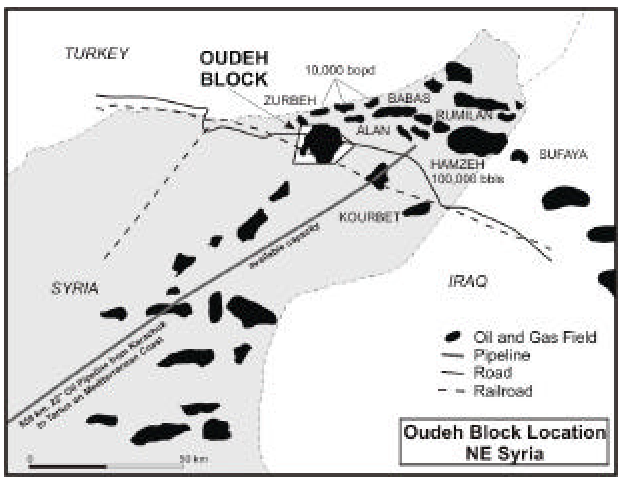
TANGANYIKA OIL COMPANY LTD.

ANNUAL REPORT
For the year ended May 31, 2003

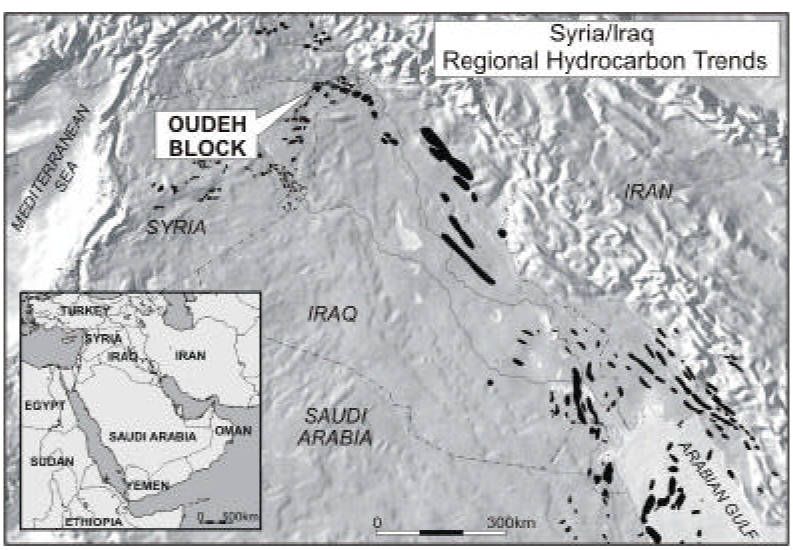
Throughout fiscal 2003, the Company worked hard to reduce operating costs and improve production performance of the Hana Field in Egypt and, as a result benefited greatly from the strong, steady oil prices seen over the past year. This successful year then culminated in the signing of a Production Sharing Agreement over the Oudeh Field in Syria, an achievement 5 years in the making. The Oudeh Field is a major development project with 3P reserves of over 166 million barrels, launching Tanganyika as a new mid-tier oil company.

SYRIA

On May 26, 2003, the Company, through its wholly-owned subsidiary, Dublin International Petroleum (Syria) Limited, signed a Production Sharing Agreement (PSA) on the Oudeh Field with the Syrian Petroleum Company (SPC) and the Ministry of Petroleum and Mineral Resources. The PSA was ratified by the parliament on July 12, 2003 and Law No. 34 2003 was issued by the President of the Syrian Arab Republic. Tanganyika has a 100% interest in the project and is the operator.



The PSA covers 192 square kilometers located in the main producing region of northeastern Syria. The block is within a major oil trend which extends from the Arabian Gulf, Kuwait and through Iraq, Iran and into Syria. Oil in the Oudeh Field is hosted in three carbonate reservoirs, the Shiranish, Butmah and Kurachine which range in depth from 1,600 metres to 2,500 metres.



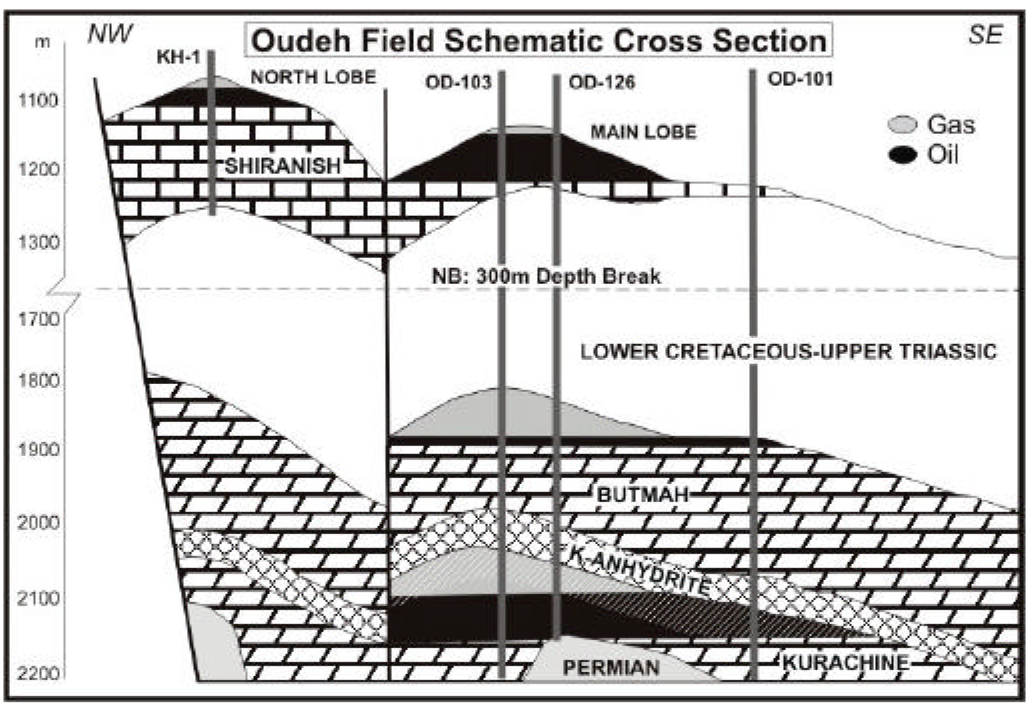
Independent reservoir assessment studies (Sproule International Limited, June 1, 2003) estimate primary recoverable proven, probable and possible reserves in the order of 166 million barrels (84 million barrels proven and probable and 82 million barrels possible). Total oil in place contained in the Oudeh Field is estimated at over 2.4 billion barrels. The majority of the reserves to date have been assigned to the Shiranish reservoir. The Butmah and Kurachine have significant reserve potential and will be re-assessed from a geological perspective and subject to reservoir simulation model studies in the future.

Development of this world class oil field will commence with well workovers, field trials and feasibility studies. The objective is to increase oil production and recovery using the latest drilling and enhanced recovery techniques. Pursuant to the PSA, Tanganyika will share in the increased production achieved (70% government, 30% Tanganyika). A 12.5% royalty on incremental oil production is payable to the Syrian government. Production levels from the Oudeh Field are currently averaging approximately 1,100 bopd. Sproule's evaluation and independent studies from Computer Modeling Group Ltd. indicate a potential for sustained oil production of over 30,000 bopd for several years is achievable upon full development. Oil will be shipped via the existing pipeline to the Tartous export terminal on the Mediterranean coast. Oil prices used for the basis of Sproule's evaluation are the Sproule Brent Forecast less an appropriate price differential (i.e. Shiranish oil forecast is Brent less $6.00). The Company has free access to gas reserves from the Butmah formation for use in enhanced recovery schemes or pressure maintenance through gas injection. Transport costs to the Tartous export terminal are fixed at US $0.75 per barrel.

Reservoirs

The oil gravities for the Shiranish, Butmah and Kurachine reservoirs are 14, 28 and 26 degrees API, respectively. The Butmah contains a thin oil zone overlain by a large condensate rich gas cap. The majority of the Butmah production is in the form of condensate, having an API gravity of 56 degrees.

