

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Report of the Directors

The directors present their annual report which forms part of the audited annual financial statements for the company for the year ended 31 March 2018.

The Board acts as the accounting authority in terms of the PFMA.

1. Directors

The directors of the company during the year and at the date of this report are as follows:

Name	Designation	Reappointed	Term expired
Mr M Fusi	Non-Executive Chairperson	01 Jul 2018	30 Jun 2018
Ms B Luthuli	Non-Executive Independent Director	01 Mar 2018	28 Feb 2018
Ms R Nkambule	Non-Executive Director		
Mr L Nengovhela	Non-Executive Independent Director	17 Dec 2017	16 Dec 2017

Attendance at meetings:

Name	20/04/2017	26/05/2017	21/07/2017	26/01/2018	No. meetings attended during the year
Mr M Fusi	Y	Y	Y	Y	4
Ms B Luthuli	Y	Y	Y	Y	4
Ms R Nkambule	Y	Y	Y	Y	4
Mr L Nengovhela	Y	Y	Y	Y	4

Y = Attended meeting

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Report of the Directors

Board Audit and Risk Committees

The sub-committees consist of the following members:

Name	Designation
Ms B Luthuli	Non-Executive Independent Chairperson
Mr L Nengovhela	Non-Executive Independent

Attendance at meetings:

Name	20/04/2017	26/05/2017	20/07/2017	12/10/2017	07/11/2017	25/01/2018
Ms B Luthuli	Y	Y	Y	Y	Y	Y
Mr L Nengovhela	Y	Y	Y	Y	Y	Y

Y = Attended meeting

No meeting held for Risk committee on 26 May 2017 and 7 November 2017

These committees meet on a minimum of four occasions during the year. The internal auditors, AGSA and such members of Management as are deemed necessary also attend meetings. The Board delegates, to these committees, the responsibility for reviewing the internal controls and risk management processes of Petroleum Agency SA. In order to carry out their duties the committees review the findings of both the internal auditors and AGSA. In addition to the above, the committees review important accounting issues, material pending litigation (if applicable) and disclosure requirements in the annual financial statements.

The detailed responsibilities of these sub-committees of the Board are laid out in the report of the Board Audit and Risk Committees which forms part of these annual financial statements.

Board Human Resources Committee

The composition of the Board Human Resources Committee during the year under review is as follows:

Name	Designation
Mr L Nengovhela	Non-Executive Independent Chairperson
Ms E Letlape	Non-executive

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Report of the Directors

Attendance at meetings:

Name	19/04/2017	02/06/2017	18/07/2017	11/10/2017	23/01/2018
Ms E Letlape	Y	Y	Y	Y	Y
Mr L Nengovhela	Y	Y	Y	Y	Y

Y = Attended meeting
 N = Apology received
 N/A = Not a member at date of meeting

The Committee is responsible for managing human resource issues.

Board Technical Committee

This sub-committee consists of the following members:

Name	Designation	Appointed
Mr M Fusi	Non-Executive Chairperson	28 March 2018
Mr G Smith	Non-Executive	
Dr M De Pontes	Non-Executive	
Ms R Nkambule	Non-Executive	
Mr A Omar		

Attendance at meetings:

Name	18/04/2017	17/07/2017	10/10/2017	22/01/2018
Mr M Fusi	Y	Y	N	N
Ms R Nkambule	N	Y	Y	N
Mr G Smith	Y	Y	Y	Y
Dr M De Pontes	Y	Y	Y	Y

Y = Attended meeting
 N = Apology received

Certain members of Management, as deemed necessary, attend the meetings.

The Committee is responsible for the review of important technical issues that arise out of the application of the MPRDA. This function is delegated to the Committee by the Board.

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Report of the Directors

The operating results and state of affairs of the company are fully set out in the attached annual report and do not in our opinion require any further comment.

5. General review

The company's business and operations and the results thereof are clearly reflected in the attached financial statements.

There was no major change in the nature of the business. However, the MPRD Amendment Bill, which was tabled in Parliament in 2013, was initially passed and referred to the President for assent. It, amongst others, provides for the dissolution of the Agency. However, the President has considered the Bill and subsequently referred the Bill back to Parliament. The President was of the view that the MPRD Amendment Bill, which was passed by Parliament would not pass constitutional muster. As it stands, it is being reconsidered by Parliament.

