

EASTCOAST
Energy



Q1

INTERIM REPORT

for the period

ended

31 March 2005

FINANCIAL AND OPERATING HIGHLIGHTS

Financial (US\$'000) except where otherwise stated	31 Mar 2005	31 Dec 2004	Change
Revenue	350	391	(10%)
Loss for the period	(518)	(642)	19%
Net back (US\$/mcf)	3.24	3.00	8%
Working Capital	4,895	1,216	302%
Shareholders' Equity	15,444	11,516	34%
Loss per share – diluted (US\$)	(0.022)	(0.030)	27%
Outstanding Shares ('000)			
Class A shares	1,751	1,751	–
Class B shares	21,513	19,386	11%
Options	1,987	2,000	(1%)
Operating			
Additional Gas sold (mmscf)	96.9	107.1	(10%)
Average price per mcf (US\$)	5.23	5.31	(1%)

There are no annual comparatives for the three months ended 31 March 2005 as the Company spun out from PanOcean Energy Corporation and commenced operations on 31 August, 2004.

1	Financial and Operating Highlights	4	Management's Discussion and Analysis	22	Notes to the Consolidated Financial Statements
2	Message from the President and CEO	18	Financial Statements	25	Corporate Information

- Produced (as the contract field operator) 2.6 bcf of natural gas from the Songo Songo field taking the total produced since the commencement of commercial operations to 7.2 bcf.
- Sold 97 mmscf of natural gas to Kioo Ltd, Tanzanian Breweries Limited and Aluminium Africa Limited (an average of 1.1 mmscf/d).
- Signed an additional industrial gas sales contract with Karibu Textile Mills Ltd. for the sale of an expected 0.8 mmscf/d. This customer is expected to be connected by the end of Q2 2005 at a cost of US\$1.1 million. Industrial sales are forecast to increase to 3.0 - 3.5 mmscf/d by the end of Q3 2005.
- Entered negotiations with the independent power company, Songas Limited, and indirectly TANESCO, the electricity utility, to supply up to 8.4 mmscf/d of gas to a 34 MW turbine at the Ubungo Power Plant ("UGT6"). UGT6 commercial operations are expected to commence in early June 2005. EastCoast is negotiating a short term agreement with Songas Limited that will cover the supply of gas to 31 July 2005 and provide more time for the negotiation of a longer term agreement of up to 19 years for the supply of gas for UGT6.
- Prepared a 550-kilometer seismic acquisition programme over the Songo Songo field and adjacent licence blocks. On 26 May, a contract was awarded to the operator of the seismic vessel, Silver Queen Maritime Limited, for the acquisition of the seismic at a forecast cost of US\$1.3 million. The total cost of the seismic programme including project management, processing and interpretation is estimated at US\$2.1 million.
- Successfully raised gross proceeds of Cdn\$5.5 million through the issuance of 2.1 million Class B shares via a one-for-ten rights issue.

GLOSSARY

Mcf	Thousands of standard cubic feet
Mmscf	Millions of standard cubic feet
Bcf	Billions of standard cubic feet
Mmscf/d	Millions of standard cubic feet per day
Kwh	kilowatt hour
MW	Megawatt
US\$	US dollars
Cdn\$	Canadian dollars

EastCoast Energy focused on developing the full potential of its Tanzanian assets through the first quarter of 2005. Building a sustainable market for the sale of Additional Gas from the Songo Songo natural gas field remains our first priority. Prospecting for new gas reserves on our licence acreage adjacent to the Songo Songo natural gas field is our other focus for growth.

Production and gas processing facilities on Songo Songo Island, which EastCoast operates, ran efficiently during Q1 2005 producing 2.6 bcf of natural gas. The five production wells in the Songo Songo field continue to perform in line with expectations and have produced 7.2 bcf since startup of commercial production in July 2004. Performance of the reservoir will be assessed in June 2005 when four downhole pressure gauges are pulled and the results analysed.

The majority of the gas produced from Songo Songo in Q1 2005 was used by five turbines at the Ubungo Power Plant and by the Wazo Hill cement plant at Dar es Salaam. These two customers purchase the Protected Gas which is owned by the Tanzanian Petroleum Development Corporation. Additional Gas production, which is not required to meet the needs of the Protected Gas customers, is available to be marketed by EastCoast.

Three industrial customers at Dar es Salaam purchased Additional Gas from EastCoast over the first quarter of 2005. However EastCoast's sales volumes were 10% lower in Q1 2005 as compared to Q4 2004, due to downtime caused by the introduction of two new boilers at Tanzania Breweries Ltd. Sales to Tanzania Breweries Ltd. should be back to earlier levels when the new boilers are operational in Q3 2005.

A significant new EastCoast gas sales contract was negotiated during Q1 2005. To meet the long-term needs of the Karibu Textile Mills Ltd., EastCoast is constructing an 8.6 kilometer pipeline at a cost of US\$1.1 million. Karibu Textile Mills Ltd. is expected to purchase an average of 0.8 mmscf/d beginning in Q3 2005. Its facilities are being converted to burn natural gas and this conversion is forecast to be complete by the time the connection to the EastCoast Energy distribution system has been tested.

One smaller anticipated gas sales contract by EastCoast to Nida Textiles Limited in Dar es Salaam has been put in doubt by the abolition of textile quotas announced by the World Trade Organization in January 2005. In response Nida Textiles halted production and is currently negotiating with the Tanzanian Government to return to production by selling textiles within the domestic market. This anticipated contract for the sale of 0.5 mmscf/d Additional Gas by EastCoast is uncertain until negotiations are concluded.

Supplying the fuel for gas turbines used to produce electric power in East Africa also remains a major market focus for EastCoast. As reported earlier, the Company is negotiating a gas sale contract with Songas Limited and indirectly, TANESCO, for the supply of up to 8.4 mmscf/d of natural gas to a 34 MW sixth gas turbine (“UGT6”) at the Ubungo Power Plant. UGT6 commercial operations are expected to commence in early June 2005. EastCoast is negotiating a short term agreement with Songas Limited that will cover the supply of gas to 31 July 2005 and provide more time for the negotiation of a longer term agreement of up to 19 years for the supply of gas for UGT6. Following this, TANESCO has requested progress on negotiations on contracts for the provision of supply of gas to the 100 MW power station owned by Independent Power of Tanzania Limited, and new power stations currently being planned.

