FORWARD LOOKING STATEMENTS

This managements' discussion and analysis ("MD&A") contains forward-looking statements. More particularly, this MD&A contains statements concerning, but not limited to: repayment of the TANESCO receivables; the need for additional funding by year end for the Company's ongoing operations if the Company is unable to collect the TANESCO receivables; the actions taken and to be taken by the Company to collect the TANESCO receivables; the Company's viability and its ability to meet its obligations as they come due; the potential taxes and penalties payable by the Company to the TRA and the Company's beliefs regarding the assessments and the steps taken and to be taken by the Company to appeal and object to such assessments; status of negotiations with the TPDC regarding a sales agreement for incremental gas volumes and the Company's plans if an agreement is not reached in the near future; status of execution of a full field development plan for Songo Songo, including the anticipated gas sales volumes, the funding of the development plan, and the contingencies related to the development work; the targeted onstream date for the National Natural Gas Infrastructure Project; anticipated effect of the National Natural Gas Policy on the Company's rights under the PSA; and the Company's strategic plans. In addition, statements relating to "reserves" are by their nature forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitably produced in the future. The recovery and reserve estimates of Orca's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward looking statements. Although management believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievement since such expectations are inherently subject to significant business, economic, operational, competitive, political and social uncertainties and contingencies.

These forward-looking statements involve substantial known and unknown risks and uncertainties, certain of which are beyond Orca's control, and many factors could cause Orca's actual results to differ materially from those expressed or implied in any forward-looking statements made by Orca, including, but not limited to: failure to receive payments from TANESCO; failure to obtain adequate funding to meet the Company's obligations as they come due; failure to reach a sales agreement with TPDC for incremental gas volumes; potential negative effect on the Company's rights under the PSA as a result of the National Natural Gas Policy; risk that the contingencies related to the development work for the full field development plan for Songo Songo are not satisfied; risk that the onstream date for the National Natural Gas Infrastructure Project is delayed; failure to obtain funding for full field development plan for Songo Songo; risk that the Company will be required to pay additional taxes and penalties; the impact of general economic conditions in the areas in which Orca operates; civil unrest; industry conditions; changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility; competition for, among other things, capital, drilling equipment and skilled personnel; failure to obtain required equipment for drilling; delays in drilling plans; failure to obtain expected results from drilling of wells; effect of changes to the PSA on the Company; changes in laws; imprecision in reserve estimates; the production and growth potential of the Company's assets; obtaining required approvals of regulatory authorities; risks associated with negotiating with foreign governments; inability to access sufficient capital; failure to successfully negotiate agreements; and risk that the Company will not be able to fulfill its obligations. In addition there are risks and uncertainties associated with oil and gas operations, therefore Orca's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking estimates and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking estimates will transpire or occur, or if any of them do so, what benefits that Orca will derive therefrom. Readers are cautioned that the foregoing list of factors is not exhaustive.

Such forward-looking statements are based on certain assumptions made by Orca in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors Orca believes are appropriate in the circumstances, including, but are not limited to: that the Company will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Company will have adequate funding to continue operations; that the Company will successfully negotiate agreements; receipt of required regulatory approvals; the ability of Orca to add production at a consistent rate; infrastructure capacity; commodity prices will not deteriorate significantly; the ability of Orca to obtain equipment in a timely manner to carry out exploration, development and exploitation activities; future capital expenditures; availability of skilled labour; timing and amount of capital expenditures; uninterrupted access to infrastructure; the impact of increasing competition; conditions in general economic and financial markets; effects of regulation by governmental agencies; that the Company will obtain funding for full field development plan for Songo Songo; that the Company's appeal of the tax assessment by the TRA will be successful; current or, where applicable, proposed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; and other matters.

The forward-looking statements contained in this MD&A are made as of the date hereof and Orca undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

NON-GAAP MEASURES

THE COMPANY EVALUATES ITS PERFORMANCE USING A NUMBER OF NON-GAAP (GENERALLY ACCEPTED ACCOUNTING PRINCIPLES) MEASURES. THESE NON-GAAP MEASURES ARE NOT STANDARDISED AND THEREFORE MAY NOT BE COMPARABLE TO SIMILAR MEASUREMENTS OF OTHER ENTITIES.

- **FUNDS FLOW FROM OPERATING ACTIVITIES** IS A TERM THAT REPRESENTS CASH FLOW FROM OPERATIONS BEFORE WORKING CAPITAL ADJUSTMENTS. IT IS A KEY MEASURE AS IT DEMONSTRATES THE COMPANY'S ABILITY TO GENERATE CASH NECESSARY TO ACHIEVE GROWTH THROUGH CAPITAL INVESTMENTS.
- **OPERATING NETBACKS** REPRESENT THE PROFIT MARGIN ASSOCIATED WITH THE PRODUCTION AND SALE OF ADDITIONAL GAS AND IS CALCULATED AS REVENUES LESS PROCESSING AND TRANSPORTATION TARIFFS, GOVERNMENT PARASTATAL'S REVENUE SHARE, OPERATING AND DISTRIBUTION COSTS FOR ONE THOUSAND STANDARD CUBIC FEET OF ADDITIONAL GAS. THIS IS A KEY MEASURE AS IT DEMONSTRATES THE PROFIT GENERATED FROM EACH UNIT OF PRODUCTION, AND IS WIDELY USED BY THE INVESTMENT COMMUNITY.
- **FUNDS PER SHARE FROM OPERATING ACTIVITIES** IS CALCUALATED ON THE BASIS OF THE FUNDS FLOW FROM OPERATIONS DIVIDED BY THE WEIGHTED AVERAGE NUMBER OF SHARES.
- **NET CASH FLOWS PER SHARE FROM OPERATING ACTIVITIES** IS CALCULATED AS CASH FLOW FROM OPERATIONS DIVIDED BY THE WEIGHTED AVERAGE NUMBER OF SHARES.

ADDITIONAL INFORMATION REGARDING ORCA EXPLORATION IS AVAILABLE UNDER THE COMPANY'S PROFILE ON SEDAR AT www.sedar.com.

BACKGROUND

Tanzania

The Company's principal operating asset is its interest in a Production Sharing Agreement ("PSA") with the Tanzania Petroleum Development Corporation ("TPDC") and the Government of Tanzania in the United Republic of Tanzania. This PSA covers the production and marketing of certain gas from the Songo Songo gas field.

The gas in the Songo Songo field is divided between Protected Gas and Additional Gas. The Protected Gas is owned by TPDC and is sold under a 20-year gas agreement (until July 2024) to Songas Limited ("Songas"). Songas is the owner of the infrastructure that enables the gas to be delivered to Dar es Salaam, which includes a gas processing plant on Songo Songo Island, 232 kilometres of pipeline to Dar es Salaam and a 16 kilometre spur to the Wazo Hill Cement Plant.

Songas utilizes the Protected Gas (maximum 45.1 MMcfd on any given day, non-cumulative) as feedstock for its gas turbine electricity generators at Ubungo, for onward sale to the Wazo Hill cement plant and for electrification of some villages along the pipeline route. The Company receives no revenue for the Protected Gas delivered to Songas and operates the field and gas processing plant on a 'no gain no loss' basis.

Under the PSA, the Company has the right to produce and market all gas in the Songo Songo field in excess of the Protected Gas requirements ("Additional Gas").

Italy

On 31 May 2010, the Company signed an agreement with Petroceltic International plc ("Petroceltic") to farm in on Petroceltic's Central Adriatic B.R268.RG Permit offshore Italy. The farm-in commits the Company to fund 30% of the Elsa-2 appraisal well up to a maximum of US$11.5 million to earn a 15% working interest in the permit. Thereafter, the Company will fund all future costs relating to the well and the permit in proportion to its participating interest. The Company has also agreed to pay Petroceltic fifteen per cent (15%) of the back costs in relation to the well up to a maximum of US$0.5 million.

No activity has occurred on the Adriatic Sea block during 2013. In 2012, a new law modified restrictions on offshore oil and gas exploration and production originally introduced by DLGS 128/2010 in August 2010. The Elsa-2 appraisal well is now expected to be drilled in 2015 following finalisation of an environmental impact study. The Company will not be liable to any costs associated with the drilling of Elsa-2 until a rig contract is signed.

PRINCIPAL TERMS OF THE TANZANIA PSA AND RELATED AGREEMENTS

The principal terms of the Songo Songo PSA and related agreements are as follows:

Obligations and restrictions

(a) The Company has the right to conduct petroleum operations, market and sell all Additional Gas produced and share the net revenue with TPDC for a term of 25 years expiring in October 2026.

(b) The PSA covers the two licenses in which the Songo Songo field is located ("Discovery Blocks"). The Proven Section is essentially the area covered by the Songo Songo field within the Discovery Blocks.

(c) No sale of Additional Gas may be made from the Discovery Blocks if in the Company's reasonable judgment such sales would jeopardise the supply of Protected Gas. Any Additional Gas contracts entered into are subject to interruption. Songas has the right to request that the Company and TPDC obtain security reasonably acceptable to Songas prior to making any sales of Additional Gas from the Discovery Block to secure the Company's and TPDC's obligations in respect of Insufficiency (see (d) below).

(d) "Insufficiency" occurs if there is insufficient gas from the Discovery Blocks to supply the Protected Gas requirements or is so expensive to develop that its cost exceeds the market price of alternative fuels at Ubungo.

Where there have been third party sales of Additional Gas by the Company and TPDC from the Discovery Blocks prior to the occurrence of the Insufficiency, the Company and TPDC shall be jointly liable for the Insufficiency and shall satisfy its related liability by either replacing the Indemnified Volume (as defined in (e) below) at the Protected Gas price with natural gas from other sources; or by paying money damages equal to the difference between: (a) the market price for a quantity of alternative fuel that is appropriate for the five gas turbine electricity generators at Ubungo without significant modification together with the costs of any modification; and (b) the sum of the price for such volume of Protected Gas (at US$0.55/MMbtu escalated) and the amount of transportation revenues previously credited by Songas to the state electricity utility, the Tanzania Electric Supply Company ("TANESCO"), for the gas volumes.

(e) The "Indemnified Volume" means the lesser of the total volume of Additional Gas sales supplied from the Discovery Blocks prior to an Insufficiency and the Insufficiency Volume. "Insufficiency Volume" means the volume of natural gas determined by multiplying the average of the annual Protected Gas volumes for the three years prior to the Insufficiency by 110% and multiplied by the number of remaining years (initial term of 20 years) of the power purchase agreement entered into between Songas and TANESCO in relation to the five gas turbine electricity generators at Ubungo from the date of the Insufficiency.

Access and development of infrastructure

(f) The Company is able to utilise the Songas infrastructure including the gas processing plant and main pipeline to Dar es Salaam. Access to the pipeline and gas processing plant is open and can be utilised by any third party who wishes to process or transport gas. Ndovu Resources Limited, a subsidiary of Aminex PLC, with support from TPDC and the Ministry of Energy and Mines, had previously indicated that it wished to tie into the gas processing plant on Songo Songo Island and sell up to 10 MMcfd from its Kiliwani North field. Aminex announced in October 2013 that it has engaged in negotiations with TPDC leading to a gas sales agreement which would provide for gas from Kilwa North to be tied in to the new National Natural Gas Infrastructure Project ("NNGIP") facilities on Songo Songo Island and not be connected into the Songas facilities.

Songas is not required to incur capital costs with respect to additional processing and transportation facilities unless the construction and operation of the facilities are, in the reasonable opinion of Songas, financially viable. If Songas is unable to finance such facilities, Songas shall permit the seller of the gas to construct the facilities at its expense, provided that, the facilities are designed, engineered and constructed in accordance with good pipeline and oilfield practices.

Revenue sharing terms and taxation

(g) 75% of the gross revenues less processing and pipeline tariffs and direct sales taxes in any year ("Net Revenues") can be used to recover past costs incurred. Costs recovered out of Net Revenues are termed "Cost Gas".

