

KENCANA PETROLEUM BERHAD

Company No. 667490-M
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

QUARTERLY REPORT : FINANCIAL PERIOD ENDED 31 OCTOBER 2011

PERIOD : 1 AUGUST 2011 TO 31 OCTOBER 2011

QUARTER : 1ST QUARTER

FINANCIAL YEAR END : 31 JULY 2012

FIGURES : UNAUDITED

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

	1st Quarter		Cumulative Quarter	
	01.08.2011 to 31.10.2011 RM'000	01.08.2010 to 31.10.2010 RM'000	01.08.2011 to 31.10.2011 RM'000	01.08.2010 to 31.10.2010 RM'000
Revenue	569,926	336,959	569,926	336,959
Contract costs	(429,235)	(242,678)	(429,235)	(242,678)
Gross profit	140,691	94,281	140,691	94,281
Depreciation and amortisation	(8,877)	(5,237)	(8,877)	(5,237)
Operating expenses	(26,912)	(23,431)	(26,912)	(23,431)
Other operating income	14,403	5,833	14,403	5,833
Profit from operations	119,305	71,446	119,305	71,446
Interest expense	(17,822)	(3,954)	(17,822)	(3,954)
Interest income	6,959	651	6,959	651
Share of results of associates	69	(46)	69	(46)
Share of results of jointly controlled entities	(1)	(3)	(1)	(3)
Profit before taxation	108,510	68,094	108,510	68,094
Taxation	(24,879)	(15,737)	(24,879)	(15,737)
Net profit	83,631	52,357	83,631	52,357
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	10,755	(58)	10,755	(58)
Total comprehensive income	94,386	52,299	94,386	52,299
Net profit attributable to :				
- Owners of the Company	83,547	52,357	83,547	52,357
- Non-controlling interests	84	-	84	-
Net profit	83,631	52,357	83,631	52,357
Total comprehensive income attributable to:				
- Owners of the Company	94,302	52,299	94,302	52,299
- Non-controlling interests	84	-	84	-
Total comprehensive income	94,386	52,299	94,386	52,299
Earnings per share :				
- basic (sen)	4.20	3.16	4.20	3.16
- diluted (sen)	4.20	3.14	4.20	3.14

The condensed consolidated income statements should be read in conjunction with the audited financial statements for the year ended 31 July 2011 and the accompanying explanatory notes attached to the interim financial statements.

KENCANA PETROLEUM BERHAD (667490-M)
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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 OCTOBER 2011**

	As at 31.10.2011 Unaudited RM'000	As at 31.07.2011 Audited RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	1,533,849	1,504,004
Intangible assets	525,416	433,063
Investments in associates	2,206	2,137
Investments in a jointly controlled entity	5	6
Other investment	-	-
Deferred tax asset	2,197	2,113
	<u>2,063,673</u>	<u>1,941,323</u>
Current assets		
Inventory	26,135	24,690
Receivables, deposits and prepayments	557,900	482,553
Current tax assets	9,669	11,308
Cash and cash equivalents	1,144,993	827,810
Assets classified as held for sale	13,472	13,472
	<u>1,752,169</u>	<u>1,359,833</u>
Total assets	<u>3,815,842</u>	<u>3,301,156</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	199,129	198,777
Share premium	978,864	973,488
Other reserves	(9,009)	(18,761)
Retained profits	685,897	602,350
	<u>1,854,881</u>	<u>1,755,854</u>
Non-controlling interests	671	587
Total equity	<u>1,855,552</u>	<u>1,756,441</u>
Non-current liabilities		
Long term borrowings	1,083,213	554,219
Deferred tax liability	49,035	44,950
	<u>1,132,248</u>	<u>599,169</u>
Current liabilities		
Short term borrowings	215,815	334,556
Payables and accruals	591,298	599,140
Liabilities held for sale	7,230	4,348
Tax liabilities	13,699	7,502
Total current liabilities	<u>828,042</u>	<u>945,546</u>
Total liabilities	<u>1,960,290</u>	<u>1,544,715</u>
Total equity and liabilities	<u>3,815,842</u>	<u>3,301,156</u>
Net assets per share (RM)	<u>0.93</u>	<u>0.88</u>

The condensed consolidated balance sheet should be read in conjunction with the audited financial statements for the year ended 31 July 2011 and the accompanying explanatory notes attached to the interim financial statements.

