

New Listing

Hibiscus Petroleum

Public Issue Of 200-400m New Shares

11 July 2011

Offer Price : RM0.75

- ◆ **First SPAC in Malaysia.** Hibiscus Petroleum will be the first “Special Purpose Acquisition Company (SPAC)” to be listed on Bursa Malaysia. SPACs are companies which have no operations or income-generating business but undertake an IPO for the purpose of raising funds for a qualifying acquisition (QA) i.e. to acquire operating companies or businesses. The company intends to establish itself as junior independent oil and gas with E&P assets that are low to moderate risk (either onshore and/or in low-risk shallow water) predominantly in South Asia, Middle-East, East Asia and Oceania regions.
- ◆ **Investment proposition.** 1) Investors are guaranteed a minimum refund of 90% of the IPO price if the SPAC fails to identify and complete a QA within three years or if investors vote against an approved QA. This implies a form of capital protection; 2) Management appears to be highly experienced with credentials from major oil & gas companies; 3) We believe oil prices are on a long-term uptrend; and 4) Free warrants offer a potential significant upside.
- ◆ **Expected payback.** We have done a scenario analysis, to identify possible returns for IPO investors. We also caution that any meaningful movement in the share (and warrant) price would likely only occur once a QA has been identified, and this has to happen within three years of the IPO.
- ◆ **Assumptions on the QA.** Our scenario analysis assumes the following: 1) Hibiscus buys two assets with around 15m barrels of 2P reserves each for US\$3/barrel (i.e. the full US\$90m net IPO proceeds set aside for the QA); 2) The market values Hibiscus’ shares based on the value of the QA’s reserves; and 3) The breakeven price for the reserves has to offset the dilution arising from shares issued to management and initial investors at 1 sen and 45 sen respectively. Our conclusion is that the investment would be positive for IPO investors if “in-the-ground prices” for reserves are in excess of US\$8/barrel.
- ◆ **Warrants are high-risk, high-return.** Although the warrants are issued free to IPO investors, we believe they would still have an implied cost of 7.5 sen each, i.e. the 10% balance of the IPO price (75 sen) that is not guaranteed. We also note that the warrants do not have a refund guarantee and moreover, expire three years after the IPO. In any case, assuming a QA is approved, we estimate a potential 158-389.1% uplift in the value of the warrants, based on US\$8-10/bbl price for the reserves in our assumptions.
- ◆ **Risks.** Industry risks: 1) Oil prices drop; 2) QA turns out to be low yield; and 3) Changes in country regulations for oil and gas ventures. Company risks: 1) SPACs have no track record; 2) First SPAC in Malaysia and hence market reception is not assured; and 3) IPO investors will not be able to ascertain the merits or risks of target acquisitions at the time of IPO.
- ◆ **For risk takers.** We believe that Hibiscus shares may be suited to investors looking to participate in the long-term uptrend in oil prices, but understand that meaningful returns may take up to three years to materialise. The safeguards in place, and management’s vested interest (20% stake), imply limited downside risk. However, once a QA is approved, we highlight that the refund guarantee is no longer applicable, and risks escalate at that point.

LISTING DETAILS

Listing Sought	Bursa Malaysia Main Market
Listing Date	22 July 2011
Public Issue	200-400m new shares: - 190-390m by way of private placement - 10m Malaysian citizens, companies, societies, and cooperatives of which 50% will be set aside strictly for Bumiputera investors.

MAJOR SHAREHOLDERS (After IPO)

