KPMG Taseer Hadi & Co.
Chartered Accountants
Sixth Floor, State Life Building, Blue Area
Islamabad, Pakistan
Telephone 92 (51) 282 3558, Fax 92 (51) 282 2671

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 2022, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity, 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 2022 and of the loss, other comprehensive loss, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

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

KPMG Taseer Hadi & Co.

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 controls as the management determines are 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 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 judgement and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal controls 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 kpmg 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 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);

b) 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 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 auditor's report is Inam Ullah Kakra.

KPMG Taseer Hadi & Co

KPMG Taseer Hadi & Co.
Chartered Accountants
Islamabad

Date: 13 December 2023.
UDIN: AR202210202BZ9UFvbf4

KHYBER PAKHTUNKHWA OIL & GAS COMPANY LIMITED.

(KPOGCL)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE, 2022

Khyber Pakhtunkhwa Oil and Gas Company Limited
Statement of Financial Position
As at 30 June 2022

	Note	2022 Rupees	2021 Rupees
Share capital and reserves			
Share capital	5	**3,000,000,000**	1,900,000,000
Accumulated loss		**(2,336,294,502)**	(1,180,968,644)
Total equity		**663,705,498**	719,031,356
LIABILITIES			
Non-current liabilities			
Deferred employee benefits	6	**79,308,044**	72,154,021
Provision for decommissioning cost	7	**3,451,591**	1,275,142
Lease liabilities	8	**50,648,625**	518,135
Total non-current liabilities		**133,408,260**	73,947,298
Current liabilities			
Lease liabilities - current portion	8	**15,512,758**	14,405,594
Trade and other payables	9	**1,678,386,172**	100,321,096
Total current liabilities		**1,693,898,930**	114,726,690
Total liabilities		**1,827,307,190**	188,673,988
Total equity and liabilities		**2,491,012,688**	907,705,344
Contingencies and commitments	10		

	Note	2022 Rupees	2021 Rupees
Non-current assets			
Property and equipment	11	**68,263,103**	20,309,984
Intangible asset	12	**-**	2,066,429
Development and production assets	13	**153,075,321**	61,412,112
Exploration and evaluation assets	14	**-**	162,312,006
Acquisition of interest in joint arrangements	15	**691,357,613**	-
Total non-current assets		**912,696,037**	246,100,531
Current assets			
Trade debts	16	**29,479,446**	33,688,863
Advance income tax		**12,132,746**	12,023,329
Advances, deposits, prepayments and other receivables	17	**8,875,804**	9,170,166
Cash and cash equivalents	18	**1,527,828,655**	606,722,455
Total current assets		**1,578,316,651**	661,604,813
Total assets		**2,491,012,688**	907,705,344

The annexed notes 1 to 33 form an integral part of these financial statements.

Chief Executive

Director

Khyber Pakhtunkhwa Oil and Gas Company Limited
Statement of Profit or Loss
For the year ended 30 June 2022

	Note	2022 Rupees	2021 Rupees
Turnover, net	19	**86,032,516**	80,300,874
Royalty		**(10,754,065)**	(10,124,126)
Operating expenses	20	**(43,163,799)**	(29,611,992)
		(53,917,864)	(39,736,118)
Gross profit		**32,114,652**	40,564,756
Exploration and prospecting expenditure	21	**(927,692,448)**	(7,192,659)
General and administration expenses	22	**(312,908,388)**	(233,798,053)
Other income	23	**56,407,883**	37,701,457
Finance cost	24	**(3,207,110)**	(1,902,828)
Loss before tax		**(1,155,285,411)**	(164,627,327)
Income tax expense for the year	25	**-**	-
Loss for the year		**(1,155,285,411)**	(164,627,327)

The annexed notes 1 to 33 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 2022

	Note	2022 Rupees	2021 Rupees
Loss for the year		**(1,155,285,411)**	(164,627,327)
Other comprehensive income			
Item that will not be subsequently reclassified to profit or loss:			
Remeaurement loss on defined benefit obligation	6.1.3	**(40,447)**	(2,149,280)
Total comprehensive loss for the year		**(1,155,325,858)**	(166,776,607)

The annexed notes 1 to 33 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 2022

	Share Capital	Accumulated loss	Total
	-Rupees-		
Balance as at 01 July 2020	1,900,000,000	(1,014,192,037)	885,807,963
Total comprehensive loss for the year			
Loss for the year	-	(164,627,327)	(164,627,327)
Other comprehensive income/ (loss)	-	(2,149,280)	(2,149,280)
	-	(166,776,607)	(166,776,607)
Balance at 30 June 2021	**1,900,000,000**	**(1,180,968,644)**	**719,031,356**
Balance at 01 July 2021	**1,900,000,000**	**(1,180,968,644)**	**719,031,356**
Total comprehensive loss for the year			
Loss for the year	-	**(1,155,285,411)**	**(1,155,285,411)**
Other comprehensive income/ (loss)	-	**(40,447)**	**(40,447)**
	-	**(1,155,325,858)**	**(1,155,325,858)**
Transactions with the owners of the Company			
Issue of share capital	**1,100,000,000**	-	**1,100,000,000**
	1,100,000,000	-	**1,100,000,000**
Balance at 30 June 2022	**3,000,000,000**	**(2,336,294,502)**	**663,705,498**

The annexed notes 1 to 33 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 2022

