

KENCANA PETROLEUM BERHAD

Company No. 667490-M
(Incorporated in Malaysia)

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

QUARTERLY REPORT : FINANCIAL PERIOD ENDED 30 APRIL 2008

PERIOD : 1 FEBRUARY 2008 TO 30 APRIL 2008

QUARTER : 3RD QUARTER

FINANCIAL YEAR END : 31 JULY 2008

FIGURES : UNAUDITED

KENCANA PETROLEUM BERHAD (667490-M)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED INCOME STATEMENTS
FOR THE FINANCIAL PERIOD ENDED 30 APRIL 2008**

	3rd Quarter		Cumulative Quarter	
	01.02.2008 to 30.04.2008 RM'000	01.02.2007 to 30.04.2007 RM'000	01.08.2007 to 30.04.2008 RM'000	20.09.2006* to 30.04.2007 RM'000
Revenue	298,121	229,327	1,144,512	506,561
Contract costs	(259,637)	(196,755)	(1,028,981)	(438,563)
Gross profit	38,484	32,572	115,531	67,998
Depreciation	(2,838)	(1,732)	(7,898)	(3,908)
Operating expenses	(8,519)	(6,113)	(21,346)	(12,257)
Other operating income	3,684	625	5,003	1,211
Profit from operations	30,811	25,352	91,290	53,044
Interest expense	(2,088)	(1,663)	(4,985)	(3,620)
Interest income	1,198	111	3,437	175
Share of results of associates	38	31	156	210
Share of results of jointly controlled entities	5	6	15	10
Profit before taxation	29,964	23,837	89,913	49,819
Taxation	(7,956)	(5,925)	(28,208)	(11,627)
Net profit for the period	22,008	17,912	61,705	38,192
Attributed to :				
- Equity holders of the Company	22,024	17,912	61,721	38,192
- Minority Interests	(16)	-	(16)	-
Net profit for the period	22,008	17,912	61,705	38,192
Earnings per share :				
- basic (sen)	2.44	2.01	6.90	4.73
- diluted (sen)	2.43	1.99	6.86	4.70
Dividend per share (sen)	-	-	-	-

Note:

* The Group was conceived on 20 September 2006

The condensed consolidated income statements should be read in conjunction with the audited financial statements for the year ended 31 July 2007 and the accompanying explanatory notes attached to the interim financial statements.

KENCANA PETROLEUM BERHAD (667490-M)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 APRIL 2008**

	As at 30.04.2008 Unaudited RM'000	As at 31.07.2007 Audited RM'000
ASSETS		
Non-current assets		
Property, plant and equipment	245,657	181,390
Goodwill	51,422	24,239
Investments in associates	1,436	1,232
Investments in jointly controlled entities	19	4
Other investment	20	-
	<u>298,554</u>	<u>206,865</u>
Current Assets		
Inventory	856	-
Receivables, deposits and prepayments	270,513	211,703
Current tax assets	-	753
Cash and cash equivalents	231,596	163,503
	<u>502,965</u>	<u>375,959</u>
Total assets	<u>801,519</u>	<u>582,824</u>
EQUITY AND LIABILITIES		
Equity attributable to equity holders of the Company		
Share capital	90,200	89,150
Share premium	78,130	73,510
Other reserves	-	123
Retained profits	118,874	57,153
	<u>287,204</u>	<u>219,936</u>
Minority interests	24	-
Total equity	<u>287,228</u>	<u>219,936</u>
Non-current liabilities		
Long term borrowings	60,781	52,833
Deferred tax liability	17,132	14,607
	<u>77,913</u>	<u>67,440</u>
Current Liabilities		
Short term borrowings	86,090	40,447
Payables and accruals	341,348	254,274
Tax liabilities	8,940	727
Total current liabilities	<u>436,378</u>	<u>295,448</u>
Total liabilities	<u>514,291</u>	<u>362,888</u>
Total equity and liabilities	<u>801,519</u>	<u>582,824</u>
Net assets per share (RM)	<u>0.32</u>	<u>0.25</u>

The condensed consolidated balance sheet should be read in conjunction with the audited financial statements for the year ended 31 July 2007 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 30 APRIL 2008**