Management and non-independent directors	~20%
Initial investors	~4.2-8%

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BUSINESS BACKGROUND

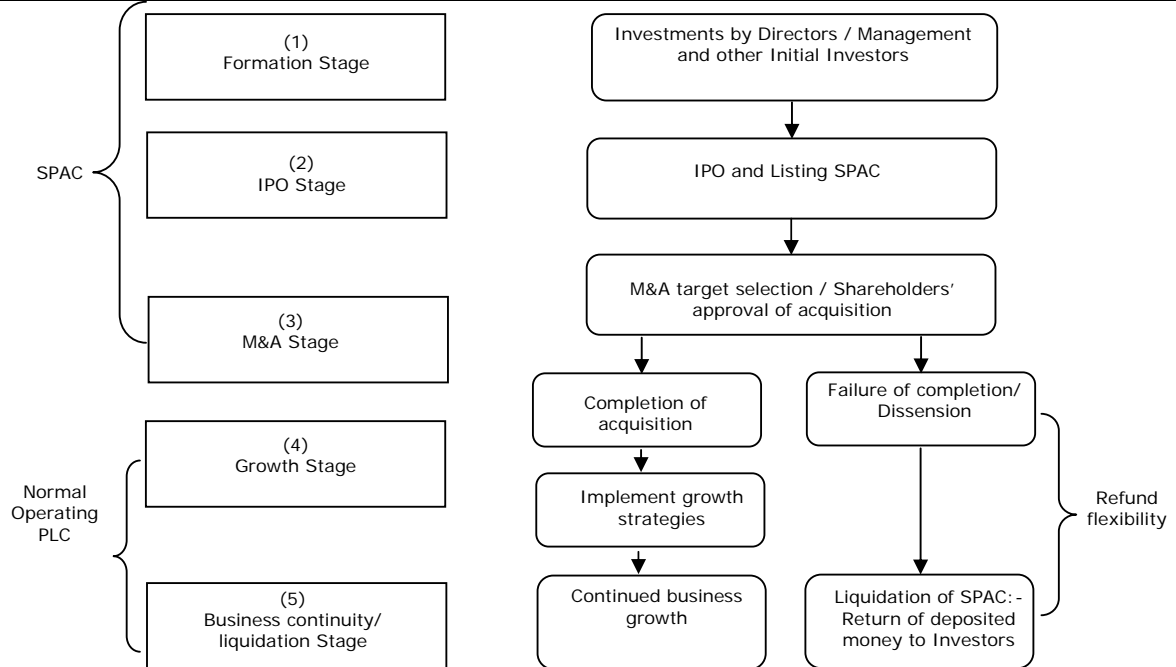
- ◆ **First SPAC in Malaysia.** Hibiscus Petroleum will be the first Special Purpose Acquisition Company (SPAC) to be listed on Bursa Malaysia. SPACs are companies which have no operations or income-generating business but undertake an IPO for the purpose of raising funds for a qualifying acquisition (QA) i.e. to acquire operating companies or businesses. The company intends to establish itself as junior independent player in the upstream exploration & production (E&P) segment of the oil & gas industry, and focusing on assets (oil and gas fields) in South Asia, Middle-East, East Asia and Oceania regions.
- ◆ **Key criteria and key stages of a SPAC.** The key criteria and the key stages of a SPAC, according to the Securities Commission (SC) guidelines, are listed in Table 1 below.

Table 1. Key Criteria Of A SPAC

Minimum funds raised	RM150m
Interest of management team	At least 10% in the SPAC upon IPO
Investor protection	At least 90% of IPO proceeds placed in trust account managed by an independent custodian which is a trust company, a licensed bank or merchant bank. Such proceeds may only be placed in permitted investments i.e. securities issued by the Malaysian Government, money market instruments and AAA-rated papers.
Qualifying acquisition (QA)	The acquisition must have an aggregate fair market value equal to at least 80% of the amount in the trust account. Based on maximum subscription for the IPO (i.e. 400m shares at 75 sen each), US\$90m would be held in the trust account (assuming an exchange rate of RM3/US\$1).
Completion of QA	Within 3 years from the date of listing of the SPAC.
Shareholders' approval for QA	A majority in number of shareholders representing at least 75% in value of voting securities (management team and persons connected to abstain from voting) present or voting by proxy
Refund to dissenting shareholders	Shareholders who vote against a proposed QA are entitled to receive in exchange for their securities a pro-rata portion of the amount held in the trust account (being 90% of the IPO proceeds), only if the QA is approved. If the QA is not approved, there will be no refund entitlement in relation to that proposed QA.
Liquidation in event of failure to meet timeframe for the QA	A SPAC which fails to complete a QA within the three years must be liquidated. The amount held in the trust account (net of taxes and liquidation expenses) will be distributed to the shareholders.

