

**THE UNITED REPUBLIC OF TANZANIA
NATIONAL AUDIT OFFICE**



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS OF TANZANIA
PETROLEUM DEVELOPMENT CORPORATION
FOR THE YEAR ENDED 30 JUNE 2016**

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**Office of the Controller and Auditor General,
National Audit Office,
The United Republic of Tanzania
(Established under Article 143 of the Constitution of the URT)**

The statutory duties and responsibilities of the Controller and Auditor General are given under Article 143 of the Constitution of the United Republic of Tanzania and amplified in the Public Audit Act of 2008.

Vision

To be a centre of excellence in public sector auditing.

Mission

To provide efficient audit services to enhance accountability and value for money in the collection and use of public resources.

In providing quality services, NAO is guided by the following Core Values:

- ✓ **Objectivity:** We are an impartial organization, offering services to our clients in an objective, and unbiased manner;
- ✓ **Excellence:** We are professionals providing high quality audit services based on best practices;
- ✓ **Integrity:** We observe and maintain high standards of ethical behaviour and the rule of law;
- ✓ **People focus:** We focus on stakeholders' needs by building a culture of good customer care and having competent and motivated work force;
- ✓ **Innovation:** We are a creative organization that constantly promotes a culture of developing and accepting new ideas from inside and outside the organization; and
- ✓ **Best resource utilisation:** We are an organisation that values and uses public resources entrusted to it in efficient, economic and effective manner.

We do this by:-

- Contributing to better stewardship of public funds by ensuring that our clients are accountable for the resources entrusted to them;
- Helping to improve the quality of public services by supporting innovation on the use of public resources;
- Providing technical advice to our clients on operational gaps in their operating systems;
- Systematically involve our clients in the audit process and audit cycles; and
- Providing audit staff with adequate working tools and facilities that promote independence.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2016

The Directors submit their report together with consolidated and separate financial statements for the year ended 30 June 2016, which disclose the state of affairs of Tanzania Petroleum Development Corporation (the Corporation) and its subsidiaries – Gas Company Tanzania Limited and Commercial Petroleum Company of Tanzania, (together, the "Group") as at that date.

The Petroleum Act 2015 recognizes Tanzania Petroleum Development Corporation (TPDC) as the National Oil Company of Tanzania (NOC) responsible for undertaking Tanzania's commercial aspects of petroleum in the upstream, mid-stream and downstream operations.

1. INCORPORATION

The Corporation was established under the Public Corporations Act No.17 through the Government Notice No.140 of 30 May 1969. In addition, the Petroleum Act, 2015, among other things, has mandated TPDC to carry out specialized operations in the petroleum value chain using subsidiary companies. TPDC has two subsidiary companies namely, the Gas Company Tanzania Limited (GASCO) and the Commercial Petroleum Company of Tanzania (COPEC). GASCO and COPEC were established as limited liability companies and their entire shares are held by TPDC.

2. VISION STATEMENT

To become a leading integrated national oil company competing nationally, regionally and globally in an environmentally responsible manner for the benefit of all stakeholders.

3. MISSION STATEMENT

To participate and engage in the exploration, development, production and distribution of oil and gas related services, facilitate a fair trading environment, safeguard the national supply of petroleum products and natural gas, and at the same time develop quality and safety standards to protect people, property and the environment.

4. PRINCIPAL ACTIVITIES

The Petroleum Act, 2015 among other things, mandates TPDC to perform the following functions:

- Advising the Government on policy matters pertaining to petroleum industry;
- Participating in petroleum reconnaissance, exploration and development projects;
- Carrying out specialized operations in the petroleum value chain using subsidiary companies;
- Handling the government's commercial participating interests in the petroleum sub-sector;
- Managing the marketing of the country's share of petroleum received in kind;
- Developing in depth expertise in the petroleum industry;
- Investigating and proposing new upstream, midstream and downstream ventures local and international;
- Contracting, holding equity or participating in oil service and supply chain franchises and other licences; and
- Performing any petroleum activities and related functions.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

5. GENERAL OUTLOOK

Significant progress has been made in the areas of exploration, development and production for oil and gas. Sedimentary basins in Tanzania occupy a total area of 534,000sqkm which is approximately 56% of the total area of the United Republic of Tanzania. Exploration blocks that have been licensed for exploration and development occupy a total area of 159,174.52sqkm, approximately 17.5% of the total area of the United Republic of Tanzania.

One of the key roles of TPDC is to monitor and encourage licensed holders to execute their work programmes in time. Optimization of the two gas fields at SongoSongo and Mnazi Bay is critical to ensure the availability of enough natural gas for power generation, industrial and household uses which are important elements for the general economic growth of the country.

Identification of feasible projects for further domestic utilization of gas resources from Mnazi Bay as further appraisal and development is being carried on and the deep sea discoveries will provide a challenge to the Corporation in a short term period. Commercialization through exports of liquefied natural gas (LNG) will form one of the main market segments.

The key to the success of the endeavours of the Corporation rests on the human resource development. Significant emphasis has been directed into resource development, along with the establishment of an institutional set up suitable for the ongoing proliferation of the Corporation's activities and the new strategic direction. The development of projects leading to domestic utilization of gas, power generation, and use in vehicles will create significant savings in foreign exchange and at the same time protect our environment by reducing carbon foot prints and deforestation. Developments of natural gas projects will pave way for the petrochemicals and fertilizer industries leading to significant multiplier effects to the general economy.

6. COMPOSITION OF THE BOARD OF DIRECTORS

The Directors of the Corporation at the date of this report, and whom have served since 1 July 2015 are:

Name	Position	Discipline	Nationality	Appointed/ Resigned	Date appointed/ Resigned
Mr. Michael P. Mwanda	Chairman	Administrator	Tanzanian	End of tenure	30 Nov 2015
Prof. Sufian H. Bukurura	Vice Chairman	Legal academic/ Researcher	Tanzanian	End of tenure	30 Nov 2015
Eng. Norbert A. Kahyoza	Director	Mechanical Engineer	Tanzanian	End of tenure	30 Nov 2015
Mr. Ali Khalil Mirza	Director	Urban/Rural Planner	Tanzanian	End of tenure	30 Nov 2015
Hon. (Rtd) Judge Josephat Mackanja	Director	Lawyer	Tanzanian	End of tenure	30 Nov 2015
Ambassador Dr Ben Mosses	Director	Administrator/ Diplomat	Tanzanian	End of tenure	30 Nov 2015
Dr. Donald E. Mmari	Director	Economist	Tanzanian	End of tenure	30 Nov 2015
Ms. Mameltha K. Mutagwaba	Director	Financial Analyst	Tanzanian	End of tenure	30 Nov 2015

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

6. COMPOSITION OF THE BOARD OF DIRECTORS (CONTINUED)

Name	Position	Discipline	Nationality	Appointed/ Resigned	Date appointed/ Resigned
Dr. Lutengano Mwakaheya	Director	Petroleum Geologist	Tanzanian	End of tenure	30 Nov 2015
Mr. Ahadi M.Chacha	Director	Accountant/Auditor	Tanzanian	End of tenure	30 Nov 2015
Dr. James P. Mataragio	Secretary	Geophysicist	Tanzanian	Suspended	26 Aug 2016
Prof. Sufian H. Bukurura	Chairman	Legal academician/ Researcher	Tanzanian	Re-appointed	30 May 2016
Hon. (Rtd) Judge Josephat Mackanja	Vice Chairman	Lawyer	Tanzanian	Re-appointed	30 May 2016
Ambassador Dr. Ben Mosses	Director	Administrator/ Diplomat	Tanzanian	Re-appointed	30 May 2016
Prof. Abiud Kaswamila	Director	Land use planner cum environmentalist	Tanzanian	Appointed	30 May 2016
Prof. Hussein Sosovele	Director	Environmentalist	Tanzanian	Appointed	30 May 2016
Ms. Mwanamani Kidaya	Director	Geologist	Tanzanian	Appointed	30 May 2016
Dr. Shufaa Albeity	Director	Accountant	Tanzanian	Appointed	30 May 2016
Eng. Kapuulya Musomba	Ex-officio member	Engineer	Tanzanian	Appointed	26 Aug 2016

Directors' remuneration

The Directors' remuneration for services rendered as directors of the Corporation for the year was TZS. 2,500,000 for the Board Chairman and TZS 2,400,000 for an ordinary Board Member both paid as Directors fee per annum for every Director.

7. CORPORATE GOVERNANCE

The Board consists of eight (8) Directors. The Managing Director holds an executive position in the Corporation. The Board takes overall responsibility for the Corporation, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles.

The Board delegates the day-to-day management of the business to the Managing Director assisted by senior management team. Senior Management members are invited to attend board meetings. They facilitate effective control of all the Corporation's operational activities, acting as a medium of communication and coordination between various business units. The Corporation is committed to the principles of effective corporate governance. The directors also recognize the importance of integrity, transparency and accountability.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

7. CORPORATE GOVERNANCE (CONTINUED)

During the year ended 30 June 2016, the Audit and Risk Management Committee and the Corporate Legal Affairs Committee were formed out of the former Audit and Risk Management Committee, Strategy, Nomination and Remunerations Committee and Corporate Legal Affairs Committee in order to ensure and uphold a high standard of corporate governance.

The members' tenure of office for these committees runs concurrently with that of the Board of Directors. The Committees report to the Board of Directors and are required to meet at least once per quarter.

The Audit and Risk Management Committee is made up of five members, three from members of the Board of Directors and two co-opted (independent) members. Among the two members of the committee, one has financial background and the other one has technical operational expertise of TPDC's activities.

The Corporate Legal Affairs Committee comprise of four members; three from the TPDC Board of Directors and one co-opted member with a legal background.

During the year, members of the Committees were as follows:

a) Audit and Risk Management Committee

Name	Position	Discipline	Nationality	Appointed/ Resigned	Date Appointed/ Resigned
Mr. Ahadi M. Chacha	Member	Accountant/ Internal Auditor	Tanzanian	End of tenure	30 Nov 2015
Mr. Ali Khalil Mirza	Member	Urban/Rural Planner	Tanzanian	End of tenure	30 Nov 2015
Eng. Norbert Kahyoza	Member	Engineer	Tanzanian	End of tenure	30 Nov 2015
Ms. Mameltha K. Mutagwaba	Member	Financial Analyst	Tanzanian	End of tenure	30 Nov 2015
Mr. Gabriel Mwero	Member	Accountant/ Internal Auditor	Tanzanian	End of tenure	30 Nov 2015
Mr. Lutengano Mwakaheya	Member	Petroleum Geologist	Tanzanian	End of tenure	30 Nov 2015
Dr. Shufaa Albeity	Chairperson	Accountant	Tanzanian	Appointed	3 Jun 2016
Amb. Dr. Ben Moses	Member	Administrator/ Diplomatic	Tanzanian	Appointed	3 Jun 2016
Prof. Hussein Sosovele	Member	Environmentalist	Tanzanian	Appointed	3 Jun 2016
Dr. Balozi Morwa	Member	Economist	Tanzanian	Resigned	12 July 2017
Prof. Shukrani Many	Member	Geologist	Tanzanian	Appointed	22 Aug 2016
Mr. Nicodemus Mallya	Member	Accountant	Tanzanian	Appointed	12 July 2017

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

7. CORPORATE GOVERNANCE (CONTINUED)

b) Corporate Legal Affairs Committee

Name	Position	Discipline	Nationality	Appointed/ Resigned	Date Appointed/ Resigned
Hon. Judge Josephat Mackanja	Chairman	Rtd. Judge/Lawyer	Tanzanian	Appointed	3 Jun 2016
Prof. Abiud Kaswamila	Member	Environmentalism	Tanzanian	Appointed	3 Jun 2016
Mrs. Mwanamani Kidaya	Member	Geologist	Tanzanian	Appointed	3 Jun 2016
Mr. Said M Kalunde	Member	Lawyer	Tanzanian	Resigned	24 Feb 2017
Ms. Monica Otaru	Member	Lawyer	Tanzanian	Appointed	24 Feb 2017

During the year ended 30 June 2016, the Board of Directors had three (3) meetings and six (6) committee meetings as tabulated in the table below:

S/N	Meeting	Board of Directors	Corporate and Legal Affairs Committee	Audit and Risk Management Committee
1.	Ordinary meetings	2	1	3
2.	Special meetings	1	-	2
		3	1	5

8. CAPITAL STRUCTURE

The Corporation capital structure for the year is as shown below.

SHARE CAPITAL

	2016 Tzs 'm	2015 Tzs 'm	2014 Tzs 'm
Authorised: Ordinary Shares			
2,500 ordinary shares of Tzs. 1,000,000 each	2,500	2,500	2,500
Issued and fully paid:			
2,208 ordinary shares of Tzs. 1,000,000 each	2,208	2,208	2,208

All the issued and fully paid shares are held by the Treasury Registrar on behalf of the Government of Tanzania.

EQUITY CONTRIBUTION FROM GOVERNMENT

	2016 Tzs 'm	2015 Tzs 'm	2014 Tzs 'm
At start of year	194,013	142,478	121,518
Received during the year	-	55,697	38,441
Remittance to the government	(9,874)	(4,162)	(17,481)
At end of year	184,139	194,013	142,478

Equity contribution from Government represents net capital contributions received from the Government.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

9. MANAGEMENT

Management of the Corporation is under the Managing Director and is organized in the following directorates and units:

Directorates

- Upstream Operations
- Downstream Operations
- Corporate Strategy and Planning
- Corporate Management
- Finance

Units

- | | |
|---------------------------|---------------------|
| • Procurement Management | • Internal Auditing |
| • Corporate Communication | • Legal Services |

10. ONGOING AND FUTURE DEVELOPMENTS

a) Natural Gas Infrastructure Development

Following completion and commissioning of the Mtwara and SongoSongo natural gas processing plants and the 542 Km natural gas transportation pipeline from Mtwara and SongoSongo to Dar es Salaam through Somanga Fungu, TPDC has started commercial operations which include gas supply aimed at power generation, industrial and domestic uses.

TANESCO is the Corporation's key customer connected to the new infrastructure where the gas is supplied to Ubungo II and Kinyerezi I power plants as well as the Independent Power Producer (IPP) – Symbion Ubungo plant for power generation. The plan is to connect more customers who are ready to utilize natural gas so as to optimize utilization of the National Natural gas Infrastructure (NNGI). In addition to the NNGI, TPDC had invested and completed construction of the Ubungo to Mikocheni natural gas distribution pipeline which has a design capacity of 7.5 mmscfd.

Currently, customers connected to the Ubungo-Mikocheni pipeline comprise of 70 houses which are located at the TPDC-Mikocheni Estate and five (5) industries located at Mikocheni light industrial area. These industries are MMI Steel I, MMI Steel II, MMI Steel III, Iron and Steel and Tanpack Tissues. These customers utilize the infrastructure by only ten percent (10%) of the total capacity. The pipeline draws gas from the existing network which is operated under PSA with PAET. This brings in operational challenges including supply of gas to new customers.

The need of connecting the NNGI with the Ubungo – Mikocheni pipeline to enable supply of natural gas to more customers remains to be among the Corporation's top priorities.

b) Natural Gas Distribution Networks

The proposed construction of the natural gas distribution network in Dar es Salaam is planned to be implemented commencing the financial year 2017/2018. The project is intended to connect, in phases, at least 30,000 households and convert 8,000 vehicles to consuming condensed natural gas (CNG). TPDC will continue with studies and implementation of Mtwara and Lindi Natural Gas Distribution Network, and the LPG infrastructure.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

10. ONGOING AND FUTURE DEVELOPMENTS (CONTINUED)

c) Full Tensor Gradiometry (FTG) & Airborne Gravity Gradiometry (AGG) Project

During the financial year 2015/16, TPDC acquired, processed and interpreted a total of 24,027 line kilometers of Full Tensor Gradiometry (FTG) and aeromagnetic data in Lake Tanganyika North block and 20,096 line kilometers of Airborne Gravity Gradiometry (AGG) in Eyasi – Wembere, Mandawa and West Songo Songo Blocks.

i) FTG results

The interpretation shows that:

- The anomaly patterns fit well with known and predicted geological trends and deformation history, and new targets for further exploration programs were identified.
- Two distinct 'depth intervals' were resolved using power spectra analysis.
 - ✓ A 1-3km depth correlates with rifted basement and syn-rift structures & sequences outlined in existing literature/data. Known/predicted rift geometries imaged.
 - ✓ A 5-8km depth correlates with pre-rift basement and sequences within.
- Structural contacts, structural highs and thickened sediments within the dataset are very well defined. In particular, the ~1-3km depth has revealed many promising structural attributes and potential exploration targets.
- Fault systems were linked with play concepts within the rift zone in the said depths facilitates initial targeting of structures within the data and greatly assists interpretative analysis.

ii) AGG results

The interpretation shows that:

- The Eyasi basin can be divided into three sub-basins: Western, Central and Eastern. The Western and Central sub-basins have thick sediments, extensive reservoir facies and proximity to hydrocarbon kitchen.
- The Western sub basin has two graben structures that reach depths between 4.5km and 5.2km and faults that influenced deposition and is the most likely area to contain hydrocarbons.
- The Central Eyasi sub –basin is a bit small although the depth to the basement is deep and proximity to the major volcanic event which generates heat and cause the area to be not prospective for hydrocarbon.

d) Liquefied Natural Gas (LNG) Project

BG Group, Ophir, Pavilion, and ExxonMobil, each termed as International Oil Company ("IOC"), together the "IOCs", have made significant gas discoveries in Blocks 1, 2 & 4 (the "Blocks") offshore Tanzania. To commercialize these resources will require a proportion of the gas, in the form of liquefied natural gas ("LNG"), to be exported for sale in international markets. The Government of Tanzania ("GoT") has requested that the Blocks 1, 2 and 4 participants cooperate in the evaluation and potential development of a joint LNG plant for this purpose, located on a single site, (the "LNG Project"). In response to this, the three Blocks' participants have formed a joint project team to assess the feasibility of the construction and operation of the LNG Project. Elementary upstream activities for the LNG project including pre-

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

10. ONGOING AND FUTURE DEVELOPMENTS (CONTINUED)

d) Liquefied Natural Gas (LNG) Project (Continued)

FEED activities for Blocks 1, 2 & 4 and technical feasibility studies for the proposed onshore and offshore LNG facilities have been completed.

Offshore met ocean data were collected from Q1 through Q4 2016. This data will provide key design parameters for the offshore marine environment including wind, waves and current. Other LNG project programme achieved during the 2015/2016 financial year including land and title deed which has been secured where the LNG project will be developed. Land due diligence is now in advanced stage.