	Note	2022 Rupees	2021 Rupees
Cash flows from operating activities			
Loss before tax for the year		**(1,155,285,411)**	(164,627,327)
Adjustments for:			
- Depreciation	11	**21,104,915**	32,626,400
- Amortisation of intangible asset	12	**2,066,429**	4,418,815
- Amortisation of development and production assets	13	**27,420,080**	14,817,296
- Cost of dry and abandoned well	21	**107,274,729**	-
- Interest on saving accounts	23	**(65,900,360)**	(41,429,858)
- Gain on disposal	23	**(144,383)**	-
- Loss on early termination of lease	23	**92,963**	-
- Unwinding of lease liability	8	**3,094,734**	1,790,453
- Provision for / reversals of gratuity expense	6.1	**17,667,876**	15,021,919
- Unwinding of decommissioning cost	24	**112,376**	112,375
		(1,042,496,052)	(137,269,927)
Changes in:			
- Trade debts		**4,209,417**	(32,919,437)
- Advances, deposits, prepayments and other receivables		**294,362**	(1,836,624)
- Trade and other payables		**886,707,464**	45,287,347
Cash used in operating activities		**(151,284,809)**	(126,738,641)
Income taxes paid		**(109,417)**	(529,561)
Gratuity paid	6.1	**(9,526,242)**	(454,943)
Leave encashment paid	6.2	**(1,028,058)**	(5,913)
Net cash used in operating activities		**(161,948,526)**	(127,729,058)
Cash flows from investing activities			
Acquisition of property and equipment	11	-	(5,195,900)
Additions to exploration and evaluation assets, net	14	**(57,383,243)**	(89,284,246)
Additions to development and production assets	13	**(4,598,696)**	(6,025,915)
Interest on saving accounts	23	**65,900,360**	41,429,858
Proceeds from sale of property and equipment	23	**153,688**	-
Net cash generated from investing activities		**4,072,109**	(59,076,203)
Cash flows from financing activity			
Payment of lease liability	8	**(21,017,383)**	(19,941,141)
Equity Injection		**1,100,000,000**	-
Cash used in financing activity		**1,078,982,617**	(19,941,141)
Net decrease in cash and cash equivalents		**921,106,200**	(206,746,402)
Cash and cash equivalents at 1 July		**606,722,455**	813,468,857
Cash and cash equivalents at 30 June		**1,527,828,655**	606,722,455

The annexed notes 1 to 33 form an integral part of these financial statements.

Chief Executive

Director

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 30.

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
Wali West (3269-1)	2.50%	18 March 2021
Orakzai (3369-1)**	20.00%	21 September 2022
Tirah (3370-14)**	15.00%	21 September 2022

* The Company has declared Force Majure over Peshawar East (3371-16) and gave Notice of Relinquishment for Paharpur Block (3170-8) and Kulachi Block (3170-8) effective from 13 March 2020 and 07 January 2021 respectively. The Director General Petroleum Concession (DGPC) approval of the Relinquishment Notice of Paharpur and Kulachi is pending.

** However, draft deed of assignments from the Director General Petroleum Concession (DGPC) were approved on 16 June 2022 for Orakzai (3369-1) and 20 June 2022 for Tirah (3370-14) blocks.

The Company's share of minimum work commitments in the concession where the Company has signed Deed of Assignment amounts to US$ 12.75 million (2020: US$ 3.56 million). The Company's minimum outstanding commitments have been disclosed in the note 10.2 to these financial statements.

GoKPK has invested Rs. 3.0 billion as at 30 June 2022 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. During the cabinet meeting held on 5 June 2021 under the chairmanship of Finance Secretary, the Finance department of GoKPK approved allocation of Rs. 3.653 billion as part of the Rs 19.6 billion fund previously approved for the financial year 2021-2022.

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.

2.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. These financial statements have been presented in Pakistan Rupees (PKR) which is Company's functional and presentation currency. All the financial information presented has been rounded off to the nearest rupee, unless otherwise stated.

2.4 Significant accounting estimates

The preparation of these financial statements in conformity with the approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgment about carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if the revision affects only that year, or in the year of the revision and any future year affected.

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

2.4.1 Property and equipment - note 3.2 and 11

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.

2.4.2 Exploration and evaluation expenditure - note 3.3.2 and 14

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.

2.4.3 Development and production expenditure - note 3.3.3 and 13

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.

2.4.4 Provision for decommissioning cost - note 3.3.4

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.

2.4.5 Estimation of oil and natural gas reserves for amortization of development and production assets - note 3.3.3 and 13

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.

2.4.6 Taxation - note 3.8 and 25

The Company takes into account the current income tax laws and decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

2.4.7 Measurement of the expected credit loss allowance - note 3.4.4 and 26

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 behaviour (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;
- 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.

2.4.8 Provision against financial assets measured at amortised cost - note 3.4.4 and 26

SECP through S.R.O. 985 (1)/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 Expected Credit Loss (ECL) method 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. Under the said S.R.O, the disclosure of the impacts of ECL was not required. SECP through S.R.O 1177(1)/2021 dated 13 September 2021 extended the exemption period till 30 June 2022. Further, subsequent to year ended 30 June 2022, in partial modification of its previous S.R.O. 1177 (I)/2021, SECP through S.R.O. 67(I)/2023 dated 20th January 2023, has extended the exemption period till December 31, 2024. Earlier to the aforesaid S.R.O. dated 02 September 2019, SECP in a press release dated 22 August 2019 communicated that IFRS 9 needs to be looked into from Pakistan perspective where phenomenon that circular debt need to be given due consideration. It was noted that concerns expressed by companies regarding practical limitations in determining ECL on debts due from government, due to uncertain cash recovery patterns of circular debt, carry weight. Public information regarding expected settlement of circular debt by GoP in coming years may result in subsequent reversals of impairment losses recognized in 2019. In accordance with the exemption granted by SECP, ECL has not been recognised in respect of financial assets due directly /ultimately from GoP which includes trade debts amounting to Rs. 29,479,446 (2021: Rs 33,688,863) respectively.

2.4.9 Employee benefits - note 6

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. The assumptions used are determined by independent actuary annually.

