KPMG Taseer Hadi & Co.
Chartered Accountants

Khyber Pakhtunkhwa Oil and Gas Company Limited

Financial Statements

For the year ended 30 June 2014

KPMG Taseer Hadi & Co.
Chartered Accountants
Sixth Floor, State Life Building No. 5
Jinnah Avenue, Blue Area
Islamabad, Pakistan

Telephone + 92 (51) 282 3558
+ 92 (51) 282 5956
Fax + 92 (51) 282 2671
Internet www.kpmg.com.pk

Auditors' Report to the Members

We have audited the annexed balance sheet of Khyber Pakhtunkhwa Oil and Gas Company Limited ("the Company") as at 30 June 2014 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion -

  (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

  (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2014 and of its losses, its cashflows and changes in equity for the year then ended; and

(d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

KPMG Taseer Hadi & Co.

Islamabad
16 April 2015

KPMG Taseer Hadi & Co.
Chartered Accountants
Engagement Partner: Riaz Pesnani

Khyber Pakhtunkhwa Oil and Gas Company Limited
Balance Sheet
As at 30 June 2014

	Note	2014 Rupees	2013 Rupees
Share capital and reserves			
Share capital	4	500,000,000	500,000,000
Accumulated loss		(2,626,269)	(50,000)
		497,373,731	499,950,000
Non current liabilities			
Deferred taxation	5	7,589,143	-
Current liabilities			
Accrued and other liabilities	6	4,055,380	50,000
Provision for taxation		17,000	-
		4,072,380	50,000
		509,035,254	500,000,000
Contingencies and commitments	7		

	Note	2014 Rupees	2013 Rupees
Non current assets			
Property, plant and equipment	8	12,720,844	-
Current assets			
Deposits and prepayments	9	257,100	-
Other receivable		58,230	-
Accrued markup		22,321,010	-
Other financial assets	10	250,000,000	-
Cash and bank balances	11	223,678,070	500,000,000
		496,314,410	500,000,000
		509,035,254	500,000,000

The annexed notes 1 to 20 form an integral part of these financial statements.

Chief Executive

Director

Khyber Pakhtunkhwa Oil and Gas Company Limited
Profit and Loss Account
For the year ended 30 June 2014

	Note	2014 Rupees	08 February 2013 to 30 June 2013 Rupees
Operating expenses	12	(17,341,136)	(50,000)
Other income	13	22,371,010	-
Profit/ (loss) before taxation		5,029,874	(50,000)
Taxation	14	(7,606,143)	-
Loss for the year / period		(2,576,269)	(50,000)

The annexed notes 1 to 20 form an integral part of these financial statements.

Chief Executive

Director

Khyber Pakhtunkhwa Oil and Gas Company Limited
Statement of Comprehensive Income
For the year ended 30 June 2014

	Note	2014 Rupees	08 February 2013 to 30 June 2013 Rupees
Loss for the year / period		(2,576,269)	(50,000)
Other comprehensive income		-	-
Total comprehensive income for the year / period		**(2,576,269)**	(50,000)

The annexed notes 1 to 20 form an integral part of these financial statements.

Chief Executive

Director

Khyber Pakhtunkhwa Oil and Gas Company Limited
Cash Flow Statement
For the year ended 30 June 2014

	Note	2014 Rupees	08 February 2013 to 30 June 2013 Rupees
Cash flows from operating activities			
Profit/ (loss) before taxation		5,029,874	(50,000)
Adjustments for:			
Depreciation		342,634	-
		5,372,508	(50,000)
Working capital changes			
Increase in current assets:			
Deposits and prepayments		(257,100)	-
Other receivable		(58,230)	-
Accrued markup		(22,321,010)	-
Increase in current liabilities:			
Accrued and other liabilities		4,005,380	50,000
Cash used in operations		(13,258,452)	-
Net cash used in operating activities		(13,258,452)	-
Cash flows from investing activities			
Purchase of property, plant and equipment		(13,063,478)	-
Other financial assets		(250,000,000)	-
Net cash used in investing activities		(263,063,478)	-
Cash flows from financing activities			
Issuance of share capital		-	500,000,000
Net cash generated from financing activities		-	500,000,000
Net (decrease)/ increase in cash and cash equivalents		(276,321,930)	500,000,000
Cash and cash equivalents at beginning of the year/ period		500,000,000	-
Cash and cash equivalents at end of the year/ period		223,678,070	500,000,000

The annexed notes 1 to 20 form an integral part of these financial statements.