	-----Attributable to the equity holders of the Company -----				Minority Interests	Total Equity	
	Share Capital RM'000	Share premium RM'000	Share option reserve RM'000	Distributable Retained profits RM'000			Total RM'000
At 20 September 2006*	60,000	-	-	(7)	59,993	-	59,993
Profit for the period	-	-	-	57,160	57,160	-	57,160
Capitalisation of amount due to Khasera Baru Sdn Bhd	8,000	12,000	-	-	20,000	-	20,000
Shares issued	20,000	62,000	-	-	82,000	-	82,000
Share options exercised	1,150	3,565	-	-	4,715	-	4,715
Listing expenses	-	(4,630)	-	-	(4,630)	-	(4,630)
Expenses incurred in connection with issue	-	-	-	-	-	-	-
Share-based payments	-	-	698	-	698	-	698
Transfer to share premium for share options exercised	-	575	(575)	-	-	-	-
At 31 July 2007	89,150	73,510	123	57,153	219,936	-	219,936
At 1 August 2007	89,150	73,510	123	57,153	219,936	-	219,936
Profit for the period	-	-	-	61,721	61,721	(16)	61,705
Share-based payment	-	-	297	-	297	-	297
Share options exercised	1,050	4,200	-	-	5,250	-	5,250
Transfer to share premium for share options exercised	-	420	(420)	-	-	-	-
Issuance of ordinary shares of a subsidiary to minority interest	-	-	-	-	-	40	40
At 30 April 2008	90,200	78,130	-	118,874	287,204	24	287,228

Note:

* The Group was conceived on 20 September 2006

The condensed consolidated statement of changes in equity should be read in conjunction with the audited financial statements for the year ended 31 July 2007 and the accompanying explanatory notes attached to the interim financial statements.

KENCANA PETROLEUM BERHAD (667490-M)

(Incorporated in Malaysia)

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
FOR THE FINANCIAL PERIOD ENDED 30 APRIL 2008**

	Current Year-to-date 01.08.2007 to 30.04.2008 RM'000	Preceding Year-to-date 20.09.2006* to 30.04.2007 RM'000
Net cash generated from operating activities	130,324	37,806
Net cash used in investing activities	(102,681)	(33,535)
Net cash generated from financing activities	<u>46,865</u>	<u>90,026</u>
Net increase in cash and cash equivalents	74,508	94,297
Cash and cash equivalents at beginning of financial period	101,886	6,001
Cash and cash equivalents at end of the financial period	<u><u>176,394</u></u>	<u><u>100,298</u></u>

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

Cash and bank balances	151,422	101,565
Short term deposits	80,174	-
Bank overdraft	<u>(330)</u>	<u>(1,267)</u>
	231,266	100,298
Deposits pledged	<u>(54,872)</u>	<u>-</u>
	<u><u>176,394</u></u>	<u><u>100,298</u></u>

Note:

* The Group was conceived on 20 September 2006

The condensed consolidated cash flow statement should be read in conjunction with the audited financial statements for the year ended 31 July 2007 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 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 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.

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

On 29 January 2008 the issued and paid-up share capital of the Company was increased by RM1,050,000 by way of allotment and issuance of 10,500,000 ordinary shares of RM0.10 each arising from the exercise of Employees' Share Option Scheme ("ESOS") at an exercise price of RM0.50 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

- (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 each representing 25% of the total issued and paid-up share capital of Mermaid Kencana Rig 1 Pte Ltd ("MKR-1"), a company incorporated in Singapore, at the consideration of USD25.
- (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) On 30 November 2007, Kencana HL Sdn Bhd ("Kencana HL"), a wholly-owned subsidiary of the Company acquired 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 RM74,624,582, payable in cash pursuant to the Share Sale Agreement.

Save as disclosed above, there were no other 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

- (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, 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 to the High Court for full trial, which is now fixed for hearing on 8, 22 and 29 May 2008. The said case was postponed then and the next date fixed by the Court for trial are 8, 9 10 and 11 September 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 30 April 2008 were as follows:

	As at 30.04.2008 RM'000
Approved and contracted for	
Purchase of property, plant and equipment	<u>8,116</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 under review, the Group recorded revenue of RM298.121 million and profit before taxation of RM29.964 million. Compared to the corresponding quarter ended 31 April 2007, revenue had increased by approximately 30% in the current quarter. The revenue increase was mainly due to increase in the number of projects secured as well as progress achieved for contracts in hand, in line with the project delivery schedule.

16. MATERIAL CHANGE IN QUARTERLY RESULTS AS COMPARED TO THE IMMEDIATE PRECEDING QUARTER

Profit before tax had decreased by approximately 8% for the current quarter under review at RM29.964 million, as compared to the immediate preceding quarter of RM32.605 million. The decrease in profit before tax for the current quarter was mainly due to decrease in revenue.

