ORCA EXPLORATION GROUP INC.

2016 MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion & Analysis

THIS MD&A OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS SHOULD BE IN CONJUNCTION WITH THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES FOR THE YEAR ENDED DECEMBER 31, 2016. THIS MD&A IS BASED ON THE INFORMATION AVAILABLE ON APRIL 12, 2017.

FORWARD LOOKING STATEMENTS

This management's discussion and analysis ("MD&A") contains forward-looking statements or information (collectively, "forward-looking statements") within the meaning of applicable securities legislation. More particularly, this MD&A contains, without limitation, forward-looking statements pertaining to the following: the Company's expectations regarding supply and demand of natural gas; anticipated power sector revenues; potential impact of Tanzanian Production Development Corporation ("TPDC") future back-in rights on the economic terms of the Production Sharing Agreement ("PSA"); ability to meet all conditions under the International Finance Corporation ("IFC") financing agreement signed on October 29, 2015; the Company's estimated spending for the planned Development Program for 2017 and 2018, which includes construction of the production platform for well SS-12, tie-in of well SS-12 to the production facilities and implementation of a refrigeration unit to enable production into the National Natural Gas Infrastructure Project ("NNGIP") which includes two gas processing facilities and pipelines supplying gas from the Mtwara Region of Tanzania and Songo Songo Island to Dar es Salaam; the potential impact of the Petroleum Act, 2015 ("Act") and the Finance Act, 2016 on the Company's business in Tanzania; the Company's belief that the parties to the unsigned Amended and Restated Gas Agreement ("ARGA") will continue to conduct themselves in accordance with the ARGA until the new Gas Sales Agreement ("NGSA") is signed; the Company's expectation that, despite the Re-Rating Agreement of the gas processing plant owned by Songas Limited ("Songas") having expired, the Songas gas processing plant will not be de-rated or production through the plant restricted; the risk that Songas and the Company will not agree on appropriate terms and sign the NGSA in a timely manner; the Company's expectation that it can expand and maintain the deliverability of gas volumes in excess of the existing Songas infrastructure; the forward-looking statements under "Contractual Obligations and Committed Capital Investment"; the Company's expectation that it will not have a shortfall during the term of the Protected Gas delivery obligation to July 2024; and the Company's expectations in respect of its appeal on the decision of the Tax Revenue Appeals Tribunal and other statements under "Contingencies – Taxation". 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 the Company'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 the Company's control, and many factors could cause the Company's actual results to differ materially from those expressed or implied in any forward-looking statements made by the Company, including, but not limited to: failure to receive payments from the Tanzanian Electrical Supply Company ("TANESCO"); risk that the planned financing solutions to resolve the TANESCO arrears are not implemented by the Tanzanian government; risk that planned financing provided by the World Bank will not be completed or funds will not be allocated to resolving TANESCO arrears; risk that TPDC, the Ministry of Energy and Minerals ("MEM") and the Company are unable to agree on commercial terms for future incremental gas sales and consequently the Company cannot expand the Songo Songo development beyond the existing Songas infrastructure and supply gas to the NNGIP; risk that additional gas volumes available to the NNGIP from third parties will replace all or a portion of the volumes currently nominated by TANESCO under the Portfolio Gas Sales Agreement ("PGSA") until additional gas-fired power generation is brought on-stream to consume all of the Company's available gas production; risk that the Development Program is not completed as planned and the actual cost to complete the Development Program exceeds the Company's estimates; risk that the remaining well workovers under the Development

Program are unsuccessful or determined to be unfeasible; risk that the contingencies related to the development work for the full field development plan for Songo Songo are not satisfied; potential negative effect on the Company's rights under the PSA and other agreements relating to its business in Tanzania as a result of the recently approved Act, as well as the risk that such legislation will create additional costs and time connected with the Company's business in Tanzania; risk that, without extending or replacing the Re-Rating Agreement, the gas being processed through the Songas gas processing plant may be reduced back to its original capacity, resulting in a material reduction in the Company's sales volumes of Additional Gas; risk that the Company will not fully recover Songas' share of capital expenditures associated with the workovers of wells SS-5 and SS-9; risk that the Company will not be successful in appealing claims made by the Tanzanian Revenue Authority ("TRA") and may be required to pay additional taxes and penalties; the impact of general economic conditions in the areas in which the Company operates; civil unrest; industry conditions; changes in laws and regulations including the adoption of new environmental laws and regulations, impact of new local content 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 satisfy debt obligations and conditions; failure to successfully negotiate agreements; and risk that the Company will not be able to fulfil its contractual obligations. In addition, there are risks and uncertainties associated with oil and gas operations, therefore the Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by these forward-looking statements will transpire or occur, or if any of them do so, what benefits the Company 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 the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate in the circumstances, including, but not limited to, the TPDC, the MEM and the Company are able to agree on commercial terms for future incremental gas sales and the Company can expand Songo Songo development beyond the existing Songas infrastructure and supply gas to the NNGIP; the Development Program will be completed within the timing anticipated; the actual costs to complete the Development Program are in line with estimates; that there will continue to be no restrictions on the movement of cash from Mauritius or Tanzania; 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 the Company to increase production at a consistent rate; infrastructure capacity; commodity prices will not further deteriorate significantly; the ability of the Company to obtain equipment and services 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's appeal of various tax assessments will be successful; that the enactment of the Act in Tanzania will not impair the Company's rights under the PSA to develop and market natural gas in Tanzania; 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 the Company 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.

- CASH FLOW FROM OPERATIONS REPRESENTS NET CASH FLOW FROM OPERATING ACTIVITIES LESS INTEREST PAID AND BEFORE CHANGES IN NON-CASH WORKING CAPITAL. THIS IS A NEW KEY PERFORMANCE MEASURE THAT MANAGEMENT BELIEVES REPRESENTS THE COMPANY'S ABILITY TO GENERATE SUFFICIENT CASH FLOW TO FUND CAPITAL EXPENDITURES AND REPAY DEBT.
- 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.
- CASH FLOW FROM OPERATIONS PER SHARE IS CALCULATED ON THE BASIS OF THE CASH FLOW FROM OPERATIONS DIVIDED BY THE WEIGHTED AVERAGE NUMBER OF SHARES.
- NET CASH FLOW FROM OPERATING ACTIVITIES PER SHARE IS CALCULATED AS NET CASH FLOW FROM OPERATING ACTIVITES 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.

NATURE OF OPERATIONS

The Company's principal operating asset is its interest in the PSA with 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 Block offshore Tanzania.

The PSA defines the gas produced from 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 31, 2024) to Songas. Songas is the owner of the infrastructure that enables the gas to be treated and 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 at Ubungo and for onward sale to customers. The Company receives no revenue for the Protected Gas delivered to Songas and operates the original wells 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") until the PSA expires in October 2026.

