

INDEPENDENT AUDITORS' REPORT

To the Members of Khyber Pakhtunkhwa Oil and Gas Company Limited

Report on the audit of the Financial Statements

We have audited the annexed financial statements of Khyber Pakhtunkhwa Oil and Gas Company Limited, which comprise the statement of financial position as at 30 June 2018, and the statement of profit and loss, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, 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 the audit.

In our opinion and to the best of our information and according to explanations given to us, the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), 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 2018 and of the loss and other comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

PM/MA

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017(XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.


Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

- a) Proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);

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- b) the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- d) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditors' report is Inam Ullah Kakra. 

KPMG Taseer Hadi & Co.
Chartered Accountants

Islamabad

Khyber Pakhtunkhwa Oil and Gas Company Limited
Statement of Financial Position
As at 30 June 2018

	Note	2018 Rupees	2017 Rupees		Note	2018 Rupees	2017 Rupees
Share capital and reserves				Non current assets			
Share capital	4	1,900,000,000	1,900,000,000	Property and equipment	8	54,895,827	50,601,184
Accumulated loss		(654,907,083)	(390,763,221)	Intangible asset	9	29,629,165	38,468,378
Total share capital and reserves		1,245,092,917	1,509,236,779	Exploration and evaluation assets		43,080,316	7,062,791
				Non-current assets		127,605,308	96,132,353
LIABILITIES				Current assets			
Deferred employee benefits	5	9,741,834	10,656,995	Advances, deposits and prepayments	10	14,308,740	20,063,947
Non-current liabilities		9,741,834	10,656,995	Accrued markup		5,523,749	44,618,697
Current liabilities				Trade receivables	11	-	792,065
Trade and other payables	6	29,334,974	59,350,610	Advance tax		11,169,373	10,869,369
Current liabilities		29,334,974	59,350,610	Cash and bank balances	12	1,125,562,555	1,406,767,953
Total liabilities		39,076,808	70,007,605	Current assets		1,156,564,417	1,483,112,031
Total share capital, reserves and liabilities		1,284,169,725	1,579,244,384	Total assets		1,284,169,725	1,579,244,384

Contingencies and commitments

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The annexed notes 1 to 22 form an integral part of these financial statements.

Chief Executive

Director

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Khyber Pakhtunkhwa Oil and Gas Company Limited
Statement of Profit and Loss
For the year ended 30 June 2018

	Note	2018 Rupees	2017 Rupees
Service revenue		3,628,538	127,257,148
Cost of services		(424,130)	(93,637,275)
Gross profit		3,204,408	33,619,873
Exploration expenses	13	(39,036,433)	(49,286,466)
Operating expenses	14	(312,149,908)	(272,244,570)
Other income	15	84,061,242	93,349,410
Loss before taxation		(263,920,691)	(194,561,753)
Taxation	16	(223,171)	(11,688,518)
Loss for the year		(264,143,862)	(206,250,271)

The annexed notes 1 to 22 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 2018

	2018 Rupees	2017 Rupees
Loss for the year	(264,143,862)	(206,250,271)
Other comprehensive income	-	-
Total comprehensive income for the year	<u>(264,143,862)</u>	<u>(206,250,271)</u>

The annexed notes 1 to 22 form an integral part of these financial statements.


Chief Executive


Director

Khyber Pakhtunkhwa Oil and Gas Company Limited
Statement of Cash Flows
For the year ended 30 June 2018

	Note	2018 Rupees	2017 Rupees
Cash flows from operating activities			
Loss before tax for the year		(263,920,691)	(194,561,753)
Adjustments for:			
- Depreciation	8	22,542,587	15,239,829
- Amortization	9	12,116,713	9,713,557
- Interest income	15	(76,841,491)	(92,833,727)
- Loss on disposal	15	113,822	-
- Provision for doubtful receivables		1,006,700	-
- Gratuity charge for the year	5.1	8,956,300	12,558,259
- Reversal of provision for gratuity during the year	5.1	(9,651,300)	-
- Leave encashment charge for the year	5.2	2,098,333	-
		(303,579,027)	(249,883,835)
Changes in:			
- Trade receivables		-	14,446,319
- Advances, deposits and prepayments		5,540,572	45,126,894
- Trade and other payables		(31,474,629)	(15,459,328)
		(329,513,084)	(205,769,950)
Income taxes paid		(523,175)	(13,703,734)
Gratuity paid	5.1	(859,501)	-
Net cash used in operating activities		(330,895,760)	(219,473,684)
Cash flows from investing activities			
Acquisition of property and equipment		(26,963,052)	(18,075,620)
Acquisition of intangible asset		(3,277,500)	-
Intangible in progress		-	(2,438,995)
Exploration and evaluation assets		(36,017,525)	(7,062,791)
Interest income received		115,936,439	48,550,730
Cash receipts from disposal		12,000	-
Net cash generated from investing activities		49,690,362	20,973,324
Net (decrease) in cash and cash equivalents		(281,205,398)	(198,500,360)
Cash and cash equivalents at 1 July		1,406,767,953	1,605,268,313
Cash and cash equivalents at 30 June		1,125,562,555	1,406,767,953

