



THE UNITED REPUBLIC OF TANZANIA

NATIONAL AUDIT OFFICE



**REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS AND  
COMPLIANCE AUDIT OF TANZANIA PETROLEUM DEVELOPMENT  
CORPORATION FOR THE YEAR ENDED 30 JUNE 2021**

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P.O. Box 45  
Dar es Salaam, Tanzania

February 2022

AR/PA/TPDC/2020/21



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# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## **Mandate**

The statutory mandate and responsibilities of the Controller and Auditor General are provided for under Article 143 of the Constitution of the United Republic of Tanzania, 1977 and in Section 10(1) of the Public Audit Act, Cap. 418 [R.E 2021].

## **Vision**

A credible and modern Supreme Audit Institution with high-quality audit services for enhancing public confidence.

## **Mission**

To provide high-quality audit services through modernization of functions that enhance accountability and transparency in the management of public resources.

**Motto:** "Modernizing External Audit for Stronger Public Confidence".

## **Core values**

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

- i. Independence and objectivity
- ii. Professional competence
- iii. Integrity
- iv. Creativity and Innovation
- v. Results Oriented
- vi. Teamwork Spirit

## **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.

© This audit report is intended to be used by Tanzania Petroleum Development Corporation (TPDC) and may form part of the annual general report, which once tabled to National Assembly, becomes a public document; hence, its distribution may not be limited.

TABLE OF CONTENTS

	Page
1. REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2021.....	1
2. STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021.....	20
3. DECLARATION OF HEAD OF FINANCE FOR THE YEAR ENDED 30 JUNE 2021 .....	21
4. INDEPENDENT REPORT OF THE CONTROLLER AND AUDITOR GENERAL .....	22
4.1 REPORT ON THE AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS.....	22
4.2 REPORT ON COMPLIANCE WITH LEGISLATIONS.....	25

# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## ABBREVIATIONS

<b>AG</b>	Attorney General	<b>NAO</b>	National Audit Office
<b>AGG</b>	Airborne Gravity Gradiometric	<b>NBAA</b>	National Board of Accountants and Auditors
<b>BCF</b>	Billion Cubic Feet	<b>NCI</b>	Non-Controlling Interest
<b>BPS</b>	Bulk Procurement System	<b>NEMC</b>	National Environmental Management Council
<b>CAG</b>	Controller and Auditor General	<b>NNGIP</b>	National Natural Gas Infrastructure Project
<b>CGU</b>	Cash Generating Unit	<b>OCI</b>	Other Comprehensive Income
<b>CNG</b>	Condensed Natural Gas	<b>PA</b>	Petroleum Act
<b>CNGV</b>	Compressed Natural Gas Vehicle	<b>PAC</b>	Public Accounts Committee
<b>CWIP</b>	Capital Work In Progress	<b>PAET</b>	Pan African Energy Tanzania Procurement Management Unit
<b>DAWASA</b>	Dar es Salaam Water and Sewerage Authority	<b>PMU</b>	
<b>DART</b>	Dar es Salaam Rapid Transit	<b>PNG</b>	Piped Natural Gas
<b>EIA</b>	Environmental Impact Assessment	<b>PPA</b>	Public Procurement Act
<b>EPC</b>	Engineering Procurement and Construction		
<b>FTG</b>	Full Tensor Gradiometric	<b>PPR</b>	Public Procurement Regulations
<b>FEED</b>	Front End Engineering Design	<b>PRE-FEED</b>	Preliminary front end engineering design
<b>GASCO</b>	Gas Company (Tanzania) Limited	<b>PRS</b>	Pressure Reduction Station
<b>GoT</b>	Government of Tanzania	<b>PSA</b>	Production Sharing Agreement
<b>GSA</b>	Gas Sale Agreement	<b>PSSSF</b>	Public Service Social Security Fund
<b>IAS</b>	International Accounting Standard	<b>PURA</b>	Petroleum Upstream Regulation Authority
<b>IFRS</b>	International Financial Reporting Standard	<b>SACCOS</b>	Savings and Credit Corporative Society
		<b>SCADA</b>	Supervisory Control and Data Acquisition system
<b>IOCs</b>	International Oil Companies	<b>Sq. Km</b>	Square Kilometers
<b>Km</b>	Kilometers	<b>TANOIL</b>	TANOIL Investment Limited
<b>LPG</b>	Liquefied Petroleum Gas	<b>TANESCO</b>	Tanzania Electric Supply Company Limited
<b>LNG</b>	Liquefied Natural Gas	<b>TCF</b>	Trillion Cubic Feet
<b>M&amp;P</b>	Maurel et Prom	<b>TPDC</b>	Tanzania Petroleum Development Corporation
<b>MEM</b>	Ministry of Energy and Minerals	<b>TZ</b>	Tanzania
<b>MMSCFD</b>	Million Standard Cubic Feet per Day	<b>TZS</b>	Tanzanian Shillings
<b>MOU</b>	Memorandum of Understanding	<b>URT</b>	United Republic of Tanzania
<b>MV</b>	Motor Vehicle	<b>USD</b>	United States Dollar
<b>MW</b>	Megawatts	<b>HGA</b>	Host Government Agreement
<b>NHIF</b>	National Health Insurance Fund		

# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

### 1. REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2021

The Directors submit their report together with consolidated and separate financial statements for the year ended 30 June 2021, which disclose the state of affairs of Tanzania Petroleum Development Corporation (the "Corporation" or "TPDC") and its subsidiaries - Gas Company (Tanzania) Limited and TANOIL Investments Limited (formerly known as Commercial Petroleum Company of Tanzania Limited), (together, the "Group") as at that date.

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

#### 1.1 INCORPORATION

The Corporation was established under the Public Corporations Act No.17 of 1992 through the Tanzania Petroleum Development Corporation (Establishment Order) 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 TANOIL Investments Limited (TANOIL). GASCO and TANOIL have been incorporated as limited liability companies and their shares are wholly owned by TPDC.

Gas Company (Tanzania) Limited, a TPDC whole-owned company was incorporated on 13 August 1985. However, it remained dormant until 2014 when it was revived. Section 9 (2) (c) of Petroleum Act, 2015 amplifies TPDC's mandate to carry out specialized operations in the natural gas value chain on its own or through its subsidiaries including processing, transportation, liquefaction regasification, storage, compression and distribution. Subsequently, TPDC designated the newly revived GASCO to carry out the aforementioned operations. GASCO began its operations in 2015.

TANOIL Investments Limited was initially incorporated as the Commercial Petroleum Company (COPEC) on 22 March 1999 to conduct oil business. Following the Government's decision towards liberalization of petroleum sub-sector with effect from 1 January 2000, COPEC remained dormant effectively from 31 December 1999. The enactment of the Petroleum Act, 2015 vested TPDC with the role of conducting all mid and downstream liquid petroleum activities through its subsidiaries. After consulting stakeholders, the name TANOIL was proposed, and it was then adopted by TPDC's management and later approved by TPDC's Board of Directors. The change of name from COPEC to TANOIL was officially registered at the Business Registrations and Licensing Agency on 1 November 2017.

#### 1.2 VISION STATEMENT

To become a leading integrated National Oil Company competing nationally, regionally and globally.

## TANZANIA PETROLEUM DEVELOPMENT CORPORATION

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

#### 1.3 MISSION STATEMENT

To participate and engage in the exploration, development, production and distribution of oil and gas related services, 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.

#### 1.4 PRINCIPAL ACTIVITIES

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

- 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;
- Performing any petroleum activities and related functions; and
- Advising the Government on policy matters pertaining to the petroleum industry.

#### 1.5 GENERAL OUTLOOK

Sedimentary basins in Tanzania occupy a total area of 534,000 sq. km, approximately 56% of the total area of the United Republic of Tanzania. Since the beginning of exploration activities, there has been significant progress in oil and gas exploration, development, and production.

The Corporation implemented its exploration and development activities and gas distributions projects as per the current year approved plan.

The implemented activities enabled TPDC for the financial year 2020/21 to contribute a sum of TZS 58.41 billion to the Oil and Gas Fund and paid TZS 6.89 billion as dividend to the Government.

TPDC Upstream projects include the programs for drilling exploration and appraisal wells in Mnazi Bay North Block, and acquisition of 2D seismic data in Eyasi Wembere block. The blocks have been elevated to national flagship projects in the National Five-Year Development Plan 2021/22 - 2025/26 (FYDP III). TPDC has secured a service provider for Drilling through International Competitive bidding to support the Mnazi Bay North upcoming drilling operations. The focus is on discovery of oil at the Eyasi Wembere block and natural gas at Mnazi Bay North block.

## TANZANIA PETROLEUM DEVELOPMENT CORPORATION

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

#### 1.5 GENERAL OUTLOOK (CONTINUED)

The LNG Project is among the TPDC flagship projects under the National Five-Year Development Plan 2021/22 - 2025/26 (FYDP III). Currently, the project is under Host Government Agreement (HGA) negotiations between the Government of Tanzania (GoT) and Gas developers (Shell Exploration Petroleum Tanzania Limited of The Netherlands and Equinor of Norway). Upon signing of HGA documents presumably with condition precedence between Gas developers and Government during negotiations, implementation of the Pre-FEED and FEED stages of the project will start. The Development Licence will be granted to TPDC upon submission of the final Development Plan by Gas developers and after completion of the FEED stage. The LNG project entails liquefaction of discovered natural gas from Blocks 1, 2 and 4 for export and domestic markets.

The Rukwa South Block is no longer active following a case filed by the contractor which is still under arbitration. The Nyuni East and Kilosa Kilombero Blocks received their exploration extension licenses in August 2021. The remaining Blocks with active exploration activities, which were licensed for exploration and development, occupy a total area of 54,764.5 sq. km, approximately 5.74% of the total area of the United Republic of Tanzania. Operational PSAs include Blocks 1, 2 and 4 located in the offshore basins, Ruvuma, Ruvu, Songosongo, Mnazibay and Kiliwani-North.

TPDC will continue to implement natural gas distribution infrastructure projects to support domestic gas utilization in various market segments. The gas utilization will focus on increasing the customer base through undertaking natural gas distribution infrastructure projects. The projects will involve connection of industries and households in Dar es Salaam, Mtwara, Lindi and Coast regions and construction of CNG stations.

Apart from natural gas infrastructure projects, TPDC will continue with oil trading and engage in bulk oil importation as well as participate in the East African Crude Oil Pipeline Project (EACOP). Participations in these projects is expected to enhance revenue generation for the Corporation and the Country, create significant savings in foreign exchange, protect the environment by reducing carbon footprints and deforestation, and at the same time create employment to local Tanzanians.

Most importantly, it is worth noting that the key to success of the Corporation rests on human resources. Significant emphasis is directed towards recruiting the best human resources available, development and retention strategies, along with establishment of an institutional set up suitable for the ongoing Corporation's activities and the new strategic directions.

The Group financial performance has partially been affected by the COVID-19 pandemic which had a negative impact in the global economy and specifically the oil and gas industry among others.

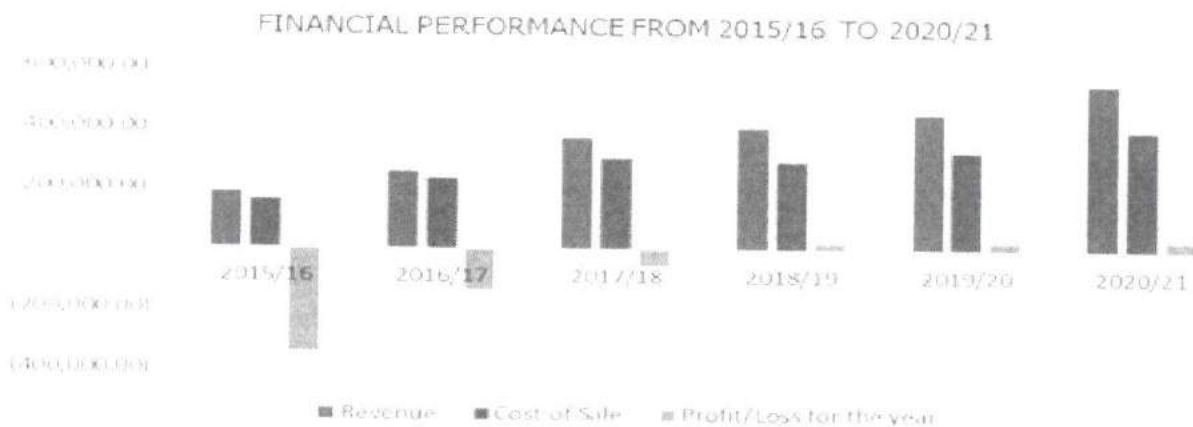


# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

### 1.5 GENERAL OUTLOOK (CONTINUED)

The notable impact relates to travel restrictions which resulted in inefficiency in the process of procuring tools and spare parts from outside the county for periodic maintenance of gas plants and pipeline infrastructures. Likewise, GASCO's employees could not attend overseas training and certification programs as planned for maintenance of the infrastructures. During the year, the group recorded a net profit of TZS 22,915 million (2020: Profit of TZS 26,165 million), as shown in the chart below:



### 1.6 CORPORATE GOVERNANCE

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 Corporation is committed to the principles of effective corporate governance. However, during the year ended 30 June 2021 the Corporation did not had a Board of Directors. The activities of the Corporation were overseen by the Permanent Secretary of the Ministry of Energy who is vested with powers under Section 39 of the Written Laws (Miscellaneous Amendments) (No. 6) Act, 2019 to undertake the obligations of the Board whose tenure came to an end. However, by the end of the financial year, the President of the United Republic of Tanzania appointed Mr. Halfani Ramadhani Halfani as a new Board Chairman for a tenure of three years.

# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

### 1.6 CORPORATE GOVERNANCE (CONTINUED)

The Directors of the Corporation as at 30 June 2021 are:

Name	Position	Age	Discipline
Mr. Halfani Ramadhani Halfani (Appointed on 19 June 2021)	Chairman	69	Geophysicist

The Management team comprised of;

Name	Position
Dr. James P. Mataragio	Managing Director
Mr. Francis Misana Mwakapalila	Director of Finance and Administration
Mr. Kelvin R. Komba	Director of Exploration, Development and Production
Dr. Wellington E. Hudson	Director of Oil and Gas Business
Mr. Nathan E. Mnyawami	Director of Planning and Investment
Mr. Gabriel L. Mwero	Director of Internal Audit Unit
Dr. Elias T. Mwashuuya	Director of Legal Services Unit
Mr. Edwin Riwa	Head of Procurement Management Unit
Mr. Renuus E. Nyanda	Head of Risk Management Unit
Mr. David Kidenya	Head of ICT and Statistics Unit
Ms. Marie F. Msellemu	Head of Public Relations and Communication Unit

### 1.7 CAPITAL STRUCTURE

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

SHARE CAPITAL	2021 TZS 'm	2020 TZS 'm
Authorised: Ordinary Shares 2,500 ordinary shares of TZS 1,000,000 each	<u>2,500</u>	<u>2,500</u>
Issued and fully paid:  2,208 ordinary shares of TZS 1,000,000 each	<u>2,208</u>	<u>2,208</u>
All the issued and fully paid shares are held by the Treasury Registrar on behalf of the Government of the United Republic of Tanzania (URT)		

### 1.8 EQUITY CONTRIBUTION FROM GOVERNMENT

	2021 TZS 'm	2020 TZS 'm
At start of year	184,139	184,139
Received during the year	<u>259,961</u>	-
At end of year	<u>444,100</u>	<u>184,139</u>

Equity contribution from Government represents net capital contributions received from the Government. During the year the government made funds injection of TZS 259,960 million as a Government capital participation for EACOP project. The funds have been accounted as capital contributions as Management are in process of reviewing the capital structure of the Corporation.

# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

### 1.9 MANAGEMENT

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

#### Directorates

- Exploration, Development and Production;
- Oil and Gas Business;
- Planning and Investment; and
- Finance and Administration.

#### Units

- Procurement Management;
- Public Relations and Communication;
- Risk Management;
- Internal Auditing;
- Legal Services; and
- Information Communication Technology and Statistics.

### 1.10 ONGOING AND FUTURE DEVELOPMENT PROJECTS

#### A) Upstream Operations

##### i) Exploration Activities

The Corporation completed drilling of three (3) shallow stratigraphic boreholes in the Eyasi Wembere Block, and undertook core sample analysis for petrographic, geochemical, and bio-stratigraphic studies. The 3D Modelling of AGG data and Amplified Geochemical Imaging will be conducted during the 2021/22 financial year. TPDC concluded the undertaking of Environmental and Social Impact Assessment (ESIA) studies for 2D seismic data acquisition in the Block. Furthermore, TPDC is planning to acquire the 2D seismic data during the 2021/22 financial year.

TPDC has finalized the process to obtain a Drilling Management Consultant (DMC) for Mnazi Bay North. The drilling preparation will start in 2021/22. The DMC will start its first phase of operation by reviewing Geological, Geophysical, Engineering, and any other related data, and revisit the planned well(s) to be drilled. Upon obtaining successful results from this phase, DMC will support procurement and supervise the drilling process together with TPDC.

The Corporation will continue to undertake Geological and Geophysical studies for better understanding of the hydrocarbon potential of Block 4/1B, which has been reserved for TPDC since 2016. The EIA for seismic data acquisition for the block has been upgraded. In addition, Petro-physical interpretation of Chaza-1 Well and Palynological analysis of samples from Jodari-1 Well near to block 4/1B was conducted. Such studies depicted attractive potential results for future exploration. However, it is worth noting that operating on the Block is so risky and requires massive investment capital. The location and nature of operations in a deep-sea block such as this one might necessitate TPDC to engage a strategic partner as exploration activities proceed.

## TANZANIA PETROLEUM DEVELOPMENT CORPORATION

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

#### 1.10 ONGOING AND FUTURE DEVELOPMENT PROJECTS (CONTINUED)

In another development, during the year ended 30 June 2021, the Corporation completed the geological fieldwork in Mandawa North Basin and reviewed the Petro-physical studies of SS10 Well (nearby well), Geological prognosis, and preliminary well-planning in the West Songo Songo (WSS) Block. Further, the EIA Certificate was secured for seismic data acquisition and exploration well drilling in the Block. TPDC will further revisit geological and geophysical data together with a procured Consultant to assess the perspectivity of the block ready for drilling planning. Also, TPDC has already applied for an oil and gas exploration license over West Songo Songo (WSS) Block to the Ministry of Energy (MoE).

##### ii) LNG Development

In the financial year 2020/21, TPDC managed to conclude the compensation payments to the LNG Project Affected People (PAPs), whereby 642 PAPs were paid a total of TZS 5.71 billion out of 674 PAPS. After completing the compensation payment, all PAPs were given a notice of 90 days from March 2021 to vacate the project area.

Among the issues raised during the 2019 Host Government Agreement (HGA) negotiation were the reserve amount from Blocks 1, 2, and 4 for the LNG project and domestic market. The gas developers will verify the amount of reserves using the procured 3rd Party resource verification companies. Equinor and Shell companies started the verification exercise and are expected to submit the results during the financial year 2021/22.

On 11 January 2021, the GoT on one hand and Shell & Equinor companies on the other side signed a Memorandum of Understanding (MoU) with the intention of pushing forward the collaboration in the midstream of the Tanzania Gas and LNG Project.

In April 2021, the Government engaged the Ministry of Energy to conclude the HGA negotiations, which started in 2016. Upon its completion, the implementation of the Tanzania Gas and LNG project will start. To this end, the Government engaged its Government Negotiation team (GNT) to make a thorough study on the viability of the project. Based on that, TPDC renewed its subscription to the service provider who provides access of information for the cost-benchmarking tool which is an important tool for making a comparative analysis of LNG project costs.

#### B) Mid and Downstream Operations

The Corporation implements mid and downstream operations in the aspects of oil and natural gas as described below:

# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

### 1.10 ONGOING AND FUTURE DEVELOPMENT PROJECTS (CONTINUED)

#### **B1: Downstream Natural Gas Operations**

During the period under review, the total amount of gas dispatched to power plants was 27,731.19 MMSCF. Also, a total of 7,059 MMSCF of gas was supplied to industrial customers in Dar es Salaam (Cocacola), Pwani (Lodhia, Knauf and Goodwill) and Mtwara (Dangote). A total of 242 MMSCF was supplied to household customers in Dar es salaam and commercial institutions which include UDSM Cafeteria 1, Mtwara Tech and Lilungu Prison.

Further, TPDC planned to implement natural gas distribution projects in four (4) regions including Coast, Lindi, Mtwara and Dar-es-salaam. In the Coast Region, two industries which are Balochistan Group of Industries and LN Future were connected to use gas, and a process to connect a third industry was initiated. In Mtwara Region, 300 households were connected, and in Lindi Region preparation to connect 200 households was finalized and construction commenced in July 2021 and is at 74% to completion. In the Dar es Salaam region, EPC Contractor was engaged in January 2021 for the construction of natural gas distribution networks at Sinza and Police Barracks (Kurasini). EIA Consultancy works were initiated in Mtwara, Lindi, Coastal Region, and Dar es Salaam.

#### **B2: Downstream Oil Trading Operations**

During the period under review the following activities were achieved:

i. The East African Crude Oil Pipeline Project (EACOP)

The Government of Tanzania (GoT) and EACOP investors successfully signed the Host Government Agreement (HGA) on 20 May 2021. On 11 April 2021, EACOP Company, National Pipeline Company (U) Limited, TPDC, Total Holdings International B.V. and CNOOC Limited signed the Shareholders' Agreement (SHA) to make sure that shareholders of EACOP Company are treated fairly and their investments are protected. Further, TPDC and EACOP Company have initiated the Land Lease Agreements for the priority areas and corridor while Tanzania Ports Authority and EACOP Company initiated the Land Lease for Chongoleani Area, Marine User Rights Agreement and Chongoleani Marine Facility Agreement. The signing of the HGA and SHA, declared the kick start of the Project implementation in Uganda and Tanzania. Towards June 2021, EACOP Company and TPDC conducted entitlement briefing and land acquisition exercises for priority areas. Currently the shareholders are conducting SHA completion negotiations on outstanding issues before attaining a Final Investment Decision (FID) in the 2021/22 financial year. The Project construction phase is planned for three years from 2021/22 to 2023/24, and the first oil is expected to flow in the EACOP infrastructure from 2024/25 for 25 years.

## TANZANIA PETROLEUM DEVELOPMENT CORPORATION

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

#### 1.10 ONGOING AND FUTURE DEVELOPMENT PROJECTS (CONTINUED)

##### ii. Oil Marketing

TPDC through its subsidiary company TANOIL Investment Limited secured registration and permits to operate as an Oil Marketing Company (OMC). The company obtained the status of being registered as an Oil Marketing Company (OMC) whereby its first cargo of oil importation arrived at the Port of Dar-es-salaam at the end of March 2021 with 1,015.15 metric tons of Diesel. By the end of June 2021 the company recorded total imports of 15,420.97 metric tons of products including 7,788.15 metric tons of diesel and 7,632.82 tons of petrol. The plan for the next financial year is to enable TANOIL expand oil marketing operations through increase of oil cargo importation and hence enhancement of sales volumes

##### iii. Strategic Petroleum Reserve (SPR)

The Corporation has identified areas for construction of strategic depots in Dar es Salaam, Morogoro, Dodoma and Tanga regions as a means towards establishment of the SPR. During the financial year, land compensation exercise to the project affected persons (PAPs), was completed at Chongoleani Tanga and Zuzu Dodoma for Tank farm development projects.

#### B. Mid and Downstream Operations (Continued)

##### B3: Midstream Natural Gas Operations

The Corporation owns natural gas processing plants and pipelines which are operated and maintained by its subsidiary company (GASCO). The plant facilities are located at Madimba (Mtwara region) and Songo Songo (Lindi region) with the capacity of processing 210 MMSCFD (3trains) and 140 MMSCFD (2 trains) respectively. The pipeline infrastructures consist of a 36"-pipeline with the length of 551km from Mtwara and Songo Songo to Dar es Salaam designed to transport 784 MMSCFD of natural gas up to 1002MMSCFD with compression facility. Additionally, TPDC operates a number of other pipeline infrastructures used to transport natural gas to industrial, domestic and CNG customers in Dar es Salaam, Mtwara, Lindi and Coast regions.

Assurance of gas availability for downstream customers is the foremost function of GASCO on behalf of TPDC. During the year under review, prudent operations and maintenance of the infrastructures were maintained. A total volume of 35,997.54 MMSCF of natural gas was received for processing, whereby Madimba plant received 27,010.13 MMSCF from the Mnazi bay gas field while the Songo Songo plant received 8,987.41 MMSCF from the Songo Songo gas field. The total quantity of 35,761.28 MMSCF was exported through the pipeline to customers. The Madimba and Songo Songo processing plants exported total gas volumes amounting to 26,919.16 MMSCF and 8,842.12 MMSCF respectively. In addition, a sum of 1,989.69 tons of condensate were produced from both Madimba and SongoSongo processing plants.

## TANZANIA PETROLEUM DEVELOPMENT CORPORATION

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

#### 1.11 KEY ACHIEVEMENTS

During the year under review, the Corporation attained the following key achievements:

- i. Drilled three shallow stratigraphic boreholes in Eyasi Wembere basin. (Kining'inila - Igunga District, Nyalanja - Meatu District and Luono 1- Iramba District);
- ii. Paid Land compensation of six hundred forty-two (642) out of 674 LNG Project Affected People (PAPs);
- iii. Signed one (1) Gas Sales Agreement (GSA) with Balochistan Group of Industries;
- iv. Constructed an additional of 8.65 km distribution line, hence making a total of 24.95 km (8.6 km trunk line 16.35 km distribution line) gas distribution network with the capacity to connect 3,000 households in Mtwara;
- v. Constructed an additional of 13.585 km distribution line, making a total of 23.365 km gas network with the capacity to connect 10,000 households in Dar es Salaam;
- vi. Processed and transported 35.761 Billion Cubic Feet (BCF) of natural gas to supply downstream customers compared to 32.617 BCF in 2019/20. The availability of the transportation pipeline was at 100% while the reliability of gas supply to customers was maintained at 98%;
- vii. Conducted Fourteen (14) CSR programs in Mtwara, Lindi, Pwani, Dodoma and Dar es Salaam;
- viii. 16 staff attended long courses during the period (13 staff abroad and 3 staff local) while 37 staff attended short courses; and
- ix. The Government of Tanzania (GoT) and the Project Investors successfully signed the Host Government Agreement (HGA) and Shareholders' Agreement (SHA) for The East African Crude Oil Pipeline Project (EACOP).

#### 1.12 RESULTS AND DIVIDEND

Results for the year are set out on page 26 of this report. During the year, the Group recorded a net profit of TZS 22,915 million (Corporation: a net profit of TZS 23,271 million) (2020: Group had a net profit of TZS 26,165 million and Corporation had a net profit of TZS 26,115 million). During the year the management declared and paid a final dividend of TZS 6,899 million to the Government, through the Office of Treasury Registrar as per the financial year ended 30 June 2020 (2020: interim dividend TZS 2,500 million).

#### 1.13 REMITTANCE TO THE OIL AND GAS FUND

Pursuant to provisions of the Oil and Gas Revenue Management Act, 2015, the Group remitted a sum of TZS 58,411 million to the oil and gas fund maintained at the Central Bank of Tanzania (2020: TZS 88,458 million). These funds comprise of government share of profit gas and royalty resulting from upstream operations in the gas producing fields at Mnazi bay and Songo Songo Island.

## TANZANIA PETROLEUM DEVELOPMENT CORPORATION

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

#### 1.14 RISK MANAGEMENT AND INTERNAL CONTROL

All employees are required to observe risks inherent at the workplace. Risk assessment responsibility rests with the Management. The Corporation employs a reasonable risk management process which fulfils the intent of managing risks in TPDC, so as to enhance business performance, protection of the Group's reputation, and improvement of Corporation's ability in compliance with the existing regulations and standards in the industry, locally, regionally and globally.

The Group 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:

##### (i) Credit Risk

Despite notable improvements in revenue collection during the year, cash flow performance remained below expectations partly due to having large amounts of long-overdue gas sales debtors. These overdue sales are mainly attributable to major natural gas off-takers including TANESCO, Songas (T) Limited and Pan African Energy (T) Limited. This situation continued to cause cash flow strains affecting Corporation investments and daily operations; reducing the Corporation's capacity to meet its financial obligations; limiting the ability of TPDC to secure different forms of credits, guarantees and strategic investments necessary for Corporation's growth and; reducing the pace of the Corporation to achieve commercial independence. The Corporation has been working with the debtors - TANESCO, Songas (T) Limited and PanAfrican Energy (T) Limited and its key stakeholders including the Ministry of Energy (MoE), to improve collections of debts.

##### (ii) Credit Default Risk

The natural gas infrastructure operated by TPDC continued to be substantially underutilized, although there has been good progress in natural gas connection to new industrial customers. Progressive underutilization of natural gas infrastructure, which was constructed using borrowed funds, may defeat revenue assumptions of the natural gas infrastructure project and affect revenue projections needed to repay large loan principal and interest over the project lifetime. The effects may be broad ranging from increased financial loss due to loan default fees and additional loan interests, reduced ability of TPDC to source external financing for project funding due to weak credit repayment history, damaged country and Corporation reputation among strategic partners and financiers both locally and internationally. This is managed by TPDC continuing connecting more gas customers to the infrastructure so as to increase gas utilization.



