

## Directors' Report – 2016-17

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The Board of Directors of KPOGCL (Khyber Pakhtunkhwa Oil & Gas Company Limited) is pleased to present this Director's Report along with Audited Financial Statements and Auditors' Report for the year ended June 30, 2017.

The present Board of Directors comprise of following;

Mr. Amin Mukaty	Director
Mr. Shumail Butt	Director
Mr. Zahidullah Shinwari	Director (President Khyber Pakhtunkhwa Chamber of Commerce)
Mr. Engr Muhammad Naeem Khan	Director (Secretary Energy & Power, KPK)
Mr. Shakeel Qadir	Director (Secretary Finance, KPK)
Mr. Shakeel Qadir	Director (Secretary Home & Tribal Affairs, KPK)
Mr. Mutahir Zaib	Director (Commissioner Kohat)
Mr. Sahibzada Naeem	Director
Mr. Raziuddin	Chief Executive/Director

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

### State of the Company's affairs

At the outset the Directors are pleased to inform all the concerned, especially the major shareholder that at a very nascent stage i.e. just within 4 years the company is into real operations & has joined the league of oil & gas producers in an amicably conducive security environment created not only for itself but the entire Oil & Gas sector of the Province, A milestone that took other similar public sector companies double the time achieved by KPOGCL. In more than a dozen attributes KPOGCL is much ahead of its Federal and provincial compatriots. The Directors thank the Government of Khyber Pakhtunkhwa for approving the suggestions of the Board of Directors/KPOGCL. This impetus set by the Board shall be a beacon for KPOGCL bright prospects in the arena of Geology, HR and Finance.

KPOGCL being the Provincial Holding Company has the privilege to have 2.5% of JV share in every Exploration Block of Khyber Pakhtunkhwa awarded pursuant to the 2012 Policy which means KPOGCL is the owner of 2.5% of more than \$100 Billion worth Oil & Gas reserves that are being explored over the next few years. KPOGCL is emulating as a truly Corporate Body & therefore will be partnering the General Public and Institutional investors through public offerings.

## Directors' Report – 2016-17

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Subsequent to June 30, 2017, KPOGCL achieved massive success in Baratai block where KPOGCL is a JV partner with OGDCL. Oil & Gas has been discovered in the first Exploratory well (**Dhok Hussain-1**) in a record time of 6 months in the history of KP where KPOGCL is a Joint Venture partner of 2.5% with OGDCL. The well has tested 30 MMCFD of Gas & 760 BPD of Oil from only two reservoirs while remaining reservoirs are yet to be tested.

In addition to 2.5 % JV partnership in Baratai where early fruits are ready to pluck KPOGCL has entered into JV share (**Investment**) in the following Exploration Blocks with Deed of Agreements signed with the approval of BOD and the Company has been paying cash calls raised by Operators and adding value through participation in Technical, Finance and Operating Committee Meetings with Joint Venture partners.

a. Pezu Joint Venture	(OGDCL)	1.62% working interest
b. Kulachi Joint Venture	(OGDCL)	2.05% working interest
c. Karak North Joint Venture	(OGDCL)	2.5% working interest
d. Peshawar East Joint Venture	(MPCL)	1.81% working interest*
e. Paharpur Joint Venture	(KUFPEC)	2.375% working interest**

Note:

- f. JV share has increased to 1.84% in respect of Peshawar East Concession\*
- g. JV share has increased to 2.43% in respect of Paharpur Concession\*\*
- h. Both above due to delimitation of the coordinates by DG PC.

In addition to JV partnerships, we are proud to state that KPOGCL will be the first & only PHC that will be carrying out drilling as an operator in one of the most prospective block of the Province named "Lakki Block". It is only a matter of time now that the financial outlook of the Company would translate the four years of hard work. The Government of Khyber Pakhtunkhwa has allocated an amount of Rs. 5 Billion in the provincial budget for the fiscal year 2017-18.

Exploration as operator in the 6 blocks other identified by KPOGCL namely Nowshera, DIK-East, DIK West, Miran, Khushal and Charsadda will be carried on fast track basis. The Company has already marketed these Exploration Blocks to National and International investors. Revenues from these blocks are expected to be unmatched, being the most prospective blocks.

The transfer of GHPL's 50% of working interest as State owner in producing fields and carried working interest in exploration concessions situated in Khyber Pakhtunkhwa to KPOGCL being the designated agents of the Government of Khyber Pakhtunkhwa would ignite the pace of exploration of the Company and change the overall Financial outlook of the Company, shooting EPS by manifold. Furthermore, on transfer 50% of GHPL's



## Directors' Report – 2016-17

revenues after deduction of JV costs received from April 20, 2010 (18th amendment) till date to the bank accounts of KPOGCL will shoot up the EPS immediately.

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

- a. Offered/Conducted the Geological field work and Mapping in number of Concession Blocks.
- b. KPOGCL assisted a number of oil and gas Exploration & Production and Services companies in getting NOCs expeditiously thus fast tracking the projects.
- 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. On the job Training of geologists, geophysicists, petroleum engineers and other professionals underway.

### Operational Results

The Company generated revenues of Rs 127,257,148/- during the FY 2016-17 with a gross profit of Rs. 33,619,873/-.