6. Authorised and issued share capital

There were no changes in the authorised or issued share capital of the company during the year under review.

7. Significant changes in assets/investments

During the year under review, there were no significant changes to company assets or investments, with the exception that R57,2 million (2017: R 54,6 million) was received from operations.

8. Dividends

No dividends were declared or paid to the shareholder during the year (2017: R nil).

9. Holding company

The company's holding company is CEF SOC Limited incorporated in South Africa.

10. Going concern

The directors believe that the company will continue as a going concern in the year ahead. The company has received an allocation of funds from National Treasury via DMR for the 2018/19, 2019/20 and 2020/21 financial years.

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Report of the Directors

11. Operating results

The results of the company and the state of its affairs are set out in the attached annual financial statements and do not, in our opinion, require further comment.

The company's profit for the year amounted to R 38,3 million (2017: R 34,7 million loss). Despite not making profits the company experienced improved financial performance due to data revenue sharing agreements entered into with some international operators. The year on year improvement is mainly attributable to items listed below:

	R'millions
• Grants income received	87
• Increase in data sales	21

Overall, however, Petroleum Agency SA performed significantly better than anticipated at budget time due to focussed savings on budgeted operating costs, unfilled vacancies and lower capital expenditure. The company received for the first time Grants from DMR through MTEF process.

Profit/(loss) after taxation	2018	2017
Comprehensive income/(loss)	38 318	(34 707)

12. Materiality and significant framework

A materiality and significant framework has been developed for reporting losses through criminal conduct and irregular, fruitless and wasteful expenditure, as well as for significant transactions envisaged per section 54(2) of the PFMA that requires Ministerial approval. The framework was finalised after consultation with the AGSA and has been formally approved by the Board.

13. Subsequent events

The directors are not aware of any other matters or circumstances arising since the end of the financial year, not otherwise dealt with in the annual financial statements (see note 32), which significantly affect the financial position of Petroleum Agency SA or the results of its operations.

14. Other activities administered by Petroleum Agency SA

Petroleum Agency SA administers the ECSC project in terms of a Ministerial Directive.

Under the administration of the Petroleum Agency SA, UTT continued to provide bursaries to students and to contribute monies to various approved and industry related projects.

Mr M Fusi
Chairperson

Ms B Luthuli
Director

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Report of the Board Audit Committee

We are pleased to present our report for the financial year ended 31 March 2018.

1. Charter

The Audit Committee is guided by a detailed charter that is reviewed and approved by the Board on an annual basis. The Board Audit Committee has regulated its affairs in compliance with this charter and have discharged all its responsibilities as contained therein.

2. Purpose

The committee's purpose and responsibilities arise from the Companies Act, PFMA, Section 76 (4)(d) and Treasury Regulations 27.1. In performing its responsibilities the Committee has reviewed the following:

- the effectiveness of the internal control systems;
- the effectiveness of the internal audit function;
- the risk areas of operations to be covered in the scope of the internal and external audits;
- the adequacy, reliability and accuracy of financial information provided to management and other users of such information;
- the accounting and auditing concerns identified as a result of the internal or external audits;
- compliance with applicable legal and regulatory provisions;
- the activities of the internal audit function, including its annual work programme, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations; and
- the independence and objectivity of the external auditors.

3. Membership

The Audit Committee members were appointed by the Board and comprise of at least three non-executive members. The committee consists of the members listed hereunder and should meet at least twice per annum as per the approved charter. Due to the resignation of one of its members, a vacancy exists at 31 March 2018.

Name of members	Board Audit Committee meetings attended
Ms B Luthuli (Chairperson)	6
Mr L Nengovhela	6

4. External Audit

The Audit Committee, in consultation with executive management, agreed to the engagement letter, terms, nature and scope of the external audit plan as presented by the AGSA.

We have reviewed the AGSA Strategic Audit Plan for the 2018 financial year and have recommended approval of their budget to the Board. The Audit Committee has satisfied itself that the AGSA exercised their duties in an independent and objective manner.