The annexed notes 1 to 22 form an integral part of these financial statements.

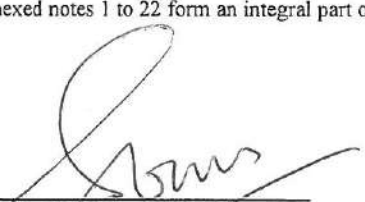

Chief Executive


Director

Khyber Pakhtunkhwa Oil and Gas Company Limited
Statement of Changes in Equity
For the year ended 30 June 2018

	Share Capital	Advance against shares	Accumulated loss	Total
	-----Rupees-----			
Balance at 01 July 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>				
Contribution				
- Advance against issue of shares	-	(1,400,000,000)	-	(1,400,000,000)
- Issuance of share capital	1,400,000,000	-	-	1,400,000,000
Total contribution	1,400,000,000	(1,400,000,000)	-	-
Balance at 30 June 2017	1,900,000,000	-	(390,763,221)	1,509,236,779
Loss for the year	-	-	(264,143,862)	(264,143,862)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year - (loss)	-	-	(264,143,862)	(264,143,862)
Balance at 30 June 2018	1,900,000,000	-	(654,907,083)	1,245,092,917

The annexed notes 1 to 22 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 2018

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.

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
Paharpur (3170-5)	2.43%	8-Nov-17
Karak North (3370-15)	2.50%	21-Jun-17
Pezu (3070-16)*	1.62%	-
Kulachi (3170-8)*	2.05%	-

* Approval of deed of assignment from the Director General Petroleum Concession (DGPC) is pending for Pezu (3070-16) and Kulachi (3170-8) blocks.

The Company's share of minimum work commitments in the concession where the Company has signed Deed of Assignment amounts to US\$ 1.922 million and the Board of Directors have approved investment of US\$ 48.14 million for capital expenditure and in various Petroleum Concessions other than these. GoKPK has invested Rs. 1.9 billion till 30 June 2018 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.

1.2 Summary of significant events and transactions in the current year

The Company's financial position and performance has been particularly affected by the following events and transactions during the year:

- The contracts for provision of Security services provided to foreign firms for undertaking Geological and Geographical studies at operating blocks expired at the close of last financial period due to completion of Seismic and Geological and Geographical studies due to which revenue has decreased by Rs. 124 million.

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Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
For the year ended 30 June 2018

2 Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of;

- International Financial Reporting Standards (IFRS) issued by International Accounting Standard Board as notified under the Companies Act 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

In case provisions of and directives issued under the Companies Act, 2017 differs from the IFRS, the provisions of and directives issued under the Companies Act, 2017 have been followed.

2.2 Basis of measurement

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

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.

During the year, the Company has reviewed the useful lives of office equipment, electrical equipment and security equipment.

Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
For the year ended 30 June 2018

Had there been no change in the estimate, the Company's depreciation expense in respective class of assets would have decreased with the following amounts:

<u>Asset</u>	<u>Rupees (2018)</u>
Office equipment	1,216,035
Electrical equipment	615,008
Security equipment	3,090,807
	<u>4,921,850</u>

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 Employee benefits

Defined benefits are provided for contractual employees of the Company. The Company recognizes deferred liability for gratuity and accumulating compensated absences. These calculations are made on the basis of current remuneration and number of years in service.

2.4.6 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.

2.4.7 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.