TANESCO is a parastatal organization which is wholly-owned by the Government of Tanzania, with oversight by the MEM. TANESCO is responsible for the generation, transmission and distribution of electricity throughout Tanzania. Natural gas has become an integral component of TANESCO's power generation fuel mix as a more reliable source of supply over seasonal hydro power and a more cost effective alternative to liquid fuels. The Company currently supplies gas directly to TANESCO by way of the PGSA and indirectly through the supply of Protected Gas and Additional Gas to Songas which in turn generates and sells power to TANESCO. TANESCO is the Company's largest customer and the gas supplied by the Company to Songas and TANESCO today fires approximately 35% of the electrical power generated in Tanzania and 55% of the gas utilized for power generation in the country.

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 consisting of some 38 industrial customers.

Consolidation

The companies which are 100% owned 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 ("PAET")	Jersey
Orca Exploration UK Services Limited	United Kingdom

PRINCIPAL TERMS OF THE TANZANIAN 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 jeopardize 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 if the gas 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, 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 utilize 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 utilized by any third party who wishes to process or transport gas.

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 field revenue, less processing and pipeline tariffs and direct sales taxes in any year ("field net revenue") can be used to recover past costs incurred. Costs recovered out of field net revenue 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 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 ratable 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. For the purpose of the reserves certification as at December 31, 2016, it was assumed that TPDC will 'back-in' for 20% for all future new drilling activities as determined by the current submitted Additional Gas 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 January 1, 2010. The Company's long-term gas price to the Power sector as set out in the unsigned ARGA and the 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. As at the date of this report, the ARGA remains an initialed agreement only and the parties are not in agreement with all the terms in the ARGA, however the parties are conducting themselves in terms of pricing as though the ARGA is in force. The Company and Songas are currently reviewing the terms of a new sales 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 for sales over 70 MMcfd would no longer be paid effective June 2016. The additional compensation was always intended to be temporary in nature until the expansion of the Songas infrastructure, at which time Songas would apply 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 and in the event that a new tariff is approved.

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

(i) 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 field net revenue after cost recovery, based on the higher of 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 for 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.

(j) "Additional Profits Tax" (or "APT") is payable when 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 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.

(k) 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, maintenance of books and records, preparation of reports, maintenance of permits, waste handling, liaison with the Government of Tanzania and taking all necessary safety, 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.

(l) In the event of loss arising from Songas' failure to perform, and the loss is not fully compensated by Songas 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 willful misconduct of the Company, its subsidiaries or employees, and (ii) Songas has insufficient funds to cure the loss and operate the project.

Management's Discussion & Analysis

Results for the year ended December 31, 2016

SUMMARY

During the year ended December 31, 2016 the Company successfully completed the drilling of well SS-12. This completed all work-over and drilling activities planned under the Offshore Development Program which commenced in the third quarter of 2015. Based on our evaluation of the drilling and testing results, the Company estimates that total field production capabilities will increase to 180 MMcfd once the SS-12 production platform is completed and the well is tied into the NNGIP infrastructure. Total capital expenditures for the year were US$16.9 million (2015: US$38.4 million).

For the year ended December 31, 2016 there was a decrease of 3% from the prior year in 2P reserve volumes primarily related to gas produced during the year. Despite the overall decline in sales volume the change in sales mix with increased forecast industrial sales has resulted in the net present value of cash flows from 2P reserves at a 10% discount rate decreasing by 1% compared to the prior year.

Despite a 6% decline in the volume of Additional Gas sold there was a 20% increase in revenue for 2016. The increase being a consequence of the revenue sharing mechanism of the PSA, whereby the Company is entitled to a higher percentage of total sales due to the recovery of capital costs associated with the Offshore Development Program. The increase in revenue is a primary factor in the 185% increase in net cash flow from operating activities to US$20.0 million (2015: US$7.0 million) and a 41% increase in cash flow from operations to US$30.5 million (2015: US$26.5 million).

The Company recorded net income of US$2.2 million (2015: US$1.5 million) for the year despite recording an additional US$12.4 million provision against the TANESCO long term receivable.

The Company finished 2016 in a stable financial position with US$72.0 million in working capital (2015: US$32.5 million) and US$58.4 million in long-term debt (2015: US$18.6 million) with the change resulting from drawing down the balance of the International Finance Corporation financing facility.

OPERATING VOLUMES

The total volume of Protected Gas and Additional Gas delivered and sold for the year was 29,961 MMcf (2015: 31,485 MMcf) or 82.0 MMcfd (2015: 86.28 MMcfd), net of approximately 0.5 MMcfd (2015: 0.5 MMcfd) consumed locally for fuel gas.

The Additional Gas sales volumes for the year were 16,291 MMcf (2015: 17,311 MMcf) or average daily volumes of 44.5 MMcfd (2015: 47.4 MMcfd). This represents a decrease in average daily volumes of 6% year on year.

Additional Gas sales volumes for Q4 2016 were 4,121 MMcf (Q4 2015: 4,572 MMcf) or average daily volumes of 44.8 MMcfd (Q4 2015: 49.7 MMcfd), a decrease of 10% over the prior year quarter.

The decrease in Additional Gas volumes year over year is primarily a result of reduced nominations of natural gas volumes by TANESCO arising from the cessation of a power generation contract with an independent power producer who was using the Company's Additional Gas; incremental natural gas supply to TANESCO from other gas suppliers; and suspension of power generation by Songas in the early part of Q1 2016 due to issues of non-payment by TANESCO. The decline in natural gas supplied to the power sector was partially offset by the increase in gas supplied to the industrial customers.

The Company's gross sales volumes were split between the Industrial and Power sectors as detailed in the table below:

	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
	2016	2015	**2016**	2015
Gross sales volume *(MMcf)*				
Industrial sector	**1,226**	1,089	**4,587**	4,166
Power sector	**2,895**	3,483	**11,704**	13,145
Total volumes	**4,121**	4,572	**16,291**	17,311
Gross daily sales volume *(MMcfd)*				
Industrial sector	**13.3**	11.8	**12.5**	11.4
Power sector	**31.5**	37.9	**32.0**	36.0
Total daily sales volume	**44.8**	49.7	**44.5**	47.4

Industrial sector

Industrial sales volume for the year increased by 10% to 4,587 MMcf (12.5 MMcfd) from 4,166 MMcf (11.4 MMcfd) in 2015.

Fourth quarter Industrial sales volume increased by 13% to 1,226 MMcf (13.3 MMcfd) from 1,089 MMcf (11.8 MMcfd) in the prior year quarter.

The increased volumes are primarily the result of fewer days of unscheduled maintenance work by cement, textile and edible oil companies and consumption by new customers connected during the first half of 2016.

