

KENCANA PETROLEUM BERHAD

Company No. 667490-M
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

QUARTERLY REPORT	:	FINANCIAL PERIOD ENDED 31 OCTOBER 2007
PERIOD	:	1 AUGUST 2007 TO 31 OCTOBER 2007
QUARTER	:	1 ST QUARTER
FINANCIAL YEAR END	:	31 JULY 2008
FIGURES	:	UNAUDITED

KENCANA PETROLEUM BERHAD (667490-M)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE FINANCIAL PERIOD ENDED 31 OCTOBER 2007**

	1st Quarter		Cumulative Quarter	
	01.08.2007 to 31.10.2007 RM'000	20.09.2006* to 31.10.2006 RM'000	01.08.2007 to 31.10.2007 RM'000	20.09.2006* to 31.10.2006 RM'000
Revenue	494,983	71,987	494,983	71,987
Contract costs	(459,013)	(63,426)	(459,013)	(63,426)
Gross profit	35,970	8,561	35,970	8,561
Depreciation	(2,548)	(540)	(2,548)	(540)
Operating expenses	(6,116)	(760)	(6,116)	(760)
Other operating income	407	4	407	4
Profit from operations	27,713	7,265	27,713	7,265
Interest expense	(1,246)	(590)	(1,246)	(590)
Interest income	816	15	816	15
Share of results of associates	56	97	56	97
Share of results of jointly controlled entities	5	-	5	-
Profit before taxation	27,344	6,787	27,344	6,787
Taxation	19 (9,323)	(1,729)	(9,323)	(1,729)
Net profit for the period	18,021	5,058	18,021	5,058
Attributable to:				
Equity holders of the parent	18,021	5,058	18,021	5,058
Minority interests	-	-	-	-
Net profit for the period	18,021	5,058	18,021	5,058
Earnings per share (“EPS”) attributable to equity holders of the parent (sen)				
Basic	27 2.02	0.74	2.02	0.74
Diluted	27 2.00	n/a	2.00	n/a

Note:

* The Group was conceived on 20 September 2006.

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)
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED BALANCE SHEET AS AT 31 OCTOBER 2007

	As at 31.10.2007 RM'000 (Unaudited)	As at 31.07.2007 RM'000 (Audited)
<u>ASSETS</u>		
Non-current assets		
Property, plant and equipment	183,823	181,390
Investments in associates	1,288	1,232
Investments in jointly controlled entities	9	4
Goodwill	24,239	24,239
	<u>209,359</u>	<u>206,865</u>
Current assets		
Receivables, deposits and prepayments	285,684	211,703
Current tax assets	84	753
Cash and cash equivalents	189,036	163,503
	<u>474,804</u>	<u>375,959</u>
TOTAL ASSETS	<u>684,163</u>	<u>582,824</u>
<u>EQUITY AND LIABILITIES</u>		
Equity attributable to equity holders of the parent		
Share capital	89,150	89,150
Share premium	73,510	73,510
Other reserves	333	123
Retained profits	75,174	57,153
TOTAL EQUITY	<u>238,167</u>	<u>219,936</u>
Non-current liabilities		
Long term loans and borrowings	23 49,828	52,833
Deferred tax liabilities	14,742	14,607
	<u>64,570</u>	<u>67,440</u>
Current liabilities		
Short term loans and borrowings	23 20,887	40,447
Payables and accruals	360,264	254,274
Tax liabilities	275	727
	<u>381,426</u>	<u>295,448</u>
TOTAL LIABILITIES	<u>445,996</u>	<u>362,888</u>
TOTAL EQUITY AND LIABILITIES	<u>684,163</u>	<u>582,824</u>
Net assets per share attributable to equity holders of the parent (RM)	<u>0.27</u>	<u>0.25</u>

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 2007**

	Non-Distributable			Distributable	Total equity RM'000
	Attributable to Equity Holders of the Parent			Retained profits RM'000	
	Share capital RM'000	Share premium RM'000	Share option reserve RM'000		
At 20 September 2006	60,000	-	-	(7)	59,993
Net profit for the year	-	-	-	57,160	57,160
Capitalisation of advances	8,000	12,000	-	-	20,000
Shares issued	20,000	62,000	-	-	82,000
Share options exercised	1,150	3,565	-	-	4,715
Transfer to share premium for share options exercised	-	575	(575)	-	-
Listing expenses	-	(4,630)	-	-	(4,630)
Share-based payments	-	-	698	-	698
At 31 July 2007	<u>89,150</u>	<u>73,510</u>	<u>123</u>	<u>57,153</u>	<u>219,936</u>
At 1 August 2007	89,150	73,510	123	57,153	219,936
Net profit for the period	-	-	-	18,021	18,021
Share-based payments	-	-	210	-	210
At 31 October 2007	<u>89,150</u>	<u>73,510</u>	<u>333</u>	<u>75,174</u>	<u>238,167</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.

