Registered Number: 05216866

ENERGY EQUITY RESOURCES (NORWAY) LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2007

ENERGY EQUITY RESOURCES (NORWAY) LIMITED

COMPANY INFORMATION

Board of Directors

O. Okhomina
A. Aina
F. Fofana

Company Secretary

O.Okhomina

Registered Office

35 Portman Square
London
W1H 6LR

Auditors

Moore Stephens LLP
St. Paul's House
Warwick Lane
London
EC4M 7BP

ENERGY EQUITY RESOURCES (NORWAY) LIMITED
REPORT OF THE DIRECTORS

The directors present their report and the audited consolidated financial statements for the year ended 31 December 2007.

The financial statements have been prepared under, and comply with, International Financial Reporting Standards, as adopted by the EU.

Results and Dividends

The group incurred a loss for the financial year after tax of $21,707,000 (2006: loss $5,909,000). The directors do not recommend the payment of a dividend in respect of the year.

Review of Activities

The principal activities of the group are those of oil and gas exploration and development in the exploration of onshore and offshore hydrocarbon resources primarily in West Africa. The group is presently focused on Nigeria where it currently has a 40% operating stake in OML 115 and a 4.41% interest in JDZ Block 1.

An operational update relating to the group's activities in 2008 is as follows:

a. OML 113 (Aje) – Well Aje #4 was drilled in February-April 2008 and was deemed to be very successful appraisal of the Aje field. Following this successful well the Aje field was declared commercial.

b. OML 90 (Ajapa) – Well Ajapa 1XST2 was drilled in March 2008 and suspended as a future producer. Ajapa 2A was drilled in April 2008 and has been plugged and abandoned as a dry hole. The partners are now focussed on bringing the Ajapa field in to production.

c. JDZ3 – work continues in preparation for drilling of the Lemba prospect likely to be in Q1 2010.

d. OML115 – Well Okwok-South 2 was drilled in July/August 2008. It was a non-commercial heavy oil discovery and has been plugged and abandoned.

e. JDZ Block 1- Obo prospect commerciality not yet proven. A further well needs to be drilled. Technical work (G&G) will be carried out during the remainder of 2009 to determine location of well to be drilled in 2010.

The group's current strategy is to acquire and build an exploration, development and producing asset portfolio with near-term production for early cash flow through its contractual agreement with Shell Petroleum Development Company of Nigeria ("SPDC") and its Memorandum of Understanding ("MOU").

The short term focus will be on acquiring proven oil and gas prospects with undeveloped reserves from international oil companies ("IOC") and / or the Nigerian National Petroleum Company ("NNPC") / Federal Government of Nigeria, with a target of first oil production in 2011.

Subsequent to the year end, the group has also sold its interest in activities a-c above as part of its disposal of its subsidiary, African Energy Equity Resources Limited. Details are disclosed in Note 19.

In the medium and long term, the group will continue to create value through existing and new JV agreements with other state governments / state oil companies, and working relations with NNPC and IOC's (SPDC, Chevron, ExxonMobil, Eni) operating onshore, swamp and shallow offshore Nigeria.

ENERGY EQUITY RESOURCES (NORWAY) LIMITED
REPORT OF THE DIRECTORS (continued)

Group Structure

The ultimate parent company and ultimate parent undertaking of the group is EER (Norway) Limited. As reported in Note 19 to these financial statements, the group's sold its interest in a subsidiary, African Energy Resources Limited, since the end of the year.

Risk management and control

The board of directors has the responsibility for the overall system of internal control and for reviewing its effectiveness. This includes the identification and assessment of its particular risk exposures and implementing risk management policies, limits and procedures.

In the ordinary course of business, the group is exposed to and manages a variety of risks in relation to its activities and fixed assets investments, as follows:

Operational -.The success of the underlying operations relating to the fixed asset investments and underlying assets is dependent upon the success in finding, acquiring and developing their exploration assets. If the level of reserves is found to be lower than anticipated or prove to be uneconomical for production purposes, this could have a material impact on the results of the underlying operations and ultimately on the financial results of the group.

The group's activities in Nigeria which are subject to significant government laws and regulations, which may impact on the operations. The costs associated with compliance with government regulations may ultimately be material and adversely affect the operations and ultimately on the results of the group.

Foreign exchange - The group is not faced with any material foreign exchange risks relating to its activities in the United Kingdom but the underlying operations in Nigeria are faced with exchange risks that could adversely affect the results of operations. Any changes in the relative exchange rates between the US Dollar and Nigerian Nira could affect the underlying operations and ultimately on the results of the group.

Liquidity risk - The group requires significant capital expenditure in relation to exploration and development activities and meeting obligations under environmental laws and regulations. The group expects to finance a substantial part of its capital expenditure through additional financing provided by third parties and its shareholders.

Interest rate risk - The group has borrowings based on fixed interest rates set in consultation with its lenders. The group does earn interest on funds held in its bank accounts but the amounts recognised are not considered significant.

ENERGY EQUITY RESOURCES (NORWAY) LIMITED
REPORT OF THE DIRECTORS (continued)

Directors

The names of the directors of the company as at the date of the audit report are listed on page 1.

O. Eimstad	(resigned 11 October 2007)
O. Okhomina	
P. Vingoe	(resigned 21 September 2007)
O. Achebe	(appointed 26 February 2007)
	(resigned 01 February 2008)
M. Lunde	(appointed 26 February 2007)
	(resigned 20 September 2007)
A. Aina	(appointed 21 September 2007)
M. Hassan	(appointed 24 October 2007)
	(resigned 04 December 2007)
F. Fofana	(appointed 25 October 2007)

Directors' Interests

The directors who held office at 31 December 2007 had the following interests in the shares of group undertakings:

	Ordinary shares	
	2007	2006
O. Okhomina	50,000	50,000

Supplier Payment Policy

The Company's policy, which is also applied by the group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

Charitable & Political Donations

During the year the group made no charitable or political donations.

