

I communicated with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



AUDIT OFFICE
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NATURAL RESOURCE FUND
STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER, 2020

	Notes	2020 G\$'000
ASSETS		
Balance with Foreign Bank	3	31,060,827
Revenue Receivables	4	10,287,768
Foreign Capital Market Securities	5	-
Other Financial Assets		-
TOTAL ASSETS		41,348,595
LIABILITIES & EQUITY		
Reserves		-
Retained Earnings		41,348,595
TOTAL LIABILITIES & EQUITY		41,348,595

Approved on behalf of the Management of the Natural Resource Fund


 Mr. M. Munro (Chief Accountant)


 Dr. G. Ganga (Governor)

NATURAL RESOURCE FUND
STATEMENT OF INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2020

<u>INCOME</u>	Notes	2020 G\$'000
Royalties	6	2,694,223
Profit Oil	7	38,651,798
Interest on Deposits	8	1,581
Net gains/(losses) on Foreign Investments	9	993
TOTAL INCOME		<u>41,348,595</u>
<u>EXPENSE</u>		
Management Fees		-
Administration Expenses		-
Other Expenses		-
TOTAL EXPENSE		<u>-</u>
Net Profit/(Loss)		<u><u>41,348,595</u></u>

The accompanying notes form an integral part of these financial statements.

NATURAL RESOURCE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2020

	2020 G\$'000
Cashflow from Operating Activities	
Net Profit	41,348,595
Adjustment:	
Revenue Receivables	(10,287,768)
Net Cash Flow from Operating Activities	<u>31,060,827</u>
Cashflow from Investing Activities	
Foreign Capital Market Securities	-
Net Cash Flow from Investing Activities	<u>-</u>
Cashflow from Financing Activities	
Withdrawal by Government	-
Net Cash Flow from Financing Activities	<u>-</u>
Net Increase/(Decrease) in Cash and cash equivalent for the year	31,060,827
Cash and cash equivalent at the beginning of the year	-
Cash and cash equivalent at the end of the year	<u><u>31,060,827</u></u>

NATURAL RESOURCE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

1. General Information

The Natural Resource Fund was established by the enactment of the Natural Resource Fund Act 2019 (referred to hereinafter as the Act) which was passed by the National Assembly and assented to by the President on January 23, 2019.

The purpose of the Natural Resource Fund (“the Fund”) is to manage the natural resource wealth of Guyana for the present and future benefit of the people of the country in order to:-

- a) ensure that volatility in natural resource revenues do not lead to volatile spending, and such revenues do not lead to a loss of economic competitiveness;
- b) fairly transfer natural resource wealth across generations to ensure that those future generations benefit from such wealth; and
- c) utilize the natural resource wealth to finance national development including any initiative aimed at realizing an inclusive green economy.

The Act assigns responsibility to the Bank of Guyana for the operational management of the Fund pursuant to section 12 of the Act. The management of the Fund is undertaken in accordance with an Operational Agreement between the Bank of Guyana and the Ministry of Finance signed on December 11, 2019.

Under the Operational Agreement the Bank is responsible for the daily operational management of the Fund which shall include some key functions such as:

- a) Receiving and accounting for all deposits into the Fund;
- b) investing the Fund in eligible asset classes as set out in the Investment Mandate and in accordance with the Act, and complying with all obligations necessary for the efficient management of those investments;
- c) maintaining the books of account for the Fund and all financial and asset records in accordance with International Financial Reporting standards; and
- d) submitting monthly and quarterly reports to the Minister in accordance with section 38 of the Act, which shall include a summary of the performance of the Fund.

The assets of the Fund are held in the name of the Bank of Guyana on behalf of the Fund, and such assets are segregated from the other assets of the Bank. The resources of the

Fund consist of revenues from royalties and the Government's share of profit oil as per terms and conditions of relevant signed production sharing agreement(s).

These are the first financial statements of the Fund covering the year ended 31st December, 2020. Accordingly, there are no comparative figures.

2. Basis of Preparation and Significant Accounting Policies

A. Basis of Preparation

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and their interpretation as adopted by the International Accounting Standards Board (IASB). These financial statements have been prepared under the historical cost convention except for the measurement at fair value of investment securities classified and measured at fair value through profit or loss. The accounting records reflect the activities of the Natural Resource Fund and the resulting assets, liabilities, income and expenses of the Fund.

