



Corporate and Business Update

Kuala Lumpur, 7 June 2022 – 6.45pm

Introduction

This Corporate Business Update (“**CBU**”) is issued to inform shareholders of certain actions being taken by REPSOL Oil & Gas Malaysia Limited (“**RML**”), an indirect, wholly-owned subsidiary of Hibiscus Petroleum Berhad (“**HPB**”), in respect of the payment of State Sales Tax under the Sabah State Sales Tax Enactment 1998 (the “**Enactment**”) (“**SST**”) in relation to the sale of crude oil, produced from the Kinabalu Oil Field in accordance with the terms of the Kinabalu Oil Production Sharing Contract (“**KPSC**”).

Background

RML owns participating interests in several production sharing contracts (“**PSCs**”), including the KPSC. Crude oil that is produced from the Kinabalu Oil Field is collected offshore and transported via subsea pipelines to the Samarang Platform, and then to the Labuan Crude Oil Terminal (“**LCOT**”), which is located in the Federal Territory of Labuan. No processing of RML’s crude oil (into other products) takes place at either the Samarang Platform or LCOT. RML’s crude oil is offloaded and sold via crude oil tankers through lifting operations at the LCOT Single Buoy Mooring (“**SBM**”), located approximately 5km offshore from the LCOT facility. These lifting operations are when the sales of crude oil take place and ownership is transferred to the purchasing party, with the SBM as the point of export. RML’s crude oil that is lifted, marketed and sold in this manner is conducted via an independent marketing agent. It is important to note that under the terms of the KPSC, title to RML’s crude oil entitlement only passes to RML upon delivery at the point of export (i.e. the SBM).

Based on a letter from the Ministry of Finance, Sabah dated 1 April 2020, the Sabah State Government decided to impose SST on petroleum products (i.e. minyak mentah petroleum and gas asli / gas asli cecair) sold by RML in relation to crude oil being sold from LCOT. On 22 May 2020, RML registered for a SST licence “under protest”. RML has since been submitting SST Returns and paying SST under protest. On 21 September 2020, RML filed an appeal to the Minister of Finance, Sabah under section 58(2) of the Enactment against the decision of the State Sales Tax Director that RML is liable to pay SST under the Enactment. The basis of this appeal is that the point of sale for RML’s crude oil entitlement is the LCOT facility which is within the Federal Territory of Labuan, and thus outside the sovereignty and jurisdiction of the State of Sabah. RML wrote a follow-up letter on 9 March 2021. To date, the Minister of Finance, Sabah has not responded to RML’s appeal.

Current Status

On 24 January 2022, Peninsula Hibiscus Sdn Bhd, a HPB subsidiary, completed its acquisition of the entire equity interest in Fortuna International Petroleum Corporation (“**FIPC**”). RML is a wholly-owned subsidiary of FIPC.

As per a CBU dated 25 May 2022, HPB disclosed that it was planning to lift circa 350,000 barrels of crude oil from LCOT, originating from Kinabalu Oil Field in May 2022 (Figure 2 on Page 2 in CBU dated 25 May 2022). On 24 May 2022, a lifting of 350,236 barrels of RML’s crude oil was effected, as planned. This cargo of crude oil represented the first cargo of RML’s crude oil that was sold from LCOT since the completion of the acquisition of FIPC.

In view of the fact that there has been no reply to RML’s appeal for approximately twenty months, and consistent with the position that has been adopted by HPB that SST is not applicable to SEA Hibiscus Sdn Bhd (“**SEAH**”) (an indirect, wholly-owned subsidiary of HPB and holder and operator of the 2011 North Sabah Enhanced Oil Recovery Production Sharing Contract – See Note 4 (u)(v) of the 2020/2021 Annual Report of Hibiscus Petroleum), the Board of HPB has resolved on 7 June 2022 to discontinue the payment of SST under protest, commencing from the lifting of crude oil undertaken on 24 May 2022. A notification in this regard has been submitted to the relevant authorities of the state of Sabah on 7 June 2022.

Basis of Decision of the Board of HPB

In coming to its decision with respect to the SST for both SEAH and RML, the Board of HPB has received and independently considered more than one legal opinion by reputable lawyers and tax experts/advisors engaged by the Company and/or its subsidiaries (collectively, “**Group**”). In essence, the advice that has been received concludes (among others) that there is no legal basis for the Sabah State authorities to apply SST to the sale of crude oil which is carried out outside the state boundaries of Sabah (i.e. from the Federal Territory of Labuan), which is the case for both SEAH and RML.

Possible Risks

Our discontinuance of the payment of SST under protest (in the case of RML) and our non-payment of SST (in the case of SEA Hibiscus) may lead to the state authorities taking action against HPB, its subsidiaries and / or its directors. It is possible that such action may cause disruption to the Group’s operations. However, after due and careful consideration of the position on a good faith basis, the Board believes that its decision is reasonable, proper and in the best interest of the Company.

BY ORDER OF THE BOARD OF HIBISCUS PETROLEUM BERHAD

Dated: 7 June 2022