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6 August 2014

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

HORIZON OIL LIMITED - LETTER TO SHAREHOLDERS

Please see attached a letter to Horizon Oil Limited's shareholders.

Yours faithfully,

Michael Sheridan
Chief Financial Officer / Company Secretary

For further information please contact:
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Focus on continued value creation

Dear Horizon Oil Shareholder,

Background and termination of Roc merger

On Tuesday 29 April 2014, Horizon Oil Limited (**Horizon Oil**) and Roc Oil Company Limited (**Roc**) entered into a Merger Implementation Deed (**MID**) under which they agreed to merge via a Horizon Oil scheme of arrangement (**Scheme**). Under the proposed Scheme, Horizon Oil shareholders were to receive 0.724 new Roc shares for each Horizon Oil fully paid share they held. The Scheme was subject to a number of conditions precedent.

On Monday, 4 August 2014, Roc announced that it had entered into a bid implementation agreement in respect of a superior proposal made by Fosun International Limited (**Fosun**) under which it was proposed that Fosun (or one of its subsidiaries) would acquire all of the issued shares in the capital of Roc for A$0.69 cash per share by way of an off-market takeover (**Fosun Offer**). The Roc board unanimously recommended the Fosun Offer to Roc shareholders.

The Roc board's recommendation of the Fosun Offer constituted a 'Roc Oil Prescribed Event' under the MID between Horizon Oil and Roc resulting in the non-satisfaction of one of the conditions precedent to the Horizon Oil-Roc merger.

Accordingly, on Tuesday, 5 August 2014, Horizon Oil gave notice to Roc terminating the MID in accordance with its terms. Horizon Oil also applied for, and received, orders from the Federal Court of Australia cancelling the Scheme Meeting of Horizon Oil shareholders scheduled for Thursday, 7 August 2014 and vacating the proceedings for the second Court hearing which was scheduled for Thursday, 14 August 2014.

Commenting on this development, Horizon Oil's Managing Director and Chief Executive, Brent Emmett, said:

"While the Board of Horizon Oil saw significant value potential in creating what we considered would be a leading Asian mid-cap exploration and production company, we note and respect Roc's decision to be acquired for cash, as a low-risk means of achieving immediate value for its assets, bringing an end to Roc's 15 year history as an ASX listed oil and gas company. We wish Roc and its new owners well with their future endeavours.

While an at-market merger with Roc at a ratio which had been relatively consistent for 12 months was appropriate for Horizon Oil, we consider that a cash offer by Horizon Oil for Roc is not.

Fosun's bid of approximately US$450 million for Roc endorses the valuations of both independent experts, Deloitte Corporate Finance Pty Limited and Grant Samuel & Associates, who determined the relative value contribution of Horizon Oil to the merged entity to be approximately 1.5 times that of Roc.

In particular, with regard to Horizon Oil's 27% interest in the Beibu fields offshore China, we believe the price being paid by Fosun for Roc is consistent with a high valuation for Beibu, given that Roc's independent expert's report classifies Roc's 20% interest in Beibu to be approximately 40% of Roc's value and the most valuable asset of Roc's portfolio, by a large margin."

Action required by Horizon Oil shareholders

Horizon Oil shareholders are not required to take any action in connection with the termination of the Scheme.

Horizon Oil shareholders may disregard the Scheme Booklet dated Thursday, 3 July 2014 and will not be required to attend or vote at any meeting of shareholders or attend any court hearing to consider the Scheme.

Horizon Oil shareholders will retain their Horizon Oil shares and will not receive any consideration in connection with the Scheme. Horizon Oil will not merge with Roc. Horizon Oil will remain listed on the ASX and continue to operate as it does now.

Horizon Oil: Strong prospects from diversified assets

As an independent and successful energy company, Horizon Oil is committed to building wealth for its shareholders and will consider opportunities to further expand its operations as they arise.

While the merger with Roc was one opportunity to achieve this expansion, it was not a deal that had to be completed for Horizon Oil to achieve a positive market re-rating and secure its ongoing success as a highly regarded regional exploration and production company.

Horizon Oil will continue to focus on value realisation and cash flow generation from its diversified portfolio of production, development and exploration assets.

On 12 July 2014, Horizon Oil received US$78 million from the completion of the partial sale of Horizon Oil's PNG assets to Osaka Gas, comprising the first milestone payment of the US$204 million aggregate consideration. Horizon Oil's balance sheet is in good shape, with cash reserves of approximately US$100 million at the end of the June quarter and solid production cashflow.

Assessing the outlook for Horizon Oil, Mr Emmett said:

"Prospects for our PNG business, which was the focus of Roc's merger ambitions, remain very strong with encouraging recent progress, and we intend to continue to focus on creating value from our PNG assets. Elsewhere, our Beibu fields continue to produce well and we are working to add additional reserves to the development with new step-out wells and the proposed development of the WZ 12-8E field. At Maari field, offshore New Zealand, work to access relatively low risk, substantive additional reserves in and around the producing fields is proceeding on schedule, with two rigs currently drilling."

With a strong and experienced management team, and with the continuing support of shareholders and convertible bondholders, Horizon Oil is well positioned to create value from its focused approach to exploration and production opportunities in the Asia Pacific region.

Yours faithfully

Michael Sheridan
Chief Financial Officer and Company Secretary
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