Service cost primarily represents the increase in actuarial present value of the obligation for benefits earned on employees service during the year and the interest on the net liability/(asset) in respect of employee's service in previous years. Calculations are sensitive to changes in the underlying assumptions.

2.4.10 Provision and contingencies - note 10

The Company reviews the status of all the legal cases on a regular basis. Based on the expected outcome and lawyers judgments, appropriate disclosure or provision is made.

2.4.11 Leases - note 3.1.1 and 8

The Company carries out assessment of arrangements, not legally characterized as leases, but that may 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.

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 Leases

The Company assesses whether a contract is or contains a lease at the inception of the contract and whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration.

As a lessor

As a lessor, the Company determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset to the lessee.

Finance lease

Leases where the Company transfers a substantial portion of the risks and rewards incidental to the ownership of an asset to the lessee are classified as finance leases.

The Company derecognises the underlying asset and recognises a receivable at an amount equal to the net investment in a finance lease. Net investment in a finance lease is measured at an amount equal to the sum of the present value of lease payments from lessee including any unguaranteed residual value of the underlying asset. Initial direct costs are also included in the initial measurement of the net investment.

Operating leases

The Company classifies a lease as an operating lease if the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee.

The Company recognises lease payments received under operating lease as lease income on a straight-line basis over the lease term.

If an arrangement contains lease and non-lease components, the Company allocates the consideration in the contract to the lease and non-lease components based on the stand-alone selling prices in accordance with the principles in IFRS 15.

As a lessee

Leases are recognized as a lease liability and a corresponding Right of Use ("ROU") asset at the date on which the leased asset is available for use by the Company. Liabilities and assets arising from a lease are initially measured on a present value basis. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rate when the rate implicit in the lease is not readily available. The corresponding ROU assets are measured at the amount equal to the lease liability.

The lease liability is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company.

The ROU asset, initially measured at an amount equal to the corresponding lease liability, is depreciated on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The ROU asset may be adjusted for certain re-measurements of the lease liability and impairment losses.

Lease payments are allocated between the lease liability and finance costs.

Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the statement of profit or loss when incurred.

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.

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.

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

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.

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 2.4.8. 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.

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").

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.

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. 736,289,784 (2020: Rs.

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.

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.

4 NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The following International Financial Reporting Standards (IFRS Standards), interpretations and the amendments as notified under Companies Act, 2017 are effective for accounting periods beginning from the dates specified below:

- Amendment to IFRS 3 'Business Combinations' (effective for annual periods beginning on or after 1 January 2022). Minor amendments were made to update references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and IFRIC 21 'Levies'. The amendment also confirms that contingent assets should not be recognised at the acquisition date. The amendments are not likely to have impact on Company's financial statements.

- Amendments to IAS 1 'Presentation of Financial Statements' - Classification of liabilities as current or non-current (effective for the annual periods beginning on or after 1 January 2023). These amendments in the standard 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. The amendments are not likely to have impact on Company's financial statements.

- Amendments to IAS 16 'Property, Plant and Equipment' Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022). These amendments clarify 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 amendments are not likely to have impact on Company's financial statements.

- Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' Onerous Contracts – Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022). It 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. The amendments are not likely to have impact on Company's financial statements.

  Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendment changes the accounting treatment on loss of control of business or assets. The amendments also introduce new accounting for less frequent transaction that involves neither cost nor full step-up of certain retained interests in assets that are not businesses. The effective date for these changes has been deferred indefinitely until the completion of a broader review. The amendments are not likely to have impact on Company's financial statements.

- Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2-Disclosure of Accounting Policies (effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted)–the Board has issued amendments on the application of materiality to disclosure of accounting policies and to help companies provide useful accounting policy disclosures. The key amendments to IAS 1 include:
  - requiring companies to disclose their material accounting policies rather than their significant accounting policies;
  - clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
  - clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

  The Board also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures.

- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'-Definition of Accounting Estimates – The amendments introduce a new definition for accounting estimates clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are effective for periods beginning on or after 1 January 2023, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the company applies the amendments.

- Amendments to IAS 12 'Income Taxes'-Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted) – The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date.

- 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 mentioned amendments are not likely to have an impact on Company's financial statements. KPMG

5 **Share capital**

Authorized share capital

2022 Numbers	2021 Numbers		Note	2022 Rupees	2021 Rupees
300,000,000	300,000,000	Ordinary shares of Rs 10 each		**3,000,000,000**	3,000,000,000

Issued, subscribed and paid up capital

300,000,000	190,000,000	Ordinary shares fully paid in cash	5.1	**3,000,000,000**	1,900,000,000

5.1 Reconciliation between ordinary shares in issue at the beginning and end of the year is as follows:

	2022 Rupees	2021 Rupees
Balance as at 01 July	**1,900,000,000**	1,900,000,000
Issuance of furthur share capital during the year	**1,100,000,000**	-
Balance as at 30 June	**3,000,000,000**	1,900,000,000

6 **Deferred employee benefits**

	Note	2022 Rupees	2021 Rupees
Provision for gratuity	6.1.1	**78,945,937**	70,763,856
Provision for leave encashment	6.2.1	**362,107**	1,390,165
		79,308,044	72,154,021

6.1 **Movement in net defined benefit (asset) / liability**

	Note	2022 Rupees	2021 Rupees
Balance at 01 July		**70,763,856**	54,047,600
Included in profit or loss	6.1.2	**17,667,876**	15,021,919
Remeasurements chargeable in other comprehensive income	6.1.3	**40,447**	2,149,280
Benefits paid during the year		**(9,526,242)**	(454,943)
Balance at 30 June	6.1.1	**78,945,937**	70,763,856

