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This document is an admission document in relation to the Alternative Investment Market of the London Stock Exchange plc ("AIM"). A copy of this document (which comprises a prospectus which has been drawn up in accordance with the requirements of the Public Offers of Securities Regulations 1995 (as amended) ("POS Regulations")) has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Regulation 4(2) of the POS Regulations.

The Directors of Equator Exploration Limited, whose names, business address and functions appear on page 5, accept responsibility, individually and collectively, for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Application will be made for the whole of the common share capital of Equator Exploration Limited ("Common Shares") in issue immediately following the Placing to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority ("UKLA"). A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

Neither UKLA nor London Stock Exchange plc has examined or approved the contents of this document. The rules of AIM are less demanding than those of the Official List of the UKLA. It is emphasised that no application is being made for admission of these securities to the Official List of the UKLA. The Common Shares are not dealt in on any other recognised investment exchange and no other such applications have been made.

It is expected that Admission will become effective and dealings in the Common Shares will commence on AIM on 9 December 2004.



EQUATOR EXPLORATION LIMITED

(Incorporated and registered in the British Virgin Islands with registered number 420125)

Placing of 60,000,000 new Common Shares at 100p per share

Admission to trading on the Alternative Investment Market

Nominated Adviser

Nabarro Wells & Co. Limited

Broker

ODL Securities Limited

Share capital following the Placing

Issued and fully paid

Number

Common Shares of no par value

113,400,124

Nabarro Wells & Co. Limited and ODL Securities Limited, which are each regulated by the Financial Services Authority, are acting as Nominated Adviser and Broker (respectively) for the Company in relation to the Placing and Admission, and will not be responsible to any other person for providing the protections afforded to customers of each of them or for providing advice in relation to the Placing or the contents of this document or any matter referred to herein. Neither Nabarro Wells & Co. Limited nor ODL Securities Limited has authorised the contents of any part of this document for the purposes of Regulation 13(1) of the POS Regulations.

This document does not constitute an offer to sell or the solicitation of an offer to buy shares in any jurisdiction in which such offer or solicitation is unlawful. In particular, this document is not for distribution into the United States, Canada, Australia, South Africa, The Republic of Ireland or Japan. The Common Shares have not been and will not be registered under the applicable securities laws of the United States, any province or territory of Canada, Australia, South Africa, The Republic of Ireland or Japan or to any national, resident or citizen of the United States, Canada, Australia, South Africa, The Republic of Ireland or Japan. The distribution of this document in other jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restriction. Any failure to comply with these restrictions may constitute a violation of the securities law of any such jurisdiction.



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KEY INFORMATION

The following information is derived from and should be read in conjunction with the full text of this document.

Business

Equator is a BVI company incorporated in December 2000. The Company explores for and develops oil projects, primarily in the highly prospective waters of the Gulf of Guinea.

Equator's objective is to build a diversified portfolio of exploration, appraisal and production assets in the region. The Company will initially focus its efforts in West Africa, in particular the territorial waters of São Tomé and Príncipe where Equator has been active since 2001. Equator is also evaluating opportunities in Nigeria and Equatorial Guinea.

In the spring of 2001, the governments of São Tomé and Príncipe and Nigeria reached an agreement over a long-standing maritime border dispute. Under the terms of the 2001 Treaty, the Joint Development Zone (JDZ) was established governing the disputed boundary area for commercial exploitation. The rest of the claimed territorial waters of São Tomé and Príncipe is known as the Exclusive Economic Zone (EEZ), which encompasses an area of approximately 160,000 km².

In recent years West Africa has become a world leader in offshore deepwater exploration and production. Deepwater discoveries in Equatorial Guinea and Nigeria, coupled with hydrocarbon finds offshore Gabon, suggest geological extensions into the territorial waters of São Tomé and Príncipe. In addition, seismic data for the region indicate widespread prospectivity in the waters of São Tomé and Príncipe.

Equator owns the right to acquire a 100 per cent working interest in two blocks of its choice in the EEZ. Equator also has the option to participate with the Government, up to a maximum of 15 per cent, in any Government Participating Interest Options in the EEZ.

Equator has reviewed 8,000 km of 2D seismic acquired in the EEZ, including 5,100 km of seismic acquired by Equator and PGS Exploration in 2002 and 2003. The seismic data shows widespread prospectivity and hydrocarbon potential similar to deepwater blocks in Nigeria and Equatorial Guinea. Four play types have been identified with the presence of a number of leads and prospects.

Equator plans to select its two option blocks and commence negotiations on PSCs with the Government for each block by the end of the year. Once the PSCs are finalised, Equator then intends to undertake a 2D and 3D seismic programme on each block prior to farm-out and drilling of the two blocks.

Equator also generates revenue from the marketing and sale of seismic data that it has acquired, jointly with PGS Exploration, in the EEZ and the JDZ. Under the Seismic Agreements, Equator is entitled to a share of licensing fees from the sale of seismic data previously funded by PGS Exploration and Equator in the JDZ and EEZ. It is expected that the revenue sharing arrangement will continue for further 2D seismic data acquired by Equator and PGS Exploration in the EEZ.

Equator is raising £60 million (before expenses) through the Placing at £1.00 per share. At the Placing Price, the Company will have a market capitalization of approximately £113 million. Equator is seeking Admission to AIM in order to widen its investor base and to have access to equity capital markets.

The net proceeds of the Placing, together with the proceeds of two earlier rounds of funding, will be applied over the next 15 months to Equator's planned expenditures on its interests in the EEZ amounting to approximately \$23 million. The net proceeds will also be used to fund acquisition opportunities in Africa as they become available and for general corporate expenses.

Risk Factors

The business of the Equator Group is subject to a number of risk factors and your attention is drawn to these which are set out in Part 2 of this document.



EXPECTED TIMETABLE AND PLACING STATISTICS

EXPECTED TIMETABLE

Date of this document	3 December 2004
Admission and dealings in the Common Shares to commence	8.00 a.m. 9 December 2004
CREST accounts credited in respect of Depository Interests	9 December 2004
Despatch of definitive share certificates in respect of the Placing Shares to Placees by no later than	16 December 2004

PLACING STATISTICS

Placing Price	100p per share
Number of Placing Shares	60,000,000
Number of Common Shares in issue following the Placing	113,400,124
Estimated net proceeds of the Placing	£56.3 million
Percentage of the enlarged share capital subject to the Placing	52.9 per cent
Market capitalisation following Admission at the Placing Price	£113.4 million
Number of Options and Warrants outstanding on Admission	19,515,000



DIRECTORS, REGISTERED AGENT AND ADVISERS

Directors	Sir Samuel Esson Jonah, <i>Non-executive Chairman</i> Wade George Cherwayko, <i>Chief Executive Officer</i> James Franz Ladner, <i>Non-executive Director</i> Alexander Leslie Dembitz, <i>Non-executive Director</i> all of
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
Nominated Adviser and Financial Adviser	Nabarro Wells & Co. Limited Saddlers House Gutter Lane London EC2V 6HS
Broker	ODL Securities Limited 6th Floor Salisbury House London Wall London EC2M 5QQ
Financial Public Relations Consultants	Buchanan Communications Ltd 107 Cheapside London EC2V 6DN
Reporting Accountants	Chantrey Vellacott DFK Russell Square House 10-12 Russell Square London WC1B 5LF
UK Solicitors to the Company	Masons 30 Aylesbury Street London EC1R 0ER
BVI Solicitors to the Company	Harney Westwood & Riegels Craigmuir Chambers PO Box 71 Road Town Tortola British Virgin Islands
Solicitors to the Placing	Faegre Benson Hobson Audley LLP 7 Pilgrim Street London EC4V 6DR



Consulting Engineers

PGS Reservoir Limited
PGS Court Thames House
17 Marlow Road
Maidenhead
Berks SL6 7AA

Bankers

Royal Bank of Canada Europe Limited
71 Queen Victoria Street
London EC4V 4DE

Registrars

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

**Registrars to the
Depository Interest
arrangement**

Computershare Investor Services PLC
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH



PART 1

INFORMATION ON EQUATOR

INTRODUCTION

Equator is a British Virgin Islands corporation incorporated in December 2000 for the purpose of exploring for and developing oil projects, primarily in the highly prospective waters of the Gulf of Guinea including the islands of São Tomé and Príncipe, West Africa (Map 1). The Company's objective is to build a diversified portfolio of exploration, appraisal and production assets in the region. Equator also generates revenue from the marketing and sale of seismic data that it has acquired, jointly with PGS Exploration, in the territorial waters of São Tomé and Príncipe and in the Nigeria – São Tomé and Príncipe Joint Development Zone (JDZ).



MAP 1: SÃO TOMÉ AND PRÍNCIPE IS LOCATED IN THE GULF OF GUINEA, WEST AFRICA

In recent years, West Africa has become a world leader in offshore deepwater exploration and production. Equator will initially focus its efforts in West Africa, leveraging off the past experience of the Company's management team in the region. In particular, the initial focus of the Company will be the territorial waters of São Tomé and Príncipe where the Company has been active since 2001.



São Tomé and Príncipe's offshore territorial boundaries encompass an area of approximately 160,000 km². Seismic data for the region indicate widespread prospectivity in the waters of São Tomé and Príncipe. The close proximity of São Tomé and Príncipe's offshore waters to the proven hydrocarbon systems in the adjacent territorial waters of Nigeria, Cameroon, Equatorial Guinea and Gabon suggests the potential for hydrocarbons.

In the spring of 2001, the governments of São Tomé and Príncipe and Nigeria reached an agreement over a long-standing maritime border dispute. Under the terms of the 2001 Treaty between Nigeria and São Tomé and Príncipe, the JDZ was established governing the disputed boundary area for commercial exploitation. The JDZ is administered by a Joint Development Authority (JDA). The rest of the claimed territorial waters of São Tomé and Príncipe is known as the Exclusive Economic Zone or EEZ.

Equator has option rights over two blocks in the EEZ, as well as interests in seismic data acquired in the JDZ and in the EEZ. Equator is also aggressively pursuing other opportunities in the region and negotiations are at an advanced stage on several acquisition opportunities. However, there is no guarantee that Equator will be successful in securing additional working interests in other blocks.

THE GROUP'S INTERESTS IN THE EEZ

PGS Exploration and the Government of São Tomé and Príncipe entered into an exploration and production option agreement (E&P Option Agreement) in February 2001 (see paragraph 1 of Part 3 for a summary of the terms of the E&P Option Agreement). This agreement, which was amended in 2003, granted PGS Exploration option rights on two concession blocks in the EEZ in consideration of a \$2 million option fee payable to the Government. As consideration for funding the option fee, Equator earned a 60 per cent interest in Aqua Exploration Limited (Aqua), the company established by PGS Exploration to hold its interests under the E&P Option Agreement. Equator subsequently acquired the balance of PGS Exploration's holding in Aqua. Under the E&P Option Agreement, Aqua owns the right to enter into PSCs with the Government of São Tomé and Príncipe on two concession blocks of its choice. In addition, Aqua has the option to participate with the Government, up to a maximum of 15 per cent, in any Government Participating Interest Options in the EEZ in exchange for providing technical assistance to the Government in evaluating its interest in these options.

The Group has reviewed existing data in the region and has now finalised the interpretation of 8,000 km of 2D seismic data acquired in the EEZ. The interpretation shows widespread prospectivity and hydrocarbon potential similar to deepwater blocks in Nigeria and Equatorial Guinea. Four play types have been identified with the presence of a number of leads and prospects. The Group plans to select its two option blocks and commence negotiations on PSCs with the Government for each block by the end of 2004. Once the PSCs are finalised, the Group intends to undertake a 2D and 3D seismic programme on each of the selected blocks. Assuming favourable results from the seismic programmes, the Group intends to farm-out and drill the blocks.

THE GROUP'S INTERESTS IN SEISMIC DATA

In February 2001, PGS Exploration entered into the Seismic Services Agreement (S&S Agreement) with the Government of São Tomé and Príncipe. The S&S Agreement was subsequently amended in 2003. Under the agreement, PGS Exploration has the exclusive rights for a period of ten years to acquire seismic in the territorial waters offshore São Tomé and Príncipe, including parts of the JDZ. The Government and PGS Exploration share the proceeds from the net sales of 2D and 3D seismic data on a pre-agreed basis.

Under the Seismic Agreements, Equator and PGS Exploration established respective participating interests in the S&S Agreement (see paragraph 2 of Part 3 for a summary of the terms of the Seismic Agreements). Under the terms of the Seismic Agreements, Equator is entitled to a share of licensing fees earned by PGS Exploration from the sale of seismic data previously funded by PGS Exploration and Equator. It is expected that this revenue sharing arrangement will continue in the future for further 2D seismic data acquired by Equator and PGS Exploration in the EEZ.

In exchange for providing Equator's pro rata share of funding for a 3D seismic survey in 2002 under the Seismic Agreements, Seisco Investments Limited (Seisco) is entitled to a 90 per cent interest in



Equator's pro-rata share of the revenue received in regards to 3,000 km² of 3D seismic data acquired and processed in the JDZ until Seisco has received repayment of its investment capital. Thereafter, Seisco will receive 50 per cent of Equator's pro rata share of revenues received from the sale of the 3D seismic data to third parties.

Also as part of the agreement, Equator issued 25,000 Class 'B' shares to Seisco and it was agreed that, in the event that no future seismic revenue could be expected from PGS Exploration as a result of its liquidation, Equator would issue up to 50,000 further Class 'B' shares to Seisco. The number of Class 'B' shares to be issued to Seisco in such event would depend upon the extent that Seisco's initial investment had been repaid. To date, Seisco has received distributions in excess of its initial investment.

The number and class of shares issued (and to be issued) to Seisco under these arrangements has been adjusted following the Company restructuring on 26 October 2004 (as referred to in paragraph 3.2 of Part 6). Further details of the Seismic Funding Agreement between Equator and Seisco are set out in paragraph 2.9 of Part 3.

Mr. Cherwayko, a Director of Equator, was a director of Seisco at the time the Seismic Funding Agreement was entered into, and continues to serve as a director of Seisco.

SÃO TOMÉ AND PRÍNCIPE AND OFFSHORE DEVELOPMENT

The Islands

The islands of São Tomé and Príncipe lie in the Gulf of Guinea off the coast of Gabon. São Tomé and Príncipe is the smallest country in Africa with an area of 1,001 km². The island of Príncipe is located 150 km to the northeast of São Tomé.

The JDZ

To improve the country's economy, the Government has taken an interest in facilitating the development of oil exploration in its territorial waters. In the spring of 2001, the Government reached an agreement with the government of Nigeria over a long-standing maritime border dispute and the countries have established the JDZ governing the previously disputed territory. Revenues derived from the JDZ will be shared 60:40 between the governments of Nigeria and São Tomé and Príncipe, respectively. In addition, the JDA has been created to oversee all future exploration and development in the JDZ.

In June 2004, the governments signed a joint declaration regarding transparency and governance of the JDZ. They agreed to full public disclosure of all transactions in respect of oil companies' activities in the JDZ and that the JDA was required to make public the basis for all licence awards from the JDZ Licensing Round including the technical and due diligence analysis supporting such awards.

The JDZ Licensing Round

On 22 April 2003, the formal opening of the first licensing round for acreage covering a portion of the JDZ was announced. Nine blocks situated in the northern sector of the JDZ were put up for tender. These blocks cover a total area of 8,429 km² and range in size from 588 km² to 1,723 km² in water depths of 1,500 to 2,500 metres.

The JDZ Licensing Round was based on open competitive tender with applications evaluated on technical and commercial criteria. Applications were submitted by 18 October 2003 with the minimum signing bonus fixed at \$30 million per block. The JDA announced that 33 bids were received from 20 companies for eight of the nine blocks. Cumulative bids exceeded \$1.7 billion, with the majority of signature bonuses offered ranging between \$35 million and \$60 million.

In April 2004, the JDA announced that Block 1 was awarded to ChevronTexaco (51 per cent), ExxonMobil (40 per cent) and a consortium comprised of Energy Equity Resources AS and Dangote Oil and Gas Limited (9 per cent) for a signature bonus of \$123 million.



REGIONAL OVERVIEW

Market Overview

Although offshore production has been underway in the shallow waters off West Africa for many years, recent activity has established the region as a world leader in terms of offshore deepwater exploration and production. According to a study prepared in July 2004 by PFC Energy, a leading energy consulting firm, the reserve base of deepwater fields projected to come onstream in West Africa over the next five years, aggregating 16.8 billion boe, is seven times that of deepwater fields which came onstream over the last five years. In addition, peak production could reach over 3.8 million boe per day with twenty four deepwater fields projected to come onstream in the region over the next five years. The anticipated surge in activity coincides with the prospect of declining output in other major producing areas such as the shallow waters of the Gulf of Mexico and the North Sea.

The attractions of West Africa include an offshore environment that is relatively benign with wave heights rarely exceeding 5 metres and few troublesome currents. Also, the crude oils are generally of good quality and the region's relative proximity to refineries in Western Europe and the United States is an added advantage. In addition, the major new deepwater discoveries are at a distance offshore and less susceptible to the local problems that often plague onshore and/or shallow water inshore fields, such as political and commercial corruption and instability, unfamiliar and often inefficient commercial practices, a lack of adequate local service and supply facilities and occasionally hostile local communities.

Regional Potential

São Tomé and Príncipe's offshore territorial boundaries of the EEZ encompass an area of approximately 160,000 km². The area may be divided into four main play fairways: (i) distal toe-thrusts of the Niger Delta and more distal lower relief anticlines/swells; (ii) stratigraphic traps in detached sand bodies south of the toe thrust trend; (iii) the Cameroon Trend of volcanic islands; and (iv) a deepwater extension to the Ogooué Delta petroleum system in the southeast.

The close proximity of São Tomé and Príncipe's offshore waters to the proven hydrocarbon systems in the adjacent countries of Nigeria, Cameroon, Equatorial Guinea and Gabon suggests the potential for hydrocarbons. Oil seeps and reservoir rocks on the island of São Tomé provide encouraging evidence that these petroleum systems may extend into ultra-deep water. The following table summarises the proved reserves and production of bordering countries:

	<i>Proved oil reserves (mmbbls)</i>	<i>Oil production (mbbls/day)</i>
Nigeria	34,300	2,185
Angola	8,900	885
Gabon	2,400	240
Congo	1,500	243
Cameroon	200	68

Source: BP 2004 Statistical Review of World Energy

Not only are the aggregate reserves of West African deepwater fields larger than their rivals in other regions, the average deepwater field size off West Africa is also larger. West African deepwater fields are significantly larger than the average deepwater field size for the Gulf of Mexico and only Brazil's Campos Basin fields are comparable to offshore West Africa.

In addition, recent deepwater discoveries in Equatorial Guinea and Nigeria coupled with hydrocarbon finds offshore Gabon suggest geological extensions into the territorial waters of São Tomé and Príncipe (Map 2). These discoveries include: the Akpo field in Nigeria with estimated reserves of 1 billion barrels; the Agbami field in Nigeria with estimated reserves of 710 million barrels; and the Zafiro field in Equatorial Guinea with estimated reserves of 1 billion barrels.



<i>Project</i>	<i>Country</i>	<i>Operator</i>	<i>Production start (actual or projected)</i>	<i>Recoverable reserves (mmbobe)</i>	<i>Peak production (mboeld)</i>
Zafiro	Eq. Guin	ExxonMobil	1996	1,008	250
Kuito	Angola	ChevronTexaco	1999	606	117
Ceiba	Eq. Guin	Hess	2000	239	40
Girassol	Angola	TOTAL	2001	713	246
Abo	Nigeria	ENI	2003	106	45
Jasmin	Angola	TOTAL	2003	243	30
Xikomba	Angola	ExxonMobil	2003	107	65
Kizomba A	Angola	ExxonMobil	2004	903	215
Baobab	CI	CNR	2005	203	57
BBLT	Angola	ChevronTexaco	2005	678	188
Bonga	Nigeria	Shell	2005	667	246
Bosi	Nigeria	ExxonMobil	2006	948	237
Chinguetti	Maurit	Woodside	2006	123	52
Dalia	Angola	TOTAL	2006	1,000	248
Erha	Nigeria	ExxonMobil	2006	649	180
Kizomba B	Angola	ExxonMobil	2006	791	217
Kizomba C	Angola	ExxonMobil	2006	712	172
Northern Block G	Eq. Guin	Hess	2006	466	90
RLCO	Angola	TOTAL	2006	1,051	203
Usan-Ukot	Nigeria	TOTAL	2006	550	100
Akpo	Nigeria	TOTAL	2007	1,253	221
Greater Plutonio	Angola	BP	2007	1,197	250
Bengo	Angola	CNR	2007	99	46
Chota	Nigeria	ExxonMobil	2007	320	92
Agbami	Nigeria	ChevronTexaco	2008	830	230
Bilondo	Congo	TOTAL	2008	104	48
Negage	Angola	ChevronTexaco	2008	210	92
Bonga NW	Angola	Shell	2009	299	93
Bonga SW-Aparo	Nigeria	Shell	2009	1,049	203
Landana-Tombua	Angola	ChevronTexaco	2009	1,208	287
Nnwa-Doro	Nigeria	Statoil	2009	2,035	207
Tiof	Maurit	Woodside	2009	365	119
Moho	Congo	TOTAL	2010	365	75
Perpetua	Angola	TOTAL	2010	495	184
Plutao	Angola	BP	2010	747	236
Nsiko	Nigeria	ChevronTexaco	2012	299	93

Producing projects

Developments and likely near-term sanctions

Possible longer-term developments

Source: West Africa Project and Company Overview, July 2004 by PFC Energy

MANAGEMENT'S STRATEGY

The Group's strategy is to identify, acquire and explore high quality prospects with the potential for large oil reserves. The Group intends to leverage its financial and industry expertise and experience, as well as its network of contacts, to select attractive exploration opportunities and to secure them on favourable terms. Equator will initially focus its efforts in West Africa. This area was selected because of the past experience of the Company's management team and the excellent prospectivity of the region.

