EQUATOR
EXPLORATION LIMITED

EQUATOR EXPLORATION LIMITED

ANNUAL REPORT AND FINANCIAL

STATEMENTS 2021

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Operating review

Events during 2021

This statement covers the significant events of the last year, from January to December 2021.

The Company's oil & gas interests

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

- Block 5 and Block 12, ultra-deep water in the Exclusive Economic Zone of São Tomé & Príncipe;
- OPL 321 & OPL 323, deep water Nigeria;
- The Bilabri and Owanare oil and gas developments in OML 122, shallow water Nigeria.

An appraisal of these interests is given in the Asset Review which immediately follows this Operating Review. Key matters which arose during 2021 and after are:

Blocks 5 & 12, São Tomé & Príncipe

On January 29th, ANP-STP submitted letter 032/DE/ANP/2021 requesting a one-page Explanatory note to be included in the submission. On March 25, 2021, the Regulator approved the 2021 WP&B.

A Joint Venture workshop was held on May 12, 2021 to review the current outlook of the 2021 Work Program and Budget ("WP&B"). The partners agreed to review the WP&B in the September OCM and determine if an amendment was required. On June 14th, a letter was sent to ANP-STP, as Regulator, in reference to letter 077/DE/ANP/2021 requesting support from the Regulator to revisit the 2021 WP&B after the September OCM and determine if an amendment was required.

Throughout 2021, work continued on integrating the prospects within Block 5 with the Rio Muni regional depositional systems, provenance, and tie with the inboard wells. This integration will enhance the understanding of play elements (reservoir, source and migration) and relative risk of each prospect.

Geological and geophysical work focused on documenting the presence of Albian carbonates in the inboard Rio Muni basin in order to validate from a regional perspective the presence of age equivalent carbonates at the Cruzeiro prospect. In addition, we calibrated the AVO response of the Campanian (amplitude supported) reservoir systems in Block 5 with the inboard Ceiba and Okume fields.

An OCM was held on September 21, 2021 where the 2022 Work Program and Budget and a six-month extension request was approved by the Operating Committee. The 2022 WP&B was approved by the Regulator on November 5, 2021. The six-month extension request was submitted to the Regulator on September 30th and approved by the Regulator on December 30, 2021. The sixth amendment to the Production Sharing Contract reflecting the six-month extension is currently circulating for signature amongst the partners.

During 2021, the geological progress was reduced according to the annual budget but for the OCM#3, in September, Galp has presented a firm and a contingent work program to re-evaluate the prospectivity of the block when new geological data become available after drilling the exploration well in Block 6.

The planned work includes update the petroleum system modelling with the additional geo-logical data and perform geophysical studies, that included seismic preconditioning and quantitative interpretation (AVO studies) that could de-risk the hydrocarbons presence in the mapped reservoirs and/or find new targets. These studies are fundamental to make an informed decision for the entrance or not in the next exploration by end of December 2021.

During the year the Block 12 JV supported scholarships for circa 200 students at Universidade Lusiada STP.

OPL 321 & OPL 323

On 3 March 2017, the Supreme Court reached a judgment on the litigation initiated by KNOC in March 2009 to challenge the government's decision to void the awards of the blocks made in 2006. It affirmed the decision of the Court of Appeal, ruling that the action taken by the President in 2009 to void the award of the Blocks was within his executive powers. The remedy for KNOC was therefore a suit for breach of contract and damages and not a writ of certiorari. The Supreme Court did not rule on the merits of KNOC's case. KNOC could have chosen to return to the High Court with a contractual lawsuit, but it has become clear that they have decided to withdraw from the blocks, seeking a refund of their partial payment of the signature bonuses of US$ 92.3 million.

The Department of Petroleum Resources re-offered the blocks to the ONGC Group. Equator tried to reach agreement with the other remaining claimants in order to present the government with a joint solution. However, Owel, NJ Exploration and Tulip continued to press government with their individual claims. Faced with this, Equator has decided to concentrate on its claim to at least 30% of the blocks and is vigorously pursuing it.

Pending ONGC's confirmation of their withdrawal, we seek a new major partner to replace them to operate the blocks and to bear most of the considerable financial burden. In preparation for the data room, we have installed the 3D seismic survey on our own workstation, reconstructed the interpretation made for the KNOC led joint venture by a third party consulting firm and re-evaluated it. This activity also demonstrates Equator's technical ability to lead the group in the interim. We will also seek improved fiscal terms that recognise the now known geological difficulty of exploring the deep-water of the Niger Delta.

Throughout, the Company has maintained that it is entitled to at least a 30% participating interest in the two blocks, despite the return of its share of the signature bonuses, totalling US$ 161.7 million, in October 2009. At the time, the government acknowledged receipt of the Company's letter stating this position. We await the award letters confirming the Company's position.

Bilabri & Owanare (OML 122)

Even with the help of generous extensions to the Settlement Agreement, Peak has failed to secure funding. In 2017, Equator returned to the Appeal Court seeking for the remaining appeals to be struck out so that the liquidation can continue. The Appeal Court has remained adjourned while Equator has monitored various initiatives for refinancing the project. As of 31 December 2021, there are currently no further updates.

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 British Columbia, and is the effective parent of Equator.

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).

Oando Plc ('Oando'), which is listed on the Lagos and Johannesburg stock exchanges, remains the ultimate parent of Equator through its shareholding in OER. On delisting from the Toronto Stock Exchange on 12 May 2016, OER became the wholly owned subsidiary of Oando E&P Holdings Limited ('OEPH'). As a result of delisting and certain other transactions described in Oando's Annual Report, as at December 2017, Oando's interest in OEPH, and hence OER is 78.18%.

