

DIRECTORS' REPORT 2020-21

The Board of Directors of Khyber Pakhtunkhwa Oil & Gas Company Limited (KPOGCL) is pleased to present the Directors' Report along with Audited Financial Statements for the year ended June 30, 2021 together with Auditors' Report thereon.

STATE OF THE COMPANY'S AFFAIRS

The year 2020-2021 remained exceptional as the pandemic produced devastating effects globally with an unprecedented impact and had a negative impact on the socioeconomic environment. The virus brought a series of chain reactions such as a surge in unemployment, a drop in oil prices, and hurdles to the governments and investors worldwide.

The impact on the energy sector was no different as the price of crude oil has a significant influence on the global economy. As a result, a drop in demand caused by the pandemic resulted in a drastic reduction in profits for the oil and gas sector.

Initially (2014–2019), KPOGCL invested only in those Exploration & Production (E&P) blocks wherein the company had an option to obtain 2.5% entitled Working Interests (WIs) as a Provincial Holding Company (PHC) i.e. Baratai (OGDCL), Pezu (OGDCL), Kulachi (OGDCL), Peshawar East (MPCL), Karak North (Tallahassee Resources Inc.), Paharpur (Kufpec) in KP province.

To achieve its corporate strategic targets envisaged by the newly appointed BOD in November 2018, the Directors are proud to announce that the company has strived to develop a balanced portfolio of Exploration and Production (E&P) blocks mostly on non-operatorship basis. The new investment initiative has been in line with the BOD strategic vision and direction communicated to the management of KPOGCL as part of the corporate strategy to strive for securing Joint Venture (JV) partnerships in all prospective (non-operated) blocks in KP province and Merged Districts, which was appreciated and found lucrative by the Hon'ble Chief Minister of Khyber Pakhtunkhwa in a meeting held on 9th October, 2019 of KPOGCL Board of Directors with the Hon'ble Chief Minister Khyber Pakhtunkhwa and other representatives of the Provincial Government, subsequent to which a formal business proposal was approved by Provincial Cabinet on 16th June, 2020.

Accordingly, KPOGCL focused on more prospective blocks, operated by reputed E&P companies and mainly located in the Newly Merged Districts (NMDs) of KP province and acquired 15% in Tirah and 20% in Orakzai blocks of Oil & Gas Development Company Limited (OGDCL). In addition, the company has also acquired the entitled 2.5% WIs in Wali West block and striving hard to acquire additional 7.5% WIs (overall 10%) in Wali West block by the end 2021.

DIRECTORS' REPORT 2020-21

Moreover, as a results of the concerted efforts of KPOGCL's management, its BOD, and Energy & Power Department of GoKP, non-prospective Lakki block has successfully been replaced with far more prospective Miran block through the forum of Council of Common Interests (CCI) on 11th November, 2020.

The salient features of the new investments are as follow:

- Balanced E&P portfolio in line with the vision of the BOD
- Focused on more prospective blocks mainly in the emerging petroleum play in the Newly Merged Districts of KP province
- Blocks operated by reputed E&P companies
- Based on non-operatorship basis
- Prudent decision to spend public money on more prospective block instead of spending on non-prospective block; Lakki swapped with Miran block.