With the expectation that EastCoast has the potential to discover new natural gas reserves, the Company is mounting a 2005 seismic exploration programme over its Songo Songo licence acreage, offshore Tanzania. The reprocessing of 450 kilometers of seismic is nearing completion and has demonstrated a significant improvement in quality. The Company plans to acquire approximately 150 kilometers of seismic in the two Songo Songo discovery blocks and 400 kilometers in the adjoining blocks. The acquisition of the seismic data will enable EastCoast to evaluate two leads on its licence acreage whilst also meeting its 2005 work obligation for the seven licence blocks adjacent to the currently producing Songo Songo natural gas field. A limited amount of seismic will be run over the existing Songo Songo gas field.

A seismic vessel has been contracted and is scheduled to be in Dar es Salaam by mid-June. With favourable weather, EastCoast should be able to complete the seismic acquisition programme by the end of July. Data processing and interpretation are expected to be complete by the end of September 2005. A decision as to whether to drill a well in 2006, in order to retain the seven adjoining blocks until 2026, will be taken based on the results of the seismic programme.

Still in its first 12 months as an independent company, EastCoast’s financial position remains strong and the Cdn\$5.5 million rights issue, concluded on 4 March 2005, has given the Company the resources to continue to develop new markets for Additional Gas and to fund the Company’s seismic programme. EastCoast continues in the early stages of building an independent international natural gas company. The willingness of industrial customers to convert to natural gas has now been established. The Company is well positioned to be able to benefit from the first natural gas development in East Africa.

A skilled and dedicated team of employees has been assembled and is working hard to make EastCoast the leader in developing and marketing Tanzania’s natural gas resources. The future is positive.



Peter R. Clutterbuck,
President and CEO

FORWARD LOOKING STATEMENTS THIS MDA OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S UNAUDITED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2005, AND THE AUDITED FINANCIAL STATEMENTS AND MDA FOR THE PERIOD ENDED 31 DECEMBER 2004. THIS MDA IS BASED ON THE INFORMATION AVAILABLE ON MAY 27, 2005. IT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS THAT INVOLVE -SUBSTANTIAL KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES, CERTAIN OF WHICH ARE BEYOND EASTCOAST'S CONTROL, INCLUDING 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 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 AND OBTAINING REQUIRED APPROVALS OF REGULATORY AUTHORITIES. IN ADDITION THERE ARE RISKS AND UNCERTAINTIES ASSOCIATED WITH GAS OPERATIONS. THEREFORE, EASTCOAST'S ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENT COULD DIFFER MATERIALLY FROM THOSE EXPRESSED, OR IMPLIED BY, THESE FORWARD-LOOKING ESTIMATES AND, ACCORDINGLY, NO ASSURANCES CAN BE GIVEN THAT ANY OF THE EVENTS ANTICIPATED BY THE FORWARD LOOKING ESTIMATES WILL TRANSPIRE OR OCCUR, OR IF ANY OF THEM DO SO, WHAT BENEFITS, INCLUDING THE AMOUNTS OF PROCEEDS, THAT EASTCOAST WILL DERIVE THEREFROM.

ADDITIONAL INFORMATION REGARDING EASTCOAST ENERGY CORPORATION IS AVAILABLE UNDER THE COMPANY'S PROFILE ON SEDAR AT www.sedar.com.

Background

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

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

Songas utilises the Protected Gas (maximum 44.8 mmscf/d) as feedstock for five of its gas turbine electricity generators at Ubungu, for onward sale to the Wazo Hill Cement Plant and for some limited electrification for villages along the pipeline route. EastCoast receives no revenue for the gas delivered to Songas, but does operate the field and gas processing plant on a 'no gain no loss' basis.

EastCoast is the operator of the natural gas development and has the right to produce and market all gas in the Songo Songo field in excess of the Protected Gas requirements ("Additional Gas").

Principal terms of the 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 licences in which the Songo Songo field is located ("Discovery Blocks") and the seven licences adjoining the Discovery Block ("Adjoining Blocks"). Together the Discovery Blocks and Adjoining Blocks are the Contract Area.
The Proven Section is essentially the area covered by the Songo Songo field within the Discovery Blocks.
- (c) The Company is obliged to fund work in return for their rights to explore for and sell Additional Gas. The Company's right regarding the Adjoining Blocks is for the period from October 2001 to October 2005. During this period, the Company must conduct a market survey, spend at least US\$2.0 million (in October 2001 terms) on seismic or other field expenditures acceptable to TPDC, commit to drill one exploration well in the Adjoining Blocks by October 2006, demonstrate to the Ministry of Energy and Minerals ("MEM") compliance with submitted Additional Gas plans and make diligent attempts to sell Additional Gas. If the MEM determines that the Company has failed to comply with these obligations, the Company's rights to the Adjoining Blocks ceases.
- (d) No sales of Additional Gas may be made from the Discovery Blocks if in EastCoast's reasonable judgement such sales would jeopardise the supply of Protected Gas. Any Additional Gas contracts entered into prior to 31 July 2009 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 (f) below).

- (e) By 31 July 2009, the Government of Tanzania (“GoT”) can request EastCoast to sell 100 bcf of Additional Gas for the generation of electricity over a period of 20 years from the start of its commercial use, subject to a maximum of 6 bcf per annum or 20 mmscf/d (“Reserved Gas”). In the event that the GoT does not nominate by 31 July 2009 or consumption of the Reserved Gas has not commenced within three years of the nomination date, then the reservation shall terminate. Where Reserved Gas is utilised, TPDC and the Company will receive a price that is no greater than 75% of the market price of the lowest cost alternative fuel delivered at the facility to receive Reserved Gas or the price of the lowest cost alternative fuel at Ubungo.
- (f) “Insufficiency” occurs if there is insufficient gas from the Discovery Blocks to supply the Protected Gas requirements or is so expensive to develop that its cost exceeds the market price of alternative fuels at Ubungo.

Where there have been third party sales of Additional Gas by EastCoast and TPDC from the Discovery Blocks prior to the occurrence of the Insufficiency then EastCoast and TPDC shall be jointly liable for the Insufficiency and shall satisfy its related liability by either replacing the Indemnified Volume (as defined in (g) 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 (“Complex”) 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 per mmbtu) and the amount of transportation revenues previously credited by Songas to the electricity utility, TANESCO, for the gas volumes.