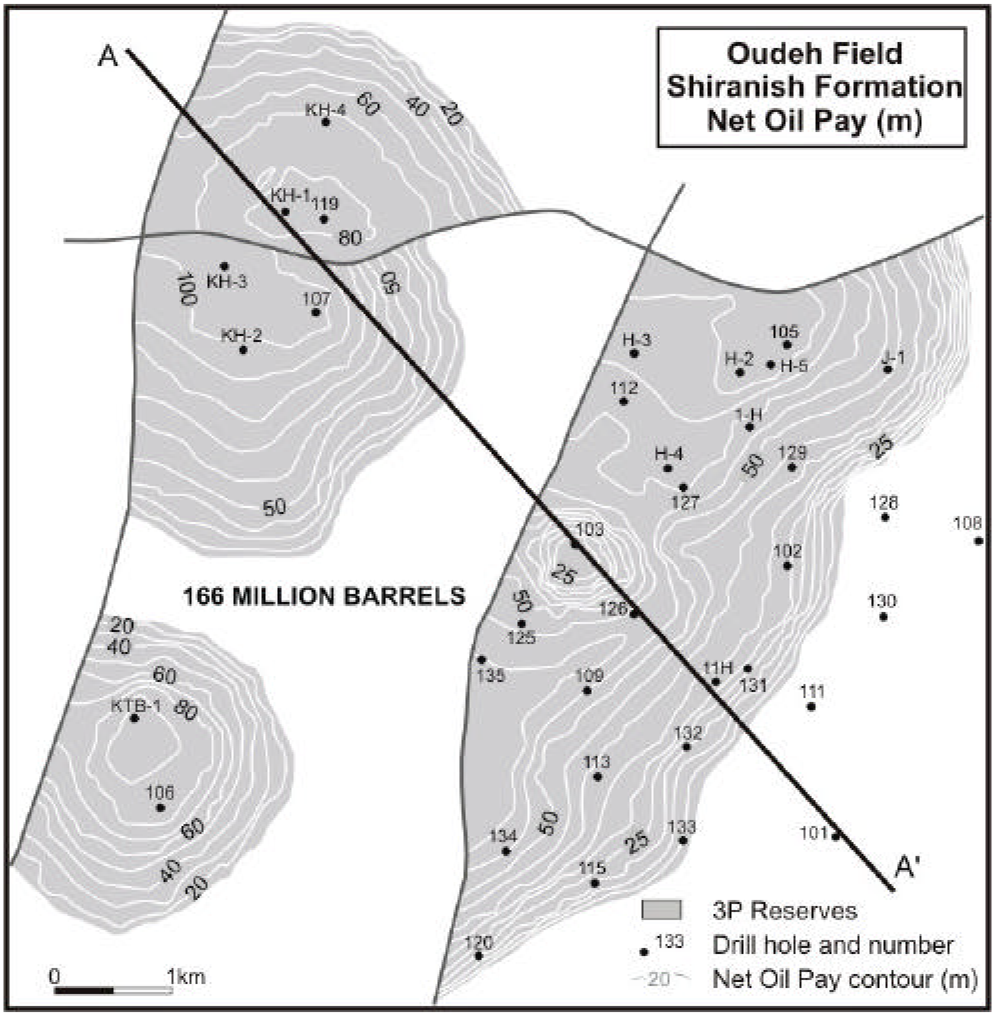
Current blended production from the Oudeh field is in the order of 39 degrees API. Sulphur content of Oudeh production is low.



Shiranish Reservoir

The Shiranish (Upper Cretaceous) formation is the shallowest reservoir at an average drilled depth of 1,595 metres. The upper zone of the Shiranish Formation is the main reservoir rock, consisting of crystalline and cryptocrystalline limestone with both intergranular matrix porosity as well as mouldic porosity. In the reservoir section, porosity exceeds 17%. The reservoir section is on the order of 100 metres thick. The Shiranish contains thick, heavy oil (14 degrees API) in four separate accumulations, referred to as the Main, North, Middle and South lobes. Small gas caps occur in the crest of the Main lobe and the North lobe.

A reservoir simulation model of the Shiranish reservoir was prepared by Computer Modeling Group Ltd. The Shiranish is viewed as having the greatest development upside due to the hydrocarbon volume and the under-exploited nature of the reservoir. Computer Modeling Group performed a detailed assessment of hydrocarbon volumes, ultimate recovery under current conditions, practicality for horizontal (multi-lateral) drilling, feasibility of enhanced oil recovery (gas injection), and an overview of other enhanced oil recovery options.



Butmah Reservoir

The Butmah (Late Triassic) formation is the middle of the three reservoirs and consists of dolomite with thin beds and inclusions of anhydrite. The average depth to the top of the Butmah in the Main lobe is 2,265 metres. The formation is on the order of 160 metres in thickness. Within the Main lobe, the Butmah reservoir contains mostly a condensate rich (56 degrees API) gas cap with a 10 metre thick oil leg. The treated gas is utilized for electrical power generation to feed the nearby Roumelan area.

Kurachine Reservoir

The lower most reservoir is the Kurachine Dolomite (Middle Triassic) which is comprised of dolomite with thin beds of anhydrite. The average depth to the top of the Kurachine in the Main lobe is 2,497 metres. The formation is on the order of 78 metres in thickness. Within the Main lobe is a gas cap with a light oil leg (26 degrees API).

Development Plan

The Company's first objective is to exploit and develop the Shiranish reservoir so as to accelerate and maximize production through the application of the latest proven and cost effective technology.

There is excellent existing infrastructure. Operations staff reside in and around the nearby town of Roumelan and are managed from a field office in the compound. Oudeh is situated 40 kilometres from the field office. A paved road connects Oudeh to Roumelan and the major city of Al Kamishli near the Turkish boarder. Al Kamishli has an airport capable of handling twin-engine jets. Oil will be transported to and treated at the Tel Adas processing plant and then shipped via the existing pipeline to the Tartous export terminal on the Mediterranean Coast for terminalling, loading and selling or storing.

The Company has free access to all existing wells, facilities and tangible assets owned by the Syrian Petroleum Company in the Contract Area. There are currently 11 producing oil wells from the Shiranish and Kurachine reservoirs (8 on conventional pumpjacks and 3 flowing without artificial lift) and 5 gas wells from the Butmah reservoir. The Company is not entitled to gas production except for the purposes of recovering and producing crude oil. The Syrian Petroleum Company will provide Tanganyika, free of charge, access to and utilization of gas reserves in the area for use in enhanced recovery projects. Liquids recovered through production and/or recycling of gas will be treated as crude oil.

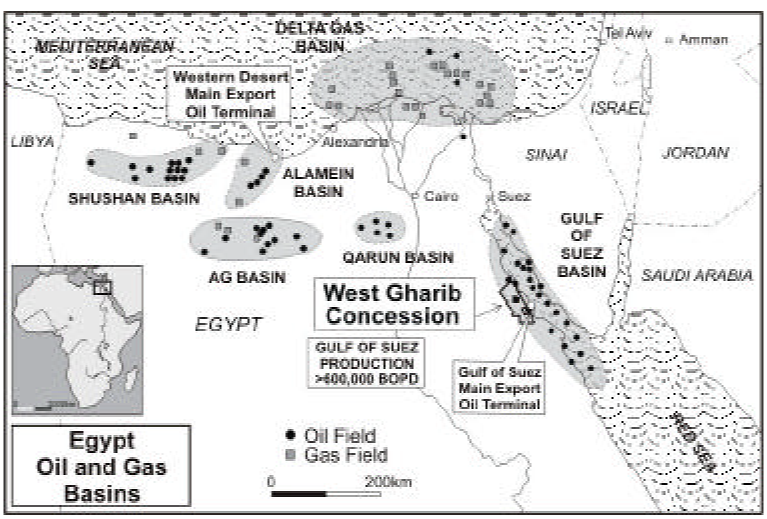
A development plan involving 69 multi-lateral horizontal wells in the Shiranish reservoir is being considered. Multi-lateral wells allow much more contact with the target formation and the reservoir can be exploited with fewer wells than with vertical or conventional directional wells. If the Shiranish reservoir is fully developed with these 69 wells, the production rate could exceed sustainable levels of over 30,000 barrels of oil per day. Drilling will be staged over the next 5 to 8 years. Pay-back is expected to be realized within 6 years from start of production. Field life is in excess of 25 years.

The work program is comprised of a Technical Evaluation Phase and a Field Development Phase. The Technical Evaluation Phase will comprise of feasibility studies, field trials, well workovers and production drilling. Well workovers are expected to commence in the fourth quarter of 2003.

EGYPT

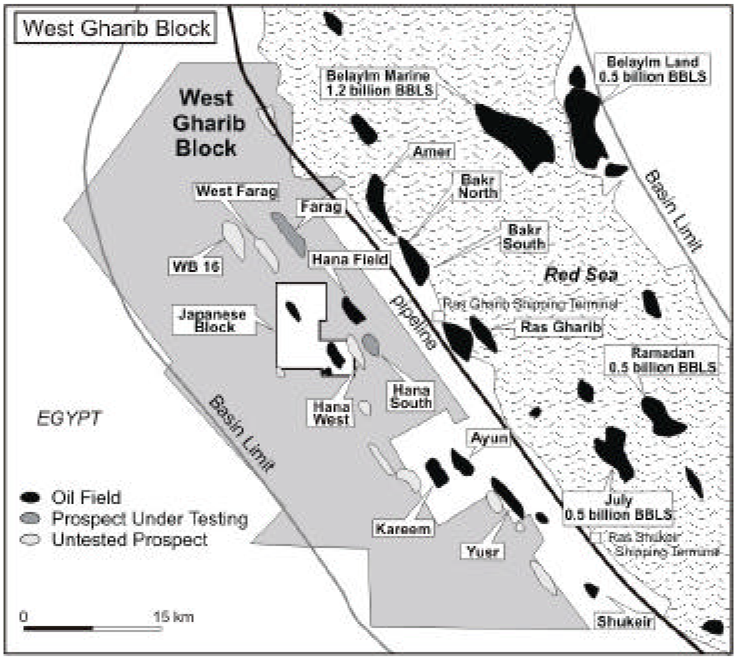
Tanganyika holds a 70% interest in the West Gharib Block, encompassing over 468,750 acres along the Gulf of Suez coast. The Company discovered the Hana Field in late 1999. Cumulative field production to date is approximately 2.1 million barrels. The Company continues to focus its efforts on developing the Hana Field to its full potential as well as explore the numerous prospects throughout the West Gharib Block.

