

KENCANA PETROLEUM BERHAD

Company No. 667490-M
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

QUARTERLY REPORT : FINANCIAL PERIOD ENDED 31 OCTOBER 2010

PERIOD : 1 AUGUST 2010 TO 31 OCTOBER 2010

QUARTER : 1ST 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 OCTOBER 2010**

	1st Quarter		Cumulative Quarter	
	01.08.2010 to 31.10.2010 RM'000	01.08.2009 to 31.10.2009 RM'000	01.08.2010 to 31.10.2010 RM'000	01.08.2009 to 31.10.2009 RM'000
Revenue	336,959	281,003	336,959	281,003
Contract costs	(242,678)	(223,778)	(242,678)	(223,778)
Gross profit	94,281	57,225	94,281	57,225
Depreciation and amortisation	(5,237)	(4,282)	(5,237)	(4,282)
Operating expenses	(23,431)	(11,624)	(23,431)	(11,624)
Other operating income	5,833	2,162	5,833	2,162
Profit from operations	71,446	43,481	71,446	43,481
Interest expense	(3,954)	(2,592)	(3,954)	(2,592)
Interest income	651	1,017	651	1,017
Share of results of associates	(46)	(60)	(46)	(60)
Share of results of jointly controlled entities	(3)	(1)	(3)	(1)
Profit before taxation	68,094	41,845	68,094	41,845
Taxation	(15,737)	(11,112)	(15,737)	(11,112)
Net profit	52,357	30,733	52,357	30,733
Other comprehensive income, net of tax				
Foreign currency translation differences for foreign operations	(58)	-	(58)	-
Total comprehensive income	52,299	30,733	52,299	30,733
Net profit attributable to :				
- Owners of the Company	52,357	30,826	52,357	30,826
- Non-controlling interests	-	(93)	-	(93)
Net profit	52,357	30,733	52,357	30,733
Total comprehensive income attributable to:				
- Owners of the Company	52,299	30,826	52,299	30,826
- Non-controlling interests	-	(93)	-	(93)
Total comprehensive income	52,299	30,733	52,299	30,733
Earnings per share :				
- basic (sen)	3.16	3.41	3.16	3.41
- diluted (sen)	3.14	3.39	3.14	3.39

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 OCTOBER 2010**

	As at 31.10.2010 Unaudited RM'000	As at 31.07.2010 Audited RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	1,046,344	485,891
Goodwill	37,335	37,335
Investments in associates	1,962	53,857
Investments in jointly controlled entities	1	4
Investment in redeemable preference shares	1,352	1,352
Other investment	1	1
Deferred tax asset	45	74
	<u>1,087,040</u>	<u>578,514</u>
Current assets		
Inventory	25,965	27,311
Receivables, deposits and prepayments	265,457	537,345
Current tax assets	4,991	5,763
Cash and cash equivalents	225,064	222,390
Assets held for sale	3,773	3,773
	<u>525,250</u>	<u>796,582</u>
Total assets	<u>1,612,290</u>	<u>1,375,096</u>
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	165,884	165,797
Share premium	198,656	197,544
Other reserves	2,717	2,561
Retained profits	439,945	387,588
	<u>807,202</u>	<u>753,490</u>
Non-controlling interests	<u>1,863</u>	<u>1,895</u>
Total equity	<u>809,065</u>	<u>755,385</u>
Non-current liabilities		
Long term borrowings	41,456	43,033
Deferred tax liability	26,720	26,414
	<u>68,176</u>	<u>69,447</u>
Current liabilities		
Short term borrowings	287,718	182,843
Payables and accruals	438,521	362,685
Tax liabilities	8,810	4,736
Total current liabilities	<u>735,049</u>	<u>550,264</u>
Total liabilities	<u>803,225</u>	<u>619,711</u>
Total equity and liabilities	<u>1,612,290</u>	<u>1,375,096</u>
Net assets per share (RM)	<u>0.49</u>	<u>0.46</u>

