

## **KENCANA PETROLEUM BERHAD**

Company No. 667490-M  
(Incorporated in Malaysia)

### **CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

QUARTERLY REPORT : FINANCIAL PERIOD ENDED 31 JANUARY 2011

PERIOD : 1 NOVEMBER 2010 TO 31 JANUARY 2011

QUARTER : 2<sup>ND</sup> QUARTER

FINANCIAL YEAR END : 31 JULY 2011

FIGURES : UNAUDITED

**KENCANA PETROLEUM BERHAD (667490-M)**  
(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL PERIOD ENDED 31 JANUARY 2011**

	2nd Quarter		Cumulative Quarter	
	01.11.2010 to 31.01.2011 RM'000	01.11.2009 to 31.01.2010 RM'000	01.08.2010 to 31.01.2011 RM'000	01.08.2009 to 31.01.2010 RM'000
Revenue	352,494	250,138	689,453	531,141
Contract costs	(271,485)	(194,855)	(514,163)	(418,633)
<b>Gross profit</b>	81,009	55,283	175,290	112,508
Depreciation and amortisation	(6,045)	(4,413)	(11,282)	(8,695)
Operating expenses	(15,443)	(11,867)	(38,874)	(23,491)
Other operating income	6,391	4,306	12,224	6,468
<b>Profit from operations</b>	65,912	43,309	137,358	86,790
Interest expense	(4,759)	(3,163)	(8,713)	(5,755)
Interest income	908	1,337	1,559	2,354
Share of results of associates	(73)	246	(119)	186
Share of results of jointly controlled entities	1	-	(2)	(1)
<b>Profit before taxation</b>	61,989	41,729	130,083	83,574
Taxation	(11,382)	(9,432)	(27,119)	(20,544)
<b>Net profit</b>	50,607	32,297	102,964	63,030
<b>Other comprehensive income, net of tax</b>				
Foreign currency translation differences for foreign operations	(6,500)	-	(6,558)	-
<b>Total comprehensive income</b>	44,107	32,297	96,406	63,030
<b>Net profit attributable to :</b>				
- Owners of the Company	50,607	32,297	102,964	63,123
- Non-controlling interests	-	-	-	(93)
<b>Net profit</b>	50,607	32,297	102,964	63,030
<b>Total comprehensive income attributable to:</b>				
- Owners of the Company	44,107	32,297	96,406	63,123
- Non-controlling interests	-	-	-	(93)
<b>Total comprehensive income</b>	44,107	32,297	96,406	63,030
<b>Earnings per share :</b>				
- basic (sen)	3.04	3.56	6.20	6.97
- diluted (sen)	2.76	1.99	5.62	3.99

*The condensed consolidated income statements should be read in conjunction with the audited financial statements for the year ended 31 July 2010 and the accompanying explanatory notes attached to the interim financial statements.*

**KENCANA PETROLEUM BERHAD (667490-M)**

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 JANUARY 2011**

	As at 31.01.2011 Unaudited RM'000	As at 31.07.2010 Audited RM'000
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	1,078,609	485,891
Goodwill	38,235	37,335
Investments in associates	2,076	53,857
Investments in jointly controlled entities	2	4
Investment in redeemable preference shares	1,352	1,352
Other investment	1	1
Deferred tax asset	74	74
	<u>1,120,349</u>	<u>578,514</u>
<b>Current assets</b>		
Inventory	25,425	27,311
Receivables, deposits and prepayments	319,324	537,345
Current tax assets	3,107	5,763
Cash and cash equivalents	316,641	222,390
Assets held for sale	-	3,773
	<u>664,497</u>	<u>796,582</u>
<b>Total assets</b>	<u>1,784,846</u>	<u>1,375,096</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to owners of the Company</b>		
Share capital	166,818	165,797
Share premium	207,744	197,544
Other reserves	(5,177)	2,561
Retained profits	490,552	387,588
	<u>859,937</u>	<u>753,490</u>
<b>Non-controlling interests</b>	<u>1,863</u>	<u>1,895</u>
<b>Total equity</b>	<u>861,800</u>	<u>755,385</u>
<b>Non-current liabilities</b>		
Long term borrowings	171,360	43,033
Deferred tax liability	27,359	26,414
	<u>198,719</u>	<u>69,447</u>
<b>Current liabilities</b>		
Short term borrowings	240,206 *	182,843
Payables and accruals	475,507	362,685
Tax liabilities	8,614	4,736
<b>Total current liabilities</b>	<u>724,327</u>	<u>550,264</u>
<b>Total liabilities</b>	<u>923,046</u>	<u>619,711</u>
<b>Total equity and liabilities</b>	<u>1,784,846</u>	<u>1,375,096</u>
Net assets per share (RM)	<u>0.52</u>	<u>0.46</u>

