



**Khyber Pakhtunkhwa Oil and Gas Company
Limited**

**Financial Statements
for the year ended 30 June 2020**



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INDEPENDENT AUDITORS' REPORT

To the Members of Khyber Pakhtunkhwa Oil and Gas Company Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Khyber Pakhtunkhwa Oil and Gas Company Limited (the Company), which comprise the statement of financial position as at 30 June 2020, and the statement of profit or 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 the explanations given to us, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the 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 2020 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 Auditor's 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



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believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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



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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.

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 and loss, the statement of comprehensive income, the statement of changes in equity, 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

01 October 2021

Khyber Pakhtunkhwa Oil and Gas Company Limited
Statement of Financial Position
As at 30 June 2020

	Note	2020 Rupees	2019 Rupees
Share capital and reserves			
Share capital	5	1,900,000,000	1,900,000,000
Accumulated loss		(1,014,192,037)	(827,422,165)
Total equity		885,807,963	1,072,577,835
LIABILITIES			
Non-current liabilities			
Deferred employee benefits	6	24,393,124	15,460,725
Provision for decommissioning cost	7	1,344,253	1,125,985
Lease liabilities	8	3,002,123	-
Total non-current liabilities		28,739,500	16,586,710
Current liabilities			
Lease liabilities - current portion	8	16,478,354	-
Trade and other payables	9	86,084,303	99,644,718
Total current liabilities		102,562,657	99,644,718
Total liabilities		131,302,157	116,231,428
Total equity and liabilities		1,017,110,120	1,188,809,263
Contingencies and commitments	10		

The annexed notes 1 to 31 form an integral part of these financial statements.


Chief Executive


Director

	Note	2020 Rupees	2019 Rupees
Non current assets			
Property and equipment	11	34,146,544	33,548,791
Intangible asset	12	6,485,244	17,849,180
Development and production assets	13	70,384,979	68,591,508
Exploration and evaluation assets	14	73,027,760	24,700,957
Total non-current assets		184,044,527	144,690,436
Current assets			
Trade debts		769,426	-
Advance income tax		11,493,768	11,300,154
Advances, deposits, prepayments and other receivables	15	7,333,542	17,310,090
Cash and bank balances	16	813,468,857	1,015,508,583
Total current assets		833,065,593	1,044,118,827
Total assets		1,017,110,120	1,188,809,263

Khyber Pakhtunkhwa Oil and Gas Company Limited
Statement of Profit or Loss
For the year ended 30 June 2020

	Note	2020 Rupees	2019 Rupees
Turnover, net	17	650,700	-
Royalty		(81,338)	-
Operating expenses	18	(15,525,735)	-
		(15,607,073)	-
Gross loss		(14,956,373)	-
Exploration and prospecting expenditure	19	(31,894,607)	(27,086,858)
General and administration expenses	20	(241,750,150)	(236,598,903)
Other income	21	104,545,627	91,170,679
Finance cost	22	(2,714,369)	-
Loss before tax		(186,769,872)	(172,515,082)
Income tax expense for the year	23	-	-
Loss for the year		(186,769,872)	(172,515,082)

The annexed notes 1 to 31 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 2020

	2020 Rupees	2019 Rupees
Loss for the year	(186,769,872)	(172,515,082)
Other comprehensive income	-	-
Total comprehensive loss for the year	(186,769,872)	(172,515,082)

The annexed notes 1 to 31 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 2020

	Note	2020 Rupees	2019 Rupees
Cash flows from operating activities			
Loss before tax for the year		(186,769,872)	(172,515,082)
Adjustments for:			
- Depreciation	11	35,834,545	23,943,971
- Amortisation of intangible asset	12	11,363,936	11,779,985
- Amortisation of development and production assets	13	38,588	-
- Interest on saving accounts	21	(103,137,872)	(88,613,407)
- Loss on disposal	21	-	45,065
- Unwinding of lease liability	8	2,560,334	-
- Provision for / reversals of gratuity expense	6.1	37,639,137	7,739,767
- Unwinding of decommissioning cost	22	154,035	-
- Provision for leave encashment	6.2	187,383	344,137
		(202,129,786)	(217,275,564)
Changes in:			
- Trade debts		(769,426)	-
- Advances, deposits, prepayments and other receivables		9,976,548	(1,916,360)
- Trade and other payables		(40,267,414)	68,241,456
Cash used in operating activities		(233,190,078)	(150,950,468)
Income taxes paid		(193,614)	(130,781)
Gratuity paid	6.1	(2,035,062)	(300,000)
Leave encashment paid	6.2	(152,060)	(1,081,715)
Net cash used in operating activities		(235,570,814)	(152,462,964)
Cash flows from investing activities			
Acquisition of property and equipment	11	(825,120)	(2,650,443)
Additions to exploration and evaluation assets, net	14	(48,326,803)	(23,967,826)
Additions to development and production assets	13	(1,767,826)	(25,118,338)
Interest on saving accounts	21	103,137,872	88,613,407
Proceeds from sale of property and equipment		-	8,443
Net cash generated from investing activities		52,218,123	36,885,243
Cash flows from financing activity			
Payment of lease liability	8	(18,687,035)	-
Cash used in financing activity		(18,687,035)	-
Net decrease in cash and cash equivalents		(202,039,726)	(115,577,721)
Cash and cash equivalents at 1 July		1,015,508,583	1,131,086,304
Cash and cash equivalents at 30 June		813,468,857	1,015,508,583

The annexed notes 1 to 31 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 2020

	Share Capital	Accumulated loss	Total
	-----Rupees-----		
Balance as at 01 July 2018	1,900,000,000	(654,907,083)	1,245,092,917
Loss for the year	-	(172,515,082)	(172,515,082)
Other comprehensive income	-	-	-
Total comprehensive loss for the year	-	(172,515,082)	(172,515,082)
Balance at 30 June 2019	1,900,000,000	(827,422,165)	1,072,577,835
Balance at 01 July 2019	1,900,000,000	(827,422,165)	1,072,577,835
Loss for the year	-	(186,769,872)	(186,769,872)
Other comprehensive income	-	-	-
Total comprehensive loss for the year	-	(186,769,872)	(186,769,872)
Balance at 30 June 2020	1,900,000,000	(1,014,192,037)	885,807,963

The annexed notes 1 to 31 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 2020

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 (repealed with enactment of the Companies Act, 2017 dated 30 May 2017) as a provincial holding company of the Government of Khyber Pakhtunkhwa (GoKPK) 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. Geographical location of all other business units of the Company have been disclosed in note 29.

The Company is an operator of Lakki Petroleum Concession and has obtained exploration license to carry out exploration and evaluation activities in this block. During the year, the Company is making efforts to swap the Lakki Petroleum Concession with Miran Shah Block.