Corporate Governance

The group proposes to incorporate additional governance structures and practices in line with the principles of the Combined Code on Corporate Governance.

ENERGY EQUITY RESOURCES (NORWAY) LIMITED
REPORT OF THE DIRECTORS (continued)

Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- selected suitable accounting policies and then applied them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' Declaration

Each of the persons who are directors at the time when this report is approved has confirmed that:

(a) so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(b) each director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of fellow directors and the company's auditors for that purpose, in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

Going Concern

The directors consider that the group and company will have adequate resources to remain in operation for the foreseeable future. The group needs to be able to secure additional funding within the next twelve months but the directors consider it appropriate to prepare the financial statements on a going concern basis due to proceeds derived from the sale of an investment and new contracts entered into since the end of the year. The directors are the necessary steps to secure new working capital for the group. However, inherently there can be no certainty regarding this matter.

Subsequent Events

Refer to Note 19 to the financial statements.

Auditors

The auditors, Moore Stephens LLP, have expressed their willingness to continue in office. A resolution for their re-appointment and authorising the directors to fix their remuneration will be proposed at the forthcoming annual general meeting.

This report of the directors was approved by the board of directors and signed on its behalf by:

O. Okhomina
Director. 15/9/09

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ENERGY EQUITY RESOURCES (NORWAY) LIMITED

We have audited the group and parent company financial statements of Energy Equity Resources (Norway) Limited for the period ended 31 December 2007 which are set out on pages 8 to 31. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS's) as adapted by the EU, are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

However, as disclosed in Note 10, included within non current trade and other receivables is an amount of $12.5 million relating to a contingent asset receivable as part of purchase consideration arising on the sale of a subsidiary company in 2005. The directors estimated the fair value of the contingent consideration at the date of sale calculated by reference to an independent expert's assessment of the estimated amount of reserves that might be included in development plans for the oil licence held by that subsidiary and the estimate timing of such development plans. Owing to the fact that directors have not commissioned a recent independent expert's assessment of the oil licence at 31 December 2007 we are unable to obtain sufficient audit evidence regarding the deferred contingent asset receivable by using other audit procedures.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ENERGY EQUITY RESOURCES (NORWAY) LIMITED (continued)

In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the financial statements.

Qualified opinion arising from limitation of scope

Except for the financial effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the fair value of deferred contingent asset receivable at 31 December 2007, in our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards (IFRS's) as adapted by the EU, of the state of the group and the parent company affairs as at 31 December 2007 and of the group's and parent company's results for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter - Going Concern

We have considered the adequacy of the disclosures made in note 2(b) of the financial statements concerning the uncertainty as to the continuation of the group and company as a going concern. The group has incurred a loss of $21.7 million for the year 31 December 2007 and requires to secure additional funding within the next 12 months. These conditions, along with other matters explained in Note 2(b) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group was unable to continue as a going concern.

Moore Stephens LLP

MOORE STEPHENS LLP
Registered Auditors
Chartered Accountants

St. Paul's House
Warwick Lane
London, EC4M 7BP

17 September 2009

ENERGY EQUITY RESOURCES (NORWAY) LIMITED

BALANCE SHEETS- 31 DECEMBER 2007
(Expressed in U.S.$ '000s)

	Notes	Group		Company	
		2007	2006 (restated)	2007	2006 (restated)
Non-Current Assets					
Intangible assets	9	**22,362**	11,568	**-**	-
Property, plant and equipment	10	**829**	528	**-**	-
Trade and other receivables	12	**12,500**	12,500	**12,500**	12,500
Fixed assets investments	11	**-**	558	**5,500**	646
		35,691	25,154	**18,000**	13,146
Current Assets					
Trade and other receivables	12	**979**	1,773	**28,099**	21,168
Cash and cash equivalents		**-**	9,928	**-**	-
		979	11,701	**28,099**	21,168
Total Assets		**36,670**	36,855	**46,099**	34,314
Equity and Liabilities					
Capital and Reserves					
Share capital	13	**475**	475	**475**	475
Share premium	13	**46,998**	46,998	**46,998**	46,998
Accumulated losses		**(35,888)**	(14,181)	**(22,845)**	(13,173)
Total Equity		**11,585**	33,292	**24,628**	34,300
Current Liabilities					
Borrowings	14	**16,342**	750	**15,842**	-
Trade and other payables	15	**8,743**	2,813	**5,629**	14
		25,085	**3,563**	**21,471**	**14**
Total Equity and Liabilities		**36,670**	36,855	**46,099**	34,314

The financial statements were approved by the Board, and authorised for issue on 15/9/09.

Signed on its behalf by

O.Okhomina
Director

The notes set out on pages 12 to 31 form an integral part of these financial statements

ENERGY EQUITY RESOURCES (NORWAY) LIMITED

INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007
(Expressed in U.S.$ '000s)

	Notes	Group		Company	
		2007	2006	**2007**	2006
Administrative expenses		**(9,345)**	(6,582)	**(234)**	(601)
Impairment of intangible assets	9	**(11,480)**	-	**-**	-
Operating Loss	6	**(20,825)**	(6,582)	**(234)**	(601)
Provision against investments in subsidiaries	11	**-**	-	**(646)**	-
Provision against amounts due from subsidiaries	12	**-**	-	**(8,168)**	(12,572)
Interest receivable	8	**80**	381	**-**	-
Profit on sale of investments		**110**	-	**-**	-
Interest payable		**(1,169)**	(70)	**(624)**	-
Other losses and gains		**97**	362	**-**	-
Loss before Tax		**(21,707)**	**(5,909)**	**(9,672)**	**(13,173)**
Income tax expense	16	**-**	-	**-**	-
Loss after Tax		**(21,707)**	**(5,909)**	**(9,672)**	**(13,173)**

