

Directors' Report

The Board of Directors of Khyber Pakhtunkhwa Oil & Gas Company Limited is pleased to present this report along with audited financial statements together with Auditors' Report for the year ended June 30, 2015.

The present Board of Directors comprise of following:

| | |
|-----------------------|---|
| Mr. Tariq Iqbal Khan | Chairman |
| Mr. Amin Mukaty | Director |
| Mr. Shumail Butt | Director |
| Mr. Zulfiqar Ali Khan | Director (President Khyber Pakhtunkhwa Chamber of Commerce) |
| Mr. Khurshid Anwer | Director |
| Mr. Shamim Zaidi | Director |
| Dr. Tahir Shah | Director (Professor National Centre of Excellence in Geology) |
| Mr. Naeem Khan | Director (Secretary Energy & Power, KPK) |
| Mr. Ali Raza Bhutta | Director (Secretary Finance, KPK) |
| Mr. Arbab Arif | Director (Secretary Home & Tribal Affairs, KPK) |
| Mr. Mussarrat Hussain | Director (Commissioner Kohat) |
| Mr. Sahibzada Naeem | Director |
| Mr. Raziuddin | Chief Executive |

The Board appreciated the professional acumen and services rendered by the outgoing directors and welcomed the new members.

State of the Company's affairs

Pursuant to 18th amendment in the Constitution of Pakistan, the right of provinces over natural gas produced in the province was granted.

Khyber Pakhtunkhwa Oil & Gas Company Ltd. (KPOGCL) was incorporated in February, 2013 with Authorized Capital of Rs 1 Billion and Paid-up capital of Rs 500 Million. On the recommendation of BOD the Government of Khyber Pakhtunkhwa has approved an equity investment of Rs 1.4 Billion in its Budget for FY 2015-16. In the subsequent financial years another Rs 5.6 Billion will be injected by the Government of Khyber Pakhtunkhwa into KPOGCL. Initially authorized capital will be increased up to Rs 3 Billion and subsequently up to Rs 10 Billion.

The Company has entered into joint ventures with Oil & Gas Development Company Limited in Baratai & Pezu Concessions and Mari Gas Company Limited in Peshawar East Concession and has been signed Deeds of Assignment.

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KPOGCL has entered into JV share (**Investment**) in the following Exploration Blocks with Deed of Agreements signed with the approval of BOD:

- a. Baratai Joint Venture with 2.5% working interest
- b. Pezu Joint Venture with 1.62% working interest
- c. Kulachi Joint Venture with 2.05% working interest
- d. Karak North Joint Venture with 2.50% working interest
- e. Peshawar East Joint Venture with 1.81% working interest

The company has been paying cash calls raised by Operators and participating in Technical, Finance and Operating Committee Meetings with Joint Venture partners.

KPOGCL has entered the oil and gas Exploration & Production **Services** as well:

- a. KPOGCL assisted a number of oil and gas Exploration & Production and Services companies in getting NOCs expeditiously thus fast tracking the projects.
- b. KPOGCL provided security and technical appreciation to oil and gas Exploration & Production and Service companies thus the production of oil and gas in Khyber Pakhtunkhwa increased by about 50% and 10%, respectively.
- c. Due to relentless pursuit a number of dormant Petroleum Concession Blocks were activated.
- d. Exploration & Production and services companies assisted in scouting/survey of a number of petroleum concession blocks.
- e. Offered/Conducted the Geological field work and Mapping in number of Concession Blocks.
- f. On the job Training of geologists, geophysicists, petroleum engineers and other professionals underway.

KPOGCL has developed Web based management information system MIS for monitoring receipt of royalty, production bonus, welfare funds and its judicious utilization. The Supreme Court appreciated Government of Khyber Pakhtunkhwa in this regards.

KPOGCL assisted Energy & Power Department in a number of issues.

