EQUATOR
EXPLORATION LIMITED

EQUATOR EXPLORATION LIMITED

ANNUAL REPORT AND FINANCIAL

STATEMENTS 2014

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Operating Review

Events during 2014

This statement covers the significant events of the last year, from January to December 2014.

The Company's Oil & Gas Interests

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

- The Bilabri and Owanare oil and gas developments in OML 122, shallow water Nigeria;
- OPL 321 & OPL 323, deep water Nigeria;
- Block 5, ultra-deep water in the Exclusive Economic Zone of São Tomé & Príncipe;
- The award of Block 12 by the National Petroleum Agency of the Government of the Democratic Republic of São Tomé & Príncipe also in the ultra-deep Exclusive Economic Zone.

An appraisal of these interests is given in the Asset Review which immediately follows this Operating Review. Key matters which arose during 2014 are:

OPL 321 & OPL 323

During 2014, further progress has been made on a resolution to the dispute between the operator, Korean National Oil Corporation (KNOC), on the one side, and the Federal Government of Nigeria and Owel Petroleum Services Nigeria Limited ('Owel'), on the other.

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

In 2012, Owel returned to the courts and, in April, the Court of Appeal gave judgment. It ruled that the High Court had no jurisdiction to entertain KNOC's original action for a Judiciary Review because, in ordering the voiding of the award of the blocks to KNOC, the President of Nigeria was acting in an executive capacity not a judicial one. The Court of Appeal therefore set aside the High Court judgment of August 2009 and struck out the KNOC petition for a Judiciary Review. Nevertheless, the case went to the Supreme Court because Owel petitioned for the status of the Production Sharing Contract (PSC) to be clarified.

During 2013, KNOC engaged Covington & Burling to help them reach a settlement with Owel, Equator, NJ Exploration Limited (NJ), Tulip Energy Resources Nigeria Limited (Tulip) and, ultimately, the Federal Government. In the second half of 2013, a number of meetings among KNOC, Owel (also representing ONGC) and Equator saw steady progress on new participating interest splits and the treatment of back costs.

ONGC and NJ joined the settlement negotiations in February 2014. The parties shared and agreed on technical studies, negotiated the split of participating interest and treatment of past expenditure and prepared for discussions with the government. The parties came close to agreement on most of the issues. However, by October 2014, ONGC, having made a valuable contribution to the settlement discussions, dropped out of the process. Also, new management in KNOC ordered a review of all of its corporation's activities. As a result, settlement discussions on OPL 321 and OPL 323 became suspended over the winter.

After the inauguration of President Buhari, Equator re-opened discussions with each of the remaining parties, including a visit to Seoul in July 2015. The parties are currently attempting to finalise the terms of a settlement agreement to take to the Supreme Court and the new government. At the same time, Owel has served a petition in the Supreme Court to unify the various petitions that have been lodged there.

Throughout, the Company has maintained that it is entitled to its 30% participating interest in the PSC's of the two blocks, despite the return of its share of the signature bonuses, totalling US$ 161.7 million, by the Nigerian authorities in October 2009. At the time, the government acknowledged receipt of the Company's letter stating this position. At the current time, no participant has paid its full signature bonus.

Blocks 5 & 12, São Tomé & Príncipe

The Directors are pleased to report that, during the year and beyond, considerable progress has been made with the understanding and the evaluation of Block 5. The existing 2D seismic survey was reprocessed and magnetic/gravity data was licensed. The new data was used to considerably upgrade our technical and commercial studies. The confidence in a working petroleum system is improved, the structural geology is better understood and the possible presence of very large prospects is identified.

An imaginative deal with BGP and Geoex has enabled a 3D seismic survey to be acquired in 2015 over the area of most interest. Our hosts, the National Petroleum Agency, agreed to the substitution of the 2D seismic commitment with more valuable 3D seismic. The area of 3D seismic acquired is 1480 sq km. The field data is currently being processed by state of the art algorithms in a four month project. Once processed, the data will be used to enhance and finalise the geological and geophysical study of the block. That will enable the prospects to be ranked and their geological risk determined leading to the "drill or drop" decision as required by May 2016 according to the terms of the Production Sharing Contract.

In order to manage the exposure to the high cost and risks of drilling an exploration well in a frontier province in ultra-deep water, the Company has put significant effort into finding an acknowledged deep water operator as a partner. We are pleased to report that, from the several companies that have visited the data room and evaluated the block, a significant few remain very interested. In particular, detailed discussions continue with a particularly well-suited company.

With the exception of the level of carried participation for the government, the terms of the PSC for Block 12 have been agreed. Dependent on good progress with Block 5, we anticipate finalising the PSC of Block 12 during the coming months.

Bilabri & Owanare (OML 122)

By the end of 2013, Peak had been wound up (but not dissolved) and the court-appointed Liquidator had formed a Committee of Inspection. However, Peak has refused to cooperate with the Liquidator and has continued with a series of appeals and injunctions. We have been successful in getting some struck out but until these petitions are determined, the Liquidator remains in control of the assets of Peak for the benefit of the creditors, particularly Equator.

Meanwhile, a capital finance advisory company approached Equator advising that it had access to the finance to cover both the Bilabri oil development and the project debts. To allow Peak to take up this opportunity, Equator has entered a new settlement agreement with Peak, allowing it six months, starting in May 2015, to raise the finance. Under the terms of the new agreement, Peak has acknowledged debts owed solely to Equator amounting to US$ 52.24 million and agreed to pay this sum on closing. It will also honour Equator's other rights under the BSA, namely a carried interest of 5% in the oil project and a paying interest of 12.5% in any gas development. If Peak cannot comply with the terms of the agreement by the end of the six month period it can be terminated and the initiative returned to the Liquidator.

Parent Company

Oando Netherlands Holdings 1 Coöperatief U.A., a Netherlands registered company, continues to hold 392,237,688 shares of the Company's common stock out of a total of 481,117,270. This company is wholly owned by Oando Energy Resources Inc ('OER'), which is registered in Canada, is listed on the Toronto Stock Exchange ('TSX') and is the effective parent of Equator. Oando Plc (Oando) remains the ultimate parent through its shareholding of OER, which throughout 2013, remained at 94.6 per cent of the total shares in issue. Oando is listed on the Lagos and Johannesburg stock exchanges.

Equator became a direct subsidiary of Oando in 2009 when, in a number of transactions, Oando acquired a 78 per cent stake in the Company. During the fourth quarter of 2011, Oando acquired further shares in Equator, raising its shareholding to 81.5 per cent. On the 24 July 2012, Oando transferred all of its holding in Equator to Oando Netherlands Holdings 1 Coöperatief U.A, pursuant to a reverse takeover transaction between Oando and Exile Resources Inc. (now OER).

