HIBISCUS PETROLEUM BERHAD

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

Unaudited Quarterly Financial Report
31 December 2016

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Note	INDIVIDUAL QUARTER QUARTER ENDED 31.12.2016 RM'000	 QUARTER ENDED 31.12.2015 RM'000	CUMULATIVE QUARTER PERIOD ENDED 31.12.2016 RM'000	 PERIOD ENDED 31.12.2015 RM'000
Revenue		62,821	955	117,566	1,200
Cost of sales		(17,581)	-	(41,805)	-
GROSS PROFIT		45,240	955	75,761	1,200
Other income		10,792	85	21,882	24,083
Administrative expenses		(18,580)	(98,478)	(28,589)	(111,842)
Other expenses		(21,060)	(3,582)	(38,637)	(7,035)
Finance costs		(6,290)	(181)	(12,857)	(206)
Share of results of an associate		(70)	(103)	(47)	(205)
Share of results of joint ventures		-	(62,853)	-	(65,393)
PROFIT/(LOSS) BEFORE TAXATION	25	10,032	(164,157)	17,513	(159,398)
Taxation	26	643	(9)	73,445	(19)
PROFIT/(LOSS) AFTER TAXATION		10,675	(164,166)	90,958	(159,417)
PROFIT/(LOSS) AFTER TAXATION ATTRIBUTABLE TO:					
Owners of the Company		10,675	(164,166)	90,958	(159,417)
EARNINGS/(LOSS) PER SHARE (SEN)					
Basic	24	0.76	(16.32)	6.54	(16.18)
Diluted	24	0.76	(16.32)	6.54	(16.18)

The Unaudited Condensed Consolidated Statements of Profit or Loss should be read in conjunction with the audited financial statements for the financial year ended 30 June 2016 and the accompanying explanatory notes attached to the financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED 31.12.2016 RM'000	QUARTER ENDED 31.12.2015 RM'000	PERIOD ENDED 31.12.2016 RM'000	PERIOD ENDED 31.12.2015 RM'000
PROFIT/(LOSS) AFTER TAXATION	10,675	(164,166)	90,958	(159,417)
Other comprehensive income/ (expenses):				
Items that may be subsequently reclassified to profit or loss:				
- Foreign currency translation*	25,479	(2,305)	43,024	45,028
TOTAL COMPREHENSIVE INCOME/ (EXPENSES) FOR THE QUARTER/PERIOD	36,154	(166,471)	133,982	(114,389)
TOTAL COMPREHENSIVE INCOME/ (EXPENSES) ATTRIBUTABLE TO:				
Owners of the Company	36,154	(166,471)	133,982	(114,389)

** 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 year ended 30 June 2016 and the accompanying explanatory notes attached to the financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	UNAUDITED AS AT 31.12.2016 RM'000	AUDITED AS AT 30.06.2016 RM'000
ASSETS			
NON-CURRENT ASSETS			
Investment in an associate		4,006	1,940
Intangible assets		1,081,673	997,146
Equipment		220,999	211,452
		1,306,678	1,210,538
CURRENT ASSETS			
Trade receivables		6,236	1,985
Other receivables, deposits and prepayments		28,960	21,502
Inventories		12,702	5,542
Amounts owing by joint ventures		177	121
Amount owing by an associate		-	733
Cash and bank balances		60,694	28,746
		108,769	58,629
TOTAL ASSETS		1,415,447	1,269,167
EQUITY AND LIABILITIES			
EQUITY			
Share capital	10	14,438	13,126
Other reserves		772,352	703,037
Accumulated losses		(40,946)	(131,904)
		745,844	584,259
NON-CURRENT LIABILITIES			
Deferred consideration		-	26,549
Contingent consideration		1,746	1,484
Deferred tax liabilities		348,786	390,866
Provision for decommissioning costs		135,739	115,352
		486,271	534,251

The Unaudited Condensed Consolidated Statements of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 30 June 2016 and the accompanying explanatory notes attached to the financial statements

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONT'D)

	Note	UNAUDITED AS AT 31.12.2016 RM'000	AUDITED AS AT 30.06.2016 RM'000
CURRENT LIABILITIES			
Trade payables		130	60
Other payables and accruals		77,930	88,775
Deferred consideration		96,913	55,809
Amount owing to a joint venture		351	315
Amount owing to an associate		7	5,449
Provision for taxation		7,782	30
Redeemable Convertible Preference Shares		219	219
		183,332	150,657
TOTAL LIABILITIES		669,603	684,908
TOTAL EQUITY AND LIABILITIES		1,415,447	1,269,167
NET ASSETS PER SHARE (RM)		0.52	0.45

