HIBISCUS Petroleum

CORPORATE AND BUSINESS UPDATE

1. Introduction

Hibiscus Petroleum Berhad ("**Hibiscus Petroleum**" or the "**Group**"), through its wholly owned subsidiary, Anasuria Hibiscus (UK) Limited ("**AHUK**"), has recently successfully completed two key projects on its Anasuria Cluster of oil and gas fields situated in the United Kingdom Continental Shelf ("**UKCS**"). These projects are anticipated to improve short - and medium term - performance of the asset. In view of these developments, the further strengthening of oil prices in recent weeks and progress in other areas of its business, the Board of Directors (the "**Board**") of Hibiscus Petroleum wishes to issue this Corporate and Business Update to provide a current overview of:

- the oil and gas exploration and production ("**E&P**") business environment in which the Group operates;
- projects recently completed at the Anasuria asset and their anticipated impact to our business; and,
- the status and rationale of other projects in advanced stages of being evaluated by AHUK and the Group for execution in 2018 and 2019.

2. Current Situational Analysis

2.1 Environment

On 11 October 2017, the Group disclosed its audited financial statements for the period 1 July 2016 to 30 June 2017 ("**FY2017**") which showed a revenue of RM 261 million and a profit after tax ("**PAT**") of RM 106 million. The earlier release of the Group's financial results for the fourth quarter ended 30 June 2017 ("**4Q FY2017**") showed a fifth consecutive quarter of profitability and improvements in revenue and earnings before interest, tax, depreciation and amortisation ("**EBITDA**"). These results have been delivered against a backdrop of challenging sector conditions and realised oil prices (for the Brent crude oil bench mark) that have ranged between US$ 38 and US$ 53 per barrel ("**bbl**") as shown in Table 1 below.

Period	Realised Price for Anasuria Crude Oil Offtakes (US$/bbl)
10 March 2016 – 31 March 2016	38.19
1 April 2016 – 30 June 2016	41.20
1 July 2016 – 30 September 2016	45.20
1 October 2016 – 31 December 2016	41.70
1 January 2017 – 31 March 2017	52.95
1 April 2017 – 30 June 2017	50.46

Table 1 *- Realised Price for Anasuria Crude Oil Offtakes (US$/bbl).*

As shown in Figure 1 below, since 1 July 2017, oil prices have been trending upwards mainly due to:

- strict compliance to assigned oil production / delivery quotas by the Organization of Petroleum Exporting Countries ("**OPEC**") and friendly allies (including Russia); and,
- real growth in worldwide demand which, in turn, is gradually draining global inventories.

Figure 1 *- Oil Price for the Brent Crude Oil Benchmark for the Period June 2017 to October 2017.*

Even though Brent Futures pricing has been in backwardation (i.e. current prices are higher than future prices) in recent months, current expectations are that recent gains are going to be sustainable as the prolonged period (2015 – 2017) of minimal investment in exploration and development projects coupled with the above-mentioned factors of OPEC compliance to supply cuts and real global growth take their combined toll. The majority of industry commentators and analysts now expect the Brent crude oil benchmark to range between US$ 58 to US$ 68 per barrel over the next several months. Given our historical operating performance metrics, these stronger oil prices trends should be a positive development for the Group.

2.2 Health, Safety, Security and Environment

On our main offshore operating facility in the UKCS, we are pleased to be able to report that on 6 October 2017, the team working on Anasuria Floating Production Storage and Offtake ("**FPSO**") facility achieved three years without a lost time incident ("LTI"). LTI is the global indicator for safety performance and this performance at the Anasuria FPSO has been achieved taking into account:

- a challenging transition of operations from Shell to the Anasuria Operating Company Limited ("AOC") / Petrofac;
- multiple minor maintenance projects carried out; and,
- several important projects recently completed, which are described in Table 3 below.

In terms of our responsibility towards the environment, we have consistently been operating below the allowable limits for 'oil-in-water' discharge from the FPSO and the flaring of excess gas.

2.3 Operational Performance

During the first year of joint operations on the Anasuria Cluster, we focused on understanding the asset, the environment we work in, and, most significantly, we applied ourselves relentlessly towards improving operational performance. The results of our efforts are shown in Table 2.

