EQUATOR
EXPLORATION LIMITED

EQUATOR EXPLORATION LIMITED

ANNUAL REPORT AND FINANCIAL

STATEMENTS 2007, 2008 & 2009

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Operating Review

This statement covers the significant events of the last three years: January 2007 through December 2009.

Events during 2007

At the start of 2007, the Company held interests in the following offshore oil & gas exploration projects in the Gulf of Guinea:

- The Bilabri Oil development in OML 122 in association with Peak Petroleum Industries (Nigeria) Ltd ('Peak')
- OPL 323 & OPL 321 operated by the Korean National Oil Corporation ('KNOC')
- JDZ Block 2 operated by China Petroleum & Chemical Corporation ('Sinopec')

In April 2007, the third incident of kidnapping of a member of the drilling crew forced the suspension of the OML 122 Bilabri development programme. The Company was obliged to make the well safe and terminate the rig contract, with invoices from the drilling contractor and other suppliers outstanding. In turn, the supplier of the Floating Production Storage Offtake ('FPSO') vessel terminated its contract with the Company, intent on enforcing early termination penalties amounting to nearly US$60 million. The result was that the Company was denied the revenue that it would have enjoyed starting towards the end of the 2007 and instead was in serious debt.

Peak had been declared, in March 2007, to be in default under the Finance and Service Agreement ('FSA') executed with Equator for the Bilabri development and, throughout the first half of 2007, Equator granted Peak many extensions to the deadline to provide their share of the funding for the Bilabri development. In September 2007, the FSA was terminated and Equator transferred, under the Bilabri Settlement Agreement ('BSA'), the responsibility of completing the Bilabri Development to Peak while retaining a 5% carried interest in future oil production and a 12.5% paying interest in any gas development. Peak agreed according to the BSA to arrange the necessary finance for the project and to pay outstanding invoices from suppliers.

On 11 June 2007, the Company announced that it had entered into a conditional Merger Agreement, by a reverse takeover, of Equator by Camac Energy Holdings Limited, a wholly owned subsidiary of Camac International Limited. It was subsequently announced in September 2007 that the merger negotiations had been terminated by mutual agreement when it became clear that it was not possible to produce the admission document required under the rules of the Alternative Investment Market ('AIM').

In August 2007, the Company entered into a farm-out agreement with BG Exploration and Production Nigeria Limited ('BG') concerning a 20% interest in OPL 323 to be assigned from the Company's 30% interest in the block in exchange for a total consideration of US$75 million, composing both cash and carry of future expenditure. The farm-out was intended to produce additional working capital, coupled with a reduction in the Company's exposure on the expenditure of the first explorative phase, but is still awaiting the approval of the Nigerian National Petroleum Corporation ('NNPC').

During the period of merger discussions with Camac, the Company's shares were suspended from trading. Market trading recommenced in late October. Despite positive news concerning the OPL 323 farm-out and the Bilabri Settlement Agreement, the share price fell from the pre-suspension price of 42p to around 15p per share. This affected the Company's ability to raise additional equity.

Instead, the Company was obliged to secure additional working capital by means of short term secured and unsecured borrowings. On 18 July 2007, Equator entered into an additional secured loan agreement with an existing shareholder lender for US$7.5 million in exchange for 10,989,000 warrants at an exercise price of 0.35p. This facility would share pro rata in the collateral security pool to which the shares of Equator's subsidiary companies were already pledged. On 11 September, Equator entered into another unsecured short term working capital loan facility for US$5 million with a shareholder lender in exchange for 8,375,000 warrants at an exercise price of 0.30p. Under the terms of the loan agreement, if the loan had not been repaid by 15 December 2007 then both the principal and interest would have been converted to common shares of the Company. As this loan was not repaid on time, the lenders agreed to an extension of the repayment date. At the end of 2007, the Company had total debt of US$87.5 million partially secured on shares in wholly owned subsidiaries of the Company. It also had liabilities amounting to US$67.4 million.

The following Board members resigned during 2007:

- Sam Jonah KBE, Executive Chairman
- Alexander Dembitz, Non Executive Director
- Jeffrey Auld, Chief Financial Officer
- Baroness Linda Chalker, Non Executive Director
- Tony Renton, Non Executive Director

In December, Wade Cherwayko stepped down as Chief Executive of the Company, but remained a non-executive director. Further, Philip Rand was appointed Chief Executive. At year end the Board consisted of:

- Ted Giletti, Non-Executive Chairman
- Philip Rand, Chief Executive Officer & Chief Financial Officer
- Philip Dimmock, Chief Operating Officer
- Wade Cherwayko, Non-Executive Director

In October 2007, Fox Davies Capital Limited was appointed as the Company's broker and Beaumont Cornish Limited was appointed as the Company's Nomad.

Events during 2008

2008 was a year of low activity in which the Company was constrained by events occurring outside its direct control or influence.

Peak continued to be unable to meet its obligations under the BSA. Equator continued to support Peak's endeavours to raise additional funding for the Bilabri project, but in order to safeguard its contractual position was obliged to seek and, in June, was granted an arbitration award in its favour. However, Peak had already obtained a Nigerian court order restraining Equator from proceeding with the arbitration in the UK on the grounds that there was no dispute. In doing so, Peak admitted its liabilities under the BSA.

In order to progress both the oil and gas developments, Peak entered into several agreements including:

- An FPSO contract with Nortechs FPSO Pte Limited;
- Agreements with various suppliers for time-critical equipment;
- A contract to secure the 'Energy Searcher' drillship;
- Heads of agreement with Mitsubishi as the LNG offtaker for the gas development; and
- Heads of agreement with FlexLNG as the supplier of the offshore LNG process.

To date Peak has not been able to fund these agreements.

The Company agreed a settlement amount with BW Offshore for the early termination of the FPSO, which the Company had on order for the Bilabri development with the condition that the settlement amount be paid before 31 December 2008. The Company was not able to pay the amount by year-end.

During the year, various Nigerian government inquiries, some public and some private, questioned why KNOC had not paid its share in full of the signature bonuses in respect of OPL 321 and OPL 323 (Equator having made its US$161.7m full payment). Despite this, preparations were being made to commence drilling in 2009.

A number of cash calls on the Company in respect of JDZ Block 2 were made by the operator, Sinopec, as preparations were made for the first test well (to be known as 'Bomu 1').

In 2008, the Company turned to its principal shareholders for US$5.7 million of additional funding. This required the re-pricing of warrants attached to previous loans and the deferral of repayment dates. By year-end the Company's indebtedness (including rolled-up interest) had increased to US$93.3 million. Liabilities amounted to US$62.1 million.

The Company's shares were suspended from trading on AIM on 30 June 2008 as the 2007 Financial Accounts had not been approved.

Wade Cherwayko left the Board in December 2008.

Events during 2009

The situation in respect of the Bilabri project was that of prolonged inactivity by Peak.

The Bomu 1 exploration well was drilled in the second half of the year on JDZ Block 2. It was completed under budget and discovered dry gas in a number of formations.

In early January, the office of the Nigerian Minister of State Petroleum informed KNOC that the licences awarded in respect of OPL321 and OPL 323 had been voided. KNOC subsequently challenged that decision in a legal action and, in August 2009, the Federal High Court in Abuja handed down a judgement in KNOC's favour. The Nigerian government lodged an appeal but we believe the government and KNOC are in talks to resolve this situation.

In April and June, the Company arranged two convertible loan facilities amounting to $17.6 million from Vicuna Holdings Limited. Subsequently, Vicuna assigned the rights and obligations to Oando Plc ('Oando'), the largest indigenous Nigerian integrated energy company. A total of US$14.7 million was drawn down from these convertible loan facilities to make settlements with trade creditors, including those that had started the process of winding up the Company.

In August, Oando exercised its right to convert its loans into shares of the Company. In addition, through several transactions, it acquired shares from existing shareholders. As a result, Oando held a 78% shareholding in the Company as at 31 December 2009.

New performance bonds, guaranteed by Oando, were arranged with Bank PHB for JDZ Block 2. This released US$2.8 million being held by Royal Bank of Canada as collateral for the original performance bonds.

Independently, in March 2009 the Company made application to the Nigerian authorities for return of its signature bonuses, US$161.7 million, paid for OPL 321 and OPL 323 in light of the fact that the Company was not able to explore these blocks due to the government cancellation of the Operator's rights followed by ongoing litigation. Return of this full amount was received on the 21 September 2009 and allowed repayment of all the shareholder loans in the amount of US$113.2 million and settlement with the majority of the remaining trade creditors. Equator maintains with the Nigerian government that it still holds its rights to a 30% participating interest in each of these blocks and has confirmed to them its intent to repay the signature bonuses once the litigation is settled.

On the 27 October, the Company paid a special dividend of 3.6 pence per share to all shareholders.

On the 27 July 2009, Ted Giletti and Philip Rand resigned from the Board.

The following people were appointed to the Board during 2009:

- Jubril Adewale Tinubu, Non Executive Chairman
- Omamofe Boyo, Non Executive Director
- Patrick Bastin, Non Executive Director
- David Rowlinson, Non Executive Director
- Philip Dimmock remained on the board as Chief Operating Officer

Results for 2007, 2008 & 2009

The Company recognised a loss in each of the years of:

- 2007: US$149.3 million
- 2008: US$3.5 million
- 2009: US$2.8 million

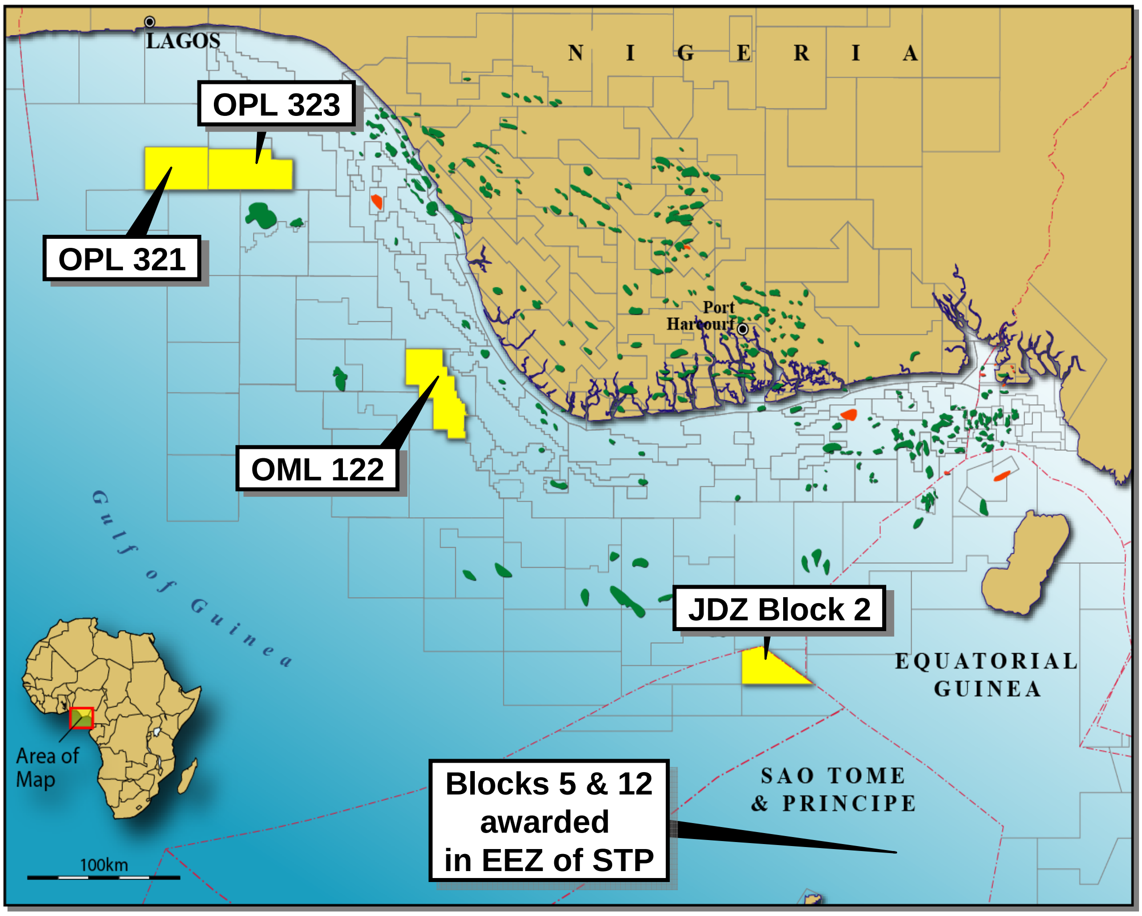
Dividends

- 2007: nil
- 2008: nil
- 2009: 3.6p per share (special dividend – 27 October 2009)

Philip Dimmock - Chief Operating Officer

15 April 2010

Map of Equator's Interests



Asset Review

Nigeria – OPL 323 and OPL 321

History

Equator holds a 30% participating interest in each of the highly prospective deep water blocks, OPL 323 and OPL 321.