Source: Prospectus; Company

Figure 1 : Corporate Structure Pre-Listing



Source: Hibiscus Petroleum Prospectus

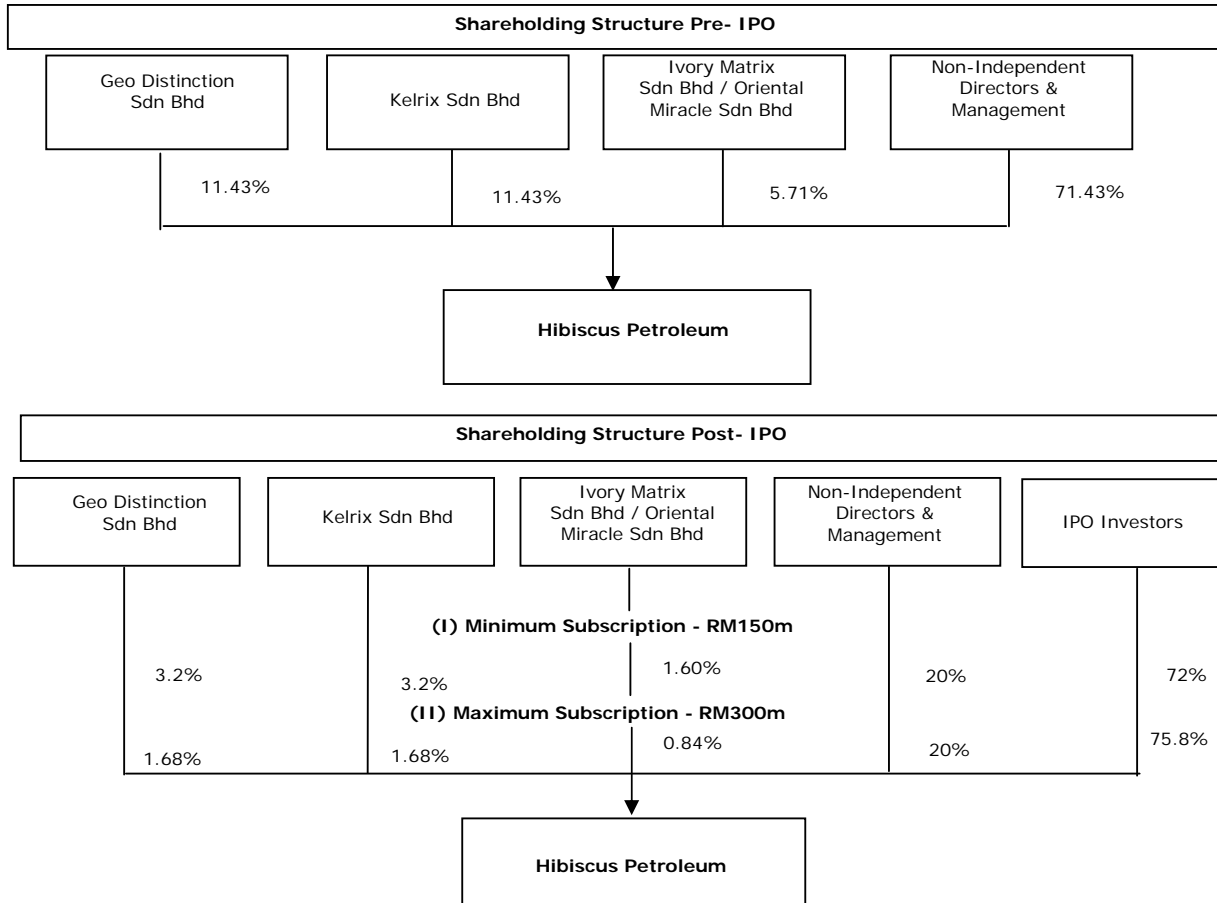
- ◆ **Public issue of 200-400m new shares with one free detachable warrant each.** The company is looking to list 200-400m new shares (par value of RM0.01) which come attached with one free detachable warrant each. Around 190-390m of such shares are available for application by way of private placement to selected investors while the remaining 10m will be made available for application by Malaysian citizens, companies, societies, cooperatives. Around 50% of the 10m will be set aside strictly for Bumiputera investors. However, if there is an under-subscription for any segment, a claw-back mechanism will apportion the shares to the other segment accordingly. The shares are priced at RM0.75/share to enable Hibiscus Petroleum to raise the minimum RM150m funds required for a SPAC to list.
- ◆ **Pre-IPO shareholders – A dilution factor.** Pre-IPO shareholders consist of: 1) Three initial investors; and 2) The management team and non-independent directors. The management team and non-independent directors also owned 10.6m redeemable convertible preference shares (RCPS) of which 5.6m have been converted in Hibiscus shares. The RCPS (with a par value of RM0.01 and subscription price of RM0.10) have been fully paid. The remaining 5m RCPS have a flexible conversion rate that will effectively give the management and non-independent directors 20% of the enlarged issued and paid-up capital after the IPO. We note that this is above the 10% requirement by SC for SPACs. These parties contributed around RM11.1m at start up (see Table 3).
- ◆ **Key terms for “initial investors”.** Pre-IPO proceeds from the initial investors are not refundable and after listing, these initial investors are also not entitled to require the SPAC to purchase their shares. The initial investors also cannot participate in distribution of proceeds from the liquidation of the SPAC. We note that these shares are subject to a moratorium up to the QA.
- ◆ **Key terms for “management and non-independent directors”.** Shares and warrants are subject to SC moratorium up to the QA. Under their 3-year service contracts, any member of the management or non-independent directors who resign or dispose of their shares can only do so at a 30% discount to the market price, and sell only to the remaining management team members. The team cannot participate in the distribution of proceeds from the QA or the liquidation of the SPAC. No directors' fees will be paid until the QA is completed and there will be no adjustment to the remuneration package or introduction of performance incentive schemes prior to the QA.
- ◆ **Free warrants as sweetener.** As mentioned above, IPO subscribers will receive one free detachable warrant with every share. Warrants held by initial investors and IPO investors will be listed and tradable (classified as Warrants-A) while warrants held by the non-independent directors and management will not be listed (classified as Warrants-B). The expiry date for both classes of warrants is three years from listing. However, warrants can only be exercised from the date of the completion of the QA until the expiry date. This implies that the window to exercise the warrants may be quite short if the QA only happens near the end of the 3-year period. The exercise price for Warrants-A is RM0.50 and Warrants-B is RM0.10.

