

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

Audited Annual Financial Statements for the year ended 31 March 2018

Notes to the Annual Financial Statements

2. New Standards and Interpretations

2.1 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 April 2018 or later periods:

IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the company are as follows:

Company as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

Sale and leaseback transactions:

- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.
- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-of-use asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after 01 January 2019.

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2. New Standards and Interpretations (continued)

The company expects to adopt the standard for the first time in the 2020 annual report.

It is unlikely that the standard will have a material impact on the company's annual report.

Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendment to IFRS 4 provides a temporary exemption, allowing insurers to apply IAS 39 rather than IFRS 9. The exemption only applies in certain circumstances and only for annual periods beginning before 1 January 2021.

The exemption also introduces an "overlay approach" in specific circumstances. This approach requires the insurer to reclassify an amount between other comprehensive income and profit or loss. This results in the profit or loss for designated financial assets being the same as if the insurer had applied IAS 39 rather than IFRS 9.

The effective date of the amendment is for years beginning on or after 01 January 2018.

The company expects to adopt the amendment for the first time in the 2019 annual report.

It is unlikely that the amendment will have a material impact on the company's annual report.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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2. New Standards and Interpretations (continued)

The effective date of the standard is for years beginning on or after 01 January 2018.

The company expects to adopt the standard for the first time in the 2019 annual report.

It is unlikely that the standard will have a material impact on the company's annual report.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after 01 January 2018.

The company expects to adopt the standard for the first time in the 2019 annual report.

It is unlikely that the standard will have a material impact on the company's annual report.

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Figures in Rand thousand

3. Property, plant and equipment

	2018		2017			
	Cost/ Valuation	Accumulated depreciation	Carrying value	Cost/ Valuation	Accumulated depreciation	Carrying value
Leasehold property	1 873	(1 342)	531	1 873	(1 170)	703
Furniture and fixtures	3 127	(2 620)	507	3 127	(2 500)	627
Motor vehicles	253	(231)	22	253	(211)	42
Office equipment	1 346	(1 065)	281	1 346	(946)	400
IT equipment	11 478	(5 379)	6 099	12 517	(6 972)	5 545
Computer software	2 344	(2 228)	116	2 344	(2 082)	262
Total	20 421	(12 865)	7 556	21 460	(13 881)	7 579

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Leasehold property	703	-	-	(172)	531
Furniture and fixtures	627	-	-	(120)	507
Motor vehicles	42	-	-	(20)	22
Office equipment	400	-	-	(119)	281
IT equipment	5 545	2 671	(622)	(1 495)	6 099
Computer software	262	-	-	(146)	116
	7 579	2 671	(622)	(2 072)	7 556

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Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Depreciation	Total
Leasehold property	827	46	(170)	703
Furniture and fixtures	812	-	(185)	627
Motor vehicles	62	-	(20)	42
Office equipment	497	27	(124)	400
IT equipment	4 647	2 235	(1 337)	5 545
Computer software	413	-	(151)	262
	7 258	2 308	(1 987)	7 579

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company.

No borrowing costs were capitalised.

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4. Intangible assets

	2018		2017			
	Cost / Valuation	Accumulated amortisation	Carrying value Valuation	Accumulated amortisation	Carrying value	
Computer software	12 176	(5 899)	6 277	12 594	(5 542)	7 052

Reconciliation of intangible assets - 2018

	Opening Balance	Additions	Amortisation	Total
Computer software	7 052	167	(942)	6 277

Reconciliation of intangible assets - 2017

	Opening Balance	Additions	Amortisation	Total
Computer software	1 366	6 901	(1 215)	7 052

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5. Inventories

Consumables	341	358
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6. Other financial assets

Receivables

Short-term investment with holding company	228 771	171 611
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In terms of a written agreement between Petroleum Agency SA and CEF, CEF acts as a central treasury which invests cash on behalf of, and provides short-term funding to, Petroleum Agency SA. Whilst credit balances placed with CEF are unlimited, debit balances should not exceed R5 million. Facilities are reviewed annually and should larger facilities be required special loan arrangements will have to be negotiated.

Credit balances invested by CEF earn the average NACM return on the total money market portfolio of CEF less 0.15% per annum. Debit balances are charged at the NACM return on the total money market portfolio, plus 0.15%.

