EQUATOR EXPLORATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2010

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Operating Review

Events during 2010

This statement covers the significant events of the last year, from January to December 2010.

The Company's Oil & Gas Interests

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

- The Bilabri and Owanare oil and gas developments in OML 122, shallow water Nigeria, operated by Peak Petroleum Industries Nigeria Ltd ('Peak');
- OPL 323 & OPL 321, deep water Nigeria, operated by the Korean National Oil Corporation ('KNOC');
- Block 2 in the Nigeria and São Tomé & Príncipe Joint Development Zone operated by China Petroleum & Chemical Corporation ('Sinopec');
- The award of Blocks 5 & 12 by the National Petroleum Agency of the Government of São Tomé & Príncipe in its Exclusive Economic Zone.

An appraisal of these interests is given in the Asset Review which immediately follows this Operating Review. Key matters which arose during 2010 are:

Bilabri & Owanare (OML 122)

Peak continued to be unable to meet its obligations under the Bilabri Settlement Agreement ('BSA'), which was executed in 2007. Furthermore, registration of the arbitration award awarded in favour of the Company in June 2008 continued to be blocked by a restraining order of the Nigerian courts. At the end of 2010, the Company initiated a set of further legal proceedings, still ongoing, in order to pursue its rights under the BSA.

OPL 321 & OPL 323

Previously in January 2009, the allocation of OPL 321 and OPL 323 to the Operator, ('KNOC'), was voided by the Nigerian government. In August 2009, judgment was given in favour of KNOC in a lawsuit that they had brought against the government parties in the Federal High Court in Abuja. The government appealed immediately. During the whole of 2010, the appeal was held pending while the government and KNOC sought a resolution.

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

JDZ Block 2

The 'Bomu 1' exploration well had been drilled in the second half of 2009. It was completed under budget and discovered dry gas in a number of formations. The Joint Development Authority ('JDA') awarded two six month extensions to the operator, Sinopec, and its exploration partners for them to complete the evaluation of the results from 'Bomu 1' including reassessing the prospectivity of the remainder of the block. During January 2011, Sinopec reported the results of the evaluation of 'Bomu 1' to the joint venture partners. It was confirmed that the 'Bomu' gas discovery, which is small for deep water, is uneconomic in current conditions. Sinopec, on behalf of the joint venture, has requested a further one year extension for more studies. If granted, the partners can choose on an individual basis whether they wish to enter the extension or to let their interest lapse. Participation by the Company will depend on the terms offered by Sinopec.

Blocks 5 & 12, EEZ of São Tomé & Príncipe

In February 2010, in accordance with agreements signed in 2001 and 2003 with the government of São Tomé & Príncipe, the Company was granted the first two choices from all of the blocks within its Exclusive Economic Zone ('EEZ'). The Company chose and was allocated Blocks 5 and 12. By 31 December 2010, negotiations with the government on the Production Sharing Contracts ('PSC's') were well advanced. When signed, these will trigger payment of the signatures bonuses and commit the Company to the work programmes. Currently the Company is seeking industry partners to farm out the rights and obligations of the PSC's.

During the year, the Company renegotiated the fee sharing agreements with Petroleum Geo-Services ('PGS') for the 2D seismic surveys previously acquired in the EEZ. The Company's future share of the fees was reduced in return for a reduction in change-of-control fees owed by the Company on a number of 3D seismic licences.

The Company purchased a licence for the 2D seismic surveys covering Blocks 5 & 12 and used the data for a detailed study of the prospect inventory of the two blocks.

Other significant events

Changes to the Articles of Association of the Company

On 29 January 2010, the Company received a written resolution, from its majority shareholder, Oando Plc. Under the resolution, new Memorandum and Articles of Association were approved and adopted. In addition, as allowed under the BVI Business Companies (Amendment of Schedules) Order 2006, the written resolution disapplied Part IV of Schedule 2 of the BVI Business Companies Act 2004. The new Memorandum and Articles of Association are posted on the Company's website, ***www.equatorexploration.com***.

Changes to the Board of Directors 2009 & 2010

Previously in 2009, Ted Giletti and Philip Rand resigned from the Board and the following four members were appointed:

- Jubril Adewale Tinubu - Non Executive Chairman;
- Omamofe Boyo – Non Executive Director;
- Patrick Bastin - Non Executive Director;
- David Rowlinson – Non Executive Director;

In addition

- Philip Dimmock – remained on the board as Chief Operating Officer.

These members remained in office without any further appointments or resignations through 2010 up to the date of this report.

