).

Horizon Oil pays premiums in respect of a directors and officers (D&O) insurance policy for the benefit of the Horizon Oil Directors and executive officers.

#### **B) AGREEMENTS CONNECTED WITH OR CONDITIONAL ON THE SCHEME**

Except as disclosed in this Scheme Booklet:

- i) no Horizon Oil Director has any other interests in a contract entered into by Roc;
- ii) there are no contracts or arrangements between a Horizon Oil Director and any person in connection with or conditional upon the outcome of the Scheme; and
- iii) no Horizon Oil Director has a material interest in relation to the Scheme other than in their capacity as a securityholder as outlined in section 10.12 (*Interests of Horizon Oil Directors*).

### **10.15 FURTHER INFORMATION**

#### **A) CONTINUOUSLY DISCLOSING ENTITY**

As a company with securities quoted on the ASX and being a disclosing entity under the Corporations Act, Horizon Oil is subject to regular reporting and disclosure obligations. These obligations require Horizon Oil to announce price sensitive information as soon as it becomes aware of the information, subject to the exceptions for certain confidential information. Horizon Oil's recent ASX announcements are available from the Horizon Oil website at [www.horizonoil.com.au](http://www.horizonoil.com.au) and the ASX website at [www.asx.com.au](http://www.asx.com.au). It is intended that further announcements concerning developments at Horizon Oil will continue to be made on these websites after the date of this Scheme Booklet. Historical ASX announcements and copies of half-yearly and annual financial results (and accompanying releases) are also available from the Horizon Oil website at [www.horizonoil.com.au](http://www.horizonoil.com.au).

Copies of these documents will also be made available free of charge at any time before the Second Court Date on a request in writing to Horizon Oil's Company Secretary at [exploration@horizonoil.com.au](mailto:exploration@horizonoil.com.au).

## B) RECENT HORIZON OIL ANNOUNCEMENTS

The following table summarises announcements made to the ASX by Horizon Oil that may have affected share price movements over the period between 1 January 2014 and 2 July 2014:

DATE	EVENT
02/07/2014	Key Terms of Conditional Convertible Bondholder Offer
02/07/2014	Scheme of Arrangement Independent Experts Report
02/07/2014	Notice to Convertible Bondholders
01/07/2014	Lapse of Options
25/06/2014	ROC: ROC Confirms Receipt of Non Binding Indicative Proposal
25/06/2014	Horizon Oil Merger Update
23/06/2014	ROC: Response to Shareholder Queries Relating to the EGM
18/06/2014	Independent Technical Specialist's Report
18/06/2014	Shareholder Update
18/06/2014	UBS Conference Presentation
16/06/2014	ROC: Letter to Shareholders – Independent Expert's Report
16/06/2014	ROC: Independent Expert's Report
02/06/2014	Grant of Stanley Gas Project Development Licence
26/05/2014	Stanley PDL AFR Article
16/05/2014	Appendix 3B
08/05/2014	Macquarie Conference Presentation
08/05/2014	Roc: Letter to Shareholders
05/05/2014	Change of Director's Interest Notice
05/05/2014	Appendix 3B
02/05/2014	Change in substantial holding
02/05/2014	Becoming a substantial holder
30/04/2014	Quarterly Activities Report
29/04/2014	Merger Announcement – Investor Presentation
29/04/2014	Roc and Horizon Proposed Merger Announcement
24/04/2014	Trading Halt
16/04/2014	Ceasing to be a substantial holder
14/04/2014	Stanley Project Approval
10/04/2014	Trading Halt
28/03/2014	EnSCO 107 on its way to Maari
28/02/2014	2014 Half Year Results Presentation
28/02/2014	Half Year Accounts
28/02/2014	Maari Provisions Reserves Revision
10/02/2014	Change in substantial holding from CBA
31/01/2014	Quarterly Activities Report

Copies of the announcements listed above may be obtained from the ASX website at [www.asx.com.au](http://www.asx.com.au).

Further information about Horizon Oil is contained in electronic form on the Horizon Oil website at [www.horizonoil.com.au](http://www.horizonoil.com.au).



# 11. Profile of Roc



## 11.1 OVERVIEW OF ROC

Roc is an Australian-incorporated independent upstream oil and gas company with a presence in China, South East Asia, Australia and the United Kingdom. Roc operates across the full range of upstream business activities from exploration and appraisal to development and production delivery.

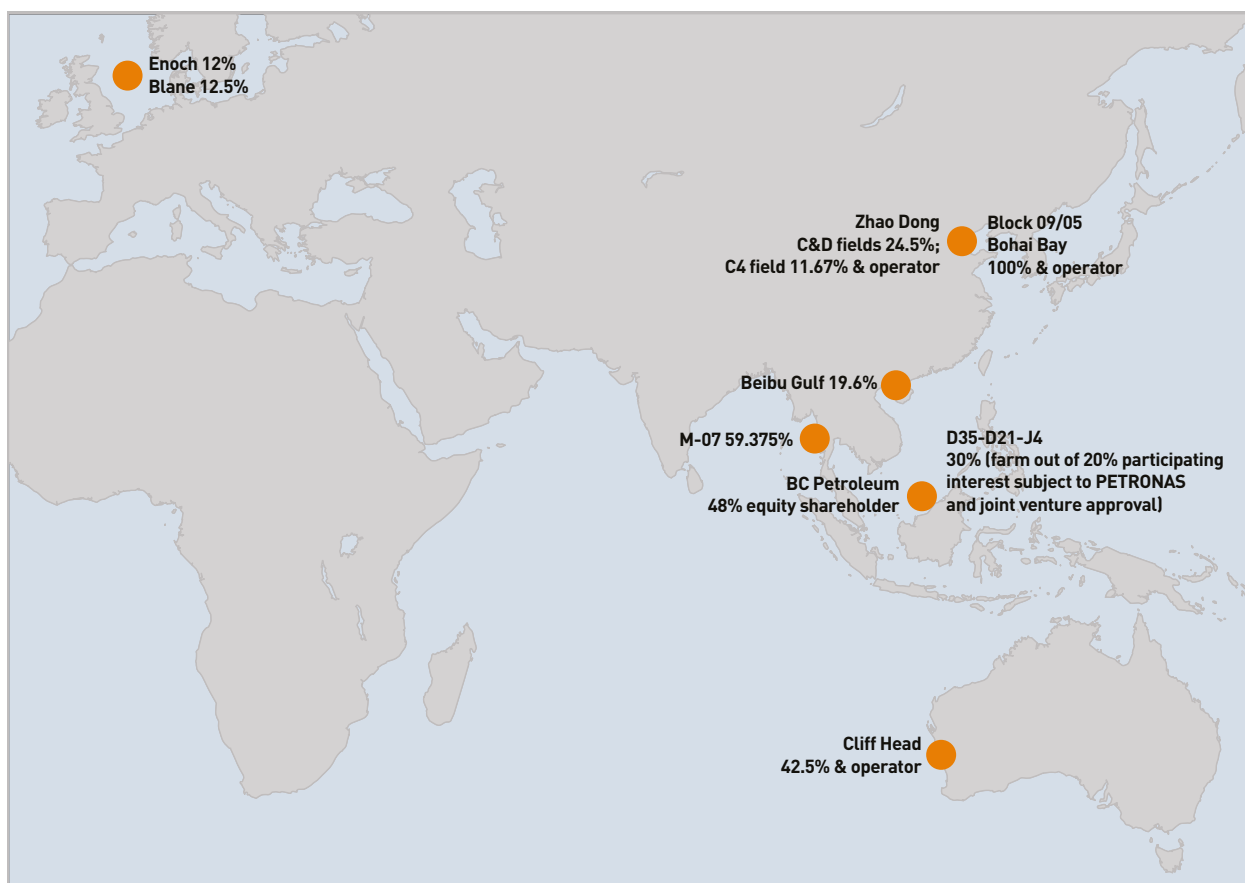
Roc was founded by Dr John Doran as a privately-owned company in late 1996 and was publicly listed on the ASX in 1999. As at the date of lodgement of this Scheme Booklet, Roc had 687,618,400 shares on issue and a market capitalisation of approximately A\$380 million.

Roc's total working interest production was 2.7 MMBOE for 2013 with total net 2P Reserves of 17.4<sup>41</sup> MMBOE. For the 12 month period ending 31 December 2013, Roc's net profit after tax was US\$45.2 million and net cash at 31 December 2013 totalled US\$65.1 million.

Roc's total working interest production for the quarter ended 31 March 2014 was 0.714 MMBOE (7,933 BOEPD) with total sales revenue of US\$75.4 million.

As at 31 December 2013, Roc has offices and facilities in China, Australia and Malaysia.

Roc's core asset portfolio is based in Australia, South East Asia and China and contains a mix of exploration, development and production assets as summarised in the table and map below.



<sup>41</sup> As at 1 January 2014, post D35/D21/J4 farm-in and BMG sale.



LOCATION	ASSET	FIELD & ROC INTEREST	ACTIVITY	OPERATOR STATUS	CY2013 NET PRODUCTION AND WORK PROGRAMME
China	Zhao Dong	<ul style="list-style-type: none"> <li>• C&amp;D Fields 24.5%;</li> <li>• C4 Fields 11.67%;<sup>42</sup></li> <li>• Chenghai and Zhanghai Blocks 39.2%<sup>43</sup></li> </ul>	Production	Operator <sup>44</sup>	1.5 MMBOE
	Block 09/05	100% <sup>45</sup>	Exploration	Operator	162 sq km seismic acquisition
	Beibu Gulf	<ul style="list-style-type: none"> <li>• WZ 6-12 40%/19.6%<sup>46</sup></li> <li>• WZ 12-8 40%/19.6%<sup>47</sup></li> </ul>	Production	Non-operator	0.6 MMBOE Production commenced March 2013
Malaysia	D35/D21/J4	30% <sup>48</sup>	Production	Non-operator	Roc farm-in effective 1 January 2014
	Balai Cluster	Risk service contractor 48% Balai, Bentara, West Acis, Spaoh	Appraisal, Development	BCP – Operator	–
Myanmar	Block M07 <sup>49</sup>	59.375%	Exploration	Operator	–
Australia	WA-31-L	Cliff Head 42.5%	Production	Operator	0.4 MMBOE
	L14	Jingemia 0.25%	Shut in	Non-operator	–
UK	Blane Oil Field	Blane 15.24%/12.5% <sup>50</sup>	Production	Non-operator	0.2 MMBOE
	Enoch Oil and Gas Field	Enoch 15%/12% <sup>51</sup>	Production	Non-operator	Offline during 2013, production expected to recommence mid 2014

## 11.2 OVERVIEW OF ROC'S ASSETS

### A) CHINA



<sup>42</sup> Unitised interest in producing field (pending final Joint Management Committee approval).

<sup>43</sup> Interest in field development post-government back-in.

<sup>44</sup> Petrochina has notified Roc of its intention to assume operatorship during 2015 subject to PC terms.

<sup>45</sup> Prior to government back-in.

<sup>46</sup> Interest in field development post-government back-in.

<sup>47</sup> Interest in field development post-government back-in.

<sup>48</sup> Intention to farm-out 20% participating interest subject to PETRONAS and joint venture approval.

<sup>49</sup> Subject to Roc Board approval and finalisation of terms with the MOE.

<sup>50</sup> Unitised interest in producing field.

<sup>51</sup> Unitised interest in producing field.

## i) Zhao Dong

Roc acquired its interest in the Zhao Dong Block, Bohai Bay in 2006. The asset now comprises three producing fields (the C, D and C4 Fields).

In March 2011, the existing PC covering the Zhao Dong Block was modified to include the adjacent Zhanghai and Chenghai Blocks with the aim of commercialising previous near field discoveries in the area and encouraging further exploration activity.

Key details of the Zhao Dong Block and Zhanghai and Chenghai Blocks are contained in the table below.

### Zhao Dong, Bohai Bay, offshore China

Operator <sup>52</sup>	Roc Oil (Bohai) Company
Roc Interest	24.5% <sup>53</sup> (C&D Fields); 11.667% <sup>54</sup> (C4 Field); 39.2% <sup>55</sup> (Zhanghai and Chenghai Blocks)
Joint venture partners and interests	Petrochina Company Limited: 51% <sup>56</sup> (C&D Fields); 76.666% <sup>57</sup> (C4 Field); 51% <sup>58</sup> (Zhanghai and Chenghai Blocks) New XCL-China LLC (Sinochem): 24.5% <sup>59</sup> (C&D Fields); 11.667% <sup>60</sup> (C4 Field); 9.8% <sup>61</sup> (Zhanghai and Chenghai Blocks)
1Q 2014 production rate	Gross: 16,492 BOPD Net to Roc: 3,803 BOPD
Net 2P Reserves as at 1 January 2014	3.7 MMBOE (21% of Roc's net 2P Reserves) (see section 11.3(e) ( <i>Reserves and resources methodology</i> ))
Production start-up	2003 (C&D Fields); 2008 (C4 unitised Field and extended reach area of C&D Fields)
Field facilities	Four bridge-linked platforms, two of which are for drilling and accommodation and two of which are for production and processing. The C4 Field unit facilities comprise a wellhead platform, utility platform and pipelines to the C&D Field platform for oil and gas processing. Oil and gas production is delivered to onshore refinery and gas sales by pipelines.

The C, D and C4 Fields in the Zhao Dong Block are currently producing and undergoing simultaneous continuous development. Since acquiring the asset, the Roc-led joint venture has drilled over 170 development wells in the Block, installed two platforms adjacent to the existing Zhao Dong platforms and installed new facilities at the C4 Field.

In 2013, net production to Roc from Zhao Dong was 1.5 MMBOE (4,017 BOEPD), comprising 55% of Roc's total production for 2013. Revenue from Zhao Dong in 2013 was US\$134.7 million with gross profit of US\$43.7 million net to Roc.

Development expenditure of US\$33.9 million (2012: US\$26.7 million) was incurred during the 2013 financial year and a total of eighteen wells were drilled during the period.

As at the date of this Scheme Booklet, Zhao Dong is Roc's largest operated asset, contributing approximately 48% of first quarter 2014 production, with 16,492 BOEPD (gross).

In 2013, Roc submitted an Incremental Development Plan (IDP) designed to achieve continuous development beyond 2018, being the end of the current licence term for the blocks. The IDP submitted to Petrochina Company Limited offers continuous economic development activities until 2023. The plan requires a licence extension beyond 2018 to 2023, and the IDP proposes a five-year extension and investment in the development facilities and wells required to maximise oil recovery from the fields.

<sup>52</sup> Petrochina has notified Roc of its intention to assume operatorship during 2015 subject to PC terms.

<sup>53</sup> Interest in field development post-government back-in.

<sup>54</sup> Unitised interest in producing field (pending final Joint Management Committee approval).

<sup>55</sup> Interest in field development post-government back-in.

<sup>56</sup> Interest in field development post-government back-in.

<sup>57</sup> Unitised interest in producing field (pending final Joint Management Committee approval).

<sup>58</sup> Petrochina Company Limited exercised option to back-in for 51% on any future commercial development following the successful drilling of H-1 effective 12 August 2011.

<sup>59</sup> Interest in field development post-government back-in.

<sup>60</sup> Unitised interest in producing field (pending final Joint Management Committee approval).

<sup>61</sup> Interest in field development post-government back-in.

## ii) Beibu Gulf

Production in the WZ 6-12 and WZ 12-8 West development areas in the Beibu Gulf in the South China Sea, offshore China commenced in March 2013 and all fifteen wells were online by August 2013.

Key details of the Beibu Gulf project are contained in the table below:

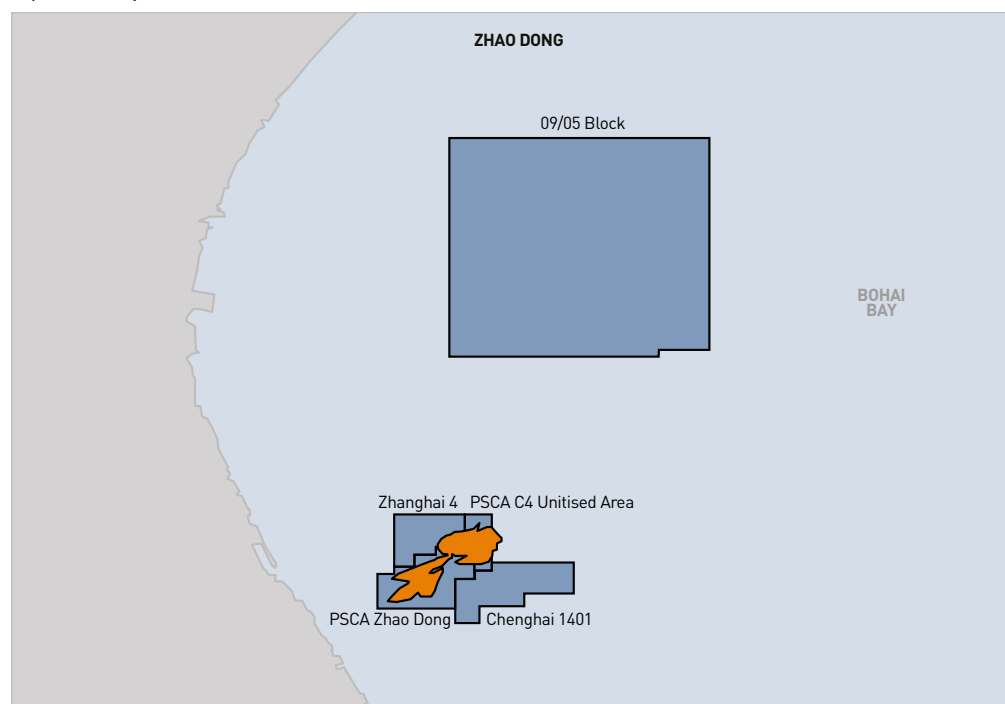
### WZ 6-12 and WZ 12-8, Beibu Gulf, offshore China

Operator	CNOOC Limited (development and production) Roc Oil (China) Company (exploration and appraisal)
Roc Interest	19.6% <sup>62</sup> (development and production); 40% (exploration and appraisal)
Joint venture partners and interests	CNOOC Limited: 51% (development and production) Horizon Oil (Beibu) Limited & Horizon Oil (Nanhai) Limited: 26.95% (development and production); 55% (exploration and appraisal) Oil Australia Pty Ltd (Majuko): 2.45% (development and production); 5% (exploration and appraisal)
1Q 2014 production rate	Gross: 13,330 BOPD Net to Roc: 2,613 BOPD
Net 2P Reserves as at 1 January 2014	4.7 MMBOE (27% of Roc's net 2P Reserves) (see section 11.3(e) ( <i>Reserves and resources methodology</i> ))
Production start-up	March 2013
Field facilities	Two wellhead platforms and one joint processing platform, which are connected by bridge to the CNOOC WZ 12-1A platform complex and utilise existing water injection and oil and gas export facilities.

The Beibu Gulf project produced 0.6 MMBOE net to Roc for the period from start-up in March 2013 to 31 December 2013, contributing 22% of total production in 2013. Revenues from the Beibu Gulf project totalled US\$57.2 million in the same period, offset by production costs of US\$10.92/BBL, providing an operating profit of US\$29.0 million. In the quarter ended 31 March 2014, the project produced 13,330 BOEPD (gross) and contributed approximately 33% to Roc's first quarter 2014 production.

There are two undeveloped oil accumulations in the retained development areas (WZ 12-8 E and WZ 12-3) with development feasibility studies in progress for WZ 12-8 E and an overall development plan under preparation. The Beibu team is currently reviewing further near field exploration potential which may lead to an early resumption of drilling within the Beibu Fields development area during 2014.

## iii) Block 09/05



<sup>62</sup> Interest in field development post government back in.

Roc's 100%<sup>63</sup> exploration interest in Block 09/05 in the Bohai Bay in offshore China was awarded in May 2012 and offers a series of significant oil exploration opportunities. Block 09/05 has gross acreage of 335 sq km and is located 15 km north of Roc's existing facilities at Zhao Dong.

In October 2013, Horizon Oil entered into a farm-in option agreement with Roc Oil (Bohai) Company in Block 09/05. Under the terms of the agreement, Horizon Oil had a right to farm into a 40% working interest in Block 09/05. Horizon Oil has elected not to exercise the option in light of the proposed merger with Roc.

The minimum work commitment for the first phase of the exploration period includes 3D seismic acquisition and the drilling of two exploration wells. Roc completed acquisition of 3D ocean bottom cable seismic in October 2013 and plans to drill the first exploration well in the second half of 2014.

## B) MALAYSIA



### i) D35/D21/J4

The D35/D21/J4 Fields are located on the continental shelf in the Sarawak Basin in offshore Eastern Malaysia, in water depths of approximately 50 metres. In April 2014, Roc announced a farm-in for a 50% participating interest in the D35/D21/J4 Fields which were previously 100% held and operated by PETRONAS Carigali Sdn Bhd. The farm-in agreement included amendments to the existing PSC effective from 1 January 2014 until 31 December 2034. The terms of this PSC are designed for field redevelopment and enhanced oil recovery to commercially encourage progressive incremental oil and associated gas development over the full life of the PSC for the project.

D35 is the largest of the three fields with the longest production history and represents a significant brownfield redevelopment project. Within the D35 Field boundary, there is evidence of significant appraisal and near-field exploration potential. J4 and D21 are satellite producing assets.

The Fields, particularly D35, contain material in-place oil and gas volumes, and overall field recovery is expected to benefit significantly from the introduction of secondary and tertiary recovery technologies. The fields provide a portfolio of Reserves plus Contingent and Prospective Resources, which when combined add to and extend the Reserves and resources life of Roc.

In addition, the project also offers exploration opportunities with one exploration well already under consideration for drilling in 2015.

In May 2014, Roc entered into a Letter of Intent to farm-out a 20% participating interest to Dialog Resources Sdn Bhd. The Dialog farm-in will reduce Roc's participating interest to 30%. The farm-out is subject to PETRONAS and joint venture approval and completion of documentation.

<sup>63</sup> The Chinese government (CNOOC) has the right to participate in up to 51% of any development.



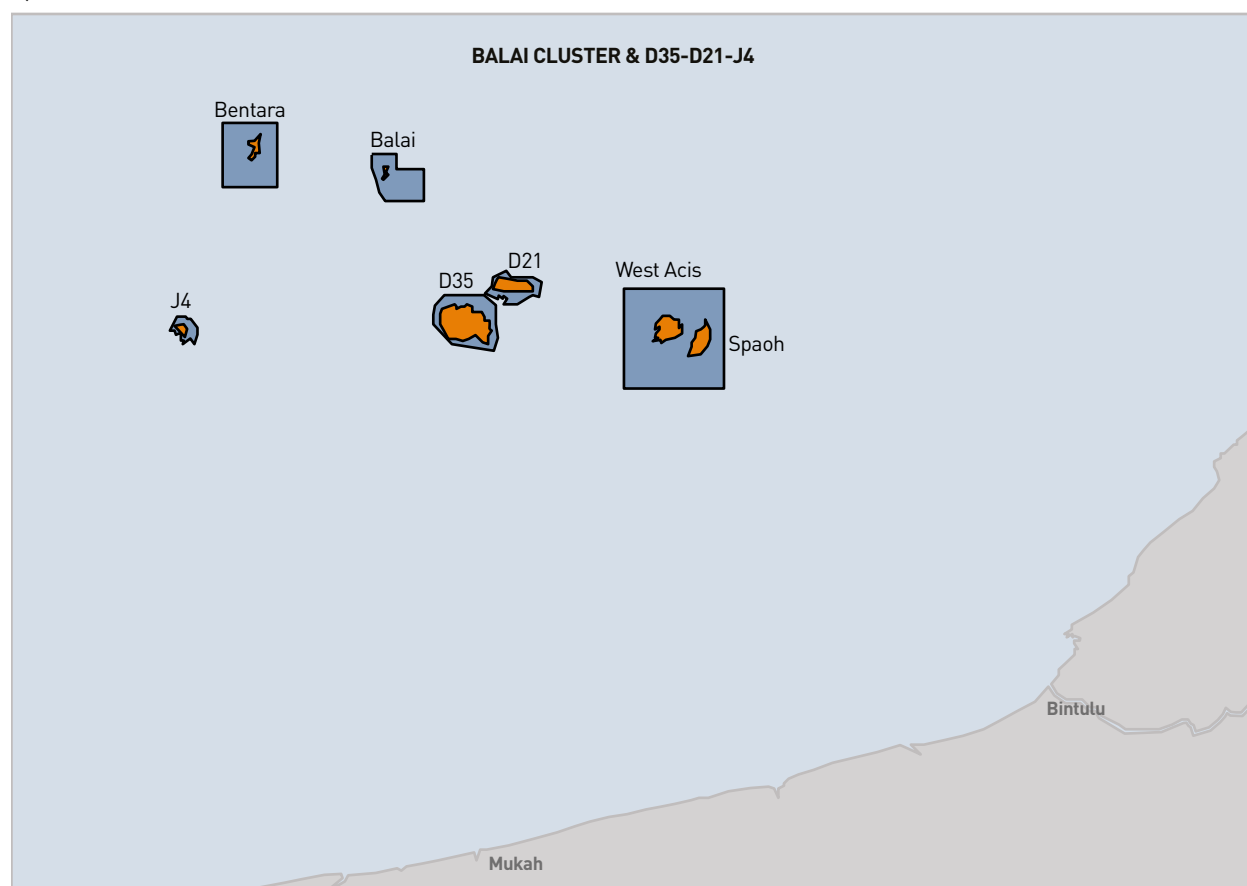
Key details of the D35/D21/J4 Fields are contained in the table below:

#### D35/D21/J4, offshore Sarawak Basin, Eastern Malaysia

Operator	PETRONAS Carigali Sdn Bhd
Roc Interest	50% <sup>64</sup>
Joint venture partners and interests	PETRONAS Carigali Sdn Bhd: 40% E&P Malaysia Venture Sdn Bhd: 10%
1Q 2014 production rate	–
Net 2P Reserves as at 1 January 2014	5.2 MMBOE (30% of Roc's net 2P Reserves) (see section 11.3(e) ( <i>Reserves and resources methodology</i> ))

The project is being delivered by an integrated project team comprising personnel from Roc and PETRONAS Carigali Sdn Bhd. PETRONAS Carigali Sdn Bhd continues to be the operator of the relevant PSC and retains responsibility for operations and maintenance of the facilities. Roc has been appointed project development manager, responsible for subsurface management, well engineering, new facilities projects and redevelopment project execution.

#### ii) Balai Cluster



The Balai Cluster Risk Service Contract (Balai Cluster RSC) is a cluster of marginal oil and gas fields (Balai, Bentara, West Acis and Spaoh) located in the Sarawak Basin in offshore Malaysia, in water depths of approximately 50-60 metres. PETRONAS entered into the Balai Cluster RSC on 16 August 2011 with a contractor group comprising Roc Oil Malaysia (Holdings) Sdn Bhd, DIALOG Group and PETRONAS Carigali Sdn Bhd. PETRONAS Carigali's interest was subsequently transferred to a wholly owned subsidiary, E&P Malaysia Solutions Co Sdn Bhd. A joint venture company, BC Petroleum Sdn Bhd (BCP), was created to appraise and develop the fields within the RSC.

<sup>64</sup> Farm-out of 20% participating interest subject to PETRONAS and joint venture approval.

Key details of the Balai Cluster RSC are contained in the table below:

**Balai Cluster RSC, offshore Sarawak Basin, Malaysia**

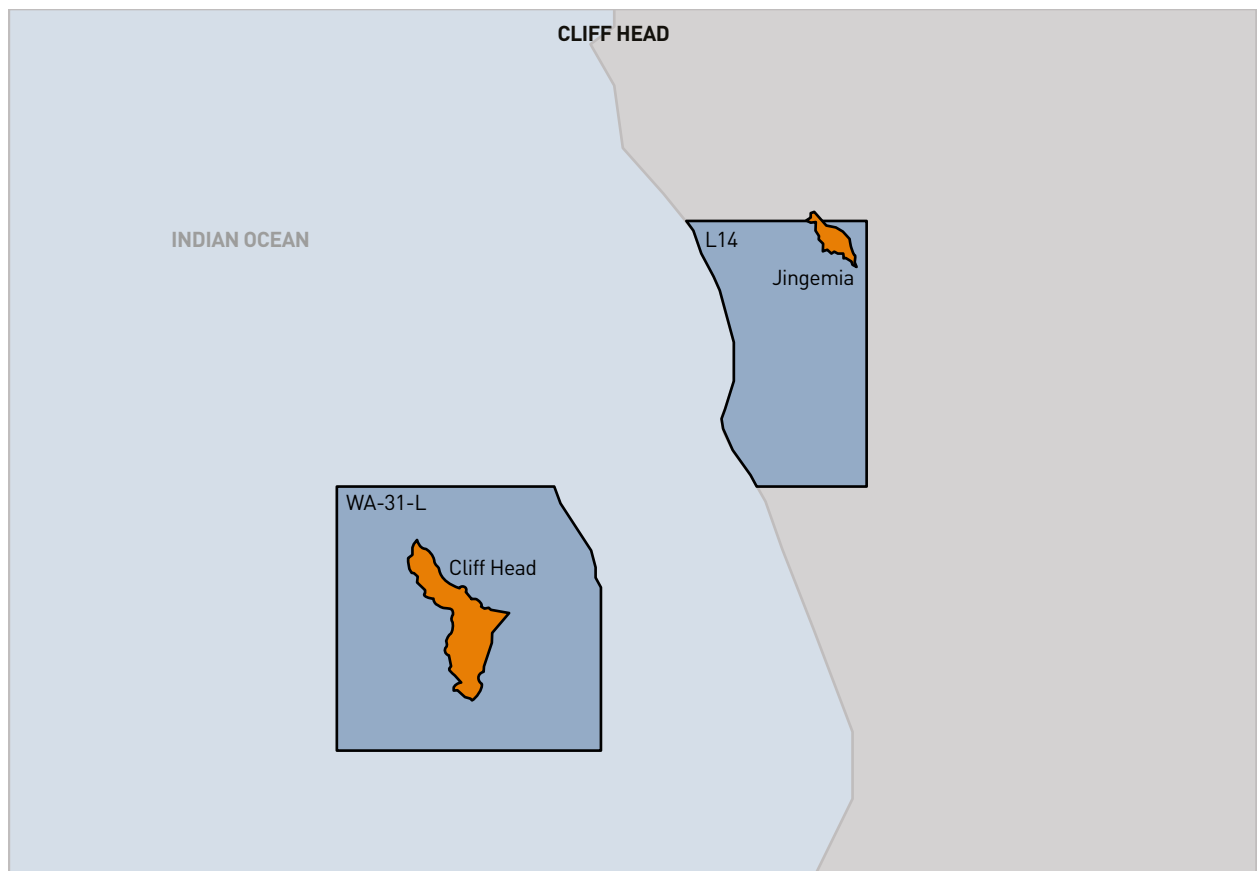
Operator	BC Petroleum Sdn Bhd
Roc Interest	48%
Joint venture partners and interests	Dialog D & P Sdn Bhd: 32% E&P Malaysia Solutions Co Sdn Bhd: 20%

A FDP for the Bentara Field, within the Balai Cluster RSC, was approved by PETRONAS in March 2014. The FDP is designed to deliver early production utilising the existing wells and facilities established during the pre-development phase, including Bentara-2 and Bentara-3 wells, Bentara well head platform and the early production vessel.

At 31 December 2013, Roc’s investment in BCP of \$67 million (net) was assessed as discounted cash flow of the future reimbursements under the RSC over the next two years.

First commercial oil production from the Bentara Field is expected to commence during the second quarter of 2014.

**C) AUSTRALIA**



Roc’s only producing asset in Australia is the Cliff Head Oil Field in production licence WA-31-L in the offshore Perth Basin, approximately 10 km offshore Western Australia. The Cliff Head Oil Field is currently the only commercial oil discovery in the offshore Perth Basin. The Cliff Head Oil Field, which is in 15-20 metres of water, is operated by Roc and was discovered, appraised and developed by Roc as operator, together with its current and former co-venturers.

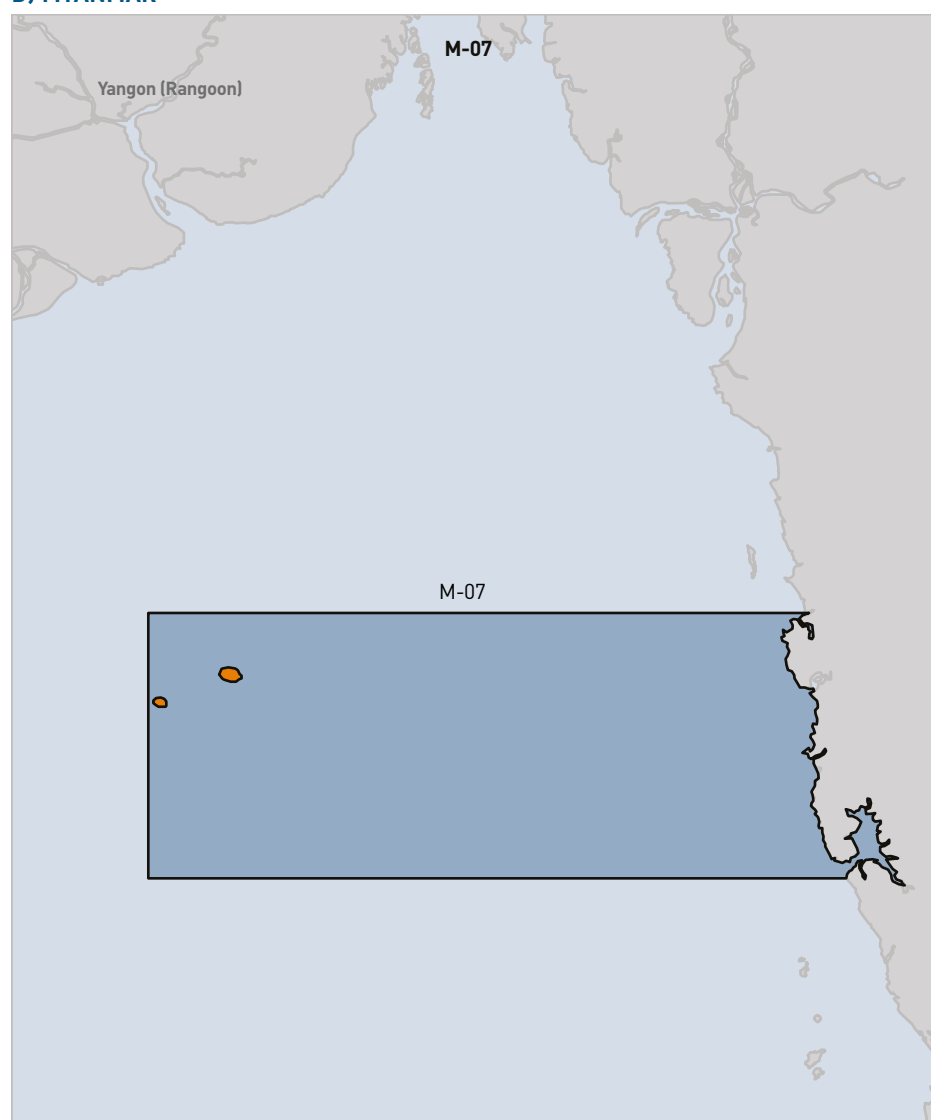
Key details of the Cliff Head Oil Field are contained in the table below:

**Cliff Head Oil Field, WA-31-L, offshore Perth Basin, Western Australia**

Operator	Roc Oil (WA) Pty Limited
Roc Interest	42.5%
Joint venture partners and interests	AWE Limited (via subsidiaries): 57.5%
1Q 2014 production rate	Gross: 2,224 BOPD Net to Roc: 945 BOPD
Net 2P Reserves as at 1 January 2014	2.2 MMBOE (13% of Roc's net 2P Reserves) (see section 11.3(e) ( <i>Reserves and resources methodology</i> ))
Production start-up	May 2006
Field facilities	Jack-up installed unmanned platform, connected by two 14 km pipelines to an onshore stabilisation plant at Arrowsmith. Production is processed at the onshore crude stabilisation plant and trucked 350 km to the BP refinery at Kwinana. The oil is sold to BP under a term contract covering the life of the Field at a price linked to regional crude oil prices.

The Cliff Head Oil Field is now considered to be a mature producing asset and continues to perform in line with expectations. The Field produced 0.4 MMBOE (1,061 BOEPD net to Roc) in the 12 months to 31 December 2013. In the same period, revenue from Cliff Head was US\$41.1 million.

**D) MYANMAR**



Block Mo7 is located in the gas and condensate prone Moattama Basin, offshore Myanmar in water depths of between 15-50 metres at the mouth of the Irrawaddy Delta. The block is 13,000 sq km in size and is situated 160 km east of the 6.5 TCF Yadana Field and 110 km north east of the 1.5 TCF Zawtika Field.

In 2013, after pre-qualifying for the Myanmar offshore licensing round, Roc submitted bids for two offshore shallow water blocks, including Block Mo7. In March 2014, Roc was notified by the Myanmar Ministry of Energy (MOE) of the successful award of a PSC for Block Mo7.

The PSC award is subject to finalisation of terms with the MOE and Roc Board approval which is anticipated to occur in the second half of 2014. Roc will hold a 59.375% interest and operate the licence on behalf of the joint venture participants, Tap Oil Limited and Smart E&P International Co. Ltd. The block award includes a provision for the joint venture to undertake an 18 month Environmental Impact Assessment and Study Period, following which it has an option to proceed into a three year exploration work programme.

## E) UNITED KINGDOM

Roc has non-operated interests in the trans-median (UK-Norway) Blane Oil Field and the Enoch Oil and Gas Field in the North Sea.

### i) Blane Oil Field

Roc purchased a 15.24% interest in the licence containing the UK portion of the undeveloped Blane Oil Field in 1999 and currently holds a 12.5% interest in the unitised field which extends into the Norwegian sector. Roc's annual working interest in oil production from the Blane Oil Field was 0.2 MMBOE to 31 December 2013. The Blane Oil Field contributed 8% of Roc's total production for 2013 and revenue of US\$18.1 million.

Key details of the Blane Oil Field are contained in the table below:

#### Blane Oil Field, P111-Block 30/3a (Upper), North Sea

Operator	Talisman Energy Norge AS (Field Operator) Talisman Sinopec Energy (UK) Limited (Wells Operator)
Roc Interest	12.5% unitised; 15.24% un-unitised
Joint venture partners and interests	Talisman Energy Norge AS – Field Operator: 18% Talisman Sinopec Energy (UK) Limited – Wells Operator: 25% Dana Petroleum (BVUK) Limited: 12.5% Faroe Petroleum (UK) Limited: 18% JX Nippon Exploration and Production (UK) Limited: 14%
1Q14 production rate	Gross: 4,385 BOPD Net to Roc: 548 BOPD
Net 2P Reserves as at 1 January 2014	1.3 MMBOE (7% of Roc's net 2P Reserves) (see section 11.3(e) ( <i>Reserves and resources methodology</i> ))
Production start-up	September 2007
Field facilities	Two horizontal production wells with gas lift and one water injection well tied back to BP-operated Ula platform located in the Norwegian continental shelf (approximately 34 km to the northeast).



## ii) Enoch Oil and Gas Field

The Enoch Oil and Gas Field has been shut in since 29 January 2012 due to mechanical issues in subsea equipment. Restoration works were completed in the first quarter of 2014 and production is expected to resume in mid-2014.

Key details of the Enoch Oil and Gas Field are contained in the table below:

### Enoch Oil and Gas Field, P219-Block 16/13a&e, North Sea

Operator	Talisman Sinopec North Sea Limited
Roc Interest	12% unitised; 15% un-unitised
Joint venture partners and interests	Talisman Sinopec North Sea Limited – Operator: 25.2% Dana Petroleum (BVUK) Limited: 20.8% Endeavour Energy UK Limited: 8% First Oil Expro Limited: 14% Statoil Petroleum AS: 11.78% Noreco Oil AS: 4.36% DetNorske AS: 2% Faroe Petroleum AS: 1.86%
1Q14 production rate	–
Net 2P Reserves as at 1 January 2014	0.3 MMBOE (2% of Roc's net 2P Reserves) (see section 11.3(e) ( <i>Reserves and resources methodology</i> ))
Production start-up	May 2007
Field facilities	One subsea production well with gas lift capability tied back to the Marathon Oil Corporation-operated Brae-A platform located on the United Kingdom continental shelf (approximately 15 km to the southwest).

## 11.3 ROC'S RESERVES AND RESOURCES STATEMENT

### A) ECONOMIC INTEREST RESERVES BY ASSET

	1P DEV OIL (MMBBL)	IP UNDEV OIL (MMBBL)	IP DEV GAS (BCF)	IP UNDEV GAS (BCF)	IP TOTAL BOE (MMBOE)	2P DEV OIL (MMBBL)	2P UNDEV OIL (MMBBL)	2P DEV GAS (BCF)	2P UNDEV GAS (BCF)	2P TOTAL BOE (MMBOE)
Zhao Dong	2.2	0.6	0.5	0.2	2.9	2.4	1.2	0.6	0.3	3.7
Beibu	3.9	0.0	0.0	0.0	3.9	4.7	0.0	0.0	0.0	4.7
Cliff Head	1.4	0.0	0.0	0.0	1.4	2.2	0.0	0.0	0.0	2.2
Blane	0.7	0.0	0.1	0.0	0.7	1.3	0.0	0.1	0.0	1.3
Enoch	0.2	0.0	0.0	0.0	0.2	0.3	0.0	0.0	0.0	0.3
D35/D21/J4 <sup>65</sup>	0.9	2.0	2.7	2.0	3.7	1.4	2.6	3.7	3.2	5.2
<b>Closing Balance 1 Jan 14</b>	<b>9.3</b>	<b>2.6</b>	<b>3.3</b>	<b>2.2</b>	<b>12.8</b>	<b>12.3</b>	<b>3.8</b>	<b>4.4</b>	<b>3.5</b>	<b>17.4</b>

### B) ECONOMIC INTEREST RESERVES AND RESOURCES BY REGION

	2P		2C		BEST ESTIMATE PROSPECTIVE RISKED RESOURCE		
	MMBOE	OIL MMBBL	GAS BCF	MMBOE	OIL MMBBL	GAS BCF	MMBOE
Malaysia	5.2	22.1	10.3	23.9	7.2	0.0	7.2
China	8.4	5.5	1.0	5.7	31.5	1.3	31.7
Australia	2.2	2.3	–	2.3	0.5	–	0.5
UK	1.6	0.9	5.6	1.8	0.0	0.0	0.0
<b>Closing Balance 1 Jan 14</b>	<b>17.4</b>	<b>30.8</b>	<b>16.9</b>	<b>33.7</b>	<b>39.2</b>	<b>1.3</b>	<b>39.4</b>

<sup>65</sup> Assuming Roc has 30% participating interest following farm-out of 20% participating interest (subject to regulatory approval).

The estimated quantities of petroleum that may potentially be recovered by the application of future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further appraisal is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

### C) RECONCILIATION OF ECONOMIC INTEREST RESERVES

	1P DEVELOPED AND UNDEVELOPED			2P DEVELOPED AND UNDEVELOPED		
	OIL (MMBBL)	GAS (BCF)	BOE (MMBOE)	OIL (MMBBL)	GAS (BCF)	BOE (MMBOE)
<b>Opening Balance 31 Dec 2013 (economic interest)</b>	9.0	0.8	9.1	12.1	1.0	12.2
D35/D21/J4 (economic interest)	2.9	4.7	3.7	4.1	6.9	5.2
<b>Closing Balance 1 Jan 2014 (economic interest)</b>	<b>11.9</b>	<b>5.5</b>	<b>12.8</b>	<b>16.2</b>	<b>7.9</b>	<b>17.4</b>

### D) RECONCILIATION OF ECONOMIC INTEREST RESOURCES

	2C BOE (MMBOE)	BEST ESTIMATE PROSPECTIVE RISKED RESOURCES <sup>66</sup> (MMBOE)
<b>Opening Balance 31 Dec 13</b>	23.6	37.8
D35/D21/J4 (economic interest)	23.9	7.2
Beibu 12-8 East <sup>67</sup>	0.8	0.6 <sup>68</sup>
BMG Sale <sup>69</sup>	(14.6)	(6.2)
<b>Closing Balance 1 Jan 2014 (economic interest)</b>	<b>33.7</b>	<b>39.4</b>

### E) RESERVES AND RESOURCES METHODOLOGY

The deterministic method has been used to compile Reserve and Contingent Resource estimates and the probabilistic method has been used to compile Prospective Resource estimates. The aggregate 1P Reserve may be a very conservative estimate and the aggregate 3P Reserve may be a very optimistic estimate due to the portfolio effects of arithmetic summation. Prospective Resources have been adjusted for risk using the chance of discovery.

Estimates of Reserves are reported net of lease fuel. The reference point used for the purposes of measuring and assessing the estimated Reserves is the sales point.

Roc has put in place an Estimation and Reporting of Reserves and Resources Guideline which sets out the governance arrangements and internal controls regarding the reported estimates of petroleum Reserves and resources and the estimation process to apply at Roc. The guideline provides for an annual review of all Reserves and resources by the Roc Chief Reservoir Engineer (Roc CRE) and for an annual audit covering all material assets over a rolling three year period.

All audits are undertaken by independent third party resource evaluators and are overseen by the Roc CRE who is a petroleum Reserves and resources evaluator qualified in accordance with ASX Listing Rule requirements. No public reporting of any Reserves or resources estimate is permitted without the sign off in by the Roc CRE and the approval of the Roc Chief Executive Officer. All public reporting of the Reserves or resources estimates is in accordance with the requirements set out in Chapter 5 of the ASX Listing Rules and the Roc Continuous Disclosure Policy.

The Roc Reserves, Contingent Resources and Prospective Resources reported in this section 11.3 (Roc's Reserves and resources statement) were estimated, reviewed and audited in accordance with the Roc Estimation and Reporting of Reserves and Resources Guideline.

The Reserves, Contingent Resources and Prospective Resources estimates used in this section are supported by Bill Billingsley's (CRE and full-time employee of Roc) statement contained in section 1 (Important notices).

<sup>66</sup> This is Roc's initial assessment of estimated prospective risked resources and will be revised during phase 1 & 2.

<sup>67</sup> Updated as at 30 May 2014.

<sup>68</sup> Subject to approval of licence boundary extension.

<sup>69</sup> Subject to regulatory approval.

## 11.4 CHIEF EXECUTIVE OFFICER

Mr Alan Linn, the current Chief Executive Officer of Roc, has agreed to continue with the Merged Group in the role of President of Roc Oil Malaysia until April 2015. The revised terms of Mr Linn's employment are subject to further negotiation and have not been agreed as at the date of this Scheme Booklet.

## 11.5 ROC'S DIRECTORS

Brief profiles of the Roc Directors as at the date of this Scheme Booklet are set out below.

### **Mr Richard ('Mike') Harding**

*Independent Non-Executive Director and Chairman*

Director for 2 years

Mr Harding is the Chairman of Downer EDI Limited and a non-executive Director of Transpacific Industries Group Ltd. Mr Harding is the former Chairman of Clough Limited (2006-2010) and a former non-executive Director of Arc Energy Limited (2003-2007) and Santos Limited (2004-2014). Mr Harding holds a Master of Science degree and had a 25 year career at BP PLC between 1978 and 2003. He held various project and business management positions at BP PLC, which provided upstream sector experience in the United Kingdom, South Korea, Western Australia, former USSR Republics, PNG, Malaysia and Thailand. His final position at BP PLC was as President and General Manager of BP Exploration Australia and Chief Executive Officer of BP Developments Australia Pty Limited. Mr Harding is a former Vice-Chairman and council member of the Australian Petroleum Production and Exploration Association.

During 2013, Mr Harding was the Chair of the Remuneration Committee of Roc and a member of the Nomination Committee and the Audit and Risk Committee. In addition to being Chairman of the Roc Board, Mr Harding is currently the Chair of the Nomination Committee and a member of the Remuneration Committee, the Audit and Risk Committee and the Health, Safety and Environment Committee.

### **Mr Alan Linn**

*Executive Director*

Director for 2 years

Mr Linn joined Roc in January 2008 as Asset Manager – Africa and in October 2008 was appointed Chief Operating Officer. Mr Linn was appointed as Acting Chief Executive Officer on 29 October 2010 and was appointed as Chief Executive Officer on 23 February 2011. Mr Linn is a chartered chemical engineer with 35 years of international operational and joint venture management experience in both the upstream and downstream oil sectors.

Mr Linn spent 15 years working with ExxonMobil in both downstream and upstream assignments in the UK and USA before moving into the independent E&P oil sector working internationally for LASMO, Cairn Energy and Tullow in senior operational and business management roles. Before joining Roc, Mr Linn was Operations Director for African Arabian Petroleum, a privately owned E&P company headquartered in Dubai. Based in Tunisia, Mr Linn was responsible for all operational and engineering activities within the business' African focused portfolio.

### **Mr Nigel Hartley**

*Independent Non-Executive Director*

Director for 2 years

Mr Hartley is a non-executive director of High Peak Royalties Limited and a former non-executive director of Austin Exploration Limited. Mr Hartley holds a degree in economics, is a Fellow of the Institute of Chartered Accountants in England and Wales, and had a 20 year career at Oil Search Limited between 1991 and 2011, during which time he held various senior financial and executive general manager positions (including 12 years as Chief Financial Officer). His final position at Oil Search Limited was as Executive General Manager Sustainability. Prior to his career at Oil Search Limited, Mr Hartley held financial positions at Rio Tinto and Niugini Mining and was a manager with the accounting and audit firm Peat, Marwick, Mitchell & Co.

Mr Hartley is Chair of the Audit and Risk Committee and the Remuneration Committee and is a member of the Nomination Committee.

### **Mr Christopher Hodge**

*Independent Non-Executive Director*

Director for 3 years

Mr Hodge is a qualified geologist and petroleum geophysicist with extensive experience both in Australia and overseas. In addition to a variety of senior technical roles, he has held managerial positions in major petroleum exploration and production companies and played significant roles in substantially growing their asset bases through a mix of exploration and acquisition. Mr Hodge was Managing Director of ASX-listed Adelphi Energy Limited and is currently a director of ASX-listed Xstate Resources Limited and the E&P Advisor to Mitsubishi in Australia. He is a member of the Petroleum Exploration Society of Australia and the American Association of Petroleum Geologists and holds a Graduate Diploma in Applied Finance and Investment.

Mr Hodge is Chair of the Health, Safety and Environment Committee.

**Mr Robert Leon**

*Independent Non-Executive Director*

Director for 5 years

Mr Leon is a French national with over 30 years of experience in business and government administration. From 2002 until the merger with Roc in 2008, Mr Leon was a non-executive director of Anzon Energy Pty Limited (formally Anzon Energy Limited) and from 2006 until the takeover by Roc, he was a non-executive Director of Roc Oil (VIC) Pty Limited (formerly Anzon Australia Pty Limited). In 1996, Mr Leon co-founded Qualis, a diversified industrial group based in France, of which he is a co-manager. He was Chief Executive Officer of Arnault Group between 1986 and 1997, during which time he managed numerous strategic acquisitions, disposals and financial transactions. Prior to a career in business, Mr Leon held several positions in French Government administration. He holds degrees in political science and economics, and is a graduate of Ecole Nationale d'Administration in France. Mr Leon was formerly a Director of the Mandarin Oriental Hotel Group.

Mr Leon is a member of the Audit and Risk Committee.

**Mr Graham Mulligan**

*Independent Non-Executive Director*

Director for over 3 years

Mr Mulligan is the principal of International Infrastructure Ventures Pty Ltd, an independent consulting company which specialises in providing advisory services to major projects in infrastructure, transport, resources and petroleum. He holds both science and accountancy qualifications and has considerable experience as a senior executive in the international petroleum, infrastructure, transport and resources industries. This included over 16 years with the listed New Zealand Oil & Gas Limited Group as both a Director and senior executive. Mr Mulligan has held a number of other senior executive roles, including Chief Executive Officer of Port of Brisbane Corporation and Managing Director of Port Wellington Limited. He is a former Chairman of the Petroleum Exploration Association of New Zealand, is currently a director of Chalmers Limited and has held director roles with other listed companies.

Mr Mulligan is a member of the Remuneration Committee, the Nomination Committee and the Audit and Risk Committee.

## 11.6 ROC HISTORICAL FINANCIAL INFORMATION

The selected statement of comprehensive income information contained below for Roc is extracted from the audited consolidated financial statements of Roc for the years ended 31 December 2013, 31 December 2012 and 31 December 2011. The selected statement of financial position and statement of cash flows information contained below for Roc is extracted from the audited consolidated financial statements of Roc for the years ended 31 December 2013 and 31 December 2012.

The financial information has been prepared in accordance with the recognition and measurement requirements of Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act. The financial information also complies with the recognition and measurement requirements of International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board. The audit opinions in these financial statements were issued by Ernst & Young and were unqualified.

The financial information presented in the tables below does not represent complete financial statements and should therefore be read in conjunction with the financial statements for the respective periods, including the description of accounting policies contained in those financial statements and the notes to those financial statements. Where appropriate, adjustments have been made to headings and classifications of historical data to provide a consistent basis of presentation.

Except as set out in section 11.8 (*Update on Roc financial performance and financial position*), in the interval between the end of the year ending 31 December 2013 and the date of this Scheme Booklet, there has not arisen any item, transaction or event of a material and unusual nature likely, in the opinion of the Roc Directors, to significantly affect the operations of the Roc Group, the results of those operations, or the state of affairs of the Roc Group, in future financial years other than as disclosed in the 31 December 2013 full year financial statements and subsequent filings on ASX.

Roc Shareholders may view complete copies of the audited consolidated financial statements of Roc for the years ending 31 December 2013, 31 December 2012 and 31 December 2011 on ASX's website at [www.asx.com.au](http://www.asx.com.au) or on the Roc website at [www.rocoil.com.au](http://www.rocoil.com.au).

## A) ROC CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2013 US\$'000	2012 US\$'000	2011 US\$'000
<b>Sales revenue</b>	<b>250,995</b>	<b>242,067</b>	<b>285,831</b>
Operating costs	(154,889)	(135,917)	(177,864)
<b>Gross profit</b>	<b>96,106</b>	<b>106,150</b>	<b>107,967</b>
Other income	189	3,967	193
Gain on sale of exploration and development assets	8,000	10,315	40
Net derivative losses	–	(878)	(13,140)
Exploration expensed and written off	(16,537)	(18,081)	(13,548)
Reversal of prior period impairment of oil and gas assets	–	–	18,633
Provision for restoration	–	(3,379)	–
Impairment of investment in associate company	(6,900)	–	–
Foreign currency translation reserve gain on liquidation of subsidiary	36	4,649	–
Impairment of exploration asset	–	–	(484)
Other costs	(15,346)	(13,413)	(12,987)
Finance costs	(3,839)	(6,595)	(6,003)
<b>Profit before income tax</b>	<b>61,709</b>	<b>82,735</b>	<b>80,671</b>
Income tax expense	(16,520)	(21,781)	(52,924)
<b>Net profit</b>	<b>45,189</b>	<b>60,954</b>	<b>27,747</b>
<b>Other comprehensive income</b>			
Foreign currency translation reserve gain on liquidation of subsidiary	(36)	(4,649)	–
Cash flow hedges transferred to trading profit	–	–	946
<b>Other comprehensive loss net of tax</b>	<b>(36)</b>	<b>(4,649)</b>	<b>946</b>
<b>Total comprehensive profit</b>	<b>45,153</b>	<b>56,305</b>	<b>28,693</b>
Basic earnings per share – cents	6.6	8.9	3.9
Diluted earnings per share – cents	6.5	8.8	3.9



## B) ROC CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2013 US\$'000	2012 US\$'000
<b>Current assets</b>		
Cash assets	65,140	56,783
Trade and other receivables	32,361	25,474
Inventories	2,133	658
<b>Total current assets</b>	<b>99,634</b>	<b>82,915</b>
<b>Non-current assets</b>		
Oil and gas assets	227,158	237,292
Exploration and evaluation expenditure	587	1,094
Property, plant and equipment	858	1,080
Deferred tax assets	20,594	13,021
Investments in associate companies	67,203	33,422
<b>Total non-current assets</b>	<b>316,400</b>	<b>285,909</b>
<b>Total assets</b>	<b>416,034</b>	<b>368,824</b>
<b>Current liabilities</b>		
Trade and other payables	42,247	36,088
Current tax liabilities	8,258	9,944
Provisions	14,235	10,868
<b>Total current liabilities</b>	<b>64,740</b>	<b>56,900</b>
<b>Non-current liabilities</b>		
Deferred tax liabilities	21,078	26,406
Provisions	63,961	66,869
<b>Total non-current liabilities</b>	<b>85,039</b>	<b>93,275</b>
<b>Total liabilities</b>	<b>149,779</b>	<b>150,175</b>
<b>Net assets</b>	<b>266,255</b>	<b>218,649</b>
<b>Equity</b>		
Share capital	734,150	734,150
Accumulated losses	(488,833)	(534,022)
Other Reserves	20,938	18,521
<b>Total equity</b>	<b>266,255</b>	<b>218,649</b>

## C) ROC CONSOLIDATED STATEMENT OF CASH FLOWS

	INFLOW / (OUTFLOW) 2013 US\$ '000	INFLOW / (OUTFLOW) 2012 US\$ '000
<b>Cash flows from operating activities</b>		
Cash generated from operations	154,341	190,336
Derivatives received/(paid)	68	(676)
Payments for exploration and evaluation expenses	(16,470)	(5,449)
Interest received	189	3,965
Finance costs paid	(1,579)	(2,866)
Payments made for abandonment costs	(2,299)	–
Payments for non-production phase for BMG	(1,837)	(12,099)
Income taxes and PRRT paid	(30,878)	(46,950)
<b>Net cash generated from operating activities</b>	<b>101,535</b>	<b>126,261</b>
<b>Cash flows from investing activities</b>		
Payments for plant and equipment	(184)	(104)
Payments for development expenditure	(59,561)	(59,401)
Payments for exploration and evaluation expenditure initially capitalised	–	(19,404)
Proceeds from sale of exploration and development assets	7,985	1,779
Payments for acquisition of additional 5% interest in Cliff Head	–	551
Investment in associate company	(40,680)	(17,423)
<b>Net cash used in investing activities</b>	<b>(92,440)</b>	<b>(94,002)</b>
<b>Cash flows from financing activities</b>		
Bank loan repayments	–	(15,000)
<b>Net cash used in financing activities</b>	<b>–</b>	<b>(15,000)</b>
<b>Net increase in cash held</b>	<b>9,095</b>	<b>17,259</b>
Cash at beginning of financial year	56,783	39,624
Effect of exchange rate changes on the balance of cash held in foreign currencies	(738)	(100)
<b>Cash at end of financial year</b>	<b>65,140</b>	<b>56,783</b>

## 11.7 MANAGEMENT DISCUSSION AND ANALYSIS IN RELATION TO HISTORICAL FINANCIAL INFORMATION

The information in this section has been adapted from Roc's discussion and analysis of financial statements for the year ended 31 December 2013 contained in Roc's 2013 Annual Report.

The Roc Group's net profit after income tax in the 2013 financial year ended 31 December 2013 was US\$45.2 million (2012: US\$61.0 million) and gross profit was US\$96.1 million (2012: US\$106.2 million).

Included in the overall result were items relating to:

- i) after-tax profit on the sale of the Juan de Nova Maritime Profond Block of US\$8.0 million;
- ii) exploration expense of US\$16.5 million; and
- iii) impairment of the investment in BC Petroleum Sdn Bhd of US\$6.9 million.

Basic earnings per share for the year to 31 December 2013 were US\$6.6 cents based on a weighted average number of fully paid ordinary shares on issue of 683,580,268 shares.

Oil and gas sales revenue of US\$251.0 million (2012: US\$242.1 million) was generated from sale volumes of 2.4 MMBOE (2012: 2.1 MMBOE), which achieved an average realised oil price of US\$104.61/BBL (2012: US\$113.60/BBL).

Operating costs of US\$154.9 million (2012: US\$135.9 million) comprised production costs of US\$51.0 million (US\$19.26/BOE), amortisation costs of US\$70.8 million (US\$26.71/BOE), and Chinese special oil income levy and royalty of US\$35.1 million offset by stock movement of US\$2.0 million.

Exploration and evaluation expenditure of US\$16.0 million (2012: US\$29.0 million) was incurred during the 2013 financial year, attributable to seismic acquisition and processing costs on Block 09/05 and new venture costs. In accordance with Roc's successful efforts accounting policy, US\$16.5 million (2012: US\$18.1 million) in exploration costs were expensed and written-off during the period.

An income tax expense of US\$16.5 million (2012: US\$21.8 million) was incurred during the financial year ended 31 December 2013, which included an income tax expense of US\$18.7 million and current PRRT of US\$11.0 million offset by a prior year over-provision of US\$0.3 million and an income tax credit of US\$12.9 million relating to timing differences.

As at 31 December 2013, Roc's net cash position was US\$65.1 million.

## 11.8 UPDATE ON ROC FINANCIAL PERFORMANCE AND FINANCIAL POSITION

The following selected financial information for Roc is taken from the unaudited Roc Quarterly Activity Report for the quarter ended 31 March 2014:

- i) key deliverables achieved during the quarter included the divestment of Roc's interest in the BMG assets<sup>70</sup>, resulting in a reversal of Roc's full abandonment obligation and an after tax profit of approximately US\$32 million (subject to working capital adjustment), award of Block MO7 and the FDP approval for the Bentara Field;
- ii) overall production for the quarter was 7,933 BOEPD, a decrease of 10% over the quarter ended 31 December 2013. The decrease was mainly attributable to lower production from Zhao Dong and Beibu through natural decline and Blane oil production following host platform downtime;
- iii) as at 31 March 2014, Roc had net cash of US\$88.1 million;
- iv) total sales revenue of US\$75.4 million for the quarter, an increase of 9% over the quarter ended 31 December 2013;
- v) Roc's core assets continued to produce reliably, providing strong cash flow from operations and underpinning Roc's capacity to fund value growth projects;
- vi) exploration and development expenditure totalled US\$3.9 million plus an additional BCP equity funding of US\$2.9 million for the first quarter;
- vii) work progressed on Roc's Block 09/05 exploration licence ahead of schedule, with planning and procurement for the exploration drilling programme scheduled for the second half of 2014 underway; and
- viii) Roc finalised its exit from non-core assets in Block H Equatorial Guinea and BMG<sup>71</sup>.

A copy of the Quarterly Activity Report for the quarter ended 31 March 2014 is available at [www.asx.com.au](http://www.asx.com.au) and [www.rocoil.com.au](http://www.rocoil.com.au).

Roc expects that its Quarterly Activity Report for the quarter ending 30 June 2014 will be disclosed to the ASX on or before 31 July 2014. A copy of this report will be available at [www.asx.com.au](http://www.asx.com.au) and [www.rocoil.com.au](http://www.rocoil.com.au).

## 11.9 ROC CAPITAL STRUCTURE

### A) ROC SECURITIES

As at Monday, 30 June 2014, Roc's issued securities consist of:

- i) 687,618,400 Roc Shares;
- ii) 300,000 Roc Executive Options;
- iii) 10,715,000 Roc Existing LTI Rights;
- iv) 7,527,358 Roc New LTI Rights; and
- v) 1,886,476 Roc Deferred STI Rights.

All issued Roc Shares carry one vote per share and carry the right to dividends.

Roc Executive Options, Roc Existing LTI Rights, Roc New LTI Rights and Roc Deferred STI Rights do not carry any voting rights or rights to dividends.

### B) ROC EMPLOYEE SHARE PLANS AND INCENTIVE PLANS

#### i) Roc Executive Share Option Plan

Roc has one share option plan, the Roc Executive Share Option Plan. This plan was replaced in 2010 by the Roc Existing LTI Plan and no new issues under the option plan will occur.

The outstanding Roc Executive Options are due to lapse during 2014 if unexercised.

#### ii) Roc Long Term Incentive Plan

The Roc Long Term Incentive Plan is an equity-based incentive plan designed to generate performance-based awards of share rights that may be converted into fully paid ordinary shares in Roc on satisfaction of performance conditions and board approval.

At present, there are two Roc Long Term Incentive Plans in operation:

- i) the first, introduced in 2010, applied up until 2013 (Roc Existing LTI Plan); and
- ii) the second, introduced in 2013, applies to Mr Linn from 2013 onwards and to all other Roc senior executives from 2014 onwards (Roc New LTI Plan).

<sup>70</sup> Subject to regulatory approval.

<sup>71</sup> BMG sale subject to regulatory approval.

Collectively, in this section 11.9(b)(ii) (*Roc Long Term Incentive Plan*) the Roc New LTI Plan and Roc Existing LTI Plan are referred to as the Roc LTI Plan.

The Roc LTI Plan provides for the grant of rights (Roc LTI Rights) to acquire Roc Shares for nil consideration provided that relevant performance criteria are met. If the performance conditions are met, then subject to the Roc Board's determination as to how many Roc LTI Rights vest, recipients of the rights are entitled to receive one Roc Share for every right vested.

Subject to a number of conditions, the Roc Board may not issue Roc LTI Rights or Roc Deferred STI Rights, if, immediately following the grant, the number of shares the subject of the grant of the Roc LTI Rights when aggregated with all other rights on issue could exceed 5% of the total number of issued shares in Roc at the time of the issue of the Roc LTI Rights.

### iii) Roc Short Term Incentive Plan

The Roc Short Term Incentive Plan (Roc STI Plan) is a variable performance-based cash and deferred equity incentive plan designed to reward senior executives and eligible employees for performance, following the end of the financial year.

The deferred equity component of the Roc STI Right is awarded in the form of rights to acquire Roc Shares for nil consideration ("Roc Deferred STI Rights").

As Roc Deferred STI Rights are designed to reward past performance, once granted, no further performance conditions will attach to the Roc Deferred STI Right other than the employee remaining employed with Roc at the time that the Roc Deferred STI Right vests.

## C) RIGHTS AND LIABILITIES ATTACHING TO ROC SHARES

Section 13.5 (*Rights and liabilities attached to Roc Shares*) sets out certain information in relation to the rights and liabilities attaching to Roc Shares.

### 11.10 ROC SUBSTANTIAL SHAREHOLDERS

As at Monday, 30 June 2014, Roc has been notified<sup>72</sup> that the following persons have a Substantial Holding of 5%, or more, of Roc Shares:

PERSON	PERSON'S VOTES	VOTING POWER (%)
Allan Gray Australia Pty Ltd (formerly known as Orbis Investment Management (Australia) Pty Ltd)	137,906,663	20.06% <sup>72</sup>

### 11.11 RECENT ROC SHARE PRICE PERFORMANCE

The graph below shows the Roc share price and volume of Roc Shares traded for the twelve months to Monday, 30 June 2014.



As at Monday, 30 June 2014:

- the last recorded trading price of Roc Shares was A\$0.600;
- the 10 day VWAP of Roc Shares was A\$0.581;
- the highest recorded trading price of Roc Shares in the previous three months was A\$0.630; and
- the lowest recorded trading price of Roc Shares in the previous three months was A\$0.445.

<sup>72</sup> See form 604 lodged 9 September 2011 on ASX.

As at 23 April 2014, being the last day on which Roc Shares traded prior to announcement of the merger:

- i) the last recorded trading price of Roc Shares was A\$0.455;
- ii) the 10 day VWAP of Roc Shares was A\$0.466;
- iii) the highest recorded trading price of Roc Shares in the previous three months was A\$0.520; and
- iv) the lowest recorded trading price of Roc Shares in the previous three months was A\$0.4075.

## 11.12 ROC DIVIDEND HISTORY

No dividends were paid or declared during or since the financial year ended 31 December 2013. No dividends have been recommended by the Roc Directors in respect of or since the financial year ended 31 December 2013.

## 11.13 INTERESTS OF ROC DIRECTORS

### A) INTERESTS IN ROC SECURITIES

Roc Directors' interests in Roc Securities as at the date of this Scheme Booklet are detailed in the table below.

DIRECTOR	ROC SHARES
Mr R M Harding	30,000
Mr N D R Hartley	12,500
Mr C C Hodge	100,000
Mr R C A Leon	1,510,000
Mr G D Mulligan	25,000
Mr A S Linn	2,269,660

DIRECTOR	ROC EXECUTIVE OPTIONS
Mr A S Linn	150,000 with an exercise price of A\$0.73 and an expiry date of 23 December 2014

DIRECTOR	ROC LTI RIGHTS
Mr A S Linn	500,000 granted on 16 December 2011 977,358 granted on 15 May 2013 1,180,851 <sup>73</sup>

DIRECTOR	ROC DEFERRED STI RIGHTS
Mr A S Linn	177,700 granted on 15 May 2013 387,209 <sup>74</sup>

Except as expressed in the table above:

- i) there are no Roc Securities held by or on behalf of Roc Directors as at the date of this Scheme Booklet; and
- ii) there has been no dealing by any Roc Director in any Roc Securities or Horizon Oil Securities in the four months preceding the date of this Scheme Booklet other than:
  - A) 1,050,000 Roc Shares issued to Alan Linn on 8 April 2014 as a result of the vesting of 1,050,000 Roc Existing LTI Rights; and
  - B) 106,660 Roc Shares issued to Alan Linn on 5 March 2014 as a result of the vesting of 106,660 Roc Deferred STI Rights.

### B) RELEVANT INTERESTS IN HORIZON OIL SECURITIES

As at the date of this Scheme Booklet, Christopher Hodge has a Relevant Interest in 214,286 Horizon Oil Shares. As at the date of this Scheme Booklet, no other Roc Director has a Relevant Interest in any Horizon Oil Securities.

## 11.14 ROC RELEVANT INTERESTS IN HORIZON OIL SECURITIES

Roc does not hold any Relevant Interests in any Horizon Oil Securities as at:

- i) the date of this Scheme Booklet; nor
- ii) the date the proposed merger was announced to ASX on 29 April 2014.

During the period of 4 months before the date of this Scheme Booklet, neither Roc nor any associate of Roc provided, or agreed to provide, consideration for any Horizon Oil Securities under a purchase or agreement.

Roc has not acquired or disposed of a Relevant Interest in any Horizon Oil Securities in the four months preceding the date of this Scheme Booklet.

<sup>73</sup> Approved at the Roc Annual General Meeting on 27 May 2014 but not granted as at the date of this Scheme Booklet.

<sup>74</sup> Approved at the Roc Annual General Meeting on 27 May 2014 but not granted as at the date of this Scheme Booklet.



## 11.15 NO PRE-TRANSACTION BENEFITS

During the period of four months before the date of this Scheme Booklet, neither Roc nor any associate of Roc gave, or offered to give, or agreed to give, a benefit to another person which was likely to induce the other person, or an associate of the other person, to:

- i) vote in favour of the Scheme; or
- ii) dispose of Horizon Oil Shares,

and which will not be provided to all Scheme Participants under the Scheme.

## 11.16 PUBLICLY AVAILABLE INFORMATION ABOUT ROC

### A) CONTINUOUSLY DISCLOSING ENTITY

As a company with securities quoted on the ASX and being a disclosing entity under the Corporations Act, Roc is subject to regular reporting and disclosure obligations. These obligations require Roc to announce price sensitive information as soon as it becomes aware of the information, subject to the exceptions for certain confidential information. Roc's recent ASX announcements are available from the Roc website at [www.rocoil.com.au](http://www.rocoil.com.au) and the ASX website at [www.asx.com.au](http://www.asx.com.au). It is intended that further announcements concerning developments at Roc will continue to be made on these websites after the date of this Scheme Booklet. Historical ASX announcements and copies of half-yearly and annual financial results (and accompanying releases) are also available from the Roc website at [www.rocoil.com.au](http://www.rocoil.com.au).

Copies of these documents will also be made available free of charge at any time before the Second Court Date on a request in writing to Roc's Company Secretary at [lnolan@rocoil.com.au](mailto:lnolan@rocoil.com.au).

### B) RECENT ROC ANNOUNCEMENTS

The following table summarises announcements made to the ASX by Roc that may have affected share price movements over the period between 1 January 2014 and 2 July 2014:

DATE	EVENT
02/07/2014	HZN: Key Terms of Conditional Convertible Bondholder Offer
02/07/2014	HZN: Scheme of Arrangement Independent Experts Report
02/07/2014	HZN: Notice to Convertible Bondholders
25/06/2014	ROC Confirms Receipt of Non Binding Indicative Proposal
25/06/2014	HZN: Horizon Oil Merger Update
23/06/2014	Response to Shareholder Queries Relating to the EGM
18/06/2014	HZN: Independent Technical Specialist's Report
18/06/2014	HZN: Shareholder Update
18/06/2014	UBS Conference Presentation
16/06/2014	Letter to Shareholders – Independent Expert's Report
16/06/2014	Independent Expert's Report
05/06/2014	Notice of EGM and Proxy Form
02/06/2014	HZN: Grant of Stanley Gas Project Development Licence
30/05/2014	Farm-out of Interest in PSC, offshore Malaysia
27/05/2014	Results of Roc Annual General Meeting
27/05/2014	Roc 2014 AGM Presentation
26/05/2014	2014 Annual General Meeting Webcast
15/05/2014	Shareholder Requisition of General Meeting
08/05/2014	Letter to Shareholders
08/05/2014	Macquarie Australia Conference Presentation
29/04/2014	Activities for the First Quarter – Ended 31 March 2014
29/04/2014	Merger Announcement – Investor Presentation
29/04/2014	Roc and Horizon Proposed Merger Announcement
24/04/2014	2013 Annual Report and Sustainability Report
24/04/2014	Notice of Annual General Meeting and Proxy Form
24/04/2014	Trading Halt
08/04/2014	Correction to Appendix 3Y
08/04/2014	Change of Director's Interest Notice

DATE	EVENT
08/04/2014	Appendix 3B
07/04/2014	2014 Annual General Meeting
02/04/2014	Webcast – Roc Farms In to PSC, Offshore Malaysia
01/04/2014	Reserves Statement – Roc 2P Reserves Increase by 71%
01/04/2014	Roc Farms In to PSC, Offshore Malaysia
31/03/2014	COE: COE acquires Gippsland Basin gas and liquids project
31/03/2014	Roc Exits Basker Manta Gummy (BMG)
27/03/2014	TAP: Myanmar, Award of Shallow Water Exploration Block M07
27/03/2014	Myanmar, Award of Shallow Water Exploration Block M07
25/03/2014	Balai Cluster – Bentara Oil Field Development Plan Approval
12/03/2014	Excellence in Oil & Gas Conference
07/03/2014	Change of Director's Interest Notice
07/03/2014	Appendix 3B
06/03/2014	Ceasing to be a substantial holder
26/02/2014	2013 Full Year Financial Results – Presentation and Webcast
26/02/2014	Roc 2013 Full Year Financial Results
26/02/2014	Appendix 4E / Full Year Statutory Accounts
24/02/2014	Webcast – Roc 2013 Full Year Financial Results
29/01/2014	Activities for the Fourth Quarter – Ended 31 December 2013

Copies of the announcements listed above may be obtained from the ASX website at [www.asx.com.au](http://www.asx.com.au).

Further information about Roc is contained in electronic form on the Roc website at [www.rocoil.com.au](http://www.rocoil.com.au).

## 12. Profile of the Merged Group



## 12.1 OVERVIEW OF THE MERGED GROUP

The merger brings together two highly complementary Asian-focused portfolios with assets across China, PNG, Malaysia, Myanmar, Australia, New Zealand and the United Kingdom. The merger will result in a significant increase in scale to create a leading ASX-listed Asian focused upstream oil and gas company with expanded production, reserves and resources.

The Merged Group will have a pro forma market capitalisation of approximately A\$800 million<sup>75</sup>. The complementary portfolios have a strong production base, with a forecast combined CY14 indicative production of 5.5 MMBOE<sup>76</sup>, and a significant development pipeline, with major growth projects in China, PNG and Malaysia. The Merged Group will have net 2P Reserves of 33.3 MMBOE and net 2C Contingent Resources of 113.0 MMBOE.

For further details on the assets of each company, refer to section 10 (*Profile of Horizon Oil*) and section 11 (*Profile of Roc*).

An overview of the assets of the Merged Group is set out in the map and table below.



<sup>75</sup> Based on the combined market capitalisations of each of Horizon Oil and Roc on 23 April 2014, the last day Horizon Oil and Roc Shares were traded prior to the announcement of the merger.

<sup>76</sup> Based on 2P production profile forecasts.

ASSET	STAGE OF DEVELOPMENT	HORIZON OIL INTEREST	ROC INTEREST	COMBINED INTEREST
<b>China</b>				
Beibu Gulf (Block 22/12)	Production	26.95% <sup>77</sup>	19.6% <sup>77</sup>	46.55% <sup>77</sup>
Bohai Bay (C&D Fields)	Production		24.5%	24.5%
Bohai Bay (C4 Field)	Production		11.667% <sup>78</sup>	11.667%
Bohai Bay (Zhanghai/Chenghai)	Production		39.2% <sup>79</sup>	39.2%
Bohai Bay (Block 09/05)	Exploration		100% <sup>80</sup>	100%
<b>PNG</b>				
PDL 10 (formerly PRL 4) (Stanley)	Development	30% <sup>81, 82</sup>		30% <sup>81, 82</sup>
PRL 21 (Elevala/Ketu)	Appraisal	27% <sup>81</sup>		27% <sup>81</sup>
PPL 259	Exploration	35% <sup>81</sup>		35% <sup>81</sup>
PPL 430	Exploration	50% <sup>81</sup>		50% <sup>81</sup>
PPL 372 & 373	Exploration	90% <sup>81</sup>		90% <sup>81</sup>
<b>New Zealand</b>				
PMP 38160 (Maari/Manaia)	Production	10%		10%
PEP 51313 (Matariki)	Exploration	21% <sup>83</sup>		21% <sup>83</sup>
<b>Malaysia</b>				
Balai Cluster RSC	Development		48%	48%
D35 / J4 / D21 / PSC	Appraisal / Production		30% <sup>84</sup>	30% <sup>84</sup>
<b>Myanmar</b>				
Block Mo7	Exploration		59.375% <sup>85</sup>	59.375% <sup>85</sup>
<b>Australia</b>				
Cliff Head	Production		42.5%	42.5%
<b>United Kingdom</b>				
Blane	Production		12.5% <sup>86</sup>	12.5%
Enoch / J1	Production		12% <sup>86</sup>	12%

## A) RESERVES AND RESOURCES POSITION

Based on the latest published Reserves and resources statements of each company, the Merged Group will have a significant net 2P Reserve position of 33.3 MMBOE and a net 2C Contingent Resource position of 113.0 MMBOE. See section 10.3 (*Horizon Oil's Reserves and resources statement*) for Horizon Oil's statement of Reserves and Contingent Resources and section 11.3 (*Roc's Reserves and resources statement*) for Roc's Reserves and Contingent Resources statement.

The Merged Group's net 2P Reserves position will be strongly leveraged to liquids (96%). The combined group's 2P + 2C position is approximately 53% liquids and 47% gas, driven by the inclusion of Horizon Oil's significant gas resources in PNG.

<sup>77</sup> Interest in field development post-government back-in.

<sup>78</sup> Unitised interest in producing field (pending final Joint Management Committee approval).

<sup>79</sup> Interest in field development post-government back-in.

<sup>80</sup> Prior to government back-in.

<sup>81</sup> Equity interests shown prior to government back in.

<sup>82</sup> Subject to change following determination by expert (appointed pursuant to a unitisation agreement) of extent to which the Stanley Field extends in to block 1622 (contained in PPL 259).

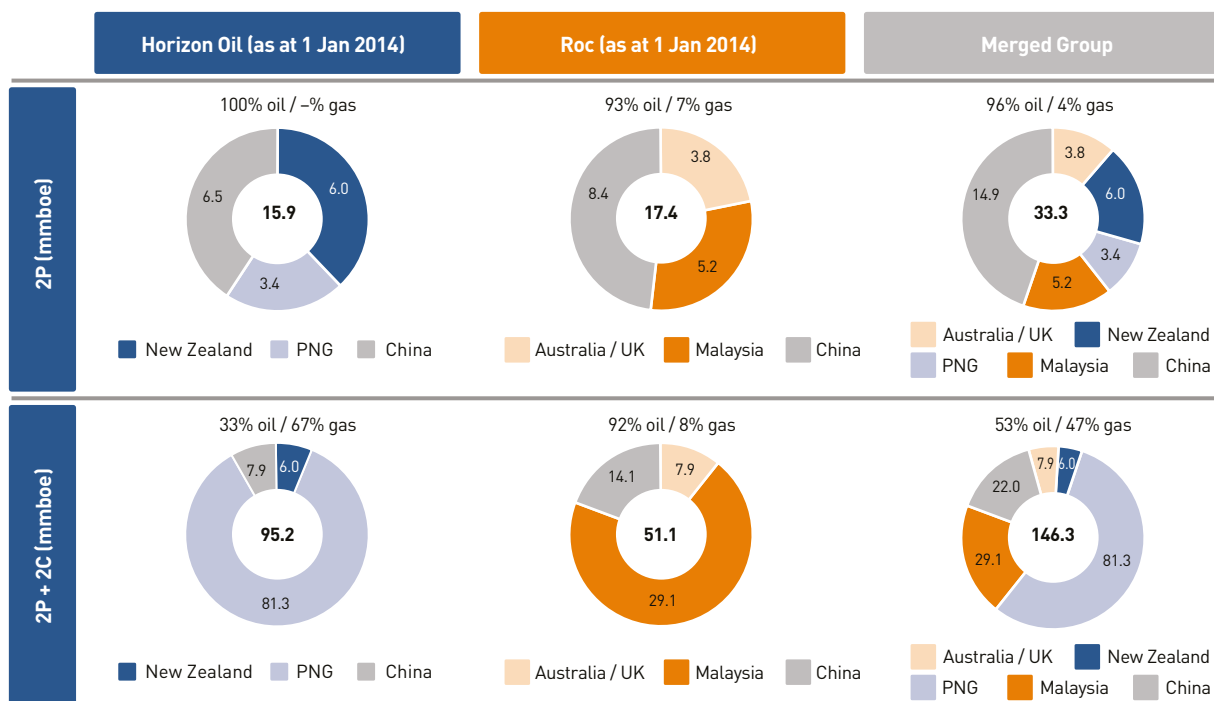
<sup>83</sup> 21% interest in Whio prospect area subject to reduction to 10% in event of a commercial discovery at Whio.

<sup>84</sup> Assuming Roc has 30% participating interest following farm-out of 20% participating interest (subject to regulatory approval).

<sup>85</sup> Subject to Roc Board approval and signing PSC.

<sup>86</sup> Unitised interest in producing field.





## B) PRODUCTION PROFILE

The Merged Group will have production from five main assets, consisting of the Beibu Gulf (China), Bohai Bay (China), Maari / Manaia (New Zealand), Cliff Head (Australia) and Blane (United Kingdom). The combined CY14 indicative combined production of 5.5 MMBOE<sup>87</sup> consists predominantly of oil, driven by the Bohai Bay and Beibu Gulf projects in China.

The Merged Group also expects to achieve substantial levels of gas production from its PNG assets in the longer term.

### 12.2 INTENTIONS IN RELATION TO HORIZON OIL AND THE MERGED GROUP

This section sets out the intentions of Horizon Oil and Roc in relation to the Merged Group if the Scheme is implemented.

These statements of intention are formed on the basis of publicly available information as at the date of this Scheme Booklet as well as information made available in the course of due diligence carried out by Horizon Oil on the business of Roc, and due diligence carried out by Roc on the business of Horizon Oil.

The board of the Merged Group intends to explore opportunities to optimise the Merged Group's existing operations and development projects and maximise value for the Merged Group's shareholders.

Final decisions regarding any such matters will be made by the board of the Merged Group in light of material information and circumstances at the relevant time. Accordingly, the statements set out in this section are statements of current intentions only, which may vary as new information becomes available or circumstances change and the Merged Group further develops its strategic focus and outlook.

#### A) CORPORATE MATTERS IN RELATION TO HORIZON OIL

If the Scheme is implemented, it is intended that:

- i) Horizon Oil be removed from the official list of ASX; and
- ii) as Horizon Oil will be a subsidiary of the Merged Group, the Horizon Oil Board will be reconstituted so that it comprises persons nominated by the board of the Merged Group.

#### B) CONTINUATION OF HORIZON OIL AND ROC'S BUSINESSES

It is the current intention of Horizon Oil and Roc that the Merged Group will continue to operate the businesses of Horizon Oil and Roc in substantially the same manner as they are currently being conducted. The Merged Group will continue to review all aspects of the assets and operations to identify ways to maximise value for all shareholders.

<sup>87</sup> Based on 2P production profile forecasts.

## C) NAME OF THE MERGED GROUP

Following the implementation of the Scheme, the board of the Merged Group may make a decision on the name of the Merged Group. Any decision to change the name of the listed entity would be subject to shareholder approval of the Merged Group.

The Merged Group intends to use the Roc name, including any associated trade marks and logos in the conduct of its business in China and South East Asia, which will include Malaysia and Myanmar. The Horizon Oil name, including any associated trade marks and logos will be used in the conduct of its business in PNG and New Zealand.

The branding of any new operations and projects in countries not specified will be subject to management consideration.

## D) DIVIDEND POLICY

Following refinancing of the Merged Group's finance facilities, the board of the Merged Group will be looking to pay dividends as soon as it is responsible to do so. In making any determination on dividends, the board of the Merged Group will have regard to, amongst other things, the available profits, its financial position, franking credits and the board of the Merged Group's assessment of the capital required to grow the combined businesses.

## E) FINANCING

Following the implementation of the Scheme, the Merged Group intends to restructure the companies' existing funding arrangements. It is expected that the greater scale and diversity of the Merged Group will lead to enhanced access to funding on more favourable terms.

## 12.3 BOARD OF THE MERGED GROUP

The board of the Merged Group will comprise eight directors, including three current non-executive Roc Directors, four current non-executive Horizon Oil Directors and Brent Emmett (current CEO and Managing Director of Horizon Oil) as CEO and Managing Director of the Merged Group.

One Horizon Oil Director will retire from the board of the Merged Group at or before the annual general meeting of the Merged Group in 2015, as contemplated in the Merger Implementation Deed.

The current Chairman of Roc, Mike Harding, will be Chairman of the Merged Group. See section 11.5 (*Roc's Directors*) for details of Mr Harding's qualifications and background.

The current Chairman of Horizon Oil, Fraser Ainsworth, will continue as a non-executive director of the Merged Group. See section 10.4 (*Horizon Oil Directors*) for details of Mr Ainsworth's qualifications and background.

As at the date of this Scheme Booklet, the identities of the two additional Roc Directors that will remain on the board of the Merged Group have not been determined. The remaining non-executive directors will be selected by either by the Roc Board prior to implementation of the Scheme or by the Merged Group Board following implementation of the Scheme.

## 12.4 MANAGEMENT OF THE MERGED GROUP

The current CEO and Managing Director of Horizon Oil, Brent Emmett, will be CEO and Managing Director of the Merged Group. See section 10.4 (*Horizon Oil Directors*) for details of Mr Emmett's qualifications and background.

The current CEO and Managing Director of Roc, Alan Linn, will continue with the Merged Group in the role of President of Roc Oil Malaysia until April 2015. See section 11.5 (*Roc's Directors*) for details of Mr Linn's qualifications and background.

Other members of the Merged Group's senior management team will be drawn from the two companies' existing management teams following implementation of the Scheme.

## 12.5 CAPITAL STRUCTURE AND OWNERSHIP

### A) SHARE CAPITAL

If the Scheme is implemented, Roc will issue approximately 952.58 million New Roc Shares to Horizon Oil Shareholders.<sup>88</sup>

As a result of the Scheme, the number of Roc Shares on issue will increase from approximately 687.62 million (being the number currently on issue) to approximately 1640.20 million.

	ROC SHARES TO BE ISSUED	CUMULATIVE TOTAL ROC SHARES ON ISSUE
As at the date of this Scheme Booklet		687,618,400
To be issued as Scheme Consideration	952,583,404	1,640,201,804

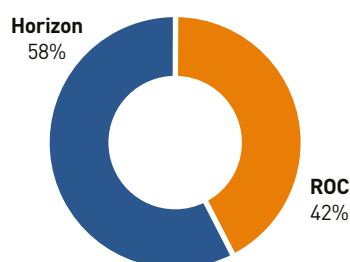
<sup>88</sup> This figure includes: (1) 1,500,000 partly paid Horizon Oil Shares and (2) 12,241,668 vested Horizon Oil Options which will be exercised upon implementation of the Scheme; and excludes any Horizon Oil Convertible Bonds that may be converted prior to the Record Date.

## B) OPTIONS AND PERFORMANCE RIGHTS

If the Scheme is implemented, it is expected that the Merged Group will have the following options and performance rights on issue.

	PERFORMANCE RIGHTS	EQUITY INCENTIVE PLAN	STI RIGHTS	UNLISTED OPTIONS
As at the date of this Scheme Booklet	Roc: 10,715,000	Roc LTI Rights: 7,527,358 <sup>89</sup>	Roc Deferred STI Rights: 1,886,476 <sup>90</sup>	Roc Executive Options: 300,000
Number to be issued as a result of the Scheme	25,398,762	nil	nil	1,838,726 <sup>91</sup>
Following implementation of the Scheme	36,113,762	7,527,358	1,886,476	2,138,726 <sup>92</sup>

## C) MERGED GROUP OWNERSHIP STRUCTURE



## 12.6 PRO FORMA FINANCIAL INFORMATION

The Merged Group pro forma financial information provided in this Scheme Booklet comprises a pro forma consolidated statement of financial position as at 31 December 2013, which is based upon the:

- Roc Group audited consolidated statement of financial position as at 31 December 2013 (refer to section 11.6 (*Roc historical financial information*));
- Horizon Oil Group reviewed consolidated statement of financial position as at 31 December 2013 (refer to section 10.5 (*Horizon Oil historical financial information*)), (hereafter the **Historical Financial Information**); and
- relevant pro forma adjustments required to present the Merged Group, (collectively, the **Pro Forma Financial Information**).

The information in this section 12.6 is presented on a pro forma basis only, and as a result it is likely that this information will differ from the actual financial information for the Merged Group as at the Effective Date.

During the year ended 31 December 2013, there were a number of events which significantly impacted the financial performance of the Horizon Oil Group and Roc Group and as a result, the financial performance of the Merged Group is not presented within this Scheme Booklet. The Horizon Oil Directors believe that the inclusion of a pro forma consolidated statement of comprehensive income would not be a true reflection of the Merged Group.

Standalone historical consolidated statement of comprehensive income information for both the Horizon Oil Group and the Roc Group is located within section 10.5 (*Horizon Oil historical financial information*) and section 11.6 (*Roc historical financial information*) respectively within the Scheme Booklet.

<sup>89</sup> This number does not include the 1,180,851 Roc LTI Rights approved at the Roc Annual General Meeting on 27 May 2014 but not granted as at the date of this Scheme Booklet.

<sup>90</sup> This number does not include the 387,209 Roc Deferred STI Rights approved at the Roc Annual General Meeting on 27 May 2014 but not granted as at the date of this Scheme Booklet.

<sup>91</sup> Unlisted options excludes unvested Horizon Oil Options (out of the money) which may be cancelled via a cash out option. In the event these options are retained, up to an additional 635,513 unlisted Roc options would be issued.

<sup>92</sup> Unlisted options excludes unvested Horizon Oil Options (out of the money) which may be cancelled via a cash out option. In the event these options are retained, up to an additional 635,513 unlisted Roc Options would be issued.

## **A) BASIS OF PREPARATION**

The Pro Forma Financial Information is provided for illustrative purposes and is prepared in accordance with the recognition and measurement requirements of applicable Australian Accounting Standards on the assumption that the proposed Scheme was implemented on 31 December 2013.

The Pro Forma Financial Information is presented in an abbreviated form insofar as it does not contain all the disclosures, statements or comparative information as required by Australian Accounting Standards applicable to annual financial reports usually provided in an annual report prepared in accordance with the Corporations Act.

The accounting policies of the Merged Group used in the compilation of the Pro Forma Financial Information are based on those of Horizon Oil. The Horizon Oil summary of significant accounting policies is disclosed in the audited financial statements of Horizon Oil for the year ended 30 June 2013, available on the ASX website at [www.asx.com.au](http://www.asx.com.au) or on the “Investor Centre” section of the Horizon Oil website at [www.horizonoil.com.au](http://www.horizonoil.com.au).

No adjustments have been made in the Pro Forma Financial Information for any expected synergies or integration costs following the implementation of the Scheme. No adjustments have been made in the Pro Forma Financial Information for any one-off or non-recurring costs, other than those set out in the pro forma adjustments.

The Pro Forma Financial Information is presented in United States dollars, the operating and presentation currency of both Horizon Oil and Roc.

The Investigating Accountant has reported on the Pro Forma Financial Information, in an Investigating Accountant’s Report, which has been included as Attachment B (*Investigating Accountant’s Report*). Horizon Oil Shareholders should note the comments made in relation to the scope and limitations of that report.

## **B) ACCOUNTING UNDER AASB 3 ‘BUSINESS COMBINATIONS’**

Under Australian Accounting Standards, the proposed merger will be accounted for as a business combination. Australian Accounting Standards require that where two or more entities combine through an exchange of equity for the purposes of a business combination, one of the entities must be deemed to be the accounting acquirer (accounting parent).

Roc is the legal acquirer (legal parent) in respect of the proposed Scheme (Horizon Oil is the legal subsidiary) and it will issue New Roc Shares to effect the business combination with the Horizon Oil Group. However, in accordance with Australian Accounting Standards, all relevant facts and circumstances must be considered to determine which entity has obtained control in the transaction and is therefore deemed to be the accounting acquirer (accounting parent).

Although the terms of the proposed merger reflect a merger of equals, having regard to the guidance set out in Australian Accounting Standard AASB 3 ‘Business Combinations’ and given the relative voting rights after the business combination, Board and management composition of the Merged Group and other factors, Horizon Oil was determined to be the deemed acquirer (accounting parent) for accounting purposes. This method of accounting is referred to as ‘reverse acquisition accounting’.

For the purposes of the Merged Group, the impact of reverse acquisition accounting is that the net asset value of the Roc Group (reflecting the assets and liabilities deemed to be acquired by Horizon Oil) is restated at fair value, while the assets and liabilities of the Horizon Oil Group are maintained at their historical book values.

The acquisition accounting has been determined on a provisional basis as permitted under AASB 3. The fair value of the consideration deemed transferred, assets acquired and liabilities assumed by the Horizon Oil Group have been determined based on preliminary fair value estimates as at 31 December 2013, which will be different to the ultimate fair values at the Effective Date. The acquisition accounting is expected to be finalised within 12 months of the implementation of the proposed Scheme, as allowed under Australian Accounting Standards.

### C) SUMMARY OF ACQUISITION

Under AASB 3, the fair value of the consideration that the Horizon Oil Group is deemed to have transferred to Roc is the market value of Roc's contributed equity at the date of the merger. For the purposes of the Pro Forma Financial Information, a fair value of US\$362.8 million has been calculated.

The difference between the fair value of the consideration deemed transferred and the fair value of the Roc Group's net assets, for the purposes of the Pro Forma Financial Information, is allocated to oil and gas assets.

Following implementation of the Scheme, a detailed valuation of the identifiable assets, liabilities and contingent liabilities of the Roc Group will be undertaken to ascertain the allocation of this difference. The ultimate value of the consideration deemed transferred for accounting purposes as at the Effective Date will differ from that assumed for the purposes of the Pro Forma Financial Information.

The ultimate value of the consideration deemed transferred for accounting purposes will be measured based upon the market capitalisation value of Roc Shares at close of ASX trading on the Effective Date.

As the Scheme, if implemented, will be effected at a future date, the actual impact of the acquisition accounting will differ from that presented below.

The provisional allocation of the fair value of consideration deemed transferred on consolidation is as follows:

	US\$ '000
<b>Fair value of consideration deemed transferred on consolidation:</b>	<b>362,809</b>
<b>Fair value of Roc Group's net assets acquired:</b>	
Existing book value of the Roc Group net assets as at 31 December 2013	266,255
Derecognition of Basker Manta Gummy assets and liabilities	32,662
<b>Adjusted Roc Group net book value</b>	<b>298,917</b>
<b>Fair value adjustments:</b>	
• Inventories	3,016
• Oil and gas assets	62,539
• Deferred tax liability	(1,663)
<b>Total fair value of Roc Group's net assets acquired</b>	<b>362,809</b>

### D) PRO FORMA FINANCIAL INFORMATION

This section contains the Pro Forma Financial Information for the Merged Group, reflecting the combined business of the Roc Group and the Horizon Oil Group. The Pro Forma Financial Information is presented to provide Horizon Oil Shareholders with an indication of the Merged Group's consolidated statement of financial position as if the Scheme had been implemented as at 31 December 2013.

As the Scheme, if implemented, will be effected at a future date, the actual consolidated statement of financial position of the Merged Group following implementation of the Scheme will differ from that presented below.

References to notes refer to the notes to pro forma adjustments set out in this section.



**MERGED GROUP PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013**

	ROC GROUP AUDITED ACTUAL US\$'000	NOTE	ROC GROUP PRO FORMA ADJUSTMENTS US\$'000	ROC GROUP FAIR VALUES US\$'000	HORIZON OIL GROUP REVIEWED ACTUAL US\$'000	NOTE	PRO FORMA ADJUSTMENTS US\$'000	MERGED GROUP PRO FORMA CONSOLIDATED US\$'000
<b>Current Assets</b>								
Cash and cash equivalents	65,140	II	2,482	<b>67,622</b>	<b>37,099</b>	f, j, k, l	(40,015)	<b>64,706</b>
Receivables	32,361	II	(2,482)	<b>29,879</b>	<b>22,223</b>	g, m	3,418	<b>55,520</b>
Inventories	2,133	IV	3,016	<b>5,149</b>	<b>6,376</b>	l	(2,314)	<b>9,211</b>
Current tax receivable	–		–	–	<b>1,768</b>		–	<b>1,768</b>
Other assets	–		–	–	<b>567</b>		–	<b>567</b>
<b>Total Current Assets</b>	<b>99,634</b>		<b>3,016</b>	<b>102,650</b>	<b>68,033</b>		<b>(38,911)</b>	<b>131,772</b>
<b>Non-Current Assets</b>								
Deferred tax assets	20,594		–	<b>20,594</b>	<b>7,278</b>	e	(6,873)	<b>20,999</b>
Plant and equipment	858		–	<b>858</b>	<b>7,965</b>		–	<b>8,823</b>
Exploration phase expenditure	587		–	<b>587</b>	<b>112,761</b>	h, l	(33,892)	<b>79,456</b>
Oil and gas assets	227,158	III, IV	77,539	<b>304,697</b>	<b>340,046</b>	l	(42,012)	<b>602,731</b>
Investments in associate companies	67,203		–	<b>67,203</b>	–		–	<b>67,203</b>
<b>Total Non-Current Assets</b>	<b>316,400</b>		<b>77,539</b>	<b>393,939</b>	<b>468,050</b>		<b>(82,777)</b>	<b>779,212</b>
<b>Total Assets</b>	<b>416,034</b>		<b>80,555</b>	<b>496,589</b>	<b>536,083</b>		<b>(121,688)</b>	<b>910,984</b>
<b>Current Liabilities</b>								
Payables	42,247	I, III	5,355	<b>47,602</b>	<b>44,893</b>	g, l	(3,842)	<b>88,653</b>
Derivative financial instruments	–		–	–	<b>4,915</b>		–	<b>4,915</b>
Current tax payable	8,258		–	<b>8,258</b>	<b>2</b>		–	<b>8,260</b>
Borrowings	–		–	–	<b>55,135</b>	i, j	(45,970)	<b>9,165</b>
Restoration provision	14,235	I, II	(4,835)	<b>9,400</b>	<b>10,689</b>		–	<b>20,089</b>
<b>Total Current Liabilities</b>	<b>64,740</b>		<b>520</b>	<b>65,260</b>	<b>115,634</b>		<b>(49,812)</b>	<b>131,082</b>
<b>Non-Current Liabilities</b>								
Payables	–	I, III	12,432	<b>12,432</b>	<b>21,143</b>	l	(20,400)	<b>13,175</b>
Derivative financial instruments	–		–	–	<b>1,003</b>		–	<b>1,003</b>
Deferred tax liability	21,078	IV	1,663	<b>22,741</b>	<b>15,327</b>		–	<b>38,068</b>
Borrowings	–		–	–	<b>143,870</b>	i, k	(38,470)	<b>105,400</b>
Other financial liabilities	–		–	–	<b>14,645</b>	k	(14,645)	–
Provisions	63,961	I, II	(30,614)	<b>33,347</b>	<b>15,365</b>		–	<b>48,712</b>
<b>Total Non-Current Liabilities</b>	<b>85,039</b>		<b>(16,519)</b>	<b>68,520</b>	<b>211,353</b>		<b>(73,515)</b>	<b>206,358</b>
<b>Total Liabilities</b>	<b>149,779</b>		<b>(15,999)</b>	<b>133,780</b>	<b>326,987</b>		<b>(123,327)</b>	<b>337,440</b>
<b>Net Assets</b>	<b>266,255</b>		<b>96,554</b>	<b>362,809</b>	<b>209,096</b>		<b>1,639</b>	<b>573,544</b>
<b>Equity</b>								
Contributed equity	734,150		–	<b>734,150</b>	<b>174,567</b>	a, m	(730,636)	<b>178,081</b>
Other contributed equity	–		–	–	–	d	362,809	<b>362,809</b>
Reserves	20,938		–	<b>20,938</b>	<b>3,485</b>	b	(20,938)	<b>3,485</b>
Retained profits/(accumulated losses)	(488,833)	II	32,662	<b>(456,171)</b>	<b>31,044</b>	c, e, f, h, k, l	454,296	<b>29,169</b>
<b>Total Equity</b>	<b>266,255</b>		<b>32,662</b>	<b>298,917</b>	<b>209,096</b>		<b>65,531</b>	<b>573,544</b>

## I) NOTES TO PRO FORMA ADJUSTMENTS

The following pro forma adjustments to the Historical Financial Information have been made in the compilation of the Pro Forma Financial Information, including the adjustments to reflect the impact of acquisition accounting and certain material transactions and/or events post 31 December 2013, as follows:

### i) Alignment of the Roc Group's accounting policies with those of Horizon Oil

Note I: reclassification of the Roc Group employee provisions from 'provisions' to 'payables', in accordance with Horizon Oil Group accounting policies. There were no other material differences noted between the significant accounting policies of the Horizon Oil Group and the Roc Group.

### ii) Pro forma adjustments for certain material transactions and/or events post 31 December 2013

Note II: the Roc Group exited its Basker Manta Gummy Field interest effective 1 January 2014, with transfer of all liabilities and benefits to Cooper Energy Limited from that date, including restoration and abandonment obligations.

Note III: Roc Group's offshore production sharing contract Malaysia D35, D21 and J4 Fields, acquisition cost of US\$15 million payable over 4 years, effective 1 January 2014.

### iii) Pro forma adjustments to recognise and measure the Roc Group's assets and liabilities at fair value

Note IV: fair value adjustments to Roc Group net book values.