The Unaudited Condensed Consolidated Statements of Financial Position should be read in conjunction with the audited financial statements for the financial year ended 30 June 2016 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**	**OTHER RESERVES RM'000**	**FOREIGN EXCHANGE RESERVE RM'000**	**ACCUMULATED LOSSES RM'000**	**TOTAL RM'000**
6 months to 31.12.2016						
As at 01.07.2016	13,126	634,585	389	68,063	(131,904)	584,259
Issuance of shares	1,312	26,291	-	-	-	27,603
Profit after taxation	-	-	-	-	90,958	90,958
Other comprehensive income, net of tax: - Foreign currency translation	-	-	-	43,024	-	43,024
Total comprehensive income for the period	-	-	-	43,024	90,958	133,982
As at 31.12.2016	14,438	660,876	389	111,087	(40,946)	745,844
6 months to 31.12.2015						
As at 01.07.2015	9,278	535,731	241	38,431	(71,944)	511,737
Issuance of shares	1,554	59,679	-	-	-	61,233
Share-based payment	-	-	75	-	-	75
Change in composition of a a joint venture	-	-	2,426	-	-	2,426
Loss after taxation	-	-	-	-	(159,417)	(159,417)
Other comprehensive income, net of tax: - Foreign currency translation	-	-	-	45,028	-	45,028
Total comprehensive income/(expenses) for the period	-	-	-	45,028	(159,417)	(114,389)
As at 31.12.2015	10,832	595,410	2,742	83,459	(231,361)	461,082

The Unaudited Condensed Consolidated Statements of Changes in Equity should be read in conjunction with the audited financial statements for the financial year ended 30 June 2016 and the accompanying explanatory notes attached to the financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	PERIOD ENDED 31.12.2016 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before taxation	17,513
Adjustments for:	
Depreciation and amortisation of equipment and intangible assets	38,637
Interest income	(10)
Unrealised gain on foreign exchange	(3,520)
Finance costs	12,857
Reversal of impairment of investment in an associate	(1,524)
Impairment of receivables	3,876
Share of results of an associate	47
Operating profit before working capital changes	67,876
Trade receivables	(4,091)
Other receivables, deposits and prepayments	2,247
Trade payables	59
Other payables and accruals	(17,623)
Inventories	(6,135)
Amounts owing by joint ventures	(257)
Amount owing to a joint venture	35
Amount owing by an associate	780
Amount owing to an associate	(5,797)
Net cash generated from operating activities	37,094
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of equipment	(9)
Interest received	10
Acquisition of intangible assets	(98)
Deposit for an investment	(10,436)
Net cash outflow arising from business combination	(4,041)
Net cash used in investing activities	(14,574)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net proceeds from issuance of ordinary shares	27,821
Repayment of cash advances from directors	(2,650)
Net cash generated from financing activities	25,171
Net increase in cash and cash equivalents	47,691
Effects of foreign exchange rate changes	(15,743)
Cash and cash equivalents at beginning of the financial period	28,746
Cash and cash equivalents at end of the financial period	60,694

The Unaudited Condensed Consolidated Statement of Cash Flows should be read in conjunction with the audited financial statements for the financial year ended 30 June 2016 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 year ended 30 June 2016 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 year ended 30 June 2016.

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 year ended 30 June 2016.

2.1 Adoption of Amendments to Standards and IC Interpretations

The Group has applied the following amendments for the first time for the financial year beginning on 1 July 2016:

Amendments to MFRS 11	*Joint Arrangements – Accounting for Acquisition of Interests in Joint Operations*
Amendments to MFRS 101	*Presentation of Financial Statements – Disclosure Initiative*
Amendments to MFRS 127	*Equity Method in Separate Financial Statements*
Amendments to MFRS 10, MFRS 12 and MFRS 128	*Investment Entities – Applying the Consolidation Exception*
Annual Improvements to MFRSs 2012 - 2014 Cycle	*(Amendments to MFRS 5 Non-current Assets Held for Sale and Discontinued Operations, MFRS 7 Financial Instruments: Disclosures, MFRS 134 Interim Financial Reporting*)

The adoption of the above amendments did not have any impact on the current financial period or any prior financial period and is not likely to affect future financial periods.

2 SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Standards issued but not yet effective

Description		**Effective for financial periods beginning on or after**
Amendments to MFRS 107	*Statement of Cash Flow – Disclosure Initiative*	1 January 2017
Amendments to MFRS 112	*Income Taxes – Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017
MFRS 9	*Financial Instruments*	1 January 2018
MFRS 15	*Revenue from Contracts with Customers*	1 January 2018
MFRS 16	*Leases*	1 January 2019

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 31 December 2016:

(i) The proposed placement of up to 326,935,484 new ordinary shares of RM0.01 each in the Company ("**Placement Shares**"), representing up to 25% of the enlarged issued and paid-up ordinary share capital of the Company ("**Proposed Placement**")

Bursa Securities gave its approval for the listing of and quotation of the Placement Shares to be issued pursuant to the Proposed Placement on the Main Market of Bursa Securities on 23 September 2015 whilst the approval of the shareholders of the Company was obtained for the Proposed Placement at an Extraordinary General Meeting held on 13 October 2015.

On 15 March 2016, the Company received a letter from Bursa Securities approving an extension of time of 6 months from 23 March 2016 to 22 September 2016 for the Company to complete the implementation of the Proposed Placement.

Subsequent to the financial year ended 30 June 2016, the Company issued 48,900,000 Placement Shares, raising a total of RM8,802,000.