In addition, Equator, together with PGS Exploration, will continue to process, market and sell the 2D and 3D seismic data jointly acquired in the JDZ and EEZ.

The Directors intend to: apply disciplined financial management in the areas of acquisition, evaluation and capital spending; acquire minority working interests in high reward exploration opportunities



alongside major oil companies; minimise investment and exploration risk on high working interest blocks through farm-outs; and minimise overhead by allowing industry partners to act as operator on projects.

The Group intends to seek farm-in partners to reduce the Group's financial exposure to the cost of initial exploration drilling on its prospects. If the Group's exploration projects are proved successful by drilling of discovery wells, it will have the opportunity to participate in the development of any commercial discoveries. It is the intent of the Directors that the Group participates in the development of any field which the Group evaluates to be economic.

DIRECTORS

Equator's management has extensive experience in petroleum exploration and production projects in West Africa. In particular, the Chairman and the Chief Executive Officer have been engaged in West African projects for the past decade. The Directors' leadership is supplemented by an extensive network of advisers and consultants.

Sir Sam Jonah (aged 54), KBE, Non-executive Chairman

Sir Sam Jonah is president of AngloGold Ashanti Limited, a NYSE listed company which is one of the world's largest gold companies and the largest African based gold producer. He was appointed to the position of chief executive officer of Ashanti Goldfields Company Limited in 1986 and oversaw its growth and listing as the first operating Sub-Saharan African company on the NYSE. He became president of AngloGold Ashanti in May 2004, when Ashanti was acquired by AngloGold Limited. Sir Sam Jonah has been decorated with many awards and honours (including an honorary Doctor of Science) and in 2003, was conferred with an Honorary Knighthood by Her Majesty Queen Elizabeth II of Great Britain. He is a member of numerous advisory committees including President Thabo Mbeki's International Investment Advisory Council of South Africa, President Kufuor's Ghana Investors' Advisory Council, and the United Nations Secretary General's Global Compact Advisory Council. He is also currently a director on a number of public and private company boards including AngloGold Ashanti Limited, Anglo American Corporation of South Africa, Anglo American Platinum Corporation Ltd. (Amplats), Transnet Ltd. and African Minerals Ltd.

Wade Cherwayko (aged 40), BS, Chief Executive Officer

Over the last fourteen years, Mr. Cherwayko has been active in negotiating, developing and financing a number of projects in West and North Africa. Such projects have included the acquisition, financing, exploration and development of several onshore and offshore oil and gas assets for Mart Resources Inc., Abacan Resource Corporation, Centurion Energy International Inc., Equator and Yinka Folawiyo Petroleum Company Ltd. Prior to working in West Africa, Mr. Cherwayko acted as a geological consultant for a number of oil companies with operations in Canada, the United States and South America. He received his BS in geology from Northern Arizona University.

James Ladner (aged 65), lic.oec.HSG, Non-executive Director

Mr. Ladner is a financial consultant and investment banker in Zurich. He also serves as director of a number of banks and companies, including F. van Lanschot Bankiers (Switzerland) Ltd., Alpine Atlantic Asset Management AG, Ahold Payments Services AG, Colombia Gold AG, StrataGold Corporation, USI AG, Baltensperger & Partner AG and VERIT Verwaltungs-und Immobilien-Gesellschaft. Mr. Ladner was previously a co-founder and director of RP&C International, London and New York (an international investment bank boutique); non-executive chairman of Bank Austria Creditanstalt (Switzerland); a director of AG für Fondsverwaltung AG, Energy Capital Investment Co. plc, The Royal Bank of Scotland AG, and Interallianz Bank AG; an executive vice president of Coutts Bank (Switzerland) and a member of the Swiss Admissions Board and the Swiss National Bank's Capital Markets Commission.

Alexander L. Dembitz (aged 57), BS, MBA, Non-executive Director

Mr. Dembitz has over thirty years of experience in international banking, investment management and consulting. He is managing director of Everest Capital S.A., an advisory firm that provides consulting services to Everest Capital Limited, a global investment advisory firm managing over \$1.2 billion in a family of funds. Before joining Everest Capital Mr. Dembitz was the chairman of Deloitte & Touche Central Europe. He was also the founder and chief executive officer of the IDOM Group, the largest



information technology and banking consulting firm in Central Europe. Prior to that, he worked for the Midland Bank Group in London, Paris and Frankfurt. Mr. Dembitz holds a BS from the University of Manchester, UK and an MBA with distinction from INSEAD, Paris. Mr. Dembitz speaks fluent French, German and Hungarian.

The Company intends to appoint a full time Finance Director who has oil industry experience in the next two months of the date of this document.

RECENT FUNDING, CURRENT TRADING, PROSPECTS AND FINANCIAL INFORMATION

Since its incorporation in 2000 the Company has raised \$34.6 million, most recently in two rounds of pre-IPO funding.

The Directors believe that the Company is well placed to enhance the value of and develop its interests in offshore exploration projects in West Africa as well as to pursue new projects in the region.

Since August 2002 Equator has derived revenues from its share of the sales of seismic data to third parties which, in aggregate, have amounted to approximately \$1.05 million.

The Accountants' report on Equator for the years ended 31 December 2001, 31 December 2002, 31 December 2003 and the period from 1 January 2004 to 31 October 2004 is set out in Part 5 of this document.

THE PLACING

The Company and the Directors have entered into the Placing and Admission Agreement with ODL Securities and Nabarro Wells whereby ODL Securities has agreed to use its reasonable endeavours to procure subscribers for the Placing Shares. The Placing Shares have been conditionally placed with institutional and other investors at the Placing Price. The Placing will raise £60 million before expenses.

The Placing is conditional, *inter alia*, on Admission. The Placing Shares allotted pursuant to the Placing will rank *pari passu* in all respects with the existing Common Shares of the Company. Further details of the Placing and Admission Agreement are set out in paragraph 10.1 of Part 6 of this document.

REASONS FOR ADMISSION, PLACING AND USE OF PROCEEDS

Equator is seeking Admission to AIM in order to widen its investor base and to have access to equity capital markets.

The net proceeds of the Placing, together with the proceeds of two earlier rounds of funding, will be applied over the next 15 months to the Group's planned expenditures on its interests in the EEZ amounting to approximately \$23 million. In addition, the net proceeds will be used to fund acquisition opportunities in Africa as they become available and for general corporate expenses.

Upon completion of the Group's current work programme, those of the Group's projects that appear promising will require further funding, for which the Directors will consider a range of options, including joint ventures, farm-in arrangements and further equity issues.

The Directors consider that, taking into account the net proceeds of the Placing, the Company will have sufficient resources for its present requirements, that is for at least the next twelve months from Admission.

DIVIDENDS

The nature of the Group's business means that it is unlikely that the Directors will recommend a dividend in the early years following Admission. The Directors believe the Company should seek to generate capital growth for its Shareholders and may recommend distributions at some future date, depending upon the generation of sustainable profits, when it becomes commercially prudent to do so.



TAXATION

The attention of prospective investors is drawn to the taxation section in paragraph 9 of Part 6 of this document.

SHARE OPTION SCHEME

The Company operates the Share Option Scheme to motivate and retain its employees and others who contribute to the Company's success. Further details of the Share Option Scheme are set out in paragraph 5 of Part 6 of this document.

DEALING ARRANGEMENTS AND CREST

Application has been made by the Registrars for Depository Interests which represent the underlying Common Shares to be admitted to CREST on Admission.

CREST is a UK computerised paperless share transfer and settlement system, which allows shares and other securities, including depository interests, to be held in electronic form rather than in paper form.

The Company, through Computershare Investor Services PLC, is in the process of establishing a facility whereby Depository Interests may be issued to investors who wish to hold Common Shares in electronic form within the CREST system. This will be done pursuant to a deed poll which has been executed by Computershare Investor Services PLC, acting as Depository. Application will be made for the Depository Interests, representing Common Shares, to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in Common Shares following Admission may take place within the CREST system if the relevant Shareholders so wish.

The Depository will, pursuant to its obligations under the above-mentioned deed poll, pass on to the relevant Shareholders all rights and entitlements which it receives in respect of Deposited Equator Exploration Securities. The entitlements which are to be passed on to the relevant Shareholders include entitlements to cash distributions, entitlements to information to make choices and elections and the rights to attend and vote at general meetings.

CREST is a voluntary system and holders of shares who wish to receive and obtain share certificates will be able to do so. Shareholders of the Company who elect to hold their shares in uncertificated form through the Depository Interest facility will be bound by the terms of the above-mentioned deed poll, the form of which is available for inspection.

It is expected that CREST accounts will be credited in respect of Depository Interests on 9 December 2004 and definitive share certificates will be despatched on or before 16 December 2004.

LOCK-IN ARRANGEMENTS

The Directors who held Common Shares prior to Admission have undertaken not to sell any of their holdings for a period of twelve months from Admission save in certain specified circumstances.

CORPORATE GOVERNANCE

The Directors intend, where practicable for a company of Equator's size and nature, to comply with the Combined Code. The Directors have established terms for audit and remuneration committees.

The remuneration committee, comprising the non-executive Directors and chaired by Sir Sam Jonah, determines the terms and conditions of service, including the remuneration and grant of options to executive and non-executive Directors under the Share Option Scheme and any other future share option schemes and arrangements adopted by the Company. The audit committee, comprising the non-executive Directors and chaired by Sir Sam Jonah, has primary responsibility for monitoring the quality of internal control and ensuring that the financial performance of the Company is properly measured and reported on and for reviewing reports from the Company's auditors relating to the Company's accounting and internal controls.



The Company has adopted a code for directors' dealings appropriate for a company whose shares are admitted to trading on AIM and will take all reasonable steps to ensure compliance by the Directors and any relevant employees. The form of this code is substantially the same as the Model Code previously appended to the AIM Rules.

LEGAL AND REGULATORY ISSUES

Prospective investors should note that the Company will not be subject to the provisions of the UK City Code on Takeovers and Mergers, notwithstanding that the Common Shares will be traded on AIM. The Directors shall, as soon as practicable and in any event within three months of Admission, propose a resolution to holders of Common Shares to amend the Company's Articles so as to adopt certain provisions reflecting the UK City Code on Takeovers and Mergers, further details of which are set out in paragraph 4.3 of Part 6 of this document. The consent of at least fifty per cent of holders of Common Shares will be required to amend the Articles.



PART 2

RISK FACTORS

Before deciding whether to invest in the Company's Common Shares, prospective investors should carefully consider the risks described below together with all other information contained in this document. If any of the following risks actually occur, the Company's business, financial condition, results of operations and/or the scope of its operations and anticipated expansion could be materially and adversely affected. In such case, an investor may lose all or part of his or her investment. Additional risks and uncertainties not currently known to the Directors may also have an adverse effect on the Equator Group's business and the information set out below does not purport to be an exhaustive summary of the risks affecting the Equator Group.

An investment in the Company is suitable only for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses which may arise therefrom and which may be equal to the whole amount invested.

Exploration risk

The future value of Equator is largely dependent on the success or otherwise of the Group's activities, which are directed towards the search, evaluation and development of oil and gas reserves. Exploration for and development of resources is speculative and involves a significant degree of risk. While the rewards can be substantial, there is no guarantee that exploration by the Equator Group will lead to commercial discovery or, if there is such discovery, that the Equator Group will be able to realise such reserves as intended. If at any stage the Equator Group is precluded from pursuing its exploration or production programmes or decides not to continue with any of these, this is likely to have an adverse effect on the value of investors' holdings.

Moreover, if the Equator Group does not meet its work and/or expenditure obligations under any future permits and/or licences in which it has a participating interest this may lead to dilution of its interest in, or the loss of, such permits or licences.

Drilling and operating risks

Exploration and development activities may be delayed or adversely affected by factors outside the control of the Equator Group. These include adverse climatic and oceanographic conditions, the performance of joint venture or farm-in partners on whom the Equator Group may be or may become reliant, compliance with governmental requirements, shortage or delays in installing and commissioning plant and equipment or import or customs delays. Problems may also arise due to the quality or failure of locally obtained equipment or interruptions to services (such as power, water, fuel or transport or processing capacity) or technical support which result in failure to achieve expected target dates for exploration or production and/or result in a requirement for greater expenditure. Drilling may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells which, though yielding some oil or gas, are not sufficiently productive to justify commercial development or cover operating and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs.

Substantial operational risks are involved in the drilling for, development of and production from oil and gas fields, including blow-outs, cratering, explosions, pollution, seepage or leaks, fire, earthquake activity, unusual or unexpected geological conditions and other hazards which may delay, or ultimately prevent, the exploitation of such fields or may result in cost overruns or substantial losses to the Equator Group due to substantial environmental pollution or damage, personal injury or loss of life, clean up responsibilities, regulatory investigation and penalties or suspension of operations. Such hazards can also severely damage or destroy equipment, surrounding areas or property of third parties. Damage or loss occurring as a result of such risks may give rise to claims against the Group. Although the Equator Group proposes to maintain insurance which the Directors consider to be appropriate in accordance with industry practice, there may be circumstances where the Equator Group's insurance or that of the operator of a field will not cover or be adequate to cover the consequences of such events or where the Equator Group may become liable for pollution or other operational hazards against



which it either cannot insure or may have elected not to have insured on account of high premium costs or otherwise. Moreover, there can be no assurance that the Equator Group will be able to maintain adequate insurance in the future at rates the Directors consider reasonable.

Economic and political risk

The Equator Group's current interests are in São Tomé and Príncipe, West Africa where there may be a number of associated risks over which it will have no, or limited, control. These may include contract renegotiation, contract cancellation, economic, social, or political instability or change, hyperinflation, currency non-convertibility or instability and changes of laws affecting foreign ownership, government participation, taxation, working conditions, rates of exchange, exchange control, exploration licensing and petroleum export licensing and export duties as well as government control over domestic oil and gas pricing.

While most of the Equator Group's financial obligations are denominated in United States dollars, a number of foreign currency effects may arise from exchange rate movements. Equator does not engage in active speculative hedging to minimise exchange rate risk.

Legal systems

São Tomé and Príncipe and other jurisdictions in which the Equator Group might operate in the future may have less developed legal systems than more established economies which could result in risks such as (i) effective legal redress in the courts of such jurisdictions, whether in respect of a breach of law or regulation, or in an ownership dispute, being more difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between and within various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters. In certain jurisdictions the commitment of local business people, government officials and agencies and the judicial system to abide by legal requirements and negotiated agreements may be more uncertain, creating particular concerns with respect to the Equator Group's licences and agreements for business. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that joint ventures, licences, licence applications or other legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness of and enforcement of such arrangements in these jurisdictions cannot be assured.

Corporate and regulatory formalities

In the jurisdictions in which the Equator Group has interests, both the conduct of its operations and the steps involved in the Equator Group acquiring its current interests involve or have involved the need to comply with numerous procedures and formalities. It has not in all cases been possible to date to comply with, or obtain waivers from, all such formalities and it is not always clear whether statutory or corporate formalities have been properly completed, nor possible or practical to obtain evidence of such issues. In some cases, failure to follow such formalities or obtain relevant evidence may call into question the validity of the entity or the actions taken.

Ability to exploit successful discoveries

It may not always be possible for the Equator Group to participate in the exploitation of successful discoveries made in areas in which the Equator Group has an interest. Such exploitation may involve the need to obtain licences or clearances from the relevant authorities, which may require conditions to be satisfied and/or the exercise of discretion by such authorities. It may or may not be possible for such conditions to be satisfied. Furthermore, the decision to proceed to further exploitation may require the participation of other companies whose interests and objectives may not be the same as those of the Equator Group. Such further work may also require the Equator Group to meet or commit to financing obligations, which it may not have anticipated or may not be able to commit to due to lack of funds or inability to raise funds.



Ability to exploit interests

The Equator Group's exploration and development activities and its ability to profit from its rights under the E&P Option Agreement are dependent upon the negotiation of PSCs with the Government of São Tomé and Príncipe. There is no certainty that the Equator Group will be able successfully to negotiate the terms of the contracts which it requires in order to exploit its interests in the EEZ. There can be no assurance that such contracts will be entered into, or, if entered into, on what terms. Any PSCs which are entered into may be valid only for a defined time period, may be subject to limitations and may provide for termination in certain circumstances.

Size of interests

Although the Equator Group has, subject to negotiation, the right to enter into PSCs in respect of two concession blocks in the EEZ, the E&P Option Agreement does not state the size of the blocks in respect of which these contracts will be entered into. The EEZ has not yet been divided into blocks and so it is not possible to know the minimum size of the blocks in which the Company may acquire an interest.

Continued participation in seismic revenue

The Company's continued participation in revenue earned under the S&S Agreement between PGS Exploration and the Government of São Tomé and Príncipe depends on the continuing in full force and effect of the S&S Agreement and no event of default occurring which would allow the Government to terminate the agreement, for example, the insolvency of PGS Exploration. Such matters are outside the control of the Company.

Environmental regulation

Environmental and safety legislation (e.g. in relation to plugging and abandonment of wells, discharge of materials into the environment and otherwise relating to environmental protection) may change in a manner that may require stricter or additional standards than those now in effect, a heightened degree of responsibility for companies and their directors and employees and more stringent enforcement of existing laws and regulations. There may also be unforeseen environmental liabilities resulting from oil and gas activities, which may be costly to remedy. In particular, the acceptable level of pollution and the potential clean up costs and obligations and liability for toxic or hazardous substances for which the Equator Group may become liable as a result of its activities may be impossible to assess against the current legal framework and current enforcement practices of the various jurisdictions.

Market risk

In the event of successful development of oil and gas reserves, the marketing of the Equator Group's prospective production of oil and gas from such reserves will be dependent on market fluctuations and the availability of processing and refining facilities and transportation infrastructure, including access to ports, shipping facilities, pipelines and pipeline capacity at economic tariff rates over which the Equator Group may have limited or no control. Pipelines may be inadequately maintained and subject to capacity constraints and economic tariff rates may be increased with little or no notice and without taking into account producer concerns. The right to export oil and gas may depend on obtaining licences and quotas, the granting of which may be at the discretion of the relevant regulatory authorities. There may be delays in obtaining such licences and quotas leading to the income receivable by the Equator Group being adversely affected, and it is possible that from time to time export licences may be refused.

Reliance on strategic relationships

In conducting its business, the Equator Group will rely on continuing existing strategic relationships and forming new ones with other entities in the oil and gas industry, such as joint venture parties and farm-in partners, and also certain regulatory and governmental departments. While the Directors have no reason to believe otherwise, there can be no assurance that its existing relationships will continue to be maintained or that new ones will be successfully formed.



Competition

A number of other oil and gas companies operate, and are allowed to bid for, exploration and production licences and other services in São Tomé and Príncipe and other countries in which the Equator Group may operate in the future, thereby providing competition to the Equator Group. Larger companies, in particular, may have access to greater resources than the Equator Group which may give them a competitive advantage.

Volatility of prices for oil and gas

The demand for, and price of, oil and gas is highly dependent on a variety of factors, including international supply and demand, the level of consumer demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments. Geographic location and a lack of adequate infrastructure may also result in any oil or gas produced being sold at a discount to world market prices for oil and gas. International oil and gas prices have fluctuated widely in recent years and may continue to fluctuate significantly in the future.

Dependence on key personnel

The Equator Group has a small management team and the loss of a key individual or the Group's inability to attract suitably qualified personnel in the future could affect the Equator Group's business. Difficulties may also be experienced in certain jurisdictions in employing and retaining qualified personnel who are willing to work in such jurisdictions.