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

The following International Financial Reporting Standards (IFRS Standards) as notified under the Companies Act, 2017 and the amendments and interpretations thereto will be effective for accounting periods beginning on or after 01 July 2018:

- Classification and Measurement of Share-based Payment Transactions - amendments to IFRS 2 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.
- 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.
- Annual Improvements to IFRSs 2014-2016 Cycle [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.
- 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 the Company's financial statements.

Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
For the year ended 30 June 2018

- 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. The application of interpretation is not likely to have an impact on Company's financial statements.
- 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. The Company is currently in the process of analysing the potential impact of the interpretation on its financial statements.
- IFRS 15 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 July 2018). IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmed'. The Company is currently in the process of analysing the potential impact of changes required in revenue recognition policies on adoption of the standard.
- IFRS 9 'Financial Instruments' and amendment – Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 July 2018 and 1 January 2019 respectively). IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Company is currently in the process of analysing the potential impact of changes required in classification and measurement of financial instruments and the impact of expected loss model on adoption of the standard.
- IFRS 16 'Leases' (effective for annual period beginning on or after 1 January 2019). IFRS 16 replaces existing leasing guidance, including IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases- Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The amendments are not likely to have an impact on Company's financial statements. The Company is currently in the process of analysing the potential impact of the standard on its financial statements.

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Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
For the year ended 30 June 2018

- Amendment to IAS 28 'Investments in Associates and Joint Ventures' - Long Term Interests in Associates and Joint Ventures (effective for annual period beginning on or after 1 January 2019). The amendment will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. The amendments are not likely to have an impact on Company's financial statements.
- Amendments to IAS 19 'Employee Benefits'- Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019). The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income. The application of amendments is not likely to have an impact on Company's financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle - the improvements address amendments to following approved accounting standards:

IAS 12 Income Taxes - the amendment clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transaction that generates the distributable profits.

The above amendments are effective from annual period beginning on or after 1 January 2019 and are not likely to have an impact on Company's financial statements.

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. *KM/A*

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.

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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.

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.

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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.

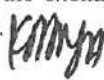
Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the reporting date, adjusted for payments to GoP on account of royalty.

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.

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. 134,981,048 (2017: Rs. 63,282,172).

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.

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. *KMM*

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 Intangible assets

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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4 Share capital

	Note	2018 Rupees	2017 Rupees
Authorized share capital			
30,000,000 (2017: 30,000,000) ordinary shares of Rupees 100 each		3,000,000,000	3,000,000,000
Issued, subscribed and paid up capital			
19,000,000 (2017: 5,000,000) ordinary shares of Rupees 100 each allotted for consideration paid in cash	4.1	1,900,000,000	1,900,000,000
Pattern of holding of Company's share capital			
Government of Khyber Pakhtunkhwa		18,999,997	18,999,997
Mr. Zafar Iqbal		1	1
Mr. Sahabzada Saeed Ahmed		1	1
Mr. Shumail But		1	1
		19,000,000	19,000,000

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

	2018	2017
Shares in issue at 01 July	19,000,000	5,000,000
shares issued during the year	-	14,000,000
Shares in issue at 30 June	19,000,000	19,000,000

5 Deferred employee benefits

		2018 Rupees	2017 Rupees
Provision for gratuity	5.1	8,725,216	10,656,995
Provision for leave encashment	5.2	1,016,618	-
		9,741,834	10,656,995

5.1 Provision for gratuity

		2018	2017
Balance at 01 July		12,558,259	-
Charge for the year		8,956,300	12,558,259
Reveral during the year	5.1.1	(9,651,300)	-
Benefits paid during the year		(859,501)	-
Balance at 30 June		11,003,758	12,558,259
Employee benefits payable - current maturity		(2,278,542)	(1,901,264)
		8,725,216	10,656,995

5.1.1 Subsequent to year end, the Chief Executive Officer of the Company has been terminated without giving one month notice on 08 November 2018. The Company signed an indemnity bond dated 09 May 2019 with the outgoing Chief Executive Officer whereby as per his employment contract final settlement representing his salary for the period from 01 November 2018 to 08 November 2018, salary for the next three months and 15 days of leave balance was agreed at Rs. 6,787,640 and has also been paid to him. As a result of this indemnity bond, gratuity provision for the Chief Executive Officer amounting to Rs. 9,651,300 as at 30 June 2018 is no longer payable to him and accordingly the Company has reversed the provision.

