

KENCANA PETROLEUM BERHAD

Company No. 667490-M
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

QUARTERLY REPORT : FINANCIAL PERIOD ENDED 31 OCTOBER 2006
PERIOD : 20 SEPTEMBER 2006 TO 31 OCTOBER 2006
QUARTER : 1ST QUARTER
FINANCIAL YEAR END : 31 JULY 2007
FIGURES : UNAUDITED

KENCANA PETROLEUM BERHAD (667490-M)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE FINANCIAL PERIOD FROM 20 SEPTEMBER 2006 TO 31 OCTOBER 2006**

	1st Quarter		Cumulative Quarter	
	20.9.2006 to 31.10.2006 RM'000	1.8.2005 to 31.10.2005* RM'000	20.9.2006 to 31.10.2006 RM'000	1.8.2005 to 31.10.2005* RM'000
Revenue	71,987	n/a	71,987	n/a
Contract costs	(63,426)	n/a	(63,426)	n/a
Gross profit	8,561	n/a	8,561	n/a
Depreciation	(540)	n/a	(540)	n/a
Operating expenses	(760)	n/a	(760)	n/a
Other operating income	4	n/a	4	n/a
Profit from operations	7,265	n/a	7,265	n/a
Interest expense	(590)	n/a	(590)	n/a
Interest income	15	n/a	15	n/a
Share of results of associated companies	97	n/a	97	n/a
Share of results of jointly controlled entities	-	n/a	-	n/a
Profit before taxation	6,787	n/a	6,787	n/a
Taxation	19 (1,729)	n/a	(1,729)	n/a
Net profit for the period	5,058	n/a	5,058	n/a
Attributable to:				
Equity holders of the parent	5,058	n/a	5,058	n/a
Minority interests	-	n/a	-	n/a
Net profit for the period	5,058	n/a	5,058	n/a
Earnings per share (“EPS”) attributable to equity holders of the parent (sen)				
Basic	27 0.74	n/a	0.74	n/a
Diluted	n/a	n/a	n/a	n/a

Note:

* These are the first interim financial statements on the consolidated results for the financial period ended 31 October 2006 announced by Kencana Petroleum Berhad (“the Company” or “Kencana Petroleum”) in compliance with Bursa Malaysia Securities Berhad’s (“Bursa Securities”) requirements in conjunction with the admission of the Company to the Main Board of Bursa Securities. As this is the first quarterly report being drawn out after the Group was conceived on 20 September 2006, there are no comparative consolidated figures for the preceding financial year’s corresponding quarter.

The condensed consolidated income statement should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.

KENCANA PETROLEUM BERHAD (667490-M)
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CONDENSED CONSOLIDATED BALANCE SHEET AS AT 31 OCTOBER 2006

	As at 31.10.2006 RM'000	As at 31.7.2006* RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	133,485	-
Investments	55	60,000
Investments in associated companies	1,021	-
Investments in jointly controlled entities	(12)	-
Goodwill	770	-
Long term advances	-	12,999
	<u>135,319</u>	<u>72,999</u>
Current assets		
Trade and other receivables	166,096	1,000
Fixed deposits	19,470	-
Cash and bank balances	39,781	6,001
	<u>225,347</u>	<u>7,001</u>
TOTAL ASSETS	<u>360,666</u>	<u>80,000</u>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the parent		
Share capital	68,000	60,000
Share premium	12,000	-
Retained profits / (Accumulated losses)	5,051	(7)
TOTAL EQUITY	<u>85,051</u>	<u>59,993</u>
Non-current liabilities		
Long term borrowings	23 46,645	-
Deferred tax	8,236	-
Amount owing to a shareholder	-	20,000
	<u>54,881</u>	<u>20,000</u>
Current liabilities		
Trade and other payables	145,796	-
Taxation	1,922	-
Short term borrowings	23 73,016	-
	<u>220,734</u>	<u>7</u>
TOTAL LIABILITIES	<u>275,615</u>	<u>20,007</u>
TOTAL EQUITY AND LIABILITIES	<u>360,666</u>	<u>80,000</u>
Net assets per share attributable to equity holders of the parent (RM)	<u>0.13</u>	<u>0.10</u>

Note:

* As this is the first quarterly report being drawn out after the Group was conceived on 20 September 2006, there are no comparative consolidated figures for the preceding financial year. The comparative figures relate to Kencana Petroleum company level position only.