\* Included in the short-term borrowing is USD36.0 million (approximately RM115.0 million) loan which had been fully settled subsequent to 31 January 2011

*The condensed consolidated balance sheet should be read in conjunction with the audited financial statements for the year ended 31 July 2010 and the accompanying explanatory notes attached to the interim financial statements.*

**KENCANA PETROLEUM BERHAD (667490-M)**

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE FINANCIAL PERIOD ENDED 31 JANUARY 2011**

	----- Attributable to owners of the Company -----						Non- controlling interests RM'000	Total Equity RM'000
	Share Capital RM'000	Share premium RM'000	Share option reserve RM'000	Translation reserve RM'000	Retained profits RM'000	Total RM'000		
<b>At 1 August 2009</b>	<b>90,296</b>	<b>79,682</b>	<b>2,971</b>	-	<b>255,968</b>	<b>428,917</b>	-	<b>428,917</b>
Total comprehensive income	-	-	-	-	136,166	<b>136,166</b>	32	<b>136,198</b>
Share-based payment	-	-	2,388	-	-	<b>2,388</b>	-	<b>2,388</b>
Share options exercised	848	10,398	-	-	-	<b>11,246</b>	-	<b>11,246</b>
Share options lapsed	-	-	(4)	-	4	-	-	-
Transfer to share premium for share options exercised	-	2,794	(2,794)	-	-	-	-	-
Share issue expenses	-	(2,758)	-	-	-	<b>(2,758)</b>	-	<b>(2,758)</b>
Renounceable rights issue	36,416	145,665	-	-	-	<b>182,081</b>	-	<b>182,081</b>
Bonus issue	38,237	(38,237)	-	-	-	-	-	-
Dividend paid	-	-	-	-	(4,550)	<b>(4,550)</b>	-	<b>(4,550)</b>
Issuance of preference shares of a subsidiary	-	-	-	-	-	-	1,863	<b>1,863</b>
<b>At 31 July 2010</b>	<b>165,797</b>	<b>197,544</b>	<b>2,561</b>	-	<b>387,588</b>	<b>753,490</b>	<b>1,895</b>	<b>755,385</b>
<b>At 1 August 2010</b>	<b>165,797</b>	<b>197,544</b>	<b>2,561</b>	-	<b>387,588</b>	<b>753,490</b>	<b>1,895</b>	<b>755,385</b>
Total comprehensive income	-	-	-	(6,558)	102,964	<b>96,406</b>	-	<b>96,406</b>
Share-based payment	-	-	1,180	-	-	<b>1,180</b>	-	<b>1,180</b>
Share options exercised	1,021	7,844	-	-	-	<b>8,865</b>	-	<b>8,865</b>
Transfer to share premium for share options exercised	-	2,360	(2,360)	-	-	-	-	-
Piecemeal acquisition of a subsidiary	-	-	-	-	-	-	(32)	<b>(32)</b>
Share issue expenses	-	(4)	-	-	-	<b>(4)</b>	-	<b>(4)</b>
<b>At 31 January 2011</b>	<b>166,818</b>	<b>207,744</b>	<b>1,381</b>	<b>(6,558)</b>	<b>490,552</b>	<b>859,937</b>	<b>1,863</b>	<b>861,800</b>