Chief Executive **Director**

Khyber Pakhtunkhwa Oil and Gas Company Limited
Statement of Changes in Equity
For the year ended 30 June 2014

	Share Capital	Accumulated loss	Total
	----------------------	Rupees	----------------------
Issuance of share capital	500,000,000	-	500,000,000
Loss for the period	-	(50,000)	(50,000)
Closing balance as at 30 June 2013	500,000,000	(50,000)	499,950,000
Loss for the year	-	(2,576,269)	(2,576,269)
Closing balance as at 30 June 2014	500,000,000	(2,626,269)	497,373,731

The annexed notes 1 to 20 form an integral part of these financial statements.

Chief Executive **Director**

Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
For the year ended 30 June 2014

1 Legal status and operations

Khyber Pakhtunkhwa Oil & Gas Company Limited was incorporated as Public Company on 08 February 2013 under the Companies Ordinance, 1984 as a provincial holding company of the Government of Khyber Pakhtunkhwa pursuant to clause 4.1.3 (6) of Petroleum Exploration and Production Policy, 2012. Effecitve 01 September 2014, the Company has changed its registered office from House 46, Street 2, Old Shami Road, Peshawar to House 692, Street 13, Sector E-4, Phase-7, Hayatabad, Peshawar.

The Company is established to engage in the exploration and development of oil and gas resources, including production and sale of oil and gas and related activities in the province of Khyber Pakhtunkhwa. The Company will also provide technical services to exploration and production companies.

Subsequent to year end, the Company has signed deeds of assignment effective February 2014 to acquire 1.81% working interest in Block No.3371-16 (Peshawar East), 2.50% working interest in Block No. 3371-17 (Baratai) and 1.62% in Block No. 3370 (Pezu) respectively. However, approval from the Director General Petroleum Concession (DGPC) is pending for these blocks.

2 Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Basis of measurement

These financial statements have been prepared on historical cost basis.

2.3 Functional and presentation currency

These financial statements have been presented in Pak Rupees which is Company's functional currency.

2.4 Significant accounting estimates

The preparation of these financial statements in conformity with the approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that year, or in the year of the revision and any future year affected.

Judgments made by the management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in the ensuing paragraphs.

2.4.1 Property, plant and equipment

The Company reviews the useful lives and residual values of property, plant and equipment on the reporting date. Any change in the estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

2.4.2 Taxation

The Company takes into account the current income tax laws and decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

2.4.3 Stores and spares

The Company reviews the stores and spares for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of stores and spares with a corresponding affect on the provision.

2.4.4 Provision against doubtful trade debts, advances and other receivables

The Company reviews the recoverability of its trade debts, advances and other receivables to assess amount of bad debts and provision required there against on annual basis.

2.5 New accounting standards and IFRIC interpretations that are not yet effective

As of 30 June 2014, the following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 July 2014:

- IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The interpretation is not likely to have an impact on the Company's financial statements.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments are not likely to have an impact on the Company's financial statements.

- Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments are not likely to have an impact on Company's financial statements.

- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" Continuing hedge accounting after derivative novation (effective for annual periods beginning on or after 1 January 2014). The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are not likely to have an impact on the Company's financial statements.

- Amendments to IAS 19 "Employee Benefits" Employee contributions – a practical approach (effective for annual periods beginning on or after 1 July 2014). The practical expedient addresses an issue that arose when amendments were made in 2011 to the previous pension accounting requirements. The amendments introduce a relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. The amendments are not likely to have an impact on the Company's financial statements.