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 OCTOBER 2010**

	----- 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	Distributable Retained profits RM'000	Total RM'000		
At 1 August 2009	90,296	79,682	2,971	-	255,968	428,917	-	428,917
Total comprehensive income	-	-	-	-	136,166	136,166	32	136,198
Share-based payment	-	-	2,388	-	-	2,388	-	2,388
Share options exercised	848	10,398	-	-	-	11,246	-	11,246
Share options lapsed	-	-	(4)	-	4	-	-	-
Transfer to share premium for share options exercised	-	2,794	(2,794)	-	-	-	-	-
Share issue expenses	-	(2,758)	-	-	-	(2,758)	-	(2,758)
Renounceable rights issue	36,416	145,665	-	-	-	182,081	-	182,081
Bonus issue	38,237	(38,237)	-	-	-	-	-	-
Dividend paid	-	-	-	-	(4,550)	(4,550)	-	(4,550)
Issuance of preference shares of a subsidiary	-	-	-	-	-	-	1,863	1,863
At 31 July 2010	165,797	197,544	2,561	-	387,588	753,490	1,895	755,385
At 1 August 2010	165,797	197,544	2,561	-	387,588	753,490	1,895	755,385
Total comprehensive income	-	-	-	(58)	52,357	52,299	-	52,299
Share-based payment	-	-	574	-	-	574	-	574
Share options exercised	87	752	-	-	-	839	-	839
Transfer to share premium for share options exercised	-	360	(360)	-	-	-	-	-
Piecemeal acquisition of a subsidiary	-	-	-	-	-	-	(32)	(32)
At 31 October 2010	165,884	198,656	2,775	(58)	439,945	807,202	1,863	809,065

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 OCTOBER 2010**

	Current Year-to-date 01.08.2010 to 31.10.2010 RM'000	Preceding Year-to-date 01.08.2009 to 31.10.2009 RM'000
Net cash generated from operating activities	310,688	101,605
Net cash used in investing activities	(412,744)	(56,764)
Net cash generated from financing activities	<u>87,891</u>	<u>77,583</u>
Net (decrease)/increase in cash and cash equivalents	(14,165)	122,424
Effect of exchange rate fluctuations on cash held	(58)	-
Cash and cash equivalents at 1 August	194,744	229,521
Cash and cash equivalents at 31 October	<u><u>180,521</u></u>	<u><u>351,945</u></u>
Cash and cash equivalents at end of the financial period comprise the following:		
Cash and bank balances	156,615	102,200
Short term deposits	68,449	279,711
Bank overdraft	<u>(1,015)</u>	<u>-</u>
	224,049	381,911
Deposits pledged	<u>(43,528)</u>	<u>(29,966)</u>
	<u><u>180,521</u></u>	<u><u>351,945</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 financial 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:

Business segments	External revenue RM'000	Inter-segment revenue RM'000	Segment results RM'000	Segment assets RM'000
Investment holding	-	2,625	(1,682)	605,953
EPCIC, marine engineering, design engineering & project management	275,026	16,401	35,954	1,155,851
Offshore drilling & provision of marine transportation & support services including hook-up & commissioning	61,933	31,188	16,971	828,938
Total	336,959	50,214	51,243	2,590,742
Elimination	-	(50,214)	1,114	(978,452)
Consolidated	336,959	-	52,357	1,612,290

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

No dividend was paid during the current quarter and financial year-to-date.

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 October 2010, the Company issued: -

- (a) 626,940 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;
- (b) 240,357 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;

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

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 share of RM1.00 each has 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.

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

Corporate Guarantee

Kencana Bestwide Sdn Bhd (“KBW”) granted unsecured corporate guarantee amounting to RM1,500,000 to a financial institution for credit facilities granted to Best Wide Engineering (M) Sdn Bhd, an associated company of KBW.

Litigation Matters

- (a) 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. The sealed judgment was served on Defendant’s solicitors on 31.5.2010. On 4.6.2010, KBW has been served with an unsealed application for stay of judgment’s execution and the Court then fixed 2.9.2010 for the hearing of the stay application. On 2.9.2010 the Court dismissed the Defendant’s application for stay of judgment execution with cost. 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 September 2010, KBW proceeded with the execution of the judgment obtained by way of seizure and sale on the Defendant 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.

- (b) A claimant filed a suit on 22.8.2008 against Kencana HL Sdn. Bhd. (“KHL”) as the 2nd Defendant for the sum of RM1,731,388.92 (“Principal Sum”), interest of RM1,131,635.90, damages and other costs being allegedly outstanding payment owing by KHL. On 21.8.2009, the claimant filed an application for summary judgment against KHL for RM599,753.02, and on 2.3.2010, the Court granted summary judgment against KHL for the sum of RM298,301.66 with interest at 8% per annum from 5.2.2005 until date of full settlement and costs.

The claimant, KHL and the 1st defendant later entered into a private settlement agreement dated 4.11.2010 to settle the whole claim of the claimant, including the summary judgment, out of court, wherein the global settlement sum of RM1.1 million shall be paid jointly by both KHL and the 1st defendant to the claimant. KHL’s contribution to the said RM1.1 million shall be RM558,331.76, of which RM226,000.00 shall be paid by the 1st defendant to the claimant directly as monies owed by the 1st defendant to KHL. To date, the global settlement sum had been paid to the claimant by both the 1st defendant and KHL and the claimant had also filed a notice of discontinuance to discontinue all the claimant’s claims/suits in this matter in the Court. This matter is now closed.