*The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 July 2010 and the accompanying explanatory notes attached to the interim financial statements.*

**KENCANA PETROLEUM BERHAD (667490-M)**

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE FINANCIAL PERIOD ENDED 31 JANUARY 2011**

	<b>Current Year-to-date 01.08.2010 to 31.01.2011 RM'000</b>	<b>Preceding Year-to-date 01.08.2009 to 31.01.2010 RM'000</b>
Net cash generated from operating activities	353,067	167,005
Net cash used in investing activities	(448,368)	(70,253)
Net cash generated from financing activities	<u>198,738</u>	<u>223,543</u>
Net increase in cash and cash equivalents	103,437	320,295
Effect of exchange rate fluctuations on cash held	(6,558)	-
Cash and cash equivalents at 1 August	194,744	229,521
Cash and cash equivalents at 31 January	<u><u>291,623</u></u>	<u><u>549,816</u></u>
Cash and cash equivalents at end of the financial period comprise the following:		
Cash and bank balances	237,309	505,406
Short term deposits	79,332	72,427
Bank overdraft	<u>(2,784)</u>	<u>-</u>
	313,857	577,833
Deposits pledged	<u>(22,234)</u>	<u>(28,017)</u>
	<u><u>291,623</u></u>	<u><u>549,816</u></u>

*The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 July 2010 and the accompanying explanatory notes attached to the interim financial statements.*

**PART A: EXPLANATORY NOTES PURSUANT TO FRS 134**

**1. BASIS OF PREPARATION**

The interim financial statements are unaudited and have been prepared in accordance with the requirements of Financial Reporting Standards (“FRS”) 134 : Interim Financial Reporting and disclosure provisions of the Listing Requirements of Bursa Malaysia Securities Berhad (“Bursa Securities”).

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 July 2010. The explanatory notes attached to the interim 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.

**2. CHANGES IN ACCOUNTING POLICIES**

The significant accounting policies adopted are consistent with those of the audited financial statements for the financial year ended 31 July 2010 except for the adoption of new FRSs, amendments and IC Interpretations that are mandatory for the Group for the financial year beginning 1 August 2010.

The adoption of the above FRSs, amendments and interpretations do not have a material impact on the interim financial information of the Group except for the adoption of the following FRSs as set out below:

FRS 3, Business Combinations (revised)

The adoption of FRS 3 (revised) had resulted in the Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquire; plus
- If the business combination is achieved in stages, the fair value of the existing equity interest in the acquire; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

FRS 3 (revised) will be applied prospectively in accordance with the transitional provisions.

FRS 101, Presentation of Financial Statements (revised)

The adoption of FRS 101 (revised) has resulted in a change in the presentation of financial statements. The income statements have been re-presented as statement of comprehensive income.

FRS 101 (revised) also requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (comprehensive income) are required to be presented in one statement of comprehensive income. Components of comprehensive income are not permitted to be presented in the statement of changes in equity.

In addition, a statement of financial position is required at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error or the classification of items in the financial statements.

This is a disclosure standard with no impact on the financial position or financial performance of the Group.

**KENCANA PETROLEUM BERHAD (667490-M)**  
(Incorporated in Malaysia)

Amendment to FRS 117, Leases

Prior to the adoption of the Amendment to FRS 117, leasehold lands were treated as operating lease and the considerations paid were classified and presented as prepaid lease payments. With the adoption of the Amendment to FRS 117, leasehold land which in substance is a finance lease will be reclassified to property, plant and equipment.

This change in accounting policy will be applied retrospectively in accordance with the transition provisions.

**3. AUDITORS' REPORT ON PRECEDING ANNUAL FINANCIAL STATEMENTS**

The auditors' report on the financial statements of the Company and its subsidiaries for the financial year ended 31 July 2010 were not subject to any qualification.