Results to date and additional requirement for capital

Equator is likely to remain cash flow negative for some time and, although the Directors have confidence in the future revenue earning potential of the Equator Group, there can be no certainty that Equator will achieve or sustain profitability or positive cash flow from its operating activities. The Directors are satisfied that the working capital available to the Equator Group will be sufficient for its present requirements. However, it is likely that the Company will need to raise additional capital in the future and actual future production, oil and gas prices, revenues, taxes, transportation costs, capital expenditures and operating expenses and geological success will all be factors which have an impact on the amount of additional capital required. Any additional equity financing may be dilutive to Shareholders and debt financing, if available, may involve restrictions on financing and operating activities. If Equator is unable to obtain additional financing as and when needed, it may be required to reduce the scope of its operations or anticipated expansion.

Liquidity of the Common Shares

Admission to AIM should not be taken as implying that there will be a liquid market for the Common Shares. It may be more difficult for an investor to realise his or her investment on AIM than to realise an investment in a company whose shares are quoted on the Official List. The share price of publicly traded emerging companies can be highly volatile. The price at which the Common Shares will be traded and the price at which investors may realise their investments will be influenced by a large number of factors, some specific to the Equator Group and its operations and some which may affect small oil and gas exploration companies or quoted companies generally. The market perception of small oil and gas exploration companies may change which could impact on the value of investors' holdings and impact on the ability of the Company to raise funds by the issue of further Common Shares in the Company. Prospective investors should be aware that the value of the Common Shares can go down as well as up.



PART 3

SUMMARY OF PRINCIPAL AGREEMENTS

1. Exploration and Production Option Agreement (“E&P Option Agreement”)

1.1 Date, Parties and Scope

The E&P Option Agreement was entered into on 12 February 2001 (and became effective on the same date) between the Government and PGS Exploration.

PGS Exploration gave notice to the Government of an assignment of all its rights and obligations under the E&P Option Agreement to its Bahamian registered subsidiary, Sea Lion Exploration Limited, which in turn assigned all such rights and obligations to Aqua on notice to the Government.

A contract amendment to the E&P Option Agreement was entered into on 7 May 2003 between the Government, PGS Exploration and Aqua, which, *inter alia*, acknowledged the above-mentioned assignments and replaced references to PGS Exploration in the E&P Option Agreement with references to Aqua. The following summary of key terms reflects the principal terms of the E&P Option Agreement as so amended.

The purpose of the E&P Option Agreement is stated to be to facilitate the exploration and development of the offshore hydrocarbon resources of São Tomé and Príncipe and to grant certain options in respect thereof to Aqua in return for Aqua’s obligations to make payments to the Government by way of signature bonus.

1.2 Key Terms of the E&P Option Agreement

(a) Options

In consideration of the payment to the Government of US\$2,000,000 Aqua was granted two options to enter into a PSC or a number of PSCs with the Government, in respect of one Block per option, for a total of two Blocks, in the EEZ, such Blocks to be nominated by Aqua.

A “Block” is defined in the E&P Option Agreement as being an area within the EEZ designated by the Government for the allocation to oil and gas exploration companies with a view to the granting of hydrocarbon exploration and production rights.

(b) Exercise of Option

The procedures for exercising an option are as follows:

- Aqua must give written notice to the Government identifying the Block (“the Option Block”) in respect of which Aqua wishes to enter into a PSC.
- Within 30 days of receipt of such a notice, the Government shall deliver to Aqua a letter of allocation which identifies the signature bonus as provided for in the agreement (save where a lesser sum has been agreed between the parties), and outlines the minimum work programme and other financial terms. The agreement provides that the terms of the allocation letter shall be no more onerous than terms imposed or to be imposed upon third parties in respect of a PSC for any Block, and the terms of the standard PSC utilised by the Government in the EEZ.
- Following Aqua’s receipt of the letter of allocation and the standard PSC, the parties are to use best endeavours to negotiate amendments to the standard PSC as are appropriate to the particular Block.
- During the twelve months following receipt by Aqua of the standard PSC the Government shall not (and shall procure that no authority, entity or representative of the Government shall) enter into an agreement or arrangement other than with Aqua relating to entering into a PSC or similar agreement in respect of the relevant Block.



- If amendments have not been agreed to the standard PSC within twelve months of its delivery to Aqua, the exercise of Aqua's option shall lapse.
- Upon the agreement of terms for the PSC in respect of an Option Block, the Government shall sign the PSC or shall procure that the PSC is signed by or on behalf of the Government or appropriate authority or entity.

(c) *Payments*

The E&P Option Agreement provides for the following signature bonus payments to become payable by Aqua to the Government as follows:

- On the effective date of the PSC in respect of the first Option Block: \$2,000,000;
- Upon commercial discovery, as adjudged by Aqua, in respect of the first Option Block: \$6,000,000;
- On the effective date of the PSC in respect of the second Option Block: \$2,500,000;
- Upon commercial discovery, as adjudged by Aqua, in respect of the second Option Block: \$5,500,000; and
- Additional cumulative payments based on cumulative production in each Option Block graduated from \$3,000,000 to \$15,000,000 (potentially totalling \$69,000,000).

It is further provided that the aggregate amount of signature bonus payments payable by Aqua in respect of each Option Block is not to exceed \$77,000,000.

(d) *Terms of the PSC*

Negotiations as to the terms of a mutually acceptable PSC shall commence as soon as practicable after signature of the E&P Option Agreement, and certain principles and essential terms shall be incorporated into the PSC as follows:

- (i) the signature bonus as provided for in the E&P Option Agreement (or such lesser amount as agreed);
- (ii) an arbitration provision using internationally accepted rules in a neutral forum to resolve disputes;
- (iii) duty and tax free import and export of goods, materials and services provided by Aqua, its affiliates and subcontractors;
- (iv) production sharing terms to be no less burdensome to Aqua than the terms being negotiated with other companies; and
- (v) Aqua or its affiliate or such third party nominated by Aqua is to be the operator under the PSC or joint operating agreement to be negotiated between Aqua and the Government.

The options are expressed to be exercisable by Aqua within ten years after the commencement date (being the date the S&S Agreement was entered into, namely 12 February 2001). The Government shall give Aqua not less than 60 days notice of its intention to include a Block in any licensing round. If Aqua wishes to exercise its option over that Block it shall give an option notice within 30 days of receipt of such notice.

(e) *Relinquishment*

In the event of a third party expressing interest in entering into a PSC in respect of a Block, the Government is at liberty to give a Relinquishment Notice in respect of any Block within the territory in respect of which an option has not been exercised, or to give notice of its intention to include any Block in any licensing round, in which case an option in respect of such Block must be exercised within 30 days after such notice. The Government may not send a Relinquishment Notice or enter into a PSC or similar agreement with any third party in respect of a Block unless such Block has been partially or totally covered by seismic data obtained pursuant to the S&S Agreement.



(f) *Technical Assistance and Options*

Aqua has certain obligations to provide technical assistance and technical services to the Government in connection with the determination, by the Government, of the economic potential of Government Participating Interest Options in Blocks. In consideration of providing technical assistance and services Aqua is granted options to participate in any Government Participating Interest Option in other Blocks in respect of which technical services have been provided (to a maximum of 15 per cent per Government option).

(g) *Assignment*

Aqua is granted the right to assign any interest, right or obligation under the E&P Option Agreement to any third party, subject to the prior approval of the Government, such approval not to be unreasonably withheld or delayed. Aqua may assign to its affiliate on giving prior written notice of the assignment to the Government.

(h) *Governing Law and Dispute Resolution*

The E&P Option Agreement is governed by English law and the courts of England are given non-exclusive jurisdiction for the purpose of interim relief. Substantive disputes are to be referred to arbitration by a three person tribunal sitting in London under the Rules of the International Chamber of Commerce.

(i) *Sovereign Immunity*

The Government waives all rights to immunity based on sovereignty or otherwise.

2. Agreements Relating to Seismic Revenues

2.1 Joint Operating Agreement (“Original JOA”)

2.1.1 Date, Parties and Scope

The Original JOA was dated 6 April 2001 and made between PGS Exploration and Equator. Its commencement date was 11 June 2001.

The Original JOA governed Equator’s financing of PGS Exploration’s activities under the S&S Agreement and related activities. The parties agreed to allocate the costs and expenses incurred, and the benefits derived, in relation to the Original JOA (including the costs incurred and revenues received pursuant to the S&S Agreement) in proportion to the parties participating interests, namely 20 per cent for Equator and 80 per cent for PGS Exploration. The Original JOA contained provisions relating to access to, and ownership of, the seismic data which was the subject matter of the Original JOA.

2.1.2 Termination of Original JOA and Surviving Provisions

The Original JOA was terminated in August 2002 and the parties have subsequently acknowledged that such termination was lawful.

The Original JOA provides that upon termination, neither party shall have any further obligation to the other under the Original JOA save as expressly provided for, and further provides that rights and obligations accrued to the parties prior to termination shall survive termination.

The Original JOA also provides, for the avoidance of doubt, that on termination:

- (a) all rights and obligations arising out of a valid licence for, or access to, the seismic data subject to the Original JOA and granted by PGS Exploration to third parties remain vested in PGS Exploration; and
- (b) all revenues deriving from a valid licence for, or access to, such seismic data (and in respect of which Equator has fulfilled its payment obligations under the Original JOA) granted by PGS Exploration to third parties shall be shared by the parties in proportion to their participating interests (being Equator: 20 per cent and PGS Exploration: 80 per cent).



The Original JOA expressly provides that a number of provisions shall survive termination. The material provisions which so survived termination are:

- the termination provisions (outlined above);
- provisions providing for interest to be paid on payments due and made late;
- a restriction on the parties assigning their respective interests without the other's consent;
- the provision stating that the Original JOA shall be governed by and construed under English law and the parties submit to the jurisdiction of the English courts for the purpose of interim relief; and
- the provisions as to arbitration in the event of a dispute between the parties.

2.2 Amendment to the Original JOA (“JOA Amendment”)

2.2.1 Date, Parties and Scope

On 17 June 2002, Equator and PGS Exploration entered into the JOA Amendment.

The JOA Amendment governs the relationship between the parties in relation to the “Project” being the agreement by PGS Exploration to acquire and process approximately 1533 line km of 2D marine seismic data (as detailed with reference to latitudinal and longitudinal co-ordinates).

2.2.2 Key Terms of the JOA Amendment

(a) Sale proceeds

Net Sale Proceeds arising out of or related to the Project are allocated in the following proportions:

	<i>PGS Exploration</i>	<i>Equator</i>
Until Cost Recovery	0%	100%
After Cost Recovery	50%	50%

“Cost Recovery” is deemed to be attained when the cumulative value of the Net Sale Proceeds of the 2D data payable to Equator equals the Costs.

“Net Sale Proceeds” is defined as the amounts actually received by PGS Exploration in respect of the grant of access, rental or licences to third parties relating to the 2D seismic after deduction of revenue share, royalties and fees payable to the Government and/or the Government of Nigeria, agency and marketing fees payable to third parties, and taxes.

“Costs” are stated to be \$450 per line km, for approximately 1,533 line km being the sum of \$689,850.

(b) Governing Law and Dispute Resolution

The JOA Amendment is expressed to be governed by and construed in accordance with English law and the parties submit to the non-exclusive jurisdiction of the English Courts for the purpose of interim relief. Disputes or claims are to be dealt with under the arbitration provisions of the Original JOA.

2.3 Share Sale Agreement of 2003 (“Share Sale Agreement of 2003”)

2.3.1 Date, Parties and Scope

On 29 May 2003, Equator, PGS Exploration, Sea Lion and Aqua entered into an agreement relating to the sale of certain shares in Aqua by PGS Exploration to Equator. *Inter alia*, and in relation to seismic revenues, this agreement provided that, notwithstanding termination of the Original JOA:



- (a) Equator shall have access to the 5007.45 km of 2D seismic data acquired pursuant to the Original JOA and the JOA Amendment in accordance with the terms, as amended, of the JOA as if such data had been acquired under the JOA prior to 31 March 2003. Those amended terms are:
- (i) subject to payment of Equator's proportionate share of costs and expenses upon completion of the acquisition and processing of the data, Equator shall have the right of access to that portion of the data pertaining to the "Exclusive Acreage" (that is, the claimed offshore territorial waters of São Tomé and Príncipe, but excluding Area A (being a part of the JDZ) and excluding also any part allocated to Mobil under a PSC) and including Area B (the remainder of the JDZ other than Area A);
 - (ii) the data will be accessible in PGS Exploration's offices only for a reasonably limited period of time for the purpose of assessing the prospectivity of the area with a view to a possible application by Equator, Aqua, or a subsidiary of Aqua, of exploration and/or production rights; and
 - (iii) workstation access, data room and other fees in connection with the data access will be payable in full by Equator.
- (b) PGS Exploration agreed to pay Equator a share of the revenues from the licensing of such 5007.45 km of 2D seismic data in accordance with the Original JOA and JOA Amendment.

The other provisions of this agreement are summarised at paragraph 10.3 of Part 6.

2.4 Joint Operating Agreement ("JOA")

2.4.1 *Date, Parties and Scope*

The JOA was entered into on 17 September 2002 between PGS Exploration and Equator. Its commencement date was the date of signature (17 September 2002).

The JOA records the terms of an agreement whereby Equator was to provide PGS Exploration with financial and marketing assistance for the partial funding of the services to be provided by PGS Exploration to the Government pursuant to the S&S Agreement (the "Seismic Services") and to the Government of Nigeria pursuant to an agreement (the "Seismic Agreement") made between PGS Exploration and the Government of Nigeria and which related to an area of the JDZ referred to as Area A.

The terms of the JOA were amended by the Share Sale Agreement of 2003 and were further amended by the Share Sale Agreement of 2004. The following is a summary of the JOA as so amended.

2.4.2 *Key Terms of the JOA*

(a) *Revenues*

The JOA provided that each party is entitled to benefit from all revenues related to the JOA arising out of the licensing by PGS Exploration of the Area A seismic data and the seismic data acquired prior to 31 March 2003, after having deducted all revenue share, royalties, levies and taxes paid by PGS Exploration to the Government and/or the Government of Nigeria.

Revenues are allocated between the parties in proportion to their respective participating interests with PGS Exploration holding a 97.5 per cent participating interest and Equator a 2.5 per cent participating interest.

In respect of part of any signature bonus paid by the Government to PGS Exploration pursuant to the terms of the S&S Agreement (as amended by the S&S Amendment Agreement), which bonus relates to any 2D seismic data acquired by PGS Exploration prior to 31 March 2003 within the EEZ, the respective share of benefits of Equator and PGS Exploration are calculated as follows:



- (i) 69.39 per cent of such signature bonus shall be shared between PGS Exploration and Equator in accordance with the Original JOA; and
- (ii) 30.61 per cent of such signature bonus shall be shared between PGS Exploration and Equator in accordance with the provisions of the JOA Amendment.

(b) *Costs and Expenses*

Each party must bear and pay its share of all liabilities, claims, costs, risks and expenses arising out of the JOA but only in respect of the Area A survey and such of the seismic data as were acquired prior to 31 March 2003 in the same proportions, namely Equator: 2.5 per cent and PGS Exploration: 97.5 per cent.

Equator has no further obligation to finance PGS Exploration's activities in respect of the services detailed in the S&S Agreement and the Seismic Agreement after 31 March 2003.

(c) *Seismic Data Ownership, Access and Licensing*

(i) *Ownership of the Seismic Data*

The Area A seismic data and the other seismic data acquired prior to 31 March 2003 are stated to be a valuable copyright and trade secret of, and remains owned by, PGS Exploration.

(ii) *Access to Seismic Data*

Subject to the payment of its share of risks, costs and liabilities, Equator is given access to the seismic data acquired prior to 31 March 2003 in PGS Exploration's offices only for a reasonably limited period of time for the purpose of assessing the prospectivity of the area with a view to a possible application by Equator, Aqua, or a subsidiary of Aqua of exploration and/or production rights.

Workstation access fees, data room fees and any other fee in connection with access to the data are payable in full by Equator.

Equator holds only a non-exclusive right to utilise the data and has no right to copy, disclose, or transfer the data or any work product derived from the data or related information to any third party without the prior written consent of PGS Exploration.

(iii) *Seismic Data Licensing*

Licenses of the Area A seismic data and the other seismic data acquired prior to 31 March 2003, including licence fees, are under the control of PGS Exploration. PGS Exploration has the right at any time to license the data to third parties on terms to be decided by PGS Exploration only. PGS Exploration does not make any representation or warranty with respect to the extent of the potential licensing or other exploitation of the data. In addition, while PGS Exploration warrants that it has acquired the Area A seismic data and must acquire the other seismic data in accordance with accepted practices of the geophysical profession, PGS Exploration does not make any representation or warranty regarding the quality or reliability of the data or its fitness for Equator's or any third party's interpretation, work, or use of the data.

(d) *Subsidiary Agreements*

The Share Sale Agreement of 2003 provided that Equator and PGS Exploration enter into a data access agreement, an escrow agreement and storage agreement relating to the seismic data. The terms of these agreements are summarised at paragraph 2.5 to 2.7 of this Part 3.

(e) *Non-competition*

Throughout the duration of the JOA, neither Equator nor any affiliate, employee, representative, agent or director of Equator may engage either directly or indirectly, in



the business of providing services in competition with those provided by PGS Exploration pursuant to the S&S Agreement.

(f) *Assignment*

Neither party is entitled to assign any of its rights and its obligations to any third party or to an affiliate without the prior approval of the other party. PGS Exploration is entitled to engage subcontractors to perform any part of the Seismic Services and to perform any of its obligations under the JOA, PGS Exploration remaining responsible for the acts and omissions of any such subcontractors.

(g) *Termination*

The JOA is valid from the Commencement Date (17 September 2002) until 10 February 2011 but may terminate earlier in case of default circumstances, material breach of any provision of the JOA by one of the parties, or on the assignment of PGS Exploration's rights and obligations to Equator. In addition, the JOA terminates in case of termination of the S&S Agreement or, in so far as it relates to any area or seismic data covered by the Seismic Agreement, in case of termination of the Seismic Agreement.

(h) *Governing Law and Dispute Resolution*

The agreement is governed by and construed in accordance with the laws of England. In case of failure to reach an amicable settlement, any dispute, controversy or claim arising out or connected with the JOA must be resolved by arbitration in London under the Rules of Conciliation and Arbitration of the International Chamber of Commerce.

2.5 **Data Access Agreement (“Data Access Agreement”)**

2.5.1 *Date, Parties and Scope*

The Data Access Agreement was entered into on 29 May 2003 between PGS Exploration and Equator and governs the access to and use of data accorded to Equator pursuant to the JOA and consistent with the provisions of the JOA as to access to seismic data.

2.5.2 *Key Terms of the Data Access Agreement*

(a) *Back-up Copy*

The Data Access Agreement provides that, at Equator's expense one tape copy of the data (the “Back-up Copy”) shall be stored in accordance with the Storage Agreement.

In the event of PGS Exploration going into insolvent liquidation and ceasing to trade at any time during the term of the Data Access Agreement, Equator is entitled to demand the delivery to it of the Back-up Copy by notifying Wedlake Bell, solicitors of this request in accordance with the terms of the Escrow Agreement.

The Back-up Copy is intended for Equator's sole use and must remain confidential and cannot be disclosed or transferred to any third party or affiliate of Equator without the prior written consent of PGS Exploration save that Equator is entitled to disclose such data to third parties who are interested in acquiring, investing in or providing finance in connection with the exercise by Aqua of any of the rights under the E&P Option Agreement (the “Negotiation”) provided that such third parties are bound by confidentiality obligations and are unable to copy the disclosed data. The disclosure of such data must also be limited to the portions of the data that are strictly necessary for such presentation purposes and Equator can only display the data pertaining to the Block which is subject to the Negotiation.

(b) *Assignment*

PGS Exploration is entitled to assign its rights and obligations under the Data Access Agreement by giving notice in writing to Equator. Equator may assign only with the consent of PGS Exploration.



(c) *Termination*

The Data Access Agreement is valid from 29 May 2003 and continues until terminated by mutual agreement between the parties or in case of Equator's default or in case of a material breach of the Data Access Agreement by any of the parties.

(d) *Governing Law and Dispute Resolution*

The Data Access Agreement is governed by the laws of England. In case of failure to reach an amicable settlement, any dispute, controversy or claim arising out or connected with the agreement must be resolved by arbitration in London under the Rules of Conciliation and Arbitration of the International Chamber of Commerce.

2.6 Escrow Agreement (“Escrow Agreement”)

2.6.1 Date, Parties and Scope

The Escrow Agreement was entered into on 29 May 2003 between PGS Exploration, Equator and Wedlake Bell, solicitors.