5. Internal Audit

The Audit Committee considered and recommended the group internal audit charter, as approved by the CEF Board, to the Board for approval and approved the annual work plan for the internal audit function. The internal audit function is responsible for reviewing and providing assurance on the adequacy of the internal control environment across operations. The Chief Audit Executive is responsible for reporting the findings of the internal audit work against the agreed audit plan to the Audit Committee on a quarterly basis.

The Chief Audit Executive has direct access to the Audit Committee, primarily through its chairperson. The Audit Committee is also responsible for the assessment of the performance of the internal audit function. In 2013, an external effectiveness review was performed by the IIA, reporting positive results and rating the internal audit function as "general conformance" with the IIA Standards.

The internal audit function is independent and has the necessary resources, budget, standing and authority within the organisation to enable it to discharge its functions. The Chief Audit Executive reports functionally to the chairperson.

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Report of the Board Audit Committee

We are satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the company in its audits. The Audit Committee believe internal audit contributes to the improvement of internal controls within the company.

6. Internal Control Effectiveness

The Audit Committee is satisfied that a system of internal control has been put in place and that these controls have functioned effectively during the period under review. The Audit Committee considers the system of internal control appropriate in all material respects to:

- reduce risks to an acceptable level;
- meet the business objectives;
- ensure assets are adequately safeguarded; and
- ensure that transactions undertaken are recorded in the accounting records.

Internal audit provides the Audit Committee with some assurance that internal controls are appropriate and effective. This is achieved by means of a risk-based audit approach for the development of their annual audit plan which is approved by the committee. This oversight by internal audit results in the identification of corrective action and suggested enhancements to the controls and processes.

It was noted that no significant or material non-compliance with prescribed policies and procedures has been reported. Accordingly, we can report that the system of internal control for the period under review was efficient and effective.

7. Corporate Governance

We are of the opinion that the company continues to strive towards complying with sound principles of corporate governance. In discussions with management, management confirms that the content and quality of monthly and quarterly reports prepared and issued by the Acting CEO during the year under review were properly formulated and have complied with the PFMA in this regard.

8. Risk Management

The Board assigned the oversight of the risk management function to the Risk Committee. Petroleum Agency SA implemented a risk management strategy which includes the fraud prevention plan and combined assurance plan. The Risk Committee monitored the significant risks faced by Petroleum Agency SA through reviewing risk reporting and participation in the risk assessment workshop. The Risk Committee is satisfied that significant risks were managed to an acceptable level.

9. Audited Annual Financial Statements

The Audit Committee has:

- Reviewed and discussed with management the audited annual financial statements; and
- Reviewed and discussed with management the audited performance information.

10. Conclusion

We therefore recommend that the Board approve the audited annual financial statements and performance information.

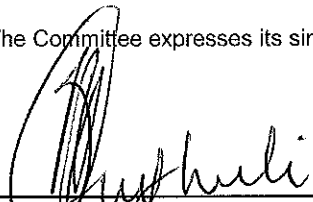
**SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND
EXPLOITATION SOC LIMITED**

Audited Annual Financial Statements for the year ended 31 March 2018

Report of the Board Audit Committee

11. Appreciation

The Committee expresses its sincere appreciation to the Acting CEO, management, internal audit and the AGSA.



Ms B Luthuli
Chairperson

18 July 2018

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Materiality and Significant Framework

For the purpose of material (as per PFMA sections 50(1) and 55(2)) and significant (as per PFMA section 54(2)) the following framework of acceptable levels were agreed with the Executive Authority:

- Section 50(1) - Material facts to be disclosed to the Ministers of Mineral Resources and Energy are considered to be facts that may influence the decisions or actions of the Stakeholders of the Public Entity or the Group of Companies.
- Section 55(2) - Disclosure of material losses in the annual financial statements will be for all losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year.
- Section 54(2) - The criteria to determine the level of significant was based upon the guiding principles as set out in the "Practice Note on applications under Section 54 of the PFMA, No 1 of 1999 (as amended) by Public Entities" as published by National Treasury during 2006 subject to adjustments for any Section 54(4) exemptions. The significant level was determined as being 2% of Total Assets as follows:

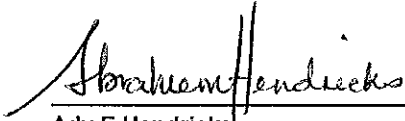
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|---|--------------------------------------|
| 1. Approval by Petroleum Agency SA Board | =<R 4,8 million |
| 2. CEF Board approval | > R 4,8 million and =< R 716 million |
| 3. DOE and DMR approval and National Treasury information via CEF | > R716 million |

**SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND
EXPLOITATION SOC LIMITED**

Audited Annual Financial Statements for the year ended 31 March 2018

Company Secretary's Certificate

In my capacity as Company Secretary, I hereby certify, except where otherwise mentioned in the annual financial statements, that for the year ended 31 March 2018, the company has lodged with the Commissioner all such returns and notices as are required of a company in terms of Section 88(2)(e) of the Companies Act, No 71 of 2008, as amended and that all such returns are to the best of my knowledge and belief, correct and up to date.



Adv E Hendricks
Company Secretary

19 July 2018

**SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND
EXPLOITATION SOC LIMITED**

Audited Annual Financial Statements for the year ended 31 March 2018

Statement of Financial Position as at 31 March 2018

Figures in Rand thousand	Note(s)	2018	2017
Assets			
Non-Current Assets			
Property, plant and equipment	3	7 556	7 579
Intangible assets	4	6 277	7 052
		<u>13 833</u>	<u>14 631</u>
Current Assets			
Inventories	5	341	358
Other financial assets	6	228 771	171 611
Trade and other receivables	7	4 930	23 542
Cash and cash equivalents	8	387	369
		<u>234 429</u>	<u>195 880</u>
Total Assets		<u>248 262</u>	<u>210 511</u>
Equity and Liabilities			
Equity			
Share capital	9	-	-
Retained income		229 460	191 142
		<u>229 460</u>	<u>191 142</u>
Liabilities			
Non-Current Liabilities			
Environment deposits	12	382	364
Current Liabilities			
Operating lease liability	13	1 111	1 731
Trade and other payables	14	6 044	6 598
Provisions	10	9 165	8 576
Operation Phakisa	35	2 100	2 100
		<u>18 420</u>	<u>19 005</u>
Total Liabilities		<u>18 802</u>	<u>19 369</u>
Total Equity and Liabilities		<u>248 262</u>	<u>210 511</u>

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Statement of Profit or Loss and Other Comprehensive Income

Figures in Rand thousand	Note(s)	2018	2017
Revenue	15	45 059	62 141
Allocation received	17	87 138	-
Other income	16	3 433	201
Operating expenses		(113 466)	(112 359)
Operating profit/(loss)	18	22 164	(50 017)
Finance income	20	16 269	15 310
Finance costs	21	(115)	-
Profit/(loss) for the year		38 318	(34 707)
Other comprehensive income		-	-
Total comprehensive profit/(loss)		38 318	(34 707)

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Statement of Changes in Equity

Figures in Rand thousand	Share capital	Retained income	Total equity
Balance at 01 April 2016	-	225 849	225 849
Changes in equity			
Total comprehensive loss for the year	-	(34 707)	(34 707)
Total changes	-	(34 707)	(34 707)
Balance at 01 April 2017	-	191 142	191 142
Changes in equity			
Total comprehensive income for the year	-	38 318	38 318
Total changes	-	38 318	38 318
Balance at 31 March 2018	-	229 460	229 460
Note(s)	9		

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Statement of Cash Flows

Figures in Rand thousand	Note(s)	2018	2017
Cash flows from operating activities			
Cash receipts from customers	23	148 268	32 827
Cash paid to suppliers and employees	24	(104 406)	(100 024)
Cash utilised in operations	25	43 862	(67 197)
Finance income		16 269	15 310
Finance costs		(115)	-
Net cash (outflow)/inflow from operating activities		60 016	(51 887)
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(2 671)	(2 308)
Purchase of other intangible assets	4	(167)	(348)
Net movement in other financial assets		(57 160)	54 566
Net cash inflow/(outflow) from investing activities		(59 998)	51 910
Cash and cash equivalents movement for the year		18	23
Cash and cash equivalents at the beginning of the year		369	346
Cash and cash equivalents at end of the year	8	387	369

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Accounting Policies

1. Presentation of Annual Report

The following are the principal accounting policies used by Petroleum Agency SA.

