



EastCoast Energy Corporation  
 PO Box 3152  
 Road Town  
 Tortola  
 British Virgin Islands

**FOR IMMEDIATE RELEASE**

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**EastCoast announces a 25% increase in natural gas reserves and significant gas market development in Tanzania**

TORTOLA, British Virgin Islands. EastCoast Energy Corporation (“EastCoast” or the “Company”) announces its results for the year ended 31 December 2005.

**FINANCIAL AND OPERATING HIGHLIGHTS**

	Year ended 31 December 2005	Period ended 31 December 2004	Change
<b>Financial (US\$'000 except where otherwise stated)</b>			
Revenue - industrial	3,796	441	761%
Revenue – power	1,856	-	-
Total revenue	5,759	441	1,206%
Profit/(loss) before taxation	953	(727)	231%
Netback (US\$/mcf)	2.11	3.01	(30%)
Working capital	2,211	1,216	82%
Shareholders’ equity	16,662	11,516	45%
Profit/(loss) per share – diluted (US\$)	0.02	(0.03)	167%
Cash flow per share – diluted (US\$)	0.07	0.04	75%
<b>Operating</b>			
Additional Gas sold (mmscf) - Industrial	777	121	542%
Additional Gas sold (mmscf) - Power	1,672	-	-
Average price per mcf (US\$) - Industrial	7.07	5.31	33%
Average price per mcf (US\$) - Power	1.66	-	-
<b>Gross Recoverable Reserves to end of licence (bcf)</b>			
Proved	241	171	41%
Proved plus probable	320	255	25%
<b>Present Value, discounted at 10% (US\$ million)</b>			
Proved	67.7	35.5	91%
Proved plus probable	83.8	43.4	93%

The Company was spun out from PanOcean Energy Corporation and commenced operations on 31 August 2004. The 2004 comparatives are for the four months ended 31 December 2004.

## President & CEO's Letter to Shareholders

Over 2005 EastCoast Energy delivered substantial results in all key performance areas.

- Independent evaluation of Songo Songo reserves increased the gross 2P Songo Songo natural gas reserves to 569 Bcf.

The proportion of the 2P Songo Songo reserves in which EastCoast has a financial interest increased by 25% to 320 Bcf.

- EastCoast's 2005 2D seismic exploration program, and its reprocessing of earlier 2D seismic, identified a new high potential drilling prospect approximately 2 kilometers west of the existing Songo Songo field.
- Development of Tanzanian industrial and power markets for natural gas exceeded forecast.
- Net cash flow from operations totalled US\$1.8 million.
- A successful 2.1 million share financing was fully subscribed, raising gross proceeds of Cdn\$5.5 million.

### Reserves increase

The Songo Songo reservoir has proved to be a world class field with excellent deliverability from its five wells. Extensive work was undertaken on the field during 2005 with the reprocessing of 569 kilometers of existing 2D seismic, the acquisition of 212 kilometers of new 2D seismic over the two discovery blocks within which the Songo Songo field lies and the installation and retrieval of sensitive downhole pressure gauges.

The independent reserves engineers, McDaniel & Associates Consultants Ltd, have reviewed all the data and have assessed that the gross proven and probable reserves ("2P") for the total field on a life-of-licence basis increased by 14% to 569 bcf (2004: 498 bcf). The proportion that the Company has a financial interest in under the Songo Songo PSA ("Additional Gas") increased by 25% to 320 bcf (2004: 255 bcf).

### Exploration progress

To respond to the rapid increase in the demand for natural gas by the power and industrial sectors in Dar es Salaam, EastCoast Energy mounted a vigorous exploration program over 2005. Reserves and deliverability need to be ahead of demand so that significant commitments to power and infrastructure developments can be planned with greater certainty.

The most significant exploration result of 2005 is the identification in the Songo Songo West area of a promising prospect approximately 2 kilometers west of the existing Songo Songo field. The Company has reviewed potential drilling targets on Songo Songo West. If gas is discovered, the most likely Gas Initially In Place ("GIIP") is 600 bcf with an upside potential of 1,070 bcf. EastCoast intends to drill at least one well on this location in the next 12 - 18 months – depending on rig availability and financing.

To assess the gas potential of the blocks adjoining the Songo Songo field, the Company acquired 377 kilometers of new seismic over seven adjoining blocks ("Adjoining Blocks") during 2005. One lead was identified from the interpretation of this seismic, but it is significantly smaller than Songo Songo West. In the event that the drilling of Songo Songo West is unsuccessful, the risk of drilling this lead increases. The Company is currently evaluating an offer from the Ministry of Energy and Minerals that would require the drilling of a well on this structure by 11 April 2007 in order to retain the Adjoining Blocks.

Work continues on processing and interpreting 328 kilometers of new seismic that was shot on the Nyuni licence acreage subject to the terms of the Nyuni farm-in agreement between EastCoast and a subsidiary of Aminex plc. In the event that further evaluation identifies a commercially viable target, the Company will participate in the drilling

of a well on this licence acreage to earn between a 35% and 50% interest in the Nyuni A block. This well has to be drilled by November 2007 and the decision to commit to drill has to be taken by 30 September 2006.