Equator and its bidding group won the blocks in the Nigerian 2005 licensing round with bids comprising signature bonuses (US$161.7 million net), work programmes and level of local content. However, the Korean National Oil Corporation ('KNOC') exercised a right of first refusal and was awarded a 60% interest in the blocks and was appointed operator. Equator's main bidding partner, ONGC Videsh elected not to participate in the blocks allowing Equator to take a 30% interest. The remaining 10% was awarded to Local Content Vehicles ('LCVs'), Tulip Energy Resources Nigeria Limited for OPL 321 and NJ Exploration Limited for OPL 323. Equator and KNOC carry the costs of the two LCV's in proportion to their participating interests. The two Production Sharing Contracts ('PSC's') were signed with the Nigeria National Petroleum Corporation ('NNPC') on 10 March 2006. Equator signed the Joint Operating Agreements with the other participants on 7 June 2007.

Since the award of operatorship to KNOC made it impractical for the Company's remaining bidding partners to enter the PSC's directly, the Company granted them carried interests, amounting to 4% out of its 30% participation in the PSC's. During 2008, the Company entered into agreements to buy back these carried interests for a combination of cash and warrants. Equator now holds the full economic rights to its 30% participating interest in each PSC.

In August 2007, the Company executed a farm-out agreement for a 20% interest in OPL 323 with BG Exploration and Production Nigeria Limited. The total consideration to be paid by BG is US$75 million, comprising both cash and a carry on the future expenditure on the remaining 10% interest. The farm-out is subject to the approval of NNPC and the Federal Government of Nigeria. Under the terms of the PSC's this approval cannot be unreasonably withheld. The Company worked diligently with NNPC and the government to secure the approval but it was delayed by what became a legal dispute between the government and KNOC.

Following a number of public and private government inquiries, in January 2009 the award of OPL 323 and OPL 321 to KNOC was voided by the government. The Blocks were simultaneously offered to the winning group of the bid round, which includes ONGC Videsh and Equator. In August 2009, judgement was given in favour of KNOC in a lawsuit that they had brought against the government parties in the Federal High Court in Abuja. Although the government has appealed the judgment, we believe that the government and KNOC are in talks to resolve the situation.

In September[1] 2009, the government refunded the signature bonuses of US$ 161.7 million. The Company had requested the return of the signature bonuses in the previous March because, due to the ongoing litigation, it was being denied its right to explore the blocks and faced severe economic hardship. The Company has notified the government of its intention to maintain its interests in the two blocks until such time that the court disposes of the matter and beyond. This notification was acknowledged by the government.

The Company is also seeking to further accelerate cash-flow and reduce risk by farming-out a portion of its interest in OPL 321 in a deal similar to that achieved for OPL 323. Such a structure will limit the exposure on this block also by securing a carry on the exploration costs of its remaining interest.

Under the terms of the PSC's, Equator provides performance bonds of US$41 million each to cover its share of the minimum work programmes of two wells on each of the blocks. These bonds have been provided by a Nigerian bank which has taken security over the wholly owned subsidiaries that hold the PSC's.

[1] Correction of original text

Operational status

KNOC established its technical team in its office in Lagos. Starting with Equator's work, KNOC developed the interpretation of the 3D seismic survey and identified several prospect horizons in a number of geological structures in each block that are worth drilling. The prospect horizons were ranked and optimum drilling locations were selected for each geological structure. The final step was to rank the geological structures and select the locations of the two commitment wells on each block. Equator took a full part in the direction of all this work by participating in the joint venture's regular Technical and Operating Committee meetings.

The Deepwater Pathfinder was contracted to drill the four obligation wells under the two PSC's. Drilling would have commenced in 3Q 2009. However, to avoid a large early termination penalty in light of the ongoing litigation, the rig contract had to be assigned to Addax for use in the Joint Development Zone between Nigeria and São Tomé e Príncipe. The assignment of the drilling contract has resulted in a significant deferral of the drilling programme.

Prospectivity

OPL 323

OPL 323 is located 80 kilometres offshore and lies in water depths of between 890 metres and 2,080 metres. A number of large structures have been identified by interpretation of the 3D seismic survey. Within each of the geological structures there are several prospective horizons. Many of the prospect horizons are supported by seismic amplitude anomalies. Furthermore, the proximity of the block to large oil fields on adjacent acreage supports the presence of source rocks and abundant reservoir sands. OPL 323 is to the west of the Abo Field in OML 125 and immediately to the north of the Bosi and Erha Fields in OML 133. Erha has proved reserves reported by ExxonMobil to be in excess of 500 million barrels and 5 trillion cubic feet of gas and, with its satellite development Erha North, produces in excess of 200,000 barrels of oil per day. Bosi, the second field development on OML 133, produces 135,000 barrels of oil per day.

Netherland, Sewell & Associates, Inc. ('NSAI'), Independent Petroleum Engineers, made a Best Estimate of Gross Unrisked Prospective Resources on OPL 323 within four large structures of nearly 2 billion barrels of oil and nearly 9 trillion standard cubic feet of gas (Table 1). The subsequent evaluation by the operator differs in detail with regard to the definition, size and ranking of the prospects from the NSAI evaluation. For example, the operator identifies five structures. However, the total of its estimates of the unrisked prospective resources of oil at 1.3 billion barrels, at the P50 level, is of a similar magnitude to the NSAI total.

During 2006, Agip made a discovery of both oil and gas in the Okodo-1 well on OML 125. This discovery had a direct impact on the prospectivity of one structure on OPL 323, located only 7 kilometres away. It appears to lie in the same channel as the Okodo discovery, which proved that the hanging wall of the common major bounding fault forms a trap for hydrocarbons and that the immediate area has sources of oil and gas and migration paths.

OPL 321

OPL 321 is located immediately to the west of OPL 323, lying in deeper water in the range 1,900 to 2,600 metres. The block lies on trend with block OPL 322 to the south, where Shell's discovery well Bobo-1 encountered a significant column of hydrocarbons. It has access to the same hydrocarbon sources as the giant Bosi and Erha Fields located nearby to the southeast. NSAI assessed a large prospect to contain Gross Unrisked Prospective Resources of 1.0 billion barrels of oil and 1.3 trillion standard cubic feet of gas at the Best Estimate level (Table 1).

The subsequent evaluation by the operator differs in detail with regard to the definition, size and ranking of the prospects from the NSAI evaluation. For example, the operator identifies four structures. However, the total of its estimates of the gross unrisked prospective resources of oil at 1.6 billion barrels, at the P50 level, is of a similar magnitude to the NSAI total.

Table 1 - OPL 321 & OPL 323 Best Estimate Prospective Resources [1] as at 1 October 2006								
	Unrisked				Risked			
	Gross (100 Percent)		Equator Net Interest		Gross (100 Percent)		Equator Net Interest	
Prospect Cluster	Oil MMBBL	Gas BCF	Oil MMBBL	Gas BCF	Oil MMBBL	Gas BCF	Oil MMBBL	Gas BCF
323-G	992	6,392	298	1,918	361	1,840	108	552
323-O	265	1,431	80	429	65	362	20	109
323-W	401	524	120	157	138	187	41	56
323-L	261	449	78	135	79	150	24	45
321-E	1,005	1,351	302	405	275	369	83	111
Total	2,924	10,147	877	3,044	918	2,908	275	872

Totals may not add due to rounding

(1) Netherland, Sewell & Associates, Inc.

Joint Development Zone – Block 2

History

Equator holds a 9% participating interest in JDZ Block 2.

The Joint Development Zone (‘JDZ’) lies between the Republic of Nigeria and the Republic of São Tomé e Príncipe. Under a treaty signed in 2001, the rights to resources extracted from the JDZ are shared between the two countries in the ratio 60:40 respectively. The JDZ is administered by the Joint Development Authority (‘JDA’) which is staffed by officials from both countries. Following the bidding round in 2005, Equator and one of its bidding partners, ONGC Videsh Limited, were jointly awarded a 15% interest in Block 2, of which Equator received a 6% interest.

Equator subsequently purchased an additional 3% interest from one of the other participants in the block, A & Hatman Limited, increasing its total participating interest to 9%. From this, the Company granted a bidding partner an economic interest equivalent to a 0.25% carried interest in the block. The result is that Equator acquired a net economic interest of 8.75% in Block 2 for a total entry cost of US$9.05 million, with an obligation to carry a combined interest of 1.25% during the initial exploration phase. Deferred consideration payments, to a maximum of US$6 million depending on the level of oil reserves, may become payable upon approval of a field development.

The PSC was signed with the JDA on 17 March 2006. The JOA was also signed among the participants at the same time. The other participants and their participating interests are Sinopec (28.67%), ERHC (22.00%), Addax (14.33%), ONGC Videsh (13.5%), Amber Petroleum (5%), Foby Engineering (5%) and A & Hatman (2.5%). EHRC is carried by Sinopec and Addax while A & Hatman is carried by Equator and ONGC Videsh.

Operational status

Sinopec, the operator, has a well established team in its office in Lagos. Sino Geophysical Co. Limited was engaged to reprocess the 3D seismic survey using state-of-art algorithms for Pre-Stack Time Migration and Common Reflection Surface stack processing. The operator then proceeded to interpret the reprocessed data, evaluate the prospects and rank them for drilling. In a cooperative effort, using all of their technical skills, from the top 10 prospects identified by the operator, the participants selected the 'Bomu' prospect as the prime candidate for the one commitment well required under the PSC.

In March 2007, Sinopec entered jointly with Addax Petroleum into a drilling services agreement with Aban Abraham Pte Limited for the provision of the 'Aban Abraham' deep water drillship. However, it became very clear that Aban would not deliver the rig in time to drill the well before the end of the Phase 1 Exploration Period in March 2010. The contract was cancelled and an assignment was taken from Shell for the use of the Transocean Sedco 702 drilling rig.

The Bomu 1 exploration well was spudded on 29 August 2009 and completed on 3 October. The well, drilled in 1655 metres of water, reached a total depth of 3543 metres below sea level, achieving all of its geological objectives. It was completed under budget by approximately US$10 million, a benefit of the low contract rates for services inherited from Shell. Analysis of the wireline logs and of fluid samples collected by wireline tester indicates the presence of gas in a number of sand intervals. Subject to acknowledgement by the JDA, the well fulfils the work obligation of Phase I of the Exploration Period in the PSC.

During August 2009, the performance bonds, amounting to US$2.8 million, previously issued to the JDA to guarantee the Company's share of the financial commitment to the work programme were replaced by new ones guaranteed by Oando. This released the US$2.8 million cash previously held as collateral by the bank that issued the original performance bonds.

Prospectivity

JDZ Block 2 lies at the end of the toe thrust of the deep water Niger basin. It is adjacent to Nigerian Block OML 130, which hosts the Akpo Field, with reserves of 600 million barrels of oil and 1 TCF of gas (Total 2007) and series of significant discoveries. The Obo-1 well discovery in the adjoining Block 1 proved the existence of a hydrocarbon source and the presence of excellent reservoir sands in the region of Block 2.

Based on the 3D seismic survey, acquired in 2003 by PGS and partially funded by Equator, NSAI made a Best Estimate of Gross Unrisked Prospective Resources of 1.3 billion barrels of oil and 1.9 trillion standard cubic feet of gas in total in the 10 identified prospects (Table 2).