6.1.1 Provision for gratuity represents:

	2022 Rupees	2021 Rupees
Current portion	-	-
Non-current portion	**78,945,937**	70,763,856
	78,945,937	70,763,856

6.1.1.1 **Reconciliation of liability recognized in the statement of financial position**

	2022 Rupees	2021 Rupees
Present value of defined benefit liability	**78,945,937**	70,763,856
Net defined benefit liability	**78,945,937**	70,763,856

6.1.2 **Included in statement of profit or loss**

	2022 Rupees	2021 Rupees
Current service cost	**13,210,694**	11,404,680
Interest cost	**4,457,182**	3,617,239
Net defined benefit liability	**17,667,876**	15,021,919

6.1.2.1 **Expense is recognized in the following line items in statement of financial position**

	2022 Rupees	2021 Rupees
General administrative expenses	**17,667,876**	15,021,919
	17,667,876	15,021,919

		Note	2022 Rupees	2021 Rupees
6.1.3	**Included in unconsolidated statement of comprehensive income**			
	Actuarial gains from changes in financial assumptions		**(2,485,745)**	**5,795,429**
	Experience adjustments on defined benefit liability		**2,526,192**	**(3,646,149)**
			40,447	**2,149,280**
6.1.4	**Key actuarial assumptions**			
	Significant actuarial assumptions used were as follows:			
	Significant assumptions			
	Discount rate used for interest cost in profit or loss		**10.25%**	**9.25%**
	Discount rate used for the year end obligation		**13.50%**	**10.25%**
	Expected increase in eligible salary		**14.00%**	**12.28%**
	Other assumptions			
	Mortality rate	6.1.4.1	**SLIC 2001-2005 setback 1 year**	**SLIC 2001-2005 setback 1 year**

6.1.4.1 Assumption regarding future mortality rate is based on State Life Corporation (SLIC 2001-2005), ultimate mortality rate with 1 year setback as per recommendation of Pakistan Society of Actuaries (PSOA).

6.1.5 Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to assumptions set out above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting period would have increased / (decreased) as a result of a change in respective assumptions by one percent.

	Defined benefit obligation	
	Effect of 1 percent increase	Effect of 1 percent decrease
	Rupees	
Change in discount rate	45,280,670	57,409,959
Change in salaries	57,463,873	45,130,244

6.1.5.1 Although the analysis does not take into account full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

6.1.6 Expected gratuity expense for the next year is Rs. 16,607,743.

6.1.7 Risks associated with defined benefit liability - gratuity

6.1.7.1 Salary risk - (linked to inflation risk)

The risk that the final salary at the time of cessation of service is greater than what was assumed. Since the benefit is calculated on the final salary (which will closely reflect inflation and other macroeconomic factors), the benefit amount increases as salary increases.

6.1.7.2 Demographic risks

Mortality risk - The risk that the actual mortality experienced is different than the assumed mortality. This effect is more pronounced in schemes where the age and service distribution is on the higher side.

Withdrawal risk - The risk that actual withdrawals experienced is different from assumed withdrawal probability. The significance of the withdrawal risk varies with the age, service and the entitled benefits of the beneficiary.

6.1.8 At 30 June 2022, the weighted average duration of defined benefit plan is 12 years. (2021: 11 Years)

		Note	2022 Rupees	2021 Rupees
6.2	**Provision for leave encashment**			
	Balance at 01 July		**1,390,165**	1,396,078
	Benefits paid during the year		**(1,028,058)**	(5,913)
	Balance at 30 June	6.2.1&6.2.2	**362,107**	1,390,165
6.2.1	Provision for leave encashment represents:			
	Current portion		**362,107**	1,390,165
	Non-current portion		**-**	-
			362,107	1,390,165

6.2.2 The Company has discontinued the leave encashment policy with effect from November 2019. Accordingly, the Company has not carried out any actuarial valuation in respect of provision for leave encashment.

		Note	2022 Rupees	2021 Rupees
7	**Provision for decommissioning cost**			
	Balance at 01 July		**1,275,142**	1,344,253
	Provision of decommissioning cost during the year		**1,741,920**	-
	Unwinding of provision of decommissioning cost during the year		**112,376**	112,375
			3,129,438	1,456,628
	Revision in provision of decommissioning cost at 30 June		**322,153**	(181,486)
	Balance at 30 June		**3,451,591**	1,275,142
	Significant financial assumptions used were as follows:			
	Discount rate per annum		**7.85% ~ 10.56%**	7.82% ~ 10.51%
	Inflation rate per annum		**7.87%**	7.58%

		Note	2022 Rupees	2021 Rupees
8	**Lease liabilities**			
	Balance at 01 July		**14,923,729**	19,480,477
	Additions during the year		**76,386,988**	13,593,940
	Adjusted balance at 01 July		**91,310,717**	33,074,417
	Unwinding of lease liability		**3,094,734**	1,790,453
	Reversals on early termination of lease liability		**(7,226,686)**	-
	Payments made during the year		**(21,017,383)**	(19,941,141)
	Balance at 30 June	8.1&8.2	**66,161,383**	14,923,729
8.1	Lease liabilities represent:			
	Current portion		**15,512,758**	14,405,594
	Non-current portion		**50,648,625**	518,135
			66,161,383	14,923,729

8.2 The maturity analysis of lease liability has been disclosed in note 26.2 to the financial statements.

		Note	2022 Rupees	2021 Rupees
9	**Trade and other payables**			
	Accrued liabilities	9.1	**29,432,020**	26,573,150
	Payable to joint venture partners	9.2	**929,516,997**	49,960,792
	Payable on acquisition of interest to joint venture partners	15.1	**691,357,613**	-
	Trade and other payables		**21,595,231**	18,711,606
	Payable to employees' old-age benefit institution		**756,760**	114,012
	Sales tax payable		**1,968,237**	604,279
	Royalty payable		**3,759,315**	4,286,522
	Security cost payable		**-**	70,735
			1,678,386,172	100,321,096

9.1 It includes Rs. 22,697,331 (2021: 20,444,417) on account of training, welfare and corporate social responsibility (CSR).