Anasuria Cluster (Full Quarter Production)	4Q16	1Q17	2Q17	3Q17	4Q17
Predicted oil production rate based on Decline Curve (bbl/day) – RPS Report dated June 2016	3,319	3,257	3,140	2,701	2,642
Achieved average daily oil production rate (bbl/day)	2,955	3,032	3,934	2,617	3,204
Achieved average daily oil equivalent production rate (boe/day)	3,135	3,406	4,408	2,873	3,522
Average OPEX per boe (US$/boe)	21.8	18.4	13.0	15.1	14.0
Average OPEX per bbl (US$/bbl)	23.1	20.7	14.6	16.6	15.4
EBITDA (RM million)	30.0	27.1	38.1	40.0	55.3
Average Facilities Uptime (%)	91%	82%	98%	76%	84%

Table 2 *- Operational Performance of the Anasuria Cluster for the Period April 2016 to June 2017.*

The Anasuria Cluster is a mature asset and such assets naturally decline over time. To compensate for the expected production decline without intervening at the sub-surface level, in 2016 and early 2017, we worked at improving the uptime of our surface facilities. The Group targeted that facilities uptime would remain at a level above 80% and devised our maintenance plan to attain this goal. The average uptime achieved for FY2017 was 85%, an outcome that has contributed to an improved production performance of Anasuria shown on Table 2 and Figure 2.

2.4 Projects

Based on confidence and experience attained from our first year of North Sea joint operations, AHUK invested, through its jointly owned operating entity, **AOC**, in the projects shown in Table 3, below.

Project	Offshore Turnaround	Souring Projects	GUA-P4 Gas Lift Installation
Project Description	Anasuria FPSO facilities shut down for performance of compliance and general maintenance related activities.	Bring online wells that were shut-in by the previous operator due to high H_2S levels.	Re-entry into an existing well using a Light Well Intervention Vessel (“LWIV”) for installation of a gas lift system to enhance production.
Period	Mid-Sept to mid-Oct 2017	GUA-P1 – Jan 2017 TLS-P1 – Jul 2017	Early-Oct to early-Nov 2017
Status	Completed. Facilities have been returned online and are in production mode.	Completed. Wells have been returned online and are in production.	Project completed. Well is being restarted.
Expected Outcome	Expected to improve the ‘Average Unplanned Facilities Uptime /Availability’ of the Anasuria FPSO facilities up to 90% post-shutdown. In addition, the FPSO has been made safer as an offshore production installation.	Expected to add an average of 315 bbls/day of production (net to AHUK) from both TLS-P1 and GUA-P1 for the calendar year 2017.	Expected to add 0.5 million bbls (net to AHUK) Proven and Probable (“**2P**”) reserves. Production rate is anticipated to improve from an average of 60 bbls/day to an average of approximately 350 bbls/day net to AHUK. Furthermore, no additional operational costs are currently anticipated with this increase in barrels produced.

Table 3 *- Recent Projects Executed on Anasuria Cluster in the UKCS by AOC.*

All expenditure related to the above investments have been internally funded.

2.4.1 *Offshore Turnaround*

As outlined in Table 3, a thirty-one day Offshore Turnaround of the FPSO facilities was executed in September – October 2017. It is anticipated that the next Offshore Turnaround of the FPSO will take place in late 2019. While the shutdown of production and facilities during an Offshore Turnaround defers production, we believe that <u>our scheduling of offtakes from the Anasuria FPSO has been such that we should not materially affect the quarterly financial performance of the Group.</u>

The recently concluded Offshore Turnaround project has been directed at improving the Facilities Uptime metric. As can be seen in Figure 2 below, historically there has been a clear positive correlation between Facilities Uptime and Average Oil Production rates in the Anasuria Cluster.

