EQUATOR
EXPLORATION LIMITED

EQUATOR EXPLORATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2011

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Operating Review

Events during 2011

This statement covers the significant events of the last year, from January to December 2011.

The Company's Oil & Gas Interests

The Company holds interests in five offshore oil & gas exploration projects in the Gulf of Guinea:

- The Bilabri and Owanare oil and gas developments in OML 122, shallow water Nigeria, operated by Peak Petroleum Industries Nigeria Ltd ('Peak');
- OPL 323 & OPL 321, deep water Nigeria, operated by the Korean National Oil Corporation ('KNOC');
- The award of Blocks 5 & 12 by the National Petroleum Agency of the Government of the Democratic Republic of São Tomé & Príncipe in its ultra deep Exclusive Economic Zone.

An appraisal of these interests is given in the Asset Review which immediately follows this Operating Review. Key matters which arose during 2011 are:

Bilabri & Owanare (OML 122)

Peak continues to be unable to meet its obligations under the Bilabri Settlement Agreement ('BSA'), executed in 2007. During 2011, the Company continued with a set of legal proceedings, including a petition for Peak to be wound up. The result was the removal of the injunction against the registration of the June 2008 arbitration award and the issue of a preliminary winding up order. By year end, the court had issued a final order for the winding up of Peak and had appointed a liquidator. We await the outcome of an appeal made by Peak.

In the meantime, the Company has offered Peak a settlement in which we resumed the funding and operations of the Bilabri Development in return for an increased participating interest in Bilabri and, for the first time, an assignment of a direct interest in Oil Mining Lease 122. Peak has agreed with some elements of our proposal but not all.

OPL 321 & OPL 323

During 2011, the Company was active in consulting with all of the stakeholders in OPL 321 and 323 in order to achieve a resolution to the dispute between the Operator, KNOC, and the Federal Government of Nigeria and Owel Petroleum Services Nigeria Ltd ('Owel').

The dispute arose in January 2009 when the allocation of OPL 321 and OPL 323 to KNOC, was voided by the government. KNOC responded with a lawsuit against the government parties and, in August 2009, the Federal High Court gave judgment in KNOC's favour. Subsequent appeals by the government and Owel were held pending for the whole of 2010 and 2011 while a resolution was sought.

The Company maintains that it is still entitled to its 30% participating interest in the PSC's of the two blocks, despite the return of its share of the signature bonuses, totalling US$ 161.7 million, by the Nigerian authorities in October 2009. At the time, the government acknowledged receipt of the Company's letter stating this position.

Our discussions with stakeholders continue to be constructive and we believe that a solution satisfactory to the Company can be reached enabling operations to resume with the drilling of the four commitment wells.

JDZ Block 2

The 'Bomu 1' exploration well, drilled in the second half of 2009, was completed under budget and discovered dry gas in a number of formations. The Joint Development Authority ('JDA') awarded two six month extensions to the operator, Sinopec, and its exploration partners for them to complete the evaluation of the results from 'Bomu 1' including reassessing the prospectivity of the remainder of the block.

In 2011, Sinopec reported the results of the evaluation of 'Bomu 1'. It was confirmed that the 'Bomu' gas discovery, which is small for deep water, was uneconomic in current conditions and that the rest of the block had insufficient prospectivity to justify entering the Phase 2 Exploration Period with its obligatory well. A further one year extension was granted by the JDA to end in March 2012 but, nothing occurred to change conclusions of the post Bomu 1 evaluation. With the exception of ERHC, the remaining participants, including Sinopec, have now informed the JDA that they are declining to enter the Phase 2 Exploration Period and are relinquishing the block. The expenditure made on JDZ Block 2 has been completely written off in 2011 accounts.

Blocks 5 & 12, EEZ of São Tomé & Príncipe

In February 2010, in accordance with agreements signed in 2001 and 2003 with the government of São Tomé & Príncipe, the Company was granted the first two choices from all of the blocks within its Exclusive Economic Zone ('EEZ'). The Company chose and was allocated Blocks 5 and 12. By 31 December 2011, negotiations with the government on the Production Sharing Contracts ('PSCs') were nearly complete. In particular, agreement has been reached on work programmes that are suitable for these frontier ultra deep water blocks.

We are pleased to report that the PSC for Block 5 was executed with the National Petroleum Agency of São Tomé & Príncipe on 18 April 2012, after the year end. This triggers the payment of a signature bonus of $2m and commitment to a 4 year work programme of seismic acquisition and studies. Final negotiations on the PSC for Block 12 continue.

In order to manage the exposure to the risks of high cost exploration in a frontier province in ultra deep water, the Company is considering farm outs. A number of companies have visited the data room in order to assess the opportunity.

Increase in Shareholding by Oando Plc

During 4Q 2011, Oando Plc acquired further shares in Equator, raising its stake to 81.5 per cent. We have been informed that the price paid was 3p per share.

Change of Immediate Parent Company

Equator has been subsidiary of Oando Plc, the Nigerian integrated oil and gas company quoted in Lagos and Johannesburg, since 2009 when it acquired a 78 percent stake in the Company.

On 2 August 2011, it was announced that Exile Resources Inc., an oil company with shares traded on the TSX Venture Exchange ('TSXV'), had agreed to acquire the exploration & production assets of Oando Plc in exchange for 100 million post-consolidation Exile shares. In a further announcement on 13 October 2011, it was revealed that Oando Plc will hold at least 94 percent of Exile, which will be renamed Oando Energy Resources Inc ('OER') and, subject to approvals, will move its listing from the TSXV to the Toronto Stock Exchange ('TSX'). On 29 November 2011, Exile issued an information circular and held a meeting of its shareholders on 29 December 2011. The meeting approved the share consolidation and the transaction with Oando. The Reverse Takeover and listing on TSX remain subject to approvals from the stock exchange authorities.

The Equator shares owned by Oando Plc are among the assets being transferred to Exile so the Company's majority shareholder will become OER instead of Oando Plc. In the event that Oando Plc increased its ownership in Equator prior to the closing of the reverse takeover, the agreement with Exile provides for an increase of up to 2,164,500 in the number of OER shares issued to Oando. At the date of this report, Oando has acquired sufficient Equator shares to be awarded an extra 339,052 Exile consolidated shares.

