HIBISCUS PETROLEUM BERHAD

(Company No : 798322-P)
(Incorporated in Malaysia)

Unaudited Quarterly Financial Report
30 June 2014

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	Note	QUARTER ENDED 30.06.2014 RM'000	QUARTER ENDED 30.06.2013 RM'000	PERIOD ENDED 30.06.2014 RM'000	PERIOD ENDED 30.06.2013 RM'000
REVENUE		2,508	3,520	8,488	5,833
Other income		486	597	3,854	2,302
Administrative expenses		(8,657)	(5,678)	(15,560)	(11,351)
Other expenses		(788)	(6,437)	(1,564)	(6,956)
Finance costs		(2)	(1,014)	(8)	(1,996)
Share of results of an associate:					
- Share of losses		(144)	(194)	(228)	(331)
- Negative goodwill arising from acquisition		-	-	-	7,447
Share of losses of joint ventures		(3,195)	(2,030)	(4,920)	(3,509)
Gain on dilution of interest in a joint venture		-	1,103	-	1,103
LOSS BEFORE TAXATION	25	(9,792)	(10,133)	(9,938)	(7,458)
Taxation	26	982	290	972	(24)
LOSS AFTER TAXATION		(8,810)	(9,843)	(8,966)	(7,482)
LOSS AFTER TAXATION ATTRIBUTABLE TO:					
Owners of the Company		(8,810)	(9,843)	(8,966)	(7,482)
LOSS PER SHARE (SEN)					
Basic	24	(1.61)	(2.22)	(1.68)	(1.69)
Diluted	24	(1.61)	(2.22)	(1.68)	(1.69)

The Unaudited Condensed Consolidated Statements of Profit or Loss should be read in conjunction with the audited financial statements for the financial period ended 31 December 2013 and the accompanying explanatory notes attached to the financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED 30.06.2014 RM'000	QUARTER ENDED 30.06.2013 RM'000	PERIOD ENDED 30.06.2014 RM'000	PERIOD ENDED 30.06.2013 RM'000
LOSS AFTER TAXATION	(8,810)	(9,843)	(8,966)	(7,482)
Other comprehensive (expenses)/ income:				
Items that may be subsequently reclassified to profit and loss:				
Foreign currency translation*	(3,329)	1,980	(4,647)	4,741
TOTAL COMPREHENSIVE EXPENSES FOR THE QUARTER/PERIOD	(12,139)	(7,863)	(13,613)	(2,741)
TOTAL COMPREHENSIVE EXPENSES ATTRIBUTABLE TO:				
Owners of the Company	(12,139)	(7,863)	(13,613)	(2,741)

** Arising from translation of Group entities' financial statements with different functional currencies recognised directly in reserves.*

The Unaudited Condensed Consolidated Statements of Comprehensive Income should be read in conjunction with the audited financial statements for the financial period ended 31 December 2013 and the accompanying explanatory notes attached to the financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	UNAUDITED AS AT 30.06.2014 RM'000	AUDITED AS AT 31.12.2013 RM'000
ASSETS			
NON-CURRENT ASSETS			
Investment in an associate		12,845	13,758
Investments in joint ventures		218,103	209,156
Intangible assets		67,489	61,787
Equipment		36,354	31,124
		334,791	315,825
CURRENT ASSETS			
Other receivables, deposits and prepayments		7,097	2,239
Tax recoverable		2,919	1,241
Amounts owing by joint ventures		10,371	4,984
Amount owing by an associate		8,773	1,968
Fixed deposits with licensed banks		33,350	34,755
Cash and bank balances		14,976	27,650
		77,486	72,837
TOTAL ASSETS		412,277	388,662
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	5,892	5,099
Other reserves		398,227	363,187
(Accumulated losses)/Retained earnings		(7,117)	1,849
		397,002	370,135
NON-CURRENT LIABILITIES			
Deferred taxation		719	-
		719	-
CURRENT LIABILITIES			
Other payables and accruals		12,957	16,242
Amount owing to an associate		1,360	1,018
Provision for taxation		20	40
Redeemable Convertible Preference Shares ("**RCPS**")		219	219
Convertible Redeemable Preference Shares ("**CRPS**")	10	-	1,008
		14,556	18,527
TOTAL LIABILITIES		15,275	18,527
TOTAL EQUITY AND LIABILITIES		412,277	388,662
NET ASSETS PER SHARE (RM)		0.67	0.73

The Unaudited Condensed Consolidated Statements of Financial Position should be read in conjunction with the audited financial statements for the financial period ended 31 December 2013 and the accompanying explanatory notes attached to the financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	<--- NON-DISTRIBUTABLE				--->		
	SHARE CAPITAL RM'000	**SHARE PREMIUM RM'000**	**WARRANT RESERVE RM'000**	**OTHER RESERVE RM'000**	**FOREIGN EXCHANGE RESERVE RM'000**	**RETAINED EARNINGS/ (ACCUMULATED LOSSES) RM'000**	**TOTAL RM'000**
6 months to 30.06.2014							
As at 01.01.2014	5,099	265,465	87,753	-	9,969	1,849	370,135
Conversion of warrants	787	61,665	(23,099)	-	-	-	39,353
Conversion of CRPS	6	1,011	-	-	-	-	1,017
Share-based payment	-	-	-	110	-	-	110
Loss after taxation	-	-	-	-	-	(8,966)	(8,966)
Other comprehensive expenses, net of tax:							
Foreign currency translation	-	-	-	-	(4,647)	-	(4,647)
Total comprehensive expenses for the period	-	-	-	-	(4,647)	(8,966)	(13,613)
As at 30.06.2014	5,892	328,141	64,654	110	5,322	(7,117)	397,002
6 months to 30.06.2013							
As at 01.01.2013	4,401	154,521	91,669	173	(2,105)	(12,647)	236,012
Conversion of warrants	42	3,289	(1,232)	-	-	-	2,099
Conversion of CRPS	60	9,955	-	-	-	-	10,015
Loss after taxation	-	-	-	-	-	(7,482)	(7,482)
Other comprehensive income, net of tax:							
Foreign currency translation	-	-	-	-	4,741	-	4,741
Total comprehensive income/ (expenses) for the period	-	-	-	-	4,741	(7,482)	(2,741)
As at 30.06.2013	4,503	167,765	90,437	173	2,636	(20,129)	245,385

The Unaudited Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the audited financial statements for the financial period ended 31 December 2013 and the accompanying explanatory notes attached to the financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	PERIOD ENDED 30.06.2014 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Loss before taxation	(9,938)
Adjustments for:	
Depreciation of equipment	741
Interest income	(449)
Unrealised gain on foreign exchange	(2,763)
Finance costs	8
Share of losses of an associate	228
Share of losses of joint ventures	4,920
Operating loss before working capital changes	(7,253)
Increase in other receivables, deposits and prepayments	(4,835)
Increase in other payables and accruals	1,959
Increase in amounts owing by joint ventures	(5,695)
Increase in amount owing by an associate	(6,390)
Net cash used in operating activities	(22,214)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of equipment	(4,979)
Interest received	449
Investment in a joint venture	(18,289)
Acquisition of intangible assets	(3,438)
Net cash used in investing activities	(26,257)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issuance of ordinary shares	39,353
Deposit refunded to a CRPS placee	(5,453)
Net cash generated from financing activities	33,900
Net decrease in cash and cash equivalents	(14,571)
Effects of foreign exchange rate changes	492
Cash and cash equivalents at beginning of the financial period	62,405
	48,326
Less: Cash restricted in use	(529)
Cash and cash equivalents at end of the financial period	47,797

The Unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the financial period ended 31 December 2013 and the accompanying explanatory notes attached to the financial statements.