An increase in revenues was achieved over the previous year as a result of the acquisition of Drucker Petroleum Inc.'s 20% interest in the Block, reduction in operating costs, improved production performance and stable oil prices. Average gross monthly revenue over the year was Cdn $560,000 representing an increase of 176% relative to last year. Total gross revenue from the sale of oil for fiscal 2003 was Cdn $6.723 million. Tanganyika's net oil production share was approximately 198,500 barrels.



The Company completed a workover and maintenance program on four wells. The no-cure-no-pay trial to test a Progressive Cavity Pump (PCP) in Hana-5 proved successful and, as a result, three additional PCP's were installed in the Hana-3, 7 and 9 wells in replacement of the Hydraulic Jet Pumps (HJP). The total number of PCP's operating in the field is now four. The remaining three wells (Hana-2, 4 and 6) continue to produce with HJPs. The change from HJP to

PCP resulted in approximately a 20% reduction in the operating cost, less down time, higher daily production rates and better control on individual well performance. Subsequent to the fiscal year, two successful workovers were completed on the Hana-7 and Hana-8 wells. The Hana-1 remains shut in.



To efficiently operate the four PCP's, the Company procured three 83 KVA generators and one 110 KVA generator as well as a standby generator at 50 KVA. Four of these new generators were installed and used to supply the required electrical power and the fifth one was equipped with a wheel mounted skid and used to replace each generator set shut down for routine maintenance. Electrical switches and cables were also upgraded resulting in easier power switching between wells and minimum production down time.

This new overall set up gave the Company the opportunity to release the two rented Triplex Pump units and four down-hole-hydraulic jet pumps, providing significant savings.

On the exploration side during fiscal 2003, the Company ran completion string in preparation for testing the exploratory well Farag-1 (11.3 kilometers northwest of Hana field). The company mobilized one of the two released Triplex Pumps and installed a down hole hydraulic jet pump. Initial flow was estimated at approximately 50 barrels/day of 20 degree API oil. The Company commissioned Schlumberger to stimulate the naturally fractured Eocene Thebes carbonate reservoir using a new acid polymer free technique and then resumed testing. Unfortunately the test was aborted when formation water associated with high concentrations of H_2S gas flowed to surface. The Company is still working on completing the Farag-1 test using H_2S resistant test equipment.

Testing the exploration well Hana South-1 by PCP was not performed this year, as all procured PCP's were utilized in the Hana field and shutting off the produced formation water proved to be uneconomic. Hana South-1 remains suspended until further seismic analyses is completed .

The Company commenced a major seismic reprocessing program using the most up to date pre-stack time migration techniques. Testing limited Hana 3D cube and two 2D seismic lines indicated substantial subsurface seismic resolution improvement compared with the traditional post-stack time migration. The new reprocessing enhanced seismic interpretation quality and gave better fault definition.

To date, the Company has completed reprocessing 642 line kilometers of 2D seismic lines shot by previous concession holders ranging in age from 1976 to 1999 including 248 line kilometers shot by the Company in 1999 that was post stack processed. The Company also commenced reprocessing 413 square kilometers of the 3D survey shot by the company in 1999 and 2000.

Appraisal drilling in the Hana South, Farag, and Rudeis reservoirs in the Hana field as well as additional exploration drilling is scheduled for 2004 following completion of interpretation of the new reprocessed seismic.

TANZANIA

The Company elected to terminate the Force Majeure status on the Mandawa Block and accept the Tanzanian government's cancellation of the exploration license in order to focus on the Egyptian and Syrian production projects.

CORPORATE

Investor relations activities are carried out by Company personnel and include the design and maintenance of a corporate website, information material and investor presentations.

SUBSEQUENT EVENTS

Subsequent to year end, the Company provided to the Government of the Syrian Republic and the Syrian Petroleum Company a US$2 million letter of guarantee pursuant to work commitments to be carried out on the Oudeh project. To facilitate the letter of guarantee, Mr. Adolf H. Lundin advanced to the Company a loan in the amount of US$2 million loan. The loan is for a term of two years, bearing interest at the rate of 10% per annum. At the option of the Company, the loan may be paid out at any time without penalty. The Company agreed to issue to Mr. Lundin a bonus of common shares equal to 20% of the amount of the loan at a deemed price of Cdn $1.50 per share, which was the market price of the common shares of the Company on the date prior to the closing date of the loan.

The Company recently raised, by way of private placement, gross proceeds of $10.15 million.

† † †

Egypt was the starting gate for Tanganyika Oil, providing a solid foundation for the Company to grow upon. The addition of the Syrian project propels Tanganyika into a new league, joining the ranks of the mid-tier oil companies and a significant player in the industry. The Company plans to aggressively and rapidly develop the Oudeh Field and employ the latest technology to exploit the field to the utmost advantage. The Company expects the next year to be one of accelerated significant growth as development of the Oudeh gets well underway.

On behalf of the Board,

(signed) Lukas H. Lundin
President

October 9, 2003

TANGANYIKA OIL COMPANY LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED MAY 31, 2003 AS COMPARED TO MAY 31, 2002

Certain statements contained in the following Management's Discussion and Analysis of Financial Condition and Results of Operations, including, without limitation, statements containing the words believes, anticipates, estimates, expects, and words of similar import, constitute forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties, which could cause actual results to differ materially from those anticipated in these forward-looking statements. Among the key factors that could cause such differences are: fluctuations in oil prices, changes in oil and gas reservoir performance and political risks in the countries in which the company has operations.

We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable securities law.

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and related notes.

Corporate events

On May 26, 2003 the Company, through its wholly-owned subsidiary, signed a Production Sharing Agreement ("PSA") signed a contract with the Government of the Syrian Arab Republic and the Syrian Petroleum Company to develop the giant Oudeh oil field in Syria. The PSA was ratified by the Syrian Parliament and Law Number 34 for year 2003 was issued and published in the Syrian Official Gazette on July 30, 2003. The Company has a 100% interest in the project and is the operator. The PSA covers 192 square kilometers in the main producing region of northeastern Syria. The block is within a major oil trend which extends from the Arabian Gulf, Kuwait and through Iraq, Iran and into Syria. Independent reservoir assessment studies (Sproule International Limited, June 1, 2003) estimate primary recoverable proven, probable and possible reserves in the order of 166 million barrels (84 million barrels proven and probable and 82 million barrels possible). Total oil in place contained in the Oudeh Field is estimated at over 2.4 billion barrels.

The Company achieved an increase in revenues over the previous year with respect to its interest in the West Gharib Block as a result of the acquisition of Drucker Petroleum Inc.'s 20% interest in the Block, reduction in operating costs, improved production performance and stable oil prices. Average gross monthly revenue over the year was $560,000 representing an increase of 176% relative to last year. Total gross revenue from the sale of oil for fiscal 2003 was $6.723 million. The Company's net oil production share was approximately 198,500 barrels. A new independent reservoir assessment study of the Hana Field (Ryder Scott Company-Canada, July, 2003) was received which estimates recoverable proven and probable reserves to be in the order of 6.3 million barrels. The Company holds a 70% interest in the West Gharib Block and continues to focus its efforts on developing the Hana Field to its full potential as well as explore the numerous prospects throughout the West Gharib Block.

On September 15, 2003, the Company made application to the TSX Venture Exchange with respect to a private placement of 3,500,000 units at $2.90 per unit for gross proceeds of $10.15 million. The proceeds from this placement will be utilised for the development of the Oudeh oil field and for general working capital requirements.

Results of operations

The Company earned a consolidated net profit of $1,790,000 ($0.07 per share) for the year ended May 31, 2003 compared to a consolidated net loss of $1,820,000 ($0.08 per share) as at May 31, 2002.

Sales of oil during the year to May 31, 2003 amounted to $6,723,000 compared to $3,819,000 in the previous year. The main reasons for the increase in oil sales were the full year impact of the prior year, the acquisition of Drucker's interest in Egypt and the increase in production during the current year due to the completion of a work program and the replacement of jet pumps with PCP pumps. In addition oil prices also contributed to the increase in oil sales . Service income decreased from $82,000 in fiscal year 2002 to $61,000 in the current year.