These statements have been reported in Guyana dollars (G\$) and are presented in thousands (G\$'000). Foreign currency transactions have been translated to G\$ at the rate of exchange ruling at the dates of the transactions. Rate of exchange at December 31, 2020 was GYD 208.50 = USD 1.

B. Adoption of new and revised IFRS and interpretations

The accounting policies adopted in the preparation of these inaugural financial statements of the Fund take into account the requirements of applicable IFRS as at December 31, 2020.

Standards and interpretations issued but not yet effective

New Standards, amendments and interpretations issued but not yet effective up to the date of the issuance of the Fund's financial statements are listed below:

IFRS 17	Insurance Contracts (effective date January 1, 2023)
IAS 37	Provisions, Contingent Liabilities and Contingent Assets (amendments effective January 1, 2022)
IAS 16	Property, Plant and Equipment (amendments effective January 1, 2022)
IFRS 3	Business Combinations (amendments effective January 1, 2022)

It is not anticipated that the new and amended standards, and interpretations will materially impact the financial statements of the Fund when they become effective.

C. Financial Instruments

A financial asset or financial liability is recognized in the Fund's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument on behalf of the Fund.

(a) Classification of Investments

The Investment Manager of the Bank would determine the classification of the instruments at the time of purchase and takes into account the underlying purposes for which the investment securities were purchased.

IFRS 9 – *Financial Instruments* requires that classification of financial assets shall be based on the Fund's business model for managing the financial assets and the contractual cash flow characteristics of those financial assets.

Financial assets can be classified and subsequently measured at either:

- (i) Amortised Cost
- (ii) Fair Value through profit or loss (FVTPL)
- (iii) Fair Value through other comprehensive income (FVTOCI)

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated at FVTPL:

- The financial asset is held within the business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met and is not designated at FVTPL:

- The financial asset is held within the business model whose objective is achieved by both collecting contractual cash flows and by sale of financial assets; and
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest.

Financial assets that are not measured at amortised cost or FVTOCI shall be classified

under the category FVTPL, with gains and losses arising from changes in fair value recognized in profit and loss. The investment manager of the fund can also on initial recognition, irrevocably designate a financial asset as measured at FVTPL if doing so eliminates or significantly reduces an inconsistency in measurement or recognition that would otherwise arise from measuring assets or liabilities, and their gains and losses, on different bases.

The Fund's investments are classified and measured at FVTPL.

(b) Initial Recognition

The Fund's investments are initially recognized at fair value on the date the Bank commits to the purchase of the investment for the Fund.

(c) Subsequent Measurement

The Fund's investments are measured at FVTPL, and any gains and losses arising from changes in fair value are recognized directly in profit and loss.

(d) Fair value Measurement Principles

The fair value of investments classified as FVTPL is based on quoted market prices at the date of the statement of financial position.

(e) Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired, or the Fund has transferred substantially all the risks and rewards of ownership of the asset or has relinquish control of the asset. A financial liability is derecognised when it is extinguished, that is when the obligation in the contract is either discharged, cancelled or expired.

3. Balance with Foreign Bank

	2020	
	US\$	G\$'000
Federal Reserve Bank of New York	148,972,792	31,060,827
	148,972,792	31,060,827

4. Revenue Receivables

This amount represents Guyana's fourth lift of profit oil for the year 2020 of US\$49,341,810.55 (G\$10.288 billion) which is to be received on January 8, 2021. The

amount was subsequently deposited to the Fund’s account at Federal Reserve Bank of New York on January 11, 2021.

5. Foreign Capital Market Securities

Investments of the Fund are recognized and measured at FVTPL.

	G\$'000
Balance as at January 1, 2020	-
Additions	12,091,430
Disposals	(12,092,423)
Gain or (Loss) on Fair Value	993
Balance as at December 31, 2020	-

To date, there has been no investment mandate for the Fund. However, section 32(1) of the Act states that “where the balance of the Fund is less than five hundred million United States Dollars then all of the Fund shall be invested in very safe investments. Further, section 32(4) states that “for the purpose of this section, the term “very safe investments” means eligible bank deposits and eligible treasury bills only”.

