

## Directors' Report – 2019-20

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The Board of Directors of KPOGCL (Khyber Pakhtunkhwa Oil & Gas Company Limited) is pleased to present this Director's Report along with Audited Financial Statements and Auditors' Report for the year ended June 30, 2020.

The Board of directors at June 30, 2020 were as follows:

Mr. Muhammad Ishfaq Khattak	Director (Chairman)
Mr. Muhammad Riaz Khan	Director
Mr Muhammad Shahid Karim	Director
Mr. Muhammad Saeed Khan Jadoon	Director
Mr. Tahir Azizuddin	Director
Mr. Maqsood Anwar Pervaiz	Director (President Khyber Pakhtunkhwa Chamber of Commerce)
Mr. Muhammad Zubair	Director (Secretary Energy & Power, KPK)
Mr. Atif Rahman	Director (Secretary Finance, KPK)
Mr. Ikram Ullah	Director (Secretary Home & Tribal Affairs, KPK)
Mr. Syed Abdul Jabbar Shah	Director (Commissioner Kohat)
Mr. Humayun Khan	Director (Secretary P&D)
Mr. Usman Ghani Khattak	Chief Executive/Director

The Board of Directors welcomed Mr. Shahid Kareem and Mr. Saeed Jadoon as new Directors on KPOGCL Board appointed by the Government of Khyber Pakhtunkhwa on 04-06-2020, upon resignation of Mr. Muhammad Arif and Mr. Shumail Butt.

### State of the Company's affairs

At the outset the Directors are proud to announce that the first revenue stream from the production of oil & gas for KPOGCL, has kicked off in the month of June 2020, from the Joint Venture partnership of Baratai block with OGDCL. Furthermore subsequent to the year end, acceptance of KPOGCL Farm in proposal/bid in Orakzai & Tirah block upto 20% & 15% respectively, by OGDCL, shall prove to be a landmark business achievement in line with the Board of Directors strategic vision & direction communicated to the management of KPOGCL as part of Corporate Strategy to strive for securing Joint Venture (JV) partnership in all prospective (Non-operated) Blocks in Khyber Pakhtunkhwa and merged districts which was appreciated and found lucrative by the Chief Minister of Khyber Pakhtunkhwa in a

## Directors' Report – 2019-20

meeting held on 9th October, 2019 of KPOGCL Board of Directors with the Hon'able Chief Minister Khyber Pakhtunkhwa and other representatives of the Provincial Government, subsequent to which a formal business proposal was approved by Provincial Cabinet on 16<sup>th</sup> June, 2020.

KPOGCL's Joint Venture partnership in Baratai block, yields 2<sup>nd</sup> discovery in the Siab-1 well, whereas Oil & Gas production from Dhok-Hussain Well that awaited pipeline connectivity was resolved during the year after relentless effort and production kicked off in the month of June 2020.

In addition to 2.5 % JV partnership in Baratai where oil & gas production has kicked off, KPOGCL is a JV partner in the following Exploration Blocks and has been paying cash calls and adding value through participation in Technical, Finance and Operating Committee Meetings with Joint Venture partners.

- |                                |          |                        |
|--------------------------------|----------|------------------------|
| a. Pezu Joint Venture          | (OGDCL)  | 1.62% working interest |
| b. Kulachi Joint Venture       | (OGDCL)  | 2.05% working interest |
| c. Karak North Joint Venture   | (OGDCL)  | 2.50% working interest |
| d. Peshawar East Joint Venture | (MPCL)   | 1.84% working interest |
| e. Paharpur Joint Venture      | (KUFPEC) | 2.43% working interest |

As an operator in Lakki Block, KPOGCL's Management and Provincial Government efforts to swap Lakki block through the forum of CCI with a more lucrative block in the newly merged areas of Khyber Pakhtunkhwa are commendable, being a proactive business strategy, which also got materialized in the form of approval from the CCI in its 43<sup>rd</sup> meeting held on 11-11-2020. Being the first block on operatorship basis where KPOGCL can farm out upto 49% of working interest in the block; due diligence will be the key in each and every step; Quality of decisions and operations shall be ensured through efficient and transparent communication with all the stakeholders. Oil and Gas is a risky business but with due diligence the returns are way more than most businesses.

