EQUATOR EXPLORATION LIMITED

Unaudited interim report for the six months ended 30 June 2007

EQUATOR EXPLORATION LIMITED

Unaudited financial statements for the six months ended 30 June 2007

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EQUATOR EXPLORATION LIMITED

Officers and professional advisers

Directors
Mr S Jonah– Executive Chairman (resigned – 20 July 2007)
Baroness Chalker of Wallasey (resigned – 28 September 2007)
Mr W Cherwayko
Mr M Adams (appointed – 16 March 2007)
Mr J Auld (resigned - 12 March 2007)
Mr A Dembitz (resigned - 16 February 2007)
Mr P Dimmock
Mr P Rand (appointed – 13 March 2007)
Mr A Renton (appointed - 16 March 2007)

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EQUATOR EXPLORATION LIMITED

Chief Executive's Statement

The first half of 2007 has been extremely challenging for Equator. The Company's operations on the Bilabri Field development continued to suffer from ongoing security issues, including further kidnappings of rig personnel which resulted in protracted inactivity and culminated in the termination of both the drilling rig contract and the FPSO contract. This has put completion of the development by Equator in significant doubt. In September, Equator agreed to transfer the responsibility of completing the project to our partner and operator of the block, Peak Petroleum Industries Limited ("Peak"), while retaining a smaller interest in future oil and gas production.

In the light of the uncertainties surrounding the recoverability of the costs we have incurred to date on OML 122, on both Bilabri and Owanare, we consider that, as a matter of financial prudence, a further provision should be made. We have therefore made provision for US$70million in the first half of 2007 in addition to the US$200million provision made in 2006.

However, against the disappointments on the Bilabri development, we have been successful in farming out a portion of our interest in the deep water block OPL 323 to BG Exploration and Production Nigeria Limited ("BG") which, subject to Nigerian government approval, will bring in a total of up to US$75million in cash and carry on exploration and appraisal costs.

As a consequence of concluding a settlement with Peak, whereby Peak will take over the operation and financing of OML 122, the board has implemented a strategy to optimise the value of its exploration assets through a process of farm outs, sales and carried interests. This will allow a realignment of the organisation with the reduction in operational activity. It is expected that the revised organisation will be fully implemented by early 2008. We firmly believe that this restructuring is in the best interests of all stakeholders as it will reduce the funding requirements in the medium term while we maximise the value of the Company's assets.

Development of OML 122 with Peak

The development drilling in the Bilabri Field, undertaken with the lease holder Peak, continued during 2007 with re-entry of the D2 and D4 wells in order to complete them as producing wells. Equator continued to fund 100% of the project due to the payment default by Peak.

During the first half of 2007, the project suffered from serious setbacks, including continuing security threats from militants and a kidnapping that resulted in extended periods when the drilling rig was not being economically employed. 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, to enable Peak to take over the remaining development of the Bilabri oil project with finance made available by a third party. Under the terms of the agreement, Equator is to receive an upfront payment and Peak will assume the current and future project liabilities. Equator will receive a 5% carried interest in the oil project and a paying interest of 12.5% in any gas development. However, the directors consider that it is prudent to retain the total provision of US$270million until further clarification is obtained on Peak's progress with the Bilabri development.

Deep Water Nigeria OPL 321 and OPL 323

The Company has a 30% equity interest (net economic interest 26%) in the Production Sharing Contracts ("PSCs") for the Nigerian deep water blocks, OPL 321 and OPL 323, awarded in March 2006 following the 2005 licensing round. The Korean National Oil Corporation ("KNOC") is the operator of both blocks with a 60% equity interest in each, while local companies have the remaining 10% equity interest. The two blocks have several very large mapped prospects with risked recoverable prospective reserves estimated at 877 million barrels of oil and in excess of 3 billion cubic feet of gas by independent reserves consultants Netherland, Sewell and Associates ("NSAI") for Equator's 30 per cent interest in the two blocks.

The co-venturers continue with the processing and interpretation of the 3D seismic survey in order to select the drilling locations for the two obligation wells in each block. Negotiations are in progress for a deep water drilling rig to commence drilling in 2009.