- (g) 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 (where the fifth turbine has been installed, but has not been operational for three years an imputed amount of annual gas consumption for the fifth turbine is incorporated) 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

- (h) The Company is able to utilise the Songas infrastructure including the gas processing plant and main pipeline to Dar es Salaam. The pipeline and gas processing plant is open access and can be utilised 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

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

The Company pays and recovers all 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 Contract Area for which there is a development program as detailed in the Additional Gas plans as submitted to the Ministry of Energy and Minerals (“Additional Gas Plan”) 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 Ministry of Energy and Minerals has approved the Additional Gas Plan, then TPDC is deemed not to have elected. If TPDC elects to participate, then it will be entitled to a rateable proportion of the Cost Gas and a rateable share of the Profit Gas.

- (j) The price payable to Songas for the general processing and transportation of the gas is 17.5% of the price of gas delivered to a third party less any direct taxes payable by the customer that are included in the gas price less any tariffs paid for non-Songas owned distribution facilities (“Songas Outlet Price”).

In September 2001, the GoT made a formal request to the World Bank for funds to increase the diameter of the onshore pipeline from 12 inches to 16 inches at a projected incremental cost of \$3.5 million. The World Bank agreed to finance this increase and accordingly the pipeline capacity was increased from circa 65 mmscf/d to 105 mmscf/d. The tariff that is payable to GoT for this incremental capacity has yet to be agreed, but the Company has assumed it will be 17.5% of the Songas Outlet Price.

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

The Company receives a higher share of the Net Revenues after cost recovery, the higher the cumulative production or the average daily sales, whichever is higher. The profit share is a minimum of 25% and a maximum of 55%.

Average daily sales mmscf/d	Cumulative sales of Additional Gas bcf	TPDC's share of Profit Gas %	Company's share of Profit Gas %
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 share increases to 55%.

Where TPDC elects to participate in a development program, their profit share increases by the Specified Proportion (for that development program).

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

- (m) Additional Profits Tax is payable where the Company has recovered its costs plus a specified return out of Cost Gas revenues and Profit Gas revenues. As a result: (i) no Additional Profits Tax is payable until the Company recovers all its costs out of Additional Gas revenues plus 25% plus the percentage change in the United States Industrial Goods Producer Price Index ("PPI") annual return; and (ii) the maximum Additional Profits Tax rate is 55% when costs have been recovered with a 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 share can increase with larger daily gas sales and that the costs will be recovered with a 25% plus PPI annual return before Additional Profits Tax becomes payable. Additional Profits Tax can have a significant impact on the project economics if only limited capital expenditure is incurred.

Operatorship

- (n) The Company is appointed to develop, produce and process Protected Gas and operate and maintain the gas production facilities and processing plant, including the staffing, procurement, capital improvements, contract maintenance, maintain books and records, prepare reports, maintain permits, handle waste, liaise with GoT and take all necessary safe, health and environmental precautions all in accordance with good oilfield practices. In return, the Company is paid or reimbursed by Songas so that the Company neither benefits nor suffers a loss as a result of its performance.
- (o) In the event of loss arising from Songas' failure to perform and the loss is not fully compensated by Songas, EastCoast, CDC or insurance coverage, then EastCoast is liable to a performance and operation guarantee of US\$2,500,000 when (i) the loss is caused by the gross negligence or wilful misconduct of the Company, its subsidiaries or employees, and (ii) Songas has insufficient funds to cure the loss and operate the project.

Consolidation

EastCoast Energy was spun off from PanOcean Corporation on 31 August 2004. Accordingly, results prior to this date were consolidated within PanOcean.

The companies that are being consolidated are:

Company	Incorporated
EastCoast Energy Corporation	British Virgin Islands
PAE PanAfrican Energy Corporation	Mauritius
PanAfrican Energy Tanzania Limited	Jersey

Q1 Results

Revenue and operating costs

The sales of Additional Gas commenced on 18 September 2004. Under the terms of the PSA with TPDC, EastCoast is responsible for invoicing, collecting and allocating the revenue.

EastCoast is able to recover all costs incurred on the development and administration of the project out of 75% of the Net Revenues. Any costs not recovered in any period are carried forward to be recovered out of future revenues. Revenue less cost recovery is allocated 75% to TPDC and 25% to EastCoast.

EastCoast had recoverable costs throughout the period and accordingly was allocated 81.25% of the Net Revenues in the period as follows:

Three months ended (US\$'000 except production and per mcf data)	31 Mar 2005	31 Dec 2004
Gross sales volume (mcf)	96,920	107,070
Average sales price (US\$/mcf)	5.23	5.31
Gross sales revenue	507	567
Gross tariff for processing plant and pipeline infrastructure	76	85
Gross net revenue after tariff	431	482
<i>Analysed as to:</i>		
Company Cost Recovery	323	361
Company Profit Gas	27	30
Company operating revenue	350	391
TPDC Profit Gas	81	91
	431	482
Operating costs for Additional Gas:		
Ring main distribution pipeline	23	31
Share of well maintenance	3	18
Other operating costs	10	23
Depletion	29	34

Revenue and operating costs (continued)

The tariff is calculated as 17.5% of the price of gas at the Songas main pipeline in Dar es Salaam ("Songas Outlet Price"). In calculating the Songas Outlet Price, 74 cents/mcf ("Ringmain Tariff") has been deducted from the achieved sales price of US\$5.23/mcf to reflect the gas price that would be achievable at the Songas main pipeline. The Ringmain Tariff represents the amount that would be required to compensate a third party distributor of the gas for constructing the connections from the Songas main pipeline to the industrial customers.

The cost of maintaining the ring main distribution pipeline and pressure reduction station (security, insurance and personnel) is forecast to be approximately US\$0.2 million per annum in its current form.

The well maintenance costs are allocated between Protected and Additional Gas based on the proportion of their respective sales during the year. The total costs for the maintenance for the period was US\$62,000 (Q4 2004: US\$532,000) and US\$2,700 (Q4 2004: US\$18,000) was allocated for the Additional Gas. The higher costs for Q4 2004 included the costs of pulling the down-hole pressure gauges and remedial work on SS-9.

Other operating costs include an apportionment of the annual PSA licence costs and some costs associated with the evaluation of the reserves.

Pricing

The price of gas for the period was at a discount to the price of Heavy Fuel Oil ("HFO") in Dar es Salaam. This resulted in average gas prices of \$5.23 per mcf over the period.