The Company pays and recovers costs of exploring, developing and operating the Additional Gas with two exceptions: (i) TPDC may recover reasonable market and market research costs as defined under the PSA; and (ii) TPDC has the right to elect to participate in the drilling of at least one well for Additional Gas in the Discovery Blocks for which there is a development program as detailed in an Additional Gas plan ("Additional Gas Plan") as submitted to the Ministry of Energy and Minerals ("MEM") subject to TPDC being able to elect to participate in a development program only once and TPDC having to pay a proportion of the costs of such development program by committing to pay between 5% and 20% of the total costs ("Specified Proportion"). If TPDC does not notify the Company within 90 days of notice from the Company that the MEM has approved the Additional Gas Plan, then TPDC is deemed not to have elected. If TPDC elects to participate, then it will be entitled to a rateable proportion of the Cost Gas and their profit share percentage increases by the Specified Proportion for that development program.

To date, TPDC has neither elected to back in within the prescribed notice period nor contributed any costs associated with backing in and accordingly the Company has determined that to date there has been no working interest earned by TPDC. TPDC back-in rights and the potential conversion of these rights into a carried working interest were discussed with the GNT along with other issues, however nothing was agreed between the parties. Until such time as an agreement is reached, the Company will apply the terms of the original PSA. Should an amendment to the PSA be agreed in future relating to back-in rights, the impact on reserves and accounting estimates will be assessed at that time and reflected prospectively. For the purpose of the reserves certification as at 31 December 2013, it was assumed that TPDC will 'back-in' for 20% for all future new drilling activities as determined by the current development plan and this is reflected in the Company's net reserve position.

(h) In 2009, the energy regulator, Energy and Water Utility Regulatory Authority ("EWURA"), issued an order that saw the introduction of a flat rate tariff of US$0.59/mcf from 1 January 2010. The Company's long-term gas price to the power sector as set out in the initialed Amended and Restated Gas Agreement ("ARGA") and the Portfolio Gas Sales Agreement ("PGSA") is based on the price of gas at the wellhead. As a consequence, the Company is not impacted by the changes to the tariff paid to Songas or other operators in respect of sales to the power sector.

In 2011, the Company signed a re-rating agreement with TANESCO and Songas (the "Re-Rating Agreement") to increase the gas processing capacity to a maximum of 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of the Re-rating Agreement, the Company effectively pays an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the tariff of US$0.59/mcf payable to Songas as set by the energy regulator, EWURA.

Under the terms of this agreement, the Company agreed to indemnify Songas for damage to its facilities caused by the re-rating, up to a maximum of US$15 million, but only to the extent that this was not already covered by indemnities from TANESCO or Songas' insurance policies. The Re-rating Agreement expired on 31st December 2012 and in September was extended by Songas to 31 December 2013. There is no need to de-rate the Songas plant. Since then production has continued at the higher rated limit and, given the Government's interest in pursuing further development and increasing gas production, the Company expects this to continue. However there are no assurances that this will occur.

(i) The cost of maintaining the wells and flowlines is split between the Protected Gas and Additional Gas users in proportion to the volume of their respective sales. The cost of operating the gas processing plant and the pipeline to Dar es Salaam is covered through the payment of the pipeline tariff.

(j) Profits on sales from the Proven Section ("Profit Gas") are shared between TPDC and the Company, the proportion of which is dependent on the average daily volumes of Additional Gas sold or cumulative production.

The Company receives a higher share of the net revenues after cost recovery, based on the higher the cumulative production or the average daily sales. The Profit Gas share is a minimum of 25% and a maximum of 55%.

Average daily sales of Additional Gas	Cumulative sales of Additional Gas	TPDC's share of Profit Gas	Company's share of Profit Gas
MMcfd	*Bcf*	*%*	*%*
0 - 20	0 – 125	75	25
> 20 <= 30	> 125 <= 250	70	30
> 30 <= 40	> 250 <= 375	65	35
> 40 <= 50	> 375 <= 500	60	40
> 50	> 500	45	55

For Additional Gas produced outside of the Proven Section, the Company's Profit Gas share is 55%.

Where TPDC elects to participate in a development program, its profit share percentage increases by the Specified Proportion (for that development program) with a corresponding decrease in the Company's percentage share of Profit Gas.

The Company is liable to income tax in Tanzania. Where income tax is payable, the Company pays the tax and there is a corresponding deduction in the amount of the Profit Gas payable to TPDC.

(k) Additional Profits Tax ("APT") is payable where the Company has recovered its costs plus a specified return out of Cost Gas revenues and Profit Gas revenues. As a result: (i) no APT is payable until the Company recovers its costs out of Additional Gas revenues plus an annual operating return under the PSA of 25% plus the percentage change in the United States Industrial Goods Producer Price Index ("PPI"); and (ii) the maximum APT rate is 55% of the Company's Profit Gas when costs have been recovered with an annual return of 35% plus PPI return. The PSA is, therefore, structured to encourage the Company to develop the market and the gas fields in the knowledge that the Profit Gas share can increase with larger daily gas sales and that the costs will be recovered with a 25% plus PPI annual return before APT becomes payable. APT can have a significant negative impact on the project economics if only limited capital expenditure is incurred.

Operatorship

(l) The Company is appointed to develop, produce and process Protected Gas and operate and maintain the Songas gas production facilities and processing plant, including the staffing, procurement, capital improvements, contract maintenance, maintain books and records, prepare reports, maintain permits, handle waste, liaise with the Government of Tanzania and take all necessary safe, health and environmental precautions all in accordance with good oilfield practices. In return, the Company is paid or reimbursed by Songas so that the Company neither benefits nor suffers a loss as a result of its performance.

(m) In the event of loss arising from Songas' failure to perform and the loss is not fully compensated by Songas, the Company, or insurance coverage, then the Company is liable to a performance and operation guarantee of US$2.5 million when (i) the loss is caused by the gross negligence or wilful misconduct of the Company, its subsidiaries or employees, and (ii) Songas has insufficient funds to cure the loss and operate the project.

Consolidation

The companies that are being consolidated are:

Company	Incorporated
Orca Exploration Group Inc.	British Virgin Islands
Orca Exploration Italy Inc.	British Virgin Islands
Orca Exploration Italy Onshore Inc.	British Virgin Islands
PAE PanAfrican Energy Corporation	Mauritius
PanAfrican Energy Tanzania Limited	Jersey
Orca Exploration UK Services Limited	United Kingdom

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

SUMMARY

The year ended 31 December 2013 saw increases in reserves and the net present value of reserves as well as increases in Additional Gas volumes. The resulting increase in gross revenue contrasted sharply with reductions in net revenue, funds from operating activities and a total comprehensive loss for the year. The principal factors contributing to reductions in net revenue, funds from operating activities and a total comprehensive loss in the face of improvements in fundamentals include: (i) reduced Cost Gas recovery relative to 2012, the result of insignificant capital expenditure during the year; (ii) a provision against income reflecting the cost of delayed TANESCO receipts; (iii) a provision against Songas receivables reflecting delays in collection.

OPERATING VOLUMES

The total production volume of Protected Gas and Additional Gas for the year was 35,153 MMcf (2012: 35,070 MMcf) or 96.3 MMcfd (2012: 95.8 MMcfd), net of approximately 0.4 MMcfd consumed locally for fuel gas. The Additional Gas sales volumes for the year were 22,435 MMcf (2012: 20,645 MMcf) or 61.5 MMcfd (2012: 56.4 MMcfd). This represents an increase of 9% over 2012.

The Company's sales volumes were split between the Industrial and Power sectors as follows:

	YEARS ENDED 31 DECEMBER	
	2013	2012
Gross sales volume *(MMcf)*		
Industrial sector	**4,478**	3,813
Power sector	**17,957**	16,832
Total volumes	**22,435**	20,645
Gross average daily sales volume *(MMcfd)*		
Industrial sector	**12.3**	10.4
Power sector	**49.2**	46.0
Total average daily sales volume	**61.5**	56.4

Industrial sector

Industrial sales volume increased by 17 % to 4,478 MMcf (12.3 MMcfd) from 3,813 MMcf (10.4 MMcfd) in 2012. This is primarily due to (i) increased sales to the two biggest Industrial customers, a major cement producer and a glass producer in the Dar es Salaam area, which in total accounted for 64% of Industrial volumes and (ii) a 12% decrease in Protected Gas consumption as a result of maintenance work on Songas' power generating turbines, which resulted in increased Additional Gas volumes available for sales.

Power sector

Power sector sales volumes increased by 7% to 17,957 MMcf or 49.2 MMcfd, compared to 16,832 MMcf or 46.0 MMcfd in 2012. This is a result of continued reliance on gas by TANESCO, the Government owned power utility, to generate power and the increased Additional Gas volumes available for supply following maintenance work on Songas power generating turbines.

Capacity constraints

As a result of the plant re-rating which occurred in June 2011 the capacity of the Songas gas processing plant was increased to 110 MMcfd, limited by pipeline capacity of 102 MMcfd. The Re-rating Agreement which was signed between the Company, Songas and TPDC, expired on 31 December 2012, but was extended in September 2013 to 31 December 2013, whilst a new agreement is negotiated. Without the Re-rating Agreement in place, Songas may de-rate plant capacity to the original 70 MMcfd, which would result in a material reduction in the Company's sales volumes of Additional Gas. Large dams feeding TANESCO hydro generation plants are still lacking enough water. As a consequence, the utility is still heavily reliant on natural gas and expensive liquid fuels for generation of electricity. In the event of de-rating of the gas processing plant, the country would likely face severe power rationing whilst it establishes additional liquid fuel generation capability, and incur an even greater cost for power from thermo generation plants, a situation which in the opinion of management is neither in the country's interest nor economically sustainable. Now rated at 110 MMcfd, management believes that there is no reason to de-rate the Songas Plant and as at the date of this report Songas has not indicated any desire to do so.

SONGO SONGO DELIVERABILITY

As at 31 December 2013, the Company had a production capacity of approximately 97 MMcfd, with expansion of production volumes currently restricted to 102 MMcfd by the available infrastructure.

The high productivity wells drilled by the Company, SS-10 and SS-11, are currently producing approximately 36.7 MMcfd and 38.1 MMcfd respectively. SS-3, SS-5 and SS-9 have been suspended due to production tubing integrity issues and rising casing annulus pressure. SS-4 continues to be monitored and it may have to be suspended in the future.

There will, however, be no redundant capacity in the facility or pipeline until additional wells can be drilled in the field or existing wells worked over and facilities expanded. A loss or material reduction in the production of any given well will have a material adverse effect on the total production and funds flow from operations of the Company.

Production equipment originally installed in the SS-9, SS-5, SS-4 and SS-3 wells drilled by TPDC between 1976 and 1983 has reached the end of its useful life. The SS-10 well was drilled by the Company in 2007 and SS-11 was drilled in 2012. Expanding the field productive capacity requires the work-over and recompletion of SS-9, SS-5, SS-4 and SS-3, as well as the drilling of an additional development well, SS-12.

Significant additional capital expenditure will be required to enable the Songo Songo field to produce 190 MMcfd in line with the anticipated infrastructure expansion. There are no contractual commitments either in the PSA or otherwise agreed for capital expenditure at Songo Songo. Any significant additional capital expenditure by the Company in Tanzania is discretionary and remains dependent on: (i) agreeing commercial terms with TPDC or other buyers regarding the sale of incremental gas volumes from Songo Songo; (ii) TANESCO receivables being brought up to date, guaranteed or other arrangements for payment satisfactory to the Company, (iii) the establishment of payment guarantees with the World Bank or other multi-lateral lending agencies to secure future receipts under any contracts with Government entities; and (iv) the arrangement of finance with the IFC or other lenders.

Whilst the Company continues to refine a full field development plan based on expanded infrastructure submitted to the Ministry of Energy and Minerals ("MEM") during the year, it is not possible to proceed with the plan until the issues outlined above are resolved.

COMMODITY PRICES

The commodity prices achieved in the different sectors during the year are shown in the table below:

US$/mcf	YEARS ENDED 31 DECEMBER 2013	2012
Average sales price		
Industrial sector	**8.27**	9.30
Power sector	**3.76**	3.18
Weighted average price	**4.66**	4.31

Industrial sector

The average gas price achieved for the year was US$8.27/mcf down 11% from (2012: US$9.30/mcf). This is a consequence of sales mix wherein more volumes were sold to customers with relatively lower contractual prices.