9.2 It includes Rs. 902,399,686 (2021: Nil) payable to joint venture partners for proportinate share of expenditure expended by the JV partners on Orakzai and Tirah Petroleum Concessions with effect from 14 February 2014.

10 Contingencies and commitments

10.1 Contingencies

Deputy Commissioner Inland Revenue (DCIR) vide its order dated 28 June 2022 raised tax demand of Rs. 19.8 million for tax year 2016. The Company has filed an appeal before Commissioner Inland Revenue (Appeals). Management believes that the order is against income tax laws and regulations and accordingly no provision has been made in this respect in the financial statements.

10.2 Commitments

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

	2022 USD	2021 USD	2022 Rupees	2021 Rupees
Block No. 3270-9 - Lakki	**7,500,000**	7,500,000	**1,536,350,250**	1,182,450,000
Block No. 3070-16 - Pezu	**65,448**	65,448	**13,406,807**	10,318,532
Block No. 3371-16 - Peshawar East	**19,320**	19,320	**3,957,638**	3,045,991
Block No. 3371-17 - Baratai	**652,750**	654,800	**133,713,683**	103,235,768
Block No. 3170-5 - Paharpur	**47,628**	47,628	**9,756,439**	7,509,030
Block No. 3170-8 - Kulachi	**141,245**	141,245	**28,933,572**	22,268,687
Block No. 3370-15 - Karak North	**76,750**	76,750	**15,721,984**	12,100,405
Block No. 3269-1 - Wali West	**975,250**	975,250	**199,776,744**	153,757,915
Block No. 3369-1 - Orakzai	**750,060**	-	**153,647,316**	-
Block No. 3370-14 - Tirah	**534,435**	-	**109,477,246**	-
	10,762,886	9,480,441	**2,204,741,680**	1,494,686,328

Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
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11 Property and equipment

	Right-of-use assets	Owned assets							
	Leasehold properties	Geological equipment	Office equipment	Furniture	Computers and related accessories	Motor vehicle (note 11.1)	Electrical equipment	Security equipment	Total
					Rupees				
Cost									
Balance at 01 July 2020	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
Additions during the year	13,593,940	-	186,300	-	951,100	4,058,500	-	-	18,789,840
Balance at 30 June 2021	49,201,118	352,369	6,281,867	3,975,261	29,900,822	59,836,778	2,261,259	11,259,566	163,069,040
Balance at 01 July 2021	**49,201,118**	**352,369**	**6,281,867**	**3,975,261**	**29,900,822**	**59,836,778**	**2,261,259**	**11,259,566**	**163,069,040**
Additions during the year	**76,386,988**	-	-	-	-	-	-	-	**76,386,988**
Reversals during the year	**(7,319,649)**	-	-	-	-	-	-	-	**(7,319,649)**
Disposals during the year	-	-	**(158,430)**	**(558,649)**	-	**(102,900)**	-	-	**(819,979)**
Balance at 30 June 2022	**118,268,457**	**352,369**	**6,123,437**	**3,416,612**	**29,900,822**	**59,733,878**	**2,261,259**	**11,259,566**	**231,316,400**
Depreciation									
Balance at 01 July 2020	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
Charge for the year	17,993,470	37,621	266,755	537,380	7,281,991	6,491,016	18,167	-	32,626,400
Balance at 30 June 2021	35,627,767	352,369	5,728,386	3,841,606	28,752,777	54,955,006	2,241,579	11,259,566	142,759,056
Balance at 01 July 2021	**35,627,767**	**352,369**	**5,728,386**	**3,841,606**	**28,752,777**	**54,955,006**	**2,241,579**	**11,259,566**	**142,759,056**
Charge for the year	**18,060,843**	-	**257,809**	**120,653**	**521,793**	**2,125,651**	**18,166**	-	**21,104,915**
Adjustments / disposal	-	-	**(149,125)**	**(558,649)**	-	**(102,900)**	-	-	**(810,674)**
Balance at 30 June 2022	**53,688,610**	**352,369**	**5,837,070**	**3,403,610**	**29,274,570**	**56,977,757**	**2,259,745**	**11,259,566**	**163,053,297**
Carrying value at 30 June 2021	13,573,351	-	553,481	133,655	1,148,045	4,881,772	19,680	-	20,309,984
Carrying value at 30 June 2022	**64,579,847**	-	**286,367**	**13,002**	**626,252**	**2,756,121**	**1,514**	-	**68,263,103**
Depreciation rates	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.

		Note	2022 Rupees	2021 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		**(56,833,496)**	(52,414,681)
	Charge for the year		**(2,066,429)**	(4,418,815)
	Balance at 30 June		**(58,899,925)**	(56,833,496)
	Carrying amount at 30 June		**-**	2,066,429
13	**Development and production assets**			
	Producing fields - joint operations			
	Cost			
	Balance at 01 July		**76,267,996**	70,423,567
	Transfer from exploration and evaluation asset during the year	13.1	**112,420,520**	-
	Recognition of provision of decommissioning cost		**1,741,920**	-
	Revision in provision of decommissioning cost	7	**322,153**	(181,486)
	Additions during the year	13.2	**4,598,696**	6,025,915
	Balance at 30 June		**195,351,285**	76,267,996
	Amortisation			
	Balance at 01 July		**14,855,884**	38,588
	Charge for the year		**27,420,080**	14,817,296
	Balance as at 30 June		**42,275,964**	14,855,884
	Carrying amount		**153,075,321**	61,412,112

13.1 During the year, the joint venture of Baratai Block comprising Oil and Gas Development Company Limited (OGDCL) as Operator (97.5%) together with its Joint partner KPOGCL (2.5%) have discovered Gas and Condensate from its exploratory well Siab-01. Accordingly, cost of exploratory well already recognized as exploration and evaluation asset has been transferred to development and production assets. The production started from the well from 16 January 2022 and accordingly amortization has been recognized. The Company's interests in the Baratai Petroleum Concession is described in note 30 to these financial statements.