In addition, the Company has signed deeds of assignment (DOA) in respect of blocks as follows:

Blocks	Working Interest	DOA Date
Baratai (3371-17)	2.50%	09 September 2016
Peshawar East (3371-16)	1.84%	21 June 2017
Karak North (3370-15)	2.50%	21 June 2017
Paharpur (3170-5)	2.43%	08 November 2017
Pezu (3070-16)	1.62%	24 May 2019
Kulachi (3170-8)	2.05%	03 December 2019

The Company's share of minimum work commitments in the concession where the Company has signed Deed of Assignment amounts to US\$ 2.58 million (2019: US\$ 2.58 million). The Company's minimum outstanding commitments have been disclosed in the note 10.2 to these financial statements.

GoKPK has invested Rs. 1.9 billion as at 30 June 2020 in the Company as equity. Also refer note 5 to the financial statements. The Company is fully owned by GoKPK and funding requirements are met through annual budgetary allocation in the provincial budget. Moreover, Provincial Cabinet of GoKPK approved allocation of Rs. 19.6 billion to the Company in the meeting held on 16 June 2020.

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.

Where 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 under "historical cost convention" except for lease liability which have been measured at present value of lease payments payable at year end.

Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
For the year ended 30 June 2020

2.3 Adoption of new Accounting standards

IFRS 16 'Leases', became effective during the year. The Company has adopted IFRS 16 from 01 July 2019. For details of adoption of IFRS 16, refer to note 3 to these financial statements. Further, IFRIC 23 "Uncertainty over Income Tax Treatments" also became effective during the year. The Company's existing accounting policy for uncertain tax treatments is consistent with the requirements of IFRIC 23 and has no material impact on the financial statements.

2.4 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.

2.5 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.

In the process of applying the Company's accounting policies, the management has made the following estimates, assumptions and judgments which are significant to these financial statements:

2.5.1 Property and equipment

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

2.5.2 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 statement of profit or loss.

Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
For the year ended 30 June 2020

2.5.3 Development and production expenditure

Development and production activities commence after project sanctioning by the appropriate level of management. Judgment is applied by the management in determining when a project is economically viable. In exercising this judgment, management is required to make certain estimates and assumptions similar to those described above for capitalized exploration and evaluation expenditure. Any such estimates and assumptions may change as new information becomes available. If, after having commenced development activity, a judgment is made that a development and production asset is impaired, the appropriate amount is written off in profit or loss.

2.5.4 Provision for decommissioning cost

Provision is recognized for the future decommissioning and restoration cost of oil and gas wells, production facilities and pipelines at the end of their useful lives. The timing of recognition requires the application of judgment to existing facts and circumstances, which can be subject to change. Estimates of the amount of provision recognized are based on current legal and constructive requirements, technology and price levels. Provision is based on the best estimates, however, the actual outflows can differ from estimated cash outflows due to changes in laws, regulations, public expectations, technology, prices and conditions, and can take place many years in the future. The carrying amount of provision is reviewed annually and adjusted to take account of such changes.

2.5.5 Estimation of oil and natural gas reserves

Oil and gas reserves are an important element in calculation of amortization charge and for impairment testing of development and production assets and related property and equipment of the Company. Estimates of oil and natural gas reserves are inherently imprecise, require the application of judgment and are subject to future revisions. Proved reserves are estimated with reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs. All proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

Changes to the estimates of proved / developed reserves, affect the amount of amortization recorded and impairment, if any, in the financial statements for fixed assets related to hydrocarbons production activities.

2.5.6 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.

2.5.7 Measurement of the expected credit loss allowance

The measurement of the expected credit loss ("ECL") allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of counter parties defaulting and the resulting losses).

Elements of the ECL models that are considered accounting judgments and estimates include:

- Development of ECL models, including the various formulas and choice of inputs;
- Determining the criteria if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;

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Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
For the year ended 30 June 2020

- Determination of associations between macroeconomic scenarios and, economic inputs, and their effect on probability of default (PDs), exposure at default (EADs) and loss given default (LGDs); and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2.5.8 Provision against financial assets measured at amortised cost

The Securities and Exchange Commission of Pakistan (SECP) through S.R.O 985 (I)/2019 dated 02 September 2019 has notified that in respect of companies holding financial assets due from the Government of Pakistan (GoP), the requirements contained in IFRS 9 with respect to application of ECL model shall not be applicable till 30 June 2021, provided that such companies shall follow relevant requirements of IAS 39 'Financial Instruments Recognition and measurement' in respect of above referred financial assets during the exemption period. SECP has also clarified to certain companies that financial assets due from GoP include those that are directly due from GoP and that are ultimately due from GoP in consequence of circular debt. Accordingly, the Company reviews the recoverability of its financial assets that are due directly / ultimately from GoP to assess whether there is any objective evidence of impairment as per requirements of IAS 39 'Financial Instruments: Recognition and Measurement' at each reporting date. Impact of ECL on financial assets measured at amortised cost not covered under exemption was not material and accordingly has not been included in these financial statements.

2.5.9 Employee benefits

Defined benefits are provided for workers of the Company as defined in the Khyber Pakhtunkhwa Industrial and Commercial Employment Standing Order Act 2013. 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.

2.5.10 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.

2.5.11 Leases

The Company carries out assessment of arrangements, not legally characterized as leases, but that may be or contain leases to which IFRS 16 should be applied. According to IFRS 16 a contract is or contains a lease if the contract conveys the right to control the use of an identified asset. The right to control the use of identified asset is conveyed when the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Company also exercises judgements when determining the lease term of contract with renewal and termination options. The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
For the year ended 30 June 2020

The Company uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use (ROU) asset in a similar economic environment.

3 Significant accounting policies

3.1 The accounting policies set out below have been applied consistently to all periods presented in these financial statements except for the changes as indicated below:

3.1.1 IFRS 16 Leases

IFRS 16 'Leases', became effective from 01 January 2019, and has replaced the 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 has introduced a single, on statement of financial position lease accounting model for lessees. A lessee recognizes a ROU 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 previous standard i.e. lessors continue to classify leases as finance or operating leases.

The Company initially applied IFRS 16 Leases from 01 July 2019 using the specific transitional provisions in the standard. Accordingly, the comparative information presented for 2019 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 01 July 2019.

As a lessor

Lessor accounting remains similar to the previous standard i.e. lessors continue to classify leases as finance or operating leases. The Company does not have any lease arrangements in which the Company is a lessor.

As a lessee

As a lessee, the Company mainly leases real estate (leasehold properties). The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes ROU assets and lease liabilities for most of these leases – excluding short-term lease (those with a lease term no longer than 12 months) and leases whose underlying assets are of low-value when new. The payments associated with such leases are recognized when incurred. The Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

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Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
For the year ended 30 June 2020

At the transition, the Company has recognised lease liabilities related to operating leases in which it is a lessee at the present value of the future lease payments determined at the incremental borrowing rate as at 01 July 2019. The associated ROU asset is recognised by adjusting the lease liability for any prepayment or accrual related to the lease. ROU assets are measured at either:

- (i) their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application; or
- (ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

The Company applied approach (ii) to all its leases that existed at the date of transition.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- a) did not recognise ROU assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- b) did not recognise ROU assets and liabilities for leases of low value assets; and
- c) used hindsight when determining the lease term.