Results for 2013 & 2014

The Group posted the following losses in 2013 and 2014:
(US$ 000's)
2013: US$ 2,171
2014: US$ 19,364

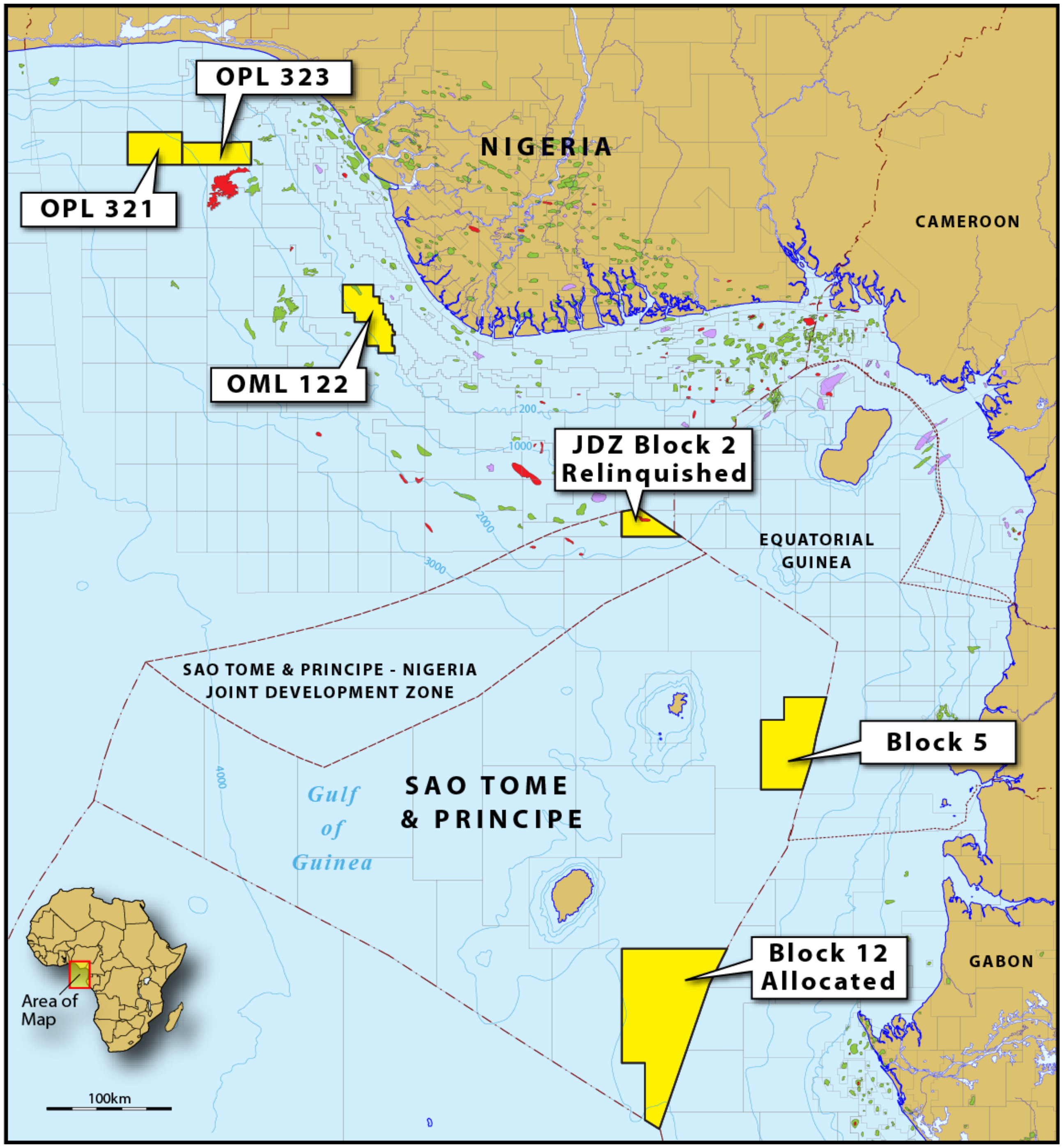
Dividends 2013 & 2014

No dividends were paid in 2013 or 2014.

The Directors remain determined to maximise the value of Equator's assets for the benefit of all shareholders. Accordingly, they again have secured continued funding from Oando Energy Resources.

10 November 2015

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's bidding group won the blocks in the 2005 licensing round with bids comprising signature bonuses (US$ 161.7 million net), work programmes and 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, 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 carried 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 the 10 March 2006. Subsequently, the Joint Operating Agreements were signed on the 7 June 2007.

The award of operatorship to KNOC made it impractical for the Company's other bidding partners to enter the PSC's directly. The Company therefore 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 an agreement to farm-out 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 Equator's remaining 10% interest. However, NNPC withheld its required approval due to a number of on-going public and private government inquiries into the award 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 in the 2005 licensing round of which Equator is a member. KNOC brought a lawsuit against the government parties in the Federal High Court in Abuja. One of Equator's bidding partners, Owel Petroleum Services Nigeria Ltd ('Owel'), joined in the lawsuit as a co-defendant of the government. In August 2009, judgment was given in KNOC's favour. The government and Owel responded by submitting separate appeals against the High Court judgment.

In September 2009, the government refunded the signature bonuses of US$ 161.7 million which Equator had paid for OPL 323 and OPL 321. The Company had requested this in March 2009 because the on-going litigation was denying it of its right to explore the blocks and it faced severe economic hardship. The Company notified the government of its intention to maintain its interests in the two blocks. This notification was acknowledged by the government.

In August 2010, BG terminated the farm-out agreement.

The government did not pursue its appeal in the courts but Owel did. In April 2012, the Court of Appeal ruled on Owel's appeal. The three judges considered a total of twenty one issues, six of which were resolved in favour of Owel while the rest were resolved in favour of either KNOC or all of the ten Respondents, comprising KNOC, the President of Nigeria, other Federal Government parties, the Local Content Vehicles and ONGC Videsh. The Owel appeal therefore succeeded only in part. However, on Issue 8, which bordered on the jurisdiction of the Federal High Court, the Court of Appeal ruled that the junior court had no jurisdiction to entertain KNOC's original action for a Judiciary Review because, in ordering the voiding of the award of the blocks to KNOC, the President of Nigeria was acting in an executive capacity not a judicial one. The Court of Appeal therefore set aside the Federal High Court judgment of August 2009 and struck out the original KNOC petition for a Judiciary Review. However, the Court of Appeal did not rule on the validity of the PSC's. Owel therefore petitioned the Supreme Court seeking a ruling that the PSC's no longer subsist. KNOC and the government parties cross petitioned.

By the end of 2013, KNOC engaged an American legal firm, Covington & Burling, to help them reach a settlement with Owel, Equator, NJ, Tulip and, ultimately, the Federal Government. In the second half of the year, a number of meetings were held among KNOC, Owel (also representing ONGC) and Equator and, despite the difficulties, steady progress was made on new participating interest splits and the treatment of back costs.

Activities in 2014

In Abuja on Friday 7 February 2014, ONGC, having completed a technical and commercial re-evaluation of the blocks, and NJ Exploration joined the settlement negotiations (the principle of Tulip was in hospital). The parties subsequently held meetings in Seoul and New Delhi in which technical and economic studies were shared and the split of participating interest and the allocation of past expenditure were negotiated. The parties came close to agreement on most of the issues. However, by October 2014, ONGC was indicating that it no longer intended to participate in the process. Also, new management in KNOC ordered a review of all of its corporation's activities. As a result, settlement discussions on OPL 321 and OPL 323 became suspended.

Post Period Activities

Subsequently to the inauguration of President Buhari, Equator re-opened discussions by holding bi-lateral meetings with each of KNOC, Owel and NJ Exploration, including a visit to Seoul in July 2015. At the same time it was observed that Owel served a petition in the Supreme Court to unify the various petitions that had been lodged there. Equator also seeks clarification of the intentions of ONGC.