## TANZANIA PETROLEUM DEVELOPMENT CORPORATION

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

#### 1.14 RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

##### (iii) Fundraising Risk

Lack of sufficient funds to finance operating and investing activities continued to be a challenge to the Group. The Corporation remained unable to actively participate in additional stakes in the discovery areas where it has contractual rights to participate due to financial constraints hindering investment financing called upon under respective PSAs. As a result, Government share could not be increased and an opportunity to realize significant future revenue could not be utilized.

Further, weak financial position and performance continued to impede TPDC as a National Oil Company (NOC) to leverage on its exclusive rights as a license holder and other privileges to profitably invest in viable projects like Blocks 4/1B and 4/1C, Strategic Petroleum Reserve (SPR), West Songo Songo, tank farm project and oil trading activities. Various options are being explored to manage this risk including investing in quick revenue generating projects, seeking potential Government financial support and exploring viable partnerships with suitable investors.

##### (iv) Foreign Exchange Risk

Foreign currency loans and payables, especially those related to large loan obligations such as natural gas infrastructure project (NNGIP) loan, continued to expose the Corporation to foreign currency exchange risk which could have a material adverse impact on our earnings, cash flows and financial condition. Although most of the cash flows generated from TPDC's operations are in USD, The Group and Corporation is working on ways to manage uncontained risks by utilizing various hedging methods and exploring suitable risk management products available in the financial markets

##### (v) Operational Risk

The broader economic and security significance as well as complex nature of core TPDC operations call for development and maintenance of an effective Business Continuity Management (BCM) System, to guarantee the quickest possible resumption of key activities in case of a major operational disruption. The direct dependence on TPDC's natural gas supplies by major electricity generators, distributors and industries for their energy needs, demand for immediate and sufficient investment in BCM systems, which has been recently developed. However, prolonged service disruption could lead to possible legal action against TPDC by customers, higher overhead cost and damage TPDC's credibility and reputation. To maintain readiness against such risk, the Corporation has set aside funds in the financial year 2021/22 budget, to develop BCM policies, procedures and systems.

## TANZANIA PETROLEUM DEVELOPMENT CORPORATION

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

#### 1.14 RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

##### (vi) Legal and Regulatory Risks

Developments in policy, legal and regulatory environment remained a considerable risk on operations. Certain shifts in policies and directives could limit the ability of the Group to obtain financing and security guarantees hence weakening its position in negotiations and increasing operational hindrances. This threat has been managed by stakeholder influence and active involvement of TPDC in policy review processes.

#### 1.15 SOLVENCY

Management has reviewed the Group and Corporation state of affairs and are of the opinion that the Group and the Corporation will continue operating in a manner that its financial obligations will be met.

#### 1.16 RESOURCES

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

##### a) Human Capital

The Corporation possesses an adequate number of qualified human capital in relevant and different disciplines. TPDC has a stable training and development program for enhancing staff capacities through short and long term training programs particularly in the fields of oil and gas. Further details on employee's welfare are included under note 16.

##### 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). In addition, TPDC earns dividends from investments made in other companies. However, with expanding operations funding is inadequate relative to the planned activities.

##### c) Processing and Transmission Resources

The Corporation owns Madimba and Songo Songo Gas Processing Plants, Mtwara - Dar es Salaam gas transmission pipeline and Ubungo- Mikocheni gas distribution pipeline. The existing natural gas infrastructures are operated and maintained by GASCO, which is among the TPDC subsidiary companies.

##### d) Properties

###### (i) Land

The Corporation owns lands located in various strategic areas for investment purposes. Lands owned include those in Kilwa Masoko and Likong'o in Lindi Region, Kibirizi, Tanga, Bangwe and Mwanga in Kigoma. Other areas where the Corporation owns lands include Makambako in Njombe; Mpanda; Uyole, Mbeya; Isaka, Shinyanga; Makurunge and Msata, Coastal region and Kigamboni Bitumen site and Mlalakuwa plots in Dar es Salaam.

## TANZANIA PETROLEUM DEVELOPMENT CORPORATION

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

#### 1.16 RESOURCES (CONTINUED)

##### (ii) Other properties

Some of the properties that are owned by the Corporation are located in various regions in the United Republic of Tanzania. The Corporation has properties in such areas as Upanga, Mikocheni, Mlalakuwa, Msasani, Masaki, Temeke and Kinondoni, in the Dar es Salaam region. Some more properties are in Lindi and Mtwara regions. Other properties include Petrol stations in Makuyuni, Singida, Tarime, Musoma, Geita and Segera areas.

##### e) Gas reserves

Following a number of discoveries in onshore and offshore blocks, the natural gas reserves in Tanzania have reached 57.54 trillion cubic feet (TCF). The reserves are expected to rise further as a result of the ongoing exploration activities in the Country. For the period under review, there were two onshore gas producing fields located at Mnazi bay and Songo Songo Island. TPDC has participating interest in the Mnazi bay field and plans to exercise its right to participate in the Songo Songo gas field.

#### 1.17 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 a prompt and informed communication system.

#### 1.18 EMPLOYEES' WELFARE

##### a. Management and employees' relationship

There is a well-established workers council which facilitates good relationships 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 at different times.

##### b. Training facilities/ training and development

TPDC has a stable training and development program. 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 comprehensive. During the year ended 30 June 2021, a total of TZS 3.17 billion was spent to cover for short and long courses both local and abroad as compared to TZS 1.41 billion spent in the year ended 30 June 2020. Training expenses are disclosed as part of other expenses within Note 9.

## TANZANIA PETROLEUM DEVELOPMENT CORPORATION

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

#### 1.18 EMPLOYEES' WELFARE (CONTINUED)

##### 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 provides 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 adheres to 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 ensures 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.

##### e. Employees' Benefit Plans

During the year, the Corporation paid TZS 1.14 billion (2020: TZS 1.12 billion) as contributions to publicly administered Pension plans (i.e., Public Service Social Security Fund (PSSSF) and National Social Security Fund (NSSF).

##### 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 the principles of gender issues. The TPDC Staff Regulations observe principles of gender matters like in employment opportunities, sexual harassment, etc. Gender Policy is included in the staff regulations which is currently under review. During the year ended 30 June 2021, TPDC had 357 employees of which 285 (80%) were male and 72 (20%) were female.

##### h. HIV/AIDS Awareness Programme

The Corporation has HIV/AIDS awareness program and measures with an objective to provide an all-encompassing management of HIV/AIDS at the workplace to ensure business continuity. In the year 2020/2021, TPDC conducted an awareness program to the Management and its staff to bring awareness to the employees on HIV/AIDS related issues.

## TANZANIA PETROLEUM DEVELOPMENT CORPORATION

### STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

#### 1.19 RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in Note 32 to the financial statements.

#### 1.20 ENVIRONMENTAL CONTROL PROGRAMME

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

#### 1.21 CORPORATE SOCIAL RESPONSIBILITY

##### Corporate Image and Reputation

In carrying out its responsibilities, TPDC relies on a good corporate image and reputation. During the year under review, a number of activities were carried out with an intention of building and maintaining the positive image and reputation of the Corporation. These activities include awareness campaigns and strategic use of media and media relations. During the year under review, a total of 43 villages along the natural gas pipeline from Mtwara to Lindi were visited as part of creating awareness relating to natural gas infrastructure and security. Along the same line of strategic use of media, articles were published in various newspapers, at least 30 Television appearances (including special programs) and 25 radio programs were aired that aimed at promoting strategic projects such as EACOP, Eyasi Wembere, Mnazi Bay North and LNG and also enhancing understanding of the sector and publicizing TPDC activities.

The Corporation upholds good Corporate Social Responsibility (CSR) practices. It identifies itself with the community within which it operates and cultivates harmonious relationships so as to acquire social license to operate with all such communities. The Corporation's CSR practices during the year ended 30 June 2021 covered areas including public health, education and good governance and amounted to TZS 158.04 million as per details in the table below.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

STATEMENT OF DIRECTORS' RESPONSIBILITIES  
FOR THE YEAR ENDED 30 JUNE 2021

S/N	Intervention Areas	Program/Project supported.	Beneficiaries	Program/project Cost
1	Health	Contribution on Construction of cardiac Health Centre at KCMC.	KCMC, Moshi	30,000,000
2	Education	Purchase of Chairs and Tables for Madangwa Secondary School.	Madangwa Secondary School	14,000,000
3	Education	Construction of classrooms and purchasing of desks at Msewe Primary School	Msewe Primary School, Dar es Salaam	25,000,000
4	Education	Construction of classrooms and purchasing of desks at Mjimpya Primary School.	Mji Mpya Primary school ,Dar es Salaam	25,000,000
5	Education	Contribution in fundraising at Madimba Secondary	Madimba Secondary, Mtwara	390,000
6	Education	Contribution on Construction of classrooms of Kisiwani Primary School.	Kigamboni, Dar es Salaam	1,500,000
7	Education	Support purchase of printers and computers for Songosongo primary school	Songosongo primary school	5,000,000
8	Education	Support for rehabilitation of Jangwani secondary school sports ground	Jangwani secondary school	1,373,500
9	Education	Contribution on construction of classrooms at Mnara Secondary school Lindi	Mnara Secondary school Lindi	20,000,000
10	Good Governance	Construction of Kiangu B Mtaa office	Mtwara	4,060,500
11	Good governance	Contribution on the construction of official residence for the DC and DAS of Mtwara District	Mtwara District	10,000,000
12	Good governance	Contribution on the construction of Namunda Village Office	Namunda Village Office, Lindi District	3,920,000
13	Good governance	Contribution to facilitate Tanzania Editors Retreat and Annual General Meeting	TEF	5,000,000
14	Good governance	Sponsorship on 8th Tanga Trade Fair	Tanga Region	5,000,000
15	Good governance	Contribution on the launching of investment guide in Mara Region.	Mara Region	5,000,000
16	Sports	To support sports bonanza between Boda boda soccer match between Kagera and Mtwara region	Regional Administration and local Government Mtwara	2,800,000
	<b>Total</b>			<b>158,044,000</b>

# TANZANIA PETROLEUM DEVELOPMENT CORPORATION

## STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

### 1.22 GAS RESERVES

#### a. Recoverable Gas

Two fields are currently under production i.e., Songo Songo and Mnazi Bay; The Government of Tanzania and TPDC entered in the Production Sharing Agreements (PSAs) with Pan African Energy Tanzania Limited and Maurel & Prom (M&P) for exploration and production of oil and gas over Songo Songo and Mnazi Bay blocks respectively. TPDC opted to participate in the Joint Operating Agreement (JOA) for Mnazi bay PSA, but it does not participate in the assets of Songo Songo PSA operated by Pan African Energy. The natural gas reserves at Songo Songo field as per assessment done in December 2020 at P50 confidence level is 583 billion cubic feet (BCF). On the other hand, the gas reserves for Mnazi Bay as assessed by independent consultants in December 2020 at P50 confidence level is 445.3 BCF. The summaries of recoverable gas reserves for the two fields as per assessment conducted in December 2020 are as follows:

Confidence Level	Songo Songo Billion Cubic Feet	Mnazi Bay Billion Cubic Feet
P 10	670	637.8
P 50	583	445.3
P 90	503.5	240

Up to the end of the period under review, gas discoveries i.e., Gas Initial in Place (GIIP) for both offshore and onshore fields is 57.54 TCF of which 47.54 TCF and 10 TCF are from offshore and onshore respectively.

#### b. Gas Sharing

Gas produced from reserves are shared between the exploration and Production companies and TPDC in accordance with sharing tranches as per respective PSAs. Some revenues from these reserves are remitted by TPDC to the oil and gas fund maintained at the Central Bank of Tanzania as per provisions of the Oil and Gas Revenue Management Act, 2015 as described in section 11 above.

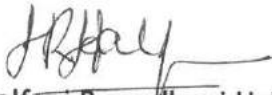
TANZANIA PETROLEUM DEVELOPMENT CORPORATION

STATEMENT OF DIRECTORS' RESPONSIBILITIES  
FOR THE YEAR ENDED 30 JUNE 2021

1.23 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, [CAP.418 R.E2021]. However, in accordance with section 33 (1) of the same Act, PricewaterhouseCoopers and National Audit Office have jointly carried out the audit of Tanzania Petroleum Development Corporation for the year ended 30 June 2021.

On behalf of the Board of Directors



Mr. Halfani Ramadhani Halfani  
Chairman

Date: 28/02/2022



Dr. James P. Mataragio  
Managing director

Date: 28 February 2022



TANZANIA PETROLEUM DEVELOPMENT CORPORATION

STATEMENT OF DIRECTORS' RESPONSIBILITIES  
FOR THE YEAR ENDED 30 JUNE 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2021

The Directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view of Tanzania Petroleum Development Corporation comprising the consolidated and separate statements of financial position as at 30 June 2021, and the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information, in accordance with International Financial Reporting Standards (IFRS) and the manner required by Public Corporations Act, 1992.

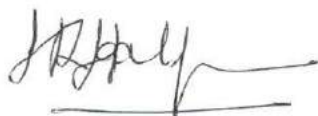
The Directors are also responsible for such internal control as Directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management. They are also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

The Directors have assessed the Corporation and Group's ability to continue as a going concern and have disclosed the facts under Note 2 of these financial statements. They 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 and signed on its behalf by:



Mr. Halfani Ramadhani Halfani  
Chairman

Date: 28/02/2022



Dr. James P. Mataragio  
Managing director

Date: 28 February 2022

TANZANIA PETROLEUM DEVELOPMENT CORPORATION

DECLARATION OF THE HEAD OF FINANCE  
FOR THE YEAR ENDED 30 JUNE 2021

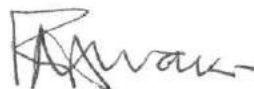
2. DECLARATION OF HEAD OF FINANCE FOR THE YEAR ENDED 30 JUNE 2021

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 the 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 Senior Management as under Management's Responsibilities statement on an earlier page.

I, **Francis Misana Mwakapalila**, being the Director of Finance and Administration of Tanzania Petroleum Development Corporation hereby acknowledge my responsibility of ensuring that consolidated and separate financial statements for the year ended 30 June 2021 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: Director of Finance and Administration

NBAA Membership No.: ACPA (T) 1400

Date: 24/2/2022 .....

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

**4. INDEPENDENT REPORT OF THE CONTROLLER AND AUDITOR GENERAL**

Managing Director,  
Tanzania Petroleum Development Corporation,  
Tower A, Benjamin W. Mkapa,  
Azikiwe/Jamhuri Street,  
P.O. Box 2774,  
Dar es Salaam, Tanzania.