**4. SEGMENTAL INFORMATION**

**Operating segments**

The Group has three reportable segments, as described below, which represent the Group's strategic business units. The strategic business units offer different services and are managed separately because they require different technical expertise and marketing strategies:

- Investment holding
- Engineering, procurement, construction (fabrication), installation and commissioning ("EPCIC"), marine engineering, design engineering and project management
- Offshore drilling and provision of marine transportation and support services including hook-up and commissioning

**Geographical segments**

The Group mainly operates in Malaysia. Accordingly information by geographical segment is not presented.

Segmental analysis for the current financial year-to-date is as follows:

<b>Business segments</b>	<b>External revenue RM'000</b>	<b>Inter-segment revenue RM'000</b>	<b>Segment results RM'000</b>	<b>Segment assets RM'000</b>
Investment holding	-	5,250	(4,627)	672,529
EPCIC, marine engineering, design engineering & project management	574,879	56,418	71,635	1,236,719
Offshore drilling & provision of marine transportation & support services including hook-up & commissioning	114,574	75,327	35,223	860,456
<b>Total</b>	<b>689,453</b>	<b>136,995</b>	<b>102,231</b>	<b>2,769,704</b>
Elimination	-	(136,995)	733	(1,045,835)
<b>Consolidated</b>	<b>689,453</b>	<b>-</b>	<b>102,964</b>	<b>1,723,869</b>

**KENCANA PETROLEUM BERHAD (667490-M)**  
(Incorporated in Malaysia)

**5. UNUSUAL ITEMS DUE TO THEIR NATURE, SIZE OR INCIDENCE**

There were no unusual items affecting assets, liabilities, equity, net income, or cash flows during the current quarter and financial year-to-date.

**6. SIGNIFICANT ESTIMATES AND CHANGES IN ESTIMATES**

There were no changes in estimates that have had a material effect in the current quarter and financial year-to-date results.

**7. COMMENTS ABOUT SEASONAL OR CYCLICAL FACTORS**

The Group's performance is not affected by any seasonal or cyclical factors.

**8. DIVIDENDS PAID**

The first and final single tier dividend of 5% per ordinary share of 10 sen each in respect of the financial year ended 31 July 2010, amounting to RM8.33 million, was paid on 18 February 2011.

**9. VALUATION OF PROPERTY, PLANT AND EQUIPMENT**

There was no valuation of property, plant and equipment in the current quarter and financial year-to-date.

**10. DEBT AND EQUITY SECURITIES**

During the financial period ended 31 January 2011, the Company issued: -

- (a) 1,704,855 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM0.81 per ordinary share;
- (b) 7,783,581 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM0.84 per ordinary share;
- (c) 615,714 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM1.30 per ordinary share; and
- (d) 105,000 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM1.38 per ordinary share.

Save as disclosed above, there were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the current quarter and financial year-to-date.



**11. CHANGES IN COMPOSITION OF THE GROUP**

(a) Reorganisation of structure

On 1 August 2010, the Company reorganised the shareholding of its indirect subsidiary, Kencana Torsco Sdn Bhd (“KTC”). The entire equity interest of KTC comprising 10,000,000 ordinary shares of RM1.00 each had been transferred to the Company from Kencana HL Sdn Bhd (“KHL”), a direct wholly-owned subsidiary of the Company. As a result of the transfer, KTC has become a direct wholly-owned subsidiary of the Company.

(b) Acquisition of subsidiaries

- (i) The Company had on 18 November 2010 acquired the entire issued and paid-up share capital of Finest Glory Sdn Bhd (“FGSB”) comprising 2 ordinary shares of RM1.00 each fully paid at par, making it a wholly-owned subsidiary of the Company.

FGSB was incorporated on 13 October 2010 and its intended principal activities are investment holding and management services. FGSB has subsequently changed its name to Kencana Energy Sdn Bhd (“Kencana Energy”) on 29 November 2010.