### iv) Pro forma acquisition accounting impact of implementing the proposed Scheme

Notes a,b,c,d: these adjustments represent the pro forma reverse acquisition accounting impact on the Merged Group as at 31 December 2013:

Note a: a decrease in contributed equity of US\$734 million to reflect the elimination of the Roc Group's issued share capital;

Note b: a decrease in other reserves of US\$21 million to reflect the elimination of the Roc Group's pre-acquisition share equity reserve and foreign currency translation reserve;

Note c: a decrease in accumulated losses of US\$456 million to reflect the elimination of the Roc Group's pre-acquisition accumulated losses; and

Note d: an increase in 'other contributed equity' of US\$363 million.

AASB 3 provides guidance on calculating the consideration deemed transferred where there is a reverse acquisition. The cost of acquisition is based on the fair value of the 'notional shares' that would need to be issued by Horizon Oil, as the accounting acquirer, to Roc, the accounting acquiree.

It is considered the fair value of the notional shares that Horizon Oil would have had to issue to Roc would be equal to the fair value of Roc Shares, based on their quoted market price, on issue at the Effective Date. This treatment is based on the following:

- i) the merger ratio for the transaction has been agreed on an arm's length negotiation between the two independent parties;
- ii) the cost of acquisition comprises an exchange of equity interests only; and
- iii) Roc and Horizon Oil are both listed entities trading on the ASX and their shares have a quoted market price.

As a result of reverse acquisition accounting, a new equity account is created as a component of equity. This account, called 'other contributed equity' in the pro forma consolidated statement of financial position, is similar in nature to share capital but is not available for distribution. The balance of the account represents the adjustment for the replacement of the legal parent's contributed equity under reverse acquisition accounting with the fair value of the consideration deemed transferred.

For the purposes of the pro forma consolidated statement of financial position, a fair value of US\$363 million has been calculated for the consideration deemed transferred based on 687,618,400 Roc Shares on issue, the Roc market price of A\$0.560 per fully paid ordinary share and the A\$/US\$ exchange rate of 0.9422 as at 24 June 2014 (being the last trading day prior to Roc's announcement that it had received a nonbinding, indicative and incomplete proposal for the acquisition of all its issued share capital).

Note e: tax losses in respect of the Horizon Oil Group's Australian operations are capitalised in the Horizon Oil Group's consolidated statement of financial position as at 31 December 2013 as deferred tax assets. Following implementation of the Scheme, it is assumed that Horizon Oil forms part of the Roc tax consolidated group under Australian taxation law. Roc is the head entity in the Roc tax consolidated group. Horizon Oil's unused tax losses will be transferred to the head entity. This adjustment removes such capitalised tax losses as it is not considered probable that future taxable amounts will be available to utilise those unused tax losses in the Merged Group following implementation of the Scheme.

Note f: estimated Horizon Oil Group and Roc Group transaction costs associated with the Scheme are expensed as incurred.

Note g: this adjustment eliminates the intercompany balances between the Roc Group and the Horizon Oil Group as at 31 December 2013.

Note h: write-off of costs associated with Horizon Oil's seismic option to farm-in to Bohai Bay (Block O9/O5) held by the Roc Group. In light of the proposed merger with Roc, Horizon Oil has elected not to exercise the option.

v) Pro forma adjustments for certain material transactions and/or events post 31 December 2013

- Note i: following completion of the Beibu Gulf Project in Block 22/12, China, the Horizon Oil Group renegotiated the terms of the Horizon Oil Facility Agreement (reserves based facility) during April 2014 resulting in a deferral of the commencement of facility limit reduction until 31 December 2014. Accordingly, US\$31 million has been reclassified from current to non-current borrowings to reflect the adjusted facility limit.
- Note j: Horizon Oil Facility Agreement repayment of US\$15 million by Horizon Oil on 31 January 2014, in accordance with the facility limit reduction schedule.
- Note k: if implemented, the Scheme will trigger an adjustment event and a redemption right under the Horizon Oil Bond Terms, which are set out in more detail in section 13.4 (*Treatment of Horizon Oil Convertible Bonds*). Horizon Oil Bondholders can elect to action either one of those triggers. Horizon Oil has proposed the Horizon Oil CB Early Redemption Offer, as set out in section 8.12 (*Horizon Oil Convertible Bonds*), to Horizon Oil Bondholders to incentivise them (via a premium payable above the “Early Redemption Amount” of US\$84 million which they would be entitled to receive under the Horizon Oil Bond Terms) to redeem all of their Horizon Oil Convertible Bonds following implementation of the Scheme.

For the purposes of the pro forma consolidated statement of financial position, it is assumed the Horizon Oil CB Early Redemption Offer is accepted by all Horizon Oil Bondholders resulting in the payment of US\$89 million, and accordingly prepaid borrowing costs of US\$1.7 million capitalised as at 31 December 2013, related to the Horizon Oil Convertible Bonds, are expensed.

It should be noted that whilst the pro forma adjustment (note k) is based on the assumption that the Horizon Oil CB Early Redemption Offer is accepted by all Horizon Oil Bondholders, other alternatives are available to each Horizon Oil Bondholder including, but not limited to:

- i) conversion: convert some or all of their Horizon Oil Convertible Bonds into Horizon Oil Shares;
- ii) redemption: redeem some or all of their Horizon Oil Convertible Bonds at the “Early Redemption Amount” plus accrued interest;
- iii) trade: trade some or all of their Horizon Oil Convertible Bonds on market; and/or
- iv) hold: continue to hold their Horizon Oil Convertible Bonds to maturity.

Each of these alternatives could have a financial impact on the pro forma consolidated statement of financial position as at 31 December 2013, resulting in a potential increase in cash and cash equivalents, increase in borrowings and/or increase in equity.

- Note l: completion of the Osaka Gas Sale Agreement resulting in the Horizon Oil Group transferring 40% of its interests in PDL 10 (formerly PRL 4) (Stanley Field), PRL 21 (Elevala and Ketu Fields) and PPL 259 to Osaka Gas Niugini Pty Ltd with recognition of sale proceeds of US\$74 million and associated capital cost reimbursements of US\$19.6 million to the effective date of transfer (1 January 2013), and a profit on sale of US\$23 million. Adjustment as if completion had occurred as at 31 December 2013.
- Note m: Horizon Oil Options which have vested but which have not been exercised by the Scheme Meeting will be deemed to have been exercised and a corresponding number of Horizon Oil Shares will be issued to the holder with effect from the day following the Scheme Meeting. A corresponding receivable will be generated against the Horizon Oil Option holder. Adjustment as if the Scheme Meeting had occurred as at 31 December 2013.

Set out below are reconciliations of the pro forma adjustments to cash and cash equivalents, contributed equity and retained profits:

PRO FORMA ADJUSTMENT NOTE REFERENCE AND DESCRIPTION (see above for details)	CASH AND CASH EQUIVALENTS US\$ MILLION	CONTRIBUTED EQUITY US\$ MILLION	RETAINED PROFITS US\$ MILLION
	<b>(40)</b>	<b>(731)</b>	<b>454</b>
Reconciled as:			
Reverse acquisition accounting	a & c	–	(734)
Unused tax losses written off, transaction costs expensed, and seismic option written off	e, f & h	(8)	–
Borrowing repayment	j	(15)	–
Horizon Oil CB Early Redemption Offer	k	(89)	–
Osaka Gas completion	l	72	–
Vested Horizon Oil Options	m	–	3
	<b>(40)</b>	<b>(731)</b>	<b>454</b>

## II) FINANCING

The financing arrangements of the Horizon Oil Group and Roc Group as at the date of the Scheme Booklet are as follows:

FACILITY DETAILS	HORIZON OIL GROUP	ROC GROUP
<b>Type of facility</b>	Amortising reserves based loan (secured)	Amortising reserves based loan (secured)
<b>Size of facility</b>	Up to US\$150 million	Up to US\$80 million
<b>Amount of facility drawn down as at 31 March 2014</b>	US\$119.2 million cash drawn and US\$20.4 million letter of credit drawn in association with a refundable deposit received from Osaka Gas Niugini Pty Ltd in connection with the Osaka Gas Sale Agreement.  The US\$20.4 million letter of credit (and the right of Osaka Gas to request refund of the deposit) was extinguished on completion of the Osaka Gas Sale Agreement on 12 June 2014.	Nil
<b>Maturity (unless terminated or cancelled early)</b>	31 March 2018	30 June 2015
<b>Other key terms</b>	Restricted cash as at 31 March 2014 was US\$14.5 million – these cash balances are only available to the Merged Group after certain conditions are satisfied.	Nil

## III) HORIZON OIL CONVERTIBLE BONDS

In addition to the above facilities, the Horizon Oil Group has on issue 400 US\$200,000 5.5% Horizon Oil Convertible Bonds totalling US\$80 million. The Horizon Oil Convertible Bonds were issued on 17 June 2011 and have a current conversion price of US\$0.409. No Horizon Oil Convertible Bonds have been converted or redeemed as at the date of this Scheme Booklet. The Horizon Oil Convertible Bonds carry a coupon of 5.5% per annum, payable semi-annually in arrears, and carry a 7% yield to maturity on 17 June 2016 when they will be redeemed at 108.80% of their principal amount, unless redeemed early. Implementation of the Scheme would trigger a right for early redemption or an adjustment to the conversion price. The Merged Group intends to incentivise early redemption of the Horizon Oil Convertible Bonds through the Horizon Oil CB Early Redemption Offer in order to simplify the Merged Group's capital structure. Further details surrounding the treatment of the Horizon Oil Convertible Bonds under this Scheme are included in section 13.4 (*Treatment of Horizon Oil Convertible Bonds*) of this Scheme Booklet.

## IV) REFINANCING

Whilst both the Horizon Oil Group and the Roc Group have available borrowings under their existing respective facilities which can supplement operating cash flows, following the implementation of the Scheme, the Merged Group intends to restructure and refinance the Horizon Oil Group's and the Roc Group's existing financing arrangements. It is expected that the greater scale and diversity of the Merged Group will lead to enhanced access to funding on more favourable terms.

## V) CONTINGENT ASSETS

On 23 May 2013, the Horizon Oil Group advised ASX that it had entered into an agreement to sell 40% of its PNG assets to Osaka Gas Niugini Pty Ltd a subsidiary of Osaka Gas Co. Ltd. of Japan. In addition to the cash on completion, a further US\$130.0 million in cash is due upon FID for an LNG project, plus potential production payments where threshold condensate production is exceeded.

On 29 August 2013, the operator of the Maari Field, OMV New Zealand Limited, advised that production at the field would be shut-in while major facility repairs and equipment upgrades were undertaken. This involved the floating production storage and offload vessel (FPSO) Raroa being disconnected from its mooring and towed to nearby Port Nelson, New Zealand, to refurbish and upgrade its process equipment and install a new swivel. At the same time the opportunity was taken to repair several of the buoy mooring lines at the field. The upgrade, maintenance and repair works were carried out safely, within budget and the field returned to production on schedule. The Horizon Oil Group's share of the repair costs was approximately US\$8 million. The Merged Group expects to recover a proportion of these amounts through insurance.

On 31 March 2014, the Roc Group advised ASX that it had entered into an agreement to sell its entire 50% interest in the Basker Manta Gummy Field. In addition to the cash on completion, there is an A\$5.0 million contingent consideration, subject to first hydrocarbons from a Basker Manta Gummy Field commercial development.

## VI) CONTINGENT LIABILITIES

The Merged Group had the following contingent liabilities as at 31 December 2013 that may become payable:

In accordance with normal oil and gas industry practice, the Merged Group has entered into joint venture and farm-out agreements with other parties for the purpose of exploring and developing its petroleum interests. If a participant to a joint venture defaults and fails to contribute its share of joint venture obligations, the remaining joint venture participants are jointly and severally liable to meet the obligations of the defaulting participant. In this event, the interest in the permit, licence, production sharing contract 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 Merged Group in respect of defaulting joint venture participants.

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

## VII) OTHER FINANCIAL INFORMATION FOR THE MERGED GROUP

### i) Exploration and development commitments

The Merged Group has entered into joint venture arrangements for the purpose of exploring, developing and producing from certain petroleum permits, licences or production sharing contracts. To maintain existing interests or rights to earn interests in those ventures the Merged 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 Merged 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 Horizon Oil Directors have prepared the following disclosure of exploration and development expenditure commitments. These are payable as follows, based on current status and knowledge of estimated quantum and timing of such commitments.

Significant commitments for the Merged Group consist of:

	HORIZON OIL GROUP US\$ '000	ROC GROUP US\$ '000	MERGED GROUP US\$ '000
Not longer than one year	117,019	21,065	138,084
Longer than one year but not longer than five years	19,462	80,736	100,198
<b>Total</b>	<b>136,481</b>	<b>101,801</b>	<b>238,282</b>

The above commitments may be deferred or modified with the agreement of the host government, by variations to the terms of individual permits, licences or production sharing contracts, 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 Merged Group entering into farm-out agreements or working interest trades, both of which are typical of the normal operating activities of the Horizon Oil Group and the Roc Group.

### ii) Derivatives

The current hedging arrangements of the Horizon Oil Group and the Roc Group are as follows:

Horizon Oil Group – oil price hedging is undertaken as a risk mitigation measure to ensure the Horizon Oil Group's financial position remains sound and that the Horizon Oil Group is able to meet its financial obligations in the event of low oil prices.

As at 31 March 2014, the Horizon Oil Group had 1.11 million BBLs of crude oil hedged through a mixture of Brent oil price swaps and collars at a weighted average price of US\$100/BBL which represents approximately 7% of its proven and probable reserves.

Roc Group currently has no oil price hedging in place.



## **E) FORECAST FINANCIAL INFORMATION FOR THE MERGED GROUP**

The Horizon Oil Group has given careful consideration as to whether a reasonable basis exists to produce reliable and meaningful forecast financial information. The Horizon Oil Directors have concluded that, as at the date of this Scheme Booklet, it would be misleading to provide forecast financial information, as a reasonable basis does not exist for providing forecasts that would be sufficiently meaningful and reliable as required by applicable law, policy and market practice.

The financial performance of the Merged Group in any period will be influenced by various factors that are outside the control of the Horizon Oil Directors and that cannot, at this time, be predicted with a high level of confidence. In particular, the financial performance of the Merged Group will be materially affected by:

- i) prevailing oil and gas prices which are subject to material change from time to time;
- ii) prevailing exchange rates which are subject to material change from time to time;
- iii) the timing and level of production;
- iv) the timing of individual crude oil liftings, particularly liftings close to the end of the relevant period; and
- v) the costs related to exploration, development and operating activities.

The Horizon Oil Group does not have an established practice of issuing financial forecasts given the potential impact of the considerations shown above.

# 13. Other matters relevant to the Scheme



There are a range of issues which form part of, or are related to, the Scheme or the Merged Group. Horizon Oil Shareholders should consider the issues outlined below as part of their overall assessment of the Scheme.

## 13.1 ROC EGM

### A) MEETING REQUESTED BY ALLAN GRAY

On 15 May 2014, Roc advised ASX that it had received a notice under section 249D of the Corporations Act from Citicorp Nominees Pty Limited (as nominee for the custodian for the Allan Gray Australian Equity Fund and HOSTPLUS Superannuation Fund (**Requisitioner**), who held 45,393,859 Roc Shares (being 6.6% of Roc Shares) as at 15 May 2014. The notice from the Requisitioner requested Roc to convene a general meeting of Roc Shareholders to consider a resolution to amend the Roc Constitution.

The Requisitioner has requested that Roc Shareholders vote on a resolution to insert a new clause in the Roc Constitution, which would require the prior approval of Roc Shareholders for any issue of securities which would (or any convertible securities which, when converted, would) exceed 30% of the Roc Shares on issue at the time.

Pursuant to section 136(2) of the Corporations Act and the terms of the Roc Constitution, this resolution will require 75% of the votes cast by Roc Shareholders to be in favour of the resolution, in order to be passed.

On Thursday, 5 June 2014, Roc released a notice of extraordinary meeting and explanatory statement to facilitate a meeting of Roc Shareholders scheduled for Friday 11 July 2014. In that release, the Roc Directors unanimously recommended that Roc Shareholders vote against the resolution proposed by the Requisitioner, and advised that the Roc Directors would be voting against the resolution.

Horizon Oil considers that this is a matter for Roc and the Roc Shareholders to determine, and does not make any recommendation or express any view to Horizon Oil Shareholders in relation to the proposed resolution or the likelihood of the proposed resolution being passed (or otherwise) by Roc Shareholders.

### B) POTENTIAL EFFECT ON THE SCHEME

If the proposed resolution is passed by the requisite majority of Roc Shareholders, the amendment of the Roc Constitution would qualify as a Roc Oil Prescribed Event (Schedule 2, Item 7) under the Merger Implementation Deed. As described in section 16.1 (*Merger Implementation Deed*) of this Scheme Booklet, it is a Condition Precedent to the implementation of the Scheme that no Roc Oil Prescribed Event should occur prior to 8.00am on the Second Court Date. This Condition Precedent is for the benefit of Horizon Oil.

Accordingly, if the proposed resolution is passed and a Roc Oil Prescribed Event, is taken to have occurred, Roc must immediately give Horizon Oil written notice of the breach or non-fulfilment of the relevant Condition Precedent to Horizon Oil.

### C) HORIZON OIL'S INTENTIONS

At the date of this Scheme Booklet, Horizon Oil has not formed an intention or view on the course of action which it may take if the proposed resolution is passed by Roc Shareholders and reserves its rights in this regard.

Horizon Oil does not presently intend to consent to the altering of Roc's Constitution (although it reserves its right to do so) and expects that Roc will honour all of its obligations under the Merger Implementation Deed. If Roc's Constitution is amended, Horizon Oil will undertake all steps available to it to preserve its rights pursuant to the Merger Implementation Deed (which may include claiming damages for any breach of the Merger Implementation Deed to the fullest extent possible).

If those circumstances come to pass, the Horizon Oil Directors will assess Horizon Oil's options carefully and make a considered decision based on the information available to them at that time.

## 13.2 CHANGE OF CONTROL

### A) MATERIAL CONTRACTS, LICENCES AND PERMITS

Horizon Oil has reviewed the contracts, licences and permits which contain change of control or assignment provisions which may be triggered by the implementation of the Scheme and have a material adverse effect on its operations.

#### i) *Crown Mineral Act 1991* (New Zealand)

Horizon Oil has identified that, in respect of its New Zealand assets (PMP 38160 Fields and PEP 51313), it will be required to notify the New Zealand Minister for Energy and Resources (the Hon Simon Bridges) under the *Crown Minerals Act 1991* (New Zealand) of the change of control in Horizon Oil (New Zealand) Limited and Horizon Oil International Limited which will be deemed to occur as a result of the implementation of the Scheme. Under the relevant legislation, the Minister may revoke the permits within three months of being notified, if he is not satisfied that the permit holder has the financial capability to meet its obligations under the permit following the change of control. The revocation of any New Zealand permit as a result of the Scheme's implementation would have an adverse effect on the Merged Group. The Minister is obliged to act in accordance with the New Zealand Crown Mineral Petroleum Programme which in its applicable parts states that the power to revoke a Permit will be used very sparingly and only if, in the Minister's view, the change in control results in a significant risk that the permit holder will not be able to meet its financial obligations under the permit.

As at the date of this Scheme Booklet, Horizon Oil has notified the Minister and the administering government department, New Zealand Petroleum and Minerals, of the transaction and provided financial information about the Merged Group.



## ii) Osaka Gas Sale Agreement – “Option Completion”

In relation to the Osaka Gas Sale Agreement, “PRL Completion” and “PPL Completion” occurred on 12 June 2014 (as per Horizon’s announcements to ASX on 2 June 2014 and 18 June 2014). Under the Osaka Gas Sale Agreement, Osaka Gas Niugini E&P Pty Ltd has a further 90 days to exercise its option to purchase “Additional Assets” by paying a proportionate share of costs incurred – referred to as “Option Completion”.<sup>93</sup> If the Scheme becomes Effective during this 90 day option period, it will constitute a “Change of Control” under the Osaka Gas Sale Agreement. It is a condition precedent for “Option Completion” that no “Change of Control” has occurred. This condition precedent is for the benefit of Osaka Gas. In those circumstances, Osaka Gas may choose to either waive this condition precedent and proceed with “Option Completion” or terminate the Osaka Gas Sale Agreement in respect of the “Additional Assets” only.

Given that “PRL Completion” and “PPL Completion” have already occurred and that “Option Completion” was always at the option of Osaka Gas, Horizon Oil does not consider that this “Change of Control” right has a material adverse effect on the Osaka Gas Sale Agreement.

## **B) FINANCING ARRANGEMENTS**

Horizon Oil has entered into the Horizon Oil Facility Agreement dated 16 March 2012 with Australia and New Zealand Banking Group Limited (acting as **ANZ Agent** and **Financier**), Commonwealth Bank of Australia (also a **Financier**) and others, as amended under an Amending Deed dated 9 April 2014 (**Horizon Oil Facility Agreement**).

If implemented, the Scheme will:

- i) constitute a “Review Event”; and
  - ii) trigger an “Event of Default”,
- under the Horizon Oil Facility Agreement.

The following is a description of key covenants under the Horizon Oil Facility Agreement which may be affected by the Scheme and the actions by Horizon Oil taken to address them.

### **i) Review Event**

If the Scheme is implemented, then under clause 25.3 (*Review Event*) of the Horizon Oil Facility Agreement:

- i) Roc acquiring 100% of the Horizon Oil Shares; and
  - ii) Horizon Oil being subsequently de-listed from the ASX,
- will constitute separate “Review Events”.

Upon the occurrence of a “Review Event”, Horizon Oil and the ANZ Agent are required to negotiate in good faith to agree amendments to the finance documents, a restructure of the facility, refinancing plan or any other matters that the ANZ Agent determines in good faith are appropriate as a result of the “Review Event”. If such agreement is not reached within 60 days of the “Review Event”, the ANZ Agent may by notice declare all amounts under the facility due and payable within 30 days of such notice and immediately cancel the facility.

Horizon Oil has notified the ANZ Agent of the possibility of a “Review Event” resulting from the Scheme’s implementation. Horizon Oil has obtained the ANZ Agent’s consent to a waiver of these “Review Events” as a result of the Scheme’s implementation. A “Review Event” ceased to subsist upon receipt by Horizon Oil of that waiver from the ANZ Agent on Friday 30 May 2014.

### **ii) Event of Default**

If the Scheme is implemented and Horizon Oil has received irrevocable acceptances in respect of more than US\$2,000,000 worth of Horizon Oil Convertible Bonds which are committed for early redemption under the Horizon Oil CB Early Redemption Offer, this will result in an “Event of Default” (cross-default) under clause 25.1(c) (*Cross default*) of the Horizon Oil Facility Agreement.

Upon the occurrence of an “Event of Default”, the ANZ Agent may, in the absence of a waiver, by notice to Horizon Oil, declare all amounts immediately due and payable, cancel the facility and take all immediate action.

Horizon Oil has notified the ANZ Agent of the possibility of an “Event of Default” resulting from the implementation of the Scheme and the Horizon Oil CB Early Redemption Offer. Horizon Oil has obtained the ANZ Agent’s consent to a waiver of this “Event of Default” as a result of the Scheme’s implementation. The “Event of Default” ceased to subsist upon receipt by Horizon Oil of that waiver from the ANZ Agent on Friday 30 May 2014.

### **iii) Other covenants**

Under clauses 24.3(m) (*Corporate existence*) and 24.6(d) (*Undertakings relating to structure and corporate matters*) of the Horizon Oil Facility Agreement, Horizon Oil has undertaken not to enter into any merger or consolidation unless otherwise agreed by the ANZ Agent. While the Scheme and its economic benefits are commonly described as a merger, the legal nature of the Scheme is better characterised as the acquisition by Roc of all the Horizon Oil Shares.

Under clause 23.1(x) (*Consolidated group*), Horizon Oil has represented to the Financiers and Agent that it is not part of a consolidated group for tax purposes except as permitted by the Agent. If the Scheme is implemented and Horizon Oil becomes part of Roc’s consolidated group for tax purposes (including entering into a deed of cross-guarantee and other intra-group arrangements), this will result in a breach of that representation.

<sup>93</sup> “Additional Assets” comprise up to 36% in Jurassic International Holdings Limited to derive a participating interest in PPL 372 and PPL 373, and up to 20% participating interest in PPL 430.

Horizon Oil has notified the ANZ Agent of the possibility that these other representations and undertakings may be affected by the implementation of the Scheme. To the extent it may be required, Horizon Oil has obtained the ANZ Agent's consent to the implementation of the Scheme for the purposes of these representations and undertakings. Horizon Oil received the relevant waiver on Friday 30 May 2014 and accordingly there will be no breach of these representations and undertakings as a result of implementing the Scheme.

### **13.3 PARTLY PAID SHARES, HORIZON OIL OPTIONS AND HORIZON OIL SARs**

#### **A) BACKGROUND**

Horizon Oil has granted Horizon Oil Options and Horizon Oil SARs to eligible employees under the Horizon Oil Employee Performance Incentive Plan (Horizon Oil EPIP), Horizon Oil Option Scheme (Horizon Oil EOS) and Horizon Oil Long Term Incentive Plan (Horizon Oil LTI Plan). These equity-based incentive plans were designed to align Horizon Oil employees (in particular, senior executive staff) with long term shareholder growth targets.

Accordingly, Horizon Oil Options and Horizon Oil SARs have been granted to executive directors and key management personnel in accordance with the terms of the relevant option scheme or plan and have been approved on a case by case basis by shareholders at relevant general meetings.

In April 2010, the Horizon Oil Board determined that no new Horizon Oil Options would be issued under the Horizon Oil EPIP. In place of Horizon Oil Options issued under the Horizon Oil EPIP, Horizon Oil SARs have been granted to executive directors and key management personnel.

Under the terms of the Horizon Oil LTI Plan, Horizon Oil may grant Horizon Oil SARs to any employee however, to date, Horizon Oil has only granted Horizon Oil SARs to current senior executive employees (including executive directors). A Horizon Oil SAR is a right to receive either or both a cash payment or shares in Horizon Oil, as determined by the Horizon Oil Board, subject to Horizon Oil satisfying certain conditions (including performance conditions). No price is payable by the holder on the exercise of a Horizon Oil SAR. The key terms of the Horizon Oil LTI Plan are described on pages 34 and 35 of Horizon Oil's 2013 Annual Report.

#### **B) TREATMENT OF HORIZON OIL OPTIONS AND HORIZON OIL SARs**

##### **i) Agreed purpose and intention**

Under the Merger Implementation Deed, Horizon Oil and Roc agreed to use their best endeavours to determine the treatment of Horizon Oil Options and Horizon Oil SARs prior to the date of this Scheme Booklet.

Specifically, Horizon Oil and Roc agreed to use best endeavours to procure that:

- i) Horizon Oil Options and Horizon Oil SARs are transferred to Roc or cancelled prior to the Record Date; or
- ii) the holders of Horizon Oil Options and Horizon Oil SARs will be provided with consideration for the transfer or cancellation of their Horizon Oil Options and Horizon Oil SARs that is reasonably acceptable to Horizon Oil, the holders and Roc.

Horizon Oil and Roc have agreed that Horizon Oil Options and Horizon Oil SARs should be dealt with in accordance with the principle that holders of Horizon Oil Options and Horizon Oil SARs will be put in a commercially equivalent position.

To the extent possible, the material terms and conditions of the new options or performance rights over Roc Shares will be consistent with the terms and conditions of the Horizon Oil Options and Horizon Oil SARs, other than the revised exercise prices which will apply and the number of options or other instruments which will remain on issue, given that those aspects of the security holding must necessarily change in order to maintain equivalent value.

These arrangements (described below) are subject to implementation of the Scheme and are also subject to the agreement of Horizon Oil, Roc and the persons holding those instruments (the intention being to reach this agreement prior to the Scheme meeting) and also the grant by ASX of an appropriate waiver.

To the extent that Horizon Oil, Roc and the persons holding those instruments are unable to reach agreement in relation to the treatment of Horizon Oil Options and Horizon Oil SARs by the date of the Scheme Meeting, and the Scheme becomes Effective, those negotiations will continue between Horizon Oil, the Merged Group and the instrument holders with the guidance and involvement of a remuneration expert.

##### **ii) Terms of cancellation and consideration**

###### **A) Horizon Oil partly paid shares**

Subject to the Scheme becoming Effective, holders of partly paid shares in Horizon Oil will receive the Scheme Consideration of 0.724 fully paid New Roc Shares for each partly paid share and will remain liable to Roc for the residual payments owing on those partly paid shares in Horizon Oil, with the amounts payable on or before the date applicable under the relevant employee incentive scheme under which those partly paid shares were originally acquired. In effect, the residual payments owing on the partly paid shares in Horizon Oil will be a debt obligation owed by that Horizon Oil shareholder to Roc. No interest will be payable on that debt obligation.

###### **B) Vested Horizon Oil Options**

Subject to the Scheme becoming Effective, Horizon Oil Options which have vested but which have not been exercised by the Scheme Meeting will be deemed to have been exercised and a corresponding number of Horizon Oil Shares will be issued to the holder as soon as reasonably practicable following the Scheme Meeting (but prior to the Record Date).



Accordingly, holders of vested Horizon Oil Options will receive the Scheme Consideration and remain liable to Roc for the amount equal to the exercise price of such options giving rise to the new Horizon Oil Shares which were issued, with the amount payable on or before the date on which the Horizon Oil Option exercise price would otherwise have been payable.

The table below summarises the vested Horizon Oil Options which will be treated in this way and the number of New Roc Shares which will be issued in respect of those Horizon Oil Options, as at the date of this Scheme Booklet:

PLAN	GRANT DATE	EXPIRY DATE	HZN EX. PRICE AUD	OPTIONS REMAINING	NEW ROC SHARES TO BE ISSUED
EOS	25/09/2009	25/09/2014	0.2890	350,000	253,400
EOS	9/10/2009	9/10/2014	0.3090	2,700,000	1,954,800
EOS	16/09/2010	16/09/2015	0.3040	350,000	253,400
EOS	28/05/2012	28/05/2017	0.2640	1,000,001	724,001
EOS	17/09/2012	17/09/2017	0.2940	166,667	120,667
EPIP	25/09/2009	25/09/2014	0.2890	5,175,000	3,746,700
General	11/12/2009	11/12/2014	0.3440	500,000	362,000
General	10/01/2012	10/04/2015	0.2090	666,667	482,667
General	28/05/2012	27/08/2015	0.2640	1,333,334	965,334
<b>Total</b>				<b>12,241,669</b>	<b>8,862,969</b>

### C) Unvested Horizon Oil Options and Horizon Oil SARs

Subject to the Scheme becoming Effective, the treatment of Horizon Oil Options and Horizon Oil SARs which have not vested by the Scheme Meeting will depend on whether the closing price of Horizon Oil Shares on the day following the Scheme Meeting is above the exercise price for that particular Horizon Oil Option or Horizon Oil SAR.

In brief:

- i) unvested Horizon Oil Options which are in-the-money and all Horizon Oil SARs will be cancelled in exchange for the issue of comparable new Roc Options; and
- ii) unvested Horizon Oil Options which are out-of-the-money will be cancelled in exchange for either the issue of comparable new Roc Options or a cash payment, as determined by the Horizon Oil Board,

on the basis set out below.

### D) Unvested Horizon Oil Options (in-the-money) and Horizon Oil SARs

Subject to the Scheme becoming Effective, unvested Horizon Oil Options which are in-the-money and Horizon Oil SARs will be cancelled on the Effective Date and in exchange their holders will be entitled to receive such number of new Roc Options which are equivalent in value to those Horizon Oil Options and Horizon Oil SARs which were cancelled (taking into account a revised strike price based on the merger ratio) as soon as reasonably practicable after the Effective Date.

Those Horizon Oil Options, Horizon Oil SARs and the number of new Roc Options which will be issued in exchange, will be calculated and valued with reference to a Black-Scholes valuation methodology and as agreed by the parties.

The table below summarises the unvested Horizon Oil Options and Horizon Oil SARs which would be treated in this way.

PLAN	GRANT DATE	EXPIRY DATE	HZN EX. PRICE AUD	OPTIONS / SARs REMAINING	NEW ROC OPTIONS TO BE ISSUED	ROC EX. PRICE AUD
EOS	28/05/2012	28/05/2017	0.2640	666,666	594,748	0.3650
EOS	17/09/2012	17/09/2017	0.2940	333,333	296,824	0.4060
General	10/01/2012	10/04/2015	0.2090	333,333	310,272	0.2890
General	28/05/2012	27/08/2015	0.2640	666,666	636,882	0.3650
SARs	1/10/2010	1/10/2015	0.3046	6,693,828	5,790,654	0.4207
SARs	5/08/2011	5/08/2016	0.3129	6,478,276	5,342,158	0.4322
SARs	13/08/2012	13/08/2017	0.2710	9,561,936	7,529,173	0.3743
SARs	19/08/2013	19/08/2018	0.3326	8,547,599	6,736,777	0.4594
<b>Total</b>				<b>33,281,637</b>	<b>27,237,488</b>	

## E) Unvested Horizon Oil Options (out-of-the-money)

In respect of Horizon Oil Options which are out-of-the-money on the day following the Scheme Meeting, the Horizon Oil Board may elect (if requested by the optionholder) to cancel those out-of-the-money Horizon Oil Options and pay the cash equivalent value of that cancelled Horizon Oil Option (to be determined no less than 14 days prior to the Scheme Meeting).

If the Horizon Oil Board makes such an election, the cash equivalent value of a cancelled Horizon Oil Option will be calculated on the basis of a Black-Scholes valuation methodology. If the Horizon Oil Board does not make such an election, the Horizon Oil Options will be treated in the same manner as unvested (in-the-money) Horizon Oil Options.

The table below summarises the unvested Horizon Oil Options which would be treated in this way.

PLAN	GRANT DATE	EXPIRY DATE	HZN EX. PRICE AUD	OPTIONS / SARS REMAINING	VALUATION AUD
EOS	20/02/2013	20/02/2018	0.4340	350,000	41,043
EOS	20/02/2013	20/02/2018	0.4040	350,000	43,791
<b>Total</b>				<b>700,000</b>	<b>84,834</b>

### i) Valuation methodology

In relation to the cancellation of any Horizon Oil Options, the issue of any equivalent new Roc Options or the payment of any cash equivalent amount as consideration for the cancellation of a Horizon Oil Option, the value of those items will be calculated and determined by using a Black-Scholes model based on the following assumptions:

INPUT	GRANT DATE
<b>HORIZON OIL OPTIONS, HORIZON OIL SARS AND CASH EQUIVALENT AMOUNTS</b>	
Horizon Oil Share price	AUD0.37, being the last traded price of Horizon Oil on ASX prior to the Scheme announcement on 29 April 2014.
Volatility	44.5%, being the observed historical volatility of Horizon Oil.
Time to maturity	The period which elapses at the original expiry date for the particular Horizon Oil Option or Horizon Oil SAR.
Risk-free rate	2.9%.
Dividends	Zero dividends for the period through to expiry.
<b>NEW ROC OPTIONS</b>	
Roc Share price	AUD0.455, being the last traded price of Roc on ASX prior to the Scheme announcement on 29 April 2014.
Volatility	44.5%, consistent with the observed historical volatility used to value Horizon Oil Options and Horizon Oil SARs.
Time to maturity	The period which elapses at the original expiry date for the particular Horizon Oil Option or Horizon Oil SAR.
Risk-free rate	2.9%.
Dividends	Zero dividends for the period through to expiry.
Exercise price	New strike price calculated as the exercise price applicable to the original Horizon Oil Option or Horizon Oil SAR, divided by the merger ratio of 0.724.

In relation to the cancellation of any Horizon Oil SARs, the issue of equivalent new Roc Options has been calculated and determined by using a Black-Scholes model based on the assumptions above, but reduced as agreed with the holders of the Horizon Oil SARs.

## 13.4 TREATMENT OF HORIZON OIL CONVERTIBLE BONDS

### A) BACKGROUND

Horizon Oil issued 400 Horizon Oil Convertible Bonds for US\$80 million on 17 June 2011. The Horizon Oil Convertible Bonds were listed on the Singapore Securities Exchange on 20 June 2011. The Horizon Oil Convertible Bonds are governed by the Horizon Oil Bond Terms. The Horizon Oil Bond Terms and other information relating to the Horizon Oil Convertible Bonds are contained in Horizon Oil's announcement to ASX on 17 June 2011 'Section 708A Cleansing Notice for Horizon Oil Convertible Bonds' available via [www.asx.com.au](http://www.asx.com.au).

The Horizon Oil Convertible Bonds carry a coupon of 5.5% per annum, payable semi-annually in arrears, and carry a 7% yield to maturity on 17 June 2016 when they are due to be redeemed at 108.80% of their principal amount.

The Horizon Oil Convertible Bonds were issued with an initial conversion price of US\$0.52 and have since been adjusted to US\$0.409, in accordance with the Horizon Oil Bond Terms. As at the date of this Scheme Booklet, no Horizon Oil Convertible Bonds had been converted or redeemed.

## **B) RIGHTS OF HORIZON OIL BONDHOLDERS IN RELATION TO THE SCHEME**

Under the Horizon Oil Bond Terms, the Horizon Oil Convertible Bonds can be satisfied and discharged by:

- i) *conversion* – the Horizon Oil Convertible Bonds can, at the option of the Horizon Oil Bondholder, be converted into Horizon Oil Shares prior to the 17 June 2016 (“Final Maturity Date”); or
- ii) *redemption (repayment)* – Horizon Oil Bondholders may elect to redeem the accreted value of their Horizon Oil Convertible Bonds in specific circumstances (the occurrence of a “Relevant Event”) otherwise Horizon Oil must redeem all outstanding Horizon Oil Convertible Bonds at the “Final Maturity Date”.

If the Scheme becomes unconditional (at the Second Court Date), this would constitute a “Change of Control” (as at the Second Court Date) and would be a “Relevant Event” under the Horizon Oil Bond Terms.

Upon becoming unconditional, the Scheme will trigger:

- i) an adjustment event which results in a reduced conversion price becoming available to Horizon Oil Bondholders for a 30-day period; and
- ii) a redemption right becoming available to Horizon Oil Bondholders for a 60-day period.

Horizon Oil Bondholders can elect to action either one of those triggers.

To the extent Horizon Oil Bondholders validly exercise conversion rights and are issued with new Horizon Oil Shares prior to the Record Date, those Horizon Oil Bondholders (who will then be holding Horizon Oil Shares) would be entitled to participate in the Scheme.

The merits of conversion or redemption of the Horizon Oil Convertible Bonds will depend on, among other things, the prevailing price of Horizon Oil and Roc Shares and the US\$/A\$ exchange rate at that time. Under the Horizon Oil Bond Terms, the full process of conversion may take up to 45 days and the full process of redemption of Horizon Oil Convertible Bonds may take up to 88 days from the relevant “Change of Control” or “Relevant Event”.

If Horizon Oil Bondholders elect to convert, Horizon Oil may elect to settle the conversion by making payment of a cash alternative amount to Horizon Oil Bondholders in lieu of issuing new Horizon Oil Shares.

## **C) TREATMENT OF HORIZON OIL CONVERTIBLE BONDS IN RELATION TO THE SCHEME**

### **i) Horizon Oil CB Early Redemption Offer**

Horizon Oil has proposed the Horizon Oil CB Early Redemption Offer to all Horizon Oil Bondholders (details below).

In return for participating in the Horizon Oil CB Early Redemption Offer, Horizon Oil Bondholders agree to redeem their Horizon Oil Convertible Bonds if the Scheme is implemented. The Horizon Oil CB Early Redemption Offer will allow Horizon Oil Bondholders to receive a price for their Horizon Oil Convertible Bonds that is in line with the trading price of the Horizon Oil Convertible Bonds prior to the announcement of the merger.

The purpose of the Horizon Oil CB Early Redemption Offer is to increase the probability of Horizon Oil Bondholders electing to redeem their Horizon Oil Convertible Bonds, with a view to achieving a simpler capital structure for the Merged Group.

The key terms of the Horizon Oil CB Early Redemption Offer are:

- i) the Horizon Oil CB Early Redemption Offer is conditional upon the Scheme becoming Effective and all Conditions Precedent being satisfied or waived;
- ii) the Horizon Oil CB Early Redemption Offer will open on Monday, 21 July 2014 and close on Thursday, 31 July 2014;
- iii) Horizon Oil Bondholders who accept the Horizon Oil CB Early Redemption Offer and redeem their Horizon Oil Convertible Bonds as a result of the Scheme will receive a premium of 625 basis points above the “Early Redemption Amount” which they are entitled to receive under the Horizon Oil Bond Terms;
- iv) the Private Early Redemption Amount will be funded from the available cash balance of the Merged Group and will be paid as soon as practicable following implementation of the Scheme;
- v) Horizon Oil Bondholders who accept the Horizon Oil CB Early Redemption Offer agree to vote in favour of a resolution which may be proposed at a meeting of Horizon Oil Bondholders to consider an amendment to the Bond Terms to include a right for Horizon Oil to redeem any outstanding Horizon Oil Convertible Bonds;
- vi) the Horizon Oil CB Early Redemption Offer must be accepted for all (not some) of the Horizon Oil Convertible Bonds held by the Horizon Oil Bondholder, and such acceptance is irrevocable; and
- vii) once accepted, Horizon Oil Bondholders must not deal with the Horizon Oil Convertible Bonds until redeemed in accordance with the Horizon Oil CB Early Redemption Offer or the offer lapses (whichever occurs first).

### **ii) Potential for compulsory acquisition of outstanding Horizon Oil Convertible Bonds by Roc**

Following implementation of the Scheme, Roc (or Horizon Oil, as applicable) may seek to compulsorily acquire outstanding Horizon Oil Convertible Bonds in several ways.

#### **A) Existing rights under Horizon Oil Bond Terms**

Under the Horizon Oil Bond Terms, Horizon Oil has a '90% clean-up call' – being a right to redeem all outstanding Horizon Oil Convertible Bonds if conversion or redemption is effected in respect of 90% or more (by principal amount) of the Horizon Oil Convertible Bonds.

#### **B) Meeting to amend Horizon Oil Bond Terms**

Horizon Oil may call a meeting of Horizon Oil Bondholders to amend the Horizon Oil Bond Terms by “Extraordinary Resolution” (75% or more of those attending and voting at the relevant meeting) to include a right for Horizon Oil to redeem any outstanding Horizon Oil Convertible Bonds.

If the “Extraordinary Resolution” is approved, Horizon Oil may exercise its right to redeem any outstanding Horizon Oil Convertible Bonds.

#### **C) General compulsory acquisition under the Corporations Act**

If the Scheme is implemented and Roc obtains:

- i) 90% of the voting power in Horizon Oil; and
- ii) (either alone or with a related body corporate) full beneficial interests in at least 90% by value of all the securities of Horizon Oil that are either shares or convertible into shares,

Roc may seek to compulsorily acquire the outstanding Horizon Oil Convertible Bonds in accordance with the Corporations Act.

Whether Roc has acquired 90% by value will depend on multiple variables and will need to be determined by an expert nominated by ASIC.

After taking into account:

- i) the transfer of 100% of Horizon Oil Shares to Roc, which will occur if the Scheme is implemented;
- ii) those Horizon Oil Convertible Bonds which may be redeemed pursuant to the Horizon Oil CB Early Redemption Offer; and
- iii) those Horizon Oil Convertible Bonds which may be converted; and
- iv) the cancellation and conversion of Horizon Oil Options and Horizon Oil SARs proposed in section 13.3 (*Partly paid shares, Horizon Oil Options and Horizon Oil SARs*),

it is possible that Roc will achieve the threshold for general compulsory acquisition (described above) and be in a position to effect compulsory acquisition of the outstanding Horizon Oil Convertible Bonds.

If these thresholds are met, Roc will have six months (from the time it becomes the 90% holder) to lodge a compulsory acquisition notice with ASIC and notify outstanding Horizon Oil Bondholders.

Outstanding Horizon Oil Bondholders may challenge any proposed compulsory acquisition by Roc, but this would require the relevant Horizon Oil Bondholders to establish to the satisfaction of a court that the terms set out in Roc's compulsory acquisition notice do not give a fair value for their Horizon Oil Convertible Bonds. If the Horizon Oil Convertible Bonds are compulsorily acquired by Roc, Horizon Oil Bondholders are not likely to receive payment until at least one month after Roc has sent out the compulsory acquisition notices.

### **13.5 RIGHTS AND LIABILITIES ATTACHED TO ROC SHARES**

The rights and liabilities attaching to New Roc Shares which are issued to Horizon Oil Shareholders as Scheme Consideration will be the same as those attaching to existing Roc Shares. These rights and liabilities are detailed in the Roc Constitution, subject to the Corporations Act and the Listing Rules.

The table below summarises some of the key rules in the Roc Constitution in relation to the rights and liabilities attached to Roc Shares in effect at the date of this Scheme Booklet. This summary does not purport to be exhaustive and must be read subject to the full text of Roc's Constitution, available at the Roc website at [www.rocoil.com.au/Responsibility/Corporate-Governance.aspx](http://www.rocoil.com.au/Responsibility/Corporate-Governance.aspx).

Horizon Oil Shareholders should seek their own independent advice in relation to their rights and liabilities as potential holders of New Roc Shares in specific circumstances.

This summary should be considered with reference to section 13.1 (*Roc EGM*)

<b>Issue of further shares</b>	Subject to the Roc Constitution and the Listing Rules, the Roc Directors have the right to issue shares, or grant options over unissued shares, to any person on the conditions they see fit. These further shares may have preferred, deferred, or other special rights/restrictions placed upon them as the Roc Directors see fit. The Roc Directors are permitted to issue preference shares, which are subject to the specific rights and restrictions set out in the Roc Constitution.
<b>Roc Directors need not issue share certificates</b>	Subject to requirements in the Corporations Act, the Listing Rules and the ASX Operating Rules, the Roc Directors need not issue share certificates. Where a share certificate is not issued, a member is entitled to receive a statement of their holdings.
<b>Calls</b>	The Roc Board may, subject to the Roc Constitution and the terms on which any shares were issued, make calls on the Roc Shareholders for unpaid money on their Roc Shares which is not by the terms of issue of those Roc Shares made payable at fixed times. A Roc Shareholder on whom a call is made will be given at least 30 business days' notice of the call. If a call is made, Roc Shareholders are liable to pay the amount of the call at the time and place specified in the call notice.
<b>Forfeiture and lien</b>	<p>If the sum called on is not paid in full by the time required for payment, the Roc Shareholder may receive a notice from Roc requiring payment of the unpaid amount, together with interest and any cost, expense or damages incurred by Roc by reason of the non-payment or late payment of the sum. The Roc Shareholder will be given at least 14 days' notice of the required payment. The notice must name a place and day for payment and state that the Roc Shares on which the call was made are liable to be forfeited if payment is not made as required.</p> <p>Roc may forfeit the Roc Shares in accordance with the Roc Constitution if the Roc Shareholder does not comply with such a notice. That forfeiture extends to all dividends declared and not paid on the forfeited shares.</p> <p>Roc has a first and paramount lien on each partly paid share for all unpaid calls on that share, and that lien extends to all dividends payable in respect of that share and to the proceeds of sale of the share. Roc may sell a share over which it holds a lien no less than 14 days after issuing a notice to the shareholder demanding payment of the amount due.</p>
<b>Roc Share transfers</b>	Subject to the Roc Constitution and to the rights or restrictions attached to any Roc Shares or class of Roc Shares, Roc Shares may be transferred by a proper transfer in accordance with the Listing Rules or by an instrument in writing in the usual form or in any other form that the Roc Directors approve. The Roc Board may only refuse to register a transfer of Roc Shares as permitted by the Listing Rules or the ASX Operating Rules, or where the transfer is not in registrable form.
<b>Voting</b>	<p>Subject to the Roc Constitution and any rights or restrictions attached to any Roc Shares or class of Roc Shares, at meetings of Roc Shareholders:</p> <ul style="list-style-type: none"> <li>i) each Roc Shareholder entitled to vote may vote in person or by proxy, attorney or representative;</li> <li>ii) on a show of hands, every person present who is a Roc Shareholder, or a proxy, attorney or representative of a Roc Shareholder, has one vote; and</li> <li>iii) on a poll, every person present who is a Roc Shareholder, or a proxy, attorney or representative of a Roc Shareholder, has one vote for each fully paid share held by the member and has a fraction of a vote equivalent to the proportion of the amount paid up for each partly paid Roc Share held by the Roc Shareholder.</li> </ul> <p>Except for resolutions which by law or the Listing Rules require a special majority, questions arising at a general meeting are to be cast by a majority of votes of the Roc Shareholders present at the meeting.</p>
<b>General meetings and notices</b>	Each Roc Shareholder is entitled to receive notice of and to attend at general meetings of Roc subject to Roc's Constitution and the rights or restrictions attached to any Roc Shares or class of Roc Shares. Two Roc Shareholders must be present to constitute a quorum for a general meeting. No business may be transacted at a general meeting, except the election of a chair and the adjournment of the meeting, unless the quorum of shareholders is present.



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**Dividends**

The Roc Board may pay interim and final dividends as, in their judgment, are justified by the financial position of Roc, including any dividends required to be paid under the terms of issue of a Roc Share. Subject to any rights or restrictions attached to a Roc Share or class of Roc Shares, dividends payable will be paid on all Roc Shares proportionate to the amount paid (not credited) on each Roc Share.

Roc Directors may direct that a dividend be wholly or partly paid by the distribution of specific assets (including fully paid shares or other securities) or paid out of any particular fund or reserve or the profits derived from a particular source. It is open to the Roc Board to carry forward as much of Roc's profits as they consider ought not to be distributed as dividends or capitalised, without transferring those profits to a reserve or provision. Subject to Roc's Constitution, the Roc Board may set aside, out of the profits of Roc, reserves or provisions for any purpose they think fit.

Subject to any rights or restrictions attaching to any shares or class of Roc Shares, the Roc Board have the power to capitalise and distribute among Roc Shareholders entitled to receive dividends amounts which:

- i) form part of the undivided profits of the company;
- ii) represent profits arising from an ascertained accretion to capital or from a revaluation of the assets of the company;
- iii) arise from the realisation of any assets of the company; or
- iv) are otherwise available for distribution as dividend.

Such capitalisation and distribution must be in the same proportions which Roc Shareholders would be entitled to receive if distributed by way of a dividend.

It is open to the Roc Board to implement a dividend reinvestment plan on the terms they think fit under which Roc Shareholders can elect that the whole or part of a dividend due to them may be used to subscribe in securities of the company or a related body corporate.

The Roc Board may, on the terms they think fit, also implement a dividend selection plan under which Roc Shareholders may elect in respect of all or part of their shareholdings to receive a dividend from Roc paid wholly or partly out of a particular fund or reserve, or profits derived from a particular source, or to forego a dividend from Roc, in place of another form of distribution.

The payment of a dividend does not require confirmation by a general meeting of Roc.

**Election and remuneration of directors**

There must be a minimum of three Roc Directors. The maximum number of directors is to be fixed by the directors but must not be more than 12 unless otherwise determined by the general meeting. At every annual general meeting, subject to the Roc Constitution, one third of the Roc Directors (excluding the managing director and any director appointed to fill a casual vacancy), and any other director who will have been in office for three or more years at the conclusion of the meeting, must retire from office. If no Roc Directors are required to retire at an annual general meeting on this basis, at least one director, excluding the managing director, must retire at each annual general meeting. The Roc Director or Roc Directors that must retire are those who have been in office the longest since their last election. Those directors who retire from office will be eligible for re-election upon a resolution of Roc Shareholders.

Roc Directors are entitled to be paid out of the funds of the company as the directors determine, except that the annual amount of remuneration of non-executive directors may not exceed in total in any year the amount fixed by Roc in general meeting. The remuneration of Roc Directors may be either:

- i) a stated salary and/or a fixed sum for attendance at each meeting of directors; or
- ii) a share of a fixed sum determined at a general meeting, to be remuneration payable to all directors which is to be divided between the directors in the proportions agreed between them or, failing agreement, equally.

A non-executive director of Roc is not entitled to remuneration by way of a commission on, or percentage of, Roc's profits or operating revenue.

There is provision for Roc Directors who perform extra services or who make special exertions as a director to receive special remuneration as determined by the Roc Board in addition to or in substitution of the remuneration they would otherwise receive. Roc Directors are also entitled to be paid all travelling and other expenses incurred in connection with the affairs of Roc, including in attending Roc general meetings, Roc Board meetings or meeting of any committee of directors.

Any Roc Director may be paid a pension or lump sum payment by the Roc Board, subject to the Listing Rules and the Corporations Act, after the Roc Director ceases to hold office as a Roc Director.

<b>Rights on winding up</b>	Subject to Roc's Constitution and to the rights or restrictions attached to any Roc Shares or class of Roc Shares, if Roc is wound up and there remains a surplus, the liquidator may (with the sanction of a special resolution of Roc) divide among Roc Shareholders the whole or any part of the property of the company, and may determine how that division is to be carried out as between the Roc Shareholders and different classes of Roc Shareholders.
<b>Proportional takeover bids</b>	Roc must not register a transfer giving effect to a proportional takeover bid unless and until a resolution to approve the bid has been passed in accordance with the Roc Constitution.
<b>Indemnity</b>	Roc must indemnify, on a full indemnity basis and to the full extent permitted by law, current and former Roc Directors, alternate directors and executive officers and other former or current officers as determined by the Roc Directors against all losses or liabilities incurred by the person as an officer including, but not limited to, a liability for negligence or for reasonable costs and expenses incurred in connection with court proceedings where the court finds in favour of the officer. The Roc Board may also determine that the same indemnity applies to other officers of the Roc and any auditor or former auditor of Roc.
<b>Insurance</b>	To the extent permitted by law, Roc may also maintain insurance policies for any current and former Roc Directors, alternate directors and executive officers and other former or current officers and auditors as determined by the Roc Directors protecting against liability incurred by an officer of Roc or an auditor including, but not limited to, a liability for negligence or for reasonable costs and expenses incurred in defending court proceedings, whatever their outcome.
<b>Amendments to the Roc Constitution</b>	The Corporations Act provides that the Constitution of a company may be modified or repealed by a special resolution passed by the members of a company. The Roc Constitution does not provide for any further requirements to be complied with to effect a modification of, or repeal to, the Roc Constitution.
<b>Replaceable rules</b>	The replaceable rules contained in the Corporations Act do not apply to Roc.

# 14. Risk factors





There are a range of factors (which are both specific to the Merged Group and of a general nature) which may, either individually or in combination, affect the future operating performance, financial position, regulation, legal position, implementation of strategy or reputation of the Merged Group, its business, its prospects and/or the value of shares in the Merged Group. A significant number of these risks are, or will be, matters that are already relevant to Horizon Oil whether or not the Scheme is approved. Many of the circumstances giving rise to these risks are beyond the control of the Merged Group, its directors and management.

This section 14 (*Risk factors*) describes certain specific areas that are believed to be the major risks associated with investment in the Merged Group. Readers should note that this section does not contain an exhaustive list of the risks associated with the Merged Group and the information set out here should be considered in conjunction with other information disclosed in this Scheme Booklet.

Horizon Oil Shareholders should have regard to their own investment objectives and financial circumstances and should consider seeking professional guidance from their financial, legal or other independent adviser before deciding whether to vote in favour of the Scheme.

## **14.1 SCHEME SPECIFIC RISKS**

### **A) IMPLICATIONS FOR HORIZON OIL IF THE SCHEME IS NOT IMPLEMENTED**

If the Scheme is not implemented, Horizon Oil will continue to operate its current businesses as a standalone entity. Each Horizon Oil Shareholder will retain their Horizon Oil Shares and will not receive any New Roc Shares. In those circumstances, Horizon Oil management would seek to continue to develop its existing projects and continue to maximise value for Horizon Oil Shareholders. Horizon Oil will still incur a relative proportion of the transaction and other costs of proposing and preparing for the merger with Roc.

Horizon Oil Shares may trade below their current market price (or the value attributed by the Independent Expert) if the Scheme is not implemented. This may occur if, for example, investors consider that Horizon Oil's growth prospects are lower in the absence of the merger.

### **B) CHANGE IN RISK PROFILE AND RISK OF INVESTMENT IN THE MERGED GROUP**

If the Scheme is implemented, there will be a change in the risk profile to which Horizon Oil Shareholders are exposed. Horizon Oil Shareholders are currently exposed to various risks as a result of their investment in Horizon Oil. If the Scheme is implemented, Horizon Oil will merge its business with that of Roc and Horizon Oil Shareholders who hold Horizon Oil Shares as at the Record Date (other than Ineligible Foreign Shareholders) will receive New Roc Shares. As a consequence, Scheme Participants will be exposed to risk factors relating to Roc, and to certain additional risks relating to the Merged Group and the integration of the two companies. These include risks relating to the operation of a broader suite of assets than Horizon Oil currently operates, different geographies that Horizon Oil is not currently exposed to, and other risks relating to the two companies. Many of these risks are described in this section 14 (*Risk Factors*) and are equally applicable to Roc – for example, integration risk, foreign operations risk, customer risks and the risk that joint ventures and other strategic partnerships may not be successful.

### **C) THE INVESTMENT PROFILE FOR HORIZON OIL SHAREHOLDERS WILL CHANGE**

While Horizon Oil is active in a number of the same commodity markets, operations and geographies as Roc, the operational profile, capital structure, size and geographic focus of the Merged Group will be different to that of Horizon Oil on a standalone basis. It is possible that certain Horizon Oil Shareholders may wish to maintain an interest in Horizon Oil as a standalone entity because they are seeking an investment in a publicly listed company with the specific characteristics of Horizon Oil (such as its current operational profile, capital structure, size and geography). The change in investment profile under the merger may be a disincentive to such shareholders.

### **D) THE EXACT VALUE OF THE SCHEME CONSIDERATION IS NOT CERTAIN**

If the Scheme is implemented, Horizon Oil Shareholders (other than Ineligible Foreign Shareholders) will receive the Scheme Consideration of 0.724 New Roc Shares in respect of each Horizon Oil Share they hold on the Record Date. The exact value of this Scheme Consideration that would be realised by individual Scheme Participants will be dependent on the price at which the New Roc Shares (being shares in the Merged Group) trade on ASX after the Effective Date.

Following the implementation of the Scheme, the Merged Group's share price may rise or fall based on market conditions and the Merged Group's financial and operational performance. If the Merged Group's share price falls, the value of those New Roc Shares received by Horizon Oil Shareholders as Scheme Consideration will decline in value.

Further, in circumstances where Roc Shareholders do not intend to continue to hold their Roc Shares, there is a risk that a significant number of Roc Shareholders will seek to sell their Roc Shares, which may adversely impact the price of Roc Shares (including the New Roc Shares which Horizon Oil Shareholders will have received as Scheme Consideration).

In addition, the Sale Nominee will be issued with New Roc Shares attributable to certain Ineligible Foreign Shareholders and will be seeking to sell those shares on ASX as soon as reasonably practicable. It is possible that such sales may exert downward pressure on the Merged Group's share price in the period following the Implementation Date.

### **E) RISKS OF TRADING DURING DEFERRED SETTLEMENT TRADING PERIOD**

Scheme Participants will not necessarily know the exact number of New Roc Shares (due to rounding) that they will receive (if any) as Scheme Consideration until a number of days after those shares can be traded on ASX on a deferred settlement basis. Scheme Participants who trade New Roc Shares on a deferred settlement basis without knowing the number of New Roc Shares they will receive as Scheme Consideration may risk adverse financial consequences if they purport to sell more New Roc Shares than they receive.

## **F) TRANSACTION AND OTHER COSTS**

The cost of the transaction expected to be payable by Horizon Oil is currently estimated to be approximately US\$4.3 million. This includes financial advisory, legal, accounting, independent experts, technical experts, tax and administrative fees, Scheme Booklet design and printing, marketing, Horizon Oil Share Registry and other expenses. The amount does not include transaction costs that may be incurred by Roc. A breakdown of the estimated transaction costs is set out in section 17.5 (*Fees and interests of advisers and others*).

## **G) TAX CONSEQUENCES FOR SCHEME PARTICIPANTS**

If the Scheme proceeds, there may be tax consequences for Scheme Participants which may include tax payable on any gain on the disposal of Scheme Shares. However, Scheme Participants should seek their own professional advice regarding the individual tax consequences applicable to them. Further information on the tax consequence of the Scheme is set out in section 15 (*Tax implications*).

## **14.2 IMPLEMENTATION RISKS**

### **A) INTEGRATION RISK**

The long-term success of the Merged Group will depend, amongst other things, on the success of management in integrating the respective businesses and the strength of management of the Merged Group. There is no guarantee that the businesses of the Merged Group will be able to be integrated successfully or over the expected time period or at the currently anticipated costs. There are risks that any integration of the businesses of Horizon Oil and Roc may take longer than expected and that anticipated benefits of that integration may be less than estimated. These risks include possible differences in the management culture of the two groups, inability to achieve cost savings, and the potential loss of key personnel. Any failure by the Merged Group to ensure implementation costs remain below those anticipated may have a material adverse effect on the financial performance and position, and future prospects, of the Merged Group.

### **B) CONTRACT RISK AND THIRD PARTY CONSENTS**

The Scheme may be deemed under certain material contracts to which members of Horizon Oil and Roc are parties, to result in a change of control or other relevant event in respect of Horizon Oil or Roc that allows the counterparty to review or terminate the contract upon implementation of the Scheme. If the counterparty to any such contract were to validly seek to renegotiate or terminate the contract on that basis, this may have a material adverse effect on the financial performance of the Merged Group, depending on the nature of relevant contracts.

Please see section 13.2 (*Change of control*) for additional details.

### **C) FINANCING RISKS**

Implementation of the Scheme may trigger a change of control, review event or other provisions in Horizon Oil's existing Horizon Oil Facility Agreement and other finance documents, which may in turn give rise to repayment, review or termination rights in favour of the financier. The possibility of repayment, review or termination of those financing arrangements may arise if the Merged Group is not able to:

- i) obtain relevant approvals and consents from the financiers; or
- ii) repay or refinance those facilities.

Please see section 13.2 (*Change of control*) for additional details.

### **D) ACCOUNTING RISKS**

In accounting for the merger, the Merged Group will need to perform a fair value assessment of all of Roc's assets, liabilities and contingent liabilities, which will include the identification and valuation of tangible and intangible assets. As a result of this fair value assessment, the Merged Group's charges (for example, depreciation expense and amortisation expense) may be substantially greater than the relevant charges of Horizon Oil and Roc as separate businesses and to that extent may significantly reduce the future earnings of the Merged Group.

The Merged Group will be subject to the usual business risk that there may be changes in accounting policies which may have an adverse impact on the Merged Group. The impact of changes to AIFRS could adversely affect the Merged Group's reported earnings performance in any given period and its consolidated statement of financial position from time to time.

### **E) ESTIMATES AND ASSUMPTIONS ARE USED IN PREPARING CONSOLIDATED FINANCIAL STATEMENTS**

Preparation of the consolidated financial statements requires the Merged Group to use estimates and assumptions. Accounting for estimates requires the Merged Group to use its judgement to determine the amount to be recorded on its financial statements in connection with these estimates. The Merged Group's estimates and assumptions used in the calculation of the recoverable amount of its inventories, exploration phase expenditure and oil and gas assets include estimates of petroleum reserves, production profiles, costs and the price expected to be realised when the product is recovered. If the estimates and assumptions are inaccurate, the Merged Group could be required to impair the recorded value of its inventories, exploration phase expenditure and oil and gas assets. On an ongoing basis, the Merged Group re-evaluates its estimates and assumptions. However the actual amounts could differ from those based on estimates and assumptions, even after re-evaluation and impairments.



## 14.3 INVESTMENT RISKS

### A) STOCK MARKET FLUCTUATIONS AND ECONOMIC CONDITIONS

The New Roc Shares issued under this Scheme carry no guarantee in respect of profitability, dividends, return of capital, or the price at which they may trade on ASX. The value of the New Roc Shares will be determined by the share market and will be subject to a range of factors beyond the control of Horizon Oil, Roc, the Merged Group or any of their directors or management.

Such factors include, but are not limited to, the demand for and availability of Roc Shares, movements in domestic interest rates, exchange rates, fluctuations in the Australian and international share markets and general domestic and economic activity. Returns from an investment in the New Roc Shares may also depend on general share market conditions as well as the performance of the Merged Group.

### B) GENERAL ECONOMIC CONDITIONS

Economic conditions, both domestic and global, may affect the performance of the Merged Group. Adverse changes in macroeconomic conditions, including global and country-by-country economic growth, the costs and general availability of credit, the level of inflation, interest rates, exchange rates, government policy (including fiscal, monetary, and regulatory policies), general consumption and consumer spending and sentiment, employment levels and industrial disruption, amongst others, are outside the control of the Merged Group and may result in material adverse impacts on the Merged Group's business and its operating results.

### C) CURRENCY RISK

The Merged Group incurs expenditures in the local currencies of various countries from operations and certain other capital and operating costs will primarily be in other than the Merged Group's functional currency, US dollars. As a result of the use of these different currencies, the Merged Group is subject to foreign currency fluctuations which may materially affect its financial position and operating results.

### D) DIVIDENDS

Future dividends will be assessed subject to the available profits, any franking credits, cash flow and capital requirements of the Merged Group. There can be no guarantee as to the likelihood, timing, franking or quantum of future dividends from the Merged Group, if the Scheme is implemented.

### E) LIQUIDITY CONCERNS AND FUTURE FINANCING

Further exploration and development of the various properties in which the Merged Group holds interests depend upon the Merged Group's ability to obtain financing through joint ventures, debt financing, equity financing or other means. There is no assurance that the Merged Group will be able to secure the financing required as and when needed and on terms acceptable to the Merged Group. Volatile markets for commodities may make it difficult or impossible for the Merged Group to obtain debt financing or equity financing on favourable terms or at all.

If adequate funds are not available on acceptable terms, the Merged Group may not be able to take advantage of opportunities or otherwise respond to competitive pressures. Failure to obtain additional financing on a timely basis may also cause the Merged Group to postpone its development plans, forfeit rights in some or all of its properties or joint ventures or reduce or terminate some or all of its operations.

### F) FAILURE TO MAKE OR INTEGRATE ACQUISITIONS

Any future acquisitions or business combinations will entail a number of risks including the effective integration of acquisitions (including the realisation of synergies), significant one-time write-offs or restructuring charges, and unanticipated costs and liabilities. All of these may be exacerbated by the diversion of management's attention away from other ongoing business concerns. The Merged Group may also be liable for the past acts, omissions or liabilities of companies and businesses or properties it has acquired or disposed of, which may be unforeseen or greater than anticipated.

### G) EQUITY DILUTION

The Merged Group may undertake offerings of securities in the future. The increase in the number of fully paid shares issued and the possibility of sales of such shares may have a depressive effect on the price of fully paid shares already on issue. In addition, as a result of the issue of such additional fully paid shares, the voting power of the Merged Group's existing shareholders would be diluted.

To the extent Horizon Oil Bondholders exercise any rights of conversion and are issued Horizon Oil Shares prior to the Record Date, those persons may be able to participate in the Scheme and receive New Roc Shares. This will result in the issue of additional New Roc Shares and therefore will increase the dilutive impact of the Scheme.

### H) WHOLLY OWNED SUBSIDIARY BENEFITS MAY NOT BE ACHIEVED

To the extent that:

- i) Horizon Oil Bondholders elect to convert their Horizon Oil Convertible Bonds *after* the Scheme is implemented and Horizon Oil does not elect to pay a cash alternative amount to Horizon Oil Bondholders in satisfaction of its obligation to issue new Horizon Oil Shares; or
- ii) Horizon Oil, Roc and the persons holding Horizon Oil Options or Horizon Oil SARs are unable to reach binding agreement on the treatment and terms for the cancellation of those instruments as described in section 13.3 (*Partly paid shares, Horizon Oil Options and Horizon Oil SARs*),

Horizon Oil will be obliged to issue new Horizon Oil Shares to satisfy its obligations under the terms of the Horizon Oil Convertible Bonds, the Horizon Oil Options or Horizon Oil SARs (as applicable). This would result in Horizon Oil having one or more minority shareholders following implementation of the Scheme. Depending on the number of new Horizon Oil Shares which may be issued in those circumstances, it may or may not be open to Roc to subsequently undertake a compulsory acquisition process under the Corporations Act, to compulsorily acquire those minority shareholdings. If Horizon Oil is not a wholly owned subsidiary of Roc at any time following implementation of the Scheme, then the Merged Group may not be able to obtain the full accounting, legal, tax and other benefits that would have resulted from the consolidation of Horizon Oil as wholly owned subsidiary of Roc.

## **14.4 OPERATING RISKS**

### **A) INDUSTRY RISKS**

#### **i) Exploration risk**

Development of the Merged Group's petroleum exploration properties is contingent upon obtaining satisfactory exploration results. Petroleum exploration and development involves substantial expenses and a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to adequately mitigate. The degree of risk increases substantially when the Merged Group's properties are in the exploration phase as opposed to the development phase. There is no assurance that commercial quantities of petroleum will be discovered on the Merged Group's exploration properties. There is also no assurance that, even if commercial quantities of petroleum are discovered, a particular property will be brought into commercial production.

The discovery of resources is dependent upon a number of factors not the least of which is the technical skill of the exploration personnel involved. The commercial viability of a particular resource, once discovered, is also dependent upon many factors, some of which are the particular attributes of the resource. The drilling of oil and gas wells involves a high degree of risk, especially the risk of a dry hole or of a well that is not sufficiently productive to provide economic return of the capital expended to drill the well. No assurances can be given that if resources are discovered by the Merged Group, it will be able to commercialise any such resources as intended. In addition, assuming discovery of a commercial resource, depending on the type of operation involved, several years can elapse from the initial phase of drilling until commercial operations are commenced. Most of the above factors are beyond the control of the Merged Group.

#### **ii) Development risk**

The Merged Group's development projects may be delayed or be unsuccessful for many reasons, including unanticipated financial, operational or political events, the failure to receive government approvals, whether a final investment decision is reached, cost overruns, decline in petroleum prices or demand, equipment and labour shortages, technical concerns including with respect to reserves and deliverability difficulties, increases in operational cost structures, contractual issues with securing sales contracts for petroleum products or with engineering procurement and construction contracts, community or industrial actions, changes in construction costs, design requirements and delays in construction or other circumstances which may result in the delay, suspension or termination of the development projects.

In addition, the ability of counterparties of the relevant sales contracts to meet their commitments under such arrangements may impact on the Merged Group's investment in these projects.

Development projects to which the Merged Group is or may become involved are subject to the abovementioned risks (and the other risks outlined in this document), and may adversely affect the commerciality and economics of project development.

#### **iii) Production risk**

Ongoing production and commissioning of staged expansions to production may not proceed to plan, with potential for delay in the timing of targeted production and/or a failure to achieve the level of targeted production. In certain circumstances, these potential delays or difficulties may necessitate additional funding which could lead to additional equity or debt requirements for the Merged Group. In addition to potential delays, there is a risk that capital and/or operating costs will be higher than expected or there will be other unexpected changes in variables upon which expansion and commissioning decisions were made. These potential scope changes and/or cost overruns may also lead to additional funding requirements.

The Merged Group's activities may be affected by numerous other factors beyond the Merged Group's control. Mechanical failure of the Merged Group's operating plant and equipment, and general unanticipated operational and technical difficulties, may adversely affect the Merged Group's operations. Operating risks beyond the Merged Group's control may expose it to uninsured liabilities. The business of petroleum exploration and development is subject to a variety of risks and hazards. Such occurrences may delay production, increase production costs or result in damage to and destruction of, petroleum properties or production facilities, personal injury, environmental damage and legal liability. The Merged Group has insurance to protect itself against certain risks of petroleum operations and processing within ranges of coverage consistent with industry practice. However, the Merged Group may become subject to liability for hazards that it cannot insure against or that it may elect not to insure against because of high premium costs or other reasons. The occurrence of an event that is not fully covered, or covered at all, by insurance, could have a material adverse effect on the financial condition and results of operations of the Merged Group.

#### **iv) Commodity price risk**

The profitability of the Merged Group's current operations is directly related to the market price of commodities, in particular oil. Commodity prices may substantially impact on the economics of projects and, hence, on exploration and development programs.

Commodities and other resource prices fluctuate widely and are affected by numerous factors beyond the Merged Group's control, including but not limited to global supply and demand, expectations with respect to the rate of inflation, the exchange rates of the US dollar to other currencies, interest rates, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, forward selling by producers, central bank sales and purchases, production and cost levels in major producing regions, global or regional. The aggregate effect of these factors on commodity prices is impossible to predict. Decreases in commodity prices could adversely affect the Merged Group, including its ability to finance the development of its projects.

#### **v) Drilling risk**

Drilling operations are high-risk and subject to hazards normally encountered in exploration, development and production. These include unexpected geological formations, infrastructure failure and other incidents or conditions which could result in damage to plant or equipment or the environment and which could impact production throughput. Although it is intended to take adequate precautions to minimise risk, there is a possibility of a material adverse impact on the Merged Group's operations and its financial results should any of these hazards be encountered.

### **B) RESERVES AND RESOURCES**

Estimates of Reserves and Contingent Resources and Prospective Resources are not precise and no assurance can be given that Reserves, Contingent Resources and Prospective Resource estimates will be recovered during production.

Production estimates are dependent on, among other things, the accuracy of Reserves, Contingent Resources and Prospective Resources estimates, the accuracy of assumptions regarding the resource calculations and recovery rates. Reserves, Contingent Resources and Prospective Resources estimates are based on limited sampling. The failure of the Merged Group to achieve its production estimates could have a material and adverse effect on any or all of its future cash flows, access to capital, profitability, results of operations, financial condition and prospects.

Commodity price fluctuations, as well as increased production costs or reduced recovery rates, may render Reserves uneconomic and may ultimately result in a restatement of such Reserves. Moreover, short-term operating factors relating to Reserves, such as the need for sequential development of resource bodies and the processing of new or different resource types may cause an operation to be unprofitable in any particular accounting period.

### **C) FOREIGN OPERATIONS**

The Merged Group's foreign operations are exposed to various levels of political, economic and other risks and uncertainties associated with operating in foreign jurisdictions such as China, PNG, Malaysia, Myanmar, New Zealand and the United Kingdom. International operations may expose the Merged Group to risk which may not exist for domestic operations. These risks and uncertainties vary from country to country and include, but are not limited to, currency exchange rates, high rates of inflation, labour unrest, renegotiation or nullification of existing concessions, licences, permits and contracts, changes in taxation policies, restrictions on foreign exchange, changing political conditions, currency controls and governmental regulations that favour or require the awarding of contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction or otherwise benefit residents of that country or region.

In the event of a dispute arising in connection with its operations, the Merged Group may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of the courts of the Merged Group's home jurisdiction or enforcing judgements obtained in its home jurisdiction in such other jurisdictions.

Changes, if any, in petroleum exploration and production or investment policies or shifts in political attitude in any of the countries in which it operates may adversely affect the Merged Group's operations or profitability. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, foreign investment, maintenance of claims, environmental legislation, land use, land claims of local people, water use, black economic empowerment or similar policies, employment contractor selection and safety. Failure to comply strictly with applicable laws, regulations and local practices relating to petroleum applications and tenure, could result in loss, reduction or expropriation of entitlements.

Contracts with host country governments can contain provisions that may give governments contractual rights to assume ownership of property and/or become the operator of the field and which limit crude oil entitlements or profit which in turn can impact on the Merged Group's revenue. If any foreign government or jurisdiction revises existing partnership agreements or laws or fails to meet its obligations under contracts including production sharing contracts, joint venture agreements and/or applicable laws, this may delay or otherwise impact on the progress of a project or restrict production from a project. In some circumstances the Merged Group may not be able to influence or determine the outcome of this decision which may have an adverse impact on its profitability and cash flow.

The occurrence of these factors adds uncertainties which cannot be accurately predicted and could have an adverse effect on the Merged Group's operations or profitability.

## **D) COMPETITION AND SUBSTITUTION**

Significant and increasing competition exists for petroleum acquisition opportunities throughout the world. As a result of this competition, some of which is with large, better established petroleum companies with substantial capabilities and greater financial and technical resources, the Merged Group may be unable to acquire rights to exploit additional attractive petroleum properties on terms it considers acceptable. Accordingly, there can be no assurance that the Merged Group will acquire any interest in additional operations that would yield reserves or result in commercial petroleum operations.

## **E) CUSTOMER RISKS**

In some regions in which the Merged Group operates there are limited or illiquid markets in which to sell oil or gas. The presence of limited options creates customer concentration risk. The cancellation or breach of contracts with specific customers may impact on the ability of the Merged Group to sell oil or gas.

## **F) KEY PERSONNEL**

Retaining qualified personnel is critical to the Merged Group's success. The Merged Group may face risks from the loss of key personnel, as it may be difficult to secure and retain candidates with appropriate experience and expertise. The Merged Group has implemented incentive plans to assist in the recruitment and retention of talented people needed to achieve its business objectives. Despite this, one or more of the Merged Group's key employees could leave their employment and this may adversely affect the Merged Group's ability to conduct its business and, accordingly, affect the profitability, financial position and performance and prospects of the Merged Group.

The Merged Group's success also depends on its ability to identify, attract, accommodate, motivate and retain additional suitably qualified personnel. The number of persons skilled in the acquisition, exploration, development and operation of petroleum properties is limited and competition for such persons is high. As the Merged Group's business activity grows, it will require additional personnel to meet its growing needs. If the Merged Group is unable to access and retain the services of a sufficient number of qualified personnel, this could be disruptive to the Merged Group's development and may materially adversely affect its profitability, financial position and performance and prospects.

## **G) LABOUR AND EMPLOYMENT MATTERS**

While the Merged Group has good relations with its employees, these relations may be impacted by changes in the scheme of labour relations which may be introduced by the relevant country governmental authorities which regulate its operations. Adverse changes in such legislation may have a material adverse effect on the Merged Group's business.

As the Merged Group's business grows, it may require additional key financial, administrative, technical, marketing and public relations personnel as well as additional staff for operations. In addition, given the remote location of the properties, the lack of infrastructure in the nearby surrounding areas, and the shortage of a readily available labour force in the petroleum industry, the Merged Group may experience difficulties retaining the requisite skilled employees in the region. It is important for the Merged Group's continued success that it attracts, develops, retains and engages the right employees. A limited supply of skilled workers could lead to an increase in labour costs of the Merged Group being unable to attract and retain the employees it needs. When new workers are hired, it may take a considerable period of training and time before they are equipped with the requisite skills to work effectively and safely on some of the inherently dangerous tasks associated with the petroleum industry. Failure to retain without appropriate replacement or to attract employees with the right skills for the Merged Group's business could have a material adverse effect on the Merged Group's business. While the Merged Group believes that it will be successful in attracting and retaining qualified personnel and employees, there can be no assurance of such success.

## **H) KEY CONTRACTORS**

The Merged Group's business relationships, operations and financial performance may be materially and adversely affected if any of its current and proposed contractors and sub-contractors do not perform their contractual obligations. The Merged Group can provide no guarantee that the contractors will fulfil these obligations.

## **I) JOINT VENTURES AND OTHER STRATEGIC PARTNERSHIPS MAY NOT BE SUCCESSFUL**

The Merged Group participates in several joint venture arrangements and it may enter into further joint ventures. Although the Merged Group has sought to protect its interests, existing and future joint ventures necessarily involve special risks. Whether or not the Merged Group holds majority interests or maintains operational control in its joint ventures, its partners may:

- i) have economic or business interests or goals that are inconsistent with, or opposed to, those of the Merged Group;
- ii) exercise veto rights to block actions that the Merged Group believes are in its or the joint venture's best interests;
- iii) take action contrary to the Merged Group's policies or objectives with respect to its investments; or
- iv) be unable or unwilling to fulfil their obligations under the joint venture or other agreements, such as contributing capital to expansion or maintenance projects.

Where projects and operations are controlled and managed by the Merged Group's partners, the Merged Group may provide expertise and advice but it has limited control with respect to compliance with its standards and objectives. Improper management or ineffective policies, procedures or controls could adversely affect the value of related non managed projects and operations and, by association, damage the Merged Group's reputation thereby harming the Merged Group's other operations and access to new assets.

While the Merged Group may seek contractual indemnities from any such partner, no assurance can be given that such indemnities would provide sufficient coverage in the event that a particular project did not meet the Merged Group's expectations.

## **J) FAILURE OF BASIC INFRASTRUCTURE**

In some developing countries, infrastructure for utilities such as electricity and water supply is under strain and underdeveloped. A serious failure of basic infrastructure or occurrences of power outages in the regions in which the Merged Group operates could adversely affect production at the Merged Group's operations.

## **K) FAILURES IN THE SUPPLY CHAIN FOR SPECIALIST EQUIPMENT AND MATERIALS**

The Merged Group operates within a complex supply chain depending on suppliers of raw materials, services, equipment and infrastructure to ensure its exploration, development and production activities can operate, and on providers of logistics to ensure products are delivered. Failure of significant components of this supply chain due to strategic factors such as business failure or serious operational factors could have an adverse effect on the Merged Group's business and results of operations.

## **L) SUBSIDIARIES**

The Merged Group conducts certain of its operations through subsidiaries and holds certain of its assets in such subsidiaries. Accordingly, any limitation on the transfer of cash or other assets between the Merged Group and its subsidiaries could restrict the Merged Group's ability to fund its operations efficiently. Any such limitations, or the perception that such limitations may exist now or in the future, could have an adverse impact on the Merged Group's valuation and share price.

## **M) HEDGING RISK**

Both Horizon Oil and Roc have historically sought to ameliorate the potential adverse consequences of exchange rate fluctuations and changes in commodity prices by entering into hedging arrangements. Hedging against currencies, interest rates and various commodities aims to minimise potential adverse effects on revenue while still allowing medium to longer term exposure to commodity prices. However, there can be no assurance that the Merged Group will be able to hedge its exchange rate exposure successfully or that it will be able to hedge such exposure at a satisfactory cost.

The Merged Group's hedging program may include forward contracts. If the Merged Group fails to deliver the required product on the maturity date of each committed contract then it will need to renegotiate or close out and settle the relevant forward contract. This will result in either a cash gain or loss to the Merged Group depending upon the market price of commodities or the US\$/A\$ exchange rate at that point in time. Although the risk is managed by the Merged Group, the Merged Group cannot guarantee the effectiveness of its hedging policies. Although hedging activities may protect the Merged Group in certain instances, forward contracts may also limit upside benefits where the market price exceeds the hedge contract.

## **N) UNINSURABLE RISKS**

The Merged Group may become subject to liability for accidents, pollution and other hazards against which it cannot insure against, or which it may elect not to insure because of premium costs or for other reasons, or in amounts which exceed policy limits. The occurrence of an event that is not fully covered, or covered at all, by insurance, could have a material adverse effect on its financial condition and results of operations.

## **14.5 LEGAL RISKS**

### **A) LITIGATION**

The Merged Group is subject to litigation risks. All industries, including the petroleum industry, are subject to legal claims, which may be with or without merit. Defence and settlement costs of legal claims can be substantial, even with respect to claims that have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding to which the Merged Group is or may become subject could have a material effect on its financial position, results of operations or the Merged Group's exploration and project development operations, through increased costs, payment of damages and damage to its reputation.

### **B) SECURITY OF TENURE**

All licences and permits in which the Merged Group has interests are subject to renewal conditions or are yet to be granted, which will be at the discretion of relevant Ministries in each country. The maintenance of licences and permits, obtaining renewals, or getting licences and permits granted, often depends on the Merged Group being successful in obtaining required statutory approvals for proposed activities. While the Merged Group anticipates that subsequent renewals or licence and permit grants will be given as and when sought, there is no assurance that such renewals or grants will be given as a matter of course and there is no assurance that new conditions will not be imposed in connection with such grant or renewal.

### **C) COMPENSATION**

The Merged Group may also incur costs and liabilities resulting from claims for damages to property or injury to persons arising from the Merged Group's operations. The Merged Group must compensate employees for work-related injuries. If the Merged Group does not make adequate provisions or is otherwise not adequately insured for its workers' compensation liabilities and is pursued for such sanctions, costs and liabilities, the Merged Group's business, financial condition and results of operations could be adversely affected.



## 14.6 REGULATORY RISKS

### A) GOVERNMENT REGULATIONS AND TENURE

The impact of actions by governments in the countries in which the Merged Group operates may affect the Merged Group's licence to operate and tenure. The Merged Group's activities are subject to extensive laws and regulations controlling not only the commercial exploitation of and exploration for petroleum properties, but also the possible effects of such activities upon the environment and upon interests of private landholders and local communities. Permits from a variety of regulatory authorities are required for many aspects of operations and reclamation.

Introduction of new legislation or regulations, amendments to existing legislation or regulations, the application of developments in existing common law or the interpretation of those laws, could also have a material adverse effect on the Merged Group. Future legislation and regulations could cause additional expense, capital expenditures, restrictions and delays in the development of the Merged Group's properties, the extent of which cannot be predicted. Any failure to comply with applicable laws and regulations, may impact on the profitability and performance of the Merged Group.

In the context of environmental permitting, including the approval of reclamation plans, the Merged Group must comply with known standards, existing laws and regulations which may entail greater or lesser costs and delays depending on the nature of the activity to be permitted and how stringently the regulations are implemented by the permitting authority. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Merged Group's operations. While it is possible that costs and delays associated with compliance with such laws, regulations and permits could become such that the Merged Group will not proceed with the development or operation of a particular project, the Merged Group is not aware of any material environmental constraint affecting its proposed development and production activities or exploration properties that would preclude the economic development or operation of any specific operation or property.

### B) ENVIRONMENTAL RISK

Oil and gas exploration, development and production can be hazardous to the environment. If it is responsible for environmental damage, the Merged Group may incur substantial costs for environmental rehabilitation, damage control and losses by third parties resulting from its operations.

The Merged Group will be subject to relevant environmental laws and regulations in connection with its operations, and intends to conduct its activities in an environmentally responsible manner. However, the Merged Group could be subject to liability due to risks inherent in its activities, such as accidental spills, leakages or other unforeseen circumstances.

### C) CLIMATE CHANGE RISK

The potential impact from climate change, both physical and as a result of new related legislation and regulation, may have an adverse impact on the Merged Group's operations or financial performance. For instance, significant liability could be imposed on the Merged Group for damages, clean-up costs or penalties in the event of certain discharges in the environment, environmental damage caused by previous owners of property acquired by the Merged Group or non-compliance with environmental laws or regulations. At present, the Merged Group minimises these risks by taking steps to ensure compliance with environmental laws and regulations in the countries in which it operates and, where possible, by carrying appropriate insurance.

Increased regulation of greenhouse gas emissions could also adversely affect the Merged Group's costs of operations. Regulatory change by governments in response to greenhouse gas emissions may represent increased costs to the Merged Group impacting profitability. Increasing regulation of greenhouse gas emissions, including the progressive introduction of a carbon tax in any jurisdiction in which the Merged Group operates is likely to raise energy costs and costs of production over the next decade. Regulation of greenhouse gas emissions in the jurisdictions of the Merged Group's customers could also have an adverse effect on the cost of the Merged Group's production.

## 14.7 OTHER RISKS

Additional risks and uncertainties not currently known to Horizon Oil or Roc may also have a material adverse effect on Horizon Oil, Roc or the Merged Group and the information set out above does not purport to be, nor should it be construed as representing, an exhaustive list of the risks affecting Horizon Oil, Roc or the Merged Group.

# 15. Tax implications



## 15.1 WHAT THIS SECTION COVERS

This outline provides an overview of the general Australian taxation implications that should arise for certain Scheme Participants as a result of the implementation of the Scheme.

The information provided below is not applicable to all Scheme Participants. In particular, it does not apply to Scheme Participants:

- i) who hold their Scheme Shares on revenue account, such as banks and share trading entities;
- ii) who are temporary residents of Australia for Australian taxation purposes;
- iii) who hold their Scheme Shares in connection with a business carried on through a permanent establishment outside their country of residence;
- iv) in respect of any options or share appreciation rights in Horizon Oil. Such Shareholders will be separately advised on the taxation implications of the treatment of their options or share appreciation rights in connection with the Scheme; or
- v) are subject to the taxation of financial arrangements rules in Division 230 of the *Income Tax Assessment Act 1997* (Cwlth) (**1997 Act**) in relation to gains and losses on their Scheme Shares.

The information below takes into account legislation enacted and administrative guidance available as at date of this Scheme Booklet. It does not purport to be a complete analysis or identify all potential tax consequences of the Scheme and any associated arrangements.

The information below does not constitute tax advice and should not be relied upon as such.

**All Horizon Oil Shareholders are advised to obtain independent professional taxation advice in respect of the Scheme which takes into account their personal circumstances. This taxation advice should specifically consider whether the Shareholder is entitled to CGT scrip-for-scrip rollover relief in connection with the Scheme.**

Horizon Oil has applied for a Class Ruling from the Australian Taxation Office (ATO) in respect of certain aspects of the likely Australian tax consequences for Scheme Participants of participating in the Scheme, including the availability of CGT scrip-for-scrip rollover relief in relation to the Scheme.

The information provided below is consistent with Horizon Oil's application for a Class Ruling. Horizon Oil Shareholders should follow the ATO's Class Ruling once it is published. Horizon Oil will make the ATO's Class Ruling available on its website at [www.horizonoil.com.au](http://www.horizonoil.com.au).

## 15.2 AUSTRALIAN TAX CONSEQUENCES OF PARTICIPATING IN THE SCHEME

### A) DISPOSAL OF SCHEME SHARES RESULTS IN CGT EVENT

The transfer of Scheme Shares by Scheme Participants under the Scheme should result in a CGT event for Scheme Participants. This CGT event should occur on the Implementation Date.

The occurrence of this CGT event for Scheme Participants should result in Scheme Participants:

- i) making a capital gain if the capital proceeds from the disposal of their Scheme Shares exceeds the cost base of their Scheme Shares (the availability of CGT scrip-for-scrip rollover relief is discussed below); or
- ii) making a capital loss if the capital proceeds are less than their reduced cost base of the Scheme Shares.

### B) IMPLICATIONS FOR AUSTRALIAN RESIDENT SCHEME PARTICIPANTS

#### i) Determination of capital proceeds and cost base

If the Scheme is implemented, Scheme Participants will receive the Scheme Consideration of 0.724 New Roc Shares for each Scheme Share they dispose of under the Scheme. This means that a Scheme Participant's capital proceeds for the CGT event that should occur on the disposal of their Scheme Shares under the Scheme should include the market value of the New Roc Shares received by the Scheme Participant under the Scheme for Australian tax purposes.

The cost base of the Scheme Shares will generally include the original or deemed cost of acquisition of the Scheme Shares for the Scheme Participant, plus any incidental costs incurred in relation to the acquisition or disposal.

The reduced cost base is determined in a similar manner, although the incidental costs which may be included are different.

#### ii) CGT discount

Australian resident Scheme Participants who are individuals, complying superannuation entities, trustees or life insurance companies may be entitled to reduce the amount of any capital gain made on the disposal of their Scheme Shares if they have held their Scheme Shares for at least 12 months before the Implementation Date (this reduction is referred to as the **CGT discount**). The CGT discount, if it is available, is applied only after the available capital losses have been applied to reduce the capital gain.

The discount rate is 50% for individuals and trustees, and 33.3% for complying superannuation entities and life insurance companies (where the life insurance company qualifies for the CGT discount).

The CGT discount is not available to Scheme Participants:

- i) that are companies; or
- ii) who acquired their Scheme Shares before 21 September 1999 where the Scheme Participant chose to index the cost base of their Scheme Shares for CGT purposes.

Capital gains and capital losses made by a Scheme Participant in a year of income from all sources are aggregate to determine whether they make a net capital gain or capital loss for the year of income. A net capital loss is not deductible from the assessable income for a Scheme Participant. However, a net capital loss may be able to be carried forward to offset capital gains made by the Scheme Participant in future years of income, subject to various requirements being met.

### iii) CGT roll-over relief

Australian resident Scheme Participants who participate in the Scheme should be eligible for CGT scrip-for-scrip rollover relief.

In broad terms, eligible Scheme Participants who choose to obtain CGT scrip-for-scrip rollover relief disregard the CGT consequences of disposing of their Scheme Shares under the Scheme, including the capital gain or loss that arises.

Scheme Participants will generally need to choose CGT scrip-for-scrip rollover relief before lodging their income tax return for the year of income in which the CGT event happens. This should, as discussed above, be the year of income in which the Implementation Date occurs.

Choosing to obtain CGT rollover relief can simply be evidenced by excluding the relevant capital gain in respect of which the CGT rollover relief is chosen from the Scheme Participant's tax return.

### iv) Disposal of Roc Shares

A Scheme Participant may wish to dispose of any New Roc Shares acquired under the Scheme at a later time. If the Scheme Participant chose to obtain CGT rollover relief on the disposal of their Scheme Shares under the Scheme, the cost base and acquisition date of the New Roc Shares they acquired under the Scheme may be impacted by the cost base and acquisition date of the Scheme Shares they disposed of under the Scheme.

In particular, for those Scheme Participants who were eligible for and chose to obtain CGT rollover relief in respect of their Scheme Shares, the CGT rollover relief rules will determine the cost base of any New Roc Shares and their time of acquisition.

In general terms, where CGT rollover relief is chosen, the cost base of the New Roc Shares will be equal to the existing cost base of the Scheme Shares exchanged under the Scheme.

Each New Roc Share should also be deemed to have been acquired by the relevant Scheme Participant on the same date as the date the original Scheme Share which gave rise to the entitlement to the New Roc Share was acquired. This deemed acquisition date will be relevant for indexation or the availability of the CGT discount concession. For all other CGT purposes, Scheme Participants should be taken to have acquired their New Roc Shares at the time they are issued, which should be the Implementation Date.

Where CGT rollover relief is not chosen or is not available, the cost base of the New Roc Shares should be equal to the market value of the Scheme Shares exchanged under the Scheme. In this case, the New Roc Shares should be taken to have been acquired at the time they are issued, which should be the Implementation Date.

## C) IMPLICATIONS FOR FOREIGN HORIZON OIL SHAREHOLDERS

Foreign Horizon Oil Shareholders on the Horizon Oil Register at 5.00pm (Sydney time) on the Record Date should not be subject to Australian CGT in respect of the transfer of their Scheme Shares to Roc under the Scheme, provided they hold less than 10% of the total number of shares on issue by Horizon Oil.

In any event, Foreign Horizon Oil Shareholders participating in the Scheme should not be eligible for CGT rollover relief.

The cost base of the New Roc Shares for Foreign Horizon Oil Shareholders participating in the Scheme should be equal to the market value of the Scheme Shares exchanged under the Scheme. The New Roc Shares should be taken to have been acquired at the time they are issued, which will be the Implementation Date.



# 16. Implementing the Scheme





## 16.1 MERGER IMPLEMENTATION DEED

On 29 April 2014, Horizon Oil and Roc entered into the Merger Implementation Deed under which Horizon Oil agreed to propose the Scheme. A summary of the key terms of the Merger Implementation Deed is set out below and a copy of the Merger Implementation Deed is provided in Attachment C (*Merger Implementation Deed*) of this Scheme Booklet.

### A) CONDITIONS PRECEDENT

The implementation of the Scheme is subject to a number of Conditions Precedent which are summarised in section 8.4 (*Conditions of the Scheme*) of this Scheme Booklet.

The Scheme will not proceed unless all of these conditions are satisfied or waived in accordance with the Merger Implementation Deed.

Each of Horizon Oil and Roc have agreed to use reasonable endeavours to procure that each Condition Precedent for which it is responsible is satisfied as soon as practicable.

As at the date of this Scheme Booklet, other than as disclosed in sections 8.9 (*Roc EGM*) and 13.1 (*Roc EGM*) and the announcements made by Horizon Oil and Roc on Wednesday 25 June 2014 in relation to the nonbinding, indicative and incomplete proposal received by Roc, Horizon Oil and Roc are not aware of any circumstances which would cause these conditions not to be satisfied or waived.

### B) EXCLUSIVITY

Each of Horizon Oil and Roc must ensure that during the period from the date of the Merger Implementation Deed to the earlier of the termination of the Merger Implementation Deed, the Effective Date and the End Date:

- i) **(no shop)** neither it nor any of its Related Bodies Corporate or representatives directly or indirectly, solicit, invite, encourage, or initiate any enquiries, offers, proposals, expressions of interest, negotiations or discussions or communicate any intention to do any of those things, with a view to obtaining any Competing Transaction;
- ii) **(no talk)** neither it nor any of its Related Bodies Corporate or representatives negotiate or enter into, provide any non-public information in connection with, or participate in any negotiations or discussions with any other person regarding, a Competing Transaction;
- iii) **(unsolicited approach)** it promptly informs the other party if it or any of its Related Bodies Corporate or representatives receives any unsolicited approach with respect to any Competing Transaction, and discloses to the other party the fact that the approach has been made and the general nature of the approach; however
- iv) **(fiduciary exception)** the “no talk” obligations do not apply if the Roc Board or Horizon Oil Board (as applicable) has determined that:
  - A) a genuine Competing Transaction could reasonably be considered to become a Superior Proposal; and
  - B) based on legal advice, a failure to respond would reasonably be likely to constitute a breach of fiduciary duties or would otherwise be unlawful.

For this purpose, a Competing Transaction broadly means any proposal, agreement, arrangement or transaction, which, if entered into or completed, would have the same effect as, or be similar in economic terms to, the implementation of the Scheme or any other transaction described in paragraphs (A) to (F) below:

- A) a third party acquiring (directly or indirectly) any interest in all or a substantial part of the business or assets of Roc or Horizon Oil (as applicable);
- B) a third party becoming (directly or indirectly) the holder or controller of, or otherwise acquiring, all or substantially all of the shares in Roc or Horizon Oil (as applicable);
- C) a third party (either alone or with its associates) acquiring “control” of, or merging or amalgamating with Roc or Horizon Oil (as applicable) or any of their material subsidiaries, including by way of takeover bid, scheme of arrangement or capital reduction or contractual arrangement;
- D) Roc or Horizon Oil implementing any reorganisation of capital or dissolution (except as previously announced to ASX);
- E) a third party acquiring, after the date of this deed, “voting power” in relation to 15% or more of the Roc Shares or the Horizon Oil Shares (as applicable); or
- F) any other proposal, agreement, arrangement or transaction which affects, prejudices or jeopardises, or might reasonably be expected to affect, prejudice or jeopardise, the consummation of the implementation of the Scheme.

For the full definition, see the Merger Implementation Deed.

## C) TERMINATION

The Merger Implementation Deed may be terminated:

- i) **(End Date)** by either party, if the Scheme has not become Effective on or before 31 August 2014 or a date otherwise agreed;
- ii) **(lack of support or breach)** at any time prior to 8.00am (Sydney time) on the Second Court Date:
  - A) by Roc, if the Horizon Oil Board changes its recommendation that Horizon Oil Shareholders vote in favour of the resolution to approve the Scheme, or otherwise makes a public statement indicating that it no longer supports the Scheme; or
  - B) by either Roc or Horizon Oil if the other is in material breach of any clause of the Merger Implementation Deed (including a warranty) taken in the context of the implementation of the Scheme as a whole, where the loss to the non-defaulting party that could reasonably be expected to follow on from such breach would exceed US\$5 million provided that either Roc or Horizon Oil, as the case may be, has, if practicable, given notice to the other setting out the relevant circumstances and stating an intention to terminate and the relevant circumstances continue to exist five (5) Business Days (or any shorter period ending at 5.00pm on the day before the Second Court Date) after the time such notice is given;
- iii) **(not approved)** by either party if the resolution submitted to the Scheme Meeting is not approved by the Requisite Majority;
- iv) **(restraint)** by either party if a Court or other Regulatory Authority has issued a final and non-appealable order, decree or ruling or taken other action which permanently restrains or prohibits the Scheme;
- v) **(consultation or appeal failure)** by either party in the event that:
  - A) a Condition Precedent is not satisfied or fulfilled or is breached, it is not waived, and the parties fail to agree (acting in good faith) on an alternate means or method for dealing with the breach or non-fulfilment; or
  - B) the failure of an appeal in the event the Court does not approve the Scheme;
- vi) **(Independent Expert)** by either party if the Independent Expert considers that the Scheme is not in the best interests of Horizon Oil Shareholders;
- vii) **(Insolvency)** by either party if the other party or any of their Related Bodies Corporate becomes insolvent; or
- viii) **(agreement)** if agreed to in writing by Horizon Oil and Roc.

The Merger Implementation Deed does not contain any break fee arrangement however a defaulting party will be liable for the other party's losses and expenses as a result of a breach if the deed is terminated.

## 16.2 DEEMED WARRANTY ON TRANSFER OF SHARES TO ROC

Clause 5.6 (*Warranty by Scheme Participants*) of the Scheme provides that each Scheme Participant will be deemed to have warranted that:

- i) all of their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) transferred to the Roc under the Scheme will, as at the date of the transfer, be fully paid and free from all mortgage, lien, charge, pledge, assignment by way of security, security interest, title retention, preferential right or trust arrangement, claim, covenant, profit a prendre, easement, overriding royalty, production payment, net profits interest or any other security arrangements having the same effect; and
- ii) they have the full power and capacity to sell and transfer their Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) to Roc under the Scheme.

## 16.3 NO ENCUMBRANCES ON TRANSFER OF SCHEME SHARES TO ROC

Clause 5.7 (*Transfer free of encumbrances*) of the Scheme provides that, to the extent permitted by law, all Scheme Shares (including any rights and entitlements attaching to those Scheme Shares) which are transferred to Roc under the Scheme will, at the date of the transfer of them to Roc, vest in Roc free from all mortgage, lien, charge, pledge, assignment by way of security, security interest, title retention, preferential right or trust arrangement, claim, covenant, profit a prendre, easement, overriding royalty, production payment, net profits interest or any other security arrangement having the same effect.

## 16.4 DEEMED CONSENT FOR OTHER INCIDENTAL ACTIONS

Clause 8.4 (*Authority and acknowledgement*) of the Scheme provides that each Scheme Participant will be deemed to have irrevocably consented to Horizon Oil and Roc doing all things necessary or expedient for or incidental to the implementation of the Scheme.

## 16.5 DEED POLL

On Thursday, 3 July 2014 Roc executed the Deed Poll pursuant to which Roc agreed, subject to the Scheme becoming Effective, to provide the Scheme Consideration to each Scheme Participant. A copy of the Deed Poll is included in Attachment D (*Deed Poll and Scheme of Arrangement*) of this Scheme Booklet.

## 16.6 COURT HEARINGS

On Thursday, 3 July 2014 the Court ordered that Horizon Oil convene the Scheme Meeting to be held on Thursday 7 August 2014 at The Sydney Boulevard Hotel, 90 William Street, Sydney commencing at 11.00am (Sydney time), for the purposes of considering the Scheme. The order of the Court convening the Scheme Meeting is not, and should not be treated as, an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

## 16.7 COURT APPROVAL

Horizon Oil will apply to the Court for an order approving the Scheme if the Scheme is approved by the Requisite Majority of Horizon Oil Shareholders at the Scheme Meeting. The Court has a discretion as to whether to grant the orders approving the Scheme, even if the Scheme is approved by the Requisite Majority of Horizon Oil Shareholders.

Each Horizon Oil Shareholder and, with the Court's permission, any other interested person has the right to appear at the Second Court Hearing.

If you wish to oppose the approval of the Scheme at the Second Court Hearing you may do so by filing with the Court and serving on Horizon Oil an interlocutory process in the prescribed form together with any affidavit on which you wish to rely at the hearing. With leave of the Court, you may also oppose the approval of the Scheme by appearing at the Second Court Hearing and applying to raise any objections you may have at the hearing. Horizon Oil should be notified in advance of an intention to object. The date for the Second Court Hearing is currently scheduled to be Thursday, 14 August 2014, though an earlier date may be sought. Any change to this date will be announced through ASX and notified on Horizon Oil's website at [www.horizonoil.com.au](http://www.horizonoil.com.au).