**4.1 REPORT ON THE AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS**

**Opinion**

I have audited the consolidated financial statements of Tanzania Petroleum Development Corporation and its subsidiaries Gas Company (Tanzania) Limited and TANOIL Investment Limited (together “the Group”), which comprise the statement of financial position as at 30 June 2021, the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flow statement as well as the notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Tanzania Petroleum Development Corporation as at 30 June 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

**Basis for Opinion**

I conducted my audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the below section entitled “Responsibilities of the Controller and Auditor General for the Audit of the Consolidated Financial Statements”. I am independent of the Group and the Corporation in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) together with the National Board of Accountants and Auditors (NBAA) Code of Ethics, and I have fulfilled my other ethical responsibilities in accordance with these requirements.

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

**Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the consolidated financial statements of the current period. I have determined that there are no key audit matters to communicate in my report.

**Other Information**

Management is responsible for the other information. The other information comprises the Report of the Directors, Statement of Directors’ Responsibilities and the Declaration by the

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

Head of Finance but does not include the consolidated financial statements and my audit report thereon.

My opinion on the consolidated financial statements does not cover the other information, and I do not express any form of assurance conclusion thereon. In connection with my audit of the consolidated financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed on the other information that I obtained prior to the date of this audit report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the entity's financial reporting process.

**Responsibilities of the Controller and Auditor General for the Audit of the Consolidated Financial Statements**

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures

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

responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are, therefore, the key audit matters. I describe these matters in my audit report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

In addition, Section 10 (2) of the Public Audit Act, Cap 418 [R.E. 2021] requires me to satisfy myself that the accounts have been prepared in accordance with the appropriate accounting standards.

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

Further, Section 48(3) of the Public Procurement Act, 2011 (as amended in 2016) requires me to state in my annual audit report whether or not the audited entity has complied with the procedures prescribed in the Procurement Act and its Regulations.

**4.2 REPORT ON COMPLIANCE WITH LEGISLATIONS**

**Compliance with the Public Procurement Act, 2011 (as amended in 2016)**

**Subject matter: Compliance audit on procurement of works, goods and services**

I performed a compliance audit on procurement of goods, works and services in the Tanzania Petroleum Development Corporation for the financial year 2020/21 as per the Public Procurement laws in Tanzania.

**Conclusion**

Based on the audit work performed, I state that, except for the matters described below, procurement of goods, works and services of Tanzania Petroleum Development Corporation is generally in compliance with the requirements of the Public Procurement laws and regulation.

**Unsatisfactorily implementation of planned procurement**

Section 49(3) of the Public Procurement Act, 2011 states that, "The procuring entity shall observe the approved annual procurement plan and any unplanned procurement shall get a prior written approval of the accounting officer". Also, Regulation 159 of the Public Procurement Regulations, 2013 (as amended by Regulation 60 of the Public Procurement (Amendment) Regulations, 2016) details that, procuring entity may procure the goods or non-consultancy services, by soliciting proposal or price quotation from a single supplier when the goods or services are available only from a particular tenderer who has exclusive rights in respect of the goods or services, and no reasonable alternative or substitute exists (sole sourcing).

Review of procurement quarterly report revealed that, The Corporation could not implement the planned annual procurement plan amounting to TZS 83,364,323,498.07 out of Annual Procurement Plan of TZS 219,904,629,207.20 equivalent to 38%. On the other hand, audit performed noted that, procurement with the value of TZS 2,237,147,099 from five (5) tenders equivalent to 44% was not conducted regardless of the Tender Board approval of single source procurement amounting to TZS 5,071,117,099 of various non-consultancy services in its annual procurement plan. These were caused by delays and timing of procurement process from bidding to awarding of tenders as well as unrealistic plan.



Charles E. Kichere  
Controller and Auditor General,  
Dodoma, United Republic of Tanzania.  
28 February 2022

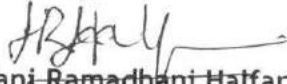


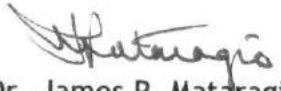
**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**  
**CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2021**

**STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021**

	Note	Group		Corporation	
		2021 TZS 'm'	2020 TZS 'm'	2021 TZS 'm'	2020 TZS 'm'
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant and equipment	13	2,344,337	2,107,335	2,342,522	2,105,258
Natural gas properties	14	46,894	51,630	46,894	51,630
Investment properties	15	1,716	1,682	1,716	1,682
Intangible assets	16	13,538	13,278	13,538	13,278
Investment in subsidiaries	25	-	-	36,887	6,500
Investment in associate	26	69,187	62,299	69,187	62,299
Escrow funds	22	138,673	138,527	138,673	138,528
		<u>2,614,345</u>	<u>2,374,751</u>	<u>2,649,417</u>	<u>2,379,175</u>
<b>Current assets</b>					
Inventories	17	17,144	5,843	1,156	655
Trade and other receivables	28	661,144	573,692	654,985	588,536
Cash and cash equivalents	21	481,927	230,670	467,849	223,626
		<u>1,160,215</u>	<u>810,205</u>	<u>1,123,990</u>	<u>812,817</u>
<b>Total assets</b>		<u>3,774,560</u>	<u>3,184,956</u>	<u>3,773,407</u>	<u>3,191,992</u>
<b>Equity and Liabilities</b>					
<b>Equity</b>					
Share capital	24	2,208	2,208	2,208	2,208
Equity contribution from GoT	29(a)	444,100	184,139	444,100	184,139
Revaluation reserve	29(b)	452,042	139,714	452,614	139,714
Retained earnings		(641,213)	(657,229)	(640,860)	(657,232)
<b>Total equity</b>		<u>257,137</u>	<u>(331,168)</u>	<u>258,062</u>	<u>(331,171)</u>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Deferred tax liability	20	106	59	-	-
Borrowings	19	2,784,563	2,521,470	2,784,563	2,521,470
Government grant	23	36,101	35,450	36,101	35,450
Asset retirement obligation	18	2,573	4,127	2,573	4,127
		<u>2,823,343</u>	<u>2,561,106</u>	<u>2,823,237</u>	<u>2,561,047</u>
<b>Current liabilities</b>					
Borrowings	19	526,463	730,477	526,463	730,477
Cash call commitments	35	1,018	873	1,018	873
Trade and other payables	30	164,603	221,086	162,777	228,323
Income tax payable	20	1,996	2,582	1,850	2,443
		<u>694,080</u>	<u>955,018</u>	<u>692,108</u>	<u>962,116</u>
<b>Total liabilities</b>		<u>3,517,423</u>	<u>3,516,124</u>	<u>3,515,345</u>	<u>3,523,163</u>
<b>Total equity and liabilities</b>		<u>3,774,560</u>	<u>3,184,956</u>	<u>3,773,407</u>	<u>3,191,992</u>

The financial statements on page 26 to 80 were approved by the Board of Directors and signed on its behalf by:-

  
**Mr. Halfani Ramadhani Halfani**  
**Chairman**  
 Date: 28/02/2022

  
**Dr. James P. Mataragio**  
**Managing director**  
 Date: 28 February 2022

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**  
**CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2021**

**STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2021**

	<u>Note</u>	<u>Group</u>		<u>Corporation</u>	
		<u>2020/21</u> TZS 'm	<u>2019/20</u> TZS 'm	<u>2020/21</u> TZS 'm	<u>2019/20</u> TZS 'm
Revenue	5	551,378	454,560	527,547	454,560
Cost of sales	8	(402,521)	(326,932)	(399,092)	(348,554)
<b>Gross profit</b>		<b>148,857</b>	<b>127,628</b>	<b>128,455</b>	<b>106,006</b>
Other income	6	25,197	34,075	25,197	34,013
Gain from fair valuation of investment properties		33	-	33	-
Provision for bad debt		(15,429)	(16,660)	(15,429)	(16,660)
Operating expenses	9	(61,088)	(55,680)	(40,400)	(34,231)
<b>Operating profit</b>		<b>97,570</b>	<b>89,363</b>	<b>97,856</b>	<b>89,128</b>
Finance cost	7	(77,166)	(89,554)	(77,166)	(89,555)
Share of profit from associate	26	13,151	13,616	13,151	13,616
<b>Profit before tax</b>		<b>33,555</b>	<b>13,425</b>	<b>33,841</b>	<b>13,189</b>
Income tax (expenses)/credit	12	(10,640)	12,740	(10,570)	12,926
<b>Profit for the year</b>		<b>22,915</b>	<b>26,165</b>	<b>23,271</b>	<b>26,115</b>
Other comprehensive income: Gain from fair valuation of property, Plant and Equipment		312,328	-	312,900	-
<b>Total comprehensive income for the year</b>		<b>335,243</b>	<b>26,165</b>	<b>336,171</b>	<b>26,115</b>



TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021

GROUP	<u>Share capital</u> TZS 'm	<u>Equity contribution government</u> TZS 'm	<u>Revaluation reserve</u> TZS 'm	<u>Retained earnings</u> TZS 'm	<u>Total</u> TZS 'm
<b>Year ended 30 June 2021</b>					
As at 1 July 2020	2,208	184,139	139,714	(657,229)	(331,168)
Transactions with owners;					
Dividend paid	-	-	-	(6,899)	(6,899)
Additions	-	259,961	-	-	259,961
Profit for the year	-	-	-	22,915	22,915
Other comprehensive income;					
Net revaluation gain	-	-	312,328	-	312,328
<b>As at year end 30 June 2021</b>	<b>2,208</b>	<b>444,100</b>	<b>452,042</b>	<b>(641,213)</b>	<b>(257,137)</b>
<b>Year ended 30 June 2020</b>					
As at 1 July 2019	2,208	184,140	139,714	(680,894)	(354,833)
Transactions with owners;					
Dividend paid	-	-	-	(2,500)	(2,500)
Comprehensive income;					
Profit for the year	-	-	-	26,165	26,165
<b>At year end 30 June 2020</b>	<b>2,208</b>	<b>184,140</b>	<b>139,714</b>	<b>(657,229)</b>	<b>(331,168)</b>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**  
**CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2021**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021**

CORPORATION	<u>Share capital</u> TZS 'm	<u>Equity contribution government</u> TZS 'm	<u>Revaluation reserve</u> TZS 'm	<u>Retained earnings</u> TZS 'm	<u>Total</u> TZS 'm
<b>Year ended 30 June 2021</b>					
As at 1 July 2020	2,208	184,139	139,714	(657,232)	(331,171)
Transactions with owners;					
Dividend paid	-	-	-	(6,899)	(6,899)
Prior year adjustment					
Additions	-	259,961	-	-	259,961
Profit for the year	-	-		23,271	23,271
Other comprehensive income;					
Net revaluation gain	-	-	312,900	-	312,900
<b>As at year end 30 June 2021</b>	<b>2,208</b>	<b>444,100</b>	<b>452,614</b>	<b>(640,860)</b>	<b>258,062</b>
<b>Year ended 30 June 2020</b>					
As at 1 July 2019	2,208	184,139	139,714	(680,847)	(354,786)
Transactions with owners;					
Dividend paid	-	-	-	(2,500)	(2,500)
Comprehensive income;					
Profit for the year	-	-	-	26,115	26,115
<b>At year end 30 June 2020</b>	<b>2,208</b>	<b>184,139</b>	<b>139,714</b>	<b>(657,232)</b>	<b>(331,171)</b>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION**  
**CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2021**

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021**

	Note	Group		Corporation	
		2021 TZS 'm	2020 TZS 'm	2021 TZS 'm	2020 TZS 'm
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash generated from operating activities	31	30,964	124,884	53,578	121,844
Interest paid		145	(2,430)	145	(2,432)
Income tax	20	(11,179)	(14,972)	(11,163)	(14,859)
<b>Net cash flows from operating activities</b>		<b>19,930</b>	<b>107,482</b>	<b>42,560</b>	<b>104,553</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Acquisition of property, plant and equipment	13	(10,599)	(16,611)	(9,874)	(14,803)
Acquisition of intangible assets	16	(411)	(196)	(411)	(196)
Dividend income received	26	6,263	8,865	6,263	8,865
Additions to natural gas properties	14	(79)	(41)	(79)	(41)
Additional investment in subsidiary	37	-	-	(30,387)	-
<b>Net cash used in investing activities</b>		<b>(4,826)</b>	<b>(7,983)</b>	<b>(34,488)</b>	<b>(6,175)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Repayment of borrowings (principal)	19	(17,808)	(16,555)	(17,808)	(16,555)
Government grant received	23	897	5,806	897	5,806
Government Contribution	29	259,961	-	259,961	-
Dividends paid	32	(6,898)	(2,500)	(6,898)	(2,500)
<b>Net cash used in from financing activities</b>		<b>236,152</b>	<b>(13,249)</b>	<b>236,152</b>	<b>(13,249)</b>
<b>Net increase in cash and cash equivalents</b>		<b>251,256</b>	<b>86,250</b>	<b>244,224</b>	<b>85,129</b>
<b>Movement in cash and cash equivalents</b>					
At beginning of the year		230,671	144,420	223,625	138,497
Increase during the year		251,256	86,250	244,224	85,129
<b>Cash and cash equivalents at end of year</b>	21	<b>481,927</b>	<b>230,670</b>	<b>467,849</b>	<b>223,626</b>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

Tanzania Petroleum Development Corporation (TPDC) is domiciled in Dar es Salaam, Tanzania. The consolidated financial statements of the Corporation as at and for the year ended 30 June 2021 comprise the Corporation and its subsidiaries GASCO and TANOIL (together referred to as the "Group"). The Corporation owns 100% of the ordinary share capital of GASCO and TANOIL.

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.

For the purpose of these financial statements "consolidated" refers to the Group's financial statements (including its Corporation and subsidiaries) and "separate" refers to the Corporation's financial statements.

**2. GOING CONCERN**

As at the year end, the Group and the Corporation reported accumulated losses amount to TZS 641,213 million (2020: Accumulated losses of TZS 657,229) and TZS 640,860 million (2020: Accumulated losses of TZS 657,232) respectively.

The consolidated financial statements have been prepared on the going concern basis based on the 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 and Corporation through revenue grants to finance part of the operating costs, capital contributions to finance capital projects, granting of government loans and/or securing of loans on behalf of the Group and Corporation. The Management is of the opinion that the Government acknowledges the Group's and Corporation's financial difficulties, and it will not recall its on-lent loan that the Group and Corporation have defaulted in paying interest.

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

TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**3. 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 consistently applied to all the years presented, unless otherwise stated.

**a) Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Public Corporation Act, 1992.

The measurement basis applied is the historical cost basis except where otherwise stated in the accounting policies below. The financial statements are presented in Tanzanian Shillings (TZS 'm), rounded to the nearest million, except where otherwise indicated.