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 31 OCTOBER 2007**

	Current Year-to-Date 01.08.2007 to 31.10.2007 RM'000	Preceding Year-to-Date 20.09.2006* to 31.10.2006 RM'000
Net cash from operating activities	52,267	7,336
Net cash used in investing activities	(4,169)	(3,051)
Net cash (used in) from financing activities	<u>(38,257)</u>	<u>22,885</u>
Net increase in cash and cash equivalents	9,841	27,170
Cash and cash equivalents at beginning of financial period	126,886	6,001
Cash and cash equivalents at end of financial period	<u>136,727</u>	<u>33,171</u>
 Cash and cash equivalents at the end of the financial period comprise of the following balance sheet amounts:		
Cash and bank balances	102,671	39,781
Short term deposits	86,365	19,470
Bank overdrafts	<u>(744)</u>	<u>(6,610)</u>
	188,292	52,641
Deposits pledged	<u>(51,565)</u>	<u>(19,470)</u>
	<u>136,727</u>	<u>33,171</u>

Note:

* The Group was conceived on 20 September 2006.

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

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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 2007. 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 2007 except for the adoption of the following new or revised FRS effective for financial period beginning 1 August 2007:

FRS 6	Exploration for and Evaluation of Mineral Resources
FRS 117	Leases
FRS 119 ²⁰⁰⁴	Employees Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
FRS 124	Related Party Disclosures

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 ended 31 July 2007 were not qualified.

4. SEGMENTAL INFORMATION

The Group mainly operates in Malaysia and the Malaysia-Thailand Joint Development Area (MTJDA). The Group considers these geographical areas to be significantly similar and therefore deemed them as a single geographical segment. Accordingly information by geographical segment is not presented.

The financial information by industrial segment is not presented as the Group operates in one business segment.

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.

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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

There were no issuances, cancellations, repurchases, resale and repayments of debt and equity securities during the current quarter and financial year-to-date.

11. CHANGES IN COMPOSITION OF THE GROUP

- (a) On 5 September 2007, a wholly-owned subsidiary, Kencana Petroleum Ventures Sdn Bhd ("Kencana Petroleum Ventures") was incorporated.
- (b) On 22 October 2007, Kencana Petroleum Ventures acquired 25 ordinary shares of USD1.00 each representing 25% of the total issued and paid-up share capital of Mermaid Kencana Rig 1 Pte Ltd, a company incorporated in Singapore, at the consideration of USD25.00.
- (c) On 24 October 2007, Kencana Petroleum Ventures acquired 60,000 ordinary shares of RM1.00 each representing 60% of the total issued and paid-up share capital of Kencana Mermaid Drilling Sdn Bhd at the consideration of RM60,000.
- (d) 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 Sdn Bhd (“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 Sdn Bhd (“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. The financial institution had conditionally approved the cancellation of the corporate guarantee pending finalisation of documentation by CMPL.

Material Litigation

- (c) Kencana Bestwide, a wholly-owned subsidiary of the Company, instituted legal action against a customer for debts amounting to RM1,071,899.02 plus interest for work done and services rendered. The suit was filed on 15 October 2003. The customer has filed a counter-claim for the sum of RM2,122,573.08 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 on appeal to the Judge in Chambers, the summary judgment application was allowed. The customer then filed an appeal to the Court of Appeal, which appeal was allowed on 28 March 2006. Hence, the matter was reverted back to the High Court for full trial, which is now fixed for hearing on 7, 8 and 9 January 2008. Kencana Bestwide has also issued third party proceedings against the party which the purported defective product was purchased from and Kencana Bestwide’s insurers, in respect of the customer’s counter-claim. Kencana Bestwide’s solicitors are of the view that the customer’s counter-claim is a mere assertion and lacks substantial evidence in support. The estimated maximum exposure to liabilities is the amount of RM2,122,573.08 plus interest claimed in the counter-claim and also legal costs.