Results for 2009 & 2010

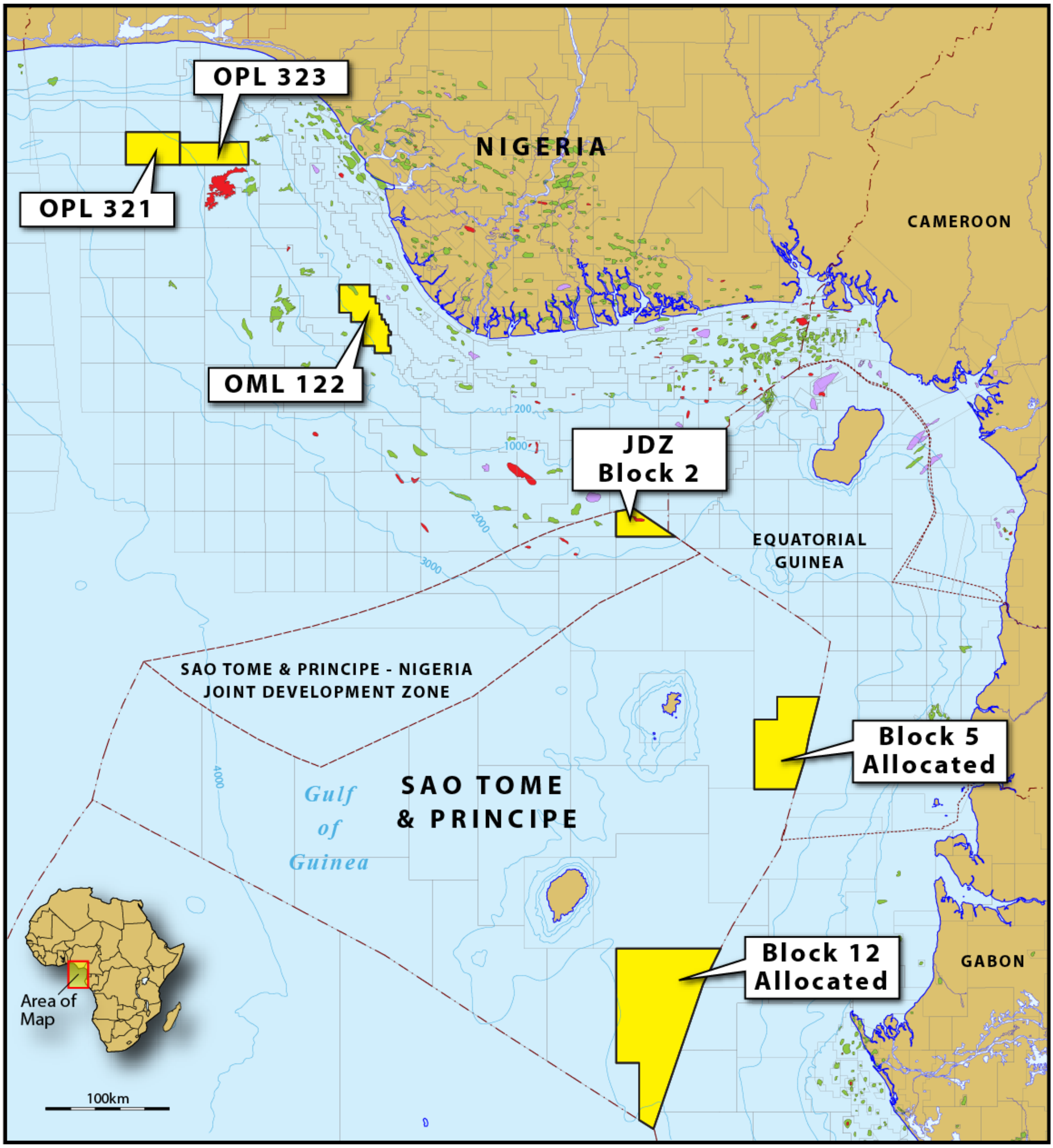
The Company posted the following losses in 2009 and 2010:
(US$ 000's)
2009: US$2,816
2010: US$4,323

Dividends 2009 & 2010

2009: 3.6p per share (special dividend – 27 October 2009)
2010: nil

5 April 2011

Map of Equator's Interests



Asset Review

Nigeria – OPL 323 and OPL 321

History

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

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

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

In August 2007, the Company executed a farm-out agreement to assign a 20% interest in OPL 323 to BG Exploration and Production Nigeria Limited. The total consideration to be paid by BG was US$75 million, comprising both cash and a carry on the future expenditure on the remaining 10% interest. The Company worked diligently to secure the approval of NNPC and the Federal Government of Nigeria. However, this was withheld due to a number of public and private government inquiries into the allocation of the blocks to KNOC.

In January 2009, the Nigerian government voided the allocations of OPL 323 and OPL 321 to KNOC. The blocks were simultaneously offered to the winning group of the 2005 licensing round, which includes ONGC Videsh and Equator. KNOC brought a lawsuit against the government parties in the Federal High Court in Abuja and, in August 2009, judgment was given in their favour. Although the government has appealed the judgment, we believe that the government and KNOC both seek a settlement. Equator is lobbying the government to give the matter the highest of priorities.

In September 2009, the government refunded the signature bonuses of US$ 161.7 million which Equator paid for OPL 323 and OPL 321. The Company had requested the return of the signature bonuses because, due to the ongoing litigation, it was being denied its right to explore the blocks and faced severe economic hardship. The Company has notified the government of its intention to maintain its interests in the two blocks until such time that the court disposes of the matter and beyond. This notification was acknowledged by the government.

In August 2010 BG terminated the farm out agreement.

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

Operational status

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

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

Prospectivity

OPL 323

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

In October 2006, Netherland, Sewell & Associates, Inc. ('NSAI'), Independent Petroleum Engineers, made an assessment of the prospective resources within the four largest structures using a statistical 'Monte Carlo' approach. At the time, they quoted the mean value as the Best Estimate. In 2007, the Society of Petroleum Engineers specified that the median P50 value has to be used. Under this definition, NSAI's Best Estimate of Gross Unrisked Prospective Resources on OPL 323 is 1.1 billion barrels of oil and 4.9 trillion standard cubic feet of gas (Tables 1 & 2). The subsequent evaluation of five structures by the operator has given a best estimate of 1.3 billion barrels for oil.

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

OPL 321

OPL 321 is located immediately to the west of OPL 323, lying in deeper water in the range 1,900 to 2,600 metres. The block lies on trend with block OPL 322 to the south, where Shell's discovery well, Bobo-1, encountered a significant column of hydrocarbons. It has access to the same hydrocarbon sources as the giant Bosi and Erha Fields located nearby to the southeast. NSAI assessed the Best Estimate, under the new definition, of the Gross Unrisked Prospective Resources in the largest prospect to be 0.57 billion barrels of oil and 0.67 trillion standard cubic feet of gas (Tables 1 & 2).

