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Polo Resources

POLO RESOURCES LIMITED
("**Polo**" or the "**Company**")

HIBISCUS PETROLEUM – INVESTMENT UPDATE

Polo Resources Limited, 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 today released a Corporate and Business Update (the "Update") outlining the Group's targets and initiatives as well as operational updates in conjunction with the release of its quarterly financial results for the quarter ended 30 September 2020.

Highlights

- Hibiscus Petroleum announced earnings before interest, taxes, depreciation and amortisation ("EBITDA") of RM65.3 million (USD16.05 million) and a profit after taxation ("PAT") of RM10.0 million (USD2.46 million) for the financial quarter ended 30 September 2020 ("Current Quarter").
- The Group sold 842,790 barrels ("bbls") of crude oil in the Current Quarter. Three offtakes were conducted; two from North Sabah and one from Anasuria.
- The North Sabah asset exceeded gross oil production of 20,000 bbls per day in September 2020; peak last achieved in 2014 under the previous operator.
- New Opportunities: Successful fund-raising of Islamic Convertible Redeemable Preference Shares ("CRPS") of RM203.6 million (USD49.78 million) to date; will be used for potential targeted acquisitions in Southeast Asia.

Production

Malaysia South China Sea

North Sabah PSC: Production Operations

The table below provides a summary of key operational statistics for the North Sabah asset, based on SEA Hibiscus Sdn Bhd's ("SEA Hibiscus") 50% participating interest, for the Current Quarter and for the prior three financial quarters:

	Unit	July to September 2020 [2]	April to June 2020	January to March 2020	October to December 2019
Average uptime	%	86	94	89	93
Average gross oil production	bbl/day	16,895	18,780	17,395	17,076
Average net oil production	bbl/day	6,251	6,949	6,436	6,318
Total oil sold	bbl	592,453	249,387	611,367	671,452
Average realised oil price [1]	USD/bbl	39.46	31.79	47.72	70.19
Average OPEX per bbl (unit production cost)	USD/bbl	17.08	10.27	13.05	12.23

Figure 1: Operational performance for the North Sabah asset.

Notes to Figure 1:
1 The average realised oil price represents the weighted average price of all Labuan crude sales from SEA Hibiscus.
2 Figures for the period July 2020 to September 2020 are provisional and may change subject to the PSC Statement audit and that they are pending Petroliam Nasional Berhad ("PETRONAS")'s review.

The average uptime of the North Sabah production facilities of 86%, achieved during the Current Quarter, is lower when compared to the financial quarter ended 30 June 2020 ("Preceding Quarter") mainly due to the commencement of planned maintenance activities as well as jacket shutdown due to the drilling of the four wells of the St Joseph Minor and Major Sands Redevelopment. Consequently, average gross oil production decreased by 10% during the Current Quarter when compared to the Preceding Quarter.

Two crude oil offtakes were conducted in the North Sabah asset in the Current Quarter with a total of 592,453 bbls of oil, net to SEA Hibiscus, sold at an average oil price of USD39.46 per bbl.

Average OPEX per bbl for North Sabah increased to USD17.08 per bbl when compared to the Preceding Quarter due to lower production and higher OPEX in the Current Quarter because of planned maintenance activities. The OPEX per bbl metric is expected to decrease in the Next Quarter due to lower expected OPEX spending with the conclusion of planned maintenance activities on the back of higher expected crude oil production (as further outlined below).

In terms of capital expenditure, the North Sabah asset incurred RM86.2 million (USD21.18 million) during the Current Quarter mainly due to the commencement and execution of the St Joseph Minor and Major Sands Redevelopment.

North Sabah PSC: St Joseph Minor and Major Sands Redevelopment

PETRONAS had on 26 June 2020 approved the St Joseph Minor and Major Sands Redevelopment Field Development Plan ("FDP") which entailed drilling of three infill wells targeting the Minor Sands and one infill well targeting the Major Sands. Drilling operations commenced when the rig made her final approach on 29 June 2020. All four wells were successfully drilled and completed in the Current Quarter.

St Joseph Minor Sands Redevelopment achieved first oil on 29 August 2020 and St Joseph Major Sands Redevelopment achieved first oil on 14 September 2020. The initial production rates from these new St Joseph infill wells based on stabilised well tests are at 2,200 bbls per day, on target with the FDP. As a result of this incremental production, the North Sabah asset successfully recorded daily cumulative production exceeding 20,000 bbls per day for several days in September 2020. This peak production level for the North Sabah asset was last attained in 2014. The project is expected to add life of field gross reserves of 3.98 MMstb.

The project completed with the rig demobilising from the platform on 23 September 2020.