Table 2. Share Capital Pre And post-listing Inclusive Of Warrants

<i>Share capital</i>	Shares (m)	Min		Shares (m)	Max	
		Subscrip price (RM)	Funds raised (RMm)		Subscrip price (RM)	Funds raised (RMm)
Management shares - including converted RCSP	55.57	0.01	0.56	105.55	0.01	1.06
Initial investors shares	22.22	0.45	10.00	22.22	0.45	10.00
Share capital - pre-IPO	77.79		10.56	127.77		
IPO shares	200.00	0.75	150.00	400.00	0.75	300.00
Warrants - exercised						
Share capital - post-IPO	277.79		160.56	527.77		311.06
<i>Warrants</i>	<i>Warrants</i> (m)	<i>Exercise</i> price (RM)	<i>Funds</i> raised (RM)	<i>Warrants</i> (m)	<i>Exercise</i> price (RM)	<i>Funds</i> raised (RMm)
Management's warrants	55.57	0.10	5.56	105.55	0.10	10.56
Initial investors' warrants	22.22	0.50	11.11	22.22	0.50	11.11
IPO investors warrants	200.00	0.50	100.00	400.00	0.50	200.00
Total warrants	277.79		116.67	527.77		221.67
Share capital fully diluted for warrants	555.58			1,055.54		

Source: Hibiscus Petroleum Presentation; RHBRI

Figure 2 : Shareholding Structure Pre and Post IPO



Source: Hibiscus Petroleum Prospectus

- ◆ **Qualifying asset.** The management guided that it will be targeting E&P assets that are low to moderate risk (either onshore and/or low-risk shallow water) that have high upside potential. We understand that the company will be focusing mainly on assets in South Asia, Middle-East, East Asia and Oceania regions. More specifically, we believe these assets may be in countries like India, Indonesia, Australia, Vietnam and the Philippines.

Table 3. Key Criteria For Assets

Risk Profile	Location	Key Criteria
Low	Offshore/Onshore	<ul style="list-style-type: none"> Proven undeveloped reserves IOR (Improved Oil Recovery) / Service Agreement
Moderate	Onshore	<ul style="list-style-type: none"> Proven basin Good data availability Good fiscal terms Political stability of country of location Stable Partners

Source: Prospectus; Company

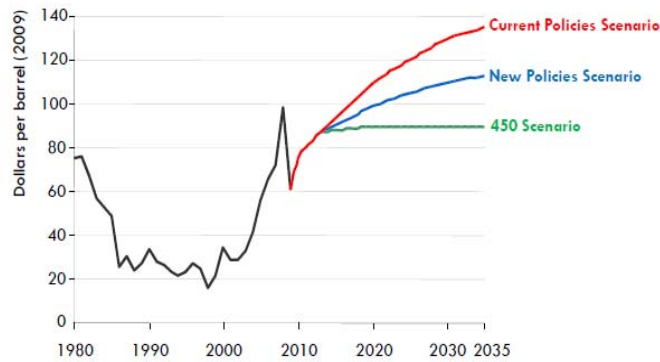
- ◆ **Experienced management team.** The directors of Hibiscus Petroleum have extensive years of experience in the oil and gas industry (individually ranging 7–30 years). Managing director Dr Kenneth Gerard Pereira has 21 years in the oil and gas industry and started off as a field engineer in Schlumberger. Independent non-executive director Zainol Izzet bin Mohamed Ishak was previously CEO of Sapuracrest, and is now CEO of Perisai Petroleum. Head of Petroleum Engineering Dr Pascal Josephus Petronella Hos, and Petroleum Economist Ir Mohd Iwan Jefry Abdul Majid have held extensive positions in many oil and gas companies (see Appendix 1).

In a SPAC, we believe a credible management is crucial given the lack of business operations at the onset. Moreover, the process of identifying “good” assets will depend highly on the management’s experience.