PART A – EXPLANATORY NOTES PURSUANT TO MALAYSIAN FINANCIAL REPORTING STANDARD 134

1 BASIS OF PREPARATION

The unaudited Quarterly Report has been prepared in accordance with the reporting requirements as set out in the Malaysian Financial Reporting Standard ("**MFRS**") 134: *Interim Financial Reporting* issued by the Malaysian Accounting Standards Board ("**MASB**") and Paragraph 9.22 of the Main Market Listing Requirements ("**MMLR**") of Bursa Malaysia Securities Berhad ("**Bursa Securities**"), and should be read in conjunction with the Group's audited financial statements for the financial period ended 31 December 2013 and the accompanying explanatory notes attached to the unaudited condensed consolidated financial statements.

The explanatory notes attached to the unaudited condensed consolidated financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the financial period ended 31 December 2013.

2 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the unaudited condensed financial statements are consistent with those followed in the preparation of the Group's audited financial statements for the financial period ended 31 December 2013, except for the adoption of Amendments to Standards and Issue Committee ("**IC**") Interpretations effective as of 1 January 2014.

2.1 Adoption of Amendments to Standards and IC Interpretations

The Group has adopted the following Amendments to Standards and IC Interpretations, with a date of initial application of 1 January 2014:

Amendments to MFRS 10	*Consolidated Financial Statements: Investment Entities*
Amendments to MFRS 12	*Disclosure of Interests in Other Entities: Investment Entities*
Amendments to MFRS 127	*Separate Financial Statements: Investment Entities*
Amendments to MFRS 132	*Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*
Amendments to MFRS 139	*Novation of Derivatives and Continuation of Hedge Accounting*
IC Interpretation 21	*Levies*

The adoption of the above amendments and interpretation did not have any impact on the financial statements of the Group.

2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Standards issued but not yet effective

At the date of authorisation of the Quarterly Report, the following Standards were issued but not yet effective and have not been adopted by the Group:

Description		**Effective for financial periods beginning on or after**
MFRS 9	*Financial Instruments (IFRS 9 issued by International Accounting Standards Board ("**IASB**") in November 2009)*	To be announced by MASB
MFRS 9	*Financial Instruments (IFRS 9 issued by IASB in October 2010)*	To be announced by MASB
MFRS 9	*Financial Instruments: Mandatory Effective date of MFRS 9 and Transition Disclosures (Amendments to MFRS 9 and MFRS 7)*	To be announced by MASB
MFRS 9	*Financial Instruments (Hedge Accounting and amendments to MFRS 9, MFRS 7 and MFRS 139)*	To be announced by MASB
Amendments to MFRS 119	*Defined Benefit Plans: Employee Contributions*	1 July 2014
Annual Improvements to MFRSs 2010 - 2012 Cycle (Amendments to MFRS 2 *Share-based Payment*, MFRS 3 *Business Combinations*, MFRS 8 *Operating Segments,* MFRS 13 *Fair Value Measurement*, MFRS 116 *Property, Plant and Equipment*, MFRS 124 *Related Party Disclosures* and MFRS 138 *Intangible Assets*)		1 July 2014
Annual Improvements to MFRSs 2011 - 2013 Cycle (Amendments to MFRS 1 *First-time Adoption of Financial Reporting Standards*, MFRS 3 *Business Combinations*, MFRS 13 *Fair Value Measurement* and MFRS 140 *Investment Property*)		1 July 2014
IFRS 15 *Revenue from Contracts with Customers*		To be announced by MASB

The Group will adopt the above standards and amendments when they become effective in the respective financial periods. The Group is in the process of making an assessment of the impact of the adoption of these standards and amendments to existing standards.

3 SEASONAL OR CYCLICAL FACTORS

The Group's operations were not significantly affected by any seasonal or cyclical factors.

4 SIGNIFICANT/UNUSUAL ITEMS

Save as disclosed below, there were no other significant or unusual items affecting the assets, liabilities, equity, net income or cash flows of the Group during the financial period ended 30 June 2014:

(i) Lime Petroleum Plc ("**Lime**") holds a 100% equity stake in Lime Petroleum Norway AS ("**Lime Norway**"), which has interests in 13 production licences in the Norwegian Continental Shelf ("**NCS**"). Hibiscus Petroleum, via its wholly-owned subsidiary company, Gulf Hibiscus Limited ("**Gulf Hibiscus**"), holds a 35% equity stake in Lime.

As part of Lime's growth strategy with Norway taking an increasingly important focus, Lime's shareholders had injected USD16 million (RM52.5 million) into Lime in January 2014 to facilitate the drawdown of a Norwegian Kroner ("**NOK**") 300 million (USD48.6 million / RM159.5 million) government-backed loan from Skandinaviska Enskilda Banken AB ("**SEB**"), a Nordic corporate bank to fund the drilling of at least 2 exploration wells in the NCS and fully finance Lime Norway's activities into 2015. The loan facility agreement with SEB was executed in December 2013. Out of the total advance of USD16 million, Gulf Hibiscus contributed USD5.6 million (RM18.4 million), to maintain its 35% indirect equity interest in Lime Norway.

Please refer to our announcement dated 9 January 2014.

(ii) On 27 February 2014, the Company and Pacific Meadow Sdn. Bhd. ("**Pacific Meadow**") had mutually agreed to terminate the conditional subscription agreement dated 3 October 2013 for Pacific Meadow's proposed subscription of RM109.07 million existing CRPS ("**Termination**"). The Termination was made to, among others, ensure that there would be no unnecessary dilutive effect to the shareholders' equity holding in the Company, as the conversion price of the CRPS of RM1.85 (based on the 5-day volume weighted average market price of the Company's shares immediately prior to the price fixing date) was approximately 13.1% below RM2.13, based on the last transacted price of the Company's shares on the Main Market of Bursa Securities on 26 February 2014, prior to the Termination.

On 18 March 2014, following the Termination, the proposed variation to extend the maturity date of the existing CRPS from 30 April 2014 to 31 December 2014, was not proceeded with. Thus, the maturity date of the existing CRPS remained as 30 April 2014.

Please refer to our announcements dated 27 February 2014 and 18 March 2014.

5 MATERIAL CHANGES IN ESTIMATES

There were no material changes in estimates of amounts reported in the prior financial periods that have a material effect in the financial period ended 30 June 2014.

6 MATERIAL EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL QUARTER

Other than the items below, there were no other material events subsequent to the end of the financial period ended 30 June 2014 up to the date of this report:-

- On 24 July 2014, an announcement was issued on Lime Norway's decision to surrender PL509S, PL509BS and PL509CS, all of which are located in the North Sea, following the deadline for a drill or drop decision by 23 July 2014.

  Lime Norway arrived at the decision with its partners following the assessment of results from reprocessed seismic data, the application of Rex Virtual Drilling[1] (“**RVD**”) and electromagnetic surveys. Lime Norway's partners in these licences are North Energy ASA, Fortis Petroleum Norway AS and Rocksource Exploration Norway AS.

  The write-off of costs relating to the relinquishment of these licences do not have a material impact on the results of the Group.

- Proposed acquisition of further interests in the VIC/P57 Exploration Permit (“**VIC/P57**”), the VIC/L31 Production Licence (“**VIC/L31**”) and the Britannia Rig

  Please refer to Part B, Item 17 (iv) of this Quarterly Report for further details.