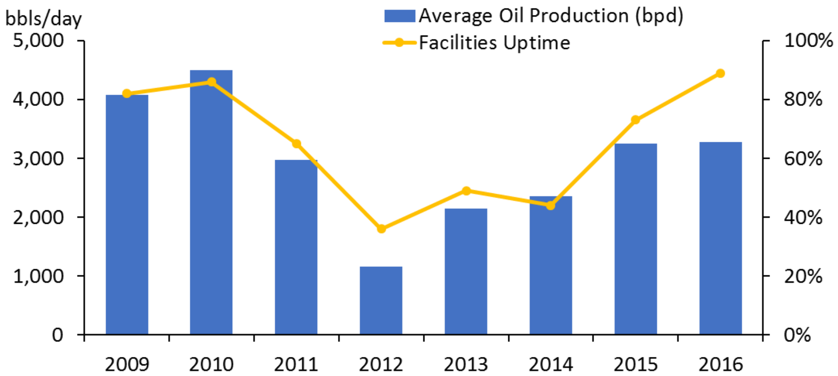

Figure 2 *- Historical Facilities Uptime and Average Oil Production Rate in Anasuria.*

2.4.2 *Souring Projects*

GUA-P1 and TLS-P1 were shut-in by the previous operator due to a prevalence of high Hydrogen Sulphide (“**H2S**”) levels. High levels of H2S production can corrode production infrastructure and can be fatal to humans if released to the atmosphere, even in small quantities. The souring projects involved:

- an engineering review of the Anasuria production system;
- an increase of injection points and the use of effective H2S scavenger chemicals to reduce the concentrations of H2S;
- establishment of standard operating procedures to manage operations of these wells safely; and
- testing to collect data to conclusively determine if the wells could be brought online safely.

The souring projects were successfully executed by AOC and both GUA-P1 and TLS-P1 were retuned online in January and July 2017, respectively. The incremental production resulting from these projects are shown in Figure 3.

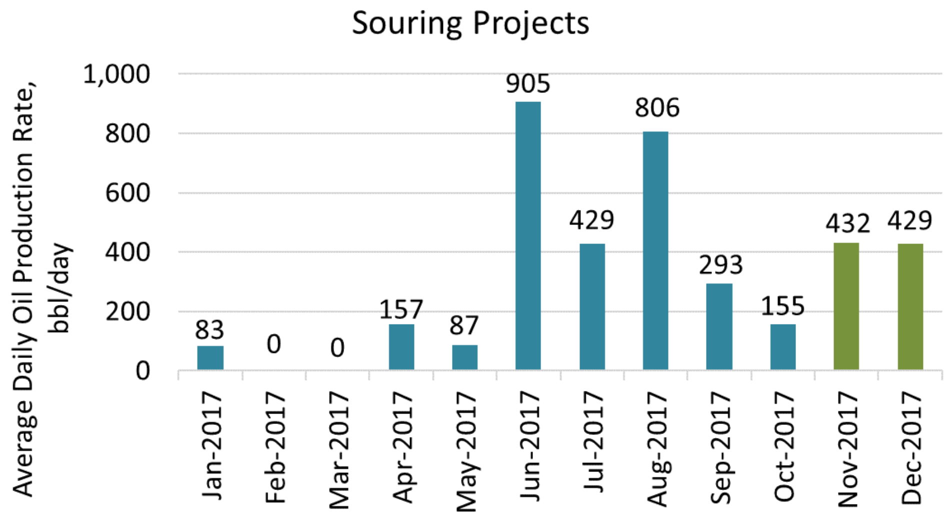

Figure 3 *- Actual (blue) and forecasted (green) incremental production from the souring projects (net to AHUK).*

2.4.3 ***GUA-P4 Gas Lift Installation***

With respect to the installation of gas lift facilities for the GUA P-4 well, the performance of this well since the beginning of 2017 is shown in Figure 4 below. In October 2017, subsea well intervention activities were executed to install the gas lift facilities. On 6 November 2017, activities to restart the well commenced. Based on software simulations, we expect production levels to increase as shown in Figure 4 below.