Power sector

The average sales price to the Power sector was US$3.76/mcf for the year (2012: US$ 3.18 /mcf). The 18% increase is due to annual indexation of base price and the result of increased gas sales volumes sold at higher marginal prices under the Amended and Restated Gas Agreement ("ARGA") and the Portfolio Gas Supply Agreement ("PGSA").

OPERATING REVENUE

Under the terms of the Songo Songo PSA, the Company is responsible for invoicing, collecting and allocating the revenue from Additional Gas sales.

The Company is able to recover all costs incurred on the exploration development and operations of the project out of 75% of the Net Revenues ("Cost Gas"). Any costs not recovered in any period are carried forward for recovery out of future revenues. Once the cost pool has been recovered, TPDC is able to recover any pre-approved marketing costs. TPDC marketing costs are treated as a reduction to the Company's Cost Gas entitlement.

The Additional Gas sales volumes for both 2013 and 2012 were in excess of 50 MMcfd entitling the Company to a 55% share of Profit Gas Revenue (less cost recovery share of revenue).

The Company was allocated a total of 61% in 2013 (2012: 87%) of the Net Revenues as follows:

US$'000	YEARS ENDED 31 DECEMBER 2013	2012
Gross sales revenue	**104,474**	89,053
Gross tariff for processing plant and pipeline infrastructure	**(16,138)**	(15,290)
Gross revenue after tariff ("Net Revenues")	**88,336**	73,763
Analysed as to:		
Company Cost Gas	**10,231**	53,473
Company Profit Gas	**43,624**	10,719
Company operating revenue	**53,855**	64,192
TPDC share of revenue	**34,481**	9,571
	88,336	73,763

The Company's total revenues for 2013 amounted to US$54,718 after adjusting the Company's operating revenue of US$53,855 by:

i) adding US$14,292 for income tax in the year – the Company is liable for income tax in Tanzania, but the income tax is recoverable out of TPDC's Profit Gas when the tax is payable and to account for this, revenue is adjusted to reflect the current year income tax charge, which represents a 30% gross up of the current tax for the year (Note 10); and

ii) subtracting US$13,429 for the deferred effect of Additional Profits Tax – this tax is considered a royalty and is netted against revenue.

Revenue presented on the *Consolidated Statement of Comprehensive Income* may be reconciled to the operating revenue as follows:

	YEARS ENDED 31 DECEMBER	
US$'000	**2013**	2012
Industrial sector	**37,040**	35,463
Power sector	**67,434**	53,590
Gross sales revenue	**104,474**	89,053
Processing and transportation tariff	**(16,138)**	(15,290)
TPDC share of revenue	**(34,481)**	(9,571)
Company operating revenue	**53,855**	64,192
Deferred Additional Profits Tax	**(13,429)**	(3,463)
Current income tax adjustment	**14,292**	16,530
Revenue	**54,718**	77,259

Revenue is down 29% compared to 2012 from US$77.3 million to US$54.7 million despite a 17% increase in gross sales revenue. This is a consequence of the Company having fully recovered its Cost Pool at the end of 2012 together with limited additions arising from capital expenditure during the year. As a result there has been a 260% increase in TPDC's share of revenue which has risen to US$34.5 million (2012: US$9.6 million). Additionally there has been a similar increase in deferred Additional Profits Tax provision which has increased to US$13.4 million in 2013 from US$3.5 million in the prior year.

PROCESSING AND TRANSPORTATION TARIFF

Since 2011, the Company has paid a flat rate regulated gas processing and transportation tariff of US$0.59/mcf to Songas. Under the terms of the gas contracts with the Power sector, the Company passes on any increase or decrease in the EWURA approved charges to its customers. This protocol insulates the Company from any increases in the gas processing and pipeline infrastructure costs.

In 2011, the Company signed a Re-rating Agreement with TANESCO and Songas to run the gas processing plant at levels of up to 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of this agreement, the Company effectively pays an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the regulated tariff of US$0.59/mcf payable to Songas. The 2013 charge for the additional tariff was US$3.2 million (2012: US$3.1 million).

PRODUCTION AND DISTRIBUTION EXPENSES

The well maintenance costs are allocated between Protected Gas and Additional Gas based on the proportion of their respective sales volumes during the period. The total costs of maintenance for the year was US$864 (2012: US$1,008) of which US$546 (2012: US$954) was allocated for the Additional Gas. The reduction in is primarily due to the absence of major maintenance activities.

Other field and operating costs include an apportionment of the annual PSA licence costs, regulatory fees, insurance and some costs associated with the evaluation of the reserves and the cost of personnel that are not recoverable from Songas.

Distribution costs represent the direct cost of maintaining the ringmain distribution pipeline and pressure reduction station (security, insurance and personnel). The 57% reduction in costs is primarily due to lower levels of activity.

The separation or unbundling of the downstream assets from the production assets has been an objective of TPDC and MEM for some time. The PSA specifically provides for the downstream business and will have to be amended if the downstream assets are to be unbundled. In connection with the 2012 GNT negotiations and Government policy, as expressed in the National Natural Gas Policy issued during the year, TPDC and MEM have indicated that they wish the Company to unbundle the downstream distribution business in Tanzania. Whilst the PSA gives the Company the right to conduct downstream business, methodologies for unbundling which keep the Company economically whole have been discussed. The Company presented potential methodologies during the year for this and is awaiting a response from TPDC. The PSA provides for the Company to be kept economically whole in the event of changes in law. If a mechanism is agreed on mutually acceptable terms, this may lead to change in the presentation of the financial statements, however until such time the Company will retain the downstream business in the PSA.

These production and distribution costs are summarized in the table below:

	YEARS ENDED 31 DECEMBER	
US$/mcf	**2013**	2012
Share of well maintenance	**546**	954
Other field and operating costs	**2,474**	1,744
	3,020	2,698
Ringmain distribution costs	**1,406**	3,255
Production and distribution expenses	**4,426**	5,953

OPERATING NETBACKS

The netback per mcf before general and administrative costs, overhead, tax and APT may be analysed as follows:

	YEARS ENDED 31 DECEMBER	
US$'000	**2013**	2012
Gas price – Industrial	**8.27**	9.30
Gas price – Power	**3.76**	3.18
Weighted average price for gas	**4.66**	4.31
Tariff	**(0.72)**	(0.74)
TPDC share of revenue	**(1.54)**	(0.46)
Net selling price	**2.40**	3.11
Well maintenance and other operating costs	**(0.14)**	(0.13)
Distribution costs	**(0.06)**	(0.16)
Operating netback	**2.20**	2.82

An 8% increase in the weighted average gas price, from US$4.31/mcf to US$4.66/mcf and savings in operating and distribution costs were more than offset by the Cost Pool recovery effect which resulted in a 260% increase in TPDC share of revenue. This was a consequence of low levels of capital expenditure in 2013 and full recovery of accumulated costs in 2012, resulting in an operating netback for 2013 of US$2.20/mcf compared to US$2.82/mcf in 2012, a reduction of 22%.

The 8% increase in the weighted average selling price from US$4.31/mcf to US$4.66/mcf in 2013 is partly a consequence of a change in the sales mix resulting in lower average Industrial prices, offset by a 17% increase in Industrial gas volumes, and partly the result of a 18% increase in the Power price as a consequence of contractual step change in wellhead price effective July 2012.

The reduction in the well maintenance and other operating costs and distribution costs on a per mcf basis is primarily the result of higher sales volumes and reduced activities during the year.

GENERAL AND ADMINISTRATIVE EXPENSES

Administrative expenses ("G&A") may be analysed as follows:

	YEARS ENDED 31 DECEMBER	
US$'000	**2013**	2012
Employee & related costs	**7,399**	8,289
Stock based compensation	**(209)**	1,152
Office costs	**4,635**	3,903
Marketing & business development cost including legal fees	**773**	1,283
Reporting, regulatory & corporate	**2,830**	3,362
General and administrative expenses	**15,428**	17,989

The G&A includes the costs of running the natural gas distribution business in Tanzania which is recoverable as Cost Gas and is relatively fixed in nature. G&A averaged approximately US$1.3 million per month in 2013 compared to US$1.5 million in 2012. On a unit basis, G&A per mcf decreased to US$0.69/mcf (2012: US$0.87/mcf) the result of increased sales volumes and lower overall G&A expense.

Manpower costs are down, partly offset by higher office costs; as a consequence of setting up new offices in Dar es Salaam and replacing the financial reporting and control systems. Reductions in marketing reporting, regulatory and corporate costs are a consequence of reduced levels of activity.

STOCK BASED COMPENSATION

The breakdown of the costs incurred in relation to stock based compensation is detailed in the table below:

	YEARS ENDED 31 DECEMBER	
US$'000	**2013**	2012
Stock options	**–**	720
Stock appreciation rights	**(209)**	432
Stock-based compensation	**(209)**	1,152

A total of 1,742,400 stock options were outstanding at the end of 2013 compared to 1,922,400 at the end of 2012, a result of 180,000 options being exercised during the year. No options were granted during the year (2012: 400,000).

A total of 1,030,000 stock appreciation rights ("SARs") were outstanding at the end of 2013 compared to 745,000 at the end of 2012. This was the result of 15,000 expiries and the issue in July 2013 of 300,000 SARs with an exercise price of CDN$2.12, a five-year term and which vest in three equal instalments, the first third on the anniversary of the grant date.

As SARs are settled in cash, they are re-valued at each reporting date using the Black-Scholes option pricing model. In the valuation of SARS at the reporting date, the following assumptions have been made: a risk free rate of interest of 1.25% stock volatility of 50% to 53%; 0% dividend yield; 0% forfeiture; and a closing price of CDN$2.35 per Class B share.

As at 31 December 2013, a total accrued liability of US$0.4 million (2012: US$0.6 million) has been recognised in relation to the SARs in other payables. The liability decreased by US$0.2 million during the year compared to an increase of US$0.4 million in 2012. The decrease in the cost of SARs year over year is due to the decline in the weighted average remaining life of the SARs, a lower share price and a lower volatility of the underlying shares.

NET FINANCE INCOME AND FINANCE COSTS

The movement in net financing costs is summarized in the table below:

	YEARS ENDED 31 DECEMBER	
US$'000	**2013**	2012
Interest income	**2,636**	23
Gain on disposal of motor vehicle	**10**	–
Finance income	**2,646**	23
Interest expense	**(678)**	(315)
Net foreign exchange loss	**(626)**	(319)
Provision for doubtful debts	**(10,531)**	–
Discount on long-term receivable (see Note 11)	**(17,073)**	–
Finance costs	**(28,908)**	(634)
Net finance costs	**(26,262)**	(611)

Interest income of US$2.6 million is due from TANESCO, under the terms of the PGSA, for late payment of gas supplied. This forms part of the TANESCO account receivable balance and has been fully provided against to reflect the uncertainty over the timing of collection.

The increase in interest expense is the result of paying interest on a bank loan for the full year.

The foreign exchange loss reflects the impact of a fall in the value of the Tanzanian Shilling against the US Dollar over the year on outstanding customer/supplier balances and bank accounts denominated in Tanzanian Shillings.

As at 31 December 2013, Songas owed the Company US$24.8 million (2012: US$24.6 million), whilst the Company owed Songas US$16.9 million (2012: US$18.6 million). There is no contractual right to offset these amounts, although in practice the companies have set off receivables and payables. As at the year-end, Songas and the Company formally offset payable and receivable balances of US$17.5 million. Subsequent to the end of the year, the Company has neither received nor paid any amounts in settlement of these balances. Amounts due to Songas primarily relate to pipeline tariff charges of US$15.4 million (2012: US$17.5 million), whereas the amounts due to the Company are mainly for sales of gas of US$11.6 million (2012: US$14.3 million) and for the operation of the gas plant for US$13.3 million (2012: US$10.3 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis without profit margin. Due to the time for which the set off has been outstanding and the lack of evidence of cash payments from Songas, the Company was unable to recognize the net Songas receivable as at the end of the year and accordingly provided a provision against same (see Note 9). Management continues to negotiate with Songas to reach an offsetting agreement and if, and when, such agreement is reached, the related provision for bad debts will be reversed. Any amounts which are not agreed will be pursued by the Company through the dispute mechanisms provided in its agreements with Songas.