- Proposed acquisition of a 25% interest in the Kitan producing oilfield

  Please refer to Part B, Item 17 (v) of this Quarterly Report for further details.

- Lime, through its wholly-owned subsidiary company, Lime Petroleum Ltd, has a 64% stake in Masirah Oil Limited (“**Masirah Oil**”).

  Following a capital call by Masirah Oil for a total amount of USD3.6 million, the shareholders of Lime subscribed 3.6 million ordinary shares in Lime on 21 July 2014. Out of the total capital injection of USD3.6 million, Gulf Hibiscus subscribed 1.26 million ordinary shares in Lime for USD1.26 million (RM4.0 million) to maintain its 35% equity interest in Lime.

- Warrants-A and Warrants-B were both issued on 21 July 2011 in registered form and were exercisable anytime during the period commencing from 18 April 2012 up to 24 July 2014. Upon expiry on 24 July 2014, 99.6% of the total Warrants-A of 334,436,522 was exercised, leaving only 1,439,325 Warrants-A unexercised. All of the 83,611,200 Warrants-B were exercised. Total warrant proceeds received during the tenure of the warrants are RM174.9 million.

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[1] *An algorithmic software which analyses seismic datasets to identify the location of liquid hydrocarbons in the ground.*

7 CHANGES IN THE COMPOSITION OF THE GROUP

On 20 June 2014, the Company acquired Timor Hibiscus Limited ("**Timor Hibiscus**"), a company incorporated in Labuan under the Labuan Companies Act, 1990, with an issued and paid-up capital of USD1.00 comprising 1 ordinary share of USD1.00. On 2 July 2014, the paid-up capital of Timor Hibiscus increased to USD1 million. Timor Hibiscus is a wholly-owned subsidiary of the Company. The principal activity of Timor Hibiscus is investment holding.

On 27 June 2014, the Company acquired Hibiscus Technical Services Sdn Bhd ("**Hibiscus Technical Services**"), a company incorporated in Malaysia under the Companies Act, 1965, with an authorised share capital of 500,000 ordinary shares of RM1.00 each and a paid-up capital of RM2.00. On 3 July 2014, the paid-up capital of Hibiscus Technical Services increased to RM500,000. Hibiscus Technical Services is a wholly-owned subsidiary of the Company. Hibiscus Technical Services is an investment holding company which also provides project management, technical and other services relating to the oil and gas industry.

Save as disclosed above, there were no changes in the composition of the Group during the financial period ended 30 June 2014.

8 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Directors are not aware of any material contingent liabilities or contingent assets, which, upon becoming enforceable, may have a material impact on the profit or loss, or net assets value of the Group.

9 DIVIDENDS PAID/PAYABLE

There were no dividends declared or paid during the financial period ended 30 June 2014.

10 BORROWINGS, DEBT AND EQUITY SECURITIES

The movements in the issued and paid-up share capital of the Company arising from the conversion of Warrants-A and CRPS into ordinary shares during the financial period ended 30 June 2014 were as follows:

			PERIOD ENDED 30.06.2014
ORDINARY SHARES	**Par value RM**	**Number of shares**	**Share capital RM'000**
As at 01.01.2014	0.01	509,875,742	5,099
Conversion of Warrants-A	0.01	78,705,800	787
Conversion of CRPS	0.01	591,715	6
As at 30.06.2014	0.01	589,173,257	5,892

(i) Warrants-A

The Warrants-A were issued in registered form and are constituted by the Warrants-A Deed Poll. The Warrants-A were listed on the Main Market of Bursa Securities and were exercisable anytime during the period commencing from 18 April 2012 up to 24 July 2014.

Total issued	:	334,436,522
Exercised during the financial period	:	78,705,800
Exercise price	:	RM0.50 per Warrant-A

10 BORROWINGS, DEBT AND EQUITY SECURITIES (CONT'D)

(ii) CRPS

During the financial quarter ended 30 June 2014, the Company did not issue any further CRPS. Following full conversion of the balance 1.00 million CRPS and the subsequent listing of the ordinary shares on 9 May 2014, there was no further outstanding CRPS as at 30 June 2014.

Save for the above, there were no other issuances, cancellations, repurchases, resale and repayments of borrowings, debt and equity securities during the financial period ended 30 June 2014.

11 OPERATING SEGMENTS

Operating segments are presented in respect of the Group's business segments. The Group has activities in the following principal areas:

(i)	Investment holding	Investments in companies owning/operating oil and gas concessions, and provision of project management, technical and other services relating to the oil and gas exploration and production industry.
(ii)	Lime	Group's investments and operations in the exploration assets (including GA-South Oman discovery) of Lime and its concession companies ("**Lime Group**"), located in the Middle East and Norway.
(iii)	3D Oil Limited ("**3D Oil**"), VIC/L31 & VIC/P57	Group's operations in the West Seahorse field within the VIC/L31 Production Licence and other exploration prospects within the VIC/P57 Exploration Permit, and investment in 3D Oil, located in Australia.
(iv)	HiRex Petroleum Sdn. Bhd. ("**HIREX**")	Planned investments in exploration assets within the Asia Pacific region. There were no exploration assets secured during the financial period.

	Investment holding RM'000	**Lime RM'000**	**3D Oil, VIC/L31 & VIC/P57 RM'000**	**HIREX RM'000**	**Elimination RM'000**	**Group RM'000**
As at 30.06.2014						
Non-current assets	3,342	208,857	113,346	9,246	-	334,791
Period ended 30.06.2014						
Revenue	8,464	-	24	-	-	8,488
Depreciation	(740)	-	(1)	-	-	(741)
Loss from operations	(5,118)	-	336	-	-	(4,782)
Share of results	-	(2,355)	(228)	(2,565)	-	(5,148)
Finance costs	(8)	-	(2,038)	-	2,038	(8)
Interest income	2,038	-	-	-	(2,038)	-
Taxation	(20)	-	992	-	-	972
Loss after taxation	(3,108)	(2,355)	(938)	(2,565)	-	(8,966)

11 OPERATING SEGMENTS (CONT'D)

	Investment holding RM'000	Lime RM'000	3D Oil, VIC/L31 & VIC/P57 RM'000	HIREX RM'000	Elimination RM'000	Group RM'000
<u>As at 30.06.2013</u>						
Non-current assets	4,054	182,444	56,647	-	-	243,145
<u>Period ended 30.06.2013</u>						
Revenue	5,527	-	306	-	-	5,833
Depreciation	(186)	-	-	-	-	(186)
Loss from operations	(8,248)	-	(1,924)	-	-	(10,172)
Share of results	-	(3,469)	7,116	(40)	-	3,607
Gain on dilution of interest in a joint venture	1,103	-	-	-	-	1,103
Finance costs	(1,996)	-	(1,463)	-	1,463	(1,996)
Interest income	1,463	-	-	-	(1,463)	-
Taxation	(4)	-	(20)	-	-	(24)
Loss after taxation	(7,682)	(3,469)	(3,709)	(40)	-	(7,482)

12 MATERIAL COMMITMENTS

Save as disclosed below, the Group is not aware of any material capital commitments incurred or known to be incurred by the Group which, upon becoming enforceable, may have a material impact on the profit or loss, or net assets value of the Group as at 30 June 2014:

	RM'000
Approved and contracted for:	
Share of an associate's material commitments (3D Oil)	5,195
Share of a joint venture's material commitments (Lime)	3,529
Share of Group's material commitments (Timor Hibiscus, Kitan)	54,618
	63,342
Approved but not contracted for:	
Share of an associate's material commitments (3D Oil)	569
Share of a joint operation's material commitments (VIC/P57 and VIC/L31)	4,380
Share of a joint venture's material commitments (Lime)	37,719
	42,668

13 SIGNIFICANT RELATED PARTY TRANSACTIONS

The recurrent related party transactions within the Group are as follows:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED 30.06.2014 RM'000	QUARTER ENDED 30.06.2013 RM'000	PERIOD ENDED 30.06.2014 RM'000	PERIOD ENDED 30.06.2013 RM'000
Project management, technical and other services fees earned from joint ventures				
- Lime	1,856	2,519	7,504	4,279
- HIREX	416	399	535	399
Joint Operating Agreement indirect overheads recovery from an associate				
- 3D Oil	118	597	328	597
Technical and non-technical charges reimbursed from an associate				
- 3D Oil	391	273	973	518
Technical and non-technical, and overhead charges reimbursed to an associate				
- 3D Oil	(65)	(482)	(571)	(1,289)

PART B – EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE MMLR OF BURSA SECURITIES

14 AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS

There was no audit qualification to the auditors' report on the latest audited financial statements.

15 PERFORMANCE REVIEW

15.1 Material factors affecting financial year-to-date results

In the current six-month period ("**current period**"), Group revenue increased by RM2.7 million from RM5.8 million in the previous corresponding six-month period ("**corresponding period**") to RM8.5 million.

Revenue comprises fees for project management, technical and other services, and interest income from fixed deposits. The increase in revenue in the current period is largely due to the increased project management activities relating to the 2-well drilling programme in Block 50 Oman which commenced in November 2013 and continued to March 2014, as well as business development, technical and financial services provided to HIREX.

Group loss before taxation for the current period amounted to RM9.9 million which represents an increase of RM2.4 million as compared to loss before taxation of RM7.5 million in the corresponding period.

The higher loss before taxation in the current period is mainly due to the Group's recognition of negative goodwill arising from subscription of shares in 3D Oil (RM7.4 million) and gain on dilution of interest in HIREX from 100% to 48.24% (RM1.1 million) in the corresponding period.

In addition, the Group recognised its share of HIREX's losses of RM2.6 million during the current period subsequent to HIREX becoming a joint venture in May 2013. In the current period, consultancy and professional fees were also higher by RM3.7 million mainly in relation to project, business development and fund raising activities. The Group was able to recover remuneration, consultancy and overheads expenses totalling RM8.4 million through the provision of project management, technical and other services and indirect overheads recovery from the joint ventures during the current period.

These were partially offset by higher unrealised gain on foreign exchange amounting to RM7.4 million mostly as a result of a stronger Australian Dollar ("**AUD**") against the Ringgit, which positively impacted the AUD-denominated intercompany securities, Convertible Mandatory Redeemable Preference Shares ("**CMRPS**") issued by Carnarvon Hibiscus Pty Ltd ("**CHPL**") and held by Oceania Hibiscus Sdn. Bhd. ("**Oceania Hibiscus**"), both of which are wholly-owned subsidiaries of Hibiscus Petroleum. Finance costs were also lower by RM2.0 million in the current period due to the full conversion of the CRPS and no accretion of finance costs arising from the reversal of discovery bonus payable in 31 December 2013. The reversal of discovery bonus payable was due to the non-discovery of commercially viable hydrocarbons within the existing concessions in the Middle East held by Lime by 31 December 2013.

15 PERFORMANCE REVIEW (CONT'D)

15.2 Material factors affecting current quarter's results

During the current quarter, the Group recorded a loss before taxation of RM9.8 million, compared to a loss before taxation RM10.1 million in the corresponding three-month period in the prior year ("**corresponding quarter**").

The slightly lower loss before taxation in the current quarter is due to the lower unrealised loss on foreign exchange of RM6.3 million and lower finance costs of RM1.0 million in the current quarter. The lower unrealised loss on foreign exchange is mainly because of the stronger AUD against the Ringgit, which impacted the AUD-denominated CMRPS intercompany securities. The lower finance costs in the current quarter was due to the full conversion of the CRPS during the current quarter and no accretion of finance costs arising from the reversal of discovery bonus payable in the period ended 31 December 2013.

These were offset by higher consultancy and professional fees mainly in relation to business development and fund raising activities of RM1.4 million and higher share of losses of joint ventures of RM1.2 million. The increase in share of losses was due to the recognition of HIREX's losses subsequent to HIREX becoming a joint venture in May 2013.

Fees from project management, technical and other services from Lime and HIREX also reduced by RM1.0 million in the current quarter due to the completion of the 2-well Oman drilling programme in March 2014. In addition, the Group recognised a gain on dilution of interest in HIREX from 100% to 48.24%, amounting to RM1.1 million in the corresponding quarter.

16 MATERIAL CHANGE IN LOSS BEFORE TAXATION IN COMPARISON TO THE PRECEDING QUARTER

The Group recorded an increase of RM9.6 million in loss before taxation in the current quarter as compared to a loss before taxation of RM0.1 million in the preceding quarter.

The current quarter's loss before taxation was higher mainly due to lower fees for project management, technical and other services from Lime by RM3.5 million largely because of the completion of the drilling and testing programme in Oman in March 2014. The unrealised gain on foreign exchange also decreased by RM2.4 million largely due to fluctuations in AUD against the Ringgit which impacted the AUD-denominated CMRPS intercompany securities. In addition, consultancy and professional fees mainly relating to business development and fund raising activities were higher by RM1.7 million in the current quarter.

17 STATUS OF CORPORATE PROPOSALS ANNOUNCED BUT NOT COMPLETED

(i) Acquisition of Participating Interests in Licences in Norway

On 5 June 2014, the Company announced that its jointly-controlled entity, Lime Norway had executed an agreement with North Energy ASA on 4 June 2014 to acquire a 5% stake each in PL591 and PL591B located in the Norwegian Sea. The transfer of equity interests in PL591 and PL591B is subject to regulatory approval.

Please refer to our announcement dated 5 June 2014.

17 STATUS OF CORPORATE PROPOSALS ANNOUNCED BUT NOT COMPLETED (CONT'D)

(ii) Proposed Private Placement of CRPS-2013

The Company had announced its proposal to undertake another new issuance of CRPS of up to RM500 million on 11 October 2013 ("**Proposed Private Placement of CRPS-2013**").

On 10 July 2014, Hibiscus Petroleum announced that it had resolved to discontinue the proposal.

The Company is presently considering other available options of fund raising which will allow the Company to raise the necessary funds more expeditiously in support of its strategic plans as it embarks on its next phase of growth. In this regard, UBS AG and Maybank Investment Bank Berhad have been appointed as the Company's international and domestic advisors to evaluate possible fund raising options.

Please refer to our announcement dated 10 July 2014.

(iii) Proposed Private Placement of Shares

On 11 November 2013, Bursa Securities approved the Company's proposal to undertake a private placement of up to 56,537,561 new Hibiscus Petroleum shares, pursuant to the approval obtained from the shareholders of the Company at its Annual General Meeting for the Board to allot and issue new Hibiscus Petroleum shares not exceeding 10% of the Company's issued share capital for the time being, pursuant to Section 132D of the Companies Act, 1965 ("**Proposed Private Placement of Shares**").

