ORCA EXPLORATION GROUP INC.

2016 FINANCIAL STATEMENTS & NOTES

Management's Report to Shareholders

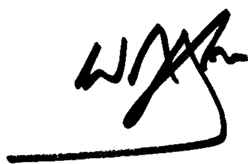
The accompanying consolidated financial statements of Orca Exploration Group Inc. are the responsibility of Management. The financial and operating information presented in this annual report is consistent with that shown in the consolidated financial statements.

The consolidated financial statements have been prepared by Management, on behalf of the Board, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards appropriate in the circumstances.

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures and has concluded that such disclosure controls and procedures are effective.

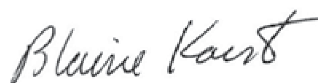
Management maintains appropriate systems of internal controls. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements. An independent firm of Chartered Professional Accountants, as appointed by the Shareholders, audited the consolidated financial statements in accordance with the Canadian Generally Accepted Auditing Standards to enable them to express an opinion on the fairness of the consolidated financial statements in accordance with International Financial Reporting Standards.

The Board of Directors carries out its responsibility for the financial reporting and internal controls of the Company principally through an Audit Committee. The committee has met with the external auditors and Management in order to determine if Management has fulfilled its responsibilities in the preparation of the consolidated financial statements. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.



W. David Lyons
Chairman and Chief Executive Officer

April 12, 2017



Blaine E. Karst
Chief Financial Officer

April 12, 2017

Independent Auditors' Report

To the Shareholders of Orca Exploration Group Inc.

We have audited the accompanying consolidated financial statements of Orca Exploration Group Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Orca Exploration Group Inc. as at December 31, 2016 and December 31, 2015 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants

April 12, 2017
Calgary, Canada

Consolidated Statements of Comprehensive Income

ORCA EXPLORATION GROUP INC.		YEARS ENDED DECEMBER 31	
US$'000	Note	**2016**	2015
Revenue	*6, 7*	**64,659**	54,088
Production and distribution		**(4,033)**	(3,751)
Net production revenue		**60,626**	50,337
Operating expenses			
General and administrative		**(16,337)**	(13,608)
Depletion		**(9,191)**	(11,855)
Operating income		**35,098**	24,874
Finance income	*9*	**383**	43
Finance expense	*9*	**(19,937)**	(13,988)
Income before tax		**15,544**	10,929
Income tax – current	*10*	**(9,719)**	(7,691)
Income tax – deferred	*10*	**(3,661)**	(1,705)
Net income		**2,164**	1,533
Foreign currency translation (loss) gain from foreign operations		**(295)**	144
Comprehensive income		**1,869**	1,677
Net income per share *(US$)*			
Basic and diluted	*17*	**0.06**	0.04

See accompanying notes to the consolidated financial statements.

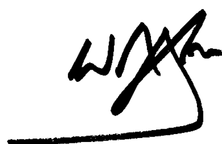
Consolidated Statements of Financial Position

ORCA EXPLORATION GROUP INC. | **AS AT DECEMBER 31**

US$'000	Note	**2016**	2015
Assets			
Current assets			
Cash and cash equivalents		**80,895**	53,797
Trade and other receivables	*12*	**27,638**	25,391
Tax recoverable	*10*	**5,402**	4,519
Prepayments		**651**	1,118
		114,586	84,825
Non-current assets			
Long-term trade receivable	*12*	**525**	584
Property, plant and equipment	*13*	**111,421**	104,274
		111,946	104,858
Total Assets		**226,532**	189,683
Equity and liabilities			
Current liabilities			
Trade and other payables	*14*	**39,707**	49,531
Tax payable		**2,890**	2,773
		42,597	52,304
Non-current liabilities			
Deferred income taxes	*10*	**12,973**	9,312
Long-term loan	*15*	**58,399**	18,599
Additional Profits Tax	*11*	**32,540**	31,314
		103,912	59,225
Total Liabilities		**146,509**	111,529
Equity			
Capital stock	*16*	**85,488**	85,488
Contributed surplus		**6,347**	6,347
Accumulated other comprehensive loss		**(381)**	(86)
Accumulated loss		**(11,431)**	(13,595)
		80,023	78,154
Total equity and liabilities		**226,532**	189,683

See accompanying notes to the consolidated financial statements.

Nature of Operations (Note 1); Contractual obligations and committed capital investment (Note 19); Contingencies (Note 20). The consolidated financial statements were approved by the Board of Directors on April 12, 2017.



Director

Director

Consolidated Statements of Cash Flows

ORCA EXPLORATION GROUP INC		YEARS ENDED DECEMBER 31	
US$'000	Note	**2016**	2015
Operating activities			
Net Income		**2,164**	1,533
Adjustment for:			
Depletion and depreciation	*13*	**9,777**	12,555
Provision for doubtful accounts	*9*	**14,245**	9,908
Stock-based compensation (recovery)	*16*	**1,604**	(244)
Deferred income taxes	*10*	**3,661**	1,705
Additional Profits Tax	*11*	**1,226**	2,355
Unrealized gain on foreign exchange		**(822)**	(1,358)
Interest expense	*9*	**5,668**	117
Change in non-cash working capital		**(17,555)**	(10,553)
Net cash flow from operating activities		**19,968**	7,018
Investing activities			
Property, plant and equipment expenditures	*13*	**(16,924)**	(38,411)
Change in working capital related to investing activities		**(10,685)**	8,461
Net cash used in investing activities		**(27,609)**	(29,950)
Financing activities			
Interest paid	*9*	**(5,668)**	(117)
Increase in long-term loan	*15*	**39,800**	18,599
Normal course issuer bid repurchases	*16*	**–**	(158)
Net cash flow from financing activities		**34,132**	18,324
Increase (decrease) in cash		**26,491**	(4,608)
Cash and cash equivalents at the beginning of the year		**53,797**	57,659
Effect of change in foreign exchange on cash for the year		**607**	746
Cash and cash equivalents at the end of the year		**80,895**	53,797

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

ORCA EXPLORATION GROUP INC.

US$'000	**Capital stock**	**Contributed surplus**	**Cumulative translation adjustment**	**Accumulated loss**	**Total**
Note	*16*				
Balance as at January 1, 2016	85,488	6,347	(86)	(13,595)	78,154
Foreign currency translation adjustment on foreign operations	–	–	(295)	–	(295)
Net income	–	–	–	2,164	2,164
Balance as at December 31, 2016	**85,488**	**6,347**	**(381)**	**(11,431)**	**80,023**

US$'000	**Capital stock**	**Contributed surplus**	**Cumulative translation adjustment**	**Accumulated loss**	**Total**
Note	*16*				
Balance as at January 1, 2015	85,637	6,356	(230)	(15,128)	76,635
Normal course issuer bid exercise	(149)	(9)	–	–	(158)
Foreign currency translation adjustment on foreign operations	–	–	144	–	144
Net income	–	–	–	1,533	1,533
Balance as at December 31, 2015	85,488	6,347	(86)	(13,595)	78,154

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

General Information

Orca Exploration Group Inc. was incorporated on April 28, 2004 under the laws of the British Virgin Islands with registered offices located at PO Box 146, Road Town, Tortola, British Virgin Islands, VG110 The Company produces and sells natural gas to the power and industrial sectors in Tanzania.

The consolidated financial statements of the Company as at and for the year ended December 31, 2016 comprise accounts of the Company and all its wholly owned subsidiaries (collectively, the "Company" or "Orca Exploration") and were authorized for issue in accordance with a resolution of the directors on April 12, 2017.

1 NATURE OF OPERATIONS

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 ("GoT") in the United Republic of Tanzania. This PSA covers the production and marketing of certain gas from the Songo Songo Block offshore Tanzania.

The PSA defines gas in the Songo Songo field as "Protected Gas" and "Additional Gas". The "Protected Gas" is owned by TPDC and is sold under a 20-year gas agreement until July 2024 ("Gas Agreement") 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.

Songas utilizes the Protected Gas as feedstock for its gas turbine electricity generators for onward sale to customers. 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 Block in excess of the Protected Gas requirements ("Additional Gas").