The preparation of consolidated 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 company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

**b) Foreign currency translations**

Transactions in foreign currencies are translated to the functional currency (Tanzanian Shilling - (TZS) at the exchange rates at the dates of 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 amortized cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortized 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 recognized in profit or loss in the period in which they arise. Foreign currency differences relating to trading activities are recognized under operating expenses.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Consolidation

(i) Subsidiaries

Subsidiaries are entities 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 subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Investment in subsidiaries is accounted for at cost in the separate financial statements.

(ii) Transactions 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.

(iii) Joint operations and similar arrangements and joint ventures

A joint arrangement is present where Group and Corporation hold a long-term interest which is jointly controlled by Group and Corporation 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 and Corporation in particular consider 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.

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Group's and Corporation'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 and Corporation 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 and Corporation have rights to the net assets), are accounted for using the equity method.

**d) Changes in accounting policy and disclosures**

**(i) New standards, amendments and interpretations that are effective to the Group and Corporation.**

<b>Number</b>	<b>Effective date</b>	<b>Executive summary</b>
Amendment to IAS 1, 'Presentation of financial statements and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material.	Annual periods beginning on or after 1 January 2020  (Published October 2018)	These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs: <ul style="list-style-type: none"> <li>• use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;</li> <li>• clarify the explanation of the definition of material; and</li> <li>• incorporate some of the guidance in IAS 1 about immaterial information.</li> </ul> <p>The amended definition is: <i>"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."</i></p>
Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	Annual periods beginning on or after 1 January 2022  (Published January 2020)	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).
Amendments to IAS 16 'Property, Plant and Equipment' on Proceeds before Intended Use	Annual periods beginning on or after 1 January 2022  (Published May 2020)	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognized in profit or loss.

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**d) Changes in accounting policy and disclosures (Continued)**

**(ii) *New standards, amendments and interpretations that are not yet effective and have not been adopted by the Group and Corporation. (Continued)***

Number	Effective date	Executive summary
Annual improvements cycle 2018 -2020	Annual periods beginning on or after 1 January 2022  (Published May 2020)	These amendments include minor changes to: <ul style="list-style-type: none"> <li>• IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation.</li> </ul>

The preparation of the consolidated and separate financial statements requires the use of accounting estimates, which by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Critical accounting estimates and assumptions**

Management has applied significant estimates and assumptions under the following areas:

**a. Income tax**

The Group and the Corporation are 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 Group and the Corporation recognize 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.

**b. Property, plant & equipment**

Critical estimates are made by the management in determining fair value of property, plant and equipment as well as depreciation rates. The rates used are set out in Note 12.



**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement of fair values**

Property, plant & equipment and investment properties accounting policies and disclosure require the measurement of fair values.

**Valuation processes**

The group engages external, independent, and qualified valuer to determine the fair value of the group's investment properties and for all property, plant & equipment items at least every five years. As at 30 June 2021, the fair values have been determined by Ministry of Lands, Housing and Human Settlements Development. The last independent valuation of these land and buildings was performed as at 30 June 2016.

**Measurement of fair values**

When measuring the fair value of the asset, Management of the Group and Corporation used observable data where possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

**Fair value hierarchy**

Group	Notes	Level 1 TZS 'm	Level 2 TZS 'm	Level 3 TZS 'm	Total TZS 'm
At 30 June 2021					
Investment properties	14	-	-	1,716	1,716
Land	12	-	183,159	-	183,159
Buildings	12	-	30,511	-	30,511
Motor vehicles	12	-	-	4,091	4,091
Furnitures, fittings and equipment	12	-	-	7,993	7,993
Computer hardware	12	-	-	1,020	1,020
Gas pipeline	12	-	-	1,690,413	1,690,413
Gas processing plant	12	-	-	420,846	420,846
		-	213,670	2,126,079	2,339,749
<b>Corporation</b>					
At 30 June 2021					
Investment properties	14	-	-	1,716	1,716
Land	12	-	183,159	-	183,159
Buildings	12	-	30,511	-	30,511
Motor vehicles	12	-	-	3,570	3,570
Furnitures, fittings and equipment	12	-	-	7,191	7,191
Computer hardware	12	-	-	526	526
Gas pipeline	12	-	-	1,690,413	1,690,413
Gas processing plant	12	-	-	420,846	420,846
		-	213,670	2,122,546	2,336,216

TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Valuation techniques used to determine level 2 and level 3 fair values**

**Level 2:** For land and building, Comparative method of valuation was used by the Valuer. The method was used as there is sufficient evidence on land sales transactions in the neighbourhood areas to where Group assets are owned. Further, The Office of the Chief Valuer has established Land Values Guidance Rates that is used by valuers in assessing land values.

**Level 3:** Where comparative method was not used, replacement cost was used. This method was used for all other assets other than Land and buildings. The method establishes Comparable asset costs by considering condition of the assets and its accumulated depreciation.

**Valuation inputs and relationships to fair value**

The following table shows the relationship between the observed condition of assets and estimated percentage of accumulated depreciation/obsolescence used in Level 3 fair valuation method.

Observed condition	Estimated % of accumulated depreciation
New	0 - 5
Very good	6 - 10
Good	11 - 30
Fair/Average/satisfactory	31 - 50
Poor	51 - 80
Very poor	81 - 90
Scrap	91 - 98

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

**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.

Reserves estimates are based on subjective judgements involving geological and engineering assessments of in-place hydrocarbon volumes, the production, historical recovery and

TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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 and Corporation'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 the 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 and Corporation'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 of non-financial assets**

The Group and Corporation have significant investments in property, plant and equipment, natural gas properties and intangible assets. 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 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.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)**

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 estimate

**d) Asset retirement obligations**

The Group and Corporation have 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.

Key inputs used in computation of this estimate include the inflation factor of the United States Dollars and the discount rate. Should the United States Dollars inflation rate and the discount rate increase or decrease by 5%, the Asset retirement obligation will decrease and increase by TZS 108.59 million and TZS 120.73 million respectively.

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**5. REVENUE**

Revenues from sales of natural gas is at a point in time when natural gas is delivered at the delivery point. This is considered to be on end of each month when the meter readings have been done and co-signed by both parties (TPDC and customer) net of discount and taxes.

**Natural gas, protected gas and other merchandise**

Natural gas and protected gas revenues are recognised when control over the product is transferred to the customer, which is normally 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. The consideration for the quantity of gas sold is based on the agreed gas prices.

**PSA Revenue**

Revenues from the production of gas in which the Group and Corporation share an interest with IOCs are recognised based on the Group's and Corporation'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 PSAs. 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.

Upstream government shares are remitted to the government and downstream portion retained by the Group and Corporation as per the Oil and Gas Revenue Management Act, 2015 and provision of respective PSAs. Net PSA revenue for Songo Songo is arrived after deducting the adjustment factor as provided by the respective PSA.

	<u>Group</u>		<u>Corporation</u>	
	<u>2020/21</u> TZS 'm	<u>2019/20</u> TZS 'm	<u>2020/21</u> TZS 'm	<u>2019/20</u> TZS 'm
PSA revenue	52,060	59,948	52,060	59,948
Sale of natural gas	455,761	373,620	455,761	373,620
Sale of protected gas	19,359	20,747	19,359	20,747
Sale of data	367	245	367	245
Sale of fuel (petrol & diesel)	23,831	-	-	-
	<u>551,378</u>	<u>454,560</u>	<u>527,547</u>	<u>454,560</u>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**6. OTHER INCOME**

Other income comprises of income other than those derived from principal activities. Details are included below.

	<u>Group</u>		<u>Corporation</u>	
	<u>2020/21</u> TZS 'm	<u>2019/20</u> TZS 'm	<u>2020/21</u> TZS 'm	<u>2019/20</u> TZS 'm
Training fees from contractors	707	3,760	707	3,760
Licence fees from contractors	539	1,228	539	1,228
Sale of condensate	1,143	1,165	1,143	1,119
Government revenue grant	19,346	13,372	19,346	13,372
Interest income	24	59	24	59
Rent from petrol stations	7		7	
House rent	50	50	50	50
Miscellaneous income (Note 36)	2,381	6,664	2,381	6,664
Tender fees	18	32	18	16
Tariffs	-	7,427	-	7,427
Reversal of excess ARO	736	-	736	-
Amortization of capital grants	246	318	246	318
	<u>25,197</u>	<u>34,075</u>	<u>25,197</u>	<u>34,013</u>

**7. FINANCE COST**

Finance cost comprises interest payable on borrowings, related exchange rate differences and carried interest liability. Borrowing costs which are not capitalised are recognised in profit or loss.

<u>Group and Corporation</u>	<u>2021</u> TZS 'm	<u>2020</u> TZS 'm
Interest expense on borrowings	73,441	79,313
Exchange loss on loan revaluation	3,444	9,879
ARO accretion	281	363
	<u>77,166</u>	<u>89,555</u>

**8. COST OF SALES**

	<u>Group</u>		<u>Corporation</u>	
	<u>2020/21</u> TZS 'm	<u>2019/20</u> TZS 'm	<u>2020/21</u> TZS 'm	<u>2019/20</u> TZS 'm
Purchase of natural gas	285,198	234,354	285,198	234,354
Purchase of Fuel (Petrol & Diesel)	24,105	-	-	-
Pipeline and plants maintenance	1,433	563	22,109	22,185
Depreciation of pipeline and plants	81,586	81,614	81,586	81,614
Depletion of natural resources	4,791	4,809	4,791	4,809
PSA carried expenses	5,408	5,592	5,408	5,592
	<u>402,521</u>	<u>326,932</u>	<u>399,092</u>	<u>348,554</u>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**9. OPERATING EXPENSES**

Staff costs (Note 10)	22,945	20,529	12,309	11,197
Depreciation (Note 11)	3,317	3,917	2,892	3,618
Legal expenses	402	61	402	16
Transport and travel expenses	5,244	4,335	3,705	2,796
Audit fees	812	413	812	368
Insurance	3,362	451	3,346	437
Bank charges and commission	54	52	39	30
Foreign exchange (gain)/loss	(361)	(10,627)	(264)	(10,625)
Tax assessment	3,280	10,388	3,280	10,388
Other expenses	21,882	25,950	13,728	15,797
Amortisation of intangible	151	210	151	210
	<u>61,088</u>	<u>55,679</u>	<u>40,400</u>	<u>34,232</u>

**10. STAFF COST**

The Group and Corporation pay 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

All of the Group's employees are either members of the National Social Security Fund ("NSSF") or Public Service Social Security Fund (PSSSF) 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.

	<u>Group</u>		<u>Corporation</u>	
	2020/21	2019/20	2020/21	2019/20
Salaries and wages	8,013	7,819	8,013	7,819
Pension	1,148	1,409	1,148	1,409
Other staff costs	13,784	11,301	3,148	1,969
	<u>22,945</u>	<u>20,529</u>	<u>12,309</u>	<u>11,197</u>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**11. DEPRECIATION**

The depreciation charge for Property, plant and equipment is made up of;

	<u>Group</u>		<u>Corporation</u>	
	2020/21 TZS 'm	2019/20 TZS 'm	2020/21 TZS 'm	2019/20 TZS 'm
Cost of sales	81,586	81,614	81,586	81,614
Operating expenses	<u>3,316</u>	<u>3,916</u>	<u>2,892</u>	<u>3,618</u>
Total depreciation charge (Note 14)	<u>84,902</u>	<u>85,530</u>	<u>84,478</u>	<u>85,232</u>

**12. INCOME TAX EXPENSES**

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.

**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.

	<u>Group</u>		<u>Corporation</u>	
	2020/21 TZS 'm	2019/20 TZS 'm	2020/21 TZS 'm	2019/20 TZS
Current tax - current period	10,640	11,949	10,570	11,801
Current tax - prior period	-	(3,748)	-	(3,748)
Deferred tax - current period	-	3,698	-	3,656
Deferred tax - prior period	-	(27,082)	-	(27,078)
Alternative minimum tax	-	2,443	-	2,443
	<u>10,640</u>	<u>(12,740)</u>	<u>10,570</u>	<u>(12,926)</u>

The tax on the Corporation's result before tax differs from the amount that would arise using the basic tax rate as follows:

	2020/21 TZS 'm	2019/20 TZS 'm	2020/21 TZS 'm	2019/20 TZS 'm
Profit before tax	<u>33,555</u>	<u>13,426</u>	<u>33,841</u>	<u>61,686</u>
Tax calculated at a tax rate of 30%		4,028		18,506

43



**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

Expenditure permanently disallowed	1,842	3,812	1,690	3,693
Deferred income tax asset not recognised	(6,047)	(30,738)	-	(30,734)
Share of profit of equity accounted investee	(3,945)	(4,085)	(3,945)	(4,085)
Interest and fines	1	-	-	-
Corporate tax from PAET	8,720	11,801	8,720	(8,720)
Under provision of prior year deferred tax	-	-	(6,047)	-
Alternative Minimum Tax	-	2,443	-	2,443
	<u>10,640</u>	<u>(12,740)</u>	<u>10,570</u>	<u>9,786</u>

### 13. 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 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 and Corporation, 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 and residual values of property, plant and equipment are reviewed on an annual basis, and changes 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 (5 years) to ensure that the carrying amounts do not differ materially from that which would be determined using fair value at the end of the reporting period.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

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.

Items of property, plant and equipment were revalued on 30 June 2021 by Ministry of Lands, Housing and Human settlements Development under the Valuation section and approved by the Chief Government valuer. The valuation was done using direct comparison and replacement cost method. Significant inputs applied by the valuer in arriving at the fair value are unobservable, consequently, Management has classified the fair value measurement as level 3. There has been no change in valuation technique. The highest and best use does not differ from the actual.

**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:

Asset class	Rate per annum
Buildings	2%
Furniture, fittings and equipment	10%
Motor vehicles	13%
Natural gas processing plant	2% - 5%
Natural gas pipeline	2% - 3.33%
Computer hardware	25%

Useful lives and residual values are assessed for reasonableness at the end of each reporting period and adjusted where appropriate.