	2018 Rupees	2017 Rupees
5.2 Provision for leave encashment		
Balance at 01 July	-	-
Charge for the year	2,098,333	-
Benefits paid during the year	-	-
Current maturity	(1,081,715)	-
Balance at 30 June	1,016,618	-

5.3 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.

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6	Trade and other payables	Note	2018 Rupees	2017 Rupees
	Trade and other payables		23,911,141	9,502,510
	Employee benefits payable - current maturity	5.1 & 5.2	3,360,257	1,901,264
	Project account	6.1	1,391,963	2,015,142
	Security cost payable		467,278	4,342,390
	Payable to Employees' Old-Age Benefit Institution		114,012	223,392
	Wages and salaries payable		90,323	249,997
	Payable to joint venture partners		-	37,164,839
	Withholding taxes payable		-	1,185,048
	Provincial sales tax payable		-	2,645,556
	Sales tax payable		-	120,472
			<u>29,334,974</u>	<u>59,350,610</u>

6.1 Project account

Opening balance at 01 July		2,015,142	7,189,744
Amount received during the year		-	-
Expenditure incurred during the year		(623,179)	(5,174,602)
Closing balance at 30 June	6.1.1	<u>1,391,963</u>	<u>2,015,142</u>

6.1.1 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. 623,179 (2017: 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.

7 Contingencies and commitments

7.1 Contingencies

Subsequent to year end, the National Accountability Bureau (NAB) has initiated an inquiry and directed the Company to submit certain information relating following;

- minutes for approval of CEO for relaxation on employment requirements;
- daily wages documents and salaries record;
- Details relating to purchase of software;
- List of activities of technical department employees; and
- Certain other details relating to employees.

All relevant details have been provided to NAB by the Company, however, no letter relating to closure of the said inquiry has been received by the Company. The Company believes that the said inquiry has no material impact on the amounts reported in the financial statements for the current and prior periods and or disclosures in the financial statements of the Company.

7.2 Commitments

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

	2018 USD	2017 USD	2018 Rupees	2017 Rupees
Block No. 3070-16 - Pezu	-	-	-	-
Block No. 3371-16 - Peshawar East	19,320	19,320	2,349,312	2,028,600
Block No. 3371-17 - Baratai	1,783,320	1,786,907	216,851,703	187,625,213
Block No. 3170-5 - Paharpur	42,289	230,850	5,142,398	24,239,250
Block No. 3370-15 - Karak North	76,750	76,750	9,332,800	8,058,750
	<u>1,921,679</u>	<u>2,113,827</u>	<u>233,676,213</u>	<u>221,951,813</u>

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Khyber Pakhtunkhwa Oil and Gas Company Limited
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8 Property and equipment

	Geological equipment	Office equipment	Furniture	Computers and related accessories	Motor vehicle	Electrical equipment	Security equipment	Total
Rupees								
Cost								
Balance as at 01 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
Disposals during the year	-	-	-	-	-	-	-	-
Balance as 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
Balance as at 01 July 2017	352,369	5,332,657	4,256,196	3,448,892	51,926,020	2,206,759	11,259,566	78,782,459
Additions during the year	-	302,700	-	22,808,094	3,852,258	-	-	26,963,052
Disposals during the year	-	(153,020)	(233,067)	-	-	-	-	(386,087)
Balance as at 30 June 2018	352,369	5,482,337	4,023,129	26,256,986	55,778,278	2,206,759	11,259,566	105,359,424
Depreciation								
Balance as at 01 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 year	70,474	962,040	740,147	1,069,299	9,841,704	427,367	2,128,798	15,239,829
Balance as 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
Balance as at 01 July 2017	128,466	1,693,523	1,174,449	2,452,048	18,361,762	1,041,757	3,329,270	28,181,275
Charge for the year	70,724	2,319,258	831,915	2,062,413	10,859,197	1,056,360	5,342,720	22,542,587
Adjustments/ disposal	-	(107,169)	(153,096)	-	-	-	-	(260,265)
Balance as at 30 June 2018	199,190	3,905,612	1,853,268	4,514,461	29,220,959	2,098,117	8,671,990	50,463,597
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
Carrying value at 30 June 2018	153,179	1,576,725	2,169,861	21,742,525	26,557,319	108,642	2,587,576	54,895,827
Depreciation rates Last year	20%	20%	20%	33.33%	20%	20%	20%	20%
Depreciation rates	20%	33.33%	20%	33.33%	20%	33.33%	33.33%	33.33%

8.1 Vehicles of the Company are registered in the name of the Energy and Power Department, Government of Khyber Pakhtunkhwa.