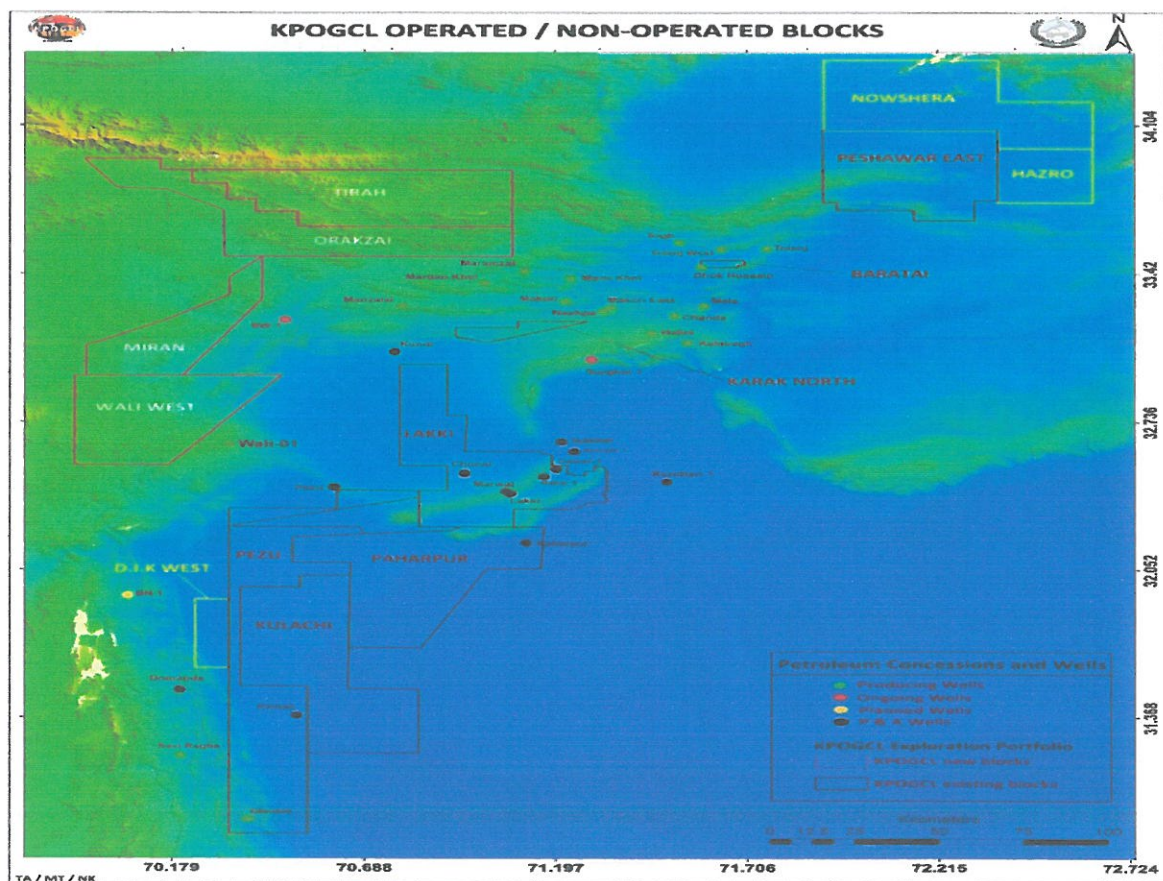
During the year, oil and gas production remained continued from the Dhok Hussain field, operated by OGDCL, from Lumshiwal/Hangu formations/reservoirs. The first revenue stream from the field kicked off in the month of June 2020 and earned Rs. 80 million revenue by end June 2021 for KPOGCL. The oil and gas production rates are on natural decline of around 6% per month. Moreover, oil and gas discoveries were made at Siab-01 exploratory well from the deeper exploration target Samanasuk Formation with gas 1.75 MMSCFD and condensate 12 BPD and at shallow Lumshiwal/Hangu formations level with gas 4.058 MMSCFD and associated condensate around 20 BPD. However, production/revenue has not been started yet from Siab-01 well. Further, drilling objectives have been achieved at Seni Gumbat-01 exploration well with final depth of 5990 meters in Jurassic Shinawari Formation and is posed for wireline logs and testing. The existing Geological & Geophysical data sets are being evaluated for any upside potential within the Baratai block.

As far as exploration activities in the remaining exploration blocks are concerned, it is pertinent to mention that these blocks are in the exploration phase except for the Baratai block where two oil and gas discoveries, out of four wells, have been made through joint efforts of both OGDCL and KPOGCL professionals. Being a prudent JV partner, KPOGCL has been adding value through participation in Technical Workshops, Finance and Operating Committee Meetings with Joint Venture partners (JVPs).

E&P activities carried out in company's operated and non-operated joint ventures during the FY 2020-21 are tabulated below:

DIRECTORS' REPORT 2020-21

Sr.no	Exploration Block	Operator	KPOGCL Working Interest (WI)	Current Status
1.	Baratai	OGDCL	2.50 %	02 discoveries; Revenue from 01 well
2.	Pezu	OGDCL	1.62%	G&G activities in progress
3.	Kulachi	OGDCL	2.05%	Surrendered: Jan 07, 2021. Regulator's approval in progress
4.	Karak North	Tallahasse	2.50%	Sub-judice in court
5.	Peshawar East	MPCL	1.84%	Operator applied to the Regulator for Force Majeure (Feb 2019). No response from the Regulator.
6.	Paharpur	KUFPEC	2.43%	Surrendered: Feb 2020; Regulator's approval in progress
7.	Orakzai	OGDCL	20%	Offer accepted; DOA in progress
8.	Tirah	OGDCL	15%	Offer accepted; DOA in progress
9.	Wali West	MPCL	2.5%	DOA for 2.5% executed in March 2021
10.	Miran	KPOGCL (Operator)	100%	Application submitted to the Regulator for swap of Lakki block with Miran block Jan 2021



DIRECTORS' REPORT 2020-21

HEALTH, SAFETY & ENVIRONMENT (HSE) MANAGEMENT SYSTEM

The Company has ensured compliance with HSE management system at all levels. In this regard, an effective implementation of strong safeguards has been ensured throughout the year to keep its employees, assets, and working environment safe and secure. Efforts are being made to ensure QHSE as an integral part of KPOGCL's business planning, strategic decision making, and target setting. Furthermore, the Company cares intensely about the environment protection as environmental sustainability is one of the most pressing needs of our time.