The condensed consolidated balance sheet should be read in conjunction with 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 2006**

	Share capital RM'000	Share premium RM'000	(Accumulated losses) / Retained profits RM'000	Total RM'000
As at 1 August 2006	60,000	-	(7)	59,993
Issue of ordinary shares	8,000	12,000	-	20,000
Net profit for the period	-	-	5,058	5,058
As at 31 October 2006	<u>68,000</u>	<u>12,000</u>	<u>5,051</u>	<u>85,051</u>

The condensed consolidated statement of changes in equity should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.

KENCANA PETROLEUM BERHAD (667490-M)
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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD FROM 20 SEPTEMBER 2006 TO 31 OCTOBER 2006**

	20.9.2006 to 31.10.2006 RM'000	1.8.2005 to 31.10.2005* RM'000
Net cash from operating activities	7,336	n/a
Net cash used in investing activities	(3,051)	n/a
Net cash from financing activities	<u>22,885</u>	<u>n/a</u>
Net increase in cash and cash equivalents	27,170	n/a
Cash and cash equivalents at beginning of financial period	6,001	n/a
Cash and cash equivalents at end of financial period	<u>33,171</u>	<u>n/a</u>
Cash and cash equivalents at the end of the financial period comprise of the following balance sheet amounts:		
Cash and bank balances	39,781	n/a
Bank overdrafts	(6,610)	n/a
	<u>33,171</u>	<u>n/a</u>

Note:

* As this is the first quarterly report being drawn out after the Group was conceived on 20 September 2006, there are no comparative consolidated figures for the preceding financial year.

The condensed consolidated cash flow statement should be read in conjunction with the accompanying explanatory notes attached to the interim financial statements.

KENCANA PETROLEUM BERHAD (667490-M)

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1. BASIS OF PREPARATION

The interim financial statements have been prepared under the historical cost convention.

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 paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statements should be read in conjunction with the audited financial statements for the financial year ended 31 July 2006. 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 2006 except for the adoption of the following new or revised FRS effective for financial period beginning 1 January 2006:

FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 132	Financial Instruments : Disclosure and Presentation
FRS 133	Earnings Per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets

The adoption of the new or revised FRSs does not have significant financial impact on the Group.

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/period ended 31 July 2006 were not qualified.

4. SEGMENTAL INFORMATION

Segmental information is not presented as there are no material segments other than the engineering and fabrication of oil and gas production facilities.

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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 except as disclosed in Note 2.

6. SIGNIFICANT ESTIMATES AND CHANGES IN ESTIMATES

There were no changes in estimates that have 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

In conjunction with, and as an integral part of the listing of the Company on the Main Board of Bursa Securities, the Company capitalised advances from a major shareholder, Khasera Baru Sdn Bhd on 11 October 2006 amounting to RM20,000,000 by way of an issuance of 80,000,000 new ordinary shares of RM0.10 each in the Company at an issue price of RM0.25 per 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

The Company obtained control over the financial and operating policies of Kencana HL Sdn Bhd ("Kencana HL") and Kencana Bestwide Sdn Bhd ("Kencana Bestwide") on 20 September 2006 in accordance with the terms of the agreements. Accordingly, Kencana HL and Kencana Bestwide became wholly-owned subsidiaries of the Company. The excess of the fair values of the net assets acquired over the consideration paid arising from the acquisition of Kencana HL and Kencana Bestwide has not been accounted for in the results for the quarter ended 31 October 2006 as the fair values are provisional values which are subject to adjustments.