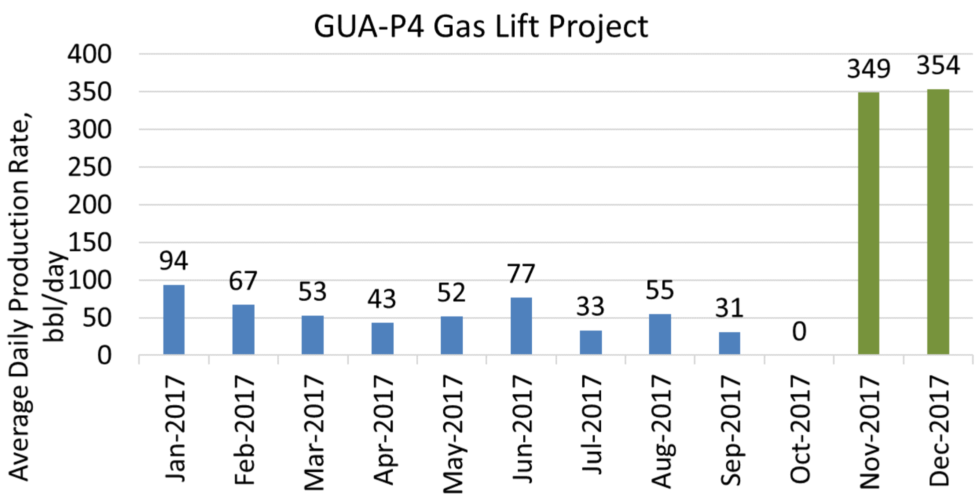

Figure 4: *Actual (blue) and forecasted (green) production from the GUA-P4 well (net to AHUK)*

2.5 Acquisitions

On 12 October 2016, the Company announced that its wholly-owned subsidiary, SEA Hibiscus Sdn Bhd, had entered into a conditional sale and purchase agreement ("**SPA**") with Sabah Shell Petroleum

Company Limited ("**SSPC**") and Shell Sabah Selatan Sdn Bhd ("**SSS**") (collectively, the "**Sellers**") to acquire the entire participating interests of the Sellers in the:

i. 2011 North Sabah Enhanced Oil Recovery Production Sharing Contract entered into between Petroliam Nasional Berhad ("**PETRONAS**"), the Sellers and PETRONAS Carigali Sdn Bhd ("**PCSB**") ("**North Sabah PSC**"); and

ii. joint operating agreement between the Sellers and PCSB in relation to the North Sabah PSC ("**JOA**") (collectively the "**Interest**").

SSPC and SSS each holds a 25% participating interest in the North Sabah PSC and the JOA, with SSPC being the operator of the North Sabah PSC and under the terms of the JOA. The Proposed Acquisition is in relation to SEA Hibiscus acquiring the Interest and assuming the role of operator of the North Sabah PSC, under the terms of the PSC and JOA, and, via the Transfer of Operatorship Agreement between SSPC and the Purchaser ("**TOA**").

The other 50% participating interest in the North Sabah PSC and the JOA is held by PCSB. The responsibilities of the Purchaser as the operator of the North Sabah PSC, under the terms of the PSC and JOA, are the management of the operations of:

i. production of petroleum from four existing oil fields, namely St Joseph, South Furious, SF30 and Barton; and

ii. existing pipeline infrastructure, the Labuan Crude Oil Terminal ("**LCOT**"), and all other equipment and assets relating to the North Sabah PSC.

The four producing fields are located in the South China Sea, off the coast of Sabah. Each field is operated from its respective main platform/complex and is connected via trunk lines to transport hydrocarbons to the LCOT, an onshore processing plant and oil export terminal.

We are currently working on fulfilling all conditions imposed on us by the Sellers and the Malaysian regulators and we continue to work towards making this transaction unconditional in the near future.

3 Outlook

Our current core business model is to grow by 'sweating' mature assets and developing proven opportunities within our portfolio (which includes our assets in Australia and North Sabah (which is conditional and pending completion)). Given the current levels of oil price, we will be extremely selective when considering new merger and acquisition ("**M&A**") activities.

3.1 <u>Execution of Projects in UKCS in 2018 and 2019</u>

The recent successful completion of two important activities in the UKCS by AOC has given us the confidence to consider more complex execution of projects with higher levels of production upside.

Table 4 below provides an overview of activities at various stages of planning that are expected to add value to our business in the UKCS.