Operational results

The company has started generating revenue in the last quarter of FY 2014-15 and KPOGCL expects to start 13 more seismic projects in FY 2015-2016 staggered over the year. KPOGCL accomplished a remarkable milestone when it completed an important study on 3P reserves of Khyber Pakhtunkhwa. KPOGCL shall continue to update and fine tune this Study to increase the reserves and production of oil, gas and LPG. However, it has been participating in bidding in connection with provisions of technical services to various joint ventures being operated by other companies. Financial results for the year are as follows:

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| | 2014-15 |
|------------------------|-------------------|
| | Pak Rupees |
| Revenue | 10,773,975 |
| Cost of services | (8,989,769) |
| Gross Profit | 1,784,206 |
| Exploration Expenses | (491,502) |
| Operating Expenses | (72,351,643) |
| Other Income | 40,986,220 |
| Profit before taxation | (30,072,719) |
| Taxation | 7,606,143 |
| | |
| Loss after tax | 22,466,576 |

Reasons for incurring losses

During the year under review, the company started generating revenues through entering into services agreement with a foreign company for arranging security services. It's the startup phase and the company expects to generate more revenues in the upcoming year. Hiring process of senior and middle management, technical & professional staff continued during the year. The expenses incurred by company were also partly compensated by other income generated from placement of equity funds with the banks. This has resulted in reduction of losses after tax amounting to Rs22.466 million.

Key operating and financial data

The financial & production data for previous years is as follows:

| | 2014-15 | 2013-14 |
|--------------------------------|-------------------|-------------------|
| | Pak Rupees | Pak Rupees |
| Revenue | 10,773,975 | - |
| Cost of services | (8,989,769) | - |
| Gross Profit | 1,784,206 | - |
| Exploration Expenses | (491,502) | - |
| Operating Expenses | (72,351,643) | (17,341,136) |
| Other Income | 40,986,220 | 22,371,010 |
| Profit/ (loss) before taxation | (30,072,719) | 5,029,874 |
| Taxation – Current | 7,606,173 | (17,000) |
| - Deferred | - | (7,589,143) |
| Loss after tax | (22,466,576) | (2,576,269) |
| | | |
| Number of employees | 151 | 21 |

Reasons for variation since last year

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The Company was incorporated with SECP in February 2013; however, no activities started until the appointment of full time Chief Executive in January 2014. The increase in operating expenses is mainly due to increase in salaries resulting from increase in number of employees as compared to last year. Profit from funds invested during the year increased due to longer holding period.

Future Plans

Energy crisis of the country and particularly in the Khyber Pakhtunkhwa province, warranted to harness the hidden resource of the Khyber Pakhtunkhwa. In this connection KPOGCL has been striving to make viable investment and following efforts are being undertaken by the management with the approval of the Board of Directors;

1. KPOGCL JV share in the following blocks is under consideration and matter has taken up with respective Operators for KPOGCL's share in these blocks:
 - a. Latamber: 15%
 - b. Wali: 12%
 - c. Gurgalot: 10%
 - d. Kohat: 10%

2. KPOGCL is in communication with JV Operators to increase its share in the following blocks: :
 - a. Baratai from 2.5% to 5%
 - b. Pezu from 1.62% to 5%
 - c. Kulachi from 2.05% to 5%
 - d. Karak North from 2.5% to 10%
 - e. Peshawar East from 1.81% to 5%
 - f. Paharpur from 2.375% to 15%

3. KPOGCL has already submitted application to DGPC for award of block and obtaining Operatorship rights for the Lakkiblock:
 - a. Lakki Block with 100%

Appointment of Auditors

The present auditors M/s KPMG Taseer Hadi & Co., Chartered Accountants have completed their assignment for the year ended June 30, 2015 and shall retire on the conclusion of the Annual General Meeting offered themselves for reappointment. In accordance with the Code of Corporate Governance, the Audit Committee considered and recommended the reappointment of M/s KPMG Taseer Hadi & Co., Chartered Accountants as auditors for the year FY 2015-16 at the audit fee of Rs. 264,500.