- Amendments to IAS 38 Intangible Assets and IAS 16 Property, Plant and Equipment (effective for annual periods beginning on or after 1 January 2016) introduce severe restrictions on the use of revenue-based amortization for intangible assets and explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. The rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments are not likely to have an impact on the Company's financial statements.

- IFRS 10 'Consolidated Financial Statements' – (effective for annual periods beginning on or after 1 January 2015) replaces the part of IAS 27 'Consolidated and Separate Financial Statements. IFRS 10 introduces a new approach to determining which investees should be consolidated. The single model to be applied in the control analysis requires that an investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 has made consequential changes to IAS 27 which is now called 'Separate Financial Statements' and will deal with only separate financial statements. The changes are not likely to have an impact on Company's financial statements.

- IFRS 11 'Joint Arrangements' (effective for annual periods beginning on or after 1 January 2015) replaces IAS 31 'Interests in Joint Ventures'. Firstly, it carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31 and are now called joint operations. Secondly, the remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of using the equity method or proportionate consolidation; they must now always use the equity method. IFRS 11 has also made consequential changes in IAS 28 which has now been named 'Investment in Associates and Joint Ventures'. The amendments requiring business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business are effective for annual periods beginning on or after 1 January 2016. The standard does not likely to have an impact on Company's financial statements.

- IFRS 12 'Disclosure of Interest in Other Entities' (effective for annual periods beginning on or after 1 January 2015) combines the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, into one place. The standard does not likely to have an impact on Company's financial statements.

- IFRS 13 'Fair Value Measurement' effective for annual periods beginning on or after 1 January 2015) defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard does not likely to have an impact on Company's financial statements.

- Amendment to IAS 27 'Separate Financial Statement' (effective for annual periods beginning on or after 1 January 2016). The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are not likely to have an impact on Company's financial statements.

- Agriculture: Bearer Plants [Amendment to IAS 16 and IAS 41] (effective for annual periods beginning on or after 1 January 2016). Bearer plants are now in the scope of IAS 16 Property, Plant and Equipment for measurement and disclosure purposes. Therefore, a company can elect to measure bearer plants at cost. However, the produce growing on bearer plants will continue to be measured at fair value less costs to sell under IAS 41 Agriculture. A bearer plant is a plant that: is used in the supply of agricultural produce; is expected to bear produce for more than one period; and has a remote likelihood of being sold as agricultural produce. Before maturity, bearer plants are accounted for in the same way as self-constructed items of property, plant and equipment during construction. The amendments are not likely to have an impact on Company's financial statements.

Annual Improvements 2010-2012 and 2011-2013 cycles (most amendments will apply prospectively for annual period beginning on or after 1 July 2014). The new cycle of improvements contain amendments to the following standards. The following amendments are not likely to have an impact on the Company's financial statements:

- IFRS 2 'Share-based Payment'. IFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies both: how to distinguish between a market condition and a non-market performance condition and the basis on which a performance condition can be differentiated from a vesting condition.

- IFRS 3 'Business Combinations'. These amendments clarify the classification and measurement of contingent consideration in a business combination. Further IFRS 3 has also been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements including joint operations in the financial statements of the joint arrangement themselves.

- IFRS 8 'Operating Segments' has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. In addition this amendment clarifies that a reconciliation of the total of the reportable segment's assets to the entity assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities.

- Amendments to IAS 16'Property, plant and equipment' and IAS 38 'Intangible Assets'. The amendments clarify the requirements of the revaluation model in IAS 16 and IAS 38, recognizing that the restatement of accumulated depreciation (amortization) is not always proportionate to the change in the gross carrying amount of the asset.

- IAS 24 'Related Party Disclosure'. The definition of related party is extended to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity.

- IAS 40 'Investment Property'. IAS 40 has been amended to clarify that an entity should: assess whether an acquired property is an investment property under IAS 40 and perform a separate assessment under IFRS 3 to determine whether the acquisition of the investment property constitutes a business combination.