The notes set out on pages 12 to 31 form an integral part of these financial statements

ENERGY EQUITY RESOURCES (NORWAY) LIMITED

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007
(Expressed in U.S.$ '000s)

	Notes	Group		Company	
		2007	2006	**2007**	2006
Loss after tax		**(21,707)**	(5,909)	**(9,672)**	(12,586)
Depreciation of property, plant & equipment	10	**157**	94	**-**	-
Provision against amounts due from subsidiaries		**-**	-	**8,168**	12,572
Provision against investment in subsidiaries		**-**	-	**646**	-
Interest receivable		**(80)**	(381)	**-**	-
Interest payable		**1,169**	70	**-**	-
Profit on sale of investments		**(110)**	-	**-**	-
Other losses and gains		**(97)**	(362)	**-**	-
Impairment of intangible assets		**11,480**	-	**-**	-
Operating cash flows before movements in working capital		**(9,188)**	(6,488)	**(858)**	(14)
Decrease in trade and other operating receivables		**795**	(1,606)	**218**	(218)
Increase in trade and other operating payables		**5,900**	2,338	**115**	4
Net cash (used in)/from operating activities		**(2,493)**	(5,756)	**4,975**	(228)
Purchases of property, plant and equipment		**(458)**	(622)	**-**	-
Exploration and development expenditure		**(22,274)**	(11,118)	**-**	-
Purchase of investments		**-**	(196)	**-**	(646)
Interest received		**80**	382	**-**	-
Sale of investments		**765**	-	**-**	-
Amounts advanced to subsidiaries		**-**	-	**525**	(27,599)
Net cash (used in)/from investing activities		**(21,887)**	(11,554)	**525**	(28,245)
Issue of ordinary share capital		**-**	28,473	**-**	28,473
Repayments of borrowings		**-**	(2,000)	**-**	-
Interest paid		**(1,169)**	(70)	**-**	-
New loans raised		**15,592**	-	**-**	-
Net cash generated from financing activities		**14,423**	26,403	**-**	28,473
Net (decrease)/increase in cash and cash equivalents		**(9,957)**	9,093	**-**	-
Cash and cash equivalents at the beginning of year		**9,928**	835	**-**	-
Cash and cash equivalents at the end of the year		**(30)**	9,928	**-**	-

The notes set out on pages 12 to 31 form an integral part of these financial statements

ENERGY EQUITY RESOURCES (NORWAY) LIMITED

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007
(Expressed in U.S.$ '000s)

	Notes	Share Capital	Share Premium	Accumulated losses	Total Equity
Group					
Balance at 1 January 2006		189	18,811	(8,272)	10,728
Loss for the year		-	-	(5,909)	(5,909)
Issue of share capital	13	111	28,187	-	28,298
Issue in connection with acquisition		175	-	-	175
Balance at 31 December 2006		475	46,998	(14,181)	33,292
Loss for the year		-	-	(21,707)	(21,707)
Balance at 31 December 2007		475	46,998	(35,888)	11,585

	Notes	Share Capital	Share Premium	Accumulated losses	Total Equity
Company					
Balance at 1 January 2006		189	18,811	(587)	18,413
Loss for the year		-	-	(12,586)	(12,586)
Issue of share capital	13	111	28,187	-	28,298
Issue in connection with acquisition		175	-	-	175
Balance at 31 December 2006		475	46,998	(13,173)	34,300
Loss for the year		-	-	(9,672)	(9,672)
Balance at 31 December 2007		475	46,998	(22,845)	24,628

The notes set out on pages 12 to 31 form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

1. General

Energy Equity Resources (Norway) Limited is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 1. The principal activities are that of an oil and gas exploration and development group with activities focused in Africa.

2. Accounting Policies

(a) Basis of accounting

The consolidated financial statements are prepared in U.S. dollars as this is the currency of the primary economic environment in which the Group operates. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Significant accounting policies adopted by the company are set out below.

(b) Going concern

The directors consider that the group has adequate resources to remain in operation for the foreseeable future and therefore considers it appropriate to prepare the financial statements on a going concern basis. However, the group requires to secure additional funding within the next 12 months. During 2008 and 2009, the group disposed of a large proportion of its operations and as such, does not have significant expenditure to incur in 2009. The financial statements have been prepared on a going concern basis as the directors believe the group will be able to secure additional funding in the next 12 months . However, inherently there can be no certainty regarding this matter.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Energy Equity Resources (Norway) Limited and its subsidiary companies and subsidiary groups. The results of the subsidiary companies are incorporated from the date of acquisition. Transactions and balances incurred between all companies within the Group are eliminated on consolidation. All companies in the group have coterminous year ends.

(d) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquire, plus any costs directly attributable to the business combination. The acquirer's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal Groups) that are classified as held for sale in accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

2. Accounting Policies (continued)

(d) Business combinations (continued)

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss

In accordance with IFRS3 substance over legal form is applied to whether an acquisition can be considered as a business combination or an investment asset.

(e) 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 and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed

For the purposes of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is first allocated to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable goodwill is included in the determination of the profit or loss on disposal.

(f) Property, plant and equipment

Property, plant and equipment is are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives, using the straight-line method, on the following bases:

Leasehold improvements	10%
Fixtures and equipment	20%
Computer Hardware and Software	33%

2. Accounting Policies (continued)

(g) Intangible Assets: Oil and Gas Expenditure

The group follows the full cost method of accounting for exploration and evaluation ("E & E") costs, under which the costs of exploring for and acquiring oil and gas properties are accumulated and capitalised by reference to appropriate cost pools. Cost pools are determined on the basis of fields possessing common characteristics in at least one of the following: geological area, interdependence of infrastructure, common environment or common development of markets.