UK North Sea

Anasuria Cluster: Production Operations

As of 30 September 2020, the company's indirect wholly-owned subsidiary, Anasuria Hibiscus UK Limited ("Anasuria Hibiscus UK") has been involved in the joint operations of the Anasuria asset for over four years.

Figure 2 shows the operational performance achieved by the asset, based on Anasuria Hibiscus UK's 50% participating interest, for the Current Quarter, as well as for the prior three financial quarters:

	Units	**July to September 2020**	**April to June 2020**	**January to March 2020**	**October to December 2019**
Average uptime	%	94	85	89	85
Average net oil production rate	bbl/day	2,753	2,539	2,802	2,680
Average net gas export rate @	boe/day	330	322	375	288
Averagenetoilequivalent production rate	boe/day	3,084	2,861	3,177	2,968
Total oil sold	bbl	250,337	0	238,605	249,704
Total gas exported (sold)	mmscf	182	176	205	159
Average realised oil price	USD/bbl	41.99	-	50.59	68.67

Average gas price	USD/mmbtu	0.44∞/ 1.45#	0.39∞/ 1.17#	1.09∞/ 2.80#	1.62∞/ 4.02#
Average OPEX per boe	USD/boe	17.53	14.29	14.92	22.64

Figure 2: Operational performance for the Anasuria asset.

Notes to Figure 2:
@ Conversion rate of 6,000 standard cubic feet ("scf") per boe.
∞ For Cook field.
 # For Guillemot A, Teal and Teal South fields.
boe – bbl of oil equivalent.
mmscf – million standard cubic feet.
mmbtu – million British thermal units.

The average uptime and average daily oil equivalent production rate achieved at the Anasuria asset for the Current Quarter of 94% and 3,084 boe per day exceeded that of the Preceding Quarter. One crude oil offtake was conducted at Anasuria during the Current Quarter, in which 250,337 bbls of oil net to Anasuria Hibiscus UK was sold at an average realised oil price at USD41.99 per bbl. The average OPEX per boe in Anasuria for the Current Quarter was USD17.53 per boe which is higher than USD14.29 per boe in the Preceding Quarter.

In September 2020, a scale squeeze operation was conducted on Guillemot P3 well which contributed to an increase in OPEX per boe compared to the Preceding Quarter. Consistent with the Preceding Quarter, a combination of a reduction in costs due to the lower oil price environment, deferral of activities to mitigate COVID-19 risks as well as the optimisation in timing of one-off activities in Calendar Year 2020 ("CY2020") has contributed towards a low OPEX per boe.

Operationally, a significant review of the Group's operating strategies, maintenance systems, and organisational capability continues, as part of an overall initiative to carefully manage costs. The performance of the wells is also being monitored actively and continuous efforts are being put in to optimise production. Hibiscus is currently on track to achieve its target of reducing the OPEX per boe to USD18.5 per boe over CY2020.

Planning also continues for a 40-day offshore turnaround of the Anasuria FPSO in FY2021. This turnaround will be to improve the reliability and integrity of the Anasuria FPSO as well as to ensure a safe working environment. Several minor production enhancement projects are also included in the planned scope of this turnaround.

In terms of capital expenditure, Anasuria Hibiscus UK incurred a relatively minor amount of approximately RM2.6 million (USD0.64 million) primarily for the upgrade & replacement of facilities on the Anasuria FPSO. No major CAPEX is planned for Anasuria in CY2020.

<u>UK North Sea – Marigold Cluster</u>

The Marigold Cluster comprises the following licenses and fields with discoveries:

- 50% interest in P198 - Block 15/13a ("Marigold");
- 50% interest in P198 - Block 15/13b ("Sunflower"); and
- 100% interest in P2366 - Blocks 15/18d and 15/19b.

The development concept for the Marigold Cluster continues to be optimised to take advantage of the low crude oil price environment and the resultant reduction in oilfield service company rates. Given the current COVID-19 situation, it is likely that the Final Investment Decision for this project is now expected in 2021 with first oil being achieved in 2023.

<u>Australia – Bass Strait Cluster</u>

The Bass Strait Cluster comprises the following:

- 100% interest in the VIC/L31 Production License ("**VIC/L31**")
- 75.1% interest in the VIC/P57 Exploration Permit ("**VIC/P57**")

- 50% interest in the VIC/P74 Exploration Permit (“**VIC/P74**”)

In addition, Hibiscus has a 11.68% interest in 3D Oil Limited (“3D Oil”), a company listed on the Australian Stock Exchange.