In August 2007, the Company entered a farm-out agreement with BG, whereby BG will be assigned two thirds of Equator's 30% interest in OPL 323, subject to the approval of the Nigerian National

Petroleum Corporation ("NNPC"). The Company will receive a cash sum together with a carry on its remaining 10% interest on both exploration and appraisal. The total amount of the proceeds could be up to US$75million. BG will also take over the requirement to provide the bank guarantee for the work programme on this block.

In addition, Equator has agreed with its partners in the bidding group to buy back, on completion of the farm-out, 3% of the Net Profits Interest granted in March 2006.

Joint Development Zone Block 2

The Company has a 9% equity interest (net economic interest 8.75%) in the PSC for Block 2 in the Joint Development Zone between Nigeria and São Tomé e Príncipe, awarded in March 2006 following the 2004 licensing round.

Block 2, which is operated by Sinopec of China, is adjacent to Block OML 130, which hosts the Akpo field containing 600 million barrels of oil and 1 trillion cubic feet of gas, which is operated by Total. Recent drilling activity in the region has increased our confidence that Block 2 has the potential to contain significant reserves.

The Company has provided a cash-backed guarantee for its share of one obligation well in the first of two exploration phases of 5 years specified in the PSC.

During 2007, the co-venturers have re-processed existing 3D seismic with the very latest techniques, and continue with the selection of the drilling location for the one commitment well. A drillship, the Aban Abraham, has been contracted to drill the well, commencing in 2009, with an option to drill a follow up appraisal or a second exploration well.

Risked recoverable prospective resources for Equator's 9 per cent share are estimated by NSAI at 121 million barrels of oil and 168 billion cubic feet of gas.

Exclusive Economic Zone of São Tomé e Príncipe

During 2007, the government of São Tomé e Príncipe has continued to work with its legal and technical advisers on the delineation of blocks for its Exclusive Economic Zone ("EEZ") and on new petroleum legislation and a model PSC. In preparation for the delineation of the blocks anticipated early in 2008, the Company has interpreted the 2D seismic surveys that it had partially funded. Upon completion of the block delineation, and pursuant to its agreements with the government, Equator will seek to exercise its right to select two blocks and negotiate PSCs for a 100% interest with the government.

Management and directors

During the first half of 2007, there were several changes to the board of directors. In February 2007, Alex Dembitz resigned as a non-executive director. In March 2007, following the resignation of Jeffrey Auld as an executive director, Philip Rand was appointed Chief Financial Officer and executive director. Also in March, Martin Adams and Tony Renton were appointed as non-executive directors.

During the second half of 2007, there were further board changes. In July, Sam Jonah resigned as executive chairman for personal reasons. In September 2007, Baroness Chalker resigned as a non-executive director due to other business commitments.

Share structure

As at 30 June 2007, there were 175,165,590 common shares in issue. No further shares have been issued since the balance sheet date.

As at 30 June 2007, there were 12,852,750 outstanding share options, 16,677,307 outstanding and issued warrants and 12,307,693 contracted but not issued warrants. Since 30 June 2007 a further 25,641,000 warrants have been issued. The warrants and options are exchangeable into common shares at prices ranging from £0.30 per share to £3.05 per share.

Results and dividend

The group made a loss of US$84.8million in the period, an increase of US$81.2million over the loss in the first half 2006 of US$3.6million (as restated). This is mainly represented by a provision of

US$70million against the value of exploration and evaluation assets and a charge of US$8.1million as a revaluation of the warrants issued in 2006 to the lenders under the US$65million loan facility. The operating activities of the group during the first half of 2007 continued at the same rate as in 2006 whilst activity continued on the Bilabri development. Net interest payable during the half year was US$2.9million and other overheads were US$3.8million.

As a consequence of providing fully for the possible non-recoverability of the Company's investment in OML 122, net assets at 30 June 2007 were US$124.1million or US$0.71 per issued share at 30 June 2007.

Financing

During 2007, the Company entered into a number of working capital financing arrangements. A total of US$22.5million has been provided by a number of lenders of which US$17.5million is secured and US$5million is unsecured. In conjunction with the loans, the Company issued to the lenders warrants to subscribe for shares over a period of two years, at strike prices between £0.30 and £0.35 per share.