Production Enhancement Projects	Project Description	Target Completion (Calendar Year)	Estimated Additional 2P Reserves (MMbbls net to AHUK)
GUA-P2 Sidetrack	Opportunity to re-enter this producing well and drain additional volumes by side-tracking the existing well.	2Q – 2018	1.01
Cook Water Injector*	To increase reservoir pressure and extract additional reserves from the Cook field.	2018/2019*	3.29
Infill Wells at Guillemot A	Opportunity to drill 2 infill wells in Guillemot field, either as sidetracks or new-drill wells.	2019	1.90

** Subject to sanction by all co-venturers of the Cook production licence.*

Table 4 *- Projects Currently Scheduled for Execution on the Anasuria Cluster During the Period 2018 to 2019.*

Each of these identified opportunities will require a significant investment. In order not to stress our shareholders for new capital, we are working closely with our joint venture partners to ensure the phasing and scheduling of these projects will dovetail with the expected timing of our access to both internal and external funding sources.

3.2 Continuous Operational Improvement in the UKCS

The key performance indicator ("**KPI**") that measures our operational performance is our operating cost per barrel ("**Opex/bbl**") of oil that is produced. A reduction in our Opex/bbl metric results in an increase in our gross margin which directly impacts our profit. As has been demonstrated above in Table 2, our operational performance in the UKCS has shown a trend of continuous improvement over the past five consecutive quarters in this key area.

Our strategy for further improving this (Opex/bbl) KPI is to address quantitative drivers that impact both the numerator and the denominator of the metric concurrently. The projects identified in Table 4 above will increase the volumes used in the denominator. The numerator will only reduce if we remain diligent in efforts to further manage costs and increase efficiencies whilst safely managing operations. Thus, cost management remains a focus of our business approach.

3.3 Reaping Economies of Scale by Replicating Learnings from the UKCS and Integrating Positive Lessons in North Sabah

Subject to the successful completion of the North Sabah transaction, we hope to be able to implement some of the positive lessons we have learnt from operating in the UKCS. The UKCS is one of the toughest offshore oil and gas operating environments in the industry and key lessons involve the use of technology, integrated (contractor / oil company) project teams, safe working practices and stream-lined work processes to deliver results. Several of our young engineers currently being deployed into the North Sabah operations team have already undergone on-the job training at our UKCS Aberdeen location. More will be provided exposure so that some of the results achieved on Anasuria may be replicated domestically.

Operating both the North Sabah and AHUK assets concurrently will also allow us to amortize a substantial portion of our overheads over two assets. This will finally reflect itself in an improvement of the PAT metric of the Group and thus allow us to gradually reap the economic benefits of scale.

3.4 Corporate Initiatives to Improve Investor Awareness and Develop Strategic Business Partnerships

The Group is implementing several initiatives to raise its profile with long term investors and potential business partners. More specifically, we are attending international conferences and presenting an overview of our activities and aspirations with the hope of attracting business partners who will enable us to enhance our operational capabilities.

In July 2017, the Group received approval from Bursa Malaysia Securities Berhad for a private placement exercise that entailed the issuance of up to 144,384,429 new ordinary shares (equivalent to up to ten percent of Hibiscus Petroleum's existing issued ordinary share capital). In August 2017, the Group issued 62 million shares at RM0.385 per share. A second tranche of 38.079 million shares was issued in October 2017 at RM0.695 per share. We are pleased by the quality of the placees subscribing to these issues of new shares. There is currently institutional demand for our shares and we now have a healthy mix of both retail investors and prominent funds in our shareholder register. The intended use of proceeds from the recent placements will primarily be for working capital, payments to trade creditors and capital expenditure. Depending on prevailing market conditions, the Group is planning a third private placement tranche by the end of 2017 or early into 2018.

There has been some shareholder feedback that the new share issues may be dilutive to existing shareholders. Whilst this is generally true, in our case, we believe that our reliance on equity rather than debt has been a keystone in our survival over the 2015-2016 period. Most companies in our industry that relied on debt have had much of their spending curtailed by lenders and have lost out on opportunities to acquire good assets that have come onto the market. Many have also not survived one of the toughest periods our industry has had to endure.

Over the past two years, the Company has issued approximately 563 million new shares. Corporate finance theory would suggest that during a period of weak market sentiment, the issuance of a large number of shares, albeit in multiple tranches, would precipitate a reduction in share price. As can be seen, the net effect has been for the share price of Hibiscus Petroleum to increase within a few months of an issuance, indicating that the market and our shareholders have validated our capital-raising initiatives. Hibiscus Petroleum's market capitalization has increased from approximately RM435 million in November 2016 to RM1.2 billion in November 2017. We hope that all placees who have recently subscribed to our newly issued shares will see value accretion and increase their holdings of our equity.