KENCANA PETROLEUM BERHAD (667490-M)
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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 OCTOBER 2011**

	Attributable to owners of the Company						Total Equity RM'000
	Share Capital RM'000	Share premium RM'000	Share option reserve RM'000	Translation reserve RM'000	Distributable Retained profits RM'000	Non- controlling interests RM'000	
At 1 August 2010	165,797	197,544	2,561	-	387,588	1,895	755,385
Total comprehensive income	-	-	-	(20,183)	223,102	76	202,995
Share issued pursuant to private placement	16,670	380,071	-	-	-	-	396,741
Shares issued pursuant to the acquisition of a subsidiary	14,925	385,075	-	-	-	-	400,000
Share-based payments	-	-	2,709	-	-	-	2,709
Share- options lapsed	-	-	(3)	-	3	-	-
Share options exercised	1,385	10,929	-	-	-	-	12,314
Transfer to share premium for share options exercised	-	3,845	(3,845)	-	-	-	-
Share issue expenses	-	(3,976)	-	-	-	-	(3,976)
Acquisition of non-controlling interest in a subsidiary	-	-	-	-	(8)	(32)	(40)
Disposal of preference shares of a subsidiary	-	-	-	-	-	(1,352)	(1,352)
Dividend paid	-	-	-	-	(8,335)	-	(8,335)
At 31 July 2011	198,777	973,488	1,422	(20,183)	602,350	587	1,756,441
At 1 August 2011	198,777	973,488	1,422	(20,183)	602,350	587	1,756,441
Total comprehensive income	-	-	-	10,755	83,547	84	94,386
Share-based payments	-	-	397	-	-	-	397
Share options exercised	352	3,978	-	-	-	-	4,330
Transfer to share premium for share options exercised	-	1,400	(1,400)	-	-	-	-
Share issue expenses	-	(2)	-	-	-	-	(2)
At 31 October 2011	199,129	978,864	419	(9,428)	685,897	671	1,855,552

The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 July 2011 and the accompanying explanatory notes attached to the interim financial statements.

KENCANA PETROLEUM BERHAD (667490-M)
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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 31 OCTOBER 2011**

	Current Year-to-date 01.08.2011 to 31.10.2011 RM'000	Preceding Year-to-date 01.08.2010 to 31.10.2010 RM'000
Net cash generated from operating activities	43,540	310,688
Net cash used in investing activities	(146,372)	(412,744)
Net cash generated from financing activities	<u>417,680</u>	<u>87,891</u>
Net increase/(decrease) in cash and cash equivalents	314,848	(14,165)
Effect of exchange rate fluctuations on cash held	-	(58)
Cash and cash equivalents as at 1 August	704,895	194,744
Cash and cash equivalents as at 31 October	<u><u>1,019,743</u></u>	<u><u>180,521</u></u>
Cash and cash equivalents at end of the financial period comprise the following:		
Cash and bank balances	97,011	156,615
Short term deposits	1,047,982	68,449
Bank overdraft	<u>(75,883)</u>	<u>(1,015)</u>
	1,069,110	224,049
Deposits pledged	<u>(49,367)</u>	<u>(43,528)</u>
	<u><u>1,019,743</u></u>	<u><u>180,521</u></u>

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 July 2011 and the accompanying explanatory notes attached to the interim financial statements.

PART A: EXPLANATORY NOTES PURSUANT TO FRS 134

A1. 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 2011. 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.

A2. CHANGES IN ACCOUNTING POLICIES

The significant accounting policies adopted are consistent with those adopted for the audited financial statements for the financial year ended 31 July 2011 except for the adoption of the following new FRSSs, amendments to standards and IC Interpretations that are mandatory for the Group for the financial year beginning 1 August 2011:

- Amendments to FRS 1 - First-time Adoption of Financial Reporting Standards – Limited Exemption from Comparative FRS 7 Disclosures for First-time Adopters and Additional Exemptions for First Time Adopters
- Amendments to FRS 2 - Share-based Payment: Group Cash-settled Share-based Payment Transactions
- Amendments to FRS 7 - Improving Disclosures about Financial Instruments
- Amendments to IC Interpretation 14 - FRS 119 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction
- IC Interpretation 4 - Determining Whether an Arrangement contains a Lease
- IC Interpretation 18 - Transfer of Assets from Customers
- IC Interpretation 19 - Extinguishing Financial Liabilities with Equity Instruments
- FRS 124 - Related Party Disclosures (Revised)
- Improvements to FRSSs (2010)

The adoption of the above FRSSs, amendments to standards and IC Interpretations do not have a material impact on the interim financial information of the Group.