## 16.8 SCHEME RECORD DATE

Horizon Oil Shareholders (other than Ineligible Foreign Shareholders) on the Horizon Oil Register at 5.00pm (Sydney time) on the fifth Business Day following the Effective Date (the Record Date) will receive the Scheme Consideration of 0.724 New Roc Shares in respect of each Scheme Share they hold as at the Record Date.

## 16.9 DETERMINATION OF PERSONS ENTITLED TO THE SCHEME CONSIDERATION

To establish the identity of the Scheme Participants, dealings in Scheme Shares will only be recognised by Horizon Oil if:

- i) in the case of dealings of the type to be effected using CHESS, the transferee is registered on the Horizon Oil Register as the holder of the relevant Scheme Shares on or before 5.00pm on the Record Date; and
- ii) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before 5.00pm on the Record Date at the place where the Horizon Oil Register is kept.

## 16.10 REGISTER

Horizon Oil will register any registrable transmission applications or transfers of the Scheme Shares received in accordance with section 16.9 (*Determination of persons entitled to the Scheme Consideration*) on or before 5.00pm on the Record Date.

## 16.11 NO DISPOSALS AFTER EFFECTIVE DATE

If the Scheme becomes Effective, you may not dispose of or purport or agree to dispose of any Scheme Shares after the Effective Date. Any dealings in Scheme Shares after this time will not be recognised.

## 16.12 MAINTENANCE OF THE HORIZON OIL REGISTER

For the purpose of determining entitlements to the Scheme Consideration, Horizon Oil will maintain the Horizon Oil Register until the Scheme Consideration has been received by the Scheme Participants and Roc has been entered in the Horizon Oil Register as the holder of all the Horizon Oil Shares. The Horizon Oil Register in this form will solely determine entitlements to the Scheme Consideration.



# 17. Additional information



To the extent it is not already included in other sections of this Scheme Booklet, this section sets out the additional information required by section 412(1) of the Corporations Act and Part 3 of Schedule 8 of the Corporations Regulations, as well as some additional information that may be of interest to Horizon Oil Shareholders.

## 17.1 ASIC RELIEF AND ASX WAIVERS

### A) ASIC RELIEF

Clause 8302(h) of Part 3 of Schedule 8 to the Corporations Regulations requires that an explanatory statement include a statement whether, within the knowledge of the directors of the company the subject of the scheme of arrangement, the financial position of the company has materially changed since the date of the last balance sheet laid before shareholders in general meeting or sent to shareholders in accordance with section 314 or 317 of the Corporations Act and, if so, full particulars of any change.

ASIC has granted Horizon Oil relief from the requirements of clause 8302(h) of Part 3 of Schedule 8 of the Corporations Regulations on the basis that:

- i) Horizon Oil has complied with Division 1 of Part 2M.3 of the Corporations Act in respect of the half year ended 31 December 2013;
- ii) this Scheme Booklet states that Horizon Oil will give a copy of the documents referred to in section 302 of the Corporations Act for the 6 months ended 31 December 2013 free of charge to anyone who asks for them before the Scheme is approved by order of the Court;
- iii) any material change in Horizon Oil's financial position occurring after 31 December 2013 but prior to the date of this Scheme Booklet is disclosed in this Scheme Booklet; and
- iv) this Scheme Booklet is substantially in the form given to ASIC on Thursday, 26 June 2014.

### B) ASX WAIVERS

Horizon Oil has been granted a waiver from ASX Listing Rule 6.23.2, to permit the cancellation of Horizon Oil Options and Horizon Oil SARs in the manner described in section 13.3 (*Partly paid shares, Horizon Oil Options and Horizon Oil SARs*) without the requirement for Horizon Oil to seek the approval of Horizon Oil Shareholders.

The waiver application was made on the basis that:

- i) the cancellation of the Horizon Oil Options and Horizon Oil SARs is conditional upon the Scheme becoming effective and for this to occur, both Horizon Oil Shareholders and the court must approve the Scheme; and
- ii) full disclosure of the effect of the cancellation of the Horizon Oil Options and Horizon Oil SARs will be made in this Scheme Booklet, which will be sent to shareholders prior to the Scheme meeting,

such that Horizon Oil Shareholders are able to consider this information when determining whether to vote in favour of the Scheme.

## 17.2 EFFECT OF SCHEME ON CREDITORS

If implemented, the Scheme will not materially prejudice Horizon Oil's ability to pay its creditors. Other than the transaction costs or as otherwise disclosed in this Scheme Booklet, Horizon Oil does not expect to incur any material new liabilities as a consequence of implementation of the Scheme.

In relation to the Horizon Oil Convertible Bonds, please see section 13.4 (*Treatment of Horizon Oil Convertible Bonds*).

## 17.3 CONSENTS

Prior to the registration of this Scheme Booklet with ASIC, the following parties have given and have not withdrawn, their written consent to be named in this Scheme Booklet in the form and context in which they are named:

- i) UBS AG, Australia Branch as financial adviser to Horizon Oil;
- ii) King & Wood Mallesons as legal adviser to Horizon Oil;
- iii) Deloitte as Independent Expert;
- iv) RISC as Independent Technical Expert;
- v) PricewaterhouseCoopers Securities Ltd as Investigating Accountant;
- vi) PricewaterhouseCoopers as external auditor of Horizon Oil;
- vii) Boardroom Pty Ltd as the Horizon Oil Share Registry;
- viii) Roc; and
- ix) Ernst & Young as external auditor of Roc.

Each of the Independent Expert, Independent Technical Expert and Investigating Accountant has also given and has not withdrawn, before the time of registration of this Scheme Booklet with ASIC, its written consent to the inclusion of the Independent Expert's Report, Independent Technical Expert's Report and Investigating Accountant's Report (as applicable) in this Scheme Booklet in the form and context in which it is included and to all references in this Scheme Booklet to that Report in the form and context in which they appear.

Roc has also given and has not withdrawn, before the time of registration of this Scheme Booklet with ASIC, its written consent to the inclusion of the Roc Information in the form and context in which it is included and to all references in this Scheme Booklet to the Roc Information in the form and context in which they appear.



## 17.4 DISCLAIMERS

None of the persons referred to in section 17.3 (*Consents*) have authorised or caused the issue of this Scheme Booklet and do not make or purport to make, any statement in this Scheme Booklet other than those statements made in the capacity and to the extent the person has provided its consent, as referred to above. To the maximum extent permitted by law, each person referred to in section 17.3 (*Consents*) disclaims all liability in respect of, makes no representation regarding and takes no responsibility for any part of this Scheme Booklet other than as described in this Scheme Booklet with that person's consent.

## 17.5 FEES AND INTEREST OF ADVISERS AND OTHERS

The cost of the transaction expected to be payable by Horizon Oil is currently estimated to be approximately US\$4.3 million. This includes financial advisory, legal, accounting, independent experts, tax and administrative fees, Scheme Booklet design and printing, marketing, Horizon Oil Share Registry and other expenses. The amount does not include transaction costs that may be incurred by Roc.

A breakdown of the estimated transaction costs is as follows:

- i) the fee for professional services paid or payable to the Independent Expert which has provided the Independent Expert's Report is approximately US\$150,000;
- ii) the fee for professional services paid or payable to the Independent Technical Expert which has provided the Technical Expert's Report is approximately US\$117,000;
- iii) the fee for professional services paid or payable to the Investigating Accountant which has provided the Investigating Accountant's Report is approximately US\$84,000;
- iv) the fee for legal services paid or payable to Horizon's Australian legal adviser, King & Wood Mallesons, is approximately US\$1.0 million;
- v) the fee for financial advisory services paid or payable to UBS AG, Australia Branch is approximately US\$2.3 million (subject to payment of a facultative incentive fee);
- vi) the fees for other professional services (such as strategic advice, corporate communications, legal advice in respect of foreign jurisdictions) paid or payable to other advisers are approximately US\$422,000;
- vii) the fees and costs paid or payable to ASIC, ASX and Horizon Oil's Share Registry are approximately US\$93,000; and
- viii) the fee for printing services and mailing costs paid or payable to Rifle Media Limited is approximately US\$76,000.

## 17.6 SUPPLEMENTARY DISCLOSURE

Horizon Oil will issue a supplementary document to this Scheme Booklet if it becomes aware, between the date of lodgement of this Scheme Booklet for registration by ASIC and the Effective Date, that:

- i) a material statement in this Scheme Booklet is false or misleading in a material respect;
- ii) there is a material omission from this Scheme Booklet;
- iii) a significant change affecting a matter included in this Scheme Booklet has occurred; or
- iv) a significant new matter has arisen which would have been required to be included in this Scheme Booklet if it had arisen before the date of lodgement of this Scheme Booklet for registration by ASIC.

The form which the supplementary document may take will depend on the nature and timing of the new or changed circumstances.

## 17.7 FOREIGN JURISDICTIONS

The distribution of this Scheme Booklet outside of Australia may be restricted by law and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities law. Horizon Oil disclaims all liabilities to such persons.

Horizon Oil Shareholders who are nominees, trustees or custodians are encouraged to seek independent advice as to how they should proceed.

No action has been taken to register or qualify this Scheme Booklet or any aspect of the Scheme in any jurisdiction outside of Australia.



# 18. Glossary, definitions and interpretation



## 18.1 GLOSSARY AND DEFINITIONS

The following is a glossary of certain terms used in this Scheme Booklet.

TERM	MEANING
<b>1P</b>	means Proved Reserves.
<b>2C</b>	means Best Estimate of contingent resources. This is the Best Estimate of the quantity that will actually be recovered from an accumulation. When probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the Best Estimate.
<b>2P or 2P Reserves</b>	means the sum of Proved Reserves and Probable Reserves.
<b>3P</b>	means the sum of Proved Reserves, Probable Reserves and Possible Reserves.
<b>AASB</b>	means the Australian Accounting Standards Board.
<b>AIFRS</b>	means the Australian International Financing Reporting Standards.
<b>Allan Gray</b>	means Allan Gray Australia Pty Ltd.
<b>ANZ Agent</b>	means the “Agent” under the Horizon Oil Facility Agreement being Australia and New Zealand Banking Group Limited.
<b>APPEA</b>	means the Australian Petroleum Production and Exploration Association.
<b>ASIC</b>	means the Australian Securities and Investments Commission.
<b>ASX</b>	means ASX Limited.
<b>ATO</b>	means the Australian Taxation Office.
<b>BBL (S)</b>	means barrel(s). A quantity of 42 United States gallons; equivalent to approximately 159 litres.
<b>BCF</b>	means 1000 million cubic feet.
<b>BCP</b>	means BC Petroleum Sdn Bhd.
<b>Best Estimate</b>	means the best estimate of the quantity that will actually be recovered from accumulation of an oil and gas project. It is the most realistic assessment of recoverable quantities if only a single result were reported. When probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the Best Estimate.
<b>BMG</b>	means Basker Manta Gummy.
<b>BOE</b>	means barrel of oil equivalent. The factor used to convert gas to oil equivalent is based upon an approximate energy value of 6,000 cubic feet per barrel and not price equivalence at the time.
<b>BOEPD</b>	means barrels of oil equivalent per day.
<b>BOPD</b>	means barrels of oil per day inclusive of natural gas liquids.
<b>Business Day</b>	means a weekday on which trading banks are open for business in Sydney, Australia.
<b>CEO</b>	means chief executive officer.
<b>CGR</b>	means the condensate gas ratio.
<b>CGT</b>	means Australian capital gains tax.
<b>CHESS</b>	means CHESS Depository Nominees Pty Limited.
<b>CNOOC</b>	means China National Offshore Oil Corporation.
<b>Competent Person</b>	means a competent person as defined in the JORC Code 2012.
<b>Competing Transaction</b>	means a “Competing Transaction” as defined in the Merger Implementation Deed and excerpted in section 16.1 ( <i>Merger Implementation Deed</i> ) for reference.
<b>Condition Precedent</b>	has the meaning given to it in the Merger Implementation Deed.
<b>Contingent Resources</b>	means those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable Resources.
<b>Corporate Directory</b>	means the corporate directory contained in section 24 (Corporate directory).
<b>Corporations Act</b>	means the <i>Corporations Act 2001</i> (Cwlth).
<b>Corporations Regulations</b>	means the <i>Corporations Regulations 2001</i> (Cwlth).
<b>Court</b>	means a court of competent jurisdiction under the Corporations Act.
<b>CY</b>	means calendar year.

TERM	MEANING
<b>Deed Poll</b>	means the deed poll dated Thursday, 3 July 2014, executed by Roc whereby, among other things, Roc covenants to carry out its obligations under the Scheme, as set out in Attachment D ( <i>Deed Poll and Scheme of Arrangement</i> ).
<b>Deloitte</b>	means Deloitte Corporate Finance Pty Limited ACN 003 833 127.
<b>E&amp;P</b>	means exploration and production.
<b>Eaglewood Energy</b>	means Eaglewood Energy (BVI) Limited.
<b>Effective</b>	when used in relation to the Scheme, means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under sections 411(4)(b) and 411(6) in relation to the Scheme.
<b>Effective Date</b>	when used in relation to the Scheme, means the date on which the Scheme becomes Effective.
<b>End Date</b>	means 31 August 2014 or such other date as is agreed by Horizon Oil and Roc.
<b>FDP</b>	means Field Development Plan.
<b>FID</b>	means Final Investment Decision.
<b>Financier</b>	means each party under the Horizon Oil Facility Agreement, including Commonwealth Bank of Australia and Australia and New Zealand Banking Group Limited but excluding the “Borrowers” and “Guarantors”.
<b>First Court Date</b>	means the date specified in section 2 ( <i>Important dates</i> ).
<b>Foreign Horizon Oil Shareholder</b>	means a Horizon Oil Shareholder: <ul style="list-style-type: none"> <li>a) who is (or is acting on behalf of) a citizen or resident of a jurisdiction other than residents in Australia and its external territories; or</li> <li>b) who is recorded in the Horizon Oil Register at the Record Date as having a registered address outside Australia and its external territories or who is acting on behalf of such person.</li> </ul>
<b>Glossary</b>	means this table contained in this section 18.1 ( <i>Glossary and definitions</i> ).
<b>Governmental Agency</b>	means any foreign or Australian government or governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any state.
<b>GST</b>	has the meaning given to it in the A New Tax System (Goods and Services Tax) Act 1999 (Cwlth).
<b>Horizon Oil</b>	means Horizon Oil Limited ACN 009 799 455 (also referred to as HZN).
<b>Horizon Oil Board</b>	means the board of directors of Horizon Oil.
<b>Horizon Oil Bond Terms</b>	means the terms and conditions of the bonds contained in Horizon Oil’s announcement to ASX on 17 June 2011 ‘Section 708A Cleansing Notice for Horizon Oil Convertible Bonds’ available via <a href="http://www.asx.com.au">www.asx.com.au</a> .
<b>Horizon Oil Bondholder</b>	means a person who holds a Horizon Oil Convertible Bond.
<b>Horizon Oil CB Early Redemption Offer</b>	has the meaning given to it in section 13.4(c)(i) (Horizon Oil CB Early Redemption Offer).
<b>Horizon Oil Convertible Bond</b>	means a bond in Horizon Oil with the ability to convert into Horizon Oil Shares on its maturity date of 17 June 2016.
<b>Horizon Oil Directors</b>	means the directors of Horizon Oil.
<b>Horizon Oil EPIP or EPIP</b>	means the Horizon Oil Employee Performance Incentive Plan in relation to certain Horizon Oil Options.
<b>Horizon Oil Facility Agreement</b>	means the Borrowing Base Facility Agreement dated 16 March 2012 with Australia and New Zealand Banking Group Limited (acting as ANZ Agent and Financier) and Commonwealth Bank of Australia (also a Financier), as amended under an Amending Deed dated 9 April 2014.
<b>Horizon Oil Group</b>	means Horizon Oil and its subsidiaries.
<b>Horizon Oil Information</b>	means the information regarding Horizon Oil, other than the Roc Information, contained in this Scheme Booklet.
<b>Horizon Oil LTI Plan</b>	means the Horizon Oil Long Term Incentive Plan Rules dated 18 November 2010.
<b>Horizon Oil Material Adverse Change</b>	has the meaning given to it on the Merger Implementation Deed.
<b>Horizon Oil Option</b>	means an option to acquire a Horizon Oil Share.
<b>Horizon Oil Option Scheme or EOS</b>	means the Horizon Oil Employee Option Scheme in relation to certain Horizon Oil Options.

TERM	MEANING
<b>Horizon Oil Prescribed Event</b>	has the meaning given to it in the Merger Implementation Deed.
<b>Horizon Oil Register</b>	means the register of shareholders maintained by Horizon Oil in accordance with the Corporations Act.
<b>Horizon Oil SAR</b>	means a share appreciation right issued by Horizon Oil under, and governed by, the Horizon Oil LTI Plan.
<b>Horizon Oil Securities</b>	means Horizon Oil Shares, Horizon Oil Options, Horizon Oil partly paid shares, Horizon Oil SARs and Horizon Oil Convertible Bonds.
<b>Horizon Oil Share</b>	means an ordinary share in Horizon Oil.
<b>Horizon Oil Share Registry</b>	means Boardroom Pty Limited.
<b>Horizon Oil Shareholder</b>	means each person who is registered in the Horizon Oil Register from time to time as the holder of a Horizon Oil Share.
<b>HSE</b>	means health, safety and environment.
<b>IDP</b>	means Incremental Development Plan.
<b>Implementation Date</b>	means the fifth Business Day following the Record Date or such other date as Roc and Horizon Oil agree in writing.
<b>Independent Expert</b>	means Deloitte Corporate Finance Pty Limited ACN 003 833 127.
<b>Independent Expert's Report</b>	means the report of the Independent Expert as set out in Attachment A ( <i>Independent Expert's Report and Independent Technical Expert's Report</i> ).
<b>Independent Technical Expert</b>	means RISC Operations Pty Ltd ACN 150 789 030.
<b>Independent Technical Expert's Report</b>	means the report of the Independent Technical Expert as set out in Attachment A ( <i>Independent Expert's Report and Independent Technical Expert's Report</i> ).
<b>Ineligible Foreign Shareholder</b>	means a Foreign Horizon Oil Shareholder, unless Horizon Oil and Roc determine that: <ul style="list-style-type: none"> <li>a) it is lawful and not unduly onerous or unduly impracticable to issue that Foreign Horizon Oil Shareholder with New Roc Shares under the Scheme; and</li> <li>b) it is lawful for that Foreign Horizon Oil Shareholder to participate in the Scheme by the law of the relevant place outside Australia and its external territories,</li> </ul> as described in section 8.19 ( <i>Foreign Horizon Oil Shareholders</i> ).
<b>Investigating Accountant</b>	means PricewaterhouseCoopers Securities Ltd ACN 003 311 617, ABN 54 003 311 617, Holder of Australian Financial Services Licence No 244572.
<b>Investigating Accountant's Report</b>	means the report of the Investigating Accountant as set out in Attachment B ( <i>Investigating Accountant's Report</i> ).
<b>JORC Code</b>	means the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.
<b>Listing Rules</b>	means the ASX Listing Rules.
<b>LNG</b>	means liquefied natural gas.
<b>Merged Group</b>	means the combined group, consisting of Horizon Oil Group and Roc Group following implementation of the Scheme.
<b>Merged Group Board</b>	means the board of directors of the Merged Group as detailed in section 12 ( <i>Profile of the Merged Group</i> ).
<b>Merger Implementation Deed</b>	means the Merger Implementation Deed dated 29 April 2014 between Horizon Oil and Roc relating to the implementation of the Scheme, as set out in Attachment C ( <i>Merger Implementation Deed</i> ).
<b>MMBBL</b>	means million barrels.
<b>MMBOE</b>	means million barrels of oil equivalent.
<b>MMSCFD</b>	means million standard cubic feet per day.
<b>MOE</b>	means the Myanmar Ministry of Energy.
<b>New Roc Shares</b>	means the new Roc Shares to be issued as Scheme Consideration.
<b>Notice of Scheme Meeting</b>	means the notice of Scheme Meeting contained in Attachment E ( <i>Notice of Scheme Meeting</i> ).



TERM	MEANING
<b>NPAT</b>	means net profit after tax.
<b>NPP</b>	means non-production phase.
<b>OBC</b>	means ocean bottom cable.
<b>Ok Tedi</b>	means Ok Tedi Mining Limited.
<b>OMV</b>	means OMV New Zealand Limited.
<b>Osaka Gas</b>	means Osaka Gas Niugini Pty Ltd.
<b>Osaka Gas Sale Agreement</b>	means the Asset Sale Agreement between Horizon Oil (Papua) Limited, Ketu Petroleum Limited, Horizon Oil (PNG Holdings) Limited, Osaka Gas Niugini Pty Ltd, Osaka Gas Niugini E&P Pty Ltd and Osaka Gas Australia Pty Ltd, dated 23 May 2013.
<b>PC</b>	means Contract for Petroleum Exploration, Development and Production.
<b>Private Early Redemption Amount</b>	means a premium of 625 basis points above the “Early Redemption Amount” which the Horizon Oil Bondholders are entitled to receive under the Horizon Oil Bond Terms.
<b>PNG</b>	means Papua New Guinea.
<b>Possible Reserves</b>	means those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved Reserves plus Probable Reserves plus Possible Reserves (3P). When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
<b>Probable Reserves</b>	means those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities ultimately recovered from the project will be greater than or less than the sum of the estimated Proved Reserves plus Probable Reserves (2P). When probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
<b>Prospective Resources</b>	means those quantities of petroleum which are estimated at a given date to be potentially recoverable from undiscovered accumulations as defined in the SPE-PRMS.
<b>Proved Reserves</b>	means an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. When probabilistic methods are used, there should be at least a 90% probability that the actual quantities recovered will equal or exceed the estimate. Proved Reserves are often referred to as 1P or “Proven”.
<b>Proxy Form</b>	means the proxy form set out in Attachment E ( <i>Notice of Scheme Meeting</i> ).
<b>PRRT</b>	means petroleum resource rent tax.
<b>PSC</b>	means Production Sharing Contract.
<b>PUQB</b>	means processing, utilities and quarters platform B.
<b>Record Date</b>	means 5.00pm (Sydney time) on the fifth Business Day following the Effective Date.
<b>Regulatory Authority</b>	includes a Governmental Agency, any regulatory organisation established under statute and ASX.
<b>Related Body Corporate</b>	has the meaning given to it in the Corporations Act.
<b>Relevant Interest</b>	has the meaning given to it in sections 608 and 609 of the Corporations Act.
<b>Requisite Majority</b>	means in relation to the resolution to be put to the Scheme Meeting, the resolution being passed by a majority in number (more than 50%) of Horizon Oil Shareholders, who are present and voting, either in person or by proxy, attorney or in the case of a corporation its duly appointed corporate representative and passed by at least 75% of the votes cast on the resolution.
<b>Reserves</b>	means those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial and remaining (as of a given date) based on the development project(s) applied.
<b>RG 60</b>	means Regulatory Guide 60 issued by ASIC.

TERM	MEANING
<b>RISC</b>	means RISC Operations Pty Ltd ACN 150 789 030.
<b>Roc</b>	means Roc Oil Company Limited ACN 075 965 856 (also referred to as ROC).
<b>Roc Board</b>	means the board of directors of Roc.
<b>Roc Constitution</b>	means the Constitution of Roc dated 2 June 1999 (as amended).
<b>Roc CRE</b>	means the Chief Reservoir Engineer of Roc.
<b>Roc Deferred STI Rights</b>	has the meaning given in section 11.9(b)(iii) ( <i>Roc Short Term Incentive Plan</i> ).
<b>Roc Directors</b>	means the directors of Roc.
<b>Roc EGM</b>	means an extraordinary general meeting of Roc Shareholders.
<b>Roc Executive Options</b>	means Roc Options issued under the Roc Executive Share Option Plan.
<b>Roc Existing LTI Plan</b>	has the meaning given in section 11.9(b)(ii) ( <i>Roc Long Term Incentive Plan</i> ).
<b>Roc Existing LTI Rights</b>	means Roc LTI Rights issued under the Roc Existing LTI Plan.
<b>Roc Group</b>	means Roc and its subsidiaries.
<b>Roc Information</b>	means the information prepared by Roc for inclusion in this Scheme Booklet and for which Roc is responsible being: a) section 5 ( <i>Letter from the Chairman of Roc</i> ); and b) section 11 ( <i>Profile of Roc</i> ).
<b>Roc LTI Plan</b>	means the Roc New LTI Plan and the Roc Existing LTI Plan.
<b>Roc LTI Rights</b>	means Roc New LTI Rights and Roc Existing LTI Rights.
<b>Roc New LTI Plan</b>	has the meaning given in section 11.9(b)(ii) ( <i>Roc Long Term Incentive Plan</i> ).
<b>Roc New LTI Rights</b>	means Roc LTI Rights issued under the Roc New LTI Plan.
<b>Roc Oil Material Adverse Change</b>	has the meaning given to it in the Merger Implementation Deed.
<b>Roc Oil Prescribed Event</b>	has the meaning given to it in the Merger Implementation Deed.
<b>Roc Options</b>	means a right to acquire Roc Shares issued by Roc.
<b>Roc Securities</b>	means Roc Shares, Roc Executive Options, Roc LTI Rights and Roc Deferred STI Rights.
<b>Roc Share</b>	means a fully paid ordinary share in Roc.
<b>Roc Shareholder</b>	means each person registered in the register of shareholders maintained by Roc as a holder of Roc Shares.
<b>Roc STI Plan</b>	means the Roc Short Term Incentive Plan, the variable performance-based cash and deferred equity incentive plan designed to reward senior executives and eligible employees for performance, following the end of the financial year.
<b>Roc STI Rights</b>	means a Roc Short Term Incentive right.
<b>RSC</b>	means Risk Service Contract.
<b>S&amp;P/ASX 200 Index</b>	means Standard & Poor's ASX 200 index.
<b>Sale Nominee</b>	means the appropriately licensed agent appointed by Roc to administer the sale facility made available to Ineligible Foreign Shareholders under which New Roc Shares to which those Ineligible Foreign Shareholders would otherwise have become entitled under the Scheme are sold and the proceeds remitted to the Ineligible Foreign Shareholders, as described in section 8.20 ( <i>Sale Nominee process</i> ).
<b>Scheme</b>	means the scheme of arrangement between Horizon Oil and the Scheme Participants as described in clause 4 ( <i>Outline of Share Scheme</i> ) of the Merger Implementation Deed and set out as Attachment D ( <i>Deed Poll and Scheme of Arrangement</i> ).
<b>Scheme Booklet</b>	means this booklet.
<b>Scheme Consideration</b>	means 0.724 New Roc Shares to be issued in respect of each Horizon Oil Share.
<b>Scheme Meeting</b>	means the meeting to be convened by the Court pursuant to the Scheme.
<b>Scheme Participant</b>	means each person who is registered in the Horizon Oil Register as the holder of a Horizon Oil Share as at the Record Date.
<b>Scheme Share</b>	means a Horizon Oil Share held by a Scheme Participant as at the Record Date.
<b>SDA</b>	means Supplementary Development Agreement.

TERM	MEANING
<b>Second Court Date</b>	means the first day of hearing of an application made to the Court for an order pursuant to sections 411(4)(b) and 411(6) of the Corporations Act approving the Scheme.
<b>Second Court Hearing</b>	means the hearing of the application made to the Court for an order pursuant to sections 411(4)(b) and 411(6) of the Corporations Act approving the Scheme.
<b>SPE-PRMS</b>	means the Petroleum Resources Management System sponsored by the Society of Petroleum Engineers, the American Association of Petroleum Geologists, the World Petroleum Council and the Society of Petroleum Evaluation Engineers.
<b>STI</b>	means Short Term Incentive.
<b>Subsidiaries</b>	has the meaning it has in the Corporations Act.
<b>Substantial Holding</b>	has the meaning given in section 9 of the Corporations Act.
<b>Superior Proposal</b>	means, in relation to a Competing Transaction received by Horizon Oil or Roc (as applicable), a bona fide Competing Transaction of the kind referred to in paragraphs (a), (b), (c), (d) and (f) of the definition of Competing Transaction which the relevant company's board of directors, acting in good faith, determines is: <ul style="list-style-type: none"> <li>a) reasonably capable of being completed taking into account all aspects of the Competing Transaction; and</li> <li>b) more favourable to that company's shareholders than the Scheme taking into account all terms and conditions of the Competing Transaction.</li> </ul>
<b>TCF</b>	means trillion cubic feet equal to 1000 BCF.
<b>TSR</b>	means total shareholder return.
<b>UK</b>	means the United Kingdom.
<b>VWAP</b>	means the volume weighted average price.

## 18.2 INTERPRETATION

In this Scheme Booklet (other than the Attachments):

- a) except as otherwise provided, all words and phrases used in this Scheme Booklet have the meanings (if any) given to them by the Corporations Act;
- b) headings are for ease of reference only and will not affect the interpretation of this Scheme Booklet;
- c) words importing the singular, where the context requires, include the plural and vice versa and words importing any gender include all genders. A reference to a person includes a reference to a corporation;
- d) all dates and times are Sydney, Australia times;
- e) all data contained in charts, graphs and tables is based on information available at the date of this Scheme Booklet, unless otherwise stated;
- f) all numbers are rounded unless otherwise indicated;
- g) a reference to \$, US\$, USD and cents is to the lawful currency of the United States of America unless otherwise stated;
- h) a reference to A\$, AUD and cents is to the lawful currency of Australia unless otherwise stated; and
- i) a reference to a section or Attachment is to a section or Attachment of this Scheme Booklet, unless stated otherwise.



# 19. Attachment A – Independent Expert’s Report and Independent Technical Expert’s Report



**Deloitte.**

**Horizon Oil Limited**

Independent expert's report and Financial Services Guide

1 July 2014





## Financial Services Guide

### What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use our services. This FSG includes details of how we are remunerated and deal with complaints.

Where you have engaged us, we act on your behalf when providing financial services. Where you have not engaged us, we act on behalf of our client when providing these financial services, and are required to give you an FSG because you have received a report or other financial services from us.

### What financial services are we licensed to provide?

We are authorised to provide financial product advice and to arrange for another person to deal in financial products in relation to securities, interests in managed investment schemes, government debentures, stocks or bonds and related regulated emissions units (i.e., carbon) to retail and wholesale clients. We are also authorised to provide general financial product advice relating to derivatives to retail clients and personal financial product advice relating to derivatives to wholesale clients.

### Our general financial product advice

Where we have issued a report, our report contains only general advice. This advice does not take into account your personal objectives, financial situation or needs. You should consider whether our advice is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is provided to you in connection with the acquisition of a financial product you should read the relevant offer document carefully before making any decision about whether to acquire that product.

### How are we and all employees remunerated?

We will receive a fee of approximately AUD 160,000 exclusive of GST in relation to the preparation of this report. This fee is not contingent upon the success or otherwise of the proposed transaction between Horizon Oil Limited and ROC Oil Company Limited (the Proposed Scheme).

Other than our fees, we, our directors and officers, any related bodies corporate, affiliates or associates and their directors and officers, do not receive any commissions or other benefits.

All employees receive a salary and while eligible for annual salary increases and bonuses based on overall performance they do not receive any commissions or other benefits as a result of the services provided to you. The remuneration paid to our directors reflects their individual contribution to the organisation and covers all aspects of performance.

We do not pay commissions or provide other benefits to anyone who refers prospective clients to us.

### Associations and relationships

We are ultimately controlled by the Deloitte member firm in Australia (Deloitte Touche Tohmatsu). Please see [www.deloitte.com/au/about](http://www.deloitte.com/au/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu.

### What should you do if you have a complaint?

If you have any concerns regarding our report or service, please contact us. Our complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing to the address below.

If you are not satisfied with how we respond to your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to the financial services industry. FOS' contact details are also set out below.

The Complaints Officer Services PO Box N250 Grosvenor Place Sydney NSW 1220 complaints@deloitte.com.au Fax: +61 2 9255 8434	Financial Ombudsman GPO Box 3 Melbourne VIC 3001 info@fos.org.au www.fos.org.au Tel: 1300 780 808 Fax: +61 3 9613 6399
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### What compensation arrangements do we have?

Deloitte Australia holds professional indemnity insurance that covers the financial services provided by us. This insurance satisfies the compensation requirements of the Corporations Act 2001 (Cth).

1 July 2014

Deloitte Corporate Finance Pty Limited, ABN 19 003 833 127, AFSL 241457 of 550 Bourke Street, Melbourne VIC 3000

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Member of Deloitte Touche Tohmatsu Limited



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The Directors  
Horizon Oil Limited  
Level 7, 134 William Street  
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NSW 2011

1 July 2014

Dear Directors

## Independent expert's report

### Introduction

On 29 April 2014, Horizon Oil Limited (Horizon or the Company), together with ROC Oil Company Limited (ROC), announced a proposal under which the two companies would merge by way of ROC acquiring all of the issued shares in Horizon via a scheme of arrangement (the Proposed Scheme). Horizon entered into a Merger Implementation Deed with ROC, agreeing to propose the scheme to Horizon shareholders (Horizon Shareholders).

If the Proposed Scheme is approved, Horizon Shareholders (other than ineligible foreign shareholders) will receive consideration of 0.724 ROC shares for every share held in Horizon at the "Record Date" (currently scheduled for 8 August 2014), such that they will collectively own approximately 58% of the combined entity (the Proposed Merged Entity). The Proposed Scheme is expected to be implemented in August 2014.

Upon completion of the Proposed Scheme, Horizon would become a wholly owned subsidiary of ROC and would subsequently be delisted from the Australian Securities Exchange (ASX).

The Board of the Proposed Merged Entity will comprise:

- three current non-executive directors from ROC, including Mr Mike Harding (the current Chairman of ROC) as the Chairman of the Proposed Merged Entity
- four current non-executive directors from Horizon, and Mr Brent Emmett (the current Chief Executive Officer (CEO) of Horizon) as the CEO and Managing Director of the Proposed Merged Entity.

The Board of Horizon has prepared a scheme booklet containing the detailed terms of the Proposed Scheme (the Scheme Booklet) and an overview of the Proposed Scheme is provided in Section 1 of our detailed report.

### Purpose of the report

Section 411 of the Corporations Act 2001 (Corporations Act) regulates schemes of arrangement between companies and their shareholders. Section 411 (3) prescribes the information to be provided to shareholders in relation to schemes of arrangement.

Whilst an independent expert's report in respect of the Proposed Scheme is not required to be prepared to meet any statutory obligations, the directors of Horizon (the Directors) have requested that Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) provide an independent expert's report advising whether, in our opinion, the Proposed Scheme is in the best interests of Horizon Shareholders.

This independent expert's report has been prepared in a manner consistent with Part 3 of Schedule 8 of the Corporations Regulations 2001 (Cwlth) to assist Horizon Shareholders in their consideration of the Proposed Scheme. We have prepared this report having regard to Part 3 and Australian Securities and Investments Commission (ASIC) Regulatory Guide 111 and ASIC Regulatory Guide 112.

This report is to be included in the Scheme Booklet to be sent to Horizon Shareholders and has been prepared for the exclusive purpose of assisting Horizon Shareholders in their consideration of the Proposed Scheme. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Horizon Shareholders and Horizon, in respect of this report, including any errors or omissions however caused.

### **Basis of evaluation**

Schemes of arrangement can include many different types of transactions. The basis of evaluation selected by the expert must be appropriate for the nature of each specific transaction.

ASIC Regulatory Guide 111 provides guidance in relation to the content of independent expert's reports prepared for a range of transactions.

In our opinion, from the perspective of Horizon Shareholders, the Proposed Scheme is not a control transaction as envisaged by ASIC Regulatory Guide 111. Horizon Shareholders will collectively own 58% of the shares of the Proposed Merged Entity, which is above the 50% threshold that is generally accepted to be a "controlling interest" and Horizon directors will control the Board of the Proposed Merged Entity. The strategic direction of the Proposed Merged Entity is likely to remain aligned with the present strategy of Horizon, albeit with a more diverse asset portfolio. Furthermore, significant shareholdings currently held in Horizon and ROC will be diluted to below 20% in the Proposed Merged Entity.

Paragraph 31 of the regulatory guide allows for the assessment of an all share takeover, where it is in effect a merger of entities, to be undertaken using an equivalent approach to valuing the securities of the bidder (in this case, ROC) and the target (Horizon).

Accordingly, we have assessed the offer as being:

- fair, when the value of the consideration is equal to or greater than the value of the securities subject to the proposed scheme. We have assessed fairness by comparing the value of one share in Horizon with the value of the interest to be received in the Proposed Merged Entity on an equivalent control basis
- reasonable, if it is fair, or, despite not being fair, after considering other significant factors, Horizon Shareholders should accept the offer under the Proposed Scheme, in the absence of any higher bids before the close of the offer.

### **Summary and conclusion**

**In our opinion the Proposed Scheme is fair and reasonable and therefore in the best interests of Horizon Shareholders.**

In arriving at this opinion, we have had regard to the following factors.

#### **The Proposed Scheme is fair**

We have valued Horizon and ROC (and therefore the Proposed Merged Entity) on a fundamental basis largely with reference to the discounted cash flow methodology (which derives a value inclusive of a premium for control).

Accordingly, we have undertaken our merger analysis by:

- estimating the value of the shares in Horizon and the Proposed Merged Entity (being the combined operations of Horizon and ROC) on a control basis
- compared the relative values of a share in Horizon with an interest equivalent to 0.724 shares in the Proposed Merged Entity.

If the value of a share in Horizon is equal to or below the value of the interest to be received in the Proposed Merged Entity, the Proposed Scheme is fair.

Horizon has interests in oil and gas producing, development and exploration assets in China, Papua New Guinea (PNG) and New Zealand and is listed on the ASX with a current market capitalisation of approximately AUD 495 million<sup>1</sup>. ROC similarly holds interests in a portfolio of (predominantly) oil producing and exploration assets in China, Australia, the United Kingdom (UK), Myanmar and Malaysia, and is listed on the ASX with a current market capitalisation of approximately AUD 370 million. Horizon and ROC both own interests in the Beibu Gulf field (in China), which commenced production in 2013.

Set out below is a summary of our assessment of the relative values of a share in Horizon and the Proposed Merged Entity.<sup>2</sup>

**Table 1: Valuation of a share in Horizon**

	Section reference	Unit	Low	High
Enterprise value of operating assets	7.1	USD million	387	407
Enterprise value of development assets	7.1	USD million	180	260
Enterprise value of exploration assets	7.2	USD million	32	32
Corporate costs	7.3	USD million	(67)	(73)
Surplus assets / liabilities	7.3	USD million	154	174
<b>Enterprise value of Horizon (on a control basis)</b>		<b>USD million</b>	<b>687</b>	<b>801</b>
Net debt	7.3	USD million	(180)	(180)
<b>Equity value (on a control basis)</b>		<b>USD million</b>	<b>507</b>	<b>621</b>
Number of shares in Horizon	7.3	'million	1,317	1,317
<b>Value of a share in Horizon (on a control basis)</b>		<b>USD / share</b>	<b>0.38</b>	<b>0.47</b>

Source: Deloitte Corporate Finance analysis

Notes:

1. USD – United States dollars
2. The net debt position and the number of shares in Horizon assume 15 million options held by Petsec Energy Limited were exercised prior to their expiry on 30 June 2014. We understand the options were not exercised as at the date of this report, however we have not updated our valuation to reflect this as it does not have a material effect thereon.

**Table 2: Valuation of a share in the Proposed Merged Entity**

	Section reference	Unit	Low	High
<b>Horizon:</b>				
Enterprise value of operating assets	7.1	USD million	387	407
Enterprise value of development assets	7.1	USD million	180	260
Enterprise value of exploration assets	7.2	USD million	32	32
<b>ROC:</b>				
Enterprise value of operating assets	7.1	USD million	338	367
Enterprise value of exploration assets	7.2	USD million	31	31
<b>Corporate costs:</b>				
Horizon	7.3	USD million	(67)	(73)
ROC	7.4	USD million	(67)	(70)
Add: corporate synergies	7.4	USD million	35	45
<b>Surplus assets</b>				
Horizon	7.3	USD million	154	174
ROC	7.4	USD million	52	52

<sup>1</sup> Australian dollars

<sup>2</sup> All figures in this report are subject to rounding

	Section reference	Unit	Low	High
<b>Enterprise value of the Proposed Merged Entity (on a control basis)</b>		<b>USD million</b>	<b>1,076</b>	<b>1,226</b>
Net debt	7.4	USD million	(101)	(101)
<b>Equity value (on a control basis)</b>		<b>USD million</b>	<b>976</b>	<b>1,125</b>
Number of shares in the Proposed Merged Entity (on an undiluted basis)	7.4	million	1,641	1,641
<b>Value of a share in the Proposed Merged Entity (on a control basis)</b>		<b>USD / share</b>	<b>0.59</b>	<b>0.69</b>

Source: Deloitte Corporate Finance analysis

Our valuation of the shares in Horizon and the Proposed Merged Entity have been derived on both an undiluted and fully diluted share basis, which requires assumptions on the number of options that may be exercised into shares in Horizon and the Proposed Merged Entity in the future. Undertaking the valuation on a fully diluted basis and assuming the maximum number of options convert in each entity results in a minimal change in the value of the shares. Accordingly, we have undertaken our valuations on an undiluted basis.

Our valuation is sensitive to a number of assumptions made to value the assets of both Horizon and ROC. We have adopted the same approach in our valuation of the assets held by Horizon and those held by ROC, with similar key assumptions, including future oil prices and discount rates. Accordingly, changes to these key assumptions will have a similar effect on the value of assets held by Horizon and those held by ROC.

Key to our valuation of Horizon are the assumptions adopted in respect of the PNG assets and the strategy for developing the gas resources. The technical expert engaged to assist Deloitte Corporate Finance in this assignment, RISC Operations Pty Limited (RISC), provided a technical assessment of certain key assumptions underpinning the financial model for the operating assets and development projects of Horizon and ROC. RISC assisted Deloitte Corporate Finance in developing various valuation scenarios for the PNG assets, which we have considered in selecting our preferred scenario, together with risk factors to apply to the cash flows generated under our preferred scenario.

The production assumptions adopted under our preferred scenario for each asset are summarised as follows:

- for the Stanley field: 13 million barrels of oil equivalent (mmboe) of condensate volumes and 315 petajoules (PJ) of gas volumes extracted under a liquids stripping and gas export case (on a 100% basis)
- for the Elevala-Ketu field: 50 mmboe of condensate volumes and 1,024 PJ of gas volumes extracted under a liquids stripping and gas export case (on a 100% basis).

We have assumed that a 1.5 million tonne per annum (mtpa) mid-scale liquefied natural gas (LNG) facility will be developed in Daru, which is one of the options currently under consideration by Horizon. LNG facilities, however, have long lead times and require significant capital investment. RISC has estimated the capital cost of a mid-scale facility to be in the region of USD 2 billion with annual operating costs of USD 130 million.

The economics of a mid-scale LNG facility also depend on the volumes of gas to be processed, with greater volumes creating economies of scale and a lower cost per unit of production from the two fields. Taking into account the above and our preferred LNG prices (USD 14.00 per gigajoule (GJ) to USD 15.00 per GJ), we have selected ex-field netback prices in the range of USD 7.50 per GJ to USD 8.50 per GJ. We have also had regard to prices currently being considered by Horizon and potential domestic gas customers.

Whilst we have assumed a mid-scale LNG development, many milestones need to be met, at significant cost and risk, for the gas export case for the two fields to become a reality. RISC has estimated that, where completion of the LNG facility is delayed by one year, additional capital expenditure of USD 30 million (in 2014 real terms) would result, along with delays in production in the Elevala-Ketu field.

Given the uncertainty associated with the manner in which the significant potential of the gas resources will be developed in the Stanley and Elevala-Ketu fields, we have also assumed that completion of the LNG facility will be delayed by one year. In addition, we have also applied a probability factor of 50% to 60% to the overall net present value ascribed to the interests in these assets.



Where the gas is not sold in the manner and timeframes assumed, or the metrics of monetisation are less favourable than that assumed, the value of the interests held by Horizon in these two fields may be lower, which would make the Proposed Scheme more attractive to Horizon Shareholders.

We have also used other information to cross-check our valuation:

- the values ascribed to each of the other oil producing assets in which Horizon and ROC hold interests (by way of an industry rule of thumb)
- the value ascribed to the PNG assets based on the value implied by the Osaka Gas Transaction (refer to Section 3.2 for further details on this transaction) and recent transactions in a nearby field in PNG
- the overall value ascribed to Horizon and the Proposed Merged Entity, on a sum-of-the-parts basis, by comparison to the share prices of Horizon and ROC.

In our opinion these cross-checks support our valuation of Horizon and the Proposed Merged Entity on a control basis.

Set out below is our assessment of fairness.

**Table 3: Assessment of the Proposed Scheme**

	Unit	Low	High
<b>Assessment of the Proposed Scheme in USD</b>			
<b>Value of a share in Horizon (on a control basis)</b>	<b>USD / share</b>	<b>0.38</b>	<b>0.47</b>
Value of a share in the Proposed Merged Entity (on a control basis)	USD / share	0.59	0.69
Merger ratio (shares in the Proposed Merged Entity per share held in Horizon)	#	0.724	0.724
<b>Value per Horizon share to be received in the Proposed Merged Entity</b>	<b>USD / share</b>	<b>0.43</b>	<b>0.50</b>
<b>Assessment of the Proposed Scheme in AUD<sup>1</sup></b>			
<b>Value of a share in Horizon (on a control basis)</b>	<b>AUD / share</b>	<b>0.41</b>	<b>0.50</b>
Value of a share in the Proposed Merged Entity (on a control basis)	AUD / share	0.63	0.73
Merger ratio (shares in the Proposed Merged Entity per share held in Horizon)	#	0.724	0.724
<b>Value per Horizon share to be received in the Proposed Merged Entity</b>	<b>AUD / share</b>	<b>0.46</b>	<b>0.53</b>

Source: Deloitte Corporate Finance analysis

Note:

1. USD figures converted in AUD using an exchange rate of 0.94 USD: 1.00 AUD.

The value of the interest in the Proposed Merged Entity is above the value of share in Horizon. Accordingly it is our opinion that the Proposed Scheme is fair.

If we had undertaken the assessment on a consistent minority interest basis, the Proposed Scheme would also be fair.

### The Proposed Scheme is reasonable

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. On this basis, in our opinion the Proposed Scheme is reasonable. We have also considered the following factors in assessing the reasonableness of the Proposed Scheme.

#### *The Proposed Scheme will assist Horizon to fund the Company's substantial development programmes*

Horizon is projected to incur USD 30 million in capital expenditure over the next three years in relation to the interests it holds in the Maari/Manaia and Beibu Gulf operating assets. In addition, developing the Stanley field and (later) the Elevala-Ketu fields is projected to cost Horizon approximately USD 330 million (in 2014 real terms) between 2014 and 2019 (excluding any capital cost of the LNG processing facility).

Horizon had approximately USD 23 million in cash (including restricted cash of approximately USD 14 million) as at 31 March 2014. Notwithstanding the proceeds to be received from the Osaka Gas Transaction by mid-2014 (USD 78 million in total)<sup>3</sup>, and forecast free cash flows generated from its interests in its operating assets, funding the PNG development programme will likely require Horizon to access additional capital, either by way of an expansion in its debt facilities or an equity raising. In our opinion, given the risk profile of the PNG development assets and the redemption rights associated with the Convertible Bonds issued by Horizon, an equity raising may be required.

The merger with ROC provides Horizon with a complementary portfolio of assets that are projected to generate free cash flows of between USD 60 million and USD 80 million per annum over the next three years. Together with the unencumbered cash ROC had as at 31 March 2014 of USD 88 million, the merger with ROC will assist in funding Horizon's medium term capital expenditure requirements, whilst providing Horizon Shareholders with the opportunity to acquire interests in assets that are already producing and generating cash inflows. In the case of the Beibu Gulf assets, the merger of the two companies will consolidate their interests in the Beibu Gulf field.

*The Proposed Merged Entity will have greater geographic diversification, increased scale and a potentially elongated production profile than Horizon on a standalone basis*

The assets in which Horizon owns its interests are located in New Zealand (producing and exploration assets), China (producing and exploration assets) and PNG (development, pre-development and exploration assets). The merger of the two companies will result in geographic diversification into Malaysia (producing and exploration assets) and, to a lesser extent, Australia, the UK and Myanmar.

*Enhanced liquidity and broker coverage*

The increased market capitalisation of the Proposed Merged Entity and enlarged shareholder base may attract greater analyst coverage and may lead to the inclusion of the Proposed Merged Entity in other share market indices.

Following the Proposed Scheme, the market capitalisation of the Proposed Merged Entity will be greater than that of Horizon on a standalone basis and Horizon's single significant shareholder (Austral-Asia Energy Pty Limited) will have its approximate interest of 25% initially diluted to approximately 14%. The increase in size of the Proposed Merged Entity compared to Horizon on a standalone basis may lead to an enhanced share market profile for the Proposed Merged Entity and may provide increased liquidity and greater depth of trading than that currently available to Horizon Shareholders.

Horizon is currently included in the S&P/ASX 200 Index and, over time, the Proposed Merged Entity may be included in the S&P/ASX 100 Index. Furthermore, the Proposed Merged Entity may be followed by additional analysts following the Proposed Scheme, compared to Horizon and ROC, on a standalone basis. Greater analyst coverage may also result in enhanced trading liquidity.

The Proposed Merged Entity may have improved access to both debt and equity capital markets, possibly on more attractive terms, compared with those currently available to Horizon on a standalone basis.

*Retention of control*

If the Proposed Scheme is implemented, Horizon directors will comprise the majority of the Board of the Proposed Merged Entity, thus preserving the strategic direction of the Board of Horizon.<sup>4</sup> In any event, the strategic direction of the Proposed Merged Entity would appear to be closely aligned with that of Horizon prior to the Proposed Scheme, which is focused on developing the PNG oil and gas fields of Stanley and Elevala-Ketu.

Horizon Shareholders will continue to own shares in an oil and gas company with interests in oil producing and oil and gas development assets, albeit shares in a larger entity, with more attractive investment characteristics than that exhibited by Horizon on a standalone basis.

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<sup>3</sup> Approximately USD 77 million was paid to Horizon on 12 June 2014, with a further USD 1 million (approximately) to be received in the short term

<sup>4</sup> The Board will comprise four current non-executive directors from Horizon (plus the current CEO of Horizon as the CEO and Managing Director of the Proposed Merged Entity) and three non-executive directors from ROC. The terms of the Merger Implementation Deed acknowledge that one Horizon director will retire from the Board of the Proposed Merged Entity at or before the Annual General Meeting in 2015.

The Horizon Shareholders will continue to have an opportunity to realise a premium for control for their shareholding even after the Proposed Scheme is implemented. The improved profile of the Proposed Merged Entity relative to Horizon on a standalone basis may make it more attractive to other potential buyers.

*Share prices may trade below current levels in the absence of the Proposed Scheme proceeding*

Since the announcement of the Proposed Scheme, Horizon's share price has traded higher than prices immediately prior to announcement of the Proposed Scheme. Horizon's share price may fall if the Proposed Scheme does not proceed, in the absence of an alternative proposal eventuating.

*Control premium implicit in the Proposed Scheme*

The implied premium for control based on share price analysis is towards the low end of the typical range we have observed in transactions in Australia over the course of the last 10 years (i.e. 20% to 40%).

As we consider this transaction to be a merger with no change in control, we would not expect Horizon Shareholders to receive a significant control premium in the Proposed Scheme.

**Table 4**

	Unit	
<b>5-day VWAP<sup>1</sup> of Horizon shares (pre-announcement)</b>	<b>AUD / share</b>	<b>0.35</b>
<b>10-day VWAP of Horizon shares (pre-announcement)</b>	<b>AUD / share</b>	<b>0.33</b>
<b>30-day VWAP of Horizon shares (pre-announcement)</b>	<b>AUD / share</b>	<b>0.32</b>
5-day VWAP of ROC shares (up to close of trading on 24 June 2014)	AUD / share	0.56
Merger ratio (shares in the Proposed Merged Entity per share held in Horizon)	#	0.724
<b>Implied value per Horizon share</b>	<b>AUD / share</b>	<b>0.41</b>
<b>Implied control premium</b>		
5-day VWAP of Horizon shares		17%
10-day VWAP of Horizon shares		24%
30-day VWAP of Horizon shares		28%

Source: Capital IQ; Deloitte Corporate Finance analysis

Note:

1. VWAP – volume weighted average price.

The share price of ROC has increased in recent weeks. Since announcement of the Proposed Scheme, a number of announcements unrelated to the Proposed Scheme have been released by both ROC and Horizon which may have influenced trading in ROC's shares in recent weeks, including ROC confirming that it had received an unsolicited takeover offer from a third party (on 25 June 2014). An independent expert's report prepared for ROC on the Proposed Scheme was also released on 16 June 2014.

*The disadvantages are not significant when weighed against the advantages*

The Proposed Scheme does not appear to have any significant disadvantages for Horizon Shareholders. However, Horizon Shareholders will dilute their participation in the future growth of Horizon's gas prospects in PNG. On the other hand, the Proposed Scheme adds diversification benefits and a portfolio of cash generating assets, without which it may be difficult to realise the underlying value of the PNG assets.

*Other matters*

As at the date of this report, no superior offers have emerged (of which we are aware).

An individual Horizon Shareholder's decision in relation to the Proposed Scheme may be influenced by his or her particular circumstances. If in doubt the Horizon Shareholder should consult an independent adviser, who should have regard to their individual circumstances.

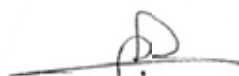
This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED



**Stephen Reid**  
Director



**Robin Polson**  
Director

## Glossary

Reference	Definition
2C	Proved plus Probable Contingent resources
2P	Proved plus Probable reserves
AFSL	Australian Financial Services Licence
APPI	Asian Petroleum Price Index
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUASB	Auditing and Assurance Standards Board
AUD	Australian dollars
$\beta$	Beta
Bcf	Billion cubic feet
bcm	Billion cubic metres
boe	Barrel of oil equivalent
bopd	Barrels of oil per day
CAPM	Capital Asset Pricing model
CEO	Chief Executive Officer
CIF	Cartage and freight
CNOOC	Chinese National Offshore Oil Corporation
Company, the	Horizon Oil Limited
Convertible Bonds	The 400 convertible bonds issued by Horizon in 2011 for USD 80 million
Corporations Act	Corporations Act 2001
CRP	Country risk premium
CY	Calendar year
Deloitte Corporate Finance	Deloitte Corporate Finance Pty Limited
Directors, the	The directors of Horizon
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EIA	Energy Information Administration
EIU	Economist Intelligence Unit
EMRP	Equity Market Risk Premium
FID	Final Investment Decision
FPSO	Floating Production Storage and Offload vessel
FSG	Financial Services Guide
FY	Financial year
GJ	Gigajoule
Horizon	Horizon Oil Limited
Horizon Model, the	The model that estimates the future cash flows from each of the operating and development asset of Horizon
Horizon Shareholders	Shareholders in Horizon
IBISWorld	IBIS World Pty Limited
IEA	International Energy Agency
Incentive Payment	The payment offered by Horizon to bondholders under the Private Early Redemption Offer (estimated to be USD 5 million (assuming all 400 Convertible Bonds convert))
IRAC	Imported Refiner Acquisition Cost
JCC	Japanese Crude Cocktail
$K_d$	Cost of debt capital
$K_e$	Cost of equity capital
km	Kilometres
km <sup>2</sup>	Square kilometres
LNG	Liquefied natural gas
LTI Rights	Long Term Incentive Rights
LTIP	Long term Incentive Plan
mmbbl	Million barrels
mmboe	Million barrels of oil equivalent



Reference	Definition
mmscfd	Million standard cubic feet per day
Models, the	Together, the Horizon and ROC Models
mtpa	Million tonnes per annum
n/a	Not applicable
NYMEX	New York Mercantile Exchange
OECD	Organisation for Economic Co-operation and Development
OMV	OMV New Zealand
OPEC	Organisation of the Petroleum Exporting Countries
Osaka Gas	Osaka Gas Niugini Pty Limited
Osaka Gas Transaction	Transaction with Osaka Gas by which Horizon sold a 40% interest in its interests owned in the Stanley and Elevala-Ketu fields in 2013
PDL	Production Development Licence
Petsec	Petsec Energy Limited
PJ	Petajoules
PNG	Papua New Guinea
Private Early Redemption Offer	The offer by Horizon to bondholder of a premium over the current redemption price of the bonds where bondholders commit to redeem all of their Convertible Bonds following implementation of the Proposed Scheme
PRL	Petroleum Retention Licence
Proposed Merged Entity	Merged entity of Horizon and ROC
Proposed Scheme, the	The proposal under which Horizon and ROC would merge by way of ROC acquiring all of the issued shares in Horizon via a scheme of arrangement
PRRT	Petroleum resource rent tax
PSC	Production Sharing Contract
$R_f$	Risk free rate of return
RISC	RISC Operations Pty Limited
$R_m$	Expected return on the market portfolio
ROC	ROC Oil Company Limited
ROC Model, the	The model that estimates the future cash flows from each of the operating and development asset of ROC
RSC	Risk Services Contract
SARs	Share Appreciation Rights
Scheme Booklet	Scheme booklet containing the detailed terms of the Proposed Scheme
STI Rights	Short Term Incentive Rights
UK	United Kingdom
USD	US dollars
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
WTI	West Texas Intermediate

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# 1 Overview of the Proposed Scheme

## 1.1 Summary of the Proposed Scheme

### 1.1.1 Overview

Horizon and ROC will merge by way of ROC acquiring all of the issued shares in Horizon. The merger is being effected by way of a scheme of arrangement:

- as it will minimise the need for any third party approvals
- because it provides greater certainty that in the event that the Proposed Scheme is approved by Horizon Shareholders and the Court, 100% of Horizon will be acquired by ROC
- it should also ensure that scrip-for-scrip capital gains tax roll-over relief is available for Horizon Shareholders.

If the Proposed Scheme is approved, Horizon Shareholders (other than ineligible foreign shareholders) will receive 0.724 ROC shares for every share held in Horizon at the Record Date, such that they will collectively own approximately 58% of the Proposed Merged Entity. The Proposed Scheme is expected to be implemented in August 2014.

Those foreign Horizon Shareholders deemed to be ineligible will not be issued shares in ROC under the Proposed Scheme and will instead have their share entitlement in ROC issued to a nominee to facilitate the sale of the shares on the ASX. The net proceeds will be distributed proportionately amongst ineligible foreign Horizon Shareholders.

Upon completion of the Proposed Scheme, Horizon would become a wholly owned subsidiary of ROC and would subsequently be delisted from the ASX.

Partly-paid shares, unlisted options and Share Appreciation Rights (SARs) issued by Horizon, and Convertible Bonds issued by Horizon, will be subject to different treatment in the Proposed Scheme (discussed below).

### 1.1.2 Treatment of partly-paid shares, options and SARs in Horizon

In addition to the 1,302 million fully paid ordinary shares, Horizon has a number of partly-paid shares, unlisted options and SARs on issue to various eligible employees and third parties.

Under the Merger Implementation Deed, it is intended that the options and SARs in Horizon are transferred to ROC (at an equivalent value) or cancelled prior to implementation of the Proposed Scheme, with holders of cancelled securities receiving consideration that is reasonably acceptable to Horizon, the holders and ROC. In particular:

- **partly paid shares:** holders of partly-paid shares in Horizon will receive 0.724 fully paid shares in ROC for each partly-paid share held in Horizon and their debt obligation to Horizon will be transferred to ROC such that they will remain liable to ROC for the residual payments owing on those partly-paid shares
- **vested options:** holders of vested options will be deemed to have exercised their options and a corresponding number of shares in Horizon will be issued to the option holder with effect from the day following the Proposed Scheme meeting. Holders of vested options will receive the consideration under the Proposed Scheme, but will remain liable to ROC for the amount equal to the exercise price of such options, with the amount payable on or before the date on which the exercise price would otherwise have been payable to Horizon. In effect, the vested options will become partly paid shares in ROC
- **unvested (in-the-money) options and SARs:** unvested options which are in-the-money and SARs will be cancelled on the day following the Proposed Scheme meeting and, in exchange, their holders will be entitled to receive a number of new options in ROC equivalent in value to those options and SARs which were cancelled, with a revised strike price based on the merger ratio
- **unvested (out-the-money) options:** Horizon may elect (if requested by the option holder) to cancel unvested options which are out-of-the-money in exchange for a cash payment equivalent to the value of the option, calculated with reference to the Black-Scholes valuation methodology, otherwise the options will be treated in the same manner as unvested (in-the-money) options.

The above can be summarised as follows:

**Table 5**

	Number of shares	Shares to be Issued in ROC	Outstanding loans to be transferred (AUD)
Partly-paid shares	1,500,000	1,086,000	427,500

Source: Horizon

**Table 6<sup>1</sup>**

Issue date	Number of options outstanding	Number of options vested	Remaining unvested options:		Shares to be issued in ROC	Options to be issued in ROC	Valuation of out-of-the-money options (AUD)
			in-the-money	out-of-the-money			
<b>Employee Options</b>							
25-Sep-09	5,175,000	5,175,000	-	-	3,746,700	-	-
25-Sep-09	350,000	350,000	-	-	253,400	-	-
9-Oct-09	2,700,000	2,700,000	-	-	1,954,800	-	-
16-Sep-10	350,000	350,000	-	-	253,400	-	-
28-May-12	1,666,667	1,000,001	666,666	-	724,001	594,748	-
17-Sep-12	500,000	166,667	333,333	-	120,667	296,824	-
20-Feb-13	350,000	-	-	350,000	-	-	41,043
20-Feb-13	350,000	-	-	350,000	-	-	43,791
<b>Total</b>	<b>11,441,667</b>	<b>9,741,668</b>	<b>999,999</b>	<b>700,000</b>	<b>7,052,969</b>	<b>891,572</b>	<b>84,834</b>
<b>General Options</b>							
11-Dec-09	500,000	500,000	-	-	362,000	-	-
6-Jun-11	15,000,000	15,000,000	-	-	n/a	-	-
10-Jan-12	1,000,000	666,667	333,333	-	482,667	310,272	-
28-May-12	2,000,000	1,333,334	666,666	-	965,334	636,882	-
<b>Total</b>	<b>18,500,000</b>	<b>17,500,001</b>	<b>999,999</b>	<b>-</b>	<b>1,810,001</b>	<b>947,154</b>	<b>-</b>
<b>SARs</b>							
1-Oct-10	6,693,828	-	6,693,828	-	-	5,790,654	-
5-Aug-11	6,478,276	-	6,478,276	-	-	5,342,158	-
13-Aug-12	9,561,936	-	9,561,936	-	-	7,529,173	-
19-Aug-13	8,547,599	-	8,547,599	-	-	6,736,777	-
<b>Total</b>	<b>31,281,639</b>	<b>-</b>	<b>31,281,639</b>	<b>-</b>	<b>-</b>	<b>25,398,762</b>	<b>-</b>
<b>Total</b>	<b>61,223,306</b>	<b>27,241,669</b>	<b>33,281,638</b>	<b>700,000</b>	<b>8,862,969</b>	<b>27,237,488</b>	<b>84,834</b>

Source: Horizon

Notes:

1. Refer to Section 2.3 for further details on options and SARs issued in Horizon
2. n/a – not applicable; this parcel of options will expire prior to implementation of the Proposed Scheme. The options are currently marginally in the money.

Following implementation of the Proposed Scheme, the Proposed Merged Entity may receive proceeds from option holders who exercise their options. However, the options will convert into partly-paid shares initially under the terms of Horizon option schemes.

We have undertaken an analysis to assess the dilution effect of the unvested options exercising to their fullest extent and the maximum number of shares arising from conversion of the SARs into shares in Horizon and the Proposed Merged Entity. We have determined that the impact is immaterial on the overall value estimated for a share in both Horizon and the Proposed Merged Entity.

Full details on the proposed treatment of the partly-paid shares, options and SARs issued by Horizon are provided in the Scheme Booklet.

### 1.1.3 Treatment of Convertible Bonds

Horizon issued 400 5.5% Convertible Bonds for USD 80 million on 17 June 2011, which have a maturity date of 17 June 2016. The Convertible Bonds can be satisfied and discharged by conversion into Horizon shares prior to the maturity date, at the option of the bondholder, or redemption on the maturity date.

If implemented, the Proposed Scheme would trigger an adjustment event (which results in a reduced conversion price becoming available to bondholders) and a redemption right (which results in an early repayment opportunity becoming available to bondholders). Bondholders can elect to action either one of those triggers.

The merits of conversion or redemption of the Convertible Bonds will depend on, among other things, the price of Horizon and ROC shares and the USD / AUD exchange rate prevailing at the date of conversion.

If bondholders elect to convert, Horizon may elect to settle the conversion by making a cash payment to bondholders in lieu of issuing new shares in Horizon.

Horizon intends to offer a premium to bondholders who commit to redeem all of their Convertible Bonds following implementation of the Proposed Scheme under the terms of the Private Early Redemption Offer.

#### Private Early Redemption Offer

The key terms of the Private Early Redemption Offer are:

- the offer is conditional upon the Proposed Scheme becoming effective
- bondholders who accept the offer and redeem their Convertible Bonds will receive a premium of 625 basis points above the “Early Redemption Amount” which they are entitled to receive under the terms of the Convertible Bonds, to be funded from the available cash of the Proposed Merged Entity (the Incentive Payment)
- the offer must be accepted for all (not some) of the Convertible Bonds held by a bondholder
- bondholders who accept the Private Early Redemption Offer agree to vote in favour of a resolution, which may be proposed at a meeting of bondholders to consider an amendment to the conditions of the Convertible Bonds in order to include a right for Horizon to redeem any outstanding Convertible Bonds.

The Early Redemption Amount is estimated at USD 84 million (for all 400 Convertible Bonds) and the Incentive Payment is currently estimated at USD 5 million (assuming all 400 Convertible Bonds are redeemed).

#### Potential for compulsory acquisition under the Corporations Act

Following implementation of the Proposed Scheme, ROC may seek to compulsorily acquire any outstanding Convertible Bonds in several ways.

- **existing rights under the terms of the Convertible Bonds:** under the terms of the Convertible Bonds, there is a right to redeem all outstanding Convertible Bonds if conversion or redemption is effected in respect of 90% or more (by principal amount) of the Convertible Bonds
- **meeting to amend the terms of the Convertible Bonds:** a meeting of bondholders may be called to amend the terms of the Convertible Bonds by “Extraordinary Resolution” (75% or more of those attending and voting at the relevant meeting) to include a right for Horizon to redeem any outstanding Convertible Bonds. If the “Extraordinary Resolution” is approved, the option right may be exercised to redeem any outstanding Convertible Bonds
- **general compulsory acquisition under the Corporations Act:** if the Proposed Scheme is implemented and ROC obtains a shareholding which represents, in aggregate, at least:
  - 90% of the voting power in Horizon; and
  - (either alone or with a related body corporate) full beneficial interests in at least 90% by value of all the securities of Horizon that are either shares or convertible into shares.

ROC may seek to compulsorily acquire the outstanding Convertible Bonds (i.e. those remaining after any are redeemed under the Private Early Redemption Offer) in accordance with sections 664A to 664G of the Corporations Act.



## 1.2 Key conditions of the Proposed Scheme

The Proposed Scheme is subject to customary regulatory approvals and various conditions, the most significant being:

- no “ROC Oil Prescribed Event” or “Horizon Prescribed Event” having occurred as stipulated in the Merger Implementation Deed
- the independent expert engaged to assist Horizon Shareholders concluding that the Proposed Scheme is in the best interests of the Horizon Shareholders
- “PRL Completion” (as defined in the Osaka Gas Asset Sale Agreement) having occurred under and in accordance with the Osaka Gas Asset Sale Agreement
- Horizon Shareholders approving the Proposed Scheme at the Scheme Meeting (75% of votes cast; 50% of shareholders voting)
- Court approval of the Scheme in accordance with section 411(4)(b) of the Corporations Act.

On 15 May 2014, ROC advised the ASX that it had received a notice under section 249D of the Corporations Act from a substantial shareholder requesting a general meeting of ROC shareholders to consider a special resolution to amend the company’s Constitution. The amendment of ROC’s Constitution would qualify as a “ROC Oil Prescribed Event” under the Merger Implementation Deed, which, unless waived by Horizon, would entitle Horizon to terminate the Merger Implementation Deed and the Proposed Scheme would not complete.

As at the date of this report, Horizon has not formed an intention or view on the course of action it may take if the proposed resolution is passed by ROC shareholders and reserves its rights in this regard.

Horizon does not presently intend to consent to the altering of ROC’s Constitution (although it reserves its right to do so) and expects that ROC will honour all of its obligations under the Merger Implementation Deed. If ROC’s Constitution is amended, Horizon will undertake all steps available to it to preserve its rights pursuant to the Merger Implementation Deed (which may include claiming damages for any breach of the Merger Implementation Deed to the fullest extent possible).

## 2 Profile of Horizon

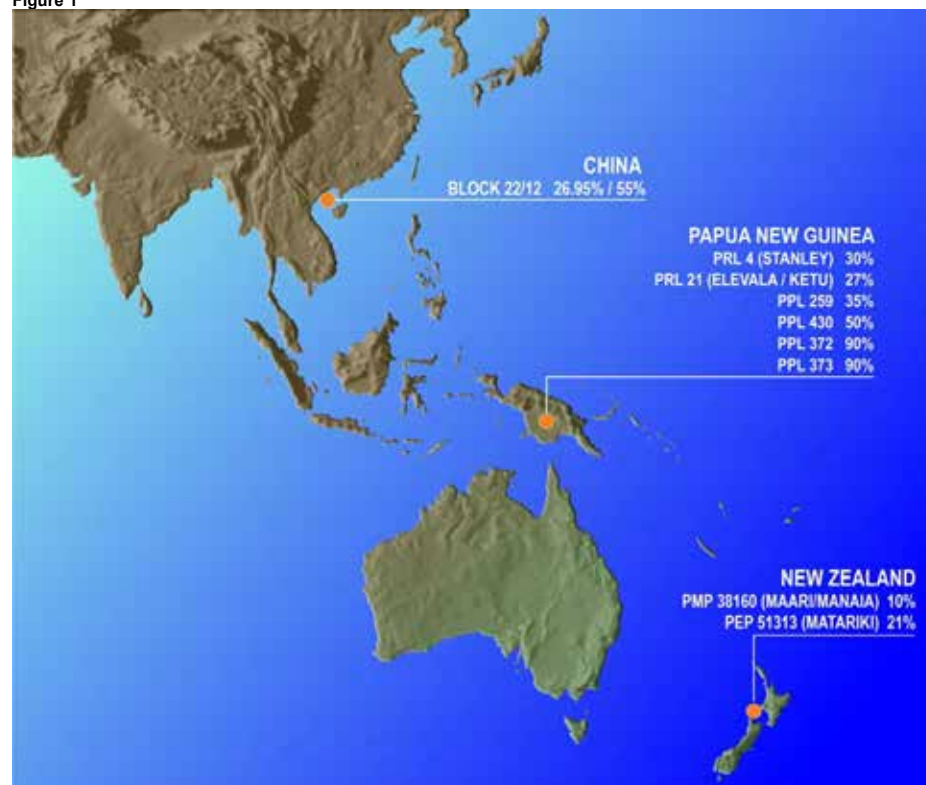
### 2.1 Company overview

Horizon is an upstream oil and gas company listed on the ASX. Previously known as Bligh Oil & Minerals NL, the company eventually changed its name to Horizon Oil Limited in January 2004. Horizon is based in Woolloomooloo, New South Wales and has interests in oil and gas producing, development and exploration assets in China, PNG and New Zealand.

Horizon's producing assets in China operate under a Production Sharing Contract (PSC) with the Chinese Government. A state-owned entity, CNOOC, currently holds a 51% interest in the Beibu Gulf project, and also operates the project. Horizon's production and development assets in New Zealand and PNG are held under concession agreements with the New Zealand and PNG governments. Under the PNG concession agreements, the PNG Government reserves the right to participate up to a 22.5% equity interest in any project which progresses to commercial development<sup>5</sup>.

The following figure outlines the location of Horizon's principal assets.

Figure 1<sup>1</sup>



Source: Horizon website

Note:

1. The Petroleum Development Licence for the Stanley field (formerly PRL 4) was issued on 30 May 2014. PRL 4 is now known as PDL 10.

<sup>5</sup> The PNG Government may appoint a state nominee to acquire up to a 22.5% interest in the commercial development of a project. The price payable for this interest is equal to the sunk costs incurred by the joint venture participants.

## 2.2 Principal assets

The portfolio of assets held by Horizon is summarised in the following table.

Table 7

Asset	Location	% ownership	Other owners	Operator	Type of project
<b>Operating assets</b>					
PMP 38160 (Maari/Manaia)	New Zealand	10.00%	OMV New Zealand (69.00%) Todd Corporation (16.00%) Cue Energy (5.00%)	OMV New Zealand	Oil
Beibu Gulf – Block 22/12 (WZ 6-12, WZ 12-8 West)	China	26.95%	CNOOC (51.00%) ROC (19.60%) Majuko Corporation (2.45%)	CNOOC	Oil
<b>Development / pre-development assets</b>					
PDL 10 (Stanley)	PNG	30.00% <sup>2</sup>	Osaka Gas (20.00%) Talisman Energy (40.00%) Mitsubishi Corporation (10.00%)	Talisman Energy	Condensate and gas
PRL 21 (Elevala, Ketu)	PNG	27.00% <sup>2</sup>	Osaka Gas (18.00%) Talisman Energy (32.50%) Kina Petroleum (15.00%) Mitsubishi Corporation (7.50%)	Horizon	Condensate and gas
<b>Exploration assets</b>					
PEP 51313 (Matariki, Whio)	New Zealand	21.00%/10.00% <sup>3</sup>	OMV New Zealand (30.00%) Todd Corporation (35.00%) Cue Energy (14.00%)	OMV New Zealand	Oil
Beibu Gulf – Block 22/12 (WZ 12-8 East)	China	55.00% <sup>1</sup>	ROC (40.00%) Majuko Corporation (5.00%)	CNOOC	Oil
PPL 259	PNG	35.00% <sup>2</sup>	Osaka Gas (10.00%) Eaglewood (45.00%) Mega Fortune International (10.00%)	Eaglewood <sup>5</sup>	Condensate and gas
PPL 372	PNG	90.00%/54.00% <sup>2,4</sup>	Osaka Gas (36.00%)	Horizon	Condensate and gas
PPL 373	PNG	90.00%/54.00% <sup>2,4</sup>	Osaka Gas (36.00%)	Horizon	Condensate and gas
PPL 430	PNG	50.00%/30.00% <sup>2,4</sup>	Osaka Gas (20.00%) Eaglewood (50.00%)	Horizon	Condensate and gas

Source: Horizon Annual Report 2013; ASX announcements

Notes:

- Subject to reduction to allow for CNOOC participation at 51%
- Subject to reduction to allow for PNG State Nominee participation at 22.5%
- In the event of a commercial discovery at Whio, Horizon's interest in the Whio area will reduce to 10%
- Subject to a reduction to allow for Osaka Gas to participate up to 36%, at Osaka Gas' option
- Under the terms of the farm-in agreement between Horizon and Eaglewood in October 2013, Horizon will operate the Nama exploration well to be drilled in the licence in 2014.

A summary of the reserves, resources and prospective resources for Horizon, on an economic interest basis and post the Osaka Gas Transaction, as at 1 January 2014 is set out in the table below. The reserves and resources presented below represent Horizon's view; refer to the technical expert's report (in Appendix G) for RISC's view on the reserves and resources attributable to the assets.

**Table 8**

Asset <sup>1</sup>	Oil (mmbbl)	Gas (Bcf)	Condensate (mmbbl)	Total (mmboe)
<b>Proved Plus Probable Reserves (2P)</b>				
Block 22/12 (WZ 6-12, WZ 12-8 West)	6.5	-	-	6.5
PMP 38160 (Maari/Manaia)	6.0	-	-	6.0
PDL 10 (Stanley)	-	-	3.4	3.4
<b>Total</b>	<b>12.5</b>	<b>-</b>	<b>3.4</b>	<b>15.9</b>
<b>Proved Plus Probable Contingent (2C)</b>				
Block 22/12 (WZ 12-8 East)	1.5	-	-	1.5
PDL 10 (Stanley)	-	120.0	0.4	20.4
PRL 21 (Elevala)	-	186.0	9.6	40.5
PRL 21 (Ketu)	-	79.0	3.8	16.9
<b>Total</b>	<b>1.5</b>	<b>385.0</b>	<b>13.8</b>	<b>79.3</b>
<b>Prospective Resources</b>				
Block 22/12	3.0	-	-	3.0
PMP 38160 (Maari/Manaia)	2.0	-	-	2.0
PEP 51313	12.0	-	-	12.0
PRL 21	-	17.0	1.0	4.0
PRL 259	-	295.0	12.0	61.0
<b>Total</b>	<b>17.0</b>	<b>312.0</b>	<b>13.0</b>	<b>82.0</b>

Source: Horizon management

Note:

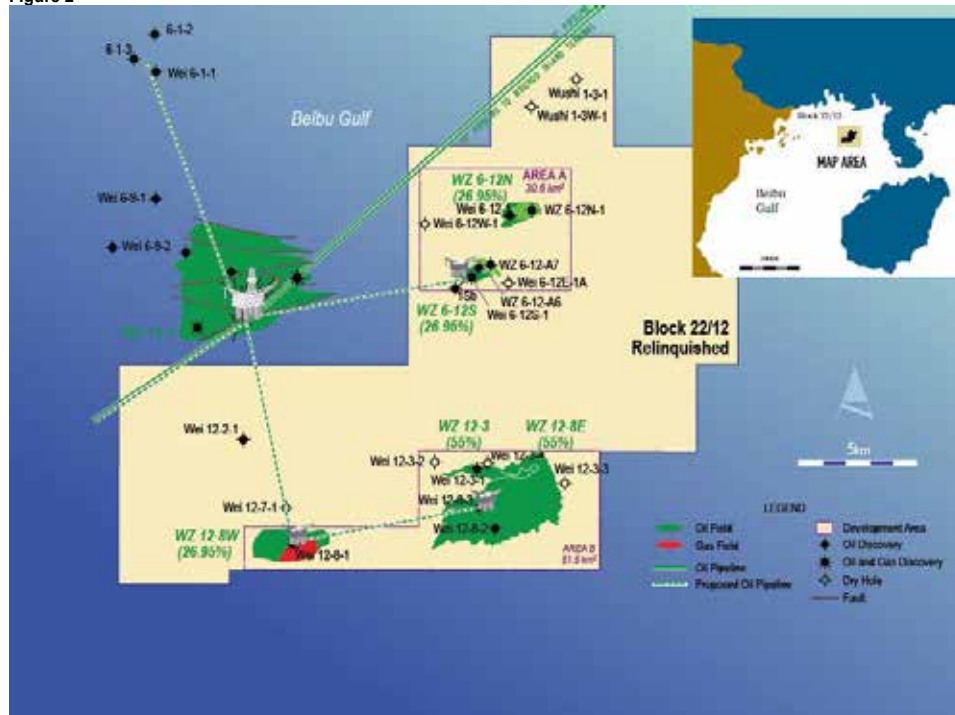
1. A detailed description of the underlying reserves and resources methodology supporting these estimates is outlined in the Scheme Booklet. Please refer to the relevant section of the Scheme Booklet for this information.

### 2.2.1 Beibu Gulf, China

The Beibu Gulf assets lie in Block 22/12, a 364km<sup>2</sup> licence area located in the South China Sea, approximately 60km from the southern coast of China. The project is currently producing oil at a rate of 13,330 bopd<sup>6</sup> (100% basis for the quarter ended 31 March 2014) from operations at the WZ 6-12 and WZ 12-8 West fields, with peak production from the project anticipated at rates of 16,000 to 18,000 bopd. Production is transported to the Weizhou Island storage and export terminal via pipeline. Proposed development activities in the WZ12-8 East field continue to be explored as operations at the WZ 6-12 and WZ 8-12 West fields ramp up, following commencement of production in early 2013.

Horizon currently holds a 26.95% working interest in the producing assets, with the other joint venture partners, CNOOC, ROC and Majuko Corporation holding a 51%, 19.60% and 2.45% interest, respectively. The locations of the assets within Block 22/12 are set out in the figure below.

Figure 2



Source: Horizon Annual Report 2013

Horizon's initial 100% interest in the Block 22/12 assets was acquired on signing the PSC with CNOOC in 1999. Subsequent farm-outs to ROC, Majuko Corp and Petsec Energy Limited (Petsec) reduced Horizon's interest to 30%. In June 2011, Horizon acquired an additional 25% interest in the assets from Petsec, bringing its interest in the assets to 55.00%. Under the terms of the PSC between CNOOC and Horizon, CNOOC was provided with the right to participate at up to a 51% equity interest in any commercial developments within Block 22/12<sup>7</sup>.

Four primary fields have been identified in the area, being the WZ 6-12 fields (North and South) and WZ 12-8 fields (East and West). The Block 22/12 assets have been developed in two phases. Phase I of the Beibu Gulf development plan involved the development of the WZ 6-12 South, WZ 6-12 North and the WZ 12-8 West

<sup>6</sup> Horizon company announcement, 30 April 2014

<sup>7</sup> Horizon website



fields, with WZ 12-8 East expected to follow in Stage II of the development. The production period outlined in the Block 22/12 petroleum contract is 15 years, with the possibility of extension following approval of the Chinese Government.

Following the successful development of the Stage I assets, CNOOC exercised its right to a 51% equity interest in the assets, bringing Horizon's working interest therein to 26.95%, and the interests of the other joint venture partners, ROC and Majuko Corporation, to 19.60% and 2.45%, respectively. Horizon maintained a 55.00% interest in the primary Stage II field, WZ 12-8 East, following the transaction<sup>8</sup>.

First production was achieved at Block 22/12 in March 2013 from the WZ 6-12 fields at a rate of 10,000 bopd (100% basis) with production from the third Stage I field, WZ 12-8 West, commencing in August 2013 to bring cumulative production of the Stage I assets to 4.22 mmbbl as at 31 March 2014<sup>9</sup>. Production from the WZ 6-12 and WZ 8-12 West wellhead platforms is tied-in to an adjacent CNOOC-operated processing facility, before being transported to CNOOC's existing Weizhou Island storage and export terminal via a 34km pipeline, also owned and operated by CNOOC.

Production rates from the Stage I fields have been consistent with forecasts outlined in the Independent Reserves Report produced by RISC in 2012 (namely peak plateau production for the overall project of between 16,000 and 18,000 bopd<sup>10</sup>). Production from the Stage I fields is expected to continue through to 2025<sup>11</sup>. There have been two brief periods of downtime since production commenced (totalling 12 days), as a result of poor weather in the area.

The development plan for the Stage II field, WZ 12-8 East, is ongoing and is scheduled for completion by Q4 2014. The WZ 12-8 East field is expected to be a phased development, initially comprising three production wells and will utilise a leased mobile production platform. Production will tie-in to the existing processing facility on site.

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<sup>8</sup> Horizon Annual Report 2013

<sup>9</sup> Horizon company announcement, 30 April 2014

<sup>10</sup> Horizon Annual Report 2013

<sup>11</sup> Horizon investor presentation, May 2014

### 2.2.2 Maari and Manaia Fields, New Zealand

The Maari and Manaia fields are located in the PMP 38160 permit area approximately 80km offshore Taranaki, New Zealand. The project currently produces oil from three reservoirs; two in the Maari field and one in the Manaia field. For the quarter ended 31 March 2014, average gross production from the project was 9,814 bopd. Production from the three producing reservoirs ties-in to a single wellhead platform located adjacent to the Maari field, before connecting to a Floating Production Storage and Offload vessel (FPSO) moored approximately 1.5km from the wellhead platform. A semi-submersible rig was secured in 2013 to evaluate prospects in the Manaia field and, in 2014, to drill the Whio prospect located in the PEP 51313 permit area, south of the Maari field.

The locations of these fields are set out in the figure below.

Figure 3



Source: Horizon

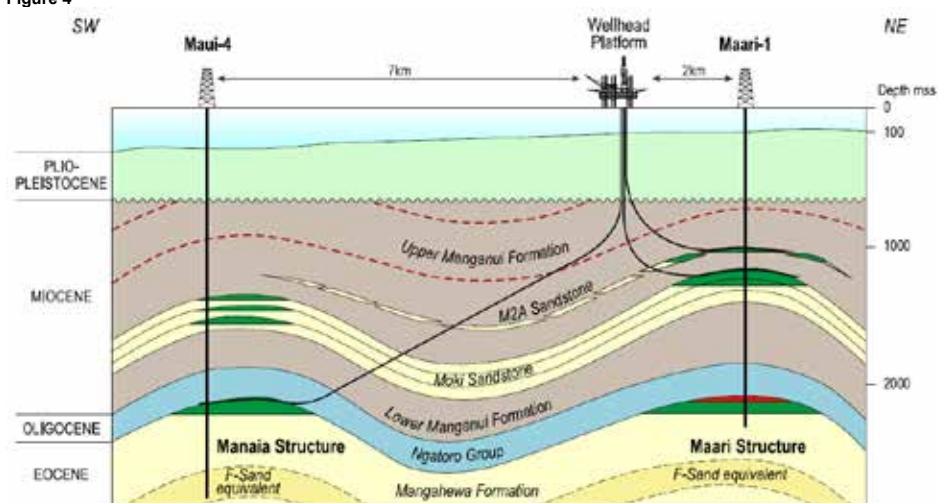
Horizon currently holds a 10% interest in the producing assets at the Maari and Manaia fields, which are operated by OMV New Zealand. Horizon acquired its initial interest in the fields from OMV New Zealand following the divestment by OMV New Zealand of its interest in the PMP 38160 and PEP 38413 permits in January 2003. Following the acquisition, Horizon participated in the drilling of the Maari-2 appraisal well within PMP 38160, which spudded in January 2003, resulting in the commencement of development activities. The New Zealand Government's Ministry of Economic Development granted a Petroleum Mining Permit to the joint venture in December 2005, granting the rights to produce for a period of 22 years in the area comprising PMP 38160.

The Manaia field was initially located within PEP 38413, which is adjacent to the PMP 38160 permit area. An appraisal well, Manaia-1, was drilled in the area and was spudded in August 2009. Following this development, a request was made by the joint venture to extend the area of PMP 38160 to include the area of PEP 38413 containing the Manaia field. On 1 July 2010, the New Zealand Crown Minerals Group approved the request, effectively consolidating the joint venture's development assets into one permit area.

The Maari field was developed via a single wellhead platform connected to an FPSO by subsea umbilical flow lines. The wellhead was installed at Maari-2 in late 2008 and became fully operational in December 2009. The FPSO used in production was initially leased by the joint venture, with the option to purchase the vessel at a later date. The joint venture exercised this option in March 2013, purchasing the vessel for USD 33 million.

Subsequent to production being achieved from the Maari-Moki reservoir, the joint venture successfully began production from two additional wells, Manaia-1 and MR-9, in 2010. The MR-9 well was drilled as a development well to access the M2A sands above the main Moki reservoir at Maari, initially encountered in the Maari-1 well. The Manaia-1 well was drilled as a development well to access the Mangahewa sands at Manaia, initially encountered in the Maui-4 exploration well. The figure below outlines the cross section of the Maari and Manaia fields.

Figure 4



Source: Horizon Annual Report 2013

Since commercialisation, the majority of production has been derived from the five production wells, which draw on the reserves from the Moki formation in the Maari field.

An extensive re-development plan for the Maari and Manaia fields began in late 2013, involving the drilling of an additional exploration/appraisal well, Manaia-2, on the Manaia structure, the reconfiguration of the existing water injection wells and the addition of one new injector, and the drilling of four new production wells in the Maari (3) and Manaia (1) fields. These wells will tie-in to the existing wellhead platform which services the existing production wells.

Since the commencement of production at the Maari and Manaia fields, a number of issues have resulted in periods of lower than expected production yields. The unreliable performance of downhole pumps, as well as scale build-up in well completions, caused interruptions to production in FY2013<sup>12</sup>. In addition, upgrade works and repairs to the project's FPSO resulted in the shutdown of production facilities for a period of approximately five months between July 2013 and December 2013.

A review of the project's reserves was conducted by an independent expert in late 2013. The review resulted in a preliminary downgrade in Horizon's project reserves, on a net basis, from 8.6 mmbbl to 6.0 mmbbl. These reserves will be revised once again upon completion of re-development drilling.

### 2.2.3 Stanley field, PNG

The Stanley field is a gas / condensate field lying in the PDL 10 (formerly PRL 4, following the issue of the development licence by the PNG Government on 30 May 2014) permit area in the Western Province of PNG. The project currently operates as a joint venture, of which Horizon holds a 30% interest. The PNG Government has the right to participate up to a 22.5% equity interest in the project through a state nominee, upon the

<sup>12</sup> Horizon has a June financial year end

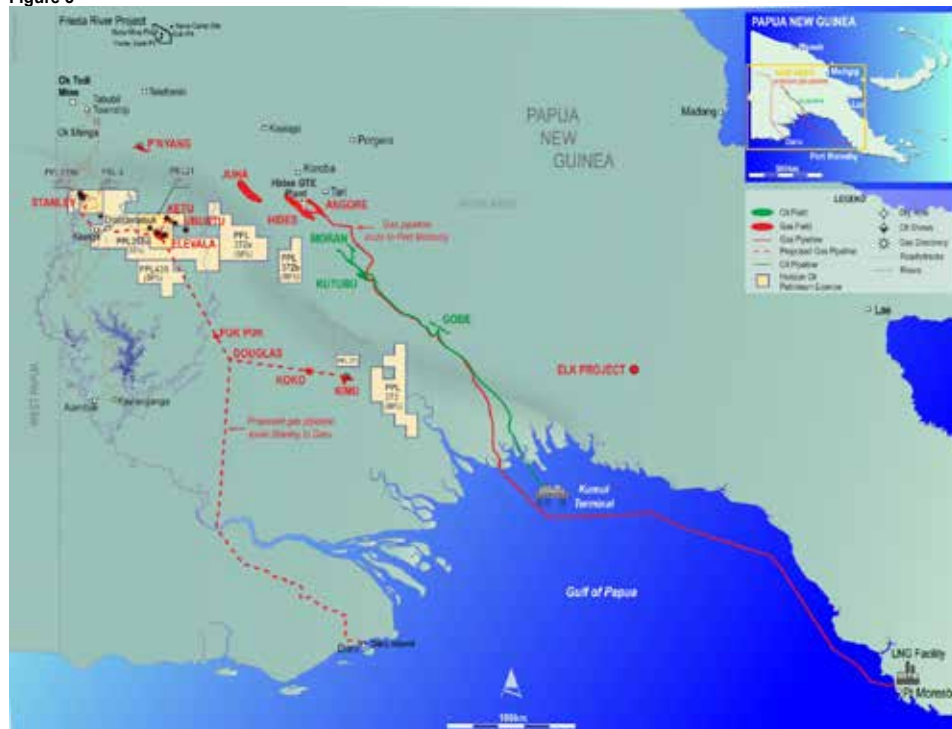
awarding of a PDL for the project. In this event, Horizon’s interest in the Stanley project will be diluted to 23.25%.<sup>13</sup>

The Stanley development project is at an advanced stage, with a defined resource. An application for project development was submitted to the PNG Government in August 2012, and was subsequently approved in April 2014. It is expected that the licence will be issued in mid-2014. The project’s development plan involves producing 140 million cubic feet of wet gas per day, from which approximately 4,000 barrels of condensate will be recovered per day utilising a two train refrigeration plant located in the field. Any dry gas not sold or used will be re-injected into the reservoir until required for sale. The condensate will be transported via a 40km pipeline to a storage facility at Kiunga, before being loaded onto a special purpose 33,000 barrel tanker 1km downstream of the existing Kiunga wharf for transport to regional customers.<sup>14</sup>

In addition to domestic sales, Horizon plans to leverage the additional capacity created by the development of its fields in the PRL 21 permit area to participate in the development of a mid-scale LNG facility that would be located at Daru Island, as shown in the figure below. There is also a possibility of selling gas to third party LNG facilities, including ExxonMobil’s LNG Project in Port Moresby, or the potential Total/InterOil Elk-Antelope LNG Scheme.

The figure below outlines the location of the project and the associated proposed infrastructure.

Figure 5



Source: Horizon website

Following the withdrawal of Santos, Carnarvon Petroleum and AWE in 2006, Horizon’s participation in PDL 10 increased to 27.95%. The remaining participants, InterOil (43.13%) and Austral Pacific (28.92%), sold their interests to Horizon in 2008, resulting in Horizon holding 100% of the project, before Horizon sold a 50%

<sup>13</sup> Ibid.

<sup>14</sup> Horizon investor presentation, May 2014

interest in PDL 10 to Talisman Energy in 2009 for a total consideration of USD 60 million. Subsequent to this transaction, Talisman sold a 10% in interest in PDL 10 to Mitsubishi Corporation in 2012.

Horizon, as project operator, began drilling the first appraisal well, Stanley-2, in December 2010. The well confirmed 23 metres of net gas / condensate pay in the Toro formation and intersected a new zone with 43 metres of net gas/condensate pay in the Kimu sandstone of the Imburu formation. This new zone was appraised with the drilling of the Stanley-4 well, the results of which confirmed previous findings.

Following positive drilling results and a favourable resource assessment, Final Investment Decision (FID) on the development of the PDL 10 assets was approved by the Horizon board in January 2012 and the joint venture in July 2012, with some contingent resources consequently reclassified to reserves.

Horizon has identified a number of options for the sale of gas production from the Stanley project, in addition to selling gas production via a mid-scale LNG facility. Horizon is in negotiations to supply gas to the Ok Tedi copper and gold mine, also for power generation. The Ok Tedi mine is located less than 100km from the Stanley field. Other options, including the supply of gas to local power stations supporting towns and communities in the region, are also being explored<sup>15</sup>. The nearby Frieda River copper and gold project, currently in the feasibility stage, could also potentially use the Stanley field gas.

In May 2013, Horizon announced that it had entered into an agreement with Osaka Gas to sell a 40% interest in its PNG assets, including PDL 10, for a total consideration of USD 204 million, with approximately USD 78 million to be received following the granting of the Stanley development licence<sup>16</sup> (received on 30 May 2014).<sup>17</sup> The remainder is receivable upon FID of an LNG project. Horizon plans to use its alliance with Osaka Gas to progress the development of a mid-scale LNG facility. Osaka Gas is the second largest gas company in Japan, importing over 8 million tonnes of LNG annually. The company also has an interest in six LNG carriers and is the owner and operator of LNG terminals and a 60,000km pipeline network throughout Japan.

#### 2.2.4 Elevala and Ketu fields, PNG

Elevala and Ketu are two gas / condensate fields located in the PRL 21 permit area, which lies adjacent to Horizon's Stanley field in the PDL 10 permit area. Horizon currently holds a 27% interest in the fields following the transaction with Osaka Gas announced in May 2013. The fields are currently in the advanced stages of appraisal, with the development and pipeline applications submitted to the PNG Government in Q3 FY2014. Horizon is of the view that combined gas volumes from the PDL 10 and PRL 21 fields are approaching the scale required for Horizon to participate in the development of mid-scale LNG project in the region.

As operator, Horizon drilled an appraisal well, Elevala-2, in November 2011. The well encountered 18 metres of gas / condensate and indicated that the field extended further north than previously thought. A second well (Elevala-2 ST1) was subsequently drilled, which confirmed the previous discovery at Elevala-2.

Exploration of the Ketu field commenced in March 2012 with the drilling of the Ketu-2 well. Drilling of the appraisal well resulted in surface gas flow at a rate over 20 mmscfd. In August 2013, the Tingu-1 exploration well was drilled, resulting in the discovery of gas/condensate and identification of an accumulation potentially similar in size to the Elevala field<sup>18</sup>. The Tingu-1 well is located approximately 9km from Elevala-2 and is structurally connected to the Elevala field. Development planning of the PRL 21 fields continued subsequent to these developments, resulting in the submission of petroleum development and pipeline applications to the PNG Government.

The project's development concept includes an on-site processing facility for all production wells. Similar to the Stanley project, condensate will be transported to the Kiunga storage load out facility via a proposed pipeline from the project site.

<sup>15</sup> Horizon Annual Report 2013

<sup>16</sup> Horizon company announcement, 23 May 2013

<sup>17</sup> USD 21 million was received by way of deposit in 2013, with the balance of USD 54 million to be received on receipt of the licence from the PNG Government. In addition, Horizon will also receive approximately USD 24 million in recognition of costs incurred since 1 January 2013. Therefore, the remaining cash payment totals approximately USD 78 million. Approximately USD 77 million of this was paid to Horizon on 12 June 2014, with a further USD 1 million (approximately) to be received in the short term

<sup>18</sup> Company announcement, 28 October 2013



### 2.2.5 Other PNG exploration assets

In FY2013, Horizon purchased a 90% interest in PNG gas / condensate permits PPL 372 and PPL 373 and was also awarded a 50% interest in PPL 430. As a result of the Osaka Gas Transaction in May 2013, Osaka Gas has the right to acquire a 40% equity interest in these assets, at its option. Horizon also holds a 35% interest in the PRL 259 permit area, along with Osaka Gas which holds a 10% interest.

## 2.3 Capital structure and shareholders

Horizon had the following securities on issue as at 16 May 2014:

- 1,301,981,265 fully paid ordinary shares
- 1,500,000 partly paid ordinary shares
- 61,223,306 unlisted share options.

Partly paid shares relate to ordinary shares issued on the exercise of employee options. The outstanding obligation in relation to partly paid ordinary shares is payable either when called or by the date not exceeding five years from the grant date of the option which gave rise to the partly paid ordinary share.

The following table lists the substantial shareholders of Horizon as at the date of this report:

**Table 9**

Shareholder	Number of shares held	% of issued shares
Austral-Asia Energy Pty Limited as trustee for Triplex Global Ventures Limited	319,695,688	25%
Commonwealth Bank of Australia	144,984,627	11%
Tribeca Investment Partners Pty Limited	68,387,994	5%
<b>Subtotal</b>	<b>533,068,309</b>	<b>41%</b>
Other	768,912,956	59%
<b>Total</b>	<b>1,301,981,265</b>	<b>100%</b>

Source: Horizon

Horizon issues shares to employees under Employee Option Schemes and to senior executive employees under the Long Term Incentive Plan. It has also issued options to third parties (referred to as General Options).

The following table summarises the unlisted share options on issue as at 16 May 2014:

**Table 10**

Issue date	Number of options outstanding	Exercise price (AUD)	Barrier price (AUD)	Expiry date
<b>Employee Options<sup>1</sup></b>				
25-Sep-09	5,175,000 <sup>5</sup>	0.29	0.37	25-Sep-14
25-Sep-09	350,000 <sup>5</sup>	0.29	0.37	25-Sep-14
09-Oct-09	2,700,000 <sup>5</sup>	0.31	0.37	09-Oct-14
16-Sep-10	350,000 <sup>5</sup>	0.30	0.35	16-Sep-15
28-May-12	1,666,667 <sup>5</sup>	0.26	0.34	28-May-17
17-Sep-12	500,000 <sup>5</sup>	0.29	0.37	17-Sep-17
20-Feb-13	350,000	0.43	0.51	20-Feb-18
20-Feb-13	350,000	0.40	0.48	20-Feb-18
<b>Total</b>	<b>11,441,667</b>			
<b>General Options<sup>2</sup></b>				
11-Dec-09	500,000 <sup>5</sup>	0.34	0.43	11-Dec-14
06-Jun-11	15,000,000 <sup>3</sup>	0.36	-	30-Jun-14
10-Jan-12	1,000,000 <sup>5</sup>	0.21	0.26	10-Apr-15
28-May-12	2,000,000 <sup>5</sup>	0.26	0.34	27-Aug-15
<b>Total</b>	<b>18,500,000</b>			

Issue date	Number of options outstanding	Exercise price (AUD)	Barrier price (AUD)	Expiry date
<b>SARs<sup>4</sup></b>				
01-Oct-10	6,693,828 <sup>5</sup>	n/a	-	01-Oct-15
05-Aug-11	6,478,276 <sup>5</sup>	n/a	-	05-Aug-16
13-Aug-12	9,561,936 <sup>5</sup>	n/a	-	13-Aug-17
19-Aug-13	8,547,599 <sup>5</sup>	n/a	-	19-Aug-18
<b>Total</b>	<b>31,281,639</b>			
<b>Total unlisted options</b>	<b>61,223,306</b>			

Source: Horizon

Notes:

1. Employee options relate to options issued to employees under Horizon's Employee Performance Incentive Plan
2. General options relate to options issued to third party consultants
3. Relates to options issued to Petsec as part of consideration for the acquisition of Petsec's interest in Block 22/12. These options expired on 30 June 2014
4. No price is payable by a participant on the exercise of a SAR
5. These options have satisfied their barrier prices.

In relation to the Employee Options:

- each option entitles a Horizon employee to subscribe for one share in Horizon and each option expires five years from the date of issue
- the employee is required to pay AUD 0.01 of the exercise price upon exercise of the option, with the balance to be paid at the expiration of the period that is five years from the date of issue of the option
- the exercise price is the greater of:
  - the price determined by the Board, but will not be less than the five-day VWAP of Horizon shares prior to the date on which the Board resolved to grant the options; and
  - AUD 0.20 per option
- options are classified as barrier options, meaning a holder cannot exercise them (after the vesting period) unless the five-day VWAP of Horizon's shares equals or exceeds a share price "hurdle", determined by the Board at the date of granting the options. Subject to the hurdle price being met, the options are exercisable in three equal tranches from dates which are 12 months, 24 months and 36 months after the grant date.

In relation to the General Options:

- the options issued to Petsec (15 million options) are not performance-based options. These options were exercisable, at Petsec's option, at any time up to and including the expiry date, being 30 June 2014. These options have now expired and were not exercised
- the remainder of General Options have similar performance terms to those of Employee Options.

In relation to the SARs:

- a SAR entitles the holder to receive either, or both, a cash payment or shares in Horizon, as determined by the Board, subject to Horizon satisfying certain performance hurdles
- no price is payable by the holder on the exercise of the right
- the number of SARs that vest is determined by reference to Horizon's "Total Shareholder Return", which measures the performance of Horizon's share price relative to the S&P/ASX200 Energy Index, having regard to minimum and maximum benchmarks (e.g. only 50% will vest subject to the share price as at the testing date equalling the benchmark)
- the amount of the cash payment / number of shares issued is based on the value of the right at the time it is exercised. The value of the right is the excess of the ten-day VWAP of shares prior to the "Effective Allocation Date" of the rights, which is generally the grant date of the rights.

## 2.4 Share price performance

The share price movements and trading volumes of Horizon up to announcement of the Proposed Scheme are presented graphically in the figure below.