## **Market development**

To meet the needs of both power and industrial customers in the Dar es Salaam area, EastCoast sales of Additional Gas increased to 11.6 mmscf/d in Q4 2005 (industrial sector 3.3 mmscf/d and power sector 8.3 mmscf/d). This demand could increase further over the next two years to in excess of 58 mmscf/d.

The demands of the power sector are a result of the lower than average rainfalls Tanzania has experienced for the last three years and increases in overall demand for electricity. Reduced rainfall has severely impeded TANESCO's ability to run its 561 MW of installed hydro generation capacity at normal levels. The immediate impact has been the imposing of load shedding for up to 14 hours a day. To address this unmet demand, the power utility is looking at several new generation projects.

In February 2006, TANESCO tendered 200 MW of gas-fired generation at Dar es Salaam (100 MW lease plant to be installed by 31 August 2006 and 100 MW of long-term generation to be installed by 31 December 2006). The lease plant is forecast to be operational until the IPTL 100 MW power plant is converted to take gas. This is in addition to a new 45 MW plant that is due to be operational at Tegeta in Dar es Salaam by January 2007. By Q1 2008, the demand from the power sector could reach 61 mmscf/d of Additional Gas (or 43 mmscf/d at a 70% load factor) to fuel the generation of this 245 MW of new capacity.

In addition to power sector growth, management sees the potential to expand sales to the industrial sector. EastCoast's existing industrial customers who benefit from lower energy costs are looking to expand their operations. To meet those needs, the Company is planning to invest approximately US\$5.0 million in new distribution infrastructure to add an average of 4.0 mmscf/d of industrial load by the end of 2007.

## **Infrastructure**

To meet this increase in forecast demand, the infrastructure capacity will need to be expanded from its present nameplate capacity of 70 mmscf/d to approximately 120 mmscf/d to accommodate peak loads. The infrastructure may be expanded to 105 mmscf/d - 110 mmscf/d by the addition of a third gas processing train.

To address this critical issue, EastCoast has commissioned Petrofac Engineering Limited to undertake a capacity re-rating and debottlenecking review to assess how to meet the immediate and future projected demand. The results of this review are expected to be completed by the end of May 2006.

## **2005 highlights**

- EastCoast earned a profit before tax of US\$1.0 million and net cash flow from operations of US\$1.8 million.
- Produced 14.7 bcf from the Songo Songo field in 2005, increasing the volume produced since the commencement of commercial operations in 2004 to 19.3 bcf. As operator of the wells and gas processing plant on Songo Songo Island, EastCoast did not record any downtime during 2005 that impacted the supply of gas to major customers in Dar es Salaam.
- Increased the gross certified proved (1P) and proved and probable (2P) recoverable reserves to be marketed by EastCoast by 41% to 241 bcf and 25% to 320 bcf respectively.
- Commenced gas sales to five new industrial customers in 2005 generating average sales during the year of 2.1 mmscf/d (2004:1.2 mmscf/d). During the seasonally low last quarter of 2005, an average of 3.3 mmscf/d was sold to the industrial sector.

- Signed an Interim Agreement to supply 19.5% of the gas consumption of the six turbines at the Ubungo Power Plant (maximum 9.1 mmscf/d) as Additional Gas. Under the terms of this agreement, EastCoast supplied an average of 8.1 mmscf/d at an average price of US\$1.66/mcf. It has been agreed to extend the Interim Agreement to 31 May 2006.
- Shot 589 kilometers of 2D seismic over the Songo Songo licence acreage and reprocessed 569 kilometers of existing 2D seismic.
- Signed a 382 square kilometer farm-in agreement with Ndovu Resources Limited, a subsidiary of Aminex plc, for licence acreage adjacent to the Songo Songo field. Acquired 328 kilometers of 2D seismic over this acreage. Interpretation should be complete by the end of May 2006.
- Signed new gas contracts in 2005 with Lakhani Industries Limited Textile and Murzah Oil Mills Limited for an estimated 0.5 mmscf/d. These customers will commence gas consumption in Q2 2006. In addition, three contracts were signed and gas production has commenced to Mukwano Industries (T) Limited and Tanzania Cigarette Company Ltd in Q1 2006.
- Completed the construction of 11 kilometers of new distribution pipeline bringing the total distribution system to 25 kilometers at the end of 2005. An additional 1 km was completed in Q1 2006.
- Successfully raised gross proceeds of Cdn\$ 5.5 million through the issuance of 2.1 million Class B shares via a one for ten rights offering.

#### **2006 targets**

Our 2005 results have demonstrated that we are moving positively in the right direction and that momentum is building. Over 2006 we will continue to focus on growth.