On 8 February 2007, Equator agreed terms with a Nigerian bank for the provision of the performance bonds required under the PSCs for OPL 321 and OPL 323 to guarantee its share of US$83million for the minimum work programmes. Equator negotiated for the bank to provide the guarantees without cash collateral. Instead, the bank has taken security over Equator's shares in the two subsidiaries owning the interests in the PSCs, Equator Exploration 321 Nigeria Limited and Equator Exploration 323 Nigeria Limited.

Future prospects

The Company has a potentially valuable exploration portfolio in the prospective waters of the Gulf of Guinea, offshore West Africa. Drilling on three deepwater blocks is expected to commence in 2009. A rig has been secured for JDZ Block 2 and discussions are advanced for one for OPL 321 and OPL 323. There has been exploration drilling during 2006 and 2007 in the areas surrounding these blocks with encouraging results. The discovery of hydrocarbons in these wells confirms the presence of the sources from which oil and gas can migrate to the geological structures identified from 3D seismic in the Company's blocks.

Litigation

In October 2007, a petition, to wind up one of the Company's subsidiaries, which owns no material assets, was issued by a joint creditor of that subsidiary and its Nigerian partner. The Company has received legal advice and the directors do not believe that additional provision needs to be made.

There was no other outstanding litigation at the date of this report.

Going concern

On 11 June 2007 the Company announced that it had entered into a merger agreement with Camac Energy Holdings Limited ("Camac"). On 31 August 2007, Equator and Camac agreed to terminate the merger negotiations. Subsequent to this termination, the directors have examined the financial status of the Company and are of the opinion that there are sufficient alternative sources of funding available to the group. These sources include the farm-out of 20 per cent of OPL 323, announced in August 2007, and the new short term working capital facilities announced in September 2007. Therefore, the board considers it appropriate to prepare the financial statements on a going concern basis.

Suspension of shares

The suspension of trading on the Alternative Investment Market of the London Stock Exchange ("AIM") is expected to be lifted once the 2006 Annual Report and Financial Statements and these interim results have been published.

Wade Cherwayko
Director & Chief Executive
23 October 2007

EQUATOR EXPLORATION LIMITED

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 Company and the group and of the profit or loss of the Company and 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 keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the group. They are also responsible for safeguarding the assets of the Company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

EQUATOR EXPLORATION LIMITED

Unaudited consolidated income statement for the six months ended 30 June 2007

Continuing operations	Note	**Six months ended 30 June 2007 $'000**	Six months ended 30 June 2006 $'000 (Restated)	Year ended 31 December 2006 $'000
Revenue		**57**	-	277
Cost of sales		**(471)**	-	(807)
Gross profit		**(414)**	-	(530)
Administrative expenses		**(11,457)**	(6,175)	(36,272)
Exceptional item: impairment charge	2	**(70,000)**	-	(200,000)
Loss from operations		**(81,871)**	(6,175)	(236,802)
Finance income		**1,093**	2,618	6,282
Finance costs		**(3,968)**	-	(5,132)
Finance income - net		**(2,875)**	2,618	1,150
Loss before income tax		**(84,746)**	(3,557)	(235,652)
Income tax expense		-	-	-
Loss for the period		**(84,746)**	(3,557)	(235,652)
Loss per share	3			
Basic		**($0.48)**	($0.02)	$(1.35)
Diluted		**($0.48)**	($0.02)	$(1.35)

The notes on pages 11 to 15 form part of this interim report.