### Operational Results

The operational results of the company for financial year 2019-20 are as follows:

	2019-20
	Pak Rupees
Revenue	650,700
<u>Royalty &amp; Operating Expenses</u>	(15,607,073)
Gross Profit/ (loss)	(14,956,373)
Exploration and evaluation expenses	(31,894,607)



## Directors' Report – 2019-20

General and Administration Expenses	(241,750,150)
Other Income	104,545,627
Finance Cost	(2,714,369)
Loss before taxation	(186,769,872)
Taxation	-
Loss after tax	(186,769,872)

KPOGCL being a young company has joint venture partnerships in six (6) concession blocks. The reason behind operational results showing a loss is that all blocks are in exploration phase except for the discovery of first well (Dhok Hussain) of Baratai block in 2018 where 15 MMCFD of gas and 360 BBLs of oil have successfully been commissioned in June 2020. The first Revenue from sale proceeds of Oil & Gas has been recognized in the month of June 2020, the revenue is expected to increase manifold once oil and gas production discovered in Siab-1 kicks off and other discoveries are made.

The company is not involved in debt financing nor has taken any sort of loan. Since KPOGCL's capital is totally equity based, there is no debt liability on the company to date. Other liabilities include normal operational liabilities at the year-end which are subsequently cleared in routine business.

### Key operating and financial data

The financial data for previous years is as follows:

	2019-20	2018-19	2017-18	2016-17	2015-16	2014-15
	Pak Rupees	Pak Rupees	Pak Rupees	Pak Rupees	Pak Rupees	Pak Rupees
Revenue	650,700	-	3,628,538	127,257,148	119,233,061	10,773,975
Cost of services	(15,607,073)	-	(424,130)	(93,637,275)	(111,262,185)	(8,989,769)
Gross Profit	(14,956,373)	-	3,204,408	33,619,873	7,970,876	1,784,206
Exploration Expenses	(31,894,607)	(27,086,858)	(39,036,433)	(49,286,466)	(51,674,034)	(491,502)
General and Admin Expenses	(241,750,150)	(236,598,903)	(312,149,908)	(272,244,570)	(127,532,745)	(72,351,643)
Other Income	104,545,627	91,170,679	84,061,242	93,349,410	21,462,183	40,986,220
Finance cost	(2,714,369)	-	-	-	-	-

## Directors' Report – 2019-20

Profit/ (loss) before taxation	(186,769,872)	(172,515,082)	(263,920,061)	(194,561,753)	(149,773,720)	(30,072,719)
Taxation	-	-	(223,171)	(11,688,518)	(9,646,385)	7,606,143
Loss after tax	(186,769,872)	(172,515,082)	(264,143,862)	(206,250,271)	(159,420,105)	(22,466,576)
No of contract employees	78	81	87	78	28	5
No of Daily Wage employees	109	113	122	387	198	146

There is no significant deviation from previous year results apart from the kickoff of revenue from the sale proceeds of Oil & Gas from Dhok Hussain Well in the month of June 2020. The company is in the process of restructuring for transforming the workplace culture based on philosophy of increased employee's efficiency through increased employee satisfaction and ownership, the strength of daily wagers that was reduced significantly previously is further being remodeled to have lean work force on contract basis.

### Future Plans

The Company is striving to enter into new Joint Venture partnerships on non-operated basis in the exploration blocks of Khyber Pakhtunkhwa and merged areas. Being an operator in one block, the company will carry out exploration activities with due diligence and mitigating risk by farming out upto 49% share to other public sector exploration and production companies, in line with the short term to long term corporate strategy approved by the Board of Directors. KPOGCL is hopeful that in the foreseeable future it will be able to make up for the losses that it has incurred to date.

### Principal Risks and Mitigation Measures

KPOGCL's core business is to explore and commercially produce oil and gas reserves. These activities are speculative in nature and characterized by inherent uncertainties, geological surprises and complexities which may have a potential impact on business financial conditions and results of exploration, development and production operations. However, the risk of failures in terms of dry wells in Khyber Pakhtunkhwa is low due to high success ratio of 1:2.8. The risk is also diversified through multiple Joint Venture partnerships.

The future results of business operations depend on the ability to timely identify and mitigate the risks and hazards inherent to operating in the challenging oil and gas exploration and



# Directors' Report – 2019-20

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production industry. KPOGCL's Board of Directors and management are keen to ensure quality decision making and to regularly monitor material business risks and take appropriate actions to mitigate their adverse impact.