The reason for this decrease is the reduction of the level of work performed by the Company as a Joint Venture operator in Egypt .

Cost of oil sold for 2003 amounted to $3,192,000 compared to $3,809,000 in the year ended May 31, 2002. The decrease was due to a reduction in production costs by $389,000, mainly as a result of replacing rented equipment by owned assets. Depletion also decreased from $1,925,000 in the last year to $1,697,000 in the current year. This decrease is due to the increase in estimated proved oil reserves in the Egyptian concession which was based on a report prepared by a third party, Ryder Scott Company, Petroleum Consultants, which showed economic extractable reserves to be 5.1 million barrels, compared to the prior estimate of 2.3 million barrels .

The netback (revenues less production costs) on the Company production for 2003 was $5,228,000 compared to $1,935,000 in the previous year. An amount of $1,564,000 of exploration costs spent on unproved properties was excluded from the Egypt cost center used to calculate the depletion for the current year. This amount represents the cost of seismic expenses outside Hana field.

Expenses decreased from $1,978,000 in the year ended May 31, 2002 to $1,874,000 in the current year.

General and administration costs decreased by $257,000, mainly as a result of the closure of the Calgary office in the prior year.

The Company's main operating investments are carried out in US dollars and are paid in US dollars for the sale of its production. Accordingly, the main exposure to currency exchange fluctuations is the conversion to equivalent Canadian dollars for reporting purposes. The Company incurred a foreign exchange loss of $185,000 as a result of the falling US Dollar during the year ended May 31, 2003 compared to $17,000 in the previous year.

During the year , the Company succeeded in settling part of the prior year accounts payable in respect of Tanzania on favorable terms which resulted in a gain of $61,000.

Management performed prescribed ceiling tests to assess the recoverability of the oil and gas carrying amount in respect of the Hana field in Egypt. The impact of these tests on the consolidated statement of operations was $Nil for the year 2003 (2002 : -$Nil).

Financial condition

As at May 31, 2003 the consolidated balance sheet reflects an amount of $6,142,000 capitalized under oil and gas interest compared to $6,447,000 at May 31, 2002.

During the current year, the Company invested $1,133,000 in Egypt and $260,000 in Syria. These additional oil and gas interest amounts were offset by depletion charges of $1,698,000.

Deferred financing charges of $532,000 in the current year (2002-$Nil) represents a bonus to a shareholder for a loan of $2,699,000 (Note 9).

With regard to current assets and current liabilities, the amount of $871,000 advanced, in the prior year, to EGPC for exploration commitments was spent during the current year.

The restricted cash of $2,747,000 in the current year (2002-$Nil) represents a pledged amount of $2,699,000 against the issuance of a letter of guarantee in favour of the Syrian Petroleum Company. Also included is an amount of $48,000, pledged against the issuance of a letter of guarantee in favour of the Egyptian General Petroleum Corporation for a new exploration license in Egypt.

The amount receivable increased from $1,799,000 last year to $2,112,000 in the current year. The current year amount includes $2,069,000 relating to the sale of oil from the Hana field in Egypt which has been fully recovered since the year end.

Inventory decreased from $405,000 at May 31, 2002 to $204,000 at May 31, 2003 as a result of ongoing operations in Egypt.

Amounts payable and accrued liabilities decreased from $4,604,000 as at May 31, 2002 to $1,905,000 as at May 31, 2003. The decrease is mainly due to the settlement of the majority of the outstanding payables relating to last year's drilling program in Egypt, including payment to contractors for the Tanzania drilling operations carried out in year 2001.

Loan payable, advances and accrued interest due to shareholder increased from $3,191,000 in the year ended May 31, 2002 to $6,197,000 in the current year due to a loan from the same shareholder in the amount of $2,699,000 (Note 9)

On May 21, 2003 the Company signed a loan agreement with a shareholder amounting to $2,699,000. This loan is payable on May 21, 2005 or such later date as may be mutually agreed by the parties. The loan bears interest at a rate of 10% per annum and as a bonus the shareholder was entitled to receive 359,866 common shares of the Company at a deemed price of $1.50 per share (representing 20% of the loan amount or $539,800), subject to the approval of TSX Venture Exchange. At balance sheet date, the amount of $ 2,699,000 was being pledged against the issuance of a letter of guarantee in favor of the Syrian Petroleum Company (Note 8 (b)(b))

Liquidity and Capital Resources

As at May 31, 2003, the Company held a free cash amount of $525,000 compared to $334,000 at May 31, 2002. Cash flow from operations were $1,258,000 positive in the current year as compared to $600,000 negative in the prior year.

The Company had a positive working capital position of $3,167,000 at May 31, 2003 compared to a working capital deficiency of $1,916,000 in the previous year. The improvement in working capital is mainly due to the increase in production, higher oil prices and a long term loan amounting to $2,699,000 from a shareholder.

Management considers that the cash generated from the Hana field, after providing for related capital expenditure, will continue to significantly contribute towards funding the Company's further exploration and development activities in Egypt.

The proforma cash flow projections over the next 12 months indicate that after receipt of the private placement funds of $ 10.15 million and the expected positive cash flows from Egypt, the Company will have a positive net cash balance of $2.6 million at May 31, 2003.

However, the Company does not generate sufficient cash flow from operations to fund its entire exploration and development activities and has therefore relied upon the issuance of securities and the sale of concession interests to provide additional finance. The Company intends to continue to rely upon the issuance of securities and sale of concession interests to finance its activities to the extent that sufficient cash flow from operations is not available in the future. Accordingly, the Company's consolidated financial statements are presented on a going concern basis.

Looking forward, the Company's main focus over the next twelve months will be to further develop its oil and gas interest in the West Gharib block in Egypt and to develop the Oudeh oil field in Syria.

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October 9, 2003

Auditors' Report

To the Shareholders of
Tanganyika Oil Company Ltd.

We have audited the consolidated balance sheets of Tanganyika Oil Company Ltd. as at May 31, 2003 and 2002 and the consolidated statements of operations and deficit and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2003 and 2002 and the results of its operations and the changes in its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers

PricewaterhouseCoopers
Dubai
United Arab Emirates

TANGANYIKA OIL COMPANY LTD

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Tanganyika Oil Company Ltd. and its subsidiaries and all information in the annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements necessarily include some amounts that are based on management's best estimates, which have been made using careful judgment.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

In fulfilling their responsibilities, management of Tanganyika Oil Company Ltd and its subsidiaries have developed and maintained a system of internal control that provides reasonable assurance that all transactions are accurately and reliably recorded, that the financial statements accurately report the Company's operating and financial results and that the Company's assets are safeguarded.

The Audit Committee, comprising non-management directors, acts on behalf of the Board of Directors to ensure that management fulfills its financial reporting and internal control responsibilities. The Audit Committee has reviewed the consolidated financial statements with management and PricewaterhouseCoopers, the Company's external auditors, and has reported to the Board of Directors. The external auditors have unlimited access to the Audit Committee. Based upon the recommendation of the Audit Committee, the Board of Directors has approved the consolidated financial statements.

PricewaterhouseCoopers, an independent firm of chartered accountants, was appointed by a vote of shareholders at the Company's last annual meeting to examine the consolidated financial statements and provide an independent professional opinion thereon.

Mamdouh Nagati
Director

Hazem Farid
Controller/Treasurer

Vancouver, British Columbia
October 9, 2003

TANGANYIKA OIL COMPANY LTD.
CONSOLIDATED BALANCE SHEETS
(in Canadian Dollars)

	May 31 2003	May 31 2002
ASSETS		
Current Assets:		
Cash and short-term deposits	$ 525,201	$ 333,764
Restricted cash (Note 4)	2,747,440	-
Advance relating to exploration commitment (Note 5)	-	871,044
Amounts receivable and other assets (Note 6)	2,112,057	1,799,344
Amounts due from joint venture partners	1,952	103,104
Inventory	204,550	404,588
Prepaid expenses	6,630	3,056
	5,597,830	3,514,900
Long Term Assets:		
Oil and gas interests (Note 8)	6,141,541	6,446,764
Property, plant and equipment, net of accumulated depreciation of $644,204 (2002 - $475,167)	44,381	148,426
Deferred financing charge, net of accumulated amortisation of $7,395 (2002 - $ Nil) (Note 9)	532,405	-
	6,718,327	6,595,190
	$ 12,316,157	$ 10,110,090
LIABILITIES		
Current Liabilities:		
Amounts payable and accrued liabilities	$ 1,905,033	$ 4,604,419
Amounts due to directors (Note 12)	525,827	528,967
Amounts due to joint venture partners	-	297,471
	2,430,860	5,430,857
Long Term Liabilities:		
Loan payable, advances and accrued interest due to shareholder (Note 9)	6,197,017	3,191,125
	8,627,877	8,621,982
COMMITMENTS AND CONTINGENCIES (NOTES 8 & 15)		
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	34,687,988	34,277,988
Contributed surplus (Note 8 (b) (a) (ii))	5,159,958	5,159,958
Deficit	(36,159,666)	(37,949,838)
	3,688,280	1,488,108
	$ 12,316,157	$ 10,110,090