Kencana Energy had, on 31 January 2011, entered into the following contracts to jointly develop and operate the Berantai oil and gas field:

- A Risk Service Contract (“RSC”) between Petroliam Nasional Berhad (“Petronas”) and Kencana Energy, Sapura Energy Ventures Sdn Bhd (“Sapura Energy Ventures”) and Petrofac Energy Developments Sdn Bhd (“PED”) (Kencana Energy, Sapura Energy Ventures and PED are collectively referred to as “Operating Parties”) for the Operating Parties to carry out the development and production of petroleum resources from Berantai field.
- A Joint Operating Agreement (“JOA”) between Kencana Energy, Sapura Energy Ventures and PED for the Operating Parties to jointly develop and produce petroleum resources from the Berantai field as provided in the RSC.

- (ii) The Company via its wholly-owned subsidiary, Kencana Nautilus Sdn Bhd (“KNSB”), had on 24 January 2011 acquired the entire issued and paid-up share capital of Dhow Offshore Sdn Bhd (“DOSB”) comprising 100,000 ordinary shares of RM1.00 each for a purchase consideration of RM1,000,000, making it a wholly-owned subsidiary of the Company.

DOSB was incorporated on 11 November 2008 and its principal activities are provision of ship brokering services, offshore support and marine services.

Save as disclosed above, there were no changes in the composition of the Group during the current quarter and financial year-to-date.

**12. CHANGES IN CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

KBW filed a suit on 15.10.2003 against one of its customers for the sum of RM1,071,899.02 plus interest, being outstanding payment owing to KBW for work done and services rendered by KBW. The Defendant in return, filed a counter-claim for the sum of RM2,122,573.08 plus interest, for damages allegedly suffered. On 29.1.2010, the Court entered judgment against the Defendant as well as dismissing the Defendant's counter claim against KBW with costs. The Defendant filed a notice of appeal to the Court of Appeal on 19.2.2010. On 24.9.2010, KBW filed into Court for writ of seizure and sale and the Court fixed 29.9.2010 for execution of the said writ on the Defendant's property.

On 29.9.2010, KBW proceeded with the execution by way of seizure and sale on the Defendant's property and subsequently the Defendant made payment to KBW on the same day in the sum of RM1,688,373.10 being the judgment sum together with interest. The Defendant's appeal to the Court of Appeal against the judgment has yet to be heard as no hearing date has been fixed by the Court of Appeal to date.

Save as disclosed above, there were no material contingent liabilities that may, upon materialisation, have a material effect on the Group's financial results or position.

**13. CAPITAL COMMITMENTS**

The amount of commitments for the purchase of property, plant and equipment not provided for in the interim condensed financial statements as at 31 January 2011 were as follows:

	<b>As at 31.01.2011 RM'000</b>
<b>Approved and contracted for</b>	
Purchase of property, plant and equipment	<u>96,633</u>

**14. SUBSEQUENT EVENTS**

(a) Employees Share Options Scheme ("ESOS")

Subsequent to 31 January 2011, the Company issued:

- (i) 1,284,760 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM0.84 per ordinary share; and
- (ii) 125,000 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM1.30 per ordinary share.

(b) Private Placement

Pursuant to the Fundraising Proposals announced on 3 December 2010, Bursa Securities had, through its letter dated 14 January 2011, approved the listing of and quotation for up to 167,638,629 new ordinary shares of RM0.10 each in the Company to be issued under the Private Placement, on the Main Market of Bursa Securities.

**KENCANA PETROLEUM BERHAD (667490-M)**  
(Incorporated in Malaysia)

On 25 January 2011, new ordinary shares of 166,698,000 of RM0.10 each were placed out at an issue price of RM2.38 per placement share and allotted on 2 February 2011. The Private Placement was completed on 7 February 2011 with the admission of 166,698,000 new ordinary shares of RM0.10 to the Main Market of Bursa Securities.

Save as disclosed above, there were no other material events subsequent to the end of the current quarter.

**PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD**

**15. PERFORMANCE REVIEW**

For the current quarter under review, the Group recorded revenue of RM352.5 million and profit before taxation of RM62.0 million. Compared to the corresponding quarter ended 31 January 2010 of RM250.1 million and RM41.7 million, revenue and profit before tax had increased by approximately 41% and 49% respectively in the current quarter. This is mainly due to progress achieved for contracts in hand and better management of relevant costs as well as contribution from drilling services.

**16. MATERIAL CHANGE IN QUARTERLY RESULTS AS COMPARED TO THE IMMEDIATE PRECEDING QUARTER**

Profit before tax for the current quarter under review had gone down by 9% at RM62.0 million, as compared to the immediate preceding quarter of RM68.1 million. The decrease in profit before tax for the current quarter was mainly due to higher contract costs.

**17. COMMENTARY ON PROSPECTS**

The Board of Directors believes that capital spending in the upstream oil and gas sector is expected to remain relatively strong. This belief is based on continued active exploration and production activities by the oil and gas companies arising from the focus by the Malaysian Government to improve Malaysia's oil and gas production as set out in the Economic Transformation Programme. This also includes enhancing recovery from existing fields and development of small and marginal fields.

The Board of Directors is also encouraged by the recent announcement released by the Malaysian Government on the support given to the downstream oil and gas activities.

Based on this expectation, the Group expects the demand for its core business of engineering and fabrication of oil and gas production facilities and other oilfield services to remain encouraging. In addition, the Group's expansion in offshore services is expected to expand the earnings base and profit margin of the Group. Barring unforeseen circumstances, the Board of Directors is reasonably confident that the prospect of the Group remains positive.

**18. PROFIT FORECAST**

The Group has not issued any profit forecast for the current financial period and therefore no comparison is available.

**KENCANA PETROLEUM BERHAD (667490-M)**  
(Incorporated in Malaysia)

**19. TAXATION**

	<b>2<sup>nd</sup> Quarter</b>		<b>Cumulative Quarter</b>	
	<b>01.11.2010</b> <b>To</b> <b>31.01.2011</b> <b>RM'000</b>	<b>01.11.2009</b> <b>To</b> <b>31.01.2010</b> <b>RM'000</b>	<b>01.08.2010</b> <b>To</b> <b>31.01.2011</b> <b>RM'000</b>	<b>01.08.2009</b> <b>To</b> <b>31.01.2010</b> <b>RM'000</b>
Income tax expense	11,406	9,088	26,836	20,041
Deferred tax expense	(24)	344	283	503
	<u>11,382</u>	<u>9,432</u>	<u>27,119</u>	<u>20,544</u>

The effective tax rate of the Group for the financial year to-date is lower than the statutory tax rate mainly due to the reinvestment allowance and lower tax expense resulting from the offshore leasing activities.

**20. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES**

There were no sales of unquoted investments and/or properties in the current quarter and financial year-to-date.

**21. INVESTMENTS IN QUOTED SECURITIES**

There were no dealings by the Group in quoted securities for the current quarter and financial year-to-date.

**22. STATUS OF CORPORATE PROPOSALS**

- (a) The utilisation status of proceeds of RM182.08 million raised from the Rights Issue as at 10 March 2011 (being a date not earlier than 7 days from the date of issue of the quarterly report) is as follows:

No.	Purpose	Actual Utilisation (RM'000)
(i)	Repayment of bank borrowings	84,594
(ii)	Capital expenditure	61,165
(iii)	Acquisition of companies from Mermaid Drilling (Singapore) Pte Ltd (including incidental expenses)	13,605
(iv)	Working capital	11,937
(v)	Expenses for corporate exercises	3,779
	Total	175,080

Pursuant to the Abridged Prospectus dated 8 January 2010, the Rights Issue proceeds are expected to be utilised for capital expenditure, investment opportunities and business expansion in the oil and gas industry or related industries which have yet to be identified. In addition, the proceeds may also be used for working capital, repayment of bank borrowings as well as to defray expenses for corporate exercises.

However, the allocation between the aforesaid purposes cannot be ascertained as at the date of the Abridged Prospectus.