- Negotiate and sign new contracts for the supply of gas for 245 MW (maximum estimated gas demand of 61 mmscf/d) of new power generation.
- Sign the long-term agreement for the supply of Additional Gas to the Ubungo Power Plant as a result of the addition of UGT 6 (maximum 9.1 mmscf/d).
- Continue to develop the industrial markets to reach a level of 5-6 mmscf/d by Q4 2006.
- Assess and if appropriate arrange financing for an increase in the capacity of the infrastructure system to enable up to 120 mmscf/d of peak gas rate to be transported to Dar es Salaam by mid-2007.
- Finalise plans for the drilling of a minimum of two wells in 2007. The initial priority will be on the exploration potential of Songo Songo West and increasing the deliverability in the main Songo Songo field.
- Raise approximately US\$15 million – US\$35 million through debt and equity to finance 2006/2007 developments.
- By 30 September 2006, in conjunction with Aminex plc, assess whether or not to drill a well on the Nyuni A licence acreage before November 2007.
- Continue to assess other opportunities within and outside Tanzania, and if these are comparable or better than existing programmes in Tanzania, to progress these.

We have made considerable progress in defining and building a substantial natural gas company over the past year. In noting EastCoast's achievements, management wants to acknowledge those who have stood with us and helped us to achieve the results that this Annual Report presents. We have relied on the investment of our shareholders; the

skill, dedication and innovative spirit of our employees; the wise counsel of our Board of Directors; the commitment of our partners; the support of our customers and in particular the opportunities provided to us by the Government of Tanzania.

There is much to be done as we move through 2006 and we are already at work to meet our targets.

Peter R. Clutterbuck  
President & CEO

# Operations Review

## *Production*

During 2005 14.7 bcf of gas was produced from the Songo Songo field offshore Tanzania (an average of 40.3 mmscf/d). This brings total production since commercial operations commenced on 20 July 2004 to 19.3 bcf. Production peaked at 72.8 mmscf/d on 6 August 2005. The average production during October 2005 was 50.1 mmscf/d.

## *Operatorship*

EastCoast is the operator of the wells and gas processing plant on Songo Songo Island on behalf of the stakeholders, including Songas Limited (“Songas”). Operatorship is on a ‘no gain/no loss’ basis. Two internationally experienced staff manage the site operations on a rotational basis with support from the Company’s head office personnel in Dar es Salaam. Twenty-six Tanzanian technicians operate and maintain the wells, gathering system and processing plant. During the year ended 31 December 2005, there were no unplanned shutdowns on Songo Songo Island that impacted the supply of gas to Dar es Salaam.

## *Songo Songo wells*

The 2005 production from the five Songo Songo wells was as follows:

<b>Well</b>	<b>Bcf</b>
SS-3	1.3
SS-4	1.9
SS-5	3.9
SS-7	3.8
SS-9	3.8
<b>Total</b>	<b>14.7</b>

The total 2005 gas production of 14.7 bcf from Songo Songo was allocated as follows:

	<b>Bcf</b>
Protected Gas sales	11.9
Additional Gas sales	2.5
Flare, generator at the processing plant and line pack	0.3
<b>Total</b>	<b>14.7</b>

## *Protected Gas production*

Under the terms of a Gas Agreement signed in 2001, the Protected Gas from Songo Songo is 100% owned by the Tanzanian Petroleum Development Corporation (“TPDC”) and is sold to Songas under a 20 year Gas Agreement for the operation of five turbines at the Ubungo Power Plant (“Ubungo”) or for onward sale to the Wazo Hill cement plant or village electrification.

Over the year ended 31 December, 2005, the Protected Gas utilisation rate was 73%. Allocation of Protected Gas was as follows:

<b>Year ended 31 December 2005</b>			
	<b>Protected Gas consumed</b>		<b>Utilisation rate</b>
	<b>Bcf</b>	<b>mmscf/d</b>	<b>%</b>
<b>Protected Gas user</b>			
Ubungo Power Plant	10.3	28.3	74
Wazo Hill Cement Plant	1.6	4.3	73
Village Electrification Programme	-	-	-
<b>Total consumption</b>	<b>11.9</b>	<b>32.6</b>	<b>73</b>
<b>Total consumption at 100% utilisation</b>	<b>16.5</b>	<b>45.1</b>	<b>n/a</b>
<b>Protected Gas not utilised</b>	<b>4.6</b>	<b>n/a</b>	<b>n/a</b>

Utilisation by Protected Gas users was lower than anticipated in 2005. The utilisation rate at Ubungo was only 74% during 2005 despite record low water levels in the Mtera reservoir. This was as a result of the fifth turbine at Ubungo not being operational until March 2005. In addition, two of the Ubungo units had major failures and were not operational at various times between June and October 2005. During the last quarter of 2005, the utilisation at Ubungo rose to 91%.

At Wazo Hill, utilisation ranged from 65% - 80% over 2005, except in July when the plant was shut down for maintenance. In addition, no gas was utilised by the Village Electrification Programme over 2005, but supply is expected to commence in 2006.