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- (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 RM599,753.02 is due and owing by Kencana HL. Kencana HL disputed the amount claimed on the basis that it is not substantiated. On 9 August 2006, Kencana HL has been granted a Quia Timet injunction by the Court to prevent the filing of a winding-up petition as there were triable issues concerning the alleged outstanding sum. As the claimant is restrained from commencing winding-up proceedings against Kencana HL, it is seeking to recover the outstanding sum by way of a conventional writ action. On 14 December 2006, the claimant filed an action against Kencana HL for, amongst others, a sum of RM1,731,388.92 together with a surcharge of RM43,284.78 being the alleged outstanding amount. To-date, the sealed copy of the writ of summons has not been served on Kencana HL. No provision has been made for the amount claimed as the Directors of the Company are of the opinion, on the advice by Kencana HL's solicitors, that the likelihood of crystallisation of the claim is remote. The estimated maximum exposure to liabilities is the amount of RM1,731,388.92 together with the surcharge of RM43,284.78 and also legal costs.

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 2007 were as follows:

	As at 31.10.2007 RM'000
Approved and contracted for	
Purchase of property, plant and equipment	<u>747</u>

14. SUBSEQUENT EVENTS

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 and financial year-to-date under review, the Group recorded revenue of RM494.983 million and profit before taxation of RM27.344 million. Compared to the previous quarter ended 31 July 2007, revenue had increased by approximately 56% in the current quarter. The revenue increase was mainly due to progress achieved for contracts in hand, in-line with the project delivery schedule.

16. MATERIAL CHANGE IN PROFIT BEFORE TAXATION OF CURRENT QUARTER

Profit before tax had increased only marginally at approximately 6% for the current quarter under review at RM27.344 million, as compared to the previous quarter ended 31 July 2007 of RM25.852 million. The lower increase of profit before tax for the current quarter was mainly due to the previous quarter profit being inclusive of negative goodwill arising from the acquisition of Kencana Bestwide of RM7.886 million.

17. COMMENTARY ON PROSPECTS

Capital spending in the upstream oil and gas sector is expected to remain robust. This expectation is based on continued active exploration and production activities by the oil and gas companies to take advantage of the high market price and continued strong demand for hydrocarbons.

Based on this expectation, the Group expects the demand for its core business of engineering and fabrication of oil and gas production facilities, both offshore and onshore to remain strong. In addition, the Group has now embarked on the construction of offshore mobile drilling units which is expected to expand the earnings base of the Group. Barring unforeseen circumstances, the Board of Directors is confident that the prospect of the Group remains positive.

18. PROFIT FORECAST

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

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19. TAXATION

	1st Quarter		Cumulative Quarter	
	01.08.2007 to 31.10.2007 RM'000	20.09.2006 to 31.10.2006 RM'000	01.08.2007 to 31.10.2007 RM'000	20.09.2006 to 31.10.2006 RM'000
Current taxation	9,188	1,758	9,188	1,758
Deferred taxation	135	(29)	135	(29)
	<u>9,323</u>	<u>1,729</u>	<u>9,323</u>	<u>1,729</u>

The effective tax rate of the Group for the current quarter and financial year to-date is higher than the statutory tax rate principally due to higher tax rate imposed on projects related to MTJDA.

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. The Group did not hold any investments in quoted securities as at 31 October 2007.

22. CORPORATE PROPOSALS

- (a) On 15 December 2006, the entire issued and paid-up share capital of the Company, comprising 880,000,000 ordinary shares of RM0.10 each were listed on the Main Board of Bursa Securities. The gross listing proceeds received by the Company from the public issue have been fully utilised in the following manner:

	RM'000
Working capital	52,370
Repayment of borrowings	25,000
Listing expenses	4,630
Total	<u>82,000</u>

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- (b) On 21 August 2007, Kencana HL, a wholly-owned subsidiary of the Company entered into a Share Sale Agreement to acquire 10,000,000 ordinary shares of RM1.00 each in Torsco Sdn Bhd (“Torsco”), representing 100% of the issued and paid-up share capital of Torsco from IJM Corporation Berhad, for a purchase consideration of RM74,624,584, payable in cash. The proposed acquisition was approved by the Company’s shareholders at an extraordinary general meeting held on 26 October 2007 and by the Ministry of International Trade and Industry vide its letter dated 2 November 2007. The proposed acquisition has been completed on 30 November 2007.
- (c) On 13 September 2007, the Company announced the following proposed corporate exercises:
 - (i) private placement of up to 10% of the issued and paid-up share capital of the Company (“Proposed Private Placement”); and
 - (ii) increase in the authorised share capital from RM100,000,000 comprising 1,000,000,000 shares to RM200,000,000 comprising 2,000,000,000 shares (“Proposed Increase in Authorised Share Capital”).