The initial cost pools for the Group are as follows:

*Nigeria Area (Nigeria, Joint Development Zone)
*Equatorial Guinea
* Libya

All licence acquisition, exploration and evaluation costs are initially capitalised as intangible fixed assets pending determination of the commerciality of the relevant properly. Directly attributable administration costs are capitalised insofar as they relate to specific exploration activities.

Pre-licence costs and general exploration costs not specific to any particular licence or prospect are expensed as incurred.

An E & E asset is assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such triggering events are defined in IFRS 6 and include the point at which a determination is made as to whether commercial reserves exist.

If prospects are deemed to be impaired ("unsuccessful") on completion of the evaluation, then associated costs are charged to the income statement. If the field is determined to be commercially viable, the attributable costs are transferred to property plant and equipment where they will be depreciated on a unit of production basis.

At 31 December 2007, the directors assessed the amounts capitalised for recoverability and are of the opinion that no impairment has occurred.

(h) Impairment

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets 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). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2. Accounting Policies (continued)

(i) Financial Investments

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the group manages together and has a recent actual pattern of short-term profit-taking; and
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; and
- it forms part of a contract containing one or more embedded derivatives.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

The Group has not held investments held-to-maturity' investments or 'available-for-sale' (AFS) during the year ended 31 December 2006 or 2007.

Fixed asset investments in subsidiaries held by the parent company are shown at cost less provision for impairment.

2. Accounting Policies (continued)

(j) Deferred consideration

Deferred consideration receivable is recognised in the financial statements at a prudent fair value at the date of disposal of the assets that give rise to the consideration.

Subsequent increases to fair value are only made when the actual amount of the consideration can be estimated with virtual certainty. Impairments to fair value are recognised when it is probable that a diminution has taken place.

(k) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profits for the period which are subject to the fiscal regulations of the countries in which the company and its subsidiaries are incorporated. Income taxes in respect of the company are accounted for in accordance with relevant fiscal regulations. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred income taxes are provided for on all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred income tax asset is recorded only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences can be utilised. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

(l) Foreign currencies

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group company are expressed in US Dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2. Accounting Policies (continued)

(l) Foreign currencies (continued)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

(m) Operating leases

Rentals under operating leases are charged to the income statement on a straight line basis over the period of the relevant lease.

(n) Retirement benefit scheme

Payments to a defined contribution pension scheme are charged as an expense as they fall due. The amount expensed within these accounts is for the year ended 31 December 2007 amounts to $92,533.

(o) Provisions

Provisions are recognised where amounts are expected to be payable by the group in the future, in respect of past events, where it is probable that payments will be required to settle the obligation and where a reliable estimate can be made of the amounts involved.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and on deposit with banks with a maturity of six months or less at the date of inception. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(q) Financial instruments

Changes in the fair value of financial instruments would be recognised in the income statement as they arise.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument, or, where appropriate, a shorter period.

2. Accounting Policies (continued)

(q) Financial instruments (continued)

Equity instruments

Equity instruments are recorded at the proceeds received, net of direct issue costs.

Trade payables

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

3. Adoption of New and Revised International Financial Reporting Standards

In the current period, the company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2007.

The impact of the adoption of IFRS 7 "Financial Instruments: Disclosures" and the changes to IAS 1 "Amendment to IAS 1 ("Capital Disclosures") has been to expand the disclosures provided in these financial statements regarding the company's financial instruments and management of capital. The adoption of the Interpretations issued by the IASB has not led to any changes in the company's accounting policies.

At the balance sheet date, the following Standards and Interpretations were in issue but not yet effective:

IFRS 8	Operating Segments
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding, Requirements and their Interaction
Revised IAS 23	Borrowing Costs
Revised IAS 1	Presentation of Financial Statements

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no impact on the results and financial position presented in these financial statements other than possible changes to the disclosures required in the financial statements, as well as changes in the presentation of performance introduced by the revised IAS 1 which is effective for accounting periods beginning on 1 January 2009.

4. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the process of applying the group's accounting policies, which are described in Note 2, management has made the following judgments that have the most significant effect on the amounts recognised in the financial statements:

(i) Consideration of impairment of intangible assets relating to capitalised exploration and evaluation expenditure; and
(ii) Determination of the fair value of the deferred consideration in connection with the due from the sale of a subsidiary in 2005 (Note 12).

5. Segmental Reporting

Geographical segments

The group currently operates in only one geographical market: West Africa. This is the basis on which the group records its primary segment information. Unallocated operating expenses, assets and liabilities relate to the general management, financing and administration of the group:

	West Africa $000's		Unallocated $000's		Consolidated $000's	
	2007	2006	**2007**	2006	**2007**	2006
Segment result	**-**	-	**(20,825)**	(6,582)	**(20,825)**	(6,582)
Interest receivable	**-**	-	**80**	381	**80**	381
Interest payable	**-**	-	**(1,169)**	(70)	**(1,169)**	(70)
Other gains and losses	**-**	-	**207**	362	**207**	362
Loss before and after tax	**-**	-	**(21,707)**	(5,909)	**(21,707)**	(5,909)
Segment assets	**34,862**	23,530	**1,808**	13,325	**36,670**	36,855
Segment liabilities	**-**	(5)	**(25,085)**	(3,558)	**(25,085)**	(3,563)
Capital additions	**22,274**	11,118	**458**	622	**22,732**	11,740
Impairment of oil and gas assets	**(11,480)**	-	**-**	-	**(11,480)**	-
Depreciation	**-**	-	**(157)**	(94)	**(157)**	(94)

Business segments

The operations of the group comprise one class of business, being oil and gas exploration and development.