The gas price achieved will fluctuate with world oil prices and the discount agreed with the customers. The price of HFO in Dar es Salaam in any particular month is estimated to be reflective of HFO prices in Dubai some two to three months prior to delivery, plus transportation costs. The monthly range was US\$4.56/mcf in January to US\$ 5.85/mcf in March.

The average price will fall significantly when the Company commences gas sales to the power sector. Consumers currently pay approximately 8.5 cents/kwh for their electricity. This electricity price is comparable with other electricity tariffs in East Africa, but is significantly lower than the current prices achieved in western economies. This will put some downward pressure on the price that gas can be sold to the power sector.

Netbacks

The netback per mcf before general and administrative costs and overheads may be analysed as follows:

Three months ended (US\$/mcf)	31 Mar 2005	31 Dec 2004
Average price for gas	5.23	5.31
Tariff (after allowance for the Ringmain Tariff)	(0.78)	(0.80)
TPDC profit share	(0.84)	(0.84)
Net selling price	3.61	3.67
Well maintenance and other operating costs	(0.13)	(0.38)
Ringmain distribution pipeline costs	(0.24)	(0.29)
Net Back	3.24	3.00

Netbacks are currently high as all the sales in Q1 2005 and in Q4 2004 were to the industrial sector at prices linked to the price of HFO in Dar es Salaam. In addition, the Company was recovering 75% of the Net Revenues as Cost Gas. The Netback per mcf will fall when the Company commences gas sales for electricity generation.

General and Administrative Expenses

The general and administrative expenses (“G&A”) may be analysed as follows:

Three months ended (US\$'000)	31 Mar 2005	31 Dec 2004
Employee costs	188	161
Stock based compensation	71	301
Travel & accommodation	55	40
Communications	18	20
Office	84	57
Consultants	141	138
Insurance	42	69
Auditing & taxation	19	34
Depreciation	25	-
Other corporate	128	93
Directors' fees	14	14
Total general and administrative expenses	785	927

G&A averaged approximately US\$0.27 million (Q4 2004: US\$0.3 million) per month (including the stock-based compensation and depreciation). The cost per gross mcf sold remained high at US\$8.10/mcf (Q4 2004: US\$8.66/mcf). This will fall significantly when contracted sales increase as a large proportion of the G&A is relatively fixed in nature.

The Company uses the Black-Scholes option pricing model in determining the fair value of options. A third of the options vested on the grant date and accordingly a third of the fair value of the options was expensed in 2004 along with a monthly charge of US\$24,000 representing the amortization of the remaining fair value of the options over the vesting period. This monthly amount will continue to be charged to the income statement until all options have vested in September 2006.

Taxes

Under the terms of the PSA, the Company is liable to Tanzanian income tax, but this is paid through the profit sharing arrangements with TPDC. Where income tax is payable the Company's revenue will be grossed up by the tax due and the tax will be shown as a current tax.

The Company has taxable losses brought forward and has incurred losses in the period under review. Therefore the Company was not liable to income tax during the period and in 2004.

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, an Additional Profits Tax (“APT”) is payable. As at 31 March 2005, there were un-recovered costs of US\$7.0 million and therefore no APT is payable.

Management does not anticipate that any income tax or APT will be payable in 2005 as the forecast revenues will not be sufficient to cover the un-recovered costs brought forward and the expenditures incurred in 2005. The actual taxes paid will be dependent on the achieved value of the Additional Gas sales and the quantum and timing of the operating costs and capital expenditure programme.

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

As at 31 March 2005 there were no material temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Depletion and Depreciation

The Natural Gas Properties are depleted using the unit of production method based on the production for the period as a percentage of the total future production from the Songo Songo proven reserves. As at 31 December 2004, the proven reserves as evaluated by the independent reservoir engineers, McDaniel & Associates Consultants Ltd. ("McDaniels") were 171.2 bcf on a life of licence basis. This leads to a depletion charge of US\$0.29/mcf in Q1 2005 (Q4 2004: US\$0.29/mcf).

Non-Natural Gas Properties are depreciated as follows:

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

Recoverable costs

As at 31 March 2005, the Company had US\$7.0 million of costs that are recoverable out of 75% of the future Net Revenues.

Carrying Value of Assets

Capitalised costs are periodically assessed to determine whether it is likely that such costs will be recovered in the future. To the extent that these capitalised costs are unlikely to be recovered in the future, they are written off and charged to earnings.

Cash flow

Pre tax cash flows from operations was negative US\$0.4 million in the period to 31 March 2005 as there were limited Additional Gas sales to offset the principally fixed cost base. The components of the Company's cash flow were as follows:

<u>Three months ended (US\$'000)</u>	<u>31 Mar 2005</u>	<u>31 Dec 2004</u>
Net loss before taxation	(518)	(643)
Adjustment for non cash items	125	336
Pre tax cash flows from operations	(393)	(307)
Working capital adjustments	(147)	894
Natural gas properties and other equipment expenditure	(303)	(766)
Net proceeds from rights issue and exercise of options	4,375	-
Net increase/(decrease) in cash and cash equivalent	3,532	(179)

There was a significant increase in the net cash and cash equivalent due to the net receipt of US\$4.4 million from the rights issue in March 2005.

Capital Expenditures

Gross capital expenditures amounted to \$0.3 million in Q1 2005. The capital expenditure may be analysed as follows:

<u>Three months ended (US\$'000)</u>	<u>31 Mar 2005</u>	<u>31 Dec 2004</u>
Geological and geophysical	88	137
Pipelines and infrastructure	210	479
Other equipment	5	-
Business development	-	150
	303	766

The Company continued to prepare the seismic programme in Q1 2005. Preparatory work included a re-evaluation of the existing seismic and an analysis of potential exploration leads. Costs associated with this work were capitalised. The seismic acquisition work is expected to be conducted in Q2 and Q3 2005 at a forecast cost of US\$2.1 million.

Construction work for an 8.6 kilometer pipeline to Karibu Textile Mills Ltd. commenced during Q1 and as at 31 March 2005, US\$0.2 million had been paid. The total cost of this connection is estimated at US\$ 1.1 million and is forecast to be complete by the end of Q2 2005.