Management continues to believe that TANESCO will ultimately settle its debts with the Company. As at the date of this report, however, there is no set schedule or repayment plan for TANESCO arrears proposed or agreed with the Company and payments have been irregular and unpredictable. Based on the actual repayment history as at 31 December 2013, US$9.6 million (2012: US$33.3 million) of the TANESCO receivable was classified as current and US$47.0 million (2012: nil) was classified as long-term. A discount of US$17.1 million has been taken against the long-term receivable to reflect the estimated finance cost of delays in collection. The long-term portion of the trade receivable was discounted using a risk adjusted discount rate of 15% to reflect the cost of delayed timing of collections from TANESCO. The discount rate and the expected timing of the collections are reviewed at each period end with any adjustments recorded in the period that the estimates are changed.

TAXATION

Income Tax

Under the terms of the PSA the Company is liable for income tax in Tanzania at the corporate tax rate of 30%. However, where income tax is payable, this is recovered from TPDC by deducting an amount from TPDC's profit share. This is reflected in the accounts by increasing the Company's revenue by the appropriate amount.

As at 31 December 2013, there were temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes under the Income Tax Act 2004. Applying the 30% Tanzanian tax rate, the Company has recognised a deferred tax liability of US$12.1 million (2012: US$20.4 million) which represents a decrease in deferred future income tax charges of US$8.3 million for the year (2012: increase of US$5.2 million). This tax has no impact on cash flow until it becomes a current income tax at which point the tax is paid to the Commissioner of Taxes and recovered from TPDC's share of Profit Gas.

Additional Profits Tax

Under the terms of the PSA, in the event that all costs have been recovered with an annual return of 25% plus the percentage change in the United States Industrial Goods Producer Price Index ("PPI") at the operating level, an Additional Profits Tax ("APT") is payable.

The Company provides for deferred APT by forecasting the total APT payable as a proportion of the forecast Profit Gas over the term of the PSA. The effective APT rate of 30.8% (2012: 32.3%) was applied to Profit Gas of US$43.6 million (2012: US$10.7 million), accordingly, US$13.4 million (2012: US$3.5 million) has been netted off revenue for the year ended 31 December 2013.

As a consequence of having to defer the development programme in 2012 as a direct result of the unsustainable growth in TANESCO receivables and the attempted renegotiation of the PSA initiated by Parliament in late 2011, all previously incurred costs have now been recovered and at an operating level under the PSA the Company has earned a rate of return in excess 25%. Accordingly management expects APT to become payable in 2014. The actual APT that will become payable of the life of the PSA will depend on the achieved value of the Additional Gas sales and the quantum and timing of the operating costs and capital expenditure programme.

The APT can have a significant negative impact on the Songo Songo project economics as measured by the net present value of the cash flow streams. Higher revenue in the initial years leads to a rapid payback of the project costs and consequently accelerates the payment of the APT that can account for up to 55% of the Company's profit share. Therefore, the terms of the PSA rewards the Company for taking higher risks by incurring capital expenditure in advance of revenue generation.

DEPLETION AND DEPRECIATION

The Natural Gas Properties are depleted using the unit of production method based on the production for the period as a percentage of the total future production from the Songo Songo proven reserves. As at 31 December 2013 the proven reserves as evaluated by the independent petroleum engineers were 475.7 Bcf, on a life of licence basis. A depletion expense of US$12.2 million (2012: US$9.0 million) has been charged, the increase is due to a combination 9% increase in sales volumes and 26% increase in the weighted average depletion rate to US$0.54/mcf (2012: US$0.43/mcf).

Non-Natural Gas Properties are depreciated as follows:

Leasehold improvements	Over remaining life of the lease
Computer equipment	3 years
Vehicles	3 years
Fixtures and fittings	3 years

CARRYING AMOUNT OF ASSETS

Capitalised costs are periodically assessed to determine whether it is likely that such costs will be recovered in the future. To the extent that these capitalised costs are unlikely to be recovered in the future, they are impaired and recorded in the Consolidated Statement of Comprehensive Income.

FUNDS GENERATED BY OPERATIONS

Funds from operations before working capital changes were US$39.8 million for 2013 (2012: US$46.3million).

	YEARS ENDED 31 DECEMBER	
US$'000	**2013**	2012
(Loss)/profit after taxation	**(5,465)**	18,329
Adjustments (1)	**45,305**	27,935
Funds flow from operating activities	**39,840**	46,264
Working capital adjustments (1)	**(17,349)**	(15,381)
Net cash flows from operating activities	**22,491**	30,883
Net cash used in investing activities	**(1,288)**	(55,388)
Cash flows (used in)/from financing activities	**(4,687)**	5,665
Increase/(decrease) in cash	**16,516**	(18,840)
Effect of change in foreign exchange on cash in hand	**25**	207
Net increase/(decrease) in cash	**16,541**	(18,633)

(1) *See Consolidated Statement of Cash Flows*

The 14% decrease in funds flow from operating activities over 2012 is due primarily to a reduction in revenues. Although gross revenues increased 17% the Company's share dropped by 16% as a consequence of having fully recovered costs, resulting in a significant increase in TPDC's share of revenue.

Operating revenue with respect to TANESCO and Songas are not fully reflected in the overall cash as a consequence of non-payment by TANESCO of its current invoices during the period and the outstanding Songas payment which is pending agreement on setting off inter-company payables and receivables.

The US$16.5 million increase in cash for the year is a result of the US$39.8 million of funds flow from operating activities during the period, offset by an overall net decrease in working capital of US$17.3 million, net loan repayments of US$4.7 million and capital expenditure of US$1.3 million.

CAPITAL EXPENDITURES

Capital expenditures amounted to US$1.3 million during the year (2012: US$54.7 million). The significant reduction in capital expenditures is due to the suspension of field development in 2012 pending resolution of TANESCO non-payments and commercial issues. The capital expenditure may be analysed as follows:

	YEARS ENDED 31 DECEMBER	
US$'000	**2013**	2012
Geological and geophysical and well drilling	**(608)**	53,059
Pipelines and infrastructure	**724**	785
Power development	**–**	182
Other equipment	**1,172**	669
	1,288	54,695

Geological and geophysical and well drilling

The credit in 2013 reflects cost recoveries achieved from a number of contractors involved in the drilling of SS-11 development well.

Pipelines and infrastructure

A total of US$0.7 million was incurred during the year on the installation of new customers and enhancing existing customer connections.

Other equipment

US$0.9 million was incurred to fit out and furnish a new office in Tanzania, a further US$0.3 million was incurred upgrading the Company's computing and communications network.

WORKING CAPITAL

Working capital as at 31 December 2013 was US$27.8 million (2012: US$46.8 million) and may be analysed as follows:

US$'000	2013	2013	2012	2012
	YEARS ENDED 31 DECEMBER			
Cash		**32,588**		16,047
Trade and other receivables		**37,215**		73,495
TANESCO	**9,624**		33,256	
Songas	**11,560**		14,283	
Other trade debtors	**10,874**		12,791	
Other receivables	**15,688**		13,165	
Provision for doubtful accounts	**(10,531)**		–	
Tax receivable		**14,585**		14,692
Prepayments		**281**		246
		84,669		104,480
Trade and other payables		**53,296**		45,496
TPDC	**20,644**		4,378	
Songas payables	**15,355**		17,459	
Other trade payables	**3,857**		4,458	
Accrued liabilities	**13,440**		19,030	
Related parties	**–**		171	
Bank loan		**1,659**		5,842
Tax payable		**1,958**		6,322
Working capital (1)		**27,756**		46,820

Notes:

1) *Working capital as at 31 December 2013 includes a TANESCO receivable of US$9.6 million (31 December 2012: US$33.3 million). Given the payment pattern, the TANESCO receivables have been discounted by US$17.1 million and receivables from TANESCO in excess of 60 days of US$47 million have been classified as long-term receivables. Total long and short-term TANESCO receivables as at 31 December 2013 were US$56.6 million prior to discounting. Subsequent to the end of the year, TANESCO paid US$6.4 million, and the current TANESCO balance as at 24 April 2014 was US$64.9 million of which arrears total US$60.2 million.*

Working capital as at 31 December 2013 decreased by 41% during the year, primarily as a result of management's decision to reclassify US$47.0 million of the receivable from TANESCO as long-term, which has been discounted by US$17.1 million, and to make a provision of US$10.5 million against other receivables which are considered doubtful. Other significant points are:

- At 31 December 2013 the majority of the Company's cash was held in Mauritius. There are no restrictions on the movement of cash from Mauritius or Tanzania.
- Since the year end the Company has received US$6.4 million from TANESCO. However, management remains confident that the full amount due from TANESCO will ultimately be received.
- In addition to the Songas payable and receivable balances highlighted above, other receivables and other payables include a net US$13.3 million due from Songas in relation to the gas plant operation. No contractual right exists allowing the Company to offset these balances.
- The balance of US$10.9 million relating to other trade debtors has been received in full as at the date of this report.
- The balance of US$20.6 million payable to TPDC represents the remaining balance of their share of revenue as at 31 December 2013.

BANK LOAN

In September 2012, the Company closed a US$10 million 18-month bridge loan facility with a Tanzanian bank to finance the Company's working capital requirements in Tanzania. The facility is secured by an assignment of accounts receivable and a fixed and floating charge on the assets of the Company. The Company drew the final US$4.0 million in February 2013. The principal drawn under the facility was repayable in 12 equal monthly instalments which commenced in March 2013. Interest was payable monthly at three-month US LIBOR plus 8%. An additional interest rate of 2% would have been applied for any period in which the TANESCO receivable was greater than 240-days. As at 31 December 2013, principal of US$1.7 million was outstanding under the loan, with the remaining balance fully paid in February 2014.

GOING CONCERN

The Company's financial statements have been prepared on a going concern basis. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary in the carrying amounts of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications.

The ability of the Company to continue as a going concern is dependent on the Company's ability to collect its receivables from Government entities to fund on-going operations and the exploration and development programme. The continuing weakness in the financial position of the state utility, TANESCO, has created uncertainty as to whether the Company will be able to collect cash to continue operations and meet its commitments. The immediate need to collect from its debtors may create significant doubt about the Company's ability to continue as a going concern.

In the event that Company does not collect from TANESCO the balance of the outstanding receivables at 31 December 2013 and TANESCO continues to be unable to pay the Company for subsequent 2014 gas deliveries, the Company will need additional funding for its ongoing operations before the end of the current fiscal year. There are no guarantees that such additional funding will be available when needed, or will be available on suitable terms. The Company has served notice to TANESCO demanding payment in full and is reviewing legal options available to collect the arrears and mitigate a further increase in arrears, including but not limited to suspending gas deliveries to TANESCO.

The material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern are set forth below.The Company generates in excess of 65% of its operating revenue from sales to the Power sector companies, Songas and TANESCO. The financial security of Songas is heavily reliant on the payment of capacity and energy charges by TANESCO, which in turn is dependent on the Government of Tanzania to subsidise a significant portion of TANESCO's operating budget. Prior to 2012, despite having a history of delayed payments, TANESCO had settled in full the outstanding balance subsequent to each quarter end.

At 31 December 2013, TANESCO owed the Company US$56.6 million gross prior to discount (including arrears of US$51.5 million) compared to US$33.3 million (including arrears of US$28.4 million) as at 31 December 2012. During the year the Company received a total of US$49.6 million (2012: US$16.4 million) from TANESCO and, subsequent to year-end, TANESCO paid the Company a further US$6.4 million. As of the date of this report, the outstanding balance is US$64.9 million of which US$60.2 million is in arrears.

