

Directors' Report – 2018-19

The Board of Directors of KPOGCL (Khyber Pakhtunkhwa Oil & Gas Company Limited) is pleased to present this Director's Report along with Audited Financial Statements and Auditors' Report for the year ended June 30, 2019.

The Board of directors at June 30, 2019 were as follows:

| | |
|-----------------------------|---|
| Mr. Muhammad Ishfaq Khattak | Director (Chairman) |
| Mr. Muhammad Riaz Khan | Director |
| Mr. Muhammad Arif | Director |
| Mr. Tahir Azizuddin | Director |
| Mr. Shumail Butt | Director |
| Mr. Faiz Muhammad | Director (President Khyber Pakhtunkhwa Chamber of Commerce) |
| Mr. Sarfraz Durrani | Director (Secretary Energy & Power, KPK) |
| Mr. Shakeel Qadir Khan | Director (Secretary Finance, KPK) |
| Mr. Ikram Ullah Khan | Director (Secretary Home & Tribal Affairs, KPK) |
| Mr. Syed Abdul Jabbar Shah | Director (Commissioner Kohat) |
| Mr. Atif Rahman | Director (Secretary P&D) |
| Mr. Usman Ghani Khattak | Chief Executive/Director |

State of the Company's affairs

At the outset the Directors thank the Government of Khyber Pakhtunkhwa for approving the suggestions of the Board of Directors/KPOGCL. The Board of Directors in its 27th meeting held on January 31st, 2019 gave the strategic vision & direction to the management of KPOGCL as part of Corporate Strategy to strive for securing Joint Venture (JV) partnership in all prospective (Non-operated) Blocks in Khyber Pakhtunkhwa and merged districts.

In a meeting held on 9th October, 2019 under the Chairmanship of Chief Minister, the Chairman BOD, Mr. Muhammad Ishfaq Khattak presented the future strategic vision of KPOGCL. The Chief Minister appreciated the business strategy and found it lucrative investment on behalf of the Provincial Government given the fact that the prospects of Oil and Gas in merged districts and settled areas of Khyber Pakhtunkhwa are high and it is the best time for Provincial Government to invest in Oil and Gas sector. A formal proposal in form of summary was desired to be circulated for approval of the Provincial cabinet.

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KPOGCL being the Provincial Holding Company has the privilege to have 2.5% of JV share in every Exploration Block of Khyber Pakhtunkhwa awarded pursuant to the 2012 Policy.

KPOGCL's effort to resolve the pipeline issue in Baratai block where KPOGCL is a JV Partner of 2.5% share with OGDCL and where Oil & Gas production from Dhok-Hussain Well awaits pipeline connectivity is commendable.

In addition to 2.5 % JV partnership in Baratai where oil & gas production awaits pipeline connectivity; KPOGCL is a JV partner in the following Exploration Blocks and has been paying cash calls and adding value through participation in Technical, Finance and Operating Committee Meetings with Joint Venture partners.

| | | |
|--------------------------------|----------|------------------------|
| a. Pezu Joint Venture | (OGDCL) | 1.62% working interest |
| b. Kulachi Joint Venture | (OGDCL) | 2.05% working interest |
| c. Karak North Joint Venture | (OGDCL) | 2.50% working interest |
| d. Peshawar East Joint Venture | (MPCL) | 1.84% working interest |
| e. Paharpur Joint Venture | (KUFPEC) | 2.43% working interest |

As an operator in Lakki Block, KPOGCL being still in its early years of Exploration; due diligence will be the key in each and every step; Quality of decisions and operations shall be ensured through efficient and transparent communication with all the stakeholders. Oil and Gas is a risky business but with due diligence the returns are way more than most businesses.

Operational Results

The operational results of the company for financial year 2018-19 are as follows:

| | 2018-19 |
|-------------------------------------|---------------|
| | Pak Rupees |
| Revenue | - |
| <u>Cost of services</u> | - |
| Gross Profit | - |
| Exploration and evaluation expenses | (27,086,858) |
| Operating Expenses | (236,598,903) |
| Other Income | 91,170,679 |
| Loss before taxation | (172,515,082) |
| Taxation | - |
| Loss after tax | (172,515,082) |

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KPOGCL being a young company has joint venture partnerships in six (6) concession blocks. The reason behind operational results showing a loss is that all blocks are in exploration phase except for the discovery of first well of Baratai block. Revenue from this well is anticipated soon after commercial production kicks off.

The company is not involved in debt financing nor has taken any sort of loan. Since KPOGCL's capital is totally equity based, there is no debt liability on the company to date. Other liabilities include normal operational liabilities at the year-end which are subsequently cleared in routine business.

