



KPMG Taseer Hadi & Co.
Chartered Accountants

**Khyber Pakhtunkhwa Oil
and Gas Company Limited**

Annual audit for the year ended
30 June 2017



KPMG Taseer Hadi & Co.
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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 2017 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 purposes 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 accounts 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 accounts 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



KPMG Taseer Hadl & Co.

- 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 2017 and of the loss, total comprehensive loss, its cash flows 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.

Chartered Accountants

Engagement Partner: Inam Kakra

Dated: 23 January 2018
Islamabad

Khyber Pakhtunkhwa Oil and Gas Company Limited
Balance Sheet
As at 30 June 2017

	Note	2017 Rupees	2016 Rupees	Note	2017 Rupees	2016 Rupees
SHARE CAPITAL AND RESERVES						
Share capital	4	1,900,000,000	500,000,000	9	50,601,184	47,765,393
Advance against issue of shares	5	-	1,400,000,000	10	38,468,378	45,742,940
Accumulated loss		(390,763,221)	(184,512,950)		7,062,791	-
Total share capital and reserves		1,509,236,779	1,715,487,050		96,132,353	93,508,333
LIABILITIES						
Deferred employee benefits	6	10,656,995	-			
Non-current liabilities		10,656,995	-			
Trade and other payables	7	59,350,610	72,908,674			
Current liabilities		59,350,610	72,908,674			
Total liabilities		70,007,605	72,908,674			
Total share capital, reserves and liabilities		1,579,244,384	1,788,395,724		1,579,244,384	1,788,395,724
Contingencies and commitments	8					
ASSETS						
Property and equipment	9					
Intangible asset	10					
Exploration and evaluation assets						
Non-current assets						
Advances, deposits and prepayments	11					
Accrued markup						
Trade receivables						
Advance tax						
Cash and bank balances	12					
Current assets						
Total assets		1,579,244,384	1,788,395,724		1,579,244,384	1,788,395,724

The annexed notes 1 to 24 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 2017

	Note	2017 Rupees	2016 Rupees
10 Intangible asset			
Cost			
Balance at the beginning of the year		53,183,430	2,496,295
Intangible in progress	10.1	2,438,995	4,615,650
Acquisitions		-	46,071,485
Balance at end of the year		55,622,425	53,183,430
Amortization			
Balance at the beginning of the year		(7,440,490)	(414,453)
Charge for the period		(9,713,557)	(7,026,037)
Balance at end of the year		(17,154,047)	(7,440,490)
Carrying amount		38,468,378	45,742,940

10.1 This represents payment made against Enterprise Resource Planning (ERP) system and includes Rs. 2,266,495 in respect of hardware purchased for ERP system.

	Note	2017 Rupees	2016 Rupees
11 Advances, deposits and prepayments			
Deposits		2,087,981	2,643,500
Bid money		-	22,463,000
Prepayments		1,914,545	9,975,842
Prepaid security cost		-	17,038,944
Advances for expenses		1,309,460	803,450
Advance to suppliers		2,019,500	7,891,000
KP Sales tax receivable from customers		103,200	1,820,147
Receivable from Energy and Power Department of GoKPK	11.1	214,634	2,285,586
Other receivable	11.2	12,517,827	370,572
		20,167,147	65,294,041

11.1 This represents receivable on account of expenses incurred by the Company on behalf of Pakhtunkhwa Energy Development Organization (PEDO), a related party, in respect of rent and utility expenses of Islamabad Guest House operated by the Company in accordance with agreement dated 19 August 2015. This receivable is interest free.

11.2 This includes an amount of Rs. 12,445,569 receivable from District Police Officer, Kohat on account of payment for security services provided to the Company.

	Note	2017 Rupees	2016 Rupees
12 Cash and bank balances			
Cash at bank			
- Current accounts		330,000	330,000
- Saving accounts	12.1	1,406,038,463	1,604,807,824
		1,406,368,463	1,605,137,824
Cash in hand		399,490	130,489
		1,406,767,953	1,605,268,313

12.1 These carry markup ranging from 3.75% to 6.30% per annum (2016: 3.75% to 6.80% per annum).

13 Revenue represents security and logistic services provided by the Company to oil and gas exploration and production companies during the year. The Company has billed an amount of Rs. 32.244 million (2016: 20.459 million) to certain customers which has not been acknowledged by the customers. The management considers that the billed amount is in accordance with the agreements with the customers, however, the Company has not recognized revenue in respect of these invoices because of uncertainty related to recoverability of these amounts.

		2017	2016
14 Exploration and evaluation expenses			
Concession charges		43,590,852	48,824,034
Exploration and development cost		5,695,614	-
Geological consultancy charges		-	2,850,000
		49,286,466	51,674,034

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Khyber Pakhtunkhwa Oil and Gas Company Limited
Profit and Loss Account
For the year ended 30 June 2017

	Note	2017 Rupees	2016 Rupees
Service revenue	13	127,257,148	119,233,061
Cost of services		(93,637,275)	(111,262,185)
Gross profit		<u>33,619,873</u>	<u>7,970,876</u>
Exploration and evaluation expenses	14	(49,286,466)	(51,674,034)
Operating expenses	15	(272,244,570)	(127,532,745)
Other income	16	93,349,410	21,462,183
Loss before taxation		<u>(194,561,753)</u>	<u>(149,773,720)</u>
Income tax expense	17	(11,688,518)	(9,646,385)
Loss for the year		<u><u>(206,250,271)</u></u>	<u><u>(159,420,105)</u></u>

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The annexed notes 1 to 24 form an integral part of these financial statements.