The Tanzania Electric Supply Company Limited ("TANESCO") is a parastatal organization which is wholly-owned by the GoT, with oversight by the Ministry of Energy and Minerals ("MEM"). TANESCO is responsible for the generation, transmission and distribution of electricity throughout Tanzania. The Company currently supplies gas directly to TANESCO by way of a Portfolio Gas Supply Agreement ("PGSA") and indirectly through the supply of Protected Gas and Additional Gas to Songas which in turn generates and sells power to TANESCO. The state utility is the Company's largest customer.

In addition to gas supplied to Songas and TANESCO for the generation of power, the Company has developed and supplies an industrial gas market in the Dar es Salaam area.

2 BASIS OF PREPARATION

These consolidated financial statements have been prepared on a historical cost basis and have been prepared using the accrual basis of accounting. The consolidated financial statements are presented in US dollars ("US$").

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

Basis of consolidation

Subsidiaries

The consolidated financial statements include the accounts of Orca Exploration Group Inc. and all its wholly owned subsidiaries (collectively, the "Company"). Subsidiaries are those enterprises controlled by the Company. The following companies have been consolidated within the Orca Exploration financial statements:

Subsidiary	Registered	Holding	Functional currency
Orca Exploration Group Inc.	British Virgin Islands	Parent Company	US dollar
Orca Exploration Italy Inc.	British Virgin Islands	100%	Euro
Orca Exploration Italy Onshore Inc.	British Virgin Islands	100%	Euro
PAE PanAfrican Energy Corporation	Mauritius	100%	US dollar
PanAfrican Energy Tanzania Limited	Jersey	100%	US dollar
Orca Exploration UK Services Limited	United Kingdom	100%	British Pound

Transactions eliminated upon consolidation

Inter-company balances and transactions, and any unrealized gains or losses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

Foreign currency

i) **Foreign currency transactions**

Transactions in foreign currencies are recorded at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at period-end rates. Non-monetary items are translated at historic rates, unless such items are carried at market value, in which case they are translated using the exchange rates that existed when the values were determined. Any resulting exchange rate differences are recognized in earnings.

ii) **Foreign currency translation**

Foreign currency differences are recognized in comprehensive income and accumulated in the translation reserve. The assets and liabilities of these companies are translated into the functional currency at the period-end exchange rate. The income and expenses of the companies are translated into the functional currency at the average exchange rate for the period. Translation gains and losses are included in other comprehensive income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Exploration and evaluation assets, property plant and equipment

i) Exploration and evaluation assets

Exploration and evaluation costs are capitalized as intangible assets. Intangible assets include lease and license acquisition costs, geological and geophysical costs and other direct costs of exploration and evaluation which management considers to be unevaluated until reserves are appraised to be commercially viable and technologically feasible as commercial, at which time they are transferred to property, plant and equipment following an impairment review and depleted accordingly. Where properties are appraised to have no commercial value or are appraised at values less than book values, the associated costs are treated as an impairment loss in the period in which the determination is made.

ii) Property, plant and equipment

Property, plant and equipment comprises the Company's tangible natural gas assets, development wells, together with leasehold improvements, computer equipment, motor vehicles and fixtures and fittings and are carried at cost, less any accumulated depletion, depreciation and accumulated impairment losses. Cost includes purchase price and construction costs for qualifying assets. Depletion of these assets commences when the assets are ready for their intended use. Only costs that are directly related to the discovery and development of specific oil and gas reserves are capitalized. The cost associated with tangible natural gas assets are amortized on a field by field unit of production method based on commercial proven reserves. The calculation of the unit of production amortization takes into account the estimated future development cost associated with proven reserves.

iii) Impairment of exploration and evaluation assets, property, plant and equipment

At each balance sheet date, the Company reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Individual assets are grouped together as a cash generating unit ("CGU") for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are independent from other group assets. In the case of exploration and evaluation assets, this will normally be at the CGU level. If any such indication of impairment exists, the Company makes an estimate of its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value with a pre-tax discount rate that reflects the current market indicators. The fair value less costs to sell is the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. Where an impairment loss subsequently reverses, the carrying amount of the asset CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the CGU in prior years. A reversal of an impairment loss is recognized in earnings.

Operatorship

The Company operates the Songo Songo gas field, flow lines and gas processing plant. The Songas wells, flowlines and gas plant are operated by the Company on behalf of Songas on a 'no gain no loss' basis. The cost of operating and maintaining the wells and flow lines is paid for by the Company and Songas in proportion to the respective volumes of Protected Gas and Additional Gas sales. The costs of operating and maintaining the wells and flow lines are reflected in the accounts to the extent that the costs were incurred to accomplish Additional Gas sales. The cost of operating the gas processing plant and pipeline to Dar es Salaam is paid by Songas. Costs incurred by the Company in connection with the operatorship of the Songas plant are recorded as receivables, which are re-charged to Songas. Subsequent payments received from Songas are credited to receivables. When there are Additional Gas sales, a tariff is paid to Songas as compensation for using the gas processing plant and pipeline. This tariff is netted against revenue.

Employment benefits

i) Pension

The Company does not operate a pension plan, but it does make defined contributions to the statutory pension fund for employees in Tanzania. Obligations for contributions to the statutory pension fund are recognized as an expense in the income statement as incurred.

ii) Stock options

The stock option plan provides for the granting of stock options to directors, Company officers, key personnel and employees to acquire shares at an exercise price determined by the market value at the date of grant. The exercise price of each stock option is determined at the closing market price of the Class B shares on the day prior to the day of grant. Each stock option granted permits the holder to purchase one Class B share at the stated exercise price. The Company records a charge to earnings using the Black-Scholes fair valuation option pricing model. The valuation is dependent on a number of estimates, including the risk free interest rate, the level of stock volatility, and the estimate of the level of forfeiture. .

iii) Stock appreciation rights and restricted stock units

Stock appreciation rights ("SARs") and restricted stock units ("RSUs") are issued to certain key managers, officers, directors and employees. The fair value of SARs and RSUs is expensed in the statement of comprehensive income in accordance with the service period. The fair value of the SARs and RSUs is revalued every reporting date with the change in the value recognized in earnings.

Asset retirement obligations

No provision has been made for future site restoration costs in Tanzania because the Company currently has no legal or contractual or constructive obligation under the PSA to restore the fields at the end of their commercial lives, should such occur within the term of the PSA. At such a time as the Company may be granted an extension of the term of the PSA, which encompasses the end of the field life, or other amendment to the PSA, which requires the Company to do so, a provision will be made for future site restoration costs.

Revenue recognition, production sharing agreements and royalties

Pursuant to the terms of the PSA, the Company has exclusive rights to (i) to carry on Exploration Operations in the Songo Songo Gas Field; (ii) to carry on Development Operations in the Songo Songo Gas Field and (iii) jointly with TPDC, to sell or otherwise dispose of Additional Gas.

The Company recognizes revenue related to Additional Gas sales from the sale of gas to all customers, including both TANESCO and Songas, when title passes to the customer at fiscal gas meters which are installed at the respective customer's plant gate in Dar es Salaam. Under the terms of the PSA, the Company pays both its share and TPDC's share of operating, administrative and capital costs. The Company recovers all reasonably incurred operating, administrative and capital costs including the parastatal's share of these costs from future revenues over several years ("Cost Gas"). TPDC's share of operating and administrative costs, are recorded in operating and general and administrative costs when incurred and capital costs are recorded in 'property, plant and equipment'. All recoveries are recorded as Cost Gas in the year of recovery.

Notes to the Consolidated Financial Statements

The Company has a gas sales contract under which the customer is required to take, or pay for, a minimum quantity of gas. In the event that the customer has paid for gas that was not delivered, the additional income received by the Company is carried on the balance sheet as "deferred income". If the customer consumes volumes in excess of the minimum, it will be charged at the current rate, but may receive a credit for volumes paid but not delivered. At the end of each reporting period the Company reassesses the volumes for which the customer may receive credit, any remaining balance is credited to income.