The subsequent evaluation by the operator differs in detail with regard to the definition, size and ranking of the prospects from the NSAI evaluation. For example, the operator identified 18 structures. Their estimate of total unrisked prospective oil-in-place is 3.9 billion barrels and of unrisked prospective gas-in-place is 8 trillion cu ft, both at the P50 level. These figures compare with NSAI's Best Estimates of unrisked prospective in-place volumes of 4.7 billion barrels for oil and 3 trillion cu ft for gas.

While the discovery in the Bomu 1 well of gas rather than oil was disappointing, the reservoir sands and traps were, by and large, encountered as expected. Further technical and commercial evaluation of the discovery and the other prospects on Block 2 is underway. The JDA has granted a six month extension to 14 September 2010 to allow Sinopec to complete these studies and to allow the participants to make a properly informed judgment on whether to enter the next Exploration Phase with its commitment of one well. Four other wells were drilled in the JDZ, three in Block 4 and one in Block 3, simultaneously with Bomu 1. We believe that the JDA may also grant extensions for these blocks allowing the common operator, Sinopec, to integrate the studies on a regional basis to the benefit of the JDA and participants.

Table 2 - JDZ Block 2 Best Estimate Prospective Resources [1] as at 1 October 2007								
	Unrisked				Risked			
	Gross (100 Percent)		Equator Net Interest		Gross (100 Percent)		Equator Net Interest	
Prospect Cluster	Oil MMBBL	Gas BCF	Oil MMBBL	Gas BCF	Oil MMBBL	Gas BCF	Oil MMBBL	Gas BCF
Central	369	403	33	36	100	109	9	10
North	410	807	37	73	111	282	10	25
South	440	501	40	45	111	126	10	11
Subthrust	130	158	12	14	30	36	3	3
Total	1,349	1,869	121	168	352	553	32	50

Totals may not add due to rounding

(1) Netherland, Sewell & Associates, Inc.

Exclusive Economic Zone of São Tomé e Príncipe

The maritime boundaries of São Tomé e Príncipe encompass an area of approximately 160,000 square kilometres. The close proximity of São Tomé e Príncipe's offshore waters to the proven hydrocarbon systems in the adjacent waters of Nigeria, Cameroon, Equatorial Guinea and Gabon suggests the potential for hydrocarbons, which is further supported by regional seismic data and petroleum seeps seen on the islands.

In a joint venture with Petroleum Geo-Services ASA ('PGS'), Equator funded the acquisition in 2001 and 2005 of ten thousand kilometres of 2D seismic data and interpreted more than twenty thousand kilometres within the Exclusive Economic Zone of São Tomé e Príncipe ('EEZ'). It was agreed with the government that licences for the seismic data will be sold to oil companies to promote an oil exploration licensing round. In return, Equator gained the right to acquire a 100% interest in two blocks of its choice. In addition, the Company was granted an option to take up to a 15% share in any eventual back-in participation that the government may secure in other blocks.

Prior to the current EEZ Licensing Round, the government invited the Company to make its first choice of two blocks according to the Exploration and Production Option Agreement which Equator has with the government. Following Equator exercising its option, the Company received from the government a letter of allocation of the rights to Block 5 and Block 12 in the EEZ. The government has informed Equator that it will begin negotiation of the Production Sharing Contracts during 2Q 2010. Signature of the PSC's will commit the Company to the payment of signature bonuses and to the execution of work programmes. Equator intends to enhance the value and manage the risks of its opportunity in the EEZ by seeking farm-outs to an acknowledged deep water operators.

Now that the EEZ Licensing Round has commenced, Equator can expect to receive a return on its investment in the acquisition of 2D seismic data that will be licensed to exploration companies looking to participate in the EEZ Licensing Round.

Nigeria – OML 122

History

OML 122 is located 25 to 60 kilometres offshore from the Western Niger Delta in water depths of 40 to 300 metres.

In April 2005, Equator signed a Finance and Service Agreement with Peak Petroleum Industries Nigeria Limited ('Peak'), the lease holder and operator of OML 122. In return for providing funds and supplying technical services for an appraisal well on each of two discoveries and for a selected exploration well, Equator became entitled to a share of any oil and gas production. The Company's objective was to work jointly with Peak to prove significant volumes of gas to supply the gas utilisation projects being developed or planned in close proximity to the lease. In addition, it had a near term objective of developing and producing the small oil reservoir discovered in the Bilabri field in the 1970's.

In September 2005, Equator and Peak signed a contract to lease the services of the 'Bulford Dolphin' semi-submersible drilling rig and, in November 2005, commenced drilling their first well, Bilabri DX-1, on the multi-layered discovery. The extent of the known hydrocarbon reservoirs was found to exceed expectations and, furthermore, the well discovered additional gas reservoirs. On test, the 21 metre oil column in the C2 sand flowed crude oil, with a specific gravity of 39 degrees API, at a rate of 7,188 barrels per day and the gas reservoir in the overlying C1 sand flowed at a rate of 26 million standard cubic feet per day. The flow testing, combined with the well logs, confirmed that the reservoir properties and crude oil quality of Bilabri were excellent. Independent analysis of the field indicated that it held Proved plus Probable reserves of 42 million barrels of oil in the C1 and C2 sands. Accordingly, Equator and Peak initiated a development programme consisting of 6 wells and signed a charter contract for a Floating Production, Storage & Offloading vessel ('FPSO') with BW Offshore on 17 October 2006.

Following the DX-1 well, the Owanare prospect was selected for the exploration well and the AX 1 well was drilled. Gas was discovered in three separate horizons and the well suspended for a future development.

The Bilabri field was then further appraised with wells D2, D3 and D4. During the drilling programme, operations were disrupted on three occasions when the field was invaded by militants from the Niger Delta. On two occasions, crew members were taken as hostages. In addition, Peak defaulted on the cash calls for its share of project expenditure.

The three additional appraisal wells established that the aerial extent of the C2 sand was larger than expected but determined that the C1 sand contained gas only, NSAI, assessed the Gross Proved plus Probable reserves as 13.2 million barrels (Table 3). In terms of gas, NSAI best estimate of Gross Proved plus Probable contingent resources of 395 billion standard cubic feet for the Bilabri Field and 106 billion standard cubic feet for the Owanare discovery, giving a total gross contingent gas resource of 501 billion standard cubic feet discovered by wells funded by Equator in OML 122 (Table 4).

Based on the results from the appraisal drilling, the scope of the Bilabri oil development was reduced from six to three wells comprising two horizontal completions of the existing D2 and D4 wells plus a vertical completion of the existing DX-1 well. The FPSO entered a shipyard in Singapore on 22 January 2007 for upgrade and delivery in Nigeria in fourth quarter 2007. All of the sub-sea equipment was ordered, scheduled for installation during fourth quarter 2007. Up until 30 June 2007, Equator funded 100% of the cost of developing Bilabri, with expenditure on OML 122 totalling US$263 million.

However, during 2007 the project was beset with considerable operational and security problems, including yet another kidnapping, which caused the shutdown of drilling operations. The contract for the Bulford Dolphin drilling rig was terminated for prolonged force majeure on 11 May 2007. Subsequently, BW Offshore terminated the contract for the FPSO.

In September 2007, Equator agreed terms with Peak by entering into the Bilabri Settlement Agreement for Peak to take responsibility for operations and funding of the remaining development of the Bilabri oil development. Under the terms of the agreement, Peak assumed the existing and future project liabilities and the obligation to make an upfront payment to Equator. In return, Equator's interest in Bilabri and Owanare was reduced to a carried interest of 5% in the oil project and a paying interest of 12.5% in any gas development.

Status

Peak has yet to meet its obligations to Equator under the Bilabri Settlement Agreement. In order, to protect its interests Equator issued a notice of arbitration. Peak was granted an injunction by the Nigerian courts against Equator's right to arbitrate in the UK citing the fact that Peak admitted its debt as a reason for not allowing the arbitration. A final award, which we believe is enforceable in Nigeria under Nigerian Law, was issued on 27 May 2008 by the Arbitrator in favour of Equator in the total sum of US$123 million plus interest. However, Peak has continued to dispute this in the Nigerian courts.

Despite the dispute, Equator and Peak continued to cooperate and Peak was successful in signing the following:

- Heads of Agreement, signed on 15 November 2007, with FlexLNG Limited as the supplier of the offshore LNG process; and
- Heads of Agreement, on 9 June 2008, with Mitsubishi as the LNG offtaker.

The gas scheme makes exciting use of a new application of existing technologies by FlexLNG. FlexLNG will build and lease a floating LNG processing and storage vessel to be located in the Bilabri field. This will enable gas from Bilabri and Owanare to be produced, liquefied and exported directly to the prime market in Japan where a much higher price can be achieved than that offered by the owners of onshore LNG plants in Nigeria. The cost of a pipeline to an onshore LNG plant is also saved.

Both the Oil and Gas developments await funding and the resolution of various disputes.

Table 3 – Bilabri Field Oil Reserves [1] as at 1 April 2007

	Thousand Barrels	
Category	Gross	Net at 5%
Proved (1P)	10,280	514
Proved + Probable (2P)	13,160	658
Proved + Probable + Possible (3P)	16,450	823

Table 4 – Bilabri & Owanare Fields Contingent Gas Resources [1] as at 1 April 2007

	Bilabri Million cu ft		Owanare Million cu ft	
Category	Gross	Net at 12½%	Gross	Net at 12½%
Low Estimate	332	41.5	59	7.4
Best Estimate	395	49.3	106	13.3
High Estimate	457	57.1	172	21.5

(1) Netherland, Sewell & Associates, Inc.

Philip Dimmock - Chief Operating Officer
15 April 2010

Directors' Report

For the years ended 31 December 2007, 2008 & 2009

The directors submit their report and the audited financial statements of the Group for the years ended 31 December 2007, 2008 & 2009.

Review of the business & principal activity

Equator Exploration Limited ('Equator' or the 'Company') is a company incorporated in the British Virgin Islands. The address of the registered office is given on page 17. The Company and its subsidiaries engage in the exploration and development of offshore oil and gas projects in West Africa. The Group's objective is to build a diversified portfolio of exploration, appraisal and production assets in this region.

A full review of the Group's activities for the period of these accounts is set out in the Operating Review and Asset Review on pages 3 - 13.

Shares

As at 31 December 2009, there were 481,117,270 common shares issued. The growth in the Share Capital of the Company since 1 January 2006 is provided as note 23 to the accounts.

Share Options and Warrants

Details of the Share Options and Warrants issued by the Company between the 1 January 2006 and 31 December 2009 are provided in note 28 to the accounts.

Suspension and the removal of the Company's shares from AIM

On 4 May 2007, as a result of unusual activity in Equator's shares, the Company announced that it had entered into a conditional Merger Agreement by reverse takeover of Equator by a subsidiary of Camac Energy Holdings Limited, and that, as a result, trading in the shares would be suspended from AIM. Further details of the conditional proposed merger were announced on 11 June 2007. Following termination of the merger agreement in August 2007 and publication of the Interim Results for six months ended 30 June 2007, trading in the shares recommenced on the 24 October 2007.

Through 2008, the 2007 accounts were delayed initially because of technical difficulties with the application of the IFRS accounting standards to equity-related loans and to their related warrants. As time went on, the ability of the Company to fund the well obligations that support the value of its exploration assets came into question, mainly due to the uncertainties surrounding the participation of KNOC in our two most important blocks. This material uncertainty meant that the Company was unable to finalise its Financial Statements in time to meet the AIM reporting obligations.

As a result, the Company's shares were suspended from trading, for a second time, on 30 June 2008. An extension to the trading suspension was granted on 31 December 2008 but, on 16 March 2009, the Company's shares were removed from its AIM listing.

Results and dividend

The Group made a loss of US$149.3 million in 2007, a loss of US$3.5 million in 2008 and a loss of US$2.8 million in 2009. (2006: loss US$235.7 million)

The Company did not pay a dividend in 2007 & 2008 (2006: $Nil). It paid a special dividend in 2009 of 3.6 pence per share.

Litigation

There was no litigation outstanding against the Company at the end of 2009.

Financing

As mentioned above, the Company's shares were suspended from trading for a second time on 30 June 2008 and were unquoted from AIM on 16 March 2009. Consequently, new listed equity was not unobtainable. Additional debt was incurred by way of medium-term loan facilities from a number of shareholders and investors. All such indebtedness was either converted into shares by August 2009 or repaid in full in September 2009.