Financial impact of initial application of IFRS 16

On transition to IFRS 16, the Company recognized ROU assets, namely leasehold properties. ROU assets have been measured at an amount equal to the lease liability, adjusted by the amount of prepayments and accruals (if any) related to leases recognized in the statement of financial position as at 01 July 2019. The weighted average lessee's incremental borrowing rate, considering the underlying terms of the lease arrangements, applied to the lease liabilities recognised in the statement of financial position on 01 July 2019 is 13.09%. The impact on transition is summarized below:

	Rupees
Operating lease commitments as at 01 July 2019	39,895,033
Effect of discounting of the operating lease commitments using the IBR	(4,287,855)
Lease liability to be recognized at 1 July 2019	35,607,178
Prepayments / accruals already recorded at 30 June 2020	-
ROU assets recognized on 01 July 2019	35,607,178

As a result of initially applying IFRS 16, the Company has recognised ROU assets of Rs. 35,607,178 and related lease liability of Rs. 35,607,178. The approach used by the Company has not resulted in any adjustment to opening accumulated loss. The Company presents ROU asset in the note 11 to the financial statements.

After the initial recognition of ROU asset and lease liabilities as at 1 July 2019, the Company as a lessee is required to recognize interest expense on the outstanding balance of the lease liability, and the depreciation of the ROU asset, instead of the previous policy of recognizing rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a increasing impact of Rs. 1,507,596 on the reported loss from operations in the Company's statement of profit or loss, as compared to the results as if IAS 17 had been applied during the year.

In the statement of cash flows, the Company as a lessee is required to split rentals paid under capitalized leases into their capital element and interest element, rather than as previously classified as operating cash outflows, although total cash flows are unaffected.

Prima

Khyber Pakhtunkhwa Oil and Gas Company Limited

Notes to the financial statements

For the year ended 30 June 2020

3.2 Property and equipment

Property and equipment and ROU assets arising from leasehold properties, 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 11 to the financial statements so as to write off the cost of property and equipment over their estimated useful life. Moreover, depreciation is calculated on ROU assets arising from leasehold properties on the basis of lease term. 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 the statement of profit or loss.

3.3 Oil and gas assets

The Company applies the "Successful efforts" method of accounting for Exploration and Evaluation (E&E) costs.

3.3.1 Pre license costs

Costs incurred prior to having obtained the legal rights to explore an area are charged directly to profit or loss as they are incurred.

3.3.2 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 as exploration and prospecting expenditure in the statement of profit or loss. *(Signature)*

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Notes to the financial statements
For the year ended 30 June 2020

Tangible assets used in E&E activities, include the Company's vehicles, drilling rigs, seismic equipment and other property and equipment used by the Company's exploration function and are classified as property 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 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 the statement of profit or loss.

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

3.3.3 Development and production assets

Development and production assets are accumulated on a field by field basis and represent the cost of developing the discovered commercial reserves and bringing them into production, together with the capitalized E&E expenditures incurred in finding commercial reserves transferred from intangible E&E assets. The cost of development and production assets also includes the cost of acquisition of such assets, directly attributable overheads, and the cost of recognizing provisions for future site restoration and decommissioning.

Expenditure carried within each field is amortized from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the year to the estimated quantities of proved developed reserves at the end of the year plus the production during the year, on a field by field basis. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively. Amortization is charged to the statement of profit or loss.

3.3.4 Decommissioning cost

The activities of the Company normally give rise to obligations for site restoration. Restoration activities may include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation, and site restoration.

Liabilities for decommissioning cost are recognized when the Company has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reliable estimate of that liability can be made. The Company makes provision in full for the decommissioning cost on the declaration of commercial discovery of the reserves, to fulfill the obligation of site restoration and rehabilitation. Where an obligation exists for a new facility, such as oil and natural gas production or transportation facilities, this will be on construction or installation. An obligation for decommissioning may also crystallize during the period of operation of a facility through a change in legislation or through a decision to terminate operations. The amount recognized is the estimated cost of decommissioning, discounted to its net present value and the expected outflow of economic resources to settle this obligation. Decommissioning cost, as appropriate, relating to producing/shut-in fields and production facilities is capitalized to the cost of development and production assets and property and equipment as the case may be. The recognized amount of decommissioning cost is subsequently amortized/depreciated as part of the capital cost of the development and production assets and property and equipment.

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While the provision is based on the best estimate of future costs and the economic life of the facilities and property and equipment, there is uncertainty regarding both the amount and timing of incurring these costs. Any change in the present value of the estimated expenditure is dealt with prospectively and reflected as an adjustment to the provision and a corresponding adjustment to property and equipment and development and production assets. The unwinding of the discount on the decommissioning provision is recognized as finance cost in the statement of profit or loss.

3.3.5 Impairment of 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.

Impairment test of development and production assets is also performed whenever events and circumstances arising during the development and production phase indicate that carrying amount of the development and production assets may exceed its recoverable amount. At the end of each reporting period, an assessment is made to determine whether there are any indications of impairment. Such circumstances depend on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, the production profile of the hydrocarbons, the cost of the development of the infrastructure necessary to recover the hydrocarbons, the production costs, the contractual duration of the production field and the net selling price of the hydrocarbons produced.

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 in profit or loss to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3.4 Financial Instruments

3.4.1 Initial Recognition

All financial assets and liabilities are initially measured at cost which is the fair value of the consideration given or received. These are subsequently measured at fair value, amortised cost or cost as the case may be.

3.4.2 Classification of financial assets

The Company classifies its financial instruments in the following categories:

- at fair value through profit or loss ("FVTPL"),
- at fair value through other comprehensive income ("FVTOCI"), or
- at amortised cost.

The Company determines the classification of financial assets at initial recognition. The classification of instruments (other than equity instruments) is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.



Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
For the year ended 30 June 2020

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at FVTPL.

3.4.3 Subsequent measurement

i) Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains or losses arising from changes in fair value recognised in other comprehensive income / (loss).

ii) Financial assets and liabilities at amortised cost

Financial assets and liabilities at amortised cost are initially recognised at fair value, and subsequently carried at amortised cost, and in the case of financial assets, less any impairment.

iii) Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of profit or loss. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statement of profit or loss in the period in which they arise.

Where management has opted to recognise a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income / (loss).

3.4.4 Impairment of financial asset

The Company recognizes loss allowance for ECL on financial assets measured at amortised cost except for financial assets due directly / ultimately from GoP in respect of which applicability of ECL model is deferred by SECP as explained in note 2.5.8. In relation to the financial assets not covered under aforementioned exemption, for trade debts (if any), the Company applies IFRS 9 simplified approach to measure the expected credit losses (loss allowance) which uses a life time expected allowance. The Company uses General 3-stage approach for deposits, other receivables, cash and bank balances i.e. to measure ECL through loss allowance at an amount equal to 12-month ECL if credit risk on a financial instruments has not increased significantly since initial recognition.