The above litigation matters are not expected to have material effect on the Group’s financial results or position.

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 October 2010 were as follows:

	As at 31.10.2010 RM'000
Approved and contracted for	
Purchase of property, plant and equipment	<u>29,584</u>

14. SUBSEQUENT EVENTS

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

Subsequent to 31 October 2010, the Company issued 165,242 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.

(b) Acquisition of a subsidiary

The Company has 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 on 29 November 2010.

(c) 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.

(Collectively referred to as “Fundraising Proposals”)

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

- (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.

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 RM337.0 million and profit before taxation of RM68.1 million. Compared to the corresponding quarter ended 31 October 2009 of RM281.0 million and RM41.8 million, revenue and profit before tax had increased by approximately 20% and 63% 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 maiden 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 up by 33% at RM68.1 million, as compared to the immediate preceding quarter of RM51.2 million. The increase in profit before tax for the current quarter was mainly due to better management of relevant 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

	1st Quarter		Cumulative Quarter	
	01.08.2010 To 31.10.2010 RM'000	01.08.2009 To 31.10.2009 RM'000	01.08.2010 To 31.10.2010 RM'000	01.08.2009 To 31.10.2009 RM'000
Income tax expense	15,430	10,953	15,430	10,953
Deferred tax expense	307	159	307	159
	<u>15,737</u>	<u>11,112</u>	<u>15,737</u>	<u>11,112</u>

The effective tax rate of the Group for the financial year to-date closely approximates the statutory tax rate.

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 6 December 2010 (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.

(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.

Save as disclosed above, there is no other corporate proposal announced but not completed as at 13 December 2010.

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

23. LOANS AND BORROWINGS

	As at 31.10.2010 RM'000	As at 31.07.2010 RM'000
Short-term borrowings		
Secured:		
Term loans	220,724	108,338
Hire purchase liabilities	13,545	12,492
Unsecured:		
Bankers' acceptance	3,434	-
Bank overdraft	1,015	2,013
Revolving credits	49,000	60,000
	<u>287,718</u>	<u>182,843</u>
Long-term borrowings		
Secured:		
Term loans	29,204	30,223
Hire purchase liabilities	12,252	12,810
	<u>41,456</u>	<u>43,033</u>
Total borrowings	<u>329,174</u>	<u>225,876</u>

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

Ringgit Malaysia	197,085	208,381
US Dollar	132,089	17,495
Total	<u>329,174</u>	<u>225,876</u>

Included in the short-term borrowings are loans amounting to approximately RM208.1 million for interim financing for the acquisition of three (3) companies from Mermaid Drilling (Singapore) Pte Ltd and two (2) units of offshore support vessels. The Group has subsequently secured long-term financing to refinance these short-term loans.

24. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There were no off balance sheet financial instruments as at 13 December 2010.

25. CHANGES IN MATERIAL LITIGATION

As at 13 December 2010, there was no material litigation against the Group.

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

26. DIVIDEND PROPOSED

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

The Directors had recommended a 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. The proposed first and final dividend is subject to the approval of the shareholders at the forthcoming Annual General Meeting to be held on 14 December 2010. The dividend entitlement and payment date will be determined and announced by the Company in due course.

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:

	1st Quarter		Cumulative Quarter	
	01.08.2010	01.08.2009	01.08.2010	01.08.2009
	To	To	To	To
	31.10.2010	31.10.2009	31.10.2010	31.10.2009
Net profit attributable to owners of the Company (RM'000)	52,357	30,826	52,357	30,826
Weighted average number of ordinary shares in issue ('000)	1,658,242	904,051	1,658,242	904,029
Basic EPS (sen)	<u>3.16</u>	<u>3.41</u>	<u>3.16</u>	<u>3.41</u>

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:

	1st Quarter		Cumulative Quarter	
	01.08.2010	01.08.2009	01.08.2010	01.08.2009
	To	To	To	To
	31.10.2010	31.10.2009	31.10.2010	31.10.2009
Net profit attributable to owners of the Company (RM'000)	52,357	30,826	52,357	30,826
Weighted average number of ordinary shares in issue ('000)	1,658,242	904,051	1,658,242	904,029
Bonus Shares ('000)	-	271,215	-	271,209
Assumed exercise of ESOS ('000)	8,510	5,048	8,510	5,048
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	1,666,752	1,180,314	1,666,752	1,180,286
Diluted EPS (sen)	<u>3.14</u>	<u>2.61</u>	<u>3.14</u>	<u>2.61</u>

The comparative figures for the diluted EPS have been restated to account for the effect of the Bonus Issue.

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

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 13 December 2010.

BY ORDER OF THE BOARD

Ng Heng Hooi
(MAICSA 7048492)
Company Secretary
Kuala Lumpur
13 December 2010