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

Table 1 - OPL 321 & OPL 323 Unrisked Recoverable Oil Resources (million barrels)[1] as at 1 October 2006									
	Gross (100 per cent)				Equator Interest (30 per cent)				POS[2]
Prospect Cluster	Low	Median (Best)	Mean	High	Low	Median (Best)	Mean	High	per cent
323-G	115	507	992	2,611	34	152	298	783	36
323-O	52	157	265	643	16	47	80	193	25
323-W	100	278	401	889	30	84	120	267	34
323-L	55	165	261	617	16	49	78	185	33
321-E	156	574	1,005	2,506	47	172	302	752	27
Total	478	1,682	2,924	7,266	143	504	878	2,180	

Table 2 - OPL 321 & OPL 323 Unrisked Recoverable Gas Resources (billion cu ft)[1] as at 1 October 2006									
	Gross (100 per cent)				Equator Interest (30 per cent)				POS[2]
Prospect Cluster	Low	Median (Best)	Mean	High	Low	Median (Best)	Mean	High	per cent
323-G	834	3,487	6,392	16,271	250	1,046	1,840	4,881	36
323-O	279	896	1,431	3,401	84	269	362	1,020	25
323-W	89	316	524	1,291	27	95	187	387	34
323-L	57	232	449	1,186	17	70	150	356	33
321-E	147	670	1,351	3,623	44	201	369	1,087	27
Total	1,406	5,601	10,147	25,772	422	1,681	2,908	7,731	

Totals may not add due to rounding

(1) Netherland, Sewell & Associates, Inc.

(2) Probablity of geological success.

Joint Development Zone – Block 2

History

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

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

Equator subsequently purchased an additional 3% interest from one of the other participants in the block, A & Hatman Limited, increasing its total participating interest to 9%. From this, the Company granted a bidding partner an economic interest equivalent to a 0.25% carried interest in the block. The result is that Equator acquired a net economic interest of 8.75% in Block 2 for a total entry cost of US$9.05 million, with an obligation to carry a combined interest of 1.25% during the initial exploration phase. Additionally, future payments may become due as Field Development Programmes ('FDP') for any oil discoveries are submitted to the JDA. The extent of the payments, which is capped at US$6 million, is proportional to the level of Proved Reserves in each FDP and to the future price of crude oil.

The PSC was signed with the JDA on 17 March 2006. The JOA was also signed among the participants at the same time. The other participants and their participating interests are Sinopec (28.67%), ERHC (22.00%), Addax (14.33%), ONGC Videsh (13.5%), Amber Petroleum (5%), Foby Engineering (5%) and A & Hatman (2.5%). EHRC is carried by Sinopec and Addax while A & Hatman is carried by Equator and ONGC Videsh. Foby and Amber have been in default on the payment of cash calls since 2009. ONGC resigned from the block in June 2010.

Operational status

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

In early 2009, an assignment was taken from Shell for the use of the Transocean Sedco 702 drilling rig. The Bomu 1 exploration well was spudded on 29 August 2009 and completed on 3 October 2009. The well, drilled in 1655 metres of water, reached a total depth of 3543 metres below sea level achieving all of its geological objectives. It was completed under budget by approximately US$10 million, a benefit of the low contract rates for services inherited from Shell. Analysis of the wireline logs and of fluid samples collected by wireline tester indicated the presence of gas in a number of sand intervals. Subject to acknowledgement by the JDA, the well fulfils the work obligation of Phase I of the Exploration Period in the PSC. However, under present conditions the discovery is considered sub-commercial.

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

Prospectivity

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

Based on the 3D seismic survey acquired in 2003 by PGS and partially funded by Equator, NSAI made a Best Estimate of Gross Unrisked Prospective Resources of 1.3 billion barrels of oil and 1.9 trillion standard cubic feet of gas in total in the 10 identified prospects for JDZ Block 2. The subsequent, more thorough evaluation by the operator reached similar overall conclusions but differed in detail from the NSAI evaluation with regard to the definition, size and ranking of the prospects.

While the discovery in the Bomu 1 well of gas rather than oil was disappointing, the reservoir sands and traps were, by and large, encountered as expected. The JDA extended the Phase 1 Exploration Period by two six month periods to allow Sinopec to complete the technical and commercial evaluation of the discovery and the other prospects on Block 2. Four other wells were drilled in the JDZ, three in Block 4 and one in Block 3, simultaneously with Bomu 1. The JDA granted extensions on these blocks as well, allowing the common operator, Sinopec, to integrate the studies on a regional basis to the benefit of the JDA and participants.

The studies have confirmed that Bomu is a small gas discovery, which under current conditions is sub-commercial. While an adequate source of oil is believed to exist, the absence of faulting between the source and reservoir sands prevents the oil from migrating into the reservoirs. The studies also conclude that the best remaining prospect is more likely to contain gas than oil, in quantities not very much larger than those discovered in Bomu.

This current evaluation of the block does not justify commitment to a second exploration well, as required for entry into Phase II of the PSC. Sinopec has applied to the JDA for a further extension of Phase I in which to perform additional studies. The response is awaited. If an extension is granted, participation by the Company will depend on the terms offered by Sinopec. Refer to note 13 (iii) for details of the carrying value retained in respect of this block.

Exclusive Economic Zone of São Tomé & Príncipe

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

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

Prior to the first EEZ Licensing Round announced in early 2010, the government invited the Company to make its first choice of two blocks. Equator was allocated its chosen blocks, Block 5 and Block 12. Negotiations of the Production Sharing Contracts began during 2Q 2010 and are near to completion. Signature of the PSC's will commit the Company to the payment of signature bonuses and to the execution of work programmes. Equator intends to enhance the value and manage the risks of its opportunity in the EEZ by seeking farm-outs to acknowledged deep water operators.