6. Operating Loss

Operating loss is stated after charging:	**2007**	2006
	$000's	$000's
Depreciation of property, plant and equipment	**157**	94
Foreign exchange loss	**6**	-
Operating lease costs (office)	**630**	10
Impairment charge	**11,480**	-
Auditors' remuneration		
- Audit services	**97**	29
- Tax compliance services	**24**	35
- Other tax advisory services	**54**	-

7. Staff Costs

The average monthly number of employees (including Executive Directors) employed was as follows:

	Group		**Company**	
	2007	2006	**2007**	2006
Administration	**5**	2	-	-
Professional	**9**	4	-	-
	14	6	-	-

Their aggregate remuneration comprised:

	Group		**Company**	
	2007	2006	**2007**	2006
	$000's	$000's	**$000's**	$000's
Wages and salaries	**2,951**	1,644	-	-
Social security costs	**282**	186	-	-
Pension costs	**92**	75	-	-
	3,325	1,905	-	-

	Group		**Company**	
	2007	2006	**2007**	2006
	$000's	$000's	**$000's**	$000's
Directors emoluments:	**699**	1,385	-	-
Emoluments and benefits paid to highest paid director	**361**	672	-	-

Key management comprise the board of directors who have the authority and responsibility for planning, directing and controlling the activities of the group.

8. Interest Receivable

	Group		**Company**	
	2007	2006	**2007**	2006
	$000's	$000's	**$000's**	$000's
Interest on bank deposits	**80**	381	-	-

9. Intangible Assets

Costs of exploration - pending determination	2007		2006	
	Group $000's	Company $000's	Group $000's	Company $000's
As at 1 January 2007	**11,568**	-	11,568	-
Additions in the year	**22,274**	-	-	-
Impairment in the year	**(11,480)**	-	-	-
As at 31 December 2007	**22,362**	-	11,568	-

Expenditure incurred at 31 December 2007 relates to exploration and appraisal costs in the West & North Africa Area on the various projects as outlined in page 2 in the financial statements.

On 19 January 2007 and subsequently amended on 30 March 2007, 21 June 2007, 17 July 2007 and 13 August 2007 the Group entered into a Share Sale and Purchase Agreement with Syntroleum Corporation to acquire 100% of the issued share capital of Syntroleum International Holdings Company and Syntroleum International Holdings Limited, two companies incorporated and registered in the Cayman Islands. The purchase consideration for the acquisition of the two subsidiaries amounted to $12.171 million. The subsidiaries acquired have interests in the Ajapa and Aje fields in Nigeria under Oil Mining Licences OML90 and OML113 respectively. The Group's share of the joint ventures in the underlying subsidiaries is 40% in OML113 and 16.225% in OML90 and cover revenues and costs. The transaction has been treated as a non-business combination.

Interest is payable on overdue balances due to Syntroleum Corporation at a rate of LIBOR + 3%, with effect from 9 May 2007. The transaction was scheduled for completion on 3 August 2007 but the group was unable to secure sufficient funding at that time. The amount payable to Syntroleum Corporation at 31 December 2007 amounted to $5.5 million which comprises the principal amount of $5 million, accrued interest amounting to $0.4 million and other charges of $0.1 million. All outstanding balances were settled in full subsequent to the balance sheet date.

As part of the Share Sale and Purchase Agreement, the company was obliged to make further payments to Syntroleum Corporation on completion of various milestones with the development of the above mentioned interests. A subsequent amendment deed dated 23 April 2008 effectively rescinded these payments and any further obligations.

The names of the two subsidiaries acquired were subsequently changed as follows:

- Syntroleum International Holdings Company to Energy Equity Resources (Cayman Islands) Limited
- Syntroleum International Holdings Limited to Energy Equity Resources (Nominees) Limited.

As at 31 December 2007 the directors reviewed the carrying amounts of the intangible assets, to determine whether there was any indication that there has been impairment. In 2007 $11.480 million of which acquisition costs of $10 million and historical costs of $1.48 million relating to OML 115 were impaired.

Whilst the above amounts have been impaired at 31 December 2007, there will be a possible reversal of impairment as stated in the joint venture agreement between the operator and the group, should oil production come on stream.

10. Property, Plant and Equipment

	Leasehold improvements		Fixtures and equipment		Computer hardware and software		Total	
	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
Group	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Cost								
At 1 January	399	399	149	149	74	-	622	548
Additions	209	-	35	-	214	74	458	74
At 31 December	**608**	**399**	**184**	**149**	**288**	**74**	**1080**	**622**
Accumulated depreciation								
At 1 January	(40)	-	(30)	-	(24)	-	(94)	-
Charge for the year	(56)	(40)	(30)	(30)	(71)	(24)	(157)	(94)
At 31 December	**(96)**	**(40)**	**(60)**	**(30)**	**(95)**	**(24)**	**(251)**	**(94)**
Net book value								
At 31 December 2007	**512**	**359**	**124**	**119**	**193**	**50**	**829**	**528**
At 31 December 2006	359	399	119	149	50	-	528	548

The company does not have any fixed assets so no company note is shown.

11. Fixed Assets Investments

	Group		Company	
	2007	2006	**2007**	2006
	$000's	$000's	**$000's**	$000's
Investments Held for trading – FVTPL	-	**558**	-	-
Shares at cost in subsidiary undertakings	-	-	-	646
Financial guarantee to subsidiary	-	-	**5,500**	-
	-	558	**5,500**	646

Group
Investments held for trading – FVTPL comprised 500,000 1p shares in Afren Plc. The fair value at 31 December 2006 was based upon quoted market prices. During the year the group disposed of the shares for $ 668,000, therefore recognising a profit on disposal of $ 110,000 in the consolidated income statement for the year ended 31 December 2007.