Power sector

Power sector sales volumes for the year decreased by 11% to 11,704 MMcf (32.0 MMcfd), compared to 13,145 MMcf (36.0 MMcfd) in 2015.

Power sector sales volumes decreased by 17% to 2,895 MMcf (31.5 MMcfd), compared to 3,483 MMcf (37.9 MMcfd) in Q4 2015.

The decrease in volumes over the year is primarily a result of reduced nominations of natural gas volumes by TANESCO arising from the cessation of a power generation contract with an independent power producer who was using the Company's Additional Gas; incremental natural gas supply to TANESCO from other gas suppliers; and suspension of power generation by Songas during parts of the year due to issues of non-payment with TANESCO.

SONGO SONGO DELIVERABILITY

As at December 31, 2016 the Company had a field productive capacity of approximately 155 MMcfd, with the ability to expand production capacity to 180 MMcfd with the tie-in of well SS-12. The SS-12 well was successfully completed in the first quarter of 2016 but is currently suspended awaiting tie-in. Production volumes are currently limited to 102 MMcfd, as only the Songas infrastructure is available to the Company. The Company now has significant redundant productive capacity. The well SS-3 is currently suspended and well SS-4 has been shut-in; it is the Company's intention to undertake workovers on both the wells in the future.

The SS-12 well has been identified for connection to the NNGIP infrastructure subject to the negotiation with TPDC for additional gas sales. Volumes sold to TPDC under this agreement would initially result in concomitant reduction in volumes through the existing Songas infrastructure. This would provide the Company the opportunity to increase sales volumes to industrial customers as production capacity would no longer be constrained by the Songas infrastructure.

COMMODITY PRICES

The commodity prices achieved in the different sectors during the year is detailed in the table below:

	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
US$/mcf	**2016**	2015	**2016**	2015
Average sales price				
Industrial sector	**7.52**	7.62	**7.70**	7.58
Power sector	**3.57**	3.56	**3.56**	3.54
Weighted average price	**4.75**	4.51	**4.73**	4.49

Industrial sector

The average gas price achieved during the year was US$7.70/mcf up 2% from (2015: US$7.58/mcf). The overall increase in the average gas price is a consequence of a contractual step change in the gas price to the cement company that came into effect on January 1, 2016 against a similar mix of sales year over year.

The average industrial price in the fourth quarter was US$7.52/mcf down 1% from Q4 2015 (US$7.62/mcf). The decline in the average industrial price is the result of re-setting the floor price for a number of industrial customers at the end of the third quarter.

Power sector

The average sales price to the Power sector was US$3.56/mcf for the year (2015: US$ 3.54 /mcf), an increase of 1%. The average sales price to the Power sector in the fourth quarter was US$3.57/mcf, compared with US$3.56/mcf in Q4 2015.

OPERATING REVENUE

Under the terms of the 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 up to a maximum of 75% of the Net Revenue ("Cost Gas") prior to the distribution of Profit Gas. Any costs not recovered in any period are carried forward for recovery out of future revenues. Once the Cost Gas has been recovered, TPDC is able to recover any pre-approved marketing costs.

The Additional Gas sales volumes for 2016 were below 50 MMcfd and, as a consequence, the Company was entitled to a 40% share of Profit Gas revenue for the year compared to 55% for sales volumes above 50 MMcfd. See "Principal Terms of the Tanzanian PSA and Related Agreements."

The Company was allocated a total of 85% of the Songo Songo field net revenue in 2016 (2015: 74%). The increase in allocation of the net revenue is a consequence of the Offshore Development Program which enabled the Company to be entitled to the maximum Cost Gas allocation due to the increase in the cost pool. The Offshore Development Program commenced in the third quarter of 2015 and was completed in the first quarter of 2016.

	THREE MONTHS ENDED DECEMBER 31		**YEAR ENDED DECEMBER 31**	
US$'000	**2016**	2015	**2016**	2015
Gross field revenue	**17,920**	21,288	**75,377**	79,885
Tariff for processing plant and pipeline infrastructure	**(2,433)**	(3,229)	**(10,057)**	(12,282)
Field net revenue	**15,487**	18,059	**65,320**	67,603
Analysed as to:				
Company Cost Gas	**11,615**	13,544	**48,990**	38,689
Company Profit Gas	**1,549**	1,806	**6,532**	11,565
Company operating revenue	**13,164**	15,350	**55,522**	50,254
TPDC share of revenue	**2,323**	2,709	**9,798**	17,349
Field net revenue	**15,487**	18,059	**65,320**	67,603

The Company's reported revenue for the quarter and the year amounted to US$16.5 million and US$64.7 million respectively, after adjusting the Company's operating revenues of US$13.2 million and US$55.5 million by:

i) Adding US$3.7 million for income tax for the quarter and US$10.4 million for 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. To account for this, revenue is adjusted to include the current income tax charge grossed up at 30%; and

ii) Subtracting US$0.3 million and US$1.2 million for deferred Additional Profits Tax charged in the quarter and for the year. This tax is considered a royalty and is presented as a reduction in revenue.

Management's Discussion & Analysis

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

	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
US$'000	**2016**	2015	**2016**	2015
Industrial sector	**9,506**	8,794	**35,626**	33,164
Power sector	**8,414**	12,494	**39,751**	46,721
Gross field revenue	**17,920**	21,288	**75,377**	79,885
Processing and transportation tariff	**(2,433)**	(3,229)	**(10,057)**	(12,282)
Field net revenue	**15,487**	18,059	**65,320**	67,603
TPDC share of revenue	**(2,323)**	(2,709)	**(9,798)**	(17,349)
Company operating revenue	**13,164**	15,350	**55,522**	50,254
Additional Profits Tax charge	**(301)**	(335)	**(1,226)**	(2,355)
Current income tax adjustment	**3,670**	857	**10,363**	6,189
Revenue	**16,533**	15,872	**64,659**	54,088

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 and 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.

Company operating revenue decreased by 14% in the fourth quarter of 2016 compared with Q4 2015. The decrease is primarily due to the adjustment in revenue associated with the modified approach used for TANESCO revenue recognition.

Company operating revenue for the year increased 10% to US$55.5 million compared to US$50.3 million in the prior year. The 10% increase is due to the impact of the capital expenditures associated with the Offshore Development Program which commenced in the third quarter of 2015. This entitled the Company to 75% of the field net revenue as Cost Gas for the year compared to 57% in 2015, the increase in Cost Gas resulting in a corresponding reduction in Profit Gas and a corresponding decrease in the Profit Gas attributable to TPDC by 42% over the year.

The fall in the level of Profit Gas for the year resulted in a 47% fall in the Additional Profits Tax charge for the year to US$1.2 million from US$2.4 million. The increase in operating revenue and decrease in Additional Profits Tax contributing to the increase in the current income tax adjustment from US$6.2 million to US$10.4 million.