Offer from Oando

On 9 November 2011, the Equator board received an offer from Oando Plc for all of the minority shares. The terms offered were a choice of 6p per Equator share or one OER share for every 48.6893 Equator shares. The offer, which expired on 30 November, was conditional on the acquisition of all the minority shares. In order to fulfil this condition, the board had to implement a scheme of arrangement through the BVI courts. The law requires that a scheme of arrangement will only be approved by the courts if 75% of the minorities vote in its favour.

The board established an Independent Committee to consider the offer from Oando Plc and engaged Anglo-Suisse Capital Limited as financial advisers. The Independent Committee comprised those directors who do not owe fiduciary duties to Oando, other than as directors of Equator, namely Patrick Bastin, Philip Dimmock and David Rowlinson.

An information circular concerning the reverse takeover issued on 29 November 2011 by Exile to its shareholders contained the necessary information for Anglo-Suisse Capital to assess the share alternative in the Oando offer. From discussions held with institutional shareholders and representative members of the Shareholders Liaison Group, Anglo-Suisse Capital concluded that a sufficient number of shareholders were planning to vote against the Oando offer as to make the 75% vote in favour unlikely. On 30 November 2011, having taken the views of shareholders and the advice of Anglo-Suisse Capital into account, the Independent Committee advised Oando Plc that the proposed scheme of arrangement was unlikely to achieve sufficient support to succeed and that it was unlikely that it could be completely closed before the expected closing of the transaction with Exile. The Independent Committee also passed on the suggestions of Anglo-Suisse Capital for enhancing the offer in order to make a scheme of arrangement more likely to succeed, assuming that Oando still wished to acquire all of the minority shares.

On 6 December 2011, Oando Plc responded that that it was not prepared to change its offer nor to relax the deadline for closing, partly because these would breach its agreement with Exile, and therefore the offer lapsed.

Changes to the Board of Directors in 2011

In May 2011, Mr Olapade Durotoye was appointed to the Board.

The following five members remain on the Board:

- Jubril Adewale Tinubu - Non Executive Chairman
- Omamofe Boyo - Non Executive Director
- Patrick Bastin - Non Executive Director
- David Rowlinson - Non Executive Director
- Philip Dimmock - Chief Operating Officer

Stacey Kivel remains as Company Secretary.

Results for 2010 & 2011

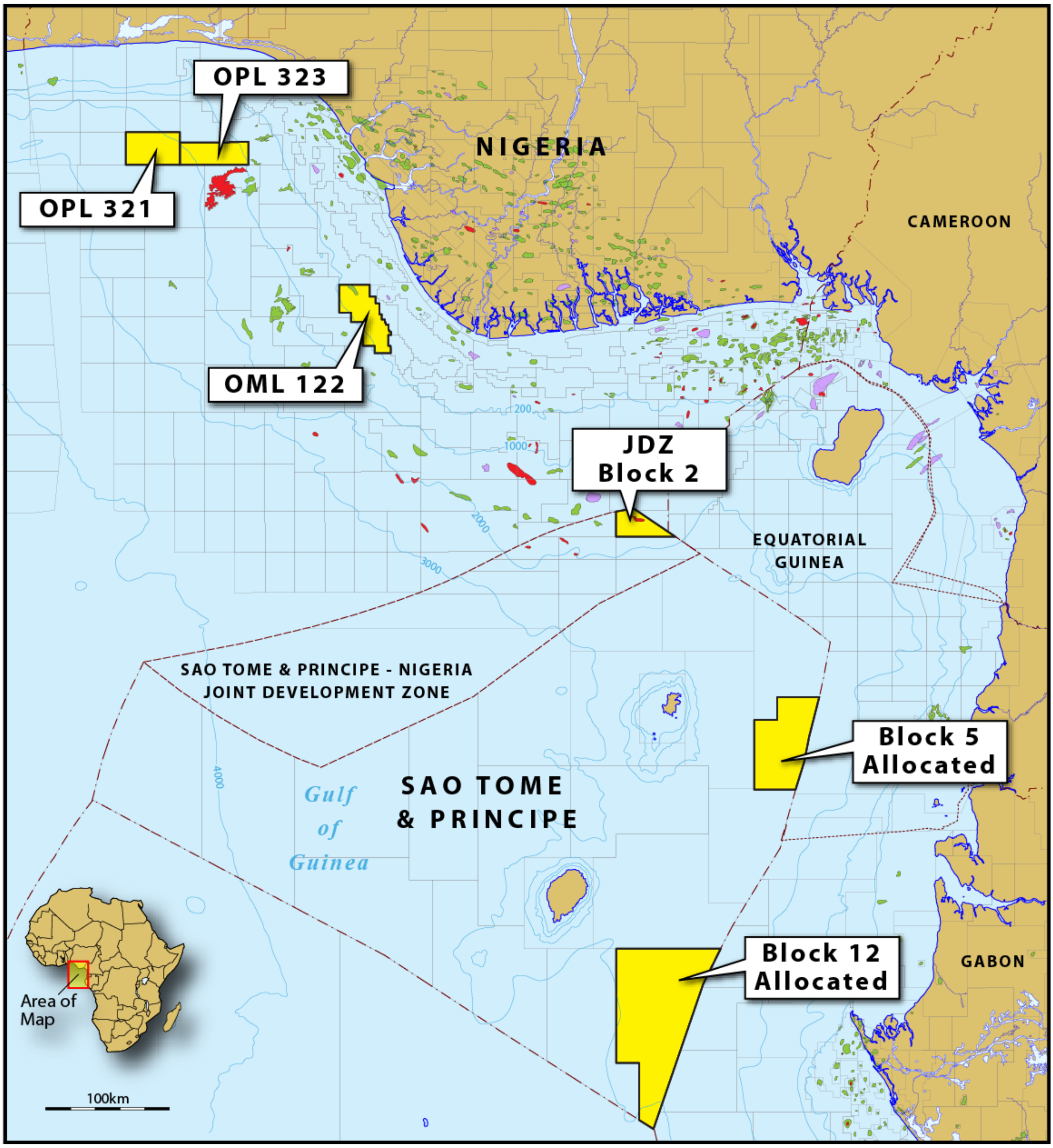
The Group posted the following losses in 2010 and 2011:
(US$ 000's)
2010: US$ 4,323
2011: US$12,915

Dividends 2010 & 2011

No dividends were paid in 2010 or 2011.