7. Trade and other receivables

Trade receivables	375	23 238
Allowance for doubtful debts	(7)	(2 601)
Prepayments	1 977	1 050
Deposits	82	82
VAT	746	337
Intergroup receivables	1 563	978
Allowance for credit notes	-	(977)
Staff study loan	64	140
Sundry receivables	130	1 295
	4 930	23 542

Age analysis

	Current	30 days	60 days	> 90 days	Total
31 March 2018					
Trade receivable non-related parties	68	299	-	8	375
Trade receivable related parties	5	-	-	-	5
	73	299	-	8	380
31 March 2017					
Trade receivable non-related parties	1 286	18 940	114	2 898	23 238

Of the trade receivables book there was a no significant balance outstanding. Terms of payment vary but will be subjected to a limitation of 30 days from receipt of invoices as prescribed in PFMA.

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Figures in Rand thousand

7. Trade and other receivables (continued)

Trade and other receivables past due but not impaired

Trade and other receivables which are past due but deemed recoverable are not considered to be impaired. At 31 March 2018, R - million (2017: R 19,0 million) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	-	18 940
2 months past due	-	45

Trade and other receivables impaired

As of 31 March 2018, trade and other receivables of R 6 (2017: R 2,601) were impaired and provided for.

The ageing of these trade receivables is as follows:

3 to 6 months	-	68
Over 6 months	8	2 898

Reconciliation of provision for impairment of trade and other receivables

Balance at beginning of year	2 601	5 253
Impairment losses recognised on receivables	4 809	1 659
Amounts recovered during the year	-	(372)
Amounts written off	(7 404)	(3 939)
	<u>6</u>	<u>2 601</u>

8. Cash and cash equivalents

Cash on hand	5	5
Deposits held in trust	382	364
	<u>387</u>	<u>369</u>

9. Share capital

Authorised

1000 Ordinary par value shares of R1 each	<u>1</u>	<u>1</u>
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Issued

1 Ordinary par value share of R1	<u>-</u>	<u>-</u>
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10. Provisions

Reconciliation of provisions - 2018

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Bonus provision	8 440	9 014	(8 437)	(2)	9 015
WCA provision	136	150	(136)	-	150
	8 576	9 164	(8 573)	(2)	9 165

Reconciliation of provisions - 2017

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Bonus provision	8 692	8 440	(8 459)	(233)	8 440
WCA provision	112	308	-	(284)	136
	8 804	8 748	(8 459)	(517)	8 576

Bonus

The provision is for incentives for employees who qualify in terms of their performance during the financial year.

Company makes a provision for Workmens Compensation (WCA) which is calculated annually by the Compensation for Occupational Injuries and Diseases Act (COID) based on remuneration and other factors. A provision as a percentage of total payroll has been made.

11. Employee benefits

Petroleum Agency Retirement Fund

The company contributions for the year amounted to R8,6 million (2017: R 7,9 million).

12. Environment deposits

These relate to cash deposits received from operators and licencees in terms of issued rights and permits.

The environmental deposits can only be paid back to the holder on relinquishment of the right in terms of section 43 of the MPRDA and on the granting of a closure certificate by the Minister.

Environmental deposits	382	364
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13. Operating lease liability

Lease smoothing obligation	1 111	1 731
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14. Trade and other payables

Trade payables	1 581	1 879
Amounts received in advance	6	6
Intergroup payables	363	396
Accrued leave pay	3 210	3 142
Sundry creditors	884	1 175
	<u>6 044</u>	<u>6 598</u>

Terms of payments varies from COD especially for foreign vendors to between 7 - 30 days on receipt of invoice for all other vendors.

15. Revenue

Major classes of revenue comprise:

Exploration permits	14 547	12 809
Licence and application fees	109	220
Data sales and revenue sharing	30 403	49 112
	<u>45 059</u>	<u>62 141</u>

16. Other income

Profit and loss on exchange differences	546	-
Recoveries	1 352	47
Non-cash revenue ie operators obligation	1 268	129
Other income	267	25
	<u>3 433</u>	<u>201</u>

17. Allocation received

The company receives an MTEF allocation from NT via DMR to fund operations as provided for in MPRDA.