PROCESSING AND TRANSPORTATION TARIFF

The processing and transportation tariff charge for the quarter and for the year were US$2.4 million (Q4 2015: US$3.2 million) and US$10.1 million (2015: US$12.3 million), respectively. The reduction in the tariff for the year is a consequence of the cessation of the additional compensation and lower sales volumes during the periods.

PRODUCTION AND DISTRIBUTION EXPENSES

Well maintenance costs are allocated between Protected Gas and Additional Gas in proportion to their respective sales during the period. The total cost of maintenance for the quarter was US$0.2 million (Q4 2015: US$0.1 million) and for the year, US$0.6 million (2015: US$0.4 million). Amounts allocated for Additional Gas for the quarter and for the year were US$0.1 million (Q4 2015: US$0.1 million) and US$0.4 million (2015: US$0.2 million), respectively. The increase in the year is the consequence of increased activity following the completion of the Offshore Development Program at the end of the first quarter.

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

Distribution costs represent the direct cost of maintaining the ring main distribution pipeline and pressure reduction stations (security, insurance and personnel). Ring main distribution costs were US$0.7 million (Q4 2015: US$0.5 million) for the quarter and US$2.7 million (2015: US$1.9 million) for the year. The production and distribution costs are detailed in the table below:

	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
US$'000	**2016**	2015	**2016**	2015
Share of well maintenance	**112**	47	**351**	233
Other field and operating costs	**265**	251	**979**	1,594
	377	298	**1,330**	1,827
Ring main distribution costs	**651**	512	**2,703**	1,924
Production and distribution expenses	**1,028**	810	**4,033**	3,751

Management's Discussion & Analysis

OPERATING NETBACKS

The netback per mcf before general and administrative costs, overhead, tax and APT is detailed in the table below:

	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
US$/mcf	**2016**	2015	**2016**	2015
Gas price – Industrial	**7.52**	7.62	**7.70**	7.58
Gas price – Power [(1)]	**3.56**	3.56	**3.56**	3.54
Weighted average price for gas	**4.75**	4.51	**4.73**	4.49
Tariff	**(0.59)**	(0.71)	**(0.62)**	(0.71)
TPDC share of revenue	**(0.56)**	(0.59)	**(0.60)**	(1.00)
Net selling price	**3.60**	3.21	**3.51**	2.78
Well maintenance and other operating costs	**(0.09)**	(0.07)	**(0.08)**	(0.13)
Ring main distribution costs	**(0.16)**	(0.11)	**(0.17)**	(0.08)
Operating netbacks	**3.35**	3.03	**3.26**	2.57

[(1)] *The weighted average sales price is stated before the decrease in TANESCO revenue due to the modified approach used for revenue recognition purposes and represents the weighted average price of the volumes invoiced and delivered.*

The operating netback increased by 11% from US$3.03/mcf in Q4 2015 to US$3.35/mcf in Q4 2016 as a result of the 5% increase in the weighted average price of gas from US$4.51/mcf in Q4 2015 to US$4.75/mcf in Q4 2016 and the decrease in compensation to Songas for volumes over 70 MMcfd.

The operating netback for the year increased 27% to US$3.26/mcf from US$2.57/mcf in 2015. The increase in the weighted average price for the year of 5% was a consequence of the increase in the volume of industrial sales during the year and the 40% decrease in TPDC's share of revenue per mcf, as a consequence of lower total profit gas resulting from the completion of the Offshore Development Program during the first quarter of the year.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses are detailed in the table below:

	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
US$'000	**2016**	2015	**2016**	2015
Employee and related costs	**2,514**	2,796	**8,050**	7,001
Stock based compensation (recovery)	**556**	(87)	**2,591**	(244)
Office costs	**1,317**	916	**3,618**	3,366
Marketing and business development costs	**42**	6	**322**	214
Reporting, regulatory and corporate	**459**	1,067	**1,756**	3,271
General and administrative expenses	**4,888**	4,698	**16,337**	13,608

General and administrative expenses include the costs of running the natural gas distribution business in Tanzania which is recoverable as Cost Gas and is relatively fixed in nature. Excluding stock based compensation and other expenses, general and administrative expenses averaged US$1.5 million (Q4 2015: US$1.6 million) per month during the quarter and US$1.2 million (2015: US$1.1 million) per month over the year.

STOCK BASED COMPENSATION

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

	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
US$'000	**2016**	2015	**2016**	2015
Stock appreciation rights ("SARs")	**439**	463	**1,467**	(266)
Restricted stock units ("RSUs")	**117**	(550)	**1,124**	22
Stock-based compensation (recovery)	**556**	(87)	**2,591**	(244)

As at December 31, 2016 a total of 2,430,000 SARs were outstanding compared to 3,100,000 as at December 31, 2015. A total of 580,000 SARs with exercise prices ranging from CDN$2.30 to CDN$3.10 were exercised during the year resulting in a total cash payout of US$0.5 million, with a further 90,000 SARs with an exercise price of CDN$2.30 being forfeited. No new SARs were granted in the year. As at December 31, 2016 a total of 239,361 RSUs were outstanding compared to zero at December 31, 2015. During the year a total of 386,420 RSUs were issued. The RSUs vested in full on the date of grant have an exercise price of CDN$0.001 and have a five year term. A total of 147,059 RSUs were exercised during the year resulting in a total cash payout of US$0.4 million.

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; and a closing price of CDN$3.86 per Class B share.

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. The Company recognized an expense of US$0.6 million (Q4 2015: credit US$0.1 million) for the quarter and for the year ended December 31, 2016 an expense of US$2.6 million (2015: credit US$0.2 million). The increased expense in 2016 is due to the combination of a 40% increase in the share price to CDN$3.86 (2015: CDN$2.75) together with issuing 386,420 fully vested Restrictive Stock Units ("RSUs") during the first half of the year.

NET FINANCE EXPENSE

The movement in net finance expense is detailed in the table below:

US$'000	THREE MONTHS ENDED DECEMBER 31 2016	2015	YEAR ENDED DECEMBER 31 2016	2015
Finance income	**193**	20	**383**	43
Interest expense	**(1,567)**	(117)	**(5,668)**	(117)
Net foreign exchange loss	**(18)**	(370)	**(24)**	(2,677)
Financing fee	**–**	250	**–**	(16)
Provision for doubtful accounts	**(414)**	(10,731)	**(12,853)**	(11,178)
Indirect tax	**(1,388)**	–	**(1,392)**	–
Finance expense	**(3,387)**	(10,968)	**(19,937)**	(13,988)
Net finance expense	**(3,194)**	(10,948)	**(19,554)**	(13,945)

Total amount of interest paid in 2016 was US$5.7 million (2015: US$0.1).

The foreign exchange loss reflects the impact of movements in the value of the Tanzanian shilling against the US dollar during the period on outstanding customer/supplier balances and bank accounts in Tanzanian shillings.