24 May 2012

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 offshore Nigeria.

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. The Joint Operating Agreements were signed 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 eliminate these carried interests for a combination of warrants and contingent cash payments. 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 to assign a 20% interest in OPL 323 to BG Exploration and Production Nigeria Limited. The total consideration to be paid by BG was US$75 million, comprising both cash and a carry on the future expenditure on the remaining 10% interest. The Company worked diligently to secure the approval of NNPC and the Federal Government of Nigeria. However, this was withheld due to a number of public and private government inquiries into the allocation of the blocks to KNOC and, in August 2010, BG terminated the farm out agreement.

In January 2009, the Nigerian government voided the allocations of OPL 323 and OPL 321 to KNOC. The blocks were simultaneously offered to the winning group of the 2005 licensing round, which includes ONGC Videsh and Equator. KNOC brought a lawsuit against the government parties in the Federal High Court in Abuja. Owel Petroleum Services Nigeria Ltd ('Owel'), a bidding partner of Equator joined in the lawsuit as a co-defendant of the government. In August 2009, judgment was given in KNOC's favour. Although the government and Owel have appealed the judgment, we believe that the government and KNOC both seek a settlement.

In September 2009, the government refunded the signature bonuses of US$ 161.7 million which Equator had paid for OPL 323 and OPL 321. The Company had requested the return of the signature bonuses 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.

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

The Company remains very active in consulting with all of the stakeholders in OPL 321 and 323 in order to achieve a resolution to the dispute between KNOC and the government. All parties have indicated a strong desire for a settlement to be reached and for litigation to cease. We believe that a solution satisfactory to the Company can be reached in 2012 enabling operations to resume with the drilling of the four commitment wells. As part of the settlement with the government, it is envisaged that the PSC's will either be amended to extend the term of the Exploration Periods, the first five year phase of which has expired, or be replaced with new PSC's.

Operational Status

Starting with Equator's studies, KNOC developed the interpretation of the 3D seismic survey and identified several prospect horizons in a number of geological structures in each block. 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 & Príncipe.

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 large 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.

During 2006, Agip made a discovery of both oil and gas in the Okodo-1 well on OML 125, adjacent to OPL 323. 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.

In September 2011, Netherland, Sewell & Associates Inc. ('NSAI'), Independent Petroleum Engineers, confirmed its 2006 assessment of the prospective resources within the four largest structures using a statistical 'Monte Carlo' approach. The only difference was in the definition of "Best Estimate". In 2006, as was standard practice at the time, the mean of the Monte Carlo simulation was used; whereas in 2007 the Society of Petroleum Engineers mandated that henceforth the median (P50) had to be used. Although there is no change whatsoever in the technical assessment, there is therefore an apparent reduction between the two NSAI reports in the Unrisked Best Estimate Recoverable Resources.

Under the later definition, the Best Estimate of Gross Unrisked Prospective Resources on four structures is 1.1 billion barrels of oil and 4.9 trillion standard cubic feet of gas (Tables 1 & 2). The subsequent more detailed evaluation of five structures by the operator has given a best estimate of 1.3 billion barrels for oil.

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 the Best Estimate, under the new definition, of the Gross Unrisked Prospective Resources in the largest prospect to be 0.57 billion barrels of oil and 0.67 trillion standard cubic feet of gas (Tables 1 & 2).

The operator, in its subsequent and more detailed evaluation, has identified a total of four structures and has calculated the best estimate of the total gross unrisked prospective resources of oil to be 1.6 billion barrels.

Table 1 - OPL 321 & OPL 323 Unrisked Recoverable Oil Resources (million barrels)[1] as at 30 June 2011							
	Gross (100 per cent)			Equator Interest (30 per cent)			POS[2]
Prospect Cluster	Low	Median (Best)	High	Low	Median (Best)	High	per cent
323-G	115	507	2,611	34	152	783	36
323-O	52	157	643	16	47	193	25
323-W	100	278	889	30	84	267	34
323-L	55	165	617	16	49	185	33
321-E	156	574	2,506	47	172	752	27
Total	478	1,682	7,266	143	504	2,180	

Table 2 - OPL 321 & OPL 323 Unrisked Recoverable Gas Resources (billion cu ft)[1] as at 30 June 2011							
	Gross (100 per cent)			Equator Interest (30 per cent)			POS[2]
Prospect Cluster	Low	Median (Best)	High	Low	Median (Best)	High	per cent
323-G	834	3,487	16,271	250	1,046	4,881	36
323-O	279	896	3,401	84	269	1,020	25
323-W	89	316	1,291	27	95	387	34
323-L	57	232	1,186	17	70	356	33
321-E	147	670	3,623	44	201	1,087	27
Total	1,406	5,601	25,772	422	1,681	7,731	

Totals may not add due to rounding

(1) Netherland, Sewell & Associates, Inc.
(2) Probability of geological success.

Joint Development Zone – Block 2

History

Equator held 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 & Príncipe and is administered by the Joint Development Authority ('JDA') staffed by officials from both countries. Following the bidding round in 2005, Equator and its main bidding partner, ONGC Videsh Limited, were jointly awarded a 15% interest in Block 2, of which Equator received a 6% interest.

Equator subsequently increased its participating interest to 9% by purchasing an additional 3% interest from one of the other participants in the block, A & Hatman Limited, in exchange for carrying a 1% portion of its remaining interest. The Company also granted a minor bidding partner an economic interest equivalent to a 0.25% carried interest in the block. The result was 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 total interest of 1.25% during the initial exploration phase.

The PSC was signed with the JDA on 17 March 2006. At the same time, the JOA was also signed with the participants, namely 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 was carried by Sinopec and Addax while A & Hatman was carried by Equator and ONGC Videsh. In 2009, Foby and Amber went into default on the payment of cash calls. ONGC resigned from the block in June 2010.

Operations

Sinopec, the operator, engaged Sino Geophysical Co. Limited to reprocess the 3D seismic survey using state-of-art algorithms. The operator then proceeded to interpret the reprocessed data, evaluate the prospects and rank them for drilling. From the top 10 prospects, the participants jointly selected the 'Bomu' prospect to drill the one commitment well required under the PSC.