Key operating and financial data

The financial data for previous years is as follows:

| | 2018-19 | 2017-18 | 2016-17 | 2015-16 | 2014-15 | 2013-14 |
|-------------------------------|---------------|---------------|---------------|---------------|--------------|--------------|
| | Pak Rupees | Pak Rupees | Pak Rupees | Pak Rupees | Pak Rupees | Pak Rupees |
| Revenue | - | 3,628,538 | 127,257,148 | 119,233,061 | 10,773,975 | - |
| Cost of services | - | (424,130) | (93,637,275) | (111,262,185) | (8,989,769) | - |
| Gross Profit | - | 3,204,408 | 33,619,873 | 7,970,876 | 1,784,206 | - |
| Exploration Expenses | (27,086,858) | (39,036,433) | (49,286,466) | (51,674,034) | (491,502) | - |
| Operating Expenses | (236,598,903) | (312,149,908) | (272,244,570) | (127,532,745) | (72,351,643) | (17,341,136) |
| Other Income | 91,170,679 | 84,061,242 | 93,349,410 | 21,462,183 | 40,986,220 | 22,371,010 |
| Profit/(loss) before taxation | (172,515,082) | (263,920,061) | (194,561,753) | (149,773,720) | (30,072,719) | 5,029,874 |
| Taxation | - | (223,171) | (11,688,518) | (9,646,385) | 7,606,143 | (7606,143) |
| Loss after tax | (172,515,082) | (264,143,862) | (206,250,271) | (159,420,105) | (22,466,576) | (2,576,269) |
| No of contract employees | 81 | 87 | 78 | 28 | 5 | 3 |
| No of Daily Wage employees | 113 | 122 | 387 | 198 | 146 | 18 |

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The new board of directors has given a new direction to the company and accordingly the management has taken certain austerity measures. The strength of daily wagers have been reduced which has a significant impact on overall reduction of operating expenses. In addition, other cost cutting measures of not opting for international tours, rationalizing the field visits and financials controls in other operating areas have contributed to compensating loss in FY 2018-19 as compared to previous year.

Future Plans

The Board of Directors, in line with the short term to long term strategy, principally approved a comprehensive business plan of entering into (non-operated) Joint Venture partnerships in a number of exploration blocks of Khyber Pakhtunkhwa and merged areas. A landmark decision was made by the Provincial Cabinet in its meeting held on Tuesday 16-June-2020 of approving KPOGCL's investment summary in principal entailing the investment proposal of Rs 19.6 Billion from Provincial Oil & Gas Royalty and Rs 20.5 Billion from Ten Years Development Plan or Accelerated Implementation Program (AIP) by securing Joint Venture (JV) partnership of up to 20% in prospective (Non-operated) Blocks in Khyber Pakhtunkhwa and merged districts. KPOGCL is hopeful that in the foreseeable future it will be able to make up for the losses that it has incurred to date.

Principal Risks and Mitigation Measures

KPOGCL's core business is to explore and commercially produce oil and gas reserves. These activities are speculative in nature and characterized by inherent uncertainties, geological surprises and complexities which may have a potential impact on business financial conditions and results of exploration, development and production operations. However, the risk of failures in terms of dry wells in Khyber Pakhtunkhwa is low due to high success ratio of 1:2.8. The risk is also diversified through multiple Joint Venture partnerships.

The future results of business operations depend on the ability to timely identify and mitigate the risks and hazards inherent to operating in the challenging oil and gas exploration and production industry. KPOGCL's Board of Directors and management are keen to ensure quality decision making and to regularly monitor material business risks and take appropriate actions to mitigate their adverse impact.

Corporate Social Responsibility (CSR)

KPOGCL's board of directors and management understand that there is a need to strike a balance between overall objectives of achieving corporate excellence vis-à-vis social responsibility towards community. In fulfilling Corporate Social Responsibility, KPOGCL contributes its due share of Social Welfare Obligations according to the guidelines of Director General Petroleum Concession (DGPC). Since it is very start of company's operations as an Operator in Lakki block, so the main focus is on Exploration activities. The

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company ensures that its E&P activities are conducted in an ethical and responsible manner embracing business core values. In near future, the company plans to involve directly in social welfare programs for development of communities residing in the vicinity of business operational areas; supporting under privileged communities by way of investment in the areas of education, health, water supply, infrastructure development and donations. Following the guidelines of DGPC, the company will diligently ensure the utilization of social welfare funds and exercise all possible measures to ensure that its voluntary and obligatory contributions are disbursed in the most transparent and efficient manner.

Good Governance

Adapting to Good Governance challenges in wake of Covid-19 crisis has been a challenge, we are proud to have responded to the challenge responsibly by conducting various meetings through Video Conferencing. KPOGCL being a truly corporate body is envisioned to meet every Good Governance challenge through a pro-active approach.

