Equator Exploration Limited – Annual General Meeting (30 December 2008)

Statements by the Chairman and the Chief Executive

Overview by Chairman

Dear Shareholders,

2008 has been a very difficult year. We have faced many problems during this year, including shortage of funds and a further suspension of share trading, and it is only due to the hard work and dedication of our staff that we are still in business.

Let me start by reminding you of the major events in 2007. In June, we announced a reverse takeover transaction, intended to assist with our funding requirements and to broaden the asset base for our shareholders. During the negotiation period we had suffered from prolonged disruptions to our drilling operations on the Bilabri Field due to yet another kidnapping. In turn this created a severe cash flow shortfall and resulted in the termination of the rig contract due to prolonged force majeure. Following this suspension of the Bilabri oil development, the FPSO contract with BW also had to be terminated. The uncertainties over completion of the Bilabri development and due diligence issues were instrumental in the termination of the merger and left the Company without the financial backing required for the reverse takeover.

Towards the end of 2007, once we had ceased expenditure on the Bilabri oil development, we identified a potential solution to the cash flow problems by agreeing terms with Peak for them to assume the operations and liabilities of the Bilabri development. Our intent was to reduce liabilities and future expenditures to a minimal level and to eliminate any potential liabilities, whilst recouping a small portion of the expenditure on OML 122 and retaining an interest in both the gas and oil projects. Soon after, we agreed terms for a farmout of part of our interest in OPL 323 in order to raise working capital and to reduce future expenditure commitments on the drilling programme. We also secured a number of short term loan facilities from shareholders, albeit with potential dilution from the warrants issued with the loans as compensation to the lenders for the risks associated with the business at the time.

During 2008, we have continued to work with minimal cash resources as a result of continued delays in achieving completion of the transactions initiated in 2007. Firstly, Peak has failed to raise the finance to enable them to settle under the Bilabri Settlement Agreement. Secondly, lengthy delays to the approval of the OPL 323 farm-out have occurred with still no final conclusion.

As a result, we have continued to have to borrow small amounts of funding from supportive shareholders and to defer repayments of principal and interest on the Bridge Loan from 2006.

I now invite Phil Rand, our CEO to discuss in more detail the substantive points referred to in this introduction.

Chief Executive Statement

Operations

Bilabri

In January 2008, we cautioned Peak that, as a result of their failure to settle under the Bilabri Settlement Agreement, we had no choice but to go to arbitration. While the arbitration process was being set up, Peak went to court in Nigeria, claiming that there was no dispute and therefore the arbitration had been called unlawfully. The court agreed and ruled, ex-parte, that we should not hold the arbitration process. Following legal advice that the arbitration process was appropriate, the Directors continued with the procedures. At the arbitration hearing, Equator was awarded US$123 million, but we have been unable to register this in the Nigerian courts with the order issued in favour of Peak still in place. Since then, we have attempted to petition the court to have the award to Peak overruled. During 2008, the Company has continued to support Peak's initiatives with a number of financial advisers to arrange the finance required to settle the Bilabri Settlement Agreement and to fund the oil development. We have also supported the work being done by Peak to finance and operate a gas development project. However, the impact of the global credit crunch has made any financing increasingly difficult.

During November 2008, we met Peak to address the lack of progress on financing. We made Peak an offer which would have been beneficial to both parties. Unfortunately, Peak did not respond by the agreed time and when they did respond, it was with a proposal merely for Equator to finance the projects. We are now reviewing our options.

As announced in mid-2008, an agreement was reached with BW Offshore on a process and a timetable for settling the amount due to them as a result of the early termination of the FPSO contract, as and when funds are available. Discussions continued with the other major potential creditor, Dolphin Drilling. In late 2007, we came close to a settlement by mediation. However, the final settlement as yet remains unresolved.

Activity in OML122 ceased in mid-2007 and no further money has been spent on it by Equator.

OPL 321 and OPL 323

We continue to assist KNOC in the analysis of seismic data and preliminary contracting for drilling operations during 2008. The group is set to commence drilling operations in late 2009.