11. KEY PERFORMANCE INDICATORS (KPIs) FOR THE YEAR 2015/2016

The Corporation attained the following key milestones in implementation of its activities for the year ended 30 June 2016;

KPI	Anticipated	Actual	Remarks
Wells to be drilled onshore	6	2	Due to price turbulence in the global oil market some international oil companies did not drill the expected number of wells. However, plans to drill more wells in the year 2016/2017 are in progress.
Wells to be drilled offshore	2	0	M/s Afren did not drill the planned Nanasi-1 and Chungwa-1 wells. The Company went into the liquidation process and hence no drilling activities were done as anticipated.
Seismic acquisition – 2D (Onshore and Offshore)	2000km	0km	M/s Petrodel could not manage to acquire seismic data at Latham – Kimbiji as the contractor had failed to honor the PSA obligations. This matter has been reported to Ministry of Energy and Minerals (MEM) so as to issue notice for termination.
Seismic acquisition – 3D (Onshore)	500sqkm	0sqkm	The survey at Nyuni Area was not done by the operator (Ndovu Resources) due to uncertainty of global oil prices.
Seismic interpretation 2D	630.7km	630.7km	The target of interpreting 2D seismic data was achieved for activities done at Pangani and Kilosa/Kilombero blocks. Drillable prospect has been identified at Kilosa/Kilombero block and drilling preparations are in the advanced stage.
Seismic interpretation 3D	3,154sqkm	3,154sqkm	Interpretation was carried out, but the results show no economic prospects. M/s Petrobras requested to surrender the block and the request has been accepted by MEM.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

11. KEY PERFORMANCE INDICATORS (KPIs) FOR THE YEAR 2015/2016 (CONTINUED)

KPI	Anticipated	Actual	Remarks
Geophysical Data Acquisition (AGG)	20,444 lines km	20,096 lines km	Acquisition of AGG Data was done to the Eyasi Wembere, Mandawa and West Songosongo blocks.
Interpretation of FTG data.	24,027 lines km	24,027 lines km	Interpretation of FTG data completed and the final report is available.
Interpretation of AGG data.	20,096 lines km	20,096 lines km	Interpretation of AGG data completed and the final report is available.
Quantity processed and transported via NNGI	24,000 mmscf	12,441 mmscf	Less volumes of gas were consumed compared to initial projections due to delays in completion of Kinyerezi I Power plant as well as maintenance works at Ubungu II plant.
NNGI Tariff on Gas Sales (TZS)	TZS 84.50 billion	TZS 61.79 billion	Consumption of gas below the projections had a direct effect on tariff revenues.

12. RESULTS AND DIVIDEND

Results for the year are set out on page 21 of this report. During the year, the Group incurred a net loss of Tzs 341,634 million (Corporation: Tzs 341,621 million) for the year ended 30 June 2016 (2015: Group incurred a net loss of Tzs 271,605 million and Corporation: Tzs 271,599 million). Since there is significant accumulated losses, the directors do not recommend payment of dividend (30 June 2015: Nil).

13. RISK MANAGEMENT AND INTERNAL CONTROL

All employees are required to observe risks inherent at work place. Risk assessment responsibility rests with the Management. Effective internal control is maintained through ensuring that there is separation of duties and enhanced oversight systems. The Board is in-charge of the overall risk management assisted by Board's Audit and Risk Management Committee in carrying out its functions with respect to internal control systems. The Corporation faces a number of risks that need to be constantly monitored such that its effects do not impair the going concern of the Corporation. Descriptions of these risks are provided below:

a) PSA Participation Risk

The Corporation is unable to participate in additional stakes in discovery areas in which it has exercised its contractual right to participate in accordance with provisions of relevant PSAs and thus enhance Government share due to lack of funds to pay for additional investments called upon under those PSAs. The mitigation of this risk is for the Government to make funds available, for TPDC participation or be carried out by the contractor at an interest on funds due.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

13. RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

b) Oil Price Risks

Instability of crude oil prices in the world market in recent years had an impact on exploration and development activities, as major oil companies were forced to live within sharply reduced cash flows. The prospect that this trend might last for a long period of time indicates that, the resulting cuts in capital spending is largely expected to impact exploration and development projects such as the LNG Project. The Government could play an important role to manage this by waiving or reducing license fees and certain expenses until oil prices become stable.

c) Trade Debtors

There has been uncertainty in collecting significant amount of revenue from gas sales made to major buyers such as TANESCO. Erratic proceeds from customers undermine the ability of the Corporation to finance operations and investment activities. The Corporation works with the Ministry of Energy and Minerals and TANESCO to ensure gas sale proceeds are paid timely.

d) Change in Government Policy, Laws, Regulations and Directives

Review of Government policies, Laws and Regulations may adversely impact operations of the Corporation. This threat is managed by active participation of TPDC in policy review processes.

e) Financial Risks

Foreign currency loans and payables have exposed the Corporation to foreign currency exchange and interest rate risks. The Corporation earns its revenue in USD and is working on other ways to manage these risks by utilizing suitable hedging products available in the financial markets.

f) Health, Safety and Environmental (HSE) Risks

Natural gas infrastructure is prone to various threats such as acts of vandalism or human/ technical errors at gas plants and, even natural disasters such as heavy rainfall, earthquakes etc.

These events could lead to loss of lives, property and disruption of operations due to fire ignition due to gas leakage. These threats are managed by cooperating with law enforcement agencies, local governments, ensuring periodic monitoring of gas infrastructures, provision of training to handle fire incidences and ensuring sound safety standards are adhered to during operations.

g) Abandonment / Rehabilitation Risks

As holder of licences, TPDC is obliged to assess and set aside funds to ensure that the damage to environment caused by production activities is mitigated and rehabilitated as per provision of petroleum law.

h) Site Encroachment Risks

TPDC owns a number of plots acquired for future development projects. The plots include those located at Kilwa Masoko and Likong'o (Lindi), Kibirizi and Mwanga (Kigoma) and Kigamboni and Mlalakuwa (Dar es Salaam). These plots are exposed to risks of being invaded by intruders.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

13. RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

In addition to regular public awareness programs, the Corporation has a plan to fence all of its plots as a mitigation factor to this risk.

14. SOLVENCY

The Directors have reviewed the Group's state of affairs and are of the opinion that the Group is solvent enough to proceed doing its operations in a manner that its long term financial obligations will be met. The major concern is the existence of huge long term debts that may necessitate to think about debt management programs in future to avoid any penalties and interests in case of delayed payments. The Government has also confirmed its willingness to support the Group.

15. RESOURCES

The Corporation owns several resources in its operations as described below:

a) Human Capital

The Corporation possesses adequate number of qualified human capital in relevant and different disciplines. TPDC has a tradition of enhancing staff capacities through short and long term training programs particularly in the fields of oil and gas.

b) Financial Resources

The main sources of corporate funding are Government's budgetary allocations, gas sales and gas tariff income from operations of the National Natural Gas Infrastructure (NNGI). However, with expanding operations the funding is inadequate relative to the planned activities. The Corporation plans to continue in securing loans and/or engaging strategic partners in development of its viable projects.

c) Processing and Transmission Resources

The Corporation owns Madimba and SongoSongo Gas Processing Plants, Mtwara – Dar es Salaam gas transmission pipeline and Ubungo- Mikocheni gas distribution pipeline.

d) Properties

(i) Land

The Corporation owns land located in various strategic areas for investments. Among the lands owned by TPDC include those in Kilwa Masoko in Lindi Region, Kibirizi and Mwanga in Kigoma, Kigamboni Bitumen site and Mlalakuwa plots in the City of Dar es Salaam.

ii) Other Properties

Some of the properties that are owned by the Corporation are located in areas such as; Upanga, Mikocheni, Mlalakuwa, Msasani, Masaki and Kinondoni in the Dar es Salaam City Lindi and Mtwara. Other properties also include Petrol stations namely; Makuyuni, Tarime, Musoma, Geita and Segera.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

15. RESOURCES (CONTINUED)

e) Gas Reserves

Following a number of discoveries in onshore and offshore blocks the natural gas reserves in Tanzania have now reached 57.25 trillion cubic feet as of June 2016. The reserves are expected to rise further as a result of the ongoing exploration activities in the country. There were two onshore gas producing fields located at Mnazi bay and Songo Songo Island for the year ended 30 June 2016. TPDC is one of the development partners in both fields.

16. RELATIONSHIP WITH STAKEHOLDERS

The Corporation's operations cut across several stakeholders' interests. The Corporation enjoys good and cooperative support from all stakeholders. Key to this relationship has been prompt and informed communication system.

17. EMPLOYEES' WELFARE

a) Management and employees relationship

There is a good relationship between the TPDC management and its employees. TPDC's members of staff are free to air their views through the available normal channels like staff e-mailing system and during meetings. Employees and directors get in touch with each other during departmental meetings, workers council meetings and all staff meetings are held in different times.

b) Training facilities/ training and development

TPDC has a stable training and development system. The TPDC Staff Regulations (2008) provides procedures to be followed when implementing the training and development program. Sources of funds are clearly identified to make the program vibrant. During the year ended 30 June 2016, a total of Tzs 2.89 billion was spent to cover for short and long courses both local and abroad as compared to Tzs 6.26 billion spent in the year ended 30 June 2015.

c) Medical Assistance

All TPDC staff are included in the health insurance scheme. The National Health Insurance Fund (NHIF) which is a mandatory Government health scheme provide medical services to TPDC Staff. Both the employer and employee contribute 3% each of the basic salary to NHIF. In the cases where the NHIF cannot cover some of the medical services as required by our staff, the Corporation may cover that gap.

d) Persons with disabilities

TPDC has its disability policy which responds to the National Disability policy (2004) requiring all government institutions, families, relatives, local government and non-governmental organizations to care for disabled persons. TPDC Disability Policy extends to members of the public using Corporation premises and services. The objective of the policy is to ensure that people with disabilities (mental or physical) have access to the Corporation facilities and environment wherever reasonably possible, comparable to that of their non-disabled peers. The policy recognizes that disabled staff and members of the community are an integral part of the Corporation community.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

17. EMPLOYEES' WELFARE (CONTINUED)

e) Employees' Benefit Plans

During the year the Corporation paid Tzs 1.49 billion (2015: Tzs 913 million) as contributions to publicly administered Pension plans (i.e. PPF Pensions Funds, National Social Security Fund (NSSF), Public Service Pensions Fund (PSPF), Local Authority Pension Fund (LAPF) and Government Employees Pensions Fund (GEPF).

f) Saving and Credit Cooperative Society

TPDC has its SACCOS of which any TPDC staff is free to join as a member. It provides short and long term loans to TPDC Staff. This has lessened the burden of issuing loans and salary advances to staff.

g) Gender policy

TPDC is dedicated towards conforming to a national policy on gender balance by adhering to principles of gender issues. The TPDC Staff Regulations observes principles of gender matters like in employment opportunity, sexual harassment, etc. Gender Policy will be included in the staff regulations which is currently under review. During the year 2015/16, TPDC had 379 employees of which 302 (80%) were male and 77 (20%) were female.

18. HIV/AIDS AWARENESS PROGRAM

The Corporation has an HIV/AIDS awareness program and measures with an objective to provide an all-encompassing management of HIV/AIDS at the work place to ensure business continuity. In the year 2015/16, TPDC conducted an awareness program to the Management and its staff to bring awareness to the employees on HIV/AIDS related issues.

19. RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in Note 38 to the financial statements.

20. ENVIRONMENTAL CONTROL PROGRAMME

Activities such as seismic surveys, drilling programs and infrastructure construction have negative impact to the environment. To mitigate risks emanating from these developments, all projects are subjected to the National Environmental Management Council (NEMC) clearance.

21. CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Corporation upholds good Corporate Social Responsibility (CSR) practices. It identifies itself with the community within which it operates and cultivates harmonious relationship so as to acquire social license to operate with all such communities. The Corporation's CSR practices during the year ended 30 June 2016 covered areas including public health, education, good governance, environment and sports & games.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

21. CORPORATE SOCIAL RESPONSIBILITY (CSR) (CONTINUED)

During the year under review, the Corporation made various donations to its stakeholders as part of its CSR practices. Below is the matrix showing the list of CSR activities conducted by the Corporation during the year under review:

S/N	Intervention areas	Program/project supported	Beneficiaries	Program/project cost/amount donated (Tzs 'm)
1.	Clean water	Bore hole drilling	Njia Nne Village, in Mkuranga District, Coast Region	10
2.	Good governance	Finishing of Administrative Block	Ufukoni Ward, in Mtwara Region	10
3.	Good governance	Annual General Meeting	Town Planners – Dar es Salaam	10
4.	Education	562 Desks	Mtwara District Council Primary Schools and Zimbili Primary School at Kinyerezi, Dar es Salaam	70
5.	Sports and games	Sports Gears and Equipment	Wazawa Football Club, Takesh Academy, and Ndanda Football Club in Mtwara Region	23
6.	Environment	Construction of public toilets along the main roads	Mufindi District-Iringa	1
7.	Health	Breast cancer test program	Tanzania Breast Cancer Foundation	1
TOTAL				125

The Corporation did not make any political-related donations during the year. Total donations made during the year amounted to Tzs 125 million (2015: Tzs 506 million).

22. GAS RESERVES

(a) Recoverable Gas

Two fields are under extraction namely Songosongo and Mnazi Bay. SongoSongo gas field is under Production Sharing Agreement (PSA) with Pan African Energy Tanzania Limited. The Gas reserves for SongoSongo as assessed by independent consultants in December 2015 at P90 confidence level is 697 billion cubic feet. The other field at Mnazi Bay is contracted to Maurel & Prom. Gas reserves in place at P90 level of confidence as assessed by an independent consultant in 2010 is 271 billion cubic feet. The summaries of recoverable gas reserves for the two fields are as follows:-

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

REPORT OF THE DIRECTORS (CONTINUED)

22. GAS RESERVES (CONTINUED)

Confidence Level	Songo Songo Billion Cubic Feet	Confidence Level	Mnazi Bay Billion Cubic Feet
P 10	896.888	P 10	1,594
P 50	770.7	P 50	667
P 90	697	P 90	271

By June 2016 gas discoveries (both offshore and onshore) amounted to 57.25 TCF i.e. 47.25 TCF offshore and 10 TCF onshore.

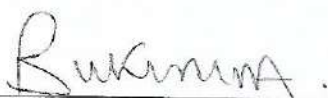
(b) Gas Sharing

Gas produced from reserves are shared between the exploration companies and TPDC in accordance with sharing tranches as per respective PSAs.

23. AUDITORS

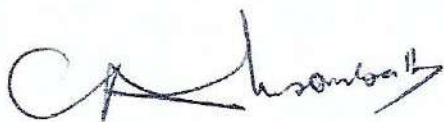
The Controller and Auditor General (CAG) is the statutory auditor of the Corporation by virtue of Article 143 of the Constitution of the United Republic of Tanzania of 1977 as amplified under section 10(1) of the Public Audit Act No. 11 of 2008. However, in accordance with section 33(1) of the same Act, KPMG was authorised to carry out the Audit of Tanzania Petroleum Development Corporation for the year ended 30 June 2016 on behalf of the Controller and Auditor General to assist the CAG in forming the audit opinion.

BY ORDER OF THE BOARD



Chairman: Prof. Sufian H. Bukurura

01/06/2018
Date



Ag. Managing Director: Eng. Kapuulya Musomba

01/06/2018
Date

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2016

The Directors are responsible for the preparation of the consolidated and separate financial statements of Tanzania Petroleum Development Corporation set out on pages 21 to 100 comprising the consolidated and separate statements of financial position as at 30 June 2016, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information, that give a true and fair view in accordance with International Financial Reporting Standards and the Tanzania Petroleum Development Corporation (Establishment) Order, 1969 made under the Public Corporations Act, 1969.

The Directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Directors have made an assessment of the ability of the Corporation and its subsidiaries to continue as going concern and have no reason to believe that the business will not be a going concern in the year ahead.

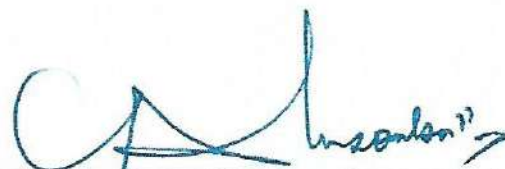
The auditor is responsible for reporting on whether the consolidated and separate financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of financial statements

The consolidated and separate financial statements of Tanzania Petroleum Development Corporation and its subsidiaries, as identified in the first paragraph, were approved by the Board of Directors on 01/06 2018 and signed on its behalf by:



Chairman: Prof. Sufian H. Bukurura



Ag. Managing Director: Eng.
Kapuulya Musomba

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

DECLARATION OF HEAD OF FINANCE

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a Statement of Declaration issued by the Head of Finance responsible for the preparation of financial statements of the entity concerned.

It is the duty of a professional accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing true and fair view position of the entity in accordance with international accounting standards and statutory reporting requirements. Full legal responsibility for financial statements rests with the Board of Directors as under Directors Responsibility statement on an earlier page.

I Godwin Gratian Kailembo being the Acting Director of Finance of Tanzania Petroleum Development Corporation hereby acknowledge my responsibility of ensuring that financial statements for the year ended 30 June 2016 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.

Signed by: 

Position: Ag. Director of Finance

NBAA Membership No.: ACPA (T) 2516

Date: 1st June, 2018

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION
REPORT OF THE CONTROLLER AND AUDITOR GENERAL**

Chairman,
Board of Directors,
Tanzania Petroleum Development Corporation
P.O. Box 9024
DAR ES SALAAM.

Report on the consolidated and separate financial statements

I have audited the accompanying consolidated and separate financial statements of Tanzania Petroleum Development Corporation (the Group and Corporation) set out on page 21 to 100, which comprise the consolidated and separate statements of financial position as at 30 June 2016, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Corporation's directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and the Tanzania Petroleum Development Corporation (Establishment) Order, 1969 made under the Public Corporations Act, 1969 and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

My responsibility is to express an opinion on the consolidated and separate financial statements based on the audit. I conducted the audit in accordance with the international Standards on Auditing. These standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, I considered the internal control relevant to the preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the consolidated and separate financial statements.

According to Sect. 9 of the Public Audit Act, 2008, my specific responsibilities are to examine, enquire into, audit and report on the consolidated and separate financial statements of Tanzania Petroleum Development Corporation for the year ended 30 June 2016.

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION
REPORT OF THE CONTROLLER AND AUDITOR GENERAL (CONTINUED)**

Report on the consolidated and separate financial statements (continued)

Auditor's responsibility (continued)

In addition, Sect. 10 (2) of the Public Audit Act, 2008 requires me to satisfy myself that the consolidated and separate financial statements have been kept in accordance with generally accepted accounting principles; reasonable precautions have been taken to safeguard the collection of revenue, the receipt, custody, disposal, issue and proper use of public property, and that the law, directions and instructions applicable thereto have been duly observed, expenditures of public monies have been properly authorized; and to satisfy myself whether the funds generated by Tanzania Petroleum Development Corporation were used exclusively and judiciously to meet eligible expenditure with due regard to economy and efficiency.

Further, Section 48 (3) of the Public Procurement Act, 2011 and 269 (1) of the Public Procurement (Good, Works, Non-consultancy Services and Disposal of Public Assets by Tender) Regulation of 2013 requires me to state in my annual audit report whether or not the auditee has complied with the provisions of the Law and its Regulations.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Tanzania Petroleum Development Corporation as at 30 June 2016, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and the Tanzania Petroleum Development Corporation (Establishment) Order, 1969 made under the Public Corporations Act, 1969.

Emphasis of matter on comparative information to the separate financial statements

On 25 August 2016 I issued an unmodified opinion on the Corporation's separate financial statements as at and for the year ended 30 June 2015. Those financial statements formed the basis for the comparative information presented in the accompanying financial statements of the Corporation as at and for the year ended 30 June 2015.

Without qualifying my opinion, I draw attention to Note 40 in the financial statements which describes that the Corporation discovered some errors in its prior period separate financial statements and made retrospective adjustments to the comparative information in the accompanying financial statements. Consequently, the comparative information in the accompanying financial statements has been restated.

I audited the retrospective adjustments described in Note 40 to the financial statements that were applied to restate the comparative information with respect to the separate financial statements in order for me to express my opinion on the comparative information presented in the accompanying financial statements. The retrospective adjustment described in Note 40 to the financial statements are appropriate and have been properly applied.

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION
REPORT OF THE CONTROLLER AND AUDITOR GENERAL (CONTINUED)**

Report on the consolidated and separate financial statements (continued)

Other matter on comparative information to the consolidated financial statements

I draw attention to the fact that the Corporation did not prepare consolidated financial statements as at 30 June 2015 and preceding years. As a result the accompanying consolidated statements of financial position of the Corporation as at 30 June 2015 and 30 June 2014, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, or any of the related notes were not audited in prior years, and accordingly, I do not express an opinion on them. Management did a consolidation of the comparative amounts during Financial Year 2016.

I audited the consolidation adjustments in order to express my opinion on the comparative information presented in the accompanying financial statements.