INDUSTRY OUTLOOK

- ◆ **Bullish long-term outlook.** Barring the medium-term volatility in crude oil prices, we believe the oil and gas sector is set for a long-term bullish outlook. According to projections in the World Energy Outlook 2010 (WEO 2010) by the International Energy Agency (IEA), there are three scenarios for crude oil prices. Two scenarios based on current policies and new policies project crude oil prices increasing in line with population growth and economic drivers. The 450 scenario assumes radical policies are implemented to reduce petroleum-based fossil fuel demand. We note that all three scenarios project crude oil prices at above US\$80/bbl level in the long run.

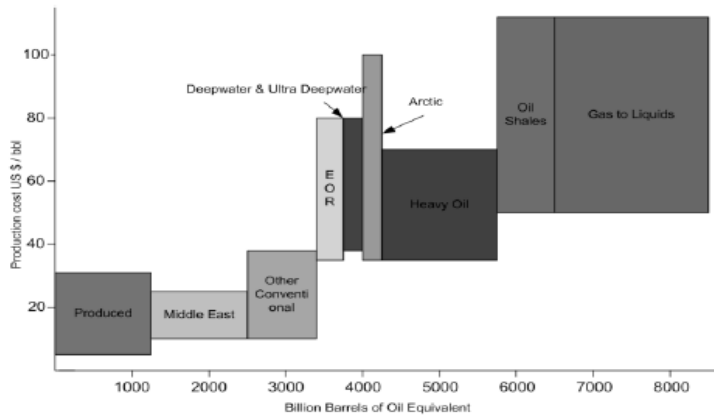
Figure 3 : International Oil Price Assumptions Based On Differing Scenarios



Source: Douglas-Westwood

- ◆ **Crude oil prices above US\$80/bbl would be positive for Hibiscus.** According to the WEO 2008, production costs for conventional and Middle East projects are below US\$40/bbl. For EOR, deepwater and ultra-deepwater projects, production costs run up to US\$80/bbl. We believe Hibiscus Petroleum’s investments (which are small to medium-sized low risk oil and gas fields) would be in conventional fields, and are thus likely to be economically feasible under all the scenarios highlighted in the WEO 2010.

Figure 4 : Production Cost Based On Various Factors

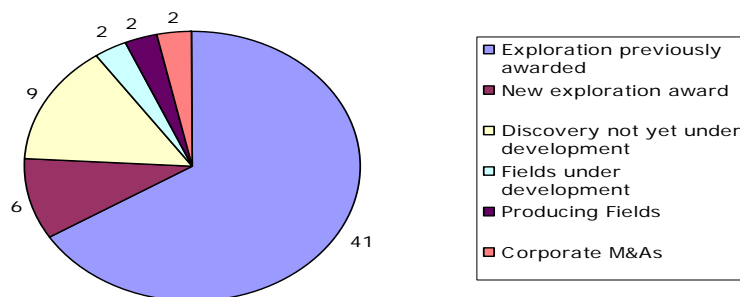


Source: Douglas-Westwood

- ◆ **Plenty of opportunities.** According to a research report by Derrick Petroleum Services entitled “Deals In Play-Asia Pacific”, there are currently 62 oil and gas deals that have been transacted at below US\$100m. 13 deals could be generating revenue within the next two years or less, and at least four deals are expected to generate

income within the next six months or less. The surplus of assets available for acquisition means that Hibiscus will not fall short of opportunities to meet its “Qualifying Asset” acquisition in the allocated three years.

Figure 5 : Current Deals In Asia Pacific Valued Below US\$100m



Source: "Deals In Play- Asia Pacific" by Derrick Petroleum Service; Company

INVESTMENT PROPOSITION

- ◆ **Warrants as a sweetener.** Warrants-A are tradeable from listing date and the exercise price of RM0.50 is at a discount of 33% to the IPO price of RM0.75 for the shares.
- ◆ **Refund flexibility.** Investors will receive 90% of their funds with interest (after deduction of relevant taxes and liquidation/distribution costs which are not expected to be substantial), if the SPAC fails to generate an acquisition within the 3-year period or if they vote against an approved qualifying acquisition. The non-independent directors, management and initial investors are not entitled to any distribution. No other IPO structure limits investors' initial downside in this manner.
- ◆ **Benefits versus standard public equity offerings.** The company offers a limited downside prior to the qualifying acquisitions. Investors (except the non-independent directors and management team) can vote on qualifying acquisitions.
- ◆ Management appears to be highly experienced with credentials from major oil & gas companies as highlighted above and in Appendix 1.
- ◆ We believe crude oil prices are on a long-term uptrend as highlighted above.
- ◆ The warrants offer a potential significant upside, which we will discuss later in this report.

