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POLO RESOURCES LIMITED

(**"Polo"** or the **"Company"**)

HIBISCUS PETROLEUM – INVESTMENT UPDATE

Polo Resources Limited (AIM: POL), the multi-sector investment company with interests in oil, gold, coal, copper, phosphate, lithium, iron and vanadium, notes that its 8.75% investee company Hibiscus Petroleum Berhad ("Hibiscus") has announced a Corporate and Business Update (the "Update") outlining the Group's initiatives and action plans to ensure business continuity in an environment of low oil prices and to safeguard its employees against the COVID-19 outbreak.

Importantly in the Update, Hibiscus also highlighted that the Group has signed a deed of supply and collaboration ("the Deed") with Trafigura Pte Ltd ("Trafigura") which covers several key areas of commercial cooperation.

With the signing of this Deed, Hibiscus and Trafigura have put in place a framework for the following:

- Potential future offtake of crude oil by Trafigura from assets owned/projects undertaken by Hibiscus; and
- Potential funding for projects and asset acquisitions pursued by Hibiscus

Jointly working with Trafigura, Hibiscus has also taken the opportunity to lock-in the sales price for a substantial portion of its North Sabah production over the CY2020 period.

Trafigura is one of the world's leading independent physical commodities trading companies, and is involved in the sourcing, storage, transport and delivery of a range of raw materials including crude oil and refined products.

Commenting on the agreement, Hibiscus' Managing Director, Dr Kenneth Pereira, said, *"We are pleased to be able to execute such a commercial agreement with a global institution such as Trafigura. This will allow the Group to leverage its existing and future production capacity with Trafigura's global purchasing, funding and marketing capability."*

"Trafigura's business in Asia has grown materially in the last few years," said Chin Hwee Tan, CEO Asia Pacific for Trafigura. "One of the key objectives is for us to continue to think locally while leveraging off our global platform. In parallel, we are continuing to expand our support to a selected number of companies in the oil and gas upstream sector, in Asia and across the world. Local players such as Hibiscus Petroleum, together with the local financial system, are most important as our long-term partners as we continue to build our business in the region. We are looking forward to working with Hibiscus Petroleum as it continues to grow its asset base."

Corporate and Business Update

Highlights:

- Global storage capacity limitations have exacerbated the adverse impact of the COVID-19 outbreak and the OPEC+ alliance's insufficient supply response on crude oil prices.

- Hibiscus Petroleum's asset action plans have been activated to mitigate the effects of low oil prices over the CY2020 period:-
 - Revenue – locked in future sales of 750,000 bbls at an average price of USD35/bbl at North Sabah
 - OPEX – commenced the optimisation of unit operating costs at Anasuria and North Sabah targeting USD 18.5/boe and USD 15.0/bbl respectively
 - CAPEX – replanned development expenditure programme at North Sabah to ensure projects continually meet economic feasibility criteria
- A Framework of Cooperation has been established and formalised with Trafigura, which in addition to current funding lines, potentially provides access to funding for working capital, CAPEX and potential asset acquisitions whilst ensuring the offtake of crude oil production at North Sabah.
- Hibiscus is readying for potential new opportunities in its areas of geographic focus.

HSSE Measures in Dealing with COVID-19

Being an oil & gas company with operations in Malaysia, Hibiscus is an essential service and has continued to operate throughout the Movement Control Order ("MCO") period. As part of its business continuity plan, Hibiscus has enacted various directives to counteract the spread and impact of COVID-19.

For North Sabah, this includes work-from-home rotations for office-based staff, with teams formed to manage critical areas including emergency response, incident management and critical business activities. Offshore teams have been segregated in case of any potential quarantine scenario, with the focus being on priority activities.

In Anasuria, non-perishable food stocks offshore have been increased to cover a month in case supply becomes restricted. Total number of offshore personnel has been reduced, with ability to provide quarantine cabins if required. The helicopter operator has begun mandatory temperature checks at the heliport prior to entering the main building, with modified helicopters being prepared to evacuate any potential COVID-19 cases.

Market Environment – Brent more resilient than WTI but further supply cuts needed

Oil prices continue to remain weak due to substantial demand reduction caused by measures taken to combat COVID-19, including restrictions on movement and travel resulting in a significant reduction in overall economic activity. Figure 1 by Rystad Energy below, shows theoretical stock builds in April 2020 of over 26 million barrels per day (bpd), with further builds of approximately 14 million bpd and 6 million bpd in May and June respectively.