The Proposed Placement was completed on 13 July 2016 with a total of 326,884,000 new ordinary shares issued.

4 SIGNIFICANT/UNUSUAL ITEMS (CONT'D)

Please refer to our announcements dated 11 September 2015, 14 September 2015, 23 September 2015, 28 September 2015, 13 October 2015, 1 December 2015, 4 December 2015, 7 December 2015, 11 December 2015, 18 December 2015, 21 December 2015, 14 January 2016, 20 January 2016, 21 January 2016, 15 March 2016, 21 March 2016, 28 March 2016, 29 March 2016, 4 May 2016, 10 May 2016, 11 May 2016, 17 June 2016, 28 June 2016, 29 June 2016, 1 July 2016, 12 July 2016 and 13 July 2016.

(ii) The Company announced on 9 August 2016 that it proposes to undertake the proposed private placement of up to 82,305,362 ordinary shares of RM0.01 each in the Company ("**New Placement Shares**"), representing approximately 6.05% of the existing issued and paid-up ordinary share capital of the Company ("**Proposed Private Placement**").

Bursa Securities, vide its letter dated 6 September 2016, approved the listing and quotation of the New Placement Shares pursuant to the Proposed Private Placement.

The Proposed Private Placement was completed on 20 December 2016 with a total of 82,305,300 New Placement Shares issued, raising a total of RM19,973,537.

Please refer to our announcements dated 9 August 2016, 12 August 2016, 6 September 2016, 13 September 2016, 20 September 2016, 9 December 2016, 19 December 2016 and 20 December 2016.

(iii) Proposed acquisition of 50% participating interests under the 2011 North Sabah Enhanced Oil Recovery Production Sharing Contract

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

(iv) Prepaid lease rental from a third party charterer

The Group had entered into a lease and leaseback arrangement with a third party charterer in connection with its rig. Amongst others, the arrangement enables the Group to request for a prepaid lease rental of USD10 million on or after 1 February 2017 subject to meeting the conditions set by the third party charterer. As at the date of this report, the conditions have been met. In the event that the leasing arrangement does not proceed as intended, the prepaid lease rental received will be subject to an interest rate of 10% per annum from the date of receipt, and is repayable by 31 December 2017.

(v) Recognition of the effect of the reduction in the rate of the Supplementary Charge by 10% on deferred tax liabilities. The deferred tax liabilities had earlier arose upon the completion of the acquisition of the Anasuria Cluster, which was accounted for as a business combination.

Please refer to Part B, Note 26 of this Quarterly Report for further details.

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 31 December 2016.

6 MATERIAL EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL QUARTER

There were no other material events subsequent to the end of the financial period ended 31 December 2016 up to the date of this report.

7 CHANGES IN THE COMPOSITION OF THE GROUP

(i) On 10 October 2016, the Company acquired Pacific Hibiscus Sdn Bhd ("**Pacific Hibiscus**"), a company incorporated in Malaysia under the Companies Act 1965, with an authorised share capital of RM400,000.00 divided into 400,000 ordinary shares of RM1.00 each and a paid-up share capital of RM2.00 from non-related parties.

(ii) On 10 October 2016, Pacific Hibiscus acquired SEA Hibiscus Sdn Bhd ("**SEA Hibiscus**"), a company incorporated in Malaysia under the Companies Act 1965, with an authorised share capital of RM400,000.00 divided into 400,000 ordinary shares of RM1.00 each and a paid-up share capital of RM2.00 from non-related parties.

Save as disclosed above, there were no changes in the composition of the Group during the financial period ended 31 December 2016.

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 31 December 2016.

10 BORROWINGS, DEBT AND EQUITY SECURITIES

The movements in the issued and paid-up ordinary share capital of the Company during the financial period ended 31 December 2016 were as follows:

		PERIOD ENDED 31.12.2016	
ORDINARY SHARES	**Par value RM**	**Number of shares**	**Share capital RM'000**
As at 01.07.2016	0.01	1,312,638,991	13,126
Placement Shares	0.01	48,900,000	489
New Placement Shares	0.01	82,305,300	823
As at 31.12.2016	0.01	1,443,844,291	14,438

Placement Shares

During the financial period ended 31 December 2016, the Company issued 48,900,000 Placement Shares, raising a total of RM8,802,000 on 13 July 2016 at RM0.180 per Placement Share.

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

New Placement Shares

During the financial period ended 31 December 2016, the Company issued 82,305,300 New Placement Shares, raising a total of RM19,973,537. This was undertaken in two tranches: 41,000,000 New Placement Shares were issued on 19 September 2016 at RM0.195 per New Placement Share and 41,305,300 New Placement Shares were issued on 16 December 2016 at RM0.290 per New Placement Share.

Please refer to Part A, Item 4 (ii) of this Quarterly Report for further details.

Save as disclosed above, there were no other issuances, cancellations, repurchases, resale and repayments of borrowings, debt and equity securities during the financial period 31 December 2016.