The Escrow Agreement states the respective responsibilities of Equator and Wedlake Bell in case of a release of the Back-up Copy to Equator (the “Release Event”), which may result from PGS Exploration's written consent to release the Back-up Copy to Equator or in the event of PGS Exploration's insolvent liquidation and its ceasing to trade during the term of the Data Access Agreement.

2.6.2 Key Terms of the Escrow Agreement

(a) *Equator's responsibilities*

On the occurrence of a Release Event Equator may notify Wedlake Bell of such Release Event by delivering a declaration to Wedlake Bell.

(b) *Wedlake Bell's responsibilities*

Following a procedure for giving notice to PGS Exploration (with provision for arbitration in the event of a dispute as to the occurrence of a Release Event) Wedlake Bell shall instruct the Storage Company to release the Back-up Copy to Equator (and shall send such instructions in the event that an arbitrator's decision confirms that a Release Event has occurred).

(c) *Termination*

The Escrow Agreement must terminate automatically on the date Wedlake Bell sends a notice to the Storage Company instructing it to release the Back-up Copy to Equator. The Escrow Agreement must also terminate in case of expiration or termination of the Data Access Agreement, the Storage Agreement, the E&P Option Agreement, or the JOA.

(d) *Governing Law and Dispute Resolution*

The Escrow Agreement is governed by the laws of England and the parties submit to the exclusive jurisdiction of the English Courts.

2.7 Storage Agreement (“Storage Agreement”)

The Storage Agreement was made on 29 May 2003 between PGS Exploration, Equator and DPTS Storage Limited (the “Storage Company”).

The Storage Agreement provides for the storage of the Back-up copy.

The Storage Agreement is governed by the laws of England and each party submitted to the exclusive jurisdiction of the English Courts.

2.8 Share Sale Agreement of 2004 (“Share Sale Agreement of 2004”)

Under the Share Sale Agreement of 2004, and in addition to the provisions summarised at paragraph 10.4 of Part 6, it was agreed as follows:



- (a) Notwithstanding the agreement to terminate a shareholders agreement relating to Aqua, Equator agreed to procure for three years from 20 September 2004 that Aqua shall comply with a provision of such shareholders agreement which states that if Aqua requires goods or services in relation to its business (in particular marine seismic acquisition services, processing services, interpretation services and reservoir evaluation services) of a type or kind which PGS Exploration is able to supply or provide (directly or indirectly) then Aqua will (save for specified exceptions) purchase such goods or services from PGS Exploration on a commercially fair and reasonable basis provided that the price for such goods and services shall not be higher than the fair market price for the same.
- (b) Equator agreed that if it (or any of its past or present employees, representatives, directors or affiliates) engages in or carries on the business of applying for the allocation of oil exploration and/or production rights through direct award or farm-in or a participation agreement or similar arrangement in the area within the EEZ, Equator shall (or procure that an affiliate of Equator shall):
 - (i) in respect of such area covered by any 2D seismic data acquired by PGS Exploration prior to the date of the agreement, license such 2D seismic data from PGS Exploration on the terms of an existing form of agreed licence; and
 - (ii) in respect of such area covered by any 3D seismic data acquired by PGS Exploration prior to the date of any such person commencing such activity then it shall, if PGS Exploration so demands, license such 3D seismic data from PGS Exploration either (at PGS Exploration's option) on its standard price, terms and conditions or on the terms of the existing form of agreed licence.
- (c) Equator agreed that it would procure that any person exercising any of the option(s) under the E&P Option Agreement shall if PGS Exploration so requests:
 - (i) license from PGS Exploration any 2D seismic data acquired by it in respect of the area(s) over which the relevant option has been exercised on the terms of the existing form of agreed licence; and
 - (ii) license from PGS Exploration any 3D seismic data acquired by PGS Exploration prior to the date of exercise of the option in respect of the area(s) over which the relevant option has been exercised either (at PGS Exploration's option) on its standard price, terms and conditions or on the terms of the existing form of agreed licence.

2.9 Seismic Funding Agreement (“Seismic Funding Agreement”)

2.9.1 *Date, Parties and Scope*

The Seismic Funding Agreement was entered into on 4 October 2002 between Equator and Seisco and sets out the terms under which Seisco agreed to fund Equator's 2.5 per cent share of the costs of the 3D seismic survey to be carried out pursuant to the S&S Agreement, the E&P Option Agreement and the Original JOA.

2.9.2 *Key Terms of the Seismic Funding Agreement*

(a) *Financing*

In exchange for Seisco providing the sum of \$500,000 to Equator, Seisco receives 90 per cent of Equator's pro rata share of the revenue received in respect of 3,115 km² of 3D seismic acquired and processed until it has received repayment of its investment capital. Thereafter Seisco will receive 50 per cent of Equator's pro rata share of the revenue received in respect of such 3D seismic data. The agreement also states that Equator shall issue 25,000 Class 'B' shares to Seisco at a subscription price of \$0.001 per share. The agreement also states that, in the event that PGS Exploration is liquidated and no future seismic revenues can be expected, Equator will issue up to 50,000 Class 'B' shares in Equator to Seisco, scaled at 12,500, 25,000 or 50,000, according to the degree to which Seisco's initial investment has been repaid prior to cessation of seismic revenues by reason of PGS Exploration's liquidation. It is provided that, following the issue of such shares in the event of PGS Exploration's liquidation, Equator will have a 100 per cent interest in any future seismic revenues that may be received from PGS Exploration.



The number and class of shares issued (and to be issued) to Seisco under these arrangements has been adjusted following the Company restructuring on 26 October 2004 (as referred to in paragraph 3.2 of Part 6).

(b) *Governing Law and Dispute Resolution*

The governing law is English law and the courts of England have non-exclusive jurisdiction for the purposes of interim relief.

Substantive disputes are referred to arbitration by a three person tribunal sitting in London under the Rules of the International Chamber of Commerce.



PART 4

CONSULTING ENGINEERS' REPORT



3 December 2004

The Directors
Equator Exploration Limited
Craigmuir Chambers
PO Box 71
Road Town
Tortola
British Virgin Islands

The Directors
Nabarro Wells & Co. Limited
Saddlers House
Gutter Lane
London
EC2V 6HS

The Directors
ODL Securities Limited
6th Floor, Salisbury House
London Wall
London
EC2M 5QQ

Dear Sirs

CONSULTING ENGINEERS' REPORT

At the request of the Directors of Equator Exploration Limited (Equator), PGS Reservoir Limited (PGS) has reviewed technical information relating to Equator's interest in the Offshore Democratic Republic of São Tomé and Príncipe. Our evaluation is based upon technical data forwarded to us by the Directors of Equator during 2003 and supported by a technical evaluation of the data performed by PGS in September 2003. We understand that this is the most recent technical work performed on the area.

The territorial waters of São Tomé and Príncipe have been divided into two zones, the Exclusive Economic Zone (EEZ) and the Joint Development Zone (JDZ), see Figure 1 at the end of this report. Equator has options on two concession blocks that lie in the Exclusive Economic Zone.



The JDZ borders the Nigerian territorial waters and is within the toe-thrust zone of the Niger Delta that is a proven hydrocarbon play fairway. To date, deepwater exploration has focused on structural trap types within the toe-thrust belt. However, beyond the JDZ there are a variety of hydrocarbon leads.

The EEZ is an underexplored region offshore West Africa. There are a variety of trapping configurations that make the region prospective. Some of these are related to basement structural highs. Others are mainly stratigraphic and/or combination in type, with reservoirs associated with turbidite and basin floor fan deposition. Also of significance is the presence of oil seeps and reservoir rocks on the island of São Tomé, which are evidence that these petroleum systems extend into ultra-deep water. Thus, further deepwater discoveries seem likely in areas beyond the recent proven extensions in deepwater Nigeria and Equatorial Guinea. The region of São Tomé and Príncipe has been receiving increasing industry attention recently.

Technical Data Available

The data available to PGS in the area of interest comprises 2D seismic data, well data, gravity and magnetic data and oil seeps.

Since 2001, there have been three phases of seismic data acquisition (Figure 1 at the end of this report). In total over 8000 km of 2D seismic data has been interpreted. In general, the data quality is good. Shipborne gravity data was also acquired and processed. In general, there were good correlations between the gravity products and the structural interpretation. Similarly, there is good correlation between the magnetic intensity map and the basement structural interpretation.

Oil seeps are recorded on both São Tomé and Príncipe and at the sea surface.

One onshore well has been drilled in São Tomé and Príncipe.

Regional Exploration Activity

The Gulf of Guinea is an active exploration area with world class discoveries being made in the region. Successful and indeed prolific petroleum provinces surround São Tomé and Príncipe. The Niger Delta has undergone extensive exploration and production effort in the past and new focus is shifting to the deepwater areas of the basins.

Nigeria

Since 1990, Nigeria has opened up the deeper areas for exploration. Current estimates of recoverable oil reserves in the prolific Nigerian deepwater range from 8 to 20 billion barrels. During the 1990s the Nigerian Government offered a number of new concessions in water depths of up to 3,000 metres. BP/Statoil, Shell, Mobil, Elf, Agip and Exxon were among the major oil companies that were successful in gaining these concessions. Deepwater exploration and appraisal began in 1995 and several discoveries have subsequently been made (Figure 2 at the end of this report). However, the high production costs associated with deepwater have meant that production from these finds has been delayed.

The following discoveries have been made since the start of the exploration in the deep offshore:

<i>Year</i>	<i>Operator</i>	<i>Name</i>
1996	Shell	Bonga
1997	Shell	Ngolo
1996	Agip	Abo
1999	Famfa Oil	Agbami
1999	ExxonMobil	Erha
2000	TotalFinaElf	Akpo

The Agbami discovery was confirmed in January 2000 as being a major commercial discovery with a potential of approximately 710 million barrels. The Akpo field is reported in the media to contain over 1.0 billion oil equivalent barrels.



Equatorial Guinea

Block G, offshore Equatorial Guinea has proven to be a prolific area for exploration in recent years. The discovery well for the Ceiba Field, drilled in October 1999, was reported by the operator, Triton (now wholly owned by Amerada Hess), to have flowed 12,400 barrels oil per day (bopd), constrained by surface equipment. Commercial production into a floating, production, storage and offloading (FPSO) vessel commenced in November 2000 less than 14 months after discovery at an initial rate of 38,000 bopd. Amerada Hess reported in February 2002 that oil production at Ceiba was 50,000 bopd but was forecast to rise to 90,000 bopd in the fourth quarter after installation of the new and bigger Sendje Ceiba FPSO vessel is completed. Industry media reports suggest that reserves estimates for the Ceiba Field are in the range of 100 to 500 million barrels of oil.

Triton (Amerada Hess) has now drilled nine further exploration wells subsequent to the Ceiba discovery in the F and G Blocks approximately 100 km east of the EEZ, with the last five being successive new field discoveries. These new hydrocarbon accumulations are dominantly or significantly stratigraphically controlled. The Ceiba discovery confirmed a new play concept in the area and directed the attention of a number of international oil companies to the petroleum potential of the deepwater areas of the Rio Muni Basin.

Amerada Hess recently reported that its G-13 wildcat well drilled on Block G in the Rio Muni basin off Equatorial Guinea encountered 251 ft of net oil pay over a 963 ft interval. The well targeted a toe-thrust related structural closure in the Cretaceous described by Amerada as a new fairway. Subsequent appraisal drilling of the structure confirmed the results of the discovery well.

In the northwest of the Equatorial Guinea territorial waters, adjacent to Nigeria, the Zafiro field was discovered (March 1995) with a current production rate of about 250,000 bopd. The Zafiro oilfield is Equatorial Guinea's major oil producer.

São Tomé and Príncipe

The islands of São Tomé and Príncipe are part of the Cameroon Volcanic Line, which is a northeast to southwest chain of volcanic centres. The islands were probably formed by a linear mantle plume, which caused uplift and volcanism during the Miocene. Pre-uplift, the geological record consists of a thick sequence of Late Cretaceous to Miocene sedimentary rocks that are inferred to have a deep marine origin. The provenance of these sediments is uncertain. However, the Ogouée delta in Gabon and the Benito delta in Equatorial Guinea were the probable sources of Cretaceous sediment, whilst the Niger delta was the probable sediment source during the Tertiary.

The oldest exposed rocks on the island of São Tomé are reported to be conglomerates and sandstones of the Ubabudo formation. The age of this sedimentary sequence is uncertain, though it is tentatively correlated to the Akata and Agbada Formations of the Tertiary Niger Delta sequence.

The basins surrounding the islands of São Tomé and Príncipe contain a large variety of proven reservoirs and source rocks that contribute to make this area of West Africa very productive (Figure 2). Trapping potential is likely to consist of stratigraphic traps and closures associated with unconformities (see example seismic lines, Figures 3 and 4 at the end of this report). The Bonga discovery in Nigeria is an example of the potential prospectivity of stratigraphic traps in this deepwater setting.

Conclusion

The petroliferous nearby territories of Nigeria, Cameroon, Equatorial Guinea and Gabon contain proven major discoveries. Regionally there are several play fairways and a variety of prospective leads and trapping configurations. The analyses of oil seeps on São Tomé provide evidence for an active Late Cretaceous petroleum system in the deepwater Gulf of Guinea. An Upper Cretaceous sequence has been interpreted and this interval is probably mature. Delta system toe-thrusts are clearly imaged and occur within the northern and western part of the Exclusive Economic Zone; they are highly prospective. A zone of interest to the northeast of Príncipe has been identified where the Upper Tertiary is characterised by large scale channelised and mounded features. This interval was deposited soon after the start of volcanic uplift of Príncipe during the Middle Miocene and it is possible that this area was a focus for the deposition of detached turbidites from the Niger Delta and the Cameroon shelf at this time.



A substantial canyon and trough system of Upper Tertiary age exists in the Exclusive Economic Zone. This complex system has a northeast to southwest orientation. The canyon or trough fill is primarily mudrocks that incise the underlying (Tertiary) sediment package and represent a regional seal. Sands beneath this represent potential reservoirs. This play concept is analogous to the highly prospective Afam channel of Nigeria.

Our principal conclusions on the prospectivity of the area are:

- Within the Joint Development Zone, delta system toe-thrusts are clearly imaged on the 2D seismic data. The geometry, architecture, structuration, and amplitude anomalies (often with stacking), affirm that this zone is highly prospective.
- The presence of Cretaceous rocks to the west and northwest of the islands of São Tomé and Príncipe is inferred. Cretaceous sediments are thick (>1500m) in places.
- To the northeast of Príncipe within the Upper Tertiary, there is a region characterised by large scale channelised and mounded features. It is possible that this area was a focus for the deposition of detached turbidites from the Niger Delta and the Cameroon shelf.
- The most recent seismic interpretation (September 2003) indicates the presence of a Tertiary trough south of the toe thrust zone.
- To the south and southeast, there are several substantial basement related structural highs.

Given the relationships between potential source, seal and reservoir rocks as suggested by available data, there is considerable, but variable prospectivity within the region.

This prospectivity will be investigated by the planned acquisition of a significant 2D seismic infill survey by Equator during 2005. We anticipate that this will significantly enhance the understanding of the prospectivity of the area and identify future potential 3D seismic and drilling targets.

Professional Qualifications

PGS Reservoir Limited is an oil and gas industry consultancy specialising, since 1977, in petroleum reservoir evaluation and economic analysis. Except for the provision of professional services on a fee basis, PGS Reservoir Limited has no commercial arrangement with any other person or company involved in the interests which are the subject of this report.

PGS Reservoir Limited is a wholly owned subsidiary of Petroleum Geo Services (UK) Limited. PGS Exploration (UK) Limited is also a wholly owned subsidiary of Petroleum Geo Services (UK) Limited. The boards of directors of each company consist of the same persons, and the three companies have the same company secretary and registered office address.

Basis of Opinion

The evaluation presented in this report reflects our informed judgements based on accepted standards of professional investigation, but is subject to generally recognised uncertainties associated with the interpretation of geological, geophysical and engineering data.

Yours faithfully,

Carl Blackstock
For and on behalf of PGS Reservoir Limited

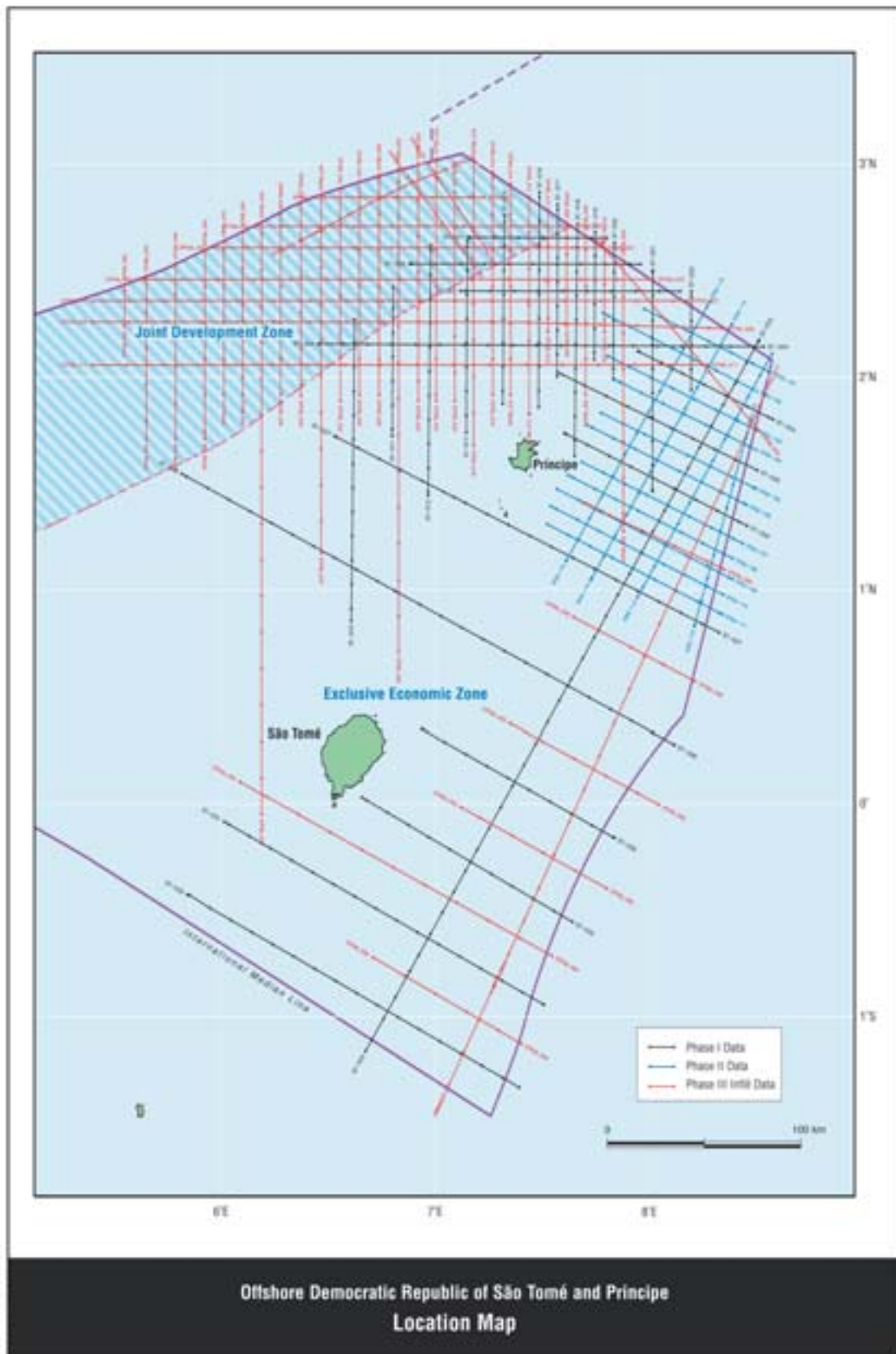
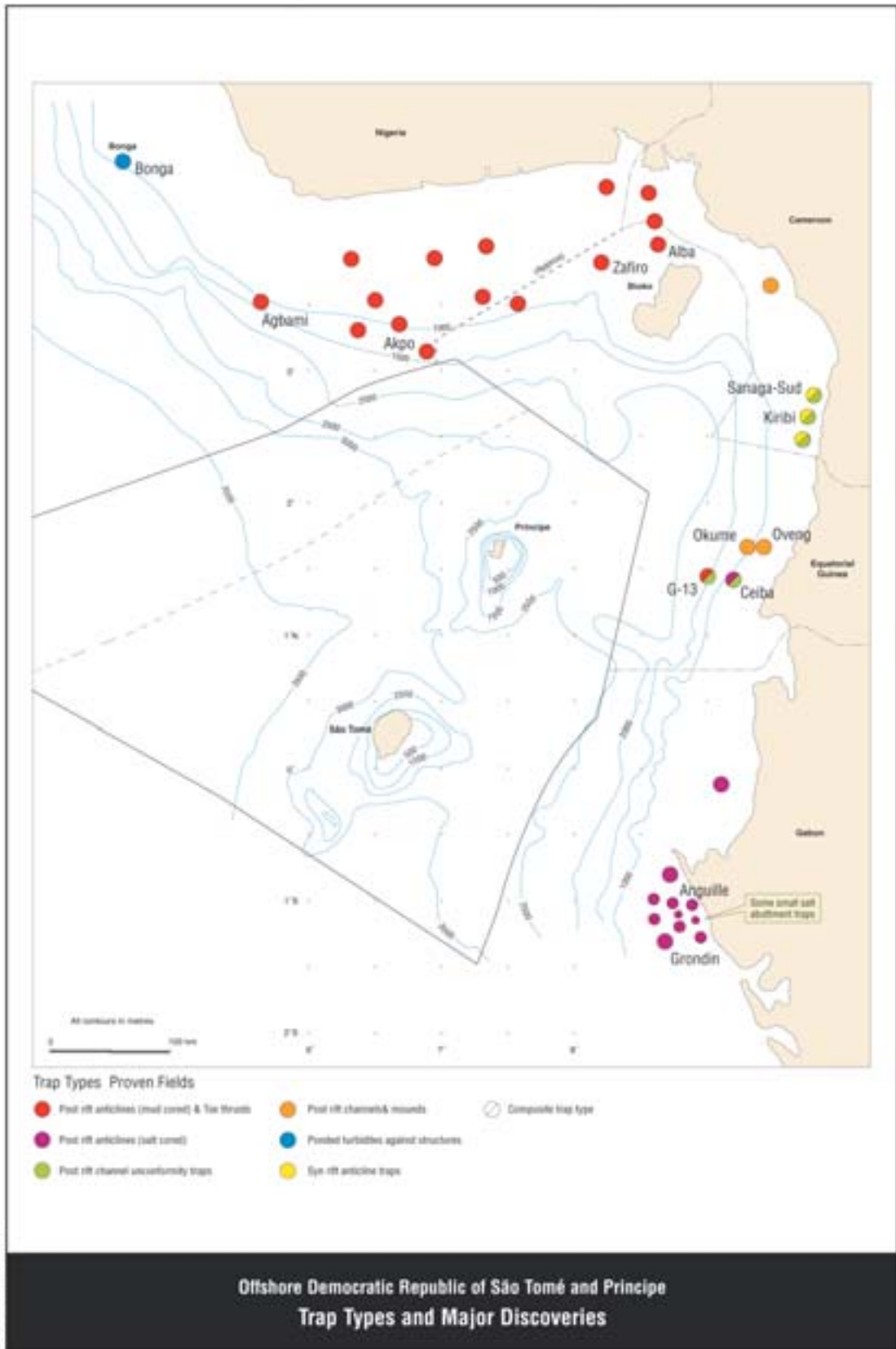