EQUATOR EXPLORATION LIMITED

Unaudited consolidated balance sheet as at 30 June 2007

	Notes	**Six months ended 30 June 2007**	Six months ended 30 June 2006 (restated)	Year ended 31 December 2006
		$'000	$'000	$'000
Assets				
Non-current assets				
Intangibles: Goodwill		**175**	1,373	175
Exploration and evaluation assets	4	**200,275**	316,204	190,283
Multi-client library	5	**1,320**	2,194	1,791
		201,770	319,771	192,249
Tangibles: Property, plant and equipment	6	**784**	986	908
		202,554	320,757	193,157
Current assets				
Inventories	7	**1,488**	3,941	1,508
Trade and other receivables	8	**9,103**	3,222	4,818
Cash and cash equivalents		**24,839**	108,302	86,708
		35,430	115,465	93,034
Total assets		**237,984**	436,222	286,191
Equity				
Capital and reserves attributable to equity holders of the company				
Share capital	9	**-**	-	-
Capital reserves		**454,463**	448,193	458,643
Accumulated losses		**(330,262)**	(12,354)	(245,516)
		124,201	435,839	213,127
Liabilities				
Non-current liabilities	10			
Borrowings		**68,996**	-	54,818
Long term payables		**5,671**	-	3,064
Deferred income		**22,312**	-	10,902
Current liabilities				
Trade and other liabilities	11	**16,804**	383	4,280
Total equity and liabilities		**237,984**	436,222	286,191

Approved by the board of directors on 17 October 2007

Signed on behalf of the board of directors:

Martin Adams
Director

Philip Rand
Director – Chief Financial Officer

The notes on pages 10 to 15 form part of this interim report.

EQUATOR EXPLORATION LIMITED

Unaudited consolidated statement of changes in equity for the six months ended 30 June 2007

	Note	Share capital $'000	Capital reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 January 2006 - restated		-	204,409	(9,864)	194,545
Changes in equity for 2006					
Total loss for the year		-	-	(235,652)	(235,652)
Shares issued		-	253,484	-	253,484
Cost of shares issued		-	(11,010)	-	(11,010)
Share based transactions		-	3,960	-	3,960
Capital contribution		-	7,800	-	7,800
		-	254,234	(235,652)	18,582
Balance at 31 December 2006		**-**	**458,643**	**(245,516)**	**213,127**
Total loss for the period		-	-	(84,746)	(84,746)
Shares issued		-	-	-	-
Cost of shares issued		-	-	-	-
Share based transactions		-	1,610	-	1,610
Capital contribution		-	(5,790)	-	(5,790)
Balance at 30 June 2007		-	**454,463**	**(330,262)**	**124,201**

Included in capital reserves as at 30 June 2007 are amounts attributable to share based transactions of US$9,419,316 (31 December 2006 US$8,674,449, 30 June 2006 US$ $7,161,841 - restated). There were no liabilities for which a counterparty's right to cash or otherwise had vested by 30 June 2007

The notes on pages 10 to 15 form part of this interim report.

EQUATOR EXPLORATION LIMITED

Unaudited consolidated cash flow statement for the six months ended 30 June 2007

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
	$'000	$'000	$'000
Cash flows from operating activities			
Loss from operations	**(81,871)**	(6,175)	(236,802)
Adjustments for:			
Impairment provision	**70,000**	-	200,000
Pre-licence costs written off	**-**	-	23,885
Amortisation of multi-client library	**471**	404	807
Share based transactions	**1,610**	2,378	3,960
Warrant adjustment	**4,109**	-	(4,000)
Goodwill written down	**-**	-	1,198
Depreciation on fixtures and equipment	**211**	161	372
Depreciation adjustment on sale of motor vehicle	**(40)**	-	-
Operating cash flows before movement in working capital	**(5,510)**	(3,232)	(10,580)
(Increase)/decrease in inventory	**20**	-	(1,508)
(Increase)/decrease in trade and other receivables	**1,688**	(3,218)	(873)
Increase/(decrease) in trade payables	**1,433**	(33)	519
Increase/(decrease) in other payables	**(8,651)**	-	2,895
Net cash used in operating activities	**(11,020)**	(6,483)	(9,547)
Cash flows from investing activities			
Interest received	**1,093**	2,618	6,282
Interest paid	**(3,314)**	-	-
Acquisition of multi-client library	**-**	-	-
Acquisition of exploration and evaluation assets	**(58,581)**	(265,870)	(352,932)
Acquisition of fixtures and equipment	**(47)**	(408)	(541)
Net cash used in investment activities	**(60,849)**	(263,660)	(347,191)
Cash flows from financing activities			
Loan proceeds	**10,000**	-	65,000
Share capital issued (net of costs)	**-**	242,474	242,474
Net cash from financing activities	**10,000**	242,474	307,474
Net decrease in cash and cash equivalents	**(61,869)**	(27,669)	(49,264)
Cash and cash equivalents at beginning of period	**86,708**	135,972	135,972
Cash and cash equivalents at end of period	**24,839**	108,303	86,708