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 and group activities	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. The investment holding and group activities are located in Malaysia.
(ii)	Lime [(1)]	Group's investments and operations in the exploration assets of Lime Petroleum Plc ("**Lime Plc**") and its concession companies ("**Lime Group**"), located in the Middle East and Norway.
(iii)	3D Oil, VIC/L31 & VIC/P57	Group's operations in the VIC/L31 Production License ("**VIC/L31**") for the West Seahorse field and other exploration prospects in Australia within VIC/P57 Exploration Permit ("**VIC/P57**"), and investment in 3D Oil Limited ("**3D Oil**").
(iv)	Anasuria	Group's investments and operations in a geographically focused package of operated producing fields and associated infrastructure located approximately 175 km east of Aberdeen in the United Kingdom ("**UK**") Central North Sea.
(v)	HIREX [(2)]	Planned investments in exploration assets within the Asia Pacific region. Activities are located in Malaysia.

(1) *Lime Plc, a company in which the Group has a 35% shareholding interest, is in the process of being wound up. The rights and legal position of the Group are fully reserved. The Group's legal action in Singapore, against various parties in relation to the Lime Group, is presently ongoing. Following the conclusion of proceedings before the Oslo Conciliation Board, the Group is in the process of deciding whether to take further legal action in Norway.*

During the financial year ended 30 June 2016, the Directors fully impaired the Group's investment in the Lime Group.

(2) *During the financial year ended 30 June 2016, the Directors fully impaired the Group's investment in HiRex Petroleum Sdn. Bhd. ("**HIREX**") as HIREX is not evaluating any prospect in the foreseeable future.*

11 OPERATING SEGMENTS (CONT'D)

	Investment holding and group activities RM'000	Lime RM'000	3D Oil, VIC/L31 & VIC/P57 RM'000	Anasuria RM'000	HIREX RM'000	Elimination RM'000	Group RM'000
<u>As at 31.12.2016</u>							
Non-current assets	39,824	-	259,151	1,007,703	-	-	1,306,678
Include in the segment assets is:							
Investment in an associate	-	-	4,006	-	-	-	4,006
Additions to non-current assets	9	-	98	-	-	-	107
<u>Period ended 31.12.2016</u>							
Project management, technical and other service fees	2,074	-	-	-	-	-	2,074
Sales of crude oil and gas	-	-	-	115,482	-	-	115,482
Interest income	10	-	-	-	-	-	10
Revenue	2,084	-	-	115,482	-	-	117,566
Depreciation	(3,690)	-	(3,326)	(31,621)	-	-	(38,637)
Profit/(loss) from operations	8,383	-	(12,860)	37,246	-	-	32,769
Reversal of impairment of investment in an associate	-	-	1,524	-	-	-	1,524
Impairment of receivables	(216)	-	-	(3,660)	-	-	(3,876)
Share of results	-	-	(47)	-	-	-	(47)
Finance costs	(30)	-	(5,357)	(10,752)	-	3,282	(12,857)
Interest income	3,282	-	-	-	-	(3,282)	-
Taxation	(14)	-	(3,106)	76,565	-	-	73,445
Profit/(loss) after taxation	11,405	-	(19,846)	99,399	-	-	90,958

11 OPERATING SEGMENTS (CONT'D)

	Investment holding and group activities RM'000	Lime RM'000	3D Oil, VIC/L31 & VIC/P57 RM'000	HIREX RM'000	Elimination RM'000	Group RM'000
As at 31.12.2015						
Non-current assets	1,396	233,396	237,312	5,574	-	477,678
Include in the segments assets are:						
Investment in an associate	-	-	3,798	-	-	3,798
Investments in joint ventures	-	233,396	-	5,574	-	238,970
Additions to non-current assets	95	-	111,290	-	-	111,385
Period ended 31.12.2015						
Project management, technical and other services fees	1,124	-	-	-	-	1,124
Interest income	11	-	65	-	-	76
Revenue	1,135	-	65	-	-	1,200
Depreciation	(688)	-	(6,347)	-	-	(7,035)
Profit/(loss) from operations	6,893	-	(14,012)	-	-	(7,119)
Impairment of investment in an associate	-	-	(1,944)	-	-	(1,944)
Impairment of intangible assets	-	-	(84,531)	-	-	(84,531)
Share of results	-	(64,235)	(205)	(1,158)	-	(65,598)
Finance costs	(206)	-	(2,914)	-	2,914	(206)
Interest income	2,914	-	-	-	(2,914)	-
Taxation	(19)	-	-	-	-	(19)
Profit/(loss) after taxation	9,582	(64,235)	(103,606)	(1,158)	-	(159,417)

12 SIGNIFICANT RELATED PARTY TRANSACTIONS

Related party transactions within the Group are as follows:

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED 31.12.2016 RM'000	QUARTER ENDED 31.12.2015 RM'000	PERIOD ENDED 31.12.2016 RM'000	PERIOD ENDED 31.12.2015 RM'000
Project management, technical and other services fees earned from joint ventures				
- Lime	-	10	-	101
- HIREX	-	49	4	133
Joint Operating Agreement indirect overheads recovery from an associate				
- 3D Oil	-	345	-	345
Technical and non-technical charges reimbursed from an associate				
- 3D Oil	14	1,630	20	1,754
Technical and non-technical, and overhead charges reimbursed to an associate				
- 3D Oil	(15)	(1,260)	(29)	(1,497)
Consultancy services provided by a related party	-	(72)	(57)	(72)