During 2016 the Company billed TANESCO US$4.2 million (2015: US$2.4 million) of interest for late payments. 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. In the fourth quarter of 2016 the Company billed TANESCO two additional contractual invoices totaling US$7.8 million for take or pay gas and excess gas taken over the declared maximum daily quantity. These have not been included in the financial statements as they do 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 provision for doubtful accounts includes US$12.4 million (2015: US$9.9 million) for overdue TANESCO receivables, US$0.4 million (2015: US$0.1 million) relates to Industrial customers and US$ nil (2015: US$1.3 million) relates to Songas receivables.

The US$1.4 million is in relation to indirect tax associated with trade receivables not recognized in the financial statements due to IFRS revenue recognition criteria with respect to assurance of collectability.

TANESCO

At December 31, 2016 TANESCO owed the Company US$80.1 million, excluding interest, (of which arrears were 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.

TAXATION

Income Tax

Under the terms of the PSA with TPDC and the Government of Tanzania, the Company is liable for income tax in Tanzania at the corporate tax rate of 30%. However, the PSA provides a mechanism by which income tax payable is recovered from TPDC by reducing TPDC's share of Profit Gas and increasing the allocation to the Company. This is reflected in the accounts by increasing the Company's share of revenue by an amount equivalent to income taxes payable.

As at December 31, 2016 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 recognized a deferred tax liability of US$12.9 million (2015: US$9.3 million). During the year there was a deferred tax charge of US$3.7 million compared to US$1.7 million in 2015. The deferred tax has no impact on cash flow until it becomes a current income tax, at which point the tax is paid 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"), an Additional Profits Tax is payable.

The timing and the effective rate of APT depends on the realized value of Profit Gas which in turns depends of the level of expenditure. The Company provides for APT by forecasting annually the total APT payable as a proportion of the forecast Profit Gas over the term of the PSA. The forecast takes into account the timing of future development capital spending.

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 19.4% (Q4 2015: 18.6%) has been applied to Profit Gas of US$1.5 million (Q4 2015: US$1.8 million) for the quarter, and an average effective rate of 18.8% (2015: 20.2%) has been applied to Profit Gas of US$6.5 million (2015: US$11.6 million) for the year ended December 31, 2016. Accordingly, US$0.3 million (Q4 2015: US$0.3 million) and US$1.2 million (2015: US$2.4 million) have been netted off against revenue for the quarter, and for the year ended December 31, 2016, respectively.

	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
US$'000	**2016**	2015	**2016**	2015
Additional Profits Tax	**301**	335	**1,226**	2,355

DEPLETION AND DEPRECIATION

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 December 31, 2016 the proven reserves estimated to have been produced over the term of the PSA licence were 341 Bcf (2015: 368 Bcf). A depletion expense of US$2.4 million for the quarter (Q4 2015: US$2.6 million) and US$9.2 million for the year (2015: US$11.9 million) has been recorded in the account at an average depletion rate to US$0.56/mcf (2015: US$0.69/mcf). The decrease in the depletion rate is the consequence of the successful completion of the Offshore Program at a lower level of expenditure than planned which in turn reduced expected future development costs from what had been originally forecast at the end of 2015.

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

Capitalized costs are periodically assessed to determine whether it is likely that such costs will be recovered in the future. To the extent that these capitalized costs are unlikely to be recovered in the future, they are impaired and recorded in earnings.

CASH FLOW FROM OPERATIONS

Cash flow from operations was US$6.2 million for Q4 2016 (Q4 2015: US$8.4 million) and US$31.9 million for the year (2015: US$26.5 million) and is detailed in the table below:

	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
US$'000	**2016**	2015	**2016**	2015
Cash flow from operations [1]	**6,211**	8,391	**31,855**	26,454
Interest paid	**1,567**	117	**5,668**	117
Change in non-cash working capital [2]	**567**	(3,058)	**(17,555)**	(19,553)
Net cash flows from operating activities	**8,345**	5,450	**19,968**	7,018
Net cash used in investing activities	**7**	(19,539)	**(27,609)**	(29,950)
Net cash from (used in) financing activities	**(1,566)**	18,482	**34,132**	18,324
Increase in cash	**6,786**	4,393	**26,491**	(4,608)
Effect of change in foreign exchange on cash	**30**	(136)	**607**	746
Net increase in cash	**6,816**	4,257	**27,098**	(3,862)

[1] *See non-GAAP measures*

[2] *See Consolidated Statement of Cash Flows*

CAPITAL EXPENDITURES

During 2016 the Company incurred US$16.9 million (2015: US$38.4 million) in capital expenditures relating primarily to the drilling of well SS-12, improvement of Songo Songo infrastructure and purchase of other equipment. The 2016 capital expenditures are net of recharges of US$1.0 million to Songas for its share of costs on wells SS-5 and SS-9 (2015: US$11.2 million).

	THREE MONTHS ENDED DECEMBER 31		YEAR ENDED DECEMBER 31	
US$'000	**2016**	2015	**2016**	2015
Geological and geophysical and well drilling	**32**	23,099	**16,255**	35,796
Pipelines and infrastructure	**99**	1,382	**565**	2,359
Other equipment	**–**	59	**104**	256
	131	24,540	**16,924**	38,411

WORKING CAPITAL

Working capital as at December 31, 2016 was US$72.0 million (December 31 2015: US$32.5 million) and is detailed in the table below:

			AS AT DECEMBER 31	
US$'000		**2016**		2015
Cash		**80,895**		53,797
Trade and other receivables		**27,638**		25,391
TANESCO	5,749		7,831	
Songas	2,218		2,178	
Industrial customers	7,463		6,894	
Songas gas plant operations	6,601		5,631	
Songas well workover program	14,458		11,209	
Other receivables	1,516		1,604	
Provision for doubtful accounts	(10,367)		(9,956)	
Tax recoverable		**5,402**		4,519
Prepayments		**651**		1,118
		114,586		84,825
Trade and other payables		**39,707**		49,531
TPDC share of Profit Gas [(1)]	28,319		28,208	
Songas	1,893		1,071	
Other trade payables	3,245		11,234	
Deferred income	–		667	
Accrued liabilities	6,250		8,351	
Tax payable		**2,890**		2,773
Working capital [(2)]		**71,989**		32,521

Notes

(1) *Payable to TPDC for their share of profit gas reflects the total accrued liability based on gas delivered to TANESCO which has not been paid for. Settlement of this liability is dependent on receipt of payment from TANESCO.*

(2) *Working capital as at December 31, 2016 includes a TANESCO receivable (excluding interest) of US$5.7 million (2015: US$7.8 million). Management has recorded a provision for doubtful accounts against the long-term receivables totaling US$74.4 million (2015: US$61.9 million). The total of long and short-term TANESCO receivables as at December 31, 2016, including interest and unrecorded revenue as a result of issued invoices not meeting revenue recognition criteria, was US$100.8 million. The financial statements do not recognize the interest receivable from TANESCO as it does not meet revenue recognition criteria. The Company is actively pursuing the collection of all the receivables including the interest that has been charged to TANESCO.*

Working capital as at December 31, 2016 increased by 121% over December 31, 2015 and by 6% during the quarter. The increase is primarily a result of having drawn down the balance of the loan from the IFC and the paying down of creditors associated with the 2015/2016 Offshore Development Program. Other significant points are:

- There are no restrictions on the movement of cash from Mauritius or Tanzania, and currently the majority of cash is outside of Tanzania. As at the date of this report, approximately 90% of the Company's cash is held outside of Tanzania.
- Of the US$7.4 million relating to other trade debtors US$7.4 million had been received as at the date of this report.