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

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12. CHANGES IN CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Corporate Guarantee

- (a) Kencana Bestwide, a wholly-owned subsidiary of the Company, 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 Kencana Bestwide.
- (b) Kencana HL, a wholly-owned subsidiary of the Company, granted unsecured corporate guarantee amounting to USD6,665,530 to a financial institution for credit facilities granted to Cendor Mopu Producer Ltd (“CMPL”), previously an investment of Kencana HL. Kencana HL has disposed its entire equity interest in CMPL during the financial year ended 31 July 2006. Under the letter to dispose the shares in CMPL, the remaining shareholders of CMPL shall procure the financial institution to release the corporate guarantee extended to the financial institution and pending such release, the remaining shareholders will collectively assume Kencana HL’s responsibility under the said corporate guarantee.

Litigation

- (c) Kencana Bestwide, a wholly-owned subsidiary of the Company, instituted legal action against a customer for debts amounting to RM1,071,900 plus interest for work done and services rendered. The customer has filed a counter claim for the sum of RM2,123,000 plus interest, for damages allegedly suffered as part of the product provided by Kencana Bestwide which was allegedly counterfeit. Kencana Bestwide has filed a summary judgment application that was dismissed and an appeal has been filed. Kencana Bestwide then issued third party proceedings against the party which the purported defective product was purchased and Kencana Bestwide’s insurers, in respect of the customer’s counterclaim. The Court has fixed the matter for Case Management on 19 January 2007. Kencana Bestwide’s solicitors are of the view that the customer’s counterclaim is a mere assertion and lacks substantial evidence in support.

The same customer has also instituted legal action against Kencana Bestwide for libel. The customer has subsequently indicated its intention to withdraw the action against Kencana Bestwide and the Court has fixed the matter for mention on 16 January 2007 pending settlement of the matter. As of to-date, Kencana Bestwide’s solicitors have not received any formal notification from the customer or its solicitors on the proposed withdrawal. The Directors of the Company are of the opinion that Kencana Bestwide will be successful in its claim and will be able to defend itself in the counterclaim.

- (d) On 15 March 2006, a third party served Kencana HL, a wholly-owned subsidiary of the Company, with a notice pursuant to Section 218 of the Companies Act, 1965 stating that a sum of RM599,753 is due and owing by Kencana HL. Kencana HL disputed the amount claimed on the basis that it is not substantiated. Kencana HL has been granted a Quia Timet injunction by the Court. Accordingly, the claimant is restrained from commencing winding-up proceedings against Kencana HL and may only file a writ action to recover the alleged sum due and owing to it. No provision has been made for the amount claimed as the Directors of the Company are of the opinion that the likelihood of crystallisation of the claim is remote.

Save as disclosed above, there were no other 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 2006 were as follows:

	As at 31.10.2006 RM'000
Approved and contracted for	
Purchase of property, plant and equipment	<u>2,013</u>

14. SUBSEQUENT EVENTS

On 21 November 2006, the Company launched its Prospectus for its Initial Public Offering (“IPO”) in conjunction with its listing on the Main Board of Bursa Securities comprising:

- (i) 44,000,000 new ordinary shares of RM0.10 each available for application by the Malaysian public;
- (ii) 141,000,000 new ordinary shares of RM0.10 each available for private placement to selected investors; and
- (iii) 15,000,000 new ordinary shares of RM0.10 each available for application by the eligible Directors, employees and persons who have contributed to the success of the Group

at an issue price of RM0.41 per ordinary share payable in full on application.

The shares made available for application by the Malaysian public were oversubscribed as at the closing date on 28 November 2006. The entire issued and paid-up share capital of the Company of 880,000,000 ordinary shares is expected to be listed on the Main Board of Bursa Securities on 15 December 2006.

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

15. PERFORMANCE REVIEW

The Group recorded profit before taxation of RM6.787 million on the back of a revenue of RM71.987 million for the financial period from 20 September 2006 to 31 October 2006.

There were no comparative figures in the preceding financial year as this is the Group’s first quarterly announcement.

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16. MATERIAL CHANGE IN PROFIT BEFORE TAXATION OF CURRENT QUARTER

There were no comparative figures in the preceding quarter as this is the Group's first quarterly announcement in conjunction with its upcoming listing on the Main Board of Bursa Securities.