In early 2009, 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 2009. 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. Analysis of the wireline logs and of fluid samples collected by wireline tester indicated the presence of gas in a number of sand intervals. The well fulfilled the work obligation of Phase I of the Exploration Period in the PSC.

Evaluation

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 large Akpo Field with reserves of 600 million barrels of oil and 1 TCF of gas (Total 2007) and a number of other significant discoveries. In adjoining JDZ Block 1, the Obo-1 well discovery proved the existence of a hydrocarbon source and the presence of excellent reservoir sands in the region of Block 2.

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. The JDA extended the Phase 1 Exploration Period by two six month periods to allow Sinopec to complete the technical and commercial evaluation of the discovery and also the other prospects on Block 2. Four other wells had been drilled in the JDZ, three in Block 4 and one in Block 3, simultaneously with Bomu 1. The JDA granted extensions on these blocks as well, allowing the common operator, Sinopec, to integrate the studies to the benefit of the JDA and participants.

Decision to Exit

The studies confirmed that Bomu is a small gas discovery, which under current conditions is sub-commercial. While an adequate source of oil is believed to exist, the absence of faulting between the source and reservoir sands prevents the oil from migrating into the reservoirs. The studies also concluded that the best remaining prospect is more likely to contain gas than oil, in quantities not very much larger than those discovered in Bomu. This did not justify commitment to a second exploration well, as required for entry into Phase II of the PSC. The JDA granted a further one year extension to Phase 1 ending March 2012. In this period, no new information was acquired to change the evaluation.

With the exception of ERHC, all of the remaining participants, including Equator, have elected to exit the block. The drilling and evaluation costs relating to the well, amounting to US$9.4 million, were already impaired and now a similar amount of geophysical and administration costs are treated in the same way.

Exclusive Economic Zone of São Tomé & Príncipe – Blocks 5 & 12

History and Status

The maritime boundaries of São Tomé & Príncipe encompass an area of approximately 160,000 square kilometres. The close proximity of São Tomé & 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 & Príncipe ('EEZ'). It was agreed with the government that licences for the seismic data would be sold to oil companies to promote an oil exploration licensing round. In return for its investment in the seismic acquisition programme, 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 first EEZ Licensing Round announced in early 2010, the government invited the Company to make its first choice of two blocks. Equator was allocated its chosen blocks, Block 5 and Block 12. Negotiations of the PSC's began in May 2010 and the commercial terms were agreed in 2011. The PSC for Block 5 was signed with the National Petroleum Agency on 18 April 2012 triggering the payment of a signature bonus of $2m and commitment to a 4 year work programme of 2D and 3D seismic acquisition and studies. If justified by the seismic surveys, the Company can elect to drill the first exploration well in the following period of two years. The negotiations on the PSC for Block 12 have reached their final stages.

Equator intends to enhance the value and manage the risks of its opportunity in the EEZ by seeking farm-outs to acknowledged deep water operators and to independents.

The licensing round resulted in Block 3 being allocated to Oranto Petroleum Limited who executed their Production Sharing Contract in 2011.

Equator purchased a licence for the 2D seismic data covering Blocks 5 and 12. With this data, it has, with the help of the consulting firm RPS Energy, carried out comprehensive studies on the prospectivity and economics of the blocks.

Block 5 Prospectivity

Block 5 has an area of 2,844 sq km and is located east of the island of Príncipe, adjacent to the Equatorial Guinean shelf with water depths ranging from 2000 to 2500m. The block is within Zone A of the government's block classification scheme and is ranked highest by Equator based on water depth, on proximity to the Equatorial Guinea shelf and to the ancient Ogouee delta, and on the presence of Cretaceous structural development related to basement faulting.

Within Block 5, the Company licenced approximately 1500 km of 2D seismic data on a spacing of some 2.5km by 5km. The quality of seismic data is generally good in both the Tertiary and Cretaceous intervals. The Company has mapped seven horizons at Basement, Albian, Campanian, Top Cretaceous, Mid Eocene, Neogene and Seabed in time and depth and has identified a number of prospects and leads, predominantly associated with structural trapping geometries over the Kribi fracture zone. Closures in the Mesozioc section from the Albian through to the Upper Cretaceous are expected to be prospective. Further opportunities exist within stratigraphic plays in the Upper Cretaceous and potentially the Tertiary.

Block 12 Prospectivity

Block 12 is the most south-easterly block in the EEZ with an area of 7,940 sq km and water depths ranging from 2500 to 3000m. It is the closest to the North Gabon salt basin, lying some 150 km to the west of Port Gentil. The block is situated within Zone B of the government block classification scheme, and within this group has been ranked most attractive by Equator due to its proximity to the North Gabon salt basin and the presence of structural prospects located both on the footwall of the Ascension Fault and similar sub-parallel trends.

Within Block 12, we have licensed approximately 800 km of 2D line data on a spacing of some 11km by 40 km. The seismic data shows reasonable reflection continuity, although the line spacing in this area is much greater than in the northeast region of the EEZ. The seven main seismic mapping horizons from the Block 5 region were correlated into Block 12 through the use of the regional tie lines and a number of prospects and leads have been identified. Large robust closures exist within the Block associated with the main Ascension Transform Fault zone. Deeper synrift depositionary sequences may contain clastic reservoirs while Middle to Late Cretaceous late-synrift and post rift sag results in numerous interesting structured prospects. Clastics in the Miocene may also provide exploration potential. Full investigation of the stratigraphic potential of the block (deepwater turbidite plays for example) is not yet possible given the limited 2D seismic coverage.

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 chartered 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. 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 was 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’s best estimate of Gross Proved plus Probable contingent resources was 395 billion standard cubic feet for Bilabri and 106 billion standard cubic feet for Owanare, giving a total gross contingent gas resource of 501 billion standard cubic feet, all discovered by wells funded by Equator (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.

On 22 January 2007, the FPSO entered a shipyard in Singapore for upgrade and delivery to Nigeria in fourth quarter 2007. All of the sub-sea equipment was ordered and scheduled for installation during fourth quarter 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 a fourth militant invasion and 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. The Company became liable for early termination penalties on the FPSO and for debts on a number of unpaid invoices from suppliers.