Figure 6



Source: Capital IQ

Table 11

Notes	Date	Comments
1	27-Jan-12	Horizon announced the approval of the FID for the Stanley field gas condensate recovery project in PNG
2	27-Feb-12	Chinese Government's State Oceanic Administration approved the Environmental Impact Assessment for the Beibu Gulf project in China
3	04-May-12	Horizon provided a progress report on the Ketu-2 appraisal well in PRL 21, PNG, outlining a program to establish a stable maximum gas rate before performing multi-rate test to establish the well's capacity profile
4	10-Oct-12	ROC announced the discovery of oil at WZ 6-12N-1, the first of three exploration wells at the Beibu Gulf project
5	05-Nov-12	ROC announced the discovery of oil at WZ 6-12-A6, the second of three exploration wells at the Beibu Gulf project
6	21-Nov-12	Horizon announced the near-completion of the construction and installation phase of the Beibu Gulf Stage I development program
7	15-Mar-13	Horizon is added to the S&P / ASX 200 Index following the closing of trading on 15 March 2013. The large volume of trading likely relates to the purchase of Horizon stock by funds following the S&P / ASX 200 Index
8	22-Mar-13	Horizon announced the commencement of production from the Beibu Gulf project in China
9	22-Apr-13	Horizon acquires additional exploration acreage in PNG in the form of a 50% interest in licence PPL 430 and a 90% interest in PPL 372 and PPL 373
10	20-Jun-13	Horizon announced the completion of the development drilling program from the WZ 6-12 fields, and that a jack-up drilling rig had moved to the WZ 12-8W field
11	31-Jul-13	Horizon announced a fully underwritten 1 for 7 entitlement offer to raise USD 53.5 million. The entitlement offer price of AUD 0.33 represented a 10.8% discount on Horizon's closing share price on 30 July 2013
12	03-Sep-13	Shares issued subsequent to the successful completion of the retail entitlement offer, as announced by Horizon on 28 August 2013
13	11-Nov-13	Horizon announced results from production testing of the Ketu-2 appraisal in PRL 21, PNG. The announcement outlined the company's intention to apply for a development licence for development of the PRL 21 fields in March 2014
14	14-Apr-14	Horizon announced the approval of the Stanley gas/condensate project in PDL 10 by the PNG Government
15	29-Apr-14	Horizon and ROC announced the Proposed Scheme

Source: ASX announcements

## 2.5 Financial performance

Historical income statements of Horizon are summarised in the table below.

**Table 12**

(USD million)	Audited FY2012	Audited FY2013	Reviewed 1H2014
<i>Production (mmboe)</i>	0.43	0.47	0.64
<i>Average realised sales price (USD / mmboe)</i>	116.62	102.75	105.68
Revenue	50.4	48.1	64.8
Cost of sales (including amortisation)	(16.9)	(22.7)	(49.7)
<b>Gross profit</b>	<b>33.5</b>	<b>25.4</b>	<b>15.1</b>
<b>EBITDA</b>	<b>37.7</b>	<b>27.3</b>	<b>28.6</b>
Depreciation / amortisation	(8.1)	(9.1)	(18.2)
<b>EBIT</b>	<b>29.6</b>	<b>18.2</b>	<b>10.4</b>
<i>EBITDA margin</i>	75%	57%	44%
<i>EBIT margin</i>	59%	38%	16%

Source: Horizon Annual Report 2013; Horizon Interim Report 2014

We note the following in relation to the financial performance of Horizon presented above:

- reported revenues for the six months ended 31 December 2013 were largely comprised of sales from the Beibu Gulf project (c.USD 60 million). Sales from the Maari field project in New Zealand decreased by c.USD 14 million on the same period in the prior year, which was largely driven by a project shut-in for field maintenance and upgrade works
- a decrease in EBITDA between FY2012 and FY2013 was driven by the ramp-up effect of commencing operations at the Beibu Gulf project as well as a decrease in the average realised sale price achieved, net of hedging, by 12%, as well as the ramp-up effect of commencing operations at the Beibu Gulf project. In comparison, crude oil prices decreased by approximately 15% over this period
- general and administrative expenses approximated USD 7 million in FY2013, whilst exploration expenses totalled USD 0.6 million
- depreciation and amortisation of USD 18 million for the six months ended 31 December 2013 (compared to USD 2 million on a like-for-like basis) was mostly comprised of amortisation of Block 22/12 as a result of the commencement of production in the field.

## 2.6 Financial position

Summarised recent balance sheets of Horizon are shown in the table below.

**Table 13**

(USD million)	Audited 30-Jun-2013	Reviewed 31-Dec-2013
Cash and cash equivalents	19.0	37.1
Trade and other receivables	19.0	22.2
Other current assets	9.4	8.7
<b>Total current assets</b>	<b>47.4</b>	<b>68.0</b>
Oil and gas assets	317.6	340.0
Exploration phase expenditure	92.5	112.8
Deferred tax assets	10.4	7.3
Other non-current assets	8.3	8.0
<b>Total non-current assets</b>	<b>428.8</b>	<b>468.1</b>
<b>Total assets</b>	<b>476.2</b>	<b>536.1</b>
Trade and other payables	40.2	44.9
Borrowings	14.7	55.1
Current tax payable	0.8	0.0
Other current liabilities	1.2	15.6
<b>Total current liabilities</b>	<b>56.9</b>	<b>115.6</b>
Trade and other payables	21.3	21.1
Derivative financial liabilities	0.0	1.0
Borrowings	180.8	143.9
Deferred tax liability	17.1	15.3
Long-term provisions	15.7	15.5
Other financial liabilities	17.4	14.6
<b>Total non-current liabilities</b>	<b>252.3</b>	<b>211.4</b>
<b>Total liabilities</b>	<b>309.2</b>	<b>327.0</b>
<b>Net assets</b>	<b>167.0</b>	<b>209.1</b>

Source: Horizon Annual Report 2013; Horizon Interim Report 2014

We note the following in relation to the balance sheets of Horizon presented above:

- the increase in cash and cash equivalents for the six months ended 31 December 2013 was driven by:
  - an entitlement offer completed in August 2013, in which Horizon raised approximately AUD 54 million via a fully underwritten non-renounceable entitlement offer, resulting in the issue of 162.2 million shares at a price of AUD 0.33 per share, which represented a discount of 10.8% to the closing share price prior to the announcement of the entitlement offer
  - the commencement of production at the Beibu Gulf project
- proceeds from Horizon's sale of a 40.0% interest in its PNG gas / condensate assets to Osaka Gas, totalling USD 204 million, have been treated as a contingent asset in Horizon's interim financial statements (meaning they are not recognised on the balance sheet, requiring only disclosure under relevant accounting standards). USD 54 million of these proceeds with an additional USD 24 million (approximately) in past costs are payable to Horizon on the granting of a development licence for the Stanley project (which was received on 30 May 2014), with the balance payable upon FID for an LNG facility



- non-current trade and other payables includes a deposit of USD 20.4 million provided by Osaka Gas at the time of entering into the sale agreement in May 2013. The agreement provides up to 24 months for the conditions of sale to be satisfied.
- exploration phase expenditure refers to capitalised expenditure incurred by Horizon in China, New Zealand and PNG
- oil and gas assets refer to the book value of Horizon's producing and development assets in China, New Zealand and PNG. Of the USD 317 million in oil and gas assets as at 30 June 2013, USD 102 million related to producing assets and USD 215 million related to Horizon's development assets.
- Oil and gas assets increased in the six month period ended 31 December 2013 by an amount of USD 22 million, which relates to capitalised expenditure on producing and development stage assets
- current borrowings increased by USD 40 million between 30 June 2013 and 31 December 2013 as debt became current in accordance with the lending terms. Since issuing its interim report, Horizon and renegotiated the terms of its debt such that only USD 10 million is now current.

In addition, Horizon drew a letter of credit in the amount of USD 20.4 million, relating to a refundable deposit paid by Osaka Gas as part of the Osaka Gas Transaction agreed in May 2013. This letter of credit does not form part of borrowings recognised on the balance sheet and will be released on completion of the transaction (expected in mid-2014)

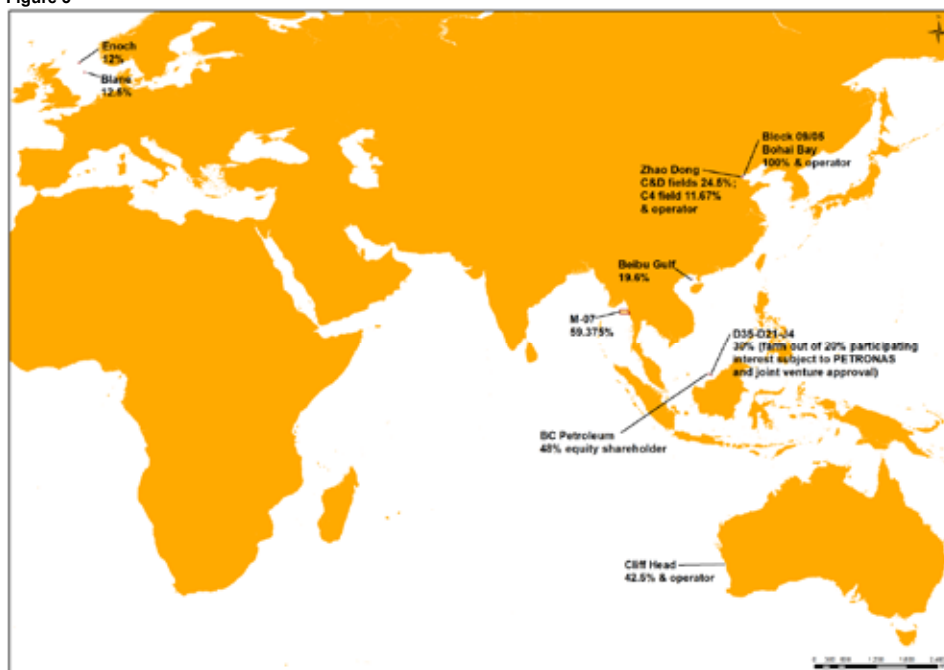
- Horizon's non-current borrowings as at 31 December 2013 comprised USD 114 million, relating to the Company's reserves based debt facility, and an amount of USD 84 million in Convertible Bonds. We note the following:
  - Horizon issued 400 Convertible Bonds for USD 80 million on 17 June 2011. The bonds have a coupon rate of 5.50%
  - the bonds were issued with an initial conversion price of USD 0.52, although subsequent share issues have resulted in an adjustment in conversion price to USD 0.409 as at 31 December 2013
  - the maturity date of the bonds is 17 June 2016 when they will be redeemed at 108.8% of their principal amount
  - the bonds are convertible, at the option of the holder, during the period up to and including the close of business on the seventh day prior to the maturity date, into fully paid ordinary shares. As a consequence, Horizon treats the optionality component of the bonds as a derivative financial liability (comprising the "other financial liabilities" of USD 15 million itemised in the balance sheet)
  - no bonds had been converted or redeemed as at 31 December 2013
- other current liabilities as at 31 December 2013 include a restoration provision of USD 11 million in relation to the Beibu Gulf project, reflecting 2013 accumulated costs yet to be called, plus costs forecast for 2014. Chinese legislation requires restoration costs be incurred over the remaining life of the field, rather than at the end of the assumed life
- other current liabilities as at 31 December 2013 also include an amount of USD 5 million for derivative financial instruments. Horizon currently utilises derivative instruments, in the form of commodity options, to hedge against fluctuations in commodity prices.

### 3 Profile of ROC

#### 3.1 Company overview

ROC is an upstream oil and gas company based in Australia, which was established in late 1996 and listed on the ASX in 1999. The company is headquartered in Sydney with regional offices in Perth, Beijing and Kuala Lumpur. ROC operates major oil and gas production, exploration and development assets in Australia, China and Malaysia. The major producing fields in which ROC owns interests comprise the Cliff Head oil field in Australia and the Zhao Dong C&D and C4 oil fields and the Beibu Gulf, located offshore China. These fields accounted for 92% of ROC's production in 2013<sup>19</sup>.

Figure 3



Source: Scheme Booklet

<sup>19</sup> ROC 2013 Annual Report

## 3.2 Principal assets

The portfolio of major assets held by ROC is summarised in the following table.

**Table 14**

Asset	Location	% ownership	Other owners	Operator	Type of project
<b>Operating assets</b>					
D35/D21/J4 PSC <sup>1</sup>	Malaysia	30.0%	PETRONAS Carigali (40%) E&P Malaysia Venture Sdn Bhd (10%) Dialog Resources Sdn Bhd (20%)	PETRONAS Carigali	Oil and gas
Balai Cluster RSC	Malaysia	48.0%	Dialog D & P Sdn Bhd (32%) PETRONAS Carigali (20%)	BC Petroleum <sup>2</sup>	Oil and gas
Blane	UK	15.24%/ 12.5% <sup>3</sup>	Talisman Sinopec Energy (UK) Limited (25%) Talisman Energy Norge AS (18.4%) Dana Petroleum (BVUK) (12.5%) Faroe Petroleum (UK) Limited (18%) JX Nippon Exploration and Production (UK) Limited (14%) (These percentages are unities)	Talisman Energy Norge AS (Field operator) Talisman SinopecEnergy (UK) Limited (Wells operator)	Oil and gas
Enoch	UK	15.0%/ 12.0% <sup>3</sup>	Talisman Sinopec North Sea Limited (25.2%) Dana Petroleum (BVUK) Limited (20.8%) Endeavour Energy UK Limited (8.0%) First Oil Expro Limited (14.0%) Statoil Petroleum AS (11.78%) Noreco Oil AS (4.36%) DetNorskse AS (2.0%) Faroe Petroleum AS (1.86%) (These percentages are unities)	Talisman Sinopec North Sea Limited	Oil and gas
Cliff Head	Australia	42.5%	AWE (57.5%)	ROC	Oil
Bohai Bay – ZhaoDong C&D fields	China	24.5%	PetroChina (51.0%) New XCL-China (24.5%)	ROC	Oil and gas
Bohai Bay – ZhaoDong C4 field	China	11.67% <sup>4</sup>	PetroChina (76.7%) New XCL-China (11.7%)	ROC	Oil and gas
Beibu Gulf – Block 22/12 (WZ 6-12, WZ 12-8 West)	China	19.6% <sup>5</sup>	CNOOC (51.0%) Horizon Oil (26.95%) Oil Australia (2.5%)	CNOOC	Oil and gas
<b>Exploration assets</b>					
Bohai Bay – Block 09/05	China	100.0% <sup>6</sup>	-	ROC	Oil and gas
Bohai Bay – Zhanghai & Chenghai Blocks	China	39.2% <sup>7</sup>	PetroChina (51.0%) New XCL-China (9.8%)	ROC	Oil and gas
Beibu Gulf – Block 22/12 (WZ 12-8 East)	China	40.0% <sup>9</sup>	Horizon Oil (55%) Oil Australia (5%)	ROC	Oil and gas
Block M07 <sup>8</sup>	Myanmar	59.37%	Tap Oil Limited (32.62%) Smart E&P International Limited (5%)	ROC	Gas

Source: ROC Annual Report 2013; ROC Oil website

Notes:

- ROC has noted its intention to farm out a 20% participating interest in D35/D21/J4 PSC, effective 1 January 2014, subject to approval from PETRONAS. The 30% participating interest represents ROC's interest post farm-out
- BC Petroleum was formed as a joint venture company by ROC, Dialog D & P and PETRONAS Carigali, responsible for operating and managing the Balai Cluster RSC oil and gas field
- Unities interest
- Unities interest in producing field (pending final Joint Management Committee approval)
- Interest in field development post-government back-in
- Prior to government back-in
- Interest in field development post-government back-in
- Subject to ROC Board approval and finalisation of terms with the Myanmar Ministry of Energy
- Subject to Government back-in.

A summary of the reserves, resources and prospective resources for ROC as at 1 January 2014 is set out in the table below. The reserves and resources presented below represent ROC's view; refer to the technical expert's report (in Appendix G) for RISC's view on the reserves and resources attributable to the assets.

**Table 15**

Asset	Country	Oil (mmbbl)	Gas (Bcf)	Total (mmboe)
<b>Proved Plus Probable Reserves (2P)</b>				
Zhao Dong	China	3.6	0.9	3.7
Beibu	China	4.7	0.0	4.7
Cliff Head	Australia	2.2	0.0	2.2
Blane	UK	1.3	0.1	1.3
Enoch	UK	0.3	0.0	0.3
D35/D21/J4 <sup>1</sup>	Malaysia	4.0	6.9	5.2
<b>Total</b>		<b>16.1</b>	<b>7.9</b>	<b>17.4</b>
<b>Proved Plus Probable Contingent (2C)</b>				
Zhao Dong	China	5.5	1.0	5.7
Beibu	China	5.5	1.0	5.7
Cliff Head	Australia	2.3	-	2.3
Blane	UK	0.9	5.6	1.8
Enoch	UK	0.9	5.6	1.8
D35/D21/J4 <sup>1</sup>	Malaysia	22.1	10.3	23.9
<b>Total</b>		<b>30.8</b>	<b>16.9</b>	<b>33.7</b>
<b>Prospective Resources</b>				
Zhao Dong	China	31.5	1.3	31.7
Beibu	China	31.5	1.3	31.7
Cliff Head	Australia	0.5	0.0	0.5
Blane	UK	-	-	-
Enoch	UK	-	-	-
D35/D21/J4 <sup>1</sup>	Malaysia	7.2	0.0	7.2
<b>Total</b>		<b>39.2</b>	<b>1.3</b>	<b>39.4</b>

Source: ROC management

Note:

1. The reserves and resources presented for D35/D21/J4 have been presented on a 30.0% participating interest basis.

### 3.2.2 D35/D21/J4 PSC

In April 2014, ROC announced the farm-in to a PSC of the D35/D21/J4 fields, effective 1 January 2014. ROC entered into a joint venture with the existing operator, PETRONAS Carigali, to hold a 50% interest in the fields. ROC has noted its intention to farm-out a twenty percent (20%) participating interest, resulting in a net interest of 30%, subject to approval by PETRONAS and the joint venture.

The D35/D21/J4 fields are located off-shore Malaysia in the western Balingian province of the Sarawak Basin. All three fields have potential near-field exploration with D35 being the largest and longest producing field and D21 and J4 being satellite producing assets.

The fields had a combined daily production rate in April 2014 of approximately 10,000 bopd of oil and gas sales of approximately 17 mmscf/d gross working interest.

### 3.2.3 Balai Cluster RSC

ROC holds a 48% interest in BC Petroleum, a joint venture company created to operate and manage the Balai Cluster Risk Service Contract. The Balai Cluster is situated offshore Sarawak, Malaysia and comprises the Balai, Bentara, Spaoh and West Acis oil and gas fields.

Pre-development activity commenced in 2011 with geological and geophysical works, drilling and testing of appraisal wells and the procurement of related facilities. Drilling concluded in June 2013 with the drilling of five wells in the four fields. The Bentara field development plan was approved in March 2014. Development of the

Bentara field will utilise the existing platform facilities and two wells that were established in the pre-development phase. Production will be processed through the Early Production Vessel and transferred via shuttle tanker to point of sale. The commencement of commercial oil production is expected during the second quarter of 2014.

### 3.2.4 Blane

The Blane Oil Field commenced production in September 2007 and is located in the Central Graben of the North Sea. Blane contributed 8% of ROC's 2013 production and generated revenue of USD 18.1 million in 2013. The field was developed as a subsea tieback to the BP-operated Ula platform located in the Norwegian continental shelf (34km to the northeast) and comprises two horizontal production wells with gas lift and one water injection well.

Blane Oil Field Development Plan and unitisation agreements were finalised in 2005 with ROC holding a 15.24% license interest in the undeveloped UK portion of the Blane oil field as well as a 12.5% interest in the unitised field. The Blane Oil Field is operated and managed by Talisman Sinopec Energy (UK) Limited and Talisman Energy Norge AS.

### 3.2.5 Enoch

The Enoch oil and gas field is located in the Central Graben of the North Sea and began production in May 2007. The field was developed as a subsea tie-back to the Marathon-operated Brae-A platform located on the UK continental shelf. However, due to mechanical issues with subsea equipment, the Enoch field was forced to cease production in January 2012. Production is however expected to resume in mid-2014.

ROC holds a 15% interest in the license containing the undeveloped UK portion of the Enoch oil and gas fields and a 12% interest in the unitised field. The Enoch oil and gas fields are operated and managed by Talisman Sinopec North Sea Limited.

### 3.2.6 Cliff Head

The Cliff Head facilities are located offshore in the Perth Basin, Western Australia within a 72km<sup>2</sup> production license known as WA-31-L in 15-20 metre water depth. The facility is managed and operated by ROC. Oil is transported initially by two 14km pipeline running between the stabilisation plant in Arrowsmith and the unmanned platform offshore, then 350km by truck to the BP refinery in Kwinana.

**Figure 3**



Source: ROC website

ROC holds a 42.5% interest in the Cliff Head facilities and operates in a joint venture with AWE's subsidiaries which holds the remaining interest.



The Cliff Head oil fields comprise a series of stacked permian sandstone reservoirs within fault and dip-closed structures, sealed by the regional Kockatea Shale. ROC discovered the Cliff Head oil field in 2001 and completed the development of production facilities in December 2005, which included the drilling of eight development wells. The facility has been in production since 2006 and contributed 15% of production and USD 41.1 million in revenue in 2013.

### 3.2.7 Bohai Bay

The province of Bohai Bay has a stacked reservoir system with rich and generative source rock producing good to excellent quality oil. Bohai Bay is located offshore China and comprises four separate sites. The figure below shows the location of the individual sites.

Figure 5



Source: ROC website

ROC holds a production license in the Zhao Dong Block, which covers an area of 27.5km<sup>2</sup>. Zhanghai, Chenghai and 09/05 are the three remaining blocks located in Bohai Bay and are currently in the exploration and appraisal phase.

ROC acquired the Zhao Dong Block through its acquisition of Apache China Corporation LDC in 2006. Zhao Dong Block comprises of the C&D and C4 fields. ROC holds a 24.5% development interest in the C&D fields and an 11.67% interest in the unutilised interest of the C4 field. The Zhao Dong Block contributed 55% of ROC's total production and USD 134.7 million of revenue in 2013. The offshore facility in the Zhao Dong Block contains drilling, accommodation, production and processing facilities through four bridge-linked platforms. The C4 Field Unit facilities comprise a wellhead platform, utility platform and pipelines to the C&D field platform. The oil is delivered to an onshore processing plant by pipelines.

In March 2011 ROC's existing petroleum contract, which initially covered the Zhao Dong Block, was modified to include the neighbouring Zhanghai and Chenghai Blocks. ROC holds a 39.2% interest in the Zhanghai and Chenghai blocks in a joint venture with PetroChina Company Limited and New XCL-China LLC.

In May 2012 ROC was awarded a 100% interest in the 09/05 exploration Block, which is located approximately 15km north of the Zhao Dong Block. ROC has conducted initial exploration activity with a 3D ocean bottom cable seismic campaign covering an area of 162km<sup>2</sup>.

Horizon entered into a seismic farm-in option agreement with ROC in Block 09/05. Under the terms of the agreement, Horizon has elected not to exercise the option in light of the proposed merger with ROC.

### 3.2.8 Beibu Gulf

The Beibu Gulf assets are operated under a joint venture partnership, in which ROC holds a 19.6% interest in the development and production assets and a 40% interest in the exploration and appraisal assets.

Horizon holds a 26.95% interest in the development and production assets and a 55% interest in the exploration and appraisal assets.

Refer to Section 2.2 under the profile of Horizon for further details relating to the Beibu Gulf assets.

### 3.2.9 Block M07

ROC was awarded the PSC for Block M07 in March 2014 subject to ROC Board approval and finalisation of the terms with the Myanmar Ministry of Energy. Block M07 is approximately 13,000 km<sup>2</sup> and is located in the Moattama basin, offshore Myanmar. ROC is in a joint venture with Tap Oil Limited and Smart E&P International Limited, in which ROC holds a 59.375% interest and operates the licence. The awarded PSC permits the joint venture partners to undertake an 18 month Environmental Impact Assessment and study period with the option of a subsequent three year exploration work programme.

## 3.3 Capital structure and shareholders

As at the date of this report, ROC had the following securities on issue:

- 687,618,400 ordinary listed shares
- 300,000 unlisted share options under the Executive Share Option Plan
- 10,715,000 unlisted LTI Rights under existing Long Term Incentive Plan (LTIP) (formerly referred to as Performance Rights)
- 7,527,358 unlisted LTI Rights under the New Long Term Incentive Plan
- 1,886,476 unlisted Deferred STI Rights.

As at the date of this report, ROC had been notified that Allan Gray Australia Pty Limited (formerly known as Orbis Investment Management (Australia) Pty Limited) holds 20.06% of the voting power of ROC.

The following table summarises the unlisted share options on issue as at 31 March 2014.

**Table 16**

Issue date	Number of securities outstanding	Type of option	Vesting date	Exercise price (AUD)	Expiry date
23-Aug-2008	300,000	Executive Share Options	08-Nov-2012 to 23-Dec-2012	0.73	23-Dec-2014
16-Dec-2011 to 18-Mar-2014	18,242,358	LTI Rights under the LTIP and EIP	16-Dec-2014 to 31-Dec-2016	n/a	16-Dec-2014 to 31-Dec-2016
15-May-2013 & 29-Jan-2014	1,886,476	Deferred STI Rights	31-Dec-2014 to 31-Dec-2015	n/a	31-Dec-2014 to 31-Dec-2015
<b>Rights approved at the AGM</b>					
27-May-2014	1,180,851	LTI Rights		n/a	1-Jan-2014 to 31-Dec-2016
27-May-2014	387,209	Deferred STI Rights		n/a	

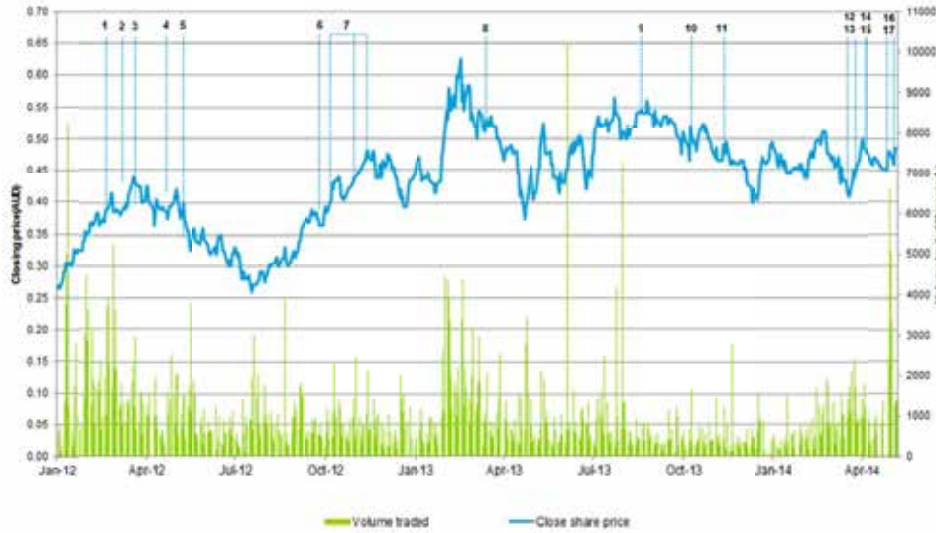
*Source: ROC Appendix 3B (8 April 2014); ROC management*

For further details of the unlisted share options on issue, refer to the Scheme Booklet.

### 3.4 Share price performance

The share price movements and trading volumes for ROC up to the announcement of the Proposed Scheme are presented graphically in the figure below.

Figure 6



Source: ASX Announcements; Capital IQ

Table 6

Notes	Date	Comments
1	27-Feb-2012	Chinese Government's State Oceanic Administration approved the Environmental Impact Assessment for the Beibu Gulf project in China
2	23-Mar-2012	ROC announced the withdrawal from PEP52181 offshore Taranaki Basin, New Zealand
3	28-Mar-2012	ROC announced production at Enoch Oil and Gas Field was offline due to mechanical issues with subsea equipment and anticipated to be offline for the remainder of 2012
4	01-May-2012	Issued 729,200 shares in accordance with ROC's Long Term Incentive Plan
5	14-May-2012	ROC awarded petroleum contract with CNOOC for 100% interest in and operatorship of the Bohai 09/05 exploration block
6	2-Oct-2012	Commencement of the exploration drilling programme in Block 22/12 in the Beibu Gulf
7	Oct - Nov-2012	ROC announced the discovery of oil at WZ 6-12N-1, WZ 6-12-A6 and WZ 6-12-A&7 exploration wells at the Beibu Gulf project
8	22-Mar-2013	ROC announced the commencement of production from the Beibu Gulf project in China
9	19-Aug-2013	ROC announced the final stage of the Beibu Gulf development drilling has been concluded
10	10-Oct-2013	ROC announced completion of 09/05 3D ocean bottom seismic campaign in the 09/05 exploration licence in Bohai Bay
11	12-Nov-2013	ROC announced the commencement of the Extended Well Test Programme in the Balai Cluster
12	7-Mar-2014	Issued 106,600 shares, in accordance with ROC's Equity Incentive Plan
13	27-Mar-2014	Tap Oil announced the awarding of a PSC with ROC for Shallow Water Exploration Block M07 in the Moattama basin, offshore Myanmar
14	31-Mar-2014	ROC announced the sale of its 50% participating interest in Basker Manta Gummy (BMG) to Cooper Energy Limited for AUD 1.0 million cash and AUD 5 million contingent consideration, subject to first hydrocarbons from a commercial development
15	1-Apr-2014	ROC announced the farm in to a PSC which includes three fields (D35/D21/J4) located offshore Malaysia. As a result of the farm in, ROC announced an increase of 2P petroleum reserves to 20.9 mmboe
16	24-Apr-2014	ROC announced a trading halt pending the possible release of an announcement in respect to a possible transaction involving Horizon
17	29-Apr-2014	ROC and Horizon announced the Proposed Scheme

Source: ASX announcements

### 3.5 Financial performance

Historical income statements of ROC are summarised in the table below.

**Table 17**

(USD million)	Audited CY2012	Audited CY2013
<i>Total working interest production (mmboe)</i>	2.4	2.7
<i>Average realised sales price (USD / mmboe)</i>	113.6	104.6
Revenue	242.1	251.0
Operating costs	(135.9)	(154.9)
<b>Gross profit</b>	<b>106.2</b>	<b>96.1</b>
<b>EBITDA (plus impairments)</b>	<b>143.5</b>	<b>157.1</b>
<b>EBIT</b>	<b>85.4</b>	<b>65.4</b>
<i>EBITDA margin</i>	59%	63%
<i>EBIT margin</i>	35%	26%

*Source: ROC Annual Report 2013*

We note the following in relation to the financial performance of ROC presented above:

- ROC reported production costs of USD 51 million in CY2013, which is approximately 30% higher than that reported in the prior year (USD 35.7 million). The increase in production costs is attributable to ROC's increased working interest production, which increased from 2.4mmboe in CY2012 to 2.7 mmboe in CY2013 and the Enoch well head repair cost
- although ROC's production increased in CY2013, the profitability of the major producing assets decreased as a result of a declining average realised sale price over the CY2013 period. ROC's reported CY2013 gross profit of USD 96.1 million, decreased 10.5% compared to CY2012 (USD 106.2 million)
- operating costs consist of production costs, amortisation, movement in stock and overlift and royalties and other levies
- finance costs consist of interest on bank loans, unwinding of the restoration provision and other finance costs. ROC currently holds an undrawn secured bank loan facility of USD 80 million with an amortising facility, maturing in June 2015 with the Commonwealth Bank of Australia, BNP Paribas and Sumitomo Mitsui Banking Corporation with an effective interest rate of 3.7% per annum
- impairment costs for the year end 31 December 2013 totalled USD 6.9 million, which related to ROC's 48% interest in BC Petroleum. The impairment relates to non-recoverable expenditure, mainly interest on bank loans.

### 3.6 Financial position

Summarised recent balance sheets of ROC are shown in the table below.

**Table 18**

(USD million)	Audited 31-Dec-12	Audited 31-Dec-13
Cash and cash equivalents	56.8	65.1
Trade and other receivables	25.5	32.4
Inventories	0.6	2.1
<b>Total current assets</b>	<b>82.9</b>	<b>99.6</b>
Oil and gas assets	237.3	227.2
Exploration and evaluation expenditure	1.1	0.6
Property plant and equipment	1.1	0.9
Deferred tax assets	13.0	20.6
Investments in associate companies	33.4	67.2
<b>Total non-current assets</b>	<b>285.9</b>	<b>316.5</b>
<b>Total assets</b>	<b>368.8</b>	<b>416.1</b>
Trade and other payables	36.1	42.2
Current tax liabilities	9.9	8.3
Provisions	10.9	14.2
<b>Total current liabilities</b>	<b>56.9</b>	<b>64.7</b>
Deferred tax liabilities	26.4	21.1
Long-term provisions	66.9	64.0
<b>Total non-current liabilities</b>	<b>93.3</b>	<b>85.1</b>
<b>Total liabilities</b>	<b>150.2</b>	<b>149.8</b>
<b>Net assets</b>	<b>218.6</b>	<b>266.3</b>

Source: ROC Annual Report 2013

We note the following in relation to the balance sheets of ROC presented above:

- oil and gas assets relate to the exploration development and production assets held by the company. During CY2013, USD 75.5 million of development assets were reclassified as production assets. Key movements in the net balance of the oil and gas assets are as follows:
  - development expenditure on producing assets increased by approximately USD 60.7 million during CY2013
  - amortisation for CY2013 totalled USD 70.8 million
- investments in associate companies relates to ROC's 48% interest in BC Petroleum. ROC made a cash contribution of USD 40.7 million to BC Petroleum during CY2013. Cash contributions are initially recorded as a loan and are converted to equity with shareholder approval
- current and non-current provisions consist of employee benefits and restoration provisions. Provisions for restoration equated to USD 75.4 million for the year end 31 December 2013.



## 4 Profile of the Proposed Merged Entity

### 4.1 Overview

The merger of Horizon and ROC will create a company with a market capitalisation in excess of AUD 850 million (based on the aggregation of the two company's current market capitalisations), making the Proposed Merged Entity potentially amongst the top ten largest independent upstream oil and gas companies listed on the ASX.

It will have interests in seven (mainly) oil producing assets (with a consolidated interest of 47% in the producing Beibu Gulf fields), an interest in a significant oil and gas development project in PNG and an exploration portfolio spanning China, New Zealand, Malaysia and PNG.

The merger itself is not expected to immediately generate significant quantifiable synergies beyond some corporate cost savings, however the combination of Horizon and ROC's reserves and resources portfolios and balance sheets is expected to result in a larger, better capitalised investment prospect, compared to Horizon on a standalone basis.

The portfolio of assets held by the Proposed Merged Entity is summarised in the table below:

**Table 19**

Asset	Location	% ownership	Type of project
<b>Operating assets</b>			
PMP 38160 (Maari/Manaia)	New Zealand	10.0%	Oil
Beibu Gulf – Block 22/12 (WZ 6-12, WZ 12-8 West)	China	46.6%	Oil
D35/D21/J4 PSC <sup>1</sup>	Malaysia	30.0%	Oil and gas
Balai Cluster RSC	Malaysia	48.0%	Oil and gas
Blane	UK	12.5%	Oil and gas
Enoch	UK	12.0%	Oil and gas
Cliff Head	Australia	42.5%	Oil
Bohai Bay – ZhaoDong C&D fields	China	24.5%	Oil and gas
Bohai Bay – ZhaoDong C4 field	China	11.6%	Oil and gas
<b>Development / pre-development assets</b>			
PDL 10 (Stanley)	PNG	30.0% <sup>2</sup>	Condensate and gas
PRL 21 (Elevala, Ketu)	PNG	27.0% <sup>2</sup>	Condensate and gas
<b>Exploration assets</b>			
PEP 51313 (Matariki, Whio)	New Zealand	21.0%/10.0% <sup>3</sup>	Oil
Beibu Gulf – Block 22/12 (WZ 12-8 East)	China	95.0% <sup>4</sup>	Oil
Bohai Bay – Block 09/05	China	100.0%	Oil and gas
Bohai Bay – Zhanghai & Chenghai Blocks	China	39.2%	Oil and gas
PPL 259	PNG	35.0% <sup>2</sup>	Condensate and gas
PPL 372	PNG	90.0%/54.0% <sup>2,5</sup>	Condensate and gas
PPL 373	PNG	90.0%/54.0% <sup>2,5</sup>	Condensate and gas
PPL 430	PNG	50.0%/30.0% <sup>2,5</sup>	Condensate and gas
Block M07 <sup>6</sup>	Myanmar	59.37%	Gas

Source: Horizon; ROC

Notes:

1. ROC has noted its intention to farm out a 20% participating interest in D35/D21/J4 PSC to Dialog Resources Sdn Bhd, effective 1 January 2014, subject to approval from PETRONAS. 30% participating interest represents ROC's interest post Dialog farm-in
2. Subject to reduction to allow for PNG State Nominee participation at 22.5%
3. In the event of a commercial discovery at Whio, Horizon's interest will reduce to 10%
4. Subject to reduction to allow for CNOOC participation at 51%
5. Subject to a reduction to allow for Osaka Gas to participate up to 36%, at Osaka Gas' option
6. Subject to ROC Board approval and finalisation of terms with the Myanmar Ministry of Energy.

## 4.2 Capital structure

The capital structure of the Proposed Merged Entity, including substantial shareholders following implementation of the Proposed Scheme, is summarised out below:

**Table 20**

	Section reference	Unit	Calculation
Number of shares in Horizon	2.3	'000s	1,301,981 (a)
Number of shares to be converted into Horizon on exercise of Petsec options <sup>1</sup>	2.3	'000s	15,000 (b)
<b>Total number of shares forecast to be issued in Horizon</b>		<b>'000s</b>	<b>1,316,981 (c) = (a) + (b)</b>
<i>IMC / Austral-Asia</i>	2.3	'000s	319,696 (d)
<b>Number of shares in ROC</b>	<b>3.3</b>	<b>'000s</b>	<b>687,618 (e)</b>
<i>Allan Gray Australia Pty Limited</i>	3.3	'000s	137,907 (f)
<b>Proposed merger ratio (shares in ROC to be issued per share held in Horizon)</b>		<b>#</b>	<b>0.724 (g)</b>
New shares to be issued in ROC		'000s	953,494 (h) = (c) x (g)
<b>Total shares in Proposed Merged Entity (on an undiluted basis)</b>		<b>'000s</b>	<b>1,641,113 (i) = (e) + (h)</b>
Shares held by Horizon shareholders			58% = (h) ÷ (i)
<i>IMC / Austral-Asia</i>			14% = {(d) x (g)} ÷ (i)
Shares held by ROC shareholders			42% = (e) ÷ (i)
<i>Allan Gray Australia Pty Limited</i>			8% = (f) ÷ (i)

Source: Horizon; Deloitte Corporate Finance analysis

Note:

1. We assumed that these options would be exercised prior to their recent expiry on 30 June 2014, however we understand that this has not taken place as at the date of this report. However, we have not updated our valuation to reflect this as it does not have a material effect thereon.

The Proposed Merged Entity may have the following options and performance rights on issue following implementation of the Proposed Scheme:

**Table 21**

	Section reference	Unit	
<b>Partly-paid shares</b>	<b>1.1</b>	<b>'000s</b>	<b>9,949</b>
<b>Existing ROC options / rights</b>			
Executive Share Options	3.3	'000s	300
LTI Rights under the LTIP and EIP	3.3	'000s	19,423
Deferred STI Rights	3.3	'000s	2,274
<b>Options to be issued in ROC</b>			
Options	1.1	'000s	1,839
Performance rights	1.1	'000s	25,399
<b>Total</b>		<b>'000s</b>	<b>59,183</b>

Source: Horizon

## 5 Valuation approach

### 5.1 Summary

For the purpose of our opinion fair market value is defined as the amount at which the shares would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuations have not been premised on the existence of a special purchaser.

Deloitte Corporate Finance has assessed the equity value of Horizon and the Proposed Merged Entity using a sum-of-the-parts approach, which requires the aggregation of the fair market value of the interests held in the various operating, development and exploration assets and corporate assets, before deducting net debt and adding or subtracting any surplus assets and liabilities.

It is common market practice to use the discounted cash flow method to value oil and gas assets due to their finite lives and the significant capital expenditure required in the development stage and preparatory phases of production.

We have used the discounted cash flow method to value the operating and development assets, which generates a value that is inclusive of a premium for control. We have cross-checked the values derived under the discounted cash flow method using an industry rule of thumb, namely a comparison of the multiple of USD per boe implied by our valuation with those achieved in recent trading and selected transactions in comparable companies. The value of the PNG assets has been cross-checked to the Osaka Gas Transaction and recent transactions in a nearby field.

Exploration assets have been valued by RISC, the technical expert engaged by Deloitte Corporate Finance to assist in the preparation of our independent expert's report. RISC has also provided us with its views on the various production, operating and capital expenditure assumptions adopted in the cash flow models prepared by Horizon and ROC management and, for certain assets, has advised us where it considers the assumptions should be adjusted.

In addition to cross-checking the values derived at the asset level, we have also compared the total equity value estimated for Horizon to that implied by trading in its shares prior to the announcement of the Proposed Scheme on 29 April 2014, after adjusting for a notional discount for minority interest.

We have taken the same approach to cross-checking the value of the Proposed Merged Entity, however we have compared the estimated equity value to the value of the Proposed Merged Entity based on trading in ROC's shares in the period after the announcement date. Trading in ROC's shares is likely to incorporate the market's view of the prospects of the Proposed Merged Entity to the extent that market participants expect the Proposed Scheme to proceed.

Surplus assets have been valued at fair market value, using either the discounted cash flow method (to estimate the likely cash flow arising from the asset or liability) or book value.

In summary, the following methodologies have been applied to value the assets of Horizon and the Proposed Merged Entity (which reflects the aggregation of the operations of Horizon and ROC):

**Table 22**

Asset	Type of Asset	Methodology
<b>Shared assets</b>		
Beibu Gulf (WZ 6-12 and WZ 12-8 West)	Operating	Discounted cash flow method
Beibu Gulf (WZ 12-8 East)	Exploration	Value estimated by technical expert
<b>Horizon assets / liabilities</b>		
Maari/Manaia (PMP 38160)	Operating / exploration	Discounted cash flow method
Stanley (PDL 10)	Development	Discounted cash flow method
Elevala-Ketu (PRL 21)	Development / exploration	Discounted cash flow method / value estimated by technical expert
Matariki, Whio, Te Whatu and Pukeko (PEP 51313)	Exploration	Value estimated by technical expert

Asset	Type of Asset	Methodology
PPLs 259, 372, 373 and 430 (PNG)	Exploration	Value estimated by technical expert
Osaka Gas Transaction proceeds	Surplus asset	Discounted cash flow method
<b>ROC assets / liabilities</b>		
D35/D21/J4 PSC	Operating / exploration	Discounted cash flow method / value estimated by technical expert
Zhao Dong (C&D and C4)	Operating	Discounted cash flow method
Cliff Head	Operating / exploration	Discounted cash flow method / value estimated by technical expert
Blane	Operating	Discounted cash flow method
Enoch	Operating	Discounted cash flow method
Zhao Dong, Zhanghai and Chenghai Blocks (Bohai Bay)	Exploration	Value estimated by technical expert
Block M07 (Myanmar)	Exploration	Value estimated by technical expert
Balai Cluster RSC	Surplus asset	Book value
<b>Other assets</b>		
Corporate costs	Corporate	Discounted cash flow method

Source: Deloitte Corporate Finance analysis

Refer to Appendix B for a detailed discussion on the various valuation methodologies which can be adopted in valuing corporate entities and businesses, but can be adapted to valuing assets, as appropriate.

## 5.2 Appointment and role of the technical expert

The management of Horizon and ROC prepared financial models to estimate the future cash flows for the underlying assets of the businesses. RISC has been engaged by Deloitte Corporate Finance to prepare a report providing a technical assessment of certain key assumptions underpinning the financial models.

In particular, RISC reviewed and/or provided input into the formulation of the following assumptions:

- reserves and resources estimates
- production profiles
- operating expenditure
- capital expenditure.

RISC was also engaged to provide an assessment of the value of the evaluation and exploration assets of Horizon and ROC.

RISC prepared its technical report having regard to:

- the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2005 Edition
- the guidelines and definitions of the Petroleum Resources Management System approved by the Board of the Society of Petroleum Engineers in 2007.

The scope of RISC's work was controlled by Deloitte Corporate Finance. A copy of RISC's report is provided in Appendix G.

## 6 Future cash flows of Horizon and ROC

### 6.1 Introduction

The interests in the operating and development assets held by Horizon and ROC have been valued using the discounted cash flow method, which estimates fair market value by discounting estimated future cash flows to their net present value. This section sets out the assumptions adopted to estimate the future cash flows of the operating and development assets.

### 6.2 The Models

Horizon and ROC management provided Deloitte Corporate Finance with financial models, which estimate the future cash flows from each of the operating and development assets in which Horizon (the Horizon Model) and ROC (the ROC Model) hold interests. The Horizon Model and the ROC Model are referred to collectively as the Models.

The Models contain projections of nominal, after-tax cash flows in USD, on a 100% and net interest basis. The Models were prepared based on:

- the latest reserve and resource statements, which have been assessed by RISC
- the asset development plans for the assets held by Horizon and ROC
- contractual arrangements in place.

We have made some adjustments to the cash flow projections in the Models where it was considered appropriate. These adjustments included, but were not limited to pricing, production volumes and inflation.

The analysis we have undertaken in respect of the Models included:

- working with RISC, to review and/or provide the technical assumptions underlying the Models (refer to Appendix G)
- limited analytical procedures regarding the mathematical accuracy of the Models (our work did not constitute an audit or review of the projections in accordance with the AUASB Standards)
- high level examination of the integrity of the Models, both from the perspective of the accuracy of information modelled and any omissions
- holding discussions with the management of Horizon and ROC concerning the preparation of the projections in the Models and their views regarding the assumptions on which the projections are based.

RISC have prepared a report providing a technical review of certain assumptions (reserves, resources, production volumes, operating and capital costs) supporting the future cash flows of the Models. RISC has held discussions with the management of Horizon and ROC and has reviewed data, reports and other information that is either publicly available or made available to RISC by Horizon and ROC management.

Our work did not constitute an audit or review of the projections in accordance with the AUASB Standards and accordingly we do not express any opinion as to the reliability of the projections or the reasonableness of the underlying assumptions. However, nothing has come to our attention as a result of our limited work that suggests that the assumptions on which the projections are based have not been prepared on a reasonable basis unless specified otherwise.

Since projections relate to the future, they may be affected by unforeseen events and they depend, in part, on the effectiveness of management's actions in implementing the plans on which the projections are based. Accordingly, actual results are likely to be different from those projected because events and circumstances frequently do not occur as expected, and those differences may be material.

The key assumptions supporting our valuations are described in the following sections.

## 6.3 Revenue

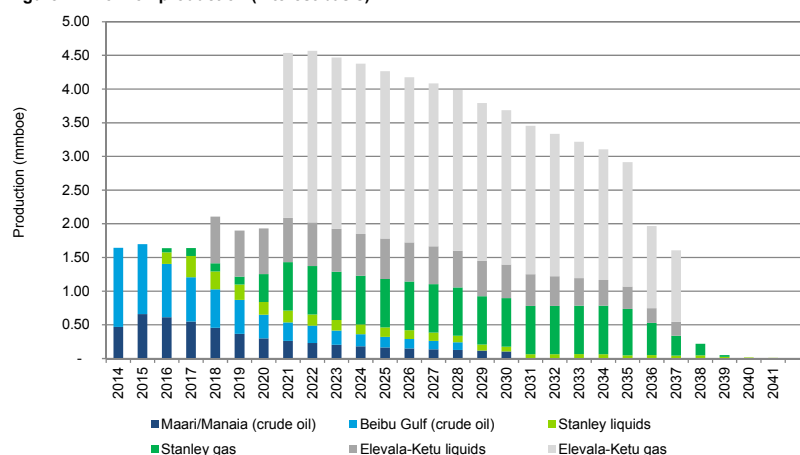
Revenue is a function of production and prices, which are discussed in the following sections.

### 6.3.1 Production assumptions

The figures below outline the projected production volumes from the Horizon and ROC assets for the period 1 April 2014 to 31 December 2041 (on a net interest basis).

#### Horizon production

Figure 7 – Horizon production (interest basis)



Source: Horizon Model; Deloitte Corporate Finance analysis

The valuation scenarios considered for the assets in which Horizon owns an interest are summarised as follows:

- **Maari/Manaia:** crude production based on current 2P reserves
- **Beibu Gulf:** crude oil production based on current 2P reserves
- **Stanley:** 13 mmb/oe of condensate volumes and 315 PJ of gas volumes extracted under a liquids stripping and gas export case (on a 100% basis)
- **Elevala-Ketu:** 50 mmb/oe of condensate volumes and 1,024 PJ of gas volumes extracted under a liquids stripping and gas export case (on a 100% basis).

The Elevala-Ketu volumes presented above reflect Horizon management’s estimate on the timing of production. However, we have modelled a one year delay to first gas production as discussed below.

RISC provided its view on whether or not production profiles are subject to specific risks. We have taken this into account in selecting our preferred production scenarios and the risk adjustments incorporated in our valuation analysis.

We note that production at the Maari/Manaia field may be lower than currently forecast if the field cannot extract incremental oil from water injection. The overall effect of choosing the slightly lower production profile is not material to our valuation of Horizon’s interest in this asset. As a result we have assumed the 2P production profile prevails.

There are a number of commercialisation options for the gas of the PNG assets, including:

- **the gas of Stanley and Elevala-Ketu is aggregated with volumes in the Western Province forelands and processed by a near shore LNG facility (with a capacity of between 2 mtpa and 4 mtpa).**

Under this scenario, the Stanley and Elevala-Ketu gas volumes will be aggregated with Western Province volumes from both wet and dry fields, together with volumes from offshore gas fields. The gross costs of the



downstream infrastructure will be shared across the upstream participants to the extent they choose to participate in the downstream infrastructure

- **the gas is sold to the PNG LNG Project:** under this scenario, the two-train PNG LNG Project could add more trains, with the gas sourced from fields including the 2.5 tcf P'nyang field north of Stanley. If, as a consequence, a pipeline is built from P'nyang (in the highlands) to the forelands, Elevala-Ketu's proximity to infrastructure may allow it to participate in the PNG LNG Project
- **the gas is sold to a potential new LNG facility to be developed by Total SA, InterOil Corporation and Oil Search:** in March 2014, Total SA purchased a 40.1% interest in PRL 15 (the Elk-Antelope fields) from InterOil Corporation. The consideration includes a deferred component of USD 73 million payable on FID for an Elk-Antelope LNG project. This transaction followed Oil Search's acquisition earlier in the month of a 22.8% stake in the same field from Pacific LNG Operations Limited. Both InterOil Corporation and Total SA have expressed their intention to develop a second LNG facility in PNG which will further increase the demand for feed gas within PNG
- **some of the gas is sold to Ok Tedi and the Frieda River copper project:** Horizon management has been in discussions with Ok Tedi management for the mine to potentially take up to 3 PJ of gas per annum. The Frieda River project, which is one of the world's largest undeveloped copper gold deposits, could also be powered by gas fired power from the Stanley field if it is developed
- **the gas is sold to an LNG facility to be built in Daru:** under this scenario, an LNG facility is built to accommodate the majority of gas volumes from the Stanley and Elevala-Ketu fields.

We have assumed that the final scenario occurs and the gas of the Stanley and Elevala-Ketu fields is sold as export gas via an LNG facility from 2020, with early gas to be sold in much smaller volumes to domestic consumers from 2016. However many milestones need to be met, at significant cost and risk, for a gas to LNG export case for the two fields to become a reality.

Based on discussions with RISC on the various options available to sell the gas, we have assumed that a 1.5 mtpa mid-scale LNG facility will be developed in Daru.

RISC has estimated the gross capital cost of a mid-scale facility to be in the region of USD 2 billion, with annual operating costs of USD 130 million (all in present day USD). These costs would be charged on to the Stanley and Elevala-Ketu operations via an economic rent.

The economics of a mid-scale LNG facility also depend on the volumes of gas to be processed, with greater volumes creating economies of scale and a lower cost per unit of production from the two fields. Stanley and Elevala-Ketu gas volumes sold for conversion to LNG will be priced with reference to LNG prices, netted back for the necessary downstream infrastructure. An alternative for some of the Stanley gas is for it to be sold to domestic customers, which we have assumed commences in 2016.

Given the significance of the gas resources, an LNG project is required to process all of the gas resources of the Stanley and Elevala-Ketu fields. We have therefore selected a range of prices for the gas (refer to Section 6.3.2 below) that we consider may be achieved in the event an LNG facility is developed, however we consider that the price selected also covers other sales options for the gas.

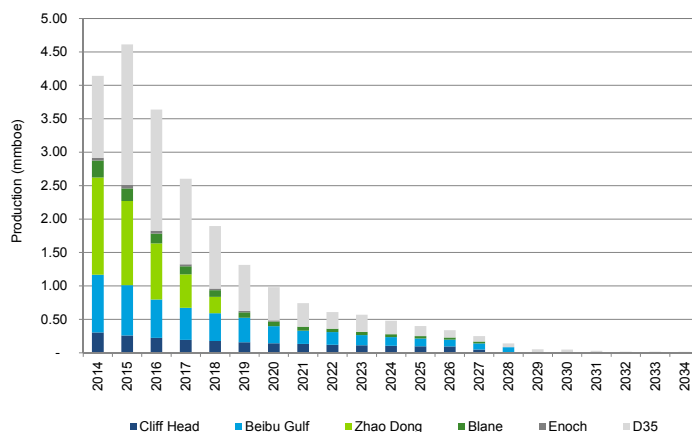
There is significant uncertainty associated with our base case scenario which assumes construction of an LNG facility in Daru. Without this occurring, most of the gas (Stanley and Elevala-Ketu) will not be sold in the manner we have assumed, with Stanley and Elevala-Ketu's value driven by projected condensate production, with comparatively minimal return from gas production. In addition, to the extent an LNG facility is constructed, RISC considers that gas production at the Stanley and Elevala-Ketu fields may be delayed. We have assumed that production is delayed by one year, which may result in additional capital expenditure in the region of USD 30 million, compared to Horizon management's assumptions on timing of production (i.e. first Elevala-Ketu gas in 2020).

Taking into account the overall risks inherent in our base LNG scenario assumed, we have applied a probability factor of 50% to 60% to the overall net present value ascribed to the interests in these assets.

The assumptions underpinning the production profiles for the Horizon assets have been reviewed by RISC, and are considered reasonable.

## ROC production

Figure 8 – ROC production (interest basis)



Source: ROC Model; Deloitte Corporate Finance analysis

The valuation scenarios adopted for the assets in which ROC owns an interest are summarised as follows:

- **Cliff Head:** crude oil production based on current 2P reserves
- **Beibu Gulf:** crude oil production based on current 2P reserves
- **Zhao Dong:** crude oil production based on current 2P reserves that are expected to be recovered by 2018 (when the PSC ends)
- **Blane:** production based on current 2P reserves
- **Enoch:** production based on current 2P reserves
- **D35/D21/J4:** base scenario production is based on 2P reserves, however we have also considered additional production profiles, which consider additional production of additional 2C resources over three phases. RISC considers that these phases are subject to a number of risks and has recommended probability factors applicable to each incremental stage of 2C production. In summary, the first stage of production is assumed to be reasonable (based on 2P reserves), with probability factors of 70%, 25% and 25%, respectively, applicable to the incremental value generated by the three concurrent stages of production (relate to production of 2C resources). The application of these risk factors is driven by uncertainty in the scope and efficiency of the waterflood project to be undertaken in the second stage of production, and the additional uncertainty associated with the Enhanced Oil Recovery project proposed to be undertaken in stage 3.

The assumptions underpinning the production profiles for the ROC assets have been reviewed by RISC and are considered reasonable.

### 6.3.2 Pricing assumptions

This section set out the prices we have adopted for each source of revenue.

#### Oil pricing

The oil expected to be produced by the Horizon and ROC assets is priced with reference to crude oil prices. In considering an appropriate price to apply to the future sales of oil, we have had regard to the following:

- WTI and Brent crude oil price
- IRAC reported by the EIA
- NYMEX futures prices for WTI and Brent
- APPI Tapis crude oil prices

- other publicly available industry estimates and commentary, including but not limited to industry research and brokers estimates.

Based on our analysis, we have adopted crude oil pricing, as set out below:

- the NYMEX futures prices in the short to medium term, declining to a longer term oil price assumption
- a long term real oil price in the range of USD 90 per barrel to USD 95 per barrel in real 2014 terms. We have assumed a long term inflation rate of 2.0% in our pricing.

Our selected crude oil pricing assumptions (in 2014 real terms) are as follows:

**Table 23<sup>1</sup>**

USD per barrel	2014	2015	2016	2017	2018	Long term
Selected crude oil price (high)	105	100	98	97	96	95
Selected crude oil price (low)	105	100	97	95	92	90

Source: Deloitte Corporate Finance analysis

Note:

1. 2015 prices have been bridged down on a straight line basis to equal long term prices in 2019.

We have adopted the same oil prices for the condensate production of the Stanley and Elevala-Ketu fields.

Where appropriate, we have applied the following premiums/discounts to our selected oil price, representing historical differences in the quoted oil price and that achieved by Horizon/ROC:

**Table 24**

Asset	Premium / (discount) USD / bbl
<b>Shared assets</b>	
Beibu Gulf (WZ 6-12 and WZ 12-8 West)	(5.0)
<b>Horizon assets</b>	
Maari/Manaia (PMP 38160)	5.50
<b>ROC assets</b>	
D35/D21/J4 PSC	-
Zhao Dong (C&D and C4)	(5.0)
Cliff Head	(2.2)
Blane	-
Enoch	-

Source: Deloitte Corporate Finance analysis

### Gas contracts

Prices have been modelled by reference to our selected oil price assumptions, as per the PSC. Due to the commercial sensitivity of pricing agreements, pricing information is generally not publicly available.

### PNG gas sales

In assessing the cash flows for Elevala-Ketu we have considered various scenarios for the gas produced from Elevala-Ketu and the price that Horizon may be able to achieve.

#### Gas sales to an LNG facility

In determining a price that may be appropriate if Horizon's production is sold to an LNG facility in PNG, we have had regard to the following:

- our understanding of gas prices that are currently being achieved in the PNG gas market
- the potential for export LNG to impact gas pricing in the medium to long term, as increasing global demand for LNG is expected to increase the price of gas throughout the Asia Pacific market
- typical LNG pricing formula, as set out below:

$$\text{LNG price} = (A \times \text{JCC}) + B$$

where:

- Japanese Crude Cocktail (JCC) is the average cost, insurance and freight (CIF) price of a basket of crude oils sold to Japan in USD per bbl
- A is typically between 0.12 to 0.165
- B is typically between 0.5 to 1.0.

Based on this typical LNG price equation, our preferred slope assumption and our selected oil price assumptions, we have selected a long term LNG price of USD 14.00 per GJ to USD 15.00 per GJ.

However, the potential net-back price obtainable by Horizon (i.e. a price for the gas at the field) is uncertain and requires a number of additional assumptions. RISC has provided us with a range of estimates of the potential netback that may be appropriate for the gas export cases of the Stanley and Elevala-Ketu fields, which were developed under a range of volume scenarios and our preferred oil and LNG price assumptions.

We consider Horizon may be able to access some, but not all, of the gas pricing over and above cost of production that may be available to an upstream participant in an LNG production facility.

#### **Gas sales to domestic customers**

An alternative for some of the Stanley gas is for it to be sold to domestic customers. We have taken account of in-principle prices currently being considered by Horizon in selecting our preferred gas price assumptions.

#### **Selected PNG gas prices**

Having regard to the foregoing, we have adopted a real (in 2014 terms) long term ex-field gas price in the range of USD 7.50 per GJ and USD 8.50 per GJ to apply to gas production from the Stanley and Elevala-Ketu fields.

## **6.4 Operating costs**

The Models include projections of operating costs, which are summarised as follows:

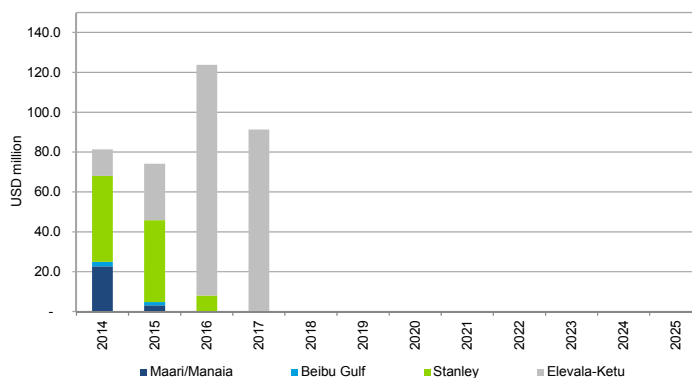
- operating fees
- workover costs
- tariffs for the use of platforms and processing and transportation
- variable costs including condensate transport, processing and storage costs
- project related overhead and administration costs including finance, commercial and technical support costs.

These operating costs have been reviewed by RISC which consider them to be reasonable. For a detailed overview of the operating costs, refer to Appendix G.

## **6.5 Capital costs**

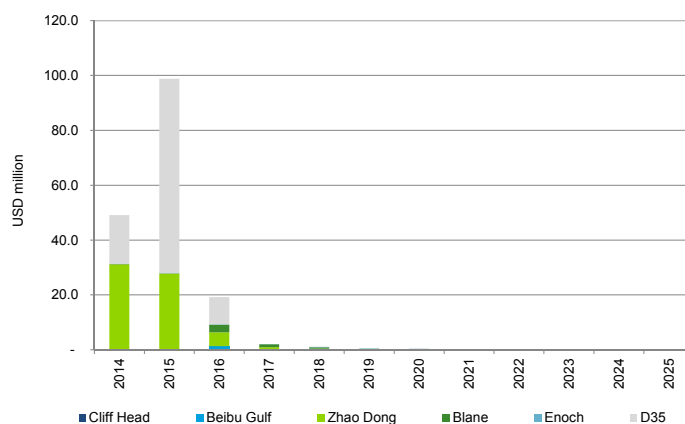
Capital costs have been projected based on a projected drilling schedule and other equipment required to extract and process the assumed oil and gas volumes. The following figures set out the projected capital costs (excluding abandonment costs) for Horizon and ROC.

Figure 9 – Horizon capital costs (interest basis)



Source: Horizon Model; Deloitte Corporate Finance analysis

Figure 10 – ROC capital costs (interest basis)



Source: ROC Model; Deloitte Corporate Finance analysis

Costs associated with abandonment are incurred for each of the assets as follows:

- at the end of the lives of the assets for those located in New Zealand, PNG, UK and Australia
- on an annual basis for the assets located in China and Malaysia, whereby the interest holders pay an annual contribution determined with reference to annual production volumes and the total cost of abandonment at the end of the life of the asset.

The assumptions underpinning the capital expenditure assumptions have been reviewed by RISC, which considers them to be reasonable. For a detailed overview of the capital expenditure costs, refer to Appendix G.

## 6.6 Corporate assumptions

The key corporate assumptions in the Models are summarised as follows:

- corporate tax is based on the rates applicable for each jurisdiction in which the assets are located, and is assumed to be paid over the life of each asset as and when incurred. ROC has unused tax losses not brought to account of approximately USD 216 million, which are included in the modelling of the Cliff Head asset (however tax losses remain at the end of the asset’s life). Horizon has carried forward tax losses in Australia, however these are not projected to be used over the lives of the assets. Accordingly, we have ignored these tax losses in our valuation

- tax deductible depreciation in accordance with local taxation regimes, and based on the timing of commencement of production and the assumed life of the assets
- corporate tax payable based on local taxation regimes in New Zealand, China, Malaysia, Australia, UK and PNG
- government royalties and private royalties payable to third parties
- PRRT liability payable in relation to ROC's interest in the Cliff Head asset
- corporate overheads of approximately USD 10 million have been assumed for ROC until 2020 and USD 5 million until 2030, which is net of costs passed on to the Beibu Gulf assets for which it is the operator.

Horizon currently incurs net corporate costs of approximately USD 7 million and is forecast to incur net costs of USD 5 million in 2014 and 2015. We have assumed Horizon will incur the same level of corporate costs as that incurred in 2014 and 2015 until the end of 2041. Corporate synergies on merger of the two companies have also been assumed and these are discussed in more detail in Section 7.4

- minimal material working capital movements.

## 6.7 Economic assumptions

The future cash flows in the Models are presented in nominal terms using Horizon and ROC's selected inflation rate assumptions. In selecting our inflation rate assumptions, we have considered forecasts prepared by economic analysts and other publicly available information, including broker consensus.

Based on our analysis, we have selected a flat inflation rate assumption of 2%.

## 6.8 Future cash flows attributable to Horizon and ROC

With respect to assets held by Horizon and ROC, future cash flows are based on the relevant interest in each asset's projected net operating cash flows after ongoing maintenance and construction capital costs, production sharing contract adjustments, PRRT, royalties and corporate tax payments.

For the interests held through a PSC (Beibu, Zhao Dong and D35/D21/J4), the cash flows modelled reflect cash flows associated with the PSC.

Under PSCs involving exploration activities, the international contractor must complete a minimum work commitment and bear all the costs during the exploration period. Post the minimum work commitment completed by Horizon and ROC, the nominated national company is assumed to take up its option to participate in the asset. Previously incurred development and operating costs incurred by Horizon and ROC are refunded by the nominated national company with production, via a specific cost recovery mechanism.

## 6.9 Discount rates

The discount rate (or WACC) used to equate the future cash flows to a present value reflects the risk adjusted rate of return demanded by a hypothetical investor. We have selected nominal post-tax discount rates to discount the future cash flows of the assets to their present value.

The discount rates have been chosen with reference to the stage of development of the assets, the geographic location of the assets (to capture sovereign risk) and any other asset specific risks that we consider are not already reflected in the future cash flows assumed for the asset.



The following discount rates have been selected to apply to the cash flows of the assets of Horizon and ROC:

**Table 25**

Asset	Stage of development	Country	Selected WACC	
			Low	High
<b>Shared assets</b>				
Beibu Gulf	Operating	China	10.0%	11.0%
<b>Horizon assets</b>				
Maari/Manaia	Operating	New Zealand	9.0%	10.0%
Stanley	Development	PNG	12.0%	13.0%
Elevala-Ketu	Development		12.0%	13.0%
<b>ROC assets</b>				
D35/D21/J4 PSC	Operating	Malaysia	10.5%	11.5%
Zhao Dong (C&D and C4)	Operating	China	10.0%	11.0%
Cliff Head	Operating	Australia	9.0%	10.0%
Blane	Operating	UK	9.0%	10.0%
Enoch	Operating		9.0%	10.0%

*Source: Deloitte Corporate Finance analysis*

A detailed consideration of these matters is provided in Appendix D.

## 7 Valuation summary

### 7.1 Value of the operating and development assets

#### 7.1.1 Summary

The range of values for the various oil producing assets have been estimated using the same crude oil price assumptions. The high end of the valuation range has been generated using high prices and low discount rates, and vice versa.

As the value of the Stanley and Elevala-Ketu fields are intrinsically linked (because their gas volumes are worth more in combination, than on a standalone basis), our preferred scenario to value these assets assumes the gas of the PNG assets is sold via a liquids stripping / gas export project to reflect the significant potential value that could be generated for these assets.

Given the uncertainty associated with the ability of Horizon and the other owners of the Stanley and Elevala-Ketu fields to monetise the significant potential of the gas resources, we have applied a probability factor in the range of 50% to 60% to the overall net present value ascribed to the interests in these assets. We have estimated the value of these assets with reference to our preferred discount rate range (of 12.0% to 13.0%) and the range of probability factors selected.

Our estimate of the fair market value of each of the operating and development assets is summarised in the table below.

**Table 26**

Asset	Horizon interest	ROC interest	Fair market value (USD million)			
			Horizon interest		ROC interest	
			Low	High	Low	High
<b>Shared assets</b>						
Beibu Gulf	26.95%	19.60%	223	232	162	169
<b>Horizon assets</b>						
Maari/Manaia	10.00%	-	164	175	-	-
Stanley & Elevala-Ketu	30.00% / 27.00%	-	180	260	-	-
<b>ROC assets</b>						
D35/D21/J4 PSC	-	30.00%	-	-	44	57
Zhao Dong	-	C&D – 24.50% C4 – 11.67%	-	-	89	91
Cliff Head	-	42.50%	-	-	22	26
Blane	-	12.50%	-	-	20	21
Enoch	-	12.00%	-	-	2	2
<b>Total</b>			<b>567</b>	<b>667</b>	<b>338</b>	<b>367</b>

Source: Deloitte Corporate Finance analysis

#### 7.1.2 Cross-checks

We have used an industry rule of thumb to cross-check the value of the operating assets derived under our primary approach.

Given the significant gas resources of the Stanley and Elevala-Ketu fields, we have performed a separate cross-check to that used for the operating (primarily oil) producing assets, by comparing our valuation with the terms of the Osaka Gas Transaction and considering another recent transaction in a nearby field.

#### Operating assets

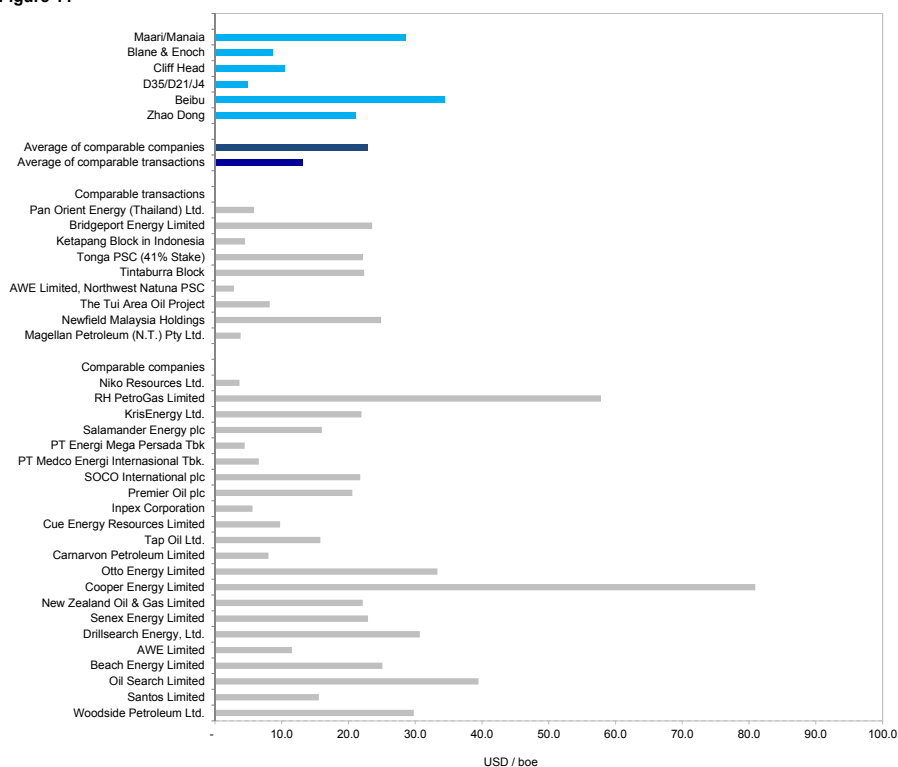
The rule of thumb cross-check, namely a comparison of the USD per boe implied by our valuation with those achieved in recent selected transactions in comparable companies, has emerged from market transactions as it can be calculated by analysts based on limited publicly available information.

This rule of thumb should be considered within the context of the following limitations:

- Australian disclosure standards for contingent resources have recently changed, which results in resource statements dated prior to 31 December 2013 being prepared on a different basis to those reported after that date
- it can be difficult to source accurate information on comparable transactions
- we have focused our search on comparable transaction and companies primarily focused on oil production and exploration in Asia. We have had difficulties in sourcing reported 2P reserves for Asia based transactions, in particular for PNG
- capital expenditure may be different to those of the comparable transactions and the difference could have a significant impact on value
- we have undertaken the calculation of the reserve multiples of the comparable companies and transactions based on 2P reserves, as the production volumes modelled in our analysis of the assets, primarily consist of 2P reserves (prospective and contingent resource evaluation has been undertaken by the technical expert, with the exception of the PNG assets and D35/D21/J4). Therefore the 2P reserve multiple calculation of the comparable companies and transactions does not make allowance for the relative proportion of prospective and contingent resources in place attributable to an asset, nor does it allow for different cost structures of the resources held by the subject company and the comparable companies
- the rule of thumb assumes the fields held by the subject company and those subject to the comparable transactions are at the same stage of development.

The 2P multiple for each of the assets implied by our valuation compared to those of comparable companies is shown in the figure below.

Figure 11



Source: Deloitte Corporate Finance analysis; Capital IQ; ASX announcements

Note:

1. Multiples calculated by dividing the value of the asset by the quantum of 2P reserves.

We make the following comments in respect of the above chart:

- the multiples implied by the comparable companies are based on share trading and do not reflect a control premium. We have added a control premium of 30% to the market capitalisations of the comparable companies in order to derive an indicative multiple on a control basis
- the implied 2P multiple observed for Cooper Energy Limited is considerably greater than those of the assets of Horizon and ROC. Cooper Energy Limited has significant contingent and prospective resources, which are not taken into account in the 2P reserve multiple (including the resources associated with the recent acquisition of the BMG asset)
- of the observed transactions, three hold PSCs in Asia, being the acquisition of Newfield Malaysia Holdings, the Northwest Natuna PSC in Indonesia and the acquisition in the Tonga PSC. Newfield Malaysia Holdings (operator of nine PSCs) and the Tonga PSC, encompass interests that are more developed than the Northwest Natuna PSC, which was 50% acquired by Santos and contains the undeveloped Ande Lumut oil field (FID to develop the field is expected in 2014). The consideration payable by Santos comprised USD 100 million in cash payable on completion of the sale and a USD 88 million cost recoverable capital expenditure carry
- the 2P reserves used as a basis for calculating the reserve multiple for the assets held through a PSC is based on Horizon/ROC's underlying interest in the asset, however the effective interest volume modelled may differ, due to the profit sharing mechanism underlying the PSC
- the 2P reserve multiple for Enoch, Blane and Cliff Head are lower than that of the other assets and towards the low end of the 2P reserve multiples observed for the comparable companies and transactions. Given the size of these fields, we do not consider this to be unreasonable
- the value calculated for D35/D21/J4 includes 2C prospective resources, which is not reflected in the calculated 2P reserve multiple.

We consider the 2P reserve multiples implied by our valuation of the assets to be reasonable.

### Stanley and Elevala-Ketu

The possible valuation range for Stanley and Elevala-Ketu is wide as a result of the wide range of potential scenarios for the fields. Below, we present an analysis on the sensitivity of our combined valuation of Stanley and Elevala-Ketu (at the interest level) to the probability factor applied and delay scenarios.

**Table 27**

	Probability factor								
	20%	30%	40%	50%	60%	70%	80%	90%	100%
<b>Discount rate of 13%</b>									
No delay	81	122	163	204	244	285	326	367	407
1 year delay	75	112	150	187	225	262	300	337	375
2 year delay	72	108	144	180	217	253	289	325	361
<b>Discount rate of 12%</b>									
No delay	93	139	185	231	278	324	370	417	463
1 year delay	86	129	172	215	258	301	344	387	430
2 year delay	83	124	166	207	248	290	331	373	414

Source: Deloitte Corporate Finance analysis

There is uncertainty as to the likelihood of the gas export case, along with the timing of commencement of production, which is difficult to quantify with precision, however we consider a delay of one year is reasonable following discussions with RISC.

We have selected a value of USD 180 million to USD 260 million for the Stanley and Elevala-Ketu fields, which is based on our preferred discount rates, a delay of one year, and probability factors of 50% to 60% to reflect the overall likelihood of the project proceeding.

In order to cross-check this value, we have considered the most recent transaction in the assets, being the Osaka Gas Transaction, and recent transactions in a nearby comparable asset, to assess whether our valuation of the Stanley and Elevala-Ketu appears reasonable.

### ***Osaka Gas Transaction***

In May 2013, Horizon announced that it had entered into an agreement with Osaka Gas to sell a 40% interest in Horizon's interest in the PNG assets, including PDL 10 (Stanley) and PRL 21 (Elevala-Ketu). On completion of this transaction, Horizon will own a 30% interest and a 27% interest in PDL 10 and PRL 21, respectively (pre-PNG Government back-in) whilst Osaka Gas owns a 20% and 18% interest in PDL 10 and PRL 21, respectively.

Osaka Gas paid a deposit of approximately USD 20 million to Horizon in 2013 when entering into the agreement, and is due to pay the next instalment in mid-2014. In addition, it will pay its share of costs incurred to date in developing the assets. In total, the consideration to be paid by Osaka Gas for a 20% interest in the Stanley and Elevala-Ketu fields is estimated as the sum of the following:

- USD 20 million deposit paid in 2013
- USD 78 million (following receipt of the development licence from the PNG Government on 30 May 2014), reflecting the balance of the first payment and costs incurred to date. Of this amount, approximately USD 77 million was paid to Horizon on 12 June 2014, with a further USD 1 million (approximately) to be received in the short term
- USD 130 million on FID of an LNG facility
- production adjustments where condensate production exceeds a particular threshold, which are estimated at between USD 11 million and USD 14 million per annum (in 2014 real terms) from 2019 onwards (on an undiscounted basis).

We have valued the consideration in the range of approximately USD 170 million and USD 200 million using our preferred discount rates and a probability factor of 50% to 60%. This implies a value of USD 185 million to USD 205 million for the interests held in the Stanley and Elevala-Ketu fields by Horizon.<sup>20</sup>

The low end of our valuation range for the Stanley and Elevala-Ketu fields is consistent with that implied by the Osaka Gas Transaction, when compared on a like-for-like basis, although it is important to recognise that Osaka Gas is only forecast to have paid USD 98 million of the consideration by the time the Proposed Scheme is implemented. Osaka Gas has structured the transaction such that its consideration for the asset is staged.

It is not unreasonable to assume that Osaka Gas has not yet paid for the full upside of the assets associated with the gas resources in 2013, whereas our valuation does incorporate the value of gas production. In addition, the transaction took place one year ago and events may have occurred that have resulted in the value of the assets increasing, including drilling activities, Horizon undertaking discussions with potential domestic gas customers and the issue of a development licence for Stanley (in late May 2014).

### ***Oil Search and Total SA / PRL 15 transactions***

In March 2014, Oil Search and Total SA each acquired an interest in PRL 15, located in the Eastern Margin of the Papuan Basin. Key details of the transactions are provided as follows:

- on 13 March 2014, Oil Search Limited acquired a 22.8% stake in PRL 15 from Pacific LNG Operations Limited for USD 900 million with a contingent payment of USD 0.775 per mcf for any 2C contingent resources greater than 7 tcf. The estimated gross 2C contingent resources for PRL 15 range from 5.3 tcf (as estimated by Oil Search) to 7.0 tcf (as estimated by Gaffney Clyde). On this basis, the resource multiples for the transaction range from USD 3.8 per bbl to USD 4.5 per bbl. In an ASX announcement, Oil Search stated that the acquisition was in line with its overall strategy to aggregate resources to underpin LNG development in PNG. PRL 15 is in close proximity to Oil Search's existing portfolio, with the transaction funded by way of a placement of 149 million shares to the PNG Government
- on 25 March 2013, Total SA acquired a 40.1% stake in PRL 15 from InterOil Corporation for USD 624 million, with further contingent payments and discovery bonuses payable on certification of 2C contingent resources and based on the volumes discovered from exploration wells. Assuming the same range of resources, the resource multiples implied by this transaction range from USD 1.3 per boe to USD 1.8 per boe respectively.

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<sup>20</sup> Calculated using the simple average of the two interests held by Horizon in PRL 4 and PRL 21, assuming PNG Government back-in occurs

Our valuation of the Stanley and Elevala-Ketu fields implies a multiple in the range of USD 2.7 per boe to USD 3.8 per boe of 2C contingent resources.<sup>21</sup>

The recent transactions in PRL 15 by Total SA and Oil Search provide support for our valuation, although the range implied by these transactions is very wide.

On balance, we consider these cross-checks support the value that we have selected for the PNG assets.

## 7.2 Value of the exploration assets

### 7.2.1 Summary

RISC provided an independent technical assessment of the exploration assets and estimates of their fair market value. RISC has valued the exploration assets with reference to either a risked discounted cash flow method, the application of a contingent resource multiple to reported resources or a cost-based approach.

Based on our analysis and discussions with RISC, we consider RISC's valuations to be appropriate for the purpose of our valuation of Horizon and the Proposed Merged Entity. Refer to Appendix G for RISC's technical expert's report.

**Table 28**<sup>1,2,3</sup>

Asset	Horizon interest	ROC interest	Fair market value (USD million)			
			Horizon interest		ROC interest	
			Low	High	Low	High
<b>Shared assets</b>						
Beibu Gulf	26.95%	19.60%	4	4	3	3
<b>Horizon assets</b>						
New Zealand	10.00%	-	8	8	-	-
PNG	Various	-	20	20	-	-
<b>ROC assets</b>						
Bohai Bay	-	100.0%	-	-	16	16
Malaysia	-	30.0%	-	-	11	11
Myanmar	-	59.4%	-	-	2	2
Australia	-	42.5%	-	-	0	0
<b>Total</b>			<b>32</b>	<b>32</b>	<b>31</b>	<b>31</b>

Source: RISC; Deloitte Corporate Finance analysis

Notes:

1. The values ascribed to the exploration assets assumes that relevant farm-ins have taken place
2. We have adopted RISC's best estimate of values for both the high and low end of the valuation ranges
3. Total values subject to rounding.

<sup>21</sup> Based on RISC's view of 2P plus 2C resources (314 mmboe) multiplied by Horizon's interest in the Stanley and Elevala-Ketu fields post PNG Government back-in



## 7.3 Valuation of Horizon

### 7.3.1 Summary

Our estimate of the fair market value of a share in Horizon, including the underlying components of our valuation, is summarised in the table below.

**Table 29**

	Section reference	Unit	Low	High
Enterprise value of operating assets	7.1	USD million	387	407
Enterprise value of development assets	7.1	USD million	180	260
Enterprise value of exploration assets	7.2	USD million	32	32
Corporate costs	6.6	USD million	(67)	(73)
Surplus assets	7.3	USD million	154	174
<b>Enterprise value of Horizon (on a control basis)</b>		<b>USD million</b>	<b>687</b>	<b>801</b>
Net debt	7.3	USD million	(180)	(180)
<b>Equity value (on a control basis)</b>		<b>USD million</b>	<b>507</b>	<b>621</b>
Number of shares in Horizon	7.3	'millions	1,317	1,317
<b>Value of a share in Horizon (on a control basis)</b>		<b>USD</b>	<b>0.38</b>	<b>0.47</b>

Source: Deloitte Corporate Finance analysis

### 7.3.2 Surplus assets

Horizon has the following assets that do not contribute to the forecast cash flows that we have modelled. For this reason they have been treated as surplus assets and have been valued separately.

**Table 30**

(USD million)	Low	High
Osaka Gas Transaction – 2014 payment	78	78
Osaka Gas Transaction – FID LNG	49	60
Osaka Gas Transaction – liquids adjustment	27	36
<b>Total</b>	<b>154</b>	<b>174</b>

Source: Deloitte Corporate Finance analysis

As the development licence for Stanley was issued by the PNG Government on 30 May 2014, Osaka Gas paid Horizon USD 77 million (which includes costs incurred to date since 2013 by Horizon) on 12 June 2014 and is expected to pay a further USD 1 million (approximately) in the near term.

In addition, under the terms of the Osaka Gas Transaction, Osaka Gas will pay Horizon:

- USD 130 million on FID of an LNG facility. Considering our valuation of the PNG assets is based on the scenario that the gas resources will be mainly sold via an LNG project (with some gas to be sold to domestic consumers), we have assumed FID takes place in 2016
- production adjustments where condensate volumes exceed agreed thresholds. Based on the projected production assumptions for the assets, Horizon is estimated to be entitled to annual post-tax payments of between approximately USD 11 million and USD 14 million (in 2014 real terms) from 2019 onwards.

In estimating the fair market value of the consideration to be received from Osaka Gas, we have discounted the future proceeds by the same discount rate, and have applied the same range of probability factors, selected to value the PNG assets under our preferred liquids stripping / gas export scenario.

### 7.3.3 Net debt

We assumed that Petsec would exercise its vested options (15 million options) before their expiry by the end of June 2014 (refer to Section 4.2).<sup>23</sup> The options have an exercise price of AUD 0.364 per share.

Horizon's net debt position as at 31 March 2014 is shown below.

**Table 31**

	(USD million)
Current interest bearing liabilities	10
Non-current interest bearing liabilities	109
Convertible bonds	89
Less: cash	(23)
Less: proceeds from Petsec exercising its options prior to 30 June 2014	(5) <sup>1</sup>
<b>Net debt</b>	<b>180</b>

Source: Deloitte Corporate Finance analysis

Note:

1. Based on 15 million options multiplied by AUD 0.364 per share, converted into USD at the current exchange rate of 1 AUD: 0.94 USD.

We have adopted a value for the Convertible Bonds that is equivalent to their current carrying value (USD 84 million) plus the Incentive Payment offered by Horizon for bondholders to take up the Early Redemption Offer (refer to Section 1.1).

### 7.3.4 Shares in Horizon

Horizon's capital structure is discussed in Section 2.3. We have adjusted the number of ordinary shares on issue to reflect the unexercised vested options held by Petsec, which we assumed would be exercised prior to their expiry in June 2014.<sup>24</sup>

We have ignored all other options and SARs in Horizon given they are yet to vest and the uncertainty associated with the number of shares that will be issued in Horizon on exercise of the SARs. We note that we have taken an equivalent approach to valuing the shares in the Proposed Merged Entity. We have undertaken an analysis to assess the dilution effect of the unvested options exercising to their fullest extent and the maximum number of shares arising from conversion of the SARs and have determined that the impact is immaterial on the overall value estimated for a share in Horizon.

Horizon's assumed number of shares is summarised in the table below.

**Table 32**

	Unit	
Number of shares in Horizon	'millions	1,302
Petsec options	'millions	15
<b>Number of shares in Horizon (assuming Petsec converts)</b>	<b>'millions</b>	<b>1,317</b>

Source: Deloitte Corporate Finance analysis

### 7.3.5 Cross-check: analysis of recent share trading

We have compared the value estimated for a share in Horizon to that implied by trading in its shares prior to the announcement of the Proposed Scheme on 29 April 2014, after adjusting for a notional discount for minority interest and converting the USD per share calculated value into AUD.

<sup>23</sup> The net debt position and the number of shares in Horizon assume 15 million options held by Petsec Energy Limited were exercised prior to their expiry on 30 June 2014. We understand the options were not exercised as at the date of this report, however we have not updated our valuation to reflect this as it does not have a material effect thereon

<sup>24</sup> Ibid.

The market can be expected to provide an objective assessment of the fair market value of a listed entity, where the market is well informed and liquid. Market prices incorporate the influence of all publicly known information relevant to the value of an entity's shares. We believe that the share price, prior to the announcement of the Proposed Scheme, represents an objective assessment of the fair market value of Horizon's shares for the following reasons:

- Horizon only has one shareholder with a holding greater than 20% and approximately 11% of shares has been traded over the three months prior to the announcement of the Proposed Scheme. This suggests trading in Horizon's shares is moderately liquid, when compared with trading in comparable companies over the same period
- Horizon is followed by a number of equities analysts and is included within the S&P/ASX200 Index, which has facilitated increasing investment scrutiny and liquidity.

Share prices from market trading do not reflect the market value for control of a company as they are for portfolio holdings. Australian studies indicate the premiums required to obtain control of companies range between 20% and 40% of the portfolio holding values. A minority interest discount is the inverse of a premium for control<sup>25</sup> and generally ranges between 15% and 30%.

The value of a share in Horizon (in AUD) on a minority interest basis based on our valuation on a control basis and a notional discount for minority interest is shown in the table below.

**Table 33**

	Section reference	Unit	Low	High
<b>Calculated value of a share in Horizon (on a control basis)</b>	<b>7.3</b>	<b>USD / share</b>	<b>0.38</b>	<b>0.47</b>
Discount for minority interest <sup>1</sup>			23%	23%
<b>Value of a share in Horizon (on a minority interest basis)</b>		<b>USD / share</b>	<b>0.30</b>	<b>0.36</b>
Current AUD / USD exchange rate		%	0.94	0.94
<b>Value of a share in Horizon (on a minority interest basis)</b>		<b>AUD / share</b>	<b>0.31</b>	<b>0.39</b>

Source: Deloitte Corporate Finance analysis

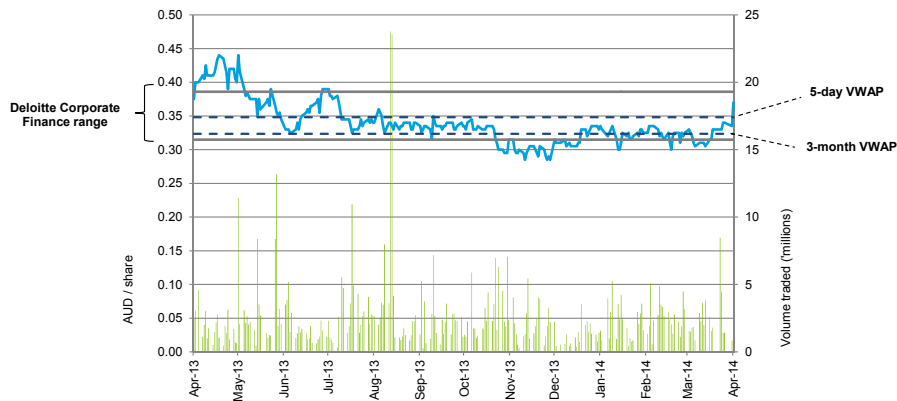
Note:

1. Minority interest discount based on the inverse of a control premium of 30%.

<sup>25</sup> Minority interest discount =  $1 - \{1 / (1 + \text{control premium})\}$

The following figure shows various prices of Horizon shares over the twelve months prior to the announcement date of the Proposed Scheme on 29 April 2014 compared to the potential value of a share in Horizon on a minority interest basis implied by our valuation on a control basis.

**Figure 12**



Source: Capital IQ; Deloitte Corporate Finance analysis

The 5-day VWAP of a share in Horizon prior to announcement of the Proposed Scheme was AUD 0.35 per share compared to that implied by our valuation of AUD 0.31 per share to AUD 0.39 per share, with a midpoint of AUD 0.35.

Horizon's value is weighted towards the value ascribed to the PNG assets, which are in the development stage and subject to significant risks. Their potential value may not yet be fully understood or quantified by the market. Our wide valuation range for Horizon ultimately reflects the wide range of potential values for the PNG assets.

We consider the share price analysis is supportive of the value we have ascribed to a share in Horizon on a control basis.

## 7.4 Valuation of the Proposed Merged Entity

### 7.4.1 Summary

Our estimate of the fair market value of a share in the Proposed Merged Entity, including the underlying components of our valuation, is summarised in the table below.

**Table 34**

	Section reference	Unit	Low	High
<b>Horizon</b>				
Enterprise value of operating assets	7.1	USD million	387	407
Enterprise value of development assets	7.1	USD million	180	260
Enterprise value of exploration assets	7.2	USD million	32	32
<b>ROC</b>				
Enterprise value of operating assets	7.1	USD million	338	367
Enterprise value of exploration assets	7.2	USD million	31	31
<b>Corporate costs</b>				
Horizon	7.3	USD million	(67)	(73)
ROC	7.4	USD million	(67)	(70)
Add: corporate synergies	7.4	USD million	35	45
<b>Surplus assets</b>				
Horizon	7.3	USD million	154	174
ROC	7.4	USD million	52	52
<b>Enterprise value of the Proposed Merged Entity (on a control basis)</b>				
		<b>USD million</b>	<b>1,076</b>	<b>1,226</b>
Net debt	7.4	USD million	(101)	(101)
<b>Equity value (on a control basis)</b>				
		<b>USD million</b>	<b>976</b>	<b>1,125</b>
<b>Number of shares in the Proposed Merged Entity (on an undiluted basis)</b>				
	4.2	million	1,641	1,641
<b>Value of a share in the Proposed Merged Entity (on a control basis)</b>				
		<b>USD</b>	<b>0.59</b>	<b>0.69</b>

Source: Deloitte Corporate Finance analysis

### 7.4.2 Corporate costs

Refer to Section 6.6 for an overview of the corporate costs relating to Horizon and ROC.

We have assumed that Horizon and ROC, on merging, will be able to generate corporate cost synergies of approximately USD 3.5 million per annum until 2030 by:

- consolidating their corporate head offices into one location (therefore potentially halving rental costs and making proportionate savings on other overheads)
- carrying only one listing on the ASX, thereby reducing listing and similar fees
- sharing director and other management positions.

Synergies have been inflated at our selected inflation rate assumption and discounted to their net present value using a discount rate of 9.0% to 10.0%. Based on these assumptions, we have valued corporate cost synergies in the range of USD 35 million to USD 40 million.

### 7.4.3 Surplus assets

The Proposed Merged Entity has the following assets that do not contribute to the forecast cash flows that we have modelled.

**Table 35**

	Low (USD'000)	High (USD'000)
<b>Horizon</b>		
Osaka Gas Transaction – 2014 payment	78	78
Osaka Gas Transaction – FID LNG	49	60
Osaka Gas Transaction – Liquids adjustment	27	36
<b>ROC</b>		
Balai Cluster RSC	64	64
D35/D21/J4 PSC consideration payable	(12)	(12)
BMG consideration receivable	-	-
<b>Total surplus assets</b>	<b>206</b>	<b>226</b>

Source: Deloitte Corporate Finance analysis

Refer to Section 7.3 for a summary of Horizon's surplus assets.

We note the following in relation to ROC's surplus assets/liabilities:

- ROC holds a 48% interest in BC Petroleum, a joint venture company created to operate and manage the Balai Cluster RSC. ROC has advised that BC Petroleum is in the process of handing back all of the wells drilled to initiate early reimbursement of costs (expected within two years). The project to date has drilled five wells, installed four platforms and converted an early production vessel at a gross cost of approximately USD 310 million. Interest and some non-substantiated costs are non-recoverable.

Based on discussion with ROC management, we are of the understanding a complete review of the costs for reimbursement is yet to be undertaken. Based on information provided by ROC management, we have discounted the book value as at 31 December 2013 by 5% to take into account unrecoverable costs

- ROC acquired a 50% interest in the D35/D21/J4 PSC as at 1 April 2014, with an effective ownership date of 1 January 2014. ROC has announced it intends to farm-out 40% of its interest (i.e. 20% of the PSC) to Dialog, effective 1 January 2014. The consideration for the farm-out will be at cost. The cash balance as at 31 March 2014 (presented below), does not take into account the consideration payable for ROC's net 30% interest (post 20% farm-out) and appropriate working capital adjustments between 1 January 2014 and 1 April 2014. Based on a consideration of USD 25 million for the 50% interest and working capital adjustment payable to ROC of approximately USD 5 million (estimated by ROC management), we have included a surplus liability of USD12 million
- ROC sold its interest in BMG effective 31 March 2014. Consideration for the sale was AUD 1.0 million upfront plus AUD 5.0 million contingent consideration (subject to first hydrocarbons from a commercial development at BMG). ROC management has provided an estimate of transaction costs relating to the sale, totalling AUD 1.0 million.

ROC and the joint venture suspended BMG operations in 2010, because, at the time, a full field development was considered to be non-commercial. Whilst the joint venture has since undertaken a detailed development review designed to understand the most efficient routes to bring BMG gas and liquids to market, given the uncertainty surrounding this project, we consider it reasonable to ascribe a value of nil to the contingent consideration.



#### 7.4.4 Net debt

The Proposed Merged Entity's net debt position as at 31 March 2014 is shown below.

**Table 36**

	(USD'000)
Horizon net debt	180
ROC net cash	(88)
Add: transaction costs	9
<b>Net debt</b>	<b>101</b>

Source: Deloitte Corporate Finance analysis

Refer to Section 7.3 for an overview of Horizon's net debt position.

As at 31 March 2014, ROC had a cash balance of USD 88 million and did not hold any debt. In addition, we have estimated Horizon and ROC's total transaction costs associated with the Proposed Scheme to be approximately USD 9 million, which we have added to the net debt position.

#### 7.4.5 Analysis of recent share trading

The trading price of ROC shares subsequent to the Announcement Date should provide reasonable guidance on the trading price of shares in the Proposed Merged Entity, to the extent trading is relatively liquid. This is because the market is likely to have reflected the impact of the Proposed Scheme into ROC's share price immediately after it was informed of the terms of the Proposed Scheme, to the extent to which the Proposed Scheme is expected to proceed.

The potential value of a share in the Proposed Merged Entity (in AUD) on a minority interest basis, based on our valuation on a control basis and a notional discount for minority interest, is shown in the table below.

**Table 37**

	Section reference	Unit	Low	High
<b>Calculated value of a share in the Proposed Merged Entity (on a control basis)</b>	<b>7.4</b>	<b>USD / share</b>	<b>0.59</b>	<b>0.69</b>
Discount for minority interest <sup>1</sup>			23%	23%
<b>Value of a share in the Proposed Merged Entity (on a minority interest basis)</b>		<b>USD / share</b>	<b>0.46</b>	<b>0.53</b>
Current AUD / USD exchange rate		%	0.94	0.94
<b>Value of a share in the Proposed Merged Entity (on a minority interest basis)</b>		<b>AUD / share</b>	<b>0.49</b>	<b>0.56</b>

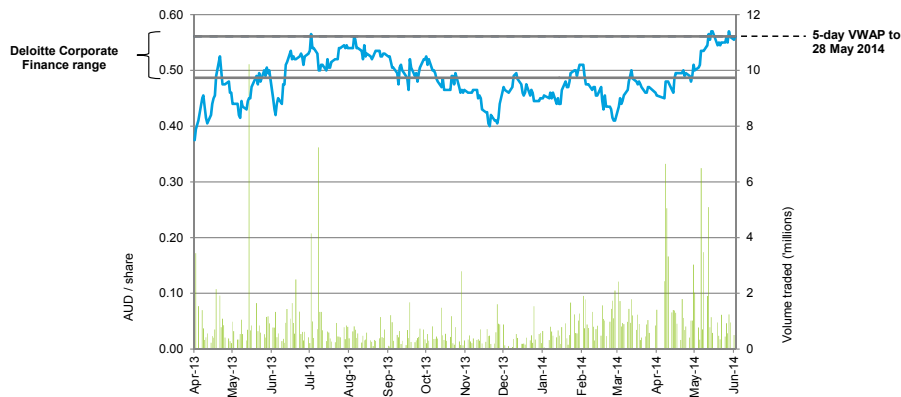
Source: Deloitte Corporate Finance analysis

Note:

1. Minority interest discount based on the inverse of a control premium of 30%.

The following figure shows various prices of ROC shares over the twelve months prior to the announcement date of the Proposed Scheme and the period that has passed since, compared to the potential value of a share in the Proposed Merged Entity implied by our valuation on a control basis.

**Figure 13**



Source: Capital IQ; Deloitte Corporate Finance analysis

The 5-day VWAP of a share in the Proposed Merged Entity to 24 June 2014 (before an unsolicited takeover offer for ROC was announced on 25 June 2014) was AUD 0.56 compared to that implied by our calculated valuation range of AUD 0.49 per share to AUD 0.56 per share, with a midpoint of AUD 0.52. Whilst share trading in ROC has been volatile over the course of the 12 months preceding announcement of the Proposed Scheme (with the share price falling to a low of AUD 0.38 per share and reaching a high of AUD 0.57 per share), the market has appeared to react favourably to the announcement of the Proposed Scheme, with the share price rising steadily from its closing price of AUD 0.46 per share on 23 April 2014. However, since announcement of the Proposed Scheme, a number of announcements unrelated to the Proposed Scheme have been released by both ROC and Horizon which may have influenced trading in ROC’s shares in recent weeks, including ROC confirming that it had received an unsolicited takeover offer from a third party (on 25 June 2014). An independent expert’s report prepared for ROC on the Proposed Scheme was also released on 16 June 2014.

Similar to our valuation of a share in Horizon, our wide valuation range for the Proposed Merged Entity reflects the wide range of possible values for the PNG assets.

Having regard to the above, we consider the share price analysis is supportive of the value we have ascribed to a share in the Proposed Merged Entity on a control basis.

## Appendix A: Context to the Report

### Individual circumstances

We have evaluated the Proposed Scheme for Horizon Shareholders as a whole and have not considered the effect of the Proposed Scheme on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Scheme from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Scheme is fair and reasonable and therefore in the best interests of Proposed Scheme. If in doubt investors should consult an independent adviser, who should have regard to their individual circumstances.

### Limitations, qualifications, declarations and consents

The report has been prepared at the request of the Directors of Horizon and is to be included in the Scheme Booklet to be given to Horizon Shareholders for approval of the Proposed Scheme. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the Scheme Booklet in their assessment of the Proposed Scheme outlined in the report and should not be used for any other purpose. Neither Deloitte Corporate Finance, Deloitte Touche Tohmatsu, nor any member or employee thereof, undertakes responsibility to any person, other than the Horizon Shareholders and Horizon, in respect of this report, including any errors or omissions however caused. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposed Scheme. This engagement has been conducted in accordance with professional standard APES 225 Valuation Services issued by the Accounting Professional and Ethical Standards Board Limited.

The report represents solely the expression by Deloitte Corporate Finance of its opinion as to whether the Proposed Scheme is in the best interests of the Horizon Shareholders as a whole. Deloitte Corporate Finance consents to this report being included in the Scheme Booklet in the form and context in which it is to be included in the Scheme Booklet.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte Corporate Finance has relied upon the completeness of the information provided by Horizon and ROC and each of their officers, employees, agents or advisors which Deloitte Corporate Finance believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte Corporate Finance does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to Horizon management, and certain extracts of our draft report were issued to ROC management, for confirmation of factual accuracy.

Subsequent to the issue of a full draft report to Horizon (including valuation outcomes and our opinion), a minor error was identified in the valuation undertaken by RISC in relation to the Bohai Bay exploration assets. We updated our valuation analysis to reflect the correct value (which was updated from USD 13 million to USD 16 million), which resulted in a minor change to the valuation range for a share in the Proposed Merged Entity. This change did not change our conclusion.

In recognition that Deloitte Corporate Finance may rely on information provided by Horizon, ROC and its officers, employees, agents or advisors, Horizon has agreed that it will not make any claim against Deloitte Corporate Finance to recover any loss or damage which Horizon may suffer as a result of that reliance and that it will indemnify Deloitte Corporate Finance against any liability that arises out of either Deloitte Corporate Finance's reliance on the information provided by Horizon, ROC and their officers, employees, agents or advisors or the failure by Horizon and / or ROC and their officers, employees, agents or advisors to provide Deloitte Corporate Finance with any material information relating to the Proposed Scheme.

Deloitte Corporate Finance also relies on the technical expert's report prepared by RISC. Deloitte Corporate Finance has received consent from RISC for reliance in the preparation of this report.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte Corporate Finance's consideration of this information consisted of enquiries of Horizon and ROC personnel and analytical procedures applied to the financial data, and the engagement of a technical expert to assist in evaluating certain key assumptions underpinning the financial projections. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with standards issued

by the Auditing and Assurance Standards Board (AUASB) or equivalent body and therefore the information used in undertaking our work may not be entirely reliable.