The licensing round closed in November 2010. Four companies qualified for their bids to be considered.

During 2010, the Company settled a claim of US$9.6 million from PGS for additional fees on existing 2D seismic licences due because of the change of control that occurred when Oando became a majority shareholder of Equator. As part of the settlement, the fee sharing arrangement from the jointly funded 2D seismic data was simplified to a straight 50:50 split. Equator has received its share of fees from the sale of one licence to a third party.

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

Nigeria – OML 122

History

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

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

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

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

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

The three additional appraisal wells established that the aerial extent of the C2 sand was larger than expected but determined that the C1 sand contained gas only. NSAI assessed the Gross Proved plus Probable reserves as 13.2 million barrels (Table 3). In terms of gas, NSAI's best estimate of Gross Proved plus Probable contingent resources was 395 billion standard cubic feet for Bilabri and 106 billion standard cubic feet for Owanare, giving a total gross contingent gas resource of 501 billion standard cubic feet, all discovered by wells funded by Equator (Table 4). Based on the results from the appraisal drilling, the scope of the Bilabri oil development was reduced from six to three wells comprising two horizontal completions of the existing D2 and D4 wells plus a vertical completion of the existing DX-1 well.

On 22 January 2007, the FPSO entered a shipyard in Singapore for upgrade and delivery to Nigeria in fourth quarter 2007. All of the sub-sea equipment was ordered and scheduled for installation during fourth quarter 2007. Equator funded 100% of the cost of developing Bilabri, with expenditure on OML 122 totalling US$263 million.

However, during 2007 the project was beset with considerable operational and security problems, including a fourth militant invasion and kidnapping, which caused the shutdown of drilling operations. The contract for the Bulford Dolphin drilling rig was terminated for prolonged force majeure on 11 May 2007. Subsequently, BW Offshore terminated the contract for the FPSO. The Company became liable for early termination penalties on the FPSO and for debts on a number of unpaid invoices from suppliers.

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

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

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

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

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

(1) Netherland, Sewell & Associates, Inc.

Status

Peak has yet to meet its obligations to Equator under the Bilabri Settlement Agreement. In order, to protect its interests, Equator issued a notice of arbitration. However, Peak was granted an injunction by the Nigerian courts against Equator's right to arbitrate in the UK citing Peak's admission of its debt as a reason for not allowing the arbitration. A final arbitration award, which the Company's lawyers believe to be enforceable in Nigeria, was issued on 27 May 2008 in favour of Equator in the total sum of US$123 million plus interest. However, the Nigerian Federal High Court rejected the petition to register the arbitration award. The Company has recently brought new suits in the Nigerian courts in order to overturn the previous decisions of the Nigerian courts and achieve redress.

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

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

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

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

5 April 2011

Directors' Report

for the year ended 31 December 2010.

The directors submit their report and the audited financial statements of the Equator group of companies ("Group") for the year ended 31 December 2010.

Review of the business & principal activity

Equator Exploration Limited ('Equator' or the 'Company') is a company incorporated in the British Virgin Islands. The address of the registered office is given on page 16. The Company and its subsidiaries engage in the exploration and development of offshore oil and gas projects in West Africa.

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

Shares

As at 31 December 2010, there were 481,117,270 common shares issued. (2009: 481,117,270)

Share Options and Warrants

A full review of the Share Options and Warrants issued by the Company is provided as note 26 "Share Options and Warrants" to the accounts.

Results and dividend

The Company made a loss of US$ 4.3 million in 2010. (2009: US$ 2.8 million)

The Company did not pay a dividend in 2010 (2009: the Company paid a special dividend of 3.6 pence per share.)

Litigation

In August 2009 the Company's partner on blocks OPL 323 and OPL 321, African Excellence Investments Limited, filed an arbitration claim with the International Chamber of Commerce for payment from the Company of US$ 1 million pursuant to an agreement with the Company. The agreement provides for US$ 1 million to be paid to African Excellence Investments Limited upon any farm out or sale of rights to OPL 323 or OPL 321. Due to the Company's view that such an event has not taken place, the Company and its legal advisers believe the arbitration claim to be weak with little chance of success. On 7-8 March 2011, the Company defended the claim in an arbitration hearing and awaits the award.

In September 2010 Equator commenced a winding up action against Peak Petroleum Industries Nigeria Limited in the Nigeria courts following Peak's failure to pay its debts to Equator under 1) the Bilabri Settlement Agreement and 2) the arbitration award for US$123 million Equator obtained against Peak on 27 May 2008 (see a full explanation in the Asset Review under OML 122). Peak is attempting to obtain an injunction against Equator winding it up as well as an injunction against the arbitration award in counter suits filed in the Nigerian courts.

Financing

In a number of transactions during 2009, Oando Plc, a Nigerian public company quoted on the Lagos and Johannesburg Stock Exchanges, became the majority shareholder of the Group, and currently holds 78% of the Group's shares. Oando has committed to provide financial support to the Company for at least the next 18 months to enable it to meet its financial obligations.

During 2010, Oando Plc provided the company with a US$ 300,000 interest bearing working capital advance (for full details please see note 30 'Related Party Transactions' to the accounts).

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

Risk management
The Group operates in a geographical area and in an industry with a range of risks that have to be managed by the Company. The Group's management assesses and evaluates these risks both on company-wide parameters and on specific projects. The Group's philosophy is generally to pass risk to its partners where they have greater control over the assets and liabilities or where the cost of protection would be substantially lower. In those instances where management deems a risk to be of significant importance it will consider protecting its own exposure. The main risks to the Group and the action taken in mitigation can be summarised as follows:

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

Charitable donations
The Company made no charitable donations during 2010 (2009: nil).