13 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 31 December 2016:

	RM'000
Approved and contracted for:	
Group's material commitments	46,851
Share of a joint operation's material commitments #	44,644
	91,495

\# *The Group's 50% share of commitments in the Facilities Management Agreement for the Anasuria Floating Production Storage and Offloading unit and related equipment ("**Anasuria FPSO**") and Anasuria Cluster entered into by Anasuria Operating Company Limited ("**AOCL**") with Petrofac Facilities Management Limited, the Contract Operator appointed to manage the day-to-day operations and maintenance of the Anasuria Cluster.*

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

The Group recorded a profit before taxation of RM17.5 million in the current six-month period ("**current period**") as compared to a loss before taxation of RM159.4 million in the corresponding six-month period in the previous year ("**corresponding period**").

The profit before taxation in the current period is primarily due to the sale of oil and gas products from the Anasuria Cluster, which generated revenue and gross profit of RM115.5 million and RM73.7 million respectively. The Group completed the acquisition of a 50% interest in the Anasuria Cluster on 10 March 2016, and thus, such contribution for the sale of oil and gas products was not present in the corresponding period.

In the corresponding period, the Company announced on 11 November 2015 that its wholly-owned subsidiary, Carnarvon Hibiscus Pty Ltd advised that wireline evaluation and sampling of formation fluids over the 6 zones of interest identified on preliminary Sea Lion-1 data was complete and that no zones of commercial hydrocarbons were encountered in the Sea Lion-1 well subsequent to commencement of drilling operations on 26 October 2015. Following that, the Group performed an assessment of the carrying value of VIC/P57 and has during the corresponding period recognised an impairment of RM84.5 million.

The Group had fully impaired its investments in both the Lime Group and HIREX during the financial year ended 30 June 2016 (please refer to Part A, Note 11 of this Quarterly Report for further details). As a result, the share of losses in these investments recorded in the corresponding period of RM65.4 million did not recur.

These were partially off-set by the following costs relating to the Anasuria Cluster:

- Depreciation and amortisation – RM31.6 million; and
- Accretion of finance costs for deferred consideration and decommissioning costs – RM10.8 million.

15 PERFORMANCE REVIEW (CONT'D)

15.2 Material factors affecting current quarter's results

The Group profit before taxation for the current quarter amounted to RM10.0 million as compared to a loss before taxation of RM164.2 million in the corresponding three-month period ended 31 December 2015 ("**corresponding quarter**").

In the current quarter, the Anasuria Cluster contributed RM59.8 million to revenue and RM44.2 million to gross profit from the sale of oil and gas products.

Following its assessment of the carrying value of VIC/P57, the Group recognised an impairment of RM84.5 million of the permit in the corresponding quarter.

In addition, the Group fully impaired its investments in both the Lime Group and HIREX during the financial year ended 30 June 2016 (please refer to Part A, Note 11 of this Quarterly Report for further details). As a result, the share of losses in these investments recorded in the corresponding quarter of RM62.9 million did not recur in the current quarter.

These were partially off-set by the following costs relating to the Anasuria Cluster:

- Depreciation and amortisation – RM17.5 million; and
- Accretion of finance costs for deferred consideration and decommissioning costs – RM5.4 million.

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

During the current three-month period ("**current quarter**"), the Group recorded a profit before taxation of RM10.0 million, an increase of RM2.5 million as compared to a profit before taxation of RM7.5 million in the preceding three-month period ended 30 September 2016 ("**preceding quarter**").

The Anasuria Cluster contributed higher gross profit during the current quarter when compared to the preceding quarter by RM14.7 million. This was due to higher volume of oil and gas sold and lower operating costs ("**OPEX**") per barrel of oil equivalent ("**boe**").

These were partially off-set by:

- Higher consultancy/professional fees and transaction costs in relation to project, business development and fund raising activities and personnel remuneration in the current quarter by RM5.2 million;
- Depreciation and amortisation of oil and gas assets/properties in the Anasuria Cluster computed based on the unit of production method is higher by RM3.9 million in the current quarter due to higher level of production; and
- Reversal of impairment of the carrying value of VIC/P57 amounting to RM1.8 million in the preceding quarter.

17 STATUS OF CORPORATE PROPOSALS ANNOUNCED BUT NOT COMPLETED

(i) Proposed Acquisition of 50% Participating Interests under the 2011 North Sabah Enhanced Oil Recovery Production Sharing Contract

On 12 October 2016, the Company announced that its indirect wholly-owned subsidiary, SEA Hibiscus, had entered into a conditional sale and purchase agreement with Sabah Shell Petroleum Company Limited and Shell Sabah Selatan Sdn Bhd (collectively the "**Sellers**") to acquire the Sellers' 50% participating interests in the 2011 North Sabah Enhanced Oil Recovery Production Sharing Contract entered into between Petroliam Nasional Berhad ("**PETRONAS**"), the Sellers and PETRONAS Carigali Sdn Bhd ("**PCSB**") ("**PSC**"); and the joint operating agreement between the Sellers and PCSB in relation to the PSC ("**SJOA**") (collectively the "**Interest**") for a total consideration of USD25 million ("**Proposed Acquisition**").