13.2 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 2022.

		Note	2022 Rupees	2021 Rupees
14	**Exploration and evaluation assets**			
	Balance at 01 July		**162,312,006**	73,027,760
	Additions during the year		**57,383,243**	89,284,246
	Cost of dry and abandoned well during the year	14.1	**(107,274,729)**	-
	Cost of well transferred to development and production assets during the year	13.1	**(112,420,520)**	-
	Balance at 30 June		**-**	162,312,006

14.1 On 29th December 2021, the Directorate General Petroleum Concession (DGPC) approved the Plug and Abandonment well notice in respect of Seni Gumbat-I well of Baratai Block. Accordingly, the Company has transferred the cost related to the dry well to Exploration and prospecting expenditure.

	Note	2022 Rupees	2021 Rupees
15 Acquisition of interest in joint arrangement			
Cost			
Balance at 01 July		-	-
Additions during the year		691,357,613	-
Balance at 30 June	15.1	691,357,613	-
Amortization			
Balance at 01 July		-	-
Charge for the year		-	-
Balance at 30 June		-	-
Carrying amount at 30 June		691,357,613	-

15.1 During the year, the Company acquired 20% and 15% working interests in Orakzai and Tirah Petroleum Concessions respectively. The approval on Draft Deed of Assignment (DoA) from the Director General Petroleum Concession (DGPC) for Orakzai block (3369-1) was obtained on 16 June 2022 and for Tirah block (3370-14) on 20 June 2022. The amount represents signature bonus payable to the joint venture partners. The Company's interests in these Petroleum Concessions is described in note 30 to these financial statements.

	Note	2022 Rupees	2021 Rupees
16 Trade Debts			
Un-secured, considered good	16.1	29,479,446	33,688,863
		29,479,446	33,688,863

16.1 Trade debts include amount of Rs 24,024,896 (2021: Rs 24,826,420) from related party, Sui Northern Gas Pipeline Limited and Rs 5,454,549 (2021: Rs 885,925) from Attock Refinery Limited. However, subsequent to year-end significant portion is recovered by the Company.

	Note	2022 Rupees	2021 Rupees
17 Advances, deposits, prepayments and other receivables			
Advances to joint venture partners		2,161,142	2,161,142
Deposits		2,161,500	2,161,500
Advances for expenses		457,900	558,300
Advances to employees		1,197,942	2,025,973
Prepayments		1,836,654	1,734,207
Advance to suppliers		531,622	-
Advance to KP Sales Tax Authority		309,528	309,528
Receivable from Pakhtunkhwa Energy Development Organisation (PEDO)	17.1	214,634	214,634
Other receivable		219,516	219,516
		9,090,438	9,384,800
Provision against receivable from PEDO		(214,634)	(214,634)
		8,875,804	9,170,166

17.1 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	2022 Rupees	2021 Rupees
18	**Cash and cash equivalents**			
	Cash at bank			
	- Current accounts		**330,000**	330,000
	- Saving accounts	18.1	**1,510,730,739**	603,129,548
	Accrued interest on saving accounts		**16,106,335**	2,971,101
			1,527,167,074	606,430,649
	Cash in hand		**661,581**	291,806
			1,527,828,655	606,722,455

18.1 These carry markup ranging from 5.5% to 12.3% per annum (2021: 5.5% to 6% per annum).

		Note	2022	2021
19	**Turnover, net**			
	Gross sales			
	- Crude oil		**18,126,546**	11,797,170
	- Gas		**81,112,118**	81,364,441
			99,238,664	93,161,611
	Less: Government levies			
	- General sales tax			
	Crude oil	19.1	**765,458**	-
	Gas		**11,785,509**	12,003,970
	- Excise duty		**655,181**	856,767
			13,206,148	12,860,737
			86,032,516	80,300,874

19.1 Government through Finance Act, 2021 imposed sales tax on crude oil with effect from 01 July 2021. This decision was reversed through Finance (Supplementary) Act, 2022 on 15 January 2022.

		Note	2022 Rupees	2021 Rupees
20	**Operating expenses**			
	Concession operating expenses		**15,743,719**	14,794,696
	Amortisation of development and production assets	13	**27,420,080**	14,817,296
			43,163,799	29,611,992
21	**Exploration and prospecting expenditure**			
	Prospecting expenditure	21.1	**815,742,906**	902,958
	Cost of dry and abandoned wells		**111,949,542**	6,289,701
			927,692,448	7,192,659

21.1 This represents the Company's share of costs expended by the Operator in the acquired Orakzai and Tirah blocks with effect from 28 February 2014.