## Corporate Social Responsibility (CSR)

KPOGCL's board of directors and management understand that there is a need to strike a balance between overall objectives of achieving corporate excellence vis-à-vis social responsibility towards community. In fulfilling Corporate Social Responsibility, KPOGCL shall contribute its due share of Social Welfare Obligations according to the guidelines of Director General Petroleum Concession (DGPC). The company being in its early stage as an Operator in first block, the main focus is on Exploration activities. The company ensures that its E&P activities are conducted in an ethical and responsible manner embracing business core values. In near future, the company will plan to involve directly in social welfare programs for development of communities residing in the vicinity of business operational areas; supporting under privileged communities by way of investment in the areas of education, health, water supply, infrastructure development and donations. Following the guidelines of DGPC, the company will diligently ensure the utilization of social welfare funds and exercise all possible measures to ensure that its voluntary and obligatory contributions are disbursed in the most transparent and efficient manner.

## Good Governance

The delay in the Audited Financial statements has been due to the prevailing COVID crisis and challenge. The Board of Directors and the management remain committed to the principles of good corporate management practices with emphasis on transparency and disclosures. The Board and management are cognizant of their responsibilities and monitor the KPOGCL's operations and performance to ensure integrity, comprehensiveness and transparency of financial and nonfinancial information. The Company compliance status of the Code of Corporate Governance rules applicable on the company is attached as Annexure-A. KPOGCL being a truly corporate body is envisioned to meet every Good Governance challenge through a pro-active approach.

## Appointment of Auditors

The present auditors M/s KPMG Taseer Hadi & Co., Chartered Accountants have completed their assignment for the year ended June 30, 2020 and shall retire on the conclusion of the Annual General Meeting. KPMG Taseer Hadi & Co. has given consent for the audit of FY 2020-21. In accordance with the Code of Corporate Governance, the Audit Committee considered and recommended the M/s KPMG Taseer Hadi & Co., Chartered Accountants as auditors for the year FY 2020-21 at the audit and compliance report fee of Rs. 1,000,000.

# Directors' Report – 2019-20

## Government levies

The Company has regularly paid income tax withheld, KP Sales Tax & GST from payments made to employees, suppliers and consultants etcetera, while nothing was outstanding on close of financial year (as disclosed in Note 23 of the audited financial statements).

## Dividend

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

## Auditors report

The auditor has given unqualified report on the financial statements for the year ended June 30, 2019.

## Pattern of Shareholding

The pattern of shareholding of the Company as on June 30, 2020 is as under;

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

## Earnings per share

KPOGCL earning per share as on June 30, 2020 is Rs. -9.82 per share.

## Corporate Governance & Financial Reporting Framework

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

- The financial statements prepared by the management of the Company, presents fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of the Company have been maintained.

## Directors' Report – 2019-20

- c) The board has complied with the relevant principles of corporate governance and has identified the rules that have not been complied with.
- d) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgments.
- e) The system of internal control is sound in design and has been regularly reviewed and effectively monitored.
- f) The appointment of Chairman and other members of Board and the terms of their appointment along with the remuneration policy adopted are in the best interest of the Public Sector Company as well as in line with the best practices.
- g) The remuneration of directors is in accordance with the trend and practice in other public sector entities beside size of the Company and duties to be discharged by the director. Disclosure of remuneration of Chief Executive, Directors and Executives is given in Note 27 of the annexed financial statements.

**Election of Directors** According to Section 165 of Companies Act 2017, certain provisions not to apply to directors representing special interest, provisions regarding election, term of office and removal of directors do not apply to the directors appointed/nominated by the Provincial Government.

### Meetings of Board of Directors

Attendance of board of directors meetings held during the year is as follows:

Name of Director	Number of Meetings Attended
Mr. Ishfaq Khattak (Chairman)	8/8
Secretary Energy & Power GoKP	7/8
Secretary Finance GoKP	0/8
Secretary Home & Tribal	0/8
Secretary (P&D)	1/8
Mr. President KPCCI	7/8
Mr. Muhammad Riaz Khan	8/8
Mr. Tahir Aziz Uddin	7/8
Mr. Muhammad Saeed Khan Jadoon	1/8 Appointed during the year
Mr. Muhammad Shahid Karim	1/8 Appointed during the year
Mr. Shumail Butt	0/8 Resigned during the year
Mr. Muhammad Arif	4/8 Resigned during the year
Commissioner Kohat	0/8
CEO KPOGCL	8/8



# Directors' Report – 2019-20

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## Remuneration of Directors:

Rs. 12,500/- gross were paid as meeting fee to each Director for each meeting attended. The meeting fee was revised by the Board of Directors in its 28<sup>th</sup> meeting held on 06-March-2020. The revised fee was set at Rs. 37,500/- for independent directors and Rs. 25,000/- for the ex-officio directors and paid for meetings held after the date of decision.

## Acknowledgement

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

On behalf of the Board

25 Aug, 2021

Signature

Chief Executive

Signature

Director