The responsibilities of SEA Hibiscus as the operator of the PSC and under the SJOA are the management of the operations of:

(i) production of petroleum from 4 existing oil fields, namely St Joseph, South Furious, SF30 and Barton; and

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

The Proposed Acquisition is subject to and conditional upon approvals being obtained from the following:

(i) Sellers' receipt of PCSB's waiver of pre-emption rights and unconditional consent under the SJOA to the assignment of the entire Interest to SEA Hibiscus or upon fulfilment of conditions reasonably acceptable to SEA Hibiscus and/or the Sellers, as the affected party;

(ii) Sellers' receipt of PETRONAS's unconditional approval under the PSC to the assignment of the entire Interest to SEA Hibiscus or upon fulfilment of conditions reasonably acceptable to SEA Hibiscus and/or the Sellers, as the affected party;

(iii) the receipt of all consents of other relevant parties, if any; and

(iv) the due execution by the parties of the completion documents.

The Proposed Acquisition is not subject to the Company's shareholders' approval.

Please refer to our announcements dated 12 October 2016 and 26 October 2016.

18 PROSPECTS OF THE GROUP

Anasuria Cluster

Currently, the financial results of the Group are underpinned by the operational performance of the Anasuria asset. Several key factors are particularly relevant. These are:

- Oil price of the Brent crude oil benchmark at approximately the time of a scheduled offtake from the Anasuria FPSO;

- Gas prices for the respective fields as follows:
  - Cook field – at the landing point of the Fulmar Gas Line at the St Fergus Terminal for a price that is calculated as 40% of the Heren National Balancing Point index ("**Heren Index**") and in accordance with the terms set out in the Cook gas sale and purchase agreement; and
  - Guillemot A, Teal and Teal South fields – at the point where the gas leaves the fields and enters the SEGAL System for a price of 85% of Heren Index and in accordance with the terms set out in the Anasuria gas sale and purchase agreement.

- Exchange rates, more specifically that of the RM and the:
  - United States Dollar ("**USD**"), as our revenues are secured in USD and the valuation of the Anasuria asset is held in USD;
  - Great Britain Pound ("**GBP**"), as the majority of our operating costs for the Anasuria asset, currently our sole revenue generating asset, are incurred in GBP; and
  - Australian Dollar ("**AUD**"), as the valuations of our Australian assets are held in AUD.

- Performance of the Anasuria asset, more specifically:
  - Production performance of the wells; and
  - Facilities availability.

- Management of operational expenses for the Anasuria asset.

As joint operator of the Anasuria Cluster, the Group continuously focuses on optimising asset performance but it is equally important to note (from the information provided above) that the performance is impacted daily by exogenous macroeconomic factors over which we exert minimal control. For the financial quarter ended 31 December 2016, the following were achieved or utilized in the preparation of this Quarterly Report:

	Units	**Achieved for the financial quarter ended 31 December 2016**
Oil production rate	Barrel ("**bbl**")/day	3,934
Gas export rate #	boe/day	474
Oil equivalent production rate	boe/day	4,408
Total oil sold	bbl	298,909
Total gas exported (sold)	Million standard cubic feet ("**mmscf**")	262
Average oil price	USD/bbl	41.70
Average gas price	USD/one million British thermal units ("**mmbtu**")	1.73 ∞/4.16 *
OPEX per boe	USD/boe	12.97
Average uptime/availability of Anasuria facilities	%	98

*Conversion rate of 6,000 standard cubic feet ("**scf**")/boe.*

∞ *For Cook field.*

* *For Guillemot A, Teal and Teal South fields.*

18 PROSPECTS OF THE GROUP (CONT'D)

As of 31 December 2016, our wholly-owned subsidiary, Anasuria Hibiscus UK Limited has been involved in the joint operations of the Anasuria asset for circa nine months. Over the nine-month period, significant milestones have been achieved in areas under our joint operational control which are reflected in the performance indicators shown below:

	Units	March to June 2016	July to September 2016	October to December 2016
Oil production rate	bbl/day	2,971	3,032	3,934
Gas export rate #	boe/day	236	374	474
Oil equivalent production rate	boe/day	3,206	3,406	4,408
Average oil price	USD/bbl	40.14	45.21	41.70
Average gas price	mmbtu	1.19 ∞/3.08 *	1.33 ∞/3.30 *	1.73 ∞/4.16 *
OPEX per boe	USD/boe	23.13	18.39	12.97
Average uptime/availability of Anasuria facilities	%	88	82	98

Conversion rate of 6,000 scf/boe.