17. COMMENTARY ON PROSPECTS

Based on the existing order book and barring any unforeseen circumstances, the Board of Directors are of the opinion that the profit forecast for the financial year ending 31 July 2007 is achievable.

Moving forward, the Group expects the demand for oil and gas production facilities, both offshore and onshore to remain strong for the following reasons:

- Active discovery of new reserves, both in Malaysia and various parts of the world
- Increase in exploration and production activities
- Sustained high level of demand for hydrocarbons
- Sustained high global market price for hydrocarbons
- Viability of marginal fields

18. PROFIT FORECAST

Save for the profit forecast included in the Company's Prospectus dated 21 November 2006, the Group did not issue any forecast for the current financial quarter. Disclosure on explanatory notes for the variance between actual and forecast results would only be required in the final quarter announcement for the current financial year ending 31 July 2007.

19. TAXATION

	1st Quarter		Cumulative Quarter	
	20.9.2006 to 31.10.2006 RM'000	1.8.2005 to 31.10.2005 RM'000	20.9.2006 to 31.10.2006 RM'000	1.8.2005 to 31.10.2005 RM'000
Current taxation	1,740	n/a	1,740	n/a
Deferred taxation	(29)		(29)	
Associated companies	18	n/a	18	n/a
Jointly controlled entities	-	n/a	-	n/a
	<u>1,729</u>	<u>n/a</u>	<u>1,729</u>	<u>n/a</u>

The effective tax rate of the Group for the current quarter and financial year to-date is lower than the statutory tax rate principally due to the availability of reinvestment allowances.

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20. SALE OF PROPERTIES

There were no sales of 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. The Group did not hold any investments in quoted securities as at 31 October 2006.

22. CORPORATE PROPOSALS

Save for the upcoming listing of the Company on the Main Board of Bursa Securities on 15 December 2006 and the implementation of Employees Share Option Scheme (“ESOS”), there is no other corporate proposals announced but not completed as at the end of the current financial year-to-date under review.

23. BORROWINGS

	As at 31.10.2006 RM'000	As at 31.7.2006* RM'000
Short term borrowings		
Bank overdrafts	6,610	-
Trade loans	25,989	-
Bankers acceptances	2,134	-
Revolving credits	30,549	-
Term loans – short term portion	3,934	-
Hire purchase liabilities – short term portion	3,800	-
	<u>73,016</u>	<u>-</u>
Long term borrowings		
Revolving credits	20,394	-
Term loans – long term portion	17,788	-
Hire purchase liabilities – long term portion	8,463	-
	<u>46,645</u>	<u>-</u>
Total borrowings	<u>119,661</u>	<u>-</u>

* The comparative figures relate to Kencana Petroleum company level position only.

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24. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There are no off balance sheet financial instruments as at 12 December 2006.

25. CHANGES IN MATERIAL LITIGATION

As at 12 December 2006, there was no material litigation against the Group except as disclosed in Note 12.

26. DIVIDEND PROPOSED

No dividend was proposed or declared for the current financial year-to-date under review.

27. EARNINGS PER SHARE (“EPS”)

Basic EPS

Basic EPS is calculated by dividing the net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue during the period.

	1st Quarter		Cumulative Quarter	
	20.9.2006	1.8.2005	20.9.2006	1.8.2005
	to	to	to	to
	31.10.2006	31.10.2005	31.10.2006	31.10.2005
	RM'000	RM'000	RM'000	RM'000
Net profit for the period attributable to equity holders of the parent (RM'000)	5,058	n/a	5,058	n/a
Weighted average number of ordinary shares in issue ('000)	680,000	n/a	680,000	n/a
Basic EPS (sen)	<u>0.74</u>	<u>n/a</u>	<u>0.74</u>	<u>n/a</u>

Diluted EPS

Diluted EPS is not applicable as the share options granted to employees are conditional upon the listing of the shares on the Main Board of Bursa Securities.

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28. AUTHORISED FOR ISSUE

The interim financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors dated 12 December 2006.

BY ORDER OF THE BOARD

Ng Heng Hooi
(MAICSA 7048492)
Company Secretary
Kuala Lumpur
12 December 2006