A3. 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 2011 were not subject to any qualification.

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A4. SEGMENTAL INFORMATION

Operating segments

The Group has four 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 as follows:

- 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 ("HUC") and Subsea Services
- Development and Production of Petroleum Resources

Geographical segments

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

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

Business segments	External revenue RM'000	Inter-segment revenue RM'000	Segment results RM'000	Segment assets RM'000
Investment holding	-	2,625	(7,296)	1,754,497
EPCIC, marine engineering, design engineering & project management	330,238	114,471	44,121	1,208,131
Offshore drilling & provision of marine transportation & support services including HUC and subsea services	239,688	71	47,121	1,493,443
Development and production of petroleum resources	-	-	(91)	587,295
Total	569,926	117,167	83,855	5,043,366
Elimination	-	(117,167)	(308)	(1,227,524)
Consolidated	569,926	-	83,547	3,815,842

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A5. SEASONAL OR CYCLICAL FACTORS

The Group's operations are not affected by seasonal or cyclical factors except for severe weather conditions, which in Malaysia is more prevalent from November to February.

A6. 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 period-to-date.

A7. MATERIAL CHANGES IN ESTIMATES

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

A8. DIVIDENDS PAID

No dividend has been paid in the financial period ended 31 October 2011.

A9. VALUATION OF PROPERTY, PLANT AND EQUIPMENT

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

A10. DEBT AND EQUITY SECURITIES

During the financial period ended 31 October 2011, the Company issued:

- (i) 366,268 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;
- (ii) 3,000,000 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM1.27 per ordinary share;
- (iii) 70,000 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; and
- (iv) 90,000 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM1.36 per ordinary share.
- (v) RM500 million nominal value of Sukuk Mudharabah Programme of up to 15-year tenure of the Sukuk Mudharabah Programme

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

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A11. CHANGES IN THE COMPOSITION OF THE GROUP

(a) Proposed Merger

On 11 July 2011 the Company received an offer from Integral Key Berhad (“IKB”) to acquire the entire business and undertakings of the Company as carried on by the Company, including all its assets and liabilities as at the completion date of the disposal (“Kencana Petroleum Business”) for a total consideration of RM5,979,564,078, equivalent to RM3.00 per Kencana Petroleum Share multiplied by the assumed enlarged Kencana Petroleum Shares of 1,993,188,026.

Simultaneously IKB has made an offer to acquire SapuraCrest Petroleum Berhad (“SapuraCrest”)’s entire business and undertakings as carried on by SapuraCrest, including all its assets and liabilities as at the completion date (“SapuraCrest Business”) for a total consideration of RM5,872,923,260, equivalent to RM4.60 per ordinary share in SapuraCrest (“SapuraCrest Share”) multiplied by SapuraCrest Shares of 1,276,722,448 as at 8 July 2011.

The Proposed Merger of the Kencana Petroleum Business and the SapuraCrest Business will collectively form the merged entity under IKB.

On 5 August 2011 the Company has accepted the offer by IKB subject to the terms and conditions of the offer which include obtaining all the requisite approvals.

(b) Disposal of a subsidiary

On 29 August 2011 the Company via Allied Marine & Equipment Sdn Bhd (“AME”), a wholly- owned subsidiary of the Company, had entered into a share sale agreement to dispose of 100% equity interest in Merit Technologies Sdn Bhd (“MTSB”) for a total consideration of RM7,000,000. MTSB is principally involved in the trading and supply of protective coating systems.

Upon disposal, MTSB will cease to be a subsidiary of AME and Kencana Petroleum.

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

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A12. CHANGES IN MATERIAL CONTINGENT LIABILITIES AND CONTINGENT ASSETS

- (a) Kencana Bestwide Sdn Bhd (“KBW”), a wholly-owned subsidiary of the Company, filed a suit on 15 October 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 January 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 February 2010. On 24 September 2010, KBW filed into Court for writ of seizure and sale and the Court fixed 29 September 2010 for execution of the said writ on the Defendant’s property.