In any given year, the Company is entitled to recover as Cost Gas up to 75% of the net revenue (gross revenue less processing and pipeline tariffs). Any net revenue in excess of the Cost Gas ("Profit Gas") is shared between the Company and TPDC in accordance with the terms of the PSA. Under the PSA the Company's share of Profit Gas is further increased by the amount necessary to fully pay and discharge any liability for taxes on income. Revenue represents the Company's share of Profit Gas and Cost Gas during the period.

Prior to 2016 the Company had reached an understanding with TANESCO that it would continue to supply gas if TANESCO remained reasonably current with payments for gas deliveries. As a result of TANESCO's inability to fully pay all amounts invoiced by the Company for the past few years, management of the Company has modified its approach to revenue recognition as it relates to TANESCO only. Commencing on October 1, 2016 the Company will record 80% of the amounts invoiced to TANESCO for revenue recognition purposes. The 80% amount was determined by comparison of TANESCO's historical payment history to the amounts invoiced by the Company over the past three years. Management believes this approach provides the best estimate of TANESCO's ability to pay and remain reasonably current and as well reflects the economic reality of the situation. This results in a reduction in revenue recognized from the effective date (see Notes 4 and 7).

For cash received in excess of the revenue recorded from TANESCO in any given period, the additional amounts received will be recorded as deferred revenue. In periods when cash received is less than revenue recorded, the deferred revenue will be reduced accordingly. If the deferred revenue amount is reduced to nil, the difference will be recorded as accounts receivable.

The percentage used to recognize TANESCO revenue will be reviewed on at least a semi-annual basis, more frequently if circumstances require and if there is a significant difference between the amount of revenue recorded and amounts received, the percentage used to record revenue as well as any existing receivable or deferred revenue balance will be revised accordingly.

Additional Profits Tax

Under the terms of the PSA, in the event that all costs have been recovered with an annual return from the PSA of 25% plus the percentage change in the United States Industrial Goods Producer Price Index, an Additional Profits Tax ("APT") is payable to the Government of Tanzania. This tax is considered to be a royalty and is netted against revenue. Deferred APT is provided for by forecasting the total APT payable as a proportion of the forecast Profit Gas over the term of PSA license. The actual APT that will be paid is dependent on the achieved value of the Additional Gas sales and the quantum and timing of the operating costs and capital expenditure program.

The PSA states that APT shall be calculated for each year and shall vary with the real rate of return earned by the Company on the net cash flow from the Contract Area (as defined). The calculation of APT includes a working capital adjustment reflecting the effect of the timing of actual receipt of amounts owing from TANESCO on net cash flow available to APT.

Income taxes

The Company is liable for Tanzanian income tax on the income for the year; this comprises current and deferred tax. Where current income tax is payable, this is shown as a current tax liability. Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of carrying amounts of assets and liabilities using tax rates substantively enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available, against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realized.

Depreciation

Depreciation for non-natural gas properties is charged to earnings on a straight line basis over the estimated useful economic lives of each class of asset. The estimated useful lives are as follows:

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

Financial instruments

All financial instruments are initially recognized at fair value on the consolidated statement of financial position. The Company has classified each financial instrument into one of the following categories: (i) fair value through the statement of comprehensive income (loss), (ii) loans and receivables, and (iii) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported on the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Initial recognition

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

i) **Financial assets and liabilities at fair value through statement of comprehensive loss:**

A financial asset or liability classified in this category is recognized at each period at fair value with gains and losses from revaluation being recognized in net income. A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

ii) **Loans and receivables:**

Loans and receivables are initially measured at fair value plus directly attributable transaction costs and are subsequently recorded at amortized cost using the effective interest method.

Long-term receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Long-term receivables are initially recognized at fair value based on the discounted cash flows. The discount rate is based on the credit quality and term of the financial instrument. The financial instrument is subsequently valued at amortized costs by accreting the instrument over the expected life of the assets. The accretion associated with instrument valued at amortized cost is reported on the statement of comprehensive loss each reporting period.

The fair value of the Company's trade and other receivables approximates their carrying values due to the short-term nature of these instruments.

iii) **Other financial liabilities:**

Trade and other payables and the long-term loan are classified as other financial liabilities and are initially measured at fair value less directly attributable transaction costs and are subsequently recorded at amortized cost using the effective interest method. The fair value of trade and other payables approximates the carrying amounts due to the short-term nature of these instruments. The fair value of the long-term loan approximates its carrying value as there has been no significant change in interest rates since the Company finalized the loan. The loan interest rate is fixed at 10%.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, term deposits and short-term highly liquid investments with the original term to maturity of three months or less, which are convertible to known amounts of cash and which, in the opinion of management, are subject to an insignificant risk of changes in value. The fair value of cash and cash equivalents approximates their carrying amount. There are no restrictions on the movement of funds out of Tanzania.

Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in earnings. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in earnings.

New accounting standards and interpretations

At the date of these financial statements the standards and interpretations listed below were issued but not yet effective. The adoption of these standards may result in future changes to existing accounting policies and disclosures. The Company is currently evaluating the impact that these standards will have on results of operations and financial position.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company has commenced the process of identifying and reviewing sales contracts with customers to determine the extent of the impact, if any, that this standard will have on the consolidated financial statements.

In July 2014, the IASB finalized the remaining elements of IFRS 9 – Financial Instruments, which includes new requirements for the classification and measurement of financial assets, amends the impairment model and outlines a new general hedge accounting standard. The mandatory effective date of IFRS 9 is for annual periods on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The Company is evaluating the impact of this standard on the consolidated financial statements and does not anticipate material changes to the valuation of its financial assets.

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. The Company is currently identifying contracts that will be identified as leases and evaluating the impact of the standard on the consolidated financial statements.

There are no other standards and interpretations in issue but not yet adopted that are expected to have a material effect on the reported earnings or net assets of the Company.

4 USE OF ESTIMATES AND JUDGEMENTS

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the accounts recognized in these consolidated financial statements.

Critical judgements in applying accounting policies:

A. Exploration and evaluation assets and property, plant and equipment

The Company assesses its property, plant and equipment for impairment when events or circumstances indicate that the carrying amount of its assets may not be recoverable. If any indication of impairment exists, the Company performs an impairment test on the CGU, which is the lowest level at which there are identifiable cash flows. The carrying amount of the CGU is compared to its recoverable amount which is defined as the greater of its fair value less cost to sell and value in use and is subject to management estimates. These estimates include quantities of reserves and future production, future commodity pricing, development costs, operating costs, and discount rates. Any changes in these estimates may have an impact on the recoverable amount of the CGU.

Property, plant and equipment is measured at cost less accumulated depreciation, depletion and amortization. The Company's oil and natural gas properties are depleted using the unit-of-production method over proved reserves. The unit-of-production method takes into account estimates of capital expenditures incurred to date along with future development capital required to develop the proved reserves.

B. Collectability of receivables

The Company evaluates the collectability of its receivables on the basis of payment history, frequency and predictability, as well as Management's assessment of the customer's willingness and ability to pay. Management performs impairment tests each period on the Company's current and long-term receivables.

Prior to 2016 the Company had reached an understanding with TANESCO that it would continue to supply gas if TANESCO remained reasonably current with payments for gas deliveries. As a result of TANESCO's inability to fully pay all amounts invoiced by the Company for the past few years, management of the Company has modified its approach to revenue recognition as it relates to TANESCO only. Commencing on October 1, 2016 the Company will record 80% of the amounts invoiced to TANESCO for revenue recognition purposes. The 80% amount was determined by comparison of TANESCO's historical payment history to the amounts invoiced by the Company over the past three years. Management believes this approach provides the best estimate of TANESCO's ability to pay and remain reasonably current and as well reflects the economic reality of the situation. This results in a reduction in revenue recognized from the effective date (see Notes 7 and 12).

C. Taxes

The Company operates in a jurisdiction with complex tax laws and regulations, which are evolving over time. The Company has taken certain tax positions in its tax filings and these filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax impact may differ significantly from that estimated and recorded by management.

Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

Notes to the Consolidated Financial Statements

Key sources of estimation of uncertainty

D. 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 properties have been evaluated by 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, 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. For the purpose of the reserves certification as at December 31, 2016 it was assumed that TPDC will elect to 'back-in' for 20% for all future new drilling activities after well SS-12 and this is reflected in the Company's net reserve position. As at the date of the consolidated financial statements, TPDC has made no such election.

Reserves are integral to the amount of depletion and impairment test.

E. Fair value of stock based compensation

All stock options issued or stock appreciation rights granted by the Company are required 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) the 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.

F. 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 field revenue less processing and pipeline tariffs ("field net revenue"). There are inherent uncertainties in estimating when costs have been recovered as these costs are subject to government audit and in exceptional circumstances a potential reassessment after the elapse of a considerable period of time.

G. Financial instrument classification and measurement

The Company classifies the fair value of 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.

5 RISK MANAGEMENT

The Company, by its activities in oil and gas exploration, development and production, is exposed to the risk associated with the unpredictable nature of the financial markets as well as political risk associated with conducting operations in an emerging market. The Company seeks to manage its exposure to these risks wherever possible.

A. Foreign exchange risk

Foreign exchange risk arises when transactions and recognized assets and liabilities of the Company are denominated in a currency that is not the US dollar functional currency.

The Company operates internationally and is exposed to foreign exchange risk arising from currency exposures to US dollars. The main currencies to which the Company has an exposure are: Tanzanian shillings, British pounds sterling, Euros and Canadian dollars.

The majority of the expenditure associated with the operation of the gas distribution system is denominated in Tanzanian shillings. Whilst conversion of Tanzanian shillings into US dollars is unrestricted, the foreign exchange market for Tanzanian shillings is limited and not highly liquid, reducing the Company's ability to convert large amounts of Tanzanian shillings into US dollars at any given time. To mitigate the risk of Tanzanian shilling devaluation, the Company regularly converts Tanzanian shilling receipts into US dollars to the extent practicable. Capital stock, equity financing and any associated stock based compensation are denominated in Canadian dollars. The operational revenue and the majority of capital expenditures are denominated in US dollars.

There are no forward exchange rate contracts in place.

A 10% increase in the US dollar against the relevant foreign currency would result in an overall decrease in working capital (defined as current assets less current liabilities) of US$0.7 million to US$71.3 million and an increase in the income before tax to US$16.2 million. The sensitivity includes only outstanding foreign currency denominated monetary items and adjusts their translation at period end for a 10% change in the foreign currency rates. A 10% sensitivity rate is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonable possible change in foreign exchange rates.

The following balances are denominated in foreign currency (stated in US dollars at period end exchange rates):

Balances as at December 31, 2016 *US$'000*	**Canadian dollars**	**Tanzanian shillings**	**Euros**	**Other**	**Total**
Cash	0.1	7.6	1.1	0.4	9.2
Trade and other receivables	–	8.1	0.7	0.8	9.6
Trade and other payables	(3.3)	(4.4)	(0.1)	(1.0)	(8.8)
	(3.2)	11.3	1.7	0.2	10.0

B. Commodity price risk

The Company negotiated industrial gas sales contracts with gas prices which, subject to certain floors and ceilings, are determined as a discount to the lowest cost alternative fuels in Dar es Salaam, namely Heavy Fuel Oil ("HFO") and coal. The price of HFO is exposed to the volatility in the market price of crude oil.

C. Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has minimal exposure to interest rates as the long-term loan has a fixed interest rate and interest received on cash balances is not significant.

D. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from TANESCO and Songas. The carrying amount of accounts receivable and the long-term receivable represents the maximum credit exposure. As at December 31, 2016 and 2015, other than the provisions against the long-term TANESCO receivable, the provision for gas plant operations charges and capital expenditure receivables from Songas and the provision of US$ 0.4 million for two industrial customers, the Company does not have an allowance for doubtful accounts against any other receivables nor was it required to write-off any receivables (see Note 12).

All the Company's production is currently derived in Tanzania. The sales are made to the Power sector and the Industrial sector. In relation to sales to the Power sector, the Company has a contract with Songas for the supply of gas to the Ubungo power plant and a contract with TANESCO to supply approximately 37 MMcfd of gas. The contracts with Songas and TANESCO accounted for 53% of the Company's gross field revenue during 2016 and US$3.8 million of the short and long-term receivables prior to provision at year-end.

TANESCO continues to have difficulties paying invoices in full. As a result, management has placed a provision for doubtful accounts against arrears due from TANESCO in the amount of US$74.4 million as at December 31, 2016 (2015: US$61.9 million). Based on a review of the TANESCO payment history in October 2016, Management revised its estimate for collectability of revenue for sales to TANESCO (see Notes 7 and 12).

Sales to the Industrial sector are subject to an internal credit review to minimize the risk of non-payment.

The Company manages the credit exposure related to cash and cash equivalents by selecting counterparties based on credit ratings and monitoring all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper. The Company's cash resources are placed with reputable financial institutions with no history of default.

E. Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient funds to meet its liabilities. Cash forecasts identifying liquidity requirements of the Company are produced on a regular basis. These are reviewed to ensure sufficient funds exist to finance the Company's current operational and investment cash flow requirements. The Company has US$39.7 million of financial liabilities with regards to trade and other payables of which US$38.8 million is due within one to three months, nil is due within three to six months, and US$0.9 million is due within six to twelve months (see Note 14). As at year-end the Company had a current tax liability of US$2.9 million.

At the end of the year a significant proportion of the current liabilities relate to TPDC. The amounts due to TPDC represent its share of Profit Gas; in accordance with the terms of the PSA TPDC is entitled to the payment of its share of Profit Gas, on a quarterly basis in relation to the cash receipts during the quarter. Given the difficulties in collecting from TANESCO, the Company has been settling and intends to continue to settle these amounts on a pro rata basis in accordance with amounts received from TANESCO.

F. Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to achieve an optimal capital structure to reduce the cost of capital. The level of risk currently in Tanzania prohibits the optimization of capital structure as many sources of traditional capital are unavailable.

G. Country risk

Prior to 2014 an allegation had been made by TPDC that the Company had over-recovered approximately US$21 million in Cost Gas revenue. In response to a Notice of Dispute delivered by the Company in March 2014, TPDC retracted the allegation and no further action has been taken by Parliament or the Government against the Company related to the allegations. Accordingly, the Company continues to rely upon its rights under the existing PSA and has initiated notices of dispute to resolve any remaining issues. The Company has put in place an advisory committee of experienced individuals with significant experience working with the Tanzanian government to mitigate the risks of doing business in Tanzania.

6 SEGMENT INFORMATION

The Company has one reportable industry segment which is international exploration, development and production of petroleum and natural gas. The Company currently has producing and exploration assets in Tanzania and had exploration and appraisal interests in Italy.

	2016			2015		
US$'000	**Italy**	**Tanzania**	**Total**	**Italy**	**Tanzania**	**Total**
External revenue	**–**	**64,659**	**64,659**	–	54,088	54,088
Segment income (loss)	**(100)**	**2,264**	**2,164**	(167)	1,700	1,533
Non-cash charge[1]	**–**	**(14,245)**	**(14,245)**	–	(9,908)	(9,908)
Depletion & depreciation	**–**	**9,777**	**9,777**	–	12,555	12,555
Capital additions	**–**	**16,924**	**16,924**	–	38,411	38,411
Total assets	**1,477**	**225,055**	**226,532**	1,621	188,062	189,683
Total liabilities	**102**	**146,407**	**146,509**	131	111,398	111,529

[1] *Non-cash charge represent amounts provided for doubtful accounts receivable from TANESCO and indirect taxes expensed directly to the statement of comprehensive income.*

7 REVENUE

US$'000	YEARS ENDED DECEMBER 31 2016	2015
Industrial sector	**35,626**	33,164
Power sector	**39,751**	46,721
Gross field revenue	**75,377**	79,885
Processing and transportation tariff	**(10,057)**	(12,282)
Field net revenue	**65,320**	67,603
TPDC share of revenue	**(9,798)**	(17,349)
Company operating revenue	**55,522**	50,254
Additional Profits Tax charge	**(1,226)**	(2,355)
Current income tax adjustment	**10,363**	6,189
Revenue	**64,659**	54,088

The Company's reported revenues for the year amounted to US$64.7 million after adjusting the Company's operating revenue of US$55.5 million by:

i) Adding US$10.4 million for income tax for the current 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. To account for this, revenue is adjusted to include the current income tax charge grossed up at 30%; and,

ii) Subtracting US$1.2 million for deferred Additional Profits Tax charged in the year. This tax is considered a royalty and is presented as a reduction in revenue.