Chief Executive

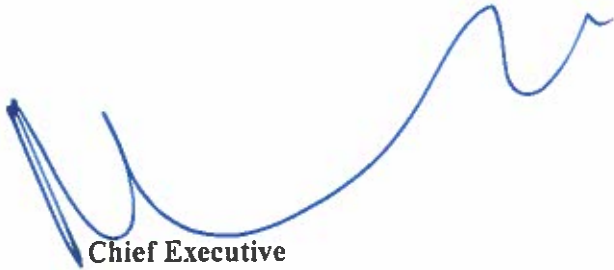

Director

Khyber Pakhtunkhwa Oil and Gas Company Limited
Statement of Comprehensive Income
For the year ended 30 June 2017

	2017	2016
Note	<u>Rupees</u>	<u>Rupees</u>
Loss for the year	(206,250,271)	(159,420,105)
Other comprehensive income	-	-
Total comprehensive income for the year- (loss)	<u>(206,250,271)</u>	<u>(159,420,105)</u>

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The annexed notes 1 to 24 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 2017

	2017	2016
Note	Rupees	Rupees
Cash flows from operating activities		
Loss for the year	(194,561,753)	(149,773,720)
Adjustments for:		
- Depreciation	9 15,239,829	8,837,462
- Amortization	10 9,713,557	7,026,037
- Interest income	16 (92,833,727)	(21,452,183)
	<u>(262,442,094)</u>	<u>(155,362,404)</u>
Changes in:		
- Trade receivables	14,446,319	(15,135,184)
- Advances, deposits and prepayments	45,126,894	(9,364,957)
- Trade and other payables	(13,558,064)	61,304,992
- Provisions and employee benefits	10,656,995	-
- Unearned revenue	-	(12,822,482)
	<u>(205,769,950)</u>	<u>(131,380,035)</u>
Income taxes paid	(13,703,734)	(11,415,481)
Net cash used in operating activities	<u>(219,473,684)</u>	<u>(142,795,516)</u>
Cash flows from investing activities		
Acquisition of property and equipment	(18,075,620)	(36,879,729)
Acquisition of intangible asset	-	(46,071,485)
Intangible in progress	(2,438,995)	(4,615,650)
Exploration and evaluation assets	(7,062,791)	-
Interest income received	48,550,730	21,174,983
Net cash generated from / (used in) investing activities	<u>20,973,324</u>	<u>(66,391,881)</u>
Cash flows from financing activities		
Advance against issue of shares	-	1,400,000,000
Net cash from financing activities	<u>-</u>	<u>1,400,000,000</u>
Net (decrease) / increase in cash and cash equivalents	<u>(198,500,360)</u>	<u>1,190,812,603</u>
Cash and cash equivalents at 1 July	1,605,268,313	414,455,710
Cash and cash equivalents at 30 June	<u>1,406,767,953</u>	<u>1,605,268,313</u>

The annexed notes 1 to 24 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 2017

	Share Capital	Advance against shares	Accumulated loss	Total
	-----Rupees-----			
Balance as at 01 July 2015	500,000,000	-	(25,092,845)	474,907,155
Loss for the year	-	-	(159,420,105)	(159,420,105)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year- (loss)	-	-	(159,420,105)	(159,420,105)
<i>Transactions with the owners of the Company</i>				
<i>Contribution</i>				
- Advance against issue of shares	-	1,400,000,000	-	1,400,000,000
Total contribution	-	1,400,000,000	-	1,400,000,000
Balance as at 30 June 2016	500,000,000	1,400,000,000	(184,512,950)	1,715,487,050
Loss for the year	-	-	(206,250,271)	(206,250,271)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year - (loss)	-	-	(206,250,271)	(206,250,271)
<i>Transactions with the owners of the Company</i>				
<i>Contribution</i>				
- Issuance of shares	1,400,000,000	(1,400,000,000)	-	-
Total contribution	1,400,000,000	(1,400,000,000)	-	-
Balance as at 30 June 2017	1,900,000,000	-	(390,763,221)	1,509,236,779

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The annexed notes 1 to 24 form an integral part of these financial statements.

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Chief Executive

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Director

Khyber Pakhtunkhwa Oil and Gas Company Limited

Notes to the financial statements

For the year ended 30 June 2017

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. The registered office of the Company is situated at third floor, Ali tower, University road, Peshawar. Previously, the registered address of the Company was situated at House 492, 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.

1.1 The Company has signed deeds of assignment (DOA) in respect of blocks as follows:

Blocks	Working Interest	DOA Date
Baratai (3371-17)	2.50%	9-Sep-16
Peshawar East (3371-16)	1.84%	21-Jun-17
Pezu (3070-16)*	1.62%	-
Kulachi (3170-8)*	2.05%	-
Paharpur (3170-5)*	2.43%	-
Karak North (3370-15)*	2.50%	-

* However, approval of deed of assignment from the Director General Petroleum Concession (DGPC) is pending for Pezu (3070-16), Kulachi (3170-8), Karak North (3370-15) & Paharpur (3170-5) blocks.

