



**EQUATOR**  
EXPLORATION LIMITED

## **Confidential**

### **INFORMATION MEMORANDUM (revised)**

The purpose of the Meeting of Shareholders is to consider and vote on a proposal to farm out a 65% Participating Interest in the Production Sharing Contract ("PSC") of Block 5 and in the Award of Block 12 in the Economic Exclusive Zone ("EEZ") of São Tomé & Príncipe.

Section 175 of the BVI Companies Act 2004 requires that any sale of more than 50% in value of the assets of a company, if not made in the usual or regular course of the business carried out by the company, be authorised by a resolution of members. Because there is uncertainty surrounding the values of the Company's individual assets, it is not known whether or not the disposals related to the farm outs represent more than 50% in value of the assets of the Company. The Board has therefore decided that it is in the best interests of the Company for the proposed farm out transactions to be authorised by a resolution of members, even though Article 79 of the Articles of Association, as revised in February 2010, disapplies Section 175.

#### **History and Status**

In 2010, prior to the first Licensing Round for the EEZ, Equator Exploration Ltd ("Equator") exercised its right to choose two blocks. It was allocated Block 5 and Block 12. The PSC for Block 5 was signed with the National Petroleum Agency in April 2012 triggering the payment of a signature bonus of US\$ 2 million and commitment to a four year work programme of seismic acquisition and studies. The State retained a 15% carried interest. The obligation to seismic acquisition comprised 2,500 km of 2D data and 1,000 sq km of 3D data. If justified by the results of the seismic surveys, the Company has the right to enter the second Exploration Phase of two years starting in May 2016, thereby committing to drill the first exploration well.

The negotiations on the PSC for Block 12 are in the final stages.

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

#### **Block 5**

Block 5 has an area of 2844 sq km and is located in water depths ranging from 2000 to 2500 m. 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 oil bearing Equatorial Guinea shelf and on the presence of structural traps. The structure of the block is dominated by the Kribi Fracture Zone.

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In 2014, the Company engaged PGS to reprocess the 2D seismic data set with state of the art computing algorithms. Furthermore, PGS's existing ship-borne gravity and magnetic data was added to the existing 2D seismic license. Using the data, three specialist interpretation firms (ERCL, Getech and IGI) conducted a new comprehensive study of the block.

The study 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. Heat modelling of the maturity of two intervals of potential source rocks indicates that they have become early to mid-mature over most of the block. In particular, the main area of the postulated 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 expected to be 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. In 2015, a consortium of BGP and Geox was engaged, on a risk sharing basis, to acquire and process a 1,200 sq km 3D seismic survey over the area of prime interest in Block 5 along the Kribi Fracture Zone. The 2D seismic obligation of 2,500 km had already been reduced in exchange for an extra 200 sq km of 3D data. During the survey, the National Petroleum Agency agreed to eliminate the remaining 2D seismic obligation in exchange for a further 200 sq km of 3D seismic data. The actual area covered by the 3D survey was 1,480 sq km.

The field data acquired from the 3D survey has been processed in preparation for a definitive interpretation of the block. Specifically, three dimensional mapping and the application of modern seismic attribute analysis (e.g. AVO) will better define the volumes of the prospects and will greatly improve the estimation of exploration risk. The combination of these factors will enable the prospects to be ranked and will inform the decision on whether to commit to the drilling of the first exploration well or to relinquish all rights to the block. Even if the decision is positive, the chance of success in discovering commercial quantities of oil with the well will remain below 30%.

Taking account of this geological risk and the considerable expense, in the range US\$ 80 to 100 million, associated with drilling an exploration well in ultra-deep water, the Company has been seeking a farm out partner before committing to the next PSC phase.

## **Block 12**

Block 12 has an area of 7940 sq km in water depths ranging from 2500 to 3000m. 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.

The seismic data within Block 12 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 using regional tie lines enabling a number of prospects and leads to be 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. However, full investigation of the stratigraphic potential of the block (deep water turbidite plays for example) requires 3D seismic coverage.

### **Kosmos Energy**

In order to enhance the value and manage the risks of exploring for hydrocarbons in a frontier province located in ultra-deep water, the Company has sought farm-outs to one or more acknowledged deep water operators. A number of companies visited the data room. Kosmos Energy has made an offer on both blocks and is the preferred business partner for this challenging ultra-deep water exploration project.

Kosmos is a US based international oil and gas exploration and production company focused on frontier basins, particularly in the underexplored regions along the Atlantic Margin. It focusses on unlocking new hydrocarbon systems and growing and maturing discovered basins through follow-on exploration success, development and production. Kosmos's strength is its exploration efficiency – it is a proven, serial finder of large oil and gas resources at better than industry average rates in high potential, higher risk exploration sectors.

Its asset portfolio includes existing production and major project developments offshore Ghana, as well as oil and gas exploration licenses with significant hydrocarbon potential offshore Mauritania, Morocco (including Western Sahara), Portugal, Senegal, and Suriname. Its Jubilee field production and significant available liquidity give it a solid financial position.

### **Proposed Transaction**

Kosmos and Equator have negotiated Farm Out Agreements for both blocks with the following terms:

#### *Block 5*

1. Equator is to assign to Kosmos a 65% participating interest and the operatorship. Equator will retain a participating interest of 20%. (The State has a carried interest of 15%);
2. In return, Equator is to receive an immediate cash consideration of \$7,360,441 and a 50% carry on Equator's 20% share of costs, plus State carry, of up to two exploration wells to a cap of US\$ 9 million net each;
3. In addition, Kosmos will pay \$6,639,559 for its share and its share of the State's carried interest of the seismic license fees and withholding taxes that fall due on the closing of the Farm Out transaction.

The Block 5 transaction is subject to Equator negotiating a one year extension to the current 4 year Phase I of the PSC Exploration Period with the National Petroleum Agency.

### *Block 12*

1. Equator is to assign to Kosmos a 65% participating interest and the operatorship. Equator's retained participating interest in Block 12 will depend on what is negotiated with the State for its carried interest;
2. In return, Equator is to receive an immediate cash consideration of US\$ 2 million;
3. Equator will pay its share of the PSC signature bonus of US\$ 2.5 million and will provide its share of the performance bond. When such amounts fall due, it will pay its share, including its share of the State's carried interest, of a large 3D seismic survey planned for later this year.

The Block 12 transaction is subject to Equator negotiating and signing the Production Sharing Contract with the National Petroleum Agency.

Both Farm Out transactions are also subject to the approval of the National Petroleum Agency, of the boards of both companies and of the shareholders of Equator and to other conditions precedent typical to transactions of this nature.

### **Conclusion**

The directors believe that the deal negotiated with Kosmos Energy is in the best interests of the Company, particularly against the background of the Company's limited financial resources, today's low oil price and the poor market for farm outs. The farm outs will enable the Company to enter Phase II of the PSC for Block 5 and commit to its share of an ultra-deep water exploration well and to enter the PSC for Block 12, thereby committing to a 3D seismic acquisition programme. Kosmos will take over as operator of the blocks and bring their acknowledged skills as deep water explorers to bear on the exploration of the blocks.

The directors recommend that shareholders approve the transactions with Kosmos Energy.

18 January 2016