

KENCANA PETROLEUM BERHAD

Company No. 667490-M
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

QUARTERLY REPORT : FINANCIAL PERIOD ENDED 31 JANUARY 2012

PERIOD : 1 NOVEMBER 2011 TO 31 JANUARY 2012

QUARTER : 2ND QUARTER

FINANCIAL YEAR END : 31 JULY 2012

FIGURES : UNAUDITED

KENCANA PETROLEUM BERHAD (667490-M)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL PERIOD ENDED 31 JANUARY 2012**

	2nd Quarter		Cumulative Quarter	
	01.11.2011 to 31.01.2012 RM'000	01.11.2010 to 31.01.2011 RM'000	01.08.2011 to 31.01.2012 RM'000	01.08.2010 to 31.01.2011 RM'000
Revenue	545,787	352,494	1,115,713	689,453
Contract costs	(408,334)	(271,485)	(837,569)	(514,163)
Gross profit	137,453	81,009	278,144	175,290
Depreciation and amortisation	(4,446)	(6,045)	(13,323)	(11,282)
Operating expenses	(31,121)	(15,443)	(58,033)	(38,874)
Other operating income	5,752	6,391	20,155	12,224
Profit from operations	107,638	65,912	226,943	137,358
Interest expense	(3,713)	(4,759)	(21,535)	(8,713)
Interest income	4,403	908	11,362	1,559
Share of results of associates	8	(73)	77	(119)
Share of results of jointly controlled entities	(1)	1	(2)	(2)
Profit before taxation	108,335	61,989	216,845	130,083
Taxation	(21,984)	(11,382)	(46,863)	(27,119)
Net profit for the period	86,351	50,607	169,982	102,964
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	(1,802)	(6,500)	8,953	(6,558)
Total comprehensive income	84,549	44,107	178,935	96,406
Net profit attributable to :				
- Owners of the Company	86,333	50,607	169,880	102,964
- Non-controlling interests	18	-	102	-
Net profit	86,351	50,607	169,982	102,964
Total comprehensive income attributable to:				
- Owners of the Company	84,531	44,107	178,833	96,406
- Non-controlling interests	18	-	102	-
Total comprehensive income	84,549	44,107	178,935	96,406
Earnings per share :				
- basic (sen)	4.33	3.04	8.53	6.20
- diluted (sen)	N/A	2.76	N/A	5.62

*N/A denotes Not Applicable

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)
(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 JANUARY 2012**

	As at 31.01.2012 Unaudited RM'000	As at 31.07.2011 Audited RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	1,575,322	1,504,004
Intangible assets	572,517	433,063
Investments in associates	2,214	2,137
Investments in a jointly controlled entity	4	6
Deferred tax assets	2,177	2,113
	<u>2,152,234</u>	<u>1,941,323</u>
Current assets		
Inventories	71,901	24,690
Receivables, deposits and prepayments	799,387	482,553
Current tax assets	9,508	11,308
Cash and cash equivalents	711,600	827,810
Assets classified as held for sale	-	13,472
	<u>1,592,396</u>	<u>1,359,833</u>
Total assets	<u>3,744,630</u>	<u>3,301,156</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	199,317	198,777
Share premium	982,535	973,488
Other reserves	(11,230)	(18,761)
Retained profits	772,230	602,350
	<u>1,942,852</u>	<u>1,755,854</u>
Non-controlling interests	3,071	587
Total equity	<u>1,945,923</u>	<u>1,756,441</u>
Non-current liabilities		
Long term borrowings	1,055,587	554,219
Deferred tax liabilities	53,342	44,950
	<u>1,108,929</u>	<u>599,169</u>
Current liabilities		
Short term borrowings	187,183	334,556
Payables and accruals	485,491	599,140
Liabilities held for sale	-	4,348
Tax liabilities	17,104	7,502
Total current liabilities	<u>689,778</u>	<u>945,546</u>
Total liabilities	<u>1,798,707</u>	<u>1,544,715</u>
Total equity and liabilities	<u>3,744,630</u>	<u>3,301,156</u>
Net assets per share (RM)	<u>0.97</u>	<u>0.88</u>

Pursuant to the approval of the Proposed Merger by the shareholders of KPB, on 15 December 2011, the assets and liabilities of the Group were classified as Disposal Group held for sale in accordance to FRS 5 - Non-current Asset Held for Sale and Discontinued Operations. Assets & liabilities of the Group are held for sale and are classified as current assets and current liabilities respectively. Please refer to Note B6(c).