Further details of these facilities can be found in the Operating Review and in note 20 to the accounts.

In a number of transactions during 2009, Oando Plc, a Nigerian public company quoted on the Lagos and Johannesburg Stock Exchanges, became the majority shareholder with 78% of the shares. Oando has confirmed that it will continue to provide financial support to the Company for at least the next 12 months from the date of this Report to enable it to meet its financial obligations.

Risk management

The Equator Group of companies operates in a difficult geographical area and in an industry with a range of risks that have to be managed by the Company. The Group's management assesses and evaluates these risks both on company-wide parameters and on specific projects. In those instances where management deems a risk to be of significant importance it will consider protecting its own exposure. The main risks to the Group and the action taken in mitigation can be summarised as follows:

- Currency risk is managed by matching costs with income as far as possible. Each of the companies within the Group accounts for its business in its functional currency, US Dollars, thereby minimising translation risk.
- Economic risk to project cash-flows is expected to be managed through structured financing to match debt repayment to project cash-flows.
- Drilling risk resulting in blow-out and pollution is covered through insurance policies that limit the Company's exposure to an acceptable deductible amount and providing sufficient coverage for re-drilling in line with industry norms.
- Security in West Africa is a continuing concern and Equator's management take all reasonable precautions to ensure the safety of its own and its contractors' staff whether working onshore or offshore.

Charitable donations

The Company made no charitable donations during the years 2007, 2008 & 2009 (2006: nil).

Supplier payment policy

The Company's policy is to pay suppliers within the credit period granted by each supplier.

Statement of disclosure of information to auditors

So far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware. Each of the directors has taken all the steps that he ought to have taken as director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Re-appointment of auditors

PricewaterhouseCoopers LLP ('PwC') were auditors of the Company from 14 December 2006 until the 14 April 2009 when they resigned because of the Company's failure to pay their audit fees. These have now been paid and PwC re-appointed. A resolution for the re-appointment of PwC as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Post balance sheet event

During February 2010 following receipt of a written resolution dated 29 January 2010 from its majority shareholder, Oando Plc, new Memorandum and Articles of Association were approved and adopted. In addition, under the BVI Business Companies (Amendment of Schedules) Order, 2006, the written resolution disapplied Part IV of Schedule 2 of the BVI Business Companies Act 2004.

The new Memorandum and Articles of Association are posted on the Company's website, www.equatorexploration.com.

J A Tinubu - Chairman

PA Dimmock - Director & Chief Operating Officer

Statement of Directors' Responsibilities

Under the Company's Articles of Association, the directors are responsible for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Directors, Officers and Professional Advisors
For the years ended 31 December 2007, 2008 & 2009

Board of Directors

Mr J A Tinubu – Chairman	appointed Chairman 8 September 2009
Mr P Dimmock – Chief Executive Officer	
Mr O Boyo	appointed 8 September 2009
Mr P Bastin	appointed 10 July 2009
Mr D Rowlinson	appointed 10 July 2009

Directors Resignations

Mr W Cherwayko – Non Executive	resigned 30 December 2008
Mr A Dembitz	resigned 15 February 2007
Mr J Auld	resigned 13 March 2007 (appointed 15 August 2006)
S E Jonah KBE, OSG	resigned 23 July 2007
Baroness Chalker of Wallasey	resigned 28 September 2007
Mr A Renton	resigned 7 November 2007 (appointed 26 March 2007)
Mr M Adams	resigned 4 December 2007 (appointed 26 March 2007)
Mr T Giletti (previous Chairman)	resigned 27 July 2009 (appointed 4 December 2007)
Mr P Rand (previous Chief Executive Officer)	resigned 27 July 2009 (appointed CEO 13 March 2007 - December 2007)

Registered Office
Craigmuir Chambers
PO Box 71, Road Town
Tortola, British Virgin Islands

Registered Agent
HWR Services Limited
Craigmuir Chambers
PO Box 71, Road Town
Tortola. British Virgin Islands

Solicitor
Pinsent Masons
30 Aylesbury Street
London EC1R 0ER

Solicitor
Harney Westwood & Riegels
Craigmuir Chambers
PO Box 71, Road Town
Tortola, British Virgin Islands

Share Registrar
Computershare Investor Services (Channel Islands) Limited
PO Box 83, Ordnance House
31 Pier Road
St Helier, Jersey JE4 8PW
Channel Islands

Auditors
PricewaterhouseCoopers LLP
Chartered Accountants
1 Embankment Place
London WC2N 6RH

Banker
Barclays Bank plc
Windsor Branch
29-30 High Street
Windsor
Berkshire SL4 1PG

Independent Auditors' Report to the Directors and Shareholders of Equator Exploration Limited

We have audited the financial statements of Equator Exploration Limited for the years ended 31 December 2007, 2008 and 2009 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Accounting Policies and the related notes. The financial reporting framework that has been applied in the preparation of these financial statements is International Financial Reporting Standards ('IFRSs') issued by the International Accounting Standards Board ('IASB').

Respective responsibilities of the directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the shareholders as a body and the directors as a body in accordance with our engagement letter dated 14 January 2010 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come including without limitation under any contractual obligations of the Company, save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2007, 2008 and 2009 and of its losses and cash flows for the years then ended; and
- have been properly prepared in accordance with IFRSs as issued by the IASB.

PricewaterhouseCoopers LLP
Chartered Accountants
1 Embankment Place
London
WC2N 6RH
15 April 2010

Consolidated Statement of Comprehensive Income

For the years ended 31 December 2006, 2007, 2008 and 2009

	Notes	31 December 2009 $000's	31 December 2008 $000's	31 December 2007 $000's	31 December 2006 $000's
Revenue	5	51	-	1,288	277
Cost of sales	12	(177)	(807)	(807)	(807)
Gross (loss)/profit		(126)	(807)	481	(530)
Administrative expenses		(6,405)	(10,202)	(16,539)	(36,272)
Exceptional items	6	10,058	17,222	(127,412)	(200,000)
Operating profit/(loss)	7	3,527	6,213	(143,470)	(236,802)
Finance income	9	6	62	1,526	6,282
Finance costs	10	(6,349)	(9,737)	(7,334)	(5,132)
Loss before tax		(2,816)	(3,462)	(149,278)	(235,652)
Taxation	24	-	-	-	-
Loss for the year		(2,816)	(3,462)	(149,278)	(235,652)
Other comprehensive income:					
Gains/losses recognised directly in equity					
Increase in ownership of OPL 321 and OPL 323	13	-	5,000	-	-
Other comprehensive (expenses)/income for the year		-	5,000	-	-
Total comprehensive (expenses)/income for the year		(2,816)	1,538	(149,278)	(235,652)
Loss attributable to:					
Owners of the parents		(2,816)	(3,462)	(149,278)	(235,652)
Total comprehensive (expenses)/income attributable to:					
Owners of the parents		(2,816)	1,538	(149,278)	(235,652)

All operations were continuing throughout all years.

The notes on pages 23 to 42 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2006, 2007, 2008 and 2009

	Notes	31 December 2009 US$000s	31 December 2008 US$000s	31 December 2007 US$000s	31 December 2006 US$000s
Assets					
Non-current assets					
Intangibles: Goodwill	11	175	175	175	175
Exploration and evaluation assets	13	59,109	214,243	203,472	190,283
Multi-client seismic library	12	-	177	984	1,791
Property, plant and equipment	14	-	28	561	908
		59,284	214,623	205,192	193,157
Current assets					
Inventories	16	-	81	1,472	1,508
Trade and other receivables	17	27	107	769	4,818
Cash and cash equivalents	18	1,912	2,921	2,907	86,708
		1,939	3,109	5,148	93,034
Total assets		61,223	217,732	210,340	286,191
Liabilities					
Current liabilities					
Trade and other payables	19	(14,644)	(62,104)	(67,356)	(4,280)
Borrowings	20	-	(5,000)	(5,000)	-
		(14,644)	(67,104)	(72,356)	(4,280)
Net current (liabilities)/assets		(12,705)	(63,995)	(67,208)	88,754
Non-current liabilities					
Borrowings	20	-	(87,187)	(79,944)	(54,818)
Long term payables		-	-	-	(3,064)
Deferred income		-	-	-	(10,902)
		-	(87,187)	(79,944)	(68,784)
Total liabilities		14,644	(154,291)	(152,300)	(73,064)
Net assets		46,579	63,441	58,040	213,127
Equity attributable to owners of the parent					
Share capital	23	-	-	-	-
Capital reserves	29	458,721	450,913	449,942	458,643
Accumulated losses		(412,142)	(387,472)	(391,902)	(245,516)
Total equity		46,579	63,441	58,040	213,127

Approved by the board of directors on 15 April 2010.

Signed on behalf of the board of directors by:

Philp Dimmock
Chief Operating Officer

The notes on pages 23 to 42 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the years ended 31 December 2006, 2007, 2008 and 2009

	Share capital	Capital reserves	Accumulated losses	Total equity
	US$000s	US$000s	US$000s	US$000s
Balance at 31 December 2005	-	204,409	(9,864)	194,545
Loss for the year	-	-	(235,652)	(235,652)
Total other comprehensive income	-	-	(235,652)	(235,652)
Transactions with owners				
Premium raised on issue of share capital	-	253,484	-	253,484
Deductible costs of share issues	-	(11,010)	-	(11,010)
Share based payments	-	3,960	-	3,960
Capital contribution	-	7,800	-	7,800
Balance at 31 December 2006	-	458,643	(245,516)	213,127
Loss for the year	-	-	(149,278)	(149,278)
Total other comprehensive income	-	-	(149,278)	(149,278)
Transactions with owners				
Share based payments	-	3,435	-	3,435
Adjustment in respect of warrants	-	(12,136)	2,892	(9,244)
Balance at 31 December 2007	-	449,942	(391,902)	58,040
Loss for the year	-	-	(3,462)	(3,462)
Other comprehensive income				-
Adjustment in respect of OPL 321 & OPL 323 (note 13)	-	-	5,000	5,000
Total other comprehensive income	-	-	1,538	1,538
Transactions with owners				
Premium raised on issue of share capital	-	1,872	-	1,872
Share based payments	-	3,438	-	3,438
Adjustment in respect of warrants	-	(4,339)	2,892	(1,447)
Balance at 31 December 2008	-	450,913	(387,472)	63,441
Loss for the year	-	-	(2,816)	(2,816)
Total other comprehensive income	-	-	(2,816)	(2,816)
Transactions with owners				
Premium raised on issue of share capital	-	14,681	-	14,681
Share based payments	-	1,109	-	1,109
Dividend (note 30)	-	-	(28,727)	(28,727)
Adjustment in respect of warrants	-	(7,982)	6,873	(1,109)
Balance at 31 December 2009	-	458,721	(412,142)	46,579

The notes on pages 23 to 42 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the years ended 31 December 2006, 2007, 2008 and 2009

	Notes	31 December 2009 US$000s	31 December 2008 US$000s	31 December 2007 US$000s	31 December 2006 US$000s
Cash flow from operating activities					
Operating profit / (loss)		3,527	6,213	(143,470)	(236,802)
Adjustments for:					
Impairment of exploration and evaluation assets	13	-	-	49,090	200,000
Pre-licence costs written off		-	-	-	23,885
Amortisation of multi-client seismic library	12	177	807	807	807
Share based transactions		1,109	3,438	3,435	3,960
Warrant adjustment		-	-	-	(4,000)
Goodwill written down		-	-	-	1,198
Depreciation on property, plant and equipment		19	337	566	372
Loss on disposal of property, plant and equipment		11	197	220	-
Operating cash flow before movement in working capital		4,843	10,992	(89,352)	(10,580)
Decrease/(increase) in inventory		81	1,391	36	(1,508)
Decrease/(increase) in trade and other receivables		80	662	4,049	(873)
(Decrease)/increase in trade and other payables		(53,808)	(14,984)	48,648	3,414
Net cash used in operating activities		(48,804)	(1,939)	(36,619)	(9,547)
Cash flow from investing activities					
Interest received		6	62	1,526	6,282
Refund of signature bonuses	13	161,667	-	-	-
Additions of exploration and evaluation assets		(6,533)	(5,771)	(62,276)	(352,932)
Additions of property, plant and equipment		(2)	(1)	(439)	(541)
Net cash generated from/(used in) investing activities		155,138	(5,710)	(61,189)	(347,191)
Cash flow from financing activities					
Net loan proceeds		-	5,795	22,500	65,000
Repayment of borrowings		(93,295)	-	-	-
Interest paid		(2)	(4)	(8,493)	-
Dividends paid to Company's shareholders	30	(28,727)	-	-	-
Share capital issued (net of costs)		14,681	1,872	-	242,474
Net cash generated from/(used in) financing activities		(107,343)	7,663	14,007	307,474
Net (decrease)/increase in cash and cash equivalents		(1,009)	14	(83,801)	(49,264)
Cash and cash equivalents at beginning of period		2,921	2,907	86,708	135,972
Cash and cash equivalents at end of period		1,912	2,921	2,907	86,708

The notes on pages 23 to 42 form an integral part of these financial statements.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations. The consolidated financial statements have been prepared under the historical cost convention. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Equator Exploration Limited, the parent company of the Group, is incorporated and domiciled in the British Virgin Islands. The address of the registered office is given on page 17. The Company and its subsidiaries engage in the exploration and development of offshore oil and gas projects in West Africa. The Group's objective is to build a diversified portfolio of exploration, appraisal and production assets in this region.