On 17 August 2007, Equator entered into a farm-out agreement for 20% of our 30% interest in OPL 323 with BG Exploration and Production Nigeria Limited, completion being subject to the approval of NNPC. Subsequent to signing the agreement with BG there was a change of government in Nigeria and, along with most other assignments, the approval process has been delayed. KNOC gave its endorsement to the assignment and, as far as we are aware, all the officials and departments concerned have satisfactorily completed their investigations. However, we are yet to receive the written consent from NNPC.

During 2008, a public inquiry was set up into all the awards of oil exploration blocks made in Nigeria since 1999, including those made in 2006 in respect of the 2005 licensing round. The award to KNOC of the operatorship of OPL 321 and OPL 323 came under scrutiny as a result of both KNOC's right of first refusal to the blocks in the bid round and a concession to set off part of KNOC's portion of the signature bonus against a downstream project. We also understand that a petition was presented on behalf of ONGC, our original bidding partner, claiming that the award to KNOC was flawed. The combination of these factors has contributed to the continued delays to the consent for our farm-out to BG.

We have met regularly with senior government officials and have been assured that our interest in the PSC is intact and not under query. However, we have also been told that approval of the assignment awaits the resolution of the conflict between KNOC and ONGC, which we are informed is imminent. It remains, however, difficult to predict the exact timing of the formal consent to the farm-out.

During 2008, we have continued to work on the farm-out of part of our interest in OPL 321 but you should be aware that while questions surround OPL 323, potential partners will be reluctant to commit to substantial work on OPL 321.

JDZ Block 2

Together with the operator, Sinopec, and the other parties, we have identified a prospect for drilling and have contracted a deepwater drillship, the "Aban Abraham", which is expected to commence drilling early in 2010, although it is possible that an earlier slot might become available.

EEZ Options

A model PSC, closely resembling the one proposed by Equator, has been adopted by the government. However, we are still waiting for the final delineation details to be agreed upon. At this time we will be able to exercise our option over two blocks.

We currently anticipate that delineation will be underway early in 2009 and we will then be able to negotiate and enter into PSC's.

We remain excited about the opportunity to participate in the oil sector in Sao Tome and we still believe that there is a significant amount of value to be realised from these assets, both for the country and our company.

Finance

Throughout 2008, we have continued to raise small amounts of working capital for our immediate needs. The delay to the farm-out and Peak's lack of success in raising funds have continued to create major financing hurdles. The continued suspension of trading of our shares, initiated in July 2008, has been prolonged due to uncertainty over the availability of sufficient working capital for 2009. We believe that the farm-out to BG is the most likely source of large amounts of cash in the short term.

The global credit crunch and the sustained fall in oil prices have had a significant impact on the ability of the industry to raise capital. We have been exploring a number of financing alternatives including recently agreeing terms with a Nigerian bank to replace the US$2.8 million performance guarantee for JDZ Block 2, which is presently 100% cash covered. This will release US$1.4 million for our immediate needs. The funding required for the OPL 321 & 323 drilling campaign will come from farm-outs. With successful farm-outs, we expect to be able to convert the outstanding corporate debt into equity, leaving a minimal and manageable funding requirement.

We are in discussion with relevant parties regarding the possibility of additional equity finance and will inform shareholders when more progress has been made.

Management and Staff

Management has been stable during 2008 and I do not expect any significant changes during 2009 after the radical cost cutting during 2007 when we cut the number and cost of board directors and moved out the offices in Lagos shared with Mart Resources, reducing overheads by 75%. Our remaining staff members continue to be loyal and supportive and remain with the Company because they have faith in our future and it is as a result of this belief that the Company has been able to continue through these difficult periods.

We continue to keep costs at a minimum by utilising contract staff wherever possible and concentrating on keeping overheads low. This minimises fixed costs and ensures that we have a flexible approach to the future.

Outlook

The Company remains positive about the inherent value of its assets, and its exposure to the hydrocarbon prospectivity found in West Africa. We have taken many of the steps needed to reposition ourselves as a non-operator, investor company in order to reduce financial exposure whilst maintaining upside potential in the deep water in the Gulf of Guinea.

We have reduced overheads and are working diligently to achieve approval of the farm-outs which will ensure our continued viability. We believe that these actions will enable the company to not just continue to be viable, but will also enable us to remove the uncertainties which are creating a huge loss in value to our shareholders, to retain our AIM listing and to move toward stability and potential realisation of increased value in the near term.