In September 2007, Equator agreed terms with Peak by entering into the Bilabri Settlement Agreement (‘BSA’) for Peak to take responsibility for operations and for funding of the remaining development of the Bilabri oil development. Peak also 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.

Table 3 – Bilabri Field Oil Reserves [1] as at 30 June 2011		
	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 30 June 2011				
	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.

Status

Peak did not meet any of its obligations under the BSA. In order to protect its interests, Equator issued a notice of arbitration. However, Peak gained an injunction from the Nigerian courts that served to prohibit Equator from continuing with the arbitration in England, citing Peak's admission of its debt as a justification for preventing the arbitration. Nevertheless, we continued and, on 27 May 2008, the tribunal awarded the total sum of US$123 million plus interest. Not surprisingly, the Federal High Court rejected our subsequent petition to register the arbitration award in Nigeria.

In 2010, Equator brought new suits to overturn the previous decisions of the Nigerian courts and to wind up Peak. By mid 2011, some success was achieved with the withdrawal of the injunction against the arbitration and with the issue of a preliminary winding up order. In November 2011, the winding up order was made final and a liquidator was appointed to take control of the assets of Peak. Peak responded with an appeal. We await the case to be heard by the court of appeal.

In the meantime, Equator offered Peak a compromise in which Equator would fund the development of Bilabri and possibly Owanare, in return for larger interests than those conferred by the BSA. As well as receiving its share of produced oil, Equator would recover with interest, from Peak's share of production, the carry on their share of future development costs and their existing debts under the BSA. Peak has not accepted the offer.

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

24 May 2012

Directors' Report

for the year ended 31 December 2011.

The directors submit their report and the audited financial statements of the Equator group of companies ("Group") for the year ended 31 December 2011.

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 16. The Company and its subsidiaries engage in the exploration and development of offshore oil and gas projects in West Africa.

A full review of the Company's activities for the period of these accounts is set out in the Chief Operating Officer's operating review and asset review on pages 1 - 12 above.

Shares

As at 31 December 2011, there were 481,117,270 common shares issued. (2010: 481,117,270)

Share Options and Warrants

A full review of the Share Options and Warrants issued by the Company is provided as note 24 "Share Options and Warrants" to the accounts.

Results and Dividend

The Group made a loss of US$ 12.9 million in 2011. (2010: US$ 4.3 million)

The Company did not pay a dividend in 2011 or 2010.

Litigation

In August 2009, the Company's partner on blocks OPL 323 and OPL 321, African Excellence Investments Limited, filed an arbitration claim with the International Chamber of Commerce for payment from the Company of US$ 1 million pursuant to an agreement related to OPL 321 and OPL 323. The Company was unsuccessful both in the arbitration and in a subsequent appeal in the English High Court. In 2011, it had to pay African Excellence US$1 million plus the cost of the arbitration proceedings. In 2012, a settlement was reached on the cost of the appeal closing the case.

In September 2010, Equator commenced a winding up action against Peak Petroleum Industries Nigeria Limited in the Nigerian courts following Peak's failure to pay its debts to Equator under 1) the Bilabri Settlement Agreement and 2) the arbitration award for US$123 million of 27 May 2008 (see a full explanation in the Asset Review under OML 122). In November 2011, the winding up petition against Peak was made final by the Nigerian High Court and a liquidator was appointed to take control of the assets of Peak. Peak is appealing that decision in the Court of Appeal.

Financing

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 of the Group, with 78% of the Group's shares. In 2011, Oando purchased an additional 3.5% of the Company's shares and now holds a total of 81.5% of the Company's shares. Oando has committed to provide financial support to the Company for eighteen months from the date of this report to enable it to meet its financial obligations.

During 2011, Oando Plc provided the Company with an additional interest bearing working capital advance of US$ 3.9 million (for full details please see note 28 'Related Party Transactions' to the accounts). Oando Plc provided the Company with an interest bearing working capital advance of US$ 0.3 million in 2010.

Going Concern

Oando Plc, as majority shareholder, has made commitments such that the board consider it appropriate to prepare the financial statements on a going concern basis.

Risk Management

The Group operates in a 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. The Group's philosophy is generally to pass risk to partners where they have greater control over the assets and liabilities or where the cost of protection would be substantially lower. 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 and project cash-flows.

Drilling risk of blow-out and pollution is covered through insurance policies that limit the Company's exposure to an acceptable deductible amount and provide 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.

The company is participating in a number of lawsuits. It seeks to engage the legal firms with the best experience and track record on each type of case.

Charitable donations

The Company made no charitable donations during 2011 (2010: 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

A resolution for the reappointment of PwC as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

J A Tinubu - Chairman

PA Dimmock - Director & Chief Operating Officer

24 May 2012

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 judgments and estimates that are reasonable and prudent;
- state the basis of preparation and accounting policies applied; and
- prepare the financial statements on a 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 adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the British Virgin Islands and/or the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors, Officers and Professional Advisors
For the year ended 31 December 2011

Board of Directors

Mr JA Tinubu – Chairman	appointed Chairman 8 September 2009
Mr PA Dimmock – Chief Operating Officer	appointed 11 August 2005
Mr O Boyo	appointed 8 September 2009
Mr PE Bastin	appointed 10 July 2009
Mr DA Rowlinson	appointed 10 July 2009
Mr OO Durotoye	appointed 20 May 2011

Company Secretary

Miss Stacey Kivel	appointed March 2005

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

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

Banker
Standard Chartered Bank
2nd Floor
1 Basinghall Avenue
London
EC2V 5DD

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

We have audited the consolidated financial statements of Equator Exploration Limited for the year ended 31 December 2011 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, 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 15, 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 and express an opinion on 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 24 October 2011 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. In addition, we read all the financial and non-financial information in the annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 and of its loss and cash flows for the year then ended; and
- have been properly prepared in accordance with IFRSs as issued by the IASB.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
1 Embankment Place
London
WC2N 6RH
24 May 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Notes	**31 December 2011 $000's**	31 December 2010 $000's
Revenue	5	**37**	687
Cost of sales		**-**	-
Gross profit		**37**	687
Administrative expenses		**(3,032)**	(2,216)
Exceptional items	6	**(9,632)**	(2,780)
Operating (loss)	7	**(12,627)**	(4,309)
Finance costs	9	**(288)**	(14)
Loss before tax		**(12,915)**	(4,323)
Taxation	20	-	-
Loss for the year attributable to equity shareholders		**(12,915)**	(4,323)
Other comprehensive (expense)/income for the year		**-**	-
Total comprehensive expenses attributable to owners of the parent		**(12,915)**	(4,323)