Based on these procedures and enquiries, Deloitte Corporate Finance considers that there are reasonable grounds to believe that the prospective financial information for Horizon and ROC included in this report has been prepared on a reasonable basis in accordance with ASIC Regulatory Guide 111. In relation to the prospective financial information, actual results may be different from the prospective financial information of Horizon and ROC referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte Corporate Finance holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte Corporate Finance principally involved in the preparation of this report were: Stephen Reid, Director, M App. Fin. Inv., B.Ec, F Fin, CA; Robin Polson, Director, B.Com, Grad. Dip. App. Fin. Inv; Alexandra White, Associate Director, B.Com, CA; Odette Linnett, Associate Director, M. App. Fin, B.Com; Nick White, Analyst, B.Com; and Alex Bartzis, Analyst, BBus. Stephen and Robin, Directors of Deloitte Corporate Finance, have many years of experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

## Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 550 Bourke Street, Melbourne, VIC, 3000 acknowledges that:

- Horizon proposes to issue the Scheme Booklet in respect of the Proposed Scheme
- the Scheme Booklet will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Scheme Booklet for review
- it is named in the Scheme Booklet as the 'independent expert' and its independent expert's report is included in the Scheme Booklet.

On the basis that the Scheme Booklet is consistent in all material respects with the draft Scheme Booklet received, Deloitte Corporate Finance Pty Limited consents to it being named in the Scheme Booklet in the form and context in which it is so named, to the inclusion of its independent expert's report in the Scheme Booklet and to all references to its independent expert's report in the form and context in which they are included, whether the Scheme Booklet is issued in hard copy or electronic format or both.

Deloitte Corporate Finance has not authorised or caused the issue of the Scheme Booklet and takes no responsibility for any part of the Scheme Booklet, other than any references to its name and the independent expert's report as included therein.

## Sources of information

In preparing this report we have had access to the following principal sources of information:

- draft Scheme Booklet and Merger Implementation Deed
- annual reports for Horizon and ROC, and comparable companies
- material contracts between Horizon and ROC and third parties, financial models prepared by management of Horizon and ROC, technical reports for each asset, and other internal management information
- company websites for Horizon, ROC and comparable companies
- publicly available information on comparable companies and market transactions published by ASIC, Capital IQ and Mergermarket
- other publicly available information, media releases and brokers reports on Horizon, ROC, comparable companies and the oil and gas industry.

In addition, we have had discussions and correspondence with certain directors and executives, including Michael Lyon, Corporate Counsel, Horizon; Richard Beament, Manager – Finance & Commercial, Horizon; and

Lorne Krafchik, Group Financial Controller, ROC; in relation to the above information and to current operations and prospects.

## Appendix B: Valuation methodologies

To estimate the fair market value of the shares in Horizon and the Proposed Merged Entity, we have considered common market practice and the valuation methodologies recommended by ASIC Regulatory Guide 111, which provides guidance in respect of the content of independent expert's reports. These are discussed below.

### Market based methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its securities or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company's recent security trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent security trading history provides evidence of the fair market value of the securities in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

### Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

### Asset based methods

Asset based methods estimate the market value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to securityholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies



## Appendix C: Oil and gas industry

### Introduction

The oil and gas industry consists of two principal segments. The upstream segment explores for, produces and processes crude oil, natural gas liquids and natural gas. The downstream segment refines these outputs into fuels, lubricants and petrochemical products. Upstream oil and gas companies are often referred to as exploration and production companies.

The principal activities of Horizon and ROC consist of exploration, development and production of oil and gas. These activities fall within the upstream segment of the oil and gas industry. The key assets of Horizon and ROC are located throughout China, PNG, Malaysia, Myanmar, Australia, New Zealand and the UK.

### Oil

#### Crude oil market

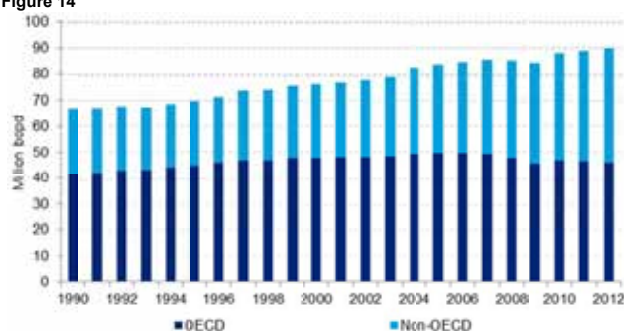
The quality of crude oil produced from a reservoir is primarily determined by its hydrocarbon content, density and sulphur content. While this quality varies from field to field, the refining industry has adapted its input capability sufficiently to deal with a range of qualities. The diversity of this input capability combined with the comparatively low transportation cost for crude oil has resulted in the development of substantial inter-continental trade in crude oil. Consequently the price for crude oil is a function of worldwide demand and supply.

#### Global crude oil demand

The demand for crude oil is dependent on the demand for goods and services that require oil-related products as inputs. Transportation, in particular road and air transportation, is the principal source of demand for oil constituting over 90%<sup>26</sup> of petroleum demand. Accordingly, the most important products made from crude oil are petrol and diesel. Other applications of oil derived products include the operation of stationary industrial equipment, including electricity generators, heating and road building.

Annual global demand for crude oil from 1990 to 2012 (in million bopd) split between supply from OECD countries and non-OECD countries is summarised in the following figure.

Figure 14



Source: BP Statistical Review of World Energy June 2013

The demand for petroleum products and therefore crude oil is linked to overall levels of global economic activity. IBISWorld cites regression analysis studies undertaken which indicate that the level of real gross domestic product explains just under 90% of the demand for petrol and approximately 98% of the demand for automotive distillate.

<sup>26</sup> IBISWorld

The weak economy of the early 1990s resulted in stagnant growth in demand for oil. The revival of economic growth in the member countries of the OECD and the rapid industrialisation of Asia since the mid-1990s has led to an increase in global demand for crude oil. However, demand for global crude oil recently decreased, primarily due to effects of the global financial crisis. In 2012, global oil demand increased by 1.0%, reversing the drop in demand over 2008 and 2009 which followed the global financial crisis.

Analysis prepared by the EIU indicates that oil consumption growth is expected to increase to 1.5% for 2014-15 based on forecasts that the downward-trending Japanese and Eurozone consumption in the prior years will be reversed. However, consumption growth is not expected to reach the highs of the last decade as a result of increasing efforts to reduce energy consumptions (both in the OECD and in some parts of the non-OECD), as well as some substitution with other, cheaper alternative fuel sources.

### Crude oil supply

The world's crude oil supply system can be viewed as having two suppliers: the primarily state-owned producers located in countries which are members of the OPEC and the mainly privately-owned producers located in non-OPEC countries. OPEC is an inter-governmental association established to represent the interests of the crude oil exporting countries.

In 2012, OPEC held approximately 1,212 billion barrels of proven oil reserves, representing 73%<sup>27</sup> of world crude oil reserves. However, OPEC production accounted for only 41% of crude oil production in 2012.

The reason for the disparity between OPEC's percentage of reserves and production is its role in managing crude oil production. As part of its mandate, OPEC sets a production quota for each of the member countries<sup>28</sup>. History has shown that certain members of OPEC comply with the quota system and others do not, although in recent years there has been a high level of quota compliance among member countries.

The role of OPEC influences the crude oil market in a number of ways. Firstly, OPEC's supply management supports crude oil prices in the medium term. Secondly, in the short term, crude oil prices can be volatile as OPEC's supply remains relatively constant despite short term changes in demand. Thirdly, the major oil companies, which own most of the world's transportation, refining and marketing systems, do not have an equity interest in OPEC originated crude oil. Accordingly, integrated companies seek to add value to their own oil in the downstream segment before calling on OPEC production. History has shown that as the demand on OPEC crude increases to near OPEC's capacity to supply, prices tend to rise.

### Crude oil pricing

There are over 150 different types of internationally traded crude oil (known as markers), which vary in terms of characteristics, quality and market penetration. Crude oil is generally priced relative to a number of key benchmarks or markers. The main criteria for marker crude oil is for it to be sold in sufficient volumes to provide liquidity (i.e. many buyers and sellers) in the physical market as well as having similar physical qualities to alternative crudes.

### WTI

WTI crude oil is of very high quality, is excellent for refining and is generally described as a light, sweet crude oil. This combination of characteristics, together with its location, makes it an ideal crude oil to be refined in the US, the largest gasoline-consuming country in the world. Although the production of WTI crude oil is on the decline, it is still the major benchmark for crude oil in the US.

WTI is deeply traded on NYMEX and is generally priced at a premium of approximately USD 2 per barrel to the OPEC Basket price and approximately USD 1 per barrel to the Brent price, although on a daily basis the pricing relationships between these indices can vary greatly.

### APPI Tapis

In Asia, the pricing mechanism is based on an independent panel approach where producers, refiners and traders are asked for information on actual trades and where there have been none, their best estimate. Any estimates that are significantly high or low are discarded and the quoted price is then an average of views on the market

<sup>27</sup> BP Statistical Review of World Energy, June 2013

<sup>28</sup> The 12 member countries in OPEC are Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela.

price. The trade in APPI Tapis is limited to approximately six months in the future, which allows for a meaningful comparison to be made when making decisions to buy a APPI Tapis, Brent or Oman/Dubai linked crude, but prevents its use as a long term risk management tool.

**IRAC**

IRAC is the volume weighted average price of all crude oils imported into the US over a specified period. The US imports more types of crude oil than any other country and consequently, it may represent the average world oil price among all published crude oil prices. The IRAC is generally similar to the OPEC Basket Price and is typically traded at a discount of approximately USD 2 per barrel to the WTI spot price and approximately USD 1 per barrel to the Brent price.

The IRAC is used by the EIA as the world oil price in all of its projection publications, including the Short-Term Energy Outlook, released monthly, as well as the Annual Energy Outlook and International Energy Outlook, both of which are released annually and provide an annual projection looking out approximately 20 years into the future.

**NYMEX futures**

The NYMEX futures price for crude oil represents (on a per barrel basis) the market determined value of a futures contract to either buy or sell 1,000 barrels of WTI at a specified time. The NYMEX market provides important price information to global buyers and sellers of crude oil, making WTI the benchmark for many different crude oils, especially in the US.

Generally, these benchmarks move together though, on occasion, demand differentials for various types of crude create a pricing disparity.

**Historical crude oil price analysis**

The following figure shows the historical actual WTI , Brent and the OPEC Basket crude oil prices over the last decade.

**Figure 15<sup>1</sup>**



Source: Capital IQ

Note:

1. Brent data prior to February 2006 is not available.

From January 2004, the WTI crude oil price increased dramatically reaching USD 145 per barrel in July 2008. The increase in oil prices during this period can be attributed to a number of factors including:

- unprecedented demand growth from emerging nations such as China and India to support their domestic economic growth

- exploration and production companies not pursuing new projects during periods of relatively low oil prices up to around 2004, thereby limiting the supply of additional oil
- declining production from existing fields
- the role of OPEC in restricting oil production with production quotas for each member state
- global political factors surrounding supply and demand of oil
- growth in the economies of countries such as Japan and Taiwan which do not have their own energy supplies and are therefore dependent on the rest of the world for the supply of energy
- speculative activities by traders in global oil markets.

The WTI crude oil prices experienced a rapid and significant decrease when the GFC commenced in September 2008, reaching a five year low of USD 31 per barrel in December 2008. WTI prices have recovered to current prices of approximately USD 80 to USD 100 per barrel.

In our view, oil prices are likely to remain high relative to long term historical averages due to the following:

- fiscal breakeven oil prices as measured by the International Monetary Fund have increased markedly for most oil exporters in the Middle East since 2009
- the long term WTI crude oil price forecast in April 2014 by analysts in the range of USD 80 per barrel and USD 104 per barrel with an average of US 91 per barrel
- China, Saudi Arabia and India together had the largest growth in crude consumption among non-OECD countries for the last decade, with economists believing that the weakness in commodity prices since early 2013 can be attributed to concerns about the economic slowdown of China
- hydroelectric and renewable energy have competed strongly against carbon based fuel sources with renewables in power generation growing by 15% in FY2012<sup>29</sup>.

Production and exploration companies will benefit from high oil prices, particularly those with existing infrastructure. High oil prices also provide owners of technically challenging, high cost and unconventional resources with an opportunity to extract oil at a profit.

## Gas

Natural gas is a colourless and odourless fossil fuel found in reservoirs within the earth's crust. Natural gas is predominantly composed of methane (referred to as 'dry' gas if almost pure methane), however, other gases, including ethane, propane and butane may also be found (referred to as 'wet' gas when these hydrocarbons are present).

Natural gas is a much cleaner fossil fuel than oil and coal and produces less greenhouse gas per unit of energy released. For an equivalent amount of heat, natural gas produces about 45% less carbon dioxide than burning black coal.

Natural gas is an important energy source due to its abundance and the fact that it offers a number of environmental benefits over other energy sources.

### International natural gas market

The natural gas industry is increasingly becoming a global industry with international trade of natural gas and LNG increasing to meet rising global demand. Analysis by the IEA indicated that while demand is increasing, albeit at a slower rate than coal, countries are increasing their dependence on inter-regional trade. Increases in demand is a result of the growing demand for energy out of China and India as non-OECD countries continue to be the driving force behind gas demand.

### Asia Pacific natural gas market

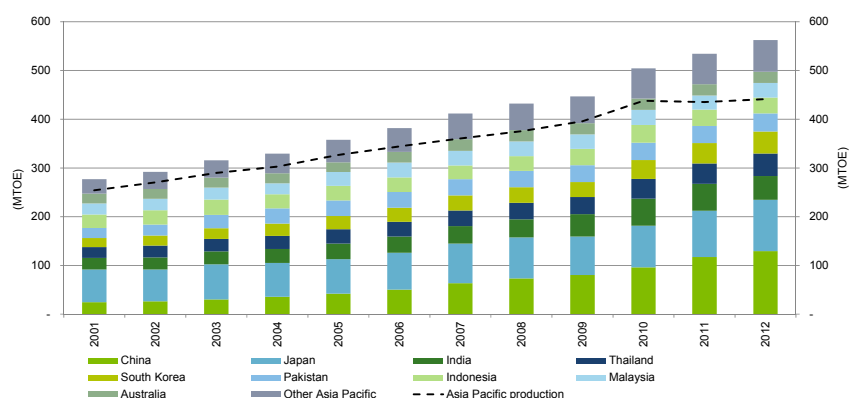
The Asia Pacific natural gas market is expected to become the second largest gas market by 2015, with 790 bcm of natural gas demand<sup>30</sup>. China, Japan, India Thailand and South Korea are the largest consumers accounting for

<sup>29</sup> BP Energy Statistics 2013

<sup>30</sup> IEA – Developing a natural gas hub in Asia

approximately 66% of total demand in the Asia Pacific market. The figure below sets out historical demand (by country) and production throughout Asia Pacific.

Figure 3



Source: BP Energy Statistics 2013

Increased demand from import dependant countries, such as Japan and South Korea, has resulted in the growth of the LNG export market for countries such as Indonesia and Malaysia, who are responsible for almost 30% of Asia Pacific production<sup>31</sup>. The demand for natural gas in the Asia Pacific region is expected to grow around 3% per annum, in line with global demand trends, to reach 875 bcm in 2017<sup>32</sup>.

PNG has emerged as a developing gas market in the Asian region, experiencing strong growth and an increase in development activities. Recent gas/condensate discoveries in PNG have resulted in an increase in development from international LNG companies. The construction of major gas production and processing facilities, such as the USD 19 billion PNG LNG project, are expected to provide a long term supply of LNG to countries throughout the Asian region. PNG is expected to become a major LNG exporter to support the growing demand within the Asia Pacific gas market.

Long-term contracts have historically been the predominant means of trading natural gas in the Asia Pacific region, where the price of gas has been indexed to that of oil. However due to growth in demand and increased competition amongst suppliers, the use of short term contracts has become more prevalent, as they provide greater pricing flexibility for the current market conditions.

<sup>31</sup> IEA – Developing a natural gas hub in Asia

<sup>32</sup> IEA – Developing a natural gas hub in Asia

## Appendix D: Discount rate

The discount rate used to equate the future cash flows to their present value reflects the risk adjusted rate of return demanded by a hypothetical investor for the asset or business being valued.

Selecting an appropriate discount rate is a matter of judgement having regard to relevant available market pricing data and the risks and circumstances specific to the asset or business being valued.

Whilst the discount rate is in practice normally estimated based on a fundamental ground up analysis using one of the available models for estimating the cost of capital (such as the Capital Asset Pricing Model (CAPM)), market participants often use less precise methods for determining the cost of capital such as hurdle rates or target internal rates of return and often do not distinguish between investment type or region or vary over economic cycles.

Since our definition of fair market value is premised on the estimated value that a knowledgeable willing buyer would attribute to the asset or business, our selection of an appropriate discount rate needs to consider that buyers incorporate other alternatives to the typical CAPM approach in estimating the cost of capital.

For ungeared cash flows, discount rates are determined based on the cost of an entity's debt and equity weighted by the proportion of debt and equity used. This is commonly referred to as the weighted average cost of capital (WACC).

The WACC can be derived using the following formula:

$$WACC = \left( \frac{E}{V} * K_e \right) + \left( \frac{D}{V} * K_d (1 - t_c) \right)$$

The components of the formula are:

$K_e$  = cost of equity capital

$K_d$  = cost of debt

$t_c$  = corporate tax rate

$E/V$  = proportion of enterprise funded by equity

$D/V$  = proportion of enterprise funded by debt

The adjustment of  $K_d$  by  $(1 - t_c)$  reflects the tax deductibility of interest payments on debt funding. The corporate tax rate has been assumed to be 30%, in line with the Australian corporate tax rate.

Given the international commodity nature of the outputs, a discount rate has been derived based on USD variables, in particular the risk free rate and the equity risk premium. The other discount rate variables, such as the beta and capital structure, are derived from an analysis of comparable companies. The tax rate is based on the applicable tax rate for country in which each asset is located.

### Cost of equity capital ( $K_e$ )

The cost of equity,  $K_e$ , is the rate of return that investors require to make an equity investment in a firm.

We have used the CAPM to estimate the  $K_e$  for each of the assets in which Horizon and the Proposed Merged Entity own an interest. CAPM calculates the minimum rate of return that the company must earn on the equity-financed portion of its capital to leave the market price of its shares unchanged. The CAPM is the most widely accepted and used methodology for determining the cost of equity capital.

The cost of equity capital under CAPM is determined using the following formula:

$$K_e = R_f + \beta(R_m - R_f) + a$$

The components of the formula are:

$K_e$  = required return on equity

$R_f$  = the risk free rate of return

$R_m$  = the expected return on the market portfolio



$\beta$  = beta, the systematic risk of a stock  
 $\alpha$  = specific company (or asset) risk premium

Certain of the assets are located in countries that subject them to greater operational risks than if they were located in a developed country. This additional risk is often referred to as a country risk premium (CRP).

We have adopted CRPs and other asset risk premiums in order to reflect this increased operational risk as follows:

$$K_a = R_f + CRP + \beta(R_m - R_f) + \alpha$$

Each of the components in the above equation is discussed below.

### Risk free rate ( $R_f$ )

The risk free rate compensates the investor for the time value of money and the expected inflation rate over the investment period. The frequently adopted proxy for the risk free rate is the long-term Government bond rate.

We have considered the yield to maturity of the zero coupon 20-year US Government bond as a proxy for the long-term risk free rate in US. As the majority of the cash flows of each asset are earned in USD, we have not adjusted the risk free rate for any inflation differential between the US and the countries in which the assets operate.

In determining an international risk free rate for each of the assets we have taken the 5-day average yield to maturity of the 20-year US Government treasury constant maturity as at 28 May 2014 of 3.12%. This rate represents a nominal rate and thus includes inflation.

### Equity market risk premium (EMRP)

The EMRP ( $R_m - R_f$ ) represents the risk associated with holding a market portfolio of investments, that is, the excess return a shareholder can expect to receive for the uncertainty of investing in equities as opposed to investing in a risk free alternative. The size of the EMRP is dictated by the risk aversion of investors – the lower (higher) an investor's risk aversion, the smaller (larger) the equity risk premium.

The EMRP is not readily observable in the market and therefore represents an estimate based on available data. There are generally two main approaches used to estimate the EMRP, the historical approach and the prospective approach, neither of which is theoretically more correct or without limitations. The former approach relies on historical share market returns relative to the returns on a risk free security; the latter is a forward looking approach which derives an estimated EMRP based on current share market values and assumptions regarding future dividends and growth.

In evaluating the EMRP, we have considered both the historically observed and prospective estimates of EMRP.

The historical approach is applied by comparing the historical returns on equities against the returns on risk free assets such as Government bonds, or in some cases, Treasury bills. The historical EMRP has the benefit of being capable of estimation from reliable data; however, it is possible that historical returns achieved on stocks were different from those that were expected by investors when making investment decisions in the past and thus the use of historical market returns to estimate the EMRP would be inappropriate.

It is also likely that the EMRP is not constant over time as investors' perceptions of the relative riskiness of investing in equities change. Investor perceptions will be influenced by several factors such as current economic conditions, inflation, interest rates and market trends. The historical risk premium assumes the EMRP is unaffected by any variation in these factors in the short to medium term.

Historical estimates are sensitive to the following:

- the time period chosen for measuring the average
- the use of arithmetic or geometric averaging for historical data

- selection of an appropriate benchmark risk free rate
- the impact of franking tax credits
- exclusion or inclusion of extreme observations.

The EMRP is highly sensitive to the different choices associated with the measurement period, risk free rate and averaging approach used and as a result estimates of the EMRP can vary substantially.

Data provided by the Morningstar ‘Stocks, Bonds, Bills and Inflation Yearbook’ (SBBi) for 2013 was considered in estimating the EMRP. The SBBi calculates the market equity risk premium by reducing large-company stock returns by the risk-free rate of return over the period from 1926 to 2012. To match the EMRP with the risk free rate included in the CAPM, we have considered the premium calculated over the return on the long-term US Treasury strips. Further adjustments were made to the SBBi equity risk premium in order to account for the inflation in the market price to earnings ratio as well as recent declines in the risk-free rate.

In addition to the data provided by the SBBi, consideration was also given to the equity risk premium implied by the dividend discount model for a broad market index such as the Standard and Poor’s 500.

Based the above, we have adopted an US EMRP of 5.75%.

## Beta estimate ( $\beta$ )

### Description

The beta coefficient measures the systematic risk or non-diversifiable risk of a company in comparison to the market as a whole. Systematic risk, as separate from specific risk as discussed below, measures the extent to which the return on the business or investment is correlated to market returns. A beta of 1.0 indicates that an equity investor can expect to earn the market return (i.e. the risk free rate plus the EMRP) from this investment (assuming no specific risks). A beta of greater than one indicates greater market related risk than average (and therefore higher required returns), while a beta of less than one indicates less risk than average (and therefore lower required returns).

Betas will primarily be affected by three factors which include:

- the degree of operating leverage employed by the firm in that companies with a relatively high fixed cost base will be more exposed to economic cycles and therefore have higher systematic risk compared to those with a more variable cost base
- the degree of financial leverage employed by a firm in that as additional debt is employed by a firm, equity investors will demand a higher return to compensate for the increased systematic risk associated with higher levels of debt
- correlation of revenues and cash flows to economic cycles, in that companies that are more exposed to economic cycles (such as retailers), will generally have higher levels of systematic risk (i.e. higher betas) relative to companies that are less exposed to economic cycles (such as regulated utilities).

The geared or equity beta can be estimated by regressing the returns of the business or investment against the returns of an index representing the market portfolio, over a reasonable time period. However, there are a number of issues that arise in measuring historical betas that can result in differences, sometimes significant, in the betas observed depending on the time period utilised, the benchmark index and the source of the beta estimate. For unlisted companies it is often preferable to have regard to sector averages or a pool of comparable companies rather than any single company’s beta estimate due to the above measurement difficulties.

### Market evidence

In estimating an appropriate beta for Horizon and the Proposed Merged Entity we have considered the betas of a suite of listed companies that are comparable to Horizon and the Proposed Merged Entity. However, many of these companies do not have sufficient trading in their shares to provide a meaningful representation of an appropriate beta for Horizon and the Proposed Merged Entity. We have therefore only presented the benchmarks of those companies considered to have sufficiently liquid trading in their shares.

These betas, which are presented below, have been calculated based on weekly and monthly returns, over a two and four year period, compared to a relevant domestic index and the Morgan Stanley Capital International World Index (MSCI Index).

Table 38

Entity	Enterprise value (USD million)	debt to enterprise value	Two-year weekly returns			Four-year monthly returns				
			Domestic levered beta	Domestic unlevered beta	International levered beta	Domestic levered beta	Domestic unlevered beta	International levered beta	International unlevered beta	
Horizon	613	19%	0.94	0.76	0.61	0.49	2.13	1.82	1.66	1.42
ROC	252	0%	1.05	1.05	0.37	0.37	1.46	1.46	0.91	0.91
<b>Australian listed companies – large</b>										
Woodside Petroleum Limited	33,276	10%	1.10	1.03	0.58	0.54	1.31	1.21	0.76	0.71
Santos Limited	17,427	12%	1.26	1.08	0.68	0.59	1.14	1.05	0.59	0.54
Oil Search Limited	16,864	14%	1.00	0.84	0.54	0.45	0.97	0.88	0.69	0.62
<b>Australian / New Zealand listed companies – medium to small</b>										
Beach Energy Limited	1,729	0%	1.53	1.53	0.71	0.71	1.34	1.34	0.73	0.73
AME Limited	725	1%	1.43	1.41	0.81	0.80	1.35	1.34	0.83	0.83
Drillsearch Energy Limited	689	6%	1.56	1.45	0.30	0.28	1.65	1.59	1.37	1.32
Senex Energy Limited	638	0%	1.85	1.85	0.75	0.75	1.61	1.61	1.35	1.35
New Zealand Oil & Gas Limited	144	0%	0.42	0.42	0.37	0.37	0.85	0.85	0.61	0.61
Cooper Energy Limited	127	0%	0.96	0.96	0.99	0.99	1.20	1.20	0.94	0.94
Otto Energy Limited	109	4%	0.71	0.67	0.70	0.66	0.83	0.80	0.81	0.78
Kina Petroleum Limited	77	0%	0.42	0.42	0.27	0.27	0.31	0.31	0.11	0.11
Camaron Petroleum Limited	71	0%	1.92	1.92	0.95	0.95	1.91	1.91	1.37	1.37
Tap Oil Limited	65	0%	0.89	0.89	0.60	0.60	1.79	1.79	1.35	1.35
Cue Energy Resources Limited	29	1%	0.91	0.91	0.03	0.03	0.89	0.89	0.63	0.63
<b>Average (Australian companies)</b>		<b>3%</b>	<b>1.12</b>	<b>1.08</b>	<b>0.58</b>	<b>0.55</b>	<b>1.30</b>	<b>1.25</b>	<b>0.92</b>	<b>0.89</b>
<b>International companies</b>										
Inpex Corporation	18,754	0%	0.80	0.80	0.99	0.99	0.63	0.63	0.98	0.98
Premier Oil plc	4,439	24%	1.29	0.97	1.06	0.80	1.36	1.10	0.95	0.77
SOCO International plc	2,129	0%	0.86	0.86	0.64	0.64	0.67	0.67	0.26	0.26
PT Medco Energi Internasional Tbk	1,459	39%	0.26	0.17	0.16	0.10	0.16	0.11	0.56	0.38
PT Energi Mega Persada Tbk	913	49%	0.93	0.45	0.45	0.22	1.64	0.95	1.53	0.89
Salamander Energy plc	866	26%	0.76	0.60	0.60	0.47	1.15	0.91	1.01	0.80
KrisEnergy Limited	526	0%	0.43	0.43	0.37	0.37	0.47	0.47	0.41	0.41
RH PetroGas Limited	504	11%	0.69	0.63	nm	nm	0.98	0.89	0.89	0.81
Niko Resources Limited	490	36%	1.99	1.16	1.08	0.63	1.85	1.31	0.87	0.61

Entity	Enterprise value (USD million)	debt to enterprise value	Two-year weekly returns			Four-year monthly returns				
			Domestic levered beta	Domestic unlevered beta	International levered beta	International unlevered beta	Domestic levered beta	Domestic unlevered beta	International levered beta	International unlevered beta
<b>Average</b>		20%	0.89	0.67	0.67	0.53	0.99	0.78	0.83	0.66
<b>Average</b>		10%	1.04	0.93	0.62	0.56	1.13	1.04	0.85	0.77
<b>Median</b>		1%	0.93	0.89	0.62	0.59	1.15	0.95	0.83	0.77
<b>Low</b>		0%	0.26	0.17	0.03	0.03	0.16	0.11	0.11	0.11
<b>High</b>		49%	1.99	1.92	1.08	0.99	1.91	1.91	1.53	1.37

Source: Capital IQ; Deloitte Corporate Finance analysis

Notes:

1. Enterprise value as at 23 May 2014
2. nm: not meaningful

The observed beta is a function of the underlying risk of the cash flows of the company, together with the capital structure and tax position of that company. This is described as the levered beta.

The capital structure and tax position of the entities in the table above may not be the same as those of Horizon and the Proposed Merged Entity. The levered beta is often adjusted for the effect of the capital structure and tax position. This adjusted beta is referred to as the unlevered beta. The unlevered beta is a reflection of the underlying risk of the pre-financing cash flows of the entity.

### Selected beta ( $\beta$ )

In selecting an appropriate beta for Horizon and the Proposed Merged Entity we have considered the following:

- oil and gas production and exploration assets have varying risk profiles depending on the maturity of the asset and the stage of its development. In considering an appropriate beta for Horizon and the Proposed Merged Entity, we have placed more emphasis on companies in the conventional oil and gas sector and which have producing assets. The additional risks associated with the development projects in PNG are reflected in risk factors directly applied to the cash flows
- most of the comparable companies are similar to Horizon and the Proposed Merged Entity as they have interests in international oil and gas assets. Accordingly, these companies are likely to face a number of similar opportunities and risks compared to Horizon and the Proposed Merged Entity
- the overall average two year weekly unlevered beta of all the comparable companies selected, measured against the relevant domestic and MSCI index is 0.93 and 0.56, respectively. The overall average four year monthly unlevered beta of all the comparable companies selected, measured against the relevant domestic and MSCI index is 1.04 and 0.77, respectively
- we consider AWE Limited to be most comparable to Horizon and the Proposed Merged Entity in terms of size and asset diversity. The average two year weekly unlevered beta for AWE Limited is 1.41 and 0.80 based on the domestic Index and MSCI Index, respectively. The average four year monthly unlevered beta for AWE Limited is 1.34 and 0.83 based on the domestic Index and MSCI Index, respectively.
- Woodside and Santos are both engaged in the production of natural gas and oil and are exposed to the LNG market via existing LNG plants in Western Australia (Woodside) and the Northern Territory (Santos), and the development of new LNG plants. Furthermore, both companies have interests in various Australian and international oil producing and exploration assets. Notwithstanding their oil, gas and LNG activities, we consider these companies are only broadly comparable with Horizon and the Proposed Merged Entity as Woodside and Santos are significantly larger and more diversified and therefore face a number of different opportunities and risks
- assuming an unlevered beta of 1.10 to 1.20, the corporate tax rates relevant to each jurisdiction and the debt to enterprise value ratio of 20% results in Blume adjusted levered betas as follows:

**Table 39**

Asset location	Beta (low)	Beta (low)
Australia	1.20	1.27
China	1.20	1.28
Malaysia	1.20	1.28
New Zealand	1.20	1.28
PNG	1.20	1.27
UK	1.20	1.27

Source: Deloitte Corporate Finance analysis

### Specific company (asset) risk premium ( $\alpha$ )

The specific company (or asset) risk premium adjusts the cost of equity for asset specific factors, including unsystematic risk factors such as:

- size of operations
- depth and quality of management
- reliance on one key individual or a few key members of management

- reliance on key customers
- reliance on key suppliers
- product diversity (limits on potential customers)
- geographic diversity
- labour relations, quality of personnel (union/non-union)
- capital structure, amount of leverage
- existence of contingent liabilities.

The CAPM assumes, amongst other things, that rational investors seek to hold efficient portfolios, that is, portfolios that are fully diversified. One of the major conclusions of the CAPM is that investors do not have regard to specific company or asset risks (often referred to as unsystematic risk). There are several empirical studies that demonstrate that the investment market does not ignore specific company or asset risks. In particular, studies show that:

- on average, smaller companies have higher rates of return than larger companies (often referred to as the size premium)
- on average, early stage companies have higher rates of return than mature companies.

### Selection of specific asset risk premium

With the exception of country-specific risk, we have incorporated any specific asset risks in our projected cash flows assumptions for the various assets.

The CRP is the risk arising from an unpredictable change in government policy or behaviour of a regulatory agency and other risks attributable to an unstable political or civil environment. Market perception of country risk is subjective and conclusions drawn require the exercise of professional judgement. To arrive at a reasonable approximation of the additional return required to compensate for the risk inherent in investing in different countries we have had regard to a variety of external evidence, including:

- current general macroeconomic and political conditions facing each country
- country ratings attributed by ratings agencies such as Moody's, Standard & Poor's (S&P), and other market analysts such as EIU
- the differential between US Government bond rates and USD-denominated government bonds issued by countries with a similar credit rating to each country.

We have also had regard to the differential between US Government bond rates and USD-denominated government bonds issued by these countries. Some countries generally do not issue any USD-denominated Government bonds and so we have also considered USD-denominated Government bonds issued by countries with a similar credit risk rating to the countries in which the assets are located. We have compared their yields to the yield on US Government bonds of a similar maturity to determine an implied CRP. The results of the analysis are viewed as a guide for an appropriate CRP for each country.

Based on our analysis, we have selected the following country risk premiums:

**Table 3**

	Selected CRP
Australia	-
China	1.50
Malaysia	2.00
New Zealand	-
PNG	4.00
UK	-

*Source: Deloitte Corporate Finance analysis*



## Dividend imputation

Dividends paid by Australian corporations may be franked, unfranked, or partly franked. A franked dividend is one that is paid out of company profits which have borne tax at the company rate, currently 30%. Where the shareholder is an Australian resident individual or complying superannuation fund, it will generally be entitled to a tax credit (called an imputation credit) in respect of the tax paid by the company on the profits out of which the dividend was paid. If the recipient of the dividend is another company, the dividend will give rise to a credit in that company's franking account thereby increasing the potential of the company to pay a franked dividend at a later stage.

We have not adjusted the cost of capital or the projected cash flows for the impact of dividend imputation due to the diverse views as to the value of imputation credits and the appropriate method that should be employed to calculate this value. Determining the value of franking credits requires an understanding of shareholders' personal tax profiles to determine the ability of shareholders to use franking credits to offset personal income. Furthermore, the observed EMRP already includes the value that shareholders ascribe to franking credits in the market as a whole. In our view, the evidence relating to the value that the market ascribes to imputation credits is inconclusive.

## Conclusion on cost of equity

Based on the above factors we arrive at a cost of equity,  $K_e$ , for the assets as follows:

**Table 40**

		Risk free rate	EMRP	Beta	CRP	$K_e$ – calculated
Beibu Gulf	Low	3.12%	5.75%	1.20	1.50%	11.54%
	High	3.12%	5.75%	1.28	1.50%	12.00%
Bohai Bay	Low	3.12%	5.75%	1.20	1.50%	11.54%
	High	3.12%	5.75%	1.28	1.50%	12.00%
D35 / D21 / J4 PSC	Low	3.12%	5.75%	1.20	2.00%	12.04%
	High	3.12%	5.75%	1.28	2.00%	12.50%
Maari / Manaia	Low	3.12%	5.75%	1.20	-	10.01%
	High	3.12%	5.75%	1.28	-	10.46%
Stanley	Low	3.12%	5.75%	1.20	4.00%	13.99%
	High	3.12%	5.75%	1.27	4.00%	14.44%
Elevala-Ketu	Low	3.12%	5.75%	1.20	4.00%	13.99%
	High	3.12%	5.75%	1.27	4.00%	14.44%
Cliff Head	Low	3.12%	5.75%	1.20	-	9.99%
	High	3.12%	5.75%	1.27	-	10.44%
Blane	Low	3.12%	5.75%	1.20	-	9.99%
	High	3.12%	5.75%	1.27	-	10.44%
Enoch	Low	3.12%	5.75%	1.20	-	9.99%
	High	3.12%	5.75%	1.27	-	10.44%

Source: Deloitte Corporate Finance analysis

## Cost of debt capital ( $K_d$ )

We have estimated the cost of debt for Horizon and the Proposed Merged Entity to be 7.0%. This has been estimated after consideration of the following:

- Horizon's current cost of debt for bank borrowings based on the London Interbank Offered Rate<sup>33</sup> (Libor) plus a weighted average margin of 3.5%, whilst Horizon's Convertible Bonds carry a 7.0% yield to maturity
- an analysis of comparable issuances indicate a spread of 200 to 300 basis point margin over the risk free rate
- Horizon and the Proposed Merged Entity's exposure to the PNG assets, which are riskier relative to the other assets in their portfolios
- our selected level of gearing, as discussed below
- the average cost of debt of listed comparable companies.

## Debt and equity mix

We have considered the following factors in estimating the debt to equity mix for Horizon and the Proposed Merged Entity:

- the four year average gearing level of Horizon and ROC is 19% and nil, respectively
- the range of gearing levels for the comparable companies set out in Table 38
- current gearing levels of oil and gas production and exploration companies have been distorted compared to long term trends due to very strong cash flows generated as a consequence of the recent high commodity prices.

We have adopted a target gearing level of 20%.

## Calculation of WACC

Based on the above, we have assessed the nominal post-tax WACC for the assets to be:

**Table 41**

Input		Cost of equity capital	Cost of debt capital	Debt to enterprise value ratio	Tax rate	WACC	Selected WACC
Beibu Gulf	Low	11.54%	7.00%	20.00%	25.00%	10.29%	10.00%
	High	12.00%	7.00%	20.00%	25.00%	10.65%	11.00%
Bohai Bay	Low	11.54%	7.00%	20.00%	25.00%	10.29%	10.00%
	High	12.00%	7.00%	20.00%	25.00%	10.65%	11.00%
D35 / D21 / J4 PSC	Low	12.04%	7.00%	20.00%	25.00%	10.69%	10.50%
	High	12.50%	7.00%	20.00%	25.00%	11.05%	11.50%
Maari / Manaia	Low	10.01%	7.00%	20.00%	28.00%	9.02%	9.00%
	High	10.46%	7.00%	20.00%	28.00%	9.38%	10.00%
Stanley	Low	13.99%	7.00%	20.00%	30.00%	12.17%	12.00%
	High	14.44%	7.00%	20.00%	30.00%	12.53%	13.00%
Elevala-Ketu	Low	13.99%	7.00%	20.00%	30.00%	12.17%	12.00%

<sup>33</sup> Based on the one year LIBOR

Input		Cost of equity capital	Cost of debt capital	Debt to enterprise value ratio	Tax rate	WACC	Selected WACC
	High	14.44%	7.00%	20.00%	30.00%	12.53%	13.00%
Cliff Head	Low	9.99%	7.00%	20.00%	30.00%	8.97%	9.00%
	High	10.44%	7.00%	20.00%	30.00%	9.33%	10.00%
Blane	Low	9.99%	7.00%	20.00%	30.00%	8.97%	9.00%
	High	10.44%	7.00%	20.00%	30.00%	9.33%	10.00%
Enoch	Low	9.99%	7.00%	20.00%	30.00%	8.97%	9.00%
	High	10.44%	7.00%	20.00%	30.00%	9.33%	10.00%

*Source: Deloitte Corporate Finance analysis*

## Appendix E: Selected comparable entities

Table 42

	Enterprise value (USD million)	Total 2P certified reserves (mmbob)	Enterprise value / reserves (mmbob)
<b>Australian listed companies – large</b>			
Woodside Petroleum Limited	33,276	1,437	23.2x
Santos Limited	17,427	1,368	12.7x
Oil Search Limited	16,864	527	32.0x
<b>Australian and New Zealand listed companies – medium to small</b>			
Beach Energy Limited	1,729	93	18.7x
AWE Limited	725	83	8.7x
Drillsearch Energy Limited	689	29	24.2x
Senex Energy Limited	638	37	17.1x
New Zealand Oil & Gas Limited	144	10	14.0x
Cooper Energy Limited	127	2	58.7x
Otto Energy Limited	109	4	26.6x
Kina Petroleum Limited	77	n/a	n/a
Cairn Petroleum Limited	71	12	5.8x
Tap Oil Limited	65	6	10.7x
Cue Energy Resources Limited	29	5	5.5x
<b>Average (Australian and New Zealand listed companies)</b>			<b>19.9x</b>
<b>International companies</b>			
Inpex Corporation	18,754	4,477	4.6x
Premier Oil plc	4,439	259	17.1x
SOCO International plc	2,129	130	16.4x
PT Medco Energi Internasional Tbk.	1,459	263	5.6x
PT Energi Mega Persada Tbk	913	230	4.1x
Salamander Energy plc	866	65	13.3x
KrisEnergy Ltd.	526	32	16.3x
RH PetroGas Limited	504	11	44.8x



	Enterprise value (USD million)	Total 2P certified reserves (mmboe)	Enterprise value / mmboe
Niko Resources Limited	490	150	3.3x
<b>Average</b>		<b>624</b>	<b>13.9x</b>
<b>Average</b>			<b>17.3x</b>
<b>Median</b>			<b>15.2x</b>
<b>High</b>			<b>58.7x</b>
<b>Low</b>			<b>3.3x</b>

Source: Mergermarket; Capital IQ; ASX announcements; Deloitte Corporate Finance analysis

Notes:

1. Enterprise values (as at 23 May 2014) and multiples presented on a minority interest basis

## Appendix F: Selected comparable transactions

Table 43

Announcement date	Bidder	Target	Implied enterprise value (USD million)	2P certified reserves (mmbobe)	Enterprise value / mmbobe
18-Feb-14	Central Petroleum Limited	Magellan Petroleum (NT) Pty Limited	38	10	3.8x
22-Oct-13	SapuraKencana Petroleum Berhad	Newfield Malaysia Holdings	896	36	24.9x
02-Oct-13	Pan Pacific Petroleum NL; New Zealand Oil & Gas Limited; AWE Limited	The Tui Area Oil Project	43	5	8.2x
22-Aug-13	Santos Limited	AWE Limited; Northwest Natuna PSC	288	101	2.9x
04-Jul-13	Drillsearch Energy Limited	Tintaburra Block	116	5	22.3x
19-Apr-13	Energi Mega Persada Tbk PT	Tonga PSC	75	3	22.2x
28-Feb-13	PT Saka Energi Indonesia	Kelapang Block in Indonesia	375	83	4.5x
26-Jul-12	Mattvale Pty Limited	Bridgeport Energy Limited	73	3	23.5x
23-May-12	The Hong Kong and China Gas Company Limited	Pan Orient Energy (Thailand) Limited	173	30	5.8x
<b>Average</b>					<b>13.1x</b>
<b>Median</b>					<b>8.2x</b>
<b>High</b>					<b>24.9x</b>
<b>Low</b>					<b>2.9x</b>

Source: Mergermarket; Capital IQ; ASX announcements; Deloitte Corporate Finance analysis



## **Appendix G: Technical expert's report**



INDEPENDENT TECHNICAL SPECIALIST REPORT ON  
THE PETROLEUM PROPERTIES OF ROC OIL COMPANY  
LIMITED AND HORIZON OIL LIMITED  
FOR  
DELOITTE CORPORATE FINANCE PTY LIMITED

Strictly Confidential

June 2014



*DECISIONS WITH CONFIDENCE*

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## 1. SUMMARY

### 1.1. OVERVIEW

The document comprises the Independent Technical Specialists Report by RISC Operations Pty Ltd (RISC) to assist the Independent Expert Deloitte Corporate Finance Pty Limited (Deloitte) in the preparation of an Independent Expert's Report to the Directors of Horizon Oil Limited (Horizon) on the proposed merger of Horizon and Roc Oil Company Limited (Roc). The location of the petroleum properties and interests of both companies are shown in Figure 1-1 and Figure 1-2.

The report documents our review of the petroleum reserves, resources and associated development schedules, production and cost forecasts (projects) provided by Horizon and Roc to the Independent Expert which have been used to value the oil and gas properties. We have also addressed the risks associated with the projects. We have audited the estimates provided by both companies and made such adjustments that in our judgment were necessary to provide a reasonable assessment and reflect current information.

This report also provides an opinion on the fair market value of the exploration properties of both companies.



Figure 1-1 Location Map Roc Oil and Gas Properties

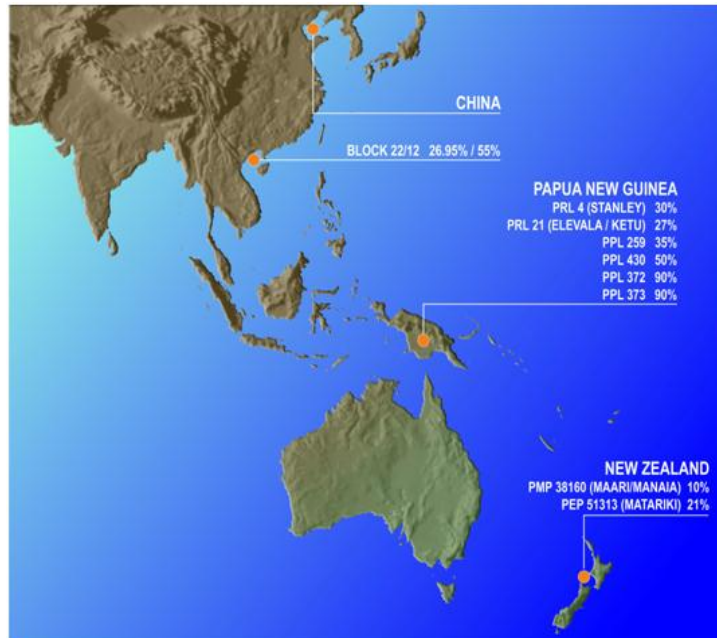


Figure 1-2 Location Map Horizon Oil and Gas Properties

The reserves and contingent resources of both companies assessed in this report are shown in Table 1-1, Table 1-2, Table 1-3, Table 1-4.

Details of the costs and production profiles associated with the development and production of these resources are included in our report.

Area	Gross 2P Reserves		Working Interest	Net WI 2P Reserves	
	Oil MMstb	Gas Bcf		Oil MMstb	Gas Bcf
Australia	5.1	0.0	42.5%	2.2	0
United Kingdom	12.0	0.7	12.5%	1.5	0.1
Bohai Bay <sup>1</sup>	17.5	4.8	11.7-25.4%	4.1	1.1
Beibu Gulf <sup>1</sup>	24.4	0.0	19.6%	4.8	0
D35/J4/D21 <sup>1</sup>	27.6	42.9	30% <sup>2</sup>	8.3	12.9
<b>Total</b>	<b>86.6</b>	<b>48.4</b>		<b>20.9</b>	<b>14.1</b>
1. Reserve and resource entitlement is determined by the net economic interest which is a function of the PSC terms, costs and prices prevailing during the PSC term. Depending on these factors, there may be a material difference between the working interest and the net economic interest.					
2. Subject to Petronas approval					

Table 1-1 Roc Gross and Working Interest 2P Reserves at 1/1/2014

Area	Gross 2C Resources		Working Interest	Net WI 2C Resources	
	Oil MMstb	Gas Bcf		%	Oil MMstb
Australia	5.3	0.0	42.5%	2.3	0
United Kingdom	7.3	50.0	12.5%	0.9	6.3
Bohai Bay <sup>1</sup>	21.6	4.9	11.7-25.4%	5.1	1.1
Beibu Gulf <sup>1</sup>	11.5	0.0	40.0% <sup>2</sup>	4.6	0.1
D35/J4/D21 <sup>1</sup>	96.0	71.9	30.0% <sup>3</sup>	28.8	21.6
<b>Total</b>	<b>141.7</b>	<b>126.8</b>		<b>41.7</b>	<b>29.1</b>
1. Reserve and resource entitlement is determined by the net economic interest which is a function of the PSC terms, costs and prices prevailing during the PSC term. Depending on these factors, there may be a material difference between the working interest and the net economic interest.					
2. CNOOC has the right to back in for 51% reducing the 40% interest to 19.6%					
3. Subject to Petronas approval					

**Table 1-2 Roc Gross and Working Interest 2C Contingent Resources at 1/1/2014**

Area	Gross 2P Reserves		Working Interest	Net WI 2P Reserves	
	Oil MMstb	Gas Bcf		%	Oil MMstb
New Zealand	59.5	0	10.0%	6.0	0
Beibu Gulf <sup>1</sup>	24.4	0	26.95%	6.6	0
PNG	11.4	0	30.0% <sup>2</sup>	3.4	0
<b>Total</b>	<b>95.3</b>	<b>0</b>		<b>16.0</b>	<b>0</b>
1. Reserve and resource entitlement is determined by the net economic interest which is a function of the PSC terms, costs and prices prevailing during the PSC term. Depending on these factors, there may be a material difference between the working interest and the net economic interest.					
2. PNG Govt has the right to back in for up to 22.5%, reducing the 30% interest to 23.25%					

**Table 1-3 Horizon Gross and Working Interest 2P Reserves at 1/1/2014**

Area	Gross 2C Resources		Working Interest	Net WI 2C Resources	
	Oil MMstb	Gas Bcf		%	Oil MMstb
New Zealand	0.9	0	10.0%	0.1	0.0
Beibu Gulf <sup>1</sup>	11.5	0	55.0% <sup>2</sup>	6.3	0.0
PNG	50.9	1378	27.0-30.0% <sup>3</sup>	13.8	384.0
<b>Total</b>	<b>63.3</b>	<b>1378.0</b>		<b>20.2</b>	<b>384.0</b>
1. Reserve and resource entitlement is determined by the net economic interest which is a function of the PSC terms, costs and prices prevailing during the PSC term. Depending on these factors, there may be a material difference between the working interest and the net economic interest.					
2. CNOOC has the right to back in for 51% reducing the 55% interest to 26.95%					
3. PNG Govt has the right to back in for up to 22.5%, reducing the 30% interest to 23.25% and the 27% interest to 20.9%					

**Table 1-4 Horizon Gross and Working Interest 2C Contingent Resources at 1/1/2014**

## 1.2. EXPLORATION VALUATION

RISC has assessed the fair market value of Roc's and Horizon's exploration interests using a combination of methods including value of the work program, farmin promotes from comparable transactions and expected monetary value (EMV), the basis of which is included in our report. Our estimates are summarised in Table 1-5 and Table 1-6.

Asset	Fair Market Value US\$ million Horizon net working interest		
	Low	Mid	High
New Zealand	7.6	7.6	15.2
China	0.0	4.4	8.8
PNG	16.1	20.1	66.3
<b>Total</b>	<b>23.7</b>	<b>32.1</b>	<b>90.3</b>

Table 1-5 Exploration Valuation - Horizon Net Working Interest

Asset	Fair Market Value US\$ million Roc net working interest		
	Low	Mid	High
Australia	0.0	0.0	8.5
China	15.7	18.9	33.0
Malaysia	0.0	10.5	18.5
Myanmar	0.0	1.7	1.7
<b>Total</b>	<b>15.7</b>	<b>31.1</b>	<b>61.7</b>

Table 1-6 Exploration Valuation - Roc Net Working Interest



## 2. TERMS OF REFERENCE

Deloitte has requested RISC to provide the following services (the Services) to assist Deloitte to prepare the Independent Expert's Report (IER):

- input and advice on the appropriateness of the assumptions adopted in the financial models for Horizon and Roc (the Models), namely:
  - the level of reserves and resources
  - production profiles (including production profiles or potential expansion cases)
  - operating expenditure, including rehabilitation and abandonment costs
  - capital expenditure
  - any other assumptions you consider relevant.

If you consider an assumption included in the Models to be unreasonable, you need to advise us and provide advice to enable us to make the appropriate changes to the Models to reflect a reasonable projection.

- provide a brief technical overview of the development and exploration assets in which Horizon and Roc have an interest
- assist with our assessment of the reasonableness of the assumptions for additional development scenarios, in the event that more than one development scenario is considered by us
- provide an opinion as to the fair market value of the exploration assets of Horizon and Roc
- assist with the estimation of tariffs for utilising gas export infrastructure for a gas price netback calculation
- prepare a short-form report (Report) summarising your findings, including your opinion as to the fair market value of the exploration assets of Horizon and Roc, and your findings relating to the underlying assumptions for each financial model. Your report will form part of the IER prepared by Deloitte Corporate Finance and may be provided (in part or full) to Horizon and its shareholders. We will discuss the form and content of your Report with you at the outset of this project

The Services exclude any work in relation to:

- marketing, commodity price and exchange rate assumptions adopted in the Models
- financial and / or corporate taxation analysis
- discount rate determination
- an assessment of the merits of the Proposed Scheme.



### 3. BASIS OF ASSESSMENT

The data and information used in the preparation of this report were provided by Roc and Horizon supplemented by public domain information. RISC has relied upon the information provided and has undertaken the evaluation on the basis of a review and audit of existing interpretations and assessments as supplied making adjustments that in our judgment were necessary.

RISC has reviewed the reserves/resources in accordance with the Society of Petroleum Engineers internationally recognised Petroleum Resources Management System (SPE-PRMS)<sup>1</sup>.

RISC has also been requested to provide an opinion on the fair market value of the exploration properties of both companies. We have carried out our valuation in accordance with the VALMIN code<sup>2</sup>.

Unless otherwise stated, all resources are presented as gross quantities and costs are in US\$ real terms with a reference date of 1 January 2014 (RT2014).

#### Exploration Valuation

The valuation is based on the concept of 'fair market value' (Value) as defined by the VALMIN Code. The VALMIN Code defines Value as the amount of money (or the cash equivalent of some other consideration) determined by the Expert in accordance with the provisions of the VALMIN Code for which the Mineral or Petroleum Asset or Security should change hands on the Valuation Date in an open and unrestricted market between a willing buyer and a willing seller in an "arm's length" transaction, with each party acting knowledgeably, prudently and without compulsion.

A range of oil and gas industry accepted practices in relation to exploration properties has been considered to determine value, which are described below.

#### Comparable Transactions

The Value of exploration properties can be estimated using recent comparable transactions. Such transactions may provide relevant metrics such as Value per unit of reserves, contingent or Prospective Resources, price paid per unit area of the permit or % interest. The VALMIN Code advises Value must also take into account risk and premium or discount relating to market, strategic or other considerations.

#### Farmin

An estimate of Value can be based on an estimation of the share of future costs likely to be borne by a reasonable farminee under prevailing market conditions. A premium or promotion factor may be paid by the farminee. The promotion factor is defined as the ratio of the proportion of the activity being paid for and the amount of equity being earned.

The nominal permit value is defined as the amount spent by the farminee divided by the interest earned. The premium value for the permit is the difference between the nominal value and the cost of the activity.

The premium or promotion factor will be dependent upon the perceived prospectivity of the property, competition and general market conditions. The premium value is equivalent to the

<sup>1</sup> SPE/WPC/AAPG/SPEE 2007 Petroleum Resources Management System

<sup>2</sup> Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2005 Edition



farminee paying the farmor a cash amount in return for the acquisition of the interest in the permit and is the fair market value.

Farmin transactions may have several stages. For example, a farminee may acquire an initial interest by committing to a future cost in the first stage of the transaction, but has an option to acquire an additional interest or interests in return to committing to funding a further work programme or programmes.

Farmin agreements can also include re-imbusement of past costs and bonus payments once certain milestones are achieved; for example declaration of commerciality, or achieving threshold reserves volumes. Depending on their conditionality, such future payments may contribute to Value. However, they may need to be adjusted for the time value of money and risk of occurring.

#### **Work Program**

The costs of a future work program may also be used to estimate Value. The work program valuation relies on the assumption that unless there is evidence to the contrary the permit is worth what a company will spend on it. This method is relevant for permits in the early stages of exploration and for expenditure which is firmly committed as part of a venture budget or as agreed with the government as a condition of holding the permit. There may need to be an adjustment for risk and the time value of money.

#### **Expected Monetary Value (EMV)**

EMV is the risked net present value (NPV) of a prospect. EMV is calculated as the success case NPV times the probability of success less the NPV of failure multiplied by the probability of failure. The EMV method provides a more representative estimate of Value in areas with a statistically significant number of mature prospects within proven commercial hydrocarbon provinces where the chance of success and volumes can be assessed with a reasonable degree of predictability.

The EMV valuation can also be used as a relative measure for ranking exploration prospects within a portfolio to make drilling decisions, assessing commercial potential and to demonstrate the commercial attractiveness of a permit, which may influence a buyer or seller.

## 4. AUSTRALIA

### 4.1. CLIFF HEAD

#### 4.1.1. Field Description

The Cliff Head field is located in licence area WA-31-L in the Perth Basin, 10km offshore Western Australia in 15-20m of water. Roc holds a 42.5% working interest and is the Operator.



Figure 4-1 Location Map - Cliff Head

The field started production in May 2006 and in March 2014 gross oil production was 2.1 Mstb/d at 93% water cut and a GOR of 22 scf/stb. Cumulative production to 31 December 2013 was 13.6 MMstb.

Oil is trapped in Permian Dongara, Irwin River Coal Measures (IRCM) and underlying High Cliff Sandstone (HCS) reservoirs. The field comprises a main NW-SE trending horst, with a continuous

large fault to the north, and a combination of overall dip closure and several fault segments to the south.

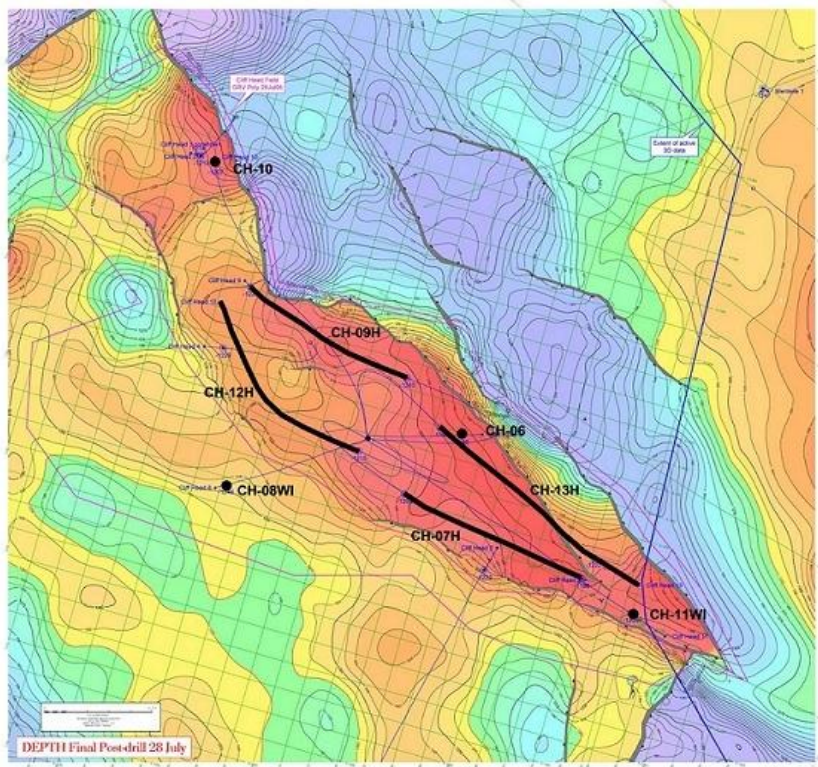


Figure 4-2 Top Reservoir Map - Cliff Head

The discovery well, Cliff Head-1 was drilled in December 2001. Five further appraisal wells, six production wells and two water injection wells have now been drilled, providing good structural control. A single oil water contact at 1,260 m TVDSS has been estimated from pressure gradient data.

The average net-to-gross ratio of the reservoir is about 87%, with average porosity about 18%. Permeabilities vary widely, from 1mD to over 1000 mD. Open fractures are reported from cored lower units of the Irwin River Coal Measures.

Offshore development consists of a minimum facility platform that is not normally manned. Electric Submersible Pumps (ESP) are installed in each producer to aid production and to allow increasing water cut. Routine ESP replacement upon failure will continue with an estimated 30 day turn around. Larger pumps have successfully been installed in CH-10 and CH-12 and are available for CH-07 and CH-13H when the current pumps fail. This will accelerate and provide incremental production before the economic cut-off. The reservoir has strong aquifer drive and sweep is supplement by produced water re-injection in wells CH-08 and more recently watered out producer CH-09H.

Oil processing is carried out onshore at the purpose built Arrowsmith processing plant from which the oil is transported by road tanker to the BP refinery at Kwinana. The export, production, road tanker and flow assurance facilities have been demonstrated to work with this waxy crude.

No further development is planned. However, an additional development well in the West High area has been under consideration for several years and the joint venture is looking at surfactant injection to reduce the fraction of residual oil and hence enhance the oil recovery.

#### 4.1.2. Production and Cost forecast

Roc's 2P production and cost forecasts have been reviewed and are considered reasonable and consistent with RISC's 1 January 2014 reserves estimate. The ESP in CH-13 failed on 25-March-2014 and is planned to be replaced with a larger pump in May 2014. The forecast uptime is 92% including downtime caused by ESP failure and replacement.

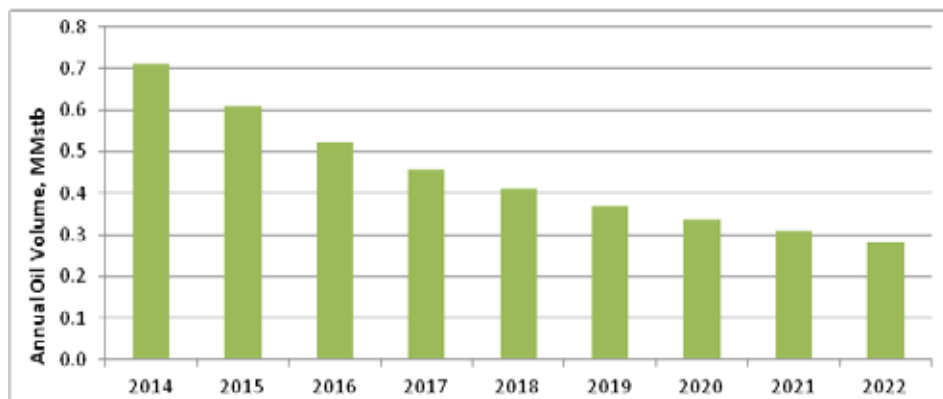


Figure 4-3 Gross 2P Production Forecast - Cliff Head

Figure 4-4 shows Roc's estimate for Cliff Head annual operating costs.

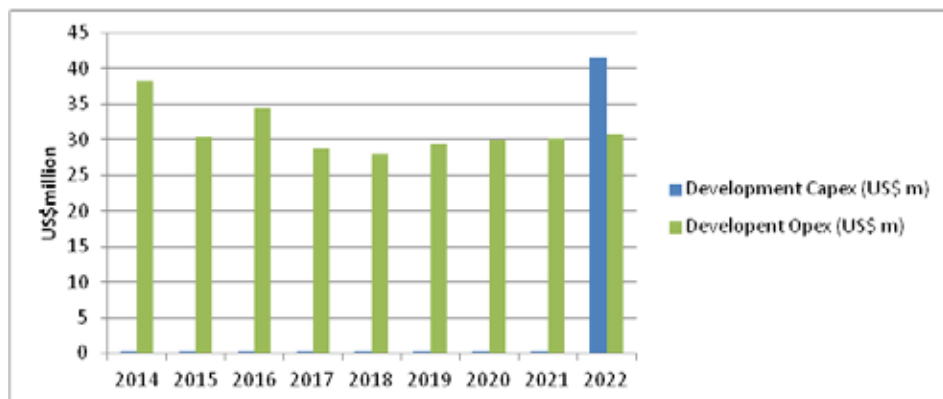


Figure 4-4 Gross Operating Cost Forecast - Cliff Head

Operating costs in 2014 are based on the work program and budget submitted to JV partners and included a contingent budget of A\$15.8 million for; water injection pipeline repairs at A\$1.5 million (though pipeline repairs are also included in the firm budget), enhanced oil recovery (EOR)



implementation at A\$6.0 million, two well interventions at A\$3.2 million, engineering studies at A\$1.7 million. RISC estimate that later in the field life there will be modest savings associated with reducing and ultimately eliminating non routine costs. To convert to US\$ we have used an exchange rate of 0.9.

No further development capital expenditure is anticipated but Roc has included US\$0.3 million p.a. for minor capital expenditure associated with upkeep of the facilities.

RISC has estimated the abandonment costs for the field to be US\$34 million in 2014 real terms. This includes P&A expenditure for 9 wells and removal of the offshore platform and onshore production facilities. It is assumed that the pipelines will be cut and abandoned in-situ below the mud line.

Table 4-1 contains the reserves estimated by RISC.

	1P	2P	3P
Oil MMstb	3.4	5.1	6.7

**Table 4-1 Gross Reserve Estimate at 1 January 2014 - Cliff Head**

From the period 1 January 2014 to 31 March 2014 there has been a further depletion of 200,000 bbl gross due to production. There are no gas reserves in Cliff Head.

Contingent oil resources estimated by RISC for a West High well and EOR (surfactant injection) are shown in Table 4-2.

Gross Contingent Resources Oil (MMstb)	2C
West High well	1.3
EOR	4.0

**Table 4-2 Gross 2C Contingent Resource Estimate at 1 January 2014 - Cliff Head**

Roc is currently reviewing its portfolio of opportunities in and near Cliff Head with a view to identifying if commercially feasible projects exist.

#### 4.2. EXPLORATION

Exploration prospectivity exists in the Mentelle prospect, which lies to the north east of the Cliff Head field and updip of well Mentelle-1 (Figure 4-5). The prospect is a rotated fault block with a gently westward dipping flank and fault bounded to the east. Mentelle-1 was drilled in 2003 and while it was dry, analysis of the well results suggests an 8m paleo-oil column below the regional seal. Roc believe that the prospect tilted post migration of oil and therefore the volume updip of the Mentelle well can be varied to give upside in the resources.



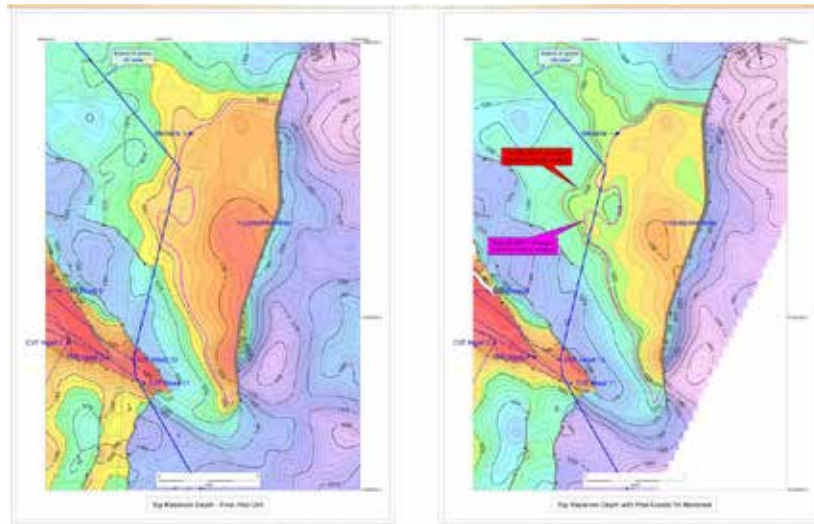


Figure 4-5 Mentelle depth maps post and pre-tilt

RISC considers Updip Mentelle as a valid exploration prospect and supports the prospective resources provided by Roc (Table 4-3).

RISC supports the prospect probability of success (POS) as assessed by Roc at 24%.

	Best Estimate MMstb
Mentelle Prospect	3.3

Table 4-3 Gross Best Estimate Prospective Resources as at 1 January 2014 - Mentelle Prospect

Whilst these resources are unlikely to interest a farminee at present volumes, costs and prices, there could be some value in the prospect in the future. In the low and mid cases, we have not assigned any value. In the high case, we have based the value on a 2:1 farmin promote of a well which gives a value net to Roc of \$8.5 million

## 5. UNITED KINGDOM

### 5.1. BLANE AND ENOCH FIELD DESCRIPTION

Roc has a 12.50% unitised interest in Block 30/3A which contains the Blane field and a 12.501% unitised interest in Blocks 16/13a and 16/13E. Enoch is located in Block 16/13a.

Blane is a low relief anticlinal structure straddling the UK-Norway median line in the southern part of the North Sea Central Graben in 73m water depth.

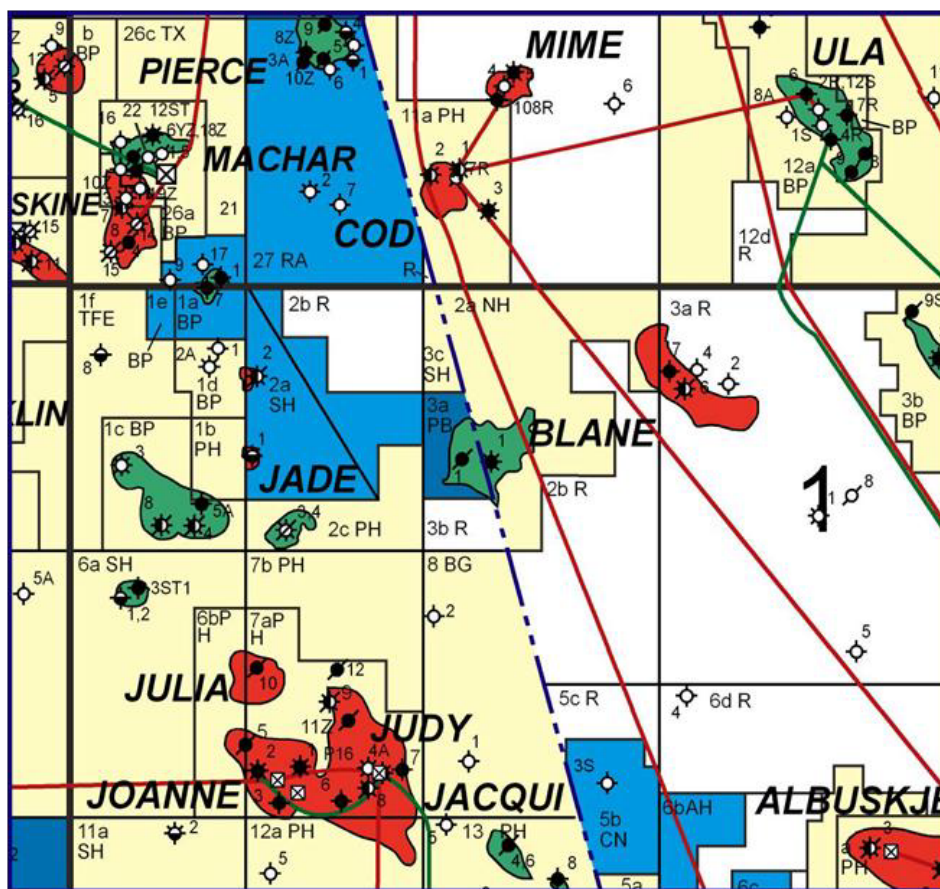


Figure 5-1 Location Map - Blane

The discovery well, N1/2-1 in the Norwegian sector and well 30/3a-1 in the UK sector were both drilled in 1989 and both tested light oil at rates in excess of 5,000 stb/d from the Palaeocene Forties Formation at depths just below 3000m.

The reservoir contains 42° API oil with a GOR of 428 scf/stb, 0.33 cp viscosity, a bubble point pressure of 1,930 psia compared to the initial reservoir pressure of 5,634 psia at 3,139 m TVDSS.

The field has been unitised and started production in September 2007 from two horizontal subsea producers. A water injector was added in March/April 2008. The wells are tied back to the Ula platform (Operator BP) located 34 km away in the Norwegian sector of the North Sea.

Water production started in April 2011 and has increased to 47% water cut.

Production uptime averaged 71% on but improved to 97% in April 2014. There have been reliability issues identified with the type of subsea tree that is installed on the Blane wells and the operator is currently investigating what remediation actions may be required.

In April 2014 the field produced an average of 6,676 bpd oil+NGL and 0.4 MMscf/d gas sales. Cumulative gross sales at 31 January 2014 were 22.1 MMstb oil+NGL and 4.2 Bscf of gas.

Enoch is a low relief anticlinal structure straddling the UK-Norway median line in the southern part of the South Viking Graben. Water depth is approximately 120 m.

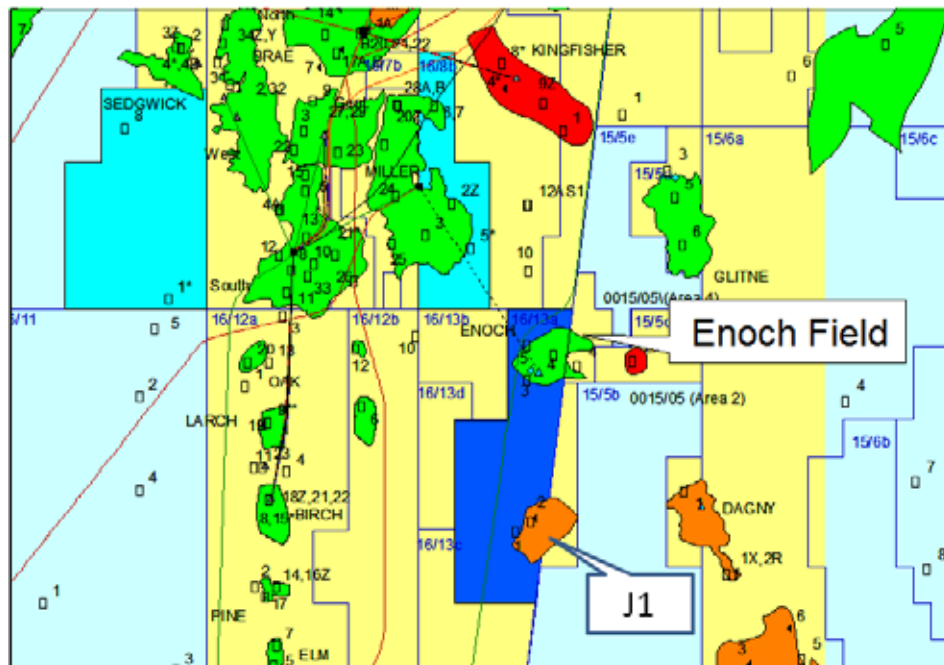


Figure 5-2 Location Map - Enoch Field and J1 discovery

The field was discovered by UKCS well 16/13a-3, drilled by Britoil in 1985, which encountered oil in the Flugga Sandstone Member of the Paleocene/Eocene Sele Formation. Approximately 100 ft of highly porous net sands were logged with a top at 6,887 ft TVDSS. A DST across the interval 6973-7,014 ft MD (6,891-6,996 ft TVDSS) produced 5.9 Mstb/d of 38o API oil but a DST in a lower zone at 7,040-7,050 ft mD (6,958-6,968 ft TVDSS) produced only water. The field extent is defined by five wells: 16/13a-3, 16/13a-4 and 16/13a-5 on the UK side and 15/5-2 and 15/5-4 on the Norwegian side.

The field was unitised with a UK/Norwegian equity split of 80%/20% which is now fixed. It is operated by Talisman UK Ltd. There are no plans for further development of the field.



Enoch started production to the Brae-A platform from the single horizontal development well, 16/13a-7 on 31 May 2007. The early oil production rate was around 10 Mstb/d and at end-2011 had declined to around 2.2 Mstb/d. Gas lift was initiated in January 2008.

Enoch Field has been shut-in since January 2012 due to the failure of the subsea tree. The field is a single well subsea tied back to the Brae-A platform Operated by Marathon. The subsea tree was removed in 2013 but replacement has been delayed by weather and the estimated production start-up is June 2014.

The integrity of the 15km, 8" carbon steel pipeline to Brae is also a concern. The Operator has concluded that operations can resume with effective corrosion inhibition for a limited period, after which an internal inspection is required.

### 5.2. BLANE AND ENOCH PRODUCTION AND COST FORECAST

RISC has reviewed Roc's 2P production and cost forecasts and considers them to be reasonable and consistent with RISC's 1 January 2014 reserves estimate. An infill well is under consideration for drilling Q3 2015 and classified as a Contingent Resource.

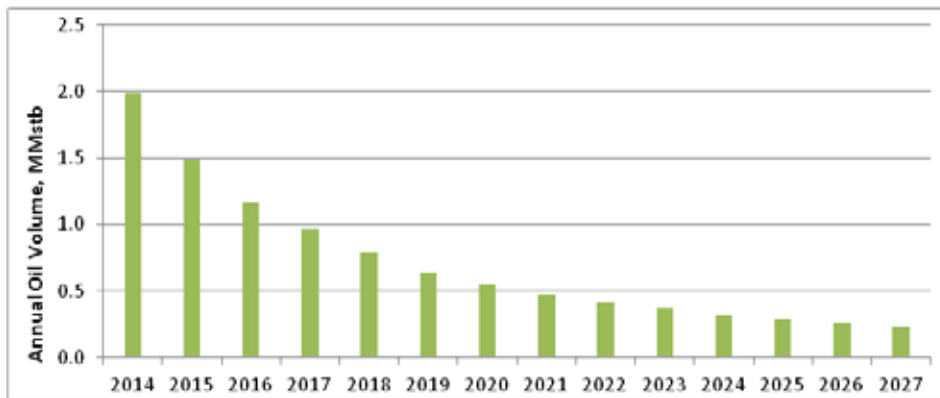


Figure 5-3 Gross 2P Oil Production Forecast - Blane

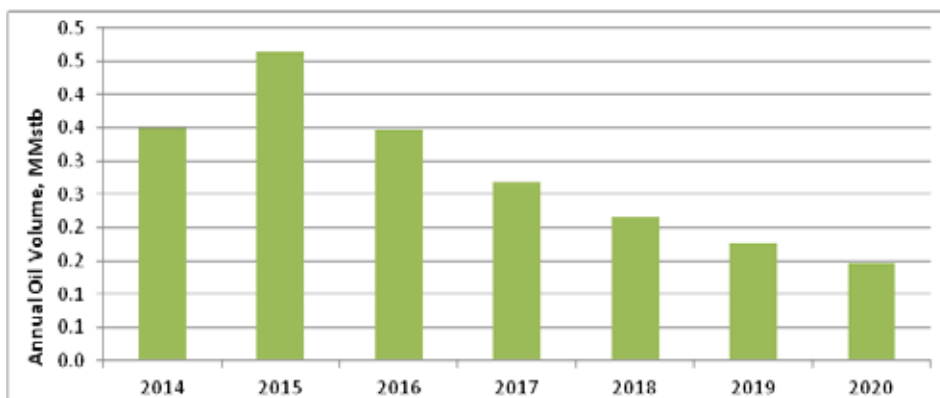


Figure 5-4 Gross 2P Production Forecast - Enoch

The Blane production forecasts assume no further development activities, therefore capital expenditure beyond 2013 is small. No capital costs are included in the 2014 budget, although previous years have had US\$3-4 million for specific minor projects. We think it is prudent to allow US\$0.8 million per annum until 2023 for minor Blane projects and associated project management.

Fixed base operating costs in 2014 are estimated to be US\$9.1 million. However, there is also provision for scale squeezes and subsea tree maintenance in 2014 and every fourth year costing an additional US\$6.4 million due to the ongoing issues experienced in these areas.

A significant proportion of operating costs are variable related to tariffs for use of the Ula platform (including processing, gas lift and water injection), transportation through the Ekofisk and Norpipe pipelines and processing and storage at the Teeside terminal. Figure 5-5 shows Roc's total gross 2P operating cost estimate for Blane.

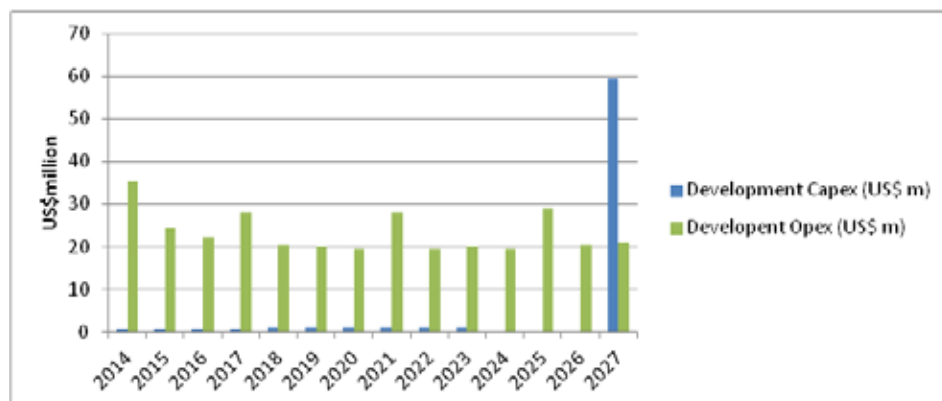


Figure 5-5 Gross Operating Cost Forecast - Blane

US\$41 million (RT2014) has been allowed for abandonment of the Blane infrastructure in 2027/2028.

For Enoch, delays to the subsea tree replacement is estimated to have increase the AFE cost of £33.7 to £48.6 million, with £43.6 million spent as of March 2014. Following the subsea tree repair we anticipate minimal capital costs of less than US\$0.8 million p.a. going forward associated with minor projects.

RISC estimates direct operating costs (excluding tariffs) of £1.3 million p.a. beyond 2014 with progressive reductions towards the end of field life. The majority of operating costs are related to costs associated with the host and export infrastructure - the Brae pipeline, platform (including gas and liquids processing, gas flare and gas lift) and Forties Production System pipeline tariff. The previous agreement regarding these tariffs has lapsed and a new agreement is currently being negotiated. The operator of the Brae field's (Marathon) has proposed new tariffs that range from unchanged for gas handling costs and pipeline costs up to 10 times increase for water handling costs. Currently the Enoch JV are in negotiations regarding this issue. We have assumed an increase tariff in adopting a mid point range from the previous tariff to the current proposal.

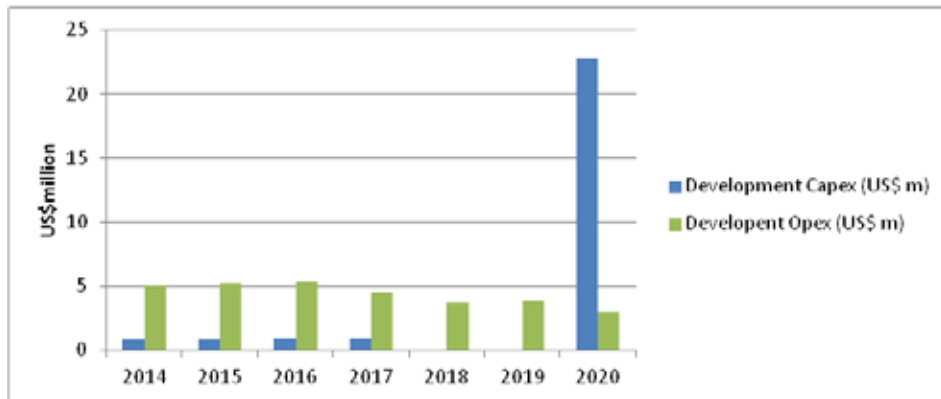


Figure 5-6 Gross Operating Cost Forecast - Enoch

US\$19.5 million (RT2014) has been allowed for abandonment of the Enoch infrastructure in 2021.

### 5.3. RESERVES AND CONTINGENT RESOURCES

The Blane and Enoch reserves estimates are shown in Table 5-1.

	1P	2P	3P
Blane Gas Reserves Bcf	0.4	0.7	1.2
Blane Oil + NGL Reserves MMstb	5.8	10.0	17.1
Enoch Oil Reserves MMstb	1.3	2.0	2.6

Table 5-1 Gross Reserves as at 1 January 2014 - Blane and Enoch

For Blane, from the period 1 January 2014 to 31 March 2014 there has been a further depletion of 426,038 bbl and 14.6 MMscf gross due to production. Cumulative production for Enoch to 31 December 2013 is 8.3 MMstb gross.

In addition, contingent resources have been identified (Table 5-2). The Blane infill well will target the crest of the structure and the current 'reference concept' is a sidetrack which could occur in 2015 with first production starting November 2015. Wells costs are estimated at about £60 million (100%). The project is currently in the operator's 'Select Phase' pending an investment decision later this year. With respect to life extension, there are no firm plans for these activities and we consider the value to be small.



	2C MMstb
Blane Field Life Extension	0.9
Infill Well	4.9
<b>Total Blane</b>	<b>5.8</b>
Enoch extended field life	0.5
<b>Total</b>	<b>6.3</b>

Table 5-2 Gross 2C Contingent Resources at 1 January 2014 - Blane and Enoch

#### 5.4. J1 DISCOVERY - BLOCK 16/13E (15% ROC)

The J1 gas condensate accumulation in Block 16/13e was discovered in 1984 by well 16/13a-2z (Figure 5-7). Resources are classified as contingent as there are no firm plans for development.

The well encountered gas bearing sands in the Hugin formation. The field is dip-closed to the west, north and south, but fault bounded to the east. It is mapped to straddle the UK/Norway border with an estimated GIIP split of 75% UK and 25% Norway. RISC has not had access to the seismic data and cannot independently verify the field mapping or this split, but it appears plausible based on an inspection of the Enterprise(Oil, 2002) report.

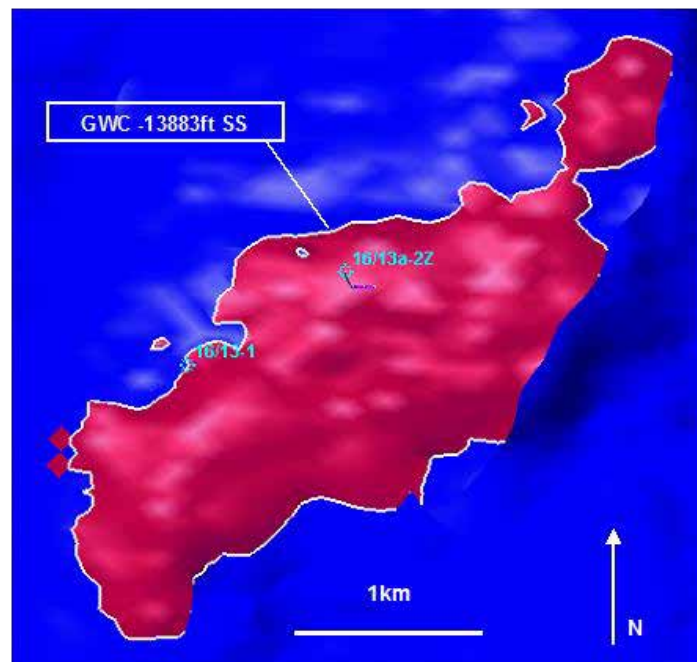


Figure 5-7 Field Outline - J1

Reservoir quality is good, with 98 ft net pay from a gross section of 127 ft. The well intersected a gas water contact at -13,883ft SS. Two DST's were performed and flowed 31 MMscf/d gas with 2,337 stb/d condensate and at 22 MMscf/d with 1,707 stb/d condensate. The well 16/13-1 encountered



an oil-charged 5ft thick sand of Ryazanian age, which was tested and flowed a low gravity oil of 22-26 degrees API at a rate of 0.22 Mstb/d. RISC has reviewed the well test data, field evaluation and independently estimated the contingent resources shown in Table 5-3.

	2C
Gas (bcf)	50
Condensate (MMstb)	1.0

**Table 5-3 2C Gross Contingent Resources Estimate at 1 January 2014 - 16/13e J1**

J1 development via a tie back to the Miller platform was initially suggested. However, the Miller field ceased production in 2007 and is in the process of being decommissioned. The Brae platform is an alternative host but has limited remaining life.

RISC estimate a low probability of development given the limited resource, lack of opportunity and activity to progress a development. Therefore, RISC assigns no value to this small 1984 discovery.

#### 5.5. EXPLORATION

No further exploration potential has been identified

## 6. NEW ZEALAND

### 6.1. MAARI/MANAIA/MANGEHEWA

#### 6.1.1. Field Description

The Maari and Manaia fields are located in PMP 38160 offshore New Zealand (shown in Figure 6-1), in which Horizon Oil holds a 10% interest. The fields are operated by OMV New Zealand Limited (OMV).

Production commenced in February 2009 and averaged 9000 stb/d in March 2014 from 6 production wells.



Figure 6-1 Maari and Manaia Field Location

Oil is produced via a well head platform to the FPSO Raroa in a water depth of approximately 100m. Following a refurbishment of the FPSO mooring and turret system in 2013, a major new project called the Maari Growth Project is underway. This project comprises:

- drilling of 2 new producers and 1 new injector in the Maari Moki reservoir and the conversion of 1 producer to a water injector
- drilling of 1 new producer in the Maari Mangaehewa reservoir
- drilling of 1 new extended reach producer in the Manaia Mangaehewa reservoir

The Maari Growth project anticipates increasing production to 20,000 stb/d gross by end 2014. It also aims to remedy problems with the water injection scheme, which has not generated the expected benefits and resulted in a reserves downgrade in 2013.

A structural section showing the location of significant reservoirs is shown in Figure 6-2.

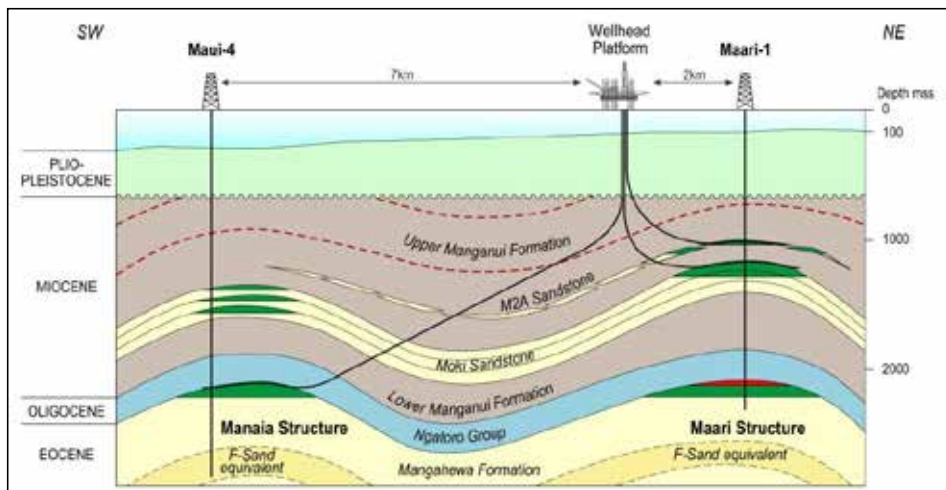


Figure 6-2 Maari Manaia Structural Section (from Horizon)

The Maari Field currently produces from the Moki and M2A sands, both of which were deposited as turbidites in the Miocene downwarping of the Taranaki Basin. Further oil is reservoired in the deeper Mangaehewa Formation of the Kapuni Group, which was deposited in the post-rift thermal sag phase in the Eocene, which has been producing from the Manaia field.

A deviated well from the Maari platform has been drilled to the Mangaehewa Formation of the Manaia field and is currently producing. There is further potential for oil in the Manaia Moki Formation; oil shows were observed during the drilling of the Maui-4 discovery well and further significant shows were intersected in the recent Manaia-2 appraisal well. The evaluation of these results is not yet complete and no resource has been assigned to this reservoir.

The Maari Field is covered by 3D seismic data acquired by Shell Todd in 1999. The data has been reprocessed several times, most recently in 2009 and is of fair quality, but has an area of poor data and a push-down underneath a gas cloud over the central part of the field, shown in Figure 2.3 below. The Operator (OMV) has acquired a new seismic survey over the field which is presently being reprocessed. It is expected that this will improve definition and aid in delineation well and development well locations and also lower the range on resource and reserve estimates.

The Moki reservoir provides the bulk of the production. The Operator's structure map at the Top Moki reservoir (Figure 6-3) is considered well-defined due mainly to the amount of well penetrations. The wells drilled to date have not encountered large depth issues. Faulting in this reservoir is minor.

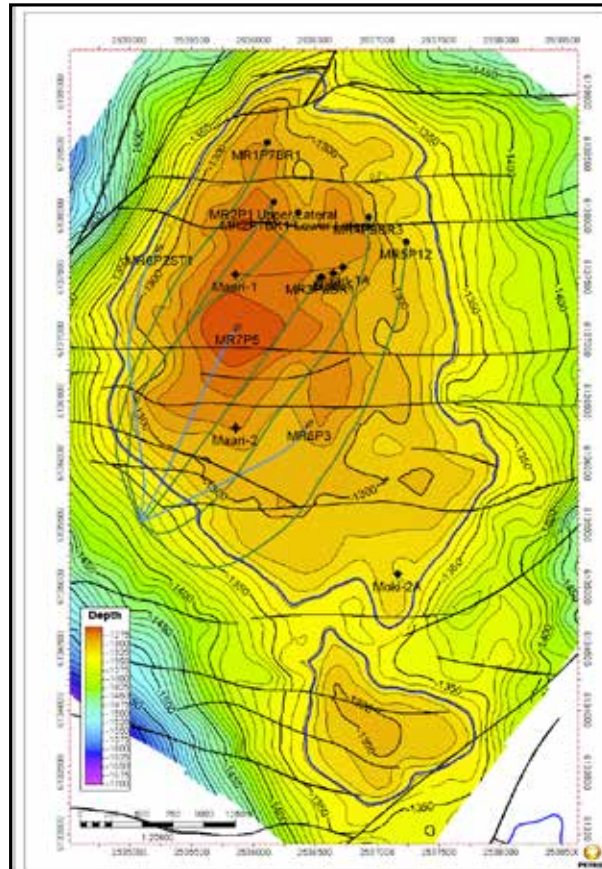


Figure 6-3 Maari Moki Depth Map

The Moki and M2A sands are deepwater turbidites deposited during the Miocene downwarping of the Taranaki Basin. The Moki contains seven fining-upwards depositional cycles of which the lower cycles are easily correlatable. However, the upper cycles display more lateral variation in deposition, possibly due to channel migration over subtle sea floor depth variations. The Maari Moki oil column is contained within the upper two cycles (separated by a thin shale).

The M2A sands appear to be a distal basin floor fan and are thinner and possibly less areally continuous than the Moki sands.

The deeper Mangahewa sands of the Kapuni Group were deposited in the post-rift thermal sag phase in the Eocene. The Mangahewa sands are fluvial in origin, leading to significant areal variations in reservoir quality.



RISC has estimated STOIP ranges for the Maari and Manaia accumulations reservoir shown in Table 6-1.

Reservoir	Low	Best	High
Maari Moki STOIP (MMbbl)	115	163	223
Maari M2a	21	27	34
Maari Mangehewa	9	14	20
Manaia Mangehewa	22	32	47

**Table 6-1 Maari and Manaia Field STOIP Estimates**

Reserves are shown in Table 6-2. These are based on RISC's estimates as at 30 June 2013 updated for production.

Field	Reserves (MMstb)		
	1P	2P	3P
Maari	30.3	55.2	93.3
Manaia	2.4	4.3	7.2
Total	32.7	59.5	100.5

**Table 6-2 Gross Reserves as at 1 January 2014 - Maari and Manaia Fields**

Cumulative production to 31 December 2013 is 22.69 MMstb gross. From the period 1 January 2014 to 31 March 2014 there has been a further depletion of 883,000 bbl gross due to production.

RISC has also estimated a further 0.9 MMstb of contingent resources attributable for water injection on the Maari M2A reservoir (Table 6-3). We are not aware of any plans to progress this project.

Reservoir	2C (MMstb)
Maari M2A Water Injection	0.9

**Table 6-3 Gross 2C Contingent Resources as at 1 January, 2014 - Maari M2A**

### 6.1.2. Production and Cost Forecast

RISC has reviewed and accepts the profile used by Horizon for the 2P production forecast for the Maari and Manaia fields which is consistent with our reserves estimates. OMV provided a short-term production forecast to account for planned downtime for maintenance and operations which has been incorporated. From 2015 onward, Horizon's 2P forecast reverts to the RISC Year-End 2013 2P forecast (Figure 6-4). Production is truncated in 2030, however there is still significant tail production beyond this period. There are no gas sales/reserves.



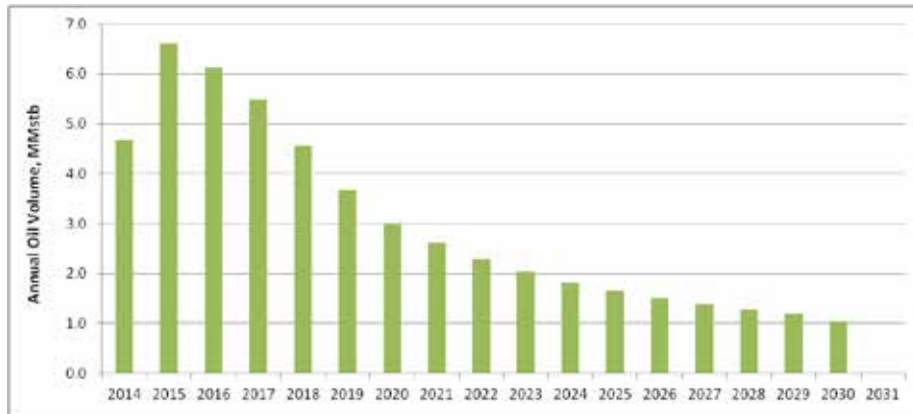


Figure 6-4 Gross 2P Oil Production Forecast - Maari and Manaia

Also considered is a 2P case with no benefit from the water injection at the Maari Moki field. This is a downside case where the water injection fails to boost oil production. Other than the Maari Moki upper reservoir, the rest of the production forecast is the same as the 2P case above. The net impact is 6.9 MMbbl over the forecast period.

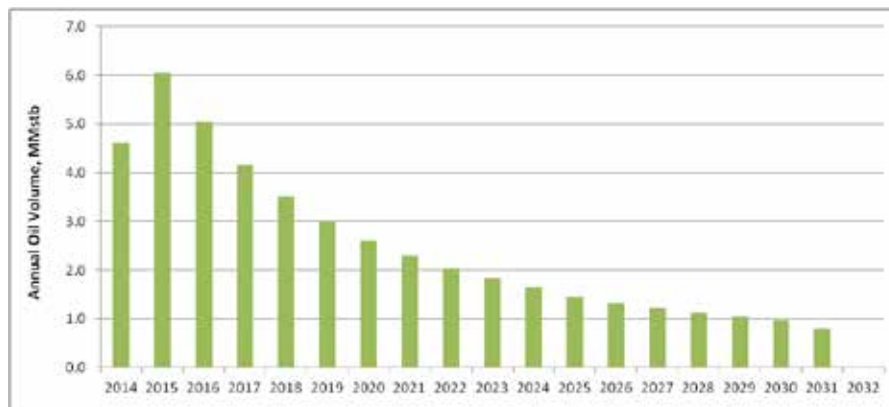


Table 6-4 Gross Oil Production Forecast - No Benefit from Water Injection at Maari Moki Upper

RISC has reviewed and accepted the cost profiles provided by Horizon in their economic model.

The Maari-Manaia development involves a not-normally manned wellhead platform housing the wellheads of the five production and three water injection wells, linked via subsea flowlines to the floating production, storage and offloading vessel ('FPSO') Raroa, anchored 1.5 km away. The production wells are lifted with downhole Electrical Submersible Pumps (ESPs). Because the ESPs need regular replacement, a workover rig is kept on the platform. Water is injected to maintain reservoir pressure.

Total gross capital costs consistent with the production forecast are anticipated to be NZ\$341m (million) over the period 2014-16 (US\$27m net to Horizon). RISC has categorised capital costs into development wells, major repairs/upgrade and appraisal.

Appraisal costs of NZ\$42m were budgeted in 2014 for a Manaia appraisal well that was recently completed.

Development well costs of approximately NZ\$280m are budgeted for 2 infill producers (Maari Deep, Maari Full field), 2 sidetracks (Moki Cycle 1 & Cycle 2) and 1 new well + recompletion for water injection.

The remaining capital costs are NZ\$18m for the remaining capitalised FPSO lease, recompletions and 'Running the Business' costs.

Capital cost forecast 2014-16 is shown in Figure 6-5 below. Note these costs exclude any exploration activities. Abandonment costs are estimated at \$70 million.

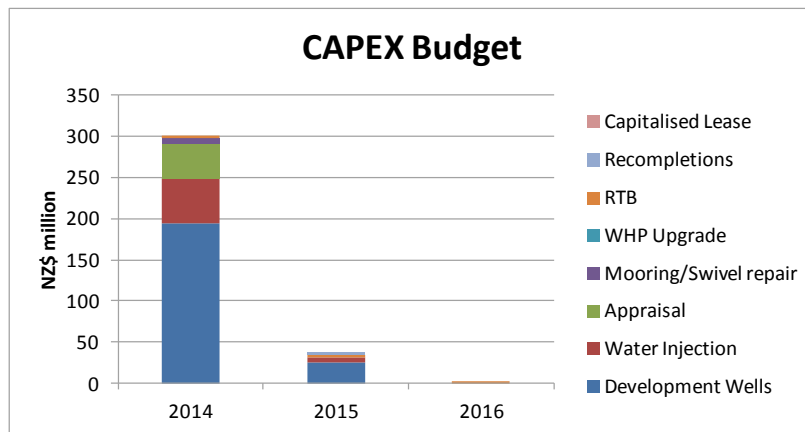


Figure 6-5 Gross Capital Budget - Maari and Manaia Fields

After 2014 the Operator forecasts operating costs (opex) to increase slightly before falling as production declines.

The major component of opex is the Operating fee, which is approximately NZ\$42m in 2014. This is a largely contracted amount and therefore carries relatively little uncertainty.

The element of operating costs with the highest uncertainty is workover costs for ESP changeouts. The budget forecasts ESP workover costs of NZ\$11-14m pa, reflecting an assumption of 3 workovers per year.

The operating cost budget to 2023, extrapolated to 2031 is shown in Figure 6-6 below. The exchange rate used was 0.8.

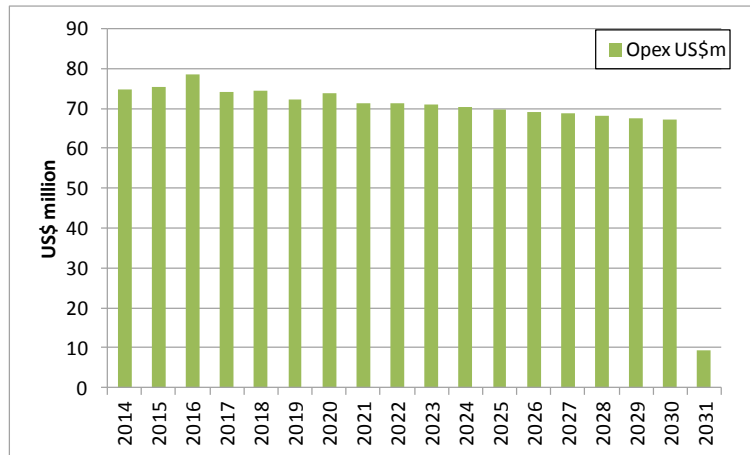


Figure 6-6 Gross Operating Cost Budget - Maari and Manaia Fields

## 6.2. EXPLORATION

Exploration potential exists in the Whio Prospect. This is a separate structure at both Moki and M2A reservoir level with further potential in the Mangahewa and deeper Farewell, Kaimiro and North Cape reservoirs.

OMV will be drilling this well as a farm-in, reducing Horizons interest from 21% to 10% to match the Maari and Manaia Fields in the event of a commercial discovery. Drilling is scheduled to commence in June 2014 at a budget cost of approximately \$40 million gross.