Results for 2020 & 2021

The Group posted the following losses in 2020 and 2021:
(US$ 000's)
2021: US$ 5,478
2020: US$ 13,549

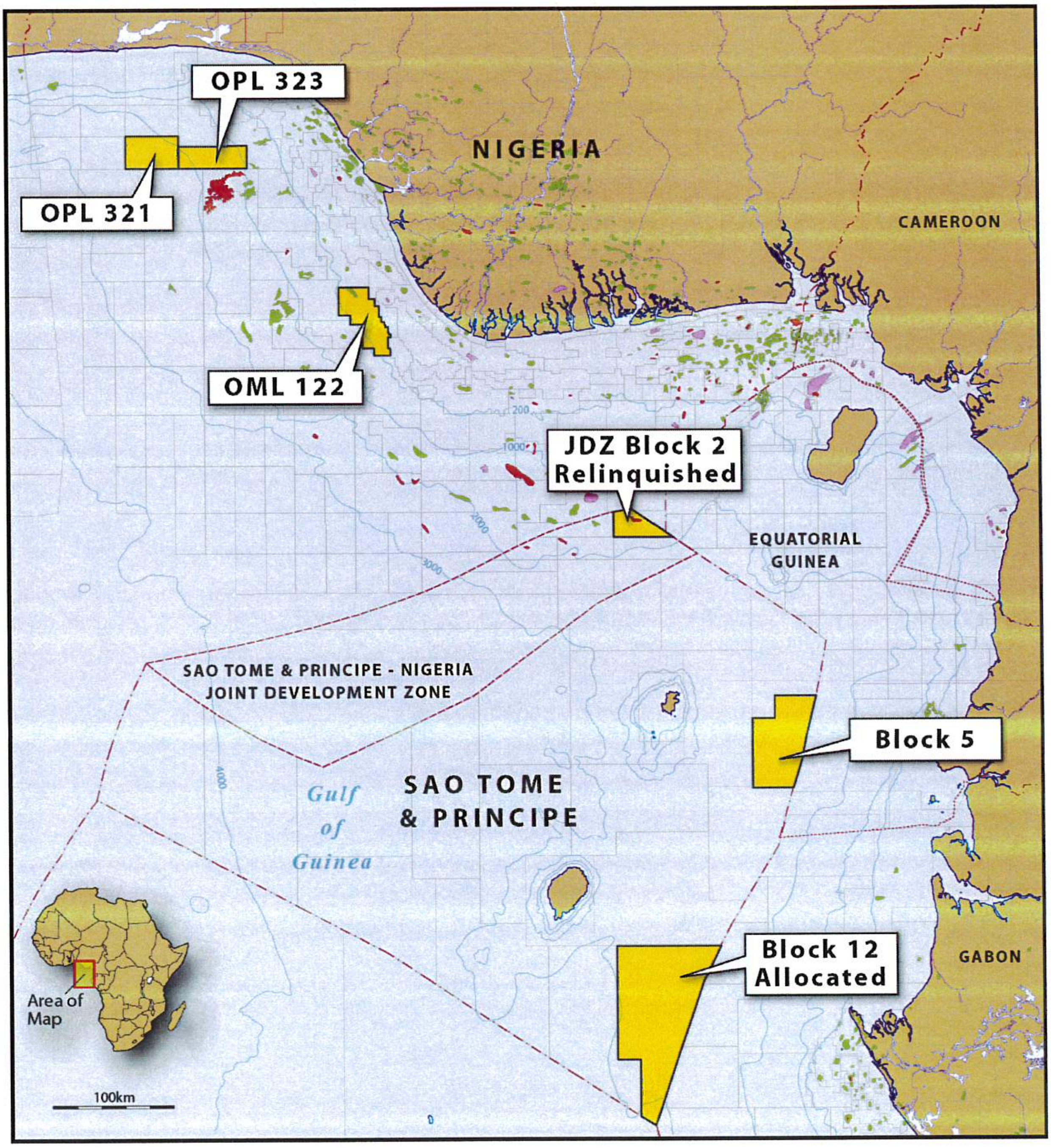
Dividends 2020 & 2021

No dividends were paid in 2020 or 2021.
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.

28 October 2022

By: ....

Map of Equator's interests



Asset review

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 suggested the potential for hydrocarbons. This was further supported by regional seismic data and petroleum seeps seen on the islands.

Therefore, 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 ('ANP') on 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 seismic acquisition and studies. The PSC became effective on 14 May 2012.

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.

In 2014, under an amendment to the existing seismic 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 enhanced the probability of the existence of a working petroleum system.

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.

In preparation for a 3D seismic survey, an Environmental Impact Assessment was submitted to the government and ANP granted our request to reduce the 2D obligation by 1500 km in return for increasing of the 3D seismic obligation by 200 sq. km to 1200 sq. km.

In 1H 2015, Equator acquired and processed 1,480 sq. km of 3D seismic data over the area of prime interest in Block 5 along the Kribi fracture zone via a risk sharing contract with a consortium of BGP and Geoex. Equator also renegotiated and eliminated the 2D seismic data acquisition requirement under the PSC and replacing it with the additional 3D seismic data acquired during the acquisition survey.

As part of our commitment to training under the PSC, Equator granted Scholarships to students at the University Institute of Accounting, Administration and Information Technology in São Tomé city.