The proposals were approved by the Company’s shareholders at an extraordinary general meeting held on 26 October 2007. The Proposed Increase in Authorised Share Capital was effected on 26 October 2007. The Proposed Private Placement was approved by the Securities Commission vide its letter dated 26 October 2007. The Proposed Private Placement is expected to be completed before the end of first quarter of calendar year 2008.

- (d) On 22 October 2007, the Company announced that Kencana Petroleum Ventures and Mermaid Drilling (Singapore) Pte Ltd (“Mermaid”) had on 22 October 2007 entered into the Proposed Shareholders’ Agreement in respect of the proposed equity investment in Mermaid Kencana Rig 1 Pte Ltd (“MKR-1”). On 27 November 2007, Kencana Petroleum Ventures and Mermaid had entered into a Letter of Agreement to clarify and confirm the principal understanding under which a second jointly-owned company, Mermaid Kencana Rig 2 Pte Ltd (“MKR-2”), would be incorporated in Singapore for the purpose of owning a second newbuild tender rig (the Proposed Shareholders’ Agreement and any future shareholders’ agreement to be entered into by Kencana Petroleum Ventures in respect of MKR-2 shall hereinafter be referred to as the “Proposed Shareholders’ Agreements”). The Company’s shareholders have approved the Proposed Shareholders’ Agreements at an extraordinary general meeting held on 14 December 2007. The proposed investment in MKR-1 and MKR-2 pursuant to the Proposed Shareholders’ Agreements are conditional upon approval from Bank Negara Malaysia.
- (e) Save as disclosed above, there is no other corporate proposal announced but not completed as at 18 December 2007.

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23. LOANS AND BORROWINGS

	As at 31.10.2007 RM'000	As at 31.07.2007 RM'000
Short term loans and borrowings		
Secured:		
Bank overdrafts	744	303
Revolving credits	6,992	7,008
Term loans – short term portion	4,793	4,710
Hire purchase liabilities – short term portion	8,358	8,426
Unsecured:		
Revolving credits	-	20,000
	<u>20,887</u>	<u>40,447</u>
Long term loans and borrowings		
Secured:		
Term loans – long term portion	31,942	33,188
Hire purchase liabilities – long term portion	17,886	19,645
	<u>49,828</u>	<u>52,833</u>
Total loans and borrowings	<u>70,715</u>	<u>93,280</u>

All the above loans and borrowings are denominated in Ringgit Malaysia (RM).

24. OFF BALANCE SHEET FINANCIAL INSTRUMENTS

There was no off balance sheet financial instruments as at 18 December 2007.

25. CHANGES IN MATERIAL LITIGATION

As at 18 December 2007, 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.

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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.

	<u>1st Quarter</u>		<u>Cumulative Quarter</u>	
	<u>01.08.2007</u>	<u>20.09.2006</u>	<u>01.08.2006</u>	<u>20.09.2006</u>
	<u>to</u>	<u>to</u>	<u>to</u>	<u>To</u>
	<u>31.10.2007</u>	<u>31.10.2006</u>	<u>31.10.2007</u>	<u>31.10.2006</u>
Net profit for the period attributable to equity holders of the parent (RM'000)	18,021	5,058	18,021	5,058
Weighted average number of ordinary shares in issue ('000)	891,500	680,000	891,500	680,000
Basic EPS (sen)	<u>2.02</u>	<u>0.74</u>	<u>2.02</u>	<u>0.74</u>

Diluted EPS

Diluted EPS amount 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 after adjusting for the dilutive effects of all potential ordinary shares to be issued under the ESOS.

	<u>1st Quarter</u>		<u>Cumulative Quarter</u>	
	<u>01.08.2007</u>	<u>20.09.2006</u>	<u>01.08.2006</u>	<u>20.09.2006</u>
	<u>to</u>	<u>to</u>	<u>to</u>	<u>To</u>
	<u>31.10.2007</u>	<u>31.10.2006</u>	<u>31.10.2007</u>	<u>31.10.2006</u>
Net profit for the period attributable to equity holders of the parent (RM'000)	18,021	n/a	18,021	n/a
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	899,697	n/a	899,697	n/a
Diluted EPS (sen)	<u>2.00</u>	<u>n/a</u>	<u>2.00</u>	<u>n/a</u>

KENCANA PETROLEUM BERHAD (667490-M)
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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 18 December 2007.

BY ORDER OF THE BOARD

Ng Heng Hooi
(MAICSA 7048492)
Company Secretary
Kuala Lumpur
18 December 2007