**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.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

GROUP

	<u>Land</u> TZS 'm	<u>Buildings</u> TZS 'm	<u>Motor vehicles</u> TZS 'm	<u>Furniture, fittings and equipment</u> TZS 'm	<u>Computer hardware</u> TZS 'm	<u>Gas pipeline</u> TZS 'm	<u>Gas processing plant</u> TZS 'm	<u>WIP</u> TZS 'm	<u>Total</u> TZS 'm
<b>Year ended 30 June 2021</b>									
Opening net book amount	160,533	28,822	2,158	8,298	2,080	1,550,180	349,490	5,774	2,107,335
Additions	4,800	-	2,545	493	122	-	-	2,639	10,599
Revaluation surplus	17,826	2,303	135	505	(383)	197,952	94,231	(231)	312,338
Reclassification	-	-	-	-	-	1,875	-	(1,875)	-
Release of ARO	-	-	-	-	-	-	(1,032)	-	(1,032)
Depreciation charge	-	(614)	(748)	(1,303)	(800)	(59,595)	(21,843)	-	(84,903)
<b>Closing net book amount</b>	<b>183,159</b>	<b>30,511</b>	<b>4,090</b>	<b>7,993</b>	<b>1,019</b>	<b>1,690,412</b>	<b>420,846</b>	<b>6,307</b>	<b>2,344,337</b>
<b>At 30 June 2021</b>									
Cost/fair value	183,159	33,006	6,702	13,708	7,193	1,987,418	530,062	6,307	2,767,555
Accumulated depreciation	-	(2,495)	(2,612)	(5,715)	(6,174)	(297,006)	(109,216)	-	(423,218)
<b>Net book amount</b>	<b>183,159</b>	<b>30,511</b>	<b>4,090</b>	<b>7,993</b>	<b>1,019</b>	<b>1,690,412</b>	<b>420,846</b>	<b>6,307</b>	<b>2,344,337</b>
<b>Year ended 30 June 2020</b>									
Opening net book amount	107,939	19,855	2,207	8,162	2,804	1,652,521	371,333	11,435	2,176,255
Additions	4,761	-	469	1,352	1,037	7,313	-	1,679	16,611
Reclassification	-	-	-	-	-	7,339	-	(7,339)	-
Depreciation charge	47,833	9,581	-	-	-	(57,414)	-	-	-
<b>Closing net book amount</b>	<b>160,533</b>	<b>28,248</b>	<b>2,158</b>	<b>8,298</b>	<b>2,079</b>	<b>1,550,753</b>	<b>349,490</b>	<b>5,774</b>	<b>2,107,335</b>
<b>At 30 June 2020</b>									
Cost	160,533	30,129	4,022	12,710	7,454	1,787,591	436,863	5,774	2,445,650
Accumulated depreciation	-	(1,881)	(1,864)	(4,412)	(5,374)	(237,411)	(87,373)	-	(338,315)
<b>Net book amount</b>	<b>160,533</b>	<b>28,248</b>	<b>2,158</b>	<b>8,298</b>	<b>2,079</b>	<b>1,550,753</b>	<b>349,490</b>	<b>5,774</b>	<b>2,107,335</b>

TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

CORPORATION	<u>Land</u> TZS 'm	<u>Buildings</u> TZS 'm	<u>Motor vehicles</u> TZS 'm	<u>Furniture, fittings and equipment</u> TZS 'm	<u>Computer hardware</u> TZS 'm	<u>Gas pipeline</u> TZS 'm	<u>Gas processing plant</u> TZS 'm	<u>WIP</u> TZS 'm	<u>Total</u> TZS 'm
<b>Year ended 30 June 2021</b>									
Opening net book amount	160,533	28,822	1,752	7,311	1,626	1,550,180	349,490	5,544	2,105,258
Additions	4,800	-	2,130	263	44	-	-	2,637	9,874
Revaluation surplus	17,826	2,303	346	798	(514)	197,909	94,232	-	312,900
Reclassification	-	-	-	-	-	1,875	-	(1,875)	-
Release of ARO	-	-	-	-	-	-	(1,032)	-	(1,032)
Depreciation charge	-	(614)	(658)	(1,181)	(631)	(59,551)	(21,843)	-	(84,478)
<b>Closing net book amount</b>	<b>183,159</b>	<b>30,511</b>	<b>3,570</b>	<b>7,191</b>	<b>525</b>	<b>1,690,413</b>	<b>420,847</b>	<b>6,306</b>	<b>2,342,522</b>
<b>At 30 June 2021</b>									
Cost/fair value	183,159	33,006	6,029	12,693	6,345	1,987,376	531,095	6,306	2,766,009
Accumulated depreciation	-	(2,495)	(2,459)	(5,502)	(5,820)	(296,963)	(110,248)	-	(423,487)
<b>Net book amount</b>	<b>183,159</b>	<b>30,511</b>	<b>3,570</b>	<b>7,191</b>	<b>525</b>	<b>1,690,413</b>	<b>420,847</b>	<b>6,306</b>	<b>2,342,522</b>
<b>Year ended 30 June 2020</b>									
Opening net book amount	107,939	19,855	2,207	8,012	2,385	1,652,521	371,333	11,435	2,175,687
Additions	4,761	-	-	434	847	7,313	-	1,448	14,803
Transfer	-	-	-	-	-	7,339	-	(7,339)	-
Reclassification	47,833	9,581	-	-	-	(57,414)	-	-	-
Depreciation charge	-	(614)	(455)	(1,135)	(1,606)	(59,579)	(21,843)	-	(85,232)
<b>Closing net book amount</b>	<b>160,533</b>	<b>28,822</b>	<b>1,752</b>	<b>7,311</b>	<b>1,626</b>	<b>1,550,180</b>	<b>349,490</b>	<b>5,544</b>	<b>2,105,258</b>
<b>At 30 June 2020</b>									
Cost	160,533	30,703	3,553	11,632	6,815	1,787,591	436,863	5,544	2,443,234
Accumulated depreciation	-	(1,881)	(1,801)	(4,321)	(5,189)	(237,411)	(87,373)	-	(337,976)
<b>Net book amount</b>	<b>160,533</b>	<b>28,822</b>	<b>1,752</b>	<b>7,311</b>	<b>1,626</b>	<b>1,550,180</b>	<b>349,490</b>	<b>5,544</b>	<b>2,105,258</b>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**14. NATURAL GAS PROPERTIES**

Natural gas properties include oil and gas development and production assets and are measured at cost less accumulated depletion 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 Production Sharing Agreements (PSAs) and Joint Operations Agreements (JOAs) 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, considering 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 considering 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 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***

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.

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**14. NATURAL GAS PROPERTIES (CONTINUED)**

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

**Exploration and Evaluation**

Exploration and Evaluation ("E&E") costs, including costs of licence acquisition, technical services and studies, exploratory drilling and directly attributable overhead are capitalized as part of natural gas properties assets when deemed successful according to the nature of the assets acquired, otherwise they are expensed. The costs are initially accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The technical feasibility and commercial viability of extracting a mineral resource is generally considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether it is technically feasible and commercially viable. Upon determination of technical feasibility and commercial viability, intangible E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within tangible assets within property, plant and equipment referred to as oil and gas interests.

**Group and Corporation**

	2020/21 TZS 'm	2019/20 TZS 'm
Opening balance	51,630	56,398
Addition	79	41
Depletion	<u>(4,815)</u>	<u>(4,809)</u>
Closing balance	<u>46,894</u>	<u>51,630</u>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**15. 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 and Corporation accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Group and Corporation

	2020/21 TZS 'm	2019/20 TZS 'm
Opening balance	1,683	1,683
Gain/(loss) in fair valuation	33	-
Closing balance	1,716	1,683

TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**16. 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 data

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.



**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**16. INTANGIBLE ASSETS (CONTINUED)**

The Group's and Corporation's intangible assets is made up of:

	<u>Exploration software</u> TZS 'm	<u>Accounts software</u> TZS 'm	<u>FTG project</u> TZS 'm	<u>Total</u> TZS 'm
<b>Year ended 30 June 2021</b>				
Opening balance	-	222	13,056	13,278
Addition	411	92	-	503
Amortization	(16)	(227)	-	(243)
<b>Closing balance</b>	<b>395</b>	<b>87</b>	<b>13,056</b>	<b>13,538</b>
<b>As at 30 June 2021</b>				
Cost	3,337	947	13,056	17,340
Accumulated amortization	(2,942)	(860)	-	(3,802)
<b>Closing balance</b>	<b>395</b>	<b>87</b>	<b>13,056</b>	<b>13,538</b>
<b>Year ended 30 June 2020</b>				
Opening balance	-	236	13,056	13,292
Addition	-	196	-	196
Amortization	-	(210)	-	(210)
<b>Closing balance</b>	<b>-</b>	<b>222</b>	<b>13,056</b>	<b>13,278</b>
<b>As at 30 June 2020</b>				
Cost	2,926	855	13,056	16,207
Accumulated amortization	(2,926)	(633)	-	(2,929)
<b>Closing balance</b>	<b>-</b>	<b>222</b>	<b>13,056</b>	<b>13,278</b>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**17. 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.

	<u>Group</u>		<u>Corporation</u>	
	2020/21 TZS 'm	2019/20 TZS 'm	2020/21 TZS 'm	2019/20 TZS 'm
Consumables	11,950	5,270	1,052	82
Condensate	104	573	104	573
Petroleum (Petrol & Diesel)	<u>5,090</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>17,144</u>	<u>5,843</u>	<u>1,156</u>	<u>655</u>

**18. ASSET RETIREMENT OBLIGATIONS (ARO)**

The Group has AROs primarily related to Mnazi bay gas fields, Natural gas processing plants and gas pipeline. The full balance is non-current as decommissioning activities are not expected to occur within the next twelve months.

Provisions for ARO costs are recognised when the Group and Corporation 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 value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding property, plant and equipment.

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**18. ASSET RETIREMENT OBLIGATIONS (ARO) (CONTINUED)**

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.

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

Group and Corporation	2020/21	2019/20
	TZS 'm	TZS 'm
Opening balance	4,127	3,764
Provision	-	-
Release of provision	(1,834)	-
Accretion	281	363
	<u>2,573</u>	<u>4,127</u>
<b>This relates to the following assets:-</b>		
Mnazi bay Gas field-ARO LIABILITY (ii)	677	2,399
Natural gas processing plants and pipelines-ARO LIABILITY	1,896	1,728
	<u>2,573</u>	<u>4,127</u>

During the year, Management updated the risk-free rate used in ARO calculation, inflation rate and USD to TZS exchange rate to reflect the latest market conditions. This resulted to the recorded release of excess provision.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**19. BORROWINGS**

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.

The subsidiaries of the Group do not have any borrowings. The borrowings for the Group and Corporation are as follows:-

	<u>Opening balance</u> TZS 'm	<u>Interest</u> TZS 'm	<u>Exchange loss</u> TZS 'm	<u>Principal and interest repayment</u> TZS 'm	<u>Waiver on penalty</u> TZS 'm	<u>Closing balance</u> TZS 'm
<b>As at 30 June 2021</b>						
Preferential buyer's credit (a)	2,382,841	42,904	2,524	-	-	2,428,269
Buyer's credit -Exim (b)	845,584	29,345	901	-	-	875,830
TIB Loan	23,522	1,194	19	(17,808)	-	6,927
	<u>3,251,947</u>	<u>73,443</u>	<u>3,444</u>	<u>(17,808)</u>	<u>-</u>	<u>3,311,026</u>
<b>As at 30 June 2020</b>						
Preferential buyer's credit (a)	2,330,382	45,202	7,257	-	-	2,382,841
Buyer's credit (b)	811,358	31,679	2,547	-	-	845,584
TIB Loan	40,002	2,432	75	(18,987)	-	23,522
	<u>3,181,742</u>	<u>79,313</u>	<u>9,879</u>	<u>(18,987)</u>	<u>-</u>	<u>3,251,947</u>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**19. BORROWINGS (CONTINUED)**

Group and Corporation	2020/21 TZS 'm	2019/20 TZS 'm
Non-current	2,784,563	2,521,470
Current	526,463	730,477
<b>Total</b>	<u>3,311,026</u>	<u>3,251,947</u>

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 Songo Songo 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% per annum) 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.

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 Songo Songo 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 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 up to December 2018 was charged at 900 basis points plus 6 months plus 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 was to be repaid in 4 equal instalments within the period of 24 months from the end of the grace period. On 31 December 2018 the loan was restructured, and interest rate was changed to 7.5% per annum.

The loan has the following securities (continued);

- 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

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**19 BORROWINGS (CONTINUED)**

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.

**20 CURRENT AND DEFERRED INCOME TAX**

***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%.

	<u>Group</u>		<u>Corporation</u>	
	2020/21	2019/20	2020/21	2019/20
	TZS 'm	TZS 'm	TZS 'm	TZS 'm
Opening balance	2,582	3,312	2,443	3,214
Current year tax charge	10,640	12,740	10,570	12,927
Tax paid:				
- Ordinary tax payments	(2,459)	(3,171)	(2,443)	(3,058)
- Payments on behalf of PAET	(8,720)	(11,801)	(8,720)	(11,801)
	<u>1,996</u>	<u>2,582</u>	<u>1,850</u>	<u>2,443</u>

***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.

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.

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**20. CURRENT AND DEFERRED INCOME TAX (CONTINUED)**

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.

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.

**Deferred income tax asset**

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

Group	<u>At start of year</u> TZS 'm	<u>Movement</u> TZS 'm	<u>Prior year under provision</u>	<u>At end of year</u> TZS 'm
<b>Year ended 30 June 2021</b>				
Accelerated capital deductions	142,630	7,230	(13,305)	136,555
Revaluations	59,873	-	(59,873)	-
Tax loss carried forward	(176,633)	4,316	(2,246)	(174,563)
Provisions	(230,731)	(5,498)	1,719	(234,510)
Potential Deferred tax asset not recognised	<u>(204,861)</u>	<u>6,048</u>	<u>(73,705)</u>	<u>(272,518)</u>
<b>Year ended 30 June 2020</b>				
Accelerated capital deductions	134,608	8,022	-	142,630
Revaluations	32,856	27,017	-	59,873
Tax loss carried forward	(180,363)	3,730	-	(176,633)
Provisions	(222,696)	(8,035)	-	(230,731)
Potential Deferred tax asset not recognised	<u>(235,595)</u>	<u>30,734</u>	<u>-</u>	<u>(204,861)</u>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**20. CURRENT AND DEFERRED INCOME TAX (CONTINUED)**

	<u>At start of year</u> TZS 'm	<u>Movement</u> TZS 'm	<u>Prior year under provision</u>	<u>At end of year</u> TZS 'm
<b>Corporation</b>				
<b>Year ended 30 June 2021</b>				
Accelerated capital deductions	142,630	7,230	(13,305)	136,555
Revaluations	59,873	-	(59,873)	-
Tax loss carried forward	(176,633)	4,316	(2,246)	(174,563)
Provisions	(230,731)	(5,498)	1,719	(234,510)
Potential Deferred tax asset not recognised	<u>(204,861)</u>	<u>6,048</u>	<u>(73,705)</u>	<u>(272,518)</u>
<b>Year ended 30 June 2020</b>				
Accelerated capital deductions	134,608	8,022	-	142,630
Revaluations	32,856	27,017	-	59,873
Tax loss carried forward	(180,363)	3,730	-	(176,633)
Provisions	(222,696)	(8,035)	-	(230,731)
Potential Deferred tax asset not recognised	<u>(235,595)</u>	<u>30,734</u>	<u>-</u>	<u>(204,861)</u>
<b>Deferred income tax liability</b>				
<b>Group</b>				
		<b>2020/21</b>	<b>2019/20</b>	
		TZS 'm	TZS 'm	
Opening balance		59	22	
Charge for the year		47	37	
Accretion		<u>106</u>	<u>59</u>	
<b>This relates to the following:</b>				
Temporary differences		77	59	
Provisions		29	-	
		<u>106</u>	<u>59</u>	



## 21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand and cash at bank. For the purpose of cash flows bank overdrafts that are repayable on demand form an integral part of the Group's and Corporation's cash management.