On 6 May 2014, Bursa Securities granted the Company an extension of time until 10 November 2014 for the Company to complete the Proposed Private Placement of Shares.

Please refer to our announcements dated 13 November 2013 and 7 May 2014.

(iv) Proposed Further Interests in VIC/P57, VIC/L31 and Britannia Rig

On 7 July 2014, the Company announced that CHPL, Althea Corporation Limited ("**Althea**") (both of which are Hibiscus Petroleum's wholly-owned subsidiaries via Oceania Hibiscus), HIREX and 3D Oil (collectively referred to as the "**Parties**"), had entered into an umbrella agreement ("**UA**") and four ancillary agreements on 4 July 2014 for the following proposed transactions:

- proposed acquisition of 49.9% interest in the Britannia Rig by CHPL from 3D Oil and the trust re-alignment for Althea to act as the bare trustee on bare trust for CHPL in its own capacity (rather than in the capacity as a joint operating agreement operator);

- proposed acquisition of 5% interest in VIC/P57 by CHPL from 3D Oil;

- proposed transfer of a percentage of 3D Oil's interest in VIC/P57 to other VIC/P57 joint venture parties in the event that 3D Oil is unable to pay its participating interest share of any VIC/P57 cash call amounts payable (including any other outstanding debts) under the VIC/P57 joint operating agreement dated 8 January 2013;

17 STATUS OF CORPORATE PROPOSALS ANNOUNCED BUT NOT COMPLETED (CONT'D)

(iv) Proposed Further Interests in VIC/P57, VIC/L31 and Britannia Rig (Cont'd)

- proposed option granted by 3D Oil to HIREX in relation to the transfer of 3D Oil's 20% interest in VIC/P57 from 3D Oil to HIREX;
- proposed initial transfer of a percentage of 3D Oil's interest in VIC/L31 to CHPL for the conversion of all outstanding debts of 3D Oil as at 31 May 2014;
- proposed subsequent transfer of a percentage of 3D Oil's interest in VIC/L31 to other VIC/L31 joint venture parties, if at any time, 3D Oil is unable to pay its participating interest share of any cash call or other outstanding debts payable under the VIC/L31 joint operating agreement; and
- proposed option granted by 3D Oil to CHPL to acquire the remainder of 3D Oil's interest in VIC/L31.

Approvals from 3D Oil's shareholders and the Australian Foreign Investment Review Board ("**FIRB**") for the above transactions were obtained on 11 August 2014, while approvals from the National Offshore Petroleum Titles Administrator ("**NOPTA**") of Australia are still pending.

On 15 August 2014, CHPL exercised the option to acquire the remainder of 3D Oil's interest in VIC/L31 of 43.83% (after completion of initial transfer of 6.07% to CHPL relating to the outstanding debt conversion as stated above) for a consideration of USD14.05 million. The payment for the VIC/L31 option consideration and the completion of all the above transactions will be effected after the relevant approvals have been obtained from NOPTA.

Please refer to our announcements dated 12 May 2014, 7 July 2014, 11 August 2014, 12 August 2014 and 15 August 2014.

(v) Proposed Acquisition of the Entire Equity Interest in Talisman Resources (JPDA 06-105) Pty Limited ("Talisman Resources JPDA")

On 23 June 2014, the Company announced that its wholly-owned subsidiary, Timor Hibiscus had entered into a conditional share sale agreement ("**SSA**") with Talisman Oil & Gas (Australia) Pty Limited and the Company (as Timor Hibiscus' guarantor) to acquire the entire equity interest in Talisman Resources JPDA, which in turn holds a 25% interest in the Kitan producing oilfield for a purchase price of USD18 million ("**Proposed Transaction**").

A sum of USD13.0 million (RM41.4 million) has been remitted into a joint escrow account in accordance with the terms of the SSA.

Approval from the FIRB was obtained on 21 August 2014, whilst other conditions precedent to complete the Proposed Transaction, including the approval of the relevant authority in Timor Leste, are still pending.

Please refer to the announcements dated 23 June 2014 and 21 August 2014.

18 PROSPECTS OF THE GROUP

Hibiscus Petroleum's vision is to become a respected regional independent oil and gas company with a focus on conventional upstream oil and gas resources. Our five-year mission is to build a rapidly growing exploration and production company with a balanced portfolio of oil and gas assets including:

- Promising exploration permits that have a significant inventory of drillable prospects with a view to participating in at least three drilling activities annually.

  We will harness RVD to provide us with a significant competitive advantage in building our oil and gas reserves, in addition to utilising conventional geo-scientific analysis, through exploration drilling by focusing on activities in the Middle East, Norway and Asia Pacific regions.

  Towards this end, we have secured several exploration assets in Norway for which 3 wells have been identified for prospective drilling in 2015. Drilling of an exploration well in Sharjah is targeted by the third quarter of 2015, while we will be drilling an exploration well in VIC/P57 in the second quarter of 2015.

- Development assets where discovered oil and gas reserves are monetised through field development and where we can execute our projects in a timely and cost effective manner.

  Currently, we have the discovered West Seahorse field and our recent oil discovery in GA-South #1 in Oman as part of our field development inventory.

  Following the execution of agreements in July 2014 to acquire further interests in VIC/P57, VIC/L31 and the Britannia rig, full ownership of the economically viable West Seahorse field provides the Group the opportunity to advance plans to develop this proven field.

  Full ownership of the Britannia would also provide flexibility in deciding the deployment of this rig, to expedite the Group's transition from an asset owner to an oil producer, for long-term sustainability.

- Producing assets which generate sufficient cash to fund our future exploration and development activities while creating a sustainable and growing company without having to seek additional funding from shareholders.

  The Group recently executed an agreement to acquire a 25% stake in the Kitan producing oilfield. Kitan is located in the Bonaparte Basin within the Australia-Timor Leste Joint Petroleum Development Area. The remaining reserves in Kitan on 1 January 2014 is 17 million barrels of oil (4.25 million barrels net to Timor Hibiscus), as estimated by Wood Mackenzie, and is estimated to produce an average of 10,000 barrels of oil per day in 2014 (2,500 barrels of oil per day net to Timor Hibiscus). The field life may be extended further by infill drilling and cost reduction. One such infill drilling activity is planned by side tracking the existing Kitan 3 well and converting it from a vertical to a horizontal well. This is expected to significantly increase the production rate from the well and accelerate the recovery of the remaining reserves. The acceleration allows the field to remain above the economic production rate for longer, thus extending the field life and deferring field abandonment.

The Group's activities for the next 1 year are expected to be funded through a combination of internally available funds, as well as debt and equity financing.

19 PROFIT FORECAST AND PROFIT GUARANTEE

The Group has not announced or disclosed any profit forecast or profit guarantee in any public documents.

20 SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

There was no sale of unquoted investments and/or properties during the financial period ended 30 June 2014.

21 PURCHASE OR DISPOSAL OF QUOTED SECURITIES

There was no purchase or disposal of quoted securities during the financial period ended 30 June 2014.

22 FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

There were no financial instruments with material off-balance sheet risk as at the date of this Quarterly Report.

23 MATERIAL LITIGATION

There was no material litigation as at the date of this Quarterly Report.

24 LOSS PER SHARE

Basic loss per share is calculated by dividing the Group's loss after taxation attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the financial quarter/period.

		INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
		QUARTER ENDED 30.06.2014 RM'000	QUARTER ENDED 30.06.2013 RM'000	PERIOD ENDED 30.06.2014 RM'000	PERIOD ENDED 30.06.2013 RM'000
Loss after taxation attributable to owners of the Company (RM'000)	(A)	(8,810)	(9,843)	(8,966)	(7,482)
Weighted average number of shares in issue ('000)	(B)	548,716	443,577	534,207	441,978
Basic loss per share (sen)	(A/B)	(1.61)	(2.22)	(1.68)	(1.69)
Diluted loss per share (sen)		(1.61)	(2.22)	(1.68)	(1.69)

The diluted loss per share for the Group is the basic loss per share as the assumed conversion from the exercise of Warrants-A, Warrants-B and CRPS would be anti-dilutive.

25 LOSS BEFORE TAXATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED 30.06.2014 RM'000	QUARTER ENDED 30.06.2013 RM'000	PERIOD ENDED 30.06.2014 RM'000	PERIOD ENDED 30.06.2013 RM'000
Loss before taxation is arrived at after charging/(crediting):				
Depreciation of equipment	369	112	741	186
Interest income	(236)	(602)	(449)	(1,155)
Unrealised loss/(gain) on foreign exchange	34	6,313	(2,763)	4,608
Realised loss on foreign exchange	50	-	128	445
Finance costs	2	1,014	8	1,996
Share of losses of an associate	144	194	228	331
Share of losses of joint ventures	3,195	2,030	4,920	3,509
Negative goodwill arising from acquisition of an associate	-	-	-	(7,447)
Gain on dilution of interest in a joint venture	-	(1,103)	-	(1,103)

Other than as presented in the Condensed Consolidated Statements of Profit or Loss, and as disclosed above, there were no other income, interest expense, provision for and write off of receivables or inventories, gain/loss on disposal of quoted or unquoted investments or properties, impairment of assets, gain/loss on derivatives, and other exceptional items for the financial period ended 30 June 2014.

26 TAXATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED 30.06.2014 RM'000	QUARTER ENDED 30.06.2013 RM'000	PERIOD ENDED 30.06.2014 RM'000	PERIOD ENDED 30.06.2013 RM'000
Income taxation	1,691	(5)	1,681	(4)
Deferred taxation	(709)	295	(709)	(20)
	982	290	972	(24)

27 REALISED AND UNREALISED (ACCUMULATED LOSSES)/RETAINED EARNINGS

	UNAUDITED AS AT 30.06.2014 RM'000	AUDITED AS AT 31.12.2013 RM'000
Analysis of (accumulated losses)/retained earnings:		
Realised	(8,083)	6,549
Unrealised	2,044	(4,519)
	(6,039)	2,030
Less: Consolidation adjustments	(1,078)	(181)
	(7,117)	1,849

AUTHORISED FOR ISSUE

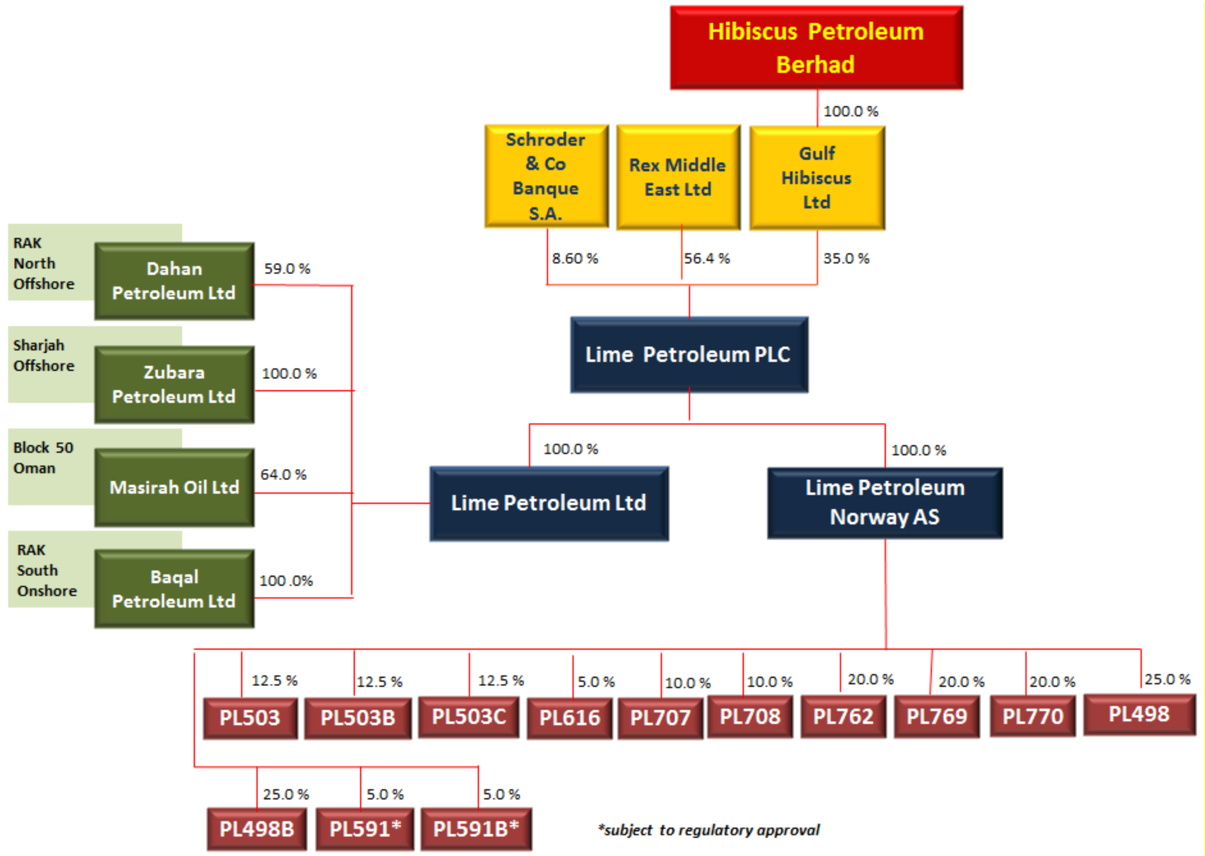
The Quarterly Report is authorised for issue by the Board in accordance with a resolution of the Board of Directors dated 26 August 2014.

By Order of the Board of Directors
Hibiscus Petroleum Berhad

PART C – STATUS OF DEVELOPMENT AND EXPLORATION ACTIVITIES

1 EXPLORATION ACTIVITIES UNDER THE LIME GROUP

LIME GROUP STRUCTURE



The Hibiscus Petroleum Berhad Group (the "**Group**") has a 35% equity stake in Lime Petroleum Plc ("**Lime**") which has access to the following oil and gas concessions:

(i) Middle East

- Block 50 Oman Concession in the Sultanate of Oman ("**Block 50 Oman Concession**")
- RAK Offshore Concession in Ras Al Khaimah, United Arab Emirates ("**UAE**") ("**RAK North Offshore Concession**")
- RAK Onshore Concession in Ras Al Khaimah, UAE ("**RAK South Onshore Concession**")
- Sharjah Offshore Concession in Sharjah, UAE ("**Sharjah East Coast Concession**")

1 EXPLORATION ACTIVITIES UNDER THE LIME GROUP (CONT'D)

LIME GROUP STRUCTURE (Cont'd)

(ii) Norway

8 licences from the acquisition of participating interests from North Energy ASA and 5 new offshore licenses issued by the Norwegian Ministry of Petroleum and Energy during the Awards in Predefined Areas ("**APA**") in January 2014.