At the end of Q1 2013, the World Bank approved a Tanzania First Power and Gas Development Policy Operation ("DPO") of US$100 million, the first in a programme of three contemplated operations. The objective of the programme is to: (i) strengthen the Tanzania's ability to bridge the financial gap in its power sector; (ii) reduce the cost of power supply and promote private sector participation in the power sector; and (iii) strengthen the policy and institutional framework for the management of the country's natural gas resources. TANESCO made tangible progress in late 2013 towards sustainability in securing a 39% power tariff increase from the energy regulator, the Energy Water Utilities Regulatory Authority ("EWURA"). This was an important condition of the advancement of the Second US$100 million Power and Gas DPO, approved on 26 March 2014 and expected to be disbursed in Q2 2014. The Company received payment of approximately US$18.7 million in 2013 from TANESCO around the time of the disbursement of the First DPO and as at the date of this report has yet to be informed as to the quantum of payments if any which may be made as a result of the Second DPO.

Management continues to believe that TANESCO will ultimately settle its debts with the Company. As at the date of this report, however, there is no set schedule or repayment plan for TANESCO arrears proposed or agreed with the Company and payments have been irregular and unpredictable. Based on the actual repayment history as at 31 December 2013, US$9.6 million (2012: US$33.3 million) of the TANESCO receivable was classified as current and US$47.0 million (2012: nil) was classified as long-term. A discount of US$17.1 million has been taken against the TANESCO receivable to reflect the estimated finance cost of delays in collections. The trade receivable was discounted using a risk adjusted discount rate of 15% to reflect the delayed timing of collections from TANESCO. The discount rate and the expected timing of the collections are reviewed at each period end with any adjustments recorded in the period that the estimates are changed.

As at 31 December 2013, Songas owed the Company US$24.8 million (2012: US$24.6 million), whilst the Company owed Songas US$16.9 million (2012: US$18.6 million). There is no contractual right to offset these amounts, although in practice the companies have set off receivables and payables. As at the year-end, Songas and the Company formally offset payable and receivable balances of US$17.5 million. Subsequent to the end of the year, the Company has neither received nor paid any amounts in settlement of these balances. Amounts due to Songas primarily relate to pipeline tariff charges of US$15.4 million (2012: US$17.5 million), whereas the amounts due to the Company are mainly for sales of gas of US$11.6 million (2012: US$14.3 million) and for the operation of the gas plant for US$13.3 million (2012: US$10.3 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis without profit margin. Due to the time for which the set off has been outstanding and the lack of evidence of cash payments from Songas, the Company was unable to recognize the net Songas receivable as at the end of the year and accordingly provided a provision against same (see Note 9). Management continues to negotiate with Songas to reach an offsetting agreement and if, and when, such agreement is reached, the related provision for bad debts will be reversed. Any amounts which are not agreed will be pursued by the Company through the dispute mechanisms provided in its agreements with Songas.

In 2012, to help alleviate the funding gap caused by the delays in TANESCO payments, the Company entered into a US$10 million debt facility with a bank in Tanzania. By February 2013, the Company had drawn down the facility. Repayments commenced in March 2013 and the loan balance as at 31st December 2013 was US$1.7 million. By February 2014, the loan had been fully repaid.

SHAREHOLDERS' EQUITY AND OUTSTANDING SHARE DATA

There were 34.8 million shares outstanding as at 31 December 2013 which may be analysed as follows:

Number of shares ('000)	2013	2012
Shares outstanding		
Class A shares	**1,751**	1,751
Class B shares	**33,072**	32,892
Class A and Class B shares	**34,823**	34,643
Convertible securities		
Options	**1,742**	1,922
Fully diluted Class A and Class B shares	**36,565**	36,565
Weighted average		
Class A and Class B shares	**34,719**	34,642
Convertible securities		
Options	**–**	811
Weighted average diluted Class A and Class B shares	**34,719**	35,453

The movement in Class B shares during the year is analysed in the table below:

Number of shares ('000)	2013	2012
As at 1 January	**32,892**	32,746
Stock options exercised	**180**	150
Normal course issuer bid	**–**	(4)
As at 31 December	**33,072**	32,892

As at 24 April 2014, there were a total of 33,072,015 Class B shares and 1,751,195 Class A shares outstanding.

Stock Options

	2013		2012	
Thousands of options or CDN$	**Options**	**Exercise Price**	Options	Exercise Price
Outstanding as at 1 January	**1,922**	**1.00 to 3.60**	3,057	1.00 to 13.55
Forfeited/Expired	**–**	**–**	(1,385)	4.75 to 13.55
Exercised	**(180)**	**1.00**	(150)	1.00
Issued	**–**	**–**	400	3.18
Outstanding as at 31 December	**1,742**	**1.00 to 3.60**	1,922	1.00 to 3.60

The weighted average remaining life and weighted average exercise prices of options at 31 December 2013 were as follows:

Exercise Price *(CDN$)*	**Number outstanding as at 31 Dec 2013** *('000)*	Weighted Average Remaining Contractual Life *(years)*	**Number Exercisable as at 31 Dec 2013** *('000)*	Weighted Average Exercise Price *(CDN$)*
1.00	1,092	0.67	1,092	1.00
3.18	400	4.00	400	3.18
3.60	250	2.75	250	3.60
	1,742		**1,742**	

No new stock options were issued during the year .

Stock Appreciation Rights

	2013		2012	
Thousands of stock appreciation rights or CDN$	**SAR**	**Exercise Price**	SAR	Exercise Price
Outstanding as at 1 January	**745**	**2.35 to 5.30**	1,005	4.20 to 13.55
Expired	**(15)**	**5.30**	(690)	8.70 to 13.55
Granted (1)	**300**	**2.12**	430	2.35 to 2.70
Outstanding as at 31 December	**1,030**	**2.12 to 4.20**	745	2.35 to 5.30

(1) A total of 300,000 stock appreciation rights were issued in July 2013 with an exercise price of CDN$2.12. These rights have a term of five years and vest in three equal instalments, the first third vesting on the anniversary of the grant date. There is no maximum liability associated with these rights.

The Company records a charge to the income statement using the Black-Scholes fair valuation option pricing model every reporting period with a resulting liability being recognised in trade and other payables. In the valuation of the stock appreciation rights at the reporting date, the following assumptions have been made: a risk free rate of interest of 1.25%; stock volatility of 50% to 53%; a 0% dividend yield; 0% forfeiture; and a closing stock price of CDN$2.35 per share.

As at 31 December 2013, a total accrued liability of US$0.4 million (2012: US$0.6 million) has been recognised in relation to the stock appreciation rights. The liability decreased by US$0.2 million during the year compared to an increase of US$0.4 million in 2012.

Earnings per share

The calculation of basic earnings per share is based on the comprehensive loss for the year of US$5.9 million (2012: income US$18.4 million) and a weighted average number of Class A and Class B shares outstanding during the period of 34,718,622 (2012: 34,641,593).

In computing the diluted earnings per share, the effect of stock options is added to the weighted average number of common shares outstanding during the year. For 2013 the effective number was nil (2012: 811,386) shares, resulting in a diluted weighted average number of Class A and Class B shares of 34,718,622 for the year ended 31 December 2013 (2012: 35,452,979). No adjustments were required to the reported earnings from operations in computing diluted per share amounts. A total of 617,444 options were excluded as a result of being anti-dilutive to earnings per share.

RELATED PARTY TRANSACTIONS

One of the non-executive Directors is a partner at a law firm. During the year, the Company incurred US$0.1 million (2012: US$0.4 million) to this firm for services provided. The transactions with this related party were made at the exchange amount. As at 31 December 2013 the Company has a total of US$nil (2012 : US$0.2 million) recorded in trade and other payables in relation to the related party. The Chief Financial Officer provided services to the Company through a consulting agreement with a personal services company. During the year the Company incurred fees and bonus compensation of US$0.6 million in respect of these services (2012: US$0.5 million). In 2012 the Chief Executive Officer also provided services to the Company through a consulting agreement and the Company incurred US$0.2 million in costs. The full Chief Executive Officer's remuneration is included in Directors' Emoluments (see Note 21).

CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

Contractual Obligations

Protected Gas

Under the terms of the original gas agreement for the Songo Songo project ("Gas Agreement"), in the event that there is a shortfall/insufficiency in Protected Gas as a consequence of the sale of Additional Gas, then the Company is liable to pay the difference between the price of Protected Gas (US$0.55/MMbtu escalating) and the price of an alternative feedstock multiplied by the volumes of Protected Gas up to a maximum of the volume of Additional Gas sold (108.3 Bcf as at 31 December 2013). The Company did not have a shortfall during the reporting period and does not anticipate a shortfall arising during the term of the Protected Gas delivery obligation to July 2024.

The Gas Agreement may be superseded by an initialed ARGA. The ARGA provides clarification of the Protected Gas volumes and removes all terms dealing with the security of the Protected Gas and the consequences of any insufficiency to a new Insufficiency Agreement ("IA"). The IA specifies terms under which Songas may demand cash security in order to keep it whole in the event of a Protected Gas insufficiency. Should the IA be signed, it will govern the basis for determining security. Under the provisional terms of the IA, when it is calculated that funding is required, the Company is required to fund an escrow account at a rate of US$2.00/MMbtu on all Industrial Additional Gas sales out of its and TPDC's share of revenue, and TANESCO shall contribute the same amount on Additional Gas sales to the Power sector. The funds provide security for Songas in the event of an insufficiency of Protected Gas. The Company is actively monitoring the reservoir and, supported by the report of its independent engineers, does not anticipate that a liability will occur in this respect.

Re-rating Agreement

During 2011, the Company signed a re-rating agreement with TANESCO and Songas (the "Re-Rating Agreement") to increase the gas processing capacity to a maximum of 110 MMcfd (the pipeline and pressure requirements at the Ubungo power plant restrict the infrastructure capacity to a maximum of 102 MMcfd). Under the terms of the Re-rating Agreement, the Company effectively pays an additional tariff of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd in addition to the tariff of US$0.59/mcf payable to Songas as set by the energy regulator, EWURA.

Under the terms of this agreement, the Company agreed to indemnify Songas for damage to its facilities caused by the re-rating, up to a maximum of US$15 million, but only to the extent that this was not already covered by indemnities from TANESCO or Songas' insurance policies. The Re-rating Agreement expired on 31 December 2012 and in September was extended by Songas to 31 December 2013. At this time, the Company knows of no reason to de-rate the Songas plant. Since 31 December 2013 production has continued at the higher rated limit and, given the Government's interest in pursuing further development and increasing gas production, the Company expects this to continue. However there are no assurances that this will occur.

Portfolio Gas Supply Agreement

In June 2011, a long term (to June 2023) PGSA was signed between the Company, TPDC and TANESCO. Under the PGSA, the seller is obligated, subject to infrastructure capacity, to sell a maximum of approximately 37 MMcfd for use in any of TANESCO's current power plants except those operated by Songas at Ubungo. Under the agreement, the current basic wellhead gas price is approximately US$2.88/mcf which price will increase to US$2.94/mcf on 1 July 2014. Any volumes of gas delivered under the PGSA in excess of 36 MMcfd are subject to a 150% increase in the basic wellhead gas price.

Operating leases

The Company has two office rental agreements, one in Dar es Salaam, Tanzania and one in Winchester, United Kingdom. The agreement in Dar es Salaam was entered into on 1 November 2013 and expires on 31 October 2015 at an annual rent of US$401 thousand. The agreement in Winchester expires in September 2022 and is at an annual rental of GBP35 thousand (US$58 thousand) per annum during 2012 and 2013 and GBP71 thousand (US$115 thousand) per annum thereafter. The costs of these leases are recognised in the General and Administrative expenses.

Capital Commitments

Italy

On 31 May 2010, the Company signed an agreement with Petroceltic International plc ("Petroceltic") to farm in on Petroceltic's Central Adriatic B.R268.RG Permit offshore Italy. The farm-in commits the Company to fund 30% of the Elsa-2 appraisal well up to a maximum of US$11.5 million to earn a 15% working interest in the permit. Thereafter, the Company will fund all future costs relating to the well and the permit in proportion to its participating interest. The Company has also agreed to pay Petroceltic fifteen per cent (15%) of the back costs in relation to the well up to a maximum of US$0.5 million.

No activity has occurred on the Adriatic Sea block during 2013. In 2012, a new law modified restrictions on offshore oil and gas exploration and production originally introduced by DLGS 128/2010 in August 2010. The Elsa-2 appraisal well is now expected to be drilled in 2015 following finalisation of an environmental impact study. The Company will not be liable to any costs associated with the drilling of Elsa-2 until a rig contract is signed.