	<u>Group</u>		<u>Corporation</u>	
	2020/21	2019/20	2020/21	2019/20
	TZS 'm	TZS 'm	TZS 'm	TZS 'm
Cash at bank	<u>481,927</u>	<u>230,670</u>	<u>467,849</u>	<u>223,626</u>

## 22. 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 275 million respectively. 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 represent amounts deposited into the escrow accounts.

The balance of USD 60,320,710 (TZS 139 million) as at 30 June 2021 (2020: USD 60,320,710 (TZS 138 million)) consists of USD 58,866,942 and USD 1,473,574 deposited by the Ministry of Finance on behalf of the Government of United Republic 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 and Corporation's financial obligations during the entire period of the loan.

The total deposits into the escrow accounts as at the reporting period are shown below;

<u>Group and Corporation:</u>	2020/21	2019/20
	TZS 'm	TZS 'm
Escrow funds	<u>138,673</u>	<u>138,527</u>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**23. GOVERNMENT GRANT AND ASSISTANCE**

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.

<u>Group and Corporation</u>	<u>Opening balance</u> TZS 'm	<u>Additions</u> TZS 'm	<u>Amortization</u> TZS 'm	<u>Closing balance</u> TZS 'm
<b>As at 30 June 2021</b>				
Benjamin W. Mkapa Tower (i)	3,784	-	(132)	3,633
Ministry of Energy - World Bank (ii)	860	634	(82)	1,035
Likong'o (iii)	25,000	-	-	25,000
Government grant - land compensation	5,662	-	-	5,662
Furniture (iv)	-	263	(18)	641
Forklift (iv)	144	-	(14)	130
	<u>35,450</u>	<u>897</u>	<u>(246)</u>	<u>36,101</u>
<b>As at 30 June 2020</b>				
Benjamin W. Mkapa Tower (i)	3,942	-	(158)	3,784
Ministry of Energy - World Bank (ii)	1,020	-	(160)	860
Likong'o (iii)	25,000	-	-	25,000
Government grant - land compensation	-	5,662	-	5,662
Forklift (iv)	-	144	-	144
	<u>29,962</u>	<u>5,806</u>	<u>(318)</u>	<u>35,450</u>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**23. GOVERNMENT GRANT AND ASSISTANCE (CONTINUED)**

**Terms and conditions:**

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) The Group received a forklift as a grant from Shell for use in exploration and development activities during the year ending 30 June 2020. Also, the group received Furniture from Equinor Tanzania AS for use in its routine activities during the year ending 30 June 2021.

**24. 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 Income Taxes.

	2020/21 TZS'm	2019/20 TZS'm
<b>Authorised:</b>		
2,500 ordinary shares of TZS 1,000,000 each	<u>2,500</u>	<u>2,500</u>
<b>Issued and fully paid:</b>		
2,208 ordinary shares of Shs 1,000,000 each	<u>2,208</u>	<u>2,208</u>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**25. INVESTMENT IN SUBSIDIARY**

Group	2020/21 TZS 'm	2019/20 TZS 'm
Investment in subsidiary	-	-
<b>Corporation</b>		
Investment in TANOIL*	35,387	5,000
Investment in GASCO**	1,500	1,500
	<u>36,887</u>	<u>6,500</u>

\*TANOIL (formerly known as 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.

During the year, The Corporation made an additional investment amount to TZS 30,387 million to enable the company to operate efficiently in the oil business.

\*\*Gas Company (Tanzania) Limited (GASCO) is a fully owned subsidiary company of TPDC established in August 1985 to carry on operations, maintenance and construction activities of the natural gas infrastructure as well as performing mechanical and civil works.

**26. INVESTMENT IN ASSOCIATE**

The Group and Corporation's interests in equity-accounted investees comprise interests in associates. An associate is an entity in which the Group and Corporation have 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 Group's and 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.

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 profit was taken were for the period ended 30 June 2021 this is consistent with prior years.

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**26. INVESTMENT IN ASSOCIATE (CONTINUED)**

	2020/21	2019/20
Percentage ownership interest	<b>28.69%</b>	28.69%
	USD 'm	USD 'm
Non-current assets	91	109
Current assets	82	75
Non-current liabilities	(24)	(46)
Current liabilities	(48)	(48)
<b>Net assets (100%)</b>	<b>102</b>	<b>91</b>
Group's share of net assets (28.69%)	29	26
Foreign exchange rate	2,299	2,297
<b>Group's share of net assets in associate (TZS 'm)</b>	<b>67,041</b>	<b>60,155</b>
Foreign exchange differences (TZS 'm)	2,146	2,144
<b>Carrying amount of interest in associate at 30 June (TZS 'm)</b>	<b>69,187</b>	<b>62,299</b>
Revenue	93	95
Profit from continuing operations	20	21
Groups share of net profit	6	6
Exchange rate	2,298	2,288
<b>Group's share of total comprehensive income (28.69%) (TZS 'm)</b>	<b>13,151</b>	<b>13,616</b>

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

<u>Group and Corporation:</u>	2020/21	2019/20
	TZS 'm	TZS 'm
Carrying amount of interest	62,299	57,548
Share of profit	13,151	13,616
Dividend received	<u>(6,263)</u>	<u>(8,865)</u>
<b>Closing balance</b>	<b><u>69,187</u></b>	<b><u>62,299</u></b>

TPDC acquired 30,000 shares in SONGAS Limited which is equivalent to 28.69% of the share capital of SONGAS Limited. This investment had 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 Songo Songo 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 the consolidated financial statements.

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**27. OTHER INVESTMENTS**

The Group and Corporation 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 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.

	<u>Group</u>		<u>Corporation</u>	
	2020/21	2019/20	2020/21	2019/20
	TZS 'm	TZS 'm	TZS 'm	TZS 'm
Equity security available for sale	1,500	1,500	1,500	1,500
Less: Accumulated impairment loss	(1,500)	(1,500)	(1,500)	(1,500)
Closing balance	-	-	-	-

**28. TRADE AND OTHER RECEIVABLES**

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and are therefore all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Details about the group's impairment policies and the calculation of the loss allowance are provided in note 35.

	<u>Group</u>		<u>Corporation</u>	
	2020/21	2019/20	2020/21	2019/20
	TZS 'm	TZS 'm	TZS 'm	TZS 'm
Trade receivables	176,627	168,029	172,072	167,869
Less: Provision for bad debt	(68,763)	(53,334)	(68,763)	(53,334)
<b>Net trade receivables</b>	<b>107,864</b>	<b>114,695</b>	<b>103,309</b>	<b>114,535</b>
Prepayments	70,469	65,810	63,096	65,594
Due from related parties	471,944	391,171	488,100	408,091
VAT receivable	2,264	714	-	-
Staff receivables	977	1,321	510	335
Other receivables	7,842	197	186	197
Less: Provision for bad debt - others	(216)	(216)	(216)	(216)
	<b>661,144</b>	<b>573,692</b>	<b>654,985</b>	<b>588,536</b>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**28. TRADE AND OTHER RECEIVABLES (CONTINUED)**

The movement of provision for bad debts is made of the following:

<u>Group and Corporation:</u>	2020/21	2019/20
	TZS 'm	TZS 'm
At start of year	53,334	36,773
Additional provision during the year	15,429	16,660
Release of prior year provision		(99)
<b>Closing balance</b>	<b><u>68,763</u></b>	<b><u>53,334</u></b>

**29. CAPITAL AND RESERVES**

**(a) Equity contribution from government**

The equity contribution from Government as at 30 June 2021 represents net cash received from the Government of Tanzania as capital contribution to the petroleum/gas projects for TPDC.

<u>Group and Corporation:</u>	<u>Corporation</u>	
	2020/21	2019/20
	TZS 'm	TZS 'm
At start of year	184,139	184,139
Received during the year	259,961	-
<b>At end of year</b>	<b><u>444,100</u></b>	<b><u>184,139</u></b>

**(b) Revaluation reserve**

	<u>Group</u>		<u>Corporation</u>	
	2020/21	2019/20	2020/21	2019/20
	TZS 'm	TZS 'm	TZS 'm	TZS 'm
At start of year	139,714	139,714	139,714	139,714
Received during the year	312,328	-	312,900	-
<b>At end of year</b>	<b><u>452,042</u></b>	<b><u>139,714</u></b>	<b><u>452,614</u></b>	<b><u>139,714</u></b>

**30. TRADE AND OTHER PAYABLES**

	<u>Group</u>		<u>Corporation</u>	
	2020/21	2019/20	2020/21	2019/20
	TZS 'm	TZS 'm	TZS 'm	TZS 'm
Trade payables	72,000	63,856	63,672	63,856
Due to related parties	62,494	96,270	68,994	103,608
Accruals	24,384	47,624	24,384	47,569
VAT payables	2,012	9,571	2,009	9,571
Payroll liabilities	3,713	3,767	3,718	3,718
	<b><u>164,603</u></b>	<b><u>221,086</u></b>	<b><u>162,777</u></b>	<b><u>228,323</u></b>

Trade payables are unsecured and are usually paid within 30 days of recognition. The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**31. CASH GENERATED FROM OPERATIONS**

	<u>Note</u>	<u>Group</u>		<u>Corporation</u>	
		2020/21 TZS 'm	2019/20 TZS 'm	2020/21 TZS 'm	2019/20 TZS 'm
<b>Operating activities</b>					
Profit before tax		33,555	13,425	33,841	13,189
<i>Adjustments for:</i>					
Depreciation - fixed assets	13	84,903	85,531	84,478	85,232
Depletion expense	14	4,815	4,809	4,815	4,809
Release of ARO	13	1,032	-	1,032	-
Gain on valuation of investment properties	15	(33)	-	(33)	-
Interest expense	7	73,441	79,312	73,441	79,313
Amortisation of intangible asset	16	151	210	151	210
Amortisation of grants	23	(246)	(318)	(246)	(318)
Unrealised foreign exchange loss/gain - escrow	22	(146)	-	(146)	-
Unrealised foreign exchange loss/gain		3,434	-	3,444	-
Share of profit of associates	26	(13,151)	(13,616)	(13,151)	(13,616)
Provision of bad debts	28	15,429	16,660	15,429	16,660
Carried interest		-	1,139	-	1,139
Release and accretion expense of ARO	18	(1,553)	363	(1,553)	363
Net unrealized forex losses		-	9,456	-	9,456
		<u>201,631</u>	<u>196,971</u>	<u>201,502</u>	<u>196,437</u>
<b>Changes in:</b>					
- inventories		(11,301)	(884)	(501)	243
- trade and other receivables		(102,881)	(13,878)	(81,878)	(23,921)
- trade and other payables		<u>(56,485)</u>	<u>(57,325)</u>	<u>(65,545)</u>	<u>(50,915)</u>
<b>Cash generated from operations</b>		<u>30,964</u>	<u>124,884</u>	<u>53,578</u>	<u>121,844</u>

**32. RELATED PARTY TRANSACTIONS**

The Corporation is wholly owned by the Government of United Republic of Tanzania through the Treasury Registrar. Therefore, the Government of United Republic of Tanzania is the ultimate holding entity.

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.



**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

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

	<u>Group</u>		<u>Corporation</u>	
	2020/21 TZS 'm	2019/20 TZS 'm	2020/21 TZS 'm	2019/20 TZS 'm
<b>Transactions:</b>				
<b>Sales of goods and services</b>				
Associate - SONGAS Limited	19,359	18,595	19,359	18,595
Government entity - TANESCO	<u>335,912</u>	<u>377,035</u>	<u>335,912</u>	<u>377,035</u>
	<u>355,271</u>	<u>395,630</u>	<u>355,271</u>	<u>395,630</u>
<b>Purchases of goods and services</b>				
GASCO - (Operation and maintenance)	<u>-</u>	<u>21,981</u>	<u>22,109</u>	<u>20,981</u>
<b>Other</b>				
Government - Interest incurred on on-lent borrowings	72,250	76,881	72,250	76,881
TIB borrowing - Interest incurred	1,194	2,432	1,194	2,432
Associate - Dividend received	-	8,865	-	8,865
Dividend payment	6,898	2,500	6,898	2,500
Government entity - TANOIL (Capital Contribution)	<u>-</u>	<u>-</u>	<u>30,387</u>	<u>-</u>
	<u>80,342</u>	<u>88,178</u>	<u>110,729</u>	<u>88,178</u>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**32. RELATED PARTY TRANSACTIONS (CONTINUED)**

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

	<u>Group</u>		<u>Corporation</u>	
	2020/21 TZS 'm	2019/20 TZS 'm	2020/21 TZS 'm	2019/20 TZS 'm
<b>Outstanding balances (due from related parties)</b>				
<b>Receivables and amounts owed by related parties</b>				
Associate - SONGAS Limited	59,622	46,517	59,622	46,517
Subsidiary - (GASCO)	-	-	15,422	16,230
Subsidiary - (TANOIL)	-	-	733	-
Government entity - TANESCO	<u>412,322</u>	<u>344,654</u>	<u>412,322</u>	<u>344,654</u>
	<u>471,944</u>	<u>391,171</u>	<u>488,099</u>	<u>407,401</u>
<b>Outstanding balances (due to related parties)</b>				
<b>Payables and amounts owed to related parties</b>				
Amounts payable to subsidiary - TANOIL	-	-	5,000	5,000
Amounts payable to subsidiary - GASCO	-	-	1,500	1,500
Royalty payable to Ministry of Energy and Minerals	11,206	6,101	11,206	6,101
License fees payable to Ministry of Energy	-	-	-	-
	<u>11,206</u>	<u>6,101</u>	<u>17,706</u>	<u>12,601</u>
<b>Borrowings</b>				
TIB Loan	6,926	23,522	6,926	23,522
Government on-lent borrowings	<u>3,304,100</u>	<u>3,228,425</u>	<u>3,304,100</u>	<u>3,228,425</u>
	<u>3,322,232</u>	<u>3,251,947</u>	<u>3,328,732</u>	<u>3,251,947</u>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**32. RELATED PARTY TRANSACTIONS (CONTINUED)**

Directors and key management personnel remuneration;

Group	<u>Salary and post-retirement benefits</u>		<u>Fees and Sitting allowances</u>		<u>Social security benefits</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	TZS 'm	TZS 'm	TZS 'm	TZS'm	TZS 'm	TZS 'm
Key management Directors	1,890	1,574	754	487	65	98
	-	-	-	-	-	-
<b>Total</b>	<b>1,890</b>	<b>1,574</b>	<b>754</b>	<b>487</b>	<b>65</b>	<b>98</b>
Corporation	<u>Salary and post-retirement benefits</u>		<u>Fees and Sitting allowances</u>		<u>Social security benefits</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	TZS 'm	TZS 'm	TZS 'm	TZS'm	TZS 'm	TZS 'm
Key management Directors	969	1,574	403	487	35	98
	-	-	-	-	-	-
<b>Total</b>	<b>969</b>	<b>1,574</b>	<b>403</b>	<b>487</b>	<b>35</b>	<b>98</b>

**33. CAPITAL COMMITMENTS**

The Group and Corporation had entered into contract for construction of natural gas distribution network and connection of gas supply to households, institution and Industry in Mtwara, Lindi, Coast region and Dar es Salaam. Also, the Group has received TZS 259,960 million from the Government in respect of capital contribution in EACOP project.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**34. CONTINGENCIES - ASSETS AND LIABILITIES**

The following are contingent liabilities with respect to Group and Corporation affairs for the year ended 30 June 2021;

**(i) Abandonment / decommissioning costs of plants and other assets at Songo Songo Gas producing site**

In October, 2001 the Government of United Republic 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.