In December 2015, the Company entered into two farm out agreements with Kosmos Energy. The transaction consisted of a transfer of a 65% participating interest in each of Blocks 5 and 12 and the transfer of operatorship. For Block 5, the consideration comprised cash of US$ 7.4 million to equalize past costs, a net carry-on seismic liability of US$ 6.6m million and a contingent 50% carry, up to US$ 9.0 million, on each of the commitment wells for both Phases II and III of the Exploration Period. For Block 12, the consideration was a carry of US$ 2.0 million on Equator's portion of future costs. Equator retains participating interests of 20% and 22.5% in Blocks 5 and 12 respectively with the obligation to fund its share of the government interest of 15% for Block 5 and 12.5% for Block 12.

In February 2016, Equator secured governmental consent for the farm out of Block 5 and concluded the PSC negotiations on Block 12. The closure documents for Block 5 were executed at a signing ceremony with the ANP-STP on 19th February 2016. ANP-STP granted a one-year extension to Phase 1 of the Exploration Period.

Equator entered the PSC for Block 12 with the government also on 19 February 2016. On the same day, the PSC was ratified by the Prime Minister making it effective. Governmental consent for Block 12 was secured in March 2016 and subsequently the transaction documents were executed on the 31 March 2016. The initial Phase 1 of the Exploration Period of the PSC of Block 12 has a duration of four years and carries an obligation to acquire 3D seismic, magnetic and gravity surveys covering 2,000 sq. km and to perform geological and environmental studies. Operatorship status was transferred to Kosmos Energy on both blocks.

On 16 November 2016, ANP granted a further two-year extension to Phase 1 of the Exploration Period for Block 5 which expired in May 2019. On 13 December 2016, Kosmos assigned 20% of its interests in Block 5 and Block 12 to Galp retaining a 45% interest in each block. Equator's interests were not affected.

During 2016, the Company continued with its social programme by supplying a further 11 school buses to the Ministry of Education, Culture and Science.

Between February and August 2017, the joint ventures engaged CGG to acquire a 3D seismic survey over Blocks 5 and 12 and over Blocks 6 and 11, in which the Company has no interest. The survey, one of the largest in the world, covered 16,800 sq. km of which 2,567 sq. km was in Block 5 and 4,117 sq. km in Block 12. With the exception of geological studies, the 3D survey effectively completed the obligation for Phase 1 of the PSC for both blocks. PGS started processing the raw seismic data in August 2017.

In 2017 under its social obligation, Equator provided the Ministry of Health with three fully equipped, four-wheel drive ambulances for use on the islands' rugged roads. It then fulfilled the social obligation by funding the upgrade of a side road connecting a small community to the highway, giving the villagers access to transport, particularly our school buses. The project was started in 2017 and completed in 2018, using a community construction firm. We are heartened to observe that our social projects are being put to good use. We have also fulfilled the training obligation under the PSC.

In 2018, PGS progressed and concluded the processing of the 3D seismic data products acquired in 2017. In the first half of the year, work concentrated on integrating the Onboard Processed ("OBP") 3D seismic mapping with the first products generated from the Fast Track Pre-Stack Time Migration ("PSTM") seismic. The generated maps were merged with the existing regional maps, created primarily from 2D seismic interpretation, to update the regional basin model. In addition, work continued around updating the regional velocity and thermal models, which were then used to review basin maturity and migration models and assess the potential for hydrocarbon generation and migration.

Seismic interpretation of the existing 3D seismic products was integrated to assess resource volumes and risking of the most attractive targets. The leads and prospects inventory for both blocks were complied, with focus on identifying drillable prospects within Block 5 towards the Phase II decision gate on Block 5 due in Q1 2019. Kosmos presented an updated prospect inventory at the TCM held in December 2018. The most attractive identified prospects are a combination structural and stratigraphic traps related to the Cruzeiro and Strela Prospects. Evaluation of the leads and prospects on both Blocks 5 and 12 continued through to the end of 2018 and was carried into 2019. Phase I of the Block 5 PSC expires in May of 2019 and notice of the intention to enter Phase II and thereby commit to a well must be given 60 days before i.e., mid-March 2019.

In line with the Phase II drilling commitment on Block 5, public consultations were held in November on both the Sao Tome and Principe islands based on the draft drilling Environmental, Social and Health Impact Assessment.

Social Projects obligation for 2018 was focused on four (4) projects, specifically two (2) projects to add new classrooms to existing schools in Neves and São Marçal and two (2) projects to build new secondary schools in Monte café and Santana. Construction is ongoing on three (3) projects, Monte café, Neves and Santana.

In January 2019, the operator submitted the notice of surrender area and a recommendation to proceed into Phase II of the Block 5 exploration period to the joint venture partners. Equator progressively received the updates on the Block 5 leads and prospects inventory which contributed to the operator's proposal to progress into Phase II. In March, the joint venture approved a resolution via Vote by Notice ('VBN') to issue a letter of intent to the regulator to enter Phase II of the exploration period for Block 5.

This cumulated in the delivery of an End of Phase report on the 13th of March and a formal Notice of Intent to Regulator to enter Phase II of the exploration period. Further to the notice submitted, the ANP-STP approved the 25% relinquishment of the contract area in May 2019. Galp submitted a withdrawal notice on Block 5 which became effective on 31st May 2020. Galps interest was distributed between Kosmos and Equator on a pro rata basis. The ANP_STP declined to take up additional participating interest in Block 5.

Focus for 2019 for the Block 12 Joint venture was the drill or drop decision which due in mid-December 2019, 60 days before the expiry of Phase I of the Block 12 PSC in February 2020. Kosmos' is advancing its interpretation of Block 12 to deliver a proposal to the joint venture partners before the year runs out.

Throughout 2020, Operational activities on Block 5 focused on improving the G&G understanding with a more detailed systematic mapping and evaluation of Block 5 prospects, identified from the regional mapping, definition, and characterization of the individual prospects on the merged PSDM 3D seismic data. The detailed analyses further defined the trapping configuration provided a better understanding of the reservoir facies, and the associated relative risk of each prospect. The prospects were also evaluated in the context of the regional clastic fairways, as mapped over regional data sets, to understand the risk for reservoir presence and quality. A preliminary evaluation of the AVO characteristics of the prospects and prospect evaluation was ongoing at year-end.