Figure 1



PDS/04/1508 Oct 2004

Figure 2

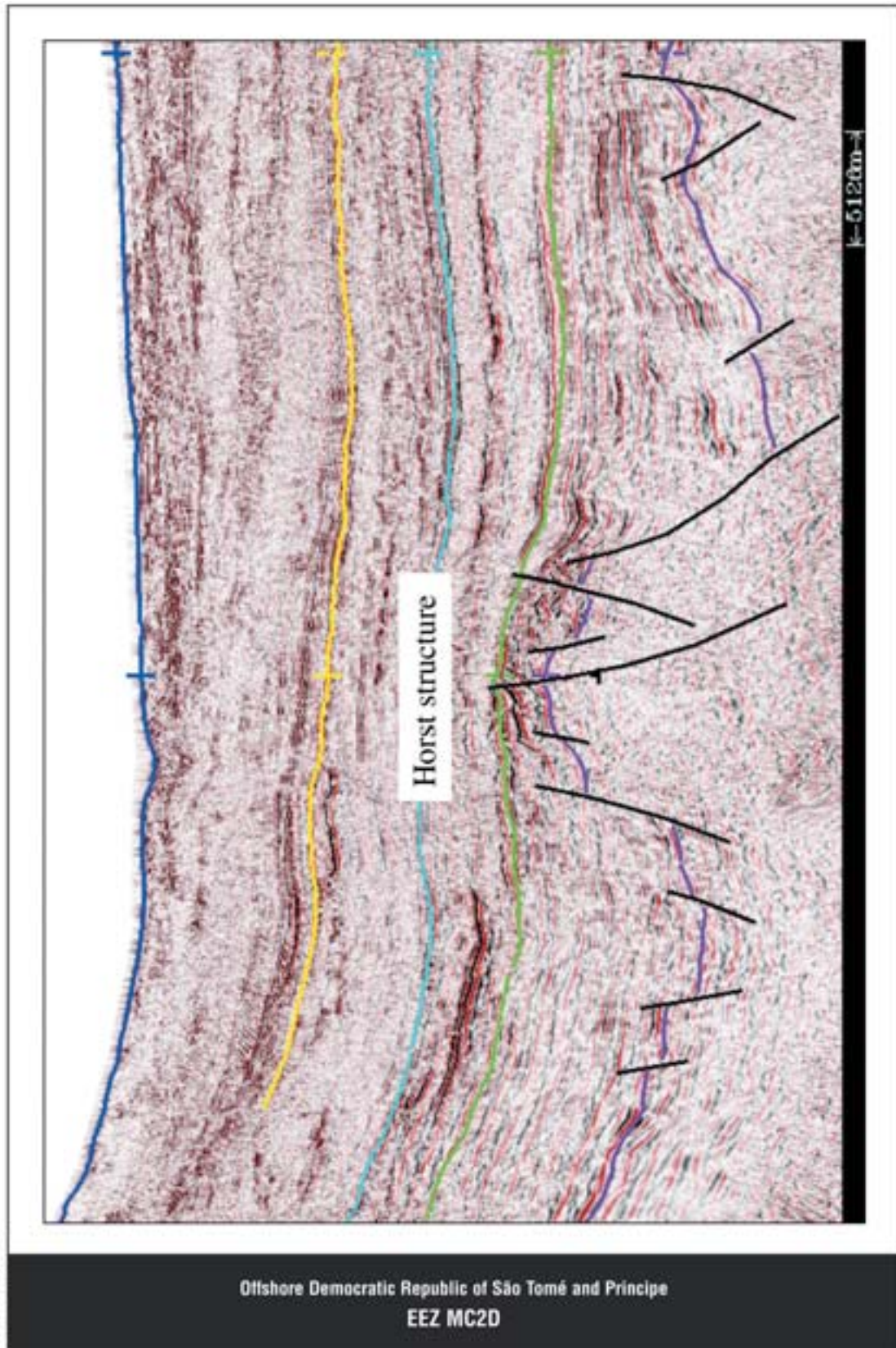


Figure 3

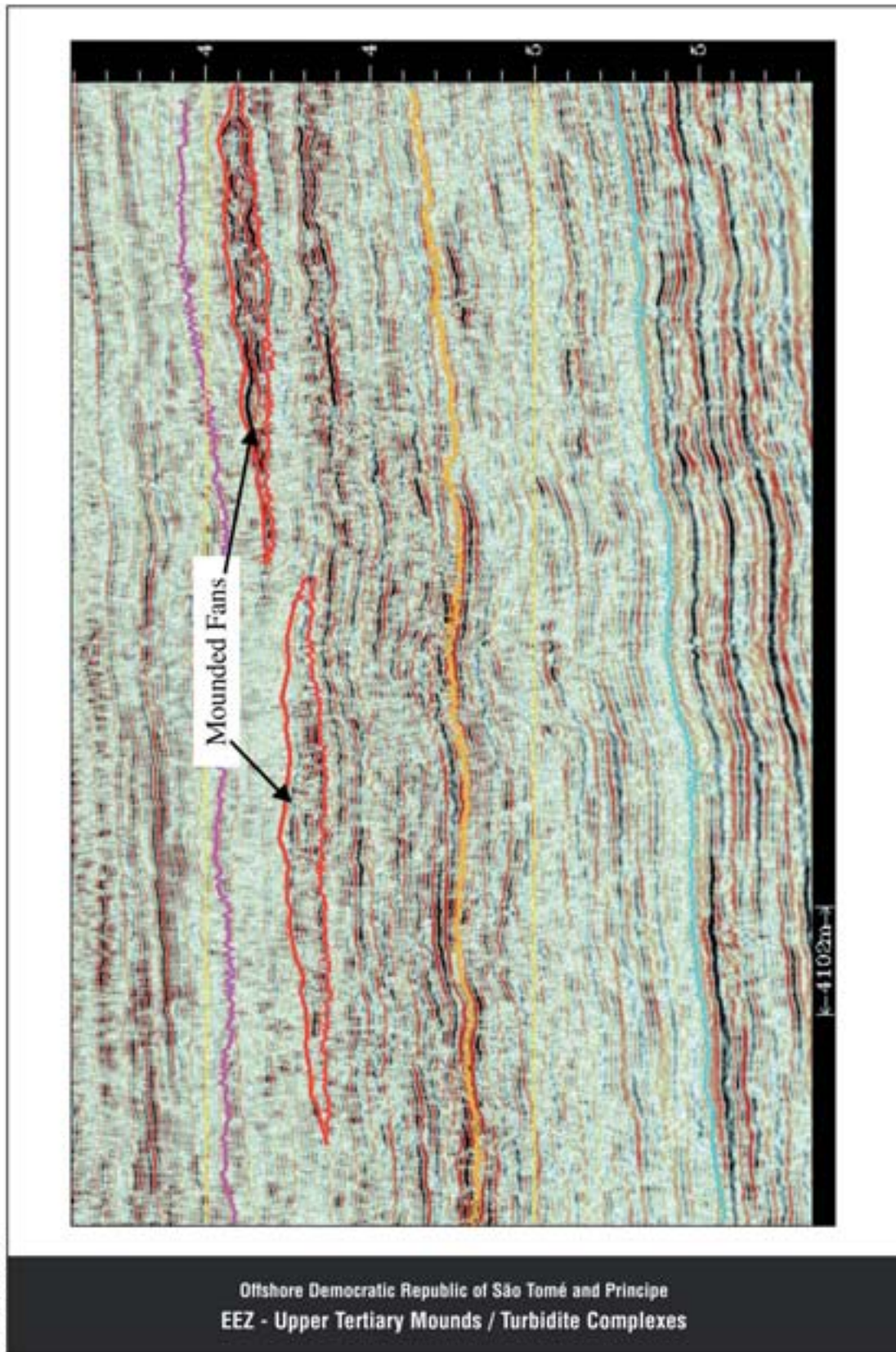


Figure 4



PART 5

ACCOUNTANTS' REPORT ON THE COMPANY



Chantrey Vellacott DFK

The Directors
Equator Exploration Limited
Craigmuir Chambers
PO Box 71
Road Town
Tortola
British Virgin Islands

3 December 2004

The Directors
Nabarro Wells & Co. Limited
Saddlers House
Gutter Lane
London
EC2V 6HS

The Directors
ODL Securities Limited
6th Floor Salisbury House
London Wall
London
EC2M 5QQ

Dear Sirs

EQUATOR EXPLORATION LIMITED (“Equator” or the “Company”)

Introduction

We report on the financial information set out below. The financial information has been prepared for inclusion in Equator’s admission document dated 3 December 2004 in connection with the proposed admission of all the issued and to be issued common shares of Equator to trading on AIM (the “Admission Document”).

Basis of preparation

The financial information set out below is based on the audited consolidated financial statements of Equator for the years ended 31 December 2001, 31 December 2002, 31 December 2003 and the period ended 31 October 2004 to which no adjustments were considered necessary.

Responsibility

Such financial statements are the responsibility of the Directors of Equator who approved their issue.

The Directors of the Company are responsible for the contents of the Admission Document dated 3 December 2004 in which this report is included.



It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Admission Document dated 3 December 2004, a true and fair view of the state of affairs of Equator as at the dates stated and of its profits and cash flows for the periods then ended.

Consent

We consent to the inclusion in the Admission Document dated 3 December 2004 of this report and accept responsibility for this report for the purposes of paragraph 45 (1) (b) (iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.



CONSOLIDATED INCOME STATEMENT

		<i>Years ended</i>		<i>10 month</i>	
	<i>Notes</i>	<i>31 December</i>		<i>period</i>	
		<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>ended</i>
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>31 October</i>
					<i>2004</i>
					<i>\$'000</i>
Revenue	2	–	254	365	431
Cost of sales		–	–	(32)	(36)
		<u>–</u>	<u>–</u>	<u>(32)</u>	<u>(36)</u>
Gross profit		–	254	333	395
Administrative expenses		(2,046)	(927)	(951)	(920)
		<u>(2,046)</u>	<u>(927)</u>	<u>(951)</u>	<u>(920)</u>
Loss from operations	3	(2,046)	(673)	(618)	(525)
Income from investments	4	24	8	–	6
		<u>24</u>	<u>8</u>	<u>–</u>	<u>6</u>
Loss before tax		(2,022)	(665)	(618)	(519)
Income tax expense		–	–	–	–
		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss for the year from continuing operations		<u>(2,022)</u>	<u>(665)</u>	<u>(618)</u>	<u>(519)</u>
Loss per share					
Basic	5	(\$0.49)	(\$0.12)	(\$0.10)	(\$0.02)
Diluted	5	(\$0.49)	(\$0.12)	(\$0.10)	(\$0.02)

All amounts relate to continuing activities.



CONSOLIDATED BALANCE SHEET

		<i>As at 31 December</i>			<i>As at</i>
	<i>Notes</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>31 October</i>
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>2004</i>
					<i>\$'000</i>
Assets					
Non-current assets					
Goodwill	6	776	776	387	1,373
Other intangible assets	7	1,200	1,200	1,700	2,000
Multi-client library	8	362	1,446	1,119	849
		<u>2,338</u>	<u>3,422</u>	<u>3,206</u>	<u>4,222</u>
Current assets					
Trade and other receivables	10	195	292	396	166
Cash and cash equivalents	10	1,122	304	67	26,125
		<u>1,317</u>	<u>596</u>	<u>463</u>	<u>26,291</u>
Total assets		<u><u>3,655</u></u>	<u><u>4,018</u></u>	<u><u>3,669</u></u>	<u><u>30,513</u></u>
Equity and liabilities					
Equity attributable to equity holders of the company					
Share capital	11	–	–	–	–
Capital reserves		5,554	6,219	6,319	33,553
Retained earnings		(2,022)	(2,687)	(3,305)	(3,824)
Total equity		<u>3,532</u>	<u>3,532</u>	<u>3,014</u>	<u>29,729</u>
Current liabilities					
Trade and other payables	14	123	486	655	784
Total equity and liabilities		<u><u>3,655</u></u>	<u><u>4,018</u></u>	<u><u>3,669</u></u>	<u><u>30,513</u></u>



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Share Capital \$'000</i>	<i>Capital reserves \$'000</i>	<i>Accumulated profits \$'000</i>	<i>Total \$'000</i>
Balance at 6 December 2000	–	–	–	–
Changes in equity for 2001				
Loss for the period	–	–	(2,022)	(2,022)
Total recognised expense for the period	–	–	(2,022)	(2,022)
Issue of share capital	–	5,554	–	5,554
Balance at 31 December 2001	–	5,554	(2,022)	3,532
Changes in equity for 2002				
Loss for the year	–	–	(665)	(665)
Total recognised expense for the year	–	–	(665)	(665)
Issue of share capital	–	650	–	650
Share based payment transactions	–	15	–	15
Balance at 31 December 2002	–	6,219	(2,687)	3,532
Changes in equity for 2003				
Loss for the year	–	–	(618)	(618)
Total recognised expense for the year	–	–	(618)	(618)
Issue of share capital	–	100	–	100
Balance at 31 December 2003	–	6,319	(3,305)	3,014
Changes in equity for 2004				
Loss for the year	–	–	(519)	(519)
Total recognised expense for the year	–	–	(519)	(519)
Issue of share capital	–	27,384	–	27,384
Cost associated with issue of share capital	–	(989)	–	(989)
Share based payment transactions	–	839	–	839
Balance at 31 October 2004	–	33,553	(3,824)	29,729



CONSOLIDATED CASH FLOW STATEMENT

	<i>Years ended</i>		<i>10 month</i>	
	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>31 December</i>	<i>31 December</i>	<i>31 October</i>	<i>31 October</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Cash flows from operating activities				
Loss from operations	(2,046)	(673)	(618)	(525)
Adjustments for:				
Amortisation of multi-client library	6	174	327	270
Negative goodwill on acquisition of further holding in joint venture	–	–	(389)	–
Impairment of goodwill	–	–	389	–
Share based payment transactions	–	15	–	–
Operating cash flows before movement in working capital	(2,040)	(484)	(291)	(255)
(Increase)/decrease in receivables	(171)	(97)	(93)	230
Increase/(decrease) in payables	123	363	47	(743)
Net cash used in operating activities	(2,088)	(218)	(337)	(768)
Cash flows from investing activities				
Interest received	24	8	–	6
Investment in multi-client library	(368)	(1,258)	–	–
Acquisition of other intangible assets	(1,200)	–	–	–
Proceeds from share issue in joint venture	1,200	–	–	–
Acquisition of investment in a joint venture/subsidiary	(2,000)	–	–	(1,198)
Net cash used in investment activities	(2,344)	(1,250)	–	(1,192)
Cash flows from financing activities				
Share capital issued	5,554	650	100	28,018
Net cash from financing activities	5,554	650	100	28,018
Net (decrease)/increase in cash and cash equivalents	1,122	(818)	(237)	26,058
Cash and cash equivalents at beginning of year	–	1,122	304	67
Cash and cash equivalents at end of year	1,122	304	67	26,125



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Presentation of financial statements

The financial statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and in accordance with the United Kingdom Statement of Recommended Practice for Accounting for Oil and Gas Exploration, Development, Production and Decommissioning (June 2001).

The financial statements are presented in US dollars since this is the currency in which the majority of the Company's transactions are denominated.

2. Summary of significant accounting policies

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

On acquisition, the identifiable assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances between group enterprises are eliminated on consolidation.

Interest in joint ventures

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity, which is subject to joint control.

Joint venture arrangements, which involve the establishment of a separate identity in which each venturer has an interest, are referred to as jointly controlled entities. The Company reports its interest in jointly-controlled entities using proportionate consolidation – the Company's share of the assets, liabilities, income and expenses of jointly-controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Where the Company transacts with its jointly-controlled entities, unrealised profits and losses are eliminated to the extent of the Company's interest in the joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Company's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary, associate or jointly-controlled entity at the date of acquisition. Goodwill is recognised as an asset and is tested for impairment annually, or on such occasions that events or changes in circumstances indicate that it might be impaired in accordance with IFRS3 'Business Combinations'.

Goodwill arising on the acquisition of an associate is included within the carrying value of the associate. Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities is presented separately in the balance sheet.



Negative goodwill arising on acquisition of a subsidiary and jointly controlled entities is set against a reassessment of the identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the consideration if applicable and then recognised in the income statement.

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

Intangible fixed assets – oil and gas interests

The Company follows the full cost method of accounting for oil and gas assets. Under this method, all expenditures relating to the acquisition, exploration, appraisal and development of oil and gas interests are capitalised in geographical cost pools. The Company has one geographical cost pool.

Costs are transferred to tangible fixed assets upon declaration of commerciality or upon cessation of exploration on each licence.

An annual assessment is made of the economic value of any interests. Any impairment is transferred to depreciable geographical pools within tangible fixed assets and amortised or, if there is no pool, is written off immediately.

Revenue recognition

Revenue derived from licensing the seismic data held within the multi-client library is recognised on an accruals basis.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Foreign currencies

Transactions in foreign currencies other than US dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the profit and loss for the period.

Investment in multi-client library

This investment represents participating interests in seismic data programmes that are licensed to customers on a non-exclusive basis. All costs directly or indirectly incurred in acquiring, processing and otherwise completing seismic surveys are capitalised into the multi-client library.

Equator's policy is to amortise the survey costs over five years from the point that the survey has been completed.

Impairment

At each balance sheet date, Equator 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 assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, Equator estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill arising on acquisition 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 an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is land or buildings at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.



Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a re-valued 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.

Trade receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables

Trade payables are stated at their nominal value.

Financial instruments

Financial assets and financial liabilities are recognised on Equator's balance sheet when the Company becomes a party to the contractual provisions of the instrument. These are valued initially at cost and if relevant are remeasured to fair value at subsequent reporting dates.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

3. Loss from operations

	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Loss from operations has been arrived at after (crediting)/charging:				
Amortisation of client library	6	174	327	270
Auditors' fees	8	8	8	8
Directors' fees	160	255	213	215
Negative goodwill on acquisition of further holding in joint venture	–	–	(389)	–
Impairment of goodwill	–	–	389	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

There were no other staff costs in the current year or preceding periods.