Prior to 2016 the Company had reached an understanding with TANESCO that it would continue to supply gas if TANESCO remained reasonably current with payments for gas deliveries. As a result of TANESCO's inability to fully pay all amounts invoiced by the Company for the past few years, management of the Company has modified its approach to revenue recognition as it relates to TANESCO only. Commencing on October 1, 2016 the Company will record 80% of the amounts invoiced to TANESCO for revenue recognition purposes. The 80% amount was determined by comparison of TANESCO's historical payment history to the amounts invoiced by the Company over the past three years. Management believes this approach provides the best estimate of TANESCO's ability to pay and remain reasonably current and as well reflects the economic reality of the situation. This results in a reduction in revenue recognized from the effective date

For cash received in excess of the revenue recorded from TANESCO in any given period, the additional amounts received will be recorded as deferred revenue. In periods when cash received is less than revenue recorded, the deferred revenue will be reduced accordingly. If the deferred revenue amount is reduced to nil, the difference will be recorded as accounts receivable.

The percentage used to recognize TANESCO revenue will be reviewed on at least a semi-annual basis, more frequently if circumstances require and if there is a significant difference between the amount of revenue recorded and amounts received, the percentage used to record revenue as well as any existing receivable or deferred revenue balance will be revised accordingly.

As a result of recording revenue based on the expected collectability from the effective date, there is the following impact on the 2016 results:

1) US$1.6 million decrease in revenue,
2) US$1.3 million decrease in long-term receivables, allowance for doubtful accounts,
3) US$0.6 million decrease in current accounts receivable,
4) US$0.3 million decrease in net income and current liabilities.

8 PERSONNEL EXPENSES

Personnel costs are as follows:

US$'000	YEARS ENDED DECEMBER 31 2016	2015
Wages and salaries	**10,589**	9,037
Social security costs	**629**	876
Other statutory costs	**284**	207
	11,502	10,120
Stock based compensation	**2,591**	(244)
	14,093	9,876

Stock based compensation is recorded under general and administrative expenses in the statement of comprehensive income. The balance of personnel expenses for 2016 of US$11.5 million (2015: US$10.1 million) is recorded in distribution and production expenses and general administrative expenses at US$2.6 million (2015: US$1.9 million) and US$8.9 million (2015: US$8.0 million) respectively. Personnel expenses include Company employees who operate the plant on behalf of Songas, these expenses are recharged to Songas.

9 NET FINANCE EXPENSE

US$'000	YEARS ENDED DECEMBER 31 2016	2015
Finance income	**383**	43
Interest expense	**(5,668)**	(117)
Net foreign exchange loss	**(24)**	(2,677)
Financing fee	**–**	(16)
Indirect tax	**(1,392)**	–
Provision for doubtful accounts	**(12,853)**	(11,178)
Finance expense	**(19,937)**	(13,988)
Net finance expense	**(19,554)**	(13,945)

The total amount of interest paid in 2016 was US$5.7 million (2015: US$0.1 million). During 2016 the Company invoiced TANESCO US$4.2 million of interest for late payments (2015: US$2.4 million). The interest income is not recorded in the financial statements because it does not meet the revenue recognition criteria with respect to assurance of collectability. The Company is pursuing collection and amounts will be recognized in earnings when collected.

The US$1.4 million is in relation to indirect taxation associated with trade receivables not recognized in the financial statements due to IFRS revenue recognition criteria with respect to assurance of collectability. The provision for doubtful accounts includes US$12.4 million for overdue TANESCO receivables (2015: US$9.9 million), US$ nil relates to Songas receivables (2015: US$1.3 million) and US$0.4 million relates to Industrial customers (2015: US$0.1 million).

10 INCOME TAXES

The tax charge is as follows:

	YEARS ENDED DECEMBER 31	
US$'000	**2016**	2015
Current tax	**9,719**	7,691
Deferred tax expense	**3,661**	1,705
	13,380	9,396

Tax of US$1.2 million was paid during the year in relation to the settlement of the prior year's tax liability (2015: US$3.0 million). In addition, provisional tax payments totaling US$8.3 million were made in respect of the current year (2015: US$6.9 million). These are presented as a reduction in tax payable on the statement of financial position.

Tax rate reconciliation

	YEARS ENDED DECEMBER 31	
US$'000	**2016**	2015
Income before tax	**15,544**	10,929
Provision for income tax calculated at the statutory rate of 30%	**4,663**	3,279
Add the tax effect of non-deductible income tax items:		
Administrative and operating expenses	**1,343**	1,552
Foreign exchange loss	**48**	199
Stock-based compensation (recovery)	**777**	(73)
TANESCO interest not recognized as interest income (Note 9)	**1,062**	714
Unrecognized tax asset	**5,445**	2,930
Other permanent differences	**42**	795
	13,380	9,396

As at December 31, 2016, the provision for doubtful debt from TANESCO has resulted in a US$23.1 million unrecognized deferred tax asset (2015: US$17.6 million). If this amount was ultimately not recovered, the Company would also be entitled to a US$13.9 million recovery of Value Added Tax.

A deferred tax asset of US$2.2 million in respect of Longastrino Italy exploration and evaluation costs has not been recognized because it is not probable that there will be future profits against which this can be utilized (2015: US$2.2 million).

The deferred income tax liability includes the following temporary differences:

	AS AT DECEMBER 31	
US$'000	**2016**	2015
Differences between tax base and carrying value of property, plant and equipment	**(21,563)**	(18,185)
Tax recoverable from TPDC	**(4,142)**	(3,442)
Provision for doubtful debt	**3,110**	2,987
Deferred Additional Profits Tax	**9,787**	9,394
Unrealized exchange losses/other provisions	**(165)**	(66)
	(12,973)	(9,312)

Tax recoverable

The Company has a tax recoverable balance of US$5.4 million (2015: US$4.5 million). This arises from the revenue sharing mechanism within the PSA, which entitles the Company to recover from TPDC, by way of a deduction from TPDC's Profit Gas share an amount equal to the actual income taxes payable by the Company. The recovery, by deduction from TPDC's share of revenue, is dependent upon payment of income taxes relating to prior period adjustment factors as they are assessed.

	AS AT DECEMBER 31	
US$'000	**2016**	2015
Tax recoverable	**5,402**	4,519

11 ADDITIONAL PROFITS TAX

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

The Company provides for 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 18.8% (2015: 20.2%) has been applied to Profit Gas of US$6.5 million (2015: US$11.6 million). Accordingly, US$1.2 million has been netted off revenue for the year ended December 31, 2016 (2015: US$2.4 million).