Given the Group’s focus on Malaysia and the UK, oil price volatility and current travel restrictions, the Group has deferred its development plans for its Bass Strait Cluster. As a result, Hibiscus recognised provisions for impairment in licences within this Cluster (specifically VIC/L31 and VIC/P57) in the Preceding Quarter.

On 8 October 2020, Hibiscus announced that Carnarvon Hibiscus Pty Ltd (“Carnarvon Hibiscus”), an indirect wholly-owned subsidiary of Hibiscus Petroleum, completed its acquisition of 50% interest in VIC/P74 (the “Permit”).

Carnarvon Hibiscus entered into an assignment agreement with 3D Oil, for the Permit on 8 May 2020 (“Assignment Agreement”). Upon satisfaction of the conditions precedents in the Assignment Agreement which included the approval of the Assignment Agreement, and registration of the Supplementary Instrument for the Assignment Agreement by the Australian National Offshore Petroleum Titles Administrator (“NOPTA”), Carnarvon Hibiscus entered into a Joint Operating Agreement with 3D Oil on 23 July 2020 and submitted the same, together with the Instrument of Transfer and Deed of Cross Charge for the Permit (collectively the “Instruments”), to NOPTA for approval and registration. NOPTA’s approval was obtained on 7 October 2020, and the Instruments were registered on the same date, thereby facilitating the completion of Carnarvon Hibiscus’ acquisition.

Financial Performance

The Group’s revenue base has grown stronger since Hibiscus completed the acquisition of a 50% participating interests in the 2011 North Sabah EOR PSC on 31 March 2018, to add to the contribution from the Anasuria Cluster in the UK. Under the current relatively low oil price environment, the Group has continued to focus on cost optimisation activities. The OPEX are being controlled by a combination of reduction in costs due the lower oil price environment, deferral of activities to mitigate COVID-19 risks as well as the optimisation in timing of one-off activities in CY2020. The careful management of costs to maintain low operational expenditure and the delivery of production enhancement projects have been key towards obtaining a low unit production cost structure in both the North Sabah and Anasuria assets.

For the quarter ended	Unit	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019
Revenue	RM Mil	145.5	39.5	175.9	271.8	159.3
EBITDA/(LBITDA)	RM Mil	65.3	(100.8)	94.7	142.3	77.1
PAT/(LAT)	RM Mil	10.0	(145.2)	28.5	51.2	16.2
Basic earnings/(loss) per share	sen	0.63	(9.14)	1.79	3.23	1.02

Figure 3: Highlights from the Group’s Profit or Loss Statement for the last five financial quarters.

Note to Figure 3*: Includes provisions for impairment of oil and gas assets of RM196.3 million in 4Q FY2020.*

As at	Unit	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019
Total assets	RM Mil	2,492.3	2,426.2	2,619.2	2,567.8	2,553.2
Shareholders’ funds	RM Mil	1,196.8	1,221.3	1,366.0	1,290.1	1,261.6
Cash and bank balances *	RM Mil	96.3	77.3	57.1	87.2	179.5
Total debt	RM Mil	Nil	(49.2)	(48.7)	Nil	Nil
Net current liabilities	RM Mil	(91.2)	(48.8)	(41.5)	(53.5)	(103.9)

Net assets per share	RM	0.75	0.77	0.86	0.81	0.79

Figure 4: Highlights from the Group's Balance Sheet for the last five financial quarters.

* *Omits restricted cash and bank balances.*

New Opportunities

As disclosed in the Preceding Quarter, Hibiscus Petroleum is focused on building scale in areas where the company is already present. Priority will be given to assets that demonstrate strong production potential coupled with cost optimisation opportunities.

As part of its plans to acquire production assets in Southeast Asia, on 9 September 2020 Hibiscus announced the raising of up to RM2.0 billion (USD0.5 billion) through the private placement of CRPS. This was approved by the company's shareholders at an Extraordinary General Meeting held on 3 November 2020.

The purpose of the fund-raising exercise is to be in a position to secure quality assets at relatively low valuations as the oil and gas industry is currently hit by the impact of the pandemic and climate change activism. Hibiscus expects to capitalise on the eventual recovery in oil prices, which based on analysis by Rystad Energy, is expected from 2021 onwards.

This CRPS will be issued in tranches based on potential acquisition windows and will be sized to minimise dilutive effects to existing shareholders, taking into account the requirements of financial institutions that are supporting the debt component of various bids being contemplated for submission.

To date, Hibiscus has successfully raised a total of RM203.6 million (USD49.78 million) via the issuance of 203.6 million Islamic CRPS, the largest CRPS issuance this year.

Oil Market Outlook

Over the last few weeks, several factors have positively impacted oil markets.