Grants from DMR	<u>87 138</u>	<u>-</u>
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18. Operating profit/(loss)

Operating (loss)/profit for the year is stated after accounting for the following:

Remuneration, other than to employees, for:

Managerial services	1 665	1 652
Internal audit services	555	589
Treasury services	308	300
	<u>2 528</u>	<u>2 541</u>

Operating lease charges

Premises		
• Contractual amounts	7 151	8 856
Equipment		
• Contractual amounts	472	472
	<u>7 623</u>	<u>9 328</u>

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Figures in Rand thousand	2018	2017
18. Operating profit/(loss) (continued)		
Doubtful debts provision	(2 595)	(2 651)
Bad debts write off	7 389	8 602
Promotional expenses	839	509
Travel and subsistence	2 254	1 703
Software maintenance	4 586	3 696
Consultants	932	996
Other immaterial aggregated expenses	9 785	9 582
(Gains)/losses on exchange differences	(547)	351
Amortisation on intangible assets	942	1 215
Depreciation on property, plant and equipment	2 073	1 987
Employee costs	67 412	66 296
Amount expended in respect of retirement benefit plans:	8 627	7 931
Defined contribution funds	8 627	7 931
19. Auditors' remuneration		
Fees - current year	13	-
Fees - prior year	1 058	624
	1 071	624
20. Finance income		
Interest charged on trade and other receivables	504	-
Interest earned	15 765	15 310
	16 269	15 310
Total finance income, calculated using the effective interest rate, on financial instruments not at fair value through profit or loss amounted to R 504 (2017: R -).		
21. Finance costs		
Amortisation of trade and other payables	115	-
Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through profit or loss amounted to R 115 (2017: R -).		
22. Taxation		
As it is an Agent of the State in terms of the MPRDA, Petroleum Agency SA is exempt from paying taxation.		
23. Cash receipts from customers		
Revenue	45 059	62 141
Other income	3 433	201
Allocation received	87 138	-
Non-cash exchange revenue	(1 180)	(6 553)
Movement in trade and other receivables	13 818	(22 962)
	148 268	32 827

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24. Cash paid to suppliers and employees		
Operating costs	(113 466)	(112 359)
Movement in inventories	17	(25)
Movement in provisions	589	(228)
Movement in rehabilitation	18	(57)
Movement in trade and other payables	(1 174)	1 613
Non-cash items	9 610	8 932
Operation Phakisa	-	2 100
	<u>(104 406)</u>	<u>(100 024)</u>
25. Cash utilised in operations		
Loss for the year	38 318	(34 707)
Adjustments for:		
Depreciation	2 072	1 987
(Profit)/loss on sale of assets	622	-
Amortisation	942	1 215
Provision for doubtful debts/Bad debts	4 794	5 730
Finance income received	(16 269)	(15 310)
Finance costs	115	-
Non-cash expense items	1 180	-
Movements in provisions and non-cash items	589	(228)
Non- cash exchange revenue	(1 180)	(6 553)
Rehabilitation amount held in trust	18	(57)
Capacity building Phakisa funding	-	2 100
Changes in working capital:		
Inventories	17	(25)
Trade and other receivables	13 818	(22 962)
Trade and other payables	(1 174)	1 613
	<u>43 862</u>	<u>(67 197)</u>

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Figures in Rand thousand	2018	2017
26. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	1 193	558
All other current contracts relate to transactions in the normal course of the operation of the business.		
 Operating lease commitments		
- within one year	8 740	8 529
- in second to fifth year inclusive	5 336	12 741
	<u>14 076</u>	<u>21 270</u>

Suite 3 Tygerpoort in Bellville

Petroleum Agency SA leases office space from Sulnisa Property for a period of five years ending 30 September 2019. The initial lease payment was fixed at R530 082 per month, with a CPI linked escalation.

Milnerton

Petroleum Agency SA leased storage space from SFF Association for a period of three years ending 31 March 2021. The initial lease payment is fixed at R47 339 per month, with a CPI linked escalation per annum. The company has an option to renew the lease.