Impairment

At the end of 2012, the Company took the precaution of posting impairment provisions. This was because Equator Exploration Limited prepares its annual financial statements under the International Financial Reporting Standards (IFRS) and, ever since 2009, the extended court processes were continuing to prevent Equator from exercising its rights under the PSCs to explore for and develop any oil discoveries in the blocks. OPL 321 and OPL 323 were assigned impairment provisions of US$ 11,092,732 and US$ 12,008,639 respectively, representing the Company's share of the joint expenditure made by the operator, KNOC.

Further impairments of US$ 934,881 and US$ 1,012,072 respectively, representing amounts invested by the Company on its own behalf, have now been made leaving zero carrying values.

It is emphasised that the Company continues to maintain and to vigorously pursue its full rights to the blocks. Although mindful that the Exploration Periods of the PSC's expire in March 2016, Equator believes that it will either participate in a satisfactory settlement with the other parties or will be an indirect beneficiary of a Supreme Court decision.

Operational status

From March 2006 until January 2009, the joint venture of KNOC, Equator, NJ and Tulip thoroughly interpreted the existing 3D seismic survey and identified several prospect horizons in a number of geological structures. The prospect horizons and, in turn, the geological structures were ranked in order to select the optimum locations for the two commitment wells on each block.

The Deepwater Pathfinder was contracted and preparations were made to drill the four obligation wells starting in the third quarter of 2009. However, to avoid a substantial early termination penalty in light of the ongoing litigation, the rig contract had to be assigned elsewhere.

Prospectivity

OPL 323

OPL 323 is located 80 kilometres offshore and lies in water depths of between 890 metres and 2080 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 of oil 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. The long awaited development for Bosi, the second field on OML 133, reportedly is expected to produce 135,000 barrels of oil per day.

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

In September 2011, Netherland, Sewell & Associates Inc. ('NSAI'), Independent Petroleum Engineers, confirmed its 2006 assessment of the prospective resources within the four largest structures, which used a statistical 'Monte Carlo' approach. For 'Best Estimate', they used the median (P50), the standard adopted in 2007 by the Society of Petroleum Engineers. The Best Estimate of Gross Unrisked Prospective Resources on four structures is 1.1 billion barrels of oil and 4.9 trillion standard cubic feet of gas (Tables 1 & 2).

The subsequent more detailed evaluation of five structures by the operator gave a best estimate of 1.3 billion barrels for oil.

OPL 321

OPL 321 is located immediately to the west of OPL 323, lying in deeper water in the range 1900 to 2600 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 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, identified a total of four structures and calculated the best estimate of the total gross unrisked prospective resources of oil to be 1.6 billion barrels.

Table 1 - OPL 321 & OPL 323
Unrisked Recoverable Oil Resources (million barrels) [1]
as at 30 June 2011

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

Table 2 - OPL 321 & OPL 323
Unrisked Recoverable Gas Resources (billion cu ft) [1]
as at 30 June 2011

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

Totals may not add due to rounding

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

At the end of the joint studies conducted in 2014 by ONGC, KNOC and Equator, it was concluded that the unrisked oil and gas resources remain similar to those expressed in the above tables. However, from a deeper understanding of the nature of the geology and a knowledge of the poor exploration success achieved in the Nigerian deep water since 2009, it was concluded that the Probabilities of Geological Success are about half those indicated in the above tables. This makes exploration of the blocks under the 2005 fiscal terms marginal. The parties will therefore be seeking some relief from the existing terms in order to regain some economic attractiveness for the blocks.

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

History and Status

The maritime boundaries of São Tomé & Príncipe ('STP') encompass an area of approximately 160,000 square kilometres. The proximity of STP'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 partly funded the acquisition in 2001 and 2005 of 10,000 kilometres of 2D seismic data within the Exclusive Economic Zone ('EEZ') of STP. It had been agreed with the government that licences for the seismic data would be sold to oil companies to promote a licensing round. In return for the risk taken in investing in the seismic acquisition programme, the joint venture gained the right to acquire a 100% interest in two blocks of its choice. Subsequently, the Company bought out PGS to gain the right wholly for itself.

The first Licensing Round for the EEZ took place in 2010. Prior to this, the government invited the Company to make its first choice of two blocks. Equator was duly allocated its chosen blocks, Block 5 and Block 12. The PSC for Block 5 was signed with the National Petroleum Agency on the 18 April 2012 triggering the payment of a signature bonus of US$ 2 million, the provision of a performance guarantee for US$ 5.2 million and commitment to a four year work programme of 2D and 3D seismic acquisition and studies. If justified by the results of the seismic surveys, the Company can elect to drill the first exploration well in the following period of two years.

The negotiations on the PSC for Block 12 have reached the final stages.

In 2012, Equator purchased a licence for the 2D seismic data covering Blocks 5 and 12 and with the help of RPS Energy, the Company carried out a comprehensive study on the prospectivity and economics of the blocks.

Activity in 2014

In 2014, under an amendment to the existing license, the Company engaged PGS to reprocess the 2D seismic data set with state of the art computing algorithms. Furthermore, PGS's existing gravity and magnetic data was added to the license. Using the data, three specialist interpretation firms (ERCL, Getech and IGI) conducted a new comprehensive study of the block. The resulting revised geological interpretation enhances the probability of the existence of a working petroleum system. As well as confirming the robustness of a number of structures, the study used AVO (amplitude versus offset) to suggest the possibility of 3 very large stratigraphic leads. It is emphasised that 3D seismic is required to transform the leads into drillable prospects.

An Environmental Impact Assessment was made for submission to the government in preparation for a 3D seismic survey.

The Company sought to reduce or eliminate its 2D seismic obligation in favour of a larger area for the 3D seismic obligation. In response, the National Petroleum Agency granted an amendment to the PSC that reduced the 2D obligation by 1500 km in return for an increase of 200 sq km for the 3D seismic obligation.

As part of its social obligation under the PSC, the Company supplied 8 school buses to the Ministry of Education, Culture, and Science in order to greatly shorten the journey times for high school students living in remote rural areas. The Company also funded overseas training courses for a number of staff in the National Petroleum Agency.

Post Period Activities

In 1H 2015, a consortium of BGP and Geoex were engaged, on a risk sharing basis, to conduct and process a 1,200 sq km 3D seismic survey over the area of prime interest in Block 5 along the Kribi fracture zone. During the survey, the National Petroleum Agency agreed to eliminate the remaining 2D seismic obligation in exchange for an extra 200 sq km. The actual area acquired for the 3D survey was 1,480 sq km.

The survey is now being processed by Down Under GeoSolutions. They report that the quality of the survey is very good.

In order to enhance the value and manage the risks of its opportunities in the EEZ, the Company has been seeking a farm-out to one or more acknowledged deep water operators. A number of companies have visited the data room, some of which are showing a high level of interest. Discussions are on-going with a particularly well-suited exploration and production company.

In order to continue the fulfilment of the training obligation, scholarships have been granted to students at the University Institute of Accounting, Administration and Information Technology in São Tomé city.