Working capital

Working capital as at 31 March 2005 was US\$4.9 million and may be analysed as follows:

US\$'000	31 Mar 2005	31 Dec 2004
Cash and cash equivalents	5,572	2,040
Trade and other receivables	495	441
	6,067	2,481
Total current liabilities	1,172	1,265
Working capital	4,895	1,216

There was a 173% increase in cash and cash equivalents due to the net receipt of US\$4.4 million from the rights issue in March 2005.

Under the terms of the PSA and other Songo Songo agreements:

- The profit share owed to TPDC is payable within 30 days of each quarter end. Accordingly, the Company benefits from holding the cash receipts for this period of time and the quarter end cash balance is likely to increase as sales increase. As at 31 March 2005, US\$81,000 (31 December 2004: US\$92,000) was owed to TPDC.
- Songas advances funds to cover all anticipated expenditure on the gas processing plant and wells in the following month. As at 31 March 2005, US\$17,000 (31 December 2004: US\$251,000) of cash had been advanced by Songas to cover these operating expenses.
- The tariff for the use of the gas processing plant and pipeline infrastructure is payable to Songas within 30 days of each month end. As at 31 March 2005 the Company owed Songas US\$56,000 (31 December 2004: US\$97,000) for the tariff.

Also included in cash and cash equivalents was US\$100,000 advanced by Tanzania China Friendship Textile Co Ltd. as a deposit for their connection. This will be repaid to the company once they have consumed in excess of US\$200,000 of Additional Gas. This amount is also shown in current liabilities.

The majority of the cash is held in US dollars in Mauritius and Tanzania bank accounts. There are no restrictions in Tanzania for converting Tanzania Shillings into US dollars. Any surplus cash is held in a fixed rate interest earning deposit account.

Under the contract terms with the industrial customers, the Additional Gas payments must be received within 30 days of the month end. As at 31 March, Kioo Ltd., Tanzania Breweries Ltd. and Aluminium Africa Ltd. were current in their payments and US\$248,000 was due for the month of March (including VAT). The amount has been subsequently received.

Management forecasts that the Company will be able to meet its 2005 capital expenditure programme of US\$3.4 - US\$5.2 million (primarily seismic and pipeline connections) through the Cdn\$5.5 million of gross proceeds received from the rights issue and internally generated funds. In addition, the Company has no bank borrowings and there is scope for utilising debt funding once sufficient gas contracts are in place.

Outstanding share capital

There were 23.3 million shares outstanding at 31 March 2005 and may be analysed as follows:

No of shares ('000)	31 Mar 2005	31 Dec 2004
Shares outstanding		
Class A shares	1,751	1,751
Class B shares	21,513	19,386
	23,264	21,137
Convertible securities:		
Options	1,987	2,000
Fully diluted Class A and Class B shares	25,251	23,137
Weighted average		
Class A and Class B shares	23,264	21,137
Options	1,987	2,000
Weighted average diluted Class A and Class B shares	25,251	23,137

On the 4 March 2005, the Company issued 2,113,744 Class B shares at Cdn\$2.60 per share following a successful rights issue. Net proceeds of US\$4.4 million were raised for the Company. The funds will be primarily used to develop the Company's existing gas assets in Tanzania and to pursue new options for growth.

Under the term of the rights issue:

- each holder of Class B shares was entitled to receive one right for each Class B share held and ten rights entitled the holder to subscribe for one Class B share at a price of Cdn\$2.60;
- each holder of Class A shares was entitled to receive one right for each Class A share held and ten rights entitled the holder to subscribe for one Class B share at a price of Cdn\$2.60;

The subscription price of Cdn\$2.60 represented a 15% discount to the closing price of the Class B shares on 19 November, 2004. There was no further movement in the outstanding share capital as at 27 May 2005.

Stock based compensation

The stock option plan provides for the granting of stock options to directors, officers, employees and consultants. Stock options granted have a maximum term of ten year to expiry and vest equally over a two year period commencing 1 September 2004. The exercise price of each stock option is determined as the closing market price of the common shares on the day prior to the day of grant. Each stock option granted permits the holder to purchase one common share at the stated exercise price. In accordance with IFRS2, the Company records a charge to the profit and loss account using the Black & Scholes fair valuation option pricing model. The valuation is dependent on a number of estimates, including the risk free interest rate, the level of stock volatility, together with an estimate of the level of forfeiture.

2,000,000 options were issued to certain Directors and Officers on 1 September 2004. During the period 12,800 options were exercised at a price of Cdn\$1 per option. A total of 1,987,200 options remain outstanding. These options have a term of 10 years and an exercise price of Cdn\$1.

Contractual Obligations and Committed Capital Investment

The Company's rights regarding the seven licences adjoining the Songo Songo field ("Adjoining Blocks") are for the period until October 2005. If the Company wishes to retain the Adjoining Blocks, it must incur a minimum of US\$2.0 million (in October 2001 terms) on seismic pre October 2005 and drill one well on the Adjoining Blocks before October 2006. Management has approved the seismic programme and has already signed a contract with Silver Queen Maritime Limited. US\$2.1 million has been committed for the programme which starts in Q2 2005. A decision as to drill a well in 2006 will be taken once the results of the seismic work have been analysed.

The Company is also committed to incurring US\$1.1 million for the Karibu Textile Mills Ltd. pipeline construction work. This will be completed by the end of Q2 2005.

Management expects to fund its committed capital investments from the proceeds of the rights issue, self generated funds and debt.

Under the terms of the contracts with Kioo Ltd., Tanzania Breweries Ltd. and Karibu Textile Mills Ltd., the Company is liable to pay penalties in the event that there is a shortfall in the Additional Gas supply in excess of 5% of the contracted quantity. The penalties equate to the difference between the price of gas and an alternative feedstock multiplied by the notional daily quantities. The maximum penalty for shortfall gas is US\$1.1 million for these three contracts and the remedy is payable as a credit against future monthly invoices.

Under the terms of the PSA, in the event that there is a shortfall in Protected Gas as a consequence of the sale of Additional Gas, then the Company is liable to pay the difference between the price of Protected Gas (US\$0.55 mmbtu) 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. Songas has the right to request reasonable security on all Additional Gas sales. No security has been requested for the initial industrial gas sales but Songas still retains this right and may require security for larger volumes.

Off-Balance sheet transactions

As at 31 March 2005, the Company had no off-balance sheet arrangements.