There are no further capital commitments in Italy at this time.

Songo Songo

Significant additional capital expenditure will be required to enable the Songo Songo field to produce 190 MMcfd in line with the anticipated infrastructure expansion. There are no contractual commitments either in the PSA or otherwise agreed for capital expenditure at Songo Songo. Any significant additional capital expenditure in Tanzania is discretionary and remains dependent on: (i) agreeing commercial terms with TPDC or other buyers regarding the sale of incremental gas volumes from Songo Songo; (ii) TANESCO receivables being brought up to date, guaranteed or other arrangements for payment satisfactory to the Company, (iii) the establishment of payment guarantees with the World Bank or other multi-lateral lending agencies to secure future receipts under any contracts with Government entities; and (iv) the arrangement of finance with the IFC or other lenders.

The Company currently plans to finance Songo Songo development with a combination of cash, collection of TANESCO and Songas receivables, funds flow from operations, bank debt and financing to be arranged by IFC. There are no assurances that financing will be available or on reasonable terms to fund all or a portion of the Songo Songo development programme. The Company does not currently have any off-balance sheet financing arrangements.

CONTINGENCIES

Downstream unbundling

The separation or unbundling of the downstream assets from the production assets has been an objective of TPDC and MEM for some time. The PSA specifically provides for the downstream business and will have to be amended if the downstream assets are to be unbundled. Unbundling was an issue raised by TPDC in the 2012 GNT negotiations and in the recently issued National Natural Gas Policy which policy contemplates TPDC as a monopoly aggregator and distributor of gas in Tanzania. In the context of the gas policy, TPDC and MEM have indicated that they wish the Company to unbundle the downstream distribution business in Tanzania. The methodology for this has been discussed with TPDC in the course of GNT negotiations. During the year, the Company tabled a proposal with alternative mechanisms to unbundle the downstream from the PSA which were economically neutral to the parties. TPDC did not respond to the proposal and it was later withdrawn by the Company in connection with the Company's terminating negotiations arising from the GNT. TPDC was advised that the downstream would remain in the PSA until mutually agreed otherwise.

TPDC Back-in

TPDC has previously indicated a desire to exercise its right under the PSA to 'back in' to the Songo Songo field development and a further desire to convert this into a carried interest in the PSA. The current terms of the PSA require TPDC to provide formal notice in a defined period and contribute a proportion of the costs of any development, sharing in the risks in return for an additional share of the gas. To date, TPDC has not contributed any costs. TPDC back-in rights and the potential conversion of these rights into a carried working interest were discussed with the GNT along with other issues, however conditions precedent to any potential change in the terms of the PSA as a result of the GNT were not met by the Government and as such until an agreement is reached the Company will continue to rely upon the original terms of the PSA. The issue of any change to TPDC's back-in rights has therefore not been resolved. Should an amendment to the PSA be agreed in future relating to back-in rights, the impact on reserves and accounting estimates will be assessed at that time and reflected prospectively. For the purpose of the reserves certification as at 31 December 2013, it was assumed that TPDC will elect to 'back-in' for 20% for all future new drilling activities with-in the prescribed period as determined by the current development plan on the basis of economically rational behaviour and this is reflected in the Company's net reserve position.

Cost recovery

The Company's Cost Pool in Tanzania has been fully recovered resulting in a reduction in the percentage of net revenue attributable to the Company.

TPDC conducted an audit of the historic Cost Pool and in 2011 disputed approximately US$34 million of costs that had been recovered from the Cost Pool from 2002 through to 2009. The Company has contended that the disputed costs were appropriately incurred on the Songo Songo project in accordance with the terms of the PSA. Undertakings to resolve this matter were an outcome of GNT negotiations and the matter was referred to the Controller and Auditor General ("CAG"), head of the National Audit Office of Tanzania. With no progress on resolving the matter, the Company served a Notice of Dispute on TPDC to put the matter to a definitive timeline for resolution, following which the CAG appointed an international independent audit firm to review the disputed costs; this team commenced work in March 2014 and has yet to report. If the matter is not resolved to the Company's satisfaction, it will proceed to ICSID arbitration pursuant to the terms of the PSA. This matter has had no impact on the results for the period.

TPDC marketing costs

Under the Songo Songo PSA, all reasonable marketing costs including those incurred by TPDC, with the prior approval by the Company are recoverable. TPDC has to date attempted to claim US$3.6 million in marketing costs from the Company. Management reviewed the claims and can demonstrate that there was no prior approval for such costs, no supporting documentation provided evidencing the expenditure, and further believes the nature of the costs to be unreasonable and not related to marketing the downstream business. Accordingly the Company has rejected the claim by TPDC.

Taxation

During 2013 the Company received a number of assessments for additional tax from the Tanzania Revenue Authority ("TRA"), which together with interest penalties total US$18.4 million. Management, together with tax advisors, have reviewed each of the assesments as at 31 December 2013 and believe them to be without merit. The Company has appealed against assessments for additional withholding tax and employment related taxes, and has filed formal objections against TRA's claims for additional corporation tax and VAT.

The Tax Revenue Appeals Board considered the Company's appeal against a withholding tax assessment of US$2.4 million in March 2013 and upheld the assessment. The Company then appealed to Tax Revenue Appeals Tribunal whose decision is awaited. Although a similar appeal to the Tribunal has been decided in favour of TRA, management continues to believe this assessment is flawed and, if necessary, will pursue the case in the Court of Appeal where a similar case is currently being heard.

The Company, based on legal counsel's advice, believes it has strong support, on the basis of tax legislation and the terms of the PSA, for its objection to the additional income tax assessment of US$7.8 million, including penalties. In the event that the Company's objection is overturned, any additional tax payable will be recoverable from TPDC under the terms the PSA.

The Company has filed an objection against a further assessment of VAT, which together with penalties totals US$7.5 million. Again, the Company based on legal counsel's advice, believes that it has strong grounds for objecting to this assessment and accordingly has made no provision.

The Company has received an assessment of US$0.7 million in respect of employment related taxes which TRA believe to have been underpaid. The Company does not accept TRA's finding and has appealed.

Management continues to review the progress of the above appeals and objections and, as of the date of this report, does not believe any provision is required.

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

On 1 January 2013, the Group adopted new standards with respect to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities, as well as the consequential amendments to IAS 28 Investments in Associates and Joint Ventures (2011), IFRS 13 Fair Value Measurement and IFRS 7 Amendments to Financial Instrument Disclosures. The adoption of these standards had no impact on the amounts recorded in the financial statements.

FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT

Credit risk

The Company's maximum credit risk is equal to the carrying value of its trade, other and long-term receivables. Trade receivables are comprised predominantly of amounts due in respect of gas sales to two power companies – the state owned utility TANESCO and Songas, and amounts due from a number of Industrial customers. Other receivables are mainly due from Songas for operation of its gas plant.

The long-term receivable represents amounts due from TANESCO for supplies of gas which have remained outstanding for more than 60 days. Given the irregular and unpredictable pattern of payments the TANESCO receivable has been discounted using a risk adjusted discount rate of 15% (see Note 1, "Going Concern").

Financial instrument classification and measurement

The Company's financial instruments that are carried at fair value on the consolidated statement of financial position include long-term receivables. The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including expected interest rate, share prices, and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuation in this level are those with inputs for the asset or liabilities that are not based on observable market data.

Valuation of the Company's long-term receivable is considered a Level 3 measurement. Fair value is estimated as the present value of future cash flows, discounted at the risk-adjusted rate at the reporting date.

SUMMARY QUARTERLY RESULTS

The following is a summary of the results for the Company for the last eight quarters:

(US$'000 except where otherwise stated)	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial								
Revenue	**14,866**	14,659	11,996	13,197	20,712	22,425	16,915	17,207
Comprehensive (loss) /income after tax	**(3,918)**	1,928	(6,817)	2,950	5,504	1,266	5,167	6,392
(Loss)/earnings per share - diluted *(US$)*	**(0.11)**	0.05	(0.19)	0.08	0.15	0.04	0.15	0.18
Funds flow from operating activities	**8,744**	11,851	10,546	8,699	12,015	14,379	9,982	9,888
Funds flow per share - diluted *(US$)*	**0.26**	0.34	0.30	0.25	0.33	0.41	0.28	0.28
Operating netback *(US$/mcf)*	**2.29**	2.26	2.10	2.15	3.01	3.14	2.56	2.55
Working capital	**27,756**	31,585	22,527	54,758	46,820	37,730	38,689	47,063
Shareholders' equity	**120,252**	124,170	122,068	128,885	125,935	120,204	118,938	113,051
Capital expenditures								
Geological and geophysical and well drilling	**(1,370)**	391	103	268	2,160	14,749	17,732	18,418
Pipeline and infrastructure	**397**	296	31	–	(258)	261	563	219
Power development	**–**	–	–	–	(15)	22	84	91
Other equipment	**1,111**	57	4	–	562	1	86	20
Operating								
Additional Gas sold – industrial *(MMcf)*	**1,143**	1,092	1,067	1,176	1,127	1,022	829	835
Additional Gas sold – power *(MMcf)*	**4,385**	4,959	4,250	4,363	4,417	4,270	4,172	3,973
Average price per mcf – industrial *(US$)*	**8.38**	8.43	8.60	7.78	8.56	9.21	10.14	9.63
Average price per mcf – power *(US$)*	**3.68**	4.10	3.63	3.55	3.61	3.55	2.80	2.72

PRINCIPLE DEVELOPMENTS IN Q4 2013.

- Revenue remained constant compared with Q3 despite a reduction in Power sales, but fell US$5.8 million compared to Q4 2012, the result of the Company's Cost Pool being fully recovered in 2012.
- The final result for Q4 was a loss after tax of US$3.9 million which contrasts with a Q3 profit of US$1.9 million and a Q4 2012 profit of US$5.5 million. The loss in Q4 was the result of management applying an additional discount to the TANESCO receivable of US$6.3 million and increasing the Company's provision for doubtful debts by US$2.3 million, there were no corresponding charges in Q4 2012.
- TANESCO receivables grew US$3.6 million during the quarter, the Company having received US$13.5 million in payments.
- The Company continued to negotiate with the Government, seeking a resolution to various disputes and a new gas sales agreement.
- In Q4 the Company received a number of tax assessments from the Tanzanian Revenue Authority, which together with penalties totalled US$16.2 million. Management has taken the view, supported by advisors, that these are without merit and has filed formal objections. No provision has been made at this time.

SELECTED FINANCIAL INFORMATION

Selected annual financial information derived from the audited consolidated financial statements for the years ended 31 December 2011, 2012 and 2013 is set out below:

Figures in US$'000 except per share amount	**2013**	2012	2011
Revenue	54,718	77,259	45,893
Funds flow from operating activities	39,840	46,264	22,658
Net cash flows from operating activities	22,491	30,883	4,577
(Loss)/Profit after tax	(5,465)	18,329	7,986
Total assets	210,976	212,244	151,844
Bank loan	1,659	5,842	–
(Loss)/earnings per share:			
Basic (US$)	(0.17)	0.53	0.23
Diluted (US$)	(0.17)	0.52	0.22

Revenue decreased by 29% to US$54.7 million in 2012 from US$77.3 million in 2012. The sales volumes were 9% higher in 2013 than 2012, with the weighted average price increasing from US$4.31/mcf to US$4.66/mcf.

In 2013, current taxation of US$10.0 million was payable (2012: US$11.6 million) which in accordance with the terms of the PSA is recoverable from TPDC. Consequently revenue in 2013 has been uplifted by the gross amount of US$14.3 million.

The level of Industrial volumes increased by 17% to 4,478 MMcf in 2013 from 3,813 MMcf in 2012, mainly as a consequence of reducing supplies of Protected Gas whilst Songas carried out maintenance on power generating turbines.

The level of Power volumes increased by 7% to 17,957 MMcf (2012: 16,832 MMcf). The increase in Power sales is attributable to increased demand for gas from TANESCO.

The 14% decrease in funds from operations before working capital changes over 2012 is due primarily to a reduction in revenues. Although gross revenues increased 17% the Company's share dropped by 16% as a consequence of having fully recovered costs, this resulted in a significant increase in TPDC's share of revenue.