Government levies

The Company has paid income tax withheld, KP Sales Tax & GST from payments made to employees, suppliers and consultants amounting to PKR 11,365,540, PKR 186,063 & PKR 544,994

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respectively while the balance outstanding as on close of financial year (as disclosed in Note 6 of the audited financial statements) amounted to PKR 1,624,940, PKR 86,813 & PKR 69,196 respectively which have been paid subsequent to year end.

Dividend

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

Events subsequent to year end

Following subsequent events were deemed material which requisite disclosure.

- Purchase of motor vehicles, office and other equipment.
- Appointment of staff in Finance, Geology, Procurement and Administration sections.
- Payment of withholding taxes.
- Payment of EOBI Contributions of Employer and Employee

Auditors report

The auditor has given unqualified report on the financial statements for the year ended June 30, 2015.

Pattern of Shareholding

The pattern of shareholding of the Company as on June 30, 2015 is as under;

| Shareholder | Percentage | Number of Shares |
|----------------------------------|------------|------------------|
| Government of Khyber Pakhtunkhwa | 99.999940 | 4,999,997 |
| Sahibzada Saeed Khan | 00.000020 | 1 |
| Mr Shumail Butt | 00.000020 | 1 |
| Raziuddin | 00.000020 | 1 |
| Total | 100.000000 | 5,000,000 |

Earnings per share

KPOGCL has just started generating revenues from May 2015 hence earning per share of the company as on June 30, 2015 is Rs. -4.49 (2014: PKR -0.52) per share.

Corporate Governance & Financial Reporting Framework

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

- The financial statements prepared by the management of the Company, presents fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of the Company have been maintained.
- The board has complied with the relevant principles of corporate governance and has identified the rules that have not been complied with.

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- d) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgments.
- e) The system of internal control is sound in design and has been regularly reviewed and effectively monitored.
- f) The appointment of Chairman and other members of Board and the terms of their appointment along with the remuneration policy adopted are in the best interest of the Public Sector Company as well as in line with the best practices.
- g) The remuneration of directors is in accordance with the trend and practice in other public sector entities beside size of the company and duties to be discharged by the director. Disclosure of remuneration of Chief Executive, Directors and Executives is given in Note 18 of the annexed financial statements.

Election of Directors

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

Meetings of Board of Directors

A total number of three meetings of board of directors were held during the year and the attendance of directors is as follows;

| Name of Director | Number of Meetings Attended |
|-------------------------------|-----------------------------|
| Mr. Ali Raza Bhutta | 2 |
| Mr. Amin Mukaty | 3 |
| Mr. ArbabArif | 2 |
| Mr. Azam Faruque | 0 |
| Mr. Fuad Ishaq | 2 |
| Mr. Khurshid Anwer | 2 |
| Prof. Dr. Tahir Shah | 3 |
| Mr. Sahibzada M Naeem | 3 |
| Mr. Sahibzada Saeed Ahmed | 1 |
| Mr. Said Badshah Bukhari | 2 |
| Mr. ShamimIftikharZaidi | 1 |
| Mr. Shumail Butt | 3 |
| Mr. Syed Akhtar Ali Shah | 1 |
| Mr. Syed Jamal Uddin Shah | 3 |
| Mr. Raziuddin (CEO KPOGCL) | 3 |

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Acknowledgement

At the end, we would like to state that the operational and financial performance of KPOGCL is attributable to the ongoing collaboration with all the Company's stakeholders. In this respect, we are thankful to the Energy and Power Department of Khyber Pakhtunkhwa, Finance Department and other divisions and departments of provincial government for their resolute support and cooperation extended to the Company. I would also like to convey my sincere appreciation to the Company's Board of Directors for their prudent role and invaluable counsel along with expressing my gratitude to the Company's shareholders for bestowing confidence and trust in KPOGCL. At the end, I would like to pay due credit to the employees & consultants of the Company, while optimistically looking forward to the leading role KPOGCL will play in E&P industry of Khyber Pakhtunkhwa as well as Pakistan in not only addressing energy challenges but in parallel returning significant value to the shareholders in a socially responsible manner.

On behalf of the Board

February 17, 2016



Signature

Chief Executive



Signature

Director