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)
(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL PERIOD ENDED 31 JANUARY 2012**

	----- Attributable to owners of the Company -----							
	Share Capital RM'000	Share premium RM'000	Non-distributable		Distributable		Non- controlling interests RM'000	Total Equity RM'000
			Share option reserve RM'000	Translation reserve RM'000	Retained profits RM'000	Total RM'000		
At 1 August 2010	165,797	197,544	2,561	-	387,588	753,490	1,895	755,385
Total comprehensive income	-	-	-	(20,183)	223,102	202,919	76	202,995
Share issued pursuant to private placement	16,670	380,071	-	-	-	396,741	-	396,741
Shares issued pursuant to the acquisition of a subsidiary	14,925	385,075	-	-	-	400,000	-	400,000
Share-based payments	-	-	2,709	-	-	2,709	-	2,709
Share- options lapsed	-	-	(3)	-	3	-	-	-
Share options exercised	1,385	10,929	-	-	-	12,314	-	12,314
Transfer to share premium for share options exercised	-	3,845	(3,845)	-	-	-	-	-
Share issue expenses	-	(3,976)	-	-	-	(3,976)	-	(3,976)
Acquisition of non-controlling interest in a subsidiary	-	-	-	-	(8)	(8)	(32)	(40)
Disposal of preference shares of a subsidiary	-	-	-	-	-	-	(1,352)	(1,352)
Dividend paid	-	-	-	-	(8,335)	(8,335)	-	(8,335)
At 31 July 2011	198,777	973,488	1,422	(20,183)	602,350	1,755,854	587	1,756,441
At 1 August 2011	198,777	973,488	1,422	(20,183)	602,350	1,755,854	587	1,756,441
Total comprehensive income	-	-	-	8,953	169,880	178,833	102	178,935
Share-based payments	-	-	397	-	-	397	-	397
Share options exercised	540	7,228	-	-	-	7,768	-	7,768
Transfer to share premium for share options exercised	-	1,819	(1,819)	-	-	-	-	-
Acquisition of a subsidiary	-	-	-	-	-	-	2,382	2,382
At 31 January 2012	199,317	982,535	-	(11,230)	772,230	1,942,852	3,071	1,945,923

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 JANUARY 2012**

	Current Year-to-date 01.08.2011 to 31.01.2012 RM'000	Preceding Year-to-date 01.08.2010 to 31.01.2011 RM'000
Cash flow from operating activities		
Profit before taxation	216,845	130,083
Adjustments for:		
Depreciation of property, plant and equipment	36,516	14,050
Gain on disposal of property, plant and equipment	(546)	-
Property, plant and equipment written off	5	-
Impairment of trade receivables	3,622	-
Interest expense	21,535	8,713
Interest income	(11,362)	(1,559)
Net unrealised gain on foreign exchange	(2,997)	-
Gain on disposal of a subsidiary	(836)	-
Share-based payments	397	1,180
Share of (profit)/loss after tax of associates	(77)	119
Share of loss after tax of a jointly controlled entity	2	2
Operating profit before changes in working capital	263,104	152,588
Inventories	(47,211)	1,886
Receivables, deposits and prepayments	(308,505)	110,334
Payables and accruals	(120,440)	112,821
Cash (used in)/generated from operations	(213,052)	377,629
Income taxes paid	(26,894)	(19,640)
Interest paid	(8,735)	(8,713)
Net cash (used in)/generated from operating activities	(248,681)	349,276
Cash flow from investing activities		
Purchase of property, plant and equipment	(105,287)	(46,369)
Expenditure on oil and gas properties	(132,232)	-
Proceeds from disposal of property, plant and equipment	1,373	-
Proceeds from disposal of a subsidiary	7,000	-
Acquisition of a subsidiary	(8,458)	(404,766)
Interest received	11,362	1,559
Net cash used in investing activities	(226,242)	(449,576)
Cash flow from financing activities		
Net proceeds from borrowings	395,469	184,919
Increase in pledged deposits placed with licensed banks	(21,963)	3,399
Proceeds from the exercise of share options	7,768	8,861
Net cash generated from financing activities	381,274	197,179
Net (decrease)/increase in cash and cash equivalents	(93,649)	96,879
Cash and cash equivalents as at 1 August	704,895	194,744
Cash and cash equivalents as at 31 January	611,246	291,623