OPERATIONAL RESULTS

The operational results of the company for Financial Year (FY) 2020-21 are as follows:

Statement of Profit or Loss for the FY 2020-21	
	Amount (PKR)
Revenue	80,300,874
Operating Expenses	(38,318,492)
Royalty	(10,124,126)
Gross Profit/ (loss)	31,858,256
Exploration and Prospecting Expenditure	(7,192,659)
General and Administration Expenses	(225,091,553)
Other Income	37,701,457
Finance Cost	(1,902,829)
Loss before taxation	(164,627,327)
Taxation	-
Loss after tax	(164,627,327)

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.

DIRECTORS' REPORT 2020-21

KEY OPERATING AND FINANCIAL DATA

The financial data for previous years is as follows:

	2020-21	2019-20	2018-19	2017-18	2016-17	2015-16
	PKR	PKR	PKR	PKR	PKR	PKR
Revenue	80,300,874	650,700	-	3,628,538	127,257,148	119,233,061
Operating Cost (Including Royalty for FY 2020-21)	(484,426,18)	(15,607,073)	-	(424,130)	(93,637,275)	(111,262,185)
Gross Profit	31,858,256	(14,956,373)	-	3,204,408	33,619,873	7,970,876
Exploration and Prospecting Expenditure	(7,192,659)	(31,894,607)	(27,086,858)	(39,036,433)	(49,286,466)	(51,674,034)
General and Admin Expenses	(225,091,553)	(211,579,128)	(236,598,903)	(312,149,908)	(272,244,570)	(127,532,745)
Other Income	37,701,457	104,545,627	91,170,679	84,061,242	93,349,410	21,462,183
Finance cost	(1,902,829)	(2,714,369)	-	-	-	-
Profit/ (loss) before taxation	(164,627,327)	(156,598,850)	(172,515,082)	(263,920,061)	(194,561,753)	(149,773,720)
Taxation		-	-	(223,171)	(11,688,518)	(9,646,385)
Loss after tax	(164,627,327)	(156,598,850)	(172,515,082)	(264,143,862)	(206,250,271)	(159,420,105)
No of contract employees	117	78	81	87	78	28
No of Daily Wage employees	30	109	113	122	387	198

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.

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, i.e., 1:2 as compared to other

DIRECTORS' REPORT 2020-21

parts of Pakistan (1:3). The risk is also diversified through multiple Joint Venture partnerships with reputable operators.

The Company's principal risks and uncertainties in the recent times have emanated from the low prices and potential impact on operations due to both international and local restrictions due to the Pandemic. These extraordinary risks, coupled with the normal risks and uncertainties that exists in the E&P sector which are depletion in existing oil & gas reserves in Baratai block, security concerns that limit the access to exploration and development areas and fluctuating prices are potential major risks, and uncertainties for the Company.

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 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 exploration Miran block, would mainly focus on exploration activities along with ensuring corporate responsibilities as regards to the communities. The company will ensure 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

DIRECTORS' REPORT 2020-21

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, 2021 and shall retire on the conclusion of the Annual General Meeting. KPMG Taseer Hadi & Co. has given consent for the audit of FY 2021-22. 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 2021-22 at the audit and compliance report fee of Rs. 1,000,000.

GOVERNMENT LEVIES

The Company has regularly paid income tax withheld, KP Sales Tax & GST from payments made to employees, suppliers and consultants etcetera, while outstanding tax is disclosed in Note 09 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, 2021.

PATTERN OF SHAREHOLDING

The pattern of shareholding of the Company as on June 30, 2021 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, 2021 is Rs. -8.66 per share.

DIRECTORS' REPORT 2020-21

CORPORATE GOVERNANCE & FINANCIAL REPORTING FRAMEWORK

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

- a) 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.
- b) Proper books of the Company have been maintained.
- 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 28 of the annexed financial statements.

BOARD OF DIRECTORS

The composition of the Board of directors as on June 30, 2021 are 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. Sherbaz Ilyas Ghazanfar Bilour	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. Javed Marwat	Director (Commissioner Kohat)
Mr. Amer Sultan Tareen	Director (Secretary P&D)
Mr. Usman Ghani Khattak	Chief Executive/Director

DIRECTORS' REPORT 2020-21

Changes in the composition of the Board during the Financial Year 2020-21 are as follows:

- Mr. Maqsood Anwar Parvaiz (President SCCI) was replaced by Mr. Sherbaz Ilyas Ghazanfar Bilour on 2nd October, 2020.
- Mr. Humayun Khan (Secretary Planning & Development Dept, KP) was replaced by Mr. Amer Sultan Tareen on 14th October, 2020.
- Syed Abdul Jabbar Shah (Commissioner Kohat Division) was replaced by Mr. Javed Marwat on 7th May, 2021.