4. Income from investments

	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Interest on bank deposits	24	8	–	6
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>



5. Loss per share

The calculations of the basic and diluted earnings per share is based on the following data:

	2001 \$'000	2002 \$'000	2003 \$'000	2004 \$'000
Loss				
Loss for the purposes of basic earnings per share (net loss for the year)	(2,022)	(665)	(618)	(519)
Effect of dilutive potential ordinary shares	—	—	—	—
Loss for the purposes of diluted earnings per share	<u>(2,022)</u>	<u>(665)</u>	<u>(618)</u>	<u>(519)</u>
Number of shares				
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>4,156,383</u>	<u>5,692,616</u>	<u>5,838,916</u>	<u>26,308,224</u>

The options and warrants in existence at the various period end dates did not have a dilutive effect as the exercise price exceeds the fair value of the shares.

6. Goodwill

	2001 \$'000	2002 \$'000	2003 \$'000	2004 \$'000
Cost				
At 1 January	—	776	776	776
Addition	776	—	—	986
At 31 December	<u>776</u>	<u>776</u>	<u>776</u>	<u>1,762</u>
Impairment				
At 1 January	—	—	—	389
Impairment during the period	—	—	389	—
At 31 December	<u>—</u>	<u>—</u>	<u>389</u>	<u>389</u>
Carrying amount				
At period end	<u>776</u>	<u>776</u>	<u>387</u>	<u>1,373</u>

Goodwill has arisen on the acquisition of Aqua Exploration Limited (Aqua), which was acquired in three separate transactions. During 2001 Equator acquired 60 per cent of Aqua's issued shares and during 2003 Equator acquired a further 25 per cent of Aqua's issued shares. In September 2004 Equator acquired the remaining 15 per cent of Aqua's issued shares and Aqua became a wholly owned subsidiary.

Impairment reviews are carried out annually, in 2003 an impairment loss of \$389,000 was recognised in respect of goodwill arising from the acquisition of the Company's interest in Aqua in 2001.



7. Other intangible assets:

Oil and gas exploration and appraisal assets in West Africa

	2001 \$'000	2002 \$'000	2003 \$'000	2004 \$'000
Cost				
At 1 January	–	1,200	1,200	1,700
Addition due to shareholding in joint venture	1,200	–	500	300
At 31 December	<u>1,200</u>	<u>1,200</u>	<u>1,700</u>	<u>2,000</u>

8. Investment in multi-client library

	2001 \$'000	2002 \$'000	2003 \$'000	2004 \$'000
Cost				
At 1 January	–	368	1,626	1,626
Addition	368	1,258	–	–
At 31 December	<u>368</u>	<u>1,626</u>	<u>1,626</u>	<u>1,626</u>
Amortisation				
At 1 January	–	6	180	507
Charge for the period	6	174	327	270
At 31 December	<u>6</u>	<u>180</u>	<u>507</u>	<u>777</u>
Carrying amount				
At period end	<u>362</u>	<u>1,446</u>	<u>1,119</u>	<u>849</u>

The multi-client library is analysed between acquisition dates as follows:

	2001 \$'000	2002 \$'000	2003 \$'000	2004 \$'000
Seismic surveys acquired during 2001	362	288	275	153
Seismic surveys acquired during 2002	–	1,158	844	696
	<u>362</u>	<u>1,446</u>	<u>1,119</u>	<u>849</u>

9. Investment in joint venture

On 12 February 2001 Equator entered into an agreement with a third party to establish a joint venture.

On 6 April 2001 Equator acquired a 60 per cent interest in Aqua Exploration Limited (then known as Marlin Exploration Limited), a company incorporated in the Commonwealth of the Bahamas, the consideration payable was \$2,000,000.

Aqua was incorporated as a joint venture entity to purchase the rights to enter into production sharing contracts (PSCs) with the Government of São Tomé and Príncipe on two concession blocks.

Equator's 60 per cent interest in Aqua was purchased on 6 April 2001 but the respective shareholdings in Aqua were not issued until 28 September 2001.

On 29 May 2003 Equator acquired an additional 25 per cent of Aqua's issued share capital.

On 20 September 2004 Equator acquired the remaining 15 per cent of Aqua's issued share capital, and Aqua became a wholly owned subsidiary.



The following amounts are included in the group's financial statements as a result of the proportionate consolidation of Aqua up to the point Aqua became a 100 per cent subsidiary.

	<i>2001</i> \$'000	<i>2002</i> \$'000	<i>2003</i> \$'000	<i>2004</i> \$'000
Current assets	<u>24</u>	<u>24</u>	<u>34</u>	<u>–</u>
Long term asset	<u>1,200</u>	<u>1,200</u>	<u>1,700</u>	<u>–</u>
Current liabilities	<u>(115)</u>	<u>(198)</u>	<u>(473)</u>	<u>–</u>
Income	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Expenses	<u>(115)</u>	<u>(83)</u>	<u>(155)</u>	<u>(65)</u>

10. Trade and other receivables

Trade and other receivables include amounts due from the licensing of seismic data of 2004: \$56,000, 2003: \$34,000, 2002: \$25,000, 2001: \$NIL and amounts due from joint venture of 2004: \$NIL, 2003: \$207,000, 2002: \$106,000, 2001: \$76,000.

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

Cash and cash equivalents comprise cash and short-term deposits held by the group.

Credit risk is primarily attributable to its trade receivables. There have been no allowances for doubtful receivables due to Company's managements' prior experience.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies.

11. Share capital

	<i>2001</i> \$'000	<i>2002</i> \$'000	<i>2003</i> \$'000	<i>2004</i> \$'000
Authorised (amount)				
10,000,000 class 'A' shares with no par value	–	–	–	–
10,000,000 class 'B' shares with no par value	–	–	–	–
2,000,000 class 'C' shares with no par value	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Authorised (amount)				
1,000,000,000 common shares with no par value	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Authorised (number)				
Class 'A' shares with no par value	10,000	10,000	10,000	–
Class 'B' shares with no par value	10,000	10,000	10,000	–
Class 'C' shares with no par value	2,000	2,000	2,000	–
	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>–</u>
Authorised (number)				
Common shares with no par value	–	–	–	1,000,000
	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,000,000</u>



	<i>As at 31 December</i>			<i>As at</i>
	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>31 October</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>2004</i>
				<i>\$'000</i>
Issued and fully paid (amount)				
10,000,000 class 'A' shares with no par value	–	–	–	–
10,000,000 class 'B' shares with no par value	–	–	–	–
2,000,000 class 'C' shares with no par value	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Issued and fully paid (amount)				
1,000,000,000 common shares with no par value	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>
Issued and fully paid (number)				
10,000,000 class 'A' shares with no par value	1,212,500	1,212,500	1,212,500	–
10,000,000 class 'B' shares with no par value	4,128,825	4,299,885	4,399,885	–
2,000,000 class 'C' shares with no par value	309,864	309,864	309,864	–
	<u>1,212,500</u>	<u>1,212,500</u>	<u>1,212,500</u>	<u>–</u>
	<u>4,128,825</u>	<u>4,299,885</u>	<u>4,399,885</u>	<u>–</u>
	<u>309,864</u>	<u>309,864</u>	<u>309,864</u>	<u>–</u>
Issued and fully paid (number)				
1,000,000,000 common shares with no par value	–	–	–	49,393,724
	<u>–</u>	<u>–</u>	<u>–</u>	<u>49,393,724</u>

Prior to a reorganisation of the Company's share capital effective on 26 October 2004 it had three different classes of share capital. Although all classes of shares had the right to one vote per share, the different classes of shares had the following rights:

- 'A' shares entitled the holder to appoint the directors of the Company.
- 'B' shares had the same rights as 'A' shares except that holders of such shares were not entitled to appoint the directors of the Company.
- 'C' shares carried preferential rights to 50 per cent of the dividends paid up to an amount equal to the consideration paid for the 'C' shares, thereafter the rights to dividends were the same as those of 'A' and 'B' shares.

Reorganisation

On 16 September 2004 the Company exchanged 1,212,500 class 'A' shares for 1,212,500 class 'B' shares. As compensation for accepting this exchange the Company issued the holders of the 'A' shares with an additional 75,000 class 'B' shares.

On 16 September 2004 the Company exchanged 1.5 class 'B' shares for every class 'C' share resulting in the issuance of 464,796 class 'B' shares and the cancellation of the 309,864 class 'C' shares.

On 26 October 2004 all class 'B' shares were redefined as common shares and each common share was split into four Common Shares of no par value.

As at the date of this document there are 53,400,124 Common Shares in issue.

Share issues

On 6 December 2000 the Company issued 1,212,500 class 'A' shares for a subscription price of \$0.001 each.

On 6 December 2000 the Company issued 2,952,354 class 'B' shares for a subscription price of \$0.001 each.



On 5 April 2001 the Company issued 1,176,471 class 'B' shares for a subscription price of \$3.40 each.

On 30 September 2001 the Company issued 309,864 class 'C' shares for a subscription price of \$5.00 each.

On 1 June 2002 the Company issued 130,000 class 'B' shares for a subscription price of \$5.00 each.

On 24 September 2002 the Company issued 25,000 class 'B' shares to secure financing for investment in multi-client libraries. The fair value of the shares issued calculated on a net asset basis was \$9,000.

On 22 October 2002 the Company issued 6,060 class 'B' shares for nil consideration. These were issued in consideration of assistance in placement of the Company's shares, the fair value of the shares issued calculated on a net asset basis was \$2,000.

On 30 October 2002 the Company issued 10,000 class 'B' shares for nil consideration. These were issued to a third party in consideration of consultancy services provided to the Company. The fair value of the shares issued calculated on a net asset basis was \$4,000.

On 1 December 2003, the Company issued 100,000 class 'B' shares due to the exercise of a total of 100,000 share options at an exercise price of \$1 per share.

On 30 September 2004 the Company issued 6,000 class 'B' shares due to the exercise of 6,000 warrants at \$3.40 per share. These warrants were issued as part of the 28,550 warrants exercisable until 30 September 2003 at a strike price of \$3.40, with each warrant being convertible into one class 'B' share. On 12 October 2003 the Company extended the expiration date until 30 September 2004. All the remaining warrants lapsed.

On 8 October 2004 the Company issued 2,867,750 class 'B' units at a subscription price of \$4.00 per unit. A unit consists of one class 'B' share and a warrant that is convertible to one class 'B' share at a strike price of \$5.25 per share.

On 12 October 2004 the Company issued 137,500 class 'B' units as a commission on the 2,867,750 class 'B' units that were issued on 8 October 2004.

On 19 October 2004 the Company issued 20,000 class 'B' shares due to the exercise of 20,000 share options at \$3.40 per share.

On 22 October 2004 the Company issued 3,165,000 class 'B' shares at a subscription price of \$5.00 per share.

On 1 November 2004 the Company issued 406,400 Common Shares as a commission on the 3,165,000 class 'B' shares that were issued on 22 October 2004.

On 4 November 2004 the Company issued 3,600,000 Common Shares due to the exercise of 3,600,000 share options at \$0.25 per share.

Warrant & option issues

On 30 September 2001 the Company issued 28,550 warrants exercisable until 30 September 2003 at a strike price of \$3.40 per share, with each warrant being convertible into one class 'B' share. On 12 October 2003 the Company extended the expiration date until 30 September 2004.

On 18 September 2002 the Company issued 12,000 warrants exercisable until 17 September 2004 at a strike price of \$5.00 per share, with each warrant being convertible into one class 'B' share.

As at 31 October 2004 there were 12,021,000 warrants outstanding that are exercisable until three years from date of issuance at a strike price of \$1.3125 per share, with each warrant being convertible into one Common Share. There were no other warrants outstanding at 31 October 2004. The fair value of the outstanding warrants was \$0.57 per share and they therefore have no intrinsic value. The fair value has been calculated on a net asset basis.



As at 31 October 2004 there were 600,000 options outstanding that are exercisable until 21 August 2008 at a strike price of \$1.25 per share, with each option convertible into one Common Share.

On Admission, the Company will grant to NWCF LLP 1,134,000 assignable Options to subscribe for new Common Shares at the Placing Price, exercisable at any time up to five years from Admission.

On Admission, the Company will grant to ODL Securities 2,400,000 assignable Options to subscribe for new Common Shares at the Placing Price, exercisable at any time up to three years from Admission.

12. Share-based payment

During the period the Company has operated two share option plans as follows:

Share option scheme one

	<i>2001</i> <i>Number</i> <i>of options</i>	<i>2002</i> <i>Number</i> <i>of options</i>	<i>2003</i> <i>Number</i> <i>of options</i>	<i>2004</i> <i>Number</i> <i>of options</i>
Outstanding at start of period	–	1,020,000	1,020,000	920,000
Granted during period	1,020,000	–	–	–
Split of shares on a four to one basis	–	–	–	2,700,000
Exercised during the period	–	–	(100,000)	(20,000)
Outstanding at end of period	<u>1,020,000</u>	<u>1,020,000</u>	<u>920,000</u>	<u>3,600,000</u>

1,000,000 of the options outstanding at 31 December 2002 had an exercise price of \$1.00 per share and are exercisable until 28 February 2006. The balance of 20,000 options had an exercise price of \$3.40 per share and are exercisable until 1 July 2006.

900,000 of the options outstanding at 31 December 2003 had an exercise price of \$1.00 per share and are exercisable until 28 February 2006. The balance of 20,000 options had an exercise price of \$3.40 per share and are exercisable until 1 July 2006.

The options outstanding at 31 October 2004 had an exercise price of \$0.25 per share and were exercised on 4 November 2004.

Share option scheme two

	<i>2001</i> <i>Number</i> <i>of options</i>	<i>2002</i> <i>Number</i> <i>of options</i>	<i>2003</i> <i>Number</i> <i>of options</i>	<i>2004</i> <i>Number</i> <i>of options</i>
Outstanding at start of period	–	–	–	150,000
Granted during period	–	–	150,000	–
Split of shares on a four to one basis	–	–	–	450,000
Exercised during the period	–	–	–	–
Outstanding at end of period	<u>–</u>	<u>–</u>	<u>150,000</u>	<u>600,000</u>

The options granted under scheme two were granted on 22 August 2003 with an exercise price of \$5.00 per share, on the event of the split of shares on a four to one basis the exercise price was reduced to \$1.25 per share. The options are exercisable until 21 August 2008, with each option convertible into one Common Share.

The fair value of the options on the date of issue calculated on a net asset basis was 2003: \$0.06, 2001: \$0.25.



13. Share based transactions

During 2002 Equator issued 41,060 class 'B' shares for nil consideration as payment for the provision of services by individuals and companies. The directors believe that due to the lack of history of the Company, the appropriate valuation model was to value the share options on a net asset basis for fair value purpose. The total charge to the income statement account for the period is \$15,000.

During 2004 Equator issued shares for nil consideration for services received and additional 'B' shares for compensation for the loss of rights attached to 'A' and 'C' shares. The fair value of each share has been calculated at \$2.28 per share.

The total calculated cost of the issue of the shares was \$839,000. This has not affected the income statement as the cost has been taken to the capital reserve as an expense of the issue.

14. Trade and other payables

Included within trade and other payables is 2004: \$NIL, 2003: \$NIL, 2002: \$271,000, 2001: \$NIL due to related parties. Other payables principally comprise amounts outstanding for ongoing costs and cash consideration received in advance of exercise of options.

The directors consider that the carrying amount is approximate to their fair value.

15. Related party transactions

Trading transactions

During the period Equator entered into the following transactions with related parties.

	<i>Amounts due from related parties</i>			
	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Aqua	<u>76</u>	<u>106</u>	<u>207</u>	<u>–</u>

Amounts owed by Aqua represent Equator's share of that company's costs during the period.

In addition to the above, payments were made in respect of administrative services through other companies that are related to the directors of the company, for which fees of 2004: \$132,000, 2003: \$74,000, 2002: \$107,000, 2001: \$92,000 were charged, being an appropriate allocation of costs incurred by relevant administrative departments.

	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Seisco Investments Limited	<u>–</u>	<u>271</u>	<u>–</u>	<u>–</u>

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



16. Directors' and executive remuneration

Remuneration paid to directors during the period was as follows:

	2001 \$'000	2002 \$'000	2003 \$'000	2004 \$'000
Directors' fees	<u>160</u>	<u>255</u>	<u>213</u>	<u>215</u>

The remuneration of directors and key executives is decided by the remuneration committee having regard to comparable market statistics.

17. Contingent liabilities

Seisco Investments Limited

In the event that no future seismic revenues can be expected from the majority owner (the "Majority Owner") of a designated batch of seismic data acquired in 2002, the acquisition cost of which was funded by Seisco, referred to in note 15 above as a result of the Majority Owner of such data entering into liquidation proceedings Equator will issue Seisco with a maximum of 200,000 Common Shares. The number of common shares to be issued to Seisco in the event of the cessation of seismic revenues due to the liquidation of the Majority Owner will be dependant upon the extent to which the funds provided by Seisco have been repaid prior to the cessation of seismic revenues as shown below:

<i>Amount of initial investment repaid</i>	<i>Number of Equator shares to be issued</i>
Less than initial funds provided	50,000
Greater than initial funds provided but less than 1.5 times initial funds provided	25,000
Greater than 1.5 times initial funds provided	12,500

As at 31 October 2004, Equator had paid Seisco amounts in excess of the initial funds provided but less than 1.5 times that sum.

Shareholders

On admission to the Alternative Investment Market the Company is to distribute \$310,000 to the old class 'C' shareholders in compensation for the loss of the additional rights that were attached to the class 'C' shares.

18. Acquisition of joint venture

On 6 April 2001 Equator acquired a 60 per cent interest in Aqua for cash consideration of \$2,000,000 although the shares in Aqua were not issued until 28 September 2001.

On 29 May 2003 Equator acquired a further 25 per cent of the issued share capital of Aqua for cash consideration of \$1.

On 20 September 2004 Equator acquired the remaining 15 per cent of the issued share capital of Aqua for cash consideration of \$1,198,000.



The assets acquired were as follows:

	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Fixed assets	1,200	–	500	300
Other receivables	24	–	10	–
Other payables	–	–	(123)	(88)
	<u>1,224</u>	<u>–</u>	<u>387</u>	<u>212</u>
Goodwill/(negative goodwill)	776	–	(387)	986
	<u>2,000</u>	<u>–</u>	<u>–</u>	<u>1,198</u>

19. Subsequent events

On 1 November 2004, Equator issued 406,400 Common Shares as commission on the 3,165,000 'B' shares issued on 22 October 2004, fully paid for nil consideration.

On 4 November 2004, 3,600,000 Common Shares were issued on the exercise of options for cash consideration of \$0.25 per share.



PART 6

ADDITIONAL INFORMATION

1. Incorporation

The Company was incorporated on 6 December 2000 in the British Virgin Islands under the International Business Companies Act 2000 with registration number 420125 under the name Equator Exploration Limited.

The Company's registered office is at Craigmuir Chambers, PO Box 71, Road Town, Tortola, British Virgin Islands.

The Company's correspondence address in the United Kingdom is Suite 194, 35-37 Grosvenor Gardens, London SW1W 0BS.

The liability of the members of the Company is limited.

2. Subsidiary undertakings

The Company has one wholly-owned subsidiary, Aqua Exploration Limited, a company incorporated in the Commonwealth of the Bahamas on 2 March 2001 under the Companies Act 1992 and was continued (re-incorporated) on 28 September 2001 under the International Business Companies Act 2000 of the Bahamas. The current directors of Aqua are Michael Beck and Wade Cherwayko. The registered office of Aqua is at Lyford Manor, West Bay Street P.O. Box N-7776, Nassau, Bahamas.

3. Share Capital

3.1 The Company is authorised to issue up to 1,000,000,000 Common Shares.

3.2 On incorporation, the Memorandum of Association stated that the Company was authorised to issue 20,000,000 shares divided into two classes and one series as follows:

- 10,000,000 class 'A' shares with no par value
- 10,000,000 class 'B' shares with no par value

On 30 August 2001, the Memorandum was amended so that the Company was authorised to issue 22,000,000 shares divided into three classes and one series as follows:

- 10,000,000 class 'A' shares with no par value
- 10,000,000 class 'B' shares with no par value
- 2,000,000 class 'C' shares with no par value

On 26 October 2004, the Memorandum was amended so that the Company was authorised to issue 1,000,000,000 shares of one class and one series of no par value.

3.3 The issued share capital (in every case the shares being fully paid) at the date of this document is 53,400,124 Common Shares.

3.4 Immediately following the Placing and Admission the issued share capital of the Company will be 113,400,124 Common Shares.