Operating leases

The Company has entered into a five year rental agreement that expires on 30 November 2007 for the use of the offices in Dar es Salaam at a cost of approximately US\$92,000 per annum.

Related party transactions

The Company was spun off from PanOcean through a Scheme of Arrangement on 31 August 2004. W. David Lyons is the Chairman and controlling shareholder of both PanOcean and EastCoast. The Company has entered into an arms length agreement with PanOcean for the use of certain administrative and technical support services provided by PanOcean staff for the transitional period after the spin off. These services were not utilised in Q1 2005.

There have been no other transactions undertaken with related parties during the period.

EastCoast Corporation

There are numerous factors which may affect the success of EastCoast's business which are beyond EastCoast's control including local, national and international economic and political conditions. EastCoast's business will involve a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome. The operations of EastCoast in East Africa will expose EastCoast to risks such as political and currency risks.

The Corporation is at a relatively early stage of development and accordingly there are numerous uncertainties in estimating gas reserves and in projecting future production, costs and expenses and the results, timing and costs of exploration and development projects, as well as the timing and costs associated with the realisation of markets for natural gas production.

Operating Hazards and Uninsured Risks

The business of EastCoast 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, 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 EastCoast'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 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 EastCoast 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 EastCoast is increased due to the fact that EastCoast currently only has one producing property. EastCoast 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 EastCoast's financial condition, results of operations and cash flows. Furthermore, EastCoast cannot predict whether insurance will continue to be available at a reasonable cost or at all.

Foreign Operations

All of EastCoast's operations and related assets will be located in countries which may be considered to be politically and/or economically unstable. Exploration or development activities in such countries 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, renegotiation or nullification of existing contracts, 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 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, EastCoast may be subject to the exclusive jurisdiction of foreign courts.

In the foreign countries in which EastCoast will conduct business, currently limited to Tanzania, the state generally retains ownership of the minerals and consequently retains control of (and in many cases, participates in) the exploration and production of hydrocarbon reserves. Accordingly, these operations may be materially affected by host governments through royalty payments, export taxes and regulations, surcharges, value added taxes, production bonuses and other charges.

All of EastCoast's development properties and all of its proved natural gas reserves will be located offshore on the Songo Songo Island in Tanzania, and, consequently, EastCoast's assets will be subject to regulation and control by the government of Tanzania and certain of its national and parastatal organizations. EastCoast and its predecessors have operated in Tanzania for a number of years and believe that it has 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 EastCoast.

Additional Financing

Depending on future exploration, development, and marketing plans, EastCoast may require additional financing. The ability of EastCoast to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of EastCoast. There can be no assurance that EastCoast will be successful in its efforts to arrange additional financing on terms satisfactory to EastCoast. If additional financing is raised by the issuance of shares from treasury of EastCoast, control of EastCoast may change and shareholders may suffer additional dilution.

From time to time EastCoast 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 EastCoast's debt levels above industry standards.

Industry Conditions

The oil and gas industry is intensely competitive and EastCoast 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, EastCoast's Songo Songo natural gas property is operated by EastCoast. There is a risk that in the future either the operatorship could change and the property operated by third parties or operations may be subject to control by national oil companies, Songas, or parastatal organisations and, as a result, EastCoast 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 EastCoast will be affected by numerous factors beyond its control. There is currently no developed natural gas market in Tanzania and no infrastructure with which to serve potential new markets beyond that being constructed by EastCoast and Songas. The ability of EastCoast to market any natural gas from current or future reserves may depend upon its ability to develop natural gas markets in Tanzania and the surrounding region, obtain access to the necessary infrastructure to deliver sales gas volumes, including acquiring capacity on pipelines which deliver natural gas to commercial markets. EastCoast 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. EastCoast 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 EastCoast 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

Under the terms of the PSA, in the event that there is a shortfall in Protected Gas as a consequence of the sale of Additional Gas, then the Company is liable to pay the difference between the price of Protected Gas (US\$0.55 mmbtu) 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. Songas has the right to request reasonable security on all Additional Gas sales. No security has been requested for the initial industrial gas sales but Songas still retains this right and may require security for larger volumes.

Replacement of Reserves

EastCoast's natural gas reserves and production and, therefore, its cash flows and earnings are highly dependent upon EastCoast developing and increasing its current reserve base and discovering or acquiring additional reserves. Without the addition of reserves through exploration, acquisition or development activities, EastCoast'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, EastCoast'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 EastCoast will be able to find and develop or acquire additional reserves to replace production at commercially feasible costs.

Asset Concentration

EastCoast's natural gas reserves are limited to one property, the Songo Songo field, and the production potential from this field is limited to five wells. There has been limited production from the five wells in the Songo Songo field to date. There is no assurance that EastCoast 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 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 EastCoast.

Environmental and Other Regulations

Extensive national, state, and local environmental laws and regulations in foreign jurisdictions will affect nearly all of EastCoast'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 EastCoast will not incur substantial financial obligations in connection with environmental compliance. Significant liability could be imposed on EastCoast 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 EastCoast or non-compliance with environmental laws or regulations. Such liability could have a material adverse effect on EastCoast. Moreover, EastCoast 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 EastCoast for the installation and operation of systems and equipment for remedial measures, any or all of which may have a material adverse effect on EastCoast. As party to various licenses, EastCoast has an obligation to restore producing fields to a condition acceptable to the authorities at the end of their commercial lives.

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

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

No provision has been recognized for future decommissioning costs which are anticipated to be immaterial as it is forecast that there will still be commercial gas reserves once EastCoast relinquishes the licence in 2026. EastCoast 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 EastCoast to date. Although management believes that EastCoast'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

EastCoast'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 EastCoast. Any substantial decline in the prices of oil and natural gas could have a material adverse effect on EastCoast 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 EastCoast.

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

The Songo Songo field is the first gas field to be developed in East Africa. The Company has therefore been able to negotiate industrial gas sales contracts with gas prices that are at a discount to the lowest cost alternative fuels in Dar es Salaam namely HFO.

Recently, there has been increased activity in the exploration of oil and gas in Tanzania, with the result that one well has been drilled on an adjacent prospect to Songo Songo. There has been a commercial gas discovery in the south of Tanzania at Mnazi Bay and a number of Production Sharing Agreements are being negotiated for the drilling offshore Tanzania. These developments will be closely monitored by the Company, but could 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 EastCoast's ability to market its gas production. Any significant decline in the price of oil or gas would adversely affect EastCoast's revenues, operating income, cash flows and borrowing capacity and may require a reduction in the carrying value of EastCoast's gas properties and its planned level of capital expenditures.