The Company's share of minimum work commitments in the concession where the Company has signed Deed of Assignment amounts to US\$ 2.113 million and the Board of Directors have approved investment of US\$ 47.619 million for capital expenditure and in various Petroleum Concessions other than these. GoKPK has invested Rs. 1.9 billion till 30 June 2017 in the shape of equity out of which Rs. 1.4 billion has been injected specifically for further investment in various Petroleum Concessions. The Company is fully owned by GoKPK and funding requirements are met through annual budgetary allocation in the provincial budgets.

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

2.2.1 These financial statements have been prepared on historical cost basis.

2.2.2 The Companies Act, 2017 was enacted on 30 May 2017 and SECP vide its circular No. 23 of 2017 dated 04 October 2017 has clarified that the companies whose financial year closes on or before 31 December 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. The Companies Act, 2017 applicable for financial year beginning on 1 January 2018 requires certain additional disclosures.

Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
For the year ended 30 June 2017

2.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. These financial statements have been presented in Pakistan Rupees (PKR) which is Company's functional and presentation currency. All the financial information presented has been rounded off to the nearest rupee, unless otherwise stated.

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 and equipment

The Company reviews the useful lives and residual values of property 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 and equipment with a corresponding effect on the depreciation charge and impairment.

2.4.2 Impairment of assets

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. Any change in estimates in future years might affect the carrying amounts of the respective assets with corresponding effect on depreciation charge and impairment.

2.4.3 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.

2.4.4 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.

2.4.5 Provision and contingencies

The Company reviews the status of all the legal cases on a regular basis. Based on the expected outcome and lawyers judgments, appropriate disclosure or provision is made.

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2.4.6 Exploration and evaluation expenditure

The Company's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalized for an area of interest where it is considered likely to be recoverable by future exploration or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalized the expenditure under the policy, a judgment is made that recovery of the expenditure is unlikely, the relevant capitalized amount is written off to the profit and loss account.

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

The following standards, interpretations and the amendments are effective for accounting periods beginning from the dates specified below and are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures:

- Amendments to IAS 12 'Income Taxes' are effective for annual periods beginning on or after 1 January 2017. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments further clarify that when calculating deferred tax asset in respect of insufficient taxable temporary differences, the future taxable profit excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are not likely to have an impact on Company's financial statements.
- Amendments to IAS 7 'Statement of Cash Flows' are part of IASB's broader disclosure initiative and are effective for annual periods beginning on or after 1 January 2017. The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.
- Amendments to IFRS 2 - Share-based Payment clarify the accounting for certain types of arrangements and are effective for annual periods beginning on or after 1 January 2018. The amendments cover three accounting areas (a) measurement of cash-settled share-based payments; (b) classification of share-based payments settled net of tax withholdings; and (c) accounting for a modification of a share-based payment from cash-settled to equity-settled. The new requirements could affect the classification and/or measurement of these arrangements and potentially the timing and amount of expense recognized for new and outstanding awards. The amendments are not likely to have an impact on Company's financial statements.
- Amendments to IFRS 4, Insurance contracts' regarding the implementation of IFRS 9, 'Financial instruments' (effective for annual periods beginning on or after 1 January 2018) introduce two approaches: an overlay approach and a deferral approach. The amended standard will:
 - give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and
 - give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard—IAS 39.
- Transfers of Investment Property (Amendments to IAS 40 'Investment Property' -effective for annual periods beginning on or after 1 January 2018) clarifies that an entity shall transfer a property to, or from, investment property when, and only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are not likely to have an impact on Company's financial statements.

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Khyber Pakhtunkhwa Oil and Gas Company Limited

Notes to the financial statements

For the year ended 30 June 2017

- Annual improvements to IFRS standards 2014-2016 cycle. The new cycle of improvements addresses improvements to following approved accounting standards:
 - Amendments to IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual periods beginning on or after 1 January 2017) clarify that the requirements of IFRS 12 apply to an entity's interests that are classified as held for sale or discontinued operations in accordance with IFRS 5 – 'Non-current Assets Held for Sale and Discontinued Operations'. The amendments are not likely to have an impact on Company's financial statements.
 - Amendments to IAS 28 'Investments in Associates and Joint Ventures' (effective for annual periods beginning on or after 1 January 2018) clarifies that a venture capital organization and other similar entities may elect to measure investments in associates and joint ventures at fair value through profit or loss, for each associate or joint venture separately at the time of initial recognition of investment. Furthermore, similar election is available to non-investment entity that has an interest in an associate or joint venture that is an investment entity, when applying the equity method, to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture. The amendments are not likely to have an impact on Company's financial statements.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (effective for annual periods beginning on or after 1 January 2018) clarifies which date should be used for translation when a foreign currency transaction involves payment or receipt in advance of the item it relates to. The related item is translated using the exchange rate on the date the advance foreign currency is received or paid and the prepayment or deferred income is recognized. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) would remain the date on which receipt of payment from advance consideration was recognized. If there are multiple payments or receipts in advance, the entity shall determine a date of the transaction for each payment or receipt of advance consideration.
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective for annual periods beginning on or after 1 January 2019) clarifies the accounting for income tax when there is uncertainty over income tax treatments under IAS 12. The interpretation requires the uncertainty over tax treatment be reflected in the measurement of current and deferred tax.
- In addition, the Companies Act, 2017 was enacted on 30 May 2017 and SECP vide its circular 23 of 2017 has clarified that the companies whose financial year closes on or before 31 December 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. The Companies Act, 2017 applicable for financial year beginning on 1 January 2018 requires certain additional disclosures. The requirement of Section 235 of the repealed Companies Ordinance, 1984 relating to treatment of surplus arising out of revaluation of assets has not been carried forward in the Companies Act, 2017, however, this will have no impact on the Company's financial statements.