Block 5 Prospectivity

Block 5 has an area of 2844 sq km and is located east of the island of Príncipe, adjacent to the Equatorial Guinean shelf with water depths ranging from 2000 to 2500m. The block is within Zone A of the government's block classification scheme and is ranked highest by Equator based on the criteria of water depth, on proximity to the Equatorial Guinea shelf and to the ancient Ogouee delta, and on the presence of Cretaceous structural traps related to basement faulting. The structure of the block is dominated by the Kribi Fracture Zone Complex. Our license for 2D seismic data includes approximately 1500 line km within Block 5 on a spacing of some 2.5km by 5km. The quality of data is generally good in both the Tertiary and Cretaceous intervals.

In 2014, the block was re-evaluated. The 2D seismic data was reprocessed and ship borne gravity and magnetic data was licensed. This data has provided new insights into the understanding of the geology of the block and, in particular, the nature and history of the Kribi Fracture Zone. Regionally, source rocks are geochemically proven in the Albian-Turonian. Modelling of the maturity of two intervals of source rocks indicates that they have become early to mid-mature over most of the block. The main area of the source kitchen is in the furrow of the Kribi Fracture Zone coinciding with the location of the reservoir structures created by the Fracture Zone. The dominant hydrocarbon phase expelled is oil.

Seven horizons within the Cretaceous and Tertiary Periods were mapped in time and depth. A number of prospects and leads were identified in the section from the Albian through to the Upper Cretaceous, predominantly associated with structural trapping geometries over the Kribi Fracture Zone. Further opportunities exist within large stratigraphic leads in the Upper Cretaceous and potentially the Tertiary.

The results of the 2014 study were used to design the 3D seismic survey undertaken in 2015. The field data acquired from the 3D survey are currently being processed in preparation for a definitive interpretation of the block. Specifically, three dimensional mapping and the application of modern seismic attribute analysis (e.g. AVO) will better define the volumes of the prospects and will greatly improve the estimation of exploration risk. The combination of these factors will enable the prospects to be ranked and will inform the decision on whether to commit to the drilling of one well, by entering the next phase of the PSC, or to relinquish. Bearing in mind the considerable financial exposure associated with an ultra-deep water well, the Company seeking to complete a farm out before committing to the next PSC phase.

Block 12 Prospectivity

Block 12 is the most south-easterly block in the EEZ with an area of 7940 sq km in water depths ranging from 2500 to 3000m. It is the closest to the North Gabon salt basin, lying some 150 km to the west of Port Gentil. The block is situated within Zone B of the government block classification scheme, and within this group has been ranked the most attractive by Equator due to its proximity to the North Gabon salt basin and the presence of structural prospects located both on the footwall of the Ascension Fault and similar sub-parallel trends.

Within Block 12, we have licensed approximately 800 km of 2D line data on a spacing of some 11km by 40 km. The seismic data shows reasonable reflection continuity, although the line spacing in this area is much greater than in Block 5. The seven seismic mapping horizons defined in the 2012 study of Block 5 were correlated into Block 12 through the use of the regional tie lines and a number of prospects and leads have been identified. Large robust closures exist within the Block associated with the main Ascension Transform Fault zone. Middle to Late Cretaceous synrift and post rift sedimentation has resulted in numerous interesting structured prospects. Clastics in the Miocene may also provide exploration potential. Full investigation of the stratigraphic potential of the block (deepwater turbidite plays for example) requires further 2D and/or 3D seismic coverage.

Nigeria – Bilabri & Owanare Fields (OML 122)

Operational 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 the funding and 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.

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 7188 barrels per day. The gas reservoir in the overlying C1 sand flowed at a rate of 26 million standard cubic feet per day. The data from the flow tests combined with the well logs to confirm that the reservoir properties and crude oil quality of Bilabri were excellent. Accordingly, Equator and Peak initiated a development programme consisting of 6 wells and signed a charter contract for a Floating Production, Storage & Offloading vessel ('FPSO') with BW Offshore on 17 October 2006.

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

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

The three additional appraisal wells established that the aerial extent of the C2 sand was larger than expected but determined that the C1 sand contained gas only. In April 2007, NSAI assessed the Gross Proved plus Probable oil reserves for Bilabri as 13.2 million barrels. 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. 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 the 22 January 2007, the FPSO entered a shipyard in Singapore for upgrade and delivery to Nigeria in the fourth quarter of 2007. The sub-sea equipment was ordered and scheduled for installation also 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 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 the 11 May 2007. Subsequently, BW Offshore terminated the contract for the FPSO. The Company became liable for early termination penalties on the FPSO and for debts on a number of unpaid invoices from suppliers.

In September 2007, Equator agreed terms with Peak by entering into the Bilabri Settlement Agreement ('BSA') for Peak to take responsibility for operations and to fund the remainder of the Bilabri oil development. Peak also assumed the existing and future project liabilities and an 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.

Legal Proceedings

Peak did not meet any of its obligations under the BSA. Equator therefore served a notice of arbitration on Peak in the London Court of International Arbitration (LCIA). Peak responded by obtaining an order from the Federal High Court in Lagos restraining the continuation of the Arbitration Proceedings being held at LCIA. Equator nevertheless, continued with the proceedings, and on the 27 May 2008, the tribunal awarded the total sum of US$ 123 million plus interest to Equator.

In 2010, Equator filed a winding up petition against Peak for its inability to pay its debt. By mid-2011, some success was achieved with the withdrawal of the suit filed by Peak to restrain the Arbitral proceedings. Equator followed by offering Peak a compromise in which Equator would reassume the responsibility of funding the development of Bilabri in return for a larger share of production and the recovery of future costs, the existing debts and interest. Peak rejected the offer.

In November 2011, the winding up order was made final. In February 2012, a liquidator was appointed to take custody and control of the assets of Peak.

The Liquidator held the first Creditors and first Contributories Meetings on the same day in July 2013. Eleven out of sixteen registered creditors attended the Creditors Meeting while none of Peak's shareholders attended the Contributories Meeting. Given that there is only one significant asset, Oil Mining Lease 122, the Liquidator described his three options as:

- sell the assets by public auction;
- ascertain the value of the assets and invite creditors, members of the public and the shareholders of Peak to buy shares in a new company; or
- direct the creditors to manage OML 122.

In each case, the proceeds would be used to pay the debts to the creditors. Any remainder would go to the shareholders of Peak.

A Committee of Inspection comprising three of the creditors including Equator was formed to advise the Liquidator. During the meeting, Shell announced that it had a 40% interest in the block. This claim arises from heads of agreement signed with Peak in 1998, long before Oil Prospecting License 460 was converted to Oil Mining Lease 122 in 2001.

Peak responded with a series of appeals and applications. Many were struck out by the courts. However, Peak continued to pursue:

- an application seeking to restrain Equator from dealing with its assets; and
- further applications seeking to commit Equator's lawyer, Baker Hughes' lawyer and the Liquidator for contempt.

Until these applications are determined, the Liquidator holds Peak's assets for the benefit of the creditors, particularly Equator.

By the end of 2013, Peak did make one attempt to reinitiate discussions on a settlement. We declined preferring to continue to pursue our rights with the Liquidator and to seek the striking out of all appeals.

Activity in 2014

Procedural court proceedings continued during 1H 2014 resulting in adjournment until October 2014.

Meanwhile, a company that provides structured finance and capital advisory services in the oil, gas and power sector approached Equator advising that it had access to the finance to cover both the Bilabri oil development and the project debts. Equator agreed to give Peak the chance of taking up this opportunity and entered into discussions with Peak to reach a new settlement. The capital advisory company confirmed its offer in a letter dated April 2014.