EQUATOR EXPLORATION LIMITED

Notes to the interim report for the six months ended 30 June 2007

1. **Basis of preparation**

The interim accounts have been prepared in accordance with applicable International Financial Reporting Standards and the Company's established accounting policies as described in the financial statements for the year ended 31 December 2006. The interim accounts do not constitute statutory accounts within the meaning of s240 of the Companies Act 1985.

2. **Loss from operations**

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
	$'000	$'000	$'000
Loss from operations has been arrived at After charging/(crediting):			
Net foreign exchange loss/(gain)	**(8)**	-	(2)
Impairment provision	**70,000**	-	200,000
Share based transactions	**1,610**	2,513	3,960
Revaluation of warrants	**6,109**	-	(4,000)
Amortisation of multi client library	**71**	403	807
Depreciation of fixtures and equipment	**171**	122	372
Loss on sale of motor vehicle	**40**	-	-
Directors' remuneration	**916**	698	2,097
Staff costs	**1,006**	509	1,859

The impairment provision of US$70million (2006, US$200million) reflects the total investment in OML 122 since inception and is the potential loss in value if there were to be no recoveries.

3. **Loss per share**

The calculations of the basic and diluted loss per share are based on the following data:

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
	$'000	$'000	$'000
Loss for the period			
Loss for the purpose of basic loss per share (net loss for the year)	**(84,746)**	(2,330)	(235,652)
Effect of dilutive options and warrants	-	-	-
Loss for the purposes of diluted loss per share	**(84,746)**	(2,330)	(235,652)
Number of shares			
Weighted average number of common shares in issue during the period	**175,165,590**	167,870,663	171,432,878
Effect of dilutive options and warrants	-	-	-
Weighted average number of common shares in issue during the period for the purpose of diluted loss per share	**175,165,590**	167,870,663	171,432,878

The options and warrants in existence at the end of each period end did not have a dilutive effect as the exercise price exceeded the average market price of the common shares on the loss per share.

EQUATOR EXPLORATION LIMITED

Notes to the interim report for the six months ended 30 June 2007

4 **Exploration and evaluation assets**

	West Africa $'000	West Africa $'000
Cost		
At 1 January 2007		190,283
Additions:		
Capitalised costs on OPL 321	1,257	
Capitalised costs on OPL 323	1,057	
Capitalised costs on JDZ Block 2	273	
Investment in OML 122 exploration and development	77,378	
Other capitalised investments	27	
Impairment provision	(70,000)	
		9,992
At 30 June 2007		200,275

5 **Investment in multi-client library**

	$'000
Cost	
At 1 January 2007	4,035
Additions	-
At 30 June 2007	4,035
Accumulated amortisation	
At 1 January 2007	2,244
Charge for year	471
At 30 June 2007	2,715
Carrying amount	
At 1 January 2007	1,791
At 30 June 2007	1,320

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

Notes to the interim report for the six months ended 30 June 2007

6. **Fixtures and equipment**

Group	**Fixtures and fittings** $'000	**Equipment** $'000	**Motor vehicles** $'000	**Total** $'000
Cost				
At 1 January 2007	393	595	429	1,417
Additions	-	68	42	110
Disposals	-	-	(63)	(63)
At 30 June 2007	**393**	**663**	**408**	**1,464**
Accumulated depreciation				
At 1 January 2007	129	203	177	509
Charge for period	59	95	17	171
Depreciation on disposals	-	-	-	-
At 30 June 2007	**188**	**298**	**194**	**680**
Carrying amount				
At 1 January 2007	264	392	252	908
At 30 June 2007	**205**	**365**	**214**	**784**

7. **Inventories**

Inventories represent stocks of drilling consumables such as well heads, drill strings and pipes and are valued at the lower of cost and net realisable value.