Under normal circumstances, any production oversupply would be stored without issue. The recent demand destruction that has taken place has resulted in onshore storage facilities filling up far more rapidly than originally anticipated. The anxiety over storage was the main driver for WTI May futures contracts to drop to negative levels, as WTI requires physical delivery. According to Rystad Energy, globally, the market may run out of places to store crude oil by mid or late-May. To avoid these untested waters, global production shut-ins need to accelerate, as shown in Figure 2 of Hibiscus' announcement.

On a positive note, Rystad believe that Brent should be more resilient than WTI – given it is made up of multiple crude grades and has natural egress to seaborne markets, and thus can chase global demand in a way that WTI cannot. They expect Brent to be connected to the physical prices in the North Sea but with storage-linked risks that are less urgent than with WTI.

Asset Action Plans

Opex

To mitigate the risks posed by COVID-19, MCO and low crude prices, Hibiscus' key focus is to ensure business continuity. Both North Sabah and Anasuria teams are targeting a reduction in Unit Production Costs ("UPC") for 2020 through the deferral of non-critical Opex activities and managing General & Administrative expenses. Through this careful management of Opex, Hibiscus is focused on maintaining positive operating cashflows, with UPC targets for 2020 in Anasuria and North Sabah of USD 18.5/boe and USD 15.0/bbl respectively.

Capex

No major Capex is planned for Anasuria in 2020, while the North Sabah team has undertaken efforts to optimise development capex for its 2020 drilling campaign to ensure the clear economic viability of projects even with prevailing low crude prices. This has resulted in the asset targeting a reduction of Unit Development Costs from USD 14.2/bbl to USD 10.5/bbl over the CY2020 period.

Production and Offtakes

Hibiscus' total net production target for FY2020 currently stands at 3.2 MMbbl of oil. Planned offtakes for Q4 FY2020 may potentially be deferred to Q1 FY2021 in order to realise higher crude price in both North Sabah and Anasuria. As a forward step for the remaining period of CY2020, Hibiscus has locked in future sales of 750,000 bbls at an average price of USD 35/bbl at North Sabah.

Commercial Cooperation – a commercial and funding partnership

In April 2020, Hibiscus signed a deed of supply and collaboration ("Deed") with Trafigura which covers several areas of commercial cooperation. Trafigura is a physical commodities trading company, which is involved, amongst other things, in the sourcing, storage, transport and delivery of a range of raw materials including oil and refined products.

With the signing of this Deed, Hibiscus and Trafigura have put in place a framework for the following:

- Potential future offtake of crude oil by Trafigura from assets owned/projects undertaken by Hibiscus
- Potential funding for projects and asset acquisitions pursued by Hibiscus

Hibiscus is pleased to be able to execute such a commercial agreement with a global institution such as Trafigura which allows the company to leverage its existing and future production capacity with Trafigura's global purchasing, funding and marketing capability.

New Ventures – on the lookout for new opportunities

Despite the weak oil price and market sentiment, Hibiscus continues to maintain the momentum in exploring new asset opportunities within its areas of geographic focus. Hibiscus acknowledges that there has already been a slowdown in the pace of potential asset divestments and that lending banks are having to safeguard their existing client portfolios before onboarding new clients to fund potential acquisitions.

However, Hibiscus is continuing to work through the key factors and assumptions underpinning asset valuations as well as rework the capital structures that would support new asset acquisitions in the current market. Ultimately, Hibiscus is readying for the recommencement of asset divestment programmes to be able to acquire assets at a reasonable price to boost the company's oil production and reserves.

Shareholders and Shareholder Value

In undertaking its business activities, the preservation of shareholder value continues to be a core tenet of Hibiscus. Over the first quarter of CY2020, the capital markets have seen significant profit taking, and the company has seen some switching in its shareholder base from institutional to retail, as shown in Figure 3 of Hibiscus' announcement. However, the institutional shareholding percentage in the company is still significant at 42.9% with more than half being foreign institutions. Overall, despite the volatility in the market, the company has been supported by several new names entering its shareholder base.

The full details of these announcements can be found at <http://www.hibiscuspetroleum.com/>.

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About the Company

Polo Resources Limited is a multi-sector investment company focused on investing in undervalued companies and projects with strong fundamentals and attractive growth prospects. For complete details on Polo, please refer to: www.poloresources.com