Rebound in Global Economic Growth Rates and High Rates of Efficacy of COVID-19 Vaccines

The International Monetary Fund, in their 7 October 2020 World Economic Outlook report, projected that the global economy would rebound by 5.2% in Calendar Year 2021 ("CY2021"). The same report forecasted a 4.4% decline in CY2020. As oil demand normally mirrors the direction of economic activity, these growth figures bode well for stronger oil prices from the second half of CY2021 as existing inventory is reduced and oil markets rebalance.

The rebound in economic activity looks even more likely as since mid-November 2020, several reputable pharmaceutical companies have announced that their COVID-19 vaccines have demonstrated high rates of medical effectiveness. Approvals for the widespread application of these vaccines are currently underway. Oil prices have responded positively to this news and the expectation is that various COVID-19 vaccines will be widely distributed by the second half of CY2021.

OPEC+ Compliance

OPEC is expected to hold its ministerial meeting on 30 November and 1 December 2020 to decide crude oil production quotas for early CY2021. Initially, it was expected that there would be a tapering- off of quotas that are currently in place for the OPEC+ partners but given the recent peace deal brokered at the end of September 2020 between various factions in Libya, crude oil production from this country is thought to have reached 1.2 million bbls per day in mid-November 2020 (from levels of 100,000 bbls per day earlier in the year). As a result of this development, it is expected that the OPEC+ partners will not lift quotas, thus enabling Libyan crude to be accommodated and prices to remain stable.

Contraction of US Crude Oil Supply

The US Energy Information Administration ("EIA") expects US crude oil production to decline to an average of 11 million bbls per day in the second quarter of CY2021 because new drilling activity is unlikely to generate enough supply to offset declines from existing wells given that US onshore rig count has dramatically dropped in CY2020.

Oil Price Outlook

Rystad Energy believes that the extension of OPEC+ cuts into 2021 would be vital to ensuring a balanced oil market and consequently a stable oil price. On 17 November 2020, OPEC's Joint Ministerial Monitoring Committee met and reaffirmed their commitment to full compliance with production cuts. Their recommendations will be provided to OPEC and OPEC+, who are expected to meet on 30 November 2020 and 1 December 2020 respectively, with Rystad expecting decisions on future cuts to be announced then.

Based on the analysis by Rystad Energy , a recovery in oil prices is expected from early 2021 onwards, with Brent oil prices projected to rise to levels around USD50 per barrel by end- 2021 and peaking at approximately USD60 per barrel in 2022. In the shorter term, positive news about the efficacy of potential vaccines during trials have lifted Brent prices.

Decarbonisation Strategy

We are now witnessing a transition towards greener sources of energy, including the reduction of carbon emissions across all sectors. Decarbonising is essential for the Group to reach compliance to the net zero goal of 2050 as committed to by the UK government and PETRONAS. Additionally, adopting decarbonisation strategies will help the company's business to remain relevant, investable and sustainable.

As part of that transition, Hibiscus' North Sabah operations have already installed solar photovoltaic and wind turbine systems to power a few of its remote platform jackets. Other decarbonising strategies under consideration include the reduction of upstream flaring, venting and fugitive emissions as well as investments in renewable energy assets and participation in nature-based solutions.

Concluding Remarks

As of the date of this report, we are nearing the end of CY2020. Through a period of grave global economic uncertainty, the activities of the company, founded on operating safely and optimising costs, have continued without interruption.

For the North Sabah asset, a major capital project of drilling four development wells was executed below budgeted levels and has delivered production levels that have not been achieved since 2014. In the UK, new licences with discovered resources in close proximity to its existing or planned infrastructure have been secured as part of the UK's 32nd Licensing Round.

As for future growth and business development, the Group has been qualified to bid for various assets in the Southeast Asia region. In this regard, a multi-tranche exercise (raising of up to RM2.0 billion (USD0.5 billion) of CRPS, with RM203.6 million (USD49.78 million) already raised under challenging conditions) has been approved by shareholders and has placed Hibiscus in a position to react quickly and positively if Hibiscus is successful in securing any of the assets the company is targeting.

In summary, the company has returned to profitability and its cash position remains strong. Over CY2020, Hibiscus has demonstrated its agility and resilience to operate and grow in challenging market conditions. Hibiscus believes market conditions will significantly improve in the coming quarters and the company expects to be able to demonstrate, in parallel, improved business and operational performance.

The full details of this announcement can be found at http://www.hibiscuspetroleum.com/.

For further information, please contact:

Polo Resources Limited +27 (0) 787 312 919

- Kudzayi Denenga, Investor Relations

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.