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended IFRSs from their effective date:

- IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', – effective 1 January 2007. The standard introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group or Company's financial instruments, or the disclosures relating to taxation and trade and other payables.

- IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with emloyees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group has adopted IFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group financial statements.

- IAS 23 'Borrowing Costs'. In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group previously recognised all borrowing costs as an expense immediately. This change in accounting policy was due to the adoption of IAS 23, 'Borrowing costs' (2007) in accordance with the transition provisions of the standard; comparative figures have not been restated. The change in accounting policy had no material impact on earnings.

The Group has adopted the following new and amended IFRSs early from 1 January 2007:

- IFRS 7 'Financial instruments – Disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

- IAS 1 (revised). 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group.

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not yet adopted them:

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). IAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

- IAS 38 (amendment), 'Intangible Assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the Group and Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the Grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group or Company's financial statements.

- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Group and Company will apply IFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group or Company's financial statements.

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group and Company will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group or Company's financial statements.

- IFRS 2 (amendments), 'Group cash-settled share-based payment transaction' (effective form 1 January 2010). In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 - group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Group or Company's financial statements.

(c) Interpretations effective but not relevant

- IFRIC 12, 'Service concession arrangements'; and IFRIC 13, 'Customer loyalty programmes'.
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'
- IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments,
- Revised guidance on implementing IFRS 4, 'Insurance contracts';
- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies'; and
- IFRIC 9, 'Re-assessment of embedded derivatives'

2. Summary of significant accounting policies

The principal accounting policies adopted are set out below.

2.1. Going concern

The Financial Statements have been prepared on the going concern basis, which assumes that the Group will continue in operational existence for at least one year from the date of signing of these Financial Statements. The ability of the Group to continue as a going concern is dependent on the support of the Group's ultimate parent undertaking, Oando Plc. The directors of Oando Plc have confirmed that they will continue to provide financial support to ensure that the Group can meet its liabilities and obligations as when they fall due. As a result, the directors of the Group consider that the use of the going concern basis is appropriate.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity.

Uniform accounting policies have been adopted across the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

2.3 Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

2.4 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of multi-client seismic library data is recognised when the majority owner of the seismic surveys has received the revenue from the customer as agreed under the joint agreement.

2.5 Employee services settled in equity instruments

The Group issues equity-settled share-based payments to certain employees. These are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

2.6 Other goods or services settled in equity instruments

Goods or services (other than employee services) received in exchange for equity-settled share-based payments are measured directly at their current fair value at each balance sheet date. The proceeds received on exercise of the options, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

2.7 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in United States dollars, which is the Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.8 Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary or jointly controlled entity at the date of acquisition.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss. Goodwill is recognised as an asset and is tested for impairment annually, or on such occasions that events or changes in circumstances indicate that its value might be impaired in accordance with IAS 36.

Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortised goodwill, which has not been subject to impairment, is included in the determination of the profit or loss on disposal.

2.9 Exploration and evaluation assets

Exploration and evaluation assets - capitalisation

Oil and natural gas exploration and evaluation expenditures are accounted for using the successful efforts method. Under this method only costs which relate directly to the discovery and development of specific oil and gas reserves are capitalised. Exploration and evaluation costs are capitalised within intangible assets. Capital expenditure on producing assets is accounted for in accordance with IAS16, 'Property, Plant and Equipment' Costs incurred prior to obtaining legal rights to explore are expensed immediately to the income statement.

Costs incurred in the exploration and evaluation of assets include:

All lease and licence acquisition costs, geological and geophysical costs and other direct costs of exploration, evaluation and development are capitalised as intangible or property, plant and equipment according to their nature. Intangible assets comprise costs relating to the exploration and evaluation of properties which the directors consider to be unevaluated until reserves are appraised as commercial, at which time they are transferred to property, plant and equipment following an impairment review and depreciated accordingly. Where properties are appraised to have no commercial value, the associated costs are treated as an impairment loss in the period in which the determination is made.

Costs are amortised on a field by field unit of production method based on the commercial proved and probable reserves, with the exception of compressors, which are depreciated on a straight line basis (10 years) over their anticipated useful life.

The calculation of the 'unit of production' amortisation takes account of estimated future development costs and is based on current period end unescalated price levels. Changes in reserves and cost estimates are recognised prospectively.

Exploration and evaluation assets - impairment

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceed their recoverable amount. The recoverable amount is the higher of the exploration and evaluations assets' fair value less costs to sell and their value in use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash generating units (CGUs) of related production fields located in the same geographical region. The geographical region is the same as that used for reserves reporting purposes.

2.10 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is charged so as to write off the costs over their estimated useful lives, using the straight-line method commencing in the month following the purchase, on the following basis:

- Fixtures and fittings 3 years
- Equipment and software 3 years
- Motor vehicles 3 years

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

2.11 Investment in multi-client seismic library

This investment represents the Group's participating interest in seismic surveys that are licensed to customers on a non-exclusive basis. All costs directly or indirectly incurred in acquiring, processing and otherwise completing seismic surveys are capitalised in the multi-client seismic library. The assets are held at cost less accumulated amortisation. The Group Policy is to amortise the survey costs over five years from the point that the survey has been completed.

2.12 Impairment

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For the purposes of impairment, the Group estimates the recoverable amount of the cash-generating unit to which assets belong.

Goodwill arising on acquisitions is allocated to cash-generating units. The recoverable amount of the cash-generating unit to which goodwill is allocated is tested for impairment annually, or on such other occasions that events or changes in circumstances indicate that it might be impaired.

If the recoverable amount of a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. However, impairment losses relating to goodwill may not be reversed.

2.13 Inventories

Inventories comprise stocks of drilling and related equipment and are valued at the lower of cost and net realisable value. Inventory cost is determined on a first in first out basis. Provision is made for slow moving, obsolete and defective stock.

2.14 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. Appropriate provisions for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the assets are impaired.

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

2.16 Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidence a residual interest in the asset of the Group after deducting all of its liabilities

2.17 Trade payables

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Equity instruments

Equity issued by the Group is recorded at the proceeds received, net of direct issue costs.

2.19 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to anyone item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 Leasing

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

2.23 Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

2.24 Exceptional items

Exceptional items are expenses incurred by the business that due to their size and non-recurring nature are determined by the board to be exceptional and consequently disclosed separately.

2.25 Share Warrants

Share warrants represent the fair value of warrants issued to loan note and shareholders. Warrants issued as equity instruments are presented such that the related loan balances are reduced by the fair value of the warrants in issue. Warrants issued as share based payments are recognised at fair value at the date of issue with changes in fair value recognised in the income statement over the life of the instrument. As these warrants have no legal right of setoff, there is no net presentation in the balance sheet.

3. Financial risk management

3.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (mainly currency risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk Management is carried out by management under policies approved by the board of directors. Management identifies and evaluates financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, non-derivative financial instruments and investment of excess liquidity.

3.1.1. Market risk - foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the GB pound and Nigerian Naira. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The majority of the Group's transactions are conducted in United States Dollars, its functional currency. As a result there is no significant foreign exchange risk, however, the Group does review its exposure to transactions denominated in other currencies and takes necessary action to minimise this exposure.

Currency risk is managed by matching costs with income as far as possible. Each of the companies within the Group accounts for its business in its functional currency, US Dollars, thereby minimising translation risk.

3.1.2 Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and outstanding receivables. Approximately 98% of the Group's cash and cash equivalents are held by 'A' or better rated banks. The Company has no commercial customers and all trade and other receivables are considered operational in nature.

3.1.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Management monitors rolling forecasts of the Group's liquidity and cash and cash equivalents on the basis of expected cash flow.

3.2. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

There are no externally exposed capital requirements.

Consistent with others in the industry, the Group maintains capital on the basis of the gearing ratio. The ratio is calculated as debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance plus net debt.

The gearing ratios at 31 December 2009, 2008, 2007 and 2006 were as follows:

	2009 US$000s	2008 US$000s	2007 US$000s	2006 US$000s
Total borrowings (note 20)	-	92,187	84,944	54,818
Less: cash and cash equivalents (note 18)	(1,912)	(2,921)	(2,907)	(86,708)
Net debt/(cash)	(1,912)	89,266	82,037	(31,890)
Total equity	46,579	63,441	58,040	213,127
Total capital	44,667	152,707	140,077	181,237
Gearing ratio	-4%	58%	59%	-18%

The increase in the gearing ratio during 2007 resulted primarily from the additional borrowing required to fund the Group's investment in OML 122 and other licences and to meet working capital requirements. All borrowings were repaid in full together with capitalised and accrued interest on the 28 September 2009.

3.3 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values because of the short term nature of such assets and the effect of discounting liabilities is negligible.

4. Critical accounting estimates and judgements

In order to prepare the Consolidated Financial Statements in conformity with IFRS, management of the Group has to make estimates and judgements. The matters described below are considered to be the most important in understanding the judgements that are involved in preparing these statements and the uncertainties that could impact the amounts reported in the results of operations, financial condition and cash flows.

4.1 Recoverable amount of intangible fixed assets

The directors considered it prudent to record an impairment provision against the recorded value of the exploration and evaluation assets. The critical accounting estimates, judgements and the degree of sensitivity are included in note 13.

4.2 Estimation of oil and gas reserves

Oil and gas reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. Changes in proved and probable oil and gas reserves will also affect the evaluation of discounted cash flows.

Proved and probable oil and gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Estimates of oil and gas reserves are inherently imprecise, require the application of judgement and are subject to future revision. Accordingly, financial and accounting measures (such as the evaluation of discounted cash flows, depreciation, depletion and amortisation charges, and decommissioning provisions) that are based on proved reserves are also subject to change.

Proved and probable reserves are estimated by reference to available reservoir and well information, including production and pressure trends for producing reservoirs and, in some cases, subject to definitional limits, to similar data from other producing reservoirs. Proved reserves estimates are attributed to future development projects only where there is a significant commitment to project funding and execution and for which applicable governmental and regulatory approvals have been secured or are reasonably certain to be secured. Furthermore, estimates of proved and probable reserves only include volumes for which access to market is assured with reasonable certainty. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of hydrocarbon reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are substantially developed and depleted. As a field goes into production, the amount of proved reserves will be subject to future revision once additional information becomes available through, for example, the drilling of additional wells or the observation of long-term reservoir performance under producing conditions. As those fields are further developed, new information may lead to revisions.

Undrilled exploration prospects are based on third party independent evaluation of seismic data and adjacent geological and geophysical information including the results of drilling in nearby blocks.