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 started 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.

19. TAXATION

	3rd Quarter		Cumulative Quarter	
	01.02.2008 To 30.04.2008 RM'000	01.02.2007 to 30.04.2007 RM'000	01.08.2007 to 30.04.2008 RM'000	20.09.2006 to 30.04.2007 RM'000
Current taxation	7,465	5,925	27,253	11,589
Deferred taxation	491	-	955	38
	7,956	5,925	28,208	11,627

The effective tax rate of the Group for the financial year to-date is higher than the statutory tax rate principally due to higher tax rate imposed on projects related to Malaysia-Thailand Joint Development Area.

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 30 April 2008.

22. CORPORATE PROPOSALS

- (a) 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 ("SC") vide its letter dated 26 October 2007 and the Company is to implement the Proposed Private Placement within 6 months from the date of approval of the SC, i.e. 25 April 2008.

In view of the prevailing weak and volatile equity market condition, the Company had sought extension of time from the SC for the Proposed Private Placement and the SC had vide its letter dated 4 April 2008 granted the Company an extension of time of 6 months, i.e. 25 October 2008, to implement the Proposed Private Placement.

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- (b) On 27 November 2007, Kencana Petroleum Ventures and Mermaid Drilling (Singapore) Pte Ltd (“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 (any future shareholders’ agreement to be entered into by Kencana Petroleum Ventures in respect of MKR-2 shall hereinafter be referred to as the “MKR-2 Shareholders’ Agreements”). The Company’s shareholders have approved the MKR-2 Shareholders’ Agreements at an extraordinary general meeting held on 14 December 2007 and relevant approval from Bank Negara Malaysia has been received vide its letter dated 6 February 2008.

Save as disclosed above, there is no other corporate proposal announced but not completed as at 25 June 2008.

23. LOANS AND BORROWINGS

	As at 30.04.2008 RM’000	As at 31.07.2007 RM’000
Short-term borrowings		
Secured:		
Bank overdrafts	330	303
Revolving credits	2,406	7,008
Term loans – short term portion	8,018	4,710
Hire purchase liabilities – short term portion	8,862	8,426
Unsecured:		
Revolving credits	66,474	20,000
	<u>86,090</u>	<u>40,447</u>
Long-term borrowings		
Secured:		
Term loans – long term portion	44,458	33,188
Hire purchase liabilities – long term portion	16,323	19,645
	<u>60,781</u>	<u>52,833</u>
Total borrowings	<u>146,871</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 25 June 2008.

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25. CHANGES IN MATERIAL LITIGATION

As at 25 June 2008, 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 period 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.

	<u>3rd Quarter</u>		<u>Cumulative Quarter</u>	
	<u>01.02.2008</u>	<u>01.02.2007</u>	<u>01.08.2007</u>	<u>20.09.2006</u>
	<u>to</u>	<u>to</u>	<u>to</u>	<u>To</u>
	<u>30.04.2008</u>	<u>30.04.2007</u>	<u>30.04.2008</u>	<u>30.04.2007</u>
Net profit for the period attributable to equity holders of the Company (RM'000)	22,024	17,912	61,721	38,192
Weighted average number of ordinary shares in issue ('000)	902,000	891,500	895,064	806,617
Basic EPS (sen)	<u>2.44</u>	<u>2.01</u>	<u>6.90</u>	<u>4.73</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>3rd Quarter</u>		<u>Cumulative Quarter</u>	
	<u>01.02.2008</u>	<u>01.02.2007</u>	<u>01.08.2007</u>	<u>20.09.2006</u>
	<u>to</u>	<u>to</u>	<u>to</u>	<u>To</u>
	<u>30.04.2008</u>	<u>30.04.2007</u>	<u>30.04.2008</u>	<u>30.04.2007</u>
Net profit for the period attributable to equity holders of the Company (RM'000)	22,024	17,912	61,721	38,192
Adjusted weighted average number of ordinary shares in issue and issuable ('000)	906,698	898,250	899,762	813,367
Diluted EPS (sen)	<u>2.43</u>	<u>1.99</u>	<u>6.86</u>	<u>4.70</u>

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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 25 June 2008.

BY ORDER OF THE BOARD

Ng Heng Hooi
(MAICSA 7048492)
Company Secretary
Kuala Lumpur
25 June 2008