	2016-17
	Pak Rupees
Revenue	127,257,148
<u>Cost of services</u>	(93,637,275)
Gross Profit	33,619,873
Exploration and evaluation expenses	(49,286,466)
Operating Expenses	(272,244,570)
Other Income	93,349,410
Profit before taxation	(194,561,753)
Taxation	(11,688,518)
Loss after tax	(206,250,271)

# Directors' Report – 2016-17

## Key operating and financial data

The financial data for previous years is as follows:

	2016-17	2015-16
	Pak Rupees	Pak Rupees
Revenue	127,257,148	119,233,061
Cost of services	(93,637,275)	(111,262,185)
Gross Profit	33,619,873	7,970,876
Exploration Expenses	(49,286,466)	(51,674,034)
Operating Expenses	(272,244,570)	(127,532,745)
Other Income	93,349,410	21,462,183
Profit/ (loss) before taxation	(194,561,753)	(149,773,720)
Taxation – Current	(11,688,518)	(9,646,385)
- Deferred	-	-
Loss after tax	(206,250,271)	(159,420,105)
Number of employees	78	28
Number of Daily Wagers	387	198

## Future Plans

Energy crisis of the country and particularly in the Khyber Pakhtunkhwa province, warranted to harness the oil & gas resources of the Khyber Pakhtunkhwa. In this connection KPOGCL has been striving to make viable investment and fast tracking exploration & production activities of the Province.

1. KPOGCL is in communication with JV Operators to increase its share in the following blocks:
  - a. Baratai from 2.5% to 12.50%
  - b. Pezu from 1.62% to 15%
  - c. Kulachi from 2.05% to 15%
  - d. Karak North from 2.5% to 10%
  - e. Peshawar East from 1.84% to 5%
  - f. Paharpur from 2.43% to 15%
2. KPOGCL has identified 7 new blocks namely Lakki, Nowshera, DIK- East, DIK West, Miran, Khushal and Charsadda. These blocks have

## Directors' Report – 2016-17

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been marketed to local and foreign investors for investment as JV partnership with KPOGCL. These shall provide unmatched revenues to the Company.

3. KPOGCL will be the first & only PHC that will be carrying out drilling as operator in one of the most prospective block of the Province named "Lakki Block".
4. KPOGCL will reach out to capitalize Shale Oil, Shale & tight Gas Potential of the Province.
5. KPOGCL, being the PHC; has already embarked on achievement of award of one (1) Exploration block to each PHC on the constitutional front and it is a matter of time that GHPL's 50% of working interest as State owner in producing fields and carried working interest in exploration concessions situated in Khyber Pakhtunkhwa will be transferred to Khyber Pakhtunkhwa Oil & Gas Company Limited (KPOGCL) being the designated agents of the Government of Khyber Pakhtunkhwa. Furthermore, 50% of GHPL's revenues after deduction of JV costs received from April 20, 2010 (18th amendment) till date will also be transferred to the bank accounts of Khyber Pakhtunkhwa Oil & Gas Company Limited resulting in phenomenal change on the financial outlook of the Company, shooting EPS by manifold.
6. Similarly Devolution will cause transfer of common shares of Provinces in OGDCL, PPL and Mari Petroleum Company Limited to the Provincial Holding Company of Khyber Pakhtunkhwa.
7. KPOGCL would be emulating as a truly Corporate Body by partnering the General Public and Institutional investors through public offerings.

### Appointment of Auditors

The present auditors M/s KPMG Taseer Hadi & Co., Chartered Accountants have completed their assignment for the year ended June 30, 2017 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 M/s KPMG Taseer Hadi & Co., Chartered Accountants as auditors for the year FY 2017-18 at the audit and compliance report fee of Rs. 495,000.

### Government levies

The Company has regularly paid income tax withheld, KP Sales Tax & GST from payments made to employees, suppliers and consultants etcetera, while the outstanding as on close of financial year (as disclosed in Note 7 of the audited financial statements) amounted to PKR



## Directors' Report – 2016-17

1,185,048, PKR 2,645,556 & PKR 120,472 & KP Sales Tax receivable amounting to PKR 103,200.

### Dividend

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

### Auditors report

The auditor has given unqualified report on the financial statements for the year ended June 30, 2017.

### Pattern of Shareholding

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

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

### Earnings per share

KPOGCL started generating revenues from May 2015 hence earning per share of the Company as on June 30, 2017 is Rs. -10.85 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.

## Directors' Report – 2016-17

- 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. Tariq Iqbal Khan (Chairman)	4/6
Mr. Engr Muhammad Naeem Khan	6/6
Mr. Ali Raza Bhutta	3/5
Mr. Amin Mukaty	5/6
Capt ® Mr. Munir Azam	1/1
Mr. Zulfiqar Ali Khan	0/1
Mr. Khurshid Anwer	3/6
Mr. Sahibzada Muhammad Naeem	6/6
Mr. Shumail Butt	5/6
Mr. Mussarath Hussain	6/6
Mr. Raziuddin (CEO KPOGCL)	6/6

### Remuneration of Directors:

Rs. 10,000/- net of tax were paid as meeting fee to each Director for each meeting attended.

# Directors' Report – 2016-17

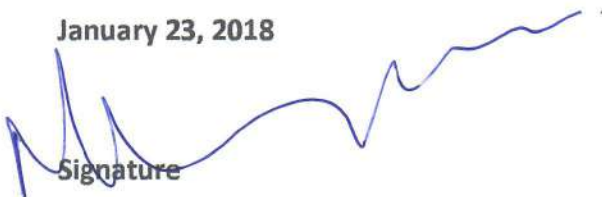
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## Acknowledgement

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**

**January 23, 2018**



**Signature**

**Chief Executive**



**Signature**

**Director**