In September 2014, Equator and Peak signed a letter agreement that outlined the terms of the new settlement. Peak would acknowledge and pay Equator the sum of $52.24m to settle agreed debts owed solely to Equator. It would also honour Equator's other rights under the BSA, namely a carried interest of 5% in the oil project and a paying interest of 12.5% in any gas development. Details of the settlement agreement were negotiated and agreed during 4Q 2014, the court action having been suspended.

Post Period Activities

Peak and Equator signed the Settlement Agreement in May 2015. It gives Peak 6 months to source the funding.

Oil & Gas Resources

In September 2011, NSAI confirmed their assessment of the recoverable hydrocarbons in the Bilabri and Owanare discoveries. However, because the development of Bilabri had been suspended they reclassified the oil volumes as contingent resources (Table 3).

Table 3 – Bilabri & Owanare Fields
Contingent Recoverable Resources as at 30 June 2011[1]

	Bilabri Oil Million barrels		Bilabri Gas Million cu ft		Owanare Gas Million cu ft	
Category	Gross	Net at 5%	Gross	Net at 12½%	Gross	Net at 12½%
Low Estimate (1C)	10.3	0.5	332	41.5	59	7.4
Best Estimate (2C)	13.2	0.7	395	49.3	106	13.3
High Estimate (3C)	16.5	0.8	457	57.1	172	21.5

(1) Netherland, Sewell & Associates, Inc.

Joint Development Zone – Block 2

History

From the 17 March 2006 until the 16 March 2012, Equator held a 9% participating interest in Block 2 in the Nigeria and São Tomé & Príncipe Joint Development Zone ('JDZ').

Other participants in the PSC were Sinopec (28.67% operator), ERHC (22.00%), Addax (14.33%), ONGC Videsh (13.5%), Amber Petroleum (5%), Foby Engineering (5%) and A & Hatman (2.5%). In 2009, Foby and Amber went into default on the payment of cash calls. ONGC resigned from the block in June 2010.

An exploration well, Bomu 1, was drilled in 1655 metres of water between the 29 August 2009 and the 3 October 2009. The well 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. The well fulfilled the work obligation of Phase I of the Exploration Period in the PSC.

The well encountered reservoir sands and traps largely as expected but the discovery of only biogenic gas in a number of the sand intervals rather than oil was disappointing. The Phase 1 Exploration Period was extended for a total of two years to allow a thorough technical and commercial evaluation of the Bomu discovery and the remaining prospects on Block 2. As well as using the data gathered from Bomu 1, Sinopec was also able to include the regional information from four other wells drilled in Blocks 3 and 4 in the studies.

The studies confirmed that the small Bomu gas discovery is sub-commercial under current conditions. An adequate source of oil is believed to exist but no faults are seen to provide a migration path for oil between the source rocks and the reservoir sands. The studies also concluded that the best remaining prospect is more likely to contain gas than oil, in quantities not very much larger than those discovered in Bomu. This did not justify commitment to a second exploration well, as required for entry into Phase II of the PSC.

With the possible exception of ERHC, which was carried through Phase I, the participants, including Equator, elected to exit the block.

Directors' Report

for the year ended 31 December 2014.

The directors submit their report and the audited financial statements of the Equator group of companies ("Group") for the year ended 31st December 2014.

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 14. 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 Operating Review and Asset Review on pages 1 – 10 of this Annual Report.

Shares

As at 31 December 2014, there were 481,117,270 common shares issued (2013: 481,117,270).

Results and dividend

The Group made a loss of US$ 19.3 million in 2014. (2013: US$ 2.1 million)

The Company did not pay a dividend in 2014 or in 2013.

Litigation

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

Financing

In a number of transactions during 2009, Oando Plc, a Nigerian public company quoted on the Nigerian and Johannesburg Stock Exchanges, became the majority shareholder of the Group, with 78% of the Group's shares. In 2011, Oando purchased an additional 3.5% of the Company's shares increasing the total of shares to 81.5%. The shares held by Oando Plc were transferred to a wholly owned subsidiary of Oando Energy Resources Inc. ('OER') on the 24th of July 2012. OER has committed to provide financial support to the Company for eighteen months from the date of this report to enable it to meet its financial obligations.

During 2014, Oando Servco Nigeria Limited provided the company with an interest bearing working capital advance of US$ 2,282,519 (2013: US$ 927,899).

Going concern

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

Risk management

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

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

Charitable donations

The Company made no charitable donations during 2014 (2013: 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 re-appointment of PWC as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Jubril Tinubu – Director

Olapade Durotoye – Director

10 November 2015

Statement of Directors' Responsibilities

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

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

The directors confirm that they have complied with the above requirements in preparing the financial statements. The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are also responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

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

Directors, Officers and Professional Advisors
For the year ended 31 December 2014

Board of Directors

Mr JA Tinubu – Chairman	appointed 8 September 2009
Mr O Boyo	appointed 8 September 2009
Mr OO Durotoye	appointed 20 May 2011

Company Secretary

Ms Ayotola Jagun	appointed 20 October 2012

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

Solicitor
Akindelano Legal Practioners
21 Military Street
Onikan-Lagos
Lagos, Nigeria

Share Registrar
Computershare Investor Services (Jersey) Limited
Queensway House
Hilgrove Street
St Helier
Jersey, JE1 1ES

Auditor
PricewaterhouseCoopers
252E Muri Okunola Street
Victoria Island
Lagos
Nigeria

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

pwc

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF EQUATOR EXPLORATION LIMITED

Report on the financial statements

We have audited the accompanying financial statements of Equator Exploration Limited ("the company"). These financial statements comprise the statement of financial position as at 31 December 2014 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control, as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the company's financial affairs at 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 24 to these financial statements, which states that the Company incurred a net loss of USD19,364 million during the year ended 31 December 2014 and, as of that date, the company's current liabilities exceeded its total assets by USD18,504 million. This, along with other matters as described in Note 24, indicates the existence of a material uncertainty which may cast significant doubt about the ability of the Company to continue as a going concern.

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
A 0839782

10 NOVEMBER 2015

Cyril Azobu
FRC/2013/ICAN/00000000648
For: PricewaterhouseCoopers
Chartered Accountants
Lagos, Nigeria

PricewaterhouseCoopers Chartered Accountants, 252E Muri Okunola Street, Victoria Island, Lagos, Nigeria

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	Notes	**31 December 2014 US$000's**	31 December 2013 US$000's
Revenue		**-**	-
Cost of sales		**-**	-
Gross profit		**-**	-
Operating Expenses	5	**(2,076)**	(800)
Impairment of assets	10	**(15,695)**	-
Operating loss	6	**(17,771)**	(800)
Finance costs	8	**(1,593)**	(1,371)
Loss before tax		**(19,364)**	(2,171)
Taxation	19	-	-
Loss for the year attributable to equity shareholders		**(19,364)**	(2,171)
Other comprehensive (expense)/income for the year		**-**	-
Total comprehensive expenses attributable to owners of the parent		**(19,364)**	(2,171)

The notes on pages 21 to 33 form an integral part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2014

	Notes	**31 December 2014 US$000s**	31 December 2013 US$000s
Assets			
Non-current assets			
Intangibles: Goodwill	9	**175**	175
Exploration and evaluation assets	10	**5,552**	20,629
Property, plant and equipment	11	**20**	4
		5,747	20,808
Current assets			
Trade and other receivables	13	**33**	23
Cash and cash equivalents	14	**444**	23
		477	46
Total assets		**6,224**	20,854
Liabilities			
Current liabilities			
Trade and other payables	15	**(24,728)**	(19,995)
Net current liabilities		**(24,251)**	(19,949)
Net (liabilities)/assets		**(18,504)**	859
Equity attributable to owners of the parent			
Share capital	18	**-**	-
Capital reserves		**458,721**	458,721
Accumulated losses		**(477,226)**	(457,862)
Total equity		**(18,505)**	859

Approved by the board of directors on 10 November 2015.