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9	Intangible asset	Note	2018	2017
			Rupees	Rupees
	Cost			
	Balance at the beginning of the year		55,622,425	53,183,430
	Intangible in progress		-	2,438,995
	Acquisitions		3,277,500	-
	Balance at end of the year		58,899,925	55,622,425
	Amortization			
	Balance at the beginning of the year		(17,154,047)	(7,440,490)
	Charge for the year		(12,116,713)	(9,713,557)
	Balance at end of the year		(29,270,760)	(17,154,047)
	Carrying amount		29,629,165	38,468,378
10	Advances, deposits and prepayments			
	Advances to joint venture partners		9,933,867	-
	Deposits		1,980,500	2,087,981
	Prepayments		1,454,826	1,914,545
	Advances for expenses		487,160	1,309,460
	Advance to KP Sales Tax Authority		309,528	-
	Advance to suppliers		-	2,019,500
	Receivable from Pakhtunkhwa Energy Development Organisation	10.1	214,634	214,634
	Other receivable		142,859	12,517,827
	Provision against receivable from Pakhtunkhwa Energy Development Organisation	10.1	(214,634)	-
			14,308,740	20,063,947
10.1	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. A provision of complete amount has been made in the financial statements.			
11	Trade receivables			
	Considered good		-	792,065
	Considered doubtful		792,065	-
			792,065	792,065
	Provision for doubtful receivables			
	Provision for doubtful receivables		(792,065)	-
			-	792,065

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Notes to the financial statements
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		2018	2017	
		Rupees	Rupees	
11.1	Movement in provision for doubtful receivables			
	Balance at beginning of the year	-	-	
	Provision made during the year	792,065	-	
	Balance at end of the year	792,065	-	
12	Cash and bank balances			
	Cash at bank			
	- Current accounts	330,000	330,000	
	- Saving accounts	1,124,678,747	1,406,038,463	
		1,125,008,747	1,406,368,463	
	Cash in hand	553,808	399,490	
		1,125,562,555	1,406,767,953	
12.1	These carry markup ranging from 3.75% to 6.30% per annum (2017: 3.75% to 6.30% per annum).			
13	Exploration expenses	Note		
	Concession charges	39,036,433	43,590,852	
	Exploration and development charges	-	5,695,614	
		39,036,433	49,286,466	
14	Operating expenses			
	Salaries, wages and benefits	14.1	200,836,772	168,514,480
	Depreciation	8	22,542,587	15,239,829
	Rent, fees and taxes		13,758,208	19,471,800
	Amortization	9	12,116,713	9,713,557
	Concession operating expenses		12,922,516	1,766,982
	Repairs and maintenance		8,864,579	11,976,571
	Legal and professional		6,350,311	3,580,331
	Vehicle running and maintenance cost		4,533,868	4,982,506
	Training and workshop		4,178,592	4,085,551
	Miscellaneous		3,275,076	3,151,916
	Travelling and subsistence		3,004,862	13,534,510
	Utilities		2,608,365	1,832,128
	Advertising		2,448,796	2,388,551
	Printing, stationery and publications		2,334,981	1,760,365
	Entertainment		2,216,097	1,050,626
	Communication		1,709,870	1,529,098
	Security		1,567,600	1,789,652
	Professional memberships and subscriptions		1,423,263	1,614,561
	Meeting costs		1,426,323	1,973,269
	Insurance		1,907,004	1,264,931
	Provision for doubtful receivables	14.2	1,006,700	-
	Auditors' remuneration		505,525	520,300
	Registration and promotion		412,969	271,850
	Newspapers and periodicals		148,331	181,206
	Donation		50,000	50,000
			312,149,908	272,244,570

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Khyber Pakhtunkhwa Oil and Gas Company Limited

Notes to the financial statements

For the year ended 30 June 2018

14.1 This amount includes Rs. 87,623,009 (2017: 68,997,796) paid to daily wages staff. Further, this amount also includes charge for contractual staff deferred employee benefits of Rs. 11,054,633 (2017: 12,558,259).