The balance of US$28.3 million payable to TPDC represents the remaining balance of its accrued share of revenue as at December 31, 2016. As a consequence of the contractual arrangements within the PSA, the settlement of the majority of the liability is dependent upon the receipt of the TANESCO arrears.

LONG TERM LOAN

On October 29, 2015 the Company entered into an agreement with the IFC, a member of the World Bank Group, to provide financing of up to US$60 million for the Company's operating subsidiary, PAET. The Company has drawn the US$60 million Loan facility in full, with an initial drawdown of US$20 million on December 14, 2015 followed by an additional draw down of US$40 million on February 9, 2016.

The term of the Loan is 10-years, with no required repayment of principal for the first seven years, followed by a three-year amortization period. The Loan is to be paid out through six semi-annual payments of US$5 million and one final payment of US$30 million. 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. Subject to receipt of the IFC approval and 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. The Company must provide notice to the IFC of the amount of any interest which is not to be paid on any interest payment date the unpaid interest is added to the principal outstanding and may be paid out before or at the time of principal repayment. In addition, an annual variable participatory interest equating to 7% of the cash flow of PAET net of capital expenditures is payable in respect of any given year, commencing with 2016. The participatory interest survives the repayment and/or maturity of the Loan until October 15, 2026. No provision was made for the year ended December 31, 2016 as the 2016 net cash flow from operating activities less the 2016 net cash used in investing activities 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.

SHAREHOLDERS' EQUITY AND OUTSTANDING SHARE DATA

There were 34,856,432 shares outstanding as at December 31, 2016 as detailed in the table below:

	AS AT DECEMBER 31	
Number of shares ('000)	**2016**	2015
Shares outstanding		
Class A shares	**1,751**	1,751
Class B shares	**33,106**	33,106
Class A and Class B shares outstanding	**34,857**	34,857
Weighted average		
Class A and Class B shares	**34,857**	34,887
Convertible securities		
Options	**–**	–
Weighted average diluted Class A and Class B shares	**34,857**	34,887

As at the date of this report, there were a total of 1,750,517 Class A common voting shares ("Class A shares") and 33,105,915 Class B subordinated voting shares ("Class B shares") outstanding.

RELATED PARTY TRANSACTIONS

One of the non-executive Directors is counsel with 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.

CONTRACTUAL OBLIGATIONS AND COMMITTED CAPITAL INVESTMENT

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, 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.

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 for sales over 70 MMcfd would no longer be paid effective June 2016. The additional compensation was always intended to be temporary in nature until the expansion of the Songas infrastructure, at which time Songas would apply 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 and in the event that a new tariff is approved.

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.

Portfolio Gas Supply Agreement

On June 17, 2011, a long term PGSA was signed (to June 2023) between TANESCO (as the buyer), 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 36 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.

Management's Discussion & Analysis

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.

CONTINGENCIES

Petroleum Act, 2016

During the third quarter of 2015, the Petroleum Act, 2015, (the "Act") was passed into law. The Act repeals earlier legislation, provides a regulatory framework over upstream, mid-stream and downstream gas activity, and consolidates and puts in place a comprehensive legal framework for regulating the oil and gas industry in the country. The Act also provides for the creation of an upstream regulator, the Petroleum Upstream Regulatory Authority ("PURA"). The mid and downstream oil and gas activities are proposed to be regulated by the current authority, the Energy and Water Utilities Regulatory Authority (EWURA). The Act also confers upon on TPDC, the status of the National Oil Company, mandated with the task of managing the country's commercial interest in petroleum operations as well as mid and downstream natural gas activities. The Act vests TPDC with exclusive rights in the entire petroleum upstream value chain and the natural gas mid and downstream value chain. However, the exclusive rights of TPDC do not extend to mid and downstream petroleum supply operations. 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 Act. Under the Act, Article 260 (3) 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.

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 approximately 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. 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 amount 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

(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 the 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 advisors, 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.

NEW ACCOUNTING POLICIES

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.

SUMMARY QUARTERLY RESULTS OUTSTANDING

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

Figures in US$'000 except where otherwise stated	2016				2015			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Financial								
Revenue	**16,533**	**17,744**	**14,572**	**15,810**	15,872	15,943	12,553	9,720
Net income (loss)	**1,048**	**5,302**	**1,452**	**(5,638)**	(6,468)	6,112	3,566	(1,677)
Earnings (loss) per share								
– basic and diluted *(US$)*	**0.03**	**0.15**	**0.04**	**(0.16)**	(0.19)	0.18	0.10	(0.05)
Cash flow from operations [1]	**6,211**	**10,024**	**6,772**	**8,848**	8,391	9,462	4,889	3,712
Cash flow from operations per share								
– basic and diluted *(US$)*	**0.18**	**0.29**	**0.19**	**0.25**	0.24	0.27	0.14	0.11
Net cash flow from (used in) operating activities	**8,345**	**6,540**	**6,237**	**(1,154)**	5,450	(2,963)	(2,844)	7,375
Net cash flows (utilized) per share								
– basic and diluted *(US$)*	**0.24**	**0.19**	**0.18**	**(0.03)**	0.16	(0.09)	(0.08)	0.21
Operating netback *(US$/mcf)*	**3.35**	**3.31**	**3.32**	**3.08**	3.03	2.65	2.68	1.86
Working capital	**71,989**	**67,635**	**58,395**	**56,340**	32,521	39,660	38,067	34,870
Long-term loan	**58,399**	**58,398**	**58,368**	**58,350**	18,599	–	–	–
Shareholders' equity	**80,023**	**79,153**	**73,887**	**72,482**	78,154	84,476	78,480	74,944
Capital expenditures								
Geological and geophysical and well drilling	**32**	**26**	**2,558**	**13,639**	23,099	7,578	4,135	984
Pipeline and infrastructure	**99**	**(71)**	**181**	**356**	1,382	547	275	155
Other equipment	**–**	**–**	**102**	**2**	59	150	47	–
Operating								
Additional Gas sold – industrial *(MMcf)*	**1,226**	**1,238**	**1,151**	**972**	1,089	1,137	1,015	925
– industrial *(MMcfd)*	**13.3**	**13.5**	**12.6**	**10.7**	11.8	11.9	11.1	10.3
Additional Gas sold – power *(MMcf)*	**2,895**	**3,047**	**2,521**	**3,241**	3,483	3,127	3,041	3,494
– power *(MMcfd)*	**31.5**	**33.1**	**27.7**	**35.6**	37.9	34.5	33.4	38.8
Average price per mcf – industrial *(US$)*	**7.52**	**7.60**	**7.64**	**8.15**	7.62	7.67	7.45	7.54
Average price per mcf – power *(US$)*	**3.57**	**3.57**	**3.55**	**3.55**	3.56	3.62	3.47	3.49