BUSINESS RISKS

Additional Financing

Depending on future exploration, development, and marketing plans, and the status of and outlook for the TANESCO and Songas receivables, the Company may require additional financing. In the event that Company does not collect from TANESCO the balance of the outstanding receivables at 31 December 2013 and TANESCO continues to be unable to pay the Company for subsequent 2014 gas deliveries, the Company will need additional funding to maintain its current ongoing operations before the end of the current financial year. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of shares from treasury of the Company, control of the Company may change and shareholders may suffer additional dilution.

From time to time the Company may enter into transactions to acquire assets or the shares of other companies. These transactions may be financed partially or wholly with debt, which may temporarily increase the Company's debt levels above industry standards.

Collectability of Receivables

The Company considers the Songas and TANESCO receivables to be collectable, despite being long overdue. Both Songas and the Company have been impacted by TANESCO's inability to pay. There have been acknowledgements by TANESCO and MEM of the debt and the importance of addressing same. The recent Tanzania First and Second Power and DPOs by the World Bank to ensure TANESCO's viability support management's view that the debts will be paid (see "Going Concern"). Given the irregularity and unpredictability of payments, the timing of repayment remains uncertain. Consequently management has reclassified an element of the TANESCO debt as long-term and has discounted the value of the receivable. The discount applied to the TANESCO receivable is based on a probabilistic assessment by management of a multi-scenario discounted cash flow model which incorporates a number of assumptions as to the timing and amount of cash receipts from TANESCO, timing of World Bank DPO disbursements to the Government of Tanzania, status of negotiations with the Government and/or World Bank for partial risk guarantees, expected operational start date for the NNGIP in Tanzania and the potential for an arbitration settlement. These assumptions are subject to change due to factors which are beyond the control of the Company. The Company has made a provision against the net Songas receivable, as ultimately the ability of Songas to pay is in turn dependent upon TANESCO settling is liabilities to Songas.

Operating Hazards and Uninsured Risks

The business of the Company is subject to all of the operating risks normally associated with the exploration for, and the production, storage, transportation and marketing of oil and gas. These risks include blowouts, explosions, fire, gaseous leaks, downhole design and integrity, migration of harmful substances and oil spills, any of which could cause personal injury, result in damage to, or destruction of, oil and gas wells or formations or production facilities and other property, equipment and the environment, as well as interrupt operations. In addition, all of the Company's operations will be subject to the risks normally incident to drilling of natural gas wells and the operation and development of gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blowouts, equipment and tubing failures and other accidents, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution and other environmental risks. Drilling conducted by the Company overseas will involve increased drilling risks of high pressures and mechanical difficulties, including stuck pipe, collapsed casing and separated cable. The impact that any of these risks may have upon the Company is increased due to the fact that the Company currently only has one producing property. The Company will maintain insurance against some, but not all, potential risks; however, there can be no assurance that such insurance will be adequate to cover any losses or exposure for liability. The occurrence of a significant unfavourable event not fully covered by insurance could have a material adverse effect on the Company's financial condition, results of operations and cash flows. Furthermore, the Company cannot predict whether insurance will continue to be available at a reasonable cost or at all.

Foreign Operations

The Company's operations and related assets are located in Italy and Tanzania which may be considered to be politically and/or economically unstable. Exploration or development activities in Tanzania and Italy may require protracted negotiations with host governments, national oil companies and third parties and are frequently subject to economic and political considerations, such as, the risks of war, actions by terrorist or insurgent groups, expropriation, nationalization, creeping nationalization, renegotiation or nullification of existing contracts and production sharing agreements, taxation policies, foreign exchange restrictions, changing political conditions, international monetary fluctuations, currency controls and foreign governmental regulations that favour or require the awarding of drilling and construction contracts to local contractors or require foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. In addition, if a dispute arises with foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts.

In Tanzania, the state retains ownership of the minerals and consequently retains control of, the exploration and production of hydrocarbon reserves. Accordingly, these operations may be materially affected by the Government through royalty payments, export taxes and regulations, surcharges, value added taxes, production bonuses and other charges. The Government of Tanzania issued a National Natural Gas Policy in 2013, which policy contemplates greater government control over the industry and in some areas conflicts with the Company's rights under the Songo Songo PSA. There can be no assurance that the rights of the Company under the PSA will be grandfathered with respect to any future natural gas legislation arising from this policy.

The Company's development properties and its current proved natural gas reserves located offshore on the Songo Songo Island in Tanzania, are subject to regulation and control by the government of Tanzania and certain of its national and parastatal organizations including the energy regulator, EWURA and TPDC. The Company and its predecessors have operated in Tanzania for a number of years and believe that it had reasonably good relations with the current Tanzanian Government. However, there can be no assurance that present or future administrations or governmental regulations in Tanzania will not materially adversely affect the operations or future cash flows of the Company.

The Tanzania Revenue Authority is responsible for the collection of taxes in Tanzania. TRA is not party to the Songo Songo PSA and there is no assurance that the TRA will consider itself bound by its terms. Accordingly, there is a risk that the TRA will take interpretations of issues distinct from the PSA and result in assessments, penalties and fines which have not been contemplated by the Company and result in additional costs which are not recoverable under the PSA. The TRA has significant powers in Tanzania and is capable of causing the Company's operations in that country to cease.

The Company requires additional gas processing and transportation infrastructure to allow additional development and the ultimate monetisation of the Company's reserves through additional gas sales. In 2012, the Government of Tanzania announced a US$1.2 billion natural gas infrastructure expansion project, the scope of which would provide sufficient capacity to process and transport the necessary volumes of gas. After a year of negotiations with TPDC, there has been no progress on commercial terms for the sale of incremental gas volumes and there is no assurance that the Company's gas could be processed and transported to markets on economic terms.

PSA Negotiations

In November 2011 Parliament passed a resolution advising the Government to terminate the Company's Songo Songo PSA on the grounds of an allegation by TPDC that the Company had over recovered approximately US$21 million in Cost Gas revenue. On the recommendation of MEM in February 2012, the Government announced that it was establishing a Government Negotiating Team ("GNT") to discuss a number of issues raised in Parliament in relation to the Company's Songo Songo PSA. In Tanzania, government negotiating teams are a common mechanism to negotiate with business. The scope of the GNT was to discuss a number of issues that were raised by the Parliamentary Committee for Energy into the workings of the PSA. This included, but is not limited to, TPDC back in rights, profit sharing arrangements, the unbundling of the downstream assets, cost recovery and the Company's management of the upstream operations. After making submissions to the GNT, the Company commenced discussions in April 2012 and further in July 2012, at which time a conditional agreement in principle was been reached on a number of major points to resolve the issues. The GNT completed its mandate, and the responsibility for finalisation, documentation and implementation moved back to MEM. The conditional agreement in principle contemplated completion of this process by the end of 2012 as well as a number of deliverables from TPDC and the Government. As at the date of this report none of TPDC or Government undertakings have been met and other than the alleged US$21 million over recovery discussed below, none of the issues have been resolved.

In response to a Notice of Dispute delivered by the Company, in March 2014 TPDC retracted its claim that the Company had over-recovered approximately US$21 million in Cost Gas, which management believes has substantially exonerated the Company of allegations made by Parliament. Accordingly, the Company continues to rely upon its rights under the existing PSA and has initiated notices of dispute to resolve any remaining issues.

Industry Conditions

The oil and gas industry is intensely competitive and the Company competes with other companies which possess greater technical and financial resources. Many of these competitors not only explore for and produce oil and natural gas, but also carry on refining operations and market petroleum, natural gas products and other products on an international basis. Oil and gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and invasion of water into producing formations. Currently, the Company operates the Songo Songo natural gas property and has interests in two permits in Italy. There is a risk that in the future either the operatorship could change and the property operated by third parties or operations may be subject to control by national oil companies, Songas, or parastatal organisations and, as a result, the Company may have limited control over the nature and timing of exploration and development of such properties or the manner in which operations are conducted on such properties.

The marketability and price of natural gas which may be acquired, discovered or marketed by the Company will be affected by numerous factors beyond its control. There is currently no developed natural gas market in Tanzania and no infrastructure with which to serve potential new markets beyond that being constructed by the Company and Songas. The ability of the Company to market any natural gas from current or future reserves in Tanzania may depend upon its ability to develop natural gas markets in Tanzania and the surrounding region, obtain access to the necessary infrastructure to deliver sales gas volumes, including acquiring capacity on pipelines which deliver natural gas to commercial markets. The Company is also subject to market fluctuations in the prices of oil and natural gas, uncertainties related to the delivery and proximity of its reserves to pipelines and processing facilities and extensive government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and gas and many other aspects of the oil and gas business. The Company is also subject to a variety of waste disposal, pollution control and similar environmental laws.

The oil and natural gas industry is subject to varying environmental regulations in each of the jurisdictions in which the Company may operate. Environmental regulations place restrictions and prohibitions on emissions of various substances produced concurrently and oil and natural gas and can impact on the selection of drilling sites and facility locations, potentially resulting in increased capital expenditures.

Additional Gas

The Company has the right under the terms of the PSA to market volumes of Additional Gas subject to satisfying the requirements to deliver Protected Gas to Songas.

There is a risk that Songas could interfere in the Company's ability to produce, transport and sell volumes of Additional Gas if the Company's obligations to Songas under the Gas Agreement are not met. In particular, Songas has the right in specific circumstances to request reasonable security on all Additional Gas sales.

The Government of Tanzania has issued a National Natural Gas Policy in October 2013, which policy contemplates TPDC becoming sole aggregator of natural gas in the country. This policy objective conflicts with the Company's prior right under the PSA to directly market Additional Gas, and there is a risk that this prior right will not be recognized and that the Company's ability to maximize revenue on Additional Gas sales may be impaired by a requirement at law to sell gas to TPDC as aggregator.

Replacement of Reserves

The Company's natural gas reserves and production and, therefore, its cash flows and earnings are highly dependent upon the Company developing and increasing its current reserve base and discovering or acquiring additional reserves. Without the addition of reserves through exploration, acquisition or development activities, the Company's reserves and production will decline over time as reserves are depleted. To the extent that cash flow from operations is insufficient and external sources of capital become limited or unavailable, the Company's ability to make the necessary capital investments to maintain and expand its oil and natural gas reserves will be impaired. There can be no assurance that the Company will be able to find and develop or acquire additional reserves to replace production at commercially feasible costs.

Asset Concentration

The Company's natural gas reserves are currently limited to one producing property, the Songo Songo field, and the productive potential from this field is limited to seven wells, of which three are currently suspended. There has been limited production from the Songo Songo field to date. There is no assurance that the Company will have sufficient deliverability through the existing wells to provide Additional Gas sales volumes, and that there may be significant capital expenditures associated with any remedial work, workovers, or new drilling required to achieve deliverability. In addition, any difficulties relating to the operation or performance of the field would have a material adverse effect on the Company. **The Company is currently producing the existing wells at maximum capacity. There will be no redundant capacity in the facility or pipeline until workovers of existing wells can be performed and/or additional wells can be drilled in the field and facilities expanded. A loss or material reduction in the production of any given well will have a material adverse effect on the total production and funds flow from operations of the Company.** The Italian licences in which the Company has an interest are currently in the exploration phase of their cycle and it may be several years before the Company is able to obtain a revenue stream from these assets.

Environmental and Other Regulations

Extensive national, state, and local environmental laws and regulations in foreign jurisdictions will affect nearly all of the Company's operations. These laws and regulations set various standards regulating certain aspects of health and environmental quality, provide for penalties and other liabilities for the violation of such standards and establish in certain circumstances obligations to remediate current and former facilities and locations where operations are or were conducted. In addition, special provisions may be appropriate or required in environmentally sensitive areas of operation. There can be no assurance that the Company will not incur substantial financial obligations in connection with environmental compliance. Significant liability could be imposed on the Company for damages, cleanup costs or penalties in the event of certain discharges into the environment, environmental damage caused by previous owners of property purchased by the Company or non-compliance with environmental laws or regulations. Such liability could have a material adverse effect on the Company. Moreover, the Company cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. Compliance with more stringent laws or regulations, or more vigorous enforcement policies of any regulatory authority, could in the future require material expenditures by the Company for the installation and operation of systems and equipment for remedial measures, any or all of which may have a material adverse effect on the Company. As party to various licenses, the Company has an obligation to restore producing fields to a condition acceptable to the authorities at the end of their commercial lives.