5 REVENUE

	Year ended 31 December			
	2009 US$000s	2008 US$000s	2007 US$000s	2006 US$000s
Fee for release of drilling slot	-	-	1,249	-
Multi client seismic library fee income	51	-	39	277
Total revenue	51	-	1,288	277

6 EXCEPTIONAL ITEMS

	Year ended 31 December			
	2009 US$000s	2008 US$000s	2007 US$000s	2006 US$000s
Impairment - exploration and evaluation assets (note 13)	-	-	(49,090)	(200,000)
Seismic licence provisions (note i)	(9,633)	-	-	-
Dolphin drilling (note ii)	7,350	-	(18,600)	-
BW Offshore (note iii)	12,341	17,222	(59,722)	-
	10,058	17,222	(127,412)	(200,000)

Note i. The Group holds licences from PGS Exploration (UK) Ltd in respect of 3D seismic data on a number of blocks in the Gulf of Guinea. Under the terms of the licences, transfer fees totalling $9,633,000 are payable should control of the ownership of the Group be transferred. When Oando plc acquired a majority interest in the Share Capital in June 2009, the Group received notice and demand of these fees.

Note ii. The Group was contractually committed to Dolphin Drilling Ltd for the hire of an offshore drilling rig for operations on the OML 122. The Bilabri development had to be abandoned following a series of kidnappings of operating personnel in 2006 and 2007. The initial estimate of the likely liability was reduced in 2009 following a settlement being reached.

Note iii. On the termination of FPSO contract with BW Offshore, termination penalties of US$59.7 million became due. In a settlement agreement of 8 July 2008 the amount payable was reduced to US$42.5 million. On 15 June 2009, the amount payable was further reduced to US$30 million following the execution of a new settlement agreement. This amount was paid in full with interest in August 2009.

7 OPERATING PROFIT/(LOSS) FOR THE PERIOD

	Year ended 31 December			
The operating profit/(loss) for the period is stated after charging/(crediting):	2009 US$000s	2008 US$000s	2007 US$000s	2006 US$000s
Staff costs (note 8)	1,435	1,766	3,235	3,956
Directors Remuneration (note 8)	850	1,347	2,576	2,097
Depreciation and amortisation	196	1,144	1,373	1,179
Property lease rentals	57	310	1,011	235
Inventory write down	-	1,234	16	377
Bad debt provision	2,486	173	1,345	-
Net foreign exchange loss/(gain)	239	(669)	(21)	(2)
Goodwill impairment on Aqua Exploration	-	-	-	1,198

During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditors as detailed below:

Auditors' remuneration:				
Fees payable to the Group's auditors for the audit of the parent consolidated financial statements	120	120	437	190
Fees payable to the Group's auditors for other services to the Group:				
- Due diligence	-	-	240	-
Total non-audit fees	-	-	240	-

8 STAFF COSTS

	Year ended 31 December			
	2009	2008	2007	2006
The average monthly number of employees (including executive directors) employed was as follows:	7	11	22	15

Their aggregate remuneration comprised (including directors):

	Year ended 31 December			
	2009 US$000s	2008 US$000s	2007 US$000s	2006 US$000s
Wages and salaries	1,313	1,688	2,971	3,470
Social security costs	7	1	5	120
Other pension costs	115	77	259	366
	1,435	1,766	3,235	3,956

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate.

	Year ended 31 December			
	2009 US$000s	2008 US$000s	2007 US$000s	2006 US$000s
Wages and salaries	708	1,223	1,921	1,691
Fees	27	47	64	190
Termination benefits	-	-	332	-
Other pension costs	115	77	259	216
	850	1,347	2,576	2,097

9 FINANCE INCOME

	Year ended 31 December			
	2009 US$000s	2008 US$000s	2007 US$000s	2006 US$000s
Interest on bank deposits	6	62	1,526	6,282

10 FINANCE COSTS

	Year ended 31 December			
	2009 US$000s	2008 US$000s	2007 US$000s	2006 US$000s
Interest payable on borrowings	6,349	9,737	7,334	5,132

11 INTANGIBLES - GOODWILL

	US$000s
Cost: At 1st January 2006	1,762
Impairment	(1,587)
Carrying amount at 31 December 2006	175
Movement in the year	-
Carrying amount at 31 December 2007	175
Movement in the year	-
Carrying amount at 31 December 2008	175
Movement in the year	-
Carrying amount at 31 December 2009	175

An impairment provision was recognised in 2006 to reflect the recoverable value of Aqua Exploration Limited. The amount of impairment was reflected in administrative expenses in 2006. No provision has been made in 2007, 2008 or in 2009.

12 MULTI-CLIENT SEISMIC LIBRARY

The Multi-Client Seismic Library represents the Group's participating interests in seismic surveys that are being licensed to customers on a non-exclusive basis.

	US$000s
Cost	
At 1 January 2006	4,035
Additions for 2006	-
Additions for 2007	-
Additions for 2008	-
Additions for 2009	-
At 31 December 2009	4,035
Accumulated amortisation	
At 1 January 2006	1,437
Charge for 2006	807
Charge for 2007	807
Charge for 2008	807
Charge for 2009 .	177
At 31 December 2009	4,035
Carrying amount	
At 1 January 2006	2,598
At 31 December 2006	1,791
At 31 December 2007	984
At 31 December 2008	177
At 31 December 2009	-

The amortisation of the multi-client seismic library is reflected within cost of sales.

13 INTANGIBLES - EXPLORATION AND EVALUATION ASSETS

	OML 122	OPL 323	OPL 321	JDZ	EEZ	Seismic Studies	Total
							US$000s
At 1 January 2006	34,147	-	-	-	2,000	14,187	50,334
Additions	186,389	105,983	60,869	10,593	-	-	363,834
Pre-licence costs written off	(9,698)	-	-	-	-	(14,187)	(23,885)
Impairment	(200,000)	-	-	-	-	-	(200,000)
At 31 December 2006	10,838	105,983	60,869	10,593	2,000	-	190,283
Additions	52,000	4,205	4,688	1,386	-	-	62,279
Impairments (note i)	(49,090)	-	-	-	-	-	(49,090)
At 31 December 2007	13,748	110,188	65,557	11,979	2,000	-	203,472
Additions	-	2,600	2,571	600	-	-	5,771
Increase in ownership of OPL 321 & 323 (note ii)	-	2,500	2,500	-	-	-	5,000
At 31 December 2008	13,748	115,288	70,628	12,579	2,000	-	214,243
Additions	-	400	400	5,733	-	-	6,533
Refund of signature bonuses (note iii)	-	(102,667)	(59,000)	-	-	-	(161,667)
At 31 December 2009	13,748	13,021	12,028	18,312	2,000	-	59,109

Note (i): OML 122 – *carrying value $13.7m*

In April 2005, the Group signed a Finance and Service Agreement with Peak Petroleum Industries Nigeria Limited, the leaseholder and operator of the OML 122. In return for providing funds and technical services for operations in a specified area of the block, the Group became entitled to a share of any oil and gas production.

Within the specified area, the Bilabri field and the Owanare discovery were identified and in which NSAI estimate combined gross 2P reserves of 13,160 million barrels of oil and 501,206 MMCF of gas.

During Q1 2007, the scope of the development of the field was determined and contracts for the upgrade and delivery of a FPSO and for the use drilling rig was scheduled for quarter 4 in 2007. However following prolonged forced majeure in relation to the drilling rig during May 2007 both of these contracts were terminated.

During September 2007, the Group and Peak agreed a replacement to their original agreement, the Bilabri Settlement Agreement ('BSA'), under which Peak took full responsibility for operations and for funding the remainder of the Bilabri oil development. In return:

- the Group's interest was reduced to a net carried interest of 5% in the oil development and a paying interest of 12.5% in any gas development, and
- the Group would receive at least US$10m in cash for payments made after 1 June 2007 and Peak would take responsibility for settlement of all outstanding creditors in relation to the project.

Since making the agreement Peak has failed to raise the funding needed to resume the development of the field, repay the Group or pay the creditors.

Securities

On 8 August 2006 the Group entered into a loan agreement for US$65 million with certain shareholders secured over the Group's rights over certain fields contained within OML122.

During 2007, 2008 and 2009 a review was undertaken at the balance sheet date of the carrying value of exploration and evaluation assets to determine if there was any indications of triggers that may have led to these assets suffering an impairment loss. The cash generating units (CGUs) on which impairment is tested are OML 122, OPL 323, OPL 321, JDZ and EEZ. Following this review an impairment trigger was noted in relation to OML 122 during 2007.

Based on the Group's share of the future production materially declining and the future development of the fields (and therefore the Company's ability to benefit from future production) no longer being controlled by management, the Group considered there was an indication of impairment and an impairment test was undertaken.

The test compared the recoverable amount of the OML 122 cash generating unit (CGU) to the carrying value of the CGU. The estimate of the recoverable amount was based on the fair value less cost to sell, derived by estimating discounted after tax cash flows based on estimates that a typical market participant would use in valuing such assets.

The key assumptions used in the impairment testing were:

- Production profiles: these assumed the project would commence in 2011, and were based on reserve information provided by independent reserve engineers.
- Gas price: these were based on negotiations with a potential provider of offshore processing and a potential purchaser of the gas.
- Capital and operating costs: these were based on project estimates provided by third parties.

- Post tax discount rate of 15% was based on the Company's historic cost of capital combined with the perceived risks of undertaking oil development projects in offshore the Niger Delta.

Accordingly the impairment is dependent on judgement used in determining such assumptions.

The amount by which OML 122s carrying value exceed its recoverable amount, based on the above assumptions is US$49.1 million.

For value to be extracted from the field an agreement must be reached between all parties. The timing and nature of this are uncertain, however the Group are confident that following negotiations between Oando plc and Peak for a farm-in to OML 122 the revised carrying value of the field is supportable.

The impact on the impairment calculation of applying different assumptions to production, gas price, capital expenditure and post tax discount rates would be as follows:

		Increase/decrease in impairment charge for 2007 OML 122 CGU US$000s
Impact of production	Increased by 1%	0.6
	Decreased by 1%	(0.6)
Impact of price	Increased by 1%	0.6
	Decreased by 1%	(0.6)
Impact of capital expenditure	Increased by 1%	(0.3)
	Decreased by 1%	0.3
Impact of post tax discount rate	Increased by 1%	(0.2)
	Decreased by 1%	0.3

Management have determined that there have been no further impairment triggers during 2008 and 2009 in respect of OML 122, and that the key assumptions used for the 2007 impairment review, other than the start date of production, remain valid. Management therefore consider that the carrying value remains appropriate.

Note (ii): Increase in ownership of OPL 321 and 323

The Company bid as part of a consortium for exploration rights to OPL 321 and 323. It was granted a 30% interest in the PSCs but two of its bidding partners were not included as direct participants in the PSCs. As a result, the Company granted them 3% and 1% carried shares respectively by way of a farm out agreement in recognition of their contribution to the bidding group.

During 2007 the Company proposed and it was agreed that the bidding partners would surrender their carried interests in return for warrants in the Company and payments of $4m and $1m respectively. This would enable the Company to generate value and manage risk by farming out a much greater share of its interest in the PSCs to a large oil company with the available capital to proceed with the exploration project. The agreements with the two parties are identical except for the differing numbers of warrants and cash sums payable.

The farm out agreement in contemplation is with BG Exploration & Production Limited ('BG') whereby BG will take a 20% interest in the PSCs and bear all of the costs, leaving the Company with a 10% carried interest. Although an agreement has been executed with BG, it cannot be closed until it has been approved by the Nigerian National Petroleum Corporation.

The cash is payable to the bidding partners by the Company five days after the closing of the farm out agreement with BG, or if this does not occur, the Company must issue loan notes with an aggregate value of $5m which are redeemable out of the first $5m of proceeds received on the occurrence of any one of the following events:

- agreement of a farm out agreement with another party,
- sale or partial sale of the interests in the relevant exploration blocks, and
- sale or partial sale of the Company's interests in the subsidiaries holding the relevant PSCs.

It is possible that none of these events will occur and as the agreement is silent as to what occurs in that scenario it is assumed that the Company may not need to settle these loan notes and defer payment indefinitely.

The Group has increased the value of its asset based on the fair value of the consideration for the bidding partners surrendering their farmed out shares in accordance with IAS 32.

As the bidding partners have a right to receive discretionary cash flows as a result of the contractual arrangement, their interest is an equity one. On the basis that the obligation to pay the discretionary cash flows sits with the parent company, the associated credit from the loan notes.