Signed on behalf of the board of directors by:

Olapade Durotoye
Director

The notes on pages 21 to 33 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Share capital US$000s	Capital reserves US$000s	Accumulated losses US$000s	Total equity US$000s
Balance at 1 January 2013	**-**	**458,721**	**(455,691)**	**3,030**
Loss for the year	-	-	(2,171)	(2,171)
Total comprehensive expense	**-**	**-**	(2,171)	(2,171)
Balance at 1 January 2014	**-**	**458,721**	**(457,862)**	**859**
Loss for the year	-	-	(19,364)	(19,364)
Total comprehensive expense	**-**	**-**	**(19,364)**	**(19,364)**
Balance at 31 December 2014	**-**	**458,721**	**(477,226)**	**(18,505)**

The notes on pages 21 to 33 form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	**31 December 2014 US$000s**	31 December 2013 US$000s
Cash flow from operating activities			
Operating loss		**(17,771)**	(800)
Adjustments for:			
Impairment of exploration and evaluation assets	10	**15,695**	-
Loss on disposal of fixed assets		-	1
Depreciation		**3**	4
Operating cash flow before movement in working capital		**(2,073)**	(795)
(Increase)/decrease in trade and other receivables	13	**(10)**	(1)
Increase /(decrease) in trade and other payables	15	**406**	(60)
Net cash used in operating activities		**(1,676)**	(856)
Cash flow from investing activities			
Additions of exploration and evaluation assets	10	**(618)**	(38)
Additions of property, plant and equipment		**(19)**	-
Net cash used in from investing activities		**(637)**	(38)
Cash flow from financing activities			
Finance cost		-	-
Receipts from parent company		**2,733**	900
Net cash used in financing activities		**2,733**	899
Net decrease in cash and cash equivalents		**421**	5
Cash and cash equivalents at beginning of period	14	**23**	18
Cash and cash equivalents at end of period	14	**444**	23

The notes on pages 21 to 33 form an integral part of these financial statements.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of preparation

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

Equator Exploration Limited, the parent company of the Group, is incorporated and domiciled in the British Virgin Islands. The address of the registered office is given on page 15. 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 Changes in accounting policies and disclosures

The Corporation adopted IFRIC 21, Accounting for levies imposed by governments, which clarifies that the obligating event giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payment of the levy. The Corporation's adoption of IFRIC 21 on January 1, 2014 did not result in changes in the accounting for government levies.

There are no other IFRSs or IFRIC interpretations that were effective January 1, 2014 that had a material impact on the Corporation.

1.3 New accounting standards and amendments issued but not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing these consolidated financial statements. Those with the potential to effect the consolidated financial statements of the Corporation are:

(a) IFRS 9 (2014) Financial Instruments (‚IFRS 9') is a new standard that replaces IAS 39 Financial Instruments: Recognition and Measurement and previous versions of IFRS 9. The revised standard incorporates the changes in IFRS 9 (2013), which provides revised guidance on the classification and measurement of financial assets and liabilities and adds guidance on general hedge accounting. In addition, IFRS 9 provides for a further classification category for financial assets, and includes a new impairment model for financial instruments. The standard is effective for annual periods on or after January 1, 2018. The Corporation has not yet determined the impact of the final standard.

(b) IFRS 15, Revenue from Contracts with Customers (‚IFRS 15') is a new standard on revenue recognition effective for first interim periods within years beginning on or after January 1, 2017, superseding IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The objective of IFRS 15 is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. It contains principles to determine the measurement of revenue and timing of when it is recognized. . The Corporation has not yet determined the impact of the final standard.

(c) Amendment to IFRS 11, Accounting for Acquisitions of Interests in Joint Operations clarifies the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business. The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application being permitted.

(d) Amendment to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms.

(e) Amendments to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13.

(f) Amendment to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives
to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria.

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 Energy Resources. The directors of Oando Energy Resources have confirmed that they will continue to provide financial support for a period of eighteen months from the date of these financial statements to ensure that the Group can meet its liabilities and obligations as when they fall due. As a result, the directors of the Group consider that the use of the going concern basis is appropriate.

The ability of the Group to maintain its interests in the Production Sharing Contracts as described in the Asset Review on pages 4 – 10 is dependent on the continuing support of Oando Energy Resources 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 acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

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

Revenue from the sale of multi-client seismic library data is recognised when the owner of the seismic data sells a licence.

2.5 Employee services settled in equity instruments
The Group issues equity-settled share-based payments to certain employees. These are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

2.6 Other goods or services settled in equity instruments
Goods or services (other than employee services) received in exchange for equity-settled share-based payments are measured at fair value at the

date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period. The proceeds received on exercise of the options, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the options are exercised.

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

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

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

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

Summary of significant accounting policies; continued

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

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

2.9 Exploration and evaluation assets

Exploration and evaluation assets – capitalisation

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

Costs incurred in the exploration and evaluation of assets include:

All lease and licence acquisition costs, geological and geophysical costs and other direct costs of exploration, evaluation and development are capitalised as intangible or property, plant and equipment according to their nature. Intangible assets comprise costs relating to the exploration and evaluation of properties which the directors consider to be unevaluated until reserves are appraised as commercial, at which time they are transferred to property, plant and equipment following an impairment review and depreciated accordingly. Where properties are appraised to have 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

Summary of significant accounting policies; continued

Summary of significant accounting policies; continued

immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. However, impairment losses relating to goodwill may not be reversed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.23 Finance expenses

Finance expenses include interest expenses and other costs in association to borrowing funds as well as an expense relating to accretion incurred in relation to the Company's decommissioning liabilities, derivative gains and losses and foreign exchange gains/losses.

2.24 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost using the effective interest rate method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Summary of significant accounting policies; continued

Borrowing costs
Borrowing costs are recognized as an expense in the period in which they are incurred, except when they are directly attributable to the acquisition, construction or production of a qualifying asset. These are included as part of additions to property, plant and equipment. A qualifying asset is an asset that takes a substantial period of time, generally greater than a year, to get ready for its intended use or sale.

Where borrowing costs are capitalized to a qualifying asset, the interest cash flows associated are presented within the relevant expenditures line on the statement of cash flows.

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 'Aa' 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.

Capital risk management continued
The gearing ratios at 31 December 2014 and 2013 were as follows:

	2014	2013
	US$000s	US$000s
Borrowings from related parties (note 16)	**16,303**	11,976
Cash and cash equivalents (note 15)	**(444)**	(23)
Net (debt)/cash	**15,859**	11,953
Total equity	**18,505**	859
Total capital	34,364	12,812

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.