14.2 This includes Rs. 792,065 as provision against trade receivables and Rs. 214,634 as provision against receivable from Pakhtunkhwa Energy Development Organisation.

	2018 Rupees	2017 Rupees
15 Other income		
Income from financial assets		
Interest on saving accounts	76,841,491	92,833,727
Income from non-financial assets:		
Loss on disposal of property and equipment	(113,822)	-
Others	7,333,573	515,683
	<u>84,061,242</u>	<u>93,349,410</u>

16 Taxation

- Current		
For the year	333,825	12,829,814
For prior year	(110,654)	(1,141,296)
	<u>223,171</u>	<u>11,688,518</u>
- Deferred	-	-
- Others	-	-
	<u>223,171</u>	<u>11,688,518</u>

16.1 Reconciliation of tax charge for the year:

Accounting loss before taxation	(263,920,691)	(194,561,753)
Applicable tax rate	29%	31%
Tax on accounting loss at applicable rate	(76,537,000)	(60,314,143)
Tax rate difference	(2,109,406)	(2,983,029)
Prior year	(110,654)	(1,141,296)
Minimum tax on service revenue	333,825	12,829,814
Tax effect of permanent differences	6,947,530	15,000
Tax effect of deferred tax asset reserve	71,698,876	63,282,172
	<u>223,171</u>	<u>11,688,518</u>

16.2 Returns for Tax Year 2013 to 2017 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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17 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.

17.1 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.

17.1.1 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.

17.1.2 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:

	2018 Rupees	2017 Rupees
Bank balances	1,125,008,747	1,406,368,463
Accrued markup	5,523,749	44,618,697
Deposits	1,980,500	2,087,981
Trade receivables - gross	792,065	792,065
Receivable from Energy and Power Department of GoKPK - gross	214,634	214,634
Other receivable	142,859	12,517,827
	<u>1,133,662,554</u>	<u>1,466,599,667</u>

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

	2018 Rupees	2017 Rupees
Banks and accrued markup	1,130,532,496	1,406,368,463
Others	3,130,058	60,231,204
	<u>1,133,662,554</u>	<u>1,466,599,667</u>

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17.1.3 Aging of trade receivables

The aging of trade debts at the reporting date was:

	2018		2017	
	Gross	Impairment	Gross	Impairment
	(Pak Rupees)		(Pak Rupees)	
Not past due	-	-	-	-
Past due 0-30 days	-	-	-	-
Past due 30-60 days	-	-	-	-
Past due 60-90 days	-	-	-	-
90 Days and above	792,065	-	792,065	-
	<u>792,065</u>	<u>-</u>	<u>792,065</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:

	2018 Rupees	2017 Rupees
Trade debts		
Customers with no defaults in the past one year	792,065	792,065
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>792,065</u>	<u>792,065</u>

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.

	2018 Rupees	2017 Rupees
Rating		
AA+	-	5,427,232
A1	1,116,325,209	-
A1+	8,683,538	-
A	-	1,400,611,231
	<u>1,125,008,747</u>	<u>1,406,038,463</u>
Other financial assets		
Rated	-	-
Unrated	2,337,993	14,820,442
	<u>2,337,993</u>	<u>14,820,442</u>

17.2 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:

	2018 Rupees	2017 Rupees
Trade and other payables		
Maturity up to one year	29,334,974	59,350,610
Carrying amount	<u>29,334,974</u>	<u>59,350,610</u>

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17.3 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.

17.3.1 Currency risk

The Company had no currency risk at year end (2017: Nil).

17.3.2 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:

	2018 %	2017 %	2018 Rupees	2017 Rupees
Cash and bank balances	3.75% to 6.30%	3.75% to 6.30%	1,125,562,555	1,406,767,953
			<u>1,125,562,555</u>	<u>1,406,767,953</u>

17.4 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 17.4.3. 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.

17.4.1 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.