KENCANA PETROLEUM BERHAD (667490-M)
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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE FINANCIAL PERIOD ENDED 31 JANUARY 2012

Current	Preceding
Year-to-date	Year-to-date
01.08.2011	01.08.2010
to	to
31.01.2012	31.01.2011
RM'000	RM'000

Cash and cash equivalents at end of the financial period comprise the following:

Cash and bank balances	315,026	237,309
Short term deposits	396,574	79,332
Bank overdraft	<u>(52,523)</u>	<u>(2,784)</u>
	659,077	313,857
Deposits pledged	<u>(47,831)</u>	<u>(22,234)</u>
	<u><u>611,246</u></u>	<u><u>291,623</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.

KENCANA PETROLEUM BERHAD (667490-M)
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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 FRSs, amendments to standards and IC Interpretations issued by Malaysian Accounting Standards Board (“MASB”) 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 FRSs (2010)

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

The Group’s financial statements for annual period beginning on 1 August 2012 will be prepared in accordance with the Malaysian Financial Reporting Standards (MFRSs) issued by the MASB and International Financial Reporting Standards (IFRSs).

KENCANA PETROLEUM BERHAD (667490-M)
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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.

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

For each strategic business units, the Group Chief Executive Officer (the Chief Operating decision maker) reviews internal management reports on at least a quarterly basis.

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	-	5,250	(6,391)	1,764,001
EPCIC, marine engineering, design engineering & project management	714,485	167,343	96,031	1,251,409
Offshore drilling & provision of marine transportation & support services including HUC and subsea services	401,228	265	71,674	1,694,283
Development and production of petroleum resources	-	-	(503)	559,363
Total	1,115,713	172,858	160,811	5,269,056
Elimination	-	(172,858)	9,069	(1,524,426)
Consolidated	1,115,713	-	169,880	3,744,630

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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 for a certain subsidiary of the Group principally involved in the provision of offshore diving and related services, 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 January 2012.

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 January 2012, the Company issued:

- (i) 575,194 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) 3,671,000 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;
- (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;
- (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) 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; and
- (vi) 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 Sapura-Kencana Petroleum Berhad (“SKPB”) (formerly known as Integral Key Berhad) 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 SKPB 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 SKPB.

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

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

An Extraordinary General Meeting (“EGM”) was held on 15 December 2011 and the motion on the Proposed Merger was duly passed by the shareholders of the Company.

(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.

The disposal was completed on 20 December 2011 following the cessation of MTSB as the subsidiary of AME and Kencana Petroleum.

(c) Acquisition of a subsidiary

On 4 July 2011, the Company via Kencana Torsco Sdn Bhd (“KTC”), a wholly-owned subsidiary of the Company, has entered into an agreement to acquire 60% equity interest in King Hang Engineering Company Limited (“KHE”) comprising 3,450,000 ordinary shares of HK\$1.00 each for a purchase consideration of HK\$30,000,000 (equivalent to approximately RM11.9 million). The acquisition was completed on 5 September 2011.

KHE is principally involved in engineering works.

KENCANA PETROLEUM BERHAD (667490-M)

(Incorporated in Malaysia)

A11. CHANGES IN THE COMPOSITION OF THE GROUP (CONTINUED)

(d) Incorporation of a subsidiary

On 10 January 2012, the Company via AME incorporated a wholly-owned subsidiary under the name of AME Robotics Corporation ("AME Robotics") in the Federal Territory of Labuan, with a paid up capital of USD1.00.

The intended principal activity of AME Robotics is leasing of remotely operated vehicles.

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

A12. 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.