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3 Summary of significant accounting policies

3.1 Property and equipment

Owned

Property 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 which comprises of purchase price, non-refundable local taxes and other directly attributable cost including borrowing cost. 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 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 and equipment are recognized in profit or loss account as incurred.

Depreciation is provided on straight line method at rates specified in note 8 to the financial statements so as to write off the cost of property and equipment over their estimated useful life. Depreciation on additions to property and equipment is charged from the month in which property and equipment is acquired or capitalized while no depreciation is charged for the month in which property and equipment is disposed off.

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

3.2 Exploration and evaluation assets

Under the successful efforts method of accounting, all property acquisitions, exploratory/evaluation drilling costs are initially capitalized as intangible E&E assets in well, field or specific exploration cost centres as appropriate, pending determination.

Costs directly associated with an exploratory well are capitalized as an intangible asset until the drilling of the well is completed and results have been evaluated. Major costs include employee benefits, material, chemical, fuel, well services and rig operational costs. All other exploration costs including cost of technical studies, seismic acquisition and data processing, geological and geophysical activities are charged against income as exploration and prospecting expenditure.

Tangible assets used in E&E activities, include the Company's vehicles, drilling rigs, seismic equipment and other property, plant and equipment used by the Company's exploration function and are classified as property, plant and equipment. However, to the extent that such a tangible asset is consumed in developing an intangible E&E asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overheads, including the depreciation of property, plant and equipment utilized in E&E activities, together with the cost of other materials consumed during the exploration and evaluation phases.

Intangible E&E assets relating to each exploration license/field are carried forward, until the existence or otherwise of commercial reserves have been determined subject to certain limitations including review for indications of impairment. If commercial reserves have been discovered, the carrying value after any impairment loss of the relevant E&E assets is then reclassified as development and production assets and if commercial reserves are not found, the capitalized costs are written off as dry and abandoned wells and are charged to profit and loss account.

E&E assets are not amortized prior to the conclusion of appraisal activities. *Komya*

Khyber Pakhtunkhwa Oil and Gas Company Limited

Notes to the financial statements

For the year ended 30 June 2017

3.3 Impairment

Non-financial assets

The carrying amounts of non-financial assets other than stock in trade are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit and loss account.

Impairment loss recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

Financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets are impaired may include default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy.

All individually significant assets are assessed for specific impairment. All individually significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit and loss account.

Oil and gas assets

E&E assets are assessed for impairment when facts and circumstances indicate that carrying amount may exceed the recoverable amount of E&E assets. Such indicators include, the point at which a determination is made that as to whether or not commercial reserves exist, the period for which the Company has right to explore has expired or will expire in the near future and is not expected to be renewed, substantive expenditure on further exploration and evaluation activities is not planned or budgeted and any other event that may give rise to indication that E&E assets are impaired.

The carrying value is compared against expected recoverable amount of the oil and gas assets, generally by reference to the future net cash flows expected to be derived from such assets. The cash generating unit applied for impairment test purpose is generally field by field basis, except that a number of fields may be grouped as a single cash generating unit where the cash flows of each field are inter-dependent.

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For the year ended 30 June 2017

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the profit and loss account, net of any depreciation/ amortization that would have been charged since the impairment.

3.4 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents comprise cash in hand and balances at banks.

3.5 Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are measured at the present value of expected expenditure, discounted at a pre tax rate that reflects current market assessment of the time value of the money and the risk specific to the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

3.6 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.

3.6.1 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.

3.6.2 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 and the investor / joint operator is able to control the timing of the reversal of temporary difference. 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.

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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 net deferred tax asset amounting to Rs. 63,282,172 (2016: Rs. 57,627,374).

3.7 Foreign currency transactions and balances

Transactions in foreign currencies are translated into functional currency at exchange rates at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at balance sheet date are translated to the functional currency at the exchange rates prevailing at the balance sheet date. The foreign currency gain or loss on monetary items is the difference between amortized costs in the functional currency at beginning of the year, adjusted for effective interest and payments during the year, and amortized cost in foreign currency translated at the exchange rate at balance sheet date. Exchange differences are included in the profit and loss account.

3.8 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.

3.9 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.

3.10 Financial assets and liabilities

Financial assets comprise of trade debts, other receivables and bank balances. Financial liabilities are classified according to substance of the contractual arrangement entered into. Significant financial liabilities include accrued and other liabilities.

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

The Company derecognizes the financial asset when the contractual rights to the cash flows from the assets expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial asset that is created or retained by the Company is recognized as a separate asset or liability. Financial liabilities are derecognized when its contractual obligations are discharged cancelled or expired. Any gain and losses on de-recognition of the financial assets and liabilities is taken to profit or loss account currently.