∞ *For Cook field.*

* *For Guillemot A, Teal and Teal South fields.*

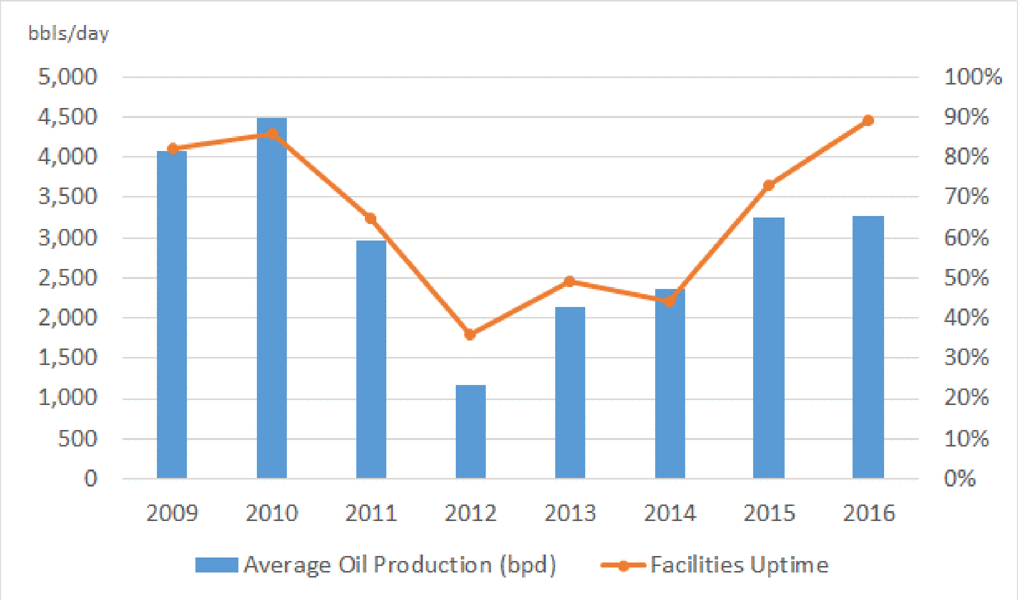
Whilst our operational performance was very encouraging during the quarter ended 31 December 2016, the price realised by the Company for oil production during the period was relatively low. This was a result of crude oil offtake and sales from the Anasuria FPSO occurring prior to the disclosure of decisions taken at the 171st meeting of the Organization of Petroleum Exporting Countries ("**OPEC**") which was held in Austria on 30 November 2016. During the said meeting, member countries agreed to the principles of the 'Algiers Accord' – a proposal put forward by Algeria – to implement a new range of production levels (32.5 million bbls per day) amongst member countries in order to accelerate the drawdown of crude oil stock overhang and bring the forecasted oil market rebalancing schedule forward. Since that meeting, oil prices have climbed, on average to a level that is about 25% above the price we realised during the quarter. We expect the effect of these recent oil price increases to be reflected in our future crude oil revenues, commencing from the offtake scheduled for the third quarter of the current financial year.

Going forward, we expect that the proposed listing of Saudi Aramco to be a catalyst of maintaining oil price stability. This factor, when coupled with our continuously improving operational performance, will have a positive impact on our overall financial performance and ultimately, our cash balances.

18 PROSPECTS OF THE GROUP (CONT'D)

As a further reference of our operational performance, we have been benchmarking our achievements against that delivered by a more experienced operator on the same asset, over the course of the past few years. We are pleased to report that for the 2016 calendar year, the performance achieved by the team at the AOCL exceeded our expectations. The details are shown below:

Historical Performance – Key Controllable Indicators



Finally, in respect of the Anasuria Cluster, we have identified several projects for execution during the period commencing mid-2017 and continuing until mid-2018. These projects will enhance production volumes by bringing on-stream petroleum resources that have already been discovered. Recognizing the fact that we are building up our project execution experience in the UK sector of the North Sea, we shall initially commence undertaking activities that are low in terms of technical complexity and business risk exposure. We are currently putting in place the necessary financing to ensure that we are able to undertake these projects in a timely fashion.

North Sabah

The recent disclosure by the Group that its wholly owned subsidiary, SEA Hibiscus had on 12 October 2016 executed conditional transaction documents to acquire a 50% participating interest in the 2011 North Sabah Enhanced Oil Recovery Production Sharing Contract also bodes well for the future. An overview of this asset is tabulated below.

	Units	**Total**
Average daily production 2015 @	Thousand stock tank bbls per day ("**kstb/d**")	18
Remaining reserves (2P) ^^	Million stock tank barrels ("**MMstb**")	62
Contingent resources (2C) ^^	MMstb	79
Platforms/Structures		19
Wells		135
OPEX per bbl ++	RM/bbl	55.10

@ *Source: Sellers' information.*

^^ *Figures derived by independent technical valuer, RISC Operations Pty Ltd, based on 100% interest in the PSC, as of 1 January 2016.*

++ *From Q2 2016 Sabah Operations Committee Meeting slidepack.*

18 PROSPECTS OF THE GROUP (CONT'D)

This asset has the potential to:

- Increase the oil production output of the Group by a factor of up to three times;
- Provide the Group with a second revenue stream, independent of the Anasuria Cluster; and
- Allow the Group strengthen its technical and operational capabilities.