Report on other legal and regulatory requirements

Compliance with Public Procurement Act, 2011

In my opinion, taking into consideration the procurement transactions and processes we reviewed as part of this audit, we state that Tanzania Petroleum Development Corporation has generally complied with the Public Procurement Act, 2011 and its related regulations of 2013.

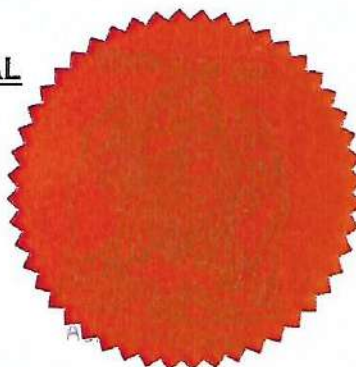

Benjamin Mashauri

Ag: CONTROLLER AND AUDITOR GENERAL

National Audit Office

Dar es salaam, Tanzania.

26/7/.....2018



TANZANIA PETROLEUM DEVELOPMENT CORPORATION

CONSOLIDATED AND SEPARATE STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

		Consolidated		Separate	
	Note	2016 Tzs 'm	2015 Tzs 'm	2016 Tzs 'm	Restated 2015 Tzs 'm
Revenue	10	192,671	69,492	192,671	69,492
Cost of sales	11	(150,545)	(421)	(150,545)	(421)
Gross profit		42,126	69,071	42,126	69,071
Other income	12	20,239	15,688	20,235	15,684
Operating expenses	13	(379,340)	(345,310)	(379,323)	(345,300)
Operating loss		(316,975)	(260,551)	(316,962)	(260,545)
Finance cost	14	(71,057)	(3,500)	(71,057)	(3,500)
Share of profit from associate	21	15,407	10,852	15,407	10,852
Operating loss before tax		(372,625)	(253,199)	(372,612)	(253,193)
Income tax credit / (expense)	15	30,991	(18,406)	30,991	(18,406)
Loss for the year		(341,634)	(271,605)	(341,621)	(271,599)
Other comprehensive income					
<i>Items that will not be reclassified to profit or loss:</i>					
Revaluation of property, plant and equipment		120,684	-	120,684	-
Related tax		(36,205)	-	(36,205)	-
Other comprehensive income for the year net of tax		84,479	-	84,479	-
Total comprehensive loss for the year		(257,155)	(271,605)	(257,142)	(271,599)

The notes on pages 27 to 100 are an integral part of these financial statements.

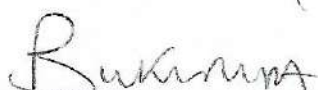
TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2016**

CONSOLIDATED

		2016	2015	2014
	Note	Tzs 'm	Tzs 'm	Tzs 'm
Assets				
Non-current assets				
Property, plant and equipment	16	2,409,669	1,974,889	1,257,105
Natural gas properties	17	61,762	54,108	40,384
Investment properties	18	709	5,694	709
Intangible assets	19	9,639	951	1,354
Investment in subsidiaries	20	-	-	-
Investment in associate	21	43,574	32,428	23,095
Other investments	22	-	1,500	1,500
Escrow funds	23	131,473	120,509	42,012
		2,656,826	2,190,079	1,366,159
Current assets				
Inventories	25	974	416	199
Trade and other receivables	26	307,047	148,696	107,787
Cash and cash equivalents	27	30,257	67,068	32,931
		338,278	216,180	140,917
Total assets		2,995,104	2,406,259	1,507,076
Equity and Liabilities				
Equity				
Share capital	28(a)	2,208	2,208	2,208
Equity contribution from Government	28(b)	184,139	194,013	142,478
Revaluation reserve		139,714	55,235	55,235
Retained earnings		(511,640)	(170,006)	101,599
Total equity		(185,579)	81,450	301,520
Liabilities				
Non-current liabilities				
Deferred tax liability	24	27,017	21,802	23,651
Carried interest liability	29	65,505	49,982	60,561
Borrowings	30	2,618,402	2,108,932	1,079,044
Government grant	31	31,240	4,722	4,988
Asset retirement obligation	32	2,193	-	-
		2,744,357	2,185,438	1,168,244
Current liabilities				
Borrowings	30	166,448	69,480	15,564
Carried interest liability	29	23,549	23,920	1,557
Trade and other payables	33	226,074	25,716	20,191
Income tax payable		20,255	20,255	-
		436,326	139,371	37,312
Total liabilities		3,180,683	2,324,809	1,205,556
Total equity and liabilities		2,995,104	2,406,259	1,507,076

The consolidated and separate financial statements on pages 21 to 100 were approved by the Board of Directors on 01/06/2018 and signed on its behalf by: -


Chairman: Prof. Sufian H. Bukurura

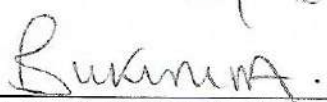

Ag. Managing Director: Eng. Kapuulya Musomba

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**CONSOLIDATED AND SEPARATE STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2016 (CONTINUED)**

SEPARATE			Restated	Restated
		2016	2015	2014
Assets	Note	Tzs 'm	Tzs 'm	Tzs 'm
Non-current assets				
Property, plant and equipment	16	2,409,669	1,974,889	1,257,105
Natural gas properties	17	61,762	54,108	40,384
Investment properties	18	709	5,694	709
Intangible assets	19	9,639	951	1,354
Investment in subsidiaries	20	6,500	6,500	6,500
Investment in associate	21	43,574	32,428	23,095
Other investments	22	-	1,500	1,500
Escrow funds	23	131,473	120,509	42,012
		2,663,326	2,196,579	1,372,659
Current assets				
Inventories	25	974	416	199
Trade and other receivables	26	307,182	148,830	107,921
Cash and cash equivalents	27	30,257	67,068	32,931
		338,413	216,314	141,051
Total assets		3,001,739	2,412,893	1,513,710
Equity				
Share capital	28(a)	2,208	2,208	2,208
Equity contribution from Government	28(b)	184,139	194,013	142,478
Revaluation reserve		139,714	55,235	55,235
Retained earnings		(511,487)	(169,866)	101,733
		(185,426)	81,590	301,654
Liabilities				
Non-current liabilities				
Deferred tax liability	24	27,017	21,802	23,651
Carried interest liability	29	65,505	49,982	60,561
Borrowings	30	2,618,402	2,108,932	1,079,044
Government grant	31	31,240	4,722	4,988
Asset retirement obligation	32	2,193	-	-
		2,744,357	2,185,438	1,168,244
Current liabilities				
Borrowings	30	166,448	69,480	15,563
Carried interest liability	29	23,549	23,920	1,557
Trade and other payables	33	232,556	32,210	26,692
Income tax payable		20,255	20,255	-
		442,808	145,865	43,812
Total liabilities		3,187,165	2,331,303	1,212,056
Total equity and liabilities		3,001,739	2,412,893	1,513,710

The consolidated and separate financial statements on pages 21 to 100 were approved by the Board of Directors on 01/06/2018 and signed on its behalf by: -


Chairman: Prof. Sufian H. Bukurura


Ag. Managing Director: Eng. Kapuulya Musomba

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016**

CONSOLIDATED	Share capital Tzs 'm	Capital reserve Tzs 'm	Deferred government grant Tzs 'm	Equity contribution government Tzs 'm	Revaluation reserve Tzs 'm	Retained earnings Tzs 'm	Capital grant Tzs 'm	Motor Vehicle revolving fund Tzs 'm	Total Tzs 'm
Balance at 1 July 2014	2,208	-	-	142,478	55,235	101,599	-	-	301,520
Total comprehensive loss									
Loss for the year	-	-	-	-	-	(271,605)	-	-	(271,605)
Transactions with owners:									
Net capital contribution from owners (Note 28(b))	-	-	-	51,535	-	-	-	-	51,535
Balance at 30 June 2015	2,208	-	-	194,013	55,235	(170,006)	-	-	81,450
At 1 July 2015 as restated	2,208	-	-	194,013	55,235	(170,006)	-	-	81,450
Total comprehensive income									
Loss for the year	-	-	-	-	-	(341,634)	-	-	(341,634)
Other comprehensive income									
Net revaluation surplus	-	-	-	-	84,479	-	-	-	84,479
Transactions with owners:									
Remittance to government (Note 28(b))				(9,874)					(9,874)
Balance at 30 June 2016	2,208	-	-	184,139	139,714	(511,640)	-	-	(185,579)

The notes on pages 27 to 100 are an integral part of these financial statement

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

CONSOLIDATED AND SEPARATE STATEMENTS OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2016

SEPARATE

	Share capital Tzs 'm	Capital reserve Tzs 'm	Deferred government grant Tzs 'm	Equity contribution government Tzs 'm	Revaluation reserve Tzs 'm	Retained earnings Tzs 'm	Capital grant Tzs 'm	Motor Vehicle revolving fund Tzs 'm	Total Tzs 'm
Balance at 1 July 2014, as previously reported	2,208	42,322	1,280,714	-	78,886	82,892	3,292	300	1,490,614
Impact of correction of errors (Note 40)	-	(42,322)	(1,280,714)	142,478	(23,651)	18,841	(3,292)	(300)	(1,188,959)
Restated balance at 1 July 2014	2,208	-	-	142,478	55,235	101,733	-	-	301,655
Total comprehensive loss (restated)									
Loss for the year	-	-	-	-	-	(271,599)	-	-	(271,599)
Transactions with owners:									
Net capital contribution from owners (Note 28(b))	-	-	-	51,535	-	-	-	-	51,535
Restated balance at 30 June 2015	2,208	-	-	194,013	55,235	(169,866)	-	-	81,590
At 1 July 2015 as restated	2,208	-	-	194,013	55,235	(169,866)	-	-	81,590
Total comprehensive income									
Loss for the year	-	-	-	-	-	(341,621)	-	-	(341,621)
Other comprehensive income									
Net revaluation surplus	-	-	-	-	84,479	-	-	-	84,479
Transactions with owners:									
Remittance to government (Note 28(b))				(9,874)					(9,874)
Balance at 30 June 2016	2,208	-	-	184,139	139,714	(511,487)	-	-	(185,426)

The notes on pages 27 to 100 are an integral part of these financial statement

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**CONSOLIDATED AND SEPARATE STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	Consolidated		Separate	
		2016	2015	2016	Restated 2015
		Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash (used in) / generated from operating activities	35	(34,817)	16,507	(34,817)	16,507
Interest paid		(2,797)	-	(2,797)	-
Tax paid		-	-	-	-
Net cash (used in) / generated from operating activities		(37,614)	16,507	(37,614)	16,507
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant & equipment		(335,195)	(674,513)	(335,195)	(674,513)
Acquisition of intangible assets		(9,312)	-	(9,312)	-
Additions to natural gas properties		(6,754)	(13,741)	(6,754)	(13,741)
Additions to investment property		-	(4,985)	-	(4,985)
Dividends received		5,586	6,529	5,586	6,529
Net cash used in investing activities		(345,675)	(686,710)	(345,675)	(686,710)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		343,091	702,600	343,091	702,600
Equity contribution from parent		-	55,697	-	55,697
Remittance to parent		(9,874)	(4,162)	(9,874)	(4,162)
Increase in carried interest liability		11,213	8,283	11,123	8,283
Change in escrow/restricted funds		-	(58,078)	-	(58,078)
Proceeds from grants		2,048	-	2,048	-
Net cash generated from financing activities		346,478	704,340	346,478	704,340
Net (decrease)/increase in cash and cash equivalents		(36,811)	34,137	(36,811)	34,137
Movement in cash and cash equivalents					
Cash and cash equivalents at beginning of year		67,068	32,931	67,068	32,931
(Decrease)/Increase during the year		(36,811)	34,137	(36,811)	34,137
Cash and cash equivalents at end of year		30,257	67,068	30,257	67,068

The notes on pages 27 to 100 are an integral part of these financial statements.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1. REPORTING ENTITY

Tanzania Petroleum Development Corporation is domiciled in Dar es Salaam, Tanzania. The consolidated financial statements of the Corporation as at and for the year ended 30 June 2016 comprise the Corporation and its subsidiaries GASCO and COPEC (together referred to as the "Group").

The Group is primarily involved in administration and development of oil and gas sector on behalf of the Government of United Republic of Tanzania, as well as running the downstream gas business as the main supplier and distributor.

The registered address of the office is:

Benjamin William Mkapa Pension Towers,
Tower A, Plot 51/52 Azikiwe/Jamhuri Street,
Dar es Salaam, Tanzania.

2. BASIS OF ACCOUNTING

These consolidated and separate financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and the Tanzania Petroleum Development Corporation (Establishment) order, 1969 made under the Public Corporation Act, 1969.

Certain comparative amounts in the statement of profit or loss and other comprehensive income have been restated, reclassified or re-represented, either as a result of correction of prior period error or a change in the classification of certain financial statements line items during the current year. The financial statements were authorised for issue by the Corporation's board of directors on 21.06.2018 2018.

Consolidation

The Corporation owns 100% of the ordinary share capital of GASCO and COPEC. The consolidated financial statements include the financial statements of Tanzania Petroleum Development Corporation and its subsidiaries all made up to 30 June 2016. These financial statements are of the Group (Consolidated) and Corporation (Separate).

The Corporation did not prepare consolidated financial statements as at 30 June 2015 and preceding years. As a result the accompanying consolidated statements of financial position of the Corporation as at 30 June 2015 and 30 June 2014, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, or any of the related notes were not audited in prior years. Management did a consolidation of the comparative amounts during Financial Year 2016.

Correction of prior period errors

During 2016, the Group noted some errors in its financial statements since 2014. The errors have been corrected by restating each of the affected financial statements line items for prior period. The Group has disclosed the nature and amounts corrected for each line affected in Note 40.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

3. FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated and separate financial statements are presented in Tanzanian Shillings (Tzs), which is the Group and Corporation's functional currency. All financial information presented in Tanzanian Shillings has been rounded off to the nearest million (Tzs 'm) except where otherwise indicated.

4. USE OF ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Corporate accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are separately disclosed in Note 8.

5. SIGNIFICANT ACCOUNTING POLICIES

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated and separate financial statements are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

a) Basis of consolidation

i. Subsidiary

Subsidiary is the entity controlled by the Corporation. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiary are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

ii. Non – controlling interest (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Corporation's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iii. Loss of control

When the Corporation loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

iv. Transaction eliminated on consolidation

Intercompany balances and transactions, and any unrealised income and expenses arising from intercompany transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Corporation's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Interest in equity- accounted investees

The Corporation's interests in equity-accounted investees comprise interests in associates.

An associate is an entity in which the Corporation has significant influence, but not control or joint control, over the financial and operating policies.

In the consolidated and separate financial statements, interest in associate is accounted for using the equity method. They are initially recognised at cost, which includes the initial transaction costs directly attributable to the acquisition of the investments. Subsequent to initial recognition, the consolidated and separate financial statements include the Corporation's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases.

c) Joint operations and similar arrangements and joint ventures

A joint arrangement is present where Group holds a long-term interest which is jointly controlled by Group and one or more other parties under a contractual arrangement in which decisions about the relevant activities require the unanimous consent of the parties sharing control. Such joint arrangements are classified as either joint operations or joint ventures.

The parties to a joint operation have rights to the assets and obligations for the liabilities, relating to their respective share of the joint arrangement. In determining whether the terms of contractual arrangements and other facts and circumstances lead to a classification as joint operations, Group in particular considers the nature of products and markets of the arrangement and whether the substance of their agreements is that the parties involved have rights to substantially all the arrangement's assets. Group accounts for the assets, liabilities, revenues and expenses relating to its interests in joint operations in accordance with the principles applicable to those particular assets, liabilities, revenues and expenses. Normally this leads to accounting for the joint operation in a manner similar to the previous proportionate consolidation method where the Corporation recognises, in respect of its interests in jointly controlled operations, the assets that it controls, the liabilities that it incurs, the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint operation.

Group's unincorporated joint production activities are conducted through arrangements that are jointly controlled because unanimous consent is required among all parties involved. In determining whether each separate arrangement related to TPDC's unincorporated joint exploration and production licence activities is within or outside the scope of IFRS 11, Group considers the terms of relevant licence agreements, governmental concessions and other legal arrangements impacting how and by whom each arrangement is controlled.

Joint ventures (in in which the Group has rights to the net assets), are accounted for using the equity method.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Revenue

Natural gas, protected gas and other merchandise

Natural gas and protected gas revenues are recognised when the significant risks and rewards of ownership have been transferred, which is when title passes to the purchaser, and payment is reasonably assured.

Revenues associated with sale and transportation of natural gas, petroleum products and other merchandise are recognised when risk passes to the customer, which is normally when title passes at the point of delivery of the gas, based on the contractual terms of the agreements. Meter readings are done to ascertain the quantity of gas sold.

PSA Revenue

Revenues from the production of gas in which the Group shares an interest with other companies are recognised based on the Group's share of volumes transported and sold to customers during the period. It comprises the cost gas and profit gas revenue which is determined in accordance with the Production Sharing Agreements. The revenue is presented net of taxes and royalties.

Cost gas is the portion of revenue accruing to the licence partners as a manner of recovery for the cost incurred by the partner to reach to the production level. Profit gas is the residual profit accruing to TPDC and the partners after deductions of cost gas.

e) Foreign currency translations

Transactions in foreign currencies are translated to the functional currency (Tanzanian Shilling - Tzs) at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in the foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at the fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss in the period in which they arise.

f) Property, Plant and Equipment

Property, plant and equipment are measured at fair value based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of an asset retirement obligation, if any, and borrowing costs for qualifying assets. Property, plant and equipment also includes expenditure on major maintenance refits or repairs including the cost of replacement assets or

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Property, Plant and Equipment (Continued)

parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits associated with the item will flow to the Group, the expenditure is capitalised. Inspection and overhaul costs, associated with regularly scheduled major maintenance programs planned and carried out at recurring intervals exceeding one year, are capitalised and amortised over the period to the next scheduled inspection and overhaul. All other maintenance costs are expensed as incurred. All other repair and maintenance costs are recognized in profit or loss as and when incurred.

The estimated useful lives of property, plant and equipment are reviewed on an annual basis, and changes in useful lives are accounted for prospectively. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included within other income in the period the item is derecognised.

Valuation

Valuations of property, plant and equipment are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any revaluation surplus is credited to the revaluation reserve included in the shareholders equity net of deferred tax, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in the profit or loss, in which case the increase is recognized in profit or loss. A revaluation deficit is recognized in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognized in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold/disposed is transferred to retained earnings.

Physical verification and valuation of all Group's fixed assets were carried out to determine values of assets as at 30 June, 2016. The exercise was conducted by the Ministry of Lands, Housing and Human settlements Development under the Valuation section and approved by the Chief Government valuer.

Depreciation

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:-

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Property, Plant and Equipment (Continued)

Asset class	Rate per annum
Buildings	4%
Furniture, fittings and equipment	10%
Computers and servers	25%
Motor vehicles	25%
Gas processing plants	3.33%
Gas pipeline	3.33%

Certain components of the gas processing plants are depreciated based on machine hours.

g) Capital work in progress

Capital work in progress represents the costs incurred for capital projects that are under construction and are stated at cost. The cost comprises of the cost of materials, labour, overheads and spares. The capital projects under construction are not depreciated.

h) Natural gas properties

Natural gas properties include oil and gas development and production assets and are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Natural gas properties assets include costs incurred in developing commercial reserves and bringing them into production such as drilling of development wells, tangible costs of facilities and infrastructure construction, projected cost of retiring the assets i.e. asset retirement obligation and the borrowing costs on qualifying assets. The development expenditures are capitalized to Natural gas properties when it is probable that a future economic benefit will flow to the Group and the cost can be reliably measured.

These expenditures are incurred under the terms of Profit Sharing Agreement (PSA) and Joint Operations Agreements (JOA) and represents the Group's share of those expenditures. The costs of the day-to-day servicing of natural gas properties are recognised in profit or loss as incurred.