12 TRADE AND OTHER RECEIVABLES

Current receivables	AS AT DECEMBER 31	
US$'000	**2016**	2015
Trade receivables		
TANESCO	**5,749**	7,831
Songas	**2,218**	2,178
Industrial customers	**7,463**	6,894
	15,430	16,903
Other receivables		
Songas gas plant operations	**6,601**	5,631
Songas well workover programme	**14,458**	11,209
Other	**1,516**	1,604
Less provision for doubtful accounts	**(10,367)**	(9,956)
	12,208	8,488
	27,638	25,391

Trade receivables aged analysis

	AS AT DECEMBER 31, 2016				
US$'000	Current	>30 <60	>60 <90	>90	Total
TANESCO	2,570	2,559	620	–	**5,749**
Songas	1,190	1,028	–	–	**2,218**
Industrial customers	2,769	3,679	235	780	**7,463**
	6,529	7,266	855	780	**15,430**

	AS AT DECEMBER 31, 2015				
US$'000	Current	>30 <60	>60 <90	>90	Total
TANESCO	3,972	3,859	–	–	7,831
Songas	1,082	1,096	–	–	2,178
Industrial customers	3,317	1,859	897	821	6,894
	8,371	6,814	897	821	16,903

TANESCO

At December 31, 2016 TANESCO owed the Company US$80.1 million excluding interest (including arrears of US$74.4 million) compared to US$69.8 million (including arrears of US$61.9 million) as at December 31, 2015. Current TANESCO receivables as at December 31, 2016 amounted to US$5.7 million (2015 US$7.8 million). Since the year-end, TANESCO has paid the Company US$12.9 million, and as at the date of this report the total TANESCO receivable is US$74.8 million (of which US$74.4 million has been provided for). The amounts owed do not include interest billed to TANESCO or debtors not meeting the revenue recognition criteria with respect to assurance of collectability (see Note 7).

To September 30, 2016 the Company classified US$12.4 million as a long-term receivable and placed a full provision against this amount. The total provision was US$74.4 million (2015: US$ 61.9 million) at December 31, 2016.

Long-term receivables	**AS AT DECEMBER 31**	
US$'000	**2016**	2015
TANESCO receivable	**74,361**	61,922
Provision for doubtful accounts	**(74,361)**	(61,922)
Net TANESCO receivable	**–**	–
VAT bond	**318**	332
Lease deposit	**207**	252
Long-term receivables	**525**	584

Songas

As at December 31, 2016 Songas owed the Company US$23.3 million (2015: US$19.0 million), whilst the Company owed Songas US$2.3 million (2015: US$2.6 million); there is no contractual right to offset these amounts. Amounts due to Songas primarily relate to pipeline tariff charges of US$ 1.9 million (2015: US$1.1 million), whereas the amounts due to the Company are mainly for capital expenditures of US$14.4 million (2015: US$11.2 million), sales of gas of US$2.2 million (2015: US$2.2 million) and for the operation of the gas plant of US$6.6 million (2015: US$5.6 million). The operation of the gas plant is conducted at cost and the charges are billed to Songas on a flow through basis.

As at December 31, 2016 the net amount owed by Songas to the Company was US$21.0 million (2015: US$16.4 million). Although significant progress has been made in settling outstanding balances, a doubtful debt provision of US$9.8 million (2015: US$9.8 million) is necessary recognizing the possible settlement of the remaining overdue operatorship charges and the Songas share of the well workover costs. Any significant amounts not agreed will likely be pursued through the mechanisms provided in the agreements with Songas. All amounts due to and from Songas have been summarized in the table below:

	January 1, 2016	**Year to date transactions**	**Gross balance December 31, 2016**	**Post year-end payments and receipts**	**Outstanding as at the date of this report**
Pipeline tariff – payable	(1,071)	(822)	**(1,893)**	1,893	–
Gas sales – receivable	2,178	40	**2,218**	(2,218)	–
Gas plant operation receivable	5,631	970	**6,601**	(1,465)	5,136
Workover program	11,209	3,249	**14,458**	–	14,458
Other payable	(1,546)	1,168	**(378)**	–	(378)
Net balances	16,401	4,605	**21,006**	(1,736)	19,270

Notes to the Consolidated Financial Statements

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PROPERTY, PLANT AND EQUIPMENT

US$'000	**Oil & natural gas interests**	**Leasehold improvements**	**Computer equipment**	**Vehicles**	**Fixtures & fittings**	**Total**
Costs						
As at January 1, 2016	178,808	699	1,341	297	1,125	182,270
Additions	16,816	–	25	83	–	16,924
As at December 31, 2016	**195,624**	**699**	**1,366**	**380**	**1,125**	**199,194**
Accumulated depletion and depreciation						
As at January 1, 2016	75,389	345	1,168	168	926	77,996
Depletion and depreciation	9,191	281	136	81	88	9,777
As at December 31, 2016	**84,580**	**626**	**1,304**	**249**	**1,014**	**87,773**
Net book values						
As at December 31, 2016	**111,044**	**73**	**62**	**131**	**111**	**111,421**

US$'000	**Oil & natural gas interests**	**Leasehold improvements**	**Computer equipment**	**Vehicles**	**Fixtures & fittings**	**Total**
Costs						
As at January 1, 2015	140,653	699	1,233	149	1,125	143,859
Additions	38,155	–	108	148	–	38,411
As at December 31, 2015	178,808	699	1,341	297	1,125	182,270
Accumulated depletion and depreciation						
As at January 1, 2015	63,534	170	955	120	662	65,441
Depletion and depreciation	11,855	175	213	48	264	12,555
As at December 31, 2015	75,389	345	1,168	168	926	77,996
Net book values						
As at December 31, 2015	103,419	354	173	129	199	104,274

In determining the depletion charge, it is estimated that future development costs of US$84.0 million (2015: US$103.8 million) will be required to bring the total proved reserves to production. The decrease in estimated future development costs is a result of the successful completion of the SS-12 development well during the year. This reduced the amount of capital expenditure required in the future to ensure the Company can produce the required gas volumes to meet its contractual obligations for the remaining life of the licence. During the year the Company recorded depreciation of US$0.6 million (2015: US$0.7 million) in general and administrative expenses.

14 TRADE AND OTHER PAYABLES

US$'000	AS AT DECEMBER 31 2016	2015
Songas	**1,893**	1,071
Other trade payables	**3,245**	11,234
Trade payables	**5,138**	12,305
TPDC share of Profit Gas	**28,319**	28,208
Deferred income	**–**	667
Accrued liabilities	**6,250**	8,351
	39,707	49,531

15 LONG-TERM LOAN

On October 29, 2015, the Company's subsidiary, PanAfrican Energy Tanzania Limited ("PAET"), entered into a loan agreement ("Loan") with the International Finance Corporation ("IFC"), a member of the World Bank Group, for US$60 million.

The term of the Loan is ten years, with no repayment of principal for the first seven years, followed by a three-year amortization period. The Company may voluntarily prepay all or part of the Loan but must simultaneously pay any accrued base interest costs related to the principal amount being prepaid. If any portion of the Loan is prepaid prior to the fourth anniversary of the first drawdown, the Company would be required to pay the accrued base interest as if the prepaid portion of the Loan had remained outstanding for the full four years. The Loan is an unsecured subordinated obligation of PAET and is guaranteed by the Company to a maximum of US$30 million. The guarantee may only be called upon by IFC at maturity in 2025 and, subject to IFC approval and receipt of all required regulatory approvals, the Company may issue shares in fulfillment of all or part of the guarantee obligation in 2025.

Base interest on the Loan is payable quarterly at 10% per annum on a 'pay-if-you-can-basis' using a formula to calculate the net cash available for such payments as at any given interest payment date. To date, all interest incurred has been paid. In addition, an annual variable participatory interest equating to 7% of the net cash flow from operating activities of PAET net of net cash flow used in investing activities in respect of any given year. Such participatory interest will continue until October 15, 2026 regardless whether the Loan is repaid prior to its contractual maturity date. No provision was made for the year ended December 31, 2016 as the current cash flow from operating activities less cash flow used in investing activities for 2016 is a negative amount. Dividends and distributions from PAET to the Company are restricted at any time that any amounts of unpaid interest, principal or participating interest are outstanding.

US$'000	AS AT DECEMBER 31 2016	2015
Total IFC facility	**60,000**	60,000
Loan drawdown	**60,000**	20,000
Financing costs	**(1,601)**	(1,401)
	58,399	18,599

16 CAPITAL STOCK

Authorised

50,000,000	Class A common shares	No par value
100,000,000	Class B subordinate voting shares	No par value
100,000,000	First preference shares	No par value

The Class A and Class B shares rank pari passu in respect of dividends and repayment of capital in the event of winding-up. Class A shares carry twenty (20) votes per share and Class B shares carry one vote per share. The Class A shares are convertible at the option of the holder at any time into Class B shares on a one-for-one basis. The Class B shares are convertible into Class A shares on a one-for-one basis in the event that a take-over bid is made to purchase Class A shares which must, by reason of a stock exchange or legal requirements, be made to all or substantially all of the holders of Class A shares and which is not concurrently made to holders of Class B shares.