On 29 September 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.

- (b) Allied Support Corporation (“ASC”), an indirect wholly-owned subsidiary of the Company, received an arbitration claim on 31 July 2009 on its failure to take delivery of a pre-ordered crane at a cost of EURO1.25 million. The estimated potential cash outlay, should the award be in favour of the claimant, would be EURO1.125 million plus interest at the rate of 8% per annum together with any costs incurred thereof. A deposit of EURO125, 000 had been paid by ASC to the claimant and currently held by a broker in an escrow account. ASC made a counter claim against the claimant on the basis of loss and damage suffered by ASC due to the unsuitability of the crane delivered. The matter is yet to go through the arbitration proceeding.

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.

A13. 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 October 2011 were as follows:

	As at 31.10.2011 RM’000
Approved and contracted for	
Property, plant and equipment	382,833
Approved but not contracted for	
Property, plant and equipment	399,555
	<hr/> 782,388 <hr/>

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A14. SUBSEQUENT EVENTS

(a) Employees Share Options Scheme (“ESOS”)

Subsequent to 31 October 2011, the Company issued:

- (i) 208,926 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;
- (ii) 671,000 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM1.27 per ordinary share; and
- (iii) 1,000,000 new ordinary shares of RM0.10 each for cash arising from the exercise of ESOS at an exercise price of RM2.41 per ordinary share;

Subsequent to the above ESOS exercise, the ESOS expired on 15 November 2011.

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

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

B1. PERFORMANCE REVIEW

For the current quarter under review, the Group recorded revenue of RM569.9 million and profit before taxation of RM108.5 million. Compared to the corresponding quarter ended 31 October 2010 of RM337.0 million and RM68.1 million, revenue and profit before tax had increased by approximately 69.1% and 59.3% respectively in the current quarter. This is mainly due to full quarter contribution from Allied Marine & Equipment Sdn Bhd (“AME”) acquired in July 2011. The Group also recorded higher progress achieved for contracts in hand on the back of bigger order book and better management of relevant costs.

B2. MATERIAL CHANGES IN THE QUARTERLY RESULTS AS COMPARED TO THE RESULTS OF IMMEDIATE PRECEDING QUARTER

Profit before tax for the current quarter under review had gone up by 48.4% at RM108.5 million, as compared to the immediate preceding quarter of RM73.1 million.

B3. COMMENTARY ON PROSPECTS

PETRONAS has recently made major oil and gas discoveries offshore Sarawak and Sabah. These discoveries support Malaysian Government’s strategy to intensify exploration activities in Malaysia as evidenced by the focus by the Malaysian Government to improve Malaysia’s oil and gas production as set out in the Economic Transformation Programme.

In the near term, more exploration wells are expected to be drilled offshore Malaysia by PETRONAS and its production sharing contractors (PSC). These activities, especially if they result in discoveries, are expected to spur business opportunities in the oil and gas industry and will promote upstream investment in the country.

Therefore, the Board of Directors believes that capital spending in the upstream oil and gas sector is expected to remain relatively strong. 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 and the Group’s historical good track record, 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. The Group is also looking towards expanding its fabrication business in the region.

Barring unforeseen circumstances, the Board of Directors is reasonably confident that the prospect of the Group remains positive.

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B4. PROFIT FORECAST

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

B5. TAXATION

	<u>1st Quarter</u>		<u>Cumulative Quarter</u>	
	<u>01.08.2011</u> <u>To</u> <u>31.10.2011</u> <u>RM'000</u>	<u>01.08.2010</u> <u>To</u> <u>31.10.2010</u> <u>RM'000</u>	<u>01.08.2011</u> <u>To</u> <u>31.10.2011</u> <u>RM'000</u>	<u>01.08.2010</u> <u>To</u> <u>31.10.2010</u> <u>RM'000</u>
Income tax expense	20,941	15,430	20,941	15,430
Deferred tax expense	3,938	307	3,938	307
	<u>24,879</u>	<u>15,737</u>	<u>24,879</u>	<u>15,737</u>

The effective tax rate of the Group for the financial period-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.