Depletion

The net carrying amount of natural gas properties is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. If the useful life of the asset is less than the reserve life, in which case the asset is depreciated over its estimated useful life using the straight-line method.

Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers. Changes in factors such as estimates of reserves that affect unit-of-production calculations

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Natural gas properties (Continued)

are dealt with on a prospective basis. Capital costs for assets under construction included in development and production assets are excluded from depletion until the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Disposals

Crude oil and natural gas properties are derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on derecognition of the asset, including farm out transactions or asset sales or asset swaps, is calculated as the difference between the proceeds on disposal, if any, and the carrying value of the asset, is recognised in profit or loss in the period of derecognition.

i) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the period in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the profit or loss in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

j) Intangible assets

Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets are recognized at cost when it is probable that future economic benefits pertaining to the asset will flow to the entity. Intangible assets include exploration software, accounting software and FTG projects.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Intangible assets (Continued)

The useful lives of intangible assets are assessed to be finite with the exception of FTG project costs which have indefinite useful lives. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The annual rate of amortization, which has been consistently applied is 25%.

The amortization period and the amortization method for intangible assets are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets is recognized in the profit or loss. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the profit or loss when the asset is derecognized. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Any obsolete items are provided for in full in the year they are detected.

l) Asset retirement obligations (ARO)

Provisions for ARO costs are recognised when the Group has an obligation (legal or constructive) to dismantle and remove a facility or an item of property, plant and equipment and to restore the site on which it is located, and when a reliable estimate of that liability can be made. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. Cost is estimated based on current regulations and technology, considering relevant risks and uncertainties. The discount rate used in the calculation of the ARO is a risk-free rate based on the applicable currency and time horizon of the underlying cash flows, adjusted for a credit premium which reflects the group's own credit risk. Normally an obligation arises for a new facility, such as an oil and natural gas production or transportation facility, upon construction or installation. An obligation may also crystallise during the period of operation of a facility through a change in legislation or through a decision to terminate operations.

When a provision for ARO cost is recognised, a corresponding amount is recognised to increase the related property, plant and equipment and is subsequently depreciated as part of the costs of the facility or item of property, plant and equipment. Any change in the present

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Asset Retirement Obligation (Continued)

value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding property, plant and equipment.

When a decrease in the ARO provision related to a producing asset exceeds the carrying amount of the asset, the excess is recognised as a reduction of depreciation, amortisation and net impairment losses in profit or loss. When an asset has reached the end of its useful life, all subsequent changes to the ARO provision are recognised as they occur in operating expenses in the profit or loss.

m) Borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method. Borrowing costs on non-qualifying assets are expensed in the period they accrue.

Capitalisation of borrowing costs

Borrowing costs attributable to the construction of qualifying assets are capitalized as part of the cost of these assets over the period of construction to the extent that the assets are financed by borrowings.

n) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risk and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are recognized in the profit or loss. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. Operating lease payments are recognized as an expense in the profit or loss on a straight line basis over the lease term.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Current and deferred income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or other comprehensive income respectively.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The current rate of corporate tax is 30%.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with the investments in associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused income tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax credits and tax losses can be utilized except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with the investments in associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of the deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are re-assessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Current and deferred income tax (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or liability settled, based on the tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same tax authority on the same taxable entity.

p) Value added tax

Revenues, expenses and assets are recognised at amounts net of value added tax except where the value added tax incurred on a purchase of an asset or service is not recoverable from the taxation authority in which case the value added tax is recognised as part of the cost of acquisition of the asset or part of the expense item as applicable.

The net amount of value added tax recoverable from, or payable to, the tax authority is included as part of the receivables or payables in the statement of financial position.

q) Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

r) Financial instruments

The Group classifies non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the short-term or that it has designated as at fair value through profit or loss or available-for-sale or those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale. They are included in current assets, except for maturities greater than 12 months after the reporting date. Loans and receivables comprise trade and other receivables, cash and bank balances, escrow funds and balances due from related parties.

Available-for-sale financial assets include equity investments. These are financial assets that are neither classified as held for trading nor designated at fair value through profit or loss.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Financial instruments (Continued)

The Group classifies non-derivative financial liabilities into other financial liabilities category. The Group's financial liabilities include trade and other payables, borrowings, carried interest liability and balances due to related parties.

(i) Non-derivative financial assets and financial liabilities – Recognition and derecognition

The Group initially recognises loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risk and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable 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.

(ii) Non-derivative financial assets - Measurement

Loans and receivables are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Available-for-sale financial assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Dividends earned whilst holding the available-for-sale assets are recognised in profit or loss as other income when the right of payment has been established.

(iii) Non-derivative financial liabilities - Measurement

Other financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Compound financial instruments

Compound financial instruments of the Group comprise of borrowing that have been issued at below market rates. The liability component is initially recognised at fair value and the equity component is initially recognised as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Subsequent to initial recognition, the liability component is measured at amortised cost using the effective interest method. The equity component is not remeasured. Interest related to the financial liability is recognised in profit or loss.

u) Impairment

i. Non-derivative financial assets

Financial assets not classified at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtors;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found to be impaired are then collectively identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) Impairment (Continued)

i. Non-derivative financial assets (Continued)

An impairment loss is calculated as the difference between an asset's 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 for doubtful debt account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Available-for sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss.

Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

ii. Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash flows from continuing use that are largely independent of the cash inflows of other assets or CGU.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) Impairment (Continued)

ii. Non-financial assets (Continued)

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments or the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill (if any) is not reversed. For other assets, 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.

v) Cash and cash equivalents

Cash and cash equivalents include cash in hand and cash at bank.

w) Escrow funds

The amount represent funds deposited into the Escrow Accounts opened at commercial bank to secure repayment of principal and payment of interest and fees for the loan from Export-Import Bank of China which was received through the Government of Tanzania. The loan was used to finance the processing plants and transportation pipeline projects. For further details, refer to Note 23. Changes in the escrow funds account are presented within financing activities in the statement of cash flows. These funds do not have original maturities of three months or less. These have been classified as non-current.

x) Employee benefit obligation

Defined contribution scheme

The Group pays contributions to a publicly administered pension plan on a mandatory basis which qualifies to be a defined contribution plan.

A defined contribution plan is a pension plan under which the Group pays fixed contribution into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Group portion of contributions are recognized as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

x) Employee benefit obligation (Continued)

All of the Group's employees are either members of the National Social Security Fund ("NSSF") or Parastatals Pension Fund (PPF), Public Sector Pension Fund (PSPF), Local Authorities Pension Fund (LAPF) and Government Employees Pension Fund (GEPF) which are defined contribution plans. Each employee must be a member of at least one of the aforementioned pension funds. The Group and employees both contribute a total of 20% of the employees' gross salaries to the pension funds.

y) Related party transactions

Transactions between the Corporation and controlled entities, entities with significant influence, joint ventures, key management personnel, its shareholder and close family members of these related parties have been disclosed in the notes to these financial statements.

Key management personnel constitute the members of the Board of Directors, Managing Director, Heads of Directorates and Department.

z) Government grant and assistance/Government contribution

Government grants received relating to the creation of non-current assets are included in non-current liabilities as deferred income and are credited to profit or loss in other income on a straight-line basis over the expected useful lives of the related assets.

Government grants in the form of non-monetary assets are accounted for at fair value and presented as deferred grant in the statement of financial position. The grant is credited to profit or loss in other income on a straight-line basis over the expected useful life of the asset.

Government grants which become receivable as compensation for expenses or losses already incurred, or for the purpose of giving immediate financial support to the Group with no future related costs, are recognised in profit or loss within other operating income for the period in which they become receivable.

aa) Other income

Other income comprises of gains or losses on disposals of item property, plant and equipment, government grants relating to expenses, amounts from amortisation of deferred government grants, license fees and training fees from contractors, rental income, sale of condensate and other miscellaneous income.

bb) Finance cost

Finance cost comprises interest payable on borrowings and carried interest liability. Borrowing costs which are not capitalised (refer to Note 5(m)) are recognised in profit or loss.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

cc) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are recognised as a deduction from equity. Income tax relating to transactions costs of an equity transaction are accounted for in accordance with IAS 12.

dd) Carried interest liability

Carried interest liability include cash calls commitments and accrued interest on the liability payable to other partners in Mnazibay PSA in respect of 20% participating interest in the PSA covering the Mnazi Bay Development Area. The portion that the entity expects to settle in less than 12 months is classified as current portion. Refer to Note 29.

6. GOING CONCERN

The Group incurred a net loss of Tzs 341,634 million (Corporation: Tzs 341,621 million) for the year ended 30 June 2016 (2015: Group incurred a net loss of Tzs 271,605 million and Corporation: Tzs 271,599 million). As at the reporting date the Group's liabilities exceeded its assets by Tzs 185,579 million (Corporation: Tzs 185,426) (2015: Group's assets exceeded liabilities by Tzs 81,450 and Corporation: Tzs 81,590).

In addition, TPDC holds 100% shares in its subsidiary companies, GASCO and COPEC. The operational budget of the subsidiaries are financed by the Corporation.

As stated in Note 30 (a) & (b) to these financial statements, the Group has defaulted in paying the interest for the loan which was received from Export - Import Bank of China through the Government of Tanzania to finance the Natural Gas Processing Plants and Pipeline Project. Furthermore, the Group has been reliant on Government support to service this loan. Unless the Government intervenes, the Group will not be able to realise its assets and pay its liabilities in the ordinary course of the business.

The consolidated and separate financial statements have been prepared on the going concern basis based on assumption that the Government will continue to provide financial support as and when necessary. The Government has consistently shown its commitment to provide financial support to the Group through revenue grants to finance part of operating costs, capital contributions to finance capital projects, granting of government loans and/or securing of loans on behalf of the Group.

The directors are of the opinion that the Government acknowledges the Group's financial difficulties and it will not recall its on-lent loan that the Group has defaulted in paying interest. The Government has continued funding the Corporation despite the default. Additionally, the Government of Tanzania has confirmed its commitment of providing financial support to TPDC in order to continue operating on a going concern basis.

In view of the above, the directors of the Corporation believe that the Group will continue to operate on a going concern basis. Accordingly, these financial statements have been prepared on the basis of accounting policies applicable to a going concern.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

7. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2015 and earlier application is permitted; however, the Group has not early applied the following new or amended standards in preparing these consolidated and separate financial statements.

New or amended standards	Summary of the requirements	Possible impact on the separate and consolidated financial statements
Effective date 1 January 2018 IFRS 9 financial instruments	IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirement. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.	The Group is assessing the potential impact on its consolidated and separate financial statements resulting from the application of IFRS 9.
Effective date 1 January 2018 IFRS 15 Revenue from Contracts with Customers	IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 <i>Construction Contracts</i> and IFRIC 13 <i>Customer Loyalty Programmes</i> .	The Group is assessing the potential impact on its consolidated and separate financial statements resulting from the application of IFRS 15.
Effective date 1 January 2019 IFRS 16 Leases	IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial position. No significant changes have been included for lessors. Early adoption is permitted for entities that that apply IFRS 15 at or before the date of initial application of IFRS 16.	The Group is assessing the potential impact on its consolidated and separate financial statements resulting from the application of IFRS 16.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

**7. NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE
(CONTINUED)**

New or amended standards	Summary of the requirement	Possible impact on the financial statements
Effective date 1 January 2017 Disclosure initiative (Amendments to IAS 7)	The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash flow changes.	The Group is assessing the potential impact on its consolidated and separate financial statements resulting from the amendment.
Effective date 1 January 2017 Recognition of Deferred Tax Asset for unrealised Losses (Amendments to IAS 12)	The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.	The Group is assessing the potential impact on its consolidated and separate financial statements resulting from the amendment.
Effective date 1 January 2016 Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be remeasured.	The Group is assessing the potential impact on its consolidated and separate financial statements resulting from the amendment. The Group does not expect the amendment to have a material impact on the group's financial statements.
Effective date 1 January 2016 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.	The Group is assessing the potential impact on its consolidated and separate financial statements resulting from the amendments. So far, the Group does not expect any significant impact.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

7. NEW STANDARDS AND INTERPRETATION ISSUES BUT NOT YET EFFECTIVE (CONTINUED)

The Group has early adopted the amendments to IAS 27 – Equity Method in Separate Financial Statements which is effective on 1 January 2016. The amendments allow an entity to apply the equity method in its separate financial statements to account for its investments in subsidiaries, associates and joint ventures.

8. USE OF JUDGMENTS AND ESTIMATES

In preparing these consolidated and separate financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

i. Key sources of estimation uncertainty

The preparation of the consolidated and separate financial statements requires that management makes estimates and assumptions that affect reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis considering the current and expected future market conditions.

The Group is exposed to a number of underlying economic factors which affect the overall results, such as natural gas prices, foreign exchange rates and interest rates. In addition, Group's results are influenced by the level of production, which in the short term may be influenced by, for instance, maintenance programmes or market bottlenecks. In the long term, the results are impacted by field development activities.

The matters described below are considered to be the most important in understanding the key sources of estimation uncertainty that are involved in preparing these consolidated and separate financial statements and the uncertainties that could most significantly impact the amounts reported on the results of operations, financial position and cash flows.

a. Proved oil and gas reserves

Proved oil and gas reserves may materially impact the consolidated and separate financial statements, as changes in the proved reserves, for instance as a result of changes in estimated volume, will impact the unit of production rates used for depletion and impairment assessments of the natural gas properties. Proved oil and gas reserves have been estimated on the basis of industry standards which require the use of a price based on a 12-month average for reserve estimation, and which are to be based on existing economic conditions and operating methods and with a high degree of confidence (at least 90% probability) that the quantities will be recovered.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

8. USE OF JUDGMENTS AND ESTIMATES (CONTINUED)

i. Key sources of estimation uncertainty (Continued)

a. Proved oil and gas reserves (Continued)

Reserves estimates are based on subjective judgements involving geological and engineering assessments of in-place hydrocarbon volumes, the production, historical recovery and processing yield factors and installed plant operating capacity. For future development projects, proved reserves estimates are included only where there is a significant commitment to project funding and execution and when relevant governmental and regulatory approvals have been secured or are reasonably certain to be secured. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data and the efficiency of extracting and processing the hydrocarbons. An independent third party has evaluated Group's proved reserves estimates, and the results of this evaluation do not differ materially from Group's estimates.

Proved gas reserves are those quantities of gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods and government regulations. Unless evidence indicates that renewal is reasonably certain, estimates of economically producible reserves only reflect the period before the contracts providing the right to operate expire.

b. Expected oil and gas reserves

Expected gas reserves may materially impact the consolidated and separate financial statements, as changes in the expected reserves, for instance as a result of changes in prices, will impact asset retirement obligations and impairment testing of upstream assets, which in turn may lead to changes in impairment charges affecting operating income. Expected gas reserves are the estimated remaining, commercially recoverable quantities, based on Group's judgement of future economic conditions, from projects in operation or justified for development.

Recoverable gas quantities are always uncertain, and the expected value is the weighted average, or statistical mean, of the possible outcomes. Expected reserves are therefore typically larger than proved reserves. Expected gas reserves have been estimated on the basis of industry standards and are used for impairment testing purposes and for calculation of asset retirement obligations. Reserves estimates are based on subjective judgments involving geological and engineering assessments of in-place hydrocarbon volumes, the production, historical recovery and processing yield factors, installed plant operating capacity and operating approval limits. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data and the efficiency of extracting and processing the hydrocarbons.

c. Impairment/reversal of impairment

The Group has significant investments in property, plant and equipment. Changes in the circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired, requiring the carrying amount to be written down to its recoverable amount. Impairments are reversed if conditions for impairment are no longer present. Evaluating

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

8. USE OF JUDGMENTS AND ESTIMATES (CONTINUED)

i. Key sources of estimation uncertainty (Continued)

c. Impairment/reversal of impairment (Continued)

whether an asset is impaired or if an impairment should be reversed requires a high degree of judgement and may, to a large extent depend upon the selection of key assumptions about the future.

Subsequent to the initial evaluation phase for a well, it will be considered a trigger for impairment testing of a well if no development decision is planned for the near future and there is no concrete plan for future drilling in the licence. Impairment of unsuccessful wells is reversed, as applicable, to the extent that conditions for impairment are no longer present.

Estimating recoverable amounts involves complexity in estimating relevant future cash flows, based on assumptions about the future, discounted to their present value. Impairment testing requires long-term assumptions to be made concerning a number of often volatile economic factors such as future market prices, currency exchange rates and future output, discount rates and political and country risk among others, in order to establish relevant future cash flows. Impairment testing frequently also requires judgement regarding probabilities and probability distributions as well as levels of sensitivity inherent in the establishment of recoverable amount estimates.

d. Asset retirement obligations

The Group has significant obligations to decommission and remove onshore and offshore installations at the end of the production period. It is difficult to estimate the costs of these decommissioning and removal activities, which are based on current regulations and technology, and consider relevant risks and uncertainties. Most of the removal activities are to be done in many years in the future, and the removal technology and costs are constantly changing. The estimates include assumptions of the time required and the day rates for rigs, marine operations and heavy lift vessels that can vary considerably depending on the assumed removal complexity. As a result, the initial recognition of the liability and the capitalized cost associated with decommissioning and removal obligations, and the subsequent adjustment of these balance sheet items, involve the application of significant judgment.

e. Income tax

The Corporation is subject to income taxes to the Government. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Corporation recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

8. USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

i. Key sources of estimation uncertainty (Continued)

f. Property, plant & equipment

Critical estimates are made by the management in determining depreciation rates for property, plant and equipment. The rates used are set out in Note 5 (f) above.

ii. Measurement of fair values

A number of Group's accounting policies and disclosure require the measurement of fair values. Management had overall responsibility for overseeing all significant fair value measurements.

When measuring the fair value of an asset or a liability, the Group uses observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input that is significant to the entire measurement.

9. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT

(a) Accounting classification and measurement of fair values

The Group has an established control framework with respect to the measurement of fair value.

When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the input used in the valuation techniques as follows;

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observed for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobserved inputs)

If the input used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

9. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(a) Accounting classification and measurement of fair values (Continued)

The following table shows the carrying amounts and fair value of financial assets and financial liabilities, including their levels in the fair value hierarchy as described above:

	Carrying amount Tzs 'm	Fair value Tzs 'm	Level 1 Tzs 'm	Level 2 Tzs 'm	Level 3 Tzs 'm	Total Tzs 'm
Available for sale investments	-	-	-	-	-	-
	-	-	-	-	-	-

During the year there were no movements between the fair value levels.

Financial instruments at amortized cost

Consolidated	Carrying amounts 2016 Tzs 'm	Carrying amounts 2015 Tzs 'm	Carrying amounts 2014 Tzs 'm
Financial assets not measured at fair value			
Trade and other receivables	246,982	146,763	102,384
Escrow funds	131,473	120,509	42,012
Cash and cash equivalents	30,257	67,068	32,931
	<u>408,712</u>	<u>334,340</u>	<u>177,327</u>

Financial liabilities not measured at fair value

Borrowings	(2,784,850)	(2,178,412)	(1,094,608)
Trade and other payables*	(165,304)	(17,432)	(15,286)
Carried interest liability	(89,054)	(73,902)	(62,118)
	<u>(3,039,208)</u>	<u>(2,269,746)</u>	<u>(1,172,012)</u>

*these exclude VAT and provisions

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

9. FINANCIAL INSTRUMENTS –FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(a) Accounting classification and measurement of fair values (Continued)

Financial instruments at amortized cost

Separate	Carrying amounts 2016 Tzs 'm	Carrying amounts 2015 Tzs 'm	Carrying amounts 2014 Tzs 'm
Financial assets not measured at fair value			
Trade and other receivables	247,116	146,897	247,116
Escrow funds	131,473	120,509	42,012
Cash and cash equivalents	30,257	67,068	32,931
	<u>408,846</u>	<u>334,474</u>	<u>322,059</u>
Financial liabilities not measured at fair value			
Borrowings	(2,784,850)	(2,178,412)	(1,094,608)
Trade and other payables*	(171,785)	(23,926)	(171,785)
Carried Interest liability	(89,054)	(73,902)	(62,118)
	<u>(3,045,689)</u>	<u>(2,276,240)</u>	<u>(1,328,511)</u>

*these exclude VAT payable and provisions

The financial assets and liabilities on the table above are not measured at fair value; however due to their short term nature, their carrying amount are deemed to be reasonable approximation of their fair values. Borrowing and carried interest liability have interest or Imputed interest close to the market rates.