		Note	2022 Rupees	2021 Rupees
22	**General and administration expenses**			
	Salaries, wages and benefits	22.1	**159,350,431**	144,606,989
	Depreciation	11	**21,104,915**	32,626,400
	Amortization	12	**2,066,429**	4,418,815
	Concession operating expenses		**99,298,726**	6,788,681
	Training, welfare and corporate social responsibility (CSR)		**2,215,930**	8,706,500
	Legal and professional		**3,569,166**	10,766,197
	Vehicle running and maintenance cost		**4,392,050**	4,178,096
	Meeting expenses		**6,174,655**	6,756,990
	Repairs and maintenance		**3,052,723**	3,035,698
	Utilities		**3,073,084**	2,141,020
	Professional memberships and subscriptions		**856,663**	872,747
	Insurance		**1,694,114**	1,910,193
	Auditors' remuneration		**1,000,000**	1,000,000
	Travelling and subsistence		**979,054**	736,262
	Communication		**1,576,498**	1,523,348
	Miscellaneous		**177,250**	780,302
	Entertainment		**509,816**	1,053,806
	Printing, stationery and publications		**581,297**	1,025,194
	Advertising		**271,778**	366,415
	Security		**297,000**	268,000
	Rent, fees and taxes		**545,793**	101,762
	Training and workshop		**90,000**	-
	Registration and promotion		**-**	84,892
	Newspapers and periodicals		**31,016**	49,746
			312,908,388	233,798,053

22.1 This includes Rs. 7,883,029 (2021: 25,583,583) paid to daily wages staff. Further, this amount also includes charge for workers gratuity expenses of Rs. 17,667,876 (2021: 15,021,919).

		Note	2022 Rupees	2021 Rupees
23	**Other income**			
	Income from financial assets			
	Interest on saving accounts		**65,900,360**	41,429,858
	Income from non-financial assets:			
	Gain on disposal of property and equipment		**144,383**	-
	Loss on early termination of lease		**(92,963)**	-
	Exchange gain/ (loss) on payable to operator		**(9,779,471)**	(3,728,401)
	Others		**235,574**	-
			56,407,883	37,701,457
24	**Finance cost**			
	Unwinding of lease liability	8	**3,094,734**	1,790,453
	Unwinding of decommissioning cost	7	**112,376**	112,375
			3,207,110	1,902,828

	2022 Rupees	2021 Rupees
25 Income tax expense for the year		
- Current tax		
For the year	-	-
For the prior year	-	-
- Deferred tax	-	-
	-	-

25.1 Reconciliation of tax charge for the year:

	2022	2021
Accounting loss before taxation	**(1,155,285,411)**	(164,627,327)
Applicable tax rate	**40%**	40%
Tax credit on accounting loss at applicable rate	**(462,114,164)**	(65,850,931)
Tax effect of deferred tax asset - not recognized	**462,114,164**	65,850,931
	-	-

25.2 Tax returns for and up to Tax Year 2014 to 2022 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.

25.3 *Tax losses carried forward*

Tax losses for which no deferred tax asset was recognized expire as follows:

		2022 Rupees	2021 Rupees
Expire		**1,057,936,789**	1,048,258,604
Never expire		**75,927,791**	68,017,442
Loss year	**Expiry date (year)**		
Unadjusted brought forward loss 2016	TY 2022	-	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**	154,320,479
Unadjusted brought forward loss 2020	TY 2026	**288,214,415**	288,214,415
Unadjusted brought forward loss 2021	TY 2027	**91,914,372**	-

26 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.

26.1 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	2022 Rupees	2021 Rupees
Bank balances	18	**1,527,167,074**	606,430,649
Deposits	17	**2,161,500**	2,161,500
Trade debts	16	**29,479,446**	33,688,863
Receivable from Energy and Department of GoKPK - gross	17	**214,634**	214,634
Other receivable	17	**219,516**	219,516
		1,559,242,170	642,715,162

Trade debts

This mainly represents trade debts from Sui Northern Gas Pipeline Limited which is not yet due and covered under exemption as explained in the note 2.4.8 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	2022 Rupees	2021 Rupees
National bank of Pakistan	JCR-VIS	A1+	**330,000**	330,000
Bank of Khyber	PACRA	A1	**1,519,572,349**	592,392,023
Bank Al-Falah	PACRA	A1+	**7,205,312**	13,650,502
Bank Al-Habib	PACRA	A1+	**59,413**	58,124
			1,527,167,074	606,430,649

Other financial assets	2022 Rupees	2021 Rupees
Rated	-	-
Unrated	**2,595,650**	2,595,650
	2,595,650	2,595,650

Impact of ECL on financial assets not covered under exemption as explained in note 2.4.8 to these financial statements was not material and accordingly has not been included in these financial statements.

26.2 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
2022				
Trade and other payables*	**1,672,658,620**	**1,672,658,620**	-	-
Lease liabilities including current portion	**66,161,383**	**87,525,954**	**15,763,955**	**71,761,999**
	1,738,820,003	**1,760,184,574**	**15,763,955**	**71,761,999**
2021				
Trade and other payables*	95,430,295	95,430,295	-	-
Lease liabilities including current portion	14,923,729	15,506,061	14,976,606	529,455
	110,354,024	110,936,356	14,976,606	529,455

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

26.3 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.

26.3.1 Currency risk

The Company had no currency risk at year end (2021: Nil).

26.3.2 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:

	2022	2021	**2022**	2021
	%		**Rupees**	Rupees
Fixed rate instruments				
Lease liability including current portion	**12.96%**	9.14%	**66,161,383**	14,923,729
Variable rate instruments				
Bank balances	**5.5% to 12.3%**	5.5% to 6%	**1,527,167,074**	606,430,649

(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.

	Profit or loss	
	100 basis points increase	**100 basis points decrease**
	Rupees	
Cash flow sensitivity		
Variable rate instruments		
30 June 2022	**15,271,671**	**(15,271,671)**
30 June 2021	6,064,306	(6,064,306)

26.4 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 26.5.1. 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

26.4.1 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.

26.4.2 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.