Airport Industria

Petroleum Agency SA leases storage space at Modderdam Road, Airport Industria from Redefine Properties which expires on 30 June 2018. The lease payment is fixed at R11 785 per month, with no escalation clause per annum. The company has an option to renew the lease.

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Figures in Rand thousand	2018	2017
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27. Financial instruments

Introduction

The company has a risk management function and makes use of the treasury function of CEF that manages the financial risks relating to the company's operations. The company's liquidity, credit, foreign exchange and interest rate risks are monitored continually. Approved policies exist for managing these risks.

Risk profile

In the course of the company's business operations it is exposed to liquidity, credit, foreign exchange and interest rate risks. The risk management policy of the company relating to each of these risks is discussed below.

Risk management objectives and policies

The company's objective in using financial instruments is to reduce the uncertainty over future cash flows arising from movements in foreign exchange and interest rates. Throughout the year under review it has been, and remains, the company's policy that no speculative trading in derivative instruments be undertaken.

Foreign currency management

Foreign exchange risk

The company undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The company manages this risk by entering into forward foreign exchange contracts. The company does not hedge foreign exchange fluctuations on receivable currency.

As at 31 March 2018 there were no material foreign denominated financial instruments (2017: R1,7million).

Foreign currency exposure at end of the reporting period			
Trade debtors (2017: USD 1,276,761)	-		17 039
US Dollar Currency impact			
Profit / (loss)	-		1 682
Exchange rate used for conversion of foreign items were:			
US Dollars	R	-	R 13,36

Credit risk

Financial assets, which potentially subject the company to concentrations of credit risk, pertain principally to trade receivables and investments in the South African money market. Trade receivables are presented net of the allowance for doubtful debts.

The company manages counter-party exposures arising from money market and derivative financial instruments by only dealing with well-established financial institutions of a high credit rating. Losses are not expected as a result of non-performance by these counter parties.

Credit limits with financial institutions are revised and approved by the CEF board quarterly.

Fair value

The company's financial instruments consist mainly of cash and cash equivalents, trade receivables, investments and trade payables.

As at the reporting date the carrying value approximates the fair value.

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27. Financial instruments (continued)

Derivatives

The fair value of foreign exchange forward contracts represent the estimated amounts (using rates quoted by the group's bankers) that the company would pay / receive to terminate the contracts at the reporting date, thereby taking into account the unrealised gains / losses on open contracts. As at 31 March 2018 and 31 March 2017 there were no open foreign exchange contracts.

Maturity profile

The maturity profiles of financial assets and liabilities at reporting date are as follows:

At 31 March 2018

Assets	Less than 1 year	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Cash and cash equivalents	-	-	-	5	5
Other financial assets	228 771	-	-	-	228 771
Trade and other receivables	-	-	-	2 207	2 207
Deposits held in trust (environmental)	-	-	-	382	382
Total financial assets	228 771	-	-	2 594	231 365
Liabilities					
Trade and other payables	-	-	-	6 044	6 044
Environmental deposits	-	-	-	382	382
Total financial liabilities	-	-	-	6 426	6 426

At 31 March 2017

	Less than 1 year	Between 1 and 5 years	Over 5 years	Non-interest bearing	Total
Cash and cash equivalents	-	-	-	5	5
Other financial assets	171 611	-	-	-	171 611
Trade and other receivables	-	-	-	22 155	22 155
Deposits held in trust (environmental)	-	-	-	364	364
Total financial assets	171 611	-	-	22 524	194 135
Liabilities					
Trade and other payables	-	-	-	6 598	6 598
Environmental deposits	-	-	-	364	364
Total financial liabilities	-	-	-	6 962	6 962

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

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27. Financial instruments (continued)

Liquidity risk

The company manages liquidity risk through proper management of working capital, capital expenditure and actual versus forecasted cash flows. Adequate reserves and liquid resources are also maintained.

Interest rate risk

Interest rate sensitivity analysis:

If interest rates had been 100 basis points higher / lower and all other variables had remained constant, the company's loss for the year ended 31 March 2018 would have increased / decreased by R163 (2017: R200)

Exposure to interest rate risk on liabilities and investments is monitored on a proactive basis. The financing of the group is structured on a combination of floating and fixed interest rates.

28. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2018

	Loans and receivables	At fair value through profit or loss - held for trading	At fair value through profit or loss - designated	Held to maturity investments	Available for sale	Total
Other financial assets	228 771	-	-	-	-	228 771
Cash and cash equivalents	5	-	-	-	-	5
Trade and other receivables	2 207	-	-	-	-	2 207
	230 983	-	-	-	-	230 983

2017

	Loans and receivables	At fair value through profit or loss - held for trading	At fair value through profit or loss - designated	Held to maturity investments	Available for sale	Total
Other financial assets	171 611	-	-	-	-	171 611
Cash and cash equivalents	5	-	-	-	-	5
Trade and other receivables	22 155	-	-	-	-	22 155
	193 771	-	-	-	-	193 771

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Audited Annual Financial Statements for the year ended 31 March 2018

Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
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29. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2018

	Financial liabilities at amortised cost	At fair value through profit or loss - held for trading	At fair value through profit or loss - designated	Total
Trade and other payables	<u>2 828</u>	<u>-</u>	<u>-</u>	<u>2 828</u>

2017

	Financial liabilities at amortised cost	At fair value through profit or loss - held for trading	At fair value through profit or loss - designated	Total
Trade and other payables	<u>3 450</u>	<u>-</u>	<u>-</u>	<u>3 450</u>

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Figures in Rand thousand

30. Directors' emoluments

	Salary/Fee	Bonuses	Pension Contributions	Other Contributions	Other Expenses	Total
Non executive Directors:						
R Nkambule*	-	-	-	-	-	-
P Fusi*	-	-	-	-	-	-
B Luthuli	62	-	-	-	-	62
L Nengovhela	60	-	-	-	-	60
Total	122	-	-	-	-	122

	Salary/Fee	Bonuses	Pension Contributions	Other Contributions	Other Expenses	Total
Committee Members:						
B Luthuli	172	-	-	-	-	172
E Letlape	105	-	-	-	-	105
M De Pontes	48	-	-	-	-	48
L Nengovhela	243	-	-	-	-	243
G Smith	74	-	-	-	-	74
Total	642	-	-	-	-	642

	Salary/Fee	Bonuses	Pension Contributions	Other Contributions	Other Expenses	Total
Executive Members:						
O Mans	1 544	324	271	109	5	2 253
T Motloung	1 305	273	237	144	255	2 214
L Mekwe	1 734	334	301	104	363	2 836
M Gaobuse*	538	-	90	12	-	640
V Storm	1 609	301	282	114	358	2 664
N Van Averbeke	1 853	437	311	46	3	2 650
Adv E Hendricks	1 349	299	226	35	127	2 036
Total	9 932	1 968	1 718	564	1 111	15 293

* Not for full year

* Directors are not remunerated

Year ended 31 March 2017

	Salary/Fee	Bonuses	Pension Contributions	Other Contributions	Other Expenses	Total
Non executive Directors	792	-	-	-	-	792
Executive Members	9 049	1 978	1 564	518	868	13 977
Total	9 841	1 978	1 564	518	868	14 769

31. Related parties

National Department
Ultimate holding company
Fellow Subsidiary
Fellow Subsidiary
Affiliates
Affiliates

Department of Mineral Resources
CEF SOC Limited
PetroSA SOC Limited
SFF NPC
Extended Continental Shelf Claim Project
Upstream Training Trust

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Notes to the Annual Financial Statements

Figures in Rand thousand

31. Related parties (continued)

Related party balances

Amounts included in Trade receivables/ (Trade payables) regarding related parties

PetroSA	5	-
Extended Continental Shelf Claim	1 558	978
CEF SOC Limited	(363)	(395)

Investments

CEF SOC Limited	228 771	171 610
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Related party transactions

Department of Mineral Resources

Allocation received	(87 138)	-
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PetroSA SOC Limited

Considerations received	(573)	(16)
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CEF SOC Limited

Services received/(rendered)	555	589
Interest (received)/ paid	(15 765)	(15 310)
Services received/(rendered)	308	300

SFF NPC

Services received/(rendered)	538	507
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Key management personnel, directors and committee members refer to note 30.

32. Events after the reporting period

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

The migration of the Agency to the DMR as a one-stop-shop as envisaged by Operation Phakisa is currently under review.