Note (iii): Refund of signature bonuses

As detailed in the asset review, during September 2009, the Nigerian government refunded the signature bonuses of US$ 161.7 million. The Company had requested the return of the signature bonuses in the previous March because, due to the ongoing litigation, it was being denied its right to explore the blocks and faced severe economic hardship. The Company has notified the government of its intention to maintain its interests in the two blocks until such time that the court disposes of the matter and beyond. This notification was acknowledged by the government.

14 PROPERTY, PLANT AND EQUIPMENT

	Fixtures and Fittings US$000s	Equipment and software US$000s	Motor vehicles US$000s	Total US$000s
Cost				
At 1 January 2006	251	262	363	876
Additions	142	333	66	541
At 31 December 2006	393	595	429	1,417
Additions	367	29	43	439
Disposals	-	(332)	(63)	(395)
At 31 December 2007	760	292	409	1,461
Additions	-	1	-	1
Disposals	(401)	(2)	(267)	(670)
At 31 December 2008	359	291	142	792
Additions	-	2	-	2
Disposals	-	(2)	(76)	(78)
At 31 December 2009	359	291	66	716
Accumulated depreciation				
At 1 January 2006	36	59	42	137
Charge for year	93	144	135	372
At 31 December 2006	129	203	177	509
Charge for year	354	95	117	566
Disposals	-	(135)	(40)	(175)
At 31 December 2007	483	163	254	900
Charge for year	142	129	66	337
Disposals	(266)	(1)	(206)	(473)
At 31 December 2008	359	291	114	764
Charge for year	-	-	19	19
Disposals	-	-	(67)	(67)
At 31 December 2009	359	291	66	716
Carrying amount				
At 1 January 2006	215	203	321	739
At 31 December 2006	264	392	252	908
At 31 December 2007	277	129	155	561
At 31 December 2008	-	-	28	28
At 31 December 2009	-	-	-	-

15 INVESTMENTS

A list of the investments in subsidiaries, including the name, proportion of ownership interest, country of operation and country of registration, is given below:

As at 31 December 2006, 2007, 2008 and 2009

Name	Principal activity	%	Country of registration	Country of operation
Directly held				
Aqua Exploration Limited	Development of oil and gas projects	100%	Bahamas	BVI
Equator Exploration Nigeria Limited	Development of oil and gas projects	100%	Nigeria	Nigeria
Equator Exploration (OML 122) Limited	Development of oil and gas projects	100%	BVI	Nigeria
Equator Exploration (Congo) Limited	Dormant	100%	BVI	Dormant
Equator JDZ Nigeria Block 2 Limited	Development of oil and gas projects	100%	Nigeria	Nigeria
Equator Exploration 321 Nigeria Limited	Development of oil and gas projects	100%	Nigeria	Nigeria
Equator Exploration 323 Nigeria Limited	Development of oil and gas projects	100%	Nigeria	Nigeria
Equator Exploration Nigeria OML 122 Limited	Development of oil and gas projects	100%	Nigeria	Nigeria

16 INVENTORIES

	As at 31 December			
	2009 US$000s	2008 US$000s	2007 US$000s	2006 US$000s
Stocks of drilling equipment	-	81	1,472	1,508

Inventory is charged to joint operations at cost on a first in first out basis.

During 2009 US$ nil (2008: US$1,234,000, 2007: US$16,000, 2006: US$377,000) was expensed in administrative expenses due to a write down of inventory.

17 TRADE AND OTHER RECEIVABLES

	As at 31 December			
	2009 US$000s	2008 US$000s	2007 US$000s	2006 US$000s
Other receivables	4,020	1,536	1,619	1,181
Less provision for impairment of other receivables	(4,004)	(1,518)	(1,345)	-
Trade and other receivables - net	16	18	274	1,181
Prepayments and accrued income	7	89	495	1,966
Value added tax recoverable	4	-	-	-
Amounts due from related parties	-	-	-	1,671
	27	107	769	4,818

Movements on the Group provision for impairment of trade receivables are as follows:

	As at 31 December			
	2009 US$000s	2008 US$000s	2007 US$000s	2006 US$000s
At 1 January	1,518	1,345	-	-
Provision for receivables impairment	2,486	173	1,345	-
At 31 December	4,004	1,518	1,345	-

Other than receivables provided for, or written off, there were no material past due nor impaired receivables at either 31 December 2009, 2008, 2007 or 2006.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

An allowance has been made for the estimated irrecoverable amounts from receivables. This allowance has been based on the knowledge of the financial circumstances of individual debtors at the balance sheet date.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above after provisions for receivable impairment. The Group does not hold any collateral as security.

All trade receivables were denominated in US dollars.

18 CASH AND CASH EQUIVALENTS

	As at 31 December			
	2009	2008	2007	2006
	US$000s	US$000s	US$000s	US$000s
Cash and cash equivalents	1,912	2,921	2,907	86,708

Cash and cash equivalents comprise cash held by the Group in the form of short term bank deposits with an original maturity of three months or less and earn interest at a respective short-term deposit rates. The carrying amount of these assets approximates their fair value.

At 31 December 2009 the group held US$128,975 in sterling bank accounts (2008: US$28,181, 2007: US$68,925, 2006: US$256,759) and US$14,302 in Nigerian Naira bank accounts (2008: US$5,558, 2007: US$23,557, 2006: US$1,886). The remaining balance is held in US dollars.

Approximately 98% of the Group's cash and cash equivalents are held by 'A' or better rated banks (2008: 96%, 2007: 98%, 2006: 95%). The remaining balances are cash in hand.

19 TRADE AND OTHER PAYABLES

	As at 31 December			
	2009	2008	2007	2006
Amounts falling due in less than one year:	US$000s	US$000s	US$000s	US$000s
Trade payables	2,064	4,889	406	533
Other payables	1,990	-	3,323	-
Accruals	10,590	57,179	63,566	3,747
Social security and other taxes	-	36	-	-
Amounts due to related parties	-	-	61	-
	14,644	62,104	67,356	4,280

Trade payables are principally dominated in pounds sterling.

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs.

The directors consider that the carrying amount of trade payables approximates to their fair value.

Amounts falling due after more than one year:

	As at 31 December			
	2009	2008	2007	2006
	US$000s	US$000s	US$000s	US$000s
Other payables	-	-	-	3,064
Deferred income	-	-	-	10,902
	-	-	-	13,966

20 BORROWINGS

	As at 31 December							
	2009		2008		2007		2006	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
	US$000s	US$000s	US$000s	US$000s	US$000s	US$000s	US$000s	US$000s
Borrowings	-	-	5,000	88,295	5,000	82,500	-	54,818
Warrants	-	-	-	(1,108)	-	(2,556)	-	-
	-	-	5,000	87,187	5,000	79,944	-	54,818

Loans are denominated wholly in US Dollars.

2006
On 8 August 2006 the Group entered into a loan agreement for US$65 million with certain shareholders. The lenders were given security over the Group's rights over certain fields contained within OML122, operated by Peak Petroleum Industries Nigeria Limited ('Peak'). The loan had a repayment date of 7 August 2008 and carried interest at rates between 10% and 14% per annum payable semi-annually in arrears. In addition the lenders were given warrants or share appreciation rights on up to 17,397,353 common shares at £2.00 per share expiring on 8 October 2009. On the commencement date the Company issued 6,691,290 warrants relating to US$25 million of the loan. During 2007 the balance of 10,706,063 warrants were issued. During 2007, the lenders gave permission for the proposed merger with Camac International Limited ('Camac') and also allowed the Company to dispose of its interest in the Finance and Service Agreement and enter into the Bilabri Settlement Agreement. As a result, the Group agreed to reduce the exercise price from £2.00 to £0.40 per share.

In accordance with IFRS, the total warrant issue has been valued at the issue dates and subsequently marked to market and treated as an adjustment to current year losses. The reduction in the principal amount of the loan has been treated as additional interest and will be amortised over the life of the loan. The effective interest rate for 2006 was 9% per annum, in 2007 was 15.86% per annum, in 2008 was 11% per annum, and in 2009 was 7% per annum.

This loan was repaid in full together with capitalised and accrued interest on the 28 September 2009.

2007
During 2007 the Group entered into four loans totalling US$22.5 million, three of which were with shareholders of the Group and one with South African Oil Company, a subsidiary of Camac International Limited. Under the terms of these loans, security has been given to the lenders by way of a charge over the Company's shareholding in the following subsidiaries, Equator Exploration JDZ Block 2 Limited and Aqua Exploration Limited. These loans carry annual interest rates of between 6% and 8% per annum and were originally due for repayment as follows:

- US$5 million 15 June 2008
- US$10 million 15 February 2009
- US$7.5 million 1 November 2009

In addition, the lenders have been given warrants over 34,016,000 common shares at exercise prices ranging from £0.1433 to £0.35 per share. In accordance with IFRS, and depending on the conditions contained in the loan, the warrants have been fair valued at the dates of issue and either marked to market at the year end and treated as an adjustment to current year losses or treated as an equity adjustment and as an adjustment to other reserves. The loans have also been fair valued at an assumed market interest rate of 12% per annum. The difference between the principal amount of the loan and the discounted net present value has been treated as a reduction in the principal amount of the loan. The average effective interest rate for the four loans in 2007 was 12.1% per annum, in 2008 was 11% per annum and in 2009 was 7% per annum.

Two of the loans totalling US$12.5 million have warrants attached to them. These warrants allow settlement by delivery of a fixed number of shares. As the warrants are equity instruments, an amount of US$3.9 million has been included in equity for these warrants.

These loans were repaid in full together with capitalised and accrued interest on the 28 September 2009.

2008
During 2008 the Group entered into three unsecured working capital loans with shareholders totalling $6,270,000 of which $5,795,000 had been drawn down by the 31 December 2008. One loan of $1,750,000 carried interest at 8%, the other two loans were interest free. No warrant obligations were issued in respect of these loans. All three loans were scheduled for repayment by 31 December 2009. These loans were repaid in full together with any accrued interest on the 28 September 2009.

2009
During 2009 the Group entered into two unsecured interest free working capital loans with shareholders totalling $2,250,000 ($600,000 of which refinanced one of the loans taken out in 2008.) No warrant obligations were issued in respect of these loans. Both loans were subsequently extinguished late in 2009 when they were converted into the equity of the Group.

The directors consider that the carrying amount of borrowings approximates to their fair value.

21 FINANCIAL INSTRUMENTS

	As at 31 December							
Financial assets	2009		2008		2007		2006	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
	US$000s	US$000s	US$000s	US$000s	US$000s	US$000s	US$000s	US$000s
Cash and cash equivalents	1,912	-	2,921	-	2,907	-	86,708	-
Trade and other receivables	16	-	18	-	274		1,181	
	1,928	-	2,939	-	3,181	-	87,889	-

	As at 31 December							
Financial liabilities	2009		2008		2007		2006	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
	US$000s	US$000s	US$000s	US$000s	US$000s	US$000s	US$000s	US$000s
Trade and other payables	14,644	-	62,104	-	67,356	-	4,280	13,966
Borrowings	-	-	5,000	87,187	5,000	79,944	-	54,818
	14,644	-	67,104	87,187	72,356	79,944	4,280	68,784

Financial instruments comprise of loans and receivables and cash and cash equivalents.

The maturity profile of the Group's borrowings is set-out below on an undiscounted basis.

	As at 31 December			
	2009	2008	2007	2006
	US$000s	US$000s	US$000s	US$000s
Due within one year	-	5,000	5,000	-
Due within two years	-	87,187	79,944	-
Due within three years	-	-	-	54,818
	-	92,187	84,944	54,818

The outflow of cash is not expected to occur significantly earlier than indicated or be significantly different amounts than those indicated in the maturity analysis.

Fair values

The directors consider that the carrying amount of financial assets and liabilities approximates to their fair value because of the short term nature of such assets the effect of discounting is negligible.

Sensitivity analysis

Interest rate risk
The Group is not exposed to interest rate risk as all borrowings are charged interest at a fixed rate.

Market risk - Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the GB pound and Nigerian Naira. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. The majority of the Group's transactions are conducted in United States Dollars, its functional currency. As a result there is no significant foreign exchange risk, however, the Group does review its exposure to transactions denominated in other currencies and takes necessary action to minimise this exposure.