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Notes to the financial statements

For the year ended 30 June 2017

3.11 Trade and other payables

Liabilities for trade and other amounts payable are initially recognized at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using effective interest method.

3.12 Trade debts and other receivables

Trade debts and other receivables are initially recognized at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using effective interest method, less any impairment losses. Known bad debts are written off, when identified.

3.13 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.

3.14 Intangibles

An intangible asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the Company and that the cost of such asset can also be measured reliably. Intangible assets having definite useful life are stated at cost less accumulated amortization and are amortized based on the pattern in which the assets' economic benefits are consumed. Intangible assets which have indefinite useful life are not amortized and tested for impairment annually, if any.

3.15 Staff retirement benefits

The Company is operating an unfunded gratuity scheme for all its contractual staff with the minimum qualifying period of service as specified by the scheme. Provision for gratuity is determined on the basis of last drawn salary multiplied by number of years of service or any part thereof, in excess of six months and is charged to profit and loss account.

3.16 Joint Operations

Investments in joint arrangements are classified as either joint operations or joint ventures depending on contractual rights and obligations of the parties to the arrangement. The Company has assessed the nature of its arrangements and determined them to be joint operations.

The Company has recognized its share of assets, liabilities, revenues and expenses jointly held or incurred under the joint operations on the basis of latest available audited financial statements of the joint operations and where applicable, the cost statements received from the operator of the joint venture, for the intervening period up to the balance sheet date. The difference, if any, between the cost statements and audited financial statements is accounted for in the next accounting year.

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Notes to the financial statements
For the year ended 30 June 2017

4 Share capital

	Note	2017 Rupees	2016 Rupees
Authorized share capital			
30,000,000 (2016: 30,000,000) ordinary shares of Rupees 100 each		<u>3,000,000,000</u>	<u>3,000,000,000</u>
Issued, subscribed and paid up capital			
19,000,000 (2016: 5,000,000) ordinary shares of Rupees 100 each allotted for consideration paid in cash	4.1	<u>1,900,000,000</u>	<u>500,000,000</u>
Pattern of holding of Company's share capital			
Government of Khyber Pakhtunkhwa		18,999,997	4,999,997
Mr. Zafar Iqbal		1	1
Mr. Sahabzada Saeed Ahmed		1	1
Mr. Shumail But		1	1
		<u>19,000,000</u>	<u>5,000,000</u>

4.1 The reconciliation of number of shares issued is as follows:

	2017	2016
Shares in issue at 01 July	5,000,000	5,000,000
Shares issued during the year	14,000,000	-
Shares in issue at 30 June	<u>19,000,000</u>	<u>5,000,000</u>

5 Advance against issue of shares

	2017 Rupees	2016 Rupees
Balance at 01 July	1,400,000,000	-
Contributions received during the year	-	1,400,000,000
Share capital issued during the year	(1,400,000,000)	-
Balance at 30 June	<u>-</u>	<u>1,400,000,000</u>

5.1 During the year, the Company has issued 14,000,000 shares (2016: Nil) of Rs. 100 each against consideration received from Government of Khyber Pakhtunkhwa.

6 Deferred employee benefits

	2017 Rupees	2016 Rupees
Balance at 01 July	-	-
Charge for the year	10,656,995	-
Benefits paid during the year	-	-
Balance at 30 June	<u>10,656,995</u>	<u>-</u>

6.1 The Company has not carried out actuarial valuation in respect of provision for gratuity since the management believes that the impact of such valuation is not material.

7 Trade and other payables

	2017 Rupees	2016 Rupees
Wages and salaries payable	249,997	1,065,241
Payable to joint venture partners	37,164,839	50,288,650
Payable to Employees' Old-Age Benefit Institution	223,392	783,372
Employee benefits payable	1,901,264	-
Withholding taxes payable	1,185,048	1,614,944
Provincial sales tax payable	2,645,556	5,178,499
Sales tax payable	120,472	1,608,873
Other payables and accruals	9,502,510	5,179,351
Security cost payable	4,342,390	-
Project account	2,015,142	7,189,744
	<u>59,350,610</u>	<u>72,908,674</u>

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	2017 Rupees	2016 Rupees
7.1 Project account		
Opening balance at 01 July	7,189,744	-
Amount received during the year	-	7,189,744
Expenditure incurred during the year	(5,174,602)	-
Closing balance at 30 June	7.1.1 <u>2,015,142</u>	<u>7,189,744</u>

7.1.1 This represents amount received from Energy and Power Department of GoKPK for installation of video conferencing facility. During the year, the Company has incurred expenditure of Rs 5,174,602 at four locations as advised by E&P Department of GoKPK, whereas the unspent balance will be utilized for meeting operating expenses of these video conferencing facilities.

8 Contingencies and commitments

8.1 Contingencies

There is no material contingency as of 30 June 2017 (2016: Nil). Refer note 17.2 to the financial statements for tax contingencies.