(b) Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established Audit and risk management committee which is responsible for developing and monitoring the Group's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor adherence to risk limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

9. FINANCIAL INSTRUMENTS –FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

Risk management framework (Continued)

The Audit and risk management committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's audit and risk management committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and risk management committee.

The Group's exposure to risk, its objectives, policies and processes for managing the risk and the methods used to measure it have been consistently applied in the years presented, unless otherwise stated.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

i. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables.

Credit risk arises from cash at bank and trade and other receivables. The major customer is TANESCO, a related party. The Corporation works with Ministry of Energy, Treasury Registrar office (TRO) and TANESCO to ensure gas sales proceeds are paid timeously. The Group has policies in place to ensure that debts are recoverable within 30 days after the invoice is issued to customers. The carrying amounts of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	Consolidated			Separate		
	2016 Tzs 'm	2015 Tzs 'm	2014 Tzs 'm	2016 Tzs 'm	2015 Tzs 'm	2014 Tzs 'm
Cash and cash equivalents	30,257	67,068	32,931	30,257	67,068	32,931
Trade and other receivables	246,982	146,763	102,384	247,116	146,897	102,518
Escrow funds	131,473	120,509	42,012	131,473	120,509	42,012
	408,712	334,340	117,327	408,846	344,474	177,461

No collateral is held for any of the above assets. Analysis of trade and other receivables is provided in Note 26. At 30 June 2016, the aging of trade receivables that were not impaired was as follows:

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

9. FINANCIAL INSTRUMENTS –FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

i. Credit risk (Continued)

	Consolidated			Separate		
	2016	2015	2014	2016	2015	2014
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Neither past due nor impaired	28,454	15,620	11,267	28,454	15,620	11,267
Past due but not impaired:						
- by up to 30 days	49,911	9,007	6,497	49,911	9,007	6,497
- by 31 to 60 days	21,299	11,692	8,434	21,299	11,692	8,434
- by 61 to 90 days	17,318	9,507	6,857	17,318	9,507	6,857
- Over 91 days	158,454	116,557	80,596	158,588	116,691	80,730
Total unimpaired	246,982	146,763	102,384	247,116	146,897	102,518
Impaired	44,526	6,835	-	44,526	6,835	-
Gross debtors	291,508	153,598	102,384	291,642	153,732	102,518

The movement in the allowance for impairment in respect of trade receivables during the year is as follows:

	Consolidated Tzs 'm	Separate Tzs 'm
Balance at 1 July 2013	-	-
Impairment loss recognized during the year	-	-
Balance at 30 June 2014	-	-
Balance at 1 July 2014	-	-
Impairment loss recognized during the year	6,835	6,835
Balance at 30 June 2015	6,835	6,835
Balance at 1 July 2015	6,835	6,835
Impairment loss recognized during the year	37,691	37,691
Balance at 30 June 2016	44,526	44,526

Cash and cash equivalents

The Group held cash and cash equivalents of Tzs 30,257 million (Corporation: Tzs 30,257 million) at 30 June 2016 (30 June 2015: Tzs 67,068 million for Group and Tzs 67,068 for Corporation) (30 June 2014: Tzs: 32,931 million for Group and Tzs 32,931 for Corporation), which represents its maximum credit exposure on these assets. The cash and cash equivalents are generally held with banks of good reputation.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

9. FINANCIAL INSTRUMENTS- FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

ii. Concentration risk

The Corporation provides credit sales to customers in the ordinary course of business. Management does not anticipate any adverse effects on its consolidated and separate financial position resulting from this credit risk. As of 30 June 2016 and 2015 TPDC had amounts due from one customer totalling approximately Tzs 85,324 million and Tzs 143 million respectively representing 34% and 0.1%, respectively, of its total trade receivable. This customer also accounted for approximately Tzs 148,407 million and Tzs 0 in revenue, representing 89% and 0% of total sales for TPDC for the years ended June 30 June 2016 and 2015, respectively.

iii. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through active cashflow monitoring.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

Consolidated	Carrying amount Tzs 'm	Contractual cash flows Tzs 'm	Less than 1 year Tzs 'm	Between 1 - 2 years Tzs 'm	Between 2- 5 years Tzs 'm	Over 5 years Tzs 'm
Non-derivative financial liabilities						
At 30 June 2016						
Borrowings	2,784,850	2,784,850	166,448	44,415	168,963	2,405,023
Carried interest liability	89,054	89,054	23,549	47,099	18,406	-
Trade and other payables	165,304	165,304	165,304	-	-	-
	3,039,208	3,039,208	355,301	91,514	187,369	2,405,023

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9. FINANCIAL INSTRUMENTS- FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

iii. Liquidity risk (Continued)

Separate	Carrying amount Tzs 'm	Contractual cash flows Tzs 'm	Less than 1 year Tzs 'm	Between 1 - 2 years Tzs 'm	Between 2- 5 years Tzs 'm	Over 5 years Tzs 'm
Non-derivative financial liabilities						
At 30 June 2016						
Borrowings	2,784,850	2,784,850	166,448	44,415	168,963	2,405,023
Carried interest liability	89,054	89,054	23,549	47,099	18,406	-
Trade and other payables	171,785	171,785	171,785	-	-	-
	3,045,689	3,045,689	361,782	91,514	187,369	2,405,023

Consolidated	Carrying amount Tzs 'm	Contractual cash flows Tzs 'm	Less than 1 year Tzs 'm	Between 1 - 2 years Tzs 'm	Between 2- 5 years Tzs 'm	Over 5 years Tzs 'm
Non-derivative financial liabilities						
At 30 June 2015						
Borrowings	2,178,412	2,178,412	69,480	-	110,913	1,998,018
Carried interest liability	73,902	73,902	23,920	47,840	2,142	-
Trade and other payables	17,432	17,432	17,432	-	-	-
	2,269,746	2,269,746	110,832	47,840	113,055	1,998,018

Separate	Carrying amount Tzs 'm	Contractual cash flows Tzs 'm	Less than 1 year Tzs 'm	Between 1 - 2 years Tzs 'm	Between 2- 5 years Tzs 'm	Over 5 years Tzs 'm
Non-derivative financial liabilities						
At 30 June 2015						
Borrowings	2,178,412	2,178,412	69,480	-	110,913	1,998,018
Carried interest liability	73,902	73,902	23,920	47,840	2,142	-
Trade and other payables	23,926	23,926	23,926	-	-	-
	2,276,240	2,276,240	117,326	47,840	113,055	1,998,018

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

9. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

ii. Liquidity risk (Continued)

Consolidated	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 - 2 years	Between 2- 5 years	Over 5 years
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Non-derivative financial liabilities						
At 30 June 2014						
Borrowings	1,094,608	1,094,608	15,564	-	29,082	1,049,963
Carried interest liability	62,118	62,118	1,557	47,469	13,091	-
Trade and other payables	15,286	15,286	15,286	-	-	-
	1,172,012	1,172,012	32,407	47,469	42,173	1,049,963

Separate	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 - 2 years	Between 2- 5 years	Over 5 years
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Non-derivative financial liabilities						
At 30 June 2014						
Borrowings	1,094,608	1,094,608	15,564	-	29,082	1,049,963
Carried interest liability	62,118	62,118	1,557	47,469	13,091	-
Trade and other payables	21,786	21,786	21,786	-	-	-
	1,178,512	1,178,512	38,907	47,469	42,173	1,049,963

iii. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates etc. will affect the Group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing returns.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

9. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

iii. Market risk (Continued)

Foreign exchange risk

Foreign exchange risk arise from commercial transaction as the Group transact in US Dollar (USD) for significant portion of its transactions. The Group is exposed to foreign exchange risk arising from currency exposures due to exchange fluctuations, primarily with respect to the USD.

Generally borrowings, trade and other payables and carried interest liability are denominated in currency (USD) that matches the cash flows generated by the underlying operations of the Group.

The summary of quantitative data about Group's exposure to currency risks as reported to management of the Corporation on its risk management policy is as follow:

Equivalent amounts in shillings (in millions)

Consolidated	2016	2015	2014
Balances denominated in USD	Tzs 'm	Tzs 'm	Tzs 'm
Trade and other receivables	240,407	123,367	88,936
Cash and cash equivalents	28,432	54,955	32,352
Escrow funds	131,473	120,509	42,012
Borrowings	(2,784,850)	(2,178,413)	(1,094,607)
Carried interest liability	(89,054)	(73,902)	(62,118)
Trade and other payables	(114,899)	(23,982)	(12,431)
Net exposure	<u>(2,588,491)</u>	<u>(1,977,466)</u>	<u>(1,005,856)</u>
Separate	2016	2015	2015
Balances denominated in USD	Tzs 'm	Tzs 'm	Tzs 'm
Trade and other receivables	240,407	123,367	88,936
Cash and cash equivalents	28,432	54,955	32,352
Escrow funds	131,473	120,509	42,012
Borrowings	(2,784,850)	(2,178,413)	(1,094,607)
Carried interest liability	(89,054)	(73,902)	(62,118)
Trade and other payables	(114,899)	(23,982)	(12,431)
Net exposure	<u>(2,588,491)</u>	<u>(1,977,466)</u>	<u>(1,005,856)</u>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

9. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

iii. Market risk (Continued)

Foreign exchange risk (Continued)

The following significant exchange rates applied during the year/period (Tzs values for 1 USD);

	<u>Average rate</u>			<u>Reporting rate</u>		
	2016	2015	2014	2016	2015	2014
USD	2,170.03	1,779.00	1,619.09	2,178.86	2,010.35	1,649.67

Sensitivity analysis

The table below shows the Group's sensitivity to foreign exchange rates on its US dollar financial instruments excluding obligations which do not present a material exposure. The Group has considered movements in these currencies over the last three years and has concluded that a 10% movement in rates is a reasonable benchmark.

Consolidated	Strengthening		Weakening	
	Profit or loss	Equity*	Profit or loss	Equity*
30 June 2016				
USD - 10% movement (Loss)/gain	(258,849)	(181,194)	258,849	181,194
30 June 2015				
USD - 10% movement (Loss)/gain	(197,746)	(138,422)	197,746	138,422
30 June 2014				
USD - 10% movement (Loss)/gain	(100,585)	(70,410)	100,585	70,410
Separate	Strengthening		Weakening	
	Profit or loss	Equity*	Profit or loss	Equity*
30 June 2016				
USD - 10% movement (Loss)/gain	(258,849)	(181,194)	258,849	181,194
30 June 2015				
USD - 10% movement (Loss)/gain	(197,746)	(138,422)	197,746	138,422
30 June 2014				
USD - 10% movement (Loss)/gain	(100,585)	(70,410)	100,585	70,410

*Figures are presented net of tax.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

9. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

iii. Market risk (Continued)

Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, its income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Profile

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Consolidated Carrying amount			Separate Carrying amount		
	2016	2015	2014	2016	2015	2014
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Fixed rate instruments						
Financial assets	-	-	-	-	-	-
Financial liabilities	(2,075,037)	(1,689,444)	(929,156)	(2,075,037)	(1,689,444)	(929,156)
- Borrowings	(2,075,037)	(1,689,444)	(929,156)	(2,075,037)	(1,689,444)	(929,156)
	<u>(2,075,037)</u>	<u>(1,689,444)</u>	<u>(929,156)</u>	<u>(2,075,037)</u>	<u>(1,689,444)</u>	<u>(929,156)</u>
Variable rate instruments						
Financial assets	-	-	-	-	-	-
Financial liabilities	(798,867)	(562,871)	(227,569)	(738,033)	(562,871)	(227,569)
-Borrowings	(709,813)	(488,969)	(165,451)	(648,979)	(488,969)	(165,451)
-Carried interest liability	(89,054)	(73,902)	(62,118)	(89,054)	(73,902)	(62,118)
	<u>(798,867)</u>	<u>(562,871)</u>	<u>(227,569)</u>	<u>(738,033)</u>	<u>(562,871)</u>	<u>(227,569)</u>

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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9. FINANCIAL INSTRUMENTS – FAIR VALUE AND RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (Continued)

iii. Market risk (continued)

Cash flow and fair value interest rate risk (Continued)

A change of 100 basis points interest rates at the reporting date would have increased (decreased) profit or loss by the amounts below. This analysis assumes that all other variables in particular foreign currency rates, remain constant.

	Consolidated Profit or loss		Separate Profit or loss	
	100 bp increase Tzs 'm	100 bp decrease Tzs 'm	100 bp increase Tzs 'm	100 bp decrease Tzs 'm
2016				
Variable rate instruments	<u>(7.99)</u>	<u>7.99</u>	<u>(7.99)</u>	<u>7.99</u>
2015				
Variable rate instruments	<u>(5.63)</u>	<u>5.63</u>	<u>(5.63)</u>	<u>5.63</u>
2014				
Variable rate instruments	<u>(2.28)</u>	<u>2.28</u>	<u>(2.28)</u>	<u>2.28</u>

The Group has elected not to hedge interest risk and there would therefore be no impact on equity.

iv. Capital risk management

The Group's objectives when managing capital are aimed at safeguarding its ability to continue as a going concern in order to provide returns for the shareholder and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents net of restricted deposits/funds. Total capital is calculated as equity plus net debt.

The gearing ratios at 30 June 2016, 30 June 2015 and 30 June 2014 were as follows:

	Consolidated			Separate		
	2016 Tzs 'm	2015 Tzs 'm	2014 Tzs 'm	2016 Tzs 'm	2015 Tzs 'm	2014 Tzs 'm
Total borrowings	2,784,850	2,178,412	1,094,607	2,784,850	2,178,413	1,094,607
Less: cash and cash equivalents	<u>(30,257)</u>	<u>(67,068)</u>	<u>(32,931)</u>	<u>(30,257)</u>	<u>(67,068)</u>	<u>(32,931)</u>
Net debt	2,754,593	2,111,345	1,061,679	2,754,593	2,111,345	1,061,679
Total equity	(185,579)	81,850	301,520	(185,426)	81,590	301,654
Gearing ratio	<u>-14.84:1</u>	<u>25.80:1</u>	<u>3.52:1</u>	<u>-14.85:1</u>	<u>25.88:1</u>	<u>3.52:1</u>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

10. REVENUE

	Consolidated		Separate	
	2016	2015	2016	Restated 2015
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
PSA revenue - Songosongo	14,884	48,392	14,884	48,392
PSA revenue - Mnazi Bay	10,414	1,878	10,414	1,878
Sale of natural gas	148,407	-	148,407	-
Sale of protected gas	18,154	15,776	18,154	15,776
Sale of Data	812	3,446	812	3,446
	<u>192,671</u>	<u>69,492</u>	<u>192,671</u>	<u>69,492</u>

11. COST OF SALES

Natural gas	87,997	-	87,997	-
Depreciation of gas processing plant & pipeline	61,496	-	61,496	-
Depletion of natural gas properties	428	17	428	17
Amortisation of intangible asset	624	404	624	404
	<u>150,545</u>	<u>421</u>	<u>150,545</u>	<u>421</u>

12. OTHER INCOME

Training fees from contractors	3,968	2,743	3,968	2,743
Licence fees from contractors	1,921	-	1,921	-
Sale of condensate	1,600	784	1,600	784
Government contribution(grant)	11,228	10,621	11,228	10,621
Gas project income	258	144	258	144
Interest income	357	474	357	474
House rent	87	80	87	80
Miscellaneous income	268	305	264	301
ESCBP project fund	-	254	-	254
Rent from petrol stations	22	17	22	17
Amortisation of capital grants	530	266	530	266
	<u>20,239</u>	<u>15,688</u>	<u>20,235</u>	<u>15,684</u>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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13. OPERATING EXPENSES

	Consolidated 2016 Tzs 'm	2015 Tzs 'm	Separate 2016 Tzs 'm	2015 Tzs 'm Restated
Provision for doubtful receivables	38,088	6,835	38,088	6,835
Staff costs	26,307	20,473	26,307	20,473
Depreciation	1,672	1,431	1,672	1,431
Repairs and maintenance expenses	1,095	1,235	1,095	1,235
Legal expenses	145	760	145	760
Transport and travel expenses	1,053	1,056	1,053	1,056
Audit fees	285	69	285	69
Insurance	477	306	477	306
Bank charges and commission	115	363	115	363
Gas project expenses	1,284	1,377	1,284	1,377
Foreign exchange differences	169,688	293,454	169,688	293,454
Loss on revaluation of property, plant and equipment	496	-	496	-
Fair valuation loss – investment property	495		495	
Impairment loss on other investments	1,500	-	1,500	-
Corporate tax refunded to PAET	6,691	9,422	6,691	9,422
ARO accretion	194	-	194	-
Other expenses	91,971	6,392	91,954	6,382
Provisions for taxes	37,784	2,137	37,784	2,137
	<u>379,340</u>	<u>345,310</u>	<u>379,323</u>	<u>345,300</u>

**Depreciation on property, plant and
equipment charged to:**

- Cost of sales	61,496	-	61,496	-
- Operating expenses	1,672	1,431	1,672	1,431
Total depreciation charge (Note 16)	<u>63,168</u>	<u>1,431</u>	<u>63,168</u>	<u>1,431</u>

14. FINANCE COST

Interest expense - borrowings	67,118	-	67,118	-
Interest expense – carried interest	3,939	3,500	3,939	3,500
	<u>71,057</u>	<u>3,500</u>	<u>71,057</u>	<u>3,500</u>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

15. TAXATION

	Consolidated		Separate	
	2016	2015	2016	2015
	Tzs'm	Tzs'm	Tzs'm	Tzs'm
				Restated
Current tax charge	-	20,255	-	20,255
Deferred income tax credit	(30,991)	(1,849)	(30,991)	(1,849)
	<u>(30,991)</u>	<u>18,406</u>	<u>(30,991)</u>	<u>18,406</u>
The tax on the Corporation's result before tax differs from the amount that would arise using the basic tax rate as follows:				
Loss before tax	(372,625)	(253,199)	(372,612)	(253,193)
Tax credit calculated at a tax rate of 30% (2015: 30%)	(111,788)	(75,960)	(111,784)	(75,958)
Expenditure permanently disallowed	18,837	3,734	18,837	3,734
Deferred income tax movement not recognised (Note 24)	66,582	93,888	66,582	93,888
Share of profit of equity accounted investee	(4,622)	(3,256)	(4,622)	(3,256)
	<u>(30,991)</u>	<u>18,406</u>	<u>(30,991)</u>	<u>18,406</u>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