**KENCANA PETROLEUM BERHAD (667490-M)**  
(Incorporated in Malaysia)

- (b) On 3 December 2010 the Company announced that it intends to raise funds via the following proposals:
- (i) Proposed issuance of up to five (5) years RM350 million nominal value Islamic Securities (“Islamic Securities”) with detachable warrants (“Kencana Petroleum Warrants”) on a “bought deal” basis with AmInvestment Bank Berhad as the primary subscriber (“Primary Subscriber”) (“Proposed Islamic Securities with Warrants”);
  - (ii) Proposed offer for sale by the Primary Subscriber of the provisional rights to the allotment of the Kencana Petroleum Warrants at an issue price to be determined later to the shareholders of Kencana Petroleum on the entitlement date to be determined later (“Proposed Offer for Sale of Warrants”); and
  - (iii) Proposed private placement of new ordinary shares of RM0.10 each in Kencana Petroleum (“Kencana Petroleum Shares”) of up to 10% of the issued and paid-up share capital of Kencana Petroleum (“Private Placement”).

(Collectively referred to as “Fundraising Proposals”)

- (iv) Proposed increase in the authorised share capital of Kencana Petroleum from RM200,000,000 divided into 2,000,000,000 ordinary shares of RM0.10 each to RM300,000,000 divided into 3,000,000,000 shares (“Proposed Increase in Authorised Share Capital”).

The above proposals are subject to the approval of the relevant authorities and shareholders of the Company.

In addition to the Fundraising Proposals, the Company also proposes to issue Islamic Medium Term Notes (“Islamic MTN”) of up to RM200 million on an “as needed” basis throughout the proposed fifteen (15)-year tenure of the Islamic MTN Programme to be established to fund its business expansion which is Shariah-compliant, for Shariah-compliant working capital purposes, to refinance existing borrowings and for payment of expenses in relation to the Fundraising Proposals and the Islamic MTN Programme.

Bursa Securities had, through its letter dated 14 January 2011, approved the listing of and quotation for up to 167,638,629 new ordinary shares of RM0.10 each in the Company to be issued under the Private Placement, on the Main Market of Bursa Securities.

On 25 January 2011, new ordinary shares of 166,698,000 of RM0.10 each were placed out at an issue price of RM2.38 per placement share and allotted on 2 February 2011. The Private Placement was completed on 7 February 2011 with the admission of 166,698,000 new ordinary shares of RM0.10 to the Main Market of Bursa Securities.

**KENCANA PETROLEUM BERHAD (667490-M)**  
(Incorporated in Malaysia)

- (c) The utilisation status of proceeds of RM396.74 million raised from the Private Placement as at 10 March 2011 (being a date not earlier than 7 days from the date of issue of the quarterly report) is as follows:

No.	Purpose	Actual Utilisation (RM'000)
(i)	Expenses for corporate exercise	3,967
	Total	3,967

Pursuant to the announcement dated 3 December 2010, the gross proceeds from the Fundraising Proposals are expected to be utilised for capital expenditure, investment opportunities and business expansion in the oil and gas industry or related industries which have yet to be identified. In addition, the proceeds may also be used for working capital and/or repayment of borrowings as well as to defray estimated expenses in relation to the Fundraising Proposals.

The allocation between the aforesaid purposes cannot be ascertained as at the date of the said announcement.

Save as disclosed above, there is no other corporate proposal announced but not completed as at 17 March 2011.