8.2 Commitments

Commitments in respect of the Company's minimum financial expenditure in following Petroleum Concessions, where the Company is working interest owner:

	2017 USD	2016 USD	2017 Rupees	2016 Rupees
Block No. 3070-16 - Pezu	-	50,247	-	5,260,861
Block No. 3371-16 - Peshawar East	19,320	19,005	2,028,600	1,989,824
Block No. 3371-17 - Baratai	1,786,907	1,854,966	187,625,213	194,214,940
Block No. 3170-5 - Paharpur	230,850	-	24,239,250	-
Block No. 3370-15 - Karak North	76,750	-	8,058,750	-
	<u>2,113,827</u>	<u>1,924,218</u>	<u>221,951,813</u>	<u>201,465,625</u>

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9 Property and equipment

Cost	Rupees								Total
	Geological equipment	Office equipment	Furniture	Computers and related accessories	Motor vehicle	Electrical equipment	Security equipment		
Balance at 1 July 2015	101,559	1,614,902	817,843	1,709,750	17,629,364	1,953,692	-	23,827,110	
Additions during the year	250,810	1,345,779	1,621,308	1,466,142	22,392,656	67,600	9,735,434	36,879,729	
Balance at 30 June 2016	352,369	2,960,681	2,439,151	3,175,892	40,022,020	2,021,292	9,735,434	60,706,839	
Balance at 1 July 2016	352,369	2,960,681	2,439,151	3,175,892	40,022,020	2,021,292	9,735,434	60,706,839	
Additions during the year	-	2,371,976	1,817,045	273,000	11,904,000	185,467	1,524,132	18,075,620	
Balance at 30 June 2017	352,369	5,332,657	4,256,196	3,448,892	51,926,020	2,206,759	11,259,566	78,782,459	
Depreciation									
Balance at 1 July 2015	25,140	262,713	117,306	438,699	3,043,718	216,408	-	4,103,984	
Charge for the year	32,852	468,770	316,996	944,050	5,476,340	397,982	1,200,472	8,837,462	
Balance at 30 June 2016	57,992	731,483	434,302	1,382,749	8,520,058	614,390	1,200,472	12,941,446	
Balance at 1 July 2016	57,992	731,483	434,302	1,382,749	8,520,058	614,390	1,200,472	12,941,446	
Charge for the period	70,474	962,040	740,147	1,069,299	9,841,704	427,367	2,128,798	15,239,829	
Adjustments/ disposal									
Balance at 30 June 2017	128,466	1,693,523	1,174,449	2,452,048	18,361,762	1,041,757	3,329,270	28,181,275	
Carrying value at 30 June 2016	294,377	2,229,198	2,004,849	1,793,143	31,501,962	1,406,902	8,534,962	47,765,393	
Carrying value at 30 June 2017	223,903	3,639,134	3,081,747	996,844	33,564,258	1,165,002	7,930,296	50,601,184	
Depreciation rates	20%	20%	20%	33.33%	20%	20%	20%	20%	

9.1 Vehicles of the Company having cost of Rs. 34,383,656 (2016: Rs. 24,155,656) are registered in the name of the Energy and Power Department, Government of Khyber Pakhtunkhwa.



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	Note	2017 Rupees	2016 Rupees
15 Operating expenses			
Salaries, wages and benefits	15.1	168,514,480	75,214,361
Utilities		1,832,128	1,090,150
Communication		1,529,098	743,590
Security		1,789,652	1,116,414
Professional memberships and subscriptions		1,614,561	1,356,000
Rent, fees and taxes		19,471,800	3,201,122
Legal and professional		3,580,331	2,931,257
Travelling and subsistence		13,534,510	3,767,734
Printing, stationery and publications		1,760,365	734,602
Meeting costs		1,973,269	886,078
Advertising		2,388,551	1,997,806
Insurance		1,264,931	715,005
Registration and promotion		271,850	176,802
Newspapers and periodicals		181,206	50,174
Entertainment		1,050,626	438,068
Miscellaneous		3,151,916	965,687
Concession operating expenses		1,766,982	1,858,522
Vehicle running and maintenance cost		4,982,506	2,506,795
Training and workshop		4,085,551	2,630,494
Donations		50,000	-
Depreciation	9	15,239,829	8,837,462
Amortization	10	9,713,557	7,026,037
Repairs and maintenance		11,976,571	8,504,910
Auditors' remuneration		520,300	783,675
		<u>272,244,570</u>	<u>127,532,745</u>
15.1 This amount includes Rs. 68,997,796 (2016: 34,738,652) paid to daily wages staff. Further, this amount also includes charge for contractual staff gratuity expenses of Rs. 12,558,259 (2016: Nil).			
16 Other income			
Interest on bank accounts		92,833,727	21,452,183
Others		515,683	10,000
		<u>93,349,410</u>	<u>21,462,183</u>
17 Income tax expense			
- Current			
For the period		12,829,814	9,538,645
For prior year		(1,141,296)	107,740
		11,688,518	9,646,385
- Deferred		-	-
		<u>11,688,518</u>	<u>9,646,385</u>
17.1 Reconciliation of tax charge for the year:			
Accounting loss before taxation		(194,561,753)	(149,773,720)
Applicable tax rate		31%	32%
Tax on accounting loss at applicable rate		(60,314,143)	(47,927,590)
Tax rate difference		(2,983,029)	(1,670,072)
Prior year		(1,141,296)	107,740
Minimum tax on service revenue		12,829,814	9,538,645
Tax effect of permanent differences		15,000	-
Tax effect of deferred tax asset reserve		63,282,172	49,597,662
		<u>11,688,518</u>	<u>9,646,385</u>
17.2 Returns for Tax Year 2013 to 2016 have been filed by the Company and stand assessed in terms of section 120 of the Income Tax Ordinance, 2001. However, tax authorities are empowered to open or amend the assessments within five years from the date of assessment.			