As per 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 - PAET) and development license expiry in 2026.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

34. CONTINGENCIES- ASSETS AND LIABILITIES (CONTINUED)

i. **Abandonment / decommissioning costs of plants and other assets at Songo Songo Gas producing site (Continued)**

The estimated liability for the abandonment works 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 assets and hence the Group and Corporation have not made any provision against it.

(ii) **Relocation costs of Mtwara pipeline from Mtwara Airport land reserve**

In the year 2012 the Group and Corporation commenced implementation of National Natural Gas Infrastructure Project (NNGIP) which comprised construction of the two processing plants located at Madimba in Mtwara and Songo Songo in Lindi, and a transportation pipeline from Mnazi Bay and Songo Songo to Dar es Salaam. Prior to project commencement, TPDC engaged Ardhi University (ARU) as a project consultant for pipeline route (wayleave) survey, environmental impact assessment, valuation and acquisition. TPDC successfully acquired natural gas pipeline wayleave under the professional guidance and advice from the Ardhi University.

On 11 January 2018, through various media coverage the Deputy Minister for Works directed TPDC, Tanzania Airport Authority (TAA) and experts from the Ministry of Infrastructure, Transport and Communication to discuss the reported pipeline crossing the airport including relocating the gas pipeline from the Mtwara Airport land.

Pursuant to such directive, TPDC made a preliminary investigation on 15 January 2018 in collaboration with Mtwara Airport management and Mtwara Municipal Council on the matter and identified that the gas pipeline crossed within the airport land.

Based on the preliminary findings, there is a possibility to relocate the existing natural gas pipeline towards the north-east side outside the Mtwara Airport land. Relocation costs might be incurred by the Corporation but have not been agreed as yet.

If determined to be necessary and agreed, the relocation of the pipeline will have economic and financial implications to TPDC. The estimation of the cost includes cost incurred for acquisition of the wayleave and construction of the existing pipeline (Sunk Cost) and Additional Cost to be incurred for relocation (Additional Cost). Management has estimated the relocation cost at TZS 53.17billion.

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**34. CONTINGENCIES- ASSETS AND LIABILITIES (CONTINUED)**

**(ii) Relocation costs of Mtwara pipeline from Mtwara Airport land reserve (Continued)**

However, management is of the opinion that it is not probable that the liability will occur due to high cost of relocation and continuous negotiations with the Tanzania Airport Authority. The Group, together with the Ministry of Energy plans to initiate amicable land dispute settlement mechanisms with Ministry of Infrastructure, Transport and Communication and Ministry of Land, Housing and Human Settlements Development to re-coordinate Mtwara Airport land into national coordinate system without relocating the existing pipeline.

**(iii) Existing litigations**

During the year under review the Group had a total of eight (8) cases in various courts and tribunals at different stages of hearing. The Group is the defendant in seven cases and a respondent in one case. Potential exposure from all cases is TZS 353,083 million. Where the outcome of the cases will be against the Group it may have significant financial impact on its operations. The Management of the Group has made a provision of TZS 3,400 million on the pending cases.

**(iv) Tax related matters**

As at year end 30 June 2021 the Group had disputed tax matters with the Tanzania Revenue Authority (TRA) with respect to Value Added Tax (VAT) and corporate income tax for the years of income 2014 - 2017 and 2018-2019. The disputed amount as at 30 June 2021 was TZS 9,905 million.

**35. CASH CALL COMMITMENTS**

The balances as at year end are shown below;

<u>Group and corporation:</u>	<b>Corporation</b>	
	2020/21 TZS 'm	2019/20 TZS 'm
Cash call commitments payable	1,018	873

Cash call commitments represents amounts payable to/ recoverable from other partners in the Mnazi bay PSA in respect of the Corporation's 20% participating interest. The Group is liable to contribute 20% of all operation and development cost in Mnazi bay PSA as a specified TPDC's participation interest of the whole contract expenses other than exploration expenses of joint operations in all development areas.

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**36. SUBSEQUENT EVENTS**

Management is not aware of any event that requires adjustment to the consolidated financial statements and/or disclosure other than those already mentioned here and elsewhere in the consolidated financial statements.

**37. FINANCIAL ASSETS AND LIABILITIES**

The group holds the following financial instruments:

Financial assets	<u>Group</u>		<u>Corporation</u>	
	2020/21 TZS 'm	2019/20 TZS 'm	2020/21 TZS 'm	2019/20 TZS 'm
Financial assets at amortised cost:				
Trade and other receivables	661,144	573,692	654,985	588,537
	<u>481,927</u>	<u>230,670</u>	<u>467,849</u>	<u>223,226</u>
	<u>1,143,071</u>	<u>804,362</u>	<u>1,122,834</u>	<u>811,763</u>
<b>Financial liabilities</b>				
Liabilities at amortised cost:				
Trade and other payables	164,603	221,086	162,777	228,323
Carried interest liability	1,018	873	1,018	873
Borrowings	<u>3,311,026</u>	<u>3,251,947</u>	<u>3,311,026</u>	<u>3,251,947</u>
	<u>3,476,647</u>	<u>3,473,906</u>	<u>3,474,821</u>	<u>3,481,143</u>

The group's exposure to various risks associated with the financial instruments is discussed in note 35 below. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

**38. FINANCIAL RISK MANAGEMENT**

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management program seeks to minimize potential adverse effect on the Group's profit or loss. Risk management is carried out by the management on behalf of the Board of Directors.

**(a) Market risk**

*(i) Foreign currency exchange risk*

The Group earns income and incurs some of its expenses in United States dollars. Furthermore, the Group has borrowings denominated in United States dollars from two banks. Foreign exchange risk arises from commercial transactions, and recognized assets and liabilities.

TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

At 30 June 2021, if the functional currency had strengthened/weakened by 5% against the US dollar with all other variables held constant, post-tax loss for the year would have been;

*Group:*

TZS 145 million (2020: TZS 183 million) lower/higher, mainly as a result in translation of US dollar denominated current assets and borrowings.

*Corporation:*

TZS 145 million (2020: TZS 183 million) lower/higher, mainly as a result in translation of US dollar denominated current assets and borrowings.

**(i) Price risk**

The Group is not exposed to any price risk.

**(ii) Interest rate risk**

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

At 30 June 2021, if interest rates on US dollar denominated borrowings had been 1% higher/lower with all other variables held constant, post-tax loss for the year would have been TZS 19,492 million (2020: TZS 31,817 million) lower/higher, mainly as a result of higher/lower interest expense on borrowings. The Group's borrowings equal to the Corporation's borrowings since the subsidiaries are not debt-financed.

**b) Credit risk**

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.



TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

38. FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure:

The amount that represents the Group's and Corporation's exposure to credit risk as at 30 June is made up as follows:

	<u>Group</u>		<u>Corporation</u>	
	<u>2020/21</u> TZS 'm	<u>2019/20</u> TZS 'm	<u>2020/21</u> TZS 'm	<u>2019/20</u> TZS 'm
Cash at bank	481,927	230,670	467,849	223,626
Trade receivables	107,864	114,695	103,309	114,535
Other receivables (excl. prepayments and VAT)	553,280	392,473	551,676	408,408
	<u>1,143,071</u>	<u>737,838</u>	<u>1,122,834</u>	<u>746,569</u>

Risk Management:

The Group has policies in place to ensure that the exposure to credit risk is monitored on an ongoing basis. The Group's and Corporation's risk management policies are established to identify and analyse the risks faced by the Group and Corporation, 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 and Corporation, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. Credit limits are set out in PSAs and GSAs with customers. Further, Management performs regular balances reconciliations and follows up on outstanding balances.

Impairment of financial assets:

The Group financial assets are measured at amortized cost and are subject to credit loss model. The Group has two types of financial assets that are subject to IFRS 9 impairment requirements (expected credit losses):

- Trade and other receivables (excluding prepayments and statutory receivables); and
- Cash at bank.

Trade and other receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the trade receivables.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 30 June 2021 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables based on the country's economy and tourism trends in the foreseeable future.

On that basis, the loss allowance as at 30 June 2021 was determined as follows for trade receivables.

Aging / Details	Outstanding balance TZS 'm	Loss allowance rate	Loss allowance TZS 'm
Current	16,260	55.41%	9,009
From 1 to 30 days	13,031	74.04%	9,648
From 31 to 90 days	10,192	93.89%	9,569
From 91 to 180 days	749	94.78%	710
From 180 days	18,376	100%	18,376
Default category	12,922	100%	12,922
Specific customers*	-	-	-
<b>Total</b>	<b>71,530</b>		<b>60,234</b>

\*specific customers relate to customers with a repayment plan from the long outstanding balance of which the balance is subsequently being repaid.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of the customer to meet the agreed monthly purchase targets and severe financial difficulties faced by the customer. This assessment is performed on a case-by-case basis.

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

Impairment losses on trade receivables are presented as net impairment losses within operating profit. The movement in the allowance for impairment in respect of trade receivables during the year is as follows:

	<u>Group</u>	<u>Corporation</u>
	TZS 'm	TZS 'm
Balance at 1 July 2019	36,773	36,773
Utilization during the year	(100)	(100)
Impairment loss recognized during the year	16,660	16,660
<b>Balance at 30 June 2020</b>	<b>53,333</b>	<b>53,333</b>
Balance at 1 July 2020	53,333	53,333
Impairment loss recognized during the year	15,623	6,901
<b>Balance at 30 June 2021</b>	<b>68,956</b>	<b>60,234</b>

Bank balances

There is no independent credit rating for banks operating in Tanzania. However, the Group banks with reputable local banks. In the view of management, risk of non-performance by the counterparties is highly unlikely and not significant. The balance held at bank by type of counterparty as at 30 June were as follows;

	<u>Group</u>		<u>Corporation</u>	
	<u>2020/21</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2019/20</u>
	TZS 'm	TZS 'm	TZS 'm	TZS 'm
CRDB Bank	118	421	118	73
Citibank	837	(787)	837	(787)
NMB Bank	14,140	7,493	61	796
Bank of Tanzania	466,832	223,544	466,832	223,544
	<b>481,927</b>	<b>230,670</b>	<b>467,848</b>	<b>223,626</b>

**c) Liquidity risk**

Liquidity risk is the risk that the Group and Corporation 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 and Corporation'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 and Corporation's reputation.

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

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

The table below analyses the Group's and Corporation'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.

Group	Carrying amount TZS 'm	Contractual cash flows TZS 'm	Up to and Less than 1 year TZS 'm	Between 1 and up to 2 years TZS 'm	Between 2 and up to 5 years TZS 'm	Over 5 years TZS 'm
Non-derivative financial liabilities						
At 30 June 2021						
Borrowings	3,311,026	3,311,026	266,207	469,127	637,548	1,938,143
Trade and other payables	164,603	163,979	163,979	-	-	-
	<b>3,475,629</b>	<b>3,475,005</b>	<b>430,186</b>	<b>469,127</b>	<b>637,548</b>	<b>1,938,143</b>
At 30 June 2020						
Borrowings	3,251,947	3,251,947	293,534	276,626	769,370	1,912,417
Trade and other payables	201,203	201,203	201,203	-	-	-
	<b>3,453,150</b>	<b>3,453,150</b>	<b>494,737</b>	<b>276,626</b>	<b>769,370</b>	<b>1,912,417</b>

**c) Liquidity risk (Continued)**

Corporation	Carrying amount TZS 'm	Contractual cash flows TZS 'm	Up to and Less than 1 year TZS 'm	Between 1 and up to 2 years TZS 'm	Between 2 and up to 5 years TZS 'm	Over 5 years TZS 'm
Non-derivative financial liabilities						
At 30 June 2021						
Borrowings	3,311,026	3,311,026	266,207	469,127	637,548	1,938,143
Trade and other payables	162,148	162,148	162,148	-	-	-
	<b>3,473,174</b>	<b>3,473,174</b>	<b>428,355</b>	<b>469,127</b>	<b>637,548</b>	<b>1,938,143</b>
At 30 June 2020						
Borrowings	3,251,947	3,251,947	293,534	276,626	769,370	1,912,417
Trade and other payables	208,485	208,485	208,485	-	-	-
	<b>3,460,432</b>	<b>3,460,432</b>	<b>502,019</b>	<b>276,626</b>	<b>769,370</b>	<b>1,912,417</b>

**TANZANIA PETROLEUM DEVELOPMENT CORPORATION  
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2021**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**38. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Capital risk management**

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital consistent with others in the industry.

Gearing ratio is calculated as net external borrowings divided by total capital. Net external borrowings are calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the statement of financial position, plus net external borrowings. The gearing ratios at 30 June 2021 and 30 June 2020 were as follows:

	Group		Corporation	
	2020/21 TZS 'm	2019/20 TZS 'm	2020/21 TZS 'm	2019/20 TZS 'm
Total borrowings	3,311,026	3,251,947	3,311,026	3,251,947
Less: cash and cash equivalents	<u>(481,927)</u>	<u>(230,670)</u>	<u>(467,849)</u>	<u>(223,626)</u>
Net debt	2,829,099	3,021,277	2,843,177	3,028,321
Total equity	<u>(55,087)</u>	<u>(331,153)</u>	<u>(54,805)</u>	<u>(331,171)</u>
Total capital	<u>2,774,012</u>	<u>2,690,123</u>	<u>2,788,372</u>	<u>2,697,150</u>
Gearing ratio	<u>102%</u>	<u>112%</u>	<u>102%</u>	<u>112%</u>