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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 January 2012 were as follows:

	As at 31.01.2012 RM'000
Approved and contracted for	
Property, plant and equipment	443,496
Approved but not contracted for	
Property, plant and equipment	395,915
	<hr/>
	839,411
	<hr/>

A14. SUBSEQUENT EVENTS

(a) Acquisition of an associate

On 15 February 2012, Kencana Petroleum Ventures Sdn Bhd ("KPV"), a wholly-owned subsidiary of the Company, had entered into:

- A share purchase agreement with Petrofac FPSO Holding Limited ("PFHL") and Sapura Energy Ventures Sdn Bhd ("SEVSB"), whereby KPV and SEVSB shall each acquire from PFHL 85,750 ordinary shares of USD1 in Berantai Floating Production Limited ("BFPL"), representing 24.5% equity interest in BFPL for a cash consideration of USD85,750. The cash consideration of USD85,750 was based on the par value of the 85,750 BFPL shares acquired.
- A shareholders' agreement with PFHL, SEVSB and BFPL which will serve to regulate the terms upon which KPV, PFHL, and SEVSB (the "Shareholders") are to deal with their ordinary shares of USD1.00 each in BFPL, the relationships of the Shareholders *inter se*, and the management and conduct of the activities and business of BFPL.
- A loan agreement with BFPL for KPV to provide shareholders' loan to BFPL for BFPL to part finance its investment in the floating production, storage and offloading vessel ("FPSO").

BFPL is a specific purpose vehicle company to hold the FPSO to be provided for the Berantai Field. The intended principal activity of BFPL is ownership and provision of bareboat charter of FPSO.

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A14. SUBSEQUENT EVENTS (CONTINUED)

(b) Incorporation of subsidiaries

- (i) On 16 February 2012, the Company via Kencana Nautilus Sdn Bhd incorporated a wholly-owned subsidiary under the name of Badang (Labuan) Pte. Ltd. (“Badang Labuan”) in the Federal Territory of Labuan, with a paid up capital of USD1.00. The intended principal activity of Badang Labuan is to own and lease offshore support vessels.
- (ii) On 8 March 2012, the Company via Allied Marine & Equipment Sdn Bhd, wholly-owned subsidiary of the Company, has incorporated a wholly-owned subsidiary under the name of Allied Marine & Equipment (Thailand) Ltd (“AME Thailand”) in Thailand, with a paid up capital of Baht2,000,000 comprising 20,000 ordinary shares of Baht100 each. The intended activity of AME Thailand is to provide offshore diving and related services.

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

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

B1. DETAILED ANALYSIS OF THE PERFORMANCE OF ALL OPERATING SEGMENTS

(a) EPCIC, Marine Engineering, Design Engineering & Project Management

For the current quarter under review, the abovementioned segment recorded external revenue of RM384.2 million and profit before taxation of RM68.3 million. Compared to the corresponding quarter ended 31 January 2011 of RM299.9 million and RM46.2 million, external revenue and profit before tax had increased by approximately 28.1% and 47.8% respectively in the current quarter.

For the period-to-date under review, the abovementioned segment recorded external revenue of RM714.5 million and profit before taxation of RM131.7 million. Compared to the corresponding period-to-date ended 31 January 2011 of RM574.9 million and RM114.6 million, external revenue and profit before taxation had increased by approximately 24.3% and 14.9% respectively.

The increase in revenue was mainly due to the abovementioned segment securing more new projects, notably fabrication of substructures, fabrication of wellhead platform, fabrication of gas compression module and fabrication and assembly of structures and components. Profit before taxation increased due to higher progress achieved for contracts in hand on the back of bigger order book and better management of relevant costs.

(b) Offshore Drilling & Provision of Marine Transportation & Support Services Including HUC and subsea services

For the current quarter under review, the abovementioned segment recorded external revenue of RM161.6 million and profit before taxation of RM27.0 million. Compared to the corresponding quarter ended 31 January 2011 of RM52.6 million and RM19.2 million, external revenue and profit before tax had increased by approximately 207.2% and 40.6% respectively in the current quarter.

For the period-to-date under review, the abovementioned segment recorded external revenue of RM401.2 million and profit before taxation of RM79.8 million. Compared to the corresponding period-to-date ended 31 January 2011 of RM114.6 million and RM40.5 million, external revenue and profit before taxation had increased by approximately 250.1% and 97.0% respectively.