33. Interests in unconsolidated structured entities

The Upstream Training Trust was established to receive irrevocable and unconditional contributions and grants from any persons or entities for the purpose of applying these funds for education and educational development, research, the provision of funding, assets, services and other resources to Public Benefit Organisations. Petroleum Agency SA nominates and serves as a Trustee on the board of Trustees of UTT.

Petroleum Agency SA is responsible for the administration of UTT but is not able to control it as all decisions have to be made by majority vote of the Trustees, which may be a minimum of three and a maximum of seven (Petroleum Agency SA only has one vote).

Petroleum Agency SA receives no administration fees from UTT and makes no contribution to UTT.

At 31 March Petroleum Agency SA had a loan receivable from UTT of Rnil (2017: Rnil). Terms and conditions of the loan are that they are due and receivable 30 days from date of invoice receipt by UTT.

Petroleum Agency SA's maximum exposure to loss from UTT is Rnil (2017: Rnil)

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Notes to the Annual Financial Statements

Figures in Rand thousand	2018	2017
34. Unauthorised, Irregular, Fruitless and Wasteful expenditure		
Fruitless expenses		
Opening balance	-	-
Irregular expenditure (R'000)		
Contravention of internal policy and procedure	-	6 553
(2017: The company acquired an asset by not following all procedures/regulation in terms of supply chain management).		
Irregular expenditure		
Irregular expenditure – relating to current year	-	6 553
Less: Amounts condoned	-	(6 553)
35. Operation Phakisa		
In terms of Operation Phakisa initiative E2: Enhance the environmental governance capacity of the oil and gas regulator, the Department of Environmental Affairs(DEA) and Petroleum Agency SA will fund the initiative. The contribution of the DEA has been paid to the company in advance and will be spent during 2018/19. Petroleum Agency SA will contribute R1,5 million		
Operation Phakisa contributors		
Department of Environmental Affairs contribution	2 100	2 100

36. Contingencies

In the Normandien Farms (Pty) Limited vs The Petroleum Agency SA & Rhino Oil matter, the Cape High Court held that the Agency did not comply with the peremptory obligations of the MPRDA and the Mineral and Petroleum Resources Development Regulations 2004 in the application and acceptance process. The costs of the application were awarded jointly and severally. However, Rhino Oil has applied for leave to appeal to the Supreme Court of Appeal and it has subsequently been granted.

The Whigol Trading (Pty) Limited vs DMR, Petroleum Agency SA and Others case is currently before the Gauteng High Court awaiting decision.

The Agency continues to closely monitor the developments of these matters.

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Audited Annual Financial Statements for the year ended 31 March 2018

Definition of financial terms

Below is a list of definitions of financial terms used in the annual report of Petroleum Agency SA:

Accounting policies

The specific principles, bases, conventions, rules and practices applied in preparing and presenting annual financial statements.

Accrual accounting

The effects of transactions and other events are recognised when they occur rather than when the cash is received or paid.

Amortised cost

The amount at which a financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

Asset

A resource controlled by the entity as a result of a past event from which future economic benefits are expected to flow.

Carrying amount

The amount at which an asset is recognised after deducting any accumulated depreciation or amortisation and accumulated impairment losses.

Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Change in accounting estimate

An adjustment to the carrying amount of an asset, liability or the amount of the periodic consumption of an asset that results from new information or new developments.

Contingent liability

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability.

Date of transaction

The date on which the transaction first qualifies for recognition in accordance with IFRS.

Depreciation (or amortisation)

The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition

The removal of a previously recognised asset or liability from the Statement of Financial Position.

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Definition of financial terms

Derivative

A financial instrument whose value changes in response to an underlying item, requires no initial or little net investment in relation to other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date.

Effective interest rate

The rate that exactly discounts estimated future cash payments or receipts through the expected lifespan of the financial instruments, to the net carrying amount of the asset and liability.

Employee benefits

All forms of consideration given in exchange for services rendered by employees.

Expenses

The decreases in economic benefits in the form of outflows or depletions of assets or incurrence's of liabilities that result in decreases in equity.