The following were either determined to have low or there was no increase in credit risk since initial recognition as at the reporting date:

- Deposits
- accrued markup
- bank balances;

Loss allowance for trade receivables (if any) are always measured at an amount equal to life time ECLs. The Company considers a financial asset in default when it is more than 365 days past due.

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For the year ended 30 June 2020

Life time ECLs are the ECLs that results from all possible default events over the expected life of a financial instrument. 12 months ECLs are portion of ECL that result from default events that are possible within 12 months after the reporting date.

ECLs are a probability weighted estimate of credit losses. Credit losses are measured at the present value of all cash shortfalls (i.e. the difference between cash flows due to the entity in accordance with the contract and cash flows that the Company expects to receive).

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof.

In respect of financial assets due directly / ultimately from GoP, on which ECL model is not applicable as per the aforesaid notification of SECP, the financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

3.4.5 Derecognition

Financial assets

The Company derecognises financial assets only when the contractual rights to cash flows from the financial assets expire or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying value and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Company has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to statement of changes in equity.

Financial liabilities

The Company derecognises financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in the statement of profit or loss and other comprehensive income.

3.5 Impairment of 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").

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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 or loss.

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.

3.6 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement comprise cash in hand and at bank and includes short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

3.7 Provisions

A provision is recognized in the statement of financial position 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 reporting date and adjusted to reflect current best estimate.

3.8 Taxation

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

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.

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.

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Notes to the financial statements

For the year ended 30 June 2020

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. 486,504,805 (2019: Rs. 223,463,039).

3.9 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 reporting date. Exchange differences are included in the profit or loss.

3.10 Revenue recognition

Revenue from contracts with customers is recognized when or as the Company satisfies a performance obligation by transferring a promised good or service to a customer. Revenue associated with the sale of crude oil, natural gas and liquefied petroleum gas is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when or as the Company satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas and liquefied petroleum gas coincides with title passing to the customer and the customer taking physical possession.

Revenue is measured at the fair value of the consideration received or receivable which the Company expects to be entitled in exchange for transferring goods, net of government levies. Prices of crude oil and gas are specified in relevant agreements and / or as notified by the Government Authorities based on contracts with customers or petroleum policy. Effect of adjustments, if any, arising from revision in sale prices is reflected as and when the prices are finalized with the customers and/or approved by the GoP.

3.11 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.

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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.

3.12 Intangibles

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

3.13 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 or loss.

3.14 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 reporting date. The difference, if any, between the cost statements and audited financial statements is accounted for in the next accounting year.

3.15 Leases

Leases as a lessor

At lease inception, the Company determines whether the lease is a finance or operating lease. The Company is not a party to any leases in which it is a lessor.

Leases as a lessee

Policy applicable from 01 July 2019

The Company recognizes a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost which comprises the initial amount of lease liability adjusted for any payments made at or before the commencement date, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

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The Company applies judgement to determine the lease term for lease contracts in which it is a lessee that includes renewable options. The assessment of whether the Company reasonably to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU asset.

Policy applicable before 01 July 2019

Rentals payable under operating leases that are directly attributable to acquisition or construction of a qualifying assets are capitalized. Lease rentals are recognized on a straight line basis over the lease. (1/1/2020)

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4 Standards, interpretations and amendments to accounting and reporting standards 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 from the dates specified below:

- Amendment to IFRS 3 'Business Combinations' – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of annual period beginning on or after 1 January 2020). The IASB has issued amendments aiming to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments include an election to use a concentration test. The standard is effective for transactions in the future and therefore would not have an impact on past financial statements.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for annual periods beginning on or after 1 January 2020). The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. In addition, the IASB has also issued guidance on how to make materiality judgments when preparing their general purpose financial statements in accordance with IFRS Standards.


On 29 March 2018, the International Accounting Standards Board (the IASB) has issued a revised Conceptual Framework for Financial Reporting which is applicable immediately contains changes that will set a new direction for IFRS in the future. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs and any inconsistencies with the revised Framework will be subject to the usual due process – this means that the overall impact on standard setting may take some time to crystallize. The companies may use the Framework as a reference for selecting their accounting policies in the absence of specific IFRS requirements. In these cases, companies should review those policies and apply the new guidance retrospectively as of 1 January 2020, unless the new guidance contains specific scope outs.

- Interest Rate Benchmark Reform which amended IFRS 9, IAS 39 and IFRS 7 is applicable for annual financial periods beginning on or after 1 January 2020. The G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of major interest rate benchmarks. Following the review, the FSB published a report setting out its recommended reforms of some major interest rate benchmarks such as IBORs. Public authorities in many jurisdictions have since taken steps to implement those recommendations. This has in turn led to uncertainty about the long-term viability of some interest rate benchmarks. In these amendments, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark including its replacement with an alternative benchmark rate, such as that resulting from the FSB's recommendations set out in its July 2014 report 'Reforming Major Interest Rate Benchmarks' (the reform). The amendments made provide relief from the potential effects of the uncertainty caused by the reform. A company shall apply the exceptions to all hedging relationships directly affected by interest rate benchmark reform. The amendments are not likely to affect the financial statements of the Company.

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Amendments to IFRS-16- IASB has issued amendments to IFRS 16 (the amendments) to provide practical relief for lessees in accounting for rent concessions. The amendments are effective for periods beginning on or after 1 June 2020, with earlier application permitted. Under the standard's previous requirements, lessees assess whether rent concessions are lease modifications and, if so, apply the specific guidance on accounting for lease modifications. This generally involves remeasuring the lease liability using the revised lease payments and a revised discount rate. In light of the effects of the COVID-19 pandemic, and the fact that many lessees are applying the standard for the first time in their financial statements, the Board has provided an optional practical expedient for lessees. Under the practical expedient, lessees are not required to assess whether eligible rent concessions are lease modifications, and instead are permitted to account for them as if they were not lease modifications. Rent concessions are eligible for the practical expedient if they occur as a direct consequence of the COVID-19 pandemic and if all the following criteria are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
 - any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
 - there is no substantive change to the other terms and conditions of the lease.
- Classification of liabilities as current or non-current (Amendments to IAS 1) effective for the annual period beginning on or after 1 January 2022. These amendments in the standards have been added to further clarify when a liability is classified as current. The standard also amends the aspect of classification of liability as non-current by requiring the assessment of the entity's right at the end of the reporting period to defer the settlement of liability for at least twelve months after the reporting period. An entity shall apply those amendments retrospectively in accordance with IAS 8.
 - Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) effective for the annual period beginning on or after 1 January 2022 amends IAS 1 by mainly adding paragraphs which clarifies what comprise the cost of fulfilling a contract, Cost of fulfilling a contract is relevant when determining whether a contract is onerous. An entity is required to apply the amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). Restatement of comparative information is not required, instead the amendments require an entity to recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.
 - Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) effective for the annual period beginning on or after 1 January 2022. Clarifies that sales proceeds and cost of items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management e.g. when testing etc, are recognized in profit or loss in accordance with applicable Standards. The entity measures the cost of those items applying the measurement requirements of IAS 2. The standard also removes the requirement of deducting the net sales proceeds from cost of testing. An entity shall apply those amendments retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented. 