17.4.2 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

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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17 Financial instruments (continued)

17.4.3 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	Total	Level 1	Level 2	Level 3
Rupees							
30 June 2018							
<i>Financial assets not measured at fair value</i>							
Deposits	-	1,980,500	-	1,980,500	-	-	-
Accrued markup	-	5,523,749	-	5,523,749	-	-	-
Trade receivables	-	-	-	-	-	-	-
Receivable from Energy and Power Department of GoKPK	-	214,634	-	214,634	-	-	-
Other receivable	-	142,859	-	142,859	-	-	-
Bank balances	-	1,125,562,555	-	1,125,562,555	-	-	-
	-	1,133,424,297	-	1,133,424,297	-	-	-
<i>Financial liabilities not measured at fair value</i>							
Trade and other payables	-	-	29,334,974	29,334,974	-	-	-
	-	-	29,334,974	29,334,974	-	-	-
30 June 2017							
<i>Financial assets not measured at fair value</i>							
Deposits	-	2,087,981	-	2,087,981	-	-	-
Accrued markup	-	44,618,697	-	44,618,697	-	-	-
Trade receivables	-	792,065	-	792,065	-	-	-
Receivable from Energy and Power Department of GoKPK	-	214,634	-	214,634	-	-	-
Other receivable	-	12,517,827	-	12,517,827	-	-	-
Bank balances	-	1,406,038,463	-	1,406,038,463	-	-	-
	-	1,466,269,666	-	1,466,269,666	-	-	-
<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	-	-	-

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18 Number of employees	2018	2017
Total number of employees at year end		
- Contractual	87	78
- Daily wagers	122	387
	<u>209</u>	<u>465</u>
Average number of employees at year end		
- Contractual	83	53
- Daily wagers	255	293
	<u>338</u>	<u>346</u>

19 Related party transactions

Government of Khyber Pakhtunkhwa owns 100% (2017: 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:

	2018 Rupees	2017 Rupees
Government of Khyber Pakhtunkhwa		
- Advance against equity	-	-
- Issuance of shares	-	1,400,000,000
Energy and Power Department, Khyber Pakhtunkhwa		
- Funds received	-	-
- Expenditure incurred on video conferencing facility on behalf of E&P	623,179	5,174,602
- Payable at year end	1,391,963	2,015,142
Pakhtunkhwa Energy Development Organization		
- Expenses incurred	-	-
- Other receivables	214,634	214,634
Joint operations		
- Exploration expense	39,036,433	43,590,852
- Exploration and evaluation assets	43,080,316	7,062,791
- Operating expenses	12,922,516	1,766,982
- Advances to joint venture partners	9,933,867	-
- Payable to joint venture partners	-	37,164,839
Other government entities		
- Cost of services	424,130	91,962,893
- Payments made	4,341,655	83,792,788
- Accrued services	-	4,277,596
- Other receivables	142,859	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 20 to the financial statements.

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20 Remunerations of Key Management personnel, directors and other executives

Note	2018			2017		
	Chief Executive Officer	Key Management Personnel	Executives	Chief Executive Officer	Key Management Personnel	Executives
	Rupees					
Managerial remuneration	26,321,724	15,923,304	11,167,411	29,843,846	21,691,157	20,484,395
Other allowances and benefits	6,375,403	3,335,057	2,836,736	7,702,369	1,800,000	5,586,512
	32,697,127	19,258,361	14,004,147	37,546,215	23,491,157	26,070,907
Number of persons	1	4	6	1	5	5

- Executive means any employee whose basic salary exceeds Rs. 1,200,000 (2017: 1,200,000) per year. Comparative figures have been restated to reflect changes in definition of executive as per the Companies Act, 2017
- 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 08 directors (2017: 11) is Rs. 1,426,323 (2017: 1,162,500).

21 Interest in joint operations

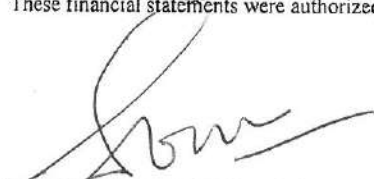
The company has working interest in the following non operated exploration licenses / leases in Pakistan:

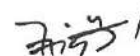
Exploration Licenses / Leases		Working interest	
Non Operated	Operator	2018 %	2017 %
Baratai Petroleum Concession	Oil and Gas Development Company Limited	2.5	2.5
Pezu Petroleum Concession	Oil and Gas Development Company Limited	1.62	1.62
Kulachi Petroleum Concession	Oil and Gas Development Company Limited	2.05	2.05
Paharpur Petroleum Concession	Kirthar Pakistan B.V	2.43	-

22 General

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

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


Chief Executive



Director