[1] *See non-GAAP measures*

PRIOR EIGHT QUARTERS

The Company's revenue for the last six quarters has been reasonably consistent. The increase in revenue from Q2 2015 has been the consequence of the Offshore Development Program which commenced in Q3 2015 and was completed at the end of Q1 2016. The capital costs associated with the program entitle the Company to a higher proportion of field net revenue. The fall in revenue from Q3 2016 to Q4 2016 is the consequence of the Company only recognizing 80% of the TANESCO invoiced amounts for revenue recognition purposes in Q4 2016.

Changes in net income over the last two years were negatively impacted by the impairment provisions relating to TANESCO. In Q4 2015, Q1 2016, Q2 2016 and Q3 2016 doubtful debt provisions of US$9.8 million, US$8.0 million, US$3.5 million and US$0.9 million respectively were provided against increased TANESCO arrears. Other significant factors affecting the results were:

- In Q1 2016 the Company took a charge of US$2.8 million for stock based compensation as a consequence of the share price closing at CDN$4.14 compared to CDN$2.75 at the end of Q4 2015 together with the issuance of new Restrictive Stock Units.
- In Q2 2016 the Company had a decrease in the stock based compensation charge of US$0.7 million as the share price closed at CN$3.40 at the end of the quarter.
- In Q3 2016 the Company recorded a credit of US$0.1 million for stock based compensation compared to a credit of US$1.1 million in Q3 2015.
- In Q4 2016 the Company recorded a stock based compensation charge of US$0.6 million, as a consequence of an increase in the closing share price to CDN$3.82 from CDN$3.41 at the end of Q3 2016,
- In Q4 2016 the Company recognized 80% of the TANESCO invoiced amount for revenue recognition purposes in accordance with the new estimation procedure which resulted in a net income reduction of US$1.3 million (see "Operating Revenue").
- The Company recorded an interest expense of US$1.6 million in the last three quarters of 2016 and US$1.0 million in Q1 2016.

Differences in cash flow from operations for the last six quarters were primarily a result of changes in revenue during the periods. The decrease in cash flow from operations in Q4 2016 is a consequence of expensing indirect taxes associated with sales invoices that have not been recorded in the financial statements because they do not meet the revenue recognition criteria with respect to assurance of collectability. The increase in cash flow from operations to US$10.0 million in Q3 2016 from US$6.7 million in Q2 2016 is primarily the result of the US$3.3 million increase in revenue over the quarter. In Q2 and Q1 of 2015, cash flow from operations decreased reflecting the drop in revenue during these periods due to declining well production and lower Cost Pool levels reducing the Company's share of revenues.

Changes in net cash flow from operating activities between quarters were primarily a result of the timing of receipt of payments from TANESCO. The decrease in working capital from Q3 2015 to Q4 2015 was a consequence of the increase in creditors associated with the workover and drilling program together with the additional bad debt provision against TANESCO, both of which were offset by the initial draw down of US$18.6 million from the IFC (net of expenses). The second draw down from the IFC of US$40 million in Q1 2016 has offset the decrease in working capital associated with the completion of the workover and drilling program from Q4 2015 to Q1 2016. The progressive increase in working capital from Q1 2016 is mainly the result of US$20.0 million in net cash flow from operating activities being offset by US$3.0 million of capital expenditure over the same period.

Capital expenditure for the last four quarters Q4 2016 to Q1 2016 has amounted to US$16.9 million compared to US$38.4 million from Q4 2015 to Q3 2014. The 2015 workover and drilling program commenced in Q3 2015 with some preliminary expenditure in Q2 2015 and was completed at the end of the second quarter 2016 with the demobilization of the rig.

The level of Industrial sales volumes increased in the four quarters ending Q4 2016 to an average of 1,146 MMcf (2015: 1,042 MMcf). Industrial sales volume for the four quarters ending Q4 2016 increased by 10% to 4,587 MMcf (12.5 MMcfd) compared to 4,166 MMcf (11.4 MMcfd) in 2015. The increased volumes are primarily the result of fewer days of unscheduled maintenance work by cement, textile and edible oil companies and consumption by new customers connected during the first half of 2016.

The level of Power sales volumes decreased by 11% in the in the four quarters ending Q4 2016 to an average of 2,926 MMcf (2015: 3,286 MMcf). Power sector sales volumes for the four quarters ending Q4 2016 decreased by 11% to 11,704 MMcf (32.0 MMcfd) compared to 13,145 MMcf (36.0 MMcfd) in 2015. The decline is mainly the consequence of the decision by TANESCO not to renew a contract with an emergency power plant, unscheduled maintenance at the Songo Ubungo Power generation facility and the increased competition from gas suppliers within Tanzania.

SELECTED FINANCIAL INFORMATION

Selected annual financial information derived from the audited consolidated financial statements for the years ended December 31, 2016, 2015 and 2014 is set out below:

Figures in US$'000 except per share amount	**2016**	2015	2014
Revenue	**64,659**	54,088	56,607
Net cash flows from operating activities	**19,968**	7,018	29,757
Cash flow from operations [(1)]	**31,855**	26,454	32,412
Net income (loss)	**2,164**	1,533	(38,301)
Total assets	**226,532**	189,683	198,492
Earnings (loss) in US$ per share:			
Basic and diluted	**0.06**	0.04	(1.10)

[(1)] *See Non-GAAP measures*

Revenue increased by 20% to US$64.7 million in 2016 from US$54.1 million in 2015. The increase is primarily a consequence of the Company being entitled to 85% of the net revenue in 2016 compared to 74% in 2015 following the increased costs pools after the completion of the Offshore Development Program in 2016. The increase in revenue occurred even though sales volumes were 10% lower in 2016 than 2015 and the weighted average price decreased 5% from US$4.49/mcf to US$4.73/mcf. As a result, TPDC share of revenue decreased from US$17.3 million in 2015 to US$9.8 million in 2016.