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 EastCoast. The reserve and cash flow information contained herein represents estimates only. The reserves and estimated future net cash flow from EastCoast'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 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 EastCoast. 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 EastCoast which could result in a reduction of the revenue received by EastCoast.

Acquisition Risks

EastCoast intends to acquire natural gas infrastructure and possibly additional oil and gas properties. Although EastCoast 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, EastCoast 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. EastCoast 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 EastCoast's acquisitions will be successful.

Reliance on Key Personnel

EastCoast 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 EastCoast. EastCoast does not maintain key man life insurance on any of its employees.

Controlling Shareholder

W David Lyons, the Company's non executive Chairman, is the sole controlling shareholder of EastCoast and holds approximately 99.3% of the outstanding Class A shares and approximately 16.7% of the Class B shares. Consequently, Mr Lyons holds approximately 22.9% of the equity and controls 67.9% of the total votes of EastCoast.

CONSOLIDATED INCOME STATEMENT (Unaudited)

(thousands of US dollars except per share amounts)

Three months ended
31 March
2005

Three months ended
31 December
2004

Revenue

Operating	350	391
-----------	------------	-----

Cost of sales

Production and distribution expenses	36	72
--------------------------------------	-----------	----

Depletion expense	29	34
-------------------	-----------	----

Gross profit	285	285
---------------------	------------	-----

Other income	6	7
--------------	----------	---

Administrative expenses	(785)	(927)
-------------------------	--------------	-------

Other operating expenses	(24)	(7)
--------------------------	-------------	-----

Loss before taxation	(518)	(642)
-----------------------------	--------------	-------

Taxation	-	-
----------	---	---

Loss for the period	(518)	(642)
----------------------------	--------------	-------

Loss per share

Basic and diluted (US\$)	0.022	0.030
--------------------------	--------------	-------

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED BALANCE SHEET (Unaudited)

<i>(thousands of US dollars)</i>	As at 31 March 2005	As at 31 December 2004
ASSETS		
Current assets		
Cash and cash equivalents	5,572	2,040
Trade and other receivables	495	441
	6,067	2,481
Natural gas properties and other equipment	10,549	10,300
	16,616	12,781
LIABILITIES		
Current liabilities		
Trade and other payables	1,172	1,265
SHAREHOLDERS' EQUITY		
Capital stock	16,237	11,862
Capital reserve	452	381
Accumulated loss	(1,245)	(727)
	15,444	11,516
	16,616	12,781
See accompanying notes to the interim consolidated financial statements.		

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

	Three months ended 31 March 2005	Three months ended 31 December 2004
<i>(thousands of US dollars except per share amounts)</i>		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(518)	(643)
Adjustments for:		
Depletion and depreciation	54	34
Stock-based compensation	71	302
Operating loss before working capital changes	(393)	(307)
(Increase)/decrease in trade and other receivables	(54)	1,031
Decrease in trade and other payables	(93)	(137)
Net cash flow from operating activities	(540)	587
CASH FLOWS FROM INVESTING ACTIVITIES		
Natural gas properties and other equipment expenditure	(303)	(766)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from rights issue	4,365	-
Proceeds from exercise of options	10	-
Net cash flow from financing activities	4,375	-
Net increase/(decrease) in cash and cash equivalents	3,532	(179)
Cash and cash equivalents at the beginning of the period	2,040	2,219
Cash and cash equivalents at the end of the period	5,572	2,040

See accompanying notes to the interim consolidated financial statements.

STATEMENT OF CHANGES IN EQUITY (Unaudited)

<i>(thousands of US dollars)</i>	Capital stock	Capital reserve	Accumulated reserve	Total
Balance as at 31 December 2004	11,862	381	(727)	11,516
Rights issue net of share issue costs	4,365	-	-	4,365
Options exercised	10	-	-	10
Loss for the period	-	-	(518)	(518)
Stock-based compensation	-	71	-	71
Balance as at 31 March 2005	16,237	452	(1,245)	15,444

1 STATEMENT OF COMPLIANCE

These interim consolidated financial statements of EastCoast Energy Corporation ("EastCoast" or the "Company") have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the Standing Interpretations Committee of the IASB.

The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements for the period ended 31 December 2004. The disclosures provided below are incremental to those included in the audited financial statements.

In all material respects, these accounting principles are generally accepted in Canada (see Note 6).

2 NATURAL GAS PROPERTIES AND OTHER EQUIPMENT

	Natural gas properties	Leasehold improvements	Computer equipment	Vehicles	Fixtures & fittings	Total
Costs						
As at 1 January	10,057	156	52	34	36	10,335
Additions	296	1	–	5	1	303
As at 31 March	10,353	157	52	39	37	10,638
Depletion/Depreciation						
As at 1 January	35	–	–	–	–	35
Charge for the year	29	8	5	3	9	54
As at 31 March	64	8	5	3	9	89
Net Book Values						
At 31 March 2005	10,289	149	47	36	28	10,549
At 31 December 2004	10,022	156	52	34	36	10,300

The Company does not have any unproven property costs that are being excluded from the depletion calculation.

3 CAPITAL STOCK

Number of shares (thousands)	Class A	Class B	Total number of shares	Par value US\$
At 31 December 2004	1,751	19,386	21,137	11,862
Rights issue	–	2,114	2,114	4,365
Options exercised	–	13	13	10
At 31 March 2005	1,751	21,513	23,264	16,237

During the period, 12,800 options were exercised at a price of Cdn\$1 per option. A total of 1,987,200 options remain outstanding. These options have a term of 10 years and an exercise price of Cdn\$1.

On 4 March 2005, the Company issued 2,113,744 Class B shares at Cdn\$2.60 per share following a successful rights issue. Net proceeds of US\$4.4 million were raised for the Company. The funds will be primarily used to develop the Company's existing gas assets in Tanzania and to pursue new options for growth.

Under the term of the rights issue:

- each holder of Class B shares was entitled to receive one right for each Class B share held and ten rights entitled the holder to subscribe for one Class B share at a price of Cdn\$2.60; and
- each holder of Class A shares was entitled to receive one right for each Class A share held and ten rights entitled the holder to subscribe for one Class B share at a price of Cdn\$2.60.