Going Concern (Note 2)

Approved by the Board:

(signed) Lukas H. Lundin
Director

(signed) William Rand
Director

TANGANYIKA OIL COMPANY LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(in Canadian Dollars)

	Year Ended May 31 2003	Year Ended May 31 2002
Revenue:		
Sale of oil	$ 6,722,700	$ 3,818,904
Interest income	11,395	11,425
Service income	60,527	81,620
	6,794,622	3,911,949
Cost of oil sold:		
Production costs	1,494,729	1,884,268
Depletion (Note 8 (a))	1,697,485	1,925,081
	3,192,214	3,809,349
Expenses:		
Salaries and other benefits	486,396	446,620
Travel	37,615	38,241
General and administration (Note 11)	178,751	436,039
Management fees (Note 12 (a))	180,000	150,000
Legal and accounting	202,865	198,108
Financing expense	-	120,435
Interest and bank charges	404,006	398,725
Shareholder information and transfer agent	30,053	56,698
Depreciation	169,037	116,872
Foreign exchange loss	184,950	16,705
	1,873,673	1,978,443
Write back of oil and gas concession interests	(61,437)	(55,396)
Profit / (loss) for the year	1,790,172	(1,820,447)
Deficit, beginning of year	(37,949,838)	(36,129,391)
Deficit, end of year	$ (36,159,666)	$ (37,949,838)
Profit / (loss) per share	$ 0.07	$ (0.08)

TANGANYIKA OIL COMPANY LTD
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in Canadian Dollars)

	Year Ended May 31 2003	Year Ended May 31 2002
OPERATING ACTIVITIES		
Profit/(loss) for the year	$ 1,790,172	$ (1,820,447)
Adjustment for items not affecting cash:		
Interest expense	398,698	393,036
Depreciation	169,037	116,872
Depletion	1,697,485	1,925,081
Unrealised foreign exchange (gain)/loss	(34,016)	16,705
Loss on sale of materials	31,490	-
Write back of oil and gas concession interests	(61,437)	(55,396)
Changes in non-cash operating working capital:		
Increase in amounts receivable and other assets	(394,388)	(743,779)
Increase/(decrease) in amounts due from / to joint venture partners	(196,319)	10,702
Decrease in inventory	168,548	785,530
(Increase)/decrease in prepaid expenses	(3,574)	38,779
Decrease in amounts payable and accrued liabilities	(2,307,650)	(1,387,765)
Net decrease in non-cash operating working capital	(2,733,383)	(1,176,098)
Cash flow from/(used in) operating activities	1,258,046	(600,247)
INVESTING ACTIVITIES		
Investment in oil and gas interests	(963,177)	(2,184,673)
Acquisition of Drucker, net of cash acquired	-	(497,706)
Advance relating to exploration commitments	-	(351,408)
Investment in property, plant and equipment	(64,992)	(46,298)
Pledged deposits for bank guarantees issued	(2,747,440)	-
Cash used in investing activities	(3,775,609)	(3,080,085)
FINANCING ACTIVITIES		
Issuance of common shares and special warrants	10,000	1,976,250
Increase in amounts due to directors	-	350,000
Loan and advances from a shareholder	2,699,000	2,984,152
Repayment of loan	-	(2,358,702)
Cash flow from financing activities	2,709,000	2,951,700
INCREASE/(DECREASE) IN CASH AND SHORT-TERM DEPOSITS DURING THE YEAR	191,437	(728,632)
Beginning of year	333,764	1,062,396
End of year	$ 525,201	$ 333,764

TANGANYIKA OIL COMPANY LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MAY 31, 2003
(in Canadian Dollars unless otherwise stated)

1. DESCRIPTION OF BUSINESS

Tanganyika Oil Company Ltd. ("the Company") was incorporated in 1986 and is engaged in exploring for and developing oil and gas resources.

2. GOING CONCERN

With the exception of the producing area of the Hana field in the Arab Republic of Egypt which commenced commercial production on December 29, 1999, all the Company's oil and gas interests are in the exploration and feasibility stage. Accordingly, the recoverability of amounts recorded as assets for oil and gas exploration interests is dependent upon the completion of exploration work, the discovery of oil and gas reserves in commercial quantities and the subsequent development of these reserves. The Company does not generate sufficient cash flow from operations to fund its entire exploration and development activities. The Company intends to continue to rely upon the issuance of securities and the sale of concession interests to finance its operations and exploration and development activities to the extent that sufficient cash flow from operations and financing is not available in the future. Accordingly, the Company's financial statements are presented on a going concern basis and do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that may be necessary if the Company is unable to continue as a going concern. The ability of the Company to finance operations will depend on the drilling and development program in Egypt and the ability of the Company to complete equity financing(s).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The consolidated financial statements have been prepared under the historical cost convention. A summary of the Company's significant accounting policies is set out below.

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries (the "Group"). The Company's percentage equity interest in the subsidiaries is as follows:

	2003 %	2002 %
Tanganyika Oil (Bermuda) I Ltd.	100	100
Dublin International Petroleum (Tanzania) Limited, Bermuda*	100	100
Dublin International Petroleum (Egypt) Limited, Bermuda**	100	100
Dublin International Petroleum (Syria) Limited, Bermuda***	100	100
Drucker Petroleum Inc; BVI	100	100

* formerly Tanganyika Oil (Bermuda) II Ltd.
** formerly Tanganyika Oil (Bermuda) III Ltd.
*** formerly Tanganyika Oil (Bermuda) IV Ltd.

The Company's exploration activities are conducted jointly with joint venture partners and these consolidated financial statements reflect only the Company's proportionate interest in such activities. In fiscal year 2000, the Company assumed a 25% interest in Dara Petroleum Company, Egypt which acts as operator to the Egyptian Concession (Note 8 (a)). Effective February 1, 2002, the Company acquired

100% of the shares of Drucker Petroleum Inc. BVI, which holds a 20% participating interest in the Egyptian Concession, (Note 7 and 8 a) (ii). Subsequent to the acquisition of Drucker Petroleum Inc. BVI, the Group's interest in Dara Petroleum Company increased to 35%.

(b) Oil and Gas Interests

The Company follows the full cost method of accounting for oil and gas interests, as set out in the guideline issued by the Canadian Institute of Chartered Accountants. Under this method, capitalized costs are accumulated in country - by - country cost centers.

Capitalized costs include expenditures for geological and geophysical surveys, concession acquisition, carrying and retaining undeveloped properties, drilling exploration and development wells and other development expenditures.

Proven and producing reserves exist in the Arab Republic of Egypt. Costs capitalized in each country's cost center are taken to the consolidated statement of operations when future recovery of such costs is determined to be unlikely.

Incidental revenues from the production of oil and gas are offset against capitalized costs of the related cost center until quantities of proven reserves are determined and commercial production has commenced.

Proceeds from the sale or farm-out of oil and gas concessions are also offset against the related capitalized costs in the exploration stage with any excess of net proceeds over all costs capitalized included in the consolidated statement of operations. A gain or loss is recognized on the sale or farm-out of producing concessions when the effect of the sale or farm-out upon the depletion rate is to change it by more than twenty percent.

All net capitalized costs within each cost center, except those costs related to unproven properties where exploratory work is continuing, are amortized as depletion to the consolidated statement of operations and are limited to prescribed ceiling tests. Depletion is determined using the unit-of-production method based on the Company's share of proven reserves, after deducting royalty interests applicable to governments. Costs directly associated with the acquisition and evaluation of unproved properties are initially excluded from the computation of depletion. These unproved properties are assessed periodically to ascertain whether impairment has occurred. When property is considered impaired, the cost of the property, or the amount of the impairment, is added to all other capitalized costs subject to depreciation and depletion.

(c) Revenues

Revenues from the sale of petroleum products are recognized in the consolidated statement of operations when delivered, net of related production sharing arrangements.

(d) Inventory

Inventory consists of drilling materials and spare parts and is recorded at the lower of cost and replacement cost. Cost is determined by the weighted average method.

(e) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis so as to write off the original cost of property, plant and equipment to their expected residual value over their estimated economic useful lives, being periods of three to five years.

(f) Foreign Currency Translation

The Company follows the temporal method of accounting for the translation of foreign currency denominated amounts into Canadian dollars. Under this method, monetary assets and liabilities are translated into Canadian dollars at exchange rates prevailing at the balance sheet date; revenues and expenses and non-monetary assets and liabilities are translated at approximate exchange rates prevailing on the dates of the respective transactions.

Exchange gains and losses on translation are included in the consolidated statement of operations and deficit in the year to which they relate.

(g) Service Income

Service income, generated by providing management services to joint venturers, is recognized as revenue when services are rendered in accordance with the terms of each concession agreement.