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- Annual Improvements to IFRS standards 2018-2020:

The following annual improvements to IFRS standards 2018-2020 are effective for annual reporting periods beginning on or after 1 January 2022.

- IFRS 9 – The amendment clarifies that an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf, when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability.
- IFRS 16 – The amendment partially amends Illustrative Example 13 accompanying IFRS 16 by excluding the illustration of reimbursement of leasehold improvements by the lessor. The objective of the amendment is to resolve any potential confusion that might arise in lease incentives.
- IAS 41 – The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The above amendments are not likely to have an impact on the Company's financial statements.

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	Note	2020 Rupees	2019 Rupees
5 Share capital			
Authorized share capital			
30,000,000 (2019: 30,000,000) ordinary shares of Rupees 100 each		<u>3,000,000,000</u>	<u>3,000,000,000</u>
Issued, subscribed and paid up capital			
19,000,000 (2019: 19,000,000) ordinary shares of Rupees 100 each allotted for consideration paid in cash		<u>1,900,000,000</u>	<u>1,900,000,000</u>
		2020 Numbers	2019 Numbers
Pattern of holding of Company's paid up 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
		<u>19,000,000</u>	<u>19,000,000</u>
		2020 Rupees	2019 Rupees
6 Deferred employee benefits			
Provision for gratuity	6.1.2	<u>22,997,046</u>	<u>14,254,907</u>
Provision for leave encashment	6.2	<u>1,396,078</u>	<u>1,205,818</u>
		<u>24,393,124</u>	<u>15,460,725</u>
6.1 Provision for gratuity			
Balance at 01 July		<u>18,443,525</u>	<u>11,003,758</u>
Charge for the year	6.1.1	<u>38,916,039</u>	<u>7,739,767</u>
Reversal during the year		<u>(1,276,902)</u>	<u>-</u>
Benefits paid during the year		<u>(2,035,062)</u>	<u>(300,000)</u>
Balance at 30 June	6.1.2&6.1.3	<u>54,047,600</u>	<u>18,443,525</u>
6.1.1 This includes an amount of Rs. 30,171,022 on account of past services pursuant to amendment of plan by expanding the gratuity benefits to daily wagers. The Company has included the daily wagers as eligible employees for gratuity benefits pursuant to a legal opinion obtained with respect to the Company's obligation under Khyber Pakhtunkhwa Industrial and Commercial Employment Standing Order Act 2013.			
6.1.2 Provision for gratuity represents:			
Current portion		31,050,554	4,188,618
Non-current portion		<u>22,997,046</u>	<u>14,254,907</u>
		<u>54,047,600</u>	<u>18,443,525</u>
6.1.3 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.			
6.2 Provision for leave encashment	Note	2020 Rupees	2019 Rupees
Balance at 01 July		1,360,755	2,098,333
Charge for the year		187,383	344,137
Benefits paid during the year		<u>(152,060)</u>	<u>(1,081,715)</u>
Balance at 30 June	6.2.1&6.2.2	<u>1,396,078</u>	<u>1,360,755</u>

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		2020 Rupees	2019 Rupees
6.2.1	Provision for leave encashment represents:		
	Current portion	-	154,937
	Non-current portion	1,396,078	1,205,818
		<u>1,396,078</u>	<u>1,360,755</u>
6.2.2	The Company has not carried out actuarial valuation in respect of provision for leave encashment since the management believes that the impact of such valuation is not material.		
	Note	2020 Rupees	2019 Rupees
7	Provision for decommissioning cost		
	Balance at 01 July	1,125,985	-
	Provision of decommissioning cost during the year	-	1,125,985
	Unwinding of provision of decommissioning cost during the year	154,035	-
		<u>1,280,020</u>	<u>1,125,985</u>
	Revision in provision of decommissioning cost at 30 June	64,233	-
	Balance at 30 June	<u>1,344,253</u>	<u>1,125,985</u>
	Significant financial assumptions used were as follows:		
	Discount rate per annum	7.82% ~ 10.51%	13.68%
	Inflation rate per annum	7.58%	9.30%
		2020 Rupees	2019 Rupees
8	Lease liabilities		
	Balance at 01 July	-	-
	Increase in liability due to initial application of IFRS 16	35,607,178	-
	Adjusted balance at 01 July	35,607,178	-
	Unwinding of lease liability	2,560,334	-
	Payments made during the year	(18,687,035)	-
	Balance at 30 June	<u>19,480,477</u>	<u>-</u>
8.1	Lease liabilities represent:		
	Current portion	16,478,354	-
	Non-current portion	3,002,123	-
		<u>19,480,477</u>	<u>-</u>
8.2	The maturity analysis of lease liability has been disclosed in note 25.2 to the financial statements.		
	Note	2020 Rupees	2019 Rupees
9	Trade and other payables		
	Accrued liabilities	17,299,676	7,300,854
	Payable to joint venture partners	16,695,067	59,869,731
	Trade and other payables	14,307,203	16,831,091
	Salaries, wages and benefits payable	6,148,703	10,243,820
	Employee benefits payable - current portion	31,050,554	4,343,555
	Project account	268,289	877,740
	Payable to employees' old-age benefit institution	114,012	177,192
	Sales tax payable	111,797	-
	Royalty payable	81,338	-
	Excise duty payable	6,929	-
	Security cost payable	735	735
		<u>86,084,303</u>	<u>99,644,718</u>

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9.1 It includes Rs. 13,712,917 (2019: 6,002,480) on account of training, welfare and corporate social responsibility (CSR).

	Note	2020 Rupees	2019 Rupees
9.2 Project account			
Balance at 01 July		877,740	1,391,963
Amount received during the year		-	-
Expenditure incurred during the year		(609,451)	(514,223)
Balance at 30 June	9.2.1	<u>268,289</u>	<u>877,740</u>

9.2.1 This represents amount received from Energy and Power (E&P) Department of GoKPK for installation of video conferencing facility. During the year, the Company has incurred expenditure of Rs. 609,451 (2019: Rs. 514,223) at PTCL leased line charges from Jul 2019 to Mar 2020 advised by E&P Department of GoKPK, whereas the unspent balance will be utilized for meeting operating expenses of these video conferencing facilities.

10 Contingencies and commitments

10.1 Contingencies

There were no contingencies as of the reporting date (2019: Nil).