RISKS

- ◆ **Industry risks.** Risks relating to the oil and gas business that would impact the valuation of the company include, but are not limited to:
 - 1) Exploration risks – There is a risk that the company could hit dry / low-producing wells and incur cost overruns;
 - 2) Development risks – Upon development there could be blowouts, oil spills, fires, geological uncertainties, and uncertainties in oil and gas estimates;
 - 3) Production risks – Delays to start-up of commercial production could adversely impact cash inflows that will impact valuation of the company;
 - 4) Possible requirement of additional equity and/or debt financing;
 - 5) Fluctuations in oil and gas prices and demand could significantly impact revenue and returns; and
 - 6) Country risks – There could be changes to government regulations relating to the oil and gas industry that could result in changes to the terms of assets held.

- ◆ **Company risk.** Risks relating to the business that would impact the valuation of the company include, but are not limited to:
 - 1) Hibiscus is a development stage company with no operating history hence it would be difficult to assess its track record;
 - 2) Success of the company is reliant on certain key personnel;
 - 3) Currently there are no other SPACs in Malaysia, hence market reception towards Hibiscus is not assured;
 - 4) IPO investors will not be able to ascertain the merits or risks of target acquisitions at the time of IPO; and
 - 5) The non-independent directors and management team will acquire their combined equity interest of 20% at a significantly lower price, which results in an immediate and significant dilution in the IPO investors' interests.

VALUATION

- ◆ **Expected payback.** We note the difficulty in placing a future value on a company that has no operating business. We have thus done a scenario analysis, to identify possible returns for IPO investors. We also caution that any meaningful movement in the share (and warrant) price would likely only occur once a QA has been identified, and this has to happen within three years of the IPO.
- ◆ **Assumptions on the QA.** Our scenario analysis assumes the following:
 - 1) Hibiscus buys two assets with around 15m barrels of 2P reserves each for US\$3/barrel (i.e. the full US\$90m net IPO proceeds set aside for the QA). 2P refers to the proved and probable reserves with 50% confidence of recovery and is the primary basis for most company valuations. (Refer to Appendix 2 for more definitions). We believe such assets will be near production, as a short lead-time to commercial production is imperative for a start-up independent E&P company sustain the business post-acquisition and grow;
 - 2) The market values of Hibiscus' shares based on the value of the QA's reserves; and
 - 3) The breakeven price for the reserves has to offset the dilution arising from shares issued to management and initial investors at 1 sen and 45 sen respectively. We have assumed "in-the-ground prices" of US\$3-10/barrel. While we have adopted a broad range of values, we believe US\$8/barrel and above is fair as we understand that the fiscal regime in Indonesia (where base-case assets are valued at US\$8/bbl) are the toughest amongst the peer location group that Hibiscus plans to acquire assets from. Our conclusion therefore is that the investment would be positive for IPO investors if "in-the-ground prices" for reserves are in excess of US\$8/barrel.
 - 4) We also highlight that the scenario analysis does not form an opinion as to the balance sheet of the company. E&P ventures typically are very capex intensive, and as such Hibiscus would likely have to gear up or seek additional funds to proceed to the next stage of development.

No of qualifying assets	2	2	2	2	2	2	2	2	
2P Reserves (mmboe)	15	15	15	15	15	15	15	15	
Effective reserves (mmboe)	30	30	30	30	30	30	30	30	
Average value per barrel in the ground (US\$)	3	4	5	6	7	8	9	10	
Total Value (US\$m)	90	120	150	180	210	240	270	300	Based on exchange rate of RM3.05/US\$1
Total Value (RMm)	274.5	366	457.5	549	640.5	732.0	823.5	915.0	
Value per share									
Basic	0.52	0.69	0.87	1.04	1.21	1.39	1.56	1.73	based on 527m shares
Fully Diluted (for warrants)	0.26	0.35	0.43	0.52	0.61	0.69	0.78	0.87	based on 1,056m shares