5 OPERATING EXPENSES

	Year ended 31 December	
	2014	2013
	US$000s	US$000s
Impairment of exploration and evaluation assets	**(15,695)**	-
Administrative expenses	**(2,076)**	(800)
	(17,771)	(800)

6 OPERATING LOSS FOR THE PERIOD

The operating loss for the period is stated after charging/(crediting):	Year ended 31 December **2014** **US$000s**	2013 US$000s
Director's Remuneration	**135**	484
Profit/Loss on disposal of asset	**-**	1
Net foreign exchange loss	**67**	31

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

Auditors' remuneration:

Current year group auditors PWC Nigeria:		
Fees payable to the Group's auditors for the audit of the parent consolidated financial statements	**53**	53
Fees payable to the Group's auditors for the audit of the subsidiary financial statements	**94**	94
Total audit and non-audit fees	**147**	147

7 STAFF COSTS

	Year ended 31 December **2014**	2013
The average monthly number of employees (including executive directors) employed was as follows:	**-**	-

Their aggregate remuneration comprised:

	2014 **US$000s**	2013 US$000s
Wages, salaries and accrued directors' fees	**161**	484
Recharges from Head Office	**450**	-
	611	484

2014: Within staff costs are US$450k recharged from Oando Servco Nigeria Limited, in relation to Block 5 activities. (2013: Within staff costs are US$ nil recharged from Oando Plc)

8 FINANCE COSTS

	Year ended 31 December **2014** **US$000s**	2013 US$000s
Other interest payable (note 15)	**1,593**	1,371

9 INTANGIBLES - GOODWILL

	US$000s
Cost at 31 December 2013 and 2014	**1,762**
Accumulated impairment at 31 December 2013 and 2014	**(1,587)**
Carrying amount at 31 December 2013 and 2014	**175**

The goodwill relates to Equator Exploration's investment in Equator Exploration Block 12 STP (formerly Aqua Exploration Limited), which owns rights to EEZ seismic data. Equator has a 5% interest in the rights to seismic data for EEZ (Exclusive Economic Zone) of Sao Tome.

10 INTANGIBLES - EXPLORATION AND EVALUATION ASSETS

	OML 122	OPL 323	OPL 321	JDZ Block 2	EEZ Block 5	EEZ	Total US$000s
At 1 January 2013	13,748	1,013	935	-	2,729	2,166	20,591
Additions	-	-	-	-	38	-	38
Transfer on signing of PSC	-	-	-	-	-	-	-
Impairment provision	-	-	-	-	-	-	-
At 31 December 2013	**13,748**	**1,013**	**935**	**-**	**2,767**	**2,166**	**20,629**
Additions (note i)	-	-	-	-	583	35	618
Transfer on signing of PSC	-	-	-	-	-	-	-
Impairment provision (note ii & note iii)	(13,748)	(1,013)	(935)	-	-	-	(15,695)
At 31 December 2014	**-**	**-**	**-**	**-**	**3,350**	**2,201**	**5,552**

Note (i): Additions
The additions to EEZ relate to legal, geological and geophysical (G&G) work undertaken for Block 12. The additions to Block 5 include the reprocessing of the 2D seismic survey and work undertaken by G&G specialists.

Note (ii): Impairment provision of OPL 321 & OPL 323
As detailed in the Asset Review, in September 2009 the Nigerian Government refunded signature bonuses of US$161.7 million. The Company had requested the return of the signature bonus in March 2009 because it was being denied its right to explore the blocks and faced severe economic hardship. The Company notified the Government of its intention to maintain its interests in the block until such time that the court disposes of the matter and beyond. This notification was acknowledged by the Government. Accordingly, the Company retained a carrying value equal to the remaining past expenditure comprising the Company's one third share of the joint venture expenses incurred by the operator, KNOC, and the Company's own direct expenditure on technical studies, legal and administration.

However, Equator Exploration Limited prepares its annual financial statements under the International Financial Reporting Standards (IFRS). Bearing this in mind against the background of the extended court processes that, since 2009, had continued to prevent Equator from exercising its PSC rights to explore and develop any oil discoveries in OPL 321 and OPL 323, in 2012 management concluded that it was prudent to make impairment provisions of US$11,092,732 and US$12,008,639 respectively, representing the Company's share of joint venture expenditure made by the Operator KNOC.

Further impairment provisions have been posted during 2014. OPL 321 has been assigned an impairment provision of US$934,881 and OPL 323 an impairment provision of US$1,012,072, representing amounts invested by the Company on its own behalf. The resulting carrying values, at the 31st of December 2014, are both zero. The impairments may be reversed when Equator can exercise its PSC rights and the determination of commercial quantities.

The Board maintains that the Company continues to have a legal right to a 30% participation in the exploration and exploitation of the two blocks. The Company vigorously pursues this right.

Note (iii): Impairment provision of OML 122
As described in the Asset Review, the Group's interest in OML 122 results from the terms of the Bilabri Settlement Agreement ('BSA'), reached with Peak Petroleum Industries Nigeria Ltd ('Peak') in 2007, which provides the Group with entitlements to the future production from the Bilabri and Owanare fields. The Group's ability to realise its interests in OML 122 is dependent on Peak meeting its obligations under the BSA. The Group has pursued a number of legal avenues in order to realise its investment, including the enforcement of a successful arbitration commencing in 2010 with winding up procedures against Peak. In 2011, the court placed Peak into liquidation but Peak has appealed this decision. In February 2012, a Liquidator was appointed to take custody and control of the assets of PEAK. During 2015, a new settlement was reached with Peak, giving it until November 2015 to procure finance for the Bilabri Oil Development and to pay Equator $52.24m to cover the agreed debts.

However, Equator Exploration Limited prepares its annual financial statements under the International Financial Reporting Standards (IFRS). Bearing this in mind against the background of the extended court processes that, since 2008, have continued to prevent Equator from exercising its share of any oil and gas production, management has concluded that it is prudent to allocate impairment provisions against the asset of OML 122. Therefore, impairment provisions were posted this year. OML 122 was assigned an impairment provision of US$13,748, representing the amount by which OML 122s carrying value exceed its recoverable amount. These impairment provisions leave carrying values, at the 31st of December 2014, of US$0.

It is emphasised that the Company continues to maintain and to vigorously pursue its full rights to the blocks and believes that, in due course, these will be restored.

11 PROPERTY, PLANT AND EQUIPMENT

	Fixtures and Fittings US$000s	Equipment and software US$000s	Total US$000s
As at 1 January 2013	-	8	8
Depreciation at 31 December 2013	-	(4)	(4)
As at 1 January 2014	-	4	4
Addition	10	9	19
Depreciation at 31 December 2014	-	(3)	(3)
As at 31 December 2014 carrying amount	10	10	20

12 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 2014

Name	Principal activity	%	Country of registration	Country of operation
Directly held				
Equator Exploration STP Block 12 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 STP Block 5 Limited	Development of oil and gas projects	100%	BVI	STP
Oando Equator JDZ Nigeria Block 2 Limited (note i)	Development of oil and gas projects	100%	Nigeria	Nigeria
Oando Equator Exploration 321 Nigeria Limited (note ii)	Development of oil and gas projects	100%	Nigeria	Nigeria
Oando Equator Exploration 323 Nigeria Limited (note iii)	Development of oil and gas projects	100%	Nigeria	Nigeria
Oando Equator Exploration Nigeria OML 122 Limited (note iv)	Development of oil and gas projects	100%	Nigeria	Nigeria

Note (i): On the 15 December 2014 Equator JDZ Nigeria Block 2 Limited changed its name to Oando Equator JDZ Nigeria Block 2 Limited.
Note (ii): On the 22 April 2014 Equator Exploration Nigeria 321 Limited changed its name to Oando Equator Exploration Nigeria 321 Limited.
Note (iii): On the 9 April 2014 Equator Exploration Nigeria 323 Limited changed its name to Oando Equator Exploration Nigeria 323 Limited.
Note (iv): On the 12 December 2014 Equator Exploration Nigeria OML 122 Limited changed its name to Oando Equator Exploration Nigeria OML 122 Limited

13 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2014	2013
	US$000s	US$000s
Other debtors	**17**	5
Prepayments and accrued income	**16**	18
At 31 December 2014	**33**	23

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

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above after provisions for receivable impairment. The Group does not hold any collateral as security.
All trade and other receivables were denominated in US Dollars.