10.2 Commitments

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

	2020 USD	2019 USD	2020 Rupees	2019 Rupees
Block No. 3270-9 - Lakki	7,500,000	7,680,000	1,265,625,000	1,263,360,000
Block No. 3070-16 - Pezu	65,448	-	11,044,350	-
Block No. 3371-16 - Peshawar East	19,320	9,247	3,260,250	1,521,100
Block No. 3371-17 - Baratai	1,151,825	1,176,207	194,370,469	193,486,080
Block No. 3170-5 - Paharpur	47,628	-	8,037,225	-
Block No. 3170-8 - Kulachi	136,735	-	23,074,031	-
Block No. 3370-15 - Karak North	76,750	76,750	12,951,563	12,625,375
	<u>8,997,706</u>	<u>8,942,204</u>	<u>1,518,362,888</u>	<u>1,470,992,555</u>

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11 Property and equipment

Right-of-use assets		Owned assets						Total
Leasehold properties	Geological equipment	Office equipment	Furniture	Computers and related accessories	Motor vehicle (note 11.1)	Electrical equipment	Security equipment	
Cost								
-	352,369	5,482,337	4,023,129	26,256,986	55,778,278	2,206,759	11,259,566	105,359,424
-	-	122,700	52,007	2,475,736	-	-	-	2,650,443
-	-	(63,090)	(99,875)	-	-	-	-	(162,965)
-	352,369	5,541,947	3,975,261	28,732,722	55,778,278	2,206,759	11,259,566	107,846,902
-	352,369	5,541,947	3,975,261	28,732,722	55,778,278	2,206,759	11,259,566	107,846,902
35,607,178	-	-	-	-	-	-	-	35,607,178
35,607,178	352,369	5,541,947	3,975,261	28,732,722	55,778,278	2,206,759	11,259,566	143,454,080
-	-	553,620	-	217,000	-	54,500	-	825,120
35,607,178	352,369	6,095,567	3,975,261	28,949,722	55,778,278	2,261,259	11,259,566	144,279,200
Depreciation								
-	199,190	3,905,612	1,853,268	4,514,461	29,220,959	2,098,117	8,671,990	50,463,597
-	65,396	1,254,425	792,939	8,500,438	10,885,081	83,240	2,362,452	23,943,971
-	-	(41,303)	(68,154)	-	-	-	-	(109,457)
-	264,586	5,118,734	2,578,053	13,014,899	40,106,040	2,181,357	11,034,442	74,298,111
-	264,586	5,118,734	2,578,053	13,014,899	40,106,040	2,181,357	11,034,442	74,298,111
17,634,297	50,162	342,897	726,173	8,455,887	8,357,950	42,055	225,124	35,834,545
17,634,297	314,748	5,461,631	3,304,226	21,470,786	48,463,990	2,223,412	11,259,566	110,132,656
-	87,783	423,213	1,397,208	15,717,823	15,672,238	25,402	225,124	33,548,791
17,972,881	37,621	633,936	671,035	7,478,936	7,314,288	37,847	-	34,146,544
50%	20%	33.33%	20%	33.33%	20%	33.33%	33.33%	

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

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	Note	2020 Rupees	2019 Rupees
12 Intangible asset			
Cost			
Balance at 01 July		58,899,925	58,899,925
Additions during the year		-	-
Balance at 30 June		58,899,925	58,899,925
Amortization			
Balance at 01 July		(41,050,745)	(29,270,760)
Charge for the year		(11,363,936)	(11,779,985)
Balance at 30 June		(52,414,681)	(41,050,745)
Carrying amount at 30 June		6,485,244	17,849,180
13 Development and production assets			
Producing fields - joint operations			
Cost			
Balance at 01 July		68,591,508	-
Transfer from exploration and evaluation asset during the year		-	42,347,185
Recognition of provision of decommissioning cost		-	1,125,985
Revision in provision of decommissioning cost	7	64,233	-
Additions during the year	13.1	1,767,826	25,118,338
Balance at 30 June		70,423,567	68,591,508
Amortisation			
Balance at 01 July		-	-
Charge for the year		38,588	-
Balance as at 30 June		38,588	-
Carrying amount		70,384,979	68,591,508
13.1	In the year 2019, DGPC approved declaration of commerciality over discovery of Dhok Hussain well of Baratai Block. Accordingly, further cost on account of field development and inventory has been recognized during the year ended 30 June 2020.		
	Note	2020 Rupees	2019 Rupees
14 Exploration and evaluation assets			
Balance at 01 July		24,700,957	43,080,316
Additions during the year	14.1	80,082,059	44,311,223
Cost of dry and abandoned well during the year		(31,755,256)	(20,343,397)
Cost of well transferred to development and production assets during the year		-	(42,347,185)
Balance at 30 June	14.2	73,027,760	24,700,957
14.1	This includes expenditure incurred during the year amounting to Rs. 31,755,256 (2019: Rs. 19,746,171) which was transferred to exploration and prospecting expenditure on account of cost of dry and abandoned well.		
14.2	This represents exploration and evaluation assets relating to exploratory wells of the Baratai Petroleum Concession namely Siab-01 and Seni Gumbat-01. The Company's interests in the Baratai Petroleum Concession is described in note 28 to these financial statements.		

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Khyber Pakhtunkhwa Oil and Gas Company Limited
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	Note	2020 Rupees	2019 Rupees
15 Advances, deposits, prepayments and other receivables			
Advances to joint venture partners		2,853,276	13,848,806
Deposits		2,141,500	1,980,500
Advances for expenses		1,177,700	806,712
Prepayments		553,872	53,428
Advance to KP Sales Tax Authority		309,528	309,528
Receivable from Pakhtunkhwa Energy Development Organisation (PEDO)	15.1	214,634	214,634
Other receivable		297,666	311,116
		7,548,176	17,524,724
Provision against receivable from PEDO		(214,634)	(214,634)
		7,333,542	17,310,090

15.1 This represents receivable on account of expenses incurred by the Company on behalf of 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.