Source: RHBRI

Table 5: Scenario Analysis

Scenario 1 – Hold The Shares And Convert The Warrants Post-QA					
Cost per IPO share (RM)	0.75	0.75	0.75	0.75	
Cost of converting each warrant into one new share (RM)	0.50	0.50	0.50	0.50	
Effective cost per share (RM)	0.63	0.63	0.63	0.63	After converting warrants into new shares
Qualifying Asset Value (US\$/barrel)	7.00	8.00	9.00	10.00	
Implied fair value (see Table 4)	0.61	0.69	0.78	0.87	based on 1,056m shares
Implied upside (%)	-2.9	11.0	24.8	38.7	
Scenario 2 – Valuing The Warrants Post-QA					
Cost per IPO share (RM)	0.75	0.75	0.75	0.75	
Guaranteed refund (RM)	0.68	0.68	0.68	0.68	90% of the IPO price
Shortfall (RM) – Implied cost per warrant to IPO investors	0.075	0.075	0.075	0.075	Effective entry cost for warrant
Qualifying Asset Value (US\$/barrel)	7.00	8.00	9.00	10.00	
FV/share after upgrade post-QA (RM)	0.61	0.69	0.78	0.87	
Less: Warrants exercise price (RM)	0.50	0.50	0.50	0.50	
Warrants value - post QA (RM)	0.11	0.19	0.28	0.37	
Implied upside (%)	42.4	158.0	273.6	389.1	
Scenario 3 - Buy Shares In The Market					
Share price (RM) - Floor price for the shares	0.68	0.68	0.68	0.68	90% of RM0.75
Qualifying Asset Value (US\$/barrel)	7.0	8.0	9.0	10.0	
FV/share after upgrade post-QA (RM)	0.61	0.69	0.78	0.87	
Implied upside (%)	-10.1	2.7	15.6	28.4	
Scenario 4 - Buy Warrants In The Market					
Share price (RM) - Floor price for the shares	0.68	0.68	0.68	0.68	90% of RM0.75
Less: Warrants exercise price (RM)	0.50	0.50	0.50	0.50	
Implied warrants trading price on listing (RM)	0.18	0.18	0.18	0.18	
Qualifying Asset Value (US\$/barrel)	7.00	8.00	9.00	10.00	
FV/share after upgrade post-QA (RM)	0.61	0.69	0.78	0.87	
Less: Warrants exercise price (RM)	0.50	0.50	0.50	0.50	
Implied warrants trading price post-QA (RM)	0.11	0.19	0.28	0.37	
Implied upside (%)	-39.0	10.6	60.1	109.6	

Source: RHBRI for sensitivity analysis

- ◆ **Warrants are high-risk, high-return.** Table 5 suggests that the warrants (arising from subscription to the IPO) alone offer an attractive return at a lower asset value post-QA, compared to the IPO shares, or even buying the shares or warrants after listing. We note that although the warrants are issued free to IPO investors, we believe they would still have an implied cost of 7.5 sen each, i.e. the 10% balance of the IPO price (75 sen) that is not guaranteed. In any case, assuming a QA is approved, we estimate a potential 158-389% uplift in the value of the warrants, based on US\$8-10/bbl price for the reserves in our assumptions. However, the risk is that the warrants do not have a refund guarantee and moreover, expire three years after the IPO. The warrants also only exercisable once the QA is approved, implying a potential short window to exercise.

- ◆ **Management is still key.** We believe that management is the key driving force for an E&P company. The success factors which require extensive experience are: 1) Identifying a “good” asset; 2) Effectively and efficiently reduce lead time to “commercial production” status; and 3) Managing growth and operational needs. Based on the experienced profile of the management and the significant vested interest (20% of enlarged share base), we believe that all effort will be taken to ensure the first phase (securing a good asset) is a success.

Conclusion

- ◆ **For risk takers.** We believe that Hibiscus shares may be suited to investors looking to participate in the long-term uptrend in oil prices, but understand that meaningful returns may take up to three years to materialise. The safeguards in place, and management’s vested interest (20% stake), imply limited downside risk. However, once a QA is approved, we highlight that the refund guarantee is no longer applicable, and risks escalate at that point.