Company
During the year ended 31 December 2007 shares in subsidiary undertakings have been fully impaired.

The company has provided a financial guarantee to Syntroleum Corporation to discharge its subsidiary's obligations under the terms of the Share Sale and Purchase Agreement as set out in Note 9. As the subsidiary had not fulfilled its obligations at the balance sheet date the company has recorded a financial guarantee with a corresponding liability of $5.5 million at 31 December 2007, which represents the amount payable to Syntroleum Corporation. All outstanding balances were settled subsequent to the balance sheet date.

11. Fixed Assets Investments (continued)

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

Name	%	Principle Activity	Country of registration & operation
Directly held			
Energy Equity Resources Limited	100	Exploration & development	England and Wales
Energy Equity Resources AS	100	Dormant	Norway
African Energy Equity Resources Limited	100	Holding company	England and Wales
Energy Equity Resources (Nigeria Services) Limited	100	Service company	Nigeria
Energy Equity Resources (Equatorial Guinea) Limited *	100	Dormant	England and Wales
Indirectly held by African Energy Equity Resources Limited			
Energy Equity Resources (Oil and Gas) Limited	100	Exploration & development	Nigeria
Energy Equity Resources (Mwana) Limited	100	Dormant	England and Wales
Energy Equity Resources (Mauritania) Limited	100	Dormant	England and Wales
EER Mwana Limited *	100	Dormant	England and Wales
EER (Oil and Gas) Limited	100	Exploration & development	Nigeria
Energy Equity Resources (Cayman Islands) Limited	100	Service company	Cayman Islands
Energy Equity Resources (Nominees) Limited	100	Service company	Cayman Islands
Energy Equity Resources (Aje) Limited	100	Exploration & development	Nigeria

* Owned indirectly through Energy Equity Resources Limited.
** Owned indirectly through Energy Equity Resources (Mwana) Limited.

12. Trade and Other Receivables

	Group		Company	
	2007	2006	**2007**	2006
Non-current assets	**$000's**	$000's	**$000's**	$000's
Deferred contingent consideration receivable	**12,500**	12,500	**12,500**	12,500
	12,500	12,500	**12,500**	12,500
Current assets				
Due from subsidiary undertakings	-	-	**48,839**	33,522
Less: provision against amounts advanced to subsidiaries	-	-	**(20,740)**	(12,572)
	-	-	**28,099**	20,950
Other debtors	**72**	214	-	-
Prepayments	**693**	1,069	-	218
VAT recoverable	**214**	371	-	-
Due from joint ventures	-	119	-	-
	979	1,773	**28,099**	21,168

12. Trade and Other Receivables (continued)

Included within long term other debtor is an amount of $12.5 million relating to a contingent asset receivable as part of purchase consideration arising on the sale of a subsidiary company in 2005. The directors estimated the fair value of the contingent consideration at the date of sale calculated by reference to an independent expert's assessment of the estimated amount of reserves that might be included in development plans for the oil licence held by that subsidiary and the estimate timing of such development plans. In the opinion of the directors, there has been no significant development with the oil licence in the year and the amount recorded at 31 December 2007 remains unchanged.

Since the end of the year, the amounts due from subsidiary undertakings have been waived and are no longer due.

A directors' loan of $ 22,973 at 31 December 2007 was duly settled in 2008. $ 22,973 was also the maximum amount outstanding at any time during the year. Details of the outstanding balance at the balance sheet date is as follows:

	2007
	$
Osamede Okhomina	22,973
	22,973

Included within prepayments is a rental deposit of $565k in respect of the lease for 35 Portman Square, London.

13. Share Capital and Share Premium

	2007 Number	2006 Number	**2007 $000's**	2006 $000's
(i) Authorised				
Ordinary shares of £1 each	**248,749**	248,749	**485**	485
Participation shares of £1 each	**51,250**	51,250	**100**	100
Deferred shares of £1 each	**1**	1	-	-

	Equity share capital allotted and fully paid		Share premium
	Number	$000's	$000's
(ii) Allotted equity share capital and share premium (Company and Group)			
As at 1 January 2006	100,000	189	18,811
Issued in connection with acquisition	100,000	175	-
Issued during the year for cash	60,420	111	28,187
As 31 December 2006 and 31 December 2007	**260,420**	**475**	**46,998**

ENERGY EQUITY RESOURCES (NORWAY) LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007 (continued)

14. Borrowings

	Group		Company	
	2007	2006	**2007**	2006
	$000's	$000's	**$000's**	$000's
Loans repayable to third parties	**11,142**	750	**-**	-
Amounts due to subsidiary undertakings	**-**	-	**15,842**	-
Amounts due to other related parties	**5,200**	-	**-**	-
	16,342	750	**15,842**	-

		2007	2006	**2007**	2006
Borrowings:		**$000's**	$000's	**$000's**	$000's
Sector Omega ASA		**10,000**	-	**10,000**	-
Accrued interest		**542**	-	**542**	-
	repaid in 2008	**10,542**	-	**10,542**	-
African Equity Partners		**5,200**	-	**5,200**	-
Stratum	repaid in 2008	**100**	-	**100**	-
DNO	repaid in 2008	**500**	750	**-**	-
		16,342	750	**15,842**	-

The loan repayable to Sector Omega ASA loan is subject to interest at 7% per annum, and was repayable by 31 December 2007. Subsequent agreements enabled the loan settlement date to be amended to March 2008, when the loan was settled as part of the transaction reported in Note 19 (i).

The loans repayable to DNO and Stratum were also settled in March 2008, neither of which were interest bearing, and there no demands for repayment under their respective agreements. The DNO loan of $750K was partially repaid ($250K) in October 2007.