8. **Trade and other receivables**

	30 June 2007 $'000	30 June 2006 $'000	31 December 2006 $'000
Trade receivables	**546**	-	971
Other receivables	**957**	-	1,881
Prepayments, operator advances and accrued income	**7,600**	-	1,966
	9,103	3,222	4,818

9. **Share Capital**

	30 June 2007 No.	30 June 2006 No.	31 December 2006 No.
Issued and fully paid			
Common shares with no par value	**175,165,590**	175,165,590	175,165,590

Notes to the interim report for the six months ended 30 June 2007

10. Borrowings and long term payables

	30 June 2007 $'000	30 June 2006 $'000	31 December 2006 $'000
Loans (note i)	**75,000**	-	65,000
Amounts provided as advance interest	**(6,004)**	-	(10,182)
Net borrowings	**68,996**	-	54,818
Other payables	**5,671**	-	3,064
Deferred income (note ii)	**22,312**	-	10,902
	96,979	-	68,784

Note i.
On 8 August 2006 the Company entered into a loan agreement with certain of its shareholders for US$65million. The loan has a repayment date of 7 August 2008 and carries interest at rates between 10 per cent per annum and 14 percent per annum, payable semi-annually in arrears. In addition, the lenders have warrants or conversion rights on up to 17,397,356 ordinary shares at £2.00 per share expiring on 8 October 2009 of which 6,691,290 warrants, relating to US$25million of the total borrowings, had been issued at the end of 2006. In accordance with IFRS, the warrants that have been issued have been 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.

In June 2007, the Company entered into two working capital loan agreements, one with a shareholder and a second with South African Oil Company, a wholly-owned subsidiary of Camac International Limited. Both loans are for US$5million and carry interest at 8 per cent per annum. The final repayment date is 15 February 2009 for both loans and interest is payable with the repayment. Both lenders have been granted warrants over 7,326,000 common shares at £0.35 per share, exercisable immediately for a period of 2 years. In addition, the lenders have been given joint security over certain assets of the Company.

Note ii
Deferred Income refers to interest accrued on funding provided under the terms of the OML122 Finance and Services Agreement and which may be recoverable from future revenues. This will be accounted for as income in due course as revenue commences and this sum represents fair value in the balance sheet.

Loans and deferred income are denominated wholly in US Dollars. Payables are denominated wholly in Pounds Sterling

11. Trade and other payables

	30 June 2007 $'000	30 June 2006 $'000	31 December 2006 $'000
Trade payables	**2,211**	-	533
Accruals	**14,593**	-	3,747
	16,804	383	4,280

Notes to the interim report for the six months ended 30 June 2007

12. Contingent liabilities

Seisco Investments Limited

Seisco Investments Limited ('Seisco') is a related company that had a common director and shareholder. During 2002 Seisco provided Equator with US$500,000 to fund Equator's share of the acquisition costs of certain seismic data. The amount borrowed was repaid during 2002 and 2003 from the revenue generated from licensing the seismic data.

In the event that no future seismic revenues can be expected from the majority owner (the 'Majority Owner') of this designated batch of seismic data acquired in 2002, the acquisition cost of which was funded by Seisco, as a result of the Majority Owner of such data entering into liquidation proceedings, Equator will issue Seisco with a maximum of 100,000 common shares. The number of common shares to be issued to Seisco in the event of the cessation of seismic revenues due to the liquidation of the Majority Owner will be dependent upon the extent to which the funds provided by Seisco have been repaid prior to the cessation of seismic revenues as shown below:

Amount of initial investment repaid	Number of shares to be issued
Greater than initial funds provided but less than 1.5 times initial funds provided	100,000
Greater than 1.5 times initial funds provided	50,000

The Company believes that there is a high probability that the lower number of shares will be issued as a sum greater than the initial investment had already been paid to Seisco at the end of 2006.

Contract for Floating Production Vessel ('FPSO')

On 16 October 2006 the Company and its partner in Block OML 122, Peak Petroleum Industries Nigeria Limited ('Peak'), entered into an agreement with BW Endeavour Limited ('BW'), for the provision of an FPSO for the oil production from the Bilabri Field. Under the terms of this contract, Equator and Peak are jointly and severally liable for certain payments in the event of early termination. The value of the potential payment increases during the period to commencement of oil production and then reduces to zero over the following three years.