(iii) Summary of expenditure incurred

During the financial quarter/period ended 30 June 2014, the total expenditure incurred by Lime and its concession companies is set out below:

	QUARTER ENDED 30.06.2014 RM'000	PERIOD ENDED 30.06.2014 RM'000
Intangible assets	27,403	136,964
Administrative expenses	5,686	7,289
	33,089	144,253

1.1 BLOCK 50 OMAN CONCESSION

The key operations of Masirah Oil Ltd ("**Masirah**") are being managed mainly by Hibiscus Petroleum. The Hibiscus Petroleum well-engineering team is located in Dubai in the UAE.

Masirah's agreements with the regulatory authorities in the Sultanate of Oman require all public disclosures to be approved by the Omani government. Hence the information that is disclosed herewith is only information that has been previously approved for release by the authorities. Below are extracts from approved press releases issued regarding our drilling campaign.

Masirah began drilling its 1st exploration well in Masirah North North #1 ("**MNN #1**") on 25 November 2013 as part of its 2-well drilling programme in the Block 50 Oman concession. The prospect MNN #1 was selected for drilling after in-depth technical evaluation and verification using the proprietary Rex Virtual Drilling ("**RVD**") technology, in addition to confirmations provided via conventional methodologies. The prospect is located in the northern area of the Block 50 Oman concession which is about 17,000 square kilometres in size.

On 19 December 2013, Masirah suspended its 1st exploration well, MNN #1 for safety reasons, for further evaluation. The MNN #1 well was drilled to a total depth of approximately 1,000 metres below mean sea level. Mud losses in two carbonate sections of the well prevented Masirah from reaching its planned target depth. A comprehensive data acquisition, coring and logging programme of the formations that were drilled was completed on 21 December 2013. Data analysis indicated presence of non-commercial hydrocarbons. Datasets acquired from the coring and logging programmes are being utilised to refine the geological understanding of the area.

1 EXPLORATION ACTIVITIES UNDER THE LIME GROUP (CONT'D)

1.1 BLOCK 50 OMAN CONCESSION (CONT'D)

On 30 December 2013, Masirah began drilling its second exploration well in GA–South #1 ("**GAS #1**"), located in the Block 50 Oman concession. On 3 February 2014, Masirah announced the successful reach of the well target depth in its 2nd exploration well to its final depth of more than 3,000 metres into the Cambrian formation. Hydrocarbons were discovered in several formations with good oil sample extracted.

On 6 March 2014, Masirah announced that during a 48-hour test, hydrocarbons were flowed to the surface and the well achieved light oil flow rate of up to 3,000 stock tank barrels per day (stb/d) with no water production. This is the first offshore oil discovery in the east of Oman after more than 30 years of exploration activities.

1.2 RAK NORTH OFFSHORE CONCESSION

The team had received (from the previous operator of the field) access to 3D seismic data acquired in 1984 covering the Saleh field (which has producing wells and lies within, but is excluded from Lime's concession), as well as some acreage within the concession boundaries. Whilst a preliminary prospect was identified last year in RAK North Offshore based on conventional evaluation, sequence stratigraphy and the application of RVD on 3D seismic, there is currently a need to review the results of the analysis as there are certain similarities between the sequence stratigraphy of our recently drilled MNN #1 well in Oman and the geology observed in the RAK North Offshore Concession area. Hence, as part of a risk mitigation plan, the drilling schedule in RAK North Offshore has been postponed temporarily pending careful study of all available data.

1.3 RAK SOUTH ONSHORE CONCESSION

The available seismic, gravity and magnetic survey datasets have been integrated and certain areas have been identified for future 3D seismic acquisition activities. Tenders for the seismic acquisition, interpretation and processing contract have been completed and submissions have been evaluated. Award of the contract for this work is targeted for the second half of 2014.

1.4 SHARJAH EAST COAST CONCESSION

Zubara Petroleum Ltd ("**Zubara**"), a wholly-owned subsidiary of Lime, has received the necessary extension to its Concession Agreement from the government of Sharjah to commence engineering and procurement activities leading to the drilling of an exploration well by the third quarter of 2015.

Zubara, which owns 100% of the Sharjah East Coast Concession, finalized the award of a well management services contract on 31 July 2014. Additionally, an Environmental Impact Assessment ("**EIA**") as well as a site survey are scheduled for completion by January 2015.

1 EXPLORATION ACTIVITIES UNDER THE LIME GROUP (CONT'D)

1.5 NORWAY

Our entry into Norway was part of a strategy to diversify the geopolitical risk of our asset portfolio. Indeed, the fiscal terms available to qualified young explorers operating in Norway are attractive and allow for a risk-managed approach in a business sector where high risk profiles and costly operations are usually unavoidable. The attractive fiscal terms offered under the Norwegian Petroleum Tax Act give Lime Petroleum Norway AS ("**Lime Norway**") the opportunity to recover approximately 78% of eligible exploration expenditure, irrespective of whether production is achieved.

Lime Norway has secured interests in 13 licences in the Norwegian Continental Shelf ("**NCS**"), 2 of which are subject to regulatory approval.

Currently, Lime Norway is expected to have sufficient funds from previous equity injections together with the NOK300 million (USD49 million) financing facility secured from Skandinaviska Enskilda Banken AB ("**SEB**"), to fulfil their work commitments, including the drilling of 2 exploration wells, into 2015. In addition to this, another well has also been secured for prospective drilling in 2015.

The forecasted drilling schedule is as follows:

- PL591 and PL591B which is targeted for drilling in the first half of 2015. The operator of these licenses, located in the Norwegian Sea, is Tullow Oil Norge AS[1].
- PL 708, located in the Barents Sea, is targeted for drilling in late 2015. The operator of this license is Lundin Norway AS[2].
- PL 616, operated by Edison International Norway Branch[3], which is targeted for drilling in the second half of 2015. This license is located in the North Sea.

At this juncture, Lime Norway has advised that decisions to drill wells or relinquish licences are expected to be made for PL 498 and PL498B in Q4 2014, while a similar determination is expected for PL503, PL503B and PL503C in the first quarter of 2015. For Lime Norway's remaining portfolio licences, drill or drop decisions are expected in 2016 and beyond.

Following the deadline for a drill or drop decision by 23 July 2014, Lime Norway had decided to surrender PL509S, PL509BS and PL509CS, all of which are located in the North Sea. The decision was taken pursuant to the assessment of results obtained from reprocessed seismic data, the application of RVD and electromagnetic surveys, which have not been able to define prospects with acceptable risk-reward benefits.

Lime Norway is continuously looking out for and assessing farm-in opportunities to achieve more firm wells in the short term, should positive results from RVD and conventional analysis be attained, in addition to acceptable commercial terms being offered.

Furthermore, Lime Norway shall be submitting applications for new licenses in the next APA round before the submission deadline on 2 September 2014. The award of new licences is expected to be announced in the first quarter of 2015.