3 Summary of accounting policies

3.1 Property, plant and equipment

Property, plant and equipment, recognized initially at cost less accumulated depreciation and any accumulated impairment losses, except for freehold land and capital work-in-progress which are stated at cost less accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items. Capital work-in-progress consists of expenditure incurred and advances made in respect of tangible assets in the course of their construction and installation. Transfers are made to the relevant operating fixed assets category as and when assets are available for use.

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss account as incurred.

Depreciation is provided on straight line method at rates specified in note 7 to the financial statements so as to write off the cost of property, plant and equipment over their estimated useful life. Depreciation on additions to property, plant and equipment is charged from the month in which property, plant and equipment is acquired or capitalized while no depreciation is charged for the month in which property, plant and equipment is disposed off.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within "other income" in profit or loss account.

Impairment tests for property, plant and equipment are performed when there is an indication of impairment. At each year end, an assessment is made to determine whether there are any indications of impairment. The Company conducts annually an internal review of asset values which is used as a source of information to assess for any indications of impairment. External factors such as changes in expected future prices, costs and other market factors are also monitored to assess for indications of impairment. If any such indication exists, an estimate of the asset's recoverable amount is calculated being the higher of the fair value of the asset less cost to sell and the asset's value in use.

If the carrying amount of the asset exceeds its recoverable amount, the property, plant and equipment is impaired and an impairment loss is charged to the profit and loss account so as to reduce the carrying amount of the property, plant and equipment to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the property, plant and equipment in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and does not take into account future development.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups, referred to as cash generating units. Cash generating units are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.2 Trade debts and other receivables

Trade debts and other receivables are stated at original invoice amount as reduced by appropriate impairment. Bad debts are written off when identified while debts doubtful of recovery are fully provided for. Provision for doubtful debts are charged to profit and loss account.

3.3 Trade and other payable

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

3.4 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprises cash in hand and cash at bank.

3.5 Taxation

Taxation for the year comprises current and deferred tax. Taxation is recognized in the profit and loss account except to the extent that it relates to items recognized outside profit and loss account (whether in other comprehensive income or directly in equity), if any, in which case the tax amounts are recognized outside profit and loss account.

3.5.1 Current tax

Provision for current taxation is based on taxable income at the current rate of tax after taking into account applicable tax credits, rebates and exemptions available, if any, adjusted for payments to GoP for payments on account of royalty and any adjustment to tax payable in respect of previous years.

3.5.2 Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of all taxable temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is not recognized for the temporary differences arising from the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investment in jointly controlled entities to the extent that it is probable that they will not reverse in a foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the reporting date, adjusted for payments to GoP on account of royalty.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

3.6 Foreign currency transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing on the date of transaction. Closing balances of non-monetary items are included at the exchange rates prevailing on the date of transaction and monetary items are translated using the exchange rates prevailing on the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

3.7 Revenue recognition

Revenue from sale of goods is recognized when significant risk and reward of ownership is transferred to the vendor, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from sale of goods is measured at fair value of the consideration received or receivable, net of Government Levies.

Revenue from services is recognized on rendering of services to customers and is measured at fair value of consideration received or receivable.

3.8 Capital management

The Company's objective when managing capital is to safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefit for other stakeholders, and to maintain a strong capital base to support the sustained development of its activities.

The Company manages its capital structure which comprises capital and reserves by monitoring returns on net assets and make adjustments to it in the light of changes in economic conditions. There were no changes to Company's approach to capital management during the period and the Company is not subject to externally imposed capital requirement.

3.9 Financial assets and liabilities

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. These are de-recognized when the Company ceases to be the party to the contractual provisions of the instrument. All financial assets and liabilities are initially measured at fair value. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be.

Financial assets mainly comprise loans, deposits, trade debts, receivables from joint venture partners and other receivables and cash and bank balances. Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant liabilities are trade and other payables.

All financial assets and liabilities are initially measured at fair value. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be.