3.5 Immediately following the Placing and Admission, there will be 19,515,000 Warrants and Options outstanding to subscribe for Common Shares, see paragraph 5 of this Part 6.

4. Memorandum and Articles of Association

4.1 *The Memorandum of Association*

The Memorandum of Association of the Company provides, *inter alia*, that:

- (i) the registered office of the Company is at Craigmuir Chambers, PO Box 71, Road Town, Tortola, British Virgin Islands;
- (ii) the main object of the Company is to engage in any act or activity that is not prohibited under any law for the time being in force in the British Virgin Islands;
- (iii) the shares in the Company shall be issued in the currency of the United States of America;
- (iv) the Company shall have no authorised capital;
- (v) the Company is authorised to issue 1,000,000,000 shares of one class and one series of no par value; and



- (vi) the Company may amend its Memorandum of Association and the Articles of Association by a resolution of members.

4.2 *The Articles of Association*

The Articles of Association of the Company contain, *inter alia*, provisions to the following effect:

4.2.1 *Voting*

Subject to any special terms as to voting on which any shares may have been issued or may from time to time be held, at a meeting of the members every member who is present in person or by proxy (including any corporation present by its duly authorised representative) shall have one vote for each share of which he is a holder. In the case of joint holders, the vote of the senior who tenders a vote, whether in person, by proxy or duly authorised representative, shall be accepted to the exclusion of the votes of the other joint holders.

4.2.2 *Dividends*

All shares have the same rights with regard to dividends. Subject to the provisions of the BVI Companies Act and of the Articles, the Company may by resolution of Directors declare dividends to be paid to members in money, shares, or other property, but dividends shall only be declared and paid out of surplus.

Subject to the provision of the BVI Companies Act, the Board may declare and pay such interim dividends as appears to the Board to be justified by the profits of the Company available for distribution.

All dividends unclaimed for a period of three years after having been declared shall (if the Board so resolves) be forfeited by resolution of the Directors for the benefit of the Company.

4.2.3 *Transfer of shares*

Every member may transfer all or any of his shares by instrument of transfer in writing in any usual form or in any form approved by the Board. Such instrument must be signed by or on behalf of the transferor containing the name and address of the transferee. The transferor is deemed to remain the holder until the transferee's name is entered in the register of members.

The Board may refuse to register any transfer of a share or renunciation of a renounceable letter of allotment unless:

- (a) it is in respect of only one class of shares;
- (b) it is in favour of not more than four joint transferees;
- (c) it is duly stamped (if so required); and
- (d) it is delivered for registration to the registered office for the time being of the Company or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person (as defined in the Articles) where a certificate has not been issued or in the case of a renunciation) by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing and the due execution of the transfer or renunciation by him or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so.

4.2.4 *Redemption, purchase or acquisition*

Shares may be subject to redemption, purchase or acquisition by the Company at a price lower than the fair value if permitted by the Memorandum and Articles or by written agreement.

4.2.5 *Borrowing powers*

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking and property or any part thereof to issue debentures, debenture stock and other securities, whether money is borrowed or as security for any debt, liability or obligation of the Company or of any third party.

4.2.6 *Changes in capital*

Subject to the provisions of the BVI Companies Act, the Company may by resolution of members from time to time increase its share capital, consolidate, combine all or any of its share capital into shares of a larger amount and divide all or any of its share capital into shares of smaller amount. The Company may also, subject to the provisions of the BVI Companies Act and to any rights for the time



being attached to any shares, purchase, redeem or otherwise acquire its own shares and reduce its issued share capital in any way.

4.2.7 *Issue of shares*

Subject to the BVI Companies Act the unissued shares at the date of adoption of the Articles and any shares created thereafter shall be at the disposal of the Board.

4.2.8 *Remuneration of directors*

Each of the Directors shall be paid a fee at such rate as may from time to time be determined by the Board provided that the aggregate for such fees paid to the Directors (excluding amounts payable under any other Article and any amount payable under any service contract) shall not exceed \$425,000 per annum, or such higher amount as may from time to time be determined by resolution of members.

Each Director may be paid his reasonable travelling, hotel and incidental expenses of attending and returning from meetings of the Board or committees of the Board or meetings of members or separate meetings of the holders or any part or series of shares or of debentures of the Company and shall be paid all expenses properly and reasonably incurred by him in the conduct of the Company's business or in the discharge of his duties as a Director. Any Director who, by request, goes or resides abroad for any purpose of the Company or whose performance of services, in the opinion of the Board goes beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine.

4.2.9 *Directors' interests in contracts*

No agreement or transaction between the Company and one or more directors or any persons in which any Director has a financial interest or to whom any Director is related, including as a director of that other person, is void or voidable for this reason only or by reason only that the Director is present at the meeting of Directors or at the meeting of the committee of Directors approving the agreement or transaction or that the vote or consent of the Director is counted for the purpose if the material facts of the interest of each Director in the agreement or transaction and its interest in or relationship to any other party to the agreement or transaction are disclosed in good faith or are known by the other Directors.

A Director who has an interest in any particular business to be considered at a meeting of Directors or members may be counted for the purposes of determining whether the meeting is duly constituted.

4.2.10 *Number of directors*

The minimum number of Directors shall be two and the maximum number shall be seven.

4.2.11 *Directors' appointment and retirement by rotation*

Without prejudice to the power of a meeting of members to appoint any person to be a Director, the Board shall have power at any time and from time to time to appoint any person to be a Director, either to fill a vacancy or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the earlier to occur of the close of the next following annual meeting of members and someone being appointed in his stead at that meeting. Such a Director shall be eligible for re-election at that meeting but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting.

At every annual meeting of members one third of the Directors for the time being, if their number is not a multiple of 3, then the number nearest to and not exceeding one third, shall retire from office.

The Directors to retire on each occasion shall be those subject to retirement by rotation who have been longest in office since their last election, but as between persons who became or who were re-elected Directors on the same day those to retire shall (unless they otherwise agree amongst themselves) be determined by lot. The Directors to retire on each occasion both as to number and identity shall be determined by the composition of the Board at the date of the notice convening the annual meeting of members, and no Director shall be required to retire or be relieved from retiring by reason of any change of the number or identity of the Directors after the date of such notice but before the close of the meeting.

A Director who retires at the annual meeting of members shall be eligible for re-election. If he is not re-elected he shall retain office until the meeting appoints someone in his place, or if it does not do so, until the end of the meeting.



Subject to the provisions of the Articles, the Company may, by a resolution of members, have a meeting at which a Director retires and may fill the vacated office by electing a person and in default the retiring Director shall, if willing to act, be deemed to have been re-elected, unless at such meeting it is expressly resolved not to fill such vacated office or unless a resolution for the re-election of such Director shall have been put to the meeting and lost.

4.2.12 *Untraced Shareholders*

When the registered address of a member appears to be incorrect or out of date such member may, if the Board so resolves, be treated as if he had no registered address and thereafter the Company is not obliged to send cheques, warrants, notices or accounts to that member. No such resolution shall be proposed unless cheques or warrants sent to the registered address of such member have been returned by the Post Office or left uncashed on at least two consecutive occasions or, following one such occasion, reasonable enquiries have failed to establish any new address of such member.

If for a period of 12 years at least three dividends have become payable and not been cashed and no communication has been received from the member (or any person entitled to the member's shares by transmission), the Company may sell such shares or stock at the best reasonably obtainable price if, after giving notice in a leading national newspaper and a newspaper circulating in the region of the member's registered address, it has not had any communication from the member (or anyone entitled to his shares by transmission) within three months.

4.2.13 *CREST*

The Articles are consistent with membership of CREST and allow for the holding and transfer of shares in uncertificated form.

- 4.3 The Directors will, as soon as practicable and in any event within three months of Admission, propose a resolution to amend the Articles so as to include provisions to the following effect:

4.3.1 *City code*

Except with the consent of the Board, when:

- (a) any person acquires, whether by a series of transactions over a period of time or not, shares which (taken together with shares held or acquired by persons acting in concert with him) carry 30 per cent or more of the voting rights of the Company; or
- (b) any person who, together with persons acting in concert with him, holds not less than 30 per cent but not more than 50 per cent of the voting rights and such person, or any person acting in concert with him, acquires additional shares which increase his percentage of the voting rights;

such person ("the offeror") shall extend an offer, on the basis set out in the Articles and summarised below, to the holders of all the issued shares in the Company.

Any such offer must be conditional only upon the offeror having received acceptances in respect of shares which, together with shares acquired or agreed to be acquired before or during the offer, will result in the offeror and any person acting in concert with it holding shares carrying more than 50 per cent of the voting rights.

No acquisition of shares which would give rise to a requirement for any offer under the Articles may be made or registered if the making or implementation of such offer would or might be dependent on the passing of a resolution at any meeting of shareholders of the Company or upon any other conditions, consents or arrangements.

Any such offers must, in respect of each class of share capital involved, be in cash or be accompanied by a cash alternative at not less than the highest price paid by the offeror or any person acting in concert with it for shares of that class during the offer period and within 12 months prior to its commencement. The cash offer or the cash alternative must remain open after the offer has become or is declared unconditional as to acceptances for not less than 14 days after the date on which it would otherwise have expired.

Any offer required to be made pursuant to the Articles shall be made on terms that would be required by the then current United Kingdom City Code on Takeovers and Mergers ("the City Code"), save to the extent that the Board otherwise determines. In relation to any such offer, any matter which under the City Code would fall to be determined by the Panel shall be determined by the Board in its absolute discretion or by such person appointed by the Board to make such determination.

Except with the consent of the Board, members shall comply with the requirements of the City Code and the Rules Governing Substantial Acquisitions of Shares ("the SARS"), as may from time to time



be published by the United Kingdom Panel on Takeovers and Mergers, in relation to any dealings in any shares of the Company and in relation to their dealings with the Company in relation to all matters. Any matter which under the City Code or the SARS would fall to be determined by the Panel shall be determined by the Board in its absolute discretion or by such person appointed by the board to make such determination. Any notice which under the City Code or the SARS is required to be given to the Panel or any person (other than the Company) shall be given to the Company at the office.

If at any time the Board is satisfied that any member having incurred an obligation under the Articles to extend an offer to the holders of all the issued shares in the Company shall have failed so to do, or that any member is in default of any other obligation imposed upon members pursuant to the relevant Article, then the Board may, in its absolute discretion at any time thereafter by notice (a “direction notice”) to such member and any other member acting in concert with such member (together “the defaulters”) direct that:

- (a) in respect of the shares held by the defaulters (the “default shares”) the defaulters shall not be entitled to vote at a general meeting either personally or by proxy or to exercise any other right conferred by membership in relation to meetings of the Company;
- (b) except in a liquidation of the Company, no payment shall be made of any sums due from the Company on the default shares, whether in respect of capital or dividend or otherwise, and the Company shall not meet any liability to pay interest on any such payment when it is finally paid to the member;
- (c) no other distribution shall be made on the default shares.

The Board may at any time give notice cancelling a direction notice.

5. Share Option Scheme and Other Options and Warrants

5.1 The Company has established a Share Option Scheme whereby the Directors may from time to time at their discretion grant to the Directors and employees of the Group options to subscribe for shares. The rules of the scheme specify that:

- the subscription price of such options shall not be less than the applicable market value of the shares at the date of grant of the relevant option;
- the number of shares over which options may be granted is limited to 10 per cent of the total shares then in issue; and
- an option is not exercisable until after the second anniversary of the date on which it is granted (vesting pro rata on a monthly basis during that period) and expires on the tenth anniversary of the grant date.

The total number of Options granted under the Share Option Scheme at present is 3,360,000 of which 1,200,000 of such options were granted to Michael Beck, a director of Aqua.

5.2 In addition to Options granted under the Share Option Scheme, there are outstanding the following Options and Warrants over Common Shares in the Company:

5.2.1 Options in favour of each of James Ladner, Guy Elliott and James Taylor as follows:

- over up to 200,000 new Common Shares each
- expiry date 21 August 2008
- an exercise price of \$1.25 per share

5.2.2 Warrants over a total of 12,021,000 Common Shares. These Warrants were issued as part of the subscriptions for shares on 8 October 2004 (or were issued in lieu in commission in relation thereto) and are exercisable at \$1.3125 per share, with an expiry date three years from date of issuance. One of the warrant holders is Sir Sam Jonah, the Chairman and a non-executive Director of the Company (over 250,000 Common Shares).

5.2.3 On Admission, the Company will grant to NWCF LLP 1,134,000 assignable Options to subscribe for new Common Shares at the Placing Price, exercisable at any time up to five years from Admission.

5.2.4 On Admission, the Company will grant to ODL Securities 2,400,000 assignable Options to subscribe for new Common Shares at the Placing Price, exercisable at any time up to three years from Admission.



6. Directors' and other interests

- 6.1 The interests of the Directors (all of which are beneficial unless otherwise stated) and (so far as is known to the Directors or could with reasonable diligence be ascertained by them) persons connected with the Directors within the meaning of section 346 of the Act (a "connected person") in the issued share capital of the Company as at 2 December 2004, being the latest practicable date prior to the publication of this document and which, if the Company were subject to the Act, would be required to be notified to the Company pursuant to sections 324 and 328 of the Act or shown in the register maintained under section 325 of the Act (but excluding any options over Common Shares), will be as follows:

<i>Director</i>	<i>No. of Common Shares held</i>	<i>Per cent of issued share capital</i>	<i>Warrants</i>	<i>Options</i>
Wade Cherwayko	3,300,000	2.9%	0	1,600,000 ⁽³⁾
Sir Sam Jonah	426,472*	0.4%	250,000 ⁽¹⁾	400,000 ⁽³⁾
James Ladner	548,000	0.5%	0	80,000 ⁽³⁾
				200,000 ⁽²⁾
Alexander Dembitz	0	0%	0	80,000 ⁽³⁾

* 176,472 of these Common Shares are held in the name of Pictet and Cie, a connected person for the purposes of section 346 of the Companies Act.

Notes:

- (1) exercisable at \$1.3125 per share, expiry date: three years from date of issuance (see paragraph 5.2.2 of Part 6)
- (2) exercisable at \$1.25 per share, expiry date: 21 August 2008 (see paragraph 5.2.1 of Part 6)
- (3) granted under the Share Option Scheme (see paragraph 5.1 of Part 6)

- 6.2 Following the Placing (and subject to the exercise of the rights referred to in paragraph 10.6 of Part 6), it is believed that the following persons will be interested in 3 per cent or more of the Common Share capital of the Company:

<i>Name</i>	<i>No. of Common Shares held</i>	<i>Per cent of issued share capital</i>
Everest Capital Limited	19,485,000	17.2%
Millennium Partners, LP	6,000,000	5.3%

Save as disclosed in this paragraph 6.2, and in so far as the Company has the information the Directors are not aware of any person or persons who, either alone or, if connected, jointly following the completion of the Placing will (directly or indirectly) exercise or could exercise control over the Company.

7. Additional information on the Directors

- 7.1 Other than a directorship of the Company and its subsidiaries, the directorships and partnerships of the Directors currently held and directorships and partnerships held by them over the five years preceding the date of this document are as follows:

<i>Director</i>	<i>Current directorships</i>	<i>Past directorships</i>
Wade Cherwayko	Seisco Investments Limited Mart Resources Inc. Rytan Management Inc.	None
Sir Sam Jonah	AngloGold Ashanti Limited African Minerals Ltd Anglo American Corporation of South Africa Anglo American Platinum Corporation Ltd Transnet Ltd	Ashanti Goldfields Company Limited Lonmin plc Sierra Rutile Limited Sierra Minerals Holdings 1, Ltd. Defiance Mining Corporation Ghana Airways First Atlantic Bank Metropolitan Insurance Company Ecobank Transnational Incorporated African Banking Corporation Ltd. New Africa Investments Limited



<i>Director</i>	<i>Current directorships</i>	<i>Past directorships</i>
James Ladner	Ahold Payment Services AG Alpine Atlantic Asset Management AG Baltensperger & Partner AG Colombia Gold AG F. van Lanschot Bankiers (Switzerland) Ltd StrataGold Corporation USI AG VERIT Verwaltungs-und Immobilien-Gesellschaft	Bank Austria Creditanstalt (Schweiz AG) Energy Capital Investment Company plc HandelsBank NatWest (Overseas) Ltd InterAllianz Bank AG InterAllianz Finanz AG The Royal Bank of Scotland AG RP & C International Inc. Swiss Corporate Capital at Lloyd's Ltd
Alexander Dembitz	BIL Invest Kft. Hermes SoftLab d.d. IDOM Soft Rt Everest Capital S.A. Bitz & Pieces S.A. Paper & More Kft. CC S.A. Labatec Pharma S.A. Hygis S.A.	Fathom Technologies a.s.

7.2. As at the date of this document none of the Directors has, or has been involved in:

- (a) any unspent convictions in relation to indictable offences;
- (b) any bankruptcies or individual voluntary arrangements of such Director;
- (c) any receiverships, compulsory liquidations, creditors voluntary liquidations, administrations, company voluntary arrangements or any composition or arrangement with its creditors generally or any class of its creditors of any company where such Director was a director at the time of or within the twelve months preceding such events;
- (d) any compulsory liquidations, administrations or partnership voluntary arrangements of any partnerships where such Director was a partner at the time of or within the twelve months preceding such events;
- (e) receiverships of any asset of such Director of a partnership of which the Director was a partner at the time or within the twelve months preceding such events; or
- (f) any public criticisms of such Director by statutory or regulatory authorities (including recognised professional bodies), and whether such Director has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

8. Directors' Service Contracts and Emoluments

8.1 The following agreements have been entered into by the Directors and the Company:

- (a) Mr. Cherwayko entered into a service agreement with the Company on 23 November 2004. The principal terms of which are that his employment under this service agreement commenced on 23 November 2004, he is entitled to a salary of \$200,000 per annum and his service agreement is terminable on three months' notice either way. Mr. Cherwayko has been granted options over 1,600,000 Common Shares pursuant to the Share Option Scheme.
- (b) Sir Sam Jonah entered into an agreement with the Company on 23 November 2004 relating to his appointment as a non-executive director, his appointment commencing on 23 November 2004. The appointment is for an initial term of two years which may be renewed by agreement and it is currently anticipated that he will commit one day per month. Sir Jonah is entitled to a fee of \$30,000 per annum. The appointment is terminable on three months' notice either way. Sir Jonah has been granted options over 400,000 Common Shares pursuant to the Share Option Scheme.
- (c) Mr. Ladner entered into an agreement with the Company on 23 November 2004 relating to his appointment as a non-executive director, his re-appointment commencing on 23 November 2004. The appointment is for an initial term of two years which may be renewed by agreement and it is currently anticipated that he will commit one day per month. Mr. Ladner is entitled to a fee of \$25,000 per annum. The appointment is terminable on three months' notice either way. Mr. Ladner has been granted options over 80,000 Common Shares pursuant to the Share Option Scheme.
- (d) Mr. Dembitz entered into an agreement with the Company on 23 November 2004 relating to his appointment as a non-executive director, his appointment commencing on 23 November 2004. The appointment is for an initial term of two years which may be renewed by agreement and it is currently



anticipated that he will commit one day per month. Mr. Dembitz is entitled to a fee of \$25,000 per annum. The appointment is terminable on three months' notice either way. Mr. Dembitz has been granted options over 80,000 Common Shares pursuant to the Share Option Scheme.

- 8.2 Save as set out above, there are no service agreements, or contracts in the nature of services, between any Director and the Company or any company within the Group, which do not expire or cannot be terminated without payment of compensation on no more than twelve months notice and no such contracts are proposed.
- 8.3 Save as set out in this document, there are no existing or proposed agreements between any of the Directors and the Company.
- 8.4 The aggregate remuneration paid and benefits in kind granted to the Directors in the financial year ended 31 December 2003 amounted to \$250,000.
- 8.5 The aggregate remuneration payable and benefits in kind to be granted to the Directors under the arrangements in force at the date of this document for the financial year ending 31 December 2004 are not expected to exceed \$300,000.

9. United Kingdom Taxation

The following paragraphs are a general statement about the tax position of Shareholders who are resident or ordinarily resident in the United Kingdom in relation to the payment of dividends, capital gains tax, stamp duty and stamp duty reserve tax. The statements below are intended to apply only as a general guide and do not constitute advice to any Shareholder on his or her personal tax position and may not apply to certain classes of investor (such as persons carrying on a share dealing trade in the United Kingdom or United Kingdom insurance companies). Any investors who are in doubt as to their tax position, or who may be subject to tax in a jurisdiction other than the United Kingdom, should consult his or her professional adviser.

9.1 Taxation of Chargeable Gains

For the purpose of UK tax on chargeable gains, the issue of Common Shares pursuant to the Placing will be regarded as an acquisition of a new holding in the share capital of the Company.

To the extent that a Shareholder acquires Common Shares allotted to him, the Common Shares so allotted will, for the purpose of tax on chargeable gains, be treated as acquired on the date of allotment.