The notes on pages 22 to 33 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2011

	Notes	**31 December 2011 US$000s**	31 December 2010 US$000s
Assets			
Non-current assets			
Intangibles: Goodwill	10	**175**	175
Exploration and evaluation assets	12	**41,247**	50,533
Multi-client seismic library	11	**-**	-
Property, plant and equipment		**1**	-
		41,423	50,708
Current assets			
Trade and other receivables	14	**36**	69
Cash and cash equivalents	15	**146**	130
		182	199
Total assets		**41,605**	50,907
Liabilities			
Current liabilities			
Trade and other payables	16	**(12,264)**	(8,651)
Net current liabilities		**(12,082)**	(8,452)
Net assets		**29,341**	42,256
Equity attributable to owners of the parent			
Share capital	19	**-**	-
Capital reserves	25	**458,721**	458,721
Accumulated losses		**(429,380)**	(416,465)
Total equity		**29,341**	42,256

Approved by the board of directors on 24 May 2012.

Signed on behalf of the board of directors by:

Philip Dimmock
Chief Operating Officer

The notes on pages 22 to 33 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital US$000s	Capital reserves US$000s	Accumulated losses US$000s	Total equity US$000s
Balance at 1 January 2010	**-**	**458,721**	**(412,142)**	**46,579**
Loss for the year	-	-	(4,323)	(4,323)
Total other comprehensive expense	**-**	**-**	**(4,323)**	**(4,323)**
Balance at 1 January 2011	**-**	**458,721**	**(416,465)**	**42,256**
Loss for the year	-	-	(12,915)	(12,915)
Total other comprehensive expense	**-**	**-**	**(12,915)**	**(12,915)**
Balance at 31 December 2011	**-**	**458,721**	**(429,380)**	**29,341**

The notes on pages 22 to 33 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Notes	**31 December 2011 US$000s**	31 December 2010 US$000s
Cash flow from operating activities			
Operating (loss)/profit		**(12,627)**	(4,309)
Adjustments for:			
Impairment of exploration and evaluation assets	12	**9,423**	9,413
Operating cash flow before movement in working capital		**(3,204)**	5,104
Decrease / (increase) in trade and other receivables	14	**33**	(42)
Decrease in trade and other payables	2,16	**(577)**	(6,293)
Net cash used in operating activities		**(544)**	(6,335)
Cash flow from investing activities			
Additions of exploration and evaluation assets	12	**(137)**	(837)
Additions of property, plant and equipment		**(1)**	-
Net cash used in from investing activities		**(138)**	(837)
Cash flow from financing activities			
Interest paid		**-**	(14)
Receipts from parent company	2	**3,902**	300
Net cash used in financing activities		**3,902**	286
Net decrease in cash and cash equivalents		**16**	(1,782)
Cash and cash equivalents at beginning of period	15	**130**	1,912
Cash and cash equivalents at end of period	15	**146**	130

The notes on pages 22 to 33 form an integral part of these financial statements.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations. The consolidated financial statements have been prepared under the historical cost convention in accordance with the recognition and measurement criteria set out in International Financial Reporting Standards. 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 16. 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.

1.2 Adoption of new and revised International Financial Reporting Standards

(a) New and amended standards adopted by the group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2011 which have material impact on the group:

The following new and amended standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2011 but are not currently relevant to the Group financial statements:
− IAS 24 (revised), 'Related party disclosures'
− IAS 32 (amendment), 'Classification of rights issues'
− IFRIC 14 (amendment), 'Prepayments of a minimum funding requirement'
− IFRIC 19, 'Extinguishing financial liabilities with equity instruments'
− Improvements to International Financial Reporting Standards 2010.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted:

The following new standards, amendments and interpretations are issued but not effective for the financial year beginning 1 January 2011 and the Group has not early adopted them:
− IFRS 9, 'Financial instruments'
− IFRS 10, 'Consolidated financial statements'
− IFRS 11, 'Joint arrangements'
− IFRS 12, 'Disclosures of interests in other entities'
− IFRS 13, 'Fair value measurement'
− IAS 27 (revised), 'Separate financial statements'
− IAS 28 (revised), 'Associates and joint ventures'
− IFRIC 20, 'Stripping costs in the production phase'
− Amendments to IAS 12, 'Income taxes', IAS 19, 'Employee benefits', IFRS 7, 'Financial instruments: Disclosures', IAS 1, 'Financial statement presentation' and IFRS 1, 'First-time adoption of international financial reporting standards'.

The Group is evaluating the impact of the above pronouncements. The above changes are currently not expected to be material to the Group's earnings or to shareholders' funds but may result in further disclosure requirements.

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 parent, Oando Plc. The directors of Oando Plc have confirmed that they will continue to provide financial support for a period of eighteen months from the date of these financial statements 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.

The ability of the Group to maintain its interests in the Production Sharing Contracts as described in the Asset Review on pages 5 – 12 is dependent on the continuing support of Oando Plc and/or the agreement of farm-outs with other oil companies, including the funding of signature bonus payments and the committed exploration expenditures.

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.

2.2 Basis of consolidation (continued)
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 acquisition 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 the sales of multi-client seismic library data is recognised when the owner of the seismic data sells a licence.

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 at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period. 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 US Dollars, which is the Company'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 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 IAS 16, '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

Costs incurred in the exploration and evaluation of assets include (continued)
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. In accordance with the Group Policy, the survey costs have now been fully amortised. However, the Group continues to receive income from the sale of licences for some of the seismic surveys.

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 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.

2.14 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.

2.15 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

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

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

2.18 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.

2.19 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.

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

2.21 Retirement benefit costs
Payments to personal retirement benefit plans are charged as an expense as they fall due.

2.22 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.

2.23 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.

2.24 Cash flow statement
The Oando loan received has been reclassified from 'decrease in trade and other payables' in 2010 to 'cash flow from financing activities: receipts from parent company' in 2011.

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 US Dollars, the functional currency of all the entities of the Group. 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. All of the Group's cash and cash equivalents are held by 'A' or better rated banks.