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

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

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

J A Tinubu - Chairman

PA Dimmock - Director & Chief Operating Officer

5 April 2011

Statement of Directors' Responsibilities

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

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

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

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

Directors, Officers and Professional Advisors

For the year ended 31 December 2010

Board of Directors

Mr JA Tinubu – Chairman	appointed Chairman 8 September 2009
Mr PA Dimmock – Chief Operating Officer	
Mr O Boyo	appointed 8 September 2009
Mr P Bastin	appointed 10 July 2009
Mr D Rowlinson	appointed 10 July 2009

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

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

Solicitor
Pinsent Masons
30 Aylesbury Street
London EC1R 0ER

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

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

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

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

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

We have audited the consolidated financial statements of Equator Exploration Limited for the year ended 31 December 2010 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and the related notes. The financial reporting framework that has been applied in the preparation of these financial statements is International Financial Reporting Standards ('IFRSs') issued by the International Accounting Standards Board ('IASB').

Respective responsibilities of the directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the shareholders as a body and the directors as a body in accordance with our engagement letter dated 15 December 2010 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come including without limitation under any contractual obligations of the Company, save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its loss and cash flows for the year then ended; and
- have been properly prepared in accordance with IFRSs as issued by the IASB.

PricewaterhouseCoopers LLP
Chartered Accountants
1 Embankment Place
London
WC2N 6RH
5 April 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	**31 December 2010 $000's**	31 December 2009 $000's
Revenue	5	**687**	51
Cost of sales		**-**	(177)
Gross profit/(loss)		**687**	(126)
Administrative expenses		**(2,216)**	(6,405)
Exceptional items	6	**(2,780)**	10,058
Operating (loss)/profit	7	**(4,309)**	3,527
Finance income	9	**-**	6
Finance costs	10	**(14)**	(6,349)
Loss before tax		**(4,323)**	(2,816)
Taxation	22	**-**	-
Loss for the year attributable to equity shareholders		**(4,323)**	(2,816)
Other comprehensive (expense)/income for the year		**-**	-
Total comprehensive expenses attributable to owners of the parent		**(4,323)**	(2,816)

The notes on pages 22 to 34 form an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2010

	Notes	**31 December 2010 US$000s**	31 December 2009 US$000s
Assets			
Non-current assets			
Intangibles: Goodwill	11	**175**	175
Exploration and evaluation assets	13	**50,533**	59,109
Multi-client seismic library	12	**-**	-
Property, plant and equipment	14	**-**	-
		50,708	59,284
Current assets			
Trade and other receivables	16	**69**	27
Cash and cash equivalents	17	**130**	1,912
		199	1,939
Total assets		**50,907**	61,223
Liabilities			
Current liabilities			
Trade and other payables	18	**(8,651)**	(14,644)
Net current liabilities		**(8,452)**	(12,705)
Net assets		**42,256**	46,579
Equity attributable to owners of the parent			
Share capital	21	**-**	-
Capital reserves	27	**458,721**	458,721
Accumulated losses		**(416,465)**	(412,142)
Total equity		**42,256**	46,579

Approved by the board of directors on 5 April 2011.

Signed on behalf of the board of directors by:

Philip Dimmock
Chief Operating Officer

The notes on pages 22 to 34 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital US$000s	Capital reserves US$000s	Accumulated losses US$000s	Total equity US$000s
Balance at 1 January 2009	**-**	**450,913**	**(387,472)**	**63,441**
Loss for the year	-	-	(2,816)	(2,816)
Total other comprehensive expense	**-**	**-**	**(2,816)**	**(2,816)**
Transactions with owners				
Premium raised on issue of share capital	-	14,681	-	14,681
Share based payments	-	1,109	-	1,109
Dividend (note 28)	-	-	(28,727)	(28,727)
Adjustment in respect of warrants	-	(7,982)	6,873	(1,109)
Balance at 1 January 2010	**-**	**458,721**	**(412,142)**	**46,579**
Loss for the year	-	-	(4,323)	(4,323)
Total other comprehensive expense	**-**	**-**	**(4,323)**	**(4,323)**
Balance at 31 December 2010	**-**	**458,721**	**(416,465)**	**42,256**

The notes on pages 22 to 34 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	**31 December 2010 US$000s**	31 December 2009 US$000s
Cash flow from operating activities			
Operating (loss)/profit		**(4,309)**	3,527
Adjustments for:			
Amortisation of multi-client seismic library		**-**	177
Impairment of exploration and evaluation assets		**9,413**	-
Share based transactions		**-**	1,109
Depreciation on property, plant and equipment		**-**	19
Loss on disposal of property, plant and equipment		**-**	11
Operating cash flow before movement in working capital		**5,104**	4,843
Decrease in inventory		**-**	81
(Increase)/decrease in trade and other receivables		**(42)**	80
Decrease in trade and other payables		**(5,993)**	(53,808)
Net cash used in operating activities		**(931)**	(48,804)
Cash flow from investing activities			
Interest received		**-**	6
Refund of signature bonuses	13	**-**	161,667
Additions of exploration and evaluation assets		**(837)**	(6,533)
Additions of property, plant and equipment		**-**	(2)
Net cash (used in)/generated from investing activities		**(837)**	155,138
Cash flow from financing activities			
Repayment of borrowings		**-**	(93,295)
Interest paid		**(14)**	(2)
Dividends paid to Company's shareholders	28	**-**	(28,727)
Share capital issued (net of costs)		**-**	14,681
Net cash used in financing activities		**(14)**	(107,343)
Net decrease in cash and cash equivalents		**(1,782)**	(1,009)
Cash and cash equivalents at beginning of period		**1,912**	2,921
Cash and cash equivalents at end of period		**130**	1,912

The notes on pages 22 to 34 form an integral part of these financial statements.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of preparation

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

Equator Exploration Limited, the parent company of the Group, is incorporated and domiciled in the British Virgin Islands. The address of the registered office is given on page 16. The Company and its subsidiaries engage in the exploration and development of offshore oil and gas projects in West Africa. The Group's objective is to build a diversified portfolio of exploration, appraisal and production assets in this region.