The amount paid for the Common Shares will constitute the base cost of a Shareholder's holding. The amount paid for the Common Shares subscribed for will be eligible for taper relief allowance for an individual.

If Shareholders dispose of all or some of their Common Shares, a liability to tax on chargeable gains may, depending on the circumstances, arise.

A disposal of all or any of the Common Shares acquired pursuant to the Placing may, depending on the individual circumstances of the relevant shareholder give rise to a liability to UK taxation of chargeable gains. Shareholders will normally be subject to UK taxation of chargeable gains, unless such holders are neither resident nor ordinarily resident in the UK. Taper Relief will reduce the amount of chargeable gain on a disposal by an individual shareholder. The extent to which it applies will depend on the length of time the shares have been held since 6 April 1998 and on whether the shares held are business or non-business assets.

9.2 Taxation of Dividends

Under current United Kingdom legislation, no tax is required to be withheld from dividend payments by the Company. Shareholders (other than a company) receiving a dividend from the Company also receive a tax credit in respect of the dividend of an amount equal to one ninth of the amount of the dividend which is 10 per cent of the sum of the dividend and the tax credit. Generally, the liability to United Kingdom income tax is calculated on the sum of the dividend and the tax credit ("the dividend income"). Individual Shareholders whose income is within the starting rate or basic rate tax bands will be subject to income tax at the rate of 10 per cent on their dividend income, so that such Shareholders will have no further liability to income tax on that dividend income. The higher rate of income tax is 32.5 per cent in respect of dividend income. A higher rate tax payer may set the tax credit against his liability to income tax on the dividend income and will have further tax to pay of 22.5 per cent of the dividend income. Shareholders who are not liable to income tax on the dividend income (or any part of it) may not claim payment of the tax credit (or part of it) from the Inland Revenue.



United Kingdom resident corporate Shareholders are not normally liable to United Kingdom taxation on any dividend received. United Kingdom resident Shareholders (including authorised unit trusts and open-ended investment companies) and pension funds are not entitled to payment in cash of the tax credit.

Whether Shareholders who are resident for tax purposes in countries other than the United Kingdom are entitled to a payment from the Inland Revenue of a proportion of the tax credit in respect of dividends on their Common Shares depends in general upon the provisions of any double taxation convention or agreement which exists between such countries and the United Kingdom. In addition, individual Shareholders who are resident in countries other than the United Kingdom but who are Commonwealth citizens, nationals of member states of the European Economic Area or fall within certain other categories of person within Section 278 of the Income and Corporation Taxes Act 1988 are entitled to the entire tax credit which they may set against their total United Kingdom income tax liability or, in appropriate cases, reclaim in cash. Non-United Kingdom resident Shareholders should consult their own tax advisers on the possible application of such provisions and the procedure for claiming any relief or credit in respect of such tax credit in their own jurisdictions. However, in general, no cash payment will be recoverable from the Inland Revenue in respect of the tax credit.

9.3 **Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)**

No stamp duty or SDRT will be payable on the issue of shares save that special rules apply to persons operating clearance services or depository receipt services.

A transfer or sale of shares will generally be subject to ad valorem stamp duty at the rate of 0.5 per cent rounded up to the nearest multiple of £5 on the amount or value of the consideration paid by the purchaser. If an unconditional agreement for the transfer of such shares is not completed by a duly stamped transfer to the transferee by the seventh day of the month following the month in which the agreement becomes unconditional, SDRT will be payable on the agreement at the rate of 0.5 per cent of the amount or value of consideration paid. Liability to SDRT is generally that of the transferee. Where a purchase or transfer is effected through a member of the London Stock Exchange or a qualified dealer, the said member or dealer will normally account for the SDRT.

When shares are transferred to a CREST member who holds those shares in uncertificated form as a nominee for the transferor, no stamp duty or SDRT will generally be payable.

When shares are transferred by a CREST member to the beneficial owner (on whose behalf it has held them as nominee), no stamp duty or SDRT will generally be payable.

Where a change in beneficial ownership of shares held in uncertificated form occurs and such change is for consideration in money or money's worth (whether the transferee will hold those shares in certificated or uncertificated form) a liability to SDRT at the rate of 0.5 per cent of the amount or value of the consideration will arise. This will generally be met by the new beneficial owner.

10. **Material Contracts**

Save as set out in this document, the following are the only contracts (being contracts otherwise than in the ordinary course of business) which have been entered into by members of the Group within the two years immediately preceding the date of this document and are or may be material to the Group or have been entered into by any member of the Group at any time and contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this document:

10.1 **Placing and Admission Agreement**

Under an agreement made between the Company, the Directors, Nabarro Wells and ODL Securities and dated 3 December 2004, ODL Securities has agreed to use reasonable endeavours to procure subscribers for up to 60,000,000 Common Shares pursuant to the Placing. Nabarro Wells has agreed on behalf of the Company to submit to the London Stock Exchange an application for Admission and to act as the Company's nominated adviser in respect of such application.

The obligations of ODL Securities and Nabarro Wells under the Placing and Admission Agreement are conditional, *inter alia*, on Admission occurring on or about 9 December 2004 or such later date (being not later than 31 December 2004) as ODL Securities and Nabarro Wells may agree.

Subject to Admission, the Company agreed to pay to ODL Securities:

- (i) commission at the rate of 5.5 per cent of the value of the Placing Shares placed with Placees; and
- (ii) assignable Options equal to 4 per cent of the Placing Shares exercisable at the Placing Price at any time up to three years from Admission.



The Company has paid Nabarro Wells £15,000 and, subject to Admission, the Company agreed to pay a corporate finance fee of £65,000 and to grant to NWCF LLP assignable Options to subscribe for Common Shares equivalent to 1 per cent of the issued share capital of the Company on Admission.

The Company agreed to pay all the costs and expenses of and incidental to the Placing and Admission (together with VAT on such costs and expenses).

The Company and each of the Directors have given certain warranties, representations and undertakings to ODL Securities and Nabarro Wells in relation, *inter alia*, to the accuracy of the information contained in this document, the financial position of the Group and as to other matters in relation to the Group and its business. In addition ODL Securities and Nabarro Wells have the benefit of certain indemnities provided by the Company and each of the Directors relating to losses or liabilities incurred by ODL Securities or Nabarro Wells in the performance of their duties, save to the extent that any such losses and liabilities arise from, *inter alia*, ODL Securities' or Nabarro Wells' wilful default, negligence or breach of their obligations under an express term of the Placing and Admission Agreement.

ODL Securities and Nabarro Wells may terminate the Placing and Admission Agreement at any time prior to Admission in certain circumstances, including a breach of any of the warranties, representations or undertakings contained in the Placing and Admission Agreement or upon the occurrence of certain force majeure events.

10.2 *Depository Interests*

The Company has agreed that Computershare shall provide the Company with services as Depository in accordance with a trust deed poll executed by Computershare dated 26 November 2004, pursuant to which Computershare has determined to constitute and issue from time to time the Depository Interests with a view to facilitating the indirect holding of, and settlement, of transactions by participants in CREST.

10.3 *Share Sale Agreement of 2003*

By a sale and purchase agreement between PGS Exploration, Sea Lion Exploration Limited (Sea Lion), Equator and Aqua dated 29 May 2003 Equator acquired 24,999 'A' shares held by Sea Lion in the capital of Aqua. Following the acquisition of these shares, Equator held 85 per cent and Sea Lion held 15 per cent of the entire issued and paid-up capital of Aqua. As part of the transaction it was agreed that certain amendments be made to the articles of association of Aqua, that Aqua entered into releases of debt and other liabilities in favour of Sea Lion, and that PGS Exploration and Sea Lion released Equator, and Equator released PGS Exploration from liability which may be outstanding under certain agreements. The parties also agreed to effect amendments to certain agreements which are described in Part 3 of this document.

10.4 *Share Sale Agreement of 2004*

By a sale and purchase agreement between PGS Exploration, Sea Lion, Equator and Aqua dated 20 September 2004 Equator acquired 15,000 'A' shares held by Sea Lion in the capital of Aqua. Following the acquisition of these shares, Equator became the holder of all of the issued and paid up capital of Aqua. The consideration paid for this acquisition by Equator to Sea Lion was US\$1,500,000. As part of the transaction, the directors of Aqua nominated by Sea Lion resigned as directors of Aqua. Further, a shareholders agreement relating to Aqua dated 6 April 2001 between Sea Lion, Equator and Aqua was terminated. The parties also agreed upon certain other matters which are described in Part 3 of this document.

10.5 *Lock-In Arrangements*

The Directors have undertaken to the Company, Nabarro Wells, and ODL Securities, not to dispose of any of their holdings of Common Shares before the first anniversary of Admission, save in specified circumstances, without the consent of ODL Securities.

10.6 *Agreement with Everest Capital Limited ("Everest")*

By agreement dated 20 August 2004 (and amended on 5 November 2004 and on 22 November 2004) the Company agreed, *inter alia*:

- (i) to anti-dilution provisions in favour of Everest including the right for Everest to acquire up to 20,091,164 Placing Shares at the Placing Price (which right Everest has chosen to exercise in respect of 6,925,000 Placing Shares); and
- (ii) that certain obligations on the part of the Company as to the number and remuneration of Directors shall become operative should Admission not occur prior to 31 December 2004. Otherwise the agreement terminates upon Admission.

11. **Litigation**

No member of the Group is engaged in, nor has pending or threatened against it, any legal or arbitration proceedings which may have or have had during the twelve months prior to the publication of this document a significant effect on the financial position of the Group.



12. Working Capital

The Directors are of the opinion that, having made due and careful enquiry and having taken into account the net proceeds of the Placing, the working capital available to the Group, after Admission, will be sufficient for its present requirements, that is, for at least twelve months from Admission.

13. Contracts of Fundamental Importance

Save as set out in this document, there are no patents or other intellectual property rights, licences or particular contracts which are or may be of fundamental importance to the Group's business.

14. General

14.1 In the Directors' opinion, the minimum amount which must be raised by the Company pursuant to the Placing in order to provide the sums required pursuant to paragraph 21(a) of Schedule 1 to the POS Regulations is £60,000,000 comprising:

Purchase of property	£ Nil
Issue expenses and commissions	£3,700,000
Repayment of monies borrowed	£ Nil
Working capital	£56,300,000
	<u>£60,000,000</u>

14.2 The auditors of the Company are Chantrey Vellacott DFK.

14.3 The total costs, charges and expenses in connection with or incidental to the Placing and Admission including London Stock Exchange fees, printing, advertising and distribution costs, legal and accounting fees and expenses are estimated to amount to £3,700,000 (exclusive of VAT) and are payable by the Company.

14.4 Chantrey Vellacott DFK has given and has not withdrawn their written consent to the inclusion of references to them herein in the form and context in which they appear and to the inclusion of their report set out in Part 5 of this document and accept responsibility for their report for the purpose of regulation 13(1)(d) of the Public Offers of Securities Regulations 1995.

14.5 ODL Securities has given and has not withdrawn their written consent to the inclusion of references to them herein in the form and context in which they appear.

14.6 Nabarro Wells has given and has not withdrawn their written consent to the inclusion of references to them herein in the form and context in which they appear.

14.7 PGS Reservoir Limited has given and has not withdrawn their written consent to the inclusion of references to them herein in the form and context in which they appear and to the inclusion of their report set out in Part 4 of this document.

14.8 Save as set out in this document, there are no investments in progress which are significant.

14.9 There are no significant recent trends concerning the development of the Group's business since 31 October 2004.

14.10 Except as detailed in this document and below, no person (excluding professional advisers whose fees are included in the estimated expenses of the Placing and Admission disclosed in paragraph 14.3 and any trade suppliers) has received directly or indirectly from the Group within twelve months preceding the date of this document or entered into any contractual arrangements whereby that person is entitled to receive directly or indirectly from the Group on or after Admission, either:

- fees totalling £10,000 or more; or
- Common Shares to the value of £10,000 or more calculated by reference to the Placing Price; or
- any other benefit with a value of £10,000 or more at the date of Admission.

Within twelve months preceding the date of this document, Ms. Jeanne Usonis has received financial consulting and administration fees totalling \$160,000. Ms. Usonis does not have any contractual arrangement with the Group.

14.11 Save as set out in this document no commission is payable by the Company to any person in consideration of his agreeing to subscribe for securities to which the prospectus relates or of his procuring or agreeing to procure subscriptions for such securities.

14.12 The financial information contained in Part 5 does not comprise statutory accounts for the purposes of section 240 of the Act.



14.13 The Company's accounting reference date is 31 December.

14.14 No paying agent has been appointed by the Company.

14.15 The total proceeds which it is expected will be raised by the Placing are £60,000,000 and the net proceeds after deduction of expenses (excluding VAT), are estimated at £56,300,000.

14.16 Copies of this document will be available for collection (only) from Nabarro Wells & Co. Limited, Saddlers House, Gutter Lane, London, EC2V 6HS for a period of one month from Admission.

14.17 It is intended that application will be made for the Depository Interests to be issued pursuant to the Placing to be admitted to CREST with effect from Admission. Accordingly, it is expected that the Depository Interests will be enabled for settlement in CREST following Admission.

Dated: 3 December 2004



DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

“Act”	the UK Companies Act 1985, as amended
“Admission”	the admission of the Common Shares in issue following the Placing to trading on AIM and such admission becoming effective in accordance with the AIM Rules
“AIM”	the Alternative Investment Market of the London Stock Exchange
“AIM Rules”	the rules of AIM published by the London Stock Exchange
“Aqua”	Aqua Exploration Limited, a wholly owned subsidiary of the Company
“Articles”	the articles of association of the Company
“Block”	an area within the EEZ designated by the Government for the allocation to oil and gas exploration companies with a view to the granting of hydrocarbon exploration and production rights, as defined in the E&P Option Agreement, further details of which are set out in paragraph 1.2 of Part 3 of this document
“Board” or “Directors”	the directors of the Company
“Back-up Copy”	seismic data that is stored with DPTS Storage Limited in accordance with the Storage Agreement, further details of which are set out in paragraph 2.7 of Part 3 of this document
“BVI”	the British Virgin Islands
“BVI Companies Act”	the International Business Companies Act 1984 (Cap. 291) of the BVI including any modification, extension, re-enactment, or renewal thereof and any regulations made thereunder
“Combined Code”	the combined code on corporate governance published in July 2003
“Company” or “Equator”	Equator Exploration Limited
“Common Shares”	common shares of no par value in the capital of the Company
“Consulting Engineers’ Report”	the report dated 3 December 2004 by consulting engineers, set out in Part 4 of this document
“Computershare” or “Registrar”	Computershare Investor Services (Channel Islands) Limited, the Company’s Registrar
“CREST”	the computerised settlement system to facilitate the transfer of title to shares in uncertificated form operated by CRESTCo Limited
“Data Access Agreement”	the agreement dated 29 May 2003 between PGS Exploration and Equator
“Depository”	Computershare Investor Services PLC
“Depository Interests”	the interests representing Common Shares issued through Computershare



“E&P Option Agreement”	Exploration and Production Option Agreement dated 12 February 2001 between PGS Exploration and the Government, further details of which are set out in paragraph 1 of Part 3 of this document
“Escrow Agreement”	the agreement dated 29 May 2003 between PGS Exploration, Equator, and Messrs Wedlake Bell, solicitors
“Exclusive Economic Zone” or “EEZ”	the claimed territorial waters of the Government of São Tomé and Príncipe, excluding the Joint Development Zone
“Government”	the Government of São Tomé and Príncipe
“Government Participating Interest Options”	options to be granted to the Government to become a participating owner in all concession blocks under the terms of PSCs to be entered into
“Group” or “Equator Group”	Equator and the Subsidiary
“JDZ Licensing Round”	the competitive tender process held by the JDA on nine blocks in the Joint Development Zone from April 2003 to October 2003
“JOA”	the agreement dated 17 September 2002 between Equator and PGS Exploration
“JOA Amendment”	the agreement dated 17 June 2002 between Equator and PGS Exploration
“Joint Development Authority” or “JDA”	the Joint Development Authority created by the Government of São Tomé and Príncipe and the Nigerian government to oversee all future exploration and development in the JDZ
“Joint Development Zone” or “JDZ”	an area of overlapping maritime boundary claims that is being jointly developed by the Federal Republic of Nigeria and the Democratic Republic of São Tomé and Príncipe as defined by a bilateral treaty
“London Stock Exchange”	London Stock Exchange plc
“Nabarro Wells”	Nabarro Wells & Co. Limited, the Company’s Nominated Adviser
“Nigeria”	the Federal Republic of Nigeria
“ODL Securities”	ODL Securities Limited, the Company’s Broker
“Option Block”	a Block in the EEZ over which the Equator Group has given option notice under the E&P Option Agreement, further details of which are set out in paragraph 1.2 of Part 3 of this document
“Options”	options to subscribe for Common Shares
“Original JOA”	the agreement dated 6 April 2001 between PGS Exploration and Equator
“PGS”	PGS Reservoir Limited
“PGS Exploration”	PGS Exploration (UK) Limited, a company incorporated in England whose registered office is at PGS Court, Halfway Green, Walton-on-Thames, Surrey KT12 1RS
“Placees”	the subscribers for Placing Shares pursuant to the Placing



“Placing”	the conditional placing of the Placing Shares at the Placing Price pursuant to the Placing and Admission Agreement
“Placing and Admission Agreement”	the conditional agreement dated 3 December 2004 between the Company (1), the Directors (2), ODL Securities (3) and Nabarro Wells (4), further details of which are set out in paragraph 10.1 of Part 6 of this document
“Placing Price”	100p per Common Share
“Placing Shares”	60,000,000 new Common Shares being issued by the Company pursuant to the Placing
“POS Regulations”	Public Offers of Securities Regulations 1995
“S&S Agreement”	Seismic Services Agreement, dated 12 February 2001, between PGS Exploration and the Government of São Tomé and Príncipe
“São Tomé and Príncipe”	the Democratic Republic of São Tomé and Príncipe
“Sea Lion”	Sea Lion Exploration Limited
“Seisco”	Seisco Investments Limited, a company registered in the BVI
“Seismic Agreements”	the Original JOA, the JOA Amendment, the JOA, those parts of the Share Sale Agreement of 2003 summarised at paragraph 2.3 of Part 3, those parts of the Share Sale Agreement of 2004 summarised at paragraph 2.8 of Part 3, the Data Access Agreement, the Escrow Agreement and the Storage Agreement
“Share Option Scheme”	the share option scheme adopted by the Company, further details of which are set in paragraph 5 of Part 6 of this document
“Share Sale Agreement of 2003”	the agreement dated 29 May 2003 between PGS Exploration, Sea Lion, Equator and Aqua
“Share Sale Agreement of 2004”	the agreement dated 20 September 2004 between PGS Exploration, Sea Lion, Equator and Aqua
“Shareholder”	a holder of one or more Common Shares
“Storage Agreement”	the agreement dated 29 May 2003 between PGS Exploration, Equator and DPTS Storage Limited
“Subsidiary”	Aqua Exploration Limited, a wholly owned subsidiary of the Company
“UK”	the United Kingdom of Great Britain and Northern Ireland
“US\$”, “\$” and “US cents”	references to US currency
“Warrants”	warrants to subscribe for Common Shares, further details of which are set out in paragraph 5 of Part 6 of this document



GLOSSARY

2D seismic (two-dimensional seismic data)	geophysical data that depicts the subsurface strata in two dimensions
3D seismic (three-dimensional seismic data)	geophysical data that depicts the subsurface strata in three dimensions. 3D seismic typically provides a more detailed and accurate interpretation of the subsurface structure and strata than can be achieved using 2D seismic data
bbl	one stock tank barrel, or 42 US gallons liquid volume, used herein in reference to crude oil, condensate or other liquid hydrocarbons
block	an area designated by a government or any authority, entity or representative of a government for allocation to oil and gas exploration companies with a view to the granting of hydrocarbon exploration and production rights
boe	barrels of oil equivalent
bopd	barrels of oil per day
farm-in or farm-out	a common form of agreement between oil operators pursuant to which an owner (a “farminor”) of an unproven resource property may transfer a part interest in the property to another person (a “farminee”) in exchange for exploration and development work on the transferred property. The farminee undertakes to perform (and pay for) farm-out services on the property, in the form of exploration and development expenses.
FPSO	floating, production, storage, and offloading
km	kilometres
km ²	square kilometres
m	metres
mbbls	one thousand barrels of crude oil or other liquid hydrocarbons
mmbbls	one million barrels of crude oil or other liquid hydrocarbons
mboe	one thousand barrels of oil equivalent
mboe/d	one thousand barrels of oil equivalent per day
mmboe	one million barrels of oil equivalent
PSC	production sharing contract
VAT	value added tax