B6. SALE OF UNQUOTED INVESTMENTS AND/OR PROPERTIES

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

B7. INVESTMENTS IN QUOTED SECURITIES

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

B8. STATUS OF CORPORATE PROPOSALS

(a) The Company has on 3 December 2010 and 9 December 2010 announced that it proposed to undertake the following fundraising proposals:

- (i) Proposed issuance of up to RM350 million nominal value of Sukuk Mudharabah ("Sukuk Mudharabah-W") of five (5) years with detachable warrants ("Kencana Petroleum Warrants") on a "bought deal" basis to the primary subscriber ("Proposed Sukuk Mudharabah-W"); and
- (ii) Proposed offer for sale of the provisional rights to the allotment of the Kencana Petroleum Warrants by the primary subscriber on a renounceable basis at an issue price to be determined later to the shareholders of the Company on the basis of one (1) Kencana Petroleum Warrant for every five (5) Kencana Petroleum Shares ("Proposed Offer for Sale of Warrants"). The exercise price of the Kencana Petroleum Warrants will be based on 10% premium to the five (5)-days volume weighted average market price up to the price-fixing date.

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The Company has obtained all the relevant approvals pertaining to the fundraising proposals.

Nevertheless, pursuant to the Proposed Merger (as defined in B8(c) below) offer received from IKB of which was accepted on 5 August 2011, the Company shall not, without the Integration Committee's prior written approval, permit any change to the capital structure of the Company, other than changes arising from the exercise of ESOS. Pursuant thereto, the Company is not allowed to issue the Kencana Petroleum Warrants.

In view thereof, the Proposed Sukuk Mudharabah-W and the Proposed Offer for Sale of Warrants will be aborted upon completion of the Proposed Merger.

- (b) The utilisation status of proceeds of RM396.74 million raised from the Private Placement as at 7 December 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	10,091
(ii)	Capital expenditure	32,258
(iii)	Working capital	55,484
(iv)	Repayment of bank borrowings	42,300
	Total	140,133

Pursuant to the announcement dated 3 December 2010, the gross 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 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.

- (c) Proposed Merger

On 11 July 2011 the Company received an offer from Integral Key Berhad ("IKB") to acquire the entire business of the Company including all its assets and liabilities as at the completion date for a total consideration of RM5,979,564,078 equivalent to RM3.00 per Kencana Petroleum Share ("Proposed Merger"). The consideration shall be satisfied by the issuance of 2,505,437,349 new IKB Shares at an issue price of RM2.00 per IKB Share and a cash payment of RM968,689,380 ("Merger Consideration").

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On 21 September 2011, the Board resolved that upon completion of the Proposed Merger, the Company shall distribute the Merger Consideration through a capital repayment exercise by way of a capital reduction exercise in accordance with Section 64 of the Companies Act, 1965, under which all Kencana Petroleum Shares will be cancelled with the objective of distributing to the shareholders of the Company their entitlement to the Merger Consideration ("Proposed Capital Reduction and Repayment"). The Proposed Capital Reduction and Repayment would be subject to the Company obtaining all requisite approvals including the sanction of the High Court of Malaya.

Applications to the Security Commission ("SC"), including the SC (Equity Compliance Unit), in relation to the offer, have been submitted on 28 September 2011.

On 21 November 2011, SC had granted its approval for the Proposed Merger.

Pursuant to the above, a notice was issued on 22 November 2011 for an Extraordinary General Meeting to be held on 15 December 2011.

Upon the disposal of the Kencana Petroleum Business, the Company shall, subject to obtaining all requisite approvals, distribute the Merger Consideration to the Company's shareholders.

Thereafter, the Company shall issue 2 Kencana Petroleum Shares to IKB such that the Company will become a wholly-owned subsidiary of IKB. Upon the completion of the distribution of the Merger Consideration and the issuance of Kencana Petroleum Shares to IKB, the Company shall then be delisted from the Main Market of Bursa Securities

Save as disclosed above, there was no other corporate proposal announced but not completed as at 14 December 2011.