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18 Financial instruments

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for developing and monitoring the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

18.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade debts, advances and deposits. The carrying amount of financial assets represents the maximum credit exposure.

18.1.1 Trade debts

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk of the industry and country in which customers operate.

18.1.2 Exposure to credit risk

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

	2017 Rupees	2016 Rupees
Deposits	2,087,981	2,643,500
Bid money	-	22,465,000
Accrued markup	44,618,697	335,700
Trade receivables	688,865	15,135,184
Receivable from Energy and Power Department of GoKPK	214,634	2,285,586
Other receivable	12,517,827	370,572
Bank balances	1,406,368,463	1,604,807,824
	<u>1,466,496,467</u>	<u>1,648,043,366</u>

The maximum exposure to credit risk for financial assets at the reporting date by type of customer was:

	2017 Rupees	2016 Rupees
Banks	1,450,987,160	1,605,143,524
Others	15,509,307	42,899,842
	<u>1,466,496,467</u>	<u>1,648,043,366</u>

18.1.3 Aging of trade receivables

The aging of trade debts at the reporting date was:

	2017		2016	
	Gross	Impairment	Gross	Impairment
	(Pak Rupees)		(Pak Rupees)	
Not past due	-	-	1,240,639	-
Past due 0-30 days	-	-	4,927,536	-
Past due 30-60 days	-	-	4,736,232	-
Past due 60-90 days	-	-	-	-
90 Days and above	688,865	-	4,230,777	-
	<u>688,865</u>	<u>-</u>	<u>15,135,184</u>	<u>-</u>

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

	2017 Rupees	2016 Rupees
Trade debts		
Customers with no defaults in the past one year	688,865	15,135,184
Customers with some defaults in past one year which have been fully recovered	-	-
Customers with defaults in past one year which have not yet been recovered	-	-
	<u>688,865</u>	<u>15,135,184</u>

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Bank balances

The Company limits its exposure to credit risk by investing in liquid securities and maintaining bank accounts only with counterparties that have a credit rating of at least A1 and A. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Rating	2017	2016
	Rupees	Rupees
AA+	5,427,232	15,065,122
AA	-	187,257,905
A	1,400,611,231	1,402,820,497
	<u>1,406,038,463</u>	<u>1,605,143,524</u>
Other financial assets		
Rated	-	-
Unrated	14,820,442	27,764,658
	<u>14,820,442</u>	<u>27,764,658</u>

18.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The following are the contractual maturities of the financial liabilities:

	2017	2016
	Rupees	Rupees
Trade and other payables		
Maturity up to one year	59,350,610	72,908,674
Carrying amount	<u>59,350,610</u>	<u>72,908,674</u>

18.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

18.3.1 Currency risk

The Company had no currency risk at year end (2016 Nil).

18.3.2 Interest rate risk

The interest rate risk is the risk that the value of the financial instrument will fluctuate due to the changes in the market interest rates. Sensitivity to the interest rate risk arises from mismatches of financial assets and liabilities that mature in a given period.

Profile

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	2017		2016	
		%		
			2017	2016
			Rupees	Rupees
Cash and bank balances	3.75% to 6.30%		1,406,767,953	1,604,807,824
		3.75% to 6.80%	<u>1,406,767,953</u>	<u>1,604,807,824</u>

18.4 Fair values and risk management

The following table shows the carrying amounts and fair values of financial assets and liabilities. The fair value of financial asset measured at fair value is shown in note 18.4.3. It does not include fair value information for financial asset and financial liabilities not measured at fair value as the carrying amount is a reasonable approximation of fair value.

18.4.1 Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread. Since the majority of the financial assets are fixed rate instruments, there is no significant difference in market rate and the rate of instrument, fair value significantly approximates to carrying value.

18.4.2 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

Non-derivative financial assets

The fair value of non-derivative financial assets is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

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18 Financial instruments (continued)
18.4.3 Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Carrying amount			Fair value			
	Held to maturity	Loans and receivables	Other financial liabilities	Level 1	Level 2	Level 3	Total
Rupees							Rupees
30 June 2017							
<i>Financial assets not measured at fair value</i>							
Deposits	-	2,087,981	-	2,087,981	-	-	2,087,981
Accrued markup	-	44,618,697	-	44,618,697	-	-	44,618,697
Trade receivables	-	688,865	-	688,865	-	-	688,865
Receivable from Energy and Power Department of GoKPK	-	214,634	-	214,634	-	-	214,634
Other receivable	-	12,517,827	-	12,517,827	-	-	12,517,827
Bank balances	-	1,406,038,463	-	1,406,038,463	-	-	1,406,038,463
	-	1,466,166,466	-	1,466,166,466	-	-	1,466,166,466
<i>Financial liabilities not measured at fair value</i>							
Trade and other payables	-	-	59,350,610	-	-	-	59,350,610
	-	-	59,350,610	-	-	-	59,350,610
30 June 2016							
<i>Financial assets not measured at fair value</i>							
Deposits	-	2,643,500	-	2,643,500	-	-	2,643,500
Accrued markup	-	335,700	-	335,700	-	-	335,700
Trade receivables	-	15,135,184	-	15,135,184	-	-	15,135,184
Receivable from Energy and Power Department of GoKPK	-	2,285,586	-	2,285,586	-	-	2,285,586
Other receivable	-	370,572	-	370,572	-	-	370,572
Bank balances	-	1,604,807,824	-	1,604,807,824	-	-	1,604,807,824
	-	1,625,578,366	-	1,625,578,366	-	-	1,625,578,366
<i>Financial liabilities not measured at fair value</i>							
Trade and other payables	-	-	72,908,674	-	-	-	72,908,674
	-	-	72,908,674	-	-	-	72,908,674