3.1.3 Liquidity risk
Liquidity risk is managed through maintaining sufficient cash and available funds from committed credit facilities to meet the requirements of the Group. 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 net 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 2011 and 2010 were as follows:

	2011	2010
	US$000s	US$000s
Cash and cash equivalents (note 15)	**(146)**	(130)
Net debt/(cash)	**(146)**	(130)
Total equity	**29,341**	42,256
Total capital	**29,341**	42,126
Gearing ratio	**(0.5%)**	(0.3%)

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.

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 judgment 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

Estimation of oil and gas reserves (continued)
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.

The estimates of prospective resources in 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	
	2011	2010
	US$000s	US$000s
Multi client seismic library fee income	**37**	687
	37	687

6 EXCEPTIONAL ITEMS

	Year ended 31 December	
	2011	2010
	US$000s	US$000s
Seismic licence provisions (note i)	**1,000**	6,633
Impairment of exploration and evaluation assets (see note 12)	**(9,423)**	(9,413)
Write off of JDZ working capital account	**(69)**	-
AEIL settlement (note ii)	**(1,140)**	-
	(9,632)	(2,780)

Note (i). The Group holds licences from PGS Exploration (UK) Ltd ('PGS') in respect of 3D seismic data on a number of blocks in the Gulf of Guinea. At 31 December 2009 under the terms of the licences, transfer fees totalling US$9.633 million were payable to PGS following the gain of control of the Group by Oando Plc. During 2010, the Group reached a settlement agreement with PGS, under which US$6.633 million was waived while three amounts of $1 million remained payable subject to the resumption of drilling operations on each of OPL 321/323, JDZ Block 2 and OML 122.

Due to exiting the JDZ Block 2 field on 14th of February 2012 the $1 million payable subject to the resumption of drilling operations on this block has been released.

Note (ii). Previously stated as a contingent liability. African Excellence Investments Limited successfully arbitrated and claimed a fee of $1m plus interest. In 2010, management did not expect such a claim could be successful because none of the events defined in the agreement for triggering the payment had occurred or was likely to occur in the immediate future.

7 OPERATING LOSS FOR THE PERIOD

	Year ended 31 December	
The operating (loss)/profit for the period is stated after charging/(crediting):	**2011**	2010
	US$000s	US$000s
Staff costs (note 8)	**421**	293
Executive Director's Remuneration (note 8)	**559**	413
Property lease rentals	**220**	219
Bad debt provision	**-**	32
Net foreign exchange (gain)/loss	**81**	(8)

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	**116**	104
Total audit and non-audit fees	**116**	104

8 STAFF COSTS

	Year ended 31 December 2011	2010
The average monthly number of employees (including the executive director) employed was as follows:	**3**	3

Their aggregate remuneration comprised:

	2011 US$000s	2010 US$000s
Wages and salaries	**861**	653
Other pension costs	**119**	53
	980	706

9 FINANCE COSTS

	Year ended 31 December 2011 US$000s	2010 US$000s
Other interest payable	**288**	14

10 INTANGIBLES - GOODWILL

	US$000s
Cost at 31 December 2010 and 2011	**1,762**
Accumulated impairment at 31 December 2010 and 2011	**(1,587)**
Carrying amount at 31 December 2010 and 2011	**175**

11 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 31 December 2010 and 2011	**4,035**
Accumulated amortisation at 31 December 2010 and 2011	**(4,035)**
Carrying amount at 31 December 2010 and 2011	**-**

12 INTANGIBLES - EXPLORATION AND EVALUATION ASSETS

	OML 122	OPL 323	OPL 321	JDZ	EEZ	Total US$000s
At 1 January 2010	13,748	13,021	12,028	18,312	2,000	59,109
Additions	-	-	-	524	313	837
Impairment	-	-	-	(9,413)	-	(9,413)
At 31 December 2010	**13,748**	**13,021**	**12,028**	**9,423**	**2,313**	**50,533**
Additions (note i)	**-**	**-**	**-**	**-**	**137**	**137**
Impairment (note ii)	**-**	**-**	**-**	**(9,423)**	**-**	**(9,423)**
At 31 December 2011	**13,748**	**13,021**	**12,028**	**-**	**2,450**	**41,247**

OML 122
As described in the asset review, the Group's interest in OML 122 primarily results from the terms of the Bilabri Settlement Agreement ('BSA') reached with Peak Petroleum Industries Nigeria Ltd ('Peak') in 2007 which provides the Group with entitlements to the future production from the Bilabri and Owanare fields. The group's ability to realise its interests in OML 122 is dependent on Peak meeting its obligations under the BSA. The Group has pursued a number of legal avenues in order to realise its investment including a successful arbitration process enforcement which commenced in 2010 with winding up procedures against Peak. In 2011, the court placed Peak into liquidation but Peak has appealed this decision. As at the date that these financial statements were approved, the appeal case continues. An adverse decision in the case or the subsequent failure of the Group to reach a satisfactory agreement with the liquidator could result in the need for further adjustments to the carrying value of the assets in future periods.

12 INTANGIBLES - EXPLORATION AND EVALUATION ASSETS (continued)

OPL 321 & 323
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.

Note (i): Additions
EEZ Additions: During 2011, further expenditure of US$137,000 was made on geological and economic studies.

Note (ii): Impairment of JDZ Block 2
On 14th of March 2012 Equator JDZ Nigeria Block 2 Limited exited the joint venture for the asset at JDZ Block 2. As a result of this the group no longer has any interest in this field so all remaining asset costs associated with the block have been fully impaired in the year.

13 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 2011

Name	Principal activity	%	Country of registration	Country of operation
Directly held				
Aqua Exploration Limited	Development of oil and gas projects	100%	Bahamas	STP
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

14 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2011	2010
	US$000s	US$000s
Prepayments and accrued income	**36**	69
At 31 December 2011	**36**	69

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.
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 and other receivables were denominated in US Dollars.

15 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2011	2010
	US$000s	US$000s
Cash and cash equivalents	**146**	130

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.