A loan of $5.2 million was made to the group by African Equity Partners, a company registered in Nigeria on 4 October 2007. The loan was later assigned to Stonecut Company Limited of Nigeria. Stonecut Company Limited agreed not to demand repayment under terms and guarantees of the agreement until otherwise mutually agreed.

All loans are unsecured.

15. Trade and Other Payables

	Group		Company	
	2007	2006	**2007**	2006
	$000's	$000's	**$000's**	$000's
Bank overdrafts	**30**	-	**-**	-
Trade creditors	**239**	1,061	**-**	-
Other creditors	**6,794**	1,330	**5,500**	-
Accruals	**1,217**	101	**129**	14
Social security costs	**463**	321	**-**	-
	8,743	2,813	**5,629**	14

15. Trade and Other Payables (continued)

Group and Company

Included within other creditors for the group is $5.5 million at 31 December 2007 relating to the final settlement on the transaction with Syntroleum Corporation (See Note 9). Included within other creditors for the company is the same obligation but this relates to the financial guarantee provided by the company to its subsidiary undertaking (See Note 11).

16. Taxation

There was no current tax payable for the group in 2007. The loss per the income statement can be reconciled to the overall tax charge as follows:

	Group		Company	
	2007	2006	**2007**	2006
	$000's	$000's	**$000's**	$000's
Loss before taxation	**(21,707)**	(5,909)	**(9,672)**	(13173)
Tax at the UK corporate tax rate of 30%	**(6,512)**	(1,773)	**(2,902)**	(3,952)
Tax effect of items which are not deductible for tax at the UK corporate tax rate of 30%	**4,360**	284	**2,729**	3,949
Taxable losses not recognised	**2,152**	1,489	**173**	3
Tax charge for the year	-	-	-	-

At the balance sheet date the Group had unrecognised deferred tax asset relating to carried forward taxable losses as follows:

	Group		Company	
	2007	2006	**2007**	2006
	$000's	$000's	**$000's**	$000's
Carried forward taxable losses	**6,640**	3,723	204	92

The above balance have not been recognised as there is insufficient evidence of future taxable profits. These losses can be carried forward indefinitely. There are no undistributed earnings of subsidiaries and accordingly no requirement to record deferred tax in respect of such balances.

17. Related Party Transactions

Group

On 10 September 2007, The group entered into a loan subscription agreement with African Equity Partners Limited, a limited liability company registered in the Federal Republic of Nigeria, which is wholly owned by Mr. Osamede Okhomina. The balance outstanding as at 31 December 2007, amounted to $5.2 million, as detailed in Note 14 above. There is no contractual repayment date attached to this loan.

Directors' emoluments, which represent remuneration payable to key management personnel is disclosed in Note 7 to the financial statements.

17. Related Party Transactions (continued)

Company

As reported in Note 12 in the financial statements, balances due from/payable to subsidiary companies within the group are detailed below:

	2007	2006
	$000's	$000's
African Energy Equity Resources Limited	**28,099**	20,950
	28,099	20,950

Details of the financial guarantee provided by the company to its subsidiary undertaking is disclosed in Note 11.

18. Operating Lease Commitments

	2007	2006
	$000's	$000's
Within one year	**630**	629
In the second to fifth years	**2,519**	2,515
After five years	**2,204**	2,820
	5,353	5,964

The operating lease payments represent rentals payable by the group for its London office. The terms of the lease are 10 years from 2006, with a 5 year rent review.

19. Subsequent Events

(i) Sale of Subsidiary

Pursuant to an agreement dated 8 January 2008 and made between Sector Omega ASA ("Sector"), African Energy Resources Limited ("AEER") and Energy Equity Resources (Norway) Limited ("EER(N)L") as amended by a deed dated Resources Limited ("AEER) and Energy Equity Resources (Norway) Limited ("EER(N)L") as amended by a deed dated 28 February 2008 and made between Sector, AEER and EER(N)L, Sector subscribed for 316,667 fully paid ordinary shares in the capital of AEER on 28 February 2008 at an aggregate subscription amount of $31 million and as such, Sector Omega ASA owned 76% issue share capital of African Energy Resources Limited ("AEER"). Of the subscription amount, $28 million was paid to or at the direction of AEER on 28 February 2008 and $3 million was paid during 2008. AEER directed that the aggregate subscription of $31 million be paid to or at the direction of EER(N)L in full and final settlement of all monies owed by AEER and its subsidiaries to EER(N)L and its subsidiaries.

19. Subsequent Events (continued)

(i) Sale of Subsidiary (continued)

In addition to subscribing for shares, Sector provided a loan of up to $45 million to AEER during 2008 for use as working capital. As at 31 December 2008, EER(N)L's shareholding in AEER was 18%.

Following the agreement dated 8 January 2008 between Sector Omega ASA ("Sector"), AEER and EER Norway Limited, all inter company loans mentioned in Note 17, between the group and subsidiaries have been waived and are no longer due.

Sector transferred its interest in AEER to Pan-Petroleum Holding (Cyprus) Limited ("PPHCL"). On 19 June 2009 PPHCL, EER(N)L and the AEER, inter alia, entered in to a Separation Agreement which resulted in, inter alia;

a. AEER vending to EER(N)L 100% of the share capital of EER (Oil & Gas) Limited, the holder of a 40% interest in OML115
b. AEER vending to EER(N)L its contractual interest in JDZ1; and
c. EER(N)L vending to PPHCL 108,000 shares in AEER.

Such that following the transaction PPHCL owned 100% of the share capital in AEER.

(ii) Impairment of Intangible Assets

In July and August 2008 well Okwok-South 2 was drilled on the OML115 licence. Following subsequent studies the well was plugged and abandoned and the directors have determined to impair the full value of intangible assets of $11,480K at 31 December 2007.