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Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
For the year ended 30 June 2017

19	Number of employees	2017	2016
	Total number of employees at year end		
	- Contractual	78	28
	- Daily wagers	387	198
		<u>465</u>	<u>226</u>
	Average number of employees at year end		
	- Contractual	53	17
	- Daily wagers	293	172
		<u>346</u>	<u>189</u>

20 Related party transactions

Government of Khyber Pakhtunkhwa owns 100% (2016: 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 and Government of Khyber Pakhtunkhwa which are not material, hence not disclosed in these financial statements. Transactions of the Company with the related parties and balances outstanding at the year end are as follows:

	2017 Rupees	2016 Rupees
Government of Khyber Pakhtunkhwa		
- Advance against equity	-	1,400,000,000
- Issuance of shares	1,400,000,000	-
Energy and Power Department, Khyber Pakhtunkhwa		
- Funds received	-	7,189,000
- Expenditure incurred on video conferencing facility on behalf of E&P	5,174,602	-
- Payable at year end	2,015,142	7,189,000
Pakhtunkhwa Energy Development Organization		
- Expenses incurred	-	1,901,501
- Other receivables	214,634	2,285,586
Joint operations		
- Exploration expense	43,590,852	48,824,034
- Exploration and evaluation assets	7,062,791	-
- Operating expenses	1,766,982	1,875,256
- Payable to joint venture partners	37,164,839	50,288,650
Other Government entities		
- Cost of services	91,962,893	96,367,426
- Payments made	83,792,788	91,121,358
- Prepaid security cost	-	17,038,908
- accrued services	4,277,596	1,678,600
- Other receivables	12,445,569	-

Key management personnel

Chief Executive Officer, Chief Financial Officer, Company Secretary, Chief Internal Auditor, General Manager Explorations, General Manager Reservoirs are the key management personnel. Transactions with key management personnel and other executives are disclosed in note 21 to the financial statements.

21 Remunerations of Key Management personnel, directors and other executives

	2017			2016		
	Chief Executive Officer	Key Management Personnel	Executives	Chief Executive Officer	Key Management Personnel	Executives
	Rupees					
Managerial remuneration	29,843,846	21,691,157	31,841,681	28,761,000	1,216,667	12,632,715
Other allowances and benefits	7,702,369	1,800,000	3,328,144	419,111	-	-
	<u>37,546,215</u>	<u>23,491,157</u>	<u>35,169,825</u>	<u>29,180,111</u>	<u>1,216,667</u>	<u>12,632,715</u>
Number of persons	1	5	30	1	1	11

- Executive means any employee whose basic salary exceeds Rs 500,000 (2016: Rs 500,000) per year.
- The chief executive is 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 11 directors (2016: 13) was Rs. 1,162,500 (2016: 650,000).

Kamran

Khyber Pakhtunkhwa Oil and Gas Company Limited
 Notes to the financial statements
 For the year ended 30 June 2017

22 Interest in joint operations

The company has working interest in the following non operated exploration licenses/ leases in Pakistan:

Exploration Licenses /Leases	Operator	Working interest	
		2017 %	2016 %
Baratai Petroleum Concession	Oil and Gas Development Company Limited	2.5	2.5
Pezu Petroleum Concession	Oil and Gas Development Company Limited	1.62	1.62
Kulachi Petroleum Concession	Oil and Gas Development Company Limited	2.05	2.05

23 Reclassification of comparative figures

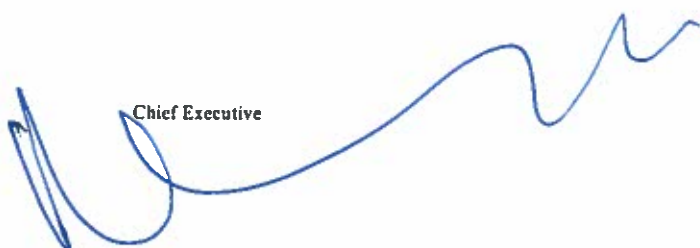
During the year, following comparative amounts have been reclassified for better presentation

Description	Balance as at 30 June, 2017	Previous	Classification	
			Previous	Current
Intangibles in progress	2,438,995	Property & equipment and advances	Property & equipment and advances	Intangibles in progress

24 General

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

24.2 These financial statements were authorized for issue on _____ by the Board of Directors of the Company


 Chief Executive


 Director