1.1 Basis of preparation

Accounting Framework

The annual financial statements are prepared in accordance with International Financial Reporting Standards, and the Companies Act, 71 of 2008.

The annual financial statements are prepared under the historical cost basis except where otherwise specified.

These annual financial statements are presented in South African Rands. Rounding is to the nearest Rand in Thousands.

Assets and liabilities or income and expenditure will not be offset unless it is required or permitted by a standard.

1.2 Translation of foreign currencies

Transactions

Foreign currency transactions are recognised, initially in Rand by applying the foreign currency amount to the exchange rate between the Rand and the foreign currency at the date of the transaction, and are restated at each reporting date by using the ruling exchange rate at that date.

Statement of Financial Position

At each reporting date

- foreign currency monetary items are measured using the closing rate;
- non-monetary items, which are carried in terms of historical cost denominated in a foreign currency, are reported using the exchange rate at the date of the transaction; and
- non-monetary items, which are carried at fair value denominated in a foreign currency, are reported using the exchange rates that existed when the values were determined.

Exchange differences

Exchange differences arising on the settlement of monetary items or on reporting a company's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous annual financial statements, are recognised as income or expenses in the period in which they arise.

1.3 Subsequent events

Recognised amounts in the annual financial statements are adjusted to reflect events arising after the reporting date that provide evidence of conditions that existed at the reporting date. Events after the reporting date that are indicative of conditions that arose after the reporting date are dealt with by way of a note.

1.4 Comparative figures

Comparative figures are restated in the event of a change in accounting policy or prior period error.

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Accounting Policies

1.5 Property, plant and equipment

Property, plant and equipment represents tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.

Carrying amounts

All property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost

Cost includes all costs directly attributable to bringing the assets to the working condition for their intended use. Improvements are capitalised. Maintenance, repairs and renewals which neither materially add to the value of assets nor appreciably prolong their useful lives are charged against income.

Finance costs directly associated with the construction or acquisition of major assets are capitalised at interest rates relating to loans specifically raised for that purpose, or at the average borrowing rate where the general pool of borrowings is utilised.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Depreciation

Depreciation is charged so as to write off the depreciable amount of the assets over their estimated useful lives to estimated residual values, using the straight-line or other acceptable basis to write off the cost of each asset that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the entity.

Where significant parts of an item have different useful lives to the item itself, these parts are depreciated over their estimated useful lives.

The following methods and rates were used during the year to depreciate property, plant and equipment to estimated residual values:

Item	Average useful life
Furniture, fittings and office equipment	3 - 20 years
Motor vehicles	5 - 13 years
Computer equipment	3 - 19 years
Mainframe software	3 - 14 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Improvements to leased premises are written off over the period of the lease.

1.6 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Accounting Policies

Intangible assets are initially recognised at cost less accumulated amortisation and accumulated impairments if acquired separately or internally generated or, at fair value if acquired as part of a business combination. If assessed as having an indefinite useful life, the intangible asset is not amortised but tested for impairment annually and impaired if necessary. If assessed as having a finite useful life, it is amortised over its useful life using the straight-line basis and tested for impairment if there is an indication that it may be impaired.

Development costs are capitalised only if they result in an asset that can be identified, it is probable that the asset will generate future economic benefits and the development cost can be reliably measured. Otherwise it is recognised in profit or loss.

Purchased software and the direct costs associated with the customisation and installation thereof, is capitalised.

Item	Useful life
Computer software	2 - 10 years

1.7 Impairment of non-financial assets

The carrying amounts of non-financial assets, other than inventories, 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. Indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset 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 assessments of the time value of money and the risks specific to the asset. For impairment testing, assets 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.

Impairment losses are recognised in profit or loss.

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 amortisation, if no impairment loss had been recognised.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases are recognised as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments at the date of the acquisition. Finance costs represent the difference between the total leasing commitments and the fair value of the assets acquired. Finance costs are charged to profit or loss over the term of the lease at the interest rates applicable to the lease on the remaining balance of the obligations.