A letter from the then Minister of Finance dated June 8, 2020 stated that pending the constitution of the Investment Committee and preparation of the Investment Mandate, all petroleum revenue should be held as cash deposits in the Fund’s US dollar account.

Accordingly, resources in the Fund are not currently being invested.

6. Royalties

Royalty receipts are deposited into the Fund’s US dollar account held at the Federal Reserve Bank of New York. There were three such deposits during the financial year as follows:

	2020	
Date	US\$	G\$'000
28-Apr-20	4,919,505.30	1,025,717
03-Aug-20	3,698,152.63	771,065
19-Oct-20	4,304,275.30	897,441
	12,921,933.23	2,694,223

7. Profit Oil

Guyana was scheduled to lift five 1-million-barrel oil cargoes in the year 2020. As at December 31, 2020, Guyana had lifted four, with the payment for the fourth lift to be received on January 8, 2021.

	2020	
	US\$	G\$'000
First Lift	54,927,994.80	11,452,487
Second Lift	35,063,582.06	7,310,757
Third Lift	46,046,937.03	9,600,786
Fourth Lift	49,341,810.55	10,287,768
	185,380,324.44	38,651,798

8. Interest on Deposits

Interest earned is recognized in the statement of income for deposits held at the Federal Reserve Bank of New York on an accrual basis.

9. Net Gains/(Losses) on Foreign Investments

This figure represents gains or losses on changes in fair value of investments, and any profit or loss on derecognition. IFRS 9 – *Financial Instruments* requires that gains and losses be recognized through profit and loss.

10. Financial Risk Management

The Natural Resource Fund is susceptible to financial risks and the effective management of these risks is essential to enhancing the earning capacity of the Fund. The Bank as part of executing its responsibility for the operational management of the Fund applies its risk management framework which involves the identification, assessment and monitoring of risks through the adoption of various approaches as guided by its policies. Risks are managed by the Investment Manager of the Bank of Guyana and at the directorate level.

The Fund is potentially exposed to credit, market and liquidity risks arising from its Foreign Bank deposits. To date, there has been no investment mandate for the fund to govern its investment activities.

(a) Credit Risk

Credit risk is the risk of loss arising from the failure of a counterparty to discharge its obligations in accordance with agreed terms. The revenue of the Fund are currently

held in its account at the Federal Reserve Bank of New York which has a credit rating of 'AA+'.

(b) Market Risk

Market risk is the risk that the value of financial instruments will fluctuate due to changes in market prices, whether those changes are caused by factors specific to the individual security, its issuer or factors affecting all securities traded on the market.

(i) Interest Rate Risk

Interest rate risk is the risk that future cash flows or the fair value of financial instruments will fluctuate due to changes in market interest rates. This risk arises from the Fund's deposits with foreign banks.

The Bank manages this risk by continuously monitoring market conditions and yields.

(ii) Foreign Currency Risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund's exposure to the effects of foreign exchange fluctuations arises from its holdings of foreign currency denominated assets.

The Bank manages the risk of adverse exchange rate movements through constant monitoring of market conditions and trends. Further mitigation measures are also taken to ensure that foreign currency assets are maintained in stable currencies. The principal currency in which foreign assets are denominated is the United States dollar.

The aggregate G\$ equivalent amounts of assets and liabilities denominated in foreign currencies are shown below, along with the impact of a reasonable rate movement of each currency against the Guyana dollar.

2020				
FINANCIAL ASSETS	GYD G\$'000	USD G\$'000 (Equiv.)	OTHER G\$'000	Total G\$'000
Balances with Foreign Banks	-	31,060,827	-	31,060,827
Investments	-	-	-	-
Revenue Receivables	-	10,287,768	-	10,287,768
TOTAL FINANCIAL ASSETS	-	41,348,595	-	41,348,595
FINANCIAL LIABILITIES				
Payables	-	-	-	-
TOTAL FINANCIAL LIABILITIES	-	-	-	-
NET POSITION	-	41,348,595	-	41,348,595
Impact on Net Income				
+0.50%	-	206,743	-	206,743
-0.50%	-	(206,743)	-	(206,743)

(c) Liquidity Risk

Liquidity risk is the risk that the Natural Resource Fund will be unable to meet its payment obligations when they fall due. The Fund's deposits are held with a foreign bank which can be easily called in the event such a need arises.