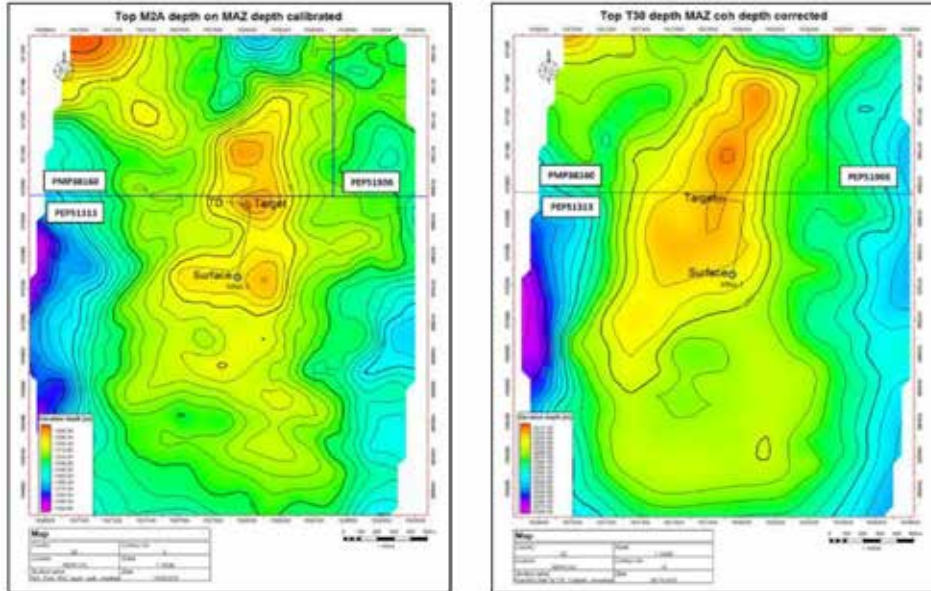


Figure 6-7 Whio Prospect M2A and Moki Depth Maps

The operator OMV calculates best estimate prospective resources of 15 MMbbl in the M2A, Moki and Mangahewa reservoirs.

These resource ranges have been checked by RISC and are considered reasonable.

If successful, Whio could be developed using a satellite well head platform, linked back to the Maari FPSO.

Gas volumes are significant, and we have assumed the gas is used for fuel or flared.

In the success case, Whio can be developed using 4 deviated wells, tied back to Maari field.

An initial rate of 15,000 bopd was based on initial rates from the analogue wells in the existing development. Gas volumes of 20 Bcf are assumed used for fuel, or flared.

The Mid Case production forecast for Maari 2P reserves plus Whio is shown below.

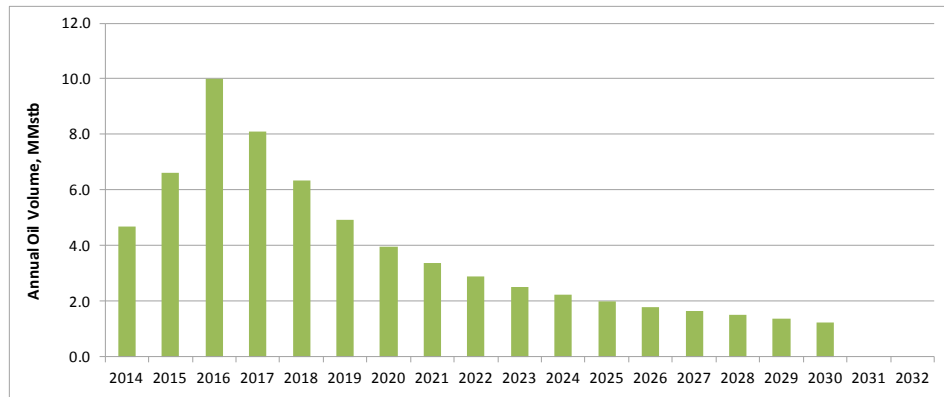


Figure 6-8 Maari 2P + Best Estimate Gross Production Forecast - Whio Prospect

The development is assumed to begin in mid 2014 with the drilling of an exploration well at a cost of US\$40 million (fully carried). It is assumed that if the exploration well is successful the development could be approved in 2016. The construction, installation and tieback (via subsea pipeline to Maari WHP) of a new well head platform will occur in 2017 and 2018 and is forecast to cost US\$100 million. The drilling of 4 horizontal development wells in 2018 is estimated to cost US\$200 million (\$50 million per well).

Fixed operating costs of US\$14 million p.a. have been estimated based on support for an unmanned WHP and workovers every three years for the producing wells. Variable operating costs of \$1/bbl are included. Abandonment is estimated to cost US\$50 million for the development.

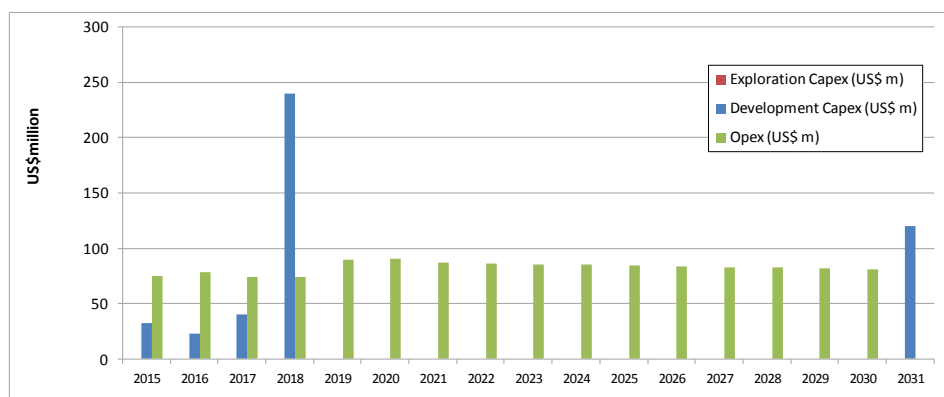


Figure 6-9 Gross Capex and Opex - Whio Prospect

In the low and mid cases, the permit value is based on the farmout terms with OMV in which OMV pays Horizon's 21% share (\$8.4 million) to earn an 11% interest. This represents a promote of 1.9 valuing Horizon's interest at \$7.6 million.



In the case of an unsuccessful well, the transfer of interest does not occur, we have assumed that for the high case the farmout could be duplicated valuing the interest at \$15.2 million.

The EMV calculations indicate a value of \$13.0 million for Horizon's 10% share which is comparable to the high case valuation.



## 7. CHINA PROPERTIES

### 7.1. BEIBU GULF

Roc's and Horizon's interests are contained in the Beibu Gulf Area A and B. Roc holds a 19.60% interest and Horizon a 26.95% interest in the development and production assets. Interests in the exploration and appraisal phase are Roc 40% and Horizon 55%. The producing fields are WZ6-12 North, WZ6-12 South, WZ12-8 West and the non-producing fields WZ12-8 East and WZ 12-3 (Figure 7-1). The development and production assets are operated by CNOOC (51%). Upon declaration of commerciality of a development project, CNOOC has the right to back in for 51% and assume operatorship which has been exercised in the development and production assets to date.

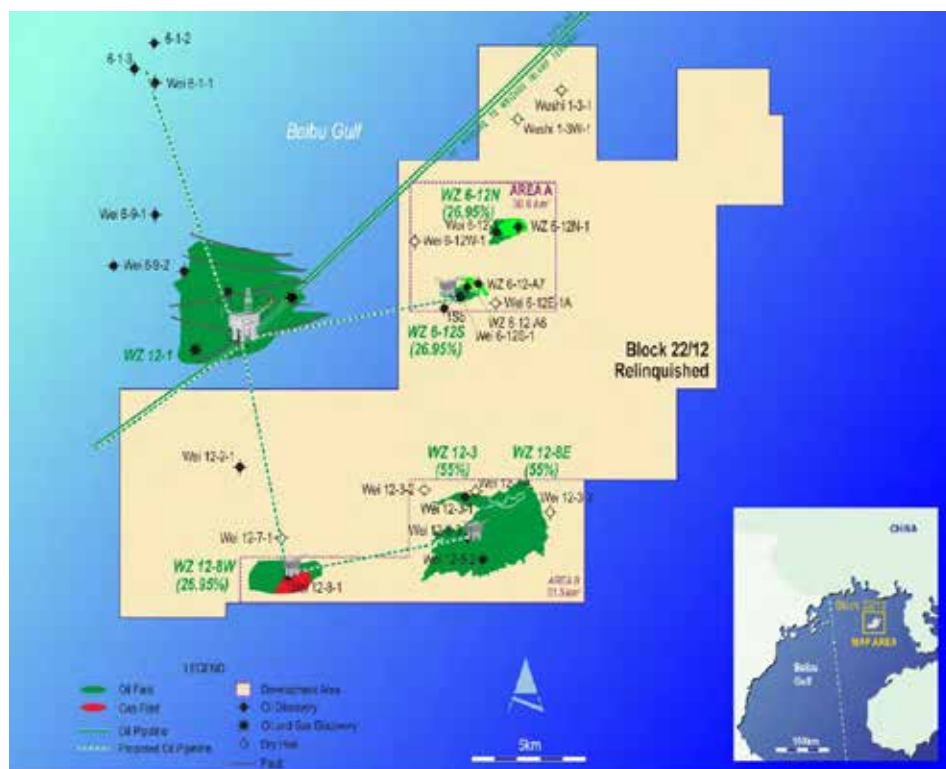


Figure 7-1 Location Map – Beibu Block 22-12

The Wei 6-12 oil field was discovered in 2002. An appraisal well on the Wei 12-8 East oil field drilled in 2004 confirmed the presence of oil but indicated that the oil was viscous so commercial development would not be straightforward. In 2006, the drilling of the Wei 6-12S-1 exploration well made a significant oil discovery which was appraised by four wells.

Following the formal end to the exploration period for Block 22/12 on 30 September 2008, the WZ6-12, WZ6-12 South and WZ12-8 West oil fields were declared development areas.

In 2010 CNOOC elected to participate for its full 51% share in the development, reducing Roc's and Horizon's share to 19.60% and 26.95% respectively. The Overall Development Plan (ODP) was completed in 2010 and following final CNOOC approval in January 2011 the joint venture proceeded



to its Final Investment Decision in February 2011. CNOOC assumed operatorship of the project in 2Q11 and a CNOOC operating subsidiary company (Weizhou Operating Company) was established.

The Beibu Gulf development project was completed in 2013. Beibu first oil commenced in March 2013 with production reaching forecast rates. The development incorporates two remote wellhead platforms and one joint processing platform, which are connected by bridge to the CNOOC WZ 12-1A platform complex and utilise existing water injection and gas processing facilities.

The initial development phase targeting the WZ 6-12 North and South & Sliver Fields and the WZ 12-8 West Field is complete with 15 wells on production. Ten development wells were drilled from the WZ 6-12 platform and five development wells from the WZ 12-8 platform.

The two undeveloped oil accumulations in the retained development areas are WZ 12-8 East and WZ 12-3. Development feasibility studies are in progress.

#### 7.1.1. Field Description

Oil contained in the fields is reservoirised in Eocene-aged fluvial-lacustrine sandstones of the Luishagang Formation, Miocene-aged Jiaowei shallow marine sandstones and the Oligocene-aged Weizhou sandstones. Oil quality varies from light to heavy quality, low to high viscosity, with some waxy crude.

RISC has reviewed the reservoir mapping, geological modelling and volumetrics carried out by Roc and considers them to be reasonable. Roc's estimate of STOIP, reserves and contingent resources are shown in Table 7-1 and Table 7-2. RISC has estimated the 12-8E contingent resources (Table 7-3).

Field	STOIP (MMstb)		
	Low	Best	High
WZ 6-12 North	25.8	30.5	36.2
WZ 6-12 South and Sliver Block	23.2	28.0	30.3
WZ 12-8 West	19.5	26.2	27.7
W 12-8 East (incl. 12-3)	68.5	84.7	94.2
Total	137.0	169.4	188.4

Table 7-1 Discovered STOIP as at 1 January 2014 - Beibu Gulf

Field	Reserves (MMstb)	
	1P	2P
WZ 6-12 South and Sliver Block	7.1	8.9
WZ 6-12 North	8.7	10.1
WZ 12-8 West	4.1	5.4
Total	19.9	24.4

Table 7-2 Gross Reserves as at 1 January 2014 - Beibu Gulf

Contingent Resources	2C (MMstb)
WZ 12-8 East (incl. 12-3)	11.5

Table 7-3 Gross 2C Contingent Resources as at 1 January 2014 - WZ12-8E RISC Estimate

Cumulative production to 31 December 2014 was 3.0 MMstb. From the period 1 January 2014 to 31 March 2014 there has been a further depletion of 1.2 MMbbl gross due to production.

#### WZ12-6-12 North Field

The field consists of stacked pay in the T30, T31 and T32 units. WZ 6-12-1 discovered the WZ 6-12 North Field in March 2002. The trap is a fault sealed structure with dip closure to the west, Figure 7-2. The well intersected 13.5 m of excellent quality net oil pay in the Weizhou T31C sand but was not tested. The follow up WZ 6-12N-1 vertical exploration well in October 2012 intersected 9.5 m of gross oil pay in the T31C and 33.7 m of gross oil pay in the T32L. Also 13.5 m of gross oil pay was intersected in the shallower T30D sand.

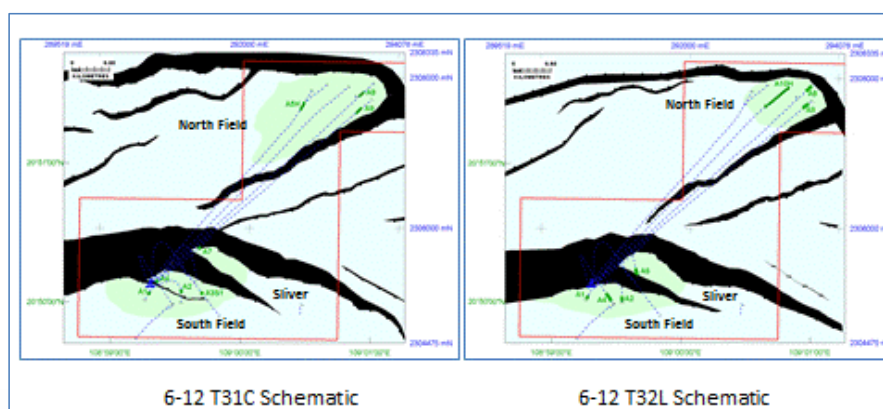


Figure 7-2 Well locations and schematic North, South and "Sliver" Block Field Areas

### WZ12-6-12 South Field and “Sliver” Block

The WZ 6-12S discovery was made in May 2006, approximately 3 km southwest of well WZ 6-12-1. The WZ 6-12S-1 well, discovered over 70 m of net pay, mainly oil, in multiple sands of the Weizhou Formation. Gas was found in two thin sands. The trap is a hanging wall rollover structure, approximately 2 km long and 1 km wide, against an arcuate east-west trending fault, Figure 7-2. Faulting has created two structural provinces within the field that have been named “South Block” and “Sliver” Block”.

Adjacent to but not part of the interpreted WZ 6-12 South Field lies a separate interpreted fault related high which is designated the “Sliver” Block. This prospect was matured by the Foreign JV for exploration drilling via a well drilled from the WZ 6-12 Wellhead Platform (WZ 6-12-A7).

Well WZ 6-12A-6 intersected oil pay in the T30D and T31U in the South area and in the T 32L in the “Sliver” area. The hydrocarbon type within the T30 A is uncertain and the T30B is gas bearing. The T31C is thin and is interpreted to be fault affected.

Well WZ 6-12-A7 intersected oil pay in the T31C and T32U sands in the northern part of the “Sliver” Block. The upper sands (T30 to T31U) were faulted out at this location, as were the T32 L sands. The T31C sand with 6 m of gross oil-bearing sand is interpreted to be in reservoir continuity with the thin T31C sand intersected in well WZ 6-12E-1A. Brightening of T31C seismic amplitudes downdip of the A-7 well suggests the presence of thicker reservoir development. WZ 6-12-A7 intersected 26.5m of gross sand and 2.3 m of net oil pay in the T32U sand. A limited MDT run (restricted by hole condition) was conducted in A7 with sampling of one zone.

Figure 7-3 is a well cross section showing the correlation and continuity of reservoir units within the South Field and Figure 7-3 is a schematic cross section showing the structural relationship between the South Field, “Sliver Block” and North Field.

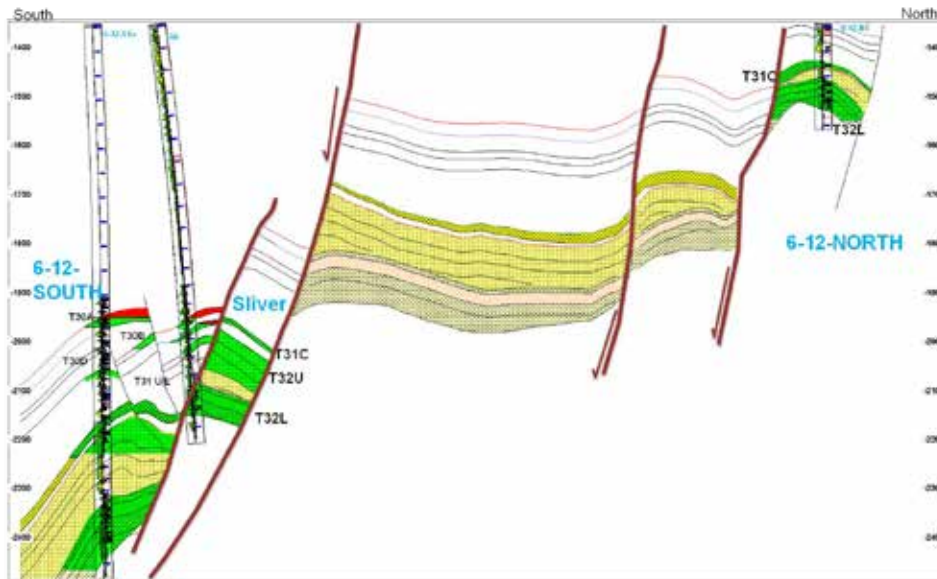


Figure 7-3 Structural relationship of WZ 6-12 South, “Sliver” and North Fields

Roc has estimated initial OOIP using the Petrosys mapping software (at 1P, 2P and 3P levels of confidence) and Petrel 3D geological modelling software (2P only). RISC has reviewed Roc’s Petrel

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RE model which is based on a single geological realization using a stochastic distribution of properties and is satisfied that the model represents a reasonable “most likely” realization of the subsurface geology.

#### WZ12-8 West

The WZ 12-8 West field was discovered by the WZ 12-8-1 well drilled in 1993. The well encountered a 12 m net oil column and a 2 m overlaying gas column within the Jiaowei Formation. Four DSTs were run and a series of RFT sampling and measurements were conducted. The well free flowed 1300 barrels per day of 21 degree API oil with 2.1 MMscf/d of gas on test.

Development drilling was undertaken during 2013. This programme included an initial pilot hole, WZ 12-8-A1P, which penetrated the entire reservoir sequence and acquired conventional core over the lower portion of the J2 reservoir. Subsequently five horizontal reservoir sections were drilled in an east to west direction.

Confidence in the latest mapping is provided by the seismic amplitude anomaly shown as yellow to red colour fill in Figure 7-4 which generally conforms closely to the structural limits of the oil pool (the green polygon marks the depth of the OWC at -953 mTVDss and the red polygon marks the GOC at -943.5 mTVDss). These amplitudes continue to the east and are interpreted by Roc to identify a continuing migration route from west to east. RISC notes that anomalous amplitudes can be caused by lithology variation and tuning effects (reservoir thinning) in addition to hydrocarbon saturation.

The only fault of any significance for the J2 reservoir is the southern boundary fault. No internal faults of any significance are mapped and production compartmentalisation caused by faulting is not anticipated.

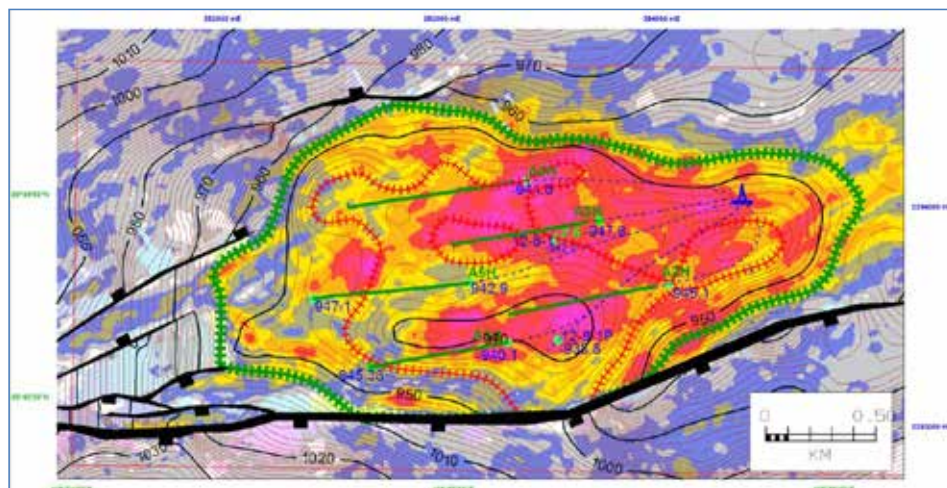


Figure 7-4 Final well tied top J2 reservoir depth structure map (post development drilling)



**WZ12-8 East (incl 12-3)**

The WZ12-8 East Weizhou oil accumulation was discovered in 1982 by Wei 12-3-1. The well was a combined structural test of the Middle Miocene Jiaowei Formation and stratigraphic test of an interpreted lower Weizhou Formation pinchout upon Basement. A single 11.5 m oil bearing Weizhou sand was encountered (net oil pay 9.8 m). The Jiaowei sands were encountered water bearing and outside of structural closure.

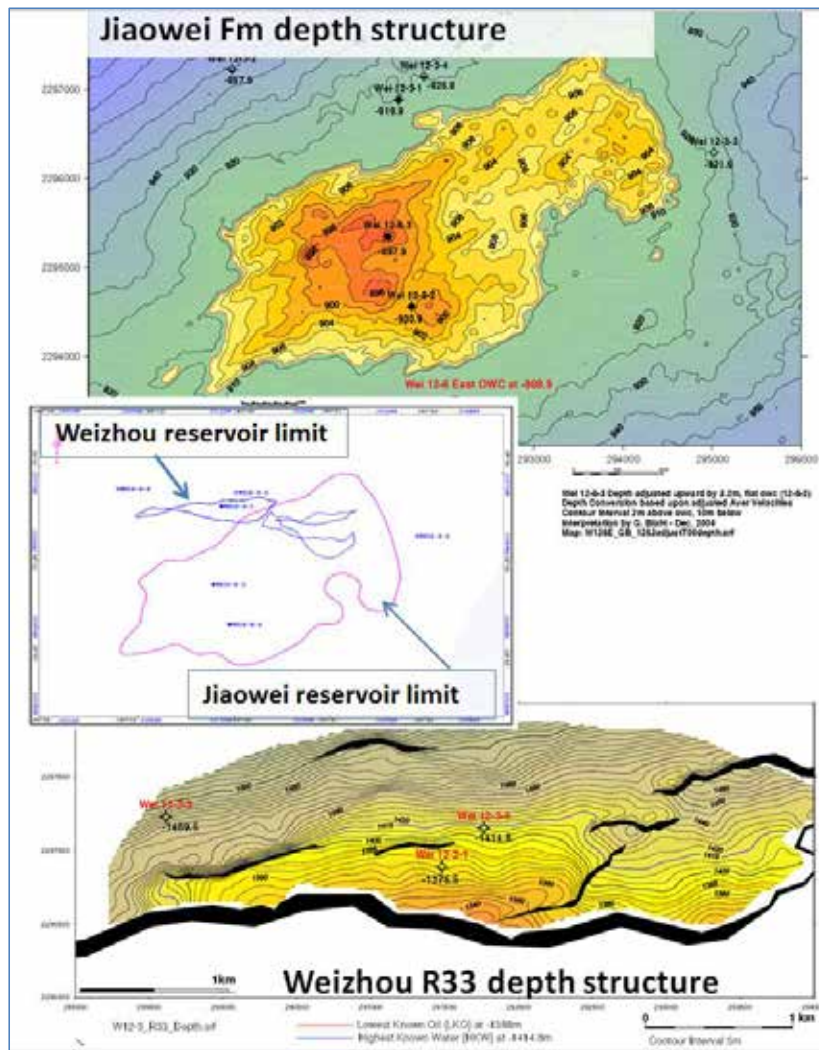


Figure 7-5 WZ12-8 East reservoir depth structure maps and field limits





A drill stem test of this sand flowed oil at a maximum rate of 1380 bopd on a 48/64" choke. The oil contained only minor solution gas at 56 scf/stb. The oil has a gravity range of 32.7 to 33.9 degrees API and a wax content of 18.9 to 22.3%. The pour point is 30 to 32 degrees Celsius. The Wei 12-3-1 crude is very similar in nature and quality to the Weizhou oil under production in the Wei 12-1 oilfield and is characteristic of Eocene Liushagang generated oil. The Weizhou oil is volumetrically small, with a best estimate STOIP of 3.4 MMstb.

The vast majority of the oil is contained in the Jiaowei reservoir which was discovered in 1994 when the WZ 12-8-2 well intersected an 8 m oil column at a depth of 930.5 m within highly porous and permeable, shallow-water marine sands. The well tested 2295 bopd of 21 degree API oil from the interval 931 – 935 m with artificial lift provided by ESP. Unlike the deeper Weizhou accumulation, the Jaiowei trap is relatively simple and is defined by 3D seismic as a simple, unfaulted four way dip closure, as shown in Figure 7-5 (upper map).

### 7.1.2. Production and Cost Forecasts

Roc has based the 2P production forecast on the RISC Year End 2013 2P reserves forecast. We have reviewed this and agree with the forecast. 2P oil production and related cost for Beibu WZ6-12 North, South and 12-8 West are shown below.

As WZ 6-12 and 12-8W fields are already developed, capital costs from 1 Jan 2014 will be minor. There are US\$3m each for 6-12 and 12-8W in 2016 for minor upgrade works.

The Operator forecasts operating costs to plateau are approximately US\$50m p.a. in the early years of production. Initially approximately 50% of operating costs are tariffs for processing and transportation through CNOOC owned facilities, though this declines as production declines. Fixed costs are approximately US\$20m pa and up to US\$10m pa is allowed for workovers to change out the ESPs. We are in agreement with the operating costs in Roc's economic model.

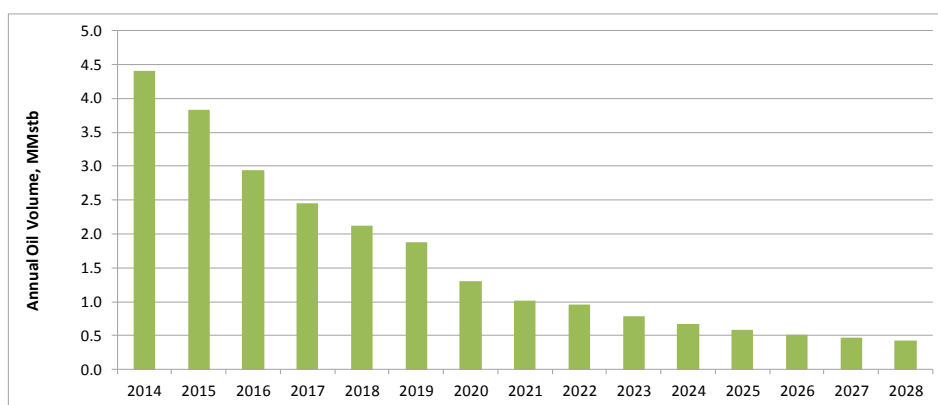


Figure 7-6 Gross 2P Oil Production Forecast - Beibu WZ6-12 N, 6-12 S and 12-8 W

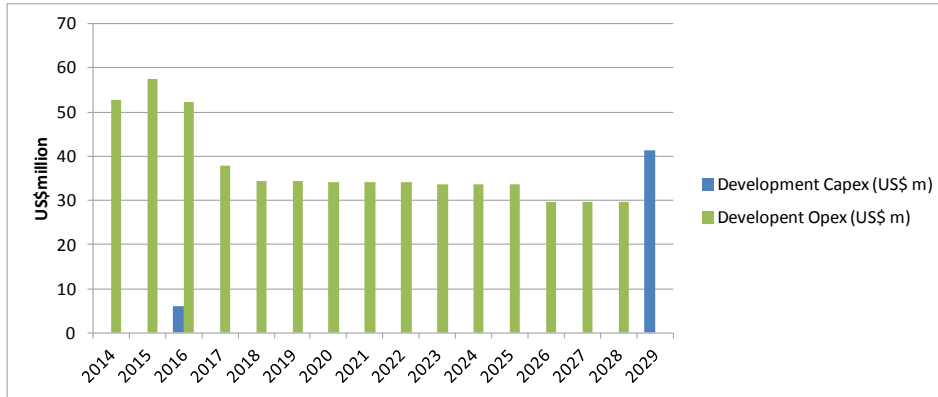


Table 7-4 Gross 2P Cost Forecast - Beibu WZ6-12, 6-12 S and 12-8 W

### 7.1.3. 12-8 East Proposed Development

The development plan is under study by CNOOC. RISC has reviewed the results of CNOOC's reservoir simulation studies and considers them to be reasonable and in line with analogue fields. The current JV concept is a phased development of 4 initial wells that include elements of appraisal followed by 3 wells based on results. The concept targets 5.4 MMstb of Contingent Resources. We have adjusted development plan and forecasts to be in line with Roc's STOIP estimates which is a potentially larger development. We have prepared a development concept based on this larger scheme.

RISC has assumed the Weizhou reservoir to be developed by 1 horizontal well with 13 horizontal wells in the Jiaowei reservoir.

The WZ12-8E development is currently categorised as Contingent Resources. RISC estimates the total oil production over the 20 year forecast period is 11.5 MMstb. Figure 7-7 presents the forecast of the combined 2P+2C oil production.

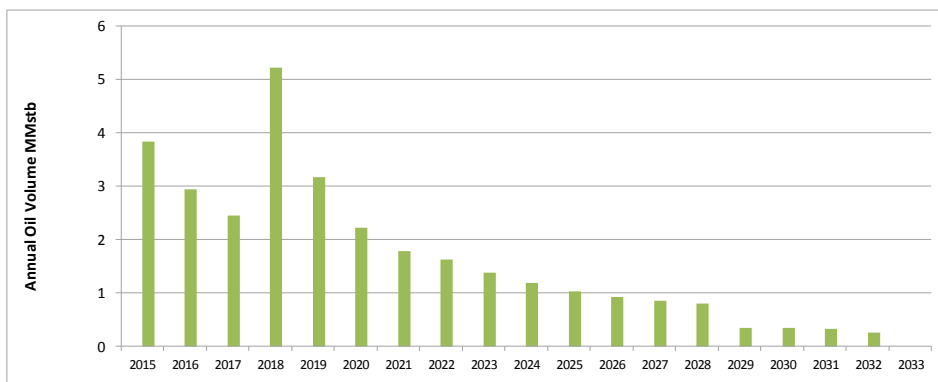


Figure 7-7 Gross 2P+2C Gross Production Forecast – 2P Plus WZ12-8E

It is assumed the development could be approved in 2016. The construction, installation and tieback (via subsea pipeline to WZ-128W WHP) of a new well head platform will occur in 2016 and 2017 and is forecast to cost US\$45 million. The drilling of 14 horizontal development wells in 2017 is estimated to cost US\$168 million (\$12 million per well).

Fixed operating costs of US\$24 million p.a. have been estimated based on support for an unmanned WHP and workovers every three years for the producing wells. Variable operating costs according to the Beibu production agreement tariff's are included.

Abandonment is estimated to cost US\$38 million for the development. Figure 7-8 presents the cost forecast.

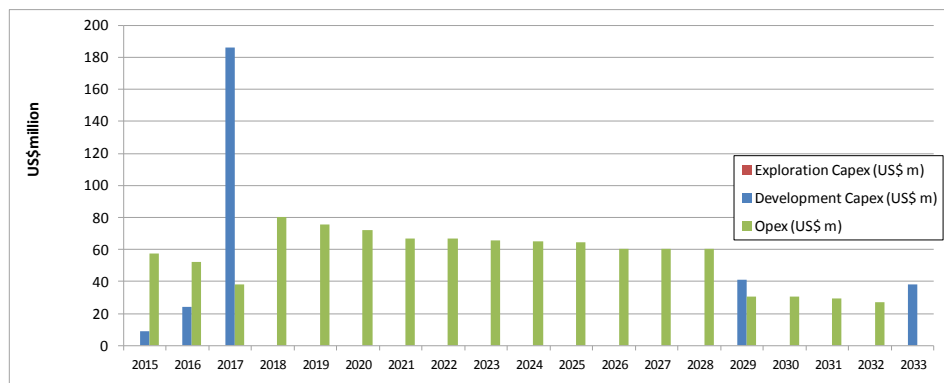


Figure 7-8 2P+2C Cost Forecast – 2P Plus WZ12-8E

#### 7.1.4. Exploration

The joint venture is evaluating the drilling of 2 prospects (Figure 7-9). A well needs to be drilled to retain the exploration interests in the block.

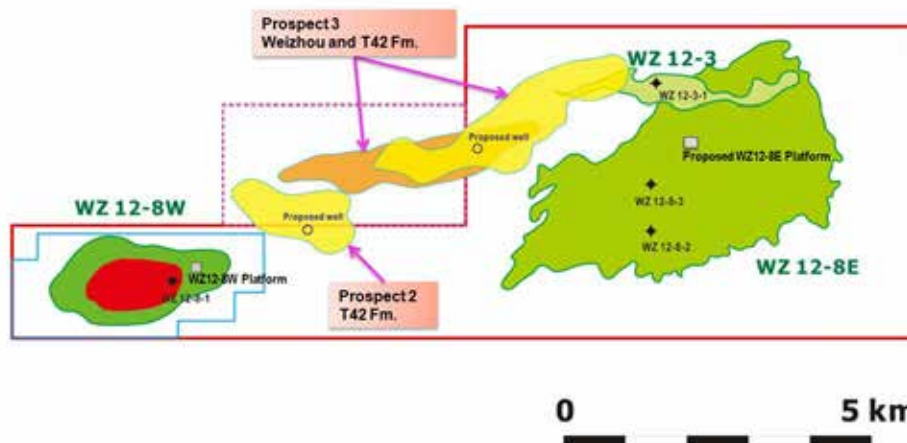


Figure 7-9 Beibu Gulf Exploration Prospects (subject to approval of license boundary extension shown in dotted red line)



Prospect 3 is targeting Weizhou and T42 level sands with an aggregate oil in place estimate of 24 MMstb gross. The main Weizhou has a POS of 32% estimated by Roc. Prospect 2 has mapped potential in-place resources of 6 MMstb at the T42 level and has a POS of 9% estimated by Roc. RISC has not reviewed the volumetrics and mapping. We have prepared a conceptual development of Prospect 3 for evaluation of potential value. We have estimated prospective resources of 5 MMstb gross for this prospect subject to a license boundary extension.

### Prospect-3 Proposed Development

The development of Prospect-3 is assumed to begin in 2015 with the drilling of an exploration well at a cost of US\$8 million. This will be followed up with an appraisal well in 2016 if successful at a cost of US\$10 million.

It is assumed the development could be approved in 2017. The construction, installation and tieback (via subsea pipeline to WZ-128W WHP) of a new well head platform will occur in 2018 and 2019 and is forecast to cost US\$45 million. The drilling of 5 horizontal development wells in 2019 is estimated to cost US\$60 million (\$12 million per well).

The production forecast for Block 22-12 2P + 2C + Prospect-3 is given below.

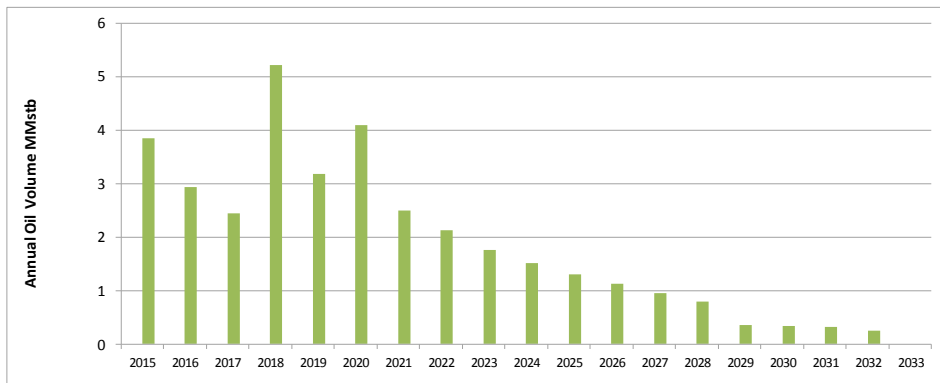


Figure 7-10 Gross Production Forecast: 2P Plus 2C Plus Prospect-3

Fixed operating costs of US\$24 million p.a. have been estimated based on support for an unmanned WHP and workovers every three years for the producing wells. Variable operating costs according to the Beibu production agreement tariffs are included.

Abandonment is estimated to cost US\$20 million for the development.

Figure 7-11 presents the cost forecast.

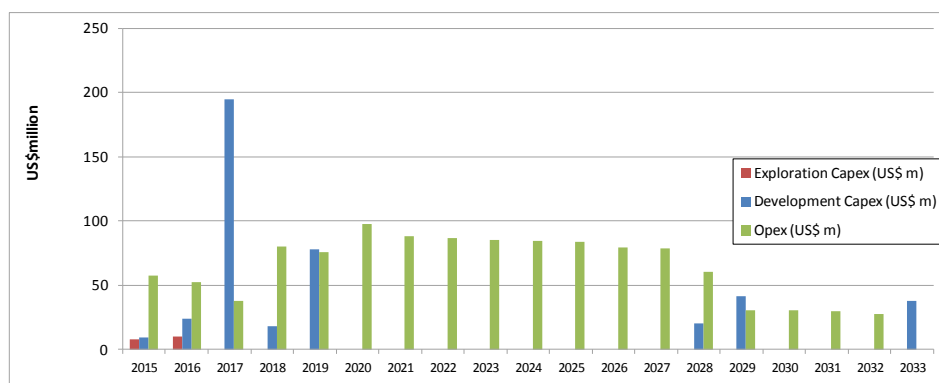


Figure 7-11 Cost Forecast 2P + 2C + Prospect-3

For the mid case valuation, we have assumed that an \$8 million exploration well (\$4.4 million and \$3.2 million net working to interest to Horizon and Roc respectively) could be farmed out on a 2:1 promote. In the high case, we have assumed a 2 well option including Prospect-2. In the low case, we have assumed no farmout premium. The values for each company are summarised in Table 7-5.

Company	Low US\$ million	Mid US\$ million	High US\$ million
Horizon (55%)	0.0	4.4	8.8
Roc (40%)	0.0	3.2	6.4

Table 7-5 Beibu Gulf Exploration Fair Market Value - Net Horizon and Roc Working Interest

## 7.2. BOHAI BAY

Roc's interests in the Bohai Bay are in the Zhao Dong Block, Zhanghai and Chenghai Blocks and the exploration block 09/05, Figure 7-12. Roc's interest are as follows:

### Zhao Dong Block

- Development interest of 24.5% in the Zhao Dong field development incl. C & D fields
- Unitted interest of 11.667% in C4 field development
- 50% exploration interest

### Zhanghai & Chenghai Blocks

- 39.2% interest

### Bohai Block 09/05

- 100% interest

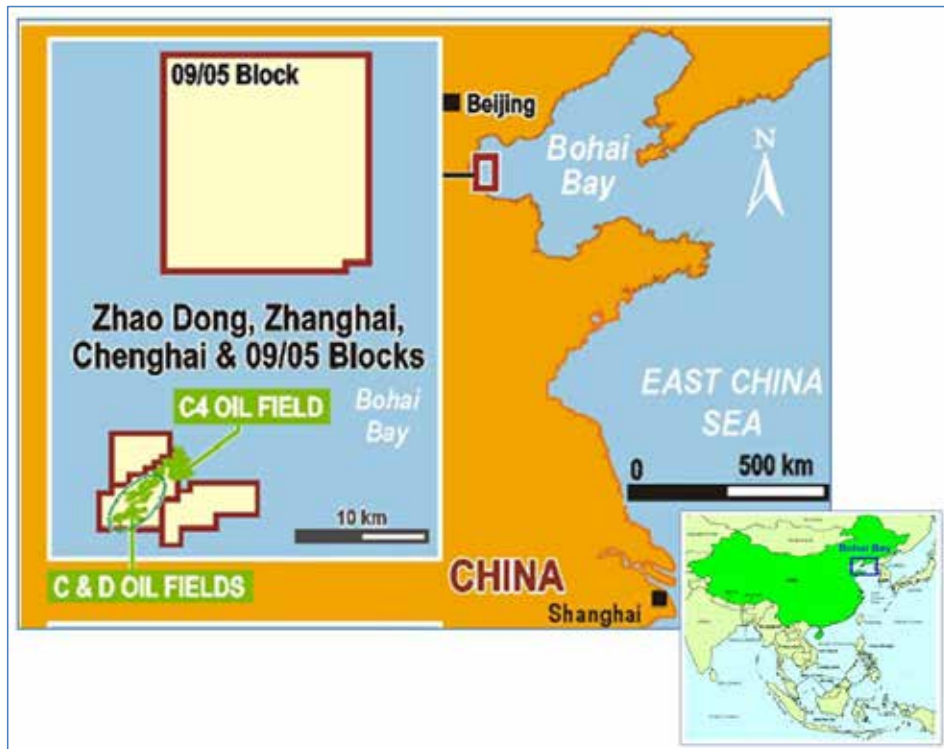


Figure 7-12 Location Map – Bohai Bay

Roc acquired a 24.5% operated interest in the ZD Block in mid-2006 via the acquisition of 100% of the shares of Apache China Corporation LDC. The ZD Block contains the C&D fields which commenced production in 2003 and part of the C4 field. At the time Roc acquired the asset, approximately 20 MMstb of oil had been produced from the C&D fields.

The fields are currently producing and undergoing simultaneous continuous development. Since acquiring the asset, the Roc-led joint venture has drilled over 120 development wells in the block, installed two platforms adjacent to the existing Zhao Dong platforms and installed new facilities at C4. The gross production in March 2014 averaged 16,200 bbl/d of oil and 8.6 MMscf/d of gas (3.2 MMscf/d sales).

In March 2011, the existing Petroleum Contract covering the Zhao Dong Block was modified to include the adjacent Zhanghai and Chenghai Blocks with the aim of commercialising previous near field discoveries in the area and encouraging further exploration activity. Any potential commercial development in the blocks would utilise the existing Zhao Dong facilities. The term of the Zhao Dong Contract and Production Period will be extended when and as necessary to accommodate any new production from the additional blocks.

On 11 May 2012, Roc was awarded a 100% operated interest in the new exploration block 09/05 offshore Bohai, located approximately 15km north of Roc's Zhao Dong block. The minimum work commitment for the first phase of the exploration period includes 3D seismic acquisition and the drilling of exploration wells.



In October 2013, Roc successfully completed the 162km<sup>2</sup> 3D ocean bottom cable (OBC) seismic campaign in the 09/05 exploration licence. Seismic processing has commenced and will assist in high grading the prospect inventory, in preparation for commencement of early exploration drilling.

Roc has signed a farmout option agreement with Horizon Oil (Beibu) Limited (HZN). Under the terms of the agreement Horizon will pay 40% of all petroleum exploration costs incurred until the exercise or lapse of the option, which entitles Horizon the right to farm into a 40% working interest in Block 09/05. In advance of spudding the first exploration well Horizon can exercise the option to acquire the 40% interest by paying a 2 for 1 promote on two exploration wells. In light of the proposed merger with Roc, Horizon has elected not to exercise the option.

### 7.2.1. Field Description

The Bohai Bay is a prolific oil producing province with stacked reservoirs system, ranging in age from Palaeozoic to Tertiary. Reservoir quality is good to excellent. The source rock is rich and generative. The Zhao Dong Block is extremely oil prone and oil is generally found wherever a suitable trap exists. Within the block, 27 different stratigraphic levels are known to contain oil; 16 of these are currently productive. Oil is waxy with a low pour point and a low acid content.

The Zhao Dong C/D Fields and the C-4 Field, (Figure 7-13) comprise a large number - some 150 - separate oil pools, with over 20 different productive reservoir horizons and sands having been shown to contain mobile oil and gas. In many cases, individual pools are segmented by internal faults. As well as drilled fault blocks, there are many undrilled compartments, largely contiguous with the existing drilled areas.

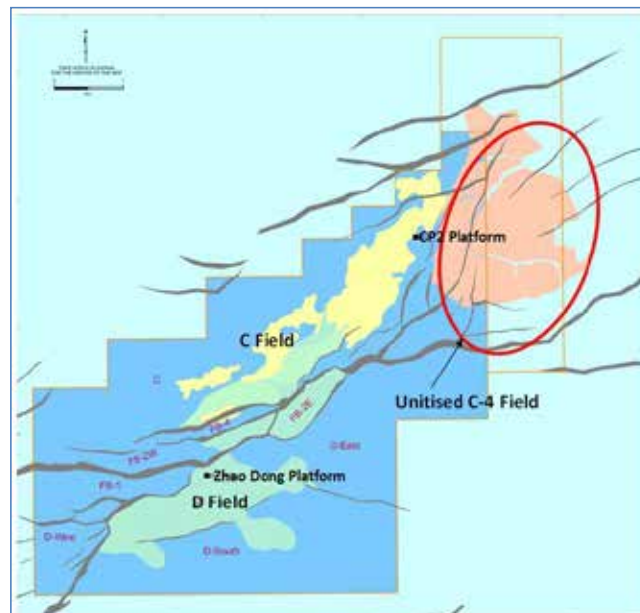


Figure 7-13 Zhao Dong and C4 oil accumulation map

A comprehensive 3D seismic data set covers the whole Zhao Dong Block and this, together with the large number of existing well penetrations in the developed C/D Fields, provides confidence in the mapping of the different horizons, and the in-place oil volumes and reserves which have been estimated for the fields. Several vintages of seismic data have been used historically; until 2008 the primary interpretation volume was a 3D dataset acquired by Apache in 1997-1998. This had been reprocessed at least once, including relatively unsuccessful post-stack inversion. In 2008 a new reprocessing project using available Petrochina data was undertaken with the aim of producing a better structural image through pre-stack depth migration. However, Roc stated that the data quality is poor over the Lower Tertiary & Pre-Tertiary section.

The pools relying on Eocene and older reservoirs are structurally defined. In the Upper Tertiary, amplitudes have been used by Roc to guide reservoir trend mapping, although these do not necessarily indicate the presence of oil.

The oldest principal reservoirs are the fluvial and lacustrine Jurassic Mz1-2/3 and Mz1-4/5 units, which contain sections of coarse conglomerate. The marginal lacustrine / deltaic Shahejie Formation provides reservoir sands in the Eocene Es2 unit. There are numerous productive intervals within the Upper Tertiary Guantao Ng (continental braided and meandering fluvial) and Lower Minghauzhen Nm (marginal lacustrine and meandering fluvial) formations. A schematic cross section showing the types of play is given as Figure 7-14.

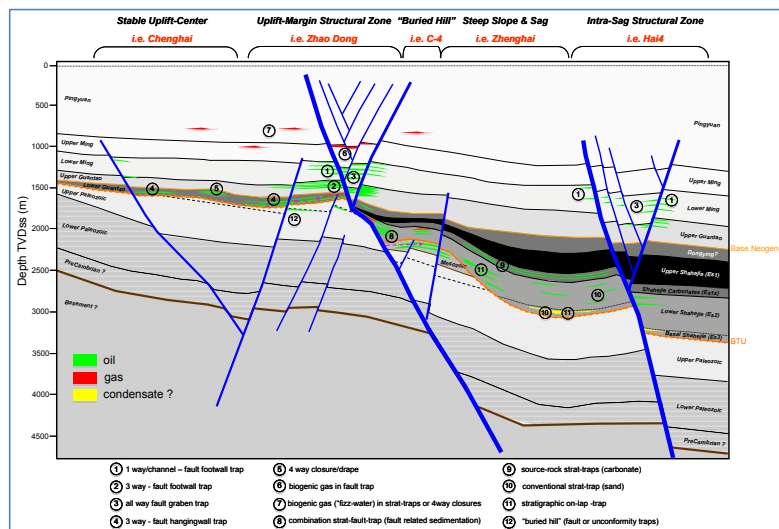


Figure 7-14 Schematic cross-section showing typical plays

RISC has reviewed and audited the methodology and input data that has been used by Roc to estimate STOIP. Roc's volumetric probabilistic methodology is supported. We made our own assessment of the NRV and were able to support overall the Roc NRV inputs.

We have made a series of deterministic checks as a check against Roc's STOIP range. Pool areas have been calculated from Roc depth maps by digitising of areas based on Roc's lowest known oil (LKO) (generally low case) and OWC (high case or ML as appropriate).

RISC has accepted the net pay and porosity determinations from petrophysics and used them in our volumetric calculations. In general RISC has used average net pay and average porosity values which



associated with the range in areas to deterministically calculate STOIIP. This gives an acceptably wide range in STOIIP.

RISC STOIIP estimates were compared against the Roc STOIIP. Where differences were small and/or explainable, the Roc STOIIP was accepted. The largest differences were at the P90 level, although differences were always within 10%. Where differences were material RISC discussed these with Roc, who accepted RISC's proposed values. We therefore support Roc's estimate of STOIIP which range from for the Zhao Dong Field. A summary of the discovered STOIIP and reserves is included in Table 7-6 and Table 7-7. These oil volumes exclude about 30 MMstb undiscovered STOIIP.

Field	Low	Best	High
	Oil MMstb	Oil MMstb	Oil MMstb
Zhao Dong C/D	302.0	357.5	422.0
Zhao Dong C-4	27.0	40.5	60.4
<b>Total</b>	<b>329.0</b>	<b>398.0</b>	<b>482.4</b>

Table 7-6 STOIIP as at 1 January 2014 - Bohai Bay

Field	1P		2P		3P	
	Oil MMstb	Gas bcf	Oil MMstb	Gas bcf	Oil MMstb	Gas bcf
Zhao Dong C/D	12.7	3.0	16.0	4.3	20.8	6.1
Zhao Dong C-4	1.0	0.3	1.5	0.5	2.0	0.7
<b>Total</b>	<b>13.7</b>	<b>3.3</b>	<b>17.5</b>	<b>4.8</b>	<b>22.8</b>	<b>6.8</b>

Table 7-7 Gross Reserves as at 1 January 2014 - Bohai Bay

Field	2C MMstb	2C Bcf
C&D	20.2	4.5
C-4	1.4	0.4
<b>Total</b>	<b>21.6</b>	<b>4.9</b>

Table 7-8 Gross 2C Contingent Resources as at 1 January 2014 - Bohai Bay

Cumulative production to 31 December 2013 was 70.0 MMstb of oil and 35.6 bcf of gas for C and D fields and 4.6 MMstb of oil and 3.9 bcf of gas from C-4. Total cumulative gas sales were 7.3 bcf. From the period 1 January 2014 to 31 March 2014 there has been a further depletion of 1.3 MMstb from C/D fields and 0.17 MMstb from C-4 gross due to production. Gas sales were approximately 0.4 bcf over the same period.

### 7.2.2. Production and Cost forecast

The Zhao Dong offshore facilities comprise four bridge-linked platforms; two for drilling and accommodation and two for production and processing.

The C4 Field Unit facilities comprise a wellhead platform and pipelines to the C&D field platform. Production is delivered to onshore processing plant by pipelines.

Oil and gas production from Zhao Dong Block fields C&D and C4 are being augmented with an ongoing development drilling program.

Roc has used the RISC Year End 2013 reserves report as the basis for the production profiles. RISC has reviewed these and accepts their use in the evaluation. The following plots show the annual oil and gas volumes for C&D Fields and C-4.

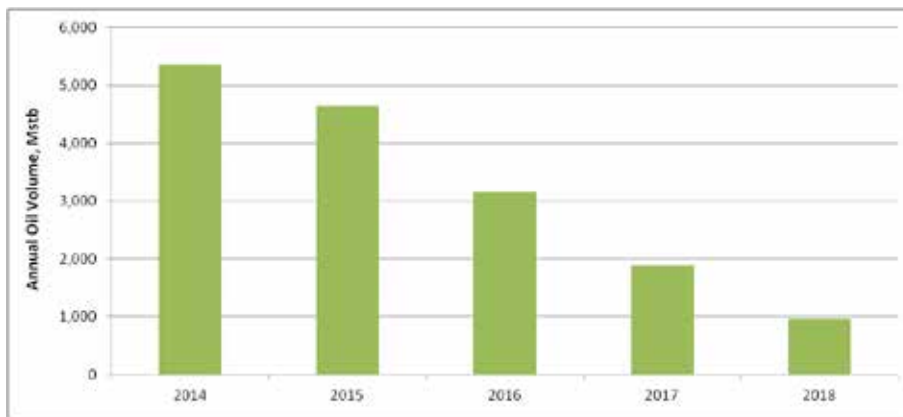


Figure 7-15 2P Gross Oil Production Forecast - C&D Fields

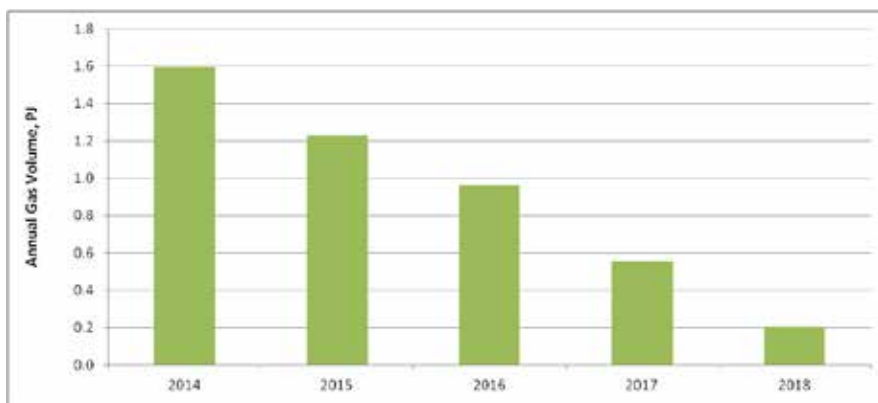


Table 7-9 2P Gross Sales Gas Production Forecast - C&D Fields

Note that in Roc's financial model, the C and D Fields were each allocated 50% of the total identified by RISC for the full C&D Field forecast. As the equity in these fields is the same, this is not a concern.

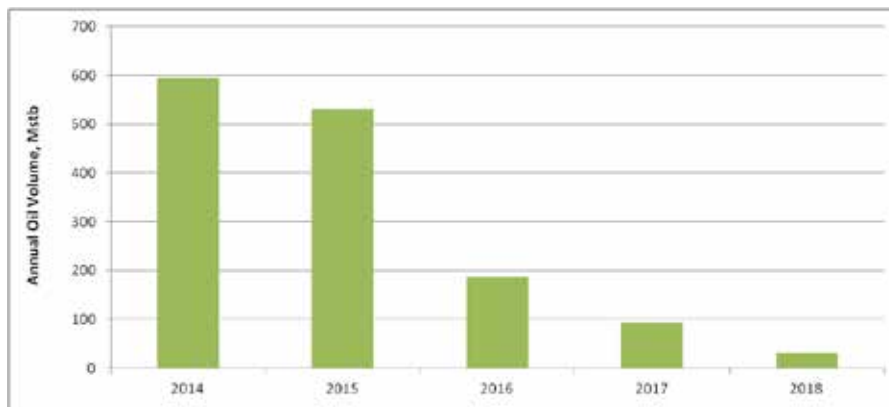


Figure 7-16 2P Gross Oil Production Forecast - C-4 Field

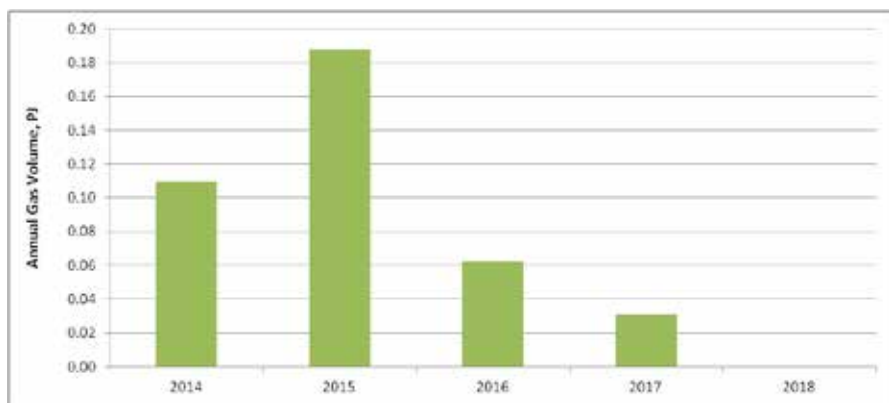


Table 7-10 2P Gross Gas Production Forecast - C-4 Field

No further production is expected from the New Block I, which ceased production in 2013.

#### Contingent Resource Scenario

A scenario which produces a proportion of the 2C contingent resources has been assessed.

The contingent resources were split by Roc into four categories:

- Developed, Licence Extension
- Undeveloped, Licence Extension
- Development Unclarified
- Development Not Viable

Of a total 21.6 MMstb identified within these categories, 7.7 MMstb require a licence extension and 9.3 MMstb of development projects were not viable (too small, or too difficult).



If the PSC was extended beyond the current PSC end date of September 2018, a portion of these resources may be migrated to reserves categories.

In the scenario with an approved extension of PSC period to 2023, incremental development activities could become economically attractive and could be considered new reserves. Additionally, the tail-end of the current development would be migrated to reserves.

Roc modelled this scenario with new development activities and created new cost and production profiles. The extended plan, with oil sales to 2023, has an increment of 14.4 MMstb over the RISC 2P for period 2014-2023. This plan reflects a case of 2P+2C resources with truncation at 2023. RISC has made a distinction between the volume produced in a 5-year extension, and the YE2013 2C volume. The volume beyond 2023 is not included in this scenario.

The figures below show the oil and gas production profiles for the 2P+2C case with a 5 year extension. These include C&D Fields and C-4.

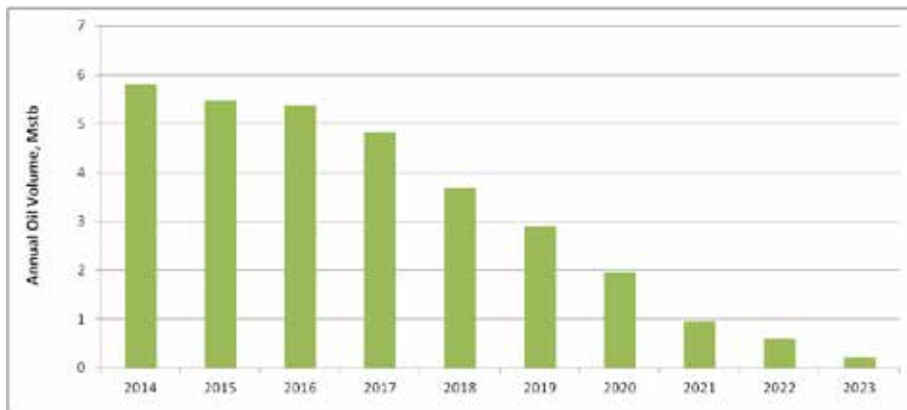


Figure 7-17 2P+2C Gross Oil Production Forecast - All Fields

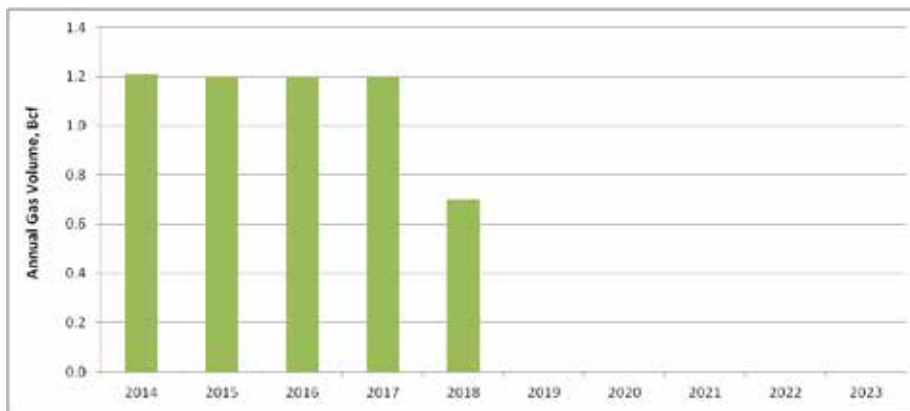


Figure 7-18 2P+2C Gross Gas Sales Forecast - All Fields

Note that sales gas volumes do not extend beyond 2018, although oil production continues to 2023 in the 2P+2C case. This due to an increasing proportion of produced gas being used for fuel.



### Capital Costs

Capital costs totaling \$280m are forecast for the 2P case. Most of this cost relates to drilling 42 development wells, the balance is for facilities costs including increasing water handling capacity and well hookups.

In the 2P+2C (truncated to 2023) case the estimated capital cost expenditure is \$811m. The bulk of this cost relates to the drilling of an additional 77 wells and a new well head platform.

### Operating Costs

Operating costs are forecast to be \$499.6m (with \$65.7 of abex contained in this) to end of PSC decreasing from \$130m in 2014 to approx \$40m in 2018 in the 2P case. In the 2P+2C case the total opex is forecast to be \$720.8m (with \$101.3 of abandonment costs contained in this) with a similar profile from 2014-2018 and tail costs continuing until 2023.

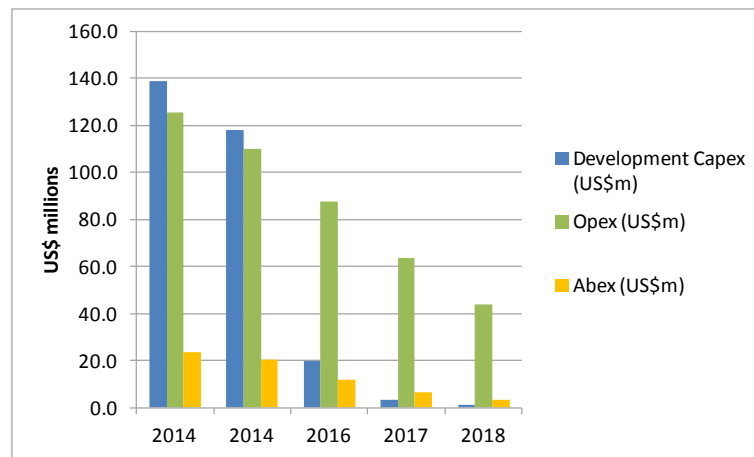


Figure 7-19 Gross 2P Costs - Bohai Bay

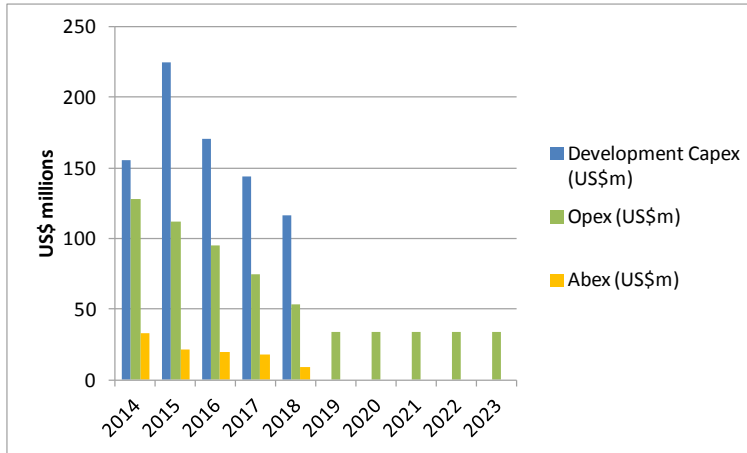


Figure 7-20 Gross 2P+2C Costs - Bohai Bay

### 7.2.3. Exploration

Exploration and appraisal potential exists in the 09/05, Zhanghai and Chenghai Blocks.

In March 2011, the Zhao Dong Joint Venture was awarded two additional offshore areas, adjoining the Zhao Dong PSC, as an extension to the existing acreage (Figure 7-21). Historical exploration campaigns resulted in discovery of oil in both blocks. There is potential to access portions of these new blocks from the Zhao Dong platforms, particularly areas within the Northern block. To date only one well (ZH-01P) has been put on production through the CP2 platform. Production from August 2011 to May 2013 was only 0.14 MMstb (gross) and no further reserves or contingent resources are assigned.

Roc has a 39.2% working interest in these new areas. The pool from which well ZH-01P produced straddled the block boundary and was unitised with Roc holding a net 33.5% interest.

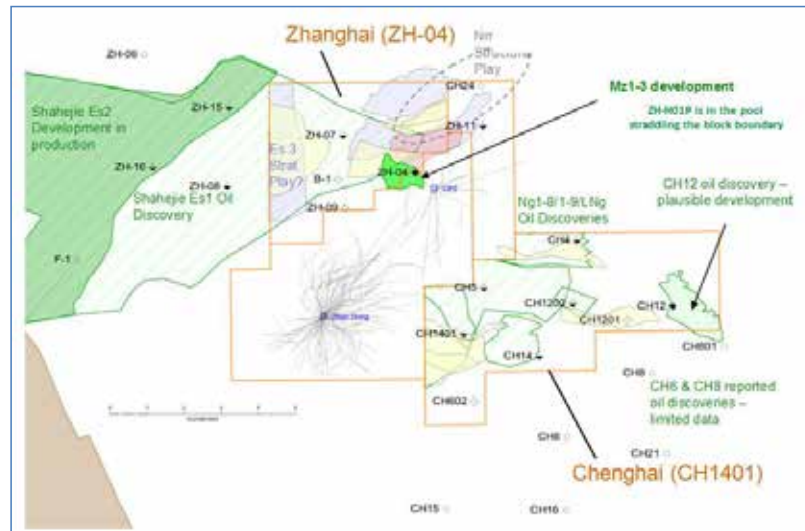


Figure 7-21 Map showing Zhaghai and Chenghai Blocks, Zhao Dong wells and Discoveries

#### 7.2.4. Chenghai Block Development

RISC understands that the Chenghai Block contains a number of viscous oil discoveries. We have not had access to basic data on this block nor seen any mapping, log interpretation, fluid analysis or any assessment of volumetrics. RISC understands that Roc has estimated 60-80MMstb STOIP. We have briefly reviewed some reservoir engineering work conducted by Roc that considered potential recovery methods for the viscous oils encountered in wells drilled to date.

The reported fluid properties indicate reservoir oil viscosity generally in the range from 600 to 1700 cP - although the measured viscosity on fluid samples at well CH5 is reported at 20 cP and CH1401 120-150 cP.

Roc's review of available technologies considered:

- conventional production (depletion /water drive)
- miscible solvents
- steam injection
- polymer flooding
- combustion floods

Roc concluded that the technology for developing the higher viscosity crudes at reservoir depths of 1450 mss in an offshore cost environment is not reliably available, although there could be scope to apply onshore technologies, however in the absence of valid analogues this would be a frontier application.

No contingent or prospective resources have been assessed to date.

RISC has assigned no further value to the exploration in the Zhaghai and Chenghai blocks,

Horizon had an option to farm into Block 09/05 for a 40% interest by paying 40% of the ongoing costs to earn the option and the right to farm into a 40% interest by drilling two exploration well at a 2:1 promote. The option has since expired and Roc now holds 100%.



Block 09/05 2014 budget has an amount of \$21.1 million including \$1 million for G&G studies and \$14.7 million. There is a further contingent budget of \$1.7 million for seismic and \$9.2 million for drilling.

Assuming that Roc can attract the same terms as Horizon offered and assuming a 2 well cost plus studies and seismic of \$26.6 million, this values the block at \$26.6 million. However there is no certainty that similar terms could be obtained. In the low and mid cases, we have assumed a 2:1 farmin on the firm G&G studies and a well for a total cost of \$15.7 million, which would value the permit at \$15.7 million. The high case value is \$26.6 million.

## 8. PAPUA NEW GUINEA

### 8.1. PRL 4

#### 8.1.1. Stanley Field Description

The Stanley Field is located in permit PRL4 (Figure 8-1). Horizon has a 30% interest in the permit, which will reduce to 23.25% in the event that the PNG Government exercises its back-in rights of up to 22.5%. The permit is operated by Talisman Niugini Pty Ltd.

In April 2014, the Stanley Project was approved by the PNG Government and the development licence (PDL 10) was awarded on 30 May 2014. The Stanley project entails the production of 140 million cubic feet (MMscf/d) of gas per day from two wells, extraction of initially over 4,000 barrels of condensate per day with re-injection of the dry gas until a gas market develops. First production is scheduled for mid 2016.

Options to monetise the gas include supply to the Ok Tedi and Frieda River mines or local users for power generation and/or gas export via a 1-2 Mtpa LNG project under consideration. The potential to sell gas into third party LNG projects also exists.

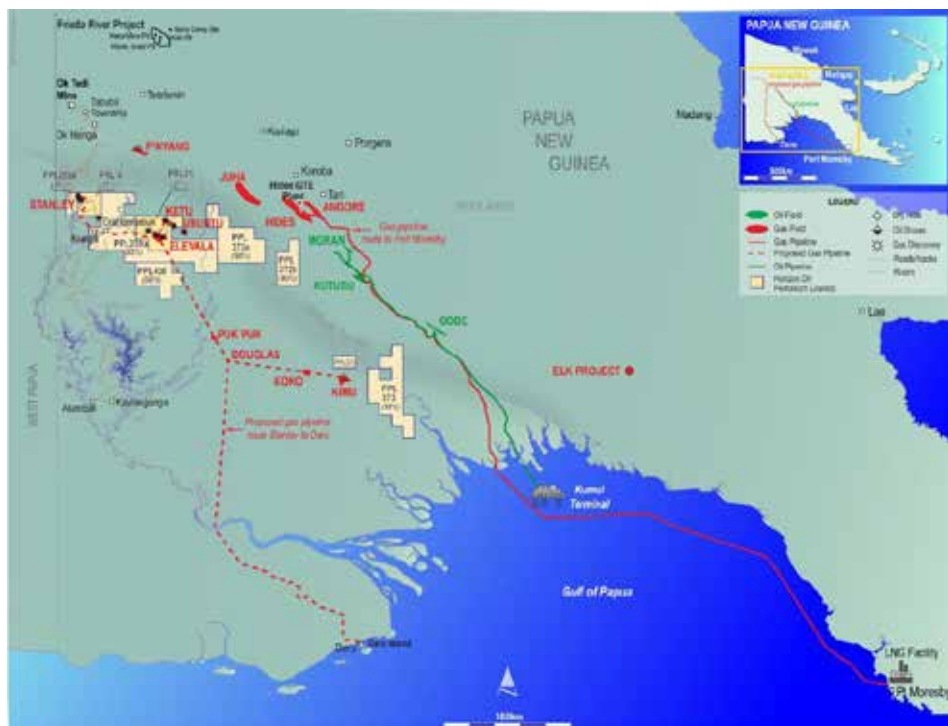


Figure 8-1 Horizon PNG Interest Location Map



Three wells and one sidetrack have been drilled to date on the Stanley structure. Stanley-1 was drilled in 1999 and discovered gas in the Toro Sandstone, which was later tested by Horizon in 2008 at a rate of 9 MMscf/d gas. The well subsequently flowed gas on open flow at 30 MMscf/d.

In 2011, Stanley-2 was drilled as a near vertical well targeting the Toro reservoir on the crest of the structure, with the additional objective of testing for deeper reservoirs. The well proved the Toro Sandstone to be gas bearing on the central portion of the field with 22.1m of net gas sand, and also encountered a deeper gas bearing reservoir, named the Kimu Sandstone, with 41.2m of net gas sand. Both reservoirs encountered gas to the base of reservoir and demonstrated a common gas gradient consistent with the gas column at Stanley-1.

In order to obtain a full suite of core across the gas bearing reservoirs, the well was sidetracked as Stanley-2ST1 adjacent to the original wellbore. Stanley-2ST1 encountered a similar net gas sand thicknesses to Stanley-2 in the Toro and Kimu reservoirs as expected. The sands then completed and tested gas separately at up to 30 MMscf/d and up to 40 MMscf/d respectively.

The field extends into the adjacent PPL259 permit and is the subject of a unitisation determination. However since Horizon has 30% interest in PRL4 and a 35% interest in PPL259 (prior to PNG Government back-in) it is largely hedged against the unitisation outcome and will have minor impact on Horizon's interests. As this is commercially sensitive, we have not included a structure map.

Probabilistic gas and condensate in place have been calculated for both the Toro reservoir and the Kimu reservoir. Static modeling has been undertaken to provide input into the dynamic modeling. RISC considers the static model reasonable and adequate for this purpose. RISC has audited the reserves and resources as at 30 June 2012 (Table 8-1). We are satisfied that that there is no new information available since that date which would have a material bearing on our conclusions.

	P90	P50	P10
GIIP bcf	474	591	728
CONDENSATE IN PLACE MMbbl	14.2	17.7	21.8
<b>Reserves</b>	<b>1P</b>	<b>2P</b>	<b>3P</b>
Condensate (MMbbl)	8.3	11.4	14.4
<b>Contingent Resources</b>	<b>2C</b>		
Gross Gas (bcf) <sup>(1)</sup>	399		
Condensate (MMbbl) <sup>(2)</sup>	1.3		
<b>Notes:</b>			
(1) Includes potential LPG resources with a yield of 1.97 tonne/MMscf			
(2) Approximately 10% of condensate recovery is attributed to the gas sales phase and is a contingent resource pending gas commercialisation			

**Table 8-1 Stanley Field Gross Reserves and Resources as at 30 June 2012**

## 8.1.2. Production and Cost forecast

### 8.1.2.1. Project Overview

The Stanley development will consist of two production and two dry gas injection wells. Two of these wells Stanley-2ST1 and Stanley-4 were drilled in 2011. Stanley-2 will be used as a producer from the Toro and Kimu sands. Stanley-4 will be used as a gas injector for the Kimu. Two additional wells Stanley-3 and 5 will be drilled.

The gas plant will be located near the existing wells, where site clearance is largely completed. The facilities scope includes 2 x 50% processing trains capable of processing a total of 140 MMscfd nameplate capacity gas (133 MMscfd annual average). Initial condensate rate is expected to be just over 4000 bbl/d annual average. Main components of the gas plant are as follows:

- 2 x 50% 70 MMscf/d Inlet Separator Modules;
- 2 x 50% 70 MMscf/d Refrigeration Modules;
- 4 x 25% 35 MMscf/d Gas Driven Injection Compressors;
- 1 x 100% Condensate Stabilization Module;
- 1 x 100% Re-cycle Compressor;
- 2 x 100% Condensate Transfer Pumps;
- 1 x 40,000 Bbl condensate tank;
- 2 x 50% 70 MMscf/d Mercury treatment beds;
- 2 x 50% 2,000 bpd Mercury treatment beds;
- 1 x 60,000 Bbl condensate storage tank at Kiunga lay down area;
- 2 x 100% Condensate Transfer Pumps at Kiunga Condensate Transfer Station;
- 3 x 50% GENSETS at Stanley Gas Plant;
- 2 x 100% GENSETS at Kiunga Condensate Transfer Station.

Processed gas from the Stanley Gas Plant will be used for the following:

- fuel gas for power, compression and process;
- remaining gas will be re-injected into the reservoir;
- As and when gas markets become available (e.g. power generation at mine sites) gas will be exported to various customers.

Stabilised condensate produced by the Stanley Gas Plant will be shipped via a 40 km 6" pipeline to a new loading terminal located on the Fly River at Kiunga. Kiunga is a major river port with infrastructure that allows significant quantities of copper to be shipped from the OK Tedi copper mine. The proposed condensate shipping facility will be located near the Kiunga airport at the site of an existing staging area used to support drilling operations. A short 1 ½ km condensate transfer pipeline will move the product from the shipping facility to a riverside wharf on the Fly River, approximately 1 km downstream of the OK Tedi wharf at Kiunga.

### 8.1.2.2. Cost and schedule estimates

RISC has reviewed the Horizon cost and schedule basis for the Stanley field development and in the main finds them to be reasonable. RISC has made adjustments to the project budget to include the effect of project delays and added contingency on some items where necessary. The Stanley capital cost estimate is shown in Table 8-2.

There has also been a change of operatorship, with Talisman assuming the role of operator, and this has the potential to further delay the project. Nevertheless, RISC believes that a two year project

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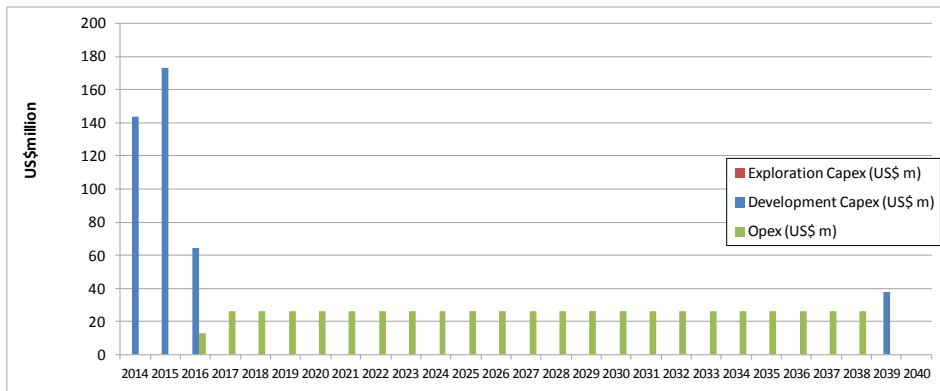
execution schedule is achievable and considers that a start-up date of 1 July 2016 is achievable provided that the production licence is awarded as planned.

Cost Item	US\$ Million
Project Management and Supervision	15
Stanley Gas Plant	221
Pipeline	40
Kiunga Storage and Load out facilities	27
Wells (including Stack costs)	78
<b>Total Capital Cost</b>	<b>381</b>
<b>Abandonment</b>	<b>38</b>
<b>Operating Cost/year</b>	<b>26</b>

**Table 8-2 Stanley Gross Capital and Operating Costs as at 1.1.2014 - RISC estimate**

Operating costs for the Stanley development, as indicated in the Horizon corporate model, are approximately \$26 million per year including condensate transport costs. RISC has reviewed the operating costs and considers these costs reasonable.

The above capital and operating costs are also appropriate for both a stand-alone liquids stripping scheme and a scheme which includes future gas sales on the basis that all the necessary equipment is already in place and on the assumption that the gas is sold on an ex-field basis (Figure 8-2). In the case of gas export, opex extends until 2041.



**Figure 8-2 Stanley 2P Liquids Stripping Gross Cost Forecast - RISC Estimate**

### 8.1.2.3. Production forecast

RISC has considered two production scenarios:

#### 2P Reserves Case

A stand-alone liquids stripping scheme which produces the 11.4 MMbbl of condensate reserves.

Horizon have generated a dynamic simulation model of the Stanley field to evaluate a range of development and production concepts. RISC has reviewed the model inputs and made changes where necessary. Production forecasts at the 2P level have been generated by RISC for condensate stripping (with lean gas reinjected back into the reservoir). Condensate stripping is assumed to commence in July 2016. The field is assumed to produce raw gas at a capacity of 140 MMSCFD before an allowed downtime of 5% which yields an average raw gas rate of 133 MMSCFD, and lean gas is reinjected at an average rate of 124 MMSCFD after condensate is removed and a small amount of gas is used for fuel and flare. The production and cost forecasts are shown in Figure 8-3 and Figure 8-2.

The condensate-gas ratio (CGR) for Stanley gas has been derived from PVT analysis of eighteen downhole and surface gas and condensate samples from the Toro and Kimu reservoirs. The expected produced initial CGR is approximately 30 bbls per MMSCF taking into account process yields and will be able to remove condensate from the gas down to a level of 3 bbls per MMSCF. The produced CGR will decline as lean gas breaks through in produces and the reservoir pressure decreases.

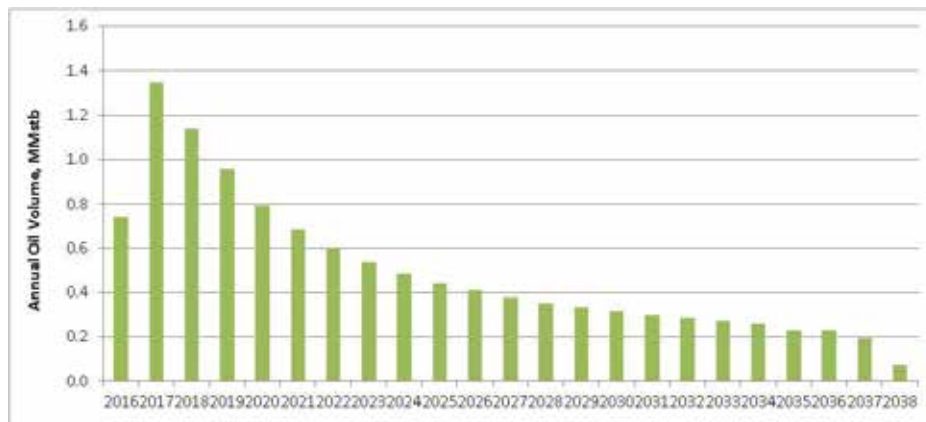


Figure 8-3 Stanley 2P Gross Production Forecast – Condensate stripping only

#### 2P+2C Resources Case

In this scenario, liquids stripping for 3 years is followed by gas export. This develops the 2C gas resources and an additional 1.3 MMstb of condensate from the field blowdown. Lean is reinjected back into the reservoir for three years and condensate removed and sold, after which time a gas sales opportunity has been captured and the lean gas is instead exported. In the RISC forecasts, produced gas is assumed to be sold to Ok Tedi mine (power generation) at a rate of 2.4-3 PJ/a, with the remainder to 18 PJ/a available for sales to the potential Frieda River mine and other potential buyers of gas in the region.

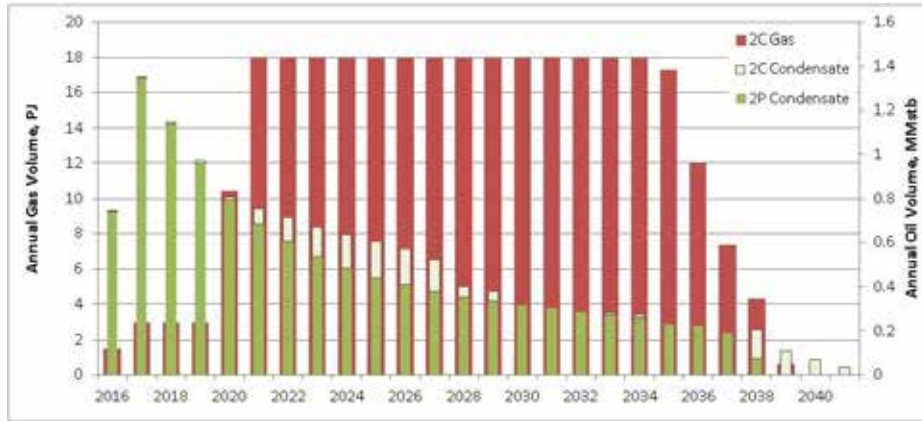


Figure 8-4 2P+2C Gross Production Forecast – Condensate stripping and gas export

The liquids stripping project is already approved and risks associated with the gas sales are primarily commercial in nature. We consider the technical risks associated with this scenario to be low and have not made any adjustment for risk.

### 8.1.3. PRL 4 Exploration

There is potential for additional closures located to the northeast of the Stanley field to be drilled and tied back to the Stanley development. It is expected that prospective incremental structures will be firmed up when further drilling on the Stanley Field has been completed and uncertainty in the depth conversion calibrated further. Exploration drilling, if justified, would not be undertaken until after 2016 when the drilling results from Stanley and possibly further seismic acquired.

Note that PDL 10 (Stanley field) will only be awarded over graticular blocks 1622 (contained in PPL 259) and 1623 (one of a total of 4 graticular blocks in PRL 4). Following award of PDL, the remaining 3 blocks are released back to the State to be subject to a public tender. Horizon, Talisman and Osaka Gas have submitted an application to the State to extend the life of the remaining blocks contained in PRL 4.

We have not assigned any exploration value to this permit.

## 8.2. PRL 21

### 8.2.1. Elevala and Ketu Field Description

Horizon has a 27% interest in PRL 21 which will reduce to 20.925% assuming the PNG Government exercises its back-in rights. PRL 21 is located to the east of PRL 4 (Stanley field) and contains the Elevala and Ketu gas condensate fields (Figure 8-1). The operator is Horizon.

Horizon has prepared a preliminary field development plan and submitted a development licence application for the Elevala and Ketu fields. The development concept is analogous to the Stanley Project but on a larger scale. The concept involves producing an annual average rate of 210 MMscf/d (140 MMscf/d from Elevala and 70 MMscf/d from Ketu) and reinjecting lean gas back into the reservoir. Options to monetise the gas include gas export via a 1-2 Mtpa LNG project under

consideration or sale into third party LNG projects.

The Elevala Field was discovered by the Elevala-1 well drilled by BP in 1990. The well encountered gas throughout the Elevala Sandstone reservoir and gas shows in the deeper Toro reservoir. The Elevala reservoir was tested, flowing gas at a rate of 11.9 MMscf/d. An attempt was made to test the Toro reservoir which was unsuccessful, leaving the test string in the hole and precluding a further test attempt. Potential for gas in the Toro reservoir below the Elevala and Tingu structure exists and has been noted as prospective resources.

The Ketu Field is located 14 km northeast of Elevala. The Ketu-1ST well was drilled in 1991 by BP and encountered similar gas condensate in the Elevala Sandstone with no evidence of a GWC (the original hole was abandoned due to hole conditions and a sidetrack drilled).

The Elevala-2 appraisal well was drilled in late 2011, encountering approximately 19m net gas bearing reservoir in the Elevala Sandstone. The well was sidetracked downdip into Elevala-2ST1 in order to establish the GWC, and encountered approximately 17m of water wet Elevala Sandstone. Pressure data acquired in both wellbores enabled a determination of the gas water contact at -3,045 mTVDss across a shale between two sands. The western lobe of the structure was drilled in August 2013 by the Tingu-1 well which confirmed the extension of the Elevala field into the eastern lobe and now incorporates the Tingu accumulation. The Tingu-1 well was tested at up to 46 MMscf/d and encountered the GWC at -3,044 mTVDss. The Toro sandstone was encountered water bearing at the Tingu-1 location, however updip gas potential remains.

The structure of the fields are defined by grid of 2D seismic data, with a line spacing of 1.5 to 2.5km between dip lines and 4km between strike lines, of different vintages and variable quality. The time and depth mapping has been reviewed by RISC and is supported.

Elevala is shown to be an areally large, low relief structure, closing against faults to the south and possibly bisected by a northeast-southwest fault (Figure 8-5).

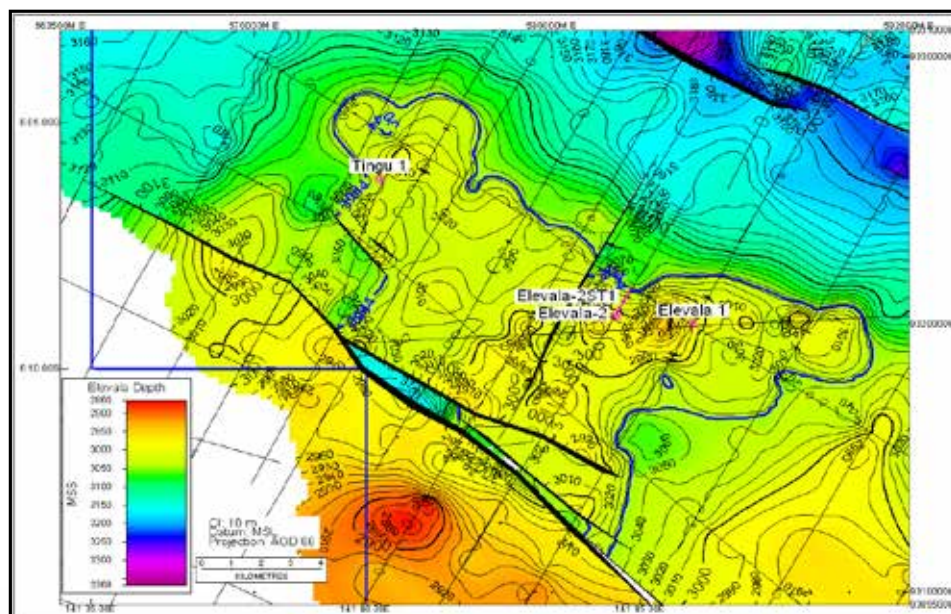


Figure 8-5 Elevala Field Elevala Reservoir Depth Structure Map

The Ketu Field has a range of potential gas water contacts of 3,220 to 3,235 mTVDss, determined pressure gradients. The Ketu Elevala reservoir depth structure map is shown in Figure 8-6.

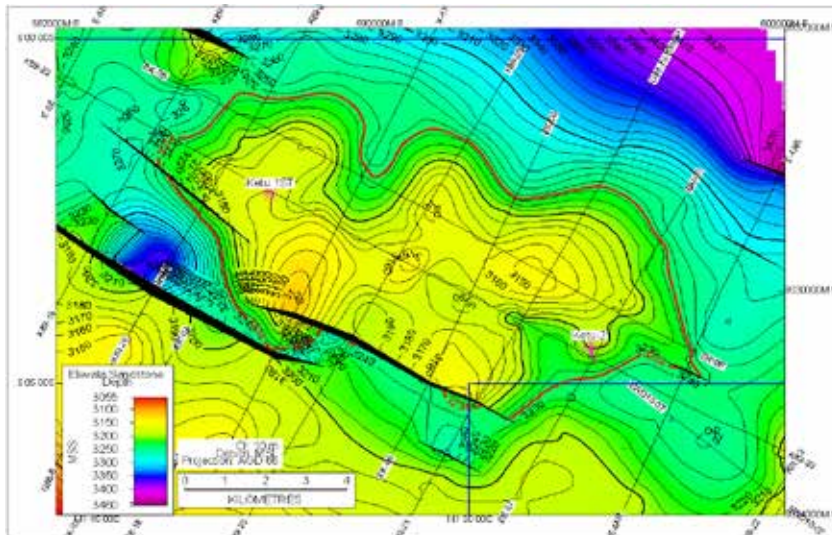


Figure 8-6 Ketu Field Elevala Reservoir Depth Structure Map

Static and dynamic modeling has been undertaken. RISC considers the reference case model reasonable. The reference case static models was used as the input for the dynamic modeling.

RISC has reviewed the reference case static and dynamic models and considers them fit for purpose given the project maturity level. Horizon intends to undertake further uncertainty modeling prior to the project FID decision in late 2014. RISC independently calculated a similar range of resources and therefore supports the resource ranges derived by Horizon shown in Table 8-3 .

	2C Gross Contingent Resource		
	Elevala	Ketu	Total
GIIP (Bcf)	1258	522	1780
Condensate in Place (MMstb)	65.8	31.3	97.1
Gross Gas EUR (Bcf)	688	291	979
Gross Condensate EUR (MMstb) <sup>1</sup>	35.4	14.2	49.6

1. Volumes are for gas export scenario. Liquids stripping stand alone recovers 51 MMstb.

Table 8-3 Elevala and Ketu Gross 2C Contingent Resource Estimates as at 1 January 2014



## 8.2.2. Production and Cost forecast

RISC has evaluated two development cases:

### Liquids Stripping

This concept is based on the following development:

- 5 wells, 2 producers and 2 injectors in Elevala and 1 producer in Ketu
- A gas plant similar in design to the Stanley gas plant, but with 3 production trains and a total production and injection capacity of 240mmscf/d (resulting in an annualized capacity of 210mmscf/d when downtime is taken into account).
- Condensate will be exported via a 60km pipeline to a new storage and ship loading facility located at Drimdemasuk on the Fly River (North of Kiunga).
- Total gross condensate production over the 20 year project life is 51 MMstb

### Liquids Stripping plus gas Export

The facilities installed are identical to the liquids stripping project, however gas injection ceases after 3 years when 210 MMscf/d nameplate capacity gas sales to a 1.5 Mtpa nameplate capacity (1.3 Mtpa annual average) LNG project begins. It is assumed that the gas is sold on an ex-field basis, so no new facilities are required.

Total gross gas produced is 1,024 PJ with 49.6 MMstb of condensate.

#### 8.2.2.1. Cost and schedule estimates

RISC has reviewed the Horizon cost and schedule basis for the Elevala and Ketu field development. We conclude that the project cost estimates are reasonable, but we consider the project schedule to achieve a start-up date of 1/1/2018 as proposed by Horizon may be optimistic.

Whilst we believe a 36 month project timeframe to be reasonable for the duration of the execution phase, We consider that, given the current position of the project, the requirement for JV and government and regulatory approvals will put pressure on the schedule. The specific cause and impact of delay is difficult to predict at this point, and we therefore have evaluated a sensitivity of a 12 month delay to start-up to the beginning of 2019. This also has some impact on project costs, and we have therefore revised the project costs in line with our expectations.

We note that Horizon have included a 20% contingency on the facility costs, and support this level of contingency at this point. We have compared estimated well costs with the currently proposed Stanley wells, and support the well costs on the basis of a standard US\$35 million per well at this point.

RISC's Elevala-Ketu capital cost estimates are shown in Table 8-4.

	1/1/2018 start up US\$ Million	1/1/2019 start up US\$ Million
Development Planning (Pre FID)	33	60
Gas Plant	388	390
Pipeline	210	210
Terminal, Storage and Load out facilities	40	40
Roads	55	55
HSE, Regulatory, PM & Owners Costs	52	55
Contingency (20%)	143	149
Wells (5)	175	175
<b>Total Cost</b>	<b>1095</b>	<b>1135</b>
<b>Operating Cost/year</b>	<b>50</b>	<b>50</b>

Table 8-4 Elevala-Ketu Gross Capital and Operating Costs - RISC estimate

Operating costs for the Elevala-Ketu development are approximately US\$50 million per year including condensate transport costs. RISC has reviewed the operating costs and considers these costs reasonable. The capital and operating profiles for the 2018 and 2019 start up cases are shown in Figure 8-7 and Figure 8-8.

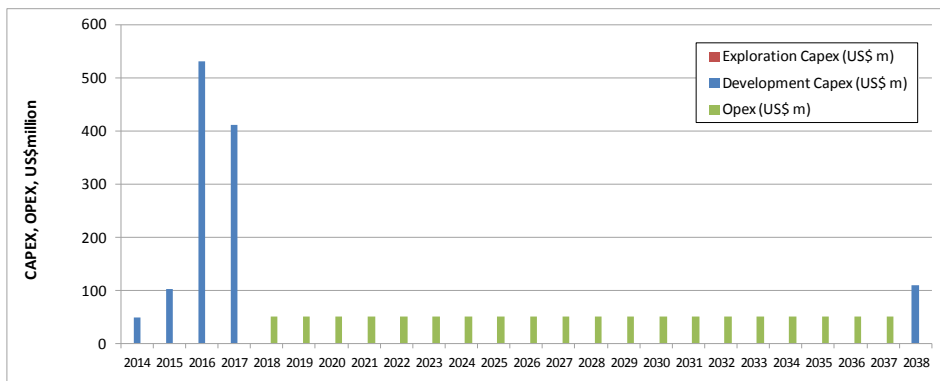


Figure 8-7 Elevala-Ketu Gross Cost Forecast - Liquids Stripping Only 1/1/2018 Start Up



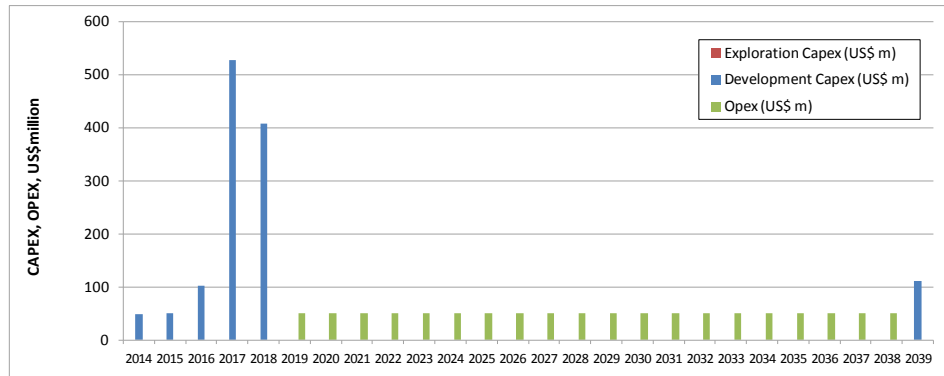


Figure 8-8 Elevala-Ketu Gross Cost Forecast - Liquids Stripping Only 1/1/2019 Start Up

#### 8.2.2.2. Production forecasts

The condensate-gas ratio (CGR) for Elevala and Ketu gas has been derived from a number of downhole and surface samples of gas and condensate. After accounting for process yields, the expected produced initial CGR for Elevala gas is 52 bbls per MMSCF which will decline as lean gas breaks through in produces and the reservoir pressure decreases. Ketu gas, after similar process modeling, is expected to have an initial CGR of 57 bbls per MMSCF.

Horizon has generated dynamic simulation models of the Elevala and Ketu fields to evaluate a range of development and production concepts. RISC has reviewed the model inputs and made changes where necessary. Production forecasts have been generated by RISC for condensate stripping (with lean gas reinjected back into each field). Condensate stripping is assumed to commence in January 2018. The Elevala field is assumed to produce raw gas at a capacity of 140 MMSCFD, while the Ketu field is produced at 70 MMSCFD before condensate is stripped. Downtime of 13% has been assumed.

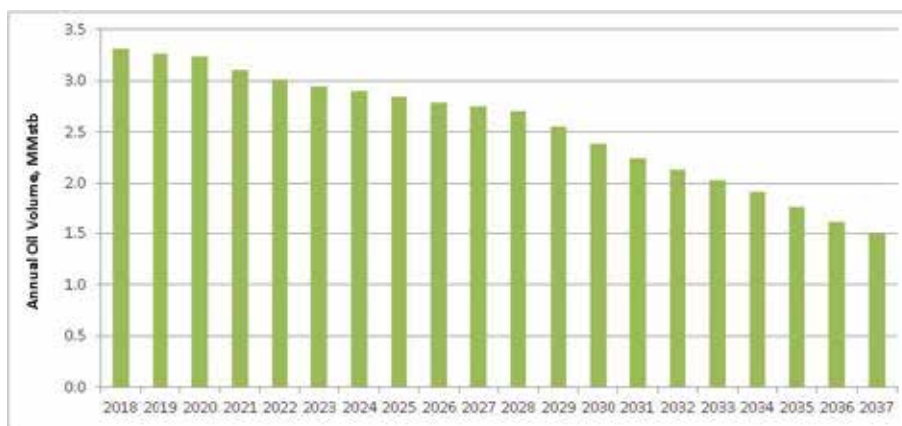


Figure 8-9 Elevala-Ketu 2C Gross Production Forecast – Condensate stripping only



RISC has also generated forecasts for a gas export development, whereby lean is reinjected back into the Elevala and Ketu fields after condensate stripping for three years, by which time the lean gas is instead exported to an 1.5 MTPA LNG facility at an equivalent raw gas rate of 210 MMSCFD.

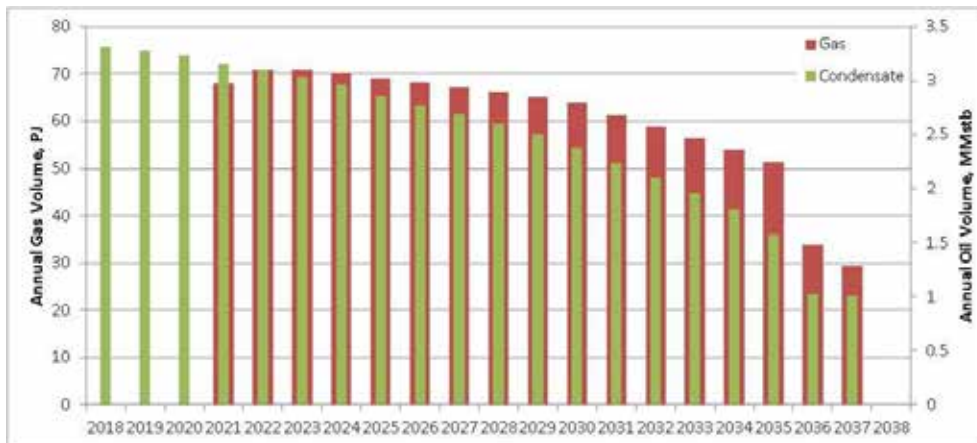


Figure 8-10 Elevala-Ketu 2C Gross Production Forecast – Condensate stripping and gas export

### 8.2.3. Gas Export (via Mid-scale LNG)

RISC has reviewed the estimated capital and operating costs provided by Horizon for their indicative netback pricing calculations.

The base scenario put forward by Horizon includes an export gas (and condensate) pipeline to Mugumugu, where a barge mounted LNG facility will be located. From here river shuttle tankers will export the LNG to Daru where they will load larger export sized tankers for the international LNG market. Horizon has allowed for 3 river carriers and 2 export carriers.

RISC considers the overall estimated CAPEX to be reasonable, however we have some concerns about the LNG transfer and export arrangements, and consider that an alternative scenario with an LNG export facility located at Daru provides a more robust scenario.

We consider that the proposed scheme will require an additional export carrier, and possibly an additional river carrier, to ensure LNG transfer operations do not significantly reduce system availability and performance. The export carriers will be to the cost of the gas offtaker, however they will incur significant demurrage costs due to the river export scheme which will affect the value of the product. To account for this, we have included the demurrage costs in the opex. In addition development planning costs (pre-FID) have been included (Table 8-5).



	CAPEX US\$ Million	OPEX US\$ Million/year
Development Planning (Pre FID)	50	
Pipeline (Elevala-Mugumugu)	580	
LNG Plant (Barge)	920	40
Other CAPEX	480	5
LNG River Carriers		48
Demurrage on LNG Export Carriers		37
<b>TOTAL Cost</b>	<b>2030</b>	<b>130</b>

Table 8-5 Gas Export Infrastructure Gross Costs - RISC Estimate

### 8.3. EXPLORATION

Horizon holds interests in a number of permits in PNG with exploration potential (Figure 8-11).