As a result, 4.6 bcf of gas was not utilised by the Protected Gas consumers in 2005 and becomes available as Additional Gas. The maximum gas required for the Protected Gas users over the remaining 18 years and seven months of the Gas Agreement was reduced to 306 bcf as at 31 December 2005. For the purposes of calculating the level of gas available as Additional Gas an assumption has to be made as to the expected utilisation of the Protected Gas users over the remaining term of the Gas Agreement. These assumptions are reviewed on an annual basis based on historic and projected usage.

The Protected Gas users and their forecast maximum and most likely demand are as follows:

<b>Protected Gas consumer</b>	<b>Theoretical maximum 100% load factor (mmscf/d)</b>	<b>Most likely (mmscf/d)</b>
<b><i>Ubungo</i></b>		
Two ABB turbines	11.8	9.6
Two GE turbines	18.1	14.7
Fifth GE turbine	8.3	6.7
Sixth GE turbine (supplied by Additional Gas)	9.2	7.5
<b>Total Ubungo</b>	<b>47.4</b>	<b>38.5</b>
<b>80.5% Ubungo from Protected Gas</b>	<b>38.2</b>	<b>31.0</b>
<b><i>Wazo Hill</i></b>		
Kiln 1	3.4	2.7
Kiln 2	2.5	2.0
<b>Total Wazo Hill</b>	<b>5.9</b>	<b>4.7</b>
<b><i>Village Electrification Programme</i></b>		
	1.0	1.0
<b>Total daily gas demand (mmscf/d)</b>	<b>45.1</b>	<b>36.7</b>
<b><i>Protected Gas Reserves to end of the Songas power purchase agreement (Bcf)</i></b>		
	<b>306</b>	<b>249</b>

The forecast theoretical maximum of Protected Gas has increased from 44.8 mmscf/d, as reported in 2004, to 45.1 mmscf/d based on technical tests of the Ubungo turbines. The potential utilisation of these turbines in the next few years has been increased in the 'most likely' case to take into account the lower utilisation of hydro electricity plants in Tanzania caused by a lack of rainfall. As a consequence, the expected utilisation rate of the Protected Gas usage has risen from 75% to 81%. As a result, Protected Gas requirements have increased by 4 bcf despite 12 bcf of Protected Gas being consumed during 2005.

### ***Additional Gas production***

Under the terms of a Gas Agreement signed in 2001, the Additional Gas from Songo Songo, in excess of the volume reserved as Protected Gas, is available to EastCoast to be marketed as Additional Gas.

In 2005, EastCoast expanded its Additional Gas sales to the industrial sector. Industrial sales in 2005 averaged 2.1 mmscf/d. This increased to 3.3 mmscf/d in Q4 despite this being a seasonally low quarter. As at 31 December 2005, the Company was selling gas to seven customers, namely Kioo Limited, Tanzania Breweries Limited, Bora Industries Ltd, Aluminium Africa Ltd, Karibu Textile Mills Ltd, Tanzania China Friendship Textile Co Ltd and Nida Textile Mills Ltd. In the peak summer months these customers are expected to take in excess of 4.5 mmscf/d.

### ***Flare, generator and line pack requirements***

A relatively small amount of gas is required to be used in local electricity generation on Songo Songo Island. Gas is also required to maintain the Songo Songo Island gas plant flare at all times. These uses lead to a small loss of gas each year.

There are also fluctuations in the line pack in the 232 kilometer pipeline to Dar es Salaam. The line is estimated to hold a maximum of 85 mmscf of gas. At current production levels this is approximately 1-2 days of the required level of Protected and Additional Gas production required daily at Dar es Salaam.

## **Songo Songo field**

During 2005, EastCoast gained a better understanding of the Songo Songo field and the adjacent licence acreage through reservoir surveillance and a remapping of the field. The reservoir surveillance incorporated engineering studies of well behaviour and pressure analysis. The remapping was a bottom-up exercise that included the field and surrounding areas. It utilised reprocessed and new seismic data and the acquisition of regional geological studies.

### ***Reservoir surveillance and management***

Over 2005, the Company continued to acquire excellent information on the Songo Songo field from the down-hole gauges that were installed in all wells (except SS-9). These highly accurate gauges record every pressure change and allow the Company to estimate the volume of gas in contact with each well and optimise production strategies. The pressure gauges were retrieved from the wells during July 2005 and January 2006 and have been re-installed to allow further evaluation later in 2006.

To compare the current condition of the wells and the reservoir with the anticipated performance before the field came on commercial production, the Company is analysing the pressure transients obtained from production and the downhole pressure data. In addition, the pressure data is being incorporated into material balance models that provide an independent assessment of the GIIP to compare with the geological mapping models. The pressure data extracted has been used to provide a preliminary assessment of aquifer support and the level of communication between the wells.