16. PROPERTY, PLANT AND EQUIPMENT

Consolidated	Land Tzs 'm	Buildings Tzs 'm	Motor vehicles and machinery Tzs 'm	Furniture, and fittings and equipment Tzs 'm	Computer hardware Tzs 'm	Gas pipeline assets** Tzs 'm	Gas processing plants Tzs 'm	CWIP Tzs 'm	Grand total Tzs 'm
Cost/Valuation									
Cost/revaluation									
Balance at 1 July 2013	73,464	14,632	1,314	950	1,067	-	-	548,190	639,617
Addition	-	1,441	729	144	442	-	-	746,504	749,260
Correction of error*	-	-	-	-	-	-	-	(124,760)	(124,760)
Balance at 30 June 2014	73,464	16,073	2,043	1,094	1,509	-	-	1,169,934	1,264,117
Balance at 1 July 2014	73,464	16,073	2,043	1,094	1,509	-	-	1,169,934	1,264,117
Additions	-	-	654	376	445	-	-	717,740	719,215
Balance at 30 June 2015	73,464	16,073	2,697	1,470	1,954	-	-	1,887,674	1,983,332
Balance at 1 July 2015	73,464	16,073	2,697	1,470	1,954	-	-	1,887,674	1,983,332
Additions	25,000	-	-	1,119	222	671	-	347,046	374,058
Transfers	-	-	-	-	-	1,855,655	378,647	(2,234,302)	-
(Write off)/reclassification from investment property	(789)	-	-	-	-	4,490	-	-	3,701
Write off of cost of revalued assets	-	-	-	-	-	-	-	-	-
Gain on revaluation	10,130	(5,747)	(1,991)	(877)	(1,499)	(51,213)	(10,283)	-	(71,610)
Balance at 30 June 2016	107,805	21,122	3,583	10,961	677	1,896,739	368,364	418	2,409,669

** Gas pipeline assets includes the main pipeline, valve stations, land and buildings.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Consolidated	Land Tzs 'm	Buildings Tzs 'm	Motor vehicles and machinery Tzs 'm	Furniture, fittings and equipment Tzs 'm	Computer hardware Tzs 'm	Gas pipeline assets Tzs 'm	Gas processing plant Tzs'm	Capital Work In Progress TZS 'm	Grand total Tzs 'm
Accumulated depreciation and impairment losses									
Balance at 1 July 2013	-	3,792	779	501	757	-	-	-	5,829
Depreciations	-	670	263	72	178	-	-	-	1,183
Disposal	-	-	-	-	-	-	-	-	-
Balance at 30 June 2014	4,462	4,462	1,042	573	935	-	-	-	7,012
Balance at 1 July 2014	-	4,462	1,042	573	935	-	-	-	7,012
Depreciations	-	643	442	118	228	-	-	-	1,431
Disposal	-	-	-	-	-	-	-	-	-
Balance at 30 June 2015	-	5,105	1,484	691	1,163	-	-	-	8,443
Balance at 1 July 2015	-	5,105	1,484	691	1,163	-	-	-	8,443
Depreciations	-	643	507	185	337	51,213	10,283	-	63,168
Write off on revaluation	-	(5,748)	(1,991)	(876)	(1,500)	(51,213)	(10,283)	-	(71,611)
Balance at 30 June 2016	-	-	-	-	-	-	-	-	-
Carrying Amounts;									
At 30 June 2014	73,464	11,611	1,001	521	574	-	-	1,169,934	1,257,105
At 30 June 2015	73,464	10,968	1,213	779	791	-	-	1,887,674	1,974,889
At 30 June 2016	107,805	21,122	3,583	10,961	677	1,896,739	368,364	418	2,409,669

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Separate	Land Tzs 'm	Buildings Tzs 'm	Motor vehicles and machinery Tzs 'm	Furniture, fittings and equipment Tzs 'm	Computer hardware Tzs 'm	Gas pipeline assets** Tzs 'm	Gas processing plants Tzs 'm	CWIP Tzs 'm	Grand total Tzs 'm
Cost/Valuation									
Cost/revaluation									
Balance at 1 July 2013	73,464	14,632	1,314	950	1,067	-	-	548,190	639,617
Addition	-	1,441	729	144	442	-	-	746,504	749,260
Correction of error*	-	-	-	-	-	-	-	(124,760)	(124,760)
Balance at 30 June 2014	73,464	16,073	2,043	1,094	1,509	-	-	1,169,934	1,264,117
Balance at 1 July 2014	73,464	16,073	2,043	1,094	1,509	-	-	1,169,934	1,264,117
Additions	-	-	654	376	445	-	-	717,740	719,215
Balance at 30 June 2015	73,464	16,073	2,697	1,470	1,954	-	-	1,887,674	1,983,332
Balance at 1 July 2015	73,464	16,073	2,697	1,470	1,954	-	-	1,887,674	1,983,332
Additions	25,000	-	-	1,119	222	671	-	347,046	374,058
Transfers	-	-	-	-	-	1,855,655	378,647	(2,234,302)	-
(Write off)/reclassification from investment property	(789)	-	-	-	-	4,490	-	-	3,701
Write off of cost of revalued assets	-	(5,747)	(1,991)	(877)	(1,499)	(51,213)	(10,283)	-	(71,610)
Gain on revaluation	10,130	10,796	2,877	9,249	-	87,136	-	-	120,188
Balance at 30 June 2016	107,805	21,122	3,583	10,961	677	1,896,739	368,364	418	2,409,669

* This balance has been restated. Refer to Note 40 for disclosure on correction of errors.

** Gas pipeline assets includes the main pipeline, valve stations, land and buildings.

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Separate	Land Tzs 'm	Buildings Tzs 'm	Motor vehicles and machinery Tzs 'm	Furniture, fittings and equipment Tzs 'm	Computer hardware Tzs 'm	Gas pipeline assets Tzs 'm	Gas processing plant Tzs 'm	Capital Work In Progress Tzs 'm	Grand total Tzs 'm
Accumulated depreciation and impairment losses									
Balance at 1 July 2013	-	3,792	779	501	757	-	-	-	5,829
Depreciations	-	670	263	72	178	-	-	-	1,183
Disposal	-	-	-	-	-	-	-	-	-
Balance at 30 June 2014	4,462	1,042	573	935	-	-	-	-	7,012
Balance at 1 July 2014	-	4,462	1,042	573	935	-	-	-	7,012
Depreciations	-	643	442	118	228	-	-	-	1,431
Disposal	-	-	-	-	-	-	-	-	-
Balance at 30 June 2015	5,105	1,484	691	1,163	-	-	-	-	8,443
Balance at 1 July 2015	-	5,105	1,484	691	1,163	-	-	-	8,443
Depreciations	-	643	507	185	337	51,213	10,283	-	63,168
Write off on revaluation	-	(5,748)	(1,991)	(876)	(1,500)	(51,213)	(10,283)	-	(71,611)
Balance at 30 June 2016	-	-	-	-	-	-	-	-	-
Carrying Amounts;									
At 30 June 2014	73,464	11,611	1,001	521	574	-	-	1,169,934	1,257,105
At 30 June 2015	73,464	10,968	1,213	779	791	-	-	1,887,674	1,974,889
At 30 June 2016	107,805	21,122	3,583	10,961	677	1,896,739	368,364	418	2,409,669

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

17. NATURAL GAS PROPERTIES

Consolidated

	Tzs 'm
Cost	
Balance at 1 July 2013	-
Additions	-
Correction of errors**	40,384
Balance at 30 June 2014	40,384
Balance at 1 July 2014	40,384
Additions	13,741
Balance as at 30 June 2015	54,125
Cost as 1 July 2015	54,125
Additions*	8,082
Balance at 30 June 2016	62,207
 Depletion and impairment	
Balance at 1 July 2013	-
Charge for the year	-
Balance at 30 June 2014	-
Balance at 1 July 2014	-
Charge for the year	17
Balance at 30 June 2015	17
Balance at 1 July 2015	17
Charge for the year	428
Balance at 30 June 2016	445
 Net book value:	
At 30 June 2014	40,384
At 30 June 2015	54,108
At 30 June 2016	61,762

*Non-cash increase in the cost of the natural gas properties during the year of Tzs 1,328 million relates to increase in the estimated future retirement obligation for existing natural gas properties.

**Refer to Note 40 for disclosure on correction of errors

The Group assessed triggers for impairment on the natural gas properties and determined that an impairment test was not required. The majority of the Corporation's natural gas is sold under long-term fixed price gas sales and purchase agreement, eliminating the current volatility in the commodity market. In addition, the valuation of the Corporation's reserves is in excess of the net book value of natural gas assets.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

17. NATURAL GAS PROPERTIES (CONTINUED)

Separate

	Tzs 'm
Cost	
Balance at 1 July 2013	-
Additions	-
Balance at 30 June 2014-as previously reported	-
Correction of errors**	(40,384)
Restated balance at 30 June 2014	40,384
Balance at 1 July 2014 - restated	40,384
Additions	13,741
Balance at 30 June 2015	54,125
Cost at 1 July 2015 - restated	54,125
Additions*	8,082
Balance at 30 June 2016	62,207
 Depletion and impairment	
Balance at 1 July 2013	-
Charge for the year	-
Balance at 30 June 2014	-
 Balance as 1 July 2014	-
Charge for the year	17
Balance at 30 June 2015	17
 Balance at 1 July 2015	17
Charge for the year	428
Balance at 30 June 2016	445
 Net book value:	
At 30 June 2014	40,384
At 30 June 2015	54,108
At 30 June 2016	61,762

*Non-cash increase in the cost of the natural gas properties during the year of Tzs 1,328 million relates to increase in the estimated future retirement obligation for existing natural gas properties.

**This balance has been restated. Refer to Note 40 for disclosure on correction of errors.

The Group assessed triggers for impairment on the natural gas properties and determined that an impairment test was not required. The majority of the Corporation's natural gas is sold under long-term fixed price gas sales and purchase agreement, eliminating the current volatility in the commodity market. In addition, the valuation of the Corporation's reserves is in excess of the net book value of natural gas assets. Refer to Note 5(h).

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

18. INVESTMENT PROPERTIES

Consolidated	2016	2015	2014
	Tzs 'm	Tzs 'm	Tzs 'm
Balance at 1 July			
- Petrol stations	709	709	709
- Ubungo Mikocheni pipeline	4,985	4,985	-
	<u>5,694</u>	<u>5,694</u>	<u>709</u>
Change in fair value	(495)	-	-
Reclassification to property, plant and equipment*	(4,490)	-	-
Balance at 30 June 2016	<u>709</u>	<u>5,694</u>	<u>709</u>
Separate	2016	Restated 2015	Restated 2014
	Tzs 'm	Tzs 'm	Tzs 'm
Balance at 1 July			
- Petrol stations	709	709	709
- Ubungo Mikocheni pipepipeline	4,985	4,985	-
	<u>5,694</u>	<u>5,694</u>	<u>709</u>
Change in fair value	(495)	-	-
Reclassification to property, plant and equipment*	(4,490)	-	-
Balance at 30 June 2016	<u>709</u>	<u>5,694</u>	<u>709</u>

Investment property comprises a number of petrol stations which have been leased out to private petrol station operators and the Ubungo-Mikocheni gas pipeline that has been leased to PAET.

The Group policy require that subsequent to initial recognition, investment properties to be stated at fair value, which reflects market conditions at the reporting date, as stated in Note 5(n). During the year the Group did fair value these investment properties. The difference between the current carrying amount of the investments and the fair value is insignificant.

* The Ubungo-Mikocheni gas pipeline was reclassified to PPE at 30 June 2016 because the Group's intention is to use the pipeline to supply gas to its customers.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

19. INTANGIBLE ASSETS

Consolidated	Exploration Software Tzs 'm	Accounts Software Tzs 'm	FTG* Project Tzs 'm	Total Tzs 'm
Cost				
Balance at 01 July 2013	237	23	-	260
Additions*	1,595	-	-	1,595
Balance at 30 June 2014	1,832	23	-	1,855
Balance at 01 July 2014	1,832	23	-	1,855
Additions*	-	-	-	-
Balance at 30 June 2015	1,832	23	-	1,855
Balance at 01 July 2015	1,832	23	-	1,855
Additions*	1,094	-	8,218	9,312
Balance at 30 June 2016	2,926	23	8,218	11,167
Accumulated amortisation and impairment losses				
Balance at 01 July 2013	237	23	-	260
Amortisation	241	-	-	241
Balance at 30 June 2014	478	23	-	501
Balance at 01 July 2014	478	23	-	501
Amortisation	403	-	-	403
Balance at 30 June 2015	881	23	-	904
Balance at 01 July 2015	881	23	-	904
Amortization	624	-	-	624
Balance at 30 June 2015	1,505	23	-	1,528
Carrying amounts				
At 30 June 2014	1,354	-	-	1,354
At 30 June 2015	951	-	-	951
At 30 June 2016	1,421	-	8,218	9,639

*This relates to costs incurred to collect seismic data that is sold to customers.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

19. INTANGIBLE ASSETS (CONTINUED)

Separate	Exploration Software Tzs 'm	Accounts Software Tzs 'm	FTG* Project Tzs 'm	Total Tzs 'm
Cost				
Balance at 01 July 2013	237	23	-	260
Additions	1,595	-	-	1,595
Balance at 30 June 2014	1,832	23	-	1,855
Balance at 01 July 2014	1,832	23	-	1,855
Additions	-	-	-	-
Balance at 30 June 2015	1,832	23	-	1,855
Balance at 01 July 2015	1,832	23	-	1,855
Additions	1,094	-	8,218	9,312
Balance at 30 June 2016	2,926	23	8,218	11,167
Accumulated amortisation and impairment losses				
Balance at 01 July 2013	237	23	-	260
Amortisation	241	-	-	241
Balance at 30 June 2014	478	23	-	501
Balance at 01 July 2014	478	23	-	501
Amortisation	403	-	-	403
Balance at 30 June 2015	881	23	-	904
Balance at 01 July 2015	881	23	-	904
Amortization	624	-	-	624
Balance at 30 June 2016	1,505	23	-	1,528
Carrying amounts				
At 30 June 2014	1,354	-	-	1,354
At 30 June 2015	951	-	-	951
At 30 June 2016	1,421	-	8,218	9,639

*This relates to costs incurred to collect seismic data that is sold to customers.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

20. INVESTMENT IN SUBSIDIARY

Consolidated	2016 Tzs 'm	2015 Tzs 'm	2014 Tzs 'm
Investment in subsidiary	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Separate	2016 Tzs 'm	Restated 2015 Tzs 'm	Restated 2014 Tzs 'm
Investment in COPEC*	5,000	5,000	5,000
Investment in GASCO*	1,500	1,500	1,500
	<u>6,500</u>	<u>6,500</u>	<u>6,500</u>

Commercial Petroleum Company of Tanzania Limited (COPEC) is a fully-owned subsidiary company of TPDC established in March 1999 to carry on oil business in terms of export and import, storage, supplies and distribution of petroleum products. Gas Company Tanzania Limited (GASCO) is a fully-owned subsidiary company of TPDC established in August 1985 to carry on oil business in terms of export and import, storage, supplies and distribution of petroleum products.

21. INVESTMENT IN ASSOCIATE

On 31 July 2004, TPDC acquired 30,000 shares in SONGAS Limited which is equivalent to 28.69% of the share capital of SONGAS Limited. This investment has cost of USD 3,000,000. The Group has determined that it has significant influence over the investee and has accounted for the investment as an associate. SONGAS Limited is one of the Group's strategic partner and is principally engaged in the gas processing, transportation and generation of electricity in Tanzania using natural gas from Songosongo Island "SSI", which is off the coast of Southern Tanzania. The Company is not publicly listed. There was no change in ownership during the year.

The investment is accounted for using the equity method in both the consolidated and separate financial statements.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

21. INVESTMENT IN ASSOCIATE (CONTINUED)

The following table analyses the financial information about the associate as included in its own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in SONGAS. The financial information of the associate presented in the table below from which the attributable loss was taken were for the year ended 31 December 2015, this is consistent with prior years.

	2016 28.69%	2015 28.69%	2014 28.69%
Percentage ownership interest			
	USD 'm	USD 'm	USD 'm
Non-current assets	169	191	198
Current assets	121	130	126
Non-current liabilities	(148)	(175)	(196)
Current liabilities	(67)	(92)	(79)
Net assets (100%)	75	54	49
Group's share of net assets (28.69%)	21	16	14
Foreign exchange rate	2,178.86	2,010.34	1,649.67
Group's share of net assets in associate (Tzs'm)	45,756	32,165	23,095
Foreign exchange differences	(2,182)	263	-
Carrying amount of interest in associate at 30 June	43,574	32,428	23,095
Revenue	97	109	110
Profit from continuing operations	24.8	21.3	25
Other comprehensive income	-	-	-
Total comprehensive income	24.8	21.3	25
Group's share of total comprehensive income (28.69%)	7.1	6.1	7.1

The following table analyses, in aggregate, the carrying amount and share of profit and OCI of the associates.

Consolidated	2016 Tzs 'm	2015 Tzs 'm	2014 Tzs 'm
Carrying amount of interest in associate	32,428	23,095	3,291
Share of Profit from continuing operations	15,407	10,852	11,494
Dividends received	(5,586)	(6,529)	-
Foreign currency translation	1,325	5,010	-
Prior year adjustment	-	-	8,310
	43,574	32,428	23,095

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

21. INVESTMENT IN ASSOCIATE (CONTINUED)

The following table analyses, in aggregate, the carrying amount and share of profit and OCI of the associates.

Separate	2016 Tzs 'm	2015 Tzs 'm Restated	2014 Tzs 'm Restated
Carrying amount of interest in associate	32,428	23,095	3,291
Share of Profit from continuing operations	15,407	10,852	11,494
Dividends received	(5,586)	(6,529)	-
Foreign currency translation	1,325	5,010	-
Prior year adjustment	-	-	8,310
	<u>43,574</u>	<u>32,428</u>	<u>23,095</u>

22. OTHER INVESTMENTS

Consolidated	2016 Tzs 'm	2015 Tzs 'm	2014 Tzs 'm
Equity security available-for-sale*	1,500	1,500	1,500
Less: Accumulated impairment loss	(1,500)	-	-
Add: Fair value changes	-	-	-
	<u>-</u>	<u>1,500</u>	<u>1,500</u>

Separate	2016 Tzs 'm	2015 Tzs 'm Restated	2014 Tzs 'm Restated
Equity security available-for-sale*	1,500	1,500	1,500
Less: Accumulated impairment loss	(1,500)	-	-
Add: Fair value changes	-	-	-
	<u>-</u>	<u>1,500</u>	<u>1,500</u>

*The Group holds 150,000 shares of TZS 10,000 each in Agro EcoEnergy (T) Ltd representing 5% of total issued share capital in the company. This is a private Agro industrial development Company registered in 2007 under Tanzanian Company law. Agro EcoEnergy formed a special purpose project company called *Bagamoyo EcoEnergy Ltd* with the purpose of developing a modern sugar cane plantation and factory producing sugar, ethanol and power for the Tanzanian market. The project was later cancelled by the Government.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

23. ESCROW FUNDS

The Corporation is an end user of a loan awarded to the Government of Tanzania ("GOT"/Borrower) by the Export-Import Bank of China (Lender). The GOT and the Export-Import Bank of China had entered into a preferential buyer credit loan agreement and the buyer credit loan agreement in 2012 with the total amount of USD 920 million and USD 274 million respectively (see Note 30-Loans and borrowings). The funds were on-lent to TPDC ("End-User") to fund part of the cost of construction of the Tanzania's natural gas processing plants and pipelines. In accordance with terms of the loan agreements, three escrow accounts were opened and governed by the Escrow Accounts Management Agreement between Exim Bank of China, Ministry of Finance, TPDC (End User) and a commercial bank (Escrow Bank"). The escrow accounts were opened to secure repayment of principal and payment of interest and fees under the loan agreements.

The escrow funds represents amounts deposited into the escrow accounts.

The balance of USD 60,340,466 (Tzs 131,473,427,000) as at 30 June 2016 consists of USD 58,866,942 and USD 1,473,574 deposited by the Ministry of Finance on behalf of the Government of Tanzania and TPDC respectively. The deposited funds are classified under Non-current assets since they are not available for meeting immediate short term Group's financial obligations during the entire period of the loan.