3.10 Offsetting of financial assets and liabilities

Financial assets and liabilities and tax assets and liabilities are offset in the balance sheet, only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

4 Share capital

	Note	2014 Rupees	2013 Rupees
Authorized share capital			
10,000,000 (2013: 10,000,000) ordinary shares of Rupees 100 each		1,000,000,000	1,000,000,000
Issued, subscribed and paid up capital			
5,000,000 (2013: 5,000,000) ordinary shares of Rupees 100 each		500,000,000	500,000,000

5 Deferred taxation

	2014	2013
Accrued markup	7,589,143	-
	7,589,143	-

5.1 In view of the uncertainty about timings of taxable profits in the foreseeable future against which the tax loss as carry forward can be utilized, the Company has not recognized deferred tax asset on tax losses and therefore created an equivalent valuation reserve against deferred tax asset amounting to Rs. 7,711,464 (2013: Rs. 20,000).

6 Accrued and other liabilities

	2014 Rupees	2013 Rupees
Wages and salaries payable	36,358	-
Payable to joint venture partners	65,402	-
Audit fee payable	280,000	50,000
Payable to Employees' Old age Benefit Institution	8,240	-
Withholding taxes payable	3,644,752	-
Other current payables	20,628	-
	4,055,380	50,000

7 Contingencies and commitments

7.1 Contingencies

There is no material contingency as of 30 June 2014 (2013: Nil)

7.2 Commitments

Commitments in respect of the Company's minimum financial expenditure in following Petroleum Concessions, awarded to the Company:

	2014 USD	2013 USD
Block No. 3370 - Pezu	111,942	-
Block No. 3371-16 - Peshawar East	19,005	-
Block No. 3371-17 - Baratai	1,937,750	-
	2,068,697	-

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8 Property, plant and equipment

	Geological equipment	Office equipment	Furniture	Motor vehicle	Total
			Rupees		
Cost					
Balance as at 1 July 2013	-	-	-	-	-
Additions during the year	101,559	1,702,681	313,638	10,945,600	13,063,478
Balance as at 30 June 2014	101,559	1,702,681	313,638	10,945,600	13,063,478
Depreciation					
Balance as at 1 July 2013	-	-	-	-	-
Charge for the year	5,028	58,709	9,820	269,077	342,634
Balance as at 30 June 2014	5,028	58,709	9,820	269,077	342,634
Carrying value as at 30 June 2014	96,531	1,643,972	303,818	10,676,523	12,720,844
Depreciation rates	20%	20%	20%	20%	

Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
For the year ended 30 June 2014

		Note	2014 Rupees	2013 Rupees
9	**Deposits and prepayments**			
	Deposits		239,600	-
	Prepayments		17,500	-
			257,100	-

10 This represents local currency term deposit carrying interest rate of 9.67% per annum maturing on 02 October 2014.

		Note	2014 Rupees	2013 Rupees
11	**Cash and bank balances**			
	Cash at bank			
	- Current account		198,296	500,000,000
	- Saving account	11.1	223,421,157	-
			223,619,453	500,000,000
	Cash in hand		58,617	-
			223,678,070	500,000,000

11.1 This carry markup at 9.67 % per annum (2013: Nil)

		2014	2013
12	**Operating expenses**		
	Salaries, wages and benefits	13,530,842	-
	Utilities	23,925	-
	Communication	55,112	-
	Security	42,030	-
	Professional memberships and subscriptions	446,563	-
	Rent, fees and taxes	525,377	-
	Travelling and subsistence	596,884	-
	Printing, stationery and publications	126,493	-
	Meeting costs	953,953	-
	Advertising	136,152	-
	Vehicle repairs	11,830	-
	Depreciation	342,634	-
	Repairs and maintenance	67,121	-
	Miscellaneous	186,818	-
	Auditors' remuneration	230,000	50,000
	Concession operating expenses	65,402	-
		17,341,136	50,000
13	**Other income**		
	Interest on term deposit and bank accounts	22,321,010	-
	Others	50,000	-
		22,371,010	-
14	**Taxation**		
	- Current	17,000	-
	- Deferred	7,589,143	-
		7,606,143	-

15 Financial instruments

Financial risk management

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has exposure to following risks from its use of financial instruments.