(h) Earnings Per Share

Basic earnings per common share are calculated using the weighted average number of common shares outstanding during the year. Fully diluted earnings per share are not presented if anti-dilutive.

(i) Financial Instruments

Financial instruments are initially recorded at historical cost. If subsequent circumstances indicate that a decline in the fair value of a financial instrument is other than temporary, the financial instrument is written down to its fair value.

(j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the year reported. The amounts recorded for depletion and the ceiling test are based on estimates of proved reserves, production rates, oil prices, future costs and other relevant assumptions. Actual results could differ from those estimates.

(k) Ceiling Tests

Prescribed ceiling tests for proven properties are carried out at least annually to determine that the net carrying amount of capitalized costs within each country cost center is covered by the anticipated future net revenue from oil and gas reserves attributable to the Group's interest in related fields.

Provision is made for any permanent impairment, where the net carrying amount, according to the above, exceeds the estimated future undiscounted net revenues using prices and cost levels ruling at the balance sheet date.

(l) Cash and Cash Equivalents

For the purposes of the cash flow statements, cash and short-term deposits include investments with an original maturity of less than three months less restricted cash.

(m) Stock – Based Compensation

The Company adopted the new recommendations for accounting for stock-based compensation effective for fiscal years beginning on or after June 1, 2002, as required by the Canadian Institute of Chartered Accountants (CICA) Handbook section 3870, Stock-based Compensation and Other Stock-based Payments ("CICA 3870"). CICA 3870 establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. It applies to transactions, including non-reciprocal transactions, in which an enterprise grants shares of common stock, stock options, or other equity instruments, or incurs liabilities based on the price of common stock or other equity instruments. The recommendations of CICA 3870 are applied to awards granted on or after the date of adoption. As permitted by CICA 3870, the Company has elected not to apply fair value accounting and to measure compensation cost using the intrinsic value method for awards of stock options to employees under the stock based compensation plan. Accordingly, no compensation cost will be recognized for stock options to employees whose exercise price was equal to the market price on the date of grant. Stock based compensation granted to non-employees is recorded at the fair value as determined using the Black-Scholes option value method. Entities that do not apply the fair value based method of accounting are required to disclose the pro forma net income and net income per share as if the fair value based accounting method had been used to account for stock-based compensation. Details of pro forma net income and net income per share are set out in note 13.

Consideration paid for shares on exercise of the share options is credited to share capital.

(n) Deferred financing charges

Charges incurred, that are directly attributable to obtaining debt financing, are charged to the consolidated statement of operation over the life of the debt instrument at a constant rate in relation to the carrying amount.

4. RESTRICTED CASH

At May 31, 2003 restricted cash primarily included a pledged amount of US$2 million ($2,699,000) against the issuance of a letter of guarantee in favour of the Syrian Petroleum Company (See Note 8 (b)(b)). Restricted cash also included a pledged amount of US$35,000 ($ 48,440) against the issuance of a letter of guarantee in favour of the Egyptian General Petroleum Corporation (“EGPC”) for a new exploration license in Egypt.

5. ADVANCE RELATING TO EXPLORATION COMMITMENT

At May 31, 2002 an amount of $ 871,044 was held by EGPC in respect of an advance associated with a three year extension of an exploration period pertaining to the Egyptian Concession (Note 8 a) (i). This advance was subsequently utilised.

6. AMOUNTS RECEIVABLE AND OTHER ASSETS

Amounts receivable and other assets at May 31, 2003 of $2,112,057 (2002: $1,799,344) include a trade receivable balance of $2,068,512 (2002: $1,740,266) in respect of the sale of oil in the Arab Republic of Egypt. In accordance with the terms of the concession agreement in Egypt, the Group sells oil to EGPC. The amount outstanding at May 31, 2003 was collected subsequent to the year end. Accordingly, management do not believe that this concentration of credit risk will result in any loss to the Group.

7. ACQUISITION OF DRUCKER PETROLEUM, INC.

During fiscal year 2002, the Company acquired from Drucker Inc. all the issued and outstanding common shares of Drucker Petroleum Inc. BVI (“Drucker”), which holds a 20% participating interest in the Egyptian Concession (Note 8 a) (i) and (ii)). The effective date of the share purchase agreement was February 1, 2002.

Under the terms of the agreement, the Company acquired Drucker for a purchase price of US$250,000 (payable in cash), the issuance of 200,000 common shares in the capital stock of the Company at a deemed share price of $0.50 per share and the issuance of 800,000 special warrants of the Company that are exercisable (for no additional consideration) into an aggregate of 800,000 common shares of the Company. The term of the special warrants was six months from the date of issuance of the securities to Drucker and the deemed price of the shares issuable under the special warrants is $0.50 per share. The 200,000 common shares and 800,000 special warrants were issued on May 1, 2002. On May 3, 2003, Drucker Inc. elected to exercise the 800,000 special warrants for 800,000 common shares. Subsequent to the completion of the acquisition of Drucker, the Company now owns a 70% participating interest in the Egyptian concession.

The acquisition resulted in an excess purchase amount of $125,842 which was recorded as an oil and gas interest. The operating results of Drucker have been reflected in the consolidated statements of the operations and deficit from February 1, 2002.

Details of net assets acquired and excess purchase amount are as follows:

	$
Purchase consideration of Drucker	
Shares	100,000
Special warrants	400,000
Cash	400,000
Settlement of Drucker's outstanding cash calls	208,065
	1,108,065
Carrying amount of net assets acquired	(982,223)
Excess purchase amount	$ 125,842

The assets and liabilities arising from the acquisition were as follows:

	$
Net assets comprises:	
Cash	110,359
Advance relating to exploration commitment	519,636
Amounts due from related parties	884
Amounts receivable	216,102
Inventory	260,677
Property, plant and equipment	114,178
Oil and gas interest	420,755
Amounts payable and accrued liabilities	(621,934)
Amounts due to related parties	(38,434)
	982,223
Excess purchase amount	125,842
Purchase consideration	1,108,065
Less: Discharged by issue of shares	(100,000)
Less: Issue of special warrants	(400,000)
Less: Cash and cash equivalents in Drucker	(110,359)
Net cash outflow on acquisition	$ 497,706

8. OIL AND GAS INTERESTS

The Group's oil and gas interests comprise the following:

	May 31 2003	May 31 2002
Producing property	$ 4,317,904	$ 2,059,884
Exploration properties	1,823,637	4,386,880
	$ 6,141,541	$ 6,446,764

a) Producing Property

The Group's producing property is located in the Arab Republic of Egypt:

	May 31 2003	May 31 2002
Cost	$ 12,709,763	$ 8,754,258
Accumulated depletion	(7,086,766)	(5,389,281)
Write-down (see (v) below)	(1,305,093)	(1,305,093)

	$ 4,317,904	$ 2,059,884

(i) On June 1,1998, the Group entered into a Concession Agreement (the "Egyptian Concession") for Petroleum Exploration and Exploitation in the West Gharib area ("CAPEE") (pre-effective date of December 28,1997) with the government of the Arab Republic of Egypt and EGPC. In accordance with the terms of the CAPEE, the Group and its joint venture partners (together the "Contractor") have a total minimum obligation to spend US$13,500,000 within eight years. During the initial exploration period of 3 years, the commitment was to spend US$5,000,000. As at May 31, 2001 all exploration and drilling commitments under the initial exploration period pursuant to the CAPEEs had been met. During the year 2001, the Contractor elected to enter into the first extension of the exploration phase of the CAPEE and as a result was committed to a further minimum spend of US$4,000,000 comprising two wells plus 250 km^2 of seismic acquisition. At May 31, 2002 all committed expenditures had been met. The Contractor has a remaining option exercisable by June 2004 to enter into a further exploration period of three years which would result in a minimum commitment of US$ 4,500,000 comprising three wells. The Concession agreement permits any excess expenditure of the preceding exploration period to be carried forward and set off against future obligations.

(ii) Effective April 27, 1998 the Group farmed out 20% of its interest in the Egyptian Concession to Drucker Petroleum Inc. ("Drucker") and 30% to GHP Exploration (West Gharib) Ltd. ("GHP"). Under the terms of the farm-out agreement, as amended on March 17, 1999, the Group was fully carried by Drucker and GHP for the cost of drilling and completing wells, on a cumulative basis up to US$1,250,000. After the acquisition of Drucker's 20% interest (Note 7) effective February 1, 2002, the Company's participating interest increased to 70%.

(iii) During the 1999-2001 fiscal years the Group drilled nine wells, one of which was dry and hence plugged and abandoned. The remaining wells yielded positive results. Commercial production commenced on December 29, 1999 consequent to which the oil and gas cost is subject to depletion.

(iv) During the fiscal year 2002, the Group drilled three wells. The first well, Hana-9 was successfully drilled adjacent to the Hana field, which produced oil. The other two wells were considered as exploration wells, however in the fiscal year 2003, these two wells have been taken to the depletable cost pool (refer Note 8 (b)(c)).

