Company:
Hibiscus Petroleum Berhad
Name: Mark Paton
Email: mark@hibiscuspetroleum.com
Web: www.hibiscuspetroleum.com
Tel: +6 03 2092 1300
Address: 2nd Floor, Syed Kechik Foundation Building, Jalan Kapas, Bangsar, 59100 Kuala Lumpur, Malaysia

Timor Hibiscus Limited Acquires Talisman Resources

In June, Timor Hibiscus Limited, a wholly-owned subsidiary of Hibiscus Petroleum Berhad, executed a share sale agreement for the acquisition of 100% of the shares in Talisman Resources (JPDA 06-105) Pty Limited, an indirect wholly-owned subsidiary of Talisman Energy Inc. Mark Paton, Chief Business Development Officer, Hibiscus Petroleum, spoke to Acquisition International about the deal and how it will help Hibiscus Petroleum achieve its goal of producing 10,000 – 15,000 barrels of oil per day by 2016.

Timor Hibiscus Limited is a wholly-owned subsidiary of Hibiscus Petroleum Berhad (Hibiscus Petroleum), the Malaysian independent oil and gas exploration and production company which was listed in July 2011 as a Special Purpose Acquisition Company (SPAC). *"Hibiscus Petroleum was the first SPAC under the listing rules of Bursa Malaysia Securities Berhad (Bursa Malaysia) then,"* says Mark Paton, Chief Business Development Officer at Hibiscus Petroleum, *"and its stated intention was to build an oil and gas exploration and production company with a balanced portfolio of assets including exploration, development and producing assets."*

The company raised around US$85m at IPO and acquired a 35% interest in Lime Petroleum Plc (Lime Petroleum) for US$55m. Lime Petroleum holds assets in four concessions in the Middle East including Oman, Sharjah and Ras Al Khaimah, and 13 licences in the Norwegian Continental Shelf (two of which are subject to regulatory approval). Hibiscus Petroleum's wholly-owned subsidiary is the operator for these Middle East assets.

In late 2013 and early 2014, Hibiscus drilled two wells in Block 50 in Oman with the second of the two wells discovering light oil which produced over 3000 stock tank barrels of dry oil per day on a short term test. This was the first offshore oil discovery east of Oman after more than 30 years of exploration and has potentially opened up a new petroleum province.

By September 2013, the company raised an additional US$30m via the issue of convertible redeemable preference shares. This was used to wholly acquire 50.1% of the VIC/P57 permit offshore Australia and 13% of 3D Oil Limited, the company which previously owned 100% of the permit. The permit contains an undeveloped oilfield called West Seahorse which has certified 2P reserves of around 6.5 million barrels. It is Hibiscus Petroleum's intention to develop this field as operator in the next 18 months.

"In the three years the company has been listed we have achieved our objective of becoming an exploration and production company with a balanced portfolio of assets."

Paton says the company's five-year mission (to be completed by July 2016) is to establish an upstream exploration and production company with production of 10,000 – 15,000 barrels of oil per day and 100 million barrels of proven and probable reserves that has the capacity to fund at least three exploration wells per year at around a 30-40% participating interest.

To distinguish itself from its competitors, in exploration Hibiscus Petroleum augments its conventional geoscientific analysis with an overlay of Rex Virtual Drilling, says Paton. *"The company, via its interest in its jointly-controlled entities, Lime Petroleum and HiRex Petroleum Sdn Bhd (HIREX) has access to the Rex Technology for 15 countries in the Middle East, in Norway, and in 11 countries within the Asia Pacific region respectively. We believe that our rigorous approach to exploration will give us an edge in finding oil and gas in our areas of focus."*

The company also adopts a *"planning for success"* methodology which is a philosophy whereby it plans the steps to production prior to making an exploration discovery. *"This way we can significantly reduce the time taken from discovery to commercial production with a small up-front investment,"* Paton explains *"We can do this because our strong management team intuitively knows the best way to develop the fields we are exploring for and that the Rex technology focusses on oil prospects and hence makes an oil discovery more likely."*

In June, Hibiscus Petroleum announced that its wholly-owned subsidiary, Timor Hibiscus Limited, had executed a conditional share sale agreement for the acquisition of 100% of the shares in Talisman

Resources (JPDA 06-105) Pty Ltd, an indirect wholly-owned subsidiary of Talisman Energy Inc. The main asset of the company acquired is a 25% participating interest in the Kitan Oilfield in the Joint Petroleum Development Area between Timor Leste and northern Australia. This asset will be acquired with the proceeds from the conversion of warrants.