The increase in revenue was mainly due to the full quarter and period-to-date contribution from one subsidiary, which was acquired in July 2011. With the acquisition of this subsidiary, higher revenue and profit before taxation were generated from the underwater inspection, repair and maintenance services. In addition, the increase was also due to higher utilisation rates for all vessels and additional works orders secured for some projects. The increase in profit before taxation was due to higher progress achieved for contracts in hand on the back of bigger order book and better management of relevant costs.

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B1. DETAILED ANALYSIS OF THE PERFORMANCE OF ALL OPERATING SEGMENTS (CONTINUED)

(c) Investment holding and Development and Production of Petroleum Resources

For the abovementioned segments, profit before taxation for the current quarter under review had gone up by 117.2% at RM0.5 million, as compared to the corresponding quarter ended 31 January 2011 with loss before taxation of RM2.9 million. The increase was mainly due to the interest income earned from the placement with licensed banks.

For the period-to-date under review, the abovementioned segment recorded loss before taxation of RM6.9 million as compared to the corresponding period-to-date ended 31 January 2011 of RM4.6 million. Loss before taxation had increased by approximately 50% due to costs incurred for the on-going merger exercise.

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

Profit before taxation for the current quarter under review of RM108.3 million was almost similar to the immediate preceding quarter of RM108.5 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.

The Group is also encouraged by its on-going successful joint venture collaboration with Sapura Energy Ventures Sdn Bhd and Petrofac Energy Developments Sdn Bhd on the Berantai oil and gas field project. The Group believes that the Malaysian Government will be announcing more of such development of small and marginal field projects and projects that enhances recovery from existing field which the Group will continue to pursue.

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

	2 nd Quarter		Cumulative Quarter	
	01.11.2011 To 31.01.2012 RM'000	01.11.2010 To 31.01.2011 RM'000	01.08.2011 To 31.01.2012 RM'000	01.08.2010 To 31.01.2011 RM'000
Income tax expense	17,495	11,406	38,436	26,836
Deferred tax expense	4,489	(24)	8,427	283
	<u>21,984</u>	<u>11,382</u>	<u>46,863</u>	<u>27,119</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. 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.

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

Nevertheless, pursuant to the Proposed Merger (as defined in B6(c) below) offer received from SKPB 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.

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B6. STATUS OF CORPORATE PROPOSALS (CONTINUED)

- (b) The utilisation status of proceeds of RM396.74 million raised from the Private Placement as at 23 March 2012 (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	16,222
(ii)	Capital expenditure	59,392
(iii)	Working capital	65,234
(iv)	Repayment of bank borrowings	52,300
	Total	193,148

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.

- (c) Proposed Merger

On 11 July 2011 the Company received an offer from SKPB 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 SKPB Shares at an issue price of RM2.00 per SKPB Share and a cash payment of RM968,689,380 ("Merger Consideration").

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.

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B6. STATUS OF CORPORATE PROPOSALS (CONTINUED)

An Extraordinary General Meeting (“EGM”) was held on 15 December 2011 and the motion on the Proposed Merger was duly passed by the shareholders of the Company.

Pursuant to the offer from SKPB to acquire the entire business of the Company, including all its assets and liabilities, the assets and liabilities of the Group have been classified as held for sale as at 31 January 2012 as follows:

	RM'000
Non-current assets	
Property, plant and equipment	1,575,322
Intangible assets	572,517
Investments in associates	2,214
Investments in a jointly controlled entity	4
Deferred tax assets	2,177
Current assets	
Inventories	71,901
Receivables, deposits and prepayments	799,387
Current tax assets	9,508
Cash and cash equivalents	711,600
Total assets classified as held for sale	<u>3,744,630</u>
Non-current liabilities	
Long term borrowings	1,055,587
Deferred tax liabilities	53,342
Current liabilities	
Short term borrowings	187,183
Payables and accruals	485,491
Tax liabilities	17,104
Total liabilities classified as held for sale	<u>1,798,707</u>
Net assets classified as held for sale	<u>1,945,923</u>

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 SKPB such that the Company will become a wholly-owned subsidiary of SKPB. Upon the completion of the distribution of the Merger Consideration and the issuance of Kencana Petroleum Shares to SKPB, 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 30 March 2012.