At the end of 2006 the early termination contingent liability was US$35million of which US$20million was to be provided by means of a bank guarantee. A bank guarantee for US$10million had already been issued and a further US$10million guarantee was issued on 12 January 2007. The bank guarantees were issued solely by Equator and were secured by means of cash deposit to the issuing bank. The early termination penalty increased to US$52million during 2007 of which US$20million remains covered by bank guarantees in accordance with the terms of the contract.

On 20 August 2007 the Company announced that the FPSO contract had been terminated and that BW might activate the security. The US$20million guarantee was activated in September 2007.

Drilling Rig Contract

On 6 February 2006, Equator entered into a contract for the continued use of the drilling rig being used on the OML122 drilling programme. This contract followed on from the contract entered into jointly by Equator and Peak and would allow for further drilling once the initial 5 exploration, appraisal and development wells had been finished and, where appropriate, were completed for production. The 6 February 2006 contract became effective on 31 January 2007. Invoices for drilling and ancillary services for approximately US$18million remain outstanding. Many of these invoices are being disputed by Equator due to the poor performance of the rig and the significant additional costs which have resulted.

The rig operator has also submitted an invoice for US$38million for early termination of the contract. This is disputed by the Company because the contract was already terminated for prolonged force majeure in accordance with its terms.

Restricted Cash Balances

At 31 December 2006, Equator had US$86.7million of cash resources. However some of this cash was not freely available as it is utilized as deposits to secure the issue of bonds and guarantees by its bankers under a group facility to support potential liabilities. The deposits are interest-bearing at market rates. As at 31 December 2006 the following amounts were restricted in use:

	US$000
Collateral for JDZ Block 2 performance bond	2,800
Collateral for guarantee for FPSO early termination penalty	20,000

13. Subsequent events

On 11 June 2007, Equator announced that it had entered into a conditional Merger Agreement with Camac Energy EP Limited whereby Equator would acquire, by reverse takeover of Camac Energy Holdings Limited, its exploration and production interests in the territorial waters of Nigeria, including participating interests in OML 108, OML 120, OML 121, OPL 278 and OPL 282. On 31 August 2007, Equator and Camac Energy EP Limited agreed to terminate the Merger Agreement.

In July 2007, the Company entered into a further working capital loan agreement for US$7.5million with a shareholder lender. The loan bears interest at 8 per cent per annum. The final repayment date is 15 February 2009 and interest is payable with the repayment. The lender has been issued warrants over 10,989,000 common shares at £0.35 per share, exercisable immediately over a period of 2 years. The lender has been given joint security over certain assets of the Company.

In August 2007, the Company entered into a farm-out agreement with BG Exploration and Production Nigeria Limited for 20 per cent of its 30 percent interest in OPL 323. The total consideration for the farm-out is approximately US$75million made up of cash consideration payable on completion and carry on exploration and appraisal costs. The agreement is subject to the approval of the Nigerian National Petroleum Corporation.

In September 2007, the Company entered into an unsecured short term working capital loan agreement for US$5million with a shareholder. The loan bears interest at 6 per cent per annum. The final repayment date is 15 December 2007 and interest is payable with the repayment. The lender has been issued warrants over 10,989,000 common shares at the lower of £0.30 per share or the average of the closing share price for the first 15 days of trading following the re-listing of Equator shares on AIM, exercisable immediately for a period of 2 years. If the loan is not repaid by the due date, the principal amount of the loan and accrued interest will be converted into common shares at £0.10 per share.

In September 2007, the Company entered into a settlement agreement with Peak. Under the terms of this agreement, Equator will transfer the responsibility for completion of the Bilabri project to Peak and relinquish its existing rights in OML 122. In return, Peak will pay a cash sum to Equator and provide Equator with a net profits interest of 5 per cent, carried, in the oil project and 12.5 per cent, paying, in any gas development. Peak has agreed to provide financing for the project from an external source and will take over all current project commitments and liabilities.