The Phase I CSR obligation was fulfilled through the building of new schools in Monte Café and Santana and the construction of additional classrooms and facilities to an existing school in Neves. The school in Monte Café was inaugurated in July 2020 and the schools in Neves and Santana formally inaugurated in October 2020 and all three schools are now being utilized by the Ministry of Education, completing the Phase I CSR obligation for Block 5.

Due to the pandemic operational activities were impacted and as a result a formal request to modify to Block 5 Minimum Work Obligations was submitted to the Regulator on March 13, 2020. Discussions related to the Block 5 Minimum Work Obligation for Phase III continued the second quarter of the year and on July 1, 2020, the ANP-STP approved the amendments to the Minimum Work program. The 5th PSC Amendment on Block 5 was agreed and approved on August 13, 2020.

Following the Kosmos' notice of withdrawal from Block 12, the Block 12 Joint Venture partners, Galp, Equator and ANP-STP held a workshop on 12 and 13th February 2020 in São Tomé e Príncipe to discuss Block 12's way forward. The discussion reviewed the distribution of participating interest, the minimum work commitments, and the minimum financial commitments for Phase II under the Block 12 PSC. Galp was designated operator and the Kosmos' interested distributed on a pro rata basis between Galp and Equator.

Due to the COVID-19 outbreak and the macroeconomic downturn, the Jaca 1 Well in Block 6 (Operated by Galp) was delayed, not allowing the integration and incorporation of its results in the prospectivity of Block 12 and interfering with the decision to proceed to the next phase. As a result, the Block 12 Joint Venture engaged with ANP-STP, in its capacity as Regulator, to request a twelve-month extension of Phase II of the Exploration Period. The essence of the extension is to provide ample time for the understanding from the outcome of the Jaca well to be integrated with Block 12 data prior to the decision to enter the next phase of the Exploration Period. The jaca Well spud date was moved from Q4 2020 to Q4 2021.

The formal request for granting a twelve-month extension to Phase II of the Exploration Period was submitted to ANP-STP on May 19, 2020. ANP-STP formally replied to Galp's request on the July 1, 2020. In addition to the extension, the ANP-STP also granted the approval of the amendment to the PSC which include the removal of the Exploration Well commitment for Phase II and the reduction of the minimum financial commitment to $2.5m. The amendment was executed in December 2020.

The joint venture also allocated funds from the 2020 Phase II social projects budget towards the contingency plan for COVID-19 pandemic in Sao tome effort to support the São Tomé, scholarships granting the tuition fee of the Universidade Lusíada de São Tomé e Príncipe/Fundação Atena and training of Saotomean citizens to attend a Mini MBA de Desenvolvimento de Competências em Estimativa de Reservas short course.

Operational activities were limited significantly in 2020 by the COVID-19 pandemic. As a result, operational activities were wound down to a minimum and all face-to-face meeting particularly the Joint Venture meeting were done virtually.

Activities in 2021

Block 5

On January 29th, ANP-STP submitted letter 032/DE/ANP/2021 requesting a one-page Explanatory note to be included in the submission. On March 25, 2021, the Regulator approved the 2021 WP&B.

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Block 12

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During the course of the year the Block 12 JV supported scholarships for circa 200 students at Universidade Lusiada STP.

Post period activities

The ANP-STP as regulator approved a further 6-month extension on both Blocks 5 and 12 in H1, 2022. The PSC amendments on both blocks have been duly executed. The Jaca 1 Well was spudded in April 2022 and concluded in July 2022. Details of the well are yet to be officially communicated.

Block 5 prospectivity

Block 5 has an area of 2,134 sq km (711.5 sq km relinquished on entry into Phase II i.e., May 2019) 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 a 3D seismic survey undertaken in 1H 2015. The 3D seismic survey improved the definition of the prospects within block 5 and lowered the estimation of exploration risk. Some preliminary AVO analysis proved encouraging. The results further affirmed the prospectivity of the block. The 2017 3D seismic survey which covers a larger area than the survey acquired in 2015 is providing an even better definition of the prospects.

It has to be said that the international perception of oil prospectivity in STP has been enhanced by the entry of major companies such as Kosmos, Galp, BP, Sonangol and potentially Shell into the country thus confirming the vision held by Equator 20 years ago.

Block 12 prospectivity

Block 12 is the most south-easterly block in the EEZ with an area of 5,272 sq km (1,760 sq km relinquished on entry into Phase II i.e., February 2020) 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 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 (deep water turbidite plays for example) will be achieved with the current 2017 3D seismic survey.

Nigeria – OPL 323 and OPL 321

History

In March 2006, Equator gained a 30% participating interest in each of deep-water licenses 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 10 March 2006. Subsequently, the Joint Operating Agreements were signed on 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, giving Equator the full economic rights to its 30% participating interest in each PSC.

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. Fortunately, once the litigation between KNOC and the government started, a substantial early termination penalty on the rig was avoided by assigning it elsewhere despite its record high day rate.

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, at the request of the Company, the government refunded its signature bonuses of US$ 161.7 million. The government subsequently acknowledged the Company's notice of its intention to maintain its interests in the two blocks. BG terminated the farm-out agreement in August 2010.

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 had acted 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 Covington & Burling of Washington DC 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 steady progress was made on new participating interest splits and the treatment of back costs.

In Abuja on Friday 7 February 2014, ONGC 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 was withdrawing from 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.