It is important to note that this transaction is conditional upon approvals by joint venture partners, the Malaysian regulator and a successful transfer of operating responsibilities but the Group is hopeful of fulfilling the various conditions in due course.

Australia

The Group has only limited access to capital for allocation across all its assets. Initially, it was anticipated that the Group would seek a Final Investment Decision ("**FID**") on its Australian assets in January 2018. Given the expected capital requirements for low risk identified projects within the Anasuria Cluster and potentially further capital requirements for execution of projects in North Sabah, management has deferred seeking FID on its assets in Australia for a minimum of three years.

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 31 December 2016.

21 PURCHASE OR DISPOSAL OF QUOTED SECURITIES

There was no purchase or disposal of quoted securities during the financial period ended 31 December 2016.

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.

For completeness, please also refer to Part A, Note 11 of this Quarterly Report.

24 EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share is calculated by dividing the Group's profit/(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 31.12.2016 RM'000	**QUARTER ENDED 31.12.2015 RM'000**	**PERIOD ENDED 31.12.2016 RM'000**	**PERIOD ENDED 31.12.2015 RM'000**
Profit/(loss) after taxation attributable to owners of the Company (RM'000)	(A)	10,675	(164,166)	90,958	(159,417)
Weighted average number of shares in issue ('000)	(B)	1,407,531	1,005,905	1,391,045	985,044
Basic earnings/(loss) per share (sen)	(A/B)	0.76	(16.32)	6.54	(16.18)
Diluted earnings/(loss) per share (sen)		0.76	(16.32)	6.54	(16.18)

The diluted earnings/(loss) per share for the Group is the basic earnings/(loss) per share as there are no dilutive shares outstanding at the end of the financial quarter/period.

25 PROFIT/(LOSS) BEFORE TAXATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED 31.12.2016 RM'000	QUARTER ENDED 31.12.2015 RM'000	PERIOD ENDED 31.12.2016 RM'000	PERIOD ENDED 31.12.2015 RM'000
Profit/(loss) before taxation is arrived at after charging/(crediting):				
Depreciation and amortisation of equipment and intangible assets	21,454	3,582	38,637	7,035
Interest income	37	(6)	(10)	(76)
Unrealised loss/(gain) on foreign exchange	7,594	6,322	(3,520)	(17,464)
Realised gain on foreign exchange	(18,040)	(6,062)	(17,646)	(6,085)
Finance costs	6,290	181	12,857	206
Share of loss of an associate	70	103	47	205
Share of losses of joint ventures	-	62,853	-	65,393
Impairment of receivables	3,500	-	3,660	-
Impairment of intangible assets	-	84,531	-	84,531

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 quarter ended 31 December 2016.

26 TAXATION

	INDIVIDUAL QUARTER		CUMULATIVE QUARTER	
	QUARTER ENDED 31.12.2016 RM'000	QUARTER ENDED 31.12.2015 RM'000	PERIOD ENDED 31.12.2016 RM'000	PERIOD ENDED 31.12.2015 RM'000
Income taxation	(7,389)	(9)	(10,431)	(19)
Deferred taxation	8,032	-	83,876	-
	643	(9)	73,445	(19)

Deferred tax liabilities recognised upon completion of a business combination are in relation to temporary differences in the tax base of intangible assets (i.e. rights and concession) acquired and their accounting base. This balance is non-cash and will reverse in line with the depletion of the said intangible assets. The reversal of the deferred tax liabilities will result in a tax credit being recorded in profit or loss. Deferred tax liabilities relating to fair value of the identifiable assets and liabilities of the Anasuria Cluster recognised as at 30 June 2016 were measured at the tax rate expected to apply to the period when such liabilities are settled, based on the tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The Group has duly adopted the applicable rate of the Supplementary Charge in the UK as at 30 June 2016 to compute deferred tax liabilities for the financial year ended 30 June 2016.

26 TAXATION (CONT'D)

The UK's Finance Bill 2016 ("Finance Bill 2016") published on 24 March 2016 stated a downward revision of the rate of the Supplementary Charge. Following agreement by both the UK's House of Commons and House of Lords on the text of Finance Bill 2016, it received Royal Assent on 15 September 2016. The Finance Bill 2016 is therefore now an Act of Parliament.

The impact caused by the reduction in the rate of the Supplementary Charge on the deferred tax liabilities relating to fair value of the identifiable assets and liabilities of the Anasuria Cluster recognised as at 30 June 2016 amounting to RM78.4 million has been recognised as a tax credit in the current financial period.

27 REALISED AND UNREALISED ACCUMULATED LOSSES

	UNAUDITED AS AT 31.12.2016 RM'000	**AUDITED AS AT 30.06.2016 RM'000**
Analysis of accumulated losses:		
Realised	41,728	(4,810)
Unrealised	(345,266)	(387,564)
	(303,538)	(392,374)
Less: Consolidation adjustments	262,592	260,470
	(40,946)	(131,904)

By Order of the Board of Directors
Hibiscus Petroleum Berhad
22 February 2017