100% of the Group's cash and cash equivalents are held by 'A' or better rated banks (2010: 100%)

16 TRADE AND OTHER PAYABLES

	As at 31 December	
	2011	2010
Amounts falling due in less than one year:	**US$000s**	US$000s
Trade payables	**2,225**	1,910
Other payables	**2,664**	2,669
Accruals	**2,865**	3,772
Amounts due to related parties	**4,510**	300
	12,264	8,651

Trade payables are principally dominated in GB Pound and US Dollars.

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.

17 FINANCIAL INSTRUMENTS

	As at 31 December			
Financial assets	**2011**		2010	
	Current	**Non-Current**	Current	Non-current
	US$000s	**US$000s**	US$000s	US$000s
Cash and cash equivalents	**146**	**-**	130	-
	146	**-**	130	-

	As at 31 December			
Financial liabilities	**2011**		2010	
	Current	**Non-current**	Current	Non-current
	US$000s	**US$000s**	US$000s	US$000s
Trade and other payables	**7,754**	**-**	8,351	-
Amounts due to parent undertakings	**4,510**	**-**	300	-
	12,264	**-**	8,651	-

Fair values

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

Sensitivity analysis

Interest rate risk
The Group is exposed to interest rate risk on its cash balances held at bank as these have variable interest rates pegged to LIBOR. This risk is immaterial due to the size of cash balances held and the current low interest rates. There is interest payable on intercompany balances at 16% p.a.

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 US 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 2011	**53**	**(53)**
31 December 2010	64	(64)

The differences are mainly as a result of foreign exchange gains/losses on translation of GB Pound denominated trade and other payables and GB

Market risk - Foreign exchange risk (continued)

Pound 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	
	2011	2010
	US$000s	US$000s
Aa1 (Moody's rating) - Barclays plc	**144**	128
Other bank balances	**2**	2
Total	**146**	130

18 CONTINGENT LIABILITIES

OML 122 Contingent 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. Now that Peak is being wound up, it is possible that a subsidiary of the Group may be called upon to meet some or all of the debts. Therefore a contingent liability of US$ 23.5 million exists in this regard.

OPL 321 and 323 Contingent Liabilities

The Company bid as part of a consortium for 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 respectively 3% and 1% carried economic interests in recognition of their contribution to the bidding group.

During 2007, it was agreed with the bidding partners that they would surrender their carried interests in return for warrants in the Company and payments of US$4m and US$1m. The Warrant Instruments were issued immediately but it was agreed that the cash payments would be deferred. In the first instance, payment would be made within 5 days after the closing of a farm out of a 20% interest in OPL 323 to BG. However, BG terminated the farm out agreement. Under the successor obligation, the Company issued two loan notes with an aggregate value of US$5m, redeemable out of the first US$5m of proceeds received on the occurrence of any one of the following events related to either OPL 321 or OPL 323:

- a farm out with another party,
- a sale or partial sale of the interest, and
- a sale or partial sale of the subsidiary holding the relevant PSC.

During 2010, one bidding partner successfully sued Equator in an arbitration tribunal for its $1m. This has been paid in full. On the advice of its barrister, the Company maintains that the remaining $4m owed is not yet due and that any second arbitration hearing can be successfully defended. If none of the above events occur, it is assumed that the Company will not need to settle the $4m loan note and can defer payment indefinitely.

The above contingencies are based on the best estimates of the board.

19 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 31 December 2010 and 2011	**481,117,270**	-

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

20 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 un-provided deferred tax assets of approximately US$14.1million (2010: US$14.0million) arising on carried forward trading losses of its subsidiary entities.

21 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	
	2011	2010
	US$000s	US$000s
Within one year	**189**	117

22 CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2011 (2010: US$ nil)

23 SHARE BASED PAYMENTS

During the years ended 31 December 2011 and 2010 the Group had in issue the share options and warrants tabled in note 24. 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.

24 SHARE OPTIONS AND WARRANTS

24.1 Share options

Share options have been granted to directors and to selected employees and consultants. The exercise price of the granted options was equal to the market price of the shares at the time of the award of the options. The options vested semi-annually over the first two years from the date of the award and were 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 are as follows:

	2011 Average exercise price in £ per share	**Options 000's**	2010 Average exercise price in £ per share	Options 000's
At 1 January	**1.27**	**644**	1.21	2,168
Expired	**1.27**	**(644)**	1.18	(1,524)
At 31 December	**-**	**-**	1.27	644

There were no share options outstanding at the end of year.

24.2 Warrants

The outstanding warrants were issued to the Company's broker and Nomad as part of their remuneration and to two of its bidding partners in OPL 321 and 323. The warrants enable the holders to purchase the Company's common stock at the respective issue price.

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

	2011 Average exercise price in £ per share	**Options 000's**	2010 Average exercise price in £ per share	**Options 000's**
At 1st January	**0.10**	**7,685**	0.10	7,685
Lapsed	**0.08**	**(5,600)**	-	-
At 31 December	**0.15**	**2,085**	**0.10**	**7,685**

24.2 Warrants (continued)

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

	Exercise price in £ per share	Shares (thousands)	
Expiry Date		**2011**	2010
09 March 2011	0.08	**-**	5,600
12 October 2012	0.14	**333**	333
12 October 2012	0.15	**1,752**	1,752
		2,085	7,685

25 CAPITAL RESERVES

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

26 DIVIDENDS

No dividends have been paid to ordinary shareholders in the year (2010: $nil).

27 ULTIMATE CONTROLLING PARTY

The Group is controlled by Oando plc (incorporated in Nigeria), which owned 81.53% of the Group's shares at 31 December 2011. The remaining 18.47% of the shares are widely held. The ultimate parent of the Group is Oando plc.

28 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

a.) Purchases of goods and services	**As at 31 December**	
	2011	2010
	US$000s	US$000s
Rent of office space from Oando Plc	**220**	117

b.) Directors' and Key Management Emoluments and Fees	**As at 31 December**	
	2011	2010
	US$000s	US$000s
Total Executive and Non Executive Directors' emoluments, including pension and fees	**616**	501

c.) Year end creditor balance	**As at 31 December**	
	2011	2010
	US$000s	US$000s
Loan balance from Oando Plc (The loan is repayable on demand and bears interest at 16% p.a.)	**4,504**	300
Amount payable to Oando Plc in respect of bank charges incurred on the loan receipts	**6**	-
Amount payable in respect of pension contribution to Philip Dimmock (director)	**207**	292

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