So far, the pressure data shows no evidence of strong aquifer support. The surface water cut has remained constant at a level that corresponds to condensation that is naturally present in the gas. This indicates that no aquifer water is reaching the wells. This will be carefully observed until at least 10% of the gas-in-place has been produced. In the

case of Songo Songo, this represents approximately another three - four years of production. However, aquifer drive cannot be ruled out and it will continue to be modelled as a possible outcome. The 2006 simulation studies will investigate this further.

Based on preliminary reservoir material balance calculations, the following is the calculated GIIP:

<b>GIIP (bcf)</b>	<b>Most likely</b>	<b>Aquifer</b>
SS-3	102	67
SS-4	62	35
SS-5	421	377
SS-7	295	266
SS-9	344	335
	<b>1,224</b>	<b>1,080</b>

EastCoast's GIIP numbers compare favourably with the 998 Bcf used by McDaniel & Associates Consultants Ltd. ("McDaniel") in its independent reserve report as at 31 December 2005. McDaniel calculated the GIIP primarily through volumetric structural mapping of the different reservoir zones rather than relying on the pressure data at this early stage in the field's development.

To obtain the most reliable data for reservoir management, the Songo Songo gas plant is equipped with a test separator that allows production from individual wells to be measured and important surface pressures and temperatures to be captured using Keller wellhead gauges. This information has been combined with the results of the downhole pressure gauges to show that SS-3, SS-4, SS-5 and SS-9 demonstrate conclusive evidence of communication with other wells. There is the possibility that SS-7 may be partially isolated from the other wells and this will be monitored during 2006, although compartmentalisation is not expected to be material.

The flow rates of the wells based on the requirement to have 1,600 pounds per square inch of pressure in the gas processing plant are as follows:

<b>Songo Songo wells</b>	<b>Well flow rates (Mmscf/d)</b>		
	<b>1997 initial capacity forecast</b>	<b>31 December 2004 capacity forecast</b>	<b>31 December 2005 capacity forecast</b>
SS-3	10	17	18
SS-4	10	19	17
SS-5	60	65	63
SS-7	20	22	22
SS-9 (Note 1)	40	35	25
<b>Total</b>	<b>140</b>	<b>158</b>	<b>145</b>
Maximum Protected Gas demand	(45)	(45)	(45)
<b>Available for Additional Gas</b>	<b>95</b>	<b>113</b>	<b>100</b>

*Note 1: SS-9 -will produce at rates in excess of 25 mmscf/d, but the rate is currently being restricted to ensure that no downhole problems occur from gauges and wireline left in the hole in 1997.*

The Songo Songo wells showed less than a 2% decline over the course of 2005, in line with production expectations. The deliverability is still sufficient to enable 100 mmscf/d of Additional Gas production above the peak demand for Protected Gas. This will allow the Company to produce 37 mmscf/d of Additional Gas for a period of time even if the largest well, SS-5, becomes unavailable at peak demand.

SS-9 was tested in January 2005 and was produced at 35 mmscf/d. During 2005, it was concluded that the perforated tubing plug, downhole gauges and wireline left in the well were having an effect on the production rate and it was decided to restrict the flow to 25 mmscf/d. The deliverability of this well can be improved by working it over and removing the downhole gauges and wireline. It is estimated that a workover could increase SS-9 production to 60 mmscf/d. This would increase the deliverability of the field by another 35 mmscf/d over current levels.

### *Songo Songo remapping*

In 2005 geophysical work concentrated on reviewing 569 kilometers of reprocessed 2D seismic and 212 kilometers of newly acquired 2D seismic gathered over the main Songo Songo field. The geophysical studies focussed on improving the definition of the key reservoir intervals by incorporating a review of the core material, the well logs and studying the shallow Eocene formation. The data have been combined with improved structural information to prepare a detailed geological model of the field. The assessed GIIP supports the McDaniel's GIIP as incorporated in their independent reserve evaluation.

## **Additional Gas Reserves**

In accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities, the independent petroleum engineers, McDaniel prepared a report dated March 2006 that assessed the EastCoast natural gas reserves based on information on the Songo Songo field as at 31 December 2005 (the “McDaniel Report”).

Over the course of 2005, there has been a 41% increase in Songo Songo's gross 1P reserves from 171.2 bcf to 240.6 bcf. Gross 2P reserves increased 25% from 255.4 bcf to 320.0 bcf. The reserves summary to the end of the license period (October 2026) for the gross Additional Gas was as follows:

<b>Songo Songo Additional Gas reserves to 2026 (Bcf)</b>	<b>2005 Gross (1)</b>	<b>2005 Net (2)</b>	<b>2004 Gross</b>	<b>2004 Net</b>
<b>Independent Reserves evaluation</b>				
Proved producing	179.9	108.5	124.6	66.2
Proved undeveloped	60.7	44.0	46.6	35.6
<b>Total Proved (1P)</b>	<b>240.6</b>	<b>152.5</b>	<b>171.2</b>	<b>101.8</b>
Probable	79.4	72.3	84.2	39.3
<b>Total Proved and Probable (2P)</b>	<b>320.0</b>	<b>224.8</b>	<b>255.4</b>	<b>141.1</b>

- (1) *Gross reserves are based on 100% of the property's gross Additional Gas reserves (excluding Protected Gas).*
- (2) *Net reserves are based on the Company's share of the Cost Gas and Profit Gas revenues.*

For the purpose of calculating the gross Additional Gas reserves, McDaniel has assumed that 249 bcf will be required to meet the demands of the Protected Gas users from 1 January 2006 to October 2026. This compares with 249 bcf at 1 January 2004. During 2005 Protected Gas users consumed 11.9 bcf.