Rentals payable under operating leases are recognised in profit or loss on a straight-line basis over the term of the relevant lease, where significant, or another systematic basis if more representative of the time pattern of the user's benefit.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Contingent rentals are recognised in profit or loss as they accrue.

1.9 Inventories

Inventories are stated at the lower of cost on an item by item cost basis, and net realisable value, less an appropriate provision for obsolescence, in arriving at the net realisable value.

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Accounting Policies

1.10 Financial instruments

Recognition

Financial assets and financial liabilities are recognised on the company's Statement of Financial Position when the company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities as a result of firm commitments are only recognised when one of the parties has performed under the contract.

Financial instruments recognised on the Statement of Financial Position include cash and cash equivalents, trade receivables, investments and trade payables.

Measurement

Financial assets and liabilities are initially measured at fair value, plus transaction costs. However transaction costs of financial assets and liabilities classified as at fair value through profit or loss are expensed. Subsequent measurement will depend on the classification of the financial instrument as detailed below.

Financial assets

The company's principal financial assets are investments, accounts receivable and cash and cash equivalents.

All financial assets, except for those at fair value through profit or loss, are subject to review for impairment at each accounting date.

The Company's financial assets have been classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest (EI) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EI. The EI amortisation is included in finance income in the statement of comprehensive income.

Impairment of financial assets

A financial asset is assessed at each reporting period date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

Financial assets measured at amortised cost

The Company considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Accounting Policies

1.10 Financial instruments (continued)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and instruments which are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are stated at amortised cost.

Financial liabilities

The company's principal financial liability is accounts payable.

Financial liabilities are stated initially on the transaction date at fair value including transaction costs. Subsequently all financial liabilities are measured at amortised cost using the effective interest method, comprising original debt less principal payments and amortisations.

Derivative financial instruments

Derivative financial instruments, principally foreign exchange contracts, are used by the company in its management of financial risks for material transactions.

Derivative financial instruments are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Gains and losses on subsequent measurement

All gains and losses arising from a change in fair value of or, on disposal of held for trading financial assets are recognised in profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired or
- the Company has transferred its rights to receive cash flows from the asset or
- the Company has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and, either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Accounting Policies

1.10 Financial instruments (continued)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Fair value considerations

The fair values at which financial instruments are carried at the reporting date have been determined using available market prices. Where market prices are not available, fair values have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values have been estimated using available market information and appropriate valuation methodologies, but are not necessarily indicative of the amounts that the company could realise in the normal course of business. The carrying amounts of financial assets and financial liabilities with a maturity of less than one year are assumed to approximate their fair values due to the short-term trading cycle of these items.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the company has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

1.11 Post-employment benefit costs

The company operates a defined contribution plan

Defined contribution costs

The company contributes to a defined contribution plan, the assets of which are held in a separate, Trustee administered, fund. The plan is funded by payments from the company, taking account of the recommendations of independent qualified actuaries.

Contributions to a defined contribution plan in respect of service in a particular period are recognised as an expense in that period.

1.12 Provisions

Provisions represent liabilities of uncertain timing or amounts.

Provisions are recognised when a present legal or constructive obligation exists, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation.

Provisions are measured at the expenditure required to settle the present obligation. Where the effect of discounting is material, provisions are measured at their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks for which future cash flow estimates have not been adjusted.

1.13 Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably. The measurement is at the fair value received or receivable net of VAT, cash discounts, rebates and settlement discounts.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred, when delivery has been made and title has passed, when the amount of the revenue and the related costs can be reliably measured and when it is probable that the debtor will pay for the goods.

Revenue from license fees is recognised on an accrual basis in accordance with the substance of the relevant agreements.

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Accounting Policies

1.14 Finance income

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

For all financial instruments measured at amortised cost, interest income or expense is recorded using the effective interest rate, which is the rate that discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest revenue is included in finance income in the statement of profit or loss and other comprehensive income.

1.15 Taxation

Tax expenses

Petroleum Agency SA is exempt from the payment of tax.

1.16 Finance costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

1.17 Irregular and fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including

- the PFMA, or
- Any provisional legislation providing for procurement procedures in that provincial government.

Fruitless and wasteful expenditure means expenditure that was made in vain and would have been avoided had reasonable care been exercised.