"In the three years since the company was listed, we have achieved our objective of becoming an exploration and production company with a balanced portfolio of assets," says Paton. *"We were the only exploration & production company listed on the Bursa Malaysia although the path we have trodden is now being followed by other new SPACs."*

"Hibiscus Petroleum needed to create a sustainable organisation by acquiring a producing asset," Paton continues. *"The revenue from production may be reinvested in the exploration activities we are engaged in without having to continuously seek funding from shareholders. The proceeds from the conversion of our warrants were available for the transaction, estimated to be approximately US$40m."*

The target company's sole asset is a wholly-owned subsidiary of Talisman Energy. "The target owns a 25% interest in the Kitan oilfield," Paton says. "The interest in the field is a non-operated stake with a first class operator"

The transaction was the right size for Hibiscus to be able to finalise the transaction using the warrants proceeds which was available in end July 2014. *"Talisman and Hibiscus Petroleum were able to complete this transaction quickly and within each other timeframes. The deal was hence concluded within three months of our commencement of the evaluation of the asset,"* Paton says.

The major challenge the deal presented was the timeframe established by the vendor, says Paton. *"The independent assessment of the remaining reserves and likely future performance of the field always takes the most time. We engaged RPS Energy to perform the technical assessment of the asset and this work took longer than anticipated due to the complexity of the task."*

"The second challenge was to understand the unique fiscal and taxation regime that applies in the Joint Petroleum Development Area between Timor Leste and Australia".

"Once we were satisfied and understood the range of possible values, we were quickly able to reach agreement with Talisman on the consideration for the acquisition."

"The negotiation of the Share Sale Agreement was fairly straight forward with both parties being committed to resolving any differences by the end of June. The deal was concluded and executed one week early on 23 June. It is a credit to both the legal team at Talisman and our legal counsel Gilbert and Tobin and Murad Yee Partnership that the agreement was concluded so quickly."

The acquisition came with the usual oil and gas exploration and production risks, Paton says. *"Oil price risk may be mitigated by taking out hedge contracts which are currently being investigated. There are also reserves risks where the field does not perform to expectations and the revenues received are much lower than planned. This could also precipitate early field abandonment. This is a risk which is difficult to mitigate other than by completing a thorough technical reserves analysis. We are of the view that the consideration we paid correctly reflects the balance of risk and reward taking into consideration the reserves risks. There are also facility integrity risks where the field may be shut in for extended periods due to breakdown or damage to the production facilities or wells. These risks are mitigated by property damage and business interruption insurances."*

"Finally, there are capital and operating cost risks where the ongoing costs significantly exceed budget. To some extent these risks are mitigated via the cost recovery mechanism within the production sharing contract for the asset. The risk is also mitigated by a competent approach to the operation of the asset by the operator and the use of cost effective and competent subcontractors."

"The deal which is still subject to certain conditions precedent including government/regulatory approvals, has already started to increase the profile of Hibiscus Petroleum within the financial community", says Paton. *"We recently engaged UBS AG and Maybank Investment Bank Berhad to advise us on how we should fund our future planned activities. We expect to have resolved how we should fund the company's near term exploration and development projects in the near future."*

"We hope that our improved profile and financial standing will eventually allow us to acquire assets in our home country, Malaysia."

Hibiscus Petroleum will continue to grow rapidly over the next 12 months, says Paton, with the cash flow from Kitan to be used to fund the company's exploration programme. *"We expect to drill a well in Sharjah, Australia and Norway within the next 12 months".*

"We are also currently working on the funding of and early production system to execute an extended well test of our discovery in Oman and the full field development of the West Seahorse field in the Bass Strait Offshore Australia which should further diversify our sources of revenue by the end of 2015."

"We hope that our improved profile and financial standing will eventually allow us to acquire assets in our home country, Malaysia."