**23. LOANS AND BORROWINGS**

	<b>As at 31.01.2011 RM'000</b>	<b>As at 31.07.2010 RM'000</b>
<b>Short-term borrowings</b>		
Secured:		
Term loans	158,146	108,338
Hire purchase liabilities	19,064	12,492
Unsecured:		
Bankers' acceptance	5,045	-
Bank overdraft	2,784	2,013
Revolving credits	55,167	60,000
	<u>240,206</u>	<u>182,843</u>
<b>Long-term borrowings</b>		
Secured:		
Term loans	150,461	30,223
Hire purchase liabilities	20,899	12,810
	<u>171,360</u>	<u>43,033</u>
<b>Total borrowings</b>	<u>411,566</u>	<u>225,876</u>

**KENCANA PETROLEUM BERHAD (667490-M)**  
(Incorporated in Malaysia)

The Group borrowings in RM equivalent are denominated in the following currencies:

Ringgit Malaysia	212,436	208,381
US Dollar	199,130	17,495
Total	<u>411,566</u>	<u>225,876</u>

Included in the short-term borrowings is loan amounting to USD36.0 million (approximately RM115.0 million) of interim financing for the acquisition of three (3) companies from Mermaid Drilling (Singapore) Pte Ltd. Subsequent to 31 January 2011, the Group had fully settled the said loan.

**24. OFF BALANCE SHEET FINANCIAL INSTRUMENTS**

There were no off balance sheet financial instruments as at 17 March 2011.

**25. CHANGES IN MATERIAL LITIGATION**

As at 17 March 2011, there was no material litigation against the Group.

**26. DIVIDEND PROPOSED**

No interim dividend has been declared for the current quarter under review.

**27. EARNINGS PER SHARE (“EPS”)**

**Basic EPS**

Basic EPS is calculated based on the net profit attributable to ordinary shareholders and the weighted average number of ordinary shares in issue:

	<u>2<sup>nd</sup> Quarter</u>		<u>Cumulative Quarter</u>	
	<u>01.11.2010</u> <u>To</u> <u>31.01.2011</u>	<u>01.11.2009</u> <u>To</u> <u>31.01.2010</u>	<u>01.08.2010</u> <u>To</u> <u>31.01.2011</u>	<u>01.08.2009</u> <u>To</u> <u>31.01.2010</u>
Net profit attributable to owners of the Company (RM'000)	50,607	32,297	102,964	63,123
Weighted average number of ordinary shares in issue ('000)	1,662,593	908,043	1,660,418	906,047
Basic EPS (sen)	<u>3.04</u>	<u>3.56</u>	<u>6.20</u>	<u>6.97</u>



**KENCANA PETROLEUM BERHAD (667490-M)**  
(Incorporated in Malaysia)

**Diluted EPS**

Diluted EPS amount is calculated based on the net profit attributable to ordinary shareholders and the weighted average number of ordinary shares in issue after adjusting for the dilutive effects of all potential ordinary shares to be issued under the ESOS:

	<b>2<sup>nd</sup> Quarter</b>		<b>Cumulative Quarter</b>	
	<b>01.11.2010</b>	<b>01.11.2009</b>	<b>01.08.2010</b>	<b>01.08.2009</b>
	<b>To</b>	<b>To</b>	<b>To</b>	<b>To</b>
	<b>31.01.2011</b>	<b>31.01.2010</b>	<b>31.01.2011</b>	<b>31.01.2010</b>
Net profit attributable to owners of the Company (RM'000)	50,607	32,297	102,964	63,123
Net interest saving (RM'000)	-	742	-	2,969
Adjusted net profit attributable to equity holders of the Company (RM'000)	50,607	33,039	102,964	66,092
Weighted average number of ordinary shares in issue ('000)	1,662,593	908,043	1,660,418	906,047
Placement Shares ('000)	166,698	-	166,698	-
Rights Shares ('000)	-	364,163	-	364,163
Bonus Shares ('000)	-	382,371	-	382,371
Assumed exercise of ESOS ('000)	3,994	3,019	3,994	3,019
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	1,833,285	1,657,596	1,831,110	1,655,600
Diluted EPS (sen)	<u>2.76</u>	<u>1.99</u>	<u>5.62</u>	<u>3.99</u>

**28. AUTHORISED FOR ISSUE**

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Board of Directors dated 17 March 2011.

BY ORDER OF THE BOARD

**Ng Heng Hooi**  
(MAICSA 7048492)  
Company Secretary  
Kuala Lumpur  
17 March 2011