14 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2014	2013
	US$000s	US$000s
Cash and cash equivalents	**444**	23

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.
91% of the Group's cash and cash equivalents are held by 'A' or better rated banks (2013: 91%).

15 TRADE AND OTHER PAYABLES

	As at 31 December	
	2014	2013
Amounts falling due in less than one year:	**US$000s**	US$000s
Trade payables	**3,004**	2,988
Other payables	**2,657**	2,657
Accruals	**2,764**	2,424
Amounts due to related parties	**16,303**	11,976
	24,728	19,995

Trade payables are principally dominated in GB Pound and US Dollars.
Included in the amount due to related parties is other interest payable of $1,593,533.19 (2013: $1,370,460)
Trade and other payables principally comprise amounts outstanding for trade purchases and on-going costs.

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

16 FINANCIAL INSTRUMENTS

	As at 31 December			
Financial assets	**2014**		2013	
	Current	**Non-Current**	Current	Non-current
	US$000s	**US$000s**	US$000s	US$000s
Cash and cash equivalents	**444**	**-**	23	-
Trade and other receivables	**17**	**-**	5	-
	461	**-**	28	-

	As at 31 December			
Financial liabilities	**2014**		2013	
	Current	**Non-current**	Current	Non-current
	US$000s	**US$000s**	US$000s	US$000s
Trade and other payables	**8,425**		8,019	-
Amounts due to related parties	**16,303**		11,976	-
	24,728	**-**	19,995	-

Fair values

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

Sensitivity analysis

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

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

Financial instruments continued:
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 2014	66	(73)
31 December 2013	68	(75)

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 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	
	2014 **US$000s**	2013 US$000s
Aa- (Moody's rating) – Standard Chartered Bank	**442**	21
Other bank balances	**2**	2
Total	**444**	23

17 CONTINGENT LIABILITIES

OML 122 Contingent Liabilities

In September 2007, the Group transferred, under the Bilabri Settlement Agreement ('BSA'), the full responsibility for completing the Bilabri (OML122) development to Peak Petroleum Industries (Nigeria) Limited ('Peak') who specifically assumed responsibility for the project's future funding and its historic unpaid liabilities. Now that Peak is wound up, it is possible that a subsidiary of the Group may be called upon to meet some or all of the unpaid liabilities which currently amount to US$22.8 million.

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

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

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

Block 5 Contingent Liabilities

The company acquired a performance bond from Ecobank in Sao Tome and Principe and there is a contingent liability of USD5.2m which will be due if EEL does not meet their obligations in relation to the production sharing contract.

18 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 2013 and 2014	**481,117,270**	-

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

19 TAXATION

The Group is not subject to tax in the British Virgin Islands. Operations within Nigeria, São Tomé & Príncipe 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.

20 CAPITAL COMMITMENTS

The PSC for EEZ Block 5, signed on the 18 April 2012, provided that Equator Exploration STP Bock 5 Limited commit to a US$19 million four year work program. This is covered by a US$5.2 million performance bond provided by Ecobank on behalf of Equator Exploration STP Block 5 Limited without collateral.

21 DIVIDENDS

No dividends have been paid to ordinary shareholders in the year (2013: US $nil).

22 ULTIMATE CONTROLLING PARTY

On 24 July 2012 the majority shareholding of 81.53% was transferred from Oando plc to Oando Energy Resources (formerly Exile Resources Inc). The Group is therefore controlled by Oando Energy Resources (registered in Canada) and the ultimate parent company is Oando plc (incorporated in Nigeria). As at 31 December 2014 Oando Energy Resources owns 81.53% of the Group's shares and the remaining 18.47% of the shares are widely held by non-controlling interest.

23 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

a) Purchases of goods and services	**As at 31 December**	
	2014	2013
	US$000s	US$000s
Rent of office space from Oando Logistics and Services	**-**	-
Corporate service charge charged by Oando Logistics and Services	**-**	-
Total services from Oando Logistics and Services	**-**	-
Recharge of staff costs from Oando Servco Nigeria Limited	**450**	-
Recharge of general operating costs from Oando Servco Nigeria Limited	**-**	-
Total services from Oando Servco Nigeria Limited	**450**	-

b) Directors' and Key Management Emoluments and Fees	**As at 31 December**	
	2014	2013
	US$000s	US$000s
Total Executive and Non Executive Directors' emoluments, including pension, fees and termination benefits	**135**	484

c) Year end balances held with related parties	**As at 31 December**	
	2014	2013
	US$000s	US$000s
Loan balance from Oando plc (the loan is repayable on demand and bears interest at 16% p.a.)	**(11,086)**	(9,901)
Amount payable to Oando plc in respect of bank charges incurred on the loan receipts	**(12)**	(12)
Loan balance from Oando Servco Nigeria Limited (the loan is repayable on demand and bears interest at 16% p.a.)	**(5,205)**	(2,063)
Amount payable to Oando Logistics and Services in respect of Q4 2012 rent invoice	**-**	-

Related party transactions continued:
Recharges of US$450k were recharged from Oando Servco Nigeria Limited, which relates to the further development of Block 5.
Included in the amount due to related parties is other interest payable of $1,593,533.19 (2013: $1,370,460)

d) Equator related costs charged to Oando Servco UK Limited	**As at 31 December**	
	2014	2013
	US$000s	US$000s
Costs absorbed by Oando Servco UK Limited in relation to general operating expenditure	**(351)**	(351)
Costs absorbed by Oando Servco UK Limited in relation to recharges from Oando Servco Nigeria Limited	**(427)**	(546)

During a conference call with the shareholders the management of OER confirmed that certain expenditure would be borne by OER. These costs amounted to USD 778,805.49 in 2014

24 GOING CONCERN

The Company incurred a net loss of USD 19.3 million for the year ended 31st December 2014 (2013: USD 2.17 million) and as of that date, the Company's net current liabilities was USD 24.25 million (2013: USD 19.95 million). The immediate parent company, OER with the support of the ultimate parent company, Oando plc has indicated that to will continue to provide the Company with financial support to enable it to realise its assets and settle its liabilities as and when due in the normal course of business. Accordingly, these financial statements have been prepared on a going concern basis.

25 POST BALANCE SHEET EVENTS

In 2015, approval to acquire 3D seismic over the license area was given by the ANP-STP. Equator acquired 1,400 sq. km of 3D seismic data. This data is currently being processed before being interpreted. The conclusion of this phase will give the company greater confidence about the size and geological risking of the prospects and drive the strategy for the continued exploration of the Block.

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