On a life-of-field basis, the gross recoverable proven reserves and the proven and probable reserves have increased to 276.2 bcf (net 175.1 bcf) and 447.5 bcf (net 305.7 bcf) respectively.

The principal assumptions used by McDaniel in its evaluation of the Tanzanian PSA are as follows:

Year	Brent crude US\$/BBL	Additional Gas price 1P US\$/mcf	Additional Gas volumes 1P mmscf/d	Additional Gas price 2P US\$/mcf	Additional Gas volumes 2P mmscf/d	Annual inflation %
2006	57.50	3.92	12.6	3.92	12.6	2.5
2007	55.40	3.66	17.9	3.76	17.9	2.5
2008	52.50	2.88	35.2	3.01	35.2	2.5
2009	49.50	2.88	40.1	3.01	40.1	2.5
2010	46.90	2.94	40.9	3.08	40.9	2.5
2011	48.10	3.08	41.9	3.21	41.9	2.5
2012	49.30	3.16	41.9	3.29	41.9	2.5
2013	50.50	3.23	41.9	3.37	41.9	2.5
2014	51.80	3.32	41.9	3.46	41.9	2.5
2015	53.10	3.40	41.9	3.54	41.9	2.5
2016	54.40	3.94	25.2	3.63	41.9	2.5
2017	55.80	3.82	25.2	3.73	41.9	2.5
2018	57.20	4.14	25.2	3.82	41.9	2.5
2019	58.60	4.24	25.2	3.91	41.9	2.5
2020	60.10	4.35	25.2	4.01	41.9	2.5
2021	61.30	4.45	25.2	4.11	41.9	2.5
2022	62.53	4.55	25.2	4.20	41.9	2.5
2023	63.78	4.65	25.2	4.30	41.9	2.5
2024	65.05	4.75	25.2	4.40	41.9	2.5
2025	66.36	4.86	25.2	4.50	41.9	2.5
Thereafter	+2.5%	+2.5%	25.2	+2.5%	41.9	2.5%

The price of Additional Gas for the industrial sector has been priced at 90% of the price of Brent Oil, less 22.5% for the discount offered to the customers.

Additional Gas for the power sector is priced at US\$2.00/mcf in 2006 and then US\$2.25/mcf, escalating with inflation for the proven case and US\$2.40/mcf escalating with inflation in the proven and probable case from 2007.

#### Additional Gas reserves reconciliation

Bcf	Gross Proved	Gross Proved and probable	Net Proved	Net Proved and probable
<b>Reserves at 1 January 2005</b>	<b>171.2</b>	<b>255.4</b>	<b>102.0</b>	<b>141.1</b>
Extensions	-	-	-	-
Improved recovery	-	-	-	-
Technical revisions	71.9	67.1	52.5	85.7
Discoveries	-	-	-	-
Acquisitions	-	-	-	-
Dispositions	-	-	-	-
Economic factors	-	-	-	-
Production	(2.5)	(2.5)	2.0	(2.0)
<b>Reserves at 31 December 2005</b>	<b>240.6</b>	<b>320.0</b>	<b>152.5</b>	<b>224.8</b>

There was no development activity on the Songo Songo field during 2005. The increase in the proven reserves has arisen from the 2005 pressure and gas production data and the Songo Songo remapping work.

It is expected that the 2006 work program, including the creation of a simulation model that will be undertaken on the field and adjoining acreage, will provide additional clarity on the level of the reserves and the impact of the aquifer. A new independent reserve report may be commissioned once the simulation model is complete.

### Present value of reserves

The estimated value of the Songo Songo reserves based on the assumptions on production and pricing are as follows:

US\$ millions	2005			2004		
	5%	10%	15%	5%	10%	15%
Proved producing	76.4	47.4	33.4	32.5	22.3	16.6
Proved undeveloped	26.7	20.3	13.8	19.2	13.2	9.0
<b>Total Proved (1P)</b>	<b>103.1</b>	<b>67.7</b>	<b>47.2</b>	<b>51.7</b>	<b>35.5</b>	<b>25.6</b>
Probable	38.1	16.1	7.1	12.9	7.9	5.7
<b>Total Proved and Probable (2P)</b>	<b>141.2</b>	<b>83.8</b>	<b>54.3</b>	<b>64.6</b>	<b>43.4</b>	<b>31.3</b>

The present values are primarily higher in 2005 due to the increase in the reserves and the fact that there has been an increase in the forecast capital expenditure which has the effect of reducing the amount of Additional Profits Tax that is payable.