While management believes that the Company is currently in compliance with environmental laws and regulations applicable to the Company's operations in Tanzania and Italy, no assurances can be given that the Company will be able to continue to comply with such environmental laws and regulations without incurring substantial costs.

The Company's petroleum and natural gas operations are subject to extensive governmental legislation and regulation and increased public awareness concerning environmental protection.

In accordance with the terms of the PSA, no provision has been recognised for future decommissioning costs in Tanzania as it is forecast that there will still be commercial gas reserves when the Company relinquishes the license in 2026. The Company expects that the cost of complying with environmental legislation and regulations will increase in the future. Compliance with existing environmental legislation and regulations has not had a material effect on capital expenditures, earnings or competitive position of the Company to date. Although management believes that the Company's operations and facilities are in material compliance with such laws and regulations, future changes in these laws, regulations or interpretations thereof or the nature of its operations may require the Company to make significant additional capital expenditures to ensure compliance in the future.

Volatility of Oil and Gas Prices and Markets

The Company's financial condition, operating results and future growth will be dependent on the prevailing prices for its natural gas production. Historically, the markets for oil and natural gas have been volatile and such markets are likely to continue to be volatile in the future. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes to the demand for oil and natural gas, whether the result of uncertainty or a variety of additional factors beyond the control of the Company. Any substantial decline in the prices of oil and natural gas could have a material adverse effect on the Company and the level of its natural gas reserves. Additionally, the economics of producing from some wells may change as a result of lower commodity prices, which could result in a suspension of production by the Company.

No assurance can be given that oil and natural gas prices will be sustained at levels which will enable the Company to operate profitably. From time to time the Company may avail itself of forward sales or other forms of hedging activities with a view to mitigating its exposure to the risk of price volatility.

The Songo Songo field was the first gas field to be developed in East Africa and was followed by a commercial gas discovery in the south of Tanzania at Mnazi Bay. The Company is the only supplier of gas into the main demand centre of Dar es Salaam and has therefore been able to negotiate Industrial gas sales contracts with gas prices that are at a discount to the lowest cost alternative fuels in Dar es Salaam, namely Heavy Fuel Oil and coal.

There has an increase in exploration activity in Tanzania, which has yielded significant discoveries of natural gas that could, when developed, lead to increased competition for gas markets and lower gas prices in the future.

In addition, various factors, including the availability and capacity of oil and gas gathering systems and pipelines, the effect of foreign regulation of production and transportation, general economic conditions, changes in supply due to drilling by other producers and changes in demand may adversely affect the Company's ability to market its gas production.

Uncertainties in Estimating Reserves and Future Net Cash Flows

There are numerous uncertainties inherent in estimating quantities of proved and probable reserves and cash flows to be derived therefrom, including many factors beyond the control of the Company. The reserve and cash flow information contained herein represents estimates only. The reserves and estimated future net cash flow from the Company's properties have been independently evaluated by McDaniel & Associates Consultants Ltd. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, crude oil price differentials to benchmarks, future prices of oil and natural gas, operating costs, transportation costs, cost recovery provisions and royalties, TPDC "back-in" methodology and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date of the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Company. Actual production and cash flows derived therefrom will vary from these evaluations, and such variations could be material.

Title to Properties

Although title reviews have been done and will continue to be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of the Company which could result in a reduction of the revenue received by the Company.

Acquisition Risks

The Company intends to acquire natural gas infrastructure and possibly additional oil and gas properties. Although the Company performs a review of the acquired properties that it believes is consistent with industry practices, such reviews are inherently incomplete. It generally is not feasible to review in depth every individual property involved in each acquisition. Ordinarily, the Company will focus its due diligence efforts on the higher valued properties and will sample the remainder. However, even an in depth review of all properties and records may not necessarily reveal existing or potential problems, nor will it permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and capabilities. Inspections may not be performed on every well, and structural or environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. The Company may be required to assume pre-closing liabilities, including environmental liabilities, and may acquire interests in properties on an "as is" basis. There can be no assurance that the Company's acquisitions will be successful.

Reliance on Key Personnel

The Company is highly dependent upon its executive officers and key personnel. The unexpected loss of the services of any of these individuals could have a detrimental effect on the Company. The Company does not maintain key life insurance on any of its employees or officers.

Controlling Shareholder

W David Lyons, the Company's Chairman, and Chief Executive Officer is the beneficial controlling shareholder of the Company and holds approximately 99.5% of the outstanding Class A shares and approximately 16.5% of the Class B shares. Consequently, Mr. Lyons is the beneficial holder of approximately 20.7% of the equity (22.5% fully diluted) and controls 59.3% of the total votes of the Company.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In applying the Company's accounting policies, which are described in Note 3 to the Consolidated Financial Statements, management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, vary to the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

i) Reserves

There are numerous uncertainties inherent in estimating quantities of proved and probable reserves and cash flows to be derived therefrom, including many factors beyond the control of the Company. The reserve and cash flow information contained herein represents estimates only. The reserves and estimated future net cash flow from the Company's Exploration's properties have been evaluated by McDaniel & Associates Consultants Ltd., independent petroleum engineers. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, abandonment provisions, crude oil price differentials to benchmarks, future prices of oil and natural gas, operating costs, transportation costs, cost recovery provisions and royalties, TPDC "back-in" methodology and other government levies that may be imposed over the producing life of the reserves. These assumptions were based on price forecasts in use at the date of the relevant evaluations were prepared and many of these assumptions are subject to change and are beyond the control of the Company.

Reserves are integral to the amount of depletion charged to the profit or loss.

ii) Exploration and evaluation assets

Under the Company's accounting policy expenditures incurred on the exploration for, and evaluation of, reserves are capitalized as intangible assets. These intangibles assets are then assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable value. Such circumstances include but are not limited to:

- the period for which the Company has the right to explore in the specific area has expired during the period, or will expire in the near future, and is not expected to be renewed;
- no further expenditure on exploration and evaluation is budgeted or planned;
- no reserves have been encountered;
- the evaluation of seismic data indicates that the reserves are unlikely to be of a commercial quantity;
- the quantity of hydrocarbon reserves are deemed not to be of commercially viable quantities and the entity has decided to discontinue further activities; and
- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The assessment for impairment involves estimates as to (i) the likely future commerciality of the asset and when such commerciality should be determined, (ii) future revenues and costs associated with the asset, and (iii) the discount rate to be applied to such revenues and costs for the purpose of deriving a recoverable value.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are grouped by concession.

The technical feasibility and commercial viability of extracting a resource is considered to be determinable based on several factors including the assignment of proven reserves. A review of each exploration license or field is carried out, at least annually, to ascertain whether the project is technically feasible and commercially viable. Upon determination of technical feasibility and commercial viability, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within property and equipment referred to as oil and natural gas interests.

iii) Fair value of stock based compensation

All stock options issued or stock appreciation rights granted by the Company have to be valued at their fair value. In assessing the fair value of the equity based compensation, estimates have to be made as to (i) the volatility in share price, (ii) risk free rate of interest, and (iii) the level of forfeiture. In the case of stock options, this fair value is estimated at the date of issue and is not revalued, whereas the fair value of stock appreciation rights is recalculated at each reporting period.

iv) Cost Recovery

The Company is able to recover reasonable costs incurred on the development of the Songo Songo project out of 75% of the gross revenues less processing and pipeline tariffs ("Net Revenue"). There are inherent uncertainties in estimating when costs have been recovered as these costs are subject to government audit and potential reassessment in certain circumstances after the elapse of a considerable period of time. Currently approximately US$34 million in cost recoveries for the period 2002 to 2009 have been denied by TPDC, which audit finding is now the subject of a Notice of Dispute by the Company.

v) Collectability of Receivables

The Company considers the Songas and TANESCO receivables to be collectable, despite being long overdue. Both Songas and the Company have been impacted by TANESCO's inability to pay. There have been acknowledgements by TANESCO and MEM of the debt and the importance of addressing same. Management has no reason to believe that the receivables will not be paid in full, however the Company has yet to receive any plan or proposal from TANESCO or the Government on behalf of TANESCO regarding the timing and quantum of such repayments. The recent Tanzania First and Second Power and Gas DPO by the World Bank to ensure TANESCO's viability support management's view that the debts will be paid (see Note 1 "Going Concern"). Given the irregularity and unpredictability of payments, the timing of repayment remains uncertain. Consequently management has reclassified an element of the TANESCO debt as long-term and has discounted the value of the receivable. The Company has made a provision against the net Songas receivable, as ultimately the ability of Songas to pay is in turn dependent upon TANESCO settling is liabilities to Songas.

The Company has a substantial "Tax Receivable" balance. This arises from the revenue sharing mechanism within the PSA which entitles the Company to a share of revenue equivalent to its tax charge, grossed up at the prevailing rate. These amounts are collected by way of an offset against TPDC's share of revenue, as and when the Company pays its tax.

vi) TPDC Back-in

TPDC has previously indicated a wish to exercise its right under the PSA to 'back in' to the Songo Songo field development and a further wish to convert this into a carried interest in the PSA. The current terms of the PSA require TPDC to provide formal notice in a defined period and contribute a proportion of the costs of any development, sharing in the risks in return for an additional share of the gas. To date, TPDC has not contributed any costs. TPDC back-in rights and the potential conversion of these rights into a carried working interest were discussed with the GNT along with other issues, however conditions precedent to any potential change in the terms of the PSA as a result of the GNT were not met by the Government and as such the Company continues to stand behind the original terms of the PSA. The issue of any change to TPDC's back-in rights has therefore not been resolved. Should an amendment to the PSA be agreed in future relating to back-in rights, the impact on reserves and accounting estimates will be assessed at that time and reflected prospectively.

For the purpose of the reserves certification as at 31 December 2013, it was assumed that, on the basis of economically rational behavior, TPDC will elect to 'back-in' for 20% for all future new drilling activities with-in the prescribed period as determined by the current development plan and this is reflected in the Company's net reserve position.

vii) TPDC marketing costs

Under the Songo Songo PSA, all reasonable marketing costs including those incurred by TPDC, with the prior approval by the Company are recoverable. TPDC has to date attempted to claim US$3.6 million in marketing costs from the Company. Management reviewed the claims and can demonstrate that there was no prior approval for such costs, no supporting documentation provided evidencing the expenditure, and further believes the nature of the costs to be unreasonable and not related to marketing the downstream business. Accordingly the Company has rejected the claim by TPDC.

viii) Taxation

During 2013 the Company received a number of assessments for additional tax from the Tanzania Revenue Authority ("TRA"), which together with interest penalties total US$18.4 million. Management together with tax advisors have reviewed each of the assessments and believe them to be without merit. The Company has appealed against assessments for additional withholding tax and employment related taxes, and has filed formal objections against TRA's claims for additional corporation tax and VAT.

The Tax Revenue Appeals Board considered the Company's appeal against a withholding tax assessment of US$2.4 million in March 2013 and upheld the assessment. The Company then appealed to Tax Revenue Appeals Tribunal whose decision is awaited. Although a similar appeal to the Tribunal has been decided in favour of TRA, management continues to believe this assessment is flawed and, if necessary, will pursue the case in the Court of Appeal where a similar case is currently being heard.

The Company based on advice believes it has strong support, on the basis of tax legislation and the terms of the PSA, for its objection to the additional income tax assessment of US$7.8 million, including penalties. In the event that the Company's objection is overturned, any additional tax payable will be recoverable from TPDC under the terms the PSA.

The Company has filed an objection against a further assessment of VAT, which together with penalties totals US$7.5 million. Again, the Company based on advice believes that it has strong grounds for objecting to this assessment and accordingly has made no provision.

The Company has received an assessment of US$0.7 million in respect of employment related taxes which TRA believe to have been underpaid. The Company does not accept TRA's finding and has appealed.

Management continues to review the progress of the above appeals and objections and, as of the date of this report, does not believe any provision is required.