After 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, Owel petitioned to unify the various petitions lodged in the Supreme Court. During the year, Equator sought clarification of the intentions of ONGC.

On 27 January 2016, the disputing parties successfully applied to the Supreme Court for a suspension to the proceedings to allow further attempts at an out-of-court settlement. However, the initial efforts by KNOC petered out after a few weeks. We sought a bi-lateral meeting with KNOC but this was declined.

On 3 March 2017, the Supreme Court affirmed the decision of the Court of Appeal that struck out KNOC's original suit for a judicial review. The Supreme Court ruled that the action taken by the President in 2009 to void the award of the Blocks was within his executive powers. The remedy for KNOC was therefore a suit for breach of contract and damages and not a writ of certiorari. The Supreme Court did not rule on the merits of KNOC's case. KNOC could have chosen to return to the High Court with a contractual lawsuit, but it has become clear that they have decided to withdraw from the blocks, seeking a refund of their partial payment of the signature bonuses of US$ 92.3 million.

The Department of Petroleum Resources re-offered the blocks to the ONGC Group. Equator tried to reach agreement with the other remaining claimants in order to present the government with a joint solution. However, Owel, NJ Exploration and Tulip continued to press government with their individual claims. Faced with this, Equator decided to concentrate on its claim to at least 30% of the blocks and has vigorously pursued it.

Pending ONGC's confirmation of their withdrawal, we have sought a major company to replace them, to operate the blocks and to bear most of the considerable financial burden. We prepared for the data room by installing the 3D seismic survey on our own workstation and re-evaluating the interpretation made for the KNOC led joint venture by a third party consulting firm. This activity also demonstrates Equator's technical ability to lead the group in the interim. We also seek improved fiscal terms that recognise the now known geological difficulty of exploring the deep-water of the Niger Delta.

In 2019 and 2020, negotiations continued with the government, however, there have been no new developments in the litigations.

Activities in 2021

Throughout 2021, negotiations have continued with the government. There have been no updates on the litigations.

Post period activities

Throughout 2022, negotiations are still being had with the government with no further updates

Impairment

In recognition that the extended court processes were preventing Equator from exploring the blocks and from developing any oil discoveries, the Company posted impairment provisions at the end of 2012 of US$ 11,092,732 for OPL 321 and US$ 12,008,639 for OPL 323. These amounts represented the Company's share of the joint expenditure made by the operator, KNOC. Subsequently, further impairments of US$ 934,881 and US$ 1,012,072 respectively, representing amounts invested by the Company on its own behalf, were made leaving zero carrying values.

It is emphasised that the Company continues to maintain and to vigorously pursue its full rights to the blocks.

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	1,681	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 Company is therefore seeking improved terms in order to regain some economic attractiveness for the blocks. This has continued throughout 2019 and is still ongoing.

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 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 several unpaid invoices from suppliers.

In September 2007, Equator agreed terms with Peak by entering 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 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.

In 2014, Equator agreed to work with the Peak shareholders in developing an opportunity to again settle. At the time, a capital advisory services firm was offering to settle Peak's outstanding project debts and finance the development of the field. In September 2014, Equator and the Peak shareholders signed a letter agreement that outlined the terms of the new settlement. The Peak shareholders would acknowledge and pay Equator the sum of $52.24m to settle agreed debts owed solely to Equator. They 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. Peak and Equator signed the Settlement Agreement in May 2015. The agreement granted Peak a period of 6 months to source the funding required to pay its outstanding project debts and to finance the development of the field. The agreement provided a further 3 month period for Peak to make payment into an escrow account of the outstanding renegotiated debt to Equator.

Even with the help of generous extensions to the Settlement Agreement, Peak has failed to secure funding. In 2017, Equator returned to the Appeal Court seeking for the remaining appeals to be struck out so that the liquidation can continue. However, Peak successfully sought adjournments and, for the remainder of 2017 and throughout 2018, 2019, 2020 and 2021, continued to seek refinancing of the project. However, there have been no new developments. Equator monitors these efforts.

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

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 exception of ERHC, which was carried through Phase I, Equator and the other remaining participants elected to exit the block on 16 March 2012. There have been no activities since 2012 – date.

Directors' report

for the year ended 31 December 2021.

The directors submit their report and the audited financial statements of the Equator group of companies ("Group") for the year ended 31st December 2021.

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 18. 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 – 13 of this Annual Report.

Results and dividend

The Group made a loss of US$ 5.48 million in 2021. (2020: US$ 13.55 million)

The Company did not pay dividend in 2021 (2020: nil).

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 appealed against that decision in the Court of Appeal. A second settlement agreement was reached but Peak failed to raise the finance necessary to meet its new obligations. Equator has reinstituted court proceedings in order to have the appeal struck off. The proceedings remain adjourned as at 31 December 2021.

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 twelve months from the date of this report to enable it to meet its financial obligations.

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 Group. 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 important 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 Group'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 Group is participating in several lawsuits. It seeks to engage the legal firms with the best experience and track record on each type of case.

Charitable donations

The Group made no charitable donations during 2021 (2020: nil).

Supplier payment policy
The Group'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 Group'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 Group's auditors are aware of that information.

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

Jubril Adewale Tinubu – Director	Omamofe Boyo – Director
28 OCTOBER 2022	28 OCTOBER 2022

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.

Statement of corporate responsibility for financial reporting
For the year ended 31 December 2021

We have reviewed the audited financial statements and based on our knowledge confirm that:

(a) The audited financial statements does not contain any untrue statement of material fact or omit to state a material fact, which would make the statement misleading, in the light of the circumstances under which such statement was made.