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1 *Tullow is part of the Tullow Oil Plc Group which is a leading independent oil company with over 150 licences in over 20 countries.*

2 *Lundin Petroleum has exploration and production assets mainly in Europe and South East Asia.*

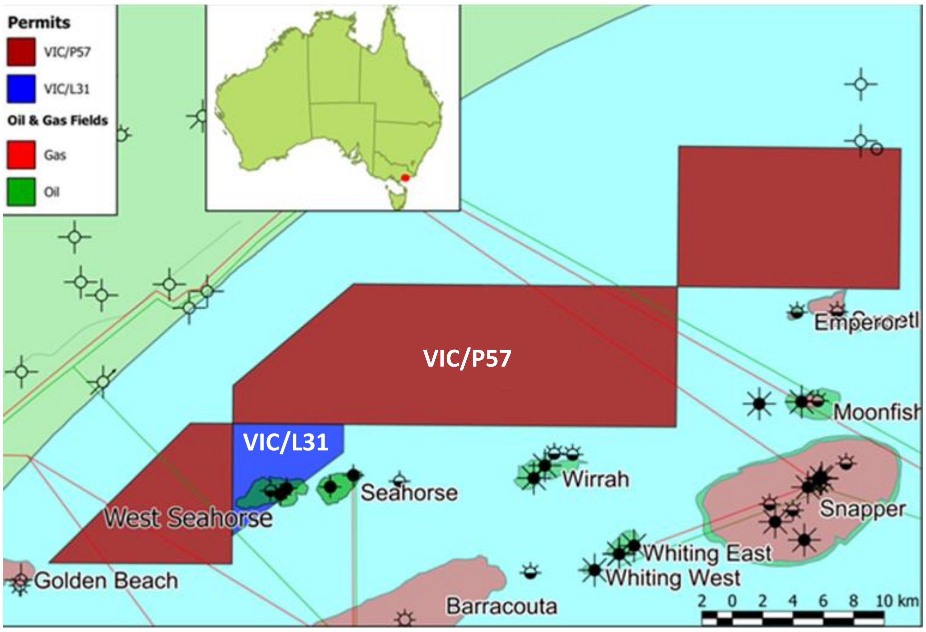
3 *Edison International is Europe's oldest energy company. Edison provides over 21% of natural gas to Italy, and owns over 50 billion cubic meters equivalent of hydrocarbon reserves in Italy and Egypt.*

1 EXPLORATION ACTIVITIES UNDER THE LIME GROUP (CONT'D)

1.6 FARMING OUT MIDDLE EAST CONCESSIONS

Our business strategy is founded on a risk-managed approach to exploration drilling. Therefore, our preference is for the Group to participate in exploration wells where some of the risks are shared with other parties. Consistent with this strategy, efforts are underway to farm-out a portion of Lime's interests in the Sharjah and RAK South Onshore concessions. Additionally, in view of the costs associated with drilling a well in the RAK North Offshore concession, an equity farm-out on this block may also be considered.

2 EXPLORATION AND DEVELOPMENT ACTIVITIES IN RELATION TO THE PRODUCTION LICENSE VIC/L31 AND EXPLORATION PERMIT VIC/P57, GIPPSLAND BASIN, AUSTRALIA



Our wholly-owned subsidiary, Carnarvon Hibiscus Pty Ltd ("**CHPL**"), as operator, is responsible for the day-to-day management of work activities within VIC/P57 and VIC/L31, affording us a high level of financial and operational control in these concessions.

The Group, had on 4 July 2014, entered into a series of binding agreements with its Australian partner, 3D Oil Limited ("**3DO**"), to increase its effective stake in both VIC/P57 and VIC/L31:

- VIC/P57 - CHPL to increase interest from 50.1% to 55.1%.
  - Exclusive option granted to the Group's joint venture, HiRex Petroleum Sdn Bhd for a 20% interest.
- VIC/L31 - CHPL to increase interest from 50.1% to 100%.
  - CHPL to increase ownership of Britannia from 50.1% to 100%.

These conditional agreements are pending approval from the National Offshore Petroleum Titles Administrator ("**NOPTA**").

2 EXPLORATION AND DEVELOPMENT ACTIVITIES IN RELATION TO THE PRODUCTION LICENSE VIC/L31 AND EXPLORATION PERMIT VIC/P57, GIPPSLAND BASIN, AUSTRALIA (CONT'D)

A project team was set up in Melbourne in late 2012 comprising representatives from Hibiscus Petroleum and 3D Oil Limited as well as other specialists to carry out Concept and Front-End Engineering Design studies. As part of this effort, the project team has selected an all-offshore solution consisting of a Mobile Offshore Production Unit ("**MOPU**"), a subsea pipeline and a Floating Storage and Offloading ("**FSO**") vessel for the West Seahorse development.

The Britannia, a jack-up rig, was procured on behalf of the VIC/P57 joint venture for conversion into a MOPU in July 2013. A small site team was set up in Tuzla, Turkey (where the rig is currently located) to define the work required to (a) reactivate the rig's ABS class and (b) enable long term use of the rig as a MOPU for the West Seahorse project.

The responses to competitive tenders have been received from the various MOPU contractors and final negotiations are currently ongoing with an effort to award the MOPU contract in the fourth quarter of 2014. Our contracting strategy involving the sale and lease back of the Britannia had been agreed with the West Seahorse Joint Venture and is the basis for the ongoing negotiations. However, award of this contract and all other West Seahorse Project contracts have been delayed due to a variety of commercial issues. We anticipate that Final Investment Decision ("**FID**") shall be reached in the fourth quarter of 2014 after acquiring full ownership of West Seahorse and upon securing sufficient funding, paving the way for the award of major contracts in the fourth quarter of 2014.

A summary of the current plan for award of the major contracts required for West Seahorse is as follows:

Contract	**Contract Award**
Operations & Maintenance – the Duty Holder of the field responsible for safe operation of the West Seahorse Project	Q4 2014
MOPU – purchase of the Britannia, refurbishment, reactivate class, supply of equipment, integration and installation	Q4 2014
FSO – purchase or charter of vessel that will store produced oil before selling to the market	Q4 2014
Export System – includes the supply of submarine pipeline and offloading hose	Q4 2014
Drilling – 2 options: (i) the utilisation of a rig of opportunity that will be used for the VIC/P57 exploration well in the second quarter of 2015; or (ii) the supply of a Modular Platform drilling rig to drill and complete the wells from the Britannia in the first quarter of 2016	Q3 2014 Q2 2015

From a sub-surface perspective, a further independent assessment was performed by a third party expert, Gaffney, Cline & Associates ("**GCA**") and delivered in early January 2014. This is now being used to secure financing for the project.

2 EXPLORATION AND DEVELOPMENT ACTIVITIES IN RELATION TO THE PRODUCTION LICENSE VIC/L31 AND EXPLORATION PERMIT VIC/P57, GIPPSLAND BASIN, AUSTRALIA (CONT'D)

From a regulatory perspective, we believe the project is well-positioned. In October 2013, the Department of Sustainability, Environment, Water, Population and Communities of the Australian government approved our Environment Protection and Biodiversity Conservation Act referral as a non-controlled action (no threat to items of national significance). In November 2013, NOPTA approved the Field Development Plan for West Seahorse. In December 2013, NOPTA awarded CHPL (on behalf of the VIC/P57 Joint Venture) a production license VIC/L31 over the West Seahorse oilfield.

First volumes of commercial production from the VIC/L31 West Seahorse field are now expected in the first quarter of 2016, subject to the timely declaration of FID.

In the near term, the VIC/P57 joint venture has an obligation to drill an exploration well in the concession as required by the terms of the permit. Several geologically exciting targets have been identified, amongst them Sea Lion and Felix. A firm commitment that will lead us to drill an exploration well in the VIC/P57 permit in the second quarter of 2015 shall be made in the third quarter of 2014.

By Order of the Board of Directors
Hibiscus Petroleum Berhad
26 August 2014