- Credit risk
- Liquidity risk
- Market risk

15.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic feature that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular industry.

15.1.1 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting dates was:

	2014	2013
	Rupees	Rupees
Bank balances	223,421,157	500,000,000
Other financial assets	250,000,000	-
	473,421,157	500,000,000

15.2 Liquidity risk

Liquidity risk the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the branch could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with the financial liabilities as they fall due. The following are the contractual maturities of the financial liabilities:

	2014	2013
	Rupees	Rupees
Other financial liabilities		
Maturity up to one year	4,055,380	50,000
Maturity after one year and up to two years	-	-
Maturity after two year and up to three years	-	-
Maturity after three year and up to four years	-	-
Maturity after four year and up to five years	-	-
Maturity after five years	-	-
	4,055,380	50,000
Carrying amount	4,055,380	50,000

15.3 Market risk

Market risk is the risk that the value of the financial instruments may fluctuate as a result of changes in market interest rates or the market price due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Company is not exposed to market risk.

15.4 Fair value of financial assets and liabilities

Carrying values of all financial instruments reflected in the financial statements approximate their fair values.

15.5 Financial instruments by category

	2014			
	Loans and receivables	**Assets at fair value through profit and loss**	**Other financial assets**	**Total**
	---------- Rupees ----------			
Financial assets				
Other current assets	257,100			257,100
Bank balances	223,678,070	-	250,000,000	473,678,070
	223,935,170	-	250,000,000	473,935,170

	Liabilities at fair value through profit and loss	**Other financial liabilities**	**Total**
	---------- Rupees ----------		
Financial liabilities			
Accrued and other liabilities	-	4,055,380	4,055,380
	-	4,055,380	4,055,380

	2013			
	Loans and receivables	Assets at fair value through profit and loss	Other financial assets	Total
	---------- Rupees ----------			
Financial assets				
Bank balances	500,000,000	-	-	500,000,000
	500,000,000	-	-	500,000,000

	Liabilities at fair value through profit and loss	Other financial liabilities	Total
	---------- Rupees ----------		
Financial liabilities			
Accrued and other liabilities	-	50,000	50,000
	-	50,000	50,000

15.6 Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of business. There were no change to the Branch's approach to capital management during the year and the Branch is not subject to externally imposed capital requirements.

16 Number of employees

	2014	**2013**
Total number of employees at year end	19	-
Average number of employees at year end	10	-

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17 Related party transactions

Government of Khyber Pakhtunkhwa owns 100% (2013: 100%) shares of the Company. Therefore, all entities owned and controlled by the Government of Khyber Pakhtunkhwa and Federal Government of Pakistan are related parties of the Company. Other related parties comprise directors, companies with common directorship and key management personnel. The Company in normal course of business pays for electricity, gas and telephone to entities controlled by Federal Government of Pakistan which are not material, hence not disclosed in these financial statements. There are no transactions with related parties other than salary paid to Chief Executive of Rs 11.33 million (2013: Nil).

18 Remunerations of Chief Executive, Directors and Executives

	2014		2013	
	Chief Executive	Executives	Chief Executive	Executives
	Rupees			
Managerial remuneration	11,133,333	1,189,093	-	-
Other allowances and benefits	170,420	-	-	-
	11,303,753	1,189,093	-	-
Number of persons	1	3	1	-

- Executive means any employee whose basic salary exceeds Rs 500,000 (2013: Rs 500,000) per year.

- The Chief Executive was provided with free use of Company's cars in accordance with their entitlement.

- The aggregate amount charged in these financial statements in respect of fee to 12 directors (2013: 2) was Rs 600,000 (2013: Nil).

19 Date of authorization for issue

These financial statements were authorized for issue on 16 APR 2015 by the Board of Directors of the Company.

20 General

20.1 The financial statements for the period ended 30 June 2013 are prepared from 08 February 2013 to 30 June 2013. Accordingly, comparative figures of profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity are not comparable.

20.2 Figures have been rounded off to the nearest rupees, unless otherwise stated.

Chief Executive

Director