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B7. LOANS AND BORROWINGS

	As at 31.01.2012 RM'000
Short-term borrowings	
Secured:	
Term loans	86,121
Hire purchase liabilities	11,578
Revolving credits	5,077
Bankers' acceptance	-
Bank overdraft	49,220
Unsecured:	
Bankers' acceptance	1,516
Bank overdraft	3,303
Revolving credits	30,368
	<u>187,183</u>
Long-term borrowings	
Secured:	
Term loans	579,955
Hire purchase liabilities	10,412
Unsecured:	
Islamic bonds	465,220
	<u>1,055,587</u>
Total borrowings	<u>1,242,770</u>

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

	As at 31.01.2012 RM'000
Ringgit Malaysia	843,974
US Dollar	398,796
Total	<u>1,242,770</u>

B8. CHANGES IN MATERIAL LITIGATION

As at 30 March 2012, there was no material litigation against the Group, other than those disclosed in Note A12.

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B9. DIVIDEND PROPOSED

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

B10. 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:

	2nd Quarter		Cumulative Quarter	
	01.11.2011 To 31.01.2012	01.11.2010 To 31.01.2011	01.08.2011 To 31.01.2012	01.08.2010 To 31.01.2011
Net profit attributable to owners of the Company (RM'000)	86,333	50,607	169,880	102,964
Weighted average number of ordinary shares in issue ('000)	1,992,799	1,662,593	1,990,623	1,660,418
Basic EPS (sen)	<u>4.33</u>	<u>3.04</u>	<u>8.53</u>	<u>6.20</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:

	2nd Quarter		Cumulative Quarter	
	01.11.2011 To 31.01.2012	01.11.2010 To 31.01.2011	01.08.2011 To 31.01.2012	01.08.2010 To 31.01.2011
Net profit attributable to owners of the Company (RM'000)	86,333	50,607	169,880	102,964
Weighted average number of ordinary shares in issue ('000)	1,992,799	1,662,593	1,990,623	1,660,418
- Placement shares ('000)	-	166,698	-	166,698
- Assumed exercise of ESOS ('000)	-	3,994	-	3,994
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	1,992,799	1,833,285	1,990,623	1,831,110
Diluted EPS (sen)	<u>N/A*</u>	<u>2.76</u>	<u>N/A*</u>	<u>5.62</u>

*No diluted earnings per share due to the expiry of the Company's ESOS scheme on 15 November 2011

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**B11. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME**

	<u>2nd Quarter</u>		<u>Cumulative Quarter</u>	
	<u>01.11.2011</u> <u>To</u> <u>31.01.2012</u> <u>RM'000</u>	<u>01.11.2010</u> <u>To</u> <u>31.01.2011</u> <u>RM'000</u>	<u>01.08.2011</u> <u>To</u> <u>31.01.2012</u> <u>RM'000</u>	<u>01.08.2010</u> <u>To</u> <u>31.01.2011</u> <u>RM'000</u>
Interest income	4,403	908	11,362	1,559
Other income	4,375	6,086	10,503	11,523
Interest expense	(3,713)	(4,759)	(21,535)	(8,713)
Depreciation and amortisation	(12,279)	(7,532)	(36,516)	(14,050)
Provision for and write off of receivables	(2,743)	-	(3,622)	-
Provision for and write off of inventories	-	-	-	-
Gain/(loss) on disposal of quoted or unquoted investment or properties	836	-	836	-
Impairment of assets	-	-	-	-
Realised foreign exchange gain/(loss)	976	(1,398)	4,316	(4,814)
Unrealised foreign exchange gain/(loss)	(2,972)	-	2,997	-
Gain/(loss) on derivatives	-	-	-	-
Exceptional items	-	-	-	-

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B12. 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 31.01.2012 RM’000	As at 31.10.2011 RM’000
Total retained profits of the Company and its subsidiaries		
- Realised	820,398	726,766
- Unrealised ^{N1}	<u>(48,168)</u>	<u>(40,869)</u>
Total retained profits of the Group	<u>772,230</u>	<u>685,897</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.

B13. COMPARATIVE FIGURES

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

B14. 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 30 March 2012.

BY ORDER OF THE BOARD

Ng Heng Hooi
(MAICSA 7048492)
Company Secretary
Kuala Lumpur
30 March 2012