All irregular and fruitless and wasteful expenditure is charged against income in the period in which it is incurred.

All unauthorised, irregular or fruitless and wasteful expenditure is disclosed as a note to the annual financial statements of the company

1.18 Government grants and assistance

When the conditions attaching to government grants have been met and have been received, they are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs.

1.19 Related parties

The services received or rendered from, or to, related parties arise mainly from service transactions, including management fees, for services performed on behalf of the company.

The receivables from related parties arise mainly from service transactions and are due one month after the date of services. The receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

The payables to related parties arise mainly from service transactions, including management fees, and are due one month after the date of purchase. The payables bear no interest.

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Accounting Policies

1.20 Key accounting judgements and key sources of estimation uncertainty

Critical accounting estimates and judgements

In preparing the annual financial statements in terms of IFRS, management is required to make certain estimates and assumptions that may materially affect reported amounts of assets and liabilities at the date of the annual financial statements and the reported amounts of revenues and expenses during the reported period and the related disclosures. As these estimates and assumptions concern future events, due to the inherent uncertainty involved in this process, the actual results often vary from the estimates. These estimates and judgements are based on historical experience, current and expected future economic conditions and other factors, including expectations of the future events that are believed to be reasonable under the circumstances.

Significant judgements include:

Impairments and impairment reversals

Impairment tests are performed when there is an indication of impairment of assets or a reversal of previous impairments of assets. Management therefore has implemented certain impairment indicators and these include movements in exchange rates, commodity prices and the economic environment its businesses operate in. Estimates are made in determining the recoverable amount of assets which include the estimation of cash flows and discount rates used. In estimating the cash flows, management base cash flow projections on reasonable and supportable assumptions that represent managements best estimate of the range of economic conditions that will exist over the remaining useful life of the assets, based on publicly available information. The discount rates used are pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the assets for which the future cash flow estimates have not been adjusted.

Contingent liabilities

Management considers the existence of possible obligations which may arise from legal action as well as the possible non-compliance of the requirements of completion guarantees and other guarantees provided. The estimation of the amount disclosed is based on the expected possible outflow of economic benefits should there be a present obligation.

Evaluation of the useful life of assets

On an annual basis, management evaluate the useful life of all assets. In carrying out this exercise, experience of assets historical performance and the medium-term business plan are taken into consideration.

1.21 Financial control principles

This section highlights the overriding financial controls and principles that will be applied in the financial management of the company.

Operating budget and forecast

Budgeting will be carried out annually. The annual operating budget will be submitted for approval by the Board before the commencement of the relevant financial year.

Half-yearly forecasts are performed to update management and the Board on performance of the company. These take into account the prevailing economic circumstances and associated risks.

A detailed monthly budget will be prepared for the current year and annually for the three ensuing financial years taking into account the results to date and any major changes in circumstances and key economic indicators.

Specific key performance indicators (KPI's) will be reported upon quarterly

Capital budgeting

A Capital Expenditure plan will be submitted to the Board for approval annually with the Operating Budget.

Capital projects will be ranked according to risks and returns. Motivations for expenditure on capital projects will incorporate a cash flow statement as well as return on investment, internal rate of return and payback period calculations.

SOUTH AFRICAN AGENCY FOR PROMOTION OF PETROLEUM EXPLORATION AND EXPLOITATION SOC LIMITED

Audited Annual Financial Statements for the year ended 31 March 2018

Accounting Policies

Cash flows

Cash flow forecasts will be prepared together with the annual operating budget. Monthly cash flow forecasts will be prepared to facilitate effective cash management.

Levels of authority

1. A level of authority for the CEO and the Management Committee will be set by the Board of Directors from time to time.
2. The CEO and Management Committee may delegate their authority within the organisational hierarchy in order to ensure that authorisations are given by informed officials of the company in a way that contributes to effective management and control of the business.

Segregation of duties

Duties will be allocated in a way that recognises the principle of segregation of duties, thereby ensuring that a single employee cannot control all aspects of a particular transaction.

Documentation of procedures

All financial procedures will be documented .

Risk analysis

Risk analyses will be carried out and risk matrices updated on an ongoing basis or as required.

These analyses will be used to determine the business or financial internal controls required to address the identified risks.