The increased share of revenue contributed to the 20% increase in the cash flow from operations to US$31.9 million (2015: US$26.5 million) and the 185% increase in net cash flow from operating activities to US$20 million (2015: US$7.0 million).

BUSINESS RISKS

Financing

The ability of the Company to meet its financing obligations or to arrange 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 would be successful in its efforts to meet its current commitments or 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 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. The Company has been impacted by TANESCO's inability to pay for current deliveries and pay down arrears.

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.

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.

At December 31, 2016 TANESCO owed the Company US80.1 million, excluding interest, (of which arrears were 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 in 2017, 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.

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 pending settlement of the remaining overdue operatorship charges and the Songas share of the well workover costs. Any significant amounts not agreed will be pursued through the mechanisms provided in the agreements with Songas.

The "Tax Recoverable" figure carried on the balance sheet 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 "the adjustment factor" equal to the actual income taxes payable by the Company. Recovery, by offset against TPDC's share of revenue is dependent on payment of income taxes relating to prior period adjustment factors as they are assessed.

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. This policy was confirmed with the passing of the Petroleum Act, 2015 in the third quarter of 2015. 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. 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.

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. Primarily operations are regulated by 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 has 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.

Corruption remains an issue in Tanzania, the country ranking 116 out of 176 on the 2016 Transparency International Corruption Index. At the end of 2014 there was a significant corruption scandal in Tanzania's energy sector involving a number of senior government officials, including senior officials from MEM. Having assessed the Company's exposure to corruption in Tanzania, it was concluded that the risk of the Company and/ or its subsidiaries violating applicable laws prohibiting corrupt activities are mitigated or unlikely given the Company's controls relating to such risks and their effective operation. There can be no assurance, however that corruption may indirectly affect or otherwise impair the Company's ability to operate in Tanzania and effectively pursue its business plan in that country.

The TRA 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 monetization of the Company's reserves through additional gas sales. The Government of Tanzania has completed the US$1.2 billion NNGIP that comprises two gas processing plants, one being at Songo Songo, and a pipeline to transport gas from Southern Tanzania to Dar es Salaam. The Company is currently negotiating terms for the sale of incremental gas volumes however there is no assurance that the Company's gas will be processed and transported to markets on economic terms.

Access to Songas processing and transportation

Although the Company operates the Songo Songo gas processing plant, Songas is the owner of plant and pipeline system which transports natural gas from Songo Songo to Dar es Salaam. The Company's ability to deliver gas to its customers in Dar es Salaam is dependent upon it having access to the Songas infrastructure. Although there are agreements with Songas to allow the Company to process and transport gas, there is no assurance that these rights could not be challenged or curtailed by Songas. The inability to access Songas plant and processing facilities would materially impair the Company's ability to realize revenue from natural gas sales.

As a result of the Ubungo power plant re-rating that occurred in 2011 pursuant to the Re-Rating Agreement, the capacity of the Songas gas processing plant was increased to a maximum of 110 MMcfd (restricted to 102 MMcfd because of pipeline and pressure requirements). The Re-Rating Agreement expired in 2013 and no new agreement is currently in place. Without the Re-Rating Agreement Songas, the owner of the gas processing plant, may require the plant to be operated at 70 MMcfd (the capacity originally agreed to), which would result in a material reduction in the Company's sales volumes of Additional Gas.

The Petroleum Act, 2015

In the third quarter of 2015 the Tanzania Parliament passed the Petroleum Act, 2015. The Act repeals earlier legislation, provides a regulatory framework over mid-stream and downstream gas activity and as well consolidates and puts in place a single, effective and comprehensive legal framework for regulating the oil and gas industry in the country. The Act also provides for the creation of an upstream regulator, the PURA. The mid and downstream petroleum as well as gas activities are proposed to be regulated by the current authority, EWURA.

The Act also confers upon on TPDC, the status of the National Oil Company, mandated with the task of managing the country's commercial interest in the petroleum operations as well as mid and downstream natural gas activities. The Act vests TPDC with exclusive rights in the entire petroleum upstream value chain and the natural gas mid and downstream value chain. However, the exclusive rights of the National Oil Company does not extended to mid and downstream petroleum supply operations.

The Act does provide grandfathering provisions upholding the rights of the Company under the 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 related impact on the Company.

On October 7, 2016, the Government of Tanzania issued the Petroleum (Natural Gas Pricing) Regulation made under Sections 165 and 258 (l) of the Act. Article 260 (3) 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.

Amended and Restated Gas Agreement

The 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. As at the date of this report, the ARGA remains an initialed agreement only, however the parties thereto, in certain respects, are conducting themselves as though the ARGA is in effect. Management does not foresee at this time a material risk with the conduct of the Company's business with an unsigned ARGA.

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. The Company has the right to earn an interest in a permit in Italy; however, changes in Italian environmental legislation in late 2015 have resulted in the development of the license being postponed indefinitely. 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 organizations 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. The developed natural gas market in Tanzania is in its infancy and there is currently limited access to infrastructure with which to serve potential new markets beyond that being constructed by the Company, Songas and TPDC which includes the NNGIP. 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 process gas and 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.

With the enactment of the Petroleum Act, 2015 TPDC was given significant rights over upstream and downstream operations in the country and is the sole aggregator of natural gas in the country. The Act recognizes the rights of the Company pursuant to the PSA; however, some clauses conflict with the Company's rights to directly market Additional Gas, and there is a risk that this prior right will not continue to be recognized and that the Company's ability to maximize revenue on Additional Gas sales may be impaired by the requirement 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. There is no assurance that the Company will have sufficient deliverability through the existing wells to provide additional natural 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. Until the Company is connected to the NNGIP, it has no redundant capacity in the production facilities or pipeline. A loss or material reduction in production capabilities will have a material adverse effect on the total production and funds flow from operating activities of the Company. The Company has an interest in the Elsa licence in Italy however changes in Italian environmental legislation in late 2015 have resulted in the development of the Elsa Italian licence being postponed indefinitely.

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 may have an obligation to restore producing fields to a condition acceptable to the authorities at the end of their commercial lives. The PSA does not contain abandonment obligations for the Company. In addition, the Company expects the Songo Songo field to produce well beyond the term of the current license.

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

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.

In accordance with the terms of the PSA, no provision has been recognized 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 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.

There has been a significant increase in exploration activity in Tanzania, which has yielded world class 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 99.6% 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 (20.7% fully diluted) and controls 59.2% of the total votes of the Company.

CRITICAL ACCOUNTING 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 plus probable reserves. The unit-of-production method takes into account estimates of capital expenditures incurred to date along with future development capital required to develop both proved plus probable 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. 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. This results in a reduction in revenue recognized from the effective date.

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.

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.

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 time of writing this report TPDC have made no such election.

Reserves are integral to the amount of depletion recognized 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 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 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.