Changes in the capital stock of the Company were as follows:

	2016			2015		
Number of shares	**Authorised** *(000)*	**Issued** *(000)*	**Amount** *(US$'000)*	**Authorised** *(000)*	**Issued** *(000)*	**Amount** *(US$'000)*
Class A						
As at January 1 and December 31	**50,000**	**1,751**	**983**	50,000	1,751	983
Class B						
As at January 1	**100,000**	**33,106**	**84,505**	100,000	33,164	84,654
Normal course issuer bid repurchases	**–**	**–**	**–**	–	(58)	(149)
As at December 31	**100,000**	**33,106**	**84,505**	100,000	33,106	84,505
First preference						
As at December 31	**100,000**	**–**	**–**	100,000	–	–
Total Class A, Class B and first preference	**250,000**	**34,857**	**85,488**	250,000	34,857	85,488

All issued capital stock is fully paid.

	2016		2015	
Stock Options	**Options**	**Exercise Price**	**Options**	**Exercise Price**
Number of options	*(000)*	*CDN$*	*(000)*	*CDN$*
Outstanding as at January 1	–	–	400	3.18
Forfeited	–	–	(400)	3.18
Outstanding as at December 31	–	–	–	–

Stock Appreciation Rights ("SARs")	2016 SARs (000)	2016 Exercise Price (CDN$)	2015 SARs (000)	2015 Exercise Price (CDN$)
Outstanding as at January 1	**3,100**	**2.12 to 3.25**	2,910	2.12 to 4.20
Exercised	**(260)**	**2.12 to 2.30**		
Exercised	**(265)**	**2.32 to 2.70**	–	–
Exercised	**(55)**	**3.02 to 3.25**	–	–
Forfeited	**(90)**	**2.30**	–	–
Expired	**–**	**–**	(300)	4.20
Granted	**–**	**–**	490	3.02 to 3.25
Outstanding as at December 31	**2,430**	**2.12 to 3.25**	3,100	2.12 to 3.25

The number outstanding, the weighted average remaining life and weighted average exercise prices of SARs at December 31, 2016 were as follows:

Exercise price (CDN$)	Number outstanding (000)	Weighted average remaining contractual life (years)	Number exercisable (000)	Weighted average exercise price (CDN$)
2.12 to 2.30	1,730	1.94	752	2.27
2.32 to 2.70	265	0.83	265	2.48
3.02 to 3.25	435	3.77	85	3.05
2.12 to 3.25	2,430	2.15	1,102	2.43

Restricted Stock Units ("RSUs")	2016 RSUs (000)	2016 Grant/ exercise price (CDN$)	2015 RSUs (000)	2015 Grant/ exercise price (CDN$)
Outstanding as at January 1	**–**	**–**	645	–
Granted	**386**	**–**	–	–
Exercised	**(147)**	**3.90**	(645)	–
Outstanding as at December 31	**239**	**–**	–	–

(i) *A total of 386,420 RSUs were granted during the year. The RSUs vested on the date of grant and have an exercise price of CDN$.001 and have a five-year term.*

As SARs and RSUs are settled in cash, they are re-valued at each reporting date using the Black-Scholes option pricing model with the resulting liability being recognized in trade and other payables. In the valuation of stock appreciation rights and restricted stock units at the reporting date, the following assumptions have been made: a risk free rate of interest of 0.5%, stock volatility of 33.5 to 50.7%; 0% dividend yield; 5% forfeiture; a closing stock price of CDN$3.86 per share.

US$'000	AS AT DECEMBER 31 2016	2015
SARs	**2,495**	1,572
RSUs	**682**	–
	3,177	1,572

As at December 31, 2016, a total accrued liability of US$3.2 million (2015: US$1.6 million) has been recognized in relation to SARs and RSUs which is included in other payables. The Company recognized an expense for the year of US$2.6 million (2015: credit US$0.2 million) in general and administrative expenses.

17 EARNINGS PER SHARE

('000)	AS AT DECEMBER 31 2016	2015
Outstanding shares		
Weighted average number of Class A and Class B shares	**34,857**	34,887
Weighted average diluted number of Class A and Class B shares	**34,857**	34,887

The calculation of basic earnings per share is based on a net income for the year of US$2.2 million (2015: US$1.5 million) and a weighted average number of Class A and Class B shares outstanding during the period of 34,856,432 (2015: 34,887,100).

18 RELATED PARTY TRANSACTIONS

One of the non-executive Directors is council to a law firm that provides legal advice to the Company and its subsidiaries. For the year ended December 31, 2016 US$0.2 million (2015: US$0.6 million) was incurred from this firm for services provided.

The former Chief Financial Officer provided services to the Company through a consulting agreement with a personal services company until his resignation on November 2, 2015. For the period from January 1, 2015 to November 2, 2015, US$0.4 million was incurred from this firm for services provided.

As at December 31, 2016 the Company has a total of US$0.1 million (2015: US$0.4 million) recorded in trade and other payables in relation to the related parties.

19 CONTRACTUAL OBLIGATIONS & COMMITTED CAPITAL INVESTMENTS

Protected Gas

Under the terms of the 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, the Company is liable to pay the difference between the price of Protected Gas (US$0.55/MMbtu escalated) 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 (161.2 Bcf as at December 31, 2016). 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.

Terms of the Gas Agreement were modified by the Amended and Restated Gas Agreement ("ARGA") which was initialed by all parties but remains unsigned. The unsigned ARGA provides clarification of the Protected Gas volumes and removes all terms dealing with the security of the Protected Gas and contract terms dealing with the consequences of any insufficiency are dealt with in 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. Although the ARGA remains unsigned, the parties have continued to conduct themselves as though the ARGA is in full force and effect.

Re-Rating Agreement

In 2011 the Company signed a re-rating agreement with TANESCO, TPDC and Songas (the "Re-Rating Agreement") which evidenced an increase to the gas processing capacity of the Songas facilities 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 paid additional compensation of US$0.30/mcf for sales between 70 MMcfd and 90 MMcfd and US$0.40/mcf for volumes above 90 MMcfd by issuing credit notes to TANESCO. This was in addition to the tariff of US$0.59/mcf payable to Songas as set by the energy regulator, EWURA. In May 2016 the Company notified TANESCO and Songas that the additional compensation would no longer be paid effective June 2016. This additional compensation was always intended to be temporary in nature until such time as Songas applied to EWURA to obtain approval of a new tariff for the processing of volumes over 70 MMcfd. The PGSA provides for passing on to TANESCO any tariff to be charged to the Company.

The parties are seeking to resolve the status of the re-rating agreement. The processing capacity at the Songas facilities remain unaltered and are fully utilized by the company. Without a new agreement, there are no assurances that Songas will continue to allow the gas plant to operate above 70 MMcfd.

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$15.0 million, but only to the extent that this was not already covered by indemnities from TANESCO's or Songas' insurance policies.

Portfolio Gas Supply Agreement ("PGSA")

On June 17, 2011, a long term PGSA was signed (to June 2023) between TANESCO (as the buyer) and the Company and TPDC (collectively as the seller). 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 basic wellhead price of approximately US$2.93/mcf increased to US$2.98/mcf on July 1, 2015. 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 November 1, 2015 and expires on October 31, 2019 at an annual rent of US$0.4 million. The agreement in Winchester expires on September 25, 2022 and is at an annual rental of US$0.1 million per annum. The costs of these leases are recognized in the general and administrative expenses.