(iii) Borrowings

Details of borrowings repaid since the end of the year are set out in Note 13 to the financial statements.

(iv) Share Options

On 4 March 2008, the company issued 600 share options in the company to an employee, Mr. Adrian Robinson, upon the completion of one year's service. The agreement also specified that in the case of less than one year's service, the options would reduce to 300 shares at market value. As a result of the settlement deed date 19 June 2009, the share options were terminated.

20. Equity Voting Rights

The holder of the deferred share is not entitled to be informed of, or to attend or vote at shareholders' meetings and is not entitled to a dividend or any other distribution. The share can be redeemed for £1 after notice of 14 days has been given.

21. Contingent Liabilities

The group has given warranties and indemnities to the buyer in connection with the sale of the subsidiary company in 2005. The group remains liable to meet commitments and other undertakings in respect of an associated company in which the former subsidiary referred to above had a 49% interest. The buyer of the former subsidiary has given undertakings to meet any commitments as they fall due. As at the date these financial statements were approved, the directors were not aware of any claims arising from the foregoing.

22. Financial Risk Management

(a) Capital Risk Management

The capital structure of the group consists of net debt and equity. The group's objectives when managing capital are:

- to safeguard the group's ability to continue as a going concern so that it can continue to provide returns to its shareholder and benefits for other stakeholders;
- to enhance the ability of the group to invest in future projects by sustaining a strong balance sheet position and high borrowings capacity; and:
- to provide an adequate return to its shareholder.

The group is still in the exploration and development stage of its activities. The group's capital structure is supported by external loans. The group monitors its capital structure on the basis of the net debt ratio and the net adjusted debt ratio. The net debt ratio is calculated as net debt divided by net debt plus total equity ("total capital"). The net debt to adjusted equity ratio at 31 December 2007 is summarised as follows:

	2007 **$000's**
Borrowings	**16,342**
Cash and cash equivalents	**30**
Net debt	**16,372**
Total equity	**12,051**
Total capital	**28,423**
Net debt ratio	**58%**

Figures at 31 December 2006 have not been presented due to the fact there was no net debt.

(b) Categories of Financial Instruments

Financial assets	**2007** **$000's**	2006 $000's
Loan and receivables (excluding prepayments)	**12,786**	13,204
Total financial assets	**12,786**	13,204
Non- financial assets	**23,884**	23,651
Total assets	**36,670**	36,855

Financial liabilities	**2007** **$000's**	2006 $000's
At amortised cost	**23,868**	3,462
Total financial liabilities	**23,868**	3,462
Non- financial liabilities	**1,217**	101
Total liabilities	**25,085**	3,563

23. Financial Risk Management (continued)

(c) Financial risk factors

The group's operations expose it to a number of risk factors including exchange rate risk interest rates risk, credit risk and liquidity risk. The group seeks to minimise potential adverse effects on the group's financial performance by employing a sufficiently robust risk financial strategy to withstand prolonged adverse conditions in significant risk factors such as down-cycles in freight rates or unfavourable conditions in the financial markets. The group's results and cash flows are influenced by the success of the group in managing these risk factors as detailed below.

Foreign currency risk

The company's activities are principally conducted in U.S. dollars. Approximately 90% of costs denominated in U.S. dollars, with the remainder of costs denominated in Pounds Sterling and Nigerian Naira. Overall exposure is kept under constant review and the company will participate in currency hedging once the group's operations where considered appropriate in the future.

The directors consider the foreign exchange risk at 31 December 2007 and 2006 is not significant due to the level of monetary assets and liabilities held in currencies other than US dollars as at 31 December 2007 and 2006. The loss on foreign exchange incurred during the year ended 31 December 2007 amounted to $ 6K (2006: Profit on foreign exchange of $ 10K).

Interest rate risk

The group evaluates its interest rate exposure on a regular basis and acts accordingly in order to align with the defined risk limits set by the board of directors. The Group does not use interest rates swaps to mitigate risk arising from fluctuating exchange rates.

At 31 December 2007 all borrowings are based on fixed interest rates rather than variable interest rates so the directors consider the interest rate risk is limited at the balance sheet date. All interest bearing liabilities detailed in Note 9 have been settled subsequent to the balance sheet date.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. Credit risk arises from deposits with financial institutions as well as exposure to customers, including receivables and committed transactions. As the group has not commenced commercial production, the directors are of the opinion that there is no material exposure in respect of trade and other receivables as the figure includes a rent deposit paid by the group to secure office premises in London, UK.

The directors are of the opinion that the credit risk on liquid funds is limited as counterparties are well established banks.

23. Financial Risk Management (continued)

(c) Financial risk factors (continued)

Liquidity risk

Management has built an appropriate liquidity risk management framework for the management of short, medium and long-term funding and liquidity management requirements. The risk refers to the inability of the group to sell its assets on short notice at market prices. Fixed assets owned by the group are more difficult to sell, if the need arises, in comparison to financial assets. However the group maintains adequate cash and cash equivalents, and has the ability to obtain credit facilities to meet its commitments. The Group has the flexibility to take effective actions to alter the amounts and timing of its cash flows so that it can respond to unexpected needs and opportunities, by raising new capital, if required.

All liabilities are due repayable within one year of the balance sheet date and a number of the liabilities have settled subsequent to the balance sheet date.

(d) The carrying amount of the financial assets and financial liabilities

The carrying amount of financial assets approximates to fair value. However, the fair value of financial liabilities is considered to be significantly less than the carrying amount due to the underlying uncertainty relating to the group's ongoing operations and the fact that the loans repayable at the balance sheet date are unsecured.

24. Comparatives

Certain comparatives have been reclassified to conform with the presentation in the current year.