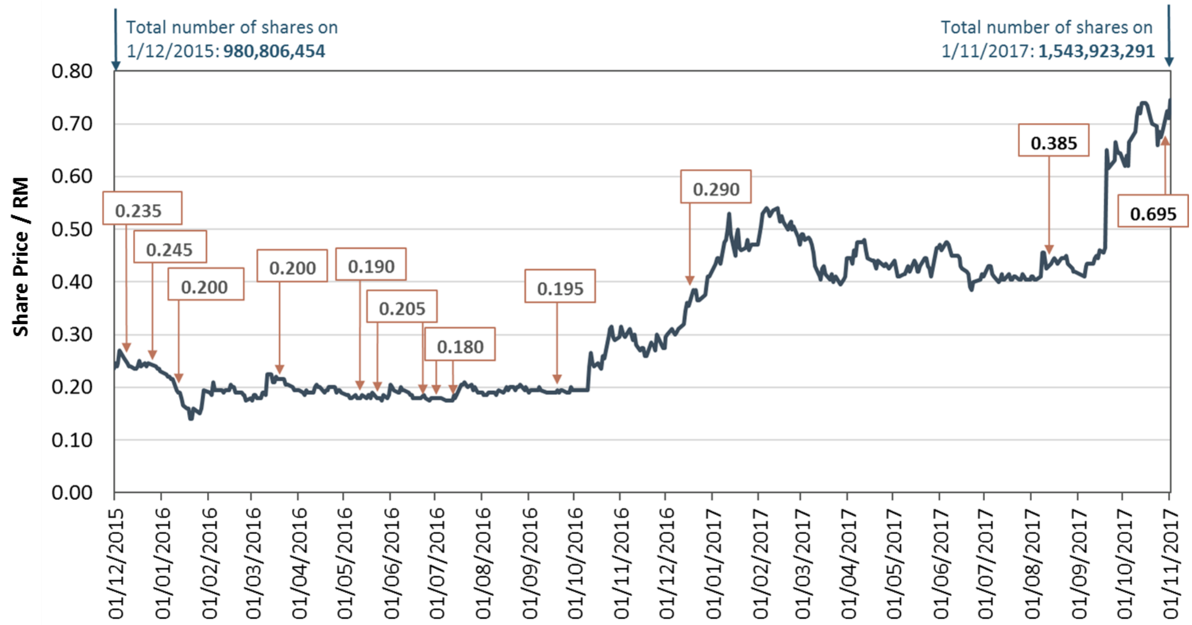

***Figure 5** - Share price of the Company since December 2015, with issue price of new placements during this period.*

In summary, in respect of the Anasuria Cluster, the:

- Group is fast gaining valuable experience in the UKCS. Significant projects have been delivered safely and efficiently;
- delivery of these projects have ensured that the natural production decline generally seen on all mature oil and gas fields, has been arrested at the Anasuria Cluster for the near future;
- recently concluded Offshore Turnaround of the FPSO will assist us improve Facility Uptime. The Group hopes to exceed the 85 % average Facility Uptime results achieved in FY2017 and this in turn will improve daily oil production rates; and
- aggregate of current production and production from projects targeted to be executed in 2018 and 2019 is estimated to deliver up to 5,000 bbls/day of oil net to Hibiscus by FY2019 (from 3,204 bbls/day at the end of 4Q17).

An increase in Facility Uptime, continued vigilance in managing costs and an increase in oil production rates from projects targeted for execution will collectively act to further reduce unit operating costs, thus making the Group more profitable provided the Brent crude oil benchmark trades at current levels.

In respect of the North Sabah (conditional) acquisition, the:

- Group continues to work on the completion of the North Sabah transaction and hopes to deliver this acquisition in the near future.

Overall, trends of strengthening of oil prices and an improving operational performance will also likely lead to an improved EBITDA position for the Group for FY2018.

Finally, the Group expects to release its unaudited results for the quarter ending 30 September 2017 ("**1Q FY2017**") at the end of November 2017.

BY ORDER OF THE BOARD

9 November 2017