1.2 Adoption of new and revised International Financial Reporting Standards

(a) The following new standards, amendments and interpretations do not have a material impact on the Group's earnings or on shareholders' funds:

- IAS 1 (amendment), 'Presentation of financial statements';
- IAS 7 (amendment), 'Statement of cash flows';
- IAS 17 (amendment), 'Leases';
- IAS 36 (amendment), 'Impairment of assets';
- AS 39 (amendment), 'Financial instruments: recognition and measurement';
- IFRS 2 (amendment), 'Group cash-settled share based payment transaction';
- IFRS 3 (revised), 'Business combinations';
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations';
- IFRS 6, 'Exploration for and evaluation of mineral resources';
- IFRS 8 (amendment), 'Operating segments';
- IFRIC 9, 'Reassessment of embedded derivatives';
- IFRIC 16, 'Hedges of a net investment in a foreign operation';
- IFRIC 17, 'Distributions of non-cash assets to owners';
- IFRIC 18, 'Transfers of assets from customers';
- Eligible Hedged Items (an amendment to IAS 39 Financial Instruments: Recognition and Measurement).

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted:

- IFRS 9, 'Financial instruments';
- IAS 24 (revised), 'Related party disclosures';
- IAS 32 (amendment), 'Classification of rights issues';
- IFRIC 14 (amendment), 'Prepayments of a minimum funding requirement';
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments';

The Group is evaluating the impact of the above pronouncements. The above changes are not expected to be material to the Group's earnings or to shareholders' funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted are set out below.

2.1. Going concern

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

The ability of the Group to maintain its interests in the Production Sharing Contracts as described in the Asset Review on pages 4 – 12 is dependent on the continuing support of Oando plc and/or the agreement of farm-outs with other oil companies, including the funding of signature bonus payments and the committed exploration expenditures.

2.2 Basis of consolidation

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

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

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

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

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

2.5 Employee services settled in equity instruments
The Group issues equity-settled share-based payments to certain employees. These are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.
Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

2.6 Other goods or services settled in equity instruments
Goods or services (other than employee services) received in exchange for equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period. The proceeds received on exercise of the options, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

2.7 Foreign currencies
(a) Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US Dollars, which is the Company's functional and presentation currency.

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

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

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

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

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

2.9 Exploration and evaluation assets

Exploration and evaluation assets - capitalisation
Oil and natural gas exploration and evaluation expenditures are accounted for using the successful efforts method. Under this method only costs which relate directly to the discovery and development of specific oil and gas reserves are capitalised. Exploration and evaluation costs are capitalised within intangible assets. Capital expenditure on producing assets is accounted for in accordance with IAS 16, 'Property, Plant and Equipment'. Costs incurred prior to obtaining legal rights to explore are expensed immediately to the income statement.

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

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

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

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

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

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

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

2.11 Investment in multi-client seismic library
This investment represents the Group's participating interest in seismic surveys that are licensed to customers on a non-exclusive basis. In accordance with the Group Policy, the survey costs have now been fully amortised. However, the Group continues to receive income from the sale of licences for some of the seismic surveys.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

3.1.2 Credit risk
Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and outstanding receivables. All of the Group's cash and cash equivalents are held by 'A' or better rated banks.

3.1.3 Liquidity risk
Liquidity risk is managed through maintaining sufficient cash and available funds from committed credit facilities to meet the requirements of the Group. Management monitors rolling forecasts of the Group's liquidity and cash and cash equivalents on the basis of expected cash flow.

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

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

There are no externally exposed capital requirements.

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

The gearing ratios at 31 December 2010 and 2009 were as follows:

	2010 US$000s	2009 US$000s
Cash and cash equivalents (note 17)	**(130)**	(1,912)
Net debt/(cash)	**(130)**	(1,912)
Total equity	**42,256**	46,579
Total capital	**42,126**	44,667
Gearing ratio	**(0.3%)**	(4%)

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

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

5 REVENUE

	Year ended 31 December	
	2010	2009
	US$000s	US$000s
Multi client seismic library fee income	**687**	51
Total revenue	**687**	51

6 EXCEPTIONAL ITEMS

	Year ended 31 December	
	2010	2009
	US$000s	US$000s
Seismic licence provisions (note i)	**6,633**	(9,633)
Impairment of exploration and evaluation assets (see note 13)	**(9,413)**	-
Dolphin drilling (note ii)	**-**	7,350
BW Offshore (note iii)	**-**	12,341
	(2,780)	10,058

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

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

Note iii. On the termination of FPSO contract with BW Offshore, termination penalties of US$59.7 million became due. A payment of US$ 20 million was made by surrender of a performance bond in 2007 reducing the outstanding balance to $39.7 million. In a settlement agreement of 8 July 2008, the total amount payable was reduced to US$22.3 million. In a new settlement agreement of 15 June 2009, the total amount payable was further reduced to US$10 million, which was paid in full with interest in August 2009.