Appointment of Auditors

The present auditors M/s KPMG Taseer Hadi & Co., Chartered Accountants have completed their assignment for the year ended June 30, 2019 and shall retire on the conclusion of the Annual General Meeting. In accordance with the Code of Corporate Governance, the Audit Committee considered and recommended the M/s KPMG Taseer Hadi & Co., Chartered Accountants as auditors for the year FY 2019-20 at the audit and compliance report fee of Rs. 1,000,000.

Government levies

The Company has regularly paid income tax withheld, KP Sales Tax & GST from payments made to employees, suppliers and consultants etcetera, while nothing was outstanding on close of financial year (as disclosed in Note 6 of the audited financial statements).

Dividend

Considering the operational results and future plans the Board of directors does not recommend any dividend.

Auditors report

The auditor has given unqualified report on the financial statements for the year ended June 30, 2019.

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Pattern of Shareholding

The pattern of shareholding of the Company as on June 30, 2017 is as under;

| Shareholder | Percentage | Number of Shares |
|----------------------------------|-------------|------------------|
| Government of Khyber Pakhtunkhwa | 99.999984 | 18,999,997 |
| Sahibzada Saeed Khan | 00.00000526 | 1 |
| Mr Shumail Butt | 00.00000526 | 1 |
| Mr. Zafar Iqbal | 00.00000526 | 1 |
| Total | 100.000000 | 19,000,000 |

Earnings per share

KPOGCL earning per share as on June 30, 2019 is Rs. -9.08 per share.

Corporate Governance & Financial Reporting Framework

As required by Public Sector Companies (Corporate Governance) Rules 2013, we are pleased to report the following;

- The financial statements prepared by the management of the Company, presents fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of the Company have been maintained.
- The board has complied with the relevant principles of corporate governance and has identified the rules that have not been complied with.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgments.
- The system of internal control is sound in design and has been regularly reviewed and effectively monitored.
- The appointment of Chairman and other members of Board and the terms of their appointment along with the remuneration policy adopted are in the best interest of the Public Sector Company as well as in line with the best practices.
- The remuneration of directors is in accordance with the trend and practice in other public sector entities beside size of the Company and duties to be discharged by the director. Disclosure of remuneration of Chief Executive, Directors and Executives is given in Note 22 of the annexed financial statements.

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Election of Directors According to Section 183 Certain provisions not to apply to directors representing special interest, provisions regarding election, term of office and removal of directors do not apply to the directors appointed/nominated by the Provincial Government.

Meetings of Board of Directors

Attendance of board of directors meetings held during the year is as follows:

| Name of Director | Number of Meetings Attended |
|-------------------------------|------------------------------|
| Mr. Ishfaq Khattak (Chairman) | 6/7 |
| Secretary Energy & Power GoKP | 6/7 |
| Secretary Finance GoKP | 2/7 |
| Secretary Home & Tribal | 2/7 |
| Secretary (P&D) | 0/7 |
| Mr. President KPCCI | 6/7 |
| Mr. Muhammad Riaz Khan | 5/7 |
| Mr. Tahir Aziz Uddin | 5/7 |
| Mr. Sahibzada M Naeem | 1/7 Resigned during the year |
| Mr. Muhammad Arif | 6/7 Resigned during the year |
| Commissioner Kohat | 1/7 |
| CEO KPOGCL | 7/7 |

Remuneration of Directors:

Rs. 12,500/- gross were paid as meeting fee to each Director for each meeting attended. The meeting fee was revised by the Board of Directors in its 28th meeting held on 06-March-2020. The revised fee was set at Rs. 37,500/- for independent directors and Rs. 25,000/- for the ex-officio directors and paid for meetings held after the date of decision.

Acknowledgement

At the end, we would like to state that the operational and financial performance of KPOGCL is attributable to the ongoing collaboration with all the Company's stakeholders. In this respect, we are thankful to the Energy and Power Department of Khyber Pakhtunkhwa, Finance Department and other divisions and departments of provincial government for their resolute support and cooperation extended to the Company. I would also like to convey my sincere appreciation to the Company's Board of Directors for their prudent role and invaluable counsel along with expressing my gratitude to the Company's shareholders for bestowing confidence and trust in KPOGCL. At the end, I would like to pay due credit to the employees & consultants of the Company, while optimistically looking forward to the leading role KPOGCL will play in E&P industry of Khyber Pakhtunkhwa as well as Pakistan in

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not only addressing energy challenges but in parallel returning significant value to the shareholders in a socially responsible manner.

On behalf of the Board

July 06, 2020

Signature

Chief Executive



Signature

Director