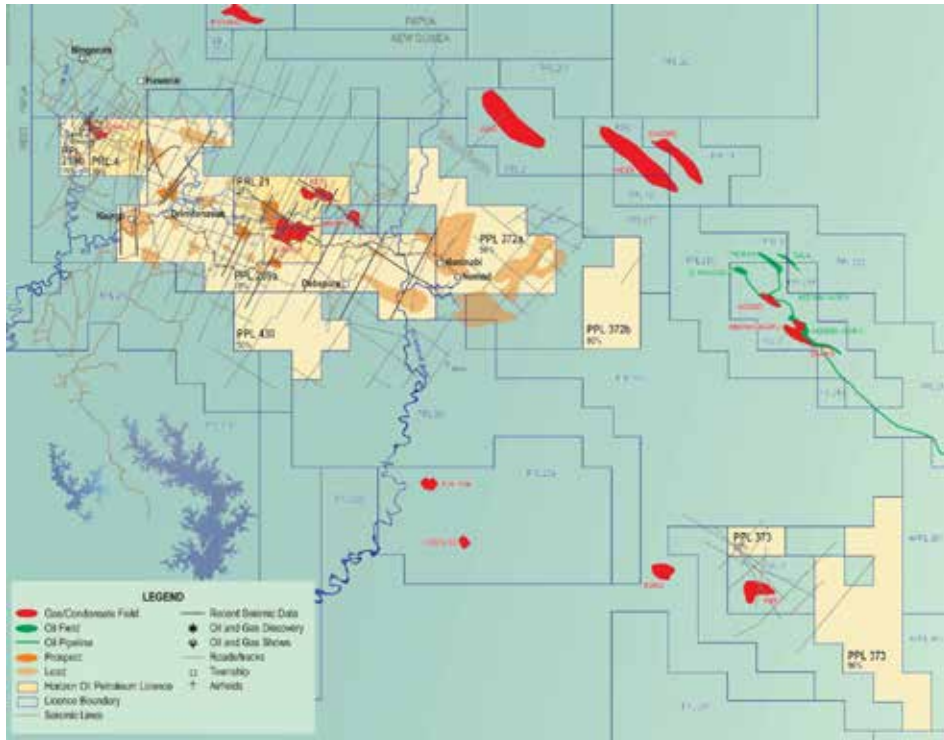


Figure 8-11 Horizon PNG Exploration Acreage

#### 8.3.1. PRL 21

Potential exists in the Toro reservoir below the eastern and western crests of the Elevala Field, termed the Elevala Toro and the Tingu Toro prospects.

The Toro reservoir underlies the Elevala sandstone in the Elevala Field and is likely to underlie the Elevala reservoir in the Tingu Toro Prospect. The Elevala-1 well petrophysical analysis indicates gas saturations in the Toro reservoir, and the pressure readings taken across the reservoir indicate that this section could contain gas, which if the Ketu Field Toro reservoir aquifer pressures were taken into the Elevala Field might have a potential contact at 3,100 mTVDss.

The Toro reservoir has not been tested in either of the Elevala wells, however it was about to be tested in the Elevala-1 well, but the test encountered problems and the test tool was left in the well.

In order to calculate prospective resources for the Toro reservoir, areas were derived from the Toro depth map, supplied by Horizon. The Tingu area was measured with a high case immediately



updip from the Tingu-1 well penetration, resulting in a P50 area of 12km<sup>2</sup>. The Elevala Toro had 6.5km<sup>2</sup> updip from the wells, which was used as the P90 input and the area of closure to a possible gas-down-to-of -3100m (58km<sup>2</sup>) was used as the P10 input.

The reservoir parameters were derived from petrophysical analysis. The prospective resource ranges are tabulated below.

Elevala Toro Reservoir Case	Elevala Toro Best Estimate	Tingu Toro Best Estimate	Total Best Estimate
GIIP (Bcf)	71	43	114.0
Condensate initially in-place (MMbbl)	3.7	2.2	5.9
Recoverable Gas (Bcf)	39	23	62.0
Recoverable Condensate (MMbbl)	2	1.2	3.2

**Table 8-6 Tingu Toro Gross Best Estimate Prospective Resources as at 1 January 2014**

RISC considers that the Toro reservoir prospects underlying the two culminations in the Elevala Field have a POS of 50%.

#### Exploration Valuation

There are no further commitments on PRL 21.

The 2014 work program and budget mainly comprises development planning, plus technical costs, and direct costs and community affairs, leading to a budget of \$38.4 million.

The low case value assumes the cost of deepening two development wells assuming no farmin promote, so the net value is zero.

The mid case value has been based on a risk adjusted value of the liquids in the 2 prospects of \$4 million net to Horizon's 27% interest. The upside case assumes value for both liquids and gas of \$20 million.

#### 8.3.2. PPL259

Horizon holds a 35% interest in PPL 259 operated by Eaglewood Energy. PPL 259 lies between the Stanley and Elevala Fields and extends to the southeast of Elevala as shown in Figure 8-12.

The most mature exploration acreage is west PPL 259, where the Nama prospect, shown in Figure 8-12, located on the border between PPL 259 and PRL 4, will be drilled in Q3 2014.

Three further prospects: Herea, Bese and Aongena have been identified as further potential drilling candidates with a total of 180 Bcf (gross) P50 recoverable unrisks gas prospective resources and 6 MMbbl (gross) of condensate.

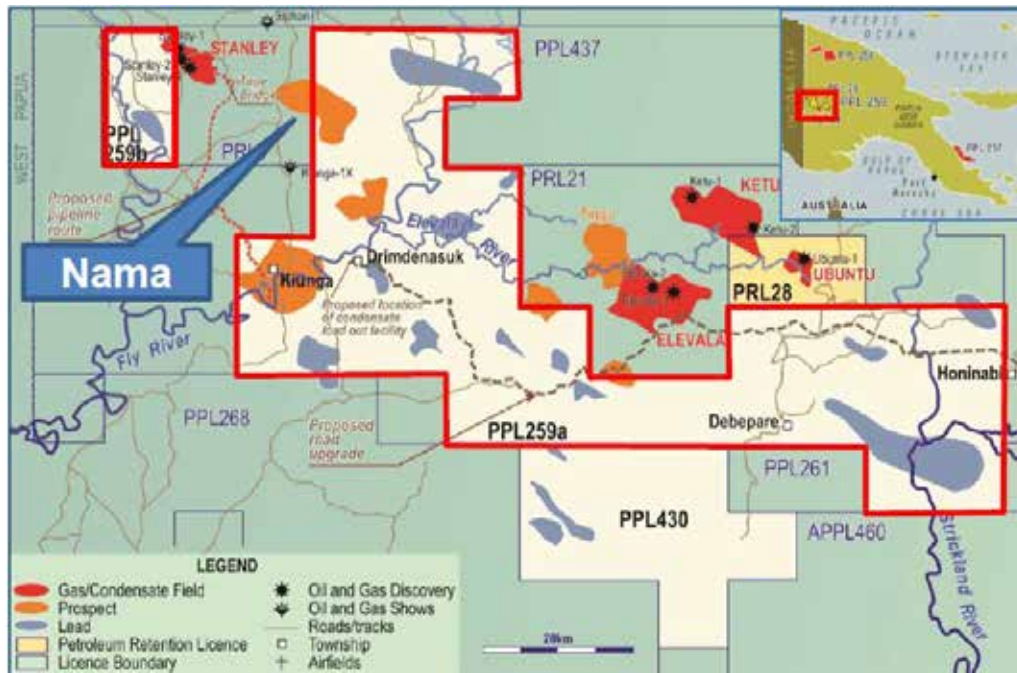


Figure 8-12 PPL 259 Block Location and Prospects

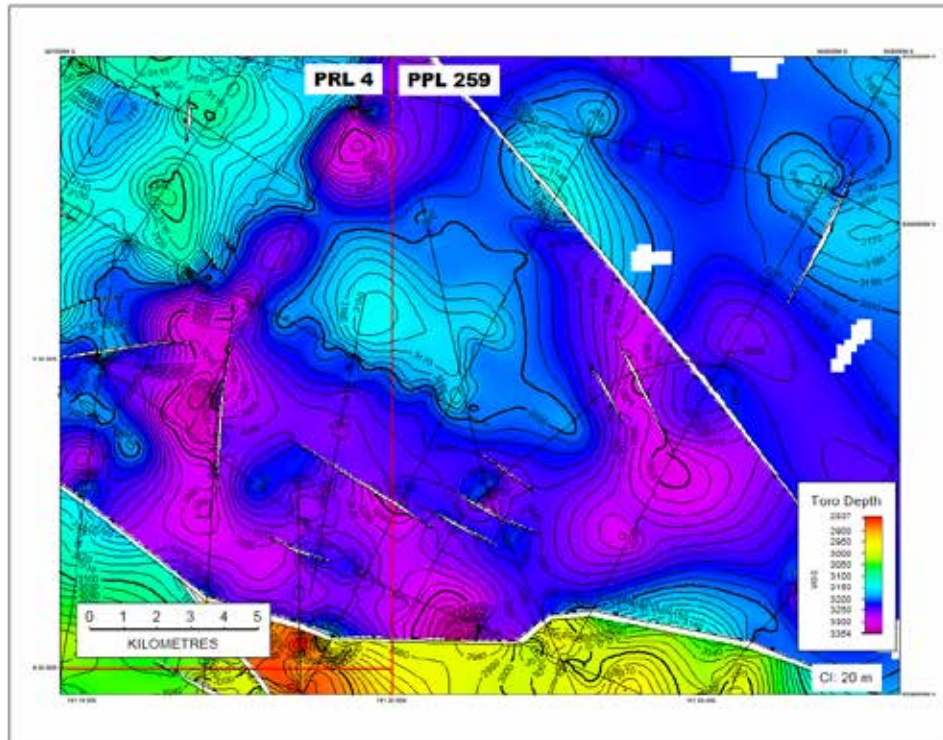


Figure 8-13 PPL 259 Nama Prospect Toro Depth Structure Map

The Nama prospect is defined on four seismic lines of varying vintage and is noted to be a fairly robust structure for which prospective resources have been calculated at the Toro reservoir level, however there is upside potential if either the Elevala or Kimu reservoirs. Eaglewood hold the following prospective resources for the Nama Prospect:

Nama Prospect Case	Best Estimate
GIIP (Bcf)	255
Condensate in Place (MMbbl)	5.4
Recoverable Gas (Bcf)	149
Recoverable Condensate (MMbbl)	2.9

Table 8-7 Nama Prospect Gross Best Estimate Prospective Resources as at 1 January 2014

RISC has independently calculated resource estimates for the Nama prospect and accept the Eaglewood prospective resource estimates above. The prospect is calculated to have a POS of 35%.

A portion of the prospect as mapped potentially lies in PRL4. For the purposes of this evaluation, RISC has not assumed a split as Horizon has comparable interests in PPL 259 and PRL 4 and is therefore the impact on the valuation is not material.





### Exploration Valuation

PPL 259 has a seismic and a well commitment for 2014 with a further well to be drilled by 2016.

The technical part of the 2014 budget comprises firm expenditure of \$45.4 million.

It is expected that the expenditure for 2015 and 2016 will be in the order of \$50 million if a further exploration well is drilled.

Horizon is increasing its interest in PPL 259 by 20% from Eaglewood Energy Inc. by paying a contribution to back costs of \$3.75 million and contribution of \$5 million to Eaglewood for the next well, a total of \$8.75 million for 20%. This values their 35% interest upon completion of the transaction at \$15.3 million, which we have adopted as the low and mid fair market value.

The high case valuation has also been calculated on a \$/boe basis, resulting in an upside value of another prospect success of \$30 million after adjustment for risk, which is incremental to the farmin premium.

#### 8.3.3. PPL 372 and PPL 373

Horizon also holds a 90% interest in PPL 372 and PPL 373, located to the southeast of PPL 259 (Figure 8-11). These permits are in an early stage of exploration.

In respect of PPL 372, the previous operator, Oil Search, identified two large leads in the permit, Honinabi and Mogulu North, on sparse, very poor quality seismic, and gravity and magnetic data.

The 2014 budget for PPL 372 and PPL373 each carry \$0.5 million gross for studies and a contingent budget of \$4.1 million for 2D seismic.

Horizon carries a fair value of \$0.8 million for this transaction which we have adopted as the fair market value.

#### 8.3.4. PPL 430

Horizon holds a 50% interest in PPL 430, located to the south of PPL 259. This permit is in an early stage of exploration, and as yet contains leads only.

License PPL 430 was awarded to Horizon (as Ketu Petroleum Ltd) and Eaglewood Energy each partner holding 50% on 25 July 2013. The firm commitment over the first two years of the licence is as follows:

- Data Collection and Analysis
- Sources and Migration Studies
- Geological Studies
- Seismic Reprocessing
- Seismic Acquisition (approximately 20km) and interpretation.

These are to be completed at a cost of no less than US\$1.0 million

The 2014 firm work program comprises technical costs and community relations with a budget of \$550,000 with a contingent work program of 50 km of 2D seismic acquisition at a total budget of \$4.6 million.

The gross expenditure on PPL 430 will range from the commitment of US\$1 million to the firm plus contingent exploration program of US\$4.9 million.



We have assigned a value of \$0.5 million for Horizon's interest in the high case in this permit based on the value of the permit commitment.

### 8.3.5. PNG Exploration Value Summary

A summary of the PNG exploration fair market value is shown in Table 8-8.

Permit	Low US\$ million	Mid US\$ million	High US\$ million
PRL 21	0.0	4.0	20.0
PPL 259	15.3	15.3	45.0
PPL 372 and 373	0.8	0.8	0.8
PPL 430	0.0	0.0	0.5
<b>Total</b>	<b>16.1</b>	<b>20.1</b>	<b>66.3</b>

Table 8-8 PNG Exploration Fair Market Value - Net Horizon Working Interest

## 9. MALAYSIA

### 9.1. D35/ J4/ D21

#### 9.1.1. Field description

In April 2014, Roc announced a farm-in for a 50% participating interest in the D35/D21/J4 fields. Roc has subsequently reported the intention to farm-out a 20% participating interest, subject to PETRONAS approval.

The farm-in agreement includes amendments to the existing PSC effective from 1 January 2014 until December 2034. The PSC terms are designed for field redevelopment and enhanced oil recovery (EOR) to commercially encourage progressive incremental oil development over the full life of the PSC.

Geologically, the fields lie within the western Balingian province of the Sarawak Basin. The fields are located on the continental shelf offshore Eastern Malaysia within a licence area of 150 km<sup>2</sup>, in water depths of approximately 50 m. D35 is the largest of the three fields with the longest production history and represents a significant brownfield redevelopment project. Within the D35 field boundary, there is evidence of significant appraisal and near-field exploration potential. J4 and D21 are satellite producing assets with similar potential and together they comprise the D35, D21 and J4 PSC.

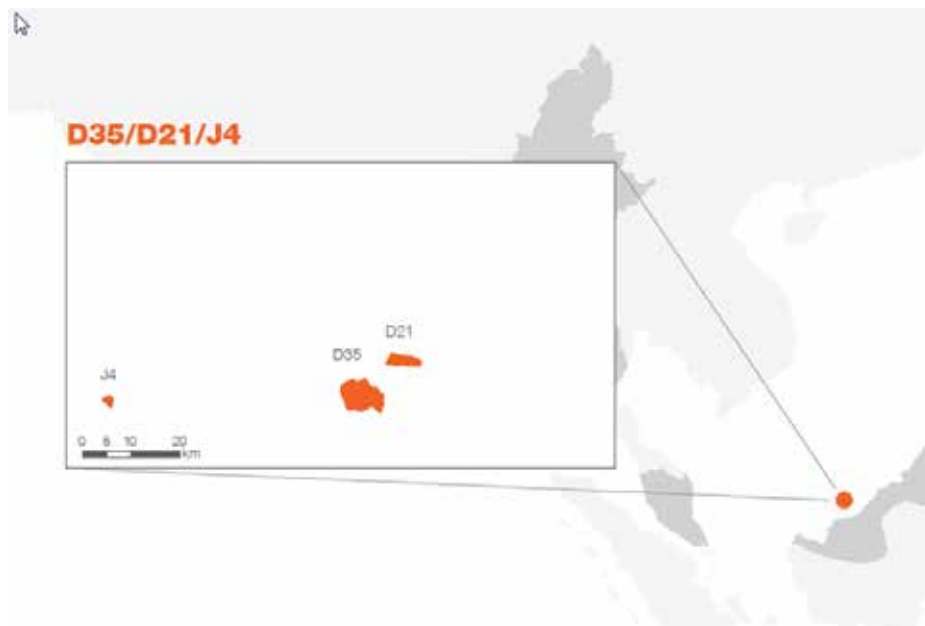


Figure 9-1 Location Map – Malaysian Fields, offshore Sarawak



In March 2014, the fields are currently producing 9,914 stb/d of oil (3,979 bbl/d from D35, 3,815 from J4 and 2,120 from D21). Roc has estimated that D35 contains a STOIP in the range of 400-736 MMstb in the major and minor reservoirs plus further gas resources that are under review. Cumulative production to end 2013 is estimated at 86.6 MMstb of oil and 260 bcf of gas. RISC has not included structure maps in the report as they are deemed commercially sensitive.

In J4, Roc estimates a STOIP of 41-117 MMstb with 67-183 bcf associated and solution gas. Cumulative production to end 2013 is estimated at approximately 12.2 MMstb of oil and 11.3 bcf of gas.

In D21, Roc estimates a STOIP of 34-80 MMstb with 102-151 bcf of associated, non-associated and solution GIIP in the Cycle II reservoirs. Cumulative production to end 2013 is estimated at approximately 0.6 MMstb of oil and 0.6 bcf of gas.

The estimates presented herein should not be construed as being estimates supported by PETRONAS.

#### 9.1.2. Production forecast

D35 and J4 are mature fields with established production history whereas D21 came onstream in 2013. D35 came onstream in 1994 and is located in 47m of water.

##### 9.1.2.1. Development description

Roc's plans to redevelop the fields entail a number of progressive stages:

SPE PRMS Category	Activity Description
Reserves	Arrest the decline of existing well stock and undertake a number of production enhancement activities including new wells
Contingent Resources	Additional wells and sidetracks contributing incremental oil production and water flood in the major reservoirs
	Introduction of EOR techniques
	Water flood in the minor reservoirs

Table 9-1 D35/J4/D21 further development stages

Roc's forecast oil production for the successive stages is illustrated in Figure 9-2.

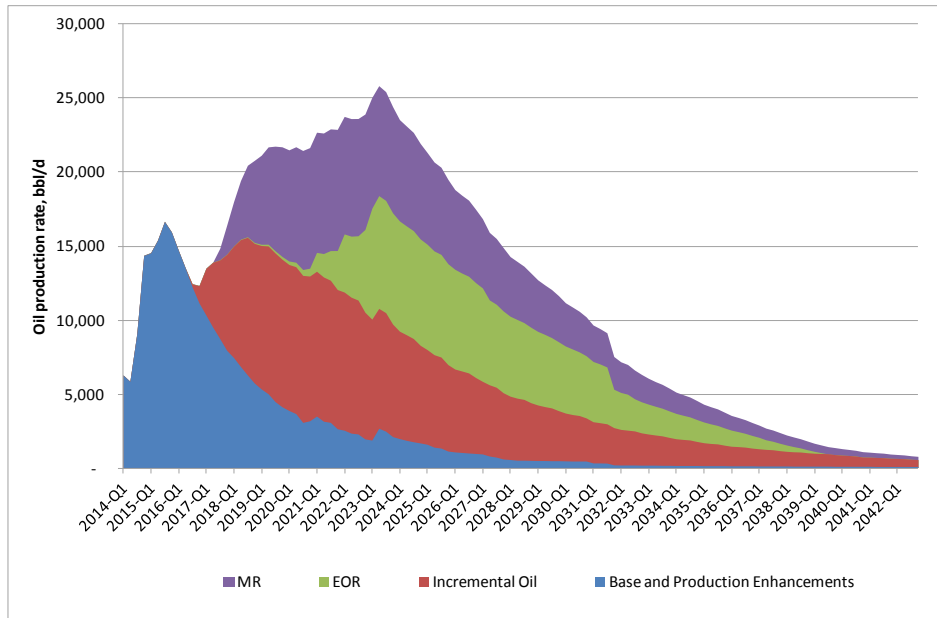


Figure 9-2 Gross oil production forecast, D35/J4/D21- Roc estimates

D35 is a 'hub' field with the largest infrastructure consisting of a central processing platform, 3 wellhead platforms, an accommodation and a riser platform. Oil export and gas export pipelines, connect the hub to shore.

Roc proposes a significant redevelopment of the field. Initially this will consist of wireline interventions, workovers and sidetracks from existing wells as well as drilling. The minimum work commitment is in 2 parts. Part 1 consists of the drilling of wells, 1 workover and preparation and submission of a redevelopment FDP. Part 2, subject to FID, consists of drilling more wells and the implementation of water injection, application of EOR and, upon success, extension of water injection to the minor reservoirs.

J4 consists of a wellhead platform with well test facilities tied back to D35 via a multiphase pipeline. Short term remedial activities consist of wireline work (mainly reperforations) and facilities rejuvenation. The Contingent Resources consist of a sidetrack and further work is anticipated.

D21 consists of wellhead platform with well test facilities tied back to D35 via a multiphase pipeline. The Contingent Resources of D21 consist of a development well, a recompletion, sidetrack and reperforations. An exploration well is also part of the proposed activity.

**Roc's reserve and resource estimates**

Roc's reserves and resource estimates are shown in Table 9-2 allocated according to the recovery expected from future development activities. RISC has evaluated the reserves and resources at field and reservoir level but for reasons of commercial sensitivity has been requested to report aggregate PSC level quantities.



RISC has reviewed and supports the 2P Reserve and the incremental oil estimates subject to a further risk adjustment for the waterflood portion of the incremental oil. The EOR and minor reservoir incremental estimates have little definition at present and will be subject to the successful implementation of the incremental oil portion of the Contingent Resources. The EOR and minor reservoir estimates have not been risk adjusted.

Product	Production 31/12/2013	2P Reserve			2C Contingent Resource			
		Total	Base	Production Enhancement	Total	Incremental Oil	EOR	Minor Reservoirs
Oil MMstb	99.4	27.6	11.6	16.0	96.0	40.0	24.5	31.5
Gas Bcf prod/sales	272.1/222.1	42.9	41.7	1.2	71.9	71.9	0.0	0.0

Note: Roc's working interest is 30% subject to finalisation of PETRONAS approval. Under PRMS guidelines, Roc's reserve and resource entitlement is determined by their net economic interest which is a function of the PSC terms, costs and prices prevailing during the PSC term. Depending on these factors, there may be a material difference between the working interest and Roc's net economic interest.

**Table 9-2 D35/J4/D21 Gross Reserves and Resources - Roc estimates as at 1 January 2014**

Based on recent production performance, RISC has projected that there has been a further depletion of approximately 1 MMstb and 4 bcf gross from the period 1 January 2014 to 31 March 2014. The actual production during this period has yet to be confirmed.

#### Base and production enhancement activities

Roc is forecasting oil recovery of 27.6 MMbbl gross from the existing field decline (11.6 MMbbl) and production enhancements (16 MMbbl). RISC considers that this is a reasonable total overall.

The three fields are currently producing approximately 10,000 bbl/d of oil, the production enhancement activities target an increase to approximately 17,000 bbl/d. Based on the production decline, RISC considers that the existing producers will recover the 11.6 MMbbl, which is a conservative estimate.

##### i. Incremental recovery from existing wells

RISC has undertaken a comprehensive review of logs for all gas and oil 'behind-pipe' opportunities in D35 for recompletion in the existing wells. In aggregate, RISC believes the Roc assessment is reasonable.

##### ii. Acceleration projects

There are a number of opportunities to accelerate production from sands in D35 that have already produced in the existing wells from activities such as reperforation and acidizing. Whilst the acceleration activities do not contribute substantially to the recovered volumes. RISC estimates rate improvements in excess of 2,000 bbl/d.

##### iii. Drilling activities

RISC has reviewed Roc's proposed infill drilling locations for D35 and has also independently generated infill drilling locations and recovery.

We note that there are risks to these infill well volumes and incremental projects, e.g. the sands have been pressure-depleted due to production from adjacent wells (which will reduce recovery factor and initial productivity), and that the GOC in each sand has expanded to below the depth of

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intersection due to pressure depletion (causing gas to be intersected rather than oil, reducing ultimate recovery). The production enhancement activities have accounted for the perceived technical risks.

RISC has not reviewed the production enhancement activities identified by Roc for J4, however, activities of a similar nature to those in D35 are expected. Overall a slightly conservative production forecast from the existing D35/J4/D21 wells negates the need to risk the J4 activities.

### **Incremental oil production activities**

#### **i. Water injection**

These planned activities require a major investment in re-development through water flood designed to re-pressurize and sweep remaining oil accumulations and possible EOR applications that may further increase recovered volumes.

RISC has reviewed of the potential recovery following water injection into the D35 field and supports Roc's estimate as an unrisks estimate of additional recovery from the application of water injection in the major reservoirs.

However, RISC notes that there are a number of characteristics of the D35 field that are potentially detrimental to efficient water flood:

- reservoir compartmentalisation - the field has a significant compartmentalisation, probably more than recognised by current mapping. Compartmentalisation is important in determining the location of water injection wells and the flow path of injected water; and
- some target reservoirs show a degree of vertical stratification.

Whilst neither of these factors precludes water injection they will result in some loss of efficiency which could lead to reduced recovery or additional costs.

RISC has estimated the incremental oil production rate from successful water injection estimated is 6,500 bbl/d in the mid case (unrisks). Roc will carry out studies and injection pilots before proceeding to full scale water injection. At this stage, there is uncertainty in the scope and conformance of the waterflood and we recommend risking the water injection project by 50%.

#### **ii. Further infill drilling**

RISC has reviewed the possible locations for additional drainage points targeting the minor reservoirs and considers additional recovery is achievable. RISC has not evaluated the economics of these wells.

Compartmentalisation of the minor reservoirs, both structural and stratigraphic, heightens the development risk in these reservoirs.

If the minor reservoirs are developed, the additional penetrations through the major sands will increase the chance of success of the water flood.

In aggregate, we recommend applying a technical risk factor of 70% to the Incremental Oil Contingent Resource.





## **EOR**

Roc has considered the possible application of enhanced oil recovery (EOR) techniques to further the production from the field. EOR is a complex area of study and has not been addressed in detail other than to relate a possible EOR benefit to the produced water profile of the incremental oil. Roc has noted that typically, successful EOR projects can increase recovery by 10% in the swept areas of the reservoir. Roc estimates that the application of EOR techniques to suitable reservoirs could increase recovery by 10% and ascribes an additional 24.5 MMbbl recoverable. RISC has not quantified an EOR estimate but notes that the estimate appears high.

At this stage of development the EOR project is conceptual and dependent on results in the major reservoir waterflood project, which has yet to be demonstrated and we recommend applying a technical risk factor of not greater than 25%.

## **Minor reservoirs (MR)**

Further primary development of the minor reservoirs has been considered in detail by RISC and is included in incremental oil activities. Roc has, in addition, indicated the possible introduction of water injection to these (minor) reservoirs for an additional 31.5 MMbbl recovery. Targeting these reservoirs will benefit from additional knowledge gained from earlier infill and water injection wells drilled to the main reservoirs.

At this stage of development the minor reservoir project is conceptual and dependent on results in the major reservoir waterflood project, which has yet to be demonstrated. There is also increased risk of lateral discontinuities in the minor reservoirs and we recommend applying a technical risk factor of not greater than 25%.

### **9.1.3. Capital and operating cost forecast**

Roc estimate base case costs of \$75 million for the D35/D21/J4 fields, this is mostly for D35 (\$61 million) with small components for the other fields.

#### **Capital Costs**

Roc estimate base and production enhancement capital costs totaling \$206m for the initial redevelopment of the 3 fields. This total includes \$35 million for two exploration wells in the D35 field and \$10.5 million for re-perforations in the J4. The remainder of the costs are for remedial well work, new wells and a new platform in the D35 field.

Costs for incremental oil activities will depend on the results of the FEED study and pilot water injection pilot but are estimated to be \$837 million. This is mostly for additional facilities that will be required for water injection and water handling as well as new platforms and over 30 new wells. See Table 9-3 below for Capex breakdown.

It should be noted that the costs (and resources) for the incremental oil, EOR and minor reservoir projects are based on the assumption of a conceptual full field implementation. As discussed above the scope and benefit of these projects has yet to be finalised. It is not expected that the full capital would need to be deployed under the risk scenario.

US\$ million RT 2014	Base	Base and Production Enhancement	Incremental Oil	EOR	MR
D35	61	195	760	20	296
D21	2		55		
J4	12	11	21		
Total	75	206	836	20	296

Table 9-3 D35/D21/J4 Gross Capex Summary – Roc estimates

All costs include 17% contingency.

#### Abandonment Costs

The abandonment costs for the fields have been provided by Roc and are summarised below. RISC believes that these costs are reasonable.

Project	Abandonment Costs (US\$ million RT 2014)
Base + Production Enhancement	50
Incremental Oil	80
EOR	0
MR	9.1

Table 9-4 Gross Abandonment Cost Summary – Roc estimates

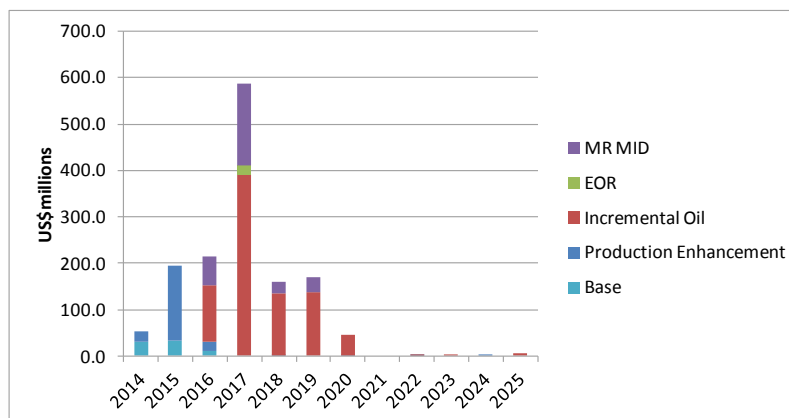


Figure 9-3 D35/D21/J4 Gross Capex Phasing – Roc estimates

### Operating Costs

Due to limitations on the availability of cost data, Roc have estimated operating costs based on their experience rather than actual historical data.

The costs for the base case +production enhancement vary from \$100 million to \$75 million p.a. gross and then are steady in real terms after 2018. The increase related to incremental oil is from \$12-18 million p.a. gross, the EOR increment is \$5-6 million p.a. and the MR increment is \$10 million p.a. gross. These costs appear reasonable to RISC. See chart below for a summary of the costs.

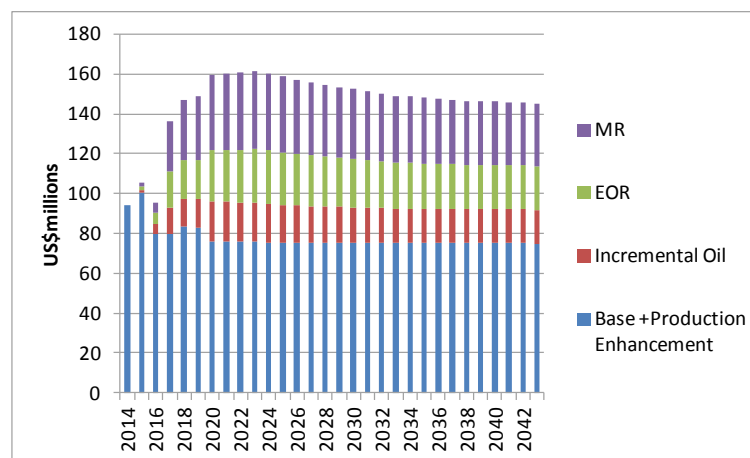


Figure 9-4 D35/D21/J4 Gross Opex Phasing – Roc estimates

### 9.2. BALAI CLUSTER

RISC did not carry out a technical review of the Balai Cluster Risked Service Contract. The Capex recovery profile has been assessed by the Independent Expert.

### 9.3. EXPLORATION

Roc has reviewed leads and prospects that had been identified in the vicinity of the D35 Field. We note the work of developing leads is at an early stage and further work on prospect risking and ranking will be undertaken.

RISC has not conducted its own independent review of the inventory and therefore we are not in a position to comment on the robustness of the technical interpretation. We note that about half of the leads are small and would not be justified for drilling on present volumetrics and risking. We have estimated the value of the exploration portfolio based on the information provided by Roc and made an adjustment for a notional drillable portfolio that could potentially materialise. We believe that 3-5 MMbbl (risked, Roc 30% working interest) of exploration potential could mature in a reasonable time frame.



Although dependent upon further review of the 3D seismic, Roc is sufficiently encouraged to suggest an exploration program to mature these prospects and leads. The notional program includes:

- One (1) Firm Exploration well
- One (1) Contingent Exploration well OR seismic work program

The net cost of the work program for Roc's 30% working interest is estimated to be \$10.5 million.

In the low and mid cases, we have valued the exploration potential based on the work program and a notional farmin promote. In the low case, we have assumed that there is no promote. In the mid case, we have assumed a farmin partner could be attracted on the basis of a 2:1 promote. In the high case, we have recognised the potentially attractive nature of the near-field exploration and have assigned value based on prospective resources of 4 MMbbl Roc net working interest which after risk adjustment provides an expected monetary value (EMV) of \$8 million incremental to the mid case farmin promote. RISC's estimates of fair market value is shown in Table 9-5.

Low US\$ million	Mid US\$ million	High US\$ million
0	10.5	18.5

Table 9-5 Malaysia D35 Exploration Fair Market Value - Net Roc Working Interest

## 10. MYANMAR

In March Roc was notified by the Myanmar Ministry of Energy (MOE) of the successful award of a PSC for a shallow water Block, M7, in the Moattama basin, offshore Myanmar (Figure 10-1).

The PSC award is subject to finalisation of terms with the MOE and Roc Board approval. Roc will hold a 59.375% interest and operate the licence. The other partners are Tap Oil 35.625% and Smart E&P International Ltd 5% carried interest.

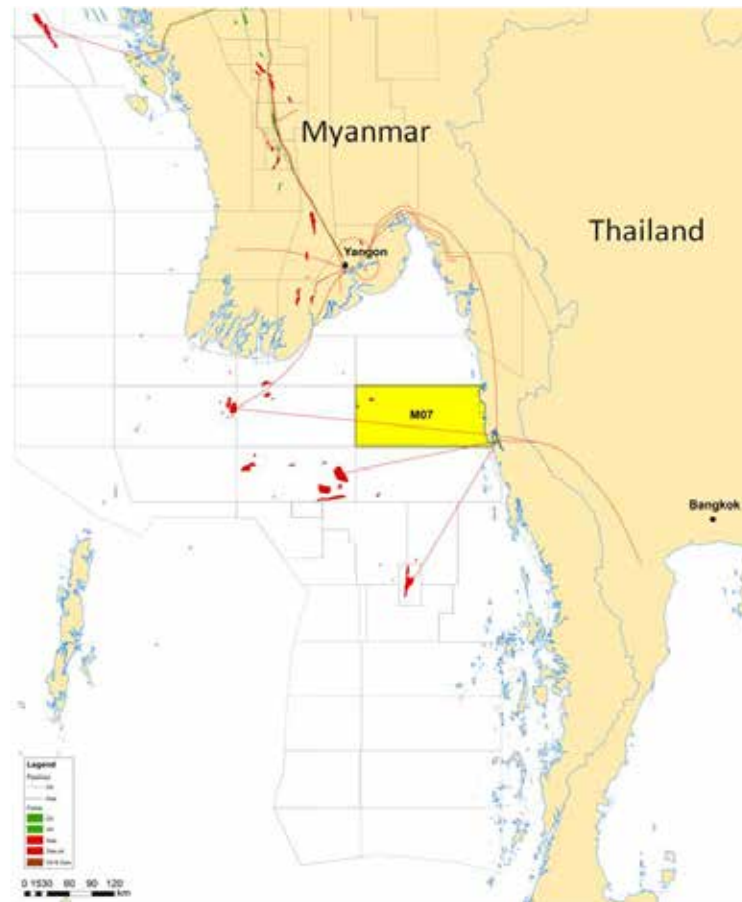


Figure 10-1 Myanmar Block M7 Location Map

The block award includes a provision for the JV to undertake an 18 month study of the existing seismic and well data which Roc are hoping to get from the MOE and an Environmental Impact Assessment. After this period the JV has the option to pay the signature bonus and enter into a three year exploration work program. Roc will pay 62.5% which includes a 3.125% share of the carry of Smart E&P International, its local partner.

RISC has reviewed the work program and considers it to be reasonable. The details of the bid programme is commercially confidential and is not disclosed in this report.

Block M7 covers approximately 13,000km<sup>2</sup> and is 160 km east of the 6.7 Tcf GIIP Yadana gas field and 110km north east of the Zawtika biogenic gas field where reserves range from 435 Bcf to 2Tcf in multiple fault bounded Mio Pliocene delta front sandstones. The latter is consistent with the type of play in M7 however to date only two small uneconomic discoveries have been made in M7 in wells M-07-2 and Janaka-1. There are two other dry holes in the block and a reasonable grid of legacy 2D data.

Prospectivity in the block may be limited to the western side of the Sagaing Fault Zone (M7 West zone Figure 10-2) where the two small gas discoveries have been made. The area is highly faulted creating multiple small structures.

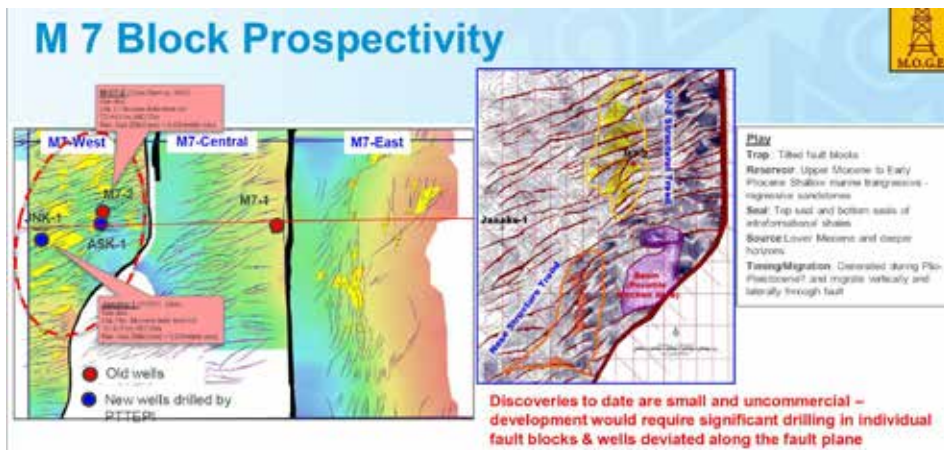


Figure 10-2 M7 Block Prospectivity

Due to the early stage of exploration in the block, we have valued the permit based on the value of the work program, which is estimated to be \$2.75 million for the initial 18 months (\$ 1.72 million net to Roc).

In the low case, we have not assigned a premium value so the net fair market value of the block is zero.

In the mid and high cases, value for this block might be crystallised by Roc farming down their interest for a carry on their initial period costs of \$1.7 million on a 2:1 promote, therefore valuing their interest at \$0 to \$1.7 million (Table 10-1).

Low US\$ million	Mid US\$ million	High US\$ million
0	1.7	1.7

Table 10-1 Myanmar M7 Block Exploration Fair Market Value - Net Roc Working Interest



## 11. DECLARATIONS

### 11.1. QUALIFICATIONS

RISC is an independent oil and gas advisory firm. All of the RISC staff engaged in this assignment are professionally qualified engineers, geoscientists or analysts, each with many years of relevant experience and most have in excess of 20 years.

The preparation of this report has been supervised by Mr. Geoffrey Barker, RISC Partner. He has over thirty years of global experience in the upstream hydrocarbon industry, with extensive expertise in the areas of asset valuation, business strategies, evaluation of conventional and non-conventional petroleum (coal seam gas and tight gas), due diligence assessment for mergers, acquisitions and project finance requirements and reserves assessment/certification and preparation of Independent Technical Specialist reports. Mr. Barker is a Past Chairman of the SPE WA Section, a past member of the SPE International's Oil and Gas Reserves Committee 2007-2009, and is a co-author of the Guidelines for Application of the Petroleum Resources Management System published by the SPE in November 2011 (Chapter 8.5 Coal Bed Methane). Mr Barker is a Member of the Society of Petroleum Engineers (SPE), and holds a BSc (Chemistry), Melbourne University, 1980 and a M.Eng.Sc (Pet Eng), Sydney University, 1989 and is a qualified petroleum reserves and resources evaluator (QPPRE) as defined by ASX listing rules.

RISC was founded in 1994 to provide independent advice to companies associated with the oil and gas industry. Today the company has approximately 40 highly experienced professional staff at offices in Perth and Brisbane, Australia and London, UK. We have completed over 1500 assignments in 68 countries for nearly 500 clients. Our services cover the entire range of the oil and gas business lifecycle and include:

- Oil and gas asset valuations, expert advice to banks for debt or equity finance;
- Exploration / portfolio management;
- Field development studies and operations planning;
- Reserves assessment and certification, peer reviews;
- Gas market advice;
- Independent Expert / Expert Witness;
- Strategy and corporate planning.

### 11.2. RELIANCE

This Report is to be relied upon by Deloitte Corporate Finance Pty Limited (Deloitte) acting as the Independent Expert. RISC Operations Pty Ltd (RISC) acknowledges that the Deloitte and the Directors of Horizon Oil Limited (Horizon) will use and place reliance on this Report in evaluating the proposed merger with Roc Oil Company Limited (Roc).

### 11.3. VALMIN CODE

This Report has been prepared in accordance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports 2005 Edition ("The VALMIN Code").





#### **11.4. PETROLEUM RESOURCES MANAGEMENT SYSTEM**

In the preparation of this Report, RISC has complied with the guidelines and definitions of the Petroleum Resources Management System approved by the Board of the Society of Petroleum Engineers in 2007 (PRMS).

#### **11.5. REPORT TO BE PRESENTED IN ITS ENTIRETY**

RISC has been advised by Horizon that this report will be presented in its entirety without summarisation.

#### **11.6. INDEPENDENCE**

This report does not give and must not be interpreted as giving, an opinion, recommendation or advice on a financial product within the meaning of section 766B of the Corporations Act 2001 or section 12BAB of the Australian Securities and Investments Commission Act 2001.

RISC is not operating under an Australian financial services licence in providing this report.

In accordance with regulation 7.6.01(1)(u) of the Corporations Regulation 2001. RISC makes the following disclosures:

- RISC is independent with respect to Horizon and Deloitte and confirms that there is no conflict of interest with any party involved in the assignment;
- Under the terms of engagement between RISC and Deloitte for the provision of this report RISC will receive a fee, based on time expended and our current standard terms and conditions, payable by Deloitte. The payment of this fee is not contingent on the outcome of any transaction between Deloitte, Horizon, Roc and other party;
- The Directors and staff of RISC involved in the preparation of this report hold no interest in Deloitte, Horizon or Roc.

#### **11.7. LIMITATIONS**

The assessment of petroleum assets is subject to uncertainty because it involves judgments on many variables that cannot be precisely assessed, including reserves, future oil and gas production rates, the costs associated with producing these volumes, access to product markets, product prices and the potential impact of fiscal/regulatory changes.

The statements and opinions attributable to RISC are given in good faith and in the belief that such statements are neither false nor misleading. In carrying out its tasks, RISC has considered and relied upon information obtained from Deloitte, Roc and Horizon as well as information in the public domain.

The information provided to RISC has included both hard copy and electronic information supplemented with discussions between RISC and key Horizon and Roc staff.

Whilst every effort has been made to verify data and resolve apparent inconsistencies, we believe our review and conclusions are sound, but neither RISC nor its servants accept any liability, except any liability which cannot be excluded by law, for its accuracy, nor do we warrant that our enquiries have revealed all of the matters, which an extensive examination may disclose. In particular, we have not independently verified property title, encumbrances or regulations that apply to this asset(s). RISC has also not audited the opening balances at the economic evaluation date of past recovered and unrecovered development and exploration costs, undepreciated past development costs and tax losses.

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We believe our review and conclusions are sound but no warranty of accuracy or reliability is given to our conclusions.

Our review was carried out only for the purpose referred to above and may not have relevance in other contexts.

**11.8. CONSENT**

RISC has consented to this report, in the form and context in which it appears, being included in the Scheme of Arrangement for Horizon Oil Limited. Neither the whole nor any part of this report nor any reference to it may be included in or attached to any other document, circular, resolution, letter or statement without the prior consent of RISC.

This Report is authorised for release by Mr. Geoffrey Barker, RISC Partner dated 13 June 2014.

A handwritten signature in black ink, appearing to read "GB", with a long, sweeping horizontal line extending to the right.

Geoffrey J Barker  
Partner

## 12. LIST OF TERMS

The following lists, along with a brief definition, abbreviated terms that are commonly used in the oil and gas industry and which may be used in this report.

Abbreviation	Definition
1P	Equivalent to Proved reserves or Proved in-place quantities, depending on the context.
1Q	1st Quarter
2P	The sum of Proved and Probable reserves or in-place quantities, depending on the context.
2Q	2nd Quarter
2D	Two Dimensional
3D	Three Dimensional
4D	Four Dimensional – time lapsed 3D in relation to seismic
3P	The sum of Proved, Probable and Possible Reserves or in-place quantities, depending on the context.
3Q	3rd Quarter
4Q	4th Quarter
AFE	Authority for Expenditure
Bbl	US Barrel
BBL/D	US Barrels per day
BCF	Billion (10 <sup>9</sup> ) cubic feet
BCM	Billion (10 <sup>9</sup> ) cubic meters
BFPD	Barrels of fluid per day
BOPD	Barrels of oil per day
BTU	British Thermal Units
BOE	barrels of oil equivalent (equivalent to 1 bbl oil, 1 bbl condensate, 1 bbl NGL, 6,000 scf gas)
BOEPD	US barrels of oil equivalent per day
BWPD	Barrels of water per day
°C	Degrees Celsius

Abbreviation	Definition
Capex	Capital expenditure
CAPM	Capital asset pricing model
CGR	Condensate Gas Ratio – usually expressed as bbl/MMscf
Contingent Resources	Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are a class of discovered recoverable resources as defined in the SPE-PRMS.
CO2	Carbon dioxide
CP	Centipoise (measure of viscosity)
CPI	Consumer Price Index
DEG	Degrees
DHI	Direct hydrocarbon indicator
Discount Rate	The interest rate used to discount future cash flows into a dollars of a reference date
DST	Drill stem test
E&P	Exploration and Production
EG	Gas expansion factor. Gas volume at standard (surface) conditions / gas volume at reservoir conditions (pressure & temperature)
EIA	US Energy Information Administration
EMV	Expected Monetary Value
EOR	Enhanced Oil Recovery
ESP	Electric submersible pump
EUR	Economic ultimate recovery
Expectation	The mean of a probability distribution
F	Degrees Fahrenheit
FDP	Field Development Plan
FEED	Front End Engineering and design
FID	Final investment decision

Abbreviation	Definition
FM	Formation
FPSO	Floating Production Storage and offtake unit
FWL	Free Water Level
FVF	Formation volume factor
GIIP	Gas Initially In Place
GJ	Giga (10 <sup>9</sup> ) joules
GOC	Gas-oil contact
GOR	Gas oil ratio
GRV	Gross rock volume
GSA	Gas sales agreement
GTL	Gas To Liquid(s)
GWC	Gas water contact
H <sub>2</sub> S	Hydrogen sulphide
HHV	Higher heating value
ID	Internal diameter
IRR	Internal Rate of Return is the discount rate that results in the NPV being equal to zero.
JV(P)	Joint Venture (Partners)
Kh	Horizontal permeability
km <sup>2</sup>	Square kilometres
K <sub>rw</sub>	Relative permeability to water
K <sub>v</sub>	Vertical permeability
kPa	Kilo (thousand) Pascals (measurement of pressure)
Mstb/d	Thousand Stock tank barrels per day
LIBOR	London inter-bank offered rate
LNG	Liquefied Natural Gas
LTBR	Long-Term Bond Rate

Abbreviation	Definition
m	Metres
Marathon	Marathon Oil Corporation
MDT	Modular dynamic (formation) tester
mD	Millidarcies (permeability)
MJ	Mega (10 <sup>6</sup> ) Joules
MMbbl	Million US barrels
MMscf(d)	Million standard cubic feet (per day)
MMstb	Million US stock tank barrels
MOD	Money of the Day (nominal dollars) as opposed to money in real terms
MOU	Memorandum of Understanding
Mscf	Thousand standard cubic feet
Mstb	Thousand US stock tank barrels
Mtpa	Millions of tons per annum
MPa	Mega (10 <sup>6</sup> ) pascal (measurement of pressure)
mss	Metres subsea
MSV	Mean Success Volume
mTVDss	Metres true vertical depth subsea
MW	Megawatt
NPV	Net Present Value (of a series of cash flows)
NTG	Net to Gross (ratio)
ODT	Oil down to
GIIP	Original Gas In Place
STOIIP	Original Oil in Place
Opex	Operating expenditure
OWC	Oil-water contact
P90, P50, P10	90%, 50% & 10% probabilities respectively that the stated quantities will be equalled or exceeded. The P90, P50 and P10 quantities correspond to the Proved

Abbreviation	Definition
	(1P), Proved + Probable (2P) and Proved + Probable + Possible (3P) confidence levels respectively.
PBU	Pressure build-up
PJ	Peta (10 <sup>15</sup> ) Joules
POS	Probability of Success
Possible Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.
Probable Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty. Probable Reserves are those additional Reserves that are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.
Prospective Resources	Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations as defined in the SPE-PRMS.
Proved Reserves	As defined in the SPE-PRMS, an incremental category of estimated recoverable volumes associated with a defined degree of uncertainty Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. Often referred to as 1P, also as "Proven".
PSC	Production Sharing Contract
PSDM	Pre-stack depth migration
PSTM	Pre-stack time migration
psia	Pounds per square inch pressure absolute



Abbreviation	Definition
p.u.	Porosity unit e.g. porosity of 20% +/- 2 p.u. equals a porosity range of 18% to 22%
PVT	Pressure, volume & temperature
QA/QC	Quality Assurance/ Control
rb/stb	Reservoir barrels per stock tank barrel under standard conditions
RFT	Repeat Formation Test
Real Terms (RT)	Real Terms (in the reference date dollars) as opposed to Nominal Terms of Money of the Day
Reserves	RESERVES are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions. Reserves must further satisfy four criteria: they must be discovered, recoverable, commercial, and remaining (as of the evaluation date) based on the development project(s) applied. Reserves are further categorised in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by development and production status.
RT	Measured from Rotary Table or Real Terms, depending on context
SC	Service Contract
scf	Standard cubic feet (measured at 60 degrees F and 14.7 psia)
Sg	Gas saturation
Sgr	Residual gas saturation
SRD	Seismic reference datum lake level
SPE	Society of Petroleum Engineers
SPE-PRMS	Petroleum Resources Management System, approved by the Board of the SPE March 2007 and endorsed by the Boards of Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council and Society of Petroleum Evaluation Engineers.
s.u.	Fluid saturation unit. e.g. saturation of 80% +/- 10 s.u. equals a saturation range of 70% to 90%
stb	Stock tank barrels
STOIIP	Stock Tank Oil Initially In Place
Sw	Water saturation
TCM	Technical committee meeting



Abbreviation	Definition
Tcf	Trillion (10 <sup>12</sup> ) cubic feet
TJ	Tera (10 <sup>12</sup> ) Joules
TLP	Tension Leg Platform
TRSSV	Tubing retrievable subsurface safety valve
TVD	True vertical depth
US\$	United States dollar
US\$ million	Million United States dollars
WACC	Weighted average cost of capital
WHFP	Well Head Flowing Pressure
Working interest	A company's equity interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms.
WPC	World Petroleum Council
WTI	West Texas Intermediate Crude Oil

# 20. Attachment B – Investigating Accountant's Report





The Directors  
Horizon Oil Limited  
7/134 William St  
Woolloomooloo  
NSW, 2011

1 July 2014

Dear Directors

### ***Investigating Accountant's Report***

### ***Independent Limited Assurance Report on the Merged Group Pro Forma Financial Information and Financial Services Guide***

We have been engaged by Horizon Oil Limited (Horizon Oil or the Company) to report on the Pro Forma Financial Information of the proposed Merged Group, being Horizon Oil and Roc Oil Company Limited (Roc) as at 31 December 2013 for inclusion in the Scheme Booklet dated on or about 7 July 2014 and relating to the issue of Roc shares to Horizon Oil Shareholders.

Expressions and terms defined in the Scheme Booklet have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian financial services licence under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers holds the appropriate Australian financial services licence under the Corporations Act 2001. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

### ***Background***

Horizon Oil together with Roc announced the proposed merger of the two companies, on 29 April 2014, by way of Roc acquiring 100% of the issued shares in Horizon Oil via a Scheme of Arrangement. Horizon Oil has entered into a Merger Implementation Deed with Roc thereby agreeing to propose the scheme to the Horizon Oil Shareholders.

The proposed scheme stipulates that Horizon Oil Shareholders will receive consideration of 0.724 Roc shares for every share held in Horizon Oil, resulting in Horizon Oil shareholders collectively owning approximately 58% of the Merged Group. The scheme is expected to be implemented during August 2014.

### ***Scope***

You have requested PricewaterhouseCoopers Securities Ltd to review the following Pro Forma Financial Information of the Merged Group included in the Scheme Booklet:

- the pro forma consolidated statement of financial position as at 31 December 2013.

---

**PricewaterhouseCoopers Securities Ltd, ACN 003 311 617, ABN 54 003 311 617, Holder of Australian Financial Services Licence No 244572**  
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001  
T: +61 7 3257 5000, F: +61 7 3257 5999, [www.pwc.com.au](http://www.pwc.com.au)



The Pro Forma Financial Information has been derived from the Historical Financial Information of the Merged Group, after adjusting for the effects of pro forma adjustments described in section 12.6 of the Scheme Booklet. The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards and the Company adopted accounting policies applied to the Historical Financial Information and the event(s) or transaction(s) to which the pro forma adjustments relate, as described in section 12.6 of the Scheme Booklet, as if those event(s) or transaction(s) had occurred as at the date of the Historical Financial Information. Due to its nature, the Pro Forma Financial Information does not represent the Merged Group's actual or prospective financial position.

#### ***Directors' responsibility***

The directors of the Company are responsible for the preparation of the Historical Financial Information and Pro Forma Financial information, including its basis of preparation and the selection and determination of pro forma adjustments made to the Historical Financial Information and included in the Pro Forma Financial Information. This includes responsibility for its compliance with applicable laws and regulations and for such internal controls as the directors determine are necessary to enable the preparation of Historical Financial Information and Pro Forma Financial Information that are free from material misstatement.

#### ***Our responsibility***

Our responsibility is to express a limited assurance conclusion on the Pro Forma Financial Information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagement ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review 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 reasonable 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.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the Historical Financial Information.

#### ***Conclusions***

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Financial Information of the Merged Group as described in section 12.6 of the Scheme Booklet, and comprising:

- the pro forma consolidated statement of financial position as at 31 December 2013,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in sections 12.6 of the Scheme Booklet being the recognition and measurement principles contained in Australian Accounting Standards and the Merged Group's adopted accounting policies applied to the Historical Financial Information and the event(s) or transaction(s) to which the pro



forma adjustments relate, as described in section 12.6 of the Scheme Booklet, as if those event(s) or transaction(s) had occurred as at the date of the Historical Financial Information.

Under the terms of our engagement our work has been carried out under Australian Auditing Standards applicable to review engagements. Our work has not considered nor been conducted according to auditing standards and practices generally accepted in jurisdictions other than Australia (including the United States of America). Accordingly it is not appropriate to consider our work nor can it be relied upon as if it had been carried out in accordance with standards and practices other than those prevailing in Australia.

***Restriction on Use***

Without modifying our conclusions, we draw attention to section 12.6 of the Scheme Booklet, which describes the purpose of the financial information, being for inclusion in the Scheme Booklet. As a result, the financial information may not be suitable for use for another purpose.

***Consent***

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this assurance report in the public document in the form and context in which it is included.

***Liability***

The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this report in the Scheme Booklet. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or omissions from the Scheme Booklet.

***Independence or Disclosure of Interest***

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of this transaction other than the preparation of this report and participation in due diligence procedures for which normal professional fees will be received.

***Financial Services Guide***

We have included our Financial Services Guide as Appendix A to our report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our report.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Wim Blom', written over a horizontal line.

Wim Blom  
Authorised Representative of  
PricewaterhouseCoopers Securities Ltd





## Appendix A – Financial Services Guide

### PRICEWATERHOUSECOOPERS SECURITIES LTD FINANCIAL SERVICES GUIDE

**This Financial Services Guide is dated 1 July 2014**

#### **1. About us**

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) ("**PwC Securities**") has been engaged by Horizon Oil Limited ("Horizon Oil") to provide a report in the form of an Investigating Accountant's Report in relation to the Pro Forma Financial Information (**the "Report"**) for inclusion in the Scheme Booklet dated 7 July 2014.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

#### **2. This Financial Services Guide**

This Financial Services Guide ("**FSG**") is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

#### **3. Financial services we are licensed to provide**

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.





#### **4. General financial product advice**

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

#### **5. Fees, commissions and other benefits we may receive**

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees are charged on a blended hourly rate and as at the date of this Report amount to \$130,000.

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

#### **6. Associations with issuers of financial products**

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business. PricewaterhouseCoopers is the current external auditor of Horizon Oil.

#### **7. Complaints**

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Service ("FOS"), an external complaints resolution service. FOS can be contacted by calling 1300 780 808. You will not be charged for using the FOS service.



**8. Contact Details**

PwC Securities can be contacted by sending a letter to the following address:

Mr Wim Blom

Riverside Centre, 123 Eagle Street, Brisbane, QLD, 4000

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# 21. Attachment C – Merger Implementation Deed



# Merger Implementation Deed

Dated

2014

**King & Wood Mallesons**

Level 33  
Waterfront Place  
1 Eagle Street  
Brisbane QLD 4000  
Australia  
T +61 7 3244 8000  
F +61 7 3244 8999  
DX 311 Brisbane  
[www.kwm.com](http://www.kwm.com)

# Merger Implementation Deed

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# Merger Implementation Deed

## Details

<b>Parties</b>		<b>Horizon and Roc Oil</b>
<b>Horizon</b>	Name	<b>Horizon Oil Limited</b>
	ACN	009 799 455
	Address	Level 7, 134 William Street SYDNEY NSW 2011
	Telephone	+61 2 9332 5000
	Email	msheridan@horizonoil.com.au
	Fax	+61 2 9332 5050
	Attention	Company Secretary
<b>Roc Oil</b>	Name	<b>Roc Oil Company Limited</b>
	ACN	075 965 856
	Address	Level 18, 321 Kent Street SYDNEY NSW 2000
	Telephone	+61 2 8023 2000
	Email	Inolan@rocoil.com.au
	Fax	+61 2 8023 2222
	Attention	Leanne Nolan
<b>Recitals</b>	<b>A</b>	Horizon and Roc Oil have agreed to merge by means of a members' scheme of arrangement under Part 5.1 of the Corporations Act.
	<b>B</b>	At the request of Roc Oil, Horizon intends to propose the Scheme and issue the Scheme Booklet.
	<b>C</b>	Roc Oil and Horizon have agreed to implement the Scheme on the terms and conditions of this deed.
<b>Governing law</b>	New South Wales	
<b>Date of agreement</b>	See Signing page	

# Merger Implementation Deed

## General terms

---

### 1 Definitions and interpretation

#### 1.1 Definitions

These meanings apply unless the contrary intention appears.

**ACCC** means the Australian Competition and Consumer Commission.

**Accounting Standards** means:

- (a) accounting standards as that term is defined in the Corporations Act; and
- (b) to the extent not inconsistent with paragraph (a), generally accepted Australian accounting principles which are consistently applied.

**ASIC** means the Australian Securities & Investments Commission.

**ASX** means ASX Limited or Australian Securities Exchange, as appropriate.

**Authorised Officer** means, in respect of a party, a director or secretary of the party or any other person appointed by a party to act as an Authorised Officer under this deed.

**Business Day** means a day other than a Saturday, Sunday or public holiday in Sydney, New South Wales.

**Communications** has the meaning given in clause 3.5(c).

**Competing Transaction** means any proposal, agreement, arrangement or transaction, which, if entered into or completed, would have the same effect as, or be similar in economic terms to, the Merger or any other transaction described in paragraphs (a) to (f) below, whether existing or arising before, on or after the date of this deed:

- (a) a third party (either alone or with its associates) acquiring (directly or indirectly) (including by way of joint venture, alliance, dual listed company structure or otherwise) any interest in all or a substantial part of the business or assets of Roc Oil or Horizon (as applicable);
- (b) a third party (either alone or with its associates) becoming (directly or indirectly) the holder or controller of, or otherwise acquiring, all or substantially all of the shares in Roc Oil or Horizon (as applicable);
- (c) a third party (either alone or with its associates) acquiring "control" (as defined in section 50AA of the Corporations Act) of, or merging or amalgamating with Roc Oil or Horizon (as applicable) or any of their material Subsidiaries, including by way of takeover bid, scheme of arrangement or capital reduction or contractual arrangement;
- (d) Roc Oil or Horizon (as applicable) implementing any reorganisation of capital or dissolution (except as previously announced to ASX prior to the date of this deed);

- (e) a third party acquiring, after the date of this deed, "voting power" (as that term is defined in the Corporations Act) in relation to 15% or more of the Roc Oil Shares or the Horizon Shares (as applicable); or
- (f) any other proposal, agreement, arrangement or transaction which affects, prejudices or jeopardises, or might reasonably be expected to affect, prejudice or jeopardise, the consummation of the Merger.

**Conditions Precedent** means the conditions precedent set out in schedule 3.

**Confidential Information** means Horizon Confidential Information or Roc Oil Confidential Information (as applicable).

**Controller** has the meaning it has in the Corporations Act.

**Convertible Bond** means a bond in Horizon with the ability to convert into Horizon Shares on its terms with a maturity date of 17 June 2016.

**Corporations Act** means the Corporations Act 2001 (Cwlth).

**Corporations Regulations** means the Corporations Regulations 2001 (Cwlth).

**Court** means a court of competent jurisdiction under the Corporations Act.

**Deed Poll** means a deed poll substantially in the form of Annexure C to this deed.

**Details** means the section of this deed headed "Details".

**EBITDA** means the earnings for the Roc Oil Group or the Horizon Group (as applicable) before interest, taxes, depreciation, amortisation and any other non-cash items.

**Effective**, when used in relation to the Scheme, means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

**Effective Date** means the date on which the Scheme becomes Effective.

**Encumbrance** means any mortgage, lien, charge, pledge, assignment by way of security, security interest, title retention, preferential right or trust arrangement, claim, covenant, profit a prendre, easement, overriding royalty, production payment, net profits interest or any other security arrangement or any other arrangement having the same effect.

**End Date** means 31 August 2014 or such other date as is agreed in writing by Horizon and Roc Oil.

**Excluded Information** means Confidential Information which:

- (a) is in or becomes part of the public domain other than through breach of this deed or an obligation of confidence owed to the party providing the Confidential Information; or
- (b) the recipient of the Confidential Information can prove by contemporaneous written documentation was already known to it at the time of disclosure by the party providing the Confidential Information (unless such knowledge arose from disclosure of information in breach of an obligation of confidentiality); or

- (c) the recipient of the Confidential Information acquires from a source other than the party providing the Confidential Information or any Related Body Corporate or Representative of the party providing the Confidential Information where such source is entitled to disclose it.

**Exclusivity Period** means the period from and including the date of this deed to the earlier of:

- (a) the termination of this deed in accordance with its terms;
- (b) the End Date; and
- (c) the Effective Date.

**First Court Date** means the first day on which an application made to the Court, in accordance with item 8 of schedule 5, for orders under section 411(1) of the Corporations Act convening the Scheme Meeting to consider the Scheme is heard or, if the application is adjourned or subject to appeal for any reason, the day on which the adjourned application is heard.

**Foreign Horizon Securityholder** means a Horizon Shareholder:

- (a) who is (or is acting on behalf of) a citizen or resident of a jurisdiction other than residents of Australia and its external territories; or
- (b) whose address shown in the Register is a place outside Australia and its external territories or who is acting on behalf of such a person,

unless Roc Oil determines that:

- (c) it is lawful and not unduly onerous or unduly impracticable to issue that Horizon Shareholder with Roc Oil Shares on implementation of the Merger; and
- (d) it is lawful for that Horizon Shareholder to participate in the Merger by the law of the relevant place outside Australia and its external territories.

**Government Agency** means any governmental, semi-governmental, administrative, fiscal, judicial or quasi-judicial body, department, commission, authority, tribunal, agency or entity.

**Horizon** means Horizon Oil Limited (ACN 009 799 455).

**Horizon Board** means the board of directors of Horizon.

**Horizon Confidential Information** means all confidential, non-public or proprietary information regardless of how the information is stored or delivered, exchanged between the parties before, on, or after the date of this deed relating to the business, technology or other affairs of the Horizon Group.

**Horizon Group** means Horizon and its Subsidiaries.

**Horizon Indemnified Parties** means Horizon, its officers, employees and advisers, its Related Bodies Corporate and the officers, employees and advisers of each of its Related Bodies Corporate.

**Horizon Information** means all information contained in the Scheme Booklet other than the Roc Oil Information and the Independent Expert's report.

**Horizon Material Adverse Change** means any one or more matters, events or circumstances which occurs, is announced or disclosed or becomes known to

Roc Oil (in each case whether or not it becomes public) after the date of this deed which, individually or when aggregated with any other such matters, events or circumstances, results or is reasonably likely to result in:

- (a) the EBITDA in any financial year ending 30 June 2014, 30 June 2015 or 30 June 2016 being negatively impacted by \$10 million or more when compared against what it would reasonably have been expected to have been but for such matter, event or circumstance;
- (b) a reduction in the net assets of the Horizon Group (taken as a whole) by \$10 million or more compared to the net assets of the Horizon Group (taken as a whole) disclosed in the audited balance sheet for the consolidated Horizon Group as at 30 June 2013;
- (c) a material adverse change in the business, assets, operations, Material Contracts or prospects of the Horizon Group (taken as a whole); or
- (d) the Horizon Group being unable to carry on its business, operations, assets or exercise its rights or perform its obligations under the Material Contracts in substantially the same manner as carried on as at the date of this deed, including as a result of a material regulatory approval or licence being varied, revoked, cancelled or otherwise terminated by a Government Agency,

but does not include any matter, event or circumstance:

- (a) fully and fairly disclosed on any public register maintained by ASIC;
- (b) fully and fairly disclosed in writing to Roc Oil or its Representatives on or before the date of this deed (including as a result of disclosures made to ASX);
- (c) arising from any general changes in law, taxation, economic, market, interest rates, global oil prices or business conditions, other than where the change does not have a proportionally equivalent effect on the Horizon Group relative to the Roc Oil Group;
- (d) arising from any change in accounting policy required by law; or
- (e) arising from any change resulting from anything expressly required by this deed, the Scheme or the transactions required to be given effect by them.

**Horizon Option** means a right to acquire Horizon Shares, including a Horizon SAR (as applicable), issued by Horizon prior to the date of this deed.

**Horizon Prescribed Event** means, except to the extent expressly required or permitted by this deed or the Scheme or the transactions contemplated by either, or otherwise agreed by the parties in writing, any of the events listed in schedule 1 provided that a Horizon Prescribed Event listed in items 1 to 14 of schedule 1 will not occur where Horizon has first consulted in writing with Roc Oil in relation to the event and Roc Oil has approved in writing the proposed event or has not objected to the proposed event within 5 Business Days of having been so consulted.

**Horizon SAR** means a 'Share Appreciation Right' issued by Horizon under the Horizon Oil Long Term Incentive Plan, governed by the Horizon Oil Long Term Incentive Plan Rules dated 18 November 2010.

**Horizon Shareholders** means each person registered in the Register as a holder of Horizon Shares.

**Horizon Shares** means fully paid ordinary shares in the capital of Horizon.

**Implementation Date** means the fifth Business Day following the Record Date or such other date as Roc Oil and Horizon agree in writing.

**Incoming Directors** means such persons who are nominated in writing by Roc Oil to Horizon prior to the Effective Date.

**Independent Expert** means the independent expert and any technical expert approved by Roc Oil (such approval not to be unreasonably withheld or delayed) and appointed by Horizon under item 3 of schedule 5.

A person is **Insolvent** if:

- (a) it is (or states that it is) an insolvent under administration or insolvent (each as defined in the Corporations Act); or
- (b) it is in liquidation, in provisional liquidation, under administration or wound up or has had a Controller appointed to any part of its property; or
- (c) it is subject to any arrangement, assignment, moratorium or composition, protected from creditors under any statute or dissolved (in each case, other than to carry out a reconstruction or amalgamation while solvent on terms approved by the other parties to this deed); or
- (d) an application or order has been made (and in the case of an application, it is not stayed, withdrawn or dismissed within 30 days), resolution passed, proposal put forward, or any other action taken, in each case in connection with that person, which is preparatory to or could result in any of (a), (b) or (c) above; or
- (e) it is taken (under section 459F(1) of the Corporations Act) to have failed to comply with a statutory demand; or
- (f) it is the subject of an event described in section 459C(2)(b) or section 585 of the Corporations Act (or it makes a statement from which another party to this deed reasonably deduces it is so subject); or
- (g) it is otherwise unable to pay its debts when they fall due; or
- (h) something having a substantially similar effect to (a) to (g) happens in connection with that person under the law of any jurisdiction.

**Listing Rules** means the Listing Rules of ASX Limited.

**Losses** means all claims, demands, damages, losses, costs, expenses and liabilities.

**Material Contract** means a contract or commitment:

- (a) requiring total payments in excess of or which are reasonably likely to be in excess of \$10 million per annum; or
- (b) which is not entered into in the ordinary course of the business of the Roc Oil Group or the Horizon Group (as applicable).

**Merged Group** means the group comprising of the combination of the Horizon Group and the Roc Oil Group following implementation of the Merger.

**Merger** means the combination of Roc Oil and Horizon through the implementation of the Scheme.



**Merger Implementation Committee** means a committee to be made up of:

- (a) the chief executive officer of each of Roc Oil and Horizon; and
- (b) such other persons as the parties may agree from time to time.

**New Roc Oil Shares** means fully paid ordinary shares in the capital of Roc Oil to be issued under the Scheme and, to the extent applicable, as consideration for a Horizon Option.

**Optionholders** means each person who is registered in the register maintained by Horizon of holders of Horizon Options as a holder of a Horizon Option.

**Osaka Gas Asset Sale Agreement** means the Asset Sale Agreement dated 23 May 2013 between Horizon Oil (Papua) Limited, Ketu Petroleum Limited, Horizon Oil (PNG Holdings) Limited, Osaka Gas Niugini Pty Ltd, Osaka Gas Niugini E&P Pty Ltd and Osaka Gas Australia Pty Ltd.

**Outgoing Directors** means all directors of Horizon immediately prior to the Implementation Date.

**Petroleum Concession** means any petroleum licence, title, concession, production sharing contract, risk service contract or similar authority to conduct petroleum exploration, appraisal, development or production activities in any jurisdiction.

**Petroleum JOA** means a joint operating agreement, joint venture agreement, shareholders agreement or similar agreement in respect of a Petroleum Concession.

**Petroleum Sale Agreement** means an agreement for the sale of petroleum produced from a Petroleum Concession where the total payments to be received, or reasonably likely to be received, exceed \$10 million per annum.

**Record Date** means 5.00pm on the fifth Business Day following the Effective Date or such other date as Roc Oil and Horizon agree.

**Register** means the share register of Roc Oil or Horizon (as the case requires) and **Registry** has a corresponding meaning.

**Regulator's Draft** means the draft of the Scheme Booklet in a form acceptable to both parties which is provided to ASIC for approval pursuant to section 411(2) of the Corporations Act.

**Regulatory Approval** means any approval of a Regulatory Authority to the Merger or any aspect of it which is necessary or desirable to implement the Merger.

**Regulatory Authority** includes:

- (a) ASX, ACCC, ASIC;
- (b) the Takeovers Panel;
- (c) a government or governmental, semi-governmental or judicial entity or authority;
- (d) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and
- (e) any regulatory organisation established under statute.

**Regulatory Review Period** has the meaning given in clause 8.2(c).

**Related Body Corporate** has the meaning it has in the Corporations Act.

**Relevant Condition Precedent** has the meaning given in clause 3.4(a).

**Relevant Interest** has the same meaning as given by sections 608 and 609 of the Corporations Act.

**Representative** means any person acting for or on behalf of a party including any director, officer, employee, agent, contractor or professional advisor of a party.

**Roc Oil** means Roc Oil Company Limited (ACN 075 965 856).

**Roc Oil Board** means the board of directors of Roc Oil.

**Roc Oil Confidential Information** means all confidential, non-public or proprietary information regardless of how the information is stored or delivered, exchanged between the parties before, on or after the date of this deed relating to the business, technology or other affairs of the Roc Oil Group.

**Roc Oil Group** means Roc Oil and its Subsidiaries.

**Roc Oil Indemnified Parties** means Roc Oil, its officers, employees, and advisers and its Related Bodies Corporate and the officers, employees and advisers of each of its Related Bodies Corporate.

**Roc Oil Information** means the information regarding Roc Oil as is required to be included in the Scheme Booklet under the Corporations Act, Corporations Regulations or ASIC Regulatory Guide 60. For the avoidance of doubt, Roc Oil Information does not include information about the Horizon Group (except to the extent it relates to any statement of intention relating to the Horizon Group following the Effective Date).

**Roc Oil Material Adverse Change** means any one or more matters, events or circumstances which occurs, is announced or disclosed or becomes known to Horizon (in each case whether or not it becomes public) after the date of this deed which, individually or when aggregated with any other such matters, events or circumstances, results or is reasonably likely to result in:

- (a) the EBITDA in any financial year ending 31 December 2014, 31 December 2015 or 31 December 2016 being negatively impacted by \$10 million or more when compared against what it would reasonably have been expected to have been but for such matter, event or circumstance;
- (b) a reduction in the net assets of the Roc Oil Group (taken as a whole) by \$10 million or more compared to the net assets of the Roc Oil Group (taken as a whole) disclosed in the audited balance sheet for the consolidated Roc Oil Group as at 31 December 2013;
- (c) a material adverse change in the business, assets, operations, Material Contracts or prospects of the Roc Oil Group (taken as a whole); or
- (d) the Roc Oil Group being unable to carry on its business, operations, assets or exercising its rights or performing its obligations under the Material Contracts in substantially the same manner as carried on as at the date of this deed including as a result of a material regulatory approval or licence being varied, revoked, cancelled or otherwise terminated by a Government Agency,

but does not include any matter, event or circumstance:

- (a) fully and fairly disclosed on any public register maintained by ASIC;
- (b) fully and fairly disclosed in writing to Horizon or its Representatives on or before the date of this deed (including as a result of disclosures made to ASX);
- (c) arising from any general changes in law, taxation, economic, market, interest rates, global oil prices or business conditions, other than where the change does not have a proportionally equivalent effect on the Roc Oil Group relative to the Horizon Group;
- (d) arising from any change in accounting policy required by law; or
- (e) arising from any change resulting from anything expressly required by this deed, the Scheme or the transactions required to be given effect by them.

**Roc Oil Option** means an option or right (as applicable) to acquire a Roc Oil Share issued under the:

- (a) Roc Oil Executive Options Scheme;
- (b) Roc Oil Long Term Incentive Plan (2010); or
- (c) Roc Oil Equity Incentive Plan (2013).

**Roc Oil Prescribed Event** means, except to the extent expressly required or permitted by this deed or the Scheme or the transactions contemplated by either, or otherwise agreed by the parties in writing, any of the events listed in schedule 2 provided that a Roc Oil Prescribed Event listed in items 1 to 13 of schedule 2 will not occur where Roc Oil has first consulted in writing with Horizon in relation to the event and Horizon has approved the proposed event or has not objected to the proposed event within 5 Business Days of having being so consulted.

**Roc Oil Shareholders** means each person registered in the Register as a holder of Roc Oil Shares.

**Roc Oil Shares** means fully paid ordinary shares in the capital of Roc Oil.

**Scheme Booklet** means, in respect of the Scheme, the information booklet to be approved by the Court and despatched to Horizon Shareholders which must:

- (a) include the Scheme, an explanatory statement complying with the requirements of the Corporations Act and notice(s) of meeting and proxy form(s); and
- (b) comply with the Corporations Act, Corporations Regulations and ASIC Regulatory Guide 60 and the Listing Rules.

**Scheme Meeting** means the meeting to be convened by the Court at which Horizon Shareholders will vote on the Share Scheme.

**Scheme Participants** means each person who is a Horizon Shareholder at the Record Date.

**Second Court Date** means the day on which the Court makes an order pursuant to section 411(4)(b) of the Corporations Act approving the Scheme.

**Share Scheme or Scheme** means the scheme of arrangement under part 5.1 of the Corporations Act under which all the Horizon Shares will be transferred to Roc Oil substantially in the form of Annexure B together with any amendment or modification made pursuant to section 411(6) of the Corporations Act.

**Share Scheme Consideration** means the consideration payable by Roc Oil for the Horizon Shares under the Share Scheme and in accordance with clause 4.

**Subsidiaries** has the meaning it has in the Corporations Act.

**Superior Proposal** means:

- (a) in relation to a Competing Transaction received by Roc Oil, a bona fide Competing Transaction of the kind referred in paragraphs (a), (b), (c), (d) and (f) of the definition of Competing Transaction which the Roc Oil Board, acting in good faith determines is:
  - (i) reasonably capable of being completed taking into account all aspects of the Competing Transaction; and
  - (ii) more favourable to Roc Oil Shareholders than the Scheme, taking into account all terms and conditions of the Competing Transaction.
- (b) in relation to a Competing Transaction received by Horizon, a bona fide Competing Transaction of the kind referred to in paragraphs (a), (b), (c), (d) and (f) of the definition of Competing Transaction which the Horizon Board, acting in good faith determines is:
  - (i) reasonably capable of being completed taking into account all aspects of the Competing Transaction; and
  - (ii) more favourable to Horizon Shareholders than the Scheme, taking into account all terms and conditions of the Competing Transaction.

**Tax Invoice** has the meaning it has in the GST Act.

**Timetable** means the timetable set out in schedule 4.

## 1.2 References to certain general terms

Unless the contrary intention appears, a reference in this deed to:

- (a) **(variations or replacement)** a document (including this deed) includes any variation or replacement of it;
- (b) **(clauses, annexures and schedules)** a clause, annexure or schedule is a reference to a clause in or annexure or schedule to this deed;
- (c) **(reference to statutes)** a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (d) **(law)** law means common law, principles of equity, and laws made by parliament (and laws made by parliament include State, Territory and Commonwealth laws and regulations and other instruments under them, and consolidations, amendments, re-enactments or replacements of any of them);

- (e) **(singular includes plural)** the singular includes the plural and vice versa;
- (f) **(person)** the word “person” includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any Regulatory Authority;
- (g) **(executors, administrators, successors)** a particular person includes a reference to the person’s executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (h) **(reference to a group of persons)** a group of persons or things is a reference to any two or more of them jointly and to each of them individually;
- (i) **(dollars)** United States dollars, dollars, US\$ or \$ is a reference to the lawful currency of the United States of America;
- (j) **(calculation of time)** a period of time dating from a given day or the day of an act or event, is to be calculated exclusive of that day;
- (k) **(reference to a day)** a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (l) **(accounting terms)** an accounting term is a reference to that term as it is used in the Accounting Standards;
- (m) **(meaning not limited)** the words “include”, “including”, “for example” or “such as” when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind; and
- (n) **(time of day)** time is a reference to Sydney, New South Wales time.

### 1.3 Next day

If an act under this deed to be done by a party on or by a given day is done after 5.30pm on that day, it is taken to be done on the next day.

### 1.4 Next Business Day

If an event must occur on a stipulated day which is not a Business Day then the stipulated day will be taken to be the next Business Day.

### 1.5 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of this deed.

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## 2 Agreement to propose and implement Scheme

### 2.1 Horizon to propose Scheme

Horizon agrees to propose the Scheme on and subject to the terms and conditions of this deed.

### 2.2 Agreement to implement Merger

The parties agree to implement the Merger on the terms and conditions of this deed.

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### 3 Conditions precedent

#### 3.1 Conditions precedent

Subject to this clause 3, the Scheme will not become Effective and the obligations of Roc Oil under clause 4.2 are conditional on the satisfaction or waiver of each of the Conditions Precedent contained in schedule 3 to the extent and in the manner set out in clauses 3.2, 3.3 and 3.4.

#### 3.2 Benefit of certain Conditions Precedent

A Condition Precedent may only be waived in writing by a party entitled to the benefit of that Condition Precedent as noted in the table set out in schedule 3 and will be effective only to the extent specifically set out in that waiver.

A party entitled to waive the breach or non-fulfilment of a Condition Precedent under this clause 3.2 may do so in its absolute discretion.

#### 3.3 Waiver of Conditions Precedent

- (a) If either Roc Oil or Horizon waives the breach or non-fulfilment of a Condition Precedent in accordance with this clause, then subject to subclause 3.3(b), that waiver will preclude that party from suing the other for any breach of this deed arising as a result of the breach or non-fulfilment of that Condition Precedent or arising from the same event which gave rise to the breach or non-fulfilment of that Condition Precedent.
- (b) If the waiver of a Condition Precedent is itself conditional and the other party:
  - (i) accepts the condition, the terms of that condition shall apply as between the parties notwithstanding any inconsistency with clause 3.3(a); or
  - (ii) does not accept the condition, the Condition Precedent has not been waived.

#### 3.4 Reasonable endeavours

Each of Roc Oil and Horizon agree, to the extent it is within their power to do so, to use reasonable endeavours to procure that:

- (a) each Condition Precedent for which its name is specified in the third column of the table in schedule 3 opposite that Condition Precedent (or both parties, if 'both' is specified in the relevant column) ("**Relevant Condition Precedent**"):
  - (i) is satisfied as soon as practicable after the date of this deed; and
  - (ii) continues to be satisfied at all times until the last time it is to be satisfied (as the case may require); and
- (b) there is no occurrence that would prevent each Relevant Condition Precedent being satisfied.

#### 3.5 Regulatory matters

Without limiting clause 3.4:

- (a) (**Regulatory Approvals**) the parties must promptly apply for each Regulatory Approval set out in item 1(b) of schedule 3 and take all steps

it is responsible for as part of the approval process, including responding to requests for information from the relevant Government Agencies at the earliest practicable time;

- (b) **(representation)** subject to the requirements of the relevant Regulatory Authority, each party has the right to be represented and make submissions at any proposed meeting with any Regulatory Authority relating to any Regulatory Approval; and
- (c) **(consultation)** each party must consult with the other party in advance in relation to all material communications (whether written or oral, and whether direct or via a Representative) with any Regulatory Authority relating to any Regulatory Approval ("**Communications**") and, without limitation:
  - (i) provide the other party with drafts of any material written Communications to be sent to a Regulatory Authority, and consider in good faith and make such amendments as the other party reasonably requires; and
  - (ii) provide copies of any material written Communications sent to or received from a Regulatory Authority to the other party promptly upon despatch or receipt (as the case may be),

in each case to the extent it is reasonable and practicable to do so, and provided that:

- (iii) the party applying for a Regulatory Approval may withhold or redact information or documents from the other party if and to the extent that they are either confidential to a third party or commercially sensitive and confidential to the applicant; and
- (iv) neither party is required to disclose materially commercially sensitive information to the other party.

### 3.6 Notices in relation to Conditions Precedent

Each party must:

- (a) **(notice of satisfaction)** promptly notify the other of satisfaction of a Condition Precedent of which it becomes aware and must keep the other informed of any material development of which it becomes aware that may lead to the breach or non-fulfilment of a Condition Precedent;
- (b) **(notice of failure)** immediately give written notice to the other of a breach or non-fulfilment of a Condition Precedent of which it becomes aware, or of any event of which it becomes aware which will prevent a Condition Precedent being satisfied;
- (c) **(notice of waiver)** upon receipt of a notice given under paragraph (b), give written notice to the other party as soon as reasonably practicable (and in any event before 5.00pm on the day before the Second Court Date) as to whether or not it waives the breach or non-fulfilment of any Condition Precedent resulting from the occurrence of that event, specifying the Condition Precedent in question; and
- (d) **(certificates)** give to:
  - (i) the other (in draft), by 5.00pm on the Business Day immediately prior to the Second Court Date; and



(ii) the Court (in final form), on the Second Court Date,

a certificate signed by one of its directors and made in accordance with a resolution of its board confirming (in respect of the Conditions Precedent relating to it, other than the Condition Precedent in item 4 of schedule 3) whether or not those Conditions Precedent have been satisfied or waived.

### **3.7 Effect of waiver or non-fulfilment**

A waiver of such breach or non-fulfilment in respect of one Condition Precedent does not constitute:

- (a) a waiver of the breach or non-fulfilment of any other Condition Precedent resulting from the same event; or
- (b) a waiver of the breach or non-fulfilment of that Condition Precedent resulting from any other event.

### **3.8 Consultation on failure of Condition Precedents**

If:

- (a) there is a breach or non-fulfilment of a Condition Precedent which is not waived in accordance with this deed by the time or date specified in this deed for the satisfaction of the Condition Precedent;
- (b) there is an act, failure to act or occurrence which will prevent a Condition Precedent being satisfied by the time or date specified in this deed for the satisfaction of the Condition Precedent (and the breach or non-fulfilment which would otherwise occur has not already been waived in accordance with this deed); or
- (c) if the Scheme has not become Effective by the End Date,

then the parties must consult in good faith with a view to determining whether:

- (d) the Scheme may proceed by way of alternative means or methods;
- (e) to extend the relevant time for satisfaction of the Condition Precedent or to adjourn or change the date of an application to the Court; or
- (f) to extend the End Date.

### **3.9 Failure to agree**

If the parties are unable to reach agreement under clause 3.8 within 5 Business Days (or any shorter period ending at 5.00pm on the day before the Second Court Date):

- (a) subject to subclause 3.9(b), either party may terminate this deed (and such termination will be in accordance with clause 14.1(f)(i)); or
- (b) if a Condition Precedent may be waived and exists for the benefit of one party only, that party only may waive that Condition Precedent or terminate this deed (and such termination will be in accordance with clause 14.1(f)(ii)),

in each case before 8.00am on the Second Court Date. A party will not be entitled to terminate this deed pursuant to this clause 3.9 if the relevant Condition Precedent has not been satisfied or agreement cannot be reached as a result of:

- (c) a breach of this deed by that party; or
- (d) a deliberate act or omission of that party (that is not permitted or contemplated by this deed).

### **3.10 Regulatory Approval**

A Regulatory Approval will be regarded as having been obtained notwithstanding that a condition or conditions may have been attached to that Regulatory Approval if that condition is or, as the case may be, those conditions are, reasonably satisfactory to Roc Oil and Horizon.

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## **4 Outline of Share Scheme**

### **4.1 Share Scheme**

Subject to clause 3.1, on the Implementation Date:

- (a) all of the Horizon Shares will be transferred to Roc Oil; and
- (b) each Share Scheme Participant will be entitled to receive the Share Scheme Consideration for each Horizon Share held by it at the Record Date.

### **4.2 Share Scheme Consideration**

Subject to clause 4.3, Roc Oil covenants in favour of Horizon (in its own right and on behalf of each Scheme Participant) that in consideration of the transfer to Roc Oil of each Horizon Share held by a Share Scheme Participant under the terms of the Share Scheme, Roc Oil will accept that transfer and issue to each Scheme Participant 0.724 New Roc Oil Shares for each Horizon Share held by the Share Scheme Participant at the Record Date in accordance with the terms of the Share Scheme.

### **4.3 Fractional elements**

If the number of Horizon Shares held by a Scheme Participant means that their aggregate entitlement to New Roc Oil Shares is not a whole number, then any fractional entitlement will be rounded to the nearest whole number of New Roc Oil Shares.

### **4.4 Foreign Horizon Securityholders**

Roc Oil will, unless satisfied that the laws of a Foreign Horizon Securityholder's country of residence (as shown in the Register) permit the issue of New Roc Oil Shares to the Foreign Horizon Securityholder (either unconditionally or after compliance with conditions which Roc Oil regards as acceptable and not unduly onerous and not unduly impracticable), issue the New Roc Oil Shares to which a Foreign Horizon Securityholder would otherwise become entitled to a nominee appointed by Roc Oil who will sell those New Roc Oil Shares and pay to that Foreign Horizon Securityholder the proceeds received, after deducting any applicable brokerage, taxes and charges in accordance with the Scheme.

### **4.5 Shares to rank equally**

Roc Oil covenants in favour of Horizon (in its own right and on behalf of each Scheme Participant) that:

- (a) all New Roc Oil Shares issued pursuant to clause 4.2 will, upon their issue, rank equally with all other Roc Oil Shares then on issue;

- (b) it will do everything reasonably necessary to ensure that trading in the New Roc Oil Shares commences no later than the first Business Day after the Implementation Date; and
- (c) on issue, each New Roc Oil Share will be fully paid and free from any Encumbrance.

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## **5 Horizon Options and Horizon SARs**

### **5.1 Proposed treatment of Horizon Options**

- (a) Each of Roc Oil and Horizon agree to use their respective best endeavours to procure that the treatment of Horizon Options and Horizon SARs is determined as promptly as possible after the date of this deed and in any event so that it is set out in full in the Scheme Booklet.
- (b) Subject to clause 3.1, the Share Scheme becoming Effective and clause 5.1(c) below:
  - (i) each of Roc Oil and Horizon will use their respective best endeavours to procure that:
    - (A) the Horizon Options are transferred to Roc Oil or cancelled prior to the Record Date; and
    - (B) the Optionholders will be provided with consideration for the transfer or cancellation of the Horizon Options that are reasonably acceptable to Horizon, the Optionholders and Roc Oil;
  - (ii) Horizon will seek a waiver from the ASX in relation to the requirements of Listing Rule 6.23 in order to allow the cancellation of the Horizon Options without a meeting of Horizon Shareholders;
  - (iii) Horizon will prepare a deed that is acceptable to Roc Oil (acting reasonably), which is intended to be entered into by Roc Oil, Horizon and each Optionholder as at the date immediately before the Record Date, which will, subject to clause 5.1(c), provide for the transfer or cancellation of the Horizon Options in consideration for the issue of or grant to Optionholders of all or any combination of the following as reasonably agreed with Roc Oil and each relevant Optionholder:
    - (A) a cash amount;
    - (B) in the case of Horizon Options that are not Horizon SARs, options to acquire Roc Oil Shares; or
    - (C) in the case of Horizon SARs, performance entitlements over Roc Oil Shares; and
  - (iv) Horizon will procure that no performance conditions are waived or accelerated under any Horizon Options or Horizon SARs and that no unvested Horizon Options or Horizon SARs otherwise have their vesting accelerated including by a decision of the Horizon Board, unless otherwise agreed between the parties having regard to clauses 5.1(c) and 5.1(d), acting reasonably.

- (c) For the purposes of clause 5.1(b), Horizon and Roc Oil agree to use their respective best endeavours to agree:
- (i) the amount or quantum of consideration which will be provided to Optionholders in consideration for the transfer or cancellation of the Horizon Options;
  - (ii) the terms of any consideration which will be provided to Optionholders in consideration for the transfer or cancellation of the Horizon Options, including the terms of any options to acquire Roc Oil Shares or performance entitlements over Roc Oil Shares; and
  - (iii) the process and method through which the Horizon Options will be transferred or cancelled and the relevant consideration provided to the Optionholders, including, without limitation, any determinations Horizon will be making with respect to the Horizon Options to facilitate the relevant transfer, cancellation and provision of consideration,
- in accordance with the principle that Optionholders will be put in a commercially equivalent position.
- (d) Without limiting the generality of the foregoing, Horizon and Roc Oil agree to use their respective best endeavours to agree the matters in paragraphs 5.1(c)(i) to 5.1(c)(iii) in such a way that there is no requirement to provide a disclosure document under the Corporations Act (or an offering document required for the purposes of any other applicable securities law) in respect of the consideration provided for the transfer or cancellation of the Horizon Options.

## 5.2 Regulatory confirmations

The obligations of the parties under clause 5.1 will be conditional on:

- (a) ASX granting a waiver from rule 6.23 of the Listing Rules in relation to the Horizon Options or Horizon Shareholders giving any necessary approvals under rule 6.23 of the Listing Rules in relation to the Horizon Options;
- (b) if Horizon determines that it is reasonably necessary, Horizon obtaining a ruling or such other guidance from the Australian Taxation Office with respect to the tax treatment of Optionholders in relation to the transactions contemplated with respect to the Horizon Options as it considers reasonably appropriate; and
- (c) the Share Scheme becoming Effective.

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## 6 Co-operation and timing

### 6.1 General obligations

Roc Oil and Horizon must each:

- (a) use all reasonable endeavours and commit all reasonably necessary resources (including reasonably necessary management and corporate relations resources and the resources of external advisers); and
- (b) procure that its officers and advisers work in good faith and in a timely and co-operative fashion with the other party (including by attending such meetings and by providing such information as in each case may reasonably be required),

to produce the Scheme Booklet and implement the Scheme in accordance with the Timetable.

## **6.2 Merger Implementation Committee**

- (a) The parties must establish a Merger Implementation Committee as soon as possible after the date of this deed.
- (b) The role of the Merger Implementation Committee will be to act as a forum for consultation and planning by the parties to:
  - (i) facilitate satisfaction of the Conditions Precedent;
  - (ii) produce the Scheme Booklet; and
  - (iii) implement the Scheme and the Merger.
- (c) Subject to this deed, nothing in this clause requires either party to act at the direction of the other. The business of each party will continue to operate independently from the other until the Implementation Date. The parties agree that nothing in this deed constitutes the relationship of a partnership or a joint venture between the parties and for the avoidance of doubt, the Merger Implementation Committee is a consultative body only that will make recommendations to the parties.

## **6.3 Access to people and information**

Between the date of this deed and the earlier of 5.00pm on the Business Day immediately before the Second Court Date and the date this deed is terminated, the parties and their Subsidiaries must provide one another, and their respective officers and advisers, with reasonable access to their officers and advisers and documents, records, and other information (subject to any existing confidentiality obligations owed to third parties, or applicable privacy laws) which the other party reasonably requests, including monthly management accounts at mutually convenient times for the purpose of:

- (a) implementation of the Scheme; and
- (b) any other purpose agreed between the parties,

provided that:

- (c) nothing in this clause will require Roc Oil or Horizon (as applicable) to provide information concerning the consideration of the Scheme by the respective Boards of Roc Oil or Horizon (as applicable); and
- (d) providing information to Roc Oil or Horizon (as applicable) pursuant to this clause does not result in unreasonable disruptions to the business of the Roc Oil Group or Horizon Group.

## **6.4 Right to separate representation**

Each party is entitled to separate representation at all Court proceedings relating to the Scheme. Nothing in this deed is to be taken to give Roc Oil or Horizon (as applicable) any right or power to make or give undertakings to the Court for or on behalf of the other party.

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## **7 Implementation obligations of the parties**

### **7.1 Horizon's obligations**

Horizon must comply with the obligations of Horizon set out in schedule 5 and take all reasonable steps to implement the Scheme as soon as is reasonably practicable having regard to the Timetable and in any event prior to the End Date.

### **7.2 Roc Oil's obligations**

Roc Oil must comply with the obligations of Roc Oil set out in schedule 6 and take all reasonable steps to assist Horizon to implement the Scheme as soon as reasonably practicable having regard to the Timetable and in any event prior to the End Date.

### **7.3 Appointment/retirement of Horizon directors**

Without limiting clause 9, if requested by Roc Oil in writing at any time in the period commencing on the Effective Date, Horizon must use its reasonable endeavours to:

- (a) procure that each of the Outgoing Directors retires from the Horizon Board with effect from the Implementation Date; and
- (b) cause the appointment of each Incoming Director to the Horizon Board with effect from the Implementation Date.

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## **8 Scheme Booklet**

### **8.1 Preparation**

Without limiting clauses 7.1 or 7.2:

- (a) **(preparation):** subject to clause 8.3(c) and 8.5, Horizon is generally responsible for the preparation of the Scheme Booklet but will provide drafts to and consult with Roc Oil in accordance with clause 8.2;
- (b) **(compliance)** Horizon must take all necessary steps to endeavour to ensure that the Scheme Booklet other than the Roc Oil Information:
  - (i) complies with the requirements of:
    - (A) the Corporations Act and the Corporations Regulations;
    - (B) ASIC Regulatory Guide 60; and
    - (C) the Listing Rules; and
  - (ii) is not, having regard to applicable disclosure requirements, misleading or deceptive in any material respect (including because of any material omission); and
- (c) **(responsibility statement)** Horizon agrees to include a statement in the Scheme Booklet that Horizon is responsible for the Scheme Booklet other than the Roc Oil Information and any other parts of the Scheme Booklet for which Horizon is not responsible (such as any report by any Independent Expert).

## 8.2 Drafts of the Scheme Booklet

Horizon must:

- (a) **(consult Roc Oil):**
  - (i) provide to Roc Oil successive drafts of the Scheme Booklet for the purpose of enabling Roc Oil to review and comment on those draft documents;
  - (ii) take the comments made by Roc Oil or its Representatives into account in good faith when producing a revised draft of the Scheme Booklet; and
  - (iii) provide to Roc Oil the proposed Regulator's Draft at least 5 Business Days before it is submitted to ASIC to enable Roc Oil to review and comment on the proposed Regulator's Draft;
- (b) **(amend Scheme Booklet)** implement such changes to those parts of the Scheme Booklet relating to Roc Oil which are provided in accordance with clause 8.2(a) as reasonably requested by Roc Oil and prior to finalising the Regulator's Draft;
- (c) **(Regulatory Review Period)** during the period within which ASIC has to review the draft Scheme Booklet ("**Regulatory Review Period**"):
  - (i) promptly provide to Roc Oil, and include in revised drafts of the Scheme Booklet, any new information not included in the Regulator's Draft which is required by the Corporations Act, Corporations Regulations, ASIC Regulatory Guide 60 or the Listing Rules to be included in the Scheme Booklet, and promptly provide each such revised draft of the Scheme Booklet to Roc Oil for its review and comment; and
  - (ii) keep Roc Oil informed of any matters raised by ASIC in relation to the Scheme Booklet of the Scheme and use all reasonable endeavours, in co-operation with Roc Oil, to resolve any such matters; and
- (d) **(Horizon Information)** obtain approval from Roc Oil for the form and context in which the Roc Oil Information appears in the Scheme Booklet.

## 8.3 Roc Oil information

Roc Oil:

- (a) must consult with Horizon as to the content of the Roc Oil Information;
- (b) subject to it having approved the Roc Oil Information in the Scheme Booklet in accordance with clause 8.2(d), consents to the inclusion of the Roc Oil Information in the Scheme Booklet; and
- (c) acknowledges that:
  - (i) it is responsible for ensuring that the Roc Oil Information is not misleading or deceptive in any material respect (whether by omission or otherwise) and that Horizon will not verify or edit that information in the Scheme Booklet; and
  - (ii) the Scheme Booklet will state that Roc Oil is responsible for the Roc Oil Information.



#### **8.4 Disagreement on content**

If Horizon and Roc Oil disagree on the form or content of the Scheme Booklet, they must consult in good faith to try to settle the agreed form of the Scheme Booklet. If complete agreement is not reached after reasonable consultation, then:

- (a) if the disagreement relates to the form or content of the Roc Oil Information contained in the Scheme Booklet, Horizon will make such amendments as Roc Oil reasonably requires; and
- (b) if the disagreement relates to the form or content of any other part of the Scheme Booklet, the Horizon Board will, acting in good faith, decide the final form or content of the disputed part of the Scheme Booklet.

#### **8.5 Verification**

Each party must undertake appropriate verification processes for the information supplied by that party for the Scheme Booklet.

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### **9 Profile of the Merged Group**

#### **9.1 Board and Chairman**

The parties agree that on implementation of the Merger:

- (a) the Chairman of Roc Oil (Mr Michael Harding) and two other non-executive directors of Roc Oil will be appointed (by continuing as directors of Roc Oil) to the Board of the Merged Group with effect from the Implementation Date;
- (b) Roc Oil will procure that, other than the Roc Oil directors referred to in clause 9.1(a), each other director of Roc Oil will retire from the Roc Oil Board with effect from the Implementation Date;
- (c) four non-executive directors of Horizon and Mr Brent Emmett as Managing Director will be appointed to the Board of the Merged Group with effect from the Implementation Date (it being acknowledged that it is the intention of the parties that one of the non-executive directors of Horizon appointed to the Board of the Merged Group under this clause 9.1(c) will retire from the Board of the Merged Group at or before the 2015 annual general meeting of the Merged Group); and
- (d) the Chairman of Roc Oil (Mr Michael Harding) will be the Chairman of the Merged Group with effect from the Implementation Date.

#### **9.2 Chief Executive Officer and Managing Director**

The parties agree that the Chief Executive Officer of Horizon (Mr Brent Emmett) will be the Chief Executive Officer and Managing Director of the Merged Group following implementation of the Merger.

#### **9.3 Senior management**

The parties agree that:

- (a) the senior management of the Merged Group will be determined by the Board of the Merged Group;
- (b) any decision made by the Board of the Merged Group pursuant to clause 9.3(a) must be based on the recommendations of the Chief Executive Officer of Horizon as at the date of this deed (Mr Brent Emmett) and the

Chief Executive Officer of Roc Oil as at the date of this deed (Mr Alan Linn); and

- (c) any recommendation provided by the Chief Executive Officer of each of Horizon and Roc Oil as at the date of this deed pursuant to clause 9.3(b) must be based on the skills, experience, knowledge and expertise required to manage the Merged Group and its assets.

#### **9.4 Branding and operation**

- (a) The parties agree that the Merged Group intends to:
  - (i) use the 'Roc Oil' brand, including any associated trade marks and logos in the conduct of its business in China and South East Asia, which will include, for the avoidance of doubt Malaysia and Myanmar;
  - (ii) use the 'Horizon Oil' brand, including any associated trade marks and logos in the conduct of its business in Papua New Guinea and New Zealand; and
  - (iii) consider in good faith the brand to be used by the Merged Group in any other countries not specified in this clause 9.4(a).
- (b) The parties agree that the Merged Group intends to maintain the operating capability of each of the Roc Oil Group and the Horizon Group in the respective jurisdictions in which they operate as at the date of this deed.

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## **10 Conduct of business**

### **10.1 Overview**

- (a) From the date of this deed up to and including the Implementation Date, each of Horizon and Roc Oil must conduct their respective businesses:
  - (i) in the ordinary and usual course;
  - (ii) materially in accordance with applicable laws and the terms and conditions of the Petroleum Concessions to which they and their Subsidiaries are respectively party; and
  - (iii) consistent with the most recent business plans and budgets for:
    - (A) the Roc Oil Group disclosed to Horizon; and
    - (B) the Horizon Group disclosed to Roc Oil,prior to the date of this deed,except:
  - (iv) as approved otherwise in advance by Horizon or Roc Oil (as applicable) in writing;
  - (v) to reasonably and prudently respond to an emergency or disaster (including a situation giving rise to a risk of personal injury or damage to property); or
  - (vi) which is necessary for Horizon or Roc Oil (or their Subsidiaries) to meet their respective legal or contractual obligations.

- (b) Horizon or Roc Oil (as applicable) must not unreasonably withhold any approval sought under clause 10.1(a).