The subscription price of Cdn\$2.60 represented a 15% discount to the closing price of the Class B shares on 19 November, 2004.

4 POST BALANCE SHEET EVENTS

On 26 May, a contract was awarded to the operator of the seismic vessel, Silver Queen Maritime Limited, for the acquisition of 550 kilometers of seismic at a forecast cost of US\$1.3 million. The total cost of the seismic programme including project management, processing and interpretation is estimated at US\$2.1 million.

5 COMMITMENTS AND CONTINGENCIES

During the period, the Company contracted Terasen International to construct an 8.6 kilometer pipeline to Karibu Textile Mills Ltd. at an estimated cost of US\$1.1 million. As at 31 March 2005, US\$0.2 million had been paid to a contractor.

Under the terms of the PSA, in the event that there is a shortfall in Protected Gas as a consequence of the sale of Additional Gas, then the Company is liable to pay the difference between the price of Protected Gas (US\$0.55 mmbtu) 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. Songas has the right to request reasonable security on all Additional Gas sales. No security has been requested for the initial industrial gas sales but Songas still retains this right and may require security for larger volumes.

6 RECONCILIATION OF IFRS TO ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN CANADA

These interim consolidated financial statements have been prepared in accordance with the IFRS basis of accounting, which differ in some respects from those in Canada.

In Canada, the carrying value of natural gas properties is compared annually to the sum of the undiscounted cash flows expected to result from the company's proved reserves. Should the ceiling test result in an excess of carrying value, the company would then measure the amount of impairment by comparing the carrying amounts of natural gas properties to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves and the lower of cost and market of unproved properties. The Company's risk-free interest rate is used to arrive at the net present value of the future cash flows. To date, application of the Canadian prescribed ceiling test has not resulted in a write-down of capitalized costs.

There were no material differences in accounting principles as they pertain to the accompanying interim consolidated financial statements.

FORWARD-LOOKING STATEMENTS THIS DISCLOSURE CONTAINS CERTAIN FORWARD-LOOKING ESTIMATES THAT INVOLVE SUBSTANTIAL KNOWN AND UNKNOWN RISKS AND UNCERTAINTIES, CERTAIN OF WHICH ARE BEYOND EASTCOAST'S CONTROL, INCLUDING: THE IMPACT OF GENERAL ECONOMIC CONDITIONS IN THE AREAS IN WHICH THE GROUP OPERATES, CIVIL UNREST, INDUSTRY CONDITIONS, CHANGES IN LAWS AND REGULATIONS INCLUDING THE ADOPTION OF NEW ENVIRONMENTAL LAWS AND REGULATIONS AND CHANGES IN HOW THEY ARE INTERPRETED AND ENFORCED, INCREASED COMPETITION, THE LACK OF AVAILABILITY OF QUALIFIED PERSONNEL OR MANAGEMENT, FLUCTUATIONS IN COMMODITY PRICES, FOREIGN EXCHANGE OR INTEREST RATES, STOCK MARKET VOLATILITY AND OBTAINING REQUIRED APPROVALS OF REGULATORY AUTHORITIES. IN ADDITION THERE ARE RISKS AND UNCERTAINTIES ASSOCIATED WITH GAS OPERATIONS. THEREFORE, EASTCOAST'S ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENT COULD DIFFER MATERIALLY FROM THOSE EXPRESSED IN, OR IMPLIED BY, THESE FORWARD-LOOKING ESTIMATES AND, ACCORDINGLY, NO ASSURANCES CAN BE GIVEN THAT ANY OF THE EVENTS ANTICIPATED BY THE FORWARD-LOOKING ESTIMATES WILL TRANSPIRE OR OCCUR, OR IF ANY OF THEM DO SO, WHAT BENEFITS, INCLUDING THE AMOUNTS OF PROCEEDS, THAT EASTCOAST WILL DERIVE THEREFROM.

For further information please contact:

Nigel A Friend, CFO
+255 (0)22 2138737
nfriend@eastcoast-energy.com

Peter Clutterbuck, President and CEO
+255 (0)22 2138737
prclutterbuck@eastcoast-energy.com

or visit the Company's web site at www.eastcoast-energy.com.

CORPORATE INFORMATION

BOARD OF DIRECTORS		
<p>W. David Lyons Non-Executive Chairman St. Helier Jersey</p>	<p>Peter R. Clutterbuck President & Chief Executive Officer Haslemere United Kingdom</p>	<p>Nigel A. Friend Chief Financial Officer London United Kingdom</p>
<p>John Patterson Non Executive Director Nanoose Bay Canada</p>	<p>Robert K. Spence Non-Executive Director Dar es Salaam Tanzania</p>	
OFFICERS		
<p>Pierre Raillard Vice President Operations</p>	<p>David W. Ross Company Secretary</p>	
OPERATING OFFICE	REGISTERED OFFICE	
<p>EastCoast Energy Corporation Barclays House, 5th Floor Ohio Street, P.O. Box 80139 Dar es Salaam Tanzania Tel: + 255 22 2138737 Fax: + 255 22 2138938</p>	<p>EastCoast Energy Corporation P.O. Box 3152, Road Town Tortola British Virgin Islands</p>	
INTERNATIONAL SUBSIDIARIES		
<p>PanAfrican Energy Tanzania Limited Barclays House, 5th Floor Ohio Street, P.O. Box 80139 Dar es Salaam Tanzania Tel: + 255 22 2138737 Fax: + 255 22 2138938</p>	<p>PAE PanAfrican Energy Corporation 1st Floor Cnr St George/Chazal Streets Port Louis Mauritius Tel: + 230 207 8888 Fax: + 230 207 8833</p>	
ENGINEERING CONSULTANTS	AUDITORS	LAWYERS
<p>McDaniel & Associates Consultants Ltd Calgary Canada</p>	<p>KPMG LLP Calgary Canada</p>	<p>Burnet, Duckworth & Palmer LLP Calgary Canada</p>
TRANSFER AGENT	INVESTOR RELATIONS	WEBSITE
<p>CIBC Mellon Trust Company Toronto, Montreal and Calgary, Canada</p>	<p>Nigel A. Friend Chief Financial Officer Tel: + 255 22 2138737 nfriend@eastcoast-energy.com</p>	<p>www.eastcoast-energy.com</p>

EASTCOAST
Energy