### Exploration

There are nine licences included in the Company's PSA with the Tanzanian Petroleum Development Corporation ("TPDC"), namely the two blocks within which the Songo Songo field lies ("Discovery Blocks") and seven blocks in adjacent areas ("Adjoining Blocks"). In addition, during 2005, the Company entered into a farm-in agreement with a subsidiary of Aminex plc for 382 square kilometers of their Nyuni licence acreage ("Nyuni A").

During the course of 2005, the Company acquired 917 kilometers of new 2D seismic using the Geomariner survey vessel.

Exploration Survey Area	Kilometers
Discovery Blocks	212
Adjoining Blocks	377
Nyuni A farm-in area	328
	<b>917</b>

In addition the Company reprocessed 569 kilometers of the old 2D seismic over the licence acreage. All of the data have been processed and interpreted and conclusions and intentions in relation to these blocks are outlined below.

#### *Unproven section of Discovery Blocks*

A review of the seismic on the Discovery Blocks has identified a promising prospect approximately 2 kilometers west of the existing Songo Songo field. This has been designated as Songo Songo West ("SSW").

The seismic on SSW indicates a tilted fault trap at the same reservoir interval (Neocomian) as the main field. In addition, there is a direct hydrocarbon indicator in the northern aspect of the field that could indicate the presence of gas.

<b>Estimated potential if exploration successful</b>	<b>Minimum GIIP Bcf</b>	<b>Most likely GIIP Bcf</b>	<b>Maximum GIIP Bcf</b>
<b>Discovery Blocks</b>			
Songo Songo West	90	600	1,070

EastCoast intends to drill one well in the northern aspect of SSW in the next 12 -18 months with the possibility of drilling a second well if the first is successful. The timing will depend on rig availability, lead times for purchasing casing and the raising of funds to finance drilling.

The potential exploration drilling locations are in water depths of approximately 20 meters and will require a small semi-submersible or a jack-up rig. The Company has provisionally tendered for a jack-up rig. However, it is unlikely that a rig will be available before Q1 2007. It is estimated that the first SSW well will cost US\$10 million including mobilisation and demobilisation costs. Each subsequent well will cost approximately US\$5 million. An additional US\$3 million would be required to complete each commercial well.

### ***Adjoining Blocks***

377 kilometers of new 2D seismic was acquired on the Adjoining Blocks in the adjacent areas to the Discovery Blocks. This has highlighted a small accumulation ("Lead A"). It is at the same Neocomian interval as the Songo Songo field, but there is greater uncertainty about the fault seal than with SSW.

Under the terms of the Songo Songo PSA and a subsequent agreement, the Company had to commit to drill a well on the Adjoining Blocks before 11 January 2006 and to drill it by 11 October 2006 in order to retain the Adjoining Blocks. Management was of the view that the relative size of this accumulation and the risk associated with it did not warrant the drilling of a well on this lead before the drilling of SSW. Management also perceived the risk associated with Lead A to increase if the drilling of a well on SSW is unsuccessful. The Ministry of Energy and Minerals ("MEM") has indicated that if this structure is drilled by 11 April 2007 regardless of the outcome of SSW then the Company can retain the Adjoining Blocks. The Company is currently evaluating this offer and needs to respond to MEM by 30 April 2006.

### ***Nyuni "A"***

In September 2005, EastCoast entered into an agreement with Ndovu Resources Limited ("Ndovu"), a subsidiary of Aminex plc, to farm-in to its offshore Nyuni Production Sharing Agreement ("Nyuni PSA") adjacent to the producing Songo Songo gas field.

Under the agreement, Ndovu and EastCoast will negotiate with TPDC to divide the Nyuni PSA into two areas, A and B. Area A will consist of the western portion of the PSA. Area B will cover the balance of the PSA area and will include the Nyuni prospect that was drilled by Aminex plc and partners in 2003/4 with reported oil shows.

EastCoast acquired 328 kilometers of 2D seismic over Nyuni "A" in October 2005 taking advantage of the cost savings gained by extending the Songo Songo area 2D seismic program. A few prospects have been identified and will be interpreted by the end of May 2006.

As a result of undertaking the seismic work, the Company has until 30 September 2006 to elect whether to participate in the drilling of a well on Nyuni A to earn an interest in the Nyuni PSA. The well would have to be drilled by November 2007. If the Company elects to drill, it will pay either 42% to earn a 35% interest in Area A or 64% to earn a 50% interest. The cost of any Nyuni well can only be recovered out of future revenues from the Nyuni PSA.

The parties have agreed that any discovery will be developed jointly with Aminex plc and operated by EastCoast.