(b) The audited financial statements and all other financial information included in the statement are fairly presented, in all material respects, the financial condition and result of operations of the company as of and for, the periods covered by the audited financial statements.

(c) We are responsible for establishing and maintaining internal controls and has designed such internal controls to ensure that material information relating to the company and its subsidiaries is made known to the officer by other officers of the companies, particularly during the period in which the audited financial statement report is being prepared.

(d) We have evaluated the effectiveness of the company's internal controls within 90 days prior to the date of its audited financial statements.

(e) We certify that the company's internal controls are effective as of that date.

(f) No significant deficiency in the design or operation of internal controls which could adversely affect the company's ability to record, process and summarise and report financial data has been identified and we have not identified any material weaknesses in internal controls.

(g) No fraud that involves management or other employees who have a significant role in the company's internal control has been identified.

(h) There were no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Jubril Adewale Tinubu
FRC/2013/NBA/00000003348
Director
28 October 2022

Adeola Ogunsemi
FRC/2016/ICAN/00000014639
Chief Financial Officer
28 October 2022

Corporate Information
For the year ended 31 December 2021

Board of directors
Mr JA Tinubu – Chairman
Mr O Boyo
Dr. Ainojie 'Alex' Irune

Company secretary
Ms Ayotola Jagun

Registered office
Dantrust Limited
49 Main Street, Road Town
Tortola, British Virgin Islands

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

Solicitor
Akindelano Legal Practitioners
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
Landmark Towers
Plot 5B Water Corporation Road
Victoria Island
Lagos
Nigeria

Banker
The Access Bank UK
1 Cornhill
London
EC2V 3ND

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Independent auditor's report

To the Members of Equator Exploration Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Equator Exploration Limited ("the Company") and its subsidiaries (together "the Group") as at 31 December 2021, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

Equator Exploration Limited's consolidated financial statements comprise:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021;
- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), i.e. the IESBA Code issued by the International Ethics Standards Board for Accountants. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Material uncertainty relating to going concern

We draw attention to note 22 in the consolidated financial statements, which indicates that the Group incurred a net loss of $5.41 million during the year ended 31 December 2021 and, as of that date, the Group's total liabilities exceeded its total assets by $55.82 million. As stated in note 22, these events or conditions, along with other matters as set forth in note 22, indicate that a material uncertainty exists that may cast significant doubt on the information, we are required to report that fact. We have nothing to report in this regard.

Other information

The directors are responsible for the other information. The other information comprises the Operating review, Assets review, Directors' report, Statement of directors' responsibilities, Statement of corporate responsibility for financial reporting and Corporate information but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA
0074316

Abisola Atitebi

For: **PricewaterhouseCoopers**
Chartered Accountants
Lagos, Nigeria

13 December 2022

Engagement Partner: Abisola Atitebi
FRC/2021/004/00000023658

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December 2021

	Notes	31 December 2021 US$000's	31 December 2020 US$000's
Operating expenses	6	(997)	(10,141)
Operating loss		(997)	(10,141)
Finance costs	7	(4,410)	(3,408)
Loss before tax		(5,407)	(13,549)
Taxation	8	-	-
Loss for the year attributable to equity shareholders		(5,407)	(13,549)
Total comprehensive loss attributable to owners of the parent		(5,407)	(13.549)

The accompanying notes form an integral part of these financial statements.

Consolidated statement of financial position

As at 31 December 2021

	Notes	31 December 2021 US$000s	31 December 2020 US$000s
Assets			
Non-current assets			
Intangibles: Goodwill	9	175	175
Exploration and evaluation assets	10	7,069	6,939
Property, plant and equipment	11	7	13
		7,251	7,127
Current assets			
Other receivables	12	26	12
Cash and cash equivalents	13	15	14
		41	27
Total assets		7,292	7,154
Liabilities			
Current liabilities			
Trade and other payables	14	10,931	11,554
Borrowings	14	52,178	46.010
Net liabilities		(55,817)	(50,410)
Equity attributable to owners of the parent			
Share capital	15	-	-
Capital reserves	15	458,721	458,721
Accumulated losses		(514,538)	(509,131)
Total equity		(55,817)	(50,410)

Approved by the board of directors on ....28 October.................... 2022.

Signed on behalf of the board of directors by:

Omamole Boyo
Director

Jubril Adewale Tinubu
Director

The accompanying notes form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2021

	Share capital US$000s	Capital reserves US$000s	Accumulated losses US$000s	Total equity US$000s
Balance at 1 January 2020	-	458,721	(495,582)	(36,861)
Loss for the year	-	-	(13,549)	(13,549)
Balance at 31 December 2020	-	458,721	(509,131)	(50,410)
Loss for the year	-	-	(5,407)	(5,407)
Balance at 31 December 2021	-	458,721	(514,538)	(55,817)

The accompanying notes form an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2021

	Notes	31 December 2021 US$000s	31 December 2020 US$000s
Cash flow from operating activities			
Operating loss		(997)	(10,141)
Adjustments for:			
Depreciation	11	6	7
Operating cash flow before movement in working capital		(991)	(10,134)
(Increase)/Decrease in other receivables	12	(13)	59
Increase/(Decrease) in trade and other payables	14	(635)	3,663
Net cash used in operating activities		(1,639)	(6,408)
Cash flow from investing activities			
Additions of exploration and evaluation assets	10	(130)	(258)
Additions of property, plant and equipment	11	-	(4)
Net cash generated from investing activities		(130)	(262)
Cash flow from financing activities			
Receipts from/(repayments to)parent company	21	1,769	6,678
Net cash generated from financing activities		1,769	6,678
Net (decrease) in cash and cash equivalents		0	4
Cash and cash equivalents at beginning of period	13	14	10
Cash and cash equivalents at end of period	13	14	14

The accompanying notes 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 18. 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.