	Note	2020 Rupees	2019 Rupees
16 Cash and bank balances			
Cash at bank			
- Current accounts	16.1	330,000	330,000
- Saving accounts		808,298,967	1,006,544,512
- Accrued interest on saving accounts		4,625,938	8,418,335
		813,254,905	1,015,292,847
Cash in hand		213,952	215,736
		813,468,857	1,015,508,583

16.1 These carry markup ranging from 7% to 11.5% per annum (2019: 6.3% to 10.1% per annum).

	2020 Rupees	2019 Rupees
17 Turnover, net		
Gross sales		
- Gas	769,426	-
	769,426	-
Less: Government levies		
- General sales tax	111,797	-
- Excise duty	6,929	-
	118,726	-
	650,700	-

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Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
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	Note	2020 Rupees	2019 Rupees
18 Operating expenses			
Training, welfare and corporate social responsibility (CSR)		9,259,437	-
Concession operating expenses		6,227,710	-
Amortisation of development and production assets	13	38,588	-
		<u>15,525,735</u>	<u>-</u>
19 Exploration and prospecting expenditure			
Prospecting expenditure		139,351	6,743,461
Cost of dry and abandoned wells	14	31,755,256	20,343,397
		<u>31,894,607</u>	<u>27,086,858</u>
	Note	2020 Rupees	2019 Rupees
20 General and administration expenses			
Salaries, wages and benefits	20.1	162,371,978	133,570,670
Depreciation	11	35,834,545	23,943,971
Amortization	12	11,363,936	11,779,985
Training, welfare and corporate social responsibility (CSR)		-	6,002,480
Concession operating expenses		5,408,317	12,037,369
Legal and professional		5,189,528	12,185,025
Vehicle running and maintenance cost		4,487,297	3,685,688
Meeting expenses		4,070,319	2,311,974
Repairs and maintenance		3,011,428	2,730,166
Utilities		1,888,488	1,954,258
Professional memberships and subscriptions		1,356,647	1,813,966
Insurance		1,346,742	-
Auditors' remuneration		1,000,000	495,000
Travelling and subsistence		738,596	813,674
Communication		805,029	797,482
Miscellaneous		675,056	1,073,779
Entertainment		555,021	653,356
Printing, stationery and publications		543,776	1,382,862
Advertising		307,921	979,861
Security		264,000	264,000
Rent, fees and taxes		223,419	15,737,590
Training and workshop		160,949	626,473
Exchange loss		-	1,581,806
Registration and promotion		121,147	12,430
Newspapers and periodicals		26,011	115,038
Donation		-	50,000
		<u>241,750,150</u>	<u>236,598,903</u>

20.1 This includes Rs. 34,538,893 (2019: 31,420,157) paid to daily wages staff. Further, this amount also includes charge for workers gratuity expenses of Rs. 38,916,039 (2019: 7,739,767) and charge for leave encashment for of Rs 187,383 (2019: Rs 344,137).

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Khyber Pakhtunkhwa Oil and Gas Company Limited
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	Note	2020 Rupees	2019 Rupees
21 Other income			
Income from financial assets			
Interest on saving accounts		103,137,872	88,613,407
Income from non-financial assets:			
Loss on disposal of property and equipment		-	(45,065)
Exchange gain on payable to operator		1,329,605	-
Others		78,150	2,602,337
		<u>104,545,627</u>	<u>91,170,679</u>
22 Finance cost			
Unwinding of lease liability	8	2,560,334	-
Unwinding of decommissioning cost	7	154,035	-
		<u>2,714,369</u>	<u>-</u>
23 Income tax expense for the year			
- Current tax			
For the year		-	-
For the prior year		-	-
- Deferred tax		-	-
		<u>-</u>	<u>-</u>
23.1 Reconciliation of tax charge for the year:			
Accounting loss before taxation		(186,769,872)	(172,515,082)
Applicable tax rate		40%	29%
Tax credit on accounting loss at applicable rate		(74,707,949)	(50,029,374)
Tax effect of deferred tax asset - not recognized		74,707,949	50,029,374
		<u>-</u>	<u>-</u>
23.2 Tax returns for and up to Tax Year 2014 to 2019 have been filed and stand assessed under section 120 of the Income Tax Ordinance, 2001. However, the taxation authorities are empowered to question the assessment at any time within five years of the end of financial year in which the return was filed.			
		2020 Rupees	2019 Rupees
23.3 Tax losses carried forward			
Tax losses for which no deferred tax asset was recognized expire as follows:			
Expire		826,927,325	689,605,348
Never expire		58,711,805	46,922,557
Loss year	Expiry date (year)		
Unadjusted brought forward loss 2014	TY 2020	-	16,998,502
Unadjusted brought forward loss 2015	TY 2021	66,883,136	66,883,136
Unadjusted brought forward loss 2016	TY 2022	82,236,187	82,236,187
Unadjusted brought forward loss 2017	TY 2023	257,388,625	257,388,625
Unadjusted brought forward loss 2018	TY 2024	266,098,898	266,098,898
Unadjusted brought forward loss 2019	TY 2025	154,320,479	-

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24 Financial instruments and risk management

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.

24.1 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 bank balances, deposits, trade debts and other receivables. The carrying amount of financial assets represents the maximum credit exposure.

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:

	Note	2020 Rupees	2019 Rupees
Bank balances	16	813,254,905	1,015,292,847
Deposits	15	2,141,500	1,980,500
Trade debts		769,426	-
Receivable from Energy and Power Department of GoPKP -	15	214,634	214,634
Other receivable	15	297,666	311,116
		<u>816,678,131</u>	<u>1,017,799,097</u>

Trade debts

This represents trade debts from Sui Northern Gas Pipeline Limited which is not yet due and covered under exemption as explained in the note 2.5.8 to these financial statements.

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 A1+. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Banks	Credit Rating Agency	Short Term Rating	2020 Rupees	2019 Rupees
National bank of Pakistan	JCR-VIS	A1+	330,000	330,000
Bank of Khyber	PACRA	A1	804,457,415	1,001,111,174
Bank Al-Falah	PACRA	A1+	8,409,365	13,792,609
Bank Al-Habib	PACRA	A1+	58,125	59,064
			<u>813,254,905</u>	<u>1,015,292,847</u>
Other financial assets				
Rated			-	-
Unrated			2,653,800	2,506,250
			<u>2,653,800</u>	<u>2,506,250</u>

Impact of ECL on financial assets not covered under exemption as explained in note 2.5.8 to these financial statements was not material and accordingly has not been included in these financial statements.

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24.2 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:

	Carrying amount	Contractual cash flows	Maturity up to one year	Maturity from one to five years
2020				
Trade and other payables*	54,565,396	54,565,396	-	-
Lease liabilities including current portion	19,480,477	21,207,999	18,112,115	3,095,884
	<u>74,045,873</u>	<u>75,773,395</u>	<u>18,112,115</u>	<u>3,095,884</u>
2019				
Trade and other payables*	94,423,423	94,423,423	-	-
Lease liabilities including current portion	-	-	-	-
	<u>94,423,423</u>	<u>94,423,423</u>	<u>-</u>	<u>-</u>

*excluding employee benefits payable - current portion, project account, sales tax payable, royalty payable and excise duty payable.

24.3 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.

24.3.1 Currency risk

The Company had no currency risk at year end (2019: Nil).

24.3.2 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:

	2020 %	2019	2020 Rupees	2019 Rupees
Fixed rate instruments				
Lease liability including current portion	13.09%	-	<u>19,480,477</u>	<u>-</u>
Variable rate instruments				
Bank balances	7% to 11.5%	6.30% to 10.10%	<u>813,254,905</u>	<u>1,015,292,847</u>

(i) Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not effect profit or loss for the year.