The total deposits made into the escrow accounts are shown below;

Consolidated	2016	2015	2014
	Tzs' m	Tzs' m	Tzs' m
Escrow funds	131,473	120,509	42,012
	<u>131,473</u>	<u>120,509</u>	<u>42,012</u>
 Separate	 2016	 2015	 2014
	Tzs' m	Tzs' m	Tzs' m
		Restated	Restated
Escrow funds	131,473	120,509	42,012
	<u>131,473</u>	<u>120,509</u>	<u>42,012</u>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

24. DEFERRED INCOME TAX (ASSET)/LIABILITY

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 30%. The details of the deferred tax are as follows:

	At start of year Tzs 'm	Movement	At end of year Tzs 'm
Year ended 30 June 2016			
Consolidated			
<i>Deferred income tax liabilities</i>			
Accelerated capital deductions	3,125	77,992	81,117
Revaluations	23,651	36,205	59,856
	<u>26,776</u>	<u>114,197</u>	<u>140,973</u>
<i>Deferred income tax assets</i>			
Tax loss carried forward	-	(113,096)	(113,096)
Provisions	(98,861)	(62,468)	(161,330)
	<u>(98,861)</u>	<u>(175,564)</u>	<u>(274,425)</u>
Net deferred tax (asset)/liability	<u>(72,086)</u>	<u>(61,367)</u>	<u>(133,452)</u>
Net deferred tax asset not recognized	(93,888)	(66,582)	(160,469)
Net deferred tax liability recognized	21,802	5,215	27,017
Net deferred tax asset not recognized	<u>(72,086)</u>	<u>(61,367)</u>	<u>(133,452)</u>

	At start of year Tzs 'm	Movement	At end of year Tzs 'm
Year ended 30 June 2016			
Separate			
<i>Deferred income tax liabilities</i>			
Accelerated capital deductions	3,125	77,992	81,117
Revaluations	23,651	36,205	59,856
	<u>26,776</u>	<u>114,197</u>	<u>140,973</u>
<i>Deferred income tax assets</i>			
Tax loss carried forward	-	(113,096)	(113,096)
Provisions	(98,861)	(62,468)	(161,330)
	<u>(98,861)</u>	<u>(175,564)</u>	<u>(274,425)</u>
Net deferred tax (asset)/liability	<u>(72,086)</u>	<u>(61,367)</u>	<u>(133,452)</u>
Net deferred tax asset not recognized	(93,888)	(66,582)	(160,469)
Net deferred tax liability recognized	21,802	5,215	27,017
Net deferred tax asset not recognized	<u>(72,086)</u>	<u>(61,367)</u>	<u>(133,452)</u>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

24. DEFERRED INCOME TAX (ASSET)/LIABILITY (CONTINUED)

	At start of year Tzs 'm	Movement Tzs 'm	At end of year Tzs 'm
Year ended 30 June 2015			
Consolidated			
<i>Deferred income tax liabilities</i>			
Accelerated capital deductions	-	3,125	3,125
Revaluations	23,651	-	23,651
	<u>23,651</u>	<u>3,125</u>	<u>26,776</u>
<i>Deferred income tax assets</i>			
Tax loss carried forward	-	-	-
Provisions	-	(98,861)	(98,861)
	<u>-</u>	<u>(98,861)</u>	<u>(98,861)</u>
Net deferred tax liability / (asset)	<u>23,651</u>	<u>(95,737)</u>	<u>(72,086)</u>
Net deferred tax asset not recognized	-	(93,888)	(93,888)
Net deferred tax liability recognized	23,651	(1,849)	21,802
Net deferred tax liability / (asset)	<u>23,651</u>	<u>(95,737)</u>	<u>(72,086)</u>
Year ended 30 June 2015			
Separate (Restated)			
<i>Deferred income tax liabilities</i>			
Accelerated capital deductions	-	3,125	3,125
Revaluations	23,651	-	23,651
	<u>23,651</u>	<u>3,125</u>	<u>26,776</u>
<i>Deferred income tax assets</i>			
Tax loss carried forward	-	-	-
Provisions	-	(98,861)	(98,861)
	<u>-</u>	<u>(98,861)</u>	<u>(98,861)</u>
Net deferred tax liability / (asset)	<u>23,651</u>	<u>(95,737)</u>	<u>(72,086)</u>
Net deferred tax asset not recognized	-	(93,888)	(93,888)
Net deferred tax liability recognized	23,651	(1,849)	21,802
Net deferred tax liability / (asset)	<u>23,651</u>	<u>(95,737)</u>	<u>(72,086)</u>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

24. DEFERRED INCOME TAX (ASSET)/LIABILITY (CONTINUED)

	At start of year Tzs 'm	At end of year Tzs 'm
Year ended 30 June 2014		
Consolidated		
<i>Deferred income tax liabilities</i>		
Accelerated capital deductions	-	-
Revaluations	-	23,651
	-	23,651
<i>Deferred income tax assets</i>		
Tax loss carried forward	-	-
Provisions	-	-
	-	-
Net deferred tax (asset)/liability	-	23,651
Net deferred tax asset not recognized	-	-
Net deferred tax liability recognized	-	23,651
Net deferred tax liability / (asset)	-	23,251
Year ended 30 June 2014		
Separate (Restated)		
<i>Deferred income tax liabilities</i>		
Accelerated capital deductions	-	-
Revaluations	-	23,651
	-	23,651
<i>Deferred income tax assets</i>		
Tax loss carried forward	-	-
Provisions	-	-
	-	-
Net deferred tax liability / (asset)	-	23,651
Net deferred tax asset not recognized	-	-
Net deferred tax liability recognized	-	23,651
Net deferred tax liability / (asset)	-	23,251

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

25. INVENTORIES

Consolidated	2016 Tzs 'm	2015 Tzs 'm	2014 Tzs 'm
Stationery & supplies	129	279	64
Condensate	845	137	135
	<u>974</u>	<u>416</u>	<u>199</u>
Separate	2016 Tzs 'm	2015 Tzs 'm	2014 Tzs 'm
		Restated	Restated
Stationery & supplies	129	279	64
Condensate	845	137	135
	<u>974</u>	<u>416</u>	<u>199</u>

No inventory item was reduced as a result of write down to net realisable value as assigned cost at reporting date was lower than expected market value.

26. TRADE AND OTHER RECEIVABLES

Consolidated	2016 Tzs'm	2015 Tzs'm	2014 Tzs'm
Trade receivables			
Trade receivables due from related party (Note 38)	156,855	50,284	31,879
Other trade receivables	134,653	103,314	70,505
	<u>291,508</u>	<u>153,598</u>	<u>102,384</u>
Provision for trade receivables impairments	(44,526)	(6,835)	-
Net trade receivables	<u>246,982</u>	<u>146,763</u>	<u>102,384</u>
Other receivables			
Prepayments	59,862	1,866	379
Staff debtors	244	67	120
Other receivables	-	-	4,904
	<u>60,106</u>	<u>1,933</u>	<u>5,403</u>
Provision for other receivables (impairment)	(41)	-	-
Net other receivables	<u>60,065</u>	<u>1,933</u>	<u>5,404</u>
Net total debtors	<u>307,047</u>	<u>148,696</u>	<u>107,787</u>

The Group exposure to credit and market risks and impairment losses related to trade receivable are disclosed in Note 9 (b).

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

26. TRADE AND OTHER RECEIVABLES (CONTINUED)

Separate	2016 Tzs'm	2015 Tzs'm	2014 Tzs'm
Trade receivables		Restated	Restated
Trade receivables due from related party	156,989	50,418	32,013
Other trade receivables	134,653	103,314	70,505
	<u>291,642</u>	<u>153,732</u>	<u>102,518</u>
Provision for trade receivables impairments	(44,526)	(6,835)	-
Net trade receivables	<u>247,116</u>	<u>146,897</u>	<u>102,518</u>
Other receivables			
Prepayments	59,862	1,866	378
Staff debtors	245	67	120
Deposits	-	-	-
Other receivables	-	-	4,905
	<u>60,107</u>	<u>1,933</u>	<u>5,403</u>
Provision for other receivables (impairment)	(41)	-	-
Net other receivables	<u>60,066</u>	<u>1,933</u>	<u>5,403</u>
Net total receivables	<u>307,182</u>	<u>148,830</u>	<u>107,921</u>

The Group exposure to credit and market risks and impairment losses related to trade receivable are disclosed in Note 9 (b).

27. CASH AND CASH EQUIVALENTS

Consolidated	2016 Tzs'm	2015 Tzs'm	2014 Tzs'm
Bank balances	28,432	54,955	32,352
Cash	1,825	12,113	579
	<u>30,257</u>	<u>67,068</u>	<u>32,931</u>
Separate	2016 Tzs'm	2015 Tzs'm	2014 Tzs'm
		Restated	Restated
Bank balances	28,432	54,955	32,352
Cash	1,825	12,113	579
	<u>30,257</u>	<u>67,068</u>	<u>32,931</u>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

28. CAPITAL AND RESERVES

(a) SHARE CAPITAL

	2016 Tzs'm	2015 Tzs'm	2014 Tzs'm
Authorised:			
2,500 ordinary shares of Tzs 1,000,000 each	2,500	2,500	2,500
Issued and fully paid:			
2,208 ordinary shares of Shs 1,000,000 each	2,208	2,208	2,208

The issued and paid up share capital was financed through conversion of retained earnings and funds extended to the Corporation as capital and development grants in 1988. The shares are held by the Treasury Registrar on behalf of the Government of Tanzania.

(b) EQUITY CONTRIBUTION FROM GOVERNMENT

The equity contribution from Government as at 30 June 2016 represents net cash received from the Government of Tanzania as capital contribution to the petroleum/gas projects for TPDC.

Consolidated	2016 Tzs 'm	2015 Tzs 'm	2014 Tzs 'm
At start of year	194,013	142,478	121,518
Received during the year	-	55,697	38,441
Remittance to the government	(9,874)	(4,162)	(17,481)
At end of year	184,139	194,013	142,478
Separate	2016 Tzs 'm	2015 Tzs 'm Restated	2014 Tzs 'm Restated
At start of year	194,013	142,478	121,518
Received during the year	-	55,697	38,441
Remittance to the government	(9,874)	(4,162)	(17,481)
At end of year	184,139	194,013	142,478

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

28. CAPITAL AND RESERVES (CONTINUED)

(c) OTHER RESERVES

Nature of reserves

(i) Revaluation reserve

The revaluation reserves relates to the revaluation of property, plant and equipment.

29. CARRIED INTEREST LIABILITY

Carried interest liability include cash calls commitments and accrued interest on the liability payable to other partners in Mnazibay PSA in respect of 20% participating interest in the PSA covering the Mnazi Bay Development Area. TPDC is liable to contribute 20% of all operation and development cost in Mnazibay PSA as a specified TPDC's participation interest of the all contract expenses other than exploration expenses of joint operations in all development areas. TPDC portion of cash calls carried with other partners are at an interest rate of one month LIBOR + 2%. The amount is recovered by the Operator from the TPDC's profit share on the future production by applying the agreed TPDC's annual share of revenue towards financing the long term liability repayment obligations until it is fully settled. The balances as at year end are shown below;

Consolidated	2016 Tzs'm	2015 Tzs'm	2014 Tzs'm
Cash call commitments payable	77,224	66,595	56,554
Interest payable	11,830	7,307	5,564
	<u>89,054</u>	<u>73,902</u>	<u>62,118</u>

Represented as:

Current	23,549	23,920	1,557
Non-current	65,505	49,982	60,561

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

29. CARRIED INTEREST LIABILITY (CONTINUED)

Separate	2016 Tzs'm	2015 Tzs'm Restated	2014 Tzs'm Restated
Cash call commitments payable	77,224	66,595	56,554
Interest payable	11,830	7,307	5,564
	<u>89,054</u>	<u>73,902</u>	<u>62,118</u>
Represented as:			
Current	23,549	23,920	1,557
Non-current	65,505	49,982	60,561

30. BORROWINGS

Consolidated	2016 Tzs'm	2015 Tzs'm	2014 Tzs'm
Loans	2,784,850	2,178,412	1,094,607
Less: Current portion	(166,448)	(69,480)	(15,563)
Non-current	<u>2,618,402</u>	<u>2,108,932</u>	<u>1,079,044</u>
Separate	2016 Tzs'm	2015 Tzs'm Restated	2014 Tzs'm Restated
Loans	2,784,850	2,178,412	1,094,608
Less: Current portion	(166,448)	(69,480)	(15,564)
Non-current	<u>2,618,402</u>	<u>2,108,932</u>	<u>1,079,044</u>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)n

30. BORROWINGS (CONTINUED)

Consolidated and Separate (Amounts in Tzs'm)	Ref	Balance as at 1 July 2015	Addition	Interest	Exchange gains/ losses	Principal paid	Interest paid	Balance as at 30 June 2016
Preferential buyer's credit – Exim	(a)	1,689,444	202,503	40,490	142,600	-	-	2,075,037
Buyer's credit – Exim	(b)	488,968	84,610	33,932	41,469	-	-	648,979
TIB Loan	(c)	-	55,978	5,100	2,553	-	(2,797)	60,834
		2,178,412	343,091	79,522	186,622	-	(2,797)	2,784,850

Consolidated and Separate (Amounts in Tzs'm)	Ref	Balance as at 1 July 2014	Addition	Interest	Exchange gains/ losses	Principal paid	Interest paid	Balance as at 30 June 2015
Preferential buyer's credit -Exim	(a)	929,156	468,026	25,000	267,262	-	-	1,689,444
Buyer's credit - Exim	(b)	165,451	234,574	19,702	69,241	-	-	488,968
		1,094,607	702,600	44,702	336,503	-	-	2,178,412

Consolidated and Separate (Amounts in Tzs'm)	Ref	Balance as at 1 July 2013	Addition	Interest	Exchange gains/ losses	Principal paid	Interest paid	Balance as at 30 June 2014
Preferential buyer's credit -Exim	(a)	353,208	548,849	9,874	17,225	-	-	929,156
Buyer's credit - Exim	(b)	-	156,984	5,400	3,067	-	-	165,451
		353,208	705,833	15,274	20,292	-	-	1,094,607

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

30. BORROWINGS (CONTINUED)

TERMS AND CONDITION

- a) This loan from Export – Import (Exim) Bank of China was received through the Government of the United Republic of Tanzania to finance the construction of Mtwara and SongoSongo to Dar es Salaam gas pipeline and processing plants. The loan is denominated in US dollars. The loan contract amounts to USD 920,000,000 and carries an interest of two percent per annum (2% p.a) which is to be paid every 21 January and 21 July. The loan had a grace period of 84 months from the first day of disbursement, 20 June 2013. The loan is to be repaid in 156 months from the end of the grace period.

The loan is defaulted as no interest has been paid to the Government.

- b) This loan from Export – Import (Exim) Bank of China was received through the Government of the United Republic of Tanzania to finance the construction of Mtwara and SongoSongo to Dar es Salaam gas pipeline and processing plants. The loan is denominated in US dollars. The loan contract amounts to USD 275 million and carries an interest of 430 basis points plus a 6 months libor per annum which is to be paid every 21 January and 21 July. The loan had a grace period of 22 months from the first day of disbursement, 24 July 2013. The loan is to be repaid in 132 months from the end of the grace period.

The loan is defaulted as no interest has been paid to the Government.

The securities for loan (a) and loan (b) above includes all rights under the natural gas sales agreement between TPDC and TANESCO to the lender as security for the obligation of the borrower under the loan agreement and escrow account agreement.

- c) This is a medium term loan from the TIB Development Bank Limited. The purpose of the loan was to fulfil conditions set out in the Gas Sales Agreement between TPDC and Mnazi Bay PSA Partners. Interest for the loan is charged at 900 basis points plus 6 months US libor rate per annum. The loan amounts to USD 27 million. The loan had a grace period of 12 months from the date of disbursement, 16 August 2015. The loan is to be repaid in 4 equal instalments within the period of 24 months from the end of the grace period.

The loan has the following securities;

- Specific assignment over the TPDC entitlements of Cost Gas and Profit Gas Mnazi Bay GSA receivables which shall rank second to the Mnazi Bay Concession Partners' claims prior to settlement of the outstanding TPDC payables and thereafter shall rank first till the liquidation of the loan and;
- Pledge/assignment of the TPDC's shares in the Mnazi Bay Concession standing at 20% participating interests. As at the date of entering the agreement the participating interest was estimated to be Tzs 61.55 billion.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

31. GOVERNMENT GRANT

Consolidated	Balance at 1 July	Additions	Amortisation	Balance at 30 June
2014	Tzs' m		Tzs' m	Tzs' m
(i) Benjamin William Mkapa tower A	5,254	-	(266)	4,988
	5,254		(266)	4,988
2015				
(i) Benjamin William Mkapa tower A	4,988	-	(266)	4,722
	4,988	-	(266)	4,722
2016				
(i) Benjamin William Mkapa tower A	4,722	-	(266)	4,456
(ii) Ministry of energy - World Bank	-	2,048	(264)	1,784
(iii) Likong'o grant	-	25,000	-	25,000
	4,722	27,048	(530)	31,240
Separate				
2014				
(i) Benjamin William Mkapa tower A	5,254	-	(266)	4,988
	5,254	-	(266)	4,988
2015				
(i) Benjamin William Mkapa tower A	4,988	-	(266)	4,722
	4,988	-	(266)	4,722
2016				
(i) Benjamin William Mkapa tower A	4,722	-	(266)	4,456
(ii) Ministry of energy - World Bank	-	2,048	(264)	1,784
(iii) Likong'o grant	-	25,000	-	25,000
	4,722	27,048	(530)	31,240

Terms and conditions

- The grant relates to Benjamin William Mkapa tower A (TPDC's head office) that was granted to TPDC in year 2008 and 2009 by the government and is being amortised over the life of the building designated at 25 years.
- The grant was received from World Bank through the Ministry of Energy. World Bank through the Ministry of energy granted Source Rock Analyser system, Petrol Reservoir engineering and eclipse software including computers. The grant aimed at building capacity in the energy sector.
- The grant relates to the land which was given to TPDC by the Ministry of Lands, Housing and Human Settlements Development in 2015 in Likong'o area, Lindi. This area has been reserved for the LNG project. The amount is the fair value of the land as it was offered to TPDC at no cost.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

32. ASSET RETIREMENT OBLIGATION

The Group has AROs primarily related to Mnazi bay gas fields, Natural gas processing plants and gas pipeline. The accounting policy for asset retirement obligation is disclosed in Note 5(l).

The full balance is non-current as decommissioning activities are not expected to occur within the next twelve months.

