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4 July 2014

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

Independent expert's report – clarification of implied merger premium

On 2 July 2014, Horizon Oil released the independent expert's report prepared by Deloitte Corporate Finance Pty Limited (Deloitte) in respect of the proposed scheme of arrangement to implement the merger of Horizon Oil and Roc Oil Company Limited (Roc Oil) announced on 29 April 2014.

Deloitte has provided the attached letter to Horizon Oil to provide clarification of its comments on page 9 of the report to assist Horizon Oil's shareholders.

In the letter, Deloitte explains that the reference to "Implied Control Premium" and the associated analysis simply reflect the share price appreciation of Roc Oil since the date of the announcement of the proposed merger. Deloitte further clarifies that the share price appreciation of both companies since the announcement indicates that both Horizon Oil and Roc Oil shareholders have enjoyed a premium as a result of the proposed merger.

Yours faithfully,

Michael Sheridan

Chief Financial Officer / Company Secretary



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The Directors
Horizon Oil Limited
Level 7, 134 William Street
Woolloomooloo
NSW 2011

3 July 2014

Dear Directors

Re: Independent expert's report in relation to the proposed merger between Horizon Oil Limited and ROC Oil Company Limited

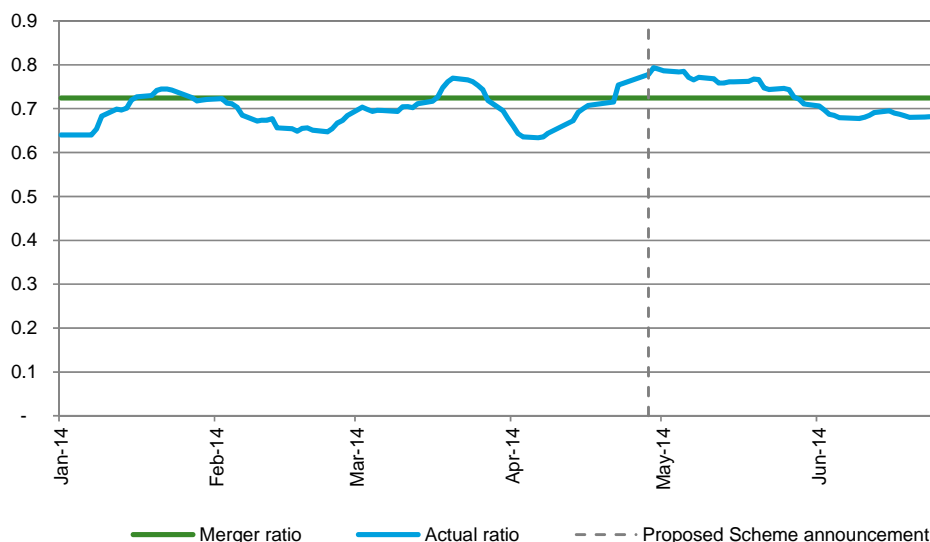
We refer to the independent expert's report prepared by Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance) and released to the Australian Securities Exchange on 2 July 2014. The independent expert's report has been prepared to assist Horizon shareholders in their consideration of a proposal under which Horizon and ROC would merge by way of ROC acquiring all of the issued shares in Horizon via a scheme of arrangement (the Proposed Scheme). The combined merged entity is referred to as the Proposed Merged Entity.

You have asked us to provide additional clarity in relation to the share price analysis on page 9 of our report, presented in our assessment of the advantages of the Proposed Scheme.

Merger ratio analysis

The ratio at which Horizon shares traded relative to ROC shares pre- and post-announcement (up to 24 June 2014 when ROC announced it had received a non-binding indicative takeover offer from an unnamed company) has fluctuated, but has been broadly consistent with, the merger ratio agreed in the Proposed Scheme, as illustrated below.

Figure 1



Source: Capital IQ; Deloitte Corporate Finance analysis

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Since the announcement of the Proposed Scheme up to 24 June 2014, Horizon's share price trended upwards from AUD 0.34 (on 23 April) to AUD 0.385 (on 24 June). Similarly, ROC's share price increased from AUD 0.455 to AUD 0.56.

Premium analysis

The Proposed Scheme created a premium for both Horizon and ROC shareholders, when compared with their share prices prior to the announcement of the Proposed Scheme as a result of the perceived benefits of the Proposed Scheme.

We included our analysis of the premium in our report as part of our consideration of a number of factors (both advantages and disadvantages) of the Proposed Scheme and their impact on the Horizon shareholders. However, there are limitations in considering the merits of the Proposed Scheme based solely on this kind of implied premium analysis.

On page 9 of the independent expert's report, we presented the following analysis, which only considered the benefit to Horizon shareholders:

Table 1: Implied premium to Horizon shareholders

	Unit	
5-day VWAP¹ of Horizon shares (pre-announcement)	AUD / share	0.35
10-day VWAP of Horizon shares (pre-announcement)	AUD / share	0.33
30-day VWAP of Horizon shares (pre-announcement)	AUD / share	0.32
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
Implied value per Horizon share	AUD / share	0.41
Implied premium based on pre-announcement share price		
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 analysis presented in Table 1 reflects a comparison of post-announcement trading in ROC shares compared with pre-announcement trading in Horizon shares, which is one measure of the premium or benefit Horizon shareholders may receive in the event the Proposed Scheme is successful. Such a premium could be a result of synergy benefits arising from the merger of the two companies and other factors set out below. We have described this benefit in our report as an "Implied Control Premium" but recognise this analysis only reflects the share price appreciation of ROC since the date of the announcement of the Proposed Scheme.

We have used post-announcement trading in ROC shares for our analysis because that 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.

Trading in ROC's shares subsequent to announcement of the Proposed Scheme may also be influenced by factors other than the market's view on the transaction. For example, the following other factors may have influenced share price trading in both companies:

- public commentary on the merits of the Proposed Scheme, particularly from the perspective of the ROC shareholders
- market speculation in relation to a takeover offer for ROC and the possibility that ROC may not proceed with the Proposed Scheme
- the receipt of Production Development Licence 10 for Horizon's Papua New Guinea gas assets and the receipt of certain proceeds from Osaka Gas as a consequence

- changes in oil prices as a result of events in Iraq
- short-selling or arbitrage trading activity in both Horizon and ROC shares
- general share market movements.

As calculated in Table 2, ROC shareholders are also receiving a premium as a result of the Proposed Scheme, when compared with the ROC share price prior to the announcement of the Proposed Scheme, although the analysis is subject to the same limitations discussed previously.

Table 2: Implied premium to ROC shareholders

	Unit	
5-day VWAP of ROC shares (pre-announcement)	AUD / share	0.46
10-day VWAP of ROC shares (pre-announcement)	AUD / share	0.47
30-day VWAP of ROC shares (pre-announcement)	AUD / share	0.45
5-day VWAP of ROC shares (up to close of trading on 24 June 2014)	AUD / share	0.56
<i>Implied premium based on pre-announcement share price</i>		
5-day VWAP		21%
10-day VWAP		20%
30-day VWAP		24%

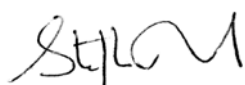
Source: Capital IQ; Deloitte Corporate Finance analysis

This implied premium is broadly consistent with the premium implied for Horizon shareholders. The implied premium created by the Proposed Scheme will be shared by the shareholders of Horizon and ROC.

This opinion should be read in conjunction with our detailed independent expert's report which sets out our scope and findings.

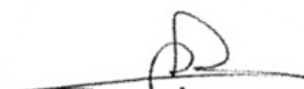
Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED



Stephen Reid

Director



Robin Polson

Director