Appendix 1: Management Team	
Management	Experience
Chairman, Non Executive – Zainul Rahim bin Mohd Zain	B.Sc. Engineering (Mechanical), University of Western Australia <ul style="list-style-type: none"> ◆ More than 30 years in the oil and gas E & P industry ◆ Held several senior positions within the Shell Group
Managing Director – Dr Kenneth Gerard Pereira	B.Sc. (Hons) in Engineering (Bath, U.K.), Masters in Business Administration (Cranfield Institute of Technology, U.K., currently known as Cranfield University) Completed doctoral studies at the University of South Australia <ul style="list-style-type: none"> ◆ 29 years of working experience of which 21 years have been in the oil and gas industry
Independent Non-Executive – Zainol Izzet bin Mohamed Ishak	BA in Actuarial Studies (Macquarie University, Sydney) MBA (Cranfield Institute of Technology, U.K., currently known as Cranfield University) <ul style="list-style-type: none"> ◆ Held a CEO position for 16 years, out of which, 7 were in Malaysian public listed companies ◆ Under his leadership, SapuraCrest became one of Malaysia’s leading oil and gas service providers
Non-Executive – Dr Rabi Bastia Padmashree	D.Sc. in Petroleum Geology (ISM Dhanbad (Alberta University, Canada and Oklahoma University, US) Ph.D in Petroleum/Structure Geology (I.I.T, Kharagpur & Royal Geological Society, U.K.) Bachelor of Science in Petroleum Exploration & Reservoir Management (Norwegian Technological University, Norway) Bachelor of Science in Applied Geology (I.I.T. Kharagpur) <ul style="list-style-type: none"> ◆ Involved in the oil and gas E&P industry for more than 30 years
Independent Non-Executive – Datin Sunita Rajakumar	Chartered Accountancy (Institute of Chartered Accountants, England & Wales) LLB (Hons), (University of Bristol) <ul style="list-style-type: none"> ◆ Currently provides consulting services on monitoring and improving national innovation ecosystems ◆ 9 years’ experience in technology consulting and managing a venture capital fund wholly owned by MIMOS Berhad, the national research institution Malaysia ◆ 10 years’ experience in corporate finance and audit
Chief Financial Officer – Joyce Vasudevan	Australian Certified Practising Accountant Member of Australian Society of CPAs & Malaysian Institute of Accountants Bachelor of Economics (Accounting) (LaTrobe University, Australia) <ul style="list-style-type: none"> ◆ More than 20 years of finance experience through working in multinationals, local listed companies and banking institutions in areas of audit, corporate finance, business planning and strategic & operations planning
Head of Petroleum Engineering – Dr Pascal Josephus Petronella Hos	PhD Mechanical Engineering, Rice University, Houston, TX, USA B.S. Mechanical Engineering, Rice University, Houston, TX, USA <ul style="list-style-type: none"> ◆ Almost 10 years of experience in the oil and gas E&P industry, primarily in reservoir engineering production technology and rock mechanics ◆ An expert in certain secondary recovery techniques that will be useful to our Company, particularly when determining if recovery of oil and gas fields can be increased post-acquisition
Petroleum Economist – Ir Mohd Iwan Jefry Abdul Majid	MSc. Petroleum Engineering (Imperial College of London, U.K.) BSc. Petroleum & Natural Gas Engineering (Pennsylvania State University, U.S.A.) <ul style="list-style-type: none"> ◆ 18 years’ experience in the oil and gas E&P industry ◆ Extensive regional sub-surface engineering experience

Source: Hibiscus Petroleum Presentation Slides

Appendix 2: Exploration & Production Terms And Definitions

Stock Tank Oil Initially In-Place (STOIIP) - total hydrocarbon content of an oil reservoir (also referred to as Oil in Place)

Reserves - quantities of petroleum claimed to be commercially recoverable by application of development projects to known accumulations under defined condition

Proved reserves (1P) - reserves claimed to have a reasonable certainty (normally at least 90% confidence) of being recoverable under existing economic and political conditions, with existing technology. Prospect - a lead which has been fully evaluated and is ready to drill

Probable reserves (2P) - reserves claimed to have 50% confidence level of recovery. Such reserves are basically the sum of 1P and 2P reserves (proved plus probable).

Possible reserves (3P) - reserves claimed to have 10% confidence level of recovery. Such reserves are basically the sum of 1P, 2P and 3P reserves (proved plus probable plus possible).

Contingent resources are those quantities of petroleum estimated, at a given date, but not considered to be commercially developed as yet. Contingencies may include factors such as economic, legal, environmental, political, and regulatory matters, or a lack of markets. It is also appropriate to classify as contingent resources the estimated discovered recoverable quantities associated with a project in the early evaluation stage.

Contingent resources are further categorised according to the level of certainty associated with the estimates and may be sub-classified based on economic viability.

- *Low Estimate (1C) – This is considered to be a conservative estimate of the quantity that will actually be recovered. If probabilistic methods are used, there should be at least a 90% probability (P90) that the quantities recovered will equal or exceed the low estimate.*
- *Best Estimate (2C) – This is considered to be the best estimate of the quantity that will actually be recovered. It is equally likely that the actual remaining quantities recovered will be greater or less than the best estimate. If probabilistic methods are used, there should be a 50% probability (P50) that the quantities recovered will equal or exceed the best estimate.*
- *High Estimate (3C) – This is considered to be an optimistic estimate of the quantity that will actually be recovered. It is unlikely that the actual remaining quantities recovered will exceed the high estimate. If probabilistic methods are used, there should be at least a 10% probability (P10) that the quantities recovered will equal or exceed the high estimate.*

Prospective resources are those quantities of petroleum estimated, as of a given date, to be potentially recoverable from undiscovered accumulations by application of future development projects. Prospective resources have both an associated chance of discovery and a chance of development.

Risked prospective resources are calculated by multiplying the unrisks resources by the geological chance of success to account for the risk of drilling an unsuccessful exploration well.

Lead – a structure which may contain hydrocarbons.

Prospect – a lead which has been fully evaluated and is ready to drill.

Source: Society of Petroleum Engineers Website (<http://www.spe.org/index.php>)

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Stock Ratings

Outperform = The stock return is expected to exceed the FBM KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the FBM KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the FBM KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the FBM KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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