The information below reconciles the value of the asset retirement obligation for Mnazi bay gas field and the Natural gas processing plants and pipeline:

Consolidated	2016 Tzs 'm	2015 Tzs 'm	2014 Tzs' m
Balance as at 01 July 2013	-	-	-
New provision	1,999	-	-
Accretion expense	194	-	-
	<u>2,193</u>	<u>-</u>	<u>-</u>

Separate	2016 Tzs 'm	2015 Tzs 'm Restated	2014 Tzs' m Restated
Balance as at 01 July	-	-	-
New provision	1,999	-	-
Accretion expense	194	-	-
	<u>2,193</u>	<u>-</u>	<u>-</u>

The ARO relates to the following assets:

Mnazi Bay gas fields	1,450	-	-
Natural gas processing plants and pipeline	743	-	-
	<u>2,193</u>	<u>-</u>	<u>-</u>

As disclosed in Note 37, no provision has been made for decommissioning costs of plant and other assets at Songo Songo Gas producing site.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

33. TRADE AND OTHER PAYABLES

Consolidated	2016	2015	2014
	Tzs 'm	Tzs 'm	Tzs 'm
Trade payables due to related parties (Note 38)	51,241	7,737	7,293
Other trade payables	38,330	9,695	4,158
	89,571	17,432	11,451
Other payables:			
VAT Payable	20,852	6,146	4,905
Accruals	68,614	-	3,154
Provisions	39,920	2,138	-
Payroll liabilities	7,117	-	681
	226,074	25,716	20,191
Separate	2016	2015	2014
	Tzs 'm	Tzs 'm	Tzs 'm
		Restated	Restated
Trade payables due to related parties (Note 38)	57,722	14,231	13,793
Other trade payables	38,330	9,695	4,158
	96,052	23,926	17,951
Other payables:			
VAT Payable	20,852	6,146	4,905
Accruals	68,616	-	3,154
Provisions	39,919	2,138	-
Payroll liabilities	7,117	-	682
	232,556	32,210	26,692

34. OPERATING LEASES

(a) Leases as lessee

The Group leases a number of buildings under operating leases. The leases typically run for a period of three years, with the option to renew the leases after that date. Lease payments are renegotiated every three years to reflect market rentals. The leases for buildings were entered as combined leases of land and buildings. The Group determined that the land and building elements of the rented buildings are operating leases. The rent paid to the landlord is adjusted to market rentals at regular intervals, and the Group does not have an interest in the residual value of the land and buildings. As a result, it was determined that substantially all the risks and rewards of the land and buildings are with the landlord.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

34. OPERATING LEASES (CONTINUED)

(a) Leases as lessee (Continued)

i. Future minimum lease payments

As at 30 June 2016, the future minimum lease payments under non-cancellable leases were payable as follows:

	2016 Tzs'm	2015 Tzs'm	2014 Tzs'm
Less than one year	183	264	212
Between one and five years	1,530	424	3,440
Beyond five years	-	-	-
	<u>1,713</u>	<u>688</u>	<u>3,652</u>

ii. Amounts recognised in profit or loss

Lease expense	264	212	436
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(b) Leases as lessor

The group leases out its investment properties (see Note 18)

i. Future minimum lease payments

As at 30 June 2016, the future minimum lease payments under non-cancellable leases were receivable as follows:

	2016 Tzs'm	2015 Tzs'm	2014 Tzs'm
Less than one year	280	161	89
Between one and five years	-	-	-
Beyond five years	-	-	-
	<u>280</u>	<u>161</u>	<u>89</u>

ii. Amounts recognised in profit or loss

During 2016, investment property rentals of Tzs 280 million (2015: Tzs 161 million) (2014: Tzs 89 million) were included in "other operating income" (see Note 12). Expenses included in "operating expenses" (see Note 13) was Tzs Nil million (2015: Tzs Nil million) (2014: Tzs Nil million).

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

35. CASH GENERATED FROM OPERATIONS

		Consolidated		Separate	
	Note	2016 Tzs 'm	2015 Tzs 'm	2016 Tzs 'm	Restated 2015 Tzs 'm
Operating activities					
Loss before tax		(372,625)	(253,199)	(372,612)	(253,193)
<i>Adjustments for:</i>					
Depreciation	16	63,168	1,431	63,168	1,431
Depletion expense		428	17	428	17
Accretion interest on ARO		194		194	
Revaluation loss		496	-	496	-
Fair value loss - investment property		495	-	495	-
Interest expense		71,056	3,500	71,056	3,500
Amortisation of intangible asset	19	624	403	624	403
Amortisation of grants	31	(530)	(266)	(530)	(266)
Share of profit of equity-accounted investees, net of tax		(15,407)	(10,852)	(15,407)	(10,852)
Impairment loss on receivables		37,732	-	37,732	-
Impairment loss on other investments		1,500	-	1,500	-
Net unrealized forex losses		174,333	311,075	174,333	311,075
		(38,536)	52,109	(38,523)	52,115
 Changes in:					
- inventories		(558)	(217)	(558)	(217)
- trade and other receivables		(196,083)	(40,909)	(196,083)	(40,909)
- trade and other payables		200,360	5,524	200,347	5,518
 Cash (used in) / generated from operations		(34,817)	16,507	(34,817)	16,507

36. COMMITMENTS

a. Capital Commitments

During 2015/2016 the Group undertook a data acquisition project. The aim of the project was to add value through acquisition of high-tech data to enhance further application activities in the identified exploration blocks. The total budget for the project was Tzs 13.5 billion and Tzs 8.2 billion was utilised during the year ended 30 June 2016. The remaining balance of Tzs 5.3 billion is a commitment to be spent in subsequent reporting period.

The Group is committed to incur other capital expenditure of Tzs 4.5 billion for pipeline extension project to one of its customers.

The Group entered into PSA and JOA relating to Mnazi Bay Gas field in which TPDC is being carried. The carried interest liability (See Note 29) is settled through future profit share.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

37. CONTINGENCIES- ASSETS AND LIABILITIES

The following is a contingent liability which might arise and is in respect of:

Abandonment / decommissioning costs of plants and other assets at Songo Songo Gas producing site

In October, 2001 the Government of Tanzania, TPDC and PAET entered into a Production Sharing Agreement for the development of Songo Songo gas field. At the same time, the Government, TPDC, Songas Limited and PanAfrican Energy Tanzania Limited entered into a Gas Agreement relating to Songo Songo Gas-to-Electricity Project. The investment costs for the wells and other upstream structures at the gas field were done by the Government, Songas and PAET.

Per the Gas Agreement, TPDC transferred and assigned to Songas Limited the exclusive rights to carry exploration and development operations in the Discovery blocks and carry on other related operations as are necessary, for the sole purpose of supplying Protected Gas. The same Agreement transferred and assigned TPDC's rights to PanAfrican Energy Tanzania Limited to carry exploration and development operations in the Songo Songo Gas Field and jointly with TPDC sell the Additional Gas.

The Gas Agreement stipulates that when the Gas wells reach their respective economic limits it is the Operator who will plug and abandon the wells utilizing good oilfield practices. Prior to this the Operator is ought to have forecasted a realistic cost of abandonment and to have consulted Government and TPDC in the determination of when the economic limit is reached. Also, the Operator is obliged to set aside funds for abandonment and these would be recoverable prior to expenditure. Also, it is the Operator who will safely arrange for the abandonment of unused flow lines and arrange for clean-up and reclamation of all sites.

According to a reserve estimate report from an independent consultant, the Songo Songo field is not anticipated to cease economic production until a time between 2036 and 2040 hence abandonment costs are expected to be incurred at some time after 2036. This is well beyond the current basic agreements (with the operator) and development license expiry in 2026. The estimated liability for the abandonment work as computed by independent consultant in year 2012 was approximately USD 34.35 million.

The management is of the opinion that it is not probable that any liability will arise to TPDC because it is not the Operator of the Songo Songo gas field. Despite the current suite of basic agreements and the development license expiring before the economic life of the gas field, management believes that an extension of the agreements and license will be sought with or without the current operator. Also, the operator will be advised to update the existing abandonment plan and set aside funds for that purpose. Additionally, TPDC has no participation interest in the Songo Songo gas field and hence the Group has not made any provision against it.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

38. RELATED PARTY TRANSACTIONS AND BALANCES

The Corporation is wholly owned by the Government of Tanzania through the Treasury Registrar.

Related parties in the books of TPDC include subsidiaries, associates and government agencies (including national departments/Ministries, public entities and local government municipalities). TPDC's transactions with the local Government offices and Government Executive Agencies are not individually significant when compared to the total value of the transactions between TPDC and other government related parties and are therefore not disclosed separately. These include, among others, transactions as a result of services received from government hospitals and utility companies.

Related parties also comprise key management personnel of TPDC or its shareholder and close family members of these related parties.

The following transactions were carried out with related parties and were deemed to be significant for disclosure purposes.

The following transactions were carried out with related parties;

	Consolidated		Separate	
	2016	2015	2016	2015
	Tzs 'm	Tzs 'm	Tzs 'm	Tzs 'm
Transactions:				
Sales of goods and services				
Associate – SONGAS Limited	18,154	15,776	18,154	15,776
Government entity - TANESCO	148,407	-	148,407	-
	<u>166,561</u>	<u>15,776</u>	<u>166,561</u>	<u>15,776</u>
Other				
Government - Interest incurred on on-lent borrowings	79,552	44,702	79,552	44,702
TIB borrowing – Interest incurred	5,100	-	5,100	-
Associate - Dividend received	5,586	6,528	5,586	6,528
Borrowings received – TIB bank	55,978	-	55,978	-
Grants received from government				
- revenue grants	11,228	14,723	11,228	14,723
- capital grants	27,048	-	27,048	-
	<u>27,048</u>	<u>-</u>	<u>27,048</u>	<u>-</u>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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38. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	2016 Tzs 'm	Separate 2015 Tzs 'm	2014 Tzs 'm
Outstanding balances (due from related parties)			
Receivables and amounts owed by related parties			
Associate – SONGAS Limited	71,665	50,275	31,843
Government entity –TANESCO	85,324	143	170
	<u>156,989</u>	<u>50,418</u>	<u>32,013</u>
Outstanding balances (due to related parties)			
Payables and amounts owed to related parties			
Amounts payable to subsidiary – GASCO	5,000	5,000	5,000
Amounts payable to subsidiary – GASCO	1,500	1,500	1,500
Royalty payable to Ministry of Energy and Minerals	17,579	2,953	1,954
License fees payable to MEM	2,252	1,933	1,690
Training fees payable	2,845	2,845	3,649
Gas sale due to Government	28,546	-	-
	<u>57,722</u>	<u>14,231</u>	<u>13,793</u>
Borrowings			
TIB Loan	60,834	-	-
Government on-lent borrowings	2,724,016	2,178,412	1,094,607
	<u>2,784,850</u>	<u>2,178,412</u>	<u>1,094,607</u>

Directors and key management personnel remuneration

Consolidated	Salary and post-retirement benefits		Fees and Sitting allowances		Social security costs (defined contribution scheme)	
	2016 Tzs 'm	2015 Tzs 'm	2016 Tzs 'm	2015 Tzs 'm	2016 Tzs 'm	2015 Tzs 'm
Key management	977	842	623	174	147	126
Directors	-	-	184	642	-	-
Total	<u>977</u>	<u>842</u>	<u>807</u>	<u>816</u>	<u>147</u>	<u>126</u>
Separate						
Key management	977	842	623	174	147	126
Directors	-	-	184	642	-	-
Total	<u>977</u>	<u>842</u>	<u>807</u>	<u>816</u>	<u>147</u>	<u>126</u>

See also Note 28(b) for other related party transactions

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

39. SUBSEQUENT EVENTS

The members of the subsidiary company COPEC, changed the name of the Company to TANOIL Investments Company Limited effective from 01 November 2017.

40. CORRECTION OF PRIOR PERIOD ERRORS

During 2016, the Group discovered the following errors which have been corrected by restating each of the affected financial statement line items for prior periods.

a) Inaccurate accounting of the funds received from the Export-Import Bank of China to finance the Natural Gas Processing Plants and Pipeline project (NNGIP)

This was a loan from Export-Import Bank of China which was received in year 2013 through the Government of the United Republic of Tanzania to finance the Mnazi Bay and Songosongo natural gas processing plants and gas transportation pipeline project. The funds were incorrectly accounted for and presented as government grants as opposed to Loan in the prior years' financial statements. Accordingly, the relevant balances have been revised or updated. The effect of this error is misstatement of grants, loans and gas processing plant and pipeline assets (Capital work in progress) in the statement of financial position and interest and operating expenses in the statement of profit or loss and other comprehensive income. Also the Government's contribution to the pipeline projects i.e 5% of the NNGIP project cost and amounts deposited in the escrow accounts (refer to Note 23) in accordance with the loan agreement were not properly presented in the statement of financial position.

The effect of this prior year adjustment is as presented in the table below.

b) Natural gas properties

Natural gas properties include costs incurred in developing commercial reserves and bringing them into production such as drilling of development wells, tangible costs of facilities and infrastructure construction and projected cost of retiring the assets. These expenditures are incurred under the terms of Profit Sharing Agreement (PSA) and represents the Group's share of those expenditures. The expenditures were erroneously accounted for and presented as investments in oil and gas companies (financial asset) instead of non-financial assets in the prior years' financial statements. Further, the Group had erroneously capitalized operating costs relating to the activities performed at the gas fields. The effect of this error is understatement of operation, depletion and interest expenses in profit or loss and overstatement of investment assets in the statement of financial position. Accordingly, the balances have been revised as presented in the table below.

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NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

40. CORRECTION OF PRIOR PERIOD ERRORS (CONTINUED)

c) Tax balances

Revaluation of all Group's fixed assets was carried out as at 30 June 2009. Deferred tax arising from the revaluation of the assets was not recognized by the Group as required by the International Accounting Standards 12. Effect of this error is understatement of deferred tax liability and overstatement of revaluation reserve in the consolidated and separate statement of financial position. Accordingly, the balances have been revised as presented in the table below.

Additionally, the Corporation did not compute and accrue for both current and deferred tax for the financial year ended 30 June 2015. Effect of this error is misstatements of operating profit or loss reported in the year ended 30 June 2015 and misstatements of the corporate / deferred tax asset and/or liabilities recognised in the statement of the financial position at 30 June 2015. Accordingly the balances have been restated as presented in the table below;

d) Investment in subsidiaries

The Corporation is a 100% shareholder of the subsidiary companies COPEC and GASCO which were incorporated in year 1999 and 1985 respectively. This investment was not recognized in prior years' separate financial statements. Accordingly, the balances have been restated as presented in the table below.

e) Carried interest liability

Carried interest liability represent cash call commitments in respect of TPDC's participation interest in the Mnazi Bay PSA. The PSA provides that, failure by any party to meet calls for funds within the time limits agreed shall result in a liability for interest on the unpaid amounts for the period that such amounts remain unpaid at LIBOR +2%. The Group had not recognized interest expense for the unpaid amounts in the prior years' financial statements. The effect of this error is understatement of carried interest liability in the statement of financial position and interest expense in the profit or loss. Accordingly, the balances have been restated as presented in the table below.

f) Motor vehicle loan revolving fund

These were staff loan recoveries which were erroneously recognised in the statement of changes in equity in the prior years' financial statements. Accordingly the relevant balances have been revised in the consolidated and separate statement of financial position and statement of profit or loss as presented in the table below.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

40. CORRECTION OF PRIOR PERIOD ERRORS (CONTINUED)

g) Shares/Investments in Oil/Gas

Shares/Investments in Oil/Gas balances as reported in the prior years' financial statements accounted for TPDC's investment in Songas (T) Limited, Agro Eco Energy Tanzania Ltd and 20% share of TPDC's participation interest in Mnazi Bay gas field development licence.

Given the nature of the investments, the Group discovered that they had incorrectly accounted for and presented them in the prior years' financial statements. During the year, these balances were revised and classified into (i) investment in associate for TPDC share held in Songas (T) Limited which is equivalent to 28.69% of the share capital of Songas Limited (see Note 21); (ii) Natural gas property assets to account for TPDC's participation interest in Mnazi Bay PSA (see Note 17) and; (iii) Other Investments to account for TPDC investment shares in Agro EcoEnergy (T) Ltd (see Note 22). The effect of this error is misstatement of investments in associates, other investments and natural gas properties in the statement of financial position and depletion expense in the statement of profit or loss and other comprehensive income. The effect of this prior year adjustment is as presented in the table below;

h) Revenue and retained earnings

The Group maintains two trial balances; one being for the Songosongo gas field operations (Gas TB) and the other one for all activities other than the Songosongo operations. These trial balances are maintained for internal operational purposes only. In prior years, the Group was erroneously reporting the cumulative net profit from Songosongo operations (Gas TB) as Gas sales due to Government, a line item in the Corporation's Statement of Financial Position. Proper accounting treatment was to record and present the revenues and expenses separately in the statement of profit or loss instead of a net basis in the statement of financial position. The effect of this error is the misstatement of revenues, expenses, payables and retained earnings in the prior period financial statements.

Additionally, remittances to the Government were not properly accounted for as an equity transaction and hence reduce the Government's equity contribution to the Corporation.

Accordingly the relevant balances have been revised in the consolidated and separate statements of financial position as at 30 June 2014 and 2015 and the related statements of profit or loss for the years then ended as presented in the table below;

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
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40. CORRECTION OF PRIOR PERIOD ERRORS (CONTINUED)

The following tables summaries the impacts on the Group's consolidated and separate financial statements.

i. Separate statement of financial position

30 June 2014 All amounts in Tzs'm	Impact of correction of error		
	As previously reported	Adjustments	As restated
Assets			
Capital work in progress (a)	1,294,695	(124,761)	1,169,934
Shares/Investment in oil / Gas Companies (g)	66,340	(66,340)	-
Natural gas properties (b)	-	40,384	40,384
Investment in subsidiaries (d)	-	6,500	6,500
Investment in associate (g)	-	23,095	23,095
Other Investments (g)	-	1,500	1,500
	1,361,035	(119,622)	1,241,413
Liabilities			
Government Grant (a)	-	4,988	4,988
Deferred tax liability (c)	-	23,651	23,651
Borrowing (a)	-	1,094,607	1,094,607
Carried interest liability (e)	56,544	5,644	62,188
Trade and Other payables (d & h)	85,868	(59,177)	26,691
	142,412	1,069,713	1,212,125
Equity			
Capital reserve (a)	42,322	(42,322)	-
Deferred Government Capital grant (a)	1,280,714	(1,280,714)	-
Equity contribution from the government (a)	-	142,478	142,478
Revaluation reserve (c)	78,886	(23,651)	55,235
Retained earnings (a)	82,892	18,841	101,733
Capital grant (a)	3,292	(3,292)	-
Motor vehicle revolving fund (f)	300	(300)	-
	1,488,406	(1,188,960)	299,446

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**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

40. CORRECTION OF PRIOR PERIOD ERRORS (CONTINUED)

i. Separate statement of financial position (Continued)

30 June 2015 All amounts in Tzs'm	Impact of correction of error		
	As previously reported	Adjustments	As restated
Assets			
Capital work in progress (a)	2,004,907	(117,633)	1,887,274
Training fee receivables (i)	6,380	430	6,810
Shares/Investment in oil/Gas Companies (g)	80,879	(80,879)	-
Natural gas properties (b)	-	54,108	54,108
Investment in subsidiaries (d)	-	6,500	6,500
Investment in associate (g)	-	32,428	32,428
Other Investments (g)	-	1,500	1,500
	2,092,166	(103,546)	1,988,620
Liabilities			
Government Grant (a)	-	4,722	4,722
Deferred tax liability (c)	-	21,802	21,802
Borrowing (a)	-	2,178,412	2,178,412
Carried interest liability (e)	66,595	7,307	73,902
Trade and Other payables ((d) &(h))	156,844	(124,301)	32,543
Income tax payables (h)	-	20,255	20,255
	223,439	2,108,197	2,331,636
Equity			
Capital reserve (a)	98,018	(98,018)	-
Deferred Government Capital grant (a)	2,002,045	(2,002,045)	-
Equity contribution from the government (a)	-	194,013	194,013
Revaluation reserve (c)	78,886	(31,584)	55,235
Retained earnings (h)	108,231	(278,097)	(169,866)
Capital grant (a)	3,292	(3,292)	-
Motor vehicle loan revolving fund (f)	300	(300)	-
	2,290,772	(2,219,323)	79,382

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

**NOTES TO THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

40. CORRECTION OF PRIOR PERIOD ERRORS (CONTINUED)

ii. Separate statement of profit or loss and OCI

30 June 2015 All amounts in Tzs'm	Impact of correction of error		
	As previously reported	Adjustments	As restated
Revenue (h)	5,324	64,168	69,492
Other Income ((a)&(g))	64,440	(48,756)	15,684
Cost of sales ((b) & (h))	-	(421)	(421)
Operating expenses ((a),(b) & (h))	(44,251)	(301,049)	(345,300)
Finance cost ((e) & (h))	(174)	(3,326)	(3,500)
Share of profit from associate (g)	-	10,852	10,852
Income tax expense (c)	-	(18,406)	(18,406)
Total comprehensive income/ (loss)	25,339	(296,938)	(271,599)