7 OPERATING (LOSS)/PROFIT FOR THE PERIOD

	Year ended 31 December	
The operating (loss)/profit for the period is stated after charging/(crediting):	**2010**	2009
	US$000s	US$000s
Staff costs (note 8)	**293**	585
Executive Director's Remuneration (note 8)	**413**	850
Depreciation and amortisation	**-**	196
Property lease rentals	**219**	57
Bad debt provision	**32**	2,486
Impairment of exploration and evaluation assets (note 13)	**9,413**	-
Net foreign exchange (gain)/loss	**(8)**	239

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

Auditors' remuneration:		
Fees payable to the Group's auditors for the audit of the parent consolidated financial statements	**104**	120
Total audit and non-audit fees	**104**	120

8 STAFF COSTS

	Year ended 31 December	
	2010	2009
The average monthly number of employees (including the executive director) employed was as follows:	**3**	7

Their aggregate remuneration comprised:

	Year ended 31 December	
	2010	2009
	US$000s	US$000s
Wages and salaries	**653**	1,313
Social security costs	**-**	7
Other pension costs	**53**	115
	706	1,435

9 FINANCE INCOME

	Year ended 31 December	
	2010	2009
	US$000s	US$000s
Interest on bank deposits	**-**	6

10 FINANCE COSTS

	Year ended 31 December	
	2010	2009
	US$000s	US$000s
Other interest payable	**14**	-
Interest payable on borrowings	**-**	6,349
	14	6,349

11 INTANGIBLES - GOODWILL

	US$000s
Cost at 31 December 2009 and 2010	**1,762**
Accumulated impairment at 31 December 2009 and 2010	**(1,587)**
Carrying amount at 31 December 2009 and 2010	**175**

An impairment provision has previously been recognised to reflect the recoverable value of Aqua Exploration Limited. No further provision has been made in 2010 or 2009.

12 MULTI-CLIENT SEISMIC LIBRARY

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

	US$000s
Cost at 31 December 2009 and 2010	**4,035**
Accumulated amortisation at 31 December 2009 and 2010	**(4,035)**
Carrying amount at 31 December 2009 and 2010	**-**

13 INTANGIBLES - EXPLORATION AND EVALUATION ASSETS

	OML 122	OPL 323	OPL 321	JDZ	EEZ	Seismic Studies	Total
							US$000s
At 1 January 2009	13,748	115,288	70,628	12,579	2,000	-	214,243
Additions	-	400	400	5,733	-	-	6,533
Refund of signature bonuses (note i)	-	(102,667)	(59,000)	-	-	-	(161,667)
At 31 December 2009	**13,748**	**13,021**	**12,028**	**18,312**	**2,000**	**-**	**59,109**
Additions (note ii)	**-**	**-**	**-**	**524**	**313**	**-**	**837**
Impairment (note iii)	**-**	**-**	**-**	**(9,413)**	**-**	**-**	**(9,413)**
At 31 December 2010	**13,748**	**13,021**	**12,028**	**9,423**	**2,313**	**-**	**50,533**

Note (i): Refund of signature bonuses on OPL 321 & OPL 323
As detailed in the asset review, during September 2009, the Nigerian government refunded the signature bonuses of US$161.7 million. The Company had requested the return of the signature bonuses in the previous March because, due to the ongoing litigation, it was being denied its right to explore the blocks and faced severe economic hardship. The Company has notified the government of its intention to maintain its interests in the two blocks until such time that the court disposes of the matter and beyond. This notification was acknowledged by the government.

Note (ii): Additions
JDZ Additions: Additions in the year are in relation to the reappraisal of the block following the Bomu 1 well drilled during 2009.

EEZ Additions: During 2010, the Company bought a licence for the 2D seismic covering Blocks 5 and 12 of the EEZ of São Tomé & Príncipe at a cost of US$100,000. Further expenditure of US$213,000 was made on geological and economic studies to make a total investment of US$313,000.

Note iii: Impairment of JDZ Block 2
Following the evaluation of the exploration well, the Bomu discovery is considered to be sub-commercial. The drilling and evaluation costs relating to the well, amounting to US$9,413,000, have been impaired. Expenditure on the 3D seismic licence and on geological studies, amounting to US$9,423,000, is retained on the balance sheet pending the JDA granting a further extension to Phase I of the PSC Exploration Period, which the Company expects will be granted during the first half of 2011.

14 PROPERTY, PLANT AND EQUIPMENT

	Fixtures and Fittings	Equipment and software	Motor vehicles	Total
	US$000s	US$000s	US$000s	US$000s
Cost at 31 December 2009 and 2010	**359**	**291**	**66**	**716**
Accumulated depreciation at 31 December 2009 and 2010	**(359)**	**(291)**	**(66)**	**(716)**
Carrying amount				
At 31 December 2009	-	-	-	-
At 31 December 2010	**-**	**-**	**-**	-

15 INVESTMENTS

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

As at 31 December 2010

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

16 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2010	2009
	US$000s	US$000s
Other receivables	**2,659**	4,020
Less provision for impairment of other receivables	**(2,659)**	(4,004)
Trade and other receivables - net	**-**	16
Prepayments and accrued income	**69**	7
Value added tax recoverable	**-**	4
Amounts due from related parties		-
	69	27

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

	As at 31 December	
	2010	2009
	US$000s	US$000s
At 1 January	**4,004**	1,518
Write off of receivables previously provided against	**(1,377)**	-
Provision for receivables impairment	**32**	2,486
At 31 December	**2,659**	4,004

Other than receivables provided for, or written off, there were no material past due nor impaired receivables at either 31 December 2010 or 2009.

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

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

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

All trade receivables were denominated in US Dollars.

17 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2010	2009
	US$000s	US$000s
Cash and cash equivalents	**130**	1,912

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

All of the Group's cash and cash equivalents are held by 'A' or better rated banks (2009: 98%).

18 TRADE AND OTHER PAYABLES

	As at 31 December	
	2010	2009
Amounts falling due in less than one year:	**US$000s**	US$000s
Trade payables	**1,910**	2,064
Other payables	**2,669**	1,990
Accruals	**3,772**	10,590
Amounts due to related parties	**300**	-
	8,651	14,644

Trade payables are principally dominated in GB Pound.