At 31 December, if the currency had strengthened or weakened by 10% against the GB pound and Nigerian Naira with all other variables held constant, post-tax loss for the year would have increase/decreased by:

	Strengthened by 10% Increase / (decrease) in post-tax loss and impact on equity US$000s	Weakened by 10% Increase / (decrease) in post-tax loss and equity US$000s
31 December 2009	165	(162)
31 December 2008	165	(168)
31 December 2007	(10)	14
31 December 2006	9	(15)

The differences are mainly as a result of foreign exchange gains/losses on translation of GB pound denominated trade and other payables and GB pound and Naira dominated bank balances. 10% is deemed appropriate for the foreign exchange sensitivity analysis due to the current financial market.

Cash at bank and short term deposits

	As at 31 December			
	2009 US$000s	2008 US$000s	2007 US$000s	2006 US$000s
Aaa (Moody's rating) - Royal Bank of Canada	-	2,806	2,804	70,259
Aa1 (Moody's rating) - Barclays plc	1,881	27	58	11,909
Other bank balances	31	88	45	4,540
Total	1,912	2,921	2,907	86,708

22 CONTINGENT LIABILITIES

Assignment of liabilities

In September 2007, the Group transferred, under the Bilabri Settlement Agreement ('BSA'), the full responsibility for completing the OML 122 Bilabri development to Peak Petroleum Industries (Nigeria) Limited ('Peak') who specifically assumed responsibility for the project's future funding and its historic unpaid liabilities (see note 13). In the event that Peak fails to meet its obligations to creditors under the BSA, the Group potentially retains an obligation to those creditors. Therefore a contingent liability of US$ 21.7 million exists in this regard.

The above contingencies are based on the best estimates of the board. Given the nature of the items it is not possible to give an indication of the likely timing of settlement or confirmation of any final amount.

23 SHARE CAPITAL

	US$000s
(i) Authorised	
1 billion ordinary shares of US$ nil par value	-

	Equity share capital allotted and fully paid Number	US$000s
(ii) Issued equity share capital		
As at 1st January 2006	131,417,190	-
Issued during the year for cash (i)	43,748,400	-
As at 31 December 2006	175,165,590	-
Issued during the year for cash (i)	-	-
As at 31 December 2007	175,165,590	-
Issued during the year for cash (i)	12,326,000	-
As at 31 December 2008	187,491,590	-
Issued during the year for cash (i)	293,625,680	-
As at 31 December 2009	481,117,270	-

On 19 January 2006, 380,000 shares were issued for US$1.31 per share on exercise of warrants.
On 8 February 2006, 2,030,000 shares were issued for US$1.31 per share on exercise of warrants.
On 6 March 2006,41,050,999 shares were issued with a par value of nil for consideration of US$249,999,981 (US$6.09 per share)
On 23 March 2006, 73,836 shares were issued for US$1.00 per share on exercise of share options.
On 30 March 2006, 100,000 shares were issued for US$1.31 per share on exercise of warrants.
On 24 May 2006, 113,664 shares were issued for US$1.00 per share on exercise of share options.
On 1 February 2008, 7,326,000 shares were issued with a par value of nil for consideration of US$1,172,160 (16 cents per share)
On 1 February 2008, 5,000,000 shares were issued with a par value of nil for consideration of US$700,000 (14 cents per share)
On 6 July 2009, 43,999,060 shares were issued with a par value of nil for consideration of US$2,199,953 (5 cents per share)
On 6 July 2009, 56,451,280 shares were issued with a par value of nil for consideration of US$2,822,564 (5 cents per share)
On 21 September 2009, 193,175,340 shares were issued with a par value of nil for consideration of US$9,658,767 (5 cents per share)

The shares rank pari passu and have equal right to dividends and on winding up.

24 TAXATION

The Group is not subject to tax in the British Virgin Islands. Operations within Nigeria and other jurisdictions are subject to local taxation and where applicable will be included in the financial statements. No tax has arisen in any of the jurisdictions.

The Group has the following approximate un-provided deferred tax assets: 2009: US$14.0 million, 2008: US$12.2 million, 2007: US$8.4 million, 2006: US$3.6 million.

25 OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	As at 31 December			
	2009 US$000s	2008 US$000s	2007 US$000s	2006 US$000s
Within one year	-	128	-	-
In the second to fifth years	-	-	417	646
	-	128	417	646

26 CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2009 (2008: US$ nil, 2007: US$ nil, 2006: US$ nil).

27 SHARE BASED PAYMENTS

During the years ended 31 December 2006, 2007, 2008 and 2009 the Group had in issue the share options and warrants tabled in Note 28. Awards of options are equity settled and there are no performance related conditions attached. Volatility is measured by comparison to a peer Group of companies.

Financial instruments are valued using the Black-Scholes method with the factors noted in the tables.

28 SHARE OPTIONS AND WARRANTS

28.1 Share options

Share options are granted to directors and to selected employees and consultants. The exercise price of the granted options is equal to the market price of the shares at the time of the award of the options. The options vest semi annually over the first two years from the date of the award and are exercisable from the vesting date for a period of five years from the award date. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices as are follow:

	2009		2008		2007		2006	
	Average exercise price in £ per share	Options 000's	Average exercise price in £ per share	Options 000's	Average exercise price in £ per share	Options 000's	Average exercise price in £ per share	Options 000's
At 1 January	0.42	3,650	0.57	7,158	1.24	12,358	1.25	11,007
Granted	-	-		-	0.45	350	1.26	1,846
Lapsed	1.20	(525)	1.73	(3,108)	1.49	(3,150)	1.76	(495)
Expired	1.00	(947)	0.78	(400)	1.00	(2,400)	-	-
At 31 December	0.72	2,178	0.42	3,650	0.57	7,158	1.24	12,358

Share options outstanding at the end of year have the following expiry date and exercise prices:

Expiry Date	Exercise price in £ per share	Shares (thousands) 2009	2008	2007	2006
21 August 2008	0.63	-	-	400	400
22 November 2014	1.00	1,200	1,200	2,800	3,280
08 December 2007	1.00	-	-	-	2,400
08 December 2009	1.00	-	947	947	947
21 July 2010	1.56	325	325	325	2,295
08 November 2010	2.07	249	349	1,300	1,300
30 January 2011	3.05	-	-	75	75
06 October 2011	1.16	10	85	567	767
06 October 2011	1.22	394	394	394	894
05 April 2012	0.45	-	350	350	-
		2,178	3,650	7,158	12,358

In 2007, of the 7.158 million outstanding options (2006: 12.358million), 6,538 million (2006: 8.843 million) were exercisable on 31 December 2007 at a weighted average exercise price of £1.24 (2006: £1.14). No options were exercised in 2009, 2008 or 2007 (2006: nil) and 1.5 million options (2008: 3.5 million, 2007: 5.55 million, 2006: 0.495 million) were either forfeited when holders left the Company, or expired without being exercised. Options are valued at the date of issue using the Black-Scholes valuation model. The significant inputs into the model were actual share price on grant date, actual exercise price, volatility of 15% (2008: 15%, 2007: 15%, 2006: 46%), expected option life of 5 years (all years) and an annual risk-free rate of 4.5% to 5.0% (all years). The volatility is an average of a peer Group of listed companies.

The weighted average fair value of share options granted during 2007 was US$65,000 (2006:US$1,137,000). No options were granted in 2008 and 2009.

The weighted average share price of options granted during 2007 was £0.28 (2006: £0.86). No options were granted in 2008 and 2009.

For the purpose of option valuation it has been assumed that no dividends will be payable.

28.2 Warrants

The Company was issued loans with warrants attached. The warrants allowed the lender to convert the debt into equity.

Movements in the number of warrants outstanding and their related weighted average exercise prices are as follows:

	2009		2008		2007		2006	
	Average exercise price in £ per share	Options 000's	Average exercise price in £ per share	Options 000's	Average exercise price in £ per share	Options 000's	Average exercise price in £ per share	Options 000's
At 1st January	0.34	53,498	0.34	53,498	0.56	15,676	0.67	11,395
Granted	-	-	-	-	0.33	46,807	0.30	6,691
Lapsed	0.34	(53,498)	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	0.37	(2,410)
Expired	-	-	-	-	0.67	(8,985)	-	-
At 31 December	-	-	0.34	53,498	0.57	53,498	0.67	15,676

Warrants outstanding at the end of year have the following expiry date and exercise prices:

Expiry Date	Exercise price in £ per share	Shares (thousands) 2009	2008	2007	2006
07 October 2007	0.67	-	-	-	8,985
01 May 2008	0.08	-	5,600	-	-
07 October 2009	0.30	-	6,691	6,691	6,691
07 October 2009	0.30	-	10,706	10,706	-
01 May 2010	0.35	-	14,652	14,652	-
01 June 2010	0.22	-	10,989	10,989	-
20 September 2009	0.14	-	8,375	8,375	-
12 October 2012	0.14	-	333	333	-
12 October 2012	0.15	-	1,752	1,752	-
		-	59,098	53,498	15,676

As a result of the acquisition of the Group by Oando plc, all outstanding warrants lapsed on the repayment of the loan balances with the warrant holders.

The total expense for the year arising from warranty transactions was US$ 1.1 million (2008: US$ 3.4 million, 2007: US$ 3.4 million, 2006: credit US$ 4.0 million)

The fair value of the above options was determined using the Black-Scholes option pricing model. The key assumptions were:

	2009	2008	2007	2006
Risk-free rate (%)	-	5%	5%	5%
Average term (years)	-	2	2	5
Grant price (p)	-	6 to 42	40 to 42	83 to 223
Volatility (%)	-	15	15	46
Aggregate fair value (£'000s)	-	59	3,981	9,121

Accounting for loans and warrants

The Group had several loans with warrants attached. In relation to warrants issued prior to 2006 these were treated as equity instruments and presented such that the related loan balances were reduced by the fair value of the warrants in issue.

Further warrants were issued in 2007. These were issued as an inducement to the loan issuer to provide finance at a time when the Company was under funding pressure. This conclusion means that the accounting treatment for warrants issued in 2007 differs to that previously adopted for the pre 2007 instruments. These 2007 warrants are accounted for as share based payments. The fair value of these warrants was determined at the date of issue, and was recognised in the statement of comprehensive income over the life of the instrument.

The fair value of the warrants issued in 2007 was $3.9 million. The vesting period of the warrants was two years, and therefore this amount was recognised in the statement of comprehensive income in 2007 and 2008.

The fair value of warrants issued in 2008 was de minimis.

29 CAPITAL RESERVES

These reserves represent both warrants and share options issued to date as well as share premium on the issue of share capital.

30 DIVIDENDS

On 27 October 2009, a dividend of US$ 28.7 million (3.6 pence per share) (2008: US$ nil, 2007: US$ nil, 2006: US$ nil) was paid to ordinary shareholders.

31 RELATED PARTY TRANSACTIONS

The Group is controlled by Oando plc (incorporated in Nigeria), which owned 78% of the Group's shares at 31 December 2010. The remaining 22% of the shares are widely held. The ultimate parent of the Group is Oando plc.

The following transactions were carried out with related parties:

a.) Purchases of goods and services

	As at 31 December			
	2009	2008	2007	2006
	US$000s	US$000s	US$000s	US$000s
Purchases of services	-	77	93	1,217
Recoverable rent deposit	-	-	(672)	-
	-	77	(579)	1,217

Goods and services are bought from Interbasin Resources (UK) Limited and Mart Resources, an entity controlled by a director, Wade Cherwayko, which supplies administrative services to the Group on normal commercial terms and conditions.

b.) Year end balance arising from the sales/purchases of goods and services

	As at 31 December			
	2009	2008	2007	2006
	US$000s	US$000s	US$000s	US$000s
Mart Resources	-	-	-	599
Interbasin Resources (UK) Limited	-	-	(61)	1,072
	-	-	(61)	1,671

32 POST BALANCE SHEET EVENTS

Changes to the articles of association

During February 2010 following receipt of a written resolution, dated 29 January 2010, from its majority shareholder, Oando Plc, new Memorandum and Articles of Association were approved and adopted. In addition, under the BVI Business Companies (Amendment of Schedules) Order, 2006, the written resolution disapplied Part IV of Schedule 2 of the BVI Business Companies Act 2004.

The new Memorandum and Articles of Association are posted on the Company's website, www.equatorexploration.com.

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