Capital Commitments

Italy

The Company has an agreement to farm in on the 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 fifteen per cent (15%) of the back costs in relation to the well up to a maximum of US$0.5 million. Changes in Italian environmental legislation in late 2015 has resulted in the development of this permit being postponed indefinitely. As at the date of this report, the Company has no further capital commitments in Italy.

Tanzania

There are no contractual commitments for exploration or development drilling or other field development either in the PSA or otherwise agreed which would give rise to significant capital expenditure at Songo Songo. Any significant additional capital expenditure in Tanzania is discretionary.

Given the completion of the Offshore component of Phase I of the Development Programme in February 2016, which has restored field deliverability and provides sufficient natural gas production to fill the Songas plant and pipeline to capacity for the greater portion of the remaining life of the production licence, the Company does not expect to commit to further significant capital expenditures until: (i) agreeing commercial terms with TPDC for the supply of gas to the NNGIP regarding the sale of incremental gas volumes from Songo Songo; and/or (ii) TANESCO arrears have been substantially reduced, guaranteed or other arrangements for payment made which are satisfactory to the Company; and/or (iii) the establishment of payment guarantees with the World Bank or other multi-lateral lending agencies to secure future receipts under any new sales contracts with Government entities.

When conditions are deemed appropriate and there is justification to further improve the reliability/capacity of field deliverability, the Company would contemplate undertaking the remaining part or all of the Phase I Development Programme. The additional costs are estimated to be approximately US$30 million. There is no assurance that financing will be available and on acceptable commercial terms to complete Phase I.

At the date of this report, the Company has no significant outstanding contractual commitments, and has no outstanding orders for long lead items related to any capital programmes.

20 CONTINGENCIES

Downstream unbundling

The Petroleum Act, 2015 (the "Act") was passed into Law by Presidential decree on August 4, 2015. In relation to the unbundling of the downstream business, the Act vests TPDC with exclusive rights in the distribution of gas, however, the Act has a provision which recognizes the Company's PSA within the legislation. The Act does provide grandfathering provisions upholding the rights of the Company under their PSA as it was signed prior to passing of the Act. However, it is still unclear how the provisions of the Act will be interpreted and implemented regarding upstream and downstream activities and the Company is uncertain regarding the potential impact on its business in Tanzania.

On October 7, 2016, the Government of Tanzania issued the Petroleum (Natural Gas Pricing) Regulation made under Sections 165 and 258 (l) of the Petroleum Act 2015. Article 260 (3) of the Act preserves the Company's pre-existing right with TPDC to market and sell Additional Gas together or independently on terms and conditions (including prices) negotiated with third party Natural Gas customers. The impact of the Natural Gas Pricing Regulation, if any, cannot be determined at this time.

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 working 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.

For the purpose of the reserves certification as at December 31, 2016, it was assumed that TPDC will elect to 'back-in' for 20% for all future new drilling activities within the prescribed period as determined by the current development plan and this is reflected in the Company's net reserve position.

Cost recovery

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. In 2014 TPDC and the Company agreed to remove US$1.0 million from the Cost Pool. In 2015 and 2016 there were no further developments. Under the dispute mechanism outlined in the PSA, TPDC are to appoint an independent specialist to assist the parties in reaching agreement on costs that are still subject to dispute, as at the time of writing this report no such specialist has been appointed. If the matter is not resolved to the Company's satisfaction, the Company intends to proceed to arbitration via the International Centre for Settlement of Investment Disputes ("ICSID") pursuant to the terms of the PSA.

Taxation

		Tax dispute	Disputed amounts US$ million		
Area	**Period**	**Reason for dispute**	**Principal**	**Interest**	**Total**
PAYE	2008-10	Pay-As-You-Earn ("PAYE") on grossed-up amounts in staff salaries which are contractually stated as net.	0.3	–	0.3 (1)
WHT	2005-10	WHT on services performed outside of Tanzania by non-resident persons.	1.1	0.7	1.8 (2)
Income Tax	2008-15	Deductibility of capital expenditures and expenses (2009 and 2012), additional income tax (2008, 2010, 2011 and 2012), tax on repatriated income (2012), foreign exchange rate application (2013 and 2015) and underestimation of tax due (2014).	16.8	10.1	26.9 (3)
VAT	2008-10	Output VAT on imported services and SSI Operatorship services.	2.7	2.9	5.6 (4)
			20.9	13.7	34.6

Notes to the Consolidated Financial Statements

(1) In 2015 PAET appealed the Tax Revenue Appeals Board ("TRAB") ruling that PAET is liable to pay PAYE on grossed-up amounts in staff salaries. TRAB waived interest assessed thereon. PAET is awaiting ruling of the Tax Revenue Appeals Tribunal ("TRAT");

(2) (a) 2005-2009 (US$1.7 million): In 2016 TRA filed an application for review of the Court of Appeal decision in favour of PAET and later filed another application for leave to amend its earlier application. At the Court of Appeal hearing subsequent to year-end, TRA withdrew their second application for review. The Court has set April 27, 2017 for hearing of the first application;

(b) 2010 (US$0.1 million): TRAB is awaiting a ruling from the review by the Court of Appeal on the 2005-2009 case, which would influence TRAB decision on this matter accordingly;

(3) (a) 2009 (US$1.8 million): In 2015 TRAB ruled against PAET with respect to the deductibility of capital expenditures and other expenses. PAET appealed to TRAT and is awaiting a hearing date to be scheduled;

(b) 2008 and 2011 (US$2.1 million): In 2015 PAET filed objections against TRA assessments with respect to the deductibility of capital expenditures and other expenses as well as underestimation of interest and is awaiting a response. Subsequent to year-end, TRA rejected PAET's objections for 2011 and undertook to issue a final assessment for the year. PAET intends to appeal the assessment. The 2008 assessment was issued late and is time-barred;

(c) 2010 (US$2.6 million): PAET filed an appeal with TRAB against TRA assessment with respect to the deductibility of capital expenditures and other expenses as well as underestimation of interest and penalty amounts. PAET is awaiting a hearing date to be scheduled;

(d) 2013 (US$0.2 million): During the year PAET filed objections to TRA assessment with respect to foreign exchange rate application and is awaiting a response;

(e) 2012 (US$16.3 million): During the year TRA issued two assessments with respect to understated revenue, deductibility of capital expenditures and expenses, and tax on repatriated income. PAET filed an appeal with TRAB against the TRA decision to deny PAET a waiver required for its objection to be admitted and is awaiting a hearing date to be scheduled;

(f) 2014 (US$3.5 million): During the year TRA issued an assessment with respect to underestimation of tax due based on the provisional quarterly payments made by PAET, delayed filings of returns and late payments. PAET filed objections to the assessments and is awaiting a response;

(g) 2015 (US$0.4 million): During the year TRA issued a self-assessment. PAET filed an objection to the assessment with respect to foreign exchange rate application and is awaiting a response;

(4) During the year TRA responded to PAET's objection filed in 2014 and issued an assessment in respect of output VAT on imported services and SSI Operatorship services. PAET filed an appeal with TRAB against TRA assessment and is awaiting a hearing date to be scheduled.

(5) On March 29, 2017, management received a tax audit findings report from TRA for the years 2012-14. The report requests the Company to elaborate on the corporation tax, repatriated income, VAT and withholding tax. Management is preparing its response and expects to submit it to TRA before the deadline of April 19, 2017.

Management, with the advice from its legal counsels, has reviewed the Company's position on the above objections and appeals and has concluded that no provision is required with regard to the above matters.

21 DIRECTORS AND OFFICERS COMPENSATION

US$'000	**Year**	**Base**	**Bonus**	**Stock based compensation expense**	**Total**
Directors	**2016**	**1,277**	**–**	**1,744**	**3,021**
Directors	2015	1,100	500	1,676	3,276
Officers	**2016**	**900**	**280**	**348**	**1,528**
Officers	2015	1,469	345	43	1,857

The table above provides information on compensation relating to the Company's officers and directors. Three officers and four non-executive directors comprised the key management personnel during the year ended December 31, 2016 (2015: five officers and three non-executive directors). One of the officers is also a director and as such their remuneration has been included under directors' emoluments in the table above.