Fair value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Finance lease

A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Financial asset

Any asset that is cash, an equity instrument of another entity, a contractual right to receive cash or another financial asset from another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity, or a contract that will, or may be, settled in the entity's own equity instruments and is a non-derivative for which the entity is, or may be, obliged to receive a variable number of the entity's own equity instruments or a derivative that will, or may be, settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial asset or liability at fair value through profit or loss

A financial asset or financial liability that is classified as held for trading or is designated as such on initial recognition other than investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

Financial instrument

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial liability

Any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, or a contract that will, or may be, settled in the entity's own equity instruments and is a non-derivative for which the entity is, or may be, obliged to deliver a variable number of the entity's own equity instruments or a derivative that will, or may be, settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

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Definition of financial terms

Financial risk

The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Firm commitment

A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

Forecast transaction

An uncommitted but anticipated future transaction.

Going concern basis

The assumption that the entity will continue in operation for the foreseeable future. The financial statements are prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

Held-to-maturity investment

A non-derivative financial asset with fixed or determinable payments and fixed maturity where there is a positive intention and ability to hold it to maturity.

Immaterial

If individually or collectively it would not influence the economic decisions of the users of the annual financial statements.

Impairment loss

The amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

Impracticable

Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Income

Increase in economic benefits in the form of inflows or enhancements of assets or decreases in liabilities that result in increases in equity, other than those relating to contributions from equity participants.

Key management personnel

Those persons having authority and responsibility for planning, directing and controlling the activities of the entity i.e members of the Board of Directors of Petroleum Agency SA and the executive management committee.

Lease

An agreement whereby a lessor conveys to the lessee, in return for a payment or a series of payments, the right to use an asset for an agreed period of time.

Legal obligation

An obligation that derives from a contract, legislation or other operation of law.

Liability

A present obligation of the entity arising from a past event, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

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Definition of financial terms

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Material

Omissions or misstatements of items are material if they could individually, or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and the nature of the omission, or misstatement, judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Minimum lease payments

Payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor including in the case of a lessee, any amounts guaranteed by the lessee or by a party related to the lessee or in the case of a lessor, any residual value guaranteed to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

Net assets

Net operating assets plus cash and cash equivalents.

Operating lease

Any lease other than a finance lease.

Other comprehensive income

Comprises items of income and expenses (including reclassification adjustments) that are not recognised in profit or loss and includes the effect of translation of foreign operations, cash flow hedges, available-for-sale financial assets and changes in revaluation reserves.

Post-employment benefits

Employee benefits (other than termination benefits) that are payable after the completion of employment.

Post-employment benefit plans

Formal or informal arrangements under which an entity provides post-employment benefits to employees. Defined contribution benefit plans are where there are no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Presentation currency

The currency in which the annual financial statements are presented.

Prior period error

An omission from or misstatement in the annual financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that was available when annual financial statements for those periods were authorised for issue and could reasonably be expected to have been obtained and taken into account in the preparation of those annual financial statements.

Prospective application

Applying a new accounting policy to transactions, other events and conditions occurring after the date the policy changed or recognising the effect of the change in an accounting estimate in the current and future periods.

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Definition of financial terms

Recoverable amount

The higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use.

Related party

A person or entity that is related to the entity that is preparing its financial statements.

(a) A person or a close member of that person's family is related to the reporting entity if that person :

- has control or joint control over the reporting entity
- has significant influence over the reporting entity; or
- is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions apply:

- The entity and the reporting entity are members of the same group.
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member)
- Both entities are joint ventures of the same third party
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity
- The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity
- The entity is controlled or jointly controlled by a person identified in (a).
- A person identified in (a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Residual value

The estimated amount which an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Restructuring

A programme that is planned and controlled by management, and materially changes either the scope of a business undertaken by an entity or the manner in which that business is conducted.

Retrospective application

Applying a new accounting policy to transactions, other events and conditions as if that policy had always been applied.

Retrospective restatement

Correcting the recognition, measurement and disclosure of amounts as if a prior period error had never occurred.

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

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Definition of financial terms

Transaction costs

Incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, i.e. those that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Useful life

The period over which an asset is expected to be available for use or the number of production or similar units expected to be obtained from the asset.