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

BOARD STRUCTURE AND COMMITTEES

KPOGCL's Board includes Six (6) Independent Directors, five (5) Non-Executive Directors and one (1) Executive Director. In order to ensure effective implementation of sound internal control system and compliance with the Code of Corporate Governance, Board has constituted various committees; Nomination, Human Resource (HR), Finance, Audit and Corporate Governance (ACGC), Procurement and Technical Committee.

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 members during the respective board/committee meetings held during the year is as follows:

Name of Director	Number of BOD Meetings	HR Committee Meetings	Technical Committee Meetings	Audit Committee Meetings	Finance Committee Meetings
Mr. Ishfaq Khattak (Chairman)	6/6	8/8	N/A	N/A	3/3
Secretary Energy & Power GoKP	3/6 (Sec.E&P or through Rep.)	7/8(Sec.E&P or through Rep.)	7/7 (Sec.E&P or through Rep.)	N/A	3/3 (Sec.E&P or through Rep.)
Secretary Finance GoKP	3/6 (Sec. Fin or through Rep.)	N/A	N/A	4/6(Sec. Fin or through Rep.)	N/A
Secretary Home &	3/6(Sec.	N/A	N/A	6/6(Sec. Home &	N/A

DIRECTORS' REPORT 2020-21

Tribal	Home & Tribal or through Rep.)			Tribal or through Rep.)	
Secretary (P&D)	4/6 (Sec. P&D or through Rep.)	N/A	5/7 (Sec. P&D or through Rep.)	N/A	N/A
Mr. President KPCCI	5/6	N/A	N/A	6/6	N/A
Mr. Muhammad Riaz Khan	6/6	8/8	7/7	6/6	3/3
Mr. Tahir Aziz Uddin	6/6	8/8	7/7	6/6	3/3
Mr. Muhammad Saeed Khan Jadoon	6/6	8/8	7/7	N/A	3/3
Mr. Muhammad Shahid Karim	6/6	8/8	N/A	6/6	3/3
Commissioner Kohat	0/6	N/A	N/A	N/A	0/3
CEO KPOGCL	6/6	8/8	7/7	6/6	3/3

REMUNERATION OF DIRECTORS

Each Director received a meeting fee of Rs. 37,500/- for each meeting attended. The meeting fee was revised by the Board of Directors for all board members excluding Chief Executive in its 38th meeting held on 26-June-2020, wherein it was also decided that Representatives of Ex-Officio will be paid Rs.25,000/- for each meeting attended. The Board/Committee meeting fee paid to the Directors during the year is annexed to the note 28 of the financial statements.

Future Outlook

The new investments secured for KPOGCL fall in the emerging petroleum region in the NMDs of KP province, which are mostly unexplored for various political and security related reasons and hence potential hydrocarbon resources remained untapped. Field exploration activities have already been carried out in Orakzai and Tirah blocks by the operator OGDCL. While, field seismic acquisition crew has been mobilized in Wali West block for exploration activities. KPOGCL, being a PHC and a prudent JV partner, will ensure timely completion of all field and office based technical and operational matters in order to realize the benefits of the oil and gas resources at the earliest possible as we are committed to such goals and hard work to achieve them.

DIRECTORS' REPORT 2020-21

Oil & gas is a risky business; however, due diligence will be the key in each and every step. Quality of decisions and operations shall be ensured through efficient and transparent communications with all the stakeholders involved.

KPOGCL being the PHC of Khyber Pakhtunkhwa stands firm in its resolve to intensify exploration, development and production operations by entering into new potential Joint Venture partnerships on non-operatorship basis in the exploration blocks across the country in line with the short term to long term corporate strategy approved by the Board of Directors.

Being operator in Miran block, the Company will carry out exploration activities with due diligence and mitigating risk by farming out up to 49% share to other public sector exploration and production companies. KPOGCL is hopeful that in the foreseeable future it will be able to make up for the losses that it has incurred to date.

ACKNOWLEDGEMENT

At the end, we would like to emphasize that KPOGCL's operational and financial performance is due to the ongoing collaboration with all of the Company's stakeholders. In this regard, we are grateful to the Energy and Power Department of Khyber Pakhtunkhwa, the Finance Department, and other Provincial Government divisions and departments for their unwavering support and cooperation. I would also like to express my heartfelt gratitude to the Company's Board of Directors for their prudent role and invaluable counsel, and to the Company's shareholders for their confidence and trust in KPOGCL. Finally, I'd like to express my gratitude to the Company's employees and consultants, 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

October 31st, 2022


Signature

Chief Executive


Signature

Director