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

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

19 FINANCIAL INSTRUMENTS

Financial assets	As at 31 December 2010 Current US$000s	2010 Non-current US$000s	2009 Current US$000s	2009 Non-current US$000s
Cash and cash equivalents	**130**	**-**	1,912	-
Trade and other receivables	**-**	**-**	16	-
	130	**-**	1,928	-

Financial liabilities	As at 31 December 2010 Current US$000s	2010 Non-current US$000s	2009 Current US$000s	2009 Non-current US$000s
Trade and other payables	**8,651**	-	14,644	-

Fair values

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

Sensitivity analysis

Interest rate risk
The Group is only exposed to interest rate risk on its cash balances held at bank as these have variable interest rates pegged to LIBOR. This risk is immaterial due to the size of cash balances held.

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

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

	Strengthened by 10% Increase / (decrease) in post-tax loss and impact on equity US$000s	**Weakened by 10%** Increase / (decrease) in post-tax loss and equity US$000s
31 December 2010	**64**	**(64)**
31 December 2009	165	(162)

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

Cash at bank and short term deposits

	As at 31 December **2010** **US$000s**	2009 US$000s
Aa1 (Moody's rating) - Barclays plc	**128**	1,881
Other bank balances	**2**	31
Total	**130**	1,912

20 CONTINGENT LIABILITIES

OML 122 Contingent Liabilities

In September 2007, the Group transferred, under the Bilabri Settlement Agreement ('BSA'), the full responsibility for completing the OML 122 'Bilabri' development to Peak Petroleum Industries (Nigeria) Limited ('Peak') who specifically assumed responsibility for the project's future funding and its historic unpaid liabilities. In the event that Peak fails to meet its obligations to the project's creditors, it remains possible that a subsidiary of the Group may be called upon to meet the debts. Therefore a contingent liability of US$ 21.7million exists in this regard.

OPL 321 and 323 Contingent Liabilities

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

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

- a farm out with another party,
- a sale or partial sale of the interests, and
- a sale or partial sale of the subsidiaries holding the relevant PSCs.

It is possible that none of these events will occur and it is assumed that the Company may not need to settle these loan notes and defer payment indefinitely. As noted in the Director's Report, the Company is currently defending an arbitration claim from one of the parties, African Excellence Investments Limited, for US$1million. As none of the events detailed above have occurred, management has not recognised a liability in respect of this claim.

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

21 SHARE CAPITAL

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

	Equity share capital allotted and fully paid	
	Number	US$000s
(ii) Issued equity share capital		
As at 31 December 2009 and 2010	**481,117,270**	-

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

22 TAXATION

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

The Group has un-provided deferred tax assets of approximately US$14.0million (2009: US$14.0million) arising on carried forward trading losses of its subsidiary entities.

23 OPERATING LEASE COMMITMENTS

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

	As at 31 December	
	2010	2009
	US$000s	US$000s
Within one year	**117**	-

24 CAPITAL COMMITMENTS

There were no capital commitments at 31 December 2010 (2009: US$ nil)

25 SHARE BASED PAYMENTS

During the years ended 31 December 2010 and 2009 the Group had in issue the share options and warrants tabled in note 26. Awards of options are equity settled and there are no performance related conditions attached. Volatility is measured by comparison to a peer Group of companies.

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

26 SHARE OPTIONS AND WARRANTS

26.1 Share options

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

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

	2010		2009	
	Average exercise price in £ per share	**Options 000's**	Average exercise price in £ per share	Options 000's
At 1 January	**1.21**	**2,168**	1.13	3,650
Lapsed	**-**	**-**	1.20	(525)
Expired	**1.18**	**(1,524)**	1.00	(957)
At 31 December	**1.27**	**644**	1.21	2,168

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

	Exercise price in £ per share		Shares (thousands)	
Expiry Date			**2010**	2009
22 November 2014	1.00	Lapsed.	**-**	1,200
21 July 2010	1.56	Expired in 2010.	**-**	300
08 November 2010	2.07	Expired in 2010.	**-**	24
30 January 2011	3.05		**25**	25
06 October 2011	1.16		**225**	225
06 October 2011	1.22		**394**	394
			644	2,168

26.2 Warrants

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

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

	2010		2009	
	Average exercise price in £ per share	**Options 000's**	Average exercise price in £ per share	**Options 000's**
At 1st January	**0.10**	**7,685**	0.34	53,498
Lapsed	**-**	**-**	(0.38)	(45,813)
At 31 December	**0.10**	**7,685**	0.10	7,685

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

	Exercise price in £ per share	Shares (thousands)	
Expiry Date		**2010**	2009
09 March 2011	0.08	**5,600**	5,600
12 October 2012	0.14	**333**	333
12 October 2012	0.15	**1,752**	1,752
		7,685	7,685

27 CAPITAL RESERVES

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

28 DIVIDENDS

No dividends have been paid to ordinary shareholders in the year (2009: a dividend of US$ 28.7million -3.6 pence per share).

29 ULTIMATE CONTROLLING PARTY

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

30 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

a.) Purchases of goods and services	**As at 31 December**	
	2010	2009
	US$000s	US$000s
Rent of office space from Oando plc	**117**	-

b.) Directors' Emoluments and Fees	**As at 31 December**	
	2010	2009
	US$000s	US$000s
Total Executive and Non Executive Directors' emoluments, including pension, and fees	**501**	735

c.) Year end creditor balance	**As at 31 December**	
	2010	2009
	US$000s	US$000s
Loan balance from Oando plc (The loan is repayable on demand and bears interest at 16% p.a.)	**300**	-
Amount payable in respect of pension contribution to Philip Dimmock (director)	**292**	238

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