## 10.2 Specific obligations

Without limiting clause 10.1 and other than with the prior approval of Horizon or Roc Oil, as applicable (which approval must not be unreasonably withheld or delayed) or as required by this deed, each of Horizon and Roc Oil must, during the period contemplated by clause 10.1, use all reasonable endeavours to:

- (a) **(business and assets)** maintain its business and assets;
- (b) **(officers and employees)** keep available the services of its officers and employees;
- (c) **(relationships)** preserve its relationships with customers, suppliers, licensors, licensees, joint venturers, Government Agencies and others with whom it has business dealings;
- (d) **(change of control provisions)** identify any change of control or similar provisions in any Material Contract or any joint venture documentation and obtain the consents of relevant persons who have rights in respect of those persons to the transactions contemplated by the Merger; and
- (e) **(compliance)** maintain all material required regulatory permits, and obtain all material required regulatory approvals, which are necessary for the conduct of the operations of the business in each jurisdiction in which any member of the Roc Oil Group or Horizon Group (as applicable) operates, where failure to maintain any such regulatory permits or regulatory approvals would result in a Roc Oil Material Adverse Change or Horizon Material Adverse Change (as applicable).

## 10.3 Prohibited actions

Other than with the prior approval of Horizon or Roc Oil, as applicable (which approval must not be unreasonably withheld or delayed) or as required by this deed, each of Horizon and Roc Oil must not (and must each procure that its Subsidiaries do not), during the period referred to in clause 10.1:

- (a) **(Petroleum Concessions):**
  - (i) surrender a Petroleum Concession, except for a compulsory surrender in accordance with applicable laws;
  - (ii) vary, or waive its rights in a material way under, a Petroleum Concession;
- (b) **(Petroleum JOAs):**
  - (i) voluntarily withdraw from a Petroleum JOA;
  - (ii) give notice of or otherwise institute any sole risk or non-consent operation under a Petroleum JOA; or
  - (iii) vary, or waive its rights in a material way under, a Petroleum JOA;
- (c) **(employment agreements)** increase the remuneration of or pay any bonus (other than in accordance with existing arrangements and in the ordinary course) or issue any securities or options to, or otherwise vary the employment agreements with, any of its directors or employees, other than in accordance with clause 5.1;

- (d) **(accelerate rights)** accelerate the rights of any of its directors or employees to benefits of any kind, other than in accordance with clause 5.1;
- (e) **(termination payments)** pay a director, executive or employee a termination payment, other than in accordance with clause 5.1 or as provided for in an existing employment contract in place as at the date of this deed and a copy of which has previously been provided to the other party;
- (f) **(financial arrangements)** amend in any material respect any arrangement with its financial advisers in respect of the transactions contemplated by this deed;
- (g) **(dividends)** announce, declare or pay any dividends;
- (h) **(Prescribed Event)** take any action which would be reasonably expected to give rise to a Roc Oil Prescribed Event or a Horizon Prescribed Event (as applicable); or
- (i) **(agreement)** agree to do any of the matters set out above.

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## 11 Exclusivity

### 11.1 No existing discussions

Each of Roc Oil and Horizon represents and warrants that, other than the discussions with the other party and its Representatives in respect of the Merger, neither Roc Oil or Horizon nor any of their respective Related Bodies Corporate nor any of their respective Representatives is in negotiations or discussions in respect of or with a view to any Competing Transaction with any person.

### 11.2 No-shop

During the Exclusivity Period, each of Roc Oil and Horizon must ensure that neither it nor any of its Related Bodies Corporate nor any of their respective Representatives directly or indirectly:

- (a) solicits, invites, encourages or initiates any enquiries, offers, proposals, expressions of interest, negotiations or discussions in connection with or with a view to obtaining any Competing Transaction; or
- (b) communicates any intention to do any of these things.

### 11.3 No-talk

Subject to clause 11.4, during the Exclusivity Period, each of Roc Oil and Horizon must ensure that neither it nor any of its Related Bodies Corporate nor any of their respective Representatives:

- (a) negotiates or enters into any Competing Transaction;
- (b) provides any non-public information (including due diligence information) to a third party in connection with a Competing Transaction or with a view to obtaining a Competing Transaction; or
- (c) participates in negotiations or discussions with any third party in connection with a Competing Transaction or with a view to obtaining a Competing Transaction,

even if the Competing Transaction was not directly or indirectly solicited, invited, encouraged or initiated by Roc Oil or Horizon (as applicable) or any of its Related

Bodies Corporate or any of their respective Representatives or if the third party has publicly announced the Competing Transaction.

#### 11.4 Exceptions to no-talk

- (a) Clause 11.3 does not apply to the extent that it restricts a party or that party's Board from taking or refusing to take any action in relation to a bona fide Competing Transaction (which was not solicited, invited or initiated in contravention of clause 11.2) if the relevant party's Board has determined, in good faith and acting reasonably that:
  - (i) after consultation with its financial advisors, that such a bona fide Competing Transaction could reasonably be considered to become a Superior Proposal; and
  - (ii) after receiving written legal advice, that failing to respond to such a bona fide Competing Transaction would be likely to constitute a breach of the that party's Board's fiduciary or statutory obligations.
- (b) Clause 11.3 does not prevent Roc Oil or Horizon (as applicable) from making normal presentations to brokers, portfolio investors and analysts in the ordinary course of business or promoting the merits of the Merger.

#### 11.5 Notifications

- (a) A party (**first party**) must promptly inform the other party (**second party**) in writing if the first party is relying on the exemption in clause 11.4.
- (b) During the Exclusivity Period, the first party must promptly inform the second party if the first party, or any of its Related Bodies Corporate or any of their respective Representatives, receives any approach with respect to or with a view to any Competing Transaction and must disclose to the second party:
  - (i) the fact that such an approach has been made and whether the first party or any of its Representatives are in discussions with the proponent of the Competing Transaction;
  - (ii) the identity of the proponent of the Competing Transaction;
  - (iii) the material details of the approach; and
  - (iv) if discussions with the proponent of the Competing Transaction are subsequently discontinued,except to the extent the first party's Board has determined, acting in good faith, after receiving advice from the first party's external legal advisers and, if appropriate, from its financial advisers, that giving notice to the second party in accordance with this clause 11.5(b) would be likely to constitute a breach of the first party's Board's fiduciary or statutory obligations.
- (c) The first party must promptly notify the second party in writing if it is relying on the exception in clause 11.5(b).

#### 11.6 Legal advice

Each party acknowledges that it has received legal advice on this deed and the operation of this clause 11.

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## **12 Representations and warranties**

### **12.1 Roc Oil's representations and warranties**

Roc Oil represents and warrants to Horizon (on its own behalf and separately as trustee or nominee for each of the Horizon directors) that, other than as disclosed to Horizon in writing on or prior to the date of this deed (with such disclosure being accepted in writing by Horizon), each of the statements set out in schedule 7 is true and correct in all material respects as at the date of this deed and as at 5.00pm on the Business Day immediately prior to the Second Court Date.

### **12.2 Roc Oil's indemnity**

Subject to clause 17, Roc Oil indemnifies the Horizon Indemnified Parties against all Losses incurred directly or indirectly as a result of any of the representations and warranties in clause 12.1 not being true and correct in any material respect.

### **12.3 Roc Oil warranty certificate**

Roc Oil must provide to Horizon by 5.00pm on the Business Day immediately prior to the Second Court Date a certificate signed by a director of Roc Oil and made in accordance with a resolution of the Roc Oil Board stating, as at that date, that the representations or warranties given by Roc Oil in clause 12.1 remain true and accurate in all material respects or, if any such representation or warranty is not true and accurate in any material respects as at that date, providing complete particulars of the facts and matters which make the representation or warranty untrue or inaccurate.

### **12.4 Horizon's representations and warranties**

Horizon represents and warrants to Roc Oil (on its own behalf and separately as trustee or nominee for each of the Roc Oil directors) that, other than as disclosed in writing to Roc Oil on or prior to the date of this deed (with such disclosure being accepted in writing by Roc Oil), each of the statements set out in schedule 8 is true and correct in all material respects as at the date of this deed and as at 5.00pm on the Business Day immediately prior to the Second Court Date.

### **12.5 Horizon's indemnity**

Subject to clause 17, Horizon indemnifies the Roc Oil Indemnified Parties against all Losses incurred directly or indirectly as a result of any of the representations and warranties in clause 12.4 not being true and correct in any material respect.

### **12.6 Horizon warranty certificate**

Horizon must provide to Roc Oil by 5.00pm on the Business Day immediately prior to the Second Court Date a certificate signed by a director of Horizon and made in accordance with a resolution of the Horizon Board stating, as at that date, that the representations and warranties given by Horizon in clause 12.4 remain true and accurate in all material respects or, if any such representation or warranty is not true and accurate in any material respects as at that date, providing complete particulars of the facts and matters which make the representation or warranty untrue or inaccurate.

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## **13 Court proceedings**

### **13.1 Appeal process**

- (a) If the Court refuses to make orders convening the Scheme Meeting or approving the Share Scheme, Horizon and Roc Oil must appeal the Court's decision to the fullest extent possible except to the extent that:
  - (i) the parties agree in writing otherwise;

- (ii) Queen's Counsel or Senior Counsel representing that party in relation to the Scheme advises in writing that, in their opinion, an appeal would likely have less than a 50% prospect of success; or
  - (iii) there is, in the bona-fide view of the Horizon Board a Superior Proposal which should be recommended in preference to the Scheme.
- (b) In the event of a circumstance referred to in clause 13.1(a), either party may terminate this deed in accordance with clause 14.1(f)(iii).

### 13.2 Defence of proceedings

Each of Horizon and Roc Oil must vigorously defend, or must cause to be vigorously defended, any lawsuits or other legal proceeding brought against it (or any of its Subsidiaries) challenging this deed or the completion of the Merger. Neither Horizon nor Roc Oil will settle or compromise (or permit any of its Subsidiaries to settle or compromise) any claim brought in connection with this deed without the prior written consent of the other, such consent not to be unreasonably withheld.

### 13.3 Costs

Any costs incurred as a result of the operation of this clause 13 will be borne equally by each party.

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## 14 Termination

### 14.1 Termination events

Without limiting any other provision of this deed (including clauses 3.9 and 13.1), this deed may be terminated:

- (a) **(End Date)** by either party, if the Scheme has not become Effective by the End Date;
- (b) **(change in recommendation)** by Roc Oil, at any time prior to 8.00am on the Second Court Date if the majority of the Horizon Board changes its recommendation to the Scheme Participants that they vote in favour of the resolution to approve the Scheme, including any adverse modification to its recommendation, or otherwise makes a public statement indicating that it no longer supports the Merger referred to in item 5(a) of schedule 5 or comply with item 5(b) of schedule 5;
- (c) **(material breach)** by either Horizon or Roc Oil (**Non-Defaulting Party**), at any time prior to 8.00am on the Second Court Date, if the other party (**Defaulting Party**) is in material breach of any clause of this deed (including a warranty), taken in the context of the Merger as a whole, where the loss to the Non Defaulting Party that could reasonably be expected to follow from such a breach would exceed \$5,000,000 provided that either Horizon or Roc Oil, as the case may be, has, if practicable, given notice to the other setting out the relevant circumstances and stating an intention to terminate this deed and, the relevant circumstances continue to exist 5 Business Days (or any shorter period ending at 5.00pm on the day before the Second Court Date) after the time such notice is given;
- (d) **(not approved)** by either party, if the resolution submitted to the Scheme Meeting is not approved by the requisite majorities;



- (e) **(restraint)** by either party, if a Court or other Regulatory Authority has issued a final and non-appealable order, decree or ruling or taken other action which permanently restrains or prohibits the Merger;
- (f) **(consultation or appeal failure)** in accordance with and pursuant to:
  - (i) clause 3.9(a);
  - (ii) clause 3.9(b); or
  - (iii) clause 13.1;
- (g) **(Independent Expert)** by either party if the Independent Expert opines that the Share Scheme is not in the best interests of Horizon Shareholders;
- (h) **(Insolvency)** by either party if the other party or any of their Related Bodies Corporate becomes Insolvent; or
- (i) **(agreement)** if agreed to in writing by Horizon and Roc Oil.

## 14.2 Termination

Where a party has a right to terminate this deed, that right for all purposes will be validly exercised if the party delivers a notice in writing to the other party stating that it terminates this deed.

## 14.3 Effect of Termination

In the event that a party terminates this deed, or if this deed otherwise terminates in accordance with its terms, then in either case all further obligations of the parties under this deed, other than the obligations set out in clauses 16, 19 and 20 will immediately cease to be of further force and effect without further liability of any party to the other, provided that nothing in this clause releases any party from liability for any pre-termination breach of this deed.

## 14.4 Damages

- (a) Subject to clause 14.4(b) below, in addition to the right of termination under clause 14.1 where there is no appropriate remedy for the breach in this deed (other than termination), the non-defaulting party is entitled to damages for Losses suffered by it and expenses incurred by it as a result of the breach of the terms of this deed.
- (b) The maximum amount of damages recoverable under clause 14.4(a) is \$5 million.

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## 15 Public announcements

### 15.1 Public announcement of Scheme

Immediately after signing this deed, Roc Oil and Horizon will issue public announcements in the form contained in Annexure A.

### 15.2 Required disclosure

Where a party is required by law, the Listing Rules or a memorandum of understanding with a Regulatory Authority to make any announcement or make any disclosure relating to a matter the subject of the Merger, it may do so only after it has given the other party as much notice as possible and has consulted to the fullest extent possible in the circumstances with the other party and its legal advisers.

### **15.3 Other announcements**

Subject to clauses 15.1 and 15.2, no party may make any public announcement or disclosure in connection with the Merger (including disclosure to a Regulatory Authority) other than in a form approved by each party (acting reasonably). Each party will use all reasonable endeavours to provide such approval as soon as practicable.

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## **16 Confidential Information**

### **16.1 Disclosure of Horizon Confidential Information**

No Horizon Confidential Information may be disclosed by Roc Oil to any person except:

- (a) Representatives of Roc Oil or its Related Bodies Corporate requiring the information for the purposes of this deed;
- (b) with the consent of Horizon;
- (c) if Roc Oil is required to do so by law or by a stock exchange; or
- (d) if Roc Oil is required to do so in connection with legal proceedings relating to this deed.

### **16.2 Use of Horizon Confidential Information**

Roc Oil must use the Horizon Confidential Information exclusively for the purpose of due diligence and preparing the Scheme Booklet and for no other purpose (and must not make any use of any Horizon Confidential Information to the competitive disadvantage of Horizon or any of its Related Bodies Corporate).

### **16.3 Disclosure of Roc Oil Confidential Information**

No Roc Oil Confidential Information may be disclosed by Horizon to any person except:

- (a) Representatives of Horizon or its Related Bodies Corporate requiring the information for the purposes of this deed;
- (b) with the consent of Roc Oil;
- (c) if Horizon is required to do so by law or by a stock exchange; or
- (d) if Horizon is required to do so in connection with legal proceedings relating to this deed.

### **16.4 Use of Roc Oil Confidential Information**

Horizon must use the Roc Oil Confidential Information exclusively for the purpose of due diligence and preparing the Scheme Booklet and for no other purpose (and must not make any use of any Roc Oil Confidential Information to the competitive disadvantage of Roc Oil or any of its Related Bodies Corporate).

### **16.5 Disclosure by recipient of Confidential Information**

Any party disclosing information under clause 16.1(a) or 16.1(b) or clause 16.3(a) or 16.3(b) must use all reasonable endeavours to ensure that persons receiving Confidential Information from it do not disclose the information except in the circumstances permitted in clause 16.1 or clause 16.3.

## 16.6 Excluded Information

Clauses 16.1, 16.2, 16.3, 16.4 and 16.5 do not apply to the Excluded Information.

## 16.7 Return of Confidential Information

A party who has received Confidential Information from another under this deed must, on the request of the other party, immediately deliver to that party all documents or other materials containing or referring to that information which are in its possession, power or control or in the possession, power or control of persons who have received Confidential Information from it under clauses 16.1(a), 16.1(b), 16.3(a) or 16.3(b).

## 16.8 Termination

This clause 16 will survive termination (for whatever reason) of this deed.

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## 17 Releases

### 17.1 Roc Oil and Roc Oil directors and officers

(a) Horizon releases its rights, and agrees with Roc Oil that it will not make a claim, against any Roc Oil Indemnified Party as at the date of this deed and from time to time in connection with:

- (i) any breach of any representations and warranties of Roc Oil or any other member of the Roc Oil Group in this deed; or
- (ii) any disclosures containing any statement which is false or misleading whether in content or by omission,

whether current or future, known or unknown, arising at common law, in equity, under statute or otherwise, except where the Roc Oil Indemnified Party has engaged in wilful misconduct or fraud. For the avoidance of doubt, nothing in this clause 17.1(a) limits Horizon's rights to terminate this deed under clause 14.1(c).

(b) This clause is subject to any Corporations Act restriction and will be read down accordingly.

(c) Roc Oil receives and holds the benefit of this clause to the extent it relates to each Roc Oil Indemnified Party as trustee for each of them.

### 17.2 Horizon and Horizon directors and officers

(a) Roc Oil releases its rights, and agrees with Horizon that it will not make a claim, against any Horizon Indemnified Party as at the date of this deed and from time to time in connection with:

- (i) any breach of any representations and warranties of Horizon or any other member of the Horizon Group in this deed; or
- (ii) any disclosures containing any statement which is false or misleading whether in content or by omission,

whether current or future, known or unknown, arising at common law, in equity, under statute or otherwise, except where the Horizon Indemnified Party has engaged in wilful misconduct or fraud. For the avoidance of doubt, nothing in this clause 17.2(b) limits Roc Oil's rights to terminate this deed under clause 14.1(c).

- (b) This clause is subject to any Corporations Act restriction and will be read down accordingly.
- (c) Horizon receives and holds the benefit of this clause to the extent it relates to each Horizon Indemnified Party as trustee for each of them.

### **17.3 Deeds of indemnity and insurance**

- (a) Subject to the Share Scheme becoming Effective and the Merger completing, Roc Oil undertakes in favour of Horizon and each other person who is a Horizon Indemnified Party that it will:
  - (i) subject to clause 17.3(d) below, for a period of 6 years from the Implementation Date, ensure that the constitutions of Horizon and each other Horizon Group member continues to contain such rules as are contained in those constitutions at the date of this deed that provide for each company to indemnify each of its directors and officers against any liability incurred by that person in his or her capacity as a director or officer of the company to any person other than a Horizon Group member; and
  - (ii) procure that Horizon and each Horizon Group member complies with any deeds of indemnity, access and insurance made by them in favour of their respective directors and officers from time to time and without limiting the foregoing, ensure that directors' and officers' run-off insurance cover for such directors and officers is maintained, subject to clause 17.3(a), for a period of 6 years from the retirement date of each director and officer so long as it is available on commercially reasonable terms.
- (b) The undertakings contained in clause 17.3(a) are subject to any Corporations Act restriction and will be read down accordingly.
- (c) Horizon receives and holds the benefit of clause 17.3(a), to the extent it relates to the other Horizon Indemnified Parties, as trustee for them.
- (d) The undertakings contained in clause 17.3(a) are given until the earlier of the end of the relevant period specified in clause 17.3(a) or the relevant Horizon Group member ceasing to be part of the Horizon Group.

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## **18 Notices and other communications**

### **18.1 Form - all communications**

Unless expressly stated otherwise in this deed, all notices, certificates, consents, approvals, waivers and other communications in connection with this deed must be:

- (a) in writing, including by email;
- (b) signed by the sender (if an individual) or an Authorised Officer of the sender; and
- (c) marked for the attention of the person identified in the Details or, if the recipient has notified otherwise, then marked for attention in the way last notified.

### **18.2 Form - communications sent by email**

Communications sent by email need not be marked for attention in the way stated in clause 18.1. However, the email must state the first and last name of the sender.

Communications sent by email are taken to be signed by the named sender.

### **18.3 Delivery**

Communications must be:

- (a) left at the address set out or referred to in the Details;
- (b) sent by prepaid ordinary post (airmail if appropriate) to the address set out or referred to in the Details;
- (c) sent by fax to the fax number set out or referred to in the Details;
- (d) sent by email to the address set out or referred to in the Details; or
- (e) given in any other way permitted by law.

However, if the intended recipient has notified a changed address, fax number or email address, then communications must be to that address, fax number or email address.

### **18.4 When effective**

Communications take effect from the time they are received or taken to be received under clause 18.5 (whichever happens first) unless a later time is specified.

### **18.5 When taken to be received**

Communications are taken to be received:

- (a) if sent by post, three days after posting (or seven days after posting if sent from one country to another); or
- (b) if sent by fax, at the time shown in the transmission report as the time that the whole fax was sent; or
- (c) if sent by email;
  - (i) when the sender receives an automated message confirming delivery; or
  - (ii) four hours after the time sent (as recorded on the device from which the sender sent the email) unless the sender receives an automated message that the email has not been delivered,

whichever happens first.

### **18.6 Receipt outside business hours**

Despite clauses 18.4 and 18.5, if communications are received or taken to be received under clause 18.5 after 5.00pm in the place of receipt or on a non-Business Day, they are taken to be received at 9.00am on the next Business Day and take effect from that time unless a later time is specified.

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## **19 Goods and services tax (GST)**

### **19.1 Consideration GST exclusive**

Unless expressly stated otherwise in this deed, all amounts payable or consideration to be provided under this deed are exclusive of GST.

## 19.2 Payment of GST

If GST is payable on any supply made under this deed, for which the consideration is not expressly stated to include GST, the recipient agrees to pay to the supplier an additional amount equal to the GST payable at the same time that the consideration for the supply, or the first part of the consideration for the supply (as the case may be), is to be provided. However:

- (a) the recipient need not pay the additional amount until the supplier gives the recipient a tax invoice or an adjustment note;
- (b) if an adjustment event arises in respect of the supply, the additional amount must be adjusted to reflect the adjustment event and the recipient or the supplier (as the case may be) must make any payments necessary to reflect the adjustment; and
- (c) this clause 19.2 does not apply to the extent that the GST on the supply is payable by the recipient under Division 84 of the GST Act.

## 19.3 Reimbursements

If a party is required under this deed to indemnify another party, or pay or reimburse costs of another party, that party agrees to pay the relevant amount less any input tax credits to which the other party (or to which the representative member for a GST group of which the other party is a member) is entitled.

## 19.4 Calculation of payments

If an amount payable under this deed is to be calculated by reference to:

- (a) the price to be received for a taxable supply then, for the purposes of that calculation, the price is reduced to the extent that it includes any amount on account of GST; and
- (b) the price to be paid or provided for an acquisition then, for the purposes of that calculation, the price is reduced to the extent that an input tax credit is available for the acquisition.

## 19.5 Interpretation

For the purposes of this clause 19:

- (a) a term which has a defined meaning in the GST Act has the same meaning when used in this clause 19;
- (b) “**GST Act**” means the *A New Tax System (Goods and Services Tax) Act 1999* (Cwlth); and
- (c) each periodic or progressive component of a supply to which section 156-5(1) of the GST Act applies will be treated as though it is a separate supply.

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## 20 Miscellaneous

### 20.1 Discretion in exercising rights

A party may exercise a right or remedy or give or refuse its consent in any way it considers appropriate (including by imposing conditions), unless this deed expressly states otherwise.

## **20.2 Partial exercising of rights**

If a party does not exercise a right or remedy fully or at a given time, the party may still exercise it later.

## **20.3 No liability for loss**

A party is not liable for loss caused by the exercise or attempted exercise of, failure to exercise, or delay in exercising a right or remedy under this deed.

## **20.4 Approvals and consents**

By giving its approval or consent a party does not make or give any warranty or representation as to any circumstance relating to the subject matter of the consent or approval.

## **20.5 Conflict of interest**

The parties' rights and remedies under this deed may be exercised even if it involves a conflict of duty or a party has a personal interest in their exercise.

## **20.6 Remedies cumulative**

The rights and remedies in this deed are in addition to other rights and remedies given by law independently of this deed.

## **20.7 Variation and waiver**

A provision of this deed or a right created under it, may not be waived or varied except in writing, signed by the party or parties to be bound.

## **20.8 No merger**

The warranties, undertakings and indemnities in this deed do not merge on the Implementation Date.

## **20.9 Indemnities**

The indemnities in this deed are continuing obligations, independent from the other obligations of the parties under this deed and continue after this deed ends. It is not necessary for a party to incur expense or make payment before enforcing a right of indemnity under this deed.

## **20.10 Enforceability**

For the purpose of this deed:

- (a) Roc Oil is taken to be acting as agent and trustee on behalf of and for the benefit of all Roc Oil Indemnified Parties; and
- (b) Horizon is taken to be acting as agent and trustee on behalf of and for the benefit of all Horizon Indemnified Parties,

and all of those persons are to this extent taken to be parties to this deed.

## **20.11 Further steps**

Each party agrees, at its own expense, to do anything the other party reasonably asks (such as obtaining consents, signing and producing documents and getting documents completed and signed):

- (a) to bind the party and any other person intended to be bound under this deed; or
- (b) to show whether the party is complying with this deed.



**20.12 Construction**

No rule of construction applies to the disadvantage of a party because that party was responsible for the preparation of, or seeks to rely on, this deed or any part of it.

**20.13 Costs**

The parties agree to pay their own legal and other costs and expenses in connection with the preparation, execution and completion of this deed and other related documentation except for stamp duty.

**20.14 Stamp duty**

Roc Oil agrees to pay all stamp duty (including fines and penalties) payable and assessed by legislation or by any revenue office on this deed or the Scheme and in respect of a transaction evidenced by this deed or the Scheme.

**20.15 Entire agreement**

This deed constitutes the entire agreement of the parties about its subject matter and supersedes all previous agreements, understandings and negotiations on that subject matter, other than the confidentiality agreement between the parties dated 17 October 2013 (CA), provided that the terms of this deed prevail to the extent of any inconsistency between this deed and the CA.

**20.16 Assignment**

A party may not assign or otherwise deal with its rights under this deed or allow any interest in them to arise or be varied in each case, without the consent of the other party.

**20.17 No representation or reliance**

Each party acknowledges that:

- (a) no party (nor any person acting on its behalf) has made any representation or other inducement to it to enter into this deed, except for representations or inducements expressly set out in this deed;
- (b) it does not enter into this deed in reliance on any representation or other inducement by or on behalf of any other party, except for any representation or inducement expressly set out in this deed; and
- (c) paragraphs 20.17(a) and 20.17(b) above do not prejudice any rights a party may have in relation to information which had been filed by the other party with ASIC or ASX.

**20.18 Governing law**

This deed is governed by the law in force in the place specified in the Details. Each party submits to the non-exclusive jurisdiction of the courts of that place.

**20.19 Counterparts**

This deed may be executed in counterparts. All counterparts when taken together are to be taken to constitute one instrument.

**EXECUTED** as a deed

# Merger Implementation Deed

## Schedule 1 – Horizon Prescribed Events

1. **(Conversion)** Horizon converts all or any of its shares into a larger or smaller number of shares.
2. **(Reduction of share capital)** Horizon or any of its Subsidiaries resolves to reduce its share capital in any way or reclassifies, combines, splits or redeems or repurchases directly or indirectly any of its shares.
3. **(Buy-back)** Horizon or any of its Subsidiaries:
  - (a) enters into a buy-back agreement; or
  - (b) resolves to approve the terms of a buy-back agreement under the Corporations Act.
4. **(Distribution)** Horizon makes or declares, or announces an intention to make or declare, any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie).
5. **(Issuing or granting shares or options)** Horizon or any of its Subsidiaries:
  - (a) issues shares (other than as a result of the exercise of a Horizon Option, a Horizon SAR or the conversion of a Convertible Bond);
  - (b) grants an option over its shares; or
  - (c) agrees to make such an issue or grant such an option,in each case to a person outside the Horizon Group.
6. **(Securities or other instruments)** Horizon or any of its Subsidiaries:
  - (a) issues securities or other instruments convertible into shares or debt securities; or
  - (b) agrees to issue securities or other instruments convertible into shares or debt securities,in each case to a person outside the Horizon Group.
7. **(Constitution)** Horizon adopts a new constitution or modifies or repeals its existing constitution or a provision of it.
8. **(Disposals)** Horizon or any of its Subsidiaries disposes, or agrees to dispose of:
  - (a) the whole or a substantial part of the Horizon Group's business or property; or
  - (b) its whole or a material interest in any Petroleum Concession or Petroleum JOA.
9. **(Transactions, disposals or tenders)** Horizon or any of its Subsidiaries:
  - (a) acquires or disposes of;

- (b) agrees to acquire or dispose of; or
  - (c) offers, proposes, announces a bid or tenders for,  
any business, assets, entity or undertaking (including an interest in any Petroleum Concession or Petroleum JOA),
  - (d) which has a value; or
  - (e) involves a financial commitment from Horizon or any of its Subsidiaries,  
which exceeds, or which when aggregated with all other such matters arising after the date of this deed exceeds, \$10,000,000.
10. **(Encumbrances)** Horizon or any of its Subsidiaries creates, or agrees to create any Encumbrance over:
- (a) the whole or a substantial part of its business or property; or
  - (b) any Petroleum Concession or Petroleum JOA.
11. **(Material Contracts, Petroleum Concessions and Petroleum JOAs):**
- (a) Horizon or any of its Subsidiaries enters into, varies or waives its rights under or agrees to enter into, vary or waive its rights under any Material Contract, Petroleum Sale Agreement or Petroleum Concession (and in the case of a Petroleum Concession, surrenders or agrees to surrender a Petroleum Concession except for a compulsory surrender in accordance with applicable laws) other than in the ordinary course of business;
  - (b) any Material Contract or Petroleum Sale Agreement to which Horizon or any of its Subsidiaries is a party is terminated other than in the ordinary course of business;
  - (c) Horizon or any of its Subsidiaries:
    - (i) voluntarily withdraws from a Petroleum JOA or gives notice of or otherwise institutes any sole risk or non-consent operation under a Petroleum JOA;
    - (ii) commits an event of default or similar event under a Petroleum JOA which makes its interest under that Petroleum JOA subject to forfeiture, sale, dilution or other similar remedy; or
  - (d) any Petroleum Concession to which Horizon or any of its Subsidiaries is a party or a holder is terminated or cancelled.
12. **(financial indebtedness)** Horizon incurs any financial indebtedness or enters into any financial derivative agreement other than in the ordinary course of business.
13. **(compensation)** Horizon or any of its Related Bodies Corporate increases the remuneration of, pays any bonus, ex gratia payment or termination payment to, accelerates any rights of, or varies any of its agreements with, any director or executive of any member of the Horizon Group.
14. **(Osaka Gas Asset Sale Agreement)** The Osaka Gas Asset Sale Agreement is varied or terminated or Horizon waives any of its rights in connection with any conditions to the "PRL Completion" (as defined in the Osaka Gas Asset Sale Agreement).

15. **(Insolvency)** Horizon or any of its Related Bodies Corporate becomes Insolvent.

16. **(Competing Transaction):**

- (a) a Competing Transaction is publically announced in respect of Horizon which is recommended by the Horizon Board;
- (b) a Competing Transaction is publically announced in respect of Roc Oil which is recommended by the Roc Oil Board;
- (c) a third party (either alone or with its associates) acquires, or agrees to acquire, (directly or indirectly) (including by way of joint venture, alliance, dual listed company structure or otherwise) any interest in all or a substantial part of the business or assets of Horizon or Roc Oil; or
- (d) a third party acquires, or agrees to acquire, after the date of this deed, "voting power" (as that term is defined in the Corporations Act) in relation to 15% or more of the Horizon Shares or 15% or more of the Roc Oil Shares.

# Merger Implementation Deed

## Schedule 2 - Roc Oil Prescribed Events

1. **(Conversion)** Roc Oil converts all or any of its shares into a larger or smaller number of shares.
2. **(Reduction of share capital)** Roc Oil or any of its Subsidiaries resolves to reduce its share capital in any way or reclassifies, combines, splits or redeems or repurchases directly or indirectly any of its shares.
3. **(Buy-back)** Roc Oil or any of its Subsidiaries:
  - (a) enters into a buy-back agreement; or
  - (b) resolves to approve the terms of a buy-back agreement under the Corporations Act.
4. **(Distribution)** Roc Oil makes or declares, or announces an intention to make or declare, any distribution (whether by way of dividend, capital reduction or otherwise and whether in cash or in specie).
5. **(Issuing or granting shares or options)** Roc Oil or any of its Subsidiaries:
  - (a) issues shares other than as a result of the exercise of any Roc Oil Option;
  - (b) grants an option over its shares; or
  - (c) agrees to make such an issue or grant such an option,in each case to a person outside the Roc Oil Group.
6. **(Securities or other instruments)** Roc Oil or any of its Subsidiaries:
  - (a) issues securities or other instruments convertible into shares or debt securities; or
  - (b) agrees to issue securities or other instruments convertible into shares or debt securities,in each case to a person outside the Roc Oil Group.
7. **(Constitution)** Roc Oil adopts a new constitution or modifies or repeals its constitution or a provision of it.
8. **(Disposals)** Roc Oil or any of its Subsidiaries disposes, or agrees to dispose of:
  - (a) the whole or a substantial part of the Roc Oil Group's business or property; or
  - (b) its whole or a material interest in any Petroleum Concession or Petroleum JOA.
9. **(Transactions, disposals or tenders)** Roc Oil or any of its Subsidiaries:
  - (a) acquires or disposes of;

- (b) agrees to acquire or dispose of; or
  - (c) offers, proposes, announces a bid or tenders for,  
any business, assets, entity or undertaking (including an interest in any Petroleum Concession or Petroleum JOA),
  - (d) which has a value; or
  - (e) involves a financial commitment from Roc Oil or any of its Subsidiaries,  
which exceeds, or which when aggregated with all other such matters arising after the date of this deed exceeds, \$10,000,000.
10. **(Encumbrances)** Roc Oil or any of its Subsidiaries creates, or agrees to create, any Encumbrance over:
- (a) the whole or a substantial part of its business or property; or
  - (b) any Petroleum Concession or Petroleum JOA.
11. **(Material Contracts, Petroleum Concessions and Petroleum JOAs):**
- (a) Roc Oil or any of its Subsidiaries enters into, varies or waives its rights under, or agrees to enter into, vary or waive its rights under any Material Contract, Petroleum Sale Agreement or Petroleum Concession (and in the case of a Petroleum Concession, surrenders or agrees to surrender a Petroleum Concession except for a compulsory surrender in accordance with applicable laws) other than in the ordinary course of business;
  - (b) any Material Contract or Petroleum Sale Agreement to which Roc Oil or its Subsidiaries is a party is terminated other than in the ordinary course of business;
  - (c) Roc Oil or any of its Subsidiaries:
    - (i) voluntarily withdraws from a Petroleum JOA or gives notice of or otherwise institutes any sole risk or non-consent operation under a Petroleum JOA;
    - (ii) commits an event of default or similar event under a Petroleum JOA which makes its interest under that Petroleum JOA subject to forfeiture, sale, dilution or other similar remedy; or
  - (d) any Petroleum Concession to which Roc Oil or any of its Subsidiaries is a party or a holder is terminated or cancelled.
12. **(financial indebtedness)** Roc Oil incurs any financial indebtedness or enters into any financial derivative agreement other than in the ordinary course of business.
13. **(compensation)** Roc Oil or any of its Related Bodies Corporate increases the remuneration of, pays any bonus, ex gratia payment or termination payment to, accelerates any rights of, or varies any of its agreements with any director or executive of any member of the Roc Oil Group.
14. **(Insolvency)** Roc Oil or any of its Related Bodies Corporate becomes Insolvent.
17. **(Competing Transaction):**

- (a) a Competing Transaction is publically announced in respect of Roc Oil which is recommended by the Roc Oil Board;
- (b) a Competing Transaction is publically announced in respect of Horizon which is recommended by the Horizon Board;
- (c) a third party (either alone or with its associates) acquires, or agrees to acquire, (directly or indirectly) (including by way of joint venture, alliance, dual listed company structure or otherwise) any interest in all or a substantial part of the business or assets of Roc Oil or Horizon; or
- (d) a third party acquires, or agrees to acquire, after the date of this deed, "voting power" (as that term is defined in the Corporations Act) in relation to 15% or more of the Roc Oil Shares or 15% or more of the Horizon Shares.



## Merger Implementation Deed

### Schedule 3 - Conditions Precedent (clause 3.1)

Condition	Party entitled to benefit & to waive	Responsibility to satisfy
<p><b>1. Regulatory Approvals</b></p> <p>Before 8.00am on the Second Court Date:</p> <p>(a) <b>(ASIC and ASX)</b> ASIC and ASX have issued or provided such consents or approvals or have done such other acts which the parties agree in writing are reasonably necessary or desirable to implement the Merger; and</p>	Horizon	Both
<p>(b) <b>(Regulatory Authority)</b> all other approvals of a Regulatory Authority which Horizon and Roc Oil agree in writing are necessary or desirable to implement the Merger are obtained.</p>	Both	Both
<p><b>2. No restraint</b></p> <p>No court or Regulatory Authority has issued or taken steps to issue an order, temporary restraining order, preliminary or permanent injunction, decree or ruling or taken any action enjoining, restraining or otherwise imposing a legal restraint or prohibition preventing the Merger and no such order, decree, ruling, other action or refusal is in effect as at 8.00am on the Second Court Date.</p>	Both	Both
<p><b>3. Share Scheme approval (Horizon)</b></p> <p>The Horizon Shareholders approve the Share Scheme by the requisite majorities in accordance with the Corporations Act.</p>	Cannot be waived	
<p><b>4. Court approval</b></p> <p>The Court approves the Share Scheme in accordance with section 411(4)(b) of the Corporations Act.</p>	Cannot be waived	
<p><b>5. Third party consents</b></p> <p>All other approvals, consents or agreements of a third party which Horizon and Roc Oil agree in writing are necessary or desirable to</p>	Both	Both

Condition	Party entitled to benefit & to waive	Responsibility to satisfy
implement the Merger are obtained.		
<b>6. Independent Expert</b>  The Independent Expert issues a report which concludes that the Share Scheme is in the best interests of Scheme Participants before the date on which the Scheme Booklet is lodged with ASIC.	Horizon	Horizon
<b>7. No Roc Oil Prescribed Event</b>  No Roc Oil Prescribed Event occurs between the date of this deed and 8.00am on the Second Court Date.	Horizon	Roc Oil
<b>8. No Roc Oil Material Adverse Change</b>  No Roc Oil Material Adverse Change occurs or becomes apparent between the date of this deed and 8.00am on the Second Court Date.	Horizon	Roc Oil
<b>9. No Horizon Prescribed Event</b>  No Horizon Prescribed Event occurs between the date of this deed and 8.00am on the Second Court Date.	Roc Oil	Horizon
<b>10. No Horizon Material Adverse Change</b>  No Horizon Material Adverse Change occurs or becomes apparent between the date of this deed and 8.00am on the Second Court Date.	Roc Oil	Horizon
<b>11. Quotation</b>  The Roc Oil Shares to be issued pursuant to the Scheme have, before 8.00am on the Second Court Date, been approved for official quotation on the ASX.	Horizon	Roc Oil
<b>12. No termination</b>  This deed has not been terminated in accordance with clause 14.	Both	Both
<b>13. Deed Poll</b>  Between the date of this deed and the date of sending the Scheme Booklet, Roc Oil signs and delivers the Deed Poll.	Horizon	Roc Oil
<b>14. Roc Oil representations and warranties</b>	Horizon	Roc Oil

Condition	Party entitled to benefit & to waive	Responsibility to satisfy
<p>The representations and warranties given by Roc Oil under clause 12.1 of this deed are true and correct in all material respects and not misleading or deceptive in any material respect as at the date of this deed and as at 8.00am on the Second Court Date (except to the extent a relevant matter has been fairly disclosed to the Horizon Group or its Representatives as contemplated by this deed).</p>		
<p><b>15. Horizon representations and warranties</b></p> <p>The representations and warranties given by Horizon under clause 12.4 of this deed are true and correct in all material respects and not misleading or deceptive in any material respect as at the date of this deed and as at 8.00am on the Second Court Date (except to the extent a relevant matter has been fairly disclosed to the Roc Oil Group or its Representatives as contemplated by this deed).</p>	Roc Oil	Horizon
<p><b>16. Osaka Gas Asset Sale Agreement</b></p> <p>“PRL Completion” (as defined in the Osaka Gas Asset Sale Agreement) has occurred under and in accordance with the Osaka Gas Asset Sale Agreement.</p>	Roc Oil	Horizon

## Merger Implementation Deed

### Schedule 4 - Timetable (clause 6.1)

<b>Event</b>	<b>Timing</b>	<b>Target date</b>
Lodge Scheme Booklet with ASIC and ASX	X	Late May 2014
Application in respect of the Court hearing to be held on the First Court Date, filed with the Court, served on ASIC	X + 1 Business Day	June 2014
First Court Date	X + 15 Business Days	June 2014
Printing and despatch of Scheme Booklet	X + 15 - 18 Business Days	Late June 2014
Scheme Meeting held	Y	Late July 2014
Second Court Date	Z	August 2014
Lodge Court order with ASIC (Effective Date)	Z + 1 Business Day	August 2014
Record Date (5.00pm on the date which is the Second Court Date plus 5 Business Days or such other date as Roc Oil and Horizon agree)	Z + 6 Business Days	August 2014
Implementation Date (Record Date plus 5 Business Days)	Z + 11 Business Days	August 2014

# Merger Implementation Deed

## Schedule 5 - Horizon's Obligations (clause 7.1)

1. **(Horizon Information)** ensure that the Horizon Information included in the Scheme Booklet complies with applicable law, the Listing Rules and applicable ASIC Regulatory Guides.
2. **(Further Horizon Information)** provide to Roc Oil and Scheme Participants such further or new Horizon Information as may arise after the Scheme Booklet has been sent until the date of the Scheme Meeting as may be necessary to ensure that the Horizon Information contained in the Scheme Booklet is not, having regard to applicable disclosure requirements, false, misleading or deceptive in any material respect (including because of any material omission).
3. **(Independent Expert)** promptly appoint the Independent Expert and provide any assistance and information reasonably requested by the Independent Expert to enable it to prepare its report for the Scheme Booklet.
4. **(Provide a copy of the report)** on receipt, provide Roc Oil with a copy of any draft or final report received from the Independent Expert.
5. **(Directors' recommendation and voting)**
  - (a) state in the Scheme Booklet and the public announcement contemplated by clause 15.1 (on the basis of statements made to Horizon by each member of the Horizon Board, but provided that in the case of the Scheme Booklet, no director has changed their recommendation or intentions) that:
    - (i) each of the directors of the Horizon Board recommends to Scheme Participants that they vote in favour of the Scheme; and
    - (ii) each member of the Horizon Board will vote any Horizon Shares in which they have a Relevant Interest in favour of the Scheme and any other resolution submitted to Horizon Shareholders for their approval in connection with the Scheme; and
  - (b) use reasonable endeavours to procure that each member of the Horizon Board does not change that voting intention referred to in paragraph (a)(ii) above,  
  
in each case in the absence of a Superior Proposal and provided that the Independent Expert opines that the Scheme is in the best interests of Horizon Shareholders.
6. **(Registry details)** subject to the terms of the Scheme:
  - (a) provide all necessary information about the Scheme Participants to Roc Oil which Roc Oil requires in order to assist Roc Oil to solicit votes at the Scheme Meeting; and
  - (b) provide all necessary directions to the Registry to promptly provide any information that Roc Oil reasonably requests in relation to the Register for the purpose referred to in item 6(a) of this schedule 5 and, where requested by Roc Oil, Horizon must procure such information to be

provided to Roc Oil in such electronic form as is reasonably requested by Roc Oil.

7. **(Section 411(17)(b) statement)** apply to ASIC for the production of a statement pursuant to section 411(17)(b) of the Corporations Act stating that ASIC has no objection to the Scheme.
8. **(Court application)** apply to the Court for an order under section 411(1) of the Corporations Act directing Horizon to convene the Scheme Meeting.
9. **(Registration of explanatory statement)** request ASIC to register the explanatory statements included in the Scheme Booklet in relation to the Scheme in accordance with section 412(6) of the Corporations Act.
10. **(Send Scheme Booklet)** procure the despatch of the Scheme Booklet to Horizon Shareholders as soon as practicable after the Court orders Horizon to convene the Scheme Meeting.
11. **(Scheme Meeting)** convene the Scheme Meeting in accordance with any such orders made by the Court and seek the approval of Horizon Shareholders for the Scheme and, for this purpose, Horizon must use reasonable endeavours to require the directors of Horizon to participate in reasonable efforts to promote the merits of the Scheme, including meeting with key Scheme Participants at the reasonable request of Roc Oil.
12. **(Court order)** apply to the Court for an order approving the Scheme in accordance with sections 411(4)(b) and 411(6) of the Corporations Act.
13. **(Lodge)** lodge with ASIC an office copy of any such Court order approving the Scheme as approved by the Horizon Shareholders at the Scheme Meeting in accordance with section 411(10) of the Corporations Act by no later than the Business Day after the date on which any such Court order was made (or such later date as agreed in writing by Roc Oil).
14. **(Registration)** if the Scheme becomes Effective and subject to Roc Oil having issued the Share Scheme Consideration to Scheme Participants, register all transfers of Horizon Shares to Roc Oil on the Implementation Date.
15. **(Listing)** subject to item 18 of this schedule 5, take all reasonable steps to maintain Horizon's listing on ASX, notwithstanding any suspension of the quotation of Horizon Shares on the ASX, up to and including the Implementation Date, including making appropriate applications to ASX and ASIC.
16. **(Court documents)** consult with Roc Oil in relation to the contents of documents required for the purposes of the hearings on the First Court Date and Second Court Date (including affidavits, submissions and draft minutes of court orders) and consider in good faith comments on, and suggested amendments to, those documents made by Roc Oil and its lawyers (each acting reasonably).
17. **(Other steps)** do all other reasonable things reasonably necessary to give effect to the Scheme and the orders of the Court approving the Scheme.
18. **(Suspension of trading):** apply to ASX to suspend trading in Horizon Shares with effect from the close of trading on the Effective Date.

## Merger Implementation Deed

### Schedule 6 – Roc Oil’s Obligations (clause 7.2)

1. **(Roc Oil Information)** prepare and promptly provide to Horizon for inclusion in the Scheme Booklet such Roc Oil Information as Horizon reasonably requires to prepare and issue the Scheme Booklet (including any information required under the Corporations Act, Corporations Regulations or ASIC Regulatory Guide 60).
2. **(Further Horizon Information)** provide to Horizon such further or new Roc Oil Information as may arise after the Scheme Booklet has been sent until the date of the Scheme Meeting as may be necessary to ensure that the Roc Oil Information contained in the Scheme Booklet is not, having regard to applicable disclosure requirements, false, misleading or deceptive in any material respect (including because of any material omission).
3. **(Independent Expert information)** provide any assistance or information reasonably requested by Horizon or by the Independent Expert in connection with the preparation of the Independent Expert’s report to be included in the Scheme Booklet.
4. **(Representation)** procure that it is represented by counsel at the Court hearings convened for the purposes of section 411(1) and 411(4)(b) of the Corporations Act, at which, through its counsel Roc Oil must undertake (if requested by the Court) to do all such things and take all such steps within its power as may be necessary in order to ensure the fulfilment of its obligations under this deed and the Scheme.
5. **(Deed Poll)** prior to the Scheme Booklet being sent, sign and deliver the Deed Poll.
6. **(Accuracy of Roc Oil Information)** confirm in writing to Horizon the accuracy of the Roc Oil Information in the Scheme Booklet (other than any information regarding the Horizon Group contained in, or used in the preparation of, the information regarding the merged entity following implementation of the Scheme).
7. **(Scheme Consideration and Horizon Option consideration)** if the Scheme becomes Effective, procure the provision of:
  - the Scheme Consideration and the terms of the Scheme and the Deed Poll; and
  - the Horizon Option consideration in the manner and amount contemplated by clause 5.1.
8. **(compliance with laws)** do everything reasonably within its power to ensure that the Scheme is effected in accordance with all applicable laws and regulations.



## Merger Implementation Deed

### Schedule 7 - Roc Oil's representations and warranties (clause 12.1)

1. **(Incorporation)** it is a valid existing corporation registered under the laws of its place of incorporation.
2. **(Execution)** the execution and delivery of this deed has been properly authorised by all necessary corporate actions of Roc Oil.
3. **(Corporate power)** it has full corporate power and lawful authority to execute and deliver this deed and to consummate and perform or cause to be performed its obligations under this deed in accordance with its terms.
4. **(Binding obligations)** (subject to laws generally affecting creditors' rights and the principles of equity) this deed constitutes legal, valid and binding obligations on it.
5. **(Roc Oil Information)** the Roc Oil Information provided in accordance with this deed and included in the Scheme Booklet, as at the date of the Scheme Booklet, will not contain any material statement which is misleading or deceptive nor contain any material omission and, having regard to applicable disclosure requirements, will comply in all material respects with the requirements of the Corporations Act, the Listing Rules and all relevant regulatory guides, practice notes and other guidelines and requirements of ASIC.
6. **(Reliance)** the Roc Oil Information provided to Horizon for inclusion in the Scheme Booklet will be provided in good faith and on the understanding that Horizon and its directors will rely on that information for the purposes of preparing the Scheme Booklet and proposing and implementing the Share Scheme in accordance with the Corporations Act.
7. **(Further information)** Roc Oil will, as a continuing obligation, provide to Horizon all such further and new information which may arise after the date of the Scheme Booklet until the date of the Scheme Meeting which may be necessary to ensure that there would be no breach of clause 8.1(b) if it applied as at the date upon which that information arose.
8. **(Disclosure)** Roc Oil has provided to Horizon all information actually known to it (having made reasonable enquiries) as at the date of this deed regarding matters affecting or relating to it:
  - (a) which is not already in the public domain; and
  - (b) the disclosure of which might reasonably be expected to result in a Roc Oil Material Adverse Change and result in Horizon not entering into this deed at all or only entering into this deed on materially different terms.
9. **(Continuous disclosure)** Roc Oil is not in breach of its continuous disclosure obligations under the Listing Rules and is not relying on the carve-out in Listing Rule 3.1A to withhold any information from disclosure other than the Merger.
10. **(Complete and accurate)** all the information provided to Horizon by Roc Oil in connection with this deed, whether under due diligence or not, has been collated with all reasonable care and skill.

11. **(Opinions)** any statement of opinion or belief contained in the Roc Oil Information is honestly held and there are reasonable grounds for holding the opinion or belief.
12. **(Provision of information to Independent Expert)** all information provided by or on behalf of Roc Oil to the Independent Expert to enable the Independent Expert's report to be included in the Scheme Booklet to be prepared and completed will be provided in good faith and on the understanding that the Independent Expert will rely upon that information for the purpose of preparing the Independent Expert's report.
13. **(Compliance)** it and its Subsidiaries have complied in all material respects with all Australian and foreign laws and regulations applicable to them and orders of Australian and foreign governmental agencies having jurisdiction over them and have all material licenses, permits and franchises necessary for them to conduct their respective businesses as presently being conducted where failure to comply with any such laws and regulations would result in a Roc Oil Material Adverse Change.
14. **(Securities)** Roc Oil's issued securities as at the date of this deed are:
  - (a) 687,618,400 Roc Oil Shares; and
  - (b) 21,108,834 Roc Oil Options,and, other than as has been publicly disclosed, it has not:
  - (c) entered into any agreement or other arrangement (whether conditional or unconditional) which remains current to issue any Roc Oil Shares; or
  - (d) issued or agreed to issue any other securities or instruments which are still outstanding and which may convert into Roc Oil Shares.
15. **(Roc Oil shares)** the New Roc Oil Shares will be duly authorised and validly issued, fully paid and non-assessable, free of all security interests and third party rights and will rank equally with all other Roc Oil Shares then on issue.
16. **(Solvency)** it is not Insolvent.

## Merger Implementation Deed

### Schedule 8 - Horizon's representations and warranties (clause 12.4)

1. **(Incorporation)** it is a valid existing corporation registered under the laws of its place of incorporation.
2. **(Execution)** the execution and delivery of this deed has been properly authorised by all necessary corporate actions of Horizon.
3. **(Corporate power)** it has full corporate power and lawful authority to execute and deliver this deed and to consummate and perform or cause to be performed its obligations under this deed in accordance with its terms.
4. **(Binding obligations)** (subject to laws generally affecting creditors' rights and the principles of equity) this deed constitutes legal, valid and binding obligations on it.
5. **(Reliance)** the Horizon Information contained in the Scheme Booklet will be included in good faith and on the understanding that Roc Oil and its directors will rely on that information for the purposes of considering and approving the Roc Oil Information in the Scheme Booklet before it is despatched, approving the entry into the Deed Poll and implementing the Scheme.
6. **(Further information)** Horizon will, as a continuing obligation, provide to Roc Oil all such further and new information which may arise after the date of the Scheme Booklet until the date of the Scheme Meeting which may be necessary to ensure that there would be no breach of clause 8.1(b) if it applied as at the date upon which that information arose.
7. **(Horizon Information)** the Horizon Information provided in accordance with this deed and included in the Scheme Booklet, as at the date of the Scheme Booklet, will not contain any material statement which is misleading or deceptive nor contain any material omission having regard to applicable disclosure requirements, will comply in all material respects with the requirements of the Corporations Act, the Listing Rules and all relevant regulatory guides, practice notes and other guidelines and requirements of ASIC.
8. **(Continuous disclosure)** Horizon is not in breach of its continuous disclosure obligations under the Listing Rules and is not relying on the carve-out in Listing Rule 3.1A to withhold any information from disclosure other than the Merger.
9. **(Complete and accurate)** all the information provided to Roc Oil by Horizon in connection with this deed, whether under due diligence or not, has been collated with all reasonable care and skill.
10. **(Compliance)** it and its Subsidiaries have complied in all material respects with all Australian and foreign laws and regulations applicable to them and orders of Australian and foreign governmental agencies having jurisdiction over them and have all material licenses, permits and franchises necessary for them to conduct their respective businesses as presently being conducted where failure to comply with any such laws and regulations would result in a Horizon Material Adverse Change.

11. **(Opinions)** any statement of opinion or belief contained in the Horizon Information is honestly held and there are reasonable grounds for holding the opinion or belief.
12. **(Provision of information to Independent Expert)** all information provided by or on behalf of Horizon to the Independent Expert to enable the Independent Expert's report to be included in the Scheme Booklet to be prepared and completed will be provided in good faith and on the understanding that the Independent Expert will rely upon that information for the purpose of preparing the Independent Expert's report.
13. **(Solvency)** it is not Insolvent.
14. **(Securities)** Horizon's issued securities as at the date of this deed are:
  - (a) 1,301,147,932 Horizon Shares;
  - (b) 1,500,000 partly paid shares (paid to \$0.01);
  - (c) 30,775,000 Horizon Options;
  - (d) 31,281,639 Horizon SARs; and
  - (e) 400 Convertible Bonds,and, other than as has been publicly disclosed, it has not:
  - (f) entered into any agreement or other arrangement (whether conditional or unconditional) which remains current to issue any Horizon Shares; or
  - (g) issued or agreed to issue any other securities or instruments which are still outstanding and which may convert into Horizon Shares.

# Merger Implementation Deed

## Signing page

**DATED:** 2014

**EXECUTED AS A DEED**

**EXECUTED by HORIZON OIL LIMITED (ACN 009 799 455)** in accordance with section 127 of the Corporations Act 2001 (Cwlth) by authority of its directors:

.....  
Signature of director

.....  
Name of director (block letters)

.....  
Signature of director/company secretary

.....  
Name of director/company secretary (block letters)

**EXECUTED by ROC OIL COMPANY LIMITED (ACN 075 965 856)** in accordance with section 127 of the Corporations Act 2001 (Cwlth) by authority of its directors:

.....  
Signature of director

.....  
Name of director (block letters)

.....  
Signature of director/company secretary

.....  
Name of director/company secretary (block letters)

## 22. Attachment D – Deed Poll and Scheme of Arrangement



# Deed Poll

Dated 3 July 2014

Given by Roc Oil Company Limited (ACN 075 965 856) ("**Roc Oil**")

In favour of each registered holder of fully paid ordinary shares in Horizon Oil Limited (ACN 009 799 455) ("**Horizon**") as at 5.00pm on the Record Date ("**Scheme Participants**")

**King & Wood Mallesons**

Level 33  
Waterfront Place  
1 Eagle Street  
Brisbane QLD 4000  
Australia  
T +61 7 3244 8000  
F +61 7 3244 8999  
DX 311 Brisbane  
[www.kwm.com](http://www.kwm.com)



# Deed Poll

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# Deed Poll

## Details

<b>Parties</b>	<b>Roc Oil</b>	
<b>Roc Oil</b>	<b>Name</b>	<b>Roc Oil Company Limited</b>
	ACN	075 965 856
	Address	Level 18, 321 Kent Street SYDNEY NSW 2000
	Fax	+61 2 8023 2222
	Attention	Leanne Nolan
<b>In favour of</b>	Each registered holder of fully paid ordinary shares in Horizon as at 5.00 pm on the Record Date.	
<b>Recitals</b>	<b>A</b>	The directors of Horizon have resolved that Horizon should propose the Scheme.
	<b>B</b>	The effect of the Scheme will be that all Scheme Shares will be transferred to Roc Oil.
	<b>C</b>	Horizon and Roc Oil have entered into the Merger Implementation Deed.
	<b>D</b>	In the Merger Implementation Deed, Roc Oil agreed (amongst other things) to provide the Scheme Consideration to Scheme Participants, subject to the satisfaction of certain conditions.
	<b>E</b>	Roc Oil is entering into this deed poll for the purpose of covenanting in favour of Scheme Participants to perform its obligations in relation to the Scheme.
<b>Governing law</b>	New South Wales	
<b>Date of Deed Poll</b>	See Signing page	

# Deed Poll

## General terms

---

### 1 Definitions and interpretation

#### 1.1 Definitions

In this deed poll (unless the context otherwise requires):

- (a) **Authorised Officer** means, in respect of a party, a director or secretary of the party or any other person appointed by a party to act as an Authorised Officer under this deed poll;
- (b) **Horizon** means Horizon Oil Limited (ACN 009 799 455);
- (c) **Merger Implementation Deed** means the merger implementation deed dated 29 April 2014 between Horizon and Roc Oil under which, amongst other things, Horizon has agreed to propose the Scheme to Horizon Shareholders, and each of Roc Oil and Horizon has agreed to take certain steps to give effect to the Scheme;
- (d) **Roc Oil** means Roc Oil Company Limited (ACN 075 965 856);
- (e) **Scheme** means the proposed scheme of arrangement between Horizon and Scheme Participants under which all the Scheme Shares will be transferred to Roc Oil under Part 5.1 of the Corporations Act, substantially in the form of Annexure A to this deed poll, or as otherwise agreed by Roc Oil and Horizon, subject to any amendments or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act, to the extent they are approved in writing by Horizon and Roc Oil in accordance with clause 8.2 of the Scheme; and
- (f) Unless the context requires otherwise, all other capitalised words or phrases used in this deed poll have the same meaning as given to them in the Scheme.

#### 1.2 Interpretation

Clause 1.2 of the Scheme applies to the interpretation of this deed poll except that references to “this Scheme” in that clause are to be read as references to “this deed poll”.

#### 1.3 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of this deed poll.

#### 1.4 Nature of deed poll

Roc Oil acknowledges that this deed poll may be relied on and enforced by any Scheme Participant in accordance with its terms even though the Scheme Participants are not a party to it.

---

## **2 Conditions precedent and termination**

### **2.1 Conditions precedent**

Roc Oil's obligations under clause 3 are subject to the Scheme becoming Effective.

### **2.2 Termination**

Roc Oil's obligations under this deed poll will automatically terminate and the terms of this deed poll will be of no further force or effect if:

- (a) the Scheme has not become Effective on or before the End Date; or
- (b) the Merger Implementation Deed is terminated in accordance with its terms.

### **2.3 Consequences of termination**

If this deed poll is terminated under clause 2.2, then, in addition and without prejudice to any other rights, powers or remedies available to Scheme Participants:

- (a) Roc Oil is released from its obligations to further perform this deed poll except those obligations contained in clause 7.1; and
- (b) each Scheme Participant retains the rights, powers or remedies they have against Roc Oil in respect of any breach of this deed poll which occurs before it is terminated.

---

## **3 Scheme Consideration**

Subject to clause 2, Roc Oil undertakes in favour of each Scheme Participant to issue the New Roc Oil Shares to the Scheme Participants in accordance with the Scheme and subject to clauses 6.3, 6.4 and 6.5 of the Scheme.

---

## **4 Representations and warranties**

Roc Oil represents and warrants that:

- (a) it is a corporation validly existing under the laws of its place of registration;
- (b) it has the corporate power to enter into and perform its obligations under this deed poll and to carry out the transactions contemplated by this deed poll;
- (c) it has taken all necessary corporate action to authorise its entry into this deed poll and has taken or will take all necessary corporate action to authorise the performance of this deed poll and to carry out the transactions contemplated by this deed poll; and
- (d) this deed poll is valid and binding upon Roc Oil and enforceable against Roc Oil in accordance with its terms.

---

## **5 Continuing obligations**

This deed poll is irrevocable and, subject to clause 2, remains in full force and effect until:

- (a) Roc Oil has fully performed its obligations under this deed poll; or
- (b) the earlier termination of this deed poll under clause 2.2.

---

## **6 Notices**

### **6.1 Form - all communications**

Unless expressly stated otherwise in this deed poll, all notices, certificates, consents, approvals, waivers and other communications in connection with this deed poll must be:

- (a) in writing;
- (b) signed by the sender (if an individual) or an Authorised Officer of the sender; and
- (c) marked for the attention of the person identified in the Details or, if the recipient has notified otherwise, then marked for attention in the way last notified.

### **6.2 Delivery**

Communications must be:

- (a) left at the address set out or referred to in the Details;
- (b) sent by prepaid ordinary post (airmail if appropriate) to the address set out or referred to in the Details;
- (c) sent by fax to the fax number set out or referred to in the Details; or
- (d) given in any other way permitted by law.

However, if the intended recipient has notified a changed address or fax number, then communications must be to that address or fax number.

### **6.3 When effective**

Communications take effect from the time they are received or taken to be received under clause 6.4 (whichever happens first) unless a later time is specified.

### **6.4 When taken to be received**

Communications are taken to be received:

- (a) if sent by post, three days after posting (or seven days after posting if sent from one country to another); or
- (b) if sent by fax, at the time shown in the transmission report as the time that the whole fax was sent.

## **6.5 Receipt outside business hours**

Despite clauses 6.3 and 6.4, if communications are received or taken to be received under clause 6.4 after 5.00pm in the place of receipt or on a non-Business Day, they are taken to be received at 9.00am on the next Business Day and take effect from that time unless a later time is specified.

---

## **7 General**

### **7.1 Stamp duty**

Roc Oil must:

- (a) pay all stamp duty (including fines, penalties and interest) payable and assessed on or in connection with this deed poll, the performance of this deed poll, or any instruments entered into under this deed poll and in respect of a transaction effected by or made under the Scheme and this deed poll; and
- (b) indemnify on demand each Scheme Participant against any liability arising from failure to comply with clauses 7.1(a).

### **7.2 Waiver**

- (a) A waiver of any right arising from a breach of this deed poll or of any right, power, authority, discretion or remedy arising upon default under this deed poll must be in writing and signed by the party giving the waiver.
- (b) A failure or delay in exercise, or partial exercise, of:
  - (i) a right arising from a breach of this deed poll; or
  - (ii) a right, power, authority, discretion or remedy created or arising upon default under this deed poll,does not result in a waiver of that right, power, authority, discretion or remedy.
- (c) A party is not entitled to rely on a delay in the exercise or non-exercise of a right, power, authority, discretion or remedy arising from a breach of this deed poll or on a default under this deed poll as constituting a waiver of that right, power, authority, discretion or remedy.
- (d) A party may not rely on any conduct of another party as a defence to exercise of a right, power, authority, discretion or remedy by that other party.

### **7.3 Variation**

A provision of this deed poll or any right created under it may not be varied, altered or otherwise amended unless:

- (a) the variation is agreed to by Horizon and Roc Oil in writing; and
- (b) the Court indicates that the variation, alteration or amendment would not itself preclude approval of the Scheme,

in which event Roc Oil must enter into a further deed poll in favour of the Scheme Participants giving effect to the variation, alteration or amendment.

**7.4 Remedies cumulative**

The rights, powers and remedies of Roc Oil and the Scheme Participants under this deed poll are cumulative and are in addition to, and do not exclude any, other rights, powers and remedies given by law independently of this deed poll.

**7.5 Assignment**

The rights and obligations of Roc Oil and each Scheme Participant under this deed poll are personal and must not be assigned, encumbered or otherwise dealt with at law or in equity and no person may attempt or purport to do so without the prior written consent of Roc Oil and Horizon.

**7.6 Governing law and jurisdiction**

This deed poll is governed by the law in force in New South Wales. Roc Oil irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of that place.

**7.7 Further action**

Roc Oil must execute all deeds and other documents and do all things (on its own behalf or on behalf of each Scheme Participant) necessary or expedient to give full effect to this deed poll and the transactions contemplated by it.

**EXECUTED** as a deed poll



# Deed Poll

## Signing page

DATED: \_\_\_\_\_

### EXECUTED AS A DEED POLL

EXECUTED by **ROC OIL COMPANY LIMITED ACN (ACN 009 799 455)** in accordance with section 127(1) of the Corporations Act 2001 (Cwlth) by authority of its directors:

.....  
Signature of director

.....  
Name of director (block letters)

.....  
Signature of director/company secretary

.....  
Name of director/company secretary (block letters)

Deed Poll  
Annexure A - Scheme

# Scheme of Arrangement

Horizon Oil Limited (ACN 009 799 455)

Scheme Participants

**King & Wood Mallesons**  
Level 33  
Waterfront Place  
1 Eagle Street  
Brisbane QLD 4000  
Australia  
**T** +61 7 3244 8000  
**F** +61 7 3244 8999  
DX 311 Brisbane  
[www.kwm.com](http://www.kwm.com)

# Scheme of Arrangement

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# Scheme of Arrangement

## Details

<b>Parties</b>	<b>Horizon and Scheme Participants</b>	
<b>Horizon</b>	Name	<b>Horizon Oil Limited</b>
	ACN	009 799 455
	Address	Level 7, 134 William Street SYDNEY NSW 2011
	Telephone	+61 2 9332 5000
	Fax	+61 2 9332 5050
	Attention	Company Secretary
<b>Scheme Participants</b>	Name	Each person registered as a holder of fully paid ordinary shares in Horizon as at 5.00pm on the Record Date
<b>Governing law</b>	New South Wales	

# General terms

---

## 1 Definitions and interpretation

### 1.1 Definitions

In this Scheme:

**ACCC** means the Australian Competition and Consumer Commission.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited (ABN 98 008 624 691) or Australian Securities Exchange as appropriate.

**Business Day** means a day other than a Saturday, Sunday or public holiday in Sydney, New South Wales.

**Corporations Act** means the Corporations Act 2001 (Cwlth).

**Court** means the Federal Court of Australia, or such other court of competent jurisdiction under the Corporations Act agreed in writing by Roc Oil and Horizon.

**Deed Poll** means the deed poll dated 3 July 2014 executed by Roc Oil substantially in the form of Annexure C of the Merger Implementation Deed or as otherwise agreed by Roc Oil and Horizon under which Roc Oil covenants in favour of each Scheme Participant to perform its obligations under this Scheme.

**Details** means the section of this agreement headed "Details".

**Effective** means the coming into effect, pursuant to section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) of the Corporations Act in relation to this Scheme, but in any event at no time before an office copy of the order of the Court is lodged with ASIC.

**Effective Date** means the date on which this Scheme becomes Effective.

**Encumbrance** means any mortgage, lien, charge, pledge, assignment by way of security, security interest, title retention, preferential right or trust arrangement, claim, covenant, profit à prendre, easement, overriding royalty, production payment, net profits interest or any other security arrangement or other arrangement having the same effect.

**End Date** means 31 August 2014 or such other date as is agreed in writing by Roc Oil and Horizon.

**Foreign Horizon Securityholder** means a Horizon Shareholder:

- (a) who is (or is acting on behalf of) a citizen or resident of a jurisdiction other than residents of Australia and its external territories; or
- (b) whose address shown in the Register is a place outside Australia and its external territories or who is acting on behalf of such a person,

unless Roc Oil determines that:



- (c) it is lawful and not unduly onerous or unduly impracticable to issue that Horizon Shareholder with Roc Oil Shares on implementation of this Scheme; and
- (d) it is lawful for that Horizon Shareholder to participate in this Scheme by the law of the relevant place outside Australia and its external territories.

**Foreign Securityholder Nominee** means UBS AG, Australia Branch ABN 47 088 129 613.

**Horizon** means Horizon Oil Limited (ACN 009 799 455).

**Horizon Share** means a fully paid ordinary share in the capital of Horizon.

**Horizon Shareholder** means each person registered in the Register as a holder of Horizon Shares.

**Implementation Date** means the fifth Business Day following the Record Date or such other date as is agreed in writing by Roc Oil and Horizon.

**Listing Rules** means the Listing Rules of the ASX.

**Merger Implementation Deed** means the merger implementation deed dated 29 April 2014 between Horizon and Roc Oil under which, amongst other things, Horizon has agreed to propose this Scheme to Horizon Shareholders, and each of Roc Oil and Horizon has agreed to take certain steps to give effect to this Scheme.

**New Roc Oil Shares** means fully paid ordinary shares in the capital of Roc Oil to be issued under this Scheme.

**Record Date** means 5.00pm on the fifth Business Day following the Effective Date or such other date as Horizon and Roc Oil agree in writing.

**Register** means the register of members of Horizon maintained by or on behalf of Horizon in accordance with section 168(1) of the Corporations Act.

**Registered Address** means, in relation to a Horizon Shareholder, the address shown in the Register.

**Regulatory Authority** includes:

- (a) ASX, ACCC, ASIC;
- (b) the Takeovers Panel;
- (c) a government or governmental, semi-governmental or judicial entity or authority;
- (d) a minister, department, office, commission, delegate, instrumentality, agency, board, authority or organisation of any government; and
- (e) any regulatory organisation established under statute.

**Roc Oil** means Roc Oil Company Limited (ACN 075 965 856).

**Roc Oil Constitution** means the Roc Oil Constitution dated 2 June 1999 as amended from time to time.

**Scheme** means this scheme of arrangement between Horizon and Scheme Participants under which all of the Scheme Shares will be transferred to Roc Oil

under Part 5.1 of the Corporations Act as described in clause 6 of this Scheme, in consideration for the Scheme Consideration, subject to any amendments or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act to the extent they are approved in writing by Horizon and Roc Oil in accordance with clause 8.2 of this Scheme.

**Scheme Consideration** means the consideration described in clause 4 of the Merger Implementation Deed to be provided by Roc Oil to Scheme Participants under the terms of this Scheme for the transfer to Roc Oil of their Scheme Shares.

**Scheme Meeting** means the meeting of Horizon Shareholders, ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act at which Horizon Shareholders will vote on this Scheme.

**Scheme Participant** means each person who is a Horizon Shareholder as at 5.00pm on the Record Date.

**Scheme Share** means a Horizon Share held by a Scheme Participant as at the Record Date and, for the avoidance of doubt, includes any Horizon Shares issued on or before the Record Date.

**Second Court Date** means the day on which the Court makes an order pursuant to section 411(4)(b) of the Corporations Act approving this Scheme.

**Share Scheme Transfer** means, for each Scheme Participant, a duly completed and executed proper instrument of transfer of the Scheme Shares held by that Scheme Participant for the purposes of section 1071B of the Corporations Act, in favour of Roc Oil as transferee, which may be a master transfer of all Scheme Shares.

**Subsidiary** has the meaning given to it in the Corporations Act.

## 1.2 Reference to certain general terms

Unless the contrary intention appears, a reference in this Scheme to:

- (a) **(variations or replacement)** a document, agreement (including this agreement) or instrument is a reference to that document, agreement or instrument as amended, consolidated, supplemented, novated or replaced;
- (b) **(clauses, annexures and schedules)** a clause, annexure or schedule is a reference to a clause in or annexure or schedule to this agreement;
- (c) **(reference to statutes)** a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (d) **(law)** law means common law, principles of equity, and laws made by parliament (and laws made by parliament include State, Territory and Commonwealth laws and regulations and other instruments under them, and consolidations, amendments, re-enactments or replacements of any of them);
- (e) **(singular includes plural)** the singular includes the plural and vice versa;
- (f) **(party)** a party means a party to this Scheme;

- (g) **(person)** the word “person” includes an individual, a firm, a body corporate, a partnership, a joint venture, an unincorporated body or association, or any Regulatory Authority;
- (h) **(executors, administrators, successors)** a particular person includes a reference to the person’s executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (i) **(dollars)** United States dollars, dollars, US\$ or \$ is a reference to the lawful currency of the United States of America;
- (j) **(calculation of time)** a period of time dating from a given day or the day of an act or event, is to be calculated exclusive of that day;
- (k) **(reference to a day)** a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (l) **(meaning not limited)** the words “include”, “including”, “for example” or “such as” when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind; and
- (m) **(time of day)** time is a reference to Sydney, New South Wales time.

### 1.3 Headings

Headings (including those in brackets at the beginning of paragraphs) are for convenience only and do not affect the interpretation of this Scheme.

---

## 2 Preliminary

### 2.1 Horizon

Horizon is:

- (a) a public company limited by shares;
- (b) incorporated in Australia and registered in Queensland; and
- (c) admitted to the official list of the ASX and Horizon Shares are officially quoted on the stock market conducted by ASX.

As at 13 June 2014, Horizon’s issued securities are:

- (a) Horizon Shares: 1,301,981,265
- (b) partly paid shares: 1,500,000
- (c) options: 29,941,667;
- (d) share appreciation rights: 31,281,639; and
- (d) convertible bonds: 400.

### 2.2 Roc Oil

Roc Oil is:

- (a) a public company limited by shares;

- (b) incorporated in Australia and registered in New South Wales.

### **2.3 If Scheme becomes Effective**

If this Scheme becomes Effective:

- (a) in consideration of the transfer of each Scheme Share to Roc Oil, Horizon will procure Roc Oil to provide the Scheme Consideration to Horizon on behalf of each Scheme Participant in accordance with the terms of this Scheme;
- (b) all Scheme Shares will be transferred to Roc Oil on the Implementation Date; and
- (c) Horizon will enter the name of Roc Oil in the Register in respect of all Scheme Shares transferred to Roc Oil in accordance with the terms of this Scheme.

### **2.4 Merger Implementation Deed**

Horizon and Roc Oil have agreed by executing the Merger Implementation Deed to implement the terms of this Scheme.

### **2.5 Deed Poll**

Roc Oil has executed the Deed Poll for the purpose of covenanting in favour of the Scheme Participants to perform (or procure the performance of) its obligations as contemplated by this Scheme, including to provide the Scheme Consideration.

---

## **3 Conditions precedent**

### **3.1 Conditions precedent to Scheme**

This Scheme is conditional on, and will have no force or effect until, the satisfaction of each of the following conditions precedent:

- (a) as at 8.00am on the Second Court Date, the Deed Poll and Merger Implementation Deed not having been terminated;
- (b) all of the conditions precedent in schedule 3 of the Merger Implementation Deed having been satisfied or waived (other than the conditions precedent in items 3 and 4 of the conditions precedent in Schedule 3 which cannot be waived) in accordance with the terms of the Merger Implementation Deed;
- (c) the Court having approved this Scheme, with or without any modification or condition, pursuant to section 411(4)(b) of the Corporations Act, and if applicable, Horizon and Roc Oil having accepted in writing any modification or condition made or required by the Court under section 411(6) of the Corporations Act; and
- (d) the coming into effect, pursuant to section 411(10) of the Corporations Act, of the orders of the Court made under section 411(4)(b) of the Corporations Act (and, if applicable, section 411(6) of the Corporations Act) in relation to this Scheme.

### **3.2 Conditions precedent and operation of clause 5**

The satisfaction of each condition of clause 3.1 of this Scheme is a condition precedent to the operation of clause 5 of this Scheme.

### **3.3 Certificate in relation to conditions precedent**

Horizon and Roc Oil must each provide to the Court on the Second Court Date a certificate confirming (in respect of matters within their knowledge) whether or not all of the conditions precedent set out in clause 3.1 of this Scheme (other than the conditions precedent in clause 3.1(c) and clause 3.1(d) of this Scheme) have been satisfied or waived as at 8.00am on the Second Court Date.

The certificates referred to in this clause 3.3 will constitute conclusive evidence of whether the conditions precedent referred to in clause 3.1 of this Scheme (other than the conditions precedent in clause 3.1(c) and 3.1(d) of this Scheme) have been satisfied or waived as at 8.00am on the Second Court Date.

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## **4 Scheme**

### **4.1 Effective Date**

Subject to clause 4.2, this Scheme will come into effect pursuant to section 411(10) of the Corporations Act on and from the Effective Date.

### **4.2 End Date**

This Scheme will lapse and be of no further force or effect if the Effective Date does not occur on or before the End Date.

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## **5 Implementation of Scheme**

### **5.1 Lodgement of Court orders with ASIC**

If the conditions precedent set out in clause 3.1 of this Scheme (other than the condition precedent in clause 3.1(d) of this Scheme) are satisfied, Horizon must lodge with ASIC in accordance with section 411(10) of the Corporations Act an office copy of the Court order approving this Scheme as soon as possible, and in any event by no later than 5.00pm on the first Business Day after the day on which the Court approves this Scheme or such later time as Roc Oil and Horizon agree in writing.

### **5.2 Transfer and registration of Scheme Shares**

On the Implementation Date, but subject to the provision of the Scheme Consideration for the Scheme Shares in accordance with clauses 6.1 to 6.4 of this Scheme and Roc Oil having provided Horizon with written confirmation thereof:

- (a) the Scheme Shares, together with all rights and entitlements attaching to the Scheme Shares as at the Implementation Date, will be transferred to Roc Oil without the need for any further act by any Scheme Participant (other than acts performed by Horizon as attorney and agent for Scheme Participants under clause 8.1 of this Scheme) by:
  - (i) Horizon delivering to Roc Oil a duly completed and executed Share Scheme Transfer executed on behalf of the Scheme Participants; and

- (ii) Roc Oil duly executing the Share Scheme Transfer and delivering it to Horizon for registration; and
- (b) immediately after receipt of the duly executed Share Scheme Transfer, Horizon must enter, or procure the entry of, the name of Roc Oil in the Register in respect of all Scheme Shares transferred to Roc Oil in accordance with the terms of this Scheme.

### **5.3 Entitlement to Scheme Consideration**

On the Implementation Date, in consideration for the transfer to Roc Oil of the Scheme Shares, each Scheme Participant will be entitled to receive the Scheme Consideration in respect of each of their Scheme Shares in accordance with clause 6 of this Scheme.

### **5.4 Title and rights in Horizon Shares**

Subject to the provision of the Scheme Consideration for the Scheme Shares as contemplated by clause 6 of this Scheme, on and from the Implementation Date, Roc Oil will be beneficially entitled to the Scheme Shares transferred to it under this Scheme, pending registration by Horizon of Roc Oil in the Register as the holder of the Scheme Shares.

### **5.5 Scheme Participants' agreements**

Under this Scheme, each Scheme Participant agrees to the transfer of their Scheme Shares, together with all rights and entitlements attaching to those Scheme Shares, in accordance with the terms of this Scheme.

The Scheme Participants accept the New Roc Oil Shares issued by way of Scheme Consideration subject to the Roc Oil Constitution and agree to be bound by the Roc Oil Constitution.

### **5.6 Warranty by Scheme Participants**

Each Scheme Participant warrants to Roc Oil and is deemed to have authorised Horizon to warrant to Roc Oil as agent and attorney for the Scheme Participant by virtue of this clause 5.6, that:

- (a) all their Scheme Shares (including any rights and entitlements attaching to those shares) transferred to Roc Oil under this Scheme will, as at the date of the transfer, be fully paid and free from all Encumbrances; and
- (b) they have full power and capacity to sell and to transfer their Scheme Shares (including any rights and entitlements attaching to those shares) to Roc Oil under this Scheme.

### **5.7 Transfer free of encumbrances**

To the extent permitted by law, all Horizon Shares (including any rights and entitlements attaching to those shares) which are transferred to Roc Oil under this Scheme will, at the date of the transfer of them to Roc Oil, vest in Roc Oil free from all Encumbrances and interests of third parties of any kind, whether legal or otherwise, and free from any restrictions on transfer of any kind not referred to in this Scheme.

### **5.8 Appointment of Roc Oil as sole proxy**

Subject to the provision of the Scheme Consideration for the Scheme Shares as contemplated by clauses 5.2 and 6.3 of this Scheme, on and from the

Implementation Date until Horizon registers Roc Oil as the holder of all of the Horizon Shares in the Register, each Scheme Participant:

- (a) irrevocably appoints Horizon as attorney and agent (and directs Horizon in such capacity) to appoint Roc Oil and each of its directors from time to time (jointly and each of them individually) as its sole proxy and where applicable, corporate representative, to attend shareholders' meetings, exercise the votes attaching to Horizon Shares registered in its name and sign any shareholders resolution, and no Scheme Participant may itself attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy or by corporate representative (other than pursuant to this clause 5.8(a)); and
- (b) must take all other actions in the capacity of the registered holder of Horizon Shares as Roc Oil directs.

Horizon undertakes in favour of each Scheme Participant that it will appoint Roc Oil and each of its directors from time to time (jointly and each of them individually) as that Scheme Participant's proxy or, where applicable, corporate representative in accordance with clause 5.8(a) of this Scheme.

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## **6 Scheme Consideration**

### **6.1 Consideration under this Scheme**

On the Implementation Date, Horizon must procure Roc Oil to, subject to clauses 6.3, 6.4 and 6.5 of this Scheme, issue the New Roc Oil Shares to the Scheme Participants in accordance with clause 6.2 of this Scheme.

### **6.2 Provision of New Roc Oil Shares as Scheme Consideration**

Subject to clauses 6.3, 6.4 and 6.5 of this Scheme, the obligation of Roc Oil to issue the New Roc Oil Shares pursuant to clause 6.1 of this Scheme will be satisfied by Roc Oil:

- (a) on the Implementation Date entering the name of each Scheme Participant in the Roc Oil share register in respect of the New Roc Oil Shares which that Scheme Participant is entitled to receive under this Scheme; and
- (b) on or before the date that is 5 Business Days after the Implementation Date, sending or procuring the dispatch by pre-paid ordinary post (or, if the address of the Scheme Participant in the Register is outside Australia, by pre-paid airmail post) to each Scheme Participant to their address recorded in the Register at 5.00pm on the Record Date, a holding statement for the New Roc Oil Shares issued to that Scheme Participant.

### **6.3 Foreign Horizon Securityholders**

Subject to clause 6.5 of this Scheme, the obligation of Roc Oil to issue New Roc Oil Shares to a Scheme Participant who is a Foreign Horizon Securityholder will be satisfied by Roc Oil issuing the New Roc Oil Shares to which the Scheme Participant would have been entitled (were they not a Foreign Horizon Shareholder) to the Foreign Securityholder Nominee, and procuring that the Foreign Securityholder Nominee:

- (a) in the ordinary course of trading on the ASX, sell for the benefit of the Foreign Horizon Securityholder those New Roc Oil Shares issued to the Foreign Securityholder Nominee under this clause 6.3; and



- (b) as soon as reasonably practicable:
  - (i) accounts to the Foreign Horizon Securityholder for the net proceeds of sale (on an averaged basis so that all Foreign Horizon Securityholders receive the same price per New Roc Oil Share, rounded down to the nearest whole cent) and any income referable to those New Roc Oil Shares, after deduction of any applicable brokerage, taxes and other costs and charges; and
  - (ii) pays the amount to which the Foreign Horizon Securityholder is entitled under clause 6.3(b)(i) to the Foreign Horizon Securityholder by direct credit or sending a cheque drawn on an Australian bank in Australian currency by pre-paid airmail post.
- (c) Payments to a Foreign Horizon Securityholder under clause 6.3(b)(ii) will be in full satisfaction of the Foreign Horizon Securityholder's right to receive New Roc Oil Shares under clause 6.1 of this Scheme.
- (d) Each Foreign Horizon Securityholder appoints Horizon as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Foreign Securityholder Nominee is required to provide to Foreign Horizon Securityholders under the Corporations Act.

The Foreign Securityholder Nominee has been selected by Roc Oil and is an authorised representative of UBS AG, Australia Branch (ABN 47 088 129 613), and is the holder of an Australian financial services licence number 231087.

#### **6.4 Breach of law or Roc Oil Constitution**

Where an issue of New Roc Oil Shares to which a Scheme Participant would otherwise be entitled would result in a breach of law or breach of a provision of the Roc Oil Constitution, Roc Oil will, in full satisfaction of that Scheme Participant's rights to the New Roc Oil Shares under clause 6.1 of this Scheme:

- (a) issue the maximum possible number of New Roc Oil Shares to the Scheme Participant without giving rise to such breach; and
- (b) subject to clause 6.5 of this Scheme, issue to the Foreign Securityholder Nominee the remaining New Roc Oil Shares to which the Scheme Participant would have been entitled (if the issue did not result in a breach of law or breach of a provision of the Roc Oil Constitution), and procure that the Foreign Securityholder Nominee:
  - (i) in the ordinary course of trading on the ASX, sells for the benefit of that Scheme Participant those New Roc Oil Shares issued to the Foreign Securityholder Nominee under this clause 6.4(b); and
  - (ii) as soon as reasonably practicable:
    - (A) accounts to the Scheme Participant for the net proceeds of sale (on an averaged basis so that all Scheme Participants to whom this clause 6.4 applies receive the same price per New Roc Oil Share, rounded down to the nearest whole cent) and any income referable to those New Roc Oil Shares, after deduction of any applicable brokerage, taxes and other costs and charges; and

- (B) pays the amount to which the Scheme Participant is entitled under clause 6.4(b)(ii)(A) to the Scheme Participant by direct credit or sending a cheque drawn on an Australian bank in Australian currency by pre-paid ordinary post (or, if the address of the Scheme Participant in the Register is outside Australia, by pre-paid airmail post).
- (c) Payment to a Scheme Participant under clause 6.4(b)(ii)(B) will be in full satisfaction of that Scheme Participant's right to receive New Roc Oil Shares under clause 6.1 of this Scheme.
- (d) Each Scheme Participant covered by this clause 6.4 appoints Horizon as its agent to receive on its behalf any financial services guide or other notices (including any updates of those documents) that the Foreign Securityholder Nominee is required to provide to that Scheme Participant under the Corporations Act.

### 6.5 Fractional Entitlements

- (a) If the number of Horizon Shares held by a Scheme Participant is such that the aggregate entitlement of that Scheme Participant to New Roc Oil Shares is not a whole number, then the entitlement in each case must be rounded up or down to the nearest whole number, with fractions of 0.5 being rounded up.
- (b) If Roc Oil and Horizon are of the opinion that several Scheme Participants, each of which holds a holding of Horizon Shares which results in a fractional entitlement to New Roc Oil Shares, have, before 5.00pm on the Record Date, been party to a shareholding splitting or division in an attempt to obtain an advantage by reference to the rounding provided for in the calculation of each Scheme Participant's entitlement to the Scheme Consideration, Roc Oil and Horizon may give notice to those Scheme Participants:
  - (i) setting out the names and Registered Addresses of all of them;
  - (ii) stating that opinion; and
  - (iii) attributing to one of them specifically identified in the notice the Horizon Shares held by all of them,

and, after the notice has been so given, the Scheme Participant specifically identified in the notice shall, for the purposes of this Scheme, be taken to hold all those Horizon Shares and each of the other Scheme Participants whose names are set out in the notice shall, for the purposes of this Scheme, be taken to hold no Horizon Shares.

### 6.6 New Roc Oil Shares to rank equally

- (a) New Roc Oil Shares issued to Scheme Participants will rank equally in all respect with all existing Roc Oil Shares.
- (b) On issue, each New Roc Oil Share issued to Scheme Participants will be fully paid and free from any Encumbrance.

### 6.7 Joint holders

In the case of Scheme Shares held in joint names any holding statements for New Roc Oil Shares issued to Scheme Participants must be issued in the names

of the joint holders and sent to the holder whose name appears first in the Register as at 5.00pm on the Record Date.

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## **7 Dealings in Scheme Shares**

### **7.1 Determination of Scheme Participants**

To establish the identity of the Scheme Participants, dealings in Scheme Shares will only be recognised by Horizon if:

- (a) in the case of dealings of the type to be effected using CHESSE, the transferee is registered in the Register as the holder of the relevant Scheme Shares on or before 5.00pm on the Record Date; and
- (b) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received on or before 5.00pm on the Record Date at the place where the Register is kept.

### **7.2 Register**

Horizon must register any registrable transmission applications or transfers of the Scheme Shares received in accordance with clause 7.1(b) of this Scheme on or before 5.00pm on the Record Date provided that, for the avoidance of doubt, nothing in this clause 7.2 requires Horizon to register a transfer that would result in a Horizon Shareholder holding a parcel of Horizon Shares that is less than a 'marketable parcel' (for the purposes of this clause 7.2, 'marketable parcel' has the meaning given in the official operating rules of ASX).

### **7.3 No disposals after Effective Date**

If this Scheme becomes Effective, a holder of Scheme Shares (and any person claiming through that holder) must not dispose of or purport or agree to dispose of any Scheme Shares or any interest in them after the Effective Date in any way except as set out in this Scheme and any such disposal will be void and of no legal effect whatsoever.

Horizon must not accept for registration nor recognise for any purpose any transmission, application or transfer in respect of Scheme Shares received after 5.00pm on the Record Date (except a transfer to Roc Oil pursuant to this Scheme and any subsequent transfer by Roc Oil or its successors in title).

### **7.4 Maintenance of Horizon Register**

For the purpose of determining entitlements to the Scheme Consideration, Horizon will maintain the Register in accordance with the provisions of this clause 7.4 until the Scheme Consideration has been paid to the Scheme Participants and Roc Oil has been entered in the Register as the holder of all the Scheme Shares. The Register in this form will solely determine entitlements to the Scheme Consideration.

### **7.5 Effect of certificates and holding statements**

Subject to provision of the Scheme Consideration and registration of the transfer to Roc Oil contemplated in clauses 5.2 and 6.3 of this Scheme, any statements of holding in respect of Scheme Shares will cease to have effect after 5.00pm on the Record Date as documents of title in respect of those shares (other than statements of holding in favour of Roc Oil and its successors in title). After 5.00pm on the Record Date, each entry current on the Register as at 5.00pm on the Record Date (other than entries in respect of Roc Oil or its successors in title)

will cease to have effect except as evidence of entitlement to the Scheme Consideration.

#### **7.6 Details of Scheme Participants**

As soon as possible on or after the Record Date, and in any event within one Business Day after the Record Date, Horizon will ensure that details of:

- (a) the names, Registered Addresses and holdings of Scheme Shares for each Scheme Participant, as shown in the Register at 5.00pm on the Record Date; and
- (b) the names and Registered Addresses of every Foreign Horizon Securityholder at 5.00pm on the Record Date,

are available to Roc Oil in such form as Roc Oil reasonably requires.

#### **7.7 Quotation of Horizon Shares**

- (a) Horizon will apply to ASX to suspend trading on ASX in Horizon Shares with effect from the close of trading on ASX on the Effective Date.
- (b) After this Scheme has been fully implemented, on a date to be agreed by Roc Oil, Horizon will apply:
  - (i) for termination of the official quotation of Horizon Shares on ASX; and
  - (ii) to have itself removed from the official list of the ASX.

#### **7.8 Quotation of New Roc Oil Shares**

Roc Oil will apply for the official quotation of the New Roc Oil Shares on the ASX and will request that those shares be quoted on a deferred settlement basis as from 18 August 2014 and on a normal settlement basis as from 1 September 2014.

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## **8 General Scheme provisions**

### **8.1 Power of attorney**

Each Scheme Participant, without the need for any further act by any Scheme Participant, irrevocably appoints Horizon and each of its directors and secretaries (jointly and each of them individually) as its attorney and agent for the purpose of:

- (a) executing any document necessary or expedient to give effect to this Scheme including the Share Scheme Transfer; and
- (b) enforcing the Deed Poll against Roc Oil,

and Horizon accepts such appointment.

### **8.2 Variations, alterations and conditions**

- (a) Horizon may, with the consent of Roc Oil (which cannot be unreasonably withheld or delayed), by its counsel or solicitor consent on behalf of all persons concerned to any variations, alterations or conditions to this Scheme which the Court thinks fit to impose.

- (b) Each Scheme Shareholder agrees to any such variation, alteration or condition which has been consented to by Horizon in accordance with clause 8.2(a).

### **8.3 Further action by Horizon**

Horizon will execute all documents and do all things (on its own behalf and on behalf of each Scheme Participant) necessary or expedient to implement, and perform its obligations under, this Scheme.

### **8.4 Authority and acknowledgement**

Each of the Scheme Participants:

- (a) irrevocably consents to Horizon and Roc Oil doing all things necessary or expedient for or incidental to the implementation of this Scheme; and
- (b) acknowledges that this Scheme binds Horizon and all Scheme Participants (including those who do not attend the Scheme Meeting or do not vote at that meeting or vote against this Scheme at that Meeting) and, to the extent of any inconsistency and to the extent permitted by law, overrides the constitution of Horizon.

### **8.5 Instructions and elections**

If not prohibited by law (and including where permitted or facilitated by relief granted by a Regulatory Authority), all instructions, notifications or elections by a Scheme Participant to Horizon binding or deemed binding between the Scheme Participant and Horizon relating to Horizon or Horizon Shares, including instructions, notifications or elections relating to:

- (a) whether dividends are to be paid by cheque or into a specific bank account;
- (b) payments of dividends on Horizon Shares; and
- (c) notices or other communications from Horizon (including by email),

will be deemed from the Implementation Date (except to the extent determined otherwise by Roc Oil in its sole discretion), by reason of this Scheme, to be made by the Scheme Participant to Roc Oil and to be a binding instruction, notification or election to, and accepted by, Roc Oil in respect of the New Roc Oil Shares issued to that Scheme Participant until that instruction, notification or election is revoked or amended in writing addressed to Roc Oil at its registry.

### **8.6 No liability when acting in good faith**

Neither Horizon nor Roc Oil, nor any of their respective officers, will be liable for anything done or omitted to be done in the performance of this Scheme in good faith.

### **8.7 Enforcement of Deed Poll**

Horizon undertakes in favour of each Scheme Participant to enforce the Deed Poll against Roc Oil on behalf of and as agent and attorney for the Scheme Participants.

### **8.8 Stamp duty**

Roc Oil will pay all stamp duty (including any fines, penalties and interest) payable in connection with this Scheme.

### **8.9 Notices**

- (a) If a notice, transfer, transmission application, direction or other communication referred to in this Scheme is sent by post to Horizon, it will not be taken to be received in the ordinary course of post or on a date and time other than the date and time (if any) on which it is actually received at Horizon's registered office or at the office of the registrar of Horizon Shares.
- (b) The accidental omission to give notice of the Scheme Meeting or the non-receipt of such a notice by any Shareholder shall not, unless so ordered by the Court, invalidate the Scheme Meeting or the proceedings of the Scheme Meeting.

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## **9 Governing law**

### **9.1 Governing law**

This Scheme is governed by the law in force in New South Wales.

### **9.2 Jurisdiction**

Each party irrevocably and unconditionally:

- (a) submits to the non-exclusive jurisdiction of the courts of New South Wales; and
- (b) waives, without limitation, any claim or objection based on absence of jurisdiction or inconvenient forum.

# 23. Attachment E – Notice of Scheme Meeting





Horizon Oil Limited  
(ACN 009 799 455)  
("Company")

## Notice of Scheme Meeting

Notice is hereby given that by an order of the Federal Court of Australia made on Thursday, 3 July 2014 pursuant to section 411(1) of the *Corporations Act 2001* (Cwlth) ("**Corporations Act**") a meeting of the holders of fully paid ordinary shares will be held at 11.00am (Sydney time) on Thursday, 7 August 2014 at The Sydney Boulevard Hotel, 90 William Street, Sydney to transact the business below.

### Business

#### 1 Consideration of Scheme

To consider and, if thought appropriate, to pass the following resolution in accordance with section 411(4)(a)(ii) of the Corporations Act:

"That, in accordance with the provisions of section 411 of the *Corporations Act 2001* (Cwlth), the arrangement proposed between Horizon Oil and the holders of its fully paid ordinary shares ("**Scheme**"), as contained in and more particularly described in the Scheme Booklet accompanying the notice convening this meeting, is agreed to and the directors of Horizon Oil are authorised to agree to such alterations or conditions as are thought fit by the Court and, subject to approval of the Scheme by the Court, the board of directors of Horizon Oil is authorised to implement the Scheme with any such modifications or conditions."

By order of the Court



Michael Sheridan  
Company Secretary

Date: .....

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

## **EXPLANATORY MEMORANDUM:**

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

### **Terminology**

Capitalised terms which are defined in section 18 (*Glossary, definitions and interpretation*) of the Scheme Booklet which accompanies this Notice of Scheme Meeting have the same meaning when used in this notice (including these notes) unless the context requires otherwise.

### **Chairperson**

The Court has directed that Mr Fraser Ainsworth AM act as Chairperson of the Scheme Meeting or, failing him, Mr Andrew Stock.

### **Voting**

The Horizon Oil Directors unanimously recommend that you vote in favour of the resolution, in the absence of a Superior Proposal. The Horizon Oil Directors intend to vote any Horizon Oil Shares held by them in favour of the resolution, in the absence of a Superior Proposal.

### **Quorum**

The number of members whose presence is necessary to constitute a quorum at any general meeting of the Company is three members present in person or by proxy, attorney or representative.

### **Majority required**

In accordance with section 411(4)(a)(ii) of the Corporations Act, the resolution contained in this Notice of Scheme Meeting must be passed by:

- a) a majority in number of those Horizon Oil Shareholders present and voting at the Scheme Meeting (either in person, by proxy or (in the case of corporate Horizon Oil Shareholders) by a corporate representative); and
- b) at least 75% of the votes cast on the resolution contained in this Notice of Scheme Meeting.

The vote will be conducted by poll.

### **Determination of entitlement to attend and vote**

The Court has ordered that, for the purposes of the Scheme Meeting, Horizon Oil Shares will be taken to be held by the persons who are registered as Horizon Oil Shareholders at 7.00pm (Sydney time) on Tuesday, 5 August 2014. Accordingly, registrable transmission applications or transfers registered after this time will be disregarded in determining entitlements to vote at the Scheme Meeting.

### **Voting in person**

To vote in person at the Scheme Meeting, you must attend the Scheme Meeting to be held at 11.00am (Sydney time) on Thursday, 7 August 2014 at The Sydney Boulevard Hotel, 90 William Street, Sydney. You will be admitted to the Scheme Meeting and given a voting card upon disclosure at the point of entry of your name and address.

### **Proxies**

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

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

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

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

To be effective, the proxy form must be received by online submission or at the address or facsimile number below, or by the Company at its registered office, Level 7, 134 William Street, Woolloomooloo NSW 2011, not later than 11.00am (Sydney time) on Tuesday, 5 August 2014, being 48 hours before the commencement of the meeting.

Proxies may be lodged online by accessing the following website: [www.boardroomlimited.com.au/vote/horizonscheme2014](http://www.boardroomlimited.com.au/vote/horizonscheme2014) and following the instructions.

**By mail:**

Boardroom Pty Limited  
GPO Box 3993  
Sydney NSW 2001  
AUSTRALIA

**For delivery:**

Boardroom Pty Limited  
Level 7, 207 Kent Street  
Sydney NSW 2000  
AUSTRALIA

**By fax:**

Boardroom Pty Limited  
+61 2 9290 9655

**Admission to meeting**

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

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

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

Boardroom Pty Ltd  
Level 7, 207 Kent Street  
Sydney NSW 2000  
AUSTRALIA

Telephone: +61 2 9290 9600

Fax: +61 2 9279 0664

Email: [enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)

**Voting at Scheme Meeting will occur by poll**

All persons attending the Scheme Meeting are asked to arrive at least 30 minutes prior to the time the Scheme Meeting is to commence, so that their shareholding may be checked against the register, their power of attorney or appointment as corporate representative can be verified (as the case may be), and their attendance noted.

**Jointly held securities**

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, attorney or representative, shall be accepted to the exclusion of the votes of other joint holders and for this purpose, seniority shall be determined by the order in which the names stand in the register, but the other or others of the joint holders are entitled to be present at general meetings. Several legal personal representatives of a deceased member in whose sole name a share stands shall for the purposes of voting be deemed joint holders of the share.

**Voting by Attorney or Company Representative**

A member may:

- a) by power of attorney duly executed in the presence of at least one witness and (if necessary) duly stamped, appoint an attorney (whether a member or not) to act on his behalf at all or any meetings of the Company or of any class of members;
- b) if it is a body corporate, appoint a representative (whether a member or not) to act on its behalf at all or any meetings of the Company or of any class of members.

Subject to the Corporations Act, in order to be effective, an instrument appointing an attorney or representative pursuant to the Company's Constitution or an instrument appointing a proxy and any power of attorney or other authority under which the instrument of proxy is executed (or a copy of the power or the authority notarially certified) together with such evidence of due stamping, execution and non-revocation as the Horizon Oil Directors may require, must be deposited at or forwarded by facsimile transmission to the registered office of the Company or such other place as is specified by the Company in the notice of meeting or instrument of proxy, not less than 48 hours before the time appointed for the meeting or adjourned meeting.

**Court approval**

In accordance with section 411(4)(b) of the Corporations Act, to become Effective, the Scheme of Arrangement must be approved by the order of the Court. If the resolution set out in this Notice is agreed to by the required majorities set out above, the implementation of the Scheme (with or without modification) will be subject to among other things the subsequent approval of the Court.

# 24. Corporate Directory



## COMPANY

### Horizon Oil Limited

ACN 009 799 455

## HORIZON OIL DIRECTORS

Fraser Ainsworth AM (Chairman)  
Brent Emmett (Chief Executive Officer)  
John Humphrey  
Gerrit de Nys  
Andrew Stock

## COMPANY SECRETARY

Michael Sheridan

## ASSISTANT COMPANY SECRETARY

Michael Lyon

## REGISTERED OFFICE

Level 7  
134 William Street  
Woolloomooloo NSW 2011  
Australia

Telephone +61 2 9332 5000  
Facsimile +61 2 9332 5050  
Email [exploration@horizonoil.com.au](mailto:exploration@horizonoil.com.au)  
Website [www.horizonoil.com.au](http://www.horizonoil.com.au)

## SECURITY EXCHANGES

Horizon Oil Limited shares are listed on the ASX  
(ASX code: HZN)

Horizon Oil Limited Convertible Bonds are listed on the  
Singapore Securities Exchange (SGX)

## HORIZON OIL SHAREHOLDER INFORMATION LINE

1300 721 637 (within Australia)  
+61 2 8016 2890 (outside Australia)

The Horizon Oil Shareholder Information Line is open  
Monday to Friday, 9.00am – 5.00pm (Sydney time).

## FINANCIAL ADVISER

### UBS AG, Australia Branch

Chifley Tower  
2 Chifley Square  
Sydney NSW 2000

## AUSTRALIAN LEGAL ADVISER

### King & Wood Mallesons

Level 33, Waterfront Place  
1 Eagle Street  
Brisbane QLD 4000

## INDEPENDENT EXPERT

### Deloitte Corporate Finance Pty Limited

ACN 003 833 127  
550 Bourke Street  
Melbourne VIC 3000

## INDEPENDENT TECHNICAL EXPERT

### RISC Operations Pty Ltd

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## INVESTIGATING ACCOUNTANT

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## EXTERNAL AUDITORS

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**Horizon Oil**