26.5 Financial instruments and risk management (continued)

26.5.1 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	Total	Level 1	Level 2	Level 3	Total
	Rupees				Rupees			
30 June 2022								
Financial assets not measured at fair value								
Cash and cash equivalents	-	1,527,828,655	-	1,527,828,655	-	-	-	-
Deposits	-	2,161,500	-	2,161,500	-	-	-	-
Trade debts	-	29,479,446	-	29,479,446	-	-	-	-
Receivable from Energy and Power Department of GoKPK - gross	-	214,634	-	214,634	-	-	-	-
Other receivable	-	219,516	-	219,516	-	-	-	-
	-	1,559,903,751	-	1,559,903,751	-	-	-	-
Financial liabilities not measured at fair value								
Lease liabilities including current portion	-	-	66,161,383	66,161,383	-	-	-	-
Trade and other payables	-	-	1,672,658,620	1,672,658,620	-	-	-	-
	-	-	1,738,820,003	1,738,820,003	-	-	-	-
30 June 2021								
Financial assets not measured at fair value								
Cash and cash equivalents	-	606,722,455	-	606,722,455	-	-	-	-
Deposits	-	2,161,500	-	2,161,500	-	-	-	-
Trade debts	-	33,688,863	-	33,688,863				
Receivable from Energy and Power Department of GoKPK - gross	-	214,634	-	214,634	-	-	-	-
Other receivable	-	219,516	-	219,516	-	-	-	-
	-	643,006,968	-	643,006,968	-	-	-	-
Financial liabilities not measured at fair value								
Lease liabilities including current portion	-	-	14,923,729	14,923,729	-	-	-	-
Trade and other payables	-	-	95,430,295	95,430,295	-	-	-	-
	-	-	110,354,024	110,354,024	-	-	-	-

27 Number of employees

	2022	2021
Total number of employees at year end		
- Contractual	**125**	117
- Daily wagers	**12**	30
	137	147
Average number of employees at year end		
- Contractual	**121**	98
- Daily wagers	**21**	70
	142	168

28 Related party transactions

Government of Khyber Pakhtunkhwa owns 99.9% (2021: 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:

	2022 Rupees	2021 Rupees
Bank of Khyber, *government ownership*		
- Balance at 30 June	**1,519,572,349**	592,392,023
- Interest income on saving account	**65,900,360**	40,848,771
Pakhtunkhwa Energy Development Organization, *government ownership*		
- Other receivables	**214,634**	214,634
- Provision	**214,634**	214,634
Sui Northern Gas Pipeline Limited, *government ownership*		
- Sale of natural gas - net	**68,671,428**	68,503,704
- Trade debts	**24,024,896**	24,826,420
Joint operations		
- Exploration and prospecting expenditure	**815,742,906**	7,976,047
- Exploration and evaluation assets	**57,383,243**	89,284,246
- Development and production assets	**4,598,696**	6,025,915
- Acquisition of interest in joint arrangement	**691,357,613**	-
- Operating expenses	**114,744,002**	19,140,251
- Cash calls paid to joint venture partners	**125,922,430**	91,314,765
- Exchange gain / (loss)	**(9,779,471)**	3,728,401
- Advances to joint venture partners	**2,161,142**	2,161,142
- Payable to joint venture partners	**929,516,997**	49,960,792
Other government entities		
- Other receivables	**219,516**	219,516
Key management personnel		
- Remuneration of key management personnel (other than Chief Executive)	**21,926,034**	12,980,008

Chief Executive Officer, Chief Financial Officer, Company Secretary, Chief Internal Auditor, General Manager Explorations and General Manager Reservoirs are the key management personnel.

29 Remunerations of chief executive officer and executives

	2022		2021	
	Chief Executive Officer	**Executives**	Chief Executive Officer	Executives
		Rupees		
Managerial remuneration	**6,052,778**	**11,560,374**	13,090,908	14,551,330
Gratuity expense	**501,667**	**1,406,818**	1,200,000	2,397,133
Medical allowance	**218,182**	**315,246**	1,309,092	1,061,583
Other allowances and benefits	**2,715,389**	**4,774,544**	396,378	4,615,364
	9,488,016	**18,056,982**	15,996,378	22,625,410
Number of persons	**2**	**5**	**1**	**8**

- Executive means any employee whose basic salary exceeds Rs. 1,200,000 (2021: 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 10 directors (2021: 12) is Rs. 5,762,500 (2021: Rs. 6,325,000).

30 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 2022 %	Working interest 2021 %
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	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	Oil and Gas Development Company Limited	D.I. Khan, D.G. Khan, Layyah & Bhakkar	**2.05**	2.05
Paharpur Petroleum	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
Wali West	Mari Petroleum Company Limited	North Waziristan, South Waziristan, Tank District, Lakki Marwat and Bannu	**2.50**	-
Orakzai Petroleum	Oil and Gas Development Company Limited	Orakzai Agency, Kurram Agency and Hungo District	**20.00**	-
Tirah Petroleum Concession	Oil and Gas Development Company Limited	Khyber, Kurram and Orakzai Agencies	**15.00**	-

31 Events after the reporting period

The Company has evaluated subsequent events from the reporting date to the date of signing and authorising these financial statements, and determined that there are no items to disclose other than the following:

During the year the company was engaged in negotiations with DGPC for the swap of exploration rights of Lakki Block with Miran Block. Subequent to year end, on the 11th of January, 2023, Director General Petroleum Concessions during a meeting officially granted exploration rights in the Miran Block to KPOGCL in exchange for the Lakki Block as part of the negotiation. It was agreed that complete work progam for Laki block should be transferred to Miran block i.e at least a total 750 units for Miran block. Further, the PCA for Miran Block will be signed after fulfilment of social welfare, Training and rental obligation for Lakki block. Management believes that PCA will be signed in due course.

Khyber Pakhtunkhwa Oil and Gas Company Limited
Notes to the financial statements
For the year ended 30 June 2022

32 Corresponding figures

Corresponding figures have been re-arranged and re-classified, where necessary, for more appropriate presentation.

33 Date of authorisation

These financial statements were authorized for issue on 31-oct-23 by the Board of Directors of the Company.

Chief Executive

Director