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 Inc. The directors of Oando Energy Resources Inc. have confirmed that they will continue to provide financial support for a period of twelve 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 – 12 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.

2.2 Changes in accounting policies and disclosures

Standards effective in 2021

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

Effective for annual periods beginning on or after 1 January 2021, this did not impact the company during the year 2021. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform. The amendments include a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Inherent in allowing the use of this practical expedient is the requirement that the transition from an IBOR benchmark rate to an RFR takes place on an economically equivalent basis with no value transfer having occurred. Any other changes made at the same time, such as a change in the credit spread or maturity date, are assessed. If they are substantial, the instrument is derecognised. If they are not substantial, the updated effective interest rate (EIR) is used to recalculate the carrying amount of the financial instrument, with any modification gain or loss recognised in profit or loss.

Relief from discontinuing hedging relationships

The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Permitted changes include redefining the hedged risk to reference an RFR and redefining the description of the hedging instruments and/or the hedged items to reflect the RFR. Entities are allowed until the end of the reporting period, during which a modification required by IBOR reform is made, to complete the changes.

Separately identifiable risk components

The amendments provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. The relief allows entities upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months.

Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16

Effective for annual periods beginning on or after 1 April 2021, this did not impact the company during the year 2021. This amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the Covid-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

2.3 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 profit or loss and comprehensive income.

2.4 Goodwill

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

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

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

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

2.5 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 escalated 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.

2.6 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.

2.7 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.

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

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

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

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

2.9 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.

2.10 Financial instruments
The Group's accounting policies were changed to comply with IFRS 9. The Company has applied IFRS 9 retrospectively when it was introduced in 2018, at the time, there was no need to restate the comparative information. As a result, the comparative information provided remained the same but will not be accounted for in accordance with the new IFRS.

• Financial assets classified at amortized cost:
The group's financial asset are measured at amortized cost only if they meet both of the following conditions:
i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
The classification and measurement requirements of IFRS 9 did not have a significant impact to the Group. The Group continued measuring at its financial assets at amortised cost. The Company's financial assets includes other receivables and cash and cash equivalents.

• Financial liabilities
Financial liabilities of the group are classified and subsequently recognized at amortized cost net of directly attributable transaction costs, except for derivatives which are classified and subsequently recognized at fair value through profit or loss. Fair value gains or losses for financial liabilities designated at fair value through profit or loss are accounted for in profit or loss except for the amount of change that is attributable to changes in the Group's own credit risk which is presented in other comprehensive income. The remaining amount of change in the fair value of the liability is presented in profit or loss. The Group's financial liabilities include loans and receivables and other financial liabilities.

a) Impairment of financial assets
IFRS 9 requires the Company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

b) De-recognition
The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset, and the transfer qualifies for de-recognition. The Group derecognizes a financial liability when it is extinguished i.e., when the obligation specified in the contract is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized immediately in the statement of profit or loss.

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

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

2.13 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 either 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.

2.14 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.

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

2.16 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.

2.17 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.

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

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

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

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.

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 2021	57	(63)
31 December 2020	57	(63)

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	
	2021	2020
	US$000s	US$000s
Aa- (Moody's rating) –Access Bank	**5**	-
Other bank balances	**10**	**14**
Total	**15**	**14**

3.1.2 Credit risk
Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents. All of group's cash and cash equivalents are held by "Aa' or better rated banks.

3.2 Fair value estimation

	As at 31 December			
Financial assets	**2021**		2020	
	Current	**Non-Current**	Current	Non-current
	US$000s	**US$000s**	US$000s	US$000s
Cash and cash equivalents	**15**	-	14	-
Other receivables	**1,016**	-	86	-
	1,031	-	100	-

	As at 31 December			
Financial liabilities	**2021**		2020	
	Current	**Non-current**	Current	Non-current
	US$000s	**US$000s**	US$000s	US$000s
Trade and other payables	**10,349**	-	10,089	-
Amounts due to related parties	**52,178**	-	46,010	-
	62,527	-	56,099	-

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

5. STAFF COSTS

	Year ended 31 December	
	2021	**2020**
	US$000's	**US$000's**
The average monthly number of employees (including executive directors) employed was as follows:	4	4

Their aggregate remuneration comprised:

	2021	**2020**
	US$000s	**US$000s**
Wages, salaries, and accrued directors' fees	100	91
	100	91

2021: No recharges occurred during the course of the year (2020:nil).

6. OPERATING EXPENSES

	Year ended 31 December	
	2021	**2020**
	US$000s	**US$000s**
Depreciation	6	7
Consultant fees	35	9,149
Legal fees	4	27
Auditor's fees	59	56
Directors' fees	72	62
Block 5 expenses	681	590
Other expenses	140	250
	997	10,141

7. FINANCE COSTS

	Year ended 31 December	
	2021	**2020**
	US$000s	**US$000s**
Interest payable	4,410	3,408

8. 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.

9. INTANGIBLES – GOODWILL

	Year ended 31 December 2021 US$000s	2020 US$000s
Carrying amount as at 31 December 2021 and 2020	175	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 Block 12	Total US$000s
At 1 January 2020	-	-	-	-	2,620	4,061	6,681
Additions(i)	-	-	-	-	259	(1)	258
At 31 December 2020	-	-	-	-	**2,879**	**4,060**	**6,939**
Additions (note i)	-	-	-	-	103	27	130
At 31 December 2021	-	-	-	-	**2,982**	**4,087**	**7,069**

Note (i): Additions
The additions to Block 5 include the 3D seismic survey and work undertaken by G&G specialists.

11. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and Fittings US$000s	Equipment and software US$000s	Total US$000s
As at 1 January 2020	1	15	16
Addition	-	4	4
Depreciation	-	(7)	(7)
Carrying amount as at 31 December 2020	1	12	13
As at 1 January 2021	1	12	13
Addition	-	0	0
Depreciation	-	(6)	(6)
Carrying amount as at 31 December 2021	1	6	7

12. OTHER RECEIVABLES

	As at 31 December 2021 US$000s	2020 US$000s
Other debtors	**5**	5
Prepayments and accrued income	**7**	8
*Kosmos working capital account	**14**	-
Trade and Other Receivables	**26**	13

*Represents the amount receivable from Kosmos under a carrying arrangement contained in the farm out agreement.

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.

13. CASH AND CASH EQUIVALENTS

	As at 31 December 2021 US$000s	2020 US$000s
Cash and cash equivalents	15	14

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 rate. The carrying amount of these assets approximates their fair value.

14. TRADE AND OTHER PAYABLES

	As at 31 December	
	2021	2020
Amounts falling due in less than one year	**US$000s**	US$000s
Trade payables	**2,702**	2,622
Other payables	**3,497**	3,351
Accruals	**2,713**	4,142
Payables due to related parties (Note 21)	**581**	450
Loan from related parties (Note 21)	**52,178**	46,010
*Kosmos working capital account	**1,436**	989
Trade and Other payables	**63,107**	57,564

Trade payables are principally dominated in GB Pound and USD Dollars
Included in the loan amount due to related parties is other interest payable of $4,410,000 (2020: $3,407,605)
Trade and other payables principally comprise amounts outstanding for trade purchases and on-going costs.
*Represents the amount due to Kosmos under a carrying arrangement contained in the farm out agreement.

15. SHARE CAPITAL/CAPITAL RESERVES

	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 2020 and 2021	481,117,270	-

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

CAPITAL RESERVES

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

16. 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.

On May 26, 2015, Peak and the Corporation (through Equator Exploration (OML 122) Limited) signed a Settlement Agreement which set out the terms under which Peak would pay the Corporation the sum of $52.2 million ("Settlement Amount") as full and final settlement of its indebtedness to the Corporation, three months from the date of the Settlement Agreement. Peak requested for an extension of time to pay the Settlement Amount which was granted by the Corporation. Despite the extension, as at December 31, 2018, Peak has still failed to pay the Settlement Amount. The Corporation has deemed this to be a contingent asset until such time as when the inflow of economic benefit from Peak becomes virtually certain.

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.

17. INVESTMENTS

As at 31 December 2021

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	Development of oil and gas projects	100%	Nigeria	Nigeria
Oando Equator Exploration 321 Nigeria Limited	Development of oil and gas projects	100%	Nigeria	Nigeria
Oando Equator Exploration 323 Nigeria Limited	Development of oil and gas projects	100%	Nigeria	Nigeria
Oando Equator Exploration Nigeria OML 122 Limited	Development of oil and gas projects	100%	Nigeria	Nigeria

18. CAPITAL COMMITMENTS

There are no capital commitments for the year. (2020: nil)

19. DIVIDENDS

No dividends have been paid to ordinary shareholders in the year (2020: nil).

20. 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 2021 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.

21. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

a) There were no sales and purchases with related parties during the year (2020: nil)

b) Directors Emoluments

	2021 US$000s	2020 US$000s
Total Executive and Non-Executive Directors' emoluments, including pension, fees and termination benefits	**72**	62
Total	**72**	62

c) Year end balances held with related parties

	As at 31 December	
	2021 US$000s	2020 US$000s
Loan balance from Oando plc and Oando Energy Resources Inc. (i and ii below respectively)	**(52,178)**	(46,010)
Amount payable to Oando plc in respect of bank charges incurred on the loan receipts	**(12)**	(12)
Amount payable to Oando Servco UK Limited and other entities	**(569)**	(438)
Total	**(52,759)**	(46,460)

i) Loan from Oando plc

Opening balance	(18,213)	(17,026)
Interest accrued	(1,185)	(1,187)
Closing	**(19,398)**	**(18,213)**

The loan is repayable on demand and bears interest at 16% p.a.

ii) Loan from Oando Energy Resources Inc.

Opening balance	(27,797)	(18,899)
Interest accrued	(3,225)	(2,220)
Additional drawdowns	(1,769)	(6,678)

Closing	**(32,791)**	**(27,797)**
The loan is repayable on demand and bears interest at 16% p.a.		

22. GOING CONCERN

The company's exploratory activities are funded through loan facilities from its ultimate parent company, Oando Plc and a related party Oando Energy Resources Inc.. These facilities are payable on demand according to the loan agreements. The accrued interest on the loans of USD 4.41 million were capitalized during 2021. The outstanding loan amount was USD 52.18 million as at December 31, 2021.

The group is yet to commence production, thus, did not earn revenue for the year 2021. As a result, the company is unable to repay interest and principal on the intercompany loan. However, the directors of Oando PLC and Oando Energy Resources Inc. have confirmed that the loan will not be recalled within the next twelve months from 31 December 2021.

During the year ended December 31, 2021, the Company incurred a net loss of USD 5.41 million (2020: USD 13.55 million) and as of that date, the Company's total liabilities exceeded its total assets by USD 55.82 million (2020: USD 50.41 million).

These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Its parent company, Oando Energy Resources Inc. (OER) has indicated willingness 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 for at least 12 months from the date of this financial statements.

These financial statements do not reflect the adjustments to the carrying value of assets and liabilities or the classification that would be necessary if the company is unable to realise its assets and settle its liabilities as a going concern in the normal course of business. Such adjustments could be material.

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