B9. LOANS AND BORROWINGS

	As at 31.10.2011 RM'000	As at 31.07.2011 RM'000 (Audited)
Short-term borrowings		
Secured:		
Term loans	94,804	170,560
Hire purchase liabilities	13,294	16,848
Revolving credits	8,710	8,196
Bankers' acceptance	1,032	1,545
Bank overdraft	73,738	-
Unsecured:		
Bankers' acceptance	392	2,476
Bank overdraft	2,145	97,047
Revolving credits	21,700	35,183
Foreign currency trade loan	-	2,701
	215,815	334,556

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B9. LOANS AND BORROWINGS (CONTINUED)

	As at 31.10.2011 RM'000	As at 31.07.2011 RM'000 (Audited)
Long-term borrowings		
Secured:		
Term loans	606,563	538,719
Hire purchase liabilities	12,954	15,500
Unsecured:		
Islamic bonds	463,696	-
	<u>1,083,213</u>	<u>554,219</u>
Total borrowings	<u>1,299,028</u>	<u>888,775</u>

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

	As at 31.10.2011 RM'000	As at 31.07.2011 RM'000 (Audited)
Ringgit Malaysia	882,239	474,458
US Dollar	416,789	414,317
Total	<u>1,299,028</u>	<u>888,775</u>

B10. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There were no off balance sheet financial instruments as at 14 December 2011.

B11. CHANGES IN MATERIAL LITIGATION

As at 14 December 2011, there was no material litigation against the Group.

B12. DIVIDEND PROPOSED

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

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B13. EARNINGS PER SHARE (“EPS”)

Basic EPS

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

	<u>1st Quarter</u>		<u>Cumulative Quarter</u>	
	<u>01.08.2011</u> <u>To</u> <u>31.10.2011</u>	<u>01.08.2010</u> <u>To</u> <u>31.10.2010</u>	<u>01.08.2011</u> <u>To</u> <u>31.10.2011</u>	<u>01.08.2010</u> <u>To</u> <u>31.10.2010</u>
Net profit attributable to owners of the Company (RM'000)	83,547	52,357	83,547	52,357
Weighted average number of ordinary shares in issue ('000)	1,988,446	1,658,242	1,988,446	1,658,242
Basic EPS (sen)	<u>4.20</u>	<u>3.16</u>	<u>4.20</u>	<u>3.16</u>

Diluted EPS

Diluted EPS amount is calculated based on the net profit attributable to owners of the Company 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:

	<u>1st Quarter</u>		<u>Cumulative Quarter</u>	
	<u>01.08.2011</u> <u>To</u> <u>31.10.2011</u>	<u>01.08.2010</u> <u>To</u> <u>31.10.2010</u>	<u>01.08.2011</u> <u>To</u> <u>31.10.2011</u>	<u>01.08.2010</u> <u>To</u> <u>31.10.2010</u>
Net profit attributable to owners of the Company (RM'000)	83,547	52,537	83,547	52,537
Weighted average number of ordinary shares in issue ('000)	1,988,446	1,658,242	1,988,446	1,658,242
- Assumed exercise of ESOS ('000)	1,279	8,510	1,279	8,510
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	1,989,725	1,666,752	1,989,725	1,666,752
Diluted EPS (sen)	<u>4.20</u>	<u>3.14</u>	<u>4.20</u>	<u>3.14</u>

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B14. DISCLOSURE OF REALISED AND UNREALISED PROFITS OR LOSSES

The following analysis is prepared in accordance with Guidance on Special Matter No.1 (“GSM1”), Determination of Realised and Unrealised Profits or Losses as issued by the Malaysian Institute of Accountants.

	As at 31.10.2011 RM'000	As at 31.07.2011 RM'000 (Audited)
Total retained profits of the Company and its subsidiaries		
- Realised	726,766	646,779
- Unrealised ^{N1}	(40,869)	(44,429)
Total retained profits of the Group	<u>685,897</u>	<u>602,350</u>

N1 The unrealised retained profits are mainly deferred tax provision, cumulative net gains (but not net losses) arising from remeasurement of assets and liabilities at fair value through profits or losses and translation gains or losses of monetary items denominated in a currency other than the functional currency.

B15. COMPARATIVE FIGURES

Comparative figures, where applicable, have been modified to conform to the current quarter presentation.

B16. 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 14 December 2011.

BY ORDER OF THE BOARD

Ng Heng Hooi
(MAICSA 7048492)
Company Secretary
Kuala Lumpur
14 December 2011