(v) As at May 31, 2003 the price per barrel of oil used for ceiling test purposes was $29.90 (2002: $33.77). No write down was required for the year 2003 (2002: Nil).

b) Exploration Properties

	May 31 2003	**May 31 2002**
Tanzania	$ 28,279,608	$ 28,279,608
Syria	769,794	510,224
Egypt	1,564,067	4,386,880
	30,613,469	33,176,712
Provision for impairment	(28,789,832)	(28,789,832)
	$ 1,823,637	$ 4,386,880

(a) Tanzania

(i) In 1995 the Group committed to a Production Sharing Agreement ("PSA") with the Government of the United Republic of Tanzania and the Tanzania Petroleum Development Corporation ("TPDC") on a concession comprising the Mandawa Block and the Rufiji Block.

(ii) In 1996 the Group farmed out 25% of its interest in the Tanzania concession to Lundin Oil and Gas Ltd. ("Lundin"), a related party by virtue of common directors. Subsequently in 1998 the Group signed a mutual release agreement with Lundin. As a consequence of this release agreement, the Group assumed Lundin's 25% interest in the Tanzania concession giving rise to a contributed surplus of $5,159,958.

(iii) In 2000, the Group farmed out 25% of its interest in the Mandawa Block to a wholly-owned subsidiary of Energy Africa Limited for $2,645,732.

(iv) On June 7, 2001 the Group claimed Force Majeure on the Mandawa Block, for non-compliance with the terms of the Production Sharing Agreement as duty amounts due by TPDC in connection with the drilling program remained outstanding. The Force Majeure was not acknowledged by TPDC, and on August 7, 2002 TPDC notified the Company of the cancellation of the Mandawa exploration license issued by the Minister for Energy and Minerals. On April 17, 2003 the Company accepted the cancellation of the Agreement and as a consequence, it was relieved of its remaining exploration obligations there under, which at May 31, 2002 amounted to US$5,000,000. Pursuant to the cancellation of the Agreement, the Ministry of Energy and Minerals is claiming US$66,000 as default payment. Management assert that no payment will be made in respect of such a claim until the tax monies referred to above have been settled.

(v) As a consequence of the absence of a commercial discovery, in the fiscal year 2001, management decided to write down the costs incurred in the Tanzania Concession.

(vi) During the fiscal year 2002, the Company succeeded in obtaining a refund of $155,000 from the TPDC in respect of VAT paid during a prior year drilling program, this amount has taken to income.

(b) Syria

During the year ended May 31, 2001, technical studies relating to a producing field covered by a memorandum of understanding ("MOU") dated May 12, 2000 with the Government of Syrian Arab Republic and Syrian Petroleum Company were completed. Formalization of a Production Sharing Agreement had not occurred at May 31, 2001 and in view of the delays in progressing the project, management decided to provide for the costs incurred in Syria.

On May 26, 2003, the Company, through its Bermuda registered subsidiary Dublin International Petroleum (Syria) limited, signed a contract for the development and production of petroleum in the Oudeh block ("the contract area") with the Government of the Syrian Arab Republic and the Syrian Petroleum Company ("SPC"). The contract was later ratified by the Syrian Parliament on July 13, 2003 and extends for an initial period of 15 years, extendable for a further 5 years. The objective of the project is to increase the oil recovery and crude oil production from the block by applying technically and economically feasible enhanced oil recovery technologies in the contract area. The Company is the process of establishing a Syrian registered branch and commencing activities in the near term. Pursuant to the terms of the contract, the Company is committed to a signing bonus 30 days from the date of ratification of US $ 500,000, and undertaking a feasibility study for 24 months from that date with a minimum work obligation and a minimum financial commitment of US $ 2 million to evaluate the exploitation potential of the area. In May 2003, the Company provided a letter of guarantee of US $ 2 million in favour of SPC (See Note 9).

Prior to the expiry of the aforementioned 24 month period, the Company may elect to enter into a field trials phase for a period of 36 months with a minimum financial commitment of US$3 million.

Upon the expiry of the field trials, the Company may enter into the field development phase under which the Company is committed to drilling a minimum of 5 wells per year until either 75 wells have been drilled or the Company and SPC mutually agree the contract is no longer viable.

On September 15, 2003, the Company applied to TSX Venture Exchange for a private placement of $ 10.15 million. The proceeds from this placement would be utilised for the development of the contract area and general working capital requirements. This private placement proposes the issue of 3,500,000 common shares at $ 2.90 per share.

(c) Egypt

As at May 31, 2003 an amount of $1,564,067 (2002: $4,386,880) of exploration costs was excluded from those costs subject to depletion. The future recovery of these costs is not determinable at this time.

The Hana South -1 and Farag-1 wells drilled in fiscal year 2002 encountered technical issues and as a consequence have been included in the depletable cost pools as at May 31, 2003.

9. LOAN PAYABLE, ADVANCES AND ACCRUED INTEREST DUE TO SHAREHOLDER

On October 23, 2001 the principal and accrued interest relating to a third party loan, amounting to $2,358,702 was repaid from a new unsecured loan facility provided by a shareholder amounting to $2,408,702. The initial term of the loan was six months. This was extended for a six month period on April 23, 2002 and on September 10, 2003 was further extended until October 23, 2004. The loan bears compound interest at a rate of 1% per month. At the option of the Company, the loan may be repaid at any time without penalty. At balance sheet date the loan balance amounted to $ 2,917,249 (2002: $2,588,911) after accruing interest of $ 328,338 (2002: $180,208). As part of the terms of the loan, the Company agreed to pay the shareholder a signing bonus equal to 5% of the principal in cash $120,435, or at the shareholder's option, the equivalent value in shares of the Company convertible at the then market value. This amount of $120,435 has been classified under amounts payable and accrued liabilities as the shareholder's option has yet to be exercised.

The shareholder also provided to the Company unsecured advances denominated in US and Canadian Dollars which at the balance sheet date amounted to $580,768 (2002: $602,214) after accruing interest of $ 35,135 (2002: $ 24,233). The detail of these advances is as follows:

Principal advanced	Interest rates	Date of advance	Maturity date
US $ 100,000	10% per annum	August 23, 2001	August 31, 2004
US $ 250,000	5% per annum	September 14, 2001	September 14, 2004
$ 37,000	5% per annum	September 14, 2001	September 14, 2004

On May 21, 2003, the Company signed a loan agreement with the shareholder amounting to $2,699,000. This loan is repayable on May 21, 2005 or such later date as may be mutually agreed by the parties. The loan bears interest at a rate of 10% per annum and as a bonus the shareholder was entitled to receive 359,866 common shares at a deemed price of $1.50 per share (representing 20% of the loan amount or $539,800), subject to the approval of the TSX Venture Exchange. The bonus to the shareholder amounting to $539,800, is classified as a deferred financing charge and is amortised over the period of the loan agreement of 2 years.

On September 16, 2003, the TSX Venture Exchange accepted for filing the bonus of 359,866 common shares.

10. SHARE CAPITAL

	No. of shares	May 31 2003	No. of shares	May 31 2002
Authorised:				
Unlimited common shares without par value				
Issued and outstanding:				
Beginning of year	24,526,866	$ 34,277,988	20,126,866	$ 31,831,738
Issued during the year:				
Issue of shares to a Director (a)	-	-	200,000	370,000
Private placements (b)	-	-	4,000,000	1,976,250
Exercise of options (c)	20,000	10,000	-	-
Issue of shares to Drucker Inc. (see Note 7)	-	-	200,000	100,000

Exercise of warrants (d)	800,000	400,000	-	-
	820,000	410,000	4,400,000	2,446,250
Total share capital	25,346,866	$ 34,687,988	24,526,866	$ 34,277,988

Common Share Issuances

a) In January 2001, the Company entered into an agreement with a director to issue 200,000 common shares at a deemed price at $ 1.85 per share in exchange for the director issuing a personal guarantee in connection with the $ 2,000,000 short term loan referred to in Note 9 above. These shares were issued in June 2001.

b) In November 2001, the Company completed a private placement of 4,000,000 units of the Company at a price of $ 0.50 per unit. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable over two years into one common share of the Company at a price of $ 0.55 per share. The net proceeds of the private placement was $1,976,250.

c) During the fiscal year 2003, options to purchase 20,000 common shares for cash were exercised by an employee for $10,000 at a price of $ 0.50 per share.

d) On May 1, 2003, Drucker Inc. elected to exercise 800,000 special warrants, issued upon the purchase of its 20% participating interest in the Egyptian concession (Note 7) at a deemed price of $ 0.50 per share.

Warrants Outstanding

At May 31, 2003, there were 4,000,000 outstanding warrants at a price of $ 0.55 per common share expiring on January 23, 2004.

11. GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses comprise the following:

	May 31 2003	**May 31 2002**
Office rent	$ 30,373	$ 24,480
Telephone and facsimile	19,096	31,654
Courier	4,167	6,079
Consultants	35,049	38,412
General office expense	32,324	32,262
Vehicle expenses	18,084	39,614
Donations	-	6,000
Closure of Calgary office	-	253,359
Loss on sale of materials	31,490	-
Others	8,168	4,179
	$ 178,751	$ 436,039

12. RELATED PARTY TRANSACTIONS

The Company has entered into transactions with related parties, which were measured at the prevailing exchange amount and transacted within the normal course of business.

Significant related party transactions were as follows:

a) The Company incurred $ 180,000 (2002: $ 150,000) for certain management services provided to companies in which certain directors and officers have an interest.

b) On August 15, 2001, the Company received an advance in the amount of $ 188,000 from a director. The advance bears interest at the rate of 5% per annum. At May 31, 2003 the advance amount including interest amounted to $ 200,000.

c) On August 31, 2001, the Company received an advance in the amount of US$ 200,000 from a director. The advance bears interest at the rate of 10% per annum. At May 31, 2003 the advance amount including interest amounted to $ 325,827.

d) Additional related party transactions are described in Note 9.

13. INCENTIVE SHARE OPTION PLAN

The Company has a share option plan (the "plan") for directors, officers and employees of the Company and its subsidiaries. The plan is administered by the Board of Directors. The exercise price of the common shares covered by the issued stock options is determined by the directors but cannot be less than the trading price the day before the options are granted. The exercise period of the options is fixed by the Board of Directors and is not to exceed the maximum period permitted by the Canadian Venture Exchange. Vesting rights are determined at the discretion of the Board of Directors.

The following is a summary of changes in outstanding stock options for the years ended May 31, 2003 and 2002.

	2003 Share Options	**2003 Weighted -average exercise price ($)**	**2002 Share options**	**2002 Weighted -average exercise price ($)**
Outstanding -Beginning of year	615,367	1.62	1,322,367	1.29
Granted	60,000	0.67	-	-
Exercised	(20,000)	0.50	-	-
Forfeited	(10,000)	0.50	(707,000)	1.00
Outstanding -End of year	645,367	0.52	615,367	0.50
Options exercisable -End of year	605,367	0.51	608,700	0.50

The following table summarizes information about stock options outstanding at May 31, 2003

Options Outstanding			**Options Exercisable**	
Exercise Price	**Options Outstanding**	**Weighted-average remaining contractual life in years**	**Options exercisable**	**Weighted-average Remaining Contractual life in years**
$ 0.50	585,367	1.1	585,367	1.1
$ 0.67	60,000	4.8	20,000	0.0
	645,367		605,367	

As permitted by the CICA's recommendation concerning stock-based compensation (see note 3 (m)), the Company has chosen not to adopt the fair value based method of accounting for employee stock options. Had the Company adopted the fair value based method of accounting for employee stock options granted during the current year, reported earnings for the year May 31,2003 would have been reduced by $7,085 and reported earnings per share would have been reduced by $0.00 per share (basic and diluted). These amounts exclude the impact of options granted before June 1, 2002.

The estimated fair value of $0.236 per option, which would have been amortized over the vesting period of 2 years, has been determined using an option pricing model with the following assumptions:

Risk – free interest rate	3.50 %
Expected life	2 years
Estimated volatility in the market	60.04 %
Expected dividend rate	nil

14. INCOME TAXES

Canadian Corporation Tax

The Company has available losses for Canadian income tax purposes which may be carried forward to reduce taxable income of future years. A summary of these losses is provided below:

Non-capital losses expiring in:

2004	$ 55,000
2005	520,000
2006	365,000
2007	345,000
2008	1,270,000
2009	1,430,000
2010	936,000
	$ 4,921,000

In addition, the Company has incurred the following costs which have not been claimed for income tax purposes:

Share issue/financing costs	$ 310,000
Reorganisation costs	$ 32,000
Canadian development expenses	$ 79,000
Canadian exploration expenses	$ 93,000
Undepreciated capital costs	$ 145,000
Unrealised capital losses	$ 165,000

No recognition of the potential future tax savings associated with these losses and undeducted expenditures has been made in these consolidated financial statements.

Egyptian Income Tax

The Group is tax protected by EGPC, in accordance with terms of the Egypt Concession Agreement.

15. CONTINGENCIES

The Company is a defendant in a lawsuit filed for non-payment of rent and abandonment of premises in March 1990. This event took place prior to the change in control of the Company and current management believe that the claim is without merit. The amount of the claim is $513,000 including costs.

16. SEGMENTED INFORMATION

The Company has three reportable segments: Tanzania, Egypt and Corporate. Transactions pertaining to the Tanzanian cost centre were written off in 2001. Egypt is an oil and gas exploration and/ or producing interest and is reviewed independently by senior management. Corporate is primarily the technical office which provides management services to joint ventures under concession agreements, and also includes initial costs toward oil and gas interests in Syria and corporate activities such as management fees, legal and accounting, financing expense, shareholder information and transfer agent costs, salaries and other benefits and interest and bank charges. The accounting policies of the segments are the same as those described in Note 3 of these financial statements. The Company evaluates performance based on profit/losses from operations after income taxes. Intersegment transfers are recorded at amounts allowed by relevant concession contracts.

May 31, 2003

	Tanzania	Egypt	Corporate	Total
	$	$	$	$
Sale of oil	-	6,722,700	-	6,722,700
Interest income	-	187	11,208	11,395
Service income	-	60,527	-	60,527
Production cost and depletion	-	3,192,214	-	3,192,214
Depreciation	-	169,037	-	169,037
Foreign exchange (gain)/loss	(70,533)	148,189	107,294	184,950
Other expenses	18,659	483,477	1,017,550	1,519,686
Write back of oil and gas Concession interests	(61,437)	-	-	(61,437)
Segment (profit)/loss	$ (113,311)	$ (2,790,497)	$ 1,113,636	$ (1,790,172)
Other non-cash items -				
Interest expense	$ -	$ -	$ 398,698	$ 398,698
Loss on sale of materials	-	31,490	-	31,490
	$ -	$ 31,490	$ 398,698	$ 430,188
Segment assets	$ 812	$ 8,780,073	$ 3,535,272	$ 12,316,157
<u>Segment expenditures</u>:				
Oil and gas interests	$ -	$ 766,567	$ 196,610	$ 963,177
Property, plant and equipment	-	64,992	-	64,992
	$ -	$ 831,559	$ 196,610	$ 1,028,169

May 31, 2002

	Tanzania	Egypt	Corporate	Total
	$	$	$	$
Sale of oil	-	3,818,904	-	3,818,904
Interest income	-	8,756	2,669	11,425
Service income	-	81,620	-	81,620
Production cost and depletion	-	3,809,349	-	3,809,349
Depreciation	-	112,445	4,427	116,872
Foreign exchange (gain)/loss	145	16,947	(387)	16,705
Other expenses	26,697	320,604	1,497,565	1,844,866
Write back of oil and gas concession interests	(55,396)	-	-	(55,396)
Segment loss/(profit)	$ (28,554)	$ 350,065	$ 1,498,936	$ 1,820,447
Other non-cash items -				
Interest expense	$ -	$ -	$ 393,036	$ 393,036
Financing expense	-	-	120,435	120,435

	$ -	$ -	$ 513,471	$ 513,471
Segment assets	$ 9,709	$ 9,929,122	$ 171,259	$ 10,110,090
Segment expenditures:				
Oil and gas interests	$ 322,479	$ 1,822,758	$ 39,436	$ 2,184,673
Property, plant and equipment	-	46,298	-	46,298
	$ 322,479	$ 1,869,056	$ 39,436	$ 2,230,971

TANGANYIKA OIL COMPANY LTD

CORPORATE DIRECTORY
May 31, 2003

OFFICERS
Lukas H. Lundin, Chairman, President and C.E.O.
Mamdouh Nagati, Vice President
Hazem Farid, Controller/Treasurer
Jean R. Florendo, Corporate Secretary

DIRECTORS
Lukas H. Lundin*
Edward L. Molnar*
Mamdouh Nagati
William A. Rand*
Bryan Benitz
Keith Hill
* Member, Audit Committee

AUDITORS
PricewaterhouseCoopers
Dubai, United Arab Emirates

BANKERS
Canadian Imperial Bank of Commerce
Vancouver, British Columbia, Canada
Calgary, Alberta, Canada

Ferrier Lullin & Cie SA
Geneva, Switzerland

HSBC Egypt
Cairo, Egypt

SOLICITORS
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Vancouver, British Columbia, Canada

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Facsimile: (20-2) 414 3982

REGISTERED AND RECORDS OFFICE
Suite 1100, 888 Dunsmuir Street
Vancouver, British Columbia V6C 3K4

REGISTRAR AND TRANSFER AGENT
Computershare Trust Company of Canada
Vancouver, British Columbia, Canada

SHARE CAPITAL
Authorised: Unlimited number of common shares
Issued and Outstanding: 25,346,866 shares

SHARE LISTINGS
TSX Venture Exchange (TYK)