(ii) Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have (decreased) / increased profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

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Profit or loss	
100 basis points increase	100 basis points decrease
Rupees	

Cash flow sensitivity

Variable rate instruments

30 June 2020	8,132,549	(8,132,549)
30 June 2019	10,152,928	(10,152,928)

24.4 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 24.4.3. 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.

24.4.1 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.

24.4.2 Determination of fair values

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

Non - derivative financial assets

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

Non-derivative financial liabilities

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

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24 Financial instruments and risk management (continued)
24.4.3 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		
	Fair Value through profit and loss	Amortised cost	Financial liabilities at amortised cost	Level 1	Level 2	Level 3
30 June 2020						
<i>Financial assets not measured at fair value</i>						
Cash and bank balances	-	813,468,857	-	-	-	-
Deposits	-	2,141,500	-	-	-	-
Trade debts	-	769,426	-	-	-	-
Receivable from Energy and Power Department of GoKPK - gross	-	214,634	-	-	-	-
Other receivable	-	297,666	-	-	-	-
	-	816,892,083	-	-	-	-
<i>Financial liabilities not measured at fair value</i>						
Lease liabilities including current portion	-	-	19,480,477	-	-	-
Trade and other payables	-	-	54,565,396	-	-	-
	-	-	74,045,873	-	-	-
30 June 2019						
<i>Financial assets not measured at fair value</i>						
Cash and bank balances	-	1,015,508,583	-	-	-	-
Deposits	-	1,980,500	-	-	-	-
Receivable from Energy and Power Department of GoKPK - gross	-	214,634	-	-	-	-
Other receivable	-	311,116	-	-	-	-
	-	1,018,014,833	-	-	-	-
<i>Financial liabilities not measured at fair value</i>						
Trade and other payables	-	-	94,423,423	-	-	-
	-	-	94,423,423	-	-	-

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25	Number of employees	2020	2019
	Total number of employees at year end		
	- Contractual	78	81
	- Daily wagers	109	113
		<u>187</u>	<u>194</u>
	Average number of employees at year end		
	- Contractual	80	84
	- Daily wagers	111	118
		<u>191</u>	<u>202</u>

26 Related party transactions

Government of Khyber Pakhtunkhwa owns 99.9% (2019: 99.9%) 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:

	2020	2019
	Rupees	Rupees
Energy and Power Department (E&P), Khyber Pakhtunkhwa, government ownership		
<i>Expenditure incurred on behalf of E&P</i>		
- Expenditure incurred on video conferencing facility on behalf of E&P	609,451	514,223
- Payable at year end	268,289	877,740
Bank of Khyber, government ownership		
- Balance at 30 June	804,457,415	1,001,111,174
- Interest income on saving account	102,188,890	-
Pakhtunkhwa Energy Development Organization, government ownership		
- Other receivables	214,634	214,634
- Provision	214,634	214,634
Sui Northern Gas Pipeline Limited, government ownership		
- Trade debts	769,426	-
Joint operations, government ownership		
- Exploration and prospecting expenditure	32,933,906	23,219,503
- Exploration and evaluation assets	80,082,059	44,311,223
- Development and production assets	1,767,826	25,118,338
- Operating expenses	9,244,957	10,738,995
- Cash calls paid to joint venture partners	104,267,823	28,671,678
- Exchange gain / (loss)	1,329,605	(1,581,806)
- Advances to joint venture partners	-	13,848,806
- Payable to joint venture partners	16,695,067	59,869,731
Other government entities		
- Other receivables	297,666	311,116
Key management personnel		
- Remuneration of key management personnel (other than Chief Executive)	10,106,645	16,361,915
Chief Executive Officer, Chief Financial Officer, Company Secretary, Chief Internal Auditor, General Manager Explorations and General Manager Reservoirs are the key management personnel.		

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27 Remunerations of chief executive officer and executives

	2020		2019	
	Chief Executive Officer	Executives	Chief Executive Officer	Executives
	Rupees			
Managerial remuneration	13,090,908	24,315,525	17,022,163	13,680,766
Gratuity expense	1,200,000	2,911,390	-	4,431,048
Leave encashment expense	179,328	8,688	1,081,715	528,602
Medical allowance	1,309,092	2,288,127	1,702,217	1,368,077
Other allowances and benefits	668,497	244,584	374,019	-
	16,447,825	29,768,314	20,180,114	20,008,493
Number of persons	01	11	02	10

- Executive means any employee whose basic salary exceeds Rs. 1,200,000 (2019: 1,200,000) per year.
- The chief executive is provided with free use of Company's cars in accordance with their entitlement.
- The aggregate amount charged in these financial statements in respect of fee to 12 directors (2019: 11) is Rs. 3,767,500 (2019: Rs.2,100,000).

28 Interest in joint operations

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

Blocks	Operator	Location	Working interest	
			2020 %	2019 %
Exploration Licenses / Leases - operated				
Lakki Petroleum Concession	Operated by the Company	Lakki Marwat, D.I. Khan, Bannu	100	100
Development Licenses / Leases - non-operated				
Baratai Petroleum Concession	Oil and Gas Development Company Limited	Kohat	2.5	2.5
Exploration Licenses / Leases - non-operated				
Pezu Petroleum Concession	Oil and Gas Development Company Limited	D.G. Khan, Lakki Marwat, Tank, D.I. Khan & Tribal area of D.I. Khan	1.62	1.62
Kulachi Petroleum Concession	Oil and Gas Development Company Limited	D.I. Khan, D.G. Khan, Layyah & Bhakkar	2.05	2.05
Paharpur Petroleum Concession	Kirthar Pakistan B.V.	District D.I. Khan	2.43	2.43
Peshawar East Concession	Mari Petroleum Company Limited	Peshawar	1.84	1.84
Karak North	Talahassee Resources Incorporated	District Karak	2.50	2.50

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29 Impact of COVID-19 on the financial statements

The COVID-19 pandemic has significantly impacted global economies, resulting in workforce and travel restrictions, supply chain and production disruptions and reduced demand and spending across many sectors. We do not expect the impact to be material for the Company because of the fact that the Company is in pre-operation phase and majority of the costs are employees related. Moreover, sale of the Company's share of hydrocarbons from newly discovered field has commenced from June 2020 onwards and oil prices have stabilized since then. However, effect of COVID-19 and the required mitigating actions will continue to be monitored and evaluated by management during the financial year 2021.

30 Non adjusting event after reporting date

Subsequent to year end, the Board of Directors in the meeting held on 28 September 2020, approved restructuring and harmonization process of the Company with respect to revisions in the grading structure, organogram, job descriptions and approved issuance of new contracts to contractual workers amongst other restructuring changes with effect from 01 July 2020. Management has assessed it to be a non-adjusting event after reporting date as result of which certain changes will be required in the salary and grades of the employees with effect from 01 July 2020.

31 These financial statements were authorized for issue on 25 AUG 2021 by the Board of Directors of the Company.


Chief Executive


Director