## Infrastructure

The infrastructure that transports the gas from the field to Dar es Salaam was commissioned in July 2004. The current infrastructure configuration has a name plate capacity of approximately 70 mmscf/d, limited by the two gas processing trains that have a design specification of 35 mmscf/d each. The Company is of the view that between 80 mmscf/d and 105 mmscf/d could be processed without any additional investment, since 42 mmscf/d has been processed through a single processing train for a short period of time. Of this capacity, a maximum of 45 mmscf/d has to be available for the Protected Gas users.

The Company has recently contracted Petrofac Engineering Limited (“Petrofac”) to conduct a re-rating and debottlenecking review with the objective of identifying the most efficient means of increasing the peak capacity to Dar es Salaam to approximately 120 mmscf/d over the next 18 months.

The Petrofac report will assess the most efficient method of installing a third gas processing train which is estimated to be able to increase the gas processing plant capacity to in excess of 120 mmscf/d. Songas has indicated that it may, under certain conditions, finance the third train. Alternatively, there are provisions in the Songo Songo agreements that would enable EastCoast to finance and install a train. This is currently being evaluated and a proposal will be put forward to MEM. If a third train is installed, it is forecast that the infrastructure capacity will then be limited by the offshore and onshore pipeline at approximately 105-110 mmscf/d.

At Dar es Salaam, EastCoast continued to expand its distribution system during 2005. An 8 kilometer extension to Karibu Textile Mills Ltd was completed in May 2005 and a 4 kilometer extension to Lakhani Industries Limited Textile and Murzah Oil Mills Limited was 75% complete at the year end. Once the distribution system is complete, the Company will have 26 kilometers of distribution pipeline. Another 12 kilometers is planned to be constructed in 2006/2007 to connect new customers and to close the ringmain. This closure will more than double the capacity of the existing system to a peak of 20 mmscf/d and ensure security of supply.

## Markets

### *Current industrial sales*

The Company continued to expand sales to the industrial sector during 2005. Industrial gas sales in 2005 averaged 2.1 mmscf/d and this increased to 3.3 mmscf/d in Q4 2005, despite this being a seasonally low demand period. As at 31 December 2005, the Company was selling gas to seven customers – Kioo Limited, Tanzania Breweries Limited, Bora Industries Ltd, Aluminium Africa Ltd, Karibu Textile Mills Ltd, Tanzania China Friendship Textile Co Ltd and Nida Textile Mills Ltd. In the peak summer months these customers are expected to purchase in excess of 4.5 mmscf/d.

The Company has signed additional contracts with Lakhani Industries Limited Textile, Murzah Oil Mills Limited, Mukwano Industries (T) Limited, Serengeti Breweries Limited and Tanzania Cigarette Company Ltd. These customers will consume 0.5 mmscf/d as from Q2 2006 rising to 0.8 mmscf/d from Q3.

The price achieved for the industrial sales averaged US\$7.07/mcf during 2005. The Company sells the gas to the industrial sector at a 20% – 25% discount to the price of Heavy Fuel Oil (“HFO”) in Dar es Salaam. The price of HFO in Dar is linked to the world prices for oil with a slight time lag.

### *Current power sales*

During the year, Songas Limited (“Songas”) added a sixth turbine (“UGT 6”) at the Ubungo Power Plant pursuant to the signing of a power purchase agreement with TANESCO. UGT 6 is located alongside turbines UGT 1-5 that are contracted to purchase Protected Gas under the terms of the Songo Songo project agreements.

An Interim Agreement with Songas for the supply of Additional Gas was signed on 1 October 2005. In accordance with the terms of this Interim Agreement, 19.5% of all the gas that is supplied to the six turbines at the Ubungo

Power Plant is considered Additional Gas. This percentage represents the volume of gas required for UGT 6 in proportion to the total consumption of the six turbines.

This Interim Agreement was initially to cover the period from the commencement of UGT 6 on 8 June 2005 to 31 December 2005. However, it has been agreed to extend the Interim Agreement to 31 May 2006, considering the other ongoing power negotiations.

From the commencement of UGT 6 operation, the Company sold 1,672 mmscf of Additional Gas to Songas or an average of 8.1 mmscf/d. This compares with the maximum daily volume of 9.1 mmscf/d. The utilisation rate was achieved despite the major failures of both UGT 1 and UGT 3 during the period that led to UGT 3 being removed to Canada for repairs and UGT 1 having its blades repaired on site.

As a result of these turbine failures, TANESCO had to generate electricity at the IPTL power plant utilising expensive heavy fuel oil as its feedstock. Accordingly the Company agreed to provide TANESCO with some relief by pricing the Additional Gas with a sliding scale of prices that are lower if the turbines are unavailable because of mechanical failure for a significant period of time. Therefore, under the Interim Agreement, the Additional Gas was priced at between US\$2.32/mmbtu (US\$2.15/mcf) and US\$0.67/mmbtu (US\$0.62/mcf) and averaged US\$1.66/mcf in 2005. The long term Agreement is expected to retain an availability clause linked to UGT 6 with similar pricing terms escalating with U.S. consumer price inflation.